2016 annual results presentation

HomeChoice International PLC

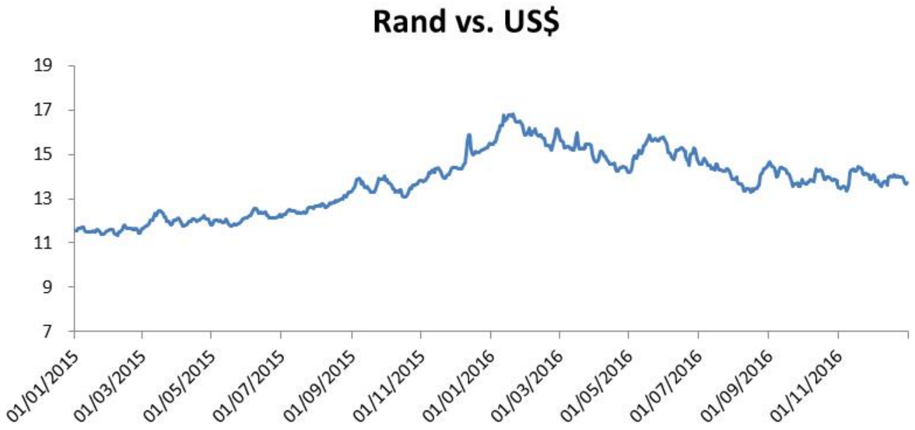
Agenda

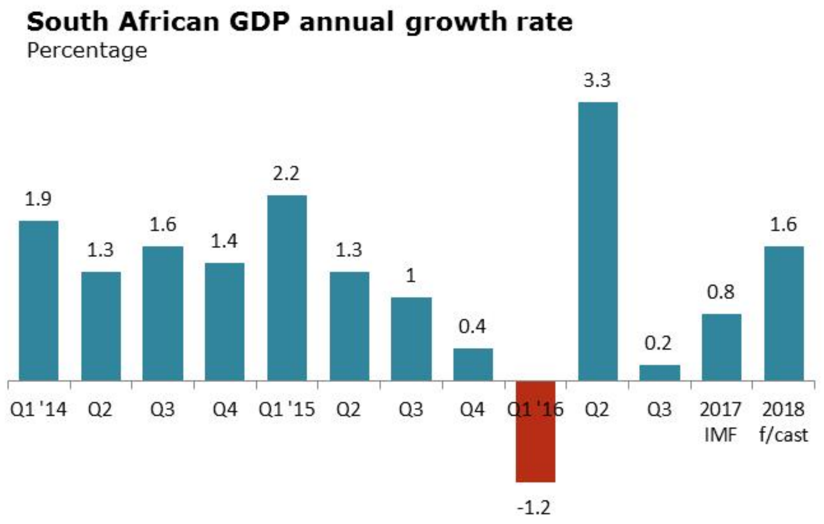
1. The environment
2. 2016 performance
    - Retail
    - Financial Services
    - Group strategic objectives
3. Outlook

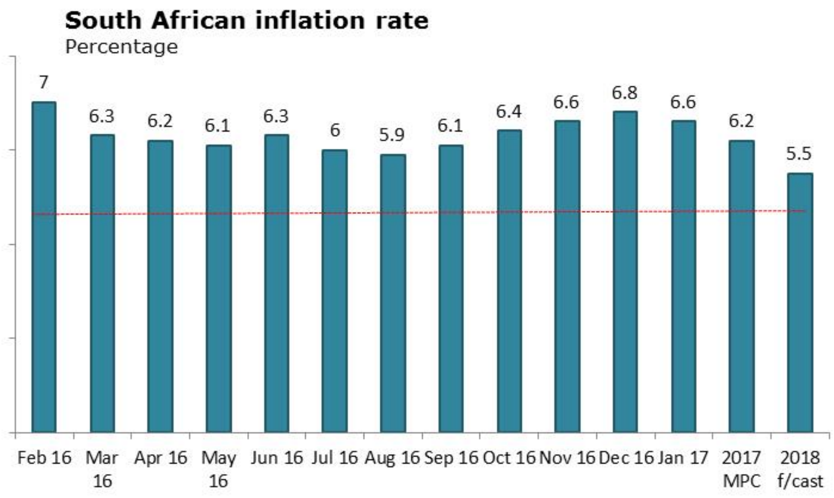
The environment

A tough macro-economic climate

- Low GDP growth
- High inflation - food in particular
- Constrained credit market
- Variable rand at the vagaries of political and credit rating uncertainties







2016 performance

Group highlights

Financial

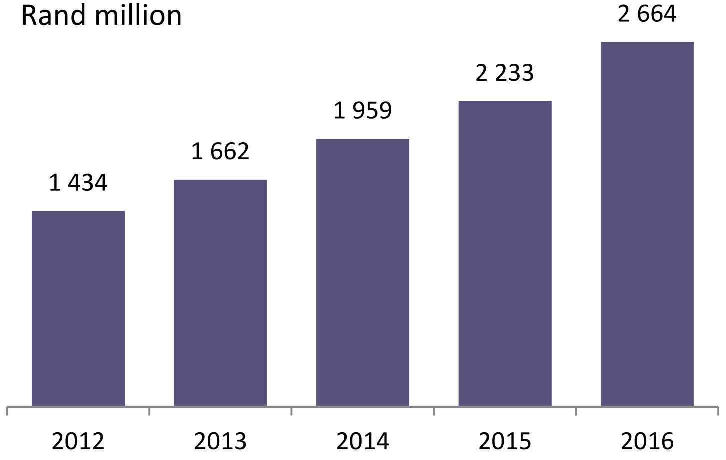
- Retail sales up 25.1% to R1.5 billion
- Loan disbursements up 10.4% to R1.3 billion
- Operating profit up 11.7% to R648 million
- Earnings per share up 6.7% to 414.8 cents

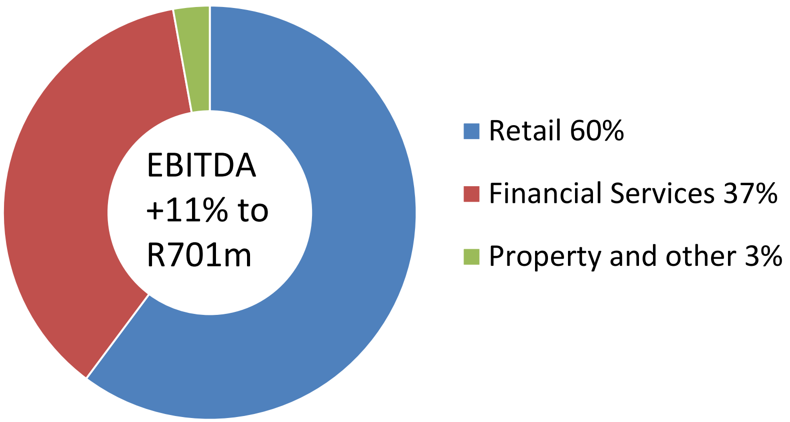
Non-financial

- Group customer base up 10% to 744 000
- 40% increase in digital Retail sales
- Pan-African sales at 10%
- Strengthened operational boards
- Improved diversity in middle and junior management and specialist roles

Revenue up 19.3% to R2.7 billion

Rand million





Regulations impacting interest and other income

Jan	March	April	May
Freemium in Retail	Retail service fees inc: R19 to R29 Scaling Funeral insurance	Retail revolving credit facility launched: interest rate drop from 33% to 21%	Prescribed interest rates drop : 5% Credit life sold on all short-term loans

- NCR amendments required significant changes to business systems and processes across all channels - higher compliance costs
- Consumers however benefiting from reduction in maximum prescribed interest rates from May 2016 and introduction of Retail revolving credit facility
- Developed insurance business

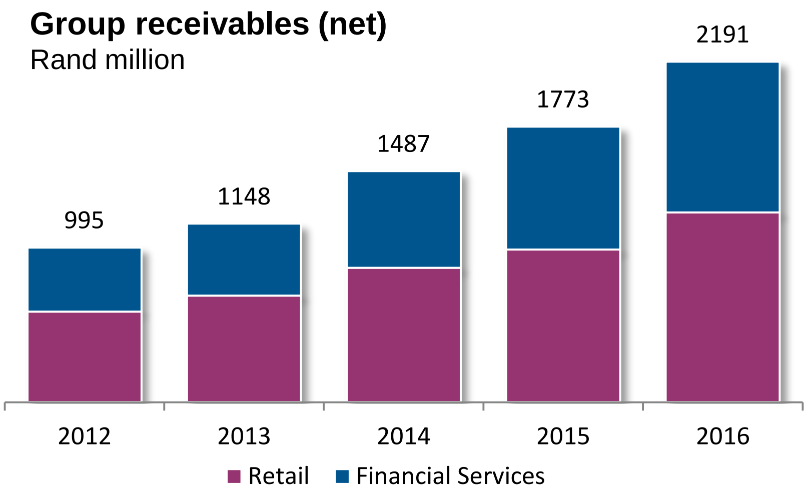
Good results in a tough consumer environment

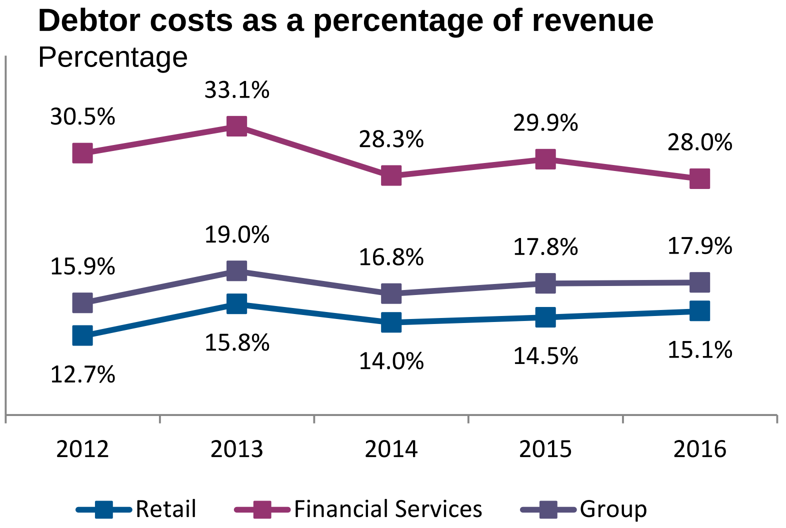
- Both businesses performed well
  - Retail revenue up 19%
  - Financial Services up 22%
- Gross profit margin impacted by increased contribution from external brands
- Trading costs well managed
- EBITDA growth of 11% impacted by lower finance charges due to NCR interest rate reduction and introduction of Retail credit facility
- NPAT up 8% - annualisation of interest paid on property borrowings

	2016 R'000	**% change**	**2015 R'000**
Revenue	2 664	19.3%	2 233
Retail sales	1 498	25.1%	1 197
Finance charges and initiation fees	941	5.2%	894
Fees from ancillary services	226	59.1%	142
Gross profit margin	49.3%		50.7%
Trading expenses	(1 268)	19.1%	(1 064)
Debtor costs	(478)	20.3%	(397)
Other trading expenses	(790)	18.4%	(667)
EBITDA	701	11.0%	632
Operating profit	648	11.7%	580
NPAT	425	7.7%	395
Headline earnings per share (cents)	414.6	6.6%	389.1
Return on equity (%)	22.5%		23.7%

Stable credit performance

- Debtor costs up 20% compared to revenue growth of 19%
- Retail debtor costs up 24% impacted by
  - higher levels of customer acquisition (good demand from new TV acquisition channel but initially at higher risk than planned)
  - worse late-stage collections by outsourced external debt collectors
- Financial Services debtor costs up 14%
  - benefits from higher proportion of repeat loans
  - reduced provision on debt review book





Conservative provisions being maintained

	2016	% change	2015
Retail: gross receivables	R1 507 m	24.7%	R1 209 m
Provision as % of receivables	18.9%		18.7%
Non performing loans (120+ days)	8.7%		9.5%
NPL times cover	2.2		2.0
Financial Services: gross receivables	R1 147 m	21.1%	R948 m
Provision as % of receivables	15.5%		16.6%
Non performing loans (120+ days)	4.7%		4.6%
NPL times cover	3.3		3.6

- Retail credit policy tightened in response to tough environment
  - introduced additional credit bureau to improve scoring
  - implemented new acquisition scorecards and redeveloping behavior scorecards
  - fraud processes optimised with revision to fraud models and linkage with operations
- New collections strategy adopted for early stage and external debt collections
- Investment in senior expertise in both credit risk and credit operations

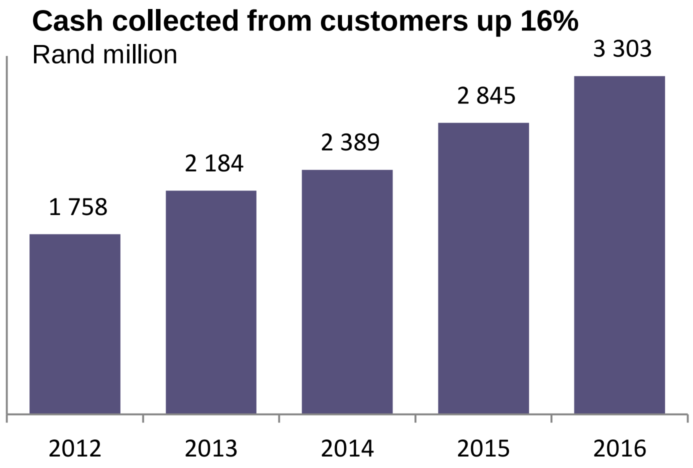
Trading expenses well managed

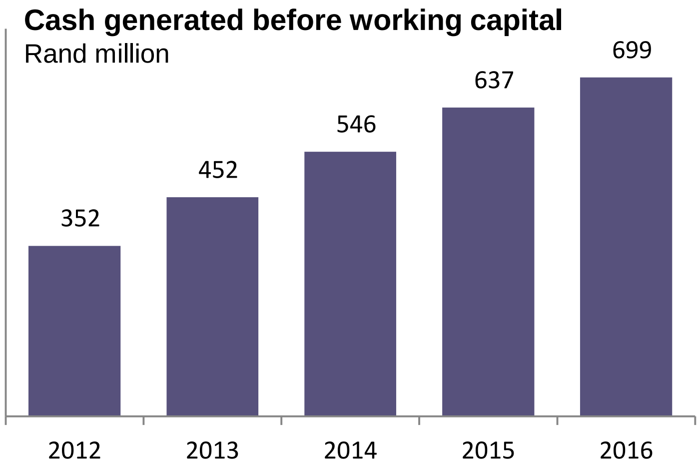
	2016 R'000	2015 R'000	% change	2016 % of revenue	2015 % of revenue
Marketing costs	188.9	180.9	4.4%	7.1%	8.1%
Staff costs	332.0	264.1	25.7%	12.5%	11.8%
Amortisation and depreciation	54.9	52.9	3.7%	2.1%	2.4%
Other	213.9	169.0	26.6%	8.0%	7.6%
Other trading expenses	789.7	666.9	18.4%	29.6%	29.9%

- Strong focus on cost management has kept expenditure growth below revenue growth
- Marketing costs continue to improve as a percentage of revenue
- Staff costs impacted by investment in IT and credit operations
- Amortisation and depreciation normalised after high capital expenditure in prior years
- Other costs impacted by increased regulatory costs and investment in pan-African expansion and insurance business

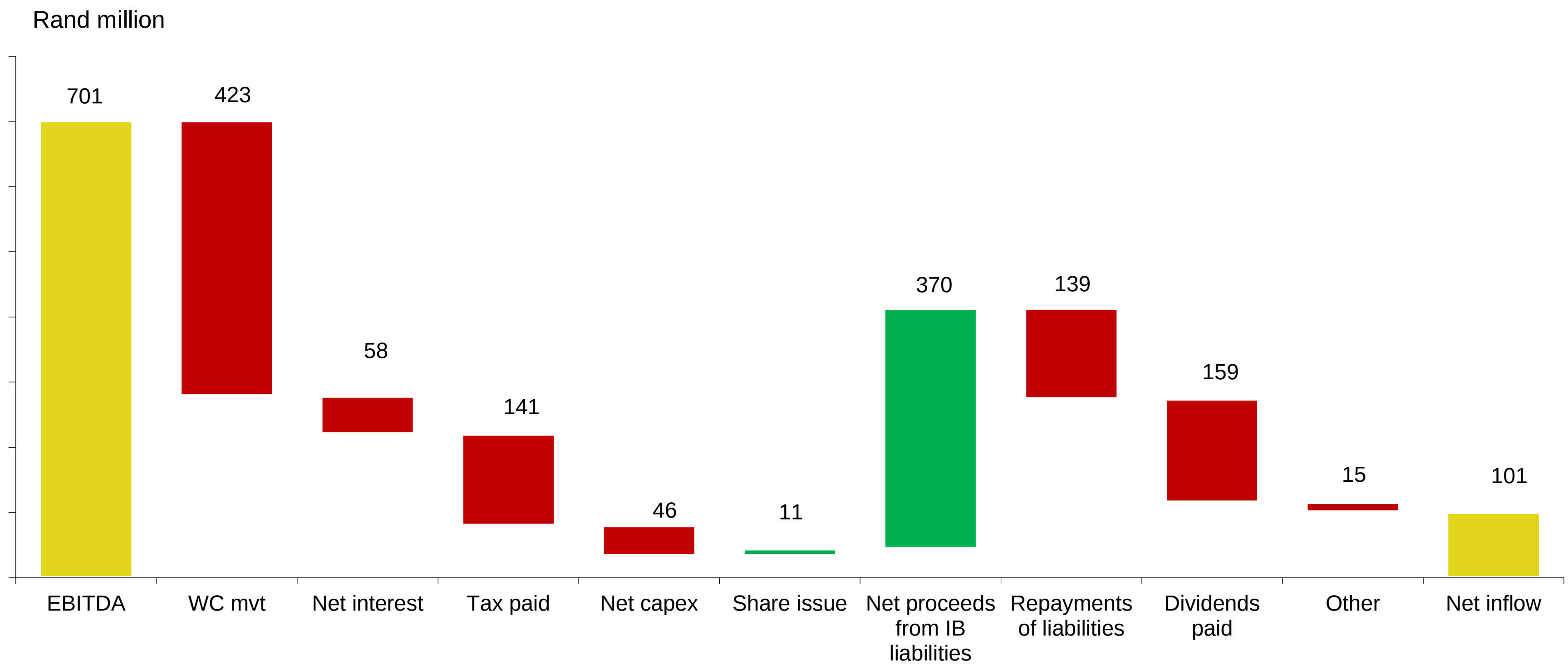
Cash management a key focus

- Operating cash flows before working capital up 9.7% to R699 million
- Cash generated from operations down 22.7% to R277 million due to high working capital absorption:
  - strong Retail sales and loan disbursement growth in Q4
  - increase in proportion of 24mths terms sales (appliances, laptops and super-luxury bedding sets)
  - stock investment for 2017 trading, particularly in bedding
  - Financial Services extended average term from 14.9 months to 15.7 months





Analysis of group cashflows



- Capital expenditure focused on technology systems – more normalised levels following infrastructure investments over last 5 years
- Group secured R350m term-loan funding – fully drawn down in 2016
- R100m JSE listed bond was repaid

Statement of financial position

	2016 R'000	% change	2015 R'000
Non-current assets	578	2.6%	563
Net cash and cash equivalents	187	> 100%	87
Trade and other receivables	2 215	23.9%	1 787
Inventory	214	25.4%	170
Other assets	5	(28.6%)	7
Total assets	**3 199**	**22.4%**	**2 614**
Equity	2 030	15.9%	1 751
Interest bearing liabilities	771	41.1%	546
Other liabilities	398	25.6%	317
Total equity and liabilities	**3 199**	**22.4%**	**2 614**

- Strong growth in trade and loans receivable – particularly Q4
- Investment in inventory for Q1 2017 sales
- Shareholder loan of R160 million to be repaid in 2017

Capital management

Gearing

- Net debt to equity increased from 26.2% to 28.7% and remains comfortably below Board's upper limit of 40%

Return to shareholders

- Headline earnings up 7.5% to R425 million
- Return on equity impacted by higher interest expenditure - reduced from 23.7% to 22.5%

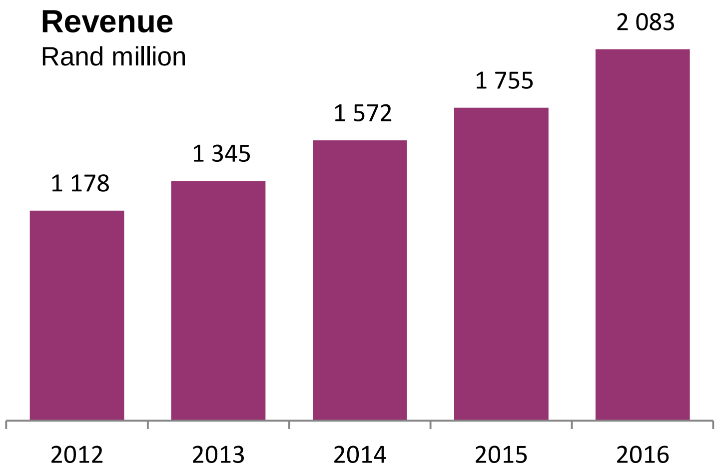
Financial position

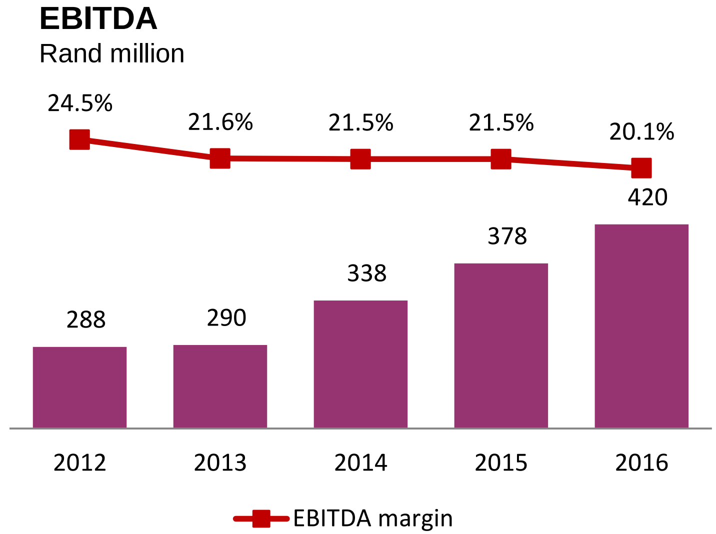
- Remains strong with net asset value per share up 14.8% to R19.73

Retail

Retail financial performance

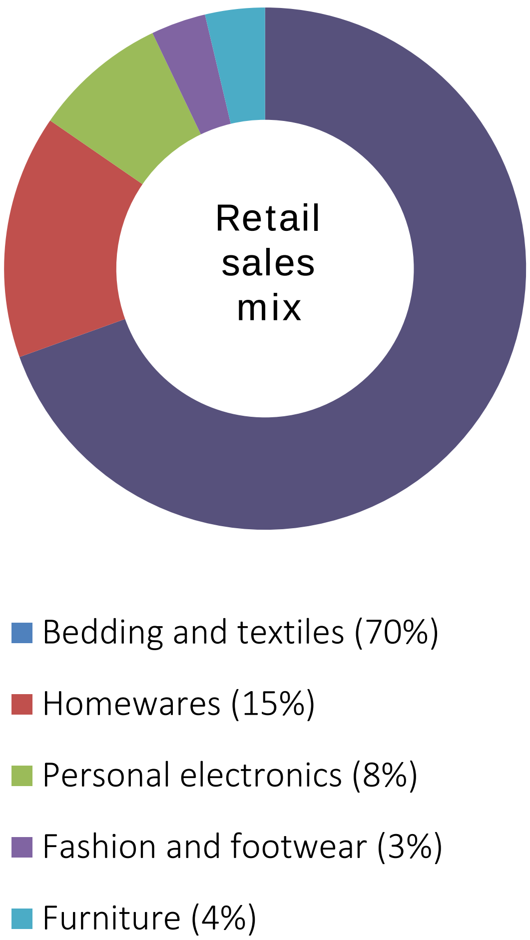
- Revenue up 18.7% to R2.1 billion
  - strong response to product innovation, marketing campaigns and credit offer
  - repositioned Retail business model - no growth in finance charges and initiation fees due to reduction in interest caps and introduction of revolving credit
- Debtor costs up 24% due to higher proportion of customer acquisition and worse late-stage collections
- Strong trading performance and focus on operating costs reflected in EBITDA up 11.3% to R420 million
- Operating profit up 13.2% to R371 million reflecting more normalised depreciation and amortisation charge





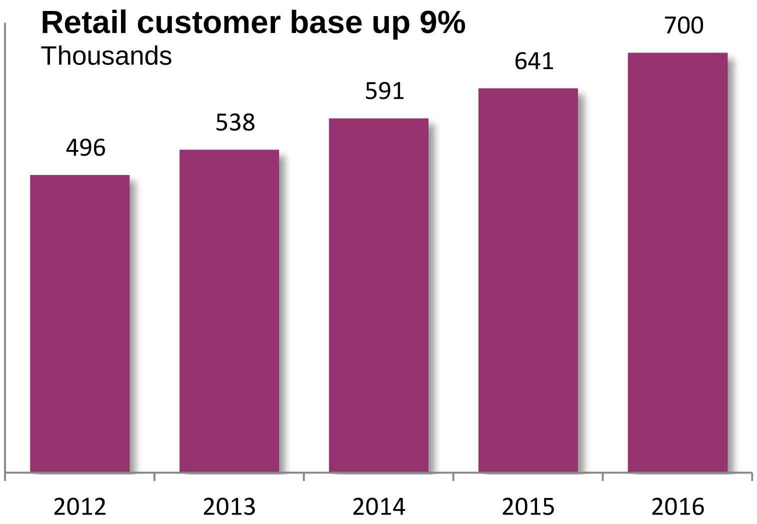
Innovation and new credit facility driving sales

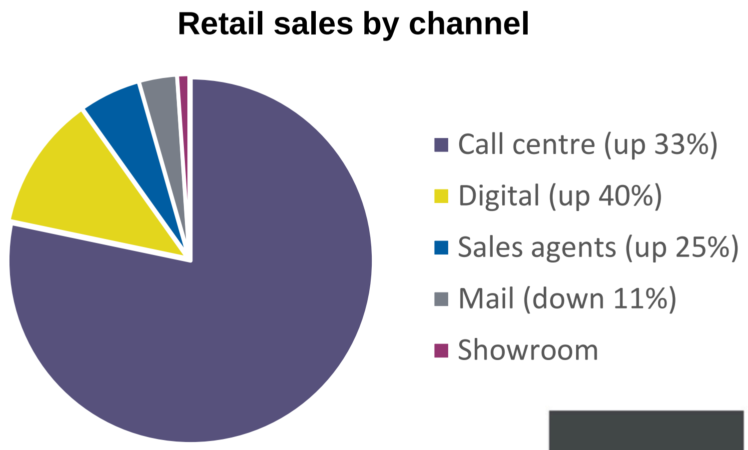
- Retail sales up 25.1% to R1.5 billion
  - innovation driving strong growth in heritage bedding and textile ranges
  - introduced branded home appliances and electronics
  - arrested decline in hard goods category
  - grew fashion and footwear business
  - strategic decision to pass on lower interest rate to customer – gaining market share
- Gross profit margin reduced by 140bps
  - branded goods have lower margins - partially offset by enhanced supply chain efficiencies
  - currency volatility managed through modest price increases and product reconfiguration



Retail performance

- Efficient growth of customer base - cost of acquiring customers down 14% to R453
- Digital fastest growing channel at 40% - now 12% of business
  - investment in web and mobi platforms to optimise conversion
  - rapid adoption of USSD (introduced in September) which will aid digital migration
- Call centre growth driven by new working environment and investment in people
  - average sales per agent up 14%
  - reduced attrition to 42% (2015: 55%)
- Renewed focus on sales agent advisor team driven 25% growth
- Showroom concept proven and roll out planned for 2017

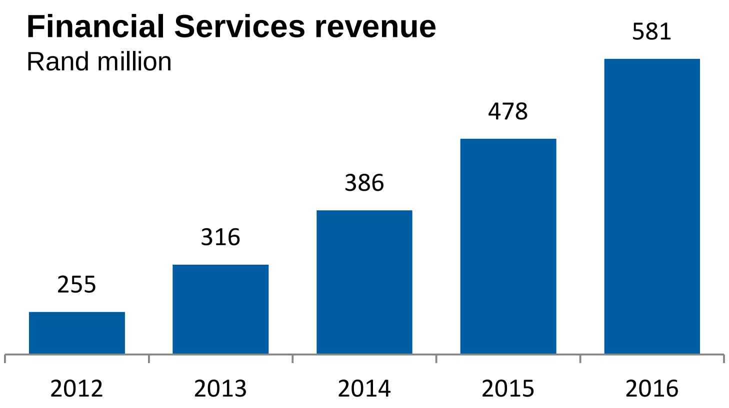


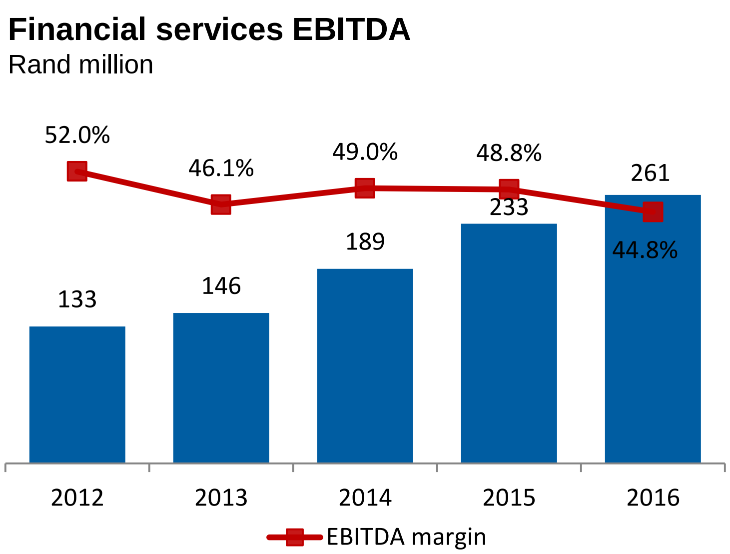


Financial services

Financial Services financial performance

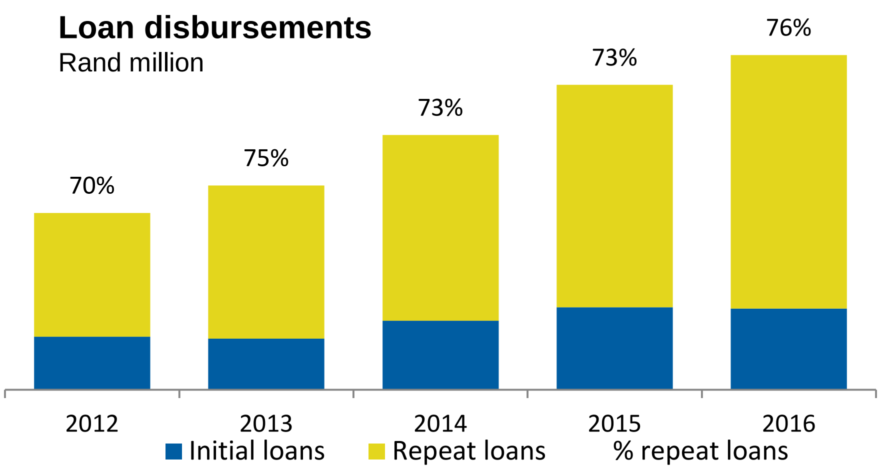
- Loan disbursements up 10.4% to R1.3 billion
  - impacted by regulation - lower acceptance rates from new affordability process
  - significant effort to stream-line processes and educate customers – disbursements up 13.1% in H2
- Revenue up 21.6% to R581 million
  - finance charges lower with reduction in NCR interest rates
  - introduced credit life on short-term loans and new personal funeral product
- Stable credit performance - debtor costs as percentage of revenue down from 29.9% to 28.0%
- Higher operational costs impacted by compliance costs for regulations
- EBITDA up 11.7% to R261m

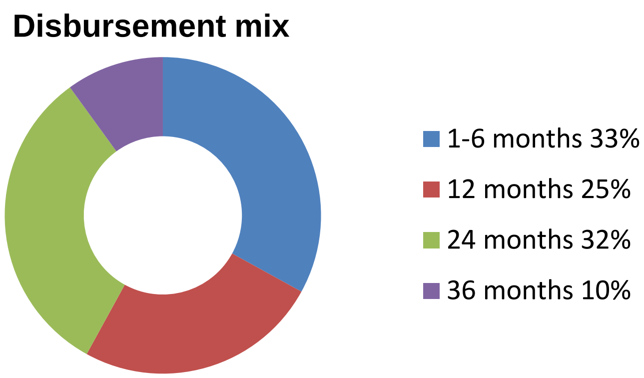




Financial Services performance

- Piloted two new customer acquisition channels
  - full end-to-end mobi loan application outside of call centre (scaled in Feb 2017)
  - opened first retail presence in showroom – customers engage with consultants or via digital self-service kiosk
- Continued focus on low value, short-term loans
  - average balance R9 972 (2015: R8 792)
  - average term 20.8 months (2015: 20.2 months)





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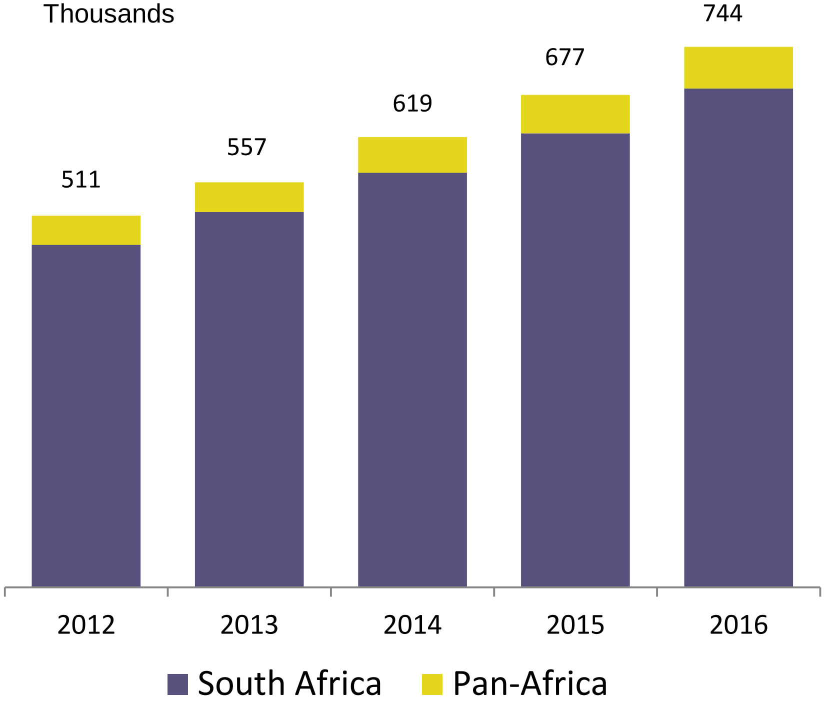
Group strategic objectives

Driving customer growth through analytics

- Retail business continues to attract new customers to the group
  - effective acquisition campaigns driving 18% growth in new customers
  - 17 000 new foreign names (14% growth on LY)
  - customer base up 9% to 700 000 impacted by affordability drop off
- Financial Services new customer growth impacted by affordability processes
  - recovery driven in H2 through process optimisation and increased contact strategy
  - acquired 35 000 new customers (down 12%)
  - customer base up 6.5% to 142 000

Group customer base up 10% to 744 000
Thousands



Digital engagement

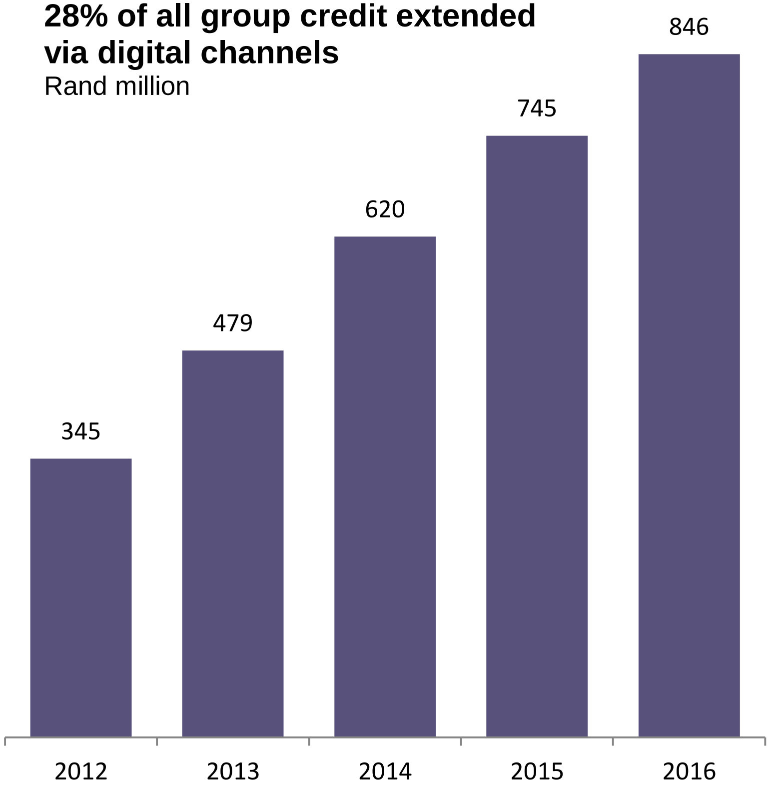
Retail:

- Digital sales increased by 40.3% and now 12% of Retail sales (2015: 11%)
- Mobi her preferred shopping channel (56%)

Financial Services

- Good migration to smartphones with 35% of customers registered on mobi (up from 15%)
- 64% of all loan transactions through digital
- Further Mobi service features launched
    - self-service settlement quotes has shifted 25% of requests online

28% of all group credit extended via digital channels
Rand million



Expand into new markets and Africa

- Pan-African expansion remains a strong growth opportunity in the medium term
- Retail business currently focusing on existing foreign territories (10% of all sales)
- 17 000 new foreign customers acquired (up 14%)
- Increased marketing activities (introduced TV)
- FinChoice Africa incorporated in Mauritius as platform for pan-African lending
    - successfully piloted loans to South African customers
    - planning to enter Botswana and Namibia in 2017
- Strong growth from Mauritius insurance operations

Outlook

Outlook

- Trading environment expected to remain difficult and the unsecured credit market constrained
- In this environment, we will continue to focus on driving growth through:
  - strong product innovation to attract and retain customers
  - maintain strict credit policies and focus on cash collections
  - expand our digital capabilities and drive customer engagement on her mobile phone
  - develop other financial revenue streams including our insurance business
  - roll-out our new showroom concept

HomeChoice International PLC

Thank you

Annexures

Notes

Notes

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