



FY 2019 Results

Agenda

- ❖ Group highlights
- ❖ Strategy update
- ❖ FCA affordability review update
- ❖ Financial review
- ❖ Acquisition update
- ❖ Outlook



Introduction



John Nichols
CEO



Mark Harrold
Operations Director



Richard Withers
Chief Financial Officer

Group highlights – under IFRS 16

- ❖ Profit before tax **up 46%** to £20.1m (FY 2018: £13.8m)
- ❖ Basic EPS **up 47%** to 43.9p (FY 2018 : 29.7p)
- ❖ Operating profit **up 39%** to £22.5m (FY 2018 : £16.2m)
- ❖ Pledge book **increased by 39%** to £72.2m (31 December 2018: £52.0m)
- ❖ Personal Loan book **decreased 19%** to £16.6m (31 December 2018 : £20.5m)
- ❖ RAM PL increased to 56% (FY 2018 39%)
- ❖ Proposed full year dividend **increased 6%** to 11.7p (2018: 11.0p)
- ❖ No change in Net debt at £14m

Strategy update

❖ Drive the core business

- Growth in key revenue segments
- Gross profit **up £13.2m to £101.4m** (FY 2018: £88.2m)
- Acquisitions integrated to plan



Strategy update

✦ Extended retail footprint via supplementary acquisition of:

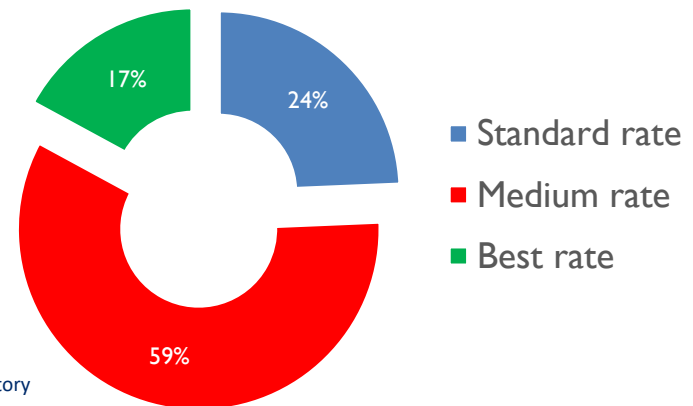
- The Money Shop
(65 trading sites and 46 pledge books)
- A&B (6 new sites and 113 pledge books)

✦ Grow credit lending profitably

Growth in Pawnbroking and Personal Lending revenue and growth in pledge book

- Lower rate (non High Cost Short Term Credit) products now 76% (2018: 58%) of the book
- HCSTC PL book £1.8m (31 December 2018: £4.2m)
- RAM improvements driven by withdrawal from broker and online and focus on longer term lower interest rate products

Personal loan products



Standard rate – defined as loans >100% APR – incl. HCSTC loans

Medium rate – defined as loans <100% APR – generally provided to existing customers with good history

Best rate – defined as loans <50% APR – intended as the final step as a customer rebuilds their credit rating

Strategy update - digital

❖ Developing CRM technology

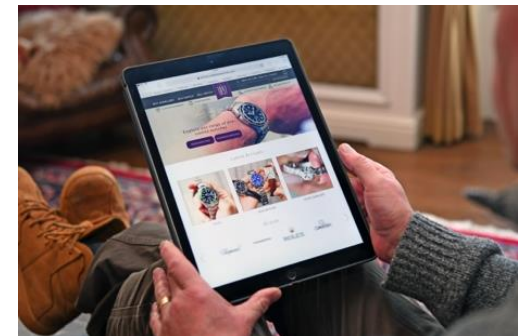
- Expert eye valued £12m of assets
- Marketing campaigns to 250k customers

❖ Develop the online proposition – Est1897.co.uk

- 3,000 high-end watches jewellery items available online or through click and collect
- Website overall sessions grew 26.7% to 787k (FY: 2018, 621k)
- Online generated retail sales reached £4.0m in FY 2019 (FY 2018, £2.7m)
- Update website launched February 2020

❖ Implemented Cash Management technology

- £5k reduction of average in-store cash despite FX growth



FCA Affordability review update

- ❖ **Dear CEO letter issue Oct 2018 re unsecured HCSTC lending**
 - Internal and external reviews looked at H&T's historical affordability assessments

- ❖ **FCA visit June 2019**
 - Oct 2019 FCA letter from FCA requiring fuller review
 - H&T voluntarily ceases HCSTC lending
 - Working with FCA to modify policies and procedures

- ❖ **Draft Requirements Notice received January 2020**
 - Limited HCSTC lending to ensure new procedures working
 - Past Business Review going back to April 2014, overseen by Skilled Person (SP)
 - Interviews scheduled w/c 16 March with prospective SP

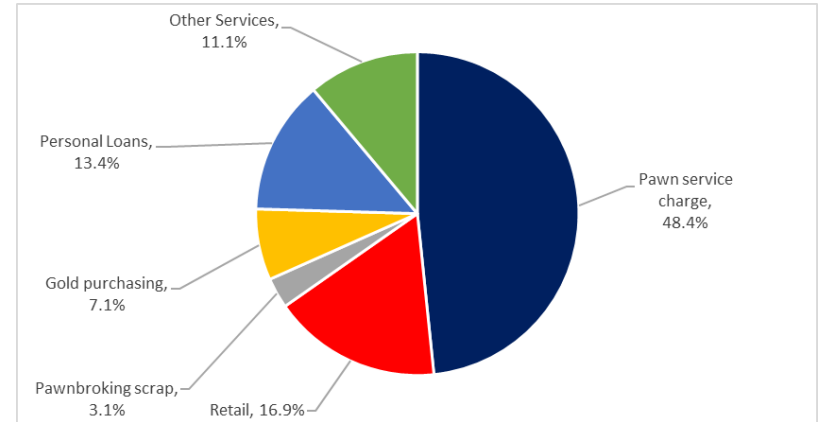
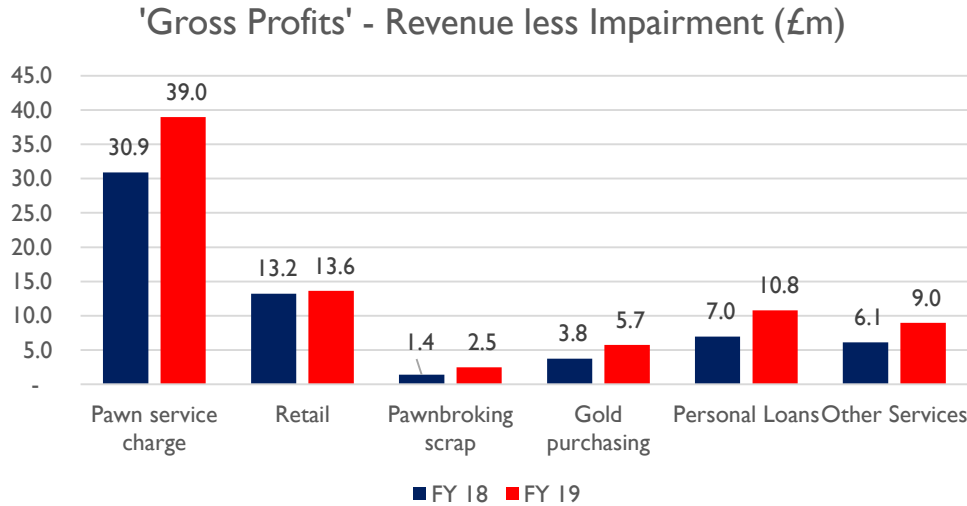
- ❖ **Unknown financial impact**
 - Historically:
 - customer interest payments of £24m
 - revenue less impairment of £11m
 - Circa £3m book
 - Financial consequences of ceasing HCSTC lending

Consolidated income statement

| £'m | FY 19 | FY 18 | % |
|---|--------------|--------------|------------|
| | | | Change |
| Revenue | 160.2 | 143.0 | 12% |
| Cost of sales | (58.8) | (54.8) | |
| Gross profit | 101.4 | 88.2 | 15% |
| Direct and Administrative Expenses | (71.4) | (65.3) | 9% |
| EBITDA | 30.0 | 22.9 | 31% |
| Depreciation and Amortisation | (7.5) | (6.7) | 12% |
| Operating profit | 22.5 | 16.2 | |
| Finance costs - lease liabilities | (1.5) | (1.6) | |
| Finance costs - banking | (0.9) | (0.8) | 13% |
| Profit before taxation | 20.1 | 13.8 | 46% |
| Tax charge on profit | (3.4) | (2.8) | |
| Profit for the period and total comprehensive income | 16.7 | 11.0 | 52% |
| Earnings per share - basic (pence) | 43.88 | 29.68 | 48% |
| Dividend per share (pence) | 11.7 | 11.0 | 6% |

Segmental analysis

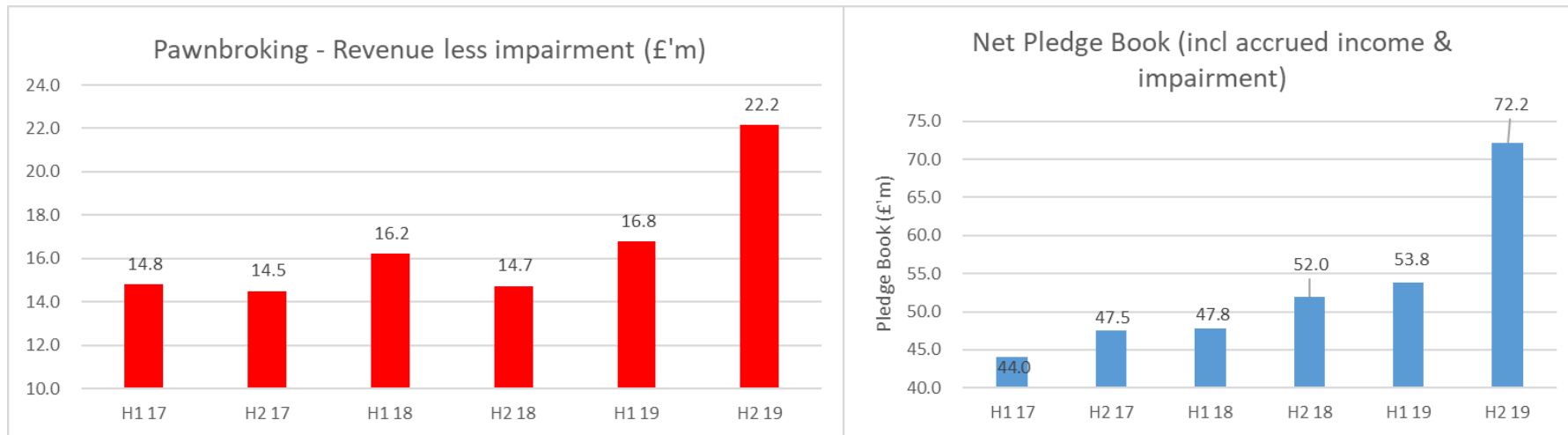
Business mix - Gross Profit



- ❖ Increases in all key lending segments
- ❖ Strong operational performance leading to improvements in: Pawnbroking and Personal Loans
- ❖ Solid retail performance
- ❖ Ancillary product increase driven by acquisition performance

Note: Personal Loan and PSC gross profit is: revenue less impairment

Pawnbroking: Pledge book and Revenue



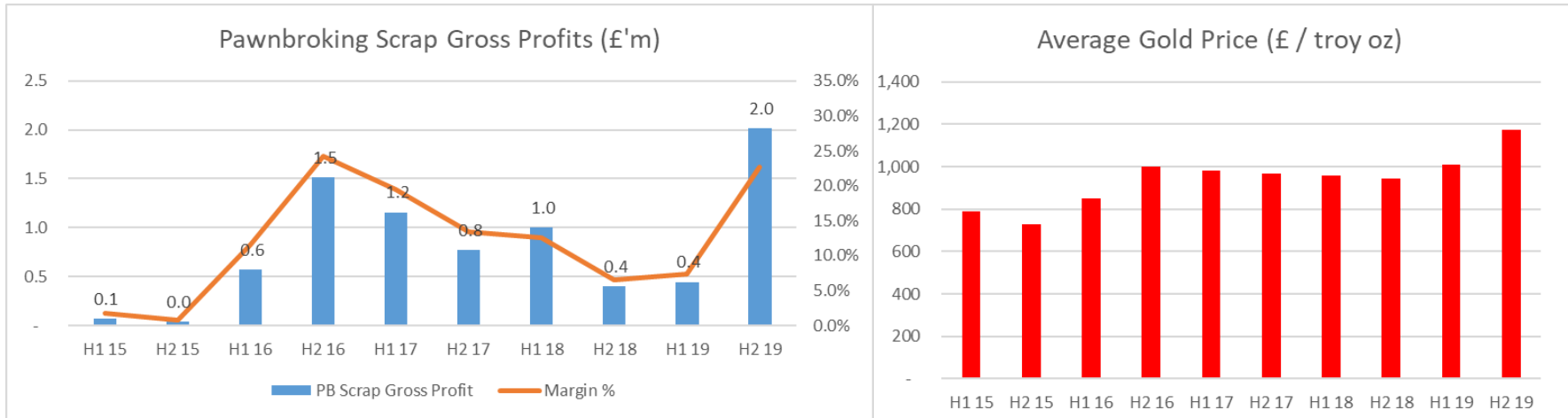
✦ The pledge book has increased 38.8% to £72.2m (31 December 2018: £52.0m) principally as a result of:

- Acquisitions
- A strong gold price and high redemption rates at 84% allowed a stable lending per gram
- 18.0% growth in Group customer transactions, 12.6% core growth
- Improvements in all categories of carat lending and watches.

✦ Revenue less impairment growth of 26.2% to £39.0m (FY 2018: £30.9m)

- Core store growth of 15.4%
- The annualised risk-adjusted margin (RAM) was 64.5% (FY 2018: 63.0%)

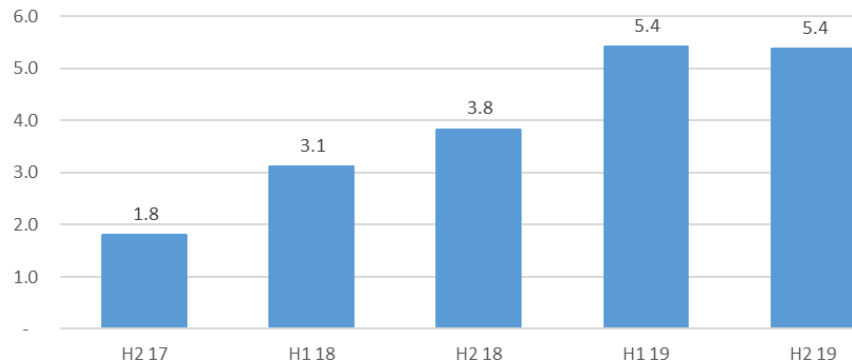
Pawnbroking Scrap



- ❖ Gross profit depends on historical lending rate per gram and current gold price
- ❖ The average gold price in FY 2019 was 15.2% up at £1,094 / troy oz (FY 2018: £950)
- ❖ Gross profit increased to £2.5m (FY 2018: £1.4m)
 - Scrap volumes increased 6% to £14.9m (FY 2018: £14.0m)
 - Margin increased to 16% (FY 2018: 10%) primarily due to increase in gold price between initiation of pledge and scrappage.
- ❖ Lending rate has remained relatively flat, the loan to value ratio in the book has reduced to approximately 64% based on the FY 2019 average gold price
- ❖ We consider the current lending policy to be appropriate in the current market

Personal Loans

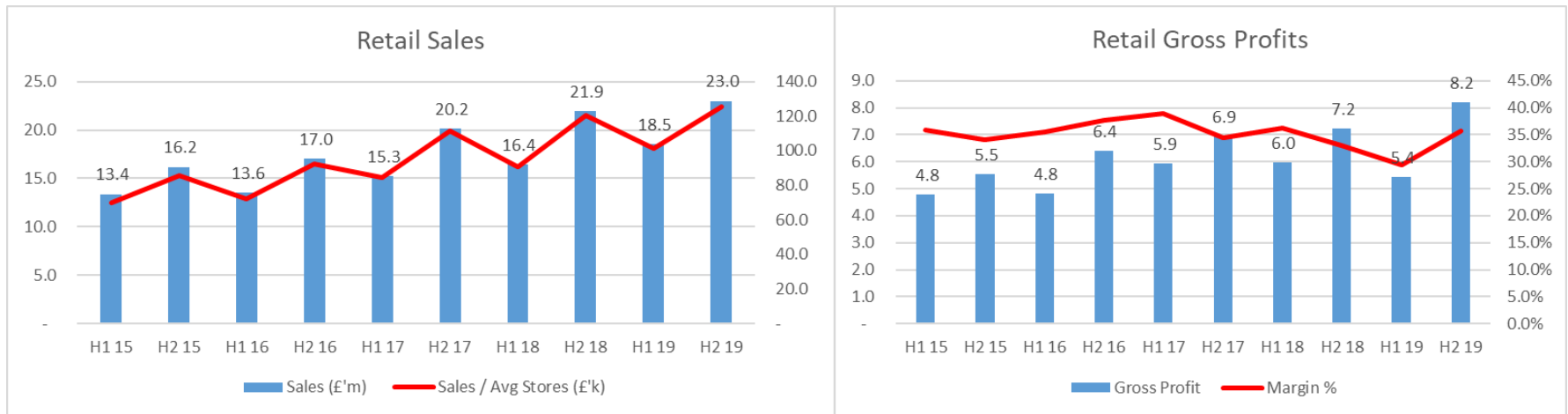
Personal Loans revenue less impairment (£'m)



| | 2019 £'m | 2018 £'m | Change % |
|---|-------------|-------------|-------------|
| Year-end net loan book | 16.6 | 20.5 | -19.0% |
| Average monthly net loan book | 19.2 | 18.0 | 6.7% |
| Revenue | 21.5 | 22.5 | -4.4% |
| Impairment | (10.7) | (15.5) | -31.0% |
| Revenue less impairment | 10.8 | 7.0 | 54.3% |
| Interest yield ¹ | 112.0% | 125.0% | |
| Impairment % of revenue | 49.8% | 68.9% | |
| Impairment % of average monthly net loan book | 55.7% | 86.1% | |
| Risk-adjusted margin ² | 56.3% | 38.9% | |
| <i>1 – Revenue as a percentage of average loan book</i> | | | |
| <i>2 – Revenue less impairment as a percentage of average loan book</i> | | | |

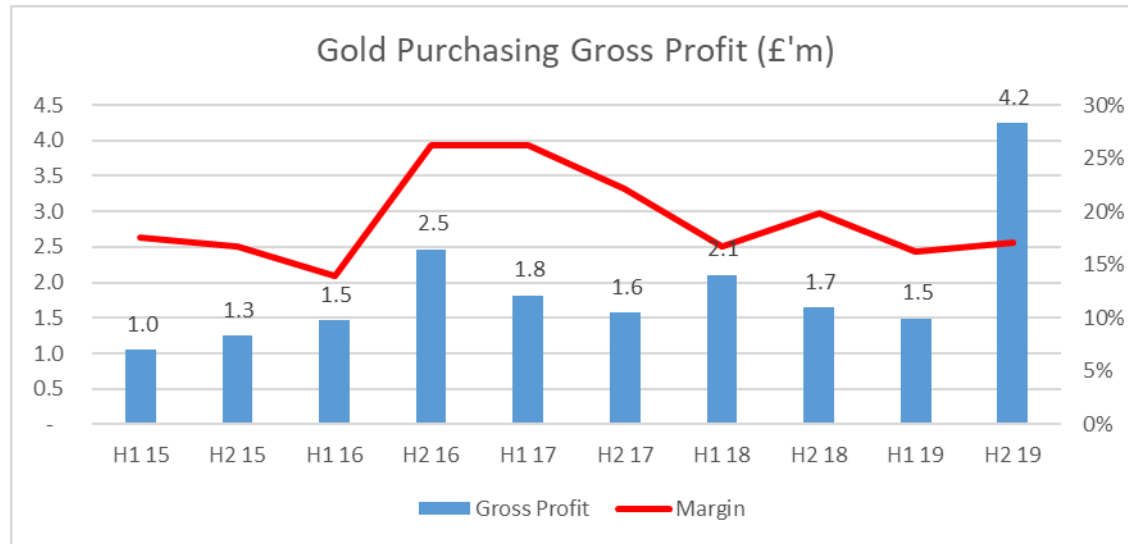
- ❖ Revenue less impairment increased £3.8m, 54% to £10.8m (FY 2018: £7.0m)
- ❖ Increased risk-adjusted margin to 56% (FY 2018: 39%) due to:
 - Removal of selected poor performing cohorts – broker and online
 - Improved scorecard implemented Q2
 - HCSTC lending withdrawal Q4, with lower initial impairment on reducing book
 - Debt collect out from fully impaired cohorts (online, broker)
- ❖ The focus:
 - In-store lending and online acquired, in-store fulfilled
 - Absence from HCSTC lending will have a financial impact in the future

Retail



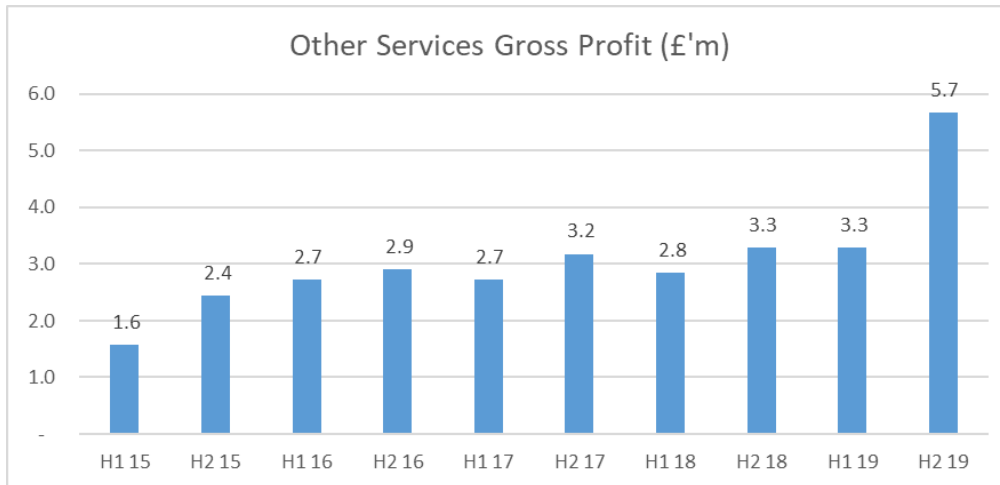
- ❖ Retail sales increased 8.4% to £41.5m (FY 2018: £38.3m)
- ❖ Gross profits increased 3.0% to £13.6m (FY 2018: £13.2m)
- ❖ Margin reduction to 32.8% (FY 2018 34.5%; H1 2019 29.3%)
 - Increased proportion of lower margin new jewellery items (13% of sales vs PY 11%) to supplement pre-owned
 - Discounting on aged stock H1
- ❖ Development of online channels:
 - £4.0m online generated sales (FY 2018 £2.7m)
 - Development of the www.est1897.co.uk website (refreshed Feb 2020)
- ❖ Average 2019 inventory levels reduced by £2.2m, 6.6% lower than FY 2018.

Gold Purchasing



- ❖ Gross profit increased to £5.7m (FY 2018: £3.8m)
 - Increased value of gold scrapped, up 17% to £24.2m (FY 2018: £20.7m)
 - Trend of gold price is important and was a factor in the increase in gold purchasing margins to 24% in FY 2019 from 18% in FY 2018

Other Services



- ✦ GP increase of 48 % to £9.0m (FY2018: £6.1m).
- ✦ 73%, £2.4m H2 FY19 uplift on PY due primarily to acquisition stores
- ✦ Money-wire transfer via Western Union introduced H2 FY19
- ✦ FX, cheque cashing and Western Union will be key ancillary products going forward

- ✦ Development of other services widens our appeal and drives revenue growth
- ✦ FX and Buyback fees each delivered growth in the year
 - FX gross profit increased 44% to £5.2m (FY 2018: £3.6m)
 - Third Party cheque cashing increased 67% to £1.5m (FY 2018: £0.9m)
 - New Western Union income of £0.3m (FY 2018: nil)
 - Buyback gross profits increased 6% to £1.7m (FY 2018: £1.6m).
 - Buyback withdrawn Q1 FY20

Consolidated balance sheet

| £'m | 31 December 2019 | 31 December 2018 | % Change |
|----------------------------------|---------------------|---------------------|----------|
| Goodwill | 19.6 | 17.6 | 11.4% |
| Other intangible assets | 3.7 | 0.3 | 1133.3% |
| Property, plant and equipment | 8.0 | 6.0 | 33.3% |
| Deferred tax assets | 2.2 | 1.7 | 29.4% |
| Right-of-use assets | 21.1 | 20.2 | 4.5% |
| Inventories | 29.2 | 29.3 | -0.3% |
| Pledge book | 72.2 | 52.0 | 38.8% |
| Net Personal Loans book | 16.6 | 20.5 | -19.0% |
| Trade and other (excl PL and PB) | 1.8 | 0.9 | 100.0% |
| Other current assets | 0.7 | 0.9 | -22.2% |
| Cash and cash equivalents | 12.0 | 11.4 | 5.3% |
| Total Assets | 187.1 | 160.8 | |
| Lease Liability | (24.6) | (24.0) | |
| Trade and other payables | (10.6) | (6.0) | |
| Current tax liabilities | (2.1) | (0.8) | |
| Borrowings | (25.7) | (24.9) | |
| Provisions | (1.5) | (1.3) | |
| Total liabilities | (64.5) | (57.0) | |
| Net Assets | 122.6 | 103.8 | 18.1% |
| Net Debt | (13.8) | (13.7) | |
| Net Debt / Net Assets | 11.3% | 13.2% | |
| Net Debt / L12M EBITDA | 0.46 | 0.60 | |



Loan books:

- Pawnbroking up, £20m, 39% to £72m
- Personal Loans down 19%, £4m, to £17m



Retail inventories flat at £29m



Reduced average cash per store at £48k (2018 : £62k)



Net debt flat at £14m

- £9m of facility headroom at period end
- £35.0m facility renewed to June 2024
- Well within covenants

Cash flow statement

| £'m | FY 2019 | FY 2018 | Change | |
|---|--------------|--------------|--------------|----------------------------------|
| Profit after Tax | 16.7 | 11.0 | 5.7 | |
| Non Cash Expenses (depn/write-of-use asset) | 12.6 | 10.5 | 2.1 | |
| Movement in inventories (retail and scrap) | 0.1 | 4.9 | (4.8) | |
| Movement in debtors | (5.5) | (9.9) | 4.4 | ✚ £6.1m new equity |
| Movement in payables and provisions | 5.3 | (5.4) | 10.7 | ✚ £18.7m acquisitions |
| Other working capital | 0.2 | (0.2) | 0.4 | |
| Interest and Tax paid | (3.6) | (3.7) | 0.1 | |
| Net cash generated from operating activities | 25.8 | 7.2 | 18.6 | ✚ £0.4m increased dividends paid |
| Capex | (3.3) | (2.1) | (1.2) | |
| Acquisitions - business assets | (18.7) | (0.6) | (18.1) | ✚ £0.4m net debt increase |
| Acquisitions - right of use asset | (5.6) | (1.3) | (4.3) | |
| Dividends paid | (4.4) | (4.0) | (0.4) | |
| Shares issued | 6.1 | 0.5 | 5.6 | |
| Debt restructuring costs | (0.3) | 0.0 | (0.3) | |
| Period reduction/(increase) in net debt | (0.4) | (0.3) | (0.1) | |

✚ Operating cash flow from operations was £25.8m (FY 2018: £7.2m)

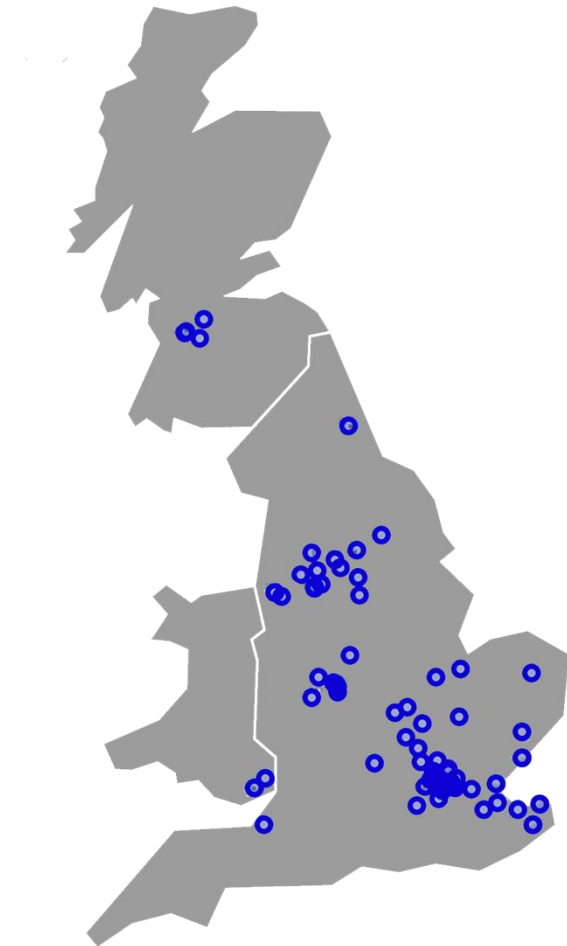
✚ Key FY 2019 working capital movements:

- £20m Pawnbroking book increase
- £4m Personal Loan book reduction

Acquisitions

- ✚ 70 new trading sites
- ✚ 159 pledge books
- ✚ 248 new colleagues
- ✚ Strong FX, WU & cheque cashing offering
- ✚ Significant pawnbroking opportunity

| | Money Shop £'000 | A&B £'000 | Total £'000 |
|---------------------------------|---------------------|--------------|----------------|
| Financial assets | | | |
| Goodwill | 1.9 | - | 1.9 |
| Intangible assets | 2.1 | 1.8 | 3.9 |
| Property, plant and equipment | 1.2 | - | 1.2 |
| Pledge books | 4.8 | 6.9 | 11.7 |
| Total cash consideration | 10.0 | 8.7 | 18.7 |



Acquisition integration

- ❖ All stores open and trading day after acquisition
- ❖ Fully rebranded
- ❖ Product synergies identified
- ❖ All customers contacted during month one
- ❖ Pledge book growth 'ahead' of expectation
- ❖ FX/WU/TPC performing well
- ❖ Integrated book enhancing core estate
- ❖ Redemption profile in line



Outlook

- ❖ Trading results YTD are in line with management's expectations
- ❖ Short term impact of coronavirus
- ❖ Outcome from FCA HCSTC affordability and sector uncertainty
- ❖ Demand for small, simple, short term loans is strong
- ❖ Opportunities to grow pawnbroking in core and new stores
- ❖ FX and WU opportunities
- ❖ Further development of digital capability:
 - Online generated and fulfilled retail
 - Enhancement of customer experience – online to store and online to home.

 **Q&A**

 **Appendices**

The Board



John Nichols

Chief Executive

- Joined H&T as Managing Director in 1997
- Previous roles: several Senior Executive positions within the Rank Organisation, following an early career in the RAF
- President of the National Pawnbrokers Association 2004 - 2009



Richard Withers

Chief Financial Officer

- Joined H&T Board January 2020 having acted as interim since February 2018
- Previous roles: KPMG trained chartered accountant, PwC Corporate restructuring, Finance Director of The Money Shop and various other directorships within related companies.



Peter McNamara

Non-Executive, Chairman

- Member of H&T Board on flotation
- Previous roles: Group Managing Director Alliance & Leicester plc, Managing Director Lloyds Personal Banking
- Currently Chief Executive of Notemachine



Mark Smith

Non-Executive

- Joined H&T Board in 2018
- Previous roles: Retail Operations Director Royal Bank of Scotland plc



James Thornton

Non-Executive

- Joined H&T Board in 2012
- Previous roles: UK Finance Director at Old Mutual plc, Head of Foreign Exchange at IFX plc



Elaine Draper

Non-Executive

- Joined H&T Board in 2018
- Previous roles: Member of Bank of England's Strategic Cash Group, Senior leader within Barclays

Financing Key Terms

| | |
|----------------------------|--|
| Total Facility Size | £35m |
| Termination Date | June 2022 (extendable to June 2024) |
| Utilisation | £35m subject to leverage (3x) and interest cover (4x) and Fixed charge (1.5x) ratios |
| Margin | LIBOR plus a margin of between 1.75% and 2.75% |
| Fixed Repayments | No capital repayments prior to termination date. |

H&T Product Offering



Pawnbroking

Borrow money based on the value of your assets.



Personal Loans

Borrow up to £5,000 and repay over 3-36 months.



Gold Purchase

We buy gold, diamonds, jewellery and watches.



Western Union

Overseas money-wire transfer.



Cheque cashing

Cash third party cheques instantly in any of our stores for a small fee.



Foreign exchange

Click & collect in your local store. The best rates on the high street!



Retail

Brand new and pre-owned jewellery & watches in-store and online



Asset Finance

Personal and Sole trader loans using assets as security.