

Thorn Group Limited

ACN 072 507 147

ASX ANNOUNCEMENT

22 May 2012

THORN PROFIT INCREASES 26.4% & GROWTH INITIATIVES CONTRIBUTING

- NPAT up 26.4% to \$27.8m
- Cash NPAT up 34% to \$29.6m
- Revenue up 19.2% to \$188m
- ROCE strengthened to 21.95%
- Final dividend 5.5 cents, up 11%
- 3.1% customer growth in Radio Rentals/Rentlo reinforcing outlet strategy
- Cashfirst loan book above \$17m with good quality base
- Thorn Equipment Finance (TEFS) continues strong growth
- NCML new business and restructure project garnering solid gains

Results

For the full year ended 31 March 2012, diversified financial services company, Thorn Group Limited (ASX: TGA), recorded a 26.4% increase in net profit after tax to \$27.8 million and an increase of 34% in cash net profit after tax to \$29.6m.

Revenue grew 19.2% to \$188m, earnings per share increased 14% to 19.24 cents, final dividend increased 11% to 5.5 cents and net debt to equity remains conservative at around 6%. ROCE increased to a very respectable 21.95%.

Commentary

Thorn has delivered a strong result during a period of difficult market conditions, again demonstrating the resilience of the organisation, which is underpinned by long term recurring revenue streams.

All divisions generated a positive contribution and the strategic initiatives of Cashfirst, Thorn Equipment Finance and NCML are well positioned to provide an increasing level of contribution into the future.

Radio Rentals

The core business was again a significant contributor to Thorn's result. It is performing well, particularly in achieving record levels of installation volumes.

Furniture continues to be the strongest growth area and clearly shows that there is significant demand for quality products. Installation volumes grew 32% compared with the prior year and now accounts for some 29% of installations to new customers - equivalent to whitegoods.

While flat panel TVs and PCs softened with a decline of 4% and 3% respectively in installation volumes and some 10% and 4% in installation revenues, this is still an outstanding achievement compared to other market participants. Impacts have been minimised due to customer demand for larger flat panel screens, higher specification personal computers and the success of the Thorn branded direct import program.

Customer retention also improved with new product installations to those completing a Rent, Try, \$1 Buy!® contract rising from 42% to 44%, indicating a very positive attitude toward this offering. Over 40,000 items are now purchased by customers completing a Rent, Try, \$1 Buy!® contract per year.

New outlets continued to perform strongly with the majority exceeding expectations and this provides strong impetus for up to another five to be opened in the coming year. In addition, the Radio Rentals and Rentlo websites, which generate almost a million visits a year and account for some 30% of installations, are being upgraded to enable further enhancements for customer interaction and service. Thorn has placed significant emphasis on the internet for many years and these upgrades coincide with the implementation of a whole new enterprise resource planning system for the Thorn Group, which will also assist by generating operational efficiencies.

Customer arrears and write-offs rose slightly as anticipated, due to cost of living pressures. Net write-offs declined due to the sale of bad debts from previous periods and this is expected to become a standard operating function with outcomes dependent on market factors. Managing arrears is a core discipline of the group and the business consistently operates below industry benchmarks.

To assist customers experiencing genuine hardship the business has now launched a new contract that enables customers of good standing to extend the balance of their contract at a lower repayment rate without any charges or penalties.

Managing Director, John Hughes, said: "We highly value the loyalty of our customers and see this as another important part of our Responsible Rental Policy."

"It is very pleasing to see the consumer rental business continue to perform strongly, particularly in comparison with industry trends and this again reinforces the strength of the offering and resilient positioning in the market," Mr Hughes said.

Cashfirst

The loan book grew steadily throughout the period and closed at just over \$17 million, with a 24% customer growth. This was pleasing given minimal advertising in the second half and a continued concentration on writing 'quality' business. Arrears and bad debts remained at or below budgeted levels throughout the year which again reinforces Thorn's commitment to responsible lending policies.

In FY13 Thorn will focus on further developing the business through marketing initiatives and is looking to expand product offerings that appeal to a broader market segment.

Cashfirst is now positioned to become a sound contributor to group profitability, particularly as its growth potential is realised. With operations being completely online, growth will leverage current systems and requires minimal investment.

Thorn Equipment Finance

Substantial growth in new business was generated during the year, most particularly in the last nine months, following the appointment of a specialist management team highly skilled in this market area. The loan book now exceeds \$12m, a tenfold increase on end of March 2011.

However, as part of the reinvention over the past year there has been considerable investment in resources which provides the business with the structure required for future development. The true potential of this area to contribute to group profitability will be realised as increased levels of loan book growth are generated with a minimal increase in operating costs.

NCML

Having overcome some challenges during the year NCML is now well positioned for growth as it nears completion of a restructuring that will deliver significant operational efficiencies.

The appointment of Brenton Glaister as General Manager, along with a number of other senior appointments is an important factor in this streamlining of the business and creation of substantial opportunities for future development. As founder of the business Brenton has an intimate knowledge of all areas of operations and this combined with extensive industry experience and contacts enables him to drive improvements across all areas of the enterprise.

In addition there will be continued work to generate synergy benefits between NCML and other areas of Thorn operations, enabling enhancement of its overall financial services platform.

Mr Hughes said: "We are delighted with the initiatives the NCML team have implemented and the level of new business being secured. A number of major contracts are coming to execution stage and will shortly commence generating solid revenues."

Purchases of debt ledgers remained low as prices persisted at levels that could not be justified to generate acceptable returns.

Collection services, excluding PDLs, account for some 75% of NCML revenues and this is not expected to change significantly.

Rent Drive Buy!®

Thorn has been investigating the potential for a Rent Try Buy!® type product in the used car market and is now sufficiently confident in the concept that it has approved the commencement of a trial in the second half of FY13.

The concept will be launched as Rent Drive Buy!® and offers a unique 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 just a year of continuous payments.

This removes the uncertainty of costs for consumers, enables them to drive a quality used vehicle and provides them with the opportunity to become 'credit qualified'. Response from market research has been extremely positive and the concept will leverage the skills and expertise that are core to Thorn operations.

Mr Hughes said: "This is an area of tremendous opportunity for Thorn and the market could potentially exceed current product areas."

Proposed legislative changes

Small amount credit contracts

Thorn Group provides unsecured personal loans between \$1000 and \$5000 through Cashfirst but does not offer 'payday' type loans and will not be materially impacted by proposed government reforms to payday lending. Thorn's average loan is for an amount greater than \$2,000 on an average term in excess of two years.

Thorn believes proposed government reforms are sound and bring much needed regulation to this market segment and should provide a substantial benefit to consumers.

Closing of NCCP licensing loophole

Some rental businesses, representing a significant part of the market, avoid regulation by having rental agreements of an 'indefinite length'. This form of contract exempts businesses from licensing under the National Consumer Credit Protection Act (NCCP) and hence Responsible Lending requirements.

Maintaining compliance involves a significant investment in technology, systems and training. In Thorn's view, businesses avoiding this commitment because of licensing loopholes are not beneficial for industry standards and in particular consumers.

Hopefully the proposed closure of this loophole will be actioned within the near future and hence assist in improving protection for consumers.

Dividend payment

A final dividend of 5.5 cents a share fully franked will be paid on 18 July 2012 to shareholders registered on 15 June 2012.

Outlook

Thorn's rate of growth over the past years has been substantial but market factors may slow this rate in FY13. Among these factors are the subdued economy, poor retail conditions and changing consumer preferences with products such as furniture taking over as the growth drivers from the likes of flat panel TVs and personal computers. There will also be costs associated with continued investment in additional Radio Rentals outlets.

Additionally the Rent Drive Buy!® trial will have a short term cost impact, however the board feels it is an important strategic opportunity that should not be delayed.

Offsetting these impacts will be an increased contribution from Thorn's strategic growth initiatives. Nevertheless, Cashfirst, Thorn Equipment Finance and NCML are still maturing and as such will take further time to reach full potential.

For further information please contact:

John Hughes
Managing Director
Telephone: 02 9101 5044 or 0414 970 150

Ian Westbrook
Westbrook Financial Communications
Telephone: 02 9231 0922 or 0407 958 137

ABOUT THORN GROUP LIMITED (ASX: TGA, www.thorn.com.au)

Thorn Group is a diversified 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 80 outlets nationally. Other group businesses comprise Thorn Equipment Finance, providing commercial finance for SMEs, Cashfirst, providing personal loans up to \$5000, and NCML, a full service receivables management company.