2022 Interim Results

7 October 2021

Paul Smith - CEO
Graeme Campbell - CFO

morsesclub

Highlights

Operational Highlights

Group

- Deliberate strategic investment to support strong demand in Digital loans and HCC business in H1
- Continued progress in the plan to restructure the Group

HCC

- Customer numbers remain stable
- Continued focus on ensuring credit quality
- 65% of all lending is cashless – consistent trend
- 86% of all customer payments now cashless, an increase from 80% (FY21)
- Over 75% of customers registered for portal
- Impairment below expected range
- Collections to terms at pre-pandemic levels

Digital

- 100% increase in customer numbers for both short-term and long-term lending
- 182% increase in Gross Loan Book
- Credit issued increased by 173%
- Roll out of new longer-term product and loan management platform has driven sales
- Processes now well established in Dot Dot
- Average terms continue to lengthen due to demand for 6 and 9 month products

Financial Highlights

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	Group	HCC	Digital
Credit issued (£m)	77.8 (HY21: 60.2)	53.1 (HY21: 51.1)	24.8 (HY21: 9.1)
Adjusted profit before tax (£m)	2.6 (HY21: 2.3)	7.3 (HY21: 6.8)	(4.7) (HY21: (4.5))
Statutory profit before tax (£m)	1.8 (HY21: 0.8)	6.5 (HY21: 5.6)	(4.7) (HY21: (4.8))
Customer numbers (000's)	196 (HY21: 205)	144 (HY21: 170)	52 (HY21: 35)
Net loan book (£m)	60.3 (HY21: 55.6)	45.3 (HY21: 50.4)	15.0 (HY21: 5.2)
Impairments (% of revenue)	31.5 (HY21: 23.5)	16.8 (HY21: 18.8)	72.5 (HY21: 58.3)

Interim Dividend proposed of 1.0p (HY21: 1.0p)

Financial Review

Income Statement – HCC

£'m unless otherwise stated

	H1 FY22	H1 FY21	Change
Customer numbers ('000's)	144	170	(26)
Period end receivables	45.3	50.4	(5.1)
Average receivables	48.0	61.5	(13.5)
Revenue	38.6	44.2	(5.6)
Impairment	(6.5)	(8.3)	1.8
Agent commission & other cost of sales	(7.5)	(10.3)	2.8
Gross profit	24.6	25.6	(1.0)
Admin expenses	(15.4)	(16.2)	0.8
Depreciation	(1.4)	(1.9)	0.5
Normalised operating profit	7.8	7.5	0.3
Financing costs	(0.5)	(0.7)	0.2
Adjusted PBT	**7.3**	**6.8**	**0.5**
Covid impact identified in PBSE	-	4.3	(4.3)
Normalised adjusted PBT	**7.3**	**11.1**	**(3.8)**
Impairment/revenue %	16.8%	18.8%	(2.0%)
Agent commission/revenue %	19.4%	23.3%	(3.9%)
Admin (inc. depreciation)/revenue %	43.5%	41.0%	2.5%

Commentary

- Credit issued of £53.1m increased £2.0m compared to £51.1m for H121. This was due to the unlocking of the economy and continued lending to new customers through full period of H1 FY22
- Revenue decreased by 12.7% due to reducing loan book, with continued focus on credit quality
- Impairment decreased to 16.8% from 18.8% due to the high proportion of lending to existing good performing customers. This resulted in a positive variance year on year of £1.8m
- The new agent commission structure established earlier in the year has already delivered £2.8m cost reductions in H1 FY22
- Despite an increase to complaint costs, Admin and Depreciation costs have reduced by £1.3m from £18.1m to £16.8m
- Financing costs have reduced as the average and period end loan book has decreased. This is due to collections being higher than the increase in new credit issued

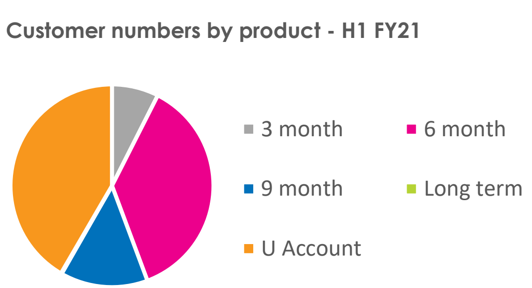
Income Statement – Digital

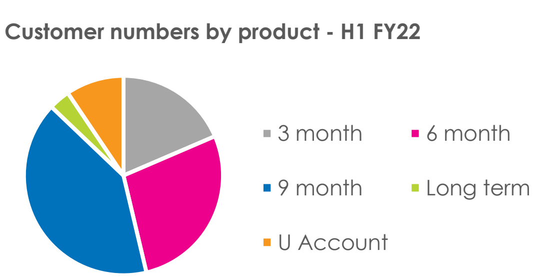
£'m unless otherwise stated

	H1 FY22	H1 FY21	Change
Customer numbers ('000's)	52	35	17
Period end receivables	15.0	5.2	9.8
Average receivables	8.2	5.4	2.8
Revenue	13.8	6.0	7.8
Impairment	(10.0)	(3.5)	(6.5)
Other cost of sales	(0.2)	(0.3)	0.1
Gross profit	3.6	2.2	1.4
Admin expenses	(7.5)	(5.9)	(1.6)
Depreciation	(0.5)	(0.2)	(0.3)
Normalised operating profit	(4.4)	(3.9)	(0.5)
Financing costs	(0.3)	(0.6)	0.3
Adjusted PBT	**(4.7)**	**(4.5)**	**(0.2)**
Covid impact identified in PBSE	-	0.9	(0.9)
Normalised adjusted PBT	**(4.7)**	**(3.6)**	**(1.1)**
Impairment/revenue %	72.5%	58.3%	14.2%
Admin (inc. depreciation)/revenue %	58.0%	101.7%	(43.7%)

Commentary

- Credit issued increased by 173% to £24.8m from £9.1m last year – a 3 fold increase
- Period end net receivables increased by 189% to £15.0m from £5.2m last year – a 3 fold increase
- Customer numbers up 48% as lending increased in response to market demand. Dot Dot Loan customer numbers more than doubled from 20,000 to 47,000 due mainly to the growth in loans of 6 months or more. U Account customers reduced from 13,000 to 5,000, although the rate of decline has slowed.
- Cost increases of £1.9m relate to marketing and support costs to generate and support new business
- Adjusted loss before tax is £0.2m higher due to adverse impairment provision recognised on high levels of credit issued





Impairment

£'m unless otherwise stated

- Both HCC and Digital products are achieving targeted risk-adjusted returns

	H1 FY22	H1 FY21	Change
HCC			
Impairment	(6.5)	(8.3)	1.8
Impairment/revenue %	16.8%	18.8%	(2.0%)
Digital			
Impairment	(10.0)	(3.5)	(6.5)
Impairment/revenue %	72.5%	58.3%	14.2%
Total			
Impairment	(16.5)	(11.8)	(4.7)
Impairment/revenue %	31.5%	23.5%	8.0%

HCC

- HCC impairment remains favourable relative to the guidance range of 21% to 26%
- Very strong collections performance drives the relatively low impairment to revenue percentage
- This is due to reduced pressure on customer income due to lockdown and the high proportion of lending relating to existing good quality customers
- Pressures to customer income will return in H2 so our guidance range for HCC remains unchanged

Digital

- Digital impairment has increased above the guidance range of 45% to 55%
- This is due to high levels of credit issued compared to revenue in the period, as full provision is recognised upfront
- There has been a shift to longer term products. In H1 FY21 40% of lending was based on loans with terms of 6 months or more. This has increased to 66% in H1 FY22
- This leads to a disconnect between impairment recognised upfront and revenue which is spread over a period of more than 6 months
- Over time these fluctuations will balance out and so our guidance range for Digital remains unchanged

Complaints

- The number of complaints received continues to be proportionate and lower than other lenders in the sector
- There has been an increase in complaints received
- We are fully compliant with our DISP requirements with regard to investigating each complaint
- The costs of complaints appear in two areas: within impairment costs there were balance reductions of £2.7m (H1 FY21: £0.2m) and in admin expenses of £1.3m (H1 FY21: £0.0m) for the cost of redress and FOS fees
- A provision of £2.4m has been included to cover the cost of complaints still unresolved at the balance sheet date (FY21: £2.0m)

	HCC
✓	Prudent approach to lending[1]
✓	Affordability checks[1]
✓	Fully digitalised records up to 6 years

[1] All lending is in line with FCA regulatory requirements

	Digital
✓	Three loan limit
✓	6% upheld rate*** with FOS
✓	No legacy book with CURO

Morses Club FCA complaint statistics*

	Mar 20 – Aug 20	Sep 20 – Feb-21
New cases	3,153	5,201
Closed cases	3,349	2,881
Upheld rate***	18.8%	35.0%

Morses Club FOS complaint statistics **

	Jul 20 – Dec 20	Jan 21 – Jun 21
New cases	794	1,585
Upheld rate***	63.0%	71.0%

*FCA published data on firm-specific complaints
**FOS published data on firm-specific complaints
***Upheld rate is the percentage of complaints where FOS outcome is in customer's favour

Balance Sheet

£'m

	Aug-21	Aug-20
Non current assets		
Goodwill	12.9	13.0
Acquisition intangibles	0.6	0.6
Software and licences	9.0	8.3
Plant and equipment	0.7	0.8
Right of use asset (IFRS16)	1.1	2.1
Deferred tax	0.6	0.7
Total fixed assets	24.9	25.5
Current assets		
Trade receivables inc>12 mths	60.3	55.6
Cash and cash equivalents	6.9	6.5
Other current assets	5.2	7.8
Total current assets	72.4	69.9
Total assets	**97.3**	**95.4**
Liabilities		
Loan facility	(18.0)	(14.0)
Lease liabilities (IFRS16)	(1.2)	(2.3)
Trade and other liabilities	(9.6)	(7.3)
Total liabilities	(28.8)	(23.6)
Net assets	**68.5**	**71.8**
Net tangible assets inc software	55.6	58.2
Trade receivables/net assets	88.0%	77.4%

Commentary

- Decrease in total equity reflects timing impact of increased impairment levels
- Continued investment in our technology platforms reflected in software and licences
- Period end net loan book £60.3m, up 8.5% compared to last year due to significant growth in Digital
- Loan facility drawn increased to £18m from £14m to support higher levels of credit issued. Growth supported within current funding levels
- New debt facility of £35m has been extended to December 2022 and supports funding for Dot Dot Loans products

Cash Flow

£'m

	H1 FY22	**H1 FY21**
Cash from operations excluding investment in loan book	4.8	4.9
Cash from funding	9.5	-
(Increase)/Decrease in net loan book	(8.3)	16.6
Total Cash Sources	6.0	21.5
Repayment of funding	-	(20.0)
Purchase of intangibles	(2.0)	(2.9)
Capital expenditure	(0.1)	(0.3)
Principal paid under lease liabilities	(0.4)	(0.8)
Corporation tax	-	(1.2)
Interest paid and arrangement fee	(0.9)	(1.6)
Dividends paid	(4.0)	-
Total Cash Uses	(7.4)	(26.8)
Cash Movement	**(1.4)**	**(5.3)**

Commentary

- Operational cash flows were lower in H1 FY22 than prior year as a result of a return to normal levels of new credit issued following the pandemic
- This resulted in an increase to the loan facility of £4.0m to £18.0m
- In the period the Group paid prior year interim and final dividends totalling 3.0p
- A further interim dividend is proposed of 1.0p to be paid in February 2022

Summary and Outlook

Summary and Outlook

Confident of good demand for digital loan products as we take advantage of the fragmented and fluid digital market

Economic recovery and changes expected to impact individual finances, presenting further demand opportunities but also potential collection challenges

Focus on broadening credit offering in digital – strong demand remains

Expect continued demand for HCC products in the longer term, particularly as competitors exit the market

Continued progress in the plan to restructure the Group

Progressive dividend policy with an interim dividend of 1.0p