Financial Review

The Group delivered an encouraging financial performance in FY21, overcoming the many challenges presented by Covid-19 to remain profitable whilst transforming our operating model.

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Overview

The results for the Group for the 52 weeks ended 27 February 2021 reflect an encouraging financial performance, overcoming the many challenges presented by Covid-19 to remain profitable while transforming our operating model.

Though the closed economy has lowered demand for our services and caused our customer base and the loan book to shrink, our underlying debt and collection performance has been very strong and we have trimmed costs to mitigate the impact as much as possible. We also decided not to take any government support or furlough any staff.

On a personal level, I'm delighted to have joined the Group and have been very impressed by the progress achieved during the year. We are well placed to grow both sides of the business as the economy reopens and customer demand returns.

Reconciliation of Statutory profit before tax to Adjusted profit before tax and explanation of Adjusted EPS

	FY21			FY20		
£'m (unless otherwise stated)	HCC	Digital	Total	HCC	Digital	Total
Statutory Profit Before Tax	**11.8**	**(11.3)**	**0.5**	**21.2**	**(9.7)**	**11.5**
Covid-19 adjustment to impairment	–	–	–	1.7	–	1.7
Statutory Profit Before Tax before Covid-19 adjustment	**11.8**	**(11.3)**	**0.5**	**22.9**	**(9.7)**	**13.2**
Acquisition, restructuring and non-recurring costs	2.9	2.4	5.3	0.9	2.6	3.5
Exceptional (gain)[2]	–	–	–	–	(2.3)	(2.3)
Amortisation of acquisition intangibles[3]	0.3	–	0.3	0.8	0.4	1.2
Gains arising on acquisition	–	–	–	–	–	–
Normalised Adjusted Profit Before Tax[1]	**15.0**	**(8.9)**	**6.1**	**24.5**	**(9.0)**	**15.5**
Covid-19 adjustment to impairment	–	–	–	(1.7)	–	(1.7)
Adjusted Profit Before Tax[1]	**15.0**	**(8.9)**	**6.1**	**22.8**	**(9.0)**	**13.8**
Tax on Adjusted Profit Before Tax	(0.8)	(0.2)	(1.0)	(2.4)	(0.4)	(2.8)
Adjusted Profit After Tax	**14.2**	**(9.1)**	**5.1**	**20.4**	**(9.4)**	**11.0**
Statutory EPS[1]			**0.2p**			**7.3p**
Normalised EPS[1]			**3.9p**			**9.5p**
Adjusted EPS[1]			**3.9p**			**8.4p**
Statutory Return on Assets[1]	22.0%		**0.3%**	27.5%		**12.8%**
Normalised Return on Assets[1]	27.2%		**8.9%**	31.1%		**16.6%**
Adjusted Return on Assets[1]	27.2%		**8.9%**	29.3%		**14.8%**
Statutory Return on Equity[1]	18.5%		**0.4%**	30.1%		**17.2%**
Normalised Return on Equity[1]	22.8%		**10.3%**	34.1%		**22.3%**
Adjusted Return on Equity[1]	22.8%		**10.3%**	32.1%		**19.9%**

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 138 to 141
2 Release of contingent consideration in relation to the U Holdings Limited acquisition
3 Amortisation of acquired customer lists and agent networks

In FY21 we achieved an adjusted profit before tax[1] of £6.1m (FY20: £13.8m). Statutory profit before tax was £0.5m (FY20: £11.5m).

As expected, Covid-19 impacted demand within HCC with closing customers down by a third to 151,000 (FY20: 221,000) and period-end receivables decreasing by 29.3% to £48.0m (FY20: £67.9m). This resulted in adjusted profit before tax of £15.0m (FY20: £22.8m).

As with HCC, the Digital division was impacted by reduced demand due to lockdown measures and a tightening of lending criteria. Closing customers reduced by (14.7%) to 29,000 (FY20: 34,000) and revenue declined (4.2%) to £13.8m (FY20: £14.4m). This resulted in an adjusted loss before tax of (£8.9m), compared to FY20 (£9.0m).

Total equity for the Group remained unchanged from £70.7m in FY20 to £70.7m.

Financial Review continued

Trading summary

£'m (unless otherwise stated)	52-week period ended 27 February 2021 HCC	Digital	Total	53-week period ended 29 February 2020 HCC	Digital	Total
Customer numbers ('000s)	**151**	**29**	**180**	221	34	255
Credit issued	**109.7**	**19.3**	**129.0**	174.2	16.1	190.3
Period end receivables	**48.0**	**5.5**	**53.5**	67.9	4.9	72.8
Average receivables	**52.3**	**5.2**	**57.5**	69.3	5.0	74.3
Revenue	**86.4**	**13.8**	**100.2**	119.3	14.4	133.7
Impairment	**(13.2)**	**(7.6)**	**(20.8)**	(27.6)	(7.1)	(34.7)
Agent Commission & Other cost of sales	**(20.0)**	**(0.6)**	**(20.7)**	(27.0)	(0.6)	(27.6)
Gross Profit	**53.2**	**5.6**	**58.8**	64.7	6.6	71.3
Administration expenses (pre-exceptional)	**(33.8)**	**(12.2)**	**(46.0)**	(34.4)	(13.8)	(48.2)
Depreciation	**(3.6)**	**(0.7)**	**(4.3)**	(3.6)	(0.7)	(4.3)
Operating Profit before exceptional items and amortisation of acquisition intangibles	**15.8**	**(7.3)**	**8.5**	26.7	(7.9)	18.8
Amortisation of acquisition intangibles	**(0.3)**	**–**	**(0.3)**	(0.8)	(0.4)	(1.2)
Acquisition, restructuring and non-recurring costs	**(2.9)**	**(2.4)**	**(5.3)**	(0.9)	(2.6)	(3.5)
Covid-19 adjustment to impairment	**–**	**–**	**–**	(1.7)	–	(1.7)
Exceptional gain	**–**	**–**	**–**	–	2.3	2.3
Operating profit	**12.5**	**(9.7)**	**2.8**	23.2	(8.5)	14.7
Funding costs	**(0.7)**	**(1.6)**	**(2.4)**	(2.1)	(1.1)	(3.3)
Statutory Profit Before Tax	**11.8**	**(11.3)**	**0.5**	21.2	(9.7)	11.5
Tax	**(0.3)**	**0.1**	**(0.2)**	(2.0)	0.1	(2.0)
Statutory Profit After Tax	**11.5**	**(11.2)**	**0.2**	19.2	(9.7)	9.5
Basic EPS			**0.2p**			7.3p

Group results

Credit issued to customers decreased by (32.2%) to £129.0m (FY20: £190.3m) mainly because of the Covid-19 impact on HCC business. HCC credit issued of £109.7m was a (37.0%) reduction on FY20 (FY20: £174.2m), reflecting both the reduced demand due to multiple national and regional Covid-19 lockdowns during the year and stricter lending criteria to protect the quality of the loan book. Credit issued in Digital was impacted by Covid-19 lockdowns and tighter lending criteria, but despite this, credit issued increased by 19.9% to £19.3m (FY20: £16.1m).

Revenue decreased by (25.1%) to £100.2m (FY20: £133.7m) due to the Covid-19 impact on demand and the temporary inability in HCC during H1 to lend to new customers. HCC revenue decreased by (27.6%) to £86.4m (FY20: £119.3m). Digital revenue decreased by (4.2%) to £13.8m (FY20: £14.4m) as a result of the collection of the acquired CURO Transatlantic Limited loan book inflating the numbers in FY20.

Gross profit decreased by (17.5%) to £58.8m (FY20: £71.3m). The gross profit percentage increased to 58.7% from FY20 53.3%. The HCC impairment charge as a percentage of revenue of 15.3% is below our guidance range of 21% to 26% of revenue. This is due to the favourable impact from a shrinking loan book under IFRS9, tighter lending criteria and the high proportion of lending to existing customers. The Digital impairment charge as a percentage of revenue of 55.1% is at the upper end of our guidance range of 45-55% of revenue.

HCC agent commission costs decreased by (25.9%) to £20.0m (FY20: £27m), while as a percentage of revenue they increased to 23.1% from 22.6% in FY20 as a result of the loan book reducing during Covid-19. Administration expenses and depreciation decreased by £2.2m to £50.3m (FY20: £52.5m), although as a percentage of revenue they increased to 50.2% (FY20: 39.3%). A provision of £2m (FY20 £nil) for customer redress and Financial Ombudsman (FOS) fees has been recognised in recognition of outstanding complaints at the end of the period. Due to significantly lower complaint volumes in FY20 a prior year provision was immaterial and therefore not recognised. In estimating the FY21 provision, management have incorporated historical company information for the average percentage of complaints which are upheld, the average value of compensation claims paid out and the number of outstanding complaints that remained unresolved at the balance sheet date.

Adjusted profit before tax decreased to £6.1m from £13.8m in FY20. HCC adjusted return on assets decreased from 29.3% in FY20 to 27.2% in FY21.

Acquisition, restructuring and non-recurring costs increased to £5.3m from £3.5m in FY20. These costs consist of a restructure within the HCC field team to align them to the new operating model, IT system transition costs and the settlement of the historic Ffrees court case which was disclosed in the FY20 accounts.

Funding costs of £2.4m were (£0.9m) lower than FY20 reflecting the lower level of borrowings throughout FY21.

The statutory profit before tax fell to £0.5m from £11.5m in FY20.

Earnings per share

The adjusted earnings per share for FY21 was 3.9p, a decrease of 53.6% relative to the adjusted earnings per share of 8.4p for FY20. The reported earnings per share for FY21 was 0.2p, a decrease of 97.3% relative to the reported earnings per share of 7.3p for FY20.

Dividend

Subject to shareholder approval at the Annual General Meeting on 22 June 2021, the Board proposes to pay a final dividend of 2.0p per Ordinary Share (FY20: 1.0p) payable on 30 July 2021 to shareholders on the register at the close of business on 2 July 2021.

The payment is in addition to the interim payment dividend already paid of 1.0p per Ordinary Share on 9 April 2021, making a total dividend for the year of 3.0p per Ordinary Share (FY20: 3.6p). This dividend payment reflects the Board's confidence in the Group's prospects.

Funding

During the period we extended our loan facility with the incumbent three lender consortium to December 2021, reducing the facility limit to £40m. In May 2021 we successfully reached agreement with a new two lender consortium, for a more cost efficient and slightly lower £35m facility, extended to December 2022. The new facility will continue funding our existing HCC products, but crucially, it will unlock funding for our Dot Dot loan products and help the business achieve its immediate strategic objectives.

As anticipated, the impact of Covid-19 resulted in reduced lending volumes, a smaller loan book and lower levels of borrowing. In FY21 borrowing peaked at £22.5m in December 2020 (December 2019: £40m of the £55m limit).

Balance sheet

The total equity for the Group is unchanged from £70.7m in FY20 to £70.7m. The Group's main asset is our loan book, which due to the Covid-19 impact on lending volumes decreased on a net basis by (26.5%) to £53.5m.

Summarised balance sheet £'m	FY21	FY20
Loan book	**53.5**	72.8
Goodwill	**12.9**	13.0
Bank borrowings	**(8.3)**	(33.8)
Cash at bank	**8.3**	11.9
Other net assets	**4.4**	6.8
Total equity	**70.7**	70.7

Cash flow

The simplified cash flow statement below illustrates the cash generated by the business. Cash from operating activities increased by 54.7% to £33.1m (FY20: £21.4m), with net borrowing decreasing by (£25.5m), as a result of the shrinking loan book.

Summarised cash flow £'m	FY21	FY20
Cash inflow from operating activities	**33.1**	21.4
Net borrowing (decrease)/increase	**(25.5)**	19.5
Net cash outflow from investing activities	**(6.4)**	(22.4)
Dividends paid	**(1.3)**	(10.2)
Other net cash flow movements	**3.5**	4.3
(Decrease)/Increase in cash and cash equivalents	**(3.6)**	4.0

Outlook

Due to much of the economy being closed for the majority of this financial year, we're yet to see the financial benefits of our HCC operating model transformation. There are economic uncertainties ahead, with the UK currently in the process of emerging from lockdown. We remain cautious about the first half of FY22, however, strong foundations have been laid and we're excited for what can be achieved in the future and confident in the growth opportunities that will be created by our new operating model.

The Digital division implemented two new IT platforms in the year to strengthen the existing loans management system and to create a robust banking proposition. The Digital division is now primed for growth and we are now focusing on scaling the business and achieving run-rate profitability by the end of FY22.