BrightHouse – FY 13/14 Results
4 July 2014

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

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

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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 annual report for the fifty two weeks ended March 31, 2014.
Agenda

• BrightHouse’s Business Model

• FY 13/14 Highlights

• FY 13/14 Financial Results
  – Profit performance
  – Balance Sheet
  – Cashflow performance

• Strategic Programmes and Outlook

• Summary

• Q & A
BrightHouse’s Business Model

The UK’s leading rent-to-own company providing essential and aspirational household goods to low income and credit impaired customers on affordable weekly or monthly payments through 286 retail stores and a growing online presence

### Targeted demographics

- Limited access to credit
- Close proximity to stores

### Essential and aspirational products

- New and refurbished

### Multi-channel

- National store network
- Application and credit check online
- Call centre support
- E-Commerce

### Proposition

- Product and Five Star service
- Weekly payments
- No hidden extras
- Flexible contracts
FY 13/14 Highlights

• Continued strength in financial performance
  – Revenue increased by 12.2% to £333.3m (FY 12/13: £297.0m)
  – EBITDA up 10.1% to £52.6m (FY 12/13: £47.8m)
  – Contract Portfolio up 14.4% to £565.5m (Mar-13: £494.4m)

• Customer base up 9.7% to 270,700 (Mar-13: 246,800)

• Significant advances in delivery of strategic programmes
  – Successful transition to Single Pricing Agreement
  – Embedding Customer Focus programme
  – Launch of centralised collections programme
Financial Performance
FY 13/14 Financial Results

- Revenue up 12.2% to £333.3m (FY 12/13: £297.0m)
  - LFL* revenue growth of 6.9%

- EBITDA increase to £52.6m (FY 12/13: £47.8m)
  - Growth in operating expenses (pre-depreciation and exceptional items) limited to 6.0% despite increased store base

- Net cash flow pre-financing activities of £6.5m

- Restatement of prior year accounts
  - Non cash, no change to current year expectations

* LFL revenue for the 13/14 financial year excludes stores opened in this, and the preceding, 12 month period
## Profit performance

<table>
<thead>
<tr>
<th>£m</th>
<th>FY 12/13</th>
<th>FY 13/14</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>297.0</td>
<td>333.3</td>
<td>12.2%</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td><strong>173.5</strong></td>
<td><strong>185.8</strong></td>
<td><strong>7.1%</strong></td>
</tr>
<tr>
<td><strong>Gross Profit Margin %</strong></td>
<td>58.4%</td>
<td>55.7%</td>
<td></td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(125.7)</td>
<td>(133.2)</td>
<td>(6.0%)</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td><strong>47.8</strong></td>
<td><strong>52.6</strong></td>
<td><strong>10.1%</strong></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(13.2)</td>
<td>(13.2)</td>
<td>-</td>
</tr>
<tr>
<td>Exceptional EBT bonus award</td>
<td>(0.7)</td>
<td>-</td>
<td>100.0%</td>
</tr>
<tr>
<td>Out of period indirect tax charges and provisions</td>
<td>(0.2)</td>
<td>0.1</td>
<td>161.5%</td>
</tr>
<tr>
<td>Net finance expenses</td>
<td>(27.0)</td>
<td>(22.7)</td>
<td>15.8%</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td><strong>6.7</strong></td>
<td><strong>16.9</strong></td>
<td><strong>152.1%</strong></td>
</tr>
<tr>
<td>Tax charge</td>
<td>(2.6)</td>
<td>0.1</td>
<td>103.2%</td>
</tr>
<tr>
<td><strong>Profit after tax</strong></td>
<td><strong>4.1</strong></td>
<td><strong>17.0</strong></td>
<td><strong>315.6%</strong></td>
</tr>
</tbody>
</table>

- Revenue increase predominantly driven by a 9.7% year-on-year increase in customer numbers
- Gross profit margin decreased due to an increased cost of debt
  - Cost of debt as a percentage of revenues increased to 9.8% (FY 12/13: 8.0%)
  - Increased mix of new customers within the customer base
  - Enhanced credit strategies now reducing cost of debt
- Operating expenses expressed as a percentage of revenue down from 42.3% to 40.0%
- Decrease in tax charge due to benefit obtained from previously unrecognised deferred tax assets
KPI Analysis: Customer Growth

- Delivering consistent customer growth
  - 270,700 customers as at Mar-14 (Mar-13: 246,800)

- Internet applications becoming of increasing significance
  - Internet applications up 19.9% year on year
  - Online originated customers up 55.3% year on year

- Expanded store estate to 286 as at Mar-14 (Mar-13: 280)
KPI Analysis: Contract Portfolio Growth

**Contract Portfolio Balance (£m)**

- **Contract Portfolio:** Aggregate of remaining payments under Hire Purchase agreements if they run to full term
- **Contract Portfolio balance up 14.4% to £565.5 million (Mar-13: £494.4 million)**
  - Extended average agreement term
  - All new customers now benefitting from our all inclusive cover

<table>
<thead>
<tr>
<th></th>
<th>FY 12/13</th>
<th>FY 13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Contract Portfolio balance</td>
<td>439.7</td>
<td>494.4</td>
</tr>
<tr>
<td>Contract Portfolio growth in the year</td>
<td>54.7</td>
<td>71.1</td>
</tr>
<tr>
<td>Closing Contract Portfolio balance</td>
<td>494.4</td>
<td>565.5</td>
</tr>
<tr>
<td>Contract Portfolio growth % in the year</td>
<td>12.4%</td>
<td>14.4%</td>
</tr>
</tbody>
</table>
71.4% of the Mar-11 Contract Portfolio has been recovered in cash.

Excludes product recovery.

Independent forecasts indicate that current cash collection rates are consistent.

Contract Portfolio to rental assets ratio has remained consistent.
Improving Debt Metrics

- AR % (arrears receivable) is a key management metric used to monitor debt performance.

- AR % trending favourably and at end of Q1 FY 14/15 was 6.07%
  - Linear relationship with cost of debt.

- Significant learnings from data collected in FY 13/14. New credit strategies successfully reducing cost of debt.
### Balance Sheet

**£’000**

<table>
<thead>
<tr>
<th></th>
<th>FY 12/13</th>
<th>FY 13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>153,065</td>
<td>161,690</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>83,026</td>
<td>84,073</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>15,745</td>
<td>21,739</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>10,537</td>
<td>10,568</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>262,373</td>
<td>278,070</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>8,865</td>
<td>9,522</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>43,408</td>
<td>46,569</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>10,873</td>
<td>16,308</td>
</tr>
<tr>
<td>Financial assets</td>
<td>180</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>63,326</td>
<td>72,399</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>325,699</td>
<td>350,469</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>57,622</td>
<td>51,455</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>2,974</td>
<td>58</td>
</tr>
<tr>
<td>Current tax payable</td>
<td>1,153</td>
<td>484</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>61,749</td>
<td>51,997</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td>228,252</td>
<td>250,909</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>290,001</td>
<td>302,906</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>35,698</td>
<td>47,563</td>
</tr>
</tbody>
</table>
## Cash Flow Performance

<table>
<thead>
<tr>
<th></th>
<th>FY 12/13</th>
<th>FY 13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash flow</td>
<td>25.5</td>
<td>39.3</td>
</tr>
<tr>
<td>Changes in working capital</td>
<td>7.6</td>
<td>(22.8)</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td><strong>33.1</strong></td>
<td><strong>16.4</strong></td>
</tr>
<tr>
<td>Tax paid</td>
<td>(0.5)</td>
<td>(0.6)</td>
</tr>
<tr>
<td><strong>Net cash flow from operating activities</strong></td>
<td><strong>32.6</strong></td>
<td><strong>15.8</strong></td>
</tr>
<tr>
<td>Net cash flow from investing activities</td>
<td>(13.0)</td>
<td>(9.3)</td>
</tr>
<tr>
<td><strong>Net cash flow from pre-financing activities</strong></td>
<td><strong>19.6</strong></td>
<td><strong>6.5</strong></td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>(17.3)</td>
<td>(1.1)</td>
</tr>
<tr>
<td><strong>Net increase in cash</strong></td>
<td><strong>2.3</strong></td>
<td><strong>5.4</strong></td>
</tr>
</tbody>
</table>

- Hire purchase asset investment of £139.0m in FY 13/14 (FY 12/13: £130.3m) supporting increased customer base
- Significant working capital investment
  - VAT impact of Single Pricing Agreement
  - Stock, prepayments, supplier funding
- Net cash used in investing activities fell to £9.3m with fewer store openings
- Net cash outflow from financing activities reduced to £1.1m, attributable to the net impact of the May 2013 refinancing
Strategic Programmes and Outlook
Investment in Credit Management Expertise

- Developing credit scoring, underwriting and collections practices:

**Pre 2010**
- Personal references
  - Supported by proof of income + review of supporting documentation

**2010**
- Application scorecard replaces manual checklist
- Behavioural scoring introduced for existing customers

**2011**
- Application scorecard recalibrated
- New segmented behavioural scorecards released

**2012**
- Credit & Risk Director appointed
- Application Fraud Management capability
- Application scorecards using full bureau feed

**2013**
- Online application scorecard
- Risk based pricing
- Data warehouse and advanced analytics infrastructure

**2014**
- Centralised collections
- Automated affordability pilot
- Continual enhancement of credit strategy using historical data
Regulatory & Debt Management

Customer Focus remains at the heart of our values

Credit Strategy

- Implementation of high-tech customer contact centre
- Significantly enhanced right party contact rates
- Consistent execution, transparency and compliance management
- Enhanced customer experience
- Organisational efficiencies
- New scorecard and credit strategies by risk group

Regulatory

- Regulation of Consumer Credit transferred from the OFT to the FCA on 1 April 2014
- Full authorisation / 'landing slot' of Dec-15 to Feb-16
- Director of Compliance appointed
- Grant Thornton appointed as independent Third Line of Defence
- New Complaints handling software
- Increased compliance monitoring resource
E-Commerce & Supply Chain

Build a seamless multi-channel customer experience

E-Commerce

- Developing fully transactional capability online
- Online affordability & identification procedures
- Widen geographic reach
- Online payment solution
- Investment in digital marketing
- Embrace social media

Supply Chain

- Back to base working
- Dynamic route scheduling
- Up-skill engineering capabilities
- Enhanced stock distribution and allocation
- Investment into upgrade of supply chain system
Existing & Future Footprint

Deliver organisational & operational efficiencies driving like-for-like growth

Grow like-for-like revenues across existing store portfolio

- 2 year old stores have grown at 6.9%
- Improve customer proposition and in-store experience
- Increased investment in digital and TV marketing

Further optimise operational efficiency and customer capabilities

- Digitalisation of sales experience
- Simplification of in-store processes
- Centralisation of internet application appointments
- Further strengthen I.T. platform

Selectively expand store portfolio

- Seven new stores opened in FY 13/14
- Active pipeline established – expectation of c.12 in FY 14/15
Summary

• Solid FY 13/14 performance delivering continued revenue, EBITDA, customer and contract portfolio growth

• Embracing and embedding regulatory change

• FY 14/15 focus on credit & collection and customer focus strategic programmes

• Investments into IT platform, supply chain technologies and e-commerce to provide stronger platform for longer term growth

• Appointment of new Chairman, Henry Staunton, on 8 July
Q & A
Appendices
The BrightHouse team

The management team

Chief Executive Officer
Leo McKee (9 years)
- Strategy, HR, Compliance

Chief Financial Officer
Alex Maby
- Finance
- IT
- Legal

Commercial Director
Hamish Paton (7 years)
- Buying & supply chain
- Retail & property
- Marketing & PR

Credit & Risk Director
Dave Poole (3 years)
- Credit Risk
- Collections
- E-Commerce

- Very strong and experienced management breadth
- The members of our senior management team have an average of over 25 years of experience in the financial and retail sectors, including at OC&C, Levi Strauss, Rumbelows, Kingfisher Group, Macquarie, Shop Direct and H&T Group

Total management ownership of c.13%

(x) = Number of years at BrightHouse
Appointment of New Chairman

- Henry Staunton to be appointed as Chairman on 8 July

- Brings a wealth of experience across retail and banking

- Replaces Richard Pym, stepping down after six successful years with BrightHouse

Current Positions Held
- Chairman, WH Smith plc
- Non-executive director (NED), Standard Bank
- NED, Capital and Counties plc
- NED, Merchants Trust plc

Previous Experience
- Chairman, Ashtead Group plc
- Vice Chairman, Legal & General plc
- Group Finance Director, ITV
- Group Finance Director, Granada Media plc
- Partner, Price Waterhouse
Established as a division of Thorn, trading as Crazy George’s

First mobile phone sold in Sept 1997

Recorded first profit of £1.8mm in FY00

100th store opened

Leo McKee appointed CEO

Group acquired by Vision Capital

200th store opened

Over 250 stores

Alex Maby appointed CFO

Thorn acquired by TFCP (then Nomura PFG)

First PC sold in July 2000

Customer base of 100,000

Point of sale system replaced

£100mm of banking facilities raised

£220mm Secured notes issued

BrightHouse has been established in the industry for 20 years

BrightHouse has developed a strong store platform

Acquisition by Vision Capital