

# Thorn Group Limited

ACN 072 507 147

ASX ANNOUNCEMENT

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## **THORN PROFIT INCREASES 38%, CUSTOMER & BUSINESS GROWTH CONTINUING**

- Normalised NPAT up 38% to \$11m
- Revenue up 10% to \$80m
- 6.7% customer growth
- Interim dividend 3.54 cents, up 38%
- Responsible Rental and Lending Policy delivers record low arrears

### **Results**

For the 6 months to 30 September 2010, retail and financial services company, Thorn Group Limited (ASX: TGA), has recorded net profit after tax of \$11 million, 38% above the normalised prior year result of \$8m.

Revenue grew 10% to \$80.3m, earnings per share increased 38% to 8.53 cents on a normalised comparative basis, interim dividend is up 38% to 3.54 cents and gearing remains low at 9.1%.

### **Commentary**

Thorn's performance has been underpinned by two primary factors – growth in customer numbers and the strength of its business model.

Customer numbers in the core Radio Rentals/Rentlo business have grown 6.3%, reflecting the strong market position of this business.

Thorn's business model, which combines retail and financial services and produces long-term recurring revenue streams, has enabled solid growth in a fluctuating market.

While retail conditions generally have been soft, this has not affected the attractiveness of the group's "Rent, Try, \$1 Buy" offer in its target market, where the flexibility of rental with likely ultimate ownership has continued as an important consideration for customers.

According to Thorn Managing Director, John Hughes, the core consumer rental business continued to perform strongly while the impact of investment in strategic initiatives such as Cashfirst and BigBrownBox.com.au was reduced.

### **Business performance**

For Radio Rentals/Rentlo, demand was steady across all product categories. Whitegoods, furniture and computers performed particularly well compared to the market and demonstrated the benefits of a broad base of products.

Improvement in financial performance came principally from organic growth of the current 70 store network, reflecting productivity gains, increases in on-line applications, enhanced purchasing capabilities and the direct import of Thorn branded televisions. Continued low levels of customer arrears and write-offs along with high levels of repeat business contributed positively to performance. Average contract length increased as credit quality of the customer base improved.

Cashfirst, which provides unsecured personal term loans, increased its loan book from \$5.5 million to \$6.5 million and there was an improvement in arrears and bad debts which reflected the focus on responsible lending policies and quality of written business.

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Thorn Business Services, which provides financial solutions to the underserved SME market, has been developing a number of vendor relationships which will form a solid base for future growth.

BigBrownBox.com.au, Thorn's online retail venture, found conditions difficult. After considering the poor state of the retail market, the Company has decided to exit its investment and is currently considering a number of options. While the impact on Thorn's FY11 profitability will be minimal, management and the Board believe there are a number of other opportunities that provide a far better potential return.

### **Development initiatives**

Thorn recently announced the launch of two new platforms for growth of the core rental business. These are the opening of 6 one and two person branches which will be used to penetrate unserved/underserved regional markets and the commencement of a kiosk trial for increasing market presence in metropolitan locations. Both initiatives provide an opportunity for generating new business cost effectively.

### **Australian Credit Licence and Responsible Lending Practices**

Thorn sees the new National Consumer Credit Protection legislation as having a positive effect on industry practices by stipulating that consumers are only provided with products and services suited to their needs and capacity to pay. Thorn has become one of the first businesses to have received approval of its Australian Credit Licence, reflecting its investment in technology, systems and training to ensure the highest standards. Thorn believes its own Responsible Rental and Lending Policy, which focuses on a person's residential and income status and capacity to pay rather than credit history checks, reflects the objectives of the legislation and industry best practice.

### **Dividend payment and full year outlook**

Interim dividend has been increased from 2.56 cents to 3.54 cents a share fully franked, to be paid on 20 January 2011 to shareholders registered on 29 December 2010.

Given the strong first half performance, Thorn upgrades its profit after tax guidance from \$19m to between \$21m to \$22m for the full year ending 31 March 2011, an increase of some 28% to 34% on a 'normalised basis'. This excludes the \$3.1m one-off favourable tax effect of investment allowances in the prior period.

Mr Hughes commented, "This pleasing profit outlook is the result of a consistent performance across the business, particularly Radio Rentals/Rentlo which continues to deliver good gains in new customers along with consistently low levels of customer arrears and bad debts".

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#### **ABOUT THORN GROUP LIMITED (ASX: TGA, [www.thorn.com.au](http://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, a brand in Australia since 1937 and now with 70 stores nationally. Other group businesses comprise Thorn Business Services, providing commercial finance for SMEs, and Cashfirst for personal loans [www.cashfirst.com.au](http://www.cashfirst.com.au). Thorn trades as Radio Rentals in all states and territories except South Australia, where it trades as Rentlo.