



**pioneercredit**

# FY15 Results Presentation

21 August 2015

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## Overview

# Who is Pioneer Credit?

**Pioneer is an Australian financial services provider, specialising in acquiring and servicing unsecured retail customer portfolios.**

These portfolios consist of people with financial obligations to Pioneer who are our customers.

A key goal at Pioneer is to help our customers progress towards financial recovery, and through this process evolve as a 'new consumer'.

In FY16 Pioneer will grow this new consumer segment through the offering of new loan and related products in an innovative and risk managed way.

## Corporate Summary

As at 20 August 2015

ASX Code: PNC

Shares on Issue: 45,373,990

Market Cap: \$80.1m

## Key People

**Michael Smith** – Independent Chairperson

**Keith John** – Managing Director

**Leslie Crockett** – Chief Financial Officer

**Lisa Stedman** – Chief Operating Officer





# FY15 Headlines

## Strong Revenue and Earnings Growth

- Net Revenue of \$38.7m up 51%
- Stat. Profit after Tax of \$7.4m up 611%
- Op. Profit after Tax of \$7.8m up 70%
- EPS (operating) of 17.2c up 70%

## Earnings Ahead of Prospectus

- Profit after Tax 18.3% above prospectus
- EPS (operating) 18.3% above prospectus

## Strong Cash Generation

- Free Cash Flow of \$26.2m
- Funds PDP investment and evidences strong PDP liquidation

## Consistent Dividend Payout

- Final Dividend of 6.80 cps fully franked
- 17.1% uplift to prospectus
- ~50% Profit after Tax payout

## Targeting double digit growth in FY16

- PDP investment of at least \$42m
- EBIT margin of at least 31%
- Stat. Profit after Tax of at least \$8.8m





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## Financial Highlights

# Financial Highlights: Strong Earnings Growth

(A\$ millions)	Actual		Prospectus
P&L	FY14	FY15	FY15
Net Revenue	25.7	38.7	39.1
Operating Expenses	(18.0)	(25.7)	(28.2)
EBITDA <sup>1</sup>	19.5	29.7	29.2
EBIT	7.3	12.1	10.3
Statutory Profit before Tax	2.4	10.7	9.5
Statutory Profit after Tax	1.0	7.4	6.6
Operating Profit after Tax	4.6	7.8	6.6

Key P&L Metrics			
EBIT Margin	28%	31%	26%
Earnings per share (operating)	10.11c	17.21c	14.55c

- Net Revenue Growth of 51%
- EBIT Margin of 31% well ahead of expectations
- EBIT growth of 66% highlighting expense discipline and strong portfolio value management
- PDP expensing rate of 30.2% of receipts
  - ◆ Expensing rate slightly lower than 30.8% at 1H15 (slide 9 refers)
  - ◆ Cautious view maintained on carrying value
- Underlying Earnings per Share of 17.21c
- Dividend payout policy of ~50% of Profit after Tax
  - ◆ 6.80 cps fully franked record date of 30 September 2015 and payment date 30 October 2015
  - ◆ 1.75 cps fully franked paid 17 April 2015

## Notes

1. EBITDA includes the add back of Change In Value of PDP's



# Financial Highlights: Strong Cash Generation

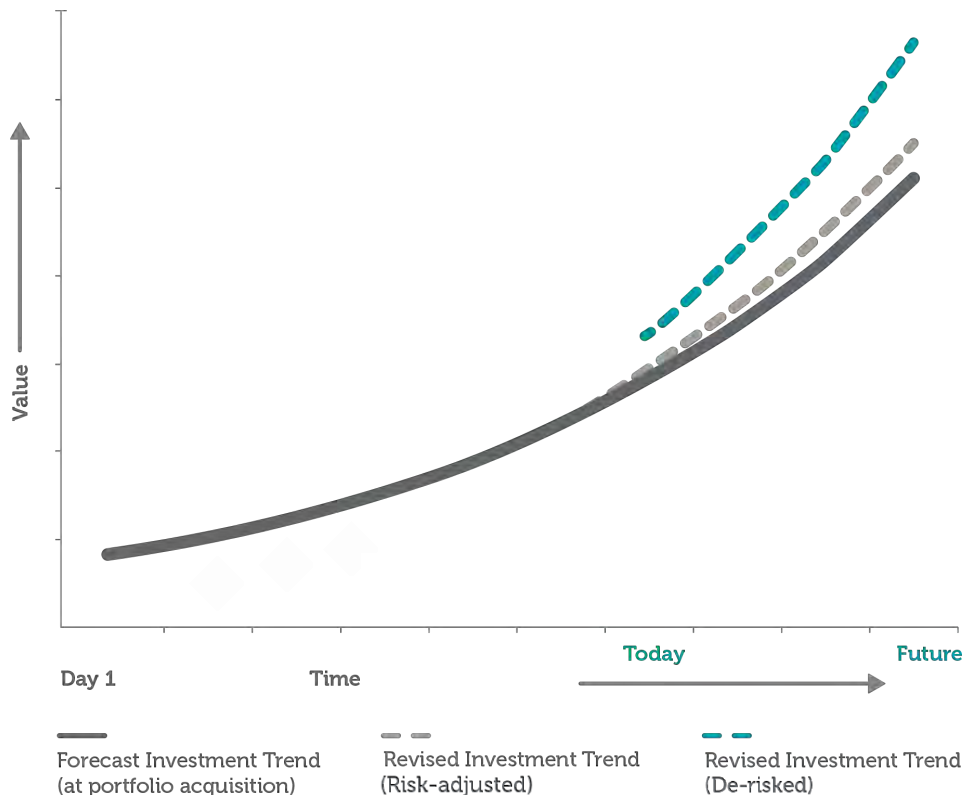
(A\$ millions)	Actual	Prospectus
Cash Flow for Year End	FY15	FY15
<b>Gross Operating Cash Flow</b>	<b>30.7</b>	<b>28.9</b>
Taxation and PP&E	(3.6)	(3.6)
Net Interest Paid	(0.8)	(0.8)
<b>Operating Cash Flow</b>	<b>26.2</b>	<b>24.5</b>
Investment in Associate	(2.3)	-
<b>Net Operating Cash Flow before PDP acquisition</b>	<b>23.9</b>	<b>24.5</b>
PDP acquisitions	(49.4)	(37.9)
<b>Net Cash Flow after PDP acquisition</b>	<b>(25.5)</b>	<b>(13.4)</b>
Net Proceeds from Borrowings	25.4	12.3
Dividends Paid	(2.2)	(2.1)
<b>Net Cash Flow</b>	<b>(2.3)</b>	<b>(3.2)</b>

## Key Cash Flow Metric

Gross Operating Cash Flow / EBITDA	103%	99%
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- Strong cash generation and free cash flow to enable continued disciplined investment
- Cash for PDP acquisitions includes ~\$10m relating to FY14
- Gearing (Net Debt/PDP) of 36.6% - well below bank covenant of 45%
- ~\$47m senior debt facility with all covenants met comfortably
- Undrawn facility of ~\$18.8m

# Financial Highlights: Solid Portfolio Liquidation



- When PNC price PDPs for acquisition we make a series of value based assumptions and model the expected cumulative value to be liquidated over time
- Consistent performance over PNC cautious Day 1 forecast has driven an upgrade to Investment Trend Forecast assumptions
- PNC take a cautious approach to our value forecasts through calibration and discount for broad base risk assumptions. The “Revised Investment Trend (De-risked)” is expected performance prior to any discount for those risks

**Maintain cautious assumptions to valuation**



# Portfolio Performance: Improved Expensing Rate

## What's Changing?

1

### Continued improvements in operational execution

- More data sources
- Better analytics
- Increased labour pool over past 2 years
- Improved workplace offering (sought after employer attracting more and better candidates per recruitment phase)

2

### Strategy improvements from

- Increasing performance data to mine
- Leadership & people engagement
- Propensity to pay identification developments

## What's staying the same?

3

### Purchasing discipline

- Acquire best value customers available
- Highest propensity to heal
- Least credit risk
- Fair and consistent investment cost

4

### Cautious risk bias at investment

- Assumed risk is at high end of modelling at pre investment
- Assumed liquidations from cautious base case
- Focus on total return through the investment cycle

# Portfolio Performance: Improved Expensing Rate

## What's good for our vendors?

1

### Surety of purchase commitment

- PNC has never walked away from a forward flow agreement with any originator
- Why? Pricing discipline – PNC pay a fair long-term sustainable price

2

### Brand protection

- Unique alignment to like banks/financiers. No payday lending, utility, telco or other lower quality customer segments

3

### Compliance record

- PNC has never had a negative outcome at an ombudsman level and has never had an enforceable undertaking to a regulator

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### Transparency

- PNC provides 'easy' dealings to all vendor partners
- Uniquely open operations functions for audit
- High level of information sharing
- Genuine partnership driven approach

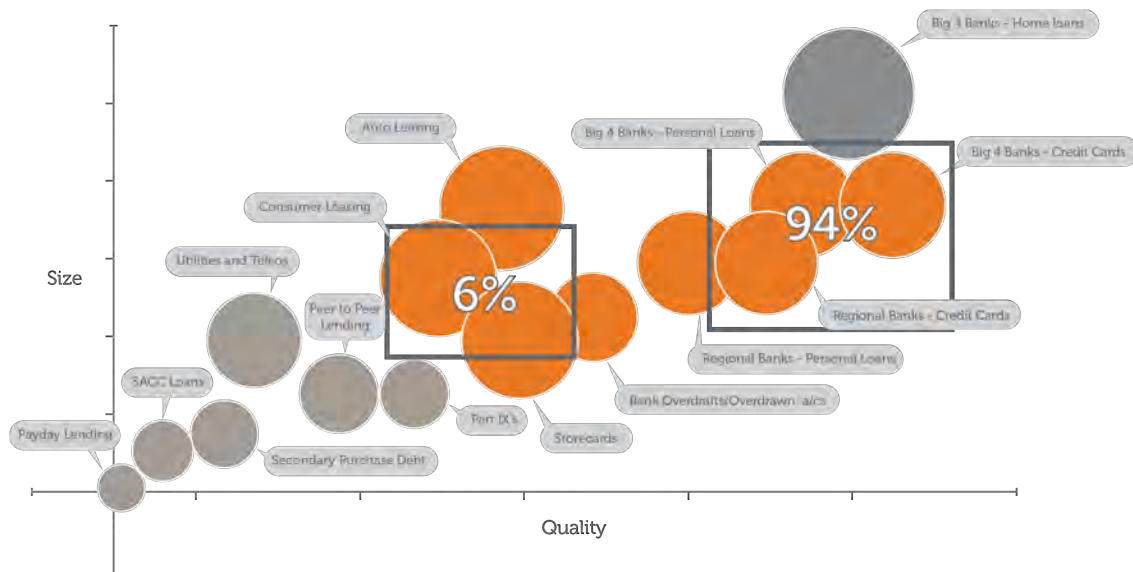
A photograph of two men in business attire. The man on the left is younger, with dark hair, wearing a dark suit, light blue shirt, and dark tie. He is smiling and looking towards the older man on the right. The older man has grey hair and is seen from the back/side, wearing a dark suit and white shirt. They appear to be in a bright, modern office setting with large windows in the background.

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## Operational Highlights



# High Quality Portfolio Focus



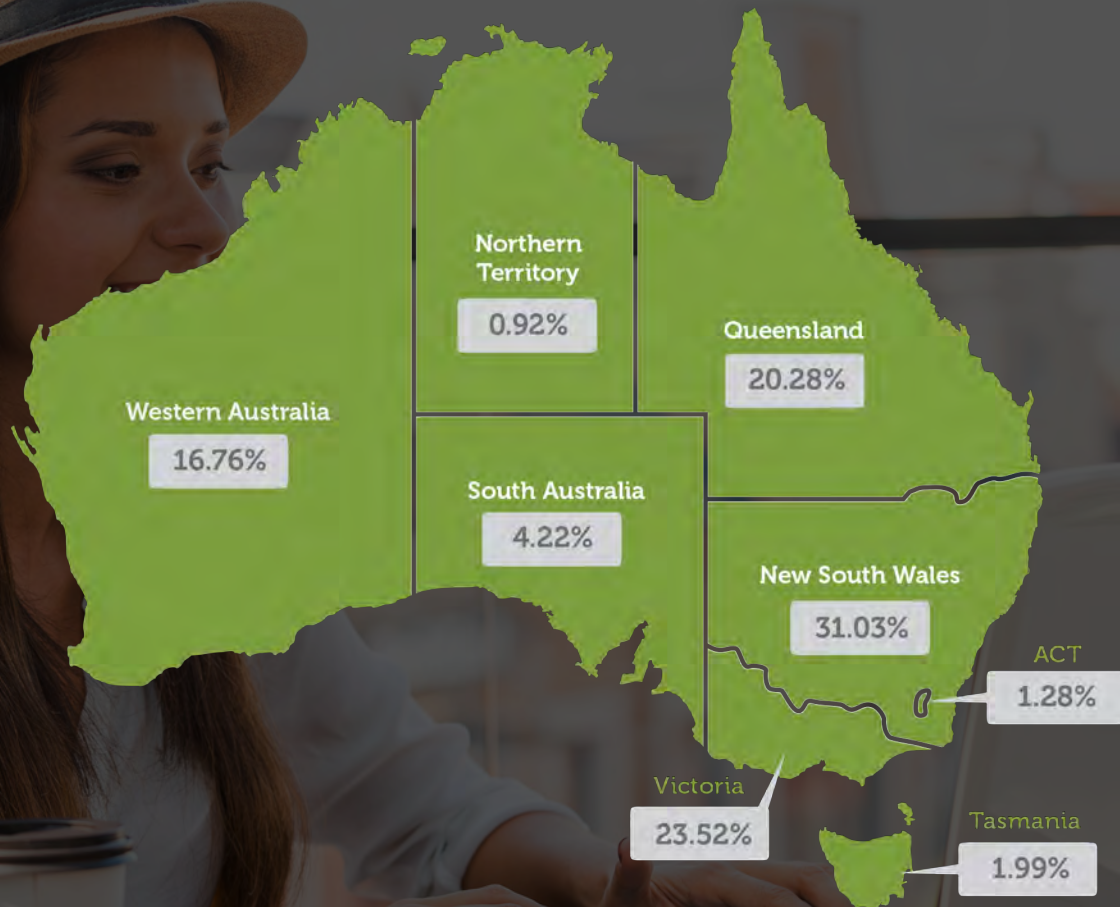
- PNC portfolio target market
- 6% represents total investment exposure to segment
- 94% represents total investment exposure to segment

## Portfolio Highlights

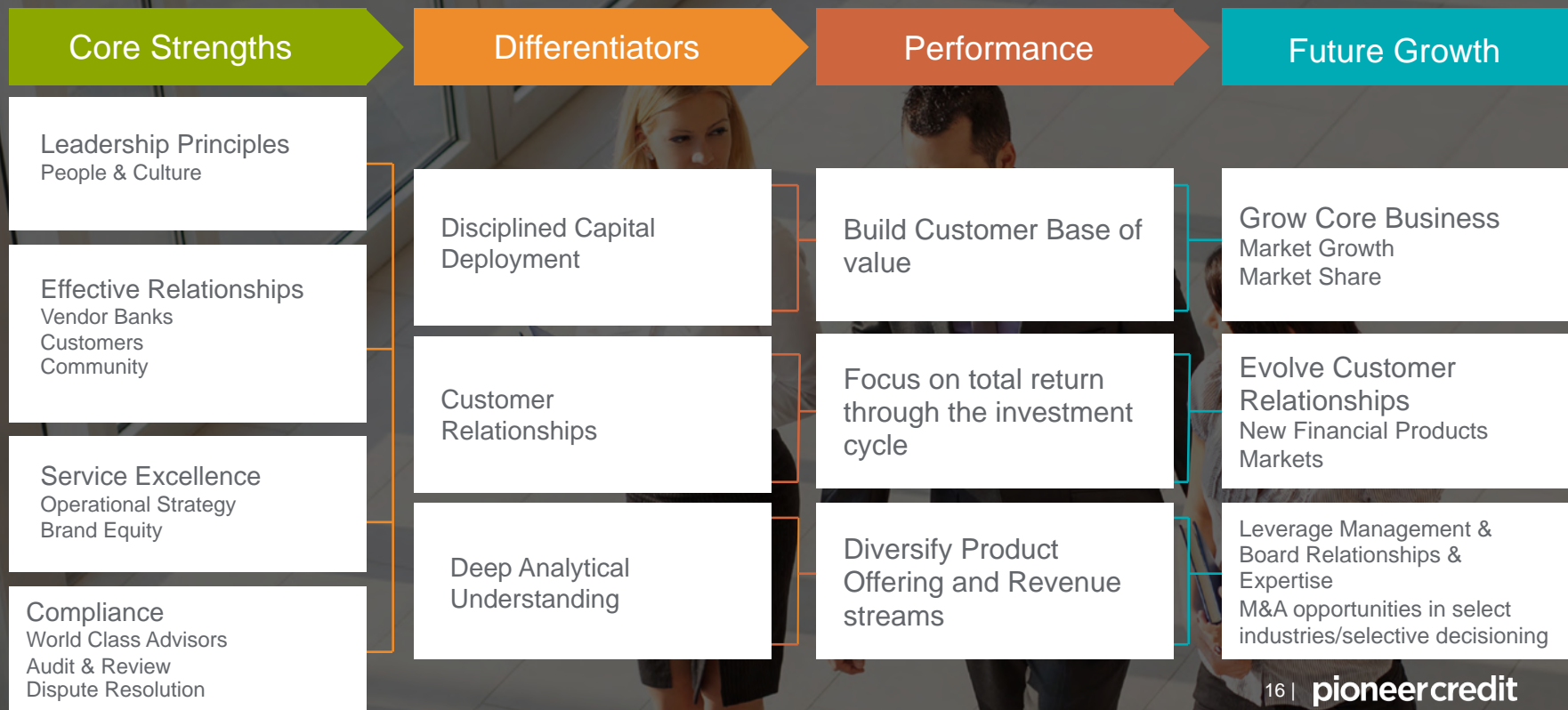
- No exposure to payday lending, utility, telco or other lower quality customer segments
- 94% of all investment to date with 3 of Big 4 or Regional Banks – creates strong alignment of servicing strategy (brand protection, consumer focus) between PNC and vendor
- De-risks portfolio as PNC customer base heavily concentrated on premium customers
- Geographical spread representative of Australian population providing resilience to fluctuating economic trends

# Portfolio Geographic Spread

Portfolio distribution by location



# Simple Business Strategy



# Effective Relationships: Disciplined Capital Allocation

## Pioneer purchases retail customer accounts at ~180 days overdue

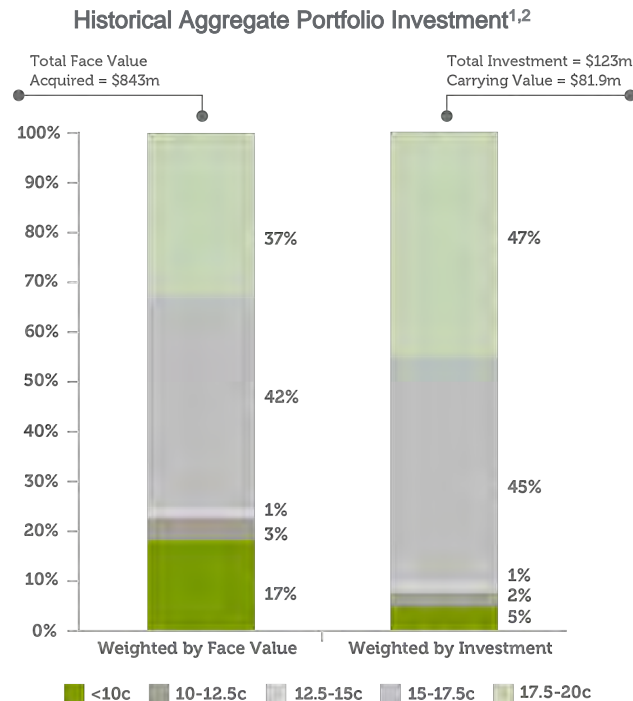
- Purchases Tier 1 customers (not regarded as credit impaired when originated)
- Maintenance of strong pricing discipline across well understood products
- Demonstrated capital allocation discipline across EPS accretive investments that provide future options
- Purchasing continues with 3 of 4 major banks, regional banks and leading consumer leasing providers
- Focus on higher quality '180 day' forward flow contracts continues compared to aged portfolios as comfort on returns strengthens and bank relationships broaden
- Weighted Average Purchase Price of 16.3c<sup>1,3</sup>
- Portfolio Carrying Value of \$81.9m<sup>1</sup>
- At least \$42m forecast investment for FY16

### Notes

1. As at 30 June 2015

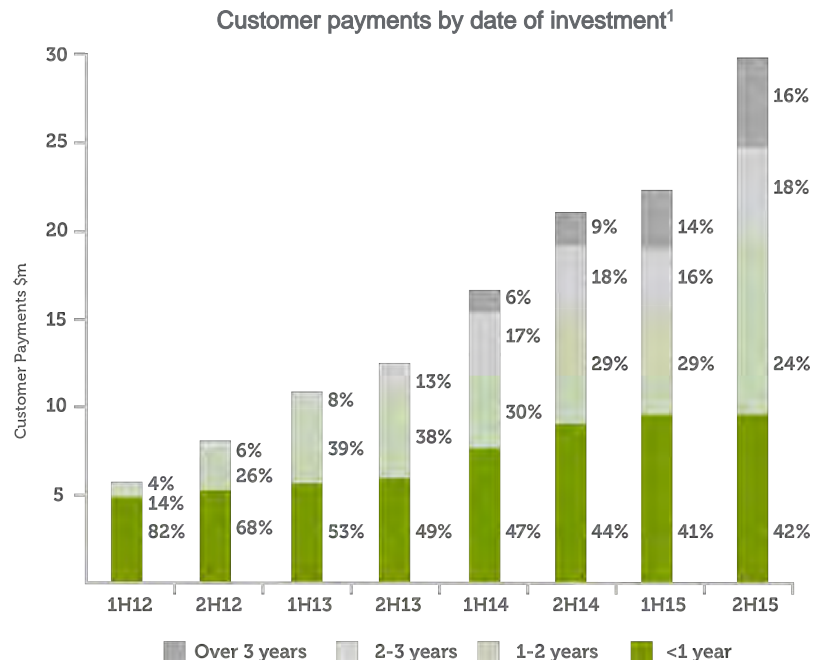
2. Excludes low value secondary or non-core portfolios of immaterial value

3. Simple average purchase price is 14.6c. Weighted average price is investment price proportional to portfolio size and represents realistic cost per \$ of PDP acquired .



# Continued Strong and Improving Liquidations

- Cash receipts up 55.5%
- Demonstrates performance across entire portfolio with increasing contributions from older part of portfolio
- Half-on-half growth in line with expectation
- Strong liquidation in first 2 years plus increasing contribution from >2 years demonstrates long term yield and supports increasing yield expectations



## Notes

1. Excludes portfolio sales

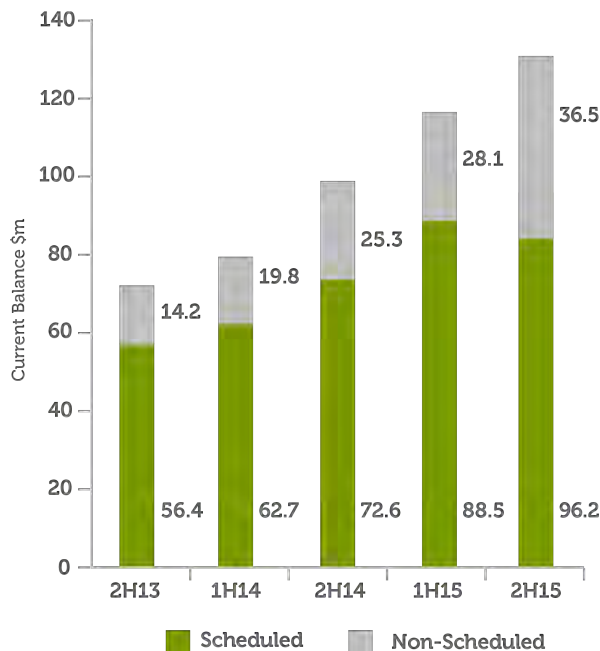


# Customer Service Excellence: Annuity Arrangement Stream

## Payment Arrangement Book<sup>1</sup>

- Two types of Payment Arrangements:
  - Scheduled – structured repayments
  - Non-Scheduled – regular paying customers unable to commit to a fixed schedule
- Payment Arrangement Book has grown to ~\$133m
- Book has experienced compound half yearly growth of 17%<sup>1</sup>
- Average account balance of arrangement customers is ~\$10,163 with a weighted average age of 1.9 years<sup>2</sup>
- Average account balance of total portfolios is ~\$11,080<sup>2</sup>

Payment Arrangement Book Current Balance (\$m)<sup>2</sup>



### Notes

1. Does not include Part IX (bankruptcy compromised) customers

2. As at 30 June 2015



# Goldfields Money Limited Investment

## Investment Highlights

- PNC acquired a ~14% equity stake in ASX listed Goldfields Money Limited (GMV).
- GMV is the smallest Authorised Deposit-taking Institution (ADI) on the ASX and is Perth based.
- Equity acquired at \$1.04 per share. GMV has NTA of \$0.94 per share and significant franchise and licensing value.
  - ◆ An independent valuation and review of the strategic rationale supported the Board's unanimous decision to invest.
  - ◆ The investment is at an opportunistic entry price.
- PNC provided nominee seat on Board of Directors of GMV.

## Investment Rationale

1. **Risk Managed Entry Strategy** – PNC to now provide new product (credit cards) to its customers with no balance sheet risk.  
Continued demonstration of capital and balance sheet discipline – important heading into challenging economic environment.
2. **Operational upside** – PNC retains its customers on system and in-house (different to most white label cards offering) and to leverage its expertise in product delivery and customer service - the most efficient use of resources for the best economic return for shareholders.
3. **Corporate Optionality** - In time PNC now has the choice of (a) keeping the risk with GMV, or (b) shifting the risk to 'on balance sheet' for extra margin. PNC can obtain additional funding from other institutions if desired.
4. **Memorandum of Understanding** - executed to develop and manage delivery of financial services products and other services for commercial economic benefit.

A man with a beard, wearing a light blue button-down shirt, is looking down at a document he is holding. The background is a bright, out-of-focus window with sheer curtains. An orange banner with a white geometric pattern is on the left side of the image.

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## Market Conditions and Outlook



# Market Conditions and Update

- Size of overall target receivables segment – estimated at ~\$300m (PNC inferred market share ~13%)
- Growth of overall target receivables segment - estimated at ~4% per annum
- Key economic indicators driving the overall market
  - ◆ Wage Price growth – wages are growing at their lowest level in the private sector since 2009 and public sector since 2003 driving down future disposable income relative to when loans were originated.
  - ◆ Unemployment back to levels not seen since 2002 at 6.3%. Australia still has relatively full employment though PNC remains concerned in its assumptions around future increases in the unemployment rate and subsequently is cautious in its portfolio performance assumptions.
  - ◆ Interest rates – has some impact currently on disposable income though credit card and personal loan rates are broadly unchanged since the GFC.
  - ◆ Consumer confidence – remains challenging and is now as low as it has been in over 4 years since late 2011. Confidence is a strong driver of discretionary income allocation to the payment of debt. PNCs performance against this backdrop is encouraging and bodes well for a return to better times.



# FY16 Outlook

- Continued focus on the demonstration and value of differentiated business strategy for vendor partners
- Investment to remain focused on similar PDPs as historically acquired
- Significant investment in corporate and administrative overhead ~\$2m annualised to drive operational efficiency
- Additional investment of ~\$1m in new product development
- PNC to offer first financial product to customers

## FY16 Guidance

- PDP Investment of at least \$42m
- EBIT Margin of at least 31%
- Statutory Profit after Taxation of at least \$8.8m





# Pioneer Credit – Investment Summary

- Leading Australian purchaser of overdue unsecured retail customer accounts
  - ◆ Tier 1 debt with >94% investment from banks
  - ◆ Ownership of customer accounts portfolio with over \$780m (face value) due at 30 June 2015
  - ◆ Direct and growing relationships between PNC and customer
- Scalable business model across a range of other product types and financial services to its over 110,000 customers
- Track record of strong capital and investment discipline
- Track record of consistent and strong cash generation and profit growth
- Focus is on an attractive asset type which is well understood within the business
- Strong balance sheet with low level of debt and gearing (Net Debt/PDP) at 36.6%
- Experienced management team with record of delivering value to shareholders in all cycles of the economy



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More Information



# Investors / Media

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Thank you

