

Q3 FY 2021 Unaudited Business & Trading Update

Cash Converters International Limited (ASX: CCV) ("Cash Converters" or "the Company") is pleased to provide the following unaudited market update at the conclusion of the third quarter (31 March 2021) (Q3) of the financial year ending 30 June 2021 (FY 2021).

Business Update

Cash Converters Managing Director, Sam Budiselik, stated, "The strength of our business model has been demonstrated during the past 12 months. With over 150 stores across Australia, complemented by industry leading digital assets, we have been able to consistently provide the high-quality service our customers expect. Whether buying, selling, or borrowing our customers have continued to transact online, in-app and in-store."

"As observed in our H1 FY 2021 results our core business segments have continued to recover in-line with Australia's ongoing economic recovery. Our secured vehicle finance and pawnbroking products, alongside our unsecured personal loan products, continue to meet the credit demand among the millions of Australians excluded from the mainstream financial system. Meanwhile, our unique second-hand retail offering continues to appeal to value and environmentally conscious consumers."

Trading Update

Q3 (31 March 2021) Gross Loan Book Growth +8%

Lending momentum across all loan products has maintained an upward trajectory throughout Q3 FY 2021, resulting in combined gross loan book growth of +8% for the quarter. The only exception was the vehicle finance business (Green Light Auto¹ "GLA") as a result of a deliberate repositioning of that business, resulting in a short-term impact to loan origination.

Following significant investment in a new partner platform, release of new product and the recovery of underlying borrower demand, it was pleasing to see GLA loan origination recovering towards the end of Q3, across the Broker and Dealer partner network that GLA serves. In addition, the launch of a Cash Converters car loan direct to consumer is showing promising early signs and we remain committed to growing our vehicle finance business in a sensible and profitable manner.

Despite the political uncertainty surrounding amendments to Small Amount Credit Contract (SACC²) legislation (See 'SACC Legislative Review Update'), management has continued to execute a deliberate new product and loan book diversification strategy. An ongoing proportional shift in gross loan book share towards the Medium Amount Credit Contract (MACC³) which now comprises 23% of the total gross loan book (and grew +26% for the quarter) was an anticipated outcome of the product strategy shift referenced previously.

The decline of the SACC book contribution to share of total loan book is expected to continue, with the release of new non-SACC loan products throughout the course of the calendar year, coupled with the anticipated recovery of the secured vehicle finance loan book.

¹ Green Light Auto (GLA) is a wholly owned subsidiary of Cash Converters providing specialist vehicle finance.

² Small Amount Credit Contract (SACC) is a regulated unsecured personal loan product, transacted in-store and online, up to \$2,000.

³ Medium Amount Credit Contract (MACC) is a regulated unsecured personal loan product, transacted in-store and online, up to \$5,000.

Table 1: Gross Loan Book Values

		30 Dec 2019 ("Pre-COVID")	30 Jun 2020	31 Dec 2020	31 Mar 2021	Quarterly Loan Book Variance (%)
Small Amount Credit Contracts (SACC)*	Loan Book	\$89.4m	\$61.2m	\$57.4m	\$63.1m	+10%
	% Total Loan Book	41%	38%	38%	39%	
Medium Amount Credit Contracts (MACC)	Loan Book	\$46.3m	\$31.2m	\$30.2m	\$38.0m	+26%
	% Total Loan Book	21%	20%	20%	23%	
Green Light Auto (Vehicle Finance)	Loan Book	\$65.7m	\$58.3m	\$47.5m	\$44.6m	-6%
	% Total Loan Book	30%	36%	31%	27%	
Pawn Broking** (Corporate Stores)	Loan Book	\$18.1m	\$9.3m	\$16.0m	\$17.4m	+9%
	% Total Loan Book	8%	6%	11%	11%	
Total Gross Loan Book		\$219.5m	\$160.0m	\$151.1m	\$163.1m	+8%

*SACC includes Cash Converters Personal Loan and Cash Advance products combined. ** Including interest accruals.

The growth observed in overall gross loan book values has occurred while delivering improved overall bad debt performance, compared to previous periods, evidenced by lower bad debt expense, stable provision levels and a reduction in the number of customer accounts in hardship over the course of the quarter. The Company will continue to closely monitor loan book performance, particularly now that the JobKeeper stimulus has ceased.

Cash Converters expects the loan book momentum delivered in this quarter to continue into the last quarter of FY 2021, with the reliance on SACC diminishing over time as the MACC, Vehicle Finance, Pawnbroking⁴ and new product loan books all provide sustainable earnings momentum into FY 2022 and beyond.

SACC Legislative Review Update

The Federal Government continues to consider several proposed responsible lending changes for the banks and credit licence holders, operating under the regulated National Credit Act. As a part of this review a number of recommendations are included in relation to proposed SACC lending rule changes, one of which is an income cap for employed borrowers. The outcome could result in an average small loan doubling in duration and becoming 50% more expensive⁵ and over **18,000** of our customers have already expressed written opposition to this specific proposal as a result. It should also be noted that Cash Converters has already proactively adopted the other recommendations, in advance of any legislative change and remains well equipped to deal with any outcome.

Retail Activity

The Australian store network continues to experience COVID-19 related impacts, with lockdowns in Western Australian and most recently Queensland, experienced throughout the quarter. This was a reminder of the uncertainty presented by COVID-19 and the varying state government approaches to community transmission and the business uncertainty that results.

⁴ Non-recourse loans secured against an item of collateral, if a customer chooses not to repay the loan the item is forfeited and sold through the retail network. If sold for more than the loan balance outstanding, the excess funds are remitted back to the customer.

⁵ Based on average loan amount of \$900 and original 3-month term for government benefits borrower.

Pleasingly, store inventory levels continued to recover despite these disruptions, increasing to \$23.1m (from \$19.0m at the end of H1) as buying disciplines ensured the necessary inventory levels were maintained to service ongoing retail demand.

Franchise Operations⁶

Franchise fee revenue remains subdued as a result of the varying stages of global recovery associated with COVID-19. H1 FY 2021 overall franchise fee income was down \$2.4m on the prior period (at \$7.5m) with international fee collection remaining impacted into H2 FY2021.

Strategy Update

Cash Converters has continued to execute on the strategic plan outlined to the market at H1 FY2021, focused on Australian network expansion, new product development and operational excellence.

Australian Store Network Expansion

The Company integrated two New South Wales franchise stores (Blacktown and Richmond) into the corporate network during the quarter. Corporate store ownership is under-represented in NSW with a total of 23 stores in the state - 14 of which are franchise owned and operated. The acquisition of these two stores will allow us to further expand our corporate presence in NSW and complement the settlement of the Morley (WA) franchise store acquisition in October 2020 and Melbourne City (VIC) franchise store acquisition in December 2020.

Product Development

Whilst any outcome remains uncertain in relation to SACC legislation changes, new non-SACC product research and development has progressed well, with several new product releases planned for calendar year 2021. Continuing to diversify loan books remains an ongoing priority, as does addressing increasing competition from lenders operating under National Credit Act exemptions, that do not provide consumers with many of the sensible safeguards that Cash Converters provides in relation to assessing consumer affordability, loan suitability and hardship protections.

Operational Excellence

Insourcing debt collection from a third-party is a key operational initiative that will enable Cash Converters to provide tailored, flexible repayment solutions with a better customer experience at a lower operating cost. Having served the existing provider with notice earlier in the financial year, the completion of development of a new collections platform, along with the establishment of a customer service team, will result in the insourcing of the function for all loan products by 30 June 2021.

Funding & Cash

The Company remains well capitalised, with a supportive financier and a clear vision for the coming financial year and beyond. The Company's existing \$150m loan facility maturing in December 2022 remains drawn to a minimum level of \$70.3m and cash and equivalents on balance sheet of \$81.2m ensure we have the appropriate financial strength to continue executing our strategic plan as outlined above.

⁶ Royalties and licence fees from 548 International and 82 Australian franchise stores - including a Master Franchisor agreement with Cash Converters UK Ltd (CCUK) and a 25% equity interest in Cash Converters NZ (CCNZ).

Outlook

Cash Converters' unique business model continues to demonstrate its strength, leveraging an extensive store and online network to serve a growing number of customers.

Like all businesses, Cash Converters faces uncertainty and the ability to understand, manage and mitigate risk provides a competitive advantage. Cash Converters welcomes the industry emphasis towards non-financial risk, including conduct and culture as well as detecting, deterring, and disrupting criminal abuse of the financial system. There are also many sensible protections afforded to consumers under the National Credit Act, that we believe should be extended to cover all credit products, including Buy Now Pay Later.

The company views these commitments to meeting responsible lending guidelines as an area of continuous improvement – strengthening the Company's risk management and compliance capabilities while engaging transparently with regulators.⁷

A healthy pipeline of potential store acquisition and development opportunities, new product roadmap and ongoing operational optimisation, supported by a strong balance sheet and cash flow, provides the Company with a clear runway for continued measured and disciplined growth.

Finally, the Board remains committed to the resumption of regular dividend payments, following the declaration of a fully franked interim dividend of 1 cent per fully paid ordinary share at the half-year ended 31 December 2020 (H1 FY 2021).

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For further information please contact: info@cashconverters.com

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⁷ Australian Securities and Investments Commission (ASIC) and Australian Transaction Reports and Analysis Centre (AUSTRAC).