HomeChoice International PLC

HiL PLC

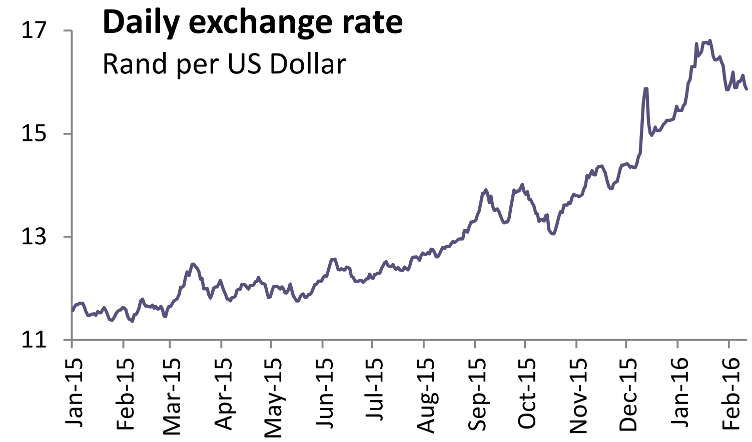
2015 results presentation

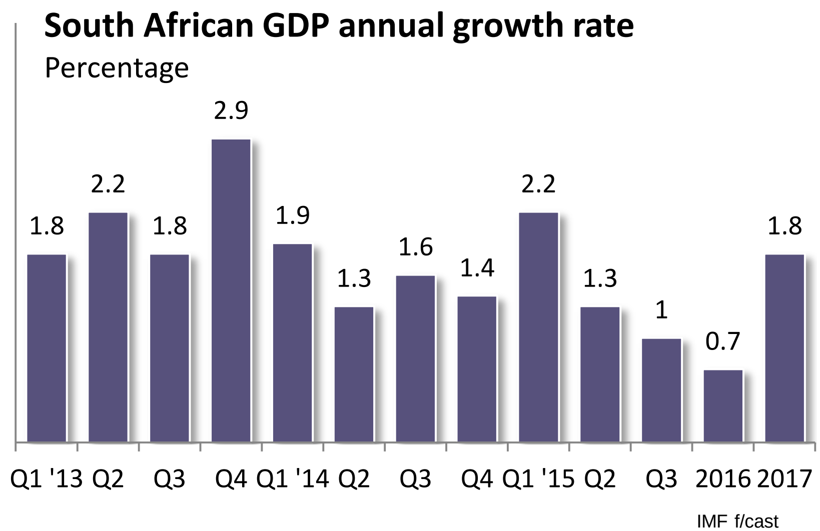
Agenda

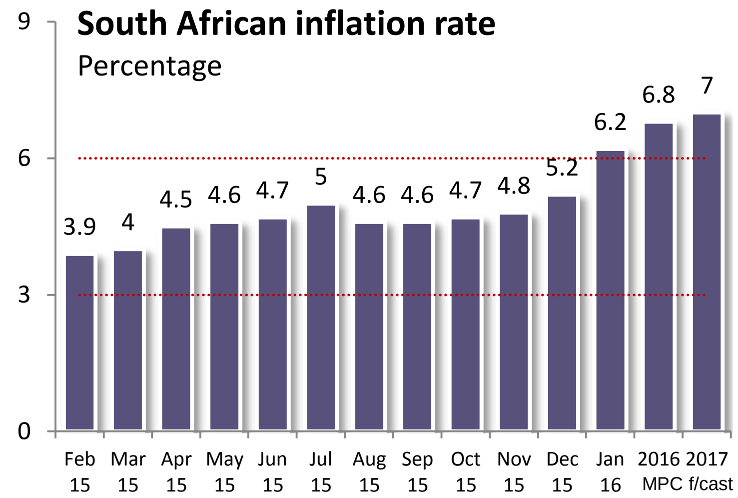
1. The environment
2. 2015 overview
3. Credit management
4. Strategic objectives
5. Prospects

A tough macro-economic climate

- Low GDP growth - buoyed by services as primary sector in recession
- Inflation breaching target and expected to peak at 8% in 2016 (average 6.8%)
- Rand weakened by 34% against the US$ during 2015

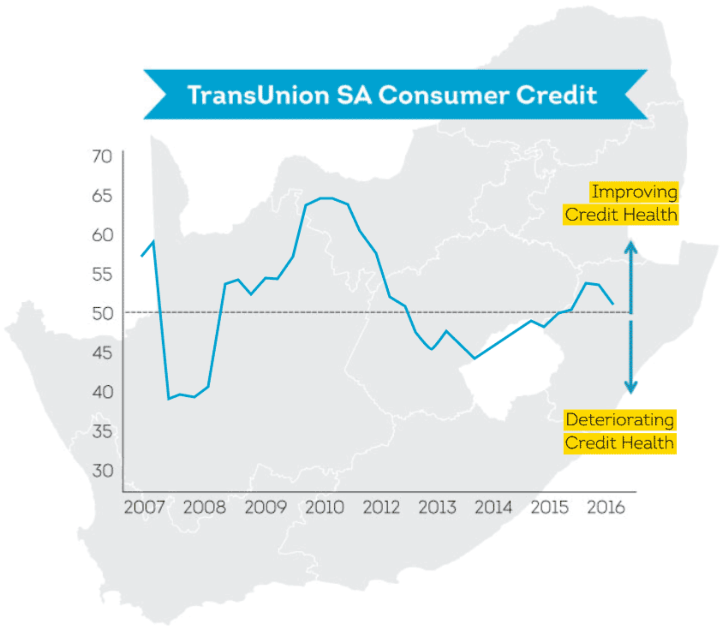




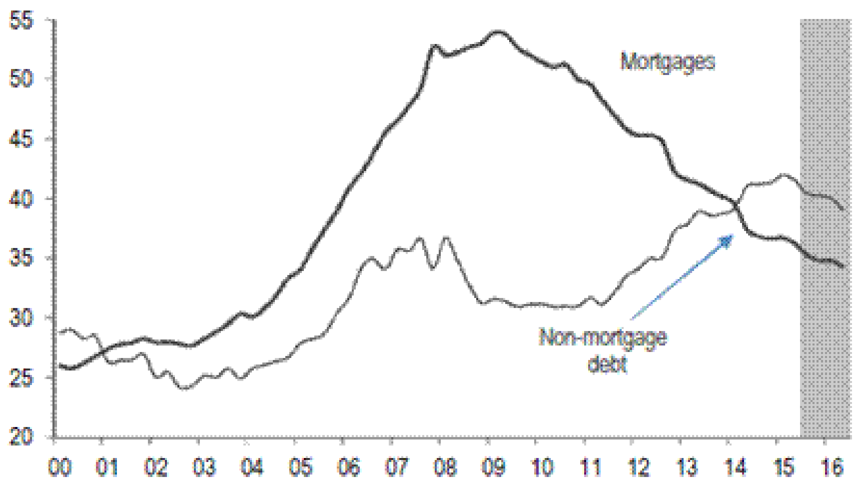


Consumer credit health improving, but fragile

- Rate of accounts lapsing into arrears fell 5.1% year on year in 4th quarter of 2015 - new loan books relatively healthy compared to older vintages
- Household cash flow under threat by rising inflation
- Debt servicing costs escalated due to higher interest rates and moderately rising debt as a proportion of disposable income



Composition of household debt
Percentage of disposable income

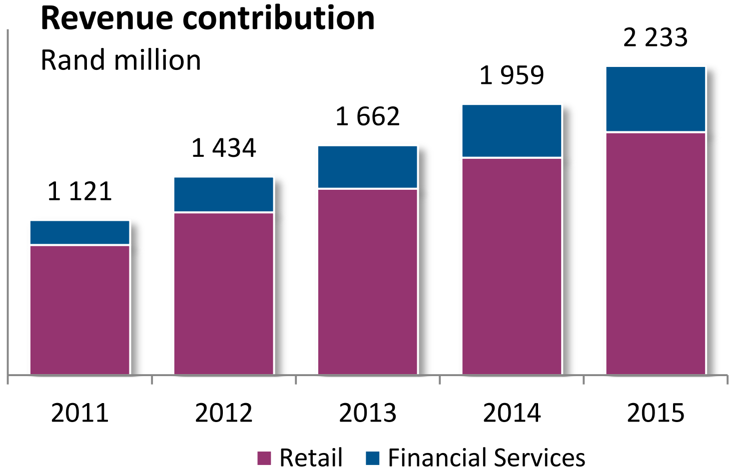


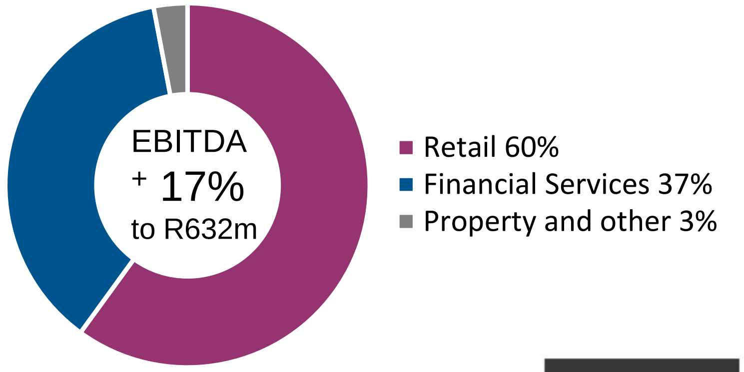
Source: SA Reserve Bank

2015 overview

Good results in a tough consumer environment

- Revenue up 14% to R2.2 billion
    - both businesses performed well with Retail +12% and Financial Services +24%
- Gross profit margin improved from 49.8% to 50.7% despite Rand volatility
- Operating profit up 11% to R580 million
- Operating profit margin marginally reduced from 26.6% to 26.0% due to higher debtor costs and amortisation of IT systems
- Strong trading performance reflected in Group EBITDA up 17% to R632m
- Cash generated from operations up 53% to R358 million

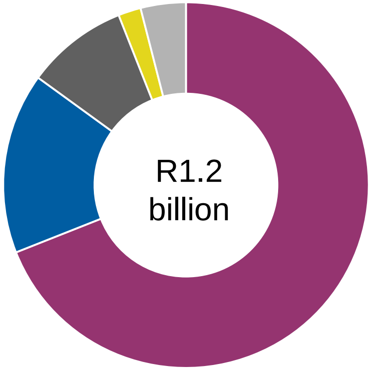




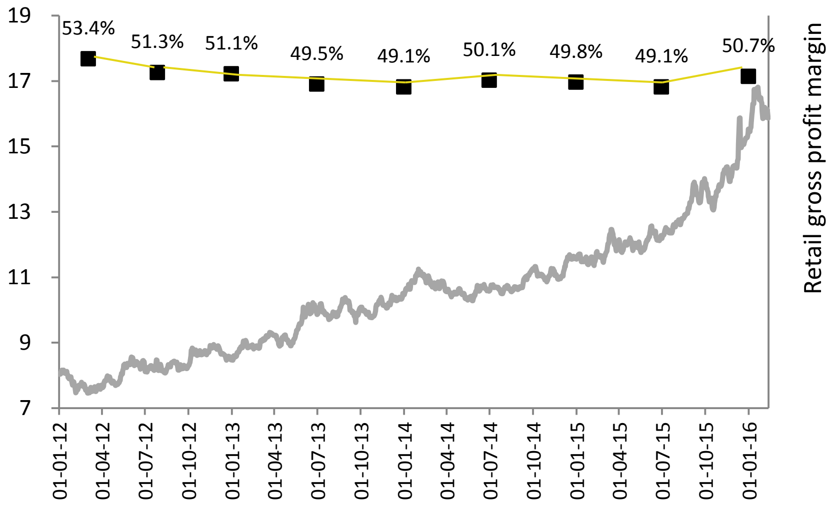
Innovation driving retail sales

- Retail sales up 11% to R1.2 billion despite credit tightening and disruption to operations from new call centre development
  - strong growth in core bedding ranges
  - high levels of innovation
  - launched clothing and footwear range
- Gross profit margin improved by 90bps
  - currency weakness well managed through selected price increases and product reconfiguration
  - enhanced operating efficiencies across the supply chain
  - stock levels up 4% and stock turn remains at 3.5 times

2015 Retail sales mix
Percentage



Gross profit margin and R:$ exchange rate

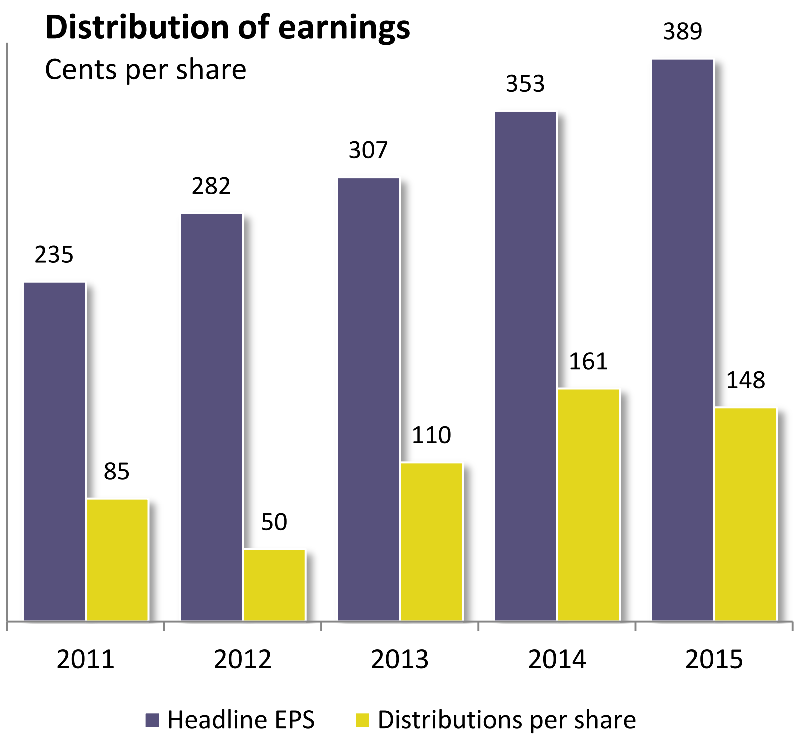


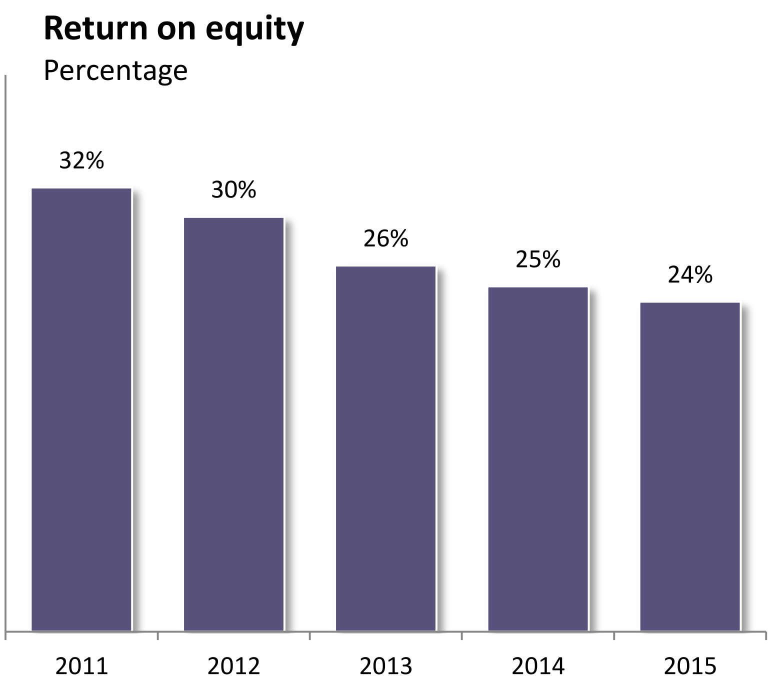
Trading expenses well managed

	2015 R'000	2014 R'000	Change on prior period	2015 % of revenue	2014 % of revenue
Debtor costs	397.4	329.9	20%	17.8	16.8
Marketing costs	180.9	166.2	9%	8.1	8.5
Staff costs	264.1	231.6	14%	11.8	11.8
Amortisation and depreciation	52.9	22.8	132%	2.4	1.2
Other	169.0	142.3	19%	7.6	7.3
Other trading expenses	666.9	562.9	18%	29.9	28.7

- Increase in trading expenses has exceeded revenue growth of 14%
  - Prior year debtor costs benefited by changed treatment of debt review (LFL growth in debtor costs of 16%)
    - Retail debtor costs impacted by 2014 postal strike and increased fraud
  - Investment in merchandise, digital and credit risk teams
  - Accelerated amortisation on ERP capitalised costs

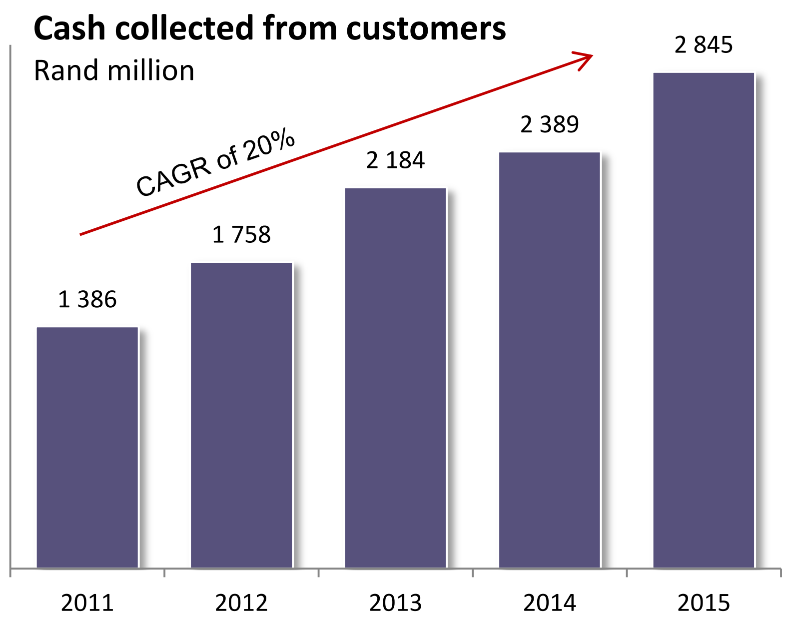
Group returns to shareholders

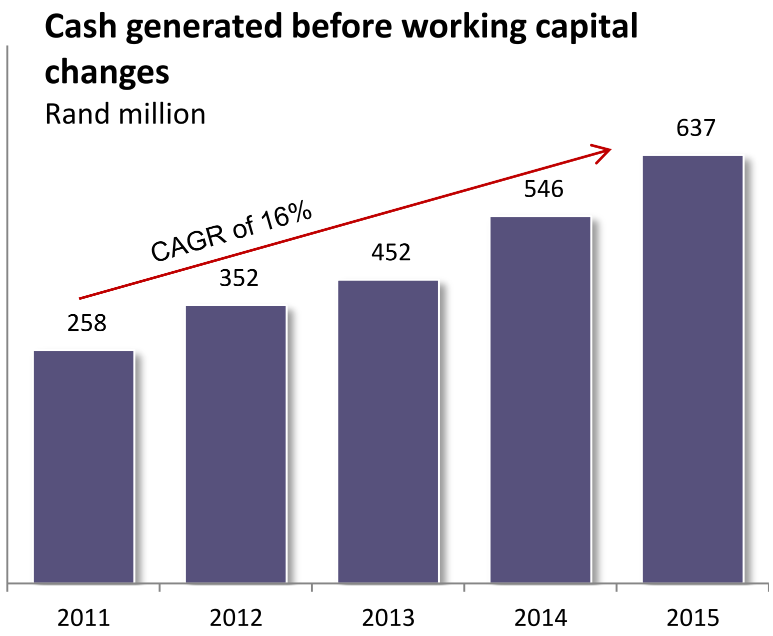




- Dividend cover has been increased from 2.2 to 2.6 times (within targeted cover of 2.2 – 2.8)
- Return on equity will be negatively impacted by higher dividend cover policy and increased interest expenditure (below targeted range of 25-30%)

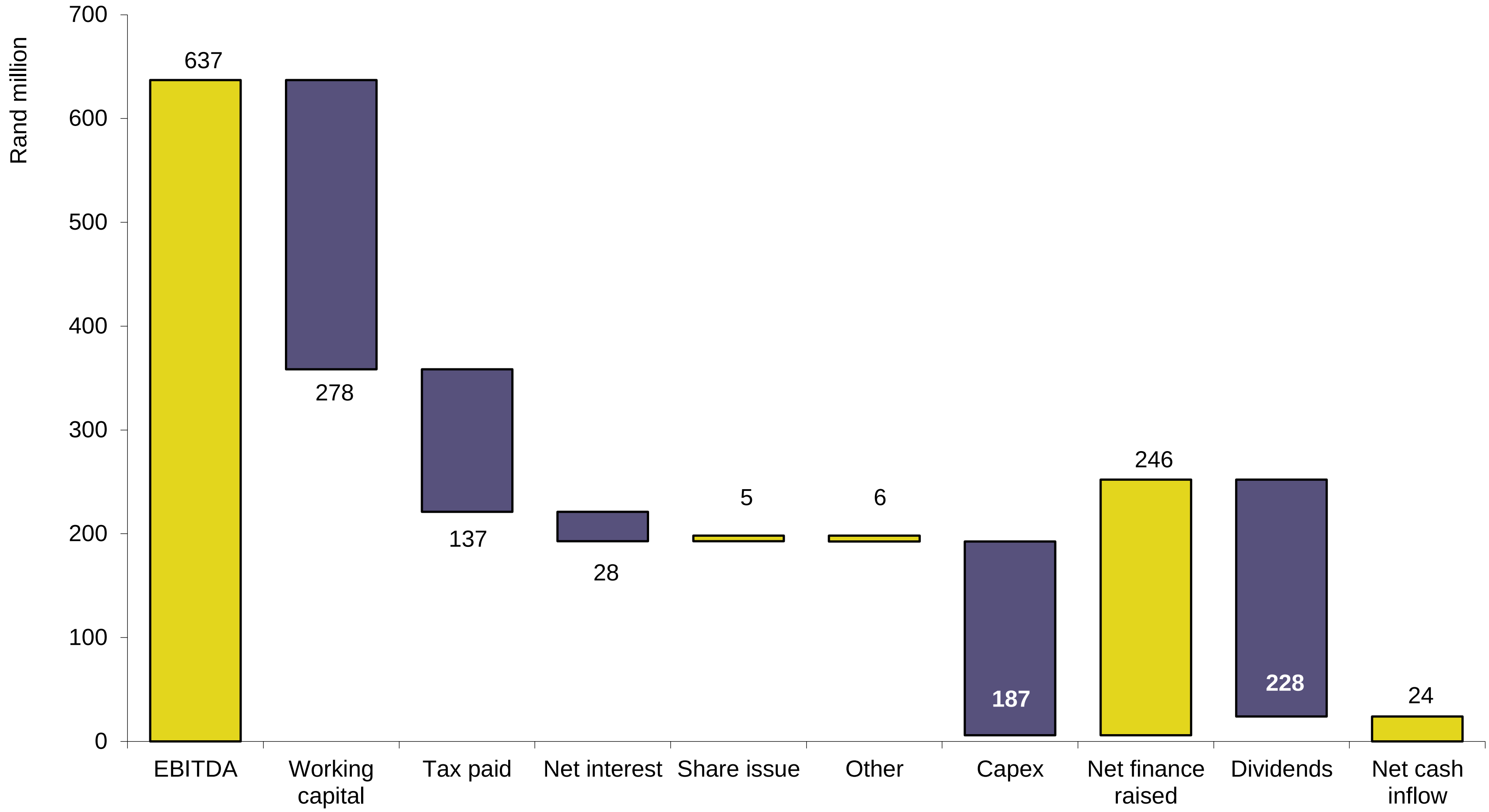
Strong cash generation





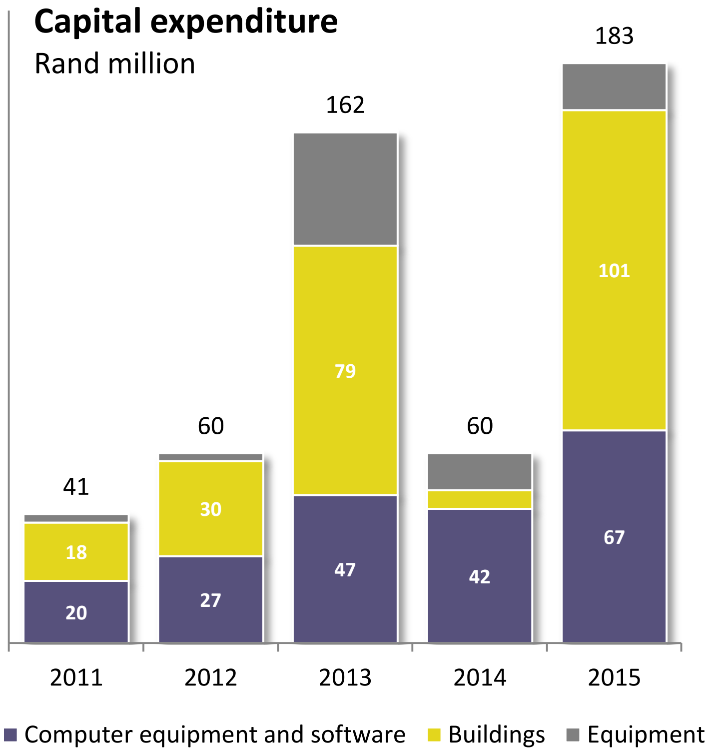
- Cash management and collections remains a key focus of the group
  - cash generated from operations up 53% to R358 million, influenced by the lower growth in the Retail book and better management of working capital over year-end
  - cash conversion rate increased from 43.1% to 56.7%

Analysis of group cashflows



Building the platform for growth

- Committed to our capital investment programme despite tough economic environment - R500 million invested over last five years
  - 200 000m^3 distribution centre completed in 2013
  - 1 000 seat call centre and retail showroom completed in 2015
  - investment in digital - rolled out new mobi site and upgraded internet platform
- Reduced future capital expenditure requirements - R51 million approved for 2016



Distribution centre in Blackheath, Cape Town

Distribution centre in Blackheath, Cape Town

Distribution centre in Blackheath, Cape Town

Strong financial position with low levels of gearing

	Rand million				
	2015	**2014**	**2013**	**2012**	**2011**
Non-current assets	565	418	385	233	184
Net cash and cash equivalents	87	63	19	7	46
Trade and other receivables	1 787	1 505	1 170	1 021	750
Inventory	170	166	145	110	93
Total assets	2 609	2 152	1 719	1 371	1 073
Equity	1 751	1 578	1 286	1 070	837
Interest bearing liabilities	546	296	209	100	82
Other liabilities	312	278	224	201	154
Total equity and liabilities	2 609	2 152	1 719	1 371	1 073

- Net asset value per share up 10% to R17.19
- Net debt to equity of 26.2% within target range < 40% (0.7 times EBITDA)

Liquidity management

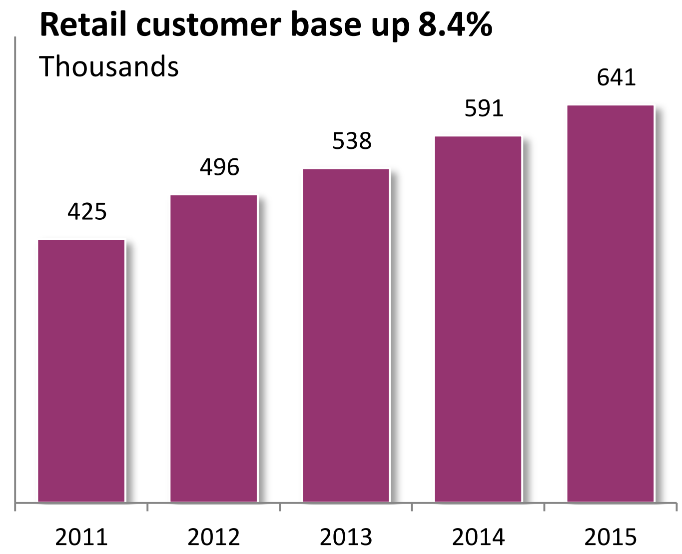
	Rand thousand		
	Long-term	**Short-term**	**Total**
JSE Listed bond [1] (matures Oct 2016)	-	101,262	101,262
Shareholder loan [1]	-	160,658	160,658
Property bond – head office [2]	53,561	89,823	143,384
Property bond – warehouse	85,512	8,060	93,572
Asset backed finance	25,251	21,957	47,208
Total	164,324	381,760	546,084

Note 1
- Group is in negotiations with its commercial banks to establish a 5 year term facility to replace JSE listed bond and shareholder loan
  - Ability to roll-over shareholder loan funding

Note 2
- Building finance converted into 10 year mortgage bond after year-end

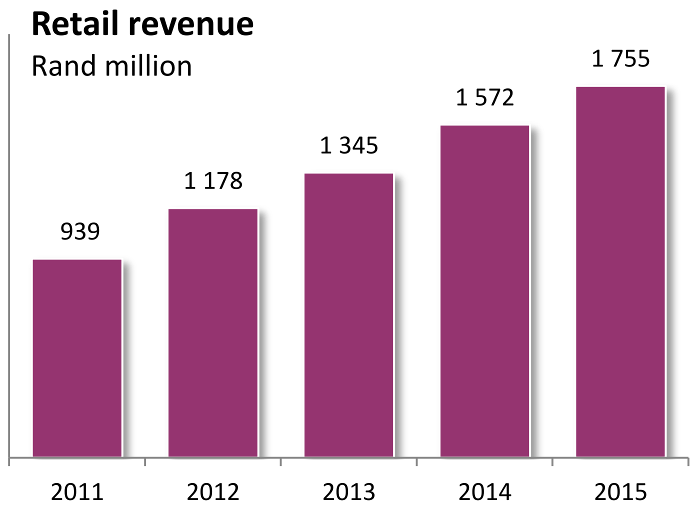
Retail highlights and challenges

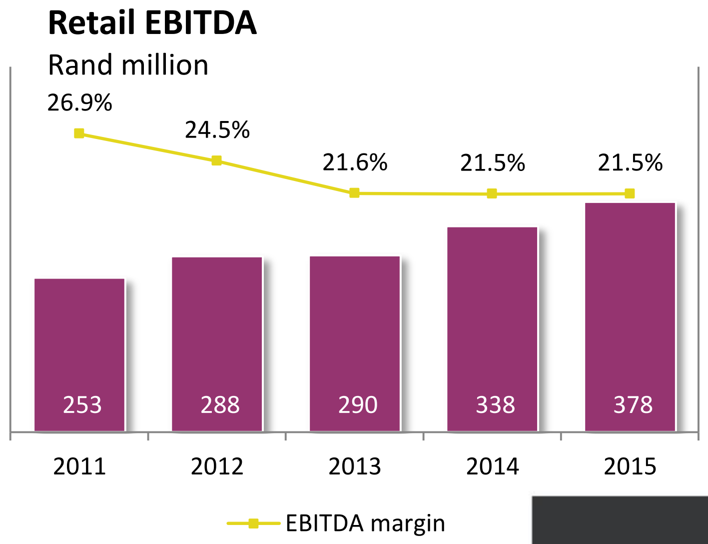
- Continued strong innovation in bedding
- Launched fashion business
- Opened first retail show-room
- Digital the fastest growing channel – up 30% and now 11% of all retail sales (2014: 9%)
- Successfully trialed new TV media strategy
- Completed build and fit-out of 1 000 seat call-centre
    - Experienced high attrition in call centres
- Tested reduced use of SAPO as strike mitigation strategy (down to 20% of deliveries)
- Nominal growth outside South Africa



Retail financial performance

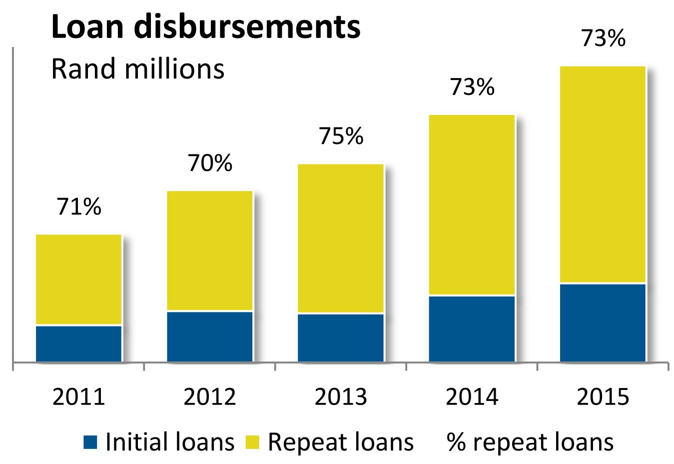
- Revenue up 12% to R1.8 billion despite credit tightening and disruption to operations from new call centre development
- Debtor costs up 15% due to impact of 2014 postal strike and higher fraud levels
- Further investment in merchandise, digital and credit teams
- Other trading costs well managed
- Cash generated from operations up 68% through strong focus on collections and cash management of working capital
- EBITDA up 12% to R378 million

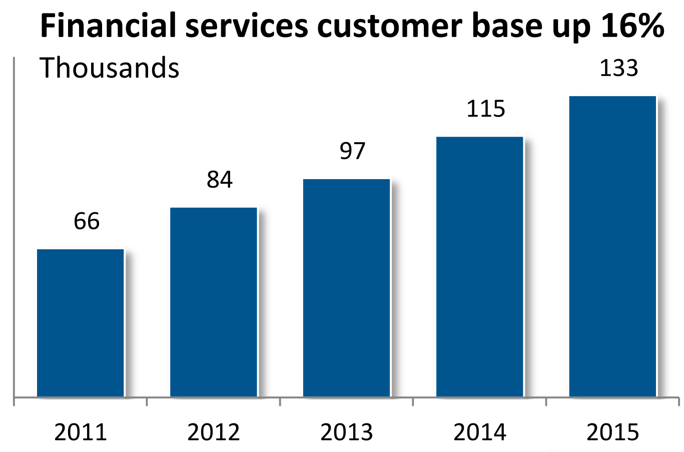




Financial Services highlights and challenges

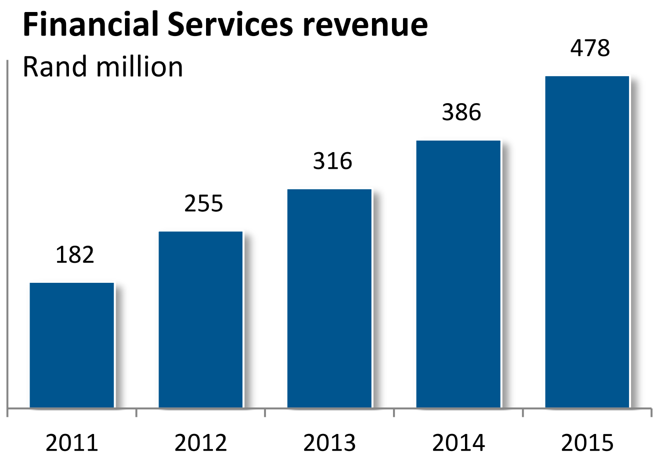
- Continued focus on low value, short-term loans
  - Average balance R8 792 (2014: R8 206)
  - Average term 20.2 months (2014: 19.2 months)
- 55% of all reloans via digital channels
- Mobi platform successfully rolled out to all existing customers
- Significant focus on affordability project
- Launched new insurance business

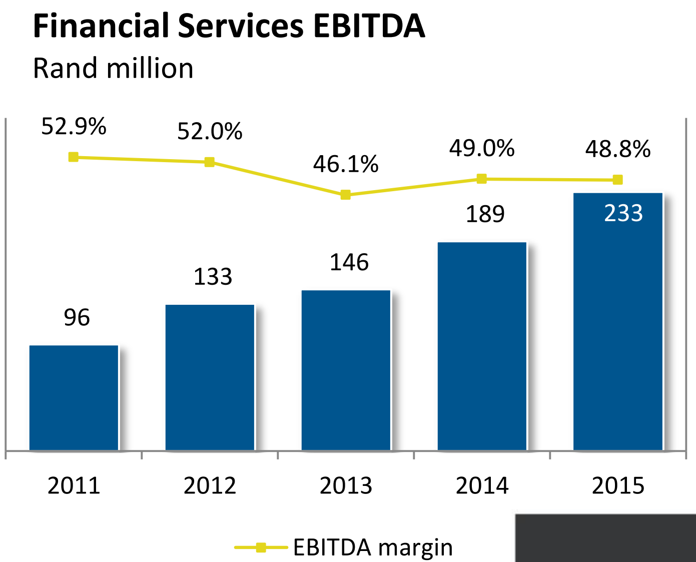




Financial Services financial performance

- Loan disbursements up 20% to R1.1 billion
- Self-service innovation and customer retention contributed to revenue increasing 24% to R478 million
- Stable credit performance
  - debtor costs as percentage of revenue up from 28.3% to 29.9%
  - prior year would have been 30.3% on LFL basis (debt review)
- EBITDA increased by 23% to R233 million





Credit management

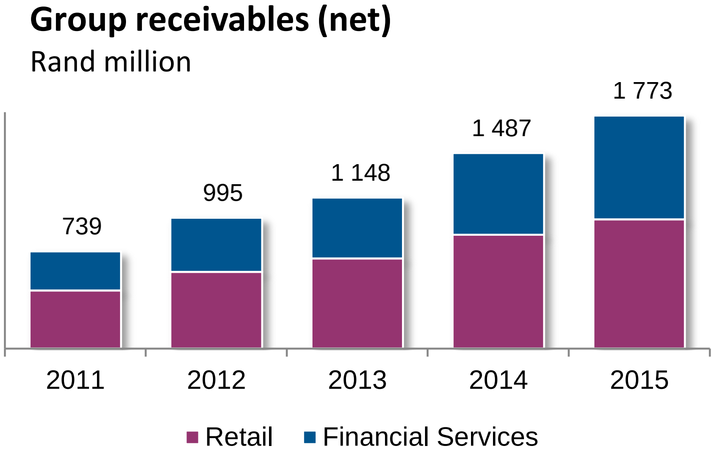
Group credit management and risk filter

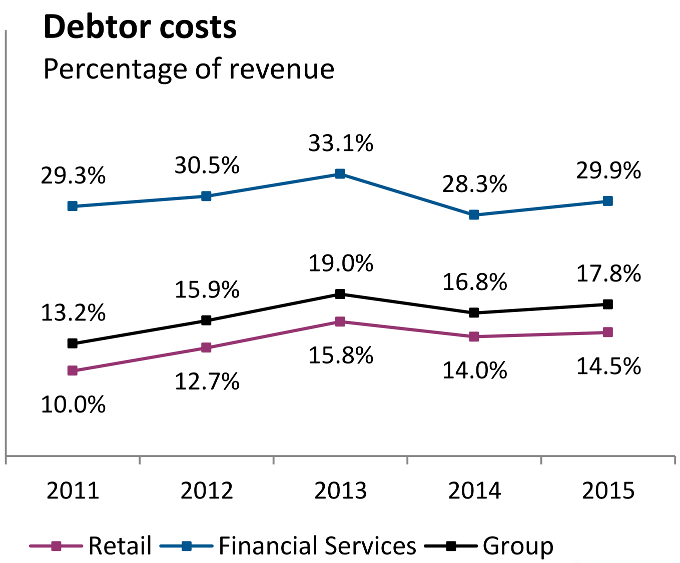
- Retail business acquires new customers for the group – female bias of 85%
- "Low and grow" strategy - good payment performance leads to higher retail credit limits and Financial Services eligibility
- Experienced in-house analytics team complemented by analytics partners
- Number of predictive models used to manage credit portfolio
- Vetting includes group payment performance, specialised scorecards, bureau checks and affordability limits
- Marketing selections enables control over who shops in our "store" - focus on customers of known credit performance

The group's risk filter:

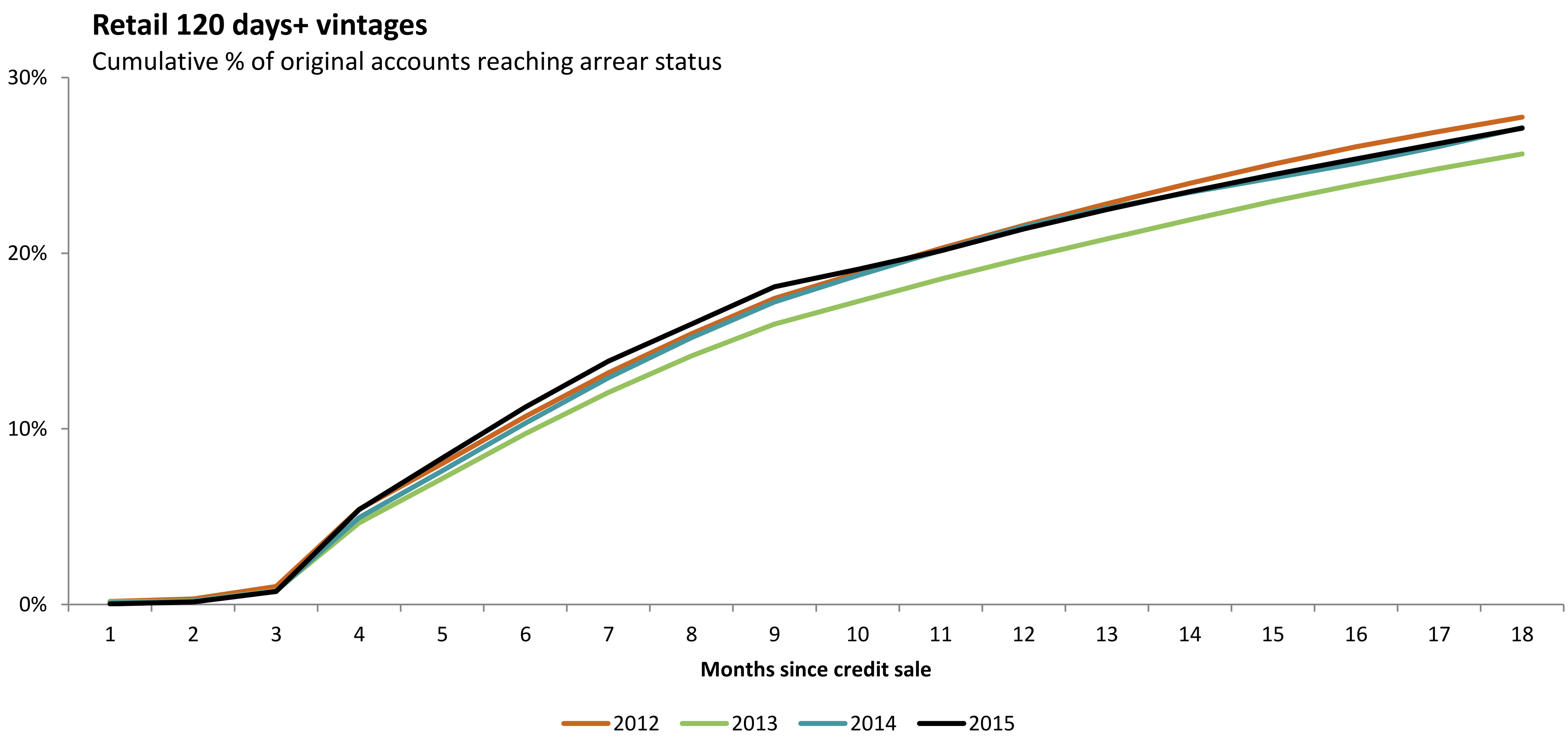
Stable credit performance

- Debtor costs up 20% compared to revenue growth of 14% (LFL debtor cost growth of 16%)
    - higher Retail write-offs, impacted by 2014 postal strike and increased fraud
    - prior year debtor costs benefited by changed treatment of debt review
- Retail credit policy tightened in response to tough consumer credit environment
- Early new and existing customer vintages showing improvements



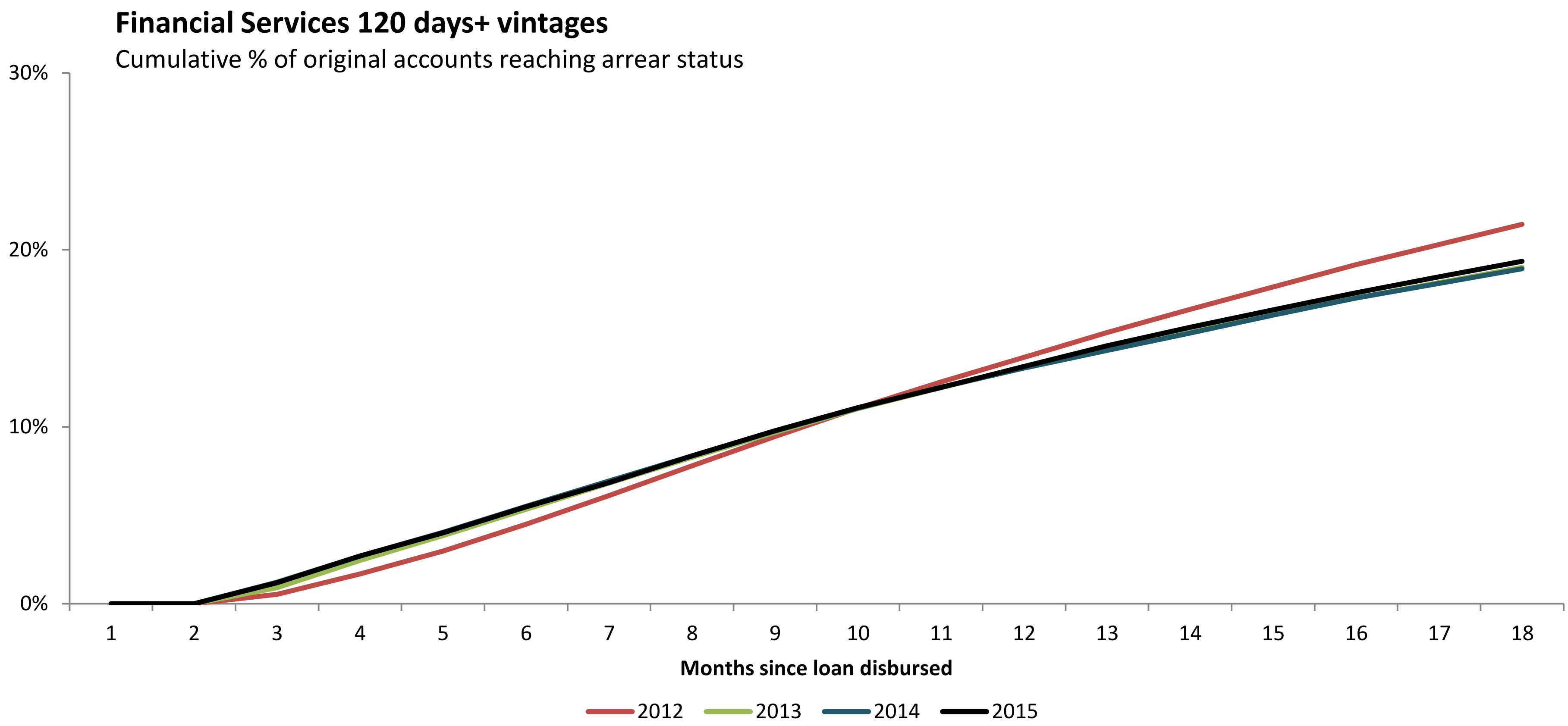


Retail vintages remain within targeted range



- Vintages were at relatively high levels in first half of 2015, but within targeted range
- Credit tightening has improved more recent vintages

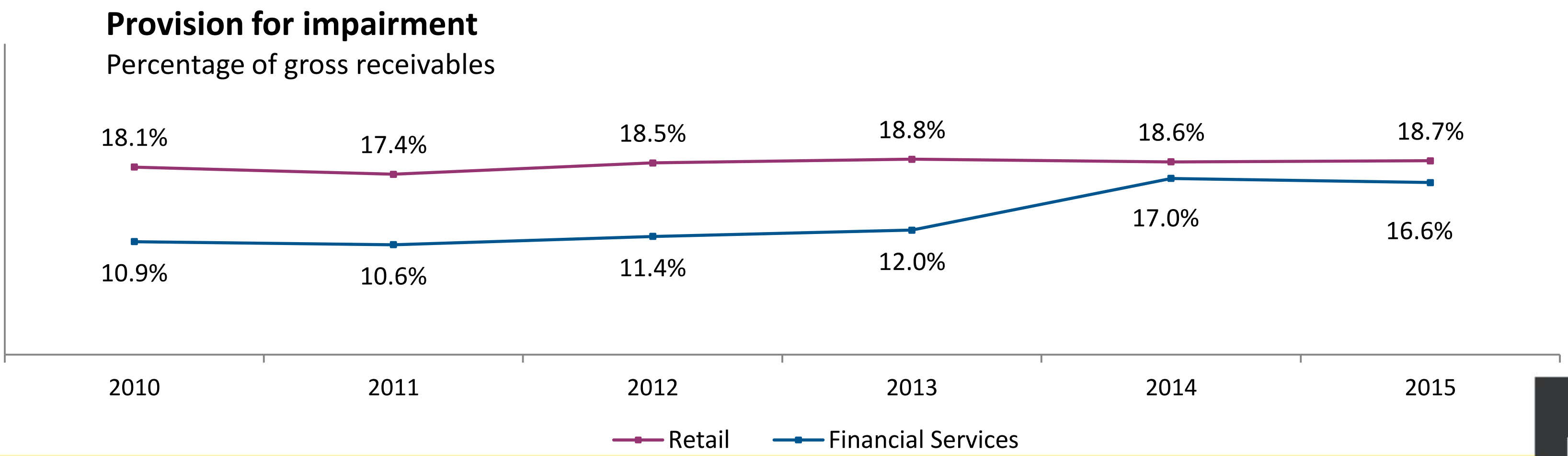
Financial Services vintages remain within narrow band



- Financial Services vintages have improved from 2012 levels
- Consistent vintages demonstrate strength of the group's risk filter

Conservative provisions being maintained

	2015	Change on prior period	2014
Retail: gross receivables	R1 209 m	14%	R1 064 m
Provision as % of receivables	18.7%		18.6%
Non performing loans (120+ days)	9.5%		8.7%
Times cover	2.0		2.1
Financial Services: gross receivables	R948 m	27%	R749 m
Provision as % of receivables	16.6%		17.0%
Non performing loans (120+ days)	4.7%		4.2%
Times cover	3.5		4.0



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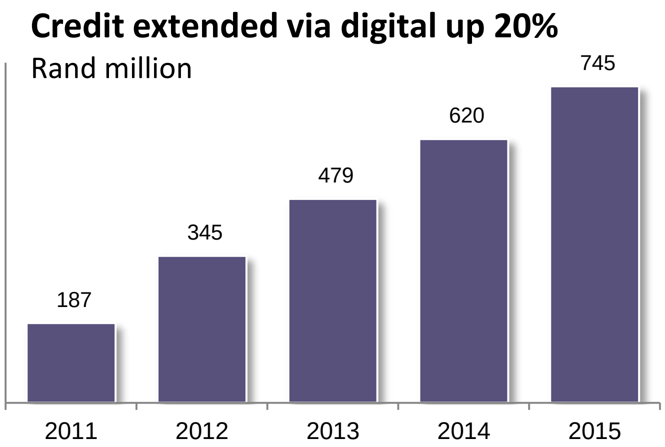
Regulatory environment

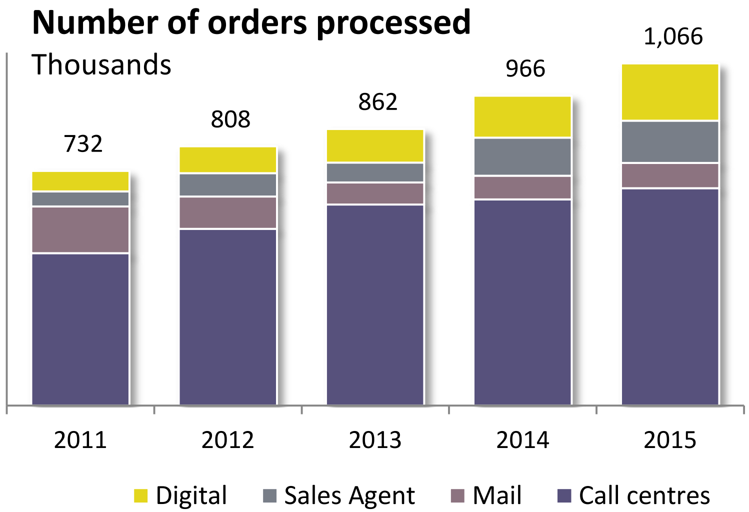
- NCA Amendment Act effective October 2015
  - Increased documentation requirements challenging for a home shopping retailer - negatively impacted sales
  - Group has joined Document Exchange Association (DEA) to electronically retrieve customer bank statements
  - Innovation for customers to photograph and upload documents
  - Group affordability projects are progressing well
- DTI pricing adjustments effective May 2016
  - Retail business has ability to mitigate impact through increased service fee
  - Financial Services business has opportunity to extend credit life to short-term products and diversify into other insurance products
- Draft legislation on capping credit life insurance imminent
  - Minimal impact to group as fees are at mooted caps

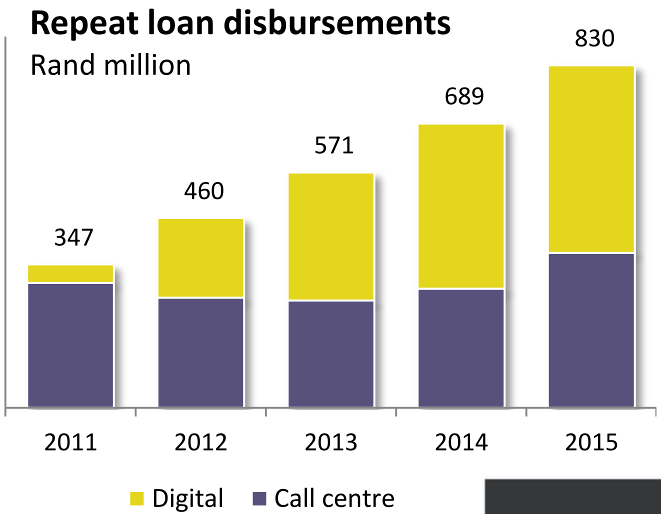
Strategic objectives

Digital engagement a core group competency

- R745 million (28%) of total group credit extended via digital channels
  - 11% of retail sales through digital (2014: 9%)
  - 55% of Financial Services repeat loans through digital channels
- 2.5 million Financial Services self-service transactions (up 25%)

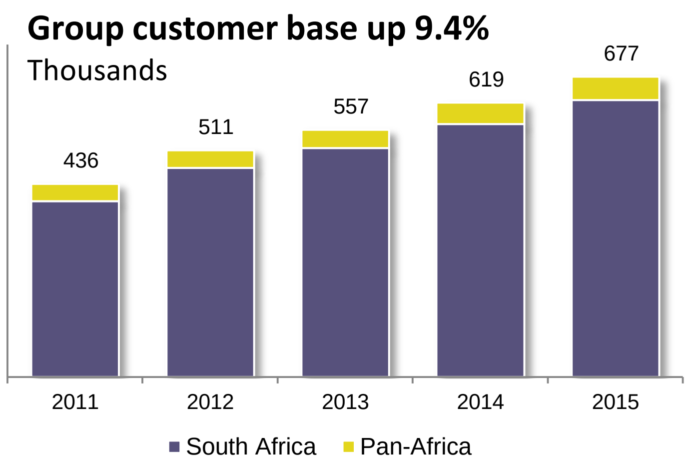


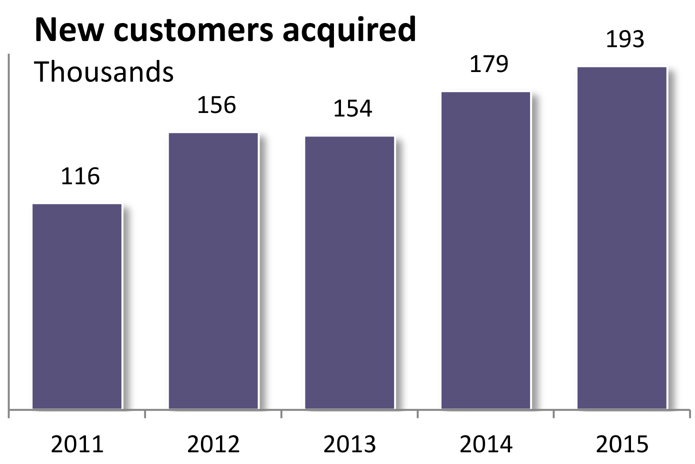




Driving customer growth through analytics

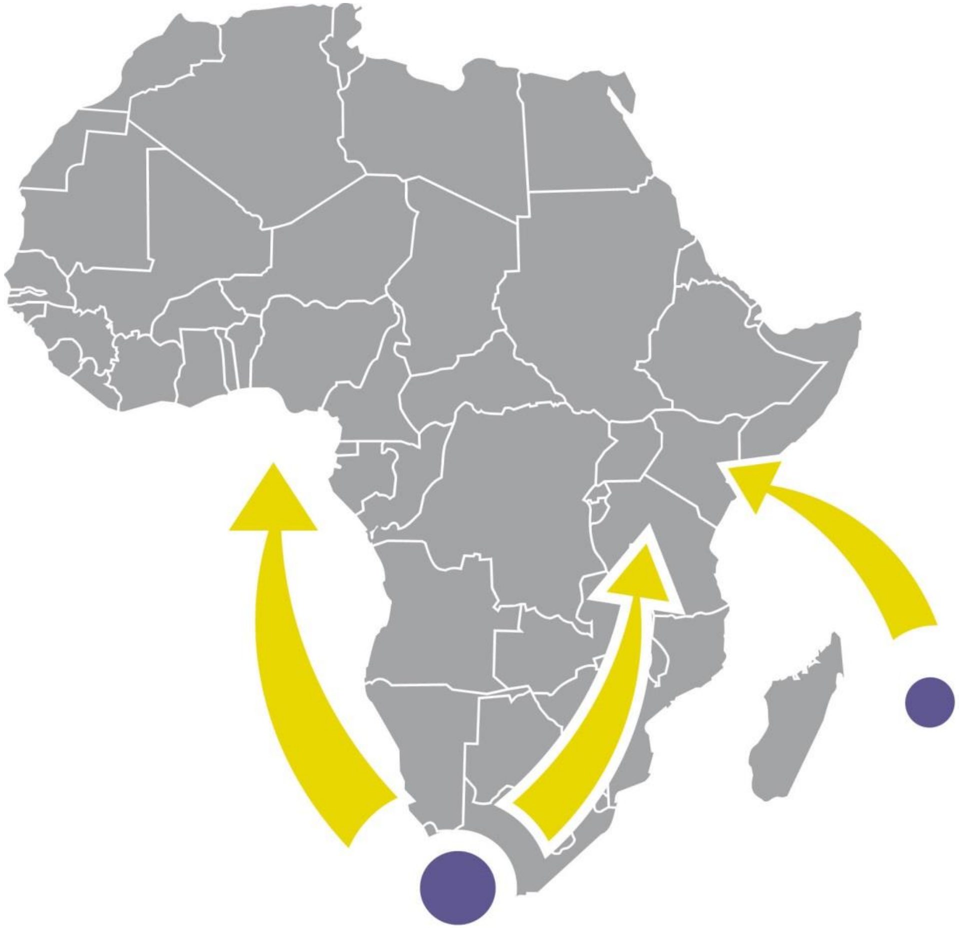
- Group customer base up 9% to 677 000
- Retail business continues to attract new customers to the group whilst maintaining strict credit granting criteria
    - 178 000 new customers in SA
    - 15 000 pan-African customers
- Pan-African customer base up 8% to 53 000
- Product innovation and strong customer engagement drives Financial Services retention





Expand into new markets and Africa

- Established operations in Mauritius
- Rolled out new insurance product offering
- Pan-African sales declined from 11.3% to 10.5% of total sales
- Zambia still being tested and no further roll-out planned for 2016
- Group has strategically pulled back on African expansion due to instability of resource driven economies
- Will focus on existing territories
- Expansion remains a growth opportunity in the medium term



Prospects

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- We anticipate macro-economic conditions to remain challenging
- We will continue to focus on controlling costs, cash generation and the quality of our credit books – and maintain a cautious approach to credit
- The group's proven business model and strategies for growth are focused on driving sustainable returns to shareholders
  - Product innovation and range extension remains key to our successful merchandise strategy
  - Our digital platform continues to be our fastest growing channel and remains a core strategy
  - Will continue to drive our omni-channel strategy and look forward to benefits of our first "bricks and mortar" showroom and new call centre

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Thank you

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