18 December 2020

# Morses Club PLC
# Interim results for the 26 weeks ended 29 August 2020

## Innovation-led response to Covid-19 to meet changing customer needs

Morses Club PLC ("the Company" or “the Group”), an established provider of non-standard financial services, is pleased to announce its interim results for the 26 weeks ended 29 August 2020.

**Operational Highlights:**

- Rapid and comprehensive response to Covid-19, leveraging existing digital technology and expertise
- Reconfiguration of lending, collecting and operating processes to ensure the safety of customers, employees and agents
- Remote lending to existing HCC customers recommenced just three weeks after March lockdown, in strict accordance with government guidance
- Focus on quality of lending which gives confidence in future repayment levels
- Remote lending to new HCC customers launched in July 2020
- Very positive customer response to digital HCC offering
- Significant progress in the development of a new loan management platform, now in final test phase to go live in December
- Customer satisfaction maintained at 97%
- Over 117,000 customers registered for customer portal as at 29 August 2020, rising to 124,000 currently (H1 FY20: nil)
- New service agreement with Modulr will provide enhanced products and services for U Account customers, due from early Spring 2021
- No staff furloughed nor any Government debt or other support packages applied for
- Total Group customer numbers: 205,000 (H1 FY20: 276,000)

**Financial Highlights:**

- Revenue decreased by 24.3% to £50.2m (H1 FY20: £66.3m)
- Total credit issued to all customers of £60.2m (H1 FY20: £91.0m)
- Total credit issued to HCC customers was 40.2% lower at £51.1m (H1 FY20: £85.5m)
- Net loan book of £55.6m, reduced 23.0% (H1 FY20: £72.2m)
- Adjusted profit before tax[1] of £2.3m (H1 FY20: £9.6m)
- Statutory profit before tax of £0.8m (H1 FY20: £6.7m)
- Adjusted HCC profit before tax[1] of £6.8m, a decrease of 48.1% (H1 FY20: £13.1m)
- Statutory HCC profit before tax of £5.6m, a decrease of 52.1% (H1 FY20: £11.7m)
- Adjusted loss before tax[1] in Digital division of (£4.5m) as a result of enhancing scale and capability of recent acquisitions (H1 FY20: (£3.5m))
- Statutory loss before tax in Digital division (£4.8m) (H1 FY20: (£5.0m))
- Impairment as a percentage of revenue[1] for the period 23.5% (H1 FY20: 19.0%)
- Adjusted return on assets[1] of 9.9% (H1 FY20: 24.0%)
- Adjusted EPS[1] of 0.6p (H1 FY20: 5.9p)
- Statutory EPS of 0.5p (H1 FY20: 4.1p)
- Proposed interim dividend of 1.0p pence per share (H1 FY20: 2.6p)

*1. Definitions are set out in the Glossary of Alternative Performance Measures on page 35*

## Alternative Performance Measures & Key Performance Indicators

| Key performance indicators | 26-week period ended 29 August 2020 | 27-week period ended 31 August 2019 | % +/- |
|---|---|---|---|
| Revenue | £50.2m | £66.3m | (24.3%) |
| Net Loan Book | £55.6m | £72.2m | (23.0%) |
| Adjusted Profit Before Tax[1] | £2.3m | £9.6m | (76.0%) |
| Statutory Profit Before Tax | £0.8m | £6.7m | (88.1%) |
| Adjusted Earnings per share[1] | 0.6p | 5.9p | (89.8%) |
| Statutory Earnings per Share | 0.5p | 4.1p | (87.8%) |
| Cost / Income ratio | 67.5% | 63.9% | (5.6%) |
| Return on Assets | 7.0% | 19.1% | (63.4%) |
| Adjusted Return on Assets[1] | 9.9% | 24.0% | (58.8%) |
| Return on Equity | 9.5% | 22.6% | (58.0%) |
| Adjusted Return on Equity[1] | 13.4% | 28.4% | (52.8%) |
| Tangible Equity / average receivables[1] | 74.2% | 84.5% | (12.2%) |
| No of customers (000's) | 205 | 276 | (25.7%) |
| Number of agents | 1,584 | 1,817 | (12.8%) |
| Credit Issued | £60.2m | £91.0m | (33.8%) |
| Impairment as % of Revenue[1] | 23.5% | 19.0% | (23.7%) |

*1. Definitions are set out in the Glossary of Alternative Performance Measures on page 35*

**Paul Smith, Chief Executive Officer of Morses Club, commented:**

*"In response to the Covid-19 pandemic, Morses Club responded decisively, leveraging its digital expertise and capabilities to accelerate its strategy of servicing customers remotely.*

*"Within just three weeks of lockdown in March, we recommenced lending to existing HCC customers and launched digital lending to new HCC customers in July 2020. Credit issued and collections in the HCC division were inevitably impacted by the loss of face-to-face interaction, but customers responded very positively to our remote HCC lending product with c. 65% of loans now being delivered through bank transfer. The acceleration of the digitalisation of our business can only serve to improve choice and flexibility for our customers, employees and agents.*

*"Our Digital division continues to make strong progress. In August, we announced a new strategic relationship with Modulr, which will enable us to offer services not typically available outside of mainstream banking providers. The forthcoming launch of our improved mobile application and new lending products by the end of this financial year will deepen and broaden our customer base further.*

*"The way in which Morses Club has responded to the unprecedented challenges posed by Covid-19 is something that I am extremely proud of. I am hugely grateful to our colleagues across the company, all of whom went the extra mile to ensure that our customers' needs were met and continued to receive excellent customer service.*

*“The speed of progress we have made across the Group in the period is testament to our investment in technology over a number of years and Morses Club is well-placed to become a more complete financial services provider in the growing and fragmented non-standard credit sector.*

*“Whilst we are pleased with the undoubted resilience shown by the business during H1, we are fully cognisant of the impact on consumer confidence due to the ongoing lockdowns across the UK, which directly affects the communities we serve. We accept that market conditions remain challenging but are confident that our approach will continue to deliver improvements.”*

**Sell-side Analyst Presentation**
The Company will be holding a virtual sell-side analyst presentation at 09:30 on Friday 18th December Please contact morses@camarco.co.uk if you would like to attend.

**Forward looking statements**
This announcement includes statements that are, or may be deemed to be, “forward-looking statements”. By their nature, forward-looking statements involve known and unknown risks and uncertainties since they relate to future events and circumstances. Actual results may, and often do, differ materially from any forward-looking statements.

Any forward-looking statements in this announcement reflect Morses Club’s view with respect to future events as at the date of this announcement. Save as required by law or by the AIM Rules for Companies, Morses Club undertakes no obligation to publicly revise any forward-looking statements in this announcement following any change in its expectations or to reflect events or circumstances after the date of this announcement.

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**Notes to Editors**
**About Morses Club**

Morses Club is an established provider of non-standard financial services in the UK. The Group consists of Morses Club, the UK's second largest home collected credit ("HCC") provider, and Shelby Finance Limited, Morses Club's Digital division, which operates under two online brands, Dot Dot Loans, an online lending provider, and U Account, which offers online e-money current accounts. The Group's growing Digital capabilities and scalable, highly invested IT platform has enabled Morses Club to deliver an increasingly broad range of financial products and services to the non-standard credit market.

UK HCC is considered to be a specialised segment of the broader UK non-standard credit market. UK HCC loans are typically small, unsecured cash loans delivered directly to customers' homes. Repayments are collected in person during weekly follow-up visits to customers' homes. UK HCC is considered to be stable and well-established, with approximately 1.6 million[1] people using the services of UK HCC lenders.

Morses Club's HCC division is the second largest UK Home Collected Credit (HCC) lender with 170,000 customers throughout the UK. The majority of the Company's customers are repeat borrowers and the HCC division enjoys consistently high customer satisfaction scores of 97%[2]. In 2016, the Morses Club Card, a cashless lending product, was introduced and in 2019 the Company introduced an online customer portal for its HCC customers, which now has over 124,000 registered customers.

The Group's growing Digital division, Shelby Finance, operates under two online brands. Dot Dot Loans provides online instalment loans of up to 48 months to c. 20,000 active customers. U Account is a leading digital current account provider offering an alternative to traditional banking by providing a fully functional agency banking service. U Account currently has c. 15,000 customers.

Morses Club listed on AIM in May 2016.

**About the UK non-standard credit market**

The UK non-standard credit market, of which UK HCC is a subset, consists of both secured and unsecured lending and is estimated to comprise around 10 million consumers[3] and total loan receivables of £10.7bn[4].

Non-standard credit is the provision of secured and unsecured credit to consumers other than through mainstream lenders. Lenders providing non-standard credit principally lend on an unsecured basis and the market is characterised by high frequency borrowing. Approximately 2 million people move annually between standard and non-standard markets[4].

Since February 2014, unsecured personal lending has grown from £161 billion to £225 billion in February 2020. It has since contracted to £206 billion in October 2020[5].

1 High Cost Credit Review ANNEX 1 - July 2017

2 Independent Customer Satisfaction Survey conducted by Mustard

3 FCA High Cost Credit Review Technical Annex 1: CRA data analysis of UK personal debt - July 2017

4 Apex Insight - Non-Prime Consumer Credit: UK Market Insight Report - September 2019

5 Table A5.2, Bank of England Money and Credit Bank stats October 2020

Review ANNEX 1 - July 2017

## Chief Executive Officer's Statement

### Overview

The first half of FY21 posed unprecedented challenges due to Covid-19. The impact of the national lockdown in March required an immediate response as face-to-face lending and the home collection practices of our HCC business became temporarily unworkable.

The Group responded decisively, quickly leveraging our existing technology and expertise to ensure that we could continue to provide an effective solution for our customers. Testament to our focus over the last few years on building the right team and infrastructure to deliver what we believe to be a best-in-class digital offering, in just three weeks we were able to recommence lending to existing HCC customers remotely. By July, we had developed a platform which enabled us to restart lending remotely to new HCC customers.

The customer response to our cashless lending and remote collections model has been extremely positive and I am delighted to report that the customer portal had over 117,000 customers as at August 2020 and this has since risen to over 124,000.

In August 2020, the Group recommenced revised face-to-face lending and collection activity in customer homes, in strict accordance with government social distancing guidelines. Remote lending represented 58% of HCC loans issued in the six months to August 2020, rising to 61% in November 2020, demonstrating that a greater number of customers are choosing to utilise Morses Club's remote lending product.

Despite the extreme challenges we faced, our unstinting focus has been on providing our customers with exceptional service. I am delighted that customer satisfaction has been maintained at 97% or above during the period from March 2020, in no small part due to the tireless efforts of our colleagues and agents to support our customers at a time of need.

Alongside digital innovation in our HCC division, our Digital division has continued to make progress. In August, we announced a new service agreement with Modulr, which will provide an enhanced product and service platform for our U Account customers. We are currently working on the roll-out of a new app and several new product launches, which will position us to take advantage of opportunities in the wider non-standard credit market.

Driven by the challenges of lending to new and existing HCC customers and lower customer demand during lockdown, total credit issued decreased by 33.8% to £60.2m (H1 FY20: £91.0m) and revenue decreased by 24.3% to £50.2m (H1 FY20: £66.3m).

The Group has continued to implement structural changes to the business, with a transformative rationalisation of its property portfolio, reducing its regional administration branches from 94 properties to 20 currently, and operationally closing its Support Centre. All staff continue to work from home, with a recent survey showing that 90% of them are satisfied with this arrangement.

### HCC

As a consequence of the limitations of the early period of lockdown, when the Company could not lend to existing customers until April and new customers until July, credit issued in HCC was lower at £51.1m (H1 FY20: £82.2m).

Customer loan repayments for the period were £104.5m (H1 FY20: £133.2m). This reduction reflects the decrease in the size of the loan book and customer numbers, an inevitable outcome when cash collections have remained relatively strong whilst credit issued has been suppressed, as new customer lending only recommenced in July.

Despite the speed with which the HCC division had to adapt, the collections performance to terms has remained robust. Having initially dropped to 79% of historical expectations in April 2020, it quickly recovered to 98% by July 2020. Since the half year, total collections have continued to be at 95% of historical expectations. However, this is due to a higher proportion of customers making part payments as a result of being directly affected by Covid-19. The remaining customers are performing in line with historical expectations.

Remote collections for H1 FY21 make up 78% of all collections (H1 FY20: 39%), with remote debit card payments making up 57% (H1 FY20: 35%) and portal payments 18% (H1 FY20: 2%).

**Digital**

We have made continued progress in the Digital division over the period. The significant restructuring activity in Shelby Finance is broadly complete and the business is now focused on building an improved offering to our customers. The infrastructure we worked hard to put in place prior to the onset of Covid-19 has stood us in good stead and I am delighted by the depth of the changes we continue to make to enhance our product offering.

We will be introducing a new loan management platform in the second half of the financial year which will act as a launchpad for the next phase of the Group's digital strategy, positioning the division for market share growth in the expanding non-standard credit market. The integration of linked banking and credit products planned for the months ahead is particularly exciting. This is testament to the work being done by Gary Marshall, COO of Shelby Finance, and his team.

The Digital division posted strong credit issued figures, which increased by 66% to £9.1m over the period, and robust collection figures, which in Q2 FY21 were up 39% year-on-year (partly driven by stronger credit issued volumes, but also by an improvement in debt quality). This strong performance despite the impact of the pandemic is evidence of the work that has been done over the past year to re-engineer U Holdings Limited and CURO Transatlantic Limited into a coherent product offering. As a result of the significant re-engineering of the acquired business into Shelby Finance, credit issued was relatively low in the comparative first quarter of FY20. However, credit issued in the second quarter of FY21 was still 15% ahead of last year, despite a combination of tightening credit score requirements for customers as well as the impact of lower consumer demand.

The announcement in August of a supplier relationship with Modulr Finance Limited for Shelby Finance is a significant step for the Group. The Modulr platform will provide our customers with an enhanced payments service, along with a superior customer service experience for their e-money and payment needs. The superior performance of Modulr's platform allows the Group to increase its scale in e-money accounts and leverage the wider suite of Modulr products. It is the Group's intention to offer complementary products to these customers, including revolving and fixed-lending products, enabling Morses Club to offer an enhanced and integrated digital offering to all its customers, who have strongly indicated their demand for these products. This wide-ranging digital payment solution, which is not typically available outside of mainstream banking lenders, leaves us well-placed to capitalise on opportunities in the wider non-standard credit market.

We remain encouraged by customer demand for linked banking and credit products. Independent market research has found that 50% of customers would like a linked banking and credit product to be available, with strong demand in the younger age customer demographic for these products, rising to more than 67% in the 36-55 age bracket. This validates and underpins our continued focus on becoming a more well-rounded and complete financial services provider to the non-standard credit market.

Furthermore, the demand for e-banking current account products remains stable, with active, fee-generating customers standing at c.15,000 at the end of August 2020. Further brand and product enhancements are underway in H2 FY21, with the introduction of a much-improved mobile app for U Account and the introduction of the U Money brand.

We have made the strategic decision to move away from offering 3-month credit products. This is an extremely competitive sub-sector and the margins were proving insufficient to cover the cost of customer acquisition and credit losses. This has resulted in a material change in the average product mix compared to H1 FY20. The average product length at the period end was 6.9 months, compared to 5.2 months in the previous period. We continue to monitor competition in the 3-month product sector and will revisit this product should market conditions change.

**Customer numbers**

We expected customer numbers in HCC to fall during the first half of the year, but the decrease in the number of customers has been considerably higher than expected. This is mainly due to restrictions on lending to new customers in place from March 2020 to mid-July 2020, which directly resulted in 25,000 fewer new customers. Combined with weaker customer demand which resulted in an increase in good paid-up customers of 9,000, this contributed to an overall reduction in customer numbers of 71,000 in the half-year.

The rate of decline in HCC customer numbers more than halved in August 2020, following the recommencement of lending to new customers. The Company expects its customer base to continue to stabilise in H2 FY21.

For the Digital division, customer numbers ended the period where they began. Numbers fell between March and June 2020 as the impact of Covid-19 on customer demand and increasingly stringent lending criteria suppressed credit issued, before a robust recovery in July and August 2020.

**External market**

We are of the belief that the Covid-19 pandemic is likely to have a medium-term impact on the non-standard credit market. Economic conditions are likely to push some prime borrowers into the non-standard market. There are already c.2m people who move between standard and non-standard markets due to credit scores and this is only likely to increase, with Morses Club well-positioned to cater for this customer base.

**Executive team**

Post period-end we announced the appointment of Graeme Campbell as Chief Financial Officer, subject to FCA approval, which was confirmed on 10 December 2020. Graeme brings a wealth of experience to the business, including broader digital and commercial skills and I am delighted to welcome him to the Group.

I would like to pay thanks to Andy Thomson for his work as Interim Chief Financial Officer, particularly in such a challenging trading environment, and I am delighted that he will remain with Morses Club, resuming his role as Non-Executive Director following an extensive handover.

**Dividend**

The Board is delighted to declare an interim dividend of 1.0p per share (H1 FY20: 2.6p), demonstrating its confidence in the Group's prospects.

The dividend of 1.0p per share will be paid on 9 April 2021 to ordinary shareholders on the register on 12 March 2021.

**Outlook**

Whilst Covid-19 has impacted Morses Club and the wider sector, I am delighted by the way the business has responded and risen to the challenge. We had to respond quickly to a fast-moving and unprecedented situation, and the first six months of the financial year have accelerated the Group's existing digitalisation strategy.

This acceleration is benefiting Morses Club, with the investments we have made over the past few years and the acquisitions of U Holdings Limited and CURO Transatlantic Limited starting to bear fruit. The past six months have enabled Morses Club to develop into a more complete provider of financial services to the non-standard credit market, and we believe we are well-positioned to capture a larger portion of this market through our technological offering.

**Paul Smith**
**Chief Executive Officer**
Date: 18 December 2020

## Financial Review

| | 26-week period ended 29 August 2020 | 27-week period ended 31 August 2019 |
|---|---|---|
| Customer numbers ('000's) | **205** | **276** |
| Period end receivables | £55.6m | £72.2m |
| Average receivables | £66.9m | £76.3m |

| | | |
|---|---|---|
| **Revenue** | **£50.2m** | **£66.3m** |
| Impairment | (£11.8m) | (£12.8m) |
| Agent Commission | (£10.6m) | (£14.5m) |
| **Gross Profit** | **£27.8m** | **£39.0m** |
| Administration expenses | (£23.5m) | (£29.5m) |
| Depreciation | (£2.0m) | (£1.4m) |
| **Operating Profit before amortisation of acquisition intangibles** | **£2.3m** | **£8.1m** |
| Amortisation of acquisition intangibles | (£0.2m) | (£0.5m) |
| **Operating profit** | **£2.1m** | **£7.6m** |
| Gain arising on acquisitions | - | £0.6m |
| Funding costs | (£1.3m) | (£1.5m) |
| **Statutory Profit Before Tax** | **£0.8m** | **£6.7m** |
| **Tax** | **(£0.2m)** | **(£1.3m)** |
| **Profit After Tax** | **£0.6m** | **£5.4m** |
| **Basic EPS** | **0.5p** | **4.1p** |

### Reconciliation of Statutory Profit Before Tax to Adjusted profit before tax and explanation of Adjusted EPS

| **£'m (unless otherwise stated)** | **26-week period ended 29 August 2020** | **27-week period ended 31 August 2019** | **% change** |
|---|---|---|---|
| **Statutory Profit Before Tax** | **0.8** | **6.7** | **(88.1%)** |
| Amortisation of acquired intangibles[2] | 0.2 | 0.5 | **(60.0%)** |
| Gain arising on acquisitions | - | (0.6) | **n/a** |
| Non-recurring costs[3] | 1.3 | 3.0 | **n/a** |
| **Adjusted Profit Before Tax[1]** | **2.3** | **9.6** | **(76.0%)** |
| Tax on Adjusted Profit Before Tax | (0.4) | (1.9) | **(78.9%)** |
| **Adjusted Profit After Tax** | **1.8** | **7.7** | **(76.6%)** |
| **Adjusted EPS[1]** | **0.6** | **5.9** | **(89.8%)** |
| **Adjusted Return on Assets[1]** | 9.9% | 24.0% | **(58.8%)** |
| **Adjusted Return on Equity[1]** | 13.4% | 28.4% | **(52.8%)** |

*1 Definitions are set out in the Glossary of Alternative Performance Measures*
*2 Amortisation of acquired customer lists and agent networks*
*3 Includes redundancy, professional fees and property rationalisation expenses*

**Group Highlights**

Group statutory profit before tax for the six-month period to 29 August 2020 decreased by 88.1% to £0.8m (H1 FY20: £6.7m). The adjusted profit before tax for the six-month period to 29 August 2020 decreased by 76.0% to £2.3m (H1 FY20: £9.6m).

The costs recognised in the current period due to the impact of Covid-19 and reported in our FY20 accounts compared to the estimates are detailed in the table below.

| | **Actual charge** | **PBSE estimate** | **Variance** |
|---|---|---|---|
| Increased expected credit losses | 5.8 | 5.8 | - |
| Loss of forward flow income | 0.6 | 0.3 | (0.3) |
| Extended loan lives | 0.6 | 0.8 | 0.2 |
| **Total** | **7.0** | **6.9** | **(0.1)** |
| Less: IFRS9 provision in FY20 | (1.7) | (1.7) | - |
| **Net charge** | **5.3** | **5.2** | **(0.1)** |

For expected credit losses in HCC we have been able to compare actual debt write offs compared to the historical norms. This was calculated by looking at the actual write off in the first 26 weeks of FY21 of £16.0m and comparing it to last year's write off over the same period of £13.8m. Last year's number was adjusted down by reference to the relative loan book size in FY21 which is smaller than in FY20 to calculate the normal expected write off. This is offset by the shrinkage in the loan book as explained further below.

The normalised adjusted profit before tax, having taken into account the impact of Covid-19 that was identified as a non-adjusting post balance sheet event of £5.2m in the February 2020 accounts, was £7.5m, a decrease of 21.9% (H1 FY20: £9.6m).

Total Group revenue for the 26-week period ended 29 August 2020 decreased by 24.3% to £50.2m (H1 FY20: £66.3m). This decrease resulted from the sharp decrease in consumer demand and, in the HCC business, our temporary inability to lend to new customers which then fed through to lower levels of revenue.

Impairment increased to 23.5% of revenue (H1 FY20: 19.0%), however this includes the impact of Covid-19 which was reported as a post balance sheet event in the FY20 annual report and accounts. Excluding this impact gives a normalised adjusted impairment charge of 16.5% which is artificially very low due to the favourable impact under IFRS9 from a shrinking loan book, particularly on the HCC business, the disproportionate weighting of credit issued to existing customers and higher credit criteria put in place for new lending early in the financial year.

Whilst administration costs and depreciation as a percentage of revenue increased to 50.8% (H1 FY20: 46.6%), in absolute terms they reduced by 17.5% to £25.5m (H1 FY20: £30.9m). Agent commission costs also reduced significantly to £10.6m (H1 FY20: £14.5m), bringing the total operating cost savings for the six-month period to £7.8m.

Funding costs of £1.3m were slightly down from last year (£1.5m) reflecting the Group starting the period with a higher level of debt and ending the period with a lower level of debt compared to the equivalent period last year.

Total customer numbers, including Shelby Finance, were 205,000 as at the end of August 2020, a reduction of 25.7% compared with the prior year (H1 FY20: 276,000) of which 20,000 were due to a stricter classification of a live digital customer and the balance entirely in HCC.

**Home Collect Credit**

| **Key performance indicators** | **Aug-20** | **Aug-19** | % +/- |
|---|---|---|---|
| - **£'m unless otherwise stated** | | | |
| Customer numbers ('000's) | 170 | 224 | (24.1%) |
| Period end receivables | 50.4 | 68.2 | (26.1%) |
| Average receivables | 61.5 | 69.9 | (12.0%) |
| | | | |
| Revenue | 44.2 | 59.4 | (25.6%) |
| Impairment | (8.3) | (10.9) | (23.9%) |
| Agent commission & other cost of sales | (10.3) | (14.4) | (28.5%) |
| Gross profit | 25.6 | 34.1 | (24.9%) |
| | | | |
| Admin expenses | (16.2) | (18.1) | (10.5%) |
| Depreciation | (1.9) | (1.7) | 11.8% |
| Normalised operating profit | 7.5 | 14.3 | (47.6%) |
| | | | |
| Financing costs | (0.7) | (1.2) | (41.7%) |
| **Adjusted PBT** | **6.8** | **13.1** | (48.1%) |
| | | | |
| Covid-19 impact identified in PBSE | 4.3 | - | |
| **Normalised adjusted PBT** | **11.1** | **13.1** | (15.3%) |
| | | | |
| Covid-19 impact identified in PBSE | (4.3) | - | |
| Acquisition, restructuring and non-recurring costs | (1.0) | (0.8) | 25.0% |
| Amortisation of acquisition intangibles | (0.2) | (0.5) | (60.0%) |
| | | | |
| **Statutory PBT** | **5.6** | **11.7** | (52.1%) |
| | | | |
| Impairment/revenue | 18.8% | 18.4% | 1.4% |
| Agent commission/revenue | 23.3% | 24.2% | (3.2%) |
| Admin (inc Depn) exp/revenue | 41.0% | 33.3% | 22.9% |

*1. Definitions are set out in the Glossary of Alternative Performance Measures on page 35*

Credit issued for the 26 weeks to 29 August 2020 was £51.1m compared to £82.2m in the 26-week equivalent period in H1 FY20, a decline of 37.8%, and compared to £85.5m reported for the 27-week period to 31 August 2019. Credit issued recovered during the period from the initial reductions experienced in April and May 2020. This reduction in April to June 2020 was due to lending only being available to existing customers. By August 2020, the year on year reduction in credit issued reflected mostly the reduced customer numbers although customer demand remained slightly weaker as regional lockdowns were implemented.

Customer loan repayments for the 26 weeks to 29 August 2020 were £104.5m, compared to £133.2m in the 26-week equivalent period the previous year, a reduction of 21.5% and £138.2m reported for the 27-week period to 29 August 2019. Repayments compared to last year remained much more consistent during the period, recovering from a low of 72.3% in April 2020 to 78.3% at the end of August 2020, with a 26-week average of 78.4%.

The reduction in loan repayments reflects the decrease in the size of the loan book and customer numbers, an inevitable outcome when cash collections remained relatively strong whilst credit issued was suppressed, as new customer lending only recommenced in July. Although customer numbers had been expected to decline over the first half of the year, this decline was considerably more marked, primarily due to the restrictions on lending to new customers from March 2020 to mid-July 2020, which directly resulted in 25,000 fewer new customers.

We also experienced a 9,000 year on year increase in customers repaying their loans and not requesting further credit, which is thought to be due to a combination of lower spending needs and the economic uncertainties brought on by Covid-19, making customers more cautious about borrowing.

As a result of the market conditions detailed above, income fell by 25.6% to £44.2m (H1 FY20: £59.4m). We were able to partly mitigate this with £4.0m reduction in agent commission to £10.3m (H1 FY20: £14.3m) and reductions in administration expenses and depreciation in total of £1.7m to £18.1m (H1 FY20: £19.8m).

Impairment of (£8.3m) was 18.8% of revenue and is below our guidance range of 21% to 26%. This result is a combination of the high proportion of lending to known performing existing customers, and the IFRS9 impact on impairment when credit issued is significantly lower than collections and overall balances are in decline. Our long-term guidance remains unchanged.

The statutory profit before tax of £5.6m was down 52.1% (H1 FY20: £11.7m) whilst the adjusted profit before tax of £6.8m was 48.1% down (H1 FY20: £13.1m). The normalised adjusted profit, excluding the impact of Covid-19 as identified as a post balance sheet event, was down 15.3% to £11.1m (H1 FY20: £13.1m).

As at August 2020, the gross loan balances of customers had reduced by 21.5% compared to August 2019.

## Digital Lending

| Key performance indicators | Aug-20 | Aug-19 | % +/- |
|---|---|---|---|
| - | | | |
| **£'m unless otherwise stated** | | | |
| Customer numbers ('000's) | 35 | 52 | (32.7%) |
| Period end receivables | 5.2 | 4.0 | 30.0% |
| Average receivables | 5.4 | 1.7 | 217.6% |
| | | | |
| Revenue | 6.0 | 6.9 | (13.0%) |
| Impairment | (3.5) | (1.6) | 118.8% |
| Agent commission & other cost of sales | (0.3) | (0.4) | (25.0%) |
| Gross profit | 2.2 | 4.9 | (55.1%) |
| | | | |
| Admin expenses | (5.9) | (7.6) | (23.4%) |
| Depreciation | (0.2) | (0.5) | (60.0%) |
| Normalised operating profit | (3.9) | (3.2) | 18.2% |
| | | | |
| Financing costs | (0.6) | (0.3) | 100.0% |
| **Adjusted PBT** | **(4.5)** | **(3.5)** | 25.0% |
| | | | |
| Covid-19 impact identified in PBSE | 0.9 | - | |
| **Normalised adjusted PBT** | **(3.6)** | **(3.5)** | - |
| | | | |
| Covid-19 impact identified in PBSE | (0.9) | - | |
| Acquisition, restructuring and non-recurring costs | (0.3) | (2.1) | (85.7%) |
| Exceptional gain | - | 0.6 | (100.0%) |
| **Statutory PBT** | **(4.8)** | **(5.0)** | (5.9%) |
| | | | |
| Impairment/revenue | 58.3% | 23.2% | 151.6% |
| Agent commission/revenue | 5.0% | 5.8% | (13.8%) |
| Admin (inc Depn) exp/revenue | 101.7% | 118.8% | (14.8%) |

*1 Definitions are set out in the Glossary of Alternative Performance Measures*

Credit issued for the 26 weeks to 29 August 2020 was £9.1m compared to £5.5m in the 26-week period in H1 FY20, an increase of 65.5%. In part this reflects the low credit issued in the first quarter of last year due to re-platforming of the business.

The impact of Covid-19 on the overall business has impacted the trajectory of Morses Club's Digital business to profitability and, whilst performance compared to last year is very positive, the trajectory of cash and credit issued has been impacted by the fall in customer demand, as Morses Club's focus on the quality of its lending has led to much lower volumes of credit issued than our pre-Covid-19 forecast anticipated.

Revenue declined by 13.0% to £6.0m (FY20 H1: £6.9m) as a result of the collection of the acquired CURO Transatlantic Limited loan book inflating the numbers in FY20.

Impairment is reported as being 58.3% of revenue, however this includes the impact of Covid-19 reported as a post balance sheet event in the FY20 full year accounts of £0.9m. Excluding this adverse impact the underlying impairment rate was 43.3% which is likely to be below what we would expect longer term due to benefitting from the IFRS9 impact on impairment when credit issued is relatively low compared to collections. We have not previously given guidance for our expected impairment for Digital lending but now see it as being in the range of 45%-55% which is in line with our business plans at the commencement of developing this business proposition.

Administration costs (including depreciation) decreased by 24.7% to £6.1m (H1 FY20: £8.1m) and as a percentage of revenue fell to 102% from 119% in H1 FY20. This cost management is even more impressive given that we only had the costs of digital banking for two months of the first half year last year. Had the cost base in July and August 2019 been in place throughout H1 FY20 then last year's costs for the period would have been £1.5m higher.

As at August 2020, the net loan balances of customers had increased by 30.0% to £5.2m (August 2019: £4.0m).

The adjusted loss before tax of (£4.5m) compares adversely to (£3.5m) reported for last year, however the normalised loss excluding the Covid-19 impact reported as a post balance sheet event in the FY20 accounts is similar (£3.6m). However, given the profit upside last year from the collect out of the CURO Transatlantic Limited loan book, the additional costs this year of operating the banking division for six months as opposed to two months last year and the 30.0% growth in net receivables, the underlying trend is one of positive improvement.

We therefore leave our guidance unchanged that the Digital business will reach a break-even position during FY22.

**Funding**

During the period, the Group agreed a new loan facility with its existing funding syndicate until the end of November 2021 and further extended this to December 2021 in December 2020. There is a reduction in the size of the facility from £50 million to £40 million to better reflect the requirements of the business.

It is testament to the resilience of the Group that the business was able to secure funding in this challenging time with a high-class syndicate who have shown their faith in the business.

The Group has reduced its debt position through the period with borrowings at £14m at the period end. This compares favourably to both August 2019 (£23m) and February 2020 (£34m). The Group has sufficient headroom through its peak lending period in the month of December.

**Principal Risks and Uncertainties**

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the remaining 26 weeks of the financial year and could cause results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the 53 weeks ended 29 February 2020. These should be read in the context of the cautionary statement regarding forward looking statements at the beginning of these Interim Results. A detailed explanation of the risks summarised below, and how the Company seeks to mitigate the risks, can be found on page 24 of the annual report which can be found at www.morsesclubplc.com/investors/.

The Company's principal financial assets are loan book receivables, cash and other receivables.

*Conduct Risk*

Treating Customers Fairly is a fundamental part of the Company's culture. Comprehensive and verifiable training and oversight of agents and staff is undertaken. First and second-line quality assurance operates alongside an automated, mobile technology-based credit issued & collections' process. The HCC division has implemented enhanced affordability procedures incorporating additional external data. This, together with the new loan optimisation system has enhanced our affordability process and the customer journey for agents and customers at the point of sale. The HCC division enhanced the digital loan process to facilitate remote lending

*Regulatory Risk*

A gap analysis is undertaken when any rules or regulatory guidance changes. Governance, risk and compliance are independently and externally reviewed by our lawyers. We maintain continuous communication with key external stakeholders and professional contacts to keep our information updated.

*Credit Risk*

Group policy prescribes business oversight and control. Weekly management information allows the Group to monitor the effects of lending decisions. Regular reviews of policies and outcomes are undertaken by the Credit Risk Committee.

Reputational Risk

Effective corporate governance provides business oversight and control. We undertake independent monitoring, for example market surveys and mystery shopping. In 2020, we continued surveys of all types of customer, including those who benefited from our policy of forbearance. The number and nature of complaints are closely monitored. We have widened customer access to online documentation through a customer portal and provided customers with a more robust and customer-centric experience.

*Strategic and Business Risk*

A full Committee-based corporate governance structure operates with Board oversight. The Board and Executive Team hold an annual 2-day strategy planning meeting. Detailed strategic planning and oversight are implemented alongside horizon scanning. The recruitment application process for additional staff, prior to interview, is highly automated and efficient. We are involved in lobbying through our trade associations. Following the Covid-19 outbreak, the Company put into place contingency plans to minimise the risks to the health and safety of its employees and agents. All staff were able to operate from home effectively and the HCC business is able to lend and collect both remotely and through doorstep activities.

*Wider Industry Risk*

During the past year, the Group has seen a noticeable increase in the level of complaints received from Claims Management Companies (CMCs). In many cases, these have been spurious or allegedly sent by individuals who have never been customers or have been sent without the customer's knowledge or consent. CMCs are now regulated by the FCA and it is hoped that they will act more responsibly in the future. The Group is actively engaging with FOS and the FCA through the sector trade associations.

*Operational Risk*

The Group has a comprehensive suite of policies and procedures covering its operational activities that is subject to regular review and revision. All agents and staff participate annually in a personal safety review and follow our home/remote working policy. A comprehensive business continuity policy and procedure is in place and a third-party disaster recovery site is now available should it be required. Disaster recovery tests are performed periodically on critical systems. The Group's business interruption insurance cover has been increased substantially, following the increase in revenue resulting from the acquisitions made in 2019. We responded rapidly to the outbreak of Covid-19, successfully adapting our operating model to enable all our agents to work from home and replacing face-to-face customer visits with a remote customer communication strategy. We made use of our existing technology platform and payment methods to maintain customer contact and collection activity. We launched a new cashless remote lending product, which is available to all existing Morses Club HCC customers and is compliant with all regulatory requirements. All necessary checks and agreements are transacted via our online Customer Portal, leveraging our existing technology platform. Customers using the new remote lending product can choose to have funds deposited directly into their bank account or loaded onto a Morses Club Card, ensuring that existing customers can continue to access our products and services during this time. The Digital division reviewed operating practices so all employees are working from home. Assessment of credit risk was also reviewed to ensure that risk appetite for credit risk and TCF were maintained.

*Liquidity Risk*

The Group currently has a revolving debt facility of £40m, secured by a debenture on the assets of the business. The revolving credit facility expires at the end of December 2021. It is the Group's policy to renew its facilities well in advance of the dates of these facilities expiring. This is sufficient to fund planned business growth. The Group actively monitors its compliance with the covenants set out in the facilities, in order to avoid the debt being recalled. Positive discussions have started with the existing lenders, and the renewal will be a major focus for the incoming CFO, Graeme Campbell.

*IT and Cyber Risk*

The Group has an ongoing programme to conduct regular vulnerability assessments against our core infrastructure services. The Group recognises the increased relevance of this risk as the move to digitise the business continues and has plans to increase the frequency and scope of its testing. We have a dedicated information security resource and undertake penetration testing of our external and internal networks which helps to identify new or emerging security concerns. Failover tests of our IT facilities have also been carried out successfully. Since the outbreak of Covid-19 we have engaged with suppliers to ensure increased resilience for all key IT services. During the year, we have undertaken phishing exercises in order to educate our staff. Most of our data is now encrypted at rest. The Group's cyber insurance cover has been increased once more in consultation with the Group's insurers. The business change team closely monitors demand and resource plans.

*Agents' self-employed status*

The Company carefully monitors the position with its advisers and conducts an ongoing review of business processes, systems and contracts in order to maintain self-employed status for its agents.

*Covid-19 pandemic*

The Group has rapidly developed systems whereby customers can apply for loans and repay them remotely – by telephone or through the customer portal; at the time of writing, all staff are working from home effectively, including the customer call centres; the reduction in demand for loans is addressed by constantly monitoring the cost base of the business.

<u>Emerging risks:</u>

*Leaving the EU without a trade deal*

As a Company operating solely in the UK, with no foreign currency exposure, EU supply chain, or key dependency on overseas staff, the Company has not identified any adverse direct consequences of Brexit, in whatever form it may take. We therefore do not foresee any issues or changes being made to the business model or any impact on our accounting policies of critical judgements.

*Senior Managers and Certification Regime*

Morses Club is an enhanced firm for the purposes of this legislation which became effective on 9 December 2019. The Group appointed a project team, advised by our external lawyers, with the result that the required processes were introduced in readiness for this new regime.

*Climate change*

Climate change is not currently seen as a principal risk to the business, but this is kept under review, with all our main strategic initiatives resulting in reducing our impact on the environment. Customers can request loans and make payments under the new customer portal. Technology has been introduced which allows for more meetings to be conducted remotely. Both of these initiatives have significantly reduced the need to travel unnecessarily. The Group's environmental policy is reviewed annually.

**Andy Thomson**
**Interim Chief Financial Officer**
Date: 18 December 2020

## INDEPENDENT REVIEW REPORT TO MORSES CLUB PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 29 August 2020 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 15. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

**Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting," as adopted by the European Union.

**Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 29 August 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

**Use of our report**

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

**Deloitte LLP**
Statutory Auditor
Birmingham, United Kingdom
18 December 2020

## CONSOLIDATED INCOME STATEMENT FOR THE 26 WEEK PERIOD ENDED 29 AUGUST 2020

| | Notes | 26 weeks ended 29.08.20 £,000 (Unaudited) | 27 weeks ended 31.08.19 £,000 (Unaudited) | 53 weeks ended 29.02.2020 £,000 (Audited) |
|---|---|---|---|---|
| **TURNOVER** | | | | |
| Existing Operations | | 50,221 | 60,602 | 128,528 |
| Acquisitions during the period | | - | 5,689 | 5,123 |
| | | 50,221 | 66,291 | 133,651 |
| Impairment | | (11,789) | (12,851) | (36,358) |
| Cost of sales | | (10,627) | (14,461) | (27,669) |
| **GROSS PROFIT** | | **27,805** | **38,979** | **69,624** |
| Administration expenses | | (25,692) | (31,350) | (54,918) |
| **OPERATING PROFIT BEFORE AMORTISATION OF INTANGIBLES** | | 2,288 | 8,137 | 13,593 |
| Amortisation of acquisition intangibles | 8,9 | (175) | (508) | (1,222) |
| Exceptional costs | 4 | - | - | 2,335 |
| **OPERATING PROFIT** | | | | |
| Existing Operations | | 2,113 | 12,977 | 11,667 |
| Acquisitions during the period | | - | (5,348) | 3,039 |
| | | 2,113 | 7,629 | 14,706 |
| Gain arising on acquisitions | | - | 585 | - |
| Finance costs | | (1,355) | (1,478) | (3,255) |
| **PROFIT BEFORE TAXATION** | 2 | 758 | 6,735 | 11,451 |
| Tax on profit on ordinary activities | 5 | (155) | (1,347) | (1,974) |
| **PROFIT AFTER TAXATION** | | 603 | 5,388 | 9,477 |

All results derive from continuing operations. A Statement of Comprehensive Income is not included as there is no other income or losses, other than those presented in the Income Statement.

| **EARNINGS PER SHARE** | | **26 weeks ended 29.8.20 Pence** | **27 weeks ended 31.8.19 Pence** | **53 weeks ended 29.2.20 Pence** |
|---|---|---|---|---|
| Basic | 7 | 0.46 | 4.13 | 7.26 |
| Diluted | 7 | 0.46 | 4.08 | 7.21 |

**CONSOLIDATED BALANCE SHEET**
**FOR THE 26 WEEK PERIOD ENDED 29 AUGUST 2020**

| ASSETS | Notes | 26 weeks ended 29.08.20 (Unaudited) £'000 | 27 weeks ended 31.08.19 (Unaudited) £'000 | 53 weeks ended 29.02.20 (Audited) £'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | 8 | 12,981 | 13,281 | 12,981 |
| Other intangible assets | 9 | 8,919 | 7,423 | 7,362 |
| Property, plant and equipment | | 791 | 758 | 818 |
| Right of Use Assets | 10 | 2,089 | 3,619 | 2,783 |
| Deferred Tax | | 677 | 920 | 659 |
| Amounts receivable from customers | 11 | 687 | 198 | 657 |
| | | 26,144 | 26,199 | 25,260 |
| **Current Assets** | | | | |
| Amounts receivable from customers | 11 | 54,864 | 72,010 | 72,171 |
| Taxation receivable | | 1,519 | - | 501 |
| Other receivables | 11 | 6,318 | 4,095 | 4,256 |
| Cash and cash equivalents | | 6,524 | 7,465 | 11,868 |
| | | 69,225 | 83,570 | 88,796 |
| **Total assets** | | 95,369 | 109,769 | 114,056 |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Trade and other payables | | (7,752) | (11,820) | (6,723) |
| Taxation payable | | - | (1,382) | - |
| Lease liabilities | | (1,027) | (3,519) | (1,286) |
| | | (8,779) | (16,721) | (8,009) |
| **Non-current liabilities** | | | | |
| Bank and other borrowings | 12 | (13,690) | (22,707) | (33,838) |
| Lease Liabilities | | (1,139) | - | (1,553) |
| | | (14,829) | (22,707) | (35,391) |
| **Total liabilities** | | (23,608) | (39,428) | (43,400) |
| **NET ASSETS** | | 71,761 | 70,341 | 70,656 |
| **Equity** | | | | |
| Called up share capital | | 1,312 | 1,310 | 1,312 |
| Retained Earnings | | 70,449 | 69,031 | 69,344 |
| **TOTAL EQUITY** | | 71,761 | 70,341 | 70,656 |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE 26 WEEK PERIOD ENDED 29 AUGUST 2020**

| | **Called up share capital £'000** | **Retained Earnings £'000** | **Total Equity £'000** |
|---|---|---|---|
| **As at 23 February 2019 (Audited)** | **1,298** | **69,681** | **70,979** |
| Impact of adoption of IFRS 16 'Leases' | - | 154 | 154 |
| **As at 24 February 2019 (Unaudited)** | **1,298** | **69,835** | **71,133** |
| Total comprehensive income for the period | - | 5,388 | 5,388 |
| Share Issue | 12 | - | 12 |
| Share based payment charge | - | 525 | 525 |
| Dividends paid | - | (6,749) | (6,749) |
| **As at 31 August 2019 (Unaudited)** | **1,310** | **69,000** | **70,310** |
| Total comprehensive income for the period | - | 4,089 | 4,089 |
| Deferred Tax on Acquisitions | - | 39 | 39 |
| Share Issue | 2 | - | 2 |
| Share based payment charge adjustment | - | (370) | (370) |
| Dividends paid | - | (3,413) | (3,413) |
| **As at 29 February 2020 (Audited)** | **1,312** | **69,344** | **70,656** |
| Total comprehensive income for the period | - | 603 | 603 |
| Share based payment charge | - | 502 | 502 |
| **As at 29 August 2020 (Unaudited)** | **1,312** | **70,449** | **71,761** |

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 26 WEEK PERIOD ENDED 29 AUGUST 2020**

| | Notes | 26 weeks ended **29.08.20** **(Unaudited)** **£'000** | 27 weeks ended **31.08.19** **(Unaudited)** **£'000** | 53 weeks ended **29.02.20** **(Audited)** **£'000** |
|---|---|---|---|---|
| **Net cash inflow from operating activities** | 1 | **20,206** | **17,332** | **21,418** |
| Dividends Paid | 6 | - | (6,749) | (10,162) |
| Proceeds from additional long-term debt | | 2,000 | 18,500 | 36,000 |
| Arrangement costs associated with additional funding | | (351) | - | - |
| Repayment of long-term debt | | (22,000) | (10,000) | (16,500) |
| Principal paid under lease liabilities | | (758) | (682) | (1,385) |
| Interest received | | - | - | 13 |
| Interest Paid | | (1,023) | (1,298) | (2,533) |
| Interest paid (lease liabilities) | | (182) | - | (472) |
| **Net cash (outflow)/inflow from financing activities** | | **(22,314)** | **(229)** | **4,961** |
| Purchase of intangibles | | (2,889) | (2,552) | (4,277) |
| Purchase of property, plant and equipment | | (347) | (949) | (2,180) |
| Acquisitions | | - | (14,030) | (15,947) |
| **Net cash (outflow) from investing activities** | | **(3,236)** | **(17,531)** | **(22,404)** |
| **(Decrease)/Increase in cash and cash equivalents** | | **(5,344)** | **(428)** | **3,975** |

| | | | |
|---|---|---|---|
| **Reconciliation of increase in cash and cash equivalents to movement in cash equivalents** | | | |
| Movement in cash and cash equivalents in the period | (5,344) | (428) | 3,975 |
| **Movement in cash and cash equivalents in the period** | **(5,344)** | **(428)** | **3,975** |
| Cash and cash equivalents, beginning of year | 11,868 | 7,893 | 7,893 |
| **Cash and cash equivalents, end of year** | **6,524** | **7,465** | **11,868** |

## 1 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | Group | | |
|---|---|---|---|
| | **29.8.20** | **31.8.19** | **29.2.20** |
| | **£'000** | **£'000** | **£'000** |
| Profit before tax and exceptional costs | 757 | 5,388 | 9,116 |
| Exceptional costs | - | - | 2,335 |
| Profit before taxation | 757 | 5,388 | 11,451 |
| | | | |
| Interest received included in financing activities | - | - | (13) |
| Interest paid included in financing activities | 1,023 | 1,181 | 2,533 |
| Interest paid (leases liabilities) | 182 | 249 | 472 |
| Share issue | - | 12 | 14 |
| Depreciation charges | 990 | 1,406 | 2,436 |
| Loss on disposal of tangible fixed assets | 78 | - | - |
| Share based payments charge | 502 | 525 | 155 |
| Impairment of goodwill | - | - | 16 |
| Amortisation of intangibles | 1,332 | 766 | 3,136 |
| Write off of Right-of-Use Asset | - | - | 142 |
| Decrease/(increase) in debtors | 15,418 | (849) | 6,702 |
| Increase/(decrease) in creditors | 1,114 | 10,460 | (1,466) |
| | 20,639 | 13,750 | 14,127 |
| | | | |
| Taxation paid | (1,190) | (1,806) | (4,160) |
| **Net cash inflow from operating activities** | 20,206 | 17,332 | 21,418 |

## 2 RECONCILIATION OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

| **Group** | **Long term borrowings £'000** | **Lease liabilities £'000** | **Total £'000** |
|---|---|---|---|
| **At 24 February 2019** | 14,075 | 3,391 | 17,466 |
| Non-cash changes | | | |
| - Amortised fees | 263 | - | 263 |
| - Interest | (2,533) | (472) | (3,005) |
| Cash flows: | | | |
| - Repayments | (16,500) | (1,385) | (17,885) |
| - Drawdown | 36,000 | - | 36,000 |
| - Lease additions & disposals | - | 833 | 833 |
| - Interest | 2,533 | 472 | 3,005 |
| - Arrangement costs associated with additional funding | - | - | - |
| **At 29 February 2020** | **33,838** | **2,839** | **36,677** |
| Non-cash changes | | | |
| - Amortised fees | 203 | | 203 |
| - Interest | (1,023) | (182) | (1,205) |
| Cash flows: | | | |
| - Repayments | (22,000) | (758) | (22,758) |
| - Drawdown | 2,000 | | 2,000 |
| - Lease additions & disposals | | 85 | 85 |
| - Interest | 1,023 | 182 | 1,205 |
| - Arrangement costs associated with additional funding | (351) | - | (351) |
| **At 29 August 2020** | **13,690** | **2,166** | **15,856** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE 26 WEEK PERIOD ENDED 29 August 2020**

## 1. ACCOUNTING POLICIES

**General information**

The Company is a public limited company incorporated and domiciled in the UK. The address of its registered office is Kingston House, Centre 27 Business Park, Woodhead Road, Birstall, Batley, West Yorkshire, WF17 9TD.

The information for the year ended 29 February 2020 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The report of the auditor on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The unaudited condensed interim financial statements for the 26 weeks ended 29 August 2020 have been reviewed, not audited, and were approved by the Board of Directors on 18 December 2020.

**Going concern**

The Directors have considered the appropriateness of adopting the going concern basis in preparing these Condensed financial statements.

The Group has prepared a three-year business plan which is a continuation of its strategy of generating growth through organic and acquisitive means.

In addition to standard internal governance, the Group is also monitored against key financial covenants tied in with the current funding facilities. These are produced and submitted on a monthly basis, with key schedules included in the monthly Board Papers.

The Group is subject to a number of risks and uncertainties which arise as a result of the current economic environment. In determining that the Group is a going concern these risks, which are described in the principal risks and uncertainties section, have been considered by the Directors. The Directors have considered these risks in the Group's forecasts and projections which highlight continued profitability for the foreseeable future. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

With regards to a going concern review or a 3-year viability period, the major challenge for the business will be one of operational resilience and adapting to the demands of Covid-19 world, whilst maintaining good customer outcomes, appropriate oversight and financial prudence.

For the year to February 2020, rather than taking the approach of adopting a base case and then running upside and downside cases, management have opted to conduct the going concern against what it considers to be the worst case under Covid-19. The financial model which contains these assumptions was initially drawn up and shared with funders to support the new funding facility entered into on 28 April 2020.

Management consider this to be a prudent foreseeable worst case plan against which to assess the going concern and viability of the Group. This plan reflects both the impact on operational challenges and future prospects mentioned above.
Within the worst case the Group has assessed a number of possible events and scenarios which resulted in:

- Revision of future cash flows impacting the IFRS 9 Loan Loss Impairment Provision at the reporting date as well as cash flows in future periods
- Reduced customer numbers, loan book size and collections as a result of continued operational limitations
- Revised operational model resulting from a different sized business
- Maintenance of adequate cash headroom whilst maintaining appropriate cash conservation measures such as non-payment of external dividend

These comments do not represent managements confirmed actions, they represent a number of possible mitigants which may need to be implemented if the worst case transpires.

During the first six months of the year, the performance has exceeded the Covid-19 plan in most key metrics including credit issued, collections and adjusted PBT. As the impact of the pandemic on customer behaviour and trading performance have become clearer, we have updated the plan. Management consider this to be a prudent foreseeable plan against which to assess the going concern and viability of the Group. This plan reflects both the impact on operational challenges and future prospects mentioned above

During the period the Group agreed a new loan facility with its existing funding syndicate until the end of November 2021 and further extended to December 2021 in December 2020. There is a reduction in the size of the facility from £50 million to £40 million to better reflect the requirements of the business.

**Accounting convention**

The statutory annual financial statements of Morses Club PLC are prepared under International Financial Reporting Standards (IFRS) adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’, as adopted by the European Union.

**Accounting policies**

There are no other new IFRSs or International Financial Reporting Interpretations (IFRIC) that are effective for the first time for the 26 weeks ended 29 August 2020 which have a material impact on the Group. As such the accounting policies applied in preparing the unaudited condensed interim financial statements are consistent with those used in preparing the statutory financial statements for the year ended 29 February 2020

In preparation for the year end FY20 and within the 12 month timeframe allowed under IFRS 3, we amended the fair values of the identified assets and liabilities associated to the acquisitions and also revised the methodology used for revenue recognition in U Holdings to align with the requirements of IFRS 15.

**Key sources of estimation uncertainty**

Impairment and EIR have previously been calculated using a flat five-year average of historical payment performance. The cash curves and expected lives are based on view of the loan book at the end of December each year, with an average of the previous five years used in the calculation. Management have considered the best way to deal with the Covid-19 impact on the impairment provision and income recognition. We believe that in lieu of a management overlay as in FY20, we have decided to use a weighting to give more prominence to the most recent data cohort. Continuing to use a flat five-year average calculation would materially understate the provision.

The Impairment and EIR weighting options considered were (please note option 1 is the methodology used in previous years):

| | **Dec 15** | **Dec 16** | **Dec 17** | **Dec 18** | **Dec 19** |
|---|---|---|---|---|---|
| Option 1 | 20% | 20% | 20% | 20% | 20% |
| Option 2 | 15% | 15% | 15% | 15% | 40% |
| Option 3 | 10% | 10% | 10% | 10% | 60% |
| Option 4 | 0% | 0% | 0% | 0% | 100% |

The table below highlights the range of impairment and deferred revenue under each option considered:

| As at end August 2020 | Option 1 | Option 2 | Option 3 | Option 4 |
|---|---|---|---|---|
| Gross Loan Book | £109.6m | £109.6m | £109.6m | £109.6m |
| Deferred Income | (£21.0m) | (£21.6m) | (£21.6m) | (£21.6m) |
| Impairment Provision | (£37.8m) | (£37.3m) | (£37.7m) | (£38.6m) |
| Net Loan Book | £50.8m | £50.7m | £50.4m | £49.4m |

The range of impairment is from £37.8m to £38.6m and deferred income range is from £21.0m to £21.6m. Management believes that weighting option 3 is this most reflective of the impact of Covid-19 on the group's revenue and impairment.

Please note that the remote lending and collection model of our Digital lending business has resulted in a smaller Covid-19 impact, and therefore management have not applied this weighting to the Digital Division. The Impairment numbers above are for Home Collected Credit only.

**Impairment of non-financial assets and goodwill**

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses a Weighted Average Cost of Capital (WACC) of 13% to discount them. The Compound Average Growth Rate (CAGR) for the first 3 years at Group level is 24% and every +/- 1% change in the CAGR results in a +/- £1.9m change to the Group cumulative discounted cash flow over the same period. Every +/- 1% change in the discount rate results in a +/- £1.8m change in the estimated recoverable amount. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate and future growth rates.

## 2. SEGMENTAL REPORTING

| | Revenue | | | Profit/(loss) before taxation | | |
|---|---|---|---|---|---|---|
| | 27 weeks ended 29.8.20 £'000 | 27 weeks ended 31.08.19 £'000 | 53 weeks Ended 29.2.20 £'000 | 27 weeks ended 29.8.20 £'000 | 27 weeks ended 31.08.19 £'000 | 53 weeks Ended 29.2.20 £'000 |
| **Group** | | | | | | |
| Home Collect Credit | 44,189 | 59,424 | 119,269 | 6,837 | 13,086 | 22,940 |
| Digital | 6,032 | 6,867 | 14,382 | (4,748) | (5,586) | (11,225) |
| **Total Group before amortisation of acquisition intangibles and exceptional items** | 50,221 | 66,291 | 133,651 | 2,089 | 7,500 | 11,715 |
| Intra-group elimination | - | - | - | - | - | 750 |
| Group acquisition costs | - | - | - | - | - | (213) |
| Gains arising on acquisition | - | - | - | - | 585 | - |
| Amortisation of intangibles | - | - | - | (1,331) | (1,350) | (3,136) |
| Exceptional items | - | - | - | - | - | 2,335 |
| **Total Group** | 50,221 | 66,291 | 133,651 | 758 | 6,735 | 11,451 |

| | Segment assets | | | Segment liabilities | | |
|---|---|---|---|---|---|---|
| **Group** | 29.8.20 £'000 | 31.08.19 £'000 | 29.2.20 £'000 | 29.8.20 £'000 | 31.08.19 £'000 | 29.2.20 £'000 |
| Home Collect Credit | 108,399 | 124,303 | 124,462 | (21,361) | (47,695) | (42,543) |
| Digital | 24,542 | 19,765 | 21,145 | (23,014) | (20,158) | (22,691) |
| **Total before intra-group elimination** | 132,941 | 144,068 | 145,607 | (44,375) | (67,853) | (65,234) |
| Eliminations* | (17,656) | (20,590) | (11,103) | 851 | 14,716 | 1,386 |
| Intra-group elimination | (19,916) | (13,709) | (20,448) | 19,916 | 13,709 | 20,448 |
| **Total Group** | 95,369 | 109,769 | 114,056 | (23,608) | (39,428) | (43,400) |

| | Net assets/(liabilities) | | |
|---|---|---|---|
| | 29.8.20 | 31.08.19 | 29.2.20 |
| **Group** | £'000 | £'000 | £'000 |
| Home Collect Credit | 87,038 | 76,608 | 81,919 |
| Digital | 1,528 | (393) | (1,546) |
| **Total before intra-group elimination** | 88,566 | 76,215 | 80,373 |
| Eliminations* | (16,805) | (5,874) | (9,717) |
| Intra-group elimination | - | - | - |
| **Total Group** | 71,761 | 70,341 | 70,656 |

## 3. SEASONALITY

The Group's peak period of lending to customers is in the run-up to Christmas in the second half of the financial year. Typically, approximately 54% of the loans issued are made in the second half of the financial year and the peak lending and collections period leads the Group to operate with a materially higher draw down on debt facilities in December. In addition, the Group's accounting policies relating to revenue and impairment are an important influence on the recognition of the Group's profit between the first and second halves of the financial year.

## 4. EXCEPTIONAL (INCOME)/ COSTS

| | 26 weeks ended 29.8.20 £'000 | 27 weeks ended 29.8.20 £'000 | 53 weeks ended 29.2.20 £'000 |
|---|---|---|---|
| Deferred consideration on acquisition | - | - | (2,335) |
| **Total Exceptional (Income)** | - | - | (2,335) |

Exceptional income is made up of the release of Deferred Consideration in relation to the acquisition of U Holdings Limited.

## 5. TAXATION

The tax charge for the period has been calculated by applying the directors' best estimate of the effective tax rate for the financial year of 20% (H1 FY20 – 20%) (H1 FY19 – 17%), to the profit before tax for the period. The tax rate reflects the reduction in the mainstream UK corporation tax rate from 20% to 19% which was effective from 1 April 2017.

## 6. DIVIDENDS

| | 26 weeks Ended 29.8.20 £'000 | 27 weeks Ended 31.8.19 £'000 | 53 weeks ended 29.2.20 £'000 |
|---|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | | |
| Final dividend for the 53 weeks ended 29 February 2020 | - | 6,749 | 10,162 |
| | - | 6,749 | 10,162 |

The directors have declared an interim dividend in respect of the 26 weeks ended 29 August 2020 of 1.0p per share (H1 FY20: 2.6p) (FY20: 3.6p) to be paid on 9 April 2021 to ordinary shareholders on the register at close of business on 12 March 2021. This dividend is not reflected in the balance sheet as it was declared after the balance sheet date. It will result in a total half year dividend pay-out of approximately £1.3m (H1 FY20: £3.4m) (FY20: £4.7m). No dividends were paid during the period (H1 FY20: £6.7m) (FY20: £10.2m).

Subject to shareholder approval at the General Meeting on 7 January 2021, the Board proposes to pay a final dividend of 1.0 pence per Ordinary Share in respect of 53 weeks ended 29 February 2020. This is anticipated to be payable on 12 February 2021 to all shareholders on the register at the close of business on 15 January 2021.

## 7. EARNINGS PER SHARE

| | **26 weeks Ended 29.8.20** | **27 weeks Ended 31.8.19** | **53 weeks ended 29.2.20** |
|---|---|---|---|
| **Earnings (£'000)** | 603 | 5,388 | 9,477 |
| **Number of shares** | | | |
| Weighted average number of shares for the purposes of basic earnings per share ('000s) | 131,244 | 130,462 | 130,531 |
| Effect of dilutive potential ordinary shares through share options ('000s) | 631 | 1,729 | 843 |
| Weighted average number of shares for the purposes of diluted earnings per share ('000s) | 131,876 | 132,191 | 131,374 |
| **Basic per share amount (pence)** | 0.46 | 4.13 | 7.26 |
| **Diluted per share amount (pence)** | 0.46 | 4.08 | 7.21 |

Diluted earnings per share calculated the effect on earnings per share assuming conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated for awards outstanding under performance related share incentive schemes such as the Deferred Share Plan. The number of dilutive potential ordinary shares is calculated based on the number of shares which would be issuable if the performance targets have been met.

## 8. GOODWILL

The contingent consideration was payable 5 years after acquisition based on various performance targets and although management still expects to achieve these targets the contingent consideration has been released as the individuals qualifying for this have left the business during the year, and forgone this additional remuneration.

## 8. GOODWILL - continued

| | £'000 |
|---|---|
| **COST** | |
| At 28 February 2019 | 3,834 |
| Additions | 9,496 |
| At 31 August 2019 | 13,330 |
| At 29 February 2020 | 13,330 |
| At 29 August 2020 | **13,330** |
| **Impairment** | |
| At 28 February 2019 | (333) |
| At 31 August 2019 | (333) |
| Impairment loss for the period | (17) |
| At 29 February 2020 | (349) |
| Impairment loss for the period | - |
| At 29 August 2020 | **(349)** |
| **NET BOOK VALUE** | |
| At 29 August 2020 | **12,981** |
| At 29 February 2020 | 12,981 |
| At 31 August 2019 | 12,997 |
| At 28 February 2019 | 3,501 |

## 9. OTHER INTANGIBLE ASSETS

| | Software, Servers & Licences £'000 | Acquired Customer Lists £'000 | Acquired Agent Networks £'000 | Totals £'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 24 February 2019 | 8,864 | 21,241 | 874 | 30,979 |
| Additions | 2,279 | 273 | - | 2,552 |
| At 31 August 2019 | 11,143 | 21,514 | 874 | 33,531 |
| Additions | 1,618 | 107 | - | 1,725 |
| At 29 February 2020 | 12,761 | 21,621 | 874 | 35,256 |
| Additions | 2,889 | - | - | 2,889 |
| At 29 August 2020 | 15,650 | 21,621 | 874 | 38,145 |
| **ACCUMULATED AMORTISATION** | | | | |
| At 24 February 2019 | 4,226 | 19,724 | 808 | 24,758 |
| Charge for period | 842 | 492 | 16 | 1,350 |
| At 31 August 2019 | 5,068 | 20,216 | 824 | 26,108 |
| Charge for period | 1,072 | 699 | 15 | 1,785 |
| At 29 February 2020 | 6,140 | 20,915 | 839 | 27,894 |
| Charge for period | 1,156 | 167 | 9 | 1,332 |
| At 29 August 2020 | 7,296 | 21,082 | 848 | 29,226 |
| **NET BOOK VALUE** | | | | |
| At 29 August 2020 | 8,354 | 539 | 26 | 8,919 |
| At 29 February 2020 | 6,621 | 706 | 35 | 7,362 |
| At 31 August 2019 | 6,075 | 1,298 | 50 | 7,423 |

## 10. RIGHT OF USE ASSETS

| | Building £'000 | Equipment £'000 | Vehicles £'000 | Totals £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 24 February 2019 | 1,193 | 920 | 1,507 | 3,620 |
| Additions | 706 | 97 | - | 803 |
| Disposals | - | (9) | (10) | (19) |
| At 31 August 2019 | 1,899 | 1,008 | 1,497 | 4,404 |
| Additions | 73 | - | 124 | 197 |
| Disposals | (84) | (38) | (84) | (206) |
| At 29 February 2020 | 1,888 | 970 | 1,537 | 4,395 |
| Additions | 14 | - | 170 | 184 |
| Disposals | (155) | - | (29) | (184) |
| At 29 August 2020 | 1,747 | 970 | 1,678 | 4,395 |
| **Depreciation** | | | | |
| At 24 February 2019 | - | - | - | - |
| Charged to the income statement | 215 | 166 | 407 | 788 |
| Disposals | - | - | (3) | (3) |
| At 31 August 2019 | 215 | 166 | 404 | 785 |
| Charged to the income statement | 338 | 169 | 401 | 908 |
| Disposals | (38) | (7) | (36) | (81) |
| At 29 February 2020 | 515 | 328 | 769 | 1,612 |
| Charged to the income statement | 272 | 169 | 359 | 800 |
| Disposals | (89) | - | (17) | (106) |
| At 29 August 2020 | 698 | 497 | 1,111 | 2,306 |
| **Net Book Value** | | | | |
| At 29 August 2020 | 1,049 | 473 | 567 | 2,089 |

The group is undertaking a property rationalisation programme as the majority of the properties it leases are not being used due to the restrictions of Covid-19. The resulting assessment of the discount forecast cash flows show headroom and thus no indication of impairment.

## 11. TRADE AND OTHER RECEIVABLES

**Amounts receivable from customers**

| | 29.8.20 £'000 | 31.8.19 £'000 | 29.2.20 £'000 |
|---|---|---|---|
| **Amounts falling due within one year:** | | | |
| Net receivable from advances to customers | 54,864 | 72,010 | 72,171 |
| **Amounts falling due after one year:** | | | |
| Net receivable from advances to customers | 687 | 198 | 657 |
| **Net loan book** | **55,551** | **72,208** | **72,828** |
| | | | |
| Other debtors | 2,962 | 1,555 | 1,718 |
| Prepayments | 3,356 | 2,532 | 3,039 |
| Trade and other receivables | **61,869** | **76,295** | **77,585** |

The fair value of the loan book not presented at fair value in the balance sheet is £75,787k (H1 FY20 – £98,857k) (YE FY20 – £113,513k).

An analysis of receivables by IFRS 9 stages is set out below:

| | 29 August 2020 | | | |
|---|---|---|---|---|
| | **Stage 1 £'000** | **Stage 2 £'000** | **Stage 3 £'000** | **Total £'000** |
| **Gross carrying value** | 48,340 | 23,234 | 24,553 | 96,127 |
| **Loan Loss Provision** | (7,274) | (12,547) | (20,755) | (40,576) |
| **Net receivables** | 41,066 | 10,687 | 3,798 | 55,551 |

| | 29 February 2020 | | | |
|---|---|---|---|---|
| | **Stage 1 £'000** | **Stage 2 £'000** | **Stage 3 £'000** | **Total £'000** |
| **Gross carrying value** | 60,346 | 34,602 | 25,998 | 120,946 |
| **Loan Loss Provision** | (9,110) | (16,887) | (22,121) | (48,118) |
| **Net receivables** | 51,236 | 17,715 | 3,877 | 72,828 |

| | 31 August 2019 | | | |
|---|---|---|---|---|
| | **Stage 1 £'000** | **Stage 2 £'000** | **Stage 3 £'000** | **Total £'000** |
| **Gross carrying value** | 59,872 | 30,337 | 33,445 | 123,654 |
| **Loan Loss Provision** | (8,732) | (13,898) | (28,816) | (51,446) |
| **Net receivables** | 51,140 | 16,439 | 4,629 | 72,208 |

## 12. BANK AND OTHER BORROWINGS

| | Group | | |
|---|---|---|---|
| | **29.8.20 £'000** | **29.2.20 £'000** | **31.8.19 £'000** |
| Bank loans | 14,000 | 34,000 | 23,000 |
| Unamortised arrangement fees | (310) | (162) | (293) |
| | 13,690 | 33,838 | 22,707 |

In November 2018 the Company signed a £10,000,000 loan facility to bring its total revolving credit facilities to £50,000,000. In addition, the Company has also signed a £15,000,000 mezzanine facility of which £5,000,000 is committed and £10,000,000 is uncommitted. No fees were incurred in relation to these transactions and prior arrangement fees continue to be amortised over the life of the arrangements.

In April 2020 an extension of the funding arrangement from August 2020 to the end of November 2021 was signed with the incumbent lender consortium and further extended to the end of December 2021 in December 2020. The facility limit was reduced from £55m committed to £40m to better match the needs of the business post Covid-19. By reducing this unused headroom and repaying the £5m mezzanine layer, non-utilisation charges for any given level of borrowing will be reduced and therefore the overall cost of funding.

Total bank and other borrowings, including unamortised arrangement fees, are £13,690,415 as at 29 August 2020 (31 August 2019: £22,707,000).

Funding totalling £20,000,000 was repaid against the loan facility during the period, in line with the terms of the loan agreement.

## 13. RESERVES

Details of the movements in reserves are set out in the statement of changes in equity. Share capital as at 29 August 2020 amounted to £1,312,000 (31 August 2019: £1,310,000).

## 14. RELATED PARTY TRANSACTIONS

Hay Wain Group Limited holds a 36.8% interest in the Company. The Directors consider there to be no ultimate Parent Company. Shelby Finance Limited and Shopacheck Financial Services Limited are subsidiaries of Morses Club PLC. U Holdings Limited is a subsidiary of Shelby Finance Limited.

The Company undertook the following transactions with Hay Wain Group Limited and Shelby Finance Limited during the period:

| | **Dividends Received / (Paid) £'000** |
|---|---|
| **26 Weeks ended 29 August 2020** | |
| Hay Wain Group Limited | - |
| | - |
| **27 Weeks ended 31 August 2019** | |
| Hay Wain Group Limited | (2,480) |
| | (2,480) |
| **26 Weeks ended 25 August 2018** | |
| Hay Wain Group Limited | (2,287) |
| | (2,287) |

At the period-end the following balances were outstanding

| | 29-Aug-20 £'000 | 31-Aug-19 £'000 | 29-Feb-20 £'000 |
|---|---|---|---|
| Hay Wain Holdings Limited | - | - | - |
| Hay Wain Group Limited | - | - | - |
| Shopacheck Financial Services Limited | (1,321) | (1,321) | (1,321) |
| Shelby Finance Limited | 19,916 | 13,782 | 20,448 |
| Amounts owed from / (to) Related Parties | 18,595 | 12,461 | 19,127 |

## 15. CONTINGENT LIABILITY

As disclosed in the Annual Report and Accounts for February 2020, the directors are aware of a contingent liability in connection with a claim against Shelby Finance Limited ("Shelby"). This relates to the acquisition of U Holdings Limited which in turn had acquired certain assets of Ffrees Family Finance Limited (in Administration) ("FFFL"). The Administrator of FFFL has asserted that the acquisition of U Holdings by Shelby Finance Limited has triggered an anti-embarrassment clause in their sale document of FFFL to Shelby, and that a further sum of £850k is due to them.

The directors do not believe that the administrators of FFFL have a valid claim since they are basing it on wording that does not appear in the sale document. However, in a preliminary hearing held in July 2020, the Master determined that the contract could be re-written, and that Shelby Finance should place the disputed sum of £850k into an escrow account. Shelby Finance has appealed this decision, their legal advisors believe there to have been a material error on the part of the Master and remain confident that the claim is baseless. However, given the Master's initial verdict, there is a chance of the liability arising and therefore a contingent liability has been disclosed. There has been no change regarding this since the publication of the Annual Report and Accounts.

### Alternative performance measures

This Interim Report and Financial Statements provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this we have included a reconciliation of the APMs we use where relevant and a glossary indicating the APMs that we use, an explanation of how they are calculated and why we use them.

| APM | Closest Statutory Measure | Definition and Purpose |
|---|---|---|
| **Income Statement Measures** | | |
| Impairment as % of Revenue (%) | None | Impairment as a percentage of revenue is reported impairment divided by reported revenue and represents a measure of credit quality that is used across the business and within the sector. |
| Normalised adjusted impairment as % of Revenue (%) | None | Impairment as a % of revenue adjusted for the impact of Covid-19 which was reported as a post balance sheet event in the FY20 annual accounts |
| Agent Commission as % of Revenue (%) | None | Agent commission, which is included in cost of sales, divided by reported revenue. This calculation is used to measure operational |

| | | |
|---|---|---|
| | | efficiency and the proportion of income generated which is paid to agents |
| Cost / Income Ratio or Operating Cost ratio (%) | None | The cost-income ratio is cost of sales and administration expenses, excluding exceptional items, finance costs and amortisation divided by reported revenue. This is used as another efficiency measure of the company's cost base. |
| H1 FY20 cost base comparison | None | As U Holdings Limited was acquired at the end of June 2019, the costs of digital banking are only included in two months of the prior year figures. In order to provide a like for like comparison with the current half year figures, the costs in the accounts for March to June 2019 were increased by the average Digital Banking costs for July and August 2019 of £375k per month. |
| Credit Issued (£m) | None | Credit issued is the principal value of loans advanced to customers and is an important measure of the level of lending in the business. |
| Sales Growth (%) | None | Sales growth is the period-on-period change in Credit Issued |
| Normalised operating profit | Operating Profit | Operating profit per the Income Statement adjusted for the impact of Covid-19 which was reported as a post balance sheet event in the FY20 annual accounts |
| Adjusted Profit Before Tax (£m) | Profit Before Tax | Profit Before Tax per the Income statement adjusted for exceptional costs, non-recurring costs and amortisation of goodwill and acquisition intangibles. This is used to measure ongoing business performance. |
| Normalised adjusted Profit Before Tax (£m) | Profit Before Tax | Profit Before Tax per the Income statement adjusted for; exceptional costs, non-recurring costs, amortisation of goodwill and acquisition intangibles and the PBSE reported in the FY20 accounts. This is used to measure ongoing business performance. |
| Adjusted Earnings Per Share | Earnings Per Share | Adjusted Profit After Tax divided by the weighted average number of shares. This gives a better reflection of underlying earnings generated for shareholders |

### Reconciliation of Statutory Profit Before Tax to Adjusted profit before tax and explanation of Adjusted EPS

| **£'m (unless otherwise stated)** | **26-week period ended 29 August 2020** | **27-week period ended 31 August 2019** | **Increase** |
|---|---|---|---|
| **Statutory Profit Before Tax** | **0.8** | **6.7** | **(88.1%)** |
| Amortisation of acquired intangibles[2] | 0.2 | 0.5 | **(60.0%)** |
| Gain arising on acquisitions | - | (0.6) | **n/a** |
| Non-recurring costs[3] | 1.3 | 3.0 | **n/a** |
| **Adjusted Profit Before Tax[1]** | **2.3** | **9.6** | **(76.0%)** |
| Tax on Adjusted Profit Before Tax | (0.4) | (1.9) | **(78.9%)** |
| **Adjusted Profit After Tax** | **1.8** | **7.7** | **(76.6%)** |
| **Adjusted EPS[1]** | **0.6** | **5.9** | **(89.8%)** |
| **Adjusted Return on Assets[1]** | 9.9% | 24.0% | **(58.8%)** |
| **Adjusted Return on Equity[1]** | 13.4% | 28.4% | **(52.8%)** |

*1 Definitions are set out in the Glossary of Alternative Performance Measures*

*2 Amortisation of acquired customer lists and agent networks*

*3 Includes redundancy, professional fees and property rationalisation expenses*

| | 26 weeks ended 29.8.20 | 27 weeks ended 31.8.19 | 53 weeks ended 29.2.20 |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Adjusted basic earnings per share** | | | |
| Basic earnings | 603 | 5,388 | 9,477 |
| Amortisation of acquisition intangibles | 175 | 508 | 1,222 |
| Gain arising on acquisitions | - | (584) | - |
| Non-recurring (income)/costs | 1,378 | 2,990 | 2,822 |
| Tax effect of the above | (431) | (554) | (1,173) |
| **Normalised Adjusted earnings after tax** | **1,725** | **7,748** | **12,349** |
| Covid-19 adjustments to impairment | | - | (1,669) |
| Tax effect of the above | - | - | 317 |
| **Adjusted earnings** | **1,725** | **7,748** | **10,996** |
| Weighted average number of shares for the purposes of basic earnings per share ('000s) | 131,244 | 130,462 | 130,531 |
| **Normalised Adjusted earnings per share amount (pence)** | **1.3p** | **5.9p** | **9.5p** |
| **Adjusted earnings per share amount (pence)** | **0.6p** | **5.9p** | **8.4p** |

| APM | Closest Statutory Measure | Definition and Purpose |
|---|---|---|
| **Balance sheet and returns measures** | | |
| Tangible Equity (£m) | Equity | Net Assets less intangible assets less acquisition intangibles. |
| Adjusted Return on Equity (%) | None | Calculated as adjusted profit after tax divided by rolling 12 month average of tangible equity. This calculation has been adjusted to an IFRS 9 basis. It is used as a measure of overall shareholder returns adjusted for exceptional items. This is presented within the interim report as the directors believe they are more representative of the underlying operations of the business |
| Adjusted Return on Assets (%) | None | Calculated as adjusted profit after tax divided by 12 month average Net Loan Book. This calculation has been adjusted to an IFRS 9 basis. It is used as a measure of profitability generated from the loan book. Net Loan Book is Amounts owing from customers less provisions for deferred income and impairments. This is presented within the interim report as the directors believe they are more representative of the underlying operations of the business |
| Tangible Equity / Average Receivables Ratio (%) | None | Net Assets less intangible assets less acquisition intangibles divided by 12 months average receivables. This calculation has been adjusted to an IFRS 9 basis. |

| **Adjusted Return on Assets and Adjusted Return on Equity** £m | **to Aug 20** | **to Aug 19** |
|---|---|---|
| Adjusted Profit After Tax (Rolling 12 months) | 6.6 | 17.2 |
| 12 month average Net Loan Book | 67.3 | 71.7 |
| Adjusted Return on Assets | 9.9% | 24.1% |
| 12 month average Equity | 49.5 | 60.6 |
| Adjusted Return on Equity | 13.4% | 28.4% |

**Other measures**

| | | |
|---|---|---|
| Customers | None | Customers who have an active loan and from whom we have received a payment of at least £3 in the last 17 weeks. |
| Agents | None | Agents are self-employed individuals who represent the Group's subsidiaries and are engaged under an agency agreement. |
| Cash from Operations (excluding investment in loan book) (£m) | Cash from Operations | Cash from Operations (excluding investment in the loan book) is Cash from Operations excluding the growth in the loan book due to either acquisition or movement in the net receivable otherwise (see reconciliation below). |
| Adjusted Net Margin | None | Adjusted Profit before tax (which excludes amortisation of intangibles on acquisitions, the one-off costs of the IPO and other non-operating costs) divided by reported revenue. This is used to measure overall efficiency and profitability. |
| Cash from funding (£m) | None | Cash from Funding is the increase / (decrease) in the Bank Loan balance. |