Material issues and risks

The directors have identified material issues which could significantly impact the group's ability to deliver its strategy and create sustainable value for stakeholders.

These material issues are reviewed by the board and executive management annually as part of the group's strategic planning process, while the key risks are monitored by the board's risk committee.

In determining these material issues the directors consider several internal and external factors, including the group's strategy, the trading and economic environment, competitor landscape, external opportunities and threats, legislation and regulation, and the needs, expectations and concerns of the group's primary stakeholders.

Following the outbreak of COVID-19 the directors have reviewed the material issues to ensure these align with the significant impact of the pandemic on the group's business.

1 COVID-19 pandemic

The COVID-19 pandemic and related lockdown resulted in severe trading restrictions for the retail sector and continues to have a significantly adverse impact on the state of the economy and the financial position of many South Africans.

The group aims to limit the impact of the pandemic on the business operations and ensure the health and safety of staff and customers.

RELATED RISKS

- Change in shopping patterns with consumers reluctant to visit stores to avoid contracting the virus
- Potential disruption of the merchandise supply chain on local and imported merchandise owing to logistical challenges and factory closures
- Customers in the lower to middle income target market of the group's traditional brands are vulnerable to the rising levels of unemployment in the country due to the impact of COVID-19
- Store closures and trading disruption owing to staff infections
- Consumer spending contracting further in a post COVID-19 recessionary environment
- An increase in death claims and loss of income claims together with a possible increase in unpaid premiums
- Travel restrictions on operational management and collections staff resulted in limited levels of supervisory oversight and the inability to execute our collection model

RISK MITIGATION

- Crisis management team comprising senior executives established to manage workplace impacts and risks
- World Health Organisation and National Institute for Communicable Diseases protocols maintained across all stores and offices
- Effective business continuity plans for working remotely during period of extended lockdown
- Focus on cash preservation
- Tight cost management
- Discounted fees negotiated with suppliers and service providers during period when stores were closed
- Electronic payment platforms established for customer account payments during lockdown
- Robust balance sheet and low gearing ensured the group was resilient to the decline in cash flow when stores were closed

2 Retail trading conditions

The macro-economic environment in South Africa has a significant impact on the group's operations and the current weak trading conditions can impact both sales and collections across the trading brands.

RELATED RISK

- Constrained consumer spending and weak consumer sentiment as a result of poor economic conditions

RISK MITIGATION

- The group's store-based business model has proven resilient through multiple economic downturns including the first four months of the lockdown period
- The amendments to the affordability assessment regulations of the National Credit Regulator enabling self-employed and informally employed individuals to again apply for credit, will continue to benefit sales
- The growth rate in other revenue is expected to move closer to the growth in credit sales over the medium term.
- The group's diversification strategy is expected to continue to support sales growth, with UFO, the group's cash business, continuing to perform well
- Industry consolidation and store closures by competitors creates the opportunity for the group's brands to increase market share

3 Credit risk management

Effective credit risk management aims to optimise the quality of the debtors' book by reducing debtor costs through improved collections and lower bad debts.

RELATED RISKS

- Inability to manage credit risk could result in higher bad debts, slower collections, limited new account growth and fewer customers being able to buy on credit
- External factors such as the COVID-19 pandemic, high levels of unemployment and tough economic conditions in the countries of operation could impact on the group maintaining the optimal quality of the debtors' book

RISK MITIGATION

- Ensuring continued focus on collections productivity and efficiency to increase collection rates and reduce bad debts
- Expanded strategy to convert more customers to the AEDO (Authenticated Early Debit Order) collection service
- Adjusting credit risk policies and rules to mitigate risks
- Focus on increasing satisfactory paying customers

Material issues and risks continued

4 Capital management

The efficient management of capital, financial risks and liquidity is key to the group's financial stability and to improving returns to shareholders.

RELATED RISKS

- Inefficient capital management could impact on profitability and returns to shareholders
- Volatility of exchange rate impacting on margin, pricing and merchandise planning

RISK MITIGATION

- Ensure access to capital at all times
- Ensure efficient allocation of capital
- Continued investment in organic growth and in the debtors' book
- Return funds to shareholders through dividend payments
- Continue the share buy-back programme at levels that are earnings enhancing
- Limit borrowings to ensure group's gearing remains low
- Manage currency exposure and risk, and hedge against currency fluctuations

5 Information technology

Leading information technology systems are critical to protect the group against the threat of cyber crime and limit the risk of breaches of data security and customer privacy, and avoid business interruption due to the unavailability of key operating systems.

RELATED RISKS

- Cyber risk could result in the breach of personal information, identity theft, loss of intellectual property and financial loss
- Legal liability and reputational damage arising from breaches in cyber security
- Business interruption owing to the unavailability of main operating systems and disruption to critical services could impact on revenue and profitability
- Loss of data as a result of the exposure of systems to mobile devices and other interfacing systems
- Unauthorised access to sensitive corporate data and customers' personal information
- Increased security risk from remote working and learning

RISK MITIGATION

- Monitor IT governance processes across the business through the IT steering committee
- Maintain and enhance the group's information security management system (ISMS)
- Self-assessment undertaken of ISMS information security practices
- Policies implemented to address data security risks and cyber security solutions
- Automated blocking of cyber threats by global specialists in cyber defence
- Adequate cyber insurance cover
- Business continuity and disaster recovery capability enhanced by upgrading storage and computer processing capacity at disaster recovery site

6 People

Attracting, motivating and retaining scarce and skilled retail and financial services talent is key to the sustainability of the group and the delivery of its strategic objectives.

RELATED RISKS

- Inability to attract, motivate, develop and retain competent people
- Skills shortage in retail and financial services sectors increases employee mobility
- Loss of key people and challenge of attracting and retaining staff in current climate
- Incentive schemes not attractive owing to share price underperformance affecting the long-term incentive schemes
- High levels of turnover

RISK MITIGATION

- Improve talent management
- Focus on remuneration retention schemes
- Ensure competitiveness of remuneration packages for key staff
- External salary benchmarking surveys undertaken to ensure remuneration is competitive
- Enhance recruitment and selection practices and appoint internal succession candidates to vacant posts where possible
- Enhance transformation through black economic empowerment to improve diversity at all levels in the group
- Investment in leadership training and development
- Implementing mentoring and coaching programmes

7 Regulation

Ensure compliance with relevant legislation and regulation and limit impact of legislative changes on margins and profitability.

RELATED RISKS

- Legal sanctions for regulatory non-compliance could result in material financial loss and reputational damage
- Changes in legislation and regulation could adversely affect margins and profitability
- Inability to respond effectively to ongoing regulatory changes

RISK MITIGATION

- Monitor compliance with regulations and legislation through in-house legal and compliance teams
- Mitigation measures and disciplinary processes implemented to ensure regulatory compliance in selling of financial products
- Engage with regulators on proposed legislative changes
- Ensure business is operating efficiently and identify alternate sources of revenue should legislative changes impact margins and profitability
- Focus on complying with licensing and related requirements of the new Insurance Act