Company Announcement

25 May 2021

Turners delivers record earnings for FY21

Turners Automotive Group (NZX: TRA) has reported record earnings for the financial year to March 31, 2021 (FY21), despite a COVID-19 disrupted year, effectively reducing the year to a 10-month trading period due to lockdowns.

Key highlights:

- NPBT $37.4m +29%
- NPAT $26.9m +28%
- Underlying NPBT $34.3m +19%
- Revenue $296.5m -11%
- Final FY21 dividend declared at 6.0 cps bringing FY21 dividend to 20.0 cps (equating to a gross yield of 7.4% per annum based on a share price of $3.75)
- Earnings per share 31.4cps +29%
- Used car market proved resilient, rebounding strongly for `high trust' Turners brand
- Robust annuity earnings from Finance and Insurance validates diversified business model
- Organic capital spend to be focused on digital investment, new auto retail sites and growth in finance business
- FY22 should see a further improvement in NPBT over FY21
- Further highlights and discussion on growth are included in the FY22 Results Presentation released with this announcement

Although a disrupted operating period saw FY21 revenue down 11% to $296.5m, a strong response from the business, including acceleration of its digital strategy and rigorous cost management saw three of the four segments lift profit strongly. Only Credit was down on last year's result with a number of our corporate and bank customers reluctant to pursue debt aggressively over the Covid-19 period.

Demonstrating the benefits of the Group's diversified annuity businesses, profit rose 50% in Insurance, 30% in Finance and 11% in Automotive Retail, contributing to strong and sustainable yield. Profit in the Credit Management business was down 22%.

Todd Hunter, CEO, said: *"Our team has responded incredibly well to the pandemic in the first half of the year. Their high levels of engagement combined with the diversified nature of the business, ensured we were well positioned as we moved out of the lockdown. As a group, we have continued to build quality customer experiences, improving the quality of the work environment for our people, which will deliver quality returns for our shareholders. Our growth plans are working and the exciting thing is there is more to come."*

Financial results

Reported NPBT increased 29% to $37.4m with net profit after tax (NPAT) of $26.9m, up 28% on the same period last year. Underlying NPBT was up 19% to $34.3m, with a reconciliation of reported and underlying numbers available on slide 10 of the investor presentation, also released today.

Earnings per share for FY21 were 31.4 cps, up 29% on the previous year. A further 6.0 cps dividend has been declared for the final payment of FY21 (payable in July), taking FY21 dividends to 20.0 cps. This reflects the dividend policy to payout 60-70% of net profit after tax (NPAT).

Grant Baker, Chairman, said: *"We remain committed to delivering a strong and sustainable yield to shareholders. Initiatives worked on over the last 2-3 years are really starting to come together and most importantly are delivering results, even during the disrupted period of 2020. Our company is in a real position of strength and we feel very confident in our growth plans. Margin expansion and market share gains are helping deliver the bottom line growth that we knew was possible. Our team right across the wider business has done a fantastic job of managing the business and supporting our customers through the pandemic. Our business has never been in better shape, and the mix of diversified earnings is delivering the consistent growth plus yield that shareholders are looking for. "*

The results to 31 March 2021 have been audited by Baker Tilly Staples Rodway, who expect to give an unmodified opinion on the financial statements.

Results by division

Auto Retail, Finance and Insurance divisions have all delivered significantly improved earnings. Only Credit Management has had an earnings decrease year on year because of the reduced debt load during the last 12 months as many of the large banks stopped collection actions due to the reputational risk during Covid-19.

Auto Retail: Revenue $201.0m – 11%, NPBT $15.4m +11%

The Auto Retail division revenue was 11% lower at $201.0m, reflecting fewer units, an impact of the national and regional lockdowns. Volumes have recovered in the second half of the year and improving margins have been a significant driver of profitability. Margin expansion is due to a number of buying initiatives and a result of tight supply of cars nationally, due to supply constraints for new cars. Reducing the cost base was a key priority out of lockdown. The used car market has demonstrated resilience, not just rebounding after lockdowns, but through the economic cycle.

Finance: Revenue $47.9m +5%, NPBT $15.8m +30%

The Finance division is now a significant contributor to group earnings and has gone from strength to strength over the last 12 months, with the highest segmental NPBT. Revenue for FY21 was $47.9m, up 5% on last year. NPBT was $15.8m up 30% of the year prior, continuing to gain market share in the high-quality borrower segment of customers, providing more than 45% of the new loans written each month in the premium risk tier. Targeting high-quality borrowers means arrears are at record low levels with Consumer arrears at 4.2% and Commercial arrears at 1.8%. Finance has retained a Covid-19 arrears provision buffer to allow for any unemployment increase in future months.

Insurance: Revenue $41.9m -5%, NPBT $9.4m +50%

Insurance revenue decreased 5% to $41.9m due to the impact of national and regional lockdowns. Gross Written Premium (GWP) increased for the year due to a number of key competitive wins and risk pricing adjustments and despite the lockdowns was 2% ahead of FY20. NPBT was up 50% to $9.4m on higher margins, reduced claims, lower overhead costs, and the finish of amortising the acquired premium portfolio as part of the Autosure acquisition from Vero in 2017. Progress on building our distribution over the year included two sizeable system integration projects completed with Marac Finance and MTF Finance. Combined claims ratios improved from 69% in FY20 to 60% in FY21.

Credit Management: Revenue $12.8m -29%, NPBT $5.1m -22%

Credit Management revenue decreased 29% to $12.8m, due to the impact of Covid-19 and the market-wide conservatism with respect to debt collection during the first phase of the pandemic. Many large corporate customers only recently once again began initiating collection actions. Despite revenue being down 29%, NPBT was only down 22% to $5.1m. The division is working closely with referrers to manage and improve customer outcomes as we operate in an environment where bad debts are likely to increase and debt collection services will see increasing demand. We have now seen lenders who were prioritising reputation over collections, reinitiate debt load and collections work. A similar pattern was experienced post the GFC, before a busy collection period began.

A strong focus on organic growth

Our growth plan has developed over the last 24 months and there is real confidence in this plan to continue delivering growth over the next 3 years. We have outlined our growth model in the FY22 Results Presentation including outlining our thinking on the roadmap to a $5 share price (see Slide 30 to 35). Investors may also be interested in the more comprehensive detail contained in our recent **Investor Morning** (***click for link***), which was well attended by various institutional investors.

Four key areas will underpin our earnings growth. These will be a combination of both physical and digital investments.

1. **Retail Optimisation** across people, property and process. Expanding the physical branch network with two new sites already acquired in Rotorua and Nelson;
2. **Vehicle purchasing decision-making** using data and tools to help identify new sourcing opportunities and ensure our vehicle buyers are maximising opportunities;
3. **Growing premium lending** within Finance; and
4. **Continued investment in digital** and improving our omni-channel customer experience which allows customers to engage with us however, whenever and wherever they want.

Outlook and Guidance

April and early May 2021 have seen a continuation of the positive momentum Turners has enjoyed over the past 10 months. Our April 2021, financial results are materially ahead of a more comparative period of April 2019 (non Covid-impacted).

In Automotive Retail, we are expecting the supply-constrained market to continue for 12-18 months due primarily to impacts on the new car supply chain. New lending in the finance business will be strong and our expectation is that arrears will continue to improve, as the weighting towards newly introduced premium loans grows as a percentage of the book. In Insurance, we expect new policy sales to be buoyant and claims ratios to stabilise. Lastly, in Credit Management, debt recovery is returning as corporate customers start to get back to business as usual. Shareholders should expect to see a further improved result in FY22 and accordingly a corresponding increase in FY22 dividends. Turners will update more specific FY22 guidance over coming months.

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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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