17 November 2022

humm group limited (ASX: HUM)
2022 Annual General Meeting
CEO's address

Thank you, Chairman. At our core, we are a resilient business with a strong future. As you will see throughout today's presentation, our business remains profitable and highly competitive, despite sector headwinds.

During Full Year 22, two significant events occurred and I wanted to acknowledge these up front.

Firstly, we separated our Consumer Finance and Commercial divisions in anticipation of a transaction that didn't proceed. However, in doing so, we have been able to step back and assess each business independently to determine the best path forward. I will discuss these two businesses and our priorities for each in their own right to you today.

And secondly, the BNPL sector has come under significant pressure as macroeconomic conditions have resulted in tighter margins in high volume, low-value transactions. As a long-term player in the larger end of the BNPL market with more than 30 years' experience, we think we bring a unique perspective on this, and are keen to discuss that with you today.

With a distinguished history in Consumer Finance and SME finance, robust credit discipline through the cycle and a strong balance sheet, we are well positioned to navigate this changing environment and continue to deliver profitable growth.

Before we look at the year in review, I'd like to start with our commitment to you, our shareholders:

- We are committed to growing shareholder value;
- We will balance returns and investment for growth; and
- We are measuring our investment against key performance hurdles.

TO BE THE FAVOURED WAY TO PAY FOR BIGGER PURCHASES

hummgroup's vision is to be the favoured way to pay for bigger purchases. It's as simple as that.

It's a vision that speaks to both our future and our heritage, forms the focus of our suite of products, and capitalises on our core strengths in credit decisioning, funding and securitisation.

We often get asked how our two businesses fit together and on this slide you can see the characteristics for each. While the end customer, distribution and transaction value differ, the core expertise of the business, what sits within its DNA in credit decisioning and management along with funding and securitisation are leveraged to serve both businesses. It is that capability which enables us to deliver an exceptional customer experience in the areas of speed to yes and speed to sale and settlement (a priority for our customers and merchant and broker partners).

EXECUTED KEY INITIATIVES TO STRENGTHEN

Turning to the next slide and in light of this changing environment we've sought to strengthen our business further and consolidate our product offerings in the second half of FY22 and focus on where we differentiate and where we believe that we can deliver superior returns.

This slide outlines the items that have been delivered.

We've consolidated our product offering to align with our bigger ticket core.

We've accelerated growth in our Commercial business in Australia and have now replicated the broker led equipment finance strategy in New Zealand – which has seen our offering in that market return to growth.

In our Consumer Finance business, we have decommissioned a number of products including **humm**pro in both Australia and New Zealand, and our BNPL offerings in New Zealand, refocusing our offer on the core, bringing with it significant cost benefits.

The focus of our Consumer Finance business in New Zealand is now purely on our profitable and successful Long-Term Interest Free and market leading White Label cards business.

We have modernised our technology to provide a quality service to our customers. This includes launching a new scalable cloud-based platform for our BNPL business globally.

In a world of rising interest rates and lower consumer sentiment, we have focused on tighter margin management. More than 75% of our portfolio is hedged and we have implemented repricing initiatives to mitigate rising cost of funds with ~125-150 bps passed onto merchants and brokers. We have switched off merchants who do not meet our return thresholds and tightened our credit settings to reflect the current environment.

Finally, we have increased our financial flexibility adding $709m of additional capacity for our market leading and fast growing Commercial business.

Since the end of our financial year, we have continued to work to secure an additional funding facility to secure growth capital for the business.

CORE STRENGTH

What **humm**group is known for, and what we have a long history of, is finance for bigger ticket items. It is this position in the market that has delivered another year of strong financial and operational performance for the company. Our FY22 results were a direct result of initiatives taken over the course of the past 12 months to align with our core offering in bigger ticket purchases and ensure that we are in the strongest position to continue to grow our business in a profitable and competitive manner.

During the year we've grown our receivables book by over 20% to $3.3b, driven by financing bigger ticket items for small to medium businesses and consumers. It demonstrates our strength in this area, and our differentiation from our peers. Less than 2% of our business finances small purchases in the BNPL sector.

We provide an average loan of $4k in our Consumer Finance business and an average loan value of $100k in our Commercial business. This has been the heart of the business through various rate and economic cycles. Hedging strategies are in place and we have and will continue to ensure that each of our products are priced to ensure growth while managing net interest margin against a backdrop of rising funding costs.

We ended the year with $51.1m in Cash NPAT despite substantial investment in new products and international expansion.

We have continued to invest and enhance our superior credit decision engine, which has delivered net loss to ANR of 2.8% in Full Year 22, a 70 bps improvement on pcp.

In the current environment, we are acutely aware of the need to manage our costs and we have already removed more than $9m, including a reduction in marketing and a 10% reduction in the number of people engaged in the business.

Our core business is in a strong position.

1Q23 UPDATE

Let me now speak briefly about the trends we have seen in 1Q23 before moving on to discuss our strategic priorities for our Consumer Finance and Commercial business.

At a group level, the first quarter saw 1Q23 volume of $988m, up 29% on pcp.

Our flexicommercial business continues to grow strongly with volumes up 88% on pcp to $386m, while also delivering improved credit quality, with net loss/ANR remaining at favourable levels and at 0.7%, was down 20bps on pcp.

With regard to volume, our Consumer Finance business performed well this quarter with our Bigger Ticket BNPL business experiencing volume growth of 8% on pcp, and card volumes growing 19% on pcp to $296m. This reflects a rebound in spend activity as travel and everyday spend returns post COVID-19.

However, this growth in interest free cards volume will delay income growth until customers roll off interest free periods. We have also witnessed a reduction in receivables balances in NZ cards, which fell 12% on pcp as a result of lower volumes in FY22 due to COVID-19 related lockdowns, accelerated paydowns and the revaluation of the New Zealand dollar against the Australian currency.

As a result of planned product closures of non-core products **humm**pro, **bundll** and **humm** BNPL in New Zealand, we have experienced an improvement in the quality of our smaller ticket book, with the net loss rate down 230bps to 2.9%.

Pleasingly credit performance improved in the quarter with flexicommercial net loss/ANR of 0.7% down 20bps and Consumer Finance net loss/ANR of 3.8% a decrease of 110bps.

Having gone through the task of financially and operationally separating our Consumer Finance and Commercial businesses for the purposes of the recently terminated transaction, it makes sense for us to present the priorities of these businesses to you separately today.

FY23 – HUMMGROUP PRIORITIES

hummgroup is well positioned to navigate the new economic environment, with a strong balance sheet, profitable products and leading credit capabilities.

We are in a strong capital and funding position, continuing to work towards securing a new debt facility and having priced our latest $250m ABS transaction.

We will continue to take a prudent approach to credit management and we are continually monitoring the appropriateness of credit buffer settings within our decisioning models, and we are satisfied they remain appropriate for the current conditions.

We will continue to take steps to focus on our core and align to **humm**group's unique market position in Big Ticket.

And finally we will continue to focus on reducing our cost base and managing net interest margin through passing on interest rate increases.

FY23 - CONSUMER PRIORITIES

We have a number of key strategic priorities for our Consumer Finance business in FY23.

In response to the changing macro environment, we have decided to focus on core products, platforms and systems that deliver the greatest customer experience and opportunities for profitable growth within each of the geographies we operate in.

hummgroup has consolidated its Consumer Finance business and reprioritised its focus on its core strength – partnerships across both its cards and instalment plans businesses, with a focus on Big Ticket instalment products. As I have already mentioned, our Consumer Finance business has decommissioned or repositioned those products that do not align with our core offering.

We are modernising our technology stack, and this year we are transitioning the domestic Big Ticket instalment business onto a global platform and are simplifying our NZ Cards system.

We will continue to focus on quality customer service, consolidating our three customer service centres and investing in product development with self-service applications both of which will improve service quality and reduce cost.

We'll also look to improve our margin by optimising profitability through a disciplined management of merchant return profiles.

In order to right size the business and drive operational leverage in the Consumer Finance business, **humm**group is targeting a further $15-20m of cost savings in FY23 with $20-$25m annualised, and a reduction in CAPEX investment to $18m from our recent levels of $30m.

These savings in our Consumer Finance business will be delivered through a combination of product rationalisation, consolidation of customer service functions, technology rationalisation and tactical cost savings initiatives. In the last 6 months we have:

- Repositioned humm Little Things in Australia to be a 'companion' product to Big Things reducing the need to invest in customer acquisition;
- Decommissioned **humm**pro which is now closed and in run off; and
- Completed a review of our BNPL products in New Zealand and as a result of regulatory challenges, which make it difficult to share costs between both merchants and consumers, we reached a conclusion to close humm and bundll in this geography.

These product changes will allow us to shut down technology platforms and reduce operating expenses related to marketing and headcount.

Customer contact centres have been rationalised into a single customer service centre offshore and combined with investment in self-service to automate and improve the quality of customer service.

Finally, technology transformation is progressing well with the first phase of migration of the BNPL technology stack to our global solution taking place in 2Q23.

FY23 PRIORITIES – COMMERCIAL

On the next slide you will see the strategic priorities for our Commercial business in FY23.

We have identified specific sub-regions and geographies where the market is underrepresented, and we will look to opportunistically grow. We are investing in growth through increasing business development team size and locations. This includes expanding our broker channel in New Zealand.

We plan to continue to be the best service provider for our brokers. We are investing in technology to see greater automation of our processes – enhancing our systems through the implementation of scalable technology that will ultimately make us more efficient to deal with.

We are focused on optimising the funding efficiency of this portfolio.

We have a focus on sharpening our margin management and believe there is room for improvement to reflect rising interest rates and implement risk- based pricing.

We will also consider targeted accretive acquisitions, although we are not dependent on this to drive our growth.

STRATEGIC UPDATE: OFFSHORE EXPANSION

At our full year results, we announced that the newly appointed Board along with Management were reviewing investment levels and return horizons in relation to expansion into the United Kingdom and Canada in light of the changing macro-economic environment.

Following an extensive review and given the challenges in the British economy we have made the difficult decision to wind down active promotion and business development activity in England. We will instead focus on growing our successful Irish business and plan to maintain and utilise the inherent value of our UK credit licence to service merchants in Northern Ireland, giving us optionality. This decision will have a $4m CNPAT benefit this year.

Having recently spent some time with our Canadian team on the ground, the Board and Management are confident of **humm**'s prospects in this geography and are exploring funding opportunities.

Canada provides **humm** with an additional A$613b market opportunity. Given our strong existing relationships and the regions complementary regulatory framework it continues to be an attractive market for **humm** to enter with our differentiated offering in bigger ticket, longer term instalment plans.

We are already carving a name for ourselves in the health vertical, something that has also proven to be very successful and lucrative for the group here in Australia.

FUNDING AND CAPITAL ENVIRONMENT AND OUR BALANCE SHEET

I have already touched on how **humm**group is managing its business as interest rates rise – repricing portfolios to offset rising funding costs.

At the full year results, we committed to update the market on our capital strategy for the business.

There are several factors we considered, firstly the significant opportunity, right now in SME lending where there is unmet demand, to continue to grow the Commercial business while maintaining our credit standards. Secondly, capital markets remain challenging, and while we were successful in pricing our recent Commercial term deal, we consider that maintaining liquidity and access to capital is critical in supporting the growth but also to navigate potential economic softening in the future.

As a result, we have been working for many months to finalise a debt facility to provide growth capital for **humm**group. The facility can be used to part fund the growth in the Commercial loan book and gives us capacity to grow the Commercial assets by a further $1.0bn taking the total in that division to $2.8-3.0b. The Syndicated Debt facility that we used for intra month and intra quarter working capital will be retired and we thank our Syndicate Banks for their support specifically during the period of extensive lock down due to COVID-19.

Funding our Commercial receivables will be achieved through a combination of warehouses (both senior and mezzanine), the new debt facility and cash on hand. We also intend to introduce mezzanine in our Point of Sale Finance facilities which will improve the capital efficiency of this product. In respect of our Perpetual Note, we intend to retain the note until market conditions abate and if we find ourselves with excess cash and limited growth opportunities, we may repay this note.

In light of its strong balance sheet, the Board and Management remain focused on capital efficiency, to ensure the company continues to grow the business in a sustainable and conservative manner, while balancing capacity for growth with returns to shareholders.

IN CLOSING

I would like to conclude by acknowledging our whole team across Australia, Canada, Ireland, New Zealand and the United Kingdom, our merchants, brokers, partners and customers.

hummgroup is well positioned to navigate the new economic environment, with a strong balance sheet, profitable products and leading credit capabilities.

hummgroup welcomes the opportunity to engage with Government and regulators on the future of the BNPL industry and looks forward to participating in the Government's upcoming consultation paper. Over our 30 years of operations, we have engaged with a wide range of stakeholders on the importance of responsible lending and are supportive of industry-wide responsible lending checks, that includes verifying customers' identity and credit history.

We are excited for the next chapter ahead for **humm**group, with our market leading position in Big Ticket financing and opportunities for growth across both the Consumer Finance and Commercial businesses.

With that I'd like to hand back to the Chairman who will run through the rest of today's agenda.

-ENDS-

Authorised for release by the **humm**group Board of Directors.

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ABOUT hummgroup

hummgroup is revolutionising the way people pay. **humm**group has developed some of Australia and New Zealand's most exciting and accessible consumer finance products including **humm**, **bundll**, **humm**90 and **humm**pro. **humm**group continues to design products around the core needs of financially savvy consumers spanning millennial spenders through to young families and SMEs. hummgroup facilitates purchases for over 2.7 million customers and operates in Australia, New Zealand, Ireland and the United Kingdom.