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Investor briefing transcript

Attached is a copy of the transcript from Pioneer Credit Limited's (ASX:PNC) investor briefing held on Monday 27 August 2018 and presented by Managing Director, Keith John and Chief Financial Officer, Leslie Crockett (with minor edits).

The Briefing followed the format of the FY18 Results Presentation released to the market on Friday 24 August, and the attached transcript is intended to be read in line with the FY18 Results Presentation.

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PIONEER CREDIT LIMITED (ASX: PNC)

TRANSCRIPT OF INVESTOR BRIEFING HELD ON 27 AUGUST 2018

The following transcript is intended to be read in line with the FY18 Results Presentation released at 1:34pm (AEST) on Friday 24 August 2018.

Keith John: Good morning, everyone. Thank you for joining us today for the Pioneer Credit financial year ended 2018 results presentation.

Firstly, I'd like to welcome the Pioneer executives that are here today: Sue Symmons, Company Secretary and General Counsel, as well as Tony Bird, Chief Risk Officer, both of whom are joining us from outside of the office today. In the office with me are Lisa Stedman, Chief Operating Officer, and Leslie Crockett, Chief Financial Officer. We also have with us today recently appointed Non Executive Director, Ann Robinson.

We're really pleased with the way that the financial year turned out for Pioneer Credit, with no shortage of exceptionally hard work by an amazing team of people. It's proceeded exactly as we expected it would and how we told you it would at the beginning of the year and, certainly, prior to that with the significant transaction we did in LMIs.
Across the year and before I introduce Leslie to take you through the financials, I would like to point out some of the highlights. Liquidations exceeded $100 million for the first time. We're very, very happy with that. They're up 44% to just shy of $102 million for the purchased debt portfolio liquidations. We had the 'Industry First' forward flow for LMI residuals which we're very happy with and which are performing very well for us.

We issued Medium Term Notes to the tune of $40 million during the period. It was a really important development for Pioneer and also for the sector. It was the first time that anyone has issued a Bond in our sector in the Australian market. It diversifies and increases the tenor of our funding and sets us up in terms of debt financing for the future by giving us another range of options as to how we fund this business in the most efficient way going forward.

We commenced our personal lending business which we've been speaking about for some time, which an incredible amount of work has gone into. We'll speak about that a little bit later in the presentation. Pleasingly, we were added to the All Ordinaries Index for March. We had our largest ever PDP investment of $84 million for the year at a slightly lower price than the prior year. I will talk through that at length when we get to that slide, what that means for Pioneer, why we're able to buy it at different price points at this part of the cycle than what others talk to and what it is that makes Pioneer different and what makes Pioneer such a special organisation.

From a cash perspective EBITDA was up 55% on the prior year, to $54.3 million. An incredible effort from our team and one which is testament to the amount of work that goes into building a quality operation, servicing our customers and providing them with a valuable service which is recognised through the result today. Finally, we achieved net profit after taxation of $17.6 million, up 64% for the year and slightly ahead of our upgraded guidance. We started the year at $16 million and we've closed out at $17.6 million.

I'll hand you to Leslie now who will take you through the financial metrics for the year just passed.

Leslie Crockett: Thank you. Good day, all. It's my pleasure to provide the key financial highlights of our annual results. As Keith noted Pioneer today announced our financial results for the year ended 30 June 2018 and included reporting for the first time our annual PDP liquidations, which is the measure of the cash realisation from the portfolios, has exceeded $100 million. This was foreshadowed in our forecast for the year and is nonetheless a noteworthy achievement and a testament to the Pioneer team based approach.

We commend and thank the members of the many teams who've worked consistently and with discipline and focus towards achieving this remarkable mutually rewarding goal.

EBITDA remains an important headline metric for Pioneer with a clear linkage to the generation of operating cash flow. As Keith noted, on slide 4 you can see this is up by over 55%, demonstrating an ability to grow our business while maintaining sustainable discipline in cost management, and without yielding to the temptation of capitalising development costs that will not yield return in future years.

Relatedly, we include here the EBIT margin as this metric also clearly demonstrate delivery of growth off a sustainably growing but well controlled cost base. We have commented in the past on the drag in operational efficiency occasioned by growth in the customer service teams and the time and effort required to successfully invest in talent and capability in our compliance and service excellence.

The reported result today demonstrates we are now seeing the anticipated yields and return on investment in this area. Not only is this a pleasing result for financial year 2018 but it is an important precursor to our forward strategy.

We expect to see a continued ability to generate a more balanced profile reflecting liquidation effort and value yield across the whole of portfolio. This has not yet been fully evidenced given the significant ramp in purchasing experienced over the last two years. Keith will talk to this in more depth through the presentation.

Keith highlighted earlier our largest investment to date in high quality PDPs. As noted this purchasing result has been driven by market conditions where price expectations have continued normalising for Pioneer. Pioneer, as a differentiated purchaser, has been consistently rewarded in the prices and volume we invest at. Our investment out-flows are serviced with free cash flow generated by PDP liquidations as well as proceeds from our extended financing facilities. Importantly, as is evident on slide 5, the financial year has seen our operating cash in-flow increase by 82%, reflecting the growth in liquidations and the operational excellence in executing on this positive growth tangent.

The Company extended its senior financier purchasing facilities during the year by $20 million on terms that are unchanged and now has a cash advance facility of $120 million with borrowings drawn of $87.8 million and the remaining capacity of $32.2 million as at 30 June.

In March 2018 Pioneer strengthened the balance sheet further by raising $40 million under a Medium Term Notes issue. The issue was oversubscribed and as Keith noted, was the first of its kind in Australia for a business of our type. This has diversified our funding options and increased the tenor of our funding in a manner that is complementary to the assets we own.

Slide 6 illustrates the gearing headroom and highlights that the Company remains well positioned for opportunity from the perspective of capital management. To give context to the record results of this year, we have on slide 7 illustrated the growth trajectories across the headline metrics that have been achieved since Pioneer Credit listed in 2014. I noted earlier the importance of EBITDA, given the direct link to cash flow. This is yielded in FY18, a significant up tick with compound growth of 29% over the four-year comparison period.

The growth and earnings per share, or EPS is called out as the important measure of Pioneer performance because it shows how much return has been generated for our shareholders, not only due to the increase in our earnings but importantly also in the context of the significant support we enjoyed in the equity raisings conducted at the end of the 2017 financial year.

We were very pleased with the high levels of take up and strong support the company received from our shareholders and it is appropriate to now reflect this recognition from our shareholders and their continued support for Pioneer's team, business model and strategy in a compound growth rate of 38%

Finally, we illustrate growth in dividend per share paid to shareholders. We've been pleased to confirm that the Directors have declared a fully franked final dividend of $0.0771 per share, which will be paid on 26 October 2018.

Thank you all for your kind attention and interest today on the financial highlights. I'll pass back to Keith to continue.

Keith John: Thanks Leslie. The defining part of Pioneer is our culture and that is something that we've spoken extensively about for a very long period of time. Interestingly, we now have regulators and others talking about culture as well. The point I want to make is that culture can not be built over night. It can not be mandated from someone from above and changed immediately. It cannot be driven because a regulator says you need to drive it. Culture has to be built from the ground up. It has to be built from day one. It has to be owned by every single person in the organisation.

This is one of the defining features of Pioneer Credit and it is one of the reasons why, and the primary reason why, we are experiencing the success we are experiencing today. On slide 8 we have our Leadership Principles. They have been there since day one. Since before we listed and they have not changed. They are the foundation of everything we are as an organisation, from the way we recruit our people to the way that we audit a telephone call and check and improve our customer service to our clients, to the way that I manage my Executives and recognise their performance. To the way that Board does that for me and likewise for us to the Board.

It is critical for you to understand that the success of Pioneer is built off these foundations. It is the reason why we are successful today and for the ground work that we have laid, that will make us successful into the future. On page 9 I've spoken about what is our difference? Again, culture is the number one and it leads - and it's right at the top. The other is the way we select our PDPs. We have a strict investment discipline. We do not invest unless we know that it is absolutely the right portfolio for Pioneer, that it is absolutely the right price for Pioneer and if that price shifts by 0.1 of a percent, or 0.1 of a cent, we do not invest.

Discipline is what makes this business. Subsequently we have never defaulted on a PDP agreement. Likewise, we continue to invest in Tier 1 portfolios with our preference for credit cards and personal loans. We do not purchase low quality portfolios. We do not purchase bankruptcy. We do not purchase Telcos. We don't purchase utility or pay day or SACC or MACC accounts. We are looking for the best consumers with the most predictable set of circumstances that we can work with and the highest propensity to heal.

Keith John: Against that, we provide a unique servicing platform which has driven a set of circumstances from a compliance regime that is unblemished and is unsurpassed. We are the only significant participant in the sector that have never had a negative outcome with the Ombudsman, have never had a reportable systemic issue and have never had to provide an enforceable undertaking to the regulator. These are critical things and important things when we're talking to the risk executives within the banks, particularly in light of the Royal Commission, about who they should be choosing to place their customers with.

Subsequently, and it's importantly pointed out by several of the Analysts now, 71% of our expected PDP investment for FY19 is already underwritten and contracted. It is the highest in the market and it is just another point of evidence as how Pioneer Credit is different.
We focus on our relationship with the customer. We have a Net Promoter Score that is +16. Again, a number that we don't think anyone else can come close to and certainly one that no one else publishes. We have a liquidation profile of up to 10 years, reflecting the long-term arrangements that we have with our customer base.

We have an incentive scheme for the Executives in this business that is aligned to your wealth creation. Not to the short-term outcomes of this business. My Executives and myself get rewarded over a period of up to five years. It is a long time to wait, but it is absolutely critical in ensuring that the disciplines that are ingrained in this business remain, and that you get rewarded first and we get rewarded second.

I speak to investment discipline on page 10, we've had lots of commentary as we always do in this sector about changing prices, about competitiveness, and about a whole range of circumstances that affect what portfolios people are buying and how they're growing their business.

Pioneer has consistently demonstrated that the price for it has been around the same for a very, very long period of time. In our presentation on page 10 you can see very, very clearly we had our largest proportion, or our largest investment, in bank forward flow ever in FY18. Almost $70 million. We had a slight decrease in price over the prior year.

It is again a reflection of the quality of the business that Pioneer is, of the relationships that we have with our stakeholders, and of the value that they see in partnering with Pioneer.

Our payment arrangement portfolio continues to grow, and we're very, very pleased with that. Again, this is a reflection of the relationship that we have with these customers. With a current balance of $280 million today, approximately 50% of our revenue comes from our payment arrangement portfolio which will be about $60 million this financial year.

On the righthand side - I think the important one to focus on really is that only 3.2% of our portfolio is in arrears after 30 days. Quite a remarkable achievement when you think about where these customers started, their propensity to heal, and reflection of the quality of the servicing that goes into those customers and the support that we provide them.

On page 12 we talk through the sustainable cash generation. You can see on the right-hand side of the slide that 56% of our revenue came from accounts less than one year old. That's been heavily influenced by the weight of investment of the past two years. As you can see, over the past two years we've almost doubled the size of our portfolio, certainly near enough that on investable dollars. We expect to see a normalisation of our one-year contributions coming through this financial year and beyond that as our portfolio growth moderates in the current period.

Keith John: Page 13 is all about our newly launched personal loans which we launched at the end of February this year. At the outset, like everything we do, discipline is the key. Making sure that we protect our balance sheet, making sure that we set ourselves up for success.

Credit settings are set tight in these early stages and they will continue. As you can see from the slide, we've dispersed some 326 loans for about $6 million. We have for the year ended FY18, no arrears greater than 30 days against a loss provision of $258,000.

We will continue to provide heavily even though we expect that our losses will be well within those limits. Certainly that's our evidence to date. We reiterate our $30 million lending target for this year, but call out and make note that the focus remains on quality over quantity, particularly in these early stages.

On slide 14 we talk to our investment in InDebted. I had a phone call on Friday at which I was asked, how did you end up with this investment and why did they choose Pioneer? The reason for that was because everyone has been chasing an investment in this business.

We first communicated, or had communication with InDebted, over two years ago. Like everything we do it takes time. It takes investment from our people and it takes understanding not just of the investment opportunity but also of the alignment of their offering, the alignment of the people that sit within that business, their alignment to our principles, and that Pioneer can the other way can add value back into that business.

We're very, very pleased to have announced that we have made an initial $500,000 investment into InDebted. We think that they have an incredible founder and management team, and an amazing opportunity to leverage machine learning and a whole range of other technological developments through the platform.

We will run a pilot with InDebted which will start in the next month or so, and we expect to run for up to a year before we then work out its importance and its space in our business. Assuming that it continues to have one going forward there is also the opportunity for us to increase our investment in InDebted.

I have joined the board of InDebted, so that we continue to understand that business and where the opportunities are for us in the future.

I made the comment in our press release that Pioneer has been a late adopter of technology and that has served us well. We certainly continue to subscribe to that. We're not blind to technology, but there are rarely first mover advantages in areas or in industries that are well developed like ours.

Pioneer has looked extensively across the world at opportunities for us to participate in technology. We are very pleased that we waited, and we are very pleased that we have found something close to home that we can invest not just financially in, but also a very significant amount of human capital into the development of that business, and how that might look and work for Pioneer.

Keith John: Finally, the FY19 outlook. We've headed this slide 'A market of increasing opportunity for a disciplined Pioneer', and it is absolutely that. We have spoken for some time about disruption in our sector, we've spoken for some time about the challenges of rising prices, and about the need for a rifle approach in making sure that you are focused on what it is that you are good at, and maintaining discipline. Over time that will be rewarded.

From a personal loans perspective, as I said, we're targeting $30 million in loans by the end of December this year. Again, we are focused on quality over quantity, and it's important that we get the quality aspects right. I keep explaining to people, anyone can give money away, that is not the aim of the game, getting paid is what is important, and getting paid by the right people and building a sustainable, profitable business that is beneficial to both our customers and to Pioneer, and to you is what we are about. So we will continue to focus on quality, and we'll keep the market updated, but we're very happy with how that business is going today.

From a PDP perspective, the opportunities are plentiful. Pioneer could certainly put much more money to work than what it has so far, and what it expects to during this year. We will keep abreast of the opportunities that come to market, and the opportunities that we take will be only ones that are beneficial for you and for us, and for our customers.

We expect the investment so far for this year to be in line with 2018 at $80 million. As I said, we currently have 71% contracted, which was the highest percentage of any listed player at the time of their reporting. That's something we think, again, underpins and underlines the differentiation of Pioneer and why banks prefer us.

From a guidance perspective, we're expecting top line growth of almost 20% to $120 million, 20% growth in the EBITDA to at least $65 million, and finally, a 14% increase in net profit after taxation, to at least $20 million.

That concludes the formal part of the presentation. We are ready for questions, please.

Operator:

Q&A:

Ladies and gentlemen, we will now begin the question and answer session. Your first question comes from the line of Laf Sotiriou, from Bell Potter. Please ask your question

Laf Sotiriou: Bell Potter, Analyst G'day guys, congratulations on another solid result. Can I just find out a little bit more about some of your new opportunities that are emerging, starting with InDebted? Can you give us an idea as to what the pre-money valuation was pre your $500,000 investment? What equity stake do you get in that business?

Keith John: Thanks, Laf. The pre-money valuation was $5 million, so roughly I think we've got about 8% stake or thereabouts.

Laf Sotiriou: Bell Potter, Analyst What kind of revenue do they currently have at the moment, have they actually got proven customers, or is it still early stage?

Keith John: Yes look, it is early stages. The business has been going for a number of years now, but it really is a technology play. So they do have revenues, they have revenues from Australia, New Zealand and the UK, albeit small, but the focus is really on proving up that technology, continuing to develop that technology, and ultimately it becoming a platform play into the future. So we expect to be able to update the market on how that's going, as much as anything, through describing or telling you how the pilot goes from our perspective. But certainly to date, good growth. They're a really exciting group of people, and the young guy that heads that, Josh Foreman, has had two rounds of investment from Reinventure now, the Westpac-backed private equity group, so they're certainly very encouraged by what they see as well.

Laf Sotiriou: Analyst Bell Potter,

Just moving onto your personal loan book, the $6 million that you closed. Can you just give us an idea, is that coming from existing customers that have proven their payback record, or is it from new people to the firm, or a mixture of both? If it is a mixture of both, what is that current mix?

Keith John:

Thanks, Laf. So it's a mixture of both. Just to be clear, the customers that originated from Pioneer are only customers that have completed their arrangements. So we are not originating loans with customers that still have an arrangement in place with us. Or an obligation in place with us. It's roughly 50/50 at the moment, so we're just working through still what is the right way to get this product to market. What is the right way to engage with the right people? As we said, the credit quality piece is critical, and it's pretty hard to get a loan with Pioneer at the moment, which is exactly the way that it should be. But our team are working very hard to continue to build out the offering.

Laf Sotiriou: Bell Potter, Analyst

I noticed you still maintain your $30 million book guidance, is that sales or actual closing book at the end of this calendar year? How should we think about that ramp up, as in having confidence in it?

Keith John:

Yes, so it's sales Laf, but I should say clearly that over the course of six months, the repayments are not huge, so those numbers are not too dissimilar. In terms of confidence in getting that number, first of all we always deliver our numbers, so that's the important part, and that's the bit that should give the market confidence. But more importantly is the comment of quality over quantity. So whilst we're very confident of getting $30m at this stage, we'll continue to tread lightly, and we continue to maintain discipline, and to keep making sure we're growing the book appropriately. There's a lot of product in the market, and making sure we're attracting the right customers is the number one thing.

Laf Sotiriou: Bell Potter, Analyst

Okay, thank you.

Keith John:

Thank you, Laf.

Operator:

Your next question comes from the line of Romano Sala Tenna, from Katana Asset Management. Please ask your question.

Romano Sala Tenna: Katana Asset Management, Analyst

Gents, a very strong result, and one of the reasons I suspect you haven't got too many questions is because of the consistency in your message and what you put forward there, which is excellent. Just in terms of you're growing at a very strong pace, which is fantastic, where do you see the natural point in terms of maturity in the Australian market, because I guess one of the things with Credit Corp is they have reached maturity in terms of the amount that the banks logically want to trade within. Is there another three to five years growth in Pioneer Credit from the domestic market, doing what you're currently doing? Or is it less or more, how do you see that?

Keith John:

Thanks, Romano, and thank you for the comment. Look, we see that there's plenty of growth left in the market. I think the thing that we've been really focused on is making sure that the growth is repeatable. So before we go and increase our guidance from $80 million to $90 million, or $100 million, or $120 million, is making sure that that number is repeatable, so that we can continue to do it for some period of time.

Look, over the course of the last few years, there have been a lot more vendors come to market. They've been the second- and third-tier banks, and other financial institutions. So we're very encouraged by what we see, so at the moment the Board and the management team have spent a lot of time just talking about, let's just keep doing what we're doing, continue to liquidate well, invest where we did last year, and just watch what happens in the market a little bit. There's a lot of changes in the market at the moment, there's seemingly some pressure in other businesses, and we want to just watch how that plays out first, before we take the next little leg up in the business.

Romano Sala Tenna: Katana Asset Management, Analyst

On slide 15 I think it is, that you mentioned that PDP investment opportunities are plentiful. So obviously in terms of how you're seeing the marketplace, there's no issues there, but we are hearing some other parties - there are certainly some movements firstly with your competitors, there's been some change of control, and the like there, and we are seeing one or two other competitors note that it's becoming more difficult, but that's not your experience at this juncture?

Keith John:

Look, that's not our experience, but I will tell you, we work incredibly hard to make sure that we are at the forefront of opportunities, and that we have the choice. So at the moment, we're spending a lot of time just reiterating our message back to the institutions, which are we are a disciplined, customer-first organisation that is the right choice for them, particularly in times when their social licence is at question, and the regulators are focused on brand and customer outcome. We are a much better choice.

But for us, we need to make sure it's repeatable, and we need to make sure that people understand our value proposition. What we don't want is for an institution to sell to us today and then not to us tomorrow, because they get a better price, or something changes. So you can see from the 71% contracted that we've got very significant buy in into our strategy, we'd like that to be a little bit stronger before we go again, but Barry Hartnett, our General Manager of Strategy and Development, who heads up our investment program, he's got a lot of work to do in terms of making sure they understand that offering, and making sure that Pioneer is well-positioned to partner in the long term. But certainly, we're very excited about what '19 and '20 offer to us, as it's presented to us today.

Romano Sala Tenna: Katana Asset Management, Analyst

Thanks, Keith

Operator:

There are no futher questions at this time.

Keith John:

Thank you. Finally, just to thank you all for joining us today. We're very pleased with the result, as you can tell. We're more excited about the future for Pioneer, and in particular, FY19, and what that looks like for us. We look forward to speaking to you all very soon, and to updating you again on the progress of Pioneer next time we speak. Thank you so much.

End of Transcript