Chief Executive Officer's Review

A transformative year for the business.

Though FY21 was undoubtedly a year of many challenges, it is one we can look back on with an incredible amount of pride.

Paul Smith
Chief Executive Officer

We have delivered a resilient performance for our stakeholders and made significant progress towards becoming a more complete financial services provider.

The time and resources invested in developing our technology platforms in recent years have been instrumental to our successful response to the Covid-19 crisis. The swift transition to home working, including a fully operational virtual call centre system, and the speed with which we were able to restart lending to customers, were testament to our prior investment in digital. As a result, we find ourselves in a very promising position as the country begins to reopen.

In addition to the very high levels of customer satisfaction that we maintained, I feel immense pride in how adaptable and resilient our people have proven to be this year. The sheer doggedness of the whole team to react to our business having to change practically overnight and undertake the work required to produce such a strong performance has been nothing short of outstanding, and my thanks go out to everyone at Morses Club.

Performance

Despite the many positives from the year, Covid-19 has clearly impacted our performance, with customer numbers, credit issued and cash collected all down across the Group. This came as no surprise to us, with periods of lockdown meaning many consumers had little to no requirement for credit services.

Although we've lost customers, the collection percentage of our smaller base remained reasonably steady despite disruption towards the beginning of the pandemic, which is a real achievement and testament to the hard work of our people and systems. We also remain optimistic because we fully expect many customers to come back to us when the economy reopens.

Our successful response to Covid-19 has ensured the Group remains profitable, despite having to reconfigure our operating model and change the way we run our business. The value of new credit issued across the Group fell during the year as a consequence of reduced customer demand for our products during lockdown measures.

Despite the economy shutting down for long periods of the year, our HCC division continued to perform strongly and issued new credit of £109.7m (FY20 £174.2m), closing the year with total loan receivables of £48.0m (FY20 £67.9m). During the period our digital division grew its loan book and issued new credit of £19.3m (FY20 £16.1m), closing the year with loan receivables of £5.6m (FY20 £4.9m). As a consequence of lower demand during the year i n periods when the economy was closed, Group receivables fell from £72.8m in FY20 to £53.5m in FY21, our total number of customers also reduced to 180,000 (FY20: 255,000). Despite the challenges faced by the business, we continued to deliver excellent support and service to our customers, resulting in a 98% customer satisfaction score (FY20: 97%).

Chief Executive Officer's review continued

HCC
In response to the evolving Covid-19 situation, the HCC division tightened its lending criteria as we deliberately limited our appetite for lending. We sought to identify only the highest quality customer groups, and this resulted in us solely lending to existing customers for a time, before we cautiously expanded our offering to new customers again. We ended the year with customer numbers and lower lending at levels similar to what we forecasted, but the effectiveness of our cautious approach was demonstrated in the final quarter of FY21 as we were able to achieve a cash collections performance matching the same period of FY20, an outstanding result given the market circumstances.

It has also been clear from customer satisfaction surveys that our HCC customers are very happy with our new blend of digital and face-to-face customer service. Though many still value the personal contact of our agents, a significant number have embraced the ease and flexibility provided by the customer portal, and we expect this trend to continue.

Digital
We also tightened our lending criteria within our digital business, however, we still received and approved more applicants, grew our customer base, issued more loans and even managed to improve our collection performance. We believe this excellent performance demonstrates that better decision making is happening as a direct result of the new systems, practices and procedures we have embedded with our new loan management platform, which is hugely encouraging.

Though we expected the digital business to perform well with its established customers, as 27% of our lending has been from existing customers, our ability to achieve growth despite the circumstances has been a real positive of FY21.

In addition, we also rebased our e-money current account services products onto a new platform which offers true banking-grade digital services to our customers and is now truly scalable. This has seen us develop our longer-term, lower cost and revolving credit products, which we plan to offer to our banking customers in Q1 FY22.

External market

Our markets have been radically changed by the pandemic. We see robust demand in the non-standard finance market as Covid-19 recedes and beyond, with a pent-up demand expected to emerge once lockdowns are completely lifted.

We are likely to benefit from reduced competition within the HCC industry. The community of approximately 400 locally-focused and family-owned businesses has sadly been greatly reduced this year to 262, and we would be surprised to see all of those businesses re-emerge in the near future. We also believe that, post-pandemic, our starting position is stronger than our national, quoted competitors, due to our successful changes to the way in which products are delivered and our risk appetite with regard to lending.

We are also strongly positioned to benefit from high demand in digital as a number of online lenders have exited the market and left us with far fewer competitors in that space.

Within the digital banking sector, there has been great interest as a growing number of customers migrate away from mainstream lenders to emerging digital banks. We see exciting opportunities for Morses Club to pick up customers as they move away from the mainstream, because the prevalent online disruptors are not focused on either the non-prime sector or on the provision of credit as an integral part of the banking relationship.

During the year, the Group has observed a noticeable increase in the level of complaints received from both Claims Management Companies (CMCs) and Customers. Whilst the increase in complaints is in line with sector-wide volumes, the number of complaints received by the Group is proportionately lower than other lenders in the sector. Many of the complaints received have been submitted by CMCs on behalf of customers, however, the Group is fully committed to reviewing every complaint and has provided sufficient resource to ensure each case is assessed individually and all customers are treated fairly.

Strategy

Our strategic response to the crisis has been focused on exploiting the re-engineering and digitalisation of the business that had been taking place for many years. Our steady evolution had to become a sudden shift, but our existing technology and expertise has enabled us to make good progress. Our new operating model is already lowering operating costs and increasing efficiencies, whilst still providing excellent levels of customer satisfaction, and good customer outcomes.

As we move beyond the pandemic, we are responding to an emerging desire from consumers for a wider range of products and services within the financial services sector. Our strategic pillars are focused on cross-selling our products and supporting all customers with a blend of our traditional, face-to-face DNA and what we believe to be our cutting-edge technology solutions. We believe we are well positioned to drive strong volume growth across both divisions going forwards.

People, culture and stakeholders

Throughout the pandemic, our priorities have remained the same: protecting all of our key stakeholders whilst ensuring we could continue to support our customers and maintain high levels of satisfaction. Our deep-rooted culture and values, a key strength of the business, have been central to our response, with customer centricity, honesty, clarity and flexibility all underpinning our approach to helping stakeholders.

The transition to home working has been almost seamless, and I'm proud to say that our people have responded extraordinarily well to the year's many challenges. Our early investments in hardware and equipment have made long-term home working easier and more comfortable for our teams, and this has been reflected in no demonstrable decline in productivity.

Looking forward, we see many benefits of a permanent flexible working model for certain parts of the business. This has allowed us to massively reduce our property estate, including a move of our registered office and the closure of all field-based offices, which will result in cost savings and environmental benefits.

Just as we have prioritised delivering for our customers during a difficult time, our customers have delivered for us. Covid-19 had an initial impact on repayment rates, but these have improved and are now back to pre-Covid-19 levels. Customers have been responsible and cooperative, with our work to build long-term relationships being rewarded. Maintaining these relationships and building new ones going forwards will likely require a new blend of face-to-face and digital service and engagement, but we will always be driven by satisfaction rates and what our customers tell us they want.

In terms of wider stakeholders, during the year we have increasingly moved away from our reliance on external technology suppliers. Bringing many of these facilities in-house will have many financial benefits going forwards, and we're grateful to our partners for their help in this transition.

Outlook

As the economy gradually reopens throughout the first half of 2021, our priorities remain the health, safety and wellbeing of our key stakeholders. Though we appreciate many people are keen to return to the office as soon as possible, we will remain cautious in our own unlocking. With large parts of the economy set to remain closed until at least June, we are also cautious about our results for the first half of FY22.

However, the UK economy is widely predicted to rapidly recover over the coming year, and driven by pent-up demand across both of our divisions and a greatly reduced competitive landscape, we are optimistic about achieving year-on-year growth in the second half of the year. Should the UK suffer a longer-term economic downturn as a result of either the pandemic or Brexit or both, our sector has proven resilient in the past and we would remain confident in steady customer demand.

Overall, there are many reasons to be excited about our future growth prospects. Our HCC customer base should recover and expand as a result of welcoming customers back and welcoming new customers from competitors that no longer exist. Increased cross-selling will introduce existing HCC customers to a broader range of digital products, which will drive performance and satisfaction improvements for both divisions. In our digital division, volume growth and profitability will be delivered through attracting a wide range of new customers.

Taking full advantage of these opportunities will provide the bedrock for delivering attractive growth in the coming years once the pandemic has fully receded.

Paul Smith
Chief Executive Officer
13 May 2021

180,000
CUSTOMERS ACROSS THE UK

98%
CUSTOMER SATISFACTION

FINAL DIVIDEND OF
2.0p
PER SHARE