

23 April 2020

Trading Update and COVID-19 Response

FlexiGroup Limited (ASX: FXL) (“**flexigroup**” or “**the Company**”) today provides an update on the Company’s response to COVID-19 and a trading update for the quarter ended 31 March 2020 (3Q20).

The events of COVID-19 have delivered unprecedented challenges globally. While it is still too early to predict how this will unfold in relation to broader economic impacts, **flexigroup** has moved quickly to reprioritise its work and direct resources towards managing the issues arising from the extraordinary economic disruption caused by COVID-19. Our primary focus is supporting our customers during this time and we are committed to providing solutions for those who need them, including offering to reduce or defer payments.

DIVERSE & RESILIENT BUSINESS MODEL

flexigroup benefits from a diverse business model with a product suite that spans Buy Now Pay Later (BNPL), credit cards and SME lending. As a result, **flexigroup** serves a broad cross-section of the economy across various demographics. **flexigroup** maintains an attractive customer profile with over 75% of customers over the age of 35 with a strong penetration of home ownership.

The transformation strategy that **flexigroup** has been pursuing since February 2019 has put the business on solid footing. **flexigroup** has already taken steps to streamline its workforce; reduce duplication; increase automation and self-service options; and to work with our customers to find options to help them stay in control of their finances.

While there is undoubtedly more to do, the actions that **flexigroup** has taken will provide the business with additional strength and flexibility in the current economic environment. For example:

- The consolidation of over 20 brands (many of them B2B) into three strong offerings has improved **flexigroup**’s direct relationships with consumers – critically important in an environment in which we will see spending patterns continue to evolve
- A focus on resilient verticals such as solar, health and home improvement will continue to underpin volumes in BNPL (up 25% on pcp in 3Q20)
- Our investment in online and mobile platforms is facilitating a greater balance between instore and online spend, reflecting current consumer demands – with growth in online transactions for **hum** during 3Q20 up 285% on pcp
- Commercial & Leasing continuing to provide strong diversification benefits to **flexigroup**’s portfolio with 3Q20 volumes up 5% on pcp¹ as the strategic focus continues to reorient towards SMEs
- The significant restructure of our Cards business has led to a clearer customer value proposition and an improvement in credit quality, collections capability and systems – in 3Q20, AU Cards² volumes were up 34% on pcp for continuing products and NZ Cards volumes were up 8%

¹ Excluding Consumer Leasing which has ceased.

² Excluding Once and Lombard which have ceased.

CREDIT RISK MANAGEMENT

flexigroup is aware that this can be a difficult time for customers and for those that need it, we are offering an accommodating hardship approach. In addition, the Company commenced making pre-emptive adjustments to accommodate any future increases in unemployment across its portfolio at the beginning of March including:

- The tightening of spend limits and targeted limit reductions across its Cards and BNPL portfolios
- Reintroducing first instalment payments upfront for all BNPL customers
- Lifting credit cut off scores and increasing income and serviceability thresholds

flexigroup continues to monitor the changing domestic and global economy with the ability to manage the portfolio in real time and adjust account limits and underwriting parameters accordingly.

COST REDUCTION INITIATIVES

flexigroup continues to right size its cost base in the context of the current economic environment by accelerating initiatives already underway and also bringing forward future actions to reduce FY21 annualised operating expenses, including salaries, by more than 15%. As a result, **flexigroup** is likely to exceed its target of \$7 million in cost savings in FY20.

In addition to these permanent structural changes to the cost base, **flexigroup** has also undertaken a number of near-term actions including the suspension of marketing activity; renegotiations with suppliers; and the reduction of Board and Executive pay for three months.

The prudent action to manage costs provides **flexigroup** with the flexibility to manage the business in line with current market conditions as well as the ability to increase investments in the business as activity returns.

CAPITAL MANAGEMENT

As at 31 March 2020, the Company had over \$550 million in undrawn committed wholesale funding facilities provided by a range of major domestic and international banks and over \$100 million combined in undrawn corporate debt facilities and unrestricted cash.

The Company continues to work with its supportive banking partners that recognise the importance of **flexigroup's** role in the economy by facilitating consumer and business lending. **flexigroup** welcomes the support from the Government to non-bank lenders through the creation of the Structured Finance Support Fund (SFSF) of \$15 billion to support continued access to funding markets for non-bank lenders. **flexigroup** is working collaboratively with the Australian Office of Financial Management as the administrator of the SFSF to supplement current funding sources. Discussions to date have been positive and the process well progressed.

TRADING UPDATE

flexigroup has a long track record of delivering strong performance and navigating through uncertain economic periods.

Based on unaudited management accounts at the close of 3Q20, **flexigroup** had recorded:

- An 11% increase in active customers to 1.89 million (compared to pcp)
- An 18% increase in transaction volumes on continuing products compared to pcp³ – noting that significant action has been taken by management to consolidate the brand and product offering under the transformation strategy
- A 5% increase in receivables to \$2.77 billion⁴

³ Excluding Consumer Leasing, Once and Lombard which have ceased. Transaction volume up 0.6% if discontinued products are included in the comparison.

⁴ Excluding Consumer Leasing which has ceased.

- Net loss / average net receivables of 3.9%, up 10bps on pcp⁴ and also reflects a seasonal increase historically experienced during the March quarter
- A 12% increase in merchant partners (now 71,000), including in the health and home improvement sectors which remain strong in the current environment with new signings including:
 - **Health and wellbeing:** Bloom Hearing Specialists, Independent Living Specialists and FrontLine Sports Stores
 - **Home:** Koala Mattresses, Panasonic Air Conditioning and Apex Solar; and
 - **Retail:** Cotton On Group including Cotton On Body, Cotton on Kids, Rubi, Typo, Factorie and Supre, PETstock including PetPost and Sanity

At the commencement of 4Q20, it is clear that trading in April will be more subdued as the community adjusts to social distancing protocols. While it is difficult to determine any trends at this stage, we continue to monitor and adhere to government advice. To date, in early April, **flexigroup** has observed:

- BNPL volumes somewhat impacted by reduced discretionary retail spend, but with a shift towards spending on solar, health, automotive, fitness and furniture
- New Zealand more heavily impacted by a period of Alert Level 4 restrictions, resulting in the closure of all non-essential businesses both instore and online
- Softer AU Cards volume as a result of travel restrictions on our AU Cards partner, Flight Centre
- Continued demand for commercial lending as a result of government support for small businesses

Rebecca James, Chief Executive Officer at **flexigroup** said:

*“While the COVID-19 pandemic has had far reaching effects on the broader economy, the focus for **flexigroup** has been on supporting our community of customers, merchants and employees. While we continue to see softness in discretionary retail spend, we are seeing consumer spending pivot towards key verticals such as solar, health and wellbeing and home improvement. Our solid performance in the third quarter has been underpinned by Australia and New Zealand’s ability to rapidly adapt to the new status quo. There has been a significant shift by many businesses to transition their operations exclusively online and this is a testament to the resilience of the businesses that underpin our economy.*”

*“As a profitable and diverse business, we are committed to providing the highest level of support to our customers and merchants that rely on **flexigroup** during these difficult times.”*

Authorised for release by the Board of Directors.

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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 71,000 sellers and now serves over 1.8 million customers across Australia, New Zealand and Ireland. For more information visit: flexigroup.com.au