# FULL YEAR RESULTS

**PRESENTATION 2018/19**

# Agenda

Tim Luce, CEO
Peter Forsberg, CFO

1. Overview
2. Results summary
3. Financial statements
4. Divisional performance
5. Regulatory matters
6. Outlook

# Overview

- Trading conditions for Consumer Leasing remain challenging.
  - Volumes up 1% but higher discounts and bad debts and lower interest income and fees from a smaller receivables book.
  - Lower cash flow prompted one off accounting asset write offs.
- Business Finance solid performance in a capital constrained environment but a provision for a large (and industry wide) bad debt impacted profits.
- Consequence: financial loss for the year, cash tight and bank draw stop in place, no dividend.
- On funding, the securitised warehouse debt facility was expanded, a new mezzanine financier introduced, and a credit rating obtained.
- Corporate debt facility paid down to $15m (from $41m).
- Compliant with ASIC enforceable undertaking.
- Class action continues with ex CEO and D&O insurer recently joined.
- Strategic review announced on 1 April is in progress.

# Results Summary

| | | March 19 | March 18 | % Change |
|---|---|---|---|---|
| Revenue - continuing operations | $m | **221.9** | **234.3** | (5%) |
| EBIT - continuing operations pre asset write offs | $m | **0.2** | **37.9** | (99%) |
| Cash profit pre asset write offs | $m | **(7.9)** | **18.5** | (143%) |
| Reported NPAT | $m | **(14.9)** | **(2.2)** | nm |
| EPS | cents | **(9.3)** | **(1.4)** | nm |
| Dividend – Final proposed | cents | **-** | **-** | (0.0c) |
| – Interim Paid | cents | **-** | **1.0** | (1.0c) |
| – Total (fully franked) | cents | **-** | **1.0** | (1.0c) |
| Cash profit return on equity | % | **(4.2)** | **9.1** | (13.3pts) |
| Receivables [1] | $m | **457.4** | **489.0** | (6%) |
| Borrowings | $m | **303.6** | **284.3** | 7% |
| Gearing (net corporate debt/equity) [2] | % | **4.1** | **16.3** | (12.2pts) |

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 (corporate 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 171.9% (138.2 % for 2018)

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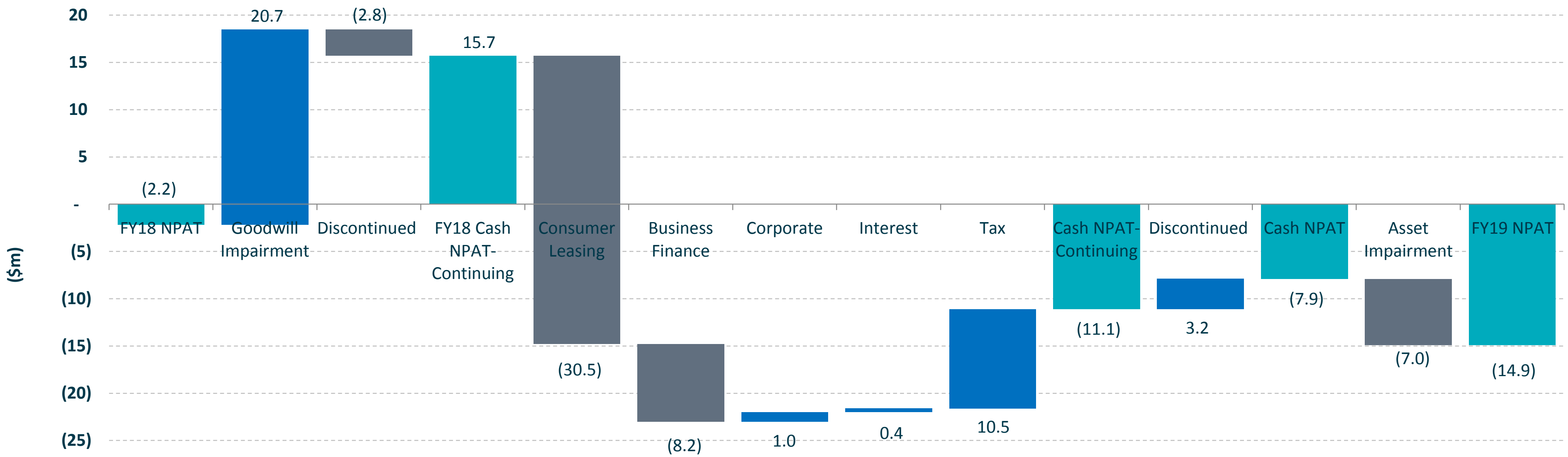
# NPAT Bridge




| A$m | Segment revenue | | % change fav/(unfav) | Segment EBIT to PAT | | % change fav/(unfav) | $ change |
|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | | 2019 | 2018 | | |
| Consumer Leasing | 178.7 | 195.4 | (8.6%) | (2.1) | 28.4 | (107.4%) | (30.5) |
| Equipment Finance | 43.2 | 38.9 | 11.1% | 16.1 | 24.3 | (33.7%) | (8.2) |
| Corporate | - | - | 0.0% | (13.8) | (14.8) | (6.8%) | 1.0 |

# Balance Sheet

| | March 19 | | March 18 | |
|---|---|---|---|---|
| | excl. Trust[2] | incl. Trust | excl. Trust[2] | incl. Trust |
| Cash at Bank | **30.6** | **30.6** | 28.2 | 28.2 |
| Receivables | **144.8** | **457.4** | 187.0 | 489.0 |
| Investment in unrated notes | **24.0** | **-** | 58.7 | - |
| Other tangible assets | **24.8** | **24.8** | 18.1 | 18.1 |
| Intangibles | **-** | **-** | 5.7 | 5.7 |
| **Total Assets** | **224.2** | **512.8** | 297.7 | 541.0 |
| Borrowings – warehouse | **-** | **288.6** | - | 243.3 |
| Borrowings - corporate | **15.0** | **15.0** | 41.0 | 41.0 |
| Other Liabilities | **37.2** | **37.2** | 57.0 | 57.0 |
| **Total Liabilities** | **52.2** | **340.8** | 98.0 | 341.3 |
| **Total Equity** | **172.0** | **172.0** | 199.7 | 199.7 |
| Gearing (net debt/equity) | **4.1%** | **171.9%** | 16.3% | 138.2% |
| Current ratio | | **1.4** | | 1.8 |

- TBF receivables book flat (up 3% gross but specific provision reduces it)
- Radio Rentals receivables book down 11% from $153m to $136m
- AASB 9 introduced
- Introduction of mezzanine investor into warehouse facility reduced Thorn's note contribution from 20% to 8%
- Warehouse borrowings up $45m to fund TBF growth
- Corporate borrowings reduced by $26m
- Equity down $28m due to $(14.9)m loss after tax plus $12.1m AASB 9 adjustment to retained earnings

Notes:

1. 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

| | | March 19 ($m) | March 18 ($m) | Mar-19 v Mar-18 (%) |
|---|---|---|---|---|
| Consumer Leasing | Lease Book[1] | **156.4** | 175.0 | (10.7%) |
| | Trade receivables | **6.8** | 6.8 | 0.1% |
| | Gross book before provision | **163.1** | 181.8 | (10.3%) |
| | Provision[2] | **(26.7)** | (28.6) | 6.5% |
| | Net receivables book | **136.4** | 153.2 | (11.0%) |
| Business Finance | Lease Book[1] | **340.3** | 331.5 | 2.7% |
| | Trade receivables | **5.0** | - | - |
| | Gross book before provision | **345.2** | 331.5 | 4.1% |
| | Provision (incl specific provision in FY19) | **(27.0)** | (16.7) | (61.8%) |
| | Net receivables book | **318.3** | 314.8 | 1.1% |
| Corporate | Solar loan book in run off | **2.7** | 3.8 | (27.6%) |
| Trade Receivables | | **457.4** | 471.8 | (3.1%) |

- March 18 balances are post the AASB 9 adjustments so the Mar18 balance sheet will not have the $10.4m additional provision for TBF and $6.8 for CL to give a $489.0m comparative.
- Consumer Leasing provision as a % of the gross book is 16.4% (2018: 15.7%).
- Business Finance provision as a % of the gross book is 7.8% (2018: 5.0%) but includes the specific provision of $10.1m which if excluded would reduce the remainder down to a 4.9% provision.

**Notes:**

1. Receivables are presented on a net basis, that is exclusive of unearned interest and net of bad and doubtful debt provisioning.
2. 2018 balance adjusted for April 1st adoption of AASB 9.

# Credit Quality

| | March 19 | March 18 |
|---|---|---|
| **Consumer Leasing** | | |
| Average delinquency[1] (30+ days) | 14.6% | 11.4% |
| Impairment losses (write offs) ($m) [4] | 23.6 | 19.8 |
| Impairment losses (write offs) / ANR %[2] | 18.0% | 12.6% |
| Impairment P&L expense | 30.4 | 23.5 |
| **Equipment Finance** | | |
| Average delinquency[3] (30+ days) | 3.7% | 2.6% |
| Impairment losses (write offs) ($m) | 7.2 | 5.2 |
| Impairment losses (write offs)/ ANR %[2] | 2.1% | 1.7% |
| Impairment P&L expense | 17.4 | 6.5 |

## Consumer Leasing

- Arrears rose substantially due to declining customer financial position, change in Thorn collection model to a centralised basis and the introduction of a new debt collection IT system.
- Action taken on arrears which are now coming down.
- Bad debt expenses up $7m on a smaller book.

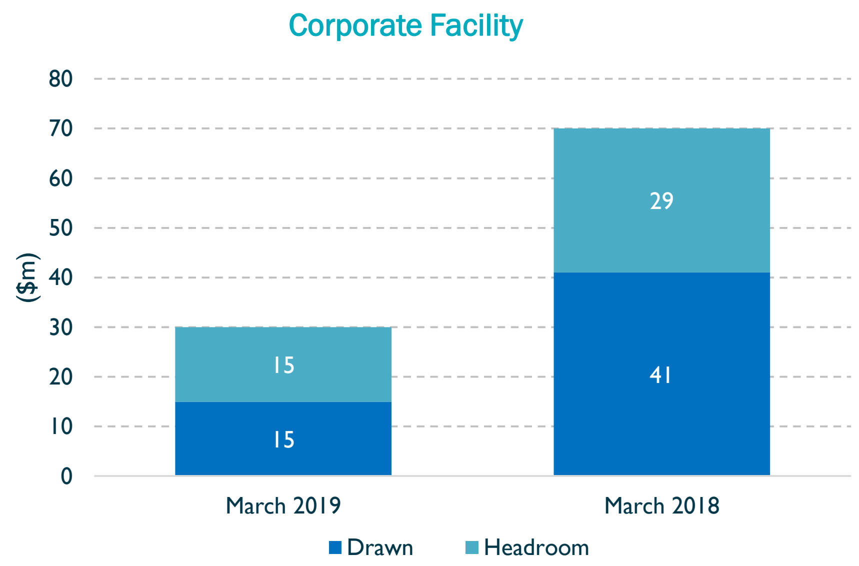
## Business Finance

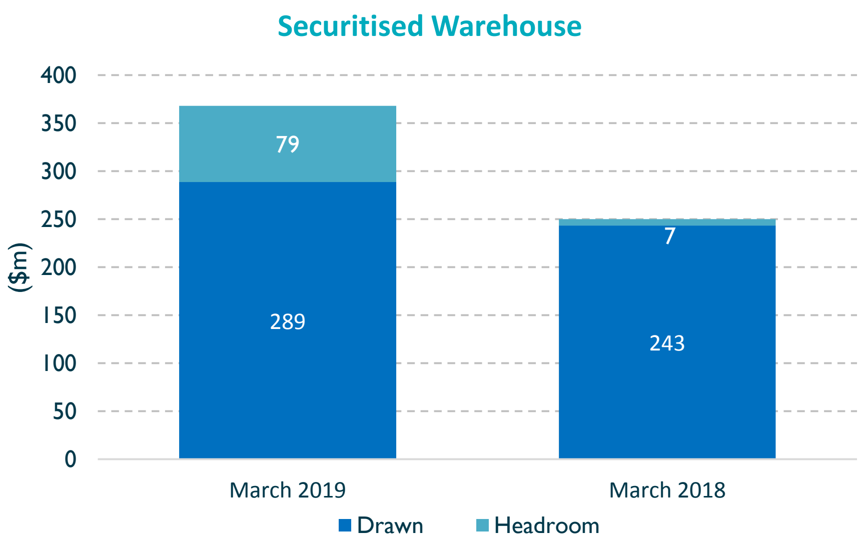
- Arrears moved above 3% benchmark.
- Impairment losses have increased as book begins to mature.
- Industry wide problem supplier caused $10.1m specific provision to be taken up (plus further separate restitution provision $1.4m).

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.

# Borrowings

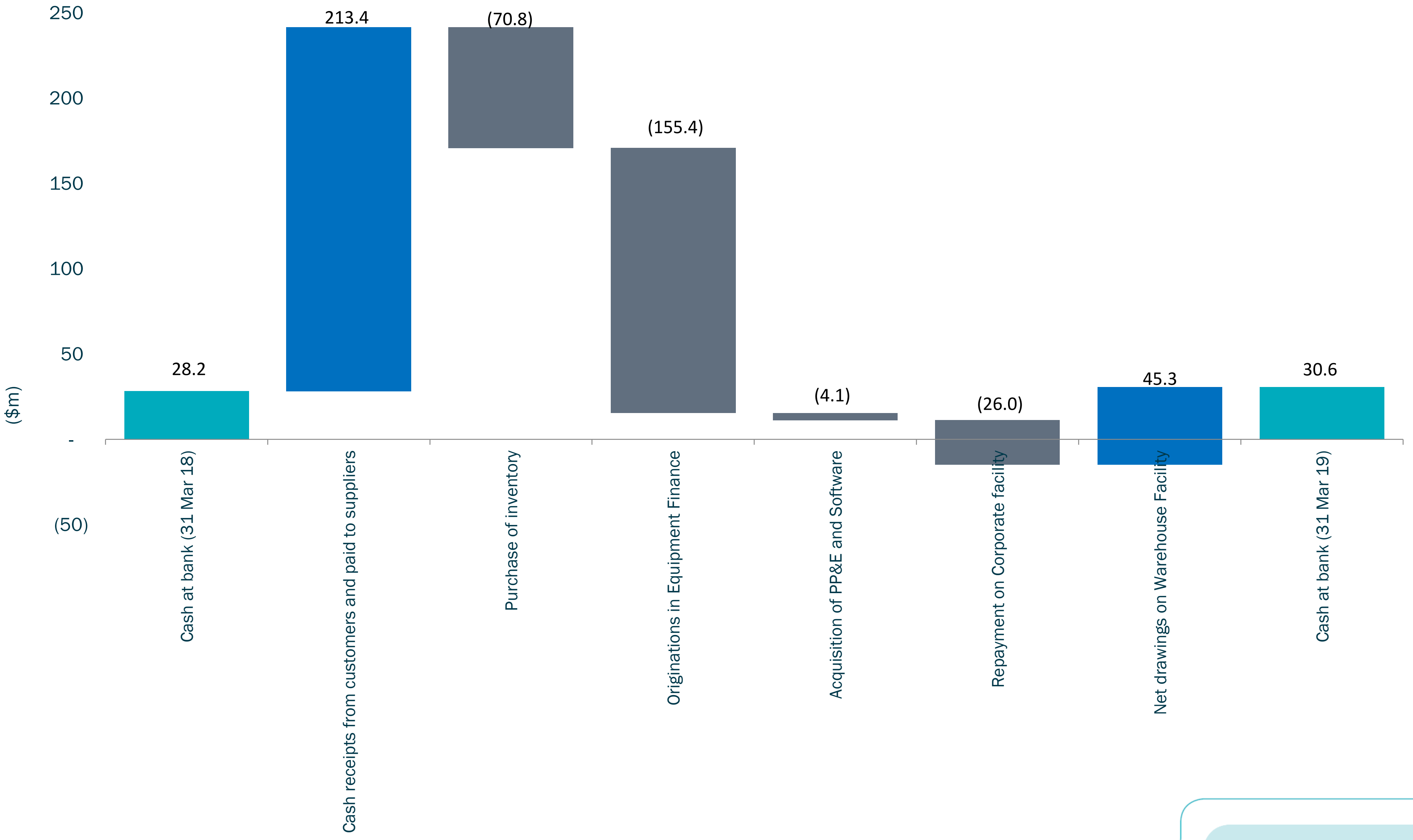



- Corporate debt facility paid down to $15m
- Limit $30m, tenor to 30 November 2020, $2.5m earmarked for bank guarantees for property leases comes off headroom, so headroom better described as $12.5m
- Draw stop in place, drawing up to $10m only available with lender's prior approval (other $2.5m is an unrestricted overdraft facility)
- Bank secured by a fixed and floating charge

- Securitised warehouse bank facility limit increased to $300m in August 2018
- Mezzanine financier injected $68m in August 2018. Credit rating obtained
- Facility now 92% geared
- Facility matures 10 August 2025 with annual reviews each August
- Asset backed deal so bank secured by the lease cash flows in the warehouse, non recourse to Thorn beyond equity notes of 8%

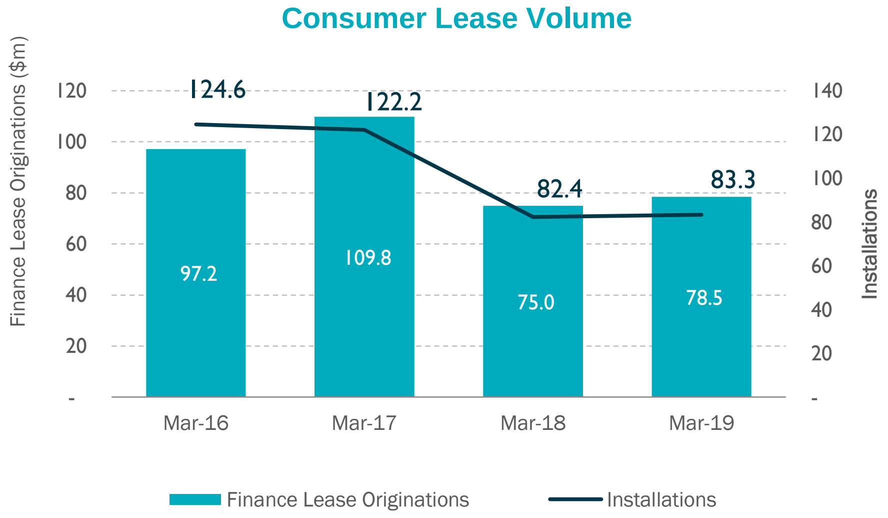
# Cash Flow Bridge

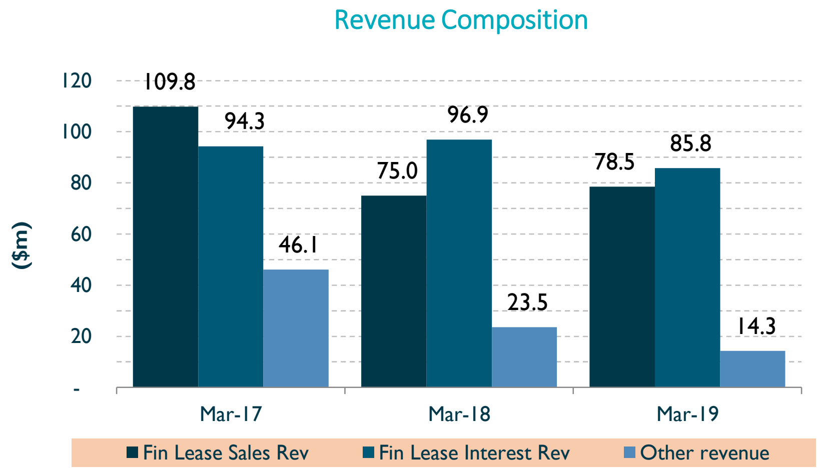


# Consumer Leasing

- Challenging trading conditions
- Installations stabilised but required more value for customers (discounting and promotional offers)
- Lower interest and fees from a 11% smaller receivables book
- Customer arrears spiked and bad debt costs rose $7m on smaller book
- Stores refurbished, refined range, cost savings, new 60 month and 12 month contract terms, new partnerships for service and warehousing

| | | Mar-19 | Mar-18 | % Change |
|---|---|---|---|---|
| Installation volumes | units | 83,299 | 82,388 | 1% |
| Average price per unit | $ | 1,030 | 971 | 6% |
| Average unit rental rate | $/week | 13.4 | 12.3 | 9% |
| Lease originations | $m | 78.5 | 75.0 | 5% |
| Revenue | $m | 178.6 | 195.4 | (9%) |
| EBIT pre asset write-offs | $m | (2.2) | 28.4 | Nm |
| Asset write-offs | $m | (10.0) | - | Nm |
| EBIT | $m | (12.2) | 28.4 | Nm |
| Receivables book, net | $m | 136.4 | 153.2 | (11%) |



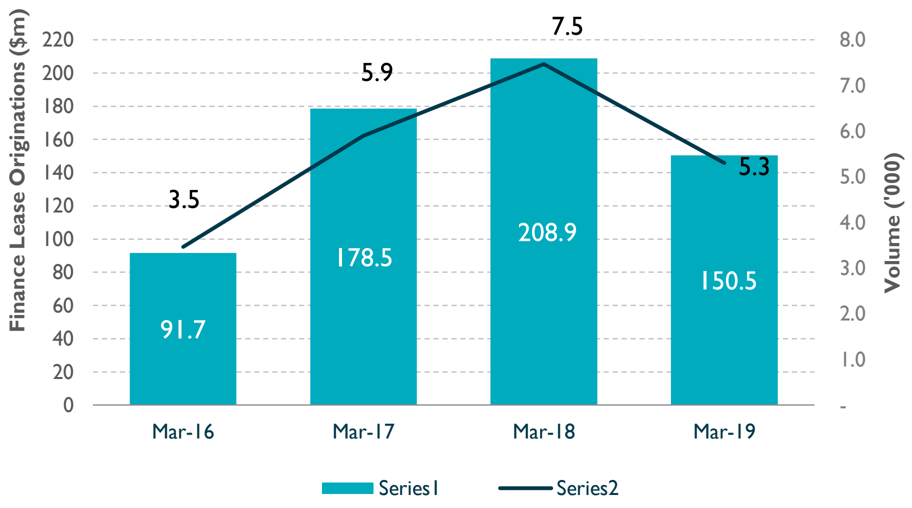



# Business Finance

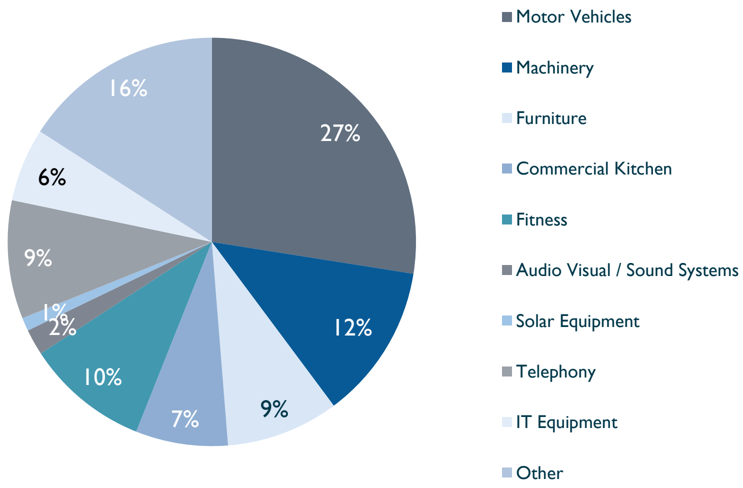
- Growth in volume constrained by capital availability. Expanded warehouse facility positions division well but originations must be cash settled by Thorn before being sold in.
- Partners all retained during slower growth phase
- Arrears rose as book matures but the loss given any default is low due to significant recoveries through payment plans and on security positions taken
- Large one off industry wide default with a specific provision of $11.5m taken

| | | Mar-19 | Mar-18 | % Change |
|---|---|---|---|---|
| Originations | $m | 150.5 | 208.9 | (28)% |
| Receivables, net[1] | $m | 318.3 | 314.8 | 1% |
| Revenue | $m | 43.2 | 38.9 | 11% |
| EBIT pre specific provision | $m | 27.6 | 24.3 | 14% |
| EBIT post specific provision | $m | 16.1 | 24.3 | (34)% |

Business Finance originations and number of deals




Asset Categories Financed




Note:

1. Net receivables includes trade debtors.

# Corporate and other costs

| | | Mar-19 | Mar-18 | % Change |
|---|---|---|---|---|
| Corporate HO costs | $m | (13.8) | (14.8) | (7%) |
| Goodwill impairment | $m | - | (20.7) | (100%) |
| Financing expenses | $m | (15.4) | (15.8) | (3%) |
| Tax | $m | 7.3 | (6.4) | nm |
| Effective tax rate | % | 28.3 | 29.0 | (0.7pts) |

- Corporate HO costs reduced
- Costs of responding to regulatory and class action matters continue
- Reduced cash flow in Consumer Leasing prompted asset write offs of software and fixed assets under accounting standard for impairment
- Interest and borrowing costs similar as the volume of debt increased slightly during the year as TBF growth greater corporate debt reduction but establishment fees amortised off
- Credit spreads overall increased due to the mezzanine financier in the warehouse
- IT systems upgraded during the year with both major systems now on the latest versions and new debt collection system introduced

# Regulatory Matters - Radio Rentals

**ASIC Enforceable Undertaking**

- In progress and due to expire August 2019
- Independent expert states Thorn is compliant with general conduct and responsible lending obligations

**Possible future consumer leasing legislation**

- Compliant with most requirements including price caps

**Class action**

- Continues to be defended, scheduled for trial later this year
- Thorn's previous CEO and its insurer now joined to the action

# Outlook

- Challenging conditions for Consumer Leasing expected to persist. Volumes stable, arrears, bad debts and promotional discounting being brought down, major competitor announced it would be exiting the market.
- Business Finance expected to perform similarly to this year while growth constraints remain (excluding repeat of specific provision).
- Corporate costs will continue to suffer ongoing legal and advisory fees due to the class action and EU
- Strategic review underway
- A return to a trading profit is expected

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