Company Announcement
29 May 2018

TURNERS DELIVERS 33% INCREASE IN PROFIT AFTER YEAR OF INTEGRATION AND GROWTH

TRA Full Year Result for the 12 months ended 31 March 2018

Turners Automotive Group Limited (NZX/ASX:TRA) has delivered a strong 33% lift in net profit after tax to $23.4m as it benefits from acquisitions and its integrated offering in the automotive sector.

A full year of contribution from strategic acquisitions helped to boost the result, with Turners moving to focus on organic growth and synergy benefits after a period of sustained acquisition growth. Net profit before tax was $31.1m, at the top end of earlier market guidance and represents a 26% increase on the prior year. Guidance for FY19 has been set at $34m to $36m net profit before tax (a mid-point increase of 13% on FY18).

Revenue was up 31% to $330.5m positively impacted by both the Buy Right Cars and Autosure acquisitions, and the organic growth from Turners focus on retail and the growing finance book.

Shareholder equity as at 31 March 2018 was $214.3m (FY17: $171.7m) and reflects the $30m capital raise in October 2017. The additional capital provides Turners with funding to support the continued organic growth across the business as well as a ‘war chest’ for additional growth initiatives including strategic acquisitions and property expansion.

Turners’ funding platform has recently been strengthened with the successful completion of a banking syndication with ASB and BNZ replacing previous facilities held largely with BNZ. The new arrangement significantly simplifies the debt structure, provides more funding headroom and further diversifies the funding base of the group. Importantly the new structure will enable a higher proportion of cash from operations to be directed into growth initiatives due to the shift from amortising debt to committed longer term debt. The company is also in the process of re-negotiating pool parameters with BNZ on the Securitisation Warehouse. “Both ASB and BNZ have been extremely supportive and have indicated appetite to extend further credit as and when required to support Turners’ growth” said CEO Todd Hunter. “We highly value the strong long term relationships we have had with both banks over many years.”

Based on the ongoing positive performance of the group, the Board has declared a final quarter fully imputed dividend of 5.0 cents per share, taking full year dividends to 15.5 cents per share, up from 14.5 cents in FY17. Directors have also adopted an enhanced dividend policy with an increase in the payout ratio to 50% to 60% of NPAT.

Chairman of Turners, Mr Grant Baker, said: “We are pleased to deliver another year of record results and increasing value for our shareholders. Kiwis love their cars – more than 1.1 million transactions took place in the last year alone – and we expect the demand for second hand vehicles to continue, whether that be today’s internal combustion engines or the electric vehicles of the future.

“Going forward, we will continue to build on the strength of our existing businesses, offering more products and services to more customers across more channels. Our company is well funded and well positioned to continue growing, cementing our unique position as an integrated automotive group and delivering increasing value for our shareholders."

The results to 31 March 2018 have been audited by Staples Rodway, who expect to give an unmodified opinion on the financial statements.

Trading Performance

Turners operates an integrated business helping retail and wholesale customers across three divisions – Automotive Retail, Finance and Insurance, and Debt Management Services. This provides a number of advantages, from the ability to offer an end-to-end customer journey and higher margin transactions in controlled channels, through to better customer relationships, diversification of earnings and a balanced mix of annuity and transactional revenue.

This year, management have deliberately focused on integrating acquisitions and driving organic growth after a period of sustained growth by acquisition. This integration included simplifying brands to allow for better marketing and promotion; merging teams to improve collaboration; building common operating and funding platforms; and continuing to improve systems and processes to ensure the company operates as efficiently as possible in delivering a great customer experience.

The expansion and development of Turners property footprint is opening additional opportunities for profit contribution. New sites are being targeted and a number of "retail reconfiguration" projects are underway to support organic growth and drive improved retail experience. We have completed 2 significant projects (value circa $16m) in the last 12 months in Porirua and Wiri. We are also able to improve insurance division returns by allocating a proportion of growing insurance reserves to support the auto retail property expansion and assist in better utilisation of capital in the business.

Trends in the used vehicle market remained positive during FY18, despite some softening earlier in the year during the elections and dealing with the Stink Bug and Takata Airbag Recall in the latter part of the year. Year on year, sales were up across the industry for all used vehicle groups – cars, trucks & machinery and damaged & end of life vehicles.

With a tight labour market and requirements for more resource Turners are working hard to make sure they are an employer of choice and will continue to attract the right sort of people. We continue to measure and focus on improving employee engagement, a commitment to ongoing workplace diversity, building a culture of developing people and promote from within.

Automotive Retail (Turners Group and Buy Right Cars) is the largest contributor to the group, generating 68% of revenue and 41% of operating profit. Revenue was $223.2m, up 16% on prior year, while Operating Profit was $16.6m, an increase of 8%.

Turners Group has delivered another outstanding result with operating profit up 15% on prior year off revenue growth of 10%. The ongoing transition from wholesale to higher margin retail customers continues, with 70% of transactions now with retail customers (65% in FY17). These sales provide more opportunities to sell finance and insurance contracts. In addition, the percentage of 'owned' vehicles – those purchased and onsold by Turners – increased to 50% of transactions, up from 15% four years ago. These retail sales also generate better margins and more lending opportunities.

Buy Right Cars had strong revenue growth up 34% from a full year contribution, however operating profits were down 21%. Turners took over the management of Buy Right Cars in September 2017 from the vendor, a year earlier than expected. We have had a new management team in place since November 2017 and they are dealing competently with some legacy issues around aged inventory. The earnout payment to the original owners has been adjusted accordingly and is working as intended. The Board and management remain very confident about further growth prospects of the Buy Right Cars business.

Today, the company is pleased to announce a new partnership with Auto Super Shoppe to provide services, repairs and maintenance for vehicle owners. Auto Super Shoppes has a network of 83 workshops located right throughout New Zealand and are the ideal partner for the new Turners Service offering. The service products will be rolled out through the Turners Cars branches over the next two months, fulfilled through the Auto Super Shoppe network.

The **Finance** division delivered a 48% lift in revenue to $39.7m and a 16% increase in operating profit to $11.7m. The finance book grew 39% to $239.0m. The primary focus for the year was amalgamating the separate finance businesses under the Oxford Finance brand and establishing a single operating platform. From H2 FY19, Turners Finance loans will be redirected into Oxford Finance in another step towards deeper group integration.

Credit criteria continues to be tightened to position the business for the inevitable downward shift in the credit cycle. There has been some arrears deterioration, most noticeably in the MTF non-recourse book as this loan book seasons. The performance of the loans written by originators in the first 12 months have disappointed both MTF and ourselves. This has resulted in a tightening of the credit criteria and change to the customer on-boarding process which has reduced loan volumes but significantly improved the quality of new lending.

Insurance revenue grew almost 300% to $46.9m and operating profit increased by over 500% to $5.7m, mainly due to the acquisition of Autosure in 2016 which provided a step change in the scale of the business. As with finance, the focus has been on combining multiple businesses into one insurance brand, Autosure. Significant progress has been made in integrating brands including moving to new premises. Migrating to a new front end retail system will be the final step in this large integration project and this will be completed in the latter part of FY19. We have also implemented a number of risk and product pricing initiatives over the FY18 year to ensure we are pricing correctly for risk in a changing market. The number of gross written policies and new policy sales continues to grow; and sales of mechanical breakdown and motor vehicle insurance now exceed 5,300 policies per month.

Claims ratios were slightly higher than forecast at 70%, and we have a number of initiatives already in place to bring this closer to 68% over the FY19 year. We continue to take a conservative approach to building claims reserves over and above actual losses, in conjunction with close monitoring of risk profiles and claims management.

The **Debt Management** business, EC Credit Control, continues to deliver consistent results with both revenue of $18.7m and operating profit of $6.1m in line with last year. This is a strong performance considering the reduced unredeemed voucher release of $433k (FY17 $1.1m). Debt load from New Zealand corporate customers has been positive as have product sales to the New Zealand SME market. There is still a big opportunity for the business in the Australian corporate market where sales efforts are being targeted. EC Credit Control is benefitting from new Auto Dialler technology creating efficiencies in their contact centre. The recently announced strategic partnership with IODM, an Australian based online automated accounts receivable solution provider is still building momentum. This partnership strengthens the overall product offering of EC Credit Control and the proposition to our customer base by pushing us further into the accounts receivable process.

Outlook

Turners is focused on growing market share by leveraging the strength and unique benefits of its integrated business model. The used vehicle market remains strong and the large number of cars nearing ‘scrapping’ age continues to grow which is positive for underlying replacement demand in the market and as automotive sales increase, so does the demand for automotive finance and insurance products. Our recent consumer market research project confirmed Turners as having the most “trusted” brand in the used car market and the brand that has the most awareness. We are strongly positioned to attract customers to our ‘one stop shop’ service.

The company is well funded and has a strong platform in place to support continued growth. While mergers and acquisitions will be considered where there is a strategic benefit, the majority of medium-term growth will come from within the group. Directors and management are very focused on continuing to drive shareholder value through growing underlying sustainable profits and improving dividends to increase returns and value for shareholders.

Turners is expecting to deliver another year of strong growth in FY19, with Net Profit before Tax expected to be between $34m and $36m.

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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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