ASX/MEDIA RELEASE **30 May 2019**

Thorn Group Limited (ASX: TGA)

THORN ANNOUNCES FULL YEAR 2019 RESULTS

Thorn Group Limited (ASX: **TGA**) has today reported a statutory net loss after tax of $(14.9m) for the year ended 31 March 2019, compared with a loss in the prior year of $(2.2m).

The Group's results have been impacted by the recording of a loss in its Consumer Leasing division which then triggered a $10m asset impairment under the accounting standards, and the Business Finance division which was required to make an $11.5m provision for the predicted non-recovery of debts from a set of customers who challenged the enforceability of their leases in an industry wide issue.

The result is lower than the guidance given to the market on 1 April 2019 as the further asset write offs flagged in that guidance were required as part of finalising the accounts (fixed assets of $3.4m and deferred customer acquisition costs $1.7m) along with an increase in the impairment provision of Business Finance of $1.6m and other movements $0.2m.

Thorn reported FY19 revenue from continuing operations of $221.9m (FY18: $234.3m), and earnings before interest and tax from continuing operations of $(9.8m), compared with $17.1m in the prior year.

Key points

- Net loss after tax of $(14.9m)
- Challenging trading and debt collection conditions for Radio Rentals
- Radio Rental's volumes grew 1% on a higher average price but lower interest from a smaller receivables book and high bad debt charges and promotional costs cut profits
- Lower cash flow in Radio Rentals prompted $10m in asset write offs
- Business Finance solid performance in a capital constrained environment but an $11.5m provision taken for an industry wide bad debt impacted profits
- Bank corporate debt paid down to $15m but now subject to a draw stop requiring lender consent to access remaining headroom
- New expanded securitised warehouse with new mezzanine lender working well
- Corporate costs cut
- Auditor's report is unqualified but includes a material uncertainty related to going concern and an emphasis of matter on uncertainty regarding the unresolved class action litigation
- No dividend
- Strategic review in progress

Managing Director and CEO, Tim Luce, said, "As we forecast, the challenges facing Radio Rentals are taking time to resolve. With retail trading conditions difficult and customer's financial positions tight, it has been a difficult year for profits. We remain encouraged that our renewed customer focus on choice, value and convenience has led to increased sales and, with the market consolidating with the exit of a major competitor, we look forward to further improvement.

“Thorn Business Finance was forced to slow its pace of originations in the face of capital constraints but the business has performed well despite being forced to take a large provision against an unexpected industry wide issue. The outlook for Business Finance remains positive with strong demand for its products and the new warehouse debt facility in place.”

Consumer Leasing

Thorn’s financial performance continues to reflect the reduction in installation volumes over the past two years in the Consumer Leasing division, Radio Rentals. Further, pressure on consumers’ disposable incomes continues to drive price sensitivity and a rising arrears trend. The business responded with efficiency improvements and marketing and promotional campaigns offering customers more value with more choice over a wider product range and wider set of contract terms including 60 month contracts, trials of new store concepts, and faster transaction processing.

These initiatives resulted in installations growing to 83,299 units, 1% above last year’s 82,371 units, but the higher sales revenue was offset by lower interest and fees from the smaller receivables book, and higher promotions and discounts, which saw revenue overall drop $16.8m to $178.6m. Better buying saw the gross margin lift and efficiencies were implemented in costs generally. However the rising arrears situation caused the bad debt provision and write offs under the new AASB 9 regime to rise significantly and costs overall rose by $13.8m.

EBIT reduced from last year’s $28.4m profit to a loss of $(2.2m) before the asset write offs of $10.0m.

Thorn Business Finance

Thorn Business Finance reported lease originations of $150.5m in the year, compared with $208.9m in the prior year. The pace of growth in originations was constrained initially by the availability of credit until the new warehouse funding arrangements and increased facility limits were put in place in August 2018 but were then constrained by the lack of available capital from Group for the remainder of the year as Radio Rentals cash flow declined.

The total receivables book was up slightly at $318.3m at the year end (net of bad debt provision) from $314.8m at 31 March 2018 and net of the AASB 9 adjustment. Revenue increased by 11% to $43.2m (FY18: $38.9m) and costs were held tight to $15.6m (FY18: $14.6m) but the industry wide bad debt issue referred to above prompted an $11.5m provision to be taken up which left EBIT down 29% to $16.1m (FY18: $24.2m).

Corporate costs and asset write offs

Corporate costs for the FY19 financial year were cut by 7% to $13.8m (FY18: $14.8m) taking into account higher legal costs for the class action and markedly higher insurance costs. Write offs of fixed assets and software were required by the lower cash flow in Radio Rentals and $10.0m was expensed (FY18: $20.7m of goodwill written off).

Funding

Thorn’s borrowings increased by 7% to $303.6m (31 March 2018: $284.3m). The corporate loan facility balance was reduced to $15m from $41m at 31 March 2018.

On 9 November 2018, Thorn entered into a revised corporate loan facility with a $30m limit and two-year tenor. In the present circumstances, and with the company announcing a loss and undertaking a strategic review, the bank has implemented a draw stop to only permit further drawings under the corporate facility with the prior approval of the lender.

A new mezzanine investor was introduced into the TBF securitised debt warehouse on 10 August 2018 and facility limits were increased from $250m to $368m. This facility was drawn by a further $45.3m during the year, to a total of $288.6m at the year end.

Class action and Enforceable Undertaking

The action continues to be defended and is scheduled for trial later this year. Thorn's previous CEO and its insurer have now been joined to the action by the plaintiff.

The company continues to operate under an enforceable undertaking from ASIC. The Radio Rentals division continues to comply with that undertaking.

Strategic review

The strategic review announced on 1 April 2019 is ongoing and further announcements will be made in due course.

Outlook

Challenging trading conditions are expected to persist for Consumer Leasing although volumes are now stable; arrears, bad debts and promotional discounts are all being brought down gradually; and a major competitor has given notice they are exiting the market.

Business Finance is expected to perform similarly to this year (excluding a repeat of the specific provision) given similar capital constraints. The corporate centre will continue to suffer ongoing legal and advisory fees for the class action and enforceable undertaking.

The Group is expected to return to a trading profit in FY20.

-ends-

For further information please contact:

Tim Luce
Chief Executive Officer
rebecca.wakefield@thorn.com.au
Ph: +61 2 8761 5616

Peter Forsberg
Chief Financial Officer
peter.forsberg@thorn.com.au
Ph: 0401 700 909

ABOUT THORN GROUP LIMITED (ASX: TGA, www.thorn.com.au)
Thorn Group is a consumer leasing and business finance company. Thorn's foundation consumer leasing business, Radio Rentals (RR Rentlo Reinvented in South Australia), is a leader in the household goods rental market, operating since 1937 and with 64 outlets nationally. Thorn Business Finance is a provider of leasing and other finance to small and medium businesses. Thorn employs in excess of 500 people, has been listed on the ASX since 2006, is licenced under the National Consumer Credit Protection Act 2009 and operates a responsible lending policy.