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EDITED TRANSCRIPT

TFG.J - Full Year 2019 Foschini Group Ltd Earnings Presentation

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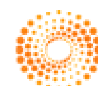

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PRESENTATION

Anthony E. Thunström - *The Foschini Group Limited - CEO, Member of Operating Board & Executive Director*

TFG results presentation. Before we get into the formal presentation, just a couple of special welcomes. And we had very positive feedback last year when we had Ben Barnett come and speak to us about what's happening with TFG London. Local knowledge, I think, goes a huge way in terms of context and understanding. Ben great to have you back with us this year. Equally, Gary, fantastic to have both yourself and Dean representing TFG Australia. Thanks for making the trip. Really appreciate your presence. And a very special and a warm welcome to our new CFO, Bongiwe Ntuli, sitting in the middle, wearing a stunning blue Hobbs dress, flown over from the U.K.

Somebody said to me while I was standing outside, "You must be very relieved that you now have a CFO in place." And I said, "I cannot explain it." And the comment was at the last results presentation, you looked like you might just implode and that probably wasn't inaccurate. So Bongiwe, welcome. Fantastic to have you as part of the team. And then before we get into the actual presentation, just some acknowledgments of our Chairman Michael Lewis together with a number of our other nonexecutive directors and members of our operating Board and who's talking with us tonight, welcome to everybody.

And in terms of the agenda. We've got quite a lot to cover. In essence, we're going to be talking about -- a little about our operating context in the 3 regions that we operate in and review of our financial performance during the past 12 months, a little bit about our strategy going forward and then we're going to conclude with our outlook, as far as one candidate, one at this point in time for the year ahead. There is quite a lot to cover. We're going to try to limit this to 1.5 hours. It means we're going to move quite swiftly to try and get through it. And ideally, let's take questions at the end unless there is something absolutely burning.

We took a lot of care this year in terms of trying to find some really relevant great shots of our product, so we'll touch on some of those as we go through the presentation. You can see these are being chosen because they clearly show Redbat very prominently on the front. Redbat, for those of you may not know, is our own brand within Sportscene. It's doing incredibly well. And if you really have to look at the South African demographic and population and who spending money on fashion, it's very much people who want to dress like this, so probably a good leader.

In terms of operating context, look, we don't like -- none of us like to talk too much about the economy. It would probably depress you. But secondly, we very much focus on finding opportunities and exploiting those that we can in the territories that we operate in. And when you talk too much about the economy, it can end up sounding a bit like an excuse. Having said that, it's necessary to have some context in order to understand our results. I think it's fair to say that both the South African and the U.K. economies have been pretty torrid over the past 12 months. The South African economy, in particular, there really hasn't been any good news. We had GDP growth of 0.8%. When you're looking at 0.8% that margins will be flat. We already had very high structural unemployment in South Africa going into this last financial year. Unfortunately, it's got even worse. If you look at it from a consumer point of view, you've had less jobs, as I said, with higher unemployment. You've equally had quite a rise in living costs. And fuel prices, in particular, affect your low income earners disproportionately and all your administered prices, water, electricity asking rates, have really gone up at above inflation and above salary increases.

You then overlay that with the fact that we've had a huge -- we had political uncertainty in the build up to the elections. We've just had -- the consumers had, in general, I think less money to spend. And less propensity to spend even if they did have money. So South Africa, not a great place over the last 12 months. The net result is if you just want to look at it from a metrics point of view, consumer confidence on an index basis

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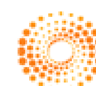

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dropped from 26 points to 2 points over the 12 months. I mean that's a dramatic fall. Business confidence just as a matter of interest dropped from 44 to 28 over the same period. That's the single biggest drop we've had since 2007, which was obviously on the back of the GFC. So yes, not an easy space to operate in. The U.K., which I think -- we think is tough, actually seems not too bad in relation to that. GDP growth of 1.4%. But again, similar story I think in terms of consumer confidence really being depressed with a lingering uncertainty over Brexit. I think we've had a couple of other issues in the U.K., but shift to online is continuing to pace and the department store model which we know is under pressure all over the world. I think that pressure is intensified in the U.K. more than most markets. And we've seen a number of businesses go or get themselves into difficulty.

Australia, on other hand, with GDP at 2.3%, actually looks quite positive. In South African terms, if you go out to dinner and you talk to people about doing business in Australia, they often shake their heads and say, "You must be crazy, what a terrible, tough economy to be in." From where we sit, I don't think, we think it's too bad. Gary will talk more about that later. But really, the economy has been growing consistently now for quarter-on-quarter for years. We haven't had a hiccup. Consumer confidence, business confidence are in intact. Consumers are spending money and most importantly, as Gary will tell you, unemployment is at a record low at 5%. When you compare that to South Africa, just gives you a bit of a reality check but it means you're consumer there is still spending money.

Then really, in terms -- I'm going to talk about how we performed over the 12 months and again, I said, I'll talk about some of these photographs. Again, this is the Sportscene store Canal Walk opening. And the chap from the middle here is a rap artist from South Africa called Nasty C. I can see that that's not resonating with too many people in the room. That's because you are too old with respect. But again, the people's -- when you look at the age profile of South Africa, you look at who is spending money, it's kind of people of this age. And he did a collaboration with us. He produced a beautiful outfit that was black, orange with lots of black marks on it. It was actually a take on the South African prison uniform, and we sold out in about 2 days. So you know, the vagaries of fashion.

And in all seriousness, I'll try to get one slide that summarizes I think what our performance looked like for the year and I'll take you through it from top to bottom. We had group turnover growth of 19.6%, fantastic number that obviously has some noncomp element in it in terms of the fact that we've now got RAG and Hobbs in for the full year as opposed to only a portion of the year in the previous period. But having said that, if you unpacked the turnover growth in South Africa, the U.K. and Australia, and I think we'll be very happy with all of them. They are certainly above market in all 3 of those territories, and we will get into more detail on that in the next slide. If you look at then what underpinned those turnover growth, for me one of the most gratifying was this online turnover growth 57%. We've spoken of for over a year about our push into digital transformation. Online and omnis are only part of digital transformation. I'll be talking more about that later in the presentation. But when you're making the investment and putting in an effort, it's great to start to see the returns. That's taken our online sales throughout the group to just below 9% this year. And for traditional bricks-and-mortar retailer, that's actually a big number and that's going to continue to grow.

The other 2 numbers on the turnover side that are relevant I think are comp store growth in South Africa, at 5.6%, which is really fantastic number. But then, Australia, up 7.8% which is just off the charts almost anywhere in the world. That's really an efficiency number. It means you're not having to open more stores to drive sales. It's utilizing the store base that you've got. That means your product is appropriate, people want to buy it and you've got your service intensity right on the stores. You may well ask why we don't create a number for TFG London. It's not because it's a number that doesn't stack up to that. It's very simply that a big portion of the London sales are through concessions. We have nets in department stores. Those nets move every couple of months. We don't have a reliable base to work from, but then we'll talk more about that later on. So that's -- that (inaudible) really deals with our turnover.

If we then look at the next most important set of numbers in our world, it's really around gross margin. And as you all know, I think both in South Africa, certainly in the U.K. and to some extent, in Australia, gross margins have been under pressure. There's being huge levels of discounting and promotional activity in a tough economic environment or retail environment as you'd expect, so you would almost expect that number to contract. Our numbers actually extended 52.5% last year to 53.6%. Again, it might sound like a small move and a small margin, but you take that across ZAR 34 billion worth of turnover, it's very significant. They're 2 reasons for the move: one is as our international businesses play a more important and bigger part of our total turnover and they contribute to our higher gross margin. Your gross margins in the U.K. and in Australia are higher. They have to be to cover your operating costs. So that's almost -- that part's almost to be expected. You'll see in some of the later slides and Bongiwe is going to unpack this for you that we've also had gross margin expansion, South Africa. And just given that that's our largest market that really is very gratifying.

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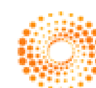

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We've spoken in the past around the fact that we believe manufacturing for ourselves, doing things on a quick-response basis, lessens our own fashion risk. It allows us to reduce the amount of markdown we take. Ultimately that leads to better gross margin amongst other things and underpinning that number, in terms of our own units manufactured this year, they grew by 40%. So to put that into numbers for you, it was 5.9 million in the previous year units and that's growing to 9 million units. That is way ahead of our own expectations. And again, just to emphasize how this works, we don't force any of our retail divisions to source from our own factories. They get to choose to buy from anyone, anywhere in the world. Best quality, cheapest price, most on time. Increasingly, they're seeing the benefits of that lower markdown. And if it works in one division, the next division is saying, " You know what I'd like a bit more of that to myself as well." So that's really pushing the demand for own manufacturing.

All of this then ended up at a profit level, with our headline earnings up 12% and our headline earnings per share up 9%. The difference relates to the number of shares we issued in the previous year for the acquisition of RAG. Very happy with both sets of numbers. And if you want to exclude the acquisition costs that would be 8.5% and 5.6%.

That really deals I think with the income statement or the profit and loss side of our business for the year. And if we again, just think about how we generated that, what impact that had on our borrowings and on our balance sheet. If we look at this bottom row here, we achieved free cash flow of just under 87% of our profit. And on the back of that, we've reduced our debt-to-equity ratio from 62% to 57%. That in itself I think is great. Almost regardless of how you achieve that. What I think makes it even more exciting for me is the fact that the actual state of the both sets of those numbers, they stated after having invested nearly ZAR 1 billion back into CapEx in the business. We're going to talk again, in one of the later slides around why we believe it's important to carry on investing throughout the cycle and where exactly that money is being spent, but I'll give you a heads up. Increasingly, it's being spent on digital.

And then just as a final note on this and listen viewers, we actually had to change the slide a couple of days ago but very happy to do it. Our BBEE status has just increased from level 7 to level 6, which takes us certainly into the top quartile of retailers in South Africa and our goal is to continue to improve that score in the next year or so.

So at the risk of trying to oversimplify what is quite a complex business, I think this slide, hopefully, gives some context to the year. To unpack this in slightly more detail. If we just take a look at where some of that turnover came from. 64% of the turnover came from Africa, 22% from London and 14% from Australia. The growths were 8.9% for Africa, 3.5% on a normalized basis for London and 14.5% on a normalized basis for Australia. The bigger numbers, there are obviously the fact that some of that's noncomp, as I said, earlier on. I made the earlier statement that I think we're happy with those growth rates in each of the markets and they are quite well ahead of most players in those markets.

If we look at the tender. Cash versus credit splits, cash is now 72% of the group and our credit 28%. The credit growth number is a comparative number that grew by 7.1%. The cash grew by 25% and again, portion of that is adding on additional businesses -- international businesses which are 100% cash. What's interesting is if anybody was listening to a similar presentation 7 or 8 years ago, those metrics would've been the other way around. So we're very happy with credit in there, but it just reflects I think a change in the nature of the business.

Then in terms of online versus bricks. 91% of our turnover currently comes out of bricks-and-mortar. As I said, just under 9% on online. Online grew 57% and the outlet sales at 16.9%. And then from a merchandise category point of view, clothing at 82% of the group. The next slide shows a bit more around the various levels of diversification. But for us, given that that's where a lot of the high margin business in the group lies, it's a very good space to be at the moment.

This is again a kind of colorful slide. And I did show it at the interims. The reason for showing this is twofold: one, it's really to show the diversification and the contribution from the different merchandise categories; but secondly, it's really to dispel a pervasive theory that TFG's business is underpinned entirely by sports. I've heard that in so many meetings. We decided to actually construct a graph to show that it wasn't really the case. Sports is important, it's a great part of our business but it's actually 19% of the business. What that graph really illustrates, I think if you had to take one takeout is the growth of our international business that started in March 2015 from basically 0 and now contributes 36% of our turnover. So if you really want to know where the growth in the business has come from, it's predominantly been through international, but yes, maybe that puts that into perspective.

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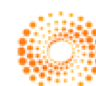

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Okay. A couple of events during the year. I think the first thing just to note is that I've spoken a lot about getting Hobbs and RAG comparative. Both businesses have been fully integrated into TFG. It feels like we've had them as part of our business for years. Reporting-wise, operationally wise, governance-wise, control-wise, they are as much part of our business as any other part at the moment. The second point was during the course of the year, and we do this every couple of years, we had a good look at our portfolio of brands. We looked at the returns on capital that each of our brands was able to return. We had a look at the future market size for each of them. And we also took into account the amount of management time left in bandwidth that went into looking after the different businesses. The net results at the end of that exercise was a decision to wind down 2 of our South African businesses, Duesouth and Fabiani Women. And then to exit 2 of our franchise agreements: Charles and Keith and G-Star Australia. The entire costs of all that -- of that exercise have already been absorbed in this year's results, so there's no impact or overhead into next year. And from a net bottom line perspective, you can expect no real impact anyway.

Some people would sit back and say, "Closing down a couple of brands doesn't feel like a good thing to do. It's sort of mission failure." To the contrary, this is very much part of our DNA at TFG. We believe you have to be able to start incubating new businesses, try new concepts, try different commodity types. Some will grow into great businesses like the Totalsports or a Sportscene and others won't. And the trick I think is to have the courage to know when to put a line through them and rewind and redeploy that capital. As a matter of interest, all the people that are working on those South African businesses have been moved across into vacancies that we were struggling to fill and businesses have been going at 2 or 3x the speed. So absolutely part of what we do, and we'll continue to do that in the future.

From an e-commerce point of view, I've really spoken about the contribution and the growth that we did add 2 additional brands online during the year. We now have 23 of our 29 online and the balance will follow in due course. We've had an accelerated investment in digital transformation. I'll give some more flavor to that in the next slide. We've done a lot of work on supply chain optimization. I hinted at that when I spoke about the 39% growth in units, but again, just to give a little bit more context, our growth in quick response units and by that, we mean units that we can produce on average in less than 42 days from the time we decide we need them. That grew by 50% during the year and now contribute 60% of what we procure locally. So it really is starting to get scale and volume behind it.

And then from a back-office point of view, we did say that we were setting out to take what were effectively 3 very separate businesses in the U.K. and create a platform, a shared service center for the 3 of them. We appointed a new CFO in the U.K. She took the bit between the teeth and is pleasingly well ahead of where we thought we would be at this point. Almost everything has been rationalized already. Ben will provide a more detail update in his presentation, but we'll be totally complete by the end of this financial year. And it gives us a single platform which really puts us in a position to potentially take advantage of other acquisition activities, should they come about and should they meet our criteria in the U.K. in the future. Up until now, certainly, over the last 8 to 12 months, we probably couldn't have done anything even if we wanted to do. And then we're continuing to look at cost base within our South African head office as well. And that links very much to the digital transformation.

Okay. So I'm going to -- this slide tries to give a sense and capture what we are about with digital transformation. Before I go into the detail, again, when you talk digital transformation, most people gravitate towards online and e-commerce. Online is a big part of this. However, it's a lot more. And bricks-and-mortar retail tends to be a very old school, traditional business. It's got lots of people, it's got stores, processes tend to be manual, people write things down in pieces of paper. And the use of artificial intelligence, robotic learning, conversion counters and smart software to optimize processes is only really starting to creep into retail. You're seeing it in some best-of-class retailers globally. There's very little evidence of this thus far in South Africa. We believe that when it comes to digital transformation if you're not investing at the front of the curve and you kind of stand back for a year or 2 and wait for everyone else to do it, you do tend to get left behind. And probably the best example of this would be what Amazon has done to the retail market in the U.S. And it's not -- again, not just about online, it's about their performance centers, it's about their logistics, it's about the AI and the Big Data that they employ. If you sit back and just let those thing get away from you, you actually become irrelevant.

Over the last decade, we've been investing heavily in technology and in digital. And again, probably at the front end of the curve. And I think we've realized that now is the time to go about this with even more determination. To give you a sense of some of the projects that we've rolled out in the current year, we started to roll out -- I'm just going to run through them. You may not be able to see them back in the room because they're in green. And then I'll just give a flavor of one or 2 of them and if you want more information, I'm happy to talk about them at the end of the presentation. We're rolling out -- we just started rolling out RFID. We completed rolling out Yoobic. We've just started with OneStock and single view of customer is in progress. Workforce management is about to kick off. Customer conversion links to workforce management. And so it goes. And to give you

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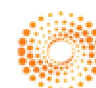

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a sense of just what some of these actually mean because you may not be familiar with all of them. RFID is radio frequency identification. What it means is that in every garment, you have a -- effectively a microchip built into the clothing tag. When it comes to running a store and you have 2,500 of those in South Africa. At the moment, you can only count stock probably once every 6 months. It's just too disruptive, takes too long. With RFID, you can count with a 99-point-something percent accuracy an entire store in 20 minutes. Previously, that would have taken 6 to 8 hours and would have been done, as I said, maybe twice a year. You can now do it weekly. And if you're worried about shrinkage or theft from the store, you could do it in theory daily. It's an absolute game changer. What it also does is it gives your absolute clarity about what stock is in the store. It means you should never lose a sale if you've got stock either in the stockroom or tucked somewhere on a shelf. At the moment, it's pretty much a game of chance.

On a global scale, Inditex, Zara have rolled this out. In South Africa, Ackermans have done it partly, nobody else has done it. We believe this will be a game changer in South Africa. We've rolled it out in Markham already. That's done and dusted and just the results have been beyond I think what we expected.

Single view of customer. We've got all our different brands. In the South African business, we've got just under 14 million customers as you kind of sit back and say, "That's a fantastic space to be." And it actually is. And the reality is each one of our brands targets its own customer base. We don't have ability at the moment to target communications to customers who might have an affinity to another one of our brands or to really understand whether Joe or Jane likes buying full price or only when it's 50% off or winter clothing, summer clothing or any variation of that. It makes it impossible at the moment to do really targeted online campaigns for individuals or to make them the right rewards offer. And we have undertaken a significant project. This will be a 2-year project in totality to pool all of that data into a data lake and to really make that information available to personalize offers to our customer base. And again, all the banks are doing this at the moment. It's relatively new in retail in South Africa.

Workforce management. And I said that, that links to customer conversion. I'm sure that Gary is going to talk about customer conversion. It's something we've learned from our RAG business and the exposure to it. And we rolled out just over 1,000 conversion counters in our South African stores. For those who might not understand that, effectively, it's a very advanced camera system that measures the number of unique individuals walking in or out of the store during the course of a day. And it plots it down to the minutes, to the hour, to the day, to the week, and it's then link that to how many sales were made during the corresponding period and essentially, it calculates the conversion rate, how many people who walked in converge into a sale. If you're trying to manage a store and if you're trying to plan the number of staff that should be in a store at say 11:00 on a Saturday morning at the end of the month, this gives you an ability to do things that in the past were pure judgment. Rule of thumb experience and worked out in a piece of paper. And again, an absolute game changer. We've trialed it in Sportscene. The results in Sportscene has also been staggering. We had uplifted over 100% of sales. Over the period, we put more staff in.

And then finally, just on e-commerce. There were a host of things to talk about there. We don't have the time to get into the detail, but I'll share just one. And it links to this OneStock program that I spoke about here. Traditionally, the way that bricks-and-mortar e-commerce work is that as a company you set up an e-commerce DC, where you store x amount of e-commerce merchandise. When you go onto the website, you can only have access to what's physically being set aside. When you've got 2,500 stores, as you can imagine, you've got multiples of that stock sitting available across the country. And you end up missing a huge amount of sales. Probably in the region of 40% if you run it on the old model. And what this allows you to do is if you go onto our website, whether or not we have it in online DC, it allows you to access stock across the entire store base in the whole country. In theory, you should never ever, ever, ever miss an online sale. We trialed this in Totalsports a couple of weeks ago. We did it with one store and then we saw how quick the demand grew, and we put on another 3 stores. So 4, in total. We sold over 300 additional orders in a 4-week period that we otherwise would have lost. There were some teething operational problems. If we hadn't worked out that number probably would have been close to 500. That is literally with having 4-store stock available over and above what's online in DC. So I probably haven't done this justice because again, you could do an entire afternoon on it but hopefully, it just gives you a flavor of what we're aiming at. In terms of commitments to this, we're going to be spending over ZAR 0.5 billion over the next 3 to 5 years in rolling out these and some other majorly transformational technology projects and together with that comes an operating expenditure in the region of about ZAR 250 million.

Bongiwe?

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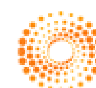

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Bongiwe Ntuli - *The Foschini Group Limited - CFO, Member of Operating Board & Executive Director*

Thank you very much, Anthony. I'm very pleased to be here this afternoon. Good afternoon to you all. And the past few months for me at TFG, if anything or if nothing, has been exciting, full of steep, steep learning. I'm still here, so all good. But on a very serious note, I am very pleased to have joined a very competent team, both locally and internationally under the leadership of Anthony and obviously, I suppose who I report, whom some of them are here today.

Let's then -- before I get onto the finances, let's just -- let me take you through some of the legislation and the accounting change that have impacted on our results in the past financial year. IFRS 15 I think previously you have been aware that would -- accounted for all our lay-by turnover when the customer enters into a contract with us. IFRS 15 requires that we actually wait till the contract is concluded, and we turn it over to the customer before we then recognize the revenue. This has had an impact of about I think ZAR 27 million in our past financial results, so it has not had a very material impact on our result. And going forward obviously we will be accounting for all labor revenue on this basis. IFRS 9, Jane would have spoken to this at the interim, but it talks to how we calculate our provisions and talks to more forward-looking and -- rather than providing on some of the known elements. But again, Jane in her credit section will talk to this and the impact it has had on the TFG provisioning.

There's never rest for the wicked. Next year, IFRS 16 hits on us. We've decided to apply this retrospectively. And this talks to how we actually report on our leases or account for our leases. Previously, we obviously -- all our leases are operating in a off balance sheet and we had one rental expense in our income statement. Going forward, the statement requires that we actually raise an asset equivalent to the rights of use we have of that asset and the corresponding liability. And then in the income statement, the usual rental expense line is then replaced by depreciation and interest. Obviously, everyone is curious to know how this will impact us as we have obviously 2,500 or 4,000 stores actually worldwide. We've done some preliminary workings. My auditors are here, so they'll keep me honest. But I think the impact on the income statement is that bottom line is unlikely to be very material. But obviously on some of the captions on the income statements like your depreciation, like your interest will be big but net overall in the income statement, not much.

However, on our balance sheet, I think we expect to raise an asset of about ZAR 7.5 billion and a corresponding liability of some ZAR 8 billion, ZAR 8.5 billion. This obviously will have an impact on our debt-equity ratios and on our -- and some of the metrics that our financiers and lenders use, undergoing the process of understanding the impact of that. And then internally, we've then also put processes in place and systems in place to account for this on a monthly basis and monitor the impact on our numbers. For the underlying business, the trade remains unchanged.

if I move to the legislative environment, there's a lot of things that impact us as retailers, largely on the protection of the consumer, POPI, et cetera, et cetera which my team has implemented in the past financial year. The one piece of legislation, which has not come into effect but sits with the President for signing is the Debt Intervention Bill. This impacts changes area very much, but obviously, impacts -- puts in a liquid impact on my income statement if it is enacted. Jane will talk to that as well, how it impacts on our provisions. We await to hear what the President and whether he'll sign this bill or not, but it will impact all retailers, obviously, who offer a credit to our customers and obviously I think largely the banking industry. So we wait to see.

I then move on into the financial section, the actual numbers. Anthony has spoken at length about this. It's very pleasing. Exceptional turnover growth on a reported basis of 19.6% on last year, which takes our revenue to now ZAR 34 billion per annum. Gross margin was also pleasing at the same time. Gross margin expanded for the whole group to 53.6%. And largely because of our higher margin, international businesses but also very good growth in margin in our Africa operations, which I'll take you through in the next few slides when I go to each segment in detail. Very strong EBITDA generation at 6.2% growth on last year to ZAR 5.2 billion in the current financial year.

I think on the bricks-and-mortar side, we grew our stores -- our growth was very muted when compared to the past. I think our net space growth only grew by 1.9% in the current financial year and I think that talks to all our digital and online drive and some of the numbers that Anthony has already mentioned that we are enjoying in online sales, and we are likely to see this trend continue, but I'll touch on each of the areas of our operation and talk about their outlet strategy or outlet growth. And obviously, the international CEOs who are here will talk to that.

Africa remains still our largest segment, South Africa, in particular. Retail turnover grew 9% in a country where GDP was muted, which obviously was very pleasing. Gross margins reported at 42 -- 48.2%, showing expansion on last year. What is I think -- also what I -- was very pleasing when I analyze the numbers was that at Interim, we would have reported much at 47.6%, which has showed a strong second half we had and which

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obviously then took us to 48.2% margin expansion by the end of the year. Pleasing as well, also turnover was -- the cash turnover growth in Africa of 10.3%. I always tease Jane and say no matter how stingy she is with offering credit to our customers, they love the product, they come and buy in cash. So we've had excellent cash turnover growth. I think one of our record cash turnover growth in the past, which means that actually, our cash sales now contribute 57% of our turnover and 43% is on credit, which again, I can only say talks to the demand of our product.

And just looking at some of the merchandise categories. Clothing, exceptional growth, 11.1%. And jewelry, in a difficult environment, still grew by 4.2% on last year. And homeware and furniture and cosmetics, growth has remained same level -- similar levels as last year. Very pleasing. I think Anthony highlighted what is exceptionally pleasing is the 5.6% growth on stores -- growth -- same-store turnover growth, 5.6% and again in a clothing category on the same stores, 7.5% growth. Very pleasing.

London and Australia obviously an noncomparable as we acquired our RAG businesses last year. But I think we did speak about their normalized turnover of 3.5%. And Australia's turnover growth at 14.5%. Again, Ben and Gary will talk more about the business environment and how we've achieved this growth.

Trading expenses. I've thought I'll spend a little bit of time in this. And our turnover growth in Africa grew 9%., while our expenses grew by 9.3%. I've met a few of you in the past few months through some of the analyst presentations and analyst meetings we've had and the concern is always been raised about operating leverage. I just want to -- and I have said that some of it we're focusing on. I think Anthony spoke about the back-office optimization work streams and project that we have embarked on. Australia and the U.K. are very far ahead in that, and we should see some of the benefits in the new financial year -- 2020 financial year. But still, if you look at -- and what I also wanted to highlight is our occupancy costs. We achieved through dedicated focused effort by our proprietary team, 13% rental reversions, which obviously resets our base in terms of our bricks-and-mortar stores. At the same time, on renewal, previously, we would have had renewals at 7%, 8%. We are achieving renewals at 5%, 5.5%, which again, is very pleasing in the current environment and I think we'll continue to drive this number down as we work with our landlords. And I think one of the biggest things, learnings or the things that we've done are changing approach. We've done is approach these landlords as a collective, really leveraging off the strength of our TFG Group and approaching landlords as a group instead of one online brand. And obviously, we are yielding results now -- positive results and we're seeing our cost base reduce.

London, I won't spend a lot of time on this, but exceptional growth in a very difficult environment on a reported basis. 31% growth in turnover. On a comparable basis, taking obviously into account the Hobbs that was acquired last year, 3.5% growth. I mean again, exceptional growth in currently where I think GDP was 1%, 1.5%. Gross margin very stable, despite a very promotional environment. I think as most of our competition went into liquidation, obviously, you can imagine the sales in -- personally enjoy go into the U.K. the past few years because you see red signs everywhere. I know David has too -- but yes, we've managed to achieve stable margins at 61.4%. Again, a lot of work on the supply chain side by our teams and very pleasing.

EBITDA, same amount reported as last year, GBP 25 million EBITDA and on the back of some write-off, some one-offs extraordinary items this year, one of which obviously I think was reported at half year had House of Fraser write-off of 2.5 and restructuring costs as I think Anthony alluded to the fact that we are optimizing our back-office. And I think I've mentioned it, and we just had to take some GBP 1 million restructure cost based on that space and people cost.

Again, I want to highlight our online contribution growing to 35% and international sales contribution at 20%, which means that we are less reliant on U.K. revenue now and our product is growing and the demand of our product is going exceptionally outside the U.K.

Trading expenses at U.K. I think are very much in line with our expectations. I think we know that last year, there was a National Living Wage laws that were implemented, which obviously talks to how we remunerate our store staff, which impacted on our costs, hence our employee costs grew to 8.7% and depreciation and amortization I think in line with our store growth. And again, in the U.K. through Ben and the team's efforts, we actually achieving rental and escalations of minus 3.8% compared to the 5.3% we used to achieve in the past. And I think the trend continues and I think the team is really looking at the portfolio and seeing if we shouldn't be going harder on brick-and-mortar, increasing our store base if obviously the model is derisk.

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Australia, I think, continues to just sail on and did exceptionally well at 58.3% on a reported basis growth in turnover. I think and I won't spend much time here, but I just want to say that most of our growth in stores actually has come from Australia, which again, is the -- Zuma has demanded more of our product. We've grown our footprint as well. And I think that trend is expected to continue into the future. It's a very nice slide in Gary's presentation where he just shows the growth in the number of stores for the past decade. I mean exceptional performance and obviously exceptional growth in turnover. We've trialed Americans, which I think we have spoke about at the Interim and that is still on trial. So we'll -- probably will report it -- on that in the future. It's still at very -- at early stages.

Trading expenses. I won't spend a lot of time with this. I think with all the growth that I've spoken about, you are likely to expect the expenses to grow at similar levels. But also, if you look at turnover growth and you look at expense growth I think we're achieving massive operating leverage in Australia.

If I then move on to the balance sheet. I think again, in some of the analyst discussions we've held in the past few months, we spoke about all the work that we're doing in working capital management and optimizing our working capital management as a team. It was pleasing that at the year-end, although our inventory number was up to ZAR 7.7 billion, our stock days actually reduced to 9 days. It's a lot of effort and work from the teams in this number, we'll continue -- we're hoping to continually improve year-on-year through focused project. I always say reducing our stock days is not an event but a journey. It talks to how we procure our items, our logistics, our DCs, et cetera, et cetera, so it's optimizing all those projects and all those processes internally through focused projects. And we'll be reporting on our progress on that probably at Interim or at the end of the financial year.

Creditor days and debtor days, I think Jane will talk to that details. But still show strong, robust and management of this balance sheet account.

I think I'd like to stop there on the balance sheet and then move on some of the borrowings. Let me just talk borrowings as well.

I will think as Anthony has said, our group gearing has reduced to 56.6% by year-end, looking strong cash generation by operations. Ben and Gary will talk to that as well of the great, strong cash generation over the past -- since acquisition.

And then this slide is quite interesting for me because it talks to our free cash flow and how we drive it of them. ZAR 4.3 billion in EBIT, obviously, this side of the -- of -- talks to some of the expenses or lines that we have to pay. We have to pay tax. We have to pay a depreciation. We to maintain our stores and spend a maintenance CapEx. But -- and if you -- if we're not to do the voluntary CapEx, which is our expansionary CapEx or the traditional drive we're doing, our free cash flow conversion will actually be well above 90%, 92%, which again, shows very strong cash generation, but we chose to do this and still at 86.8% is a great achievement by the group.

Anthony spoke to how we invest in the future. Just to give a little bit of color to that, 41%, I think is on maintenance capital. Very much still below 50% if you look year-on-year. A lot of our CapEx goes to the digital transformation. We found actually that last year, again, through focused efforts, we have reduced spend on store expansion and that has yielded a reduction in store CapEx by ZAR 90 million. But at the same time that was offset by an increase in our digital spend, our online platform, myTFGworld that you are all aware of, which I think is on line with our digital transformation journey. Same in the U.K. and same in Australia. A lot of digital -- a drive putting a lot of initiatives like conversions I think which Gary will talk to, that we have deployed in all our stores. So great story and hopefully, in future deals, begin to yield a positive contribution also on the top line and help us achieve the operating margins we have set targets for ourselves to achieve.

In conclusion, I thought I'll stop and I'll end with talking about some of the softer things we do and obviously where we spend some of our cash. At TFG, Anthony spoke about the -- what our TFG manufacturing units is doing. I think for me what is -- obviously, spend a little bit of time with our manufacturing team, how we develop and work with about 2,000, 3,000 employees directly but about also the other 7,000, 8,000 CMT suppliers that we work with. Which means that indirectly and directly, 10,000 to 11,000 people are benefiting from the local manufacturing work that we do which I mean, in a country like South Africa, we need that. We need that drive, and we continue to do that. And obviously, I was hoping this increases in future. At the same time obviously it increases our competitiveness as well and reduces our supply chain cost as well.

On the environmental side, some of our shareholders recently have asked us what we are doing on the environmental side. A lot of targets set by our proprietary team, by our CIO Brent. And he has put targets in stores on electricity consumption, on water, on recycling initiatives throughout

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the group and maybe in future also we'll report -- I think we'll see in our annual report. Actually this year, we'll go at length and put all the metrics that we have set as targets and how we've progressed in achieving those. Governance, I think it goes without saying that part of the JSE Responsible Index are part of many projects, who participate in the carbon project disclosure projects as well. And then empowerment I think to achieve a level 6 BBEE contribution did not happen fortuitously. I think it was real and a deliberate effort by management. And then a lot of initiatives internally both on the people side, management control side and also on the supply chain side and CSI spend.

So yes. Now that is it from my side. I'd like to hand over then to Jane who will take us through the credit section.

J. Fisher - *The Foschini Group Limited - Group Director of Financial Services & Member of Operating Board*

Come on. She did deserve a round of applause. That's her first presentation as our new CFO and well done, Bongiwe.

Okay. This slide is not in your deck. So if you're looking for it, it's not there. Okay, but a very wise person did suggest I might want to include it because it helps to set some of the context for the background in which we're operating. TransUnion have literally just released their consumer credit index for quarter 1 of this year and you'll notice that for the last 2 quarters, the credit index has actually dropped below that important 50% mark, and it's at the 48% mark. The 50% mark, of course, indicates whether the consumer's credit health is improving or deteriorating. So if it's below 48% or the full year index, it's saying things were tough. Now why are things tough for consumers right now? What you're seeing is there is a much higher level of defaults that are happening out in the industry, and that's the graph on the bottom left-hand side. But if you dig into the National Credit Regulator's reports and you look out where are these defaults actually coming from, it's coming from unsecured personal loans. It's not your home loans. It's not your car loans. It's not our store card facilities, okay, this is coming from short-term lending and unsecured personal loans.

Now we saw some signs of stress for our consumers last year before this information was released. We started tightening up our credit risk criteria from August last year. And we've tightened in August, November and February. So when this index information came out, in some ways, it validated exactly what we have done. And that tightening of our risk criteria was the right thing to do, and we've tightened up ahead of the curve. One other question you're going to ask is, "Well, we've just seen great turnover results, fantastic. Did you get that because of credit? Did you give away too much credit?" And the answer to that is no. Because our cash growth has grown at 10.3% whereas our credit growth has only grown at 7.1%. So when you're growing cash at a faster rate than your growing credit and you have great turnover results, it means you've got the right product in the stores.

So how did we get 7.1% credit growth? I've just shown you here a graph of the last 5 years. So the purple bar is actually showing you the applications that we've had over the last 5 years. Because things have changed a lot in credit over the last 5 years, with all the regulations, the legislation that we've had there.

In 2015, you can see, and I'm going to call it a typical year, we had about 1 million applications that came through, and our accept rate there was just over 50%. Of course, proof of income and the Affordability Regulations came in during the financial year of 2016. Our accept rates dropped, but really, in truth, that you only saw the full effects of that in our financial year 2017 because of when regulations came into effect. So you can see that accept rates dropped to below 40%, and I think it's about 37%.

2018, we won the court case. Great. But again, we won it towards the back end of 2018. And so you can see here that pent-up demand for credit only really came through in our financial year 2019. And this last financial year, we had over 2 million applications come through the door. Now our accept rates for the first half for the year returned back to normal, with 52%, around that 50% mark. But because of the strengths that we were seeing in the economy, we actually tightened up. So our second half of the year, we dropped our accept rates to 36%. Now I've kept the accept rates there because I think things are tough for our consumers right now. So we're going to keep our accept rates at that kind of level going forwards for the time being.

So the quality of the book. While I was doing the staff presentation earlier today, and I said, "How is the quality of the book doing?" I flippantly said, "Everything is tickety boo, I hope." I'm being flippant, but it is, okay. Okay? Now we are seeing some stress in our consumers. And that is not a new accounts problem, okay? That's the entire book.

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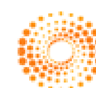

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So that is our back book as well. Previously, good customers, our low-risk customers, are taking some strain. And you will see that in our arrears percentage. And overdue values has increased slightly to 13.4%. And of course, if you've got more consumers in arrears, less of them are going to be in a percentage to buy, and that has dropped slightly to 81.6%.

You can see that our gross book write-off has increased to 8.3%, but of course, we're growing the book at 9.6%. So if your growing the book, you're going to be growing your write-off. There will be a lag effect between write-off and book growth, and I expect that write-off growth number to increase slightly. So when I come back in H1, and I show you a higher figure, that's because of that lag effect. Because when you're growing your book, you've got to get write-off growth as well.

The impairments figure I've shown you here, I've actually shown you a year-on-year growth figure here. So I'm showing you because, of course, we've had 2 different accounting standards. What I'm showing you here is from 1st of April to the 31st of March, what is the in-year movement under IFRS 9, and that has increased to 12.6%. Now you might say, well, hang on a minute, if your book is growing 9.6%, why has your impairments grown by 12.6%? And the reason for that is there is some deterioration in the quality of the book and we factor that into our provisioning models. And as well, we've increased our provisions for forward-looking elements, particularly debt intervention. When you wrap all that up together, write-off recoveries and provision movement, it gives you a net bad debt figure of 10.7%.

And then finally, the EBIT slide. We've always said that credit is not run for profit. Credit is run to enable merchandise sales. So although I show an EBIT figure here of [7 1 3], of course, it doesn't have the funding costs included. If you were to assume a funding cost of 6.5%, 7% on a ZAR 9.6 billion book, you would be left with roughly ZAR 50 million to ZAR 100 million of profit there, which is what I'm calling breakeven with a little bit of buffer for the unexpected.

Our income here, you can see, has grown at 7.9%. Now that hasn't grown at the same rate as our debtors book partially because of how your book grows, but also because we've got a larger proportion of our book now on the new capped interest rates that came into force. When the service fees that we are charging of ZAR 10.50 didn't quite offset some of the interest rate drop that we would incur. Going forward, we have actually increased our service fees to ZAR 15. So you should see that income grow more in line with our book going forwards.

The net bad debt figure here of 18.5%, that's a year-on-year figure growth, okay? So that's not the in year. So you've got 2 different accounting standards going on there. You will be able to see, when we release our AFS, that impairments has actually grown by ZAR 208 million. Of that ZAR 208 million, 80% of that is due to book growth. The remaining ZAR 41 million -- I think it's ZAR 41.6 million or ZAR 42 million, is due to our forward-looking elements and debt intervention. We have topped up our debt intervention provision. Debt intervention has been through all the parliamentary processes now and we are literally waiting for the President to sign it or not.

And then credit cost, well contained, 5.3. I've shown you over the last few years, the amount of work and effort that we've done here. I've previously stood up here and shown you negative cost growth or minimal. There's only so much I can do in terms of credit cost. I can't keep showing you negative cost growth. That's not obviously feasible, even though my CFO will obviously keep asking me for that. But you've got to be realistic.

But I do want to say that digital transformation has been a large part of how we've achieved some of these cost growth over these last few years. For example, digital applications now constitute 84% of all those applications that come through the door. And to put that in context, 3 years ago, that was only 12%. So in the old days, I mean 2016 is now the old days, what used to happen is the store staff would have the application form, it would get faxed to me, my team would have to capture it all in, you'd have to ring up the consumer for any of the missing information, et cetera. We've done away with all of that. It straight through processing now and 84% goes through there. So all in all, I think a good year for credit. Thank you.

Ben Barnett

Good afternoon. Right. So the U.K. macro economic environment, as Anthony has said, has remained reasonably challenging through the last 12 months, with a combination of economic growth remaining subdued, and obviously, consumer and business confidence being sharply negative, in part a reaction to the fairly challenging political situation we also have.

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But if you look at GDP growth of 1.4%, and then you look at the challenges we've got in the retail sector, it's clear that's not the whole story. So if you look at Debenhams, for example, GBP 2.8 billion turnover department store retailer being led through an administration process by its lenders. It's a fairly significant event in U.K. retail. And we've also had substantial numbers of U.K. retail failures. For example, New Look would be a great example, or L.K.Bennett. Each going through either a voluntary or an involuntary credit process.

And I think there's a clear reason for that. Why is that taking place? I think the answer is, fundamentally, online. So that shift in mix towards online is leading to changes in cost base that these retailers are really struggling to cope with, and I think the key issues around that are both in the cost of customer acquisitions, the cost of bringing that consumer to your website as well as in performance, the cost of returns, the cost of that last mile, delivering it to the customer's door. And I think these factors are playing a lot in the significant volatility we're seeing in the share prices of our peer group. And I think if you look at where we've been and the journey we've been on, it's certainly having an impact on our own profitability.

Now taking a step back. If you look at the journey we've been through over the last 4 years since the acquisition by TFG, we obviously joined the group as a GBP 160 million turnover, single brand, Phase Eight, and we've now become a group of 3 substantial brands, each of which are within the top 4 brands within the retail boat under John Lewis.

And over that period, we've grown turnover from GBP 160 million to over GBP 400 million now. And whilst I would say the growth in profitability has been more muted. So if you look at profitability growth over the period, we've grown around 15% in underlying EBITDA, I think it's really important to note that our growth in sales and in profitability has entirely been driven through the generation of cash that we've made in the U.K. business, and that generation of cash has more than funded the cost of the acquisition of Whistles, Hobbs and Damsel in a Dress. It's also more than funded the cost of their transformation into the businesses they are today. And it's also more than funded the creation of the shared TFG London platform, in which we are looking to base our continued growth. So bear with the London business.

So where are we today? Well, of our 5 brands, 3 most significant ones, Phase Eight, Whistles and Hobbs. And Phase Eight, each of which, I suppose, are leaders in their own fields. So Phase Eight within occasion-wear, Whistles within contemporary fashion, and Hobbs within workwear and basics.

Looking at the sales by channel piece, each of these brands are very diverse in terms of their sources of revenue, both from online, from department store concessions, and also physical stores. And I think also, compared to last year, you'll notice there's a fourth plot that's been headed to it. We've created a wholesale team just over 18 months ago now, and that's been driving some fairly significant growth. Actually both to U.K. partners, and very innovative U.K. parters like Stitch Fix, but also internationally as well.

I think sales by region is another key piece. If you look at the sales at -- the sales of Phase Eight, the most significant brand, or the most mature brand in our portfolio, 28% of sales are now generated in international markets in Europe and in the U.S.A. and I beg your pardon, rest of world. And if you look at our other brands, particularly Hobbs, we've seen significant growth in the last 12 months. And not just in Europe, new territories for other brands or in Asia such as Japan, but also in the rest of world, particularly in the U.S.A., where that business continues to scale pretty well.

So international, we talked about, over the last 4 years, we've taken it from ZAR 30 million to ZAR 82 million in sales. There's a fairly even mix between Europe and the rest of world, but that's really not the main story for TFG London. The main story is that phenomenal growth we continue to see in our online sales. So at the point of acquisition in 2015, about 17% of our sales were online. We had just finished 35% of our sales are online.

And that's a fairly even mix between our own websites at hobbs.com, phaseeight.com, Whistles and so forth. And also partner websites, both in the U.K. and internationally. Taking first the dark blue site, our own (inaudible) sites, each of Whistles, Hobbs and Phase Eight, each delivered double-digit growth in the last financial year online, actually with Phase Eight achieving 27% on its own website. So some very sharp growth online, much ahead of other mono-brand stores in a sort of bricks-and-mortar context or clicks-and-mortar context.

And looking at partner websites, obviously the big challenge, and Anthony referred to it earlier. We talked about it at the interims. The big challenge is really the loss of House of Fraser when it went through its administration process. When it came back out, 90% of the web sales were more or less gone. But we've managed to more than compensate for that, both in terms of growing our U.K. existing partners and also in terms of growing some new international partners and extending our portfolio brands into partners that were already present with. So for example, internationally, on partner websites, Whistles had 70% growth last year, really driving into new partners like (inaudible).

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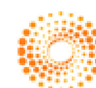

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Now one of the questions I received, even a couple of months ago, was around one of the -- there was -- I can't see in this room, was debating whether we should be investing into U.K. real estate. I won't give you answer the question. What I will do is I said I'd give you a sort of an overview of our retail portfolio and some of the steps we've been taking to sort of mitigate some of the challenges.

So I guess the question could be phrased, "Why would I have a solo store portfolio in an environment where online is now 35% of sales and will pass 40% or 50% of sales very shortly?" And the answer is really sitting on this slide. Starting bottom left, if I can. For the first time since -- before 2015, actually, we're really seen an acceleration in a number of new leases that we're signing in the U.K.

So the reason we're able to sign these leases is because landlords are starting to become significantly more reasonable, and actually, 15 stores out of 29 were signed on terms with no base rent. And actually many of those 15 had no base rent, no rates, no service charge for the landlord, because the landlord was covering that piece. And we were paying a fixed percentage of turnover.

So what it means is if you're in an environment where you're signing up to a 5-year lease, maybe I've still got a 3-year break. But throughout the duration of that lease, I will pay based on the footfall of the landlords they would have generated in front of my front door. So it's very important. And that's up from 5 stores after 17 in the previous year.

Looking at the top left-hand corner, the other piece that we've been focused on really since probably 2009, '10, actually has been consistently reducing the average lease length we have to expiry. It's crucial not because we're looking to exit all our stores, that's ridiculous, but because fundamentally, what we want is a flexibility to sit down with a landlord and have an open conversation about what that store is worth today and what it's likely worth in 3 years time or in 5 years time, when the lease is sort of running its course.

So it reduced during the year from 2.8 years to 2.3 years, which obviously gives us phenomenal flexibility. But it's not just a cost piece, and as I said, it's not just a cost piece, this for us is about growth as well. We need to be a proper omni-channel retailer in order to really take advantage of what we've been dealt in terms of the physical state that we have. GBP 9.5 million of net product shipped from store. That's after returns. GBP 5 million of customer orders placed in store on the online tablet that might be attached to the wall or in the hands of the customer service assistant. And over GBP 11 million of online sales, customer orders placed online that are then delivered to store for collection so the customer can be given the service and perhaps sold a pair of earrings or a bag to go with it.

So it's a proper multichannel offer. Those are sizable numbers across our estate. And the final piece, top right, one of the factors I mentioned earlier. Online pure plays have been reporting significant increases in the cost of customer acquisitions, sort of through AdWords or Google Shopping or whatever it might be. And during the last 12 months, we've captured 430,000 customer names in-store that are then added to our e-mail marketing database.

So the number is slightly down than where we were last year before the introduction of GDPR, but nonetheless, almost 15% of our database in the year was added at no cost to us, due to our store estate, and that's something that gives us a huge competitive advantage and it's part of the reason why we are achieving double-digit growth and more out of each of our own mono-brand websites.

So I won't go through each bullet point. You've got it in front of you, if you have the interest, you can always ask questions later. But the key piece, really, I think, is TFG London is exceptionally well positioned, I believe, ready to generate consistent, sustainable growth over the next 40 years or more.

Firstly, our retail sales are now incredibly linked to turnover. So whether it's the 35% of sales that are generated online or the 32% that are delivered through concessions, our fixed cost base is now significantly lower than it would've been previously. So turnover-based retail model.

Starting costs are a huge area of concern, in part in the U.K. because the national living wage rises 6% to 8% a year, whereas CPI is rising more like 1%, 1.5% a year. So huge challenge for us. We've started to play with a shared staffing model. In our department store spaces, we've now got 20 of them opening. It's working very well. We look to roll it out. And that will start to increase our staffing prospects flexibility alongside our sort of property prospects flexibility.

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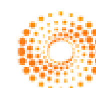

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I think the omni-channel proposition really is important. I think this is the year that investors started to wake up to the fact that although you could buy huge amounts of online growth, you couldn't necessarily generate a huge profit fulfilling those orders. And (inaudible) half year results are particularly interesting in terms of looking at what happens when you spend a huge fortune to generate a customer then realize the fulfill cost is somewhat higher than you'd expect.

And I think by having this true omni-channel proposition, we're really able to generate a consistent flow of new customers into our business that we can then take right the way through our online and off-line proposition. But I think if you look at some of the investments that we're placing, and obviously, Anthony talked about it at a group level, in the U.K. also, we launched our shared e-commerce platform. Actually, we launched it yesterday, our first brand yesterday. I think we're very excited about where that one goes. And I think we also see that opportunity really continue to scale internationally, both in terms of our own web channels, but -- and also our client channels, but also through third parties as well.

Finally, it would be -- given we've completed now and integrated 3 acquisitions in the last 4 years, it will be a surprise if it wasn't something that we will continue to look at. Obviously, the 3 acquisitions have been funded as I say entirely through the cash generation that we've been able to deliver in TFG London.

And don't be surprised if we might look for more. However, we are very aware that the structural market shifts towards online still are yet to fully play through. It doesn't stop at 35% of sales. It will go through 50% of sales in the not-too-distant future, and therefore, we are being extremely cautious along with the team here, to make sure that if we're buying something, it's something that fits absolutely perfect. It's a high-quality brand, a bit like our -- 3 of our top -- 3 of our brands are in the top (inaudible) list.

It's a high-quality brand that really fits for the next sort of 40 years. And in terms to my reference to 40 years, it's because 40 years ago today, we were -- we established the Phase Eight business or that [Patsy Haze] established the Phase Eight business in 8 Bellevue Road in Southwest London. Obviously, 40 years later, we're really built it into a business that's really across the whole world in 24 different markets.

We've also expanded it. It's got new friends in its portfolio, with Hobbs, and Whistles, and so forth. And really, I think, we're looking to build a portfolio that you would want to aim for the next 40 years. Thank you.

Gary Novis - *Retail Apparel Group Pty Ltd - CEO and MD*

So I'm going to give a brief overview of the macroeconomic environment. We'll give a business overview, and then talk to our strategic focus.

Two points on this slide. I think the first one is that the overall economy in Australia it's stable and it's growing. And secondly, the Australian retail market has always been competitive and it continues to be competitive. We just recently had an election. In the lead up to the election, both business confidence and consumer confidence was slightly down on longer-term trends, but I've recently seen a poll, actually, yesterday, post the election, that there's been a strong bounce in consumer confidence.

As Anthony mentioned, unemployment is 5%. To me, this is the biggest metrics for our business. I think when a customer has a job, feels confident, feels secure, they spend. Looking at the competitive environment, 2 of our key specialty competitors, both specialists in menswear, closed this year: Roger David and Ed Harry. That is absolutely got nothing to do with the economy. These are retailers that have not reinvented themselves, have not reinvested in their business, and that's the reason why they have closed.

We at RAG will continue to invest for future growth. And I think when one looks at the public companies that have reported in the last couple of years in Australia, business is actually not that bad, and a lot of specialty retailers are doing very well. The area of the economy that is not doing well at all is department store.

A brief business overview. We've got sales now of $0.5 billion, almost 500 stores. The 5 specialty brands, 4 in menswear and one in ladieswear.

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Our customer can choose to shop in store. He or she can shop online, they can shop online and pick up in store through an omni-channel retailer. We retail in 2 very, very clear segments of the market. That is mid-market and value, and that's where the money is in Australia. And we still only retail in Australia and New Zealand.

I think quite a few of you were here last year when I went into quite a lot of detail into our 5 brands. I'm going to be very, very brief tonight. As I said, 4 in menswear, one in ladieswear, and the key here is that there's only 2 market segments: mid-market and value.

Looking at Tarocash. It's a mid-market retailer and it's on trend. What does on trend mean? It means somebody just wants to fit into a crowd. yd., it's also a mid-market, but it's a fashionable menswear retailer. What does fashion mean? Somebody wants to stand out in a crowd.

Our third business, Connor, this is a value, on trend menswear retailer. What does value mean? It's probably 30% lower price points than our Tarocash and our yd. businesses. Johnny Bigg, it's mid-market. And it's in an on trend menswear retailer for bigger and taller men. And then, our one brand -- our only brand that is in ladieswear is Rockwear, it's a value business in athleisure wear, which for us in an obvious category and a growing category in ladieswear. It's not something that one just wears to the gym. It's now a very important part of their fashion wardrobe.

If you look at the competitive or retail landscape in Australia, we've got our brands in pink, and you can see that we absolutely dominate in that mid-market to value segment. We have very little specialty competitors, as you see 2 in Green, Roger David and Ed Harry are no longer. We do, however, compete with department stores. I think the difference between specialty retail in Australia and the department stores at specialty retail offer great service, and in Australia, the department stores are not offering much service at all.

We've got a great track record of acquiring businesses and starting businesses, and then rolling these out. And that's an integral part of our strategy. And our strategy at RAG has always been very clear and very consistent. It's about store rollout, and it's something that we will continue to do. We will always have in the background an incubator or test business that we will try and get to an optimal state to then rollout. If we get it to that point, we will then rollout the business, and if we don't, we'll close it down and look for another incubator or test brand.

Everything we do at RAG is about our customer. So he or she can choose how she wants to shop, as I said before, across multiple channels. A key channel for us, as for what we've heard today for most TFG businesses, is online. And we've seen some great growth there, 55% growth in last year. And today, our online represents 4.6% of total sales where a year ago, that was 3.4%. This is a channel that we will also continue to invest heavily in. By the way, I've been given a speed-up from Anthony, so that's why I'm going quickly.

So many of you -- some of you have come to Australia, many of you have asked me, many people at TFG have asked me, "Why is RAG doing well in Australia? And not other retailers in the economy is so bad in Australia?" Well, it's actually not true. There's a lot of retailers that are doing well. I think the retailers that are not doing well are department store.

But then, if you have to say, well you are doing well, can you try and put together 5 or 6 areas that set you apart, and that have made you successful? What would those be?

So I think in Australia, we've got a very high cost of doing business. We have high rents. We have high wages. So to be successful, one has to be a vertical retailer. You've got to capture that full margin. You've got to be able to design, manufacture and retail your own brands. So all our businesses are absolutely vertical.

We're very focused. We're sort of like a race horse with blinkers. We don't look left or right. We do what we know. We're very customer-centric and we give our customer what he or she wants.

I might not say I'm Australian, but I've lived there for 25 years, and our management team is pretty much Australian. And I think we know the market and we know the market well. And I think what this does prove is that good businesses like TFG can make international acquisitions with the right management team, but also in the right retail segments.

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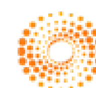

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Most retailers would say they're KPI or key performance indicator-driven, and they are. I think we at RAG keep this very, very simple. One of the key metrics that we would measure on a weekly basis is conversion. So it takes out any excuses. You don't talk about the weather in Australia. You don't talk about the election. How many people walked in to your store? And how many did you sell to?

So that's very, very simple. It's very clear and it's quite easy to manage. We have a very scalable back end or shared service. What that means is that anything that the customer touches at RAG, that's customer-centric sits within the brand. So it's product, it's marketing, it's point of sale material. It's the electronic EDMs that one sends for the online business. Everything that's brand-centric sits in the brand. But everything that isn't and the customer doesn't see or touch, sits in the back end. So that is finance, it's admin, it's IT. All of those client-shared service functions, all our brands can leverage off.

So you can open lots and lots of stores without having to increase your back-end -- your back-end cost. And I think, finally, what has made us successful is that we treat every store as if it's our own. So we absolutely do focus on each store. But our online store is another store, and we need to treat it like it's our only store. And so we are investing and spending a lot of money in this area.

So that's a very quick overview of Australia. Thanks for having me back, and hopefully, we'll be here next year, again. Thank you.

Anthony E. Thunström - *The Foschini Group Limited - CEO, Member of Operating Board & Executive Director*

Now Gary, I think you misunderstood the direction of my hand signals. I was saying, with results like this, please slow down and make the most of it. And with results like this, you can definitely come back next year.

Okay, guys. We're getting close to wrapping up. Another product chart. This is actually a really important one for us. This, believe it or not, is actually Foschini and I think it just demonstrates how much this brand has been moved on and evolved over the last 2 or 3 years. This is very much -- it's gone from a traditional brand, to a brand that really is very much South Africa today. So just -- sorry, I can't help but comment on the images.

Just a very quick strategy update. We're in a fortunate position, I think. We've got a strong track record, we've got a very well-known and often spoken about strategy within TFG. You'll find it in our annual report. We talk about it at every investor and results presentation.

We have a fortunate position, I guess, we don't need to change too much. That said, somethings do evolve. I just want to highlight 3 that have evolved from what you might have seen before. The first, as you've heard from all of us, around our investment and focused on digital transformation. So we really have added that almost as a brand wraparound everything else that we do. And again, to make the point, I can't say this often enough, online is a key part of our digital transformation, but it certainly isn't the only part of it. And that's why it touches everything on the slide.

We've always had customer obsession. It's one of our key strategic pillars. As a retailer, you'd obviously expect that. What we've added this year to complement customer obsession is employee obsession. And again, the logic isn't too hard to grasp, hopefully.

Certainly in our brick stores, our employees are literally the first contact that our customers have with us. Our brand, the goods that they're trying to pay for get assisted with. We believe that if you're really obsessed over your employees, if you train them properly, if you incentivize them properly, you drive good behavior, a better customer interaction, and that translates, very simply, into better sales.

So there are a lot of concrete actions taking place around that. And then right, in the center, this is also a new TFG culture in our TFG [Purple]. Again, that might seem like a bit of a softer issue. I think it's really not when the business gets its figures. Our business is not as complex as it is, and you've listened to everybody talking about various parts of our business today. You've also got TFG Australia and TFG in the U.K. It's essential to have a common culture, and this is something that we talk about it every single board meeting, every management meeting. And it's something that's very real to us.

Moving on to our outlook. And again, I'm not going to comment on the product here, I'm going to comment on the model. That's our new President -- sorry, the photograph was a selfie, it's not a professional photograph. That's our new President who was in our new -- brand new sportscene at

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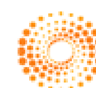

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the V&A Waterfront a couple of weeks ago. He's a big fan of sportscene. He was in there buying a couple of pairs of sneakers. He is very popular with the staff and they wanted a selfie. So yes, quite proud of that photograph.

In all seriousness, just talking, again, about the outlook. Look, guys, I think we've had a good year, but we do remain cautious about the outlook. I think, particularly, in South Africa and the U.K., we've got political issues that haven't quite been resolved. I'm hopeful that South Africa moves into a better space over the next couple of weeks, but we're not there yet. Despite the initial signs perhaps being positive.

That said, the actual underlying South African economy has got a long way to go. As a retail company, consumer confidence obviously makes a huge difference. So that certainly can help us move in the right direction, but I guess what I'm just saying is be cautious around South Africa. And the U.K., I'll talk about in a second.

We are going to concentrate on our existing strategy, but we're going to see accelerated investment, as I've said, in technology. And further pushing our local manufacturing, and in training our people. That ties back to the employee obsession. We will continue, as we always do, to evaluate and look at acquisition opportunities. That's how we've got to where we are today. At least half of our brands that are in our current portfolio have come through acquisitions and we've been growing them.

We've got very strict criteria. We haven't deviated from those criteria and anything we've done over the last 5 or 6 years, and we've got no intention of doing that. But at least we are in a position, particularly with the London back office sorted out, that we can start to look at that again.

At this presentation, everybody always asks, "So what is the retail performance look like post the year-end?" That's one where I'm almost hesitant to give an answer because it's only 6 weeks of the year and you really can't read anything into 6 weeks of the year. That said, the retail trade for the first 6 weeks of the year across the group is pretty much exactly in line the way we expect it to be. So that's probably the best indication that I can give. But again, it's a cautious statement. It's very early days.

Just a couple of things we'd expect to see over the next year. We are aiming to keep our gross margin in Africa at very similar levels to this year. And we've always said we don't want to be greedy. We don't want to push that gross margin. We want to take market share as we have for the last couple of years. So we'd expect to hold it at similar levels other than product mix.

And then product price inflation, we actually didn't cover this earlier. I think one of the successes we've had for the last couple of years as we've kept that product inflation well below the rest of the market. Our product deflation for this year was negative 2.3%, and that's on a couple of years of negative. We've got massive volume uplift as a result of that, and that's against the market that's being inflationary. And we've continued to try and keep it flattish for the year ahead.

Again, we've spoken a lot about business optimization. That's a project that's going to really land, I think, this year, and we'll continue to update you about that as we go through interims and the full year. And then, Jane has already mentioned uncertainty around state intervention.

TFG London, we have to watch the department stores. We're doing everything we can to mitigate against our total reliance on them. It's not total, it's a limited reliance on them, but still significant. So all international growth outside of the U.K., the online growth, all of those are steps to reduce our dependency and we'll just have to see -- watch what happens there.

We'd expect to see sustained online growth, as Ben mentioned. And we do see opportunities to take market share as some of our direct competitors going to liquidation. And hopefully, in the U.K. markets stated, they do have an annoying habit of being bought out by somebody else, and then started again. But some of the ones that have gone recently, I don't think they're coming back.

TFG Australia. Gary spoke about continuing to expand the store base, particularly in New Zealand. New Zealand might sound like an odd destination. We were all across there a couple of months ago. There's actually quite a significant opportunity for the business there. We massively underrepresented in terms of existing malls. The stores that we do have there trade very well. We just haven't had a focus on it because there have been bigger opportunities, frankly, in Australia, that's now getting attention and I think we'll see some good growth there.

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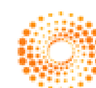

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Digital will continue to grow. And again, we heard about Ed Harry and Roger David. The good news is neither one of those are coming back out of liquidation. And again, we've already seen an uptick as they've closed their doors.

That's really our outlook for the year, and I think that brings an end to our presentation. We will all be available outside to chat informally over a glass of wine and a snack.

But if there are any formal questions, now very happy to -- for any of us to take them.

QUESTIONS AND ANSWERS

Anthony E. Thunström - *The Foschini Group Limited - CEO, Member of Operating Board & Executive Director*

Okay. I'm going to get a microphone. Is it on?

Unidentified Analyst

Can you hear me?

Anthony E. Thunström - *The Foschini Group Limited - CEO, Member of Operating Board & Executive Director*

The one at the back.

Unidentified Analyst

All right. I basically just have 2 questions. You spoke about the cost of -- I mean, the increasing inflation in the U.K. I just wanted to ask what employment inflation would be in Australia on a normalized basis in the future?

And then also, with regards to the U.K., just -- can you touch a little bit more on how you plan to survive what's going on with the department stores, and basically how you plan to supplement the sales that may decline as department stores struggle in the U.K.?

And also, lastly -- sorry, so many questions. How are your online margins? Your EBIT margins in the U.K.?

Anthony E. Thunström - *The Foschini Group Limited - CEO, Member of Operating Board & Executive Director*

Start with Australia.

Gary Novis - *Retail Apparel Group Pty Ltd - CEO and MD*

Just very quickly, to wage growth in Australia. CPR is 1.3%. So very low. Wage growth is at historical lows. Our award is set once a year by a commission and roughly increases between 2% and 3% every year on the award wage. Inflation, as I said, very low, wage growth, very low, but the economy is very stable.

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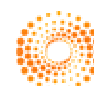

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Ben Barnett

So (inaudible) questions, yes. How to recover the sales decline in department stores? I think the first point, really, is obviously, we've got a very broad base as things stand at present. So our own online channel is already very significant at 35% of sales, albeit including some department store channels within that in terms of partner channels. We've got a main store base that we're now returning back into growth. So I think -- there was a chart on page -- I'm not sure exactly where -- where you went through a number of openings, a number of closes in the year, we ended up I think with 36 net openings last year having had a slight net closure position last year. So we're starting to open up again in terms of physical stores because we're now starting to get acceptable returns in it. Page?

Unidentified Company Representative

1-8.

Ben Barnett

Page 1-8. So I think that's been -- that certainly will be one piece. And I think the other piece is, as Anthony says, very few of these department stores vanish as a building. It's very difficult to find an alternative use for 15,000 square meters as a cornerstone in Westfield. It's going to be a retail destination of some description. The challenge is only what name goes above the door, and how poorly is it operated?

And so I think that's the first question. How are online EBIT margins? That's a really good question. So online EBIT margins are substantially higher than any other channel that we operate through. So we would have EBIT margins through our own websites in the 30s or 40s. So extremely high. The challenge -- a, why are we not all jumping up and down and London is making hundreds and millions of pounds. The reason is, the cost to serve piece. So for as long as you've still got a physical store estate, your cost to serve, on a marginal pound, that moves from a physical store into online costs you around 15p in GBP 1. And that's the difference in a store between the 2% or 3% of sales that is the cost to serve the carrier bank and a merchant processing fee.

And when you move online, it's the outbound shipment, the return, the reprocessing and the AdWord spend, the affiliate spend. It's about a 15% difference between the 2. And that's why it's not yet all going through to profit.

Anthony E. Thunström - *The Foschini Group Limited - CEO, Member of Operating Board & Executive Director*

And sorry, I'd like to add to what Ben was saying. I think that I don't think Ben touched on it now, but just to emphasize that in the U.K. and Europe, in particular, returns are a massive cost on online. Ben referenced Zalando having very poor results recently. I think that, in a way, that's a little bit of a tech bubble that's going to burst at some point in time. I think there's a growing realization that you can chase market share, but you can't do online returns indefinitely with no cost forever. And at some point, I think people are going to start charging for that. We've seen some evidence of that already. I think when that becomes more of the norm, your margin score will lift up quite quickly as well.

Unidentified Analyst

I just had a question on the group or the strategy perspective. What plans do you guys have to improve margins? What ROEs are in the short to medium term?

Ben Barnett

Look, I think we're driving both -- we spoke a lot about business optimization. That covers both sides of our business, both our EBIT margin together with our weighted capital. We've got -- we also overlaid digital transformation. And that really means greater efficiency, greater efficiency certainly

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over a medium-term implies lower cost to serve or lower cost of doing business. That process is literally going through every single part of our organization.

I think the biggest cost base clearly sits in South Africa just by virtue of the fact that it's 80% of the business. So that's where the greatest emphasis is but it's taking place in Australia, which is really very lean together with the U.K., with platform that Ben reference in his discussion.

And the other big focus, I think, is around raising capital. I think we've seen some very pleasing improvements in the current year. Just for me, the free cash flow conversion, particularly after (inaudible) in CapEx, most of which was expansionary, is exactly where we need to be. There's a big project, which goes -- when I say big, it's a big project. That means silos to it. Looking at the inventory cycle for each one of our different brands, we've procured from different suppliers, from different parts of the world, different logistics, and that process is in progress. That's partly why we've seen improvement in inventory days we spoke about, but that's going to continue -- it's probably an 18-month project.

Unidentified Analyst

(inaudible)

Anthony E. Thunström - *The Foschini Group Limited - CEO, Member of Operating Board & Executive Director*

I'm going to answer the first question, not because it was first. It will give me a little time to think about the second. That's a tough one.

The first one, look, in terms of CapEx, what we've actually seen, if you look at the graph that we had up there that's in your book, if you look at the CapEx this year versus last year, there's been a marginal move. And what we've really seen is a reallocation from what was physical store CapEx into digital. And we've only had 1.9% store growth, in in-store growth in South Africa this year. That runs against 4% to 5%, if you went back a few years.

Looking forward over the next couple of years, I think we're going to aim to keep our CapEx in levels that are pretty similar to where we are overall now but you're going to see a continued substitution of one for the other, I think for all the right reasons.

In terms of the outlook for South Africa, as I said, it's really is a difficult one. The negative side is that we've seen no real improvement in the economy on unemployment or in the average health of the consumer. And Jane has mentioned that both from a credit side, but you just -- any economic study you read, your average consumer in South Africa is not better off today from a monetary point of view or spending point of view than 12 months ago. It's just a fact.

What is moving in the right direction, I think, is consumer confidence. And again, it's something that is fundamentally important in retail more than in most other sectors. We see -- if we go back to where we've had political shocks in South Africa, we've had 2 or 3 months on the negative side where people just will not spend. It's an absolute turn off. And then nothing has changed for the worse, it's just people won't spend. And then there's a bit of positivity. People start spending again.

We've seen some very initial moves around what the cabinet might look like, the response -- if you just judge media at the moment, it appears to be quite positive. And I think that that's followed through, we potentially start to head in the right direction. But I don't think, with these realized sales, I think the economy's going to be tough for at least 12 months.

That said, when we do our own business planning, we are not actually planning for any uptick in the economy whatsoever, if it comes, it's fantastic. Our entire game is around market share. And it has been for the last couple of years. If you get growth in the economy, it's a total bonus. We can't control it. What we just want to do is do what we do best. If we do it better than others, we do take market share.

Thank you very much. Thanks, guys. There are drinks outside. We'll see you in a second.

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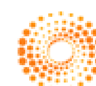

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