

TURNERS AUTOMOTIVE GROUP LIMITED
Results for announcement to the market

Reporting Period	12 months to 31 March 2019
Previous Reporting Period	12 months to 31 March 2018

	Amount (NZD000s)	Percentage change
Revenue from ordinary activities	336,579	2% increase
Expenses from ordinary activities	(307,530)	3% increase
Profit before tax	29,049	-7% decrease
Taxation expense	(6,330)	-19% decrease
Net profit attributable to security holders	22,719	-3% decrease

Final Dividend	Amount per security	Imputed amount per security
	\$0.0500	\$0.0194

Record Date	9 July 2019
Dividend Payment Date	18 July 2019

Comments:	
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TURNERS AUTOMOTIVE GROUP LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	2019 \$'000	2018 \$'000
Revenue from continuing operations	328,358	325,047
Other income	8,221	5,423
Cost of goods sold	(133,126)	(137,332)
Interest expense	(14,952)	(14,344)
Movement in impairment provisions	(7,943)	(6,380)
Subcontracted services expense	(12,888)	(10,777)
Employee benefits (short term)	(52,756)	(51,911)
Commission	(14,581)	(12,107)
Advertising expense	(3,918)	(4,001)
Depreciation and amortisation expense	(5,785)	(5,627)
Property and related expenses	(10,945)	(10,644)
Systems maintenance	(1,471)	(1,822)
Claims	(26,804)	(32,021)
Life fund movement	(718)	(82)
Write off of intangible brand asset	(4,300)	-
Other expenses	(17,343)	(12,289)
Profit/(loss) before taxation	29,049	31,133
Taxation (expense)/ benefit	(6,330)	(7,773)
Profit for the year	22,719	23,360
Other comprehensive income for the year (which may subsequently be reclassified to profit/loss), net of tax		
Cash flow hedges	(364)	(170)
Foreign currency translation differences	(26)	2
Total comprehensive income for the year	22,329	23,192
Earnings per share (cents per share)		
Basic earnings per share	26.3	29.3
Diluted earnings per share	27.4	28.9

Included in other income is \$0.8m (2018: \$1.4m) resulting from unrealised gains on the revaluation of assets.

TURNERS AUTOMOTIVE GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	Share capital \$'000	Share options \$'000	Translation reserve \$'000	Cash flow reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 31 March 2017	168,809	208	(23)	6	2,716	171,716
<i>Transactions with shareholders in their capacity as owners</i>						
Capital contributions (net of issue costs)	30,339	-	-	-	-	30,339
Fair value options issued	-	493	-	-	-	493
Dividend paid	-	-	-	-	(11,417)	(11,417)
Total transactions with shareholders	30,339	493	-	-	(11,417)	19,415
<i>Comprehensive income</i>						
Profit	-	-	-	-	23,360	23,360
Other comprehensive income	-	-	2	(170)	-	(168)
Total comprehensive income for the year, net of tax	-	-	2	(170)	23,360	23,192
Balance at 31 March 2018	199,148	701	(21)	(164)	14,659	214,323
<i>Change in accounting policy</i>	-	-	-	-	(2,637)	(2,637)
<i>Transactions with shareholders in their capacity as owners</i>						
Capital contributions (net of issue costs)	13,388	-	-	-	-	13,388
Capital buy-back	(6,141)	-	-	-	-	(6,141)
Fair value options issued	-	326	-	-	-	326
Dividend paid	-	-	-	-	(15,214)	(15,214)
Total transactions with shareholders	7,247	326	-	-	(15,214)	(7,641)
<i>Comprehensive income</i>						
Profit	-	-	-	-	22,719	22,719
Other comprehensive income	-	-	(26)	(364)	-	(390)
Total comprehensive income for the year, net of tax	-	-	(26)	(364)	22,719	22,329
Balance at 31 March 2019	206,395	1,027	(47)	(528)	19,527	226,374

TURNERS AUTOMOTIVE GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Note	2019 \$'000	2018 \$'000
Assets			
Cash and cash equivalents	1	15,866	25,145
Financial assets at fair value through profit or loss	1	66,252	53,378
Trade receivables		12,471	11,323
Inventories		38,859	38,596
Finance receivables		290,017	289,799
Other receivables, deferred expenses and contract assets		10,685	11,747
Reverse annuity mortgages		8,294	9,997
Investment property		5,650	4,820
Property, plant and equipment		39,084	35,945
Intangible assets		166,734	170,982
Total assets		653,912	651,732
Liabilities			
Other payables		31,729	34,875
Financial liability at fair value through profit or loss		116	226
Contract liabilities		4,549	5,506
Tax payables		4,570	5,029
Derivative financial instruments		524	111
Deferred tax		13,918	18,786
Borrowings		312,863	317,373
Life investment contract liabilities		7,484	7,127
Insurance contract liabilities		51,785	48,376
Total liabilities		427,538	437,409
Shareholders' equity			
Share capital		206,395	199,148
Other reserves		452	516
Retained earnings		19,527	14,659
Total shareholders' equity		226,374	214,323
Total shareholders' equity and liabilities		653,912	651,732
Total assets per share (\$ per share)		7.53	7.69
Net tangible asset per share (\$ per share)		0.85	0.73

Note 1

The Group's insurance business is required to comply with the solvency standards for licensed insurers issued by the Reserve Bank of New Zealand. The solvency standards specify the level of assets the insurance business is required to hold in order to meet solvency requirements, consequently all cash and cash equivalents and term deposits, disclosed in financial assets through the profit or loss, held in the insurance business may not be available for use by the wider Group. DPL Insurance's cash and cash equivalents at 31 March 2019 were \$2.2m (2018: \$9.2m) and term deposits at 31 March 2019 were \$55.0m (2018: \$42.5m).

Cash and cash equivalents at 31 March 2019 of \$4.6m (2018: \$4.9m) belong to the Turners Marque Trust 1 and are not available to the Group.

TURNERS AUTOMOTIVE GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

	2019 \$'000	2018 \$'000
Cash flows from operating activities		
Interest received	45,023	41,925
Receipts from customers	278,645	281,031
Interest paid	(12,184)	(9,609)
Payment to suppliers and employees	(270,969)	(266,124)
Income tax paid	(10,752)	(5,824)
Net cash inflow from operating activities before changes in operating assets and liabilities	29,763	41,399
Net increase in finance receivables	(34,926)	(75,248)
Net decrease in reverse annuity mortgages	2,545	66
Net decrease of financial assets at fair value through profit or loss	(12,163)	(41,937)
Net (withdrawals)/contributions from life investment contracts	16	(5,765)
Changes in operating assets and liabilities arising from cash flow movements	(44,528)	(122,884)
Net cash (outflow)/inflow from operating activities	(14,765)	(81,485)
Cash flows from investing activities		
Proceeds from sale of property, plant, equipment, intangibles and held for sale assets	9,452	4,319
Purchase of property, plant, equipment and intangibles	(12,817)	(23,073)
Purchase of subsidiaries and investments	41	(3,754)
Net cash inflow/(outflow) from investing activities	(3,324)	(22,508)
Cash flows from financing activities		
Net bank loan advances/(repayments)	20,314	39,005
Proceeds from the issue of shares	7,100	29,656
Proceeds from the issue of bonds	(561)	-
Other borrowings	(2,837)	2,837
Dividend paid	(15,214)	(11,417)
Net cash inflow/(outflow) from financing activities	8,802	60,081
Net movement in cash and cash equivalents	(9,287)	(43,912)
Add opening cash and cash equivalents	25,145	69,069
Cash included with purchase of subsidiaries	-	-
Translation difference	8	(12)
Closing cash and cash equivalents	15,866	25,145
Represented By:		
Cash at bank	15,866	25,145
Closing cash and cash equivalents	15,866	25,145

TURNERS AUTOMOTIVE LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT)

For the year ended 31 March 2019

RECONCILIATION OF NET SURPLUS WITH CASH FLOWS FROM OPERATING ACTIVITIES

	2019	2018
	\$'000	\$'000
Profit or loss	22,719	23,360
Adjustment for non-cash items		
Impairment charge on finance receivables, reverse annuity mortgages and other receivables	7,943	6,390
Net (profit)/loss on sale of property, plant and equipment	(3,660)	(1,000)
Depreciation and amortisation	5,785	5,627
Capitalised reverse annuity mortgage interest	(846)	(869)
Contract liabilities	1,066	917
Financial assets at fair value through profit and loss	(799)	(1,139)
Net annuity and premium change to policyholder accounts	341	45
Non-cash long term employee benefits	330	516
Non-cash adjustment to finance receivables effective interest rates	(209)	109
Deferred expenses	3,109	(7,135)
Fair value adjustment on investment property	(830)	(820)
Fair value adjustment to contingent consideration	-	(2,845)
Write off of intangible brand asset	4,300	-
Adjustment for movements in working capital		
Net (increase)/decrease in receivables and pre-payments	(414)	1,009
Net (increase)/decrease in inventories	(263)	5,958
Net increase in current tax payable	(851)	1,881
Net increase/(decrease) in payables	(4,393)	9,761
Net increase in finance receivables	(34,926)	(75,248)
Net decrease in reverse annuity mortgages	2,545	66
Net decrease of insurance assets at fair value through profit or loss	(12,163)	(41,937)
Net (withdrawals)/contributions from life investment contracts	16	(5,765)
Net increase in deferred tax	(3,565)	(366)
Net cash inflow/(outflow) from operating activities	(14,765)	(81,485)

TURNERS AUTOMOTIVE GROUP LIMITED

SEGMENTAL INFORMATION

For the year ended 31 March 2019

OPERATING SEGMENTS

Revenue	Total		Revenue from external customers		Revenue from external customers	
	segment revenue	Inter-segment revenue	segment revenue	Total revenue	Inter-segment revenue	from external customers
	2019 \$'000	2019 \$'000	2019 \$'000	2018 \$'000	2018 \$'000	2018 \$'000
Automotive retail	228,672	(2,963)	225,709	226,434	(3,222)	223,212
Finance	44,193	-	44,193	39,747	-	39,747
Credit management	18,196	-	18,196	18,677	-	18,677
Insurance	49,206	(742)	48,464	46,923	-	46,923
Corporate & other	17	-	17	1,911	-	1,911
	340,284	(3,705)	336,579	333,692	(3,222)	330,470
Operating profit					2019	2018
					\$'000	\$'000
Automotive retail					18,274	16,550
Finance					11,112	11,735
Credit management					6,321	6,069
Insurance					8,227	3,645
Corporate & other					(14,885)	(6,866)
Profit/(loss) before taxation					29,049	31,133
Income tax					(6,330)	(7,773)
Net profit attributable to shareholders					22,719	23,360

	Interest revenue		Interest expense		Depreciation and amortisation expense	
	2019	2018	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Automotive retail	8,383	9,311	(4,206)	(4,767)	(2,457)	(2,351)
Finance	38,544	34,432	(6,596)	(5,829)	(413)	(348)
Credit management	9	12	-	-	(104)	(93)
Insurance	2,434	1,997	-	-	(2,746)	(2,767)
Corporate & other	17	22	(4,368)	(4,438)	(65)	(68)
	49,387	45,774	(15,170)	(15,034)	(5,785)	(5,627)
Eliminations	(218)	(690)	218	690	-	-
	49,169	45,084	(14,952)	(14,344)	(5,785)	(5,627)

Other material non-cash items	Revenue		Expenses	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Automotive retail - impairment provisions	-	-	(503)	(423)
Finance - impairment provisions	-	-	(7,436)	(5,929)
Insurance - Reverse annuity mortgage interest	846	869	-	-
Corporate & other - Write down of brand and collateral	-	-	(4,570)	-
	846	869	(12,509)	(6,352)

Segment assets and liabilities	Assets		Liabilities	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Automotive retail	132,839	152,006	88,065	115,071
Finance	276,356	253,832	216,996	188,217
Credit management	31,685	28,780	5,686	6,937
Insurance	135,001	124,358	73,293	69,213
Corporate & other	195,673	205,356	83,030	78,356
	771,554	764,332	467,070	457,794
Eliminations	(117,642)	(112,600)	(39,532)	(20,385)
	653,912	651,732	427,538	437,409

TURNERS AUTOMOTIVE GROUP LIMITED

SEGMENTAL INFORMATION (CONT)

For the year ended 31 March 2019

Acquisition of property, plant & equipment, intangible assets and other non-current assets

	Other	
	2019	2018
	\$'000	\$'000
Automotive retail	11,478	21,515
Finance	671	418
Credit management	135	140
Insurance	14,884	8,384
Corporate & Other	74	10
	27,242	30,467
Eliminations	(14,425)	(7,394)
	12,817	23,073

Automotive retail segment analysis

	Revenue			Revenue		
	Total	Inter-	from	Total	Inter-	from
	division	division	external	division	division	external
	revenue	revenue	customers	revenue	revenue	customers
	2019	2019	2019	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Auctions	46,536	(2,805)	43,731	41,655	(472)	41,183
Finance	17,111	-	17,111	14,711	(143)	14,568
Fleet	101,479	-	101,479	108,047	-	108,047
Buy Right Cars	63,546	(158)	63,388	62,021	(2,607)	59,414
	228,672	(2,963)	225,709	226,434	(3,222)	223,212

Operating profit

	2019	2018
	\$'000	\$'000
Auctions	5,975	3,410
Finance	7,927	5,724
Fleet	5,243	4,970
Buy Right Cars	(871)	2,446
	18,274	16,550

Division assets and liabilities

	Assets		Liabilities	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Auctions	45,182	44,395	17,330	24,038
Finance	43,877	66,294	36,328	60,133
Fleet	17,925	14,595	11,923	8,373
Buy Right Cars	27,937	28,549	23,084	23,045
	134,921	153,833	88,665	115,589
Eliminations	(2,082)	(1,827)	(600)	(518)
	132,839	152,006	88,065	115,071

Five reportable segment have been identified as follows:

Automotive retail - remarketing (motor vehicles, trucks, heavy machinery and commercial goods) and purchasing goods for sale (motor vehicles and commercial goods) and related asset based finance to consumers.

Credit management - collection services, credit management and debt recovery services to the corporate and SME sectors. Geographically the collections services segment business activities are located in New Zealand and Australia.

Finance - provides asset based finance to consumers and SME's.

Insurance - marketing and administration of a range of life and consumer insurance and superannuation products.

Corporate & other - corporate centre.

Note:

To ensure consistency, the prior year comparative segment assets and liabilities for Finance, Corporate and Eliminations have been regrouped to reflect the amalgamations undertaken in the current financial year.

Change in accounting policies

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make adjustments to opening retained earnings as a result of adopting the following standards:

- NZ IFRS 9 'Financial Instruments'; and
- NZ IFRS 15 'Revenue from Contracts with Customers'

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustment.

NZ IFRS 9 'Financial Instruments'

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39, 'Financial Instruments: Recognition and Measurement', that relates to the classification and measurement of financial instruments.

The Group has chosen not to restate comparative information and adjustments required by the application of the new standard have been made to the opening balance of retained earnings recognised in the Statement of changes in equity for the year ended 31 March 2019.

The Group's classification measure of financial assets and liabilities under NZ IFRS 9 remains largely the same as it was under NZ IAS 39.

Impairment

The adoption of NZ IFRS 9 has fundamentally changed the Group's accounting for impairment for financial assets by replacing NZ IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

NZ IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at Fair value in profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Group has calculated ECLs on 12 months of expected losses where there has not been a significant increase in credit risk and lifetime expected losses where there has been a significant increase. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain circumstances, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancement held by the Group. The adoption of the ECL requirements of NZ IFRS 9 resulted in increases in impairment allowances for the Group's Finance receivables. The increase in allowance resulted in (\$2,292,000) adjustment to retained earnings.

NZ IFRS 15 'Revenue from Contracts with Customers'

NZ IFRS 15 introduces a five step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contract with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling the contract.

The Group elected to apply the retrospective cumulative effect method, with no restatement of comparative period amounts. The cumulative effect of applying the new standard is included as an adjustment to the opening balance of retained earnings recognised in the Statement of changes in equity for the year ended 31 March 2019.

The Group's revenue recognition policies remain largely the same with the following exception:

Sales of service- Collection income

The Group has concluded that collection income should be recognised when the service is rendered. The adoption of NZ IFRS 15 has impacted the timing of when some collection income and the related costs are recognised resulting (\$273,000) adjustment to opening retained income.

Motor Vehicle Insurance (MVI) Commission Income

The Group has used the portfolio approach to account for contracts of the same nature. It has been assessed that MVI commission income should be recognised over the policy term. The adoption of NZ IFRS 15 has impacted the timing of when MVI Commission Income should be recognised resulting in a (\$72,000) adjustment to retained income (net of deferred tax).

Summary of NZ IFRS 9 and NX IFRS 15 adjustment to opening retained income:

	\$'000
Balance at 1 April 2018	14,659
<i>NZ IFRS 9 adjustments:</i>	
Change in impairment	(3,184)
Deferred tax	892
<i>NZ IFRS 15 Adjustment</i>	
Change in collection income	(617)
Change in collection expenses	349
Change in MVI commission income	(100)
Tax payable	3
Deferred tax	20
Adjusted balance at 1 April 2018	12,022