EDGARS STORES LIMITED

(Incorporated in Zimbabwe in 1948, under Company Registration Number 379/1948)

Directors: T.N. Sibanda (Chairman), C. Dube, L.L Tsumba, R. Mlotshwa, T.N. Ndlovu (CEO), B. Ndlovu (CFO), V. Mpofu, M. Hosack
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TRADING UPDATE FOR THE 26 WEEKS ENDED 5 JULY 2020

The company presents the business update for second quarter ended 5 July 2020.

Trading Environment
The conditions carried over from the first quarter remain largely unchanged as impacted by an unstable macro-economic environment exacerbated by the effects of Covid-19. Sales were trending upwards since lockdown relaxation but have been hampered by shortened trading hours enacted by government in July, as customers are unable to access our outlets on time.

Access to funding is constrained, mostly short term (a year or less) as liquidity tightens, with the cost of borrowings increasing on each renewal. Selling in United States dollars and the introduction of the foreign currency auction has brought some stability as the Group can now fund importation of inputs and machinery to retool its operations.

Group Performance
Year to date turnover for the trading period to 5 July 2020 declined 43% compared to the same period last year in hyperinflation adjusted terms, affected mainly by the COVID-19 induced lockdown which saw all stores closed in April. Units sold for the period to June declined from 1.6 million to 963 000 compared to same period last year. Inflation adjusted EBITDA was down 22% compared to the same period last year.

Retail inventory as at the end of June 2020 declined 7 % further from March levels. With improved access to foreign currency from sales and the foreign currency auction, retail chains can now improve on merchandise assortments. The Group anticipates an extremely constrained consumer environment and therefore, the order book remains carefully managed and increased promotional activity is anticipated to manage the current stock.

Borrowings at end of the quarter were ZWL$132.6 million of which ZWL$107.6 million is short term debt. Finance costs increased compared to last year in line with increased interest rates and borrowings. Trade and other liabilities were 722% up on last year.

Management's focus is on E-commerce solutions to reduce disruptions caused by lockdowns on sales. Management are also applying strategies aimed at managing inventory, credit and expenses. The credit landscape remains challenging under hyperinflationary conditions and management will apply its skills to mitigate the overall effect credit will have on inventory levels and sales.

Edgars Chain
Unit sales of 273 193 were down 55.7% for the half year against the same period in 2019. Credits sales declined in the second quarter, contributing only 25.1% of total sales compared to a contribution of 71.2% for the same period last year as both management and customers took precaution on the level of credit exposure. Offering credit to customers remains the mainstay for the Edgars chain's performance thus credit management in this hyperinflationary environment is critical in order to preserve value and grow sales.

Jet Chain
Customers continue to favour transacting in cash. Cash sales contributed 91.1% and credit sales 8.9% of total sales for the second quarter. The chain anticipates that the second hand clothing market will remain constrained due to COVID-19, further positioning Jet to capture market share. Unit sales were down 46% for the period to date against 2019.

Carousel Manufacturing
Unit sales were up 5% for the period to date compared to 2019 spurred by production of face masks. Carousel has benefitted from the introduction of the foreign currency auction through access to foreign currency for importation of fabric and machinery for retooling. Production of outerwear remains constrained by the weak demand of product at retail.

Financial Services
A combination of curtailed credit offering, restricted approval criteria and a conservative customer credit appetite saw credit retail turnover contracting by 29% for the second quarter ended 5 July 2020 compared to the same period in the previous financial year. Resultantly, the debtors book was down to ZWL$64 million as at end June 2020 trading compared to a peak of ZWL$109 million as at the end of March 2020 trading month. Interest income grew 53% year on year in inflation adjusted terms in response to increased funding and operating costs. Active accounts deteriorated progressively from an average of 50.5% of total number of accounts during the first quarter to 40.7% as at the close of June trading month.

Debtors collections were above expectation, strong in the months of May and June as customers began account payments in our stores as well as improved customer education on electronic and other alternative payment channels availed to them. Average monthly collections for the second quarter were 28.1% compared to 23.3% last year.

The quality of the book was badly affected during March and April due to Covid-19 lockdown resulting in increased expected credit loss provision for the quarter. Rehabilitation of the debtors book has been impressive. In March 2020 where the "Current" Debtors book was at its lowest at 55.6% of the total debtors and 44% being in arrears, compared to 72% and 28% respectively as at the end of June trading period.

Club Plus
The microfinance loan book declined 92% in inflation adjusted terms to ZWL$7.1million as at end of June trading compared to same period last year. Disbursements were very low during the period, affected by schools closure. Management is exploring alternative sources of business to grow the book. As at end of April trading month, the arrears book was 58.8% and 30 day plus arrears (PAR>30) book was 29.8% of the loan book. The book has since improved significantly with total arrears now at 22.1% and PAR>30 at 9.2% of the loan book as at the end of June trading period. Interest income declined 64% in inflation adjusted terms (159% growth historically) from last year.

Rights Issue
As the Rights Issue comes to a close on 21 August 2020, after an extension necessitated by the unexpected closure of the Zimbabwe Stock Exchange, almost all shareholders took up shares on offer. The Group needs to be well positioned to respond with agility to opportunities and challenges that may arise to support its growth ambitions. The board and management are aware that strong companies will capitalise on growth opportunities whilst maintaining financial flexibility to emerge from this crisis ready for growth, hence the rights issue proceeds will be directed at enhancing growth capabilities.

Outlook
While the future remains uncertain and difficult to predict, management remains committed to monitoring the operating environment and responding with the right strategies.

Tjeludo Ndlovu
GROUP CHIEF EXECUTIVE OFFICER
20 August 2020

EDGARS Jet CAROUSEL A Division of Edgars Stores Limited clubplus A DIVISION OF EDGARS