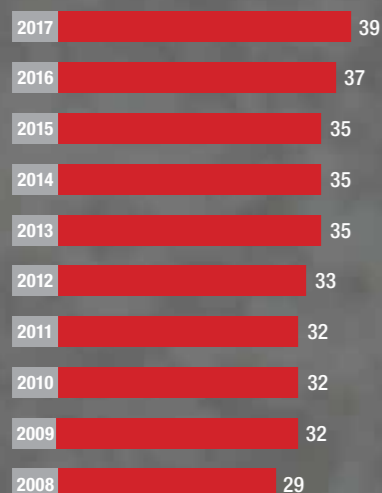
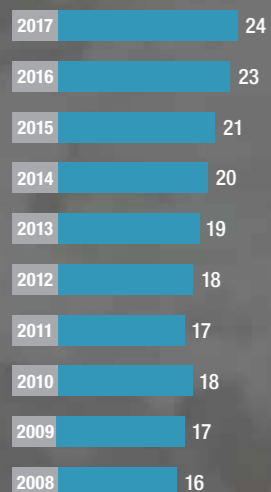


# REVIEW OF THE GROUP'S MAIN FUNCTIONS

## NUMBER OF SPORTSMANS WAREHOUSE STORES



## NUMBER OF OUTDOOR WAREHOUSE STORES



## MERCHANDISE

Merchandise selection and management are structured and follow a proven methodology. The success of the buying and planning process is dependent on a team of highly skilled and trained specialists with a clear product focus, a thorough understanding of customer needs, adherence to a systems-driven process and, most importantly, a passion for the industry.

Accordingly, the group is committed to developing talent and has a merchant trainee programme which focuses on the development of recent graduates for merchandise functions.

The merchandise team consists of approximately 60 dedicated professional staff who manage the planning, ordering and distribution processes for over 25 000 stock keeping units (SKUs). Holdsport currently has approximately 100 international and 300 local suppliers. All merchandise is ordered centrally by the merchandise team.

- Holdsport procures nearly 70% of its merchandise from local suppliers, who are required to deliver products directly to stores. Local suppliers typically import most of their products and generally dominate the apparel and footwear categories. Order lead times are long.
- The group imports approximately 30% of its stock directly, mainly from China. Directly imported goods are received into the group's distribution centre where it is unpacked, warehoused and distributed. Payments are predominantly made through letters of credit. All imports are fully covered by specific forward-exchange contracts per import order at the date that the order is

placed. A portion of the imported products are brands which are exclusive to Holdsport.

- Holdsport imports more equipment directly compared to footwear and apparel. Imported merchandise is also subject to long manufacturing and shipping lead times.
- The Wholesale Division uses the group's main distribution centre for most of its imports and also has separate manufacturing facilities.

Stock is distributed regularly to the individual stores based on sell-offs. The number of deliveries per week depends on cyclical demands.

The sporting and leisure goods market is not as exposed to fashion trends as other retail sectors and Holdsport's inventory mark-downs are low by apparel industry standards.

## MARKETING

The group has a comprehensive marketing strategy that focuses on presence and branding at large sporting events, selected schools' sports days, as well as participation in community-based activities.

Holdsport has a marketing team who executes the overall marketing strategy and provides support to stores' community involvement programmes. Certain creative marketing work is outsourced to a specialist retail advertising firm.

The majority of the advertising budget is spent on comprehensive brochures, which are distributed through the national press. This medium allows the group to advertise an extensive range of products on a consistent basis.

Other advertising mediums, such as radio, are also used by the group. The group increasingly uses electronic and online channels to

interact directly and effectively with current and prospective customers.

## FINANCE AND ADMINISTRATION

Holdsport has a highly centralised finance structure, with competent financial managers being responsible for different divisions in the group. Financial managers report to the chief financial officer and actively collaborate with one another and operational and merchandise staff in their units to achieve business objectives. Stores focus on tactical execution of operational and merchandise strategy, and have limited transactional rights.

The finance function is responsible for the full array of financial functions, as well as the following:

- IT management
- Preparing, training and testing internal control processes and policies
- Supply chain and logistical management
- Property management
- Risk management

## INFORMATION TECHNOLOGY AND INFRASTRUCTURE

The group is highly dependent on reliable and efficient information and technology systems to process sales transactions and manage stock, protect data, facilitate appropriate financial record-keeping, and ensure effective and reliable reporting to management.

Holdsport's information technology function is outsourced to UCS Solutions (UCS), a division of Business Connexion. UCS has significant software expertise and technical experience focused on the retail value chain.

The chief financial officer and the finance function are responsible for

## REVIEW OF THE GROUP'S MAIN FUNCTIONS (continued)

the group's IT requirements. UCS' performance is monitored in terms of a detailed service level agreement, which covers, amongst other things:

- software licences and development;
- hardware infrastructure hosting and support;
- data storage, recovery and backup;
- IT support on-site;
- system implementation;
- system resumption; and
- disaster recovery.

The group's retail operations use Dolfin and Dolfin Live to manage its merchandise stock. Dolfin is integrated with Accpac, the accounting system.

Performance Brands uses Microsoft Dynamic NAV, which is an integrated accounting, distribution and stock management system that is well suited to the manufacturing and wholesale processes in the business.

Holdsport's sophisticated systems cater for different authorisation levels to manage the approval and execution of transactions and control reporting. The software platform is scalable and the group can add additional stores without placing significant pressure on its IT infrastructure.

The group continues to invest in suitable IT systems and infrastructure to support its strategies with current emphasis on the sophistication of its online sales offerings.

### LOGISTICS AND SUPPLY CHAIN

Directly imported merchandise and certain locally sourced products for the retail stores and Wholesale Division are received and warehoused in an 11 000 m<sup>2</sup> dedicated distribution centre in

Philippi, Cape Town which has been in use since July 2013.

Holdsport's distribution centre has environmentally friendly features, including the installation of low emission materials handling equipment, energy-efficient lighting and heating and water-efficient plumbing and landscaping.

### STORES

Holdsport has a national store footprint, with both retail chains operating across nine provinces, in prime retail locations, that management believes is hard to replicate. The group only opens new sites, or signs new leases, after confirming a business case for that site and taking into account the surrounding catchment area, ensuring as far as possible that each new store opened is immediately profitable.

As at 28 February 2017 Holdsport operated a total of 63 stores, including 39 Sportsmans Warehouse stores and 24 Outdoor Warehouse stores.

Sportsmans Warehouse stores vary between 800 m<sup>2</sup> and 3 000 m<sup>2</sup>, whilst Outdoor Warehouse stores average 800 m<sup>2</sup> in size. Stores are typically situated in a value centre or stand-alone locations in recognised retail nodes. Furthermore, Holdsport has an increasing store presence in malls.

Holdsport rents all its premises. The lease terms are generally five to ten years, with the majority of the agreements including a renewal option. The renewal negotiations are relatively evenly spread, with approximately ten store rental negotiations per year.

The group is an attractive tenant for landlords, not only due to its strong reputation as a reliable tenant, but

also as it broadens the offering in a centre and enhances its attractiveness to consumers.

Holdsport is well positioned for further growth, having opened three new stores in the previous financial year, as well as having signed leases for a further three stores to be opened in the 2018 financial year.

Generally, new locations may be less profitable initially than the existing profitability levels achieved in mature stores.

The group continuously invests in its stores to enhance the quality of the trading environment and to ensure that stores meet growing customer demand. Stores are also relocated to improved trading positions where relevant.

Holdsport is specifically focused on extending stores with high trading densities to offer customers even greater variety and an improved shopping experience. During the year eight stores were renovated, one relocated and two expanded.

Energy-efficient lighting and other measures have been implemented in stores to reduce electricity consumption and generate savings given rising energy costs. These measures have assisted in containing total energy usage (measured in kilowatt hours) which decreased by 2.0% from last year despite a 3.4% weighted increase in space.

## CHANGES IN STORES

	New stores	Relocations, expansions and closures
2018	<ul style="list-style-type: none"> <li>• <b>West Coast</b> (Parklands) – Outdoor Warehouse of 746 m<sup>2</sup> opened in April 2017</li> <li>• <b>Ballito</b> – Sportsmans Warehouse of 1 200 m<sup>2</sup> to open in September 2017</li> <li>• <b>Cornubia</b> (Umhlanga) – Outdoor Warehouse of 800 m<sup>2</sup> to open in September 2017</li> </ul>	<ul style="list-style-type: none"> <li>• <b>West Rand</b> (West Rand Crossing) – Sportsmans Warehouse size increased from 1 300 m<sup>2</sup> to 1 599 m<sup>2</sup> from March 2017</li> </ul>
2017	<ul style="list-style-type: none"> <li>• <b>Midrand</b> (Mall of Africa) – Sportsmans Warehouse of 795 m<sup>2</sup> opened in April 2016</li> <li>• <b>Menlyn Park</b> – Sportsmans Warehouse of 1 632 m<sup>2</sup> opened in November 2016</li> <li>• <b>George</b> (Eden Meander) – Outdoor Warehouse of 630 m<sup>2</sup> opened in November 2016</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Nelspruit</b> – Outdoor Warehouse relocated and expanded by 160 m<sup>2</sup></li> <li>• <b>Somerset West</b> – Outdoor Warehouse size increased from 889 m<sup>2</sup> to 1 014 m<sup>2</sup></li> <li>• <b>Westville</b> (Pavilion Centre) – Sportsmans Warehouse size increased from 1 100 m<sup>2</sup> to 1 411 m<sup>2</sup></li> </ul>
2016	<ul style="list-style-type: none"> <li>• <b>George</b> (Eden Meander) – Sportsmans Warehouse of 1 716 m<sup>2</sup> opened in April 2015</li> <li>• <b>Hillcrest</b> (Watercrest Mall) – Sportsmans Warehouse of 1 300 m<sup>2</sup> opened in May 2015</li> <li>• <b>Woodlands</b> (east of Pretoria) – Outdoor Warehouse of 803 m<sup>2</sup> opened in May 2015</li> <li>• <b>Pietermaritzburg</b> (Cascades Mall) – Outdoor Warehouse of 701 m<sup>2</sup> opened in November 2015</li> <li>• <b>Secunda</b> – Sportsmans Warehouse of 1 200 m<sup>2</sup> opened in November 2015</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Pretoria East</b> – Outdoor Warehouse expanded by 152 m<sup>2</sup></li> <li>• <b>Centurion</b> – Outdoor Warehouse expanded by 64 m<sup>2</sup></li> <li>• <b>West Rand</b> (West Rand Crossing) – Outdoor Warehouse relocated and expanded by 80 m<sup>2</sup></li> <li>• <b>Alberton</b> (New Market) – Outdoor Warehouse relocated and expanded by 147 m<sup>2</sup></li> <li>• <b>Durban</b> (Springfield Value Centre) – Sportsmans Warehouse of 1 407 m<sup>2</sup> closed</li> </ul>

