

Managing Director's AGM Address

The theme of our annual report this year is about shaping the future. We deliberately chose this theme because it summarises how we have approached several aspects of our operations over the past twelve months. While we have faced some challenges, we have also seen strong growth and potential across our business finance operations, which highlights an emerging strength within the Group that warrants further investment as we look to shape the organisation's future.

There are several other areas in which this theme has influenced our financial performance, decision making, business development initiatives, marketing and our general direction overall. On the financial side, the three significant items which affected net profit in financial year '16 were approached with a view to resolving historic issues so we could reset the business platform for growth.

That meant we needed to write off goodwill in the accounts receivables business NCML, and close the underperforming consumer loans business Cashfirst, so we could reallocate capital from a book run-off to other parts of the business delivering much higher returns on that invested capital. In addition to those initiatives, we also created a provision for credit balances being refunded to customers following the retirement of a legacy IT system. With those issues behind us, we now have a stable business platform from which we can return the business to growth with improved returns.

Going forward, our strategy will seek to align with the significant growth and potential we see across the two core business divisions being, consumer leasing and business finance. The current rate of growth we are seeing across our business finance division is also expected to deliver a greater share of profit contribution in years ahead, and is already at 22 per cent of combined earnings.

Prioritising the allocation of capital and funding to support the growth of these two business divisions clearly highlights the direction of our strategy. Since balance date, we're pleased to advise our funding partner Westpac, has approved a further \$30 million extension of our funding facilities to support our growth as we continue to write record levels of new business in equipment finance in response to strong demand for the products we are offering. The growth of our business finance division combined with our significant market share in consumer leasing, accentuates our strategy of being a leading provider in niche financial markets.

Our annual report this year also includes a few case studies of how we are helping small businesses finance their operations and these examples reflect the positive feedback we are receiving from the market. A more stunning reflection of how positively Thorn is perceived in consumer leasing is evidenced by strong positive outcomes from Roy Morgan's independent market research this year which included responses from thousands of our customers nationally. The key results from this research highlight:

- 97 per cent said Radio Rentals treated them with dignity and respect
- 95 per cent said "Rent Try \$1Buy" was important to them
- 92 per cent considered Radio Rentals affordable
- 70 per cent said Radio Rentals was the only way for them to access affordable everyday essential goods, and
- More than half of all respondents said that if they had not gone to Radio Rentals, they would have had to go without the goods

What encourages us most about these sentiments and direct consumer feedback is that it highlights how our business provides essential services to enable a large segment of our community to have

access to important goods. That ensuring financial inclusion of this segment is very important. That we have many customers who strongly value our business and what people in our communities need, which is essentially a fair go to access everyday household items, and that is what Radio Rentals prides itself in providing.

Over the past year we have been engaging in ways we think are effective in supporting our customers and our business. Joycelyn mentioned the Treasury Review which has taken up many hours in meetings, presentations and submissions, together with Australian Finance Conference members, as well as Thorn individually. We have also met with numerous politicians and continue to engage at the political level now that the Panel's report has been tabled.

While some criticism of the broader consumer leasing industry has surfaced in the media, we see little value in escalating or inflaming public debate, but rather we have opted to work more behind the scenes and have a dialogue with groups like Good Shepherd Micro Finance and Financial Counsellors Australia. What tends to come out of this is an appreciation of the serious intent Thorn has in doing the right thing by customers, which is where we place our communications emphasis.

At our national staff conference earlier this year, our guest keynote speaker was broadcaster, Alan Jones. Alan is a strong supporter of consumer leasing and spoke passionately about it being a necessity for many everyday Australian families, with his own parents having rented goods when he was young.

More recently, one of our team members has filmed a number of testimonials from Radio Rentals customers who have given permission for these to be shared publicly. We believe our customers should have a voice and this material will be included as part of a broader communications campaign we will implement over the coming months.

In addition to this, Thorn's contribution as an ambassador with White Ribbon, Australia's campaign to prevent men's violence against women, is yet another way we are supporting our people, communities and customers as we become involved in events to raise the awareness and support for this very worthwhile cause.

As we think about how we relate to our consumer leasing customers, I can't emphasise enough how seriously we take our responsibilities. When the Treasury Review Panel released its report we made the comment that we believed the report's recommendations struck the right balance between protecting consumers and supporting low cost providers like Thorn.

As the consumer leasing landscape evolves, it is possible this may open up opportunities for market consolidation in the fullness of time. We have also said in our Annual report that Thorn will look to take a market leadership position in adopting the report's pricing cap recommendations, irrespective of how long it might take to enact the Panel's recommendations through legislation. To this end, we have already begun making changes to our product mix.

From a regulatory perspective, Thorn remains committed to meeting the views and stance of the regulator with respect to responsible lending standards. While we are proud of maintaining delinquency levels and risk related write-off's that rival the very best providers both here in Australia and internationally, we understand and acknowledge the regulator expects more be done to protect consumers and to this end we will continue to invest in systems and processes to align with and meet those demands.

With this in mind a project has commenced to improve customer experience and reduce transaction times through the introduction of a market leading technology platform that we expect to launch sometime in the second half of FY17.

In general terms, our first quarter results for financial year '17 look positive. They are trending in line with prior period and contain similar elements, a challenging consumer leasing market, a fast growing business finance unit, and progress being made on the development of new products and platforms to support our growth and positive outlook.

Meeting the challenges of the past year would not have been possible without the support of many. Our board has been encouraging and supportive with its advice and governance, and our expanded management team has been magnificent in the breadth of expertise it now contains. However, it is our people throughout the organisation nationally that deserve all the accolades our customers give us for the respectful and dignified way in which they are treated when they make contact with us. I couldn't be more proud of this team and the way it works to give people a fair go.

From our theme this year of shaping the future we look forward to delivering positive outcomes from our efforts and I thank you for your ongoing support.

Mr James Marshall
Managing Director
