HEAD OFFICE
6b Pacific Rise, Mt Wellington
P) 0800 800 133 F) 09 573 5380

# *Geneva Finance posts pretax profit lift up 67% to $6.9m for the March 21 year*

*31st May 2021*

## COMMENTARY

*Trading Performance*

The group pre-tax profit of $6.9m is up $2.7m (67%) on last year, as a result of improved contributions from all business segments; most notably, Quest Insurance up $1.5m, Invoice factoring up $0.7m and Geneva Financial Services up $0.6m.

Geneva Financial Services (the lending business) pretax profit result of $4.8m was up on last year by 14%. The increased focus on growing the tier-1 lending business delivered a 21% increase in lending volumes for the year. This has had a positive effect on the growth in the receivables ledger, up $6.6m (10%) and the lower impaired asset expense. Asset quality has continued to improve both as a result of the above and operational changes made in the March 20 year.

Quest Insurance Group Limited (Quest) reported profit of $3.2m, 89% up on prior period. The trading result (excluding a one-off $0.6m increase in distribution income from an investment), was a credible $0.9m (67%) increase over last year. During the year, premiums written continued to grow and total $21.5m (up 53.2%) on what was a record year last year. The Quest direct channel delivered the biggest increase (107%), and it is pleasing to see an increasing proportion of premium sales being derived by group owned distribution channels. Looking at the balance sheet, the poceeds from the investment referred to above generated $3.7m in cash, which further strengthened and improved the liquidity position of the company. A good result for this operation, which is well positioned to further improve on what has been a very good year.

Federal Pacific Tonga (60% owned by the group) reported a pre-tax profit of NZD $1.4m, level with the previous year. The group's share amounted to $0.8m pre-tax profit ($0.6m after tax). The Tonga business is managed in Tonga and is performing within expectations, and it is pleasing to see this operation returning dividends to the group, NZ$0.4m in the current year.

Stellar Collections (Stellar) has had a positive year with a consolidated profit of $0.3m, up $0.2m on previous year. Both the consumer collections business and the business to business debt litigation company benefited from the structural changes referred to in last year's report. Our expectation is that this operation will now continue to improve and deliver increased returns to the group.

Geneva Capital (invoice factoring), reported a modest profit of $0.1m but more importantly, moved into profit following two consecutive years of $0.6m losses. This operation directly benefited from the changes made in the March 20 year and is now well positioned to deliver sustainable profit growth.

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The after tax unaudited financial result for the period was a profit of $6.7m up $2.6m (63%). The after tax profit attributable to Geneva shareholders was $6.3m up $2.6m (69%).

COVID-19

COVID severely impacted the Company's ability to write new business during April 20 resulting in the new business during the lockdown period being down by more than 70% on the previous year. However as evidenced by the published result, the recovery was better than expected. Nevertheless, these are uncertain times and there remains a level of uncertainty on the full impact of COVID and potential future outbreaks. Accordingly, the board has been appropriately conservative in ensuring our balance sheet receivables are correctly provisioned and at this juncture has chosen to not reduce the additional COVID-provisioning taken up in the March 20 year.

*Balance Sheet*

Total group assets increased to $143m (14% increase). The company's equity to total assets ratio is 24.3% vs 25.0% prior year.

*Revenues*

Revenue totaled $34.8m an increase of $3.8m (12%).

*Operating Costs*

Operating costs increased by 4.6% to $16.6m. This is largely a result of higher lending acquisition costs incurred and costs associated with the increased premiums sales.

*Funding*

Group funding:

a. The lending and invoice financing businesses are funded via a securitisation facility of $70m, currently drawn to $63.6m.
b. Stellar's banking facility remained unchanged at $3.4m; the facility's term will mature on 30 June 2022. Management is in discussions with the funder to extend the maturity date.
c. Professional investor debt funding of $13.9m. This debt funding includes loans from directors.

*Credit Rating*

The group's insurance company, Quest Insurance Group Limited credit rating issued by AM Best was affirmed at current ratings being a Financial Strength Rating of B outlook stable and an issuer credit rating of bb+ outlook stable.

*Highlights / Key Events*

Group pre-tax profit up $2.7m. +67%.
After tax profit attributable to Group was $6.3m up $2.6m (69%).
Geneva earnings per share increases to 8.61cps (up 69%).
Quest premium sales up 53% to $21.52m.
GFSL lending volumes up 21% to $60.0m.
The turnaround into profit of the invoice factoring and debt litigation operations.
Received a cash distribution from Quest's investment in AMPL of $3.7m.
Total group assets increased by 14% to $142.8m.
Group equity increased by 9.2% to $34.2m.

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| *Events Subsequent to Balance Date* | The full impact of COVID is still unknown however the board considers that Geneva is in the right shape to be able to deal with the challenges the company may face.<br><br>On 10th May 21 the board announced an increase in the final dividend for March 21, lifting that dividend to 2.50 cps. This gives a total dividend relating to the March 21 year of 3.75 cps. |
| *Strategic Direction* | The Group remains focused on the core trading operations and continues to invest in its IT systems to improve its origination processes. |
| *Summary and Outlook* | It has been a challenging and rewarding year. Despite COVID's impact, the structural changes made in the March 20 year have impacted the business positively and have delivered profit improvements. As a consequence the group has returned to delivering profit growth. The company has a strong balance sheet, the receivables ledgers are well provisioned and the board is looking forward to taking advantage of the opportunities the coming market will offer. |

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**For further information, please contact:**

David O'Connell, Managing Director

0800 800 132