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BrightHouse – Business Update

14 June 2017

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- Capitalised terms used but not defined herein have the meanings assigned to them in our Quarterly Report as of and for the thirty-nine weeks ended 31 December 2016.

Agenda

- Introduction
- Unaudited Preliminary FY 2016/17 Financial Results
- Current Trading
- Methodology Behind Outlook
- Dues Base
- Conclusion
- Appendix

Introduction

In this presentation we are seeking to:

- Provide the market with updates on our preliminary FY 2016/17 results and current trading
- Provide guidance on the financial metrics that underpin the expected outlook for the business
- Provide additional information to assist understanding of the business outlook

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Unaudited Preliminary FY 2016/17 Financial Results

FINANCIAL SUMMARY	FY 2015/16	FY 2016/17
Profit & Loss (£m)		
Revenue	370.7	320.1
Gross Profit	199.2	162.5
EBITDA (pre-exceptional)	56.0	11.7
Exceptional Items	(3.3)	(87.2)
Cash Position (£m)		
Operating Cash flow	55.5	69.0
Capex	(16.6)	(15.1)
Year End Cash Balance	41.4	77.8
Of which restricted[1]	10.0	6.0
KPIs		
Contract Portfolio (£m)	560.1	403.8
Expected Cash Conversion	72.7%	73.8%
Store Numbers	312	283
Gross Dues (£m)	25.8	14.8
Dues Base (£m)	33.2	26.6
Customer Base (000's)	276.2	232.0

Notes:
1. Predominantly related to cash held at Maltese Insurance Subsidiaries

- Lower levels of sign-ups have impacted revenue
- Gross profit margin of 50.8% (FY 2015/16: 53.7%) due to absence of late fees and related impact on customer payment behaviour, increasing cost of bad debt
- Operating cash flow of £69.0m (FY 2015/16: £55.5m) driving a year-end cash balance of £77.8m
- Exceptional items FY 2016/17 include an expected £75m goodwill impairment

Current Trading

- Revenue to the end of May 2017 was £45.7m, £0.9m behind plan primarily due to the absence of £1.1m of budgeted late fees

- YTD up to the end of May 2017 pre-exceptional EBITDA was (£0.1m), behind plan by approximately £1.4m. This was principally due to a £2.2m shortfall attributable to the absence of late fees and the related issue of higher cost of bad debt

- FY 2017/18 business plan assumed late fees reintroduced from the start of April, contributing £6.5m of revenue and EBITDA over the full year
  - Discussions with the FCA about the reintroduction of late fees are ongoing. While we expect them to be reinstated later this year, there is no confirmed date for this
  - In addition, absence of late fees is adversely affecting customer payment behaviour

Methodology Behind Outlook

- Following the changes in affordability process, the profile of new and terminating contracts has altered which will impact the Income Statement over the next two years
- This presentation explains the effect of the above on the Dues Base, which determines the collectable revenue, and provides another more detailed level of business metrics to assist the market in considering the expected outlook for the business
- Detailed financial metrics and additional information is included in the appendix to further assist in the understanding of the business outlook for the years to FY 2021/22

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Dues Base

- The Dues Base is a metric that is helpful to explain the changes in revenue
- The Dues Base provides the projected monthly collectable revenue[1] at a given point in time
  - The collectable revenue for the entire year can be approximated by multiplying the average of the opening and closing Dues Base for the year by twelve[2]
- After a period of growth in the Dues Base from FY 2013/14 to FY 2015/16, the Dues Base reduced by £6.6m in FY 2016/17
- An increased level of Gross Dues from new contract sign-ups is required to offset terminations and result in positive Net Dues

Dues Base builds up over time as Gross Dues are required to increase before they can offset contract terminations

Expected Dues Base evolution

y/e 31-Mar, £m	Mar-14A	Mar-15A	Mar-16A	Mar-17A	Mar-18P	Mar-19P	Mar-20P	Mar-21P	Mar-22P
Over a 12 month period									
Gross Dues (new agreements)	25.2	25.7	25.8	14.8	19.3	22.2	23.0	23.8	24.7
Terminations	(22.1)	(22.7)	(24.5)	(21.4)	(20.9)	(20.6)	(20.5)	(22.6)	(23.7)
Net Dues (movement)	**3.1**	**3.0**	**1.3**	**(6.6)**	**(1.5)**	**1.6**	**2.5**	**1.1**	**1.0**
As at year end									
Opening Dues Base	**25.8**	**28.9**	**31.9**	**33.2**	**26.3[3]**	**24.8**	**26.4**	**28.8**	**30.0**
Net Dues (movement)	**3.1**	**3.0**	**1.3**	**(6.6)**	**(1.5)**	**1.6**	**2.5**	**1.1**	**1.0**
Closing Dues Base	**28.9**	**31.9**	**33.2**	**26.6[3]**	**24.8**	**26.4**	**28.8**	**30.0**	**31.0**
Contract portfolio at y/e	**565.5**	**582.4**	**560.1**	**403.8**	**381.0**	**410.9**	**430.3**	**435.5**	**465.0**
Implied agreement term (months)	**19.6**	**18.3**	**16.9**	**15.2**	**15.4**	**15.6**	**14.9**	**14.5**	**15.0**

Key definitions

Gross Dues: The projected monthly payments from new agreements signed in the year

Terminations: The decrease in collectable monthly payments arising from contracts that have been terminated early or have run to the contractual term

Net Dues: The increase / (decrease) in collectable monthly payments driven by the new agreements signed and terminations of existing agreements within the period

Dues Base: The projected monthly collectable income at a given point in time. Annual collectable revenue is approximated by taking the average of opening and closing Dues Base multiplied by twelve

Contract portfolio: The aggregate amount of remaining payments due under our hire purchase agreements on a given date through the term of the relevant contracts in effect on such date, assuming that all contracts are paid in full and not terminated prior to maturity

Notes:
1. Collectable revenues are adjusted for the P&L item "VAT, discounts and other revenues" to calculate reported total revenues
2. Each month is 4.333 weeks for the purposes of this calculation
3. FY 2017/18 opening Dues Base as per business plan

Conclusion

- Unaudited preliminary pre-exceptional EBITDA for FY 2016/17 of £11.7m, due to lower sign-ups driving a lower Dues Base, which is impacting revenue

- Current year EBITDA behind plan by c. £1.4m, caused principally by a £2.2m shortfall from the delay in the reintroduction of late fees and the higher cost of bad debt. New business from sign-ups in stores is in line with the plan

- The Company has provided assumptions and financial metrics to reflect the expected earnings and cash flow to assist in the understanding of the business outlook for the years to FY 2021/22

- An increase in Gross Dues from contract sign-ups is required to offset terminations and achieve positive Net Dues

- We continue to work with the FCA on the reintroduction of late fees, the recommencement of lending to temporarily excluded customer segments, and our affordability action plan

Appendix

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Information Statement: Financial Metrics

Line items	FY 2016/17 unaudited preliminary results	FY 2017/18 – FY 2021/22
P&L items		
VAT, discounts and other revenues	Collectable revenues reduced by c. 10.8% to approximate total revenue	Collectable revenues reduced by c. 8% p.a. to approximate total revenue *- Other revenues includes £6.5m income from late fees in FY 2017/18 which are not yet reintroduced*
Gross profit margin	c. 50.8% of total revenue	c. 50.5% in FY 2017/18, 50.4% in FY 2018/19, 51.3% in FY 2019/20, 51.8% p.a. in FY 2020/21 and FY 2021/22 of total revenue
Opex (pre-exceptional)	c. £163.7m	Decrease of c. 5.2% in FY 2017/18, decrease of c. 3.3% in FY 2018/19, flat in FY 2019/20, decrease of 0.3% in FY 2020/21 and increase of c. 0.5% in FY 2021/22
Depreciation & amortisation[1]	c. £12.9m	c. 9.3% of COGS p.a. in FY 2017/18 and FY 2018/19, c. 10% of COGS in FY 2019/20, c. 10.5% of COGS in FY 2020/21 and c. 10% of COGS in FY 2021/22
Items to calculate free cash flow		
Change in working capital including the impact of exceptional items	c. £20.4m cash inflow	£4.5m cash inflow in FY 2017/18, £3.6m cash outflow in FY 2018/19, £2.8m cash inflow in FY 2019/20, £1.5m cash inflow p.a. in FY 2020/21 and FY 2021/22
Rental asset cost of sales depreciation	c. £99.4m	c. 63% of COGS p.a. up to and including FY 2018/19; c. 64% of COGS p.a. thereafter
Rental asset disposals / write-offs	c. £26.3m	c. 18% of COGS p.a. in FY 2017/18 and FY 2018/19, c. 19% of COGS p.a. thereafter
Rental asset purchases	c. £5.9 of rental asset purchases per £1 of monthly Gross Dues, expected to be £86.9m	c. £5.7 per £1 of monthly Gross Dues in FY 2017/18, c. £5.4 per £1 of monthly Gross Dues thereafter until FY 2021/22
Capex	£15.1m	c. 6.3%, c. 4.6% and c. 2.4% of total revenues in FY 2017/18, FY 2018/19 and FY 2019/20 respectively; c. 2% of total revenues p.a. thereafter
Exceptional cash outflows[2]	£2.3m	£10.5m in FY 2017/18, £2.6m in FY 2018/19, £3.4m in FY 2019/20, £2.9m in FY 2020/21 and none in FY 2021/22

Notes:
1. D&A included in opex to be added back to calculate EBITDA
2. Forecast exceptional do not include any costs related to the refinancing of the Company's £220m notes