COVID-19 UPDATE

As a company with wide-reaching influence in South Africa, we are committed to uniting with all citizens to protect the well-being of the nation. We feel the responsibility to respond to the COVID-19 outbreak in a manner that meets the level of urgency that the Government has requested.

Our peoples’ safety is our number one priority. The management team is doing everything possible to mitigate risk and ensure we minimise the impact of the virus. We also acknowledge our duty to consider all our other stakeholders – including communities, customers, suppliers and investors.

When the outbreak first hit South Africa, we implemented extensive precautionary measures to ensure that our workplaces and stores were safe for our associates and customers. These measures were in accordance with the guidelines provided by the World Health Organisation (WHO) and the National Institute for Communicable Disease (NICD). We continue to monitor the information provided by the Department of Health and will adhere to their recommendations.

Initial concerns were about supply as factories in China closed due to the outbreak and spread of COVID-19. China represents approximately 47% of our order book, which positions us at the mid-point of other South African retailers, in terms of imported merchandise as a percentage of sales. In the early weeks of the outbreak we acted swiftly to ensure our supply chain was able to adjust to replace the most at-risk merchandise.

In recent weeks supply concerns have shifted to demand. In the first two weeks of March prior to President Ramaphosa’s first announcement on 15 March, sales grew 8.6%. For the period between 16 March 2020 and 24 March 2020, sales progressively deteriorated and fell 22.1%. Demand for apparel and homeware merchandise has been significantly impacted as consumers prioritise hygiene and food related goods. This trend has been seen around the world as social distancing initiatives have negatively impacted discretionary spending.

On 23 March 2020, President Ramaphosa announced a lockdown that requires South Africans to stay at home except for essential purposes. Our stores, e-commerce, head office, distribution centre and call centres will all be closed between 27 March 2020 and 16 April 2020. As a result, we anticipate making no sales in South Africa (c.92% of Group sales) over the lockdown period. To quantify the potential impact, in the first three weeks of FY2020, R1.2bn in sales were achieved.

Energy is now focused on managing the order book as effectively as possible to overcome impending stock build-up. Due to the lockdown, it will be impossible or impracticable for orders already placed for delivery between 27 March 2020 and 16 April 2020 to be manufactured and/or delivered and received per the terms of the original orders. Based on our partnership approach with suppliers, where possible, our aim is to in good faith renegotiate new delivery dates when the lockdown period has ceased, and our respective business operations resume. We are currently engaging with our suppliers to achieve an acceptable outcome.
We are in support of the lockdown as the most effective measure to try and control the impact of the virus. We do however anticipate further uncertainty, which could significantly decrease demand in the weeks and months ahead. This makes it very challenging to accurately quantify the total impact of COVID-19, but there is no doubt that it will materially affect performance in FY2021.

In these extremely challenging times, we take comfort in our strong cash position. As a value retailer with a strong balance sheet we will be better positioned than most. All divisions are working hard at managing their cashflow through a variety of initiatives. Value thinking and a sharp focus on cost management are always central to every decision we take. An even stronger emphasis has been placed on this and several opportunities for cost management exist. Reducing capital expenditure, slowing down new space growth and seeking rent relief are a few of these.

Annual salary increases for head office associates have been delayed until further notice. In addition, our executive management and board of directors have committed to a cut in salaries and fees. In the spirit of partnership, we have committed to pay all our associates their full salary and benefits in March and April, despite the lockdown. We have always said that people are our most valuable asset and now is the time to show it.

The debtors’ book, previously reported at R2.1bn, is expected to come under pressure. Generally, collections have met expectations, but the plight of consumers will impact their ability to manage repayment. As a result, we anticipate collections to deteriorate.

We are conscious that the lockdown period extends over our FY2020 financial year end. We will need to assess the impact of COVID-19 on the current financial year, as well as consider the timing of the lockdown impact on our reporting period deadlines. We will continue to monitor the situation and consult with our sponsor and the JSE if necessary. The impact of COVID-19 may also affect the declaration of the FY2020 final dividend. This will be considered during the FY2020 year-end process.

The virus has only been in South Africa for a short period of time. Despite this, there have already been multiple changes to the situation to which we have had to adapt. We remain devoted to ensuring that we exercise the resilience measures at our disposal over this challenging time. We are currently in a prohibited trading period and move into a closed period on 28 March 2020. We remain committed to our stakeholders and will communicate as frequently as is warranted by upcoming events.

Durban
26 March 2020
Sponsor
RAND MERCHANT BANK (A division of FirstRand Bank Limited)