

Thorn Group Limited

ACN 072 507 147

ASX ANNOUNCEMENT

22 November 2011

THORN PROFIT INCREASES 30% & GROWTH INITIATIVES CONTRIBUTING

- NPAT up 30% to \$14.3m
- Revenue up 20% to \$96m
- Interim dividend 4.0 cents, up 13%
- 4% customer growth in Radio Rentals/Rentlo with continuing low arrears
- Cashfirst loan book reaches \$15m
- Rapid growth in Thorn Equipment Finance
- National Credit Management Limited (NCML) contributing \$3.3m EBITDA

Results

For the half year ended 30 September 2011, retail and financial services company, Thorn Group Limited (ASX: TGA), recorded a 30% increase in net profit after tax to \$14.3 million.

Revenue grew 20% to \$96 million, earnings per share¹ increased 19% to 10.08 cents, interim dividend increased 13% to 4.0 cents and debt to equity remains conservative at circa 8%.

Commentary

This result is testament to the Company's ability to perform well under both positive and challenging market conditions and demonstrates the strength of its long-term recurring revenue streams.

Growth in the core Radio Rentals/Rentlo business was again a key driver in Thorn's performance and is very pleasing given the tough retail market.

The Company also benefitted from positive contributions from all of its growth initiatives, which leverage the core competencies of the Group and provide a sound base for future expansion.

Radio Rentals/Rentlo

The year started strongly with record levels of installation volumes being achieved in 4 of the 6 months. Furniture was the standout performer experiencing volume growth of 26% over the prior half year and pleasingly both flat panel televisions and whitegoods also achieved solid volume growth.

The Company's Rent, Try, \$1 Buy!® offering continues to be a major factor in attracting and retaining customers by combining the benefits of rental with the potential to gain ownership of a product. This flexibility is an important consideration for customers, particularly if they are concerned about their financial circumstance.

Thorn's Responsible Rental Policy together with Rent, Try, \$1 Buy!®, continues to be the stimulus for an increase in average contract life which has improved 17% from 23 months to 27 months over the past 4 years.

¹ Based on the weighted average number of ordinary share for the period

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Customer arrears and write-offs were slightly above the previous half year due to some isolated operational issues but continue to run at very low rates, which reinforces the quality aspect of written business.

Managing Director, John Hughes, commented that “the continued strong performance of the consumer rental business is a real positive, particularly when compared to industry trends and certainly reinforces the strength of this business, predominantly through its long-term recurring revenue streams and customer loyalty”.

During the prior year the business undertook a number of initiatives to increase market presence in a very cost effective manner. The five ‘one person branches’ opened in FY11, which are targeted at underserved regional markets and the ‘kiosk’ trial for increasing market penetration in metropolitan areas all traded in line with or above expectations. Further expansion opportunities are currently being explored with another five outlets planned for opening in the second half.

Cashfirst

The loan book continued its strong growth and closed for the period at \$15 million, which represented an increase of some 25% for the first half. Importantly arrears and bad debts also continued to improve which again reinforces the Company’s commitment to responsible lending policies and writing quality business.

New business was primarily driven by a national TV advertising program.

Thorn Equipment Finance

This area has had a re-invention over the past year and is now generating significant increases in business volumes underpinned by strong growth in vendor and selected broker relationships. In addition the substantial base of business within TABs in NSW, Victoria and WA remains solid.

The management team continues to be enhanced by the appointment of further industry specialists in both sales and commercial underwriting.

National Credit Management Limited (NCML)

NCML, acquired at the end of March 2011, is a leading provider of integrated receivables management services. This has further enhanced the Company’s strength in this area which is key to the solid foundation of the organisation. It also assists in the expansion of Thorn’s financial services platform.

The loss of the ATO contract at the end of the first half was a disappointment, particularly given NCML’s consistent high level of performance; however the loss will only have a short term impact that is not material to the financial performance of the overall group.

Mr Hughes commented: “We have a number of other contracts coming to fruition for NCML that will offset the impact of the ATO loss in the medium term and our key focus remains on developing a complete credit management offering that can provide significant value adds for clients across all sectors.”

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NCML did not purchase any PDLs during the first half due specifically to market pricing being well above previous levels and were not able to be justified.

Mr Hughes commented: "It would appear that this increase in prices has been driven by a strong demand from major players who have demonstrated a renewed focus on significantly increasing purchases to fill their pipeline, which in itself can be problematic."

NCML has been successful in securing a forward flow and warehouse PDL contract with one of the major banks in October and in November secured a two year contract for contingency work with one of the other top four banks. It is well positioned to take advantage of other opportunities that may occur in the market.

Proposed legislative changes – small amount credit contracts

Thorn Group provides unsecured personal loans between \$1000 and \$5000 through Cashfirst but does not offer payday type loans and will not be materially impacted by the suggested reforms. Thorn's average loan is for an amount greater than \$2,000 over some 2 years.

Thorn believes proposed government reforms to payday lending will be a substantial benefit for many Australians but believes that some minor amendments are required in order to maintain a viable industry. The reforms announced by the Assistant Treasurer and Minister for Financial Services and Superannuation, the Hon Bill Shorten MP, are intended to cap the costs of payday lending.

Mr Hughes said: "These reforms are sound and bring stronger regulation to a much needed area. We see many cases of hardship brought about by payday lending and reining in irresponsible practices is good for the entire credit industry."

Closing of NCCP licensing loophole

Thorn also believes a financial services reform that requires urgent attention is how some rental businesses, representing a significant market presence, avoid regulation by having rental agreements of an indefinite length.

This form of contract exempts businesses from the licensing regime of the National Consumer Credit Protection Act (NCCP) and hence the Responsible Lending requirements.

The current delay, expected to be until 2013, to close the loophole is unacceptable and means a lack of protection for consumers.

Thorn received its Australian Credit Licence in October 2010, making it one of the first credit providers to be licensed.

Maintaining compliance involves a significant investment in technology, systems and training and in Thorn's view, avoiding this commitment because of licensing loopholes is not beneficial for industry standards and in particular consumers.

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Dividend payment

An interim dividend of 4.0 cents a share fully franked will be paid on 20 January 2012 to shareholders registered on 29 December 2011.

Outlook

The first half results have provided a solid start to the 2011/12 financial year and subject to current economic conditions remaining stable Thorn still expects a substantial increase in earnings for the full year ending 31 March 2012. This will be due to solid organic earnings growth from existing businesses and a full year contribution from NCML.

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ABOUT THORN GROUP LIMITED (ASX: TGA, www.thorn.com.au)

Thorn Group is a retailing and financial services company and a leader in the household goods rental market. Its core business is Radio Rentals (Rentlo in South Australia), a brand in Australia since 1937 and now with over 80 outlets nationally. Other group businesses comprise Thorn Equipment Finance, providing commercial finance for SMEs, Cashfirst, providing personal loans up to \$5000, and National Credit Management Limited, a full service receivables management company.