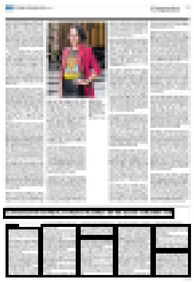

Australian Financial Review
Tuesday 29/12/2020
Page: 29
Section: Companies and Markets
Region: Australia, AU
Circulation: 38015
Type: National
Size: 242.00 sq.cms.

Collection House board stands firm after lifeline hit

Liam Walsh

The board of troubled debt-chasing outfit Collection House is standing firm after it sold off a chunk of its assets to industry rival Credit Corp in a cut-price deal.

The $160 million sale of ledgers – bundles of debt purchased from institutions such as banks – means Brisbane-based Collection House will now book a loss of $145.1 million for the past financial year.

But it also provides a lifeline of cash to recapitalise Collection House, whose auditors, in accounts filed on Christmas Eve, warned of significant uncertainty about the 920-staff operation continuing as a going concern.

"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," Collection House said in a statement to the ASX.

The deal crowns a chaotic 18 months for Collection House, which uses cartoon character "Kash" for customers repaying debts online.

The period included the company standing by – and then backflipping on – a controversial aggressive practice of filing bankruptcy actions against people to seek debt repayments.

The company has also reassured investors about the practice of purchasing debt ledgers, which are acquired at a discount rate in anticipation that debt collectors can reap back more as profits.

Overpaying for ledgers and overestimating how much can be recouped are key risks.

In 2018, Collection House chairman Leigh Berkley told investors that boosting technology had produced a "high level of confidence in our analytics [which] has enabled us to be a more aggressive acquirer of [debt ledgers], and in the past 12 months the company has purchased 39 per cent more [ledgers] than in the prior year".

Collection House's latest announcement said it had earlier in 2020 decided to write down ledgers, after changes to soften collection strategies.

But it had also "elected to finance" earlier ledger purchases "mostly with debt, the maturity of which was mismatched to the longer-term duration of the cash flows from the underlying [ledger] assets".

The latest announcement pointed out Collection House will book a $239 million impairment on the last carrying value of the ledgers following the sale.

The company said no changes to the board were proposed in connection with the debt ledger sale.

A spokesman told *AFR Weekend* that historical ledger purchases had been made at industry average prices and asset valuations had been based on changes to collections approaches and COVID-19 pressures on business.

For Sydney-based Credit Corp, the deal is tipped to boost profits by $10 million for this financial year alone.

It upgraded net profit guidance to between $70 million and $85 million.

Credit Corp said the ledgers being bought had ongoing payment arrangements – deals with customers to pay back money over the long term – of almost $200 million in face value.

"We think it's a fair price," Credit Corp chief executive Thomas Beregi told *AFR Weekend*.

Credit Corp is also offering a short-term $15 million loan, which is expected to be repaid in nine months.

Investors in Collection House were spooked in November 2019 when then chief executive Anthony Rivas suddenly resigned.

Collection House's accounts show it paid him $117,000 in termination payouts.

By February 2020, citing a review of collection practices after the backlash of bankruptcy tactics, the company suddenly warned of cuts to ledger values.

The book value of ledgers remaining at December 2019 was $338 million, although some industry watchers were worried that that was still too high.

Collection House said the book value compared to this sale price reflected changes in the past nine months, such as collections in the interim, a decision to retain some ledgers and the outlook for collections in the pandemic.