Vanquis Banking Group FY 2024 Results

Analyst and Investor Conference Call Q&A

14 March 2025

(Transcript amended in places to improve accuracy and readability)

Gary Greenwood, Shore Capital

Thanks for taking my questions. Morning. I've got a couple, if I can, and they're linked. First one's just on your growth trajectory, which has obviously been moderated. I just wanted you to contextualise that in terms of the size of the market opportunity and whether that market opportunity is still as large as you previously thought it was or indeed if it's actually maybe got a little bigger post the Budget.

Secondly, just with regards to the growth in Second Charge Mortgages, which looks to be prioritised at the moment, just to invite you to talk about why you see that as so attractive. What are the customers like that you're lending to there? Why are they borrowing? Just a little bit more colour around that, if you can. Thank you.

Ian McLaughlin, Chief Executive Officer

Gary, thank you. Two really helpful questions. If I take them in the order you gave them. It was a challenging year, as I said - I can't remember how many times I've used the word challenging in that presentation - but we do see the opportunity as big if not even bigger, as you said, than we did when we talked at our half year results or even back when I started at the beginning of 2023. Depending how you cut it, there are up to 24 million customers in the UK who at some stage struggle to access credit from the mainstream lenders, and that's who we're there to serve. We do see the opportunity as extensive. We've got about 1.7 million of those customers so far. The upside opportunity for us is definitely there. We're feeling good about that.

If we turn then to your point on mix, and Second Charge Mortgages in particular - we've got a balanced portfolio here. We're growing in Savings. We're back to growth in Cards. Vehicle Finance has been very difficult to track through and obviously a lot of uncertainty until we get to the other side of the Supreme Court hearing. But Second Charge Mortgages is one where that market is growing, and actually it fits really nicely into where we serve customers. We've got a couple of thousand customers on the books now.

Impairment is near to zero. That's really encouraging, although it is early days for a mortgage book. But interestingly, 65% of the customers that we've done second charge mortgages for are using them for debt consolidation, so right in that core customer group of stretched but managing. They're restructuring their finances. 85%, so another 20%, have partial debt consolidation in the second charge mortgage. We really like the market. We're market leaders in terms of volume now, so that's pretty good from a launch in May, which proves we can launch products well and get them to growth. We do feel that we are serving a lot of our core customers in that space as well.

Rae Maile, Panmure Liberum

Morning. Thanks. Just coming back on that point on growth. Although you've moderated the end point in terms of receivables, obviously you sold personal loans, which presumably was in the prior target, but what words can you tell us to reassure the market about why compound growth of 14% is going to be delivered? Because it's obviously faster than you've been doing more recently.

Then, the other challenge this morning has been obviously the shifting in the ROTE target. Can you help us talk through the movement in the ROTE target between the impact of a faster rate of growth, this 14% receivables growth, and the IFRS9 drag because of that, the move to statutory rather than adjusted profits, and any other issues within there as well?

Ian McLaughlin, Chief Executive Officer

Yes. Thanks, Rae. I'll get Dave to comment on personal loans, because that is an important one in terms of cleaning up the portfolio that we've got. I think the very simple answer to your question, Rae, is we've had so much to sort out through 2024 that we've been prudent about making sure that where we are growing, and as I said, we are back to growth from Q4. That's continued into Q1. We're pleased about that.

But it's measured growth. We spent a huge amount of time unpicking the portfolios that we had in this business to understand what profitable, engaged customers looked like and to make sure that we were adjusting the book to reflect that, and our flow of forward new business to reflect the customers that we want to bring into the book, that we can help them and serve them well but they actually generate the right sort of returns. We are feeling that we have cleared the decks now and that we can concentrate on growth, but the right type of growth at the right rate. We're feeling pretty good about that.

Obviously, it's disappointing to push our guidance out a bit, but it is a reflection of all the things that we discussed at the first half last year that we have had to resolve and deal with. As you said, there's a balance when it comes to growth of new credit business that the IFRS9 drag means that we want to do that in a measured way.

But we do see a real opportunity, as I said in answer to Gary's question. The market space is there, and we are already growing, which is good. I think that gives us that confidence to move from an adjusted to statutory basis as well, which is a reflection, we believe, that the sort-out of the back-book is behind us. But Dave, I don't know if you want to add anything to those points?

Dave Watts, Chief Financial Officer

Yes. Morning, Rae. On the personal loans, I think this is a good, positive action by the organisation. This portfolio was in run-off. What we've done now is brought that forward, realised a small gain, freed up capital, which we can deploy into other better returning products, which is what we're all about. How do we deploy our capital properly for profitable growth? Secondly, to the marketplace concept we're trying to move towards, we are now looking to put in place a partnership arrangement with another provider. Where we have customers who need a personal loan, we can refer that onto them and earn potentially a small fee without using capital to deliver that on behalf of our customers.

Ian McLaughlin, Chief Executive Officer: Hope that helps, Rae.

Rae Maile, Panmure Liberum

Great, thank you. Yes, that's great. Can I ask one quick supplementary, which is how you see the cost of complaints developing over the next couple of years, with all the changes with the FOS, to what extent has that already started to curtail new complaints being made?

Ian McLaughlin, Chief Executive Officer

It's one that's under close watch. Obviously, we've got a structural change, as I described in my presentation, from 1 April. That is really helpful. As I said, we don't think it goes far enough, but we still welcome it. That will have a material impact. The numbers that Dave and I quoted about the cost of complaints, and FOS fees in particular, I think we described as eye-watering. I think that was probably understating it. I always look for structural changes rather than hope on these things, and the fact that CMCs will now have to pay that £250 fee for an unmerited or not upheld complaint I think will make a significant difference. Obviously, we're waiting to see what their behaviours are.

I should say, I do talk about CMCs as if they're a homogeneous group. There are some really good CMCs out there as well, and we welcome their help, but it's the ones that are generating the vast amount of unmerited complaints that have been a big drag and a big pressure on our cost base. We're looking forward to seeing that resolve itself as we go through.

Obviously, the Vehicle Finance Court of Appeal ruling that I referred to interplays with that, because CMCs may or may not be involved in whatever happens there. There was a very helpful update from the FCA that was effectively excluding CMCs potentially, albeit only at a consultation level at this stage. So, we've got a bit of uncertainty still there, but it's uncertainty on a positive path, Rae, is the way I would describe it. It may be slightly better or slightly worse, but it's still going to be better than last year. That's our hypothesis. Again, Dave, anything you want to add on that?

Dave Watts, Chief Financial Officer

Probably a couple of things, Ian, if you don't mind. The £250 has to be paid upfront by the CMC when they submit the complaints in place there. Secondly, if the situation were to continue where the uphold rate is one in 10, that's quite a high cost that they have to absorb to do that, upfront. Therefore, we've laid out, with expectation for that, the cost to be reduced going further forward. But clearly, we need to look at the behaviour both of our customers and CMCs over the next month to see how they react to the new charging mechanism, which we welcome.

Ed Firth, KBW

Morning, everybody. I just had a couple of questions, actually. When I think back [over the last] 12 months when you did your big Strategy Day, I can think off the top of my head, there were certainly two or three massive uncertainties in terms of Motor Finance redress, people were talking anything up to £100 million. The FOS [complaints] were on an upward trajectory and out of control. Your Stage 3 balances review balances, there were some big numbers coming out of that as well.

I can't really see anything similar where we're sitting today, and yet, the share price would suggest that things have got worse. My first question is to try and square those two. Are there similar uncertainties? £[23] million on commission on redress against £360 million tangible book seems to be not immaterial, but it's not far off. I'm just trying to get a sense of where we stand today. When you look at your tangible book, where can you see the big hits that are going to come, relative to 12 months ago and where we are today? That's my first question.

My second question, everybody keeps talking about growth, but it seems to me that the most fantastic investment at the moment would be for you to buy your own shares, which I guess you couldn't do a year ago, because you had these massive uncertainties, and I guess the regulator wouldn't have let you. But does there come a point where you start thinking to yourself (I think you're trading on about two times consensus '26 earnings), you could buy your own shares. I can't believe there's a single investment that's better than that.

At what point do you start saying to yourself, yes, we're doing good for the community, we're being good citizens, we're providing the underserved with financial products, but ultimately, we're using shareholders' money for that. Shareholders are not a charity, and ultimately, we just have to start giving the money back and moving on. Thanks very much.

Ian McLaughlin, Chief Executive Officer

Ed, thank you. Two good questions there. On the first one about uncertainties versus where we were a year ago, Dave, you can comment on this as well, but I feel we are in a fundamentally stronger position than we were 12 months ago. We had emerging issues, whereas now we've got crystallised issues, and they're in the rear-view mirror rather than in front of us. As I said in my comments, I'm sure there'll be other challenges that will emerge, but I can't imagine they will be of quite the scale of what we've had to deal with through 2024. We are feeling, as I described, optimistic as we look forward.

Turning to your second point, I think this interplays with what should we do with our capital? It's almost back to Gary's question. We see such an opportunity in front of us, and it's always a trade-off and a matter for the Board about how we deploy that capital, but we do understand the question. We get it quite regularly about share buy-backs. But our plan is to deliver our plan. We think we'll create really strong, sustainable value by deploying our capital into serving the needs of our customers.

I hear you on the, shareholders are not a charity, and goodness, I said last March, I really feel for our shareholders who have been with us for quite a big amount of time through this journey, but we do feel we're on a great path now and a path that can deliver the returns that everybody's looking for. We're starting to see that in our numbers that describe Q4 and Q1 growth. That is our plan as we stand at the minute. Dave?

Dave Watts, Chief Financial Officer

Just to reiterate the comments you made there, Ian, we don't see any big hits coming on, hence the reasons why we moved to statutory reported basis in our guidance from there. We feel very comfortable that's behind us. It's now all about profitable growth. We see it started coming through in the fourth quarter. 2% growth in receivables there, it's coming through in January and February. So, we need to monetise the opportunity we have in front of us.

Ed Firth, KBW

Great. Can I just come back on that, then? If I'm looking at your, whatever it is, £360 million tangible book, something like that, the only way you justify your current share price, if there aren't big hits ahead of you, is if one assumes that in 12 months' time, you're going to be rolling forward your targets another 12 months, and you're persistently going to be delivering low-single-digits returns forever. I guess that's the context of my question. At what point - if that was to happen, if we were to be six to 12 months down the line, and you were seeing that happening again, is that the stage at which you then say, okay, guys, we haven't destroyed any tangible book [value], so let's call it a day and start returning the cash?

Ian McLaughlin, Chief Executive Officer

It's a perfectly reasonable question, Ed, but I don't think it's right for us to get drawn into that. As I said, our plan is our plan on record that we've put out. Our focus is on delivering that plan. If you look at what we've done in terms of sorting out the back-book, getting our costs under control, getting our pricing discipline in, I think you will see why we want to have the time now to demonstrate the returns on that. I'm not even going to contemplate the scenario where that doesn't work, frankly. Our focus as a Management team is making that work, and that's what you'll see us do.

Dave Watts, Chief Financial Officer

Our guidance is clear. We've got low single digits [ROTE] in 2025. We see it being low double digits in 2026 and moving to mid-teens ROTE in 2027. Why is that? We have to deploy our capital over the next couple of years to get growth. You have the natural unfortunate impact of IFRS9 upfront, where you take the cost upfront. That's why it's low to start off with. It should build over the coming two years.

Portia Patel, Canaccord Genuity

Morning. Thank you for taking my questions. I've got two, please. Firstly, just going back to receivables. I wondered if you could provide a rough expected split of receivables in 2026, as you did in the Strategy Update? I think at that time, you were targeting 50% Credit Cards - this is roughly - 33% Vehicle, 17% Second Charge. But it sounds, from the commentary today, like you are emphasising Second Charge more prominently. An update on that would be very helpful.

Secondly, I wondered, with respect to Vehicle Finance, now that you've cleaned up the receivables back-book, you have no exposure to the discretionary commissions issue, and your exposure to the hidden commissions investigation seems limited, why wouldn't you choose to capitalise on the disarray in vehicle finance with respect to some of your peers and target stronger growth in this area?

Ian McLaughlin, Chief Executive Officer

Portia, thank you. Two super questions. I'll come to Dave in a second on the receivables split, but we've been very clear that our guidance is £2.6 billion from where we are now by the end of '25 and then £3 billion by the end of 2026. The mix between that will always be dynamic. But we have a plan, and you're right, Second Charge Mortgages we like. Has launched probably slightly better than we anticipated it. We've got a really good partnership in place there and a market that is in itself growing. We do see opportunities that we want to take there.

Likewise, your point on Vehicle Finance. Fundamentally, the biggest bit of our book is our Cards business, and we are really focusing on making sure that we're growing receivables in the right way in that. But Vehicle Finance is an interesting one. We'll be back, I think it's 14 May to update on Q1. But we're pleased with what we're seeing in Vehicle Finance here today, so I'll do that as a bit of a teaser maybe, Portia, to your question. There is an opportunity there, and while we haven't got the tech that we want to build that business on deployed yet, that will be mid-2026, we are actually seeing some pretty good performance coming through, and that gives us some options about where do we want to deploy capital and how do we want to manage that mix between our asset products. Dave, anything you want to add?

Dave Watts, Chief Financial Officer

Just a couple of points to add there, Portia, and thanks for your questions. If you think about when we provided our guidance, it was 27 March. That was before the review was undertaken on the Vehicle Finance portfolio. Obviously, that was a negative when we uncovered those issues at half year and which we reported on. That is now behind us on that one there, but it does change the actual dynamic in growth. As Ian has already said, we are going to deploy our capital for the best returns we can get, and that's what we will do. We also want to do that on better technology, which we've got scheduled to come through in the mid part of 2026 for Vehicle Finance in place there.

Looking at Second Charge Mortgages, with our partnerships in place there, we're now in a leading proposition position. We've added on circa £30 million per month. It's had good returns associated with it, and it's a leading position on the products.

Ian McLaughlin, Chief Executive Officer

Okay. We are pleased as to the efforts we've put in to get ourselves to where we are. I'm confident, as I said in my remarks earlier, that 2024 will be remembered as the year where Vanquis did the things to get itself back fit to perform again, and we'll prove that over the coming quarters. The benefits are multiple, that comes out of pricing, cost savings, cleaning [up] the balance sheet. We are simpler, stronger and better positioned for growth now, and you can see that in the numbers. It's not a hope. It's actually tangibly coming through in Q4 and Q1.

I'd like to thank you for all your support. Thank you for the questions. They're always really helpful. I look forward to meeting you over the next couple of days, and thank you for your participation today.