News 2002

Press Release

Preliminary announcement of the final results for the year ended 31 December 2001

print this page

HIGHLIGHTS

Group

- Strong growth in turnover (up 14%) and customers (up 9%)
- Profit before tax up 5.9% to £169.6 million
- Earnings per share up 6.0% to 50.39p
- Full year dividend per share up 7.5% to 29.35p

UK home credit

- Steady growth in customers (up 2.0%) and credit issued (up 3.6%)
- Bad debt ratio at 8.3% of credit issued
- Profit before tax up 2.3% to £150.4 million

International

- Customer numbers up 208,000 (up 42%) to 708,000
- Poland profit before tax of £6.7 million (2000 £2.8 million loss)
- Czech profit before tax £2.5 million (2000 £0.1 million)
- Hungary and Slovakia successfully opened
- South African operation closed

Motor Insurance

- Another record year - profit up 14% to £36.6 million
- Policyholders up 8.5% to 855,000
- Gross written premiums up 16% to £255 million

"I'm pleased to report that Provident Financial continues to make good progress. We have an excellent record of growth and expect this to continue in 2002."

John van Kuffeler
Chairman
27 February 2002

Enquiries:

	Today		Thereafter
Media			
David Stevenson	0207 628 5646	(7.30AM - 1.45PM)	01274 731111
	0207 861 3232	(1.45PM - 4.00PM)	
Investor Relations			
Elizabeth Bottomley	0207 628 5646	(7.30AM - 1.45PM)	01274 731111
	0207 861 3232	(1.45PM - 4.00PM)	

Chairman's statement

I am pleased to announce our results for 2001. Strong growth continued during the year, with group turnover up by 14% to £833 million and group customer numbers up by 9% to 3.5 million (2000: 3.2 million). Group profit increased by 5.9% to £169.6 million, (2000: £160.2 million) after incurring losses and closure costs totalling £5.0 million from the South African and Provident balance operations that were closed during the year. Earnings per share increased by 6.0% from 47.52p to 50.39p per share. The directors recommend a final dividend of 17.6p (2000: 16.4p) giving a dividend for the year of 29.35p per ordinary share (2000: 27.3p), an increase of 7.5%.

Operations

UK home credit

The UK home credit division continues to make steady progress. Credit issued increased by 3.6%, customer numbers by 2.0% and profit before tax by 2.3%. Credit quality remains good with bad debt as a percentage of credit issued at 8.3%. The introduction of two new products during the year, a mail order catalogue and a motor insurance offer, made a useful contribution, adding £18 million to credit issued and attracting 44,000 new customers.

International

The international division has grown substantially during the year, achieving excellent growth in profit in Poland and the Czech Republic and successfully establishing new operations in Hungary and Slovakia. Our South African operation was unable to establish a profitable business model and so was closed. It reported a loss, including closure costs, of £3.6 million for the year (2000: loss of £0.8 million).

Our business in Poland performed very well, achieving a pre-tax profit of £6.7 million, an improvement of £9.5 million over the loss of £2.8 million in 2000. Credit issued grew 113% to £158 million while customer numbers rose 65% to 504,000. Bad debt as a percentage of credit issued rose to 7.5%. The underlying level of bad debt as a percentage of credit issued that we expect over the full term of the loans currently written also increased and is now in the range of 9% to 10%. This level of bad debt is acceptable given the rapid growth in the business and its excellent profitability.

Our Czech operation achieved pre-tax profit of £2.5 million, an increase of £2.4 million from £0.1 million in 2000. Credit issued rose by 26% to £53 million while customer numbers rose by 17% to 189,000. Progress in the year was slowed by a rise in the level of bad debt as a percentage of credit issued to 11.2%. The underlying bad debt as a percentage of credit issued now stands in the range of 11% to 12%, a level at which both profitability and return on capital remain good. The Czech team has performed well and has achieved a good result for the year.

We opened for business in March 2001 in Slovakia and May 2001 in Hungary. These are pilot scale operations designed to test our business model prior to a full launch. We currently have two branches in each country, a total of 15,700 customers, good collections and low bad debts. Both businesses are progressing well. The start up losses from the two countries in 2001 were £3.6 million.

The international division as a whole reported a pre-tax profit, excluding the losses of the discontinued South African operation, of £0.8 million (2000: £5.9 million loss). This is an encouraging result, reflecting an outstanding performance from the staff and management of the division.

Motor insurance

The motor insurance division had another record year, benefiting from conditions at the top of the motor insurance cycle. Profit before tax increased by 14% to £36.6 million (2000: £32.0 million) while policyholder numbers rose by 8.5% to reach a new peak of 855,000. Gross written premiums increased by 16% to £255 million.

Share buy-back

The group continues to be strongly cash generative and, in line with our policy of maintaining an efficient capital structure, we purchased for cancellation 3.8 million shares during the second half of the year at a total cost of £23.2 million and an average cost per share of 615 pence.

Prospects

Provident Financial has an excellent record of growth and we expect this to continue in 2002.

The UK home credit division is a substantial, profitable and cash generative business, serving 1.6 million customers. It has enormous strengths in the personal relationship between agent and customer and offers a product that is flexible, convenient and tailored to the customer's requirements. It is the leader in a UK market that is relatively mature. We expect growth from the division for 2002 to be at a similar rate to that for 2001.

We see excellent prospects for growth in customer numbers, credit issued and profit from our international division. We believe that there are other international markets offering the prospect for profitable development. In 2002, however, we intend to build on our success in central Europe, to focus on growing profits in Poland and the Czech Republic and to develop further our businesses in Hungary and Slovakia. It is not our intention, at this time, to open in a further country during 2002.

2001 has been another record year for profit from our motor insurance division and our policyholder numbers are at an all time high. There are now signs of a change in pricing conditions in the market. Our premium rates increased by 6% in 2001 compared to 17% in 2000 and, in a more competitive market, premium rates increased only slightly in the second half of the year. Although the outlook is uncertain, we believe the motor insurance market is at the top of the cycle and, with annual claims inflation running at about 9%, we continue to caution that a downturn in margins may begin in 2002.

I am pleased to conclude that Provident Financial continues to make good progress. We remain a profitable and sound business that is relevant to our customers. While preserving our traditional values, we're also working hard to shape our future - not least, by emphasising a culture in which Provident people are determined to win and can move quickly to seize new opportunities. We've shown we can do it in central Europe and expect to see a strong emphasis on performance, creativity and innovation across the business.

We look forward to continuing our good progress in 2002.

John van Kuffeler
Chairman
27 February 2002

Preliminary announcement of the final results for the year ended 31 December 2001

Consolidated profit and loss account

	2001 £'000	2000 £'000
Turnover	833,178	727,894
Operating profit and profit before taxation	169,610	160,219
Taxation	(45,795)	(42,613)
Profit after taxation	123,815	117,606
Dividends (note 3)	(71,788)	(65,810)
Retained profit for the year	52,027	51,796
Earnings per share (note 4)		
- Basic	50.39p	47.52p
- Adjusted	51.89p	48.19p
- Diluted	50.08p	47.27p
Dividends per share (net of tax credit) to ordinary shareholders (note 3)		
a) Interim - paid	11.75p	10.90p
b) Final - proposed	17.60p	16.40p
Total ordinary dividend	29.35p	27.30p

Dividend cover is:	1.72	1.74

The results shown in the profit and loss account derive wholly from continuing activities.

There is no material difference between the retained profit shown above and the historical cost equivalent.

Segmental reporting

Analyses of turnover and profit before taxation by class of business are set out below:

	Turnover		Profit before taxation	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
UK home credit	465,539	457,242	150,376	146,985
International home credit, excluding South Africa	99,615	40,187	758	(5,956)
Motor insurance	266,023	228,723	36,597	32,042
	831,177	726,152	187,731	173,071
Central	-	-	(13,081)	(10,570)
Ongoing operations	831,177	726,152	174,650	162,501
South Africa	1,964	1,714	(3,608)	(789)
balance	37	28	(1,432)	(1,493)
Total	833,178	727,894	169,610	160,219

Turnover between segments is not material.

Turnover and cost of sales for the UK home credit division in 2000 included the cost of goods sold to customers under arrangements with retail suppliers of £8,868,000. Divisional turnover net of these items was £448,374,000. In 2001, the cost of goods sold to customers under such arrangements has been excluded from turnover and cost of sales to better reflect the underlying nature of these arrangements. Turnover in 2001 in respect of these arrangements represents solely the revenue earned in the period on the amount of credit advanced to the customer. The 2000 figure for UK home credit turnover has not been restated as the impact is not material.

For the year ended 31 December 2001 the international home credit division, including South Africa, reported turnover of £101,579,000 (2000: £41,901,000) and a loss before taxation of £2,850,000 (2000: £6,745,000).

For the year ended 31 December 2001 the motor insurance division, including balance, reported turnover of £266,060,000 (2000: £228,751,000) and a profit before taxation of £35,165,000 (2000: £30,549,000).

The international home credit result before taxation, excluding South Africa, can be analysed as follows:

	2001 £'000	2000 £'000
Poland	6,746	(2,769)

Czech Republic	2,455	87
Hungary	(2,257)	-
Slovakia	(1,293)	-
Central divisional overheads	(4,893)	(3,274)
Profit/(loss)	758	(5,956)

Analyses by class of business are based on the group's divisional structure.

Consolidated balance sheet

	As at 31 December 2001 £'000	As at 31 December 2000 £'000
Fixed assets	52,938	41,184
Current assets		
Amounts receivable from customers (note 5)		
- due within one year	719,637	637,706
- due in more than one year	9,614	9,497
Debtors	173,216	162,727
Investments		
- realisable within one year	430,621	330,000
Cash at bank and in hand	44,623	50,881
	1,377,711	1,190,811
Current liabilities		
Bank and other borrowings	(42,969)	(37,133)
Creditors - amounts falling due within one year	(173,047)	(166,091)
Insurance accruals and deferred income	(438,838)	(374,611)
	(654,854)	(577,835)
Net current assets	722,857	612,976
Total assets less current liabilities	775,795	654,160
Non-current liabilities		
Bank and other borrowings	(473,231)	(384,908)
Provision for deferred taxation	(6,016)	(2,566)
Net assets	296,548	266,686

Capital and reserves

Called-up share capital	25,433	25,798
Share premium account	51,840	51,638
Revaluation reserve	1,641	1,641
Other reserves	4,358	3,967
Profit and loss account	213,276	183,642
Equity shareholders' funds (note 6)	296,548	266,686
Gearing ratio (note 7)	1.63	1.44

Consolidated cash flow statement

	2001 £'000	2000 £'000
Net cash inflow from operating activities	159,713	136,994
Taxation	(46,436)	(49,628)
Capital expenditure and financial investment	(6,487)	28,264
Acquisitions and disposals	(2,510)	-
Equity dividends paid	(69,360)	(63,367)
Management of liquid resources	(110,621)	(98,698)
Financing	81,000	48,938
Increase in cash in the period	5,299	2,503

The cash flow statement above has been prepared in accordance with FRS1 (Revised 1996) "Cash Flow Statements". As required by that standard, the statement aggregates the cash flows arising from the motor insurance and home credit divisions. However, the cash and investments held by the motor insurance division are required by its regulators to be strictly segregated from the rest of the group and are not available to repay group borrowings. At 31 December 2001 the cash and investments held by the motor insurance division amounted to £426.5 million (2000 - £342.5 million).

Reconciliation of net cash flow to movement in net debt

	2001 £'000	2000 £'000
Increase in net cash for the period	5,299	2,503
Cash outflow from increase in liquid resources	110,621	98,698
	115,920	101,201
Cash inflow from increase in debt	(103,045)	(97,766)
Change in net debt resulting from cash flows	12,875	3,435
Loans relating to business acquired	(975)	-
Exchange adjustments	(1,696)	(1,038)

Net debt at 1 January	(51,160)	(53,557)
Net debt at 31 December	(40,956)	(51,160)

Analysis of changes in net debt

	1 Jan 2001 £'000	Cash flows £'000	Other changes £'000	Acquisition £'000	31 Dec 2001 £'000
Cash at bank and in hand	50,881	(7,090)	832	-	44,623
Overdrafts	(12,389)	12,389	-	-	-
	38,492	5,299	832	-	44,623
Investments realisable within one year	320,000	110,621	-	-	430,621
Bank and other borrowings:					
- less than one year	(24,744)	6,117	(24,342)	-	(42,969)
- more than one year	(384,908)	(109,162)	21,814	(975)	(473,231)
Net debt	(51,160)	12,875	(1,696)	(975)	(40,956)

Other changes include non-cash changes of £24,342,000 and exchange losses of £1,696,000.

Cash, borrowings and overdraft balances shown above at 31 December 2000 and 2001 agree to the balance sheets at those dates. Investments realisable within one year exclude those current asset investments which are not considered to be liquid resources (being those investments with more than one year to maturity when acquired, but less than one year to maturity at the balance sheet date).

Reconciliation of operating profit to net cash inflow from operating activities

	2001 £'000	2000 £'000
Operating profit	169,610	160,219
Depreciation and amortisation	8,217	5,935
Loss on sale of tangible fixed assets	451	312
Increase in amounts receivable from customers	(80,661)	(72,071)
Increase in debtors	(8,124)	(33,098)
Increase in unearned insurance premiums	12,642	43,030
Increase in insurance claims provision	51,569	24,608
Decrease in amounts due to retailers	(1,518)	(1,741)
Increase in accruals	11,755	8,488
(Decrease)/increase in other liabilities and deferred income	(4,228)	1,312
Net cash inflow from operating activities	159,713	136,994

Net cash inflow from operating activities can be analysed as follows:

	2001 £'000	2000 £'000
UK home credit	123,535	131,320
International home credit	(52,523)	(50,936)
Motor insurance	99,429	67,163
Central	(10,728)	(10,553)
	159,713	136,994

Notes - Preliminary announcement of the final results for the year ended 31 December 2001

1. This preliminary announcement, which has been prepared on a basis consistent with the previous year, does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The announcement has been agreed with the company's auditors for release.

2. The information for the year ended 31 December 2000 is an extract from the statutory accounts to that date which have been delivered to the Registrar of Companies. Those accounts included an audit report which was unqualified and which did not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The statutory accounts for the year ended 31 December 2001 upon which the auditors have still to report, will be delivered to the Registrar following the company's annual general meeting.

3. Dividends

	2001 £'000	2000 £'000
Interim dividend paid 11.75p (2000 10.9p)	28,971	25,421
Final dividend proposed 17.60p (2000 16.4p)	42,817	40,389
	71,788	65,810

4. Earnings per share

The basic and diluted earnings per share figures have been calculated using the profit for the year attributed to ordinary shareholders of £123,815,000 (2000: £117,606,000) and the weighted average number of shares in issue during the year can be reconciled to the number used in the basic and diluted earnings per share calculations as follows:

	2001 Number	2000 Number
Weighted average number of shares		
In issue during the year	248,147,454	250,221,347
Held by the QUEST	(2,456,807)	(2,727,626)
Used in basic earnings per share calculation	245,690,647	247,493,721
Issuable on conversion of outstanding options	1,546,712	1,286,831
Used in diluted earnings per share calculation	247,237,359	248,780,552

The adjusted earnings per share figures have been calculated prior to the post-tax losses of £3,680,000 (2000: £1,675,000) relating to the South African operation and Provident balance Limited which were closed during 2001.

The movement on the number of shares in issue during the year is as follows:

	Number
At 1 January 2001	248,931,030
Shares issued pursuant to the exercise of options	254,309
Shares purchased and subsequently cancelled	(3,772,000)
At 31 December 2001	245,413,339

5. Amounts receivable from customers

	2001 £'000	2000 £'000
a. Instalment credit receivables		
Gross instalment credit receivables	1,105,511	976,269
Less: provision for bad and doubtful debts	(86,251)	(79,220)
Instalment credit receivables after provision for bad and doubtful debts	1,019,260	897,049
Less: deferred revenue thereon	(290,009)	(249,846)
	729,251	647,203
Analysed as:		
- due within one year	719,637	637,706
- due in more than one year	9,614	9,497
	729,251	647,203

At 31 December 2001 the net amounts receivable from UK home credit customers were £618,025,000 (2000: £585,449,000) and from international home credit customers were £111,226,000 (2000: £61,754,000).

	2001 £'000	2000 £'000
b. Bad and doubtful debts		
Gross provision at 31 December	86,251	79,220
Less: deferred revenue thereon	(27,589)	(24,400)
Net provision at 31 December	58,662	54,820
Net provision at 1 January	(54,820)	(60,823)
Increase/(decrease) in provision (net of deferred revenue)	3,842	(6,003)

Amounts written off (net of deferred revenue)	92,204	82,307
Net charge to profit and loss account for bad and doubtful debts	96,046	76,304
Analysed as:		
- UK home credit	76,345	71,460
- International home credit	19,701	4,844
	96,046	76,304

6. Reconciliation of movement in equity shareholders' funds

	2001 £'000	2000 £'000
Profit attributable to equity shareholders	123,815	117,606
Dividends	(71,788)	(65,810)
Retained profit	52,027	51,796
New share capital issued	1,135	6,376
Share capital cancelled on share buy-back	(907)	(1,879)
Share buy-back	(22,273)	(47,173)
Shares issued to the QUEST	-	(1,610)
Currency translation differences	(120)	160
Net addition to equity shareholders' funds	29,862	7,670
Equity shareholders' funds at 1 January	266,686	259,016
Equity shareholders' funds at 31 December	296,548	266,686

7. The gearing ratio is calculated as bank and other borrowings, net of home credit cash, divided by consolidated equity shareholders' funds.

8. Credit issued

	2001 £'000	2000 £'000	Growth %
UK home credit	915,489	883,900	3.6
International home credit	217,091	121,500	78.7
Total	1,132,580	1,005,400	

9. Collections

	2001 £'000	2000 £'000	Growth %
UK home credit	1,273,116	1,239,100	2.7
International home credit	255,044	112,600	126.5

Total	1,528,160	1,351,700

10. FRS 17 retirement benefits

The company has adopted the transitional arrangements under FRS 17 and will disclose the impact of the standard as a note to the accounts. If the standard had been adopted in full in 2001, earnings would have been reduced by £2.0 million and net assets at 31 December 2001 by £57.2 million. This reduction in net assets has been assessed at a time when equity markets are at a relatively low valuation compared to recent years. The company has committed to a programme of increased pension contributions over the next 5 years.

Shareholder information

1. The shares will be marked ex-dividend on 17 April 2002.

2. Dividend warrants/vouchers in respect of the final dividend will be posted on 8 May 2002.

3. The final dividend will be paid on 10 May 2002 to shareholders on the register at the close of business on 19 April 2002.

4. The 2001 annual report and accounts together with the notice of annual general meeting will be posted to shareholders on 25 March 2002.

5. The Provident Financial Company Nominee Scheme ("the scheme") enables shareholders who are eligible to use it (i.e. individuals) to take advantage of the CREST system for settling transactions in shares in the company by means of a low-cost dealing service. It includes a dividend reinvestment scheme. Shareholders who wish to take advantage of the scheme should contact the company's registrar, Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU (telephone: 0870 162 3100), to request an information pack.

6. The annual general meeting will be held on 1 May 2002 at the Hanover International Hotel and Club, Mayo Avenue, off Rooley Lane, Bradford, West Yorkshire, BD5 8HZ.