Company Announcement

25 November 2024

Resilient, diversified business model continues to grow value through the cycle

Key HY24 financial metrics

- Revenue $209.0m (- 2%)
- EBIT $31.0m (+3%)
- NPBT $26.9m (+5%)
- NPAT $19.3m (+4%)
- Earnings per share 21.8 cps (+2%)
- Q2 dividend declared at 7.0 cps

Highlights

- Record net profit before tax (NPBT) of $26.9m for HY24 (HY23 $25.7m), 5% higher than the same period last year, proving resilience through the cycle during a significant retail downturn
- Reaffirm September 2024 guidance that the business is on track for another record result for FY25, exceeding $50m NPBT target, which was first communicated in [xx date]
- Forecast FY25 dividend of at least 27 cps up 6% on pcp and capping a decade of strongly growing dividends from 10 cps in FY15
- Earning diversification proven again, with lower Auto Retail revenue offset by strong results for Finance, Insurance and Credit Management, as expected
- Consumer sentiment downturn put pressure on vehicle prices, reducing margins during the period, but now showing signs of recovery
- Resilient used car volumes, despite new car demand plummeting
- Motivated team with high levels of employee engagement and share ownership
- Sustained high performance acknowledged by a range of awards for the company, including finalist in Company of the Year 2024 in Deloitte Top 200 Awards

Turners Automotive Group (NZX/ASX: TRA) produced a strong result for the six months to September 30, 2024, in the face of extremely challenging macro market conditions, demonstrating that the company's strategy to enable it to grow through the cycle, thanks to its diversified business model, and to maintain healthy dividends, is proving effective.

CEO Todd Hunter said, "During one of the deepest downturns in New Zealand retail, that required us to reduce used car prices between March and August to meet the market, the agility and resilience of the business showed through with the natural stabilisers of our annuities businesses in finance and insurance, offsetting the pressure on Auto Retail. This demonstrates that our strategy to build a business that can grow and deliver value through the cycle is paying off. This result reflects not only the effectiveness of our diversified model, but also the quality and skill of our team which responded in an agile fashion to market conditions to ensure that, while margins were squeezed in Auto Retail, volumes were slightly up and we continued to grow market share and deliver value for our customers."

Financial results

Group Revenue of $209.0m was down -2% on PCP, driven by a 6% decline in Auto retail somewhat offset by an increases in Finance, Insurance and Credit Management. Our diversified business model supported EBIT growth of +3% on PCP to $31.0m. Segment profit from Finance (+59%), Insurance (+8%) and Credit Management (+2%), offset a -18% decline in Auto Retail. This again proves the resilience of our model.

Reported NPBT for the six months to September, 2024, rose 5% to $26.9m (HY24: $25.7m). Earnings per share for HY25 was 21.8M up 2% (HY24 21.2 cps). The Board paid a Q1 dividend of 6.0 cps, and has declared a Q2 dividend of 7.0 cps, projecting a full year imputed dividend of at least 27 cps, based on our dividend policy to pay out 60-70% of net profit after tax (NPAT).

Chairman Grant Baker said, "Growing profit in this environment is a considerable achievement, and Turners has demonstrated it can improve returns to shareholders over time thanks to its consciously-developed, diversified business model that offers upside in downturns as well as periods of economic expansion. We have more than doubled dividends over the past decade, continuously striving for record results, as well as continuing to invest for future growth. We have considerable opportunity still before us as a trusted partner for customers in the life cycle of vehicle ownership."

Key Drivers of HY25 result

- Auto Retail: volumes up but margins on owned stock down as market demand weakened sharply, prompting a material pricing contraction from March through August, although this is now recovering
- Finance: The interest rate environment is becoming a tail wind in Finance with net interest margin rebuilding, and arrears (2.8%) performing significantly better than market levels (6.4%)
- Insurance: Gross Written Premium was flat on PCP but margins continue to improve. Claims ratio is being well managed. Claims cost inflation has dissipated.

Q3 Update

- Auto retail: Vehicle pricing strengthening and vehicle margins improving.
- Finance: Arrears performing well and originations starting to lift. Benefit of easing OCR still to come in the second half of the year.
- Insurance: Claims continue to track below expectations, with policy sales holding up well.
- Credit: Corporate debt load recovering slower than expected, but SME debt load increasing quickly. NZ-wide credit metrics continue to deteriorate which amounts to a tail wind for second half.

Outlook - H2 trading expected to be more positive for all divisions

With signs that Auto Retail is through the sharp pricing contraction (March – August, 2024), the second half of FY25 offers more positive trading and margin conditions than the first half. The pipeline of branch expansion opportunities is growing, and development phase of new branches is going well whilst the incremental benefit won't accrue in this financial year.

A strong Auto Retail business is proving to have a great halo effect for Finance and Insurance. The interest cycle is moving into a phase that will provide a tail wind for Finance. The strength of the Turners brand continues to grow, along with continuous improvement in systems, technology and people. Our acquisition of My Auto Shop, as well as distribution agreements in Insurance, is proving there is opportunity for considerable further leverage across the network.

The company is on track for a record result for FY25, expected to exceed its $50m NPBT target.

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About Turners

Turners Automotive Group Limited is an integrated financial services group, primarily operating in the automotive sector www.turnersautogroup.co.nz

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Appendix: Divisional Results

Auto Retail: Revenue $146.3m -6%, Segment Profit $14.7m -18%

- Increased market share from our enhanced brand and growing footprint
- Retail (Buy Now) unit sales up 9% to circa 11,050 units; wholesale auction units up 3% to circa 10,050 units
- Margin pressure as prices dropped with overall margin on owned vehicles down 28% for HY25
- Total owned units sold in HY25 up 6% over HY24
- Entering a build phase for next growth push which will benefit future periods
- My Auto Shop proving a compelling and synergistic investment

Finance: Revenue $33.6m +11%, Segment Profit $8.1m +58%

- Despite industry contraction, total ledger expanding again and up to $426m (HY24 $418m)
- Consumer lending up and commercial lending down. Credit policy tightened to focus on cars, vans and utes and move away from trucks and machinery lending
- Quality now stress-tested: arrears are substantially below industry norms, and quality lending continuing to improve (credit scores and less commercial lending)
- Net interest margin expanding as OCR turns from headwind to tailwind
- Turners-controlled ledger up to $98m from $86m
- Heavy lifting done on pricing over last 18 months is paying off

Insurance: Revenue $23.7m +4%, Segment Profit $7.7m +8%

- Gross Written Premium (GWP) flat at $20.6m for HY25, but margins improving
- Claims ratio is being well managed (overall claims costs flat HY25 v HY24)
- Claims cost inflation has dissipated
- Total overheads down $300k to $4.3m; investment income up $400k to $1.9m, and MVI commission up $300k to $1.1m
- MVI premium portfolio with VeroNZ now at $35m per annum and growing at circa 40%, demonstrating opportunity for further leverage of our network for high growth, high margin distribution plays
- Digital direct platform just launched, offering material upside over time.

Credit Management: Revenue $5.4m +2%, Segment Profit $1.8m +2%

- Debt referred and collected slowly growing as business recovers
- Tightening economy supports growth – our customers are still 'reputation sensitive' but that is starting to change
- Economic pressures represent a growing tailwind
- Growing demand from small businesses where economic pain is greatest
- Payment bank being rebuilt.

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