Collection House Group

FY17 Results

Collection House Limited

24 AUGUST 2017

Financial Basics Foundation
2002 - 2017
CELEBRATING
15 YEARS
of Financial Literacy Education for Young Australians
Collection House Group

FY17 OVERVIEW

Foundation set for FY18

FY17 financial results

- Statutory profit after tax of $17.4m EPS 12.8
- Underlying profit after tax of $19.9m, EPS 14.7; at the top end of guidance
- Total revenue increased 1% to $133.4m
- Final dividend 3.9c fully franked, full year dividend 7.8c fully franked

Disciplined PDL investment

- 93% (58.3m) of FY17 target achieved ($62m invested in FY16)
- Bid on 112 PDL opportunities in FY17 - 26 bids in FY16
- Newly hired Chief Data Scientist. Charged with further improving our purchase models

New lines of business exceeding expectations

- CLH Business Services exceeding client expectations
- ThinkMe Finance in FY17 successfully launched and is growing rapidly

Efficiency gains across the Group

- Outbound call volume increased by ~40% since the successful deployment of the Genesis Interactive Intelligence contact centre solution
- Much improved productivity with increase to outbound call volume despite the reduction in call centre staff
- PDL agent collections significantly increased in FY17 leading to a higher return per agent

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GROUP FINANCIAL SNAPSHOT

Underlying guidance met and building momentum

Year to June ($m)	FY14	FY15	FY16	FY17	Δ%
Reported					
PDL Revenue	63.1	77.6	74.6	64.8	-13%
Collection Services Revenue	44.2	48.5	58.1	**68.6**	18%
Total Revenue	107.3	126.0	132.7	**133.4**	1%
EBITDA	77.5	90.3	84.7	**74.6**	-12%
Net Profit After Tax	18.7	22.5	18.6	**17.4**	-6%
Statutory EPS (cents)	14.7	17.2	14.0	**12.8**	-8%
Underlying EPS (cents)	14.7	17.2	15.7	**14.7**	-6%
DPS (cents)	8.0	9.1	7.8	**7.8**	-

- FY17 PDL pipeline opened slow with $16.5m as compared with FY18 at $36.4m
- Collection Services revenue maintaining strong growth with FY17 representing record revenue performance

CASH FLOW AND BALANCE SHEET

Operating Cash Flow

Year to June ($m)	FY14	FY15	FY16	FY17	Δ%
Cashflow					
Operating cash flow	65.9	77.7	84.3	62.0	-26%
PDL acquisitions	82.2	72.3	61.9	58.3	-6%
Capex	3.4	3.1	5.3	1.8	-67%
Free cash flow	-19.7	2.3	17.1	1.9	-89%
Balance sheet					
PDL cash collections	106.5	127.6	123.3	104.4	-15%
PDL carrying value	234.0	256.0	265.0	284.0	7%
Net borrowings	99.0	112.0	109.0	122.0	12%
Net borrowings/PDL carrying value	42%	44%	41%	43%	
Gearing*	39%	40%	38%	39%	

** Net debt / Net debt + Equity*

- $125m facility with an additional $12.5m overdraft
- The Group had access to $14.3m undrawn facilities at 30 June 2017
- Gearing steady at 39%

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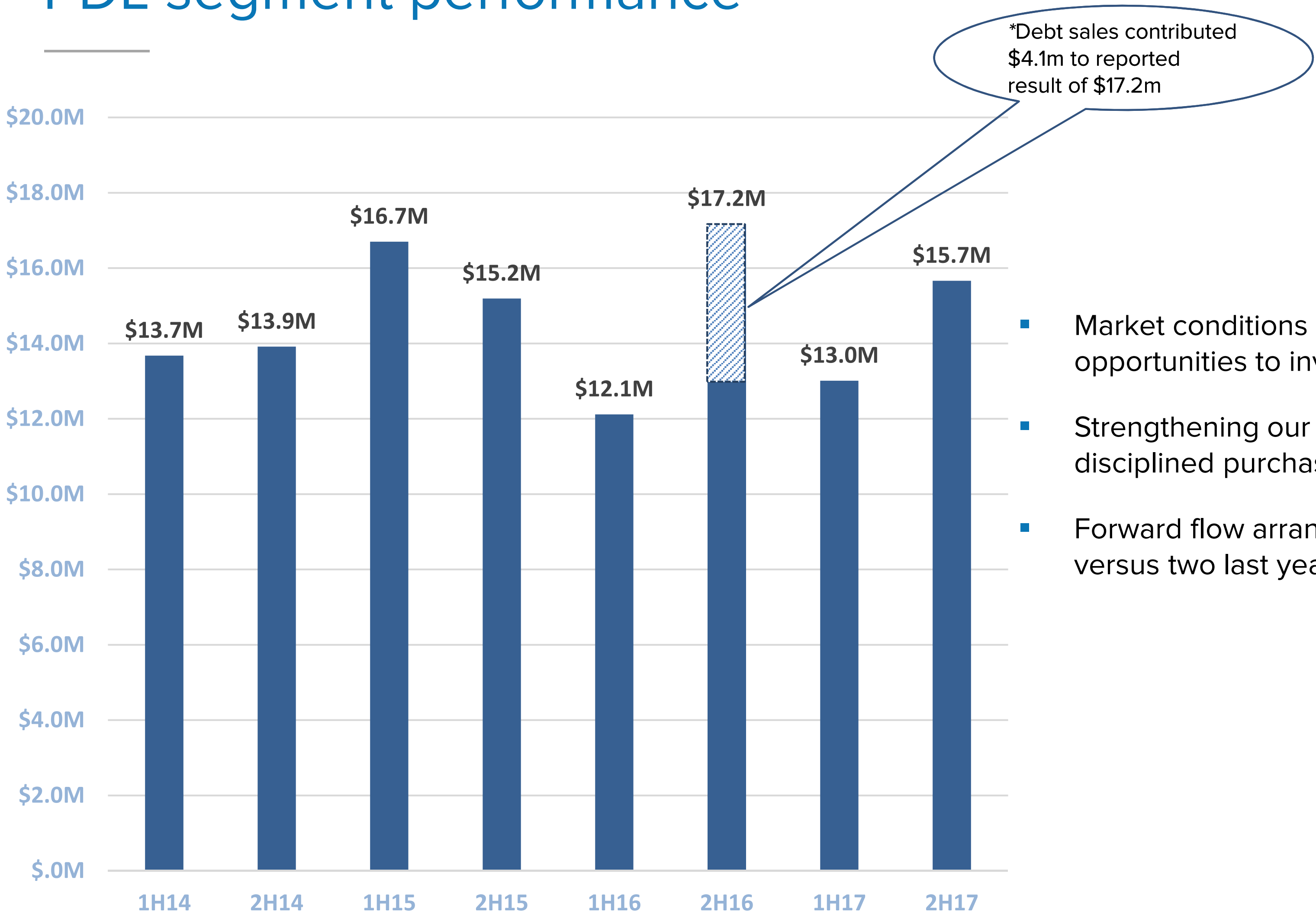
SEGMENT RESULTS – LION FINANCE

PDL segment performance



- Market conditions for PDLs provided us with better opportunities to invest in markets not previously bid
- Strengthening our analytical approach leading to disciplined purchasing throughout FY17
- Forward flow arrangements with the Big Four banks versus two last year

SEGMENT RESULTS – LION FINANCE

Portfolio overview

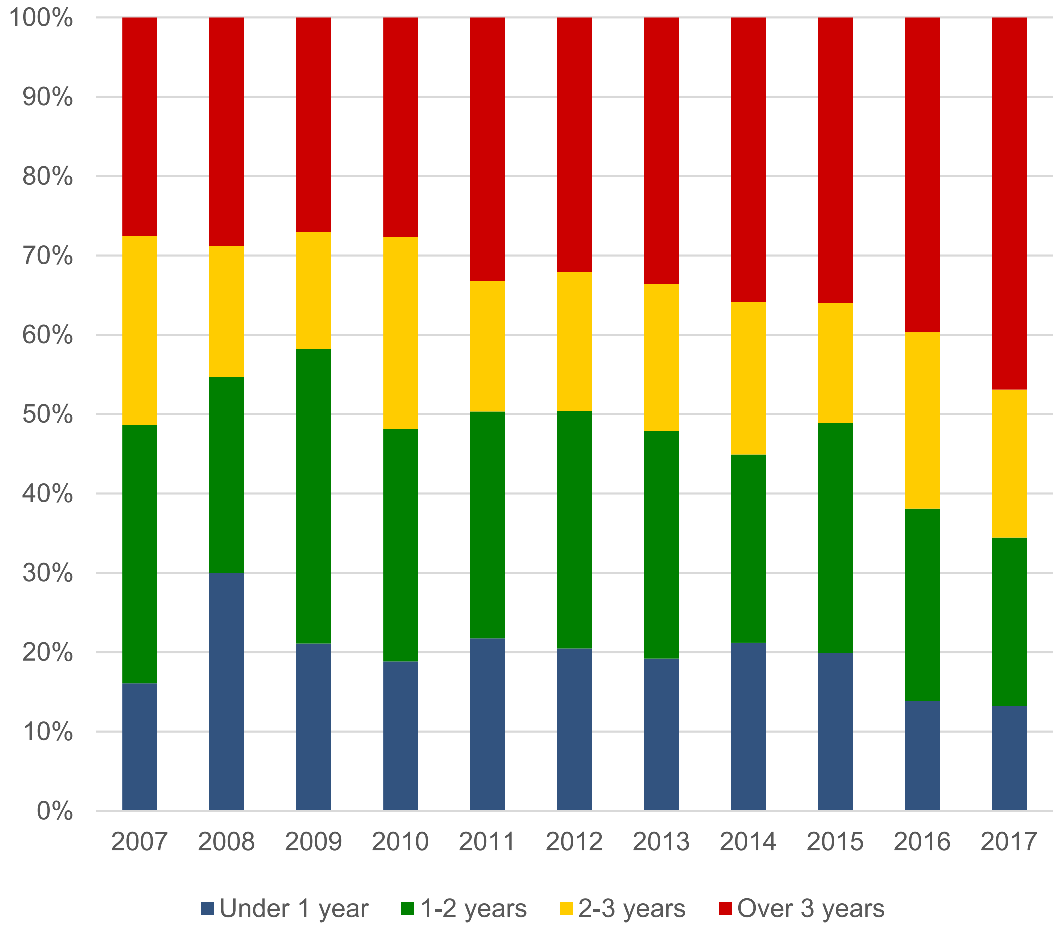
Year to June ($m)	1H15	2H15	1H16	2H16	1H17	2H17
Total porfolio						
Face value	$1.52bn	$1.54bn	$1.57bn	$1.46bn	$1.52bn	$1.59bn
Number of accounts	260,000	304,000	296,000	262,000	262,000	258,000
Average balance	$5,830	$5,067	$5,302	$5,576	$5,819	$6,154
Repayment book						
Face value	$389.0m	$389.0m	$387.0m	$357.0m	$319.0m	$317.0m
Number of accounts	53,000	55,000	55,000	49,000	44,000	42,000
Average balance	$7,340	$7,073	$7,036	$7,286	$7,250	$7,548
% of PDL collections	67%	70%	77%	77%	76%	68%

A management review revealed that 3,000 accounts, with a face value of $2.4m, were not performing in line with more rigorous guidelines, and were removed from the Repayment book.

- A 10% increases in the Average balance reflects the focus on improving the quality of the portfolio (banking and finance) and we expect this trend to continue
- Delta between % of PDL collections against the total book is due to the relative increase in payment in full; legal transactions; offers in compromise and prior year purchase focus in the Telco and Utilities sector paying out smaller balance arrangements
- We expect to return fresh arrangements to the Repayment book over time through our normal collection activities

SEGMENT RESULTS – LION FINANCE

Vintage liquidation rates over time

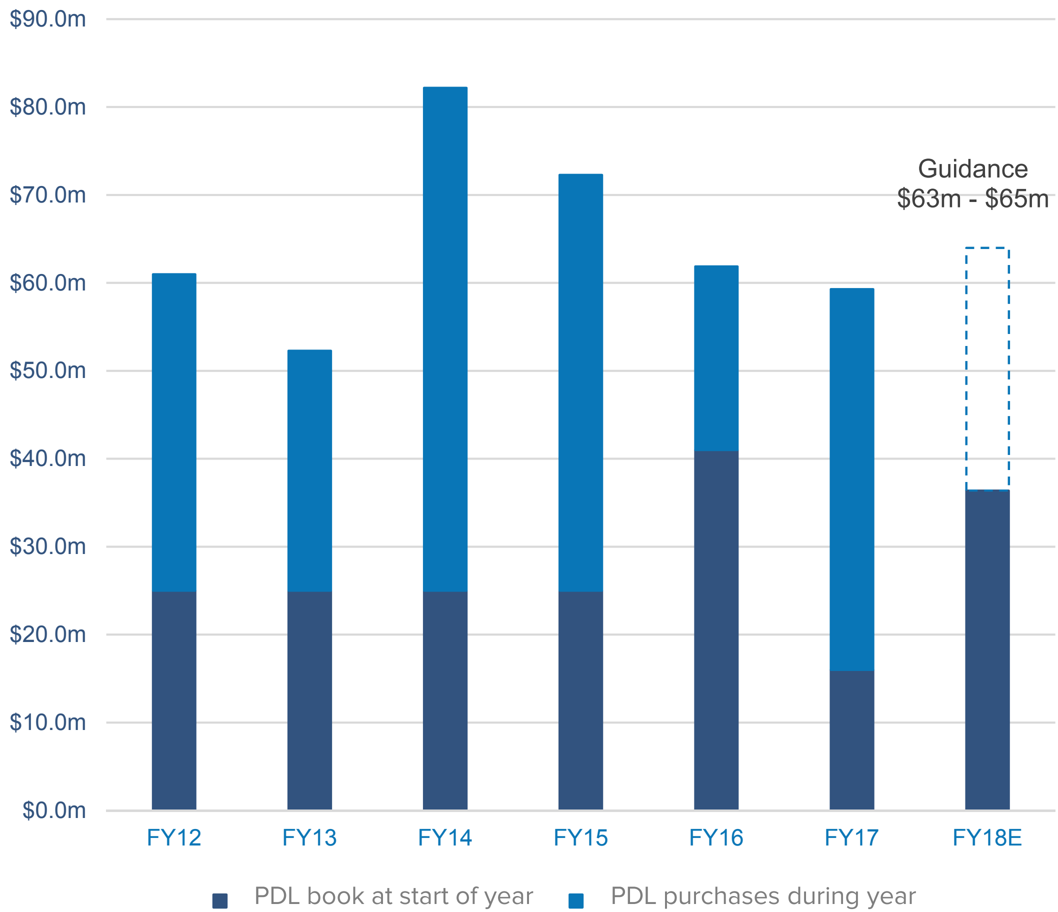


- We continue to extract more value out of our book, with a demonstrated ability to continue to liquidate older portfolios
- 3+ year debt represented 47% of FY17 collections
- Despite intentional reduction in upfront settlements, year 1 results FY17 are in line with FY16

SEGMENT RESULTS – LION FINANCE

Stronger start to FY18 investment pipeline

PDL purchase pipeline

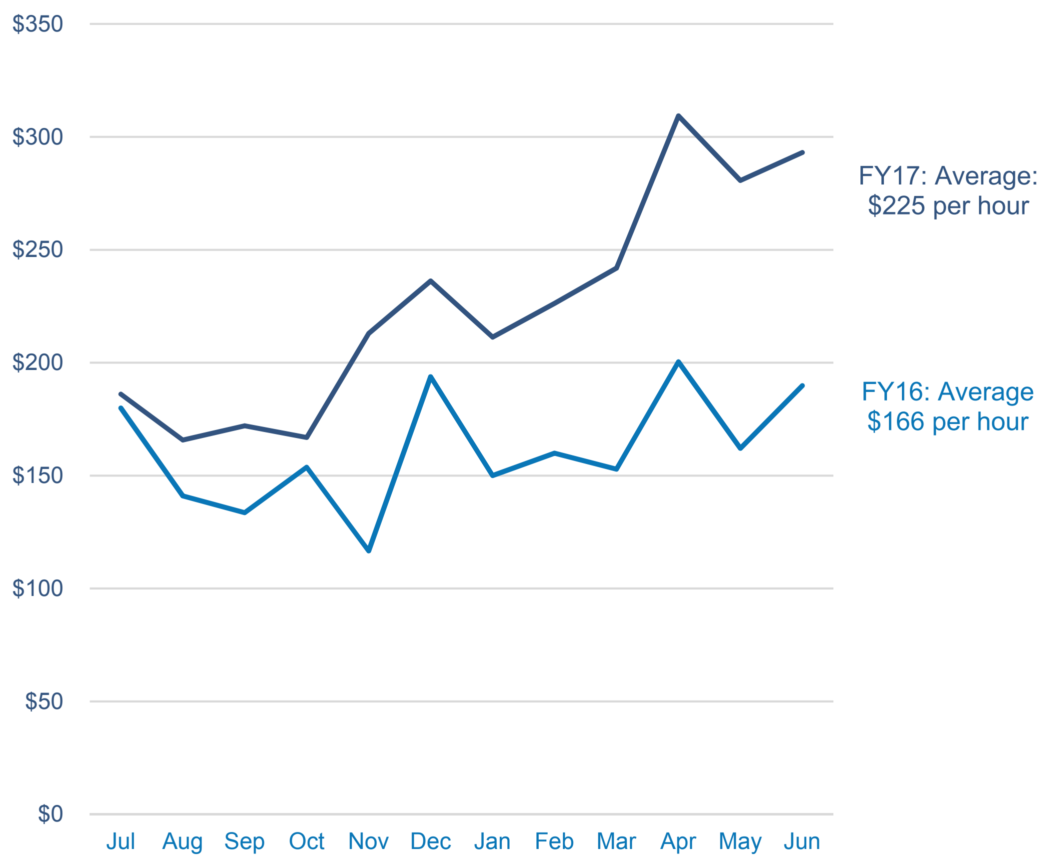


- PDL purchases of $58.3m were 93% of $63-65m in FY17
- Nevertheless this was a reasonable result given the Group started the year with just $16m in FY17 forward-flows versus FY16 $40.3m start
- We are now working with all of the major banks and our forward flow book is back in line with historical levels
- The market environment for purchases in FY18 will be competitive and with $36m already committed for FY18, we are tracking well to our FY18 target of $63-65m for the full year

SEGMENT RESULTS – LION FINANCE

Moving towards best practice for collection productivity

PDL collections per staff hour



- Through a mixture of training, improved tools, and a cultural shift, the second half of the year witnessed an increase in productivity
- The adoption of Genesis Interactive Intelligence Dialler Technology, has helped lift average call volume by ~40% across the group
- The average collection rate per staff hour has increased 40% to $225 – in line with industry best practice

Rigorous and evolving operating model

1. Arrangement Bank– Fundamentals drive growth

Continued arrangement reviews through automated processes and strategic initiatives and a new approach to financial solutions will allow the business to realise future gains in the Arrangement bank.

New Arrangements

- Increased customer qualification and assessment has led to a significant decline in long running arrangements – with only interim hardship cases spanning over 10 years
- 65% decrease to arrangements set with a term greater than 10 years

Existing Arrangements

- ~1,000 customers in the existing arrangement bank have had their term reduced to under 10 years through re-negotiation and re-assessment of terms – of which 28% had an original term of over 30 years
- Automated agreement cancellations for customers failing to meet their commitments – ensuring bank quality

Improving Quality

- Daily book sweep to ensure significant delinquency is cycled back to general collections for specialised treatment
- Arrangement bank delinquency rate the lowest in three financial years – now 5% better than FY16

Outcomes

- Arrangement bank meeting a higher yield due to the culling in 1H17
- Improved expected monthly returns generating more for less out of the existing customer base
- Proper customer qualification (full and complete information) has led to arrangements that are viable over both the short and long term

Rigorous and evolving operating model *continued…*

2. Review of end-to-end legal process

Review of the CLH legal process complete

Legal Area	Progress	Outcomes
Legal recoveries	Increased due diligence has provided a significant increase to targeted and fair bankruptcy proceedings	Clear identification of ability and willingness of each consumer to pay, allowing a fair and impartial assessment
Judgements	Review highlighted a subsection of viable but unenforced legal judgments. We have moved swiftly to realise the opportunity, resulting in an uplift on Lion's performance	25% of prior judgements managed with extensive work continuing on the remaining pool of 4,950 judgements
Asset recovery	New asset recovery team in full swing; new asset backed portfolios purchased in the PDL space have realised significant financial gain	Asset-backed recoveries equated to ~ $1M in gross revenue in FY17 Collection House expects this trend to continue

Rigorous and evolving operating model *continued…*

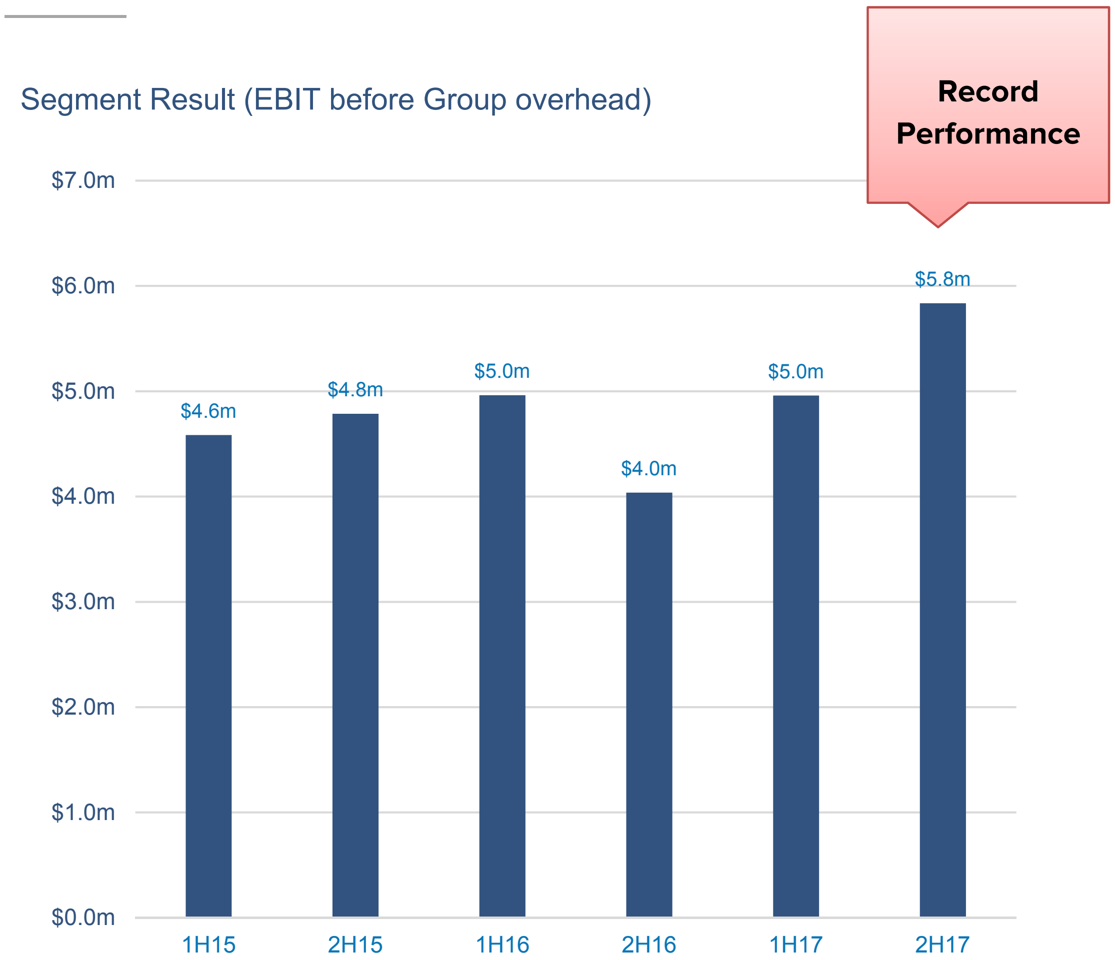
3. New tech, development and support tools

Extensive work will continue across the business, empowering our front line staff with the best tools and development to drive operational goals

Area	Change implemented	Outcomes
Contact centre technology	Genesis Interactive Intelligence contact centre solution successfully implemented across the business, introducing voice analytics, skills based routing and real time reporting	Outbound call volume increased by ~40% increasing customer connect rate leading to increased opportunity
Improved data analytics	Improvements across PDL models leveraging new data sources to drive superior pricing outcomes Enhanced skip tracing waterfall utilizing data driven decision trees to locate consumers for negotiations	New data sources led to building an intuitive communication tool providing customer profiles, assisting agents identify opportunities for resolution

SEGMENT RESULTS – COLLECTION SERVICES

Strengthening relationships and improving returns



- We work with our clients to tie-in our expanded service suite and technologies and promote 'pilots' to test initiatives on their behalf
- FY17 enjoyed a 20% increase in profitability, with the 2H17 result a record
- We continue to broaden our offering and deepen our customer relationships, through extending our Collection Services platform
- We forecast sustained revenue growth in FY18

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

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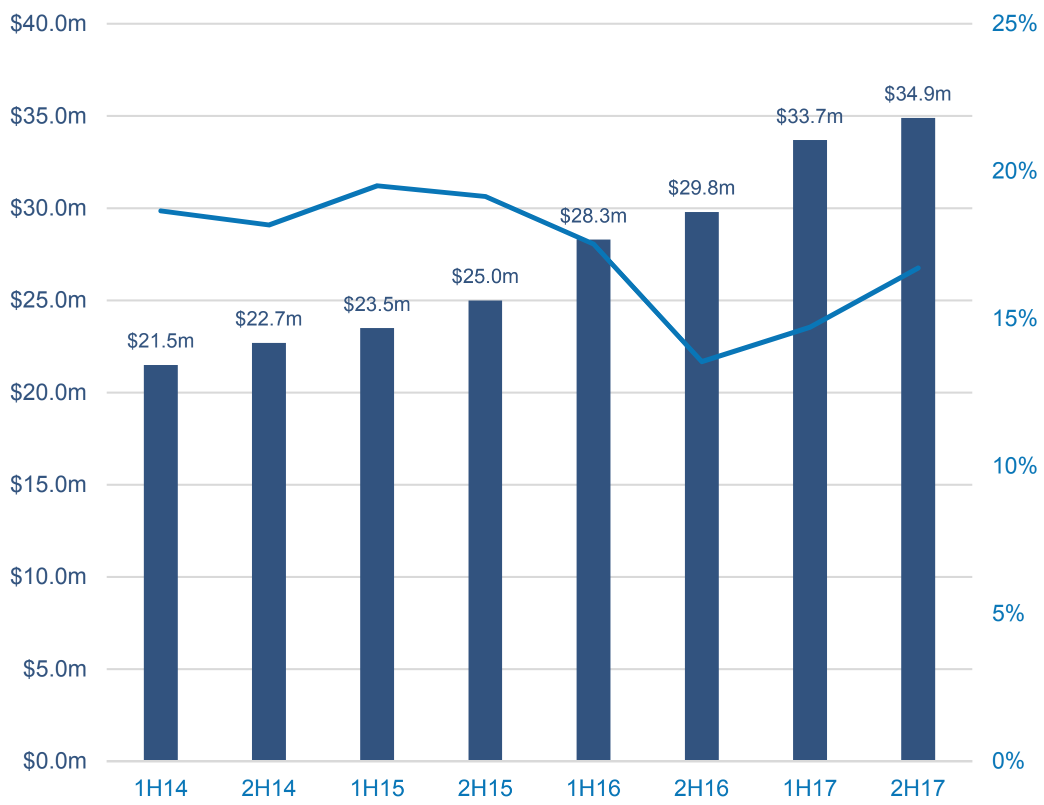
SEGMENT RESULTS – COLLECTION SERVICES

Consistent revenue growth

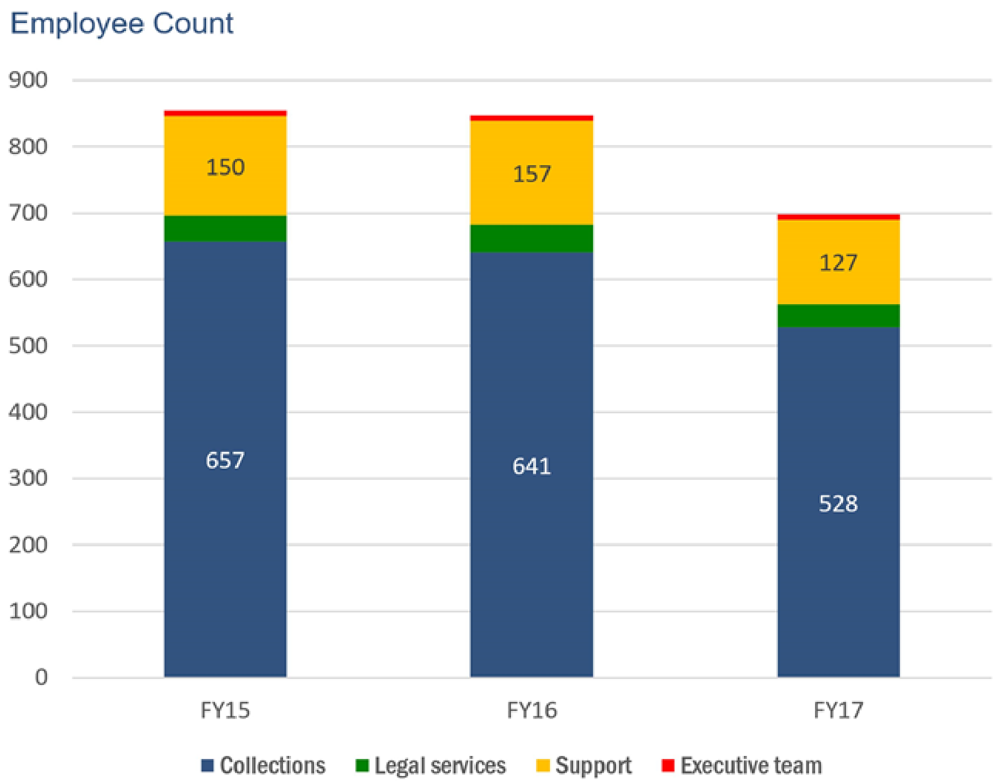
Segment revenue and margins (before group overhead)



- FY17 revenue from Collection Services grew 18% pcp to a record $68.6m
- Profit margins are now trending higher but still below historical levels
- Key initiatives continued in 2H17:
  - Implementing a dedicated salesforce
  - Enhanced skip tracing, segmentation strategies and field services
  - Implementation of the new contact centre technology

EMPLOYEE HEADCOUNT

Significant right-sizing completed



- Over the last 18 months the headcount has been reduced by approximately 100 employees or 13%
- In FY17 we recorded a sustainable employee cost net saving of $3.5m
- Collection staff:
  - Collections staff: 528 (33% PDL & 67% Collection Services)
  - Support staff: 132
  - Executive team: 8
  - Legal services: 35
- In addition, there are 91 employees in the Philippines, 73 of whom are in collections

Phase 1 and 2 complete, on course for phase 3

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 agent
- 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+**
- **Sophisticated PDL reporting and purchase modeling – amortisation at a prudent 46%**

LOOKING AHEAD

FY18 guidance

- NPAT $19.0m - $19.7m, EPS 14 - 14.5 cents
- Increased PDL amortisation rate 46% (previously 43%) ⬆ $2.3m after-tax
- Accelerated software amortisation increased by $0.3m after-tax
- Accelerated write off of specific software components $0.3m after-tax
- PDL purchases range $63-65m