Company: **International Personal Finance Plc**

Conference Title: **2015 Q3 Trading Update Briefing**

Presenter: **Gerard Ryan**

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Operator: Welcome to International Personal Finance 2015 Q3 Trading Update Briefing hosted by Gerard Ryan, Chief Executive Officer. Also on the call is Adrian Gardner, Chief Financial Officer and David Broadbent, Chief Commercial Officer. Today's conference is being recorded. I will now hand you over to Gerard Ryan to begin today's conference, please go ahead.

Gerard Ryan: Thank you Gillian. Good morning everybody and thank you for joining the Trading Update Call this morning. As Gillian said I'm here with Adrian and Dave. We'll do the normal, we'll give you a brief overview, hopefully you've had a chance to read the release that we put out there and then we'll have plenty of time for Q&A after that.

So just to address the Quarter. From our point of view it was a satisfactory trading performance in the three month period. Credit issued was up 8%, now within that credit issued, based on the way our business is evolving I think there are probably three moving parts. First of all you have Home Credit and Home Credit effectively splits into two, you've got Mexico where performance continues to be very strong and in fact is accelerating, so versus a 21% growth for the first half of the year we had 24% increase in credit issued in the quarter. Then you have Home Credit in Europe and as you know we recently then did a geographic split within that to make reporting more digestible for people, so within Home Credit Europe, southern Europe is up 8% year-on-year whereas at the half year that was a negative number. The whole of Lithuania is up 3% and that is down from 6% in the first half but still a reasonable performance. The disappointing one clearly is Czech and Slovakia where those businesses are down 11% year-on-year and I was asked on an earlier discussion whether or not we would see that ending soon and my view is that I thought it would have ended probably at the end of Q2 but I feel like we have the right strategies in place but I'm really interested in writing good quality business, so there's more business to be done out there, but in our view it is not of sufficient quality, so that's why you see the reduction in Czech and Slovakia. Within Southern Europe it has to be said that Romania is delivering great momentum to that region there, so we're very pleased with that. So that's the Home Credit businesses.

Then in IPF Digital that business is doing really well, up 35% year-on-year with customer numbers up 31%, so a very pleasing result and that's broadly speaking across all of their markets, particularly their more established markets. On customer numbers, the Group is up by 2% for the period, Home Credit being 1% of that. Mexico is up by 8%, now we have noted that the Mexican customer number will come in at, we believe around 870,000. We previously indicated we were targeting 900,000 but at 870/875 that is still 11% year-on-year growth, so I think it's not a bad result if we're able to deliver that.

On impairment to revenue, clearly that is a very important metric for us, so we're in our sweet spot, so that's come out at 26.5%. Included in that there are some debt sales and you'll notice there's a paragraph in there in the Polish update that says that we've now effectively cleared out the last of the old book in Poland and so going forward you will see probably about 5 million less income coming from debt sales in Poland. But all in all from a trading perspective we're positive, some work still to do in Czech and Slovakia.

Turning now to issues of a regulatory nature. There are a number of things that we've listed in here. First of all as you all know there was the Walker case that dates back to 2013 and we've indicated in here that we now have a court date for that and that is later this year. Clearly time has moved on since that issue arose and new regulations have been in place, we continue to believe that we've got a very strong case and we're effectively waiting to get to court to be able to explain that. The second new development on regulation is in relation to Romania and because of a recent change in tax law there, it is, well I would say it's a certainty now that we will change the status of our agents from being independent agents, to being employees. Now that clearly will have a knock on impact in terms of cost and we've indicated that within the release. That cost builds over time, it doesn't all land at once. Offsetting that cost we believe that there are some opportunities for us and we've seen that when we changed the status of our agents in Hungary, so we will be working to try and mitigate that financial impact in Romania.

Then turning to the matter which I think most people really wanted an update on and that is to do with Poland and total cost of credit legislation. So what you can see in there is that there are a number of key moving parts. What we tried to do is give an estimate of what we think the financial impact would be by referring to the book of business written in the twelve month period to the end of June of this year. Now were the regulations to have been in place for that twelve month period and had we used the product construct that we anticipate using under the new regulations, we believe the unmitigated financial impact of that would have been of the order of £30 million. Now as you'd expect we have been working on and will continue to work on mitigating strategies to reduce the impact of that and from where we stand today we believe that those mitigating strategies can alleviate up to about a half of that financial impact. So it will be 30 million and up to half of that being relieved through mitigating strategies, but clearly, there are some things that were within our control and then those what's happened in the market post the implementation of the regulation and that is what other competitors do but also what customer behaviour is. So when we look at the financial impact we then said that the book that we have going into 2016 doesn't all get replaced immediately, so it gets replaced over time, so we try to indicate in there also the phasing of the build-up of the impact of this. So effectively about a half to two thirds in 2016 and then the full impact in 2017.

So obviously a lot of things going on within that whole regulatory piece in Poland. We're comfortable that these mitigating strategies are going to have an impact but what we can't do is give you an exact number of what that mitigating impact will be, but we've tried to give a range so that you have a feel for where we think we're going to come out. In terms of the types of things that we're looking at, clearly we're looking at lending larger sums of money to customers and obviously that comes with some risk but we feel that we understand this risk very well, that is our business. We're also looking at lending for longer periods of time and those of you who know the business well will know that we progressively increased the term of our product over the past three years, so it's more a continuation of that cycle. In addition we'll be looking at things like fees, but in particular we'll also be looking at our cost base. It's difficult for us to give any more detail in terms of some of those mitigating strategies because they are of a competitively sensitive nature and clearly we don't want to indicate to our competition what it is we're going to do in March when these new regulations hit the ground, but we have a number of strategies that we're working on that will be implemented on or before the due date.

So in summary, basically a satisfactory performance, good momentum in the businesses. Unhappy with Czech and Slovak but for the Group as a whole, happy with the performance. In terms of regulation it's a constant for our business, the piece in Romania we will deal with and then the piece in terms of Poland I just outlined to you what it is we're going to do.

So with that I'll hand it back to Gillian and we'll see if there are any questions that we can answer for you. Gillian if we could open up to Q&A now please?

Operator: Certainly. If you would like to ask a question please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Again please press star 1 to ask a question. We will pause for just a moment to allow everyone to signal.

We will now take our first question from Gary Greenwood from Shore Capital, please go ahead.

Gary Greenwood: Morning, bet you weren't expecting me to be the first one on here today.

Gerard Ryan: There's a lot to be said for consistency, Gary.

Gary Greenwood: That's right. I had three quick questions. First one was just on the customer number guidance in Mexico, if you could just give a bit more colour as to why that's lower than you previously expected? The second one is on debt sales, I just wondered if you could give a sort of forecast or an estimate on absolute contribution from debt sales to current year's numbers and then the last one is just a general question in terms of profit growth potential over the next couple of years, obviously there's a lot of moving parts in the business at the moment with the price capping etcetera. I was just wondering if you think that you can still grow profits between say 2015 and 2017 taking those into account?

Gerard Ryan: Okay, so number one customer number in Mexico, the target for Mexico was 900,000 and what we said was that you know there were a lot of things that were going into the mix to achieve the 900,000 and they all had to be delivered seamlessly. There are a couple of relationships that we're working on in Mexico to deliver more contacts into the business and those couple of relationships are literally just running a matter of weeks behind plan and as a result we felt it was more prudent to reduce the number. There's nothing sinister in it, the growth rate in there is still very positive, it will be double digit by the end of the year and it is accelerating, so we still feel really positive about that, so nothing else to it other than that.

In terms of the debt sale this note in here refers specifically to Poland and what we're saying is down by five next year, so I don't know the number at the top of my head but I would say of the order of 50% down year-on-year on debt sales, something like that.

Gary Greenwood: In Poland?

Gerard Ryan: In Poland, yes. On your third one profit growth, if you're asking us, the question was can we continue to grow profits despite the things that we talked about this morning is it?

Gary Greenwood: Yes, yes.

Gerard Ryan: Yes, well the, clearly you'd expect there's a reasonably large profit impact from what you see in here and we're not giving exact guidance this morning because of that, but depending on the range here, you know at the moment you would expect to see the numbers come down in '16 and '17 I think because of those, but you know as we get closer to being able to roll out the new product structure and we get some understanding of customer behaviour and competitor reaction, I think we'll be in a much better position to comment on it, but the range here is still reasonably wide simply because of all of the unknowns. But in terms of the overall profitability of the Group you know there's good momentum in the business, so that will drive further profitability. The digital businesses are doing very nicely and we're going to continue to invest in those and obviously as we've said before, based on delivering the profitability in Mexico that we've targeted for some time, we'll be investing there to roll out a broader footprint so we'd expect that to bring in more customers and more profitability over time.

Gary Greenwood: Excellent, thank you very much.

Gerard Ryan: Thanks Gary.

Operator: Again as a reminder to ask a question today please press star 1. We will now take our next question from Justin Bates from Liberum. Please go ahead.

Justin Bates: Morning gents. I wonder could you just share your insight on the competition in Poland and how you see that playing out next year and I know you don't want to go into too much detail on your plans for Poland and I understand that, but perhaps you could give just some sort of indication as to the quantum of the larger loans relative to the existing average loan size and duration as well please?

Gerard Ryan: Sure, hi Justin, it's Gerard here. So in terms of the competition in Poland clearly Poland is a very big market and it is obviously quite a profitable market for a lot of people and so it's attracted more and more competitors. Most of the competitors of recent times have been of the digital variety rather than our Home Credit version but we have our own digital business that we established there in December last year which is Happy Loans. As we look forward into 2016 and beyond I think what we're going to see is that the payday lenders who set up shop there and have written a lot of business, it has to be said, they are going to have to adapt their business very, very significantly. Now I have to say we have no insight into what it is they are going to do and that's because, you know, we are competitors, so clearly we don't get into conversations about what are you going to do on your product or what are you going to do on pricing, so we wouldn't go anywhere near that. So to some extent what I'm about to tell you is what we believe rather than what we know. So we believe that some of the competition will decide to try to get around the regulation and there are a number of ways they could attempt to do that, so they could talk about setting up multiple loan companies, they could change the nature of their charges, there could be some things that would be, let's call it sleight of hand, and they might decide to do that on the basis that in Poland, as you've just seen with our Walker case, it takes a long time for regulatory challenges to move through the court process and some competitors might feel that that was a risk worth taking. So let me just say that as regards our proposal and what we're going to do on our product structure going forward, we have decided that we want to have no issues with the regulator going forward, so we are taking the most conservative stance when it comes to how we're going to approach this. To some extent that might play slightly against us, if other competitors are deciding to do something far more aggressive but we are of the view that we have a very large, very significant and high profile business and we want to be seen to be doing the right thing, both by the letter and the spirit of the regulation. So based on legal advice we have and we've taken legal advice from a number of firms, we are taking the most conservative stance available to us in terms of the product structure going forward.

Speaker: And in terms of the second question, we don't typically split our loans in terms of size, you asked about large loans, we quite often do in terms of longer loans. As it stands right now Justin to double digit percent in terms of number and about 25% or just over 25% in terms of value are what we could call extra-long, so terms of more than 60 weeks in Poland.

Justin Bates: Thank you very much.

Gerard Ryan: And just to add, I'm not sure it's come across yet, but you know it is our view that we are going to maintain this as a high quality portfolio business, so you know in terms of our impairment to revenue range we believe that 25 – 30% impairment to revenue is the right target for our customer segment.

Justin Bates: Good, got it, thanks Gerard, thank you.

Operator: There are no further questions from the audio. Again as a reminder to ask a question today, please press star 1.

There are no further questions at this time.

Gerard Ryan: Thank you Gillian. Okay so if there are no further questions.

Operator: We do have a question, one more question from Greg Skowronski from Wood & Co. Please go ahead.

Greg Skowronski: Hi gentlemen, Greg Skowronski from Wood & Co here. One quick question, you mentioned you have a date on your court case in Poland, can you specify when is the date of the court case, that's one question and second question is on the credit growth of 8%, is it pre-FX or post-FX? Adjusted for the FX?

Speaker: So on the credit growth it's currency neutral, so there's no FX.

Greg Skowronski: So this is volume, so this is volume okay.

Speaker: Proper volume, yes, and the court date is 23rd November.

Gerard Ryan: The court date Greg is in the release there I think, it's 23rd November. Gillian, any other questions?

Operator: There are no further questions.

Gerard Ryan: Okay, thank you very much everybody for joining, as I said a satisfactory quarter for us. A lot going on in the regulatory front but our plans are coming together now in terms of how we're going to approach this. As I just mentioned we are taking a conservative stance, we think that's the right thing for us to do. As we get greater insight into what's happening in the market we will update you, but probably the next time will be with our next set of results. In the meantime if any of you have further questions of detail, Justin is always available to you and I believe most of you already have his number anyway. Okay. Thank you very much for joining this morning. Gillian, thank you very much for your help.

Operator: That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.