

Turners delivers robust returns, despite challenging market

Key HY23 Financial Metrics (% v HY22):

- Revenue \$185.3m (+11%)
- EBIT increased 2% to \$26.1m
- NPBT \$23.4m (+1%)
- NPAT \$17.1m (+1%)
- Earnings per share 19.8 cps (+1%)
- Q2 dividend declared at 5.0 cps

Highlights

- Record net profit before tax of \$23.4m for HY23 slightly ahead of HY22 (\$23.2m NPBT).
- Auto retail and Insurance divisions grew operating profit.
- Auto retail market share increased from 6.4% at HY22 to 8.2% year on year.
- Car units sold increased through scaling up local sourcing, during a period in which the NZ used car market was down 7.5%, which offset reduced industry margins.
- Interest rate environment impacting Finance net interest margin as expected.
- Finance arrears performing significantly better than market levels, and well provisioned for any increase in arrears
- Earnings diversification and resilience of business demonstrated in a challenging economic and operating environment. Q1 impacted by Omicron, both in customer demand and staff impact.
- Record levels for both employee engagement and customer experience metrics. Employee share scheme well received and aligns with shareholders value creation.
- Based on our experience in the first half and early trading in H2 we expect FY23 NPBT to be at or slightly above last year's record result, with a projected FY23 dividend of 0.23 cps, consistent with last year, representing a gross yield of 8.9% per annum (based on a \$3.60 share price).

Turners Automotive Group (NZX/ASX: TRA) delivered strong earnings in the six months to September 30 2022 (HY23) successfully navigating Omicron disruption and tightening economic conditions, including rising inflation and interest rates, which impacted consumer spending and finance margins. The healthy result reflects the inherent diversification of the business and strengthened positions of each core market segment over recent years, providing greater resilience through the cycle.

Todd Hunter, CEO, said: *"In a market where used car sales were down 7.5%, Turners grew market share and achieved higher sales year on year, a credit to our auto retail network expansion, our award-winning advertising and retail optimization strategy. To be able to maintain healthy returns to shareholders during a difficult period is a tribute to our dedicated and highly engaged team, which once again outperformed. The robustness of our diversified business has been demonstrated despite the industry headwinds which we expect will continue into the second half of the year."*

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Financial results

Reported NPBT, which is the basis for Turners' full year guidance, increased 1% year on year to \$23.4m with net profit after tax (NPAT) at \$17.1m, up 1%. Earnings per share for HY23 were 19.8 cps, up 1% on the previous year. The Board declared a Q1 dividend of 5.0 cps, and a further 5.0cps has been declared for Q2, taking HY23 dividends to 10.0 cps. This reflects the dividend policy to pay-out 60-70% of net profit after tax (NPAT).

Grant Baker, Chairman, commented: *"Considering the disruption of Omicron, during which up to 25% of our operational staff were impacted, and the headwinds of higher interest rates and households under an economic squeeze, we are encouraged with the results achieved in our first half. Turners Automotive Group has become a sustainable, high-performing business.*

"Undoubtedly, we will face tough economic conditions in the second half, but our geographic and earnings diversification continue to provide resilience through the cycle. Car sales have held up well so far in Q3, and margins are starting to improve. Our loan book is stable, although rising interest rates will continue to put pressure on cost of funds. Claims in our Insurance business continue to track below expectations. We are demonstrating that we can win market share and deliver growth through the down cycle due to the success of our strategy, the quality of our portfolio and our incredible team. We see opportunities during this time of adversity"

Divisional results

Refer to Appendix.

Turners' strategy proves its worth

Our investment over recent years to diversify our business, as well as taking a leadership position in each segment, continues to deliver results, and provide resilience in the face of tough conditions:

- **Auto Retail:** market share gains through brand promotion and retail optimization initiatives. In particular, Speed to Sale operational initiatives led to more sales on lower inventory. Damaged unit sales were up 13% year on year.
- **Finance:** our continued focus on targeting high-quality borrowers again saw more than 50% of new lending in the premium risk business. Interest expense was up 106% to \$5.6m resulting in an expected compression in net interest margins. Arrears are stable.
- **Insurance:** we made market share gains and claims ratios continued to improve. We have almost completed our core system replacement programme, which will further improve operational agility and future performance.
- **Credit Management:** continues to face tough conditions, but we are well placed for a pick up in activity in this space with debt load continuing to increase. We are making good progress in our transition to more customer focused collection practices (resolution not consequences).

Award-winning Marketing

Gains in market share have been supported by our *“Tina from Turners”* brand campaign. In September 2022, Turners claimed the top award at the 2022 New Zealand Marketing Awards. Up against high calibre competition Turners took home the Supreme Award, as well as Excellence in Brand Transformation Strategy and Excellence in Consumer Products & Services Strategy. This was followed up in October with two “gold” awards at the Advertising Effectiveness “Effie” Awards for Best Strategic Thinking and Retail/Etail categories. The judges clearly love Tina as much as our customers do.

Update, Outlook and Guidance

Q3 Update: While we know economic headwinds will continue into the second half with interest rates continuing to rise at unprecedented speed and consumer confidence impacted, we are well-placed to continue to compete effectively in difficult market conditions:

- Auto retail: Car sales holding up well, margins improving, new site contribution
- Finance: Increasing impact of interest rate environment. Expecting some deterioration in arrears Loan book stable.
- Insurance: Claims continue to track below expectations, and investment returns improving
- Credit: Debt load recovering, but more slowly than expected.

FY23 guidance: We expect the Auto retail business to continue to grow strongly from our execution of our retail optimisation strategy, however the impact of the interest rate environment will be more pronounced in H2 FY23 and FY24.

Based on our experience in the first half and early trading in H2 we expect FY23 NPBT to be at or slightly above last year’s record result. We anticipate full year fully imputed dividends of 23 cents per share (FY22 23 cps) based on the current dividend payout policy of 60-70% of NPAT.

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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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Appendix: Divisional results

Auto Retail: Revenue \$129.6m +13%, Segment Profit \$11.1m +8%

- Revenue grew by 13% to \$130m, reflecting market share growth, despite a 7.5% reduction in used car market transactions from April to September, 2022. Registered dealers are at their lowest level for almost nine years as government regulation and higher interest rates impact the viability of smaller operators.
- Turners continue to outperform with total owned units sold in HY23 up 11% over HY22, even though our overall margin on cars we own was down 9% for the period. Retail unit sales were up 7% to around 9,500, and wholesale auction unit sales were up 42% to around 9,500 units.
- Gains in market share have been greatly supported by our Tina brand campaign, as mentioned above. Meanwhile, Nelson and Rotorua auto retail centres are now both fully operational and performing above expectations. These rapid results further validate the success of our geographic expansion model. Expansion in Timaru, Napier and Tauranga in pipeline for FY24. The business is operating off lower inventory levels with faster stock turn and is repositioning type of stock to smaller and cheaper, anticipating future trends in a tighter market.

Finance: Revenue \$29.2m +16%, Segment Profit \$9.1m -9%

- Finance had another strong six months, despite rapid interest rate rises which pressured margins. Revenue for HY23 was \$29.2m, up 16% on last year. NPBT was down 9% to \$9.1m, nonetheless a creditable result considering market conditions.
- A focus on pricing and margin has been critical in dealing with the speed of interest rate rises. Growth has moderated as quality and margin become higher priorities. Controlled lending through our own Turners and Direct channels was up 13% in HY23 to \$34m. Pleasingly Premium Tier business accounts for more than 50% of our new business each month.
- Credit policy has been tightened incrementally throughout HY23. Hardships are down more than 90% from their FY22 peak.

Insurance: Revenue \$21.6m +4%, Segment Profit \$6.3m +8%

- Market share gains continued to underpin policy sales despite challenging market conditions. NPBT was up 8% to \$6.3m on the back of revenue gains to \$21.6m, up 4% on the same period last year. Operating cost ratio was steady between 20%-21%.
- Distribution arrangements are continuing to work well, including further digital enhancements. Claims costs remain steady with procurement remaining a key strength and offsetting parts inflation and labour rate increase.

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- We have reaffirmed AM Best credit rating for Insurance and Financial Strength rating at B ++ (Good).

Credit Management: Revenue \$4.9m -14%, Segment Profit \$1.4m -32%

- Revenue decreased 14% to \$4.9m, as COVID-19 continued to impact our collections results, this time Omicron waves rather than lockdowns. Debt load is up 3% for HY23 to \$63.4m, as market wide credit metrics start to deteriorate. Debt value collected was down 8% to \$18.7m as cost of living pressures impacted consumers' ability to address outstanding debts.
- Our "Promises to Pay" kept rate has remained stable at 76%.
- We are continuing to transition to a digital-based business, as well as transforming our collections approach to be more customer-focused, centered on resolution rather than consequence.

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