



Shareholder News

October 2018

Welcome to the second edition of our new Shareholder Newsletter. This October issue includes news and stories from each of our business divisions, as well as an introduction to our new Director and the head of our EC Credit Control business.



CEO UPDATE

Dear Shareholder

The 2019 financial year has started well and we are making good progress on our business objectives. It was great to meet a number of our shareholders on our inaugural Retail Shareholder Roadshow and be able to share more details around our business and our aspirations. Feedback was very positive and we intend to include this as a regular part of our investor relations programme.

Last year was about integrating our businesses after a period of sustained growth and expansion, simplifying our brands and developing common operating and funding platforms. The building blocks are now in place and this year we are focused on growing our market share across all the sectors we operate in. While we will still consider mergers and acquisitions where they make strategic sense, the majority of our short to medium term growth will come from within the group.

In line with this, we have been investing into expanding our retail network, opening new branches, and relocating and refurbishing existing branches to ensure we offer the best possible retail experience.

Organic growth is coming from our Damaged and End of Life offer, and as we have signed another agreement with a large insurance brand to dispose of damaged and end of life vehicles on their behalf.

We are also building our share of the finance market and are focused on higher quality lending. Impairment levels for MTF recourse loans have been higher than anticipated and we have introduced stricter lending criteria. While this has

seen the volume of loans drop off, we expect to see quality improve and will continue to monitor this carefully.

In another move, since September 2018, all loans originating through Turners Cars are now being directed into Oxford Finance. This will see circa \$4 million a month redirected away from MTF to Oxford, with the benefit to the wider group meaning more margin and an increase in fee revenue.

Quality is also an important focus for our insurance business and we are currently undertaking a review to identify further opportunities for claims efficiencies. We believe we can reduce the cost of our insurance operations through the use of fintech and are integrating our insurance products into our AutoApp digital finance selling platform. This will make it easier for dealers to transact both insurance and finance products through the one system.

Having a strong funding portfolio in place is an essential part of our business. The banking syndication finalised in May is providing more headroom for business growth, particularly for our finance book. We have also recently announced a fully subscribed \$25 million, three year bond offer to replace the existing programme which matured at the end of September. Pleasingly, 50% of existing bondholders opted to convert their proceeds into shares in Turners, reflecting their confidence in our growth strategy.

Todd Hunter
Chief Executive Officer
Turners Automotive Group

COMPANY HAPPENINGS

INAUGURAL SHAREHOLDER ROADSHOW

During July 2018, we had the pleasure of meeting many of our shareholders as we undertook our first Retail Shareholder Roadshow. Following requests, we expanded the original seven locations to nine city centres. Shareholders were invited along to the local Turners' branch to meet CEO Todd Hunter, CFO Aaron Saunders and other management. It provided an opportunity to share more about the Turners' eco-system and wider New Zealand car market, our strategies to grow each part of our business and the results and highlights from the 2018 financial year. The turnout was great and we had many interesting and valued discussions with our shareholders. Given its success, the Roadshow will now be a regular part of our annual Investor Relations calendar.

CONVERSION OF BONDS & NEW BOND OFFER

Bonds remain an important part of our funding portfolio, providing additional debt capacity to fund future business opportunities and offer some diversity to our bank arrangements. The existing convertible bond programme matured at the end of September and bondholders had the option of converting these into fully paid shares or redeeming them for cash. Pleasingly, bondholders have elected to convert 50% of bonds into shares. This reflects the market confidence in the group's strategy, further strengthens Turners' capital position and will support growth initiatives across the Group.

Turners has announced a new \$25 million, three year bond offer which has been fully subscribed.

[Read the announcement here.](#)

Given Turners has recently raised equity, the company chose to offer secured subordinated bonds, with substantially similar features to TRAHB bonds, but no equity conversion option and a longer term (3 years). Pleasingly 81% of the monies received were from new bondholders.

TURNERS DECLARES HIGHER QUARTERLY DIVIDEND

The Board has declared the first quarterly dividend for the 2019 financial year of 4 cents per share, fully imputed, with a record date of 23 October 2018 and a payment date of 30 October 2018.

In addition, the Board has advised that it expects to declare a further two quarterly fully imputed dividends of 4 cents per share in January and April 2019, followed by a fully imputed final dividend of 5 cents per share in July 2019.

Chairman Grant Baker said: "We are targeting a minimum FY19 full year dividend of 17 cents per share (up 10% on FY18). Based on a share price of around \$2.90, this represents an annualised yield of 5.9% fully imputed."

This dividend payment profile is consistent with the Company's policy of paying dividends totaling 50% to 60% of Net Profit After Tax to shareholders and enables the company to balance the twin objectives of providing consistent dividend returns to shareholders and ensuring sufficient profits are re-invested in the business".

Projected Dividends (fully imputed)

October 2018, December 2018, April 2019	4.0 cps
July 2019	5.0 cps
Total Projected Dividends for FY19	17.0 cps



INTRODUCING: NEW DIRECTOR, MARTIN BERRY

Having Directors with relevant industry, commercial and governance skills is essential for the continuing success of the Turners group. Diversity of thought and experience is also taken into consideration by the Board when reviewing Board membership.

We currently have Directors with hands on experience in the finance, insurance and debt management sectors, as well as Directors with expertise in governance, sales and marketing and international markets. We have high ambitions for our company and believe that an entrepreneurial mindset is important to achieve our aspirations and add value for shareholders.

The latest addition to the Turners' Board is Martin Berry, a seasoned global financial services executive and entrepreneur. Martin has run large international businesses for the likes of ANZ, Citibank, Barclays and Standard Chartered, and more recently has focused on entrepreneurial ventures. He has a successful track record of having built, acquired and sold several companies with values in excess of US\$100m. He later founded and now runs venture capital firm Brandhaus Capital Partners out of Singapore, investing across the region with a strong focus on fintech.

Martin's experience in the financial services sector, combined with his entrepreneurial acumen, will be a real asset to the group. He has a strong focus on technology and new opportunities and access to networks and opportunities throughout the Pacific and Asian region.

Martin's appointment was confirmed at the recent Annual Shareholders Meeting.

AUTOMOTIVE RETAIL

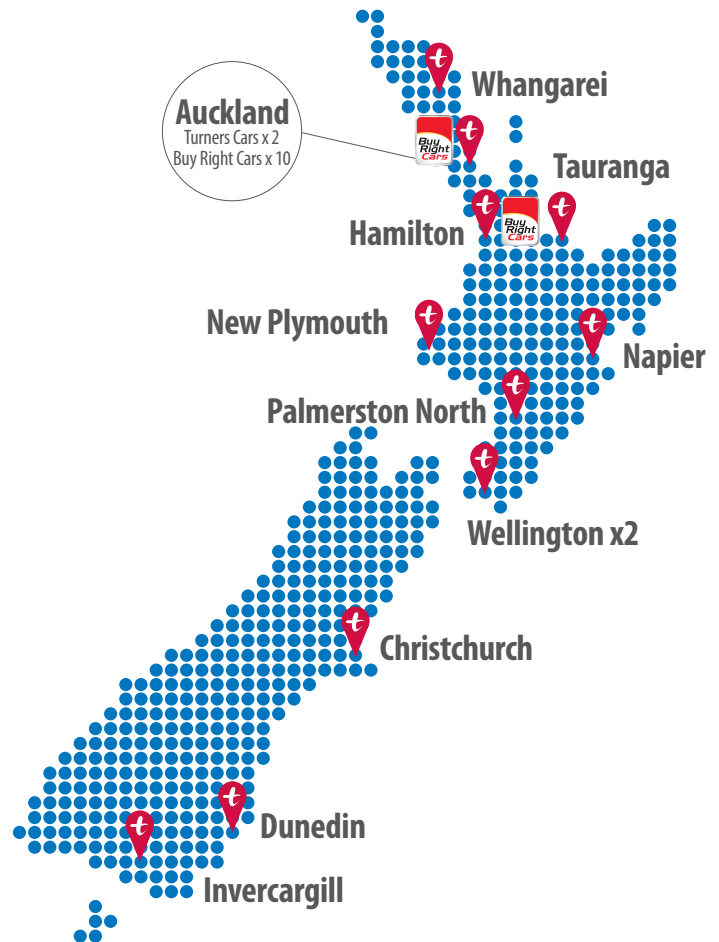
EXPANDING OUR RETAIL FOOTPRINT

While the number of customers researching and buying online is growing, the majority of buyers still prefer the “in-person” experience. Being able to view different cars on offer, take them for a test drive and buy in-person remains the preference for most people. Ensuring we have retail sites in strategic locations across the country is a significant advantage for our business and will be a key enabler of growth moving forward.

We currently have 13 Turners Cars sites and 11 Buy Right sites and are investing into new sites, relocations and refurbishments to ensure we are in the right places and can offer the best possible retail experience. Having our own retail network also opens up additional opportunities for profit contribution from the sale of finance and insurance products.

PROPERTY ACTIVITY 2018 TO DATE

- Porirua – Turners Cars branch relocated from Seaview.
- Whangarei – land acquired in high retail zone, existing branch to be relocated in Jan 2019.
- North Shore – land acquired in Wairau Valley to relocate Turners Albany branch.
- New Plymouth – acquired lease for new Turners branch to open in this new regional market for the business, in the second half of 2018.
- Wellington City – second Turners branch in Wellington due to open in 2018.
- Napier – extension and redevelopment of existing Turners site.
- Penrose – new Buy Right cars site.
- Hamilton – Opening of Buy Right Cars site. First expansion outside of Auckland.



Buy Right Cars has opened its first branch outside of Auckland, in Hamilton, right across the road from the mega mall The Base. The new site is small, but that's temporary until the new 5,000m2 site opens just down the road.

From left: Trevor Jans - Branch Manager and Lucas Roslin - Group Sales Manager.

BUILDING OUR SHARE OF THE END OF LIFE VEHICLE MARKET



Hot on the heels of the long term agreement with Suncorp Insurance, Turners has signed a three year commercial agreement with Tower

Insurance. Turners are now managing the logistics and sale of damaged vehicles that have been written off by the Tower insurance brand.

While only a small part of our business, the potential in this sector of the market is significant. Not only can we sell older and damaged cars at the end of their life, but we can also help customers find newer used vehicles to replace them.

Over 156,000 vehicles were written off or removed from the road in New Zealand in the past year and with almost 30% of New Zealand's 3.7 million light vehicle fleet being 20 years old or more, the number of vehicles being scrapped is accelerating.

As one of New Zealand's leading insurers, Tower has a significant number of vehicles that are written off each year that will now be sold through Turners' Damaged and End of Life vehicle auctions.

"Selling written-off vehicles through the Turners partnership will allow us to reduce claims costs, which ultimately means we can pass these savings on to our customers."

Glenys Talivai

Tower's GM Customer Acquisition, Retention and Claims



FINANCE AND INSURANCE

INSURANCE RATING REAFFIRMED AS B+

The Reserve Bank of New Zealand requires all insurance companies to undertake an independent credit and insurance rating as part of the requirements for holding an insurance license.



In line with this, A.M. Best, the world's oldest and most authoritative insurance rating and information source, has recently affirmed Turners' insurance division rating with a Financial Strength Rating of B+ (Good) and the Long-Term Issuer Credit Rating of "bbb-". The outlook of these Credit Ratings (ratings) is stable.

This is a strong rating and we are pleased to have it confirmed by A.M. Best. They have also said that, in FY19, they expect Turners' insurance business to exhibit lower expense ratios, as it benefits from economies of scale and a greater premium base to spread fixed costs over following the acquisition.

Going forward, stronger underwriting performance is expected to drive a greater balance of earnings. It has also said that the insurance division's ownership and affiliation with parent, Turners Automotive Group Limited, which is the largest retailer of motor vehicles in New Zealand, provides good access to business and creates a valuable distribution network.



DPL Insurance Head Office
28 The Warehouse Way
Northcote, Auckland



DEALER LOYALTY REWARDED WITH SHARE SCHEME

More than 80% of our finance and insurance business comes from our network of referrers – car dealers and insurance brokers who refer customers to Oxford Finance and Autosure Insurance during the vehicle purchase process.

This is a very important customer group for us and earlier this year, we initiated a Dealer Share Scheme, with Turners' shares issued to our largest and most loyal referrers. Incentives like this create a strong sense of ownership from the dealer channel and it is also a unique offer from a competitive position.

NEW BRAND ROLL OUT ACROSS NEW ZEALAND

A rebranding is being rolled out across the country, following the consolidation of all the finance businesses under the Oxford Finance brand. The latest facility to be rebranded is the office in Levin, which has great road frontage and some impressive signage now on display. It's certainly the talk of the town and looks very smart.

As part of the consolidation, all finance originated through the Turners business is now being directed into Oxford Finance, with more than \$4 million in new loans expected to be redirected from MTF to Oxford Finance each month.



DEBT MANAGEMENT

EC CREDIT CONTROL ENCOURAGES BETTER TERMS OF TRADE TO PROTECT SMES

One of the primary services offered by EC Credit Control (ECCC) is the preparation of customised Terms of Trade for businesses. Having these in place provides the best chance of success against even the most difficult debtors.

ECCC's data shows that clients with good Terms of Trade documentation have a greater chance of collecting outstanding or overdue debt. Worryingly however, in New Zealand, around 30% of ECCC's clients have no Terms of Trade, indicating a lack of robust credit management in the SME sector. In Australia it's even worse, with around 50% of clients falling into this category.

Australian SME clients also have a higher appetite for risk, with the average debt value approximately 40% higher than in New Zealand. This combination of a high percentage of SME businesses with inadequate or no terms of trade in place to protect them, along with an apparent appetite to carry a larger financial risk, reflects recent market statistics; specifically that both cash flow and late payments have hit their worst numbers this financial year for small businesses.



More clients are turning to ECCC to recover their debt, with the average debt load increasing in both Australia and New Zealand, particularly in construction related industries where materials, transport and labour costs are hugely variable. In New Zealand, average debt loads are up 20%, highlighting the importance of SME businesses putting robust Terms of Trade in place to protect their overall exposure during high growth periods.

[Watch the video link here.](#)

MEET THE TEAM

**INTRODUCING
DAVE WILSON**
CEO EC Credit Control



I started with ECCC in 2007, initially as NZ Corporate Sales Manager to help establish the corporate portfolio. In 2013, we turned our sights to the Australian market and I took over responsibility for the sales teams in both countries. In 2015, after the sale of ECCC to Turners, I took up the role of CEO of the business.

We still have a big focus on new business development and building the debt load from existing clients. I've been in the industry for a long time so most people know who I am and ECCC has an enviable position, especially in NZ, in the corporate collections space. Being in sales most of my life, there is nothing better than bringing on board a new, large corporate client – to this day, it's still one of the highlights of my work life.

This year, we're mainly focused on developing our Australian business and making the ECCC brand as recognisable in Australia as it is in New Zealand. We're building our corporate sales team in Australia and leveraging the great relationships we have with our NZ clients to gain a foot in the door with their business in Australia. Culture is also a focus this year. Collections can be a very thankless job, so we need to make sure our people feel appreciated and rewarded.

The biggest reward is being able to assist clients to transform their business and get themselves into a best practice position. Without cash you can't run a business, so we are there to assist anyone who is prepared to listen and take on board the advice we give them.

Business wise, I want to take ECCC to be a \$50 million turn over company and whilst this will take a lot of hard work, I believe with the right people around me this is achievable.

Outside of work, I'll give any sport a go. At the moment I'm actively involved in golf (8.6 handicap), squash (graded B1), indoor netball, cycling and have a large section which means lots of gardening and building outdoor masterpieces. I am also a bit of a rum connoisseur and have around 20 different varieties of rum in the scullery. I believe life is all about having a balanced approach, making sure you have time for what you want to do.

ABOUT TURNERS AUTOMOTIVE GROUP

AN INTEGRATED AUTOMOTIVE FINANCIAL SERVICES GROUP

Helping retail and wholesale customers in three key areas:



AUTOMOTIVE RETAIL

Controlling the buying and selling of second hand cars, trucks and machinery to earn a transactional margin and delivering cross-sell opportunities for Finance and Insurance

Turners is the largest second hand vehicle retailer in New Zealand



FINANCE AND INSURANCE

Helping customers with simple and attractive finance and insurance products, and building annuity revenue streams

Turners has a portfolio of reputable businesses offering finance and insurance products to customers across New Zealand, including personal, motor vehicle loans and insurance



DEBT MANAGEMENT SERVICES

Helping businesses of any size in New Zealand and Australia with better management of their credit challenges

Turners has a growing presence in the debt management sector in both New Zealand and Australia through its EC Credit business

SHAREHOLDER COMMUNICATIONS GO ELECTRONIC

We encourage our shareholders to receive communications from us by email. This may include the annual report, share transaction statements, dividend payment advice, shareholder meeting notices and other company related material.

It's simple to sign up. Email enquiry@computershare.co.nz, provide your CSN/ shareholder number and confirm you want to receive Turners Automotive Group communications by email.

Alternatively, you can log in to www.investorcentre.com/nz and update your details. For first time users, you will need your CSN/shareholder number and FIN to access the Investor Centre and register your account. Going forward, you will access this service with your own User ID and Password.

While there, you can also update other details including change of address, banking instructions and IRD number.

STAY UP TO DATE WITH TURNERS eNEWS

You can also register to receive news and updates from Turners as we release them to the market.

To sign up, scan the QR code here or visit our website to subscribe.



Turners Automotive Group, Level 15, 34 Shortland St, Auckland 1010
Phone: 0800 100 601 | info@turnersautogroup.co.nz
www.turnersautogroup.co.nz

KEY DATES

Half Year End:

30 September 2018

Interim Results Announced:

By end-November 2018

Interim Report:

By end-December 2018

Quarterly Dividends paid in:

April, July, October, January

CONTACT US

INVESTORS

www.turnersautogroup.co.nz

RETAIL

www.turners.co.nz

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www.oxfordfinance.co.nz

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www.autosure.co.nz

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