

# ASX Release

29 November 2018

## Chairman's Address 2018 Annual General Meeting

### Introduction

Thank you for joining us here today and for your continued support of our Company.

The past year has been highly eventful – not only for our company, but also for the broader financial services sector.

I believe this year will prove to be a pivotal turning point in terms of the public standing, business focus and customer relationships of Australia's major banks and insurers.

Their collective size and massive asset bases will protect them from long-term, financial damage. However, the equally massive loss of community and customer trust will prove far more enduring and difficult to redress.

The size and complexity of these large institutions mean that any substantive reform of their governance, culture and accountability frameworks will take many years. It will extend from Board and executive levels through to all key operating areas – and we have seen this with the many Board and executive departures.

It would appear that the major banks and insurers are entering a period of instability and uncertainty – the type of operating environment that Cash Converters is thankfully exiting.

I note the travails of the major banks and others not through any sense of satisfaction. Erosion of trust in major representatives of any business sector inevitably heightens community and customer sensitivity about the performance of all others in that sector.

There is no doubt that major banks have traditionally looked askance at lenders such as Cash Converters and withdrawn their support through supposed concerns about associated reputational risk.

With our situation regarding customer trust, compliance and responsible lending practice health now reversed, I genuinely hope one aspect of major bank reform will be a change in their views about matters such as offering banking facilities to companies such as Cash Converters and our associates.

Our Company is well placed to tap into the increased demand that emerges as major banks and others further retreat from customers that need small-amount loans to meet unforeseen and unexpected cash demands.

Importantly, we have clear evidence that this type of lending can meet customer needs in a beneficial, non-harmful way and result in customer satisfaction levels and loyalty well above the current levels of banks and other large lenders.

The correct focus today is for regulatory and political effort to ensure our industry operates in a compliant and customer beneficial manner, rather than questioning whether it should be allowed to operate.

## Successes and challenges

The past year has been both successful and challenging for Cash Converters.

We continue to make good progress in discussions with candidates for a new CEO for your Company as well as an additional director following the departure of Ellie Comerford who resigned in September to pursue an executive opportunity.

Our successes during the past year have included profit and lending volume growth; industry leading customer satisfaction and loyalty; and continued benefits from our geographic and product diversification.

It is also pleasing to highlight our demonstrated capabilities in launching and running new businesses. Green Light Auto and our new Medium Amount Credit Contract or MACC loans are good examples.

These capabilities continue to underpin our confidence about future growth and our ability to adapt to political, regulatory and community driven business environment changes.

Another success I am pleased to highlight is the comprehensive improvement in compliance and responsible lending policies, procedures and practices across Cash Converters.

We have completed all commitments required under an Enforceable Undertaking with ASIC relating to historic lending practices and reached agreement with them about historical issues relating to collections contact frequency and default listings.

As part of that process, Deloitte was engaged as an independent expert to conduct a thorough review of Cash Converters' current responsible lending practices and Australian Credit Licence obligations. The Deloitte review did not identify any deficiencies in Cash Converters' current compliance.

During the past two years we have worked hard to improve systems, policies and procedures to ensure Cash Converters meets current responsible lending requirements.

This work has included the rebuilding of our loan assessing platform; removing any reference to benchmarks (something some banks are resisting); and loading bank statement transactions to ensure accurate assessment of affordability for every loan applicant.

Legacy compliance and legal issues have serious impacts on stakeholder confidence and corporate credibility. They have clearly been a significant concern for our investors.

Their frequency reflected systematic issues that needed to be addressed before any sustained progress could be made in our strategy implementation and sustainable growth.

During the year we advised the market of highly positive changes in our funding arrangements.

We amended our securitisation facility to increase the funding limit to \$150 million and provide the option to fund our MACC and Green Light Auto loans. The facility term was reset for another three years with an option to extend for a further two years.

We also decided to use the equity market to raise capital to assist repayment of the \$60 million bond we held through FIIG Securities. The raising was successful with net cash received amounting to nearly \$38.0 million. That and existing cash balances were used to repay the bond on maturity in September.

What we have seen over the past year has been demonstrated success in Cash Converters business fundamentals.

That success is important because there are a number of challenges we continue to face. Notwithstanding our recent positive momentum, we still have the challenge of managing the residual financial, operational and reputational impacts of the legacy compliance and legal issues our Company faced.

The regulatory environment will continue to be challenging for Small Amount Credit Contract, or SACC loans and we are well advanced with the necessary balancing to our loan book profile.

Our combined loan book grew nearly 50 per cent in full year 2018 with SACC, MACC, Green Light Auto and our stores all contributing.

Importantly, we managed this growth while bringing the SACC share of our total loan book down from nearly 90 per cent in 2016 to around 50 per cent in 2018.

## **Financial results**

Your Company reported a 9.1 per cent lift in net profit after tax to \$22.5 million for the 2018 financial year. That was after a stronger than expected second half.

EBITDA was up nearly nine per cent to \$49.8 million, with our EBITDA margin improving from 16.9 per cent of revenue to 19.1 per cent.

The results highlight two aspects of Cash Converters' operations I believe augur well for the future – diversity of income streams and improving risk management.

As I noted earlier, the solid growth in our lending to \$254.7 million followed strong contributions from all our loan books.

Our new Green Light Auto vehicle finance business delivered a maiden profit after a 30.7 per cent rise in revenue.

We also had an increased contribution from Cash Converters in the United Kingdom and New Zealand lifting our Franchise segment EBITDA by 18.2 per cent to \$12.4 million.

Full year revenue for 2018 was down four per cent to \$260.3 million as planned risk management enhancements and product diversification initiatives were implemented across the Personal Finance division.

The principal advanced within Personal Finance increased 22.4 per cent on the prior year to \$180.9 million and the overall loan book grew 40.6 per cent.

The net bad debt of this business fell from 18.4 per cent of outgoings to 15.2 percent.

The focus on credit risk management enhancements will continue with ongoing evaluation of Company risk parameters and use of technology to complement manual assessment of loan approvals.

Cash Converters' most recent financial results reflect improvement across all areas of our businesses.

## **Strategy**

Two years ago we developed and launched a new strategy designed to transform Cash Converters' operations and provide a framework for sustainable growth.

While we continue to make good progress, we recognise that successful strategy execution relies on constant and real improvement in business basics or "pillars".

We need to be mindful that continuous attention to basics today builds a solid platform for future success.

Our strategy is relatively simple. It is to maximise the value of our brand and franchise network through being relevant to our customers in their need for cash solutions for the challenges they invariably, and many times unexpectedly, confront.

This strategy and the associated transformation is based on four pillars:

1. Understanding, serving and satisfying our Customers
2. Maximising our Capabilities
3. Leading our industry in Compliance
4. Working to build Credibility

Being customer focussed or centric has become a mantra for financial services companies in Australia irrespective of their size. Cash Converters is no exception.

One clear point of differentiation we have is that through our corporate stores, franchised network and online presence, Cash Converters services the personal finance needs of people major lenders and others ignore.

We believe another differentiating factor is the growing sophistication of our customer analytics. This enables us to understand and meet their specific needs. It also enables us to better meet our responsible lending obligations.

We have the tools to provide a 'single customer view' or we can aggregate data and interactions to give us information about the overall size of our customer base.

We recognise that this flexibility is important as the personal lending sector correctly moves away from use of standardised expense benchmarks.

It was this type of analysis that told us recently that we had helped over 2.8 million unique customers with their personal lending needs. This is one indication of the size of the market we are servicing and the diversity of customer segments within that market.

Our aim to better understand and service our customers led to our major investment in a program we call GEM. This enables our customers to directly provide feedback to us about the quality of the service they have received and their satisfaction with that experience.

Over the past year we have had more than 80,000 survey responses from customers providing us with a unique insight into their needs and the value our Company provides.

One important insight is the Net Promoter Score. This is an index that measures the willingness of customers to recommend a company's products or services.

It is an Australian and international standard measure for customer satisfaction and loyalty. Bain & Company research has also established a strong link between organic growth and a company's Net Promoter Score.

In the current Australian environment of broad customer disenchantment, the Net Promoter Score has become a key indicator of the turnaround in ability of companies such as Cash Converters to meet customer needs compared with major banks and others.

The Cash Converters Net Promoter Score at June 30 this year was a highly creditable 57.4. By way of comparison, major banks have acknowledged their most recent scores have been negative.

Cash Converters has a unique business footprint.

Today we are a leading international operator and franchisor in personal financial services and second-hand goods markets. We have a network through corporate and franchise arrangements of approximately 726 stores in 18 countries.

In Australia, there are 153 Corporate and Franchise Cash Converters outlets with over 1,750 employees.

A strategic focus for us is to combine this network strength with our demonstrated capabilities in launching and growing new businesses and our strong digital capabilities. We have the customer feedback and analytics to scope the demand and design for new products and the network to successfully market these.

Given Cash Converters distributes products and services via our own stores and through franchisees, our compliance model will extend across all areas of product development and distribution.

We aim to be our industry sector leader in compliance. While this may seem highly ambitious given recent history, it is a journey we genuinely believe must be taken if we are to achieve our corporate strategic objectives.

Another strategic pillar for us is to build Company and industry credibility.

Credibility will remain a challenging issue for the personal lending sector for the foreseeable future irrespective of the size of the loans or companies involved.

For Cash Converters, the credibility challenge encompasses the consistency and quality of our corporate performance – as well as the broader public perception of our industry sector. We have a strategic priority to work on both.

That is why we have made understanding, serving and satisfying our customers a strategic priority and are pleased that we have clear evidence that we are achieving success in this regard.

The recent experience of Cash Converters and the broader financial services sector highlights the fact that delivering what has been promised also needs to consistently meet responsible lending and compliance requirements.

The transformation of Cash Converters will therefore continue. However, we now have the benefit of growing confidence in our ability to execute our strategy and improved earnings consistency.

In summary, the results achieved this year could not have occurred without the hard work of the management team, which the Board is immensely grateful for.

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