Company Announcement

21 May 2024

# Turners delivers record FY24 earnings and lays out roadmap for future growth

**Turners Automotive Group (NZX/ASX: TRA)** has again delivered record earnings for the financial year to March 31, 2024 (FY24), underscoring its resilient earnings platform, and the value of diversification, integrating the activity and annuity elements of its business.

Despite economic challenges and soft consumer demand, the company achieved its FY24 target a year early, is well placed to exceed its FY25 Net Profit Before Tax (NPBT) target of $50M and today announced its new medium-term target for $65m NPBT in FY28.

**Key Financial Highlights:**

- Revenue $417m +7%
- EBIT $58.6m up 12%
- NPBT $49.1m +8%
- NPAT $33.0m +1.5% (normalised NPAT $35.1M +8%)[1]
- Earnings per share (EPS) 37.7cps 0% (normalised EPS 40.2cps +7%)[1]
- Final dividend declared of 7.5 cents per share (cps)
- Full year dividend of 25.5cps +11%, representing a gross yield of ~9% per annum based on current share price ($4.10)

[1]The legislative change to remove depreciation on commercial buildings has increased the effective tax rate to 33% for FY24. This is a one-off non-cash impact in FY24 only. The effective tax rate over the last two years is between 27.5-28.5%. A normalised NPAT using FY23 tax rate of 28.5% would be $35.1M +8% and EPS would be 40.2 +7%.

**Key Business Highlights:**

- **Auto segment** profit was up 27% and constituted more than 50% of group profits. Driven by two new branches launched in FY24, improved sourcing, retail optimisation (from wholesale auctions to retail), growing brand strength, operating efficiencies and solid organic growth across the network.
- **Finance** segment has weathered the interest rate shock as we deliberately sacrificed some top line growth over the last two years to focus on higher quality borrowers, positioning the segment well as interest rates ease. Net interest margin (NIM) is expanding, following an inflection point during H2 and rate headwinds will now turn into tailwinds. Meanwhile, arrears remain significantly below industry benchmarks.
- **Insurance** segment increased contribution to profit as a well-tuned business with robust policy sales, well managed claims and improved investment returns. Notably claims cost inflation was offset by reduced frequency of claims.
- **Credit Management** business has turned a corner with debt load recovering in line with a tightening economy, particularly in SMEs. The business is well-placed for growth as the economy tightens and debt value load continues to increase.
- **A strong culture** remains a key advantage, ranking in the top 5% of consumer businesses globally using Peakon (employee engagement tool). 50% of the team took up the Employee Share Scheme offer.
- **Outlook:** An anticipated deterioration in economic conditions during HY25, combined with cycling against a high-growth HY24 comparative period arising in part from extreme weather events, means we expect HY25 to be testing. Our near term focus remains on exceeding the $50M NPBT goal in FY25, despite the economic backdrop. Beyond FY25, Turners is well-placed to continue to make strong progress, thanks to the resilience of a diversified business model (activity and annuity), and clear strategy for further growth.

Turner's FY24 result demonstrated strong earnings in challenging conditions, thanks to its resilient, diversified business model, and is well placed to implement its next phase of development and growth.

Group revenue rose 7% to $417m, delivering a record NPBT result of $49.1m up 8% on FY23.

The Auto Retail segment achieved another year of 20%+ growth, with segment profit up 27% over FY23 to $31.8m. Although the Finance segment's profit was down, revenue continued to grow, and further progress was made improving the quality of the loan book, and rebuilding lending margins. Insurance continued its steady growth of recent years with 15% profit growth. And Credit Management expanded of a low base, recording 9% profit growth.

Todd Hunter, CEO, said: *"We're pleased to continue to deliver another record result for shareholders. Our business is founded on delivering great experiences for our customers. We continue to innovate, gain market share and improve margins across all segments. In addition to the continued expansion of our activity businesses (Auto Retail and Credit Management), our annuity businesses (Finance and Insurance) have gained momentum. This underscores the benefits of our diversification strategy and ensures the resilience we need to grow, through all phases of the economic cycle.*

*"Our Auto Retail segment again excelled and is now entering a build phase for our next growth push. Our Finance segment has weathered the interest rate shock, continued to improve its credit scores and is now back into growth mode. Our Insurance and Credit Management teams continue to finely-tune these businesses to market-leading positions with future opportunity as the economic cycle tightens."*

**FY24 Financial results**
NPBT for the full year increased 8% to $49.1m. Net profit after tax (NPAT) of $33.0m was up 1.5%. EBIT rose 12% to $58.6m.

Earnings per share (EPS) for FY24 were 37.7cps, matching last year. The legislative change to remove depreciation on commercial buildings increased the effective tax rate to 33% for FY24. This is a one-off non-cash impact for FY24 only.

A final 7.5cps dividend (payable in July) takes FY24 dividends to 25.5cps, up 11% on last year. This meets the company's dividend policy payout of 60-70% of net profit after tax (NPAT), and represents a yield of ~9% per annum based on the current share price.

Grant Baker, Chairman, said**:** *"This is an outstanding result for the business in light of the economic backdrop. The strength of our brand, and our distribution networks means we are ever more accessible and trusted by customers, offering strong adjacent opportunities. The resilience of our diversified model leaves us well-placed for what comes next in the economic cycle.*

*Our leadership position and strong balance sheet, means we can continue to invest for our next phase of growth, even in tough times, so that we remain ahead of the market as conditions begin to improve into the next year and beyond. We continue to remain focused on returns to shareholders, as well as strengthening our platform for growth as we now implement our roadmap to NPBT of $65m at FY28. The economic conditions New Zealand is faced with are challenging but I have absolute confidence in the team to keep delivering."*

**Results by segment**
Refer to Appendix

**FY25 Outlook**
We expect New Zealand's trading conditions to remain challenging throughout HY25 (six months ending September 2024). However we expect to see a recovery in the second half of the year and our near term focus remains on exceeding our goal of $50m NPBT in FY25.

**Roadmap to $65m (FY25-FY28 Growth model)**
Having successfully met our FY24 target a year early, and remaining on track for our FY25 $50m target, we today announced our **Roadmap to $65m NPBT for FY28**.

Our FY25-FY28 growth model is underpinned by five key areas:

- Auto Retail - Branch expansion
- Auto Retail - Retail optimisation (transition of unit sales from wholesale auctions to retail)
- Finance - growth in premium lending as economic cycle eases and interest costs start to reduce
- Insurance - growth in market share gains and direct to consumer distribution opportunities;
- Credit Management - growth from rebuilding the payment bank as debt load increases.

Given the uncertain economic outlook, the mix of activity and annuity-based revenues remains a core strength for the business as we grow towards our future goals.

**Turners FY24 Results Call**
Todd Hunter (Group CEO) and Aaron Saunders (Group CFO) will present the FY24 financial results followed by Q&A at 10:30am on 21 May 2024.
https://turners.zoom.us/webinar/register/WN_Zqo5c_sKTwaIcgm7IWpEBg

**Results Video**
For further commentary on the FY24 results, a short video is available at
https://www.turnersautogroup.co.nz/invest

**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: Segmental Results**

*Auto Retail: Revenue $298.6m +7%, NPBT $31.8m +27%*

The Auto Retail segment completed another year of strong growth off the back of improved local sourcing of vehicles. Revenue was up 7% to $298.6m, lifting profit contribution to $31.8m, up 27% on FY23. This was founded on continuing to develop a very strong brand, sourcing vehicles smarter and improving systems efficiency. Some one-off impacts from the Auckland Anniversary floods and Cyclone Gabrielle also affected early HY24 (higher levels of sales from damaged and end of life vehicles plus replacement vehicles).

Central to Auto Retail's profit growth is a continued migration from auctioned vehicles into expanding retail channel sales. Retail channel sales generate higher revenues and add on sales opportunities compared to vehicles sold through auction. The segment is sourcing more owned stock, and is increasing its retail capacity through branch expansion. Total 'owned' unit sales grew 5% in FY24 to 25.3k vehicles. The number of vehicles sold at auction in FY24 also grew, +7% to 19.8k units.

Branch expansion, local sourcing and increased brand awareness is driving increased sales. 'Tina from Turners' continues to prove effective in the market, and popular with customers.

The segment is now entering a "build phase" for its next growth push. A new Timaru branch and Napier branch expansion was completed in FY24. The development pipeline for FY25 includes: Tauranga-Tauriko, Hornby in Christchurch, and Burnside (Christchurch Airport precinct). But the timing of these mean that their impact will only be fully felt in FY26, not FY25. Branches in Christchurch City Centre and Greerton, Tauranga are planned for FY26 and FY27 respectively.

*Finance: Revenue $62.4m +6%, NPBT $12.2m -18%*

Finance segment achieved steady revenue growth during FY24, up 6% at $62.4m. Segment profit was down 18% at $12.2m. The high interest rate environment continued to bite. However, by H2-24, the segment was back in growth mode.

Net interest margin (NIM) has stabilised and returned to growth. This inflection confirms the segment has weathered the interest rate shock and is now well placed when the rate cycle begins to ease. The relentless focus on quality means that premium lending was 50% of our total loan book as at March 2024. Credit policy was further tightened through FY24 with the consequence that average borrower credit scores continued to improve. As a result of the focus on quality, consumer loan arrears continue to track at half the levels of the wider market. The segment has maintained a conservative position on the possible impact on credit losses from unemployment, increasing its economic overlay provision to $2.3m (FY23 $2.0m).

*Insurance: Revenue $46.1m +6%, NPBT $14.3m +15%*

Insurance continued to make gains in FY24, with distribution networks delivering significant value. Inflation continued to increase the cost of claims, but this was offset by lower frequency of claims (work from home and cost of living encouraging more use of public transport). Indications are that we are nearing the end of claims inflation phase. Loss ratios strengthened due to further improvements to risk pricing during FY24.

Autosure has introduced two new categories of vehicle during FY24 to further optimise pricing for risk. The business now has the building blocks in place to address a substantial opportunity within the private car selling market (50% of used cars are sold private to private).

*Credit Management: Revenue $9.8m +6%, NPBT $3.1m +9%*

The Credit Management business continued to recover well in FY24, building back through improved marketing and benefitting from higher demand as cashflow pressures emerge in the wider economy. Debt value loaded increased by 14% ($18m) over FY23. Lower repayment amounts and extended payment arrangements were a feature of FY24 due to diminished customer payment capacity. The Payment bank is being rebuilt as debt load increases. The business is well-positioned to make further gains as New Zealand's credit metrics continue to deteriorate. They are now at their worst level in seven years, suggesting debt load levels will increase over coming years.

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