

ASX & MEDIA RELEASE

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THORN LIFTS FY14 REVENUE 16%, PROFIT SLIGHTLY HIGHER

Group Highlights

- Revenue up 16% to \$235M (2013: \$203M)
- NPAT steady at \$28.15M (\$28.02M) but underlying NPAT up 4.5% to \$28.35M
- Return on equity remains strong at 26.2%
- Gearing levels remain conservative at 22% (19%)
- Full year dividend increased to 11.0 cents fully franked, final div 6.5 cents (6.0 cents)

Operations

- Group receivables up 32% to \$217M (\$164M)
- Strong revenue growth in all businesses
- Higher earnings from Radio Rentals, Thorn Equipment Finance and NCML
- Thorn Financial Services affected by investment in resources and marketing

Overview

- Diversification strategy producing higher revenue and strong receivables growth
- Profit improvement for NCML while EBITDA for Thorn Equipment Finance up threefold
- Nearing critical mass for full complement of business initiatives to contribute higher profits

Group performance commentary

Financial services company, Thorn Group Limited (ASX: TGA), has recorded another solid result in financial year 2014. Investment in new business streams and products delivered increased revenue, up 16 per cent to \$235 million, and receivables, up a significant 32 per cent to \$217 million. The increase in revenue did not translate to a significant increase in earnings as the expansion was matched with higher costs in the short term ahead of growth benefits. Consequently net profit after tax was steady at \$28.15 million (\$28.02M), although the result absorbed a number of one-off costs. Underlying profit was up 4.5 per cent to \$28.35 million, as shown in the table below:

<i>In thousands of AUD</i>	31 March 2014	31 March 2013
Reported NPAT	28,151	28,021
Debt Sale	(810)	(1,404)
RDB Trial	239	136
CEO Change	500	-
New System Impact	358	-
Tax Effect	(86)	380
Underlying NPAT	28,352	27,133

Radio Rentals, was again the standout performer and remains the main contributor to Group performance. Notably, NCML profit grew and the Thorn Equipment Finance leasing book is now at \$63.55 million. Thorn Financial Services reported higher revenue but EBITDA was lower than last year due to increased costs relating to business development initiatives, including the launch of higher value loans through Thorn Money.

Provisioning across all divisions increased during FY14 in-line with the 32 per cent growth in receivables. The group has headroom of \$59.5 million in its banking facilities, providing the group with significant capital to continue to grow the various receivables portfolios.

Managing director of Thorn, Mr John Hughes, said that with all businesses growing revenue, there is clear evidence Thorn's diversification strategy is starting to pay off.

"We have achieved significant revenue and receivables growth this year. Earnings have had to absorb major investment in new systems and people plus one-off costs relating to our CEO transition. Nevertheless, Thorn has been able to keep profit stable and grow dividends while building a business that will deliver stronger benefits in coming years," Mr Hughes said.

Radio Rentals/Rentlo

Radio Rentals provides an extensive range of technology, home and office needs, through a range of consumer lease products, principally under the Rent, Try, \$1Buy!® banner. Radio Rentals operates over 90 outlets nationally and has been a market leader since 1937.

Consumer leasing business, Radio Rentals, performed strongly, posting a 16 per cent increase in revenue to \$197 million (\$170M). Record installations were achieved in 10 of the 12 months, driving growth in operating lease and finance lease revenues. By product, furniture and smartphones increased significantly on prior year whilst strong demand continued for flat panels and larger whitegoods. Introduction of the new 48 month Rent, Try, \$1Buy!® contract made larger size products and whole room packages more affordable. Strong demand for Apple and Samsung products, where sales realise a lower margin, have reduced gross margin.

Underlying EBITDA was up 6 per cent to \$50 million (\$47.3M), after accounting for Rent Drive Buy trial costs and a new software system. Costs increased as new stores were opened and additional resources were required in the store network due to growth in the number of units on rent.

The new Radio Rentals website was launched in October 2013, improving the online capability of the brand. Customer loyalty remained strong with 48 per cent of customers who completed a Rent, Try, \$1Buy!® contract renewing for a new item.

Thorn Financial Services (TFS)

TFS comprises Thorn Money, which provides unsecured loans up to \$15,000 and secured loans up to \$25,000, and Cashfirst, which provides unsecured loans between \$2,000 and \$5,000.

TFS revenue increased 18 per cent to \$9.3 million (\$7.9M). EBITDA was lower at \$1.2 million due to the cost of developing Thorn Money, which included more people and additional marketing to launch the brand and grow the portfolio.

Thorn Money was launched to expand the financial services capability of the group and expand the consumer financial services offerings, targeting the mid-prime demographic. Consequently average loan size increased to \$4,986, up 107 per cent.

The first Cashfirst store opened in Campbelltown, NSW, and further expansion of this program via a 'store in store' concept is being considered in conjunction with the Radio Rentals review process.

Thorn Equipment Finance (TEF)

TEF provides rental solutions for businesses and government, with SMEs a key target market for supply of a diversified range of products.

TEF lifted revenue 35.7 per cent to \$8.3 million (\$6.1M), receivables are now at \$63.55 million (\$46.52M) and EBITDA was up 182 per cent to \$2.96 million (\$1.05M). The portfolio is diversified and brokers and introducers remain key originators for new business. The average deal size has increased to \$27,500. The book continues to build towards the \$100M target.

NCML

NCML is a provider of credit and receivables management services throughout Australia.

A restructure of NCML, which began in the second half of FY13 has resulted in improved operational performance, with revenue growth of 9.2 per cent to \$20.6 million (\$18.9M). Better results were driven by increased contingent collection and PDL (purchased debt ledger) revenue, which was up due to acquisitions. Underlying EBITDA was up 4 per cent to \$3.24 million (\$3.12M).

Legislative Changes

Thorn continues to be involved in discussions with Federal Treasury in relation to enhancements to the National Consumer Credit Protection legislation, which primarily involves more disclosure around financial services products. Thorn is supportive of this direction, seeing it as beneficial to consumers and Thorn's positioning in the market. Among likely increased disclosures for consumer leases are cash price equivalent, cost of additional services and interest rate, with a limit on early termination fees also proposed.

Dividend Payment

Final dividend of 6.5 cents (6 cents) a share fully franked will be paid on 17 July 2014 to shareholders registered on 19 June 2014. The dividend reinvestment plan will be active for the dividend and a discount of 2.5 per cent will apply.

Outlook

Thorn's transformation strategy to a broader based financial services group is gaining momentum as the consumer and commercial portfolios grow. The continued investments in new business opportunities are expected to deliver solid NPAT growth to above \$30M.

Incoming Managing Director from 1 June 2014, Mr James Marshall, said:

"We are encouraged to see top line growth flowing through to the bottom line and validating Thorn's move to become a broader financial services group. This strategy has been endorsed by outgoing Managing Director John Hughes who has been instrumental in leading the business over the past 8 years.

I'd like to thank John for his significant contribution, guidance, leadership and friendship over the years. I look forward to continuing to deliver on the strategy we have in place and taking Thorn to a new level."

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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 and now with over 90 outlets nationally. Other group businesses comprise Thorn Equipment Finance, providing commercial finance, Thorn Financial Services which includes Cashfirst and Thorn Money, offering secured and unsecured loans from \$2,000 to \$25,000, and NCML, a full service receivables management company.