

TURNERS DELIVERS PROFIT UPLIFT AHEAD OF LATEST GUIDANCE AND PROGRESSES STRATEGIC REVIEW FOR FUTURE GROWTH

TRA Result for the financial year ended 31 March 2019

Key highlights

- Reported FY19 Net Profit Before Tax (NPBT) of \$29.0m (FY18: \$31.1m)
- Adjusted FY19 NPBT (excluding brand write-off) of \$33.6m (FY18: \$31.3m), above Q4 guidance of \$32m and up 8% from the previous year.
- FY19 Revenue of \$336.6m, up 2% from \$330.5m in FY18.
- Continued investment in branch expansion with North Shore branch opening 2Q20 and plans for seven further branches, with contracts for two already in place.
- Group strategy review is largely complete, with a focus on leveraging strengths and core capabilities, de-risking and simplifying the business and accelerating growth in a capital efficient way.
- FNZC have commenced a strategic review of Oxford Finance. Turners will also conduct a strategic review of EC Credit in the next 12-24 months.
- The Board has declared a final quarter fully imputed dividend of 5.0 cents per share, taking full year dividends to 17 cents per share, up from 15.5 cents per share in FY18 (a 7% fully imputed yield based on current share price).
- Following the strategy review, the Directors have enhanced the dividend policy and resolved to increase the payout ratio to 60-70% of Net Profit After Tax ('NPAT') (previously 50-60%).

Financial Performance

Turners Automotive Group Limited (NZX/ASX:TRA) has reported \$29.0m in Net Profit Before Tax (NPBT) for FY19. Excluding a \$4.6m one-off, non-cash adjustment related to the rebranding of Buy Right Cars, the Company delivered FY19 NPBT of \$33.6m, above Q4 guidance of \$32m and ahead of last year's result of \$31.1m.

Turners is a major player in the New Zealand automotive sector, providing an integrated set of solutions across Automotive Retail, Finance and Insurance, as well as Credit Management.

Turners' Chair, Grant Baker says the focus has been on organic growth and generating synergistic benefits across the group:

"We are seeing benefits from the Company's expanding retail network, a focus on better quality loans and simplification of the business model into core brands," says Baker.

Total FY19 revenue grew to \$336.6m, up 2% from \$330.5m in FY18, with Automotive Retail contributing 67% of operating revenue.

Operating profit (NPBT) of \$29.0m included the Buy Right Cars brand write-off adjustment of (\$4.6m), and was offset by gains on property sales and revaluations of \$7.7m. FY19 Net Profit After Tax (NPAT) was \$22.7m, down 3% from \$23.4m in FY18.

Turners' CEO Todd Hunter says that Turners is continuing to invest in expanding and developing its Automotive Retail network, and currently has 33 sites across New Zealand.

"We are starting to see positive gains from the ongoing optimisation of our retail network, which has included the relocation of the Whangarei site, and addition of two new sites in Wellington and New Plymouth that are both performing above expectations," says Hunter.

A proportion of reserves from Turners' Insurance business has been allocated to support the retail expansion and assist in better utilisation of capital in the business. A new North Shore branch is expected to open towards the end of 2Q20 after the previous site was compulsorily acquired by NZTA, and there are plans to open a further seven sites, for which two already have contracts already in place.

Market conditions

The New Zealand used car market remains at strong historic levels and underlying medium term demand is still robust, with over 950,000 cars at 20+ years old. The market headwinds noted in the first half of the financial year have eased, and an improvement in trading performance and vehicle margins was noted in Q4 FY19.

Demand in the Auckland market remains soft and pressure on used vehicle import margins. A current oversupply of import cars is temporarily pushing down pricing and increased compliance costs are also having an adverse impact. Conversely, local stock is delivering much stronger margins and Turners is benefitting from its strategy to increase the number of 'owned' vehicles it sells, which provide higher margins.

Funding and Share Buyback

Turners' funding platform was further strengthened during the year, with the issue of a new \$25m, 3-year Bond programme. Combined with the Securitisation Warehouse and the banking syndication with the ASB and BNZ, this provides Turners with a diversified funding structure and adequate headroom for forecast business growth. The previous Convertible Bond matured in August 2018, with 50% conversion into shares.

Total shareholder equity increased to \$226.4m, up 6% from \$214.3m in the prior year.

The Board regarded Turners stock as under-valued, and accordingly Turners bought-back 3% of shares on issue before pausing the Share Buy Back programme ahead of the results period. As the Board continues to see the stock as under-valued, it will revisit the buy-back programme in the near-term.

Divisional Performance

Automotive Retail

Automotive Retail was the largest contributor to the group, generating 67% of operating revenue and 63% of operating profit. Revenue was slightly up on the prior year to \$225.7m, with operating profit increasing 10% to \$18.3m.

Turner's Group is benefitting from its national network and strong online channels, which provide diversity across regional markets. The business delivered a 13% increase in operating profit, offsetting the downturn in Buy Right Cars which has been adversely impacted by the soft Auckland market, where all but one of its sites are located.

Turners' single brand strategy is now in force, with the rebrand of Buy Right Cars to Turners completed in May 2019. This provides the opportunity to further leverage the high levels of awareness and the very strong trust that Kiwis place in the Turners brand and will also enable marketing and other cost synergies to be achieved.

Approximately 49% of retail sales are cars owned by Turners, which generate better margins and an increased opportunity to cross sell finance and insurance products. Of the vehicles being sold on consignment, a higher number of these are ex-lease cars which provide less margin but provide good late model "NZ new" cars for sale. While import vehicle margins are well down, Turners has implemented a number of initiatives to improve local stock buying, which delivers higher margins.

Turners has also continued to grow its share of the niche end-of-life market and is increasingly being recognised by insurance companies as the provider of choice.

Finance

The Finance division delivered an 11% increase in operating revenue to \$44.2m, however, operating profit decreased slightly to \$11.1m due to increased impairment from a change in accounting standards and Motor Trade Finance (MTF) non-recourse offering. Good progress is being made on repositioning the borrower profile towards high quality and more profitable lending, aided by the introduction of comprehensive credit scoring in March 2019.

From August 2018, all new loans originated by Turners Cars are being directed into Oxford Finance, and the Turners Finance loan book with MTF will run down over the next 2 years. New loans originated by Turners Cars added \$28m to the Oxford Finance loan book in FY19.

The number of active dealers selling Turners' finance offer continues to grow and was up 11% year on year. One in five loans are now being "auto-approved" through Turners' Auto App online loan approval platform, which makes it easier and faster for dealers and customers to gain a response on loan applications.

Insurance

Autosure has around 50% share of the motor vehicle mechanical breakdown insurance market. It is a lower risk insurance business which provides good returns and offers leverage for the group through the ability to use insurance reserves to invest in property. Operating revenue for the year was up 3% to \$48.5m, with operating profit of \$8.2m up 126%, which included a \$3.0m gain on sale of an investment property.

The number of gross written policies and new policy sales increased, with an 8% increase in policies sold through Turners' Automotive Retail business. Loss ratios have improved across all insurance products through the benefits of risk pricing work and tight cost control in claims management. MBI (Mechanical Breakdown Insurance) loss ratios were at 72% for the year (FY18: 78%) with a further improvement targeted.

The final step in the large integration project to combine all Turner's insurance brands was completed this year, with the migration to a new front end retail system which was implemented in April 2019.

Credit Management

EC Credit Control continues to deliver consistent results with revenue of \$18.2m in line with the prior year and operating profit up 4% to \$6.3m. The unredeemed voucher release was under \$0.2m (FY18: \$0.4m), and similar levels are expected to be maintained in FY20.

EC Credit Control's share of the New Zealand market continues to grow, with increased debt load from new and existing customers. Australia remains more challenging, and this year's results were impacted by the loss of a key Australian corporate client. The business continues to reap benefits from its investment into Auto-dialler technology which is delivering significant cost efficiencies and an increasing number of calls and call connects.

Strategic Review

The previously advised comprehensive review of group strategy has largely been completed. The result of the review is a decision to simplify the business as well as leveraging core capabilities and strengths (such as the brand strength in Automotive Retail and the Turners brand name) in order to de-risk the group and accelerate growth in a capital efficient manner.

This new strategy enables the business to target significantly increasing its market share in its core business of Automotive Retail and participate in adjacent opportunities in the sector.

The Board believes this strategy will sharpen the focus on meeting customer needs; improve the efficiency of the business; and improve the returns generated for shareholders. There is a strong desire to invest in the brands and businesses where Turners has already achieved a leading position. The shift to a single brand strategy in Auto Retail, completed in May 2019, is one of the first projects implemented under the new strategy.

As a next step in Turners actioning this strategy, Grant Baker advises that the Board has appointed FNZC to conduct a strategic review of Oxford Finance, which has already commenced.

“Whilst Oxford Finance is a well performing and growing business with a strong network of active dealers across the country, the review of group strategy has highlighted that building a loan book is very capital intensive and we may be best to use our capital in growing our core business.”

As a part of the review, Turners will consider alternative ownership options for Oxford Finance and assess these alternatives against the value the ‘one stop shop’ model currently provides Turners.

“Whatever the outcome of the strategic review, Turners will continue to maintain its close relationship with Oxford Finance through its expanding distribution platform, and Oxford Finance customers and the existing dealer network will see no change to the leading levels of service and quality they currently experience,” says Baker.

Turners will also conduct a strategic review of EC Credit in the next 12-24 months.

Outlook

Automotive Retail has been identified as Turner’s core strength. The long-term dynamics of this market are strong with hundreds of thousands of ageing vehicles needing to be replaced over the next decade. Turners is well positioned to take advantage of this, as well as the expected consolidation of the dealer network.

Expansion of the national network will continue as Turners strengthens its omni-channel approach – ensuring that it has a strong and consistent customer experience in all channels where consumers are looking to buy or sell cars, including online, through social media or ‘in person’. The company continues to develop inhouse property expertise, and will continue to leverage reserves within the insurance business to deliver on the property strategy and continue to enhance capital efficiency.

Management have identified a number of growth opportunities across all businesses, which take advantage of the changing dynamics of the industry – digital disruption, increased regulation, increasing shift to online channels, alternative ownership models and industry consolidation. The new strategy will help position Turners to take advantage of investments in these opportunities as they arise.

“Better access, analysis and insights from the wealth of valuable data within each business is a priority. We believe this could substantially improve the way consumers buy and sell vehicles, and we will focus on our data opportunity over the medium term,” says Hunter.

Dividend

The Board has declared a final quarter fully imputed dividend of 5.0 cents per share, taking full year dividends to 17 cents per share, up from 15.5 cents in FY18. Following the strategy work, the Directors have enhanced the dividend policy, resulting in a new payout ratio of 60-70% of NPAT (up from 50-60%).

The Board believe the change in strategic direction will help reduce the complexity of the current business structure and enable focus on the core automotive retail business which will generate more capital efficient growth and value for Turners' shareholders.

ENDS

Conference call details

Turners will host an investor conference call at 10.30am NZST today, with Turners CEO Todd Hunter and CFO Aaron Saunders, to review the FY19 results and provide more detail on the group strategy review.

To attend the conference call, participants will need to dial into one of the numbers below at least 5-10 minutes prior to the scheduled call time and identify themselves to the operator.

When prompted, please quote the conference code: 4765730.

Dial toll free from NZ: 0800 423 970

New Zealand local/other international calls:(not toll free) +64 9 9133 622

Dial toll free from Australia: +1 800 573 793

Dial toll free from United States/Canada : 800 458 4121

Dial toll free from UK: 0800 358 6377

The results presentation will be released to the NZX and can also be streamed live during the call by following this link: <https://slideassist.webcasts.com/starthere.jsp?ei=1243855>.

An online archive of the event will be available within 24 hours after the call and will be accessible for up to 90 days after the call by clicking the link above.

If you have any queries regarding the results announcement or the conference call, please contact Aaron Saunders on +64 9 580 9361.

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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