

Turners Automotive Group delivers 11% increase in underlying NPBT

- Underlying NPBT increased 11% to \$14.8m
- NPBT down 12% to \$14.8m (HY19 NPBT of \$16.8m includes gain on sale of property of \$3.5m)
- Group revenue increased 1% to \$171m
- Solid gains in the finance, insurance & credit management businesses
- Market share gains partially offset North Shore branch closure and a soft used car market
- Quarterly dividend of 4cps declared. Projected 17.0cps annual dividend (FY19: 17.0 cps)
- On-market share buyback concluded, with 4.5% reduction in issued shares at an average price of \$2.32/share
- Continued to progress strategic plan with focus on increasing auto retail market share, continued site expansion, de-risking of Oxford Finance, and market-leading technology investments
- Oxford process concluded, significant interest above book value, but in the Board's view, the offers did not fully reflect the intrinsic value of the business
- Turners will undertake a strategic review of EC Credit Control in FY21
- NPBT guidance for FY20 is \$28-30m. At the mid-point of \$29.0m this represents a 12% improvement on FY19 underlying profit.

Financial results

Turners Automotive Group (NZX: TRA) delivered an 11% increase in underlying net profit before tax (NPBT) from \$13.3m to \$14.8m for the six months ended 30 September 2019. Revenue increased by 1% to \$171m (HY19: \$168m). Three out of four business segments recorded gains during the period.

"We are pleased with this robust result, with three of four business segments recording gains in underlying profit." said CEO Todd Hunter. "Our largest segment, Auto Retail, outperformed market conditions as we continued to succeed in growing market share. Meanwhile, we started to execute on our strategic plan, which was communicated to the market in May 2019. "

Excluding the \$3.5m gain on property sale in HY19, underlying revenue increased by 3.6% or \$6.0m. Auto Retail delivered higher unit sales of owned stock, up 6% year-on-year, while Finance revenues have grown as a result of directing Turners origination into Oxford. Both of these offset a small decrease in Insurance revenue due to implementation of higher underwriting standards and a softer used-car market.

Reported NPBT, which is the basis for Turners' full year guidance, decreased to \$14.8m (HY19: \$16.8m) with net profit after tax (NPAT) of \$10.7m. Excluding the gain on sale of property of \$3.5m in HY19, Underlying NPBT increased by 11% to \$14.8m, driven by gains made in the Insurance, Finance and Credit divisions. NPBT for FY20 is expected to range between \$28m and \$30m.

Earnings per share were down 18% to 12.4 cents per share for the half year, reflecting a higher average number of shares on issue in HY20, a higher effective tax rate in HY20, and the property gain of \$3.5m in HY19. Shareholder equity increased to \$220m (HY19: \$217m) as at 30 September 2019.

Dividend

In May 2019 the Board increased the dividend payout ratio to 60-70% of net profit after tax (NPAT). This reflects their focus to return value to shareholders. The Board declared a second quarter fully imputed dividend of 4.0 cents per share, resulting in half year dividends of 8.0 cps. The Board is projecting a 4.0 cps dividend in Q3 and 5.0 cps in Q4, implying a 17.0 cps annual projected dividend (FY19: 17.0 cps, FY18: 15.5 cps). The projected payout of 17.0 cps (fully imputed) to shareholders represents a gross dividend yield of 9.4% at an indicative share price of \$2.53.

Strategic update

Turners communicated a Strategic Review to the market in May 2019. With a focus on sustainable growth, Turners' strategy is to simplify the business, accelerate growth in a capital efficient way and de-risk the business by focusing on its strengths. Through both increasing market share and establishing a growth platform that enables swift progress on new opportunities, Turners will continue to focus on long-term shareholder value and a resilient business model.

Turners has outlined five strategic themes:

1. Market share

Turners currently maintains ~6% market share of the used car retail transactions and will concentrate on increasing this through optimising existing branch networks, creating new consignment relationships, expanding its retail footprint and taking advantage of market consolidation.

2. Car market

Turners remains confident in the medium term demand within the broader market. With nearly 25% of the ~4m cars registered on NZ roads being 20 years or older, there are a large number of cars that need to be replaced in the medium term.

3. Oxford finance

Successful de-risking of Oxford finance through focusing on higher quality borrowers has led to a significant improvement in arrears and performance. Turners will continue to drive profitability from this division.

4. Property investment

Turners strategy to grow its New Zealand footprint and optimise existing sites through strategic property investment is well underway with four committed projects (new and relocations) over the next two years and five potential sites being investigated.

5. Technology

With a technology team of 29 and growing, Turners continues to see investment in "Auto-tech" as critical to building competitive advantage, particularly in the area of data and digital.

Grant Baker, Chairman, commented: *"Our new strategic plan positions us well to benefit from our competitive advantages throughout the cycle. We are well placed to put the foot down to expand our*

footprint to leverage the growing strength of the Turners brand. We are particularly focused on our own “auto-tech” initiatives, where we will continue to invest in a disciplined fashion to exploit our advantage in data and digital.”

Funding and buyback

Turners’ funding capacity is currently \$320m with \$72m undrawn. The increase in the securitisation warehouse facility reflects Turners Cars origination directed into Oxford and away from MTF. The securitisation funding facility limit is at \$200m (including capital contribution from TRA), which is expected to be extended in Q1 2020.

The on-market share buyback scheme reduced issued shares by 4 million (4.5%) at an average price of \$2.32.

Segment results

Turners’ strategy of retail optimisation is delivering good growth in retail market share. Whilst the used-car industry has softened due to reduced consumer confidence, Turners is confident that its growth plans will deliver for the company. Further consolidation is expected in the used car market as a result of the upcoming regulatory changes (mandatory Electronic Stability Control on all imported vehicles) which will provide further opportunity to build Turners’ retail market share. The Insurance, Finance and Credit businesses have all performed at or above expectations.

Auto Retail (Turners Group): Revenue \$115.9m +4%, Op profit \$7.3m -8%

The Automotive Retail division revenue increased by 4% to \$115.9m (HY19: \$111.8m) reflecting the higher number of “owned” cars sold. However, operating profit dropped 8% to \$7.3m (HY19: \$8m), reflecting reduced margins on used imports, a drop in lease consignment vehicles and the temporary 6-month closure of the North Shore branch. Meanwhile NPS (customer satisfaction score) increased to 68 from 49 in HY19, reflecting ongoing training and focus on the customer experience provided in-branch and online.

BuyNow retail sales increased 1% year-on-year with the opening of the New Plymouth and Whangarei branches. This was offset by the closure and relocation of the North Shore branch. The new site development has gone very well and North Shore trading is building in-line with expectations.

Inventory values reduced by 15% to \$36m, with the focus on being more efficient and ensuring the business is a high turnover operation. Unit sales of owned stock increased 6%, however, margin per unit was down 11%. Locally sourced vehicle margin increased by 5%, however, used import margins were down 16% due to increased supply chain costs and the weakening New Zealand dollar impacting margins on used import vehicles. There was less consignment stock from lease vendors as Turners’ cycled off a strong return period in HY19 (1,000 units less in HY20). Damaged vehicle units increased 4% with some good gains from existing insurance vendors. The division also implemented \$500k of cost reduction initiatives during HY20 largely within the rebranded Buy Right Cars business.

Finance (Oxford Finance): Revenue \$22.8m +6%, Op profit \$6.5m +20%

The Finance division had a solid half-year with revenue up 6% to \$22.8m (HY19: \$21.6m). Operating profit increased 20% to \$6.5m (HY19: \$5.4m), reflecting the significant improvements made in the quality of loans originated. Consumer loans originated in HY20 has a total arrears percentage of 2.4%, which is running at half the levels experienced in HY19. This has helped drive an overall improvement in consumer account balance arrears in the first half to 8.2% (HY19 9.0%).

Initiatives including the introduction of comprehensive credit reporting and implementation of a 3-tier risk pricing model, have contributed to the improving quality of new business. Turners Cars lending was particularly strong, ramping up to \$24m in HY20 (HY19: \$7.0m).

As part of the May 2019 Strategy Refresh, Turners conducted a comprehensive Strategic Review to consider alternative ownership and growth options for Oxford Finance. Investment bank Jarden were appointed to run a process for interested parties, which was concluded in September.

Whilst there was significant interest in Oxford Finance above the book value of the business, in the Board's view, the offers received did not fully reflect the intrinsic value of the business, both today and especially factoring in the planned organic growth. This view was supported by separate valuations from two corporate advisors. The Board therefore decided to conclude the strategic review and is excited to focus all efforts on the execution of the growth strategy.

Insurance (Autosure): Revenue \$22.2m -13%, Op profit (excluding property profit) \$2.6m +16%

Insurance revenue decreased 13% to \$22.2m (HY19: \$25.7m), with General Gross Written Premium (GWP) down 6% to \$17.5m as a result of market conditions and focusing on lower risk portfolios and vehicles.

Underlying profit increased 16% to \$2.6m (HY19: \$2.3m) as a result of the improvement in claims loss ratios and the improvements in risk pricing work that has gone on. The combined claims loss ratio is currently 60% (HY19: 63%), while the MBI loss ratio is a 68% (HY19: 72%).

All dealers are now transitioned to a new retail policy generation system which has provided further opportunity to manage portfolio risk. Turners will continue to review dealers' portfolio performance for risk pricing. The company is also pleased to have completed a culture and conduct review well ahead of the timeframe outlined by the Reserve Bank.

In November 2019, Turners agreed a Distribution Agreement with Heartland Bank between their respective brands, Autosure and MARAC. This enables Autosure products to be sold at point of sale through Heartland's consumer intermediary network from mid December 2019. Turners expects this to increase the dealer network by 20% and \$2m additional annual GWP from Q4 FY20.

Credit Management (EC Credit Control): Revenue \$9.9m +7%, Op profit \$3.6m +17%

Credit management revenue increased by 7% to \$9.9m (HY19: \$9.3m). Profit up 17% to \$3.6m (HY19: \$3.1m). This is largely due an increased debt load up 17% to \$133m mostly from New Zealand corporate

clients as a result of EC Credit Control's positive performance in collection metrics. Commission earned from debt collected increased 21% to \$4.5m.

The division recently completed Xero and MYOB integrations and within a few months more than 150 customers have connected. Also pleasingly the business has significantly improved contact center staff retention with a more concerted effort on leadership training and a review of remuneration. Turners will undertake a strategic review of EC Credit Control in FY21.

Digital, Data and Disruption

Turners is pleased with the shifts that have been made in the area of digital marketing with a material increase in social channel marketing. Measurement has been a key area of development and the objective is to improve the customer conversion rate over the next 24 months. Pleasingly a 5% lift in web traffic has been seen since the rebranded Buy Right Cars inventory was included on www.turners.co.nz and digital marketing activity was lifted.

The initial results from the work with KPMG have been promising with the initial focus on developing tools to help understand vehicle profitability better. This will help target purchasing the right cars. Turners will continue to invest in this area and sees this being a key competitive advantage for Turners in the future.

Turners also made its first innovation investment into Collaborate Corp (CL8.ASX) in July this year. CL8 have launched vehicle subscription business Carly, with advanced plans to bring this to NZ in Q4 FY20. Turners is pleased with the progress seen in the Australian business and the traction it is getting with the industry and consumers.

Outlook and Guidance

Turners will continue to focus on organic growth in all its business divisions, but in particular is looking to build on the brand strength in "Turners" and grow the Auto Retail market share. This will come through branch expansion and continuing to optimise the existing network for retail customers.

With the introduction of ESC (Electronic Stability Control) as a compulsory feature for all vehicles imported into New Zealand from Mar 2020, Turners expects to see the used car industry consolidate further over 2019/2020 particularly for smaller dealers selling low priced vehicles. This market consolidation is seen as a positive for Turners.

Within finance and insurance businesses, Turners current strategy will continue to focus on organic growth through improving the underwriting standards, in addition to looking for opportunities to broaden distribution.

The Board is not expecting any significant one-off gains or losses in H2 and gives net profit before tax guidance of between \$28.0m to \$30.0m for FY20.

Company Announcement

27 November 2019



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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