

Good morning Ladies and Gentlemen and welcome to the 2012 Annual General Meeting of Cash Converters International.

The directors are pleased to report a growth in revenue of 25% to \$234.3 million and a record profit result of \$29.4 million for the 2012 financial year, an increase of 6.2% over the previous year and our 7<sup>th</sup> consecutive annual record profit.

## Further highlights for the year were:

- Revenue growth of 25% to a record of \$234.3 million.
- Record net profit after tax of \$29.4 million, up 6.2%. On an adjusted basis, excluding one-off items, the net profit after tax was \$32.6 million (an increase of 9.8%).
- The statutory earnings per share were 7.75 cents per share (an increase of 6.5%) and the adjusted earnings per share were 8.58 cents per share (an increase of 9.8%).
- The personal loan book in Australia grew 28.0% to \$67.6 million and the loan book in the UK grew 153% to £12.7 million.
- The personal loans business generated an EBIT of \$33.5 million (2011 \$24.4 million) which is 37.3% up on the previous year.
- The growth of the online personal loan business in Australia continues to be very strong with the value of loans up 126.7% to \$14.2 million (2011 \$6.3 million).
- The cash advance administration platform in Australia and the UK generated an EBIT of \$13.6 million up 10.6%.
- UK cash advance and personal loans business up 285.7% to a combined EBIT of \$4.6 million, an outstanding result for a business launched in October 2009.
- 12 'greenfield' company owned stores were opened in the UK and one in Australia, taking total corporate store numbers as at 30 June 2012 to 102 (59 in the UK and 43 in Australia).

#### **Dividend**

The directors declared a fully franked final dividend of 1.75 cents per share. The dividend was paid on 28 September 2012 to those shareholders on the register at



the close of business on 14 September 2012. That took the total dividend payment for the year to 3.5 cents per share, fully franked.

#### **Personal Loan and Cash Advance**

The Company continued to experience strong growth in its financial service products during the financial year. The Australian personal loan book has continued to grow and is currently \$72.1 million as at 13 November, up from \$67.6 million at 30 June 2012. Bad debt levels continue to remain stable at 5.6% of the principal loaned (5.9% of the principal loaned in 2011).

The UK personal loan book continues to grow at an exceptional rate and is currently at £16.7 million, as at 13 November, up from £12.7 million at 30 June 2012. Bad debt levels remain elevated but stable at 11.3% of the principal loaned (10.8% of the principal loaned in 2011).

Cash Converters is currently implementing a number of strategies to reduce this level of bad debts in the UK. The UK personal loan book is only two years old and the level of bad debts is in line with the levels we initially experienced when establishing our Australian personal loan business. As our UK database matures and customer knowledge base increases, we expect the level of bad debts to decrease gradually. We continue to invest in the UK personal loan book and our profitably continues to improve. The overall return on investment is strong.

The Cash Advance business continues to grow strongly with the principal loaned in Australia increasing 12.3% to \$229.8 million and total customers increasing by 16.8% to 403,137. In the UK, the Cash Advance principal loaned increased by 177.3% to £29.1 million and total customer numbers increased by 136.8% to 75,169.

## **Company Owned Stores**

The corporate store network in the UK and Australia has seen revenues grow by 22.0% to \$122.8 million producing a combined EBIT of \$5.6 million. On an adjusted basis, after adding back one off costs of stamp duty of \$0.7 million and an earn-out payment on new store acquisitions, the EBIT was \$8.1 million; (2011 \$8.6 million).



As expected and previously disclosed, the profit drag from opening 27 new stores in both Australia and the UK in 2011 and 2012 has impacted the result. On average it takes at least 12 months from the establishment a new store until it reaches break-even.

We acquired two stores from franchisees at the end of July in Wigan and Gloucester, both in the UK. We have recently opened a new store at Bankstown (NSW) and Port Kennedy (WA), taking the corporate store numbers in the UK to 61 and in Australia to 45.

The corporate store network has contributed significantly to the growth in our financial services business.

## **Significant Growth from Online Business**

Cash Converters continues to make significant progress online through its Webshop portal and personal loans portal.

The Webshop provides a platform for the store network to display inventory items in an online shop format. Online product sales have grown 44.4% across the Australian (\$1.77 million) and UK operations (£832,120) over the past 12 months.

In Australia, the Company launched an online personal loan system on 1 July 2010. This allows a customer to complete an application, sign contracts and receive funds without the need to visit a store. In just two years, the online loan book has grown 126.7% to \$14.2 million and represents 11% of the overall personal loan book. The Company launched the online personal loan system into the UK market in October 2011 and this loan book has already reached £953,290.

#### Carboodle

Cash Converters is associated with the Perth based start-up company Carboodle. Carboodle was established in 2010 with the first lease contracted in October 2010. Carboodle is a car leasing business set up to meet the needs of customers who don't have access to main stream credit but need a reliable second hand car. A Carboodle car lease has the running costs packaged up so that the



customer can manage their personal budget without any untimely or unexpected bills.

Carboodle has distribution show room centres located in Perth, Melbourne, Sydney and Brisbane with a centre due to open in Adelaide later in the year. Initial sales and the rollout of distribution show room centres have been progressing in line with our expectations.

Carboodle has an exclusive licence with Cash Converters that allows it to use the 147 Cash Converter stores in Australia as its agent to promote its product. Carboodle pays a royalty to the Company and a commission to the stores. The Cash Converter store network and our knowledge of financial services products have underpinned the development of this business. Early indications are that it will be a great success..

## **Legislation Update**

As a result of various recommendations made by the Parliamentary Joint Committee on Corporations and Financial Services and the Senate Economics Legislation Committee, the Government implemented a number of changes to the Consumer Credit Legislation Amendment (Enhancements) Bill 2011. On 27 June, 2012 the House of Representatives of the Federal Parliament passed the Bill. The Bill was passed by the Senate on 20 August 2012 and has also now received Royal Assent.

The Act contains a number of responsible lending obligations which will take effect from 1 March, 2013. The main impact of the legislation for Cash Converters relates to the definition of small amount credit contracts and the limits on fees and charges imposed with respect to such contracts. These provisions take effect from 1 July, 2013.

This outcome from the Legislative process is positive for Cash Converters as a significant proportion of our earnings are generated from the provision of short term credit and these rate caps allow us a sustainable business model.

The Minister Bill Shorten is quoted as saying "this Government believes there is a place in the economy for legitimate short term small amount lending. These loans are appropriate to fill in the gaps for people who need a temporary cash injection".



Throughout this long process of engagement with Government, it is pleasing to note the acknowledgement that the micro-lending industry has an important and legitimate role to play in providing credit. Adopting a fee cap that allows lenders to recoup the significant establishment costs up front, shows that regulators now understand the reasons that short term credit is costly to provide. In addition, this legislation should provide Cash Converters with a competitive advantage in this market place as we expect that a number of smaller providers who do not have adequate systems and standards in place will leave the industry.

## **Quarterly Earnings Growth Well Ahead of Expectations – Trading Update**

On 12 November Cash Converters released a trading update to the ASX and noted that our earnings growth for the September quarter was well ahead of expectations.

## **Highlights**

- Unaudited EBIT up 43% on previous corresponding period (1Q 2012FY) to \$14.2 million
- UK loan book growing strongly, up 146.1% on the corresponding period and 20.8% since 30 June 2012
- EBIT contribution from the UK operations up 155.4% on the corresponding period
- Continued growth in the Australian Personal Loan book, up 32.7% on the corresponding period
- Two more stores acquired, two new corporate stores opened
- Record online loan advances and online store sales from Webshop gaining momentum

#### **Outlook**

Cash Converters expects continued growth in its Australian and UK loan books over the coming financial year. There are also a number of store acquisitions available to the Company in Australia in addition to planned "greenfield" locations.



Following on from our strong result this year, we are very well positioned to drive further growth across all aspects of the business. The outlook has never been brighter for the Company.

The next twelve months will see the Company reap further rewards from its investment in the launch of its finance products into the UK market and from our corporate store strategy. The Company's commitment to the online space will also see growth in its online lending and shopping channels.

Our confidence is reflected in the first quarter's trading results.

In closing, we wish to thank the staff, management and franchisees for their contributions to the strong financial result this year.

Peter Cumins Managing Director

Perth, Western Australia Date 16 November 2012