Company Announcement

23 May 2023

Turners delivers record FY23 earnings

Turners Automotive Group (NZX: TRA) has reported record earnings for the financial year to March 31 2023 (FY23), demonstrating its sustainable earnings platform, and the strategic value of its diversification and de-risking over recent years. While the company notes that the interest rate cycle may impact the timing of its FY25 target of $50M NPBT, it continues to achieve strong results in challenging conditions and to strengthen its position for the next upcycle.

Key Financial Highlights:

- Revenue $389.6M +13%
- EBIT $52.2M up 9%[1]
- NPBT $45.5M +6%
- NPAT $32.6M +4%
- Full year dividend 23.0 cps (flat)
- Earnings per share 37.7cps +4%

Key Business Highlights:

- Final FY23 dividend declared at 7.0 cps bringing FY23 dividend to 23.0 cps, matching last year and equating to a gross yield of 8.5% per annum based on the current share price of $3.75.
- Record earnings in Auto Retail and Insurance divisions more than offset Finance headwinds.
- Market share gains and margin improvement in Turner's largest division, Auto Retail led to a 28% increase in profit, following 26% in FY22.
- Market share growth and improved claims ratios in Insurance business.
- Compression of net interest margin (NIM) in Finance. Interest expense materially up 110% to $13.3m, reflecting the change in OCR. However, this impact was mitigated by finance margin management and regular pricing increases.
  Debt load increasing in Credit Management. Well positioned for the next stage of the NZ credit cycle.
- The company's strong culture remains a key advantage, ranking in the top 5% of consumer businesses globally. Employee Share Scheme launched with almost 50% take up.
- Macro headwinds (inflation, interest rates, and economic conditions) likely to feature in the year ahead with uncertainty and speed of change key features.
- Continue organic growth momentum in Auto Retail through branch expansion and shifting more sales into retail channels, and further traction from award winning 'Tina' marketing campaign.

The company's FY23 result demonstrated earnings resilience despite tough economic conditions, including rapid interest rate rises, and lingering impacts of the COVID-19 pandemic in the first half. Group revenue rose 13% to $390m with Auto Retail and Insurance divisions growing strongly for a third year in succession, delivering a record NPBT result of $45.5m, up 6% on FY22.

Revenue rose strongly in each of the three largest businesses up 15% in Automotive Retail to $278.2M, 13% in Finance to $58.6M and 8% in Insurance to $43.6M. Profit grew 28% in Automotive Retail to $25.0M, and 9% in Insurance to $12.6M. Finance Division's profit was down 17% to $15M due to rapid

[1] EBIT adjusted for interest expense in Finance (non-IFRS measure)

OCR increases that saw credit quality, regulatory compliance and margin management become the priority during the year. Profit for Credit Management was largely unchanged at $2.9M.

Todd Hunter, CEO, said: *"Two of our three major divisions continue to perform strongly with our third, Finance, well positioned as market conditions change. This strong performance reflects the success of our diversification strategy, our de-risking initiatives as well the quality of our team. The strength of our team and culture is proving a durable competitive advantage at a time of scarcity of talent, and as economic conditions become more difficult in the near term.*

Our marketing and customer service are proving successful. Turners is increasingly seen as the leading brand in the used car market and as the number of used car outlets across New Zealand continues to contract, we see further opportunity to consolidate our position. While we are weathering tough economic conditions, we expect these headwinds to intensify before we are through the current inflation cycle. However, we are well-positioned and will continue to look for organic growth opportunities to further our lead in what are uncertain and rapidly changing market conditions."

Financial results

Reported NPBT increased 6% to $45.5M. Net profit after tax (NPAT) of $32.6M was up 4% on the same period last year. EBIT is $52.2M up 9%.

Earnings per share for FY23 were 37.7 cps, up 4% on the previous year. A final 7.0 cps dividend has been declared for FY23 (payable in July), taking FY23 dividends to 23.0 cps, matching last year's strong result. This reflects the dividend policy payout of 60-70% of net profit after tax (NPAT) and represents a yield of 8.5% per annum return based on a $3.75 share price. A dividend reinvestment plan (DRP) will be a feature of the final dividend with a 2% discount applied for those taking up the DRP. Details of the plan will be released shortly.

Grant Baker, Chairman, said**:** *"This result underscores our well-founded confidence in the resilience of the used car market through the cycle. Our leadership position for quality, technology, national coverage, branding and customer service has created a robust growth platform that continues to deliver. We have achieved these results at a time when retail generally has been under pressure. The used car market is needs-based and stable through downturns, as we envisaged. Our diversified business is well-placed to deliver further growth as well as offering solid returns to shareholders."*

Divisional results

Refer to Appendix

Advancing Turners' strategy

The FY23 result reflects the company's consistent and steady implementation of its FY22 - FY25 strategy that offers confidence in higher earnings growth through the cycle. Five key areas underpin the company's earnings growth. These are a combination of both physical network development and digital expansion:

1. Auto – branch expansion
2. Auto – vehicle purchase decision-making
3. Auto – Retail optimization of unit sales from wholesale to retail
4. Brand- investing heavily into building our brand with 'Tina' to all New Zealanders
5. Finance – growth in premium lending
6. Insurance – distribution

Award-winning Marketing and Most Trusted Dealership

Supporting this strategy has been Turners award-winning marketing, a key factor in consistent market share growth across its divisions. The 'Tina from Turners' brand campaign claimed the Supreme Award in the 2022 New Zealand Marketing Awards. In October 2022, the campaign won two '*Effies*' – Advertising Effectiveness Awards – in the categories of Best Strategic Thinking and Retail/Etail.

Our continued focus on service is translating into customers' reported experience. We are proud to announce that we've just won New Zealand's *Most Trusted Used Car Dealership* for the fourth consecutive year. We stand for trust and credibility in an industry that can sometimes represent the opposite.

Outlook

While the impacts of the COVID-19 pandemic have diminished, market uncertainty continues to rise. We see macro headwinds with economic uncertainty likely to intensify in the short term.

However, we are focussed on what we can control. In **Auto Retail**, we expect to see upside from our new branches in the second half and expect those to follow the success of our branch expansion strategy over the last couple of years. Domestic supply continues to be an advantage for Turners, and the transition of wholesale auction units into retail sales channel will underpin further market share and margin growth.

In our **Finance** business, quality and margin management remain key priorities in the near term, with a drag on earnings, especially until peak OCR is reached. After the OCR peak we will again focus on growth initiatives and expect net interest margin to start expanding again. We expect sales in our **Insurance** division to be buoyant based on our distribution and market share gains, and claims ratios to be stable. **Credit Management** is expected to perform better in the coming year as consumer arrears worsen and bad debts begin to be called in.

Looking beyond FY24 we remain confident that our FY22 – FY25 growth model is broadly on track. However, the timing of peak OCR could affect the timing of achieving our FY25 target of $50M in underlying NPBT, as outlined further in today's investor presentation. FY24 has started well with April-23 profit result showing positive growth against April-22.

Results Video

For further commentary on the FY23 results, a short video is available at
https://www.turnersautogroup.co.nz/investor-centre/

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 $278.2M +15%, NPBT $25.0M +28%

Turners market share continued to grow throughout FY23. Retail unit sales were up 6% to around 19,500 units, and wholesale auction unit sales rose 25% to around 14,700 units. Total units sold through auction were 18,500 compared to 14,730 the year prior, due to adding Fleet Partners ex-lease consignment vehicles. 'Owned' unit sales in FY23 was up 9% on FY22 to 24,000, and margin on 'owned' sales rose 11% in FY23. Nelson and Rotorua branches are now both fully operational and performing above expectations. The success of Turners domestic sourcing strategy is evident in faster stock turn and the business continues to operate off lower inventory levels. Increasing local sourcing versus used imports has been beneficial. The government's clean car program has reduced the number of imported cars coming into the country which has increased the value of used car units and increased our margins. Our Tina campaign continues to deliver record levels of sourcing leads. The team continues to work on improving overall Finance attachment rates, to realise synergies from other divisions. For FY23 our Finance attach rates were 31%, a slight fall on FY22's 32.7%. Our committed development pipeline for retail expansion in Christchurch, Napier and Timaru offers additional profit contributions from FY24 to FY26. Turners Subscription has broken through 300 concurrent subscriptions (in February 2023), and the offer moved into profit in Q4 FY23. Around 80% of subscription owned cars are low emission vehicles (LEVs).

Finance: Revenue $58.6M +13%, NPBT $15.0M -17%

Solid revenue growth during FY23 was set against an additional $7m in interest expense over FY22 levels due to the rapid rise in OCR. While the Finance division proactively reviewed pricing to mitigate OCR rises, Oxford's 12 base rate rises, lifting 4.10%, since October 2021, compares to an OCR movement of 5.0%. This meant that growth moderated as credit quality, regulatory compliance and margin became higher priorities. That additional $7m in interest expense represents a 110% increase which has had a material impact on profits on average loan book. Credit policy continually tightened throughout FY23 [check] with average credit score continuing to improve. Premium Tier business accounts for more than 50% of our new business per month. Oxford loan arrears continue to track at the half the levels of the wider market. The strategy adopted in FY23 will ensure Turners Finance is well placed to grow again once interest rates stabilise. The quality of Turners Finance book continues to improve.

Insurance: Revenue $43.6M +8%, NPBT $12.6M +9%

Further gains in market share were a feature of FY23. Despite challenging market conditions, Turners Insurance Division achieved robust sales growth. Digital distribution arrangements are continuing to work well with further opportunities in the pipeline. Inflation in the cost of claims was offset by frequency of claims reducing due to changes in consumer behaviour, including working from home and cost of living increases impacting mobility and vehicle use. The Division's operating cost ratio was steady between 20-21%. The pandemic alongside recent weather events have confirmed no catastrophic risk in the portfolio, and the Division's de-risking strategy is working effectively.

Credit Management: Revenue $9.2M -5%, NPBT $2.9M -6%

The Credit Management business saw debt value loaded increase by 20% ($22m) compared to FY22. However, 80% of this ($18m) was from harder to contact and collect second placement debt. Debt value collected was down 9% to $34.4m due to reduced customer payment capacity requiring lower repayment amounts to be accepted. Our "kept rate" of payment arrangements was stable through the year at more than 75%. Positive signs include credit card demand up 20% coupled with Buy-Now-Pay-Later demand dropping 15% year on year, flowing through to increased arrears levels, but still lower than pre-pandemic levels. By year end and into the start of the coming year there were indications that the economic downturn was producing conditions that may support improved results for Credit Management. NZ wide consumer arrears metrics at the end of March 2023 are on the increase according to Centrix NZ, to 11.8% of the credit active population (11.3% in Mar-22). The number of people that are behind on their payments has increased to 427,000. Consumer delinquencies are at the same level as reported in March 2019. Around 4.9% of credit active consumers are currently 30+ days past due (up from 4.1% for the same month last year).

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