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THORN HALF YEAR PROFIT AND DIVIDEND HIGHER, ACQUISITION ADDS TO FUTURE GROWTH PROSPECTS

Group highlights for the six months to 30 September 2014

- Revenue up 33% to $150M (1HFY14: $113M)
- Cash NPAT up 13% to $16.1M ($14.2M)
- Reported NPAT up 14% to $15.2M ($13.3M)
- EPS up 13% to 10.11cps (8.98cps)
- Half year dividend increased to 5 cents fully franked (4.5 cents)

Operations

- Group receivables[1] up 42% to $307.6M ($213.3M)
- Record earnings from Radio Rentals
- Receivables expansion for Thorn Equipment Finance and Thorn Financial Services

Overview

- "Thorn is in very good shape, demonstrating growth from existing and newer businesses"
- Acquisition of invoice financing business, CRA, adds to Thorn Equipment Finance and takes receivables book over $100M
- Business diversification contributes to an evolving balance sheet
- Outlook positive, full year guidance of underlying NPAT growth to above $30M

Group performance commentary

Financial services company, Thorn Group Limited (ASX: TGA), has delivered a strong result in the first half of FY15, with revenue increasing 33 per cent compared to the previous corresponding period, up from $113 million to $150 million. Principal reasons for growth were another record performance from Radio Rentals, which benefited from the introduction of a 48 month Rent, Try, 1$ Buy contract, as well as further expansion of newer operating segments. Indicating that investments in newer strategic initiatives were starting to pay off, net profit after tax was up 14 per cent, from $13.3 million to $15.2million.

Consumer leasing business, Radio Rentals, was the main contributor to Group performance, posting record revenue and achieving five out of six record installation months. Improved relationships with introducers and brokers led to growth in revenue for Thorn Equipment Finance, with receivables growing to $78 million. Thorn Financial Services reported higher revenue from an expanded loan book, resulting from a broader range of loans but with higher marketing costs limiting profit contribution in the period.

Total receivables grew 42 per cent to $307.6 million. This was mainly due to growth in consumer lease receivables, up 51 per cent, to $189.3 million. Commercial lease receivables grew by 23 per cent to $78.1 million and consumer finance receivables grew 41 per cent to $40 million.

[1] Group receivables are disclosed on a gross basis inclusive of interest

The change in business structure from a rental business to a broader financial services business has led to the need for an evolving approach to capital management. With operating cash affected by a 179 per cent increase in loans advanced and net cash used in investing activities up 22 per cent to $70 million, borrowings increased to $71 million to support this growth.

At balance date, Thorn has headroom of $29 million on it's current banking facilities. With further growth in receivables planned and to fund the acquisition of Cash Resources Australia (CRA), Thorn is finalising an increase in it's corporate debt facility to $110 million and an increase in it's warehouse funding facility from $50 million to $100 million.

Managing Director of Thorn, Mr James Marshall, said Thorn was in very good shape, demonstrating growth from existing and newer businesses and posting higher levels of receivables, revenue and earnings.

"In addition to strong results for the first half of FY15, we have made a strategic acquisition of invoice financing business Cash Resources Australia. Our business customers have been asking for a working capital solution for a while and we see this acquisition as a natural fit to the Thorn Equipment Finance operations," Mr Marshall said.

"Thorn continues to perform strongly and we are seeing results from our strategic initiatives and investments, including additional loan products and extended lease contracts, flowing through to the bottom line," Mr Marshall said.

Radio Rentals/Rentlo

Radio Rentals provides an extensive range of technology, home and office needs, through a range of consumer lease products, principally under t*he Rent, Try, $1Buy!® banner. Radio Rentals operates 90 outlets nationally and has been a market leader since 1937.*

Consumer leasing business, Radio Rentals, performed strongly, posting a 37 per cent increase in revenue to $128 million ($94M), with underlying EBITDA up 15 per cent to $26.7 million ($23M).

Record installations were achieved in five of the six months, with growth mainly coming from longer term 48 month Rent, Try, $1 Buy!® contracts and strong finance lease revenue. Installations increased by 12 per cent, which was primarily attributable to strong demand for furniture and technology products, with significantly higher demand for quality "smart enabled" devices. Receivables were up 51 per cent for the period to $189.3 million due to increased installations across all product categories on longer term finance lease contracts.

Customer loyalty remained strong, with 47 per cent of customers who completed a Rent, Try, $1Buy!® contract renewing for a new item. The store network continues to evolve along with a redesign of the website leading to a higher number of inquiries made online.

Thorn Financial Services (TFS)

TFS provides unsecured and secured consumer loans from $1,000 up to $25,000 through its dedicated websites and merchant partnerships.

TFS revenue increased 47 per cent to $6.2 million ($4.2M), with the consumer lending book growing 41 per cent to $40 million. This growth is mainly attributable to the expanded range of offers under the Thorn Money brand, including larger secured and unsecured loans. EBITDA increased 9 per cent to $530,000.

The expanded consumer financial services offering, targeting the mid-prime demographic has led to a higher average loan size, now at $6,257 compared with $5,624 in the same period last year.

Thorn Equipment Finance (TEF)

TEF provides financing solutions for businesses and government, with SMEs a key target market for supply of a diversified range of products.

TEF lifted revenue 22 per cent to $4.8 million ($3.9M), receivables are now at $78.1 million and EBITDA was up 62 per cent to $2.5 million ($1.5M). The book growth was driven by key strategic relationships with brokers and introducers as well as receivables book purchases.

Acquisition of Cash Resources Australia (CRA) Acquisition

On 18 November 2014, Thorn entered into an agreement to acquire all of the securities in CRA on a cash and debt free basis for $42.8 million.

CRA is a Melbourne-based company that specialises in providing working and growth capital solutions to commercial clients through invoice discounting and secured lending. CRA has c.$40 million in receivables, a client base of over 200 SMEs, and a service offering that naturally extends TEF's capability and relevance to meet the needs of the market. The acquisition will take the combined receivables book of TEF over the strategic $100 million mark.

The transaction will be funded through an extension of existing debt facilities and is expected to be EPS accretive in its first full year of operation, FY16. Thorn expects to complete the transaction in December 2014.

NCML

NCML is a provider of credit and receivables management services throughout Australia.

NCML increased revenue 1 per cent to $10.7 million ($10.6M), which was mainly due to an increase in contingent collections and PDL (purchased debt ledger) revenue. Additional resources dedicated to business development are expected to improve growth capability across 3rd party client and PDL portfolios into the future. PDL purchases increased 94 per cent, totalling $6.3 million, with the PDL book closing at $11.2 million. Underlying EBITDA was up 0.5 per cent to $1.94 million ($1.93M).

Legislative Changes

Thorn maintains a pro-active relationship with both Federal Treasury and ASIC in relation to enhancements to the National Consumer Credit Protection legislation, which primarily involves more disclosure around financial services products. Thorn is supportive of this direction, seeing it as beneficial to consumers and Thorn's positioning in the market.

Dividend Payment

An interim dividend of 5 cents (4.5 cents) a share fully franked will be paid on 22 Jan 2015 to shareholders registered on 8 Jan 2015. The dividend reinvestment plan will be active for the dividend and a discount of 2.5 per cent will apply.

Outlook

Thorn is trading strongly with continued investments in new business initiatives expected to deliver solid underlying NPAT growth to above $30M in FY15. Reported NPAT will be impacted by transaction costs relating to the CRA acquisition.

Several new strategic initiatives are expected to take shape in the second half of FY15 as work related to branding and new products for Radio Rentals and TFS continues and a potential second rental brand targeting a different demographic is developed. A pilot of the second rental brand is expected to be launched in Queensland before the end of the year.

Investment to diversify and expand Thorn's operations is expected to result in a bigger business over the next few years, extending rewards to shareholders, customers and employees while substantiating a national presence across a wider range of financial services.

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ABOUT THORN GROUP LIMITED (ASX: TGA, www.thorn.com.au)
Thorn Group is a 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 90 outlets nationally. Other group businesses comprise Thorn Equipment Finance, providing commercial finance, Thorn Financial Services offering secured and unsecured loans from $1,000 to $25,000, and NCML, a full service receivables management company.