

# S&U plc

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Half Year Results  
To 31 July 2018

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## TODAY'S SPEAKERS

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**Anthony  
Coombs**

Chairman



**Graham  
Coombs**

Deputy Chairman



**Chris  
Redford**

Group Finance Director



# HIGHLIGHTS FOR THE HALF YEAR TO 31 JULY 2018

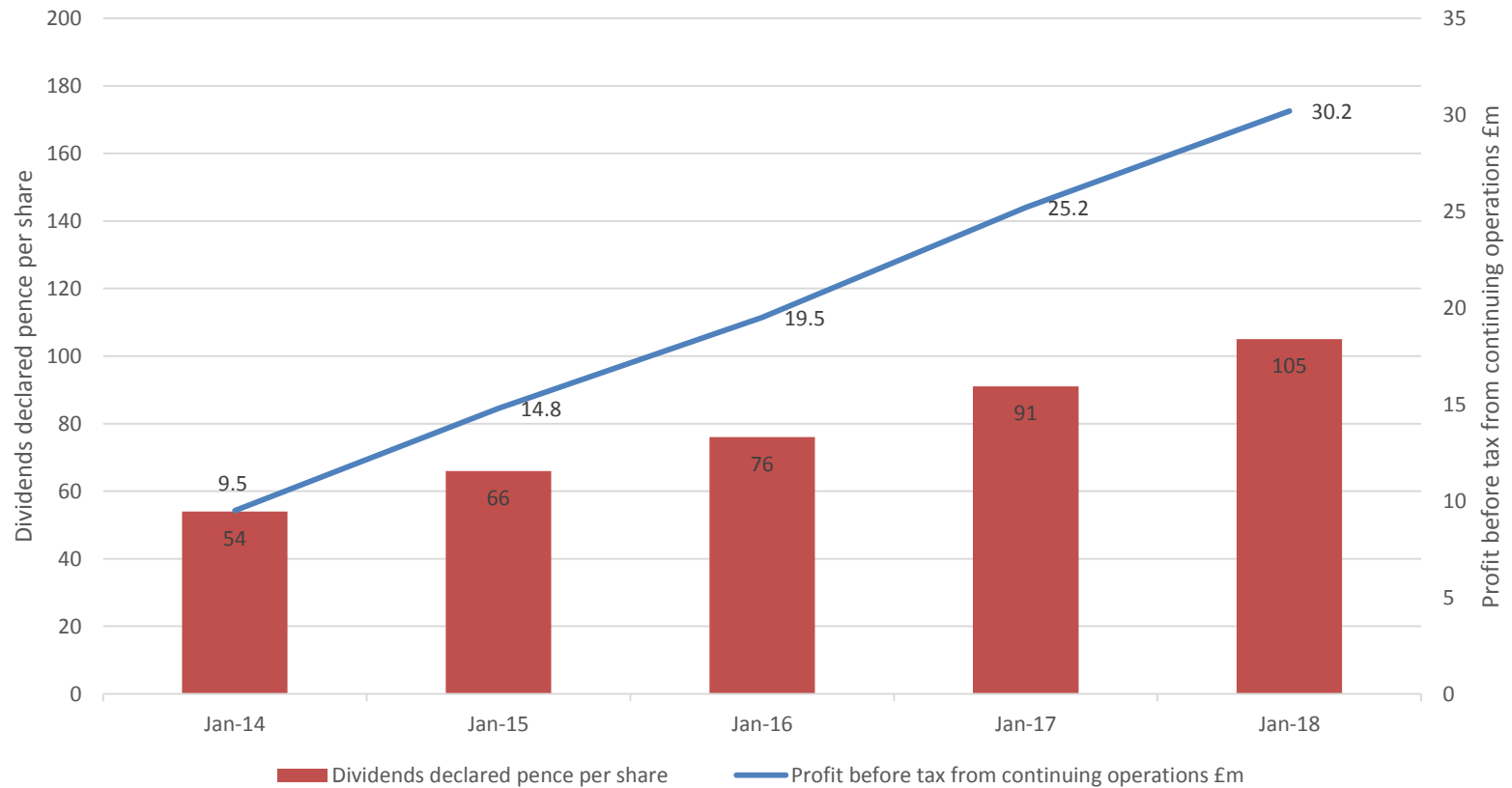
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- 19<sup>th</sup> consecutive year of increasing profits from Advantage Motor Finance
- Aspen Property Bridging Finance now profitable as planned
- Group Profit before tax £16.7m up 17% on last year (2017 : £14.3m)
- Basic earnings per share 112.6p (2017: 96.0p) up 17%
- First interim dividend for the year declared up 14% to 32p (2017: 28p)
- Strong balance sheet with 78% gearing and £135m committed facilities



# PROFITS RECORD OVER LAST 5 YEARS FOR GROUP

Group 5 year record - steady and sustainable growth





# OUR PROFIT & LOSS

## 6 MONTHS TO JULY 2018

- Revenue up 19% and Impairment up 33% including accounting effects of move to IFRS9/IFRS16 excluding these effects unaudited increases 23% revenue and 54% impairment
- Increase in motor impairment reflects increased pressure on incomes for some customers – underwriting tightened to deliver overall collection improvement
- Increase in cost of sales to £710 per deal reflects in line with expectation reflecting more internet broker sourced deals
- Group profits for half year continuing to grow - up 17%

Group Income Statement £m	July 18 IFRS9	July 17 IAS39	Change %
Revenue	44.5	37.5	+19%
Impairment	-11.4	-8.6	+33%
Risk adjusted gross yield RAY	----- 33.1	----- 28.9	----- +15%
Cost of Sales	-8.6	-8.6	-
Admin Expenses	-5.7	-4.9	+15%
Finance Costs	-2.1	-1.1	+86%
Profit before tax group	16.7	14.3	+17%
Profit before tax £m	July 18	July 17	Change %
Motor Finance	16.3	14.4	+13%
Property Bridging Finance	0.3	-0.3	
Central finance income/costs	0.1	0.2	
Profit before tax group	16.7	14.3	+17%



# GROUP BALANCE SHEET

31 JULY 2018

£m	July 18	July 17	Change %	Comment
Fixed Assets and Right of Use Assets	2.3	1.9		Inc. £0.3m right of use assets 2018
Amounts Receivable Motor Finance	263.5	226.8	+16%	Strong book growth in last 12 mths
Amounts Receivable Property Bridging	16.3	1.8	+906%	New pilot last year
Other Assets	1.4	1.1		
Total Assets	283.5	231.6	+22%	
Bank Overdrafts	-0.4	-0.7		£7m current overdraft facilities
Trade and Other Payables	-2.7	-2.3		
Tax Liabilities	-3.4	-3.4		
Accruals and deferred income	-0.6	-1.7		
Borrowings	-121.0	-80.0	+51%	Committed facilities increased to £135m in February 2018
Financial and Lease Liabilities	-0.7	-0.4		Inc. £0.3m lease liabilities 2018
Total Liabilities	-128.8	-88.5	+46%	
Net Assets and Total Equity	154.7	143.1	+8%	



## TREASURY AND FUNDING

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- Committed funding facilities increased in February 18 to £135m, comprising £50m term loans and £85m revolving credit facilities with maturities in 2021 and 2022
- Group overdraft facilities increased in August 18 to £7m
- Group gearing at 31 July 18 is 78% (2017: 56%)
- £16m Cash flow invested in half year to 31 July 2018 as motor loan growth slows and 4 year book starts to mature





# CASH FLOW: 6 MONTHS TO 31 JULY 2018

## Group Cash Flow for 6 months

- Motor Finance growing over 51 month cycle  
- slower growth in new loans this year
- Shorter term Property Bridging increased advances offset by more regular loan repayments

£m	July 18	July 17
Balance b/f	-105.0	-49.2
Motor Finance outflow	-9.5	-27.2
Property Bridging outflow	-5.1	-2.3
Other outflow	-1.8	-2.0
Balance c/f	-121.4	-80.7
Gearing %	78%	56%
Analysis of balance c/f		
Central	+76.3	+78.5
Property Bridging	-16.3	-2.0
Motor Finance	-181.4	-157.2
Balance c/f	-121.4	-80.7

## Motor Finance Cash Flow for 6 months

- Advances 6% lower than record last year due mainly to tighter underwriting
- Monthly Collections up 20% on last year
- Purchased £0.6m larger building in June 17 within overheads/interest last year

£m	July 18	July 17
Balance b/f	-171.9	-130.0
Advances	-72.8	-77.8
Monthly Collections	67.7	56.4
Settlements/reloans	14.4	11.5
Debt recovery	7.3	5.4
Overheads/interest etc	-15.8	-14.4
Corporation Tax	-2.8	-2.5
Dividend	-7.5	-5.8
Balance c/f	-181.4	-157.2





# ADVANTAGE MOTOR FINANCE OVERVIEW

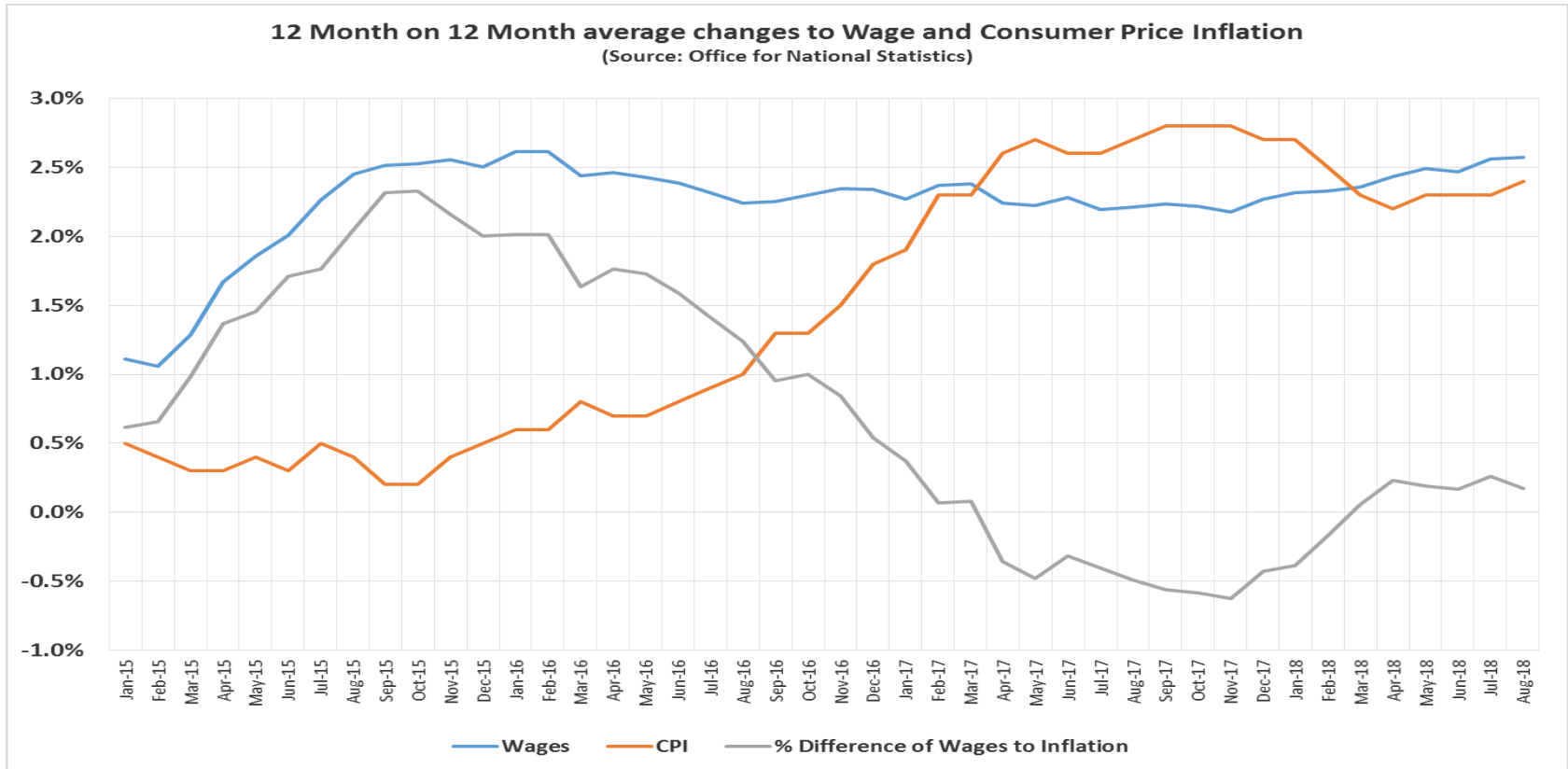
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- 19<sup>th</sup> successive year of profit growth at Advantage
- Record pre tax profits of £16.3m for 6 months to 31 July 2018 driven by good growth in receivables under pinned by continuous improvement of our excellent customer service and operating processes
- Advantage has always offered Hire Purchase products. We do not do Personal Contract Plans
- Average loan still only £6,200 for used vehicles which at inception have already seen the heaviest years depreciation
- FCA ongoing work on motor finance has found that growth in motor finance has been strongest for lower credit risk consumers who are less likely to face repayment difficulties
- Some evidence within increase in impairment charge of more pressure on real terms customer incomes offset by continued strong labour market
- Advantage has just an estimated 1% of the used car finance market in the UK – good potential in a market where the numbers of used cars financed by FLA members grew by 7% in year to July 2018
- New opportunities for growth within the franchised dealer sector using enhanced technology



# MOTOR FINANCE

## REAL TERMS INCOMES



- more individual customers experienced real terms income reduction during 2017 starting to correct in 2018 to date
- to counteract this, we have seen an increase in customers, specifically in our lower scoring tiers, taking out newer high cost short term credit products to bridge their individual shortfall
- Since the last quarter of the year we have tightened affordability and credit assessment criteria for new business in respect of these newer high cost short term products including negative adjustment to customer score this year



# MOTOR FINANCE LOAN PROFILE BY YEAR OF ORIGINATION

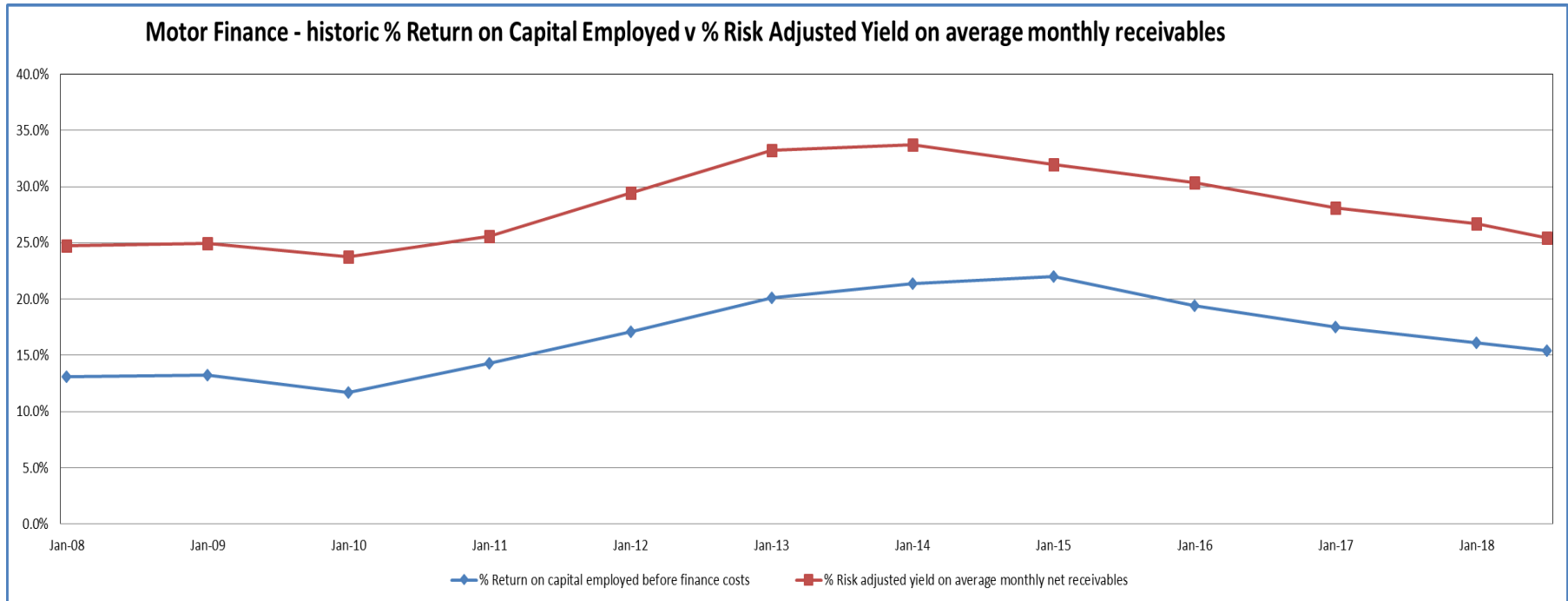
Average Loan profile	Year to Jan 14	Year to Jan 15	Year to Jan 16	Year to Jan 17	Year to Jan 18	6m to July 18
Number of loans	8,460	11,941	15,131	20,042	24,518	11,822
Advance	£5,715	£6,079	£6,121	£6,068	£6,207	£6,157
Cost of Sales	£566	£558	£593	£642	£692	£710
Interest rate flat per annum	16.5%	16.8%	17.5%	17.9%	17.8%	17.8%
Average customer score*	905	871	867	862	869	867*
Original term in months	46	47	49	50	51	50

\*Based on internal credit quality score – current live book debt portfolio is slightly higher average yield and slightly lower average quality as the pre Jan 15 originations have now mostly settled – score for 6m to July 18 versus year to Jan 18 includes negative for newer hcstc products



# MOTOR FINANCE

## RETURN ON CAPITAL VERSUS RISK ADJUSTED YIELD GRAPH



- product mix effect as higher quality business in origin years to Jan 14 runs off which has increased impairment to revenue % in recent years – some increased impairment impact of customer real terms income reductions in last 18 months
- recent reductions in return on capital employed and risk adjusted yield have also reflected loss of insurance income since July 15 and higher deal acquisition cost has also affected return on capital employed
- Advantage have less exposure to accelerated fall in vehicle residual values due to type and value of lending no significant impact so far
- Macroeconomic effects on risk adjusted yield (revenue minus impairment) have been low historically



# MOTOR FINANCE RECEIVABLES

Account Arrears Status	Position at end July 2018		Position at end January 2018	
	Volume of Accounts	Percentage of Live Receivable	Volume of Accounts	Percentage of Live Receivable
Up to Date	47970	82.34%	45668	83.31%
0.01 – 1 mthly payments	4474	8.02%	4020	7.87%
1.01 – 2	2027	3.58%	1843	3.54%
2.01 – 3	1145	2.00%	972	1.80%
3.01 – 4	694	1.19%	591	1.05%
4.01 – 5	474	0.83%	378	0.67%
5.01 – 6	322	0.52%	259	0.46%
6.01 +	902	1.52%	748	1.30%
Total Live Accounts	58008	£260.1m net receivables	54479	£248.0m net receivables
Legal and debt recovery	15496	£3.4m net receivables	12759	£3.2m net receivables
Total Accounts	73504	£263.5m net receivables	67238	£251.2m net receivables



# MOTOR FINANCE REGULATION

## FCA WORK ON MOTOR FINANCE MARKET

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- FCA issued interim report in March 2018 on their work on motor finance – the review is expected to be completed in the near future
- The FCA work is focussed on the following 4 areas where Advantage have good existing procedures :
  - i) Responsible lending – Advantage have proven credit risk assessment procedures including sophisticated affordability calculations
  - ii) Remuneration Arrangements – Advantage only provide broker remuneration arrangements which are fixed in design and cannot be influenced by loan size rate or term. This model is widely acknowledged to provide the lowest risk of customer detriment
  - iii) Transparency of information – Advantage employs reliable systems to ensure the timely delivery of compliance pre and post contractual information. Contracts adopt the Plain English Campaign “Crystal Mark” for undoubted clarity. The sole use of HP avoids the potential risk of end of term confusion often associated with PCP
  - iv) Risk exposure to falling residual values – Advantage have limited exposure to this area due to the nature of our product and the low average £6k original loan advance - this area of the FCA’s work is more linked to concerns over the widespread use of PCP and Advantage do not use that product



- Secured property bridging market is circa £5bn per annum in England and Wales. Estimated to grow to £8.8bn by 2020 (Mintel)
- 61 property bridging loan facilities deals done in 18 months up to end of July reflects cautious acceleration this half year as trade recognition increases and broker relationships continue to strengthen
- Aspen now achieving monthly profits as planned and profit for half year was £0.28m.
- Half year end net receivables at £16.3m 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 – 22 loans repaid up to September 18



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- Advantage – continuous improvement of motor finance product and service by strong team has now driven 19 successive years of record profits
  - Advantage - excellent introducer relationships and operational procedures and tighter underwriting allied to strong demand, bode well for further steady sustainable earnings growth
  - Aspen building on a promising first year in our secured property bridging pilot
  - Family control, a conservative treasury approach and a cautious approach to current economic and political uncertainty
  - Strong demand for our services and products and the experience and skills within the Group give us quiet but sure confidence in the future



# APPENDICES

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# MOTOR FINANCE

## OUR BUSINESS

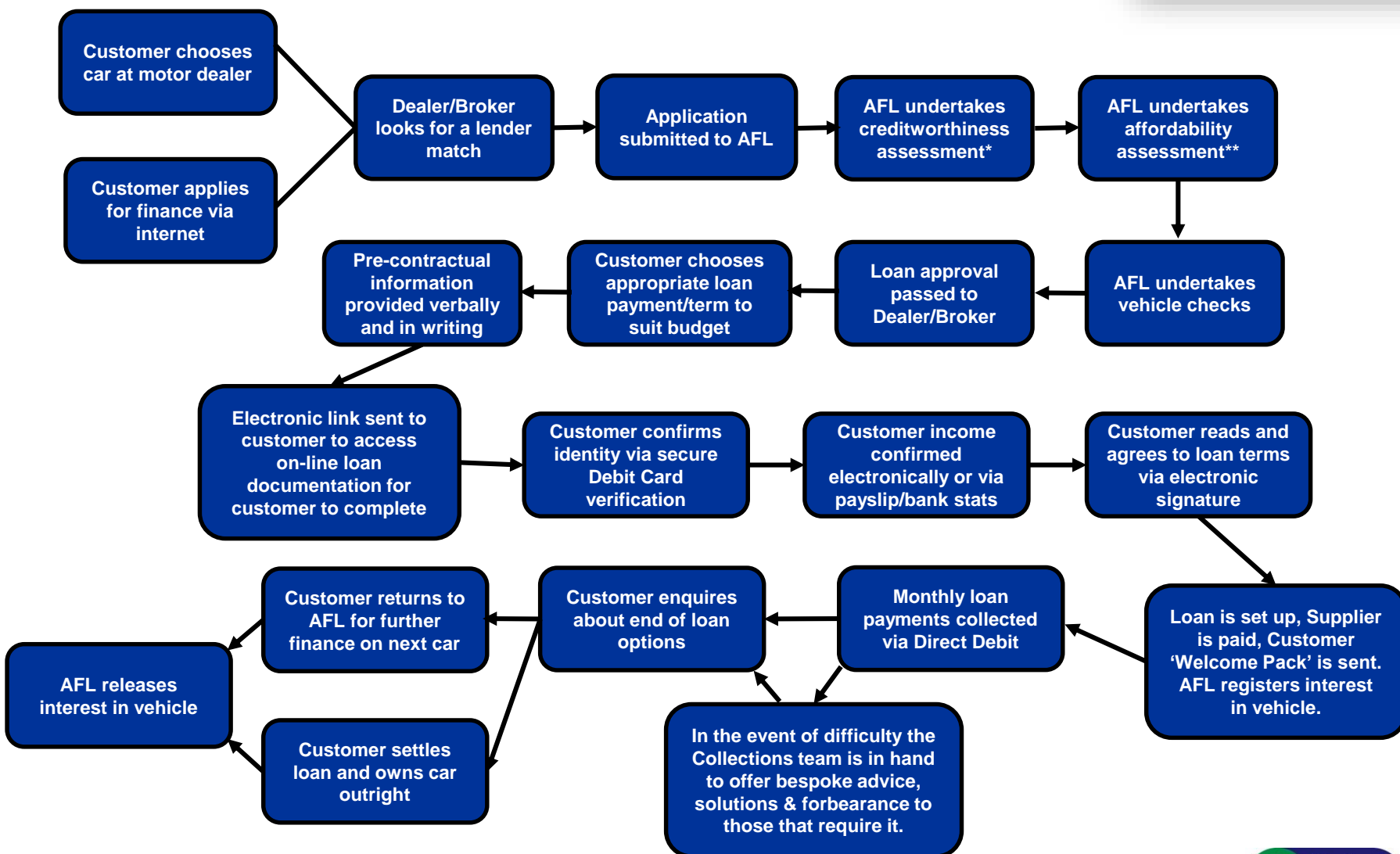


- Used car finance on hire purchase – 90% sourced through brokers – 5% refinances for previous customers – 5% direct from dealers
- 140,000<sup>th</sup> new deal transaction milestone reached this year
- c.2,000 deals per month underwritten and collected centrally – direct debit is the start repayment 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



\* Creditworthiness check includes multiple credit reference enquiries, bespoke credit score and various internal & external anti-fraud checks

\*\* Affordability check includes income verification, assessment of monthly credit commitments and statistical analysis of cost of living at individual postcode level.



# MOTOR FINANCE

credit and risk management



- Approval rate approximately 25% of applications, of which about 9% is converted – over 510,000 applications in half year year resulting in 11,822 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



## MOTOR FINANCE

### OUR LOYAL CUSTOMERS



### Example (from 2018)

- Warehouse operative had existing loan with Advantage for only 6 months before unfortunately vehicle was written off in an accident
- Active A credit card and home credit – total balances £500. Excellent advantage payment history. No other outstanding credit.
- 1 earlier mobile phone default confirmed settled

Purchased replacement slightly newer motor car than last time  
borrowing £7000 over 41 months with repayment of £286pm

This customer commented as part of a 5 star review on an online review site “Natalie was very helpful for arranging the loan, she is cheerful and understanding person. I would not hesitate to recommend her and the company to my family and friends.”



# MOTOR FINANCE

## CUSTOMER TESTIMONIALS



"Since I had my accident at work, Rachael has helped and advise me on how to get my finances back on track with my car payments, the rating only allows you to give 5 stars, but if I could I would give her ten, she is a credit to advantage finance and I can not thank her enough for all her help."

"Every time I have spoken to this company they have been incredibly helpful. Since getting my car my circumstances have changed twice and both times Clare has been nothing short of wonderful, explaining all my options and the implications of each. Thank you!"



"A fantastic and understanding company when it came to dealing with my recent disability and the need for me to change vehicles. I found Advantage to be helpful understanding and very flexible. The customer service was exceptional and I would have no hesitation in dealing or recommending them to anyone in future"

"I have used Advantage Finance for the purchase of 2 of my cars. I had a problem with the second car and advantage were great with helping to rectify the problem with the dealer. I recommend this company the customer service staff have always been polite, friendly and helpful."





# PROPERTY BRIDGING FINANCE

## OUR BUSINESS

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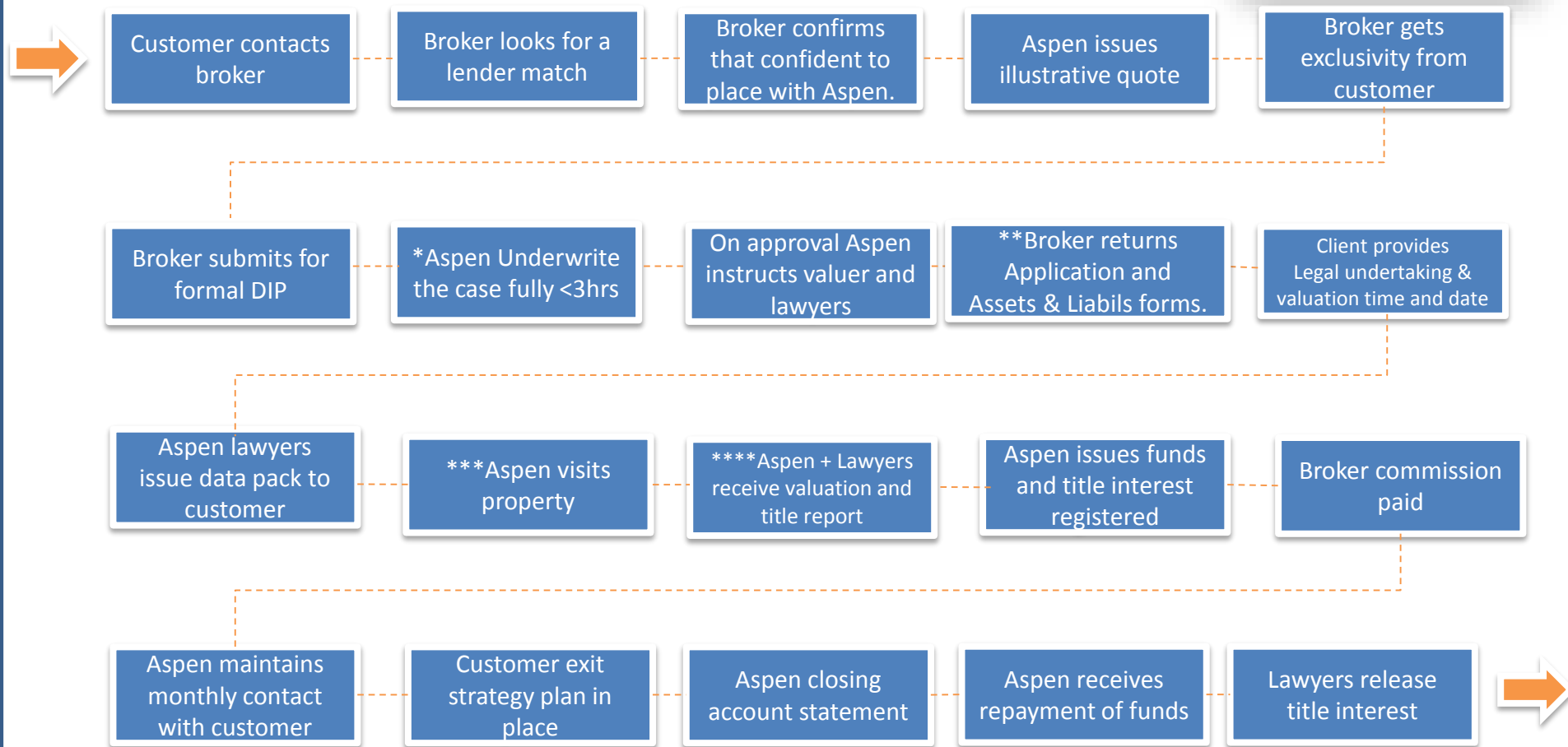


- Aspen started trading in February 2017 and provide a “fast, flexible, friendly and fair” service to customers with property bridging loan requirements
- 61 secured property bridging loan facilities have been provided to customers during the 18 months with an average loan facility of c.£380,000 at average maximum loan to value of 70%
- 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



# PROPERTY BRIDGING FINANCE

## ASPEN 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

## CASE STUDY



### Broker Feedback 22<sup>nd</sup> March 2018

Aspen provided my client their usual A+ service and were professional & accommodating from the start. The only way we were going to complete the deal in the time scales available was to bring in a lender that really made an effort to understand the deal – Something which Aspen excels at.

My client is also a repeat customer of Aspen's and when coming to me on potential projects for funding has started to ask me "What can Aspen do on this?" rather than "What can the market do on this?". In today's very competitive bridging market I believe this is a testament to Aspen's client facing friendly, no nonsense approach. This is what gets deals done!

- Customer urgently required >£600k bridging loan facility which Aspen Bridging provided just 5 days after the enquiry, including an on-site inspection of property and full legal and underwriting diligence – our customer was delighted as per the above feedback!



# PROPERTY BRIDGING FINANCE

## CUSTOMER AND BROKER TESTIMONIALS

### Borrower Feedback 15<sup>th</sup> August 2018

'As a growing developer we went to Aspen bridging to help us achieve the next level in our portfolio of new build properties. We received an accurate, efficient and a straight forward approach to lending. Contact was quick, easy and comfortable.

I will continue to work with Aspen on future projects and highly recommend them to others looking for a simple and short term solution to bridge them to the next level in their achievements.'



### Borrower Feedback 17<sup>th</sup> June 2018

"Working with Aspen is always a pleasure, their can do attitude is the difference between getting a deal done, this is where other lenders would fall away, but not Aspen! Our clients are delighted at this outcome."

Jack Coombs, Director at Aspen Bridging: "This is exactly the sort of deal we started Aspen to do and having a happy customer and broker motivates us to take the same energy on to the next deal."

### Borrower Feedback 22<sup>nd</sup> 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."



# 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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