HOMECHOICE INTERNATIONAL PLC

# INTERIM RESULTS

2020

**HomeChoice International plc is an investment holding company listed on the JSE Limited. The group is a leading participant in the retail homeware and financial services sectors to the urban middle-income mass market in southern Africa.** It has serviced this market for more than 30 years and has built up a loyal, primarily female, customer base of more than 920 000 active customers. The group operates through two trading operations, Retail and Financial Services.

# FINANCIAL PERFORMANCE

Retail revenue
**-6.7%**

Revenue
**R1.6bn**
-4.9%

Loan disbursements curtailed by
**R400m**
-29.8%

Digital sales
**+39%**

Funeral insurance premiums
**+33%**

Operating profit
**-46.7%**
on lower sales and prudent debtor provisions

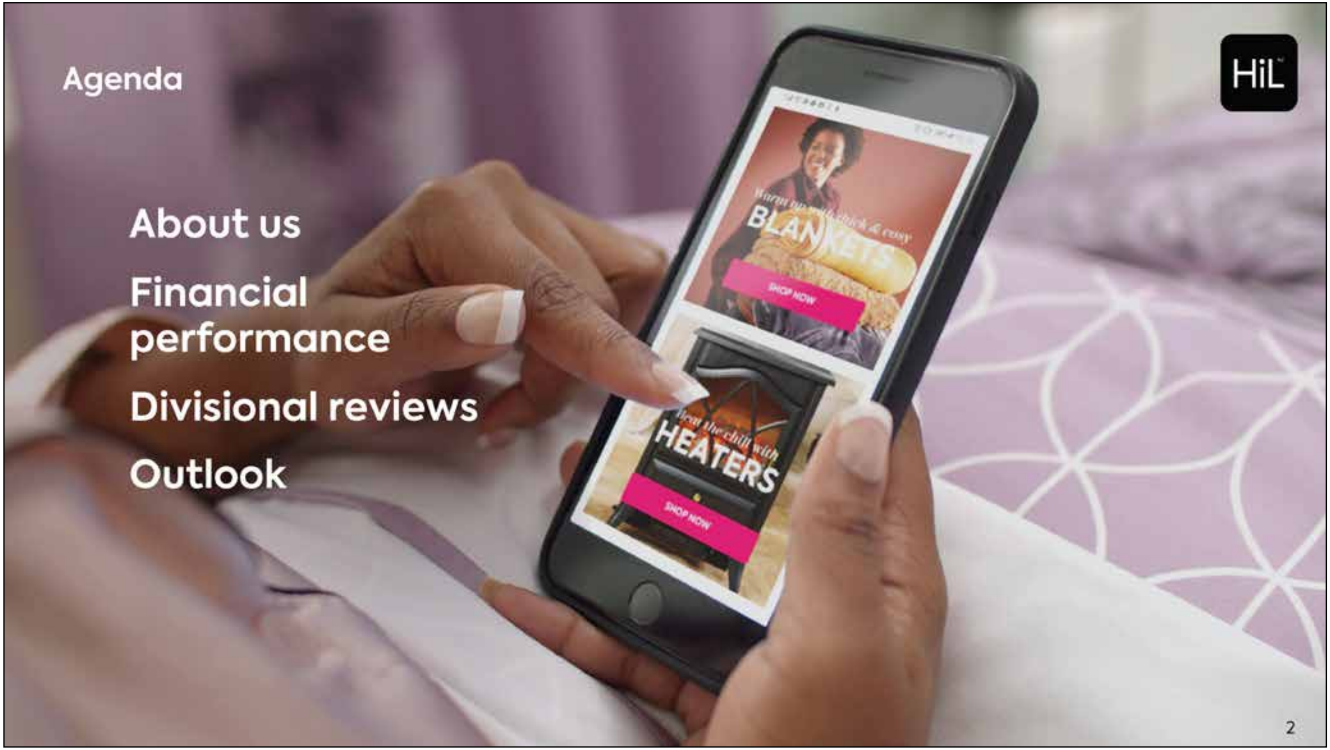
Credit extended on digital channels
**R778m**
42.0% of all credit

Headline earnings per share
**104.4 cps**
-54.6%

Cash conversion of
**197.8%**

Cash balance
**R379m**

# INTERIM RESULTS 2020


Agenda
About us
Financial performance
Divisional reviews
Outlook
HEATERS
SHOP NOW
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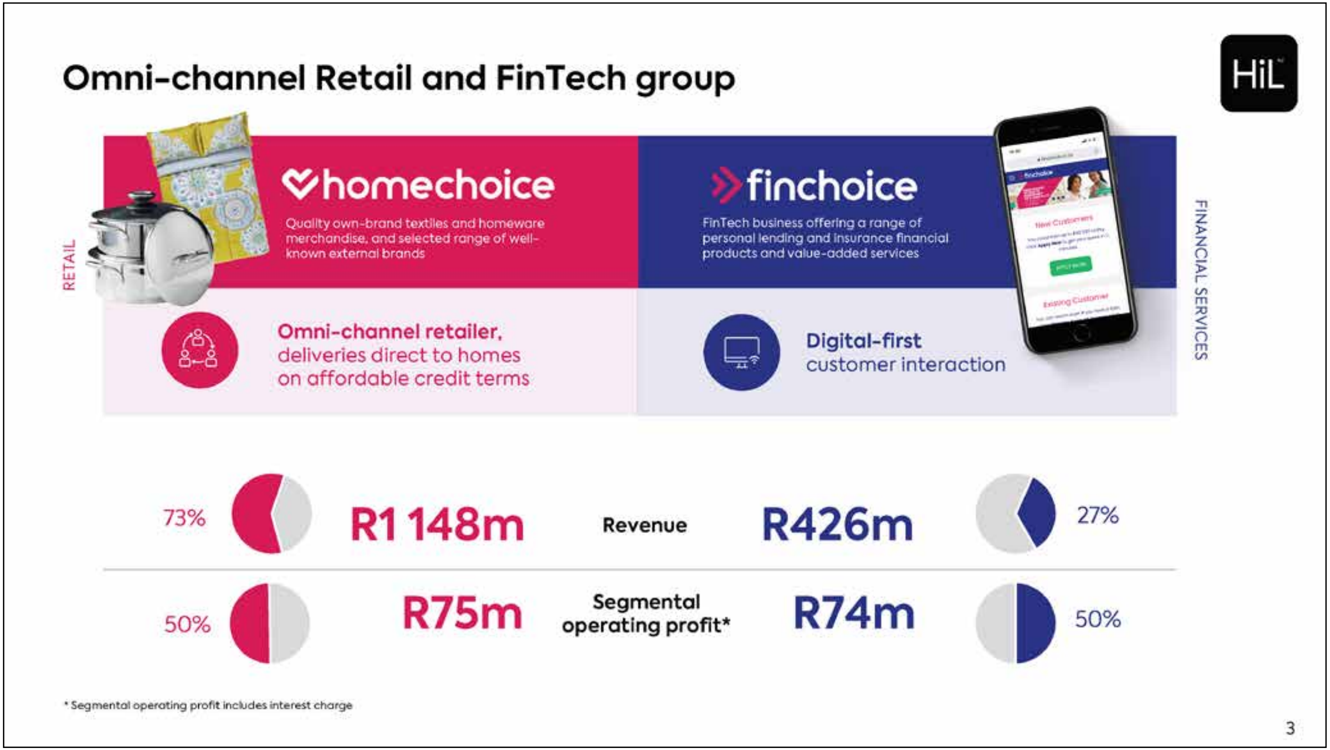
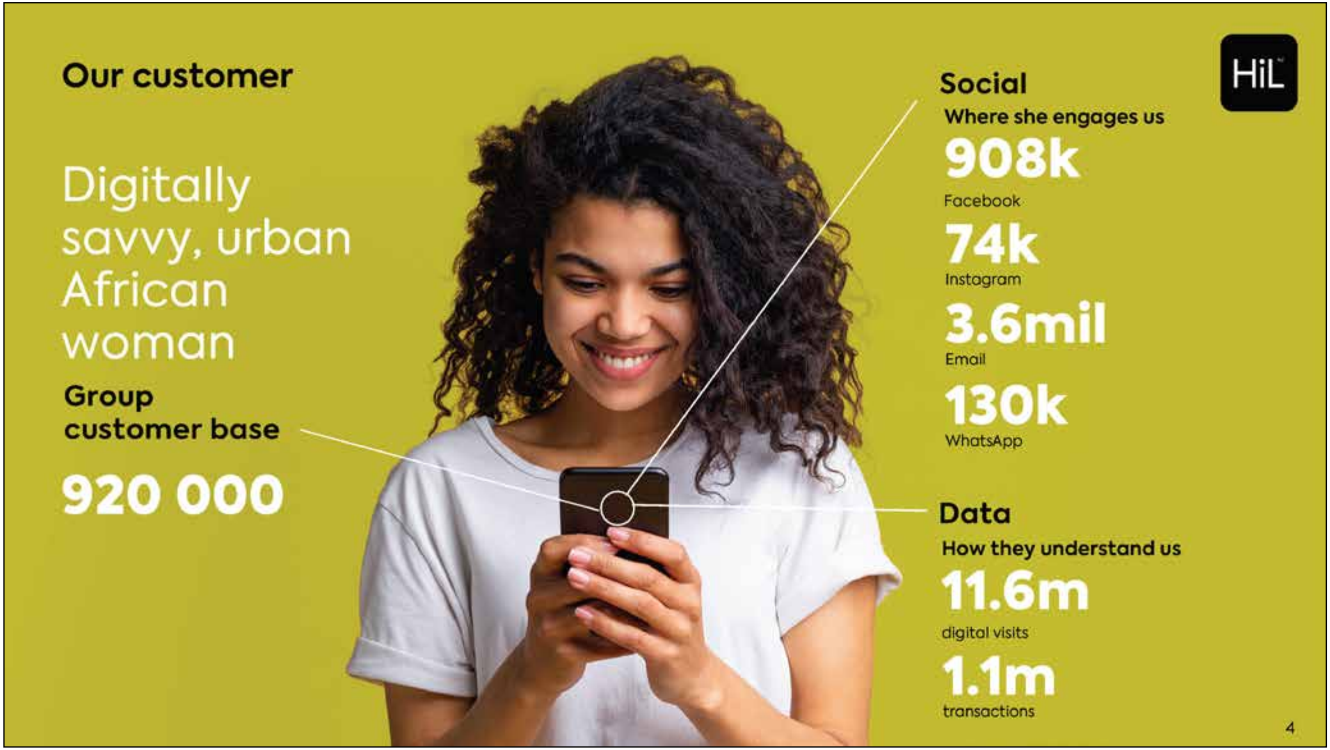

Omni-channel Retail and FinTech group
HiL
RETAIL
homechoice
Quality own-brand textiles and homeware merchandise, and selected range of well-known external brands
Omni-channel retailer, deliveries direct to homes on affordable credit terms
finchoice
FinTech business offering a range of personal lending and insurance financial products and value-added services
Digital-first customer interaction
FINANCIAL SERVICES
73%
R1 148m
Revenue
R426m
27%
50%
R75m
Segmental operating profit*
R74m
50%
* Segmental operating profit includes interest charge
3


Our customer
Digitally savvy, urban African woman
Group customer base
920 000
Social
Where she engages us
908k
Facebook
74k
Instagram
3.6mil
Email
130k
WhatsApp
Data
How they understand us
11.6m
digital visits
1.1m
transactions
HiL
4

# Digital engagement accelerated during lockdown


## homechoice

| | Q1 | Q2 |
|---|---|---|
| Contact centre | 69% | 51% |
| Digital | 19% | 39% |
| Showroom and Collect Choice | 8% | 6% |
| Sales agents | 5% | 4% |

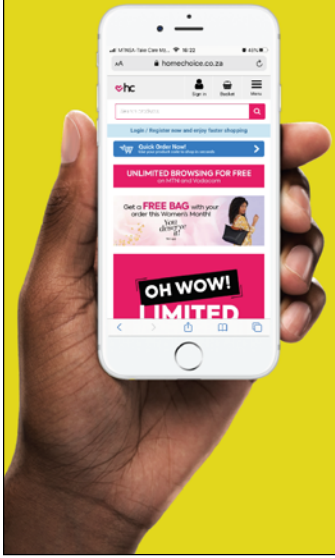
## finchoice

| | Q1 | Q2 |
|---|---|---|
| Contact centre | 15% | 10% |
| Digital | 85% | 90% |

Based on number of Retail sales and Financial Services loan transactions

# Decisive in response to lockdown

HiL




## Accelerated Digital

- Stopped print catalogue – 1st time in 35 years
- Increased digital marketing – social media and e-mailers, digicat
- Work from home – Contact centre and head office

## Conserved Cash

- Deliberately cut loan disbursements
- Cut expenses
- Cut discretionary capex
- Unrelenting focus on cash management

## Curtailed Credit

- Cut credit limits
- Employment and industry data used for credit granting
- Focus on collections – debit orders, digital payments and incentivisation

## Impact

Loan disbursements
**-R400m**

Sales
**-R210m**

Debtor costs
**+R96m**

Covid costs
**+R13m**

Cash balance
**R379m**

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# Curtailed credit and strong focus on collections

HiL

| | homechoice JUN 2020 | homechoice DEC 2019 | finchoice JUN 2020 | finchoice DEC 2019 |
|---|---|---|---|---|
| Applications accepted | 70.3% | 73.9% | 62.5% | 76.8% |
| Average term | 15.8 months | 18.1 months | 13.9 months | 15.0 months |
| Average balances | R4 139 | R4 349 | R7 859 | R8 628 |
| Active acct holders able to purchase/ reloan | 66.1% | 66.4% | 76.3% | 76.4% |

**Group Digital payments 74.5% +520bps**

## Actions taken

- Controlled customer acquisition
  - Retail stopped all foreign business
  - No new customer loans in Financial Services in lockdown levels 5 and 4
- Tightened credit criteria
  - Cut acceptance rates
  - Reduced credit limits
  - Focus on stable employment sectors and proven employers

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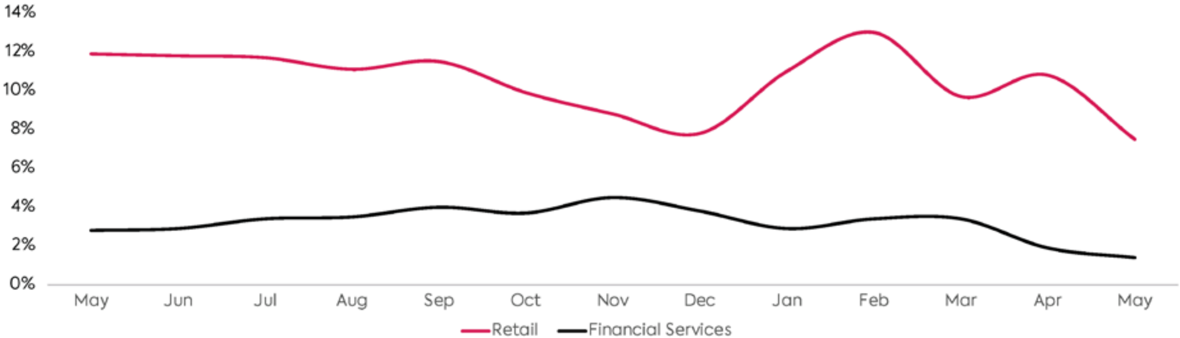
# Early signs of credit improvement

EARLY BAD RATES (60+ DAYS ARREARS AFTER 2 MONTHS)




Based on dispatch/disbursement dates

**Improvement in risk metrics evident:**

- Benefits from credit actions:
    - Early vintages tracking better overall
    - Payment performance post-lockdown ahead of expectations
        - Retail yield +17%
        - Financial Services yield + 11%
- Collections operational improvements:
    - Collections agents now 148 vs 100 during lockdown (+48%)
    - Debit order penetration in Retail 39% (vs 14% LY)

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# Financial Performance

Jason Wright

## Group financial performance

| Revenue | Gross profit | Operating profit | Cash on hand |
|---|---|---|---|
| **R1 574m** | **51.0%** | **R184m** | **R379m** |
| -4.9% | +390bps | -46.7% | |

| Debtor costs | Trading expenses | HEPS | Digital credit extended |
|---|---|---|---|
| **+38.3%** | **+7.5%** | **104.4cps** | **R778m** |
| | | -54.6% | |

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# Challenging trading with excellent cash generation

HiL

- Retail sales:
  - Strong trade in Q1: +9%
  - Lockdown in Q2: -24%
- Loan disbursements:
  - Cut disbursements Q1: -3% and Q2: -57%
- Gross profit improvement:
  - Lower markdowns
  - Supply chain efficiencies
- Prudent impairment provisions, increased debtor costs
- Trading expenses well managed
- Operating profit down 46.7% %, driven by
  - Lower sales and R105m impact on GP
  - Lost revenue on curtailment of loans
  - R96m increase in debtor costs

| | 2020 H1 Rm | % change | 2019 H1 Rm |
|---|---|---|---|
| Revenue | 1 574 | (4.9) | 1 655 |
| Retail sales | 824 | (10.0) | 916 |
| Finance income | 527 | (0.9) | 532 |
| Ancillary services | 223 | 7.7 | 207 |
| Gross profit margin | 51.0% | 3.9 | 47.1% |
| Debtor costs | (451) | 38.3 | (326) |
| Other trading expenses | (542) | 7.5 | (504) |
| Operating profit | 184 | (46.7) | 345 |

## Lockdown impacted credit books – prudent approach to provisions

| | homechoice | | finchoice | |
|---|---|---|---|---|
| | JUN 2020 | DEC 2019 | JUN 2020 | DEC 2019 |
| Gross book | R1.9bn -1.5% | | R1.6bn -11.8% | |
| Debtor costs % of revenue | 22.9% | 16.5% | 44.1% | 32.7% |
| Debtor provision % of receivables | 20.8% | 18.8% | 15.5% | 13.9% |
| Non-performing loans cover (times) | 1.8 | 1.8 | 3.0 | 3.2 |

**+R96m Covid impact on debtor costs**

**Economic deterioration during Covid adversely impacted credit**

- Lockdown payment performance deterioration
- Higher bad debt write-offs
- Reduced recoveries with EDC's (external debt collectors) struggling
- Necessitated higher credit provisions

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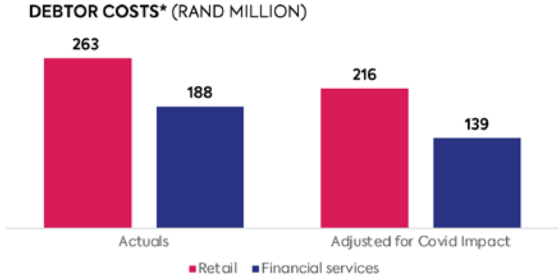
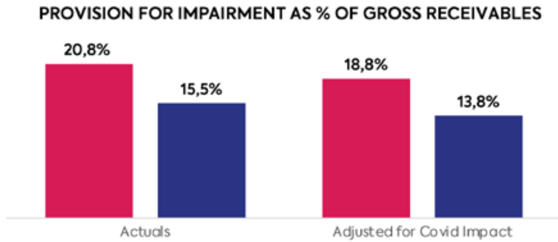
# Covid impacted group debtor costs by +R96m

- Prior to March lockdown debtor costs were tracking better than forecast in both businesses
- Q2 impacted by poor payment performance resulting in higher bad debt write-offs and substantial reduction in recoveries
    - R32m impact on debtor cost
- Conservative approach to provisioning
    - R64m higher impairment charge
- Post June write-offs stabilising




* Debtor costs includes bad debts written off net of recoveries and movement in provisions

## Expenses well controlled

HiL

| Marketing expenses | Staffing and Technology | Customer ops and Support | Insurance | Trading expenses |
|---|---|---|---|---|
| **+2.8%** | **+2.4%** | **+0.5%** | **+41.2%** | **+7.5%** |
| R192m | R145m | R84m | R38m | R542m |
| Stopped retail catalogue<br>Pivot from print to digital<br>Significant increase in digital spend and social media | Reduced tech consultants, more in-house<br>Recruitment freeze | Digitalisation of processes<br>Increase in debit order payments | Increase in IBNR provisions<br>Retrenchment and death claims | **+R13m Covid-19 costs incurred** |

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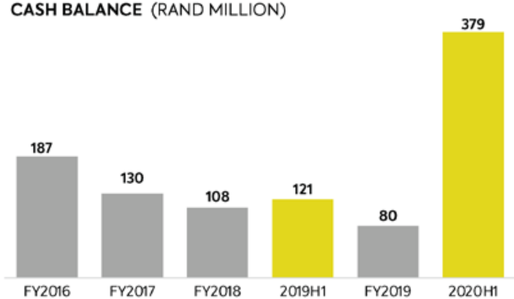
# Strong cash generation protects balance sheet

- Proactive management of working capital
- Capex tightly controlled
- Year-end dividend cancelled
- Interim dividend withheld
- Refinanced and upsized banking facilities to R1 050m
- Unutilised facilities and cash balances: R885m

| Rm | Jun 2020 | Jun 2019 |
|---|---|---|
| Cash balance | **R379m** | R121m |
| Cash conversion | **197.8%** | 65.7% |
| Cash from operations | **R449m** | R249m |
| Capex | **R56m** | R71m |
| Net debt* | **R321m** | R512m |
| Net debt: equity* | **10.5%** | 18.1% |

**CASH BALANCE** (RAND MILLION)




* Excluding property debt of R278m


Retail Division
Gerhard Hayes
for the home you love
homechoice
for the home you love

# WOW

We sold enough bedding sets in 2019 so you could sleep under a new bedding set every night for the next

**2 176 years**

(over two millennia!)

Blankets and sheeting sold in 2019 would scale Kilimanjaro

**170 times!**

The urns and kettles we sold in 2019, used together, could boil enough water to make

**970 000**

cups of tea at once!

Sold enough deep fryers to serve

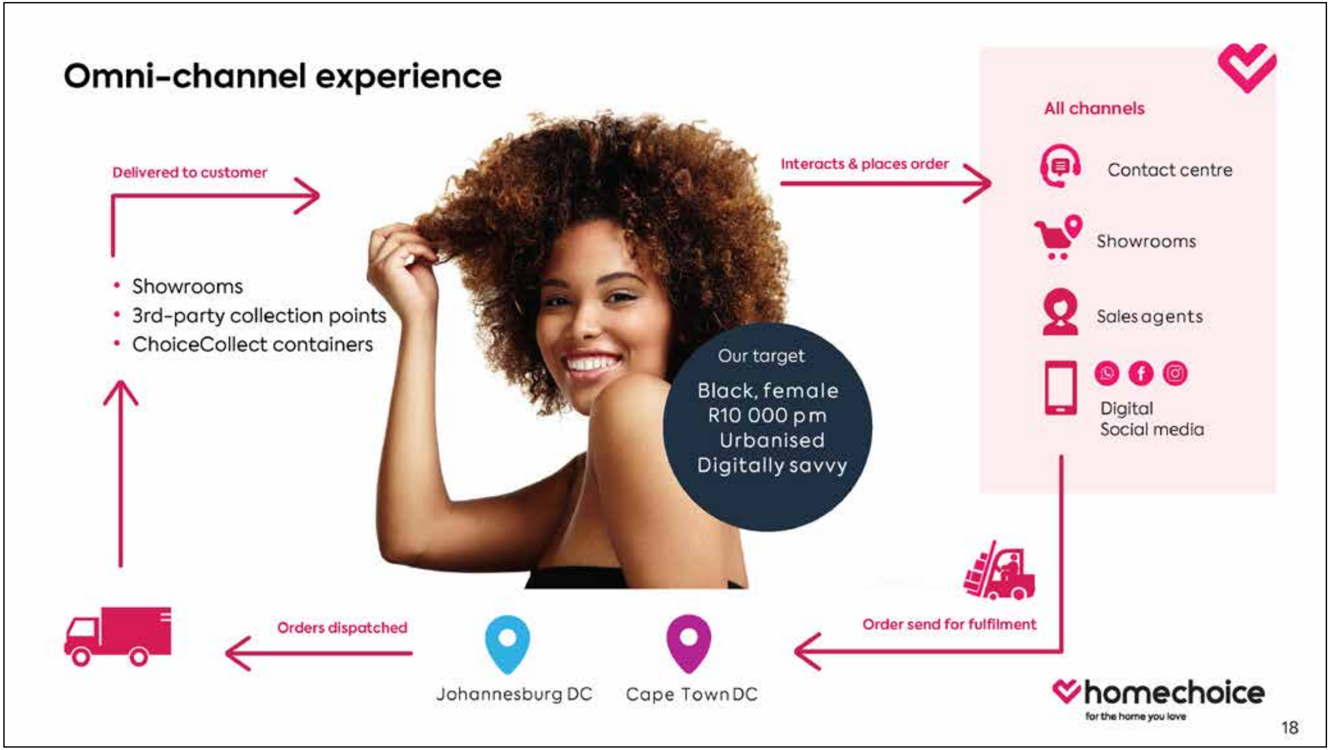
**38 000**

doughnuts simultaneously

Based on the liter capacity of cookware sold, we could serve 1 cup of hot soup to

**4 905 674**

people


Omni-channel experience
Delivered to customer
Showrooms
3rd-party collection points
ChoiceCollect containers
Interacts & places order
All channels
Contact centre
Showrooms
Sales agents
Digital
Social media
Our target
Black, female
R10 000 pm
Urbanised
Digitally savvy
Orders dispatched
Order send for fulfilment
Johannesburg DC
Cape Town DC
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# More than 1 000 distribution points for convenient collections


| No. of pick-up points | Jun-19 | Jun-20 | Jun-22 |
|---|---|---|---|
| Showrooms | 7 | 10 | 15 |
| Containers | 4 | 8 | 32 |
| DC's | 2 | 2 | 2 |
| 3rd-party and SAPO collection points | 1 457 | 1 003 | 1 100 |
| **Total** | **1 470** | **1 023** | **1 150** |

Showrooms
Containers
DC
New showrooms
New containers
3rd Party collection points

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## Retail financial highlights

| Sales | Gross profit | Total income |
|---|---|---|
| **R824m** | **51.0%** | **R750m** |
| -10.0% | +390bps | +0.1% |

| Debtor costs | Trading expenses | Operating profit |
|---|---|---|
| **R263m** | **R412m** | **R75m** |
| +32.2% | +4.5% | -52.2% |

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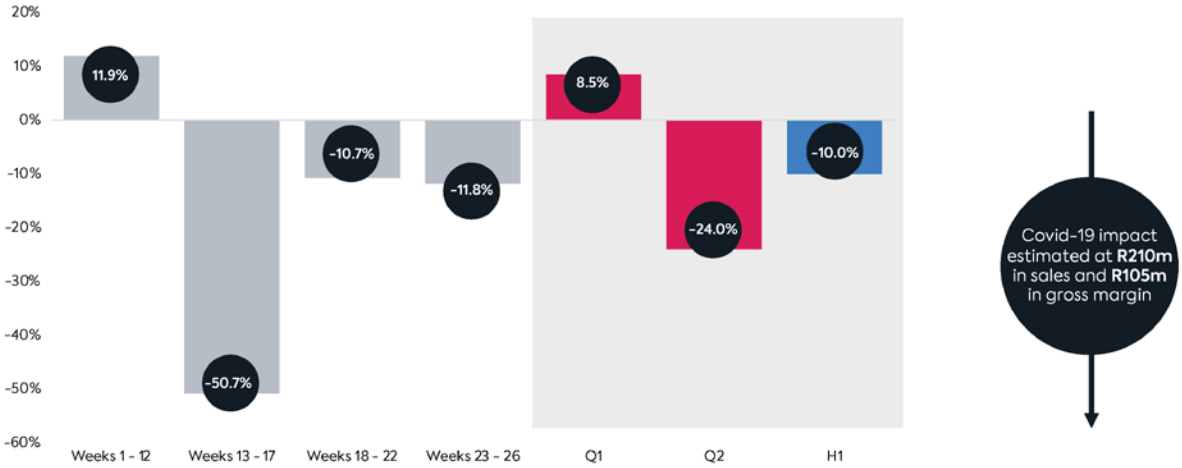
# Covid-19 impact on Retail sales

RETAIL SALES GROWTH (% INC)

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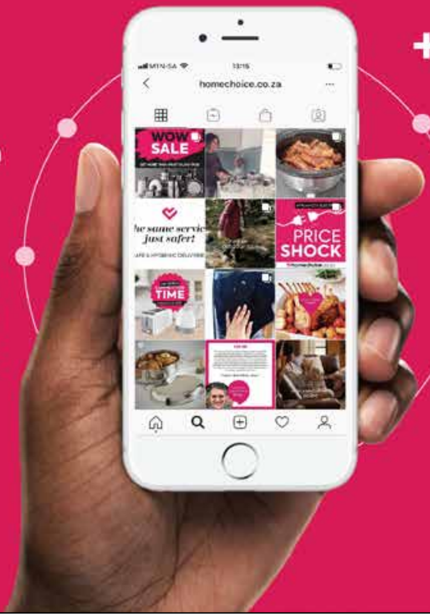
# Operational highlights

**7%**
Cash sales contribution

**31%**
Collections via debit orders doubled




**+123 000**
New customers

**51%**
Gross profit margin

**+39%**
Digital sales growth

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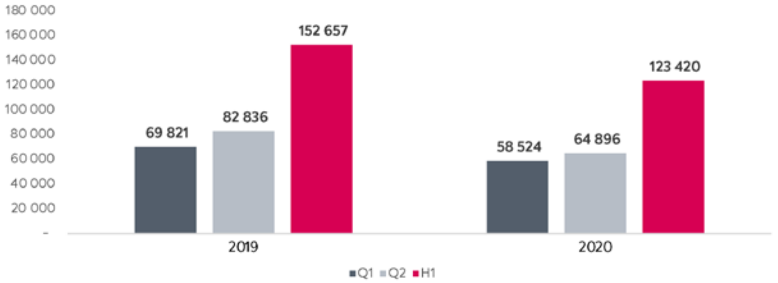
# Continued steady growth in new customers

## NEW CUSTOMERS




## NEW CUSTOMER ACQUISITION CHANNEL


- Acquisition of new customers curtailed in Q2, however digital acquisition reaching record levels
- TV performing consistently and showrooms increasing rapidly
- Customers purchasing digitally grew by 64% in H1
- Despite showrooms being closed during lockdown, customers served grew

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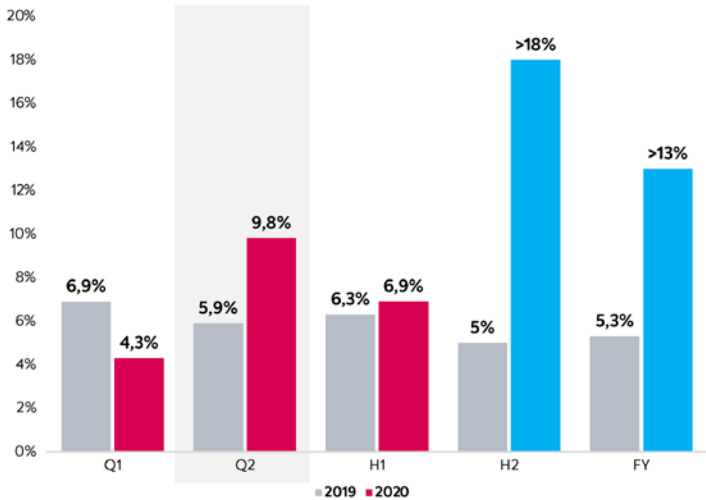
# Pleasing growth in cash sales – strong focus for H2

**CASH SALES % CONTRIBUTION**




- Cash sales of merchandise improved to 7% of total merchandise sales
- We expect the contribution of cash sales to total merchandise sales to be substantially higher than in H1


More competitive cash pricing


Introduced cash only bundles


More entry-priced product

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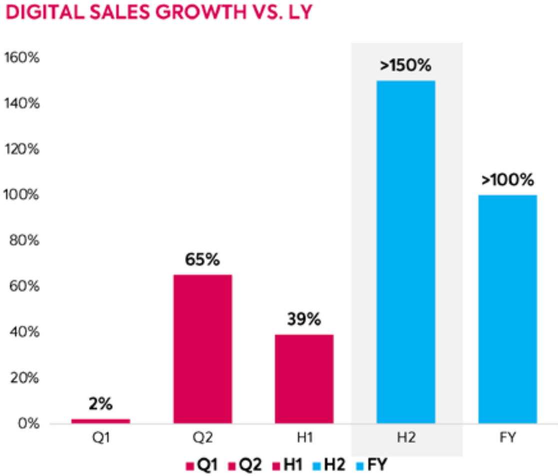
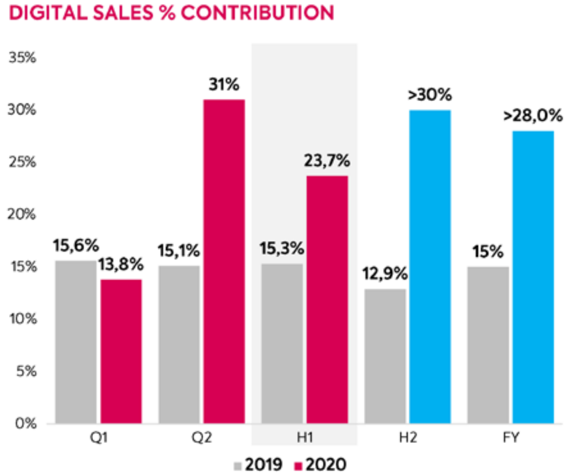
## Strong digital sales, contribution up from 15% to 24%

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## Well-developed strategy to win

**1.** Customer-first culture

**2.** Digital dominance

**3.** Grow market share

**4.** Maintain and grow profitable private labels

**5.** Build new business

**6.** Internal efficiency gains

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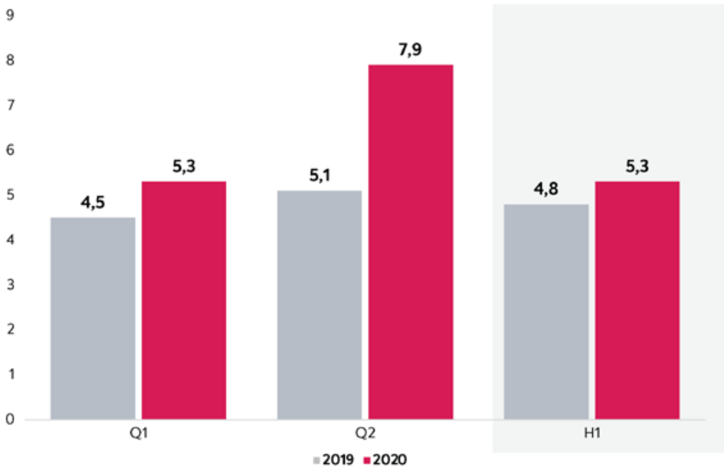
STRATEGIC IMPERATIVES

# Focus on speed to improve customer satisfaction

AVERAGE DELIVERY DAYS




**NPS >80%**

**<5 days delivery**

**95% <24 hours**

Credit vetting and despatch

**Customer enquiries ↓ 50%**

HomeChoice rewards card launch

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STRATEGIC IMPERATIVES

## Three key measurements drive our digital sales growth

### Good growth in sessions and users

83% Sessions

111% Users

### Improvement in customer experience

41% Conversion

15% Avg. customer duration

### Our social media strategy

8% Facebook followers

31% Instagram followers

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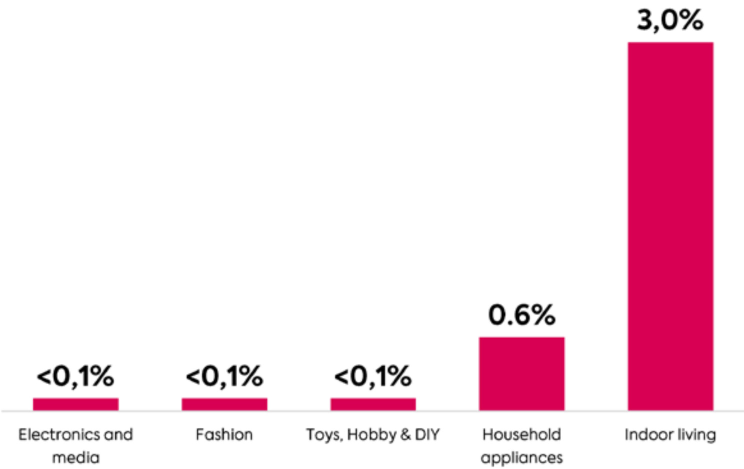
STRATEGIC IMPERATIVES

# Massive opportunity to grow market share in related categories

## HOMECHOICE MARKET SHARE




- Massive opportunity in:
  - consumer electronics & media
  - fashion (shoes, bags, accessories);
  - toys, hobbies & DIY
  - appliances
- SA e-Commerce market
  - R64bn in 2020
  - R82bn by 2023
- HomeChoice e-Commerce market share:
  - estimated at <1%
  - at least double by 2023

Source: EUROMONITOR 2019 & STATISTA

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STRATEGIC IMPERATIVES

# A unique and innovative merchandise offering expanded to attract higher-income earners while maintaining our core customer base

## Differentiation through exciting merchandise solutions

**We will win by**

**Attracting higher-income earners**
(while retaining focus on core customer)

**Innovative and unique merchandise**

**Expanding merchandise range**

**New merchandise categories**

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STRATEGIC IMPERATIVES

# Increase and maintain profitable private label

- Private label sales >80% in bedding and textiles
- External brands' growth driven by furniture, large appliances and consumer electronics
- We offer private label in appliances at improved margin, unique product, e.g. larger urns and kettles, entertainment-focused products, currently accounts for approx. 40% of appliance sales
- External brands only in fashion


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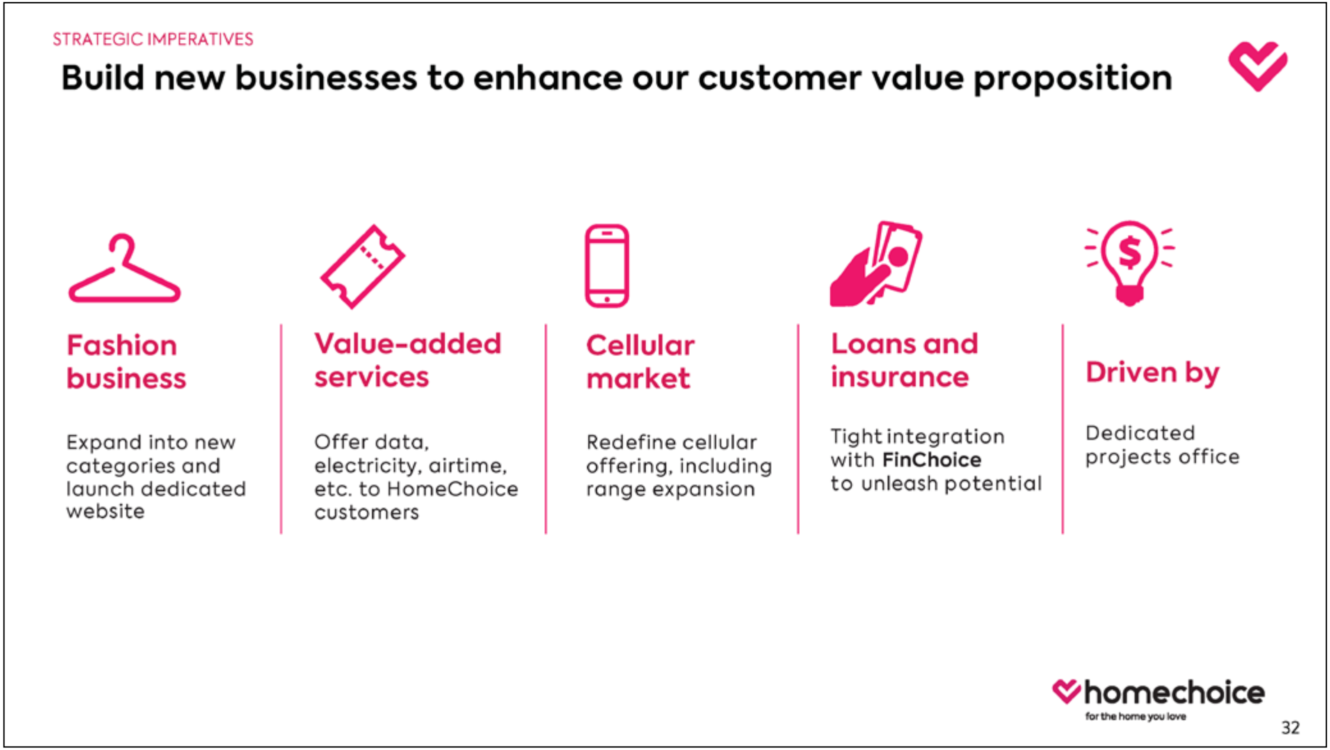
STRATEGIC IMPERATIVES
Build new businesses to enhance our customer value proposition
Fashion business
Expand into new categories and launch dedicated website
Value-added services
Offer data, electricity, airtime, etc. to HomeChoice customers
Cellular market
Redefine cellular offering, including range expansion
Loans and insurance
Tight integration with FinChoice to unleash potential
Driven by
Dedicated projects office
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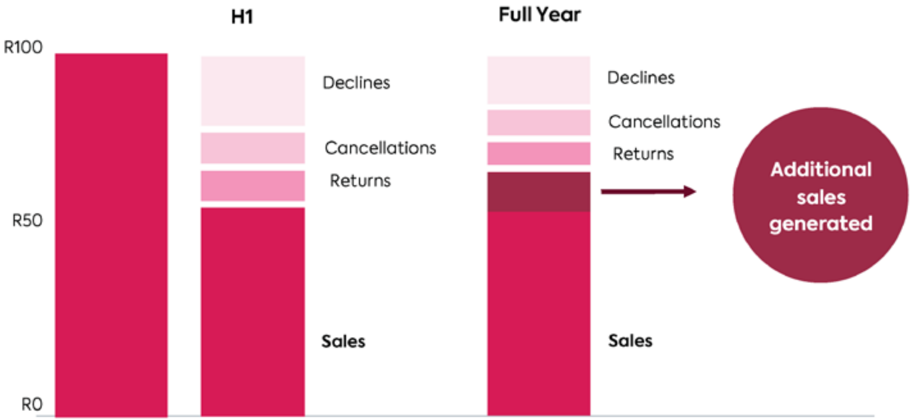
STRATEGIC IMPERATIVES

# Driving internal efficiencies to deliver sales growth of 10% – 15%




- ↓ Declines >8%
- ↓ Cancellations >7%
- ↓ Returns >20%
- ↑ Sales growth >10%

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Financial
Services
Division
Sean Wibberley
for when you need it
finchoice
for when you need it
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## Did you know?

We have

# NO branches

We are a 100% digital and contact centre business

In 2020 we have disbursed

**1 loan every minute**

of every day

**36%**

of our customers transact with us outside of normal business hours

**Over 90%**

of our customers' loan, insurance and value-added service transactions are digital

Our customers pay

**zero in data charges**

for browsing our mobi platform

**100%**

of all repayments are

**collected digitally**

by early debit order tracking

Our digital journeys are rated

**91%** Excellent

by our customers

## Financial highlights

| Loan disbursements | Insurance premiums | Gross debtors' book |
|---|---|---|
| **R804m** | **+32.9%** | **R1.6bn** |
| -29.8% | | -5.4% |

| Debtor costs | Trading expenses | Operating profit |
|---|---|---|
| **R188m** | **+13.6%** | **R74m** |
| +48.0% | | -53.2% |

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## **Lockdown action -** Protect the book and generate cash for the group

**New loans stopped – April and May**

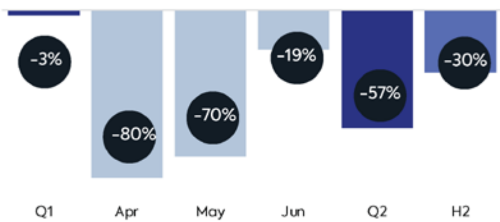
**Credit limits for existing customers curtailed**

**Leveraged industry and employer performance data to ramp up lending from June**

**R400m**

**cut in disbursements**

LOAN DISBURSEMENT % INC ON 2019

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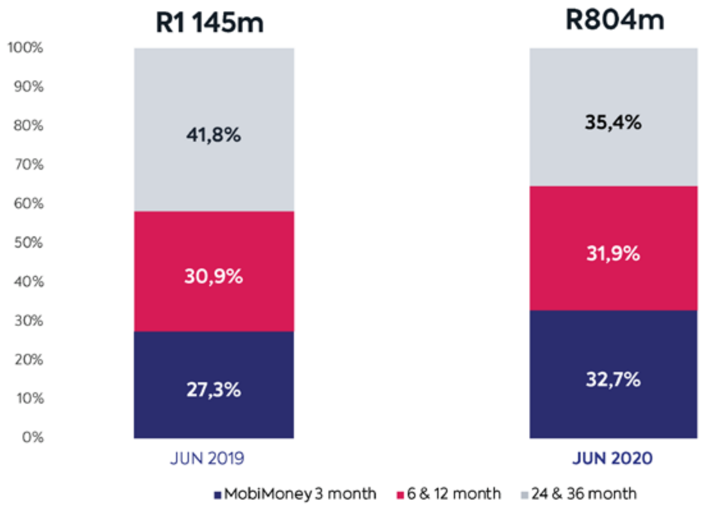
# Growth in FinChoice MobiMoney™ limiting risk exposure

LOAN DISBURSEMENTS




- Lowered credit limits and shortened terms during lockdown
- MobiMoney digital-only product penetration to 69% of active customer base (2019: 50%)
- Shifted to 90% of disbursements to existing customers (2019: 86%)
- Average balance reduced to R7 859 from R9 222 (Jun 2019)

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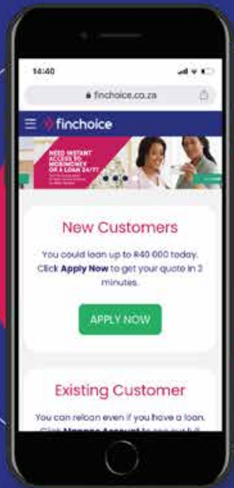
## Customer highlights

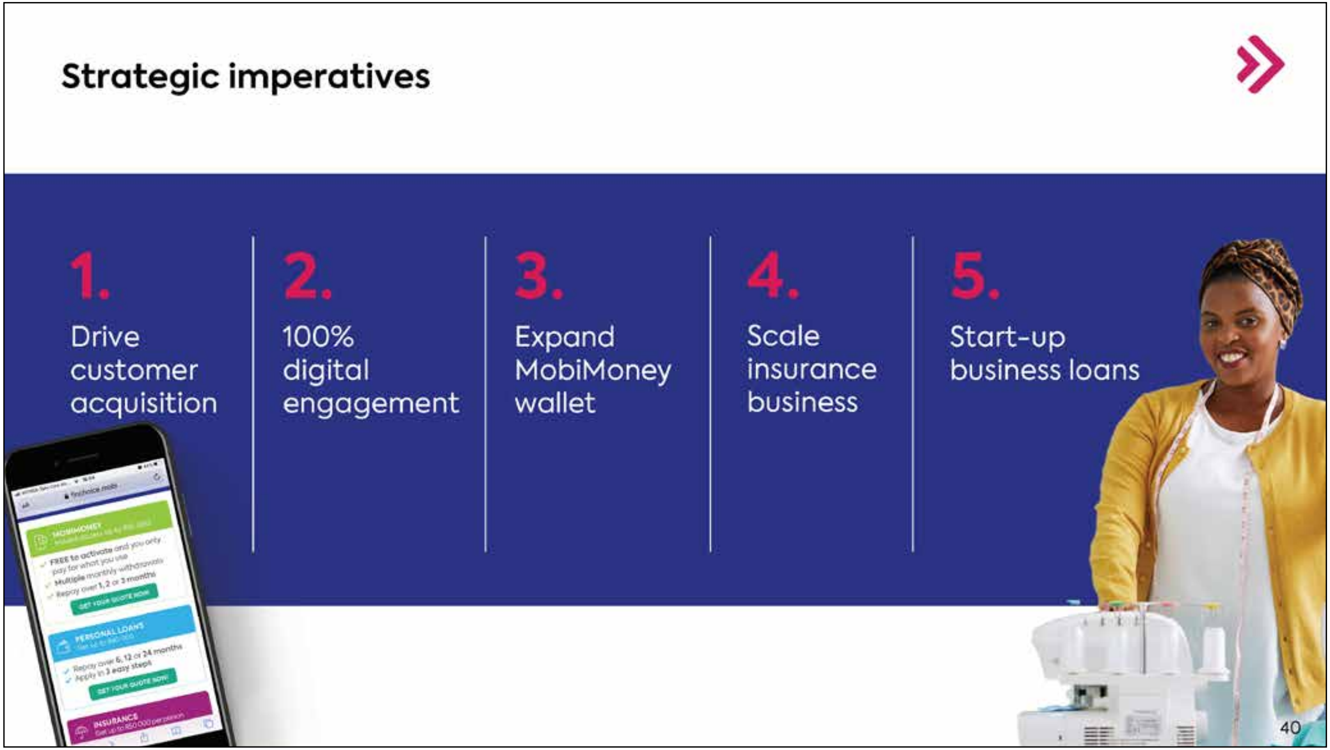
**196 000**
Customer base up 7.3%

**+18 000**
New loan customers, 47% external to group




**63 000**
Stand-alone insurance customers up 15.7%

**+11 000**
New insurance customers


Strategic imperatives
1.
Drive customer acquisition
2.
100% digital engagement
3.
Expand MobiMoney wallet
4.
Scale insurance business
5.
Start-up business loans
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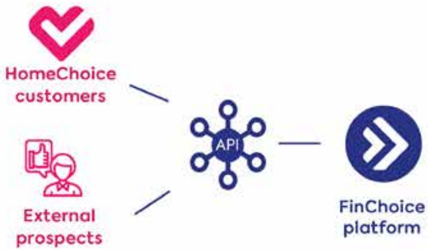
STRATEGIC IMPERATIVES

## Drive customer acquisition

Sell loans and insurance at Retail point-of-sale

External customers from digital partners



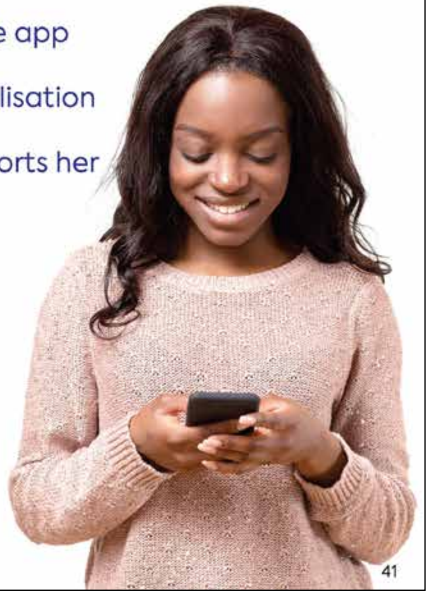

## 100% digital engagement

Launch native mobile app

Data-driven personalisation

Contact centre supports her digital experience

**91%** existing
**48%** new



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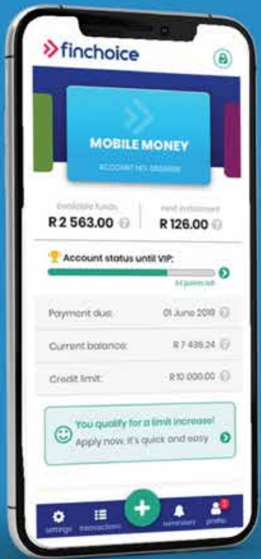
STRATEGIC IMPERATIVES

# Expand FinChoice MobiMoney™ wallet




## Open a free account

**Every qualifying HomeChoice customer will get a free MobiMoney wallet**

## Fund wallet with credit facility

## Earn rewards

- Points
- Cash back

## Transact

- Withdraw into bank account, cell phone or linked card
- Buy VAS products (data, airtime, electricity, etc.)
- Pay for insurance premiums
- Send money to friends and family
- Make bill and retail payments

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STRATEGIC IMPERATIVES

# Scale insurance business

## Platform

**Roll out cloud-based Root insurance platform**
(sales, admin, billing, claims and compliance)

## New products

- Personal accident
- Extended product warranty
- Commuter cover
- Legal aid cover
- Hospital plan

## Channels

- Retail point-of-sale
- 3rd-party digital partner sales
- Drive digital

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STRATEGIC IMPERATIVES

# Start-up business loans

I have a cash business that needs access to money in order to grow.

Banks won't lend to me, I am too small, I don't keep books and they want a lot of documentation I don't have.

## Opportunity

Enter the **R40bn+** small and informal business lending market

**Leverage** our customer base, platforms and credit knowledge

## Market

**900 000** HomeChoice customer base

**>100 000** small business owners

## Product

**Revolving and term facility**

Link to HomeChoice **"business in a box"** product


Source: FinFind

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Outlook
HiL
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## Outlook

# The group is well positioned for growth

### Customer demand building

- Product range extension and new categories
- Opened up for new customers
- Rebuilding loan books responsibly

### Digital acceleration

- Shopping on digital platforms increasing
- Social media monetisation
- Loans digital offering

### Credit books improving

- Tightened risk criteria
- Identification of stable employers effective
- Digital payments benefiting yields

### Robust cash position

- Substantial cash balances
- Unutilised bank facilities
- Reduced net debt

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Questions?
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HOMECHOICE INTERNATIONAL PLC

# UNAUDITED INTERIM RESULTS

for the six months ended 30 June 2020

# STRONG CASH POSITION AND SHARP ACCELERATION IN DIGITAL ENGAGEMENT

The Retail business is an omni-channel retailer with considerable expertise in both merchandise and credit management to the mass market.

Financial Services is a diversified FinTech business offering a range of personal lending, value-added services and insurance products on digital platforms.

| | | **6 months ended 30 Jun 2020** | 6 months ended 30 Jun 2019 | % change (Jun to Jun) | 12 months ended 31 Dec 2019 (audited) |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Revenue | (Rm) | **1 574** | 1 655 | (4.9) | 3 484 |
| Operating profit | (Rm) | **184** | 345 | (46.7) | 679 |
| Operating profit margin | (%) | **11.7** | 20.8 | | 19.5 |
| Earnings per share (EPS) | (cents) | **104.4** | 229.9 | (54.6) | 436.0 |
| Headline EPS (HEPS) | (cents) | **104.4** | 229.9 | (54.6) | 436.0 |
| Cash generated from operations | (Rm) | **449** | 250 | 79.6 | 437 |
| Cash conversion | (%) | **197.8** | 66.0 | | 58.2 |
| Interim dividend declared/paid | (cents) | **–** | 87.0 | >(100.0) | –* |
| **Retail** | | | | | |
| Revenue | (Rm) | **1 148** | 1 231 | (6.7) | 2 613 |
| Retail sales | (Rm) | **824** | 916 | (10.0) | 1 951 |
| Gross profit margin | (%) | **51.0** | 47.1 | | 47.4 |
| Operating profit | (Rm) | **75** | 157 | (52.2) | 325 |
| Operating profit margin | (%) | **6.5** | 12.8 | | 12.4 |
| **Financial Services** | | | | | |
| Loan disbursements | (Rm) | **804** | 1 145 | (29.8) | 2 266 |
| Revenue | (Rm) | **426** | 424 | 0.5 | 871 |
| Operating profit | (Rm) | **74** | 158 | (53.2) | 286 |
| Operating profit margin | (%) | **17.4** | 37.3 | | 32.8 |

* *Final dividend was cancelled post-year-end.*

## Decisive in response to lockdown

The six-month period to June has been a tale of two quarters. The strong performance in the first quarter resulted in sales being up 11.9% and loan disbursements down 3%. In mid-March the South African President announced a state of disaster to manage the impact of Covid and a hard lockdown was imposed with only essential services allowed to operate.

The group took immediate decisive action – conserving cash, curtailing credit and accelerating activity on digital platforms. Loan disbursements were significantly reduced, credit limits were lowered for existing customers and loans to new customers were stopped, resulting in a reduction of R400 million in disbursements. Credit-granting criteria for retail customers were tightly managed and lower credit limits allocated. A strong focus on collections encouraging and incentivising customers to make payments, resulted in an increase of group digital payments to 74.5% (2019: 69.3%).

The Retail division responded by pivoting their marketing spend from print to digital. After 35 years of producing a monthly catalogue, a decision was taken to stop the printing and distribution of the catalogue. All the marketing effort was focused on making the digital space more alive, exciting and convenient for customers to shop from, the digital catalogue becoming a key marketing vehicle.

Costs of R13 million were incurred to ready the business to operate in lockdown. Staff were provided with PPE, health and safety protocols were implemented in the head office, and computer equipment distribution to enable work from home.

Group debtor costs increased by 38.3% to R451 million of which R96 million is attributable to Covid impacts. Prior to the lockdown, debtor costs were tracking better than forecast. However, Q2 was negatively impacted by poor payment performance resulting in higher bad debt write-offs and lower recoveries. Conservative credit impairment provisions, an additional amount of R64 million, were raised taking a cautious approach for H2.

Trading expenses were well controlled, up 7.5%, (including non-comparable Covid-related costs) with all discretionary expenditure stopped to manage the profitability. The shift to digital marketing and social media limited marketing expenses to a 2.8% increase.

The impact of lost revenue and increased debtor costs resulted in operating profit decreasing by 46.7% to R184 million.

Headline earnings per share decreased by 54.6% to 104.4 cents. The interim dividend has been withheld as the board believes it is prudent to keep a healthy cash balance on hand to mitigate any uncertainties that may arise as various levels of the lockdown remain.

## Strong cash generation protects balance sheet

The result of the decisive actions taken can be seen in our cash conversion percentage of 197.8% (2019: 66%) and a very healthy cash balance of R379 million, 213.2% up on June 2019.

Cash generated from operations for the period was R449 million, an increase of 79.6% on June 2019. Pleasingly, our net debt (excluding group-owned properties) has reduced to R321 million (2019: R512 million) and the net debt:equity ratio stands at 10.5% (2019: 18.1%).

Banking facilities were refinanced and upsized during the lockdown period to R1.05 billion. Unutilised facilities and cash of R884 million is available to support future growth and protect against any future economic shocks.

Investment in key strategic initiatives continued, but capital expenditure was tightly controlled. R56 million (2019: R53 million) was spent on additional showrooms, ChoiceCollect containers, equipment for remote working and technology developments.

# RETAIL

homechoice
for the home you love

## digital transformation accelerated

Retail revenue decreased by 6.7% to R1.1 billion. An 8.5% increase in Q1 sales was followed by a 24.0% decrease in Q2, resulting in Retail sales declining by 10.0%. Lower markdowns and supply chain efficiencies delivered a strong gross profit margin of 51.0%, an increase of 390 bps. Trading expenses were limited to a 4.5% increase. Operating profit decreased by 52.2% to R75 million, largely due to lost sales and higher debtor costs.

Pleasingly, we had good response to our heritage home textiles category, regaining and exceeding lost ground from 2019. Strong growth in electronics and appliances continued with external brands trading well.

The strength of the HomeChoice brand continues to appeal to the mass market. 123 000 new customers were acquired during the period, with 23% (2019: 11.2%) acquired through digital channels. Customers are increasingly engaging and shopping on our digital channels.

Digital sales for the period grew by 39%, with Q2 showing exceptional performance, up 65%. Digital sales contribution is 23.7% for H1 and we are targeting to achieve a 28% growth for the full year. Three key factors have driven the digital sales growth – over 80% growth in the number of digital sessions and users; improvement in the customer user experience resulting in a 41% conversion rate; and the monetisation of the social media strategy, with a healthy increase in Instagram and Facebook followers.

Good progress has been achieved to increase the level of cash sales and thereby reducing our risk. Pleasingly, cash sales in Q2 rose to 10% contribution, 6.9% (2019: 6.7%) for H1. Targeted cash-only offers, the addition of more entry-priced product together with more competitive pricing has seen good results and a great response from customers. We anticipate the cash sales contribution to exceed 13% for 2020.

SAPO was unable to operate during Q2 as a result of the lockdown. Consequently, SAPO was eliminated as a collection point and customers either received their merchandise direct to home or from other third-party collection points. Going forward we anticipate 1 000 collection points available to customers, with a combination of group-managed points and third-party points.

An additional Retail showroom and three ChoiceCollect containers were opened during the period. ChoiceCollect containers are in township suburbs and, together with the showrooms, are key initiatives in our omni-channel offering, providing customers convenience and choice. Click and collect from these channels is stable at 9% of deliveries with the lockdown restricting the opening of all collection sites.

finchoice
for when you need it

## protect the credit book and generate cash for the group

Financial Services revenue increased by 0.5% to R426 million, a 2.7% decrease in finance income and a good growth of 8.1% in ancillary and insurance fees. Trading expenses increased by 13.6% which also included higher IBNR insurance provisions for potential retrenchment and redundancy claims. Debtor costs increased by 48.0%, driven by higher bad debts written off and a higher credit impairment provision. Operating profit decreased by 53.2% to R74 million.

A deliberate decision was taken to reduce the level of loan disbursements by R400 million in order to generate cash for the group; Q1 decreased by 3% and by 57% in Q2. Loans to new customers were stopped from mid-March to May and the credit limits for existing customers were reduced to manage the level of debt they incurred. Direct feedback from more than 80% of customers allowed the group to leverage industry and employer-based data to responsibly grant credit.

90% of the active customer base are registered on our self-service digital platforms and 69% (2019: 50%) possess a digital-only FinChoice MobiMoney™ facility product. Digital engagement by customers continues to increase, as evidenced by 91% of existing customers and 48% of new customers engage with the division digitally. Increasing digital engagement is also facilitated by sale of value-added services (airtime, data, electricity) using the MobiMoney platform. The MobiMoney platform will evolve into a credit-backed wallet, enabling customers with multiple transaction features.

18 000 new customers were acquired during the period, mainly in Q1 and from mid-June onwards. 47% of these loan customers were acquired from external sources. Financial Services has historically only leveraged the Retail customer base to acquire new customers. Increasingly, we have integrated with other external acquisition channels to acquire customers, primarily sourced from digital sites. We manage the initial risk exposure of the external customers with lower credit limits and shorter-term loans until their credit behaviour has been proven.

A key component of our income diversification strategy is the stand-alone personal insurance business. Premiums increased by 32.9%, supported by digital channels and a dedicated contact centre. 11 000 new insurance customers were brought on board, bringing the number of customers holding at least one policy to 63 000, a 15.7% increase. A new cloud-based insurance platform will be implemented, covering the end-to-end insurance process and providing an efficient and effective customer service.

We will look to leverage our customer base, platforms and credit knowledge to enter the small business and informal business lending market. A revolving and term facility will be offered to enable small businesses to grow.

## Curtailed credit and a strong focus on collections

Gross trade and loan receivables increased by 0.3% to R3.5 billion, primarily due to the curtailment of loan disbursements and lower sales. Group debtor costs increased by 38.3%, the impact of Covid adding an estimated additional R96 million.

Credit performance for the period is summarised below:

| | | **6 months ended 30 Jun 2020** | 6 months ended 30 Jun 2019 | % change (Jun to Jun) | 12 months ended 31 Dec 2019 (audited) |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Gross trade and loans receivable | (Rm) | **3 539** | 3 529 | 0.3 | 3 784 |
| Debtor costs as a % of revenue* | (%) | **28.7** | 19.7 | | 20.6 |
| **Retail** | | | | | |
| Number of active accounts | | **586 739** | 614 834 | | 581 818 |
| Active accounts able to purchase | (%) | **66.1** | 70.8 | | 66.4 |
| Gross trade and loans receivable | (Rm) | **1 918** | 1 816 | 5.6 | 1 947 |
| Debtor costs as a % of revenue | (%) | **22.9** | 16.2 | | 16.5 |
| Provision for impairment | (Rm) | **398** | 334 | | 366 |
| Provision for impairment as a % of gross receivables | (%) | **20.8** | 18.4 | | 18.8 |
| NPLs** | (%) | **11.4** | 9.5 | | 10.2 |
| NPL cover | (times) | **1.8** | 1.9 | | 1.8 |
| **Financial Services** | | | | | |
| Number of active accounts | | **210 692** | 195 738 | | 223 742 |
| Active accounts able to reloan | (%) | **76.3** | 76.9 | | 76.4 |
| Gross trade and loans receivable | (Rm) | **1 621** | 1 713 | (5.4) | 1 837 |
| Debtor costs as a % of revenue | (%) | **44.1** | 30.0 | | 32.7 |
| Provision for impairment | (Rm) | **251** | 206 | | 254 |
| Provision for impairment as a % of gross receivables | (%) | **15.5** | 12.0 | | 13.8 |
| NPLs ** | (%) | **5.1** | 3.8 | | 4.3 |
| NPL cover | (times) | **3.0** | 3.2 | | 3.2 |

* *Debtor costs includes bad debts written off net of recoveries, as well as movements in provisions.*
** *Non-performing loans (>120 days).*

## Tightened credit criteria to manage Retail credit risk

Debtor costs in Retail increased by 32.2% to R263 million, R216 million adjusted for the Covid impact.

A controlled approach to customer acquisition was managed by tightening of the credit-granting criteria, reducing the credit limits and a reduction in the average sales term from 18.1 months to 15.8 months.

There was a strong focus on collections, particularly digital payments via debit orders. Debit order collections have increased to 31% (2019: 14%), by incentivisation of both customers and agents. All new customers are required to pay by debit orders. The number of collections agents increased by 48% to 148 staff with increased productivity.

Prior to the lockdown debtor costs were tracking better than forecast. A conservative approach to impairments necessitated an increase provision to 20.8%, 18.8% after adjusting for the Covid impact.

## Financial Services reduced disbursements and used industry and employer data to manage risk

Debtor costs increased by 48.0% to R188 million, R139 million adjusted for the Covid impact.

All loans to new customers were stopped from the end of March. With a focus on stable employment sectors and proven employees, new customers were opened for lending in June. The average disbursement term was reduced from 15.0 months to 13.9 months and a reduction of credit limits reduced the average balances to R7 859.

Taking a prudent approach, the provision for impairment has increased to 15.5%, 13.8% after adjusting for the Covid impact.

## Redomiciliation and changes to board composition

As previously announced to shareholders, the redomiciliation of the group from Malta to Mauritius was successfully completed on 7 May 2020.

Shareholders were advised on 21 May 2020 of the following changes to the board:

- following the redomiciliation Stanley Portelli (board chairman) and Charles Rapa (chairman of the audit and risk committee) resigned with effect from 31 May 2020;
- Shirley Maltz was appointed executive chairman from 1 June 2020; and
- Pierre Joubert was appointed as the lead independent non-executive director and the chairman of the audit and risk committee with effect from 1 June 2020.

The board thanks both Stanley and Charles for their significant contribution to the group and Stanley for his sound leadership of the board over the past five years.

## Outlook

The socio-economic outlook for South Africa remains challenging with high levels of unemployment and an uncertain growth path as the country recovers from the negative impact of the lockdown to lives and livelihoods. We expect the informal market to continue to be active as more individuals supplement their primary income with a secondary income derived from the informal sector.

Our customer has shown her resilience during this period and we will continue to pursue our strategy to provide customers with exciting products, new merchandise categories and providing loans to stably employed customers.

We will continue to accelerate our digital transformation and aggressively use digital marketing and social media to capture market share.

Our cash position is strong and, together with tightened credit-granting criteria and increasing digital collections, our balance sheet is robust.

We believe that the group is well positioned for growth and to take advantage of changes to the economy.

The above information has not been reviewed or reported on by the group's external auditor.

**S Maltz**
Executive Chairman

**G Lartigue**
Chief Executive Officer

Mauritius, 31 August 2020

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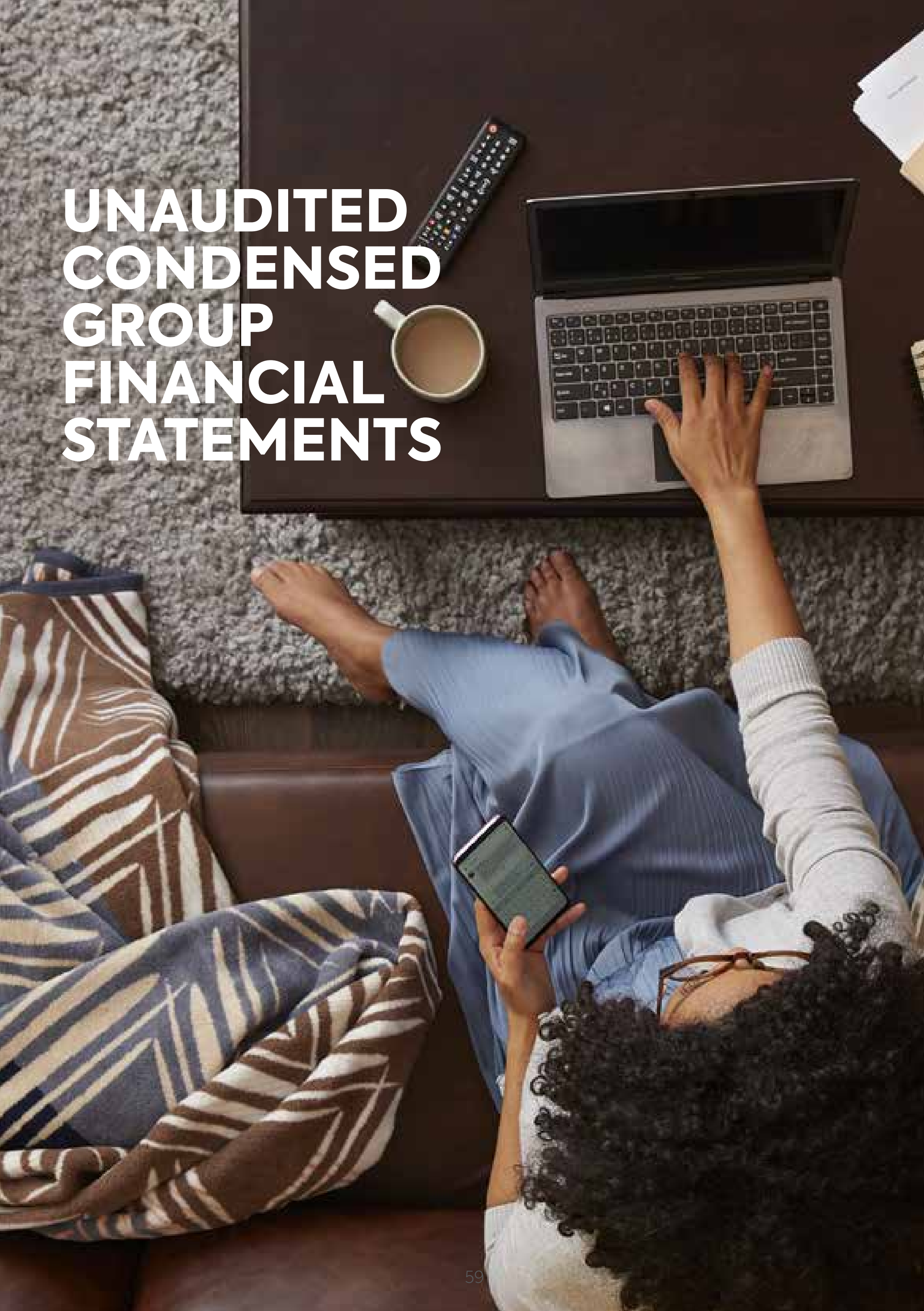
## Dividend declaration

In light of the current economic environment and the levels of uncertainty posed by the impact of Covid-19, the board has decided that it would be prudent not to declare an interim dividend for this reporting period (2019: 79.0 cents per share).

**Sanlam Trustees International Limited**
Company Secretary

Mauritius, 31 August 2020

# UNAUDITED CONDENSED GROUP FINANCIAL STATEMENTS



# CONDENSED GROUP STATEMENT OF **FINANCIAL POSITION**

| | Notes | Unaudited Jun 2020 Rm | Unaudited Jun 2019 Rm | Audited Dec 2019 Rm |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | **472** | 466 | 471 |
| Intangible assets | | **191** | 140 | 169 |
| Right-of-use assets | | **61** | 55 | 67 |
| Financial assets at fair value through profit or loss | | **29** | 28 | 24 |
| Deferred taxation | | **12** | 1 | 2 |
| | | **765** | 690 | 733 |
| **Current assets** | | | | |
| Inventories | 2 | **393** | 305 | 349 |
| Taxation receivable | | **8** | 2 | 1 |
| Trade and other receivables | 3 | **2 930** | 3 023 | 3 188 |
| Trade receivables – Retail | | **1 520** | 1 482 | 1 581 |
| Loans receivable – Financial Services | | **1 370** | 1 507 | 1 583 |
| Other receivables | | **40** | 34 | 24 |
| Cash and cash equivalents | | **386** | 121 | 80 |
| | | **3 717** | 3 451 | 3 618 |
| **Total assets** | | **4 482** | 4 141 | 4 351 |
| **Equity and liabilities** | | | | |
| **Equity attributable to equity holders of the parent** | | | | |
| Stated and share capital | | **1** | 1 | 1 |
| Share premium | | **3 010** | 3 010 | 3 010 |
| Reorganisation reserve | | **(2 961)** | (2 961) | (2 961) |
| | | **50** | 50 | 50 |
| Treasury shares | | **(18)** | (3) | (18) |
| Other reserves | | **42** | 24 | 33 |
| Retained earnings | | **2 990** | 2 758 | 2 881 |
| **Total equity** | | **3 064** | 2 829 | 2 946 |
| **Non-current liabilities** | | | | |
| Interest-bearing liabilities | | **943** | 794 | 537 |
| Lease liabilities | | **50** | 48 | 57 |
| Deferred taxation | | **65** | 64 | 51 |
| Trade and other payables | | **4** | 4 | 4 |
| | | **1 062** | 910 | 649 |
| **Current liabilities** | | | | |
| Interest-bearing liabilities | | **35** | 91 | 391 |
| Lease liabilities | | **21** | 14 | 18 |
| Taxation payable | | **6** | 35 | 16 |
| Trade and other payables | | **287** | 262 | 283 |
| Bank overdraft | | **7** | – | 48 |
| | | **356** | 402 | 756 |
| **Total liabilities** | | **1 418** | 1 312 | 1 405 |
| **Total equity and liabilities** | | **4 482** | 4 141 | 4 351 |

# CONDENSED GROUP STATEMENT OF **COMPREHENSIVE INCOME**

| | Notes | **Unaudited six months ended Jun 2020 Rm** | % change | Unaudited six months ended Jun 2019 Rm | Audited year ended Dec 2019 Rm |
|---|---|---|---|---|---|
| **Revenue** | | **1 574** | (4.9) | 1 655 | 3 484 |
| Retail sales | 4 | **824** | (10.0) | 916 | 1 951 |
| Finance income | | **527** | (0.9) | 532 | 1 093 |
| Fees from ancillary services | 5 | **223** | 7.7 | 207 | 440 |
| Cost of Retail sales | | **(404)** | (16.7) | (485) | (1 027) |
| **Other operating costs** | | **(993)** | 19.6 | (830) | (1 785) |
| Credit impairment losses | 6 | **(451)** | 38.3 | (326) | (717) |
| Other trading expenses | 6 | **(542)** | 7.5 | (504) | (1 068) |
| Other net gains and losses | | **4** | 300.0 | 1 | (1) |
| Other income | | **3** | (25.0) | 4 | 8 |
| **Operating profit** | | **184** | (46.7) | 345 | 679 |
| Interest income | | **1** | – | 1 | 4 |
| Interest expense | | **(52)** | 15.6 | (45) | (101) |
| **Profit before taxation** | | **133** | (55.8) | 301 | 582 |
| Taxation | | **(24)** | (60.7) | (61) | (127) |
| **Profit and total comprehensive income for the period** | | **109** | (54.6) | 240 | 455 |
| **Earnings per share (cents)** | | | | | |
| Basic | 7 | **104.4** | (54.6) | 229.9 | 436.0 |
| Diluted | | **103.3** | (54.5) | 226.9 | 428.7 |
| **Headline earnings per share (cents)** | | | | | |
| Basic | 7 | **104.4** | (54.6) | 229.9 | 436.0 |
| Diluted | | **103.3** | (54.5) | 226.9 | 428.7 |

# CONDENSED GROUP STATEMENT OF **CHANGES IN EQUITY**

| | Stated and share capital Rm | Share premium Rm | Treasury shares Rm | Reorgan-isation reserve Rm | Other reserves Rm | Retained earnings Rm | Equity attributable to owners of the parent Rm |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019 – audited** | 1 | 3 005 | (3) | (2 961) | 18 | 2 624 | 2 684 |
| Change on initial application of IFRS 16 | – | – | – | – | – | (3) | (3) |
| **Restated equity at the beginning of the period** | 1 | 3 005 | (3) | (2 961) | 18 | 2 621 | 2 681 |
| ***Changes in equity*** | | | | | | | |
| Profit and total comprehensive income for the period | – | – | – | – | – | 240 | 240 |
| Shares issued | – | 5 | – | – | – | – | 5 |
| Dividends paid | – | – | – | – | – | (103) | (103) |
| Share incentive schemes | – | – | – | – | 6 | – | 6 |
| **Total changes** | – | 5 | – | – | 6 | 137 | 148 |
| **Balance at 30 June 2019 - unaudited** | 1 | 3 010 | (3) | (2 961) | 24 | 2 758 | 2 829 |
| ***Changes in equity*** | | | | | | | |
| Profit and total comprehensive income for the period | – | – | – | – | – | 215 | 215 |
| Dividends paid | – | – | – | – | – | (92) | (92) |
| Share incentive schemes | – | – | – | – | 9 | – | 9 |
| Shares purchased | – | – | (15) | – | – | – | (15) |
| **Total changes** | – | – | (15) | – | 9 | 123 | 117 |
| **Balance at 1 January 2020 – audited** | **1** | **3 010** | **(18)** | **(2 961)** | **33** | **2 881** | **2 946** |
| ***Changes in equity*** | | | | | | | |
| Profit and total comprehensive income for the period | **–** | **–** | **–** | **–** | **–** | **109** | **109** |
| Shares issued | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Dividends paid | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Share incentive schemes | **–** | **–** | **–** | **–** | **9** | **–** | **9** |
| **Total changes** | **–** | **–** | **–** | **–** | **9** | **109** | **118** |
| **Balance at 30 June 2020 – unaudited** | **1** | **3 010** | **(18)** | **(2 961)** | **42** | **2 990** | **3 064** |

# CONDENSED GROUP STATEMENT OF **CASH FLOWS**

| | Note | **Unaudited six months ended Jun 2020 Rm** | % change | Unaudited six months ended Jun 2019 Rm | Audited year ended Dec 2019 Rm |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Operating cash flows before working capital changes | | **207** | (45.7) | 381 | 718 |
| Movements in working capital | | **242** | (284.7) | (131) | (281) |
| **Cash generated from operations** | 8 | **449** | 79.6 | 250 | 437 |
| Interest received | | **1** | – | 1 | 4 |
| Interest paid | | **(52)** | 15.6 | (45) | (93) |
| Taxation paid | | **(37)** | (51.3) | (76) | (174) |
| **Net cash inflow from operating activities** | | **361** | 177.7 | 130 | 174 |
| **Cash flows from investing activities** | | | | | |
| Additions of property, plant and equipment | | **(22)** | | (20) | (44) |
| Additions of intangible assets | | **(34)** | | (33) | (72) |
| Financial assets at fair value through profit or loss | | **–** | | – | 11 |
| **Net cash outflow from investing activities** | | **(56)** | 5.7 | (53) | (105) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from the issuance of shares | | **–** | | 5 | 5 |
| Purchase of shares to settle forfeiture share scheme obligations | | **–** | | – | (15) |
| Proceeds from interest-bearing liabilities | | **725** | | 170 | 315 |
| Repayments of interest-bearing liabilities | | **(675)** | | (136) | (243) |
| Principal elements of lease payments | | **(8)** | | – | (12) |
| Dividends paid | | **–** | | (103) | (195) |
| **Net cash inflow/(outflow) from financing activities** | | **42** | (165.6) | (64) | (145) |
| **Net increase/(decrease) in cash and cash equivalents and bank overdrafts** | | **347** | | 13 | (76) |
| Cash, cash equivalents and bank overdrafts at the beginning of the period | | **32** | | 108 | 108 |
| **Cash, cash equivalents and bank overdrafts at the end of the period** | | **379** | 213.2 | 121 | 32 |

GROUP
# SEGMENTAL INFORMATION

| | Unaudited six months ended June 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Total Rm | Retail Rm | Financial Services Rm | Property Rm | Other Rm | Intra-group Rm |
| **Segmental revenue** | 1 574 | 1 148 | 426 | 32 | – | (32) |
| Retail sales | 824 | 824 | – | – | – | – |
| Finance income | 527 | 234 | 293 | – | – | – |
| Fees from ancillary services | 223 | 90 | 133 | 32 | – | (32) |
| **EBITDA** | 227 | 137 | 117 | 20 | (15) | (32) |
| Depreciation and amortisation | (43) | (62) | (6) | – | – | 25 |
| Interest income | – | – | – | – | 39 | (39) |
| Interest expense | (37) | – | (37) | – | (39) | 39 |
| **Segmental operating profit*** | 147 | 75 | 74 | 20 | (15) | (7) |
| Interest income | 1 | 1 | – | – | – | – |
| Interest expense | (15) | (21) | – | (9) | – | 15 |
| **Profit before taxation** | 133 | 55 | 74 | 11 | (15) | 8 |
| Taxation | (24) | (11) | (13) | (3) | 3 | – |
| **Profit after taxation** | 109 | 44 | 61 | 8 | (12) | 8 |
| **Segmental assets** | 4 482 | 2 731 | 1 607 | 343 | 1 112 | (1 311) |
| **Segmental liabilities** | 1 418 | 1 383 | 711 | 249 | 386 | (1 311) |
| Gross profit margin (%) | 51.0 | 51.0 | | | | |
| Segmental results margin (%) | 9.3 | 6.5 | 17.4 | 62.5 | | 21.9 |
| Operating cash flows before working capital changes | 207 | 121 | 113 | 20 | (15) | (32) |
| Movements in working capital | 242 | 30 | 226 | – | (14) | – |
| Cash generated/(utilised) by operations | 449 | 151 | 339 | 20 | (29) | (32) |
| Capital expenditure | | | | | | |
| Property, plant and equipment | 22 | 19 | 1 | 2 | – | – |
| Intangible assets | 34 | 23 | 1 | 10 | – | – |

* *Refer to note 9 for further details on segments and segmental results.*

| Unaudited six months ended June 2019 | | | | | |
|---|---|---|---|---|---|
| Total Rm | Retail Rm | Financial Services Rm | Property Rm | Other Rm | Intra-group Rm |
| 1 655 | 1 231 | 424 | 31 | – | (31) |
| 916 | 916 | – | – | – | – |
| 532 | 231 | 301 | – | – | – |
| 207 | 84 | 123 | 31 | – | (31) |
| 379 | 213 | 192 | 18 | (15) | (29) |
| (34) | (56) | (5) | (1) | – | 28 |
| 1 | – | 1 | – | 38 | (38) |
| (24) | – | (30) | – | (32) | 38 |
| 322 | 157 | 158 | 17 | (9) | (1) |
| – | – | – | – | – | – |
| (21) | (11) | – | (10) | – | – |
| 301 | 146 | 158 | 7 | (9) | (1) |
| (61) | (34) | (26) | (2) | 1 | – |
| 240 | 112 | 132 | 5 | (8) | (1) |
| 4 141 | 2 236 | 1 631 | 344 | 1 200 | (1 270) |
| 1 312 | 928 | 799 | 262 | 619 | (1 296) |
| 47.1 | 47.1 | | | | |
| 19.1 | 12.8 | 37.3 | 54.8 | | 3.2 |
| 381 | 189 | 151 | 18 | 23 | – |
| (131) | 23 | (147) | 1 | (8) | – |
| 250 | 212 | 4 | 19 | 15 | – |
| 34 | 33 | 1 | – | – | – |
| 37 | 30 | 7 | – | – | – |

# **NOTES** TO THE CONDENSED GROUP FINANCIAL STATEMENTS

## 1. Basis of presentation and accounting policies

The condensed group financial statements for the six-month period ended 30 June 2020 have been prepared by the group's finance department, acting under the supervision of P Burnett, CA(SA), the finance director of the group.

These condensed group financial statements are prepared in accordance with and contain the information required by *IAS 34, Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act of Mauritius and the JSE Limited Listings Requirements for interim reports.

The accounting policies applied in the preparation of the condensed group financial statements are consistent with those applied in the preparation of the previous audited group annual financial statements.

## 2. Inventories

| | **Unaudited six months ended Jun 2020 Rm** | Unaudited six months ended Jun 2019 Rm | Audited year ended Dec 2019 Rm |
|---|---|---|---|
| Merchandise for resale | **309** | 256 | 310 |
| Provision for inventory obsolescence | **(18)** | (16) | (18) |
| Goods in transit | **102** | 65 | 57 |
| | **393** | 305 | 349 |

Inventory sold at less than cost during the six-month period ended 30 June 2020 amounted to R10 million (six months ended 30 June 2019: R15 million, year ended 31 December 2019: R25 million).

## 3. Trade and other receivables

| | | **Unaudited six months ended Jun 2020 Rm** | Unaudited six months ended Jun 2019 Rm | Audited year ended Dec 2019 Rm |
|---|---|---|---|---|
| **Group** | | | | |
| Trade and loan receivables | | **3 539** | 3 529 | 3 784 |
| Provision for impairment | | **(649)** | (540) | (620) |
| Other receivables | | **40** | 34 | 24 |
| | | **2 930** | 3 023 | 3 188 |
| Provision for impairment as a % of gross receivables | (%) | **18.3** | 15.3 | 16.4 |
| Credit impairment costs as a % of revenue | (%) | **28.7** | 19.7 | 20.6 |
| Credit impairment costs as a % of gross receivables | (%) | **25.5** | 18.5 | 18.9 |
| **Retail** | | | | |
| Gross carrying amount | | **1 918** | 1 816 | 1 947 |
| Performing (stage 1) | | **1 087** | 1 144 | 1 178 |
| Underperforming (stage 2) | | **414** | 357 | 419 |
| Non-performing (stage 3) | | **417** | 315 | 350 |
| Provision for impairment | | **(398)** | (334) | (366) |
| Performing | | **(109)** | (103) | (101) |
| Underperforming | | **(123)** | (100) | (117) |
| Non-performing | | **(166)** | (131) | (148) |
| Net carrying amount | | **1 520** | 1 482 | 1 581 |
| Performing | | **978** | 1 041 | 1 077 |
| Underperforming | | **291** | 257 | 302 |
| Non-performing | | **251** | 184 | 202 |
| Provision for impairment as a % of gross receivables | (%) | **20.8** | 18.4 | 18.8 |
| Performing | (%) | **10.0** | 9.0 | 8.6 |
| Underperforming | (%) | **29.7** | 28.0 | 27.9 |
| Non-performing | (%) | **39.9** | 41.7 | 42.3 |
| Credit impairment costs as a % of revenue | (%) | **22.9** | 16.2 | 16.5 |
| Credit impairment costs as a % of gross receivables | (%) | **27.4** | 21.9 | 22.2 |

## 3. Trade and other receivables (continued)

| | | **Unaudited six months ended Jun 2020 Rm** | Unaudited six months ended Jun 2019 Rm | Audited year ended Dec 2019 Rm |
|---|---|---|---|---|
| **Financial Services** | | | | |
| Gross carrying amount | | **1 621** | 1 713 | 1 837 |
| Performing (stage 1) | | **1 279** | 1 409 | 1 416 |
| Underperforming (stage 2) | | **165** | 161 | 232 |
| Non-performing (stage 3) | | **177** | 143 | 189 |
| Provision for impairment | | **(251)** | (206) | (254) |
| Performing | | **(71)** | (55) | (73) |
| Underperforming | | **(72)** | (59) | (87) |
| Non-performing | | **(108)** | (92) | (94) |
| Net carrying amount | | **1 370** | 1 507 | 1 583 |
| Performing | | **1 208** | 1 354 | 1 343 |
| Underperforming | | **93** | 102 | 145 |
| Non-performing | | **69** | 51 | 94 |
| Provision for impairment as a % of gross receivables | (%) | **15.5** | 12.0 | 13.8 |
| Performing | (%) | **5.6** | 3.9 | 5.1 |
| Underperforming | (%) | **43.6** | 36.9 | 37.5 |
| Non-performing | (%) | **61.0** | 64.3 | 49.9 |
| Credit impairment costs as a % of revenue | (%) | **44.1** | 30.0 | 32.7 |
| Credit impairment costs as a % of gross receivables | (%) | **23.2** | 14.8 | 15.5 |

## 3. Trade and other receivables (continued)

| | Unaudited six months ended Jun 2020 Rm | Unaudited six months ended Jun 2019 Rm | Audited year ended Dec 2019 Rm |
|---|---|---|---|
| Movements in the provision for impairment were as follows: | | | |
| **Retail** | | | |
| Opening balance | **(366)** | (359) | (359) |
| Movement in provision (excluding disposals) | **(32)** | 25 | (7) |
| Credit impairment costs charged to profit or loss | **(263)** | (199) | (432) |
| Debts written off during the year, net of recoveries | **231** | 224 | 425 |
| Closing balance | **(398)** | (334) | (366) |
| **Financial Services** | | | |
| Opening balance | **(254)** | (252) | (252) |
| Movement in provision (excluding disposals) | **3** | 46 | (2) |
| Credit impairment costs charged to profit or loss | **(188)** | (127) | (285) |
| Debts written off during the year, net of recoveries | **191** | 173 | 283 |
| Closing balance | **(251)** | (206) | (254) |
| Non-performing trade and loan receivables (being accounts 120 days or more in arrears, as a percentage of the trade and loan receivable books) were as follows at the reporting dates: | | | |
| Retail (%) | **11.4** | 9.5 | 10.2 |
| Financial Services (%) | **5.1** | 3.8 | 4.3 |

Credit-impaired trade receivables and loan receivables at the end of the current reporting period was R541 million and R177 million respectively.

Trade and loan receivables have repayment terms of between 1 and 36 months and attract interest based on rates as determined by the National Credit Act.

Included in trade and loan receivables as at 30 June 2020 are amounts approximating R1 071 million (30 June 2019: R870 million, 31 December 2019: R972 million) that contractually fall due in excess of one year. These amounts are reflected as current as they form part of the normal operating cycle.

Included in trade and loan receivables as at 30 June 2020 is a refund liability for expected returns of R6 million (30 June 2019: R12 million, 31 December 2019: R10 million).

| | Unaudited six months ended Jun 2020 Rm | Unaudited six months ended Jun 2019 Rm | Audited year ended Dec 2019 Rm |
|---|---|---|---|
| **4. Retail sales** | | | |
| Retail sales are disaggregated as follows: | | | |
| Home textiles | **596** | 615 | 1 249 |
| Appliances and electronics | **204** | 268 | 635 |
| Fashion and footwear | **24** | 33 | 67 |
| | **824** | 916 | 1 951 |
| Retail sales are settled at a point in time. | | | |
| **5. Fees from ancillary services** | | | |
| Service fees | **135** | 123 | 262 |
| Insurance fees | **83** | 70 | 154 |
| Other | **5** | 14 | 24 |
| | **223** | 207 | 440 |
| **6. Total trading expenses** | | | |
| ***Expenses by nature*** | | | |
| **Credit impairment losses** | | | |
| Trade receivables – Retail | **263** | 199 | 432 |
| Loans receivable – Financial Services | **188** | 127 | 285 |
| **Total credit impairment losses** | **451** | 326 | 717 |
| Amortisation of intangible assets | **12** | 9 | 19 |
| Depreciation of property, plant and equipment | **31** | 25 | 54 |
| Marketing costs | **127** | 110 | 243 |
| Staff costs | **207** | 212 | 434 |
| Total staff costs | **241** | 247 | 509 |
| Less: disclosed under cost of Retail sales | **(15)** | (17) | (35) |
| Less: staff costs capitalised to intangibles | **(19)** | (18) | (40) |
| Other costs | **165** | 148 | 318 |
| **Total other trading expenses** | **542** | 504 | 1 068 |
| | **993** | 830 | 1 785 |

## 7. Basic and headline earnings per share

The calculation of basic and headline earnings per share is based upon profit for the period attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue as follows:

| | **Unaudited six months ended Jun 2020 Rm** | Unaudited six months ended Jun 2019 Rm | Audited year ended Dec 2019 Rm |
|---|---|---|---|
| Profit for the period | **109** | 240 | 455 |
| **Headline earnings for the period** | **109** | 240 | 455 |
| Weighted average number of ordinary shares in issue ('000) | **104 401** | 104 394 | 104 364 |
| Weighted average number of diluted shares in issue ('000) | **105 540** | 105 778 | 106 125 |
| Earnings per share (cents) | | | |
| Basic | **104.4** | 229.9 | 436.0 |
| Headline | **104.4** | 229.9 | 436.0 |
| Basic – diluted | **103.3** | 226.9 | 428.7 |
| Headline – diluted | **103.3** | 226.9 | 428.7 |

## 8. Reconciliation of cash generated from operations

| | **Unaudited six months ended Jun 2020 Rm** | Unaudited six months ended Jun 2019 Rm | Audited year ended Dec 2019 Rm |
|---|---|---|---|
| Profit before taxation | **133** | 301 | 582 |
| Deduct finance income earned | **(527)** | (532) | (1 093) |
| Add back finance income received | **503** | 513 | 1 055 |
| Profit from insurance cells | **(5)** | (4) | (11) |
| Depreciation and amortisation | **43** | 34 | 73 |
| Share-based employee share expense | **9** | 6 | 15 |
| Interest expense | **52** | 45 | 101 |
| Interest income | **(1)** | (1) | (4) |
| **Operating cash flows before working capital changes** | **207** | 362 | 718 |
| Movements in working capital | **242** | (112) | (281) |
| Increase in inventories | **(44)** | (1) | (45) |
| Decrease in trade receivables – Retail | **79** | 39 | (47) |
| Decrease in loans receivable – Financial Services | **219** | (155) | (226) |
| Increase in other receivables | **(16)** | 16 | 26 |
| Increase in trade and other payables | **4** | (7) | 14 |
| Decrease in provisions | **–** | (3) | (3) |
| | **449** | 250 | 437 |

## 9. Group segmental analysis

The group's operating segments are identified as being Retail, Financial Services, Property and Other. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, being HomeChoice International plc's executive directors. The group's reportable segments are unchanged from the previous reporting date.

Retail consists mainly of the group's HomeChoice and FoneChoice operations, whereas Financial Services represents the group's FinChoice operations. The group's property companies, which own commercial properties utilised mainly within the group, are included in the Property segment. The Other segment relates mainly to the results of the holding companies, as well as those of the HomeChoice Development Trust.

The chief operating decision-maker monitors the results of the business segments separately for the purposes of making decisions about resources to be allocated and of assessing performance. They assess the performance of Retail and Property segments based upon a measure of operating profit and Financial Services and Other segments based on a measure of operating profit after interest income and interest expense.

## 10. Related party transactions and balances

Related party transactions, similar to those disclosed in the group's annual financial statements for the year ended 31 December 2019, took place during the period and related party balances exist at the reporting date. Related party transactions include key management personnel compensation and intragroup transactions which have been eliminated on consolidation.

## 11. Seasonality

Due to its seasonal nature the Retail business has a history of generating higher revenues during the second half of the year.

## 12. Capital commitments for property, plant and equipment and intangible assets

| | **Unaudited six months ended Jun 2020 Rm** | Unaudited six months ended Jun 2019 Rm | Audited year ended Dec 2019 Rm |
|---|---|---|---|
| Approved by the directors | **20** | 19 | 19 |

## 13. Fair value of financial instruments

The carrying amounts reported in the statement of financial position approximate fair values. Discounted cash flow models are used for trade and loan receivables. The discount yields in these models use calculated rates that reflect the return a market participant would expect to receive on instruments with similar remaining maturities, cash flow patterns, credit risk, collateral and interest rates.

## 14. Contingent liabilities

The group had no contingent liabilities at the reporting date.

## 15. Events after the reporting date

No event material to the understanding of these condensed group financial statements has occurred between the end of the six-month period ended 30 June 2020 and the date of approval.

# ADMINISTRATION

**Country of incorporation**
Republic of Mauritius

**Date of incorporation**
9 April 2020

**Company registration number**
C171926

**Registered office**
c/o Sanlam Trustees International Limited
Labourdonnais Village
Mapou
Riviere du Rempart
31803
Mauritius

**Company secretary**
Sanlam Trustees International (Mauritius)

**Auditors**
PricewaterhouseCoopers
Republic of Mauritius

**Corporate bank**
Butterfield Bank (Jersey) Limited

**JSE listing details**
Share code: HIL
ISIN: MT0000850108

**Sponsor**
Rand Merchant Bank, a division of FirstRand Bank Limited

**Transfer secretaries**
Computershare Investor Services Proprietary Limited

# DIRECTORATE

**Executive directors**
S Maltz (Chairperson)*, G Lartigue (Chief Executive Officer), P Burnett

**Non-executive directors**
A Chorn, A Ogunsanya* (alternate), E Gutierrez-Garcia*, R Hain, P Joubert (Lead Independent Director)

* Non-independent

HiL PLC