

25 February 2020

flexigroup Announces 2020 Half-Year Results

HIGHLIGHTS

- 1.87 million active customers, up 12% on prior comparative period (pcp)
- 69,000 retail partners, up 15% on pcp
- \$1.3 billion in transaction volume, up 28% on pcp¹ (3% including all products)
- \$2.7 billion in receivables, up 7% on pcp
- Statutory NPAT of \$33.3m, up 6% on pcp
- Cash NPAT of \$34.5m, up 8% on pcp
- New marketplace feature launched in **bundll**

FlexiGroup Limited (ASX: FXL) (“**flexigroup**”) today reports its results for the half-year ended 31 December 2019 (1H20).

Commenting on the announcement, Rebecca James, Chief Executive Officer at **flexigroup** said:

“The transformation strategy put in place 12 months ago is delivering, demonstrated by the key indicators over the last six months. Profit growth, strong double digit volume growth across all current product propositions, and a significant reduction in losses in proportion to volume.”

“This has been achieved in conjunction with transitional investments in technology, credit and collections capability, new product development and marketing. More importantly, our strategy has delivered three clear market propositions as well as unique, recognisable and visible brands that are loved by our customers.”

*“Our refreshed Buy Now Pay Later product **hum** continues to gain traction in facilitating larger purchases. We’ve seen strong growth in key verticals where our ability to service any transaction up to \$30,000 interest free is standing out as a key differentiator. That has driven a 32% increase in the number of **hum** customers over the last 12 months. These customers are now enjoying the newly designed user experience and shopping with us four times a year, up from once every 18 months with our legacy BNPL product.*”

*“We’ve also expanded our reach, launching an online marketplace today for our world first **bundll** product, where users can shop online everywhere and purchase and checkout in two clicks, thanks*

¹ Excluding Consumer Leasing, Once and Lombard which have ceased.

to advanced automated data population techniques. Innovation will continue into the second half with the development of **wiired** our digital wallet solution for SMEs.

“These initiatives, coupled with investment in the business, will increase the trajectory of volume growth as the year progresses.”

In 1H20, **flexigroup** grew its customer base to 1.87 million, up 12% on pcp. The Group also added to its valued partnerships, with merchants across Australia, New Zealand and Ireland reaching 69,000, up 15% on pcp. This growth in customers and retailers will support future volume growth. Cost to income ratio of 54% represents an increase from 1H19, following the investments made in marketing technology, digital advertising and brand repositioning. In addition, numerous business initiatives to reduce costs commenced in 1H20. These projects have started incurring expenses with the full benefits to the cost base expected in future periods.

The Group delivered a Cash NPAT of \$34.5m, up 8% on the prior year (1H19: \$31.9m).

Operational highlights in 1H20 included:

- BNPL volumes of \$416m, up 23% and reflecting eight months of the new **hummm** offering
- Australia Cards Cash NPAT of \$4.1m, a large improvement with Skye Card growth in both volumes and interest-bearing receivables on pcp
- New Zealand Cards Cash NPAT of \$12.6m, up 10% as customer spend trends above market
- Commercial and Leasing Cash NPAT of \$9.4m in 1H20, up 141%, as the Australia Commercial business transitions to a model focused towards SMEs, leading to higher credit quality.

STRATEGY UPDATE

1. Simplify

flexigroup has undertaken significant work to simplify its business and is now focused on three key market segments: Buy Now Pay Later; Credit Cards; and SME Lending.

flexigroup has introduced multiple efficiency and cost related initiatives including digitising and automating the customer experience; optimising operations; and re-negotiating supplier arrangements. Numerous projects focusing on systems have also commenced to further improve service, generate efficiencies and ultimately reduce cost to income.

2. Lead in Buy Now Pay Later

In April 2019, **flexigroup** relaunched its Buy Now Pay Later offering in Australia, consolidating its two legacy products into one new consumer facing brand, **hummm**. **hummm** is the only product in the market that can offer instant finance for purchases up to \$30,000, interest free.

In 1H20, BNPL volumes were up 23% to \$416 million. Total transactions in 1H20 across Australia and New Zealand were up 66% during the same period. New customers have grown 32% and the company more than doubled the number of Black Friday (+103%) and Boxing Day (+123%) transactions during 1H20 in New Zealand and Australia.

In addition, **flexigroup** is today announcing numerous new retailers to the **hummm** platform across key verticals including Miele Australia and Duracell in home, Malaysia Airlines and Boardriders in Lifestyle, United Chemists and Attune Hearing in Health, and Retail Apparel Group in retail, giving **hummm** customers another 3,000 locations to shop with **hummm**.

3. Streamline origination

Significant progress has been made in transitioning to one credit origination platform that is scalable for growth. This includes one enhanced collections system in place for all products, reducing losses significantly over the period. Further developments include:

- Creation of a bespoke serviceability model for BNPL leading to a further reduction in net losses as a proportion of volume
- Enhanced registration process for **hum** with photo ID scan to protect against fraud, a first in BNPL
- Credit decision automation reducing referral rates in credit cards.

4. Expand our reach

On 10 February 2020, **flexigroup** announced its world first BNPL product that can truly be used everywhere. Using the Mastercard® network, **bundll** customers can shop wherever they like, online and instore, interest free, with no minimum spend.

All weekly purchases get bundled into one place – consumers get no less than two weeks to pay their **bundll** or can ‘snooze’ to delay payment further. **bundll** also benefits merchants by providing another payment alternative as no integration is required.

bundll has today launched its online marketplace where users will be able to shop everywhere online. In addition, purchases made through over 20,000 retailers in the marketplace will generate affiliate marketing revenue for **flexigroup**. In partnership with Fillr, the checkout experience through the **bundll** app will be seamless by auto-filling customer details and **bundll** payment information – two click shopping.

flexigroup's credit card business continued to grow as it transitioned from Lombard and Once offerings to its Canstar 5-Star rated Skye card. During the period **flexigroup** signed a four year agreement with its strategic partner, Flight Centre Travel Group Limited (“Flight Centre”) to be the exclusive provider of interest free finance to approved customers. The new four year commercial arrangement, which extends to the Flight Centre, Universal Traveller and Travel Associates brands in Australia, focuses on enhancing the customer experience with **flexigroup**'s long term interest free finance product. This, combined with incentives to drive repeat business to Flight Centre and investment in data driven marketing, is expected to result in a mid double digit increase in total income for the company over the life of the partnership.

CAPITAL MANAGEMENT

The company is well funded for growth with significant funding facility headroom:

- \$3.2 billion in wholesale debt, including \$674 million in undrawn facilities
- Long established **hum** securitisation program continuing to drive funding efficiency – \$265m issuance in November, including \$103m of green bonds issued
- Regular issuer under the Q Card master trust securitisation programme in NZ – NZ\$300m issued in August.

Corporate debt gearing was 34% and represents a material improvement on 1H19 (70%). Corporate debt headroom of \$103 million provides a significant liquidity buffer and capacity for receivables growth.

DIVIDENDS

The Board of Directors declared a fully franked interim dividend of 3.85 cents per share. This dividend is in line with the 1H19 payout.

FY20 OUTLOOK

flexigroup expects transaction volume to grow between 10% and 15% for FY20. Transaction volume is being driven by new product launches, new customer segments and new partnerships as evidenced by 2Q20 volume which increased 16% on the prior comparative period. This will be partially offset by the softer retail trading environment. The company also expects to balance margin with growth and to maintain a double digit return on equity.

As outlined at its FY19 results, **flexigroup** is increasing its investment for future growth with a significant part of the investment in brands, people, high performance digital marketing and streamlining of operations taking place in the current financial year.

flexigroup reiterates its prior stance on outlook, namely that the company is in the first year of a three year comprehensive business transformation plan, the objectives of which are to accelerate growth; reduce costs; deliver a best in class digital platform; and invest in loved brands.

While going through this transformation the company does not propose to issue short term earnings guidance as it believes a focus on short term profit objectives can contradict the broader goal of ensuring **flexigroup** achieves its medium term goals and emerges as a strong, long term industry leader.

We are pleased with our progress to date. In the early stages of this transformation plan however, the company will be investing to strengthen its brands and technology for the medium term and investors should not assume that an increase in profitability will be commensurate with increases in volume.

WEBCAST

flexigroup's CEO, Rebecca James and CFO, Ross Aucutt will host a webcast at 10.30am on Tuesday 25 February 2020.

Details of the webcast: <https://webcast.openbriefing.com/5815/>

Authorised for release by the **flexigroup** Board.

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ABOUT FLEXIGROUP

flexigroup provides a diverse range of finance solutions to consumers and businesses through a network of retail and business partners. This includes Buy Now Pay Later products, credit cards and commercial leasing. **flexigroup** has been operating in Australia for over 30 years, has partnerships with 69,000 sellers and now serves over 1.87 million customers across Australia, New Zealand and Ireland. For more information visit: flexigroup.com.au