



15 November 2019

FlexiGroup Limited (FXL) 2019 Annual General Meeting Chairman's address

On behalf of the Directors of **flexigroup**, I am pleased to be able to address you today following a transformational year for the business.

The 2019 financial year has been the start of a transformational period for **flexigroup**. One where significant progress has been made towards our goal of simplifying our business, lifting our visibility and improving both our accessibility and service to customers, partners and the community.

Three months into the financial year we welcomed new CEO Rebecca James, who, in her short tenure, has galvanised talent from across the Group. I'm pleased to say she has provided a great deal of clarity, vision and a sense of urgency to our strategy. As you would know, the team relaunched our legacy Buy Now Pay Later offering, rebranding it as **hum**. They've also begun to right-size our business and are positioning us to expand our reach by targeting new audiences – all while successfully navigating an unparalleled regulatory environment.

Performance

During the period, we were pleased to attract 226,000 new customers, and now boast an active customer base of 1.7 million. We also added 5,000 new retail partners to our network and lifted our partnerships with retailers across Australia and New Zealand to 65,000.

The company delivered Cash Net Profit After Tax of \$76.1m, in line with our revised guidance. Underlying operating performance remained positive with good momentum across most of the business.

In April we successfully launched our new Buy Now Pater later product **hum** – after consolidating two Australian legacy platforms Certegy Ezi-Pay and OxiPay. **hum** allows shoppers to spend from \$1 up to \$30,000 – making it not only a completely differentiated interest-free offer, but also one which supports broad usage from high street retail to home improvement purchases.

We've seen strong traction with the new product – such that in the month following the launch of **hum** in Australia, the total number of transactions increased by 22% and transaction volume grew by 16%.

Total volumes of **flexigroup's** Australian cards business grew by 10% year-on-year, which is a good result when viewed against a negative trend across the category. Impairment losses were contained to a marginal increase of \$1.1m year on year despite increased provision requirements, as well as a large write off in H1. The forecast improvements to our collections flowed through in H2, and we expect to

see this trend continue into FY20. In our New Zealand cards business we achieved volume growth of 16%, well ahead of the market.

Australian commercial leasing delivered volume of \$294m, up 27%, but Cash Net Profit After Tax for the segment was impacted by a one-off impairment of \$12m.

Moving now to **Capital Management**.

flexigroup declared fully franked dividends of 7.7 cents per share for the 2019 financial year – equivalent to last year and in line with our stated payout ratio of 30 to 40% of Cash Net Profit After Tax.

At our Half Year results in February, we were pleased to announce that Tanarra Capital had committed to invest \$25.1m in the company by way of placement of 20,113,947 fully paid ordinary shares in **flexigroup**. Tanarra Capital is a private investment firm focused on investing in, and partnering with, high quality organisations to drive long term operational performance.

The company remains well-funded for growth, with significant funding-facility headroom in both wholesale funding facilities and corporate debt. We continued to diversify our funding with over \$600m of term market securitisations with a loyal and growing investor base in both Australia and New Zealand. **flexigroup** also established a funding facility for our Irish buy now pay later product, Flexi-Fi. This means that we now have standalone funding facilities for every product in the Group.

Given the success of our Q Card Master Trust securitisation in New Zealand, we are considering a similar arrangement for our Australian credit cards during FY20.

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

Turning now to regulatory, risk management and compliance. The focus here is on remediating past issues while proactively engaging with regulators to future-proof our responsible-lending practices.

Throughout **flexigroup**'s 30-year history in Australia, we have demonstrated a track record of not only adapting to, but in many cases, leading industry and regulatory change. Our risk and governance processes are well-established.

In the last twelve months, we have delivered our submission to the ASIC Review of Buy Now Pay Later; participated in the Senate Inquiry into consumer leasing and Buy Now Pay Later; and led engagement with industry bodies and peers on the possibility of self-regulation in the Buy Now Pay Later space. We will continue to engage with the community and our customers to ensure **flexigroup** is striking the right balance between credit access and convenience, and appropriate responsible-lending safeguards.

Management and Board Changes

Finally, and as I mentioned earlier, just over a year ago, the Board was pleased to welcome Rebecca James to the role of Chief Executive Officer. The experience she brought having worked as the Chief Marketing and Enterprise Officer at Prospa and, prior to that, as Chief Marketing Officer at ME Bank has proven to make her the perfect fit for **flexigroup**. Her skill in the financial services sector and talent for building consumer brands is apparent to all – and I am pleased to say the executive team has responded well to her leadership.

The Board has seen marked progress in the execution of the transformation plan and are thankful for the sense of urgency that Rebecca and the broader leadership team have demonstrated, along with a keen focus on delivering results. You can understand more about **flexigroup**'s strategy and future plans from the CEO's Report.

During the year the Board was significantly strengthened with the addition of seasoned investor John Wylie AM. The investment by Tanarra Capital in **flexigroup** is a clear endorsement of the significant transformation program announced at the Half Year Results and the company's direction under the leadership of Rebecca James.

On behalf of the Board, I would like to thank our staff across Australia, New Zealand and Ireland for their unwavering focus on our customers and partners, all while meeting challenging deadlines across a wide range of business improvement initiatives. Our business is emerging stronger for your efforts.

Turning now to outlook

At our FY19 results, we announced a three year comprehensive business transformation plan, seeking to build on our first mover advantage in non-bank consumer finance.

Our objectives are clear: accelerate growth, reduce costs, deliver a best in class digital platform and invest in our brands, systems and people. We're making great progress with that plan.

We informed shareholders at the time, that while we are executing this plan we do not propose to issue short term earnings guidance as we believe that a focus on short term profit objectives can contradict the broader medium term goal of making **flexigroup** a stronger company. This remains our position.

During this process we are increasing our investment for future growth. A significant part of the investment in brands, people, digitisation and streamlining of operations will take place in the current financial year. This is especially important given rapid market developments in consumer finance and the need to transform our product offerings. In some cases, like the creation of **humm**, we've made selective reductions to our consumer fees to attract a much larger number of customers.

We also stated that we will seek to balance margin with growth as we go through this process, and maintain a double digit ROE. This remains the case.

In addition, we confirmed that in FY20 we expect volumes to grow by at least 15%, driven by new product launches, audience extension and new partnerships, and we are committed to maintaining credit quality as we grow.

We expect to increase the trajectory of volume growth as the year progresses, in line with the momentum that's created not only from the onboarding of our new retail partners, but also the substantial investments that we're making across each area of the business to create sustainable growth over the longer term.

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 an update on the significant progress made over the last twelve months.

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ABOUT FLEXIGROUP

flexigroup provides a diverse range of finance solutions to consumers and businesses through a network of retail and business partners. This includes Buy Now Pay Later products, credit cards and commercial leasing. **flexigroup** has been operating in Australia for over 30 years, has partnerships with over 65,000 sellers and now serves over 1.7 million customers across Australia, New Zealand and Ireland.

For more information visit: flexigroup.com.au