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THORN LIFTS FY15 PROFIT, SUPPORTED BY ACQUISITION AND RECEIVABLES GROWTH

Group Highlights

- Revenue up 25.1% to $293.8M (2014: $234.9M)
- Underlying Cash NPAT up 13.6% to $34.2M, reported NPAT up 8.5% to $30.6M ($28.2M),
- Return on equity[1] strong at 18.9% (18.4%)
- Gearing[2] levels increased to 38.6% (2014: 8.4%) due to growth and expansion
- Final fully franked dividend 6.75 cents per share

Operations

- Group gross receivables up 68.1% to $368.7M ($217M)
- Significant organic growth in consumer leasing and commercial finance due to strong originations
- Higher earnings from consumer leasing, consumer finance and commercial finance
- Receivables management earnings lower but offset by increase in purchased debt ledger revenue

Overview

- Diversification strategy producing higher revenue and strong receivables growth
- Strategic acquisition of Cash Resources Australia (CRA) performed in line with acquisition metrics, integration continuing
- Organic and acquisition strategy delivering growth and shareholder value

Group performance commentary

Financial services company, Thorn Group Limited (ASX: TGA), has reported positive results for the year to 31 March 2015. Group revenue for FY15 increased 25.1%, growing from $234.9 million to $293.8 million. Underlying Cash net profit after tax (NPAT) was up from $30.1 million to $34.2 million, while reported net profit after tax increased by 8.5% from $28.2 million to $30.6 million. The principal difference between underlying cash NPAT and reported NPAT was one-off costs of $2.235 million relating to the acquisition of CRA.

Results reflected Thorn's strategy of organic growth combined with acquisitions, with existing businesses performing well and CRA contributing positively. Non-consumer businesses showed strong growth in receivables, underlining the value from Thorn's diversification strategy.

Consumer leasing business, Radio Rentals/Rentlo, remains the largest contributor to group earnings. However, the Thorn Equipment Finance leasing book grew from $63.5 million to $104.8 million,

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[1] Return on Equity (ROE) is calculated as Underlying Cash NPAT divided by the average of opening and closing equity

[2] Gearing is calculated as net debt (senior borrowing less free cash) divided by closing equity

demonstrating the diversification strategy is gaining momentum. This was driven by strong originations via direct and strategic partner channels. Consumer finance business, Thorn Financial Services, reported higher revenue, from a significant growth in originations and receivables. While revenue decreased for receivables management business NCML, this was offset by an increase in Purchased Debt Ledger (PDL) revenue and PDL net additions.

Receivables across the group increased by 68.1% during the year. To support this growth, borrowings increased from $40.5 million to $144 million. The group's senior debt facility increased to $110 million to fund the CRA acquisition and future growth opportunities. Thorn also increased its warehouse facility to $100 million to accommodate the strong growth in receivables within the commercial finance segment. This growth resulted in net gearing, rising from 8.4% to 38.6%, well within Thorn's acceptable levels.

Managing director of Thorn, Mr James Marshall, said the group's continuing investment in new business opportunities and focus on diversification had led to a strong result across all metrics.

"While our core business continues to deliver good results, it is pleasing to see other parts of the business gaining scale, especially Commercial Finance, which delivered strong revenue growth and receivables above the $100 million mark," Mr Marshall said.

"Thorn's organic and acquisition growth strategy is starting to produce results and as we expect ongoing growth in receivables, we see sustainable growth ahead," Mr Marshall said.

Consumer Leasing

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

Consumer leasing business, Radio Rentals, performed well, with revenue growing 25.1% from $196.8 million to $246.2 million and gross consumer lease receivables growing by 75.2% to $219.6 million. This was assisted by increased originations and a continued shift in contract mix from operating leases to finance leases. This growth in finance lease revenue was principally due to more customers choosing 48 month contracts, introduced in December 2013. The introduction of longer term contracts made larger products and whole room packages more affordable.

Furniture and other household essentials were the more popular categories and customer retention remained consistently strong with 48% of customers completing a Rent Try $1 Buy agreement taking a subsequent agreement for another item.

Reported EBITDA was up 13.3% to $56.1 million ($49.5M), with costs increasing in line with growth.

In April 2015, a brand evolution pilot to attract a broader demographic and customer base was launched and will be reviewed throughout the year. The pilot includes 6 locations which have been rebranded from either Radio Rentals or Rentlo to RR. In addition to this, a pilot second rental brand offering a "No Lock-in" contract and flexible rental solutions was launched in Brisbane in December 2014 under the name Rentlo.

Consumer Finance

Thorn Financial Services (TFS) provides consumers with access to a broad range of personal loans through Thorn Money, which offers unsecured loans up to $15,000 and secured loans up to $25,000,and Cashfirst, which provides unsecured loans between $2,000 and $5,000.

TFS revenue increased by 48.4% to $13.8 million ($9.3M), reflecting a 56% growth in receivables from $28.4 million to $44.3 million.

Increased revenue was offset by higher overheads from business development initiatives and increased bad debts, which rose from 10.9% to 12.3% as a percentage of Average Net Receivables (ANR). This led to a smaller EBITDA increase, up 16.7% to $1.4 million ($1.2M).

The mix of the receivables portfolio is influenced by larger loans, with Cashfirst loans representing 87% and Thorn Money 12% of the portfolio. A small loan offering (SACC) was trialled during the year with mixed success. Thorn is now reviewing the use of this product to address financial exclusion and meet the needs of consumers as they move up and down the credit curve.

Commercial Finance

Thorn Equipment Finance (TEF) provides equipment finance solutions for businesses and government, with SMEs a key target market for supply of a diversified range of products, as well as invoice discounting for SMEs through Cash Resources Australia (CRA).

TEF lifted revenue 30.1% to $10.8 million ($8.3M), due to growth in receivables from $63.5 million to $104.8 million. Originations were also higher, up 90.4% to $61.5 million ($32.3M) during the year. Bad debts declined considerably during the period from 2.7% to 1.4% of ANR.

CRA, acquired during the year, performed in line with acquisition metrics, contributing $4.3 million in revenue and $1.2 million EBITDA during the four months it was part of the group. CRA's integration enhances coverage of the commercial sector and expands the group's client base.

Segment EBITDA is up 93.3% to $5.8 million ($3M) – including CRA, EBITDA increased 133.3% to $7.0 million.

Receivables Management

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

NCML revenue was down 6.8% to $19.2 million ($20.6M), due to a decrease in contingent collections as a result of changing business practises and lower placements from long standing clients. However, this was offset by an increase in Purchased Debt Ledger "PDL" revenue, with PDL receivables increasing 61.8% to $14.4 million ($8.9M) and PDL net additions up 111.9% to $12.5 million ($5.9M).

NCML incurred one off costs as part of an operational restructure which will see the creation of "Centres of Excellence" for contingent collections in Melbourne and PDL collections in Adelaide. This strategic initiative is expected to improve operational performance and provide annualised savings of $1.6 million.

EBITDA was down 36.6% to $2.6 million ($4.1M).

Thorn customers and Centrepay

On 22 May 2015, Senator the Hon. Marise Payne, Minister for Human Services, advised changes to the Centrepay deduction system. Centrepay is a method of payment similar to direct debit but managed by the Federal Government to enable people to pay bills as regular deductions from their Centrelink payments. Changes to the system now exclude consumer leases for an indefinite period or which have a duration of four months or less, with Centrepay deductions only allowable for consumer leases regulated under the *National Consumer Credit Protection Act 2009* (NCCP).

In relation to this Thorn advises that the changes will not affect its Radio Rentals division as the majority of its leases are contracted on terms of 18, 24, 36 and 48 months and, since Thorn holds an Australian Credit Licence, its contracts are regulated under the NCCP Act. Thorn welcomes these changes, especially since it has been in discussion with government over a number of years to close the "indefinite lease loophole" in the NCCP Act which enables some consumer leasing companies to avoid licensing. Thorn has made a number of submissions to treasury over the years and welcomes engagement on these.

Using Centrepay is a choice by customers and because it is free to them, it avoids potential costs from banks through additional fees and charges. Thorn pays significant fees to Centrepay for customers using this system, amounting to approximately $800,000 in FY15. Thorn pays these fees to provide a benefit to consumers who would otherwise be excluded from access to finance or incur additional fees and charges

A large component of Thorn's consumer customer base comprises Australians who are largely excluded from mainstream financial services and it has become increasingly apparent this is a substantial proportion of adult Australians:

- 16.9 per cent of the Australian adult population, or just over 3 million people, are either fully or severely financially excluded
- 42.9 per cent of the adult population, or 7.7 million people, are marginally financially excluded
- 56.7 per cent of the adult population, or over 10 million people, do not have a credit card[3]

There are many reasons for financial exclusion, but it is because of this situation that Thorn has developed its "fair go" policy, enabling people to have access to household goods and financial services when there are few alternatives.

Thorn has been providing consumer leasing products to Australians for nearly 80 years and knows from significant customer research that leasing is a service many people seek when they have few alternatives and require the support of a flexible solution. Thorn is proud to have this sentiment underlining its work and supporting its business model.

[3] Connolly C, Measuring Financial Exclusion in Australia, Centre for Social Impact (CSI) – University of New South Wales, 2014, for National Australia Bank.

Dividend Payment

Thorn Group will pay a final dividend of 6.75 cents per share fully franked. The key dates for the final dividend are:

- the payment date will be 16 July 2015;
- the record date will be 2 July 2015;
- the last date for receipt of application forms for participation in the DRP or notices of variation of participation in the DRP in relation to the 2014 final dividend is 3 July 2015; and
- the share price to be used to calculate the entitlements of shareholders participating in the DRP for the 2015 final dividend will be determined over a 5 day trading period commencing on 6 July 2015 and ending on 10 July 2015 and will incorporate a discount of 5%.

Initiatives and Outlook

Thorn Group will continue with its growth strategy aimed at delivering sustainable growth and long term shareholder value while adding to diversification of returns and risk.

The strategic initiatives implemented in the current financial year and into the future, include the introduction of new products and further expansion of each operating segment. Trials of new propositions and branding to evolve and extend the reach of the business are being implemented and will be reviewed during the year.

The company will continue to review acquisition opportunities that are consistent with our strategy and where we can extract value and add scale to our existing platforms.

Recent Federal Government measures in the May Budget which relate to small and medium sized businesses, especially lower tax rates and tax deductible asset purchases up to $20,000, should have positive effects for Thorn Equipment Finance.

Thorn expects continued growth in receivables will be the basis for growth of all parts of the business.

For further information please contact:

Mr James Marshall
Managing Director, Thorn Group Limited
Telephone: +61 2 9101 5057

Ian Westbrook
Hill + Knowlton Strategies
Telephone: +61 2 9286 1225 or +61 407 958 137

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 over 90 outlets nationally. Other group businesses comprise Thorn Equipment Finance, providing commercial finance, Thorn Financial Services which includes Cashfirst and Thorn Money, offering secured and unsecured loans from $1000 to $25000, NCML, a full service receivables management company and Cash Resources Australia, providing working capital solutions for businesses.