# HY20 Results Presentation

## For the six months ending 30 September 2019

Turners. Automotive Group

# Agenda

1. Results summary
2. Business update
3. Financial results
4. Segment results
5. Summary and Q&A

# Results Summary

# HY20 Results overview

## Financials

- Focus on organic growth in underlying earnings
- Underlying NPBT+11% to $14. 8m
- NPBT down 12% to $14.8m (HY19 NPBT of $16.8m includes gain on sale of property of $3.5m)
- Revenue $171m +1%
- Earnings per share 12.4cps -18% (due to gain on sale for property in HY19)

## Operations

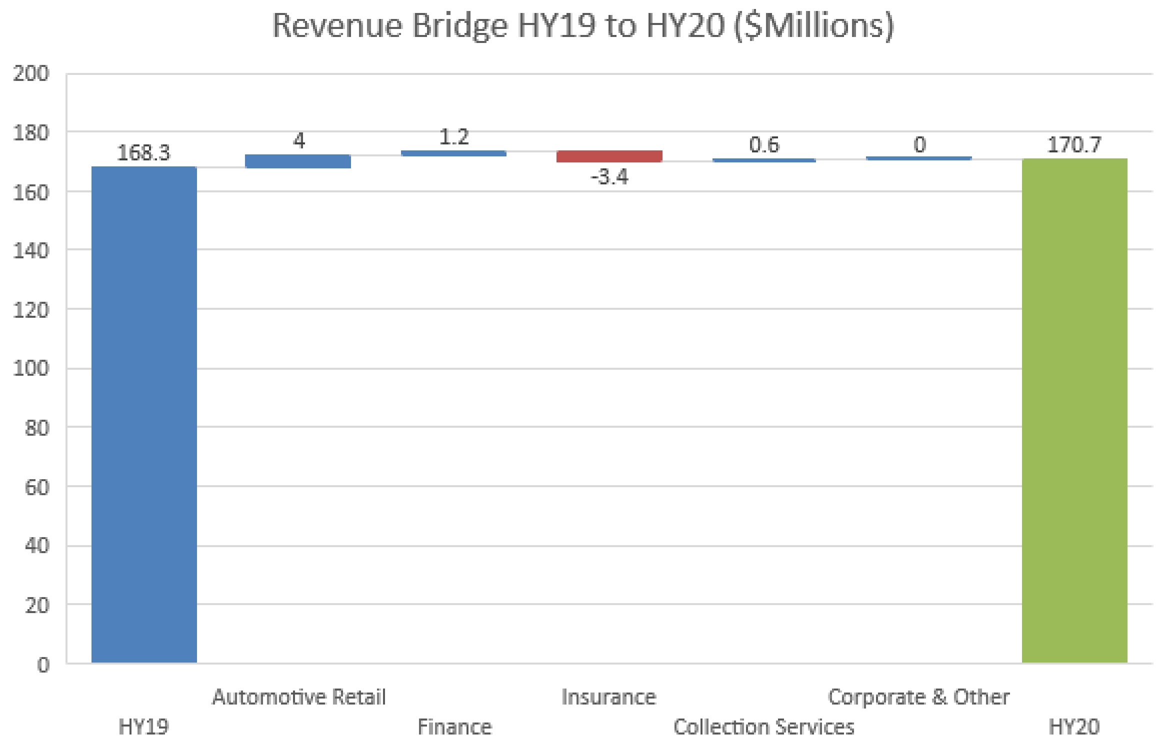
- **Auto retail:** Improving retail sales leading to market share increase partially offset market decline
- **Finance:** Successful de-risking of Oxford
- **Insurance:** MBI Claims ratio improved to 68%
- **Credit:** 22% increase in NZ Corporate debt referred

## Growth

- Continued retail optimization of Auto Retail footprint into new markets + optimizing existing sites
- Strong system integration strategy in finance and insurance
- Insurance distribution broadening
- Planned Carly NZ launch in Q1 CY20
- Continued investment in 3D's of digital, data and disruption

# HY19: HY20 Revenue bridge

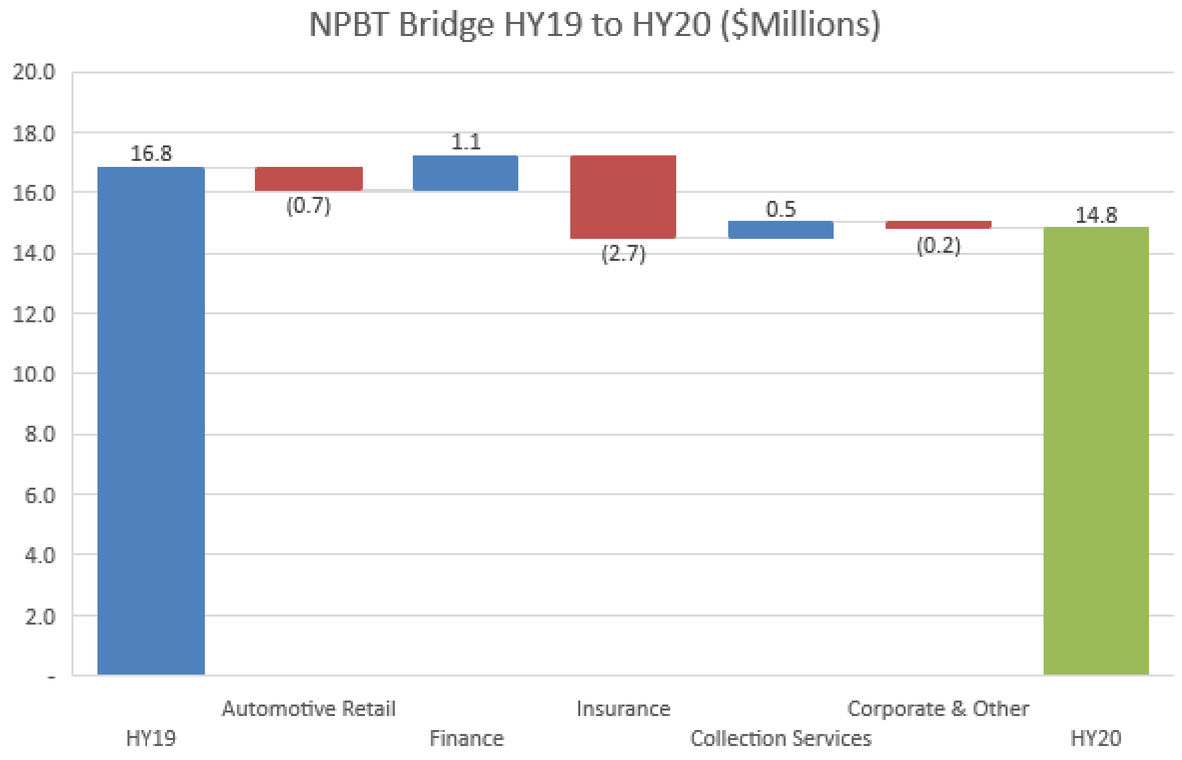
## Revenue increased from $168m to $171m




- Auto Retail increase from higher unit sales of “owned” stock (up 6% YoY)
- Finance revenues have grown as a result of directing Turners origination into Oxford
- Insurance reflects property gain in HY19 of $3.0m, fewer policies sold as higher risk vehicles re-priced and fewer used cars sold in the market
- EC Credit revenue increased off improved commissions from higher corporate debt load in NZ

# HY19: HY20 Net profit before tax (NPBT) bridge

## NPBT decreased from $16.8m to $14.8m




- Auto Retail result affected by fewer consignment vehicles sold in HY20, and drop in used import margins.
- Finance driven by writing higher quality new business and the resulting improved arrears performance
- Insurance result from HY19 includes $3.0m one –off gain from property sale. Good gains in claims ratios have offset reduced policy sales
- EC Credit improvement driven by better cost control and commissions from increased debt load from corporate NZ clients

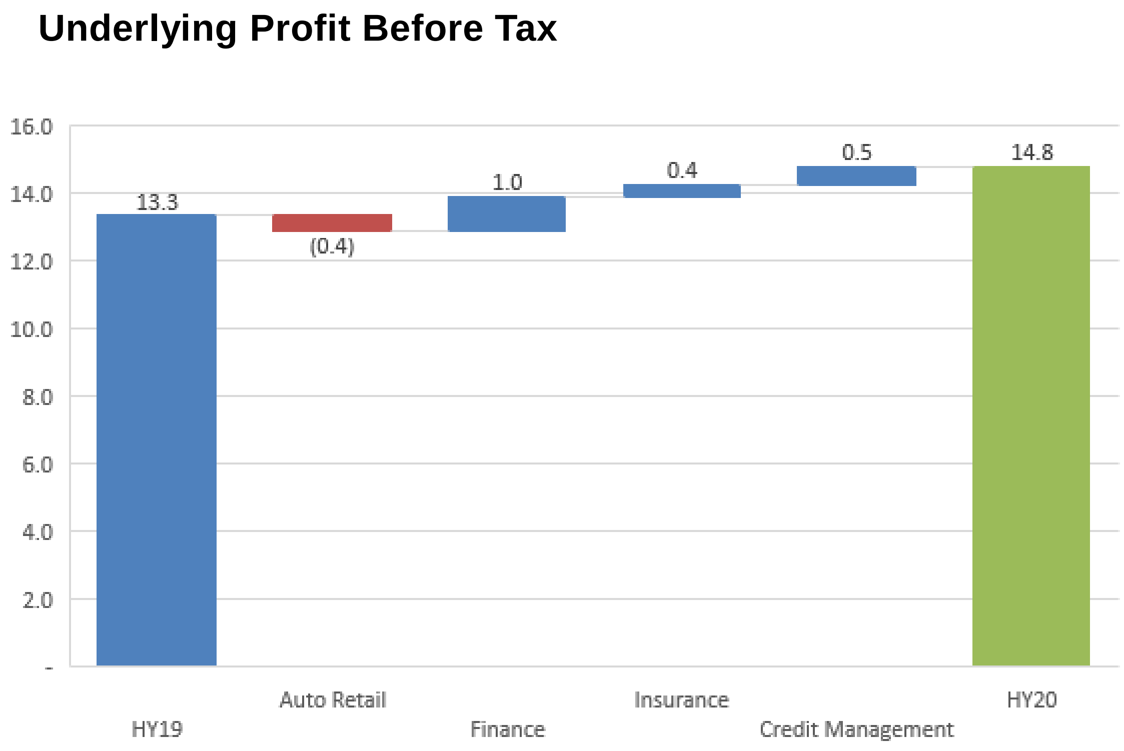
# Reconciliation: NPBT to underlying NPBT

| $Millions | HY20 | HY19 | Var |
|---|---|---|---|
| **Profit before tax actual** | **14.8** | **16.8** | **(12%)** |
| Oxford strategic review costs | (0.2) | - | |
| IFRS 16 Lease Accounting changes | 0.2 | - | |
| Sale of property | - | 3.5 | |
| **Underlying operating result** | **14.8** | **13.3** | **11%** |

- Plan for FY20 has been on growing earnings organically
- Property gain on sale of $3.5m in FY19 relates to the sale of 133 Roscommon Road ($3.0m Insurance + $0.5m in Auto Retail)
- Legal and Advisor costs relate to strategic review process for Oxford Finance

# HY19: HY20 Underlying NPBT bridge

## Underlying PBT increased from $13.3m to $14.8m




- Auto Retail reduction in import margins and lease consignment units in context of a softer market
- Finance improvement in arrears from growth in higher quality lending
- Insurance reduction in claims ratios
- EC Credit higher commissions from improved NZ corporate debt load

# Business Update

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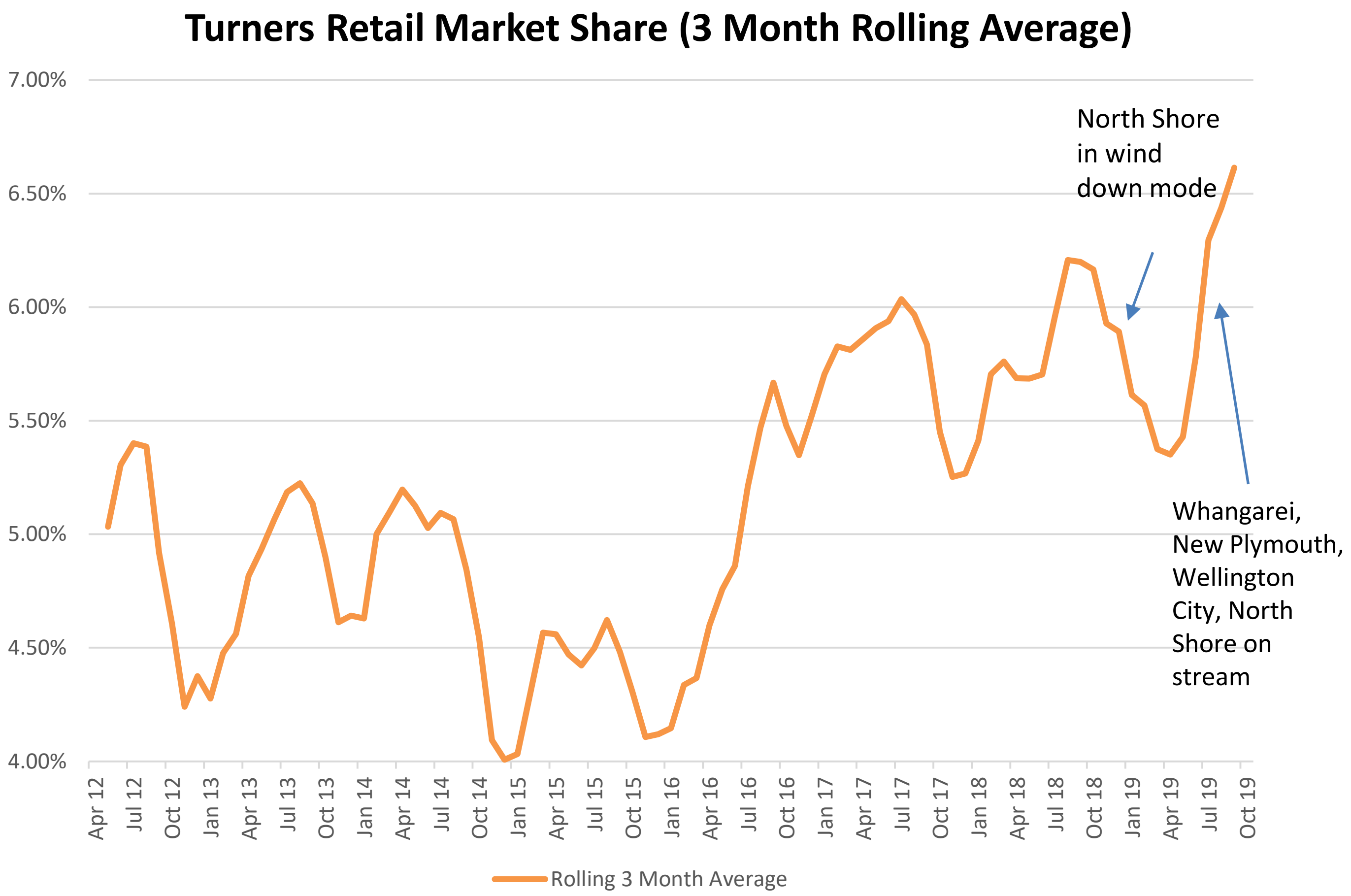
# Key themes

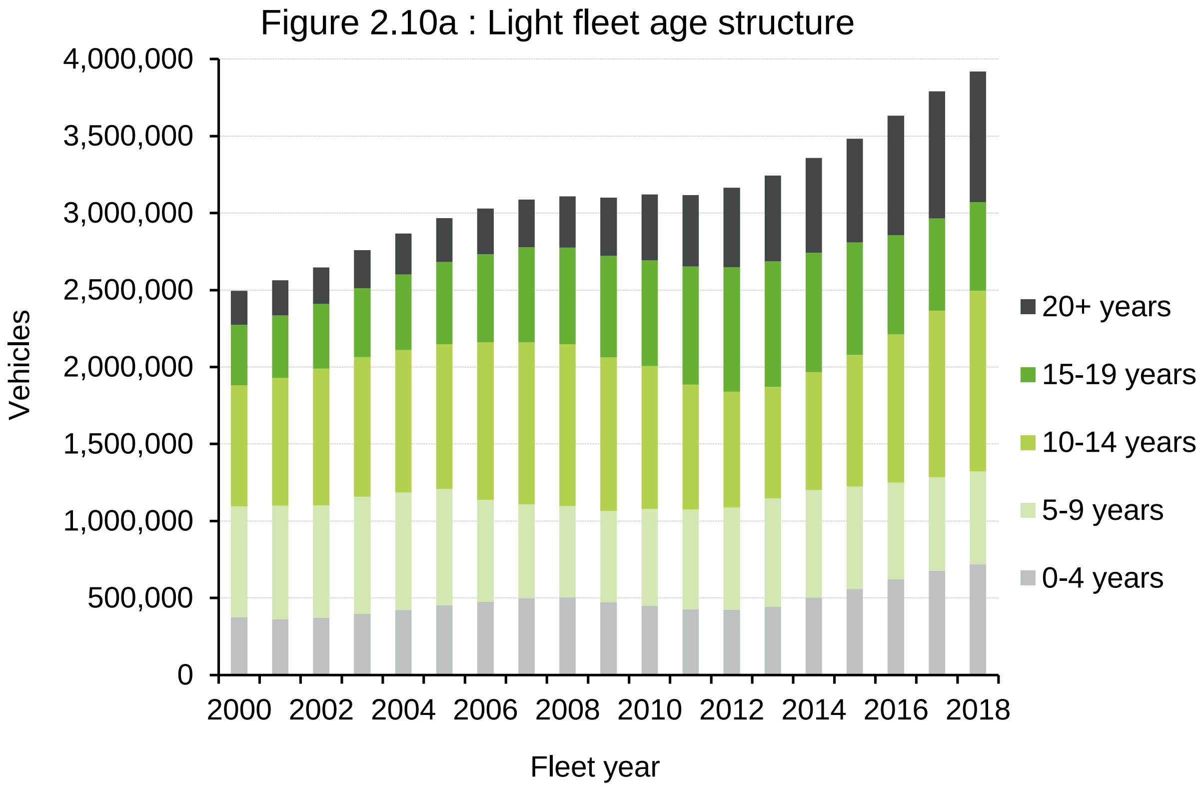
| | |
|---|---|
| **#1 Continue to grow market share** | Growth plans combined with used car market consolidation will see continued market share growth |
| **#2 Underlying used car market still robust** | Used car markets have shown resilience through down cycles and long term low interest rate environments combined with old cars needing to be replaced will underpin demand |
| **#3 Oxford: successful de-risking** | Focus on using new technology and credit data to originate & approve better quality loans |
| **#4 Investing in property** | Delivered new North Shore site with 3 more branches in development due for opening in CY20, and 5 more branches in planning phase |
| **#5 Investing in technology** | We will continue to make material investment in technology which gives us a market-leading advantage + innovative auto adjacent opportunities (eg Carly) |

# #1- Continue to grow used car market share




- Continue to optimise existing branch network for retail customers eg. Whangarei re-location, Dunedin Mar-20
- Still significant opportunity for some large consignment customers to direct more vehicles into retail channels
- Footprint expansion gets us closer to customers and delivers margin improvement
- Further market consolidation positive for Turners (6% drop in dealer numbers Sept 19 v Sept 18)
- Improving customer experience helping drive up market share - Average Net Promoter Score for HY20 at 68 (HY19 at 49)

# #2 - Underlying used car market still robust




NZ Vehicle Fleet Statistics - 2018

- Overall NZ used car market down 2.5% and sales of used imports down 6% as at Sept 19
- ESC feature mandatory on all new and used imported cars coming into NZ from Mar 2020
- Turners sales volumes are supported by consistent supply from consignment vendors eg Lease companies who have leased cars 3 years earlier
- Low interest rate environment combined with replacement of older cars should see the used car market remain resilient
- 20+ year age cohort continues to grow…now 2.5x level it was in 2008

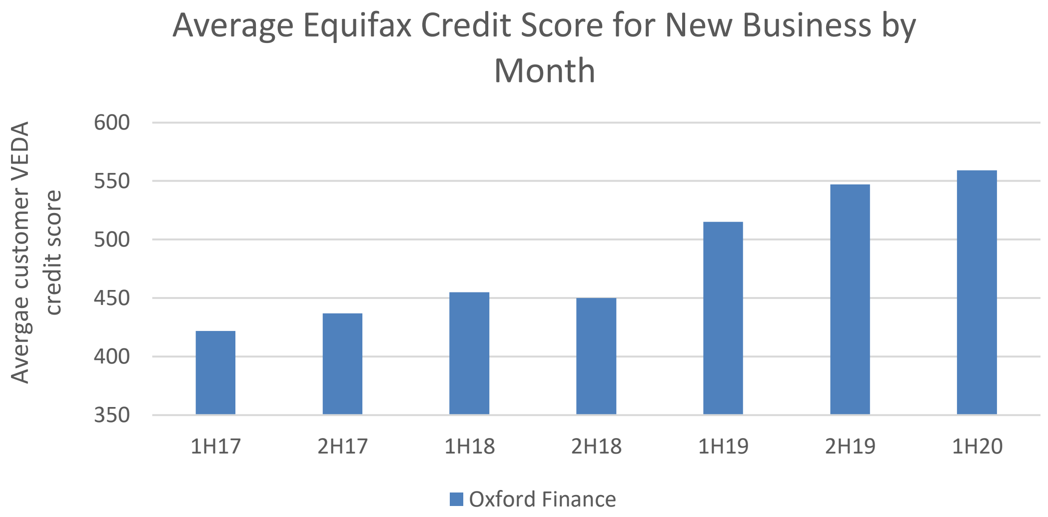
# #3 - Oxford: successful de-risking

Focus on better quality borrowers leading to improvement in arrears and performance

### Comparison of new consumer lending HY19 v HY20

| Consumer Lending ($ Millions) | HY20 | HY19 | Var |
|---|---|---|---|
| New business | 49.5 | 46.2 | 3.3 |
| Arrears | 1.2 | 2.2 | -1.0 |
| 31+ Arrears | 0.25 | 0.84 | -0.59 |
| Arrears % | 2.4% | 4.8% | -2.4% |
| 31+ Arrears % | 0.5% | 1.8% | -1.3% |

### Improving Customer Credit Scores



# #4 - Investing in property

Focus on growing footprint into new markets and optimizing existing sites for better customer experience.

## Committed branches

| | | | |
|---|---|---|---|
| North Shore - AKL | Opened August 2019 | August 2019 | 8,524m2 |
| Dunedin | Re-opening larger format of Turners' Auto-Retail flagship store | March 2020 | 9,025m2 |
| Westgate - AKL | Part of wider Auckland expansion | June 2020 | 8,500m2 |
| Mt Richmond - AKL | Part of wider Auckland expansion | August 2020 | 10,300m2 |

## Other branches added as sites with acceptable profile and cost base are identified

| | | | |
|---|---|---|---|
| Christchurch | Turners Auto-Retail expansion | 2020 | 10,000m2 |
| Pukekohe | Part of wider Auckland expansion | 2021 | 10,000m2 |
| Nelson | Part of the regional expansion strategy | 2021 | 8,000m2 |
| Rotorua | Part of the regional expansion strategy | 2021 | 8,000m2 |
| Timaru | Part of the regional expansion strategy | 2021 | 8,000m2 |

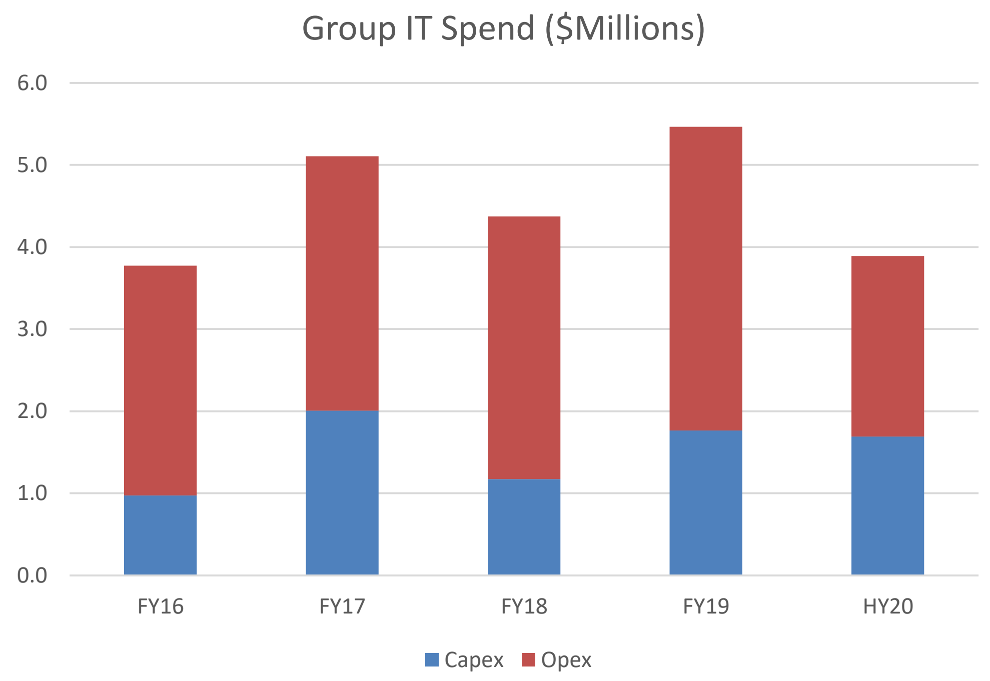
# #5 - Investing in technology

- Committed to create competitive advantage from technology investments

- Technology team 29 FTE (Applications  16, Infrastructure / Operations 13)

- Early adopters of Agile, DevOps methodologies implemented FY19 (includes automated deployment of software releases)

- Key business areas with major gains include;
    - Operational and management reporting through dashboards and business intelligence
    - Significant process automation via operational mobile apps
    - Rapid delivery of systems to react to revenue opportunities, competitor activity, regulation changes, innovation
    - Development of APIs (computer interfaces for services and products) to position for growth



# Summary of our strategic plan (May 2019)

## Our strategy is to…

- Simplify the business
- Accelerate growth in a capital efficient way
- De-risk by focusing on our core business and strengths

## This will enable us to…

- Significantly increase market share in the core business of Auto retail and
- Participate in new and innovative auto adjacent opportunities

## For our key stakeholders this means…

- Sharpen our focus on meeting customers needs
- Improving the efficiency of our business
- Reducing cyclical swings in our business, especially around credit
- Increasing the returns we deliver to our shareholders

# Progress on Strategic plan

## Auto retail

- North Shore development complete
- Digital marketing spend increasing
- NPS tracking up
- Data project initiated on vehicle profitability

## Insurance

- Build distribution through partnerships and API development
- Prioritise auto products
- Use technology to automate claims process

## Finance

- Oxford strategic review completed
- Continue to develop competitive advantage with AutoApp
- Focus on high quality origination

## Credit

- Integration to SME accounting platforms
- Build on debtor scorecard
- Use technology to drive efficiencies in collections process

## Adjacent opportunities

- Launch plans under development for Carly NZ
- Continue to investigate, assess and invest in other opportunities

# Financial Results

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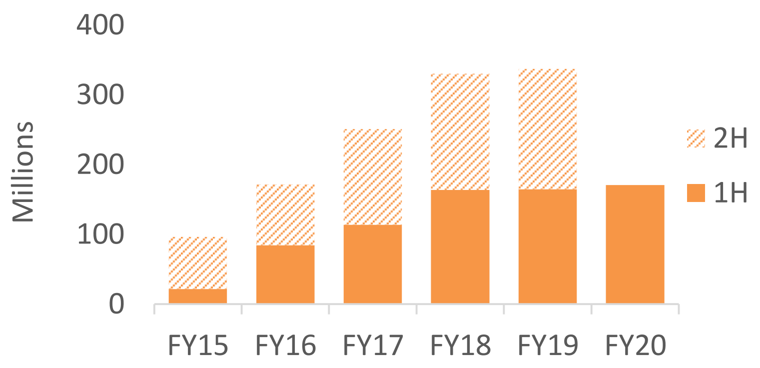
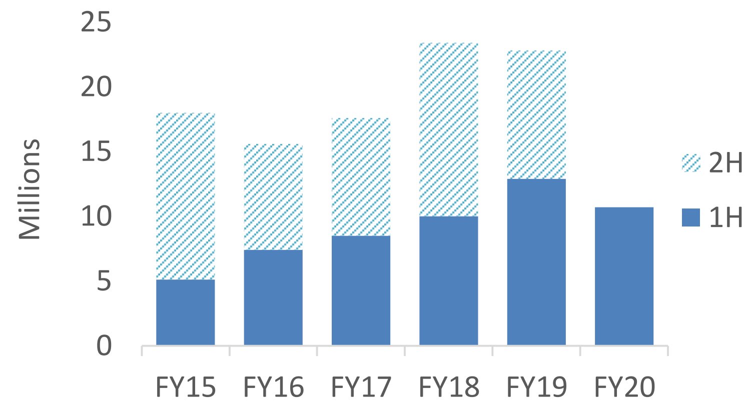
# HY20 Results snapshot

| | |
|---|---|
| Revenue<br>**$170.7m** +1% | Shareholders' Equity<br>**$220m as at Sept 19** |
| Underlying Net Profit Before Tax<br>**$14.8m +**11% | Q2 Dividend 4.0 cps<br>**Projected FY Div 17.0cps** |
| Net Profit Before Tax<br>**$14.8m** -12% | H1 Earnings Per Share<br>**12.4cps**<br>**(FY19 15.2cps,** -18%**)** |
| Net Profit After Tax<br>**$10.7m** -17% | |

**Revenue**

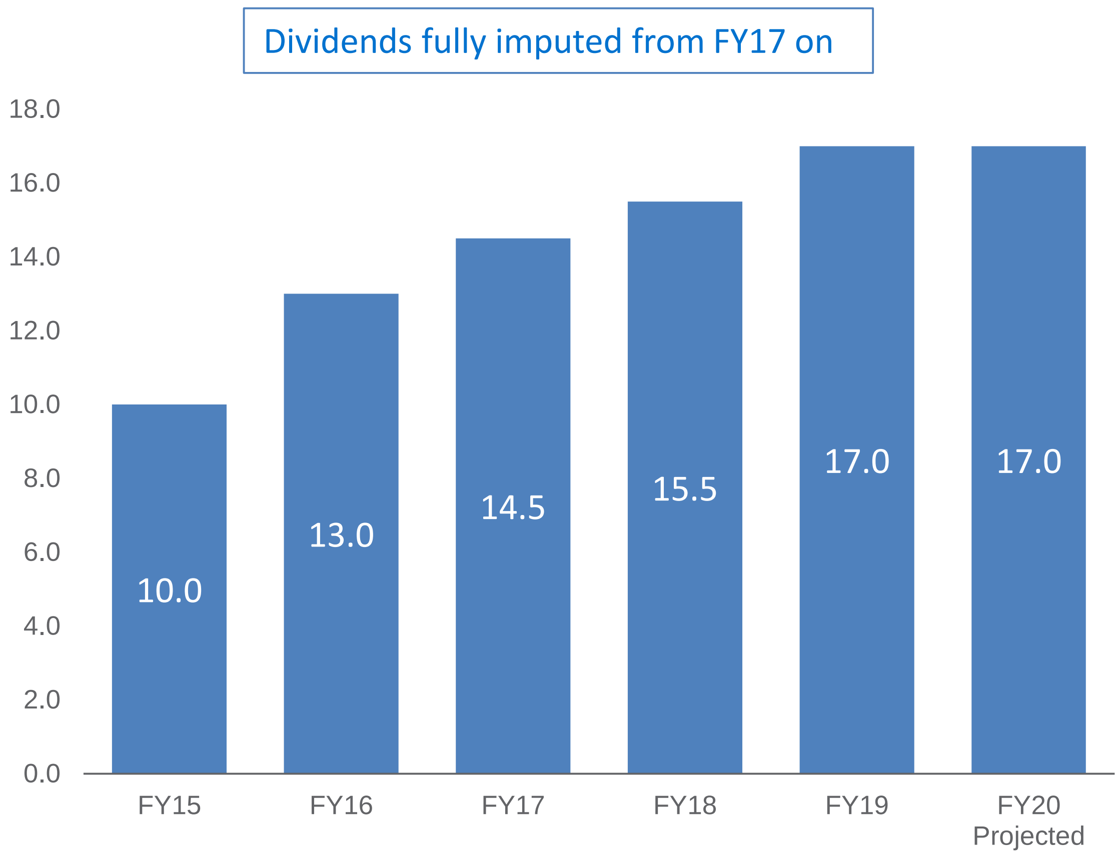



**Net profit after tax**



# Capital Management and Dividends

**Earnings and Dividend per Share** (Cents)




- Dividend Policy Change in May 2019: Increase in pay out ratio to 60% to 70% of NPAT
- 4.0m shares purchased during Share Buy Back programme (Dec 18 to Sept 19) reducing issued shares by 4.5% at an average price of $2.32
- Projected FY20 fully imputed quarterly dividends
  - Q1 @ 4.0c per share – paid Oct-19
  - Q2 @ 4.0c per share – payable Jan-20
  - Q3 @ 4.0c per share – payable Apr-20
  - Q4 @ 5.0c per share – payable Jul-20
- Gross dividend yield of 9.4% at indicative price of $2.53 (includes imputation credits)

# Balance sheet

| $Millions | HY20 | HY19 |
|---|---|---|
| Cash and cash equivalents | **14.6** | 24.1 |
| Financial assets at fair value | **63.4** | 55.3 |
| Inventory | **36.4** | 42.9 |
| Finance receivables | **285.7** | 289.1 |
| Property, plant and equipment | **52.6** | 35.1 |
| Other Assets | **37.9** | 39.9 |
| Right of use asset | **26.8** | |
| Intangible assets | **166.6** | 170.8 |
| **Total Assets** | **684.0** | 657.2 |
| Borrowings | **319.6** | 330.3 |
| Other payables | **34.9** | 31.8 |
| Deferred tax | **11.1** | 17.3 |
| Insurance contract liabilities | **51.9** | 49.9 |
| Lease liabilities | **34.6** | |
| Other Liabilities | **11.8** | 11.5 |
| **Total Liabilities** | **463.9** | 440.8 |

- Reduction in cash balances due to investment of insurance reserves into longer dated term deposits
- Inventory value managed down in Auto retail with focus on faster turn
- Change in Finance Receivables reflects growth in Oxford offset by rundown in MTF non-recourse ledger
- Property, plant and equipment increase due to development of new sites in Whangarei, North Shore and Mt Richmond purchase.
- Right of Use Asset and associated Lease Liabilities arise from adoption of IFRS-16

# Funding mix

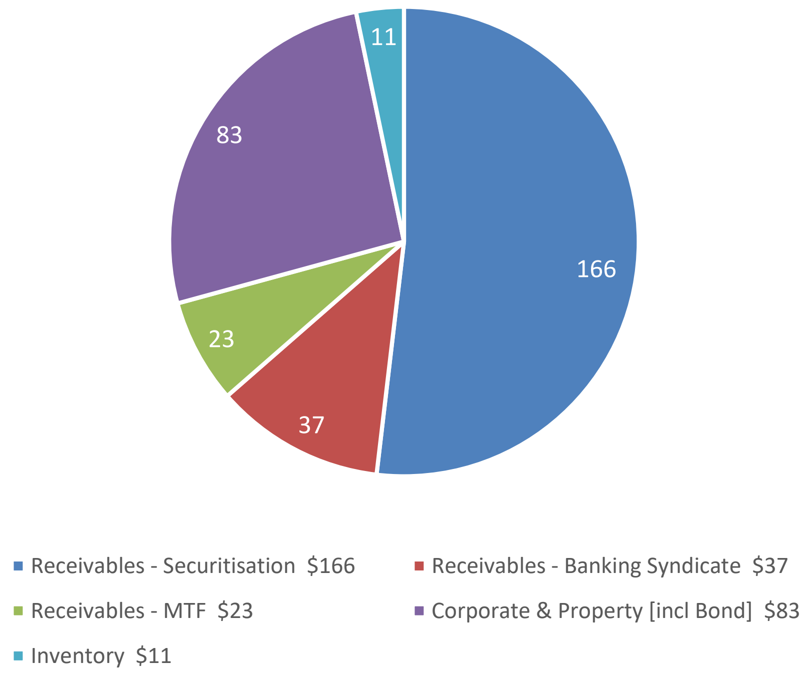
## Borrowings

| $Millions | Limit | Drawn | Undrawn |
|---|---|---|---|
| Receivables – Securitisation (BNZ) | 184 | 166 | 18 |
| Receivables – Banking Syndicate (ASB/BNZ) | 60 | 37 | 23 |
| Receivables – MTF | 23 | 23 | - |
| Corporate & Property [incl Bond] | 95 | 83 | 12 |
| Inventory (ASB) | 30 | 11 | 19 |
| **Totals** | **392** | **320** | **72** |

- Increase in Securitisation Warehouse reflects Turners Cars origination directed into Oxford and away from MTF
- Securitisation funding facility limit at $200m (including capital contribution from TRA), expect to extend this in Q1 CY20

## Borrowings by Utilisation ($Millions)

As at 30 Sept 2019



# Segment Results

# HY20 by segment

| $Millions | Automotive Retail | | Finance | | Insurance | | Credit | |
|---|---|---|---|---|---|---|---|---|
| Revenue | 115.9 | 4% | 22.8 | 6% | 22.2 | (13%) | 9.9 | 7% |
| Profit | 7.3 | (8%) | 6.5 | 20% | 2.6 | (51%) | 3.6 | 17% |
| Underlying profit | 7.1 | (5%) | 6.4 | 19% | 2.6 | 14% | 3.6 | 17% |

# HY20 by segment

### Auto Retail

- Growing retail market share
- Business becoming more inventory efficient
- Continued optimisation for retail

### Finance

- Finance continued focus on targeting high quality borrowers
- Continue to make investments in digital and system integration

### Insurance

- Good progress in building out distribution
- Keep improving underwriting standards to reduce risk

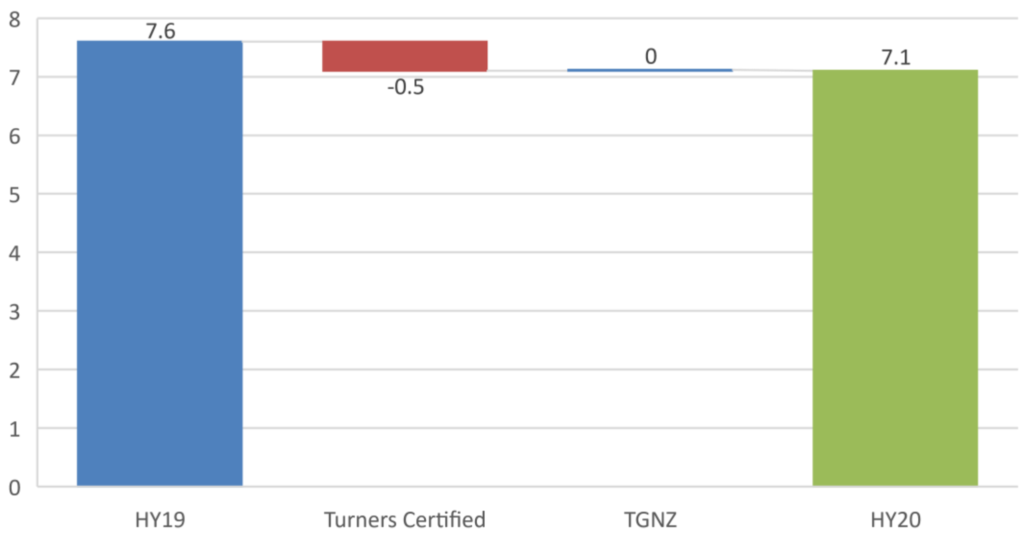
### Credit Management

- Significant share increase in NZ Corporate debt collection
- SME focus: integrated with key systems (eg. Xero / MYOB)

# Automotive retail

## Revenue 115.9m +4%, Segment Profit $7.3m -8%
## Underlying Segment Profit $7.1m -5%

**Auto Retail Breakdown HY19 to HY20 ($Millions)**

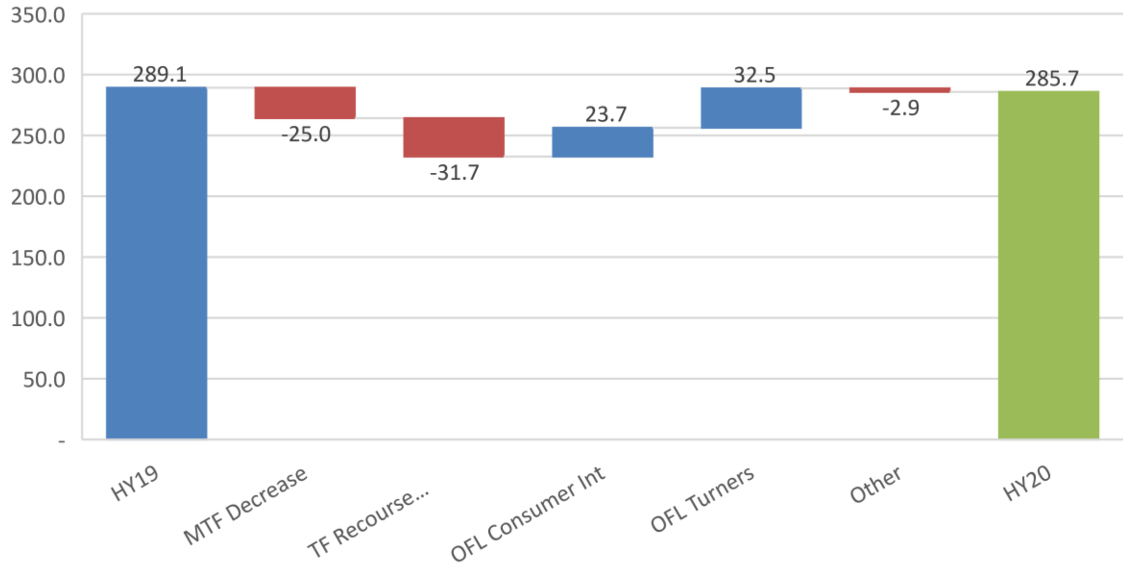



- BuyNow (retail sales) up 1% YoY from new branches (New Plymouth and Whangarei offset by temporary closure of North Shore)
- Inventory value reduced by 15% to $36.5m (Sept 18 - $42.9)
- Unit sales of owned stock up 6%, however margin per unit down 11%, locally sourced margins are up but import margins continue to track down due to supply chain costs and adverse currency movements.
- Less consignment stock from lease vendors as we cycled off a strong return period in HY19 (1,000 units less in HY20).
- $500k of cost reduction initiatives implemented in Turners Certified in H1 FY20
- Damaged vehicle units up 3% in FY20
- Average Net Promoter Score (customer experience measure) for HY20 at 68 (HY19 at 49)
- Gold Winner of NZ Quality Service Awards Used Car Dealership category 2019 and 2020

# Finance

## Revenue $22.8m +6%, Segment Profit $6.5m +20%
## Underlying Segment Profit $6.4m +19%

**HY19 to HY20 Receivables Bridge**

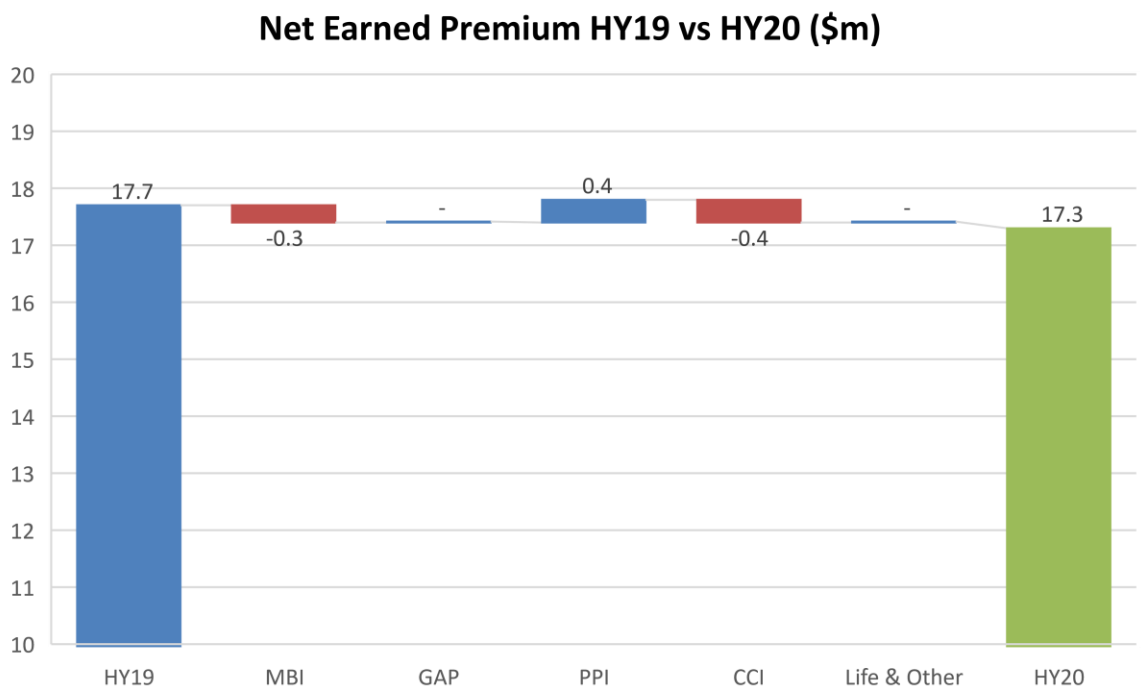



MTF – Motor Trade Finance
OFL – Oxford Finance Limited
TF – Turners Finance

- Improvement in quality of new business written continues
- 3 – tier risk pricing model working well with 25% of new business at premium tier, better risk for reward model.
- Turners Cars lending starting to ramp up well $24m in new business H1YTD
- No. of intermediaries giving 5+ deals per month has increased by 100% YoY, and have deactivated 17 dealers originating lower quality loans
- Consumer arrears percentage improved from 9% (HY19) to 8.2% (HY20)
- Consumer loans originated in HY20 has a total arrears percentage of 2.4%, which is a 50% improvement compared to HY19

# Insurance

## Revenue $22.2m -13%, Segment Profit $2.6m -51%
## Underlying Segment Profit $2.6m +14%



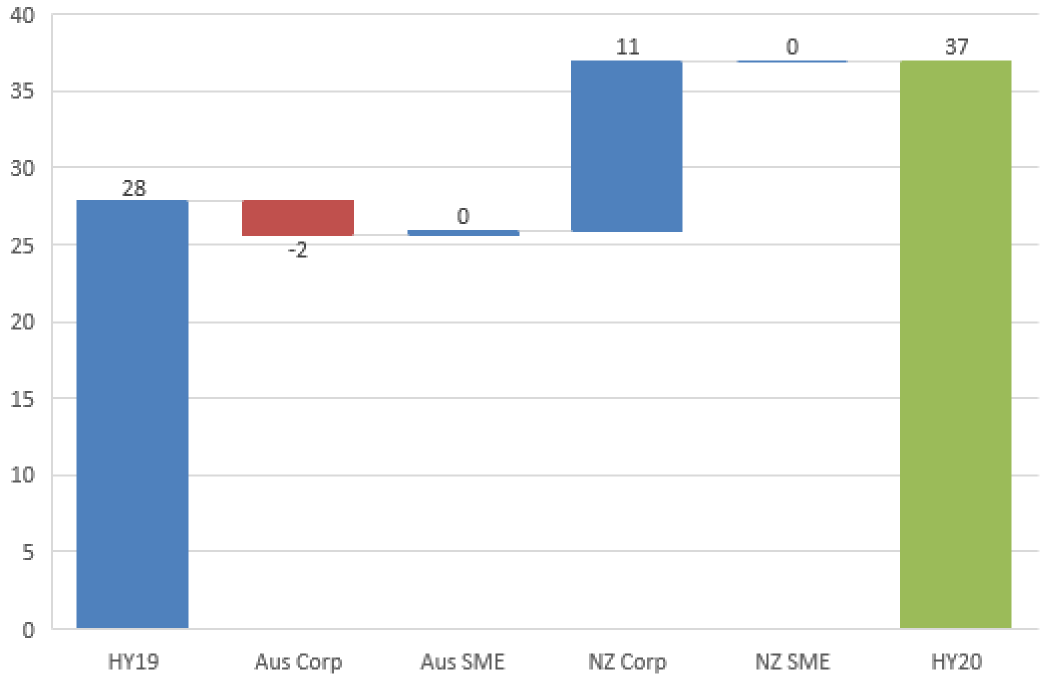

CCI Product has discontinued

- Combined loss ratio 60% (H1 FY19: 63%), MBI loss ratio at 68% (H1 FY19 at 72%).
- All dealers transitioned to new retail policy generation system which has provided further opportunity to manage portfolio risk.
- Continued review of dealers portfolio performance for risk pricing and review of incentives and rebates.
- Culture and conduct review completed
- General Gross Written Premium down 6% to $17.5m as a result of market conditions and focusing on lower risk portfolios and vehicles.
- MARAC distribution agreement signed resulting in 20% increase to dealer network and $2m additional annual GWP from Q4 FY20
- Prior year includes gain on sale from investment property of $3.0m

# Credit management

## Revenue $9.9m +7% Segment Profit $3.6m +17%
## Underlying Segment Profit $3.6m +17%

**Debt Collected HY19 to HY20 ($Millions)**




- Total debt load up 17% to $133m, NZ corporate debt load up 22% to $105m
- Commission earned from debt collected up 21% to $4.5m.
- Xero and MYOB integration completed, 150+ customer connections expected to grow significantly
- Contact centre retention improved significantly

# Key focus for 2H20

### Auto Retail

Continue to optimise footprint for retail, deliver better digital and mobile customer experience, building data tools to understand demand, develop new sourcing opportunities.

### Finance

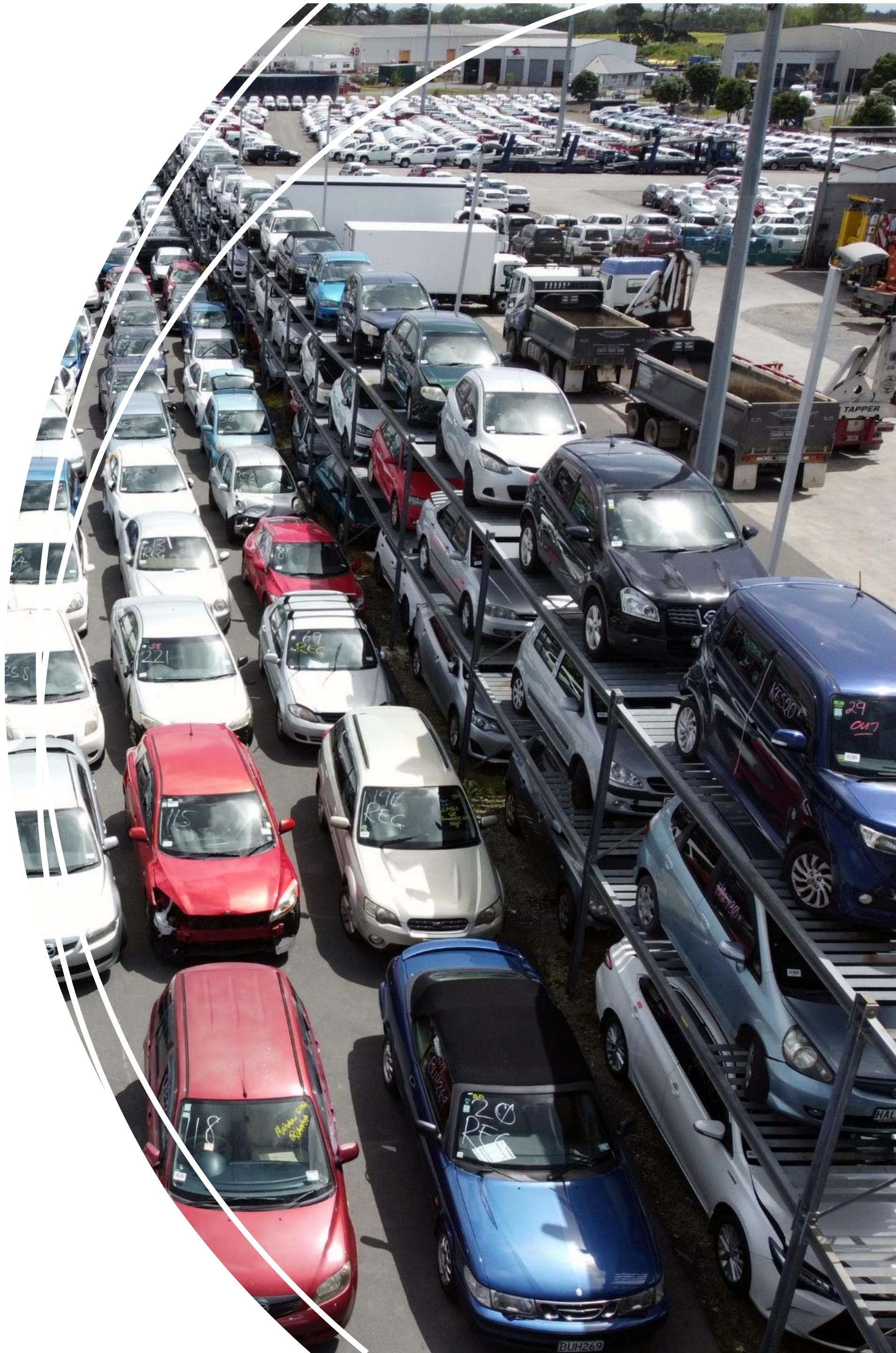
Continue pricing for risk, extend distribution through use of APIs and partnerships, automate more of the credit decision process

### Insurance

Increase distribution through APIs, launch new products through delivery of retail system development, optimise repair network.

### Credit Management

Australian corporate customer acquisition, MYOB / XERO integration, further enhance collections scorecard.



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- Planned Carly NZ launch in Q1 CY20
- Continued investment in 3D’s of digital, data and disruption

# Outlook

- Continued focus on organic growth and growing auto retail market share
- Expecting used car industry to consolidate further over 2019/2020
- Impact of Electronic Stability Control as a mandatory feature for all imported vehicles from March 2020 will impact smaller dealers and very low priced vehicles
- Retail optimisation to continue
- Focus on quality and distribution in finance and insurance
- The Board is not expecting any significant one-off gains or losses in H2

FY20 net profit before tax guidance of $28.0m to $30.0m

# Questions

Ask us about Finance & Insurance
Turners Cars
NZ's largest seller of used vehicles
Turners Cars
Helping Kiwis buy vehicles for over 50 years
NZ's largest buyer & seller of used vehicles.
Turners Certified Vehicle
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I. Uncertainties relating to government and regulatory policies;

II. The occurrence of catastrophic events with a frequency or severity exceeding our estimates;

III. The legal environment;

IV. Loss of services of any of the company's officers;

V. General economic conditions; and

VI. The competitive environment in which the company, its subsidiaries and its customers operate; and other risks inherent in the company's industry

The words "believe," "anticipate," "investment," "plan," "estimate," "expect," "intend," "will likely result," or "will continue" and other similar expressions identify forward-looking statements. Recipients of this document are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The company undertakes no obligation to update or revise any forwardlooking statements, whether as a result of new information, future events or otherwise.

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