

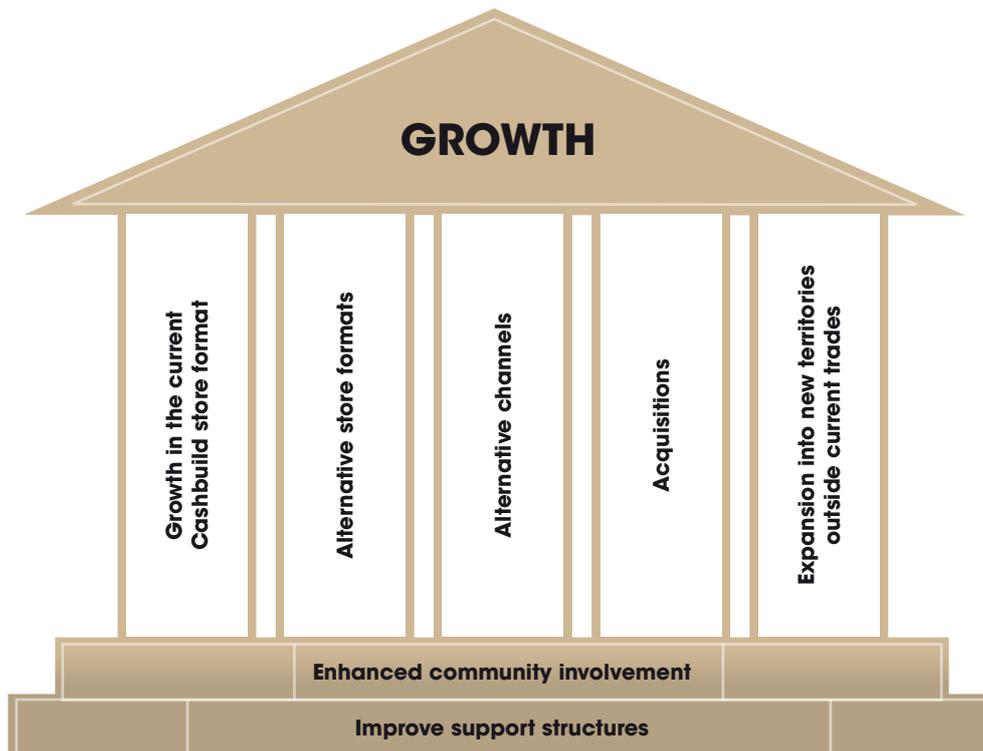


# STRATEGY, MATERIAL RISKS AND OPPORTUNITIES

Cashbuild has identified a number of strategic business imperatives based on identified risks and opportunities, aimed at maximising the profitability and sustainability of the Company in the medium to long term.

## STRATEGY

The key strategic initiatives approved by the Board are summarised as follows:



Cashbuild's key strategic imperatives are:

- Maintaining a sustainable customer base and increasing customer loyalty;
- Increasing market share and maintaining growth;
- Creating stable operating environments (also by way of addressing social and economic concerns);
- Striving for internal excellence (related to employees, efficiency in processes and systems);
- Maintaining and developing strategic relationships and partnerships;
- Enhancing governance and control mechanisms;
- Maintaining the Company's competitive advantages over its competitors;
- Continuing to create economic growth in areas in which we trade; and
- Maintaining and enhancing supplier loyalty.

Naturally, no company operates in isolation, and these strategic imperatives are therefore influenced directly and indirectly by the broader macro-economic environment in which Cashbuild operates. The Company invests significant time and effort to understand the complexities and potential impacts of this environment in order to place itself in the best position possible to deal with future events and the uncertainties that these might create.

# STRATEGY, MATERIAL RISKS AND OPPORTUNITIES (CONTINUED)

## MATERIAL RISKS

### Risk management process

Enterprise Risk Management and Compliance is a formal response to address corporate risk that may hamper the achievement of Cashbuild’s strategic objectives. It is a structured systematic process integrated into existing management responsibilities. This is a continuous process that responds to all types of risks in all parts of the Company and is an inherent part of the management philosophy of Cashbuild. Cashbuild has adopted a conservative approach to risk management and has a low tolerance for risk. Calculated risk taking is however acknowledged as an inherent part of business decision-making.



Each risk identified and recorded on the Company’s risk register is assigned an impact and a likelihood rating based on a standard 10-point scale. The multiplied effect of the impact and likelihood rating provides the risk rating which ranks as High, Medium or Low, with priority given to the 10 highest ranked risks in the business at any given point in time.

There is ongoing monitoring of the status of actions to mitigate identified risks, with regular reports made to the Executive Management team and to the Board via quarterly Audit and Risk Committee meetings.

The responsibility for risk management is discussed in the Audit and Risk Committee Report on page 67 of this Integrated Report.



## Material principal risks relevant to Cashbuild

The material risks identified are correlated with the Company's materiality determination and stakeholder engagement processes. The material principal risks and opportunities identified and attended to by Cashbuild are set out in the table below where the Company's top 10 business risks as at 30 June 2015 are ranked in order of ranked risk level.

2015 Risk rating	2014 Risk rating	Level*	Risk description	Mitigation plan
1	14		Integration and information flow of the IT solution, as implemented, does not meet all business expectations documented and agreed upon during scoping phase of the SAP and AR implementation project.	<ul style="list-style-type: none"> <li>Finalisation and roll-out of Hot Fix 35 intended to address issues at hand.</li> <li>Verification that roll-out of Hot Fix 35 addressed identified issues of:               <ul style="list-style-type: none"> <li>Optimal integration between SAP and AR</li> <li>Instances of AR down-time impacting trade in the business; and</li> <li>Timeliness and accuracy of management information.</li> </ul> </li> </ul>
2	2015 New		The risks associated with power outages are: <ul style="list-style-type: none"> <li>the supply of product to Cashbuild; and</li> <li>Cashbuild's own operational performance.</li> </ul>	<ul style="list-style-type: none"> <li>Careful planning of product requirements and forecasting to suppliers to minimise risk of suppliers not able to supply.</li> <li>Deployment and utilisation of UPS and generators at Support Office and all stores to minimise the effect of power outages.</li> </ul>
3	29		Administration and roll-out of Cashbuild's budgeting process.	<ul style="list-style-type: none"> <li>Documentation of budgeting process in policy and procedures manual format, and roll-out thereof, to improve knowledge and efficiency of application of the process.</li> </ul>
4	2015 New		Inability of IT Outsource Service Provider to take appropriate and speedy action on required deliverables.	<ul style="list-style-type: none"> <li>Increased strategic alignment between Cashbuild and IT Outsource Service Provider.</li> <li>Increased monitoring and tracking of service delivery by IT Executive and action taken on areas identified for improvement.</li> </ul>
5	19		Dependency on key suppliers caused by single country wide suppliers contracted for specific products and instances of limited suppliers available for key product lines.	<ul style="list-style-type: none"> <li>Identification and engagement of alternative suppliers.</li> <li>Continuous monitoring of high risk supplier relationships and addressing these on a case by case basis.</li> </ul>
6	12		Inadequate VIC/Customer Loyalty programme and application thereof.	<ul style="list-style-type: none"> <li>Rebranding and prioritisation of existing VIC/Customer Loyalty programme and increased marketing thereof.</li> </ul>
7	7		Identified loss-making stores to be given priority attention and managed to profitable status within appropriate timeframe failing which action to commence to close identified stores and re-investing in areas targeted as meeting the Cashbuild business and investment return model	<ul style="list-style-type: none"> <li>Careful analysis per loss-making store with detailed store specific action plans put in place per store to address the situation</li> <li>Operations executives report back at the Chief Executive's meetings and quarterly Board meetings on successes achieved</li> </ul>
8	23		Planograms not suitable for all stores resulting in a limited ("single") range of stock in some stores not meeting customer requirements.	<ul style="list-style-type: none"> <li>Utilising DIY stores as a platform for testing new product ranges.</li> <li>Result of supply to market tests rolled-out to the rest of the Company when and where considered applicable.</li> </ul>

# STRATEGY, MATERIAL RISKS AND OPPORTUNITIES (CONTINUED)

2015 Risk rating	2014 Risk rating	Level*	Risk description	Mitigation plan
9	2015 New	 Medium	Effectiveness of the Cashbuild Employee Forum.	<ul style="list-style-type: none"> <li>Increased internal marketing amongst staff and management of the purpose and benefit of an employee forum.</li> <li>Training of employee forum members.</li> <li>Increased interaction between members of employee forum and management.</li> </ul>
10	2	 Medium	Expectation of unrealistic (above inflation) rental escalations by landlords to be appropriately managed to effectively curtail growth of this business expense category within an acceptable set benchmark.	<ul style="list-style-type: none"> <li>Re-negotiation of existing lease conditions addressed as and when leases become due for renewal</li> <li>Target to negotiate rental escalations at a lower rate</li> <li>Consider purchasing sites due for renewal of rental contracts.</li> </ul>

 High
  Medium
  Low

\* No risks have been allocated a high residual risk rating, given the Executive Team's comfort and assurance over the risks faced by the Company.

- We are pleased that the below items from 2014 are no longer appearing on the risk register:
  - Potential shrinkage to be timeously identified, monitored and actioned per SKU per store per division, per operations area to enable as primary objective prevention and secondary objective minimising stock losses occurring – ranked 1<sup>st</sup> in 2014.
  - Expense growth in the business to be managed to be less than gross margin growth rate, thereby contributing to long term sustainability of the business – ranked 4<sup>th</sup> in 2014.
  - Stockholding within the Company to be optimally managed to be within benchmarked levels per store, division, and operational area, thereby ensuring continued availability of core stock items to customers while avoiding overstocking of any items, specifically high value slow moving items – ranked 5<sup>th</sup> in 2014.
  - Identified instances of transaction decrease, to be proactively managed to maximise return to the business – ranked 8<sup>th</sup> in 2014.
  - Growing competition in the industry to be pro-actively monitored and attended to in order to not only retain but continue growing market share – ranked 9<sup>th</sup> in 2014.
- Progress on the remaining 2014 Top 10 risks can be summarised as follows:
  - Expectation of unrealistic (above inflation) rental escalations by landlords to be appropriately managed to effectively curtail growth of this business expense category within an acceptable set benchmark – now ranked 10<sup>th</sup> (ranked 2<sup>nd</sup> in 2014).
  - Customer service delivery by Cashbuild employees to meet customer expectations within Cashbuild's core value framework – now ranked 13<sup>th</sup> (ranked 3<sup>rd</sup> in 2014).
  - Talent pool to meet Cashbuild's store expansion programme as per current store development plan, thereby ensuring necessary supply of required staff members to meet business growth and expansion objectives – now ranked 15<sup>th</sup> (ranked 6<sup>th</sup> in 2014).
  - Identified loss making stores to be given priority attention and managed to profitable status within appropriate timeframe failing which action to commence to close identified stores and re-investing in areas targeted as meeting the Cashbuild business and investment return model – ranked 7<sup>th</sup> in 2015 and 2014.
  - Identification and fast tracking of previously disadvantaged and recognised BEE candidates into senior management positions to receive priority attention with primary focus placed on internal qualifying candidates – now ranked 12<sup>th</sup> (ranked 10<sup>th</sup> in 2014).



### Macro-economic challenges and concerns

The following table details the macro-economic challenges and concerns relevant to Cashbuild’s operations and activities, taking into account social and environmental issues as well as key concerns by various stakeholder groups.

Challenges/concerns	Potential impact	Probability	Response	Outcome
General inflation increase			Controlled growth, management of overheads, implementation of various cost saving initiatives	Existing store expense growth contained to 5%
Energy crisis in southern Africa, electricity supply shortages, rising electricity costs (a 24% rise expected over the next three years)			Energy savings target of 50%, implementation of various initiatives and pilot projects	50% energy savings target achieved in pilot projects
Socio-economic climate (rising unemployment, skills shortages, long-term strikes, service delivery protests)			Development of relationships with local communities in: obtaining inputs regarding CSI spend, local employment, empowerment and development, learnership programmes, employee education	1 011 New jobs created, 65 learnerships awarded
Rising fuel costs, potential fuel shortages			Improved route planning and scheduling	Reductions in delivery expenses from 1.4% to 1.3% of sales and associated emissions

High      Medium      Low

### OPPORTUNITIES

Cashbuild’s communication models incorporate factors as diverse as regional demographics, specialised retail advertising and corporate branding partnerships, all of which enable the Company to accurately develop, predict and take advantage of market trends, and thereby exceed customer expectations.

#### Store expansion, relocation and refurbishment

A critical element in the achievement of these objectives is a sustained and sustainable increase in the number of Cashbuild stores, as well as the physical location of each store within its catchment area. In the coming years, the Company plans to open at least 10 additional stores per year. These additional stores are approved on the basis of identified locations showing clear potential to meet strict financial and operational criteria. Furthermore, from a human resources perspective, investment in a new store requires significant operational and store management experience to be available within the Company for deployment into the new location.

The Cashbuild store base is reviewed and critically analysed on an ongoing basis, particularly as and when leases come up for renewal, at which time a decision is made on whether to extend the lease or relocate to a site with greater potential.

With regard to store refurbishment, Cashbuild’s strategy is to refurbish and/or upgrade all stores on a rolling five-year basis. During the 2015 financial year, 24 stores were refurbished and six relocated. As in the case of new store openings, store relocations are approved on the basis of strict operational and financial criteria.

#### Customer growth

Cashbuild’s customer model is one that encourages and enables communities to build, renovate, repair and decorate their homes and businesses throughout southern Africa. The Company prioritises and actively supports the work of local councils and other local government bodies to build schools, clinics and housing in every community in which it trades. As a result, Cashbuild has become the first choice retailer of quality branded building materials within these communities.

As part of maintaining this position, the Company has developed proven methods of communicating with customers in the most effective manner possible, taking into account geographical, socio-economic and other factors. These models are continually being refined, and this process will continue in the future, with particular emphasis being placed on exposing potential new customers to Cashbuild, encouraging and supporting customers to carry out their own home building and improvements, and facilitating workshops to coach small builders in growing their businesses.

#### African expansion

As part of Cashbuild’s strategy, the Company aims to expand its geographical footprint and Africa, with its higher growth rates, poses expansion opportunities for the Group. Zambia and Zimbabwe have been identified as countries where Cashbuild would like to have a greater presence and at this stage, the Group is looking to open “greenfield” stores in these countries. Store openings have been approved in Namibia, Lesotho and Malawi.