2023 Interim Results

Gary Marshall – CEO
Graeme Campbell – CFO

24 November 2022

Company Update

- Tightened lending criteria over the last six months has led to reduced lending and will continue to impact revenue and profitability in H2 FY23.
- Continuing to work 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 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

95% customer satisfaction

Loyal team committed to the sector

Blending the best of behavioural/digital knowledge

Digital

Core digital expertise with customer-centric focus – 94% customer experience score

Lending constrained in line with funding levels

Digital technology capability

Turnaround phase complete with stable lending platform

We play a vital role in providing loans to a large and increasingly underserved UK demographic – the highest inflation levels in 40 years, the cost of living crisis, and weak economic outlook are likely to drive more customers into the sector

Section 01

Potential Scheme of Arrangement

Progress on the Scheme of Arrangement

- Customer committee now in place (over 6000 customers contacted, with 8 participants as planned).
- Customer committee Chair – Jamie Drummond-Smith appointed.
- Customer committee meetings held to discuss the detail of the potential Scheme.
- Draft Practice Statement letter in development.
- Skilled person review of Scheme methodology and go-forward business proposition.
- Development of detailed communications plan in preparation for customer launch.

Regulatory Engagement

- In pursuing a potential Scheme, the Company is working closely with the FCA.

Agreeing the Claims Methodology

Approving the credit policies that underpin the 'go-forward' business proposition

Supporting the Scheme 'deal'

Considering the independent 'skilled-person' review and subsequent report recommendations

Informed by the Customer Committee

- The Company maintains an effective working relationship with the FCA.
- We continue to provide FCA and FOS with detail around the Scheme and the go-forward business proposition.
- The Company has clear plans for addressing the requirements of Consumer Duty.

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 (CMCs), 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.
- Effective from 11th August 2022, the FCA sanctioned a ‘pause’ in the processing of irresponsible lending complaints and we have subsequently seen a reduction in new cases received. Several CMCs have subsequently paused direct social media advertising against the business.
- 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	Jul 21 – Dec 21	Jan 22 – Jun 22
New cases	1,585	917	987
Uphold rate	71%	67%	57%

- 74% of all new complaints received from March 2022 – August 2022 related to irresponsible lending. The uphold rate of these complaints was 68%.

*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 continues to have one of 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	Jul 21 – Dec 21	Jan 22 – Jun 22
New cases	63	41	79
Uphold rate	6%	8%	11%

- 30% of all new complaints received from March 2022 - August 2022 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

- Operations constrained by shrinking borrowing base and funding levels, which have reduced from £35m to £25m.

116,000 HCC customers (H1 FY22: 144,000)

25,000 Digital customers (H1 FY22: 52,000)

Technology and process enhancements to balance digital and in-person service to enable a virtually paperless process

Digital operating model using existing technology to work remotely, whilst maintaining customer contact and collection activity

Business developed in line with available funding

HCC

- Credit issued decreased 34.3% to £34.9m (H1 FY22: £53.1m)
- Gross loan book £68.7m (H1 FY22: £95.8m}
- Growth in customers using customer portal to 82.3% (H1 FY22: over 75%)
- 116,000 (H1 FY22: 144,000) active customers – decrease in customer base but with a continued focus on quality
- 69% of lending cashless
- 89% of customer payments cashless
- Growth in broker model for customer acquisition with high quality customers
- Continued high customer satisfaction score 95% (FY22: 97%)
- Introduction of new Customer Support Associate role and move away from self-employed agent model

Digital

- Credit issued decreased 58.9% to £10.2m (H1 FY22: £24.8m)
- 51.9% decrease in Digital customer numbers to 25,000 (H1 FY22: 52,000 inc. 4,900 U Account customers)
- Gross loan book decreased by 59.6% to £13.8m (H1 FY22: £34.2m)
- Continued high customer satisfaction score 94% (FY22: 92%)
- Revenue decreased by over 37.7% to £8.6m (H1 FY22: £13.8m)

Financial Highlights

	Group	HCC	Digital
Credit issued (£m)	**45.1** (H1 FY22: 77.8)	**34.9** (H1 FY22: 53.1)	**10.2** (H1 FY22: 24.8)
Adjusted (loss)/profit before tax (£m)	**(9.1)** (H1 FY22: 2.6)	**(7.0)** (H1 FY22: 7.3)	**(2.1)** (H1 FY22: (4.7))
Statutory (loss)/profit before tax (£m)	**(20.8)** (H1 FY22: 1.8)	**(9.3)** (H1 FY22: 6.5)	**(11.5)** (H1 FY22: (4.7))
Gross loan book (£m)	**82.5** (H1 FY22: 130.0)	**68.7** (H1 FY22: 95.8)	**13.8** (H1 FY22: 34.2)
Impairments (% of revenue)	**21.1** (H1 FY22: 31.5)	**15.3** (H1 FY22: 16.8)	**44.2** (H1 FY22: 72.5)

Redress Claims

Statutory loss before tax is stated after the exceptional cost of £2.0m relating to potential Redress Claims. This cost is made up of £0.9m unwind of discount in relation to the complaints provision as at H1 FY22 and £1.1m in Scheme advisory fees. The total provided for potential scheme claims is now £43.5m split between £3.5m expected to be set off against customer balances and a £40.0m complaints liability.

Section 02

Financial Review

HCC Income Statement

Commentary

Credit issued reduced to £34.9m from H1 FY22: £53.1m

This resulted in a 10% reduction in revenue

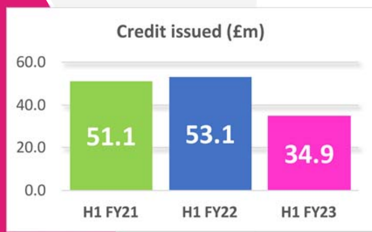
Impairment as a percentage of revenue of 15% is below our guidance range of 21% to 26% and is the result of a reducing loan book

Exceptional costs

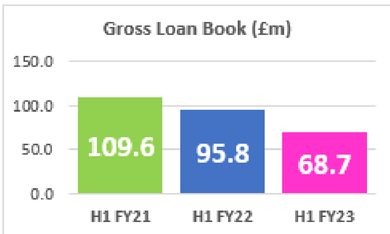
Exceptional costs of £2.0m in the period relate to £1.1m of scheme legal and advisory costs and £0.9m unwind of discount on the year end complaints provision

	26 weeks ended 27 Aug 2022 £m	26 weeks ended 28 Aug 2021 £m
Revenue	34.6	38.6
Cost of sales	(12.0)	(14.0)
Gross Profit	22.6	24.6
Administration expenses	(31.1)	(17.6)
Operating profit before amortisation of intangibles and exceptional items	(6.2)	7.8
Amortisation of acquisition intangibles & non-recurring costs	(0.3)	(0.8)
Exceptional Costs	(2.0)	-
Operating (loss)/profit	(8.5)	7.0
Funding costs	(0.8)	(0.5)
Statutory (Loss)/Profit Before Tax	(9.3)	6.5
Tax	1.9	(1.2)
Statutory (Loss)/Profit After Tax	(7.4)	5.3
Adjusted (Loss)/Profit Before Tax	(7.0)	7.3

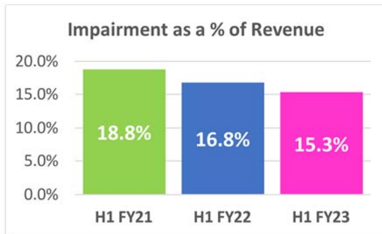
Credit Issued (£m)



Loan Book (£m)



Impairment as a % of revenue



Digital Income Statement

Commentary

Credit issued has decreased to £10.2m (H1 FY22: £24.8m)

Revenue decreased by 37.7% to £8.6m (H1 FY22: £13.8m)

Decrease in Digital lending business with 51.9% reduction in customer numbers

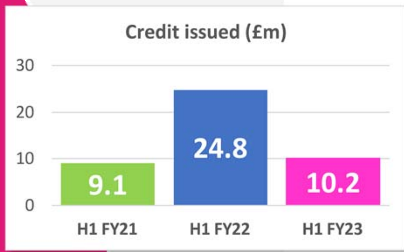
Substantial improvement in adjusted loss before tax from prior year, increased 55.3% from (£4.7m) to (£2.1m)

Impairment as a percentage of revenue of 44.2% which is below our guidance range of 45% to 55% and is the result of a reducing loan book

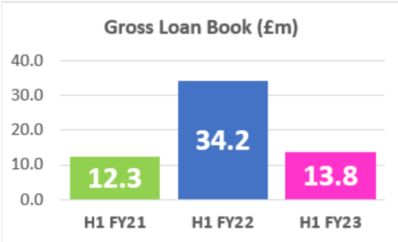
Amortisation of acquisition intangibles & non-recurring costs includes £9.4m impairment in goodwill relating to U Holdings Ltd

	26 weeks ended 27 Aug 2022 £m	26 weeks ended 28 Aug 2021 £m
Revenue	8.6	13.8
Cost of sales	(4.0)	(10.2)
Gross Profit	4.6	3.6
Administration expenses	(15.9)	(8.0)
Operating loss before amortisation of intangibles and exceptional items	(1.9)	(4.4)
Amortisation of acquisition intangibles & non-recurring costs	(9.4)	-
Exceptional Costs	-	-
Operating loss	(11.3)	(4.4)
Funding costs	(0.2)	(0.3)
Statutory Loss Before Tax	(11.5)	(4.7)
Tax	2.3	0.9
Statutory Loss After Tax	(9.2)	(3.8)
Adjusted Loss Before Tax	(2.1)	(4.7)

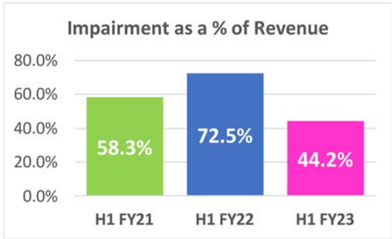
Credit Issued (£m)



Loan Book (£m)



Impairment as a % of revenue



Balance Sheet

Commentary

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

The complaints provision and liability includes £40.0m relating to Redress Claims under a potential Scheme and £2.3m due to complaints received at the half year end. The scheme complaints provision for £40.0m is subject to the agreement of the FCA

Current facility is in place until 31 March 2023 and discussions with funders regarding future options are ongoing

Funders have agreed a temporary deferral on measurement of two covenants and extended the term-out to January 2023

Following bi-annual Goodwill assessment, £9.4m of Goodwill in Digital division relating to the acquisition of U Holdings Ltd, has been impaired in full

	26 weeks ended 27 Aug 2022 £m	26 weeks ended 28 Aug 2021 £m
Non-Current Assets		
Goodwill	3.5	12.9
Acquisition intangibles	0.1	0.6
Software & Licences	8.4	9.0
Property, plant & equipment	0.6	0.7
Right-of-Use Assets	1.3	1.1
Deferred Tax	9.1	0.6
Trade receivables > 1 year	1.5	3.3
Total Non-Current Asset	24.5	28.2
Current Assets		
Trade receivables < 1 year	36.2	57.0
Taxation receivable	6.9	1.1
Other receivables	3.3	4.1
Cash at bank	7.9	6.9
Total Current Assets	54.3	69.1
Total Assets	**78.8**	**97.3**
Liabilities		
Loan facility	(13.8)	(18.0)
Complaints provision and liability	(42.3)	(2.4)
Trade and other liabilities	(5.5)	(7.2)
Lease liabilities	(1.5)	(1.2)
Total Liabilities	(63.1)	(28.8)
Net Equity	**15.7**	**68.5**
Net Tangible asset (inc. software)	12.1	55.0
Total receivables / Net equity	240.1%	88.0%

Cash Flow

Commentary

Cash outflow from operations is the result of the redress payments made in the period

Funding has been reduced by £5.6m in the period

No dividend payments were made in H1 FY23

As the Group was loss-making in the year, no corporation tax was payable

	26 weeks ended 27 Aug 2022 £m	26 weeks ended 28 Aug 2021 £m
Cash from Operations	(8.7)	4.8
Cash from funding	-	13.0
Dec / (inc) in net Loan Book	18.5	(8.3)
Total Cash sources	9.8	9.5
Repayment of funding	(5.6)	(3.5)
Purchase of Intangibles	(1.2)	(2.0)
Capital expenditure	-	(0.1)
Principal paid under lease liabilities	(0.4)	(0.4)
Corporation Tax	-	-
Interest Paid & Mgmt Fee	(0.8)	(0.9)
Dividends Paid	-	(4.0)
Total Cash Usage	(8.0)	(10.9)
Cash Movement	1.8	(1.4)

Funding Arrangements

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Existing Funding Arrangements

- Two funder consortia with £25m facility to 31 March 2023.
- Supportive of the Company's position in the short term.
- Term-out date extended to January 2023, and the testing of two covenants has been deferred.
- Funding is based on HCC loan book which increasingly impedes the ability to grow the Dot Dot Loans offering.

Future Funding Arrangements

- Short term requirement to extend the term out date of the existing facility.
- In the medium term – adequate provision to support growth targets of both HCC and Digital channels.
- Longer term, subject to performance of the business model, there are clear opportunities to accelerate business growth with increased funding headroom.
- Engaged Ernst & Young to help to secure medium term funders which support growth targets.

Section 04

Strategy

Re-aligning the Operating Model

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Our model is underpinned by an appropriate and sustainable lending approach: we understand our customers' needs and aim to financially support them through good and bad times.

TODAY	MORSES CLUB 2.0
Two businesses with partially integrated functions	Continue to integrate business, leveraging expertise and harnessing operational efficiencies
Hierarchical structure with rigid ways of working	Flat structure aligned to the business process
A culture constrained by the legacy issues	An adaptive, learning based culture moving forward past legacy issues
Inefficiencies that have been supported by a profitable business	A lean organisation right-sized to the business

- The first phase of field transformation has been completed. This has seen removal of the self-employed agency model and the creation of an employed Customer Services Associate role. Despite this change, collections levels have not been impacted.
- Next stage of field transformation will realise further efficiencies by moving to a process-based organisation aligned to the customer journey.
- One company – collaborative teams, efficient operation, shared capability, single platform.
- Multi-channel customer journey providing choice to customers on how they access services.

Meeting Challenges Head-on

In progressing the potential Scheme, the Company is also taking steps to ensure that it is best placed to manage future challenges

1 Regulation

- The Company's credit policies and procedures have been subject to critical review. Acceptance by the FCA will ensure long term sustainability of the business model
- Having formal ratification that our practices are 'clean' provides comfort for consumers and investors
- The Company has developed plans to meet requirements of Consumer Duty due in 2023

2 Funding

- The Company is working closely with potential funders to ensure continuity of funding throughout the Scheme process and in support of the go-forward business proposition
- EY working to secure medium term funders to support growth targets

3 Customer needs

- The Company recognises the special responsibility that it holds in being able to serve customers in this sector
- The Company recognises the need to adapt to the changing needs of the customer and the ways in which they choose to access credit

4 Responsible Lender

- The Company will continue to work as a trusted and responsible provider – supporting customers to make appropriate financial decisions

Section 05

Outlook

Summary

- The Company has a clear pathway to a future business proposition proposition
- We are in active dialogue with the regulator
- Immediate challenges can be addressed with swift cooperation
- The Scheme will resolve historic liabilities with regulatory endorsement of credit policies and practices
- Likelihood of increased demand in light of current market conditions
- A reshaped, profitable business with an established track record