# Chief Executive Officer's Review

## I am very pleased to report that 2018 was an even stronger year for Morses Club, reflecting our continued success in serving our core HCC market, delivering good customer outcomes and careful implementation of our prudent credit policy.

**Paul Smith**
Chief Executive Officer

**93.5%**

**Likely to recommend us to family and friends[1]**

1 Independent market research (Mustard) 2017/18

## Our Values

### Performance

Performance during the period was strong and in line with market expectations. Revenue grew by 17.1% to reach £116.6m (FY17: £99.6m) and total credit issued[1] increased by 21% to £174.4m, with new territory builds being the principal driver.

Customer numbers reached 229,000, an increase of 6% relative to the previous year (FY17: 216,000). The proportion of our gross receivables represented by our highest performing customers increased by 18.0%, further demonstrating our focus on building a high quality customer base.

At 26.1% of revenue (FY17: 24.4%), our impairments[1] for the period were in line with our original forecasts in spite of the growth we achieved over the period.

The year also saw a reduction in our operating cost ratio[1] relative to last year, driven by technology.

As announced in August 2017, our revolving credit facility increased from £25m to £40m with the addition of a high street lender to sit alongside our existing funder, Shawbrook Bank, and the facility has been extended to August 2020.

### Strategic Growth Initiatives

We remain very much focused on our core home collected credit (HCC) business, and serving our customers in the traditional manner via our network of self-employed agents, as we believe this is the most appropriate way to serve customers in this part of the market. We have a 14.6%[2] share of the known traditional market. Our primary objective remains to strengthen our home collected credit business, to make it more efficient and profitable, seeking growth via acquisition as well as by organic means.

In addition, we are looking to grow in attractive areas that are complementary to our core business. Our growth initiatives are built on our thorough understanding of the market, the depth of our experience in home collected credit and our close relationships with customers.

Our strategy is based on a balance between our experience and prudent approach to lending, allied with diversification and technology. Whilst we recognise and respect the heritage of the business, we are striving to balance tradition with the modern-day needs of our customers. Our customer and people-centric approach means that we seek to remain relevant to our customers thus retaining their loyalty.

### Territory Builds

We recruited c.600 agents and managers during the year, capitalising on the unique opportunity presented in the market. After filling vacancies, this translated into 463 territory builds in FY18. Despite this attractive opportunity, we did not lose sight of the need to grow in a controlled manner. We applied stringent criteria in our selection of agents, and were careful not to cause operational disruption to the core business.

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 98 to 99
2 Market share based on 1.6 million people who regularly borrow using HCC

**Our customers will always be at the heart of everything we do.**

**We will be direct and transparent in how we deal with everyone.**

**Our systems and processes will be simple and clear.**

**We will show forbearance and flexibility, offering our customers products which match their needs.**

# Chief Executive Officer's Review *continued*

Bringing on new agents with contacts in the communities they serve is the most efficient way to access high quality loan books and loyal customers. This is reflected in the proportion of loans attributable to the best paying customers, which increased by 18% (FY17: 10%).

Initial subsidies to maintain agents' income during their first year means that it can take up to 12 months for territory builds to become profitable as agents build up their loan books. Agents recruited in the financial year primarily joined us in July and August 2017 and are largely performing ahead of expectations.

## Product Development

Customer satisfaction is at the heart of our model, critical as it is both to customer retention and word-of-mouth recommendations, an important source of organic growth. We are proud that the customer satisfaction rating independently measured every month was 95% or above. As well as tracking satisfaction and identifying areas to improve, these monthly surveys also yield crucial insights into what customers would like to see as part of our proposition.

Grounded firmly in our core business, we have continued investment to enhance our offer in line with evolving customer needs and to keep Morses Club at the forefront of the HCC and wider non-standard credit sectors.

Launched in 2016 and the only current cashless card in the mainstream sector, the Morses Club Card enables customers to make purchases online as well as on the high street. Interest in the card continues to grow, with over 21,000 customers and over £10.6m in loan balances, an increase of 172% from FY17.

Through our close contact with customers in our regular surveys as well as millions of face-to-face meetings with people at their homes, we have seen an increasing interest in digital communications and digitally based products. The significant investment we have made in our technology platform now enables us to develop our digital offering to give customers the products and communication channels they tell us they want. Initiatives such as digital customer acquisition routes and the recent launch of our customer portal in a test phase are not designed to supplant customer relationships with the agent, but rather are moves to enhance the customer experience in an increasingly digitised world.

In March 2017, we launched our online instalment product, Dot Dot Loans, with a view to testing the market and optimising the proposition for online customers. Dot Dot Loans provides a significant opportunity to access a different segment of the non-standard credit market; the 1.6m people accessing the HCC market, and there are a further 8-9m non-standard credit consumers using other products and services. Following the opportunity to add a large number of territory builds to our business during the year, management decided to prioritise resource to our core business. Attention will turn back to Dot Dot Loans in 2018/19, both for organic growth of the platform and also prospective non-standard credit acquisitions. We are taking a conservative approach to growth, however, and will use this extended test phase to make sure that our solutions work for customers and are in line with our risk appetite.

We see the investment in our customer service platforms and our wider technology as relevant to our strategic journey to serve other parts of the non-standard credit market. We are focused on broadening our offering in areas where our customers have identified a need for more flexible and attractive products. We are continuing to invest in development to take us into these adjacent markets, as well as evaluating suitable acquisition targets to accelerate our journey. Our long-term strategy is based on enhancing the offering to our customers to increase loyalty.

## Efficiency Initiatives

Technology has also enabled us to automate processes and eliminate paperwork. This frees up agents to concentrate on customer service and to serve more customers, whilst also enhancing our compliance performance and streamlining our operational cost base. Management data is now integrated onto a single platform, and a full affordability platform was embedded during the year, capturing evidence of income and linked to Credit Reference Agencies, to ensure that any loan offered to a customer is affordable.

We see further scope for technology to provide efficiency gains.

## Market Developments

In May 2017, Morses Club received full Financial Conduct Authority (FCA) authorisation, following a period of operating under interim permission. We consider ourselves to be well developed regarding regulatory compliance developments, supported by technology. We believe that smaller home collected credit firms may seek to exit the market as they begin to struggle to keep pace with the FCA demands on technology and auditability, which will create opportunities for us to continue loan book acquisition.

From a regulatory perspective, the FCA has been conducting surveys into home collected credit, as well as the rent-to-own and catalogue sectors, and is evaluating affordability and repeat lending for the review of High Cost Short Term Credit (HCSTC), which is due to be published in May 2018. The technology developments launched in the past year, which will be further enhanced in the coming year, are designed to evidence good customer outcomes. We continue to have open and positive dialogue with the regulator.

In these times of uncertainty surrounding the outcome of ongoing Brexit negotiations, it is worth pointing out that we are based solely in the UK, and our market has been demonstrably recession-proof, as evidenced by the growth we have seen throughout our 130-year history.

### People

There have not been any changes at Board or strategic executive level during the period. The team continues to deliver our long-term strategic vision, and comprises a cross-functional skillset from different sectors.

The inherently collaborative approach among senior management extends throughout the culture of the organisation and is a key factor in our increasingly high levels of employee engagement (in our 2017 survey, 75% of employees reported being satisfied with Morses Club, up from 55% in 2015). In addition, we conduct an annual agent satisfaction survey, with overall satisfaction results being 77% (up from 70% in 2016) and our agency vacancy rates are currently trending at less than 3%.

All of our staff members, subject to the qualifying criteria, are eligible to participate in the Company's share bonus scheme, helping to align employee and Company performance.

The strong performance of the business and high levels of customer, agent and employee satisfaction would not be possible without the dedication of all of the people who work for and with Morses Club, who share our vision, values and commitment to treating customers fairly.

### Dividend

The Board is delighted to declare a final dividend of 4.8p per share (FY17: 4.3p), subject to shareholder approval. The full year dividend is therefore 7.0p (FY17: 6.4p).

The dividend of 4.8p per share will be paid on 27 July 2018 to ordinary shareholders on the register at the close of business on 29 June 2018.

### Outlook

We have had a positive start to our next financial year and as such, we are confident in our outlook, as we seek to further strengthen our position in our core HCC market, whilst also diversifying our offering into complementary areas. Our investment in technology will continue to improve operational efficiencies and allow us to serve our customers in more flexible ways.

We remain well positioned for growth and believe that as the market continues to develop, in light of potential regulatory change and customer demand, this provides opportunities for further acquisitions both in our core HCC market and wider markets.

**Paul Smith**
Chief Executive Officer
26 April 2018