

ASX Release

22 August, 2017

Full Year Financial Results (Unaudited) For the Financial Year ending 30 June 2017

Cash Converters International Limited (ASX: CCV) ('Cash Converters' or the 'Company') today announces the Company's unaudited financial results for the year ending 30 June 2017 (FY2017).

The 2017 financial year has been one of transition for Cash Converters as it continues the roll-out of its growth strategy and strives to become the most trusted personal finance lender and second hand retail goods provider. While this transition continues, the Company is pleased to report it has delivered an FY2017 NPAT of \$20.6 million, which is in line with guidance and a significant improvement following the FY2016 loss of (\$5.3) million.

Results Summary:

- Statutory NPAT of \$20.6 million in line with guidance (FY2016 \$5.3 million loss).
- Revenue of \$271.5 million, down 12.4% on previous corresponding period (pcp).
- EBITDA of \$45.7 million, down 4.1% on pcp.
- Basic Earnings per Share (EPS) from continuing operations of 4.2c per share.
- New Personal Finance platform and products launched to position the Company for sustainable and profitable loan book growth going forward.
- Medium Amount Credit Contract (MACC) product growing strongly, \$13.4 million loan book established.
- More than 10% growth in online sales across all divisions.
- Green Light Auto vehicle finance monthly loan approvals growing by more than 50% in the last 6 months.
- Enhancement of the internal risk management framework.
- Continued improvement in Personal Finance net bad debt expense, down 8.8% as loan book quality continues to improve.
- Strong cash balance of \$80.6 million at 30 June 2017
- No dividend declared as capital retained to fund further investment in the business.

Chief Executive Officer, Mark Reid, commented: *"It is pleasing to report a solid NPAT result. We are seeing encouraging signs that the strategy we are implementing is having the desired effect of improving the quality of our loan book and building a sustainable platform for long-term profitable growth."*

We have continued the development of new products and delivery channels, as evidenced by the MACC product which, since introduction in November 2016 has grown to a loan book size of \$13.4 million. In addition, growth in loan volumes through the Green Light Auto vehicle finance business is encouraging and we remain confident that this part of our business will be a key pillar in the future growth of Cash Converters.

Importantly, over FY2017, Cash Converters has built a foundation for sustainable and profitable growth and I am confident that with a continued focus on our customers, investing in our brand and technology and with a revitalised management team, the encouraging progress made to date will continue throughout FY2018 and beyond. I am genuinely excited about the opportunities for growth in our business, to further increase profits year on year and to maximise shareholder returns."

RESULTS OVERVIEW

- Having introduced the new MACC product in November 2016, performance has been solid with the loan book growing to \$13.4 million by 30 June 2017. As the MACC product starts to account for a greater proportion of the overall loan book, we expect to see a decrease in bad debt expense as a result of the improvement in overall loan quality.
- The Company is now realising the benefit of investment in the Green Light Auto business, which represents a new and exciting product sector. While this business has reported a small EBITDA loss (\$408k) for FY2017, improved from (\$4.6m) in FY2016, the business has the potential to provide a strong contribution to Group earnings in the medium term.
- The improvement in online sales continued with Webshop revenue up 16.3% on the prior year and more than 50% of Personal Finance lending now transacted online.
- The liquidity of the Company continues to improve with a Strong cash balance of \$80.6 million at 30 June 2017 which underpins the platform for sustainable and profitable growth.
- FY2017 has seen a continued focus on Cash Converters placing customers at the centre of everything the Company does, strengthening risk and compliance systems and expanding new products and channels by introducing larger loans and increasing the auto finance broker and dealer channel.
- Through redefining the Personal Finance offering and focusing on responsible, quality lending, the Company has built a sound platform for sustainable and profitable future growth.
- Reflecting on the Company's continued focus on its customers, Cash Converters has delivered a continued improvement in customer satisfaction levels, with more than 90% of customers surveyed agreeing that Cash Converters is a professional, trusted and credible brand.
- Overall, corporate store operations posted a decrease in EBITDA in line with a reduction in lending volumes from the changing business model. With increases in retail revenue and pawn broking, up 2.9% and 3.3% respectively, the stores contributed \$17.5 million to EBITDA.
- EBITDA from franchise operations increased 51.5% year on year, to \$10.5m which was broadly attributable to the positive contribution from the UK restructure and New Zealand operations.
- The Board of Cash Converters has resolved to continue to strengthen the liquidity of the Company and not to pay a dividend for the full year as it retains capital to support investment in the Company's strategic growth plans.

FINANCIAL RESULTS SUMMARY

	30 June 2017 (A\$'000)	30 June 2016 (A\$'000)	Movement (%)
Revenue	271,473	309,995	(12.4)
Divisional EBITDA			
Franchise Operations	10,490	6,925	51.5
Store Operations	17,549	23,541	(25.5)
Personal Finance	49,472	65,858	(24.9)
Vehicle Finance (Green Light Auto)	(408)	(4,599)	91.1
EBITDA Totals	77,103	91,725	(15.9)
Corporate head office Costs	(31,378)	(44,028)	28.7
Total EBITDA after head office Costs	45,725	47,697	(4.1)
Depreciation and Amortisation	(8,123)	(6,867)	(18.3)
Finance Costs	(9,404)	(9,659)	2.6
Profit Before Tax	28,198	31,171	(9.5)
Income Tax	(7,580)	(5,277)	(43.6)
Net Profit from Continuing Operations	20,618	25,894	(20.4)
Loss from discontinued operations	-	(31,166)	-
Net Profit After Tax	20,618	(5,272)	-

OPERATIONAL COMPLIANCE

The Company continued to focus on, and invest in, improving its compliance and risk management procedures as the Company strives to be a leader in its sector and consistently operates to regulatory standards.

During FY2017 Cash Converters successfully implemented a comprehensive Income and Expenditure (I&E) assessment platform which has considerably enhanced its ability to match the right loan product to customers depending on their circumstances, ultimately improving the overall quality of the Company's loan book.

The strategic decision resulted in a reduction in the overall loan book and a change in the product mix of the loan book. As a result a notable reduction was experienced in the Personal Finance net bad debt expense, which fell to \$29.9 million in FY2017 versus \$32.8 million in FY2016. The Company expects the bad debt expense to continue to reduce as the overall shift in the product mix of the loan book improves the quality of the loan book.

In order to assess the evolving state of the Company's compliance systems, Deloitte was commissioned to conduct an independent review of processes and procedures over specific periods, with regard to personal loans and finance operations. Pleasingly, Deloitte's assessment in an interim report (dated 6 June 2017) has not identified any key deficiencies of updated systems, processes, policies and training procedures against the relevant legislative and compliance obligations under the 'Enforceable Undertaking' (EU). This review is ongoing.

DIVISIONAL RESULTS

Personal Finance Business

The deliberate transition of the loan book to higher quality, lower risk products such as the Medium Amount Credit Contract (MACC), in FY2017 led to an expected fall in profitability year on year. The second half of FY2017 saw the greatest impact with Small Amount Credit Contract (SACC) lending down 13.8% on the first half, to \$62.0 million principal advanced in the second half of FY2017. The anticipated fall in the loan book following this strategic shift, has now stabilised, with strong growth in the MACC product to \$13.4 million since implementation in November 2016.

The Company's investment in online marketing and product delivery saw online lending volumes surpass in-store loans for the first time in January 2017, demonstrating the value of committing investment to this fast-growing channel.

In addition, the new MACC product is attracting a new segment of the addressable market, with more than 30% of approved applications from new customers.

Vehicle Financing – Green Light Auto

The Green Light Auto Finance business delivered incremental growth over FY2017, with the loan book continuing on its positive trajectory to reach \$20.1 million at year end. This has resulted in an improvement in overall performance, reporting a net EBITDA loss of \$0.4 million, which compares favourably to the \$4.6 million EBITDA loss reported in 2016.

The small loss was primarily attributable to investing in the operations of the business to provide a scalable operating model for future lending volumes, which will be a key strategic pillar to the growth of the Company going forward.

Corporate Store Network

While overall EBITDA from operations decreased \$6 million compared to the previous year, there was strong growth in revenue from online retailing (up 16.3% year on year) coupled with an improved performance in pawn broking revenue (up 3.3%).

The performance of Cash Converters 71 company-owned stores across Australia was impacted in FY2017 by the deliberate transition of our lending portfolio to a higher quality, lower risk model. Whilst reducing income from cash advances and personal loan commissions, this was to some extent offset by the introduction of the new MACC product as the impact of larger loans and increasing applications took effect.

Franchise Operations

Cash Converters' Franchise Operations, which captures performance from the domestic and global network of stores, posted a strong performance with EBITDA of \$10.5 million (an increase of 51.5% over FY2016).

This growth was primarily attributable to the successful restructure of the UK business, as outlined in the strategic plan of 2016, allowing a solid performance in FY2017 and delivering a NPAT result of \$1.7 million. The restructured UK business, which has seen all corporate store operations discontinued, is a more sustainable, lower risk and profitable business model going forward.

Returns from the Company's 25% equity interest in Cash Converters New Zealand increased by \$1.7 million in FY2017. Performance of franchisee stores in Australia was steady, with increases in retail sales of 3.9% across the 83 Australian franchise stores. International franchise fee revenue increased by \$265k to \$739k.

CORPORATE STRATEGY UPDATE

Cash Converters has undertaken a significant restructure of its leadership team over the last 12 months, ensuring the capabilities of the team are aligned to the needs of the business to achieve the strategic objectives.

In order to transform Cash Converters into the leading and most trusted provider of personal finance and second hand retail goods, the implementation of a strategy focused on a number of key initiatives below is well underway and will continue throughout FY2018:

- Evolving the brand, product range and channels to market
- Growth of Cash Converters' international business
- Transforming the Company's digital capabilities across sales and marketing
- Continued improvement of our risk management processes and procedures and
- Placing our customer at the centre of everything we do

Successful delivery across these key areas will position Cash Converters to deliver sustainable growth in revenue and profit whilst providing a better customer experience, more relevant and appropriate products and services, and ultimately, stronger sustainable returns for shareholders.

FY2018 OUTLOOK AND BEYOND

The Company expects 1H2018 to be in line with 2H2017, assuming current market conditions, before the full impact of the strategic initiatives put in place over the last 12-18 months flow to the bottom line, providing a stronger 2H2018 and confidence in the future growth profile of the Company.

Improvement in overall performance will be delivered through a consistent focus on:

- Growth in the overall loan books, including significant growth in FY2018 expected driven largely by strong growth in the MACC loan book, while retaining a focus on the SACC loan book
- Expanding the vehicle financing loan book as the Green Light Auto business capitalises on the investment in building a strong sales pipeline
- Continued proportionate decline in bad debt expense due to a higher quality and lower risk loan book and
- Continued improvement in operational efficiencies and cost control.

With the excellent progress Cash Converters has made to stabilise and improve its business model, develop and roll out new products and channels, and willingness to invest in its brand and capabilities, the business has established a solid footing to deliver sustainable and profitable growth into the future.

ENDS

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