

BrightHouse – Q1 16/17 Results

24 August 2016

- Leo McKee – Chief Executive Officer
- Alex Maby – Chief Financial Officer



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

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This presentation may contain forward-looking statements. These statements are based on management's current expectations or beliefs and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Although we believe that such forward-looking statements are reasonable, we cannot assure you that any forward-looking statements will prove to be correct. Such forward-looking statements are subject to a number of known and unknown risks, uncertainties and assumptions, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this presentation may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. Accordingly, investors are cautioned not to place undue reliance on the forward-looking statements.

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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 thirteen weeks ended 2 July 2016.

Agenda

- Q1 16/17 Highlights
- Q1 16/17 Financial Results
- Regulatory Update
- Summary
- Q & A

Q1 16/17 Highlights

- Regulatory requirements materially impacted Q1 customer additions
- FCA Authorisation process expected to conclude in Q4 16/17
- Driving focus toward simplification and automation of sign up process
- Strong operating cash flow of £25.3m (Q1 15/16: £19.1m)

Financial Performance

Q1 16/17 Financial Results

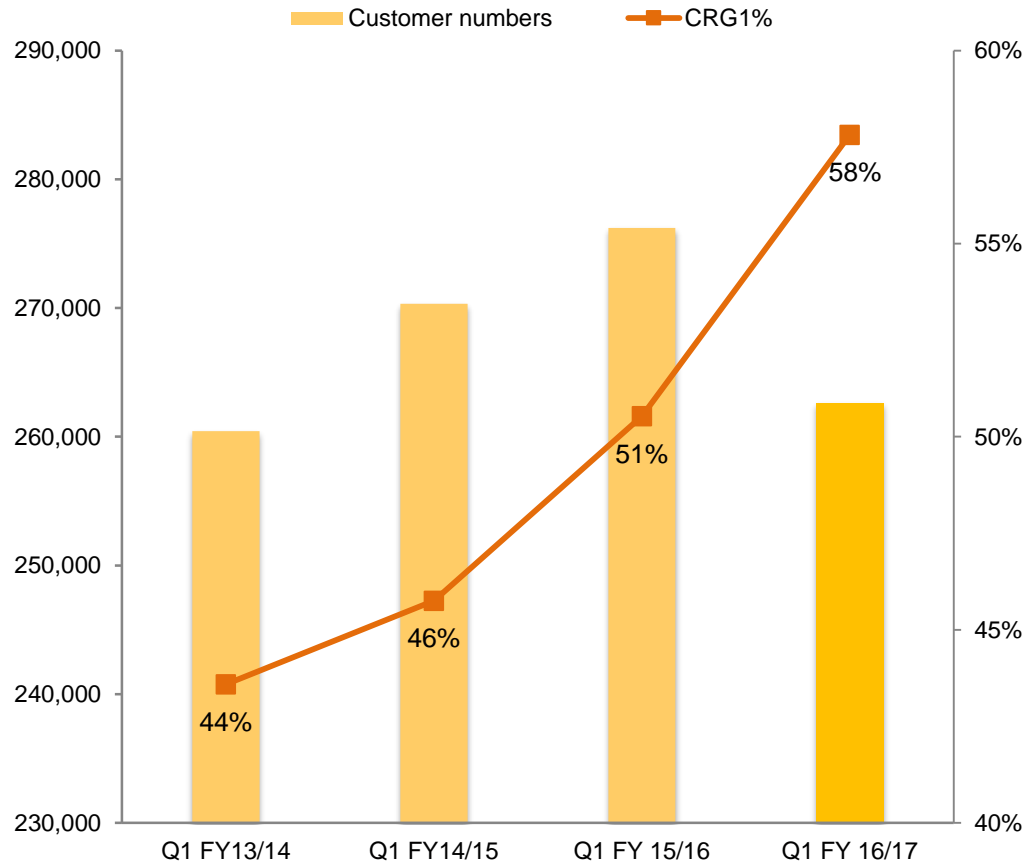
- Revenue up 1.7% to £91.7m (Q1 15/16: £90.2m)
- EBITDA (pre-exceptionals) of £7.4m (Q1 15/16: £11.3m)
- Contract portfolio of £497.3m (Jun-15: £571.5m)
- Net cash flow from operating activities of £25.3m (Q1 15/16: £19.1m)

Profit performance

£m	Q1 16/17	Q1 15/16	%
Revenue	91.7	90.2	1.7%
Gross Profit	47.0	49.5	(5.1%)
<i>Gross Profit Margin %</i>	51.2%	54.9%	
Operating expenses	(39.6)	(38.2)	(3.6%)
EBITDA	7.4	11.3	(34.5%)
<i>EBITDA Margin %</i>	8.0%	12.5%	
Depreciation and amortisation	(3.3)	(3.1)	(3.9%)
Net finance expenses	(5.5)	(5.6)	1.7%
Exceptional costs	(0.6)	-	(100%)
(Loss) / Profit before tax	(2.0)	2.6	(179.7%)
Tax credit / (charge)	0.1	(0.6)	122.6%
(Loss) / Profit after tax	(1.9)	2.0	(197.0%)

- Revenue up 1.7% year-on-year
- Gross profit of £47.0m for Q1 16/17 (Q1 15/16: £49.5m)
 - GP% of 51.2% (Q1 15/16: 54.9%)
 - Cost of sales partly determined by historic business volumes
 - Temporary suspension of late fees
- Operating expenses of £39.6m for Q1 16/17 (Q1 15/16: £38.2m)
 - Additional compliance and quality assurance resource
 - Enlarged store base of 312 (Q1 15/16: 303)

KPI Analysis: Customer Base

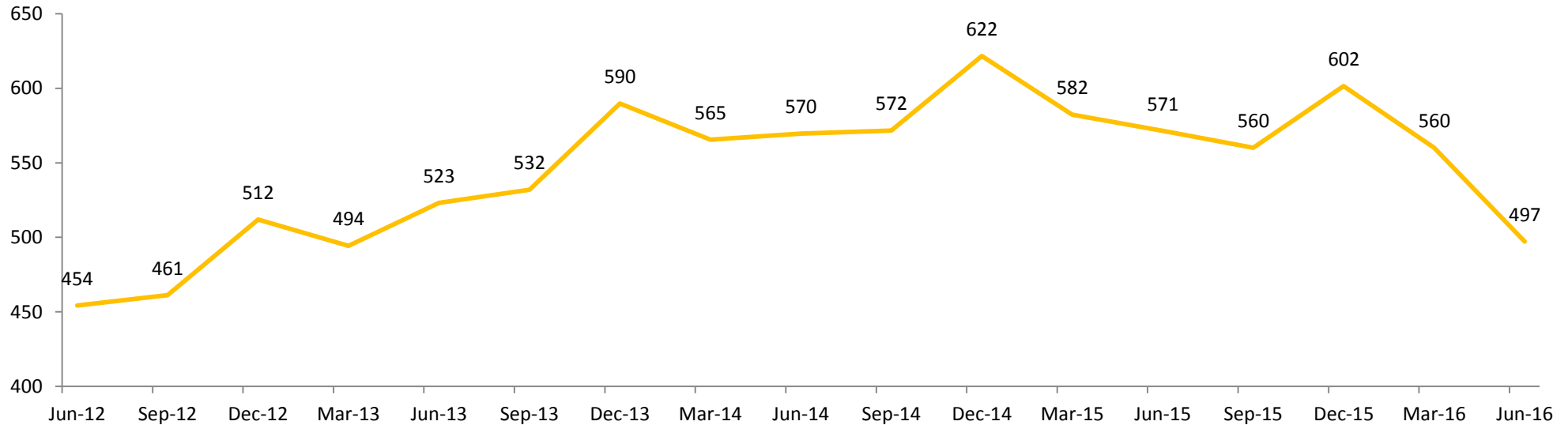


- 262,600 customers as at Jun-16 (Jun-15: 276,200)
- Customer additions impacted by tighter customer acceptance criteria
- CRG1* % of customer base increased from 50.5% at Jun-15 to 57.8% at Jun-16

*CRG: Customer Risk Grade based on assessment of customer creditworthiness - CRG1 being the most creditworthy

KPI Analysis: Contract Portfolio

Contract Portfolio Balance (£m)



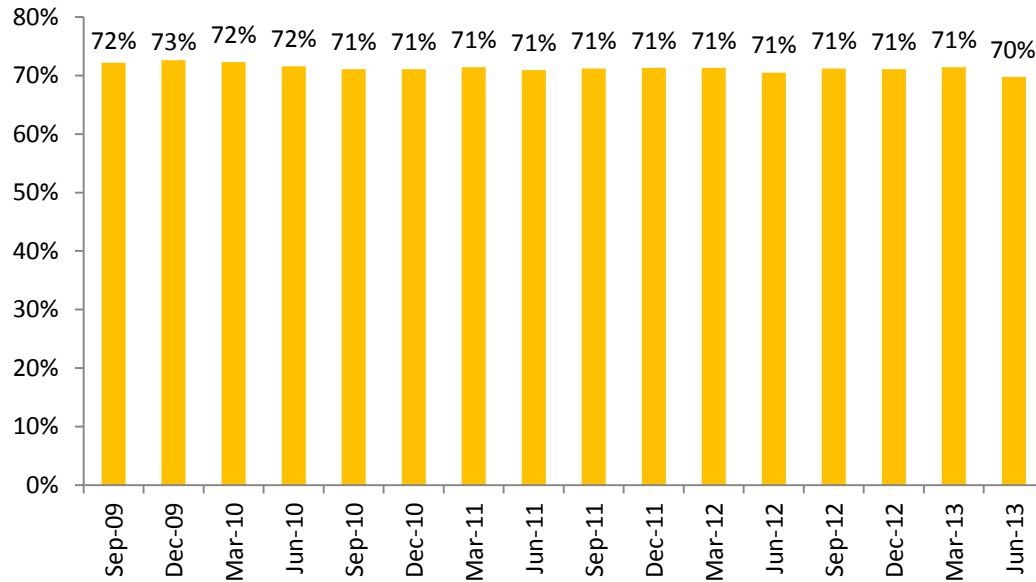
Contract Portfolio

£m	Q1 16/17	Q1 15/16
Opening Contract Portfolio balance	560.1	582.4
Contract Portfolio decrease in the quarter	(62.8)	(10.9)
Closing Contract Portfolio balance	497.3	571.5
Contract Portfolio decrease % in the quarter	(11.2%)	(1.9%)

- Contract Portfolio: Aggregate of remaining payments under Hire Purchase agreements if they run to full term
- Contract Portfolio balance decreased 13.0% year-on-year to £497.3 million (Jun-15: £571.5 million)
 - Impact of tighter customer acceptance criteria

KPI Analysis: Contract Portfolio Performance

Actual Contract Portfolio Collection %



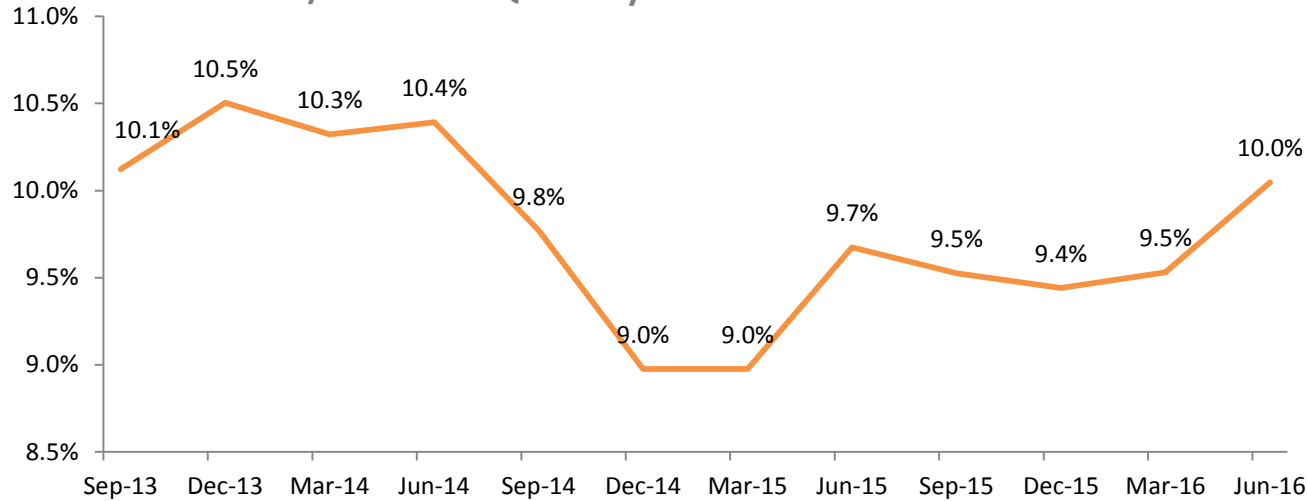
- 70% of the Jun-13 Contract Portfolio has been recovered in cash
- Excludes product recovery
- Independent forecasts indicate current cash collection rates to be 74.7%
- Contract Portfolio to rental assets ratio of 3.8x

Contract Portfolio to Assets Ratio

£m	Q1 16/17	Q1 15/16
Contract Portfolio balance	497.3	571.5
NBV of Rental Assets	131.0	153.8
Ratio	3.8	3.7

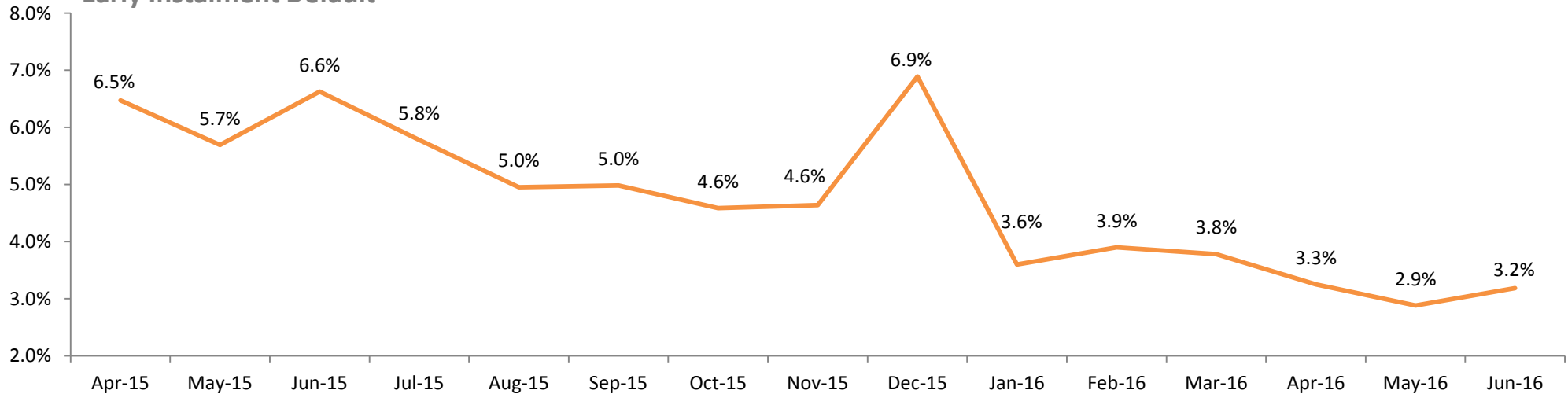
KPI Analysis

Cost of Debt/Revenue – Quarterly Trend



- Cost of debt as a percentage of revenue at 10.0% in Q1 16/17 (Q1 15/16: 9.7%)
- Reflective of revenue fall since Q3 & Q4 15/16 rather than underlying deterioration

Early Instalment Default *



*3 payments missed of first 5

Balance Sheet

£000	Q1 16/17	Q1 15/16
Non-current assets		
Property, plant and equipment	145,526	169,033
Intangible assets	89,269	86,225
Trade and other receivables	16,331	21,767
Deferred tax assets	5,905	7,454
	257,031	284,479
Current assets		
Inventories	20,488	20,281
Trade and other receivables	50,270	56,023
Cash and cash equivalents	55,191	26,297
	125,949	102,601
Total assets	382,980	387,080
Current liabilities		
Trade and other payables	51,497	73,746
Provisions	3,349	-
Current tax payable	1,473	937
	56,319	74,683
Non-current liabilities		
Financial liabilities	252,097	247,817
Total liabilities	308,416	322,500
Net assets	74,564	64,580

- PPE decreased from £169.0m to £145.5m
 - Assets under agreement decreased from £153.8m to £131.0m
- Cash balance of £55.2m
- Net asset position strengthened from £64.6m at Jun-15 to £74.6m at Jun-16
- Net debt to EBITDA of 3.35x (Q1 15/16: 3.53x)
- Closed RCF facility as no facility drawing since Feb-15.

Cash Flow Performance

£m	Q1 16/17	Q1 15/16
Operating cash flow	21.3	10.2
Changes in working capital	4.3	9.0
Cash generated from operations	25.6	19.2
Tax paid	(0.3)	(0.1)
Net cash flow from operating activities	25.3	19.1
Net cash flow from investing activities	(2.8)	(4.1)
Net cash flow from pre-financing activities	22.5	15.0
Net cash flow from financing activities	(8.7)	(8.8)
Net increase in cash	13.8	6.2

- Decreased hire purchase asset investment to £24.1m in Q1 16/17 (Q1 15/16: £34.8m)
- Improved working capital by £4.3m
- Net cash outflow from investing activities of £2.8m
- Net cash flow pre-financing activities of £22.5m

Regulatory Update

Regulatory Update

- FCA Authorisation process expected to conclude in Q4 16/17
- Operational plans agreed to meet threshold conditions
 - Affordability and collections:
 - Processes redesigned and retrained
 - QA monitoring resource in place. Strong evidence of adherence to process
 - Independent internal audit being undertaken to support findings
- Simplification to improve the sign up process and customer experience
 - Automated income validation
 - ONS data to support expenditure review
 - Development of technology and operational practices

Summary

Summary

- Demanding regulatory environment impacting growth agenda
 - Stricter customer acceptance criteria and more intrusive sign up process
 - Material impact on customer sign ups and Contract Portfolio
- Market size and demand remain unchanged
 - Increased barriers to market entry
- Strategic and tactical initiatives to provide stronger base for longer term growth
 - Simplification and automation
 - E-commerce
 - Operating model efficiencies

Q & A