

FULL YEAR RESULT AND CEO UPDATE

52 weeks ended
26 February 2023





Pick n Pay

Chairman's
introduction

Gareth
Ackerman

CEO overview

Pieter
Boone

Result overview

Lerena
Olivier

Strategy update

Pieter
Boone

**OUTLINE OF THE
PRESENTATION**

WELCOME

- Resilient performance in a challenging operating environment
- Excellent progress on Ekuseni strategy
- Pick n Pay remains committed to investing in our future



THE CHALLENGE OF LOAD SHEDDING

- Load shedding has massive negative effect on SA economy
- Food retailers particularly impacted by additional cost to keep food safe
- Accelerating our Energy Resilience Plan
- Government must mitigate impact through a reduction in diesel tax



CONSUMER SOVEREIGNTY

- Load shedding adds significantly to supply chain cost pressures
- Committed to helping consumers in tough times
- Held selling price inflation below CPI food once again
- Government should not try to shift blame



FOOD WASTE

- Levels of food waste remain unacceptable
- PnP has reduced food waste by 30% since 2019
- Donated over 880 tonnes of food in past year to Food Forward SA
- Load shedding presents additional challenges in avoiding food waste



THE NEED FOR POLICY CERTAINTY

- Significant challenges require long-term policy solutions
- Progress likely to be limited before the elections
- Individuals, private sector and civil society must step up like never before



CLOSING

- Ekuseni is the right plan for customers and the Group
- Making good progress on the plan
- Change in dividend policy to support Ekuseni from FY24
- Thank you to the teams





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**OUTLINE OF THE
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GROUP PERFORMANCE

Group Sales

R106.6bn

↑8.9%
(LFL ↑4.8%)

Gross Margin

R20.9bn

19.6% of T/O
↑R1.9bn vs LY

Trading Margin

Pro forma*

R2.9bn

2.7% of T/O
↓40 bps vs LY

**FY23 pro forma trading profit, exclude R145.2m (R104.5m net of tax) business interruption insurance proceeds received and accounted for in FY23, but previously included in FY22 pro forma earnings. In line with normal Group practice, pro forma earnings also exclude all non-cash hyperinflation gains and losses related to the Group's TM business in Zimbabwe.*



OUR EKUSENI AMBITIONS

Win with the
Pick n Pay customer

+20_{NPS}

Build Africa's #1
discounter

2x_{Boxer sales}

Market-leading
online offer

8x_{Online sales}

Fund our ambition

R3bn_{savings}

Deliver through
people

10%
sales CAGR

>3%
PBT margin



EKUSENI STRATEGY SO FAR...

**Win with the
Pick n Pay customer**

- Deployed new CVP in 131 stores - strong sales acceleration
- Opened 58 new stand-alone RSA clothing stores

**Build Africa's #1
discounter**

- Opened 60 new Boxer stores
- SA sales up by 20.2%

**Market-leading
online offer**

- Almost doubled online contribution to overall sales
- Grew on-demand over 100%

Fund our ambition

- Delivered Project Future savings of R800m for FY23
- On-track to deliver R3bn savings over three years

**Deliver through
people**

- Agreed multi-tasking and flexibility with unions
- Launched consolidation of PnP support office



WE HAVE RESPONDED TO UNPLANNED CHALLENGES

CHALLENGES

1 Escalating load shedding

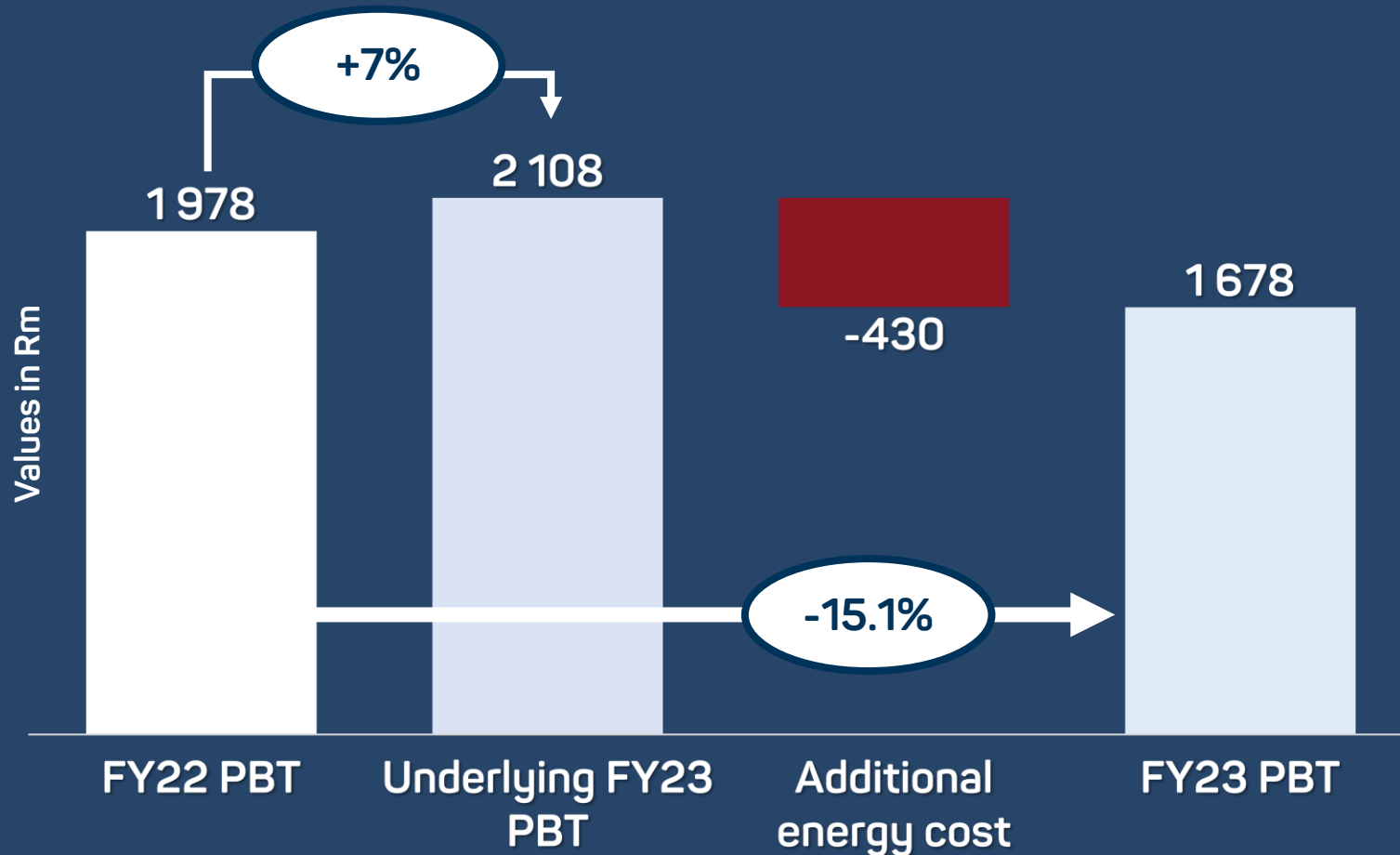
2 Customers under financial pressure

3 Global supply chain disruptions

OUR RESPONSE

- Tighter control on trading costs
- Developed and implemented an energy resilience plan
- Commodity-focused promotions in PnP QualiSave
- Significant price and promotional investment
- Stock buy-ins through the year to protect consumers

UNDERLYING PERFORMANCE MEETING EXPECTATIONS



- Previously guided that FY23 would be an investment year, with broadly flat earnings
- This was prior to substantial unforeseen impact of major escalation in load shedding
- However, underlying performance is ahead of Ekuseni guidance

Note: Additional energy cost refers to the incremental cost of diesel net of incremental electricity savings



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RESULT HEADLINES

Turnover	GP margin	Other income	Total expenses
R106.6bn ↑8.9% (LFL ↑4.8%)	19.6% flat on FY22 excl. civil unrest impact	↑14.1% excl. insurance recoveries	↑11.9% ↑9.5% excl. net incremental energy costs
Trading profit	Pro forma EBITDA	Pro forma HEPS	Dividend
R2.9bn ↓4.3% (pro forma)	R3.2bn ↓2.3%	↓16.3% HEPS ↓1.3%	↓16.3% 185.15 cents per share

FY23 pro forma trading profit, EBITDA and HEPS exclude R145.2m (R104.5m net of tax) insurance proceeds and all non-cash hyperinflation gains and losses related to the TM business in Zimbabwe

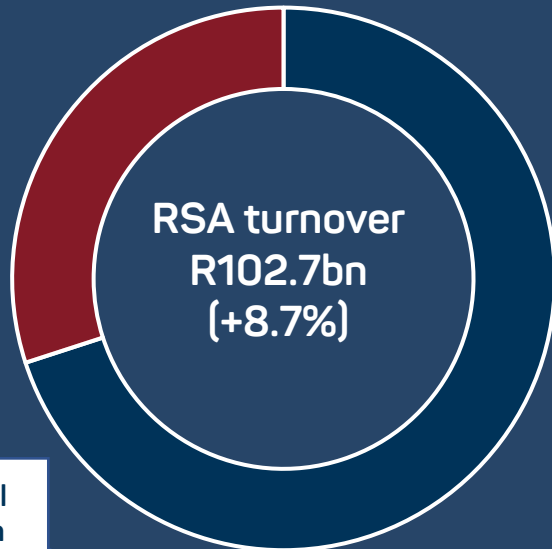


SOUTH AFRICA SALES PERFORMANCE



R31.3bn

Sales participation: 31% (FY22: 28%)



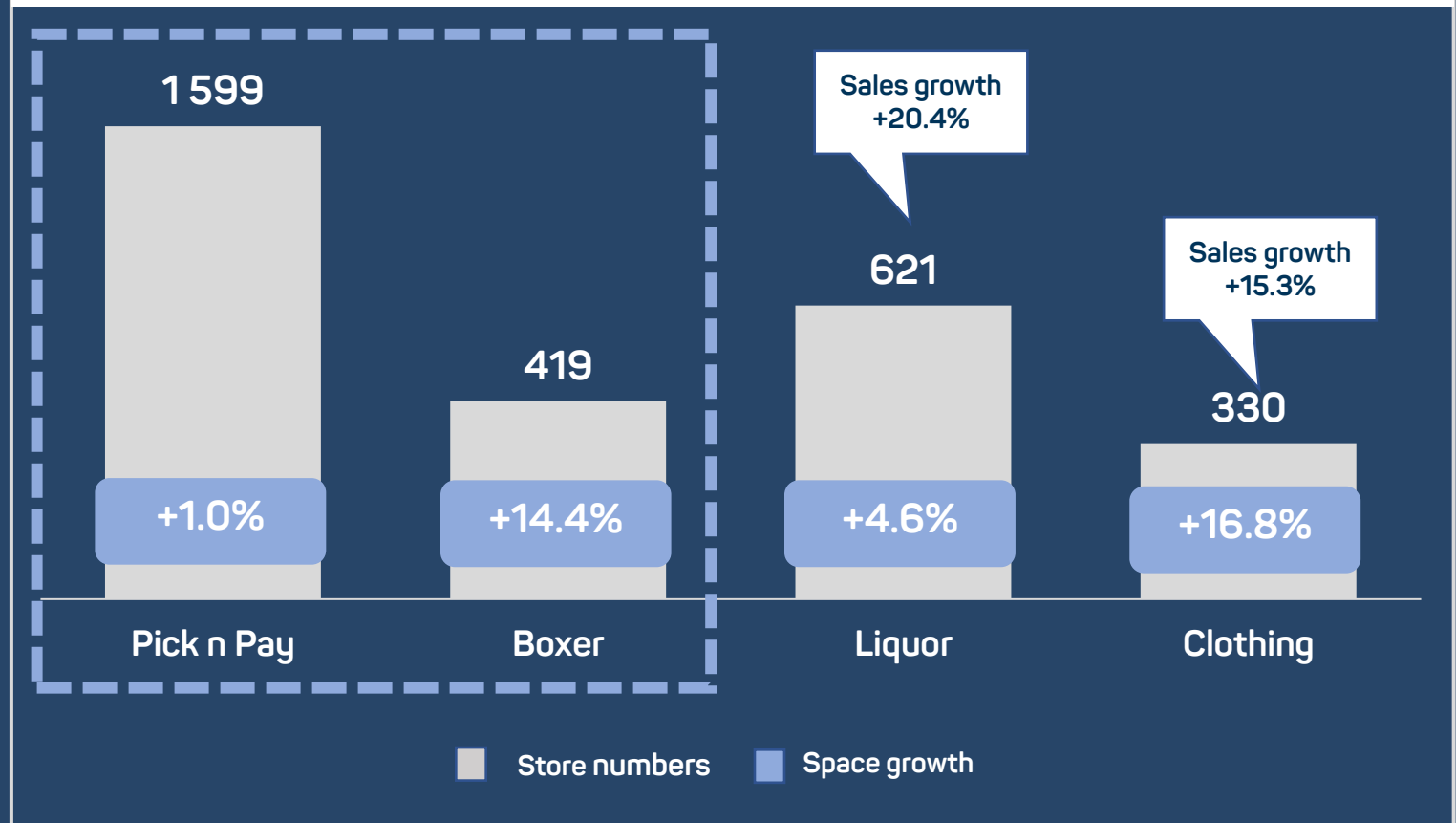
Omnichannel sales growth
+72%



R71.4bn

Sales participation: 69% (FY22: 72%)

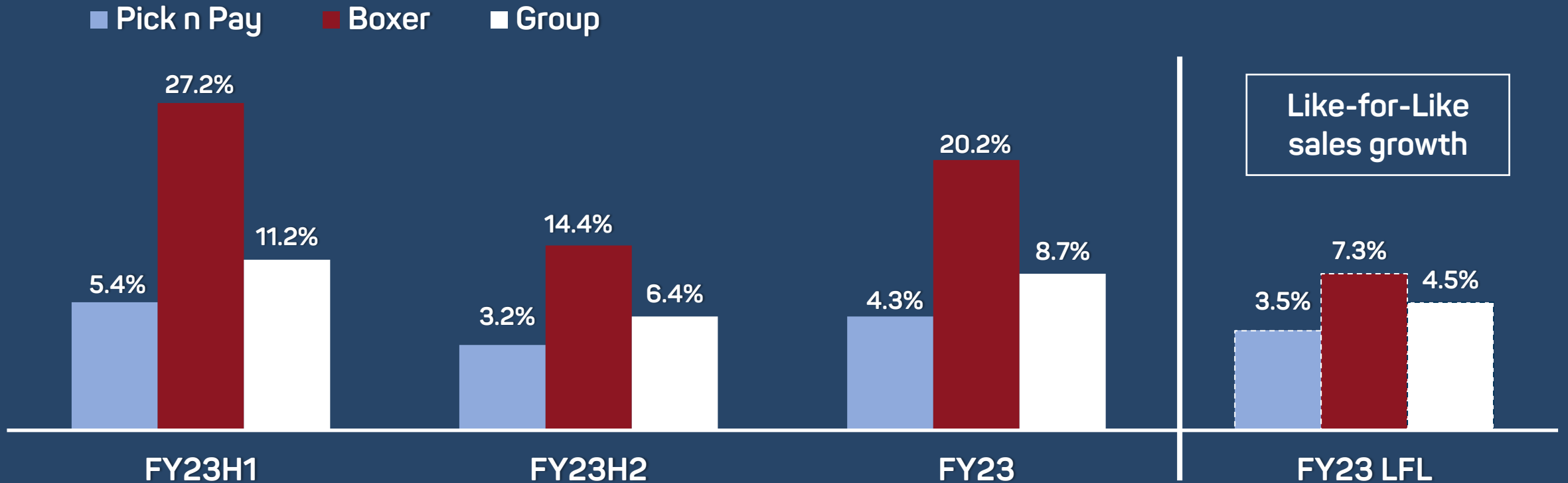
South Africa store estate – 2 018 stores



■ Store numbers ■ Space growth



SOUTH AFRICA SALES PERFORMANCE

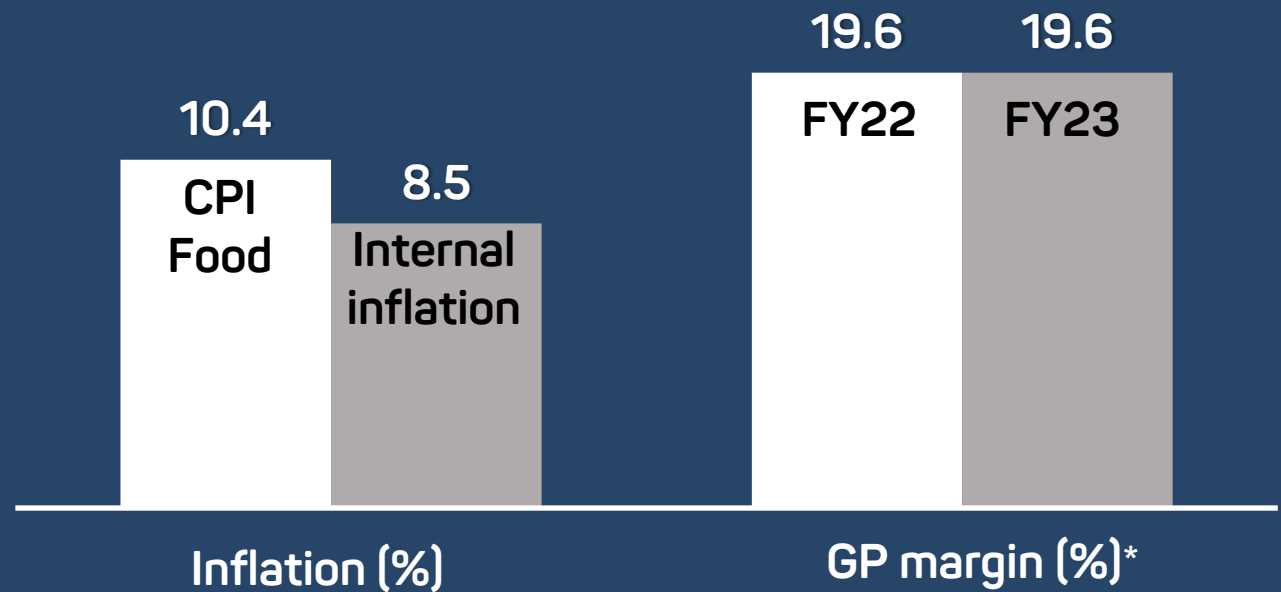


- PnP H2 impacted by higher number of CVP revamps and harder base (civil unrest, liquor restrictions)
- Boxer: H1 lapped civil unrest disrupted base; H2 lapped harder base due to shifted timing of promotional activity in base year





BETTER VALUE FOR CUSTOMERS



*GP margin excludes fully insured stock losses in prior year

OTHER INCOME: STRONG REVENUE GENERATION

Rm	FY23	FY22	Change %
Franchise fee income	448	428	4.5
Operating lease income	157	116	36.2
Commissions & other income ¹	1 400	1 213	15.4
Other income (underlying)	2 005	1 757	14.1
Insurance recoveries	261	748	
Reported other income	2 265	2 505	

- Franchise fee income up 4.5%, 22 franchise stores converted to Pick n Pay and Boxer company owned stores
- VAS income up 19.8% driven by innovation in financial services
- Digital and media income grew by 10.1%

¹Includes income from value-added services, all other commission and incentive income not directly related to the sale of inventory and digital and media income



PROJECT FUTURE DELIVERS COST CONTROL

	FY23 Rbn	FY23 change %	FY23 LFL change %	FY23 H1 change %	FY23 H2 change %
Trading expenses	20.2	11.9	7.9	10.6	13.1
Employee costs	8.3	6.5	2.9	6.5	6.5
Occupancy ¹	3.1	14.7	8.2	12.5	16.8
Operations ²	5.4	18.7	13.0	12.8	24.3
Merchandising and administration ³	3.4	13.0	13.1	16.7	9.6

¹Occupancy includes insurance costs

²Operations expense consists mainly of utilities and energy generation costs

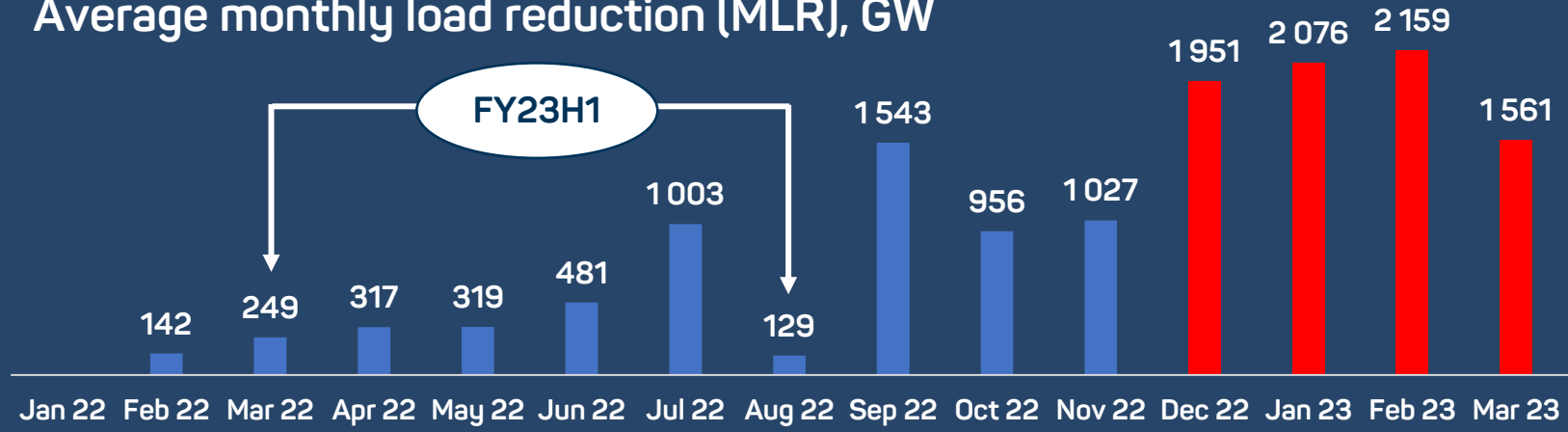
³Merchandising and administration costs mainly consists of advertising spend

- Trading expenses +11.9%
 - Boxer and Clothing store roll out
 - diesel costs (load shedding)
 - insurance and security costs
 - increased advertising spend +11.5%
 - solid progress on employee costs (+2.9% LFL), our biggest expense
- Project Future drives cost control and helps offset load shedding impact
- Trading expenses excluding R430m net incremental energy costs, +9.5%



IMPACT OF LOAD SHEDDING COSTS

Average monthly load reduction (MLR), GW



Source: Investec Securities, Eskom

Rm	FY23	FY24 illustrative*
Total diesel costs	652	1129
Incremental diesel costs	522	477
Incremental electricity savings	92	85
Net incremental energy cost	430	393

*Estimated by annualising the Jan/Feb monthly costs incurred

FY23 load shedding costs

- Incremental diesel costs of R84m per month in Jan/Feb
- R430m net incremental costs

FY24 load shedding costs

- Annualising Jan/Feb rate for FY24 gives net incremental energy cost of R393m
- This is before cost reduction efforts (target of > R200m)



PRO FORMA RESULT

	FY23 Rm	FY22 Rm	Change %	Margin %
Trading profit ¹	2 903	3 032	(4.3)	2.7%
Net finance costs	(1 323)	(1 150)	15.0	
Zimbabwe associate	98	97	1.8	
Group PBT ¹	1 678	1 978	(15.1)	1.6%
South Africa	1 524	1 859	(18.0)	
Rest of Africa	154	119	29.7	

- Trading profit -4.3%, a solid performance in the context of load shedding costs
- Trading margin is 3.1% when adding back R430m net incremental energy cost
- Finance costs driven by higher gearing & interest rate hikes
- Rest of Africa supported the result, driven by an improved performance from consolidated rest of Africa operations

¹FY23 pro forma trading profit and profit before tax (PBT) exclude R145.2m (R104.5m net of tax) business interruption insurance proceeds received and accounted for in FY23, but previously included in FY22 pro forma earnings. In line with normal Group practice, pro forma earnings also exclude all non-cash hyperinflation gains and losses related to the Group's TM business in Zimbabwe



REST OF AFRICA

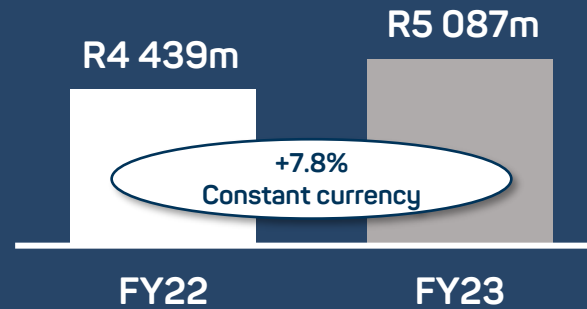
Franchise

Botswana	19
Lesotho	4
eSwatini	22
Namibia	35

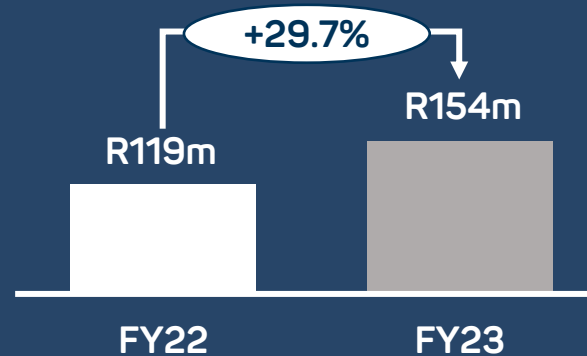
Owned or Partnership

Zimbabwe	72
Zambia	23
Nigeria	2
eSwatini	9

Segmental sales



Segmental profit*



*Excluding non-cash hyperinflation adjustments and capital items





BALANCE SHEET ANALYSIS

Net gearing

R3.7bn

↑ R2.2bn from FY23H1

Net debt to EBITDA

1.1 times

Supporting strategic investments

Net working capital

↓ R968m

Strategic buy-ins R600m
Eastport R400m

CAPEX

R4.0bn

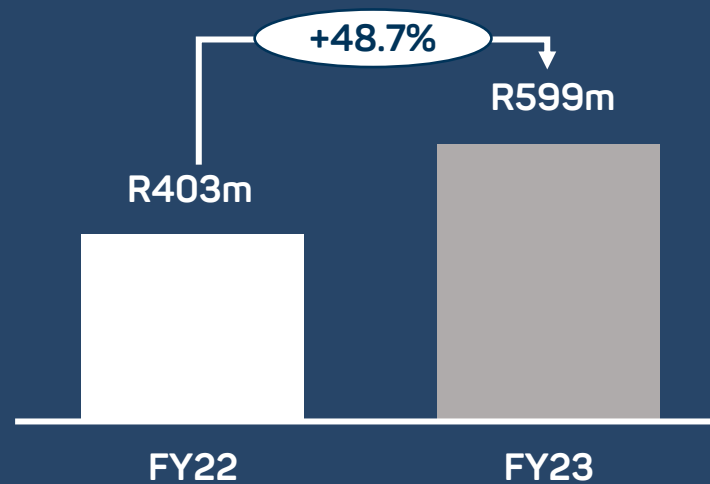
↑ R1.9bn from FY22



WORKING CAPITAL MANAGEMENT

Working capital	FY23 Rm
Changes in working capital	(968)
Inventory	(2 338)
Trade and other receivables	(299)
Trade and other payables	1 669

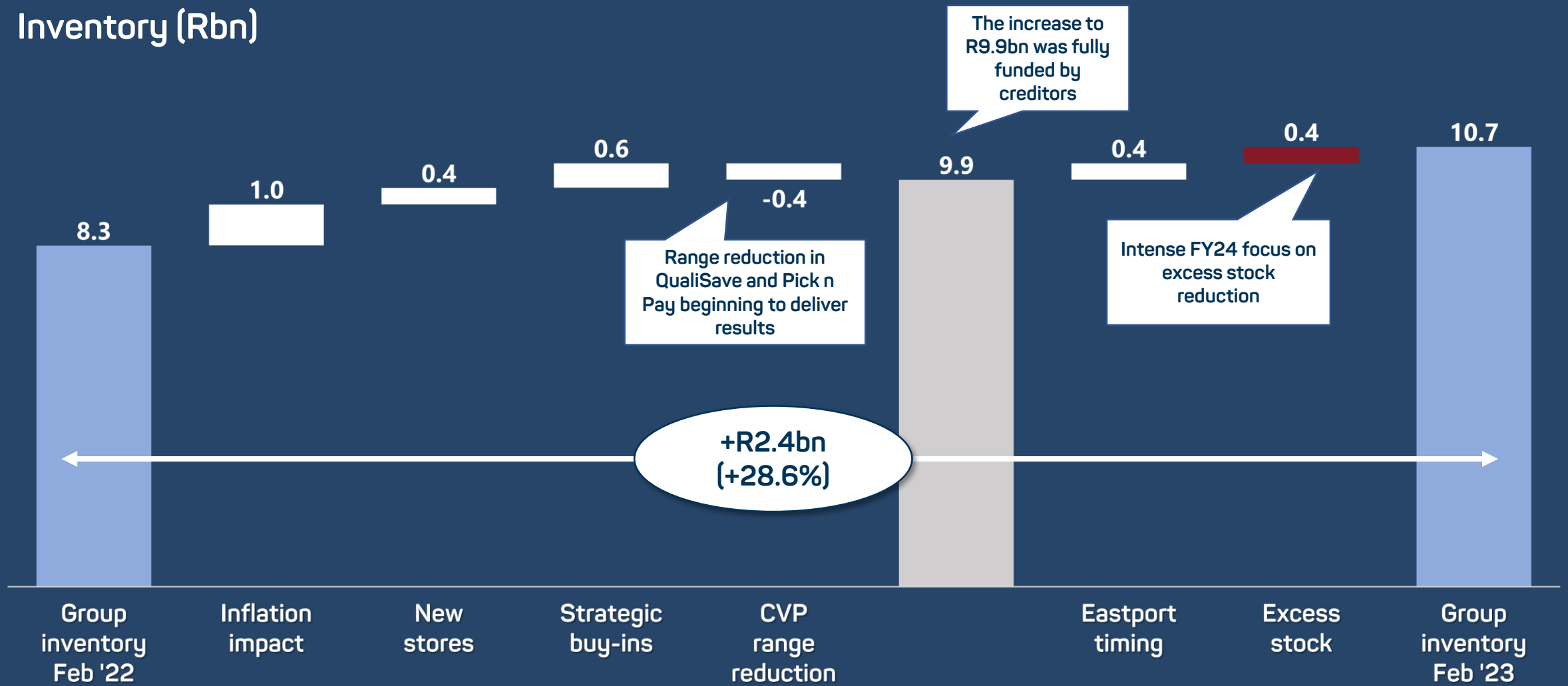
Pick n Pay Fast Pay



Pick n Pay's Fast Pay awarded Best Working Capital Funding Solution at the International Working Capital Awards. The platform allows suppliers including SMEs to gain instant cost-effective funding

INVENTORY ANALYSIS

Inventory (Rbn)





PROGRESS AGAINST INVESTMENT PLAN

Capital investment



*includes digital and innovation capex

- FY23 CAPEX increased due to
 - launch of Ekuseni
 - investment in growth engines
 - investment in rejuvenating core
- FY24 CAPEX approach
 - continued growth engine focus
 - incremental approach to energy cost mitigation CAPEX
 - CAPEX to be managed in line with operating outcomes and with balance sheet prudence

INCREASED GEARING SUPPORTS GROWTH INVESTMENT

	Feb 2023	Aug 2022	Feb 2022
Net gearing/(net cash), Rbn	3.7	1.4	0.4
Net debt to EBITDA (excl. IFRS 16)	1.1	0.43	0.12

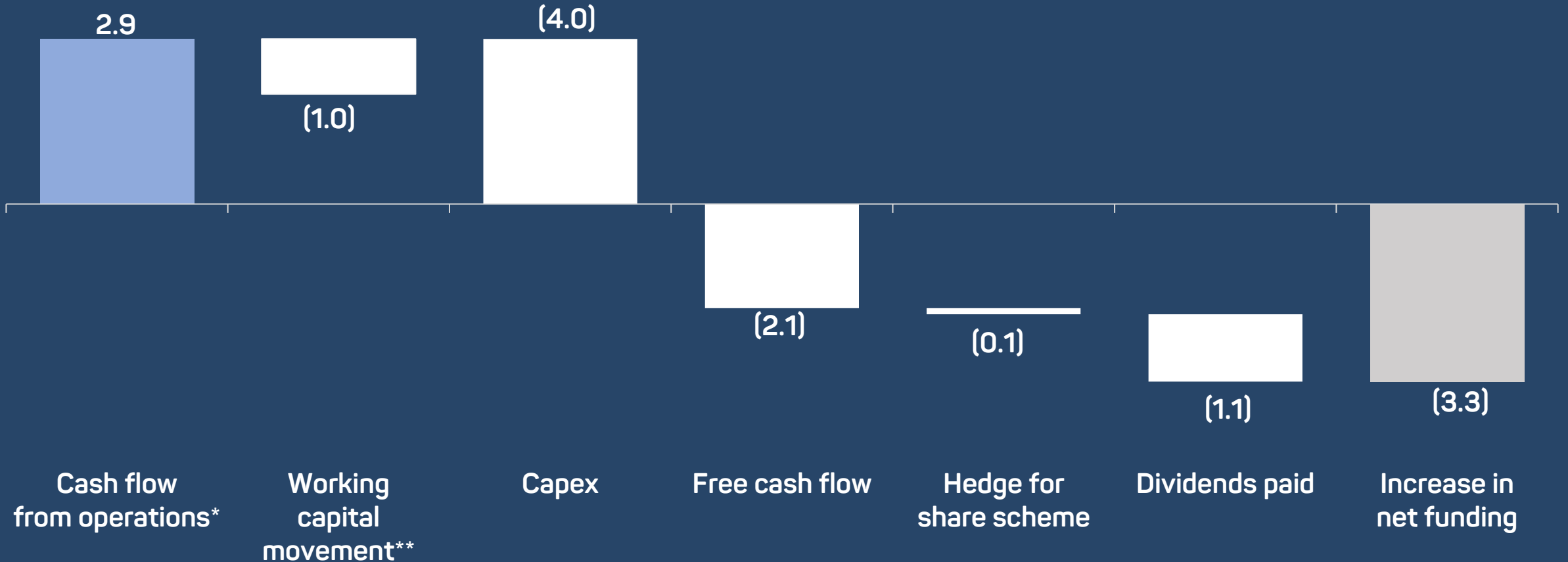
- Net gearing increased to R3.7bn, net debt to EBITDA at 1.1x
- Gearing driven by CAPEX and working capital
- FY24 working capital improvements will support gearing
- R5.5bn long-term debt funding package arrangement near finality
- Funding package is unsecured and ESG linked

	FY23 Rm	FY22 Rm
Interest received*	260	320
Borrowing costs	(431)	(341)
Net funding interest	(171)	(21)
Net lease interest cost	(1 152)	(1 129)
Net finance cost	(1 323)	(1 150)

*Interest received includes interest on bank account balances and interest from franchisees

CASH FLOW PROFILE

Cash generation and utilisation (Rbn)



*Before non-cash flow impact of IFRS16

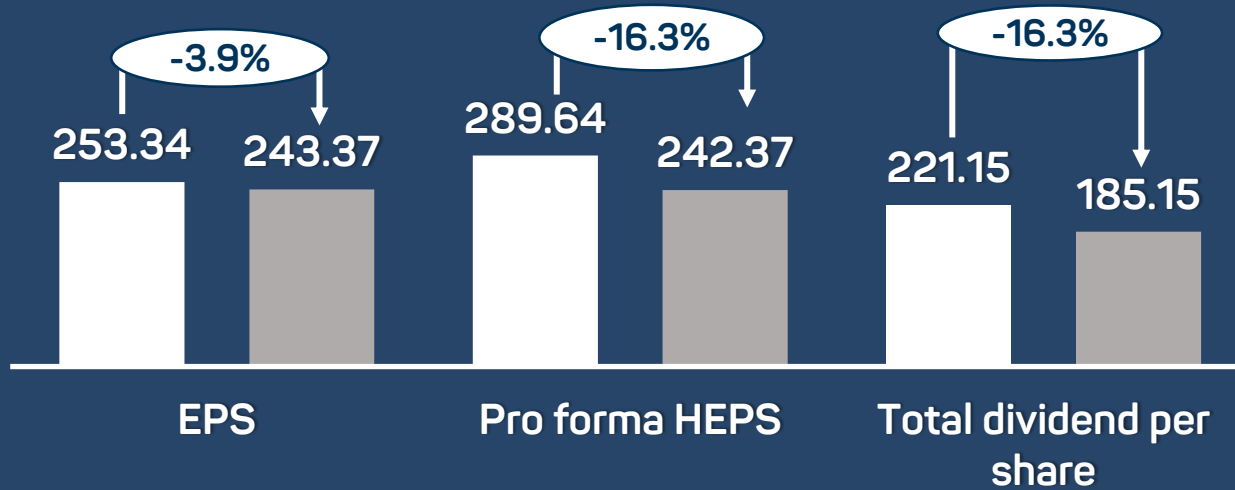
**Excluding fast payout increase of R0.2bn



FY23 DIVIDEND

Earnings and dividends (cents per share):

■ FY22 ■ FY23

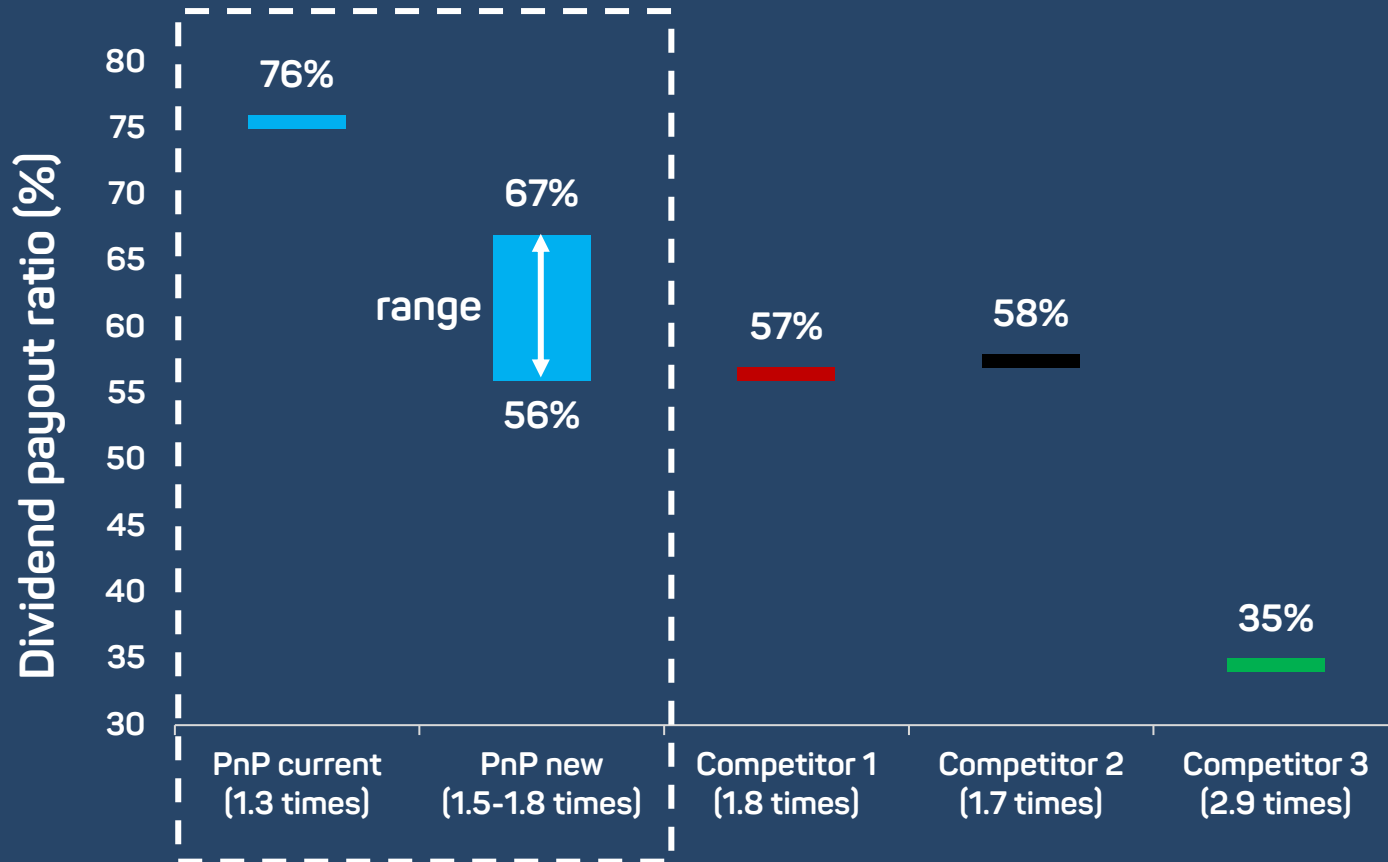


- Pro forma HEPS: 242.37 cents per share down 16.3%
- Pro forma HEPS primary driver of dividend payout ratio
- FY23 full-year dividend: 185.15 cents
- Full-year dividend cover of 1.3 times (76% payout) maintained for FY23

FY23 Reconciliation	PBT Rm	HEPS cents per share
Reported	1 800.2	259.25
Non-cash hyperinflation impact	23.4	4.87
Insurance recoveries	(145.2)	(21.75)
Pro forma	1 678.4	242.37



NEW DIVIDEND POLICY FROM FY24



- New dividend policy
 - range of 1.5x-1.8x cover (56%-67% payout ratio)
- Dividend policy range provides
 - Balance sheet flexibility for Ekuseni investment
 - increased agility in uncertain macro environment
 - ability to increase payout at a later stage
- To be implemented from FY24

Competitor dividend calculations based on FY22 dividend relative to headline earnings. Pick n Pay calculation based on dividend relative to pro forma headline earnings



FY24 FINANCIAL OUTLOOK

- CAPEX to be between R3.5bn-R4.5bn
- Working capital improvement R0.5bn-R1.0bn
- February 2024 net debt/EBITDA (exc. IFRS 16) c.1.5x
- FY24 earnings (before restructuring charges) may not exceed FY23 pro forma headline earnings
 - incremental net energy cost
 - increased finance charges in support of investment plan
 - restructuring costs: VSP and Junior Store Management restructure costs in H1, with efficiencies realised in H2
- H1FY24 earnings impacted by
 - H1 and H2 earnings seasonality
 - base (H1FY23) minimally impacted by load shedding
 - diesel cost reduction efforts incrementally gaining traction as year progresses
 - duplication of supply chain costs during Longmeadow/Eastport handover
 - restructuring costs incurred in H1



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OUR EKUSENI AMBITIONS

Win with the
Pick n Pay customer

+20 NPS

Build Africa's #1
discounter

2x Boxer sales

Market-leading
online offer

8x Online sales

Fund our ambition

R3bn savings

Deliver through
people

10%
sales CAGR

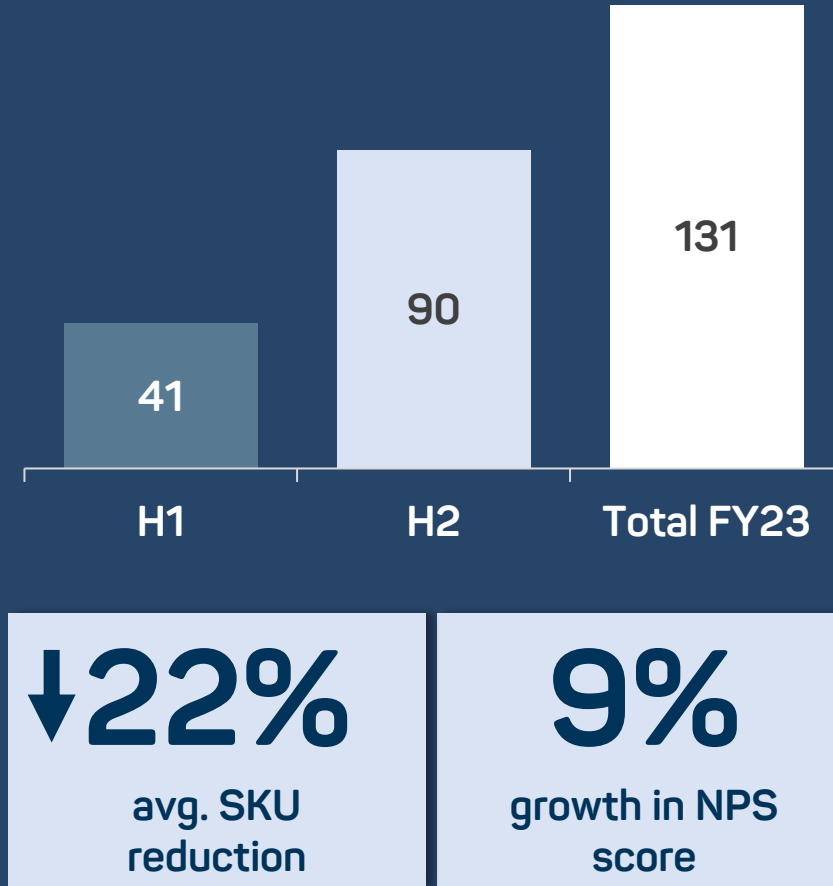
>3%
PBT margin



CVP STORE CONVERSIONS

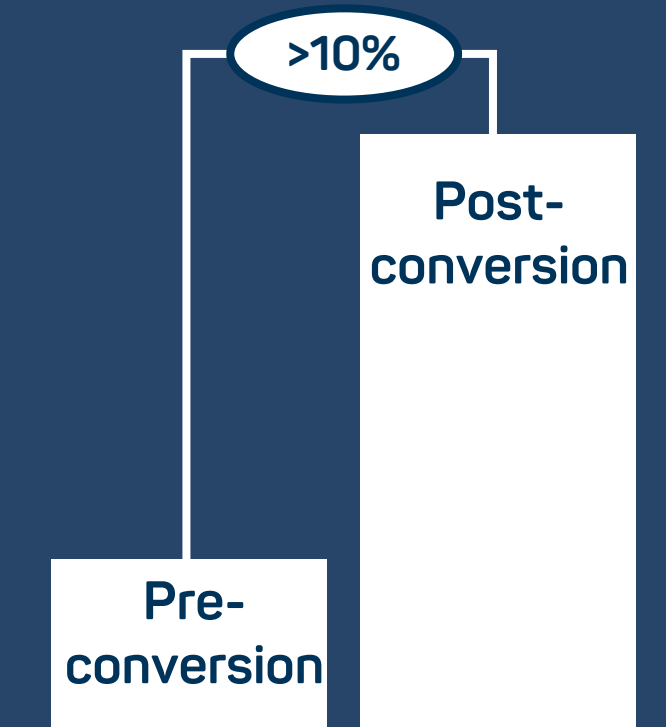
Timing of CVP stores roll out, FY23

- Over 130 stores converted to new CVP
- 118 QualiSave brand conversions completed
- Majority of stores converted in H2
- Our range reduction plans are starting to yield results
- Customers are enjoying our new CVP stores

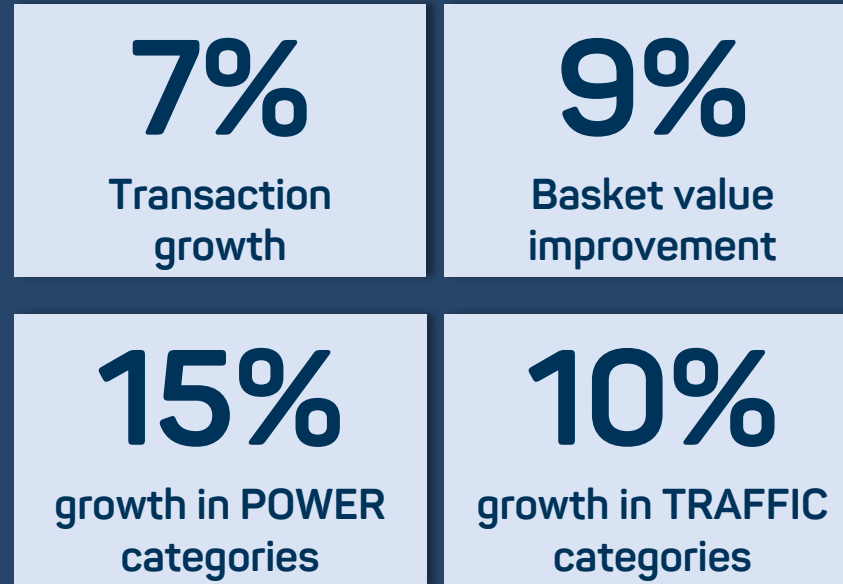


CVP STORES DELIVERING GROWTH

Sales uplift

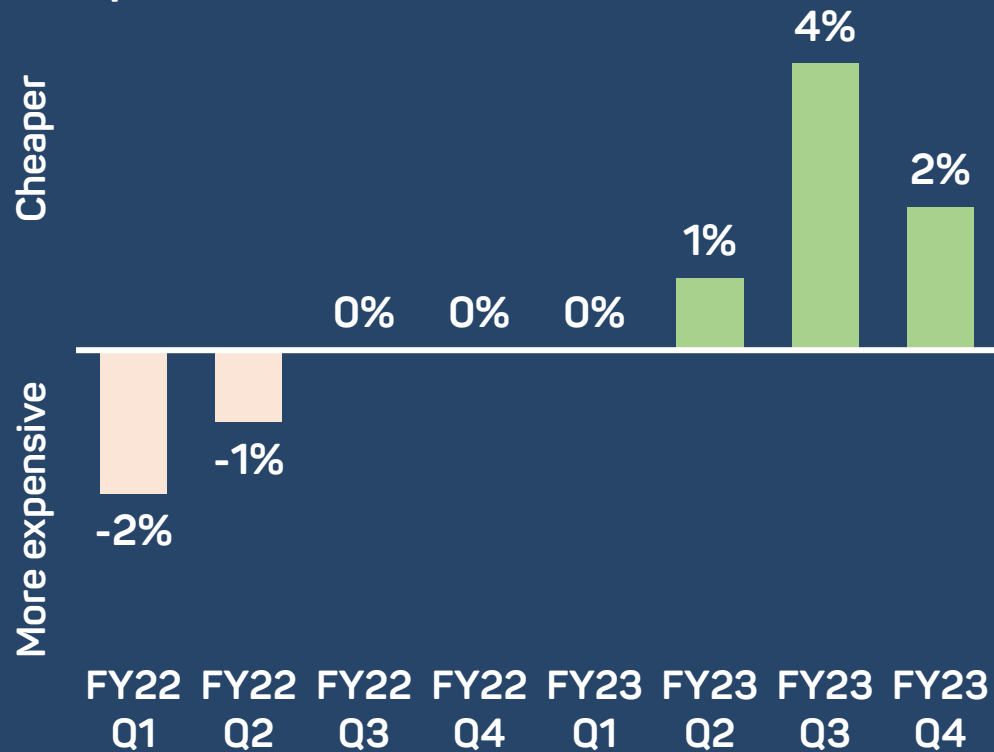


Store improvement metrics



IMPROVED PRICE PERCEPTION

Pick n Pay price perception vs. key competitor:



Source: PnP Survey (Online based) and *PnP Fan Score surveys

Customers voice their views*:

Pick n Pay has the best prices so far on most items

Convenient and prices are competitive

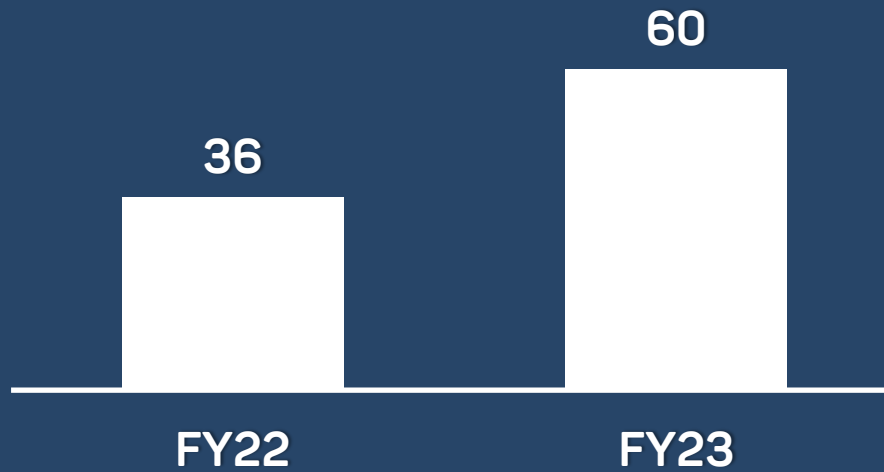
The staff are very friendly, and the prices are always low





BOXER: MARKET LEADING DISCOUNTER

New and converted stores:



- Continued market share gains
- Launch of 110 new confined label products
- Strong Value-Added Services performance
- More than 3 000 jobs created
- State of the art forecasting and replenishment tool planned for FY24 go-live

20.2%

sales growth (SA)
7.3% LFL growth

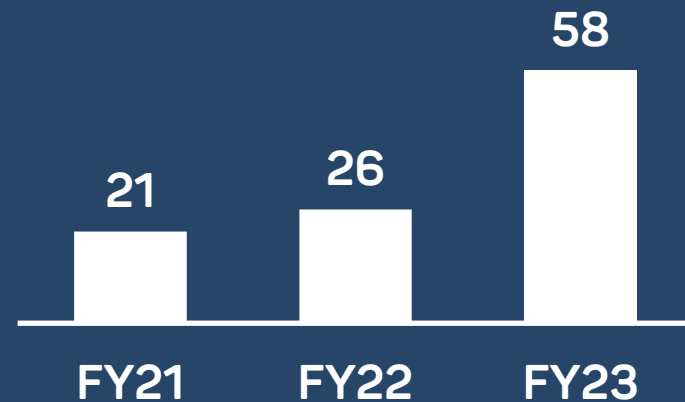
16.7%

customer growth
2.6% basket growth

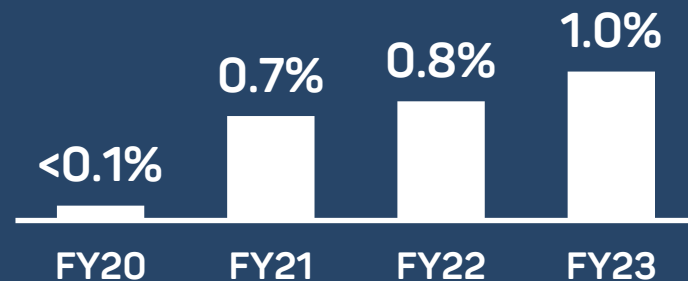


CLOTHING: A GROWTH ENGINE

New RSA stand-alone stores:



Cumulative market share gains:



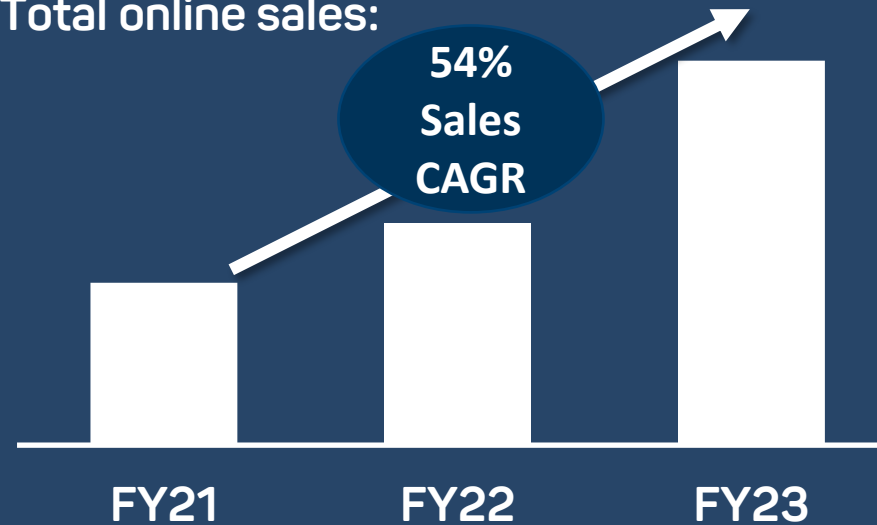
Source: RLC

- 15.3% sales growth in stand-alone stores, with net profit growth of 11.6%
- 20.4% 2yr sales CAGR: Four years of growth ahead of market
- More than 1 000 jobs created
- c.45% of clothing units sourced locally, up 100% in volume from 2019
- 38% of products sustainably sourced
- Opened the first 4-star green rated clothing retail store in SA

EXCELLENT ONLINE SALES GROWTH

- Strong online sales growth
- Driven by asap! and Mr D offer
- Improvements in average picking time, delivery time, and perfect order rate
- Trialling new fulfilment routes for scheduled delivery

Total online sales:



>100%
growth in on-demand sales

>400
on-demand delivery locations nationally



VALUE-ADDED SERVICES GROWTH

- First retailer to launch a Cash-in & Cash-out facility for VodaPay
- Launched PnP Funeral insurance
- Smart Shoppers can now purchase airtime and data on the PnP app using their points
- Strong financial solutions with PnP Store Card and MoreTyme (Buy now, Pay Later)
- Continued expansion in Mobile with 2 new concept stores, plans to expand to 50 stores

>60%

growth in cash
withdrawals

>30%

growth in travel,
events & gaming

>15%

growth in mobile



SMART SHOPPER AND DIGITAL

80%

sales participation

11m

active customers

>R6bn

in savings and points

- Strong sales participation
- Redeveloping targeted and personalised discounts and customer relationship management
- Building a single home for customer data and analytics
- Awarded Sunday Times GenNext Coolest Retail Loyalty programme of the year





ENERGY RESILIENCE PLAN

- Implementing Energy Resilience Plan to mitigate a portion of load shedding cost in FY24
- Plan includes tighter store disciplines, accelerated investment in LED lighting, and more efficient refrigeration
- Trials of battery energy storage systems (BESS) and other energy resilience technology
- Developing Energy Store of the Future as template for future resilience



ESG IS CORE TO PICK N PAY

- Our core principle is doing good is good business
- By reducing waste, we help the environment and reduce our costs
- We support our communities through Feed the Nation Foundation and Schools Club with our partners and franchisees

>60%

General waste diverted from landfill in FY23

c.30%

reduction in food waste since 2019

>40m

meals have been delivered to people in need

>R175m

worth of food has been distributed

EASTPORT DC IS OPERATIONAL

- New Eastport DC is operational
- Effective cutover plan – ensuring no business interruption
- DC allows us to achieve 95% centralisation in the Inland region
- DC productivity should increase by 20% in the next financial year
- Consolidation of GMD, Imports, Groceries & Fresh into one location will reduce fixed costs



SAVING THROUGH PROJECT FUTURE

- Secured R800m savings in PnP through modernisation and efficiency initiatives across the business:
 - Supply chain and working capital efficiencies
 - Better commercial buying and support from vendors for Ekuseni ambitions
 - Improved corporate purchasing and use of goods not for resale
 - Improved store and head office productivity



DELIVERING WITH OUR PEOPLE

- Increased focus on recruitment and training
- More than 4 000 jobs created in Boxer, Clothing and Omnichannel growth engines
- Multiskilling agreement essential to deliver higher store productivity and customer service
- Junior Store Management Modernisation will deliver greater efficiency and clarity
- Good progress on head office consolidation
- Company-wide Voluntary Severance Package (VSP) enables us to accelerate savings while giving colleagues choice on participation



OUTLOOK FOR FY24

Our key focus - growth areas

1

Continue rolling out PnP and PnP QualiSave CVPs (80 stores planned)

2

Sustained expansion of Boxer and Clothing with 75 and 60 new stores planned, respectively

3

Driving online sales to deliver growth of more than 70%

4

Develop highly profitable new revenue streams, incl. Retail Media



OUTLOOK FOR FY24

Our key focus - efficiency areas

5

Continue execution of Project Future

6

Completion of our People initiatives and further development of Office of the Future plans

7

Energy Resilience Plan to mitigate some of the load shedding cost

8

Balanced approach to capital investment





Artisanal

DELI MEATS

SLICED ME

Q&A session

Dukephi PnP

BOXER

Pick n Play
QualiSave

Pick n Play