BrightHouse – Q2 16/17 Results
16 November 2016

- Hamish Paton – Chief Executive Officer
- Alex Maby – Chief Financial Officer

- Quality, Branded Product
- Weekly Payments
- Delivery & Installation
- Complete Protection
- Repair or Replace

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BrightHouse

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All figures in this presentation are calculated based on exact numbers and results are rounded to appropriate accuracy.

Capitalized terms used but not defined herein have the meanings assigned to them in our Half Year Report for the twenty-six weeks ended 1 October 2016.

Agenda

- Q2 16/17 Summary
- Regulatory Update
- Q2 16/17 Financial Results
- Strategic Update
- Summary
- Q & A

Q2 16/17 Summary

- Constructive ongoing dialogue with the FCA
  - Authorisation process expected to conclude in Q4 16/17
- Regulatory requirements continue to materially impact customer additions
- Driving focus toward simplification and automation of sign up process
- EBITDA of £2.8m (Q2 15/16: £14.2m)
- Hamish Paton appointed Chief Executive following Leo McKee’s retirement

Regulatory Update

Regulatory Update

- Ongoing, open and constructive dialogue with the FCA
  - Skilled person appointed to advise during authorisation process
- Affirmed planned embedment of improved affordability and collections processes appropriate and achievable
- Completed internal programme to implement, embed and evidence plans
  - Significant investment in training and quality assurance resource
  - Independent 2nd and 3rd lines of defence utilised to support findings
  - Positive Skilled Person report to FCA on our Quality Assurance process
- Final phase testing expected to commence in December 2016
- FCA Authorisation process expected to conclude in Q4 16/17

Financial Performance

Q2 16/17 Financial Results

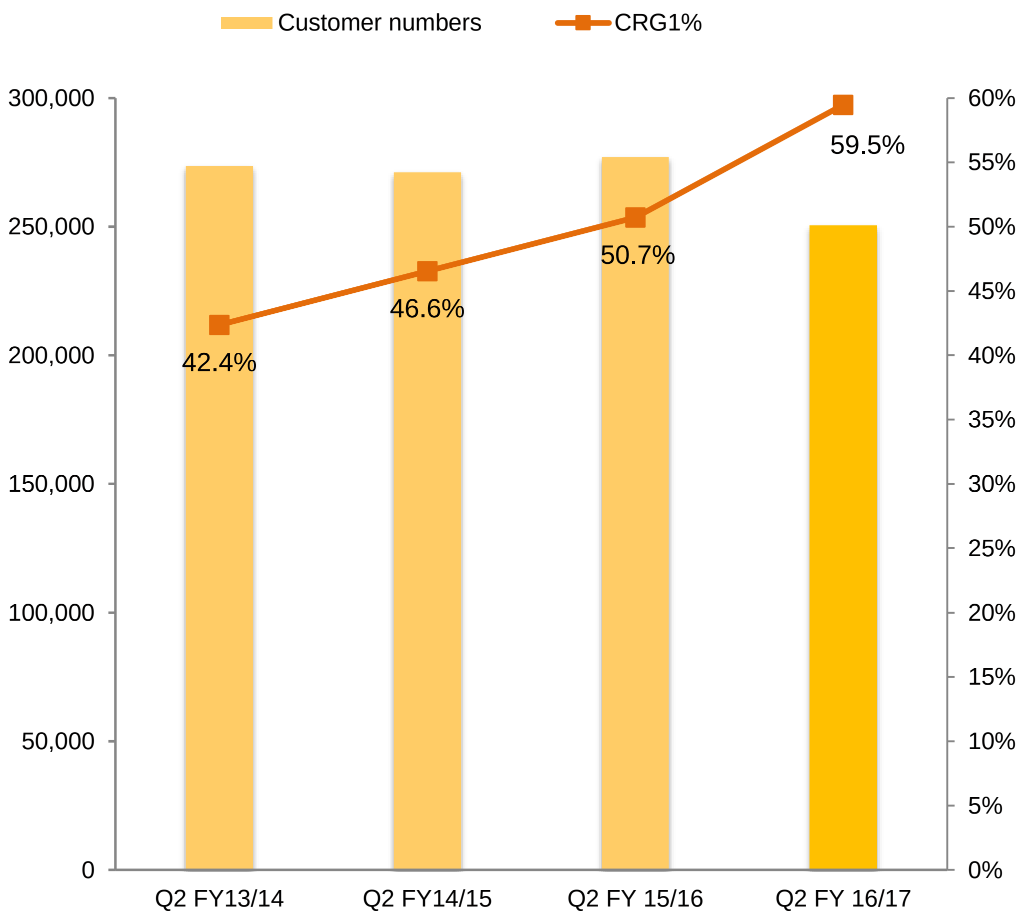
- Revenue down 12.1% to £80.8m (Q2 15/16: £92.0m)
- EBITDA (pre-exceptionals) of £2.8m (Q2 15/16: £14.2m)
- Contract portfolio of £439.3m (Sep-15: £560.1m)
- Net cash flow pre-financing activities of £20.2m (Q2 15/16: £2.3m)

Financial performance

£m	Q2 16/17	Q2 15/16	%
Revenue	80.8	92.0	(12.1%)
Gross Profit	**39.9**	**48.6**	(17.8%)
Gross Profit Margin %	*49.4%*	*52.8%*	
Operating expenses	(37.2)	(34.3)	(8.2%)
EBITDA	**2.8**	**14.2**	(80.4%)
EBITDA Margin %	*3.5%*	*15.5%*	
Depreciation and amortisation	(3.2)	(3.2)	(2.1%)
Net finance expenses	(5.8)	(5.4)	(6.2%)
Exceptional costs	(0.8)	-	(100.0%)
(Loss) / Profit before tax	**(7.0)**	**5.6**	(223.9%)
Tax credit / (charge)	0.4	(1.2)	136.1%
(Loss) / Profit after tax	**(6.6)**	**4.4**	(248.1%)

- Q2 revenue down 12.1% year-on-year
  - Temporary suspension of late fees charged to customers
- Gross profit of £39.9m for Q2 16/17 (Q2 15/16: £48.6m)
  - GP% of 49.4% (Q2 15/16: 52.8%)
  - Cost of sales partly determined by historic business volumes
  - Impact of ongoing price deflation
- Operating expenses of £37.2m for Q2 16/17 (Q2 15/16: £34.3m)
  - Additional compliance and quality assurance resource
  - Enlarged store base of 312 (Q2 15/16: 305)
  - Reduced capitalisation of supply chain overheads

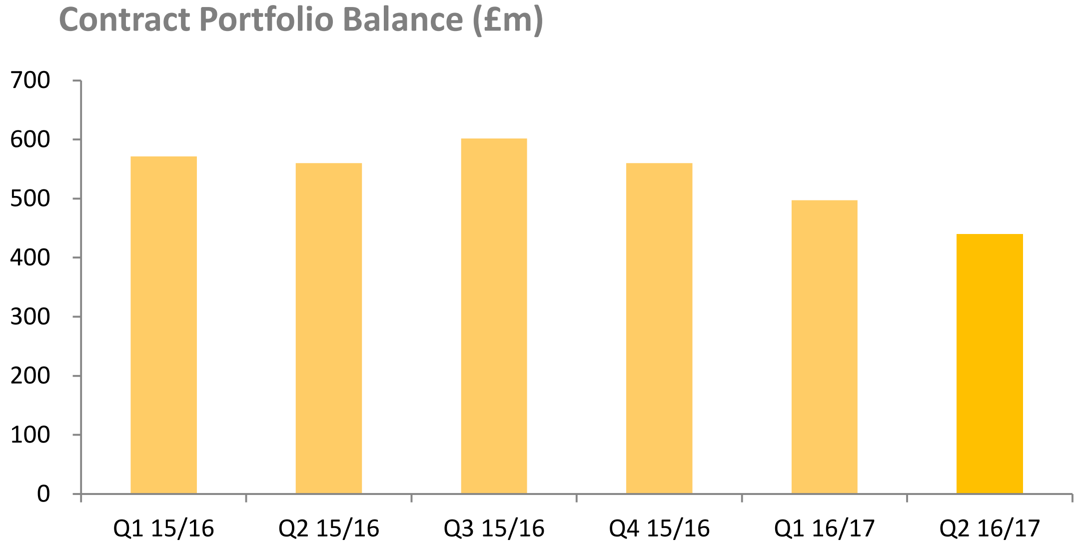
KPI Analysis: Customer Base

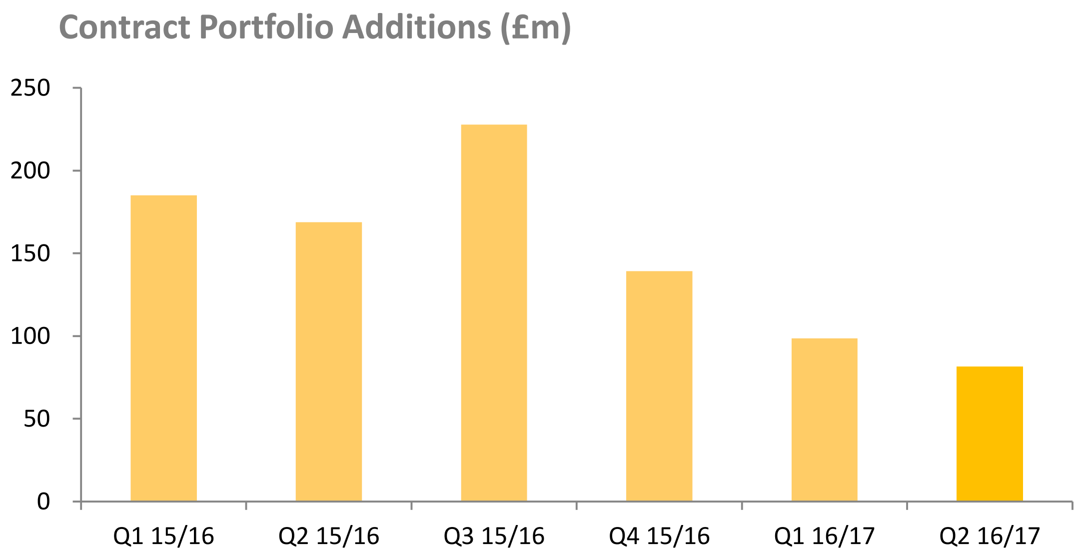


- 250,500 customers as at Sep-16 (Sep-15: 277,100)
- Customer additions impacted by tighter customer acceptance criteria
- CRG1* % of customer base increased from 50.7% at Sep-15 to 59.5% at Sep-16

*CRG: Customer Risk Grade based on assessment of customer risk - CRG1 being the lowest customer risk segment

KPI Analysis: Contract Portfolio

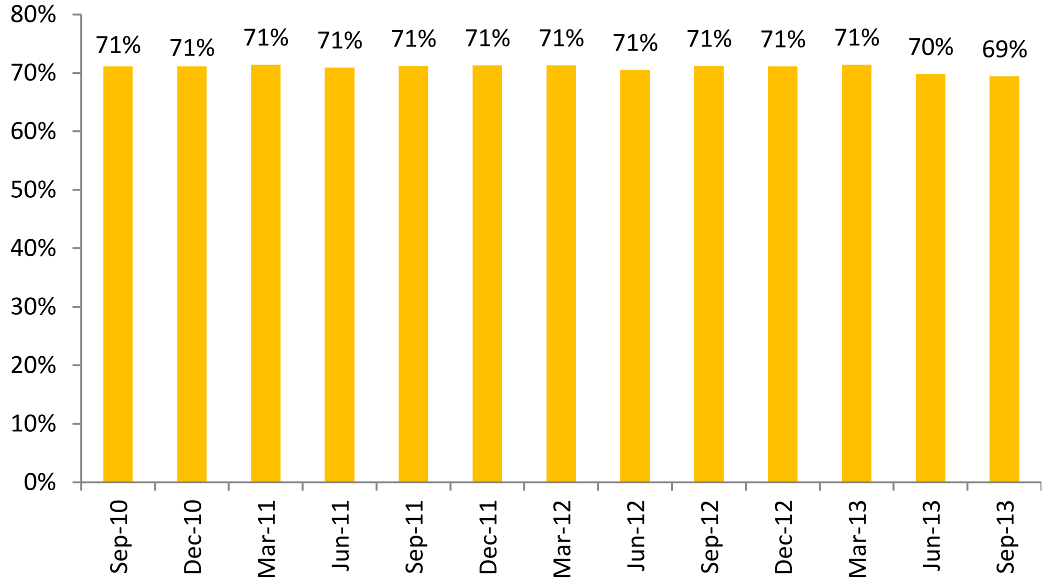




- Contract Portfolio: Aggregate of remaining payments under Hire Purchase agreements if they run to full term
- Contract Portfolio balance decreased 21.6% year-on-year to £439.3 million (Sep-15: £560.1 million)
- Sales impacted by tighter customer acceptance criteria
  - Other consumer behaviours remain consistent

KPI Analysis: Contract Portfolio Performance

Actual Contract Portfolio Collection %

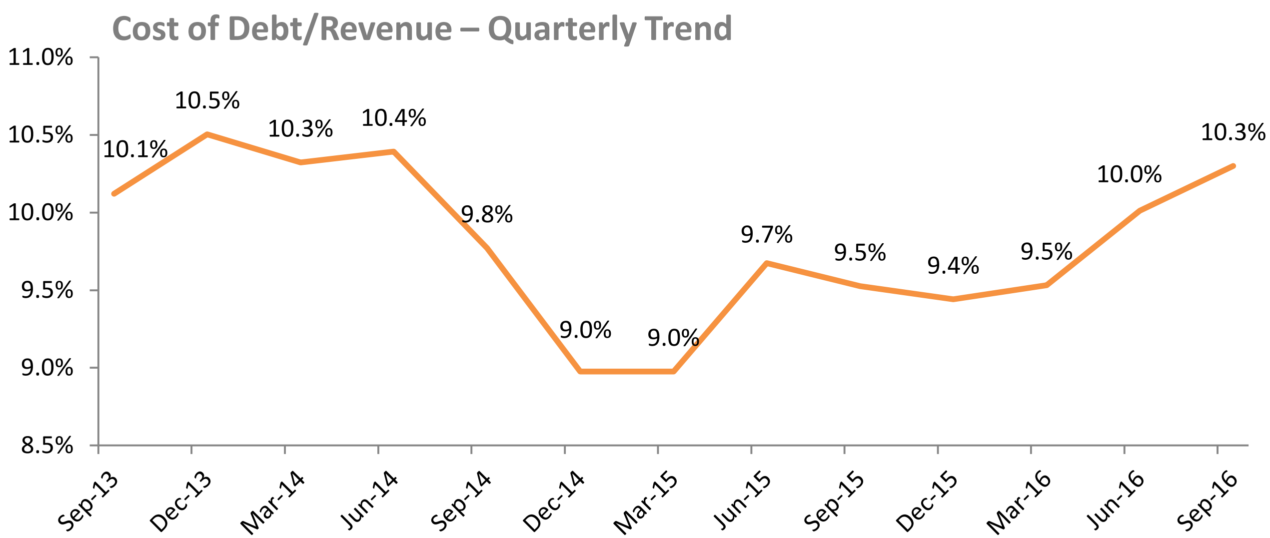


- 69.4% of the Sep-13 Contract Portfolio has been recovered in cash
- Excludes product recovery
- Contract Portfolio to rental assets ratio of 3.8x

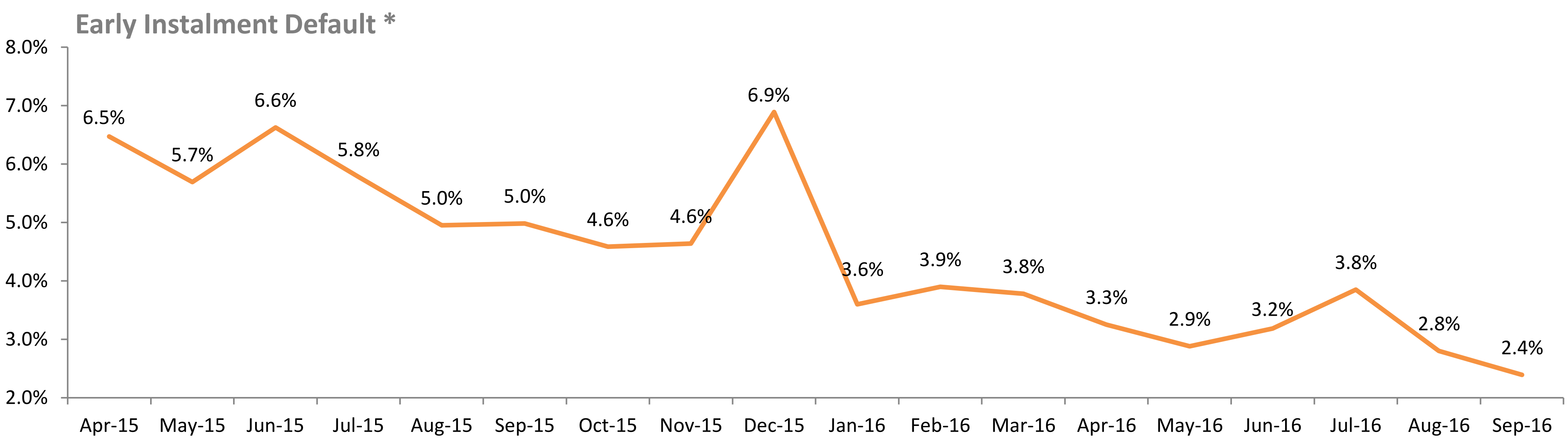
Contract Portfolio to Assets Ratio

£m	**Q2 16/17**	**Q2 15/16**
Contract Portfolio balance	439.3	560.1
NBV of Rental Assets	115.5	147.4
Ratio	**3.8**	**3.8**

KPI Analysis



- Cost of debt as a percentage of revenue at 10.3% in Q2 16/17 (Q2 15/16: 9.5%)
- Reflective of revenue fall since FY15/16 rather than underlying deterioration



*3 payments missed of first 5

Balance Sheet

£000	Q2 16/17	Q2 15/16
Non-current assets		
Property, plant and equipment	129,217	164,027
Intangible assets	90,879	86,117
Trade and other receivables	13,417	20,769
Deferred tax assets	6,456	7,058
	239,969	**277,971**
Current assets		
Inventories	18,791	17,464
Trade and other receivables	44,843	55,904
Cash and cash equivalents	75,287	28,474
	138,921	**101,842**
Total assets	**378,890**	**379,813**
Current liabilities		
Trade and other payables	52,820	60,177
Provisions	3,878	-
Current tax payable	1,022	1,762
	57,720	**61,939**
Non-current liabilities		
Financial liabilities	**253,158**	**248,877**
Total liabilities	**310,878**	**310,816**
Net assets	**68,012**	**68,997**

- PPE decreased from £164.0m to £129.2m
  - Rental assets under agreement decreased from £147.4m to £115.5m
- Cash balance of £75.3m
- Contract portfolio maintained off-balance sheet
- Closed RCF facility as no facility drawing since Feb-15.

Cash Flow Performance

£m	Q2 16/17	Q2 15/16
Operating cash flow	17.5	20.6
Changes in working capital	7.3	(13.9)
Cash generated from operations	**24.8**	**6.7**
Tax paid	(0.6)	(0.0)
Net cash flow from operating activities	**24.3**	**6.7**
Net cash flow from investing activities	(4.1)	(4.4)
Net cash flow from pre-financing activities	**20.2**	**2.3**
Net cash flow from financing activities	(0.1)	(0.1)
Net increase in cash	**20.1**	**2.2**

- Strong operating cash flow with decreased purchase of rental assets of £15.9m due to lower customer additions (Q2 15/16: £27.9m)
- Improved working capital by £7.3m
- Net cash outflow from investing activities of £4.1m (Q2 15/16: £4.4m)
- Net cash flow pre-financing activities of £20.2m (Q2 15/16: £2.3m)

Strategic Update

Strategic Update

- Simplification & Automation
  - Implement automated income validation
  - Introduce technologies delivering expenditure aggregation
  - Trial alternative customer propositions

- E-Commerce
  - Successfully re-platformed website and core I.T. Architecture
  - Strengthened digital skills base
  - Fully transactional website to be launched in H1 17/18

- Evolving Operating Model
  - Migrated contact centre from Serco to WebHelp
  - Expanding range of payment options
  - Building plans to develop central underwriting capabilities

Summary

Summary

- Demanding regulatory environment impacting growth agenda
  - Stricter customer acceptance criteria and more intrusive sign up process
  - Continued material impact on year-on-year customer sign ups and Contract Portfolio

- Market demand remains significant, supply being constrained with increased barriers to market entry

- Strategic and tactical initiatives designed to provide platform for longer term growth

- FCA Authorisation process expected to conclude in Q4 16/17

Q & A