

JAMES MARSHALL

# BUILDING THE BRAND

Thorn's underlying financial performance in FY16 highlights the strength of our core business divisions, with revenue up 3.5%, underlying EBIT up almost 4% and receivables, which underpin future revenues, increasing 32% over the prior year. Reported earnings were affected by three significant one-off items. These relate to a strategic decision to close the underperforming consumer loans business, a write-off of goodwill in the receivables management business and refunds of historic credit balances following the retirement of a legacy IT system. While these three items had a negative impact on reported earnings, they demonstrate decision making that was necessary to align the organisation's focus and strategy on business activities that have the capability to deliver above average returns on invested capital. This focus will be central to Thorn's growth as it builds on the economics of providing niche financial services efficiently to produce attractive returns into the future.

## STRATEGIC CAPITAL ALLOCATION

To align our desired strategic intent of delivering above average returns on invested capital, it was important to acknowledge the group's key strengths and core skills. A review of these attributes highlighted the organisation's competitive advantage and significant capability in consumer leasing and small business finance. Through this review, it became clear our two principal businesses, Radio Rentals and Thorn Business Finance, had attractive and recurring levels of return on capital that warrant further investment. Driving our strategy in recent years has been the principle of diversification, and this has been eminently successful in business finance, where a sound formula for growth and origination has emerged, with revenue

and earnings doubling over the past twelve months. Two other diversification initiatives begun several years ago, into personal loans and accounts receivable management, have contributed positively to results over time. However, returns on capital from these divisions have not met our expectations. Consequently, we have ended our involvement in personal loans and written off goodwill in NCML. While these decisions have resulted in charges against profit, they support the deployment of capital to higher returning business activities and enable us to consider future development of NCML while focusing on our two principal businesses, both of which have demonstrated capability for growth.



### **CORPORATE DEVELOPMENTS**

As the group continues to grow and expand, further investments have been made to ensure appropriate systems and processes are in place to support the business into the future. Prior to making these investments, a thorough review was undertaken to assess the capability, needs and objectives of both current and proposed initiatives. This year, two issues emerged from a review of an old computer system prior to its retirement. One issue, involving a relatively small number of Radio Rentals consumer leasing contracts, related to customer accounts remaining in credit after the accounts had been closed. Reimbursement of these amounts is now underway with no further financial impact expected. The second issue related to a process deficiency in updating Thorn's living expense benchmark within its responsible lending assessment model. A more detailed and "fit for purpose" model has been developed and this will form part of a broader system upgrade to improve customer experience, reduce transaction times and also meet evolving regulatory requirements. Thorn continues to discuss this matter with ASIC, and has established a contingent liability to allow for any potential penalties or remediation to customers who may have been affected. These issues and the Government industry review have added to corporate expenses this year.

### **GOVERNMENT REVIEW**

The Government Review into Small Amount Credit Contracts and Consumer Leasing Laws has involved considerable engagement from the management team, across the industry, the Review Panel and politicians as well as providing submissions. The ultimate position at which Thorn and leading financial services industry body, AFC, arrived, was that proposing caps on consumer lease pricing was the best way of ensuring high industry standards and protecting financially vulnerable consumers. The Review Panel's Final Report has recommended a level of pricing caps which supports Thorn's business model as a low cost consumer lease provider. Thorn will now look to take a market leadership position in adopting these rates, irrespective of how long it may take to enact these recommendations through legislation. This effectively removes any uncertainty surrounding Thorn's business model and ensures the sustainability of the consumer leasing business.

**THORN'S UNDERLYING  
FINANCIAL PERFORMANCE  
IN FY16 HIGHLIGHTS THE  
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## **FINANCIAL OUTCOMES**

The standout item in financial performance has come from our Business finance division this year which posted an effective doubling of revenue and profit, with earnings contribution now at 22 per cent of group. Radio Rentals continues to be very profitable but with growth affected in FY16 by increased regulatory requirements calling for greater automation and higher costs from more extensive credit qualification assessments. Revenue from these two businesses combined increased 6 per cent and underlying earnings were up 4 per cent compared with the previous year. This underlying performance explains our strategic focus on areas of higher return and supports the tough decisions that had to be made in relation to Thorn Financial Services and NCML, as well as one-off items, including resolution of customer credit issues from previous periods. We believe the underlying performance is illustrative of the group's potential from this position and the Board's preparedness to pay a healthy final dividend reflects a positive perspective on the outlook.

## **COMPETITIVE ADVANTAGE**

A key strength of the group is our culture, capability and desire to look after our customers and to give them a "fair go". During the year an independent survey by Roy Morgan of Radio Rentals customers revealed not just the strength of the brand but how the business was viewed by consumers. Some 97 per cent of respondents said Radio Rentals treated them with dignity and respect, 95 per cent said "Rent Try \$1Buy" was important to them and 92 per cent said Radio Rentals was affordable. More than half of all respondents said that if they had not gone to Radio Rentals, they would have had to go without the goods and 70 per cent said Radio Rentals was the only way for them to access

affordable everyday essential goods. Thorn considers this research substantiates community demand for consumer leasing and the way Radio Rentals operates.

In the Business Finance sector, Thorn's capability to provide asset finance, as well as working and growth capital solutions, in a fast, flexible and efficient manner to small and medium business is proving to be a point of differentiation in the industry. This, together with diverse origination channels that reach across multiple industries, ensures the business has a broad supply of transactions and is able to build a diverse portfolio of receivables.

## **MANAGEMENT TEAM**

As the financial services sector continues to evolve, greater capabilities are required to support the organisation as it looks to grow and excel in the niche markets in which it operates. Issues identified during the year have highlighted the need to ensure appropriate skills and oversight are in place to guide each of Thorn's business divisions in these changing environments. To meet this need, the business strengthened its senior leadership team during the year with the appointment of a dedicated Chief Risk Officer, General Counsel and Chief Operating Officer. This provides the group a sharpened focus and capability on risk, compliance and the efficiency of operations across each of our business divisions.

**DURING THE YEAR AN INDEPENDENT SURVEY BY ROY MORGAN OF RADIO RENTALS CUSTOMERS REVEALED NOT JUST THE STRENGTH OF THE BRAND BUT HOW THE BUSINESS WAS VIEWED BY CONSUMERS**

**WE ACTIVELY SEEK TO  
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### **VALUES, PEOPLE, COMMUNITIES**

When we assess our assets at Thorn, we look closely at how our people engage with customers and the broader communities in which we operate with a view to focusing on how we add value to people's lives every day. We actively seek to be part of our local communities, providing a necessary service as well as helping out in times of need. Our employee programs are integral to our culture, and are based around values of leadership, innovation, responsibility, support and nurturing. As an organisation we are proud of the service we provide our communities and the charities with which we work, in particular White Ribbon, Children's Tumour Foundation, Project New Dawn and Mission Australia. Our involvement with these groups and initiatives involves all of us, not just the corporate entity.



### **OUTLOOK**

While we have addressed some difficult issues in FY16, we believe the decisions we have taken to sharpen our strategic focus, the improvements and investments we have made, together with the support of our people, our customers and our many external stakeholders, will deliver growing benefits for stakeholders in years to come.

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