28 November 2024

humm Group Limited (ASX: HUM) 2024 Annual General Meeting CEO's Address

Thank you, Chair. Good morning and I would also like to extend the Chair's welcome to today's 2024 AGM.

Over the last 12 months we are pleased to have delivered a sound performance against a complex economic backdrop. We are starting to lay the foundations for long-term growth by leveraging our inherent strengths in B2B relationships, credit management, diversified funding sources, regulated product design and a market leading broker-aligned relationship based Commercial portfolio.

We have successfully driven cost efficiencies to effectively manage our cost base in a highly inflationary environment, also closing unprofitable products, uplifting our strategic capability in the management team, and investing in core products and opportunities that will deliver the optimal opportunity for improved profitability. We have a well-diversified business by geography, customer and product, supported by a strong balance sheet that underpins our future customer growth ambitions.

To accelerate our progress and deliver a competitive advantage, we have developed a three-year strategy. This primarily addresses the legacy technology estate challenges that continue to hinder the progress of the Company, primarily in the Consumer space. Without addressing these shortcomings now, the growth potential of the Company will not be achieved and these need to be overcome to improve our service offering and customer and merchant experience.

FY24 HIGHLGHTS

FY24 was characterised by a relatively strong second half performance, driven by a management focus on improving the customer experience, coupled with cost efficiency measures that resulted in a pleasingly improved company performance.

We increased receivables over the year by 18% to $5.0b - a record level for the Group – and coupled with second half cost savings of $13.6m (when compared to the first half) delivered a second half cash profit after tax of $26.5M, an improvement of 22% over the first half.

Net interest margin (NIM) stabilised in the second half at 5.5%. This followed several periods of rapid interest rate increases and interest rate hedges rolling off our portfolios that created volatility at the net interest income line.

Our balance sheet strength is assisted by our leadership in credit risk management which was demonstrated with historically low credit losses maintained at 1.8% of average net receivables.

We also delivered a 6% increase in volumes from continuing businesses totalling $3.8b and finished the year with $125.1m in unrestricted cash.

Strong operating income performance was also coupled with improving cost efficiency including a reduction in cost to income ratio of 780bps to 53.2%.

We finished the year with a $48.3m cash profit after tax and $7.1m statutory profit which was up from $2.9m in the previous year. This slide also references the $60.6m which was our previous profit measure that we no longer use.

Over the course of the financial we paid a fully franked dividend of 2.00 cents per share, with a fully franked final dividend of 1.25 cents per share in the second half.

COMMERCIAL

flexicommercial had another exceptional year, closing at a record $3.0b in receivables. The strength of an established broker network and customer value proposition, based upon speed to yes and speed to cash settlement, continues to set the business apart from its competitors.

We experienced some margin compression in the first half as loans written in earlier years rolled off and were replaced by loans written in the current environment with tighter margins and higher interest cost.

As expected, we saw a $9.5m increase in net losses as the higher volume growth experienced in 2022/23 caught up with the more stable volumes and receivables in the FY24 period. We typically see losses from loans occur, if they are to occur, after 24 months on the books. Importantly, net losses as a percentage of ANR was only up 20bps to 0.7% which is still a very low loss experience.

The business was positively skewed to operational leverage with a 25% increase in receivables, delivering a 19% increase in net operating income while only incurring a 4% increase in operating expenses.

CONSUMER

The Consumer business has grown profitability as we focused on rebuilding the businesses across our markets and focusing on the customer experience.

We refocused growth in the Australian business around the right customers as we tightened our credit standards, resulting in a 22% reduction to credit impairment charges for the second half of the year, as we predominantly removed “little things” from our product portfolio.

Internationally we are seeing good growth potential with Ireland returning positive numbers. As the Chair articulated earlier, we are re-entering the UK market with a focus on servicing the preferred industry verticals in a very focused and profit driven approach. Canada, after a slow start, is focusing to grow volumes in preferred verticals. In both Canada and the UK, previously, the focus, like the rest of the industry at that time, was on volume growth and that lesson has been well and truly learned.

Our New Zealand business, operating under the Q brand, is also reverting to growth seeing both volume and profit growth returning in the second half of the 2024 financial year. The Q brand is positioned as an attacker brand in the NZ market with success.

FUNDING

We have built a diversified and differentiated funding platform that has enabled us to grow while some of our competitors have been constrained. During the year we executed $3.5b in funding transactions, including term deals, private placements, refinancings and execution of a forward flow arrangement with MA Financial.

The graph on the top right-hand side illustrates growth in Private Credit since 2010 and the opportunity that exists for our business as an experienced player with a diversified and seasoned portfolio.

On the bottom left, **humm**group has continued to grow receivables by improving the efficiency of our warehouses, private and public transactions and re-investing the cash, freed up through this efficiency, into asset growth.

FORWARD FLOW

We executed a partnership and Forward Flow program of up to $1.0Bn, with MA Financial as sponsor. The program allows **flexi**commercial to continue originate, credit assess and service receivables through our broker network without having to invest any capital to deliver this growth.

This type of arrangement is something that is used extensively in the United States and, whilst relatively new to Australia, it means we do not incur any credit losses on these receivables and carry no net loss or accounting provisions.

hummgroup receives an upfront reimbursement of origination costs, along with servicing fees and a share in the upside from the transaction. **flexi**commercial will continue use its warehouse facilities and term deal programs for approximately 75-80% of assets originated by the business.

FY25 STRATEGY

Our customer focused vision is to create an environment where we empower customers to achieve their goals sooner and support businesses as they grow. We find ways to say “yes” quickly.

We have developed an overarching strategy which will bridge the gap between where we are today and where we know we have to be. We will focus on three key areas to accelerate transformation:

Working towards a “unified strategy and common purpose”, this singular strategic vision across the business will allow us to deliver on our vision faster – one Company organised around the customer experience.

“Simplifying our operations” will remove siloes and reset our teams around the customer to enable our transformation and new ways of working.

“Re-imagining our technology” will ensure that everything we do will be underpinned by a large focus on state-of-the-art IT infrastructure and ensuring our platforms are fit for tomorrow’s business, ultimately improving our customer and merchant value propositions.

GROWTH DRIVERS

We have also identified several key areas of growth potential for the business that we will pursue in FY25.

The Commercial business will continue to focus on doing more with existing and proven credit worthy customers while expanding its offering into new regions - we have increased our teams in WA as well as regional NSW and Queensland. We are also expanding our focus into other sectors such as agribusiness and medical.

In the consumer business, we are currently piloting a regulated hybrid loan structure in Australia for our merchant partners. This product will set us apart from our competitors. It is designed to deliver attractive returns and can be quickly scaled up to service demand in other global markets.

We will continue to leverage the successful ‘Q’ brand in New Zealand by focusing the business around the brand and leveraging our position as a major competitor to the NZ banks.

As previously disclosed, we are re-entering the UK market, utilising our UK credit license and initially leveraging relationships we have in Ireland that also operate in the UK. This is a targeted and strategic re-entry into a geography that we believe has terrific growth potential for our Company.

Q1FY25 UPDATE

I will now speak briefly about the trends we have seen for start of the 2025 financial year.

We have seen a number of macro issues that have been at play across the economy – some of which the Chair has touched upon.

There has been a market driven slowdown in SME equipment financing, which we believe is related to the higher interest rate environment where SMEs are delaying their investment spend. Despite this slowdown we continue to grow volumes, albeit at a slower rate, but more importantly we continue to improve our competitive position in the broker led market with double digit market share growth with our larger broker groups. We expect this slowdown to be temporary and as the market returns to growth emerge in a stronger position with our core broker partners. As the market has slowed, and volumes have reduced, we have seen competition that has negatively affected NIM in recent months.

Commercial losses and arrears are performing in line with expectation. We are seeing small pockets of financial stress in Victoria, along with all industry players, and in the logistics sector particularly. Whilst this has affected arrears, it is yet to translate to any meaningful losses or detrimentally impact on our Commercial book.

Across the broader business we are seeing improvements in the Consumer business, where the impacts of management changes to credit scoring at the start of the calendar year are delivering benefits.

We completed the first tranche of funding of our $1.0 billion forward flow program on 3 October 2024, with the initial sale of $500m of loans to MA Financial. As disclosed, we will see some changes to the structure of our profit and loss and balance sheet. We expect the impact of the forward flow, whilst freeing up capital and providing capacity for improved return on equity, to include a $2m-$3m post tax cost in FY25 as we redeploy capital and generate increased return on assets.

While looking forward to what is possible is exciting, the imperative of dealing with today has an increased focus for us. We need to execute and deliver and while we remain optimistic about the future, we are also realistic about the challenges we have to overcome.

We continue to invest in the technology platform in the Consumer business to improve the customer and merchant experience along with driving efficiency in our operations. We intend to deliver this transformation within our current OPEX and CAPEX envelope, with CAPEX being slightly higher at $20m in the current year from our $18m run-rate.

There is always risk around technology investment, however the risk to the business is far greater if we do not undertake this investment. Whilst we may not have a strong track record around some of our IT investment, we have learned and invested in upgrading our capability and, where appropriate, utilising external resources in areas where we do not have capability.

Our offshore operations provide our business with opportunities for growth and the Ireland business continues to perform well with strong returns in this period.

Canada is currently behind our initial expectations, and we are closely monitoring the business to ensure its success. Unlike the planned re-entry into UK, which is more of a brown fields expansion, Canada is green fields and the path to profitability is longer. The Irish business had a similar duration to profitability as Canada.

OUTLOOK

hummgroup is well diversified in terms of our customer base, funding sources, geographies and product offering, giving us an advantage in the challenging economic environment. Management will continue to drive operational efficiencies and cost savings that will free up capital to reinvest in the business, and in particular the improvement of our technology platforms.

We have identified opportunities for growth, but all must be done with the right business architecture, systems, processes, capabilities and discipline. The next year will be one of redefining our IT platforms, which will be a key enabler for success. Without these platforms in place, we run the risk of underperforming. Focus and execution are the critical factors for success.

We have been asked many times about providing guidance. We have determined not to do so in time of great change for the Company, and in an uncertain economic environment. Even this week we have seen massive shifts in currencies and sentiment caused by the announcement of potential tariffs being levied on three major supplier countries to the US. This will affect global confidence with effects too uncertain to understand. We understand the desire of some investors to provide guidance however we believe our focus on delivering long term value is in the interests of all shareholders and guidance can cause some sacrifice to the short term. We will continue to review this position.

In conclusion I would like to thank shareholders and the Board for their support and insights. To the team at **humm**, they are a great bunch and we are only starting on the journey.

To Anthony Thompson, who has left the Board today, thank you for your guidance and thoughtfulness which has been of immense value to all in the short time you have been with us. We will miss your dress sense and humour.

To Andrew Darbyshire; welcome and your early assistance to some of the issues we have been dealing with has been insightful and of tremendous value. We look forward to working closely with you over the coming years.

I would like to wish you all a safe and happy festive period and look forward to seeing you in the New Year.

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ABOUT HUMMGROUP

hummgroup is a diversified financial services company that provides easy instalment plans which enable businesses and consumers to make bigger purchases. **humm**group operates in Australia, New Zealand, Canada, Ireland and the United Kingdom. **humm**group's principal activities include the provision of commercial lending in Australia and New Zealand; Point of Sale Payment Plans (humm), Australian Credit Cards (humm®90); and New Zealand Credit Cards (including Farmers Finance Card, Farmers Mastercard®, Q Card, Q Mastercard® and Flight Centre Mastercard®).