

# Thorn Group Limited

ACN 072 507 147

Managing Director's AGM Address

26 AUGUST 2014

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In reviewing Thorn's performance from financial year 2014, it's pleasing to see positive progress being achieved from our diversification strategy. We've been able to keep profit steady, even after significant costs of investing for the future. This investment has been in people, products, marketing, systems and facilities, and the financial result, a profit of \$28 million, represents an attractive return on equity.

Our 2014 Annual Report provides a summary of our achievements for the year so perhaps now I can update you on the progress of our current initiatives within our four business divisions. A lot of what drives these initiatives is our market analysis which has been extensive over the past 2 years. As we notice banks withdrawing from much of the sub-\$100,000 financing market, we see an opportunity to broaden the demographic to which our products appeal. Combining our values and core credit skills with product innovation, places Thorn in a strong position to market products and services beyond our traditional Radio Rentals customer.

## Divisional Performance

### *Radio Rentals*

Radio Rentals has continued to perform well since balance date. Our store presentations, with their lifestyle layouts, have contributed to this, along with the recent introduction of 48 month contract terms and the popularity of technology products, including a contemporary range of smartphones and gaming products.

The introduction of our Thorn branded smartphone adds to our existing Thorn range and enables the business to provide quality products more economically. Also, we are looking into opportunities to bundle voice and data plans into our phone package, making it the only full phone rental package of its kind in Australia.

Our review and plans for redeveloping the brands, Radio Rentals and Rentlo, are now drawing to a close. We have a number of new financial propositions - like Take-home layby, savings clubs, interest free finance, content & connectivity plans and cash lending - all of which are being prepared for trial in selected markets later this calendar year.

In addition to this, our market research indicates an opportunity exists for Thorn to consider a second national rental brand in the marketplace. This could leverage the significant infrastructure in place within Radio Rentals and operate as a low-cost model, utilising existing quality refurbished rental products for customers who might find themselves in challenging circumstances and need access to essential goods. To this end, work has commenced to explore these opportunities further.

### *Thorn Equipment Finance*

The Thorn Equipment Finance loan book which was at \$63.5 million at balance date has now reached \$73 million and continues to grow towards the \$100 million target which would substantiate its position as a significant contributor to growth.

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Origination sources for Thorn Equipment Finance include strategic alliances with brokers and introducers as well as direct relationships with vendors and manufacturers.

In coming months we will also look to trial a 'Commercial Direct' model, which will include a dedicated Business Development person engaging directly with small and medium enterprises with a broader suite of financial products and solutions. In addition to this, we have recently established a strategic relationship with a franchise finance partner specialising in meeting the needs of franchisees and Franchisors, which we see as an under-serviced area of the market.

Feedback received from brokers and introducers has also highlighted an opportunity for Thorn to develop or acquire an invoice discounting platform to assist small and medium enterprise clients with managing cash flow positions. To this end, we are currently exploring the potential of these initiatives.

## *Thorn Financial Services*

In Thorn Financial Services, our brands Cashfirst and Thorn Money now provide personal loan coverage from \$2,000 to \$25,000. The expanded range from Thorn Money is really only just beginning but the increase in loan size will contribute to growth in receivables and profitability

We have also just launched a third consumer loan brand within Thorn Financial Services, called 'Cashfirst Advance', which essentially is a legislated 'Small Amount Credit Contract' or 'SACC' loan. These are for amounts less than \$2,000 and for periods less than 12 months. Initially this product is being offered to selected Cashfirst customers who don't qualify for larger and longer term loans, but have capacity to build a credit profile with us over time. This means the Cashfirst Advance product can operate on a very low cost base and leverage existing Cashfirst advertising campaigns. We will also look to provide direct access to this product via our Cashfirst website and potentially through our Radio Rentals store network. All of these initiatives have the potential to build volume at lower acquisition costs

## *NCML*

The principal focus behind restructuring NCML, our receivables management business, has been to strengthen the two key functions of the business. These are, Operations, which focuses on excellence in the execution of existing client agreements, and Business Development, which is focused on marketing our credit and collection skills to potential new clients. We are beginning to see some of the benefits of this, with a greater variety of revenue sources achieved in 2014 as well as increased opportunities emerging in the purchased debt ledger market. However, we are also cautious about the time it takes to rebuild the business and capture new market share, so we expect financial improvement from NCML to proceed at a measured pace.

## *Rent, Drive, Buy*

Among our new business initiatives, one we have reviewed closely is Rent, Drive, Buy. The success of this proposition depends principally on customers being eligible and able

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to buy their rented motor vehicle at the end of the initial contract term. Initial results from this trial have not met our expectations and this trial will be concluded.

## Outlook

Given that rundown on current initiatives, I believe there is much we can we look forward to at Thorn.

Our investment in expansion is resulting in a bigger business and this in turn will extend rewards to shareholders, customers and employees while substantiating a national presence across a wider a range of financial services.

I can confirm the earnings guidance we gave in May, which is that net profit after tax for financial year 2015 will be above \$30 million. The basis for this is that we are seeing ongoing momentum in Radio Rentals, our newer businesses continue to perform well and the higher levels of revenue and receivables we recorded in financial year 2014 will remain and lead to an improvement in the bottom line in financial year 2015.

## People

Finally, I'd like to say a few words about our people.

The culture at Thorn is one of innovation, recognition, learning and development and we believe in continually investing in our team members. One recent illustration of this was our annual conference on the Gold Coast in June. Having been with the group for 20 years and attended many conferences, it seemed to me this most recent event showed higher levels of enthusiasm and involvement than I've seen before. We also use these events to reward and recognise our best performers and this in turn strengthens the sense of community within the Group. Over the past eight years, John Hughes has been instrumental in the development of the great culture that exists in our business today and we intend to perpetuate that.

I'd like to thank all Thorn staff, members of the management team and the board for their support. Particular thanks goes to our former managing director, John Hughes, and retiring chairman, David Carter, for their invaluable contributions to the company. I look forward to working with Joycelyn Morton as she becomes Chair and taking Thorn to its next stages of transition and growth.

**James Marshall**  
**Managing Director**

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