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# FY2020 Unaudited results update

## Key points

- FY2020 net profit after tax (NPAT) of Credit Corp (the Company) is expected to be in the range of $10-15 million after accounting for the impairment of purchased debt ledger (PDL) assets and additional provisioning arising from the impact of the COVID-19 pandemic.
- NPAT before these adjustments is expected to be in the range of $75-80 million.
- Credit Corp enters FY2021 in a strong position with no net debt and undrawn lines of $375 million.

## COVID-19 experience and outlook

In the period since the initial implementation of isolation measures across most jurisdictions from late March 2020 the Company's customers have been less prepared to agree and maintain longer term repayment plans. This initially produced a sharp decline in collections and rising loan book arrears. More recently, an increased willingness to make one-off repayments has brought PDL collections for May and June back to pre-COVID levels and, with the exception of auto and SME pilots, has restored loan book arrears.

This experience is consistent with reported unemployment rates in excess of 10 per cent, after adjusting for changes in workforce participation, and the temporarily offsetting impact of government support, stimulus measures and private sector forbearance (temporary support).

Credit Corp expects persistently elevated levels of unemployment, the impact of which will be more severe for the Company's credit-impaired customers, who are more exposed to the risk of unemployment for a prolonged period. As temporary support is reduced, PDL collections will fall while loan book arrears will rise.

The Company's response has been to seek to renegotiate ongoing purchasing arrangements onto more sustainable pricing, better reflecting the outlook for collections from freshly purchased PDLs. In the lending segment, auto and SME pilots have been suspended while lending criteria for the core loan product have been tightened, halving approval rates.

Credit Corp's approach to assessing the carrying value of its financial assets and the net economic benefit of its ongoing purchasing commitments is consistent with this outlook and response.

**PDL impairment**

The Company expects to incur an impairment to reflect a 13.5 per cent reduction in the carrying value of its existing PDL assets. This impairment represents an average of an 18 per cent reduction in forecast cash collections from existing PDL assets against pre-COVID expectations for the next two years before the commencement of a recovery. The reduced ability to agree new repayment plans means that recently purchased assets comprise the bulk of the impairment and collection shortfall.

**Loan loss provision**

Loan loss provisions are expected to increase from 19 per cent of the gross loan book to 24 per cent. This increase accounts for the elevated risk of default for existing customers who do not meet present lending criteria together with the arrears on pilot products.

**Onerous purchasing contracts**

The Company expects to take up a provision of $11 million for the uneconomic component of commitments not yet re-priced. While significant progress has been made to re-negotiate current ongoing purchasing arrangements onto more sustainable pricing, discussions are continuing with one large US client and one smaller domestic client.

**Proven operating capability**

Credit Corp continues to produce solid operating outcomes and strong cash flows. Despite ongoing disruption and uncertainty, the Company has proven that it can conduct its operations effectively using a combination of work from home and office-based activity across all locations.

The Company expects to report NPAT before COVID-19 adjustments in the range of $75-80 million, which reduces to a range of $10-15 million after the adjustments.

**Well-positioned for recovery**

Recent discussions with major clients in all jurisdictions demonstrate an increased interest in debt sale, with some clients anticipating growth in sale volumes of up to 80 per cent in 6 to 12 months' time.

The Company is in a strong capital position, with no net debt and total undrawn funding lines of $375 million which run until 2022 and 2023.

Credit Corp's CEO, Thomas Beregi, said that: "we have put ourselves in a strong position to operate confidently and maximise investment as opportunities arise during what is likely to be an extended period of uncertainty".

Credit Corp will announce its final FY2020 results on Tuesday July 28th 2020 and expects to provide full year guidance for FY2021 at that time.

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