Company Announcement

18 November 2021

Turners delivers 24% increase in HY22 earnings, despite COVID-19 disruption

Key Financial Metrics:

- Revenue $166.8m +13%
- Normalised NPBT $24.5m +55%
- NPBT $23.2m +24%
- NPAT $16.9m +26%
- Earnings per share 19.6 cps +25%
- Q2 dividend declared at 5.0 cps +25%

Highlights

- Used car market remains resilient, proven by better than expected consumer demand during L3 lockdowns.
- Continued gains in margin and market share during Q1 led to another step up in profit performance from April to July, followed by disrupted Q2 due to COVID-19 lockdowns.
- Benefitted again in most recent lockdown from geographic and earnings diversification.
- Despite COVID-19 lockdowns we have continued to invest and develop our competitive moat, which is positioning us for an even stronger performance post lockdown.
- Expect net profit before tax for FY22 to be in the range of $40m - $42m (assuming current L3/L2 restrictions ease over the coming months).
- Based on the current dividend payout policy of 60-70% of NPAT we anticipate full year fully imputed dividends of 22 cents per share based on full year profit before tax of $40m.
- Our conviction levels are very high to exceed our target for $45m of NPBT in FY24 and we will revisit our FY24 target at year end.

Turners Automotive Group (NZX/ASX: TRA) delivered strong earnings growth in HY22 despite COVID-19 lockdowns disrupting the second quarter, with the results demonstrating the improvement that has been made in the business over the last few years. The Group's geographic and earnings diversification have underpinned a 24% increase in NPBT and contributed to a strong and sustainable yield.

Todd Hunter, CEO, said: *"The start to our FY22 year could not have been any better. Our plans were well executed by the team and we experienced significant uplift in results up until August with record months for operating profit. We had serious momentum, which was obviously curtailed with the COVID-19 lockdowns. However, we have seen results steadily improve from the second half of August through to October and this gives us confidence that with further easing of restrictions we will see our business perform similar to pre-lockdowns. Despite these current disruptions, our conviction levels are very high to exceed our target of $45m of NPBT in FY24."*

Financial results

Reported NPBT, which is the basis for Turners' full year guidance, increased 24% to $23.2m with net profit after tax (NPAT) of $16.9m, up 26% on the same period last year. Normalised NPBT was up 55% to $24.5m (refer to reconciliation of reported and normalised numbers on slide 13 of the investor presentation, also published today).

Earnings per share for HY22 were 19.6 cps, up 25% on the previous year. The Board declared a Q1 dividend of 5.0 cps in October and a further 5.0 cps has been declared for Q2, taking HY22 dividends to

10.0 cps. This reflects the dividend policy to pay-out 60-70% of net profit after tax (NPAT) and represents a 25% uplift on the same time last year.

Grant Baker, Chairman, commented**:** *"We are really pleased with the first half results and that we continue to demonstrate our ability to deliver strong and sustainable improvements. Our strategy is working, we are growing our profits, delivering improved dividends to shareholders and growing a property portfolio at the same time. It is interesting to look around the world and see investors sitting up and taking notice of businesses that are operating in the used car market. It has reaffirmed what a great business Turners Automotive Group is and how undervalued it is.*

Yet again, our geographic diversification and earnings diversification has come to the fore. We have stuck to our investment plans and I feel strongly that our competitive advantage is only increasing, which gives us real confidence about our ability to keep growing in the future. Obviously, market conditions remain somewhat uncertain, but as restrictions continue to ease we expect our business to perform better than before. Our team have done another great job of navigating our way through this latest set of challenges."

Divisional results
Refer to Appendix.

Disruption extends Turners' competitive advantages
Our commitment and multi-year investment into expanding our digital strategy continues to both build our competitive advantage and deliver results for our bottom line, both in normal and extraordinary operating conditions. Meanwhile, we see that the disruption caused by COVID-19 lockdowns is putting significant pressure on fringe and sub-scale operators in all markets we operate in:

- Our **Auto Retail** strategy of sourcing well, building quality digital and physical networks to deliver great customer outcomes is working very well. Our continued investment in both digital and physical assets is widening our competitive moat further.

- In **Finance** our focus on quality lending, and a quality experience for our loan introducers is our recipe for further growth. We are well prepared for the upcoming changes in consumer lending regulation and what will be a changing interest rate environment.

- In **Insurance** we continue taking a disciplined approach to claims management process and associated costs and ensuring policy pricing is regularly reviewed. System level integration remain a critical part of the distribution and market share growth strategy.

- In **Credit Management** we know the debt load is going to build further. We are ensuring our processes are scalable and the focus on repositioning the business and our processes to be more customer focused in our collection practices (resolution not consequences).

Even through the lockdown period we have continued to develop and widen our competitive moat. This positions us for an even stronger acceleration of performance over the coming years in the post COVID-19 environment.

Outlook and Guidance

October trading: We saw another step change in FY22 results from April through to July. Our momentum naturally stopped in mid-August due to the nationwide lockdown, and the extended regional lockdowns in Auckland, Waikato and Northland. We did expect trading results to improve over coming months in-line with the easing of restrictions and pleasingly October has already shown strong signs of early recovery. A similar trend has continued into November. October tracked ahead of October 2020, a period where Auckland was in Level 2 for only 7 days before joining the rest of NZ at Level 1:

- Auto retail: October vehicle unit sales ahead of Oct-20
- Finance: new lending materially ahead of Oct-20 levels and arrears at historic lows
- Insurance: new policy sales ahead of Oct-20 levels and claims below expectations.
- Credit: Debt load recovering but collections actions still impacted in lockdown regions

FY22 guidance $40m - $42m: Based on the particularly strong Q1, stronger trading following the L4 lockdown, and assuming L3/L2 restrictions ease over coming months, we expect FY22 NPBT to be between $40m and $42m. On that basis and with our dividend payout policy of 60-70% of NPAT we anticipate full year fully imputed dividends of a minimum of 22 cents per share.

High conviction on FY24 target: We continue to develop our competitive moat through this time, which is positioning us for an even stronger performance in FY23 and FY24. Our conviction levels for exceeding our medium-term term target for FY24 of $45m NPBT target are very high and we will revisit our FY24 target at year end.

ENDS

About Turners

Turners Automotive Group Limited is an integrated financial services group, primarily operating in the automotive sector www.turnersautogroup.co.nz

For further information, please contact:

Todd Hunter, Chief Executive Officer, Turners Automotive Group Limited, Mob: 021 722 818

Appendix: Divisional results

Auto Retail: Revenue $115.1m +20%, Segment Profit $10.2m +32%

- Revenue grew by 20% to $115.1m, reflecting the lift in market share and margins in Q1. Our continued focus on "sourcing smarter" has been working well as has the "Tina" brand campaign to help build both buyers and sellers. Investment in additional training and support resource in the finance and insurance space has delivered a significant improvement in our finance conversion rates which have improved to 36% in H1 FY22 cf 29% in H1 FY21.

- Late in Q2 we secured a large supply contract of approximately 3,500 additional units pa with Fleet Partners NZ who have chosen to close down their "AutoSelect" retail yards and transitioned this supply to Turners Cars. This is a material lift in additional consignment units for the Auto Retail division.

- The Auto Retail Division continues to benefit from a diverse geographic footprint, which has been demonstrated during the recent regional Level 3 lockdowns. With a solid plan of new branches coming on stream we expect to see further market share gains over the next 2-3 years.

Finance: Revenue $25.2m +9%, Segment Profit $9.9m +30%

- Finance had another outstanding 6 months with loan book growth of 24% over the 12 months to Sept 30 2021. Revenue for HY22 was $25.2m, up 9% on last year. NPBT was $9.9m up 30% on the year prior, benefitting from the continued improvement in loan book quality.

- Lending was impacted during August and September ($21m per month compared to an average of $27m per month for April through July, including the new monthly lending record of $32m in July). Hardships increased as expected during the recent lockdowns but peaked at levels of less than 1/3rd of the hardships approved during the 2020 lockdowns. We expect most of these customers to rehabilitate back to full payments within 6 months.

- We have maintained the COVID-19 buffer in arrears provisioning ($1.4m) to allow for any unexpected degradation in impairment losses in future months.

- Arrears continue to improve as expected due to the structural improvements in the quality of the loan book. Consumer arrears are at historic low levels of 2.7% (6% H1 FY21) and commercial arrears are at 1.2% (3.9% H1 FY21). Based on current trends we expect arrears to track down to 2% over the next year.

Insurance: Revenue $20.8m -2%, Segment Profit $5.8m +28%

- Market share gains drove strong policy sales in Q1, but sales were impacted during Q2 lockdown period meaning revenue decreased 2% to $20.8m. However, NPBT was up 28% to $5.8m on higher margins, reducing overhead costs and less claims due to less motor vehicle movements in lockdown.

- Claims costs were 13% down on H1 FY21, however emerging signs of parts price inflation and labour rate increases will require adjustments to policy pricing over the coming months. AM Best reaffirmed their Financial Strength rating to B++ (good).

- We have continued to make good progress with distribution agreements and have added MTF as another system integrated partner for reselling the Autosure products. Further opportunities are being actively worked on.

Credit Management: Revenue $5.7m -19%, Segment Profit $2.1m -31%

- Revenue decreased 19% to $5.7m, with the impact of COVID-19 again visible in our collections results. Debt load is up 9% for HY22 to $61m, as particularly NZ Corporate debt load customers get back to the business of collecting. Overall debt collected is in-line with prior year despite the higher debt load, due to restrictions imposed by large customers on collecting from debtors in L3 regions.

- There is an increasing level of commentary about business debt defaults increasing. Credit bureau Centrix reporting Auckland business debt defaults being up 18 per cent this year compared to 2019 in pre-COVID times. This combined with the levels of debt being loaded gives us confidence that we are moving forward into an environment where bad debts are likely to increase and debt collection services will see increasing demand.

- Our transition to a digital-based business is continuing as well as a transforming our collections approach to be more focused on resolution rather than consequence.