The Foschini Group Limited
Registration number: 1937/009504/06
Share codes: TFG-TFGP
ISIN codes: ZAE000148466 – ZAE000148516

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SHORT-FORM ANNOUNCEMENT
Condensed consolidated financial statements for the year ended 31 March 2020 and notice of extraordinary general meeting

SALIENT FEATURES

- Group revenue up 3,6% to R38,5 billion
- Group retail turnover up 3,6% to R35,3 billion
- Group online turnover now contributes 8,4% to Group retail turnover with strong growth for TFG Africa and TFG Australia at 47,9% (ZAR) and 30,6% (A$) respectively
- Gross margin intact at 52,7% (March 2019: 53,6%)
- Trading expense margin improved to 44,8% from 45,3% in the prior year
- Headline earnings per share down 1,1% to 1 174,4 cents per share
- Basic earnings per share down 7,6% to 1 056,2 cents per share
- Operating profit before finance costs down 4,1% to R4,7 billion
- Free cash flow of R2,3 billion generated, equal to 92,2% of net profit after tax
- No final dividend has been declared (March 2019: 450,0 cents per share)

This short-form announcement is the responsibility of the company's directors. It is a summary of the information in the Group's reviewed provisional condensed consolidated financial statements for the full year ended 31 March 2020 and does not contain complete information. The full results announcement is accessible via the JSE link at https://senspdf.jse.co.za/documents/2020/JSE/isse/TFG/FY2020.pdf and on the Company’s website at https://tfglimited.co.za/investor-information/financial-reports-and-presentations/.

Copies of the full announcement may also be requested by contacting the Company Secretary (company_secretary@tfg.co.za) and are available for inspection at the Company’s registered office at no charge, weekdays during office hours.

This announcement has not been reviewed or reported on by the Group’s external auditors. The Group’s auditors, Deloitte & Touche, have reviewed the full announcement and expressed an unmodified conclusion thereon.

Commentary

Decisive action to respond to COVID-19 – react, protect and restore

The Group delivered a solid resilient performance for the financial year, in a constrained global economic environment where our consumers continue to experience significant economic pressure. As mentioned in our trading update, released on SENS on 15 May 2020, the impact of the global COVID-19 pandemic was felt across all our operations since the beginning of March, with a significant impact on turnover in the second half of March due to the introduction of stringent lockdown measures.

In TFG Africa, c.80% of the stores re-opened from 1 May 2020, with all stores adhering to strict COVID-19 safety protocols. Performance was strong in May and TFG Africa achieved turnover growth of 0,6%, notwithstanding the fact that 447 jewellery stores were still closed during the month due to the prevailing lockdown restrictions. As from 1 June 2020 all stores have now re-opened.

In TFG Australia, the re-opening of outlets commenced in the beginning of May, with all outlets re-opened by the end of May. In TFG London outlets re-opened in a phased manner from 15 June 2020.

Across all three territories, strong online trading continues.

We expect that material uncertainty, trading disruption and risk will continue in all three of our major territories – South Africa, the United Kingdom and Australia. In responding to the crisis we have reacted in a swift and decisive manner and have taken a number of preemptive measures, as outlined previously in our trading update, so as to protect our staff, customers and business. Additionally, we have reduced non-essential expenditure, managed our working capital appropriately and enhanced our banking facilities.

Financial performance

After a strong 11-month performance to February 2020, retail turnover for the 12 months to March 2020 grew by 3,6% to R35,3 billion, with cash sales increasing by 5,9% and credit sales decreasing by 2,5%. The contribution of cash sales to Group turnover for the year ended March 2020 increased to 74% (March 2019: 72%), in line with the Group’s strategy to curtail credit sales in the prevailing economic environment.

Gross margin for the Group contracted marginally to 52,7% from 53,6% in the prior year, with weak trade in March the main contributor to the movement.

The Group continued to improve expense control through targeted initiatives, including the successful delivery of some of the streams of its previously announced back office business optimisation program. This enabled the Group’s trading expense margin to reduce to 44,8% from 45,3% at the previous year-end.

Earnings per share and headline earnings per share decreased by 7,6% and 1,1% respectively.

Financial position

The Group generated free cash flow for the year of R2,3 billion, the equivalent of 92,2% of net profit after tax (March 2019: 85% of net profit after tax). This continued improvement in free cash flow conversion reflects largely TFG’s ongoing focus on working capital management.

Capital expenditure of R1,1 billion was incurred, with 69% spent on expansionary capex. TFG was already well invested in key strategic initiatives going into COVID-19 and although capital expenditure is being curtailed in FY2021, we will continue to prioritise investments which contribute to our successful e-commerce platforms and digital transformation initiatives that enhance customer experience and reduce the cost of doing business; and increase our own local, quick response manufacturing capacity.

As mentioned in our SENS announcement on 15 May 2020, TFG has secured additional committed facilities (now at R3,3 billion) over and above its existing funding lines, as well as the waiving of covenant testing in September 2020 and the resetting of covenants for March 2021. At 31 March 2020, TFG met its banking covenants for all facilities.

Notwithstanding the above measures, we believe significant uncertainty and risk will continue in our core markets. The Supervisory Board and management believe it is prudent and necessary to reduce our financial indebtedness now. This will allow TFG to strengthen its relative position through the recovery and insulate the balance sheet against potential future shocks while at the same time positioning itself for future growth and opportunities.

Proposed fully underwritten renounceable rights offer

For the reasons stated in the preceding paragraph TFG intends seeking shareholder approval to implement a fully underwritten, renounceable rights offer (“Proposed Rights Offer”) to raise targeted gross proceeds of up to R3.95 billion.

The size of the Proposed Rights Offer has been informed by an extensive scenario planning exercise and the intention is to use the net proceeds to:

- reduce debt and insulate the balance sheet, ahead of what is expected to be a sustained period of economic uncertainty;
- pursue TFG’s organic growth strategy and further leverage TFG’s existing brands to gain market share;
- continue to invest in the retail platform and TFG’s digital transformation journey, particularly in its e-commerce offering, and
- ensure the Group has the ability to take advantage of market opportunities in line with its current strategy and which meet its investment criteria.

TFG has entered into a standby underwriting agreement with a syndicate of banks (“Syndicate”) comprising three of our largest lenders, pursuant to which the Syndicate has agreed, subject to customary terms and conditions, to fully underwrite the Proposed Rights Offer.

TFG has also held constructive engagements with its major shareholders in relation to the Proposed Rights Offer and has received indications of support for the resolutions required to implement the Proposed Rights Offer.

Notice of extraordinary general meeting

Shareholders are referred to the results presentation and circular convening an extraordinary general meeting of the shareholders to vote on the resolutions required to implement the Proposed Rights Offer published today on TFG’s website. The extraordinary shareholders meeting will be held on 16 July 2020 at 08:30 and will be conducted entirely by electronic communication as detailed in the circular.

The record date for purposes of determining which shareholders are entitled to participate in and vote at the extraordinary general meeting is Friday, 10 July 2020. The last date to trade in order to be eligible to vote is Tuesday 7 July 2020.

Segmental performance

Across the Group’s three business segments (TFG Africa, TFG London and TFG Australia), turnover performance was strong relative to market conditions and peer groups. TFG Africa achieved turnover growth of 3,3% and comparable turnover growth of 1,5% (ZAR), while TFG Australia performed above expectation with turnover growth of 9,6% and comparable turnover growth of 2,8% (A$). TFG London’s turnover decreased by 4,5% (£), a performance that was expected in tough market conditions.

Within TFG Africa, turnover growth in the various merchandise categories was as follows:

| Merchandise category | Total turnover growth | Comparable turnover growth | Contribution to TFG Africa turnover |
|---|---|---|---|
| Clothing | 3,9% | 1,9% | 72,4% |
| Homeware | 5,2% | 2,8% | 7,3% |
| Cosmetics | (1,5%) | (2,3%) | 4,8% |
| Jewellery | 0,2% | (0,1%) | 6,8% |
| Cellphones | 1,6% | 1,0% | 8,7% |
| Total TFG Africa | 3,3% | 1,5% | 100,0% |

E-commerce growth in TFG Africa and TFG Australia continued to grow ahead of our expectations at 47,9% (ZAR) and 30,6% (A$) respectively. Online turnover in TFG London decreased by 13,6% (£), due mainly to the poor performance of 3rd party, partner websites. Online turnover for the Group now contributes 8,4% to total turnover.

In both TFG Africa and TFG London, continued focus on limiting expense growth yielded positive results, with TFG Africa’s trading expenses increasing by only 1,9% (ZAR) while TFG London’s trading expenses decreased by 5,5% (£) as a result of cost saving initiatives undertaken. TFG Australia’s trading expenses increased by 9,4% (A$), in line with business expansion and store openings. As part of our COVID-19 mitigating actions, business optimisation projects in TFG Africa have been fast-tracked where practical to do so, in order to reduce the cost of doing business.

Accounting standards

The Group adopted IFRS 16 Leases for the first time for its financial reporting year ended 31 March 2020. The amendments to the standard have been applied retrospectively, subject to transitional provisions, with comparative information in these reviewed provisional condensed consolidated results restated accordingly. Further information about the impact of this change in accounting policy is provided in note 15 of these financial results. The primary effect of the application of the new standard at transition date (31 March 2018) has been to capitalize store leases of approximately R6,9 billion and to record a lease liability of R7,8 billion.

Store portfolio

At 31 March 2020, the Group traded out of 4 083 outlets across 32 countries. During the year, 228 outlets were opened and 230 outlets closed, with outlet movement in the respective business segments as follows:

| Outlets | TFG Africa | TFG London | TFG Australia | Group |
|---|---|---|---|---|
| Opening balance at April | 2 631 | 971 | 483 | 4 085 |
| New outlets | 93 | 67 | 68 | 228 |
| Closed outlets | (147) | (66) | (17) | (230) |
| Closing balance at March | 2 577 | 972 | 534 | 4 083 |

The Group continued its focus on space rationalisation and the renegotiation of rentals. In TFG London the shift to turnover-based rentals and shorter lease terms continued.

In TFG Africa, double-digit negative rent reversions were achieved for the year with average escalations below 6%. Both TFG Australia and TFG London also achieved negative rent reversions for the year. As part of the Group’s mitigating actions for COVID-19, there have been ongoing discussions with landlords to reach agreement on fair rentals.

Credit

A conservative credit appetite and restricted approval criteria remain in place as a response to the Group’s assessment of the negative economic climate and the current COVID-19 pandemic. This has resulted in credit turnover growth contracting by 2,5% year-on-year for the full financial year. The retail net debtors’ book of R7,8 billion increased by 4,3% since March 2019. The allowance for impairment as percentage of debtors’ book increased to 20,4% (2019: 19,9%) due to a provision for the impact of COVID-19 on expected credit losses.

Supervisory Board updates

As was announced on SENS previously, the following appointments were made to the Supervisory Board during the year.

- With effect from 1 October 2019, Alexander Douglas Murray, the former CEO of the Group, was appointed as a non-executive director.
- With effect from 22 January 2020, Colin Coleman, a former CEO of Goldman Sachs for sub-Saharan Africa, was appointed as an independent non-executive director.

These appointments are proposed to be ratified at the extraordinary general meeting of the shareholders to be held on Thursday, 16 July 2020. The Supervisory Board welcomes Doug and Colin and looks forward to their contribution.

## Outlook

Whilst we continue to deal with the economic and health impact of COVID-19 on the countries within which we operate, the outlook for trading conditions continues to remain materially uncertain across all three of the Group’s business segments. Notwithstanding that all three business segments are engaged with the recovery from COVID-19, the impact of the pandemic on our 2021 financial year is expected to be significant across all territories, the extent of which is difficult to predict with accuracy. Any re-introduction of significant lockdowns and store closures across our three business segments would have a further material and negative impact on our business and results of operations in our 2021 financial year.

The Group will however continue to focus on ‘self-help’ measures and these, together with the Proposed Rights Offer, will ensure that TFG is well positioned for future growth, and to capitalise on the re-opening of the economies across all our territories.

The focus on sustainable business optimisation, digital transformation and local manufacturing will continue.

We are confident that our resilient business model and strategic investments will stand us in good stead for the future.

The Supervisory Board would like to take this opportunity to thank the management teams of each of the business units for leading the Group through the pandemic and the challenging economic environment.

A live webcast of the results presentation will be broadcast at 09:00 am (SAST) on 18 June 2020. A registration link for the webcast is available on the Company’s website: www.tfglimited.co.za. The year-end results presentation will be made available on the Company’s website prior to the commencement of the webcast.

## Final ordinary dividend announcement

In light of the current subdued economic environment and the heightened levels of uncertainty posed by COVID-19, the Supervisory Board has decided that it would be prudent not to declare a final dividend at this year-end (March 2019: 450,0 cents per share). Dividends will be resumed when appropriate to do so.

## Preference dividend announcement

Dividend no. 167 of 3,25% (6,5 cents per share) (gross) in respect of the six months ending 30 September 2020 has been declared from income reserves, payable on Monday, 21 September 2020 to holders of 6,5% preference shares recorded in the books of the company at the close of business on Friday, 18 September 2020. The last day to trade (“cum” the dividend) in order to participate in the dividend will be Tuesday, 15 September 2020. The Foschini Group Limited preference shares will commence trading “ex” the dividend from the commencement of business on Wednesday, 16 September 2020 and the record date, as indicated, will be Friday, 18 September 2020.

Preference shareholders should take note that share certificates may not be dematerialised or rematerialised during the period Wednesday, 16 September 2020 to Friday, 18 September 2020, both dates inclusive.

In terms of paragraph 11.17 of the JSE Listings Requirements, the following additional information is disclosed:
1) Local dividend tax rate is 20%;
2) The withholding tax, if applicable at the rate of 20%, will result in a net cash dividend per share of 5,20000 cents;
3) The issued preference share capital of The Foschini Group Limited is 200 000 shares at 18 June 2020; and
4) The Foschini Group Limited’s tax reference number is 9925/133/71/3P.

Signed on behalf of the Supervisory Board.

| | |
|---|---|
| M Lewis | A E Thunström |
| Chairman | Chief Executive Officer |

Cape Town
18 June 2020

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This announcement is only addressed to and directed at persons in Member States of the European Economic Area (“EEA”) and in the United Kingdom who are “Qualified Investors” within the meaning of Article 2(e) of the

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Each member of the Syndicate is acting on behalf of the TFG and no one else in connection with the Proposed Rights Offer. They will not regard any other person as their client in relation to the Proposed Rights Offer and will not be responsible to anyone other than TFG for providing the protections afforded to their respective clients nor for providing advice in relation to the Proposed Rights Offer, the contents of this announcement or any transaction, arrangement or other matter referred to herein. Neither of the Syndicate members, nor any of their respective directors, officers, employees, advisers, agents, alliance partners or any other entity or person accepts any responsibility or liability whatsoever for, or makes any representation, warranty or undertaking, express or implied, as to the truth, accuracy, completeness or fairness of the information or opinion in this announcement (or whether any information has been omitted from this announcement) or any other information relating to TFG, its subsidiaries or associated companies, whether written, oral or in a visual or electronic form, and howsoever transmitted or made available or for any loss howsoever arising from any use of this announcement or its contents or otherwise arising in connection therewith. Accordingly, the members of the Syndicate disclaim, to the fullest extent permitted by applicable law, all and any liability, whether arising in tort, delict or contract or that they might otherwise be found to have in respect of this announcement and/or any such statement.

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Non-executive Directors:
M Lewis (Chairman), Prof. F Abrahams, S E Abrahams, C Coleman, G H Davin, D Friedland, B L M Makgabo-Fiskerstrand, A D Murray, E Oblowitz, N V Simamane, R Stein

Executive Directors:
A E Thunström, B Ntuli

Company Secretary:
D van Rooyen

Registered office:
Stanley Lewis Centre, 340 Voortrekker Road, Parow East, 7500, South Africa

Transfer secretaries:
Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196, South Africa

Sponsor:
UBS South Africa Proprietary Limited

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