THORN GROUP LTD

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THORN FY17 KEY NUMBERS UP, ISSUES BEING ADDRESSED

Consumer leasing and business finance company, Thorn Group Limited (ASX: TGA), has lifted revenue, EBIT (earnings before interest and tax) and NPAT (net profit after tax) for the year to 31 March 2017.

Key highlights:

- Revenue up 3 per cent to $299 million
- EBIT up 25 per cent to $47.1m
- NPAT up 26 per cent to $25.3m
- Thorn Business Finance contribution to EBIT up from 23 per cent to 31 per cent
- Final dividend 2.5 cents a share fully franked (2016: 6.0 cents)

Thorn's two businesses, consumer leasing operation Radio Rentals and Thorn Business Finance, providing equipment leasing and trade and debtor finance, had divergent experiences in FY17.

Radio Rentals experienced a combination of business and regulatory issues, with the outcome of 2 per cent higher revenue but 17 per cent lower EBIT, while Thorn Business Finance lifted revenue 23 per cent and EBIT 40 per cent.

Significant items

The analysis of Thorn's results is complicated by the presence of several significant items across both FY16 and FY17 years as management deal with historical issues.

In 2016, the goodwill attributable to NCML was written off at an after tax cost of $6.7m, the TFS consumer loan division was shut down at an after tax cost of $1.6m, and Radio Rentals took up a charge for refunding customer credits on closed contracts at an after tax cost of $2.0m, leading to an adjusted NPAT of $30.3m.

In 2017, Radio Rentals made further provision for the anticipated remediation costs and penalties from the ASIC regulatory review of $6.1m after tax (being the after tax cost of the $3.1m set aside in the first half and the $4.0m after tax provision made in March 2017) leading to an adjusted NPAT of $31.4m.

Consumer Leasing

Within Radio Rentals, Thorn has implemented several measures to address business issues, improve its customer offer, and seek efficiencies.

The division lowered prices during the year, expanded its product range to be wider, more modern and affordable, relocated some stores to higher traffic shopping centre locations, and increased its marketing spend. It also closed six stores and reduced staff numbers in non front line positions.

Radio Rentals has also developed an online customer application and credit assessment system which is in the process of being rolled out nationally.

While some of these measures delivered benefits to customers and contributed to revenue increasing 2 per cent to $251.2m, others represent an investment in building a more stable business over the medium term, resulting in higher costs in FY17. Those costs plus the provisioning for regulatory matters led to a 17 per cent fall in EBIT to $36.3 million.

Thorn's Radio Rentals division provides a service that research shows is a necessary part of the financial system, with 3 million Australians excluded from the financial mainstream, nearly 75 per cent of customers saying Radio Rentals was the only way for them to access essential household goods and 92 per cent rating Radio Rentals affordable.

Business Finance

Within the Thorn Business Finance division, the Equipment Finance business grew its revenue and EBIT strongly (up 58% to $26.4m and 83% to $16.1m respectively) with the support of brokers and partners and the success of franchise financing.

The Trade & Debtor Finance business absorbed costs from writing off bad debts as part of repositioning its portfolio towards a better business quality and this resulted in a downturn in EBIT from $4.3m to $2.3m in FY17.

Trade & Debtor Finance is now managed by the Business Finance team and an improved performance is anticipated in future periods.

Other divisions

During the period, Thorn sold its NCML receivables management business and is in the process of running off its TFS Consumer Loan book.

Comment

Thorn's Acting CEO, Peter Forsberg, confirmed that Thorn is actively dealing with the business and regulatory issues and, while this is causing some short term disruption, the group's positioning in consumer and business finance has sound medium term prospects.

"In consumer leasing, the outlook is not straightforward as we deal with finalising matters with ASIC, a class action, the delay in returning customers from the launch of the 4 year contract 3 years ago and managing the nationwide launch of a new online origination system," Mr Forsberg said.

"We are raising the bar in how we relate to customers with better deals on a wider range offered in new store formats and online. With Radio Rentals this year celebrating 80 years in business and, with a national customer base of 100,000, we have confidence in its medium term outlook.

"As Business Finance continues on its strong growth path we can see it becoming a more dominant part of Thorn's earnings in years to come.

"In a tough year, Thorn has still produced a creditable return on equity and while the outlook for next year is mixed, we are focusing on driving volume and operational efficiencies to position the business for the medium term," Mr Forsberg said.

Return on equity for FY17 was up two percentage points to 12.4 per cent.

Dividend

In forming a decision about the dividend, directors took into account tougher business conditions for Radio Rentals, higher expenses from regulatory and legal issues as well as the need to conserve capital to fund the ongoing growth in business finance.

Directors have proposed a final fully franked dividend of 2.5 cents which brings the full year dividends to 8.0 cents at a 50% payout ratio (2016: final 6.0 cents, full year 11.5 cents, 88% payout ratio).

At today's closing share price of $1.25, this equates to a yield of 6.4% (a gross 9.1% if the franking credit is taken into account).

Outlook

The outlook for the Thorn Group is likely to be subdued in the coming year.

While Business Finance is expected to enjoy strong growth, Consumer Leasing is facing a period of transition with some short term challenges from adverse publicity, weaker general retail market conditions, the deferral of returning customers due to the launch of the 4 year contract 3 years ago and significant business change resulting from the transition to a new origination platform and associated processes.

Over the medium term Radio Rental's large and loyal customer base, prices that are already under the proposed legislative caps, and the efficient cost base will position it for industry leadership and growth.

For further information please contact Peter Forsberg, Acting CEO, on 02 9101 5034.

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Full Year Results

Presentation 2016/17

Agenda

Peter Forsberg, Acting CEO
Matt Ingram, COO

1. Overview
2. Results
3. Divisional performance
4. Regulatory matters
5. Outlook
6. Questions

Business Overview

- Thorn Group is a financial services organisation focused on Consumer Leasing (Radio Rentals) and Business Finance (TEF and TDF)
- Sold NCML, running off TFS consumer loan book
- Thorn is raising the bar with investments in Radio Rentals to improve customer offer through lower prices, a wider, more modern product range in new improved stores, a new online customer application and credit assessment system and driving operational efficiencies
- Challenging year for Radio Rentals: revenue steady but higher marketing and selling costs, lower prices (under proposed caps) and the taking of the regulatory provision impacted profits
- Strong growth in Equipment Finance lease originations and profit
- Trade and Debtor Finance portfolio repositioned to create a more stable book
- Provision taken for ASIC investigation
- Class action commenced on 29 March 2017 will be vigorously defended

Performance Overview

- Revenue up 3% to $299m, EBIT up 25% to $47m, NPAT up 26% to $25m
- Reported results include significant items in both years (adjusted NPAT 2017: $31.4m, 2016: $30.3m)
- Receivables book up 29% to $493m
- Business Finance growing, now 31% of EBIT and 56% of receivables book
- EPS up 23% to 16.2c
- Return on equity up 2 percentage points to 12.4%
- Gearing (excluding the non recourse securitised facility) low and stable at 56%
- Final dividend of 2.5 cents (after interim of 5.5 cents paid in January)

Group Full Year Results Summary

		March 17	March 16	Mar-17 v Mar-16 % Change
Revenue - continuing operations	$m	**298.7**	289.3	3.2%
EBIT - continuing operations	$m	**47.1**	37.6	25.3%
NPAT	$m	**25.3**	20.1	25.9%
EPS	cents	**16.2**	13.1	23.7%
Dividend – final proposed	cents	**2.5**	6.0	(3.5c)
– Interim Paid	cents	**5.5**	5.5	-
– Total (fully franked)	cents	**8.0**	11.5	(3.5c)
Return on equity	%	**12.4**	10.4	2.0 pts
Receivables [1]	$m	**493.0**	381.1	29.4%
Borrowings	$m	**276.5**	197.9	39.7%
Gearing (net debt/equity) [2]	%	**56.1**	53.2	2.9 pts

Notes:

1. Receivables on a net basis, i.e. exclusive of unearned interest and net of provisioning for credit losses.
2. Gearing is calculated as the closing net debt (senior borrowing less free cash) divided by closing equity. This calculation excludes the warehouse debt and its corresponding secured receivables. Gearing including warehoused debt and receivables would be 128.4% (95.1% for 2016)

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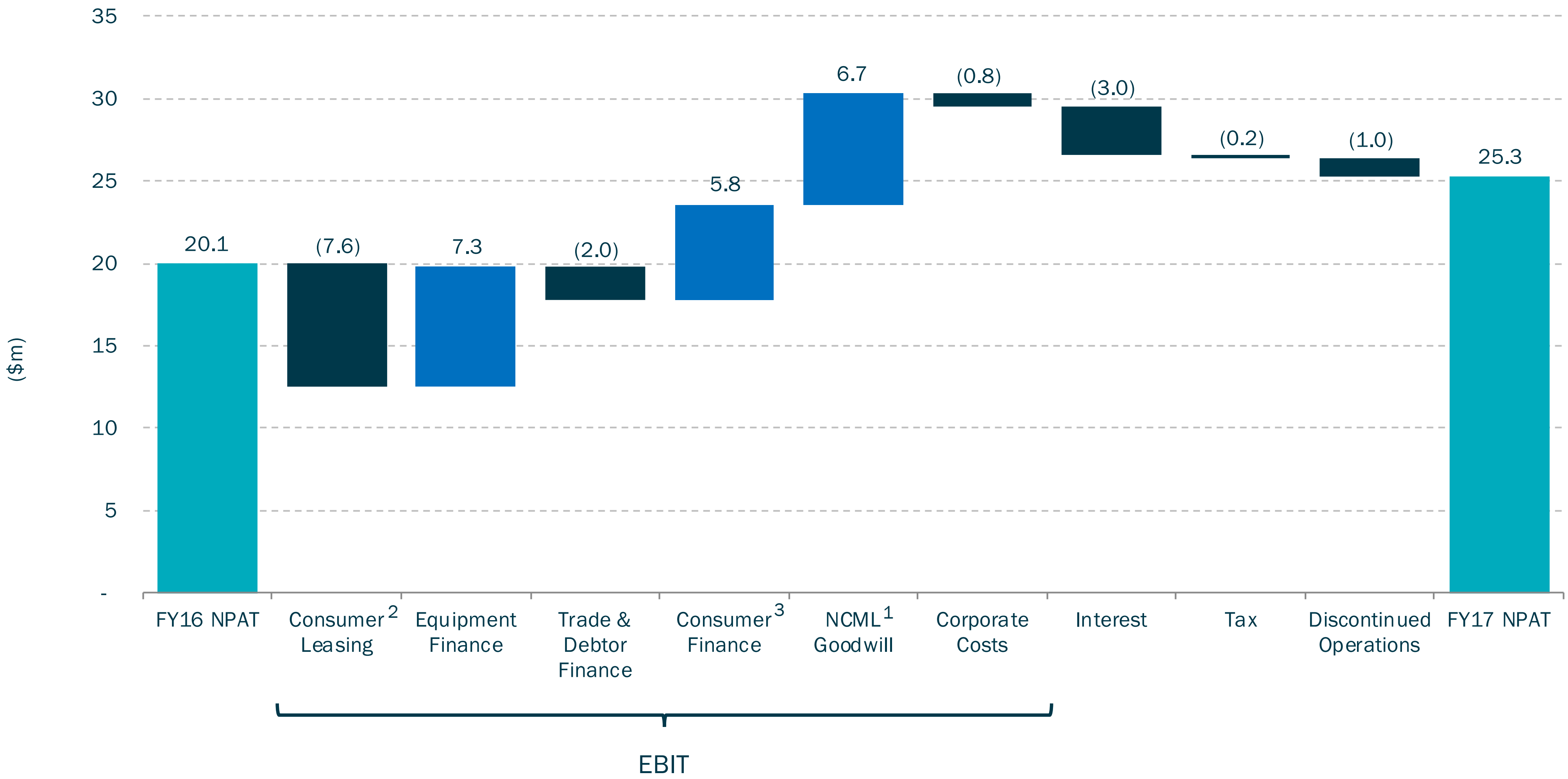
NPAT Bridge



Notes:

1. NCML goodwill written off in 2016. NCML was sold during the period on 13 Sept 2016. The discontinued operation of NCML earned $0.9m in FY16 and ($0.1m) in FY17.
2. Includes $8.1m and $2.8m provided for regulatory matters in 2017 and 2016 respectively
3. Includes $2.3m provided in 2016 for future losses on the TFS Consumer Finance book during run down

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Balance Sheet

	March 17		March 16	
	excl. Trust[2]	**incl. Trust**	excl. Trust[2]	incl. Trust
Cash at Bank	**14.7**	**14.7**	14.0	14.0
Receivables	**305.8**	**493.0**	278.7	381.1
Investment in unrated notes	**35.2**	**-**	20.5	-
Rental and other assets	**17.6**	**17.6**	22.4	22.4
Intangibles	**24.3**	**24.3**	25.5	25.5
Total Assets	**397.6**	**549.6**	361.1	443.0
Borrowings	**124.5**	**276.5**	116.0	197.9
Other Liabilities	**62.9**	**62.9**	47.6	47.6
Total Liabilities	**187.4**	**339.4**	163.6	245.5
Total Equity	**210.2**	**210.2**	197.5	197.5
Gearing (net debt/equity)	**56.1%**	**128.4%**	53.2%	95.1%

- Receivables up $112m
- NCML sale reduced receivables and borrowings by $22m. TFS book in run off
- Rental assets down $7m as customers migrate to longer term finance leases
- Borrowings up $79m to fund the receivables growth, in particular Equipment Finance
- Other liabilities up $15m includes regulatory provisions and deferred tax
- Gearing stable (excluding Trust) assisted by capital returned from the sale of NCML and TFS run-off

Notes:

1. Equipment 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. Trust gearing remains the same between the years at 80% bank funded.
2. The column excluding Trust excludes the securitised receivables and corresponding borrowings but includes Thorns equity interest in the warehouse through unrated notes.

Receivables

		March 17 ($m)	March 16 ($m)	Mar-17 v Mar-16 (%)
Consumer Leasing	Lease Book[1]	**172.8**	136.0	27.1%
	Rental Assets[2]	**6.7**	13.8	(51.4%)
Equipment Finance	Lease Book[1]	**239.3**	131.9	81.4%
Trade & Debtor Finance	Invoice & Loan Book[1]	**38.4**	46.3	(17.1%)
Consumer Finance	Loan Book[1,3]	**21.3**	33.6	(36.6%)
NCML	PDLs	**0.0**	19.5	(100.0%)
Trade Receivables, Prepayments & Other		**21.2**	13.8	53.6%
Receivables (excluding rental assets[2])		**493.0**	381.1	29.4%

Notes:

1. Receivables are presented on a net basis, that is exclusive of unearned interest and net of bad and doubtful debt provisioning.

2. Rental assets (includes warehouse and show room stock) and assets leased under short term operating leases are depreciated as fixed assets in the balance sheet.

3. Consumer Finance loan book in run-off.

Credit Quality

Consumer Leasing	March 17	March 16
Average Delinquency[1] (30+ days)	**8.4%**	7.5%
Impairment Losses ($m)	**17.5**	12.8
Impairment losses / ANR %[2]	**10.0%**	11.0%
Equipment Finance		
Average Delinquency[3] (30+ days)	**2.1%**	1.9%
Impairment Losses ($m)	**3.3**	1.3
Impairment losses / ANR %[2]	**1.8%**	1.2%
Trade and Debtor Finance		
Impairment Losses ($m)	**2.7**	0.0
Impairment losses / ANR %[2]	**6.3%**	0.0%
Consumer Finance		
Average Delinquency[3] (30+ days)	**9.3%**	7.4%
Impairment Losses ($m)[3]	**4.4**	5.1
Impairment losses / ANR%[2]	**12.9%**	12.0%

- Consumer Leasing
  - Delinquency has marginally increased and is in focus
  - Impairments in line with book growth
- Equipment Finance
  - Arrears maintained under 2.5% benchmark
  - Impairment losses have increased as book matures but still within expectations
- Trade & Debtor Finance
  - Write-offs relate to those originally acquired debts the business is migrating away from
- Consumer Finance
  - Book in run off so a worsening arrears and write off position is expected. Presently within expectations and overall provision

Notes:

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

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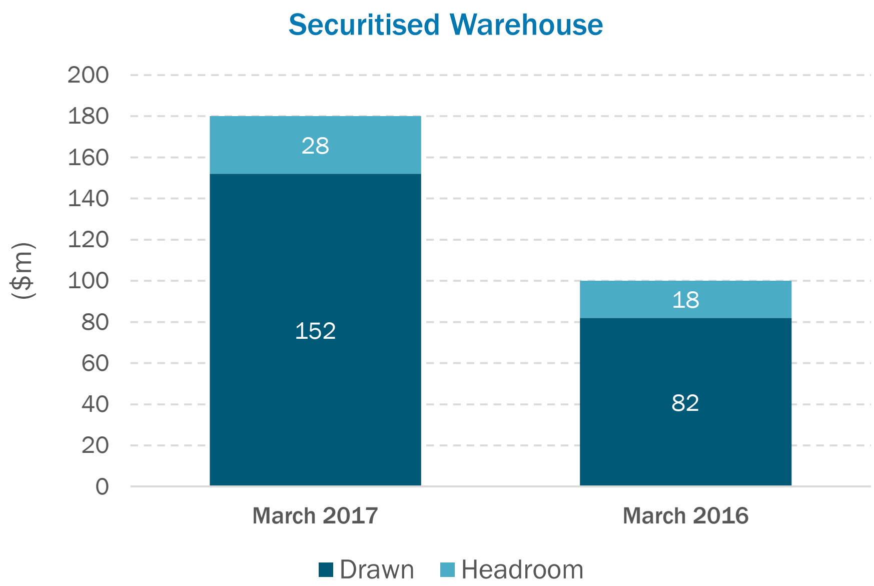
Borrowings



- Major bank lender increased facility limits by $115m to support growth backed by receivable assets
- Corporate facility drawn by a further $8m to fund the net of the increase in the Radio Rentals finance lease book offset by funds returned from the NCML sale and gradual TFS book run-off
- Securitised warehouse facility for Equipment Finance drawn by a further $70m to fund the strong growth
- Discussions continue on additional structured finance facilities and lengthening debt maturities
- Maturity profile:
  - Corporate facility $175m matures in Apr 2018
  - Warehouse facility $180m matures in Dec 2017 but warehouse nature means repaid through lease repayments over term of leases (no bullet)
- Group meets all debt covenants and has $79m of headroom

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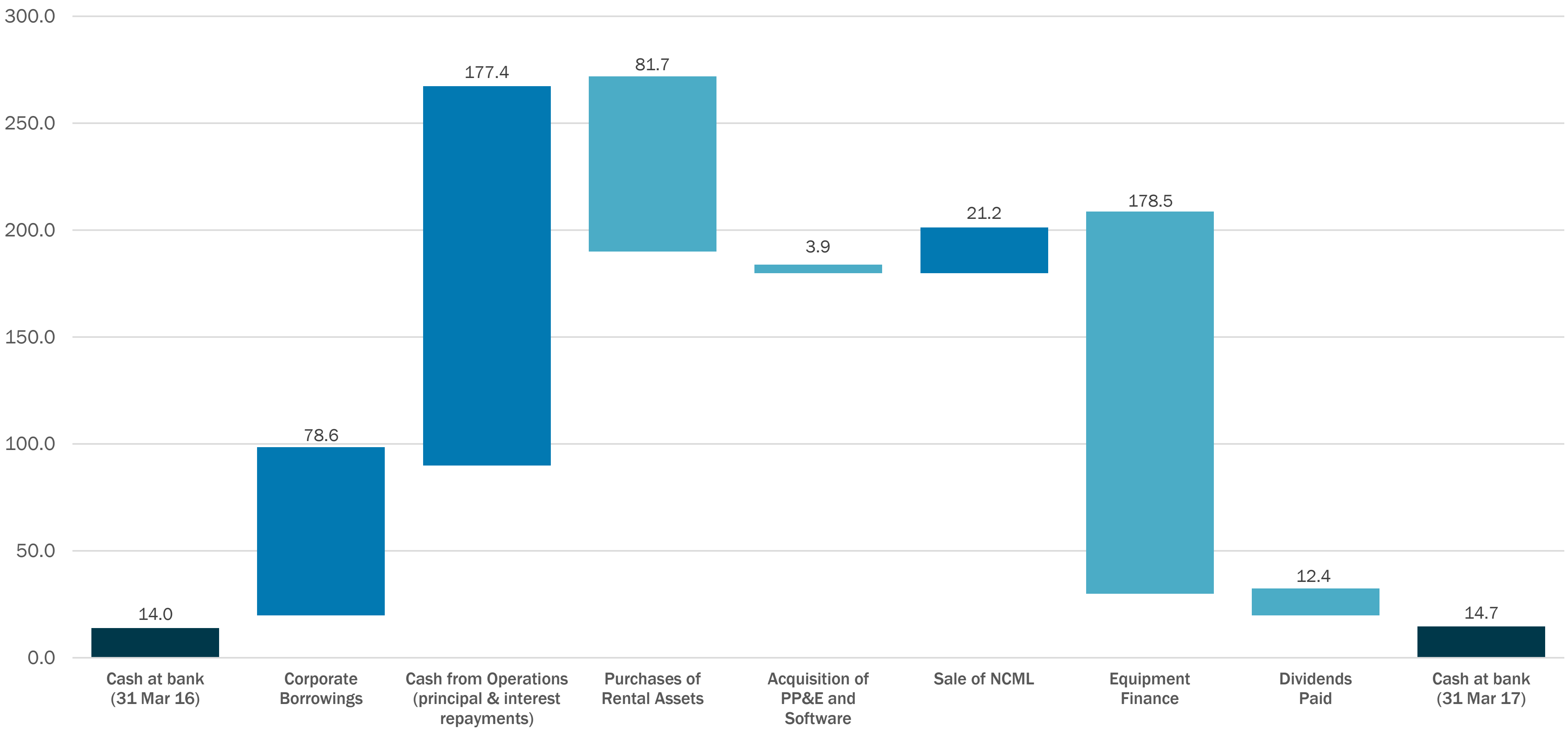
Cash Flow Bridge



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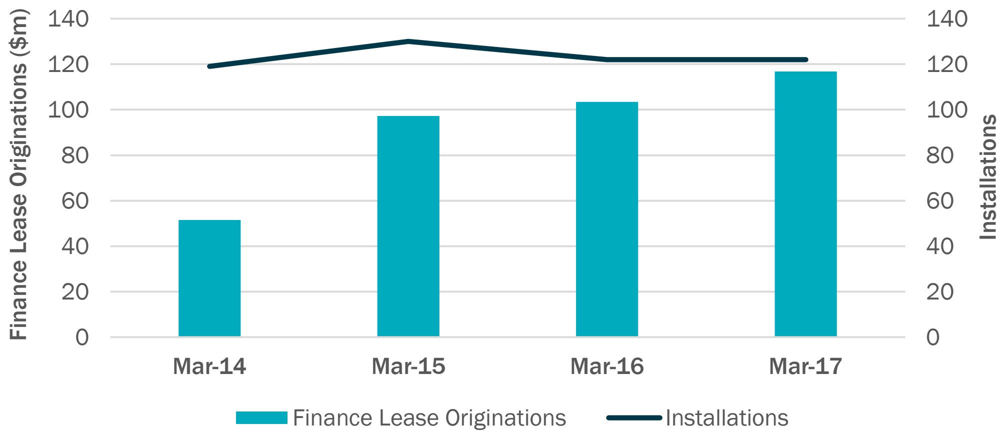
Consumer Leasing

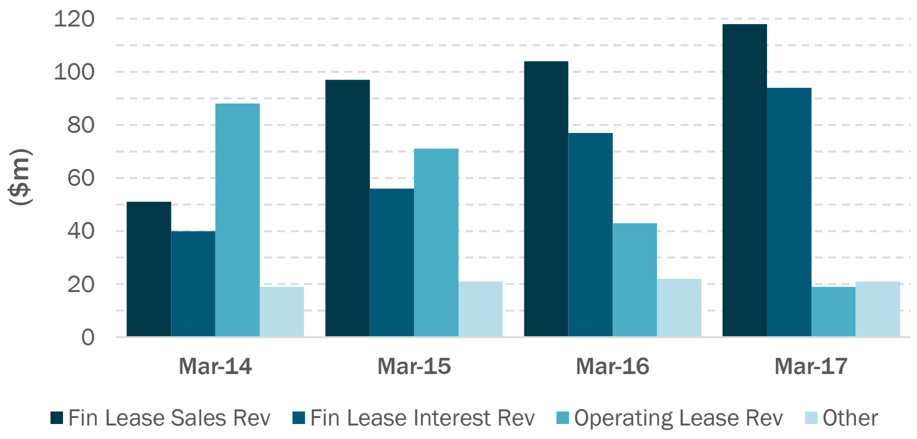
	Mar-17	Mar-16	Mar-17 v Mar-16 % Change
Installations ('000)	122.2	121.7	0.4%
Average Unit Rate ($ per week)	11.7	10.9	7.9%
Originations ($m)	116.8	103.4	13.0%
Revenue ($m)	251.2	245.7	2.2%
EBIT ($m)	36.3	43.9	(17.3%)
Receivables ($m)	172.8	136.0	27.1%
Total no. of stores	85	89	(4.5%)

- 80 years of history, large loyal customer base
- Revenue up 2% but higher marketing, personnel costs, lower pricing, redundancies and the regulatory provision impacted EBIT
- Several stores relocated into high footfall shopping centre locations with larger customer bases and higher demographics
- Flow through impact of temporary deferral of returning customers due to launch of the 4 year contract 3 years ago
- Progressive establishment of metro location warehousing and distribution hubs to better service customers
- Closure of underperforming stores and a restructuring program that resulted in a reduction of 53 people
- New Streamline customer application process being trialed in stores to provide a scalable and efficient process

Consumer Lease Volume



Revenue Composition



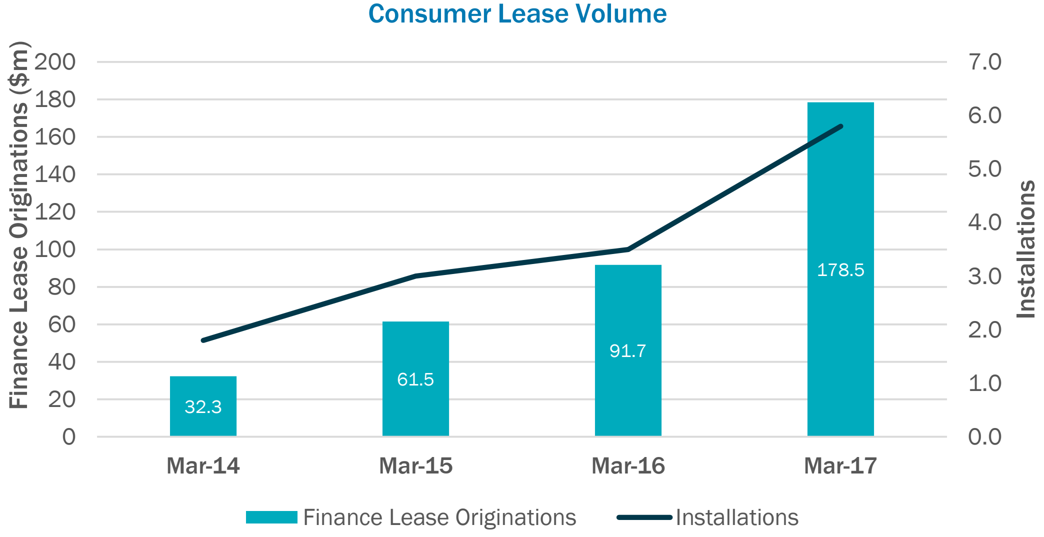
Notes:

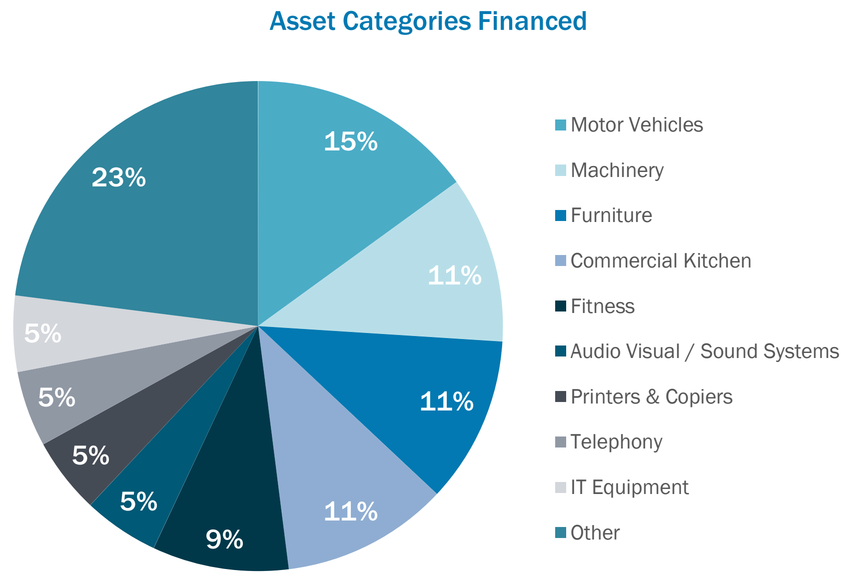
1. Installations excludes short term operating leases contracts
2. Finance lease originations
3. Includes $4.9m of regulatory compensation and remediation provisioning
4. Receivables on a net basis, exclusive of unearned interest and net of provisioning

Equipment Finance

	Mar-17	Mar-16	Mar-17 v Mar-16 % Change
Revenue ($m)	**26.4**	16.7	58.1%
EBIT ($m)	**16.1**	8.8	83.0%
Originations ($m)	**178.5**	91.7	94.7%
Receivables ($m)	**239.3**	131.9	81.4%

- Strong growth driven by relationships with Brokers and Strategic Partners
- Positive contribution from focus on franchise segment under "Cashflow IT" partnership
- Diverse customer base; arrears and losses well controlled
- Low asset type concentration





Notes:

1. Receivables on a net basis, exclusive of unearned interest and net of provisioning

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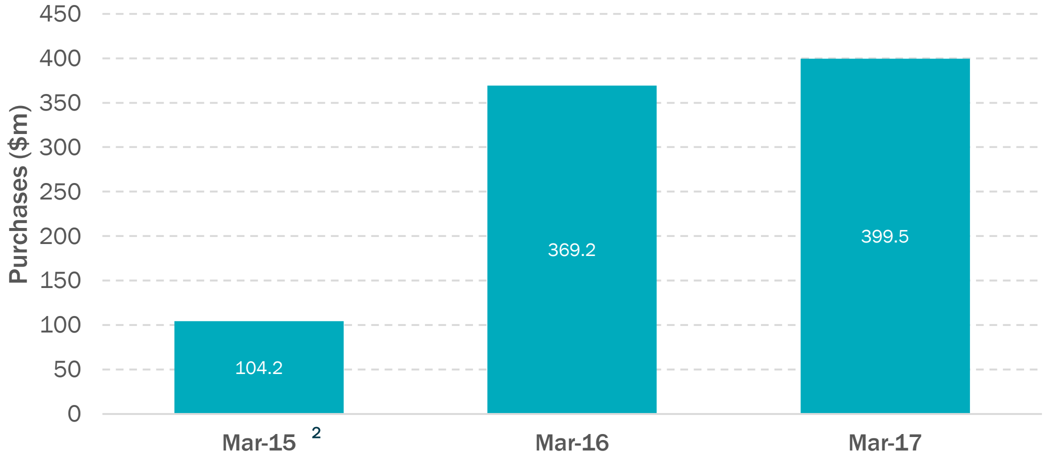
Trade & Debtor Finance

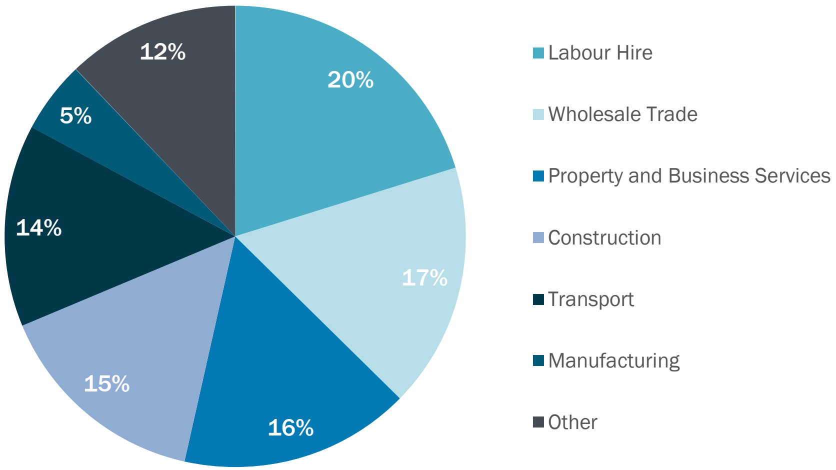
	Mar-17	Mar-16	Mar-17 v Mar-16 % Change
Revenue ($m)	**11.2**	13.8	(18.8%)
EBIT ($m)	**2.3**	4.3	(46.5%)
Purchases ($m)	**399.5**	369.2	8.2%
Invoices & Loan Book ($m)[1]	**38.4**	46.3	(17.0%)

- Stable loan book due to strategic focus on working out challenged clients over past year
- Focused on sustainable growth and diversity through aligned SME product offerings
- Aligned with Equipment Finance under the "Thorn Business Finance" brand, driving business efficiencies, volume and cross sell

Trade & Debtor Finance Purchases



Invoice & Loan Book by Industry

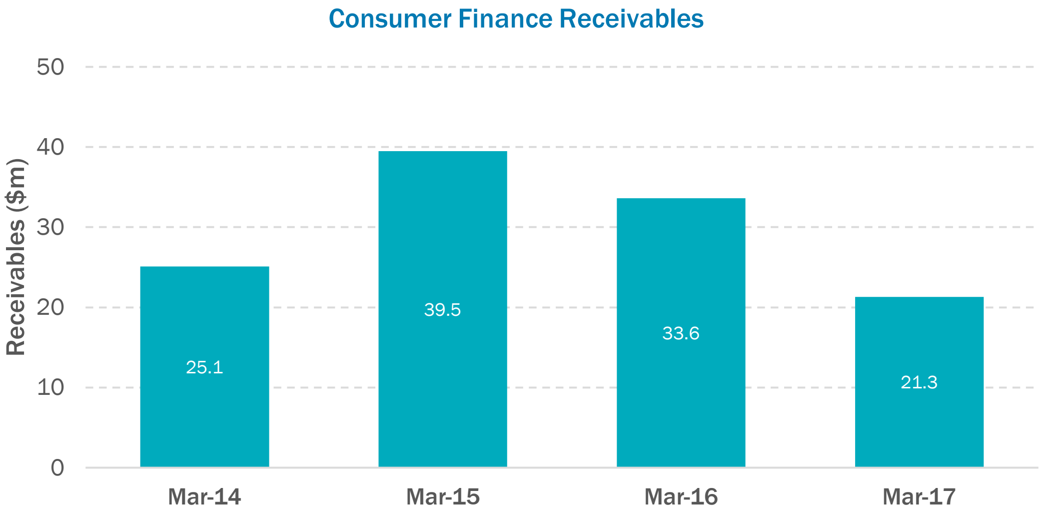


Notes:

1. Receivables on a net basis, exclusive of unearned interest and net of provisioning
2. Business acquired 4 Dec 2014, so part period

TFS Consumer Finance

	Mar-17	Mar-16	Mar-17 v Mar-16 % Change
Revenue ($m)	**9.9**	13.1	(24.4%)
EBIT ($m)	**4.0**	(1.9)	310.5%
Receivables ($m)	**21.3**	33.6	(36.6%)



- Continued run-off of consumer finance book with focus on managing arrears and write-offs
- EBIT increased significantly as no origination or marketing costs required
- Provisioning of approximately 26% of receivables balance is presently considered adequate but will be closely monitored
- Book and EBIT can be expected to run down over next few years towards zero

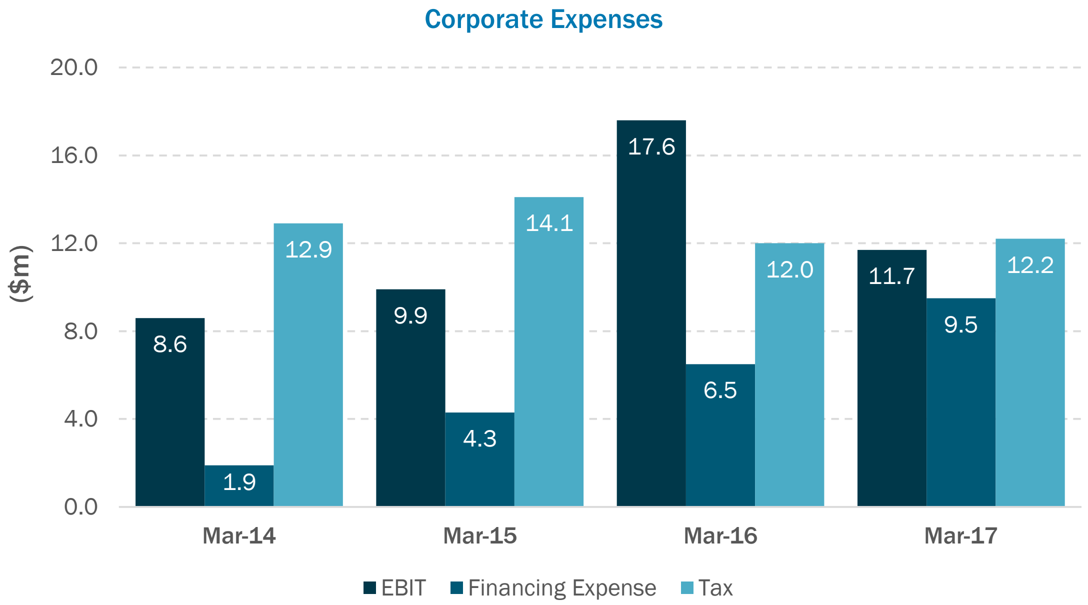
Notes:

1. Receivables on a net basis, exclusive of unearned interest and net of provisioning

Corporate, Interest & Tax

	Mar-17	Mar-16	Mar-17 v Mar-16 % Change
Operating Expenses ($m)	**(11.7)**	(10.9)	(7.3%)
Goodwill Impairment - NCML ($m)	**-**	(6.7)	100.0%
Financing Expense ($m)	**(9.5)**	(6.5)	(46.2%)
Tax ($m)	**(12.2)**	(12.0)	(1.7%)

- Corporate cost allocations adjusted to more accurately reflect business divisions expenses
- Corporate operating expenses up due to full year of expanded risk team, COO, CRO and GC roles, and legal and regulatory costs
- Increased finance expense due to significant growth in receivables and uptick in credit spreads and fees for extending the facilities and term
- Tax is approximately 30% of NPAT



Regulatory Matters - Radio Rentals

- **Customer credit balance refunds**
  - Closed account balances substantially refunded, current customer balances being refunded now
- **ASIC investigation**
  - Investigation has progressed with provision taken for potential penalty and remediation
  - Thorn rolling out nationally the new online Streamline system for customer application and credit assessment
- **Proposed consumer leasing legislation**
  - Agree with intent of the legislation
  - Radio Rentals pricing is already under the proposed caps
  - Some questions over the 10% income cap
- **Class action**
  - Launched 29 March 2017
  - Will be defended and may take years to resolve
  - No provision taken

Outlook

- Radio Rentals faces some immediate challenges with adverse publicity, weaker retail market conditions, temporary deferral of returning customers due to the launch of the 4 year contract 3 years ago, and significant business change with transition to the new online origination platform and process
- Equipment Finance has strong growth momentum and providing a growing proportion of earnings
- Trade & Debtor now repositioned and beginning to grow market share
- Continued expenditure on legal and advisory fees
- Ongoing funding support important to allow business finance to grow and diversify earnings
- Over the medium term Radio Rental's large and loyal customer base, prices that are already under the proposed legislative caps, and the efficient cost base will position it for industry leadership and growth
- Short term subdued, medium term positive

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