ASX ANNOUNCEMENT

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Market Announcement Officer
Australian Securities Exchange Limited
Level 4 Stock Exchange Centre
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SYDNEY NSW 2000

Collection House Limited (ASX Code: CLH) – Outcome of Recapitalisation Process

1. Background to the Recapitalisation Process

In early 2020 Collection House Limited ("**CLH" or "the Company"**) commenced a comprehensive Recapitalisation Process as an outcome of the Company's previously announced Strategic Review which accompanied the change in Chief Executive. In addition to a review of the Company's operating model and collection strategies, the Strategic Review identified the need to write-down the value of CLH's purchased debt ledger ("PDL"). The write-down captured the net present value impact of the adjusted cash collection profile from adopting more customer-focused collection strategies in the Company's PDL business and, in particular, a lower reliance on legal activity.

The reduction in the carrying value of the PDL assets resulted in breaches to certain financial covenants under the Company's lending arrangements. These facilities had increased over time as the Company purchased new debts during several consecutive periods of high competition for PDL assets. CLH had elected to finance these acquisitions mostly with debt, the maturity of which was mis-matched to the longer term duration of the cash flows from the underlying PDL assets.

The combination of these factors resulted in the need for the Company to restructure its existing borrowing arrangements and reshape the Company for longer-term success.

2. Transaction Summary

The Company announces the outcome of its Recapitalisation Process ("the **Transaction**"). The Transaction has been an ongoing focus of the Company's Board and Management during an extended period of suspension of trading in the Company's shares. Material features of the Transaction are:

- The disposal of certain PDL assets ("**the Sale Assets**") to Credit Corp Group Limited (ASX Code: CCP) for an upfront purchase price of approximately $160 million;
- CLH may also receive additional consideration, up to a maximum of $15 million, over an eight year period, dependent upon the future performance of the Sale Assets;
- Proceeds from the Transaction will be immediately applied in reduction of the Company's senior debt
- The Company's existing lenders have agreed to provide a new three year senior debt facility of approximately $45 million on commercial terms;
- Credit Corp Group Limited will provide the Company with a short term loan of $15 million for general corporate purposes; and
- Settlement of the Transaction is expected to occur within 4 business days.

The Recapitalisation Process involved engagement with a large number of domestic and international counterparties as the Company sought to refinance its existing asset base and fund future growth.

The Board assessed a range of refinancing solutions in conjunction with its advisors and is confident that the Transaction delivers the most effective refinancing solution across a range of criteria including total consideration, transaction certainty and alignment with long term organisational strategy. The decision to undertake the Transaction was taken after careful consideration and although it comes with a substantial short term impact to shareholder value, it repositions the Company to rebuild future earnings underpinned by a more sustainable capital structure. Furthermore, the Transaction is undertaken in preference to a refinancing of the Company's total existing senior debt facilities because:

- Traditional refinancing options presented to the Company were expensive and would have left shareholders with little, if any, residual cash return from its existing PDL assets;
- A refinancing would not have removed shareholder exposure to the inherent risk of collections activity associated with the Company's existing PDL assets; and
- If future collections were below expectations, the long term ramifications for shareholders of financing retained PDL assets with expensive debt would be significantly inferior when compared to the Transaction.

Following completion of the Transaction, the Company has largely eliminated the risk of further adjustment to the accounting value of its PDL assets, substantially reduced its debt level and greatly simplified its business model. This simplification allows the Company to focus on providing an enhanced standard of collection services to our clients through a values aligned, customer centric collections approach which will be essential in responding to short term volatility in the credit sector.

The Transaction leaves the Company with a capital-light, high return on equity servicing model, which it believes will create more sustainable and predictable shareholder value over time. The Company retains its best in class capabilities (people, systems and processes), allowing it to provide end-to end receivables management services to clients and customers under either contingent agency collections or purchased debt frameworks.

As a consequence of finalising the Transaction, the Company has also finalised its FY2020 Annual Report, following completion of the audit process for the financial year ended 30 June 2020. A copy of the FY2020 Annual Report has been released to the market today. The value of the Company's assets presented in the 30 June 2020 financial statement reflects the expected outcome of the Transaction with accounting earnings for that period adjusted accordingly.

As previously announced by the Company, the book value of the Company's entire PDL asset base as at 31 December 2019 was $338m. In accordance with applicable accounting standards, this asset value is calculated based on gross cash flows and therefore does not reflect the realisable value of the asset post collection costs. Assuming an industry standard cost to collect of between 35% and 40% of gross collections would imply a net realisable asset value for the entire PDL portfolio of between $200m to $220m (as at 31 December 2019).

The purchase price of the Sale Assets of $160 million relative to the book value of the Company's entire PDL portfolio of $338 million as at 31 December 2019 reflects a number of considerations over the intervening nine months. These include net collections achieved by the Company in the period 31 December 2019 to 30 September 2020, the retention by the Company of certain PDL assets which are not part of the Transaction and independent assessment of future cash collections from the Sale Assets in a COVID environment.

3. Sale of Lion PDL Assets ("the Sale Assets")

CLH, through its wholly owned subsidiary, Lion Finance Pty Ltd ("Lion"), has entered into an agreement to sell its interest in certain PDL assets to wholly owned subsidiaries of Credit Corp Group Limited (**"the Purchasers"**).

Key terms of the Transaction set out in the sale and purchase agreement ("**SPA**") are:

- The Sale Assets are effectively all of Lion's existing PDL customer contracts, other than certain PDL assets which have been agreed as being excluded from the transaction. The excluded accounts are not expected to be material;
- CLH retains its New Zealand PDL portfolio previously acquired from RML NZ;
- The Sale Assets exclude rights and obligations associated with PDLs which are subject to the Portfolio Enhancement Program arrangements with Balbec Capital LP (previously disclosed);
- The upfront Purchase Price is $160 million, based on the Sale Assets as at 30 September 2020. Subject to completion, the Purchase Price will be adjusted to reflect collections undertaken by CLH in respect of Sale Assets between 30 September 2020 and settlement, less an arms-length collection fee payable to Lion;
- An upside sharing mechanism will entitle CLH to additional payments in relation to the Sale Assets depending on the collection performance over the next 8 years, capped at a maximum of $15 million;
- The CLH group will not be restricted from entering into new 'forward flow' arrangements or undertaking new PDL inventory purchases and will retain its existing NZ 'forward flow' commitments;
- The Purchasers intend to service the Sale Assets themselves or make their own servicing arrangements post Completion and consequently CLH will have no ongoing servicing obligations in respect of the Sale Assets;
- The terms of the sale include representations, warranties and indemnities in respect of the Sale Assets as well as limitations on CLH's liability and other terms customary for a transaction of this nature; and
- CLH will have 'repurchase rights' to buy back PDL debts in certain circumstances, such as where repurchase is required by originating vendor under the original purchase agreement.

4. <u>Secured Short Term Loan Facility</u>

Contemporaneously with settlement of the SPA, Credit Corp Group Limited will also provide the Company with a term loan facility of $15 million. Interest on the facility is to be capitalised, with the loan expected to be repaid on or before September 2021. The facility will be secured against proceeds expected to arise from the Company's tax assets.

5. Senior Debt Facilities from CBA and Westpac

CBA and Westpac ("**Senior Lenders**") have agreed to extend to the Company a senior debt facility of approximately $45 million. $20 million of the facility will be amortising in accordance with a pre-agreed schedule over the three year facility term. Interest will also be payable on this portion of the loan. Interest on the remaining portion of the facility will be capitalised and repayable in conjunction with the outstanding principal upon maturity in December 2023. The Senior Lenders will also provide a bank guarantee facility of $8.6 million to support the Company's bank guarantee obligations for its various office leases. Total Transaction Sources and Uses are summarised below:

Sources of Funds	**$ million**
Proceeds from sale of Sale Assets #	160.0
Working Capital Loan Facility	15.0
New Senior Debt Facilities #	45.0
Total Sources	**220.0**

Uses of Funds	**$ million**
Repay Existing Senior Debt #	197.2
Refinancing and restructuring costs	7.5
General corporate purposes #	15.3
Total Uses	**220.0**

Subject to completion adjustments referred to above

6. Likely financial effect of the recapitalisation transactions

Immediately after the Transaction, the Company will have a significantly lower level of PDL revenue and a partially reduced cost base which will need to be carefully managed and ultimately offset through growth in revenue. However, the wider financing arrangements implemented in conjunction with the Transaction provide the Company with sufficient working capital to comfortably manage through a rebuilding phase. As previously announced, the Company has also completed a Strategic Review of its business, including a comprehensive review of its direct and overhead cost structures.

Annexure A provides a pro-forma impact of the Transaction. These pro-forma calculations are consistent with those provided to the ASX when the Company sought confirmation that it did not require shareholder approval for the Transaction under ASX Listing Rules 11.1 or 11.2.

The Company is in discussions with a number of parties around the implementation of a long term partnership to allow it to more efficiently participate in the purchased debt market in Australia and New Zealand. Once formed, the partnership will result in a lower level of the Company's capital being at risk to PDL value changes, but allow it to leverage its collection capability through exclusive servicing arrangements.

7. Additional information about the recapitalisation transactions

- No securities are proposed to be issued by CLH as part of, or in connection with the Transaction.
- CLH's agency services business will be retained by CLH along with its best in class (people, systems and processes) receivables management capabilities.
- No changes to the Board or senior management are proposed as part of, or in connection with the Transaction.
- ASX has provided CLH with confirmation that the Company does not require shareholder approval under ASX Listing Rules 11.1 or 11.2 to proceed with the Transaction.

8. Release of 30 June 2020 Audited Financial Reports

The Company's Financial Reports for the year ended 30 June 2020 has been released today, following completion of the external audit process. The final accounting loss for the year ended 30 June 2020 is $145.1 million after raising provisions against the carrying value of the Company's PDL assets of $238.9 million to reflect the disposal value of these assets as part the Transaction, which occurred after balance date.

The underlying operating results before impairment and non-recurring costs associated with restructuring activities is a profit of $16.2 million. The business generated strong net operating cash flow for the year of $65.3 million but the majority of this was applied in satisfying purchased debt forward flow commitments and the remainder in debt reduction. Gross performance from the Company's PDL assets was down on prior year, consistent with overall industry trends observed during the COVID-19 period. New debt purchasing opportunities were also limited during the twelve months, reflecting a more conservative approach to debt sales applied by banks and other clients during the COVID-19 period, but also a level of conservatism applied by the Company in response to its underlying capital position.

Contingent collections revenue and margin contribution were also lower than the previous corresponding period, again impacted by the wider economic effects of COVID-19 which influenced service fee income and cash collections from the Company's PDL assets.

Although the Company's economic performance for the period was subdued, the Company has executed significant strategic change initiatives across the entire business, which will position the business for sustainable growth moving forward. The Company has completed a comprehensive review of its direct and overhead cost structures, resulting in a significant reduction to the Company's direct and overhead cost structure. However, post the Transaction, the Company's retained cost base must be carefully managed and matched to its revenue growth plan, particularly over the coming twelve to eighteen months.

Executing the partnership discussed above and recommencing activity in the PDL sector quickly is an important action for early 2021. The wider financing arrangements implemented in conjunction with the sale transaction provide the Company with the working capital to manage through this critical rebuilding phase.

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9. Outlook

The Transaction provides the Company with a stable capital structure upon which to grow its capability over the coming years. The Company retains the flexibility to pursue growth in the purchased debt market through a new partnering model which will see a significantly lower level of the Company's balance sheet put at risk moving forward. The Company expects to finalise that new partnering arrangement in the near future.

The events of this year, while in part the result of external factors, are largely the outcome of management adapting to a changing credit landscape. The Board and Management recognise that there is a significant amount of work to restore shareholder confidence and shareholder value. However, it is the Company's view that there are significant opportunities in the Australian and New Zealand markets for a collection services company that is well managed, focused on the customer and is appropriately capitalised.

The Directors and Management acknowledge that shareholders are justifiably frustrated by the extended period of suspension of the Company's shares. The Company was operating under a range of confidentiality and other constraints while undertaking the comprehensive Recapitalisation Process and negotiating the Transaction. Good progress has already been made in preparing for the next stage of the Company's journey, and we are confident of demonstrating the efficacy of a new customer focused strategy through growth and restoration of shareholder value over coming financial periods.

The Directors acknowledge the Company's Shareholders patience and its advisors Flagstaff Partners, Clayton Utz and Deloitte for their support during this period, and request that the Company's shares recommence trading.

This announcement was authorised to be provided to the ASX by the Company's Board of Directors.

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Annexure A: Pro Forma Financial Information

Please note that following pro-forma financial information is an indicative only and readers should refer to the FY 2020 audited accounts for the FY 2020 actual results. The pro-forma should not be interpreted as earnings guidance.

The likely effect of the Transaction on the Company's consolidated total assets and total equity interests have been presented on a pro forma basis based using the unaudited FY 2020 results in the Company's Appendix 4E dated 31 August 2020.

The Pro Forma Total Consolidated Assets and Total Equity table below shows on a pro forma basis the effect of the Transaction as though it occurred on 30 June 2020 and was included in the FY20 unaudited results.

Particulars $'000	Unaudited FY2020 results in Appendix 4E (as at 30 June 2020)	Pro forma adjustment for Transaction See note (1) below	Unaudited FY2020 results with pro forma adjustment for Transaction
Total Consolidated Assets (2)	444,391	(266,767)	177,624
Total Equity (2)	172,808	(106,767)	66,041

Notes

(1) *Pro forma adjustments to Total Consolidated Assets and Total Equity assume a sale of the PDL assets occurring on 30 June 2020 with sale proceeds of $160m being applied in reduction of existing debt, disposal of PDL assets of ($312.5m) and creation of an offsetting deferred tax asset of $45.7m. On a pro forma basis as at 30 June 2020, this would result in an estimated overall after-tax accounting loss of ($106.8m) which is reflected in the adjustment to Total Equity above.*

(2) *As the pro forma adjustments to Total Consolidated Assets and Total Equity are presented as at 30 June 2020, the above balances do not incorporate reductions in borrowings which occurred since 30 June 2020 of $18.4 million.*

The likely effect of the Transaction on the Company's annual revenue, expenditure, EBITDA and profit before tax will be:

(a) Upon the effective date of sale, a loss on disposal of the PDL assets in the Back Book, offset in part by an expected deferred tax asset arising from a tax loss on sale of those PDL assets, as indicated in Note (1) above to the Pro Forma Total Consolidated Assets and Total Equity table above. Note that the disposal will occur and be accounted for in the FY21 accounting period;

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(b) The effect of the Transaction on earnings in the immediate term will be reductions in PDL revenue and associated direct collection expenses relating to the Back Book disposal with the resulting reduction in EBITDA.

(c) This EBITDA impact will be partially offset by a reduction in financing costs due to the lower debt leading to an overall net reduction in pre-tax profit generated from PDL assets.

(d) In the medium term, the Company expects to commence building up its forward PDL book subject to available capital and market opportunities.

The Revenue, Expenses, EBITDA and Profit table below shows on a historical pro forma basis the notional effect on key FY20 CLH Profit and Loss outcomes of the ongoing changes effected by the Transaction, being the PDL collections by the Company for the remaining PDL assets after the sale, the impacts of the employee and other overhead cost reductions implemented during September/October 2020 and the reduction in finance costs due to the Company's lower debt level.

Particulars $'000	Unaudited FY2020 results in Appendix 4E (1 July 2019 to 30 June 2020)	Pro forma adjustment for Transaction See note (1) below	Pro Forma FY2020 Profit and Loss measures after pro forma adjustment for Transaction
Revenue	145,399 (2)	(65,314) (3)	80,085
Expenses	(99,641) (4)	5,900 (5)	(93,741)
EBITDA	45,758 (6)	(59,414)	(13,656)
Depreciation, Amortisation and Finance Costs	(20,160) (7)	7,912 (8)	(12,248)
Profit / (Loss) before PDL Impairment and income tax	25,598 (9)	(51,502)	(25,904) (10)

Notes

(1) Pro forma adjustments reflect the notional effect of the Transaction on the FY2020 full financial year, by showing the pro forma revenue without the PDL collections income (other than from the retained PDL books) along with the reduction in Finance Costs and recent headcount reductions.

(2) Revenue as reported in Appendix 4E dated 31 August 2020.

(3) Reflects removal of FY20 PDL revenue associated with PDL assets sold.

(4) Expenses as reported in Appendix 4E, excluding Depreciation and Amortisation, Finance Costs and the previously announced December 2019 PDL Impairment Provision.

(5) Represents annualised impact on labour costs of employee reductions implemented during September/October 2020.

(6) EBITDA based on reported results in Appendix 4E, excluding the December 2019 PDL Impairment Provision.

(7) Depreciation and Amortisation and Finance Costs as reported in Appendix 4E.

(8) Reflects the reduction in finance costs as a result of the PDL sale transaction.

(9) Reflects the FY2020 loss before income tax of ($64.3m) as reported in Appendix 4E, excluding the December 2019 PDL Impairment Provision ($89.9m).

(10) Reflects pro forma FY2020 loss excluding the December 2019 PDL Impairment Provision ($89.9m), the accounting loss arising on de-recognition of the PDLs (see Total Consolidated Assets and Total Equity table above), and the pro forma adjustments to revenue (note 3), to expenses (note 4), and to finance costs (note 8).

Please note that following pro forma financial information is indicative only and you should refer to the FY20 audited accounts for the FY20 actual results. The pro forma should not be interpreted as formal earnings guidance.