

# Investing for international growth



**Merrill Lynch**

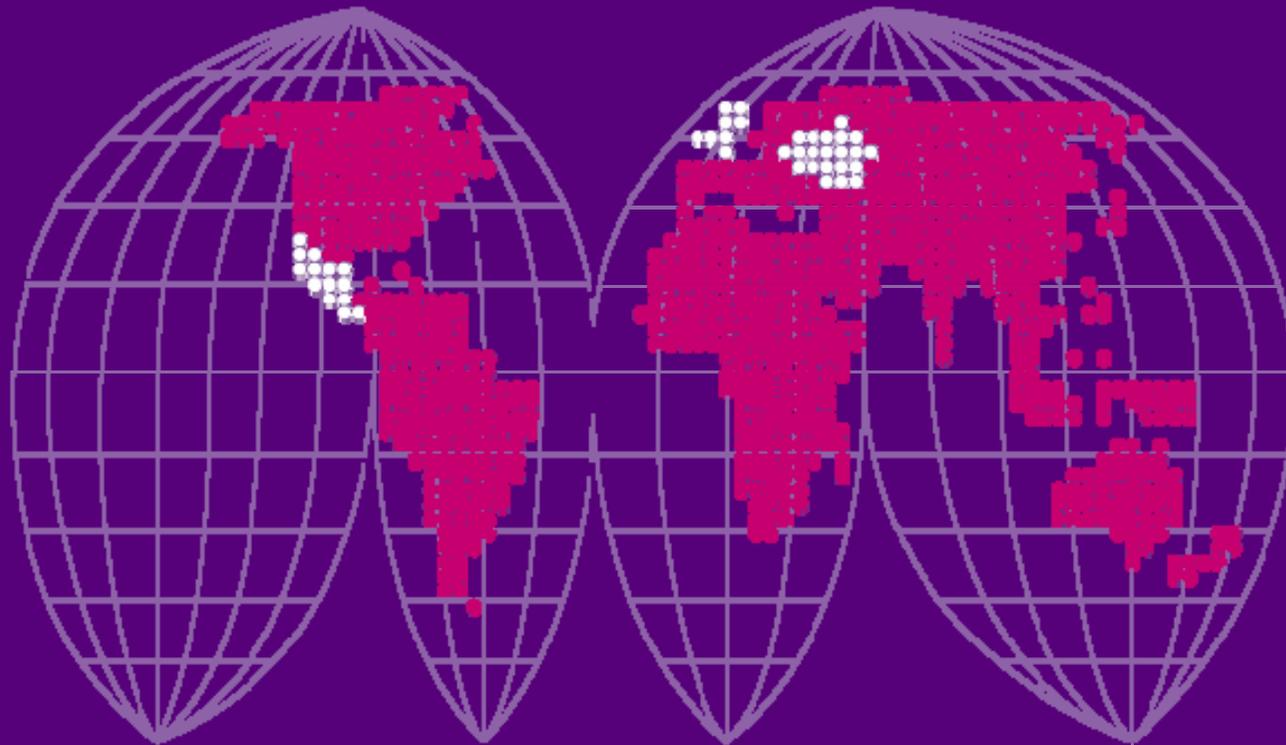
Speciality Finance Conference

22 November 2005

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# At a glance

## Provident Financial At a glance



# Vital statistics

2004 IFRS PBT

£205.5 million

2004 Revenue

£1.26 billion

Market  
capitalisation

£1.6 billion

Established

1880

Customers\*

3.8 million

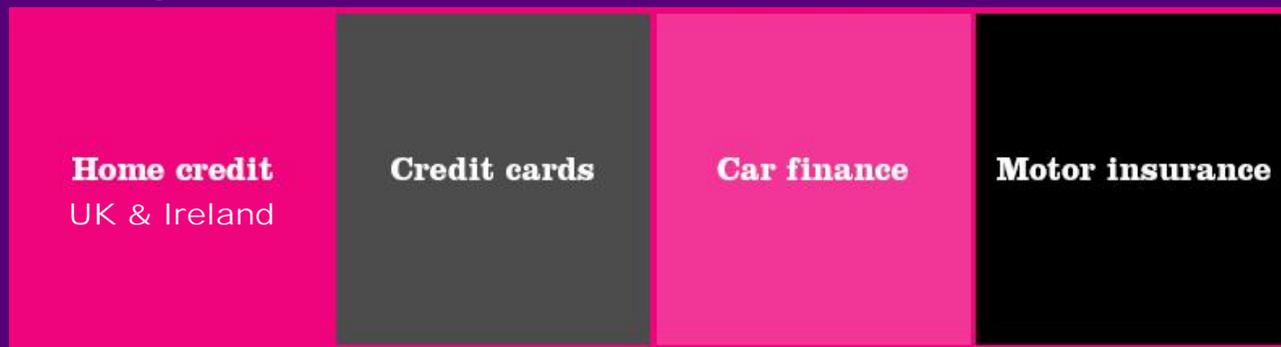
Employees\*

8,400

\*As at 30 June 2005

# Strategy

## > More products



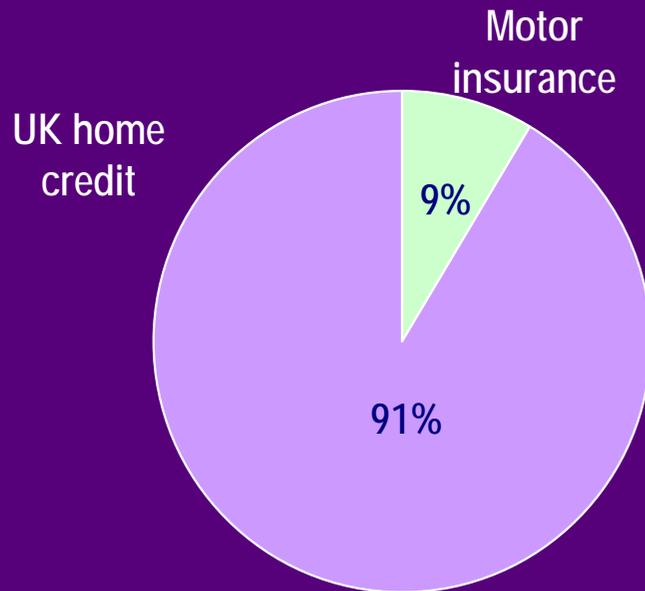
## > More places



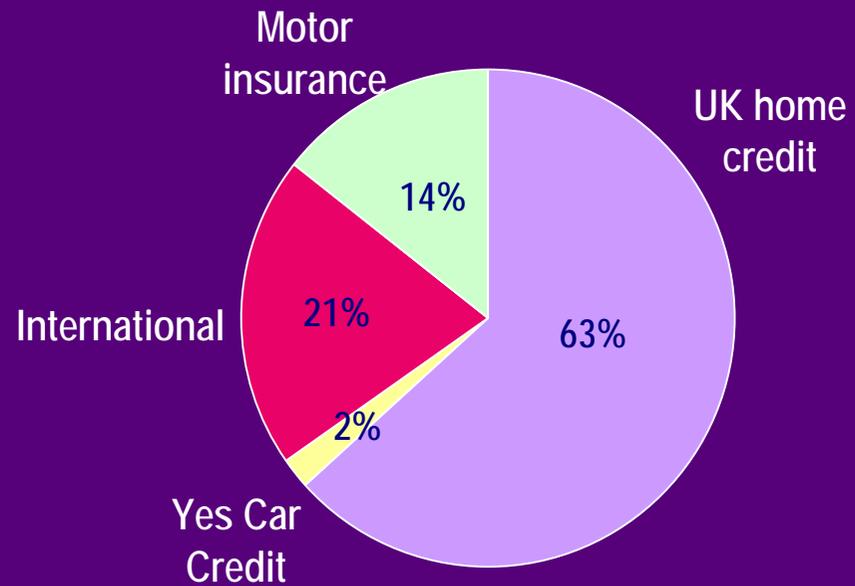
# Developing the business

## Profit before tax

1996\*



2004\*



\*UK GAAP

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# Developing the business

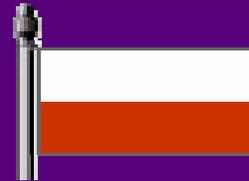
International growth



# Investment in international markets

> Initial market entry:

> Poland – 1997



> Czech Republic – 1998



> Second phase:

> Slovakia – 2001



> Hungary – 2001



> Third phase:

> Mexico – 2003



# Why invest internationally?

- > UK generates good returns, strong cash flow but mature market
- > Strategic move mid-1990's to develop home credit overseas
- > Opportunity for diversification
- > Home credit suited to emerging markets
- > International expansion key element for future growth

# International success

- > A significant and profitable business established
- > International customers in excess of 1.6 million
- > International profit before tax of nearly £40 million in 2004
- > Results from Mexico positive

# Criteria for overseas expansion

- > Large population
- > Potential market size
- > Economic performance
- > Political environment
- > Funding

# Developing a new market

## Initial steps following country selection

- > Desk research
- > Detailed in-country research
- > Pilot operation
- > Roll-out

# Developing a new market

## Pilot operation

- > Minimise financial risk
- > Introduce core ex-pat team of two to four people
- > Recruit and train future managers
- > Create local training materials
- > Design and test advertising materials

# Developing a new market

## Pilot operation

- > Build administrative capability
- > Recruit and train agents and customers
- > Learn to operate in local culture
- > Prove or amend business model
- > Formal 'go' or 'no-go' decision at conclusion of pilot

# Developing a new market

## Roll-out

- > Pilot offices divided into two - one team open a new location
- > Local advertising supports brand awareness and staff and agent recruitment
- > Train employees, then train agents
- > Advertise to recruit customers
- > Lend small amounts at first and re-serve with larger loans
- > Build customer base
- > When ready, split team to open a new office

# Benefits of emerging markets

- > Consumer markets have growth rapidly in recent years
- > Demand for credit
- > Underdeveloped supply of consumer credit
- > Influx of inward investments
- > Strong economic growth

# Home credit in emerging markets

- > Most consumer lenders require customers to provide:
  - > security and / or guarantor
  - > history of formal employment
  - > payment via local offices or at a bank
  - > time to process application
- > Provident customers value:
  - > simple, transparent products
  - > fast, personal application process
  - > weekly visit from a representative
  - > supportive approach

# Central Europe: metrics

> Population	64.1 million
> GDP per capita	\$10,356
> Economic growth rate (GDP)	4.3%
> Inflation	2.4%
> Interest rate	3.9%
> Consumer spending growth	4.1%
> Moodys aggregate rating	A

# Central Europe: the market

## Attitudes to credit

- > Demand for loans has increased by 50%\* in the last three years
- > 90%\* of consumers find borrowing acceptable
- > Growth in consumer confidence
- > Growth in consumer spending
- > Fast growth economy
- > Lenders now more active in upper segments of the market

## Central Europe: growth

## Results

	12 months to Dec 2004	12 months to Dec 1998
Customers (000)	1,524	16
Representatives	19,367	419
Employees	3,205	126
Credit issued £m	432.9	2.6*
Profit £m	52.6	(2.6)*

\*UK GAAP

## Central Europe: growth

## Targets on course

	12 months to Dec 2004	Target
Customers (000)	1,524	1,625
Annual credit issued per customer (£)	284	390
Annual profit per customer (£)	44	58
Annual profit (£m)	52.6	95

# Product expansion

- > Large and underserved market
- > Product development options currently being explored
- > Leverage from Vanquis Bank operations

# Mexico: metrics

> Population	106 million
> GDP per capita	\$6,974
> Economic growth rate (GDP)	4.2%
> Inflation	4.6%
> Consumer spending growth	3.7%
> Moodys country rating	BBB+

# Mexico: the market

## Attitudes to credit

- > Demand for loans has increased by 51%\* in the last three years
- > 47%\* of consumers find borrowing acceptable
- > Growth in the Mexican Consumer Confidence Index\*\*
- > Growth in retail sales\*\*\*
- > Improved economic situation
- > Increase in consumer lending
- > Lenders now more active in upper segments of the market

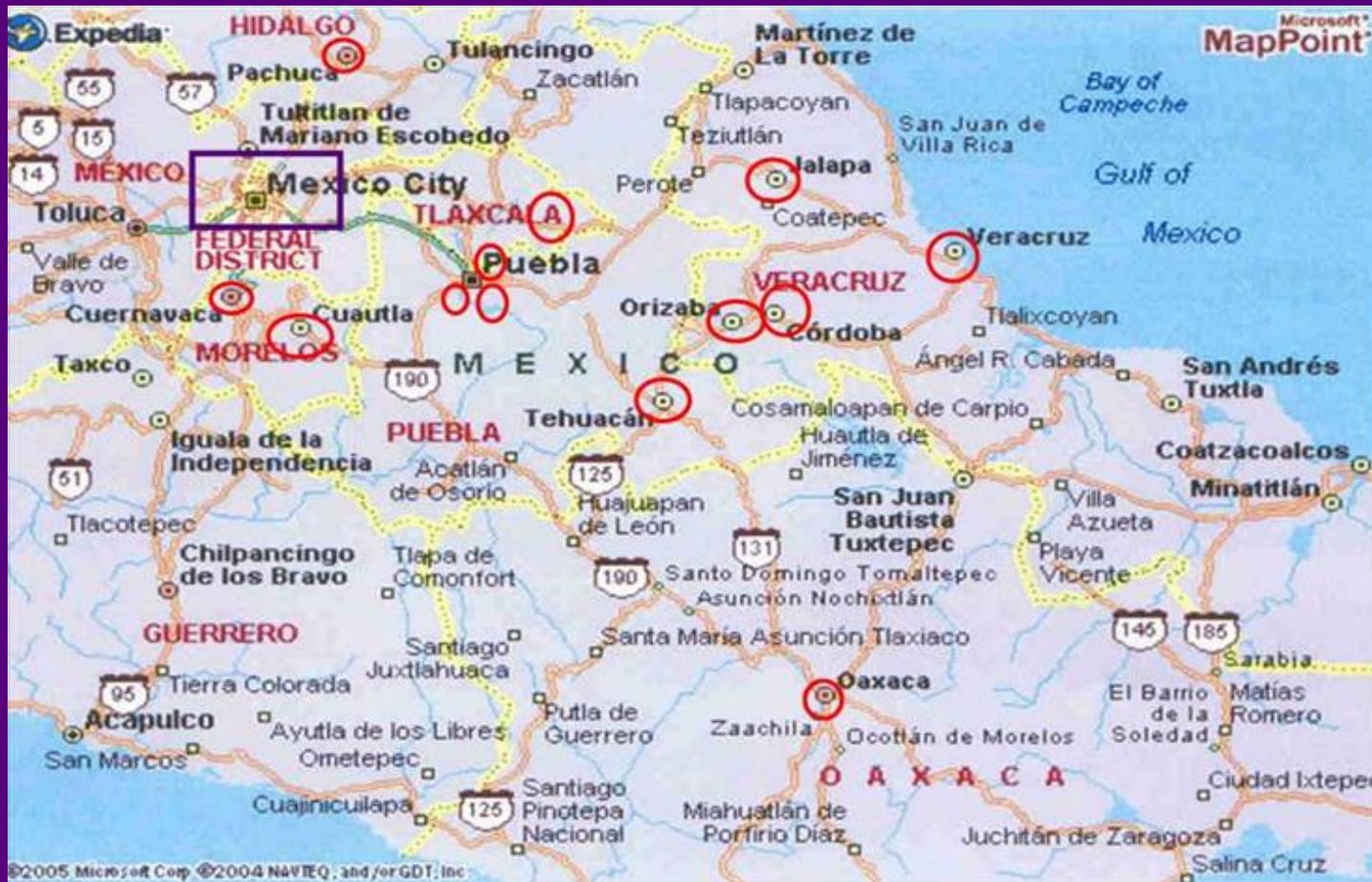
Sources: \*Internal market research commissioned 2005, \*\*Business Monitor International 2005 \*\*\*

ANTAD - Mexico's largest retailer association

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# Mexico: locations

Current locations



## Mexico: growth

## Results

	6 months to June 2005	12 months to Dec 2004	12 months to Dec 2003
Customers (000)	63	35	3
Representatives	1,192	624	116
Employees	275	163	40
Credit issued £m	6.2	3.9	0.2

# International development

## Lessons learned

- > UK home credit model can be successfully introduced overseas
- > Customer and agent relationship similar in all countries
- > Good quality, well educated workforce essential
- > Key early skills - recruitment, training, advertising, brand building
- > Simple, distributed IT systems a strength
- > As arrears work builds, added support and training required
- > Need to balance growth, costs and bad debt

# Summary

- > Excellent prospects for growth international markets
- > Reach customer targets in existing markets
- > Deliver operational efficiencies and profit targets
- > Maintain brand strength and market position
- > Possible selective product additions where market is right
- > Controlled expansion in Mexico
- > New countries

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