2021
Full Year Results

13 May 2021

Paul Smith - CEO

Graeme Campbell - CFO

morsesclub

Highlights

Digitalising Doorstep Lending

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Covid-19 accelerated our digital transformation journey to become a more complete financial services provider

- **Customer Satisfaction** — **Very high and improved satisfaction** levels despite rapid changes to the customer service model
- **New Products** — New products to meet customer needs – more **comprehensive offering**
- **New Platforms** — **Transition** of e-money current account and credit platforms onto two new providers - flexible technology driving growth
- **Reduced Estate** — Estate **footprint transformed**: 90 leases operationally exited – single contact centre in Nottingham remains
- **Remote Lending** — **Rapid re-engineering** of platform to support digital processes and enable remote lending
- **Home Working** — **Total re-thinking** of working practices and delivery of customer service

FY21

Transformation in Numbers

	Portal customers	Loans delivered remotely	Cash collected remotely	Property portfolio (no.)	Customer satisfaction
Pre-Covid-19	78,000	17%	39%	90+	97%
Current	107,000	67%	80%	1	98%

A year of transforming both divisions

Group

Resilient response to Covid-19
Leveraged existing technology
Redesign of property and working approaches
No furlough • No government assistance • Profitable

HCC

- Collection rate of 78% in line with pre-Covid-19 levels
- Loan book profile improved year-on-year
- Strong Impairment Ratio further improved to below guidance range
- 80% of collection transactions completed remotely (FY20: 20%)
- 67% of loans issued were cashless
- 70% of customers registered for portal

Better positioned to take advantage of opportunities in the growing and fragmented non-standard credit market

Digital

- 37% increase in Gross Loan Book
- Improved Loan Book quality - 74% of portfolio balances up to date (FY20: 62%)
- Implementation of new Loan Management Platform
- E-money current account moved to new operating platform
- Launch of longer-term lending product

Financial Highlights

	Group	HCC	Digital
Credit issued (£m)	**129.0** (FY20: 190.3)	**109.7** (FY20: 174.2)	**19.3** (FY20: 16.1)
Adjusted profit before tax (£m)	**6.1** (FY20: 13.8)	**15.0** (FY20: 22.8)	**(8.9)** (FY20: (9.0))
Statutory profit before tax (£m)	**0.5** (FY20: 11.5)	**11.8** (FY20: 21.2)	**(11.3)** (FY20: (9.7))
Customer numbers (000's)	**180** (FY20: 255)	**151** (FY20: 221)	**29** (FY20: 34)
Net loan book (£m)	**53.5** (FY20: 72.8)	**48.0** (FY20: 67.9)	**5.6** (FY20: 4.9)
Impairments (% of revenue)	**20.8** (FY20: 27.2)	**15.3** (FY20: 24.6)	**55.1** (FY20: 49.3)

Final Dividend proposed of 2.0p (FY20: 1.0p)

Complaints

- Noticeable increase in the level of complaints received from both Claims Management Companies (CMCs) and customers for the HCC division
- The number of complaints received is proportionately lower than other lenders in the sector
- 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 £0.4m (FY20: £0.1m) and in admin expenses of £2.0m (FY20: £0.2m) for the cost of redress and FOS fees
- A £2.0m provision has been included within admin expenses to cover the cost of complaints still unresolved at the balance sheet date

	HCC
✓	Prudent approach to lending*
✓	Affordability checks*
✓	Fully digitalised records up to 6 years

*All lending is in line with FCA regulatory requirements

	Digital
✓	Strict three loan limit
✓	96% win rate with FOS
✓	No legacy book with CURO

Morses Club FCA complaint statistics*

	Sep 19 – Feb 20	Mar 20 – Aug 20
New cases	2,610	3,153
Closed cases	2,209	3,349
Uphold rate	27.5%	18.8%

Morses Club FOS complaint statistics **

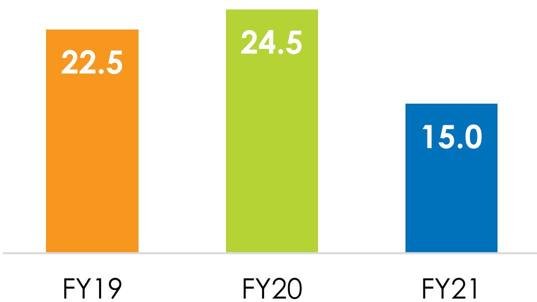
	Jan 20 – Jun 20	Jul 20 – Dec 20
New cases	224	794
Uphold rate	65%	63%

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

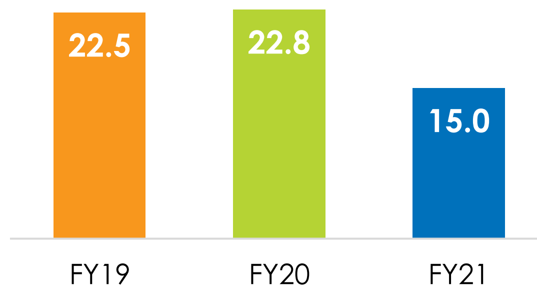
Financial Review

HCC Division

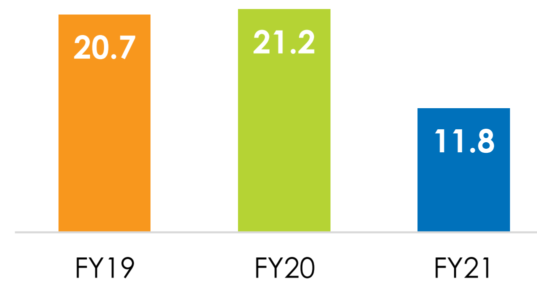
Normalised Adjusted PBT (£m)



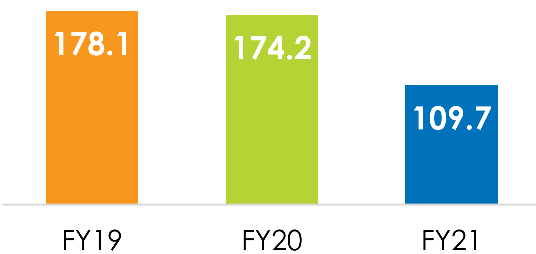
Adjusted PBT (£m)



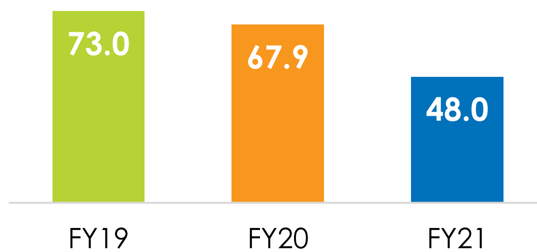
Statutory PBT (£m)



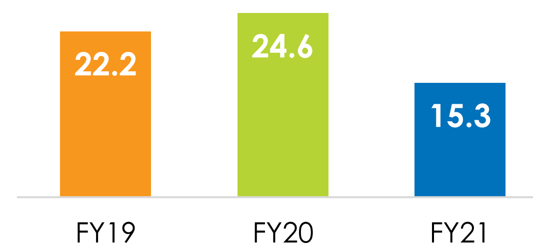
Credit Issued (£m)



Loan Book (£m)



Impairments as a % of revenue



Commentary

- Despite the impact of the Covid-19 pandemic, the HCC business maintained strong profitability during FY21, delivering an Adjusted PBT of £15.0m
- A focus on quality lending to new and existing customers resulted in an impairment ratio of 15.3%, well below guidance range of 21%-26%. The collection to terms performance in Q4 FY21 returned to 100% of historical expectations
- Credit issued declined by 37% to £109.7m due to the closed economy impacting demand and restricted lending to new customers in H1. As a result the loan book reduced by 29% to £48.0m
- Whilst Credit issued declined in FY21, credit quality improved and we are well-placed for a post-Covid-19 recovery in consumer borrowing

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Income Statement – HCC

£'m unless otherwise stated	FY21	FY20	Movement
Customer Numbers (000)	151	221	-70
Period end Receivables	48.0	67.9	(19.9)
Average Receivables	52.3	69.3	(17.0)
Revenue	86.4	119.3	(32.9)
Impairment	(13.2)	(27.6)	14.4
Agent Comm'n	(20.0)	(27.0)	7.0
Gross Profit	53.2	64.7	**(11.5)**
Admin Expenses	(33.8)	(34.4)	0.6
Depreciation	(3.6)	(3.6)	0.0
Normalised Operating Profit	15.8	26.7	(10.9)
Financing costs	(0.7)	(2.1)	1.4
Normalised Adjusted PBT	**15.0**	**24.6**	**(9.5)**
Covid-19 Overlay	0.0	(1.7)	1.7
Adjusted PBT	**15.0**	**22.9**	**(7.8)**
Impairment as % of Revenue	15.3%	23.1%	7.9%
Agent Comm'n as % of Revenue	23.2%	22.6%	-0.5%
Admin (inc Dep'n) as % of Revenue	43.3%	31.9%	-11.4%

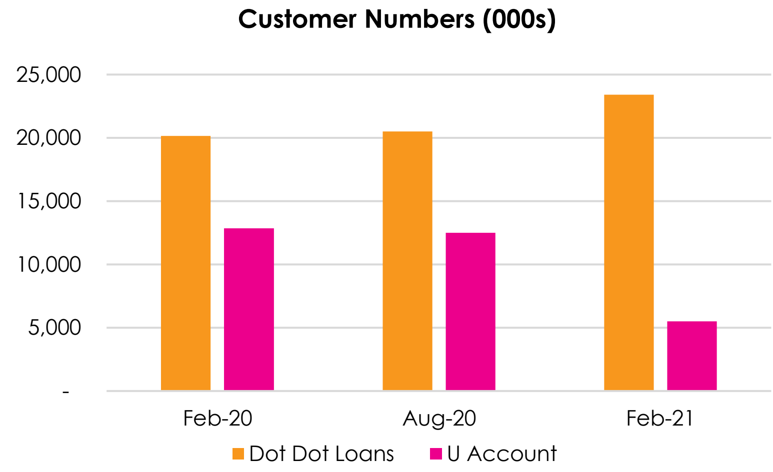
Commentary

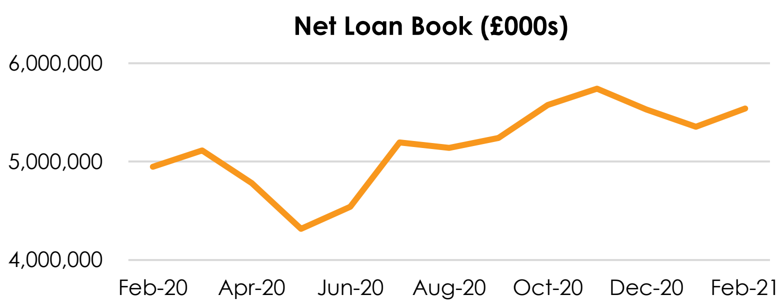
- Reduced demand due to Covid-19 resulted in a 32% reduction to the customer base and a 28% reduction in revenue. Focus on quality of lending has resulted in a smaller but higher quality loan book
- Impairment at 15.3% of revenue is significantly below our guidance range of 21%-26%. Tightened lending criteria and lower new customer numbers have improved the quality of the loan book
- Agent commission reduced by £7m, with slight increase to 23.2% of revenue. Post-year-end further reductions have been made to standard agent commission to reduce costs
- Decisive management action delivered savings in Admin and Depreciation costs of £0.6m, despite increased cost of complaints
- Despite the pandemic impacting demand and operations, a strong adjusted PBT of £15.0m demonstrates the underlying resilience of the HCC division

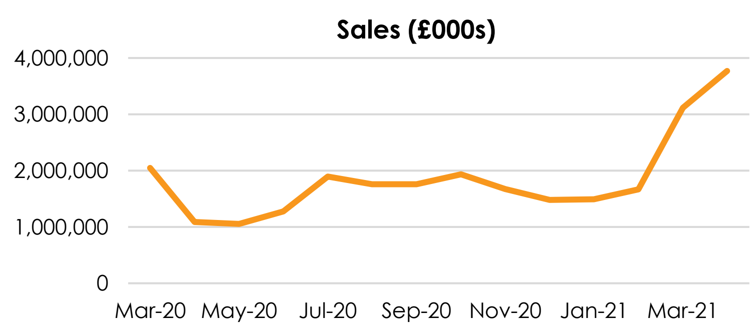
Digital Division

Commentary

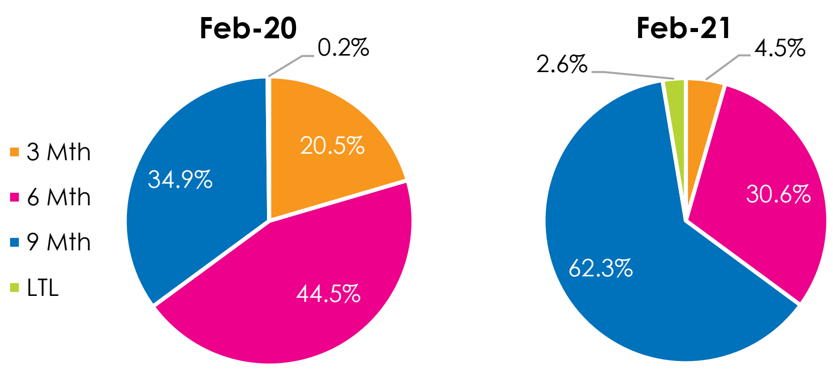
- Growth in customer numbers and loan book in Dot Dot Loans offset by some customer reduction in U account as we rebased our e-money current account services onto a new, more scalable platform
- Dot Dot Loans product mix continues to trend towards longer-term 9 month loans
- Run rate profitability expected by end of FY22, through a combination of strong online lending and integrated current account and credit products







Dot Dot Loans Product Mix – focus on longer-term lending



Income Statement – Digital

£'m unless otherwise stated	FY21	FY20	Movement
Customer Numbers (000)	29	34	-5
Period end Receivables	5.6	4.9	0.7
Average Receivables	5.2	5.0	0.2
Revenue	13.8	14.4	(0.6)
Impairment	(7.6)	(7.1)	(0.5)
Other Cost of sales	(0.6)	(0.6)	0.0
Gross Profit	5.6	6.6	**(1.1)**
Admin Expenses	(12.2)	(13.8)	1.6
Depreciation	(0.7)	(0.7)	0.0
Normalised Operating Profit	(7.3)	(7.9)	0.5
Financing costs	(1.6)	(1.1)	(0.5)
Normalised Adjusted PBT	**(8.9)**	**(9.0)**	**0.0**
Covid-19 Overlay	0.0	0.0	0.0
Adjusted PBT	**(8.9)**	**(9.0)**	**0.0**
Impairment as % of Revenue	55.1%	49.3%	-5.8%
Admin (inc Dep'n) as % of Revenue	93.5%	100.1%	7.2%

Commentary

- Credit issued increased by 20% to £19.3m, as a result of growth of 3,000 new Dot Dot Loans customers and a continued shift into longer-term products
- Additional credit issued resulted in period end net receivables growth of 14% to £5.6m from £4.9m last year
- Despite the loan book growth, revenue reduced due to the collect-out of the acquired CURO Transatlantic Limited book which was within last year's revenue. This also explains why last year's impairment was lower
- Significant cost reduction of £1.6m despite a full period of U Account in FY21 (FY20 included only 8 months)
- Impairment % of revenue improved during the year from 58.3% in H1 FY21 to 52.6% in H2 FY21. The full year impairment % of revenue of 55.1% was at the top end of our range for Digital lending of 45%-55%

Balance Sheet

£'m unless otherwise stated	FY21	FY20	Movement
Non Current Assets			
Goodwill	12.9	13.0	(0.1)
Acquisition Intangibles	0.3	0.8	(0.5)
Software & Licences	8.6	6.6	2.0
Plant & Equipment	0.7	0.8	(0.1)
Right of Use Asset (IFRS16)	1.7	2.8	(1.1)
Deferred Tax	0.6	0.7	(0.1)
Total Fixed Assets	24.8	24.7	0.1
Current Assets			
Trade receivables	53.5	72.8	(19.3)
Cash & Cash Equivalents	8.3	11.9	(3.6)
Other current Assets	6.2	4.7	1.5
Total Current Assets	68.0	89.4	(21.4)
Total Assets	**92.8**	**114.1**	**(21.3)**
Liabilities			
Loan Facility	(8.5)	(34.0)	25.5
Lease Liabilities (IFRS 16)	(0.8)	(1.3)	0.5
Trade & other Liabilities	(12.8)	(8.1)	(4.7)
Total Liabilities	(22.1)	(43.4)	21.3
Net Assets	**70.7**	**70.7**	**0.0**
Net Tangible assets (inc software)	57.5	56.9	0.6
Trade Receivables/Net assets	75.7%	103.0%	-27%

Commentary

- Total equity remained flat year-on-year reflecting small statutory profit, offset by the dividend paid in the period
- £2m increase in software and licence assets reflects the continued investment in technology platforms
- Period-end net loan book of £53.5m, down 27% compared to last year reflecting the reduced demand due to the closed economy and restricted lending to new customers
- Net funding of £25.5m was repaid in the year to give a year-end debt position of £8.5m (FY20: £34.0m)
- Post-period-end, we successfully reached an agreement with a new two-lender consortium for a more cost-efficient and slightly lower £35m facility extended to December 2022
- The new facility will continue to fund our existing HCC products, as well as Dot Dot Loans products. This funding gives the required level of headroom to support our immediate strategic targets

Cash Flow

£'m unless otherwise stated	FY21	FY20
Cash from Operations	15.0	25.4
Cash from funding	11.5	36.0
Dec / (inc) in net Loan Book	19.3	0.2
Total Cash sources	45.8	61.6
Repayment of funding	(37.0)	(16.5)
Acquisitions	0.0	(15.9)
Purchase of Intangibles	(5.3)	(4.2)
Capital expenditure	(1.1)	(2.2)
Principal paid under lease liabilities	(1.5)	(1.4)
Corporation Tax	(1.2)	(4.2)
Interest Paid & Mgmt Fee	(2.0)	(3.0)
Dividends Paid	(1.3)	(10.2)
Total Cash Usage	(49.4)	(57.6)
Cash Movement	**(3.6)**	**4.0**

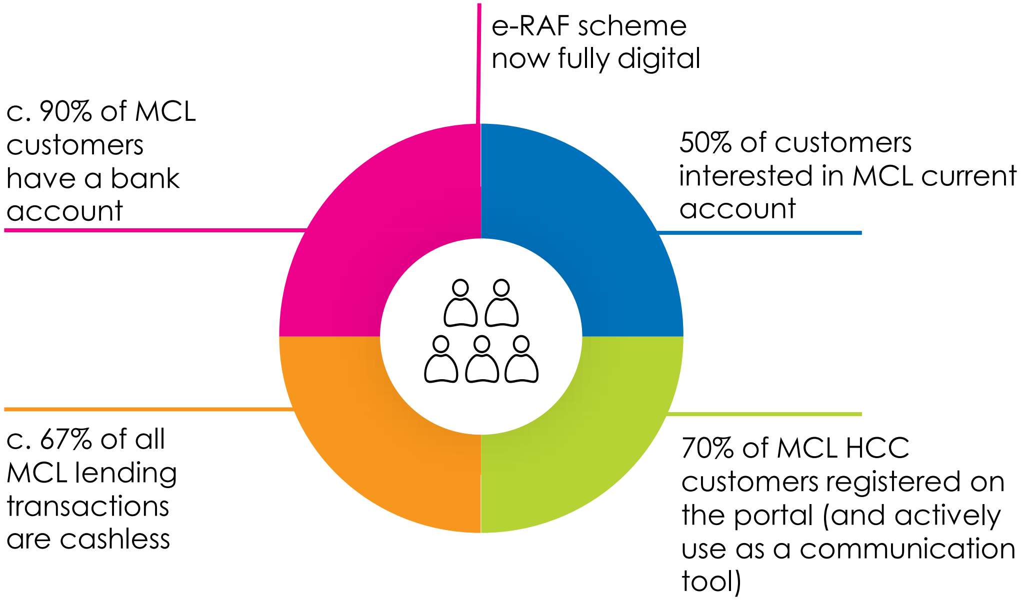
Commentary

- The reduction in the loan book and strong collections resulted in significant positive cash flows and a net repayment of funding of £25.5m
- £1.3m of dividends were paid in the period, representing the 1.0p final dividend for FY20 paid in February 2021
- We did not furlough any staff or take any government financial support under any Covid-19 schemes
- A final dividend for 2.0p per share is proposed to be paid in July 2021, bringing the full year dividend to 3.0p (FY20: 3.6p)

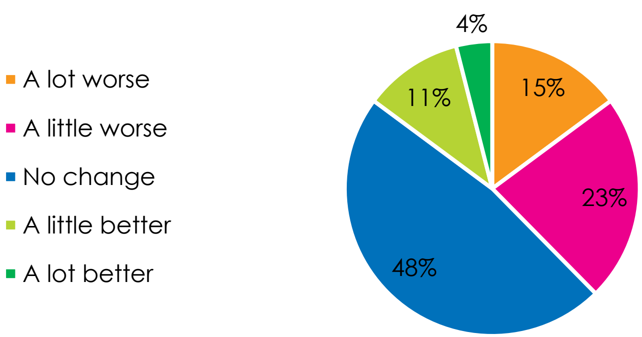
Strategy

Impact of Covid-19 on the non-standard credit sector

Impact of Covid-19 on MCL customers



Impact of Covid-19 on adults' financial situation overall



- Financially fragile adults increased by 3.7 million to 27.7 million between March and October 2020
- 28% used online or mobile banking more regularly
- 46% say they visited the bank / building society less frequently compared with the end of February 2020
- 55% made contactless payments more frequently
- Use of mobile wallets increased from 13% in 2017 to 27% in 2020
- Significant increase in online banking usage amongst older age groups
- Innovation and new technology are making digital payments easier for all consumers

HCC – The Digital Opportunity

Morses Club is adapting to a digitalised and structurally changing HCC market

HCC Market:

- 80% of HCC collections are remote and customers can manage relationship through portal
- Continued best-in-class customer satisfaction levels, further improved from 97% to 98% despite Covid-19
- Regular agent contact ensures personal relationship remains between agent and customer
- Over 50% of HCC customers interested in MCL current account
- Digital HCC lending remains of high quality
  - Post-year-end, customer numbers have stabilised with growth in new customer interest
- Likely to benefit from reduced competition in the HCC industry (262 CCA members vs 400 in 2020 - decrease of 35%)

Strategy:

- Blend of digital and face-to-face interaction – significant cost savings, natural attrition in agents, stabilising agent income despite reduced commission
- Development of tailored digital products, whilst still maintaining our customer service ethos
- Launch of U Account wallet for HCC customers in FY22 provides cross-product opportunities helping customers manage their finances and improve credit history
- Morses Club's diverse credit offering presents opportunity to transition suitable HCC customers to longer-term, lower cost lending
- Behavioural scorecard will assess suitability to ensure high-quality lending
- Ethos of providing flexible products to help customers move out of the high-cost, short-term credit space

Morses Club has the size, experience and digital leverage to be flexible to market demands and continue to be successful

Driving growth in Shelby Finance

Significant market opportunity	Focus on long-term lending	Cross-selling opportunities

- Well-placed to compete with very limited competitive field and from a **lower cost base** than our closest peers
- Appeal to customers of **digital banking** without capability to service the non-standard credit space
- Bank account switching service in FY22 will drive **enhanced customer journey**
- Strong, web-based **consumer demand** for long-term loans with lower APR
- **Long-term, lower APR** loans and lower APR Revolving credit accounts on e-Draft
- **95%** of loan book is comprised of **6+ month** loans in FY21 vs. 80% in FY20
- Engage with customers at **'three loan limit'** regarding other complementary products including longer-term lending
- Opportunity to engage with selected HCC customers to **transition** some of their HCC needs to longer-term APR products and/or revolving credit products

Summary and Outlook

Summary and Outlook

On track to fulfil vision of becoming a more complete financial services provider

- UK economy expected to recover and expand by 7.25% this year[1]
- Customer behaviour and demand for digital is driving change
- Opportunity to grow HCC business as customers return and other players exit the sector
- Increased cross-selling will introduce existing HCC customers to a broader range of digital products, driving performance and customer satisfaction for both divisions
- Broader product set will encourage longer-term relationships

[1]Bank of England, May 2021