

# BrightHouse – First Quarter FY 2013/2014 Results

Wednesday 24<sup>th</sup> July 2013



- Leo McKee - Chief Executive Officer
- Giles David - Chief Financial Officer

# Disclaimer

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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This presentation may contain references to certain non-IFRS financial measures, such as EBITDA, and operating measures, such as average number of contracts per customer, the value of our Contract Portfolio and our Cash Collection Rate. These supplemental financial and operating measures are unaudited and have not been prepared in accordance with IFRS or any other accounting standards. They should not be viewed in isolation as alternatives to measures of our financial condition, results of operations or cash flows as presented in accordance with IFRS in our consolidated financial statements. The non-IFRS financial and operating measures that we use may differ from, and not be comparable to, similarly titled measures used by other companies. For further information please see in particular the financial statements.

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 June 29, 2013.

# Agenda

- **The BrightHouse Business Model – Summary Results**
- First Quarter FY 2013/2014 Performance
  - KPI analysis
  - Profit Performance
  - Cashflow Performance
- Summary
- Q & A

# BrightHouse's Business Model

## Targeted demographics

- Low income/reliant on benefits
- Limited access to credit
- Close proximity to stores

## Essential products



New and refurbished

The leading UK rent-to-own company providing essential and aspirational household goods to low income and credit impaired customers on affordable weekly or monthly payments through 284 retail stores

## Network

- National coverage
- Local relationships
- Retail, credit and Engineering

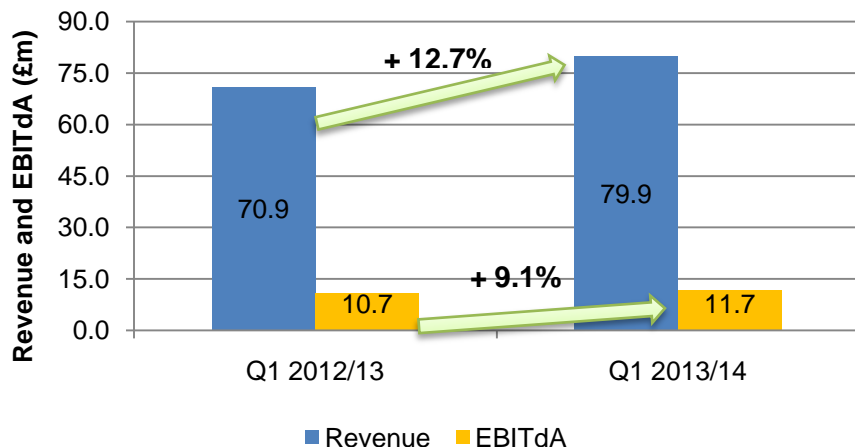


## Proposition

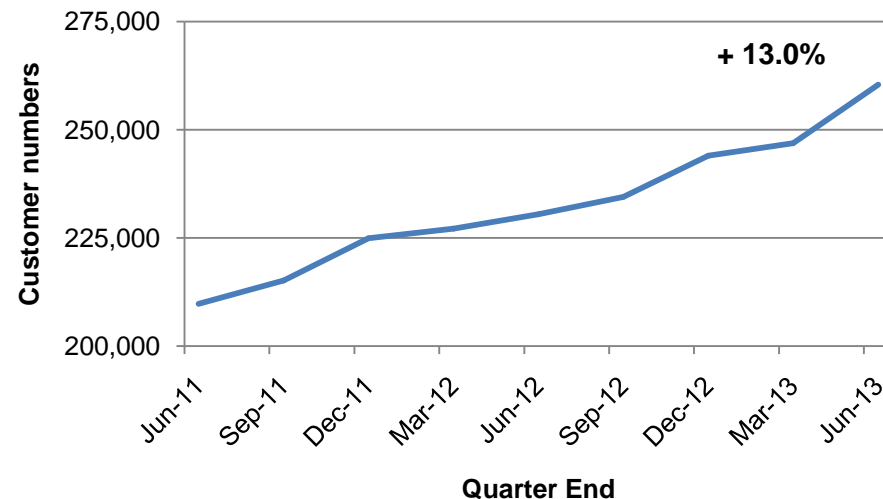
- Integrated retail-credit insurance offer
- Affordability
- Convenience

# First Quarter FY 2013/2014 Performance

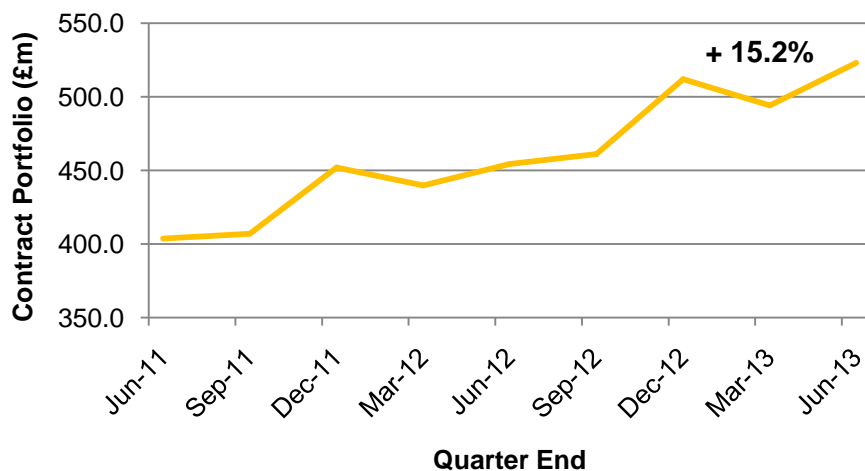
## Revenue and EBITdA



## Rolling Customer numbers



## Contract Portfolio Balance



## Comments

- LTM EBITDA for the 12 months ended 29<sup>th</sup> June 2013 totalled £50.4m.
- Value of Contract Portfolio book balance at 29<sup>th</sup> June 2013 was £523.2m (30<sup>th</sup> June 2012: £454.3m).
- £28.9m Contract Portfolio growth in Q1 2013/14.
- Customer numbers at 29<sup>th</sup> June 2013 - 260,400
- 13,600 customers added in Q1 2013/14 (Q1 2012/13: 3,300)

# Execution of business strategy

## Grow like-for-like revenues across existing store portfolio

- 2 year old stores have grown at 9.1%
- “Customer First” programme launched - all store managers trained
- Customer focused incentivisation embedded

## Further optimise operational efficiency and customer proposition

- Call centre launched to handle collections overflow
- Developed infrastructure to permit changes to pricing structure, including variable APR
- Outbound dialing on trial

## Selectively expand store portfolio

- Four new stores opened – new geographical areas
- Measured store opening programme

## Develop additional customer capabilities

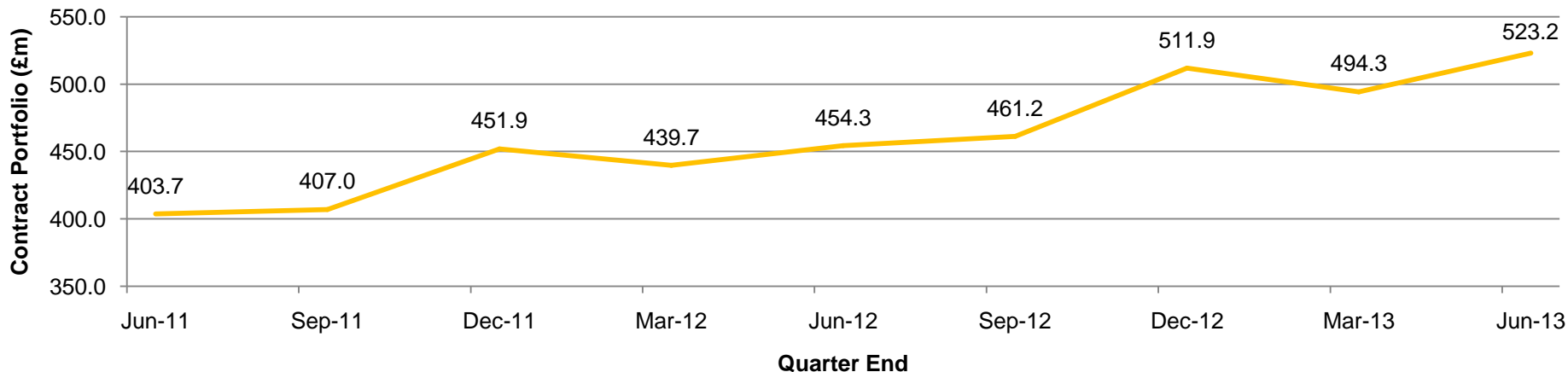
- Fully on-line credit assessment launched
- Continuous Card Authority focus

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# KPI Analysis: Contract Portfolio Growth

## Rolling Contract Portfolio Balance



## Contract Portfolio Growth

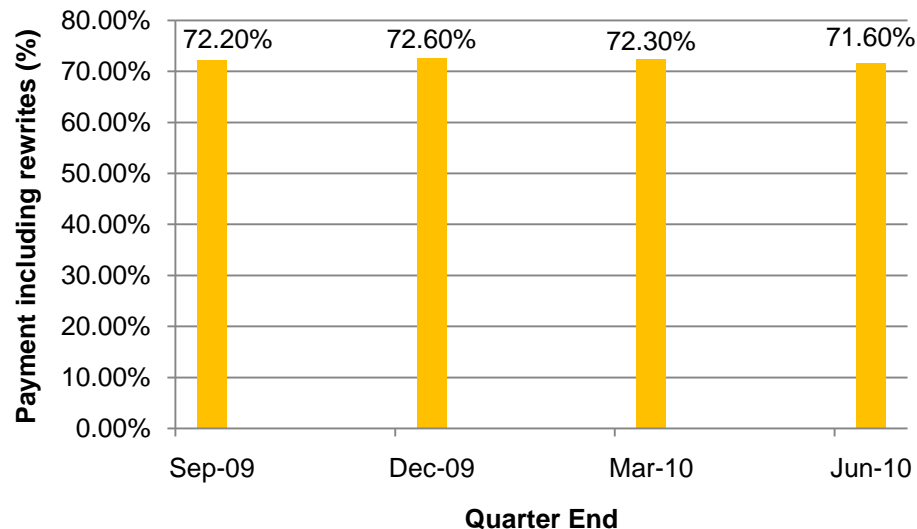
£m	Q1 2012/13	Q1 2013/14
Opening Contract Portfolio balance	439.7	494.3
In-Quarter Contract Portfolio Growth	14.6	28.9
Closing Contract Portfolio balance	<b>454.3</b>	<b>523.2</b>
In-Quarter Contract Portfolio Growth %	3.3%	5.8%

- Contract Portfolio – Aggregate of remaining payments under Hire Purchase agreements if they run to full term.
- Value of Contract Portfolio balance at 29<sup>th</sup> June, 2013 was £523.2m (30<sup>th</sup> June 2012: £454.3m +15.2%).
- Higher levels of demand conversion drove increased lending.
- Increased demand for new Samsung laptop ranges, S4 mobile and LG 47” 3D TV.
- Increased Contract Portfolio has necessitated an incremental cash investment in product purchases



# KPI Analysis: Contract Portfolio Performance

## Actual Contract Portfolio Collection %



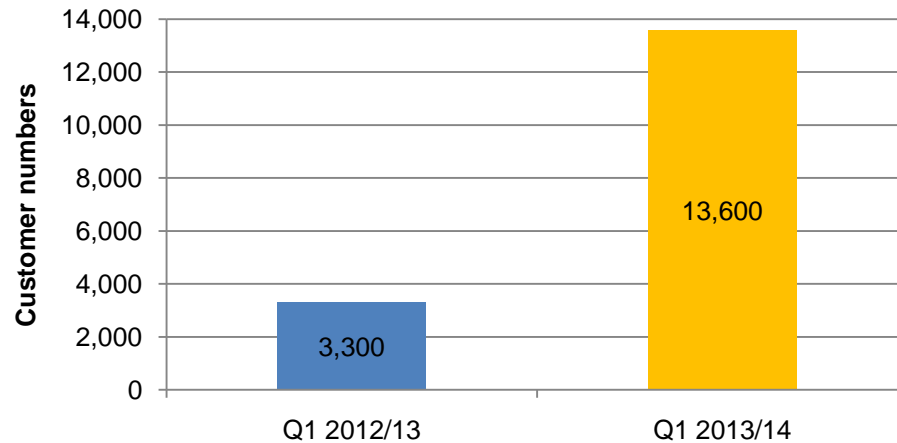
- Collect out complete for Contract Portfolio as of 26<sup>th</sup> June 2010 (3 years).
- Cash collection rates in Q1 2013/14 consistent.
- 71.6% of Contract Portfolio as of 26<sup>th</sup> June 2010 recovered in cash
- Excludes product recovery
- Collections metric for the quarter remains stable
- Contract Portfolio to rental assets ratio remained consistent quarter on quarter.

## Contract Portfolio to Rental Assets Ratio

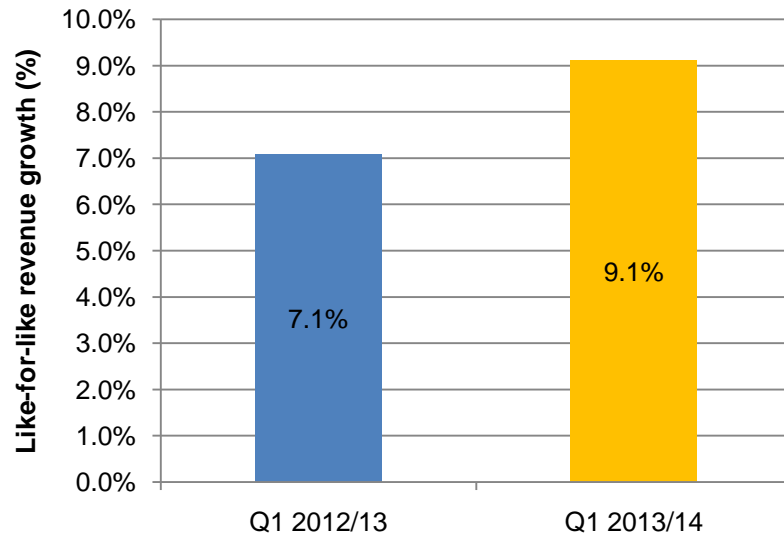
£m	Q1 2012/13	Q1 2013/14
Contract Portfolio balance	454.3	523.2
NBV of Rental Assets	128.0	150.9
Ratio	<u><u>3.5</u></u>	<u><u>3.5</u></u>

# KPI Analysis: Customer and Revenue Growth

## Customer growth



## LTM like-for-like revenue growth (£m)



- Customer numbers up 13,600 in Q1 2013/14 compared to 3,300 in Q1 2012/13.
- 260,400 customers at the end of Q1 2013/14, compared to 230,400 at the end of Q1 2012/13. +13.0%. (March 31, 2013: 246,800 customers).
- LTM Like for like revenue growth for the period to 29<sup>th</sup> June 2013 was 9.1%, compared to 7.1% for the LTM period to 30<sup>th</sup> June 2012. (March 29 2013 : 8.3%).
- Agreements per customer were marginally higher at 2.77 June 2013 vs. 2.75 at June 2012. (March 2013: 2.82 agreements per customer).
- Store numbers at June 29, 2013 totalled 284 compared to 261 at June 30, 2012, 4 new stores opened vs. 8 in Q1 last year.

# Profit Performance

## Consolidated results of operations

£m	Q1 2012/13	Q1 2013/14	Change	
			Amount	%
Revenue	70.9	79.9	9.0	12.7%
Cost of Sales	(31.3)	(36.2)	(4.8)	(15.5%)
Gross Profit	<b>39.6</b>	<b>43.8</b>	<b>4.2</b>	<b>10.6%</b>
<i>Gross Profit Margin %</i>	55.9%	54.8%		
Operating expenses	(31.8)	(35.4)	(3.6)	(11.4%)
<i>Operating expenses as a % of revenue</i>	44.8%	44.3%		
Operating profit	<u><b>7.8</b></u>	<u><b>8.4</b></u>	<b>0.5</b>	<b>7.0%</b>
Add back: Depreciation and amortisation	2.9	3.3	(0.4)	(14.8%)
EBITdA	<u><b>10.7</b></u>	<u><b>11.7</b></u>	<b>1.0</b>	<b>9.1%</b>

- Gross profit margin decreased 55.9% in Q1 2012/13 to 54.8% in Q1 2013/14, due to:
  - an increase in discounts and customer incentives to drive growth
  - sales mix towards technology products
  - price competition across the categories
- Despite challenging economic conditions and accelerated customer growth, bad debt charge as a percentage of revenue remained steady at 8.1% (Q1 2012/13: 8.3%).
- Overheads expressed as a percentage of revenue down from 44.8% to 44.3%.

# Profit Performance: EBITDA

## Reconciliation of EBITDA to profit for the period

£m	Q1 2012/13	Q1 2013/14	Change	
			Amount	%
EBITdA	10.7	11.7	1.0	9.1%
Tax (charge)/credit	(1.9)	1.5	3.4	178.2%
Financial income and expenses	(4.8)	(5.4)	(0.5)	(11.2%)
Depreciation and amortisation	(2.9)	(3.3)	(0.4)	(14.8%)
Profit for the period	<u>1.1</u>	<u>4.5</u>	3.4	308.0%

- PAT up 308% Quarter 1 2013/13 to Quarter 1 2013/14.

# Cash Flow Performance

## Consolidated cash flow performance

£m	Q1 2012/13	Q1 2013/14
Operating cash flow	3.2	3.9
Changes in working capital	2.7	(1.7)
<b>Cash generated from operations</b>	<b>5.9</b>	<b>2.3</b>
Tax paid	(0.1)	(3.8)
<b>Net cash flow from operating activities</b>	<b>5.8</b>	<b>(1.5)</b>

### Key variants in operation cash flow

- Profit increased by £3.4 million to £4.5 million for Q1 2013/14 (Q1 2012/13: £1.1 million).
- Within profits/hire purchase asset depreciation – a non-cash movement – increased £3.9m.
- Hire purchase asset investment from £34.6 million in Q1 2012/13 to £39.4 million in Q1 2013/14 to support the increase in new customers and a larger contract Portfolio .

### Key variants in working capital

- Inventory levels £4.0m higher than last year Q1 to improve availability and conversion.

### Key variants in tax

- Temporary tax outflow in Malta (£3.8m), of which £3.3m was recovered in July.

# Cash Flow Performance

## Consolidated cash flow performance

£m	Q1 2012/13	Q1 2013/14
Net cash flow from operating activities	5.8	(1.5)
Net cash from investing activities	(3.3)	(3.3)
Net cash from financing activities	(1.2)	15.2
<b>Net increase in cash</b>	<b>1.3</b>	<b>10.4</b>
Cash balance brought forward	8.6	10.9
<b>Cash balance carried forward</b>	<b>9.8</b>	<b>21.3</b>

- Net cash used in investing activities remained flat at £3.3 million outflow. Continued investment in new stores, store infrastructure and IT systems.
- Net cash from financing activities increased by £16.4 million in Q1 2013/14, attributable to the net impact of the May 2013 refinancing.

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# Summary

- Consistent Strategic Agenda
- Revenue up 12.7% compared to Q1 2012/13  
EBITDA up 9.1% compared to Q1 2012/13  
Contract Portfolio 15.2% compared to Q1 2012/13  
Customers up 13.0% compared to Q1 2012/13
- Sound Platform for the balance of 2013/14