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# THINKSMART

**FY 2009: Full Year Results**

1 Jan 09 – 31 Dec 09

**Ned Montarello: Executive Chairman & CEO**

**Neil Barker: Group COO**

# Agenda

1. Key Points & Results Highlights
2. ThinkSmart: A Focused, Global Business
3. FY 2009 Results Analysis
4. 2010 Growth Strategies & Outlook
5. ThinkSmart Investment Summary
6. Appendices

# KEY POINTS & RESULTS HIGHLIGHTS

# Key Points

- Delivered 54% increase in Cash NPAT to exceed FY 2009 full year guidance – Record Profit.
- Strong growth in Australia; solid performance in UK; and improved fundamentals position Group for continued strong growth through 2010.
- Achieved significant, sustainable operating improvements to improve scalability and reduce cost of doing business by 14%.
- A Growth Company – EBITDA CAGR 21% (2007 – 2009).
- No Net Debt.
- Targeting 20% EBITDA growth in FY 2010.
- Strong start to year with Jan '10 EBITDA performance well up on Jan '09.
- Introduced new services-based rental product increasing appeal with further high perceived value benefits to core product range.
- Opportunity to grow UK market four fold through planned introduction of a consumer rental product.
- Paying final dividend of 2.0 cents, fully franked.

# FY 2009 Results Highlights

*Strong Profit Growth through Gross Margin Improvements & Operating Cost Reductions.*

	FY 2009	FY 2008	% change
Cash NPAT	\$7.5m	\$4.8m	+54%
NPAT	\$5.2m	\$3.2m	+61%
EBITDA (excl non recurring items)	\$12.2m	\$11.3m	+8%
EBITDA Margin (pre Corp Dev costs)	40%	32%	+26%
Cost of Doing Business (pre Corp Dev costs)	29%	33%	-14%
Total Revenue	\$36.8m	\$38.9m	-6%
Gross Margin	69%	66%	+4%
Earnings Per Share	5.3¢	3.3¢	+59%
Final Dividend – fully franked <sup>†</sup>	2.0 cps	1.5cps	+33%

<sup>†</sup> 1.5 cents paid in October 2009. Final Dividend of 2.0 cents to be paid on 23 April 2010. Total 2009 dividends of 3.5¢. (2008 = 3.5¢)

# **THINKSMART: A FOCUSED, GLOBAL BUSINESS**

# Introduction to ThinkSmart

- (ASX:TSM) Leading international provider of point-of-sale finance within the retail store environment
  - Provides rental finance products to small businesses and consumers
  - Shop in retail stores for computing and electricals
  - “Nano-ticket” transactions – A\$500 – A\$10k
- Market leading international footprint across Europe and Australia
- Distribution through exclusive and entrenched partnerships with major international electrical retailing groups
- Products offer compelling and highly profitable value proposition for retail partners, customers and wholesale funders
- Proven track record of growth through adverse trading conditions
- Platform for international and domestic growth



# Focused Niche Model

*ThinkSmart's products fill the gap for small business & consumer customers between a credit card & a bank loan in the fast moving electrical retailing environment.*

## What Are Customers Shopping For?



### Laptops and Electricals

- 12 week product lifecycles.
- High obsolescence factor for users.
- Driven by the “latest” technology.

## Where Do They Shop?



### PC Superstores

- “Take away” service
- Highly accessible locations
- On the spot environment

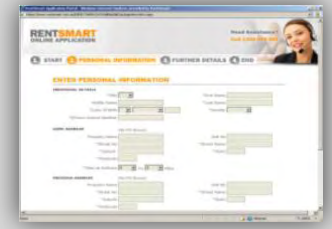
## What's the Product?



### Rental Operating Leases

- Delivered in store at the point of sale
- Monthly payments. Good for cash flow
- 100% tax deductible for business
- Bundle equipment and high value services into consumer contract – circa 25% of added invoice value at no extra cost.
- Helps customer keep up to date with technology

## What's The Customer Experience



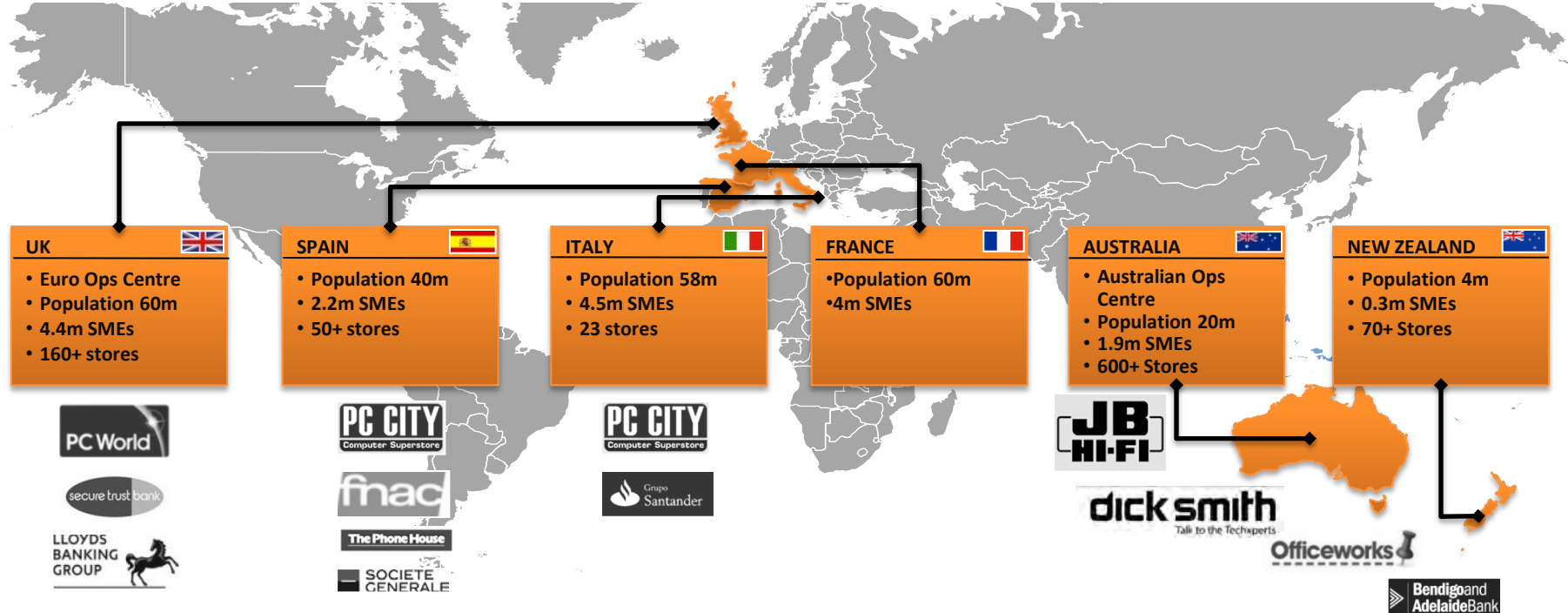
### Fast in-store Process

- Selects equipment
- Sub 10 minutes online approval
- Executes agreement
- Leaves store



# Leading International Footprint

*ThinkSmart has long term relationships with leading international retailers and funders in 6 countries*



*Exposure to over 243m people and 17.3m small businesses*

# Long Term Funding Relationships

- Existing funding agreements are contracted to 2011/2013
  - UK – *Secure Trust Bank* to 2013 and *Lloyds HBoS* to 2011
  - Australia – *Bendigo Adelaide* to 2012
  - Spain – *Societe Generale* to 2011
  - Italy – *Santander* to 2012
- Priority is to add multiple supportive funding partners in all territories to both capture the consumer and business market opportunities and meet our growth aspirations.



# Generate Revenue Throughout Contract Life

*ThinkSmart generates revenue from 3 core sources over the life of a customers' contract:*

**1.**

## **Upfront brokerage on sale of equipment**

- Credit risk is provided for by agreed loss reserves
- Predominantly non-recourse funding models with leading banks

**2.**

## **Insurance income over contract life**

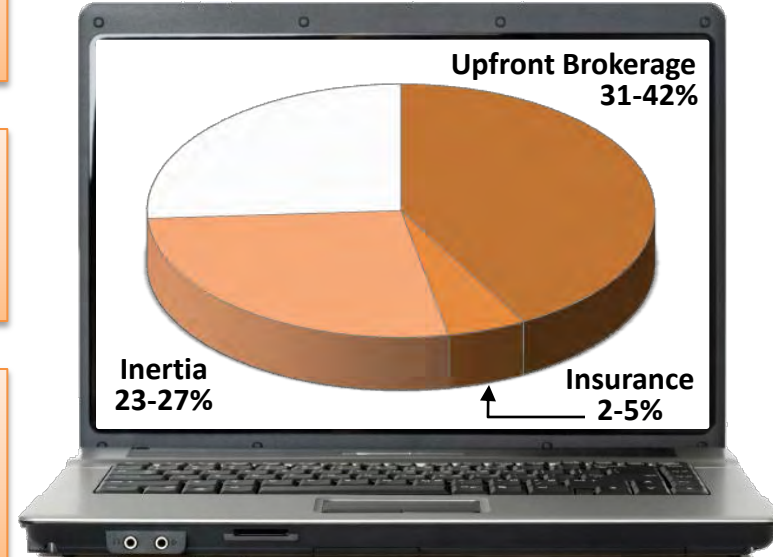
- ThinkSmart takes no underwriting risk but receives a significant portion of the insurance premium as commission

**3.**

## **“Inertia” income at end of term**

- Generated from extended rentals & sales of equipment into secondary markets
- Existing contracts to deliver \$60m of future revenue.

**ThinkSmart Generates an Income from each sale of up to 65% of the invoice value over the life of the contract.**



# **FY 2009 RESULTS ANALYSIS**

# FY 2009 Results

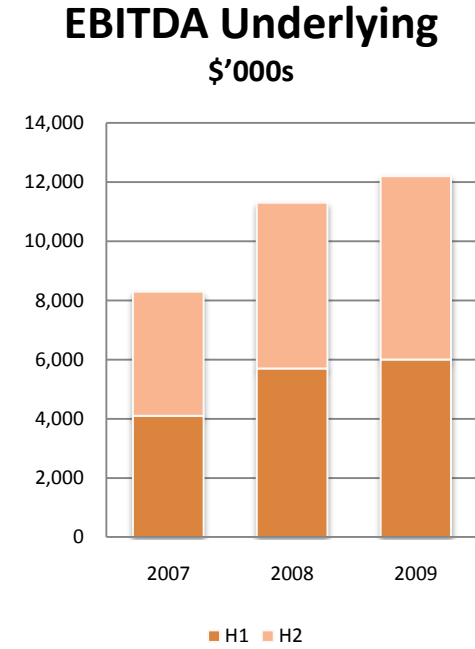
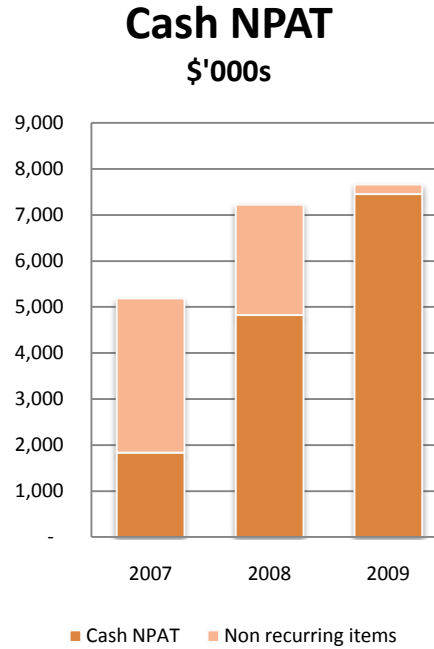
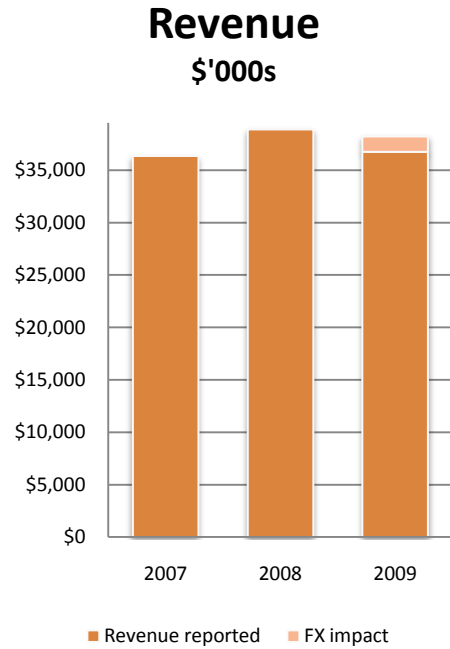
## *Growth on Previous Corresponding Period*

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# FY 2009 Results

*Improved Margins & Reduced Operating Costs Deliver Continued Profit Growth*

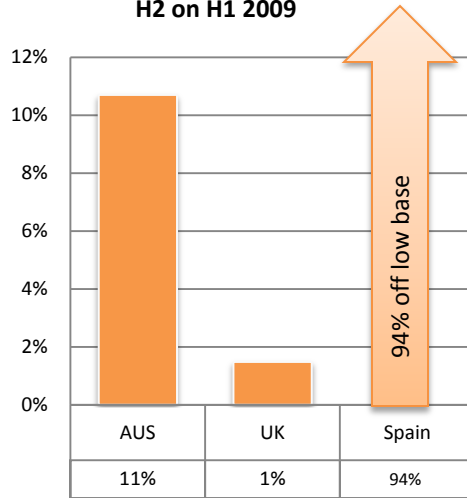


*Will serve to accelerate growth on European retail recovery and Australian expansion.*

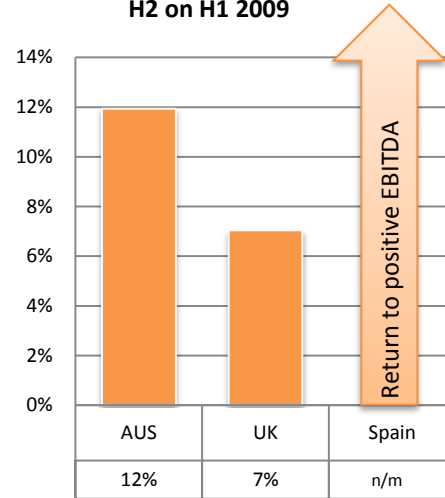
# Strong H2 Performance

*H2 performance provides strong performance indicators for growth in 2010*

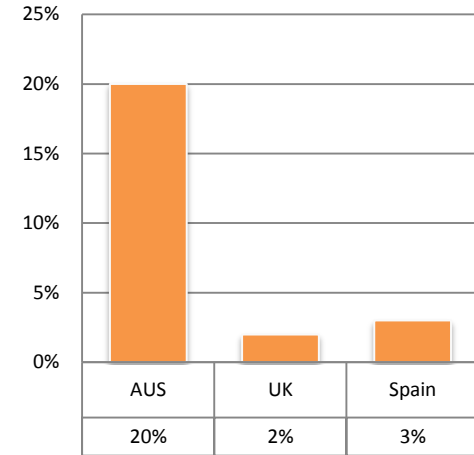
**Application Growth**  
H2 on H1 2009



**EBITDA Growth**  
H2 on H1 2009



**Cost Reduction**  
H2 on H1 2009



**Australia:** New “QuickSmart” applications process launched late April delivered significant operational efficiencies providing a platform for handling significantly greater application volumes without a corresponding increase in operational costs.

**U.K:** Early signs of stability in the economy and return to volume growth

**Spain:** Establishment of new funder supported existing and new retailer relationships

# FY 2009 Results

## *EBITDA by Territory*

	Actual 2009 \$Am	Actual 2008 \$Am	% Change	% Change Excl. FX*
Australia / NZ	7.7	4.6	+67%	
United Kingdom	7.5	7.9	-5%	+5%
Spain	0.1	0.7	n/m†	
Italy	(0.5)	(0.4)	n/m†	
France	(0.2)	0.0	n/m†	
Corporate Development	(2.1)	(1.4)	+50%	
Corporate Costs	(0.3)	(0.1)	n/m†	
EBITDA Underlying	12.2	11.3	+8%	+15%
Non recurring expenses	(0.3)	(2.5)	n/m†	
EBITDA	11.9	8.8	+35%	+44%

\* Earnings translation based on like for like FX rate.

GBP = 50.44p/45.84p (-10%)

Euro = 56.64c/57.72c (-2%)

† Not Meaningful due to lower starting base.



# FY 2009 Results: Australia

## *Strong Growth & Sustainable Cost Efficiencies*

### • Delivered Strong Growth through FY 2009:

- EBITDA CAGR of 41% over last 3 years.
- Australian retail partners have posted solid growth over period.
- Conscious move into consumer rental 4 years ago has driven 51% CAGR in consumer volumes.
- Online acquisition channels increasing and now accounting for up to 27% of volume.
- New “QuickSmart” processing platform has reduced the cost of doing business & improved customer experience.
- Continued to grow margins through predictable Inertia income.
- Warranty Services product in Dick Smith has delivered strong EBITDA contribution.
- Contracts extended with JB Hi-Fi & Officeworks.

- Revenue up 14% to \$21.1m
- EBITDA up 61% to \$7.6m
- EBITDA margin up 9% to 36%
- Gross margin unchanged at 62%
- Volumes up by 6%
- ATV down 4% to \$2,003
- Income mix:
  - Brokerage & Insurance 67%
  - Inertia & Warranty 30%
  - Other 3%

# FY 2009 Results: Europe

*Solid EBITDA Growth in UK | Mainland Europe Positioned for Retail recovery.*

## United Kingdom:

- Delivered solid EBITDA growth during retail market downturn:
- EBITDA CAGR of 23% over last 3 years.
- Delivered sustainable operating efficiencies.
- Secured new funding agreement with *Secure Trust Bank*.
- Signs of return to consumer confidence with DSGi posting 11% growth over Christmas period.

## Spain:

- Delivered positive FY 2009 EBITDA.
- Strong underlying Inertia performance in Spain continued to underpin earnings.
- Strategy to develop Spain into multi-channel territory on course. Added *Phone House & Fnac* to retail stable plus *Société Générale* to funding.
- 94% application growth (H2 on H1)

## Italy & France:

- Advanced negotiations with prospective funding partners and new retail partners in both territories to open up markets.

- Revenue down 11% to £7.3m
- EBITDA up 5% to £3.8m
- EBITDA margin up 8% to 52%
- Gross margin up 6% to 82%
- Volumes down by 39%
- ATV up 1% to £787
- Income mix:
  - Brokerage & Insurance 57%
  - Inertia & Warranty 39%
  - Other 4%

# **2010 GROWTH STRATEGIES & OUTLOOK**

# Guiding Principles for Growth

*Successfully positioned business through challenging global Environment  
& for future market recovery*

**1.**

**Growth Through Cash Flow**

**2.**

**Pace of Expansion Governed by Performance**

**3.**

**Alignment with Market Leading Retailers**

# Key Growth Strategies

<b>1.</b>	<b>Product evolution</b>
<b>2.</b>	<b>Consumer rental model into mature territories</b>
<b>3.</b>	<b>Next generation SmartCheck integration</b>
<b>4.</b>	<b>Increase distribution &amp; funding channels in existing markets</b>
<b>5.</b>	<b>Grow the Internet</b>
<b>6.</b>	<b>Territory expansion</b>

# Product Evolution

- Rolled out major new product enhancement to core rental product in Australia in Jan. 2010 and UK & Spain in Feb. 2010.
- Delivers even greater value proposition to ThinkSmart's customers; strongly targets consumer sector.
- In Australia product delivers all the cash flow benefits of RentSmart plus:
  - ✓ Free online **data transfer** to new machine
  - ✓ Free online **data backup** for life of contract
  - ✓ Includes **remote data access** from anywhere in the world
  - ✓ Free **loan laptop** if the customers' breakdown or is stolen
  - ✓ **Last three months payment free** to drive renewal.
- Provides more than \$500 worth of high perceived added value benefits to the customer over their contract life on an average \$2,000 deal.
- Product has been well received through channels in first 6 weeks contributing to strong January LFL performance in Australia.
- Similar product enhancements in Spain and UK.

**PRICE BLITZ!**

**SMART REASONS TO RENT!**

- ✓ No deposit. Spread the cost with simple fixed monthly payments.
- ✓ **PLUS** online data transfer & backup.
- ✓ **PLUS** a loaner laptop if yours is stolen or breaks down.
- ✓ **PLUS** rollover discount keeps you up-to-date for less.

**GET MORE WHEN YOU RENT SMART**

\*Conditions Apply

# Launch Consumer Rental in Mature Territories

- Planned move into consumer rental in Australia 4 years ago has driven 51% CAGR in consumer volumes.
  - Australian consumer rental volumes have increased 5 fold in past 4 years.
  - Now accounts for more than 60% of Australian new business volumes
- Looking to now launch consumer rental in UK during 2010.
  - Potential to give ThinkSmart access to 4 times the current available market.
  - Expose product to 500+ Currys stores & 160+ PC World stores
- Appetite also exists in other European markets for ThinkSmart to expand to consumer market too.



# Next Generation SmartCheck Integration

- New “QuickSmart” retailer portal in Australia has delivered significant cost reductions & processing efficiencies:
  - Delivered 20% reduction in operating costs
  - 40% improvement in call to application ratio.
  - Automation and process improvements delivered 330% efficiency gain per CSO.
- Integrating UK processing platform into DSGi’s “Eclipse” till system in June 2010.
  - Will deliver business “QuickSmart” style operating efficiencies and operating cost reductions
  - Will enable business to expand across DSGi store network.
  - Will deliver processing efficiencies required to manage planned expansion into consumer rental across group.

The screenshot shows a web browser window titled "RentSmart Online Application - Windows Internet Explorer provided by RentSmart". The address bar shows the URL "https://www.rentsmart.com.au/DIRECTAPPLICATIONENGINE[AU]/signatureInfo.aspx". The page header features the "RENTSMART ONLINE APPLICATION" logo and a "Need Assistance? Call 1300 856 565" button next to a customer service representative's photo. A progress bar at the top indicates four steps: 1. START, 2. CUSTOMER INFORMATION (highlighted), 3. FURTHER DETAILS, and 4. END. The main content area is titled "CUSTOMER INFORMATION" and is divided into three sections: "INDIVIDUAL DETAILS" with fields for Title, Middle Name, Date of Birth, First Name, Last Name, Gender, and Drivers Licence; "CURRENT HOME ADDRESS" with fields for Property Name, Street No, Suburb, Postcode, Time at Address, Unit No, and Street Names; and "CONTACT DETAILS" with fields for Home No. and Mobile No. The browser's status bar at the bottom shows "Done" and "Internet" with a 100% zoom level.



# Increasing Distribution & Funding Channels in Existing Markets

- Targeting 3 to 4 key retail partners in each territory in mainland Europe.
- Already trading with chains in 4 of the top 6 electrical retailers in Europe:
  - Consumer rental proposition would open up all of the DSGi chain in UK.
  - Commenced small scale B2B trial in Feb. 2010 in UK with Currys.
  - In negotiations in Italy and France with prospective new partners.
- Priority is to add multiple supportive funding partners in all territories to both capture the consumer and business market opportunities and meet our growth aspirations.
- Strategy positions business well for market recovery in European markets, leverage existing low cost operating base.



# Grow the Internet

- Online acquisition channels increasing in Australia and now accounting for up to 27% of volume:
  - Significantly reduced acquisition costs.
  - 17% higher ATV
  - Offset is 20 percentage points lower conversion rate
- Customer able to get pre-approved for finance before visiting store.
- Aligns to customer habits for using internet to research purchase in advance.
- Core delivery strategy for AU in 2010.
- Now delivering pre-approval engine through partner sites.
- Commencing roll-out with partners in Europe through 2010.



# Territory Expansion

- Remains medium-term play.
- Continued watch on US re entry
- Strategic Retailing group relationships in Europe present numerous opportunities
- Growth opportunities with partners within existing territories see no new scheduled territories slated for 2010



# **FY 2010 Outlook: Targeting 20% EBITDA Growth**

## **Australia & New Zealand – Continued strong growth.**

- New product to help drive volume growth
- Online strategies will continue to deliver an increasing share of business
- QuickSmart will sustain operating efficiencies in business
- Strong contribution from Inertia and Warranty Services.

## **United Kingdom – Expecting return to growth weighted to second half.**

- Capitalise on growing business confidence with relaunched B2B product in PC World in Q1 2010.
- Commencement of B2B trial in Currys stores opens channels.
- Eclipse integration will deliver QuickSmart style efficiencies in UK business to handle increase in volumes.
- Opportunity to launch consumer rental proposition in both PC World and Currys in the UK in 2010 promises to be game changing.

## **Europe – Focus on establishing successful multi-channel relationships for regions to capitalise on recovery:**

- Spain - Increasing EBITDA positive growth: Promising early volumes showing LFL recovery. New product offering delivering renewed focus. Territory remains profitable through inertia.
- Italy – Commencement of Inertia and Insurance Income. Advanced negotiations with prospective new retail partners.
- France – Continued negotiations with prospective new retail and funding partners.

# THINKSMART INVESTMENT SUMMARY

# Investment Summary

- ☑ Strong EBITDA and Margin performance during tough global trading period.
- ☑ Proven track record of growth delivering 21% CAGR in underlying EBITDA over the last three years (2007-2009).
- ☑ Dependable recurring income lines through Inertia book and insurance income.
- ☑ New product value-adds, further enhance compelling and highly profitable value proposition for retail partners, customers and wholesale funders.
- ☑ Exclusive and entrenched partnerships with market leading international retailers and funders. Continuing to expand distribution channels in Europe.
- ☑ Business Targeting 20% EBITDA growth in FY 2010
- ☑ Opportunity to grow UK market four fold through introduction of consumer rental would be game changing.
- ☑ Business has no net debt.
- ☑ Shareholder Value: Paying final dividend of 2.0 cents, fully franked. Dividend yield 4% fully franked.

# APPENDICES

# Appendices: Cash Utilisation in Period

## *EBITDA Conversion to Cash*

	FY 2009
EBITDA	\$11.9m
Cash utilisation	
Dividend payment	\$2.9m
Tax payment	\$2.5m
Investing Capex	\$2.0m
Finance costs	\$1.0m
Cash retained by Funder	\$0.8m
Self funded contracts	\$0.2m
FX impact on balance sheet	\$1.6m
	\$11.0m
+ Increase in Cash over period	\$0.9m
= EBITDA	\$11.9m



# Appendices: Cash NPAT reconciliation

	<b>FY 2009</b> \$'000s	<b>FY 2008</b> \$'000s
<b>NPAT</b>	<b>\$5,171</b>	<b>\$3,211</b>
<b>Adjustments</b>		
<b>Depreciation</b>	<b>\$555</b>	<b>\$410</b>
<b>Amortisation</b>	<b>\$2,097</b>	<b>\$1,810</b>
<b>Unrealised FX</b>	<b>\$608</b>	<b>\$88</b>
<b>Tax effect of adjustments</b>	<b>-\$978</b>	<b>-\$692</b>
<b>Cash NPAT</b>	<b>\$7,454</b>	<b>\$4,826</b>

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