EDGARS STORES LIMITED

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

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TRADING UPDATE FOR THE 39 WEEKS ENDED 4 OCTOBER 2020

The company presents the business update for third quarter ended 4 October 2020.

Trading Environment

The macroeconomic operating environment improved this quarter as characterised by exchange rate stability and slowing inflation. As a result the company cautiously extended more credit to customers thereby increasing the number of feet in our stores.

Access to funding remained constrained due to market liquidity challenges. The cost of borrowing increased by 10-15% over the quarter. The business experienced cost escalation in utilities, rentals and salaries.

The impact of Covid-19 on business lessened as the government eased restrictions on trading hours. Volumes continued to recover accordingly. We are however alert to the second wave cases recorded which are inevitable as Covid-19 restrictions are lifted.

Group Performance

Year to date turnover for the trading period to 4 October 2020 was down 36% in inflation adjusted terms and up 445% historically in Q3.
Units sold for the year to date declined to 1.5 million from 2.5 million last year. Demand for the quarter also declined from 820 000 units last year to 585 000 units. Resultantly, inflation adjusted EBITDA was down 20% compared to the same period last year.
Borrowings at end of September trading period were ZWL$115 million, most of which were short term. The Group did not have any material foreign denominated debt at the end of the quarter, limiting exposure to foreign currency exchange losses.

Edgars Chain

Unit sales of 453 752 were down 50% for the year to date against the same period in 2019.
Credits sales improved from 25% in the last quarter to 40% of total sales. Overall, credit sales remained well short of the historical contribution to total sales of 70% to 75%.

Jet Chain

Unit sales of 771 893 were down 43% for the period to date against 2019. Cash sales contributed 88% and credit sales 12% of total sales for Q3 compared to 91% and 9% respectively in Q2.

Carousel Manufacturing

Unit sales were up 142.7% for the period to date driven by Covid-19 masks in general and by the Chains (Edgars and Jet) summer stocking programmes. During the quarter the factory took delivery of Rights Issue financed machinery and commenced production of knit product.

Financial Services

The company reviewed limits for customers with a good credit record upwards resulting in debtors growing from ZWL$64 million at the end of June to $123 million at the end of September. Civil servants continued to be a key customer segment constituting 34% of active accounts. Credit reviews done in this quarter will drive sales in the last quarter where traditionally the business writes 60% of the year's credit sales.

Interest income grew 22% year on year in inflation adjusted terms in line with interest rate adjustments.
Active accounts deteriorated progressively from an average of 40.7% of total number of accounts during the first quarter to 32.9% as at the close of September trading month. This trend will reverse in Q4 as more account holders utilise their credit for Christmas shopping.
Debtor's collections continued the strong run from momentum gained in Q2. Average collections to debtors book were up to 34.7% compared to 28.1% in Q2 and 24.5% last year.
The quality of the book continued to improve with "Current" account balances at 78.2%, up from 63.8% as at the end of June trading period.

Club Plus

The microfinance **loan book** declined 70% in inflation adjusted terms to ZWL$13.1 million as at end of September. In historical terms the book grew by 84% from ZWL$7.1 million at the end of Q2. This was achieved in spite of low school fee loan disbursements obtaining as schools remained closed. The demand for loans is high, but the unit is constrained by funding challenges. The company has diversified its product offering to reduce concentration risk of school fee loans.

Interest income declined 66% in inflation adjusted terms (216% growth historically) from last year. The diversification of business launched in Q2 continued in this quarter and is expected to start yielding results in the near future.

Outlook

We expect the recovery observed in this quarter to continue into Q4 if the macroeconomic stability persists. Historically, the last quarter significantly outperforms the first three and accordingly we look forward to a strong performance. Key to achieving this will be good diaspora remittances and reduced new Covid-19 cases which will allow free movement of people.
We are launching online stores for the retail chains in time for the festive season trading period, complementing the pilot WhatsApp selling platform that is currently being offered in select stores.

Management will continue to monitor costs and Covid-19 risk to business operations.

Tjeludo Ndlovu
GROUP CHIEF EXECUTIVE OFFICER
18 November 2020