

20 Oct 2021

Interim Results

26 weeks ended
29 August 2021

Gareth Ackerman (Chairman)
Lerena Olivier (CFO)
Pieter Boone (CEO)



Pick n Pay

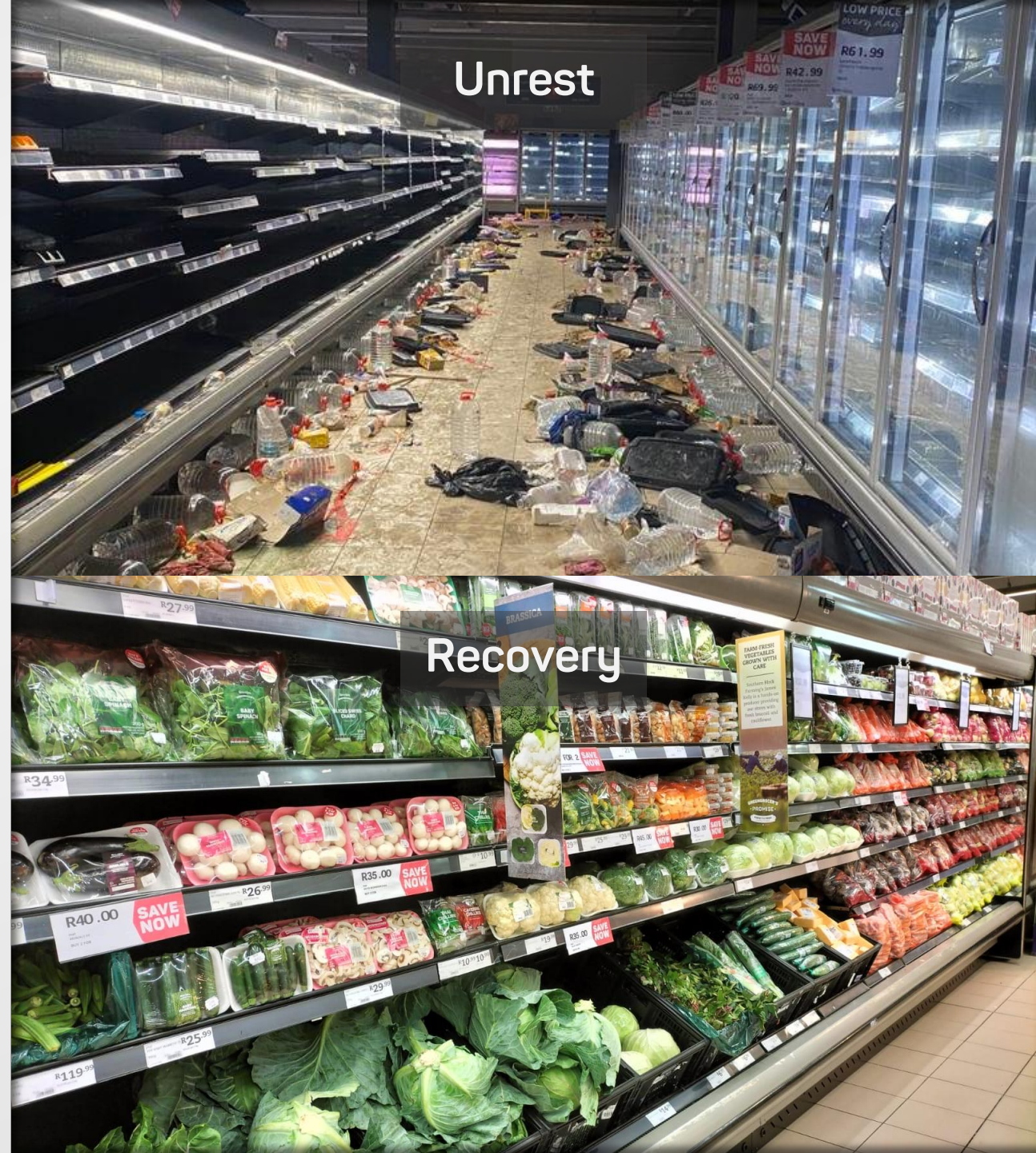
WELCOME

Gareth Ackerman



Introduction

- Extraordinary half with civil unrest
- Devastating lawlessness
- Response was some of our best moments as a business and a nation
- Thank you to all colleagues who led us through this crisis



Working together

- Business and government depend on each other
- Must work together with honesty, transparency, and good faith
- We will invest about R2,5 billion in capex
- PnP pays out about R1 billion per month in SASSA payments





Impact of restrictions

- Alcohol restrictions have been immensely damaging
- Evidence shows little or no positive impact as public health measure
- Enormous damage to jobs, the economy, confidence in SA's Covid response
- We support government efforts to vaccinate the country
- Implore government to heed the evidence and resist further alcohol sales restrictions



Feed the Nation

- Brilliant work that speaks to our values
- Feed the Nation campaign has raised over R150m
- This is over 33 million meals
- After the civil unrest we distributed 650 000 meals in affected areas

WELCOME



FY22 HALF YEAR RESULT

Lerena Olivier



Result headlines

	H1 FY22	H1 FY21	% change
Turnover	R46,0bn	R44,2bn	4,1
Gross profit margin	18,2%	19,6%	
Other income	R1 562,0m	R760,1m	105,5
Trading expenses	R8,9bn	R8,5bn	4,1
Comparable PBT*	R481,2m	R258,3m	86,3
Profit for the period after tax	R296,8m	R158,7m	87,0
Comparable HEPS*	70,85c	37,12c	90,9

*Comparable profit before tax and comparable headline earnings per share exclude the full impact of hyperinflation accounting in Zimbabwe and all items of a capital nature

Resilient performance over a challenging first half

Turnover reflects the impact of an estimated R1,7bn of lost sales related to trade disruptions during Q2

Gross profit reflects material impact of civil unrest:

- stock write-offs
- fixed and additional distribution costs

Other income includes:

- recognition of the insurance recoveries

Project Future supports expense containment:

- careful control of operating costs
- strong working capital management

Solid earnings growth under difficult circumstances

Reporting impact of civil unrest

	H1 FY22
Lost sales	R930,0m
Gross profit margin impact	1,8%
Other income – insurance recoveries	R753,7m
Trading expenses margin impact	0,7%
Capital items	R20,7m
- asset losses at book value	(R156,3m)
- asset recovery at replacement value	R177,0m
Stock losses	R633,0m
Debtors - insurance receivable	R830,7m
- current receivable as at Oct 21	R330,7m
- payment received post balance sheet date	R500,0m

The Group experienced severe disruption as a result of the civil unrest:

- 212 stores (45 still closed)
- 2 distribution centres
- 551 precautionary store closures

The majority of the Group's losses are covered by our insurance policies

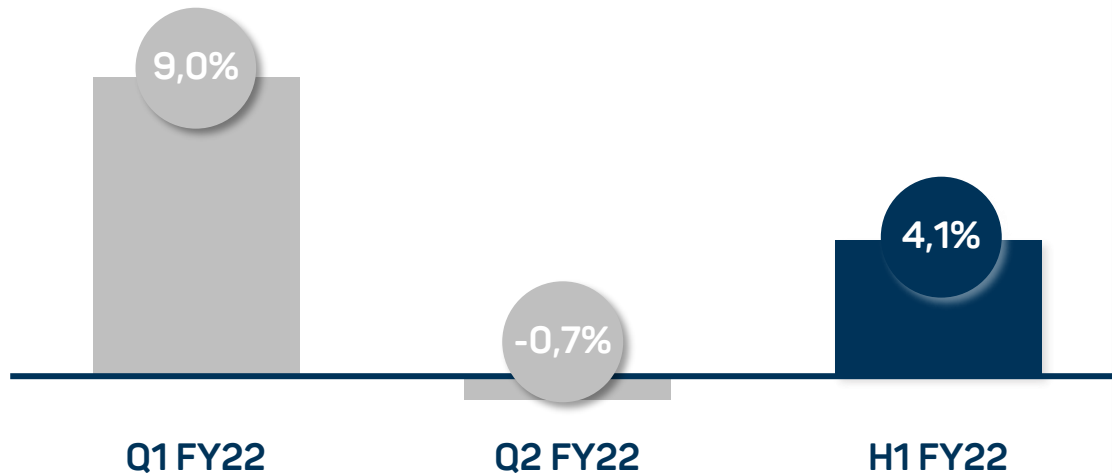
Effective collaboration with insurers and claim specialists has expedited the claims process

With 65% (R600m) of losses recovered to date, the Group has accrued for the recovery of the majority of its losses

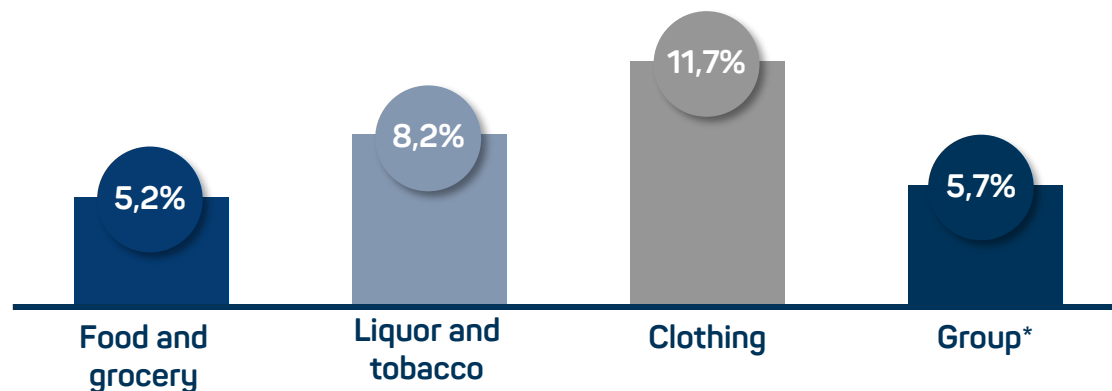
Unrecorded recoveries in this result are estimated at R65m, and are expected to be realised during H2 - this is expected to be offset by the increased costs of working (security and insurance)

Strong Q1, disrupted Q2

Quarterly Group sales growth:



Two-year SA sales CAGR by category*:



*Refer to Appendix 2 of the summarised financial information for more detail

Strong first quarter

- sharp recovery in categories impacted by Covid-19 trading restrictions in prior period

Severely disrupted second quarter

- resumption of liquor restrictions in June (estimated lost sales R800m)
- civil unrest in July (estimated lost sales R930m)
- more subdued retail market in August

Current and prior periods reflect extraordinary events - Group SA sales increased an estimated 5.7% per annum on a normalised two-year basis (with the impact of all estimated disruption removed)

Pleasing performance over a two-year period underpinned by:

- Boxer
- Pick n Pay Value
- Clothing

Strategic store plan

The LfL estate delivered sales growth of 3,6%

Store opening programme remains strong notwithstanding disruptions

Investment in 64 new stores across formats, including:

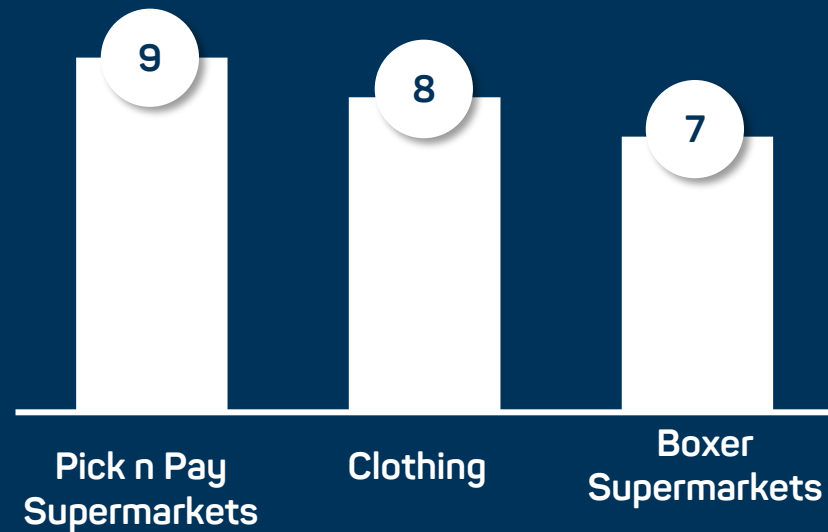
- 9 Pick n Pay supermarkets
- 7 Boxer supermarkets
- 34 liquor stores
- 8 clothing stores

To improve estate profitability, 16 underperforming stores were closed

Converted 4 franchise stores to company-owned stores

Rollout by format

Number of new stores:

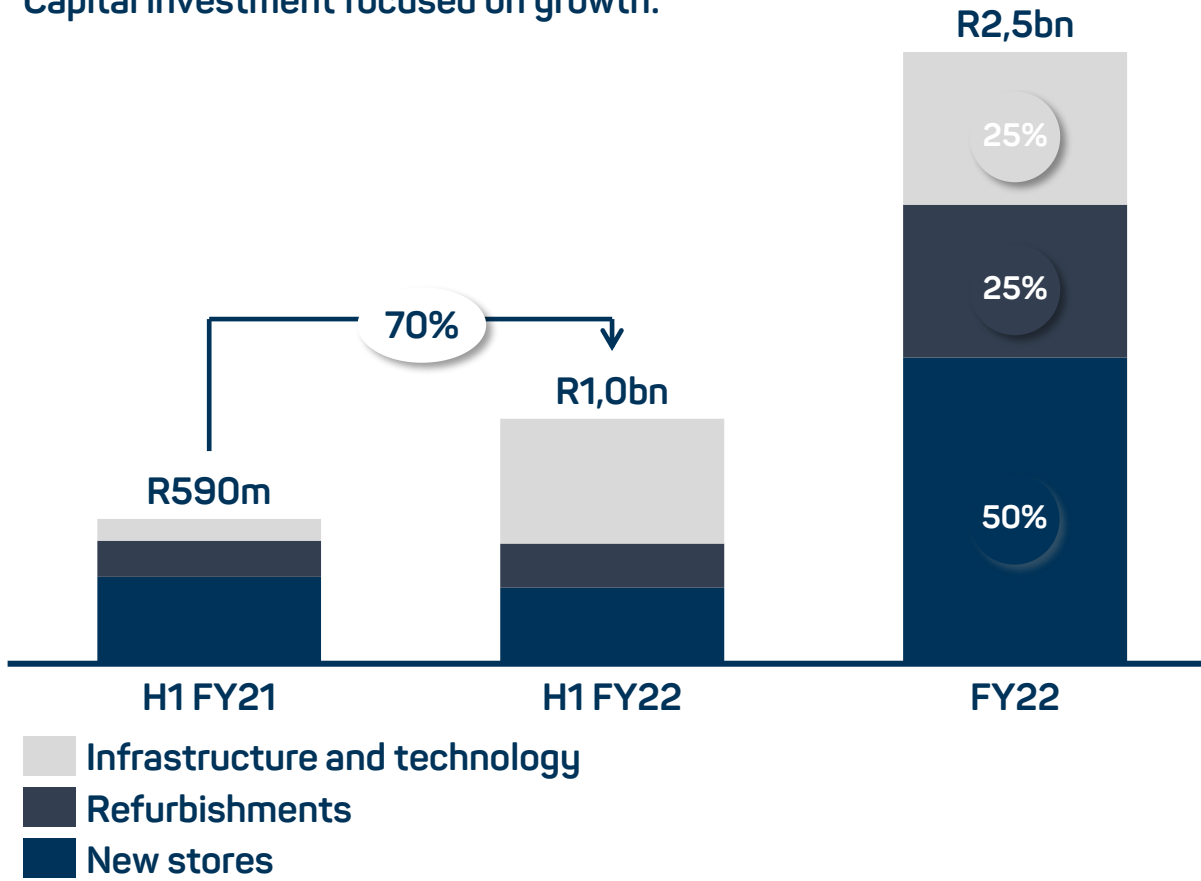


- Including both owned and franchise stores



Progress against investment plan

Capital investment focused on growth:



Strong store pipeline maintained with some civil unrest delays, specifically in Boxer

H2 store rollout will be accelerated

Increased investment in digital evolution, specifically:

- asap!
- Smart Shopper
- cloud migration
- Workday – digital HR platform

R2,5bn capital guidance for FY22 maintained (rebuilding of looted stores fully funded by insurance proceeds)

Elevated annual investment will continue for the next three years to support our strategic initiatives

DCs for Pick n Pay (Eastport) and Boxer will be funded through stand-alone long-term funding

Better value for customers

Investment in our customer offer remains a key strategic priority across both Pick n Pay and Boxer

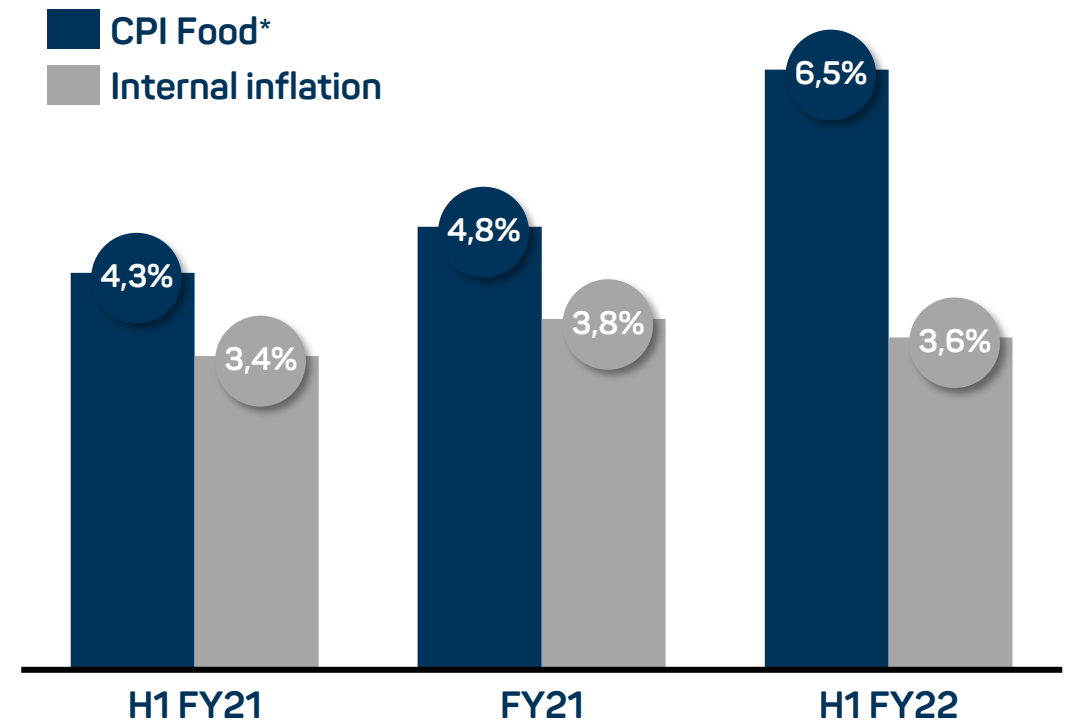
Lower prices and greater value increasingly important for customers

Selling price inflation contained at 3,6%, against CPI Food inflation of 6,5%

Sustained price investment supported by Project Future initiatives:

- better buying
- supply chain efficiency
- cost discipline and lower waste

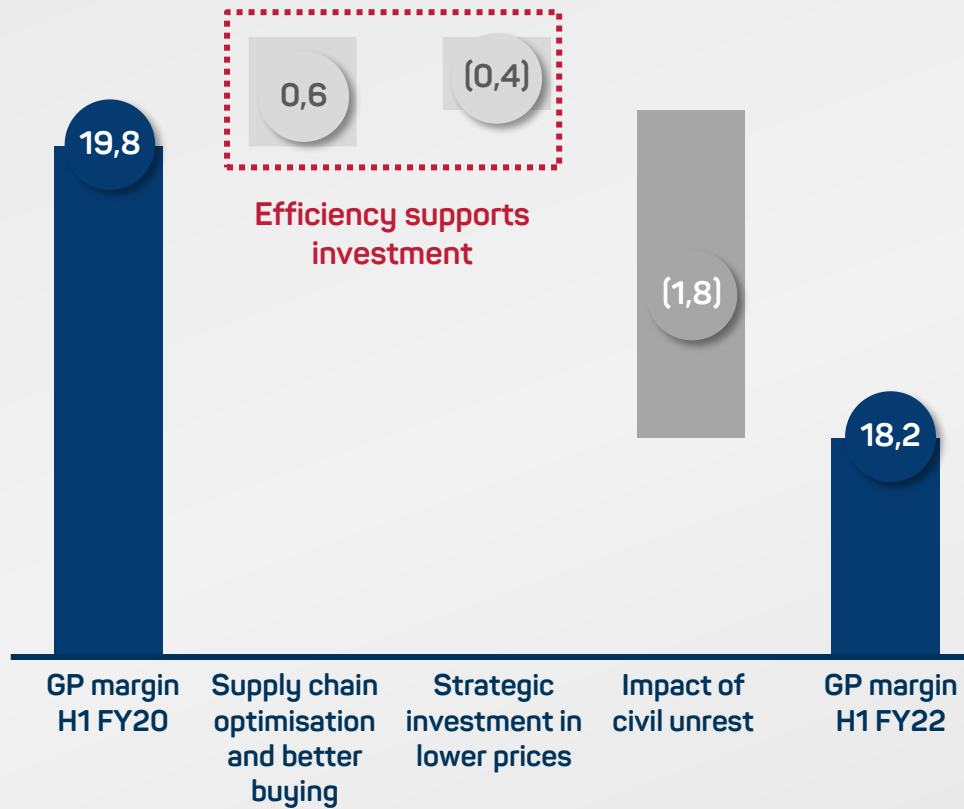
CPI Food against internal inflation



*Data from Stats SA

Underlying progress in gross profit

Two-year reported gross profit margin evolution:



Severe impact from civil unrest: 180 basis points

- stock write-offs
- additional distribution and security costs
- fixed costs of supply relative to lost turnover

Gross profit margin reflects optimised supply chain:

- labour productivity and flexibility
- lower transport costs
- greater centralisation in Boxer
- better buying

Cost savings enabled strategic investment in lower prices



Other trading income

Rm	H1 FY22	H1 FY21	% change
Franchise fee income	206,6	203,0	1,8
Operating lease income	57,9	57,5	0,7
Commissions and other income, including value-added services	543,8	499,6	8,8
Other income	808,3	760,1	6,3
Insurance recoveries	753,7	-	
Other trading income	1 562,0	760,1	105,5

Other income includes R753,7m of insurance recoveries raised in respect of civil unrest losses

- Stock recoveries – R633,0m
- Additional operating costs – R60,7m
- Portion of business interruption – R60,0m

Other income, excluding insurance recoveries, increased 6,3%

Franchise fee income reflects impact of

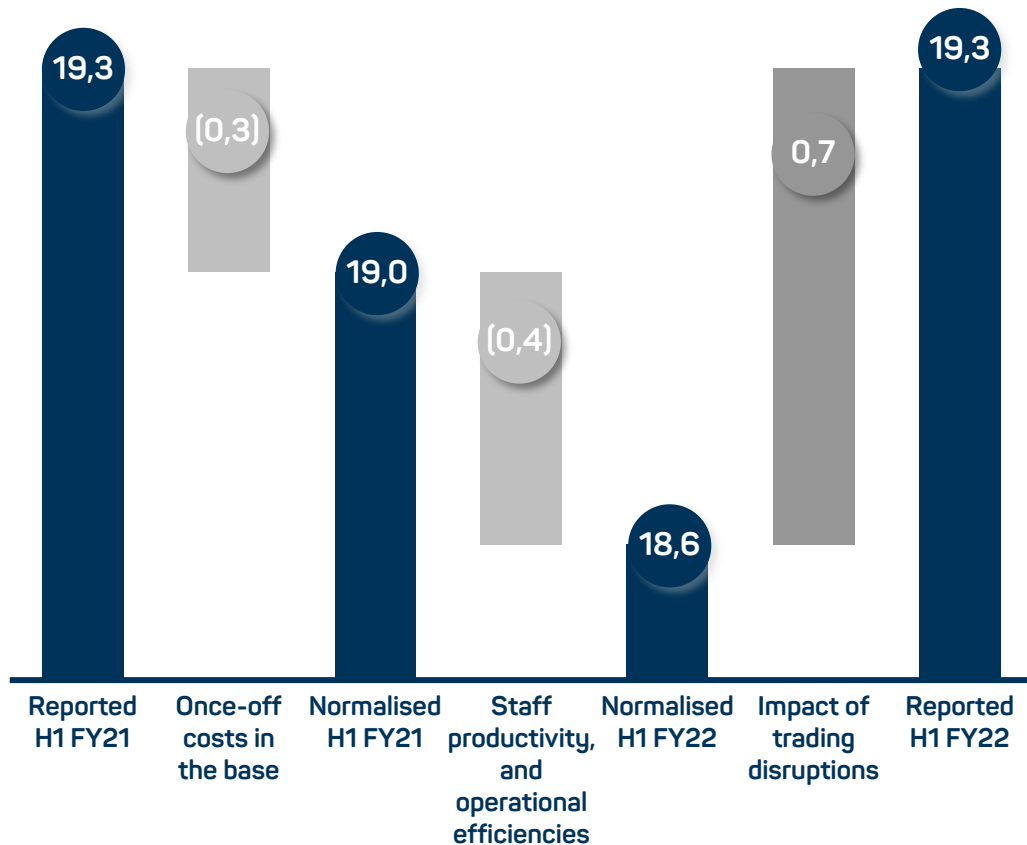
- civil unrest - 58 stores damaged
- ongoing liquor restrictions
- conversions - 38 conversions to Pick n Pay and Boxer company-owned stores over 18 months

Commissions and other income include value-added services up 16,8%, with recovery in:

- travel and event ticketing
- banking and insurance services

Tight cost control

Trading expenses expressed as a % of turnover:



H1 FY21 trading expenses were at 19,0% of sales – removing once-off costs:

- voluntary severance R100m
- covid-19 appreciation bonus R50m

Further staff and other efficiency gains reduced trading expenses to 18,6% of sales in H1 FY22

Trade disruptions added 70 basis points to the trading expenses margin

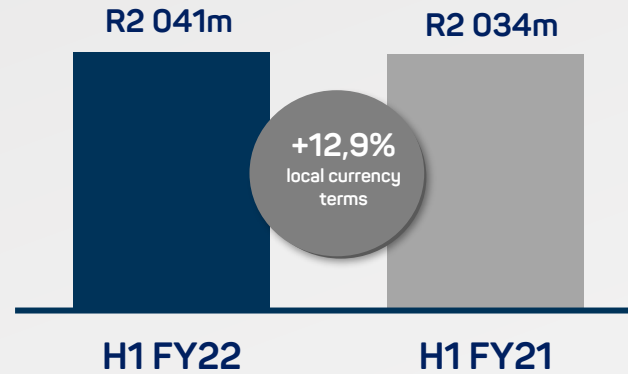
Trading expenses up 4,1% (1,9% LFL) to R8,9bn, with costs from civil unrest:

- heightened security measures
- reinstatement of insurance covers
- repairs and maintenance

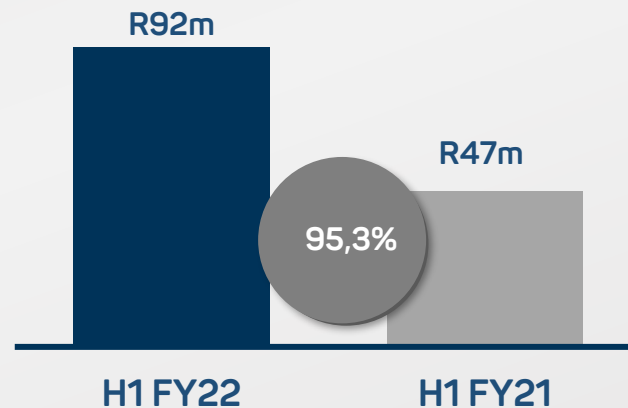
Project Future continues to drive cost control and operational discipline

Rest of Africa

Segmental revenue:



*Segmental profit:



* Excluding hyperinflation adjustments and capital items

Segmental revenue of R2,0bn (+12,9% in local currencies and +10,3% LFL)

Difficult trading conditions persist across the southern African regions we serve

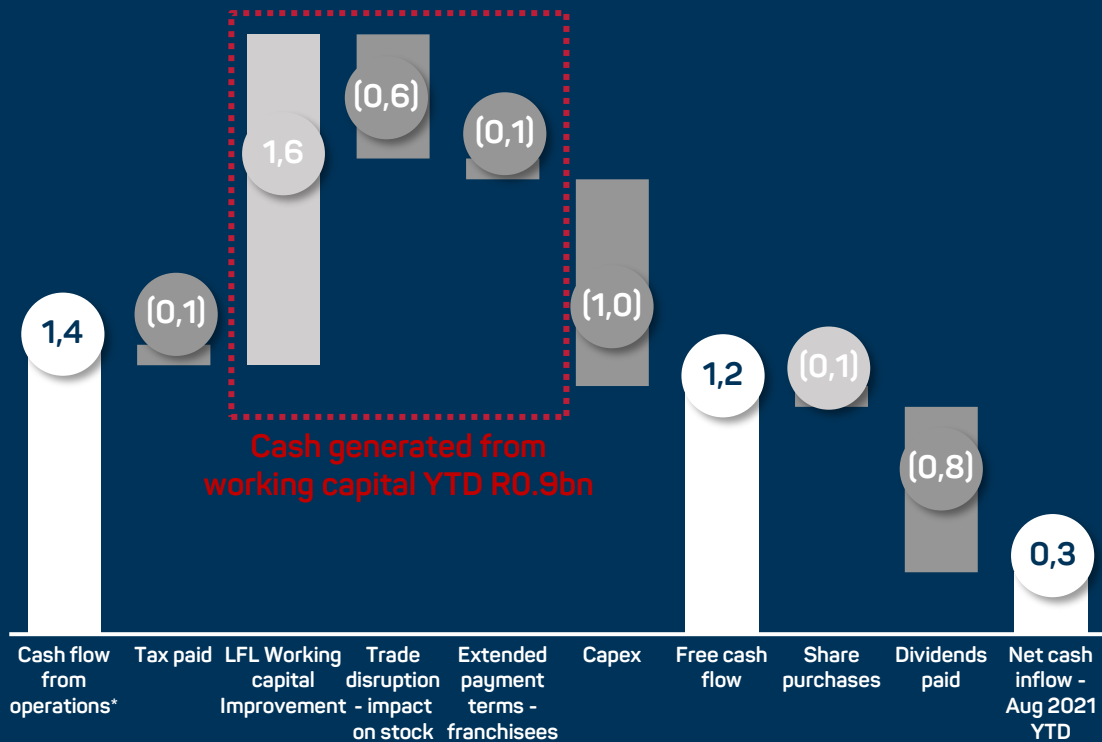
- local currency weakness
- high levels of inflation
- low growth and high unemployment

Segmental profit (before hyperinflation) of R92m up 95.3%

- strong local performance in Zimbabwe
- disappointing result in Zambia - notwithstanding good cost control and working capital management

Strong free cash flow

Cash generation and utilization H1 FY22 (Rbn):



*Before non-cash flow impact of IFRS16

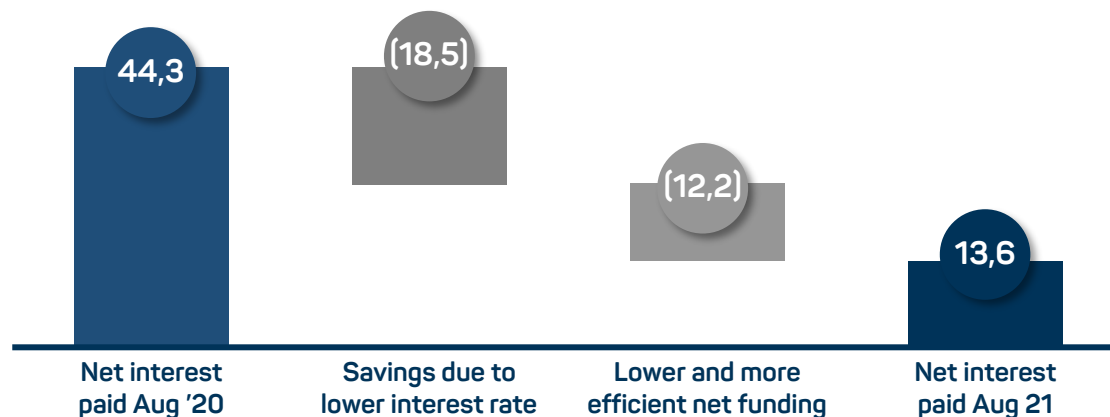
- Cash flow from operations of R1,4bn - notwithstanding trade disruptions this half
- Cash inflow from working capital of R0,9bn demonstrates solid progress against working capital plan, notwithstanding the impact from civil unrest
 - stock losses R633m
 - franchise support R100m
- Net funding position R315m higher than February 2021
- Insurance receipts of R500m post year-end restores net funding position in line with August 2020

Working capital efficiency

Improvement in LFL working capital:



Net funding interest paid (Rm):



- Inventory up 2,9% on last year, notwithstanding
 - 74 net new company-owned stores
 - investment in essential food and grocery lines
- LFL inventory days down 1,4 days year-on-year
 - Pick n Pay range optimisation initiatives; including removal of 1,000 lines post unrest
 - lower stockholdings, greater stock turn
 - higher on-shelf availability and lower shrink and waste
- LFL receivables days down 1,0 day year-on-year
 - resilient franchise book
 - lower levels of long overdue debt
- LFL payables days up 1,4 days year-on-year
 - optimising payment days and streamlining administration

Low debt; stable liquidity

	29 August 2021 Rm	30 August 2020 Rm
Net funding position		
Cash balances	2 170,9	3 038,7
Cash investments	4 750,0	3 250,0
Cost effective overnight borrowings	(2 550,0)	(2 050,0)
Cash and cash equivalents	4 370,9	4 238,7
One to three-month borrowings	(1 973,2)	(1400,0)
Six to 12-month borrowings	(1 950,0)	(1 450,0)
Net funding position at period-end	447,7	1 388,7
Financial calendar cut-off	-	400,0
Delayed dividend payment in prior year	-	(800,0)
Net funding position at period-end, excluding timing differences	447,7	988,7
Insurance recoveries received post period-end	500,0	-
Comparable net funding position	947,7	988,7

The Group extended its borrowing facilities this year

- careful liquidity management in a highly-disrupted trading environment
- low-interest rate environment provided good opportunity to term out shorter-dated debt into six and 12-month funding

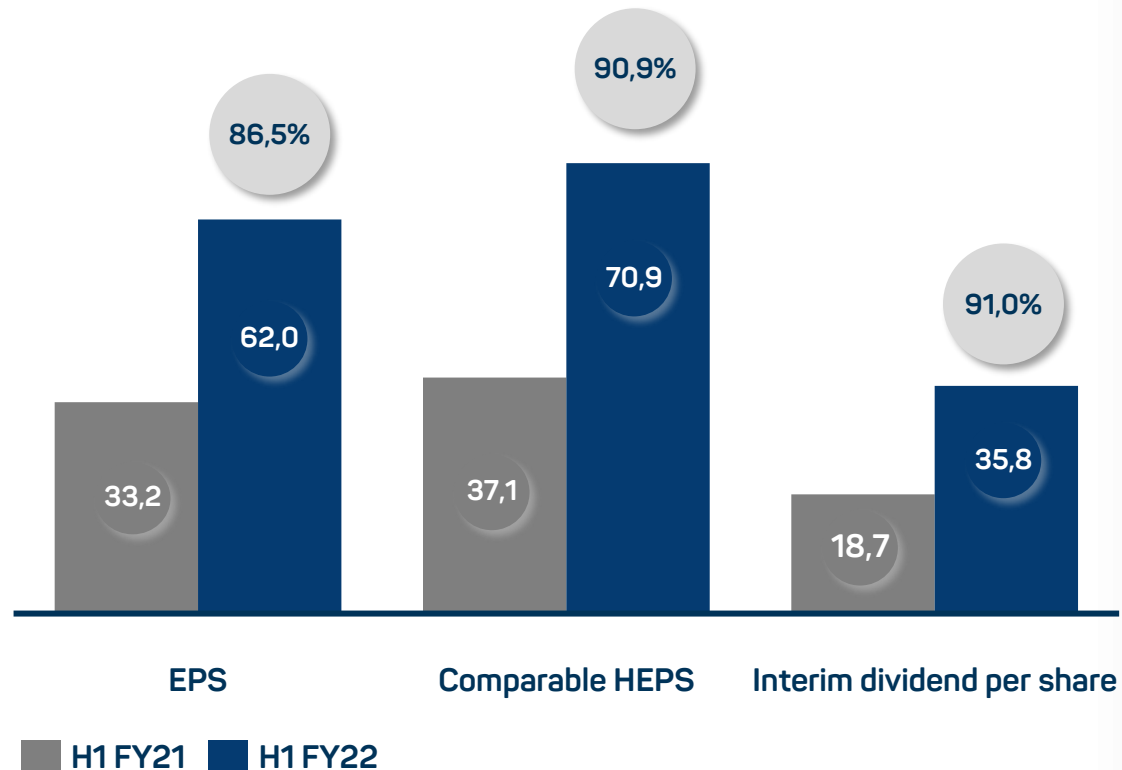
Surplus funds invested in high-yield money market accounts

Positive net funding position - sales and earnings impact of trade disruption countered by exceptional cost and working capital discipline

Insurance receipts in September restored the Group's net funding position in line with last year

EPS, HEPS and Dividends

Earnings and dividends (cents per share, growth %)



Comparable HEPS - up 90,9% - excludes hyperinflation accounting in Zimbabwe and all items of a capital nature

Comparable HEPS reflects the full impact of the trade disruptions this half, with only a R65m unaccounted insurance receivable expected to be recovered during H2

Comparable HEPS is the Group's primary measure in determining its dividend pay-out ratio

The Board has declared an interim dividend of 35,80 cents per share, up 91,0% in line with the increase in Comparable HEPS

The dividend declaration reflects the Board's confidence in

- the recoverability of the majority of the losses suffered as a result of the civil unrest through its insurance policies
- the strength and stability of the balance sheet



Results summary

- Highly disrupted trading environment - with solid underlying sales performances over 2 years
- Greater operational efficiency driving strategic investment into lower prices
- Project Future is on track to deliver R1bn in cost savings - with more to come
- Tight working capital management is providing greater liquidity and is reducing finance costs
- Strong balance sheet with low gearing – provides exciting opportunity for growth
- Extraordinary effort of team to rebuild and restore after devastating unrest



OBSERVATIONS AFTER SIX MONTHS

Pieter Boone





My observations after six months

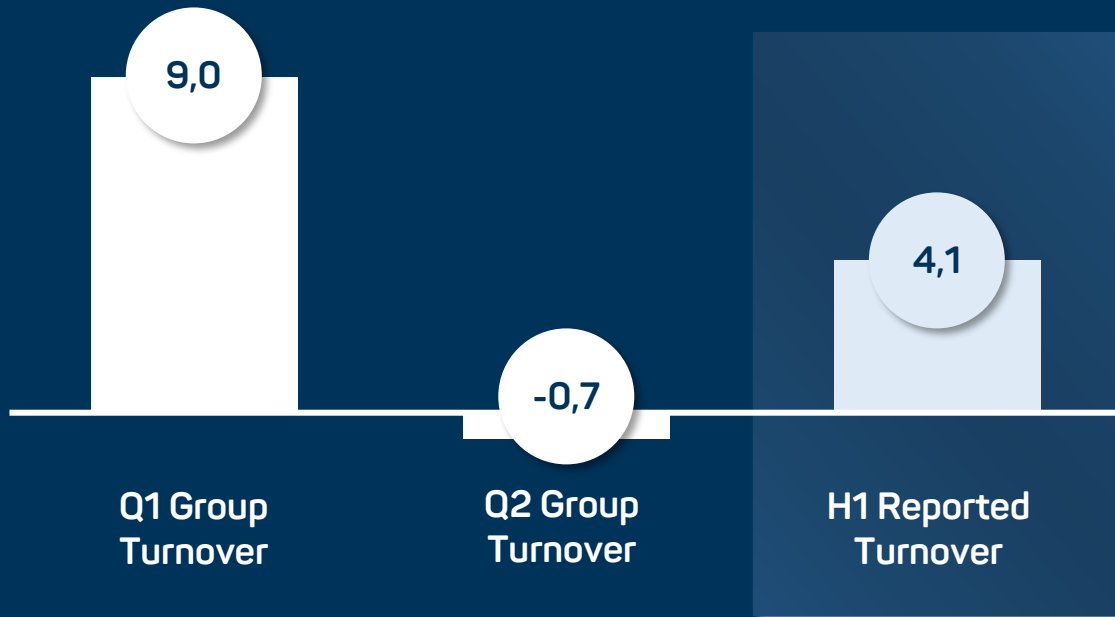
- Pick n Pay is a fantastic company
- Resilient performance in a challenging time
- Pleasing progress in growth engines e.g. Boxer, Clothing, Omnichannel
- Momentum in Pick n Pay but huge potential to unlock



Strong underlying turnover growth

64
new
stores

Group turnover growth %:



↑5,2% normalised 2YR CAGR

Q2 heavily impacted by the trade restrictions and the unrest

Customer transaction growth

↑17% increase in customer transactions but they remain below pre-pandemic levels

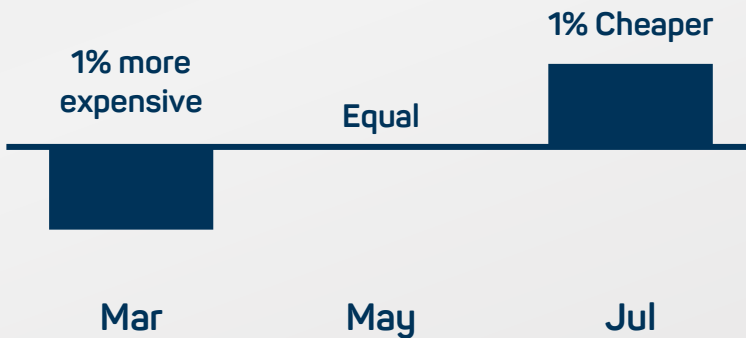
↓11% decline in average basket value but baskets are still 30% larger than pre-pandemic

Customers starting to feel comfortable shopping more often, but return to pre-pandemic levels less certain

Pricing investments

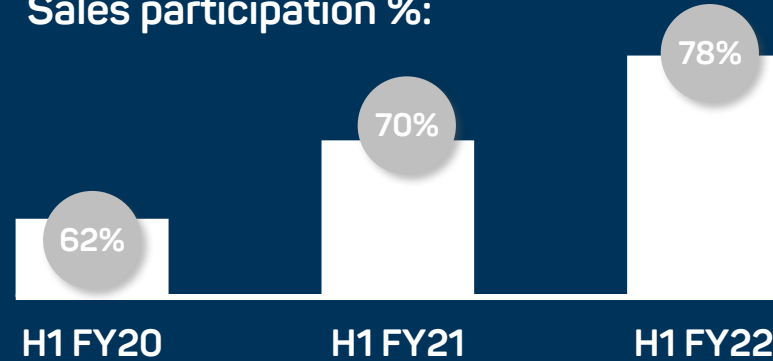
- Offering better value for customers by investing in price
- Internal inflation restricted to 3.6% against CPI Food of 6.5%
- Customer price perception improved in the half

Pick n Pay price perception vs. key competitors:



Smart Shopper

Sales participation %:



10-year anniversary this year

More loyal customers than ever with >9m unique Smart Shoppers

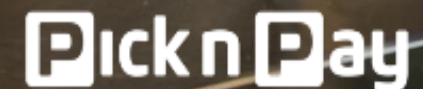
Driven by Smart Price investments and strong partnerships

Voted SA's coolest retail loyalty programme¹

Now SA's most used loyalty card²

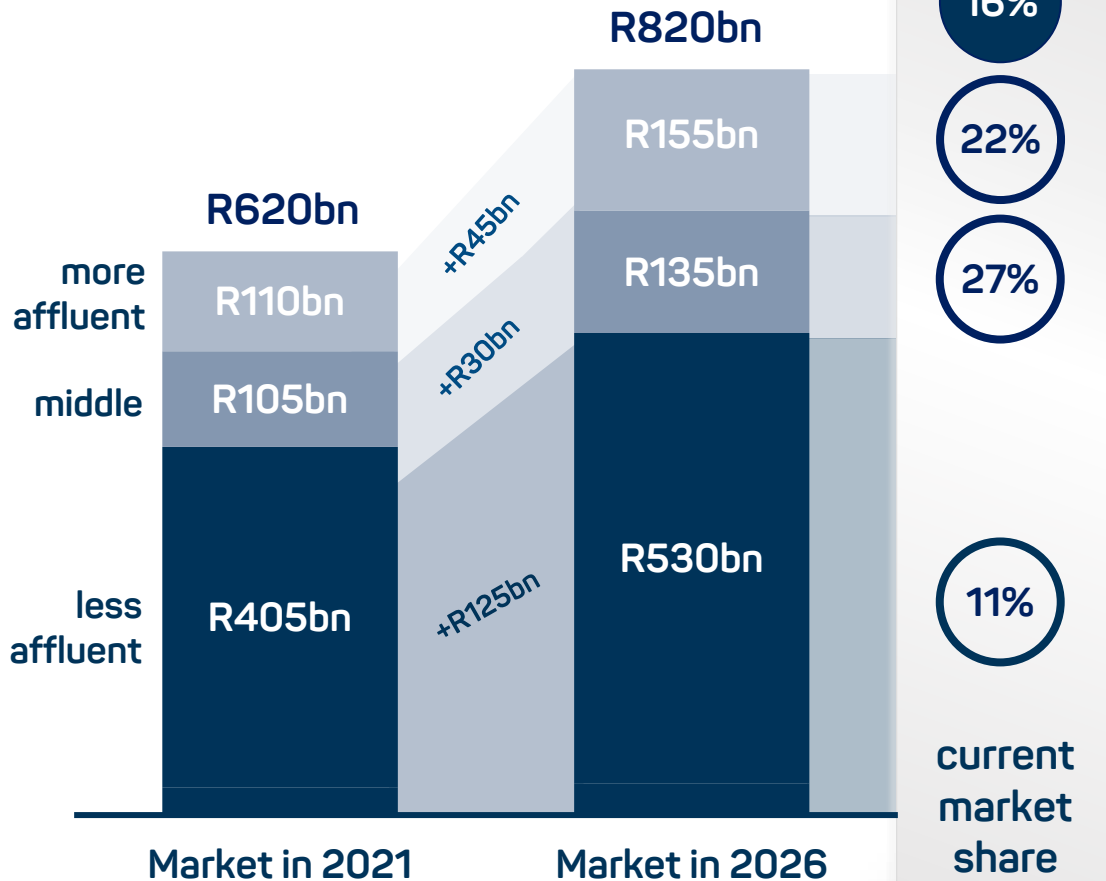
¹ Sunday Times GenNext survey

² Truth/BrandMapp Loyalty Landscape survey



Market growth

SA food and grocery market:



We are growing where the market is

Around R200 billion growth expected in the food and grocery market over 5 years

Less affluent market expected to contribute R125 billion

Boxer and Pick n Pay Value outperforming the market in the fastest growing segment



Project Future

- Target set at beginning of 2020 to save R1 billion over two years
- On-track to deliver the full savings
- Achieved through more efficiency and less waste
- Savings invested in lower prices and better value for customers

Supply Chain

Improvements in strike rates and increased availability in H1

Continuously improving productivity in the DCs

New Eastport DC in JHB opening 2023:

- warehouse 45% larger than Longmeadow DC adding 50% throughput capacity
- key step in delivering higher picking productivity
- decreasing cost per case





Boxer

- Continues to be the fastest growing retail format in South Africa
- Gaining market share in key categories
- Significant owned and confined label penetration of 28% (23% in FY21)
- Boxer has centralised 64% of its supply chain, delivering further efficiencies and savings on cost
- Second DC in Gauteng will add 25 000m² of capacity from FY23 onwards
- Strong organic growth has been the bedrock of this success



Clothing

8
new
stores

Strongly positioned in the market

Growing ahead of the market through unique proposition

Strong pricing and great quality

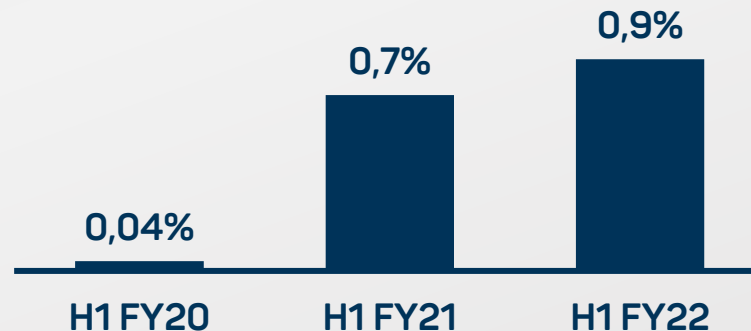
Critical market share gains in Womenswear

In H1 38% of our clothing was locally produced (10% pre-pandemic)

Initiatives and collaborations

- Unique collaborations with South African designers – 4 this year
- Launched PnP Online last year – already 1% of Clothing sales
- Partnered with Zando to increase accessibility

Cumulative market share gains since FY19³:



³ based on Nielsen data



Omnichannel

Relaunched our on-demand offer

Dedicated pickers in-store enabled through digitisation

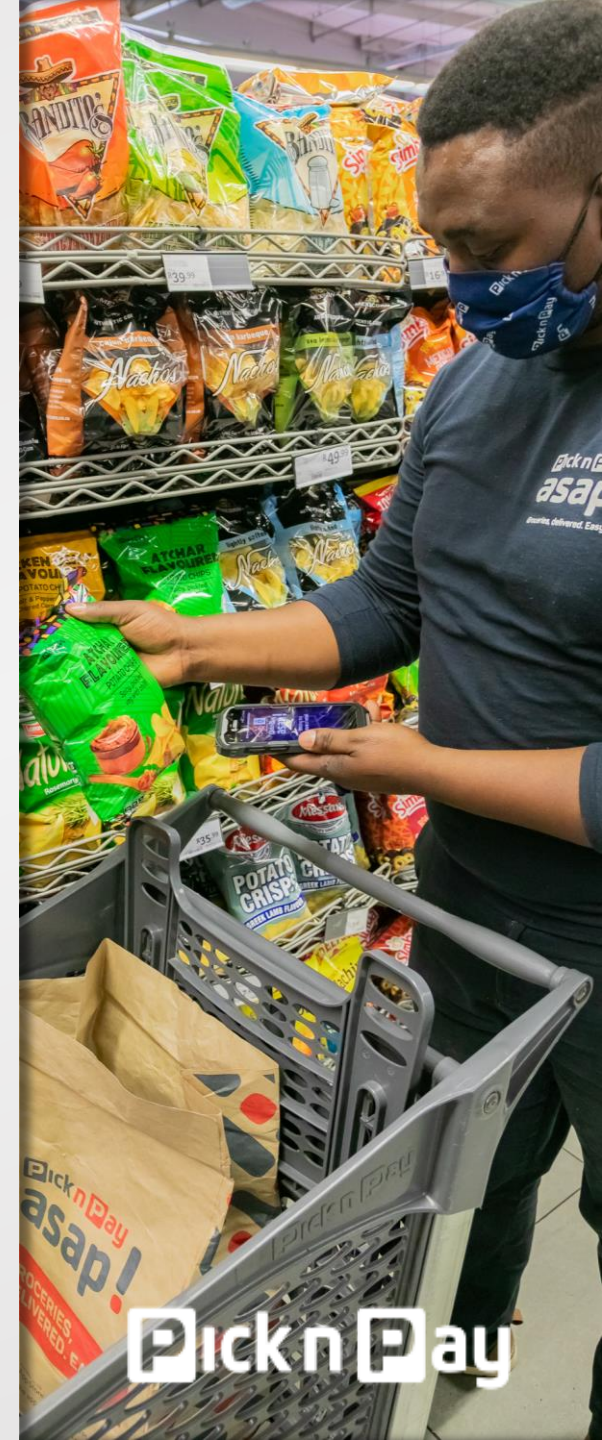
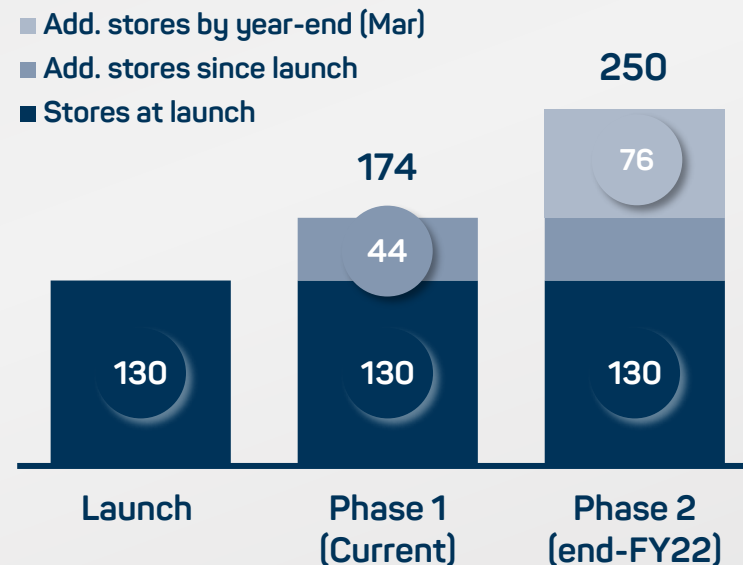
Increased speed of execution and picking accuracy

On-demand sales grew >100% in H1 with >200% growth since launch

Online scheduled delivery sales continue to be higher than pre-pandemic

asap! launch

- 130 stores at launch
- Store rollout underway in both Corporate and Franchise stores
- 50% of our stores by year-end





Rest of Africa

The rest of Africa continues to be profitable for the Group

Positive sales growth and green shoots in key markets

Increasing local focus with a more relevant mass market range

8
new stores



Our Rest of Africa business has delivered steady growth

⁴ Excluding hyperinflation adjustments and capital items

Unrest impact

- Extensive damage to stores and other infrastructure
- 212 stores and 2 KZN DCs directly impacted
- Significant damage sustained by Franchise partners
- 551 stores closed as a precaution and this sales impact is unrecoverable



Unrest response

- The response across the Group was extraordinary
- Amazing agility to clean, rebuild, restock and reopen stores
- Colleagues and partners worked tirelessly
- Majority of our stores were reopened within weeks





Strengths we have already

Loved brand in South Africa

The best discounter in Africa

Strong growth drivers in Clothing and Omnichannel

Innovative and committed Franchise partners

Most loved and used loyalty programme in South Africa

Diverse and talented workforce

Values embedded in the business

Where we need to improve

Customers want even lower prices and better value

Simplifying our operations

Differentiation of the offer through innovation and localisation

Accelerate Boxer, Clothing and Omnichannel growth

Digitisation and the opportunity to increase efficiencies

Significant scope to reduce costs to fund the journey



5 Cornerstones



Winning with people



- Empower people by putting the responsibility at the right level in the organization
- Introduce learnings from Franchise partners
- Shift incentives and metrics to create a performance driven culture
- Transition to hybrid working for the support office
- Continue vaccination drive across PnP and Boxer

Making PnP the customer's first choice



- Better define the offer in the Pick n Pay business
- Targeted investments in pricing and promotions
- Accelerate the Select store plan
- Focus on private and confined label
- Extend Project Future commitments to R3bn in savings over 3 years



Select store plan

Research → *Pilot* → *Scale*

- Tailor the offer to improve the value proposition
 - expanded ranges
 - focused on fresh and health solutions
- Introduced a new look and feel with changes in the flow of the store and innovative displays
- Take learnings from pilot store and scale
 - 24 stores to date (double digit sales growth since launch)
 - adding 16 more stores this year



Project Future

Launching Project Future Phase 2

Modernising work, increasing efficiency and saving to reinvest in the customer

Ambitious target to save a further R3bn over next 3 years

Phase 2 Initiatives

- Office of the future
- Greater productivity across operations
- More efficient supply chain
- Better value through cost management
- More flexible store estate



Growing the best discounter in Africa



- Plan to open 200 new Boxer stores over 3 years
- Take advantage of opportunity to open liquor sites adjacent to stores
- Invest in price and promotions
- Add capacity and efficiency with development of new 25 000sqm Gauteng DC
- Continue to build private and confined label proposition

Accelerating future growth engines



- Accelerate asap! by adding 76 more sites by the end of the year
- Rejuvenate and reinvest in the online scheduled delivery offer
- Grow the Clothing store network
- Develop a Pick n Pay Clothing proposition for the less affluent market

Developing a local focus



- Speed up decision making by encouraging more proximate solutions
- Gain more proximity through improving our voice in communities
- Strengthen our regional buying where applicable
- Build an innovation mindset in the stores

Thank you to our amazing teams





Thank
You

Appendix



Trading expenses

% change	H1 2022	H1 2021	% change	% LFL change
Trading expenses	8 867.7	8 521.6	4.1	1.9
Employee costs	3 943.9	3 952.8	(0.2)	(3.5)
Occupancy	1 307.0	1 200.1	8.9	4.5
Operations	2 202.7	2 038.8	8.0	3.7
Merchandising & administration	1 414.1	1 329.9	6.3	14.0

- Trading expenses reflect additional costs related to the civil unrest
 - heightened security measures
 - reinstatement of insurance covers
 - repairs and maintenance
- Employee costs included R150m of once-off costs in the prior period
 - Voluntary severance R100m
 - Covid-19 appreciation bonus R50m
- Excluding these once-off costs - employee costs were up 3.7% year-on-year
 - Project Future savings of R200m
- Occupancy costs reflect above inflationary increases in rates, security and insurance costs
- Merchandising costs - significant investment in advertising campaigns

EPS to Comparable HEPS

Cents per share	H1 FY22	H1 FY21	% change
EPS	61.97	33.23	86.5
Capital items	(0.69)	10.55	
HEPS	61.28	43.78	40.0
Hyperinflation net monetary adjustments	9.57	(6.66)	
Comparable HEPS	70.85	37.12	90.9

- Reported EPS includes the impact of hyperinflation accounting in Zimbabwe and all items of a capital nature
- Reported HEPS, excludes all capital items, but specifically includes hyperinflation net monetary adjustments in Zimbabwe
- Comparable HEPS excludes the R45.8m non-cash hyperinflation net monetary loss recognised in Zimbabwe over the period (H1 FY21: R31.8m gain)

Strong TM performance

Rm	H1 FY22	H1 FY21
Share of associate's earnings - excluding net monetary adjustments	56.6	29.6
TM trading result	56.6	38.7
Forex loss on translation of foreign debt	-	(9.1)
Hyperinflation - net monetary adjustments	(45.8)	31.8
Impairment reversal / (loss) on investment in associate	30.2	(47.4)
TM contribution to Group PBT	41.0	14.0
Equity investment in TM	70.8	62.4

- Solid trade and earnings performance under challenging economic conditions
- Sustained market share growth, anchored by outstanding customer offer and consistent on-shelf availability
- No trade debt
- The fair value 49% stake in TM reflects the application of hyperinflation accounting :
 - 30 August 2020: 110.0 ZWL\$: 1.0 USD
 - 29 August 2021: 145.0 ZWL\$: 1.0USD
- Fair value of investment reassessed at R70.8m - recognising a strong local performance and the resumption of dividends, which have been successfully remitted to South Africa
- 62 stores in Zimbabwe - 29 trading as Pick n Pay, with 1 new store during the period