



## **International Personal Finance**

**18 April 2012**

### **Interim Management Statement Investor and analyst conference call transcript 09:30hrs (BST)**

#### **Speaker key**

GR Gerard Ryan, Chief Executive Office – International Personal Finance  
DB David Broadbent, Finance Director – International Personal Finance

MA Good morning ladies and gentlemen, and welcome to the IPF Q1 IMS conference call. My name is Maddie and I will be your coordinator for today's conference. For the duration of the call you will be on listen only, however, at the end of the presentation, you will have the opportunity to ask questions. If at any time you need assistance, please press zero on your telephone keypad and you will be connected to an operator. I will now hand you over to your host, Mr Gerard Ryan, to begin today's conference. Thank you.

GR Thank you, Maddie, and good morning everybody. It's Gerard Ryan here with David Broadbent, our FD. Let me begin with a brief overview on trading and outlook before opening up to any of you for further questions. I'm pleased to report that we made an encouraging start to the year. I think we've built well on the performance delivered in 2011. Our trading performance in the first quarter of 2012 was good. We grew customer numbers, we saw stronger growth in credit issued, and credit quality was stable, and most pleasing we made good progress in Mexico. Profit before tax, as you've seen from the numbers, was £6.1 million for the quarter, and this includes the impact of higher early assessment rebates (ESRs) and weaker FX rates. Encouragingly, consumer confidence improved in all of our markets for the first two months of the quarter, and I think probably also for March. This contributed to year-on-year growth in credit issued of 16% as compared to 6% in Q4 of 2011. This growth, coupled with 9% year-on-year increase in customers, has driven an increase in receivables of 11% and top line revenue growth of 7%. To date we haven't seen any impact of an economic slowdown on credit quality or on our collection's performance, and annualised impairment as a percentage of revenue is in line with 2011, the year-end number of 26%. Our European markets are performing well and delivering growth, and as I mentioned earlier, we have made further progress in Mexico, building on the operational improvements that we discussed at the year end. As you know, our main aim is to increase credit issued per customer and thereby increase the revenue and the profit per customer, and you'll have seen from our numbers that credit issued grew by 36% in the quarter, and customer numbers grew by 13% to 674,000, and at the same time, impairment improved, and all of this turned the loss of a million pounds in the quarter of 2011 to more or less a breakeven or a £0.1 million profit in 2012.

Two other things that I'll cover, because I think most of you will be interested. First is new country entry. During the investor road shows, Dave and I talked quite a bit about this, and obviously we mentioned that Spain was one of the target countries, and we did explain that we were also waiting for detailed survey information to come in regarding that country. We now have that, we're going through it in detail. All I would say is that given what I would call the unstable [macro economic] environment that you see there, you shouldn't expect to see us rushing in, and any action in the near term there. So that's all I'll say on new country entry for now. And the other one, which generally I think is of interest, is on the regulatory front. So whilst at the moment we don't see any radical changes in line for our business, nevertheless European regulators usually have a full in-tray, and there are just one or two things to bring to your attention. The global financial transaction tax that we talked about previously, in our view now looks reasonably remote, so we're monitoring that one but we think it's remote. The second one which has come up of late is the review of the regulatory framework surrounding shadow banking with a view to introducing new regulation there. At present, it doesn't include consumer credit, so we would be excluded, but we will keep a watching brief because we don't exactly know how that will turn out. Finally, in Poland you will be aware that we had launched an appeal with UOKiK regarding early settlement practices on some of our older portfolio. I'm glad to say that we were successful in that appeal, and that's now rescheduled for later in the year. Clearly that will have a slight benefit for us.

Overall, in summary, a good start to the quarter, good top line growth, customer growth, profits down but for the reasons that we've already explained, and I think well positioned for the remainder of 2012. So that's my summary. Maddie, if you would open up the line now, I'd be happy to take any questions.

Q1 Hi, Gerard. Quick question on the slight benefit from the appeal in Poland. Can you quantify that for us?

GR Running the way we see it now, there will probably be a benefit, I would guess, of maybe a million pounds.

Q1 I missed exactly what the nature of that appeal was.

GR While the Consumer Credit Directive was coming in and increasing rebates for our customers, we had an existing portfolio that that didn't apply to, and then there was I guess what the consumer association effectively said that they thought we should give more generous settlements to our existing portfolio customers because they believed we'd dealt with it incorrectly. We appealed that decision and that's the outcome that we're speaking about now.

DB You'll remember in terms of ESRs, we said that the impact this year would be between... admittedly it was quite a wide range of £10m to £15m. The UOKiK case was encapsulated within that guidance. Its postponement, while helpful, doesn't really change the overall nature of that guidance.

Q1 And then on regulation, I've seen that Hungary is considering maybe going alone and putting some kind of financial transaction tax [in place]. Have you heard about this? What's your view? I guess it'll be relatively immaterial for you.

GR Yes, it has come up in conversation but I think if you see the most recent prognosis there, the prime minister did come out on a radio interview and basically said that he didn't feel under any pressure to introduce that this year. So we think he's sort of hit reverse gear there. So from our point of view, we would view that one as reasonably remote in 2012.

Q1 Great. Thank you.

Q2 Hi, it's just a general question for Gerard in terms of first impressions of the business now he's had the chance to get under the bonnet a little bit more and have a look around.

GR Sure, I guess it's not that long since we went on the investor road show and I'll be consistent with what I said then which is that the core strategy of IPF is what I would consider rock solid and has delivered tremendous growth over the past five years, so I have no desire or need to change the core strategy. But as you would expect, there will be lots of things around that that I am currently looking at in detail, and over the coming weeks I will be meeting with the Board and with Dave to go through a revised strategy encapsulating those things, and once we've had approval for the Board, I'll be in a position to talk about that. But you should expect us to look more towards growth, how we look at our customer segmentation, how we bring our customers into the business and how we treat them once they're with us, the product set up, technology underlying that, and given that we'll have more of a growth mind-set, the kind of people we will need in the business going forward.

Q2 Are you planning to do any form of strategic updates? Investor presentation?

GR I think the next big one will be the half year, so it would be some time after that.

Q2 Excellent. Thanks very much.

Q3 I just wonder whether you can make a comment about the relative growth of revenue and the credit issued. Could we expect perhaps the higher growth in credit issued to feed through into higher revenue growth in the second quarter? Or is it a change in the revenue yield?

DB Hi, it's David here. A couple of things, really. Obviously when modelling revenue, as we said before, you need to take into account the higher rebates that are factoring through because they're netted off the revenue. So in terms of matching off credit issued growth and revenue growth, that's one factor to take into account. Obviously the other factor in terms of credit issued is that it is the lead measure and revenue follows which is implied in your question, and the short answer is, yes, I would expect to see the revenue increase to start to feed through in Q2 and to build as the year progresses. Overall we're calculating revenue growth close to 10% for the full year.

Q3 Thank you.

Q4 Morning, Gerard and David. A quick question, on the consumer confidence in the Czech Republic - it appears to have declined slightly in March, and clearly I'm not going to get carried away by one month's move. I just wondered if you'd seen anything on the ground there that was indicating there was a slight decline?

GR Yes, we had noted the dip in confidence in that one country, you're quite right and I'll be honest and say of all of our operating countries, Czech is the one where we probably find it most difficult to push forward in terms of top line growth. We have met with the management team. We are looking at how we do boost it up a bit, but it's fair to say it's probably tougher than most of our other countries at this point. There is a reluctance amongst consumers generally to take on too much debt, and at the same time, it's probably the country that has some of the most intense competition on the airwaves in terms of marketing and advertising.

Q4 Thanks. So you're seeing it on sales rather than on credit quality.

GR Yeah.

Q4 Okay, that's useful. Thank you.

Q5 Actually, it's a follow on question this one. While you're in the habit of being honest about what's happening in Czech, I wondered whether you could talk about the consumer confidence and credit quality. Doesn't that feed on in nine months' time?

GR No I don't think that follows, actually. Generally what you find with the consumer confidence is a few things. First of all is that our agents become slightly more cautious in their outlook in terms of wanting to speak to people about borrowing. Our customers become more circumspect in terms of the amount that they want to take on, and they also feed off the agent who is slightly more reluctant to tell them how much they want to offer because, don't forget, our agents principally get paid on the amount of cash they collect back in. So, if they think things are getting tougher, they're not going to want to lend a lot of money that they can't collect because it just wastes their time and they don't get paid for it. So generally I don't think there's that direct correlation that you're looking for. I think it's more.

DB Obviously the nub of your question probably goes back to the experience that we saw at the beginning of 2009, what we saw then in Q1. If I use Hungary as an example market, consumer confidence dropped dramatically in the first quarter of 2009 and we saw our collections drop at the same time, and the reason for that is because there was widespread increases in unemployment going across the country very rapidly. In terms of where we are at the moment, generally we've seen an upward trend in consumer confidence. There has been a slight drop in Czech, but it's a slide rule drop rather than anything dramatic, and that follows on from a couple of months where consumer confidence was increasing. So I don't think we'd be flagging anything for you to be concerned around a drop in credit quality based on that.

Q5 So just to be clear, the consumer confidence really relates to the desire of individuals to borrow and the agents desire to lend, and what you would be saying is that the impairments really reflect the economic conditions and the unemployment and the income levels. So really if we're going to be worried about the impairments, we really should be looking at the unemployment level.

DB No, I wouldn't say that because unemployment levels can be misleading because a lot of that data is from when people are claiming unemployment benefit, which can follow several months after the loss of jobs. The reasons I would flag consumer confidence as a relevant indicator is if you think about a house, if you're living in a household and somebody's lost their job, obviously [there's] a big drop in their disposable income, by necessity their confidence about the future will drop at the same time, and therefore it can be an important indicator to assess whether the health of a particular group of consumers is positive or negative at that point in time.

GR Where the consumer confidence moves gradually in either direction, you're not likely to find the correlation that you were talking about, but as Dave said, if it's dramatic, clearly there would be a link.

Q5 Good. We'll look forward to the update in July. Thank you.

Q6 Just a follow up question to be clear. On the guidance of 10% revenue growth for this year, that's on a constant exchange rate basis, correct?

GR Yeah.

Q6 And what would that translate into, assuming exchange rates don't move from where they are now on an unadjusted basis?

DB I haven't got my spread sheet up, I'm afraid, but I'll let you do your modelling and then you can talk with me afterwards.

Q6 Okay. Just on the whole issue of margins, looking at revenue to average receivables, it is down slightly. Is that just a seasonal issue or what's the outlook?

DB It predominantly reflects the [early settlement] rebates.

Q6 Thank you.

GR Thank you very much, everybody, for joining and for your questions. Clearly Dave and I and the team are available should you have anything further that you'd like to follow up afterwards. Thanks very much.

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15:00hrs (BST)**

**Speaker key**

GR Gerard Ryan, Chief Executive Office – International Personal Finance

DB David Broadbent, Finance Director – International Personal Finance

GR Good morning and good afternoon everybody and thank you for joining us today. It's Gerard Ryan here and I'm here with Dave Broadbent, our finance director, and together we'd like to give you a brief overview of our trading and, as before, we'll open it up for some questions.

So, for the first quarter, I'm pleased to report that we made a very encouraging start to the year, building on the performance delivered in 2011. Our trading performance in the first quarter of 2012 was what I would characterise as good. We grew customer numbers, saw stronger growth in credit issued and our credit quality was stable and we made further progress in Mexico; and more about that in a minute.

Our profit before tax for the quarter was £6.1 million and this is after the impact of higher early settlement rebates [ESRs] and weaker FX rates, which we spoke about during our investor road show. Encouragingly, consumer confidence improved in all of our markets in quarter one and this contributed to year-on-year growth in credit issued of 16% compared with 6% in quarter four 2011. This growth coupled with a 9% year-on-year increase in customers has driven the increase in receivables of 11% and our top line revenue of 7%.

To date, we haven't seen any impact of an economic slowdown on credit quality or on our collections performance. And annualised impairment as a percentage of revenue is in line with 2011 and now stands at 26%.

Our European markets are performing well and delivering growth and, as I mentioned earlier, we have made further progress in Mexico, building on the operational improvements that we made last year. As many of you know, I think, our aim is to increase the credit issued per customer and thereby increase the revenue and profit per customer. Our credit issued growth in the quarter in Mexico was a strong at 36%. Customer numbers were up 13% to 674,000. And impairment improved again helping to turn overall loss of £1 million for the same quarter last year into a profit of £0.1 million for 2012.

So, that's a brief overview in terms of the numbers and the trading. Let me just comment on a couple of other areas that I think generally are of interest. First of all, on new country entry. Now, during the road show we mentioned that we were waiting for detailed feedback on Spain in particular, which had been nominated as one of the countries that we were looking at in detail. We've now received that detail and Dave and I are going through it. However, I would just say that given the instability in the macroeconomic environment in Spain, I don't think you should expect to see us rush to do anything there in the short term at the very least. And that's all I would say about new country entry for now.

And then on the regulatory front, whilst we don't foresee any radical changes impacting our businesses in the short term, it's fair to say that regulations in Europe generally have a pretty full in-tray. And just a couple of things to mention to you. The global financial transaction tax, which has been talked about for some time, to our minds looks increasingly unlikely. And whilst we're not discounting it completely, we think it is more improbable now than it was three months ago. Secondly, the EU is reviewing the regulatory framework surrounding shadow banking. Now, at the moment that doesn't include consumer credit and so, by definition, IPF will be excluded, but we will keep a monitoring brief on that one. And then finally, as some of you may remember, we had an appeal lodged with UOKiK, the consumer association in Poland, and that appeal was upheld, which was obviously to our benefit. And the new hearing now is coming probably in three to four months' time, so good news from our point of view.

So, overall, we are reasonably pleased with first quarter; a solid performance, good top line growth, profitability down on the same time last year but hopefully you've seen the detailed explanation for that. And with that, I'll hand it over to you now for any questions you might have.

Q1 Hi, guys. Just a couple questions for you. First off, you highlighted how credit issued grew nicely in the first quarter and you talked about that largely being a function of improved consumer confidence. I'm just curious, is that... is it more of a push or is it more a pull in that consumers really stepped up their demand for credit or was it you guys were essentially instructing your agents to push credit a little bit more aggressively, or is it some combination thereof?

GR It's definitely a combination. When consumer confidence ticks up, our agents feel more positive about the fact that if they lend money to their customer base, that those customers will be in a position to repay us on schedule. And by definition, if they feel good about it, they will do that lending. And, equally, if the customers are feeling in a more positive frame of mind, they're more likely to want to borrow because they feel that they're going to be in their jobs in six to 12 months' time and will be capable of repaying that money.

At the same time, it's also fair to say that I believe that we have additional opportunities in each of our markets and, so, I am encouraging them to look for further opportunities for growth. So, it's a combination of all three of those.

Q1 One somewhat related question: I was reviewing the language on Romania and it looks like there was actually quite good customer and credit issued growth, but I guess weather was an impact in terms of collections. And I'm just trying to understand... and it's a bit of a small point, but I'm trying to understand how weather impacts collections but does not impact growth in actual customers or credit issued. I would've thought that those two things would be pretty correlated to each other and to the number of visits that your agents are able to make.

GR Yes, in the short term both are definitely impacted. So, the first thing that happens is the agents when the weather is really severe are unable to get to see the customers and therefore they can't do collections and, so, portfolio quality suffers in the short term. And in our experience once that weather has returned to normal, it takes probably a couple of quarters, depending on how severe it was, for that to come right, but generally most of it does come right again.

The piece that we suffer from and is what you might call more permanent is that the lost sales in that period are effectively almost permanently deferred, if I could put it that way. So, if you can't do the sales in a particular month, you might do them the following month, but effectively you've pushed everything out a month. And that's how it works.

DB I was going to say Romania probably undershot its sales by about 10 percentage points in Q1 because of weather.

Q1 So, that makes sense to me. I guess I'm still a little bit unclear as to essentially how you were... how you're able to actually grow as you were if weather was a real hindrance from a collection perspective as well.

DB Yes, what I would say is there are two things going on. In terms of Romania, it's a bigger business than it was a year ago, so in terms of people on the ground it's probably at least 25% bigger than it was at the start of 2011. And, so, you've got more people actively trying to sell, but their ability to sell is hampered because first of all it's more difficult to navigate their rounds [due to poor weather] and also when collections performance is impacted, then that impacts the number of customers that are available to offer repeat credit to. So, it's a combination of those two.

Q1 And one last question, if I may, Gerard, you described the quarter as good and I think cursory review of this on our part, we would agree with that sentiment. I'm curious to know what was disappointing or perhaps behind expectations from your perspective in the first quarter's results.

GR Sure, I guess we're under a small bit of pressure on the cost front because Dave and I want to continually drive down the cost base of the business. And now that I've got my feet under the table, we'll be making a concerted effort on that one. So, that's more of a from now on sort of thing. And the other is that in terms of top line growth, I think we did struggle a little in the Czech and Slovak business, but particularly the Czech business, to grow the top line there. And that's not new to me, but it is something that we will be tackling.

It's partly as a result of the fact that competition is reasonably intense in Czech Republic, but also the fact that I just think that the customer base there is probably a little more conservative than in some of our other countries. And whilst all of our countries in the first quarter saw upticks each month in consumer confidence, it was interesting that in March consumer confidence in Czech Republic took a slight downturn. Those would be the two things that I would note.

Q1 Got it, okay. That's very helpful. Thanks so much. I'll jump out of the... off here. Thanks.

GR Thank you very much, everybody, for joining. Like I said, a good set of results for the quarter, I think. And of course Dave and I are available at any stage if somebody needs to talk to us. Thank you very much.