THORN
GROUP LTD

Full Year Results
Presentation 2016




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Agenda

1. Group Results Summary
2. Operational Performance
3. Outlook
4. Questions

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Overview

- Group revenue up 3.5% and underlying EBIT up 3.9%
- Strong growth in Business Finance demonstrates diversification strategy
- Three significant events in 2016 reduced profit by $11.8m pre tax ($10.3m post)
    1. Closure of the TFS Consumer Loan business
    2. Write off of the NCML goodwill
    3. Provision for historic customer credit refunds in Consumer Leasing
- Consumer Leasing revenue flat and underlying EBIT down 4.4%
- Consumer Leasing focused on its regulatory compliance framework and welcomes the Treasury inquiry report into the Consumer Leasing industry
- Consumer leasing and SME Business Finance underpin Thorn's future growth strategy across niche consumer and commercial markets

Group Results Summary

		March 2016	March 2015	% Change
Revenue	$m	**304.0**	293.7	3.5
Reported EBIT	$m	**39.0**	48.8	(20.1)
Underlying EBIT[1]	*$m*	***50.8***	*48.8*	*3.9*
Reported NPAT	$m	**20.1**	30.6	(34.4)
Underlying NPAT[1]	*$m*	***30.3***	*30.6*	*(0.7)*
EPS	cents	**13.1**	20.3	(35.5)
Dividend – Final proposed	cents	**6.00**	6.75	(11.1)
– Interim paid	cents	**5.50**	5.00	10.0
– Total	cents	**11.50**	11.75	(2.1)
Return on equity	%	**10.4**	16.9	(6.5) pts
Receivables [2]	$m	**379.5**	287.8	31.9
Borrowings	$m	**197.9**	144.0	37.4
Gearing (net debt/equity)[3]	%	**53.2**	38.7	14.5 pts

Notes

1. Underlying EBIT and NPAT is the reported EBIT and NPAT adjusted to remove the goodwill impairment, TFS closure costs and customer credits provision
2. Receivables on a net basis, i.e. exclusive of unearned interest and net of provisioning for bad and doubtful debts.
3. Gearing is calculated as the closing net debt (senior borrowing less free cash) divided by closing equity. This calculation excludes the warehouse debt and its corresponding secured receivables.
4. All numbers are based on the reported financials except for the underlying EBIT and NPAT in italics

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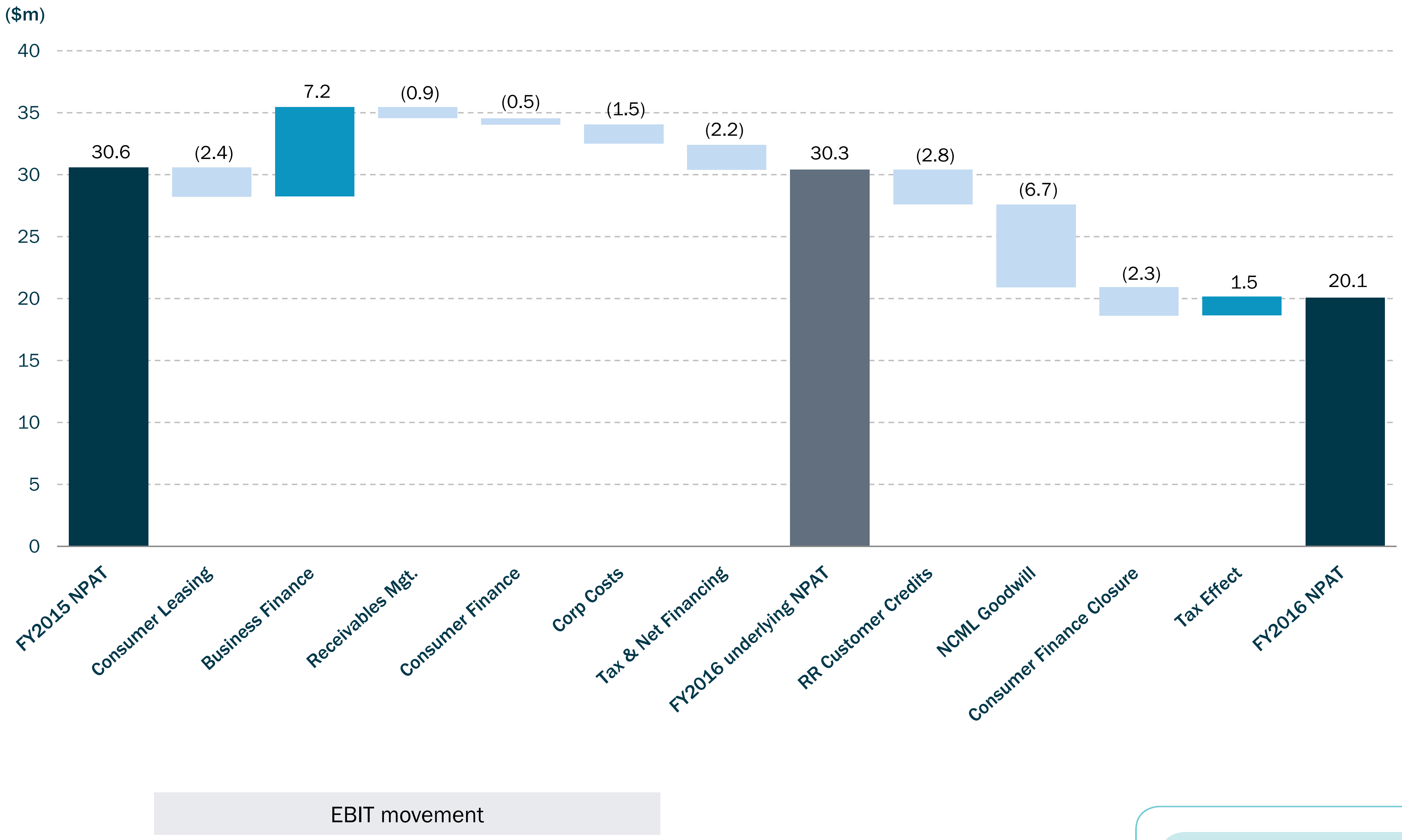
NPAT Bridge



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Balance Sheet

	March 2016		March 2015	
	excl. Trust	incl. Trust	excl. Trust	incl. Trust
Cash at Bank	14.0	14.0	13.9	13.9
Receivables	277.2	379.5	214.0	287.8
Investment in unrated notes	20.4	-	13.8	-
Rental and other assets	26.9	26.9	40.1	40.1
Intangibles	25.5	25.5	34.7	34.7
Total Assets	**364.0**	**445.9**	**316.5**	**376.5**
Borrowings	116.0	197.9	84.0	144.0
Other liabilities	50.5	50.5	43.0	43.0
Total Liabilities	**166.5**	**248.4**	**127.0**	**187.0**
Total Equity	**197.5**	**197.5**	**189.5**	**189.5**
Gearing (net debt/equity)[1]	53.2%		38.7%	

- Receivables book up $91m or 31%
- Operating lease rental assets reducing as customers migrate to longer term finance leases
- NCML goodwill written off $6.7m
- Borrowings up $54m to help fund receivables book growth
- Gearing up 14.5 pts to 53% as book growth is faster than internal cash generation

Notes:

1. Warehouse trust excluded in the calculation of gearing as the borrowings are non-recourse but secured by the underlying receivables. If they were included then gearing would be 94.6% in FY16 and 70.3% in FY15.

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Receivables

		March 2016 ($m)	March 2015 ($m)	Movement ($m)	Movement (%)
Consumer Leasing	Lease Book[1]	**136.0**	100.2	35.8	35.7%
	Rental Assets	**18.2**	33.2	(15.0)	(45.1%)
Business Finance	Lease Book[1]	**131.9**	82.6	49.3	59.7%
	Invoice Book[1]	**45.9**	36.5	9.4	25.8%
Consumer Finance	Loan Book[1]	**33.6**	39.5	(5.9)	(14.9%)
Receivables Management	PDLs	**19.5**	14.4	5.1	35.4%
Sundry Receivables		**12.6**	14.6	(2.0)	(13.7%)
Receivables (excluding rental assets[2])		**379.5**	**287.8**	**91.7**	**31.9%**

Notes:

1. Receivables are presented on a net basis, that is exclusive of unearned interest and net of bad and doubtful debt provisioning.
2. Rental assets are depreciated as fixed assets in the balance sheet.

Credit Quality

	March 2016	March 2015
Consumer Leasing		
Average Delinquency[1] (30+ days)	**7.5%**	7.3%
Impairment Losses ($m)	**12.8**	9.7
Impairment losses / ANR %[2]	**9.4%**	10.3%
Business Finance – Equipment Finance		
Average Delinquency[3] (30+ days)	**1.9%**	1.3%
Impairment Losses ($m)	**1.3**	0.9
Impairment losses / ANR %[2]	**1.2%**	1.4%
Business Finance – Trade and Debtor Finance		
Impairment Losses ($m)	**0.0**	0.0
Impairment losses / ANR %[2]	**0.0%**	0.0%
Consumer Finance		
Average Delinquency[3] (30+ days)	**7.4%**	6.0%
Impairment Losses ($m)[3]	**5.1**	4.5
Impairment losses / ANR%[2]	**12.0%**	12.3%

Notes:

1. Calculated as average current arrears balance of delinquent accounts expressed as a % of total monthly billings.
2. Impairment losses expressed as % of average net receivables.
3. Calculated as average current arrears balance expresses as a % of interest bearing receivables.
4. Impairment losses stated here are the actual write offs processed in the year. The P&L expense line represents that plus any increase in the bad and doubtful debt provision plus operating lease asset write-offs.

- **Consumer Leasing**
  - Arrears maintained at low levels
  - Impairments in line with book growth
  - Loss percentage down 0.9%
- **Business Finance**
  - Arrears maintained under 2.5% benchmark
  - Impairments in line with book growth
  - Debtor Finance business funds c.80% of the underlying invoices
- **Consumer Finance**
  - Provision adjusted to reflect book liquidation

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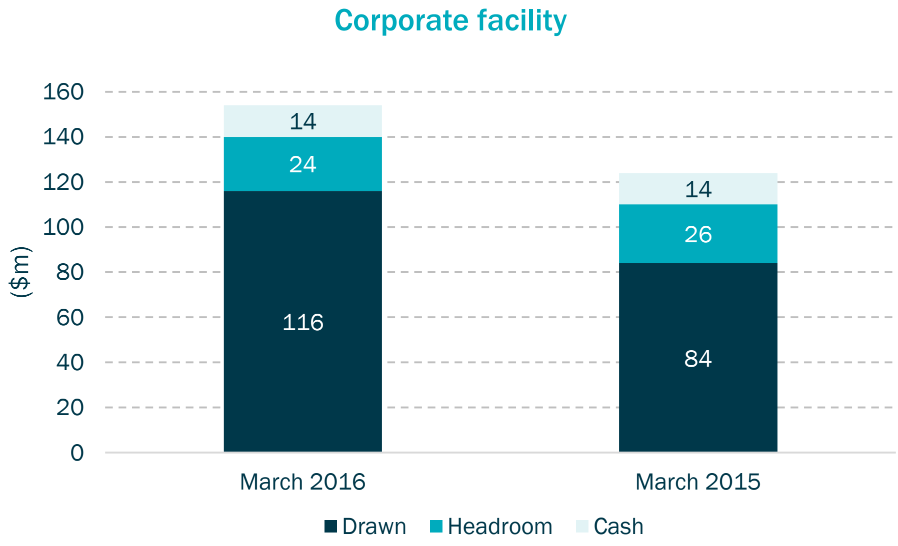
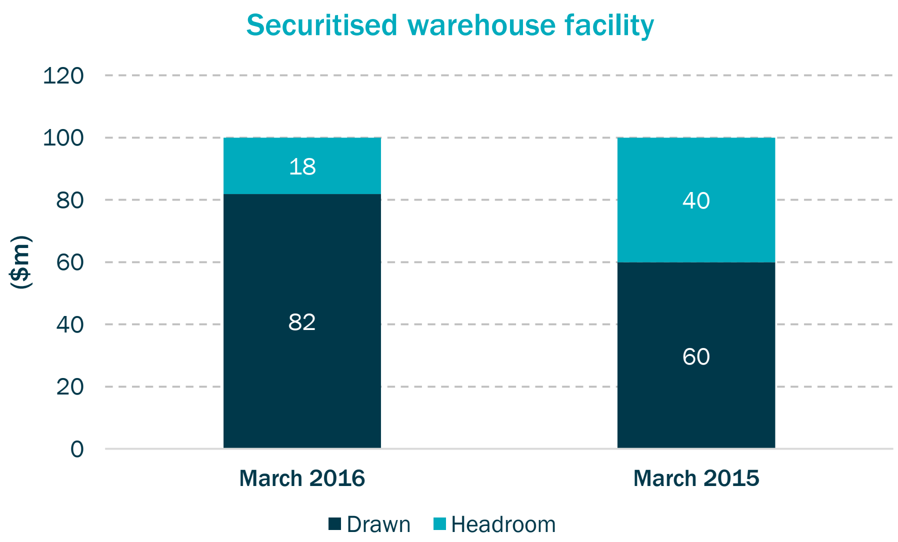
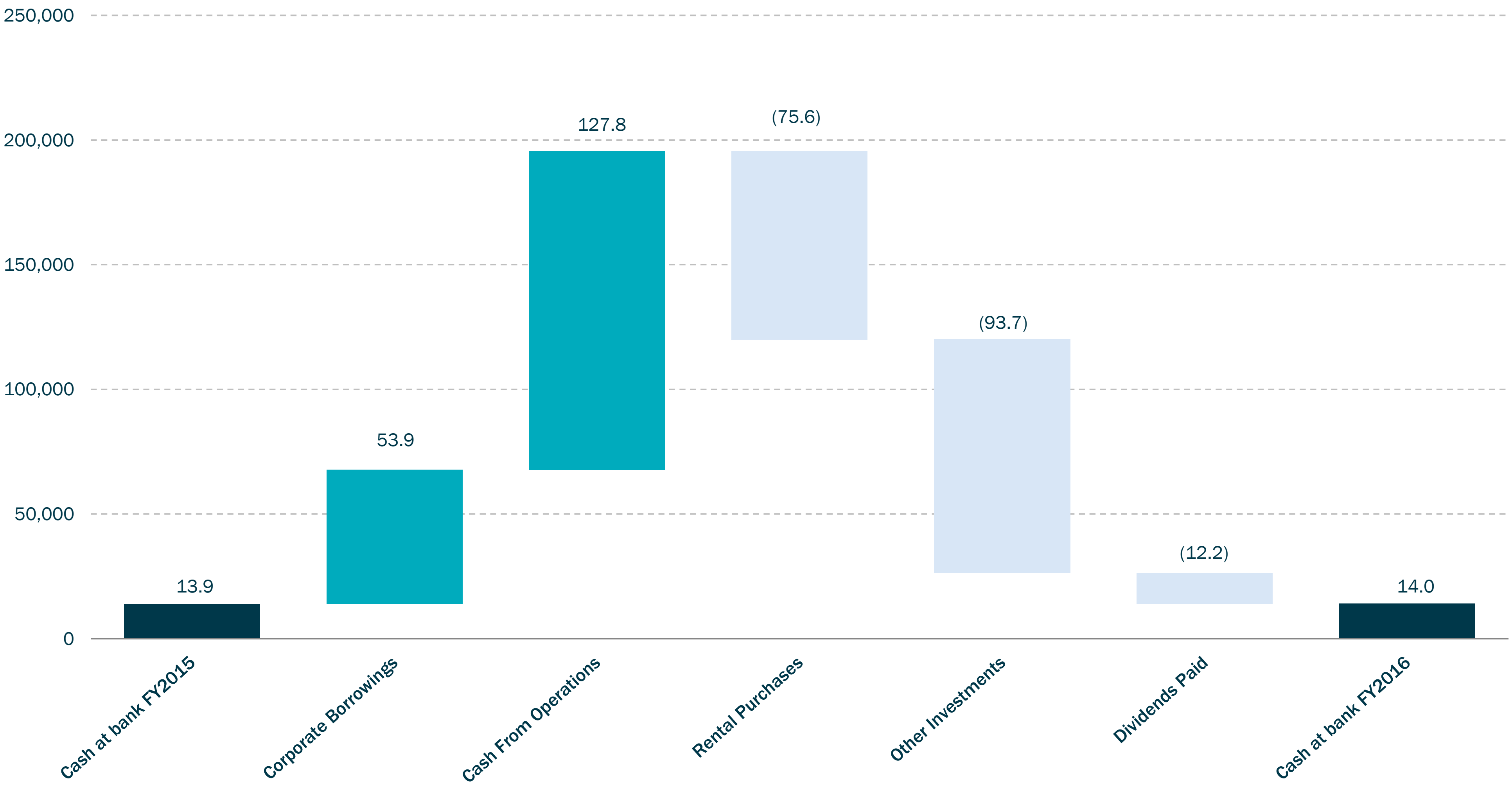
Borrowings





- Corporate facility expanded with a $30m extension to help fund longer term finance leases in Consumer Leasing, the NCML PDL's, and growth in Trade and Debtor Finance
- Group meets all covenants, has $42m of headroom plus cash on hand
- Independent expert appointed to optimise and diversify the funding structure, expand the securitised facilities and provide flexibility for growth
- Maturity profile:
  - Corporate facility $30m Jan 2017
  - Corporate facility $110m Nov 2017
  - Warehouse $100m Dec 2017 but with a roll in Dec 2016
- Corporate facilities are bullet repayment; warehouse stops funding new leases at maturity and amortises down from cash repayments from the underlying receivables over lease terms (c.4 years)

Cash Flow Bridge



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Branding

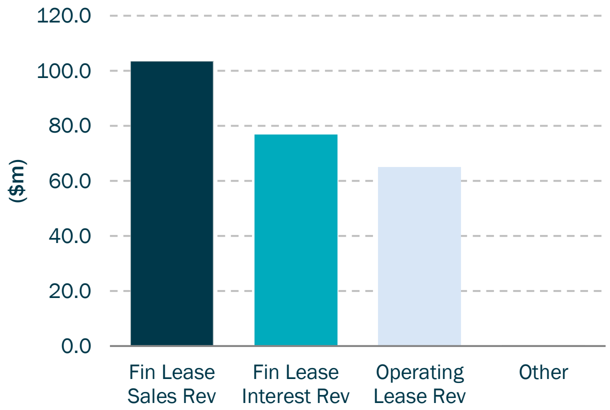
Consumer Leasing	radio rr rentals; rr; rentLo
Business Finance	THORN | EQUIPMENT FINANCE; THORN | TRADE & DEBTOR FINANCE
Receivables Management	NCML experts in credit
Consumer Finance	cashfirst™

Consumer Leasing - "Enhanced regulatory focus and operational transformation"

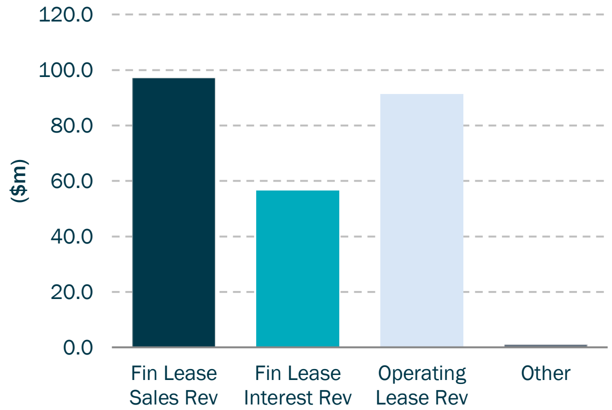
- Demand remains strong with opportunity to evolve model and execution to gain market share
- Affordable access to everyday essentials remains a key driver with Radio Rentals well positioned
- Enquiry conversion rate impacted in second half by greater income and expenditure verification requirements
- Project underway to streamline 'enquiry to contract' process and improve customer experience
- Revenue held flat with improved margin in select product categories
- Strong customer satisfaction ratings
- EBIT down $5.2m with $2.8m relating to the historic customer credit refunds provision, therefore underlying EBIT down $2.4m

Consumer Leasing	March 2016	March 2015	% Change
Installations ('000)	**124.5**	129.4	(3.8%)
Average Unit Rate ($ per week)	**11.17**	10.54	5.9%
Originations ($m)	**103.4**	97.2	6.4%
Revenue ($m)	**245.7**	246.2	(0.2%)
EBIT ($m)	**49.7**	54.9	(9.5%)
Receivables ($m)	**136.0**	100.2	35.7%
Total no. of stores	**89**	90	(1.1%)

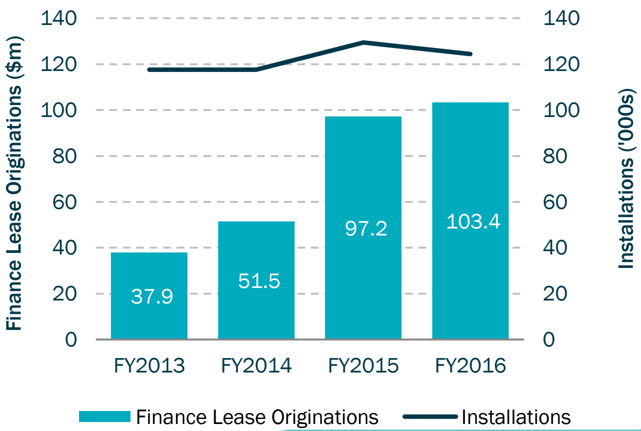
March 2016 Revenue Composition



March 2015 Revenue Composition



Consumer Lease Volume



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Business Finance – "Successful year of strong growth"

Equipment Finance ("TEF")

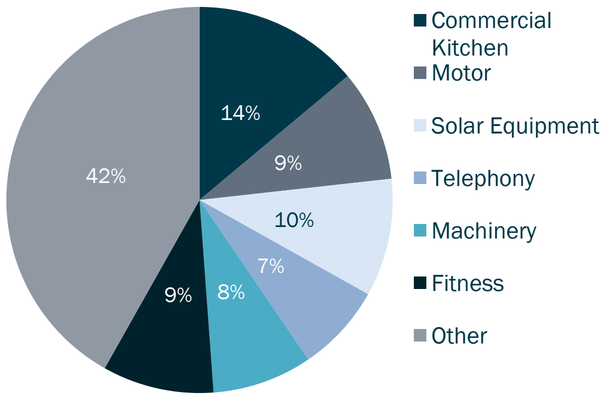
- Strong receivables growth in underserviced market
- Focused on 'core to business' equipment
- Enhanced direct and strategic partner originations across all states
- Continued low levels of delinquency
- Diverse book of small ticket contracts (average $26,000)

Trade and Debtor Finance ("T&DF")

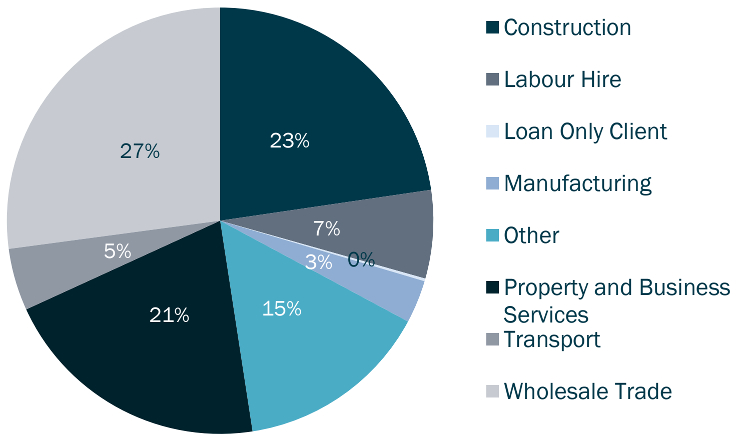
- Successful integration and new client growth
- Advanced capability well received by brokers and vendors
- Diverse industry representation
- Opportunities as competitors merge / consolidate

Business Finance	March 2016	March 2015	% Change
Revenue ($m)	30.5	15.0	102.9%
EBIT ($m)	14.0	6.8	106.3%
TEF Originations ($m)	91.7	61.5	49.1%
T&DF Purchases ($m)	369.2	104.2	254%
TEF Receivables ($m)[1]	131.9	82.6	59.7%
T&DF invoices ($m)	45.9	36.5	25.8%

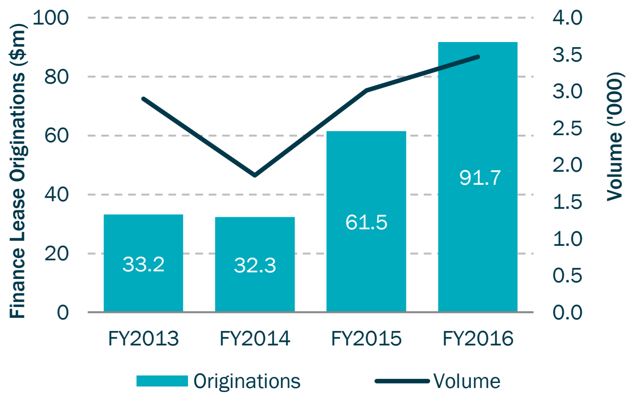
March 2016 TEF Asset Categories Financed



March 2016 CRA Purchases By Industry



Equipment Finance Volume



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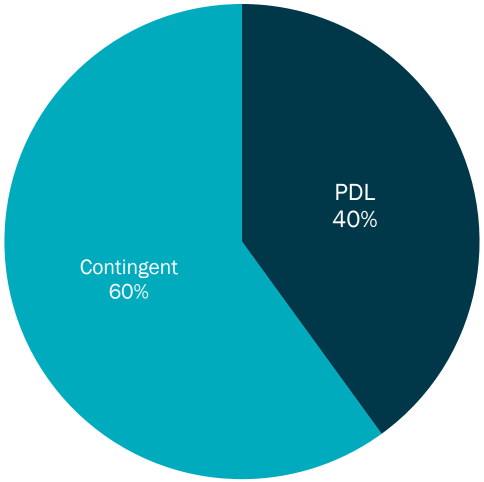
Receivables Management – "Return to growth, compelling value for clients"

NCML

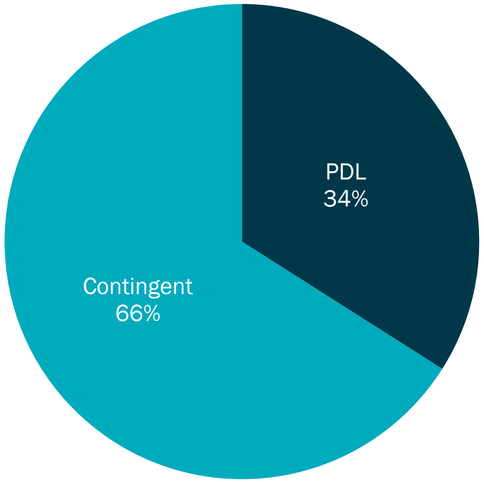
- Purchase Debt Ledger book up 35% with $12m of purchases
- Evolution of PDL portfolio collections to an 'arrangement bank' build
- EBIT impacted by valuation methodology change for PDLs which led to a $1.2m revenue devaluation in the second half
- Contingent business showing early signs of competitive edge and improved new business levels
- Growth in Government and financial services sectors

Receivables Management	March 2016	March 2015	% Change
Revenue ($m)	**14.7**	18.7	(21.8%)
EBIT ($m)	**1.4**	2.2	(40.1%)
PDL Receivables ($m)	**19.5**	14.4	35.4%

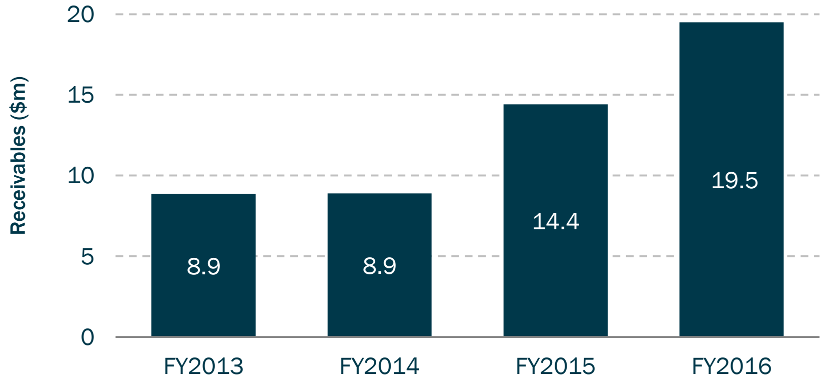
March 2016 Revenue by Business



March 2015 Revenue by Business



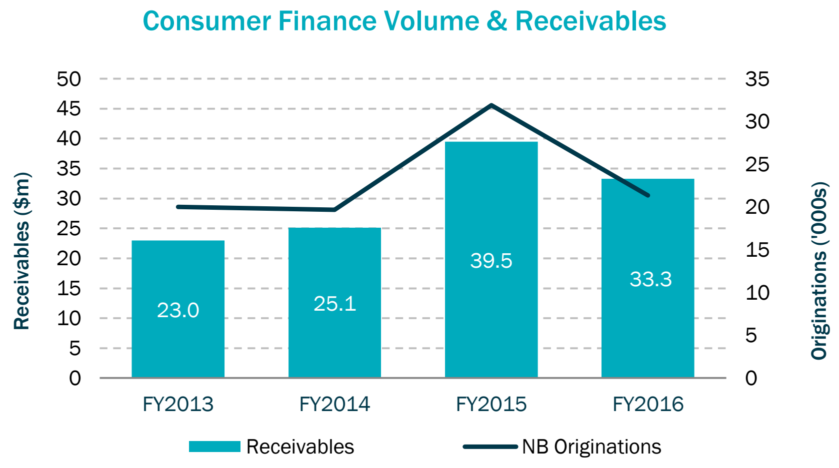
PDL Closing Receivables



Consumer Finance – "focus on efficiency and controls to improve performance"

- Rapidly evolving market with increased competition impacting credit quality and customer acquisition costs
- Strategic decision to close the direct to market consumer loan business
- $33m receivables book to be run off
- Third party loan B2B origination introducers migrating to business finance
- Redundancies, closure costs and provisioning adjustments of $2.3m with underlying EBIT $0.7m
- Under book run-off, business will generate higher profits but depleting over time
- Introduced revised collection strategies to optimize revenue in 'run-off'
- Capital released will be redeployed to other higher returning divisions

Consumer Finance	March 2016	March 2015	% Change
Revenue ($m)	**13.1**	13.8	(4.7%)
EBIT ($m)	**(1.6)**	1.2	nm
Originations ($m)	**21.4**	31.9	(33.0%)
Receivables ($m)	**33.6**	39.5	(14.9%)



External Environment

- **Competitive environment**
  - Focus is on underserviced markets
  - Market consolidation in debtor finance provides opportunity for niche providers
  - Treasury Inquiry report favours low cost providers like Thorn
  - PDL market maintains price points for quality portfolios

- **Regulatory environment**
  - Treasury Inquiry report recognises fundamental differences between loans and leases
  - Recommended pricing and income caps support Thorn’s business model
  - Affordability measures to be reviewed against unintended consequences
  - Thorn supports Centrepay aligning to recommendations with other payment options available

- **Governance and risk management**
  - Significant investment in risk management and framework to support growth
  - Evolution of regulatory landscape and ‘responsible lending’ concepts
  - Greater focus and evolution required to meet ASIC requirements
  - Contingent liability maintained for ASIC engagement
  - Thorn committed to providing products and services within ethical framework

Outlook

- ❑ Management to drive renewed focus on primary business divisions

  <u>Consumer Leasing</u>
  - ✓ Market leader in providing affordable access for everyday essential goods
  - ✓ Significant barriers to entry for competitors to gain entry and scale
  - ✓ Well positioned for potential market consolidation as a low cost provider
  - ✓ Technology investment to support customer experience and transactional efficiency

  <u>Business Finance</u>
  - ✓ Providing effective finance solutions to support small and medium business
  - ✓ Model supports efficient execution of business finance transactions
  - ✓ Uniquely positioned with asset and cash flow solutions
  - ✓ Receivables growth expected to underpin future earnings
- ❑ Strategy underpinned by focus on Group's strength, market opportunity, and return on capital
- ❑ Operational transformation
- ❑ Closure of low returning consumer loans business redirects capital into higher returning divisions
- ❑ Strong balance sheet and recurring cash flows
- ❑ Healthy dividend
- ❑ Long term outlook positive