Half-Year Financial Results for the period ending 31 December 2016

Cash Converters International Limited (ASX: CCV) ('the Company') has delivered Revenue for the six months to 31 December 2016 of $143.5 million, and a Net Profit After Tax (NPAT) from continuing operations of $11.5 million, which while down 27.9% on the previous year is in line with expectations.

Recently appointed Chief Executive Officer, Mark Reid, commented: "Following the announcement in 2016 of a new strategy for the Company focused on building sustainable growth for the long term, this is a pleasing result. The Company is progressing through a period of strategic transition and during the half year we achieved a number of milestones in this regard on or ahead of schedule.

"Throughout FY2017, the core focus for the Company is continuing to meet the needs of our customers and strengthening our compliance systems, policies and processes, which is creating the foundation for sustained, positive results from FY2018 and well into the future. Cash Converters remains on-track to deliver the previously announced NPAT guidance for FY2017 of $20 million to $23 million."

Key Highlights

- The Company has made considerable progress on delivering the strategic changes, as outlined in the 2016 Annual Report, during the six months to 31 December 2016, including:
    - Successful entry into the Medium Amount Credit Contracts (MACC) market. New product opportunities have begun to take shape with the launch in October 2016 of higher value loans, in-store and online, under the MACC regulations. The Company is now offering loans up to $5000 for eligible customers, presenting a significant growth opportunity for 2H 2017 and beyond.
    - Company-wide focus on strengthening compliance and responsible lending systems, policies and procedures is well progressed. The proactive decision to comprehensively reposition the financial services operation resulted in an anticipated reduction to lending volumes for the six months to 31 December 2016. This repositioning will deliver an overall improvement in the quality of the loan book and drive up the return on assets through a focus on the acquisition of targeted customer segments.
    - Investment in the online channel continues to deliver pleasing results with Webshop retail sales up 36.5% on the previous corresponding period (pcp), to $4.2 million, and online lending volumes exceeding in-store lending for the first time in January 2017 by $280K.
    - Ongoing improvement in the already high levels of customer service and satisfaction, with very positive results achieved through third-party customer survey, including 93% of customers agreeing that *"Cash Converters is a professional company to deal with"* and 92% agreeing that *"Cash Converters is a trusted and credible organisation"*.
    - Further streamlining of the Company's organisational structure through attracting talent and reducing overhead costs remains a key focus in the months ahead.
- With the anticipated reduction in lending volumes, revenue for six months to 31 December 2016 of $143.5 million, was down 7.8% on pcp.
- NPAT of $11.5 million was also in line with expectations, however down 27.9% compared to pcp due to lower financial services revenue.
- The UK business has completed its transformation back to being a master franchisor, returning EBITDA for the six month period of $1 million which was an improvement of $2.1 million (pcp, loss $1.1 million).
- Retail and pawnbroking revenue continue to strengthen in the store network increasing 5.8% and 3.3% on pcp respectively; reinforcing the core value proposition of the Company's expansive shop front presence.
- The Company expects to deliver the previously announced NPAT guidance for FY2017 of $20 million to $23 million, albeit at the lower end of that range.

Financial Results Summary

Financial Results (1H2017)	31 Dec 2016 $A	31 Dec 2015 $A	Variance %
Revenue	**143,533,768**	**155,748,724**	**-7.8**
Divisional EBITDA			
Franchise operations	4,319,292	3,769,700	+14.6
Store operations	6,674,710	10,503,219	-36.4
Financial services - administration	5,042,828	6,246,761	-19.3
Financial services - personal loans	23,625,589	30,200,923	-21.8
Green Light Auto	(786,552)	(1,147,779)	+31.5
Total before head office costs	**38,875,867**	**49,572,824**	**-21.6**
Corporate head office costs	(13,173,479)	(11,901,348)	-10.7
Total EBITDA	**25,702,388**	**37,671,476**	**-31.8**
Depreciation and amortisation	(3,790,960)	(3,581,636)	+5.8
EBIT	21,911,428	34,089,840	-35.7
Income tax	(5,203,796)	(9,540,442)	-45.5
Finance costs	(5,252,057)	(4,256,124)	+23.4
Net profit from continuing operations	**11,455,575**	**20,293,274**	**-43.5**
Loss from discontinued operations	-	(4,406,036)	-
Net profit after tax	**11,455,575**	**15,887,238**	**-27.9**

Comment on the Result

The Company has recorded NPAT of $11.5 million compared with $15.9 million for the pcp. The decrease in NPAT is primarily attributable to lower volumes in the financial services business as the Company transitions to an overall improvement in the quality of the loan book and focuses on higher return on assets through the acquisition of targeted customer segments. Corporate Head Office costs have increased predominantly due to the Company's further strengthening of regulatory and compliance protocols and practices. The Company is pleased to report positive trajectory in EBITDA for Franchise and Green Light Auto operating divisions, which were up 14.6% and 31.5% respectively over the prior year.

Financial Services

A number of proactive changes have been made to lending practices to ensure the Company continually improves its regulatory and compliance processes whilst at the same time acquiring new customers. These changes to the profile of the loan portfolio have resulted in the expected reduction in principal advanced during the six-month period and a decrease in the personal loan book in Australia by 25.6%, from $115.8 million as at 31 December 2015, to $86.2 million as at 31 December 2016.

These are the first steps in a broader reshaping of the financial services business, with a continued focus on compliance and responsible lending, while satisfying the cash needs of our customers. The reduction in lending volumes from April 2016 onwards have, as expected, been the main factors in the decline in revenue and profits across all financial services products and channels. EBITDA for personal loans decreased to $23.6 million, compared to $30.2 million for the pcp. EBITDA for administration of the cash advance products is lower, at $5.0 million for the period (2015: $6.2 million).

Total net principal written off for personal loans during the six-month period ending 31 December 2016 were $9.7 million, compared to $7.6 million for the pcp. Despite the decline in lending volumes over the past six months, the bad debts predominantly related to loans written prior to the changes to our lending rules coming into effect in April 2016. We are confident that the changes to our collections practices and the improved lending rules being implemented will show an improvement in bad debts in FY2018 and beyond.

Franchise operations

Franchise operations have recorded a strong result with EBITDA of $4.3 million, compared to $3.8 million for last year, an increase of 14.6%. This improvement has resulted from the UK restructure where the corporate store network has returned to a franchised structure, with Cash Converters as the master franchisor.

Company owned store network

Retail sales and pawnbroking revenue of the corporate store network grew by 5.8% and 3.3% respectively on pcp, with retail gross profit margins remaining steady at more than 46.5%.

As we have intentionally repositioned the loan book, whilst at the same time having open interactions with the regulator and continuing to improve our regulatory compliance protocols, this has affected EBITDA for the corporate store network in Australia, reporting a profit of $6.7 million, down 36.4% on pcp (2015: $10.5 million).

United Kingdom

The restructure of the UK business has resulted in a return to profitability with EBITDA for the six months to 31 December 2016 of $1 million, compared to a loss of $1.1 million for the pcp, representing a significant turnaround.

The personal loan book in the UK has gradually been run off. A total of £3.7 million ($6.1 million) was collected during the half year representing circa 50% of the loan book. Collections activity will continue through the second half while customers are still making payments.

Green Light Auto Finance

The new product being offered by GLAF (a traditional secured used car loan) since March 2016, and promoted through finance brokers and car dealer networks, has grown to a loan book of $10.5 million at 31 December 2016.

EBITDA was a loss of $786K for the half-year compared to a loss of $1.1 million for the pcp. The loss from the discontinued operating lease business was $300K, with a loss of $486K from the new principal and interest loan business. GLAF is anticipating a stronger second half of FY2017.

Dividend

The Board has resolved not to pay an interim dividend for the six months to 31 December 2016. Given the current transitioning phase of the business, the decision to not pay a dividend is reflective of prudent capital management ensuring the Company maintains sufficient cash to support future growth in the new MACC and GLAF products.

Outlook

The Company expects to achieve the previously announced guidance for FY2017 NPAT of between $20 million and $23 million, however it is anticipated to deliver an NPAT result closer to the lower end of this range.

Chief Executive Officer, Mark Reid, commented: "During the second half of FY2017 we will continue to build on our business strategy, continue to improve our regulatory compliance protocols, improve our service delivery to our existing customers and leverage our brand through the launch of new products.

"A comprehensive restructure of the leadership team is continuing and we expect this will bring about improved capabilities in risk management, operational delivery and transformational change management functions, as well as digital and marketing. These changes will begin to yield benefits during the remainder of FY2017 and beyond.

"Cash Converters will seek to establish key strategic partnerships that support its corporate objectives. The first of these partnerships was the outsourcing of our personal loan collections to ASX-listed company, Collections House (ASX: CLH).

“We anticipate that this move will drive considerable efficiencies in our debt collection processes and improve bad debt performance. We are also being proactive in building stronger, positive, relationships with the regulator, ombudsman and other key stakeholders, to ensure Cash Converters is at the forefront of the changing regulatory landscape.

“The newly launched medium amount credit contract (MACC) loans provide a significant growth opportunity for Cash Converters in an expanded customer demographic of higher income population.

“With the changes implemented to date, and in order to develop our business strategy and drive new customer acquisition during 2017, further key initiatives are underway including a reassessment of our media and creative agencies, investing in customer analytics, improving marketing capabilities and introducing customer satisfaction metrics, such as the review and analysis of Net Promoter Score (NPS).

“These changes, together with the ongoing investment into our people and systems, will enable Cash Converters to seamlessly adapt to the ever changing regulatory landscape and continue to deliver exceptional service to our customers. The business will be well positioned to develop new products and markets meeting our customer’s needs, whilst delivering a sustainable business model and achieving long term positive returns for its shareholders” Mr. Reid concluded.

Ralph Groom
Company Secretary
Perth, Western Australia
Date: 27 February 2017