



General Capital Limited
Level 7, 12-26 Swanson Street,
PO Box 1314, Shortland Street,
Auckland, New Zealand. 1140.
Phone +64 9 304 0145
Fax +64 9 358 3858

General Capital (GEN:NZ) Reaffirms Earnings Guidance

General Capital reaffirms its previous guidance that the business will produce a net profit after tax of approximately breakeven but highlights that this is before the completion of yearly impairment testing of intangible assets as well as fair value calculations of investments held by the Group. As described in further detail below, these calculations are particularly difficult this year due to the uncertainties in the economy and the ability to reliably forecast future cash flows.

Brent King, Managing Director advised as follows, “we have traded strongly over the last 6 months, but the impact of Covid-19 has slowed progress. As at our financial year end of 31 March 2020 we had a strong balance sheet and significant cash (over \$12m).

Since the developments of the pandemic General Capital has:

- Reduced costs by lowering our headcount.
- Increased cash reserves by reducing lending activity.
- Reduced overheads.

The result is that the Group is in a strong position and is seeking acquisition opportunities.

Mr King added the following, “Nobody knows what the future holds. We have taken logical steps but the issue for us, along with virtually all other New Zealand businesses, relate to when the Covid-19 restrictions are lifted and when the economy returns to “normal”. Because of this, we are unable to make accurate medium to long term forecasts.

The Group is currently holding excess liquidity and is holding costs at a minimum level. Mr King also commented “the duration and resulting economic impact of the lockdown will have an impact on companies’ ability to justify the carrying value of assets. This is particularly true for assets such as intangible assets and investments carried at fair value. Intangible assets rely on assumptions about future cash flows as do investments carried at fair value (in the absence of a liquid market for buying and selling the investments). With the current restrictions and resulting economic impacts, the ability to generate and/or reliably forecast future cash flows comes into question. Some of these concerns were highlighted by the Financial Markets Authority (FMA) in a March 2020 update.

Excluding any potential impairment relating to intangible assets or reduction to the carrying value of any investments carried at fair value, General Capital is confident of breakeven earnings as well as a strong financial position as at 31 March 2019 with significant cash holdings. Total assets (before any potential impacts to goodwill or investments carried at fair value) are currently expected to be approximately \$51m at 31 March 2020, an increase of approximately 113% from 31 March 2019 total assets of \$23.9m.

“Assuming the New Zealand economy does not suffer too much as a result of the global pandemic and is able to recover soon we are very confident of General Capital’s future”, said Mr King.

For further information contact:

Brent King
Managing Director
General Capital Limited
+64 21 632 660
Brent.King@gencap.co.nz

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