

Thorn Group Limited

ACN 072 507 147

ASX ANNOUNCEMENT 20 NOVEMBER 2012

THORN INVESTS FOR FUTURE GROWTH, PROFIT STEADY

- NPAT down 2% to \$14.0M, with results affected by goodwill and tax adjustments
- Cash NPAT flat at \$14.9M
- Revenue up to record level of \$100.5M, a 4% increase
- Higher interim dividend reflects growth confidence, up 13% to 4.5 cents
- Radio Rentals with record installations and EBIT
- Cashfirst loan book above \$20M and new growth strategy being implemented
- Thorn Equipment Finance building strongly towards critical mass
- NCML profit down but recovery beginning

Results

For the half year ended 30 September 2012, financial services company, Thorn Group Limited (ASX: TGA), recorded a net profit after tax of \$14.0 million (\$14.3 million in the previous corresponding half year), down 2 per cent.

Revenue grew 4% to a record level of \$100.5M (\$96 million previously), earnings per share were down at 9.57 cents, interim dividend increased 13% to 4.5 cents and net debt to equity remains conservative at 14%.

Commentary

Whilst there has been a minor downturn in profit for the half year, the underlying business is strong and benefiting from a number of initiatives implemented over the past year. These initiatives, which dampen short term profits, will contribute to growth in coming years and are a reflection of Thorn's strategy of becoming a broader based financial services group and our willingness to adopt a medium term view of the business and its future growth. Other factors impacting the result include accelerated amortization of NCML goodwill and a GST adjustment which totalled some \$670,000 in NPAT.

According to Thorn managing director, John Hughes, "the subdued profit result is disappointing; however we are pleased to report Cash NPAT in-line with prior year and recognise that this result is part of the journey to achieve our goal of becoming a major player in financial services to underserved consumer and commercial markets."

"Our core business strengths, of recurring revenue streams, niche market leadership, ensuring credit quality that focuses on customer needs and capacity, all stand us in good stead and will continue to underpin our future performance" Mr Hughes said.

Radio Rentals/Rentlo

The core business was again a significant contributor to Thorn's result. It is performing well, particularly in achieving record levels of installation volumes, revenue and EBIT despite generally low levels of consumer confidence and difficult trading conditions.

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Furniture continues to be a major growth driver, with a 33% increase in installation volumes accompanied by a 46% increase in customer dues. This is a strong offset to an ongoing softening in PCs and flat panels, however these areas were still healthy contributors especially through the growth in higher spec PCs, flat panels above 140cm/55" and Smart TVs

The popularity of Thorn branded product increased, making up 8.8% of installations with the range now consisting of flat panels, refrigerators and audio products.

Customer retention also remained strong with some 46% of customers completing a Rent, Try, \$1 Buy! ® contract renting a new item. Customers completing a Rent, Try, \$1 Buy!® contract and purchasing the product for \$1 now exceed 50,000.

The network expansion and refinement program continued to make good progress with 5 outlets refurbished and up to 5 new locations are under development for the second half. Generally a new outlet takes a year to reach critical mass and break even, which impacts short term profit but will again enhance future earnings.

Cashfirst

The loan book grew steadily throughout the period and closed at \$20 million, compared with \$15 million a year ago and \$17 million at FY12 year end. There are now over 10,000 customers and pleasingly arrears and bad debts remained at or below budgeted levels throughout the period.

Cashfirst is now a sound contributor to group profitability and it has the potential to be even more significant as its growth potential is realised. With operations being completely online, growth is achieved from minimal additional investment in operations.

Financial services evolution

In line with its strategy to expand its financial services footprint, Thorn has appointed Richard Shepherd as General Manager Financial Products with a brief to extend Thorn's range of products and services.

Richard has a strong background in consumer lending across a number of financial services organisations including AGC, Westpac, Standard Chartered, Bankwest and most recently Qantas in their loyalty area. He is joining Thorn at an exciting time in its development as a broader based financial services organisation.

Thorn Equipment Finance

The size of TEF's book has now grown to \$28 million, compared with \$4 million a year ago and \$13 million at FY12 year end. Average transaction size is \$25,000 and ranges over a variety of equipment from IT to telephony, poker machines, audio visual and industrial and commercial equipment.

This growth is pleasing and highlights the effectiveness of the specialist management team skilled in this area which is now building the business.

As previously stated this exceptional growth requires significant investment in resources and along with a high level of provisioning means that earnings are minimal in its formative period of development towards a loan book of \$50M plus. TEF specialises in both rental and commercial

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lending to small to medium enterprises and considers this area of the market to be attractive for continued growth.

NCML

The half year was a challenging period for NCML, with financial performance impacted by the loss of the ATO contract and no new debt purchase agreements. Not purchasing debt ledgers was a deliberate decision in the face of what NCML considered unattractive market pricing, with potential purchases not meeting hurdle returns and this was endorsed by an external review.

During this period there was also a complete review of operations which included consolidation of specialist activities and hence movement of certain functions between state offices to garner longer term efficiencies. In addition offshore processing is being established to further enhance performance and returns.

Indications are for an improved second half with a number of new contracts commencing. Business development activity is positive and hopefully PDL pricing will return to more reasonable levels.

NCML's new management team is working well and Thorn believes NCML is now better positioned to resume a solid path of growth.

Rent Drive Buy®

Rent Drive Buy® is a rent to own product for the used car market. It offers a means for customers to rent a quality vehicle on a fully maintained basis with the potential to obtain finance for the outright purchase of a vehicle after a year of continuous payments. A trial of the product has commenced in October and initial indications are positive.

Dividend payment

Directors have given lengthy consideration to the dividend in relation to the current half year, taking into account current performance and likely continuation of growth. Directors have taken the view that financial performance is likely to improve in the coming years and so have decided to increase the dividend for the half year.

An interim dividend of 4.5 cents a share fully franked (4 cents fully franked in the previous corresponding half year) will be paid on 17 January 2013 to shareholders registered on 28 December 2012. The Board has determined that the dividend reinvestment plan, at a discount of 2.5%, will operate in relation to this dividend.

Outlook

Thorn's rate of growth over the past six years since listing on the ASX has been substantial and the group is justifiably proud of this track record.

However, a combination of development and expansion activities along with challenging market conditions have significantly impacted the group's rate of growth in the first half year and this trend will flow onto the full year result.

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However, Thorn expects to deliver the benefits in subsequent years as it becomes a broader based financial services organisation catering for underserved alternative market areas.

Thorn has long been of the view that four components are required for growth – sound strategic ideas, excellence in execution, adequate capital resources and perhaps most importantly sufficient time in which to achieve the goals. These factors reflect Thorn’s longer term approach to strategic development of the group and expectation that shareholders will be the beneficiaries of this pathway in coming years.

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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. Other group businesses comprise Thorn Equipment Finance, providing commercial finance for SMEs, Cashfirst, offering personal loans up to \$5000, and NCML, a full service receivables management company. The group now has over 84 outlets nationally.