



19 November 2020

FlexiGroup Limited (ASX: FXL) 2020 Annual General Meeting CEO's address

Since addressing our shareholders at last year's Annual General Meeting, the business has made significant progress against our strategy despite a challenging and unprecedented backdrop, not just for the business but for our customers and partners.

In navigating the challenges of the past year, I would particularly like to acknowledge our team who worked swiftly to ensure our customers and merchants were well supported during the pandemic.

Our credit team was swift to manage the portfolio prudently, with the benefits of this now being realised - as evidenced by the current credit performance compared with pre-COVID-19 levels. Despite this, we were able to keep the business growing with volume increasing by 17% across our continuing products and the business reporting a Cash NPAT of \$29.2 million in the 2020 financial year. In addition, we significantly strengthened our balance sheet by raising equity and I would like to take the time to thank our shareholders who participated for their continued support.

We now have a simplified business, with clear and recognisable product propositions that have grown our addressable market and increased our relevance to a much wider audience. And we're now delivering them in new channels through multiple touch points that **flexigroup** wasn't present in – either online or through our 1 million app downloads.

As a result, the business is now in a significantly stronger position including the launch of **bundll** in February 2020 as well as a new global partnership announced today. A significant amount of progress has been made since the last Annual General Meeting and we are now primed to take advantage of future opportunities for continued growth.

Our mission is to revolutionise the way people buy. This began over two years ago when the Company had 23 products with no brand presence. Fast forward to today and we have four products that are unique and recognisable in an era where consumers are empowered to vote with their feet.

We now have a unified proposition of interest free instalments; with the application process swift and digitised for consumers to offer instant decisioning and provisioning of cards to digital wallets. In practice, this means consumers are able to create an account and make a purchase with **hum** in under 90 seconds.

With a single platform serving everybody from Generation Z and millennial spenders through to young families and SMEs, our Company finances everything from life's little luxuries through to significant purchases.

And as you can see we've executed on that mission. In the 2020 financial year, **flexigroup** added 570,000 new customers across all age groups – up 37% on the prior year. This resulted in volume of \$2.5 billion, an increase of 17% for our continuing products. Pleasingly, our strong momentum also

translated to strong online growth of 127% across Buy Now Pay Later as we delivered a seamless digital experience.

We achieved this growth, despite a challenging market, because we have a differentiated proposition that resonates with consumers.

We're the third largest buy now pay later provider domestically and a profitable leader in transactions over \$1,000.

We are a business that is diversified by design, and our business model has been tested and proven to be resilient through different economic cycles.

The changes we have made within our business over the past year have put us in the best possible market position to pursue the \$450 billion market opportunity that is only growing as we consider our entry into new international markets.

We continue to transform the business behind the scenes to further support this mission, including simplifying service through automation, self service functionality and use of web chat. These changes combined with the unification and enhancements of a common fraud and risk approach have led to customer service improvements, and have been instrumental in the Company reducing underlying costs by \$10 million on an annualised basis in the 2020 financial year.

We continue to target a cost to income ratio of 40% by the end of the 2022 financial year.

Let me now speak briefly about the trends we've seen in the first quarter of 2021 and then I'll move on to discuss our strategic priorities and our longer-term growth focus.

The first quarter saw a solid volume performance in Buy Now Pay Later and Commercial, despite the business continuing to take a prudent approach to credit risk and approvals. This was offset by reduced volumes in Australian and New Zealand Cards, mainly attributable to the reduction in long-term interest free travel volumes.

A first quarter cost to income ratio of 45% represented a 210bps decrease from the same period last year.

Pleasingly we've continued to see a downward trend in 30+ days arrears from July 2020 – again a result of a prudent approach to credit risk and approvals. In Q1 we saw 30+ days arrears reduce in:

- Buy Now Pay Later by 60bps to 2.2%;
- Australian Cards by 120bps to 3.2%;
- New Zealand Cards by 50bps to 2.6%; and
- Commercial by 50bps to 1.6%.

Government stimulus, mortgage deferrals and superannuation withdrawals have also contributed to portfolio performance in a number of ways.

First, our Net loss / Average net receivables of 3.5% was up 10bps from the prior corresponding period. This however was driven by a decrease in receivables from larger than normal balance repayments.

We've already touched on the portfolio trends in 30+ days arrears.

Finally, we expect 1H21 Cash NPAT to be ahead of our 1H20 performance of \$34.5m. This has been in light of improved credit performance and cost management.

Looking further ahead, as we continue our transformation and consolidate our position in interest free instalments for millennials, young families and SMEs, it's become clear that we should leverage the strong reputation of **hummm** with consumers and retail partners.

Within a very short period of time, **hummm** has become synonymous with easy, digital interest free finance. Remember that this is a brand that didn't exist 18 months ago. And today the **hummm** app is

ranked 4.7 across the Apple App Store, Play Store and also the consolidated Review Trackers. These scores have been steadily improving and we are focused on continuing to deliver a strong customer experience.

Across our entire ecosystem we've had over 1 million downloads and that's from a standing start – in 18 months. This achievement is consistent with the improvement in all the consumer facing products where scores and ratings are increasing and engagement is growing, as evidenced by a 302% increase in consumer reviews. In addition, 75% of our **hum** Australia transactions were made by repeat customers over the last 12 months, and this is a real credit to our team.

And it's this result that is compelling us to unify our product offering, and our corporate brand, under the **hum** name. I can already see from the proxies that this initiative so far has received overwhelming support from shareholders, so thank you.

Also, the work we've undertaken to simplify and speed up merchant integration – with online retailers now up and **humming** in 48 hours – is driving strong growth in retail and it will continue to do so.

Home and home improvement, a vertical where we have a long-established history, now makes up 40% of our volume and in the past 12 months we've diversified into health and automotive – verticals that other buy now pay later providers struggle to penetrate given their spending limits.

With a simplified, single platform, this is how we will now go to market.

In the centre we have **hum**, the original buy now pay later product that allows young families to live interest free forever.

Next we have **hum 90** – our rebranded revolving credit business that facilitates 90 days of interest free shopping on every purchase. The new brand went live on Monday this week in Australia and we have a number of features being rolled out over the coming months which we are incredibly excited about.

And given the strong brand awareness and affinity with our customers, **bundll** will retain its own, distinct identity.

These consumer facing products combined generated \$2.1 billion in volumes in the 2020 financial year and we have only just begun to make inroads into the \$450 billion addressable market.

Finally, we have our new product, **hum pro** a buy now pay later product designed to meet the needs of small to medium business owners.

The **hum** ecosystem is able to facilitate finance and payment solutions across the entire shopping journey. From **bundll** through to **hum 90** we cover purchases from \$1 through to \$50,000.

This broader spending range allows us to capture a larger market than monoline players, while also offering our customers multiple touch points to use our products – driving stickiness and repeat usage.

With the wider range and the ability to fund day to day spend through to life's larger purchases, we're a one stop shop for flexible payment solutions both online and in store.

With the ecosystem in place, we have a clear roadmap for future growth. First, we need to continue delivering on expanding our core by signing new merchants and platforms in our existing markets. This will be driven by our ability to better engage with customers as we continue to drive repeat usage of all of our products.

Our last two pillars will drive growth by addressing new markets through expanding our product suite and entering new geographies including **hum ventures**, an exciting new initiative we announced today to broaden our global reach, which we'll touch on later in the presentation.

We continue to expand in renewables, one of our core markets and verticals in Australia.

In September this year, **flexigroup** welcomed the Australian Competition Tribunal decision to amend elements of the New Energy Tech Consumer Code in line with **flexigroup's** application.

Since this decision, **hummm** has also experienced renewed merchant interest to sign preferred partnership arrangements which means **hummm** is the only buy now pay later finance option offered by an expanding number of solar merchants.

We have made great progress in recent months to solidify our leadership position in our heartland and the key buy now pay later vertical of solar, signing exclusive preferred partnerships with 35 solar providers in FY21. **hummm** is now offered by over 350 solar merchants in Australia.

Today, we have also announced **hummm** has signed an exclusive two-year arrangement with AGL Energy's direct to customer renewables installations. The arrangement will lead to AGL Energy customers being offered access to **hummm** long-term finance solutions for the purchase of combined solar and battery installations.

Launched to retail consumers on 16 November 2020, AGL Energy is also the launch partner for **hummm 90** since rebranding. We are excited as the leading solar finance company to be working closely with AGL, the leading energy retailer.

Turning to retailer growth in other key verticals, the team has continued to work tirelessly to sign and integrate new merchants onto the **hummm** platform in the 2021 financial year. The steady stream of brands that have **hummm** as a finance option shows the strength of the product and our differentiated customer proposition across all our markets. Importantly, we are continuing to develop in the verticals where we have a strong leadership position such as home and home improvement, health and wellbeing, as well as retail – including luxury and jewellery – where a number of our existing in store partners are now offering **hummm** online.

We are also particularly pleased to add Kogan.com and associated brands Dick Smith and Matt Blatt. As the largest Australian pure-play online retail website, as well as a number of other retailers ecommerce sites now offering **hummm**, we are confident of continuing our strong online sales momentum.

In addition, we have integrated over 1,000 small and medium retailers during the 2021 financial year and is a reflection of the team and the strong onboarding capabilities we have developed.

We've also been focused on embedding ourselves in new platforms to drive growth. Over the past year we've partnered with BigCommerce, Striven and Readysell POS providing over 60,000 new merchants with access to the **hummm** platform. And we've renewed a three-year deal with Centaur Software giving us access to an additional 4,000 dental practices with **hummm** financing options being built into the invoicing system. Solidifying our strong position in dental, **hummm** recently signed Smile Solutions, the largest singly located private dental practice in Australia with more than 150,000 patients.

We also launched **hummm** in New Zealand in September 2020. In a few quick months we have been able to expand our relationships with JB Hi-Fi and Farmers to now offer 'Big Things'. We have also been able to use our existing Australian relationships with merchants such as Cotton On and JayCar to offer **hummm** Trans-Tasman. Excitingly, we are speaking with a number of **hummm** merchants in Australia looking for finance options in New Zealand.

Ireland continues to go from strength to strength and is the only buy now pay later player in the region. **flexifi**, which rebranded to **hummm** by **flexifi** recently, has signed global automotive brands such as Nissan and Skoda as well as leading sports brands like Umbro.

As customer numbers and frequency of transactions increase, we've continued to grow our data set and in turn inform our lifecycle marketing and marketing and technology platform. We now have a better understanding of who our customers are, how they shop and how they like to be engaged, which feeds back into our platform and has helped drive increased frequency of transactions.

A real practical example of this is our ability to better cross-sell to **hummm** customers between wallets. Currently, 11.2% of customers have made a Big Things and Little Things transaction compared with 6.6% at 31 December 2019.

In terms of product growth, our recently launched debit-card disrupter **bundll** is only just hitting its straps.

Using the Mastercard network, **bundll** customers can shop wherever they like, online and in store, interest free, with no minimum spend. **bundll** has positive momentum with 1,500 customers joining the platform each week – with volumes growing 64% quarter on quarter.

Most importantly, our customers are using it repeatedly, with the top 30% of our customers transacting 11 times per month. This is a combination of online and instore with 31% of transactions being made online and overall, **bundll** has been used at over 76,000 unique merchants – a testament to its ‘buy anywhere’ power.

As part of our domestic growth strategy, in 2021 across Australia and New Zealand, we will be launching **hummm pro** – a buy now pay later product designed to meet the needs of small to medium business owners.

We’re excited about the \$30 billion addressable market for **hummm pro**, particularly as we see increasing demand return to the SME sector as businesses look to rebuild and invest in the future.

At our full year results we talked about the exciting transformation of our offering in Ireland which has gone from a leasing business to a buy now pay later business in a short span of time. We more than doubled our customers in FY20 while also generating strong growth in retail partners and volumes.

In addition, with many of our retail partners in Ireland also operating in the United Kingdom, this provides us strong optionality for further expansion.

Today, I can confirm we are actively pursuing expansion strategies in two new international markets during the second half of this financial year, with an expected addressable market opportunity of over \$1.2 trillion. We will provide a further update to the market in due course, but activity is well progressed with strong existing retailer, technology and operational relationships to leverage in these identified markets.

In building on our global expansion activities, the second exciting announcement for today is that **hummm** has signed an exclusive strategic partnership with Mastercard to take “**bundll** powered by **hummm**” global.

The partnership will see Mastercard working with its global network to drive adoption by banks internationally and support product development to scale the product globally.

The strong differentiator of **bundll** is the ability to partner with existing bank systems and provide buy now pay later products without needing to sign up local retailers, while still generating sustainable revenue streams. **bundll** truly offers a turnkey but flexible solution to banks.

Discussions are already well progressed with a number of global banks.

The agreement is for five years and is expected to deliver an exponential growth path for **hummm**, at the same time as expanding the services that schemes can provide to customers.

We are also proud to launch today **hummm ventures**, with Mastercard as the first strategic partner. The initiative will explore new and innovative ways to rapidly expand the global reach and distribution of **hummm**’s technology.

Let me close by reinforcing just how excited we are about the opportunities ahead of us as we leverage the strong **hummm** brand into new products, new verticals and new markets. We have a single-minded focus on interest free payments for consumers and SMEs and we will continue to serve our customers and our retail partners by providing seamless digital buying power.

I look forward to speaking to you all during our virtual Q&A and I'm sorry we couldn't meet in person this year. I'll hand back to the Chairman now to continue the formal business of the meeting.

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

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ABOUT FLEXIGROUP

***flexigroup** is a diversified full service payments company with leading offerings in buy now pay later, revolving credit and SME finance. Serving a broad footprint of millennial spenders, through to young families and small and medium businesses, it facilitates purchases for over 2.2 million customers. For more information visit: flexigroup.com.au*