Company Announcement

27 November 2018

Turners Automotive Group delivers a solid 28% increase in net profit after tax

- 28% increase in net profit after tax with strong outperformance from the insurance business offsetting a country-wide slowdown in the automotive retail sector
- Further quarterly dividend of 4cps declared taking total half year dividends to 8cps
- Continued focus on optimising real estate assets delivers $3.4m gain from the sale of Wiri holding
- Industry-wide headwinds emerging in the automotive retail sector with a potential downside impact of 5 - 10% to forecasted FY19 pre-tax profits if current market conditions persist
- On-Market Share Buyback of up to 5% of issued shares announced with current share price considered undervalued by Directors

Turners Automotive Group has delivered a 28% increase in profit for the six months to 30 September 2018, driven by a continuing outperformance from the insurance business and a $3.4m gain on the sale of an Auckland property, offsetting headwinds in the Auckland automotive retail market.

Operating revenue was $164.6m for the period, in line with the previous year, with the cost of goods sold decreasing by 9% to $65.3m. This reflects more sales on consignment through Turners' auctions and therefore less owned stock.

Total revenue of $168.3m includes $3.4m from the sale of the property in Wiri, Auckland in September 2018, which has been leased back in line with Turners' property strategy.

Net Profit Before Tax (NPBT), which is the basis for Turners' full year guidance, increased 18% to $16.8m, with Net Profit After Tax (NPAT) of $12.9m. Earnings per share were up 14% to 15.19 cents per share for the half year. Shareholder equity increased to $217.3m as at 30 September 2018.

The Board has declared a further quarterly fully imputed dividend of 4.0 cps, taking half year dividends to 8.0 cents per share. This is in line with Turners' enhanced dividend policy of a payout ratio of 50% to 60% of NPAT, with the Board expecting to declare full year fully imputed dividends of a minimum 17 cents per share.

Chairman of Turners, Grant Baker, commented: "The business has shown some resilience through tough market conditions in Q1 and bounced back strongly in Q2. The diversified revenue streams have really demonstrated their value through the first half of this year. However, market conditions, particularly in the used import car market, remain challenging and pressure is being placed on vehicle margins right across the industry. Within the key market of Auckland we have seen a material reduction in demand which we attribute to the cost pressures being experienced by many people across the Auckland region in fuel prices, rents, and other household costs.

"If October market conditions continue to be the environment we are working in, NPBT could be impacted by 5 – 10% from our previous guidance range of $34m to $36m."

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 model 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.

Automotive Retail (Turners Group, Buy Right Cars): Revenue $111.8m down 1%, Op profit $8.0m down 9%

Unit sales and market share have grown in both the Turners and Buy Right cars business in the first half. Turners Group delivered an improved year on year result, while Buy Right Cars delivered a lower than expected result due to pressure on margins and volumes.

The import market is facing headwinds with challenges on both the demand and supply side. The number of used imports is down and landing costs have increased due to stricter controls following the stink bug issue. This is primarily affecting Buy Right Cars, which has a higher proportion of import sales.

Demand in the highly competitive Auckland market, where 9 of the 10 Buy Right Cars sites are located, has also weakened, with pressures from increased living and fuel costs. A range of initiatives are in place to drive customers instore and leverage the high consumer trust in the Turners' brand.

Investment is being made into expanding and optimising the national retail network, training and development of sales staff, and digital initiatives to offset the softer conditions and drive sales. New sites in Wellington City, New Plymouth and Hamilton are all expected to contribute to operating profit in the second half of FY19.

The challenging conditions will inevitably lead to consolidation in the dealer market which will provide Turners with further opportunity in the medium term, as both Turners and Buy Right Cars focus on building market share.

Finance (Oxford Finance): Revenue $21.6m up 21%, Op profit $5.4m down 2%

Excluding the MTF channel, Oxford Finance performed well in the half year, with the focus on higher quality lending delivering volumes ahead of budget and the prior year. The primary impact on results was the impairment levels for MTF non-recourse loans which have been higher than anticipated. Stricter lending criteria have been introduced and MTF lending processes and credit scoring systems have also been reviewed to ensure robustness, with changes made progressively over the past six months. While the performance of the non-recourse loan offer has been disappointing, MTF's network of over 300 dealers and franchisees remains an attractive channel for Oxford Finance.

The network of dealers selling Oxford Finance products continues to grow with an additional 120 dealers on-boarded in the first half. Improvements to the Autoapp online loan approval platform are making it easier and faster for dealers and customers to gain a response on loan applications.

From September, all loans originating through Turners Cars have been directed into Oxford Finance. This will see circa $4 million a month of high quality lending directed into Oxford, with the benefit to the wider group meaning more margin and an improving risk profile.

Insurance (Autosure): Revenue $25.7m up 15%, Op profit $6.4m up 144%

The insurance business continues to go from strength to strength following the acquisition of Autosure in FY18. Good progress is being made on claims costs and ratios, and premium is growing as risk is more appropriately priced.

The focus is on identifying further opportunities for claims efficiencies and cost reductions. Fintech will play an important role in this and Autosure insurance products are now being integrated into AutoApp digital finance selling platform, making it easier for dealers to transact both insurance and finance products through the one system.

Debt Management (EC Credit Control): Revenue $9.3m down 9%, Op profit $3.1m down 10%

The softer half year result was primarily due to the loss of a large Australian customer which has insourced its collections services.

There has been solid growth in the New Zealand corporate debt market from both new and existing customers, with debt load up 20% on FY18. In addition, record monthly sales of SME products are being seen. The Australian debt market offers a significantly larger opportunity but is more challenging, and additional resource is being put into Australia to improve penetration. Technology is enabling more efficient and effective debt collection, such as the dialler technology and the development of a debtor scorecard to assist with improving collection results.

Funding and Capital Management

Turners has strong and diversified funding arrangements in place, with headroom for forecast business growth. The securitisation warehouse has recently been extended to $200m, and the new banking syndication with ASB and BNZ is working effectively. Pleasingly, the replacement three year bond programme was fully subscribed to $25 million.

The Board continues to consider that Turners' share price does not reflect the fundamental value of the business and is not consistent with valuations from analysts or other independent advisors. Therefore, the company is announcing its intention to undertake an On-Market Share Buyback programme of up to 5% of shares on issue.

Grant Baker commented: "The Board believes the purchase of company shares, which are priced significantly below their intrinsic value, is an appropriate use of capital and will be of benefit to shareholders. We are confident in the long term prospects for solid and improving group earnings resulting in increasing balance sheet strength. This positive outlook supports the Share Buyback initiative"

CEO Comment

CEO of Turners, Todd Hunter, said: "The building blocks put in place in FY18 have created a simplified and more effective business with common operating and funding platforms.

"We are continuing to realise the benefits of our integrated business model and are investing into training and development, fintech, product innovation and the customer experience. We have a wealth of valuable data within our business and are leveraging this to engage with our customers, deliver better service and identify new opportunities to do what we do better.

"The investments we are making into people, property and our businesses will deliver further benefits in the second half and even though we have some market dynamics which are currently problematic, we are building market share, growing our footprint, and improving our customer offering which gives us real confidence in our strategy and long term prospects."

ENDS

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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