

## **CHAIRMAN'S ADDRESS**

### **ANDREW ABERCROMBIE**

It is my pleasure to present FlexiGroup's results for the financial year 2017 and to provide an update on the progress of the investment and growth strategies as outlined at the 2016 Annual General Meeting.

During last year's meeting, we signalled that the Group's strategy was to focus and invest resources in areas that provided key organic growth opportunities with the greatest potential to change our scale, profitability and returns. These included Australia and New Zealand Cards, Commercial Leasing, Ireland and the organic development of our newest product, Oxipay which provides a gateway to a new, broader range of retailers.

Investment to fuel growth has been directed to a number of key disciplines, namely;

- Sales and Marketing
- Skills and Capability
- Product delivery
- Collections and Risk
- Regulation and Corporate Governance

The Group delivered, within guidance, a Cash NPAT result from continuing operations of \$90.3 million. This was slightly down on last year as a consequence of rapid growth in the Cards business, investments in new product development, and higher interest expense on corporate debt. Our 2017 Statutory NPAT from continuing operations was \$87.4 million, an increase of 74% year on year.

It is pleasing that against a background of refocusing the business and investing for growth, our team have delivered strong volume growth of 54% - to \$1,949 million, with Australia cards a significant driver of growth, up 61% to \$534 million.

It is expected that the Australia Cards receivable growth will flow through to higher profits in FY19 as these interest free balances convert to interest bearing. With continued growth in both card origination and card usage forecast across Flight Centre and other major retailers, Australian Cards remain well positioned to achieve \$1 billion in receivables and \$35 million in Cash NPAT by FY20.

With a large seller network of over 13,000 merchants, New Zealand cards has delivered (in its first full year of performance) solid volume and profits which were in line with expectations. Investment in management and the sales and marketing teams has reinvigorated growth, while the introduction of a proprietary, cards technology platform provides a modern and mobile-friendly opportunity to expand our market in New Zealand.

Following a thorough evaluation of our Commercial Leasing business during the year, we identified areas for improvement and a number of new opportunities. Total Australian Leasing volume grew by 25% to \$205 million and this was largely driven by 66% growth in

Commercial volume to \$94 million. While good progress has been made, we expect further repositioning to continue in FY18 as the team continues to leverage a new Managed Services Program which we believe offers a market leading opportunity for the Commercial Leasing business across both Australia and New Zealand.

In Ireland, we successfully launched our Flexi-Fi point of sale instalment loan in June 2017. In the first 8 weeks Flexi-Fi signed strategic relationships with 15 national retailers across 60 stores – a significant pipeline of new opportunities. Conceived and delivered in less than six months, this new proprietary IT platform and product offering was developed by FlexiGroup, a clear demonstration of our evolution into a tech smart, nimble business.

Our new micro payment product, Oxipay was successfully launched in both Australia and New Zealand to provide an easy, sub-\$1,000, digital payment solution. It is available in-store and online to existing retailers and provides exciting opportunities within a new, broad range of retail channels.

In line with expectations, the Certegy FY17 results were slightly down on the prior year with volume down 2% and Cash NPAT down 4% however, the business remains strong with 14,000+ retail relationships. There is significant benefit to be gained from increased investment to maintain market leadership, and this includes entering new market segments and launching new products.

Accordingly, both the Australian Consumer businesses of Certegy and Leasing will be a strong focus for FY18 investment as we reinvigorate, digitise and consolidate capabilities. Origination is being re-imagined and simplified to increase retailer take up and to provide customers with an improved, frictionless experience.

During 2017 steps were taken to enhance the Group's corporate governance framework, including the restructure of our internal Audit and Risk Compliance Committee and Group Asset & Liabilities Committee. To enable greater focus on both these critical areas, the board decided to create two committees, one for Risk, the other for Audit.

In December 2016 the expertise and independence of the Board was strengthened as we welcomed two new highly-qualified independent Directors – Christine Christian and Jodie Leonard. Christine was CEO and latterly Chairman of Dun & Bradstreet Australia and New Zealand and Jodie has held senior commercial and marketing positions in listed companies as well as a strong portfolio of directorships.

Since appointment, Christine has accepted the role as Chair of the Risk & Compliance Committee and Jodie is a member of both the Audit and Remuneration committees. Their combined skills and experience in financial services, risk management and digital marketing have proven to be invaluable and I am grateful to them for their insight and commitment.

Over the past 18 months FlexiGroup has constructively engaged with our primary regulators, with regard to legislative and regulatory change. As a Board, we regard proactive management of legislative and regulative changes as one of our key competitive strengths.

For FY17 the Group declared a fully franked total dividend of 7.7 per share with a final dividend 3.85c per share. While this is a reduction relative to previous years, it has enabled the Group to reinvest back into our growing cards business while also strengthening our balance sheet and reducing the Group's leverage.

FlexiGroup's aim is to provide customers and suppliers with seamless payment solutions. Our mantra of "fast, convenient, easy" describes how we facilitate finance for assets and services for both sellers and buyers. The 2017 financial year has been transitional for the Group as we undertook significant restructuring and simplification of systems and processes to improve the customer experience. In FY18 we will continue to digitise and consolidate our business to fully capitalise on our market leading position.

The FlexiGroup team and I are excited about the promising volume growth opportunities across our entire portfolio as we combine enormous distribution reach with unrivalled product breadth. The outlook for financial year 2018 estimates Cash NPAT between \$85-90 million.

While our primary focus is on the delivery of profitable organic growth from our existing portfolio, the Board of Directors and Executive management team will continue to consider value accretive opportunities if we believe they are the right fit for FlexiGroup and its shareholders.

Finally, before I pass to Symon I would like to extend my personal thanks to our departing board member, John Skippen. As some of you will be aware our association with John dates back to the mid 90's when Flexirent formally began its relationship with Harvey Norman. On the other side of the negotiating table, as Harvey's CFO, John achieved a somewhat formidable reputation and it was with some relief that I welcomed him to our Board when we publicly listed in late 2006.

His deep retail knowledge and management expertise has been of great value to the Board and the successful development of the FlexiGroup business. I thank him for staying through the calendar year to ensure Board continuity and for his diligence, integrity and friendship.

I would now like to pass to Symon who will provide greater detail on our results and outlook.

## **CEO'S ADDRESS**

### **SYMON BREWIS-WESTON**

## **CEO'S REPORT**

2017 was a transformational year for FlexiGroup as we continued to digitise and streamline the Company to fully capitalise on our market leading positions in point of sale consumer and commercial finance.

This year saw us make changes to our core platforms and processes, focusing on underperforming units and investing for growth. This was needed because we believe that

successful businesses must continually change. One of our biggest challenges is to anticipate and facilitate that change while at the same time retaining our core values.

For us, the customer is central to everything we do, without them we wouldn't exist. We strive to disrupt the model of traditional lending through the delivery of innovative and tailored financial solutions which meet our customers' needs around the world, giving them choices they would not otherwise have.

We have embedded a new Executive Management Team and I believe they are the right team - in the right positions - to drive the business forward and to deliver growth for you, our shareholders.

## **Group Performance**

At the end of the year we reported solid financial results of \$90.3 million Cash NPAT, which was in line with our guidance. We were pleased with the result, in particular given the investments we made during the year to refocus the business on growth.

In February, we announced the re-basing of our Dividend Policy. We chose to do this to support the growth in our cards business in Australia. We have also announced a more efficient funding structure for this business, which will materially reduce our cash requirements in the future and support strengthening of our balance sheet.

In addition to our Australian cards business, there are strong growth opportunities in our Commercial Leasing businesses. They have tremendous new opportunities in managed services and subscription models, as they capture the emerging trend to do "everything as a service".

I would like to highlight some of the progress we made last year in some key areas in:

- Our Cards Businesses; and
- Development of new product and service offerings.

The exceptional growth in our Cards businesses resulted in our Group volume growing 54% to \$1,949 million and our closing receivables growing 9% to \$2,047 million.

In New Zealand, investments were made early in the year, in the management, sales and marketing teams which have started to reinvigorate growth.

Our Australian Cards portfolio is growing strongly. While we saw receivables growth across all major retailers, during FY17 we launched our Flight Centre partnership and have seen a particularly strong take-up. We continue to work closely with Flight Centre, and other partners, to grow card user numbers.

A key indicator - which is very positive for us - is that customers are increasingly using their cards for everyday spend, with the average card spend in Australia up 14% year on year. It's a similar positive story in New Zealand where the average card spend is up 9% year on year. To capitalise on this strong growth, during FY18, we will launch a NEW Australian card. We

have already signed an agreement with MasterCard as our new scheme partner for this global card and we look forward to announcing more details early in the New Year.

## **New Products**

In July 2017 we launched Oxipay in Australia, followed soon after with the launch of Oxipay in New Zealand in August 2017. Oxipay has been developed in-house as an online micro-payment (<\$1,000) solution. It is targeted towards the increasing trend of millennials to buy now/pay later. It's a strong customer acquisition tool and has deepened our retailer relationships as FlexiGroup now offers a full suite of payment solutions, delivering increased uptake of the Oxipay offering.

This full suite of products is unique in the Australia and New Zealand Point Of Sale finance market. We are now present in over 750 retailers across Australia and New Zealand. It is now beginning to exhibit good growth.

We will continue investing in Oxipay, building scale and profitability and leveraging the cross sell opportunity for Certegy and our cards businesses.

Another new offering which we are very proud of is our digital finance offering, Flexi-Fi, which was launched in Ireland in June. This is a business, born digital, and designed and developed in-house in 6 months. Within the first 8 weeks of launch we had 15 retailers across 60 stores signed-up to offer the product to customers.

An exciting aspect of Flexi-Fi's dynamic offering is its seamless digital solution. Following feedback from retailers and customers we understand that digitisation drives retailer take-up and significantly improves customer experience. We intend to leverage this knowledge and experience across our broader digitisation agenda.

We also invested in our capability to deliver financing in the Commercial arena for the fast emerging 'anything as a service' market – managed services. We have developed market leading IP for this market. This IP, plus the signing of partnerships with key Global technology providers - such a Lenovo - has set-up our Commercial Business for a period of strong growth capturing our first mover advantage and "IP" developed across the year.

## **Strategy & Outlook**

Our strategy at FlexiGroup is simple - "We make Moments Happen" for both our buyers and our sellers.

Our goal is to make more moments happen seamlessly - through the use of customer focussed technology, platforms and people.

Supporting this, we are leveraging our 1.6 million customer records, and associated data, to enhance experience and value for our buyers, sellers and shareholders. At our last results briefing we outlined a number of key initiatives to continue to build on the progress made in 2017.

Here is what we said we were going to do and we will provide a more in-depth update in February at our half-year results presentation. I would however like to call-out a few areas that I am particularly pleased with.

### **Progress Year to Date**

Digitising Certegy - I am pleased to report that we are making very strong progress in delivering our buyers and sellers a seamless digital experience.

We have now completed in-store digital acceptance for buyers, a digital merchant application and shopping cart integration for Certegy Ezi-Pay. We started deployment this month and will be progressively rolled out - across our seller network - over the coming months.

We are on track to deliver, as set-out in our August results presentation. We have consolidated the Certegy sales team and significantly increased our focus on re-invigorating relationships with our sellers. Early results are pleasing. We have signed several exclusive agreements with the major solar panel and battery distributors in Australia. Importantly, margins in Certegy have held at similar levels to those experienced in prior periods.

We're also on track to consolidate our Australian Cards business from three core product platforms into one.

This will be based in New Zealand to leverage existing New Zealand cards proficiency and the prior roll-out of our cards platform.

Our new Australian Credit card offering is in internal testing and scheduled for a soft launch to market in February 2018 - with a full roll out across our Australian seller network through the balance of the financial year. Beyond delivering a fantastic customer value proposition, the card will contain some unique and market leading components and I look forward to updating you all closer to our full market launch in April.

We continue solid progress in improving the Groups data management and have implemented our first instance of machine learning – forecasting credit card account closures across our Lombard business up to five months out. We are now trialling marketing initiatives based on this information to improve customer retention.

New leadership and an increased sales and marketing focus has seen positive growth in our New Zealand Cards business over the first four months of the year with the Q-MasterCard launched last year continuing to gain traction in the market.

The Australian Commercial Business has executed its first managed services transaction (a tier-one accounting firm). In conjunction with our partner Lenovo – we're in final negotiations for a managed services model with a blue chip Australian corporate.

We are continuing to invest in this area as we see significant growth potential. We expect this business to begin to contribute meaningfully to the growth of the commercial business going forward.

Our newly launched fully digital business Flexi-Fi has been extremely well received in the Ireland market. We have signed key distribution agreements with major Irish retailers Woodies, Harvey Norman and on line only electrical business Appliances Direct.

Furthermore our Irish team have recently signed with major electrical utility Air-tricity to provide finance to home owners looking to upgrade their boilers and improve the energy efficiency of their homes. Air-tricity is connected to 880,000 homes in Ireland. We completed our maiden financing for this important partner in this last week. This is an exciting medium term growth initiative.

### **A Positive Outlook**

FlexiGroup has growth opportunities across its entire portfolio. Significant growth will continue in the Group's cards businesses.

The commercial businesses have strong opportunities in managed services and subscription models as it captures the emerging trend to "XaaS".

Investment in Certegy during FY18 will return the business to growth in FY19. In addition, investments in OxiPay and Flexi-Fi demonstrate that FlexiGroup can be AS tech smart and contemporary as other digitally focused finance businesses.

While providing market leading origination services at Point of Sale, FlexiGroup's sizeable distribution, funding capability and proven portfolio and asset management skills ensure that the business is set for long term sustainable growth.

The Group has a strong investment plan in FY18 with capital expenditure of \$28-31 million to deliver regulatory, strategic and growth initiatives.

Our trading year to date has been solid and in-line with our forecasts. I take this opportunity to re-confirm our guidance for FY 2018 of CNPAT of \$85-90 million

### **Final Word**

I would personally like to thank all of our team members at FlexiGroup. Their passion and focus on innovation and customer service excellence have created a bright platform for our company.