Company Announcement

24 May 2022

Turners delivers record earnings result for FY22

Turners Automotive Group (NZX: TRA) has reported record earnings for the financial year to March 31, 2022 (FY22), despite a COVID-19 disrupted year from lockdowns and more recent impact of Omicron on consumer demand and operational resource. This resilience demonstrates the value of the strategic initiatives implemented by Turners over recent years to de-risk, consolidate and build more sustainable earnings.

Key Financial Highlights:

- Revenue $342.0m +15%
- EBIT $47.7m up 11%[1]
- NPBT $43.1m +15%
- NPAT $31.3m +16%
- Underlying NPBT $44.1m +29%[2]
- Full year dividend 23.0 cps + 15%
- Earnings per share 36.4cps +16%

Key Business Highlights:

- Final FY22 dividend declared at 7.0 cps bringing FY22 dividend to 23.0 cps (equating to a gross yield of 8%+ per annum based on the current share price
- Record earnings from divisions (Auto Retail, Finance and Insurance) operating in the used car market.
- Market share has continued to grow in Auto Retail Division, with good pipeline of new branches building.
- Market share growth delivering improved annuity earnings from Finance and Insurance divisions.
- Debt load returning slowly in credit management business but environment should be more productive in FY23
- Employee engagement at an all-time high (top 5% of companies using Peakon tool) has continued to increase at a time where retention and recruitment have been under significant pressure.
- Macro headwinds (inflation and interest rates) starting to impact…speed of change biggest challenge.

Much like the previous pandemic affected year, Turners not only demonstrated earnings resilience during FY22 but strong growth credentials as well. Group revenue is up 15% to $342.0m and three of the four segments have grown very strongly for a second year in a row delivering a record NPBT result of $43.1m up 15% on FY21.

Demonstrating the benefits of the Group's resilience and diversified earnings, profit rose in each of the three largest businesses (representing 94% of divisional operating profit). Profit grew 24% in Insurance, 14% in Finance and 26% in Automotive Retail, contributing to strong and sustainable yield. Revenue in the Credit Management business was down on last year's result as consumer arrears traced down and clients issued "no communication" instructions to "defaulters" during the lockdown. Profit in the Credit Management business was also down 40%.

[1] EBIT adjusted for interest expense in Finance (non-IFRS measure)
[2] Underlying NPBT calculation available on slide 16 of the investor presentation

Todd Hunter, CEO, said: *"Our team have continued to deliver for our customers and our shareholders. Our focus on quality is paying off and our team's engagement levels have never been higher at a time in the economy where staff retention and recruitment is a real challenge. Our brand value is growing across all our key business divisions, but the investment we have made in the Turners brand, in particular, has created real tangible value both internally and externally. Whilst the near-term economic outlook is looking much more uncertain, our business has never been in better shape and we are ready for whatever comes next.*

Financial results

Reported NPBT increased 15% to $43.1m. This compares to guidance established in March 22 for $42 - $43m. Net profit after tax (NPAT) of $31.3m, up 16% on the same period last year. EBIT is $47.7m up 11% and Underlying NPBT was up 29% to $44.1m, with a reconciliation of reported and underlying numbers available on slide 16 of the investor presentation, also released today.

Earnings per share for FY22 were 36.4 cps, up 16% on the previous year. A final 7.0 cps dividend has been declared for FY22 (payable in July), taking FY22 dividends to 23.0 cps. This reflects the dividend policy payout of 60-70% of net profit after tax (NPAT) and is yielding 8%+ per annum return based on the current share price.

Grant Baker, Chairman, said**:** *"The organic growth we have built in this business is a real success story. Our internal confidence to keep expanding our Auto Retail footprint is very high, and combined with the property investments we have made into network expansion, is delivering further gains to shareholders. Unrecognised property gains across our property portfolio now add up to 22 cps, on top of the share price growth and dividends they have received over the last 12 months.*

Our company continues to extend its competitive moat and build scale. As we head into an economic environment that will offer up different challenges and opportunities, the business has already been significantly de-risked. The work we have done on local sourcing of vehicles, building quality into the finance book, adding distribution to insurance, means the business is positioned to withstand or potentially take advantage of some of these changing conditions. Furthermore, one of the most attractive aspects of the used car market is that it is a needs-based purchase and therefore is less affected by changing economic conditions. Our wider team continue to do a great job for our customers, and I am very proud of the not just the record result, but the way the result has been achieved. Customer experience metrics and team engagement metrics continue to lift, which gives us confidence about the stability of the platform this business is built on."

Results by division

The three core businesses of Auto Retail, Finance and Insurance divisions have all been able to build market share, improve their customer experience and have delivered double-digit growth in earnings. Meanwhile, Credit Management continues to be challenged by historically low market-wide consumer arrears, although in the latter part of FY22 and the beginning of FY23 this has started to change.

Auto Retail: Revenue $242.5m +21%, NPBT $19.4m +26%

Auto retail has returned to being our most profitable business after being briefly overtaken by Finance. Auto Retail has been both a margin and market share growth story. Gross margins on "owned" fleet have continued to improve (up 8% over FY21 to $818) due to a number of buying improvement initiatives, more retail sales and constrained supply of used cars nationally. Our market share has grown off the back of our retail optimisation and expansion strategy with Retail (BuyNow) sales up 6% over FY21 and improving retail market share. We launched a new branch in Rotorua during the year and are redeveloping this site and developing a new site in Nelson. We have also secured new sites in Timaru, and Napier and are working on further opportunities. Sourcing of vehicles in the local market has been a top priority and our investment in the very popular Tina from Turners brand campaign has helped build our inventory of locally owned cars, with “owned” inventory sales up 25% on FY21. Another goal is to increase our Finance Attach rate and thus further realise the synergies of our related businesses. Despite the disruption caused by the CCCFA changes in Dec-21, we have improved our finance attach rate to 32.7% (FY21 30.6%).

Finance: Revenue $51.9m +8%, NPBT $18.0m +14%

Our risk pricing model and focus on premium borrowers has been very successful over the last 12 months with the loan book growing 28% to $423m. Premium borrower lending now accounts for well over 50% of monthly lending. We were pleased with how the business navigated the Dec-21 CCCFA changes which generated further market share growth opportunities as other providers struggled to cope with the change in process. Arrears continue to track down at historic low levels and at year end consumer arrears at 2.0% at end of March (4.9% Mar-21) and Commercial arrears at 0.5% (1.8% Mar-21). The business is still retaining a Covid-19 arrears provision buffer to allow for any unemployment increase in future months.

Insurance: Revenue $40.4m -4%, NPBT $11.6m +24%

Strong market share gains and distribution agreements have helped drive strong policy sales with Gross Written Premium up 6% on FY21 to $39.9m despite the impact of lockdown periods. Our distribution arrangements are working well (MTF, Marac Finance and Motorcentral using Autosure API), and there is a good pipeline of these opportunities ahead. Claims costs are 1.2% down on FY21, however parts price inflation and labour rate increases are offsetting our parts procurement initiatives and less vehicle movement in lockdown periods. Operating cost ratios are continuing a decreasing trend FY22 – 20% cf. FY21 – 25%. During the year AM Best reaffirmed the Financial Strength Rating at B++ (good).

Credit Management: Revenue $9.7m -24%, NPBT $3.0m -40%

The Credit Management business continues to have lower debt load levels due to the historically low consumer arrears and corporates working back into recovery action post pandemic. Debt load in FY22 is down 54% on pre-pandemic levels and debt collected down 35%. This is a significant hit to revenues.
Although debt load is down, we are seeing positive signs in debt recovery rates due to the new “resolution” collections strategy that was implemented during the year (FY22 34% v FY19 24%). Also the payment arrangement commitments are being met more often under the new resolution collections strategy (FY22 76%, FY21 74%, FY20 70%). With the economic environment expected to deteriorate, we expect debt load levels to increase as a result. A similar pattern was experienced post GFC, prior to a busy collection period.

Unrecognised property gains of $18.8m[3]

We have continued to build our portfolio of property over the last seven years and generated unrecognised gains on the seven developed sites of just under $19m or 22c per share over this time and 5.6c per share in the FY22 year alone. Combining the 7 developed sites with the new sites in Rotorua and

[3] Unrecognised property gains are generated from group owned properties that are subject to annual independent valuations and the unrecognised gain is the difference between the valuation as at 31 March 2022 and the original cost of the properties.

Nelson along with the 3 committed sites in Napier, Timaru and Tauranga (Tauriko) we have just under $95m worth of property in the portfolio. We also have offers and negotiations under way in East Auckland, Tauranga and Christchurch. We continue to see property ownership as a key strategy that will ensure the long term resilience of the business.

Our plan centres on organic growth

Four key areas will underpin our earnings growth. These will be a combination of both physical and digital investments.

1. **Retail Optimisation and Expansion** across people, property and processes. Expanding the physical branch network with two new sites already acquired in Rotorua and Nelson; and three new sites to develop in FY23 and further investment in our 'Tina from Turners' brand campaign.
2. **Vehicle purchasing decision-making** using data and tools to help identify new sourcing opportunities, and leveraging our brand strength to generate local sourcing leads;
3. **Margin management and Premium lending** within Finance;
4. **Continued investment in digital** and improving our omni-channel customer experience which allows customers to engage with us however, whenever and wherever they want.

Outlook

Despite the Omicron impacts still being felt, the year has started well, with April-22 results ahead of April-21. However, whilst pandemic uncertainty has decreased, NZ's economic uncertainty has increased.

In Automotive Retail, we expect to see upside from our new branches in H2 and the supply-constrained market to continue primarily due to impacts on the new car supply chain and government regulation. With the rapidly changing interest rate environment, our priority in Finance shifts to margin management. In Insurance, we expect new policy sales to be buoyant based on our distribution and market share gains and claims ratios to stabilise. Lastly, in Credit Management, levels of bad debt recovery are slowly starting to build.

We are confident that we have good growth prospects in Auto Retail and Insurance. Finance margins will be impacted in the short term as we deal with the rapidly changing interest rate environment. Credit Management is expected to perform better as the economic conditions worsen and the resultant impact on consumer arrears.

Looking beyond FY23 we remain very confident about further growth over the medium to longer term and we have updated our three-year rolling target to cross over $50m of profit before tax by FY25. Overall, we are ready for what is next and the business is in the best shape it has ever been.

A short video is available at https://www.turnersautogroup.co.nz/invest summarising the FY22 results.

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Results Video
For further commentary on the FY22 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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