

26 February 2019

FlexiGroup reports 1HFY19 result

New strategy unveiled

Tanarra Capital invests in FlexiGroup

HIGHLIGHTS:

- 1.2 million active customers, up 17% on previous corresponding period (pcp)
- 62,000 retail partners, up 8% on pcp
- \$1.31 billion in transaction volume, up 19% on pcp
- \$2.55 billion in receivables, up 13% on pcp
- Cash NPAT \$31.9 million, down 22% on pcp
- Transformation Plan outlined today; significant simplification of product suite and business systems underway
- Investment by Tanarra Capital of \$25.1m in FlexiGroup by way of placement of 20,113,947 fully paid ordinary shares in FlexiGroup at a price per share of \$1.25, representing a 10.5% premium to the Volume Weighted Average Price from and including Wednesday 6 February 2019 until the close on Monday 25 February 2019.
- New product **humm** to drive growth in Buy Now Pay Later segment
 - Launching with 1 million registered customers and 12,000 merchant partners
 - New fashion retail partner, Premier Retail, announced today
- New channels identified including move to direct-to-consumer credit card offering in Australia

Rebecca James, FlexiGroup CEO, said: *“The past six months has been a time of review for FlexiGroup. While driving performance in existing business units – which is evident in the growth in customer numbers, retail partners and volumes – we’ve concurrently reflected on our business strategy. Namely, the changing dynamics of the consumer finance sector and the needs of our customers.*

“Today we announce our transformation plan for the business. Work has already begun with moves to consolidate our consumer finance products into four brands that will be known, recognised, trusted and sought-after by our end customers, not just our merchant partners.

“We are also delighted with the support we have received from Tanarra Capital who have a long-term view on the potential of our business and belief in our transformation plan. We are already on the path to simplifying our business and lifting our visibility, our accessibility and our service to customers, partners and the community.”

FlexiGroup Limited (ASX: FXL, FlexiGroup or the Group) today reports its results for the six months ended 31 December 2018 (HY19).

During the first half, FlexiGroup attracted 272,000 new customers to its products, resulting in an active customer base of 1.24 million. The Group also added 5,000 new retail partners to its network, increasing its valued partnerships with retailers across Australia and New Zealand to 62,000.

This growth in customers and retailers is supported by 1H19 transaction volume which increased 19% to \$1.31 billion, with total receivables of \$2.55 billion.

The Group delivered a Cash Net Profit After Tax (NPAT) of \$31.9m and, after adjusting for an impairment related to a vendor programme in FlexiGroup’s Australian Commercial Leasing division, underlying NPAT for 1H19 was \$41.9 million.

Operational highlights in 1H19 included:

- Buy Now Pay Later volumes up 12% with product suite now digitised
- Australian Credit Card volumes up 11% and portfolio income growth of 40% driven by strong usage
- New Zealand Credit Card volumes up 16% driven by a 34% increase in transactional spend
- Consumer leasing volume stable reflecting the transition to “Lisa”, our new best practice product which has early adopted Government Panel recommendations
- Cash NPAT reduction of \$3M driven by the anticipated collections issues identified in FY18 as a result of underinvestment in collections systems, people and processes. Management well progressed on remediation with improvements expected in H2.

While commercial leasing volumes were strong, this segment was impacted by an impairment taken on one vendor program.

STRATEGIC REVIEW

FlexiGroup has undertaken a comprehensive strategic review of its business over the past five months – reviewing internal culture, systems and processes and also engaging with merchant partners and customers. Management has identified a \$5.8 billion Trans-Tasman market opportunity in FlexiGroup’s core product range which includes:

- Buy Now Pay Later – a \$435m market in Australia which currently represents 25% of FlexiGroup’s 1H19 Net Income
- Credit Cards – a \$3.7 billion market in Australia which currently represents 45% of FlexiGroup’s 1H19 Net Income
- Consumer and SME Equipment Leasing – a \$1.3 billion market in Australia which currently represents 12% of FlexiGroup’s 1H19 Net Income

Ms James said: *“There is an extraordinary opportunity to grow with the market in these core products – all of which are in great demand. Consumer spending, saving and financing preferences are changing, and we believe that FlexiGroup can win more of the market by being customer led.*

“We see clear customer profiles emerging in preferences for our products. It’s our responsibility to listen to those customers, understand the way their lifestyles are changing and deliver products that meet their needs. This means being trusted, flexible, accessible and easy to understand.

“It’s our objective to be the preferred issuer of digital spending power for our customers. To achieve this, we have identified four steps to transform our business.”

FOUR STEPS TO TRANSFORMATION

1. Simplify our offering and get fit to fight

FlexiGroup’s objective is to improve service while also reducing cost to serve by circa 40% over three years with the following key initiatives:

- Simplify products by moving from 12 consumer facing brands to four
- Simplify systems by decommissioning legacy systems and moving to future state architecture
- Simplify service by leading with digital first, improving the call centre experience and appointing single-point customer relationship managers
- Simplify operations by realigning shared service functions to better support the Group

2. Lead in Buy Now Pay Later

In line with FlexiGroup’s strategy to increase market share in the fast-growing Buy Now Pay Later (BNPL) market, the company today announces the launch of **hummm**. **hummm** is the only product in the market that can service transactions up to \$30,000 completely interest free.

hummm will consolidate FlexiGroup’s two legacy Buy Now Pay Later platforms – Certegy EziPay and OxiPay – into one frictionless platform to the benefit of merchants and their customers. The service will be available in Australia at the end of March 2019.

FlexiGroup has trusted, long-term Buy Now Pay Later partnerships with 12,000 merchants who themselves generate in excess of \$5 billion in sales annually. All of these merchants (currently on the Certegy EziPay and OxiPay platforms) will transition to **hummm** at launch.

In addition, FlexiGroup is delighted to announce its first retail apparel fashion partnership, having today signed an agreement with Premier Retail (Premier). Premier is a leading global operator of retail brands including Smiggle, Peter Alexander, Portmans, Jacqui-E, Just Jeans, Jay Jays and Dotti. Premier has a portfolio of more than 1,200 stores spanning Australia, New Zealand, Asia and Europe.

Ms James said: *“We’re delighted to announce Premier Retail as the founding fashion retail partner for our **hummm** platform. Premier’s iconic, much-loved Australian brands are supported by a best in class online platform across mobile, tablet and desktop. We’re excited to partner with Premier to provide a frictionless transaction experience for Premier brands and their valued customers and we look forward to launching the **hummm** offering shortly.”*

hummm will target the retail market (\$70 billion in annual AU/NZ sales), home improvement (\$65 billion) and health (\$22 billion).

3. Streamline originations with instant credit decisions

FlexiGroup has significant data and intelligence driving credit decisions, but systems differ across products and geographies. In order to benefit from FlexiGroup’s breadth of financial, customer and merchant knowledge, bringing these processes together into a digital-first credit decision framework

across the group is a critically important step. This work has commenced, and updates will be provided at FY19.

4. Expand our reach, our target market, our audience and our relevance

FlexiGroup sees an opportunity to expand the distribution of its credit card product in Australia. Currently available at the point of sale of many retailers, the business will acquire customers directly following a successful digital acquisition trial last quarter. Key to the value proposition is FlexiGroup's ability to not only provide an instant credit decision, but also instantly provision the credit card directly into the customer's preferred digital wallet. This enables the consumer to transact immediately, without having to wait for the card to be sent via traditional mail.

STRATEGIC INVESTMENT FROM TANARRA CAPITAL

FlexiGroup is pleased to announce that Tanarra Capital has committed to invest \$25.1m in the company by way of placement of 20,113,947 fully paid ordinary shares in FlexiGroup at a price per share of \$1.25, representing a 10.5% premium to the Volume Weighted Average Price from and including Wednesday 6 February 2019 until the close on Monday 25 February 2019.

Tanarra Capital is a private investment firm focused on investing in and partnering with high quality organisations to drive long term operational performance. Tanarra Capital's Long Term Value investment strategy has a particular focus on making long term, strategic investments in listed Australian and New Zealand companies, while working with boards and management as a constructive shareholder.

Tanarra Capital will hold 5.1% of FlexiGroup's total shares on issue and Tanarra founder Mr John Wylie will be invited to join the FlexiGroup Board. It is expected the net proceeds of the placement will be used for strategic initiatives and for general corporate purposes.

FlexiGroup Chairman Andrew Abercrombie said: *"Tanarra's investment is a strong endorsement of the significant transformation program announced by FlexiGroup today and the company's direction under the leadership of Rebecca James. We look forward to John's contribution as we work to deliver long term value for all FlexiGroup shareholders."*

An Appendix 3B, Appendix 3X and a cleansing notice in relation to the placement will be given to the ASX in due course.

CAPITAL MANAGEMENT

The Group's wholesale funding is designed to deliver a dynamic and efficient capital management structure and includes:

- \$2.87 billion in wholesale debt, including \$523m in undrawn facilities
- Regular issuance under its innovative securitisation programme for its Buy Now Pay Later product which includes senior and subordinated green asset backed securities (with the latest transaction scheduled for March 2019)
- Frequent issuance under the Q Card master trust securitisation programme in New Zealand to fund strong growth in Q Card receivables
- Advanced plans for a European funding facility to support increasing Flexi-Fi volume in Ireland

- Plans for a capital markets issuance under an Australian credit card master trust securitisation programme later in the year

Corporate debt is currently \$162 million reflecting funding required on new business volumes, including Flexi-Fi volume in Ireland which has been funded on balance sheet during establishment. The company has \$36 million of undrawn facility at the corporate level.

DIVIDEND

Consistent with prior periods, FlexiGroup Directors have declared an interim dividend of 3.85 cents per share, fully franked. The interim dividend will be paid on 12 April 2019 to ordinary shareholders who are registered on the share register as at the record date of 5.00pm on Thursday 7 March 2019.

The dividend reinvestment plan will not operate in relation to this dividend.

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About FlexiGroup

FlexiGroup provides a diverse range of finance solutions to consumers and business through a network of retail and business partners. This includes Buy Now Pay Later products, credit cards and consumer and business leasing. FlexiGroup has been operating in Australia for over 30 years, has partnerships with over 62,000 sellers and now serves 1.2 million customers across Australia, New Zealand and Ireland.

For more information visit: flexigroup.com.au