'/8

EDGARS STORES LIMITED

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

Directors: T.N. Sibanda (Chairman), C.F. Dube, S. Mushosho (CEO), C. Mutevhe (CFO), C. Claassen, M. Hosack, M. Robb, P.D. Mnyama

Registered Address: ZB Life Towers, 15th Floor, 77 Jason Moyo Ave, Cnr Sam Nujoma & Speke Ave, Harare, Zimbabwe.

TRADING UPDATE FOR THE 1st QUARTER ENDED 7 APRIL 2024

OPERATING ENVIRONMENT

The period under review was characterised by economic uncertainty because of steep depreciation in the local currency and lack of clarity in the manner and format of the anticipated currency reforms. In addition, the drought headwind became evident in the first quarter due to the dry spell conditions experienced because of the El Nino weather phenomena. The drought was declared a state of disaster at the end of the quarter, amidst food security risk concerns anticipated to the end of the year.

These factors, together with the implementation of a variety of fiscal measures announced in the 2024 Budget resulted in pressure on disposable incomes increasing. Among other measures, Civil servants COVID-19 allowances were incorporated into their salaries and became taxable from January 2024 onwards, resulting in low disposable incomes and reduced spending.

During this period, the Group managed to consolidate its control of its supply chain by partnering local suppliers and increasing its production at Carousel. This helped the group control the quality of merchandise supplied and lowering of costs. The increase in our locally produced merchandise through our partners and Carousel to 70% compared to 50% in the previous year, helped create more jobs and improved our profitability. The Group is encouraged to note efforts by Government in supporting local manufacturing industries and its actions against smuggled new and second-hand clothes. To differentiate our business from small mall traders and boutiques where imitation products are often sold, the business started production through its partners in Turkey, very high quality and exclusive merchandise to cater for the upper income segment of the market. This merchandise is being sold at selected stores in Harare and Bulawayo. This has created a huge excitement amongst our customers who are now seeing great value created by their favourite fashion retailer.

FINANCIAL PERFORMANCE

Despite the Group's traded units declining by 18% from 552,771 last year to 455,010 this year, the sales only dropped by 12% and the margin went up by 1%. This talks to procurement excellence that brought in high quality merchandise that sold at reduced markdowns compared to last year.

Management has continued with efforts to ensure that fresher high quality and more competitively priced merchandise is available in-store.

RETAIL PERFORMANCE

Volumes in the Edgars chain were down 12% from 231,614 units last year to 203,007 units this year. Sales were down by a mere 2% while the margin was up 5% year on year because of a deliberate strategy to procure high quality merchandise at a lower cost and sell at full margin at competitive prices with minimum markdown. The focus was on this flagship chain during the period under review. The split between credit and cash sales was 64% (2023: 65%) and 36% (2023: 35%) respectively. One new store is expected to be opened during the second half of the year.

Total units sold for the Jet chain were down 22% to 252,003 units from last year's 321,157 units, because of low opening stocks in ladieswear, footwear and menswear in the first two months of the quarter. The split between credit and cash sales was 63% (2023: 60%) and 37% (2023: 40%). Four new stores are planned for opening during the second half of the year.

CAROUSEL MANUFACTURING

Units sold went up by 204% to 80,244 this year from 26,437 achieved last year. During the period under review, the business acquired new machines worth US$1m as part of its retooling exercise to modernize its manufacturing capabilities to support the retail chains. The surge in the units produced and sold through the chains contributed significantly to the decline in Group cost of sales of 23% due to the increased production efficiencies. The sourcing of high-quality fabrics and use of modern machines is expected to provide our customers with high quality garments of international standards at very competitive prices produced locally. This unit is expected to resume exports into South Africa before the end of the current year. This will generate much-needed foreign currency as well as positioning the Group to benefit from ACFTA. The retooling exercise will allow the unit to widen its product offering, becoming more strategic to the chains in stock management and profitability.

FINANCIAL SERVICES

The debtors book declined from $13,2m in Dec 23 to $12.3m in March 24 as collections were higher than growth in credit sales. Debtors' collections were in line at 18.6%. With liquidity tightening, the business witnessed more customers opting for longer tenure of 9 months to pay compared to 6 months to pay to enjoy lower monthly instalments. The asset quality has remained firm with 79% of the book in current status. Net debtors write off was at 3.1% compared to industry standard of 4%. The business is taking an aggressive position in implementing initiatives to grow the debtors active account book. Despite the challenging environment, the business will continue to write good credit to new and existing customers.

CLUB PLUS MICROFINANCE

The business has streamlined its focus and now concentrates on relatively less risky deduction at source loan products which resulted in a 34% decline in the loan portfolio as compared to the prior period. This has though positively impacted on the asset quality, which closed the quarter above the target of 85% at 87.4%. Various investments in e-portals have resulted in improved efficiencies in loan approval and disbursement processes.

OUTLOOK

Management continues to review working capital and financing models to capitalise on opportunities that arise in the uncertain operating environment. Due to rising costs, cost containment remains a focus area. The Group seeks to increase its net trading area through the opening of new stores as alluded to earlier on.

The Group is reintroducing Express Stores to focus on the lower-income segment of the market which is currently dominated by the second hand clothing market. Express Stores will however sell new clothes at very low prices ranging from $1-$10, in the process restoring the dignity of our customers in that segment. We expect to roll out 10 new stores during the second half of the year. The retooling of Carousel is expected to increase our production volumes from our highest of 45,000 per month to 100,000 per month. This will lower our production costs making our merchandise more competitive in the market. The Group anticipates a reasonable outturn to year-end, given that cyclically, its volumes are skewed in favour of the second half of the year.

S MUSHOSHO
GROUP CHIEF EXECUTIVE OFFICER
5 JULY 2024