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Credit Corp Group 2020 AGM
Chairman's Address

At Credit Corp, leadership has always been about positioning the Company to deliver long-term performance, regardless of changes in the external environment. This has involved preparing for a range of external outcomes, with the objective of developing the capacity and resilience to manage challenges and seize opportunities. This approach has delivered sustained growth over a long period and has ensured that we can be flexible and decisive in our response to industry behaviours and disruptive events.

It has not, however, insulated Credit Corp from short-term periods of underperformance before commercial reality returns.

In the final analysis, 2020 was a year of underperformance. While our operating results for the year were strong, our assessment of the economic impact of COVID-19 on our assets and commitments produced a 78 per cent fall in Net Profit After Tax to just $15.5 million, breaking an uninterrupted record of strong earnings growth over the past 11 years. Shareholders did not receive a final dividend and the Company's share price finished the year below where it started.

As a fellow investor, I share the disappointment felt by all shareholders. As Chairman, however, I am immensely proud of Credit Corp's achievements over the course of the year, including our decisive and confident response to COVID-19. These moves will set us up well for this next business cycle.

Our work over many years had put the company in a strong position at the start of 2019/20. We had a strong record of consistent earnings growth while building solid platforms for further growth across all our businesses and locations.

In our Australian and New Zealand debt buying businesses, we had seen-off a period of excess competition and instances of unsustainable pricing by holding our pricing discipline and reducing investment during that time. The inevitable fallout from this excess competition was starting to occur, with an easing in pricing conditions and an increased refocus by sellers on Credit Corp's clear leadership in compliance and reputation. As a consequence, we were starting to gain market share and grow our purchasing.

In our United States debt buying business, conditions remained stable and we had built a diversified set of purchasing relationships together with sizeable operational capacity. We were on track for a significant step-up in investment and were looking forward to realising the considerable potential of the US market.

The Australian lending business had grown to become a large contributor to Credit Corp's earnings. The credit-impaired segment of the lending market was growing and, as the provider of the most affordable and responsible offering in the segment, we were experiencing solid volume growth.

Across all our businesses, performance for the first nine months of the year had been as strong as any period in the Company's history.

The fallout from excess competition created the opportunity to acquire the business and Purchased Debt Ledger assets of the Australian and New Zealand arm of one our global competitors. The acquisition of Baycorp was completed at an attractive price and without paying goodwill. Credit Corp management worked closely with the Baycorp team to promptly realise annualised integration savings of $13 million and improve returns.

The acquisition provided Credit Corp with an expanded collection services business and an enlarged presence in New Zealand. Right from the beginning, performance of the acquired assets was strong and combined with ongoing purchasing, put our core domestic collections business on track for record segment earnings.

We were also successfully expanding our workforce in the US, filling our collection facility in Utah early in the year. We opened a second US location in Washington State and were on track to grow US purchasing.

Our industry leadership put us in a strong position to realise opportunities in relatively favourable conditions and it has been particularly important in our response to COVID-19 in the period from March 2020.

Understanding our customers (those with outstanding debts and loans) and responding to their circumstances has been a key pillar of our success in the credit-impaired consumer segment. The first element of our pandemic response was to implement a range of temporary measures to support our customers including an interest freeze on debt purchase accounts and repayment moratoriums together with the suspension of legal and credit reporting activity.

Maintaining continuity of operations while safeguarding the welfare of our staff was another early challenge. We implemented COVID-19-safe protocols in line with local guidelines and kept our offices functioning for as long as possible.

At the same time, large scale work-from-home was implemented across all our locations.
More recently, we have moved into a more sustainable format of teams rotating back to our offices for one in every four weeks.

We have also worked very closely with our clients, the sellers of charged-off debts. While some clients temporarily suspended sale, they are now returning to the market and debt sale continues to be an important component of their recovery process.

With a deteriorating and uncertain economic outlook post government support, it was clear that PDL prices would need to reduce to be sustainable. We commenced a process to agree appropriate reductions with clients.

The message to our clients was that, despite the uncertain outlook, Credit Corp remained a keen buyer and would continue to make commitments to purchase debts into the future.

To address the increased risk associated with continued purchasing through a period of uncertainty, and prepare for opportunity, we took action to strengthen an already conservative balance sheet.

We tightened our consumer lending underwriting and implemented a range of temporary cost savings, including significant reductions in Board and executive remuneration. These measures contributed to $110 million in free cash flow over the second half of the financial year and, combined with an equity raising, left the Company debt free with cash and undrawn credit lines of $400 million at balance date.

Credit Corp is now in a strong and confident position. We have assessed the outlook and have taken the necessary adjustments to our financial accounts in 2020. All our businesses are now on track for solid profits in 2021. Our client relationships are strong and we have the financial and operating capacity to meet their needs as the ongoing economic impact of COVID-19 unfolds.

In closing my address, I thank my fellow directors, our CEO Thomas Beregi and his management team for their tireless and energetic dedication to the leadership of Credit Corp. We have all worked particularly hard over the past six months. It has been an extremely busy time for all and in retrospect, good decisions have been made.

On behalf of the Board and shareholders, I also wish to thank all our employees, across four countries, for their flexibility, adaptation and ongoing contribution to the success of the company during these difficult and unpredictable times.