

S&U plc

**Full Year Results
To 31 January 2018**





TODAY'S SPEAKERS



**Anthony
Coombs**

Chairman



**Graham
Coombs**

Deputy Chairman



Chris Redford
Group Finance Director

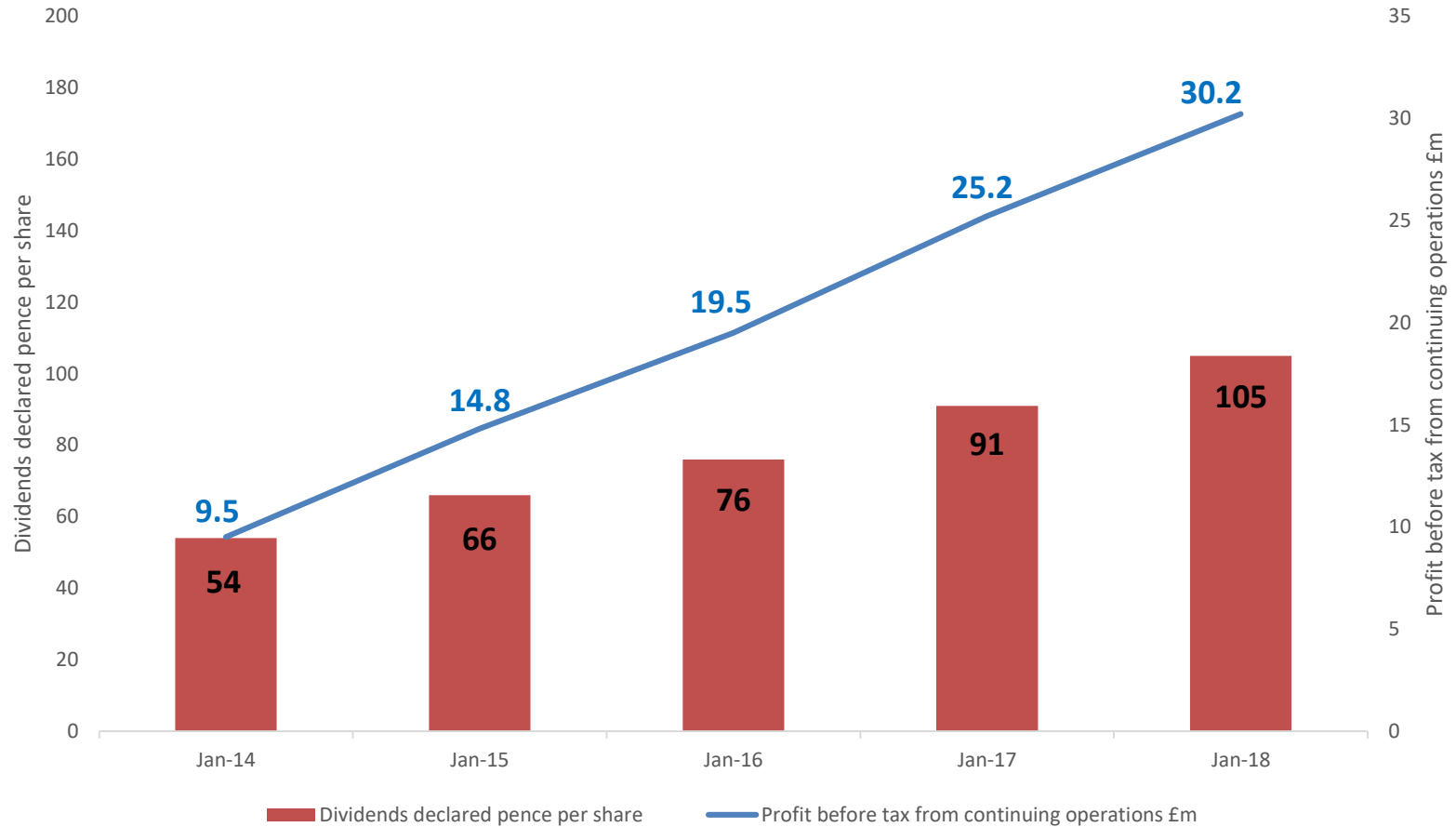


HIGHLIGHTS FOR THE YEAR TO 31 JANUARY 2018

- 18th consecutive year of increasing profits from Advantage Motor Finance
- Launch of Aspen Property Bridging Finance pilot gaining traction
- Group Revenue increased by 32% to £79.8m on receivables up 35%
- Group Profit before tax £30.2m up 20% on last year (2017 : £25.2m)
- Basic earnings per share 203.8p (2017: 170.7p) up 19%
- Total dividend for the year declared up 15% to 105p (2017: 91p)
- Strong balance sheet with 69% gearing and £135m committed facilities
- Substantial receivables book of £262.0m providing future revenue visibility



PROFITS & DIVIDEND RECORD OVER LAST 5 YEARS





OUR PROFIT & LOSS

12 MONTHS TO JANUARY 2018

- Revenue up 32% driven mainly by growth in motor finance book
- Impairment up 61% with rolling 12 months motor finance impairment to revenue 24.6% up 1.9% since July 17 due to product mix effect and some observed increased pressure on incomes
- Increase in cost of sales to £692 per deal helped excellent 2017/18 advance growth and is in line with expectation
- Strong growth in Group profit for year up 20%

Group Income Statement £m	Jan 18	Jan 17	Change %
Revenue	79.8	60.5	+32%
Impairment	-19.6	-12.2	+61%
Risk adjusted gross yield RAY	----- 60.2	----- 48.3	----- +25%
Cost of Sales	-17.3	-12.8	+35%
Admin Expenses	-9.9	-8.6	+15%
Finance Costs	-2.8	-1.7	+65%
Profit before tax group	30.2	25.2	+20%

Profit before tax £m	Jan 18	Jan 17	Change %
Motor Finance	30.2	25.2	+20%
Property Bridging Finance	-0.3	-	
Central finance income/costs	+0.3	-	
Profit before tax group	30.2	25.2	+20%



GROUP BALANCE SHEET

31 JANUARY 2018

£m	Jan 18	Jan 17	Change %	Comment
Fixed Assets	1.9	1.2		Larger Building Purchase £0.6m
Amounts Receivable Motor Finance	251.2	193.5	+30%	Strong book growth in last 12 mths
Amounts Receivable Property Bridging	10.8	-		New pilot this year
Other Assets	1.2	1.1		
Total Assets	265.1	195.8	+35%	
Bank Overdrafts	-1.0	-1.2		£5m current overdraft facilities
Trade and Other Payables	-2.5	-2.0		
Tax Liabilities	-3.6	-3.1		
Accruals and deferred income	-0.8	-1.6		
Borrowings	-104.0	-48.0	+117%	Committed facilities increased to £135m in February 2018
Financial Liabilities	-0.4	-0.4		
Total Liabilities	-112.3	-56.3	+100%	
Net Assets and Total Equity	152.8	139.5	+10%	



TREASURY AND FUNDING

- Committed funding facilities increased post year end to £135m, comprising £50m term loans and £85m revolving credit facilities
- £5m overdraft facilities
- New £10m term loan until April 2021 and £10m term loan until April 2022 adding to existing term loan facilities
- Group gearing at 31 January 18 is 69% (2017: 35%)
- £56m cash flow invested in year to 31 January 2018 including £42m in motor finance and £11m in bridging pilot



CASH FLOW: 12 MONTHS TO 31 JANUARY 2018

Group Cash Flow for 12 months

- Good motor finance advance growth helped by Dealflo launch late 2017
- Other outflow in H2 17 includes acceleration in bridging loan pilot

£m	Jan 18	Jan 17
Balance b/f	-49.2	-11.9
Motor Finance outflow	-41.9	-33.2
Property Bridging outflow	-11.2	-
Other outflow	-2.7	-4.1
Balance c/f	-105.0	-49.2
Gearing %	69%	35%
Analysis of balance c/f		
Central	+78.1	+80.8
Property Bridging	-11.2	-
Motor Finance	-171.9	-130.0
Balance c/f	-105.0	-49.2
Equity	152.8	139.5

Motor Finance Cash Flow

- 25% increase in value of advances in 2017/18 helped by broker partnerships and service
- Monthly Collections up 25% on last year reflecting receivables growth offset by slightly longer terms (average now 51 months)
- £0.6m purchased larger building in June 17

£m	Jan 18	Jan 17
Balance b/f	-130.0	-96.8
Advances	-152.2	-121.6
Collections	118.8	95.0
Settlements/reloans	24.6	19.9
Debt recovery	9.9	6.9
Overheads/interest etc	-29.4	-22.7
Corporation Tax	-5.4	-4.6
Dividend	-8.2	-6.1
Balance c/f	-171.9	-130.0



ADVANTAGE MOTOR FINANCE OVERVIEW

- 18th successive year of profit growth at Advantage – record PBT at £30.2m
- Advantage offers Hire Purchase products - no Personal Contract Plans
- Average loan only £6,200 (used vehicle) - minimal depreciation. Residual value movements reduced.
- FCA motor finance growth focus is on prime customer segment
- Strong labour market buttresses use of car as work tool
- Advantage has c. 1% of UK used car finance market – strong market potential
- FLA reports number of used cars financed by members grew by 6% in 2017



MOTOR FINANCE LOAN PROFILE BY YEAR OF ORIGINATION

Average Loan profile	Year to Jan 12	Year to Jan 13	Year to Jan 14	Year to Jan 15	Year to Jan 16	Year to Jan 17	Year to Jan 18
Number of loans	4,736	6,118	8,460	11,941	15,131	20,042	24,518
Advance	£5,012	£5,309	£5,715	£6,079	£6,121	£6,068	£6,207
Cost of Sales	£583	£581	£566	£558	£593	£642	£692
Interest rate flat per annum	16.5%	16.4%	16.5%	16.8%	17.5%	17.9%	17.8%
Average customer score*	894	890	905	871	867	862	869
Original term in months	44	45	46	47	49	50	51

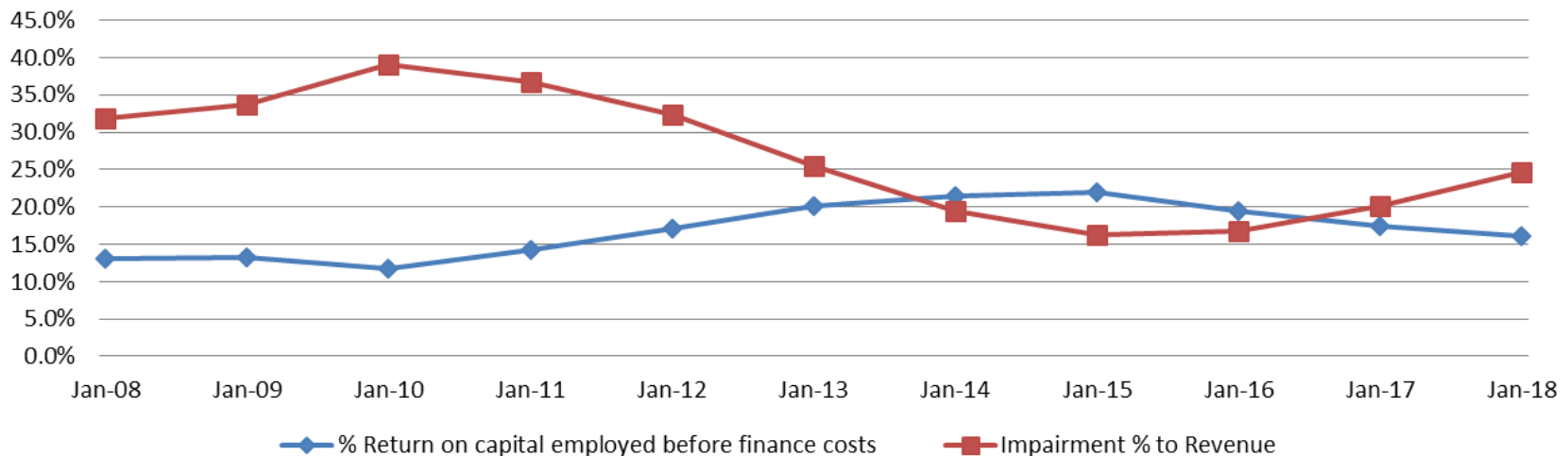
*Based on internal credit quality score – current live book debt portfolio is slightly higher average yield and slightly lower average quality as the 2012 to 2014 originations have now mostly settled



MOTOR FINANCE

RETURN ON CAPITAL VERSUS IMPAIRMENT GRAPH

Motor Finance - Return % on Capital Employed v Impairment % to Revenue

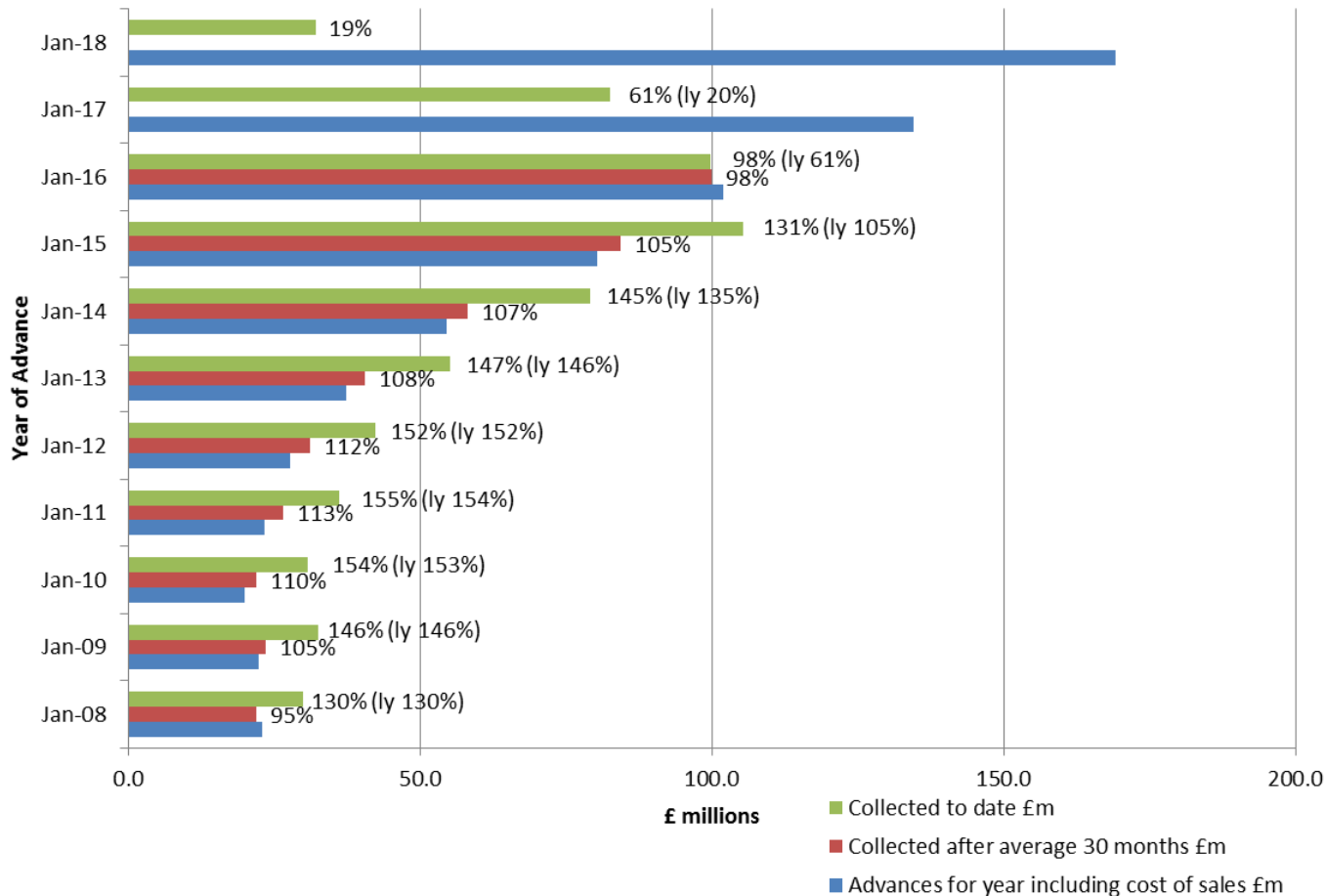


- Product mix effect has increased impairment to revenue % in recent years, together with recent pressures on real income for some customers this year; credit assessment and affordability criteria now adjusted
- Recent reductions in ROCE reflect loss of insurance income since July 15 and higher deal acquisition cost
- Advantage has less exposure to accelerated fall in vehicle residual values due to type and value of lending no significant impact so far
- Macroeconomic effects on impairment have been low historically – despite current economic uncertainties, the model has historically sustained higher impairment levels and still made good returns



MOTOR FINANCE COLLECTIONS GRAPH

Motor Finance Collections by Year of Advance as at 31.1.18



Years 2016, 2017 and 2018 average advance and deal acquisition cost higher and being collected over longer original terms



MOTOR FINANCE RECEIVABLES

Account Arrears Status	Position at end January 2018		Position at end January 2017	
	Volume of Accounts	Percentage of Live Receivable	Volume of Accounts	Percentage of Live Receivable
Up to Date	45668	83.31%	37447	86.75%
0.01 – 1 mthly payments	4020	7.87%	2754	6.74%
1.01 – 2	1843	3.54%	1146	2.70%
2.01 – 3	972	1.80%	596	1.37%
3.01 – 4	591	1.05%	350	0.80%
4.01 – 5	378	0.67%	248	0.54%
5.01 – 6	259	0.46%	156	0.35%
6.01 +	748	1.30%	370	0.75%
Total Live Accounts	54479	£248.0m net receivables	43067	£191.0m net receivables
Legal and debt recovery	12759	£3.2m net receivables	10035	£2.2m net receivables
Total Accounts	67238	£251.2m net receivables	53102	£193.2m net receivables



MOTOR FINANCE REGULATION

FCA WORK ON MOTOR FINANCE MARKET

- FCA issued interim report in March 2018 – the review is expected to be completed in September 2018
- The FCA work is focussed on four areas where Advantage has good existing procedures:
 - i) Responsible lending – Advantage has proven credit risk assessment procedures including sophisticated affordability calculations.
 - ii) Remuneration Arrangements – Advantage only provides broker remuneration arrangements which are fixed in design and cannot be influenced by loan size rate or term.
 - iii) Transparency of information – Advantage employs reliable systems to ensure the timely delivery of clear compliant contractual information.
 - iv) Risk exposure to falling residual values – Age of vehicle and size of loan minimises risk. HP is a simple product and Advantage does not offer PCP.



- Secured property bridging market is circa £5bn per annum in England and Wales. Estimated to grow to £8.8bn by 2020 (Mintel)
- Cautious under-writing approach has meant slower earlier business but increasing as credibility with brokers improves
- Small first year loss of £0.3m caused by early income not exceeding setup and fixed costs – Aspen now achieving monthly profits
- Year end receivables now at £10.8m with early average loan size c£380k with monthly interest rate just over 1% and original terms between 6 and 12 months
- Up to £20m of Capital allocated for the Pilot. Planned Review in H2 2018
- Early repayment signs are promising – 6 loans repaid so far

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- 18th successive year of profit growth in motor finance – “success breeds success” and 2018 has started well
 - Substantial receivables book of £262.0m providing future revenue visibility
 - £135m committed facilities gives headroom for continued growth
 - Brexit negotiations and a slowing economy offset by a strong labour market
 - Aspen building on a promising first year in our secured property bridging pilot
 - Family control and a conservative treasury approach – steady sustainable growth in earnings
 - Healthy market conditions, a strong demand for our product and our focus on quality lead us to look ahead with real confidence



APPENDICES



MOTOR FINANCE

OUR BUSINESS

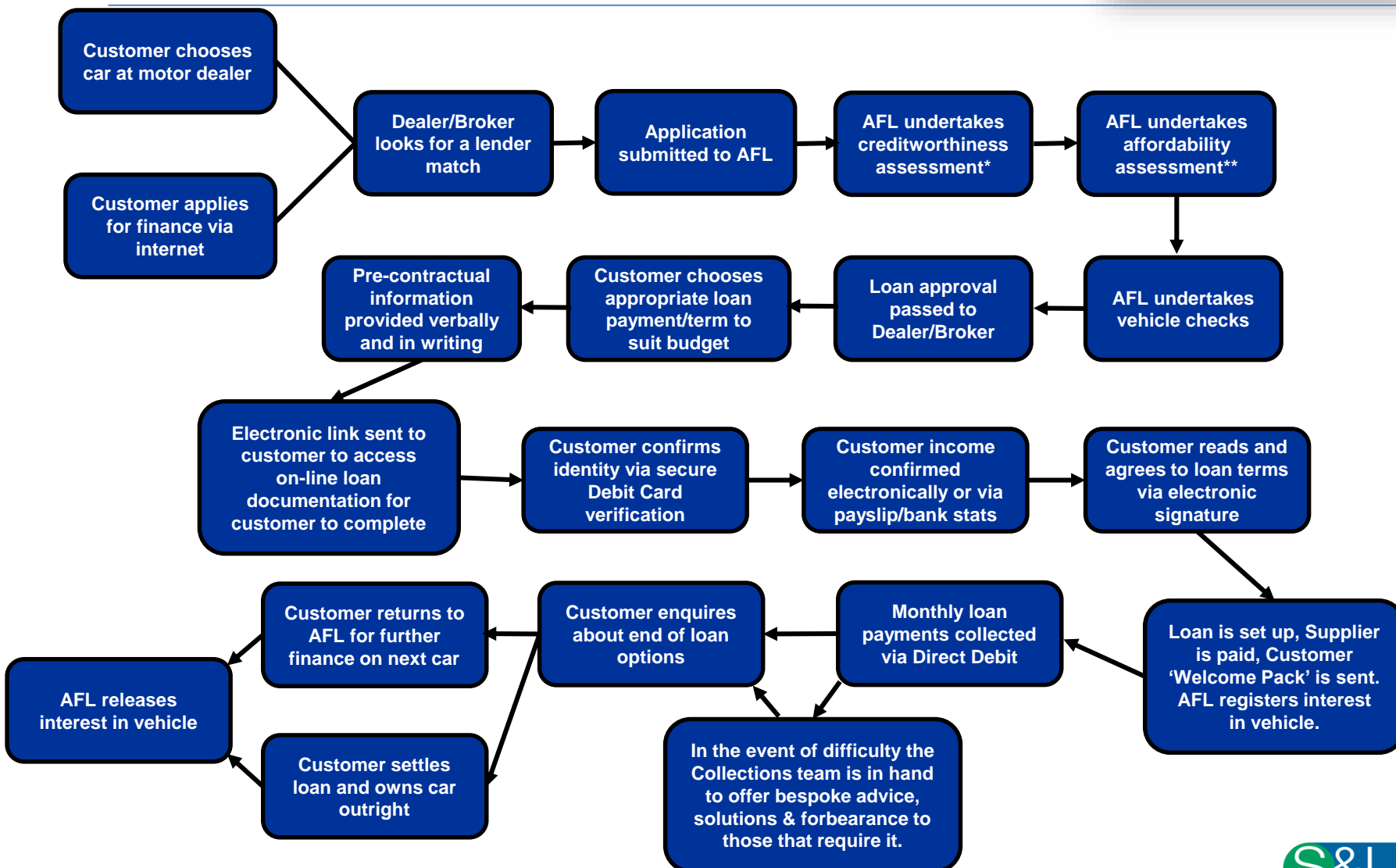


- Used car finance on hire purchase – 90% sourced through brokers – 5% refinances for previous customers – 5% direct from dealers
- 130,000th new deal transaction milestone reached this year
- C2,000 deals per month underwritten and collected centrally – direct debit is the start repayment method for all customers
- Customers typically borrow only once – loan of about £6,200 advance with £11,100 repayable including interest over an average term of about 51 months



MOTOR FINANCE

customer loan journey





MOTOR FINANCE

credit and risk management



- Approval rate approximately 29% of applications, of which about 9% is converted – over 860,000 applications last year resulting in 24,518 deals
- Automated decision from bespoke scorecard system returned within 10 seconds on 95% of all applications received
- Well established compliance procedures supported by outside internal audit function and external specialist legal advisers
- Monthly distribution of compliance and risk reports, quarterly TCF reports signed off by all directors, strong complaint handling procedures and successful track record of compliance inspections
- Advantage Finance granted full consumer credit permission from the FCA in December 2016



MOTOR FINANCE

OUR LOYAL CUSTOMERS



Example 1 (from 2017)

- Support worker with previous Advantage agreement taken out in January 2012 which was paid off at the end of its term in 2016 – in late 2017 looking for a change of vehicle
- Earns £1254 net a month
- “A” paid to Advantage previously with no other current credit commitments
- 2 small credit defaults from several years ago now fully settled

Part exchanged his previous vehicle for Audi A4 vehicle borrowing £4495 over 42 months with repayment of £160pm

This customer commented on a review site “This is the second time I have used Advantage and I must say dealing with the company is a pleasure all together it took less than 48 hours to secure the car I wanted.”



MOTOR FINANCE

OUR LOYAL CUSTOMERS



Example 2 (from 2017)

- HGV driver living with partner looking for a newer car.
- Earns £2600 net a month and pays all bills on time
- Active up to date bank account utilities and communications. No other outstanding credit.
- 1 historic County Court Judgement from 2012

Purchased Ford Mondeo borrowing £6495 over 48 months with repayment of £223pm

This customer commented on a review site “Brilliant service – Natalie couldn’t have been more helpful, told me what I was approved up to with no pressure and gave me time to go find the car I was after at 9am by 11 o’clock it was all sorted out...just the way I like it well done guys.”



MOTOR FINANCE

CUSTOMER TESTIMONIALS



"5 star services – could not start better 2018 than buying a car through you guys. Very friendly helpful customer service. I love My Mazda Thank you!"

"Perfect - After an accident in my car I was in a rush to get a new one sorted ASAP. The understanding, compassion and speed of advantage finance was second to none especially from Helen and Natalie. They liaised with insurance brokers, car dealers on my behalf and made the process much easier than expected...Thank you so much"



"Great company, had a spell in hospital and had to get my wife to cancel all my direct debits, once I got home, phoned Advantage, they were completely understanding of my situation and instantly allowed me to make easy payments to catch up on my account which I could easily afford. One of the best finance companies around."

"Fantastic finance company want to give a big thank you to Beth for sorting out my finance so quick and easy. I've used advantage finance company 3 times now with no problems I highly recommend, brilliant"



PROPERTY BRIDGING FINANCE

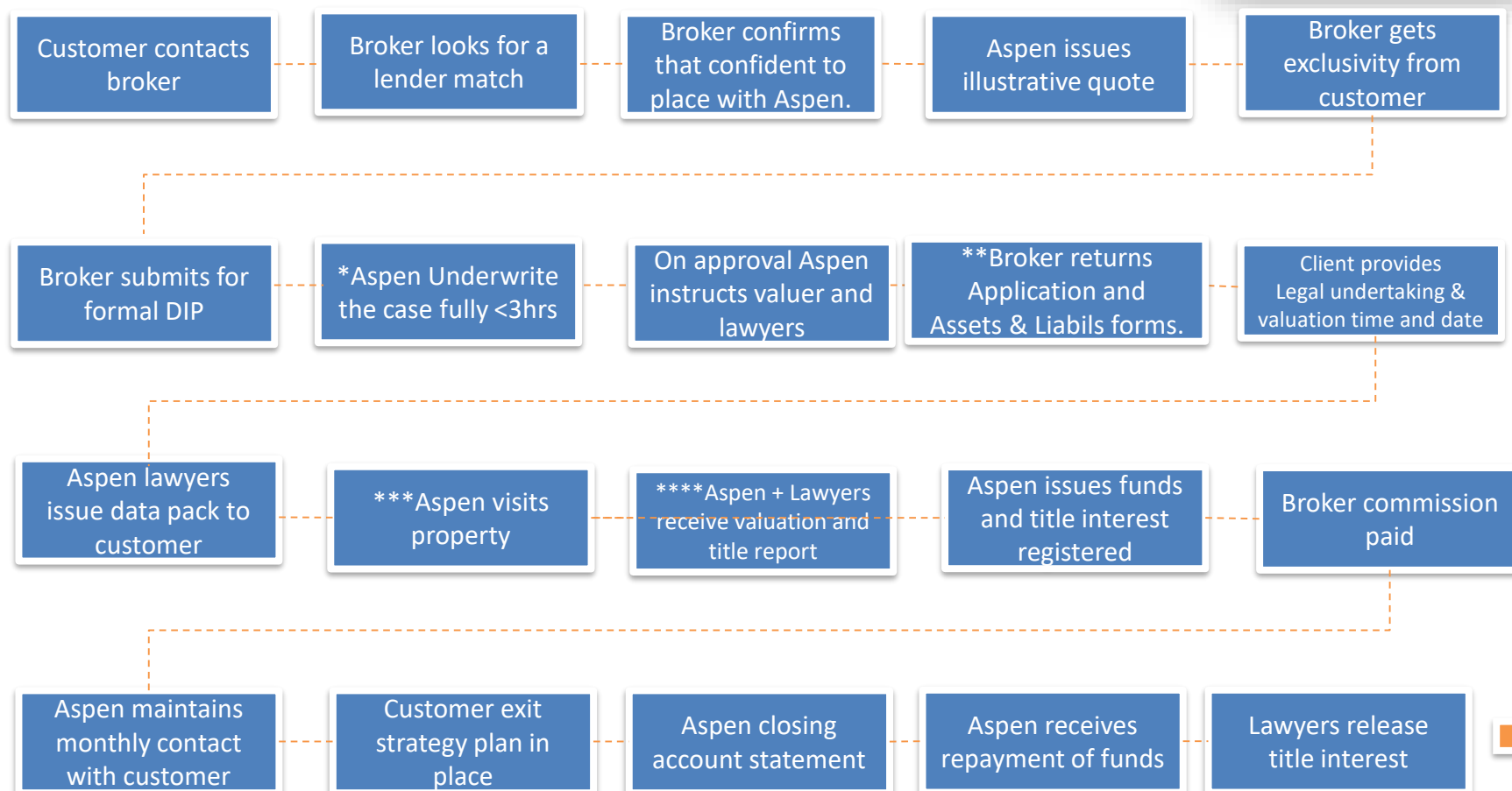
OUR BUSINESS



- Aspen started trading in February 2017 and provide a “fast, flexible, friendly and fair” service to customers with property bridging loan requirements
- 35 secured property bridging loan facilities have been provided to customers during the first year with an average loan facility of c£380,000 at average maximum loan to value of 67%
- Bridging loans are all secured on a wide range of properties from residential to commercial and average original term is 9 months
- Repayment is made either before or at the end of the loan term and all facilities have a built in option for the lender to extend the facility for a further 2 months where required and appropriate



ASPEN BRIDGING PROCESS



- *Includes credit checks and Rightmove+ assessment, any manual edits to DIP (Decision in Principle) made at this point.
- **Fraud and electronic ID checks performed at this point.
- ***Customer interview & security review take place.
- ****Audited by experienced valuer retained by Aspen, as well as any final edits made to the DIP based on accurate valuation.



PROPERTY BRIDGING FINANCE

CUSTOMER FEEDBACK



Customer Feedback 22nd March 2018

"Just a note to confirm the successful completion of the house purchase today.

Obviously I'm delighted to complete, and impressed with how incredibly quickly you agreed and provided funds.

However my real amazement is for your company and the team I had direct dealings with (I'm sure there are also others I didn't speak or email with, too.)

Quite genuinely I can't think when I have ever dealt with people who have been so pragmatic, knowledgeable about their work, passionate about their work, but most of all forward thinking to spot potential problems and then work around them to a successful conclusion.

Communication has been excellent and coordinated throughout.

I think you have an exceptional business, and not just in the FS arena."

- Customer urgently required >£500k bridging loan facility which Aspen Bridging provided just 3 days after enquiry referral including an on-site inspection of property and full legal and underwriting diligence – our customer was delighted as per the above feedback!



GROUP INCOME STATEMENT

OUR FIVE YEAR RECORD

Continuing Business £m	Year to Jan 14	Year to Jan 15	Year to Jan 16	Year to Jan 17	Year to Jan 18
Revenue	26.2	36.1	45.2	60.9	79.7
Cost of Sales	-4.8	-6.7	-9.0	-12.9	-17.3
Impairment	-5.1	-5.9	-7.6	-12.1	-19.5
Admin Expenses	-6.1	-7.0	-7.3	-8.8	-9.9
Finance Costs	-0.7	-1.7	-1.8	-1.7	-2.8
Profit before tax	9.5	14.8	19.5	25.4	30.2



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