Geneva Finance March 2024

30 May 2024

COMMENTARY

Trading Performance

The Group reported an unaudited pre-tax profit of $3.6 million, which represents a decrease of $0.96 million (-21.1%) compared to last year's restated profit (after allowing for IFRS 17 adjustments). This decline is primarily due to both the adverse impact of higher funding costs (up $2.8 million, 51%) and increased impaired asset expenses (up $4.7 million). Additionally, a number of large one-off costs were incurred as part of the announced organization-wide strategic review and these included goodwill write-offs, for the debt litigation and invoice financing businesses, staff exiting costs, the move to the new premises plus various compliance and governance related costs. These combined to adversely impact the current years' results.

Geneva Financial Services' (auto lending business) pretax profit decreased by $1.1 million, representing a 39.2% decline from the previous year, bringing the pretax profit to $1.7 million. The primary reasons for this reduction are the higher cost of funds compared to the prior year and increased impaired asset expenses. Despite the overall profit decline, there was an interest margin improvement in the latter part of the year as the positive impact of new lending interest rate adjustments balanced out funding rate increases. The current challenging economic environment has led to an increase in receivables arrears, necessitating additional provisioning. The directors have assessed the year-end provisioning levels and consider them to be adequate. The net receivables ledger increased by $8.3 million, reaching $99.2 million by the end of the period.

Quest Insurance Group (Quest) reported a normalized pretax profit of $8.4 million representing a 100% increase from the $4.2 million reported in 2023. However, after a tax subvention payment of $2.7 million was made to Stellar Collections to utilize available tax losses, Quests final pretax profit reduced to $5.7 million, up 36% from the prior period. Quests written premium increased to $46.3 million in the current year, up $7 million (18%) from the prior year. Investment Income of $1.9 million was up $1.2 million (187%) from the prior year, driven by higher deposit rates and increased cash on hand. Cash of $39.3 million was up $7.6 million (24%) on the previous year. Quest's financial performance showed continued growth and strong financial health. The increase in both normalized pretax profit and investment income, coupled with robust premium growth and enhanced liquidity now positions Quest well for the coming year.

Group costs not included in operations results amounted to $6.4 million, up $2.5 million on the prior year.

Federal Pacific Tonga (60% owned by the Group) reported a pre-tax profit of NZD $1.8 million, was up 21% on last year. The Group's share amounted to $1.08 million pre-tax profit ($0.8 million after tax).

Stellar Collections Limited, including MFL (the debt litigation business), reported a $1.3 million profit for the period which included the $2.7 million tax subvention payment received from Quest Insurance. The normalized result was a $1.4 million loss for the period. The board's strategic decision to exit the debt litigation operations led to a $0.7 million goodwill write-off.

Geneva Capital Limited (invoice financing), reported a $0.5 million loss for the period which included a $0.4 million goodwill write-off following the board's strategic decision to exit this business.

The after-tax unaudited financial result for the period was a profit of $1.8 million, down $1.5 million (45.2%). The variance between pretax variance and after-tax variance is mainly due to the non-tax deductible goodwill write-offs incurred in the year.

Balance Sheet

Total Group assets increased to $196 million, up $21.1 million (12.1% increase). The company's equity to total assets ratio was 19.2% vs. 21.9% (restated) in the prior year.

Revenues

Revenue totaled $63.6 million, an increase of $13.2 million (26%).

Operating Costs

Operating costs increased by 16% to $26.3 million, up $3.6 million. This increase includes funding cost increases, NZX related costs, legal and compliance cost, moving costs and staff exiting costs.

Funding

Group funding:

a. The group's securitization facility of $100 million was drawn to $81.6 million as at balance date.
b. Stellar's bank facility balance was $2.3 million. The facility is being repaid in equal repayments that commenced in July 2023 and will be repaid by 31 July 2025.
c. Wholesale investor debt funding increased to $17 million and includes loans from directors and shareholders.

Geneva FINANCE

Credit Rating

Quest Insurance Group Limited's credit ratings issued by AM Best were reaffirmed on 21st September 2023.

- Financial Strength Rating of B outlook stable
- Issuer credit rating of bb+ outlook stable.

Highlights / Key Events

Geneva moved into new premises situated at Sylvia Park shopping center.
Quest Net Premium Income increased by $8.9 million, up 29.03%.
Group cash resources increased to $47.1m million, up 21.9%.
Total Group assets increased to $196 million, up 12.1%.
Group equity decreased to $37.5 million, down 2.0%.

Events Subsequent to Balance Date

MFL, the debt litigation business was formally exited on 27th May 2024, which included the sale of existing customer relationships.

Summary and Outlook

On 11 August 2023, David O'Connell retired after a 17-year tenure, and Malcolm Johnston was appointed Managing Director. This leadership transition was followed with the launch of a strategic review looking at opportunities to streamline operations. The strategic review has led to a reset of the Group's strategy with a refocus on the core business operations of lending and insurance activities.

As a part of the Group strategic refocus, Geneva has exited and sold its debt litigation operations (MFL) and announced the closure of the invoice financing business (GCL). Goodwill associated with these businesses has been written off in the current financial year. Quest continues to co-operate with a previously announced investigation by the Reserve Bank, arising from matters that occurred in 2021 and 2022 that Quest self-reported.

Looking forward, the Board remains positive that the strategic refocus will provide a clearer direction for the NZ lending operations and as a result its performance should improve even under the current economic conditions. Lastly, Quests continued growth and increasingly improved performance coupled with an enhanced liquidity position provides a positive outlook for the coming year.

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For further information, please contact:

Malcolm Johnston
Managing Director
0800 800 132