

CHAIRMAN'S ADDRESS

ANDREW ABERCROMBIE

On behalf of the Directors of FlexiGroup, I am pleased to be able to address you today following a year of solid performance.

2018 was a year of investment in the business with a focus on growth, the digitisation of our product suite and the optimisation of our platforms within Certegy, Australian Cards and Leasing. The reinvigoration of our most profitable business – Certegy – has been a particular highlight.

We delivered key new products and systems in the second half of the year and recognise that while we have made some significant inroads there is still much work to do in order to consolidate our work and simplify our business.

I will ask our new chief executive, Rebecca James, to share her early views on this with you shortly.

Performance

This year the Group has seen active customers grow 5% to over 1 million, demonstrating continued demand for our products.

We also grew the number of retailers on our network by 8% to over 46,000 underscoring the value of FlexiGroup as a partner to businesses in Australia, New Zealand and Ireland.

I am pleased to report that FlexiGroup delivered Cash Net Profits After Tax of \$88.2 million – this result was at the upper end of guidance provided earlier in the year.

In February, we launched a new consumer lease product – LISA.

Lisa targets the sophisticated consumer demanding more cost-effective and flexible finance. We are proud that this product was the first in market to adopt a range of government panel recommendations relating to consumer lease products. I will talk more about our leadership on responsible lending later.

However, when we launched Lisa, we retired our FlexiRent product. In doing so, we impaired the carrying value of goodwill, acquired intangibles and other assets relating to FlexiRent.

As a result, the Group reported a Statutory Loss After Tax of \$10.3 million.

It's important to note that this balance sheet adjustment had no bearing on cash and is not a reflection of the performance of the Group. It was simply an adjustment to the book value in order to reflect the evolution of our business and product suite over some 30 years.

A good sign of momentum in our business is our receivables – up by 10% to \$2.4 billion during the year and underscoring the strength of FlexiGroup's market position.

The major drivers of our volume performance during 2018 were our Australia and New Zealand cards businesses (which continue to perform strongly), growth in the commercial business and increasing momentum in Certegy as a result of investments in the digital experience.

Capital Management

FlexiGroup declared fully franked dividends of 7.7 cents per share for the 2018 financial year – equivalent to last year and in line with our stated payout ratio of 30 to 40% of Cash NPAT.

The Board also remains focused on reducing corporate debt which this year decreased \$22 million – taking our gearing down to 36% (a significant reduction from 53% in the prior year).

In line with new accounting standards, from 1 July 2018 we have increased our provision for doubtful debts as the credit provision policy moves from one based on incurred loss to one based on expected loss.

Our focus is on maintaining a sustainable capital model with flexibility for investment and future growth.

Regulatory, Risk and Compliance

The Board also maintains its focus on regulatory, risk and compliance – which involves addressing past issues for remediation while proactively engaging with our regulators to future proof our responsible lending practices.

Because of FlexiGroup's 30 year history in Australia, we have well established risk and governance processes. We also have a track record of adapting to and, in many cases, leading industry and regulatory change.

For example, Oxipay and Certegy have each proactively become members of the Australian Financial Complaints Authority (AFCA) – an external dispute resolution scheme to deal with complaints from consumers and small businesses of financial services and products. We were proud that with the launch of Lisa (earlier this year) we delivered the first product in market to adopt a range of government panel recommendations relating to consumer lease products.

Management will remain engaged with the community and our customers to ensure FlexiGroup is striking the right balance between credit access and convenience that is in line with appropriate responsible lending safeguards.

Outlook

As we look to the new year, the Board believes the Group is well positioned for volume growth from Certegy, Credit Cards, our Irish business and our Australian Commercial business.

We expect local Consumer Lease volume to be flatter due to channel consolidation, the removal of the FlexiRent product and introduction of Lisa.

In financial year 2019, the Group is focused on: capitalising on its funding and distribution strengths; and investing in the consumer interface, including marketing and technology.

Management and Board Changes

Rebecca commenced as the CEO of FlexiGroup on the 2nd of October and after only six weeks in the role is already demonstrating a fast, strong leadership style.

Rebecca brings significant experience in the financial services sector and in building consumer brands. Rebecca was most recently Chief Marketing and Enterprise Officer at Prospa and, prior to this, she was Chief Marketing Officer at ME Bank.

Prospa is a fast growing online small business lender and ME Bank is one of the most trusted and recognisable brands in the online banking sector today.

The Board has been particularly impressed by Rebecca's ability to create and commercialise innovative digital solutions in financial services over the life of her career. We are excited about the skills she brings to FlexiGroup and her keen focus on the needs of both our buyers and our sellers, which is why we've asked her to address you today to share her early views.

Ross Aucutt (the Group's Chief Financial Officer) is also available to answer questions today. During the reporting season Ross was in the role of Acting CEO until Rebecca's commencement last month and has shown great leadership during the time of transition. On behalf of the Board and the shareholders of FlexiGroup, thank you Ross.

During the year the expertise and independence of the Board was strengthened considerably.

In May 2018 Carole Campbell was appointed as an Independent Non-Executive Director. With over 30 years of senior finance and treasury experience across multiple industries her skills will be invaluable to the Board and in her role as Chair of the Audit Committee.

The Board's effectiveness is enhanced by Rajeev Dhawan and Jodie Leonard. Raj's tenure and experience provides a deep understanding of the business and a high degree of meticulous scrutiny, while Jodie as Chair of the Remuneration Committee provides valuable insight and guidance.

I would also like to make special mention of my fellow director Christine Christian who in August was appointed to the role of Deputy Chair of the Board. Christine has been a Director since 2016 and has made an outstanding contribution to matters before the Board – particularly FlexiGroup's strategic direction.

Christine, I look forward to your continued contribution in the role of Deputy Chair which will be particularly beneficial when my position as Chair raises questions of a potential conflict of interest or lack of independence.

On behalf of the Board, I would like to thank our 865 staff for their commitment and focus on our customers and partners while meeting a number of challenging deadlines across a range of business improvement initiatives. Our business is emerging stronger for your efforts.

Finally, I would like to thank our shareholders, for your continued support. I believe FlexiGroup has a strong and genuinely unique market position in the consumer finance segment and the Board looks forward to supporting management to maximise the opportunities for FlexiGroup in the years ahead.

I would now like to pass to Rebecca who will provide greater detail on our results and share her views on the Group's opportunities and challenges.

CEO'S ADDRESS

Thank you Chairman and good afternoon everyone.

I would like to start by saying how excited I am to take on the role of CEO of FlexiGroup and to thank the Board for their welcome and support.

To give you all a brief overview of my experience, I joined FlexiGroup from Prospa, Australia's #1 online lender to small business, where I was responsible for driving strong customer growth and managing the business' strategic partnerships and alliances.

Prior to that, I was Chief Marketing Officer at ME Bank where I oversaw the establishment of a business-wide customer centric culture to transform the bank from a bricks and mortar mortgage provider into a full retail digital only bank. A bank, that in two short years became the most loved (and shared) financial services brand in the country.

I also held the position of managing director at CX agency, Lavender, for seven years where I led a team that created digital experiences for a broad range of clients such as Westpac, BT Financial Group, Qantas, Telstra and retailers IKEA and EB Games.

Early observations

I officially started in my role just over a month ago, and I have spent that time ingraining myself in the company and its culture including Adelaide and New Zealand. I thought it would be helpful if I offered you my first impressions of the Group.

Within my first few days it became apparent that "clever and creative" really is the DNA of this business and it runs throughout the company's culture. There are many bright minds and interesting projects that have thoroughly impressed me in the brief time I've been here.

This is a company that has a proud history of financing Australian's lifestyles. We invented 'Buy Now Pay Later' in this country and it has been providing flexible finance solutions to customers well before "fintech" was even a word.

Certegy's success as a monoline business in the first ten years of operation was almost unprecedented. Where others have built from a technology platform from a blank sheet of paper, FlexiGroup has 30 years of partnerships with 46,000 sellers and serves over one million customers.

Retailers are attracted to FlexiGroup because we have a great range of products that their customers want and need. They also come to us because we are one of the only financiers that truly has the solutions and people to build relationships and address their complex Point Of Sale requirements. That has been a winning combination.

Before I joined, I'd heard about the strength of FlexiGroup's partnerships with organisations such as: Harvey Norman, JB Hi-Fi, Farmers and Flight Centre. What was unexpected and did surprise me, was the breadth of relationships that the company has across a wide range of millennial centric brands.

Regardless, over half of our sales still come from a few key sellers with a large proportion of that from individual stores. We have a long tail, where 10,000 stores deliver less than 20% of our sales. We manage them in a traditional way, and as we have matured, our strong brands have been challenged by more recent market entrants.

It has also become apparent that some of our products and services have not been well integrated since they were acquired. This has led to legacy back-end issues that have worked as a drag on our progress. I plan to free the business from those constraints.

My overwhelming sense however is that with the right focus and use of investment, we can mobilise that “clever and creative” DNA to make us more compelling, more contemporary and more relevant than ever before.

Financial results in 2018

As the Chairman mentioned, FlexiGroup passed a historic milestone this year with total customer numbers now over one million, up 5% on the prior year and we remain a trusted partner, with Retail partner growth of 8% to 46,000 partners.

FlexiGroup continues to build on the strong base it has built over the last 30 years. The growth strategy set out in February 2018 has delivered volume growth of more than 17%. Total receivables also increased by over 10% to \$2.38 billion.

With corporate debt reducing by \$22 million in 2018 we have a strong balance sheet to invest in the company.

These achievements resulted in a cash NPAT of \$88.2 million – which was at the higher end of guidance range – in no small part thanks to good financial discipline shown by the team and growth in our Cards and Certegy products.

FlexiGroup also made significant strides against three key strategic themes – *Grow, Digitise, Optimise* – with the aim of building a sustainable, growth orientated business. The team focused their efforts on *GROWING* the business in 2018 through organic improvement and product innovation. New product development has been a real focus, and this year saw the launch of innovative and unique products such as SKYE and Lisa.

The Certegy team has delivered growth through leveraging existing sellers and targeting sector expansion. With a focus on the solar and jewellery markets, Certegy sales have accelerated by 10% in the second half. We will continue developing new segment opportunities through improved digital capability and product advancement.

The team also made inroads towards *DIGITISING* the front end of the business.

With considerable investment in Certegy the majority of transactions are now digitised and the new Lisa consumer lease product is 100% online. Our Consumer and Commercial Leasing businesses now use the credit decisioning platform that we launched this year, which will also be rolled out across other products. Focus on *DIGITISING* our business is paying off – our enhanced online application launched in New Zealand in Q4 and led to a 25% increase in new cards issued.

Finally, to help the company reach its potential, the team began a focus on simplification – consolidating various platforms, refining funding structures and integrating group functions where appropriate.

Our competitive landscape

We recognise that the industry and the company face unprecedented regulatory scrutiny over the coming months and years. This year, quite rightly, has been difficult for many financial services firms as they have taken a long, hard look at how they operate.

We acknowledge that the community we serve has high expectations from us as responsible lenders. As a company, we welcome the opportunity to engage with our stakeholders on the benefits of our product and service offering and our approach to responsible lending. FlexiGroup has a long track record of adapting to and, in many cases, leading industry and regulatory change. This is a strength, that has waned in prior years that we are now addressing.

This is particularly true in the consumer leasing side of our business, where we have proactively engaged with government, regulators and community stakeholders. Over the past few years as reforms have been made to the National Consumer Credit Protection Act (2009) we have consistently early-adopted government recommendations on product warnings, price caps and income verification. We have led the way.

The Buy-Now-Pay-Later sector has experienced over 200% growth in the last year alone – the market is more aware, and interest free shopping is now ubiquitous. While we've experienced double digit growth there's a greater opportunity for us to leverage our product breadth as a point of differentiation with sellers and end customers alike and increase the user and brand experience along with it.

The opportunity

Whilst this competitive and regulatory environment presents challenges to our business, we also have a wide range of opportunities on the horizon.

Where recent entrants have dominated the small spend retail shopping market, FlexiGroup's span of products across a broad price range, means that we can legitimately own the lifestyle category across a wide demographic. We have the ability to finance the lifestyles and aspirations of our customers – whether that be school fees, holidays, solar panels, dental work or engagement rings.

We have the will and capability to completely innovate how people afford to live. But crystallising this opportunity requires great **focus**.

We currently have numerous products sold under a range of brand banners, with different pricing and credit profiles. Duplication of functions, process and technology has led to inefficiencies within the Group that require manual work-arounds.

We must consolidate into fewer more desirable products as we simplify and streamline our back-end operations. The team has made progress in addressing these issues, but more work is required and with a greater sense of urgency.

We will create **fame** around our brands.

I'm a big believer that great companies focus on two things. The first is usability. The product simply works. In the world of finance, it's a frictionless, end to end digital experience that provides the customer with an instant decision and outcome. The other is desirability. And when I say desirable, I mean brands that have the ability to captivate a consumer so that they fall in love with what we offer.

We need to be far more relevant in the world of our customers. Our focus has been weighted on designing products that assist sellers in making a 'one-off' transaction. This strategy has seen the buyer's engagement decline over time, leading to higher customer churn, and an increasing reliance on sellers to originate new customers. We are inconspicuous, and it's hard to be loved when you're unseen.

I plan to address this by creating products and experiences that make us more relevant in the lives of our customers – and then as a by-product, with our sellers, because their customers wanted to interact with us, not just annually but on monthly, weekly or even a daily basis.

So the real end game is not just in simplifying our business so that it's easier for us to manage. The goal is to become famous for owning a new frontier in the world of consumers.

I look forward to keeping you updated on our progress and I will be working hard with the team to leverage the groundwork undertaken in 2018 into a sustainable, scalable FlexiGroup for the future.