20 July 2022

Morses Club PLC

Potential Scheme of Arrangement and Financial Update

Morses Club PLC ("Morses Club", the "Company" or, together with its subsidiary undertakings, the "Group"), an established provider of non-standard credit services, provides the following update to investors.

Potential Scheme of Arrangement

Following announcements in February 2022 and June 2022 regarding the increase in the level of claims, the Board has decided to pursue the potential use of a Scheme of Arrangement under Part 26 of the Companies Act 2006 (the "Scheme") for dealing with customer redress claims for unaffordable lending against the Company ("Redress Claims"). A key objective of a potential Scheme would be to treat all customers equitably and settle eligible Redress Claims over a period to be defined. The Directors believe that a successful Scheme would provide more certainty in respect of the total liability for Redress Claims and help to secure the longer-term stability of the Company.

Whilst the Directors consider that Morses Club has adequate liquidity for the immediate future, they believe that without a potential Scheme, the level of Redress Claims could jeopardise the Group's future. Morses Club will continue to explore alternative options to a Scheme but it is likely the alternative options would result in those with Redress Claims receiving considerably lower amounts than they would under the Scheme.

The Company has provided the FCA with its proposals and is engaging with them regarding a potential Scheme and its future business model. The Company has also taken steps to appoint an independent Chairperson to set up a Customer Committee to represent eligible customers and assist the Company in developing any potential Scheme. Details of any potential Scheme would be announced in due course. The Scheme would be subject to the approval of the requisite majority of affected customers (i.e. those customers who received loans during the period to be covered by any Scheme) and, thereafter, the Court.

Financial Update

FY22 year-end

Due to the emerging position relating to complaints in advance of a potential Scheme, an additional provision of c. £45m is expected to be recognised in the FY22 accounts as an exceptional item. The impact of the uphold rates on complaints and adviser fees resulting from additional audit work, means that the adverse effect on adjusted profit before tax for FY22 is now likely to fall within the range of a 30% - 40% discount to market consensus. All numbers remain subject to audit.

The Company's current funding facility of £35m is in place until March 23 and we are having ongoing discussions with the funders about a proposed extension to the facility and amendments to the covenants.

Current trading and dividend

The Company has tightened its lending policies and, as a result, has seen a decline in sales volumes. In addition, the structure of the loan book has changed due to a higher concentration of new customers. The Directors believe, therefore, that for the year to 25 February 2023, which is a transition year in which legacy issues can be largely resolved, the Company will not make a profit. Accordingly, the Board will not recommend a FY22 final dividend to shareholders in order to protect of the Group's cash position. The short-term focus for the Company is the establishment of a Scheme, the outcome of discussions with the FCA about the Company's business model and securing funding facilities beyond March 2023.

Outlook

In the medium to longer-term market conditions are favourable, due to the exit of other significant competitors from the sector and the impact of the current economic situation in the UK on customer demand. The Board is confident that the Group can return to profitability during FY24.

Gary Marshall, CEO of Morses Club commented: *"As the UK's leading home collected credit provider, we provide a valuable service to thousands of our customers who are unable to access mainstream credit providers and are likely to need even more support given the current economic climate. A successful Scheme of Arrangement would provide more certainty to the total liability arising from customer complaints and ensure that we can reshape the business for the future. The potential Scheme is intended to provide a fair settlement for all eligible customers, whilst securing the Company's future and enabling us to continue to provide access to credit for an underserved and growing demographic."*

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014. The person responsible for this announcement is Graeme Campbell, Chief Financial Officer.

For further information please contact:

Morses Club PLC Tel: +44 (0) 330 045 0719
Gary Marshall, Chief Executive Officer
Graeme Campbell, Chief Financial Officer

Peel Hunt (Nomad) Tel: +44 (0) 20 7418 8900
Paul Shackleton / Andrew Buchanan / Oliver Jackson / Sam Milford
(Investment Banking Division)

Camarco Tel: +44 (0) 20 3757 4994
Jennifer Renwick / Charlotte Hollinshead

Notes to Editors

About Morses Club

Morses Club is an established provider of non-standard credit services in the UK. The Group consists of Morses Club, the UK's largest home collected credit ("HCC") provider[1], and Shelby Finance Limited, Morses Club's Digital division, which operates under the online brand of Dot Dot Loans, an online lending provider. The Group's growing Digital capabilities and scalable, highly invested IT platform has enabled Morses Club to deliver a range of lending products 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 loans delivered directly to customers either remotely or in their homes.

Morses Club's HCC division is the largest UK Home Collected Credit (HCC) lender[1] with 144,000 customers throughout the UK. The HCC division enjoys consistently high customer satisfaction scores of 98%[2]. In 2019 the Company introduced an online customer portal for its HCC customers, which now has over 108,000 registered customers.

The Group's growing Digital division, Shelby Finance, operates under the online brand Dot Dot Loans which provides online instalment loans of up to 48 months to c. 47,000 active 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 £9.6bn[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 £197 billion in August 2021[5].

1 Based on Net Loan Book of £45.3m as at 28 August 2021

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 – December 2020

5 Table A5.2, Bank of England Money and Credit Bank stats August 2021