29 May 2017

## TURNERS DELIVERS RECORD FULL YEAR RESULT

For the year ending 31 March 2017

Integrated automotive financial services group, Turners Automotive Group Limited (NZX:TRA, Turners), has delivered a 13% increase in net profit after tax to $17.6m as it reports strong growth for the year ending 31 March 2017.

Net profit before tax was $24.6m, up 14% on the prior year, slightly ahead of the company's March 2017 guidance.

Revenue for the year was up 48% to $252.4m. Recent acquisitions, growth in automotive retail, and growth in the finance and insurance books have positively impacted on the revenue mix, with an increasing percentage of annuity income from finance and insurance contracts providing additional consistency and security of earnings.

The acquired businesses of Pacific Life and Buy Right Cars both contributed during the period. Contributions from the Autosure Insurance business will flow from the start of FY18 following Reserve Bank approval in late March for the transfer of policies and integration into the Turners' portfolio.

Shareholder equity at 31 March 2017 was $171.7 million, up 32% on the previous year (FY16: $129.8m). The increase was primarily due to Turners bondholders showing confidence in the company performance and direction by converting $17.5m (75%) of $23.2m 2014 Bonds to equity, and the subsequent capital raise in October 2016 of $13.4m.

The securitisation programme is now fully implemented and operating, with credit approval for an initial $150m limit from BNZ currently drawn to $87m, with the balance of the finance book funded by a mix of bank and equity funding. The securitisation programme has been a significant project for Turners and will reduce the cost of funds, provide headroom for finance growth and strengthen Turners' funding base for its finance business. The full benefits of the securitisation programme will be realised from FY18.

Based on the ongoing positive performance of the group, the Board has declared a final quarter fully imputed dividend of 4.5 cents per share, taking full year dividends to 14.5 cents per share, up from 13.0 cents in FY16. This is in line with the Board's divided policy of a pay-out of between 50% and 55% of underlying tax paid profit. The FY17 dividends have been fully imputed, whereas earlier dividends were not imputed.

The results to 31 March 2017 have been audited by Staples Rodway, who expect to give an unmodified opinion on the financial statements.

**Trading Performance**

CEO of Turners, Todd Hunter, said: "It has been another pleasing and positive year for our company, with continuing growth coming from both acquisitions and by leveraging organic growth opportunities in each business. Our share of the automotive sector continues to grow and allowed us to take advantage of a buoyant market of used car sales in New Zealand."

Turners operates through three divisions – Automotive Retail, Finance and Insurance, and Debt Management Services. The group is benefitting from its vertically integrated business model, which promotes the sale of insurance and finance products, primarily to the motor vehicle industry where it has its own retail operations providing control over customer origination.

**Automotive Retail** delivered a 64% increase in revenue to $193 million and achieved an operating profit of $15.4m for the year, an increase of 54% (including a revaluation increase of $0.7m in the MTF shareholding). The division consists of two businesses, Turners and Buy Right Cars (which was acquired at the end of July 2016). Both businesses are performing strongly with Buy Right Cars performing above expectation, and starting to originate a strong flow of consumer loans into the finance division.

In the Turners business, increased numbers of vehicles are selling to retail customers rather than dealers, creating better opportunity for add-on sales of finance and insurance. The percentage of 'fleet' vehicles purchased and on sold by Turners has increased to approximately 50% of transactions, up from 15% three years ago, generating better margins and more finance opportunity. Further retail business acquisitions are expected as Turners looks to grow its share of the second hand vehicle market.

Turners has invested further into its growing Trucks and Machinery business as it looks to build a specialised retail network, replicating the success it has had in the car market. An additional two sites have been established (Tauranga and Palmerston North), and a new lease is about to be signed in Hamilton. These add to Turners' existing dedicated Trucks and Machinery locations in Auckland and Christchurch.

The **Finance** division delivered revenue of $26.8m, an increase of 10%, with operating profit of $10.2m, 4% ahead of last year. The majority of the finance book is lending for vehicle loans to customers, arranged both directly and through motor vehicle dealers. A conservative approach to a growing loan book has been adopted with lower risk, lower margin lending. Establishment of the non-recourse lending partnership for Motor Trade Finance (MTF), which was officially launched in a staged rollout from December 2016, is building quickly, with over $16m in loans written at the end of March. The partnership with MTF significantly increases the company's reach into the motor vehicle finance sector and provides access to a number of new lending opportunities for all parties. The result benefited from a $500k revaluation of the Worsley Road Christchurch investment property. Impairment provisions are in-line with FY16 after taking into account the prior year's reduction in the Worsley Road loan provision of $1.0m.

The **Insurance** division delivered revenue of $13.7m an increase of 49% over prior year (this excludes Autosure, which contributes from FY18). Turners has a number of insurance brands, which provide mechanical breakdown and motor vehicle insurance, as well as life and other non-life insurance products. The growth in gross written premium and new policy sales has continued for the fifth year in a row; and sales of mechanical breakdown and motor vehicle insurance now exceed 1,000 policies per month (500 per month FY16).

Despite the increase in policies sold, operating profit for the insurance division decreased year on year. The low and stable interest rate environment has caused a significant negative impact on life insurance reserves, which will unwind as interest rates increase. There has also been an increase in claims costs in the general insurance products. Claims ratios were unusually low during FY16 (32%) whereas claims ratios experienced in FY17 are in-line with market norms (59%).

The Autosure Insurance acquisition, including the Autosure brand, mechanical breakdown and payment protection insurance portfolios, was finalised as at 31 March 2017. The acquisition provides much needed scale for the insurance group, and simplifies the insurance business from an underwriting perspective. Integration into Turners' portfolio is now complete, following approval from the Reserve Bank of New Zealand at year end for the transfer of the existing policy portfolio to Turners. The business is expected to contribute EBITDA of approximately $5.5m for the FY18 year, with additional synergies expected to arise from utilisation of the Autosure repairer network by Turners' existing insurance business and from cross selling of insurance and finance to an extended dealer network and customer base.

The **Debt Management** business EC Credit Control is continuing to grow its market share in both New Zealand and Australia, with a number of new corporate and SME clients won during the year. The focus on loading higher quality debt has resulted in lower debt loads but more debt collected (up 9.4% YoY). Results were slightly up on last year, with revenue of $19.1m for the year, and operating profit of $6.2m. (This result includes a release of $1.1m from unredeemed vouchers liability compared to the $1.8m release in FY16).

**Corporate costs** are impacted by acquisition costs and reflect the increase in interest incurred on acquisition funding. The FY17 result is also impacted by the elimination at corporate level of $535k of finance commissions for loans referred by Turners' Automotive Retail businesses. With third party referrers the commission costs are amortised over the life of the loan, whereas with internally originated loans the commission costs are effectively expensed in the month the loan is originated.

**Outlook**

Continuing growth is expected in FY18 as Turners looks to build its market share, particularly in the automotive retail sector, through both M&A and organic growth within each business.

CEO, Todd Hunter, said: “We have a proven track record in successfully acquiring and integrating value accretive businesses into our portfolio. We will look to continue this in FY18, with a number of M&A opportunities under consideration. We are also actively looking for organic growth opportunities, by developing innovative products and services, running our businesses well and delivering value to our customers. The Cartopia online retail channel and the MTF non-recourse partnership are good examples of this.

“A number of important initiatives that will continue to add value were undertaken in FY17 to further strengthen our company. We are well positioned for continuing growth and the delivery of shareholder value.”

As previously advised, Turners is undertaking a foreign-exempt compliance listing on the ASX in FY18, providing it with access to a larger capital market to support its growth strategy.

ENDS

**About Turners**
Turners Limited is an integrated financial services group, primarily operating in the automotive sector.
www.turnerslimited.co.nz

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