

# FY2019 Results presentation

29 July 2019



Credit Corp Group

Thomas Beregi, CEO  
Michael Eadie, CFO

# Leadership in the credit-impaired consumer segment...

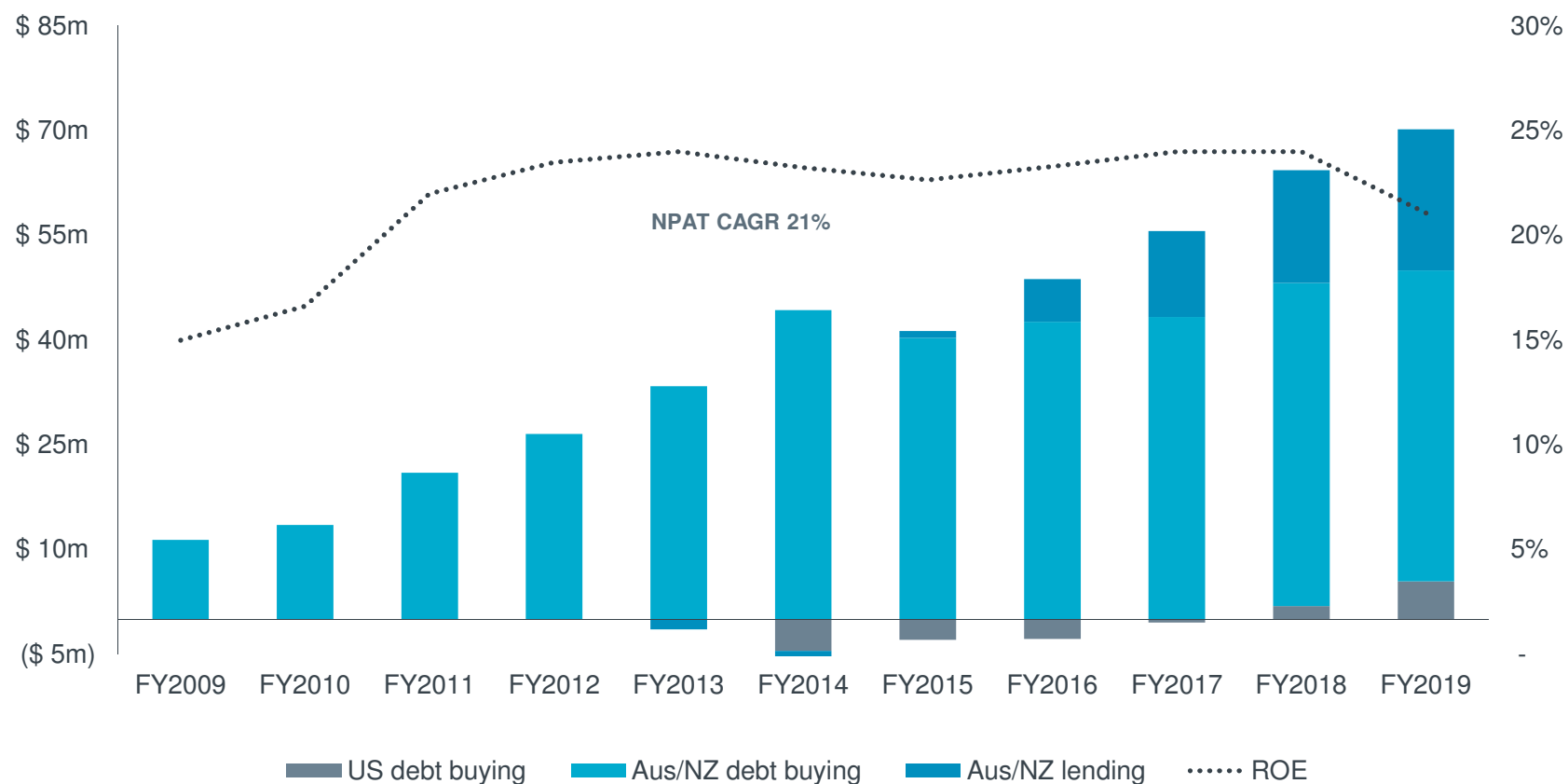
ANALYTICS & DISCIPLINE	OPERATIONAL EXCELLENCE	SUSTAINABILITY & COMPLIANCE	<ul style="list-style-type: none"> <li>• Long-term growth</li> <li>• ROE 16% - 18%</li> <li>• Low gearing</li> </ul>
<b>Australian / NZ debt buying</b> <ul style="list-style-type: none"> <li>• Largest database</li> <li>• History of pricing accuracy</li> <li>• Purchasing levels vary inversely with pricing</li> </ul>	<ul style="list-style-type: none"> <li>• Highest asset turnover <sup>1</sup></li> <li>• Lowest cost to collect <sup>2</sup></li> <li>• High performing on-shore and off-shore platforms</li> <li>• Leading technology and use of data</li> </ul>	<ul style="list-style-type: none"> <li>• No adverse orders or undertakings</li> <li>• Low complaint rate</li> <li>• \$1.3bn in ongoing repayment arrangements</li> </ul>	
<b>Australian / NZ lending</b> <ul style="list-style-type: none"> <li>• Leverage knowledge of consumer</li> <li>• Up-front loss provisioning</li> <li>• Analytical monitoring</li> <li>• Unique statistical underwriting</li> </ul>	<ul style="list-style-type: none"> <li>• Automated decisioning</li> <li>• Collection strength</li> <li>• Unmatched efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• APRs below cap applicable to mainstream credit</li> <li>• Regulatory upside - no 'payday loans'</li> <li>• Superior pricing disrupting the market</li> </ul>	
<b>USA debt buying</b> <ul style="list-style-type: none"> <li>• Adapted knowledge to US environment</li> <li>• Large market opportunity</li> <li>• Diversified purchasing across major sellers</li> </ul>	<ul style="list-style-type: none"> <li>• Productivity up by over 30% p.a. over 2 years</li> <li>• Emphasis on payment arrangements and a lower proportion of litigated outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Low regulator complaint rate</li> <li>• Strong client audit outcomes</li> </ul>	

1. FY2019 ratio of cash collections from PDLs to average PDL carrying value in Australia/NZ debt buying operation of 1.2x

2. FY2019 ratio of cash costs of the Debt Ledger Purchasing segment to collections of 34%

...has delivered sustained growth, strong returns and increased diversification...

### Segment NPAT and Return on Equity



...with the US and consumer lending driving growth in FY2019...

#### FY2019 Financial results

	FY2019	FY2018	\$ change	% change
Aus/NZ debt buying <sup>1</sup>	\$189.5m	\$195.7m	(\$6.2m)	(3%)
Aus/NZ lending	\$94.0m	\$79.3m	+ \$14.7m	+ 19%
US debt buying	\$40.8m	\$24.0m	+ \$16.8m	+ 70%
<b>Revenue total</b>	<b>\$324.3m</b>	<b>\$299.0m</b>	<b>+ \$25.3m</b>	<b>↑ + 8%</b>
Aus/NZ debt buying <sup>1</sup>	\$44.6m	\$46.3m	(\$1.7m)	(4%)
Aus/NZ lending	\$20.2m	\$16.1m	+ \$4.1m	+ 25%
US debt buying	\$5.5m	\$1.9m	+ \$3.6m	>100%
<b>NPAT total</b>	<b>\$70.3m</b>	<b>\$64.3m</b>	<b>+ \$6.0m</b>	<b>↑ + 9%</b>
EPS (basic)	141.9cps	135.1cps	+ 6.8cps	↑ + 5%
<b>Dividend</b>	<b>72.0cps</b>	<b>67.0cps</b>	<b>+ 5.0cps</b>	<b>↑ + 8%</b>

1. Aus/NZ debt buying includes agency activities

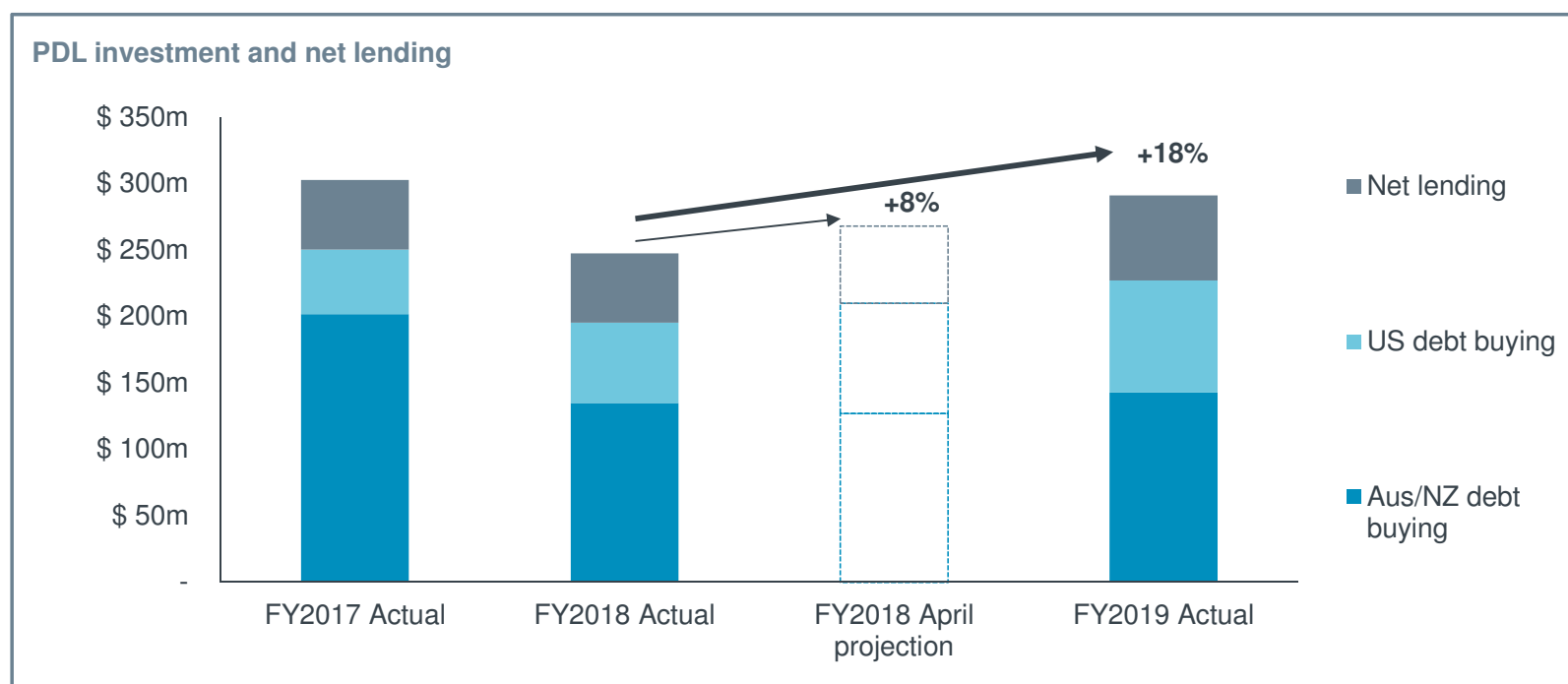
## ...while positioning CCP to seize opportunity across all segments

Segment	Market conditions	Credit Corp positioning
<b>Aus/NZ debt buying</b>	<ul style="list-style-type: none"> <li>• Increased issuer compliance sensitivity</li> <li>• Extended period of high pricing showing in signs of competitor stress</li> <li>• Reduced capital availability to sector</li> </ul>	<ul style="list-style-type: none"> <li>• Further reduction in EDR <sup>1</sup> complaint rate in FY2019</li> <li>• Continued pricing discipline</li> <li>• Substantial capital headroom to seize opportunities</li> </ul>
<b>Aus/NZ consumer lending</b>	<ul style="list-style-type: none"> <li>• Strong consumer demand for credit</li> <li>• Increased focus on responsible lending evidenced in tighter prime lending standards</li> </ul>	<ul style="list-style-type: none"> <li>• Strong new customer growth</li> <li>• Enhanced book quality</li> <li>• Auto pilot expanded to provide a broker-originated loan offering</li> <li>• Continuously improving underwriting process</li> </ul>
<b>US debt buying</b>	<ul style="list-style-type: none"> <li>• Market conditions remain favourable with higher levels of charge-offs absorbing increased competitor investment</li> <li>• Process of finalising new industry regulations now underway</li> </ul>	<ul style="list-style-type: none"> <li>• Diversified client relationships as part of significantly increased investment</li> <li>• Existing Salt Lake City, UT site near full</li> <li>• On track to open second US site in Q2 of FY2020</li> </ul>

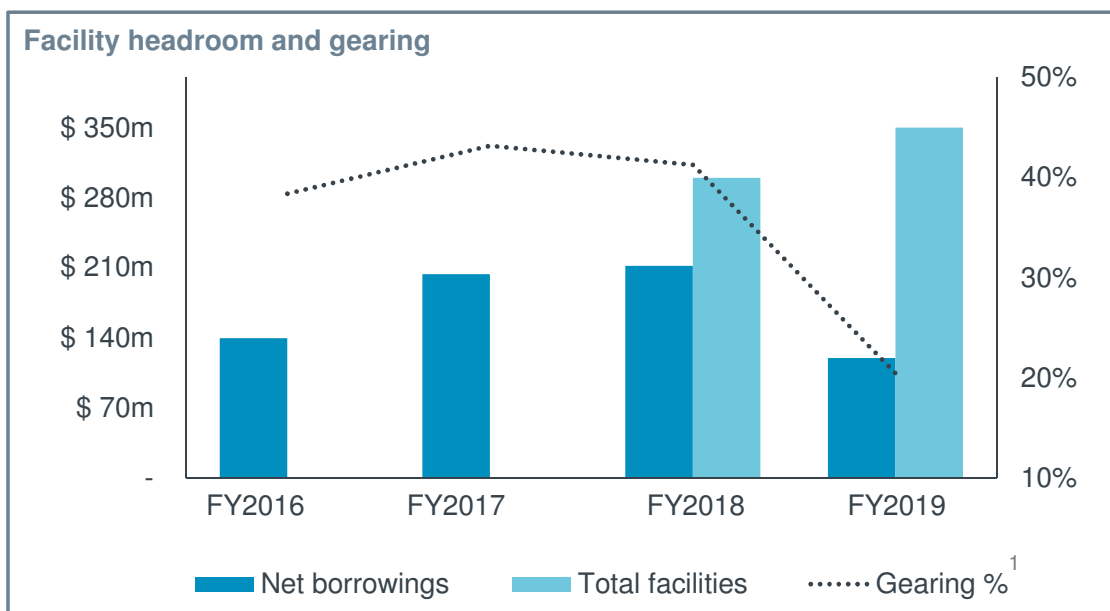
1. External Dispute Resolution (EDR)

## Recent step-up in investment...

- Investment growth of 18% more than double the April projection of an 8% increase
- Recent Aus/NZ debt buying wins mark a return to core business investment growth
- Strong growth in US debt buying and net lending



## ...and substantial capital headroom to fund a further step-up in investment

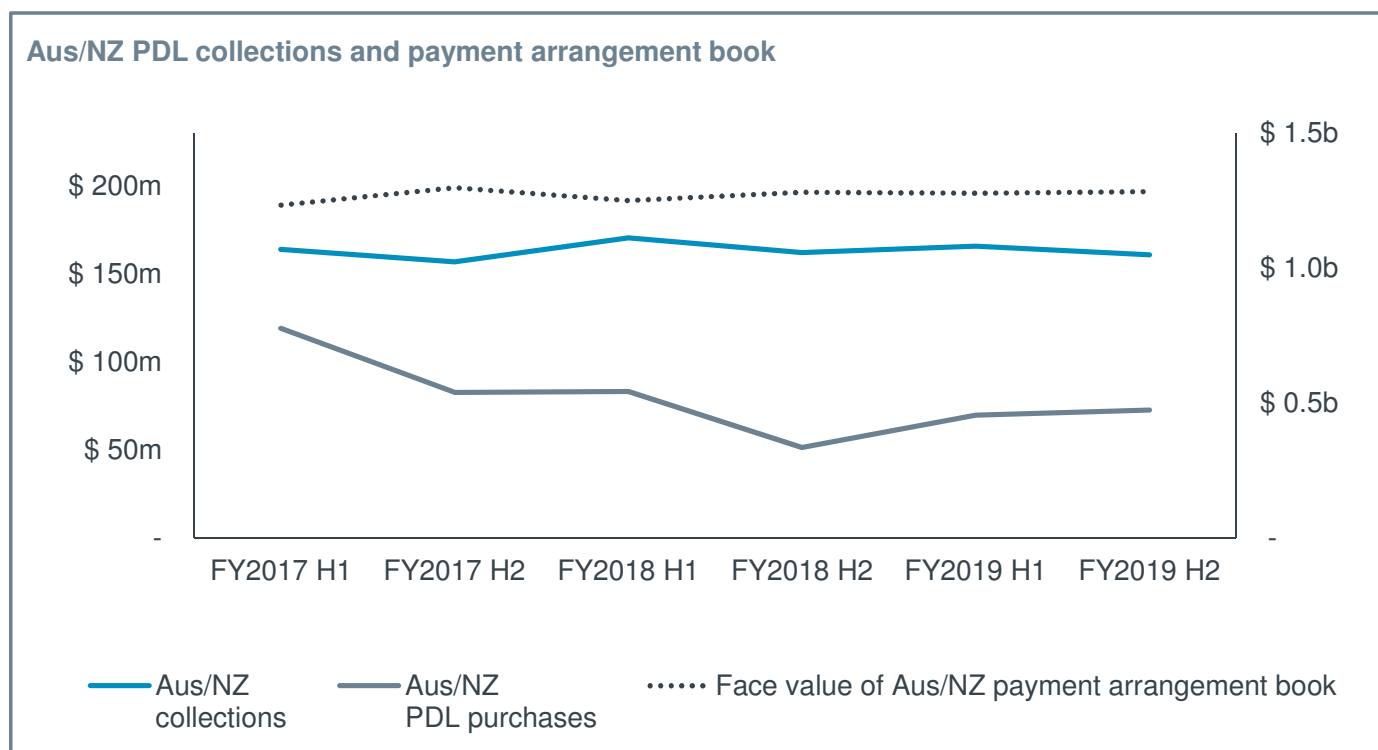


- Banking facilities recently expanded and extended
  - Limits increased to \$350m, maturing in 2022 and 2023
  - Headroom ~\$230m at year-end FY2019
- Proceeds from the equity raising has reduced gearing to just 21%

1. Calculated as net borrowings as a proportion of PDL and net consumer loan book carrying value.

## Strong operational performance in Aus/NZ debt buying...

- Aus/NZ operational performance sustained despite two and a half years of reduced purchasing
  - Collections in line with FY2018 record levels (FY2019 just 3% below FY2018)
  - Payment arrangement book underpinning sustained performance





## ...supported by strong metrics and approaches

### Pricing accuracy and returns on track

- Total cumulative collections above aggregate pricing expectations
- Total collections up 6% over the prior year
- Aus/NZ collections tracking close to the record level achieved in the prior year (3% lower)

*(Refer to Appendix 2 and 3)*

### Arrangement book growth (Aus/NZ)

- Face value of accounts under arrangement maintained at a record level of \$1.3bn at year end Jun-19
- Payments under arrangement represent 78% of collections

*(Refer to Appendix 5)*

### Efficiency

- Productivity up by 11% over the prior year

*(Refer to Appendix 4)*

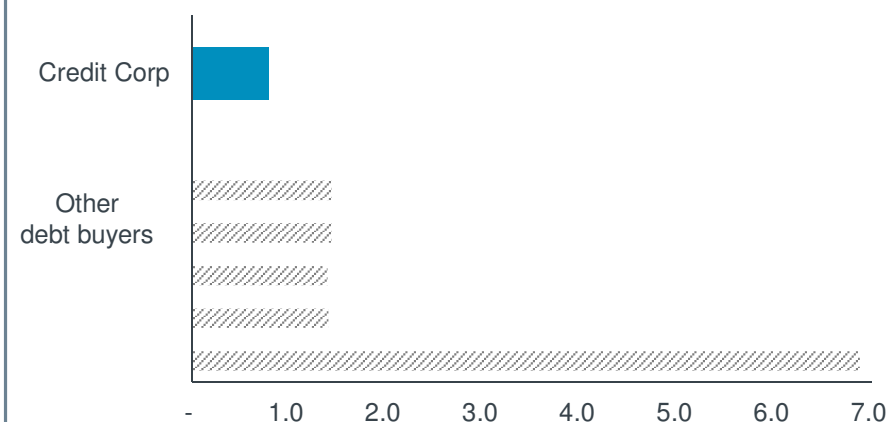
### Continuous improvement focus

- Continued focus on improved conversion from customer contact
- Technological and analytical enhancements
  - Self-service customer portal now delivering 8% of Aus/NZ collections
  - Optimisation of dialler technology to maximise contact rates

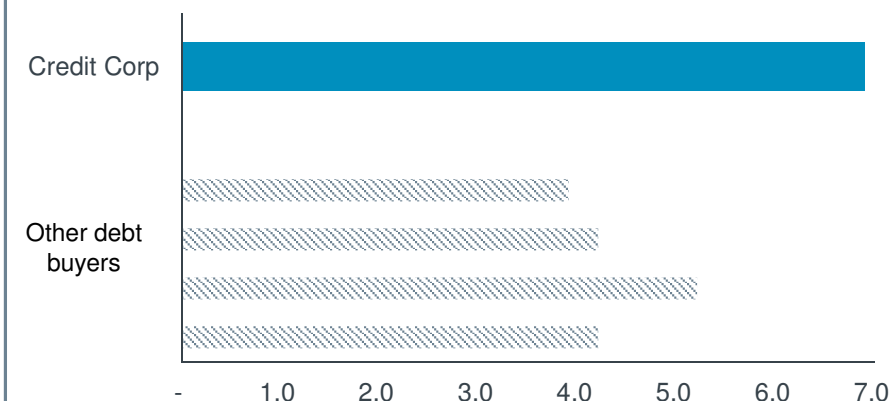
## Ongoing compliance and sustainability leadership...

- Industry-leading EDR complaint rate in FY2018 (last reporting)
- Further reduction in Credit Corp EDR volumes since commencement of AFCA - contrast to 35% increase in reported total dispute volumes <sup>3</sup>
- Highest rating from key consumer movement stakeholders
- No regulatory action or enforceable undertakings

FY2018 EDR complaint rate per \$1m collected <sup>1</sup>



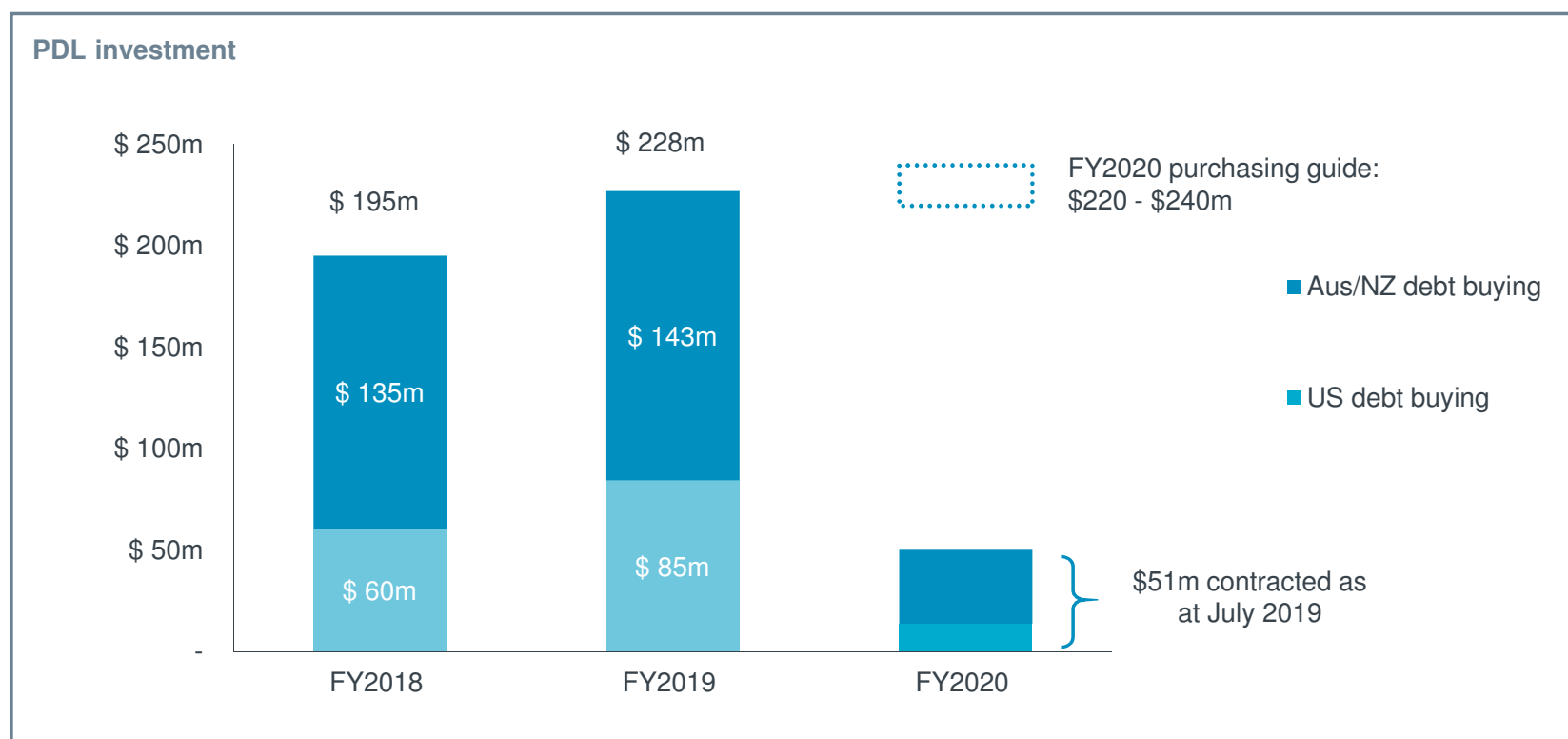
Rating of debt buyers by financial counsellors in 2017 <sup>2</sup> (score out of 10)



1. No. of complaints reported to External Dispute Resolution ("EDR") services divided by total PDL collections expressed in millions of dollars  
2. Financial Counselling Australia: National Rank the Banks Survey 2017, March 2018, page 17  
[https://www.financialcounsellingaustralia.org.au/getattachment/Corporate/Publications/Reports/Rank-the-Banks-2017-Final-1-\(1\).pdf](https://www.financialcounsellingaustralia.org.au/getattachment/Corporate/Publications/Reports/Rank-the-Banks-2017-Final-1-(1).pdf)  
3. Australian Financial Complaints Authority 'Six Month Report' for the period from 1/11/18 – 30/4/19  
<https://www.afca.org.au/news/statistics/six-month-report/>

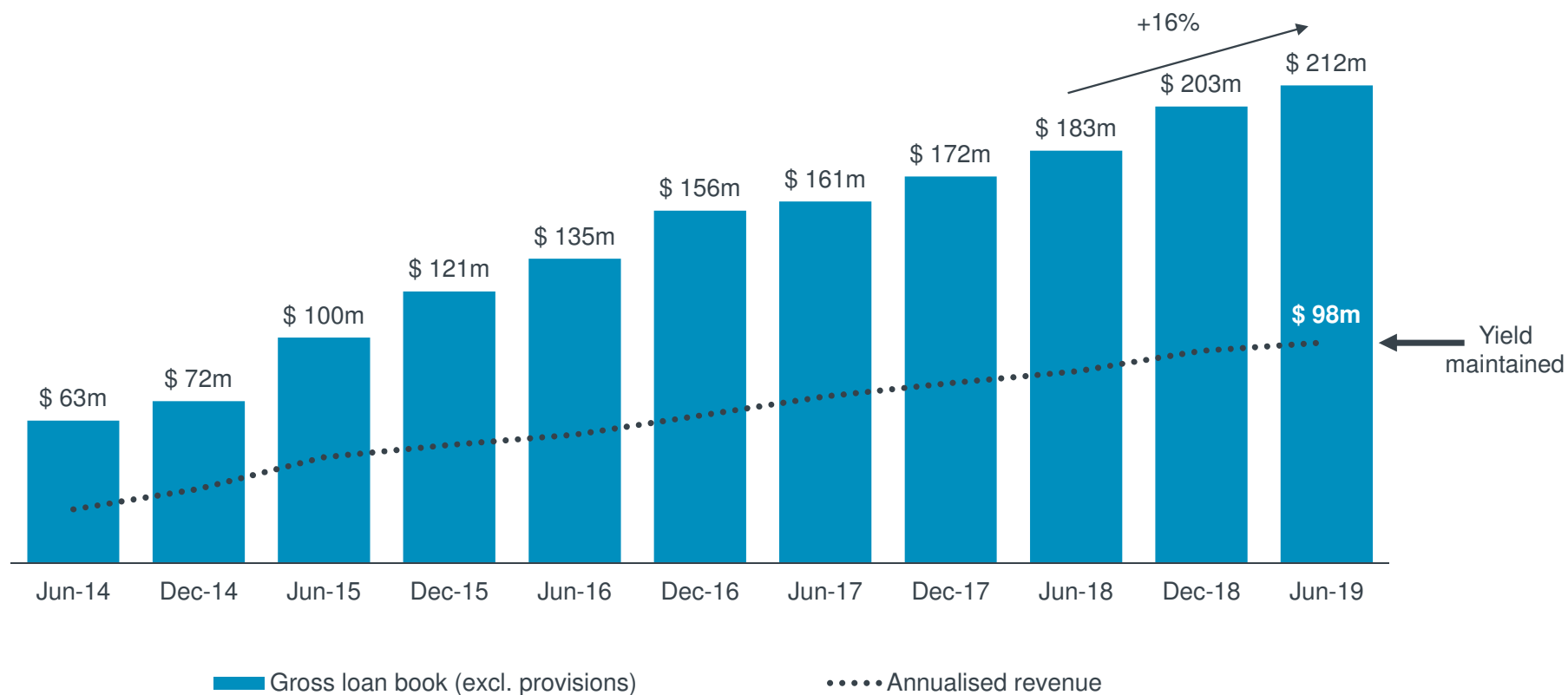
## ...has contributed to a strong purchasing outlook

- Improved Aus/NZ purchasing outlook
  - Pipeline likely to increase substantially early in FY2020 as processes finalise
- Number of US forward flows to be re-tendered early in FY2020



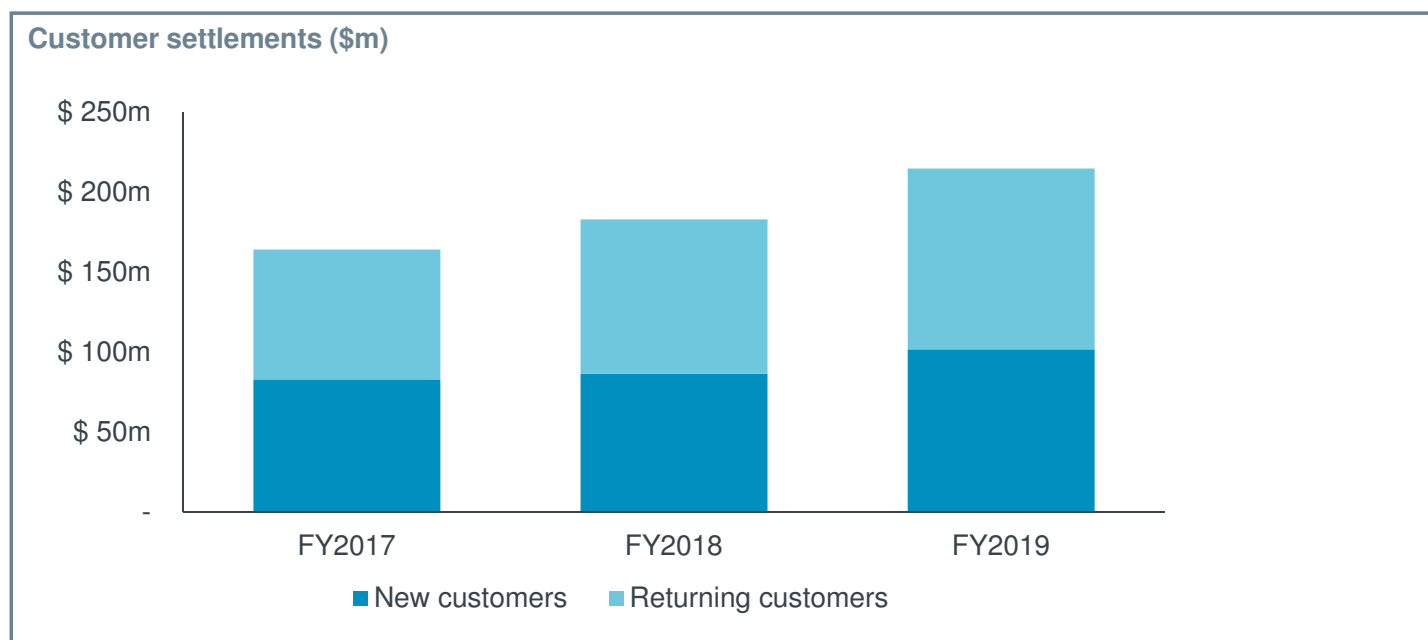
## Strong loan book growth provides an enhanced FY2020 starting position...

Consumer lending book and revenue



## ...underpinned by unexpectedly strong Wallet Wizard new customer growth...

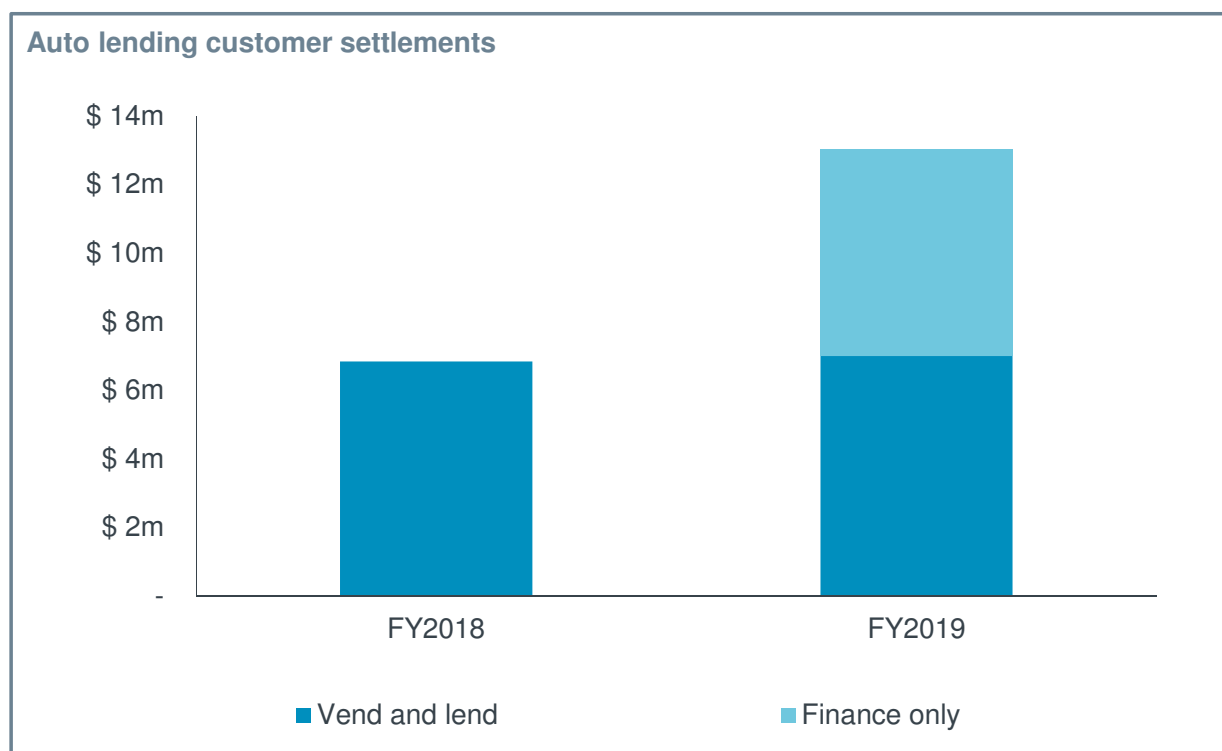
- Total settlements up by 17% for FY2019
- New customer settlements up by 18% in FY2019
- Tighter prime lending standards contributing to new customer growth
- Strong consumer proposition supports customer acquisition and retention<sup>1</sup>



1. Refer appendix 7

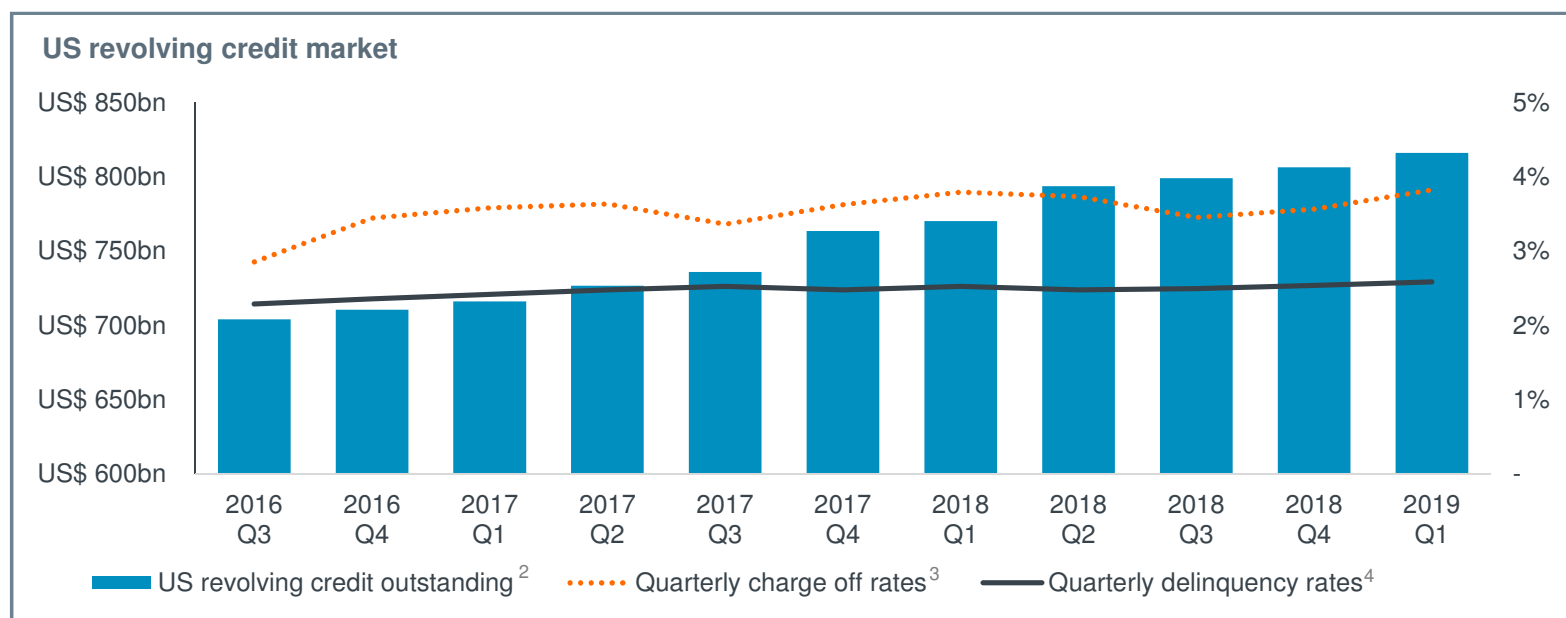
## ...and expansion of the auto lending pilot

- Auto settlements up by 93% in FY2019 versus FY2018
- Expansion into a traditional “finance only” product has driven broker-originated volume across both “finance only” and “vend-and-lend”
- Further expansion subject to review of underwriting accuracy



## The US opportunity remains substantial and attractive...

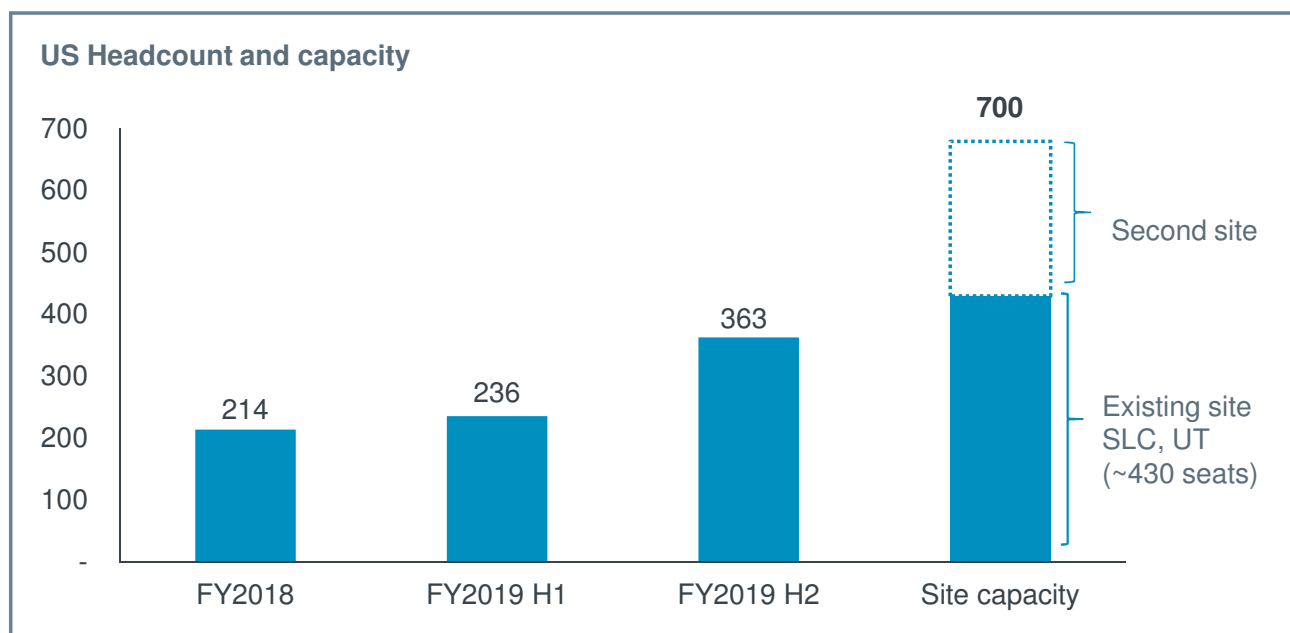
- Supply conditions remain favourable
  - No signs of pricing pressure despite competitors growing purchasing <sup>1</sup>
  - Unsecured credit and charge-off rates growing
- Credit Corp remains a very small part of a large and growing market



1. Portfolio Recovery associates (NASDAQ: PRAA) in its Form 10-K and earnings call on 28/2/19 disclosed record core US investment of US\$657m in 2018, an increase of 23% on 2017 and reported that the US market has 'good supply and good returns and is a pretty rational buying environment'. Encore Capital Group (NASDAQ: ECPG) in its Form 10-K and earnings call on 27/2/19 disclosed record US investment of US\$638m in 2018, an increase of 19% on 2017 and reported that the 'debt purchasing market has been favourable for some time' and an expectation 'that a much better market for buying portfolios is yet to come' referencing that the Federal Reserve reported revolving credit aggregate outstanding balance reached an all-time high in December 2018 of US\$1.04 trillion.
2. Total Revolving Credit Outstanding, Federal Reserve Economic Data (<https://fred.stlouisfed.org/graph/?q=KHD>)
3. Charge-Off Rate on Credit Card Loans, All Commercial Banks, Federal Reserve Economic Data (<https://fred.stlouisfed.org/series/CORCCACBN>)
4. Delinquency Rates on Credit Card Loans, All Banks, Federal Reserve Economic Data (<https://www.federalreserve.gov/releases/chargeoff/delallsa.htm>)

## ...and operational capacity is expanding rapidly

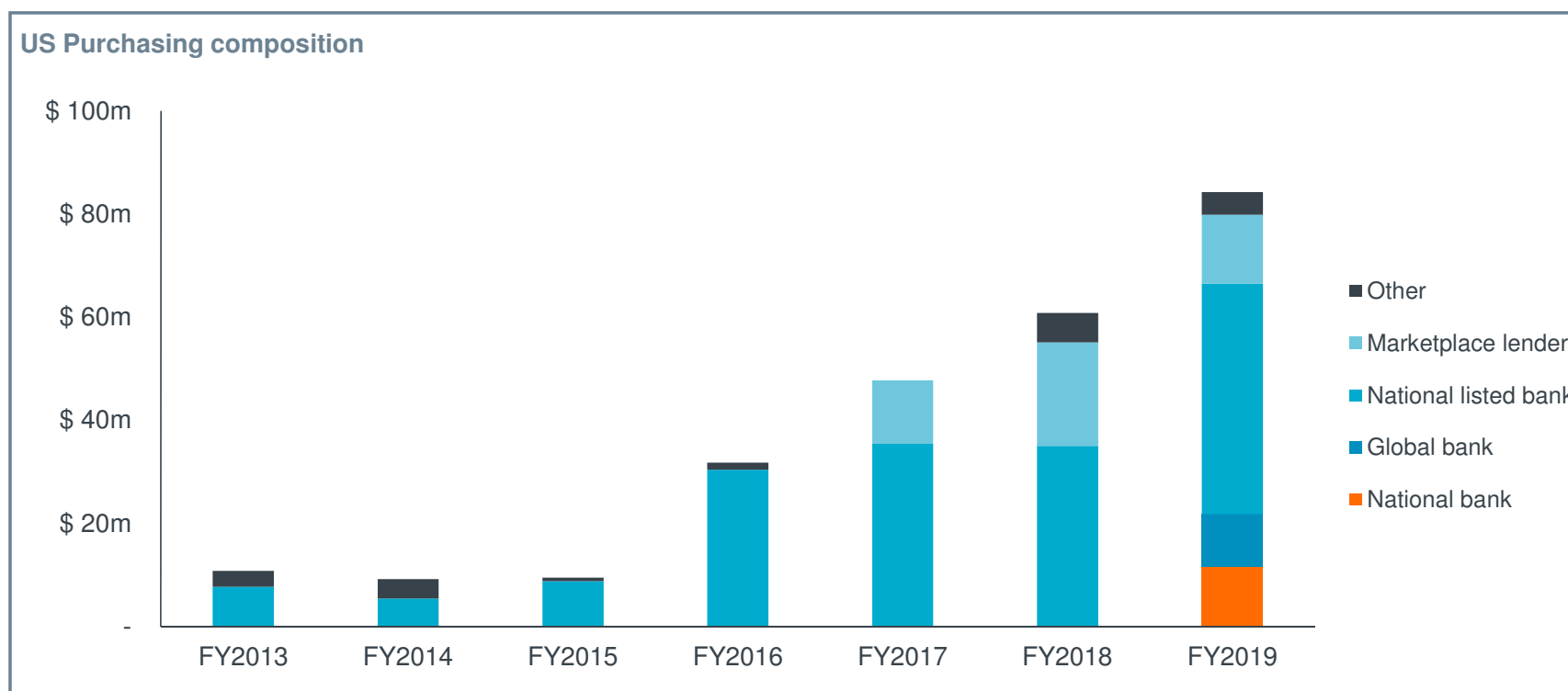
- Headcount now 363 in the existing Salt Lake City, UT site and we are on-track to fill the site during Q1 FY2020
- Second location scheduled to open during Q2 FY2020 for a combined capacity of 700 seats





## Purchasing is growing and new relationships are in place

- Investment increased by 40% to \$85m in FY2019
- New relationships established during FY2019
- Substantial room to grow purchasing from existing sellers



## Existing economics support our competitiveness...

- Operating metrics benchmark well against publicly-traded competitors
- Opportunity for further improvement when growth moderates (FY2021)

### US debt buying operating metrics

	Asset turnover <sup>4</sup>	Cost to collect
CCP <sup>1</sup>	0.7	40.8%
ECPG <sup>2</sup>	0.9	42.4%
PRAA <sup>3</sup>	0.7	42.0%

1. FY2019 CCP US debt buying segment only

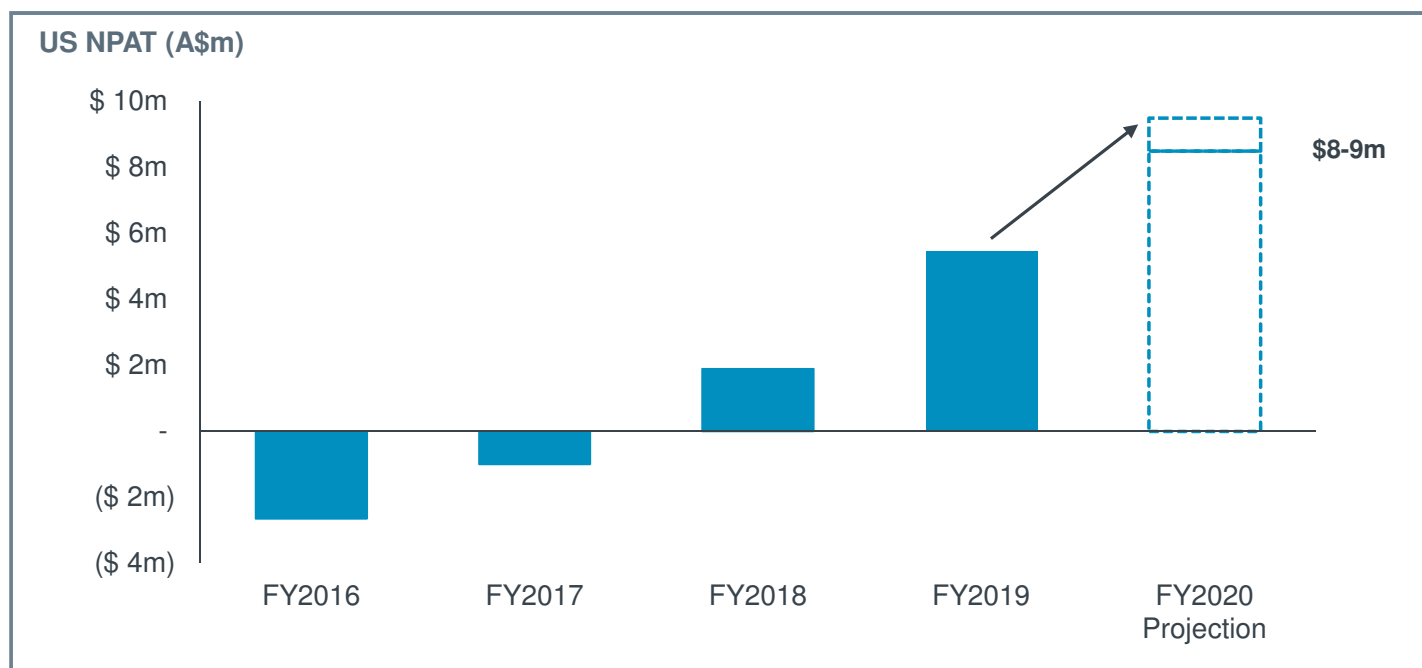
2. FY2018 for US debt buying. Encore Capital Group (NASDAQ: ECPG) is a US-listed global debt buyer

3. FY2018 blended rate (includes US, Europe and Insolvency). Portfolio Recovery Associates Group (NASDAQ: PRAA) is a US-listed global debt buyer

4. Ratio of cash collections from PDLs to average PDL carrying value (CCP: FY2019 US debt buying segment only and ECPG / PRAA annualized FY2018 cash collections from US debt buying)

## ...and we are on track for strong US segment earnings growth

- US profit expected to increase significantly in FY2020



FY2020 guidance	
PDL acquisitions	\$220 - \$240m
Net lending	\$60 - \$65m
NPAT	\$75 - \$77m
EPS (basic)	138 - 140 cents
DPS	72 cents

# Supporting materials



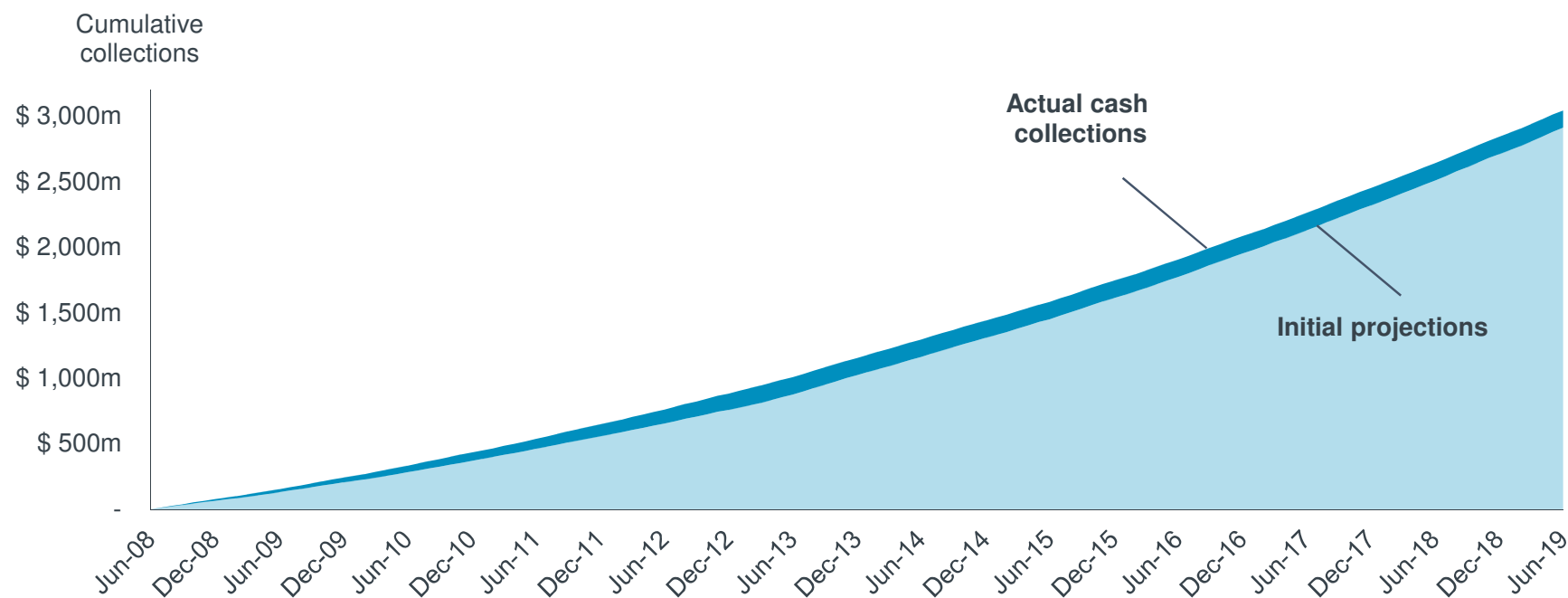
Credit Corp Group

## Appendix 1 | Operating cash flows and gearing

Operating cash flows and gearing				
	Jun-19	Dec-18	Jun-18	Dec-17
Pre-tax operating cash flow	\$167.3m	\$163.4m	\$155.0m	\$150.0m
Tax payments	(\$28.9m)	(\$12.1m)	(\$16.8m)	(\$15.8m)
PDL acquisitions, net lending and capex	(\$148.7m)	(\$144.1m)	(\$114.1m)	(\$135.8m)
<b>Net operating (free) cash flow</b>	<b>(\$10.3m)</b>	<b>\$7.2m</b>	<b>\$24.1m</b>	<b>(\$1.6m)</b>
PDL carrying value	\$414.1m	\$383.6m	\$364.1m	\$361.5m
Consumer loans net carrying value	\$172.4m	\$164.9m	\$148.9m	\$139.8m
Net borrowings	\$120.0m	\$226.7m	\$211.9m	\$219.9m
<b>Net borrowings/carrying value (%)</b>	<b>20.5%</b>	<b>41.3%</b>	<b>41.3%</b>	<b>43.9%</b>

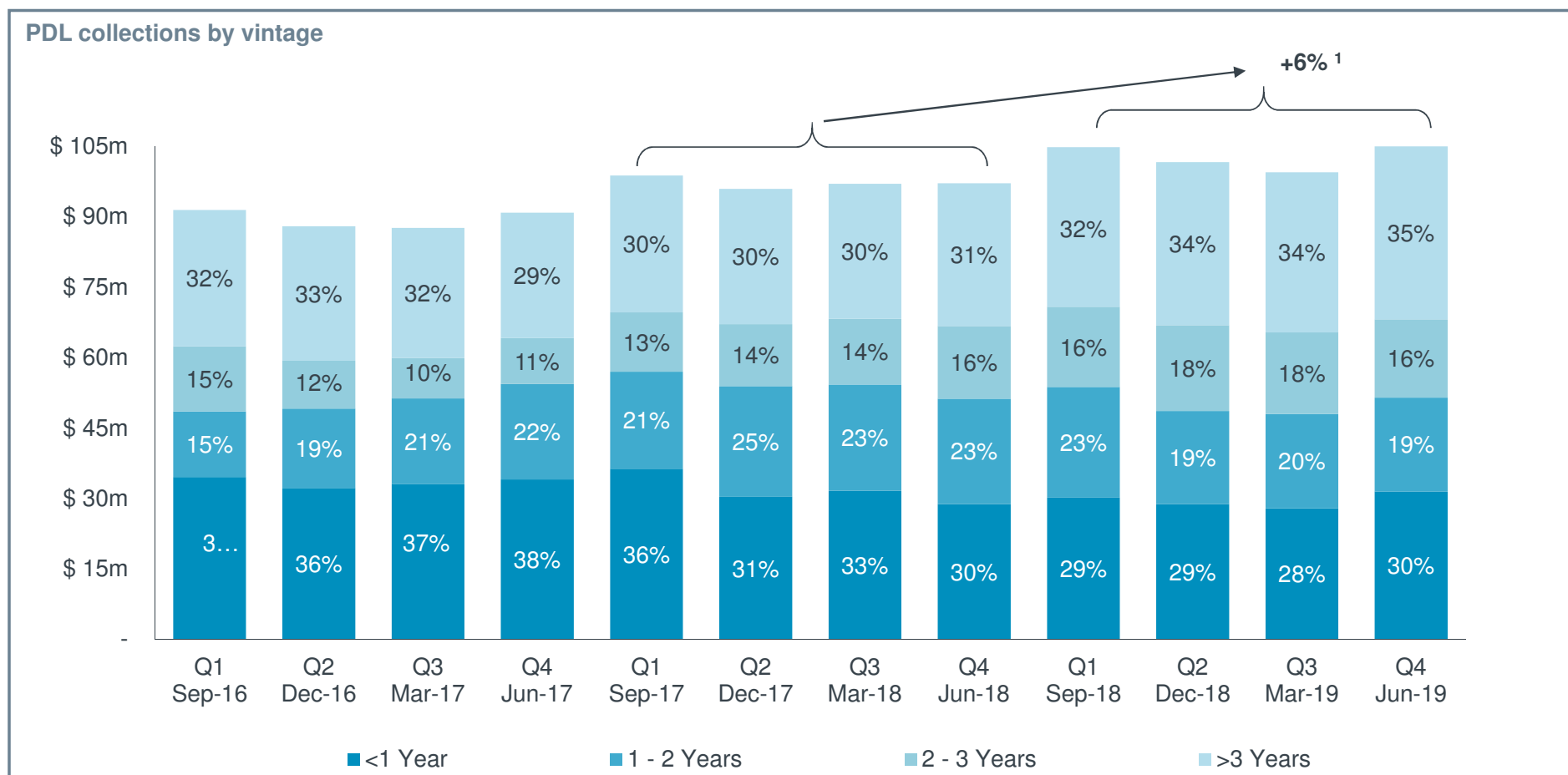
## Appendix 2 | Pricing discipline and accuracy

### Pricing discipline and accuracy



\* For all PDLs held at June 2008, initial projections represent the forecast at June 2008

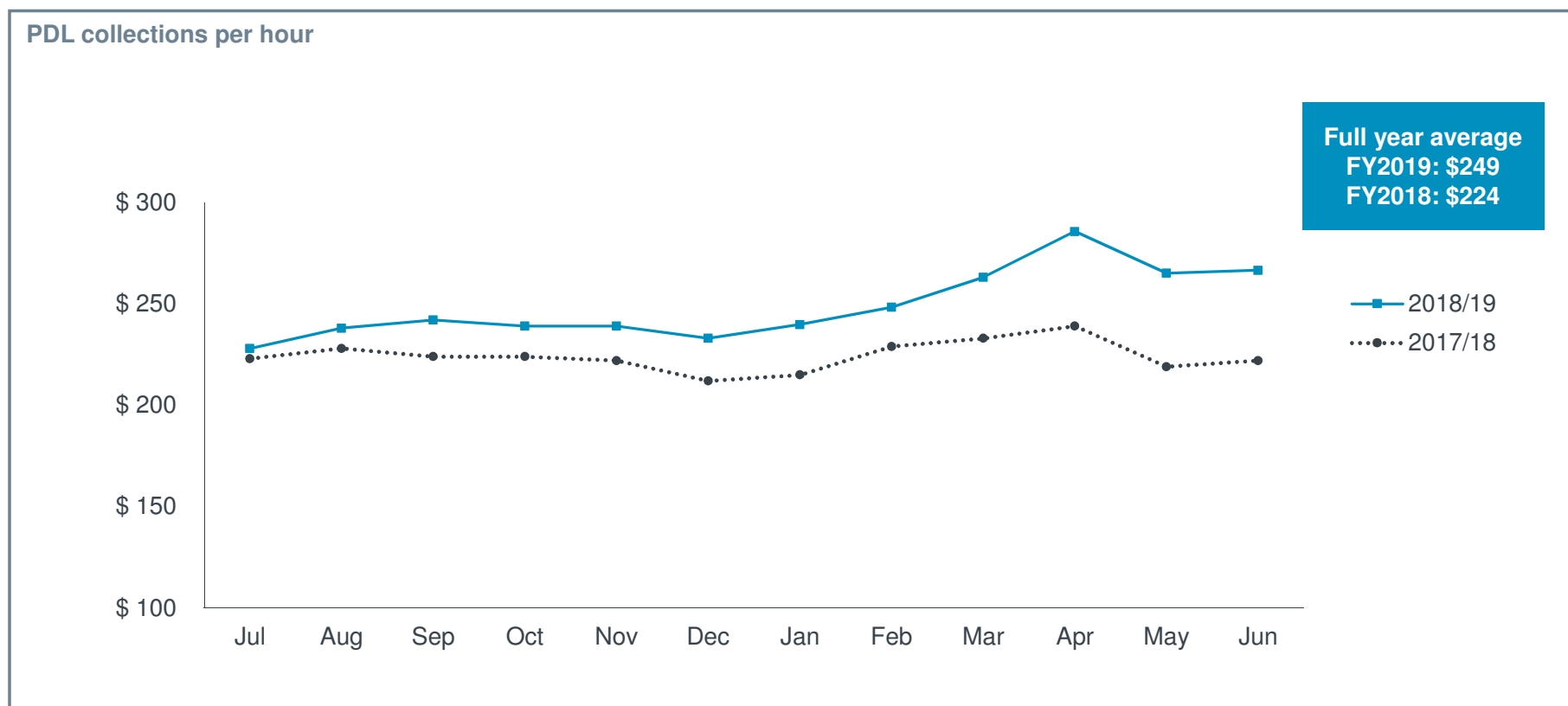
## Appendix 3 | Collections life cycle



1. 6% PDL collections growth in FY2019 Full year vs. FY2018 Full year



## Appendix 4 | Productivity



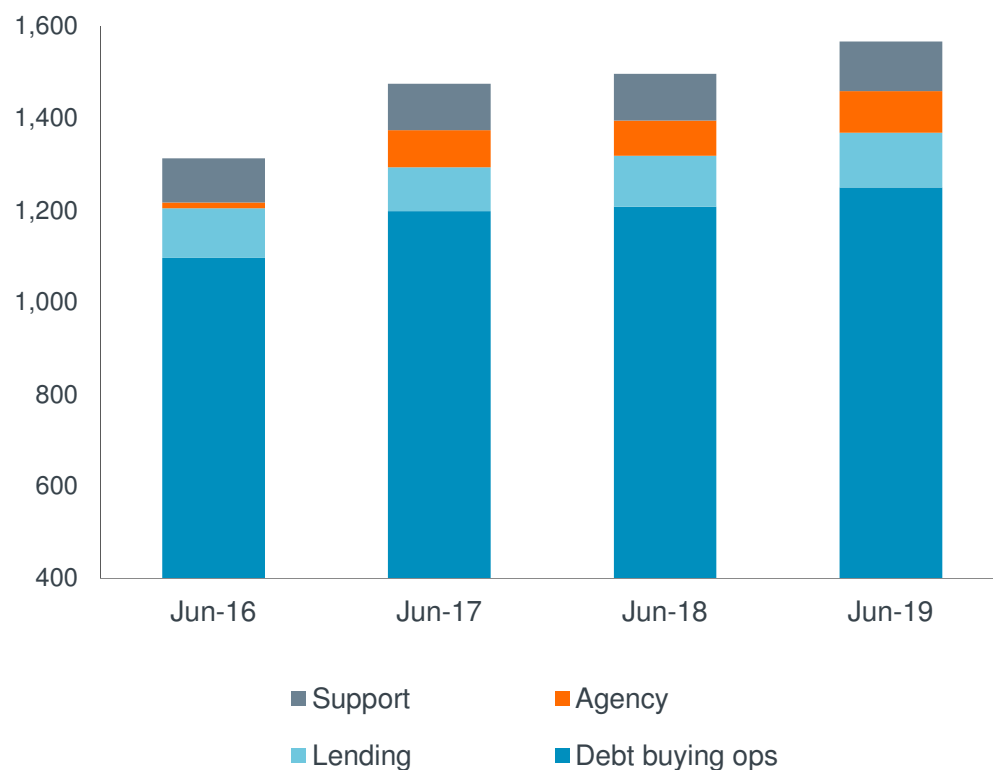
## Appendix 5 | Payers base

### Portfolio summary - Aus/NZ debt buying only

Total portfolio	Jun-17	Dec-17	Jun-18	Dec-18	Jun-19
Face value	\$5.8b	\$5.9b	\$6.0b	\$6.2b	\$6.4b
Number of accounts	716,000	710,000	710,000	753,000	786,000
Payment arrangements					
Face value	\$1,300m	\$1,300m	\$1,300m	\$1,300m	\$1,300m
Number of accounts	157,000	153,000	157,000	154,000	157,000
% of PDL collections	80%	78%	81%	79%	78%

## Appendix 6 | Operational and total headcount

Period end headcount (FTE)



Period end headcount (FTE)

	Jun-16	Jun-17	Jun-18	Jun-19
Debt buying operations	1,096	1,198	1,208	1,250
Agency	13	81 <sup>*</sup>	77	90
Lending	108	95	110	119
Support	96	101	102	108
<b>Total</b>	<b>1,313</b>	<b>1,475</b>	<b>1,496</b>	<b>1,567</b>
Support %	7%	7%	7%	7%

\* Reflects NCML acquisition in September 2016

## Appendix 7 | Superior consumer lending proposition

- Most sustainable product in the segment
  - Priced below mainstream pricing cap
  - Cheaper than competitors
  - Cheaper than not for profit alternative
- Unaffected by recommendations from recent senate inquiry

	Price <sup>1</sup>	Credit Corp cheaper by
Credit Corp Wallet Wizard	\$148	-
Typical cash loan competitor	\$440	66%
Not for profit alternative	\$220	33%

1. Total interest and fees based on a \$1,000 loan over a 6 month duration