moneybarn
Vehicle Finance

Shamus Hodgson
Moneybarn Managing Director

In the five years since acquisition by PFG, Moneybarn has become one of the largest suppliers of vehicle finance to underserved customers in the UK.

320
Colleagues

77k
Customers

£30.9m
Adjusted profit before tax

£502.1m
Year-end receivables

Executive summary

Who we are
- A leading player in vehicle finance for those underserved by mainstream lenders

Current position
- Strong consistent growth and ROA record
- No impact from FCA review of motor finance market and no known regulatory headwinds on the horizon

Growth ambitions
- Positioned for strong growth over the medium term in current markets
- Longer term, well positioned for move into adjacent near prime, expanding our addressable market

Financial targets
- Resilient business model (only secured hire purchase) and customers
- Funding opportunities
- Targeting c.£750m receivables and c.10% ROA in the medium term

Certain alternative performance measures (APMs) have been used in this report. See page 237 for an explanation of relevance as well as their definition.

> The business has a strong track record, delivering high levels of growth and strong returns, and is in an excellent position to continue to deliver profitable growth in the medium term from existing and adjacent markets.
>
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Introduction and development of new asset classes that resonate with Moneybarn's target customer base

Moneybarn – financial performance

In the five years since acquisition by Provident Financial, Moneybarn has become one of the largest suppliers of vehicle finance to underserved customers in the UK. The business has a strong track record, delivering high levels of growth and strong returns, and is in an excellent position to continue to deliver profitable growth in the medium term from existing and adjacent markets.

	Year ended 31 December		
	2019 £m	2018 (restated)[1] £m	Change %
Customer numbers ('000)	77	62	24.2
Year-end receivables	502.1	416.4	20.6
Average receivables[2]	481.5	395.1	21.9
Revenue	122.0	104.3	17.0
Impairment	(41.8)	(34.4)	(21.5)
Revenue less impairment	80.2	69.9	14.7
Revenue yield[3]	25.3%	26.4%	
Impairment rate[4]	8.6%	8.7%	
Risk-adjusted margin[5]	16.7%	17.7%	
Costs	(20.9)	(19.9)	(5.0)
Interest	(28.4)	(21.9)	(29.7)
Adjusted profit before tax	30.9	28.1	10.0
Exceptional items[6]	2.6	—	n/a
Statutory profit before tax	33.5	28.1	19.2
Cost income ratio[7]	17.1%	19.1%	
Return on assets[8]	10.0%	10.3%	

1 2018 comparatives have been restated for the changes in recognition of revenue on credit impaired receivables and treatment of directly attributable acquisition costs which have resulted in a reduction in revenue, impairment and costs but have had no impact on Moneybarn's profits.
2 Average of month-end receivables for the 12 months ended 31 December.
3 Revenue as a percentage of average receivables for the 12 months ended 31 December.
4 Impairment as a percentage of average receivables for the 12 months ended 31 December.
5 Revenue less impairment as a percentage of average receivables for the 12 months ended 31 December.
6 Represents an exceptional credit of £2.6m (2018: £nil) in respect of the release of provisions established in 2017 following completion of the FCA investigation into affordability, forbearance and termination options at Moneybarn.
7 Costs, before exceptional items, as a percentage of revenue for the 12 months ended 31 December.
8 Adjusted profit before interest after tax as a percentage of average receivables for the 12 months ended 31 December.

Moneybarn – financial performance continued

Moneybarn's adjusted profit before tax increased by 10.0% to £30.9m in 2019 (2018: £28.1m). The business has continued to deliver strong new business volumes and receivables growth although profits growth has been impacted by a modest reduction in margins and increased funding costs as Moneybarn has been allocated a more appropriate share of Group funding costs in 2019. Moneybarn's statutory profit before tax increased by 19.2% to £33.5m (2018: £28.1m), a higher rate of increase than adjusted profits. This reflects the benefit of an exceptional provision release of £2.6m (2018: £nil) following finalisation of the FCA investigation into affordability, forbearance and termination options.

The non-standard vehicle finance market remains competitive. However, demand for used cars has remained robust and new business volumes have been very strong. Continued development of core broker-introduced distribution channels, including revising affordability processes and a number of other operational developments, has resulted in a better customer experience and reinforced Moneybarn's position amongst its broker network. As a result, new business volumes in 2019 were 30% higher than last year. Due to the particularly strong growth in new business volumes in the first three quarters of the year and the emergence of a modest deterioration in impairment trends, underwriting was tightened early in the fourth quarter to remove the bottom tier of higher risk customers. Accordingly, fourth quarter volumes showed a lower year-on-year growth rate of 14%. Customer numbers ended the year at 77,000, up from 62,000 at the end of 2018 and showing growth of 24.2%.

Receivables showed strong growth of 20.6% to £502.1m (2018 (restated): £416.4m). This was a lower rate of growth than the 24.2% increase in customer numbers, reflecting the sale of delinquent debt with a modest carrying value in December. This was the first sale of delinquent debt since the commencement of the FCA investigation in 2017.

The redress required to resolve the issues arising in respect of the FCA investigation into affordability, forbearance and termination options was completed in the third quarter of 2019 and Moneybarn received the final notice from the FCA in February 2020. The total cost of the investigation is lower than the original £20m set aside at the end of 2017, and, accordingly, £2.6m of the provision has been released as an exceptional credit in 2019. The remaining provision held in the balance sheet of £2.8m (2018: £7.5m) reflects the cost of the fine based on the final FCA notice.

Revenue has increased by 17.0% to £122.0m (2018 (restated): £104.3m) compared with the growth in average receivables of 21.9%. The revenue yield has reduced from 26.4% (restated) in 2018 to 25.3% in 2019 reflecting the impact of the tightening of underwriting which has removed higher-yielding, lower-quality business and the cessation of charging default fees during 2018.

Default rates and arrears levels were stable in the first three quarters of 2019, continuing the trend experienced since the end of the first quarter of 2018. However, the final quarter of 2019 showed a modest deterioration in impairment trends reflecting (i) the flow through of higher-risk customers prior to the tightening of underwriting early in the fourth quarter; and (ii) the impact of stronger than forecast growth in new business volumes earlier in the year as Moneybarn's peak in defaults is approximately nine to 12 months following inception of a loan. Accordingly, Moneybarn's impairment rate of 8.6% in 2019 was in line with last year (2018 (restated): 8.7%), having tracked at a lower rate of around 8.0% earlier in the year. The tighter underwriting standards being applied throughout the fourth quarter together with improvements in collections processes are expected to stabilise impairment trends in 2020.

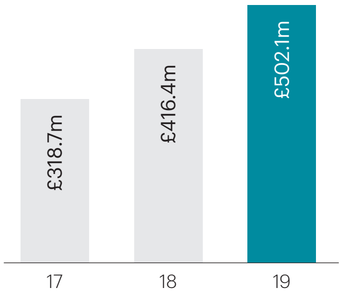
The modest fall in the revenue yield and the stable impairment rate has resulted in Moneybarn's risk-adjusted margin reducing from 17.7% (restated) in 2018 to 16.7% in 2019.

Cost growth of 5.0% in 2019 is stated after the benefit from an estimated VAT recovery of £2.0m. Excluding the VAT recovery, cost growth was 15.0%, lower than the growth in revenue of 17.0%, as the business has delivered some operational leverage.

Due to the strong growth in the business over recent years, Moneybarn has recently moved into new premises, very close to the existing site in Petersfield. The new office will accommodate up to 420 employees, compared with headcount of 320 currently, and will support growth well into the medium term.

Year-end receivables

£502.1m



Interest costs have shown growth of 29.7% in 2019, higher than the 21.9% growth in average receivables. This reflects an increase in Moneybarn's Group funding rate as the cost of funding the non-bank segment of the Group has increased following Vanquis Bank becoming fully funded through retail deposits during the second half of 2018. Moneybarn's funding rate in 2020 will benefit from the recently signed securitisation of its receivables book.

Moneybarn has delivered a return on assets of 10.0% in 2019, marginally lower than 10.3% (restated) in 2018, but in line with the Group's target of 10%.

Moneybarn – growth initiatives

Moneybarn's medium-term target is to deliver £750m receivables (currently £502m) whilst maintaining an ROA of approximately 10%. The business continues to expect continued growth in its core products as the use of car finance on used car purchases continues to rise from relatively modest penetration levels. In addition, the business is pursuing a number of strategic initiatives to support delivery of its targets. In particular, Moneybarn continues to explore opportunities to extend its product offering and distribution channels through:

- expansion of relationships with lead generators and quotation search partners such as ClearScore, Confused.com and Totally Money, leveraging Moneybarn's quotation search and digital onboarding capabilities;
- introduction of a re-solicitation programme to retain high-quality customers who currently settle early and move to other lenders;
- continuing to develop the B2C proposition, including using the Vanquis Bank app to offer bespoke Moneybarn products to Vanquis Bank customers which is now live; and
- introduction and development of new asset classes that resonate with Moneybarn's target customer base, such as light commercial vehicles, motorbikes and touring caravans as well as products tailored to the self-employed.

In addition, Moneybarn is developing plans to move further into the near prime segment, leveraging its scalable platform and the Group's funding base. This would significantly increase the size of Moneybarn's addressable customer base.

Moneybarn – management changes

After 12 years with the business, Shamus Hodgson, Managing Director of Moneybarn, will step down from his role at the end of March 2020 to pursue other career opportunities. Malcolm Le May, the Group's Chief Executive Officer, will become Managing Director of Moneybarn on an interim basis. The search for a successor has already commenced. The Board would like to thank Shamus for his leadership of Moneybarn since taking over as Managing Director three years ago and his role in establishing Moneybarn as the UK's leading provider of vehicle finance to the underserved.