FLEXIGROUP

ABN 75 122 574 583

ASX ANNOUNCEMENT

2014 ANNUAL GENERAL MEETING
CHAIRMAN & CEO ADDRESS

Sydney, 19 November 2014

CHAIRMAN'S ADDRESS

Ladies and Gentlemen,

I am delighted to be here today as your Chair and the newest member of the Flexi board. My appointment began in July and it is gratifying to be able to report to you today on last year's great results.

Strong growth in profit, volume and receivables has resulted from a strategy of diversification which has been in place since the acquisition of Certegy in 2008 and which we can now boast is our largest business by all key metrics.

This last year we continued to diversify with further acquisitions and with a strong focus on integrating and driving scale benefits across the Group. The three acquisitions made during the year integrate into existing businesses and further expand our distribution footprint in Australia and New Zealand.

These acquisitions have been well executed, as we have realised the full year benefits ahead of schedule. Interest Free Cards is an example of the team's ability to secure an opportunity in an impressive growth segment and then rapidly realise value through integration and scale.

The financial year 2014 continued to deliver solid returns for shareholders with cash earnings per share up 12% to 28 cents and with a full year dividend payment of 16.5 cents delivering growth of 14% over the prior year.

Corporate Governance

The Board remains committed to a high standard of corporate governance and we have revised our suite documentation to ensure compliance with the latest version of the ASX Corporate Governance Council's Principles and Recommendations.

In addition we have applied more rigour to our Legal and Compliance functions by re-structuring to create a dedicated Compliance Team with full remit over the Group's businesses and supplemented by an independent audit function.

During the year we restructured our Long Term Incentive Plan to more align it with the FlexiGroup 2020 Strategy which we outlined to shareholders in the Investor Roadshow Presentation on the 2nd of September this year. The restructure involved cancellation of previous option awards and an implementation of a 5 year award plan more aligned with our strategy. The details of the previous awards and an outline of the restructure are included in our 2014 Remuneration Report and more details are provided in the supporting documents for resolution 2 at this meeting.

The objective of the executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered and aligns to the achievement of strategic objectives thus driving the creation of value for shareholders. The Board ensures that executive remuneration satisfies key criteria for good reward governance.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the Group, the balance of the mix shifts to a higher proportion of “at risk” rewards.

During the year FlexiGroup undertook a review of policies and practices that had impacts across the organisation, with a specific focus on key guiding policies. This included a review of our Diversity policy and our suite of policies relating to our Code of Conduct and Health and Safety, and incorporating our Equal Employment Opportunity and Bullying policy. These policies were reviewed and updated as required during the year.

In line with our Best Employer strategy we have practices and measures in place that seek to reinforce the Group's values with a continued focus on inclusion and diversity at all levels of the business.

FlexiGroup recognises the value of developing, recruiting and retaining a diverse range of employees and that this supports good frontline service for our customers.

This year we had a strong focus on gender diversity. Of 156 personnel recruited, 42% were female. This focus will continue in the 2015 financial year and we will be placing greater emphasis on expanding the Flexible Arrangements programme which resulted in a 100% of women returning from maternity leave.

Outlook

Looking forward to our goals for financial year 2015, we are focussed on using our capabilities to protect the value of mature businesses, accelerate growth into new segments and to transform the Group to capitalise on the digital finance opportunity.

Business integration and customer centricity will drive strong earnings momentum and the company will reinvest funds into receivables growth, modernisation of our capabilities, and increased dividends to shareholders.

The Board is committed to an investment program that is aligned with this strategy and that is already creating synergies across the business.

FlexiGroup will continue to deliver year by year profit growth and a 50% to 60% payout range. In his address Tarek will give you an update on progress so far this year and our outlook for FY15.

On a personal note, I would like to thank the Board for their welcome and I look forward to contributing to the Company's continued success.

Additionally, I would also like to commend the Flexi team on an award received earlier in the financial year. The Group's excellence was recognised when FlexiGroup won the Overall Best Managed (Medium Cap) Company in Australia at the AsiaMoney Awards in Hong Kong.

These long established awards showcase a company's successful business strategy and fiscal performance. The finalists are determined after extensive research with analysts, business people, journalists and commentators. The Company must be well regarded and recognised within the industry. It is an award the team can be proud of.

In conclusion, on behalf of the Board of Directors I would like to thank all of FlexiGroup's shareholders for your continued support. I would also like to extend our appreciation to the Company's customers, partners, funders and the Flexi team for an outstanding year.

I would now like to introduce our Chief Executive Officer Tarek Robbiati, who will provide detail on the Company's performance over the past year and update guidance for FY15.

CEO'S ADDRESS

Thank you Chris and good afternoon everyone.

As the Chairman outlined in his address, FlexiGroup's strong performance stems from a continuing strategy of diversification that has been leveraged this year through a plan of well-executed integration.

Personally, I am excited to see our strategy will continue to evolve as we embrace changing customer behaviours. The business has recently begun a journey to transform its services across multiple products and brands to deliver a consistent, outstanding customer and dealer experience. Ultimately we want to be recognised as a digital finance leader.

However, before I delve too far into our future direction let's reflect on the year ended 30 June 2014.

FlexiGroup transformed its profit pool and delivered double-digit: volume, receivable and cash net-profit after tax. The Group delivered an outstanding performance for shareholders and highlights for the year include:

- Cash NPAT growth of 18% to $85 million, which meets the guidance provided to the market a year ago.
- Certegy and Interest Free Cards comprised 51% of the Group's profit pool. New business lines transformed the mix, as $15.7m cash NPAT was added in-year.
- Volume growth was strong, up 19% to $1,083 million, surpassing the $1 billion milestone for the first time. With all lines in growth, Cards was a highlight with 127% growth to $200 million.
- We expanded the Group's distribution footprint in Australia and New Zealand with three acquisitions made early in 2014. Rentsmart, Think Office Technology and Equico tuck-in to existing business lines and provide growth and scale benefits.
- The M&A Strategy has been well executed and is delivering, with the realisation of full year benefits of the acquisitions completed in FY2014.
- A new investment programme to deliver business integration and customer centricity is already creating synergies across the business and will deliver future earnings momentum. The Group is ideally positioned to capitalise on the digital finance opportunity.

The results from our acquired businesses are strong, after only 13 months of ownership (of both Lombard and Once), Interest Free Cards contributed $11 million in cash NPAT and $210 million in receivables for the year.

The RentSmart integration completed 12 months ahead of schedule and supported Consumer and SME consolidated receivables growth of 7% to $326 million. These results reflect the benefits of scale and unleashing the growth potential of previously underfunded businesses at a reduced funding rate.

The Flexi team has done an excellent job balancing receivables growth while limiting impairment losses (which remain stable at 2.7% of average net receivables). Business diversification continues to underpin strong credit quality and steady impairment rates will remain a focus.

The focus on high quality segments has enabled the Group to embrace securitisation and to deliver capital efficient funding which has improved the cost of funds this year by 110 basis points.

The lower funding costs provided good margin support and when combined with 13% growth in receivables delivered a $32 million increase in operating income. Return on equity in excess of 20% remains significantly higher than the financial sector average.

<u>No Interest Ever (Certegy)</u>

Following outstanding performance since acquisition in 2008, Certegy is now the largest profit centre of FlexiGroup, with cash net-profit after tax of $32.3 million comprising 38% of the Group's total.

Cash NPAT growth of 17% was driven by a 7% growth in receivables (to $453 million) and a reduction in the cost of funds.

Volume is up 3% for the year to $507 million, with second half growth accelerating to 9%. Solar volumes have remained stable despite lower government subsidies following the removal of rebates in December 2012.

Since its launch in FY2012 the VIP loyalty card program remains a hit with customers with repeat volume growth of 21% and repeat customers comprising 37% of new contracts written during the year.

Improved repeat business penetration has been achieved through:

- Tailored direct marketing & promotional campaigns including joint initiatives with major partners to enhance the value of the VIP offer.
- Improved customer self-service tools including a dedicated VIP helpline, online portal and highly functional ‘smart’ application.
- Underpinning the success of the VIP program is the inherent appeal of the “No Interest Ever!” product which continues to attract high customer satisfaction levels with an ongoing Net Promoter Score of +40.

The outlook for Certegy remains strong with growth prospects from:

- The continued focus on organic growth from increased penetration of existing merchants and repeat business programs.
- New merchants and new industries such as rental bonds, travel, education and solar / green technologies such as batteries / air-conditioning etc.
- Further penetration in home improvement, health and aged care products.
- The new Ezi-Pay Edge product launched in New Zealand in July 2014.

To support growth in these areas and in-line with the corporate digital strategy, direct and digital marketing and increased use of smart technologies to facilitate “search, click and collect” will continue to be developed.

<u>Interest Free Cards</u>

The Interest Free Cards segment comprising the Lombard and Once businesses delivered $11 million cash NPAT in the first full year, an increase of $8 million on the prior year.

The business was fuelled by the Once Credit acquisition last year, with the combined business reporting sales volume growth of 127% to $200 million and closing receivables growth of 13% to $210 million.

The sales team effort was directed to drive interest free volumes through strategic partnerships in the retail and homeowner segments. The number of new applications was up by 40% on the previous year, contributing to 29% growth in customers across the combined business.

The net portfolio income of $32.8 million was attributed to successful dealer promotions with a strong focus on increased card spend with supporting marketing campaigns and successful spend stimulation.

An outstanding year for Interest Free Cards was driven by:

- A full year contribution made by Once Credit (compared to one month in FY2013).
- The realisation of significant Lombard and Once integration synergies.
- Increased customer acquisition activity and card spend.
- 190 basis point uplift in cash NPAT margin as a result of the business scaling up.

Further integration and product enhancements will drive future profit and receivables growth.

The integration of Lombard and Once is nearing completion with the deployment of a single originations platform that utilises best practice, including e-signatures. Back-end system integration will continue and is expected to deliver further synergy benefits in FY2015.

Additionally, there is scope to optimise the portfolio performance; this will include enhancements to credit limit assignments, customer on-boarding, card activation and customer retention.

Strategic marketing offers will target new customers and stimulate repeat spend and everyday card usage. New card products with enhanced value propositions for customers, will be launched with the Once brand (to align with Lombard 180 Card).

There will be increased sales focus on existing partner relationships including accelerated joint marketing programmes with key channel partners and potential expansion into other sectors.

Consumer and SME Leasing Australia (including Ireland)

The Consumer and SME Leasing business was strengthened by the Rentsmart acquisition which expands the Group's distribution footprint and provides scale in an existing segment. The integration completed 12 months ahead of schedule (in June 2014) and delivered significant synergies.

Closing Receivables of $326 million are up 7% on FY2013, resulting from the consolidation of the RentSmart business in February 2014.

Sales volume increased by 1% to $189 million. This is a pleasing result given the difficult consumer computer leasing market which has been impacted by the emergence of lower priced tablets and a decline in computer and other hardware prices.

The SME segment continues to offset declines and following 18% growth now contributes 41% of the total Consumer & SME Leasing volume. The changing mix from Consumer to SME has stabilised the cash NPAT trend, which was down 10% to $26.0 million.

New products and distribution relationships will drive growth in FY2015. The acquisition of RentSmart is expected to mitigate the decline in consumer leasing by adding scale and a wider distribution footprint.

New product offerings through the SmartWay and FlexiWay brands, offered respectively in the JB HiFi and Dick Smith stores, are expected to continue to drive volume uplift. FlexiGroup has signed a long-term agreement with Dick Smith Electronics for leasing and is now the whole of business finance provider (including interest free cards).

Additionally the expansion of product offerings into the mobile and tablet market is expected to provide further opportunities.

In SME, the Group launched a refreshed FlexiCommercial brand in the second half and will continue to build on its strong customer value proposition through a competitive product offering and real-time solutions.

Growth is also expected through: new dealer relationships, new asset class opportunities in the solar and digital media space and across existing channels (such as catering, beauty and fitness).

New Zealand Leasing

Reporting separately for the first time, New Zealand Leasing contributed $5.6 million in cash NPAT, up 30% on the prior year. An increasingly important segment for FlexiGroup, products are tailored towards the lower risk SME market and 90% of customers are business users.

FlexiGroup offers leasing in New Zealand through Noel Leeming, Harvey Norman and numerous independent partners. In FY2014 the New Zealand business delivered volume growth of 31% to $38 million and receivables growth of 27% to $66 million (which is 5% of the Group's receivables).

With growth predominantly in the low risk SME sector, the portfolio mix has been changing over a number of years and is reflected in impairment losses which reduced by 11% to $0.6 million.

In March 2014 the business was expanded by the acquisition of Equico, a well-established provider of information and communications technology leasing to business and government agencies. They are a leader in the education sector dealing with private and public schools as well as tertiary institutions.

New Zealand leasing offers a solid platform for growth in FY2015. The Group expects to see SME growth from the core leasing business and the Equico product is expected to drive strong volume growth within the education sector.

There will be a strong focus on transferring other successful Australian products to the local market and there is an opportunity for expansion of the distribution footprint and improved service as some key Australian channel partners have untapped New Zealand operations.

Enterprise Leasing

Enterprise Leasing has an ongoing focus on the mid to large market segments where the average deal size is approximately $250,000. This focus has resulted in volume growth of 32% and has continued to enhance the credit quality of the portfolio. Enterprise contributed $10.1 million cash NPAT, an increase of 15% on FY2013.

With 179 vendor relationships and new distribution channels, this momentum continues to sustain revenue growth. Sales volume increased by 32% to $149 million as a result of consistent volumes through new strategic partnerships and increased penetration within existing vendors. As a result receivables growth of 34% to $263 million was reported.

The Enterprise portfolio has a low impairment loss ratio, largely driven by continued focus on assets and customers with a higher credit quality.

Enterprise expanded in March 2014 with the acquisition of Think Office Technology who provide a full suite of office equipment, tailored print services, cloud computing solutions and traditional technology services throughout regional Queensland.

The acquisition allows FlexiGroup to consolidate and grow in the vertical print and managed services industry.

FlexiGroup forecasts ongoing growth in Enterprise and in-line with the broader corporate strategy will shift from manual origination processes to digital originations with a self-service functionality. This will drive increased volumes, faster approvals and stronger partner relationships.

FY15 Outlook

Though trading conditions have been tough this year, four months into FY15, management reaffirms underlying cash NPAT of $90-91m for FY15 prior to a one off loss provision which I will now detail.

The Board and management have determined to bring forward a one-off loss provision of $2.5 million after tax related to a single commercial leasing contract with a major retailer.

Whilst the underlying credit was solid, the residual value position taken in 2010 on photographic printing equipment is now significantly above the salvage value of the assets financed.

Since 2010, the market for this type of equipment has significantly shifted away from wet print to digital technology and we understand similar losses have been experienced on this type of equipment by other financiers.

The timing of the provision has been brought forward by the recent decision of the lessee to decommission the assets well ahead of the contract term conclusion from mid-2015 through calendar 2016. The secondary market for this type of equipment continues to deteriorate, therefore FXL have taken the decision to early terminate the contract and sell this equipment now to minimise the loss.

This was a one-off contract and the Group does not have any further exposures to this asset type. Furthermore the next two largest remaining unguaranteed residual value exposures in the Group are significantly lower at $1.7m and $0.3m and both are for assets which have an active and stable secondary market.

General Outlook

As mentioned earlier, our strategy is evolving and the Group has articulated its goal to become a digital finance leader. We firmly believe that the best way to serve our customers and channel partners is to integrate our businesses to provide a full suite of finance solutions.

We will transform from a product-centric call centre to an omni-channel, integrated full-service provider of finance solutions with multiple originating and servicing options. Whether in-store, at home or using a mobile device our goal is to connect customers to their goods as seamlessly as possible.

The digital revolution is rapidly changing customer behaviour and we will respond with a 'Call and Click' model across: Consumer and SME Leasing, Cards and Enterprise Leasing to increase customer reach and to drive significant productivity and scale benefits over the next 24 months.

Internally, we instil our culture as 'innovate, collaborate, simplify and deliver'; over the next couple of years our stakeholders will see this externally reflected as we transform to embrace a digital world.

An investment program has been approved by the Board to support the increased capital expenditure required to upgrade IT platforms and to continue the integration across the business.

The Group will continue to seek value accretive acquisitions both domestically and potentially internationally (where the market and regulatory environment is similar) and where our core capabilities can be leveraged.

On a final note I would like to take this opportunity to thank the Flexi team for their enthusiastic support of the business evolution being undertaken.

Thank-you and I will now hand back to the Chairman.