2022 Full Year Results

Gary Marshall – CEO
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Company Update

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- Renewed focus on the different opportunities which exist for each division. Considerable challenge in HCC business due to continued high level of customer claims from CMCs.
- Tightened lending criteria over the last six months has led to reduced lending and will impact revenue and profitability in FY23.
- Working with key stakeholders to pursue a potential Scheme of Arrangement to provide a more equitable outcome for our customers.
- Pausing of processing of all new unaffordable lending claims effective from 11 August.
- Reshaping the HCC business to draw a line under redress complaints – creating a product blueprint to serve our customers and address a market which will continue to grow in the current economic climate.
- Working with funders, who remain supportive, to secure funding in line with the future operating model of the business.

RESHAPED FOCUS, AMBITION AND COMMITMENT TO THE SECTOR

HCC

The **only HCC provider of scale** in the UK

Stable customer base, despite the changes to the sector

97% customer satisfaction

Loyal team committed to the sector

Blending the best of behavioural/digital knowledge

Digital

Delivered profit in Jan/Feb FY22

Core digital expertise with customer-centric focus – 92% customer experience score

Significant opportunity for growth

Digital technology capability

Turnaround phase complete with stable lending platform

We have a strong commitment to the non-standard credit sector and supporting customers to access regulated credit

Section 01

Potential Scheme of Arrangement

Potential Scheme of Arrangement

What is a Scheme of Arrangement?

- A Scheme of Arrangement is a Court-approved arrangement to identify 'special' creditors – in our case customers and to deal with redress claims.
- Subject to a majority vote from customers.
- Defined eligibility and period of time in which to make a claim.
- Formal communication to eligible customers using a practice statement letter.
- Subject to approval – Morses Club is working with external advisors to ensure that the detail of any Scheme complies with regulatory guidance.

Benefits of a potential Scheme

- Provides the most equitable outcome for customers.
- Ensures that the Company can move on, continuing to trade, without the uncertainty of continued redress claims.
- Preserves the value of the trading business – deals with the cost of complaints and removes the risk of ongoing liabilities.
- As part of any consideration for a potential Scheme, and redress liabilities, the Company has taken a provision in its FY22 accounts accordingly

Next Steps – Potential Scheme of Arrangement

Where are we currently?

- Board is reviewing the detail of the option around a potential Scheme of Arrangement.
- Will help to draw a line under uncertainty around the redress claims liability in the HCC division.
- Customer Committee in process of being set up with customer nominations invited.
- Committee Chairman appointed – Jamie Drummond-Smith.
- Announced pausing in processing of all new unaffordable lending claims in the HCC division effective from 11 August.

HCC Division Complaints – Update

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- Company announced an increase in the level of complaints in Feb 2022, with a further update in June 2022.
- Complaints largely driven via claims management companies, rather than directly from individual customers – as the last major player in this space, MCL has continued to be a target.
- Since August 2020 we have increasingly enhanced our lending processes to meet regulatory requirements.
- The latest published FCA/FOS uphold rates for FY22 are detailed below:

Morses Club FCA complaint statistics*		
	Mar 21 – Aug 21	Sep 21 – Feb 22
New cases	10,214	7,972
Closed cases	11,731	7,174
Uphold rate	21%	45%

Morses Club FOS complaint statistics **		
	Jan 21 – Jun 21	July 21 – Dec 21
New cases	1,585	917
Uphold rate	71%	67%

- 63% of all new complaints received from Sep 21 - Feb 22 related to irresponsible lending. The uphold rate of these complaints was 66%.

*FCA published data on firm-specific complaints
**FOS published data on firm-specific complaints

Digital Division Complaints – Update

- Complaints increase does not impact digital division.
- Customers have a limit of 3 loans and then have a 6-month break before further lending.
- Dot Dot has the lowest FOS published uphold rate for any banking/credit provider.
- The latest published FCA/FOS uphold rates for FY22 are detailed below:

Shelby Finance FCA complaint statistics*		
	Mar 21 – Aug 21	Sep 21 – Feb 22
New cases	2,797	1,671
Closed cases	3,097	1,917
Uphold rate	51%	39%

Shelby Finance FOS complaint statistics **		
	Jan 21 – Jun 21	July 21 – Dec 21
New cases	63	41
Uphold rate	6%	8%

- 25% of all new complaints received from Sep 21 - Feb 22 related to irresponsible lending. The uphold rate of these complaints was 1%.

*FCA published data on firm-specific complaints
**FOS published data on firm-specific complaints

Operational Highlights

- 143,000 HCC customers (FY21: 151,000)

  39,000 Dot Dot customers (FY21: 29,000)
- Technology and process enhancements to balance digital and in-person service to enable a virtually paperless process
- Digital division returned a profit in January and February
- Integration, development and growth of online business underpins medium- and long-term growth strategy
- Digital operating model using existing technology to work remotely, whilst maintaining customer contact and collection activity

HCC

- Credit issued £108.0m (FY21: £109.7m)
- Gross loan book £96.7m (FY21: £101.9m}
- Growth in customers using customer portal to 81% (FY21: 70%)
- 143,000 (FY21: 151,000) active customers – consistent customer base with a continued focus on quality
- 66% of lending cashless
- 81% of customer payments cashless
- Growth in broker model for customer acquisition with high quality customers
- Continued high customer satisfaction score 97% (FY21: 98%)
- Continued development of remote working model to continue community-based service

Digital

- Credit issued up 114% to £41.3m (FY21:£19.3m)
- 48% growth in Dot Dot customer numbers to 39,000 (FY21: 29,000)
- Gross loan book increased by 97% to £23.8m (FY21: £12.1m)
- 92% customer experience score
- Revenue increased by over 100% to £29.6m (FY21: £13.8m)
- Dot Dot returned a profit in Jan and Feb 22

Financial Highlights

	Group	HCC	Digital
Credit issued (£m)	**149.3** (FY21: 129.0)	**108.0** (FY21: 109.7)	**41.3** (FY21: 19.3)
Adjusted profit/(loss) before tax (£m)	**4.6** (FY21: 6.1)	**10.0** (FY21: 15.0)	**(5.4)** (FY21: (8.9))
Statutory loss before tax (£m)	**(42.9)** (FY21: 0.5)	**(35.0)** (FY21: 11.8)	**(7.9)** (FY21: (11.3))
Gross loan book (£m)	**120.5** (FY21: 114.0)	**96.7** (FY21: 101.9)	**23.8** (FY21: 12.1)
Impairments (% of revenue)	**32.3** (FY21: 20.8)	**19.6** (FY21: 15.3)	**67.6** (FY21: 55.1)

Redress Claims

Statutory loss before tax is stated after the exceptional cost of £42.6m relating to potential Redress Claims. This cost is made up of £3.5m of amounts expected to be set off against existing customer balances, and a £39.1m complaints liability representing the present value of potential amounts to be paid to customers

Section 02

Financial Review

HCC Income Statement

Commentary

Credit issued reduced to £108.0m from FY21: £109.7m

This resulted in a 5% reduction in revenue

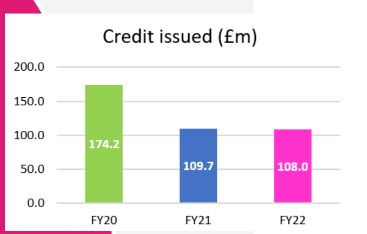
Impairment as percentage of revenue of **20%** which is just below our guidance range of **21%** to **26%**

Exceptional costs

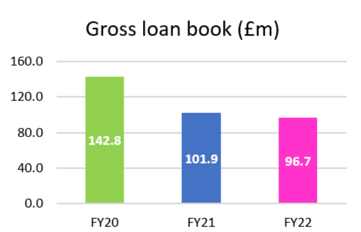
£42.6m of exceptional costs relate to the recognition of the redress claim liability, with a further £1.8m relating to the previously planned corporate restructure

	52 weeks ended 26 Feb 2022 £m	52 weeks ended 27 Feb 2021 £m
Revenue	81.8	86.4
Cost of sales	(27.6)	(33.2)
Gross Profit	54.2	53.2
Administration expenses	(87.8)	(40.6)
Operating profit before amortisation of intangibles and exceptional items	11.4	15.8
Amortisation of acquisition intangibles & non-recurring costs	(0.6)	(3.2)
Exceptional Costs	(44.4)	-
Operating (loss)/profit	(33.6)	12.5
Funding costs	(1.4)	(0.7)
Statutory (Loss)/Profit Before Tax	(35.0)	11.8
Tax	8.7	(0.3)
Statutory (Loss)/Profit After Tax	(26.3)	11.5
Adjusted Profit Before Tax	10.0	15.0

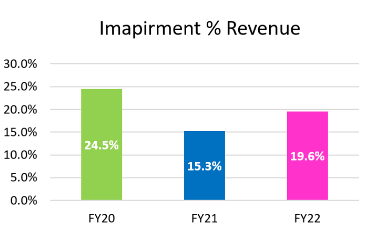
Credit Issued (£m)



Loan Book (£m)



Impairments as a % of revenue



Digital Income Statement

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Commentary

Credit issued more than doubled to **£41.3m** (FY21:£19.3m)

Revenue increased **100%** to **£29.6m** (FY21: £13.8m)

Strong increase in Digital lending business with 48% increase in customer numbers

Exceptional costs

Exceptional costs relate to the operational closure of U Account

Substantial improvement in adjusted loss before tax from prior year improving from (£8.9m) to (£5.4m), an improvement of 39%

	52 weeks ended 26 Feb 2022 £m	52 weeks ended 27 Feb 2021 £m
Revenue	29.6	13.8
Cost of sales	(20.3)	(8.2)
Gross Profit	9.3	5.6
Administration expenses	(16.6)	(15.3)
Operating loss before amortisation of intangibles and exceptional items	(4.8)	(7.3)
Amortisation of acquisition intangibles & non-recurring costs	(0.1)	(2.4)
Exceptional Costs	(2.4)	-
Operating loss	(7.3)	(9.7)
Funding costs	(0.6)	(1.6)
Statutory Loss Before Tax	(7.9)	(11.3)
Tax	0.8	0.1
Statutory Loss After Tax	(7.1)	(11.2)
Adjusted Loss Before Tax	(5.4)	(8.9)

Balance Sheet

Commentary

Deferred tax asset of **£9.1m** relates to losses incurred in FY22 will be utilised against profits in future years

The complaints provision and liability includes **£39.1m** relating to Redress Claims under a potential Scheme and £2.8m due to complaints received at the year end

Funding

Current facility is in place until 31 March 23 with ongoing discussions with lenders regarding future options

Lenders have agreed a temporary deferral on measuring two covenants to allow time for these discussions

	52 weeks ended 26 Feb 2022 £m	52 weeks ended 27 Feb 2021 £m
NON-CURRENT ASSETS		
Goodwill	12.9	12.9
Acquisition intangibles	0.2	0.4
Software & Licences	8.3	8.5
Property, plant & equipment	0.7	0.7
Right-of-Use Assets	1.7	1.7
Deferred Tax	9.1	0.6
Trade receivables > 1 year	2.6	0.1
TOTAL NON-CURRENT ASSETS	35.5	24.8
CURRENT ASSETS		
Trade receivables < 1 year	53.2	53.4
Taxation receivable	2.8	1.4
Other receivables	3.9	4.9
Cash at bank	6.2	8.3
TOTAL CURRENT ASSETS	66.1	68.0
TOTAL ASSETS	**101.6**	**92.8**
LIABILITIES		
Loan facility	(19.2)	(8.3)
Complaints provision and liability	(41.9)	(2.0)
Trade and other liabilities	(6.4)	(10.0)
Lease liabilities	(1.8)	(1.8)
TOTAL LIABILITIES	(69.4)	(22.1)
NET EQUITY	**32.2**	**70.7**
Net Tangible asset (inc. software)	19.2	57.4
Total receivables / Net equity	173.3%	75.7%

Cash Flow

Commentary

Cash outflows from operations is the result of a reduction in trade creditors over an increase in debtors

The net change in cash from funding is an increase of £10.9m due to a combination of the increased sales activity and redress costs

The dividend payment of £5.3m is in respect of dividends declared in FY22 and FY21

The Board has not recommended a final dividend for FY22

As the Group was loss making in the year there was no corporation tax payment

	52 weeks ended 26 Feb 2022 £m	52 weeks ended 27 Feb 2021 £m
Cash from Operations	(3.2)	15.0
Cash from funding	25.1	11.5
Dec / (inc) in net Loan Book	2.4	19.3
Total Cash sources	24.3	45.8
Repayment of funding	(14.2)	(37.0)
Purchase of Intangibles	(4.1)	(5.3)
Capital expenditure	(0.2)	(1.1)
Principal paid under lease liabilities	(0.9)	(1.5)
Corporation Tax	-	(1.2)
Interest Paid & Mgmt Fee	(1.6)	(2.0)
Dividends Paid	(5.3)	(1.3)
Total Cash Usage	(26.4)	(49.4)
Cash Movement	(2.1)	(3.6)

Section 04

Strategy

Strategic Focus

- We play a vitally important role in providing loans to a large and increasingly underserved UK demographic.
- The number of people needing our products is likely to grow in the current economic environment.
- We are the last remaining ‘big player’ in the sector – we believe that we have a duty – a social responsibility, to our customers to continue to provide credit in a regulated manner.
- We have listened to, and are working with, the Regulator to structure Morses Club’s business for the future.
- We have redesigned our business model and tightened our credit policy and lending criteria.
- We are in discussions with our lenders regarding funding options and they remain supportive.
- We continue to develop products in line with our service model tailored to our customer’s needs and behaviors – taking account of our customers credit demand and risk profile with a strategic aim to improve their overall financial wellbeing.
- Continued digitalisation of the business. Strong focus on technology to streamline processes and put the customer in charge – how they get access to credit, how they pay it back and how they talk to us.

Section 05

Outlook

Trading Outlook

- We have deliberately constrained lending during H1, which has reduced sales volumes.
- Reduction in the loan book will have an impact on revenues and profitability in FY23.
- Focus on quality lending has resulted in a positive impact on impairment performance.
- Impairment for HCC is performing below the normal range of 21% - 26%, which is a continuation of a positive trend.
- Impairment for the digital division is within the impairment range of 45% - 55%, for the first time since 2019.
- Customer demand is strong, and quality of lending is strong.

Outlook

- Our ability to move forward is contingent upon the successful delivery of a Scheme of Arrangement.
- We are focused on achieving this to deliver an equitable solution for customers and allow the business to move forward.
- Once successfully delivered, we will be in a stronger position to fund the business to meet its operational needs.
- We have a strong underlying business and a sustainable market opportunity.
- Morses Club is the UK's largest HCC player – only one of scale remaining in the UK.
- We are committed to the sector and have a deep understanding of our customer demographic.
- We have reshaped the business to be flexible and fit for the future.
- We see growing demand for our credit products as increases in the cost of living continue.
- HCC and Digital divisions now 'partners' in developing a product proposition, sharing learnings in processes and ways of working.
- We have scalable infrastructure and a roadmap of organic growth initiatives.
- We are adapting how our HCC service is delivered with the introduction of a newly created, community-based role of Customer Support Associate.
- Product development – we continue to align the credit products available to our customers based on their credit needs and their risk profile.