

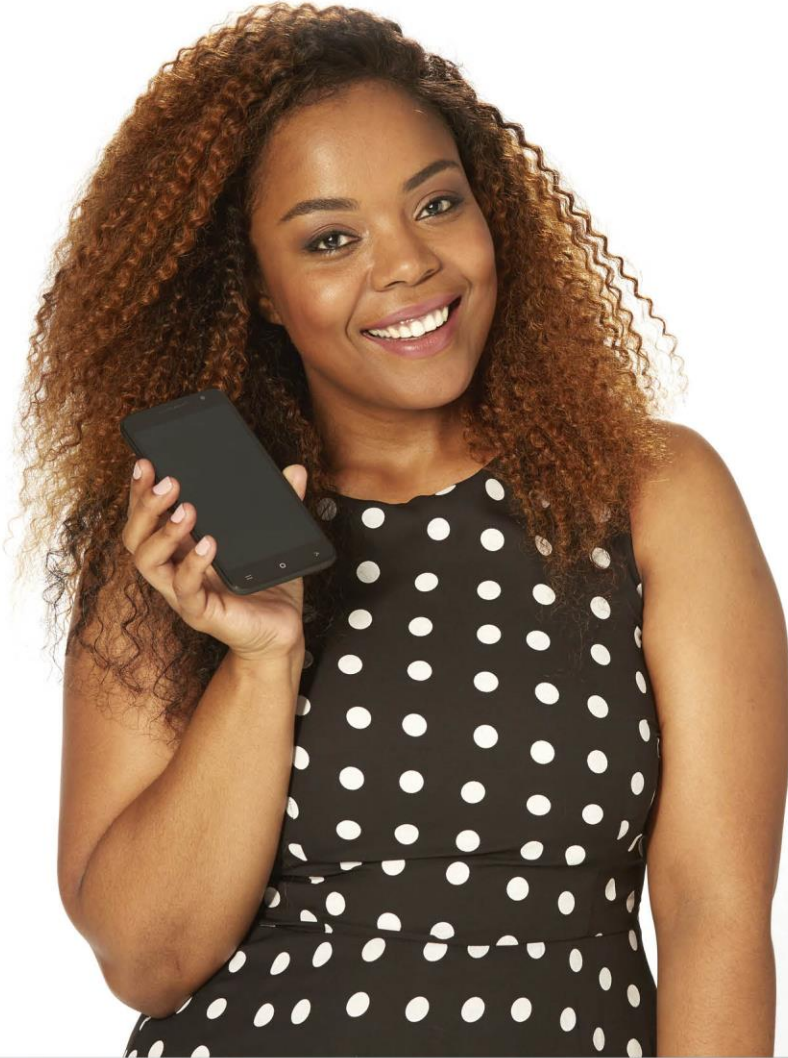


**HiL** PLC  
HomeChoice International PLC



Annual results  
2017

# Agenda



- 1 Who we are
- 2 Our strategy
- 3 2017 performance
- 4 Retail
- 5 Financial Services
- 6 Conclusion

We are a leading provider of innovative **Retail** and **Financial Services** products to a loyal and growing female customer base in southern Africa

# Profitable growth through two divisions

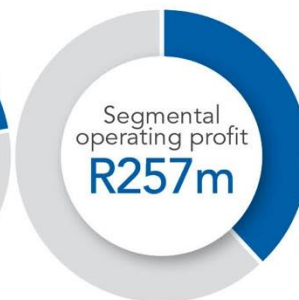
## HomeChoice (Retail)

- An omni-channel retailer in southern Africa offering her convenience and own delivery network
- Providing innovative own brand textiles, homewares, personal electronics, apparel
- Expanding our offer to include branded goods
- Credit facility a powerful enabler of sales



## FinChoice (Financial Services)

- A fintech business selling innovative loans, insurance and value-added financial services
- Serves the HomeChoice customer base of good credit standing
- Developing markets in Botswana and Namibia





# A business of scale ...

Number of customers  
**796 244**

Revenue  
**R3 billion**

Digital credit extended  
**R1.2 billion**

Documents processed  
**906 712**

Number of web and  
mobi visits  
**11 million**

Number of deliveries  
**949 346**

Number of  
products (SKUs)  
**15 281**

Number of orders  
(Retail transactions)  
**1.3 million**

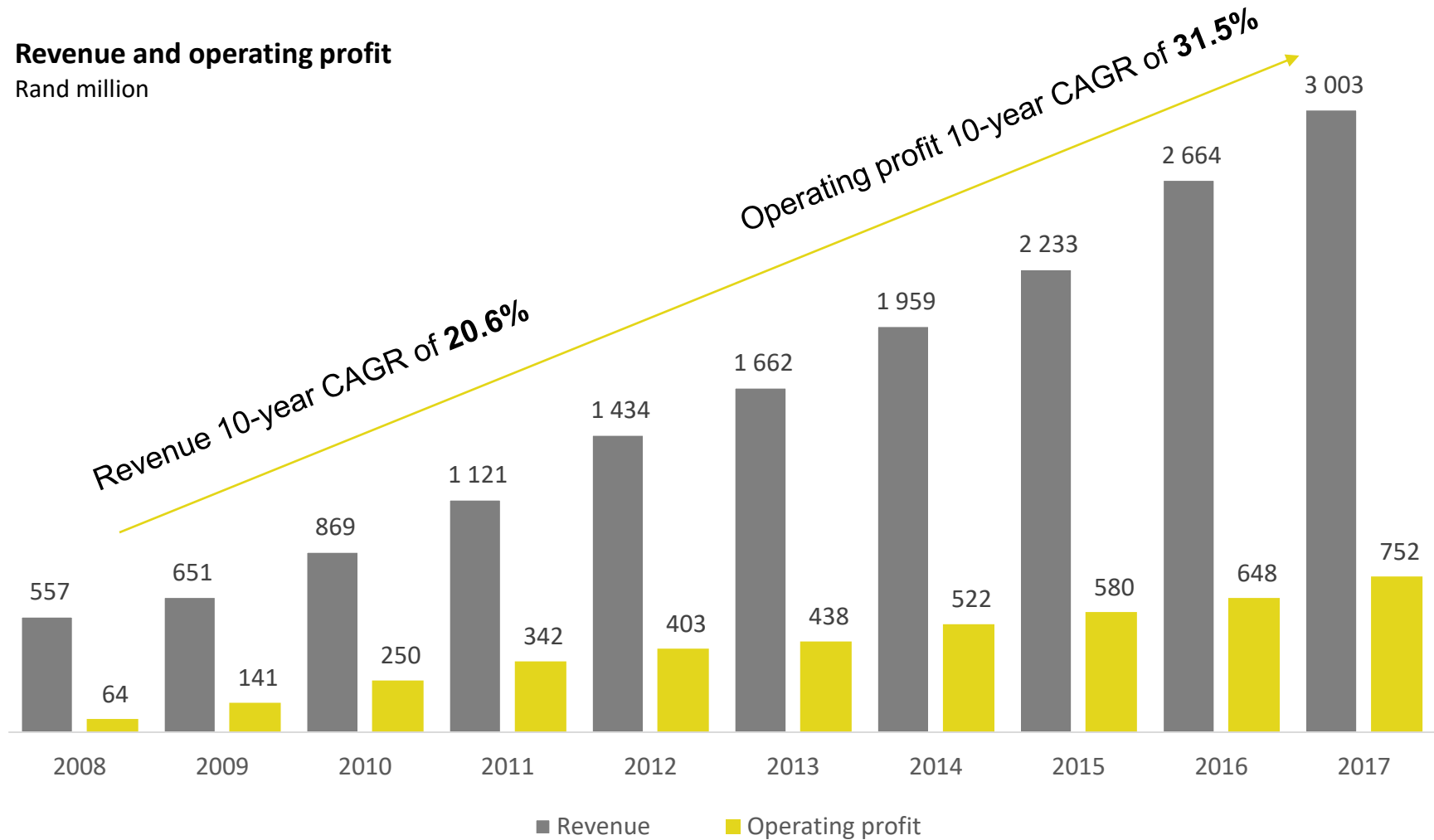
Number of loans  
**513 469**



... with a track record of consistently strong growth

### Revenue and operating profit

Rand million



# A deep understanding of our customer

- An African woman, a daughter or granddaughter of customers before
- 40 years old with 2 children
- Knows us for quality, value and affordability
- Earns R10 000 gross monthly, spends it carefully (74% of customers have an additional source of income)
- Recent homeowner, beneficiary of government electrification, sanitation and RDP programmes
- 78% of our customers live in urban areas and 8% are outside of SA
- Is tech savvy – 80% use their mobile phones to access our mobi platforms
- Socialises digitally – our Facebook community posts 400 messages daily



**142 000** shoppers on the day



**685 000** Facebook community



**15 500** customers engage on Instagram

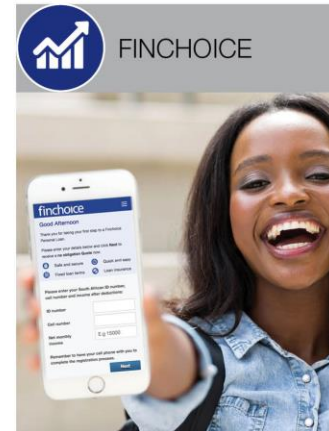
# She engages with us through her channel of choice



# She buys aspirational retail and financial products suited to her lifestyle



**INNOVATIVE  
PRODUCT  
AND CREDIT  
OFFERS**





# Complete interior decorated offer – a key differentiator



**Room 1: Kundi embroidered**

*Signature*  
COLLECTION

**NEW**



**Room 2: Kundi ruched**

Your 27-piece **super luxury set** includes:

<b>Room 1: Kundi embroidered</b>		<b>Room 2: Kundi ruched</b>	
			
<b>FREE</b> Duvet cover or comforter with 2 standard pillowcases	4-piece lined curtain set (voile optional extra)	<b>ADDED VALUE</b> Duvet cover or comforter with 2 standard pillowcases	4-piece lined curtain set (voile optional extra)
<b>ADDED VALUE</b> 2 quilted continental pillowcases	<b>FREE</b> EasyBed fitted sheet/night frill	<b>ADDED VALUE</b> 2 continental pillowcases	<b>FREE</b> EasyBed fitted sheet/night frill
+			
			
4-piece short curtain set	2 embroidered towels	Reversible 3-ply 4kg mink blanket	

**KUNDI**

- Microfibre polyester
- 2 rooms

**Room 2: Kundi ruched**



3-piece comfy flat sheet set

**LUXURIOUS DETAILS**

  
Ruching

  
Embroidery

  
Sequins

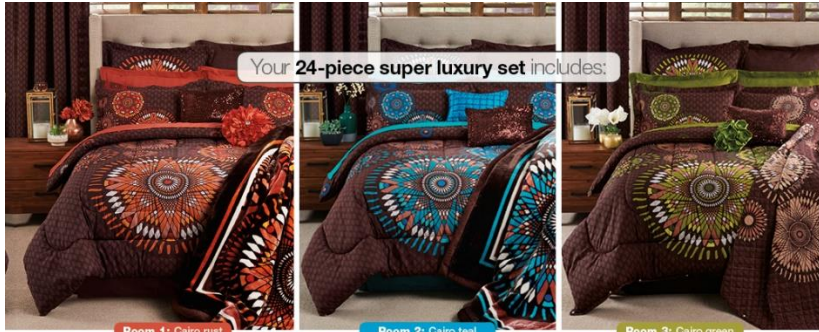
See instantly if your favourite product is in stock at [homechoice.co.za](http://homechoice.co.za)



64 April 2018 ✓ Easy credit terms ✓ 14 days' worry-free returns ✓ No deposit



# Strong product innovation recognising her needs



Your 24-piece super luxury set includes:

Room 1: Cairo rust

Room 2: Cairo teal

Room 3: Cairo green



Reversible duvet cover or comforter with 2 standard pillowcases



Reversible duvet cover or comforter with 2 standard pillowcases



FREE

Reversible duvet cover or comforter with 2 standard pillowcases



2 reversible continental pillowcases



EasyBed fitted sheet/night trill



2 reversible continental pillowcases



EasyBed fitted sheet/night trill



2 reversible continental pillowcases



EasyBed fitted sheet/night trill



4-piece reversible curtain set (voile optional extra)



Reversible 3-ply 4kg mink blanket



FREE

Clip-on quilt natural



NEW

Clip-on quilt natural



**NEW INNOVATION**

Get extra warmth on cooler nights when you clip your additional quilt onto the green duvet cover or comforter in super luxury sets.

**XL**

These sets are large or heavy. Bring a friend along when you pick it up from the post office.

**AmberSOUL**  
COLLECTION

Our exclusive brand AmberSoul is our aspirational African roots collection reflecting the trend towards warmer, brighter colours and geometric patterns. AmberSoul embodies our commitment to bringing you the best in quality, the best in design and the very best in style. At the heart of AmberSoul is you.

14 April 2018 ✓ Easy credit terms ✓ 14 days' worry-free returns ✓ No deposit

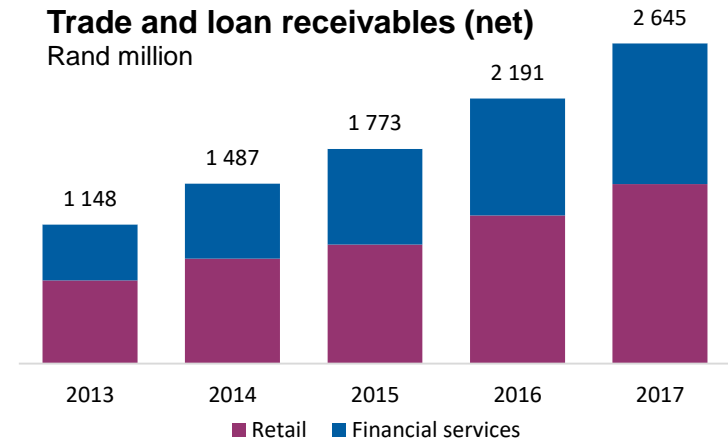
# We bring brands to the mass market through affordable credit



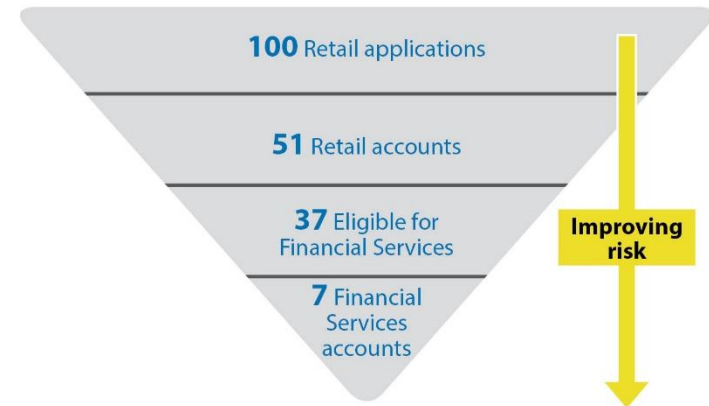
She loves our own-brand, we have added 60 new brands

# Credit: a powerful enabler and contributor to growth

- Deep knowledge and experience of managing credit in female mass market over 34 years
- Retail drives acquisition for the group (92% of customers utilise credit)
  - Lower risk segment – female, house proud, repeat retail customer on credit
  - Merchandise margin enhancing risk appetite
  - Conservative risk profile
- New customers offered low-value, short-term credit – stepped up on performance
- Risk profile intrinsic to customer segmentation
- Financial Services leverages risk, data and response models to make loan offers
  - Retail filter significantly reduces loans risk and drives better profit margins



## Risk-filtering process

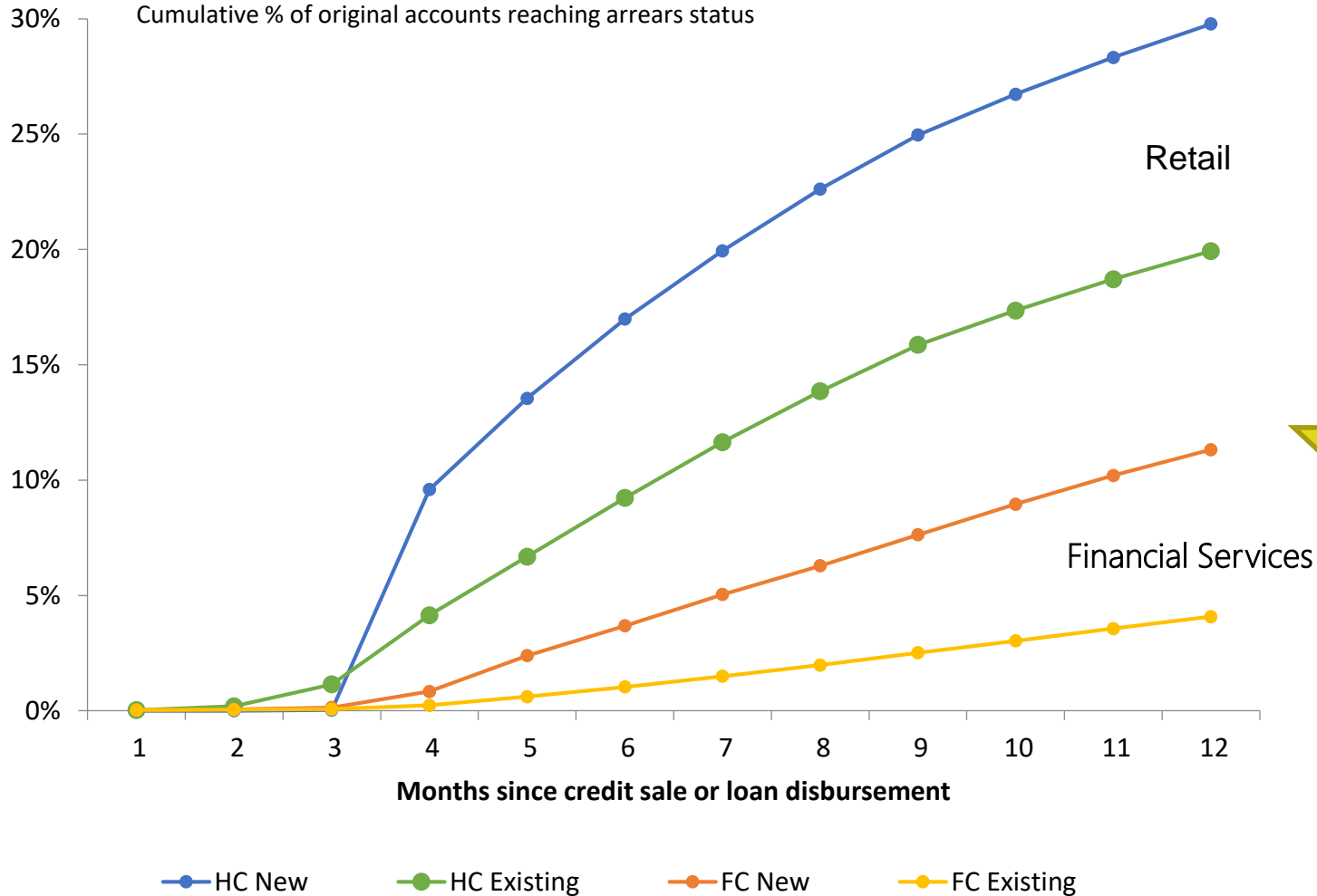




# Benefits of retail risk filter

## Vintage graphs: 5-year average (120+ days in arrears)

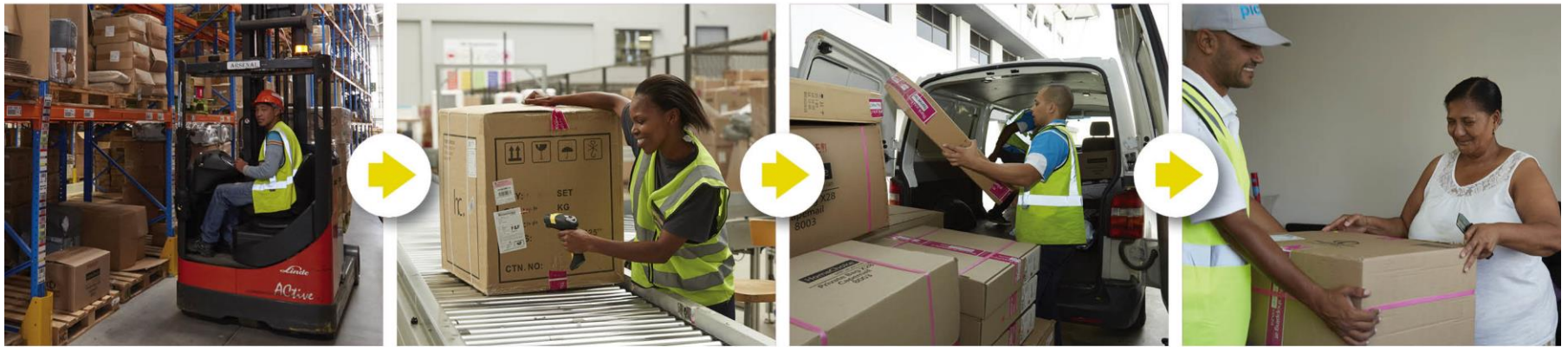
Cumulative % of original accounts reaching arrears status



# Delivery infrastructure unique in mass market

**2** e-commerce enabled, single pick  
(1 item) warehouses

Last mile delivery through our own **64**  
independent micro enterprises



**949 346** deliveries in 2017  
Deliver door to door, or through SA Post Office  
Courier partners provide further support



# Our strategy

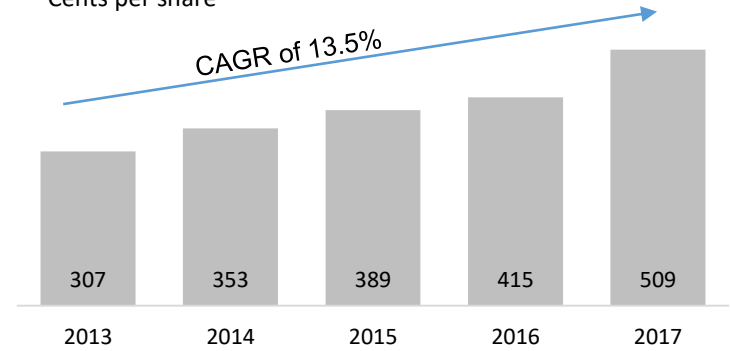


# A proven strategy delivering consistent growth and returns



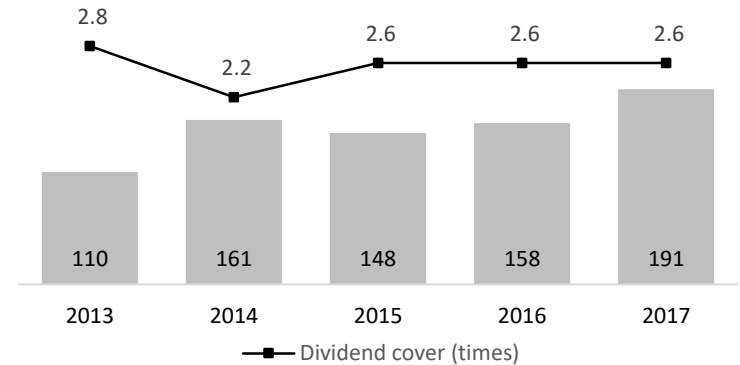
## Headline earnings per share

Cents per share



## Dividends per share

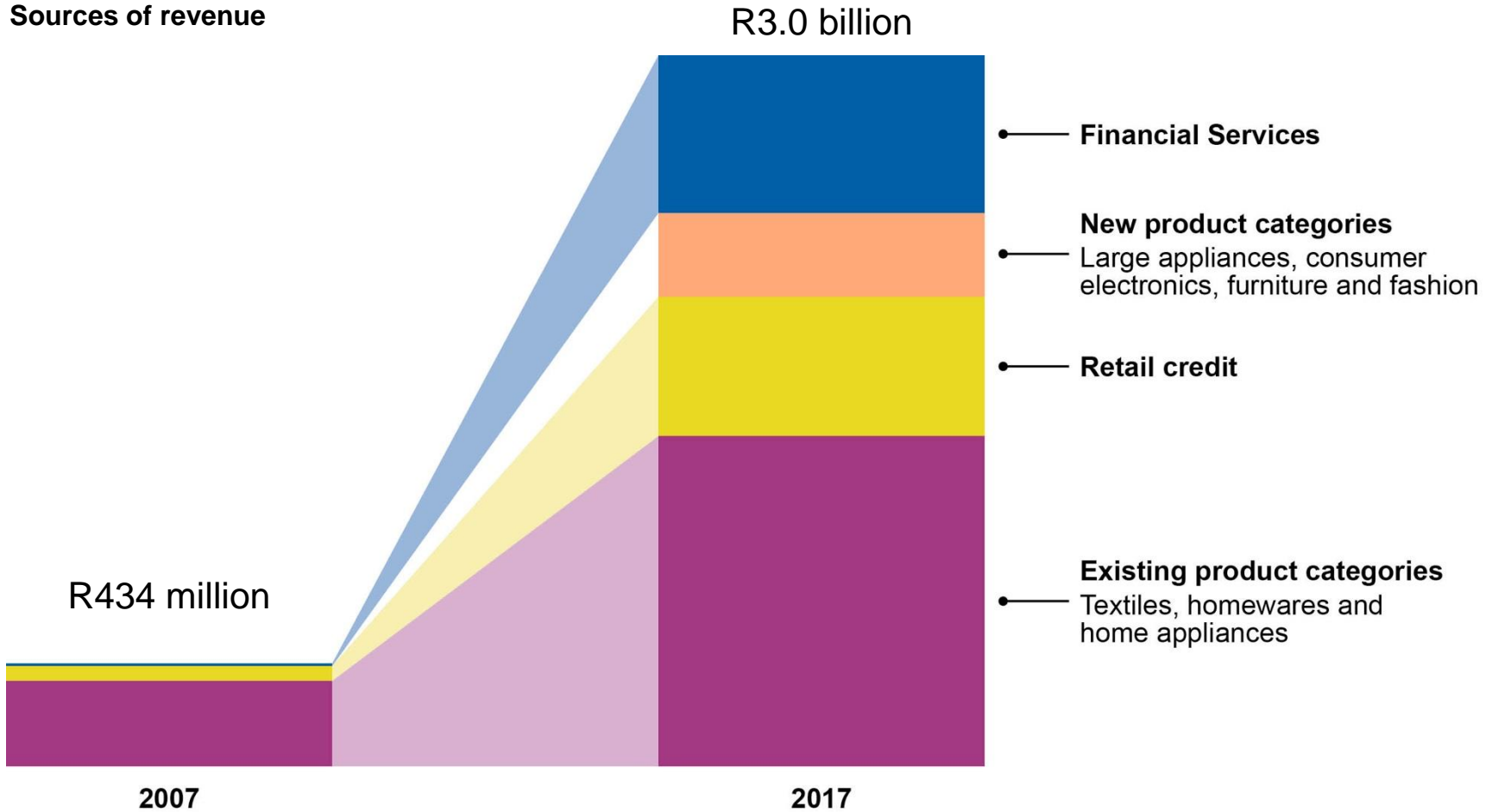
Cents per share





# A rapidly diversifying Retail business and growing Financial Services offering

## Sources of revenue



# Diversifying to capture further opportunities

2018 and beyond

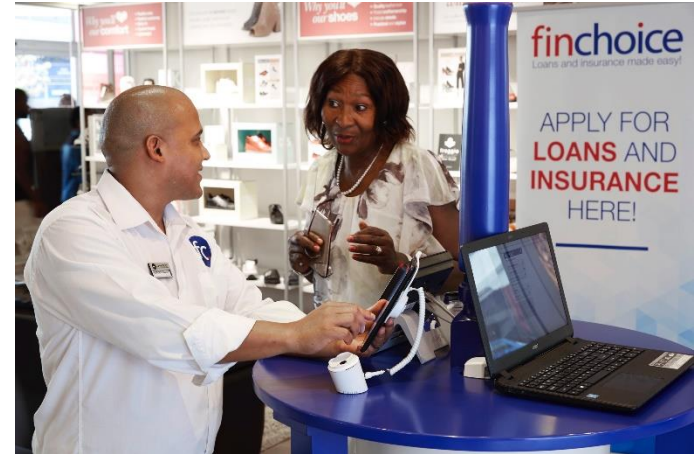


New products

New channels

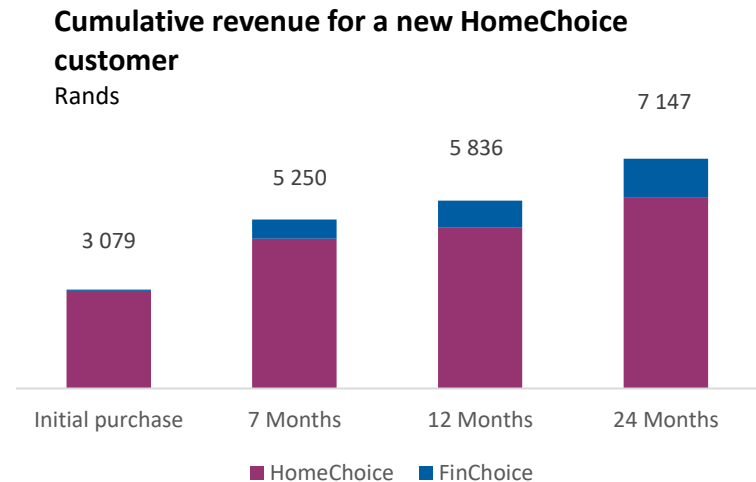
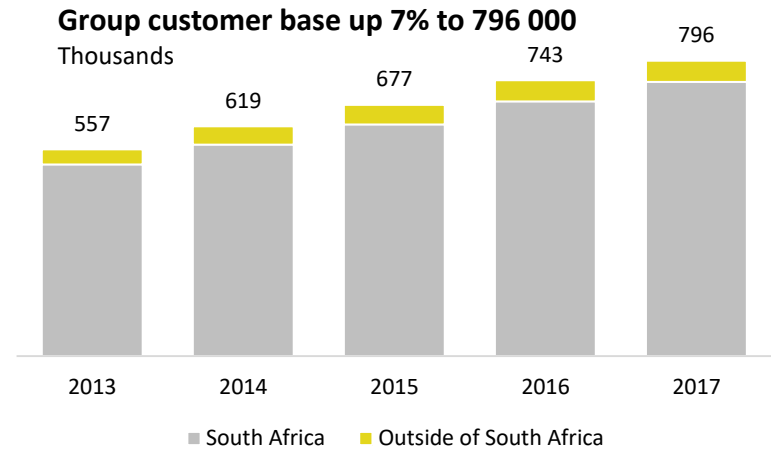
New geographies

- Expansion of retail product offering
  - Introduction of brands across every category, we anticipate introducing further 140 brands
  - Introduce further private label brands
- Expand our reach through 30 showrooms and micro hubs
  - Offering ability to “see and feel” product
  - Distributed click and collect
- Expand FinChoice product offering
  - Introduce further female-oriented insurance
  - Introduce companion card linked to MobiMoney™ account to enable mobi-wallet functionality
  - Launch further value-added services and products
- Further expand FinChoice offering outside of South Africa



# Driving business growth through rich data and strong analytical skills

- 34 years of data and analytics experience
  - Rich customer data including behavioural, attitudinal and transactional information
- Retail a powerful driver of customer acquisition for the group
- Data insights inform better decisions
  - Lending through credit scorecards
  - New customers selected using risk and response models
  - Data utilised to inform merchandise range, stock management, marketing resources
  - Customer offers and content is targeted for highest impact
- We leverage our customer base and insights to increase the lifetime value of customers



# Customer experience is our “brand”

We aim to drive a personalised, easy and consistent experience across all our channels, supported by skilled staff

- Thumb-stopping good content
- Speed and ease of engagement key
- Exceptional value and quality delivered consistently
- Customer journeys mapped and refined
- Agents use information to deliver personalised and relevant conversations
- Aim to have real-time insights to predict her experience and digital solutions to automate relevant responses



## Relevant, competitive offers

## Quick 3-step order in digital



# Our transformation journey to a digital player



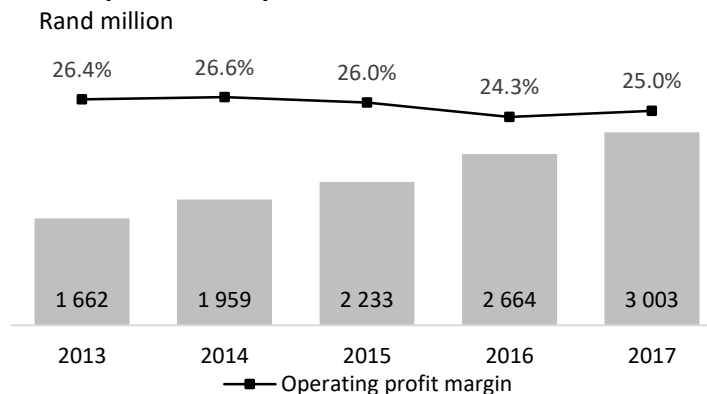
# 2017 performance



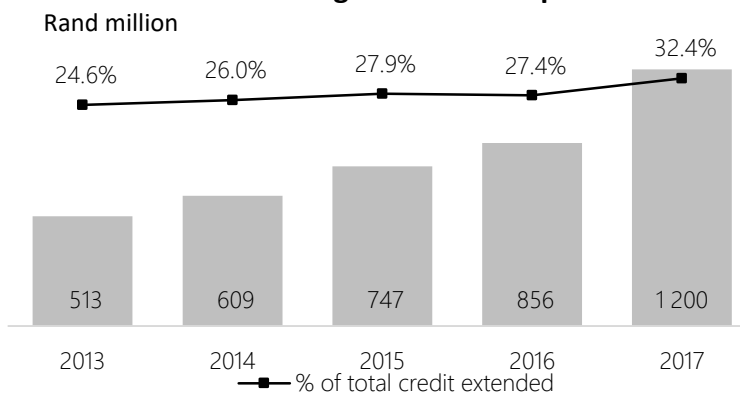
# Strong performance in a tough environment

- Strong revenue growth of 12.7%
  - Retail sales up 16.8%
  - Loans disbursed up 17.5%
- Improved gross profit margin and good credit risk performance
- Flat finance charges – reduced NCR interest caps and introduction of credit facility
- Strong growth in ancillary services (insurance and service fees)
- EBITDA up 14.1% to R801 million
- Operating profit up 16.0% to R751.9 million

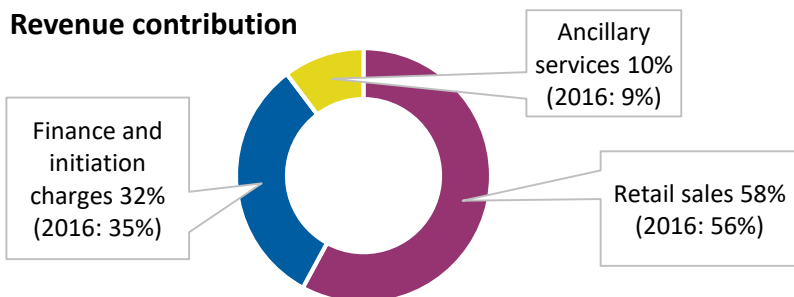
## Group revenue up 12.7% to R3.0 bn



## Credit extended via digital channels up 40% to R1.2 bn



## Revenue contribution

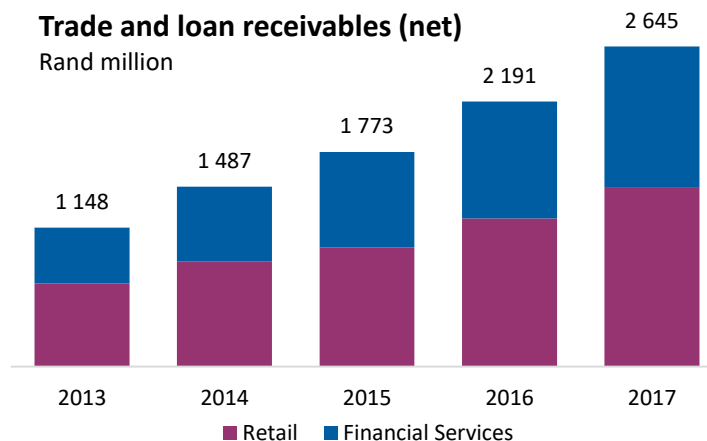


# Sound credit risk performance in both businesses

- Group debtor costs growth of 5.3%, well below revenue growth
- Retail – Gross book up 19.8%
  - Investment in fraud detection and prevention
  - Reviewed credit limits and introduced new scorecards
  - Improved cash collections through enhanced processes and strategy
  - Improvement in early-stage vintages
- Financial Services – Gross book up 17.8%
  - Focus on shifting to shorter terms – increased cash yield (avg term reduced to 14.4 months from 15.5)
  - Improved roll rates and collections driven by implementation of late payment fees

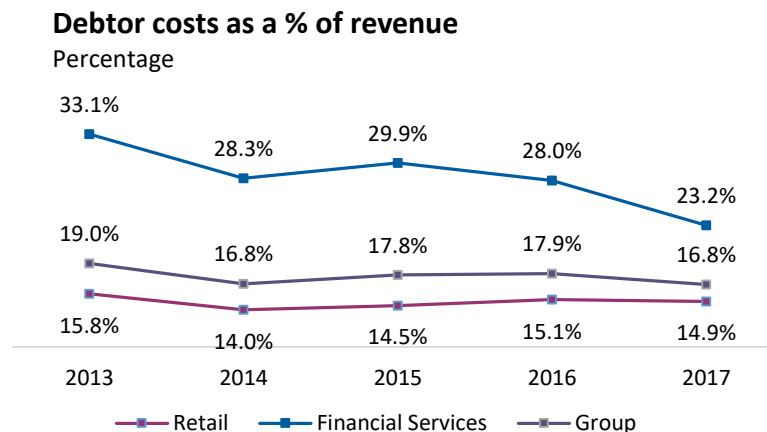
**Trade and loan receivables (net)**

Rand million



**Debtor costs as a % of revenue**

Percentage





# Improved risk has enabled reduction in provisions

	2017	2016	2015
<b>Retail:</b> gross receivables (Rm)	1 806.1	1 507.3	1 208.6
Provision as % of receivables	17.9%	18.9%	18.7%
Non-performing loans (NPL) (120+ days)	9.9%	10.3%*	9.5%
NPL cover	1.8	1.8*	2.0
<b>Financial Services:</b> gross receivables (Rm)	1 351.7	1 147.3	947.6
Provision as % of receivables	14.0%	15.5%	16.6%
Non-performing loans (NPL) (120+ days)	4.2%	4.7%	4.6%
NPL cover	3.3	3.3	3.6

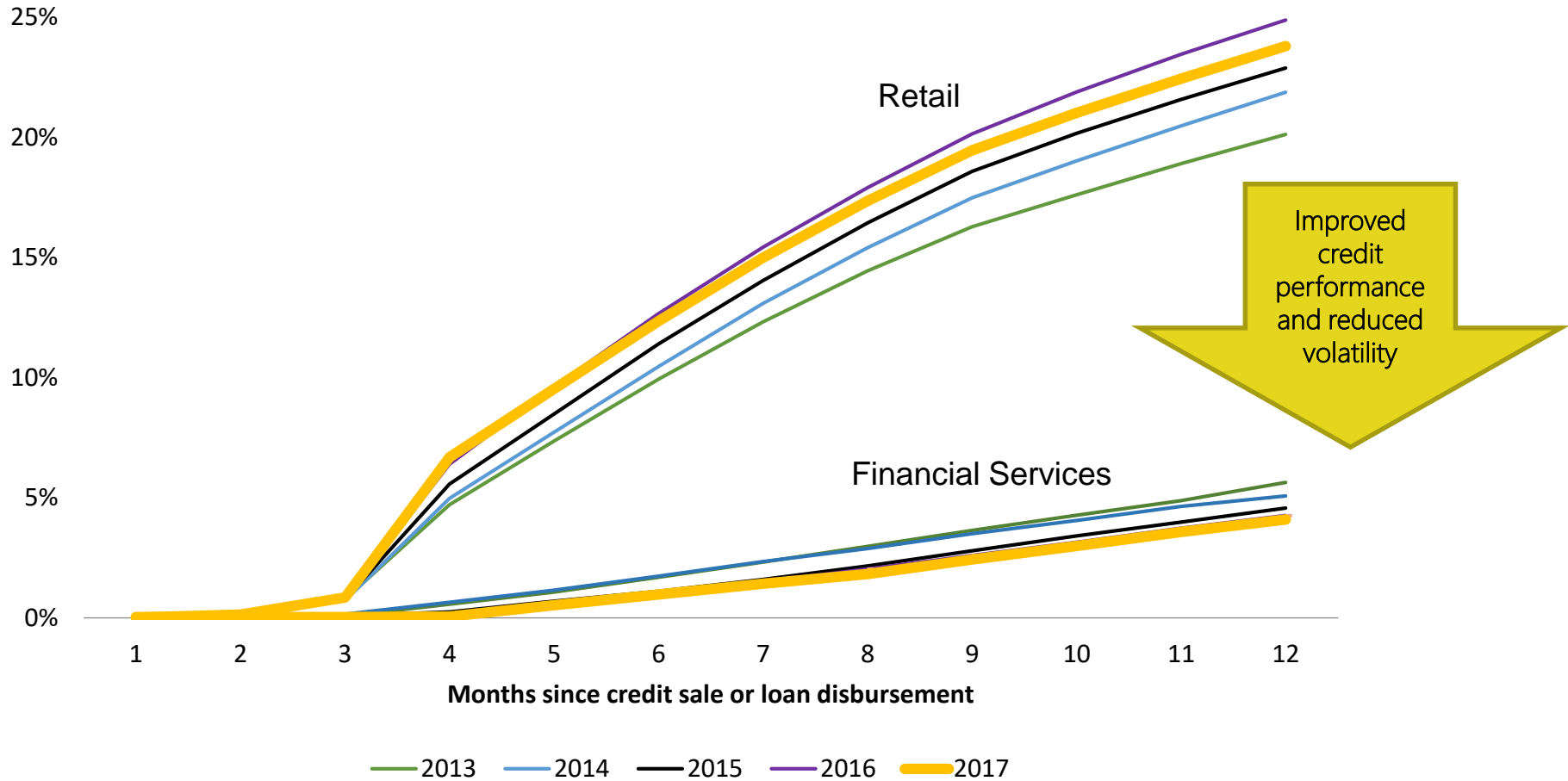
\*Restated

- Vintages in both businesses showing improving trends
- Non-performing loans as percentage of the book have reduced in both businesses
- Improved credit risk performance has resulted in reduction in provisions
- NPL times cover remains conservative

# Stable and improving risk vintages

## Vintage graphs: Retail and Financial Services by year (120+ days in arrears)

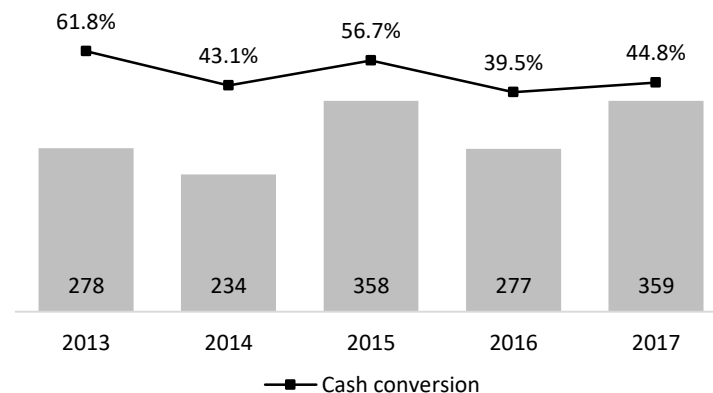
Cumulative % of original accounts reaching arrears status



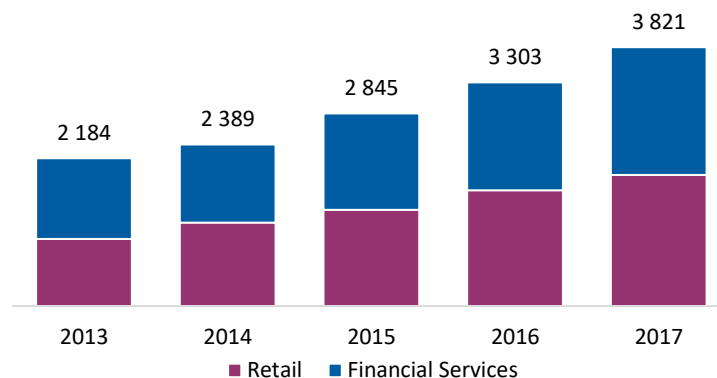
# Funding our future growth strategy

- Strong cash generation
  - Cash conversion improving to 44.8%
  - Continual focus on inventory management – stock turn improving to 2.7 times
- Gearing remains conservative < 0.8x EBITDA
  - Secured R800 million of terms facilities – utilised R550 million to pay down debt
  - Net debt to equity of 28.1%
- Planned equity capital raise
  - Partly fund strategically important capital expansion projects
  - Placement focused on diversifying the shareholder base and improving share liquidity
  - Major shareholders will proportionally sell down as part of equity raise, to further improve liquidity
  - Share issue subject to shareholder approval at AGM on 11 April 2018

**Cash generated from operations up 29.5% to R358.7 m**  
Rand million



**Cash collected from customers up 15.7%**  
Rand million



# Continued investment in areas of strategic importance

## Expand product offering

- Broadening product range and continuing to introduce new brands
- Stock investment and extended credit terms
- Accelerate growth in FinChoice loan disbursements and value-added services

## Enhance customer experience

- Fulfilment infrastructure to increase speed of delivery
- Drive personalisation through data and customer insights
- UX lab, BI investment, data science capabilities



## Infrastructure growth

- Accelerate showroom expansion to 30 stores
- Build click and collect capability in showrooms and micro hubs
- Fit-out of additional warehouse

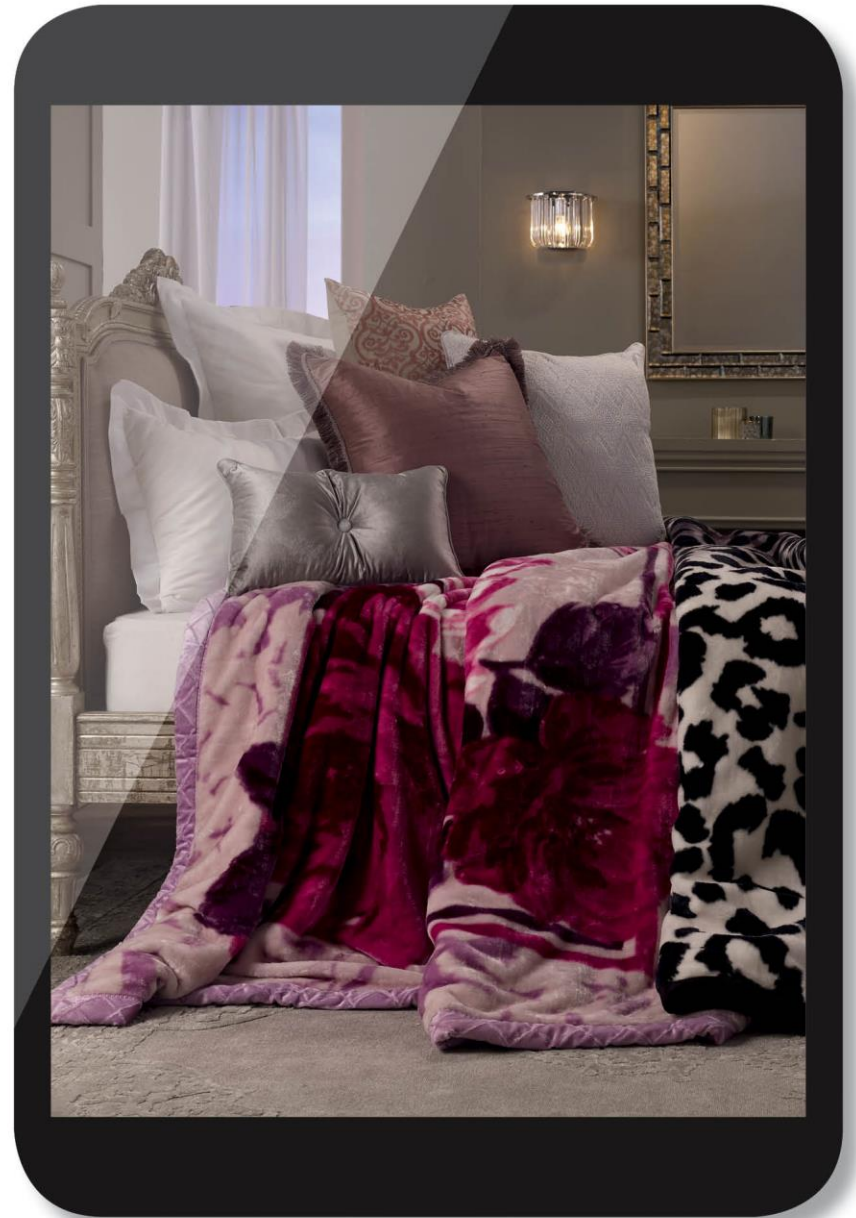


## Drive digital transformation

- Roll out Oracle commerce cloud
- Introduce niche online stores
- Accelerate development of fintech platform
- Technology is the bedrock of our business – we have to continually invest in and upgrade our platforms



# Retail

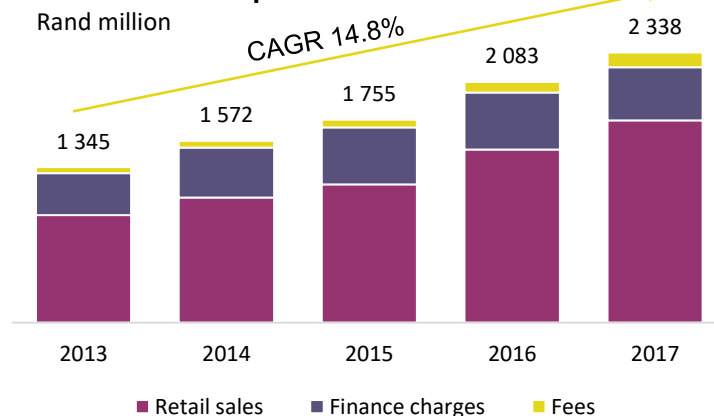


# Consistently strong growth

- Merchandise sales up 16.8% to R1.7 billion
  - Strong demand in mature category of homeware textiles and expanded branded goods offering
- Gross profit margin improves 190 bps, reflecting good buying discipline and exchange rate
- Finance income flat, due to annualisation of lower interest rates and implementation of credit facility
- Continued investment in people and process to optimise affordability requirements
- Good cost control, with improved marketing efficiencies through digital expansion
- Strong trading, improved credit performance reflected in operating profit up 13.6% to R421.2 million

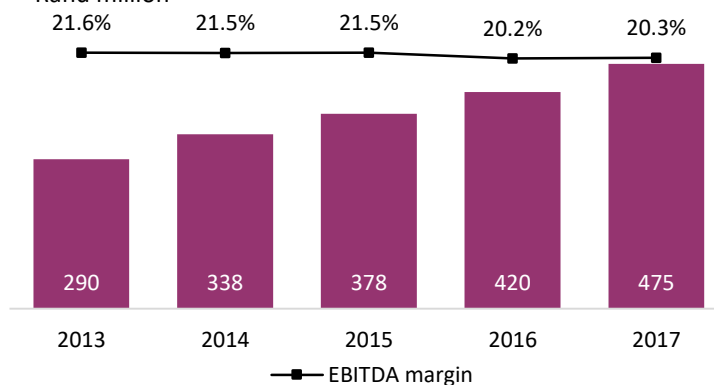
## Retail revenue up 12.2% to R2.3 bn

Rand million



## Retail EBITDA up 13.0% to R474.7 m

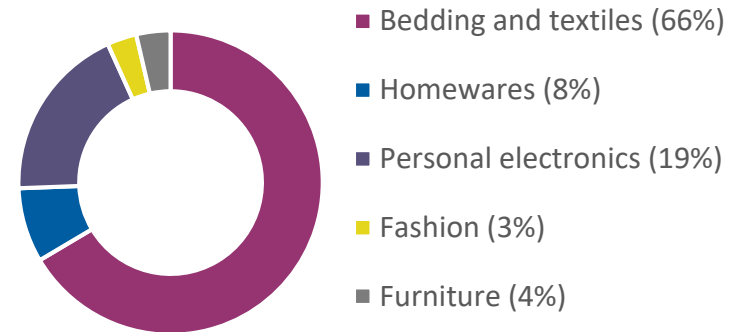
Rand million



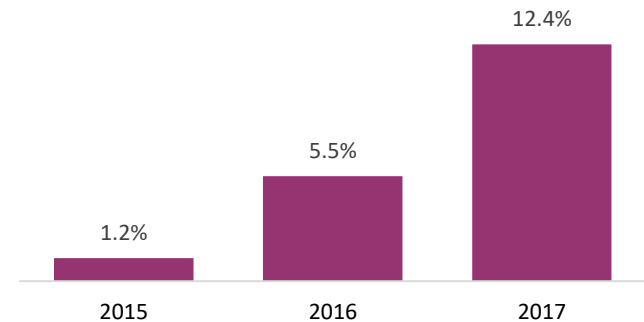
# Building on own-brand to digital department store

- Organic growth delivered through product innovation and newness
  - Heritage in textiles remain a core strength
- Own-brand strategy enhances margin – unique product offering
- Hugely successful roll-out of external brands up 159%
  - Improved net margin of branded goods through stock management
- Product (>80% imported) sourced directly from wide and stable supplier base
  - Low supplier concentration risk
- Supply chain optimisation driving cost reduction

2017 Retail sales



Growing contribution of external brands  
Percentage



# Unique ability to maintain margins through product configuration

**Selling price R1449**



Reversible comforter or duvet set



EasyBed and comfy flat sheet



free 5-piece reversible duvet set



Standard pillowcases



Throw

**Weaker Rand**

**Selling price R1449**



Reversible comforter or duvet set



EasyBed and comfy flat sheet



Standard and additional pillowcases



free 5-piece reversible duvet set



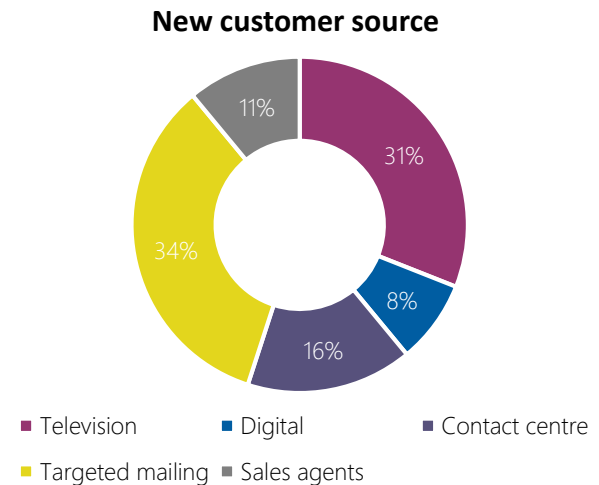
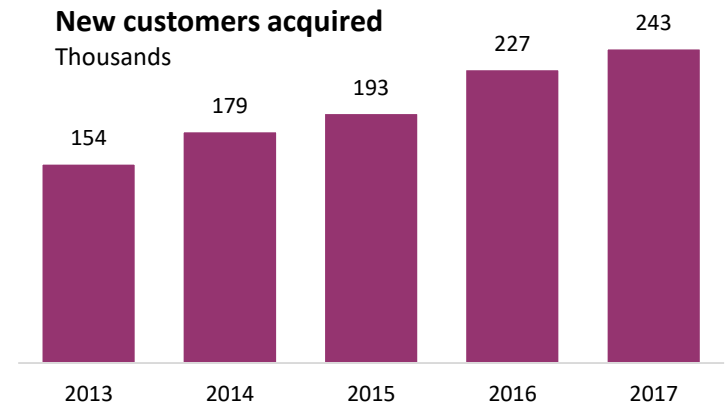
3 scatter cushions and throw

**Stronger Rand**

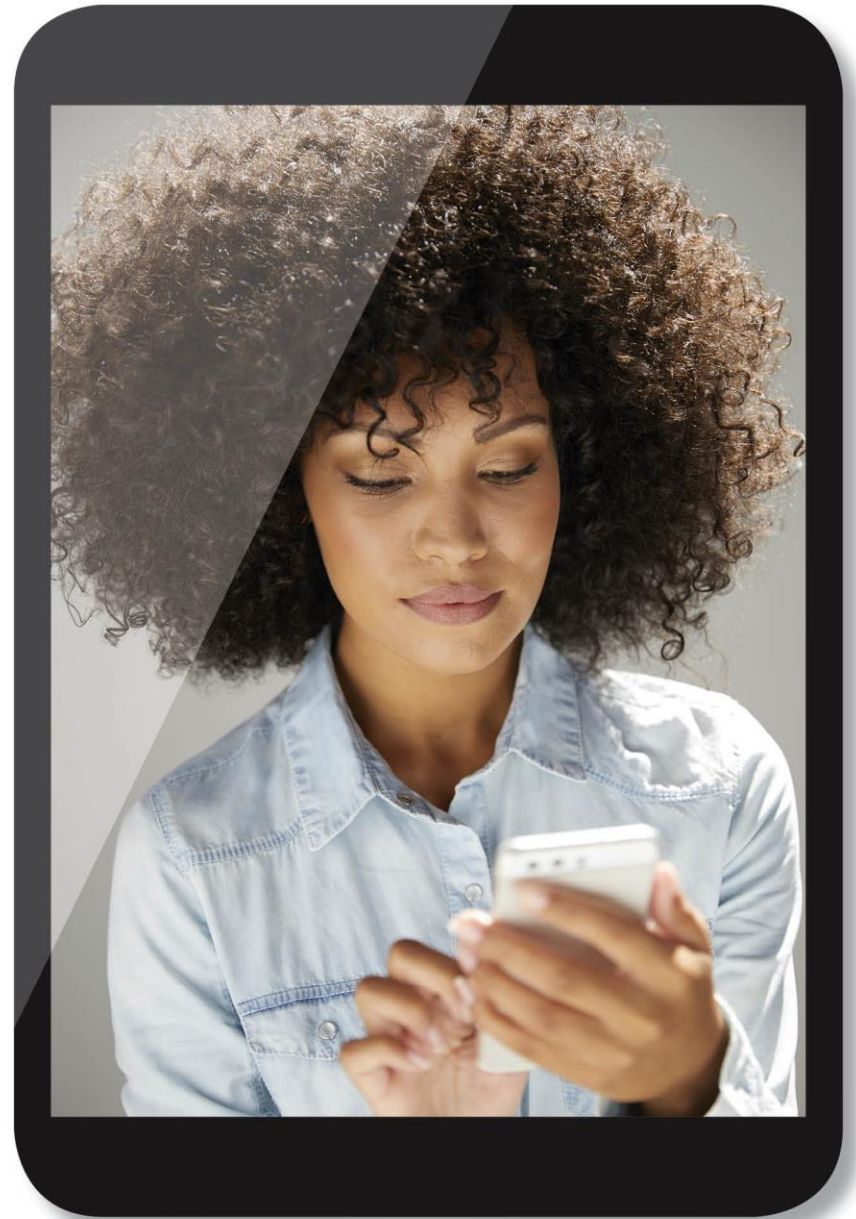


# Giving her a choice of engagement channels

- Marketing driving 20 000 names for group
  - Effective marketing campaigns attract new customers
  - Television primary channel driving 31% of new customers
  - Targeted mailing remains relevant
  - E-mailing a key digital acquisition tool
- Continuing to build on omni-channel strategy
  - Digital is fastest-growing channel, up 48% (15.4% of business)
  - Significant investment in digital platforms – Oracle commerce engine (2018)
  - Contact centre remains core channel, with significant improvement in agent tenure
- 3 new showrooms secured to drive access to new markets and click and collect strategy



# Financial Services



# FinChoice focuses on digitally enabled and convenient products

NEW in 2017:  
digital-only product

 **KwikAdvance®**

Small, convenient loans repayable in a month  
Up to R2 500

 **MobiMoney**


A credit facility on her mobile, repayable over 3 months  
Up to R6 500

 **Personal Loans**

Flexible personal loans repayable over 6, 12, 24 or 36 months  
Up to R35 000

 **Funeral Cover**

Suite of funeral cover plans from R10 000 to R50 000

 **Airtime**

Airtime bundles for all cellular networks

*Coming soon to her mobi portal ...*

Range of value-added products and services

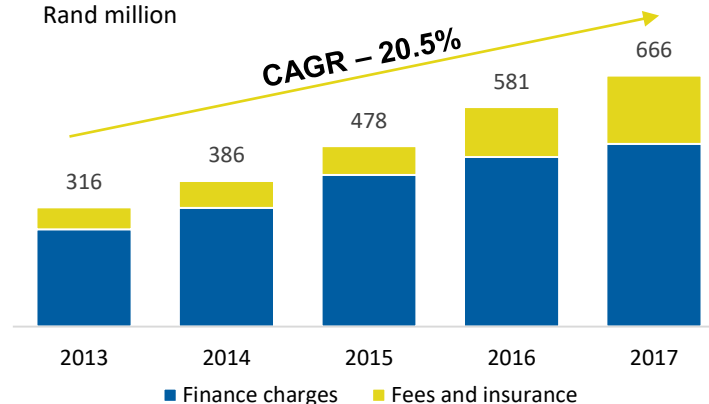


All our credit, insurance and value-added products are accessible 24/7 by mobile self-service

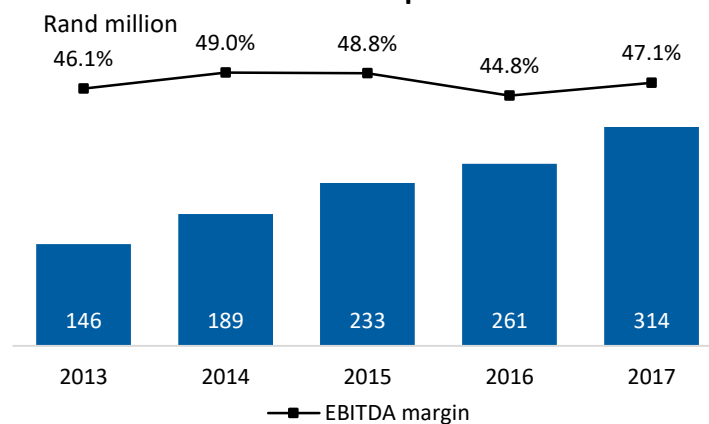
# Rapidly growing Financial Services business

- Disbursements up 18% to R1.5 billion
- MobiMoney™ facility product well received
- Strong growth from new insurance products
- Strong revenue growth despite flat Interest income, due to interest rate caps
- Strong credit performance
- Costs well contained due to digital efficiencies
- Investments in diversification and technology
- Consistently strong profit margins due to group benefits of customer acquisition and proven credit, and efficient digital platforms
- Operating profit up 13.6% to R256.8 million

**Financial Services revenue up 14.5% to R666 m**  
Rand million



**Financial Services EBITDA up 20.3% to R314 m**  
Rand million



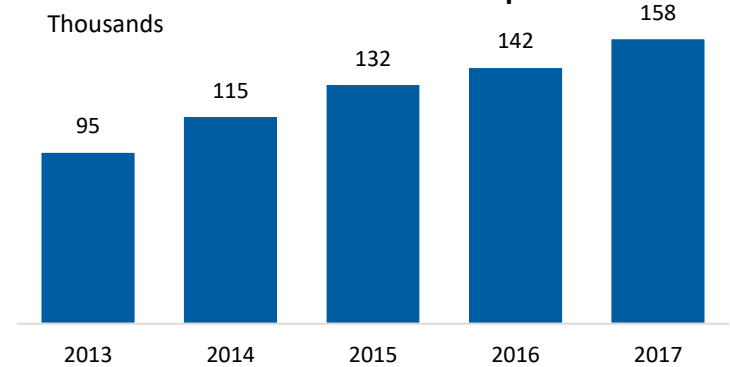


# A low-risk digital financial services provider

- New customer growth up 17% to 41 000
- Focus on shorter-term loans (avg. 14.4 months) and low value (avg. balance R10 444) from the proven retail base
- Income diversification is a key strategy:
  - Strong policy growth in new funeral insurance business in 2<sup>nd</sup> full trading year
  - Built lending capability for Botswana and Namibia (piloting Botswana Feb 18)
- Controlled external customer acquisition leveraging credit expertise and platforms (disbursement mix – 8% new)

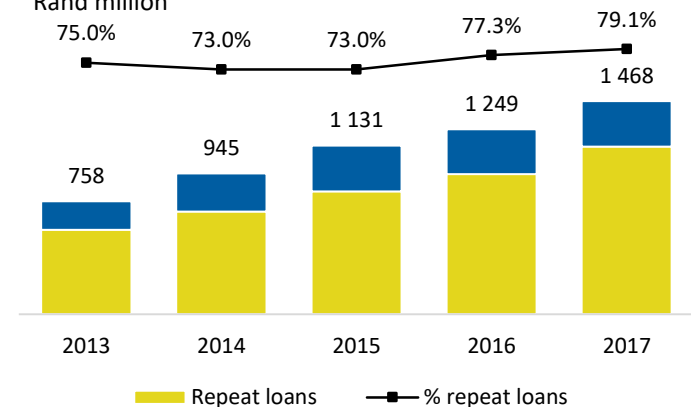
## Financial Services customer base up 11%

Thousands

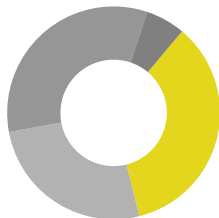


## Loan disbursements up 17.5% to R1.5 bn

Rand million



## Disbursement mix

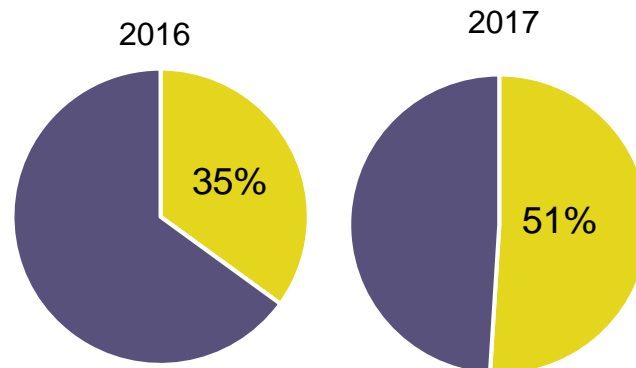


- 1-6 months 35%
- 12 months 26%
- 24 months 33%
- 36 months 6%

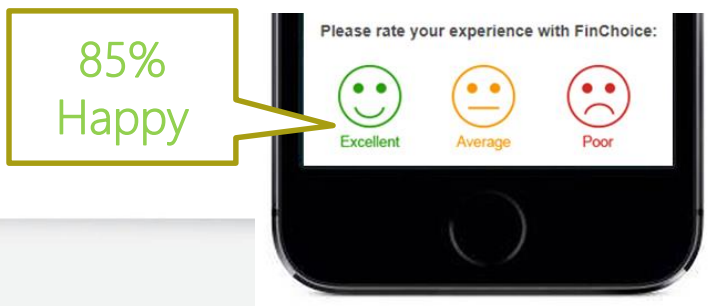
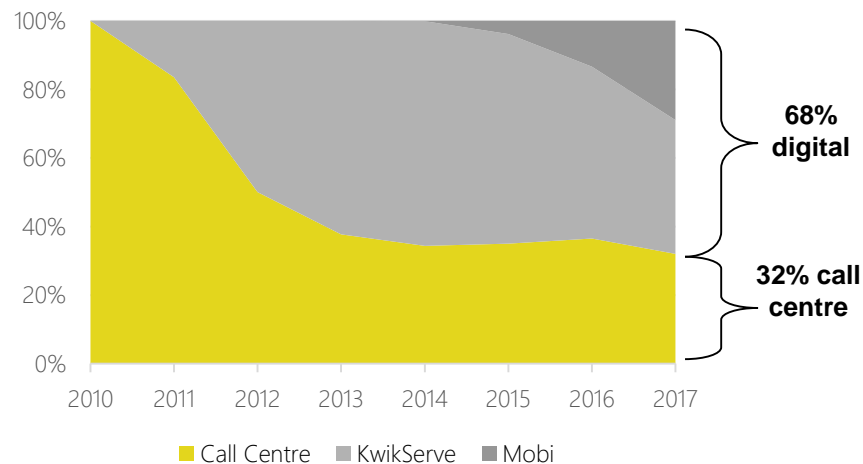
# Her mobile engagement is core to our fintech business

- Digital engagement provides convenience and empowerment
- Loan transactions occur 24/7 with 32% outside normal working hours
- 68% of loan transactions are digital
- Mobi origination launched in 2017 has become 16% of all new loans
- New MobiMoney™ product is digital-only and will be foundation for mobi-wallet portal
- Our contact centre of digitally trained agents supports her online relationship
- Strong focus on her digital customer experience

## 45% growth in mobi registration



## Channel mix of loan transactions



# Conclusion



# An exciting future based on a strong foundation

- 1 Well positioned in the large and growing mass market
- 2 Innovative own-brand products augmented by brand roll-out will drive growth
- 3 Excellent ability to drive growth through leveraging the customer base
- 4 Digitally led, well positioned to capitalise on this growth trend with logistics expertise

- 5 Deep knowledge and experience in mass-market credit
- 6 Good cash generation, strong balance sheet to finance growth
- 7 Strong and experienced management team that has driven ten years of growth (20.6% revenue CAGR)
- 8 Clear strategy of diversification to deliver digital department store and fintech platform



Thank you

**HiL** PLC

HomeChoice International PLC

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