Chief Executive Officer's Review

> A year of solid results, with attractive opportunities for further growth."

Paul Smith
Chief Executive Officer

Performance

I am delighted to report on another year of robust performance. Total credit issued was £178.5m, a 2.4% increase relative to the previous year (FY 2018: £174.4m). Our gross loan book grew by more than 6% compared with 24 February 2018; of this, 5% derived from an increase in the core book and 1% from the acquisitions of the Eccles Savings & Loans Limited and Hays Credit LLP assets.

After the exceptional activity in FY18, territory builds reverted to a historically more normal level of 73 in FY19 (FY18: 463 net territory builds). Customer numbers at the year end were 235,000, an increase of 2.6% from the equivalent FY18 figure of 229,000.

We continued to see positive momentum with the Morses Club Card. Adoption of our cashless lending cards grew by 43% to reach 30,000 customers with £15.5m of loan balances (FY18: 21,000 customers and £10.6m of loan balances).

Our continued investment in technology has helped make it easier for customers to apply for loans and interact with our self-employed agents. Customers want swift and simple interaction and excellent customer service, which has been demonstrated by our continued excellent customer satisfaction scores of 97% and Recommend a friend statistics, both sound indicators that we are delivering positive customer experiences and outcomes.

Post-period end, on 26 February 2019, we announced the acquisition of the business and certain assets of online lending provider CURO Transatlantic Limited. This is a major milestone in our product diversification strategy, as we develop digital products to meet evolving customer needs and broaden our customer base.

External market

There has been a renewed wave of industry consolidation as smaller HCC firms struggle to comply with ever more stringent regulatory requirements and owners seek to exit the sector. The market remains fragmented and we continue to have a healthy pipeline of high-quality acquisition candidates to expand our regional presence in HCC. Our acquisition activity has been carefully considered, and although changes in the market bring opportunities, we are focused on ensuring that we acquire businesses which enhance our quality and approach to forbearance. There are also attractive prospects in adjacent areas of the non-standard credit market, to support the development of our capabilities as we diversify our proposition.

In the regulatory sphere, we are pleased that the Financial Conduct Authority's in-depth review of the high-cost credit market has concluded and that the outcomes for HCC and high cost, short-term credit are, in the Board's view, measured, responsible, and look after customer interests without creating turbulence in the sector. The review concluded that the markets are well run and offer the best solution to customers in that part of the market. Our preparedness in anticipation of the review meant that no significant changes were required to our processes, although we have refined our training in relation to conduct rules in customer homes, and are making modifications to our technology which will be in place later in 2019.

As for the wider economic backdrop, the demographic we serve is largely shielded from macroeconomic volatility, since government support in the form of benefits flexes as wages change, such that household incomes in this part of the market tend to remain stable.

From a consumer perspective, growing adoption of digital channels supports our strategy to enhance our offering in this regard, with increased penetration of mobile and web-based interactions across our customer demographic.

Chief Executive Officer's Review continued

Strategy

Our vision is to become a leading provider of non-standard finance in the UK. This does not mean we are seeking to be the largest operator in the sector, rather our focus is to nurture our excellent reputation founded on outstanding levels of customer satisfaction. Home Collected Credit is very much our current core business, and we are looking to build upon our solid foundations by diversifying our offering into adjacent areas of the non-standard finance market. There are an estimated 10 million non-standard finance customers in the UK, demographically diverse and with various levels of creditworthiness, but all with some form of complex credit history (or indeed no credit history) that precludes them from accessing mainstream lending.

We made sound progress against our strategy last year. Organic growth was at anticipated low single digit levels given the stable market, with growth delivered through our strong interpersonal relationships and the resulting customer referrals. Larger growth opportunities stem from acquisitions, as well as our product diversification strategy. Our ongoing customer surveys are not only used to evaluate our performance, but are also an important means of understanding customer needs and behaviour in related areas of finance. Using these insights, we have been building an online proposition to allow our target customers to access credit with the flexibility they desire: from loans and revolving credit products through to an e-money proposition which we plan to launch in 2019. The assets and capabilities associated with our recent acquisition of CURO Transatlantic Limited will accelerate our initiatives in this area.

We have also been investing in technology to maintain our outstanding level of customer service, whilst leveraging the same investment to ensure we never lend to customers who cannot afford the repayments. Customers are able to transact with us face-to-face in a swift but robust manner, and are offered choices in how their loans are distributed and repaid. They are able to interact with us around the clock, in a way that complements their personal relationships with agents.

People and culture

We are people-focused, which is reflected in our consistently high levels of customer, agent and employee satisfaction. We are committed to our successful model built around self-employed agents and their strong, face-to-face relationship with customers that drives excellent levels of service and customer loyalty, and is also the best route to understanding customer circumstances for forbearance.

Having made a number of acquisitions in recent years, we have well established processes for due diligence, acquisition and integration. Our track record of retaining high quality agents with correspondingly high quality customers is testament to our friendly, collegiate culture and intuitive, compliant procedures, with incoming agents enthusiastic adopters of our technology as a core means of improving their productivity and making their lives easier.

Following an acquisition, the training of agents in our conduct rules and credit processes begins on the day the transaction completes, and is largely completed within a month. Agent feedback confirms that we are seen as having a genuine ethos of treating customers fairly. They appreciate that they are not under pressure to sell, and enjoy Morses Club's digitally enabled systems, which frees up time previously spent on reconciling figures in a highly manual process.

CSR

Our corporate responsibility activity is executed at grass roots level by the agents and the managers in the communities in which we work. We invite requests for small community-run programmes relevant to our people.

Dividend

The Board is proposing to increase the final dividend to 5.2 pence per share from 4.8 pence last year, an increase of 8.3 per cent. Together with the interim dividend of 2.6 pence per share (H1 FY18: 2.2 pence), this gives a total dividend for the year of 7.8 pence per share, an increase of 11.4 per cent on the 7.0 pence per share paid last year.

The dividend of 5.2 pence per share will be paid on 26 July 2019 to ordinary shareholders on the register at the close of business on 28 June 2019.

Financing

In November 2018 we announced a further increase in our revolving credit facility ('RCF') to £50m plus a mezzanine facility of £5m with an option, subject to conditions and lender approval at the time, to increase the mezzanine facility up to £15m. The Board considers this appropriate to meet our likely growth and acquisition strategies without burdening the Company with excessive non-utilisation charges.

In terms of our capital allocation policy, the Board is confident that we have the right balance between internal investment, acquisitions and dividends.

Outlook

Looking ahead, we are optimistic about the pipeline of opportunities for organic and acquisitive growth in a market we feel continues to offer attractive prospects. We are excited about our planned launches that will make Morses Club even easier to deal with for both agents and customers, and are confident in our team's ability to deliver.

Paul Smith
Chief Executive Officer
2 May 2019