Half-year results presentation transcript
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Presenters

Gerard Ryan, Chief Executive Officer
David Broadbent, Finance Director

Introduction

Gerard Ryan, Chief Executive Officer
Good morning everybody and thank you for coming along to our half year results presentation this morning. And welcome to all of our teams on camera as well, because we're connected up to each of our businesses with the exception of Mexico, who hopefully are still in bed at this point in time.

So what we'd like to do, Dave and I this morning, is take you through the results. I'll give you an overview to start with and some of the highlights of the past six months and what we've been up to, the progress we've made on our strategy. Dave will then take us through and give us some of the colour around the operations and how we've achieved the numbers that we're delivering today. And then we'll do a very brief wrap up at the end and go straight into Q&A - hopefully we'll have plenty of time for Q&A because there is quite a lot to talk about in this set of results.

So without further ado - hopefully you've had a chance to see the RNS and so you'll see that for the first six months we've delivered record profitability, up by 35%, so £42.3m. Now included in that is an FX win of £3.8m, so I like to take out FX, because when it goes against us I'll want you to take it out. So even if I take out the £3.8m FX win, the underlying growth is still a very, very creditable 23%.

And the really pleasing thing about the results is that the growth, the top line growth, is across each of our markets. So credit issued, the amount of loans that we've issued, grew year on year by 14%. And that then drove an increase in revenue of 9% for the Group as a whole, varying from 3% in Poland, which is net of the early settlement rebates, right up to a really superb 26% in Hungary. So a really excellent performance right across the piece there.

Now I want to be upfront and say the only disappointing number from my perspective in the results is customer growth and I would like to have seen that be a more positive number. It's up by 3% year on year, but I was particularly disappointed that in one of our businesses, in the Czech Republic, it fell back by about 3%. And that is something we will be very focused on in the second half of the year. But notwithstanding that, all other metrics in the Czech Republic were good - a really, really good performance; top line growth there is very strong double digit.

Looking at Mexico, we doubled the profitability in the period up to £5m, which equates to £17 profit per customer; and it takes us just over half way to our target of £33 profit per customer by the end of 2015. And that's really driven by top line growth of 23% and really strong revenue growth as well, with impairment and cost control being exactly where we want them to be. So a really good set of results in Mexico and Mexico performing on all cylinders now.

All of this means that the business is really in good shape, and so we want to reflect that in the dividend at the interim period. And so we're increasing the interim dividend by approximately 17.5%, which will take us to 3.8 pence per share. And we're combining that with our second share buyback of £60m. Now Dave is going to go on and explain about the balance sheet and why we're able to do that. But suffice to say we're in, I suppose, rude health and we feel that we should operate with a far more efficient balance sheet. By doing a share buyback, reducing the amount of capital in the business, we feel that would be the right thing to do.

It's one year since we introduced the strategy for growth for the business and you may remember that there are four key pillars to this. The first one is all about expanding the footprint of the business and I tend to think about this in two pieces; the existing businesses and then new markets.

On existing businesses, in Mexico we opened up two new branches in the first half of the year and it might not sound like a lot, but what we've said in Mexico is we're really concentrated on improving the profitability. But what's really exciting in Mexico is that in the second half of the year we're going to open a further two branches and one of those will be in Mexico City. Mexico City has a population of 20 million give or take, so Mexico City is in fact larger than most of our existing countries. So the prospects there from our point of view are really very, very positive.

It does come with some additional risk, so security of our agents will be paramount, but we believe that we are in a good position to be able to manage all of those things. We are very much looking forward to getting traction on that in Mexico.

The second country I want to mention is Romania, where we've opened up another ten new areas in the first half and we will do likewise in the second half. And that begins to get closer to the level of coverage that we want in Romania, to deliver what we believe should be a business at maturity with about half a million customers and it's currently 269,000. So plenty of room for growth there and expanding the coverage as we go.

In terms of new countries, hopefully you'll have seen in the past few weeks we announced that we've opened for operations in Lithuania and we've issued our first loans there. We currently have more than 40 employees and agents in the country and we've done this, from the point at which the Board gave formal approval to go ahead and start trading in Lithuania up until the point at which we issued our first loan, in four and a half months, about half the time that it would have taken us previously.

And the reason for that is what we call the hub and spoke methodology that we're currently using in these markets. And in this particular case it meant leveraging the expertise and a superb leadership team that's available to us in Poland. Poland dedicated over 100 individuals to getting this country up and launched in record time, and really it was fantastic and is moving very well now.

At maturity we would expect Lithuania to be able to take probably 70,000 to 80,000 customers and by the end of this year I would expect them to have somewhere between two and three thousand customers on their books.

In Bulgaria, we're doing hub and spoke with the aid of the team in Romania. Again, we expect two to three thousand customers by the end of the year. We should be issuing our first loan in Bulgaria, probably in the first week of September. So again, a very fast track approach. And we would expect both of these markets to be profitable by the end of 2015, so in approximately two and a half years versus what previously would have been four years.

So that's where we are in terms of expanding the footprint of the business. Looking now at improving customer engagement, which was the second pillar of s our strategy for growth. We could talk about lots of things about improving customer engagement. So we could talk about the new CRM system that we're introducing, which for the first time is going to give us a single view of the customer and all of their touch points with our business, so that we could improve the service we offer. But for this morning I thought I would focus on the new products that we've been talking about over the past six months.

Starting first of all with longer term loans - we have in place in the Czech Republic and Slovakia and are now being rolled out in Poland. In the Czech Republic and Slovakia, the longer term loan is 100 weeks, in Poland it's a 90 week product. And what we can see is that there is a real appetite on the part of our customers for these longer term loans. Because a lot of our customers say to us, please would you provide me with a larger loan, but keep the instalment affordable on a weekly basis. And the way to do that is to flex the term.

Now, these loans are only available to our best quality customers, so based on how we're operating we would estimate somewhere between 5% and 6% of our customers would be eligible for these products. And what we've seen so far is an approximate 30% uplift in the average issue value of these loans when compared to a standard loan. There is a slight diminishment in the yield and an inconsequential movement in the impairment. So really fulfilling a customer need, but it also works for us because it gives us a longer term relationship with the customer.

We will go on and pilot this in Romania where our intention is to work with a 78 week loan. What you can see is that we're not going for a cookie cutter approach, it will be tailored to the particulars of each individual market.

Now preferential pricing we tested and rolled out in Slovakia. Effectively it's our way of saying to loyal and good quality customers that we will give something back to you in the form of a discount on the interest rate. What's really happened is a lot of those customers have said - thank you for that discount, what I'd like to do is keep my instalment pretty much the same, so can you give me a larger loan. And so on these particular loans we've seen an uplift in the average value of about 9%.

So it's in place in Slovakia, being rolled out now in Poland, and in Hungary by the end of the year, and then we'll go from there into our other countries. But it's very popular with the customers because for the first time we're offering them some form of discount for their loyalty and good payment history with us.

And then finally moving on to insurance. When we announced our year end results we explained that we were going to test insurance sales in Hungary. That pilot is underway, the pilot should be complete in approximately two months, give or take, at which point we'll be in a position to decide how we roll it out across the rest of Hungary and how we would tailor it, depending on what tailoring would be required, to make it applicable and successful in our other markets. So by the time we get to our Q3 results we should be able to tell you exactly how this rollout will work.

So those are just three of the major product innovations that we've done and that are proving very successful. And there are more that we could talk about in the Q&A if you wish.

Now the third and fourth pillars of the strategy for growth were building a sales culture and execution. And what I've done is rolled those two pillars into one here and tried to give you an update on what I think are the key ones we've been working on. And some of them will be familiar to you and some of them will be new.

So if I start first of all with the ones that are complete. The Warsaw Stock Exchange listing [which] we did in April. We believe that our business is of sufficient scale and maturity in Poland that it warranted this sort of profile. And so we went ahead and we've done the dual-listing and it's my intention, and Dave's, to work quite hard to make ourselves accessible to potential investors in that region, so that if they wish to invest it will be easier for them to do so because of this listing. And that's what we're up to there and hopefully that will be a success for us as we go forward.

Now the second major thing that we did was at the end of April, early May, - our first UK retail bond. We went out and we asked for £50m. I think we set aside ten days to open right through to close; the reality is we could have closed in three days. We kept it open for a weekend and we had to close it very quickly on the Monday morning because we'd blown through the numbers very, very quickly and we ended up taking £70m which was a cut back from what we'd been offered.

Dave will take us through the balance sheet and explain how that fits in to how we're trying to finance the balance sheet on a more cost effective basis. But what's really important is the diversification of our funding sources. So from our point of view a really important milestone in the way we finance this business.

Now what we won't have spoken about is the sale of debt. A few weeks ago we announced that our Polish management team had successfully achieved a sale of written off debt in Poland. And you will see that reflected in this morning's numbers in an exceptional gain of £15.9 million in the financials. I'm sure one of the questions will be - so how many more of these can you do, because it is quite a healthy number? Well, the reality is Poland is by far our largest business. So in terms of scale we probably will do more of these as we go forward, but I would say they will be inconsequential in number compared to what you see here today.

I just want to explain that the reason we haven't done a debt sale previously is we've been very concerned to try and find a partner who would treat our customers the way we would treat them. So even those customers who have defaulted on us, we treat with the same respect and transparency as we do our best quality customers. And so what we wanted to do was find a partner we believe would continue that and we believe we've done so now. So a good milestone for us there in terms of recovering more money out of written off debt.

And finally the share buyback - we have announced the second one this morning and that will take place over the coming, I'd imagine six months, something like that.

So those are the key milestones that we've hit already.

In terms of things that are still in flight - online decision in principle. For those of you who know our business well you will know that we are an incredibly paper driven organisation. And so one of the things that we've realised is that customers do want more immediacy when they look for a loan. They want to know quite promptly whether or not they're going to be said yes to by our business. And so we've introduced in the Czech Republic, online decision in principle. That is to say at its simplest, you put in your information, and based on the information we will tell you in principle, whether or not we're willing to lend you the money.

What we've found is having introduced it in the Czech Republic that the people who input their information and you give them a positive answer they tend to stop looking for the finance. They feel, you know, I've been up front and honest, I've given you the information, you've said yes - what's going to happen now is I'm going to meet your agent and presumably I will get the loan. So from our point of view it's really important because it's capturing more customers and so it's something that we are going to roll out across all of our businesses.

Our business improvement programme – it's all about redesigning, or coming up with a new blue print, for the front end of our business. And it relates to a programme that's been underway in Poland now for probably a year, but really very, very intensively for the last eight months.

And so what the Polish management team did was they selected five branches. And what they said to their teams in those branches were, if you could optimise the front end of your business from the point of view of growth and profitability, from the point of view of what you could offer the customer, from the point of view of your own career aspirations and the quality of the role that you have, and also for what it brings for the agent - what would you change about how you do business?

The team didn't go away for two days and come back with a list of things we would like to change. They actually went away for several months and come up with a completely different format of how we would do business on the front end. So taking out lots of what we would call non-value added, in some cases eliminating it and in some cases centralising it. Coming up with some form of handheld technology for our people who work at the front end of the business, coming up with different ways of agreeing to how the relationship works between the agent and their manager so that that time is more productive and more educational for the agent.

We could talk for hours, because there are months and months of work that's gone into this. But it's been incredibly successful and is now being rolled out right across Poland and we believe it will bring a lot more efficiency to our business and we also believe that it will help us to retain agents for longer. And retaining agents for longer in our business is a really big win, because it dramatically improves the quality of our portfolio and our customer relationships.

It is something that as we roll it out across Poland and see how it works - all of our other countries will be picking up on it also. And to be fair to our team in Hungary, they've also adopted a form of this and they have implemented that as well and it's proving to be very successful.

Credit Bureau tests - basically there is only one country where we have operated Credit Bureau for some time and that's Hungary because it was an obligation on us. And I think we've been reluctant to sign up to Credit Bureau because we've been worried that if we shared information on a credit bureau it would somehow give an advantage to some of our competitors. Well, in my experience the reality is that you get a lot more wins out of using Credit Bureau than any potential losses from competitive activity.

And so at the moment we are either testing or implementing Credit Bureau right across our countries. So in Poland we're testing with three non-bank Credit Bureau, in Romania tests are currently underway. In Mexico the tests were carried out some months ago and it's now being implemented, it's been very successful. And in the Czech Republic I expect to start testing very shortly. Lithuania was on Credit Bureau from day one. So this is just a new departure for us, it should help us to be smarter about our credit decisions and more efficient in how we lend our money.

And then the final one is the IT partner selection, because we are an incredibly paper driven organisation we do have a requirement to really modernise the internal workings of our business. And part of that will include the interactions with our customers.

In order to do that we need a lot of help on the technology side, because we're not technologists, we're far from it and we have no desire to be. So over the past several months Dave and his teams have been working to find a suitable IT partner that we can team up with and we will form a relationship over the next few years to help us to build this technology that we believe we need.

I want to give one assurance, we are not going for some megabucks, big bang investment where we'll wake up one morning and see whether or not the investment works. We're doing small bite sized chunks of technology, but because we're not experts in that field we do want to team up with somebody to make that successful. And that is something that we'll come back and report to you on probably every six months to give you a progress update on that.

So really a huge amount going on on the strategy piece there, lots of things already achieved but still plenty to do, and I'm generally reasonably happy with what we have achieved in the first six months on these.

So what I'll do now is I'll hand you over to Dave who is going to take us through and give us some colour on the operational activities of the business.

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Performance and Financial Review

David Broadbent, Finance Director
Thank you Gerard, a very good morning to everybody. Hopefully you've seen through that section how much is going on in the business from a development perspective. And I think I added up about 15 different initiatives that have either been delivered or are in progress. And obviously one of the concerns that you might have is that with a lot of change in the business there's a stretch on management and management take their eye off the ball from a trading perspective. And obviously it's an absolute pleasure to be able to be stood here to talk you through a trading performance that's been so good in the first half.

As Gerard said, in the first half we've delivered record profits. They're up by 35% to £42.3m and I'll talk you through some of the components of those results.

The key to it is growth, so as Gerard said, credit issued is up 14% in the first half, revenue is up 9% and I'll cover those in a bit more detail later on. We've had the benefit of FX gains, but we've also had the adverse impact of additional [early settlement] rebates in Poland. So in the first half we paid an extra £6.4m in rebates in Poland. Remember rebates are fully embedded in the revenue streams of all of the other European markets, so Poland is the last country where that's still filtering through. And the expectation is that by the end of this year that will be fully embedded in Poland as well and it basically means that I won't have to talk about it next year which I'm looking forward to. And we expect the full year impact to be around £10m now; so in the second half that'll mean an incremental impact of around £3.6m.

Probably for the first time in six years we haven't got a slide on impairment. There's really not that much to report. Remember our target is to maintain impairment within a ratio of 25% to 30%; at the half year we're at 26.8%, a small reduction from the 27% at the start of the year, so very stable. If you look at the performance across each of the markets none of the markets are over the 30% and we've still got one market that's well below the 25% benchmark and that's Hungary running at 18%. So we've got opportunities to take a bit more credit risk in that market in particular.

On costs the target is to reduce our cost income ratio to 35%, we're looking to do that at a rate of around one percentage point a year. Again, there was a bit of an improvement in the first half, reduced down by 0.3 of a percentage point, so we're now down at 39.5%. And that's really pleasing from my perspective because in the first half we've invested over £4m in additional marketing and incentive structures to stimulate growth. And also we've got £700,000 in respect of new market entry costs. So we've been able to improve the cost income ratio, having invested nearly £5m of additional spend in growth related activities.

We've seen strong profit growth in all of the markets - you can see that here on the bottom left hand side [of the slide] and again it's across the board. So obviously Poland is our biggest market, we've grown profits by 9% there - that's after the rebate impact; so a really strong underlying performance in our biggest market.

Great to see Czech and Slovakia increase profit by 25% in the first half. And Hungary for an established market has delivered a performance that's nothing short of stunning. An 86% improvement in profit in the first half, I'm absolutely delighted with that performance.

Romania made a profit of half a million pounds, included within that is £300,000 in relation to Bulgaria, which will come on stream in September. So we're pleased with Romania. And obviously very pleased with Mexico where we've doubled profits. And I'll come on to Mexico specifically a bit later on in this presentation.

Just remember all of these numbers are before the exceptional items. Gerard has already told you about the exceptional gain that we realised in Poland on the sale of written off receivables, that was £15.9m. And as Gerard said we're looking to improve our IT systems and that means that the value of some of our legacy IT assets that we've got has reduced in value as we develop those systems going forward. So we've had a write down of around £3.5m in respect of that as well.

So I'm going to spend a few slides talking about growth but before I do that I thought it would be helpful to go through some of the trading conditions, or the market backdrop in the countries that we operate in. So let's start with the economies and forecast GDP growth. Now, to put this into context I believe the UK is forecast to grow at just under 1% this year, I Googled it yesterday and that's what the IMF said, so it must be true. If you compare that with our markets and we'll start with Poland, again our biggest market, probably the strongest European economy over the last few years, it didn't go into recession during the financial crisis. That's grown to a rate of just over 1% currently and forecast to increase to 2.8% next year.

Czech [Republic] is currently in recession, so obviously trading conditions are a bit more difficult there than in the other markets; it's forecast to return to growth next year. Low growth in Slovakia and Hungary, again, forecast to have stronger growth next year. And Romania, our other European market, performing pretty well. That's growing at 1.6% and it is forecast to grow to nearly 3% next year.

Mexico has probably been the strongest of our economies over the last four to five years. Its competitiveness is increasing, it's taking a lot of manufacturing away from China, so that's a very positive development. And that’s forecast to grow at 2.7% this year and 4.2% next year. So I guess the key takeaways are that our two biggest markets, Poland and Mexico, are growing really strongly which is helpful.

On consumer confidence it's the trend here that's most important. Generally consumer confidence levels have been more positive in Mexico over the last few years and they are relatively stable. In Europe though we've seen a notable improvement across most of the markets in the last six months, so again, that's helpful as well.

And just briefly on competition, we told you at the beginning of the year we were seeing an increase in levels of competition, particularly in Poland and the Czech Republic. And really that takes two forms, one is we're seeing an increase in pay day lending across both of those market, probably no surprise. And the other thing we've seen is in the Czech Republic there are a couple of new copycat companies who have the home collected credit model that's very similar to ours. We are seeing an increase in competition in those markets. We're also seeing a big increase in the level of media and advertising spend in the financial services sector generally.

So it's hotting up a little bit in those markets. In the other countries nothing much really to report, obviously there is competition there but the competitive dynamics aren't really changing that much.

Finally on regulation and just a couple of points here. You've probably seen across Europe where countries have the ability to reduce base rates to stimulate the economy they've been doing that. So we've seen progressive rate cuts, particularly in Poland and Hungary.

Now obviously we operate in rate cap environments in both of those markets and in terms of our product configuration we have an interest element and then we have other optional fees. And because base rates have been reducing that's meant that on occasion in the first six months we've had to reconfigure and re-price the product in those two markets. There's no material impact, but obviously it's something that we have to be mindful of given we operate in those environments.

Probably more broadly though we've seen an increase in regulatory debates across Europe and especially in our European businesses around regulation of the non-bank lending sector and that includes discussion around either the introduction of rate caps, or changes to existing rate caps. Obviously as a business we've been operating in a rate cap environment since 2006. And one of our key objectives is to ensure that we maintain an ongoing constructive dialogue with regulators and opinion informers in all of our markets and obviously that's a process that's ongoing.

So that's the backdrop, against which we're very pleased with our growth dynamics in the first half. We've got revenue here; across the first half as a whole we grew revenues by 9%, slightly stronger in the second quarter, so the growth rate was 8% in the first quarter, 10% in the second quarter and you can see the performance across each of the markets on this slide as well.

Poland, 3% revenue growth, remember that's after the rebates, so if you look through the performance before the rebates their growth rate would have been around 7%; that's a pretty decent revenue increase in our biggest market.

Czech-Slovakia, remember revenues were flat last year so we're really pleased to see revenue growth of 5% in that market. And as we said, in terms of Hungary, absolutely phenomenal revenue growth for an established business of 26%. As you'd expect, strong double digit growth in both Mexico and Romania where we know we've got a long way to go to fulfil our end customer growth targets.

Now the key drivers of revenue growth are customer growth and credit issued growth, so I'll cover that on this slide. We'll start with customers, as Gerard said, customers have grown at a Group level by 3%. One thing to bear in mind is you may remember at the end of last year we changed our write-off policy, basically to move non-paying customers through the debt recovery process faster. And as a result of that change in policy we've actually written off around 50,000 more customer accounts in the first half than we did last year. So that's probably taken a couple of percentage points off our customer growth rate.

Having said that, we've collected around £2m more in debt recoveries in the first half, so it was still very much a good decision.

From a credit issued perspective, like revenue, we saw faster growth in the second quarter. So in Q2, credit issued growth of 17%, Q1 was 11%, overall 14%. And in terms of the markets, every one of the markets has delivered good double digit credit issue growth - it's really, really pleasing.

As Gerard said we're probably less pleased around the customer growth number and disappointed that Czech has gone backwards, and obviously that's a trend we're aiming to reverse in the second half of this year. I would say our primary objective for the second half is to increase customer growth. And we've got a number of tactics that we'll deploy to do that.

We will be investing more in our market spend, there will probably be a couple of areas where we'll be able to change our credit setting to enable us to take on more new customers.

We will be changing our incentives to reward more for customer growth, because agent productivity is absolutely a key driver in this business and obviously we'll be expanding our footprint as well. So I will include more agents in the countries that we're in, we've got the two new countries of Lithuania and Bulgaria and we're expanding the footprint in Romania and in Mexico.

Moving on to Mexico, now obviously it's no secret that Mexico strategically is one of our most important markets, not least because we think we can build a business of over 3m customers there. But as we've said before, our key objective at the minute is to increase the profit per customer. And we've set ourselves that target of hitting £33 by 2015.

And the three components of that strategy are to increase revenue per customer, to maintain impairment within our target range of 25% to 30%, but also to reduce the cost income ratio to below 40%. And I'm very pleased to say that we continue to make good progress towards that target in Mexico. First half profit has doubled to £5m. And that means that we're currently at £17 profit per customer if you look back over the last 12 months. So we're just over halfway towards the target of £33.

Again, the key driver is growth, so credit issued increased by 23% in the first half, revenue is up 18% and one of the core components of that growth has been the rollout of our more relaxed credit settings across our branch network. This is a process that started in the first quarter of last year, so we're about 15 months in. And currently the more relaxed credit settings are in operation in 31 of our 56 branches. And the intention is to carry on that rollout programme and it will probably take us through to the end of next year before the full network is on a more relaxed footing.

Importantly, when we've done that we've not seen any real impact on impairment, so impairment is still within our target range, just below 30%. And as Gerard said, we're implementing Credit Bureau in Mexico; that will be rolled out across the country by the end of August and going forward that will just give us another tool in our armoury to ensure that we maintain good credit quality there.

The team have done a great job on costs. So in the first half alone they've reduced the cost income ratio by nearly three percentage points, so that's down at 43.7%. So we’re honing in on that 40% very quickly, so we're very pleased with that.

And so what can you expect from Mexico in the second half? Well more of the same I think. But like the other markets we'll be looking to up the rate of customer growth. We changed our incentive scorecard in the second quarter, so that's got a bigger component for customer growth in there. That seems to be making a difference, so that's positive. An as we've said, we'll be opening another two branches in the second half to complement the two in the first half, and that will include Mexico City.

So we've had improvements in Mexico, we've also improved our funding position. The treasury team has done another great job in the first six months to put us on a firm footing. Obviously as a business we're very cash generative, which is helpful. We also have lots of headroom on our committed debt facilities, so over £200m at the end of the first half, and gearing in the business is very low and stable at 0.8 times.

More broadly we've got three key strategic objectives on debt funding and that's to increase the maturity of our facilities, further improve the diversification of source of our funding and a subject close to my own heart, reduce cost of funding as well. And I think we've made good progress against all of those in the first half, through to two bond issues.

So you may recall back in January we issued £11m worth of five year Hungarian foreign bonds, so that completed our set of local currency bonds of all of our European markets. And then as Gerard said, we had the UK retail bond at the end of April. And that's helped us; the retail bond in particular, has helped us extend the maturity of our debt facilities. So it was as seven year bond, which means we've now got a tranche of funding that goes out to 2020, so that's very pleasing. And it's improved the diversification of source.

While your eyes are adjusting to the very colourful palette here, suffice to say that the retail bond accounts for about 13% of our debt facilities now. The bigger components are bank facilities, they account for 40%, the Eurobond we issued in 2010 accounts for 35% and then the other 12% are those local currency bond facilities that I mentioned.

As I say, it has helped us reduce cost. So the retail bond was priced, with a coupon of 6.125% or 6 and 1/8, and that's over 500 basis points cheaper than the Eurobond that we issued in 2010. So obviously that's very important to us because that will set a benchmark for future bond issuances going forward, obviously we'll be looking to reference that and drive out further reductions in the cost of our funding going forward.

As a business we're looking to increase shareholder value and increase shareholder returns. At the end of June, if you look back over the last 12 months, our earnings per share are now over 30 pence, so we're pleased with that. We continue to generate a return on equity in excess of 20% and that's despite a very strong capital base. One more slide and I'll cover that. And as Gerard said, given the very strong trading performance in the first half we've decided to increase the interim dividend by 17.5%. So that's now at 3.8 pence per share.

And on top of all of that, as you've heard, our £60m share buyback programme will start shortly, in the next few hours. And obviously as a lending business we have to determine the appropriate amount of capital that we use to deploy in the business. We use stress testing to help us with that, we take our five year financial plan, run various scenarios against it, normally bad ones, and we're assessing the impact of those scenarios against the interest cover covenants. In the event of distress that would be the first bank covenant that you would hit.

So we updated our stress testing in the first half of the year and that said that we're in a position where we could reduce our capital ratio down to 50% and I think there are really three main factors behind that. Obviously the continued strong trading performance, secondly the improvement in our funding position and thirdly a change in our outlook for the world economy and Europe in particular.

So whereas before we would have said that there was still a risk of a secondary major correction such as the one we saw in 2009, we think that that risk has rescinded somewhat; although we expect the economic outlook for Europe in particular to be difficult over the next few years. So we're not expecting another major correction to hit. And overall I would say that economic risk we would assess at amber having been red a couple of years ago.

That means that we think the time is right to reduce it to 50% and a £60m share buyback will do that. As a Board we are still committed to working the balance sheet even harder, so it is a ratio that we will keep under continuous review. And I guess we really should watch out for two main factors that could help us reduce the ratio further. One is a more positive outlook for the economy and the other one is further reductions in our cost of funding. As I say the stress test is based on the interest cover covenant, so anything we can do to reduce our interest cost will help us reduce the capital requirement further as well.

Suffice to say, [we're] very pleased with the first half trading and obviously an increase in shareholder returns with the increased dividend and the share buyback. So I'll now hand over to Gerard and we'll cover off the outlook.

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Outlook

Gerard Ryan, Chief Executive Officer
Thank you Dave. So if you want to stay there because it will take just a minute. Dave has given us the colour around the operational activities of the business and how we've generated these results over the past six months. And I think this summary slide really says it all, you know, we are delivering top line growth across all of our markets. We are a bit disappointed in customer numbers, but we're going to be particularly focused on that in the second half of the year and we think we will see that come back again.

In terms of expanding and strengthening customer relationships we talked about the products and what we're doing there. One thing that I omitted to say is that I explained the importance of the agent relationship with the customer, what I should have added also is that we've seen agent turnover come down from 56% to 51%. And really that is quite a big movement in our business and bodes well for the future.

Shareholder return - Dave has talked us right through, and I think we're comfortable standing here today to say that despite increased competitive activity, you know, and despite the fact that we should all expect in our market that we're going to have more regulatory framework around what we do, we feel comfortable saying that we see more opportunities ahead and that this business can continue to grow for the foreseeable future.

Now before I jump into the Q&A - I've always wanted to do a piece to camera, I just want to say to everybody who's watching, to all of our teams - a very big thank you, because it's as a result of your tremendous efforts that Dave and I can stand up here today and talk about these results. So that goes for our now seven countries, actually eight countries that we're operating in, plus all of our team up in Leeds who are doing a tremendous job, so thank you very much for that. And with that now I'd like to hand it over for a Q&A session.

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Questions and Answers

James Hamilton, Numis Securities
Good morning, two if I may please. In the first half, could you say what the smallest number of customer growth would have been that you wouldn't have been disappointed with? And the Romanian head office - could you comment on what you've done there because there's quite a lot of branch opening going on in the first half and second half and of course supporting the push into Bulgaria as well? I was just sort of wondering if there's any sort of signs of stress, have you got all the people in place, I'm just sort of wondering what operationally you've done in the Romanian business?

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Gerard Ryan, Chief Executive Officer
Sure, so on the customer number we haven't really discussed this but I probably would have been happy probably north of 5%, so I think north of 5% would have ticked the box for me.

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David Broadbent, Finance Director
I agree, I might have said 6%, but north of five works.

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Gerard Ryan, Chief Executive Officer
5% to 6%. In terms of Romania, yes I suppose we're putting a bit more pressure on our team in Romania, but I think they're more than capable of handling it and they have effectively established the business in Bulgaria now because we have the office in Sofia. Dave and I have been there a couple of times in the past month, we've met the senior management team that's been put in there and it is an experienced team for IPF, so we're pleased with that.

In terms of the expansion that we've done in Romania, we've opened up ten new locations, they're a combination - some of them are offices, some of them are just interview rooms where our agents would meet with customers. So it doesn't necessarily mean a huge investment in big physical infrastructure, it's more about filling out parts of the geography where we haven't been already. And so the fact that we're going to do another ten in the second half doesn't imply a major investment of either time or physical resource, it's more about filling in the blank spaces that we see in Romania, so we feel quite comfortable that we can achieve that.

I don't believe we're going to get away with one question.

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Dave Nangle, Renaissance Capital
I've got four questions, if I can say them one at a time if it's all right, you asked for more - so. Mexico, can you tell me on Mexico City, is success in Mexico City part of your £33 [per customer] pre-tax profit target? And just on Mexico City, I've just been marketing in the States and there's a lot of kick back that Mexico City is different to regional Mexico, in terms of social structure, etc, payback and issues that maybe Compartamos have had there in the past. Why will you have success where they haven't?

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Gerard Ryan, Chief Executive Officer
Well Mexico City is part of our plan for getting to three million customers and ultimately by I suppose 2015 having £33 profit per customer. And as I said I do think that Mexico City comes with some additional risk, but we actually have branches that effectively go around Mexico City. So it's not as if we're physically a million miles away from there already. So I believe we have a very good understanding.

And what's really important, because a lot of these things come down to having the right management in the right place. We've got some superb management in our business who've been operating in other businesses in Mexico City. So we feel we already have an insight into what it's going to take to be successful there.

Now one of the things we'll have to do is we'll have to be extra cautious on behalf of our agents because they carry cash and in Mexico City that could be more dangerous. And so it will propel us, I think at a more rapid pace, to rollout something like a pre-paid card, so that they're not delivering physical cash they're delivering a card. And that is something that the Mexico business is already working on. It wasn't one of the products that I talked about earlier, but it is a product that I think we'll be updating you on quite shortly.

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David Broadbent, Finance Director
The only thing I'd add David, every time we open a new branch obviously you incur costs before you generate any revenue. So every new branch we open will probably act as a drag on earnings for at least a year before it moves into profitably. So even in 2015 when we hit the £33 profit target the profit we make in Mexico City will be much smaller than that. So actually it won't help us towards the £33 target, it's more about putting the seeds down for the three million customer base.

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Dave Nangle, Renaissance Capital
Fair enough. On the buyback, I didn't hear it there, but how long is the buyback going on for?

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Gerard Ryan, Chief Executive Officer
Well there isn't a fixed period but we're thinking it'll take six months.

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Dave Nangle, Renaissance Capital
On the sale of debt in Poland, you said you found a partner who will work like you work, can you mention who they are and do you have any guarantees - what guarantees do you have that they will not change how they collect?

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Gerard Ryan, Chief Executive Officer
Sure the company is called Ultimo. I don't want to go into the contract details, but we have believe me a huge amount of safeguards built into the contract. Because we have, in my opinion, a tremendous reputation in Poland that we've built up over a period of 17 years and you know we quite rightly put a huge amount of effort into making sure the contract protected us in terms of any activities that our partner could take. But I don't want to go into the detail, but rest assured we've got clauses in there that to some extent we can work very closely with them to help them to behave in a manner that protects our reputation.

In fact that was our primary driver in terms of whether or not we would complete a deal. It wasn't about the amount of money we could get out of it; it was finding the right contract with the right partner.

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Dave Nangle, Renaissance Capital
And just finally on Hungary, it seems your trends are counterintuitive to what's going on on the ground with many banks there; are you just a net beneficiary of nobody else lending, or what are you doing or seeing that nobody else is?

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Gerard Ryan, Chief Executive Officer
Well I would say the first thing is that we have a fantastic management team in Hungary, you know they won Employer of the Year not so long ago, they're winning accolades all the time now for the way they do business. And I think we do business in a very reputable and transparent fashion.

And in every country in which we operate there is a group of customers who are under-banked, or find it more difficult to get funding from banks. And that's where we play and provided we play the way we do today, you know in a reputable way, I think there will always be room for us. And it just so happens that there is a lot less competition for us in Hungary then we would experience say in Poland or in the Czech Republic. And you combine that with an excellent team and you get the results that we're seeing this half year.

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Dave Nangle, Renaissance Capital
Thank you.

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Peter Lenardos, RBC
Just a question on the dividend, it seems that you're deviating from your stated policy of a 25% payout ratio. How should we think about the dividend going forward in terms of - are you going to be managing towards your aggregated receivables, or will there be a sub payout?

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David Broadbent, Finance Director
No, so I think you can assume that the 25% payout ratio will hold good. It won't be a mechanical exercise, so it might be - in some periods it might be slightly more it might be slightly less. Remember last year we increased the dividend substantially even though earnings reduced. So there's an element of balancing out between the two years, but no it still holds good and it should be a reasonable assumption going forward.

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Peter Lenardos, RBC
Great, thank you.

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Gary Greenwood, Shore Capital
Just two questions, first of all on the interest cover covenant and leverage, can you just tell us what the covenant is and what the headroom is post the buyback? And then the second question is just on competition and what the potential is for that competition that we're seeing in Czech and Poland to drift into the other markets?

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David Broadbent, Finance Director
So the covenant is at a minimum two times covenant and in terms of term cover we've run around three and a half consistently over the last few years and the share buyback won't have a material impact on that going forward.

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Gerard Ryan, Chief Executive Officer
On the competition one, you know we've talked a lot about the competition in Poland, but actually what we're really seeing there at the moment is competition for share of voice, because we don't view pay day lenders as a direct competitor for us because we're not a pay day lender, we're anything but. We meet every single customer that we lend to without exception, whereas pay day lending is a remote lending business. Pay day lending is predicated on having a large income stream from penalty fees and penalty interest. We don't charge either of those.

But what we're competing with there is for share of voice. So they're investing huge amounts of money, on television, and so our share of voice is shrinking, or has shrunk in Poland in particular. But the team very smartly have taken that money that they haven't now spent on those media formats and are reinvesting it through our direct channels, via the agents. And in fact what you find is that the payback is significantly higher. The profitability of a customer that you source directly through your agent network is far better than the profitability of a customer that you have to pay through a television advert to get.

Now do I see the competitive activity rolling into other markets, I would say it will come. You know the reality is most people looking at a set of result like this will say, well why don't we have a slice of that. But from our point of view, competition is healthy, you know it pushes us to think more laterally and more out of the box for want of a better description on product development, innovation, how we go to market, how we interact with customers. So we're not afraid of competition, it probably just makes us work harder.

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Robin Savage, Canaccord Genuity
Following on from that question, I came back to James Hamilton's first question about customer growth. Could you provide a bit more colour on the marketing spend and the change to the incentives for your agents? I think there's a very important point about if you wanted to have customer growth of over 5% I'm sure that you could arrange it, it's a question of how much you're going to spend. So I wonder whether you could give us some colour on the marketing and the change in incentives?

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David Broadbent, Finance Director
I'll pick that up Robin, in terms of marketing - so we'll do marketing and then I'll do incentives. So on marketing we've invested another £3m in the first half of the year, so you can probably expect to see more of that. The other thing I would say around marketing is that we've changed some of our messaging, particularly over the last 12 months, whereas before it was quite rudimentary – "do you need a cash loan, call this number". Now it's more about the image of the business, the heritage, the fact that we've won Employer of the Year awards and we're an ethical business. And so it's a much softer proposition and that seems to be working particularly well where we've introduced that. So you can expect more of the same on that.

On incentives there are probably three elements to that. For line managers they receive a performance bonus on a monthly basis and basically we'll have a greater proportion of that bonus based on customer growth.

For agents, obviously most of their earnings, so around 80 to 90%, will still be based on collections. But where we feel we need to, we might increase the new customer recruitment fee. Typically it's been £5 and £10, so you'll probably see that moving more toward the £10 rather than the £5 mark.

But probably the bigger thing around agent productivity is an introduction of better reward schemes. So that where you've got a great agent we will basically show that they're a great agent. They might achieve gold status, or platinum status. And one of the criteria for achieving that is to achieve a certain customer base and therefore we're looking to reward them for growing that customer base. And that was a process that was a key foundation in Mexico. We introduced it there 18 months ago and we've extended that across most of the other markets and it's a core part of the business improvement programme that's running in Poland and Hungary that Gerard mentioned earlier.

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Gerard Ryan, Chief Executive Officer
But one thing we are very sensitive to is being a very responsible lender. And one of the ways that we achieve that is by ensuring that the majority of earnings for any agent comes from collection activity. So that they're always engaged to lend to people that they believe can afford to repay. So we'll never want to get the balance where they're overly incentivised to sell versus having most of their earnings coming from collections. It's a really key point for our business.

Any further questions?

Okay, well thank you very much everybody for coming along and we'll be around for some time if you have any follow ups that you want to pick up with us individually. Thanks a lot.

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