



RESULTS PRESENTATION

26 WEEKS ENDED 28 AUGUST 2016

AGENDA

CHAIRMAN'S INTRODUCTION



Gareth Ackerman
Chairman

RESULTS OVERVIEW



Bakar Jakoet
Chief Financial Officer

PROGRESS ON OUR PLAN



Richard Brasher
Chief Executive Officer



CHAIRMAN'S INTRODUCTION

GARETH ACKERMAN | CHAIRMAN

CHAIRMAN'S INTRODUCTION

THANK YOU TO THE PICK N PAY TEAM FOR DELIVERING THIS RESULT

- It has not been an easy six months for South Africa
- There have been a few encouraging signs - government and business working together to stave off a credit rating downgrade
- National Development Plan targets from 2012- GDP growth above 5% per year, bringing everyone above the poverty line
- At present, this vision seems very far away
 - IMF and World Bank GDP forecasts for this year between 0.1 % and 0.4%
 - Unemployment is at 27%
- For a business like Pick n Pay, these challenges are much more than just numbers

CHAIRMAN'S INTRODUCTION (CONTINUED)

THE ROLE OF A RETAILER LIKE PICK N PAY IN TRANSFORMING OUR ECONOMY

1 GROWTH

In an economy which is finding growth very scarce, retail is growing. Total GDP growth last year was 1.3 percent. Retail sales grew at 3.3 percent*

2 JOBS

In an economy which is shedding jobs, retail is creating jobs. Pick n Pay created 5,000 new jobs last year and we have created over 2,000 more in the first half of this financial year

3 INNOVATION

Retail's role in innovation, which benefits consumers and the productivity of the nation as a whole – greater efficiency to deliver lower prices

RETAIL IS A GROWING SECTOR WHICH MAKES A MAJOR CONTRIBUTION TO THE ECONOMY AND THE TRANSFORMATION OF SOUTH AFRICA



RESULTS OVERVIEW

BAKAR JAKOET | CHIEF FINANCIAL OFFICER

KEY INDICATORS

	H1 2017	H1 2016	% change
Turnover	R37.4bn	R34.9bn	7.2
Gross profit margin	17.9%	17.7%	
Other trading income*	R508.1m	R427.8m	18.8
Trading expenses margin*	17.7%	17.6%	
Trading profit	R554.1m	R462.8m	19.7
Trading profit margin	1.5%	1.3%	
Profit before tax (before capital items)	R548.2m	R452.5m	21.1
Profit before tax margin (before capital items)	1.5%	1.3%	
HEPS – cents	82.43	66.62	23.7

- Operational and financial discipline delivers strong earnings growth
- Turnover up 7.2% in a more challenging trading environment
- Gross profit margin improved by 0.2% pts supported by more effective procurement and distribution
- Other trading income up 18.8%
- Growth in LFL trading expenses restricted to 3.8% in an inflationary environment
- PBT (before capital items) up 21.1%
- Trading profit and PBT margins improved from 1.3% to 1.5% of turnover

* Excluding non-recurring items

THE UNBUNDLING OF PICK N PAY HOLDINGS LIMITED RF (PWK) – NON-RECURRING ITEMS

	As reported H1 2017 (Rm)	Non-recurring items (Rm)	Result excluding non-recurring items H1 2017 (Rm)	Growth on LY %
Other trading income	920.4	(412.3)	508.1	18.8
Trading expenses - employee costs	(3 411.7)	205.8	(3 205.9)	5.1
Trading expenses - merchandising and administration	(809.3)	206.5	(602.8)	11.5
Trading profit	554.1	-	554.1	19.7
Loss on capital items	(20.1)	13.9	(6.2)	

The result includes certain non-recurring items related to the unbundling of PWK

- **Other trading income** - dividend in specie
- **Employee costs** – employee share-based payment costs
- **Merchandising and administration costs** – fair value movements
- **Trading profit** – no impact
- **Loss on capital items** – fair value loss, incurred by a subsidiary company, added back for the purposes of calculating headline earnings per share

EARNINGS AND DIVIDENDS PER SHARE

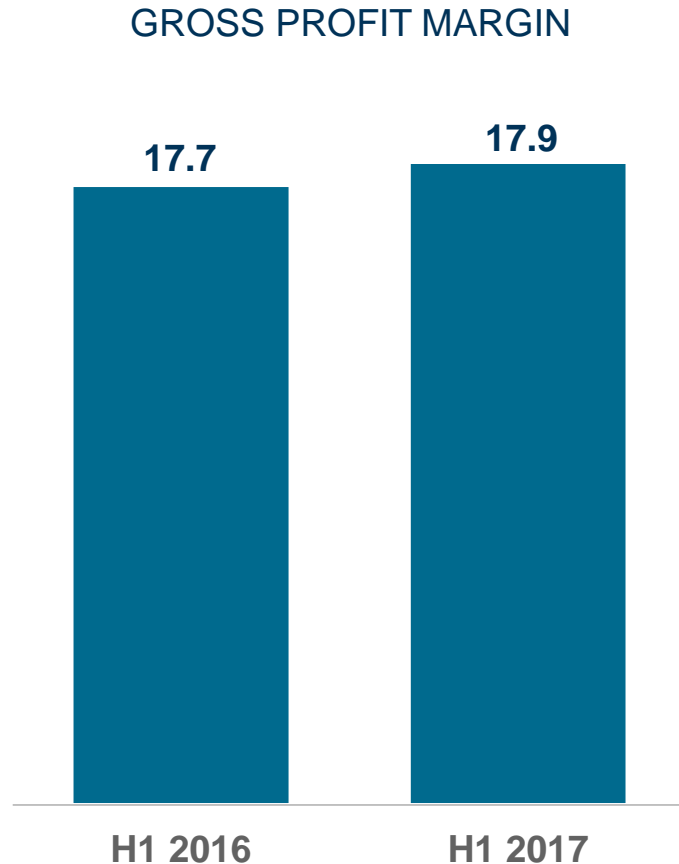
	H1 2017 (cents)	H1 2016 (cents)	% change
Basic EPS	78.69	66.40	18.5
HEPS	82.43	66.62	23.7
Diluted HEPS	79.87	65.35	22.2
Interim dividend	29.90	24.20	23.6

- Effective gross profit margin management and strong cost control drove headline earnings per share up 23.7%
- The difference in HEPS growth of 23.7% and basic EPS growth of 18.5% is attributable to capital losses
- Dividend up 23.6% in line with HEPS growth, maintaining an annual dividend cover of 1.5 times HEPS for the full year

SALES ANALYSIS

	H1 FY17	
Like-for-like turnover growth	3.5%	▪ Difficult trading environment, with customers under increasing pressure
Turnover growth from new space	3.7%	▪ 3.5% LFL turnover growth (3.8% constant currency)
Growth in net new space (m ²)	2.1%	▪ Customers are more price conscious and are shopping more frequently for smaller baskets
Internal selling price inflation	5.5%	▪ Internal food inflation restricted to 5.5% for the period against CPI food of 10.7%
New stores*	74	▪ 74 new stores opened this year, with 35 refurbishments
Customer growth (# of transactions)	6.0%	
Basket size growth (average transaction value)	1.3%	

GROSS PROFIT MARGIN



- Gross profit margin up 0.2% pts to 17.9%, notwithstanding ongoing price investment for customers
- Focused promotional calendar added to the value provided by Brand Match and Smart Shopper
- Greater cost and operational efficiencies in a tough trading environment
- Boxer delivered an improved gross profit margin, notwithstanding a keen focus on price, underpinned by a stronger operating model

OTHER TRADING INCOME

	H1 2017* (Rm)	H1 2016 (Rm)	% change
Other trading income	508.1	427.8	18.8
Franchise fee income	177.2	161.5	9.7
Operating lease income	168.8	150.0	12.5
Commissions and other income	162.1	116.3	39.4

- Other trading income up 18.8%
- Franchise fee income increased 9.7% on the prior year reflecting the 66 net new franchise stores added over the last 12 months
- Rental income up 12.5% on last year, reflecting new head leases in Pick n Pay - with a corresponding increase in occupancy costs
- Commissions and other income up 39.4%, reflecting the Group's stronger value-added services proposition

* Excluding non-recurring items

TRADING EXPENSES

	H1 2017* (Rm)	H1 2016 (Rm)	% change	% LFL change
Trading expenses	6 624.8	6 131.3	8.0	3.8
Employee costs	3 205.9	3 051.1	5.1	1.7
Occupancy	1 302.3	1 140.2	14.2	8.8
Operations	1 513.8	1 399.5	8.2	3.1
Merchandising & administration	602.8	540.5	11.5	7.8

- Increase in LFL trading expenses contained at 3.8%, against 4.6% last year
- Employee costs as a % of turnover down from 8.8% to 8.6%. Improvements in scheduling and productivity restricted the increase in LFL employee costs to 1.7%
- Occupancy costs reflect the cost of new stores, the increase in security costs and high regulatory increases in rates
- Operations costs were well managed, notwithstanding above-CPI increases in electricity and utility costs
- Merchandising & administration costs reflect the impact of exchange-rate fluctuations and higher bank charges related to increased participation of card tender

* Excluding non-recurring items

PROFIT ANALYSIS

	H1 2017 % change
EBITDA*	16.6
EBIT*	21.8
Profit before tax (excluding capital items)	21.1
Profit before tax	17.1
Profit after tax	18.4

- Solid earnings growth off a stronger base
- EBITDA margin up 0.2% pts to 2.9%
- Depreciation and amortisation up 11.1% as a result of capital investment related to our store opening and refurbishment programme
- Net finance costs increased to R34.4 million:
 - Investment in capital assets and inventory related to new stores and centralisation
 - higher interest rates over the period
- The effective tax rate reduced from 28.5% last year, to 27.7% this year - in line with February 2016

* Including TM Supermarkets and excluding capital items

REST OF AFRICA

	H1 2017	H1 2016	% change
Segmental revenue	R2 045.0m	R1 958.3m	4.4
Segmental profit *	R103.7m	R115.7m	(10.3)
Segmental profit margin	5.1%	5.9%	
Number of stores	137	122	

- In constant currency terms, revenue is up 8.2%, with like-for-like revenue growth of 2.7%
- Reported revenue up 4.4%, with LFL revenue growth at -1.2%, reflecting the weaker Zambian Kwacha on translation and difficult trading conditions in Zambia
- Another strong financial performance from TM Supermarkets in Zimbabwe. In local currency terms, profits in TM are up 53.7%
- Good trading performances from franchise operations outside South Africa
- Opened 7 new stores outside of South Africa - 3 in Namibia, 3 in Zambia and 1 in Zimbabwe

* Segmental profit comprises the segment's trading results and directly attributable costs only. No allocations are made for indirect or incremental costs incurred by the South Africa segment relating to this division.

CASH FLOW SUMMARY

	H1 2017 (Rm)	H1 2016 (Rm)
Cash generated before working capital	1 222.7	1 039.1
Change in working capital	443.4	1 047.3
Dividends and net interest paid	(644.1)	(499.0)
Tax paid	(215.0)	(151.0)
Operating activities	807.0	1 436.4
Investing activities	(772.6)	(597.0)
Financing activities	(578.5)	(301.1)
Net movement	(544.1)	538.3
Net cash and cash equivalents (end of period)	330.9	1 073.5
Total borrowings (end of period)	(135.3)	(536.1)
Net funding position	195.6	537.4

- R443.4 million generated from working capital management
- Working capital movement in prior year reflects benefits of financial calendar cut-off
- Inventory levels elevated at period-end reflecting:
 - New stores
 - Increase in centralisation of suppliers
- Dividend paid up R136.7 million due to improved financial performance
- R164.3 million increase in capital investment
- R400.0 million repayment of long-term debt

CAPITAL EXPENDITURE

	Actual H1 2017 Rm	Planned H2 2017 Rm	Planned FY 2017 Rm	Actual FY 2016 Rm
Expansion into new stores	250	380	630	634
Improving existing stores	270	650	920	856
Improving the customer experience	520	1 030	1 550	1 490
Investing in future infrastructure	170	60	230	88
Maintaining current infrastructure	85	100	185	213
Total capital investment	775	1 190	1 965	1 791

- Capex of R775m against R611m last year – an increase of R164m
- Increased capital expenditure in line with plans to grow sustainably and to improve the overall quality of the estate
- The increase in investment in future infrastructure includes the capital spend on our new fresh DC at Philippi and investment in our online platform
- Capital investment aimed at improving the customer experience



PROGRESS ON OUR PLAN

RICHARD BRASHER | CHIEF EXECUTIVE OFFICER

OUR TURNAROUND PLAN

STAGE 1 

**STABILISE THE
BUSINESS**

STAGE 2

**CHANGE THE
TRAJECTORY**

STAGE 3

**SUSTAINABLE
LONG-TERM
GROWTH**

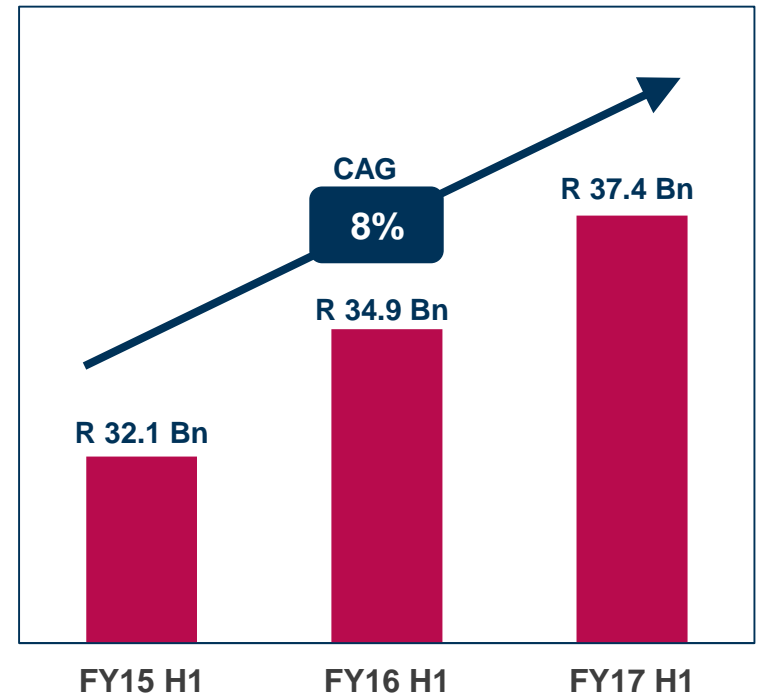
OBJECTIVES

- **Operating efficiency**
- **Sales growth**
- **Margin improvement**

TURNAROUND ON TRACK

- Seventh consecutive reporting period of substantive profit growth. Headline earnings per share up 23.7%
- Half-year trading profit margin up from 1.3% to 1.5%
- Turnover growth of 7.2% reflects tough trading environment and some disruption from bigger store refurbishment programme
- Two-year compound turnover growth - which smooths the impact of disruption - close to 8%
- Costs well managed: LFL expenses growing at 3.8%, well below inflation, despite hikes in rates, electricity and other utilities

GROUP TURNOVER R'BN



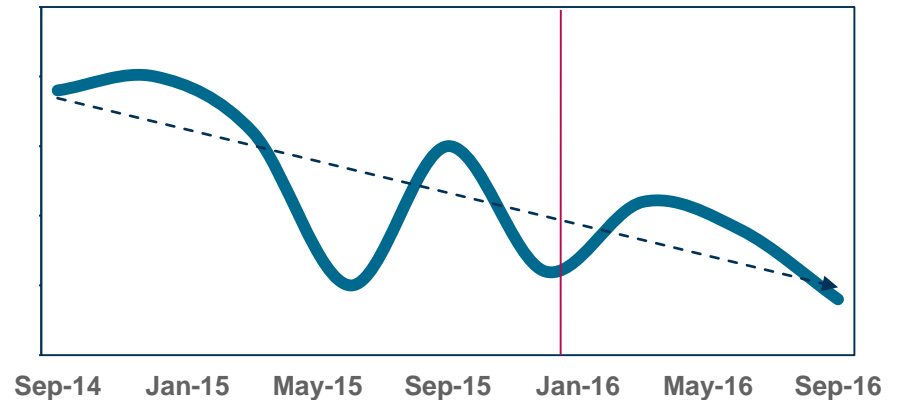
PROGRESS ON OUR PILLARS



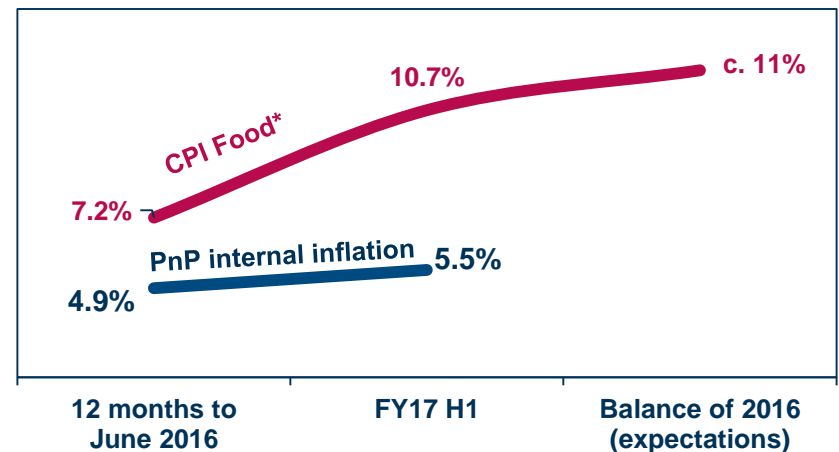
BETTER FOR CUSTOMERS: FIGHTING INFLATION

- Unfavourable economic conditions in H1: historically low GDP growth, rising interest rates, high unemployment and low consumer confidence
- Significant underlying inflationary pressure in first half, as a result of SA drought and weakness of Rand
- PnP restricted internal inflation to 5.5% for the period – significantly below CPI Food of 10.7%
- This reflects greater operating efficiency, which created room to invest in price
- Hopeful that inflationary pressures may begin to ease in H2, particularly in fresh categories

CONSUMER CONFIDENCE INDEX (BER)



CPI FOOD AND INTERNAL INFLATION



* Including non-alcoholic beverages

BETTER FOR CUSTOMERS

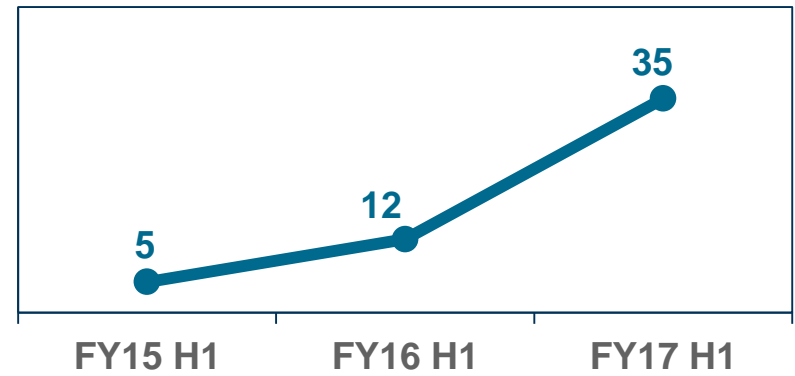
- 700 new **Private Label** products in addition to the 900 already launched, with a focus on No Name, Fresh and convenience
- Promotions** – Super Animals - 3.3 million active Smart Shopper collectors. Top 10 most-downloaded app in the Apple and Android stores
- Improved check-out experience** – more tills open at peak times, better technology, faster scan rates
- Smart Shopper** awarded SA's favourite loyalty programme for 4th consecutive year. **Fresh Living** now SA's number 1 food and lifestyle magazine
- 40% growth in **value-added services**, driven by 3rd party bill payments, pre-paid electricity, financial services and ticketing



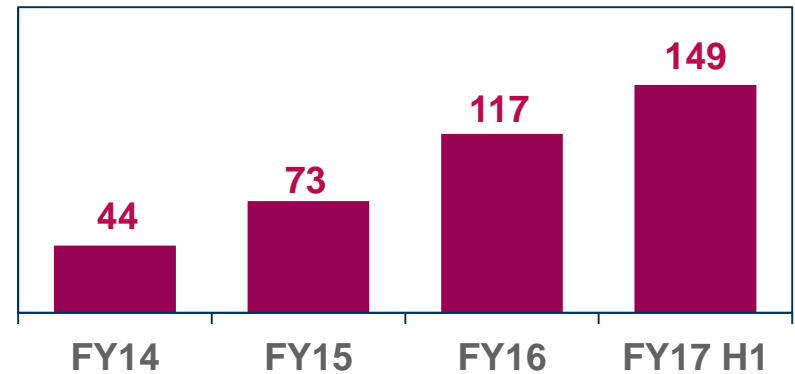
A FLEXIBLE AND WINNING ESTATE

- **Good progress on our opening programme-** new stores added 3.7% to turnover growth for the period
- Opened **74 new stores** across various formats, including 32 smaller grocery format stores, reflecting customer trend towards convenience
- **36 new franchise stores**, improving quality of franchise estate alongside improvements in ordering and availability
- **Trebled the number of refurbishments** compared to last year. This is modernising our estate but has impacted sales growth in H1
- **PnP online** grew 34%. Commenced development of online warehouse in Gauteng to open in Jan 2017

NUMBER OF REFURBISHMENTS



NUMBER OF CONVENIENCE STORES



NEXT GENERATION STORES ARE DELIVERING

- The addition of 27 Next Generation stores in H1 brings our **total number of Next Generation stores to 62**
- **Double-digit turnover growth** in Next Generation stores
- **Investment in Fresh paying off** – more space, better products, easier to shop – translating into improved participation and better sales
- **Dedicated department alcoves** – e.g. for wine, health & beauty and PnP Money – performing well
- **Faster check-out experience**, with check-out times improved by 10% compared to baseline stores
- **Availability** has improved while **stock holding** has decreased



STAND-ALONE FORMAT SUCCESSES: CLOTHING AND LIQUOR

CLOTHING



- **159 stores** – 100 new stores in the past 5 years
- Selling **28 million units** per year
- **Sales growth over 20%** per year in the last 3 years – over 30% in stand-alone stores

LIQUOR

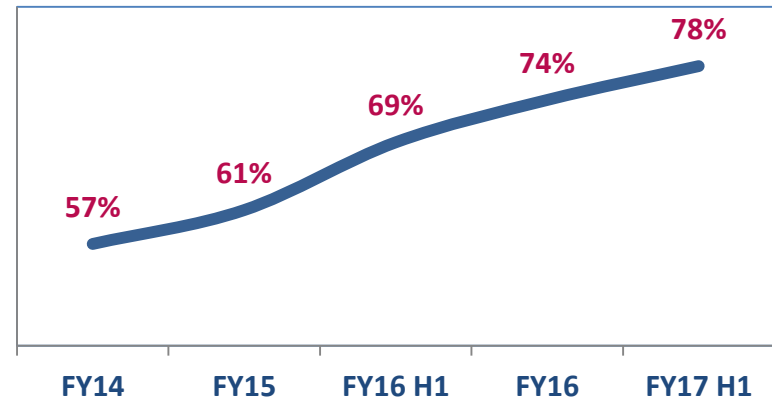


- **402 stores** – 200 new stores in the past 5 years
- **More than doubled the value** of our liquor business over the past 5 years
- **Widest wine range** – supporting more than 200 wineries

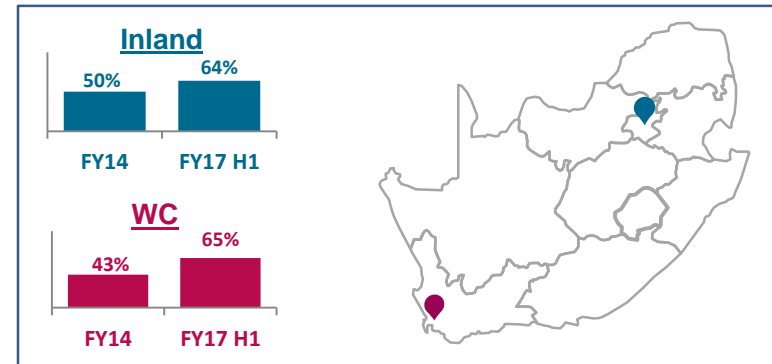
EVERY PRODUCT EVERY DAY

- **Centralisation** – added 95 suppliers to central supply chain in H1
- **85% of groceries now** centralised in Western Cape and 75% in Inland Region. Progressing on **fresh and perishables**, which are now 57% centralised in key two regions
- **DC issues to stores up 22%** on last year, with **fresh up 33%**
- **One EWM system across central supply chain** – implemented EWM in Longmeadow perishables DC
- **Insourced warehouse management** – PnP has taken management of Philippi DC in-house

GROCERY CENTRALISATION – WC & INLAND



TOTAL DC CENTRALISATION



NEW FRESH DISTRIBUTION CENTRE

- **Philippi, Western Cape**
- **20,000 m²**
- **520 people**
- **270,000 cases per week**
- **50 trucks**
- **Servicing 115 stores**
- **Four separate temperature regimes to ensure enhanced quality and longer shelf-life**



EFFECTIVE AND EFFICIENT OPERATIONS

- Total LFL **trading expense growth held to 3.8%** despite high regulatory increases in utility costs
- **Employee costs** decreased as a percentage of turnover from 8.8% to 8.6% as a result of improved labour scheduling and productivity
- **Wifi infrastructure** implemented in owned stores, enabling more efficient gap scanning, shelf-edge labelling and goods receiving
- **Reduced costs in Smart Shopper** - insourced the loyalty engine, enabling greater flexibility and more speed in the execution of promotions
- **Energy efficiency** – disciplined energy usage and technology solutions have allowed a 34% improvement in our overall energy efficiency per m² across our estate

LFL TRADING EXPENSES

+ 3.8%

Growth on last year

EMPLOYEE COSTS

- 0.2%

As a percentage of turnover, to 8.6%

ENERGY EFFICIENCY

34%

More efficient per m² vs historic baseline

A WINNING TEAM

- **Concluded new 3 year wage agreement** – ensuring stability for our long-term plan
- **Introduces minimum guarantee of 85 hours work per month for all employees.** Major step forward in providing employment certainty across the business
- Wage agreement combined with our new operating model will enable further productivity improvements
- Supports **our plan to create 5,000 new jobs per year** – bringing benefits of work to more employees and families
- On track in H1 with 2,100 new jobs

TOTAL EMPLOYEES

70,000

Across owned and franchise

JOBS CREATED PER YEAR

5,000

20 jobs created each day

JOBS CREATED IN H1

2,100

Through new store openings

BOXER- A NATIONAL BRAND

- Boxer **accelerated sales growth** in H1, with improved like-for-like performance
- Continued roll-out of successful **Next Generation Boxer** store model – with fresh and value-added departments performing particularly well
- **Price and promotions** – continued to deliver exceptional value in tough times, with significant investment in basic commodities
- **More efficient operating model** – continued improvement in cost control, stock management and shrink reduction



BOXER- NEXT GENERATION



BOXER- NEXT GENERATION



BOXER- NEXT GENERATION



BOXER- NEXT GENERATION



BOXER- NEXT GENERATION



BOXER- NEXT GENERATION



REST OF AFRICA- 2ND ENGINE OF GROWTH

- **Turnover** grew by 8.2% in constant currency terms. On translation to Rand, revenue grew 4.4%, impacted by local currency weakness in Zambia
- Opened **7 new stores** in 3 countries – Namibia, Zambia and Zimbabwe
- TM Supermarkets in **Zimbabwe** delivered a strong result – share of TM's profit up 53.7% in local currency
- Trading conditions remain challenging in **Zambia**. Long-term prospects remain positive and we will open a further 3 stores this year

SEGMENTAL REVENUE

+ 8.2%

In constant currency

NEW STORES

7

3 in Namibia, 3 in Zambia and 1 in Zimbabwe

TOTAL STORES

137

In 6 countries

WHAT TO EXPECT IN H2

1 Better for customers

Strong prices and promotions up to and through the Festive Season, improved range, more investment in fresh, more private label innovation

2 A flexible and winning estate

Momentum on new space growth and Next Generation refurbishments

3 Effective and efficient operations

New operating model rolled out across more stores

4 Every product, every day

Continued centralisation, further availability improvements, Opening of new Gauteng dedicated online warehouse

5 A winning team

Creating more jobs, more training and development, more opportunity

6 Boxer – a national brand

Acceleration of Boxer opening and refurbishment plan

7 Africa - 2nd engine of growth

Stronger Zambia offer and preparations to open stores in Ghana in FY18

QUESTIONS