FY18 Results presentation

Collection House Limited

August 2018

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Company summary

FINANCIAL SUMMARY (CLH.ASX)

Share price (22 August 2018)	$1.48
Shares on issue	137.2 million
Market Capitalisation	$205.0 million
Enterprise Value	$337.0 million

BOARD AND SENIOR MANAGEMENT

Leigh Berkley	Chairman
Anthony Rivas	Managing Director & CEO
Michael Knox	Independent Non-executive Director
Kristine May	Company Secretary & CFO
Jonathon Idas	Chief Legal Officer
Anand Adusumilli	Chief Data Scientist

Collection House Limited
Debt collection and receivables management for third parties

Lion Finance
Debt purchasing and recovery

CLH Lawyers
Legal services including insolvency administration

MCC Midstate Creditcollect Pty Ltd
Tailored debt collection services, specialising in Local Government

Collective Learning and Development
Nationally recognised training provider in financial services and leadership

CLH Business Services
Customer service outsourcing for third parties

Think Me Finance. we're more about you
Licensed specialist finance broker for the provision of credit

SAFE HORIZONS
Provision of financial hardship services for third parties

A solid result with momentum building

- Group revenue of $143.9m was up 7.8% on FY17, including the transaction with Balbec Capital LP ("Balbec") announced in May, which provided a useful new source of capital, immediately reinvested at higher returns.
- Lion Finance (PDL) revenue of $75m was up 15.8% on FY17 but flat excluding the contribution from the Balbec transaction. Efficiencies continue to feed into improved EBIT margins of 42% (FY17: 41%), despite a more aggressive amortisation rate being adopted.
- Collection Services revenue of $69m was up 1.2% on FY17 and EBIT was flat at $12.9m, however this included the expected improvement in the second half, with EBIT of $7.5m up 9.7% on pcp.
- Normalised group EBIT of $44.4m (FY17: $31.4m) included a $9.6m gain on the Balbec transaction, as part of our new Portfolio Enhancement Programme (PEP), excluding which EBIT grew 3.2% pcp, or 10.9% on an underlying basis – applying like-for-like amortisation.
- In line with recent guidance, FY18 PDL purchases were $81.3m up 39% on FY17, and this purchasing was funded with just a $12m increase in Net Borrowings.
- FY18 EPS of 19.2¢ps was above guidance of 18-18.5¢ps. Excluding Balbec, EPS was 14.8¢ps versus guidance of 14.5-15¢ps.
- FY19 guidance is 19.2-19.5¢ps. Excluding PEP, we anticipate EPS of 15.2-15.5¢ps.
- The second half dividend of 3.9¢ps takes the full year payout to 7.8¢ps (fully franked) and the DRP is once again available to shareholders at a 2.5% discount.

A strong second half boosted by Balbec transaction

Year to June ($m)	FY16	FY17	FY18	Δ% pcp
Reported (post reallocation)				
PDL Cash Collections	123.3	104.6	126.8	21.2%
Amortisation of PDL	(48.6)	(39.6)	(51.8)	30.9%
Collection Services Revenue	57.9	68.2	69.0	1.2%
Unallocated	0.1	0.1	(0.2)	n/a
Total Revenue	132.7	133.4	143.9	7.8%
EBITDA	84.7	75.0	100.0	33.3%
Net Profit After Tax	18.6	17.4	26.1	49.9%
EPS (cents)	14.0	12.9	19.2	49.3%
Dividend (cents)	7.8	7.8	7.8	n/a
Normalised				
Normalised EBITDA	84.1	77.7	101.1	30.1%
Normalised Net Profit After Tax	18.1	20.0	26.8	34.4%
Normalised EPS (cents)	13.7	14.8	19.8	33.8%

Following a divisional reorganisation ThinkMe has been reallocated to the Lion Finance segment from Collection Services, other costs have also been reallocated. A reconciliation is detailed in the Appendix & Glossary. All tables in this report are rebased for this reorganisation.

- PDL Cash Collection was up 21% including the Balbec transaction. Excluding the $17.8m net contribution, FY18 Cash Collections grew 4.2%.
- Normalised Group EBITDA was up 30.1%. This included a gain on sale of $9.6m from the Balbec transaction. We expect these type of deals to form ongoing business nevertheless, excluding this contribution EBITDA grew 17.8%.
- Normalised EPS was up 33.8% on FY17, above guidance of 18 -18.5¢ps.
- Excluding the Balbec transaction EPS was 14.8¢ps which was flat on FY17, however, had the same (higher) amortisation policy been adopted in the prior period EPS growth would have been 9.5%.

EARNINGS RECONCILIATION

Underlying performance much improved

	EBIT			NPAT		
Year to June ($'000)	FY17	FY18	Δ%	FY17	FY18	Δ%
Reported	**31,114**	**43,373**	**39.4%**	**17,387**	**26,066**	**49.9%**
ADD: Restructuring costs	197	1,082	n/a	138	758	n/a
ADD: CHIBI & NZ Tax adj.	0	0	n/a	691	0	n/a
ADD: C5 Software write off	2,497	0	n/a	1,748	0	n/a
Normalised	**33,808**	**44,455**	**31.5%**	**19,964**	**26,824**	**34.4%**
LESS: Prior period adj. to higher amortisation*	-2,354	0	n/a	-1,648	0	n/a
LESS: Profit on Balbec transaction	0	-9,562	n/a	0	-6,693	n/a
Underlying (like for like)	**31,454**	**34,893**	**10.9%**	**18,316**	**20,131**	**9.9%**

** Proforma backdated adjusted to provide like for like comparison based on higher amortisation rate now adopted (46% vs. 44% in pcp)*

- Restructuring costs in the current period were $1.1m (before tax), which represented the closure of Collection Services operations in Sydney in July 17 and restructured recruitment resourcing.
- The like-for-like underlying performance which excludes the gain from the Portfolio Enhancement Programme, shows 10.9% EBIT growth translating into 9.9% EPS growth with the higher amortisation rate adopted in FY18.
- C5 software capitalisation write-offs occurred in FY17, no further write-offs required in FY18.

Gearing steady and room for expansion

Year to June ($m)	FY16	FY17	FY18	Δ%
Cash	8.9	1.2	0.5	
Purchased debt ledgers	61.1	47.3	65.8	
Other	11.1	12.4	22.0	
Current Assets	81.1	60.9	88.3	45%
Purchased debt ledgers	204.2	236.3	246.1	
Intangibles	37.4	36.3	33.9	
Other	4.3	4.4	2.7	
Non Current Assets	245.9	277.1	282.7	2%
Borrowings	0.0	0.0	2.6	
Other	23.9	17.3	22.5	
Current Liabilities	23.9	17.3	25.1	45%
Borrowings	118.2	123.2	131.9	
Other	4.6	8.9	7.5	
Non Current Liabilities	122.8	132.1	139.4	6%
Net Assets	180.3	188.6	206.5	9%
Net borrowings/PDL carrying value %	41.2%	43.0%	43.0%	
Gearing (ND / ND+E)	37.7%	39.3%	39.4%	

- The Group bank facilities are $175m with an additional $12.5m overdraft facilities.
- At year end the undrawn facility headroom was $53m.
- Gearing was steady at 39%.
- In addition, our relationship with Balbec provides access to further capital to purchase PDLs.

CASHFLOW

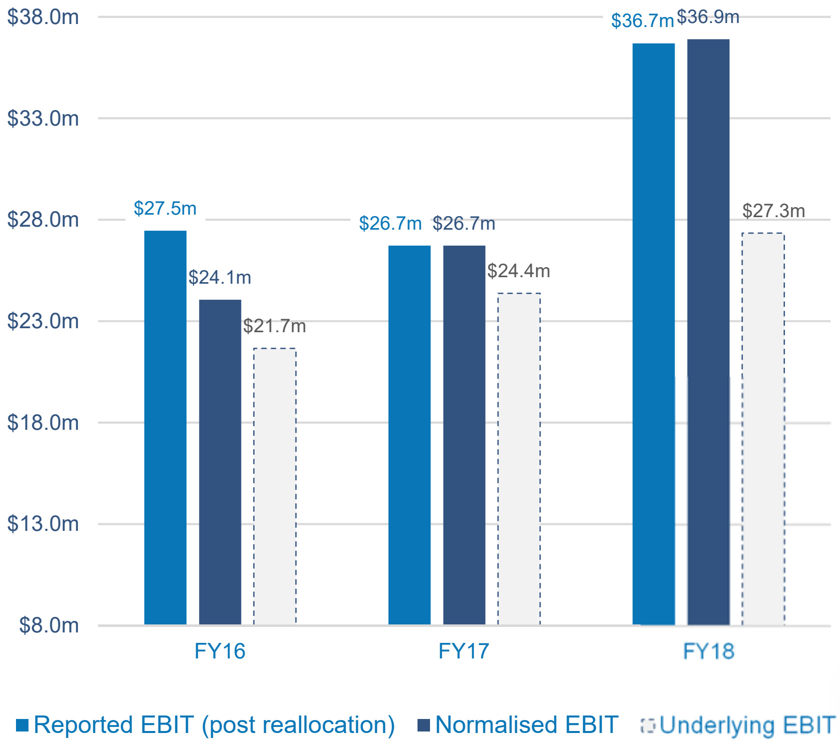
Improving cash collections and working to improve cashflow

Year to June ($m)	FY16	FY17	FY18	Δ%
Cash Collections	192.3	174.9	191.3	9%
Operating expenses	-108.0	-112.9	-105.4	-7%
Operating cash flow	84.3	62.0	85.9	38%
PDL acquisitions	(61.9)	(58.3)	(81.3)	39%
Capex	-5.3	-1.8	-1.4	-21%
Investing cash flow	-67.2	-60.1	-82.7	38%
Net proceeds from borrowings	(1.3)	5.0	11.2	125%
Net proceeds from equity	-8.4	-9.5	-9.0	-5%
Other	-5.8	-5.1	-6.0	18%
Financing cash flow	-15.5	-9.6	-3.9	-60%
Change in cash	1.6	-7.7	-0.7	
Cash at year end	8.9	1.2	0.5	

- Cash Collections (PDL & Collection Services cashflow) increased by 9%.
- Operating expense fell 7% lifting Operating cashflow by 38% to $85.9m.
- Free cashflow was up 62% with a $9m positive movement in 2H18.
- PDL acquisitions were $81.3m up 39% from FY17.

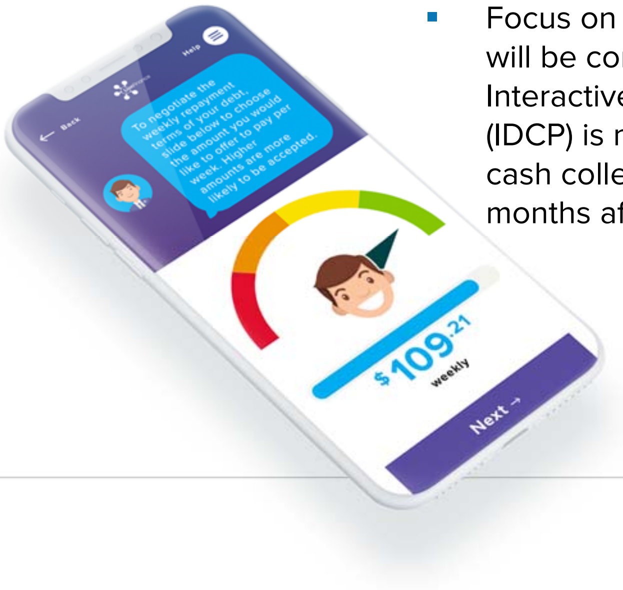
Underlying trend shows strong growth

Segment EBIT results (before group overhead)



This chart has been reconciled in all periods to incorporate the reallocation of various operating costs and the transfer of ThinkMe into the Lion Finance segment – **see Appendix & Glossary for details.**

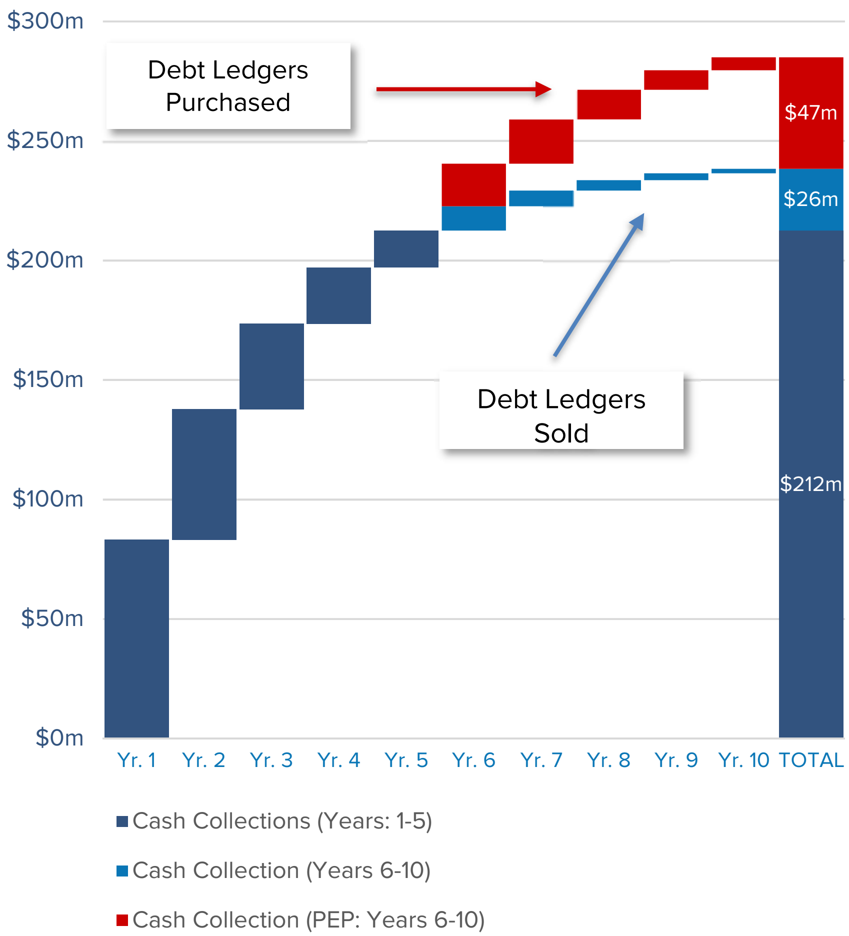
- Lion Finance services accounts from all four major banks, financial services companies, and select utility sellers.
- Despite the competitive purchase environment of recent years, the increased supply due to AASB9 means prices remain reasonably attractive.
- The PDL Segment enjoyed a significant increase in earnings partially due to PEP, but even excluding this the underlying trend is tracking well.
- We continue to be confident about the outlook for this division.
- Focus on technology and automation will be core to our success, and our Interactive Debt Collection Portal (IDCP) is now generating ~$700k of cash collection per month, just three months after launch.



The IDCP is a truly new digital experience designed to assist us with collections, offering a highly user friendly experience that rewards interaction and speeds up the process of engaging with customers.

Theoretical example under Portfolio Enhancement Programme

Uplift in Cash Collection under PEP

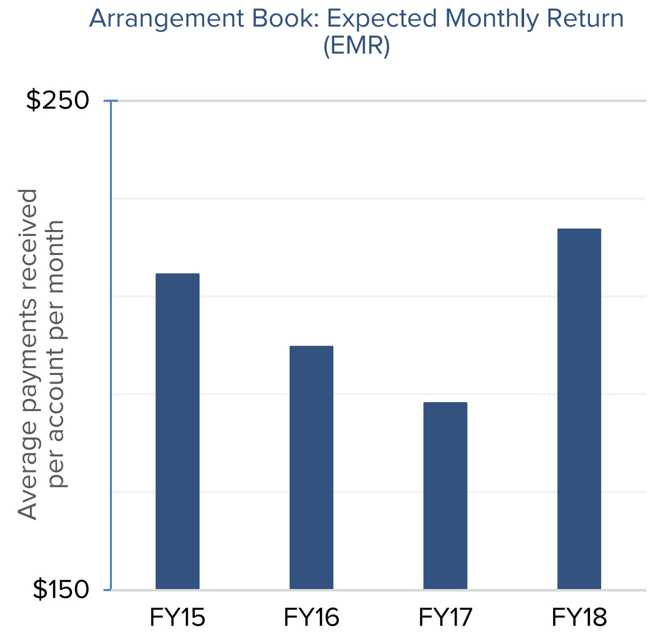


- Our new PEP is a way to more rapidly recycle our capital to generate higher returns.
- We receive upfront payment for future cash flows from older debt ledgers, that qualify for PEP.
- This payment, plus gearing is then reinvested in new PDL/Arrangement books.
- We can redeploy capital into higher yielding portfolios, where our skills can enhance the returns.
- In the example provided we have assumed $100m invested with 43% gearing

Over 10 years	Original	PEP	Difference	
Equity funding	$57m	$57m	-	-
Total collections	$238m	$285m	$47m	20%
Less: Original Debt	$43m	$43m	-	-
Less: PEP Debt		$15m	$15m	-
Net Cashflow	$195m	$227m	$32m	16%
Cash Return on Equity	3.4x	4.0x	0.6x	16%

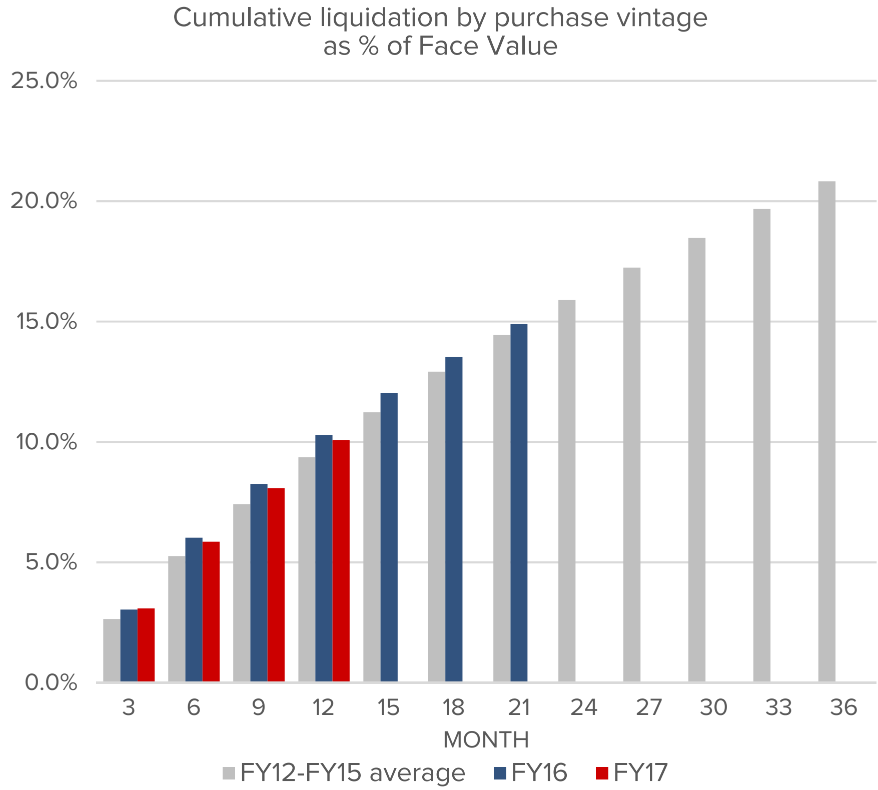
Arrangement book growing in volume and quality

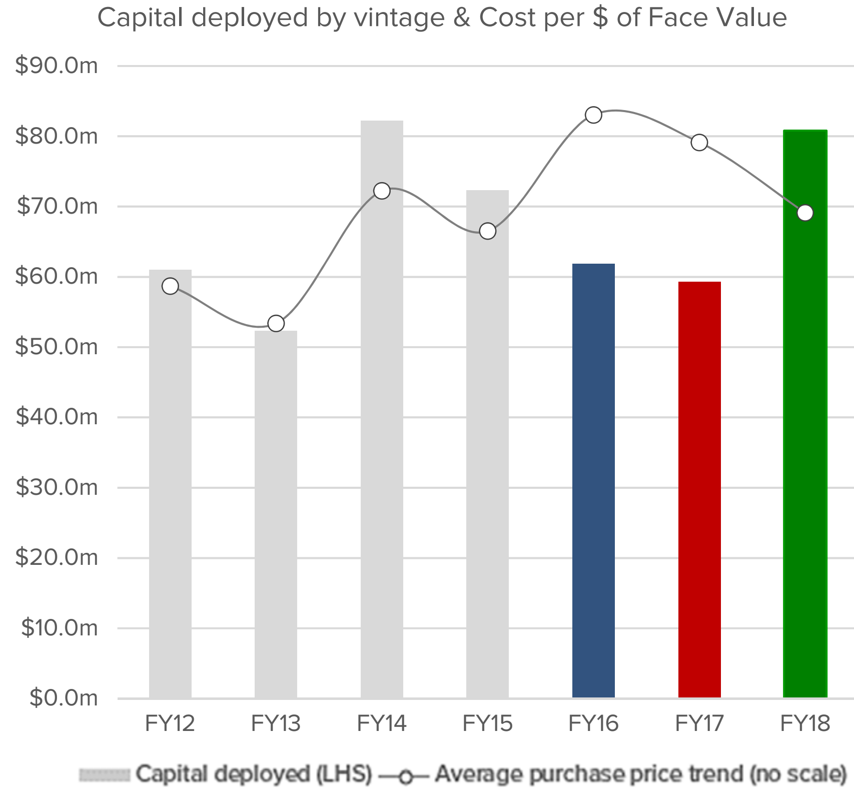
Year to June ($m)	1H16	2H16	1H17	2H17	1H18	2H18
Total portfolio						
Face value	$1.6bn	$1.5bn	$1.5bn	$1.6bn	$1.7bn	$1.7bn
Number of accounts	296,000	262,000	262,000	258,000	253,000	260,000
Average balance	$5,302	$5,576	$5,819	$6,154	$6,554	$6,577
Arrangement book						
Face value	$387.0m	$357.0m	$319.0m	$317.0m	$320.0m	$334.8m
Number of accounts	55,000	49,000	44,000	42,000	42,000	43,000
Average balance	$7,036	$7,286	$7,250	$7,548	$7,680	$7,786
% of PDL collections	77%	77%	76%	68%	74%	76%



- Despite PEP, which included a portion of the arrangement book, the total net growth exceeded previous years with a higher estimated monthly revenue.
- A major contributor to the improvement in the number and quality of arrangements in 2018 was the CLH Interactive Debt Collection Portal (IDCP).
- Continued enhancement of IDCP strategies will help us continue to cultivate the arrangement book as customers have demonstrated willingness to leverage self selected, analytics driven, repayment plans.

Continued improvement in buying and recoveries



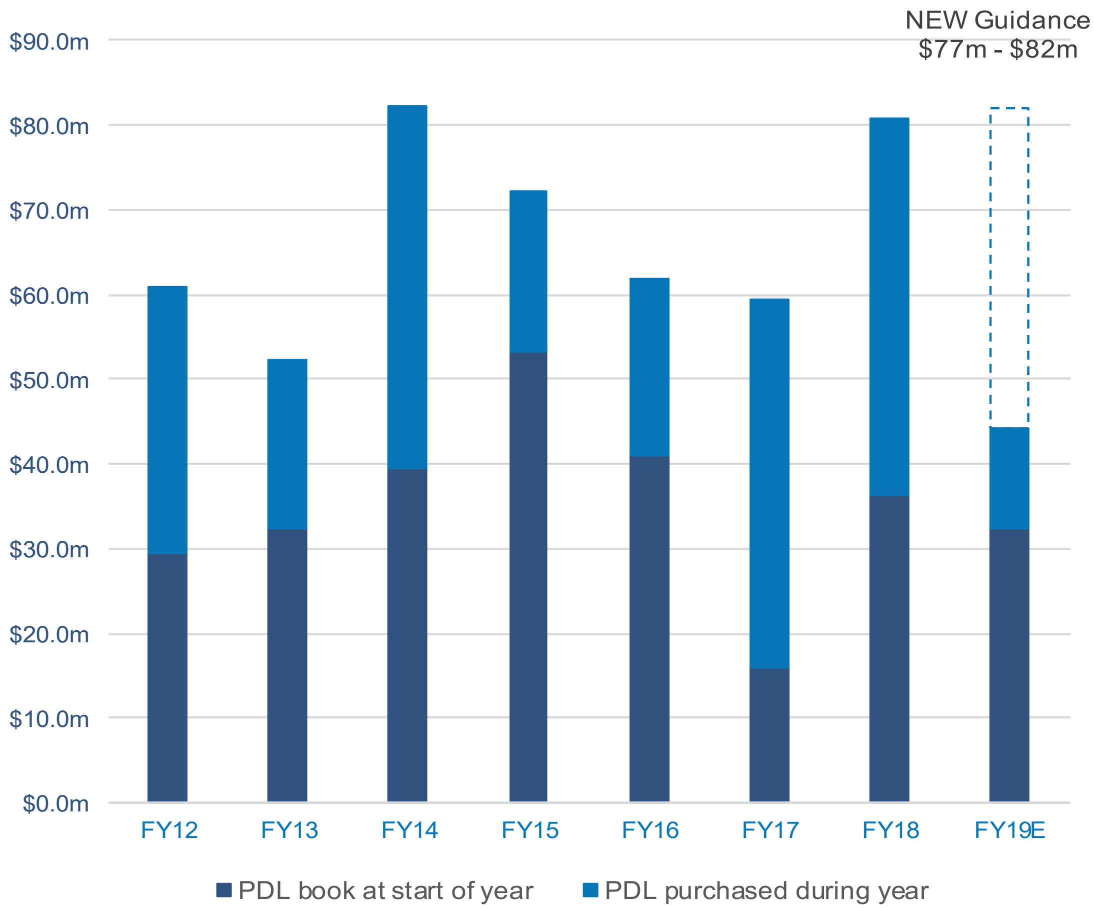


- Current vintages continuing to perform better compared to FY14 and prior.
- Right treatment path specific to the consumer profile is the primary focus to maximise liquidation from each vintage.
- We have stepped up our management of capital and continue to find good value in the market.
- Our average price per $ of Face Value acquired has trended consecutively lower while the product mix has improved.

LION FINANCE – PDL SEGMENT: PURCHASING

Strong start to PDL purchasing in FY19

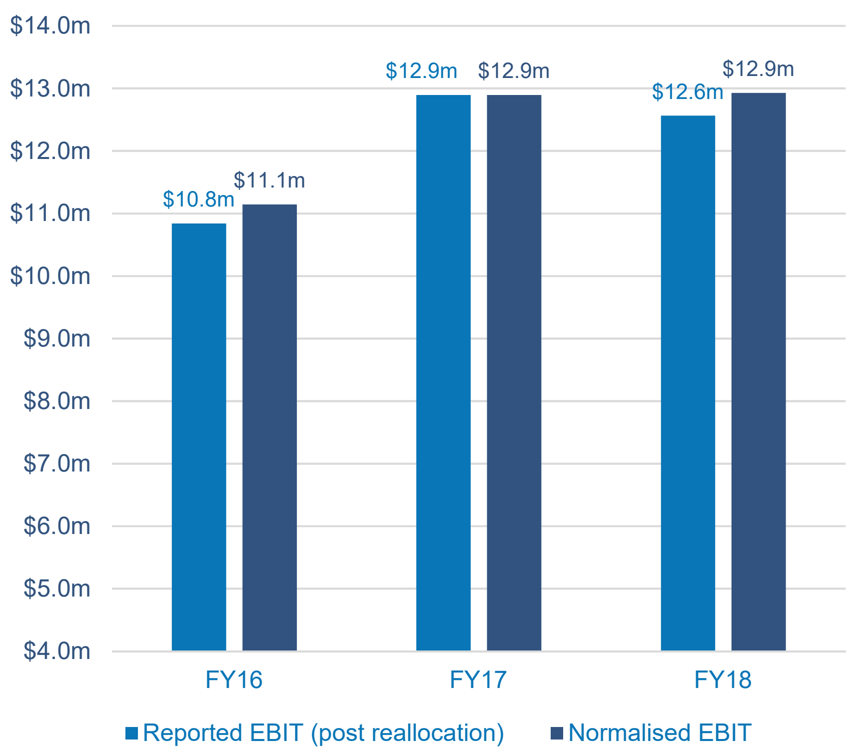
PDL purchase pipeline



- The market for PDL purchases remains competitive and supply from banks remain above trend due to changed provisioning requirements under AASB9.
- We are gaining additional access to PDLs via expansion of forward flow agreements.
- We have access to additional $50.3m bank debt financing and further capital from Balbec.
- We have currently committed $44m and are well placed to meet at least a guidance range of $77-82m in new PDL purchases during FY19.

Full year in line after a slow start, expect growth in FY19

Segment EBIT results (before group overhead)



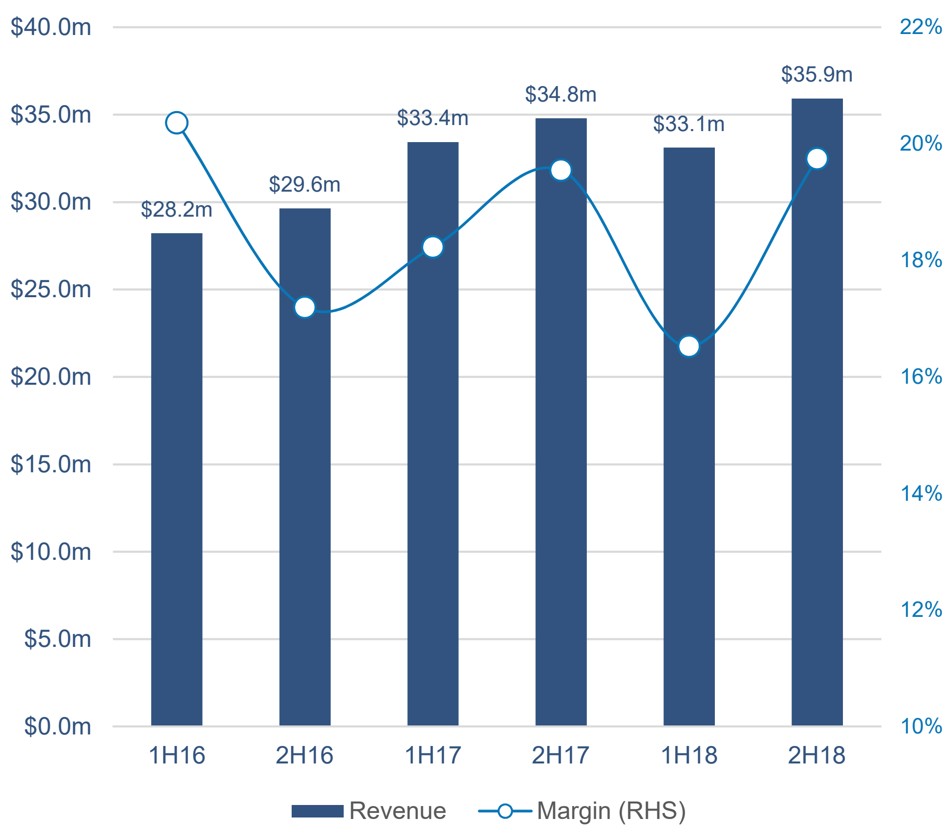
The Collection Services segment is made up of a number of brands, providing services to businesses, government organisations and individuals.

- After a slower start to the year with some work deferred into the second half, the full year results reflected a stronger finish.
- A number of expanded client contracts, including our newly developed IDCP and Business Services offerings, made maiden contributions in 2H18, but establishment costs incurred in 1H18 offset most of the benefits in FY18. We expect a more meaningful contribution in FY19.
- Following the successful launch of the IDCP, market opportunities have expanded into digital only propositions with new and existing clients globally.
- Businesses within segment:
  - Collection House Limited (including NZ, Government Services and Philippines)
  - CLH Lawyers
  - Midstate CreditCollect
  - Collective Learning and Development
  - CLH Business Services

This chart has been reconciled in all periods to incorporate the reallocation of various operating costs and the transfer of ThinkMe into the Lion Finance segment – **see Appendix & Glossary for details**.

Returning to peak level margins

Segment revenue and margins (before group overhead)

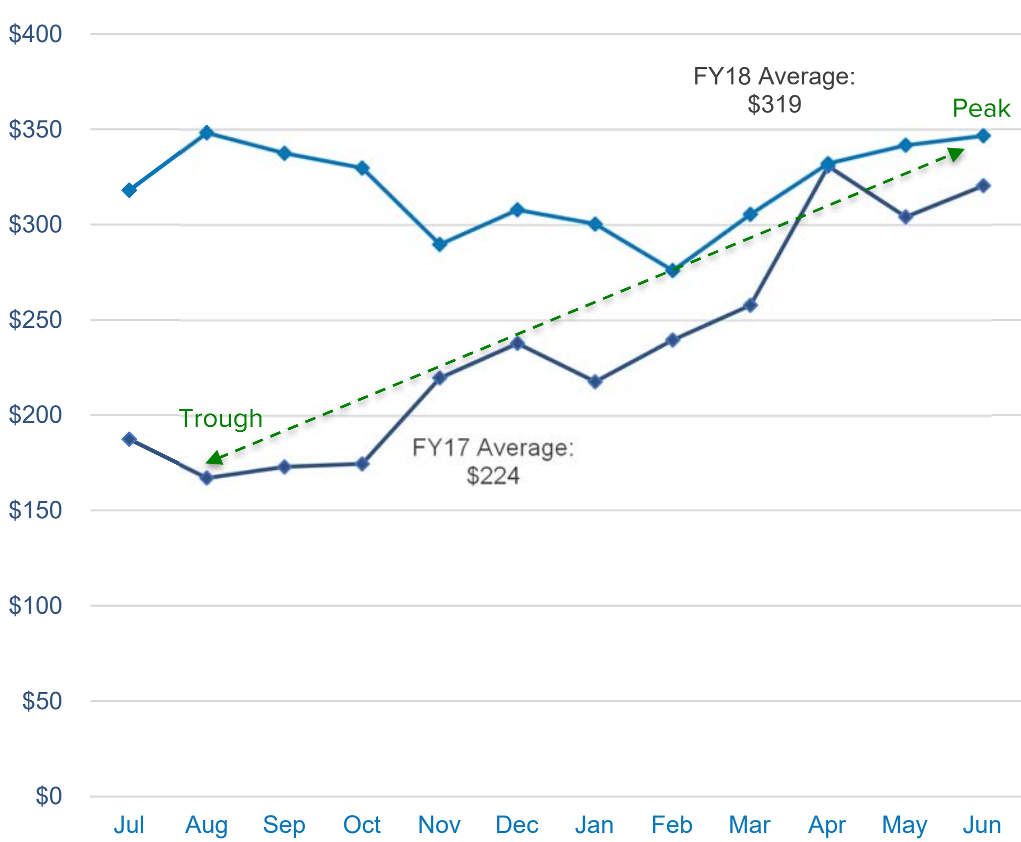


- 2H18 represented a record revenue and EBIT performance.
- 2H18 normalised EBIT of $7.5m equates to 9.7% growth.
- We expect continued revenue growth in FY19 and are returning the division to peak level margins and aim to surpass them in FY19.
- Technological initiatives currently in development will be a contributor to improve our overall collection margins.
- Further expansion into partnerships with international clients, leveraging our offshore facility in Manila, through organic growth and new prospects.

The enclosed chart has been reconciled in all periods to incorporate the reallocation of various operating costs and the transfer of ThinkMe into the Lion Finance segment – **see Appendix & Glossary for details**.

Continuing to find ways to be more efficient and competitive

Lion Finance: PDL collections per FTE hour

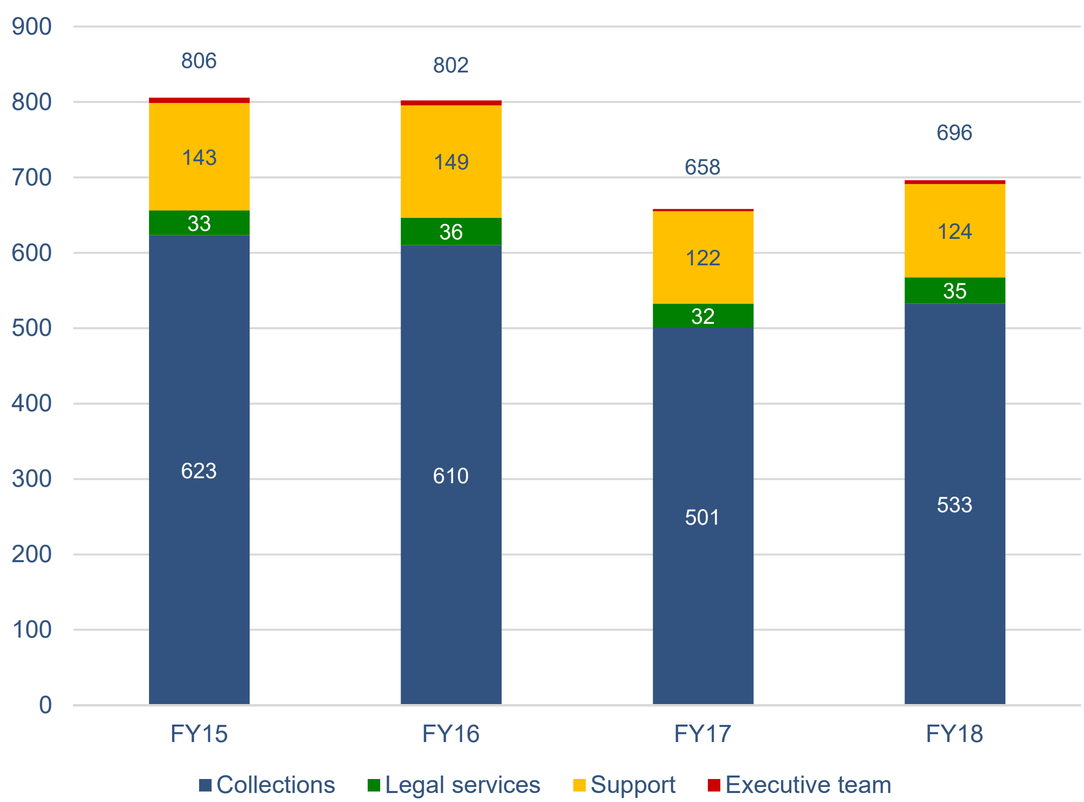


- The average collection rate per staff hour has increased a further 42% in FY18, on top of an improvement captured in FY17.
- Trough to Peak productivity has more than doubled in the last two years.
- Leveraging dialler technology and customer segmentation strategies have been the primary focus
- Utilizing home grown technological advances and cutting edge work force management tools to further enhance productivity are underway
- Omni channel approach to collections strategy using predictive analytics should further improve this number in FY19.

The PDL Collections methodology has been revised to include operations in Manila which has been excluded in the past.

Business *right-sized,* but we remain vigilant for opportunities to reduce costs

Domestic employee FTE



- Group revenue per employee is up 12% on FY17 and 37% since FY16.
- Having *right-sized* the business and improved the quality of talent pool we expect to start selectively adding headcount to support growth.
- Earlier *right-sizing* of the business has provided opportunity to increase direct investment in tenured staff though incentives, training and coaching tools derived from our technology investments.
- Collection staff:
    - Lion Finance (PDL): 174
    - Collection Services: 359
- In addition, there are 73 employees in the Philippines, 52 of which are in collections.

Phases 1, 2 and 3 complete, on course for Phase 4, new targets for Phase 5

Phase 1 & 2 Complete

- Completed cost saving
- Improved PDL pricing strategies
- New call centre technology
- Completed Manila transformation
- Secured first clients for CLH Business Services
- Secured first clients for Safe Horizons
- Implemented new staff training

Phase 3: Complete

- Leverage existing capabilities into new verticals
- Achieve further diversification and income streams
- Collections per hour $225+
- Sophisticated PDL reporting and purchase modeling – amortisation at a prudent 46%

Phase 4: from January 2018

- Transform CLH into an analytics driven organisation - integrating machine learning to enhance pricing and PDL valuation models, first version to be ready by end of 2H18
- Next stage evolution of contact centre strategy
  - Collection strategy based on customer segmentation
  - Deploying first version dialer optimisation model
  - Integrating non-voice channel to enhance performance
- Leveraging offshore facilities further for business expansion and strategic cost optimisation
- IDCP and C5 – marketing products to current and new clients to create new revenue streams

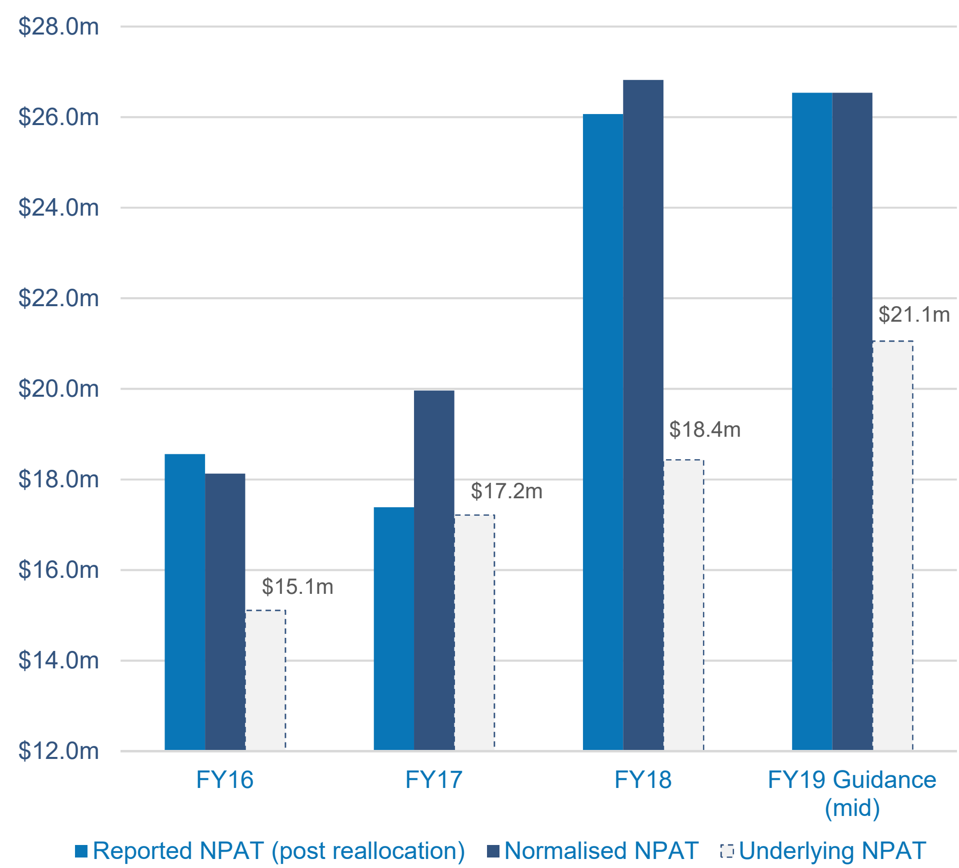
Phase 5: July 2018 onwards

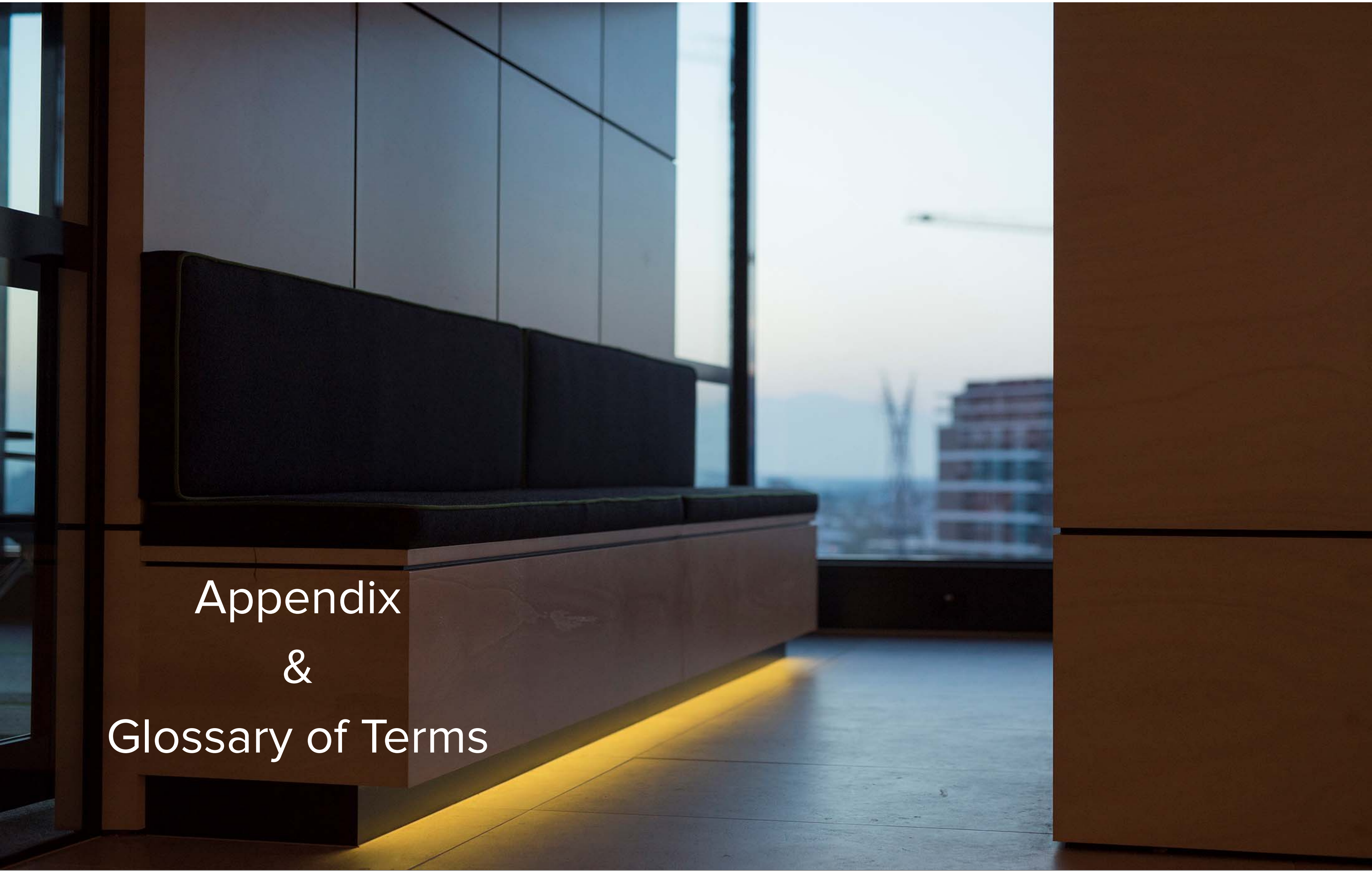
- Continue to invest in tools to drive productivity and collections effectiveness such as gamification and call monitoring to text
- Continue to evolve the IDCP as a distinct revenue line in pursuit of omni-channel contact centre
- Continue to fully implement predictive analytics into the business
- Invest in reg-tech to navigate the changing finance landscape and drive best practice in compliance and customer advocacy e.g. Comprehensive Credit Reporting, Portal, Kara Portal Education Programmes
- Continue to refine the CLH capital management strategy and strengthen ROE.

Growth platform ready to perform in FY19

- Much of the infrastructure for growth is now in place:
  - We manage accounts from all the major banks.
  - We are more accurately assessing and bidding for PDL books.
  - We have built a better team of collectors and better systems to support them.
  - We are enjoying improved collections both per staff hour and in aggregate.
  - We have increased our access to capital to fund our purchasing.
- We expect to announce additional PEP type transactions annually at similar levels recorded in FY18.
- The outlook for PDL purchasing remains attractive and we expect to meet or beat our performance in FY18.
- Our FY19 guidance is for EPS of 15.2¢ps-15.5¢ps or 19.2¢ps-19.5¢ps including the PEP.
- Our guidance includes an increase in amortisation from 46% to 48% - the middle of the guidance equates to 14% underlying like-for-like growth (ex PEP).

Group NPAT trends





Appendix & Glossary of Terms

GLOSSARY OF TERMS

Industry lingo and financial terminology

INDUSTRY TERMS USED IN THIS REPORT

- AASB9 - A change in the Australian Accounting Standard from AASB 139, effective 1 /1/2018 which determines where financial assets and liabilities are measured at fair value or amortised cost. The objective is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. http://www.aasb.gov.au/admin/file/content105/c9/AASB9_12-14.pdf
- Amortisation of PDLs - The process of allocating the repayment of the PDL principal to pay down the cost of the PDL over a period of time, according to its expected price multiple.
- Collection Services - The collection of consumer debts on a success fee basis by entities seeking to accelerate cash flow and minimise credit default risks.
- Customer Segmentation - The practice of dividing a customer base into groups of individuals that are similar in specific ways relevant to marketing, such as age, gender, interests and spending habits.
- EMR – Expected Monthly Revenue is the average recurring monthly payments received from our Arrangement customers that have committed to a regular payment plan to extinguish their outstanding debt.
- FTE - The hours worked by one employee on a full-time basis. Used to convert the hours worked by several part-time employees into the hours worked by full-time employees.
- Face Value – Original balance of debt purchased
- Liquidations - Percentage of face value recovered
- Non-Voice Collections - A method of customer engagement without the use of employees. E.g.. fostering a customer transaction through the Interactive Debt Collection Portal.
- Purchased Debt Ledgers (PDL) - Purchased written-off, distressed consumer debt
- PDL carrying value – Cost of the PDL book less the amortisation of the same PDLs
- PDL cash collection - Gross recovery dollars on purchased debt
- Arrangement Book - A group of customers currently engaged in formal commitments to repay their account in instalments over a period of time.
- Vintage – The year the debt was purchased
- Portfolio Enhancement Programme (PEP) – includes CLH developed programmes such as Call Options, Call and Put Options and other strategies involving PDL account management.
- Interactive Debt Collection Portal (IDCP) - Digital experience that speeds up the process of engaging with customers by offering convenient methods to manage their account
- Omni-channel – Approach to collections strategies involving non-voice, voice and other various methods to contact the consumer
- Kara Education Programme – Consumer education programme utilising our IDCP character Kara, to engage through social media, videos and other channels

FINANCIAL TERMS USED IN THIS REPORT

- Reported (pre-reallocations) – The statutory results that were reported previously.
- Reported (post-reallocations) – The statutory results adjusted for the change in the way the company's expenses are reported between the various segments. The change was implemented during 1H18 and included the transfer of ThinkMe and Safe Horizons. These changes have been backdated to provide a clearer picture of the trends.
- Normalised – The earnings adjusted for items that are considered unusual and one-off, used to provide a clearer picture of the company's earnings. This is the key earnings information by which professional investors will assess the company's value and progress.
- Underlying - The earnings before normalisation events and historically adjusted to show what the earnings would have been had the new more conservative amortisation policy been adopted in earlier periods.

HISTORICAL RECONCILIATION: 1

Segment reallocation reconciliation

Year to June ($'000)	Revenue (Reported) 1H16	2H16	1H17	2H17	1H18	2H18	EBIT (Reported) 1H16	2H16	1H17	2H17	1H18	2H18
Reported pre-reallocation												
Lion Finance	36,302	38,337	32,306	32,488	30,328	44,674	12,119	17,178	13,013	15,667	12,440	24,255
Collection Services	28,245	29,664	33,577	34,899	33,112	35,926	4,963	4,038	4,960	5,837	5,471	7,093
Unallocated	5	141	157	-9	-13	-164	-2,610	-3,557	-2,923	-5,440	-3,365	-2,521
Total	64,552	68,142	66,040	67,378	63,427	80,436	14,472	17,659	15,050	16,064	14,546	28,827
Reallocation												
Lion Finance	23	25	146	105	0	0	-783	-1,057	-993	-964	0	0
Collection Services	-23	-25	-146	-105	0	0	783	1,057	1,134	964	0	0
Unallocated	0	0	0	0	0	0	0	0	-141	0	0	0
Total	0	0	0	0	0	0	0	0	0	0	0	0
Reported (post reallocation)												
Lion Finance	36,325	38,362	32,452	32,593	30,328	44,674	11,336	16,121	12,020	14,703	12,440	24,255
Collection Services	28,222	29,639	33,431	34,794	33,112	35,926	5,746	5,095	6,094	6,801	5,471	7,093
Unallocated	5	141	157	-9	-13	-164	-2,610	-3,557	-3,064	-5,440	-3,365	-2,521
Total	64,552	68,142	66,040	67,378	63,427	80,436	14,472	17,659	15,050	16,064	14,546	28,827