

CASE STUDY

Retailing and Financial Services - Media and Investor Relations

Thorn Group Limited, listed on the ASX in 2007. Its core business, Radio Rentals, has a long history in Australia, opening its first store in Sydney in 1937. Today, Thorn is a retailing and financial services provider and a leader in the household goods rental market with 70 stores nationally.

Thorn's brands include Radio Rentals, Rentlo, Cashfirst, Thorn Business Services and BigBrownBox.com.au.



Thorn Group's objective is to position itself as Australia's leader in retailing and financial solutions.

Challenge

The communications challenge presented by Thorn was to achieve a higher media profile and broaden its investor base. Thorn felt that while it was making significant progress in building its business, its achievements were not being recognised by the media. Additionally, while it had solid institutional investment support, there was scope to heighten the appeal to retail investors. Thorn was also breaking new ground in online retailing which would benefit from increased exposure in the media.

Strategy

Our communications strategy had four elements, principally focused on achieving media coverage as a way of meeting Thorn's objectives. One was to develop the Thorn corporate story, two, was to make news from Thorn's achievements, three, was to help Thorn build media relationships and four, was to create news flow. Key components of this strategy were to present the distinctive nature of Thorn's business model as the basis of its competitive advantage.

Implementation

The initial focus was on achieving corporate profile media coverage. This enabled Thorn to place on record its corporate story while building relationships with journalists. Wider media coverage ensured that when Thorn announced its full year results it was able to achieve national media coverage, in print, online and on television. A higher media profile and broader news distribution has also led to increased investment community inquiry.

Results

Thorn's profile has been raised significantly with the media and investment community. This has contributed to a wider understanding of its corporate story, and has been reflected in Thorn's share price growth. Ongoing news flow is assisting to reinforce strategic achievements of Thorn and bring its recent business initiatives to the attention of a wider media and investment audience.

BOTTOM LINE

Small Caps

Opportunities abound at the smaller end of the sharemarket

Plugged into growth

These companies have found that providing finance for the purchase of electronic goods offers potential for an upsurge in a post-GFC world, Trevor Hoey writes.

There are just three companies in the Australian sharemarket that focus on the provision of finance for the purchase of electrical products such as computers and white goods. They are Flexigroup (FXL), ThinkSmart (TSM) and Thorn Group (TGA) and all have listed since 2006. But this is by no means a new industry – Thorn Group, better known as Radio Rentals, has a history that dates back more than 70 years when it

provided rental programs for black and white televisions and radiograms. Similarly, Flexigroup was launched in 1993 to finance digital handset equipment and it has strong ties with big names such as Harvey Norman Holdings (HVN). While Flexigroup is the largest of the three companies, bigger isn't necessarily better. We look at the two small players in this space, focusing on their business strategies and scope for growth.

Thorn Group

The hire company listed on the ASX in December 2006 as RR Australia. Despite the impact of the global financial crisis it has mainly traded at a premium to its IPO price of 50¢. While the share price fell below 40¢ during the market downturn, it has more than doubled since.

Notwithstanding the strong share price performance, Thorn Group's price-earnings ratio relative to 2009-10 forecasts is conservative. Management expects profit after tax in the order of \$14.5 million, an increase of about 18 per cent on the previous corresponding period.

The company's Radio Rentals and Rentlo brands are leaders in the household goods rental market. It is experiencing strong demand for televisions and personal computers, and this is complemented by its expansion into new areas such as furniture and fitness equipment. The introduction of this model into South Australia has proved successful and management sees scope for further market penetration.

The company's Thorn Business Services division targets the small to medium-sized enterprise



FAST FACTS	
Market cap	\$128.7m
Dividend yield	5.47pc
Hist. earnings per share	9.6¢
Hist. price-earnings ratio	10.4

market. This area of the business is driven by such factors as the financial flexibility and tax advantages that can be gained from renting rather than buying.

In the past two years, Thorn's customer numbers have grown from less than 80,000 to about 90,000. Most of this growth occurred while the GFC was unfolding, which highlights the industry's resilience. Conservative investors should find Thorn's level of recurring earnings an attractive feature of the business. **Si**

Trevor Hoey uses socio-economic trends to identify stocks with the best potential for growth.

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Westbrook communications

Thorn Group cashing in as rate rises bite

The rental firm's net profit has soared 33 per cent to \$16.4m

TELES & CO
REPORTS

RISING interest rates are proving a boon to rental company Thorn Group, with families on annual income of \$30,000 resorting to renting home appliances as they struggle to pay their mortgages.

"We are seeing more higher-income customers from the mortgage belt... who are renting from us because they do not have the spare cash to pay for a new fridge or washing machine," managing director John Hughes said yesterday while announcing a bumper full-year profit.

With customer services since last October and increasing global uncertainty, Thorn, which operates Radio Rentals, is attracting a different class of renters – mostly mortgagees families on higher incomes.

"Our store managers are telling me that they are getting more customers from higher-income families who they usually do not attract," said Mr Hughes. "We are

talking about home owners with a \$300,000 mortgage who are paying \$300 a month in monthly repayments more than a year ago."

But Radio Rentals' core is still the lower-income group on social security. There was strong demand for the company's "Rent by \$1 buy" program in which a customer can buy the rental appliance for \$1 after completing a 36-month rental agreement.

Thorn, yesterday reported a normalised full-year net profit of \$16.4 million – excluding a one-off tax benefit of \$1.1m – up 33.8 per cent from last year's \$12.3m.

Revenues increased by 14 per cent to \$481.1m. Despite a soft retail market, Thorn grew its net-

base by 8.8 per cent, pushing its total return to 90,000 for the year ending March 31.

Mr Hughes said Thorn had maintained margins with higher levels of repeat business and "historically low late payments".

The company's Cashfirst business, which offers high-interest, emergency loans to hard-up customers, also performed well, with its loan book increasing to \$5.5m and customers doubling to 4000, up from 2000 last year.

"The economy is not as strong as people suggest it is. More customers need an emergency loan to pay medical bills, motor vehicle registration or car insurance – when these bills come at the same time," said Mr Hughes.

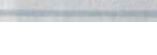
Cashfirst offers unsecured loans of up to \$5000 on an interest rate of 38 per cent.

Business rentals targeting small business and student renters also picked up as banks moved away from personal credit and equipment financing.

But conditions were tough for its consumer retail arm, Mr Hughes said.

Thorn's share price fell 1.5¢ to \$11.2 in a weak market.

Thorn Group net profit



Source: Westbury



John Hughes says "the economy is not as strong as people suggest it is"