THORN
GROUP LTD

# RESULTS PRESENTATION

## for the half year ended 30 September 2020

2020-21

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| | |
|---|---|
| Pete Lirantzis | CEO |
| Luis Orp | CFO |

# Highlights - First Half Financial Year 2021

### *>$40m of annualised savings*

- Closure of Radio Rentals store and logistics network
- Reduced headcount by ~400
- Exited ~100 property leases for retail stores and warehouses

### Radio Rentals®

- Commenced rapid transformation from a bricks and mortar business to a digital business utilising a drop-ship supply chain

### THORN Business Finance

- Focused on managing the impact of COVID-19 on customers and preserving value in the receivables book

### *Funding*

- Business Finance's funding warehouse remains in amortisation due to the COVID-19 pandemic
- Repayment of remaining $10m corporate debt facility

### *Special Dividend*

- Special fully franked dividend of $0.075 per share paid on 3 November 2020

### *Focus on Cash*

- ~$50m of free cash at bank (post special dividend)
- Continuing to collect on the Radio Rentals receivables book

# Business update

Radio Rentals

| Key Metrics | | Sep 20 | Mar 20 | Sep 19 | Sep 20 v Sep 19 |
|---|---|---|---|---|---|
| Origination volume | '000 units | **4.3** | 34.7 | **39.8** | (89%) |
| Average price per unit | $ | **1,202** | 1,114 | **1,063** | 13% |
| Average Unit Rate | $/week | **17.2** | 15.1 | **14.1** | 22% |
| Originations | $m | **5.0** | 35.3 | **39.6** | (87%) |
| Revenue | $m | **40.0** | 78.0 | **84.4** | (53%) |
| EBIT (pre significant items) | $m | **11.4** | (14.9) | **6.9** | 65% |
| Receivables net of provision | $m | **77.9** | 109.6 | **131.3** | (41%) |

- Commenced the rapid transformation of the business model from bricks and mortar to a wholly digital platform
- Lower revenue and originations during the transition to a digital business model
- >$40m of annualised cost reductions across people, stores and warehouses and vehicles, significantly reducing the fixed cost base
- Receivables book reducing as the existing book continues to be collected while originations are impacted by the transition of business model

| Credit Quality | | Sep 20 | Mar 20 | Sep 19 | Sep 20 v Sep 19 |
|---|---|---|---|---|---|
| Average arrears across period[1] (<30 days) | % | **6.5** | 8.6 | **8.2** | (1.7) |
| Average arrears across period[1] (30+ days) | % | **13.3** | 14.6 | **13.1** | 0.2 |
| Net write-offs[2] | $m | **10.4** | 14.9 | **13.9** | (3.5) |
| Net write-offs as a % of average receivables[3] | % | **16.3** | 22.2 | **17.5** | (1.2) |
| Impairment expense[2] | $m | **5.6** | 27.8 | **10.9** | (5.3) |

- Overall collection performance has been strong
- Arrears have been maintained or improved since September 2019
- Impairment losses and impairment expense significantly reduced from both March 2020 and September 2019
- Note that Radio Rentals' arrears are typically impacted by seasonality over summer

**Notes:**

1. Calculated as average monthly arrears balance across the 6 month period of delinquent accounts expressed as a % of total monthly billings.
2. Net write-offs stated here are the net write offs processed in the period. The impairment expense line represents that plus any change in the provision for credit losses.
3. Net write-offs for 6 month period expressed as % of average gross receivables and annualised

# Business update – Business model

Radio Rentals

| | FY20 | Current | Future |
|---|---|---|---|
| **Channels** | *Store-based* | *Digital* | *Mobile-first* |
| **Credit** | *Paper-based* | *Paperless* | *Automated* |
| **Supply Chain** | *Internal* | *Drop-ship (single)* | *Drop-ship (multi)* |
| **Servicing/ Collections** | *Decentralised* | *Centralised* | *AI/data-driven* |

# Business update

| Key Metrics | | Sep 20 | Mar 20 | Sep 19 | Sep 20 v Sep 19 |
|---|---|---|---|---|---|
| Originations | $m | **4.6** | 73.4 | **78.6** | (94%) |
| Receivables net of provision | $m | **211.7** | 279.5 | **317.9** | (33%) |
| Revenue | $m | **17.8** | 21.4 | **20.5** | (13%) |
| EBIT (pre significant items) | $m | **(0.9)** | (28.1) | **9.0** | nm |

- Focused on managing impact of COVID-19, including assessment, payment holidays and contract variations and preserving value in the receivables book
- Originations restricted following the warehouse being placed into amortisation as a direct result of COVID-19
- Receivables reduced due to restricted originations and a $11.4m increase in the COVID-19 provision to $37.3m
- Loss driven by increase in COVID-19 provision
- Developing new value propositions, leveraging disruptive technologies, to target specific SME segments

| Credit Quality | | Sep 20 | Mar 20 | Sep 19 | Sep 20 v Sep 19 |
|---|---|---|---|---|---|
| Arrears at period end (30+ days) | % | **34.2** | 5.1 | **5.9** | 28.3 |
| Non-Covid arrears at period end (30+ days) | % | **6.2** | 6.3 | **7.9** | (1.7) |
| Net write-offs[2] | $m | **6.6** | 16.8 | **6.5** | 0.1 |
| Net write-offs as a % of average receivables[3] | % | **4.5** | 7.0 | **3.8** | 0.7 |
| Impairment expense[2] | $m | **13.6** | 43.5 | **6.4** | 7.2 |

- ~$100m of receivables were COVID-19 impacted in September 2020, with >80% 30+ days past due
- Non-COVID-19 arrears reduced compared to September 2019 and have been flat since March 2020
- ~88% of Covid impacted customers have resumed payments, however total remediation levels are still low
- Impairment expenses is driven by the $11.4m increase in the COVID-19 provision to $37.3m

Notes:

2. Net write-offs stated here are the net write offs processed in the period. The impairment expense line represents that plus any change in the provision for credit losses.

3. Net write-offs for 6 month period expressed as % of average gross receivables and annualised.

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# Consolidated Results

| | | Sep 20 | Mar 20 | Sep 19 | Sep 20 v Sep 19 |
|---|---|---|---|---|---|
| Revenue | $m | **57.8** | 99.4 | **104.9** | (44.9%) |
| EBIT pre significant items[1] | $m | **6.1** | (46.6) | **11.2** | (45.5%) |
| EBIT | $m | **5.6** | (44.6) | **(17.5)** | nm |
| NPAT | $m | **(1.1)** | (55.4) | **(25.6)** | nm |
| EPS | cents | **(0.3)** | (17.5) | **(15.6)** | nm |
| Free Cash | $m | **60.7** | 28.7 | **23.7** | 156.1% |
| Receivables[2] | $m | **290.6** | 389.8 | **451.0** | (35.6%) |
| Borrowings | $m | **236.0** | 305.5 | **309.8** | (23.8%) |

- Revenue as expected considerably lower with measured originations in both Radio Rentals[3] and Thorn Business Finance[3]
- Focus on cost reduction and collections has seen a significant improvement in net profit after tax (NPAT)
- Earnings per share (EPS) has seen a significant improvement in line with NPAT
- Focus on cost reduction and collections together with low originations has strengthened cash reserves

**Notes:**

1. Significant items include $3.5m of redundancy costs, $0.6m of IT related store closure costs offset by $1.7m net gain on exiting of store leases and $1.9m of JobKeeper grant receipts.
2. Receivables on a net basis, i.e. exclusive of unearned interest and net of provisioning for credit losses.
3. The Radio Rentals business refers to the Consumer Leasing segment. Thorn Business Finance refers to the Business Finance segment.

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# Balance Sheet

| $m | 30-Sep-2020 excl. Trust | 30-Sep-2020 incl. Trust | 31-Mar-2020 excl. Trust | 31-Mar-2020 incl. Trust |
|---|---|---|---|---|
| Cash at bank | **60.7** | **79.5** | 28.7 | 49.6 |
| Receivables | **81.9** | **290.6** | 122.5 | 389.8 |
| Investment in unrated notes | **-** | **-** | - | - |
| Inventories and other assets | **1.6** | **1.6** | 13.9 | 13.9 |
| Intangible assets | **-** | **-** | - | - |
| **Total Assets** | **144.2** | **371.6** | 165.1 | 453.3 |
| Borrowings | **-** | **236.0** | 12.0 | 305.5 |
| Other liabilities | **29.8** | **29.8** | 42.1 | 42.1 |
| **Total Liabilities** | **29.8** | **265.8** | 54.1 | 347.6 |
| **Total Equity** | **114.4** | **105.8** | 111.0 | 105.8 |

- Business focused on collecting legacy receivables books and maximising free cash flow
- Thorn Business Finance receivables gross book down 18.4% to $264.6m. Provision would have similarly reduced but COVID-19 provision has increased by $11.4m to $37.3m
- Radio Rentals receivables gross book down 25.1% to $109.2m impacted by the transition to a digital business model
- Inventory down from $8.0m to $0.3m as Radio Rentals transitioned to a drop-ship supply chain
- Warehouse borrowings down to $236m as payments accelerated under amortisation rules
- Lease liabilities reduced by $8.7m to $3.0m following exiting of store network and associated warehouse infrastructure

# Receivables

| $m | | Sep 20 | Mar 20 | Sep 19 | Sep 20 v Sep 19 (%) |
|---|---|---|---|---|---|
| Radio Rentals | Gross lease book incl. billed amounts | **109.2** | 145.9 | 155.0 | (29.5%) |
| | Provision for credit losses | **(31.3)** | (36.3) | (23.7) | 32.1% |
| | Net balance | **77.9** | 109.6 | 131.3 | (40.7%) |
| | Provision as a % of gross | **28.7%** | 24.9% | 15.3% | 87.6% |
| Thorn Business Finance | Gross lease book incl. billed amounts | **264.6** | 324.5 | 345.7 | (23.5%) |
| | Provision for credit losses | **(52.9)** | (45.0) | (27.8) | 90.3% |
| | Net balance | **211.7** | 279.5 | 317.9 | (33.4%) |
| | Provision as a % of gross | **20.0%** | 13.9% | 8.0% | 150.0% |
| Other | | **1.0** | 0.7 | 1.8 | (44.4%) |
| **Receivables** | | **290.6** | 389.8 | 451.0 | **(35.6%)** |

- Measured originations in Radio Rentals and Thorn Business Finance have led to reductions in both portfolios
- Provisions for credit losses as a percentage of receivables have increased for both businesses

# Content

# Future

### *Rapid Transformation*

- Expand product range through new supplier partnerships
- Digitise and automate processes
- Enhance end-to-end customer experience
- Continue to collect from and service customers

### *Collections & Funding*

- Preserving value of the receivables book through collections activity
- Maximising collections through finalising hardship periods by contract variations and payment plans for COVID-19 impacted customers
- Re-establishing external funding lines to scale originations
- Developing new value propositions, leveraging disruptive technologies, to target specific SME segments

# Future

*“Over the last six months the new management team and board have executed major initiatives to set Thorn Group up for success, while navigating through the COVID pandemic.*

*We have successfully remediated and recalibrated how our group operates, as well as vastly improved how we engage with our partners and regulators.*

*Thorn is now on a path to growth with Radio Rentals transforming from bricks and mortar to digital. Radio Rentals will be expanding its product range to offer greater choice to customers, digitising and automating processes to improve customer experience and reduce costs, and enhancing customers’ end-to-end experience.*

*Meanwhile in Thorn Business Finance, we have a deeper understanding of the needs of our customers and are developing new value propositions, leveraging disruptive technologies, to target specific SME segments.*

*We are totally customer focussed in each of our divisions and moving quickly to deliver a suite of compelling finance solutions and products to them.*

*We are excited about the future and fleet-footed to ensure Thorn is set up to deliver shareholder value.”*

**Peter Lirantzis**
**CEO Thorn Group Limited**

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