HomeChoice International PLC

HiL PLC

# June 2016 interim results

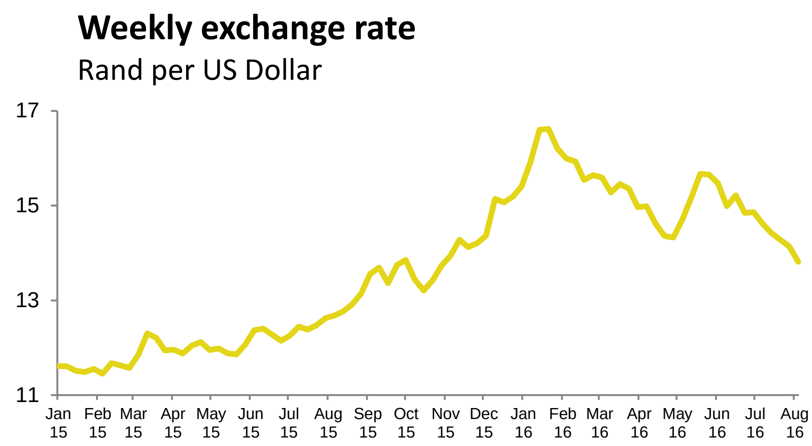

# Agenda

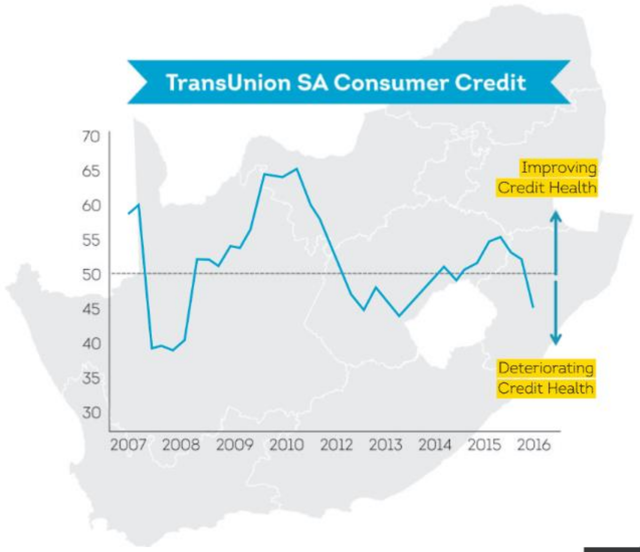
1. The environment
2. Group results
3. Segmental results
4. Performance against strategic objectives
5. Prospects

# The environment

# A tough macro-economic climate

- Consumer confidence is below 2008/2009 financial crisis levels
- Weak labour market – unemployment in South Africa remains high at 26.2%
- Consumer spending constrained by inflation and rising living costs
- Rand remains volatile - but showing signs of strengthening in H2
- Consumer Credit Index at lowest level in three years
    - reflects impact of rising inflation feeding into worse loan repayment behaviour



# Regulation has negatively impacted the Group

- National Credit Regulator's prescribed affordability assessment regulations introduced excessive burden on customers to produce proof of income
  - formally employed customers find it inconvenient to provide documentation
  - informally employed customers lack practical access to documentation
- Consumers are however benefiting from reduction in maximum prescribed interest rates from May 2016 and migration to credit facility
- Regulations required significant changes to business systems and processes across all channels - higher compliance costs
- Group has developed multiple channels for customers to submit documentation
  - source bank statements electronically via Document Exchange Association
  - successfully implemented document management system
- Significant investment in staff training and customer education to improve her experience

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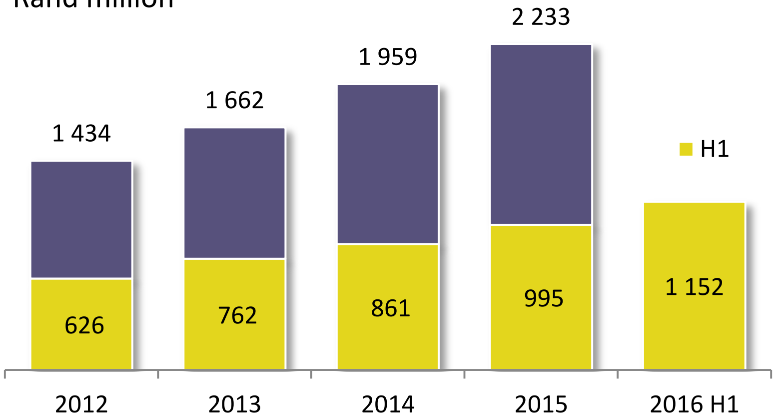
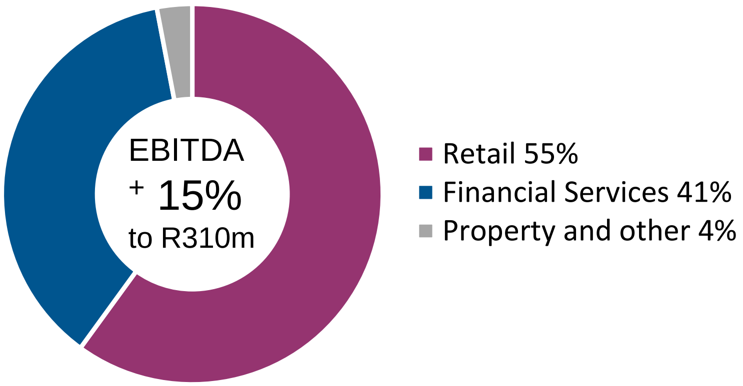
# Group results

# Good results in the tough consumer environment

- Strong revenue growth of 16% with both businesses performing well
  - Retail revenue up 15%
  - Financial Services revenue up 19%
- Gross profit margin down 30 bps to 48.8% despite continued Rand volatility
- Debtor costs up 18% - negatively impacted by higher Retail write-offs
- Operating profit up 10% to R280 million, impacted by higher depreciation and amortisation costs (from R14m to R28m)
- Other costs well managed - focus on operating efficiencies reflected in EBITDA growth of 15% to R310m
- Cash generated from operations up 18% to R145m

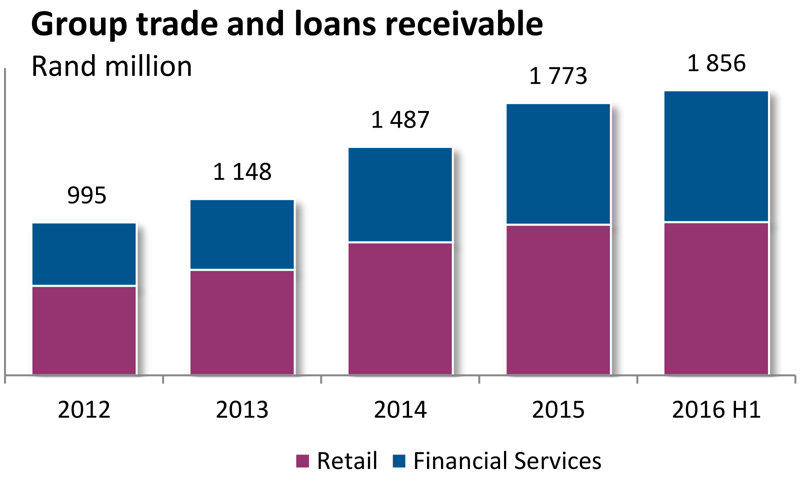
**Group revenue up 16% to R1.2bn**
Rand million

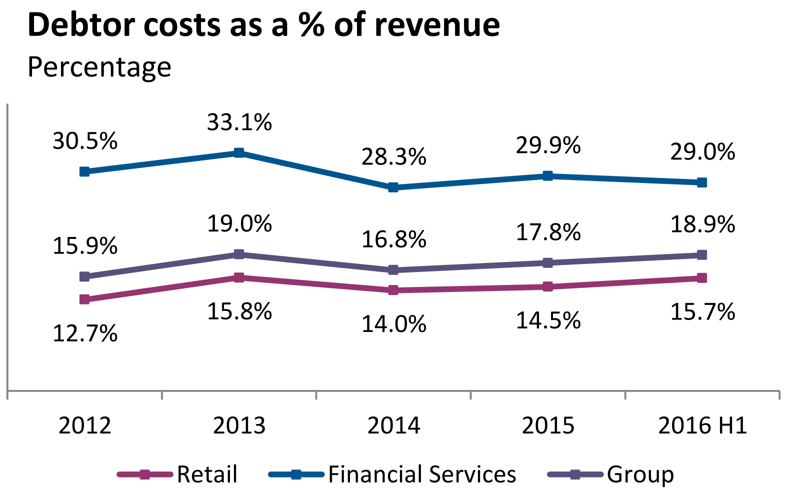


# Credit performance

- Debtor costs up 18% compared to revenue growth of 16%
- Retail debtor costs up 24% impacted by
  - higher levels of customer acquisition (new TV acquisition channel generated good demand but at higher risk than planned)
  - worse late-stage collections by outsourced external debt collectors (EDC's)
- Financial Services debtor costs up 9% benefitting from higher proportion of repeat loans
- Retail credit policy tightened in response to tough environment
  - revision of multiple score-cards (collaborating with external consultants)
  - appointed new EDC's and focusing on collection processes



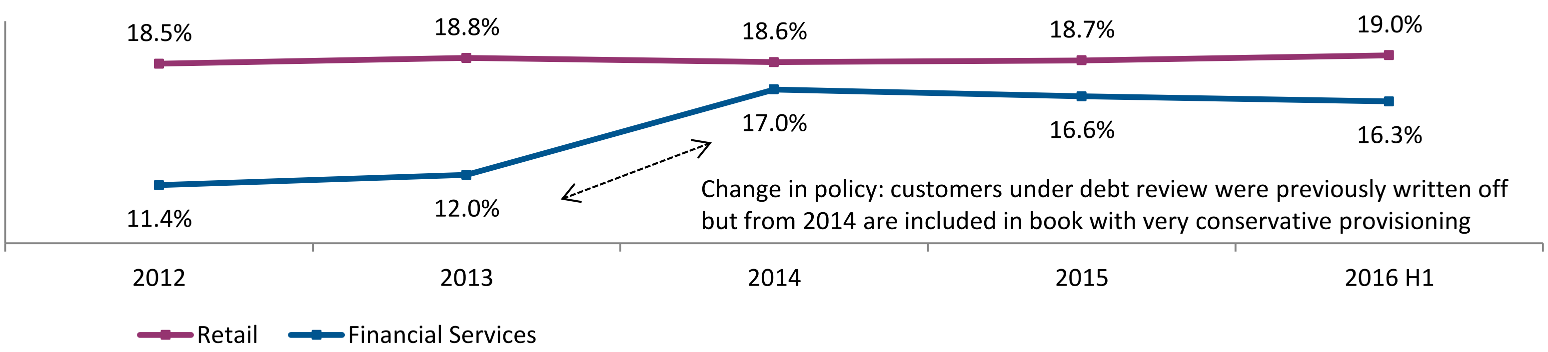



# Conservative provisions being maintained

| | 2016 H1 | 2015 FY | 2014 FY |
|---|---|---|---|
| **Retail:** gross receivables | R1 231 m | R1 209 m | R1 064 m |
| Provision as % of receivables | 19.0% | 18.7% | 18.6% |
| Non performing loans (120+ days) | 8.9% | 9.5% | 8.7% |
| Times cover | 2.1 | 2.0 | 2.1 |
| **Financial Services:** gross receivables | R1 026 m | R948 m | R749 m |
| Provision as % of receivables | 16.3% | 16.6% | 17.0% |
| Non performing loans (120+ days) | 4.6% | 4.6% | 4.2% |
| Times cover | 3.5 | 3.5 | 4.0 |

**Provision for impairment as % of receivables**

Percentage



# Trading expenses

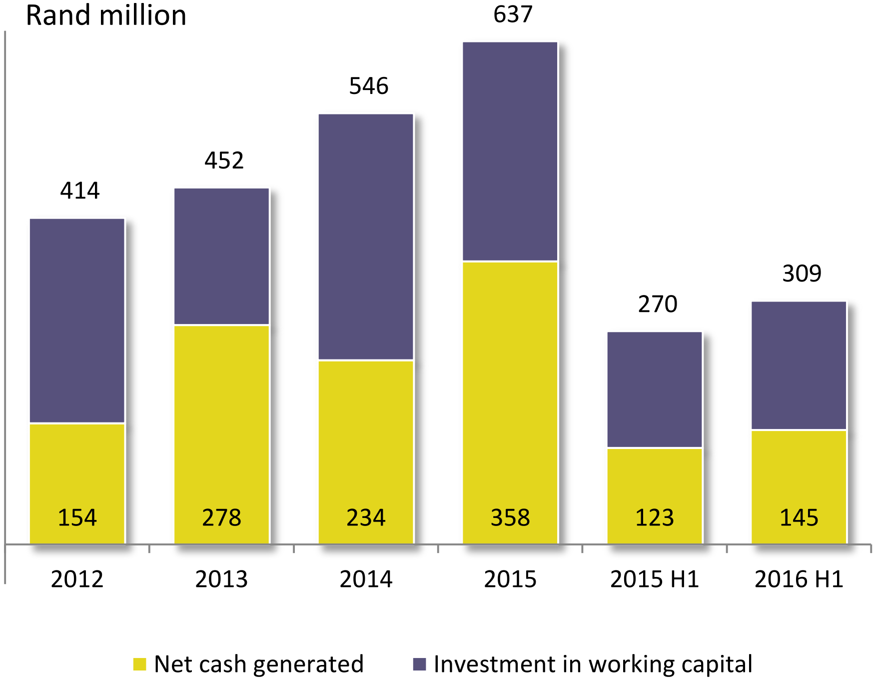
| | 2016 H1 R'000 | 2015 H1 R'000 | Change on prior period | 2016 % of revenue | 2015 % of revenue |
|---|---|---|---|---|---|
| Marketing costs | 92.3 | 82.8 | 11.6% | 8.0 | 8.3 |
| Staff costs | 142.2 | 120.3 | 18.2% | 12.3 | 12.1 |
| Amortisation and depreciation | 27.8 | 13.6 | 104.6% | 2.4 | 1.4 |
| Other | 97.5 | 86.0 | 13.3% | 8.5 | 8.6 |
| Other trading expenses | 359.8 | 302.7 | 18.9% | 31.2 | 30.4 |

- Marketing costs continue to improve as a percentage of revenue
- Staff costs impacted by investment in credit risk teams, lower capitalisation of internal costs and revised call centre remuneration to drive lower attrition
- Significant increase in amortisation and depreciation on a comparable basis
  - ERP module brought on-stream late 2015 (no amortisation in first half of 2015)
  - estimated useful life of software revised end of 2015 from 10 to 5 years
- Other costs well controlled - impacted by increased regulatory costs and investment in pan-African expansion and insurance business

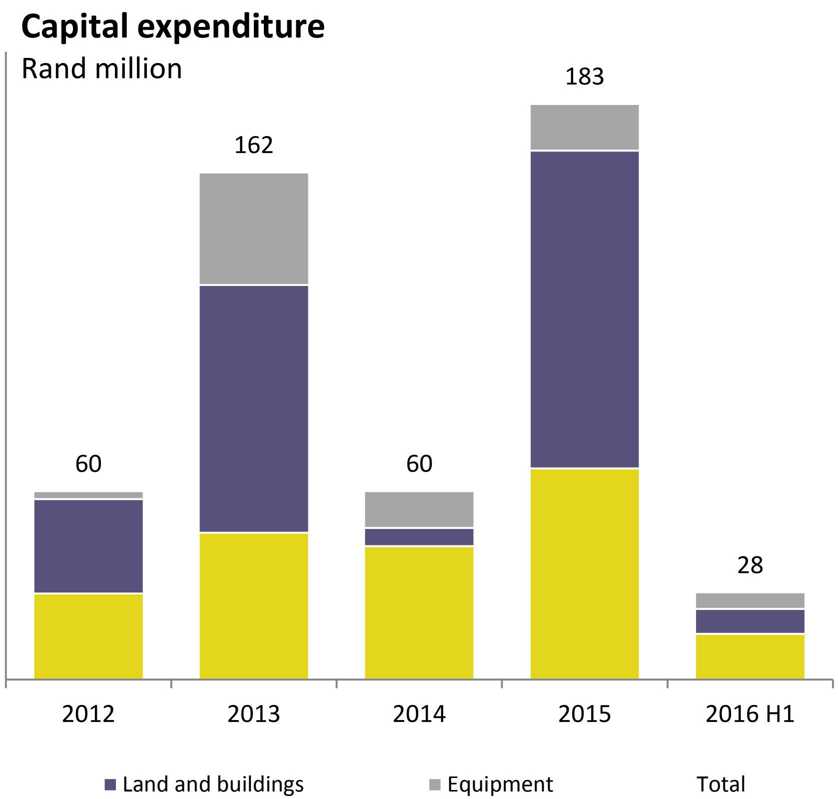
# Cash management remains a key focus of the group

- Cash generated from operations up 18.3% to R145 million
  - good management of working capital – up 11% to R164 million
  - costs well managed
  - lower growth in Financial Services loan disbursements
  - focus on late-stage collections (outsourced EDC's)
- Cash conversion rate (cash generated from operations / EBITDA) increased from 45.7% to 46.8%

**Cash generated before working capital changes up 14% to R309m**



# Capital expenditure




| Amortisation and depreciation | 2016 H1 Rm | 2015 H1 Rm | Change on prior period |
|---|---|---|---|
| PP&E | 10.9 | 8.0 | 37% |
| Intangibles | 16.9 | 5.6 | 202% |
| Total | 27.8 | 13.6 | 105% |

- Capital expenditure significantly lower than previous years and focused on investment in group’s technology systems
- R47 million of capital expenditure planned for 2016

# Statement of financial position

| | Rand million | | | |
|---|---|---|---|---|
| | **2016 H1** | **Change on prior period** | **2015 H1** | **Dec 2015** |
| PP&E and intangible assets | 524 | 15% | 457 | 524 |
| Trade and loan receivables | 1 856 | 17% | 1 580 | 1 773 |
| Inventory | 251 | 10% | 228 | 170 |
| Net cash and cash equivalents | 19 | (57%) | 33 | 87 |
| Other assets | 85 | 39% | 61 | 58 |
| Total assets | 2 735 | 16% | 2 359 | 2 612 |
| | | | | |
| Equity | 1 869 | 17% | 1 591 | 1 751 |
| Interest bearing liabilities | 381 | 24% | 306 | 385 |
| Shareholder loan | 157 | (2%) | 160 | 161 |
| Other liabilities | 328 | 9% | 302 | 315 |
| Total equity and liabilities | 2 735 | 16% | 2 359 | 2 612 |

- Inventory seasonally higher in June each year – stock turn improved from 2.6 to 2.8 times

# Capital management

## Gearing

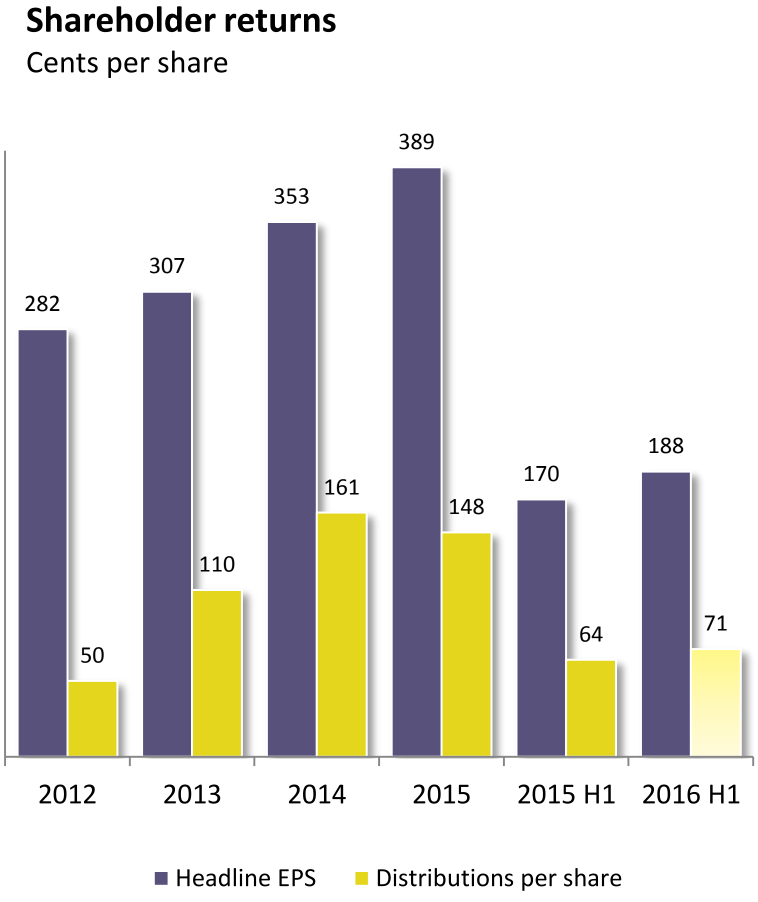
- Net debt to equity increased marginally from 27.2% to 27,8% (final draw-down on new call centre building facility and lower cash on hand)
- Comfortably within target range < 40% (0.8 times annualised EBITDA)

## Return to shareholders

- Headline earnings up 11.6% to R192 million
- Return on equity impacted by higher interest expenditure - reduced from 21.7% to 21.2%

## Financial position

- Remains strong with net asset value per share up 15.6% to R18.16



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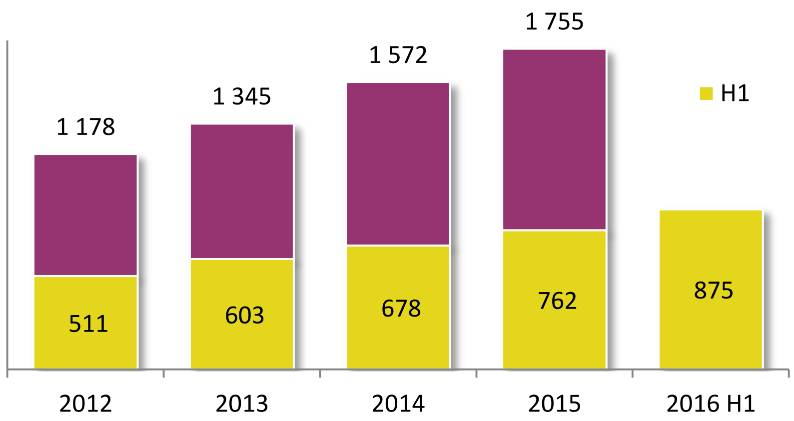
# Segmental results

# Retail financial performance

- Revenue increased by 15% to R875 million
- Retail sales up 16% despite impact of new affordability regulations
- Finance charges and initiation fees up 12%
    - reduction in interest caps in May 2016 and introduction of revolving credit
    - active marketing of lower instalments has generated strong customer demand
- Debtor costs up 24% due to higher proportion of customer acquisition and worse late-stage collections
- Strong trading performance and focus on operating costs reflected in EBITDA up 11% to R172 million
- Operating profit  up 2% - impacted by accelerated amortisation of ERP capitalised costs (up 10% on LFL basis)

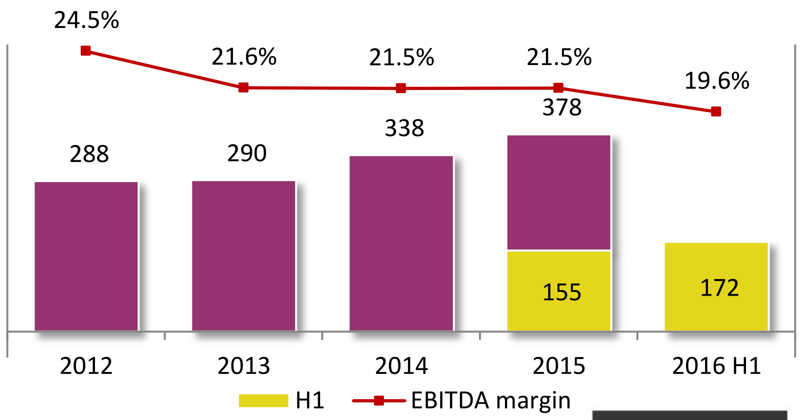
**Retail revenue up 15% to R875m**

Rand million




**Retail EBITDA up 11% to R172m**

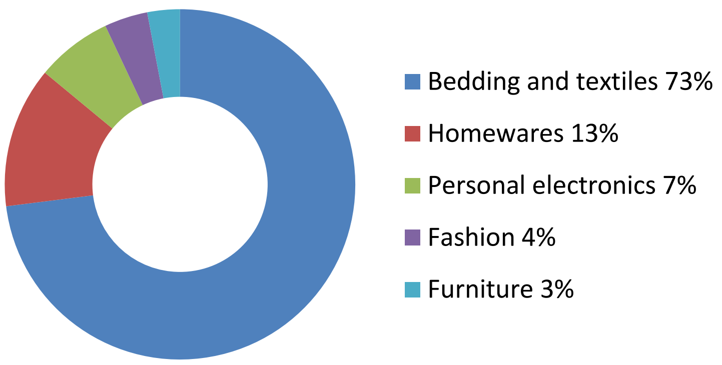
Rand million



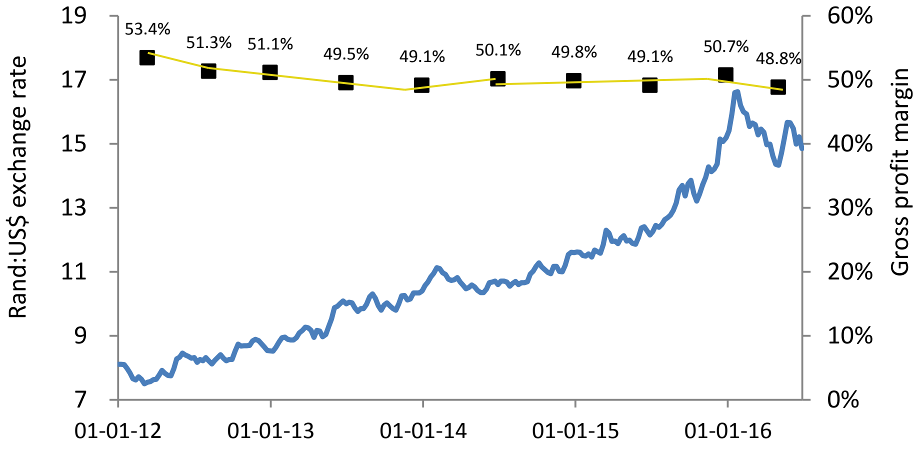
# Innovation driving Retail sales

- Retail sales up 16% to R579 million
  - product innovation and range development driving strong volume growth - particularly in core bedding
  - good demand for new fashion category
  - introduced branded appliances and electronics which are performing well
  - introduction of revolving credit facility has generated good demand across all categories
- Gross profit well managed considering Rand volatility - margin declined by 30bps
  - selective price increases and product reconfiguration
  - enhanced operating efficiencies across the supply chain
  - shipping costs expected to increase in H2

**2016 sales mix**
Percentage



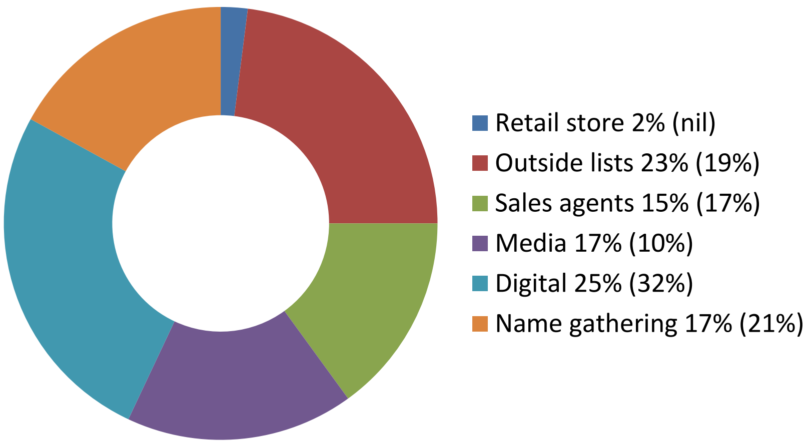

**Gross profit margin vs. Rand volatility**



# Investing in our Retail omni-channel strategy

- Digital Retail sales up 18% through focus on driving additional traffic while maintaining current improvements to conversion rates
- New call centre well received by staff with average agent performance up 5%
- New showroom has generated R4.9m of merchandise sales in 2016
- Disappointing sales agent growth – have responded with renewed focus on advisor team and operational drives in Gauteng
- Further expansion of home delivery service has reduced merchandise return rates from customers from 17.2% to 13.3%
(and strategically reduces reliance on SAPO)

**2016 new acquisition campaigns (net sales)**
Percentage

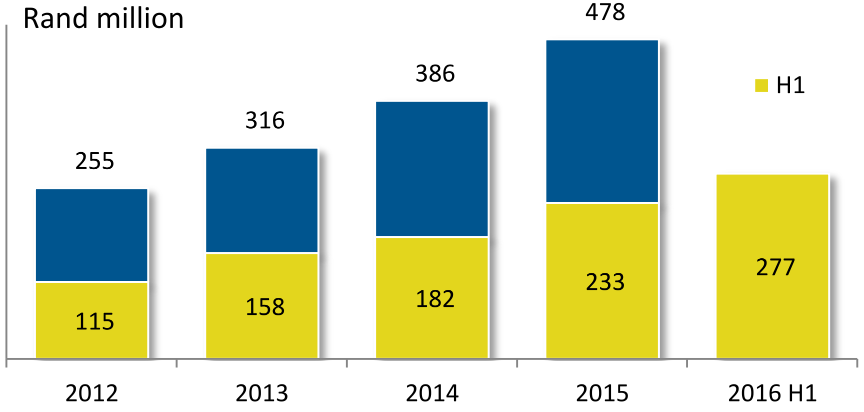


# Financial Services performance

- Loan disbursements up 7% to R583 million
  - lower acceptance rates from new affordability process, particularly first-time loan customers
- Revenue up 19% to R277 million
  - introduced credit life on short-term loans and new personal funeral product
- Stable credit performance with debtor costs as percentage of revenue down from 31.7% to 29.0%
- EBITDA up 23% and margin improved from 44.3% to 45.8% for the six-month period
  - growing profitability of insurance business

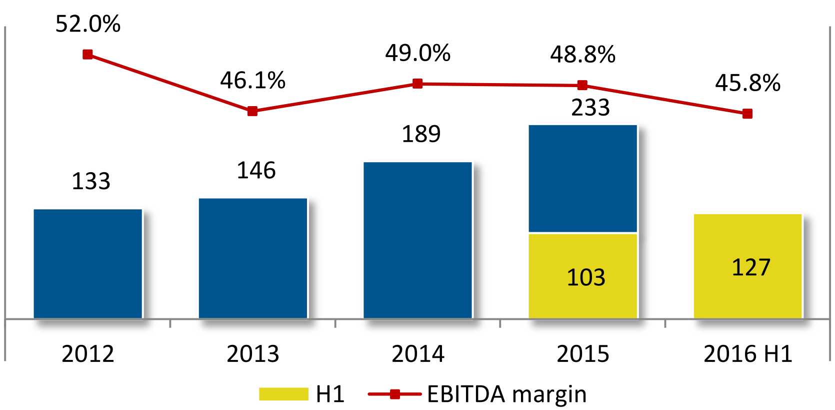
**Financial Services revenue up 19% to R277m**

Rand million




**Financial Services EBITDA up 23% to R127m**

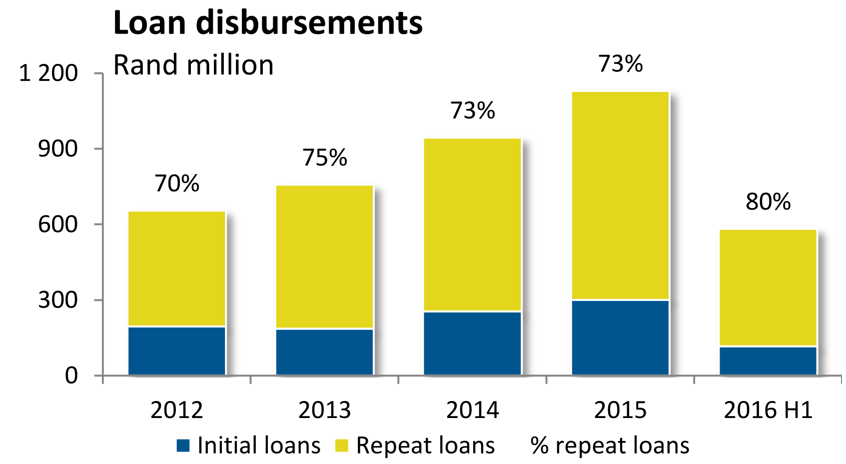
Rand million

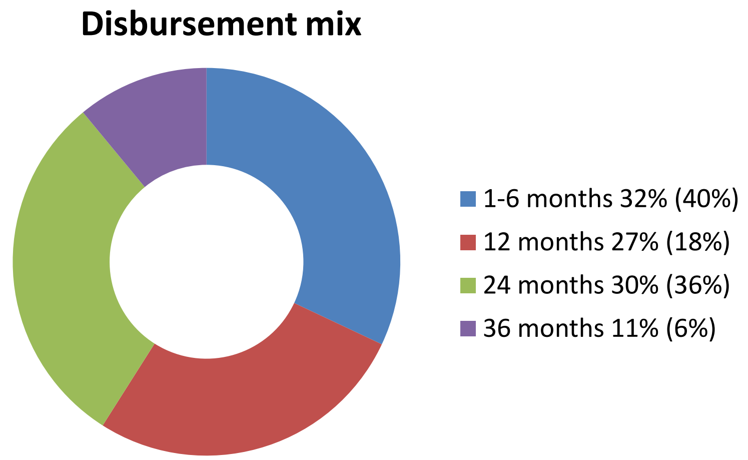


# Financial Services

- Regulation has negatively impacted business
  - lower new acceptance rates - loan disbursements made to existing customers increased to 80%
  - significant effort to stream-line business process and educate customers
  - reduced interest rate caps mitigated in part by insurance business

- Continued focus on low value, short-term loans
  - Average balance R9 556 (2015: R8 792)
  - Average term 20.7 months (2015: 20.2 months)

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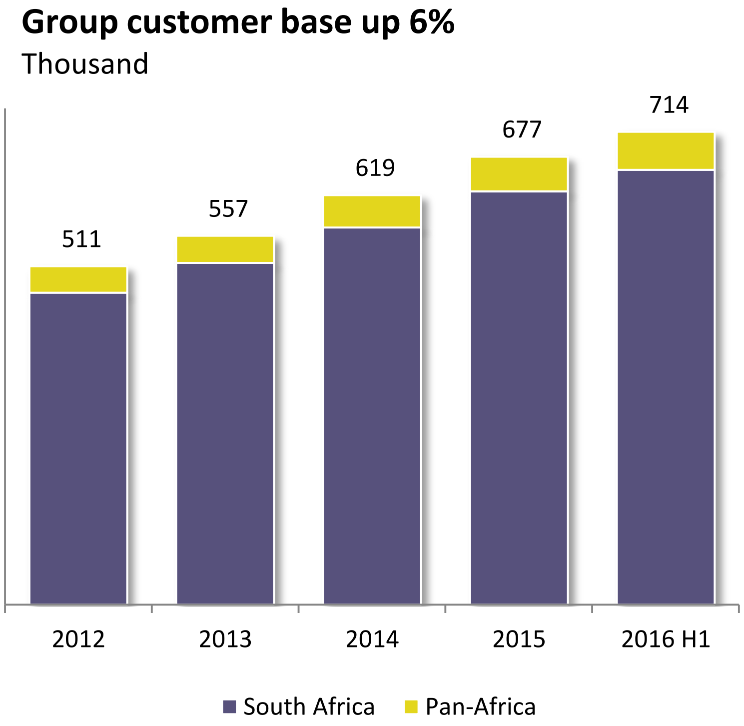
# Performance against strategic objectives

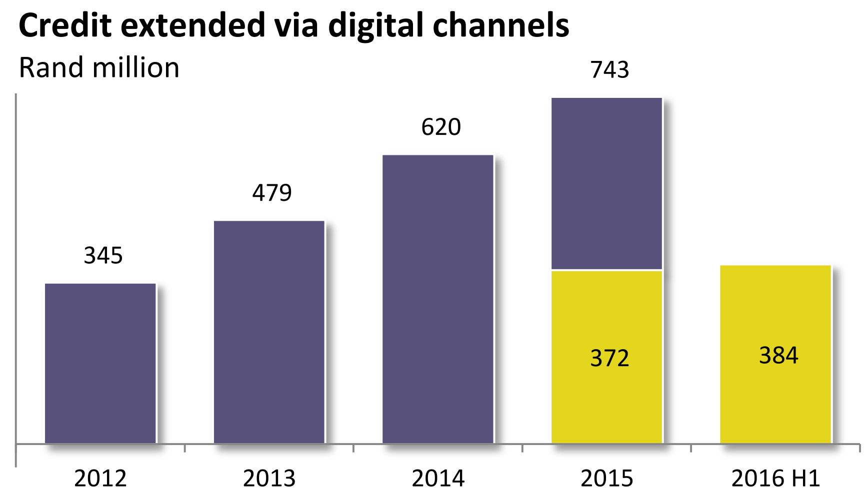
# Driving customer growth through analytics

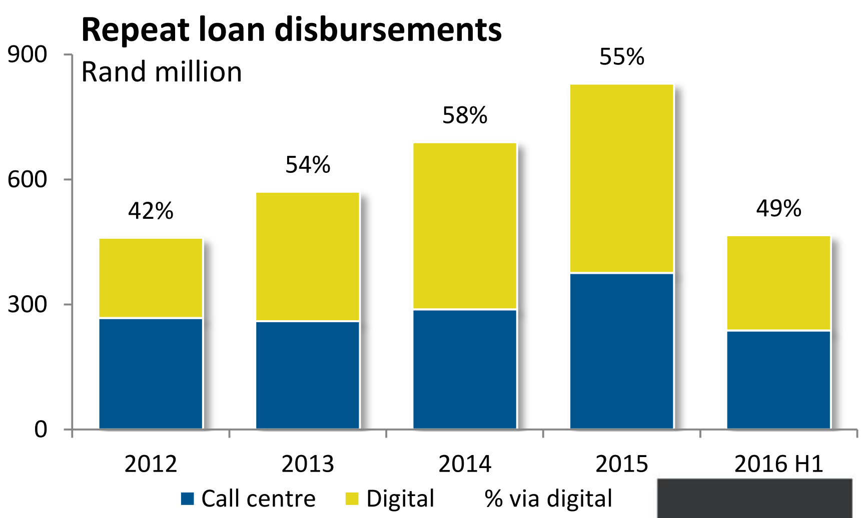
- Retail business continues to attract new customers to the group
- Retail customer base up 5% to 674 000
  - pan-African customer base up 9%
- Financial Services customer base up 2% to 135 000
  - new customer growth slowed as customers adapt to the new affordability processes



# Digital engagement

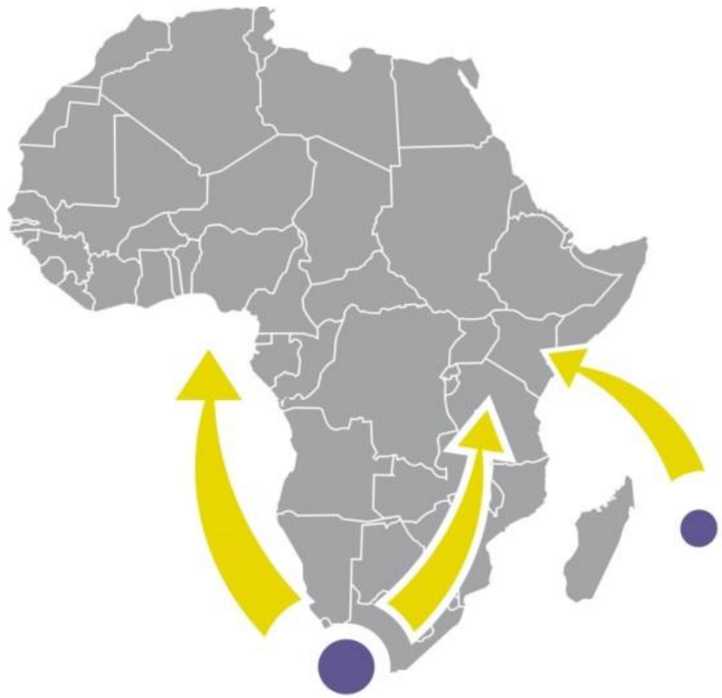
- **Retail:**
  - 11.6% of Retail sales (2015: 11.0%)
  - strong growth in mobi – up 46%
- **Financial Services**
  - good migration to smartphones with 25% of customers registered on mobi
  - 69% of repeat loans transactions through digital
  - total disbursements via digital down marginally from 40% to 39% as call centre agents assist customers through the new affordability processes



# Expanding into new markets and Africa

- Retail business focusing on existing territories
  - increased marketing activities (introduced TV)
  - Pan-African sales up 28%, represent 11.6% of total sales (2015: 10.5%)
- Strong growth from Mauritius insurance operations
- Expansion into Africa remains a growth opportunity in the medium term
  - Retail business continuing to trial Zambia
  - FinChoice Africa incorporated in Mauritius as platform for pan-African lending
  - Financial Services to commence marketing outside South Africa in 2017




# Prospects

# Prospects

- We anticipate macro-economic conditions to remain challenging
- In this environment, we will:
  - maintain strict credit policies
  - continue to focus on cash collections and cost control
  - implement strategies to mitigate impact of reduction in interest rates effective May 2016
  - continue to drive migration of customers to digital platforms

The Group's experienced management team and focused strategies for growth continue to position the business to take advantage of opportunities in both the South African and pan-African markets

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# Thank you

# Notes

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