



FLEXIGROUP

Acquisition of Lombard Finance

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John DeLano

Chief Executive Officer and Managing Director

Garry McLennan

Chief Financial Officer

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Agenda

- ✘ Transaction highlights
- ✘ Lombard overview
- ✘ Business Model
- ✘ Strategic Rationale
- ✘ Acquisition Summary

Acquisition of Lombard Finance Interest Free and Visa Card business

Purchase details

- FXL has agreed to acquire Lombard Finance for net \$10m funded from existing cash reserves (\$5m) and equity consideration (\$5m) - 5 times FY13 FCST earnings.
- Forecast earnings expected to be accretive in FY13

Business description

- A retail point of sale financier offering interest free through retail partners and cross selling customers a Visa card.

Strategic rationale

- 1 - Extend FXL reach to broader “Interest Free” market – grow Lombard interest free customer originations and maximise visa card potential
- 2 - Diversify into profitable credit card market - by offering Visa card to FXL 700,000 customers and leveraging 11,000 retailers
- 3 - Platform delivers speed to market - scalable platform, card servicing infrastructure, and committed funding accelerates results

Well Positioned

- FXL has proven track record of significantly growing complementary “no interest ever” Certegy business and cross selling products to customer base

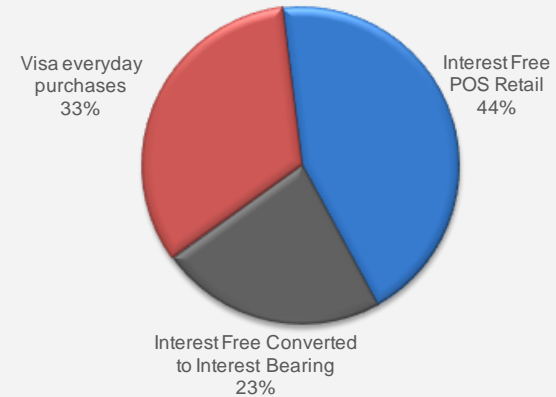
Overview:

Lombard scalable platform is well positioned for growth

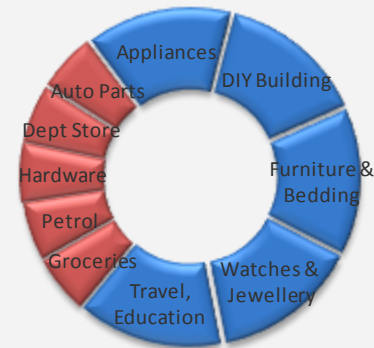


- ✘ Interest free point of sale card finance company with receivables of \$46.9m
- ✘ Retail partners are offered interest free product and customers are cross sold a Visa card
- ✘ Key originating industries: furniture, education, auto, home improvements and solar / hot water
- ✘ Visa card subsequently used for everyday retail purchases from petrol stations, supermarkets, pharmacies, and clothing stores
- ✘ Currently has 23,000 active customers, including 11,000 Visa cards used at retailers for everyday spending
- ✘ Under capitalised post GFC, Lombard's multiple product scalable card platform is well positioned for growth

Three volume sources



Industry Sources¹



Note:

¹ Industry size is not indicated – are top sources of receivables for Lombard

Business model

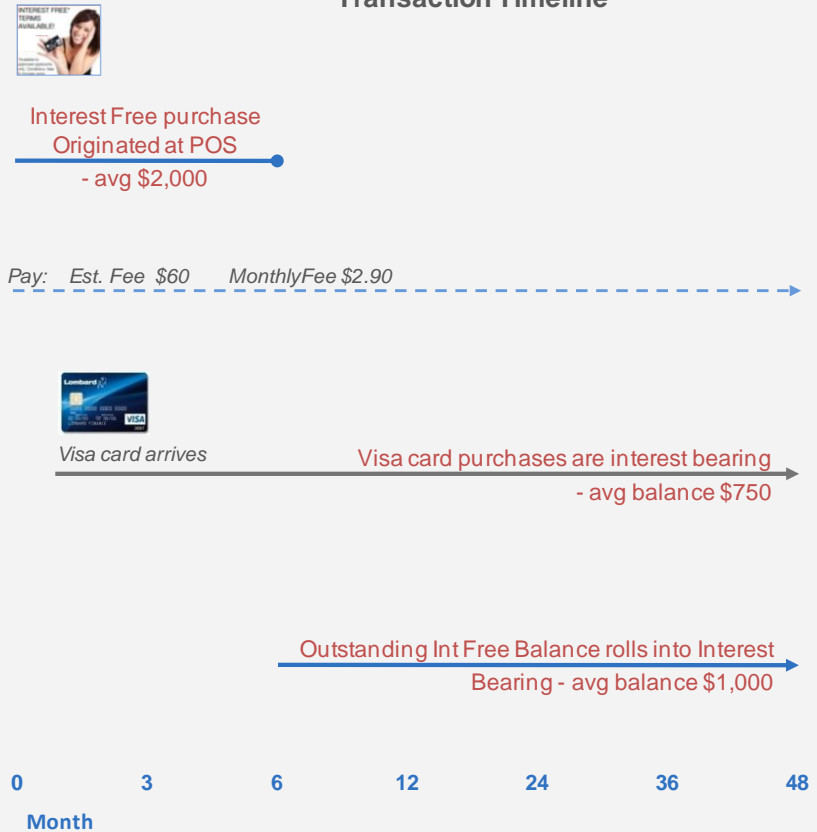
Customers originated through interest free subsequently transact by Visa card

Business Model



Originate new customers with interest free to drive higher NPAT subsequent transactions

Transaction Timeline



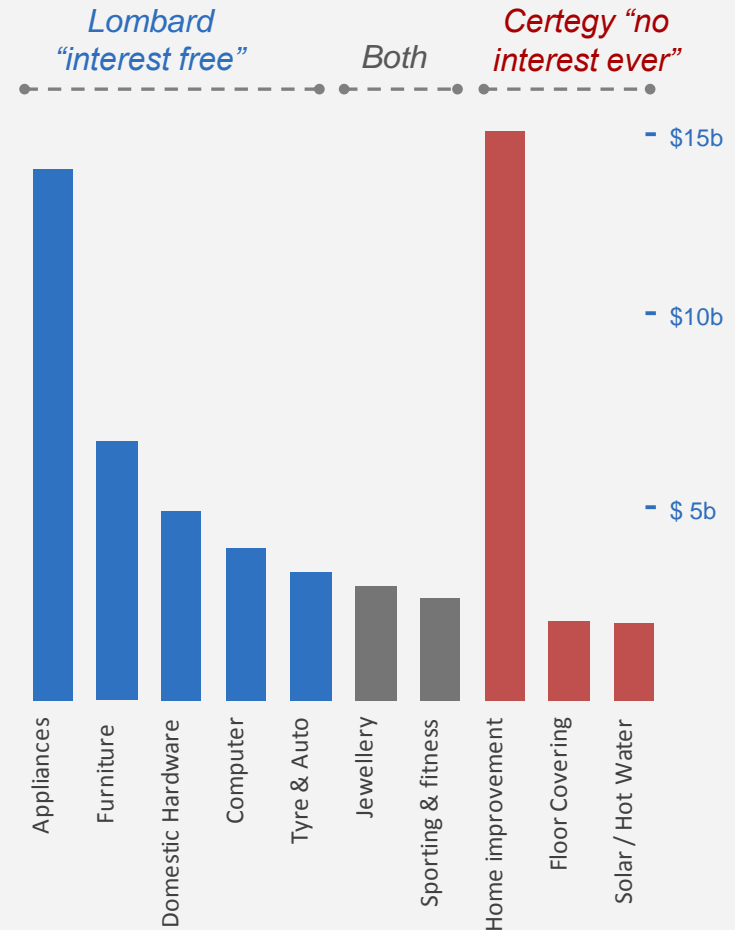
Strategic rationale:

Extend FXL reach to broader Interest Free market – grow Lombard business

Customers' origination "interest free" and "no interest ever"

- x \$5bn retail sales purchased via Interest Free
- x Interest free and deferred payment terms drive customer originations
- x Lombard "interest free" product complements Certegy "no interest ever"
- x Lombard operates in traditional finance sectors "interest free, deferred payment, card" typically electrical, computer, furniture.
 - Finance largely paid for by customers
- x Certegy operates predominately in non traditional finance sectors "no interest ever", lay-by, home improvements
 - Cost predominantly paid by retailers

Lombard and Certegy Industry Opportunity



Source: Crescendo Partners report Mar 07 from ABS; Ibis World, Inside Retailing and other sources

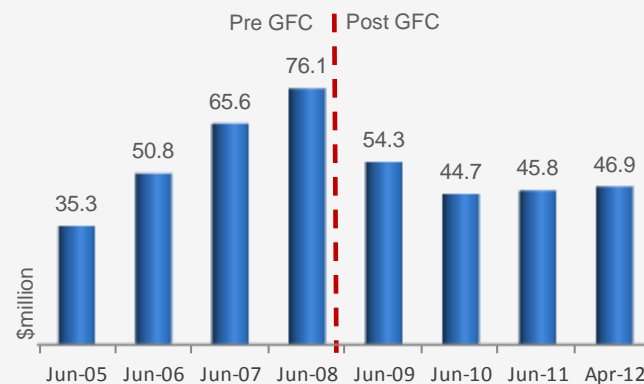
Strategic rationale:

Extend FXL reach to broader Interest Free market – grow Lombard business

Provide capital to drive interest free volumes

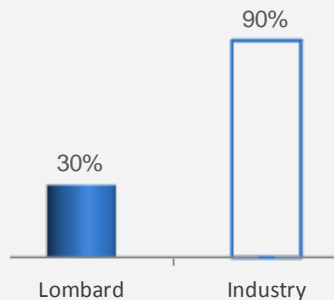
- ✘ Lombard growth constrained by lack of capital due to post GFC funding paradigm
- ✘ Lombard supported by Major Trading Bank Funding
- ✘ FXL well positioned to fund growth in Lombard's business

Lombard Average Receivables

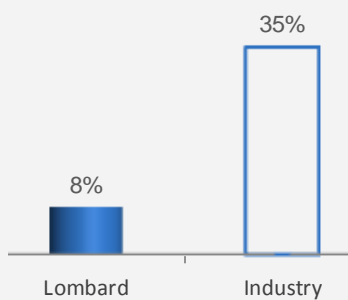


Capitalise on Visa card cross sell potential and improve card performance

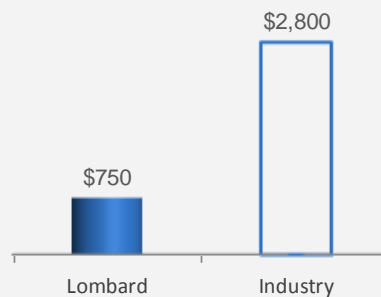
Card Activation Rate



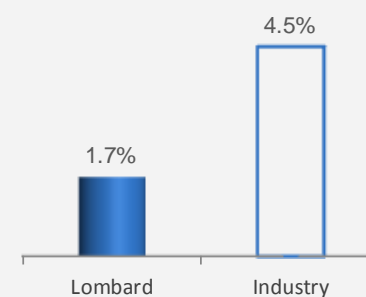
Card Active Monthly



Average Balance



NPAT / ANR



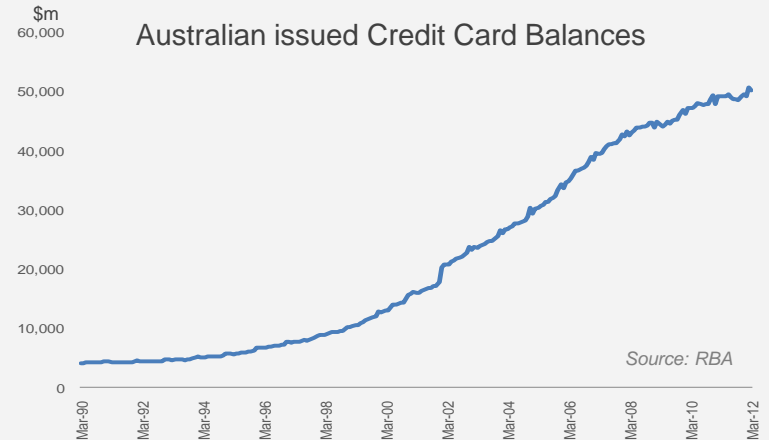
Source: Dart Consulting, and RBA

Strategic rationale:

Diversify into profitable credit card market by cross selling to FXL customers

Credit card use in Australia is high and has sustained growth

- ✗ 30% of personal expenditure is by credit card
- ✗ The card industry is profitable: +\$2.5b EBIT
- ✗ Customers are attracted to cards by rewards programs or interest free periods.



FXL Customers are middle Australians

- ✗ FXL customers' average income is \$63k versus the national average of \$65k
- ✗ A median age of 36 vs 37 nationally
- ✗ Typically full time employee and homeowner
- ✗ Solid credit quality customers with wallet space for a card

“Bob” – typical customer



- Aged 35-44
- Full time employee
- Income p.a. \$63k
- Lives – metro area
- Has a Mortgage

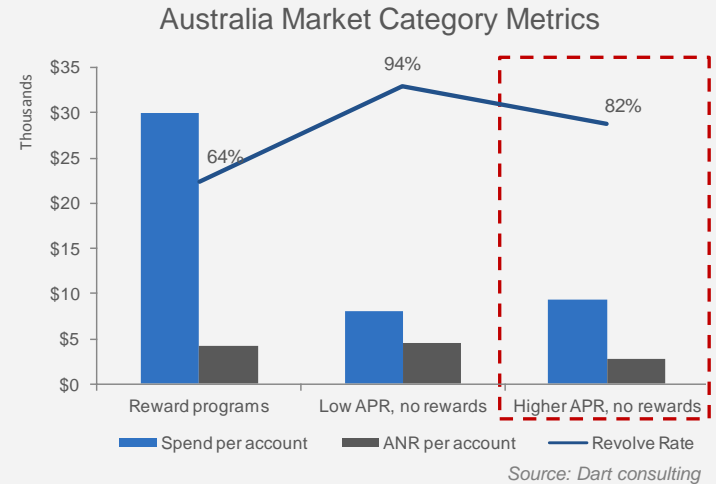
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Strategic rationale:

Diversify into profitable credit card market by cross selling to FXL customers

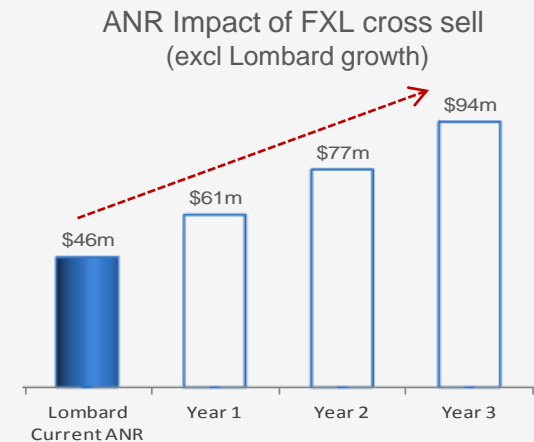
Cross sell card to target lower spend, high revolve categories

- Customer card value proposition – provides access to interest free, no interest ever and other FXL products through retail partners
- This segment represents 30.5% Australian card holders.
- Customers in this segment spend less, with a high revolve rate of 82%



Cross sell card to high credit quality low risk FXL Customers

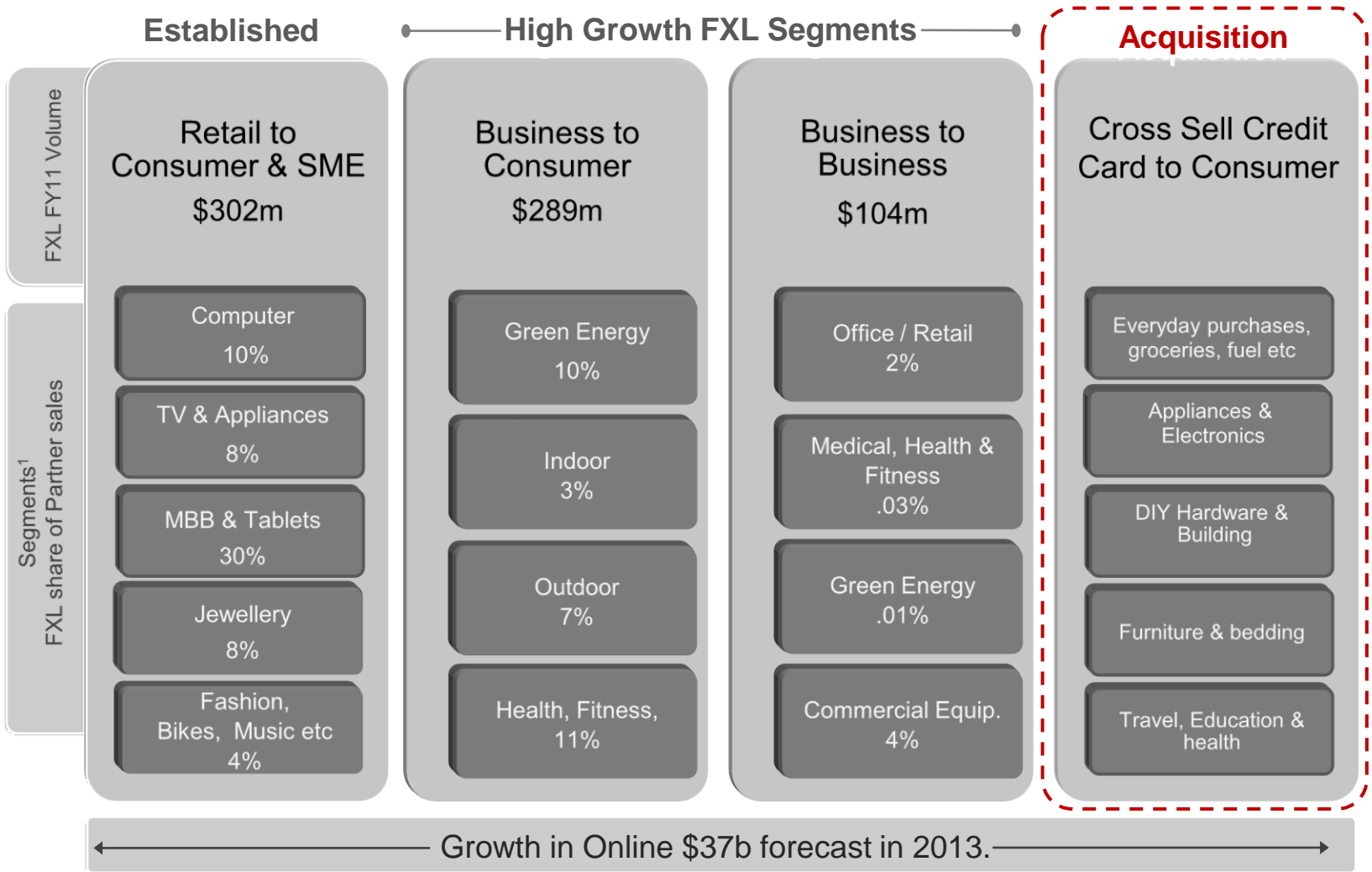
- Cross sell opportunity is large – 700,000 existing and 250,000 new FXL customers
- Target 21,000 new card holders p.a. from FXL: 1% of existing base; 5% of new customers.
- Annual spend \$3,000 with average balance:
Yr1 \$750 Yr2 \$1200 Yr3 \$1500



2

Strategic rationale:

Shift from retail point of sale to diversified financial services



Note:
1. Indicative split based on receivables

3

Strategic rationale:

Platform delivers speed to market – scalable, multi product, committed funding

Leverage Platform and card servicing infrastructure across FXL

Accelerates results by 3+ years



- Utilise efficient low cost off shore operation
- Leverage card system technology configurable to 99 products
- Key learning's from existing customers base

Access to card funding supports rapid growth

Eliminate time and capital investment required to demonstrate card risk track record to funders



- Funding – Australian Major Trading Bank funding in place with Lombard
- Product risk experience and scorecard provided by Lombard.
- \$1.0b in FXL funding facilities. \$283m undrawn

Executive talent injection to lift capability

Deploy FXL talent model using proven industry executives



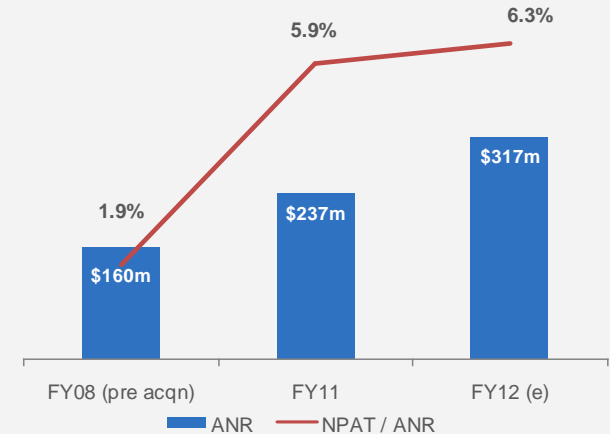
- FXL Vendor Finance and Online business launched by recruiting experienced industry talent from market leaders
- FXL to supplement Lombard expertise with credit card industry expertise
- Highly experienced credit card expert to develop card strategy

Acquisition Summary:

Well positioned to mirror Certegy improvement post acquisition

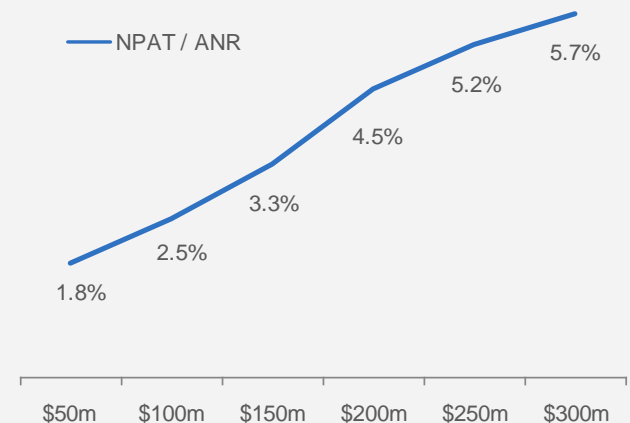
Certegy ANR doubles and NPAT increases 5 times

- ✗ NPAT increases from <\$5m pre-acquisition to \$20m FY12E
- ✗ ANR doubles from \$160m pre-acquisition to \$317m FY12E
- ✗ Certegy low cost, scalable operating platform has driven significant revenue increase with minimal cost increase
- ✗ By leveraging platform, NPAT/ANR improves from 2% to 6%



Lombard NPAT/ANR performance expected to mirror Certegy

- ✗ Growth to be sourced from:
 - Increased interest free originations
 - Maximising card performance
 - Cross selling card to FXL customers
- ✗ Lombard has a low cost, highly scalable platform similar to Certegy
- ✗ Volume growth will drive significant NPAT growth



- ✘ Interest Free Market and cross selling cards is a strategic opportunity
 - Large interest free market where FXL/Certegy has less than 5% market share
 - Cross selling Lombard Visa card provides additional profit opportunity for FXL
 - Expands diversified financial services footprint; access to new merchants/categories

- ✘ Acquisition delivers speed to market and provides infrastructure and funding to support growth

- ✘ Financial Outlook:
 - Accretive in FY13.
 - Investment in Lombard in 1H13 to reposition the business
 - Expect profit contribution to grow significantly beyond FY13
 - Reaffirm FXL FY12 Cash NPAT guidance of 12% to 15% growth on FY11

Appendix

Strategy to optimise visa card cross sell opportunity

Reach new customers

1. **Audience stretch** - New retailers and customers are attracted with longer term competitive interest free offers
2. **Audience stretch** - Card usage increases with customer lifecycle management and retailer promotions.
3. **Approval rates increase** with improved depth of risk analysis by leveraging scorecard.

Increase returns per customer

4. **Share of Wallet** increases with modern onboarding, benefit reminders, spend category offers, and variable pricing to stimulate new demand
5. **Revenue diversification** by cross selling other products to existing base
6. **Retention increases** with higher card usage and promotional activities
7. **Yield optimisation** by differentially pricing based on credit risk profile. Fees varied based on value of customers sourced

