



HOMECHOICE
INTERNATIONAL PLC

**SUMMARISED
GROUP
FINANCIAL
STATEMENTS**

for the year ended
31 December 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 35 years and has built up a loyal, primarily female, customer base of more than 905 000 active customers. The group operates through two trading operations, Retail and Financial Services.

Cash on hand
up >100% to

R415 million

(2019: R80 million)

>50%

of transactions on digital platforms

Digital Retail sales
contribution now

25%

(2019: 14%)

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Revenue
down 6.0% to

R3.3 billion

Loan disbursements
curtailed by 15.3% to

R1.9 billion

Retail sales
down 8.1% to

R1.8 billion

Headline earnings per share
down 62.3% to

164.2 cents

270 000

new customers acquired

Operating profit
decreased by 60.2% on impact of Covid-19
and lower gross profit margin



COMMENTARY

Digital acceleration with robust cash management

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 digital personal lending, value-added services and insurance products on digital platforms.

		31 Dec 2020	31 Dec 2019	% change
Group				
Revenue	(Rm)	3 275	3 484	(6.0)
Operating profit	(Rm)	270	679	(60.2)
Operating profit margin	(%)	8.2	19.5	
Earnings per share (EPS)	(cents)	160.4	436.0	(63.2)
Headline EPS (HEPS)	(cents)	164.2	436.0	(62.3)
Cash generated from operations	(Rm)	630	437	44.2
Cash conversion	(%)	177.0	58.2	
Total dividend	(cents)	–	87.0	<100.0
Retail				
Retail sales	(Rm)	1 792	1 951	(8.1)
Revenue	(Rm)	2 440	2 613	(6.6)
Gross profit margin	(%)	44.9	47.4	
Operating profit	(Rm)	60	325	(81.5)
Operating profit margin	(%)	2.5	12.4	
Financial Services				
Loan disbursements	(Rm)	1 919	2 266	(15.3)
Revenue	(Rm)	835	871	(4.1)
Operating profit	(Rm)	165	286	(42.3)
Operating profit margin	(%)	19.8	32.8	

Performance significantly impacted by Covid-19

Financial performance for the year was negatively impacted by Covid-19. Decisive action taken to control the risk included reducing loan disbursement by R700 million, curtailing access to new credit and accelerating our digital platforms. This proved effective in managing the credit risk of the group and conserving cash.

Group revenue was down 6.0% to R3.3 billion, with a decline in Retail sales of 8.1% and a 15.3% decrease in loan disbursements. Finance income was adversely impacted by a 300 bps drop in the repo rate.

We were disappointed with the drop in gross profit margin from 47.4% to 44.9%. The margin declined to 40.0% in H2 after strong performance of 50.9% in the first half. This was due to rapid growth in appliances and electronics categories and a below expectation performance in bedding. Actions have already been taken to address this decline and we are now achieving a much-improved margin.

Group debtor costs increased by 21.9% to R874 million, of which R126 million is attributable to the deterioration from Covid-19 impacts. Early actions were taken to tighten credit criteria by reducing limits and shortening terms. Provisions were increased to reflect a deterioration in the books' performance. The most recent vintages indicate an improvement to pre-Covid-19 levels.

Trading expenses increased by 7.3%. A move to digital marketing and the suspension of the printed catalogue reduced marketing expenses by 1.8%. However, continued investment in staff and future-focused projects resulted in staff and technology costs increasing by 9.5%. Insurance costs increased by 49.3% due to Covid-19-related retrenchment and funeral claims and higher provisions raised in anticipation of claims arising from the second wave. Covid-19-related operational and capital expenditure of R22 million was incurred during the year. Ensuring the health and well-being of our staff meant that costs were incurred for personal protective equipment, health and safety protocols were implemented in the head office, and additional computer equipment and data packages were purchased to enable staff to work from home.

The impact of lost revenue and a lower gross profit margin resulted in operating profit decreasing by 60.2% to R270 million. Headline earnings per share decreased by 62.3% to 164.2 cents.

Against a background of ongoing uncertainty around the impact of Covid-19, the board has withheld the final dividend and has agreed to reinvest it in the group to take advantage of attractive growth opportunities in the year ahead.

Resilient balance sheet despite Covid-19

The result of early decisive actions in the initial lockdown and a deliberate focus on cash management delivered a cash conversion rate of 177.0% (2019: 58.2%) and a very healthy cash balance of R415 million at year-end (Dec 2019: R80 million).

Our net debt (excluding group-owned properties) has reduced to R332 million (2019: R512 million) and the net debt:equity ratio (excluding property) stands at 10.7% (2019: 18.1%). This provides the group opportunity to accelerate growth when economic circumstances are more favourable.

The group's banking facilities were successfully refinanced and upsized during the lockdown period to R1.05 billion. Unutilised facilities of R655 million are available to support future growth and protect against any further shocks from Covid-19.

Change in accounting estimate relating to debtor write-off point

IFRS 9 requires companies to consider that expected credit losses should more accurately align with actual credit losses. A review of the Financial Services credit losses necessitated a R31 million favourable adjustment to debtor costs as a result of changing the write-off point from month four to month six. This has had the effect of reducing the Financial Services debtor costs percentage to revenue from 41.8% to 38.1%. A similar review of the Retail credit losses was performed with no adjustment required.



Retail digital transformation accelerated while margins disappointed

Performance in Retail was challenging, negatively impacted by Covid-19 and exacerbated by a misalignment in product strategies to drive top-line growth. After a decrease in retail sales of 10% in H1, the second half showed recovery with only a 3% decrease, ending 8.1% down on 2019. Price cuts in appliances and electronics, which drove strong demand in these lower-margin items, and discounting required for overstock bedding categories, resulted in a 250 bps decrease in gross profit margin to 44.9%. Debtor costs were up 28.7% mainly due to the impact of Covid-19. Trading expenses increased by 0.2%. Operating profit decreased by 81.5% to R60 million.

Despite the challenges caused by Covid-19 we acquired 241 000 new customers in the year, a decline of only 3% from 2019. A cautious approach to customer acquisition in the first half was followed by a release in demand during H2 to customers with acceptable credit risk. Our channels for customer acquisition have shifted to more digital platforms with 28% (2019: 8%) of new customers acquired digitally.

Pleasingly, digital sales for the year grew by 70% as Covid-19 pushed us to further accelerate our digital transformation. Digital sales now contribute 25.4% (2019: 13.7%) to total sales and is becoming firmly entrenched in our Retail business. Traffic to the website is up 54.5% with 23 million sessions during the year. Our social media platforms have 1 million Facebook followers, 105 000 Instagram followers and 75 000 users on the HomeChoice App. Monetisation of social media continues to grow as we increase our social media engagement to attract new customers and drive demand.

Use of our Click and Collect delivery option, from our own locations, has increased by 122% as customers enjoy the convenience and flexibility it offers. 12.1% (2019: 4.8%) of deliveries are now collected at our 12 (2019: 9) showrooms and 11 (2019: 8) ChoiceCollect containers.

We have developed a comprehensive recovery plan to improve profitability of the Retail business and anticipate showing substantial improvement in 2021.

Financial Services' growth momentum disrupted by Covid-19

Financial Services revenue decreased by 4.1% to R835 million, mainly due to curtailed loan disbursements and the impact of the 300 bps drop in the repo rate. Higher Covid-19-related insurance claims, combined with the operational costs of our continued investment in arrears collections and second-half customer acquisition recovery, resulted in trading expenses increasing by 23.8% (13.4% excluding insurance). Debtor costs increased by 11.6% (post the previously mentioned write-off point adjustment) and 22.5% pre-WOPA due to higher bad debts in the first half due to the hard lockdown. Operating profit decreased by 42.3% to R165 million.

Loans were deliberately cut by R700 million to conserve cash and protect the book at the onset of Covid-19. Loans to new customers were stopped from March to May and the credit limits for existing customers were reduced and terms shortened. Direct feedback via our mobi site from more than 80% of customers on their employment status provided complementary industry and employer-based data to facilitate a confident recovery in the granting of credit to more financially stable customers. This drove disbursement levels in the second half to be in line with the same period in 2019. According to data from the National Credit Regulator, the Financial Services business increased its market share of disbursements of up to 36 months in tenure from 4.9% to 6.0%, as the business deliberately extended credit to stably employed customers.

55 000 new customers were acquired during the year. 53% of those new customers are external to the group, primarily from digital sources. Using data-driven acquisition models, the external customers are performing at acceptable and stable credit risk rates.

Our digital-only FinChoice MobiMoney™ three-month facility product is increasingly becoming a cornerstone product for the division. Active MobiMoney accounts increased by 44% in the year to 121 000 customers and 33.4% of disbursements are from these accounts, up from 29.2% in 2019. This product delivers strong cash conversion and results in the average disbursed term reducing from 14.2 months to 12.2 months. MobiMoney drives our digital engagement, which now sits at 90% of repeat business conducted online. The growing popularity of the product and our expanded MobiMoney wallet functionality will be leveraged to deliver an appealing and convenient financial product range to our customers and further entrench the FinTech business model.

We continue to grow our stand-alone personal insurance business with policies in force up 13% and 42 600 new customers. As experienced in the rest of the market, we have seen a jump in the number of Covid-19-related retrenchment and funeral claims of 86% and 135% respectively. Conservative IBNR provisions have been raised in anticipation of higher claims in 2021.

Curtailed credit and a strong focus on collections

Gross trade and loan receivables decreased by 2.6% to R3.7 billion, primarily due to the curtailment of loan disbursements and lower sales. Group debtor costs increased by 21.9% to R874 million. Covid-19 negatively impacted debtor costs with R126 million worsening from higher bad debts and increased provisions. The credit books are healthy with vintages for both Retail and Financial Services now below pre-Covid-19 levels.

Credit performance for the period is summarised below:

		31 Dec 2020	31 Dec 2019	% change
Group				
Gross trade and loans receivable	(Rm)	3 685	3 784	(2.6)
Credit impairment costs as a % of revenue*	(%)	26.7	20.6	
Retail				
Number of active accounts		564 359	581 818	
Active accounts able to purchase	(%)	64.8	67.1	
Gross trade receivable	(Rm)	1 923	1 947	(1.2)
Credit impairment costs as a % of revenue	(%)	22.8	16.5	
Provision for impairment	(Rm)	406	366	10.9
Provision for impairment as a % of gross receivables	(%)	21.1	18.8	
Stages 2 and 3 loans cover	(%)	56.4	50.2	
Financial Services				
Number of active accounts		239 956	223 742	
Active accounts able to reloan	(%)	74.3	76.3	
Gross loans receivable	(Rm)	1 762	1 837	(4.1)
Credit impairment costs as a % of revenue	(%)	38.1	32.7	
Provision for impairment	(Rm)	269	254	5.9
Provision for impairment as a % of gross receivables	(%)	15.3	13.8	
Stages 2 and 3 loans cover	(%)	71.4	57.6	

* Credit impairment costs include bad debts written off net of recoveries, as well as movements in provisions.

Retail credit book impacted by Covid-19

Debtor costs increased by 28.7% to R556 million, R71 million attributable to Covid-19.

A controlled approach to customer acquisition was managed by tightening credit-granting criteria, reducing credit limits and cutting acceptance rates. These restrictions were eased in over time and credit limits were increased to proven repeat customers. Terms were shortened to manage risk, resulting in a decrease from 16.9 months to 16.1 months. There was a strong focus on collections, particularly digital payments via debit orders. Debit order collections have increased to 35% (2019: 29%).

Impairment provisions were increased to 21.1% of gross receivables to reflect book performance at December 2020. Stages 2 and 3 loans cover have increased to 56.4% (2019: 50.2%).

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.

Arising from the redomiciliation, shareholders were advised on 21 May 2020 of the following changes to the board:

- 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 chair from 1 June 2020;
- 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; and
- the company secretary was changed from George Said to Sanlam Trustees International.

Marlisa Harris was appointed as an independent non-executive director to the board on 22 February 2021. Marlisa is based in Mauritius and brings a wealth of financial services knowledge and experience to the board.

Effective 28 February 2021, the Retail chief executive officer, Gerhard Hayes, resigned from the group. Chris de Wit has been appointed the new Retail CEO.

Financial Services write-off point adjustment benefits debtor costs

Debtor costs increased by 11.6% to R318 million, R55 million due to Covid-19. The required IFRS change in the WOPA from month four to month six reduced debtor costs by R31 million but increased the provision for impairment.

Credit to new customers was curtailed in H1 and subsequently opened up to new customers working for proven employers and stable employment sectors. The average disbursement term was reduced from 14.2 months to 12.2 months and a reduction of credit limits reduced the average balances to R7 100 (2019: R8 628).

The provision for impairment has decreased marginally to 15.3% (June 2019: 15.5%), pre-WOPA 13.6% reflecting the improved quality of the debtor book. Stages 2 and 3 loans cover have increased to 71.4% (2019: 57.6%).

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 and manages the devastating impact of Covid-19.

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

We will drive the growth momentum in Financial Services and “course correct” the Retail business by balancing product and margin strategy and right-sizing the cost base.

We will continue to accelerate our digital transformation and aggressively use digital marketing and social media to capture market share. Financial Services will expand the MobiMoney wallet and payment functionality.

We believe that the group has a defensive business model and is well positioned for growth with a strong cash position to support it.

S Maltz
Executive Chair

G Lartigue
Chief Executive Officer

Mauritius, 24 March 2021





**SUMMARISED
GROUP FINANCIAL
STATEMENTS**

Summarised group statement of financial position

	Notes	2020 Rm	% change	2019 Rm
Assets				
Non-current assets				
Property, plant and equipment		476	1.1	471
Intangible assets		210	24.3	169
Right-of-use assets		60	(10.4)	67
Financial assets at fair value through profit or loss		34	41.7	24
Deferred taxation		45	>100.0	2
		825	12.6	733
Current assets				
Inventories	2	315	(9.7)	349
Taxation receivable		13	>100.0	1
Trade and other receivables	3	3 024	(5.1)	3 188
Trade receivables – Retail		1 517	(4.0)	1 581
Loans receivable – Financial Services		1 493	(5.7)	1 583
Other receivables		14	(41.7)	24
Cash and cash equivalents		415	>100.0	80
		3 767	4.1	3 618
Total assets		4 592	5.5	4 351
Equity and liabilities				
Equity attributable to equity holders of the parent				
Stated and share capital		1	–	1
Share premium		3 014	0.1	3 010
Reorganisation reserve		(2 961)	–	(2 961)
		54	8.0	50
Treasury shares		(33)	83.3	(18)
Other reserves		47	42.4	33
Retained earnings		3 048	5.8	2 881
Total equity		3 116	5.8	2 946
Non-current liabilities				
Interest-bearing liabilities		933	73.7	537
Lease liabilities		48	(15.8)	57
Deferred taxation		69	35.3	51
Other payables		4	–	4
		1 054	62.4	649
Current liabilities				
Interest-bearing liabilities		39	(90.0)	391
Lease liabilities		22	22.2	18
Taxation payable		12	(25.0)	16
Trade and other payables		349	23.3	283
Bank overdraft		–	(100.0)	48
		422	(44.2)	756
Total liabilities		1 476	5.1	1 405
Total equity and liabilities		4 592	5.5	4 351

Summarised group statement of profit or loss and other comprehensive income

	Notes	2020 Rm	% change	2019 Rm
Revenue		3 275	(6.0)	3 484
Retail sales	4	1 792	(8.1)	1 951
Finance income		1 038	(5.0)	1 093
Fees from ancillary services	5	445	1.1	440
Cost of Retail sales		(987)	(3.9)	(1 027)
Other operating costs		(2 020)	13.2	(1 785)
Credit impairment losses	6	(874)	21.9	(717)
Other trading expenses	7	(1 146)	7.3	(1 068)
Other net gains and losses		(8)	>100.0	(1)
Other income		10	25.0	8
Operating profit		270	(60.2)	679
Interest income		5	25.0	4
Interest expense		(93)	(7.9)	(101)
Profit before taxation		182	(68.7)	582
Taxation		(15)	(88.2)	(127)
Profit and total comprehensive income for the year		167	(63.3)	455
Earnings per share (cents)				
Basic	8	160.4	(63.2)	436.0
Diluted		158.6	(63.0)	428.7
Headline earnings per share (cents)				
Basic	8	164.2	(62.3)	436.0
Diluted		162.4	(62.1)	428.7

Summarised 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	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 year	1	3 005	(3)	(2 961)	18	2 621	2 681
Changes in equity							
Profit and total comprehensive income for the year	-	-	-	-	-	455	455
Shares issued	-	5	-	-	-	-	5
Dividends paid	-	-	-	-	-	(195)	(195)
Share incentive schemes	-	-	-	-	15	-	15
Shares purchased	-	-	(15)	-	-	-	(15)
Total changes	-	5	(15)	-	15	260	265
Balance at 1 January 2020	1	3 010	(18)	(2 961)	33	2 881	2 946
Changes in equity							
Profit and total comprehensive income for the year	-	-	-	-	-	167	167
Shares issued	-	4	-	-	-	-	4
Share incentive schemes	-	-	-	-	15	-	15
Shares purchased	-	-	(16)	-	-	-	(16)
Forfeitable shares vested	-	-	1	-	(1)	-	-
Total changes	-	4	(15)	-	14	167	170
Balance at 31 December 2020	1	3 014	(33)	(2 961)	47	3 048	3 116

Summarised group statement of cash flows

	Notes	2020 Rm	% change	2019 Rm
Cash flows from operating activities				
Operating cash flows before working capital changes		315	(56.1)	718
Movements in working capital		315	<(100.0)	(281)
Cash generated from operations	9	630	44.2	437
Interest received		5	25.0	4
Interest paid		(93)	–	(93)
Taxation paid		(56)	(67.8)	(174)
Net cash inflow from operating activities		486	>100.0	174
Cash flows from investing activities				
Additions of property, plant and equipment		(46)		(44)
Additions of intangible assets		(71)		(72)
Financial assets at fair value through profit or loss		–		11
Net cash outflow from investing activities		(117)	11.4	(105)
Cash flows from financing activities				
Proceeds from the issuance of shares		4		5
Purchase of shares to settle forfeiture share scheme obligations		(16)		(15)
Proceeds from interest-bearing liabilities		781		315
Repayments of interest-bearing liabilities		(737)		(243)
Principal elements of lease payments		(18)		(12)
Dividends paid		–		(195)
Net cash inflow/(outflow) from financing activities		14	<(100.0)	(145)
Net increase/(decrease) in cash and cash equivalents and bank overdrafts				
		383		(76)
Cash and cash equivalents and bank overdrafts at the beginning of the year		32		108
Cash and cash equivalents and bank overdrafts at the end of the year		415	>100.0	32

Group segmental information

	2020					
	Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
Segmental revenue	3 275	2 440	835	48	-	(48)
Retail sales	1 792	1 792	-	-	-	-
Finance income	1 038	468	570	-	-	-
Fees from ancillary services	445	180	265	48	-	(48)
EBITDA	356	145	235	22	(30)	(16)
Depreciation and amortisation	(86)	(85)	(8)	-	-	7
Interest income	2	-	8	-	65	(71)
Interest expense	(67)	-	(70)	-	(68)	71
Segmental operating profit*	205	60	165	22	(33)	(9)
Interest income	3	3	-	-	-	-
Interest expense	(26)	(21)	-	(12)	-	7
Profit before taxation	182	42	165	10	(33)	(2)
Taxation	(15)	7	(26)	(3)	7	-
Profit after taxation	167	49	139	7	(26)	(2)
Segmental assets	4 592	2 621	1 850	353	1 515	(1 747)
Segmental liabilities	1 476	1 376	917	269	678	(1 764)
Gross profit margin (%)	44.9	44.9				
Segmental results margin (%)	6.3	2.5	19.8	45.8		
Operating cash flows before working capital changes	315	112	224	22	(27)	(16)
Movements in working capital	315	176	143	(3)	(5)	4
Cash generated/(utilised) by operations	630	288	367	19	(32)	(12)
Capital expenditure						
Property, plant and equipment	46	42	2	2	-	
Intangible assets	71	50	21	-	-	

* Refer to note 10 for further details on segments and segmental results.

2019					
Total Rm	Retail Rm	Financial Services Rm	Property Rm	Other Rm	Intra-group Rm
3 484	2 613	871	61	–	(61)
1 951	1 951	–	–	–	–
1 093	482	611	–	–	–
440	180	260	61	–	(61)
751	442	362	36	(34)	(55)
(73)	(117)	(11)	–	–	55
3	–	3	–	72	(72)
(68)	–	(68)	–	(72)	72
613	325	286	36	(34)	–
1	1	–	–	–	–
(32)	(22)	–	(20)	–	10
582	304	286	16	(34)	10
(127)	(68)	(55)	(5)	1	–
455	236	231	11	(33)	10
4 351	2 359	1 725	340	1 211	(1 284)
1 405	1 035	840	253	561	(1 284)
47.4	47.4				
17.6	12.4	32.8	59.0		–
718	415	355	36	(33)	(55)
(281)	(72)	(212)	–	3	–
437	343	143	36	(30)	(55)
44	43	1	–	–	–
72	49	23	–	–	–

Notes to the summarised group financial statements

1. Basis of presentation and accounting policies

1.1 Basis of presentation

The group annual financial statements for the year ended 31 December 2020 and these summary group financial statements have been prepared by the group's finance department, acting under the supervision of P Burnett, CA(SA), the finance director of the group.

The summary group financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34, *Interim Financial Reporting*.

The accounting policies applied in the preparation of the group financial statements from which the summary group financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous group annual financial statements, other than as outlined below.

1.2 Changes in accounting policies and accounting estimates

1.2.1 Amendments to IFRS 16 – Covid-19-related rent concessions

IFRS 16 was amended to provide a practical expedient for lessees' accounting for rent concessions that arise as a direct consequence of the Covid-19 pandemic and satisfy the following criteria:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.

Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In most cases, this results in the concessions being treated as variable lease payments in the period in which they are granted.

The group applied the practical expedient to all Covid-19 rent concessions and therefore was not required to assess whether the rent concessions were lease modifications. This resulted in the group accounting for the concessions as variable lease payments.

Decreases in lease liabilities during the current year which resulted from Covid-19-related rent concessions amount to R0.3 million and are included in profit or loss. The principal elements of lease payments in the statement of cash flows have decreased by the same amount.

1.2.2 Change in accounting estimate – IFRS 9 Write-off point adjustment (WOPA)

The group assesses the methods and assumptions used for estimating the expected credit losses on a regular basis in order to reduce any differences between estimates and actual credit loss experience. As part of the group's ongoing assessment of credit losses and recoveries trends and in accordance with IFRS 9, the Financial Services segment has moved its write-off point (at which there is no reasonable expectation of future recovery) out by two billing cycles during the current year. A similar assessment performed by the Retail segment did not result in any changes to the write-off point.

This change in estimate has resulted in an increase in the size of the non-performing loans in proportion to total loans as loans which would historically have been written off are held on book for a longer period. There has been a corresponding increase in the provision for impairment against the non-performing loans.

The effect of the change in estimate on the current year is as follows:

	2020 Rm
Decrease in credit impairment losses	31
Increase in taxation expense	(3)
Increase in profit after tax	28
Increase in gross loans receivable	71
Increase in provision for impairment	(40)
Increase in taxation payable	(5)
Increase in deferred tax asset	2
Increase in retained earnings	28

Management is unable to estimate the effect of the WOPA on future periods because the amount of debt and the related provision for impairment for future periods cannot be reliably estimated.

2. Inventories

	2020 Rm	%	2019 Rm
		change	
Merchandise for resale	293	(5.5)	310
Provision for inventory obsolescence	(29)	61.1	(18)
Goods in transit	51	(10.5)	57
	315	(9.7)	349

The total amount of inventories expensed to cost of Retail sales during the year was R828 million (2019: R827 million). Inventory sold at less than cost during the current year amounted to R24 million (2019: R25 million) and inventory write-downs recognised as an expense during the year amounted to R11 million (2019: R3 million).

NOTES TO THE SUMMARISED GROUP FINANCIAL STATEMENTS
CONTINUED

3. Trade and other receivables

		2020 Rm	%	2019 Rm
			change	
Group				
Trade and loan receivables		3 685	(2.6)	3 784
Provision for impairment		(675)	8.9	(620)
Other receivables		14	(41.7)	24
		3 024	(5.1)	3 188
Provision for impairment as a % of gross receivables	(%)	18.3	11.6	16.4
Credit impairment costs as a % of revenue	(%)	26.7	29.6	20.6
Credit impairment costs as a % of gross receivables	(%)	23.7	25.4	18.9
Retail				
Gross carrying amount		1 923	(1.2)	1 947
Performing (stage 1)		1 203	(1.2)	1 218
Underperforming (stage 2)		359	(13.9)	417
Non-performing (stage 3)		361	15.7	312
Provision for impairment		(406)	10.9	(366)
Performing		(78)	(24.3)	(103)
Underperforming		(129)	10.3	(117)
Non-performing		(199)	36.3	(146)
Net carrying amount		1 517	(4.0)	1 581
Performing		1 125	0.9	1 115
Underperforming		230	(23.3)	300
Non-performing		162	(2.4)	166
Provision for impairment as a % of gross receivables	(%)	21.1		18.8
Performing	(%)	6.5		8.5
Underperforming	(%)	35.9		28.1
Non-performing	(%)	55.1		46.8
Credit impairment costs as a % of revenue	(%)	22.8		16.5
Credit impairment costs as a % of gross receivables	(%)	28.9		22.2

3. Trade and other receivables (continued)

	2020 Rm	%	2019 Rm
		change	
Financial Services			
Gross carrying amount	1 762	(4.1)	1 837
Performing (stage 1)	1 385	(0.8)	1 396
Underperforming (stage 2)	181	(26.7)	247
Non-performing (stage 3)	196	1.0	194
Provision for impairment	(269)	5.9	(254)
Performing	(76)	16.9	(65)
Underperforming	(66)	(25.8)	(89)
Non-performing	(127)	27	(100)
Net carrying amount	1 493	(5.7)	1 583
Performing	1 309	(1.7)	1 331
Underperforming	115	(27.2)	158
Non-performing	69	(26.6)	94
Provision for impairment as a % of gross receivables	(%) 15.3		13.8
Performing	(%) 5.5		4.7
Underperforming	(%) 36.5		36.0
Non-performing	(%) 64.8		51.5
Credit impairment costs as a % of revenue	(%) 38.1		32.7
Credit impairment costs as a % of gross receivables	(%) 31.6		15.5

NOTES TO THE SUMMARISED GROUP FINANCIAL STATEMENTS
CONTINUED

3. Trade and other receivables (continued)

	2020 Rm	%	2019 Rm
		change	
Movements in the provision for impairment were as follows:			
Retail			
Opening balance	(366)	1.9	(359)
Movement between stages ¹	(72)	53.2	(47)
New financial assets originated or purchased ²	(297)	46.3	(203)
Change in risk ³	1	<(100.0)	(7)
Debt review portfolio sold	5		–
Other ⁴	–	(100.0)	3
Loans and advances settled in the current year ⁵	51	0.0	51
Write-offs ⁶	272	38.8	196
Closing balance	(406)	10.9	(366)
Financial Services			
Opening balance	(254)	0.8	(252)
Movement between stages ¹	(27)	0.0	(27)
New financial assets originated or purchased ²	(102)	(1.9)	(104)
Change in risk ³	(57)	(30.5)	(82)
Write-off point adjustment	(40)		–
Debt review portfolio sold	109	25.3	87
Other ⁴	7	(56.3)	16
Loans and advances settled in the current year ⁵	18	20.0	15
Write-offs ⁶	77	(17.2)	93
Closing balance	(269)	5.9	(254)

The loss allowance reconciliation has been expanded when compared to the 2019 Annual Financial Statements. Consequently, movements have been reallocated from the reconciling items presented in 2019. The 2019 numbers have been restated to ensure consistency of the reconciling item classification between the current and comparative figures. Refer below to the footnotes for the definitions of the reconciling items.

¹ Movement between stages results in increased loss allowances as the movement to the underperforming and non-performing stages carry higher loss allowances.

² Includes credit advanced during the year to customers who were not on book at the beginning of the year.

³ Includes transfers to debt review and other extended payment terms.

⁴ Includes movements in the loss allowance resulting from changes in the activity of debtors due to: retrenchments, disabilities, debt administration, death, fraud and cancellations.

⁵ Includes the reversal of opening loss allowances for trade and loans receivable repaid during the year.

⁶ Includes the release of allowances held against all accounts that were written off during the year.

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 are amounts approximating R683 million (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 31 December 2020 is a refund liability for expected returns of R10 million (31 December 2019: R10 million).

4. Retail sales

	2020 Rm	%	2019 Rm
		change	
Disaggregation of retail sales by product type is as follows:			
Homeware	1 231	(12.1)	1 400
Appliances and electronics	437	8.4	403
Fashion and footwear	51	(29.2)	72
Furniture	73	(3.9)	76
Total	1 792	(8.1)	1 951
Disaggregation of retail sales by channel is as follows:			
Contact centre	1 117	(19.1)	1 380
Digital	462	57.1	294
Showroom and ChoiceCollect	161	(9.0)	177
Sales agents	52	(48.0)	100
	1 792	(8.1)	1 951

Retail sales are settled at a point in time.

5. Fees from ancillary services

	2020 Rm	%	2019 Rm
		change	
Retail	180	–	180
Service fees	170	6.3	160
Insurance fees	7	16.7	6
Other	3	(78.6)	14
Financial Services	265	1.9	260
Service fees	100	(2.0)	102
Insurance fees	162	9.5	148
Other	3	(70.0)	10
	445	1.1	440

6. Credit impairment losses

	2020 Rm	%	2019 Rm
		change	
Trade receivables – Retail	556	28.7	432
Loans receivable – Financial Services	318	11.6	285
Total credit impairment losses	874	21.9	717

There were no significant recoveries in the current year or in the prior year.

NOTES TO THE SUMMARISED GROUP FINANCIAL STATEMENTS
CONTINUED

7. Other trading expenses

	2020 Rm	% change	2019 Rm
Expenses by nature			
Auditor's remuneration	6	20.0	5
Audit-related services	5	0.0	5
Other non-audit services	1		–
Amortisation of intangible assets	25	31.6	19
Depreciation of property, plant and equipment and right-of-use assets	61	13.0	54
Marketing costs	253	0.0	253
Staff costs: short-term employee benefits	448	3.2	434
Total staff costs	523	2.8	509
Less: disclosed under cost of Retail sales	(34)	(2.9)	(35)
Less: staff costs capitalised to intangibles	(41)	2.5	(40)
Other costs	353	16.5	303
Total other costs	476	3.0	462
Less: disclosed under cost of retail sales	(123)	(22.6)	(159)
Total other trading expenses	1 146	7.3	1 068

8. 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:

	2020 Rm	% change	2019 Rm
Profit for the period	167	(63.3)	455
Adjusted for the effect of:			
Impairment of intangible assets	5		–
Taxation effect	(1)		–
Headline earnings for the period	171	(62.5)	455
Weighted average number of ordinary shares in issue ('000)	104 128		104 364
Weighted average number of diluted shares in issue ('000)	105 291		106 125
Earnings per share (cents)			
Basic	160.4	(63.2)	436.0
Headline	164.2	(62.3)	436.0
Basic – diluted	158.6	(63.0)	428.7
Headline – diluted	162.4	(62.1)	428.7

9. Reconciliation of cash generated from operations

	2020 Rm	%	2019 Rm
		change	
Profit before taxation	182	(68.7)	582
Deduct finance income earned	(1 038)	(5.0)	(1 093)
Add back finance income received	987	(6.4)	1 055
Profit from insurance cells	(10)	(9.1)	(11)
Depreciation and amortisation	86	17.8	73
Impairment of intangible assets	5		–
Share-based employee share expense	15	–	15
Interest expense	93	(7.9)	101
Interest income	(5)	25.0	(4)
Operating cash flows before working capital changes	315	(56.1)	718
Movements in working capital	315	<(100.0)	(281)
Decrease/(increase) in inventories	34	<(100.0)	(45)
Decrease/(increase) in trade receivables – Retail	101	<(100.0)	(47)
Decrease/(increase) in loans receivable – Financial Services	104	<(100.0)	(226)
Decrease in other receivables	10	(61.5)	26
Increase in trade and other payables	66	>100.0	14
Decrease in provisions	–	(100.0)	(3)
	630	44.2	437

10. 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 of the group's HomeChoice operations, whereas Financial Services represents the group's FinChoice operations. The group's property company, which owns 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.

11. 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 2020, 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.

NOTES TO THE SUMMARISED GROUP FINANCIAL STATEMENTS
CONTINUED

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

	2020 Rm	% change	2019 Rm
Approved by the directors	18	>100.0	6

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.

A comparison by category of carrying amounts and fair values of the group's financial instruments carried at fair value is set out below:

	Fair value hierarchy	Carrying amount		Fair value	
		2020 Rm	2019 Rm	2020 Rm	2019 Rm
Financial assets at fair value through profit or loss					
The investments comprise shares in Guardrisk Insurance Company Limited and Guardrisk Life Limited. The investments are valued at the net asset values of the investees at the reporting date	Level 3	34	24	34	24

The gain from the investment for the year amounts to R10 million (2019: R11 million) and is recognised in profit or loss.

14. Contingent liabilities

The group had no contingent liabilities at the reporting date.

15. Financial impact of Covid-19 and going concern

Covid-19 has had a negative impact on the financial performance of the group during the 2020 financial year. Loan disbursements were curtailed by R700 million, lost Retail sales amounted to R264 million and debtor costs were R124 million higher due to higher bad debts and increased provisions. Group debtor costs increased by 21.9% to R874 million. As a result, operating profit was R270 million, 60.2% lower than the 2019 financial year. Management applied additional overlays to the provisions of R16 million to account for the short-term economic outlook.

At the onset of Covid-19 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 in disbursements. Credit-granting criteria for retail customers were tightly managed and lower credit limits allocated. A strong focus on collections and incentivising customers to make use of digital payment options, resulted in an increase of group digital payments. As a result of the strong focus on cash management, the group increased its cash conversion rate to 177.0% (2019: 58.2%) and achieved a very healthy cash balance of R415 million (2019: R32 million).

The group incurred additional Covid-19-related capital and operating expenditure of R22 million to enable the business to operate during lockdown. This included personal protective equipment, hygiene and deep-cleaning costs, additional computer equipment and data to enable staff to work from home. The group also negotiated rental relief from landlords as a result of stores being closed during the lockdown period.

During lockdown the group successfully refinanced and upsized the banking facilities to R1 050 million with unutilised facilities amounting to R655 million excluding cash, at year-end. Despite the negative impact of Covid-19 on operations, the group's healthy cash on hand and borrowing capacity have remained available to sustain and grow operations. There is sufficient liquidity for the group to meet its obligations. The directors confirm that the group did not breach any bank covenants during the 2020 financial year.

The group assessed the going concern assumption at year-end as a result of the current economic, trading and operational conditions on the group consolidated annual financial statements, as well as the financial statements of each statutory entity. The directors are comfortable, based on the forecast evaluation and current financial position, that the group will continue to operate as a going concern for the 12 months after year-end.

The group has performed a line-by-line assessment on the annual financial statements for the year ended 31 December 2020 for the impact of the Covid-19 pandemic on the business and its financial and operating performance. The following material financial statement line items were considered and appropriate disclosures have been made.

15. Financial impact of Covid-19 and going concern (continued)

Impairment of trade and other receivables

Management actively managed the risk scorecard and customer payments and therefore the criteria used to assess significant increase in credit risk (SICR) was not amended for Covid-19. Customers experiencing negative impacts resulting from Covid-19 were permitted to apply for payment relief. No blanket payment holidays were offered.

It is one of the fundamental principles of IFRS 9 that the expected credit loss (ECL) allowance for potential future losses takes into account changes in the economic environment in the future.

Because the current economic stress is so severe, the impact of historical macroeconomic relationships on the group's trade and loan receivables is not expected to be linear. For example, higher inflation and higher interest rates equated to higher impairments pre-Covid-19. During 2020 the SARB dropped interest rates by 3.0% but this cannot lead to a drop in the aggregate ECL even though it may reduce the severity of the increase in the ECL. Management therefore tested this statistical relevance and concluded that a statistical model based on macroeconomic variables cannot be used to determine the impact of forward-looking information based on the ECL model.

The group expects similar customer challenges in 2021 to the 2020 financial year because of the likely time required to roll out the vaccine and achieve herd immunity. In order to allow for a distressed macroeconomic environment similar to 2020, the model was calibrated using 2020 data. The model estimates are set based on 2020 data and therefore represent the stress experienced in 2020.

Trade and loan receivables written off

Management introduced new credit-granting criteria using employer and industry-based data to determine more acceptable levels of risk for new customers. In addition, the increase in percentage of collections using debit orders provides more certainty that customers will be able to pay their accounts. Bad debts written off increased by 15.7% during the year ended 31 December 2020.

Net realisable value of inventory

Annually, the group assesses all inventory categories for possible write-down to net realisable value, should this be lower than cost.

As a result of the ongoing Covid-19, the group, in its assessment of the net realisable value of inventory, considered future sales patterns and resultant impact on the net realisable value of inventory. This resulted in higher-than-normal (82%) stock levels transferred to obsolete status, which attracts a higher obsolete stock provision rate.

The additional provision for obsolete stock as at 31 December 2020 amounts to R11 million.

Leases

Refer to note 1.2.1.

Share-based payments

The group has taken into account the effect that Covid-19 has had on the economic environment in determining the number of shares likely to vest and, consequently, the number of share options which are likely to be exercised. The fair value of shares and options are determined at grant date using economic indicators applicable at the date of the grant.

15. Financial impact of Covid-19 and going concern (continued)

Impairment of non-financial assets

The group has assessed the impact of Covid-19 on the assumptions and significant judgements made in the valuation of non-financial assets. HomeChoice has a Covid-19 response plan in place to mitigate the pandemic's effects on its people and businesses as far as is practically possible to do so. In this context, management does not anticipate that the effects of Covid-19 will have a lasting impact on the productivity of the group's property, plant and equipment, intangible assets and right-of-use assets. In assessing the potential future impact of Covid-19 on the value of these non-financial assets, the following factors were considered:

- that the group's Retail and Financial Services segments will be permitted to operate during all levels of potential future lockdowns. While the retail business was impacted by operational challenges in the harshest lockdown level 5, it remained profitable during 2020. Given the anticipated benefits of new initiatives and the expected return to normal trading in the short and medium term, no adverse effects on the present value of future cash flows of the non-financial assets are foreseen;
- the group is a going concern and plans to continue using its property, plant and equipment, intangible assets and right-of-use assets to support its revenue-generating activities. Consequently, there is no significant negative impact on the planned productivity of the non-financial assets. Management expects that any changes in the carrying amounts of non-financial assets will be immaterial in the medium term; and
- the group has forecast positive cash flows for the Retail and Financial Services segments, in line with an improvement of the GDP growth rate over the short to medium term.

16. Events after the reporting date

HomeChoice International plc acquired an 85% interest in the issued share capital of a financial services company for consideration of R45 million on 1 March 2021. No other event material to the understanding of these financial statements has occurred between the end of the year ended 31 December 2020 and the date of approval.

17. Audit opinion

This summarised report is extracted from audited information, but is not itself audited. The group annual financial statements were audited by PricewaterhouseCoopers, who expressed an unmodified opinion thereon. The audited group annual financial statements and the auditor's report thereon are available for inspection at the company's registered office.

The directors take full responsibility for the preparation of these summary group financial statements and that the financial information has been correctly extracted from the underlying group annual financial statements.

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 (Chair)*, G Lartigue (Chief Executive Officer), P Burnett

Non-executive directors

A Chorn, A Ogunsanya* (alternate), E Gutierrez-Garcia*,
R Hain, M Harris, P Joubert (Lead Independent Director)

* Non-independent

