2015 Full-year results

# International Personal Finance plc

24 February 2016

International Personal Finance plc

# Gerard Ryan

## Chief Executive Officer

# 2015 highlights

## Robust financial performance despite regulatory challenges in Europe

- Strong underlying profit growth of 10%
- Significant progress in Mexico and exceeded profit per customer target
- Stable performance in most European home credit markets with an improving trend
- Strong growth in IPF Digital - significant market opportunity
- Robust funding position and further returns to shareholders

# Regulation

## Legislative processes changing

**What's changed?**

- New regulation driven by overtly populist agendas
- Recent legislative changes occurred pre-election
- Legislative process less consultative
- New regulation more complex

**What we are doing differently?**

- Increasing engagement with political parties through lobbying associations
- Proactive strategy to identify and anticipate, monitor developments and protect value
- Adapting our product set

# Regulation

## Addressing regulatory challenges

Slovakia

- Rate cap implemented
- Decision made to wind-down agent-delivered home credit operation
- Significant exceptional charge in 2015, collection and closure costs in 2016
- Assessing alternative business models

Poland

- Total cost of credit cap - progressive impact on Poland’s profit in 2016 and 2017
- 2013 UOKiK APR challenge - court process underway
- New ‘bank tax’ - annual cost of ~£2.4M

Romania

- Agent status change to being employees - annual cost of £3M

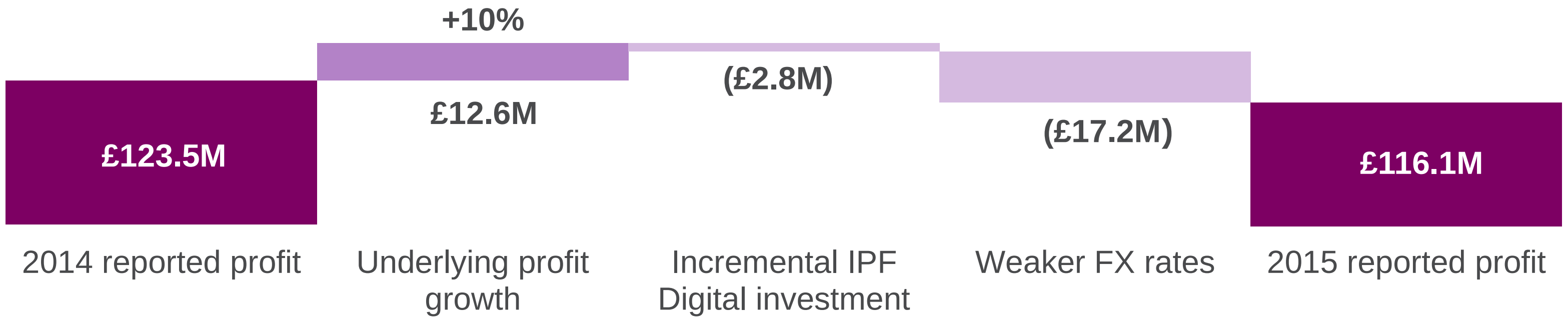
Performance and financial overview

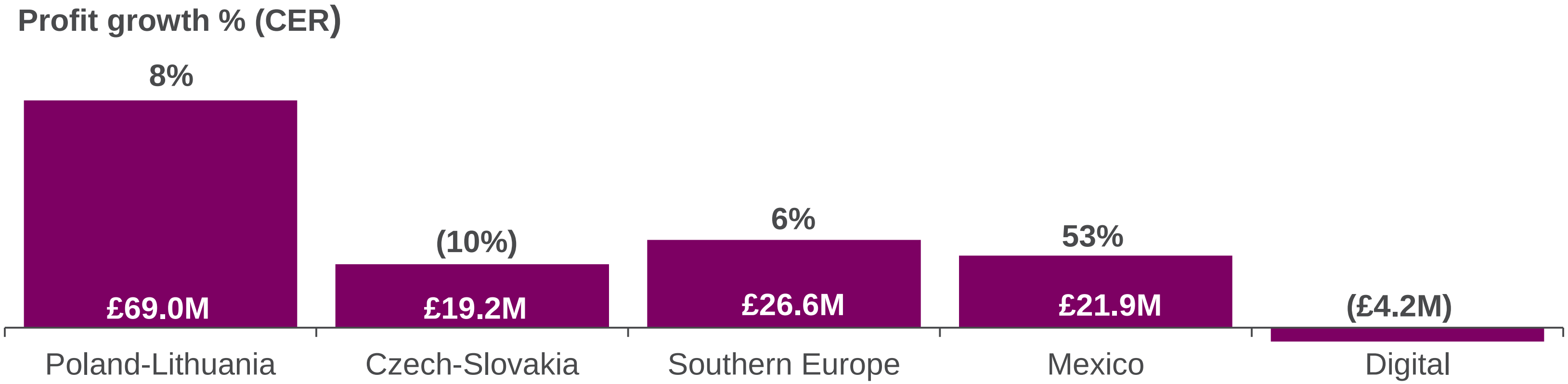
# Adrian Gardner

## Chief Financial Officer

# Strong underlying profit growth of £12.6M

## Group profit before tax £116.1M

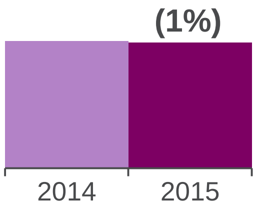


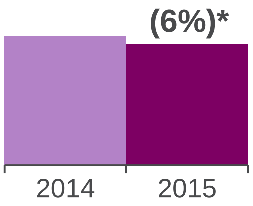
# Home credit - Europe

## Focus on operating efficiency with improving growth trend

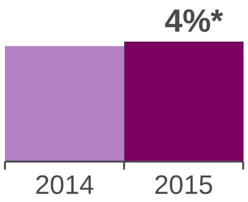
### Customers



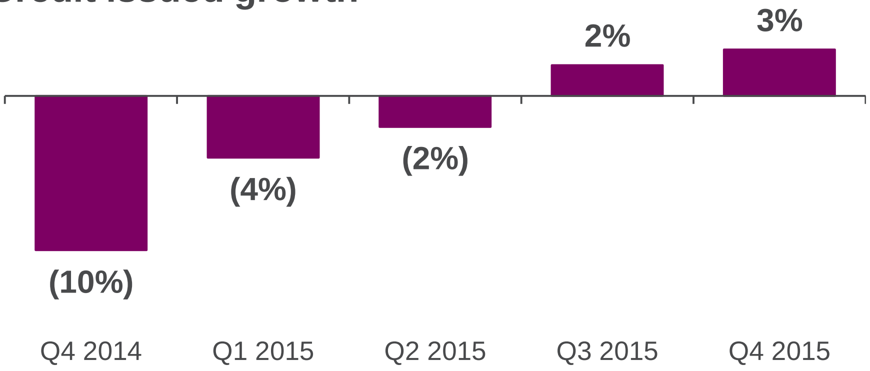

### Revenue




### Profit




### Credit issued growth




- Good customer growth in Southern Europe: contraction in other markets
- Progressive quarterly improvement in credit issued growth through 2015
- Revenue decrease due to interest cap in Poland and longer-term product mix
- Costs reduced by 2% with further cost reduction planned: cost-income ratio 37.7%
- Impairment % revenue 23.4% positively impacted by sales of non-performing loans. Expected to return to Group target range

* At constant exchange rates

# Slovakia exceptional cost

## Exceptional cost booked in 2015; wind-down in 2016

- Decision to wind-down the agent delivered business
- 2015 exceptional charge arises due to:
    - Lower collections in collect-out than in going concern scenario
    - Deferred tax write-off as no future profit for offset
- Redesigned dynamic incentive schemes for employees and agents to maximise recoveries
- £40M expected to be collected in 2016
- £5M to £7M loss expected in 2016

| | 2015 £M |
|---|---|
| Provision against value of receivables book | 10.3 |
| Write down of various fixed assets | 0.9 |
| Write-off of deferred tax asset | 7.4 |
| **Total** | **18.6** |

# Home credit operating cost base

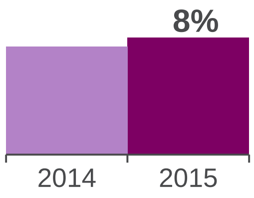
## Driving efficiency and reducing cost

- Costs in our established home credit businesses reduced by 2% YOY in 2015 but more to do
- Strategic changes underway to reduce costs:
    - New organisational design structure launched in Hungary
    - Branch consolidation
    - UK head office restructuring in progress
- Roll out of MyProvi agent technology starting Q3 2016 enabling further cost elimination
- Single sourcing to be implemented in European businesses and drive out cost

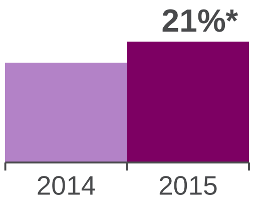
# Home credit - Mexico

## Excellent performance and record profit of £21.9M

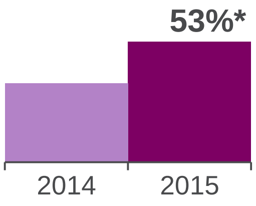
### Customers



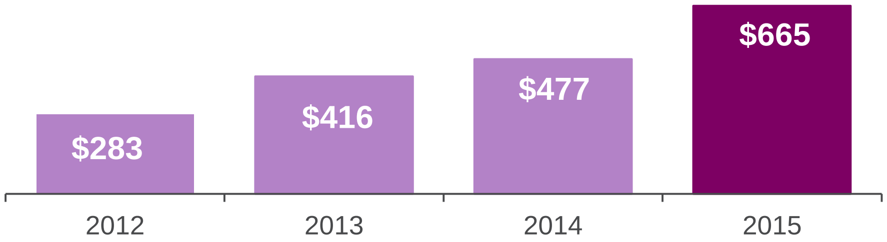

### Revenue




### Profit




### Mexico profit per customer



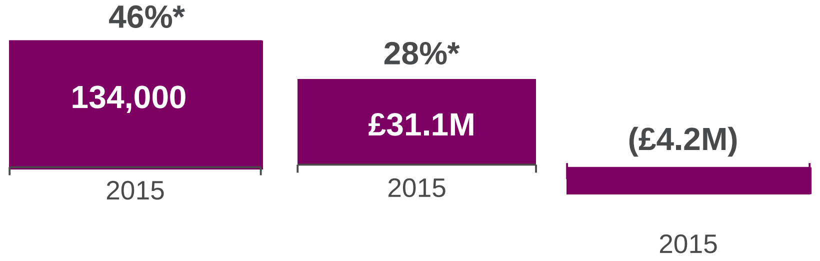

- Strong underlying profit growth of £7.6M
- Increasingly important part of the Group
  - Profit per customer increased by MXN$188 in 2015
  - Good top-line growth metrics
- Operating leverage evident: cost-income below 40% for the first time
- Plan to deliver further strong top-line growth

* At constant exchange rates

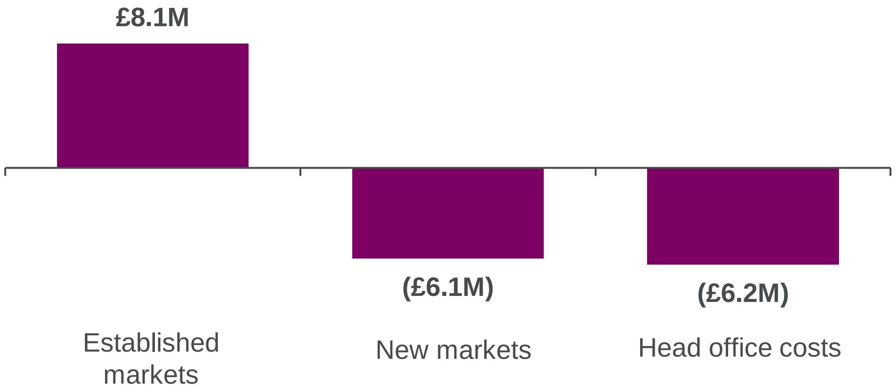
# IPF Digital

## Excellent progress and a major strategic opportunity

### Customers Revenue Profit




### Profit before tax



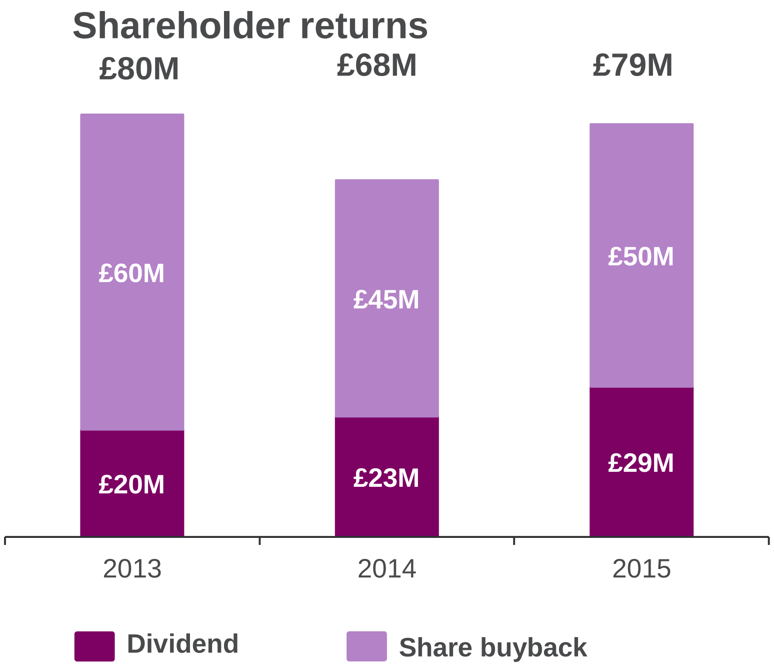

- Good growth in established markets, expanding in new markets
- Stable credit quality - impairment as a percentage of revenue 28.6%
- Established markets - profitable and high returns
- New markets - significant progress in Poland, Australia and Spain. Expect to be profitable by 2018
- Total investment in IPF Digital in 2016 ~£7M to £9M

* On a proforma basis

# Well-funded balance sheet

## Good cash returns for shareholders

- £135M of new funding secured from diversified sources
- £133M headroom on funding facilities
- Equity to receivables 40.8% in line with 40% target
- £227M returned to shareholders in last three years
- Final dividend of 7.8 pence per share gives annual dividend of 12.4 pence



# 2016 profit before tax factors

- Compared to 2015, profit in 2016 will be impacted as a result of:
- Ongoing businesses
  - Total cost of credit cap in Poland ~£5M to £10M
  - Employing agents in Romania incremental cost of ~£1.5M
  - New 'bank tax' in Poland ~£2.4M
  - Reduced rate of debt sales in Poland ~£5M
- Discontinued business
  - Wind-down of Slovakia ~£5M to £7M

Strategy update

# Gerard Ryan

## Chief Executive Officer

# Strategy for Growth – significant achievements

## Multi-product, multi-channel business – 400,000 extra customers since 2012

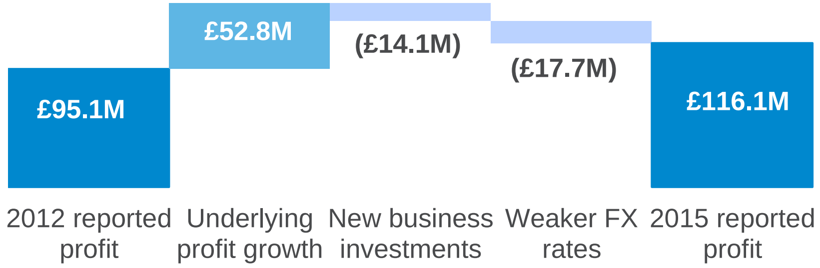
Expand footprint
- Significant expansion

Customer engagement
- Broadened product portfolio
- Introduced digital channels

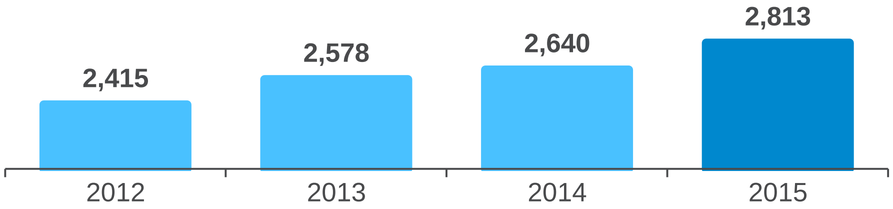
Sales culture
- In-principle decision on websites
- New sales and service organisational structure

Effective execution
- Global credit decisioning system
- Tablet technology
- Pilot agent technology

### Strong underlying profit growth




### Customers (000s)



# Changing external environment

## Impacting rate of growth in some European markets

### Changing consumer behaviour

- Shift towards digital
- Face-to-face interactions less valued by some consumers
- More choice drives less loyalty

### Changing competitor landscape

- Arrival of online, digital lenders
- High profile offers
- Quick and easy customer journey


### Increased regulatory oversight

- Rate caps in most European markets
- More challenges to product structure

# Redefining our businesses

## Capturing growth opportunities and addressing competitive threats

**Growth**

**Digital**

Credit24 sving hapiloans

**Growth home credit**

Provident

Mexico

Romania-Bulgaria

**Returns focused**

**Established home credit**

Provident

Poland-Lithuania Czech Republic Hungary

**Growth businesses**

- Digital – building scale with experienced management
- Home credit – proven opportunity in Mexico and Romania-Bulgaria

**Established businesses**

- Maximise value
- Deliver efficiency
- Reinvest in growth businesses
- Deliver shareholder returns

# Established home credit

## Enhance customer experience, drive cost out and deliver returns

**Optimise customer propositions**

- Optimise pricing of home service product
- Reprice and reposition Money Transfer product
- Develop broker partnerships
- Build referral flow from digital business

**Driving operational leverage**

- New sales and service organisation structure
- Automation through agent handheld technology
- New cost-out programme (‘single source’)

**Provident digital offering**

- Provide customer choice
- Leverage strong brand awareness and web traffic
- Pilot in Poland – other markets to follow from H2 2016

# Growth home credit

## Drive strong top-line growth

| | |
|---|---|
| **Mexico** | • Further strong growth expected: credit issued growth +20%<br>• Accelerated geographic expansion: 10 new branches planned in 2016<br>• Micro business loans and strategic alliances underway<br>• Expansion and new business investment funded by Mexican operation |
| **Romania-Bulgaria** | • Excellent momentum H2 2015<br>• Infill infrastructure to reach more new customers<br>• Bring to maturity and optimise cost<br>• Leverage benefits of employed agents |

# Growth Digital

Growing our established businesses and expanding in new markets: expected investment of £7M-£9M in 2016

| | |
|---|---|
| **Grow established markets** | • Finland and Baltics: 12M population<br>• Good returns and expect to deliver further good rates of growth<br>• Contribution margin ~30%<br>• Channel and product development ongoing |
| **Enter and grow new markets** | • Poland, Australia and Spain - significant growth opportunity: 100M population<br>• Similar margin structure to established markets at maturity<br>• Breakeven after around 3 years<br>• Cumulative investment to breakeven ~£8M to £10M per market<br>• Considering commencing a digital business in Mexico |
| **Invest in head office capability** | • Maintain strategy of one head office<br>• Invest in technology platform and control environment |

# Outlook

## Good growth opportunities – strategy evolved to meet changing environment

- Build relationships with new regulatory stakeholders
- Drive efficiency and capital generation in established home credit businesses
- Drive top-line growth in IPF Digital and growth home credit businesses

# Questions

# Appendices

# Group

## Full-year to 31 December 2015

| | 2014<br>£M | **2015<br>£M** | Change at CER<br>% |
|---|---|---|---|
| Customer numbers (000s) | 2,640 | **2,813** | 6.6 |
| Credit issued | 1,022.0 | **1,043.0** | 13.2 |
| Average net receivables | 760.6 | **764.0** | 11.4 |
| Revenue | 783.2 | **735.4** | 4.1 |
| Impairment | (220.0) | **(188.9)** | 4.8 |
| Finance costs | (45.3) | **(41.6)** | (1.5) |
| Agents' commission | (90.8) | **(84.6)** | (3.4) |
| Other costs | (303.6) | **(304.2)** | (9.1) |
| Profit before taxation and exceptional items | 123.5 | **116.1** | |
| Exceptional items | (23.3) | **(15.9)** | |
| Statutory profit before taxation | 100.2 | **100.2** | |

# Home credit

## Full-year to 31 December 2015

| | 2014<br>£M | **2015<br>£M** | Change at CER<br>% |
|---|---|---|---|
| Customer numbers (000s) | 2,640 | **2,679** | 1.5 |
| Credit issued | 1021.9 | **956.3** | 3.8 |
| Average net receivables | 760.5 | **720.8** | 5.1 |
| Revenue | 783.2 | **704.3** | (0.3) |
| Impairment | (220.0) | **(180.0)** | 9.3 |
| Finance costs | (45.1) | **(38.8)** | 4.9 |
| Agents' commission | (90.8) | **(84.6)** | (3.4) |
| Other costs | (287.1) | **(266.0)** | (1.4) |
| Profit before taxation and exceptional items | 140.2 | **134.9** | |

# Poland-Lithuania

## Full-year to 31 December 2015

| | 2014<br>£M | **2015**<br>**£M** | Change at CER<br>% |
|---|---|---|---|
| Customer numbers (000s) | 848 | **832** | (1.9) |
| Credit issued | 372.6 | **353.5** | 5.2 |
| Average net receivables | 299.4 | **287.5** | 6.5 |
| Revenue | 308.8 | **267.4** | (4.0) |
| Impairment | (84.2) | **(61.3)** | 19.2 |
| Finance costs | (18.7) | **(15.8)** | 6.5 |
| Agents' commission | (33.8) | **(29.8)** | 2.3 |
| Other costs | (99.6) | **(91.5)** | (0.4) |
| Profit before taxation and exceptional items | 72.5 | **69.0** | |

# Czech-Slovakia

## Full-year to 31 December 2015

| | 2014 £M | **2015 £M** | Change at CER % |
|---|---|---|---|
| Customer numbers (000s) | 360 | **317** | (11.9) |
| Credit issued | 195.8 | **150.4** | (15.2) |
| Average net receivables | 158.8 | **130.5** | (9.3) |
| Revenue | 136.9 | **106.5** | (14.1) |
| Impairment | (42.0) | **(27.7)** | 27.1 |
| Finance costs | (8.1) | **(6.4)** | 12.3 |
| Agents' commission | (13.8) | **(10.7)** | 13.7 |
| Other costs | (48.7) | **(42.5)** | 5.3 |
| Profit before taxation and exceptional items | 24.3 | **19.2** | |

# Southern Europe

## Full-year to 31 December 2015

| | 2014<br>£M | **2015**<br>**£M** | Change at CER<br>% |
|---|---|---|---|
| Customer numbers (000s) | 646 | **679** | 5.1 |
| Credit issued | 245.7 | **227.8** | 3.3 |
| Average net receivables | 176.9 | **163.4** | 2.8 |
| Revenue | 177.2 | **155.1** | (2.6) |
| Impairment | (44.2) | **(35.0)** | 12.1 |
| Finance costs | (11.1) | **(9.5)** | 5.0 |
| Agents' commission | (21.9) | **(20.6)** | (4.6) |
| Other costs | (71.1) | **(63.4)** | 2.2 |
| Profit before taxation and exceptional items | 28.9 | **26.6** | |

# Mexico

## Full-year to 31 December 2015

| | 2014 £M | **2015 £M** | Change at CER % |
|---|---|---|---|
| Customer numbers (000s) | 786 | **851** | 8.3 |
| Credit issued | 207.8 | **224.6** | 19.8 |
| Average net receivables | 125.4 | **139.4** | 23.0 |
| Revenue | 160.3 | **175.3** | 21.1 |
| Impairment | (49.6) | **(56.0)** | (25.0) |
| Finance costs | (7.2) | **(7.1)** | (7.6) |
| Agents' commission | (21.3) | **(23.5)** | (22.4) |
| Other costs | (65.7) | **(66.8)** | (11.7) |
| Profit before taxation and exceptional items | 16.5 | **21.9** | |

# Digital

## Full-year to 31 December 2015

| | 2014<br>£M | **2015**<br>**£M** | Change at CER<br>% |
|---|---|---|---|
| Customer numbers (000s) | - | **134** | 100.0 |
| Credit issued | 0.1 | **86.7** | 100.0 |
| Average net receivables | 0.1 | **43.2** | 100.0 |
| Revenue | - | **31.1** | 100.0 |
| Impairment | - | **(8.9)** | (100.0) |
| Finance costs | - | **(3.1)** | (100.0) |
| Other costs | (1.5) | **(23.3)** | (1,564.3) |
| Loss before taxation and exceptional items | (1.5) | **(4.2)** | |

# Underlying profit reconciliation

| | 2014 reported profit £M | Underlying profit movement £M | New business costs £M | Weaker FX rates £M | 2015 reported profit £M |
|---|---|---|---|---|---|
| Home credit | 140.2 | 12.0 | - | (17.3) | **134.9** |
| Digital | (1.5) | - | (2.8) | 0.1 | **(4.2)** |
| Central costs | (15.2) | 0.6 | - | - | **(14.6)** |
| Profit before taxation and exceptional items | 123.5 | 12.6 | (2.8) | (17.2) | **116.1** |
| Exceptional items | (23.3) | | | | **(15.9)** |
| Profit before taxation | 100.2 | | | | **100.2** |

# Balance sheet

| £M | Dec 2014 | Dec 2015 | Change at CER % |
|---|---|---|---|
| Goodwill | - | **20.1** | - |
| Fixed assets | 38.3 | **49.9** | 33.8 |
| Receivables | 760.5 | **802.4** | 11.6 |
| Cash | 68.8 | **39.9** | (40.6) |
| Borrowings | (478.3) | **(556.9)** | (22.4) |
| Other net liabilities | (27.7) | **(28.2)** | (40.3) |
| Equity | 361.6 | **327.2** | (6.2) |

# Headroom on covenants

| | **Dec 2015** | Covenant | Headroom |
|---|---|---|---|
| Interest cover | **3.9x** | 2.0x min | 1.9x |
| Gearing* | **1.7x** | 3.75x max | £170M |

*Adjusted for derivative financial instruments and retirement benefit asset according to covenant definitions

# Strong financial profile

| | FY 2013 | FY 2014 | FY 2015 |
|---|---|---|---|
| Gearing | 1.0x | 1.3x | **1.7x** |
| Adjusted earnings per share* | 35.5p | 38.0p | **37.1p** |
| Interest cover* | 3.4x | 3.7x | **3.9x** |
| Return on equity* | 22.9% | 23.6% | **23.3%** |
| Equity to receivables ratio | 50.2% | 47.5% | **40.8%** |

*Pre-exceptional

# Foreign exchange rates

| | Current rates 23.02.16 | 2015 Closing Dec | 2015 Average | 2014 Closing Dec | 2014 Average |
|---|---|---|---|---|---|
| Polish zloty | 5.6 | 5.8 | 5.8 | 5.5 | 5.2 |
| Czech crown | 34.7 | 36.6 | 37.6 | 35.6 | 34.2 |
| Euro | 1.3 | 1.4 | 1.4 | 1.3 | 1.2 |
| Hungarian forint | 394.0 | 427.1 | 428.3 | 407.0 | 385.0 |
| Mexican peso | 25.6 | 25.3 | 24.5 | 23.0 | 22.0 |
| Romanian leu | 5.7 | 6.1 | 6.1 | 5.8 | 5.5 |
| Bulgarian lev | 2.5 | 2.7 | 2.7 | 2.5 | 2.4 |
| Lithuanian litas * | - | - | - | 4.4 | 4.3 |
| Australian dollar | 2.0 | 2.0 | 2.0 | - | - |

* Lithuania converted to the Euro 1 January 2015

# Rate caps

## We operate within rate cap environments in most of our markets

| Market | Key rate cap legislation |
| --- | --- |
| **Poland** | Interest rate cap implemented in 2006 and amended 2015.<br>Cap on non-interest costs of credit effective from 11 March 2016. |
| **Slovakia** | Rate cap implemented in 2008 and later rescinded. Cap on “remuneration” introduced June 2014.<br>New total cost of credit “remuneration” cap implemented 22 December 2015 ~27% per annum of issue value for loans over one year’s duration (37% for shorter-term duration loans). |
| **Hungary** | APR cap implemented in 2008, subsequently tightened. Current limit: 24% plus base rate of 1.65% = 25.65%.<br>Payment-to-income legislation introduced January 2015. |
| **Lithuania** | Annual interest rate cap of 75% and cap on other charges included in the total cost of credit of 0.04% per day of credit issued. The latter may not exceed the total amount of credit. |
| **Bulgaria** | APR cap of 50% implemented in July 2014. |
| **Estonia** | APR cap of approx. 65% per annum effective since 1 July 2015. (3 times the market average over the previous 6 months. |
| **Finland** | APR cap of 50.2%. |

# International Personal Finance plc

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