

Media Release

28 July 2020

Credit Corp prepared for a return to growth

Key points

Credit Corp Group Limited (Credit Corp or the Company) reports:

- FY2020 net profit after tax (NPAT) of \$15.5 million after accounting for the impairment of purchased debt ledger (PDL) assets and additional provisioning arising from the impact of COVID-19
- NPAT before these adjustments of \$79.6 million - 13 per cent above the prior year
- The proven ability to operate effectively during COVID-19 isolation and lockdown periods
- A strong balance sheet comprising of cash and undrawn lines totaling \$400 million, together with an outlook for free cash flow of \$175 million in FY2021
- Renewed interest in debt sale from credit issuers and the prospect of increased sale volumes

Steps taken to adapt to the impacts of COVID-19

PDL pricing models and consumer lending criteria have been adjusted to account for persistently high levels of unemployment, in excess of 10 per cent, and a reduction in government support, stimulus measures and private sector forbearance (temporary support) over time. Credit Corp is now pricing PDLs and issuing consumer loans at these adjusted settings.

These settings have been applied to the carrying value of the Company's financial assets and the net economic benefit of its ongoing purchasing commitments. This has given rise to charges for impairment and provisions in Credit Corp's FY2020 results, reducing reported NPAT by \$64.1 million.

The Company has effectively transitioned to a combination of work-from-home and office-based activity across all locations. This has enabled Credit Corp to adapt to isolation and lockdown periods while maintaining operational capacity and effectiveness. This helped produce NPAT before COVID-19 adjustments of \$79.6 million, which was 13 per cent above the prior year.

To meet heightened expectations of conduct Credit Corp has supplemented its leading approach to hardship with additional temporary measures. These have included an interest freeze on all debt purchase accounts, repayment moratoriums and the suspension of legal, repossession and credit reporting activity.

To facilitate continued purchasing and lending over an extended period of uncertainty and prepare for opportunity, Credit Corp has strengthened its balance sheet. Over the second half of FY2020 the

Company generated \$110 million in free cash flow, which was supplemented with a \$152 million equity raising. Credit Corp is now debt free, with \$400 million in cash and undrawn credit lines.

Recent operating experience and outlook

Collections experience over recent months has returned to pre-COVID expectations, with an uncharacteristically high incidence of one-off repayments. The Company does not expect this to continue as temporary support is reduced over time.

While there has been some recovery in lending demand over recent months, the consumer loan book has experienced significant run-off. The Company expects, however, that the loan book will further stabilise as lending demand increases in line with the ongoing withdrawal of temporary support.

Recent discussions with major clients in all jurisdictions show an increased interest in debt sale, with some clients in the United States anticipating growth in sale volumes of up to 80 per cent in 6 to 12 months' time. While this is positive, for Credit Corp to fully participate, pricing will need to adjust in accordance with the medium-term outlook for collections.

Final dividend

Credit Corp will not pay a final dividend for the 2020 financial year but does expect to resume dividend payments in 2021, subject to the usual assessment of its capital position and investment outlook.

Guidance

The Company is in a strong position with a formidable balance sheet, diversified purchasing relationships, appropriately adjusted pricing/risk settings and operations which have adapted to COVID-19 protocols.

Credit Corp expects to achieve solid profitability in FY2021 although ongoing uncertainty demands a broader than usual range of outcomes. Credit Corp presents FY2021 guidance in accordance with the following ranges:

	Guidance
PDL acquisitions	\$120 - \$180m
Net lending volumes	\$(5) - \$5m
NPAT	\$60 - \$75m
EPS	89 - 112 cents
DPS	45 - 55 cents

At the midpoint of the investment ranges the Company expects to produce free cash flow of \$175 million.

This media release should be read in conjunction with the Appendix 4E, Consolidated Financial Statements and results presentation.

To watch the presentation go to: <https://www.creditcorpgroup.com.au/investors/interviews-presentations/>

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