BrightHouse – Q3 16/17 Results
23 February 2017

- 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 Quarterly Report for the thirty-nine weeks ended 31 December 2016.

Agenda

- Q3 16/17 Summary
- Regulatory Update
- Q3 16/17 Financial Results
- Strategic Update
- Summary
- Q & A

Q3 16/17 Summary

- Regulatory requirements continue to materially impact customer additions
- EBITDA (pre-exceptionals) of £1.7m (Q3 15/16: £14.3m)
- Run rate of customer sign ups improved in Q3 as simplification initiatives introduced
- Delivery of strategic plans remain on track
- FCA authorisation process approaching conclusion

Regulatory Update

Regulatory Update

- Open and constructive dialogue with the FCA continues
- Phase 1: Implementation of short term risk mitigation measures
  - Complete
- Phase 2: Development and delivery of credible plans to embed revised affordability and collections policies and procedures
  - Complete
- Phase 3: Skilled Person review and testing
  - 200 customer files reviewed
- FCA Authorisation process expected to conclude in Q4 16/17 or shortly thereafter

Financial Performance

Q3 16/17 Financial Results

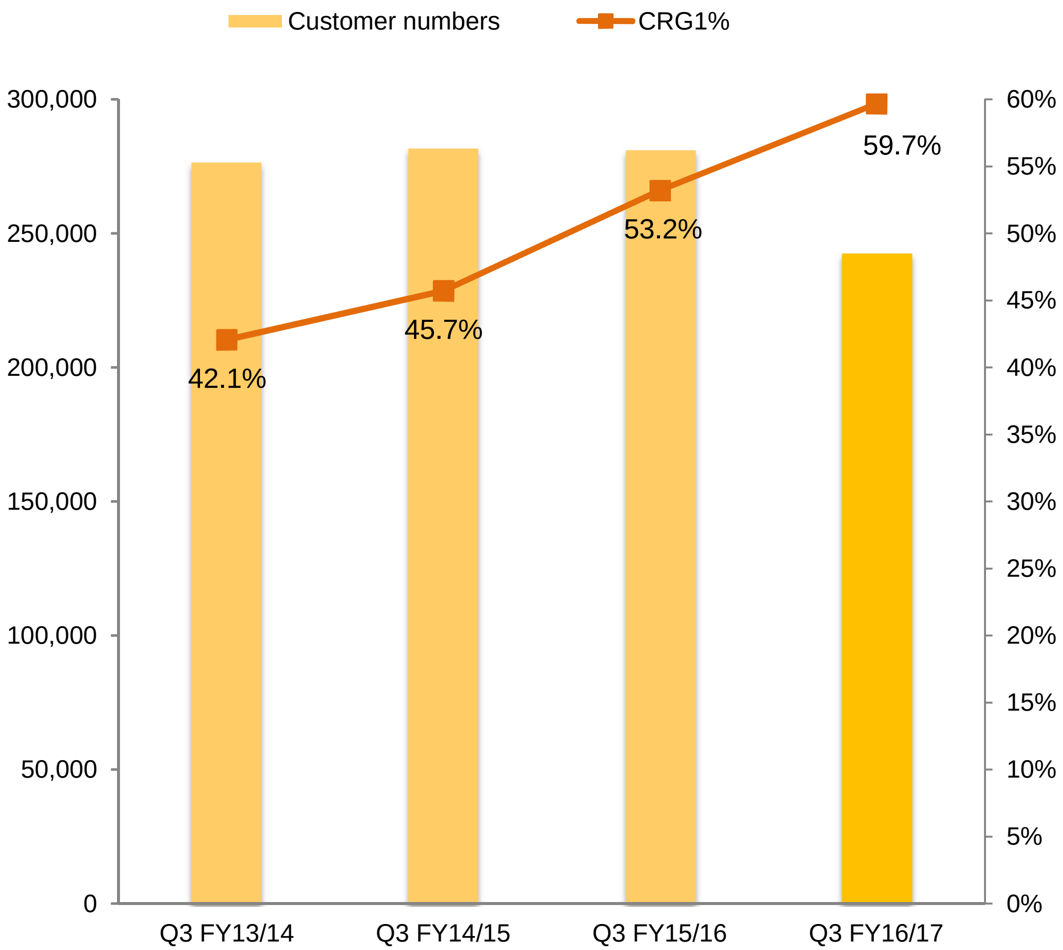
- Revenue down 18.6% to £76.2m (Q3 15/16: £93.5m)
- EBITDA (pre-exceptionals) of £1.7m (Q3 15/16: £14.3m)
- Contract portfolio of £438.1m (Dec-15: £601.6m)
- Net cash flow pre-financing activities of £14.6m (Q3 15/16: £8.0m)

Financial performance

£m	Q3 16/17	Q3 15/16	%
Revenue	76.2	93.5	(18.6%)
Cost of sales	(36.5)	(43.1)	(15.4%)
Gross Profit	**39.7**	**50.4**	(21.2%)
Gross Profit Margin %	*52.1%*	*53.9%*	
Operating expenses	(38.0)	(36.1)	(5.4%)
EBITDA	**1.7**	**14.3**	(88.4%)
EBITDA Margin %	*2.2%*	*15.3%*	
Depreciation and amortisation	(3.2)	(3.1)	(2.5%)
Net finance expenses	(5.4)	(5.6)	3.5%
Exceptional costs	(0.2)	-	(100.0%)
(Loss) / Profit before tax	**(7.1)**	**5.6**	(226.1%)
Tax credit / (charge)	1.7	(1.2)	241.5%
(Loss) / Profit after tax	**(5.4)**	**4.4**	(221.8%)

- Q3 revenue down 18.6% year-on-year
  - Impact of tighter customer acceptance criteria
  - Temporary suspension of late fees charged to customers
- Gross profit of £39.7m for Q3 16/17 (Q3 15/16: £50.4m)
  - GP% of 52.1% (Q3 15/16: 53.9%)
  - Cost of sales partly determined by historic business volumes
  - Impact of ongoing price deflation
- Operating expenses of £38.0m for Q3 16/17 (Q3 15/16: £36.1m)
  - Additional compliance and quality assurance resource
  - Enlarged store base of 311 (Q3 15/16: 307)

KPI Analysis: Customer Base

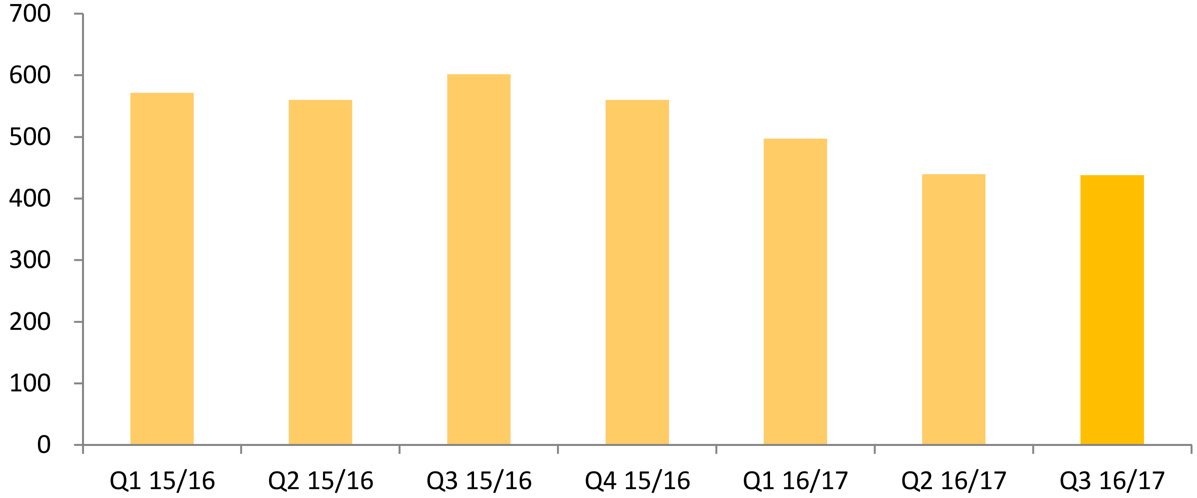


- 242,400 customers as at Dec-16 (Dec-15: 280,800)
- Customer additions impacted by tighter customer acceptance criteria
- CRG1* % of customer base increased from 53.2% at Dec-15 to 59.7% at Dec-16

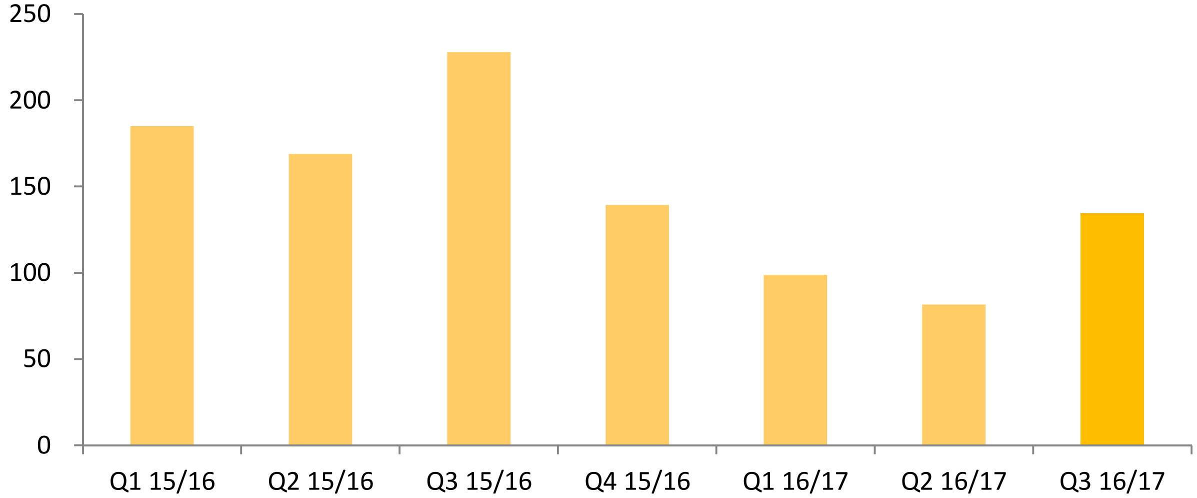
*CRG: Customer Risk Grade based on assessment of customer risk - CRG1 being the lowest customer risk segment

KPI Analysis: Contract Portfolio

Contract Portfolio Balance (£m)



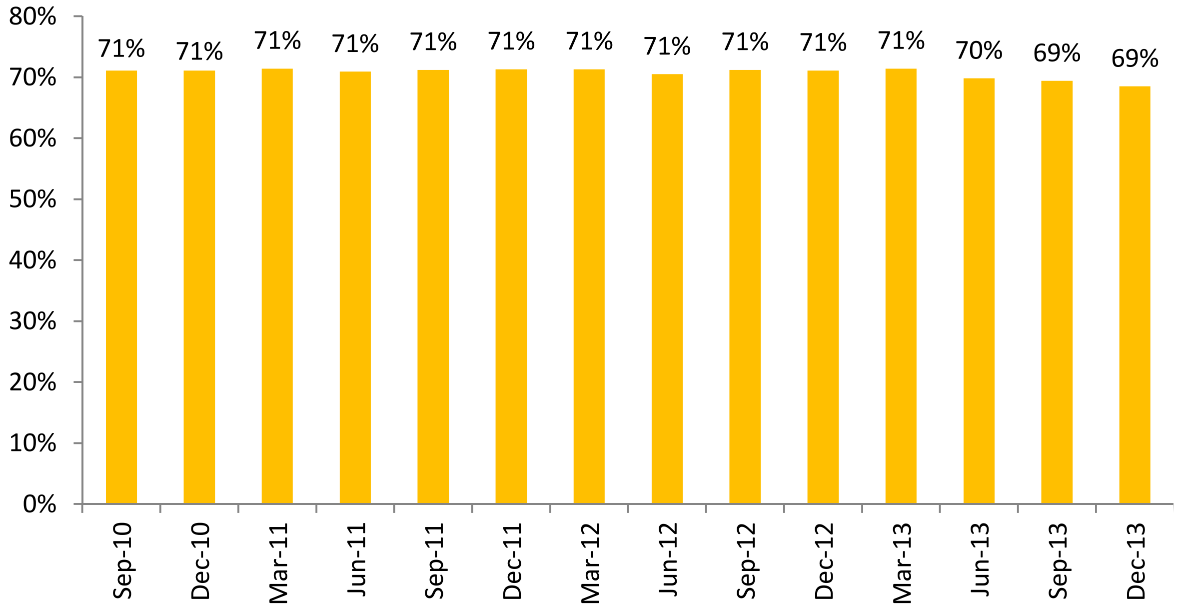
Contract Portfolio Additions (£m)



- Contract Portfolio: Aggregate of remaining payments under Hire Purchase agreements if they run to full term
- Contract Portfolio balance decreased 27.2% year-on-year to £438.1 million (Dec-15: £601.6 million)
- Sales impacted by tighter customer acceptance criteria
- Run rate of customer sign ups improved in Q3 as simplification initiatives introduced

KPI Analysis: Contract Portfolio Performance

Actual Contract Portfolio Collection %

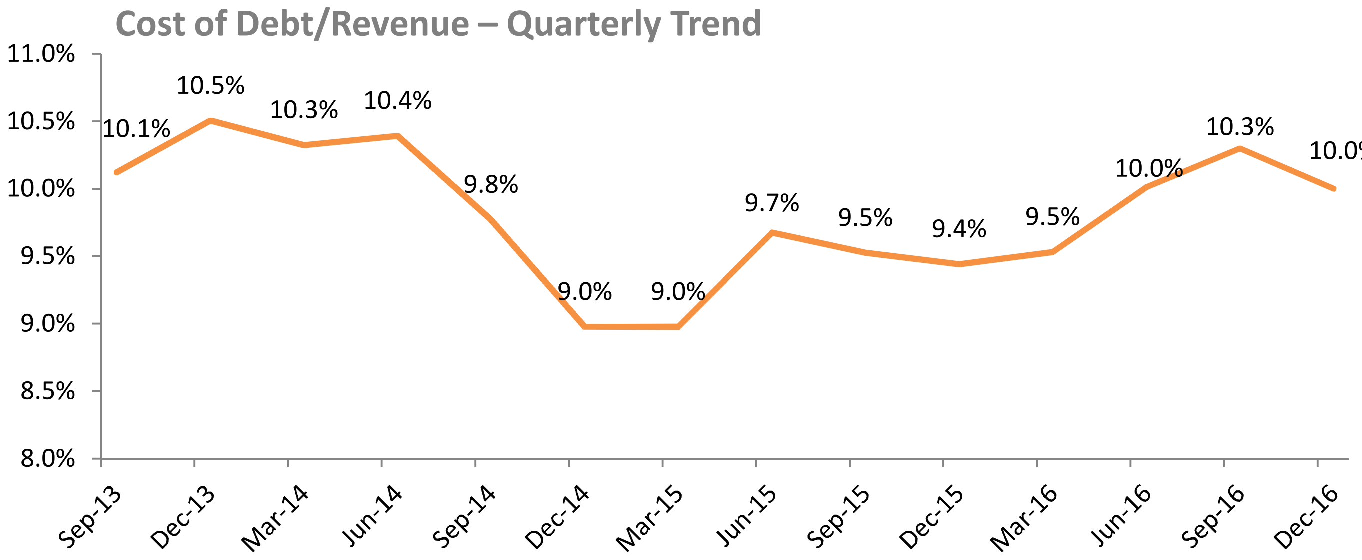


Contract Portfolio to Assets Ratio

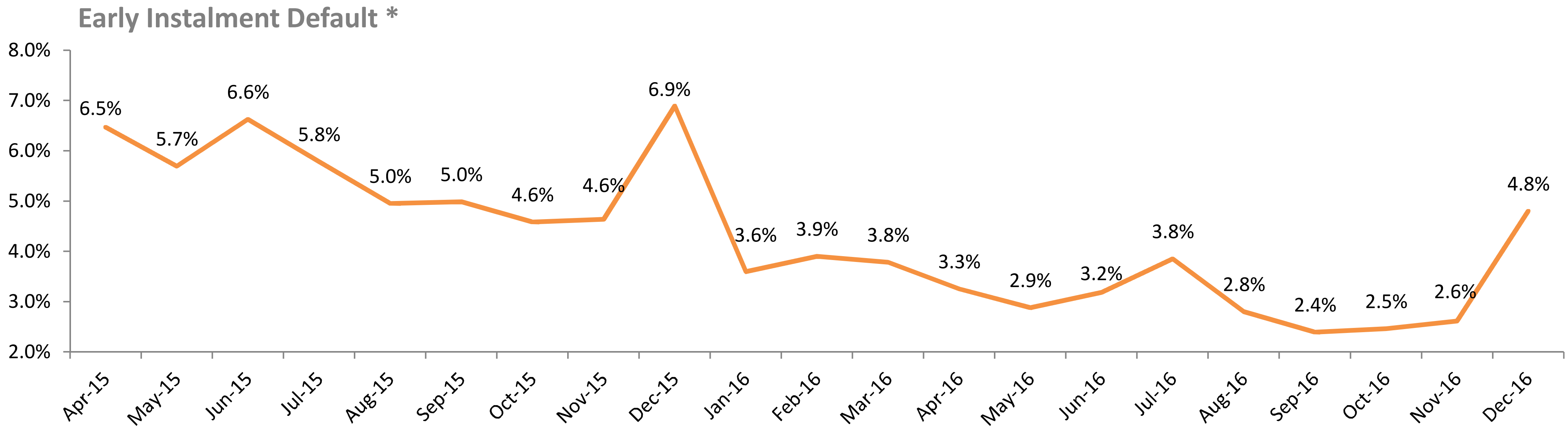
£m	Q3 16/17	Q3 15/16
Contract Portfolio balance	438.1	601.6
NBV of Rental Assets	115.9	157.9
Ratio	**3.8**	**3.8**

- 68.5% of the Dec-13 Contract Portfolio has been recovered in cash
- Excludes product recovery
- Contract Portfolio to rental assets ratio of 3.8x
- Independent forecasts predict cash collection of 75.3% of the Dec-16 contract portfolio

KPI Analysis



- Cost of debt as a percentage of revenue at 10.0% in Q3 16/17 (Q3 15/16: 9.4%)
- Improved credit quality of sign-ups reflected in lower year on year early default rates



*3 payments missed of first 5

Balance Sheet

£m	Q3 16/17	Q3 15/16
Non-current assets		
Property, plant and equipment	129.0	175.2
Intangible assets	91.6	85.4
Trade and other receivables	13.9	21.7
Deferred tax assets	8.0	6.9
	242.6	**289.1**
Current assets		
Inventories	16.3	22.3
Trade and other receivables	42.0	56.8
Cash and cash equivalents	81.3	27.7
	139.5	**106.8**
Total assets	**382.1**	**395.9**
Current liabilities		
Trade and other payables	59.3	70.2
Provisions	3.8	-
Current tax payable	2.1	2.4
	65.3	**72.6**
Non-current liabilities		
Financial liabilities	**254.2**	**249.9**
Total liabilities	**319.5**	**322.5**
Net assets	**62.7**	**73.4**

- PPE decreased from £175.2m to £129.0m
  - Rental assets under agreement decreased from £157.9m to £115.9m
- Investment in intangibles reflects upgrade of I.T. architecture, ERP implementation and delivery of e-commerce
- Reduction in trade and other receivables as lower sales impact on VAT debtor
- Cash balance of £81.3m (Dec-15: £27.7m)
- Contract portfolio maintained off-balance sheet

Cash Flow Performance

£m	Q3 16/17	Q3 15/16
Operating cash flow	1.1	3.7
Changes in working capital	15.6	7.6
Cash generated from operations	**16.7**	**11.3**
Tax reclaimed / (paid)	1.3	(0.4)
Net cash flow from operating activities	**17.9**	**10.9**
Net cash flow from investing activities	(3.3)	(2.9)
Net cash flow from pre-financing activities	**14.6**	**8.0**
Net cash flow from financing activities	(8.7)	(8.8)
Net increase / (decrease) in cash	**6.0**	**(0.8)**

- Operating cash flows impacted by:
  - Reduced earnings
  - Decrease in rental assets purchases (£29.6m vs Q3 15/16: £44.2m)
- Working capital release of £15.6m
  - Predominantly related to VAT debtor
- Net cash outflow from investing activities of £3.3m (Q3 15/16: £2.9m)
- Net cash flow pre-financing activities of £14.6m (Q3 15/16: £8.0m)

Strategic Update

Strategic Update

- Evolve proposition, recapturing revenue and margin
  - Drive further simplification and automation of sign up process
  - Enhance flexibility and choice with separate warranty cover
  - Enhance customer retention and service levels

- Develop customer sales and service channels
  - Fully transactional website to be launched in mid 2017
  - Resource and systems investment into central call centre

- Deliver a lower cost operating model
  - Rationalisation of store estate (29 store closures by end March 2017)
  - Realise headcount cost savings in 17/18

- The Group is assessing available options for addressing bond maturity and has retained Rothschild and Freshfields to assist

Summary

Summary

- Enhanced 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 or shortly thereafter

Q & A