IAM INCOME ASSET MANAGEMENT

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PIONEER FY25 Results: A cleaner year for the company

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Pioneer FY25 results were credit positive in what was a clean year for the company. Over the last few years, the debt collection industry has turned into largely a duopoly (Credit Corp #1; Pioneer #2) driven by reduced Purchased Debt Portfolios (PDP) volumes during COVID and increased compliance, regulatory and funding costs. Reduced competition bodes well for Pioneer, and we expect operating leverage to drive Pioneer's EBITDA going forward. After a turbulent few years, Pioneer has rebuilt its balance sheet and improved its operating platform. Governance has improved with new additions to the management team, operational discipline restored, and PDP purchasing recently scaled back up as funding stability has returned.

In our opinion, Pioneer is an attractive turnaround story with the further improvement likely with a return to growth in the PDP industry. The exclusivity of Pioneer's agreements with the Big 4 banks will prevent smaller players building sufficient scale to become a genuine 3rd player in the industry.

Turning back to FY25 results, cash collections of $142.2M (up 1% yoy) helped grow EBITDA to $94.0M (up 6% yoy). The normalised NPAT was $10.5M, beating guidance by 17%. Operating performance benefitted from a falling cost of service to 32% (from 33% pcp) below guidance of 35-37%. PDP investment for the year was $69.1M (down 26% yoy) and whilst below guidance, it reflects improved purchasing terms, where the Forward Flow agreements were renewed at meaningful investment price discounts and balance sheet firepower was preserved. Pioneer has guided to a FY26 Statutory NPAT of at least $18M.

Pleasingly, the company strengthened its balance sheet during the year. The refinancing and upsizing of the $200M senior facility (to $272.5M) in July 2024 from Nomura reduced Pioneer's cost of funds by ~$8M on an annualised pre-tax basis. This upsized facility had improved terms with the rate moving from BBSW+875bps to BBSW+550bps. The company noted that for each 25bps cut in the RBA cash rate, they expect savings of ~$700k on an annualised pre-tax basis. Management is focused on improving the terms of the MTN given this is its most expensive funding source. The rate is currently BBSW+1050bps.

Pioneer ended up with cash of $5.9M. PDP assets were up $20.1M reflecting disciplined investment in high quality portfolios. There is $34.3M of undrawn facilities available to support growth. Borrowings were down to $286.6M from $297.6M about 89% of PDP carrying value. Given that Pioneer acquires portfolios at 20-30c on the dollar, the leverage looks reasonable today in a credit cycle which is holding up well.

The subordinated MTNs pay a rate of return of BBSW+1050bps and are by far the highest yielding bond available in the universe.

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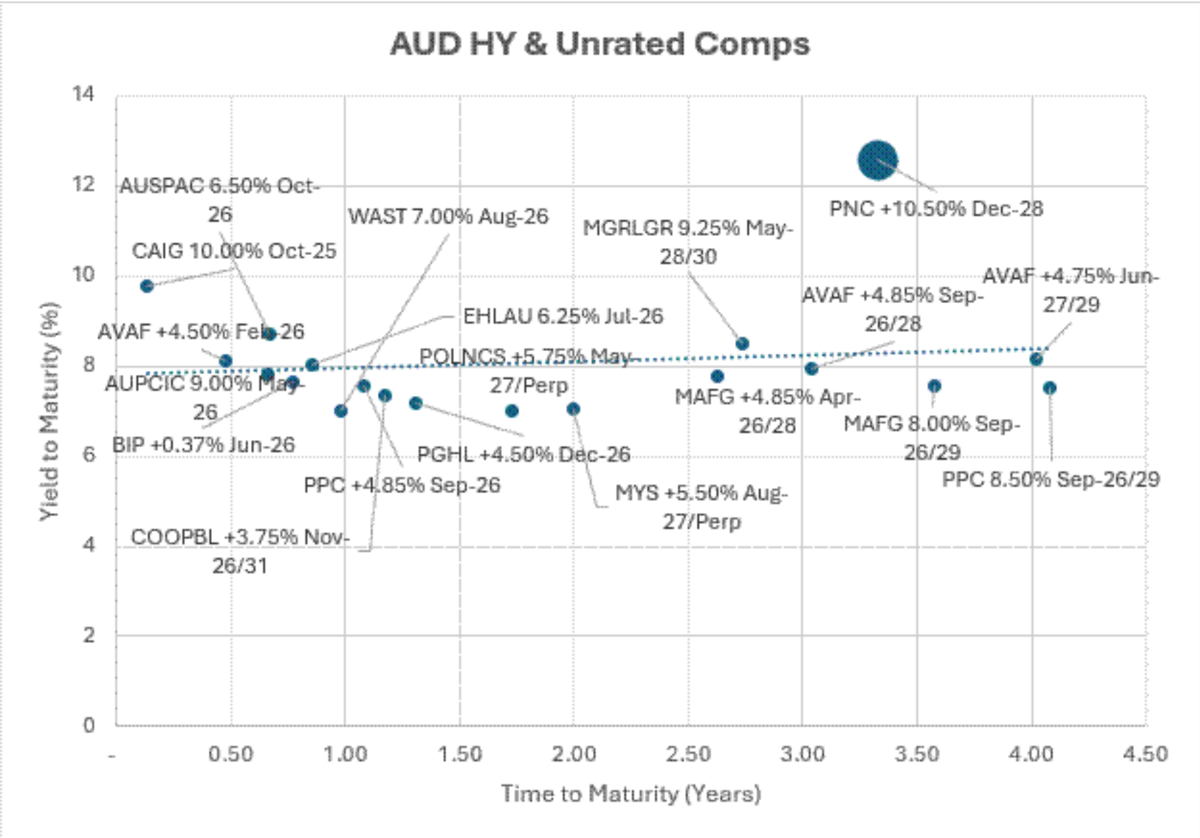

Source: BondAdviser as at 2/09/2025

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