Company Announcement

18 June 2020

Strong FY20 result for Turners, and Q1 recovery underway

- NPBT in line with pre Covid-19 guidance at $29.1m (FY19: $29.0m)
- Underlying NPBT increased 11% to $28.8m (FY19: $26.0m)
- Group revenue decreased 1% to $333m
- Solid gains in the finance, insurance & credit management businesses
- Auto retail impacted by slowdown in last 6 weeks of FY20 due to Covid-19
- Solid market share gains, within the context of a softening used car market
- Final dividend (incorporating Q3 deferred dividend) of 6.0cps declared, taking full year dividends to 14.0cps (FY19: 17.0 cps)
- Positive response to Covid-19 situation from Turners staff, landlords and business partners. Trading levels so far ahead of "best case" scenarios modelled in early April. Robustness of diverse portfolio of companies is proving its worth
- Plan to continue to progress strategic plan with focus on increasing auto retail market share, continued retail optimisation, ongoing de-risking of Oxford Finance, and market-leading technology investments

Financial results

Turners Automotive Group (NZX: TRA) delivered an 11% increase in underlying net profit[1] before tax (NPBT) from $26.0m to $28.8m for the year ended 31 March 2020. Revenue decreased by 1% to $333m (FY19: $337m).

"We are really pleased with the growth in underlying profits over FY20, despite the early impact of Covid-19 in the last 6 weeks of the financial year" said CEO Todd Hunter. *"We set about at the beginning of FY20 to really push for organic growth. We have achieved that in 3 out of our 4 businesses and were on track to achieve this with 4 out of 4 until Covid-19 hit."*

Auto Retail has continued to grow retail market share and we have increased the numbers of "owned inventory" sold by 8% year-on-year but a reduction in consignment business and impact of Covid-19 has resulted in a small decrease in revenue. Finance revenues have grown as a result of directing Turners origination into Oxford. Insurance revenue has reduced due to the one-off impact of property sale in FY19 ($3.0m) and the further risk optimisation we are running through the portfolio. We expect consolidation in this industry and we note that during the GFC, the number of dealers reduced by around 15%. Turners is in a strong position to grow market share.

Reported NPBT was at $29.1m. This was in-line with guidance of $28- $30m and stable on FY19 NPBT of $29.0m. Net profit after tax (NPAT) was $21.0m (FY19: $22.7m). Underlying NPBT increased by 11% to $28.8m. This increase was driven by gains made in the Insurance, Finance and Credit divisions, partially offset by a small drop in Auto Retail due to Covid-19.

Reported earnings per share was down 8% to 24.4 cents per share largely reflecting a higher effective tax rate in FY20. Shareholder equity decreased to $223m (FY19: $226m) as at 31 March 2020.

[1] See slide 7 in Annual FY20 Results Presentation for reconciliation between reported and underlying profit.

Dividend

In March 2020 the Board deferred the Q3 dividend payment as a cautionary step due to the uncertainty surrounding the length of a L4/L3 lockdown. Now that we have April and May behind us and a better understanding of how business is tracking, the board have declared a final fully imputed dividend incorporating the Q3 deferred dividend of 6.0 cents per share resulting in full year dividends of 14.0 cps. The board believes this best ensures our ability to navigate the volatility and also the optionality to take advantage of any upcoming opportunities. Based on a FY20 payout of 14.0 cps (fully imputed) to shareholders this represents a gross dividend yield of 9.8% at an indicative share price of $1.98. The board's intention at this stage is to continue dividend payouts at the level of the current policy for FY21 which is 60-70% of net profit after tax.

COVID-19 Response

The Turners team has reacted in a positive manner through the pandemic. Our business was hit hard during April (57% drop in revenue compared to April 19). However, the business has recovered faster during May than our scenario planning suggested back in April. In April three out of four businesses were profitable and in May all four businesses were profitable. Group profit excluding the government wage subsidy was a loss of $424,000. In May this has improved significantly to $1.58m, and June overall is tracking ahead of June 2019 in almost every critical measure.

We have been grateful for strong levels of support from our team, our customers, our landlords and our business partners. The sudden change brought about by COVID-19 required dynamic planning and execution urgency. Set against the unprecedented backdrop of a high level of uncertainty, we identified the following priorities at the end of March:

1. Ensure the safety of our people and our customers
2. Ensure the business could survive and emerge from a 3 to 6 month lockdown
3. Avoid a dilutive capital raise event if possible
4. Position ourselves to take advantage of the opportunities that will eventuate

We are very pleased that the country has emerged from highly restricted lockdown and we have achieved our first 3 priorities. We are now focused on the opportunities to grow this business. We have been successful in reducing costs through rental relief, government wage subsidies, staff reducing work hours and using annual leave balances, travel and other expenditures. The used car market has shown considerable resilience in previous downturns and early indications are supporting this theme. We know customers will be more likely to trade with businesses who have a strong brand and reputation like Turners and we believe this is the time to build market share.

We will continue to de-risk the finance business, following a substantial improvement in credit quality over the last 2 years. Over and above our standard finance receivable provisions, an additional COVID-19 overlay of $1 million has been applied to mitigate any potential increase in credit losses over the next 12 months. With Insurance, we are focused on distribution and cost and claims management. In Credit Management we are focused on protecting and managing the reputations of our corporate customers like banks and government departments that we collect for.

Auto Retail (Turners Group): Revenue $224.9m +0%, Operating profit $13.8m -24% (FY19 $18.3)
Underlying Segment Profit $13.3m (FY19 $14.9m)

Turners' strategy of retail optimisation and the continued transition of wholesale to retail is continuing to deliver growth in retail market share. During all of FY20 we observed a softening of the used car market due to reduced consumer confidence and this decline was suddenly exacerbated during late February and March 20 due to the Covid-19 pandemic. There has been a cyclical reduction in consignment vehicles (down 26%) through the Turners business in FY20, however this reduction was somewhat offset by an increase in sales of owned inventory (up 6%) with average gross profits per unit up 12% to $529. FY19 results included a one-off property settlement gain of $3.4m.

We have a particular focus on optimisation of footprint. We have made some important decisions in regard to the Auckland footprint and will be leaving the main Penrose "supersite" in December 2020. Around the same time, we will bring on stream new retail sites in Westgate and Mt Richmond which will enable a better retail experience for our customers. Penrose was established as a wholesale auction facility twenty years ago and is no longer appropriate both in terms of a cost base or customer experience.

We have successfully integrated the Buy Right cars business into the Turners cars business over the year. We started with the brand consolidation early in FY20 and this has now been extended to core IT and operational systems which will enable further efficiencies.

BuyNow retail sales were down around 0.5% year on year, which considering the impact of Covid-19 we were pleased with. A new Dunedin branch at double the previous footprint, and new sites in Westgate and Mt Richmond should see further gains made in retail sales over the next 1-2 years, depending on the speed of recovery in the economy.

Damaged vehicle units were up 12% with some good gains from existing insurance vendors and the benefit from one-off events like the Timaru hail storm and flood damaged cars from Sky City.

Finance (Oxford Finance): Revenue $45.7m +4%, Operating profit $12.2m +10%
Underlying Segment Profit $12.1m (FY19 $10.3m)

The Finance business had an excellent year. This reflects our increasing focus on lending to higher quality borrowers. Operating profit increased 10% to $12.2m (FY19: $11.1m). We introduced 3 tier risk pricing in August 2019 which has enabled us to be much more targeted towards high quality borrowers and tighten up at the lower end of the quality range. Premium Tier risk now accounts for 11% of our total existing book and on a new lending basis and is around 30-40% of new lending each month. Instalment arrears on premium tier business is tracking at around 0.01% compared to Tier 2 instalment arrears at 5.6%.

The introduction of comprehensive credit reporting alongside negative reporting is proving to be a strong combination of data to help us profile borrowers.

The Turners Cars loan origination is going well and we are earning more margin in the group as a result of this. Turners Cars ledger is now up to $52m and is performing exceptionally well on lending quality metrics.

We also completed the strategic review process for Oxford during the year and whilst there was significant interest in Oxford Finance above the book value of the business, in the Board's view, the offers received did not fully reflect the intrinsic value of the business, both today and especially factoring in the planned organic growth. We are pleased to have such a strong annuity business within the group at this time and have funding and equity capacity to continue growing this business over the next few years.

Insurance (Autosure): Revenue $44.1m -9%, Operating profit $6.2m -25%
Underlying Segment Profit $6.2m (FY19 $5.2m)
Insurance revenue declined 9% to $44.1m (FY19: $48.5m), with General Gross Written Premium (GWP) down 7% to $36.8m as a result of market conditions and focusing on lower risk portfolios and vehicles. FY19 segment profit for insurance included a one-off property gain from sale of $3m.

Underlying profit increased 19% to $6.2m (FY19: 5.2m), due to continued improvements in risk pricing and reduction in claims loss ratios resulting from a new insurance [software] system, as well as procurement initiatives. The combined claims loss ratio for FY20 is 62% (FY19: 64%), while the MBI loss ratio is a 66% (FY19: 75%).

All originators are now transitioned to a new retail policy generation system and we continue to review dealers' portfolio performance for risk pricing. Our Reserve Bank Culture and Conduct Review work was completed with a number of initiatives implemented ensuring we are closer to end users and understand customer outcomes and experience in a more detailed way.

The distribution partnership announced with Heartland Bank and our respective brands, Autosure and MARAC is now implemented and working well. We are working on similar models of distribution with a number of other organisations which involved deep integration of our insurance system into their front end sales system. This is an area where we will continue to invest in.

Credit Management (EC Credit Control): Revenue $17.9m -1%, Operating profit $6.5m +3%
Underlying profit same as reported segment profit
Credit management revenue decreased by 1% to $17.9m (FY19: $18.2m). Reported Operating Profit up 3% to $6.5m (FY19: $6.3m). Although debt load was down 5% for the year to $225m, the debt collected was up 14% in FY20 to $67m driven mostly out of improved collections from Australian SME clients and Corporate NZ clients. Commission earned from debt collected increased 11% to $10.0m.

Our traction with customers connecting to ECCC via Xero and MYOB continues to gather momentum with over 420 customers connected now loading debt worth over $3m. We have been working closely with our large corporate customers to help manage their reputational risk with debt collection work during lockdown and we are expecting a significant increase in debt loaded from these customers in the medium term. We have already seen a lift in debt load over the last few weeks from SME customers.

Digital, Data and Disruption
The investment we are making in area of digital marketing and data will continue. We have several projects underway in the area of "lead management". This investment enables us to identify anonymous users on our website and be more targeted in subsequent communications with them. It also allows platforms like Facebook to match us with customers who match people already doing business with us.

We also implemented an automated digital communications project which allows a more strategic and targeted approach to people who are looking to buy or sell through Turners.

We are working on two major data projects which will help us in the area of pricing vehicles and identifying credit risk. Both these projects leverage "off-the-shelf" cloud-based data tools, including machine-learning. The proof of concept results are promising and we know there is a significant opportunity in vehicle purchasing to help identify and limit our "bad buys", as there is in the finance business with identifying and limiting our "bad lending".

Car subscription progress has naturally been impeded by Covid-19. We are working directly with Collaborate Corp (CL8.ASX) in Australia to get the subscription platform set up for NZ. We have now made the decision to brand the business under the Turners brand umbrella due to the high trust and strong brand value and recognition attached to the Turners brand. We expect Turners Car Subscription to be up and running in Q2.

FY21

As with many businesses there are many environmental unknowns that we will be operating in over the next 12-24 months.

Turners has outlined five strategic themes:

1. **Accelerate market share growth**

   Turners currently maintains ~6% market share of the used car retail transactions and will concentrate on increasing this through optimising existing branch networks, creating new consignment relationships, expanding its retail footprint, and taking advantage of market consolidation.

2. **Leverage the high trust Turners brand**

   Our scale offers multiple advantages, and trust will be even more important in the new economy. Turners has just received the *Readers Digest Winner of the Most Trusted Brand in the NZ Used Car Dealer* category. We plan to continue our focus on great customer experiences and outcomes and keep promoting and investing in helping people understand the strength in the Turners brand.

3. **Diversified business**

   Turners is diversified geographically and has the advantage of annuity and activity-based revenues. These were demonstrated during lockdown and will be proven in near to medium term performance.

4. **Digital advantage**

   A key differentiator is the Turners digital platform with #2 most visited auto website in the NZ (behind only TradeMe). We will continue to make material investment in technology, data and digital marketing.

5. **Balance sheet capacity supports growth**

   Turners are well positioned from a funding and capital perspective to take advantage of growth opportunities into the future. The board sees this as a strong comparative advantage.

Funding and Liquidity

Turners' funding capacity is currently $428m with $78m undrawn. 69% or $242m of this debt relates to finance receivables within Oxford Finance. During March BNZ increased the limit for the securitisation warehouse facility from $200m to $250m (including capital contribution from TRA) to provide the headroom for further growth in the finance book. The remaining 31% of debt ($108m) relates to borrowings associated with property, inventory and the $25m Bond program.

At 31 March 2020 we boosted our cash balances by pre-emptively drawing down on facilities to ensure sufficient liquidity through as we entered a Level 4 lockdown of uncertain duration. These precautionary drawings have now been repaid.

Outlook and Guidance

We expect some fallout within the dealer segment as the year progresses. Dealer numbers have been in decline for the last two years and we expect this decline to accelerate further over the next twelve to twenty-four months. We know this is a good time to be pushing hard for gains in retail market share.

At beginning of lockdown we modelled out three scenarios (Worst, Likely and Best). Pleasingly we are thus far tracking above the best case. April and May trading have been significantly better than what we expected as we moved through alert levels faster than originally anticipated. The benefits of laser focus on costs, rent reductions and wage subsidy have been material.

The value of having a diversified business both geographically and from a revenue stream perspective is of huge benefit. The offset of having annuity revenue businesses (finance and insurance) within the group are proving very valuable in turbulent times. Also the used car industry is a relatively good industry to be operating, given it is largely domestic focused and has demonstrated resilience during previous downturns.

Due to the level of unprecedented uncertainty in the economy it will be difficult to issue guidance for FY21. We will update over coming months with progress, and plan to give guidance once the macro environment plays out more clearly.

ENDS

About Turners

Turners Automotive Group Limited is an integrated financial services group, primarily operating in the automotive sector www.turnersautogroup.co.nz

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