# Results Presentation

## for the half year ended 30 September 2019

### 20 November 2019

Presented by

Tim Luce – CEO

Peter Forsberg – CFO

# Our mission

To provide an amazing customer experience

# Our values…

**We look after our customers**

**We're all one team**

**We strive to improve**

# Where we have been…

- ASIC Enforceable Undertaking
  - Independent expert final reports provided to ASIC in August 2019
  - Final community benefit paid 15 November
  - Formal completion of the EU is expected shortly
  - Thorn continues to comply with general conduct and responsible lending obligations
- Class action
  - Deed of settlement reached in September 2019
  - Court approval in process
- Capital constrained
  - Unable to fund receivable book growth
  - Relieved by rights issue and warehouse debt facility parameter expansions
  - Corporate facility paid down to $12m

# Financial Results

# Financial Highlights

## Thorn Group

- Company returns to small trading profit pre significant items.
- Significant items are the class action provision and legal costs, and strategic review.
- Class action settlement of $25m reached (subject to court approval). Full provision taken, $8.3m deposit paid in H1, balance paid subsequent to half year end.
- Rights issue raising completed with $34.6m raised ($14.2m recorded in H1, $20.4m in H2).
- Securitised warehouse debt facility reviewed in August, credit rating maintained, parameters expanded.
- Corporate debt facility paid down to $12m (from $15m).
- Adoption of new accounting standard AASB 16*.
- Reported NPAT loss, no dividend proposed.

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*For AASB 16 accounting standard implementation please refer to note 3(a) in the financial statements

# Financial Highlights

## Radio Rentals

- EBIT up $3.4m to $6.9m.
- AASB 16 implementation benefit of $2.9m at EBIT.
- Installations stabilising around 40,000 units per half year.
- Revenue reduced by $5.5m to $84.4m as lower interest and fees on a smaller receivables book.
- Cost reductions including store closures and productivity.
- Arrears improved with 30+ days down to 10.2% at period end.

## Thorn Business Finance

- EBIT down $4.5m to $9.0m.
- Capital availability constrained originations and receivables book growth.
- Revenue down $1.0m to $20.5m.
- Costs up $3.5m, due to higher bad debt provision and recovery costs.
- Arrears increased and program to recover underway.

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# Half Year Results Summary

| Half year ended | | Sept 19 | March 19 | Sept 18 | Sept 19 v Sept 18 |
|---|---|---|---|---|---|
| Revenue - continuing operations | $m | 104.9 | 110.5 | 111.4 | (6%) |
| EBIT – pre significant items[1] | $m | 11.2 | (7.8) | 9.9 | 13% |
| EBIT – post significant items[1] | $m | (17.5) | (18.8) | 9.0 | nm |
| NPAT | $m | (25.6) | (17.4) | 2.5 | nm |
| EPS | cents | (15.6) | (10.9) | 0.6 | nm |
| Dividend – fully franked | cents | - | - | - | - |
| Return on equity | % | (16.0) | (9.5) | 1.3 | nm |
| Receivables [2] | $m | 451.0 | 457.4 | 483.7 | (7%) |
| Borrowings | $m | 309.8 | 303.6 | 302.5 | 2% |
| Gearing (net debt/equity) [3] | % | nm | 4.1 | 5.9 | nm |

**Notes:**
1. Significant items in September 2019 are the costs of the class action provision, the associated legal costs, and the cost of the strategic review (total $28.6m)
2. Receivables on a net basis, i.e. exclusive of unearned interest and net of provisioning for credit losses
3. Gearing is calculated as the closing net debt (corporate borrowing less free cash) divided by closing equity. This calculation excludes the warehouse debt and its corresponding secured receivables. To see including this debt facility see slide Balance Sheet.
4. Nm = not meaningful

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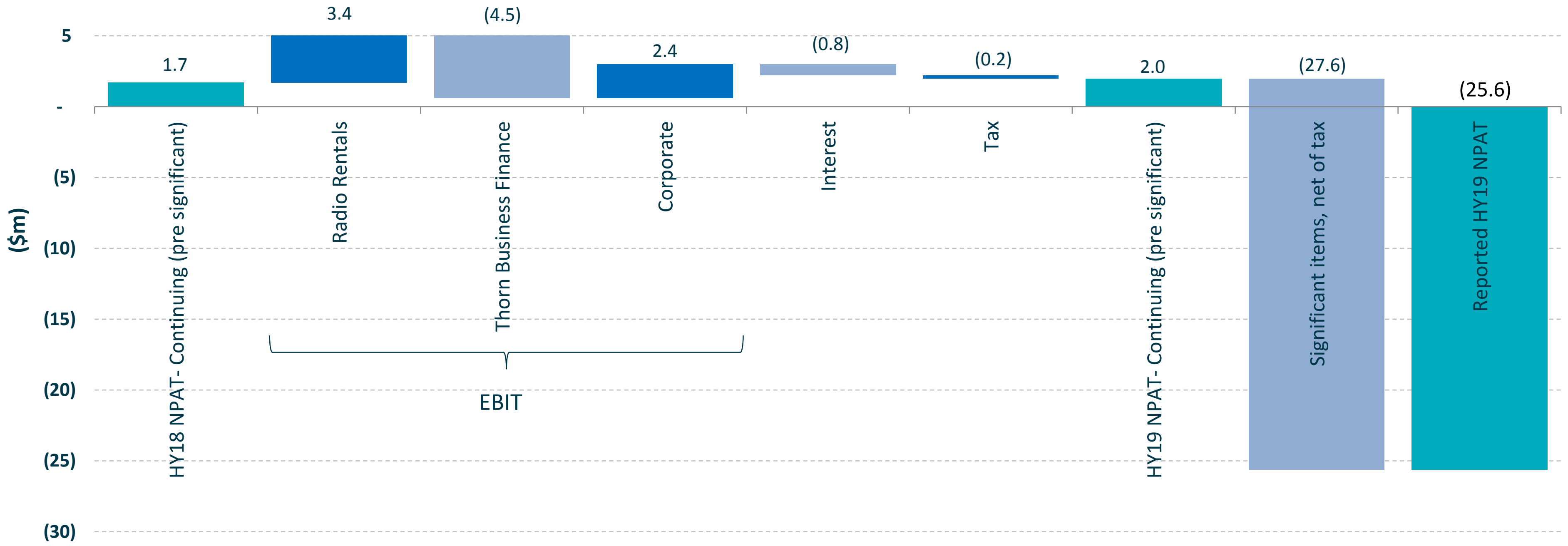
# NPAT Bridge




| A$m | Segment revenue | | % Change fav/(unfav) | Segment EBIT | | % Change fav/(unfav) |
|---|---|---|---|---|---|---|
| | **Sep-19** | **Sep-18** | | **Sep-19** | **Sep-18** | |
| Radio Rentals | 84.4 | 89.9 | (6)% | 6.9 | 3.5 | 97% |
| Thorn Business Finance | 20.5 | 21.5 | (5)% | 9.0 | 13.5 | (33)% |
| Corporate pre significant items | | | | (4.7) | (7.1) | 33% |
| | 104.9 | 111.4 | (6)% | **11.2** | 9.9 | **13%** |

# Balance Sheet

| | September 19 | | March 19 | |
|---|---|---|---|---|
| | excl. Trust [2] | incl. Trust | excl. Trust [2] | incl. Trust |
| Cash at Bank | 45.6 | 45.6 | 30.6 | 30.6 |
| Receivables | 129.3 | 451.0 | 144.8 | 457.4 |
| Investment in unrated notes | 23.9 | - | 24.0 | - |
| Inventory and other assets | 36.7 | 36.7 | 24.8 | 24.8 |
| **Total Assets** | **235.5** | **533.3** | **224.2** | **512.8** |
| Borrowings - warehouse | - | 297.8 | - | 288.6 |
| Borrowings - Corporate | 12.0 | 12.0 | 15.0 | 15.0 |
| Other liabilities | 75.0 | 75.0 | 37.2 | 37.2 |
| **Total Liabilities** | **87.0** | **384.8** | **52.2** | **340.8** |
| **Total Equity** | **148.5** | **148.5** | **172.0** | **172.0** |
| Gearing (net debt/equity) | nm | 193% | 4% | 172% |

- Free cash of $23.7m (March: $7.9m) after rights issue
- Thorn Business Finance receivables book flat at $318m
- Radio Rentals receivables book down $5m to $131m
- Other assets includes $8.3m deposit towards the class action settlement
- Warehouse borrowings up as expanded parameters meant more sold off balance sheet
- Corporate loan paid down to $12m
- Other liabilities and provisions up due to $25m class action provision and $14m AASB 16 lease liability
- Equity reduced by half year loss of $25.6m, $11.3m impact of writing off 'right of use' asset under AASB 16, and then increased with new equity of $14.6m from institutional component of rights issue
- Subsequent to the half year end the retail rights issue was completed and this restored the equity balance to $169m

**Notes:**

1. Thorn Business Finance receivables are funded by a securitised warehouse trust arrangement where the borrowings are non-recourse to Thorn but secured by the underlying receivables themselves.
2. The column excluding Trust excludes the securitised receivables and corresponding borrowings but includes Thorns equity interest in the warehouse through unrated notes.

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# Receivables

| | | September 19 ($m) | March 19 ($m) | September 18 ($m) | Sep 19 v Sep 18 (%) |
|---|---|---|---|---|---|
| Radio Rentals | Lease Book | 149.3 | 156.4 | 168.0 | (11%) |
| | Trade receivables | 5.7 | 6.8 | 6.0 | (4%) |
| | Gross book before provision | 155.0 | 163.1 | 174.0 | (11%) |
| | Credit Provision | (23.7) | (26.7) | (26.7) | (11%) |
| | **Net trade receivables** | **131.3** | **136.4** | **147.4** | **(11%)** |
| Thorn Business Finance | Lease Book | 337.0 | 340.3 | 346.3 | (3%) |
| | Trade receivables | 8.8 | 5.0 | 4.6 | 93% |
| | Gross book before provision | 345.8 | 345.2 | 350.9 | (1%) |
| | Credit Provision | (27.8) | (27.0) | (17.7) | 58% |
| | **Net trade receivables** | **317.9** | **318.3** | **333.2** | **(5%)** |
| Corporate | Loan Book | 2.3 | 2.7 | 3.2 | (28%) |
| **Receivables** | | **451.5** | **457.4** | **483.7** | **(7%)** |

- Radio Rentals receivables book has a 15% provision held against it (Mar 2019: 16% and Sep 2018: 15%).
- Thorn Business Finance receivables has an 8% provision against it. However book contains Viewble debt of $11m fully provided so better stated as book of $334m with a 5% provision against it. (March 2019: 5% and Sept 2018: 5%)

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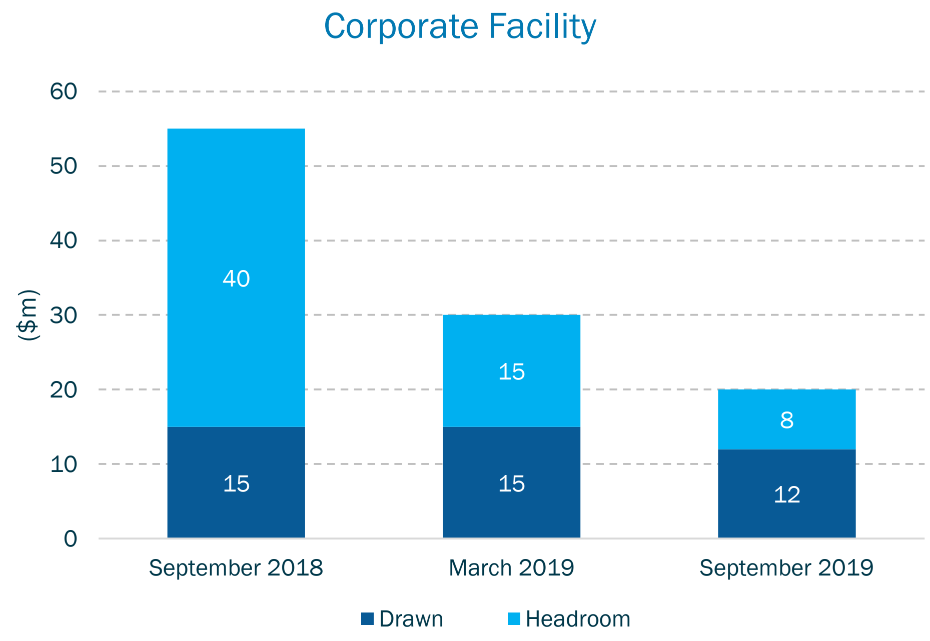
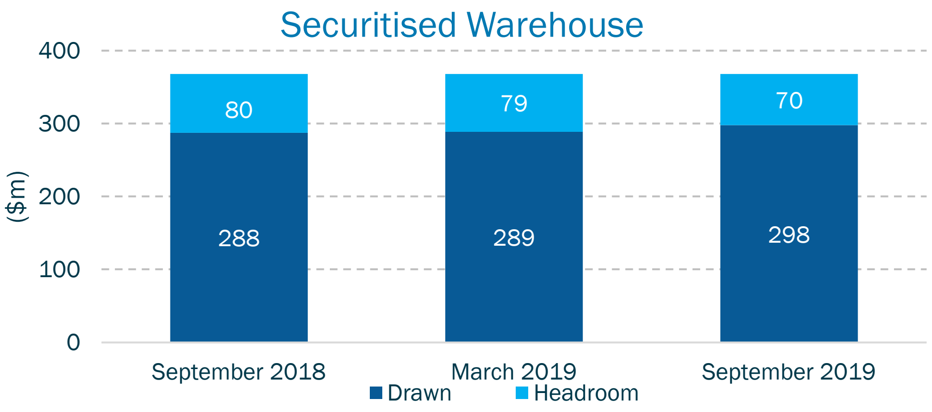
# Borrowings




### Corporate Facility

- Corporate facility paid down to $12.0m
- The corporate facility A limit was reduced to $15.0m as at 30 September 2019 and subsequently reduced to $12.0m in early October
- The corporate facility B limit of $5m at 30 September 2019 had $2.5m earmarked for bank guarantees ($1.9 drawn) and $2.5m for overdraft (undrawn). Headroom therefore $3.1m at 30 September
- No covenants in place until next review on 10 February 2020
- Facility maturity 30 November 2020

### Securitised Warehouse

- $368m limit, availability period until next review on 10 February 2020
- Credit ratings maintained after Fitch review in August 2019
- Facility continues to be 92% geared
- Headroom $70.2m

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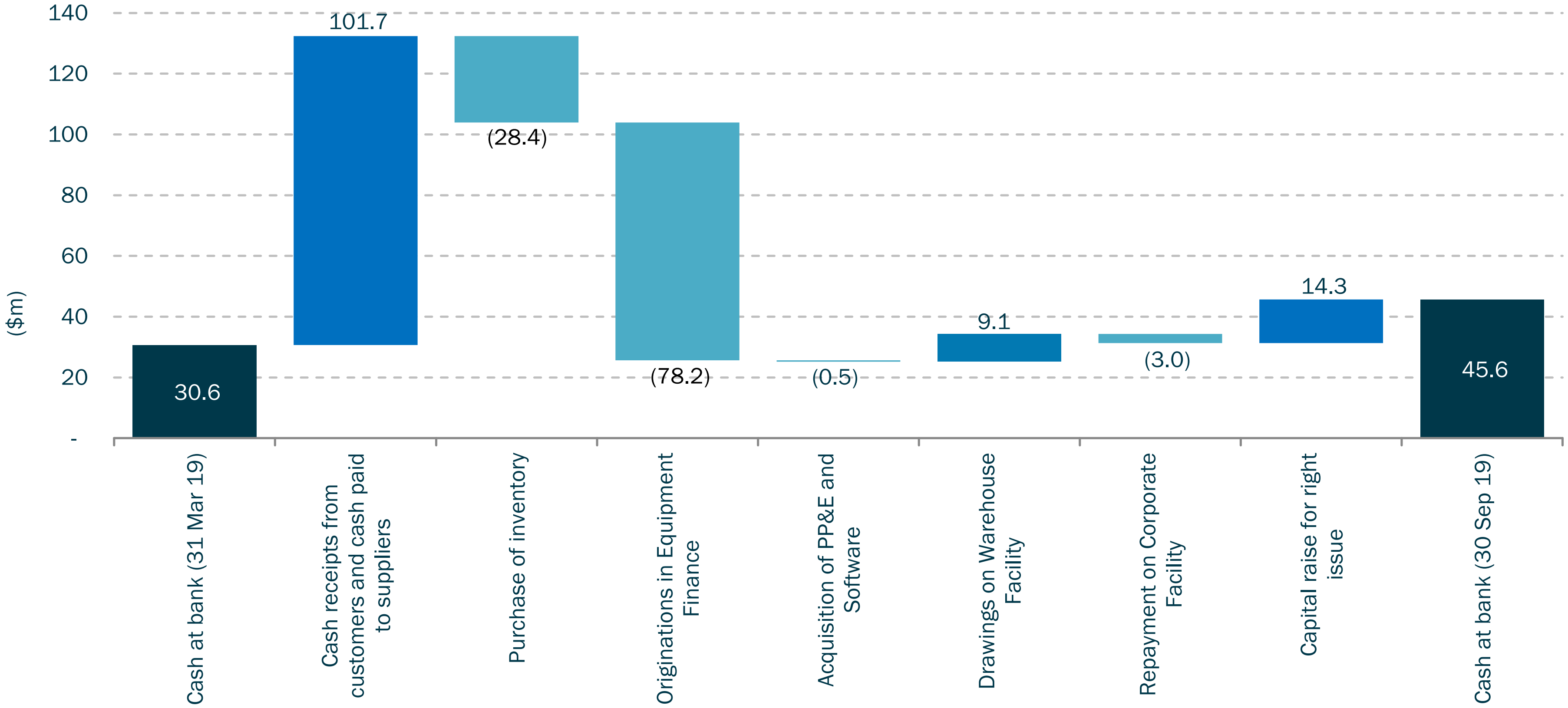
# Cash Flow Bridge



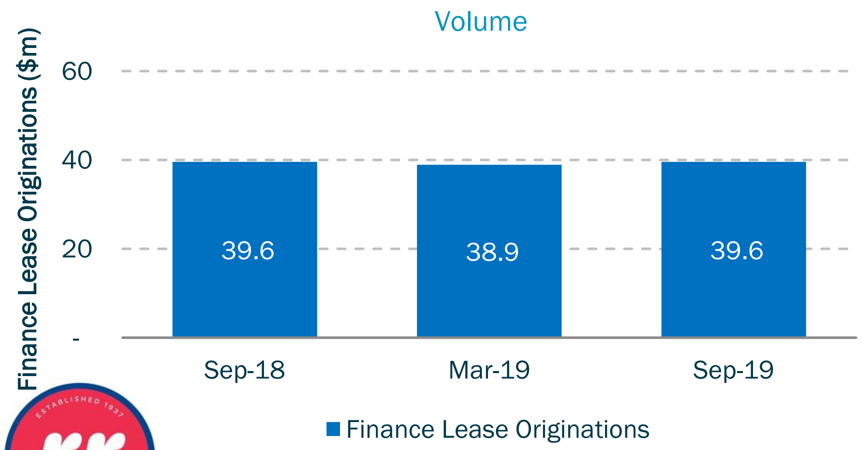

**Notes:**
1. Free cash at bank was $23.7m at period end after the institutional component of the rights issue (31 March 19: $7.9m)

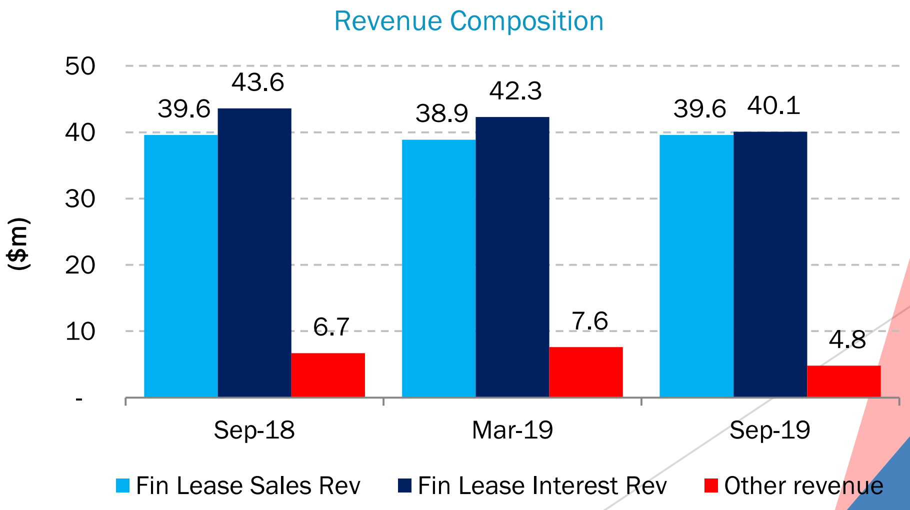
# Radio Rentals Update

# Radio Rentals Results

| Six months to | | Sep-19 | Mar-19 | Sep-18 | '19 to '18 |
|---|---|---|---|---|---|
| Installation volumes | Units ('000) | **39.8** | 40.7 | 42.6 | (7%) |
| Average price per unit | $ | **1,063** | 1,030 | 1,006 | 6% |
| Average unit rental rate | $/week | **14.1** | 13.4 | 13.2 | 7% |
| Lease originations | $m | **39.6** | 38.9 | 39.6 | - |
| Revenue | $m | **84.4** | 88.7 | 89.9 | (6%) |
| EBIT | $m | **6.9** | (15.7) | 3.5 | 97% |
| Receivables book, net | $m | **131.3** | 136.4 | 147.4 | (11%) |

- EBIT up $3.4m to $6.9m
- AASB 16 introduction generated a $2.9m increase in EBIT
- Installations stabilising
- Interest and fee revenue down $5.5m partly from a smaller receivables book
- Cost of doing business significantly reduced with store closures and productivity gains
- 30+ days arrears down to 10.2% at period end under new operating model (30 Sept 2018: 12.1%)



# Radio Rentals Receivables Book

| Six months to | Sep-19 | Mar-19 | Sep-18 |
|---|---|---|---|
| Net book ($m) | **131.3** | 136.4 | 147.4 |
| Average arrears[1] (30+ days) across period | **13.1%** | 18.1% | 11.3% |
| Impairment losses (write offs) ($m) [2] | **13.9** | 19.1 | 9.2 |
| Impairment losses (write offs) / AGR %[3] | **17.5%** | 22.7% | 10.3% |
| Impairment P&L expenses ($m) | **10.9** | 21.0 | 9.4 |

- Arrears peaked in March 2019 half and have now been reduced with period end arrears at 10.3%.
- Lower arrears means lower charges for bad and doubtful debts.
- Changes being implemented to the collections model to further improve.

Notes:
1. Calculated as average current arrears balance of delinquent accounts expressed as a % of total monthly billings.
2. Impairment losses stated here are the actual write offs processed in the half year. The P&L expense line represents that plus any increase in the bad and doubtful debt provision plus operating lease asset write-offs.
3. Impairment losses expressed as % of average gross receivables and annualised.

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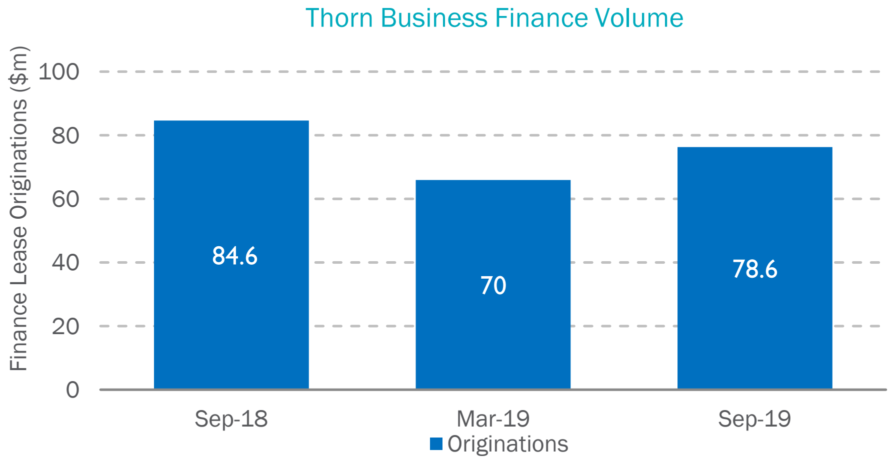
BUSINESS FINANCE

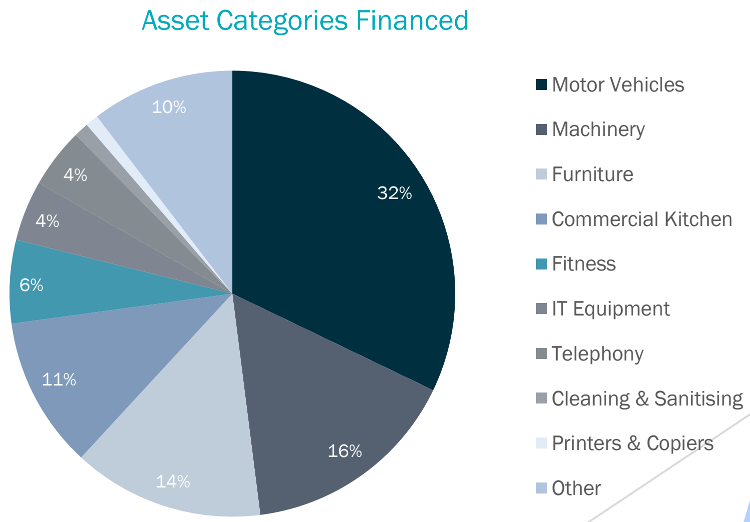
# Business Finance Update

# Thorn Business Finance Results

| Six months to | | Sep-19 | Mar-19 | Sep-18 | '19 to '18 |
|---|---|---|---|---|---|
| Originations | $m | 78.6 | 70.0 | 84.6 | (7%) |
| Receivables, net[1] | $m | 317.9 | 318.3 | 333.2 | (5%) |
| Revenue | $m | 20.5 | 21.7 | 21.5 | (5%) |
| EBIT | $m | 9.0 | 2.6 | 13.5 | (33%) |

- Capital constraints restricted originations and hence book growth (constraint since removed)
- Slightly lower interest and fee revenue from a smaller book
- Arrears increased due to maturing book, market pressures, and increase in time to recover
- Costs up, mostly bad debt provision and recovery costs

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Notes
1. Net receivables book has been restated for prior periods to show the net of lease receivables, trade receivables and provisions for doubtful debts
2. March 2019 period included the large provision against industry wide debtor position.

# Thorn Business Finance Receivables Book

| Six months to | Sep-19 | Mar-19 | Sep-18 |
|---|---|---|---|
| Net receivables book ($m) | **317.9** | 318.3 | 333.2 |
| Average arrears (30+ days) across the period | **5.4%** | 4.6% | 4.0% |
| Impairment losses ($m) [1] | **6.5** | 4.2 | 3.0 |
| Impairment losses write-offs / AGR %[2] | **3.8%** | 2.5% | 1.8% |
| Impairment P&L expenses ($m) | **6.4** | 13.5 | 3.9 |

- Arrears increased across the book leading to higher bad and doubtful debt provisioning
- Maturing book, market pressures including hardship requests, increase in average time to effect recovery through legal action
- Recovery program ongoing with changes to the collection model including additional resources

Notes:
1. Impairment losses stated here are the actual write offs processed in the half year. The P&L expense line represents that plus any increase in the bad and doubtful debt provision plus operating lease asset write-offs.
2. Impairment losses expressed as % of average gross receivables and annualised.

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# Where we are going…

- Capital position improved
- Formal completion of the EU is expected shortly
- Class action settlement deed signed
- Radio Rentals being restructured
- Thorn Business Finance focused on controlled growth
- Arrears requiring intensive management in softening economic conditions
- Cost optimisation program and automation to deliver improved productivity
- Forecast return to profitability (before significant items)
- Newly constituted board and new CEO signed

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