02 MATERIAL ISSUES AND RISKS

Material issues have been identified which could significantly impact the Group's ability to deliver its strategy and create and preserve 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 reviewing the material issues, the directors believe the current issues remain relevant and appropriate and are unchanged for the 2023 financial year.

Factors influencing material issues

In determining these material issues, the directors consider several internal and external factors, including the following:

- Group's strategic objectives
- Economic and trading environment, with a specific focus on Covid-19 in the past two years
- Competitor landscape
- Industry trends and consumer behaviour
- External opportunities and threats
- Key Group risks
- Business threats and weaknesses
- Legislation and regulation
- Needs, expectations and concerns of primary stakeholders

1 Retail trading conditions

The macroeconomic environment in South Africa has a significant impact on the Group's operations and the weak trading conditions can impact both sales and collections across the trading brands.

RELATED RISKS

- Constrained consumer spending and weak consumer sentiment as a result of deteriorating economic conditions
- Consumer spending declining further due to rising unemployment which particularly impacts the Group's target market
- Government's Covid-19 relief grants being discontinued
- Civil unrest could disrupt trading, the supply chain and the production of merchandise in certain areas
- Increase in extreme weather events could disrupt trading, the supply chain and the production of merchandise in certain areas

RISK MITIGATION

- The Group's business model has proven its resilience through several downturns, and the strong cash flows and robust balance sheet will provide protection against the mounting economic headwinds

2 Covid-19 pandemic

While the severity of the impact of Covid-19 has reduced, further waves of infection could adversely affect the economy, business and the health of South Africans.

RELATED RISKS

- Potential waves of infections could result in lockdown restrictions being reintroduced
- Store closures and trading disruption owing to staff infections
- Disruption of the merchandise supply chain on local and imported merchandise owing to logistical challenges and factory closures
- The global logistics supply chain has been under immense strain, with freight costs at record high levels and reliability of delivery at historically low levels
- Rising unemployment due to financial impact of Covid-19

RISK MITIGATION

- Health and safety protocols maintained across all stores and offices
- Effective business continuity plans for working remotely
- Continued focus on cash preservation and tight cost management
- Robust balance sheet and low gearing ensures that the Group continues to remain resilient to any potential or unforeseen trading disruptions

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 effectively 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's ability to maintain the optimal quality of the debtors' book

RISK MITIGATION

- Adjusting credit risk policies and rules to mitigate risks
- Ensuring continued focus on collections productivity and efficiency to increase collection rates and reduce bad debts
- Expanded strategy to convert more customers to the DebiCheck collection service
- Focus on increasing the number of satisfactory paying customers

02 MATERIAL ISSUES AND RISKS

CONTINUED

4

Capital management

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

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

5

Cyber risk

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
- Risk committee regularly updated on IT-related risks and mitigation plans
- Continued investment in cyber security
- Maintain and enhance the Group's information security management system
- Policies implemented to address data security risks and cyber security solutions. Advanced Artificial Intelligence (AI) and machine learning technology implemented to allow for the detection of irregular human and machine behaviour which may indicate a possible security event
- Autonomous response technology implemented that determines the appropriate response to attacks
- Ongoing, proactive penetration testing and vulnerability scanning of both internal and externally facing network security devices and applications
- Ongoing information security awareness campaign with regular communications to staff to raise awareness of evolving cyber threats
- Adequate cyber insurance cover

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 value of long-term incentive schemes
- High levels of staff turnover

RISK MITIGATION

- Improve talent management
- Focus on remuneration retention schemes
- Ensure remuneration packages for key staff are competitive and externally benchmarked
- 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
- Continued investment in leadership training and development
- Enhance mentoring and coaching programmes

7

Regulation

Ensuring 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
- 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 licencing and related requirements of the new Insurance Act