

FY21 Results Presentation

For the twelve months ending
31 March 2021

Turners.
Automotive Group



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- I. Uncertainties relating to government and regulatory policies;
- II. The occurrence of catastrophic events with a frequency or severity exceeding our estimates;
- III. The legal environment;
- IV. Loss of services of any of the company's officers;
- V. General economic conditions; and
- VI. The competitive environment in which the company, its subsidiaries and its customers operate; and other risks inherent in the company's industry

The words "believe," "anticipate," "investment," "plan," "estimate," "expect," "intend," "will likely result," or "will continue" and other similar expressions identify forward-looking statements. Recipients of this document are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Agenda

1. FY21 Results

2. Segment results

3. Looking forward ...

Delivering on our plan for growth ...

1. **We achieved 19% growth in normalised PBT in FY21...a step change in the business performance**
2. **Full year dividend at 20.0cps versus guidance of 18.0cps. Based on a share price of \$3.75 this is a gross yield of 7.4% pa.**
3. **Our plan for growth* has been proven up and de-risked over the last three years:**
 1. **Building out an omni-channel experience in Auto Retail**
 2. **Auto Retail optimisation**
 3. **Targeting high quality lending growth in finance**
4. **FY22 has started well, with April-21 materially ahead of trading in April-19**
5. **Our target is for a further 31% increase in Underlying NPBT from FY21 to FY24**

* For more details on our Growth Plan, please refer to our recent [Investor Presentation](#) (14/4/2021)

FY21 Results overview



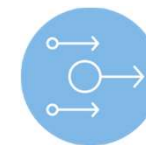
Financials

- NPBT \$37.4m +29%
- NPAT \$26.9m +28%
- Underlying NPBT \$34.3m +19%
- Revenue \$296.5m -11%
- Final dividend declared at 6.0 cps
- Full year dividend to 20.0 cps
- Earnings per share 31.4cps +29%



Key Drivers for FY21

- Effectively a 10-month trading period due to lockdown
- Used vehicle supply constrained due to “new car” supply chain issues
- Consumer demand better than expected for vehicles
- Improvement in sourcing combined with market dynamics have led to improved margins
- Improving credit profile of loan book showing through in arrears



FY22 Update

- April-21 result strong...positive momentum continues
- Auto retail: supply constrained market expected to continue for 12-18 months
- Finance: new lending strong and arrears at all-time historic lows
- Insurance: new policy sales strong, claims ratios improving
- Credit: debt load returning as corporate customers get back to BAU

1. FY21 Results

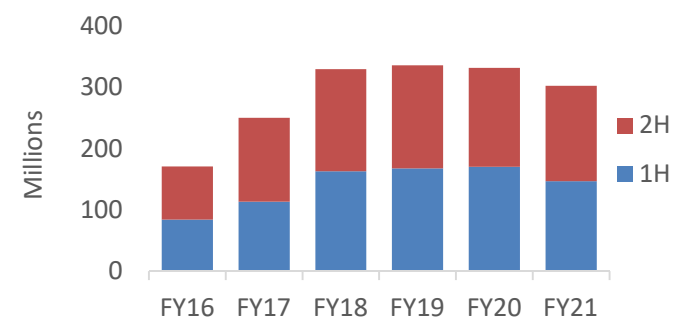


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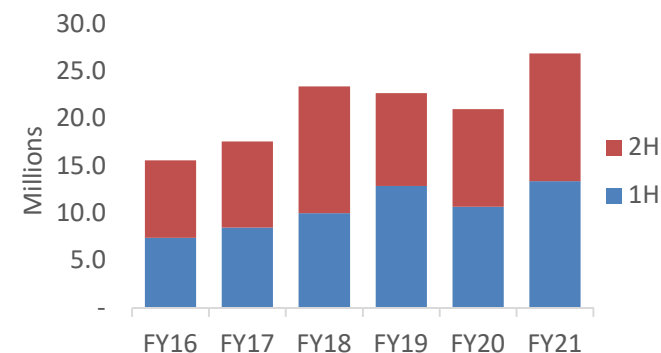
FY21 Results snapshot

<p>Revenue \$296.5m -11%</p>	<p>Shareholders' Equity \$234m as at 31 March 21</p>
<p>Underlying Net Profit Before Tax \$34.3m +19%</p>	<p>Final Dividend 6.0 cps FY Div 20.0cps</p>
<p>Net Profit Before Tax \$37.4m +29%</p>	<p>FY21 Earnings Per Share 31.4cps (FY20 24.3cps, +29%)</p>
<p>Net Profit After Tax \$26.9m +28%</p>	

Revenue



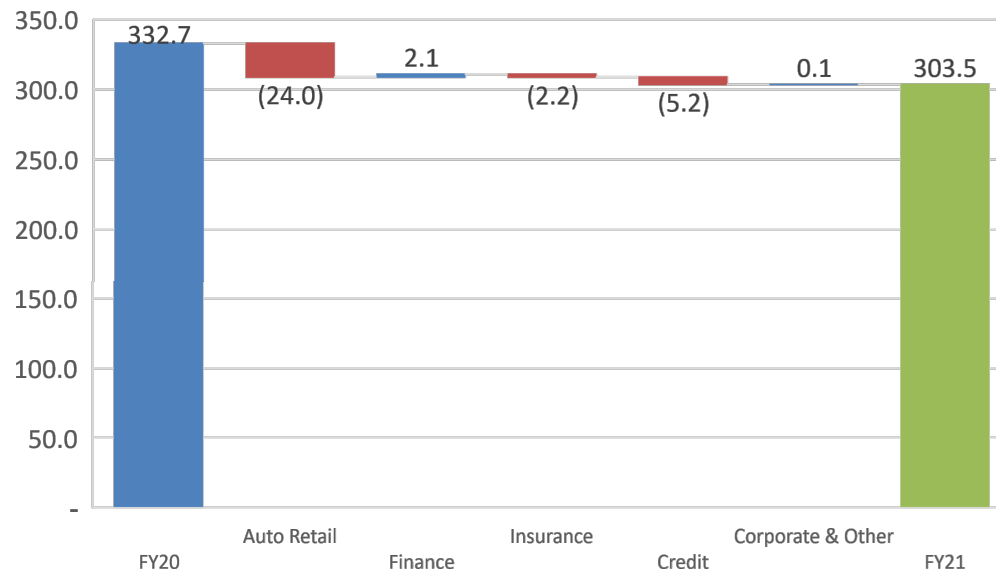
Net profit after tax



FY20 to FY21 Revenue bridge

Revenue decreased from \$332m to \$297m

Revenue Bridge FY20 to FY21 (\$Millions)

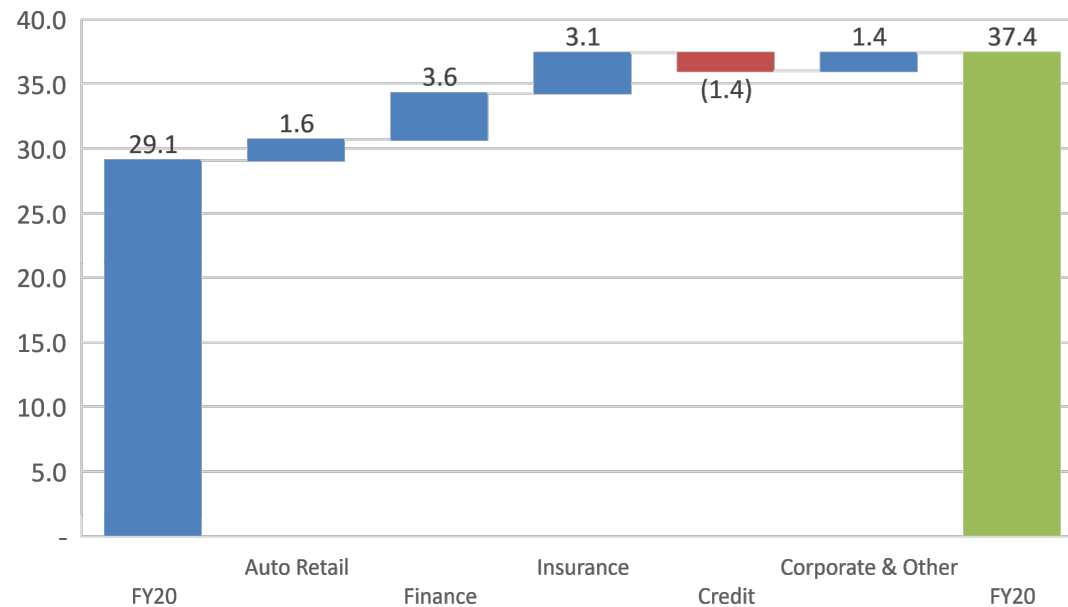


- Revenue reflects material impact of L4 /L3 lockdown in April & May impacting Auto Retail, Finance and Insurance sales
- NZ used car market has recovered since lockdown
- Post lockdown there are emerging supply constraints in the new car supply chain which are likely to continue for at least 12-18 months
- Finance book reflects better quality business written at lower interest rates
- Credit management revenue impacted by lack of debt load from major banks as they managed reputational risk

FY20 to FY21 Net profit before tax (NPBT) bridge

NPBT increased from \$29.0m to \$37.4m

NPBT Bridge FY20 to FY21 (\$Millions)



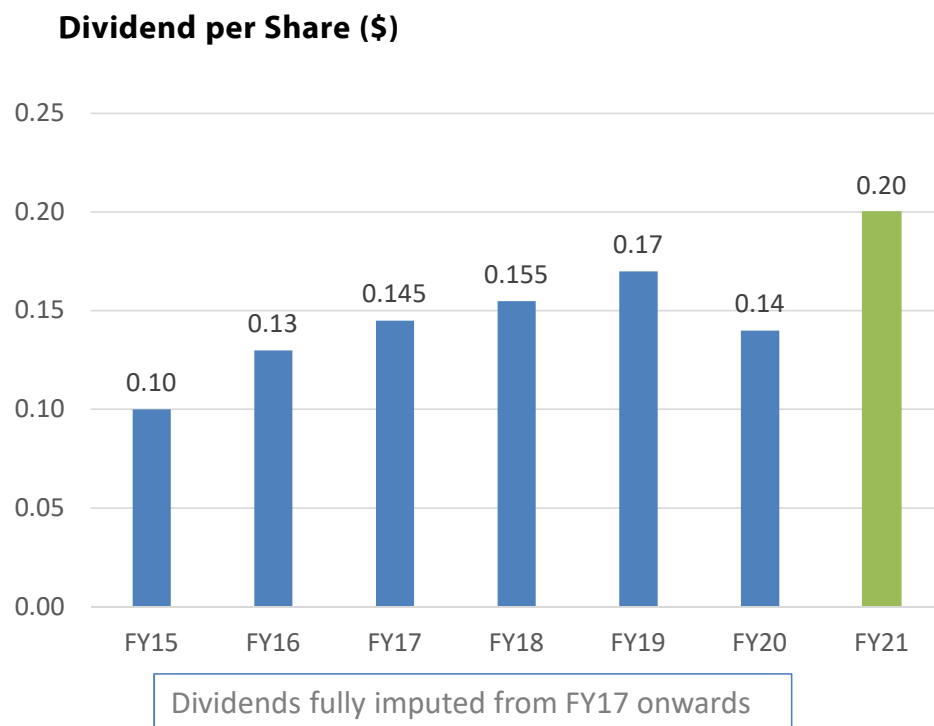
- **Cost reduction plans implemented as a priority in Covid response plan**
- **Auto Retail result underpinned by stronger commercial business and improved margins on owned inventory**
- **Finance driven by writing higher quality new business and the resulting improved arrears performance**
- **Insurance result reflects improvement in claims ratios and cost base**
- **Cost of funding reductions reflected in corporate cost line**

Reconciliation: NPBT to underlying NPBT

\$Millions	Period	FY21	FY20	Var
Profit before tax actual		37.4	29.1	29%
Oxford strategic review costs		-	0.2	
Property exit and lease adjustments	H1	(1.3)	(0.5)	
NZ Government Covid Support	H1	(5.1)		
Staff/Directors Rem Sacrifice	H1	(1.0)	-	
Employee restructure costs	H1	0.8		
Profit normalisation (Apr/May 20)	H1	3.5		
Underlying operating result		34.3	28.8	19%
H2 Operating Profit Run Rate		18.7		

- Property adjustment includes IFRS 16 adjustment of \$1.9m benefit offset by property exit costs of \$1.3m, and rent relief of \$700k
- A number of properties have been exited as part of our retail optimisation and cost management plan
- H2 FY21 operating profit result has no one-off adjustments and reflects our expected run rate of \$3m+ operating profit per month

Turners has a strong and sustainable yield



- **Business demonstrated strong momentum in H2 FY21**
- **Directors declared a final dividend of 6.0 cents per share (fully imputed) taking YTD dividends to 20.0 cents per share.**
- **Based on a share price of \$3.75 this is a gross yield of 7.4% pa**

Balance sheet has capacity to support growth

\$Millions	FY21	FY20
Cash and cash equivalents	12	33
Financial assets at fair value	70	65
Inventory	30	44
Finance receivables	330	293
Property, plant and equipment	60	53
Right of use Assets	24	25
Intangible asset	166	167
Other assets	26	29
Total Assets	718	708
Borrowings	340	350
Other payables	38	28
Deferred tax	11	10
Insurance contract liabilities	53	51
Lease liabilities	29	33
Other Liabilities	14	13
Total Liabilities	485	485
Shareholders Equity	233	223

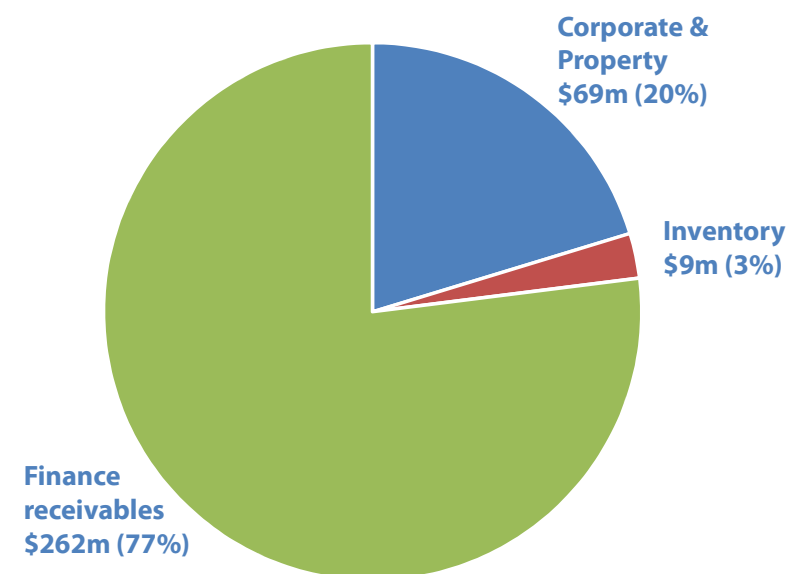
- Reduction in cash balances from precautionary levels held at March-20.
- Inventory reduction due to improved stock turn and management of aged stock.
- Change in Finance receivables reflects quality ledger growth in Oxford.
- Property, plant and equipment increase due to development of new site in Otahuhu and Nelson purchase.
- Borrowings post Covid-19 de-leveraging partly offset by finance receivable growth

Funding mix optimised to support growth

Borrowings

\$Millions	Limit	Drawn	Undrawn
Receivables – Securitisation (BNZ)	276	239	37
Receivables – Banking Syndicate (ASB/BNZ)	50	20	30
Receivables – MTF	3	3	-
Corporate & Property (incl Bond)	95	69	26
Inventory (ASB)	30	9	21
Totals	454	340	114

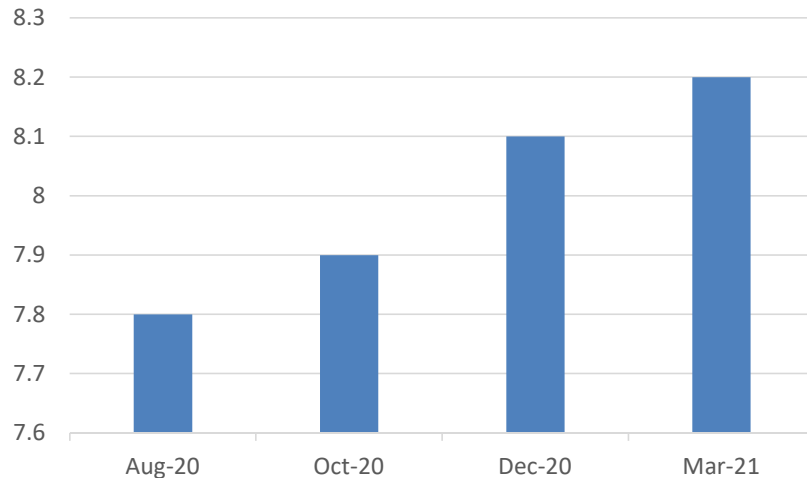
Borrowings by Utilisation (\$Millions)
As at 30 March 2021



- Total borrowings down by \$10m since March-20 due de-leveraging in corporate debt, and working capital efficiencies, partially offset by growth in receivables funding.
- Increase in Securitisation funding facility limit to \$300m (including capital contribution from TRA), to support growth in Oxford.
- 77% of total debt in business relates to finance receivables.
- Oxford Finance has an equity to total assets ratio of 23% and currently has capacity to underpin a further 18 months growth in the finance book.

Environmental Social Governance

Peakon Employee Engagement Scores



Across nearly 700 employees we are averaging 8+/10 to the question “How likely is it that you would recommend Turners Auto Group as a place to work?”

- The focus through FY21 has been on delivering on the “social” pillar of our ESG strategy.
 - Health and safety of customers and staff during Covid-19
 - Implementing and employee engagement measure (Peakon)
 - Dealing with 1,700+ customer hardship situations in Oxford Finance and successfully rehabilitating 96% of these over the last 12 months.
- In process of establishing and measuring emissions targets and we have a number of initiatives underway already
 - ✓ Board subcommittee established
 - ✓ Turners help in getting old and unusable vehicles off the road
 - ✓ Piloting solar power installations in two of our sites and have committed to rainwater retention systems
 - ✓ Vehicle subscription with a particular focus on Electric Vehicles in partnership with EECA

2. Segment Results

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FY21 by segment

\$ Millions	Automotive Retail		Finance		Insurance		Credit	
Revenue	201.0	(11%)	47.9	5%	41.9	(5%)	12.8	(29%)
Segment Profit	15.4	11%	15.8	30%	9.4	50%	5.1	(22%)

FY21 by segment



Auto retail

- Covid recovery and cost management
- Margin improvement through supply initiatives and supply constraints
- Continued optimisation for retail eg. new sites in Dunedin, Westgate, Otahuhu and exit of Penrose



Finance

- Continued focus on targeting high quality borrowers,
- Refinement of risk pricing strategy
- Continue to make digital investments to improve customer experience



Insurance

- Good progress in building out distribution through integrating into finco application systems
- Claims ratios continue to improve through risk pricing and procurement initiatives



Credit management

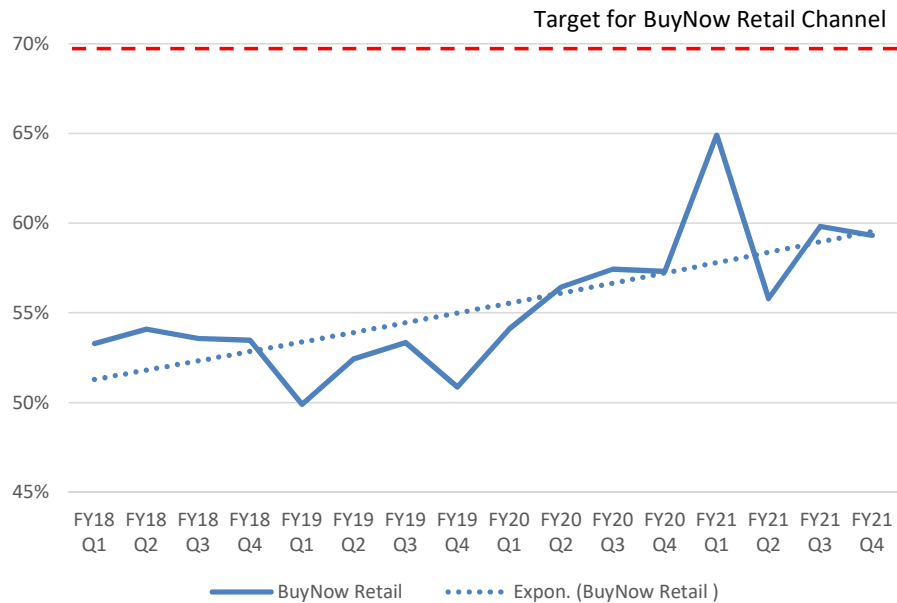
- Manage cost base in reduced debt load environment
- Work closely with large corporate customers to manage reputational risk



Automotive retail

Revenue 201m -11%, Segment Profit \$15.4m +11%

% of Total Sales by Sales Channel

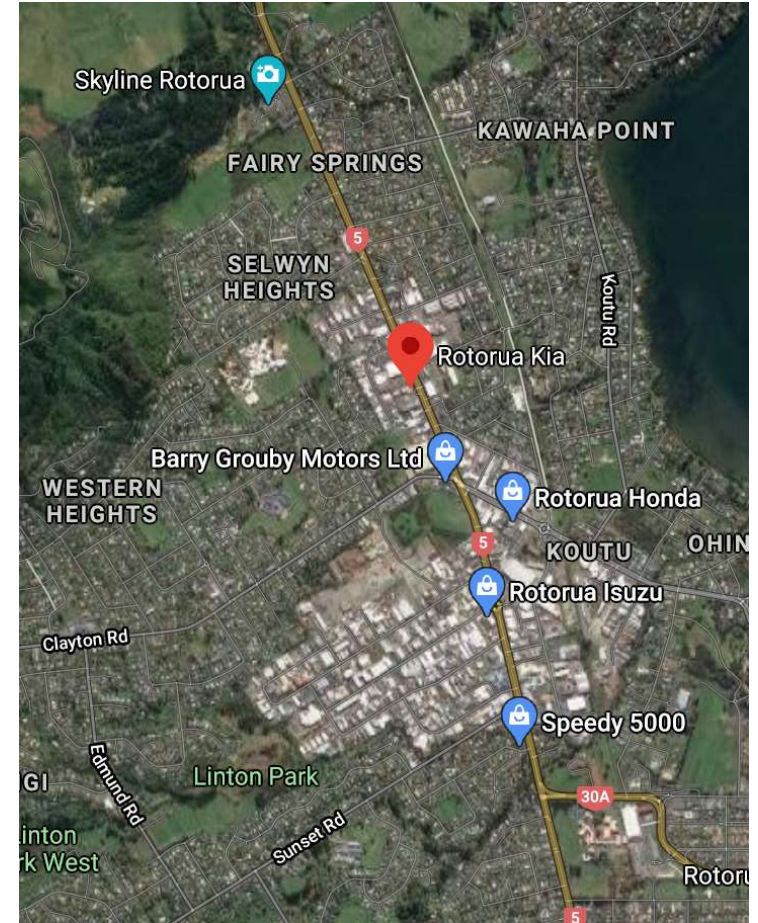
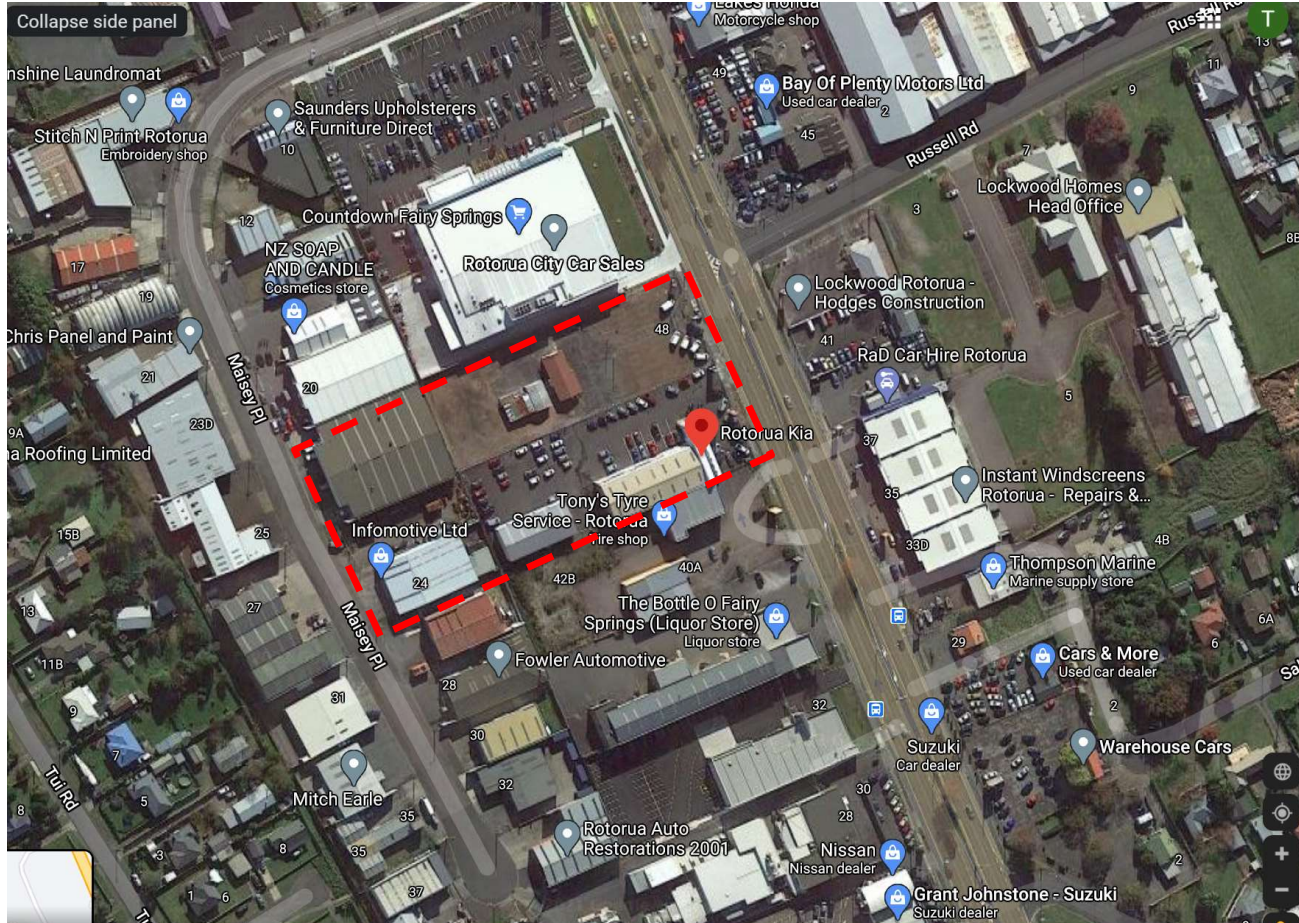


- **Margin on retail channel sales substantially higher than an auction channel sale.**
- **Margins on “owned” fleet have improved due to a number of buying improvement initiatives, more retail sales and constrained supply of used cars nationally.**
- **Diversified sources of supply continues to be a real competitive advantage...increased brand spend in FY22 focused on attracting domestic supply.**
- **Inventory levels have been very stable for the last 11 months at \$29m-\$32m level around 30% lower than peak at beginning of April. Sale volumes recovering and tracking at similar levels to 2019.**
- **Significant improvement in commercial business.**

Growth Focus – Auto growth priorities

1. Sourcing	Buy more local car inventory & maintain margin.	Profit / vehicle \$1,500
2. Retail Optimization	1-2 additional retail locations pa. Investment in staff.	Regional Branch Operating Profit of \$500k pa
3. Finance & Insurance	Maximise F&I as a sales enabler & revenue stream.	Finance attach +1% = \$400k
4. Lead management	Improvement in both marketing & sales conversion rates.	1% lift +800 sales pa
5. Build the Brand	Become a Kiwi Icon & market leader in used car data.	Higher consideration

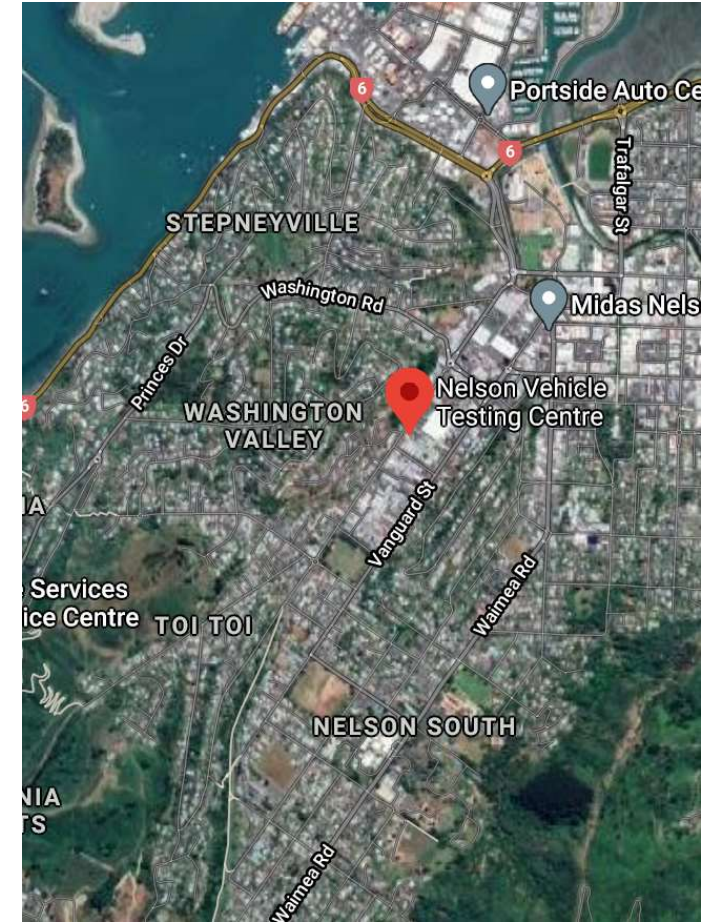
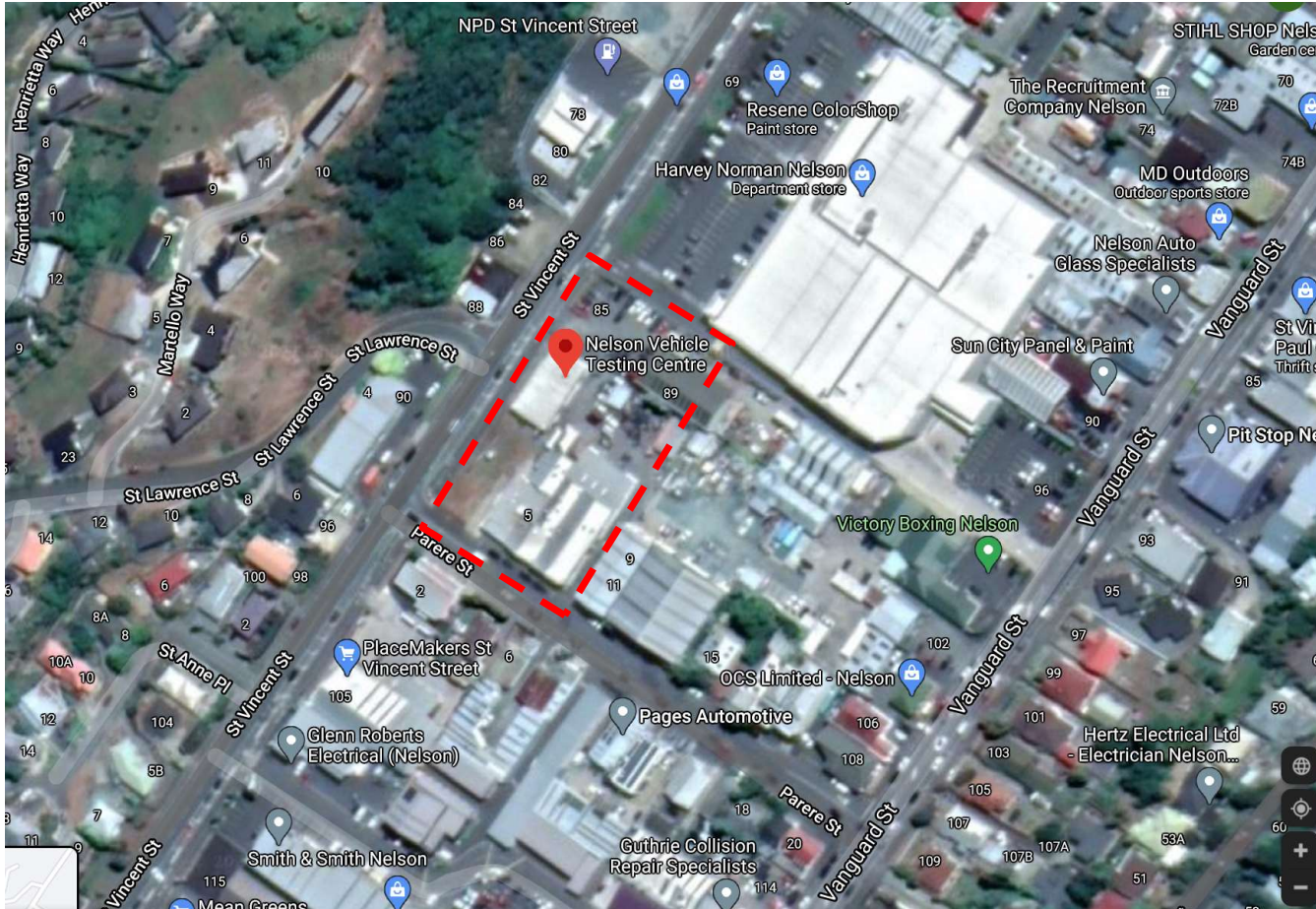
Expansion - new sites confirmed for the next 12 months - Rotorua



Rotorua – high profile next to Countdown



Expansion - new sites confirmed for the next 12 months - Nelson



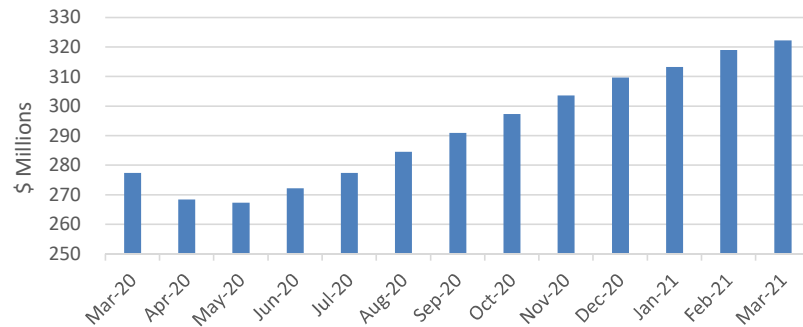
Nelson - corner site, next to Harvey Norman



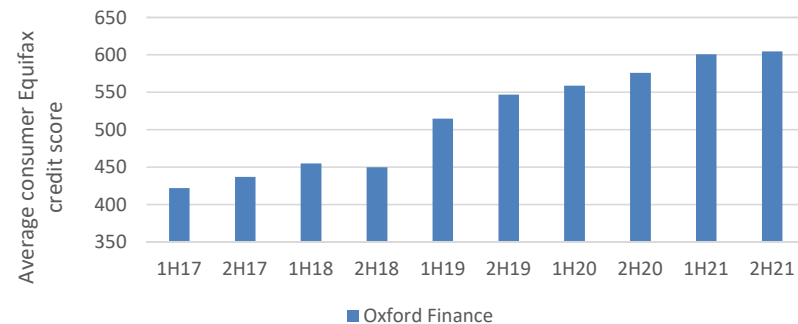
Finance

Revenue \$47.9m +5%, Segment Profit \$15.8m +30%

Total Receivables (ex impairments)

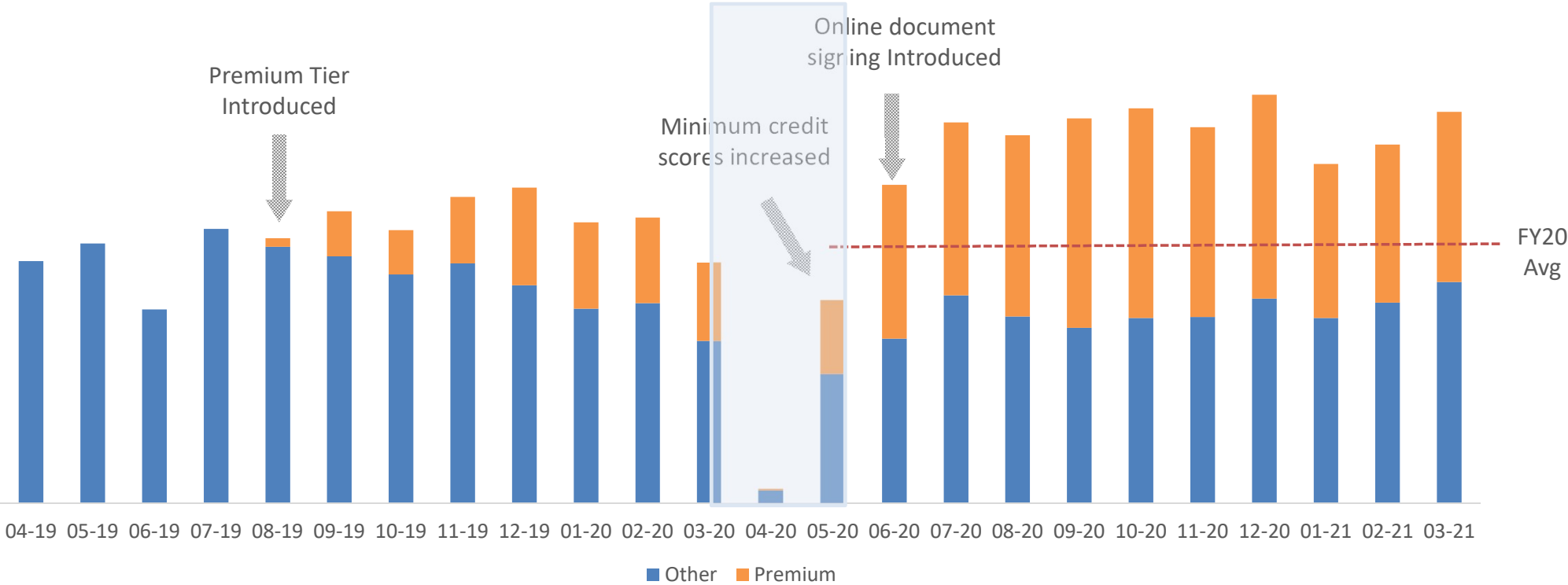


Average Credit Score



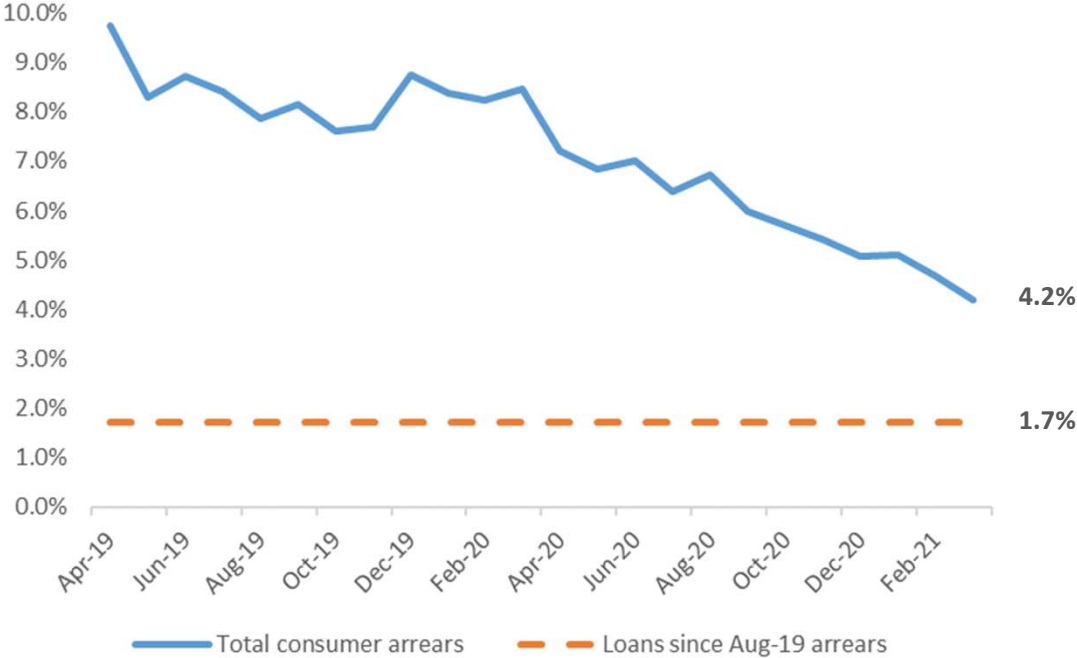
- **Premium Tier business growing strongly. For H2 has averaged 45% of our new business per month**
- **Expanded the Risk Based Pricing Model in Dec-20 creating further growth in Premium lending**
- **Arrears continue to track down at historic low levels, Consumer arrears at 4.2% at end of March and Commercial arrears at 1.8%.**
- **65 customers (or 0.29%) in hardship status, peaked at 1,700+ in June 2020.**
- **Still carrying a material Covid-19 arrears provision buffer to allow for future uncertainty and performance of loans that have been in hardship status.**

Quality transformation in finance loan book progressing well...



Quality lending strategy resulting in arrears at record lows

Consumer Customer Arrears (Loan Balance)

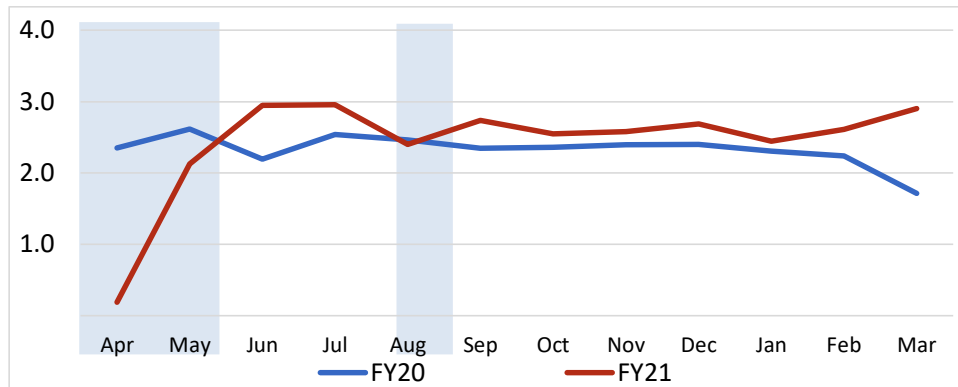


- The loans we have written since Aug-19 are tracking at 1.7% arrears
- Our premium strategy means the % of premium lending will structurally increase over time.
- Runout of legacy low quality ledgers will be complete by the end of FY22

Insurance

Revenue \$41.9m -5%, Segment Profit \$9.4m +50%

Gross Written Premium FY21 v FY20 (\$000s)



MBI Loss Ratio Performance

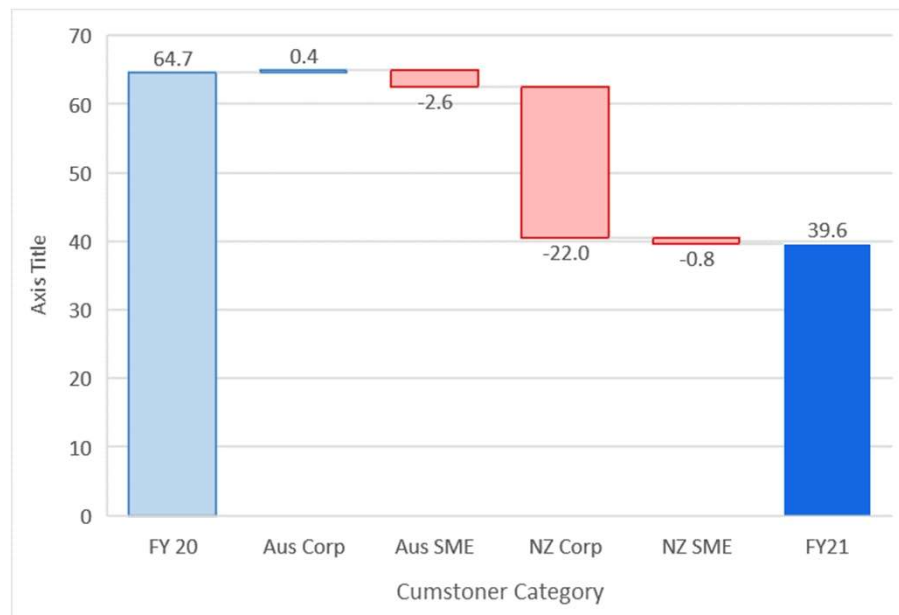


- **Gross Written Premium up 2% on FY20 despite impact of lockdown periods on FY21 sales.**
- **Claims loss ratios continue to improve due to better underwriting, procurement and less vehicle movement in lockdown periods.**
- **Good growth in digital distribution (MTF, Marac Finance and Motorcentral using Autosure API), and pipeline of opportunities ahead.**
- **New portfolio management system providing product and pricing agility**
- **AM Best upgraded credit rating for Insurance. Financial strength rating improving to B++ (good).**

Credit management

Revenue \$12.8m -29%, Segment Profit \$5.1m -22%

Debt Collected HY20 to HY21 (\$000s)



- Total debt load down 47% to \$119m, mainly due to large NZ corporate customers pulling back on collections actions during Covid-19 to manage reputational risk.
- Debt load from major banks and government departments has re-commenced heading into year end.
- Debt collected down 39% to \$40m, however conversion rates have improved.
- Payment arrangement commitments met up to 74% (70% FY20).
- New CEO of Credit Management appointed in Dec – 20, internal promotion of COO Matt Gannaway to CEO.

3. Looking forward ...



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Growth model: FY22 – FY24

The model gives us confidence in higher earnings growth through the cycle. We have found the right formula, and will optimise further ...

Four key areas underpin our earnings growth. These are a combination of both physical and digital:

- 1. Retail optimisation**
- 2. Vehicle purchasing decision-making**
- 3. Premium lending**
- 4. Continued investment in digital and omni-channel customer experience**

Growth model: FY22



Auto Retail

- Stock acquisition – secure the right cars at the right price
- Continue to invest in promoting the Turners brand - build market share
- Retail optimisation – developing and launching Rotorua and Nelson



Finance

- Expand distribution
- Keep improving credit quality through data driven risk pricing
- Simplify and automate lending process
- Reduce early settlements



Insurance

- Expand distribution through partnership strategy and sales integration into other businesses
- Cost and claims management discipline
- Continue to enhance risk pricing



Credit Management

- Grow SME debt load
- Build on data initiatives to drive up contact rates with debtors
- Continue to develop Debtor self service portal, Xero/MYOB
- Continue working closely with corporates to manage reputational risk



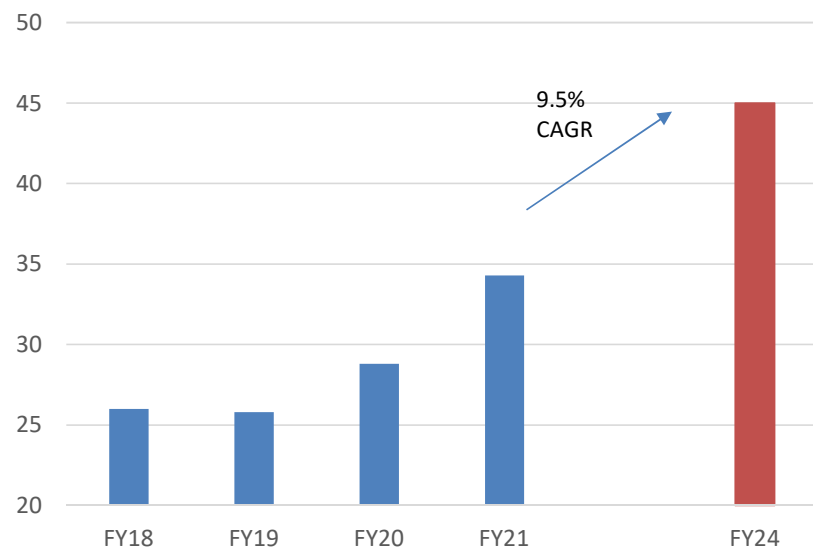
Capital Allocation: high level thinking

- **Clear message** from market that shareholders want yield + growth supported from existing capital base
- **Organic growth** to be funded via retained earnings and improving capital efficiency
- **Maintain dividend policy** of 60% to 70% NPAT
- **Capital allocation broadly prioritised as follows:**
 - **Auto Retail businesses** – footprint expansion can be funded largely through debt (lease premises and floorplan finance for inventory), some capital investment required for fit-out of retail sites
 - **Property** – de-risks the auto business through control of strategic sites and cost base plus provides opportunity for long term capital growth.
 - **Oxford Finance** – growth requires capital alongside debt to grow receivables ledger and profits
 - **Digital initiatives** across the Group largely assumed to be opex, supported by some capital to be allocated to support growth and future proofing

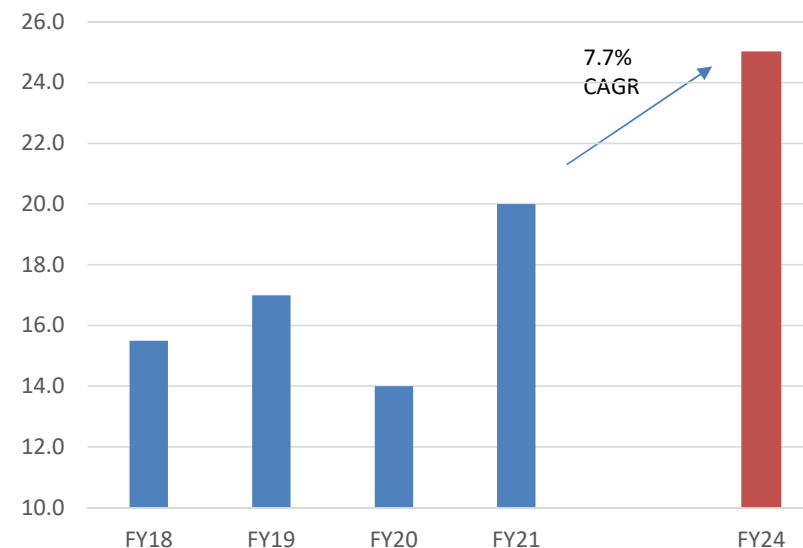
Roadmap to \$5/share ...

Over three years we target 31% growth in Underlying NPBT

Underlying Net Profit Before Tax (\$M) ¹



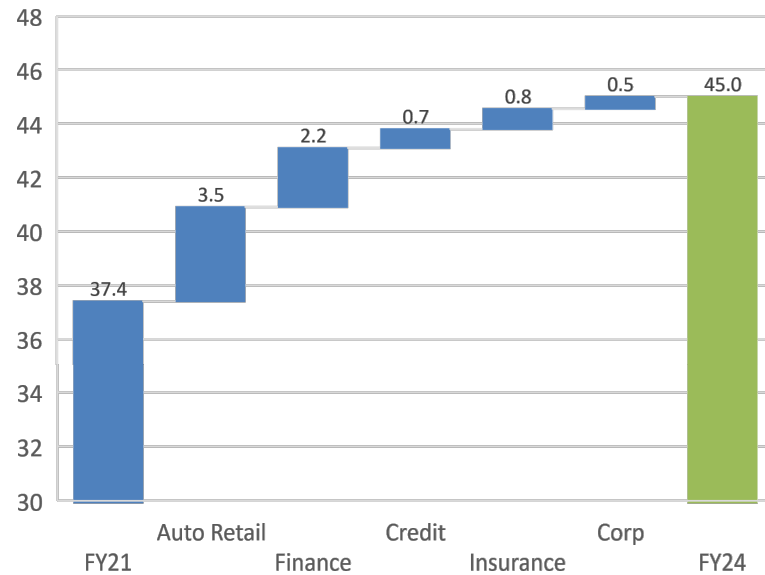
Dividends Paid (cps)



¹ Underlying NPBT is a non-GAAP measure
Reported NPBT (\$m) for FY18 31.1, FY19 29.0, FY20 29.1, FY21 37.4
Reconciliations for each of the periods can be found in the respective Annual Results Presentation

Roadmap to \$5/share ...

Net Profit Before Tax Bridge (\$M)



- **Business is highly cash generative, leading to growth + yield for shareholders**
- **Profit growth largely driven out of Auto Retail and Finance**
- **Retail optimisation in Auto Retail – growth driven by combination of new sites and growth in existing sites**
- **Margin expansion in Auto Retail out of supply side initiatives**
- **Finance growth driven out of direct lending and improvements in distribution**
- **Whilst PE multiples are assumed to expand they remain very conservative**

Outlook + guidance

- **April-21 result strong...positive momentum continues**
- **Auto retail: supply constrained market expected to continue for 12-18 months**
- **Finance: new lending strong and arrears at all-time historic lows**
- **Insurance: new policy sales strong, claims ratios improving**
- **Credit: debt load returning as corporate customers get back to BAU**
- **We expect to see an improved result in FY22 and an increase in FY22 dividend**

**For details on our Growth model, please refer to our
recent Investor Presentation (14/4/2021)**

Questions



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