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Research as a Service

10 May 2024
Pioneer Credit (ASX:PNC) Coffee Microcaps Webinar
Duration 27 minutes 33 seconds

00:00:02:21 - 00:00:30:09
Keith John (CEO, Pioneer Credit)

Thank you, everyone, for joining us this morning. I'm going to take you through a brief overview of Pioneer Credit, who we are, what we do, and why we exist in this market and the markets we participate in. A little bit about the size of our business and the opportunity set that sits in front of us and of course, some of our financial performance and then update you on our outlook for this year and what it looks like in 25 and 26.

00:00:31:20 - 00:00:58:11
Keith John

So a little bit about us. We're a debt recovery business, but we specialise in acquiring and servicing retail purchase debt portfolios. So what that means is, is we don't act for anyone else in the sense that we don't collect on behalf of third parties. We buy portfolios of impaired credit predominantly off the big banks and the non-bank lenders.

00:00:58:18 - 00:01:24:21
Keith John

And we bring them on to our platform and then we service those consumers ourselves and for our financial benefit. As I said, they're all held on balance sheet. So everything we, get we own and we bring that in, that builds a lot of resilience into this business, particularly when you go through periods of disruption like we did through COVID. We have no exposure to the northern hemisphere.

00:01:24:21 - 00:01:56:08
Keith John

We're an Australian centric business. There's an incredible growth opportunity that exists for us here. We're the number two player in this market by total investment, probably the number one player in the banking and finance market. But there's a huge opportunity for us to continue to grow market share in that particular part of the market. Since 2008, we've invested almost three quarters of a billion dollars into these purchased debt portfolios.

00:01:56:14 - 00:02:23:24
Keith John

So that's incredible amount of money that we've invested. We've been very successful. That's across about 5.6 billion in receivables and 720,000 customers. So that gives us this incredibly broad dataset from which to build our business, look out for our business and to use that to price portfolios and all the things that are important when you're thinking about a financial services business.

00:02:24:12 - 00:02:52:13
Keith John

We currently have an active base of about 210,000 consumers across just over $2 billion, and of that about $450 million performing. So these are customers that are paying us on a weekly, fortnightly or monthly basis, just like a performing loan book in a bank. And really, really importantly, you know this goes to the heart of why we exist.

00:02:52:20 - 00:03:20:06
Keith John

We talk here our people are founded in good and they have a strong social conscience. Our business since inception has always understood the importance of the consumer, the need to continue to treat consumers well. And this has become very relevant in banking and finance in recent years. And as a leader in this part of our sector, we're very much valued by the vendors, the people that we buy the debt from.

00:03:23:03 - 00:03:45:07
Keith John

In terms of our market, our position is really structured across four key elements. First of all, we have a unique servicing approach. Pioneer works really closely with the customers, the buyers, the people that we buy and we bring onto our platform have had a life event; death, divorce, sickness, might have lost their job, domestic violence.

00:03:45:07 - 00:04:04:00
Keith John

They've had an event that's caused them to not be able to pay their particular account. We work with them over time to get a good outcome for them and a good outcome for us and our originators. And then that's very unique in the way that we go about that approach. We are one of the few scale participants in this sector.

00:04:04:09 - 00:04:25:22
Keith John

Scale is very, very important. This is a very expensive business to run. We have very tight compliance and governance obligations which are really important, but they're very costly to implement, to audit. And as a business scale is very important. The way we bring in data into our business and so forth. So we're one of the few scaled participants in this sector.

00:04:26:17 - 00:04:55:07
Keith John

We have a market leading reputation. This business is not driven or this sector is not driven by the price someone pays for portfolios. It might have been in the past much more skewed that way. Now the world's changed dramatically and the banks and the non-bank lenders want to be dealing with a group that has a market leading reputation that will treat consumers right, that will protect the brand of the originator.

00:04:55:07 - 00:05:19:11
Keith John

And Pioneer has got a very, very strong and enviable reputation in that regard. The other part is we do not offer further credit to customers. So we buy these consumer accounts, these consumers get healed, but we don't compete with our vendor partners, unlike some others. And because of that, we're getting more opportunities than what others are seeing.

00:05:19:23 - 00:05:51:07
Keith John

So in other parts of our market, groups are talking about contraction and market share is getting difficult for them. A large part of that is because they compete with the people that are selling the portfolios, Pioneer doesn't do that. So we're aligned to our vendors and getting good consumer outcomes. In terms of market activity, macroeconomic, you know, everyone's concerned about cost of living and interest rates as far as it goes to consumers and to retail credit, they're performing remarkably well.

00:05:52:05 - 00:06:18:19
Keith John

You know, we remain fully employed in this economy. Australians have this very strong sense of obligation when it comes to meeting their financial commitments. And I think we're seeing that come through not just in Pioneer's results but in the bank results and the non-banks with the low debt levels. In terms of our market, regulatory and reputational issues are really creating a moat around this business and making it very difficult for new market entrants.

00:06:19:00 - 00:06:46:06
Keith John

That's a good thing for us. And vendors are selling more, but they're being very selective. They're preferring to partner with groups that have got strong relationships with them, such as Pioneer. And from a competitive perspective, there have been a range of market exits over the past few years. We're really down to a duopoly in terms of the banking and finance market, and that's really healthy for our business.

00:06:47:02 - 00:07:12:23
Keith John

And there's a few more opportunities that exist there as there are with mergers and acquisitions. And as Pioneer continues to build its business and continues to build the value back in its equity, these are opportunities that we'll be able to avail ourselves of. In terms of investment, so we're in a business that invests about $85 million a year in portfolios.

00:07:13:11 - 00:07:40:14
Keith John
As you can see over the last three years. We've got the historical context there as well. And you can see from 19 to 21 things peeled off through COVID. But you know, we're back to $85 million. The business grows once it spent or invested about $65 million per annum. We think we can grow this to $125 to $150 (million) per annum over the next couple of years on a run rate basis.

00:07:40:14 - 00:08:05:10
Keith John

So really healthy outlook for us. Importantly, you know, we're buying at better than historical IRRs across our FY24 vintage. So whatever we bought this year is better than the historical IRRs and I think that's reflecting a couple of things. One, again is our superior servicing arrangements and our enviable reputation two, as part of the shrinkage of the market.

00:08:05:20 - 00:08:35:02
Keith John

And three is this desire for people to partner that a partnered with them and they're prepared to pay a little bit more for that and that that makes sense to us. One of the ways we demonstrate very, very clearly to the market about the way we look after consumers is through Net Promoter Score. And if you think about our business being debt recovery, this is where we ask people, you know, how likely are you to refer Pioneer to a family or friend?

00:08:35:15 - 00:08:58:17
Keith John

We have a net promoter score of plus 23. It's a remarkable score and has been relatively consistent over the last couple of years. But really reflects how well we look after consumers. And you can see through that at first contact the scores minus 40. So this is the time we buy the account from the from the bank or the financier.

00:08:59:03 - 00:09:35:22
Keith John

And then as we work through those cohorts, the scores increase quite dramatically. We measure every interaction with the consumer. So the score of +23 reflects what all of the consumers happy, sad, excited, energised, what all of them think about Pioneer. And it's a really important part of how we demonstrate to our vendor partners how good we are at our job and how we differentiate ourselves and also how we keep a track on ourselves of how are we actually going, how we engaging with consumers.

00:09:35:22 - 00:10:09:15
Keith John
Now we actually looking after them in the manner that we that we say we will and the way that we intend to. In terms of our portfolio, we have an opportunity set of about $2.1 billion. So that's the total amount of receivables that are owed to us. And of that, it's broadly split into two parts. We've got a performing portfolio that's been growing at a CAGR of about 10% over the last sort of four or five years.

00:10:10:05 - 00:10:35:12
Keith John

That's about $450 million. So these are customers that are paying us on a regular basis, just like a normal performing loan portfolio. And we get about half of our monthly revenue from that and then we have our WIP. So these are customers that we're onboarding and then working with them to improve their situations so that they can commence meeting their financial commitments.

00:10:35:12 - 00:11:00:15
Keith John

That's about 1.7 billion and we get our other half of our revenue through here. Some of those customers become performing. We grow that book and others pay us in lump sums or sporadic type payments. The deeper we can dive into that book, the deeper we can reach into it by using better analytics, leveraging our scale will result in even better outcomes for our shareholders in the years to come.

00:11:03:21 - 00:11:34:20
Keith John

I think one of the things that really separates Pioneer from most every other small financial in the market is our alignment to shareholders. It's not just that we are the largest shareholders in the company. That's a really critical part, but it's actually about the way incentive works in our business. No one in my leadership team or my executive receives a short term incentive.

00:11:35:12 - 00:12:02:21
Keith John

The assets we buy, pay us back general, over a period of about four years. And as such, it has always been the case that we only run a long-term incentive program that pays out now, over four years. So there are three yearly targets that are set and then if those targets are met, the incentive rolls forward and then they must hit a fourth target.

00:12:03:08 - 00:12:35:24
Keith John

for those incentives to be released. The program that we're in currently requires us to deliver a statutory net profit after taxation of at least $18 million in FY 26. So if we deliver that, then these incentives are unlocked for our team. This ensures that I've got a team that is motivated for the long term that when we invest money in these portfolios, we are thinking about long term outcomes, not about hitting a short-term hurdle.

00:12:36:21 - 00:13:07:23
Keith John

And I think that alignment is very, very, very important to shareholders and separates us from almost everyone else. Of course. $18 Million against our current market cap looks quite remarkable, but it's a target we fully expect to deliver upon in in 26. In terms of our financial performance, this is for the first half. So extrapolated across the full year.

00:13:07:23 - 00:13:31:12
Keith John

And I suspect, you know, you get to a reasonable expectation of what this business should be delivering. $75.6 million in collections. So that's the actual cash that we received in the first half in our business. EBITDA not a great measure in financial services businesses, but one that so many people understand. None of these numbers are normalised.

00:13:31:13 - 00:14:06:03
Keith John

This is just straight out traditional definitions, $49 million. So this is a highly cash generative business, EBIT just shy of $18 million. The delta being our interest cost. And I'll get to that in a minute. But $18 million of EBIT and a small net profit after taxation for the period. It was the second half in a row that we've delivered an NPAT following some of the corporate activity that beset this business in 2020.

00:14:07:14 - 00:14:42:18
Keith John
In terms of our profit loss, you will see there, you know, a relatively simple business in terms of how it how it runs. The biggest expense lines really are employee expenses. They rose a bit through the compared to the prior half. There's about $1,000,000 a year in non-recurring expenses. We expect to be able to pull out as we bring the end projects and another parts of our business that, that are occurring over the course of the next year.

00:14:42:18 - 00:15:12:21
Keith John

Amortisation, so this is kind of like a cost of goods sold concept, if you think about that. We buy a portfolio for a dollar. If I collect some money, I must have a charge against that, and that's our amortisation charge. And ultimately it's our interest expense. We're currently paying about 13% for our interest. We expect that to drop dramatically by the time we complete our refinance, which is expected to occur before the end of this financial year.

00:15:13:03 - 00:15:43:24
Keith John

And that is going to save us somewhere in the vicinity of $8 million+ per annum and that drops straight to the bottom line. So we're a business that's got great growth opportunity in front of it, a reducing cost base and one that collapses immediately upon refinancing our senior facility. We remain exposed to the BBSW cash rate. So if interest rates come down, then that'll be a bigger saving for us. Net assets of about $43 million at the moment.

00:15:44:23 - 00:16:09:06
Keith John

There is also a deferred tax asset that is not on the balance sheet currently of about $25 million. So that will come back on board and we've obviously got a good period of time where we're not going to be paying tax. In terms of our outlook, few things to mention. First of all, we raised $10 million in March as we go through this refinance process

00:16:09:06 - 00:16:40:05
Keith John

we didn't want to draw down more debt. We raised $10 million at a premium to market. Doesn't happen very often, and that supported us growing our output folio. There's a huge opportunity there for us. There are five main things we're focused on; continued industry regulatory focus. We've called this out for a number of years now. That's a really good thing for this business because it builds out that moat around us, something we like. Strong tailwinds for investment opportunities.

00:16:40:10 - 00:17:03:21
Keith John

We upgraded our guidance. We started at $60 million at the beginning of the year. We upgraded to $85 million in light loan last year and now we've upgraded to an investment of $95 million just earlier this month. That provides us with good growth going forward. And there's a lot more opportunities. We've got agreements in place with 12 vendors at the moment.

00:17:04:20 - 00:17:34:10
Keith John

We've got a five-year agreement in place with the CBA. You know, that's a that's a beautiful way to underpin our business. And there are significant opportunities coming to market. Reduced cost of funds, Nomura, who financed us in the past and also are a substantial shareholder in the business, are our exclusive arranger for our senior finance facilities. As I said, we expect that to close this half with material savings to be realised immediately for us.

00:17:34:12 - 00:17:58:05
Keith John

Realise operating leverage important part is as you get to scale, you need to make sure you continue to pull out cost. We've got a call system replacement where we're re-platforming our business that's well progressed with sort of two years into that now and that'll be completed relatively soon. That will deliver great efficiencies for us in for FY25.

00:17:58:09 - 00:18:28:23
Keith John

And there are other cost out opportunities for us again as we continue to scale. Finally, material uplift in NPAT. There’s great supply of portfolios for us into a fully employed environment. We expect significant savings to flow through next year, which will drop straight to the bottom line. And as I've said before, we've got an LTI target for FY26 of an NPAT of at least $18 million.

00:18:29:00 - 00:18:43:08
Keith John

So that's what we're fully expecting to deliver on. That concludes my formal part of the presentation, and Mark can open the floor to questions.

00:18:44:10 - 00:19:08:23
Mark Tobin

Yeah, thanks, Keith. The questions have been coming in thick and fast as you were running through the deck, so let's jump into them. One I want to touch on the refinancing because you know, you called it out there and a question around the refinancing gets done. Let's just assume that timing. We'll see what happens.

00:19:08:23 - 00:19:31:10
Mark Tobin

And it could be, as you say, you're aiming for the end of this financial year. But even if it falls into the early part of next year, dividends, if it if it comes back into play once that financing is part or is the plan, you know, that frees up a hell of a lot of capital that can be redeployed into PDLs.

00:19:31:13 - 00:19:37:08
Mark Tobin

Maybe just give us a sense of what the board is thinking, you know, once the refinancing is done and dusted.

00:19:38:13 - 00:20:04:19
Keith John

Of course, Mark thank you. Look, I mean, historically, this has been a business that's been a very strong dividend payer. In 2018, I think we were making $20 million NPAT. And our previous policy was that we passed through 50% of our divi’s. About 50% of our profit is fully franked divi’s. We'll get back there. Look, I don't expect that we're going to do that in 25.

00:20:05:08 - 00:20:33:06
Keith John

It's an option available to us. But we're also staring into an environment with incredible opportunity. And I can't see at the moment that passing through dividends is a better use of the capital than investing further into the market. The other part about that is the points at which we're investing now a very accretive. So it's reducing our leverage, which over time will also reduce our cost of funds.

00:20:33:06 - 00:21:00:10
Keith John

So we need to balance that. But we're look, we're alert to dividends. You know, I'm a the major shareholder of the business. I'd certainly like some dividends as well, but we need to balance that across what's good for all of the shareholders and the health of the business. And I think at least for the for the next year, we should expect that that that's going to include just continuing to reinvest in good, good accretive opportunities.

00:21:01:20 - 00:21:31:07
Mark Tobin

And then a question on maybe just you know, you mentioned, that the number two player and the size of the PDP market that I think the PDL of market here that PNC plays in, you know, it's kind of overall size and where is kind of a natural ceiling for, you know, your annual investment amount? Let's assume refinancing is done and we maybe look at, you know, on a on a medium term basis?

00:21:31:16 - 00:21:58:03
Keith John

For sure, so the market's about $350 million this year, probably grows a bit more next year. I think. So think about it as a $400 million market, about a quarter of that we don't play in. So we don't do anything related to payday loans. Okay. And we don't do anything related to sort of lower quality credit. Currently, we don't play in the we don't participate in the utility and telco sector.

00:21:58:09 - 00:22:24:08
Keith John

So, you know, the part of the market that we're in currently is, you know, in the vicinity of $300 million. We think we can capture somewhere between $125m and $150m on a annualised basis and rolling basis without having to reduce margin. And that's the way we think about our business. You know, we don't need to be the biggest you know, our goal is to be the most sustainably profitable.

00:22:25:08 - 00:22:47:09
Keith John

So that means getting to the right stage or the right size of market and right size of market share and repeating that and that then we'll throw up a beautiful opportunity for us is what do you do with the extra cash? These businesses and this business at a couple of years of steady investment once we've stopped growing, we just keep investing at a steady rate.

00:22:48:01 - 00:22:54:09
Keith John

It throws very significant cash. So that's an important, important, important offering us from us.

00:22:56:06 - 00:23:11:21
Mark Tobin

And another one then, can you provide some context and why the performing portfolio has been relatively flat over the over the past two years? Is that just a natural seasoning of the book post COVID?

00:23:14:07 - 00:23:41:07
Keith John

Yeah, it's a good question. So look, I think the best way to think about it is really consumers are clearly challenged. A lot of our consumers at the moment are not entering into longer term arrangements in the way they might have in the past because they are more cautious about the outlook. So I don't want to make a commitment that they can't keep through with.

00:23:41:17 - 00:24:08:19
Keith John

So of course that books paying debt down out over time, that's holding steady. You'd expect it to start growing again, maybe when interest rates start to peel off a little bit and people and consumers start to feel a little bit more confident. You know, consumer sentiment across the country now is back to GFC levels when it's as low as it's ever been.

00:24:09:01 - 00:24:34:05
Keith John

And I think when those things happen, consumers continue to pay, but they also continue to keep a bit to themselves. You know, they need the security of not having, you know, a commitment that they that they might not be able to keep for some particular reason. Having said that, they've been able to keep them and we've seen no degradation in performance whatsoever over the past 18 months.

00:24:36:05 - 00:24:56:24
Mark Tobin

And then another one. Capacity within your client service collections team to handle growth metrics, you can share there or is that a function of, you know, the re-platforming replacing core systems? You can, you know, keep the same staff, but they're actually more efficient nowadays with the new system?

00:24:58:06 - 00:25:22:14
Keith John

Yeah, certainly with the re-platforming, our people will be more efficient. You know, at the moment our systems are aged and legacy and subsequently you have workarounds as things change through particular industries. We're moving to a platform that's that sort of, you know, enterprise grade across the world and used by banks and some of the biggest purchasers in the world.

00:25:22:22 - 00:25:56:18
Keith John

So we expect that to increase the efficiency. Look we've got capacity to continue buying it at sort of $100 to $120 million a year without needing to add dramatically to our headcount. And over the course of the last five years, our headcount actually dropped by about 25%. As we've become more efficient with those legacy systems, we expect that efficiency to continue to build, to build out over the course of the next year or so.

00:25:58:00 - 00:26:30:00
Mark Tobin

And then a question here on KPIs for Pioneer. You did touch on in the slide saying, you know EBITDA is not a great metric for a financial services business, so the attendee’s asking you know is cash collections kind of a key performance indicator of what would you direct people to , you know, when, when a deck comes out, you know, what's the kind of first number they should be looking at and then use that has the kind of really base case to judge how the business is performing?

00:26:31:15 - 00:26:56:16
Keith John

Yeah, for sure. Look, cash collections is, I think, the best metric because, you know, you can't cheat cash. It's either in the bank or it's not. So that's a very good metric we have. We were fairly steady through the COVID years at about a

$100 million a year in cash collections. And then, you know, we're now sort of we jump sort of 40% over the last couple of years.

00:26:56:16 - 00:27:24:00
Keith John

So really good growth there is that I think EBITs a really important number. Again, it's statutory, it's audited and it's reliable and then of course, NPAT. But we are understanding the make-up of our NPAT’s clearly important we remove or we fix that interest cost in the coming month or so and of course that's going to open right up.

ENDS

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