



1H17 Results

Collection House Limited

21 FEBRUARY 2017

1H17 overview: setting the platform for growth

1H17 financial results

Statutory profit after tax of \$8.2m

Total revenue increased 2% to \$66m

Interim dividend 3.9c fully franked

Disciplined PDL investment

Continue to be active but disciplined bidders

\$52.1m contracted (of which \$26.1m was settled) as at end of December 2016, with majority closed late in Q2

Full year target of \$63m - \$65m

New businesses established

CLH Business Services announced the successful securing of its inaugural client, a listed financial services provider, on 1st December. The contract is for a minimum five year term

Safe Horizons has secured its first client, an international consumer credit organisation

Initial efficiency review completed

New call centre technology pilot successfully completed and is being installed

Manila transformation complete, including acquisition of a new US-based client

Productivity improvements allowed permanent reduction of roles in Operations

New rigorous operating model implemented for PDL business

Group financial snapshot

\$m	1H13	1H14	1H15	1H16	1H17	%
PDL Revenue	28.5	30.5	40.3	36.3	32.3	-11%
Collection Services Revenue	18.8	21.5	23.5	28.3	33.7	19%
Total Revenue	47.3	52.0	63.8	64.6	66.0	2%
Net Profit After Tax	8.1	9.4	11.2	8.3	8.2	-2%
PDL Cash Collections	48.7	51.5	64.4	59.4	52.3	-12%
EPS (cents)	7.3	7.6	8.6	6.3	6.1	-4%
DPS (cents)	3.6	3.9	4.4	3.9	3.9*	-

* *DRP not active during this reporting period*

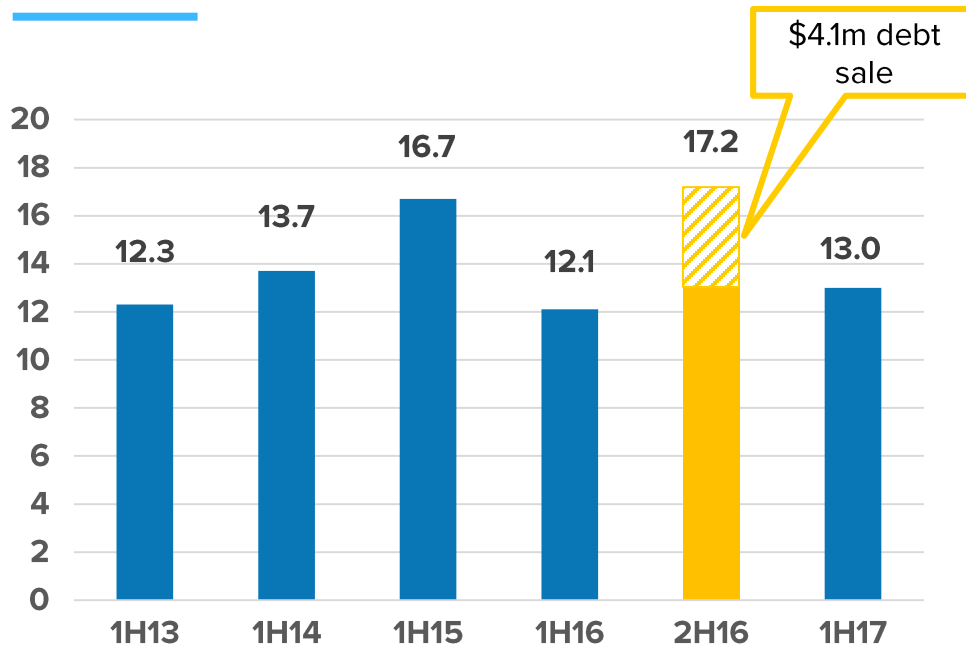
Group cashflow

\$m	1H13	1H14	1H15	1H16	1H17	%
Operating cash flow	29.7	26.5	37.8	33.3	29.2	-12%
PDL acquisitions	33.9	38.4	40.5	30.1	26.1*	-13%
Capex	0.9	2.4	1.8	2.0	1.3	-32%
Free cash flow	(5.1)	(14.3)	(4.5)	1.2	1.8	47%
PDL carrying value	198	214	250	261	271	4%
Net borrowings	97	87	111	118	115	-3%
Net borrowings/PDL carrying value %	49.2%	40.9%	44.3%	45.4%	42.2%	
Net debt/net debt + equity ratio	45.5%	36.9%	40.4%	40.5%	38.3%	
EBITDA	35.9	37.7	44.1	39.1	36.9	-6%

* \$52.1m contracted as at 31.12.16

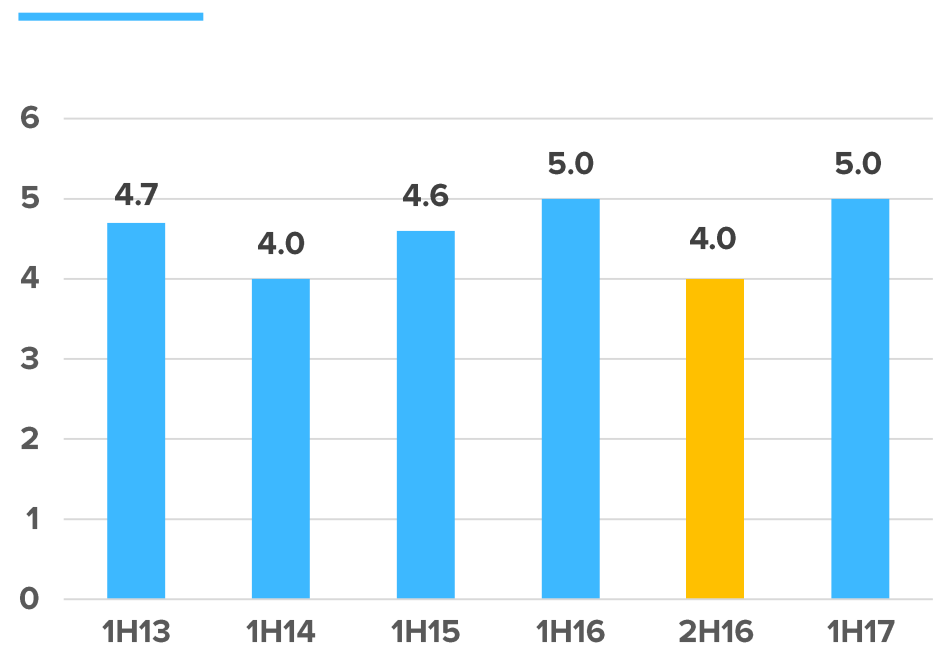
Financial results by segment

PDL segment (\$m)*



- 2H16 included proceeds of debt sale of \$4.1m
- Early productivity initiatives generated a 7% increase in pre-tax profitability pcip

Collection Services segment (\$m)*



- Pre-tax profit remained stable to pcip (and increased on 2H16) – revenue growth was offset by investments in future growth initiatives

Operational performance: PDL segment

As at 31 December 2016, the Lion Finance Repayment Arrangements and Litigated Account Portfolio had 44,000 accounts with a face value of \$319m.

TOTAL PORTFOLIO	1H15	FY15	1H16	FY16	1H17
Face value	\$1.52bn	\$1.54bn	\$1.57bn	\$1.46bn	\$1.52bn
Number of accounts	260,000	304,000	296,000	262,000	262,000
Average balance	\$5,830	\$5,067	\$5,302	\$5,576	\$5,819

An analysis of the Repayment Book in 1H17 identified both natural liquidation and non-paying arrangements, which were transferred back into the non-arrangement collection pool for further collection activity.

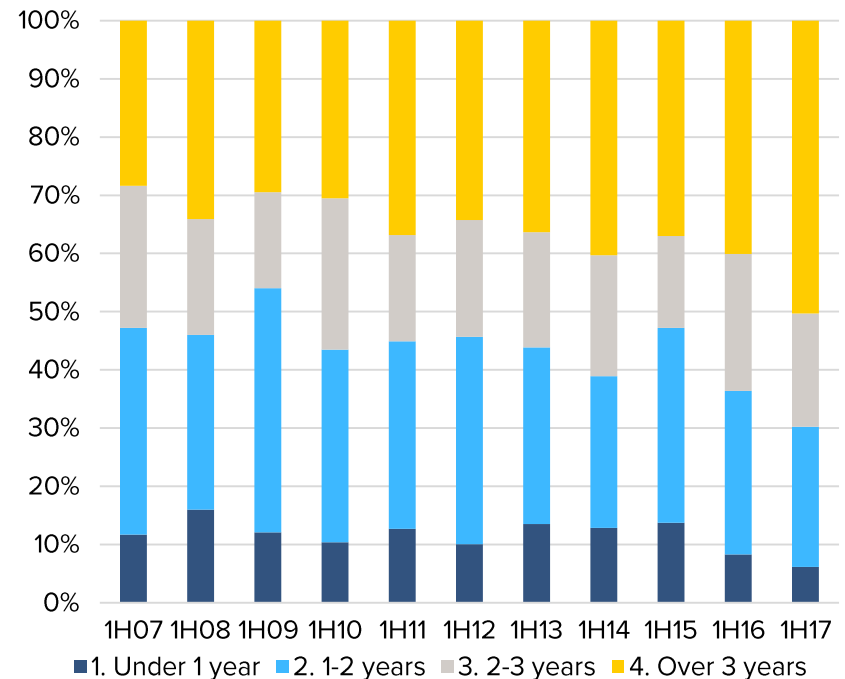
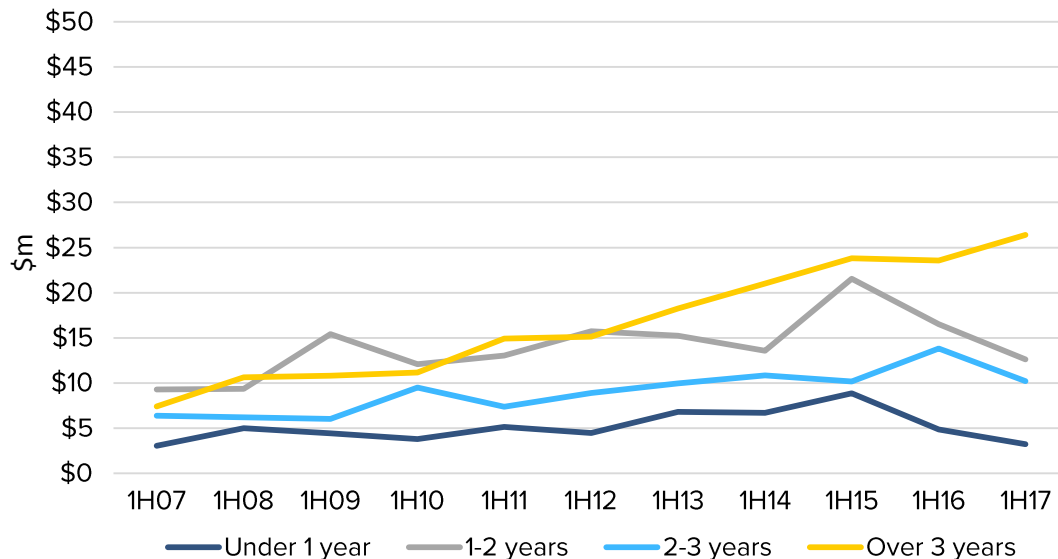
REPAYMENT BOOK	1H15	FY15	1H16	FY16	1H17
Face value	\$389m	\$389m	\$387m	\$357m	\$319m
Number of accounts	53,000	55,000	55,000	49,000	44,000
Average balance	\$7,340	\$7,073	\$7,036	\$7,286	\$7,250
% of PDL collections	67%	70%	77%	77%	76%

PDL segment: liquidation rates over time

PDL collections by vintage

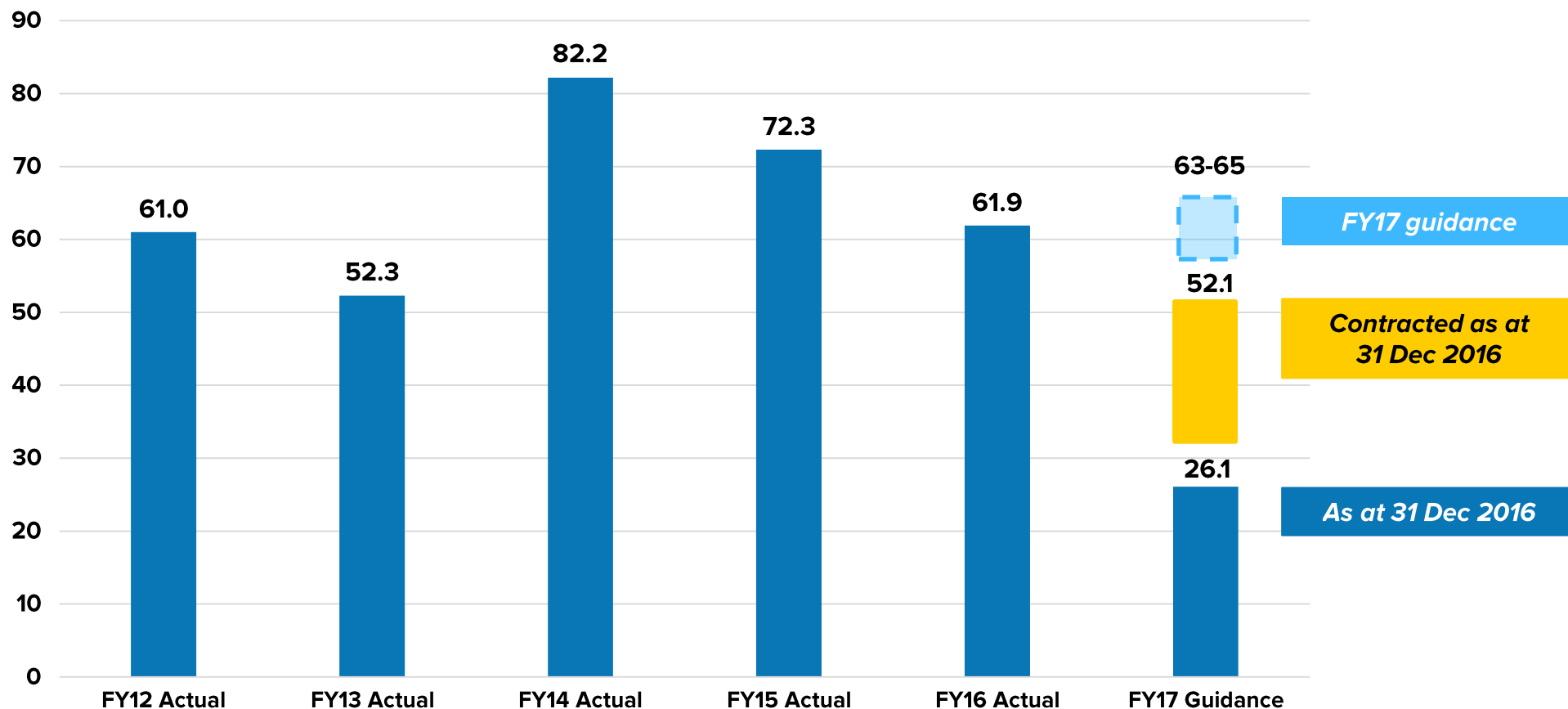
We continue to extract more value out of our book, with a demonstrated ability to continue to liquidate older portfolios:

- 3+ year debt represented 50% of 1H17 collections
- 2+ year debt exceeded 69% of 1H17 collections



PDL segment: investment and pipeline

PDL acquisitions (\$m)



PDL segment: new rigorous operating model

A comprehensive review of Lion Finance operations and collector behaviour has led to a re-engineering of process, structure, and training and engagement programs.

1. Review of Arrangement Book

A review of every account in the Arrangement Book was undertaken to ensure customers have an appropriate arrangement term, the time to resolution is maximised, and to identify where Account Rep behaviour and incentives can be aligned

New Arrangements

Previously:

- Arrangements could be set for any length

Now:

- Maximum arrangement term is 10 years
- Anything > 10 years is reviewed by Hardship
- Arrangements reviewed every 90 days
- First payment defaults swiftly handled

Existing Arrangements

Previously:

- Arrangements reviewed every 180 days

Now:

- Arrangements reviewed every 90 days
- New training model prompts Account Reps to obtain full and complete information
- Assists in optimal payout result

Longer Arrangements

Previously:

- Full and complete information was not being collected regularly and some customers were on unsuitable terms

Now:

- Every account under a longer arrangement term has been reviewed and adjusted as appropriate

Benefits

- Consistent and transparent application to the Arrangement Book – benchmark established, and monthly review discipline introduced
- Visibility of broken arrangements – these are reviewed monthly, and after 180 days are referred out to a centralised team
- In 1H17 there has been a 66% reduction on pcp of paying arrangements being settled prematurely

PDL segment: new rigorous operating model

2. Review of end-to-end legal process

Tightening up our legal process and taking a “firmer-but-fair” position with customers who refuse to meet their obligations

Area of the legal process	Change implemented	Benefits
Legal recoveries	Changed the litigation qualification rules: the account balance and eligibility thresholds to pursue legal recovery have been reduced to reflect more appropriate and fair criteria	<ul style="list-style-type: none">• Significantly increases the number of accounts that will be actioned
Bankruptcy	Changed bankruptcy qualification rules: the account balance threshold to commence proceedings has been reduced to reflect more appropriate and fair criteria	<ul style="list-style-type: none">• Significantly increases the number of accounts that will be actioned• Encourages customers to take obligations and contact seriously
Judgements	Changed process: all customers with judgements are now managed centrally and uniformly, with all outstanding accounts kept together	<ul style="list-style-type: none">• Eliminates the inconsistency and leakage that occurs when there are multiple staff handling the same customers' accounts
Asset recovery	Created a new asset recovery team: to manage skip tracing and field calls when customers referred to Legal cannot be located	<ul style="list-style-type: none">• Eliminates the inefficiency that occurs when Legal refer accounts back to the collections pool when customer information is missing

PDL segment: new rigorous operating model

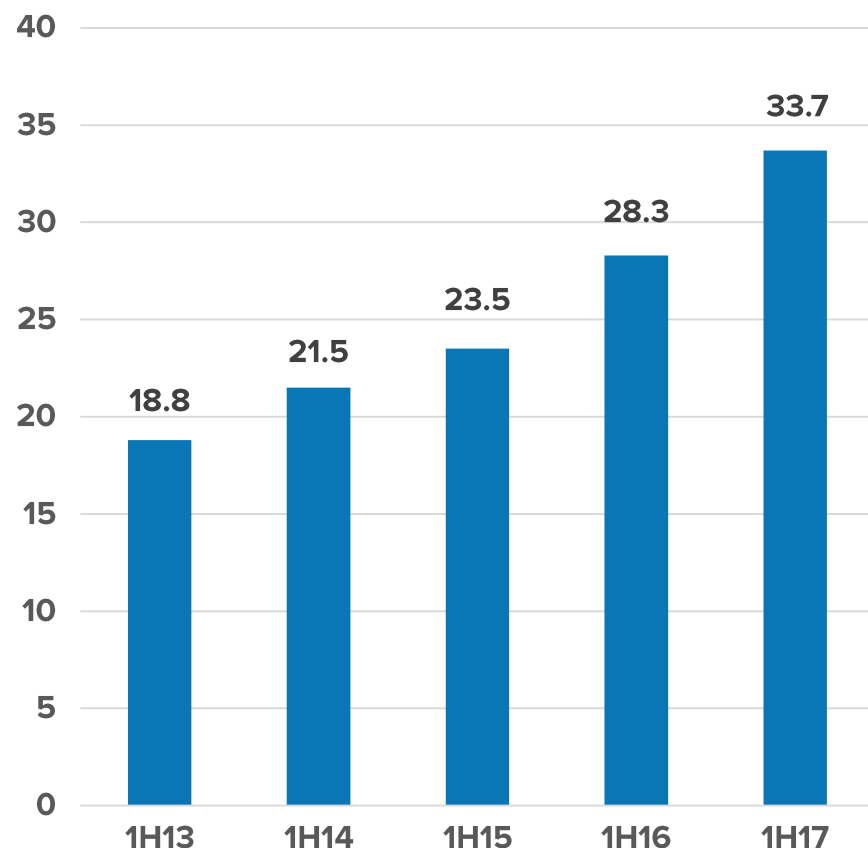
3. New tech, training and support tools

Ensuring our Account Reps have the tools and support they need

Area	Change implemented	Benefits
New contact centre technology	The “Interactive Intelligence” call centre pilot was successful, and the base software is now being embedded throughout Lion Finance	<ul style="list-style-type: none">• Significantly increases outbound call volume capability – this will help maintain lower employee numbers, as well as supporting future growth• Scheduled installation in 2H17 of extra world-class functionality - including voice analytics and real-time call monitoring, boosting collector productivity
Training	Dedicated training team now embedded in Lion Finance	<ul style="list-style-type: none">• Facilitates targeted and timely response to training needs• Co-location assists with embedding the new call model which focuses on obtaining full and complete information
Account Rep call support tools	A responsive call support tool has been developed to assist Account Reps during calls	<ul style="list-style-type: none">• The tool provides scripts and prompts to help overcome objections, avoid early call termination, and obtain full and complete information• Helps both inexperienced and experienced Account Reps become more confident and productive collectors

Operational performance: Collection Services

Collection Services revenue (\$m)



Revenue from the Collection Services segment grew 19% on pcp to \$33.7 million in 1H17.

Key initiatives commenced in 1H17 include:

- Implementing a dedicated salesforce
- Enhanced skip tracing, segmentation strategies and field services
- Implementation of the new contact centre technology.

A number of new clients have been secured to commence in Q3, including:

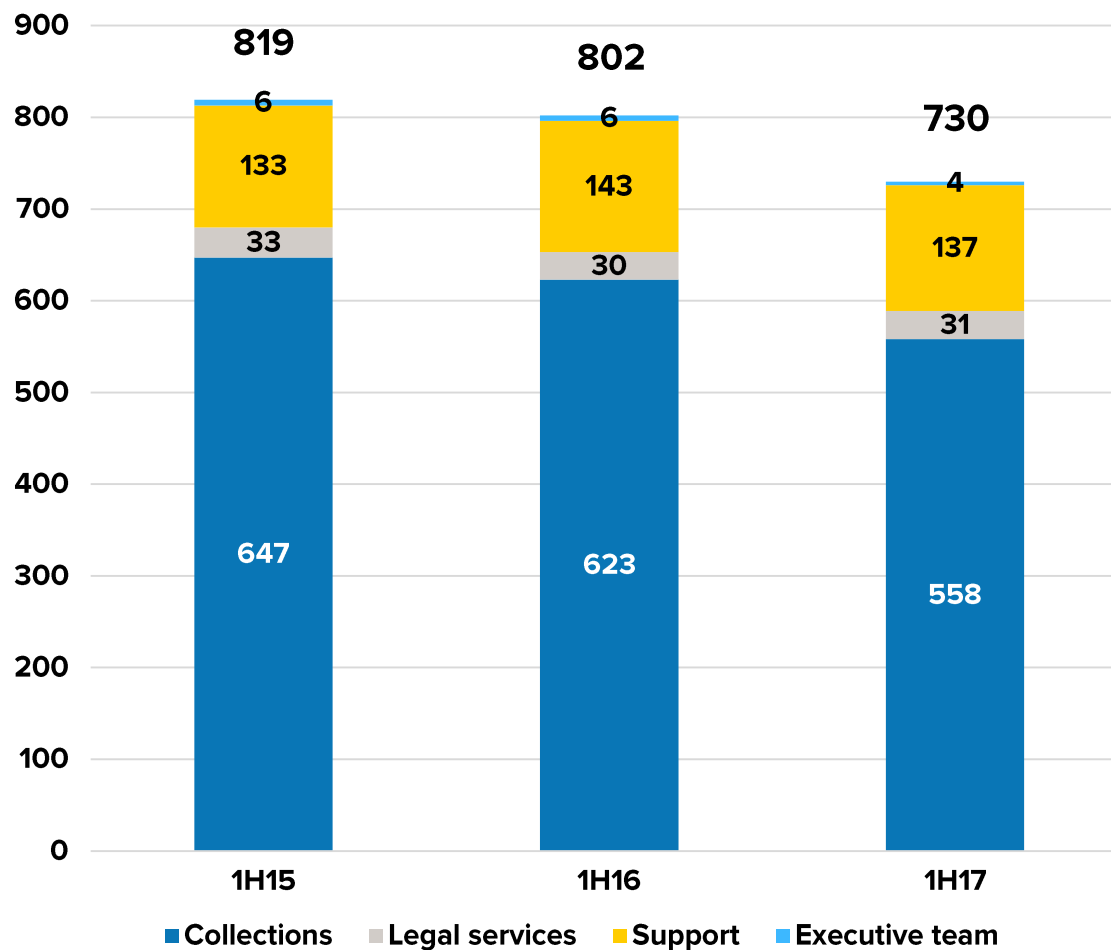
- Cash Converters
- Transurban
- eBay (CLH's first US-based client, which is contracted out of our Manila operations)

Group employee numbers

Of collection staff, 219 work in Lion Finance (PDLs), 251 in Collection Services, and 88 across the other divisions (as at 31/12/16).

In addition, there are 91 employees in the Philippines, 73 of which are in collections.

Employee numbers



The two year plan (presented at the AGM)

Phase 1: By December 2016

- ✓ Completed cost saving and efficiency review (now ongoing)
- ✓ Reviewed and improved PDL pricing strategies (now ongoing)
- ✓ Completed pilot of new call centre technology
- ✓ Completed Manila transformation
- ✓ Secured first clients for **CLH Business Services**
- ✓ Secured first clients for **Safe Horizons**

Phase 2: By June 2017

Realise performance improvement from new staff training model matching individual needs to specific skills training

Achieve PDL collections per hour \$195 - \$205 per Account Representative

Implement and achieve cost savings identified in 1H17

Phase 3: June 2018 onwards

Leverage existing capabilities into new verticals

Achieve further diversification and income streams

Collections per hour \$225+

Sustained growth in EPS

Restore and exceed historical EBIT margins

Looking ahead

-
- Operational review has revealed some headwinds – but these have been identified and are being addressed
 - 1H17 focused on enhancing collector productivity, technology, implementing sales growth initiatives, and containing costs
 - Solid progress made on key priorities, setting up the second half for improved earnings performance
 - Substantial new contracts and new business lines established – expected to produce measurable NPAT results in FY18
 - Competition in the PDL market remains robust, but prices are easing and we're buying better
 - Unwavering commitment to ethical and compliant practices

FY17 guidance updated





Appendix

CLH overview

Collection House Group

The Collection House Group is Australia's only end-to-end receivables management provider.

With a 24 year pedigree, we offer world class solutions in credit management, collections and customer care.

We help businesses and individuals improve their financial position.

And we are trusted by some of Australia's largest businesses and government agencies to provide solutions on their behalf.



Debt collection and receivables management for third parties



Debt purchasing and recovery



Legal services including insolvency administration



Tailored debt collection services, specialising in Local Government



Nationally recognised training provider in financial services and leadership



Customer service outsourcing for third parties



Licensed specialist credit provider



Provision of financial hardship services for third parties



Business model



Purchased debt ledger (PDL) segment

Businesses included:

- **Lion Finance**

Lion Finance is the Group's purchased debt entity, responsible for the collection of PDLs the Group buys from Australian credit providers.

Collection Services segment

Businesses included:

- **Collection House Limited (including NZ and Philippines)**
- **CLH Lawyers**
- **Midstate CreditCollect**
- **Collective Learning and Development**
- **ThinkMe Finance**
- **CLH Business Services**
- **Safe Horizons**

The Collection Services segment is made up of a number of brands, providing services to businesses, Government organisations and individuals.

Group support services

The businesses within the Collection House Group are supported by a number of specialist support services, including:

- **Human Resources**
- **Technology**
- **Risk management and compliance**
- **Analytics**
- **Finance**



www.collectionhouse.com.au

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Financial Basics Foundation is an independent charity, dedicated to educating young Australians about money management and financial literacy.

Collection House is the Founding Partner of Financial Basics Foundation, and in 2017 celebrates 15 years' of support.

With the Foundation's free educational resources now used in over half of Australian secondary schools, we are proud to be a partner of such an important organisation.



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