BrightHouse – Q2 2019/20 Results

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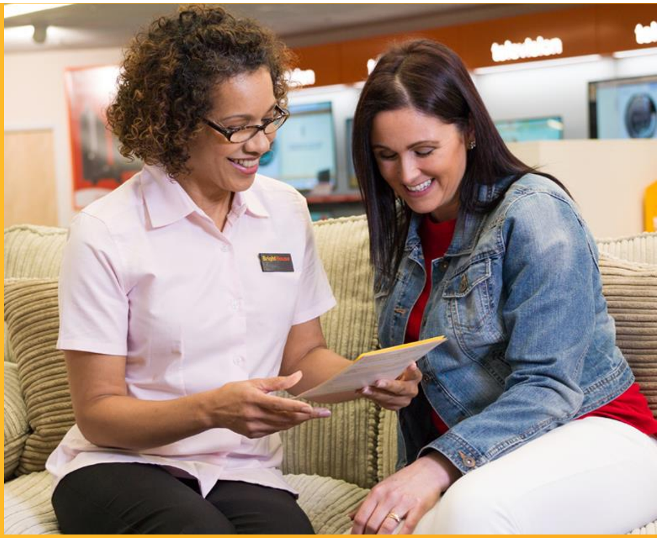
- **Anth Mooney – CEO**
- **Graeme Campbell – CFO**

BrightHouse

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Agenda

- Headlines
- Regulatory Update
- Financial Performance
- Summary

Headlines

Headlines

- Gross dues of £2.8m (Q2 2018/19: £4.7m), Net dues loss of £1.7m (Q2 2018/19: loss of £0.2m). RTO trading is down as we continue to operate in a tough trading environment and we seek to adjust our business model to the new regulatory landscape

- Cash loans success continued with 11,900 new loans issued during the quarter and a contract portfolio of £23.8m

- Cost of bad debt of £8.9m (Q2 2018/19: £8.9m) shows the recovery of cost of bad debt after the Q1 2019/20 results impacted by 30 store closures and the retail reorganisations in March 2019

- The business continues to benefit from management’s ongoing programme to reduce the cost to serve as operating expenses reduced by 11% to £29.3m for Q2 2019/20 compared to £32.9m for Q2 2018/19

- EBITDA loss for the quarter of £3.2m (Q2 2018/19: loss of £1.0m)

- We have increased the affordability provision by £5.6m as a result of an increase in the number of complaints received and we have disclosed a contingent liability in respect of our affordability provision

Regulatory Update

Regulatory Update

- FCA's High-cost Credit Review has driven product prices 8-10% lower than March 2019 due to the implementation of the cap and a shift in our competitive position

- The volume of complaints received have been higher than we forecasted and therefore our provision for affordability claims has increased by £5.6m to £12.6m

- We are in the process of disputing recent cases where the Financial Ombudsman Service has given initial adjudicator views against us in terms of our historical product prices and our affordability assessments

- If these test cases were formally upheld by the Ombudsman there would be a material increase in the cost for settling such cases. Whilst it is not possible to quantify the aggregated increased cost of such a situation, we have disclosed a contingent liability in the Q2 2019/20 accounts in relation to the effect that these outcomes might have on our provision

Financial Performance

Q2 2019/20 Financial Results

- RTO gross dues of £2.8m (Q2 2018/19: £4.7m)
  - New customer RTO gross dues of £0.7m (Q2 2018/19: £1.2m) and existing customer gross dues of £2.2m (Q2 2018/19: £3.5m). We continue to operate in a tough trading environment as we seek to adjust our business model to the new regulatory landscape
  - Web only gross dues have increased 79% to £382k (Q2 2018/19: £214k)
  - Closing dues base of £20.9m at 28 September 2019 (29 September 2018: £25.2m)

- 11,900 cash loans issued during the quarter to existing customers in the trial, which equates to £9.2m of cash lent
  - Contract portfolio of £23.8m at 28 September 2019
  - Debt performance, although still immature, has been in line with management's expectations
  - Trial successfully completed. Plans are being prepared for full roll out in 2020

- The business continues to benefit from management's ongoing programme to reduce the cost to serve as operating expenses reduced by 11% to £29.3m for Q2 2019/20 compared to £32.9m for Q2 2018/19

- EBITdA loss (pre-exceptionals) of £3.2m (Q2 2018/19: loss of £1.0m)

- RTO contract portfolio balance decreased by 23.5% to £283.9m at 28 September 2019 (29 September 2018: £370.9m)

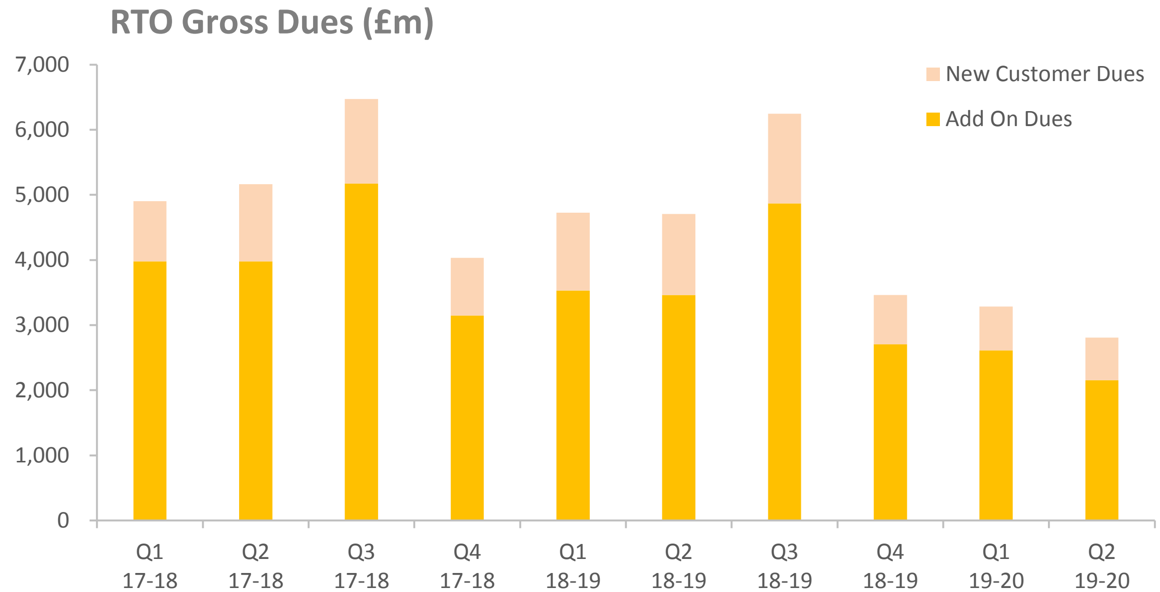
- As at 28 September 2019, we had drawn down £20.8m of the £35m facility from the revolving credit facility (RCF) with Greensill and had a covenant ratio of 1.10 which was above the requirement of 1.00.

Financial Performance

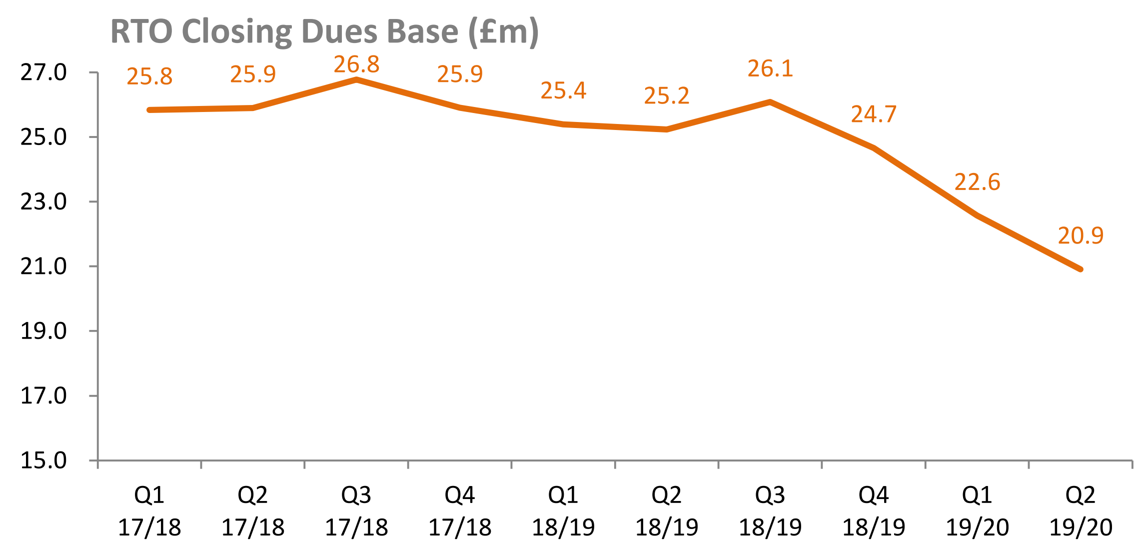
£m	Q2 2019/20	Q2 2018/19	%
Revenue	60.3	67.5	(10.6%)
Cost of sales	(34.2)	(35.6)	3.9%
Cost of debt (within cost of sales)	*8.9*	*8.9*	*0.2%*
Gross Profit	**26.1**	**31.9**	(18.1%)
Gross Profit Margin %	*43.3%*	*47.2%*	
Operating expenses	(29.3)	(32.9)	10.7%
EBITdA (pre-exceptionals)	**(3.2)**	**(1.0)**	
EBITdA Margin %	*-5.4%*	*-1.5%*	
Depreciation and amortisation	(5.9)	(3.4)	(73.0%)
IFRS 16 Leases adjustment	3.4	-	
Net finance expenses	(4.3)	(2.7)	(58.3%)
Exceptional items	(6.2)	(4.6)	(20.9%)
Loss before tax	**(16.2)**	**(11.7)**	(33.1%)
Tax charge	(0.1)	(0.2)	48.6%
Loss after tax	**(16.3)**	**(11.9)**	(31.9%)

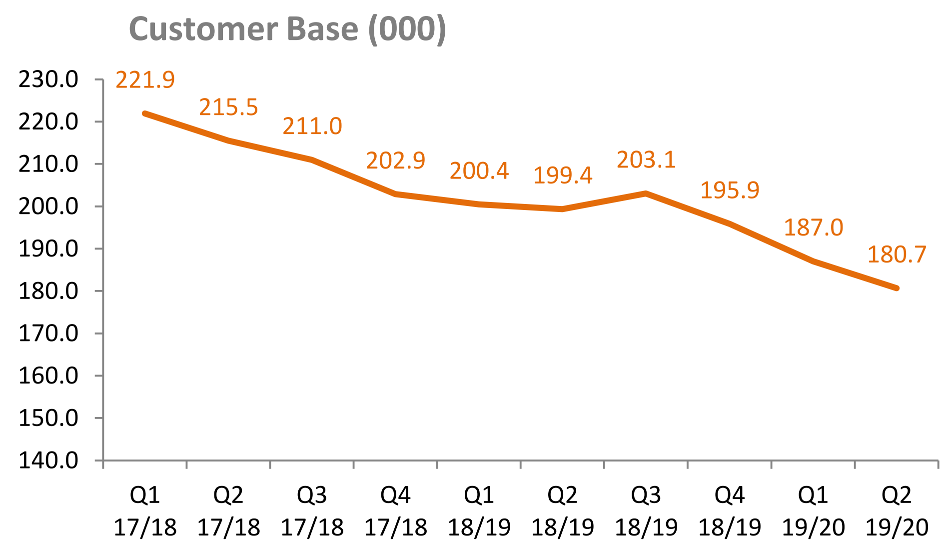
- Revenue down 10.6% to £60.3m (Q2 2018/19: £67.5m)
  - Lower opening dues base of £22.6m (1 July 2018: £25.4m)
  - RTO gross dues of £2.8m (Q2 2018/19: £4.7m)
- Gross profit of £26.1m (Q2 2018/19: £31.9m)
  - Gross profit margin of 43.3% (Q2 2018/19: 47.2%) driven by lower installation margins achieved as a result of the FCA's High-cost Credit Review and higher cost of bad debt; offset by lower idle asset depreciation
- Operating expenses (pre-exceptional) of £29.3m (Q2 2018/19: £32.9m)
  - Impact of ongoing cost reduction programme and effectiveness of our property strategy
- IFRS16 adjustments resulted in £2.8m increase in depreciation, £0.7m increase in interest costs, offset by a £3.4m reduction in operating costs
  - Depreciation and amortisation (excluding IFRS16) of £3.2m (Q2 2018/19: £3.4m)
  - Net finance expenses (excluding IFRS16) of £3.6m (Q2 2018/19: £2.7m) arising from facility fees and interest cost of Greensill RCF
- Exceptional items include £5.6m increase to the affordability claims provision

KPI Analysis: RTO Dues and Customer Base

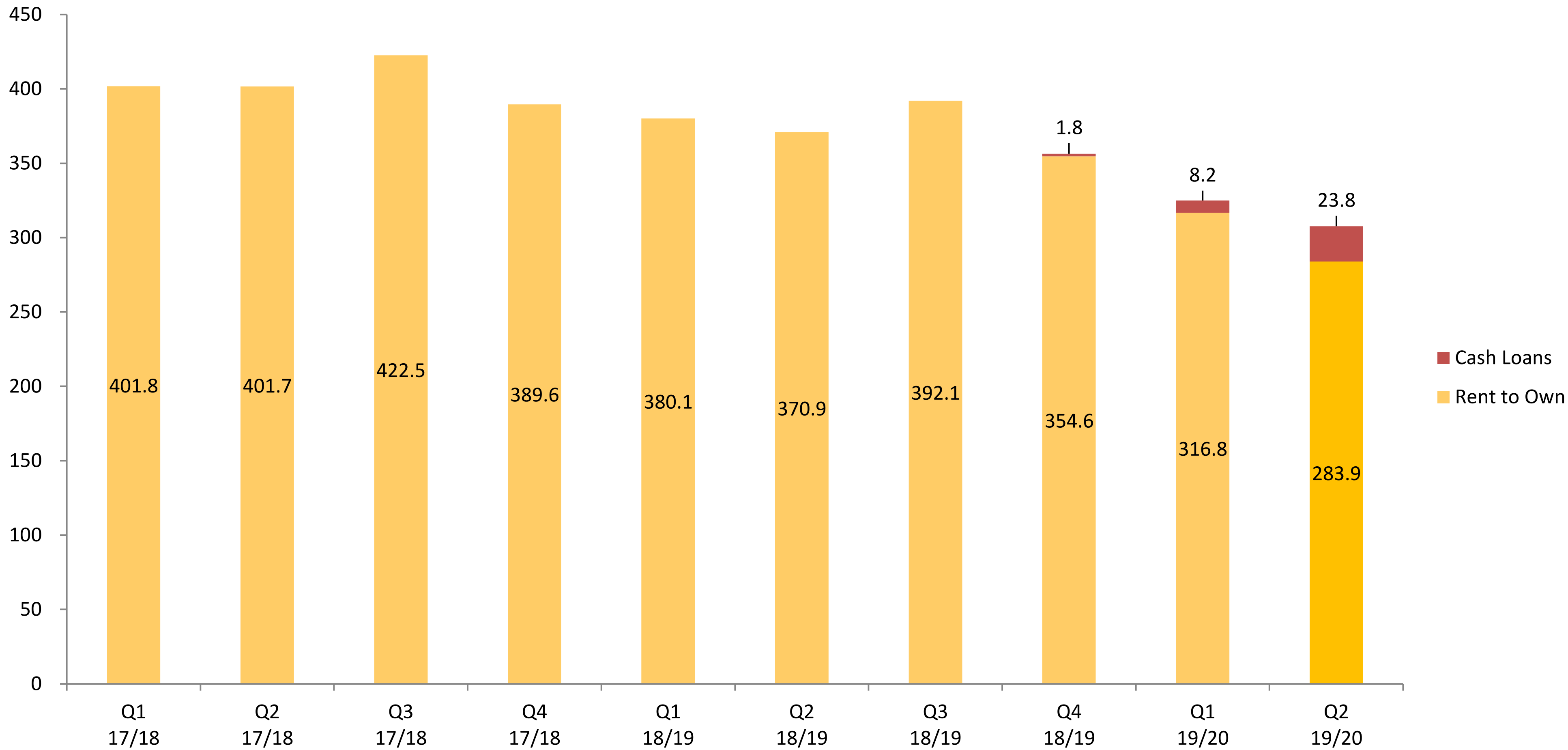


- Gross dues were £2.8m (Q2 2018/19: £4.7m). Part of the decrease was expected due to the March closure of the 30 loss making stores
- New customer gross dues were £0.7m (Q2 2018/19: £1.2m) and add on gross dues were £2.2m (Q2 2018/19: £3.5m)
- Web only gross dues were £382k (Q2 2018/19: £214k)
  - Customers signing up fully online increased to 2,900 (Q2 2018/19: 2,200)



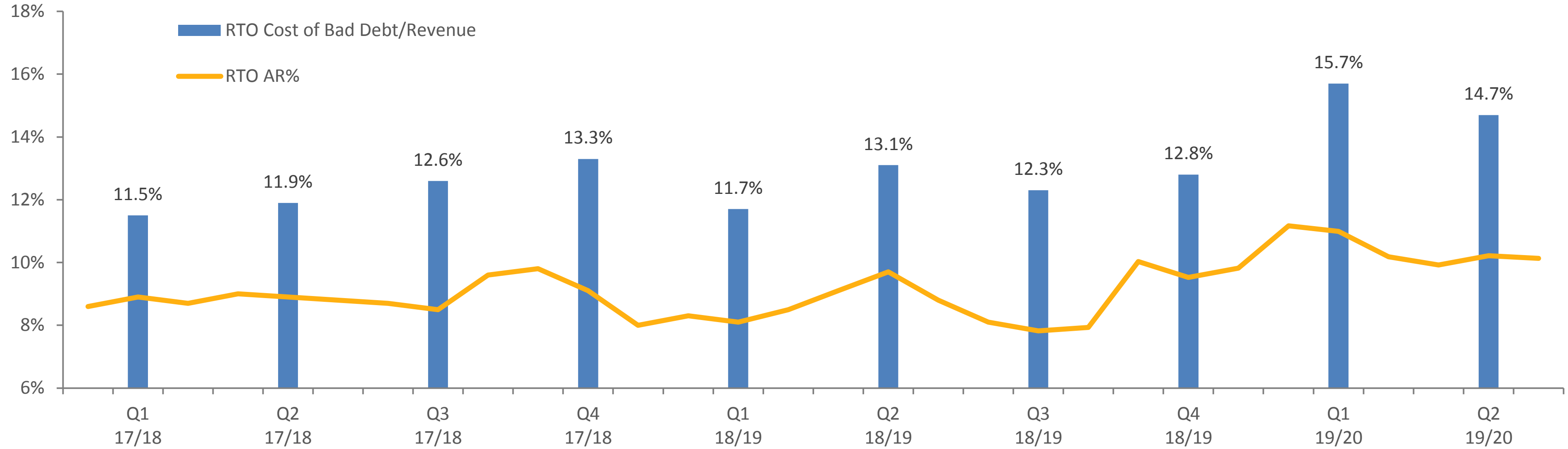


KPI Analysis: Contract Portfolio



- The combined contract portfolio is £307.7m (Q2 2018/19: £370.9m) as a result of the fall in RTO gross dues in the period

KPI Analysis: RTO Cost of Bad Debt



- RTO cost of bad debt as a percentage of revenue at 14.7% in Q2 2019/20 (Q2 2018/19: 13.1%)
- AR% is defined as the total value of outstanding dues up to 90 days in arrears divided by average total dues base for the period
- The AR% trend shows that during the period our debt performance has continued to improve and we are closing the gap on the prior year

Cash Flow Performance

£m	Q2 2019/20	Q2 2018/19
Operating cash flow pre working capital	1.7	(2.9)
Changes in working capital	(3.6)	(2.0)
Cash used in operations	**(1.9)**	**(4.9)**
Tax paid	0.2	(0.3)
Net cash flow from operating activities	**(1.7)**	**(5.2)**
Net cash flow from investing activities	(1.1)	(2.1)
Net cash flow from pre-financing activities	**(2.8)**	**(7.3)**
Net cash flow from financing activities	1.6	0.1
Net decrease in cash	**(1.2)**	**(7.2)**

- Cash used in operations impacted by:
  - Reduced earnings due to lower dues base
  - Rental asset purchases of £17.3m (Q2 2018/19: £27.0m)
  - Working capital outflow reflecting shorter credit terms from key suppliers
- Net cash outflow from investing activities of £1.1m (Q2 2018/19: £2.1m)
  - Lower purchases of PPE and software development
- Net cash inflow from financing activities of £1.6m in relation to the RCF draw downs

Balance Sheet

£m	Q2 2019/20	Q2 2018/19
Non-current assets		
Property, plant and equipment	85.4	104.5
Leased assets	21.1	-
Intangible assets	13.1	17.8
Trade and other receivables	7.7	11.0
Deferred tax assets	13.7	13.8
	141.0	**147.1**
Current assets		
Inventories	9.0	16.4
Trade and other receivables	45.1	43.5
Cash and cash equivalents	14.1	15.4
Current tax receivable	0.4	-
	68.6	**75.3**
Total assets	**209.6**	**222.4**
Current liabilities		
Trade and other payables	20.2	41.1
Lease liabilities	2.3	-
Financial liabilities	20.3	0.1
Provisions	21.3	12.9
Current tax payable	0.4	0.5
	64.5	**54.6**
Non-current liabilities		
Financial liabilities	128.9	118.1
Lease liabilities	27.3	-
	156.2	**118.1**
Total liabilities	**220.7**	**172.7**
Net (liabilities) / assets	**(11.1)**	**49.7**

- Implementation of IFRS16 has caused changes to the balance sheet
  - Property, plant and equipment increased by leased assets of £21.1m
  - Current liabilities and non-current liabilities include liabilities of £29.6m
- PPE (excluding leased assets) decreased from £104.5m to £85.4m
  - Rental assets under agreement decreased from £97.8m to £79.6m in line with the reduction of contract portfolio
- Inventories decreased from £16.4m to £9.0m
  - Reduced intake in line with lower sales
- Cash balance of £14.1m (29 September 2018: £15.4m)
- Trade and other payables decreased from £41.1m to £20.2m
  - Shorter credit terms from key suppliers
- Financial liability of £20.3m is the partial drawdown of the £35m RCF established in September 2018
  - RCF covenant at 28 September 2019 was 1.10 (minimum required is 1.00)
- During the period we entered a net liability position. This position would improve if the RTO contract portfolio was recognised on the balance sheet

Summary

Summary

- Trading
  - Balancing volume and margin in a tough trading environment
  - Continued tight control on costs

- Regulatory environment
  - FCA’s High-cost Credit Review now fully embedded as BAU
  - Increase in flow of historical affordability claims

- Strategy
  - Ongoing discussions with board on future strategy and business model
  - Focus on utilising core competencies on advancing credit whilst stripping out cost and complexity