



Pick n Pay

RESULTS PRESENTATION
FOR THE 52 WEEKS ENDED 26 FEBRUARY
2017



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In 2017 our footprint
increased to
1 560 STORES
across the continent



RESULTS PRESENTATION

for the 52 weeks ended 26 February 2017



NOTES

AGENDA



CHAIRMAN'S INTRODUCTION

Gareth Ackerman
Chairman



RESULTS OVERVIEW

Bakar Jakoet
Chief Financial Officer



PROGRESS ON OUR PLAN

Richard Brasher
Chief Executive Officer

NOTES



CHAIRMAN'S INTRODUCTION

GARETH ACKERMAN | CHAIRMAN



NOTES

CHAIRMAN'S INTRODUCTION



- 50 years ago my father bought three small stores in Cape Town, and began to pursue his dream
- A dream to build a new kind of retail business, one which made the customer the most important person in the relationship
- He had to fight for change – he had to fight high prices and the entrenched relationships which maintained those prices
- That partnership with South African customers enabled Pick n Pay to become South Africa's best-loved food retailer



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NOTES

CHAIRMAN'S INTRODUCTION



THANK YOU TO EVERYONE IN PICK N PAY FOR ACHIEVING THIS RESULT.

Together we have:

- ✓ Improved our offer
- ✓ Modernised our stores
- ✓ Centralised our supply chain
- ✓ Controlled our costs
- ✓ Delivered consistently better returns for shareholders
- ✓ Delivered a better shopping trip for customers

WE ARE RETURNING TO OUR ROOTS AS A CONSUMER CHAMPION.

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NOTES

CHAIRMAN'S INTRODUCTION



- Increasingly challenging environment: customers face high inflation, rising unemployment, low income growth
- Political disruption has made the situation even more difficult
- We are doing everything we can to support consumers and sustain South Africa – capital investment and job creation
- In difficult times, we can do no better than draw on the strong roots which my father laid down for our company 50 years ago

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NOTES



RESULTS OVERVIEW

BAKAR JAKOET | CHIEF FINANCIAL OFFICER



NOTES

KEY INDICATORS



	FY17	FY16	% Change
Turnover	R77.5bn	R72.4bn	7.0
Gross profit margin	18.0%	17.9%	
Trading expenses margin	17.1%	17.2%	
Trading profit	R1 773.8m	R1 516.3m	17.0
Trading profit margin	2.3%	2.1%	
Profit before tax (before capital items)	R1 761.5m	R1 506.1m	17.0
Profit before tax margin (before capital items)	2.3%	2.1%	
HEPS	264.35 cents	224.04 cents	18.0

The financial information presented excludes non-recurring items related to the unbundling of Pick n Pay Holdings Limited to ensure year-on-year comparability. The transaction had no impact on trading profit or headline earnings.

- **Earnings growth** ahead of market in tough trading environment
- **Turnover** growth of 7.0% (7.1% in constant currency) reflects customers under pressure
- **Gross profit margin** improved by 0.1% pts to 18.0% – ongoing progress in buying and distribution
- **Trading expenses margin** improved by 0.1% pts to 17.1% of turnover
- **Profit before tax** (before capital items) up 17.0%
- **Trading profit and PBT margins** up from 2.1% to 2.3% of turnover

NOTES

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



	AS REPORTED FY17 Rm	NON- RECURRING ITEMS FY17 Rm	RESULT EXCLUDING NON- RECURRING ITEMS FY17 Rm	% Change
Other trading income	1 505.6	(412.3)	1 093.3	12.6
Trading expenses - employee costs	(6 619.8)	205.8	(6 414.0)	5.8
Trading expenses - merchandising and administration costs	(1 408.1)	206.5	(1 201.6)	1.9
Trading profit	1 773.8	-	1 773.8	17.0
Loss on capital items	(46.3)	13.9	(32.4)	

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

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

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NOTES

EARNINGS PER SHARE



	FY17 cents	FY16 cents	% Change
Basic EPS	256.67	219.11	17.1
HEPS	264.35	224.04	18.0
Diluted HEPS	257.69	219.90	17.2

- Solid progress against long-term plan drives **HEPS up 18.0%**
- The difference in basic EPS growth of **17.1%** and HEPS growth of **18.0%** is attributable to profits and losses of a capital nature
- Diluted HEPS reflects the dilution effect of share options held by employees

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NOTES

DIVIDENDS PER SHARE



	FY17 cents	FY16 cents	% Change
Interim dividend	29.90	24.20	23.6
Final dividend	146.40	125.20	17.0
Total dividend	176.30	149.40	18.0

- Total dividend up **18.0%** in line with HEPS growth
- Annual dividend cover of **1.5 times** HEPS maintained for the full year

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NOTES

SALES ANALYSIS



	FY17	FY16
Like-for-like turnover growth	3.4%	3.8%
Turnover growth from new space	3.6%	4.4%
Internal selling price inflation	6.1%	3.1%
New stores*	164	175
Customer growth (number of transactions)	4.7%	7.0%
Basket size growth (average transaction value)	1.7%	0.9%

- Tough trading environment, with customers under increasing pressure
- Customers shopping more frequently for smaller baskets
- Internal food inflation of **6.1%** for the period, against CPI food of **11.0%**
- **164** new stores opened over the year
- **62** refurbishments and **12** store closures impacting turnover growth

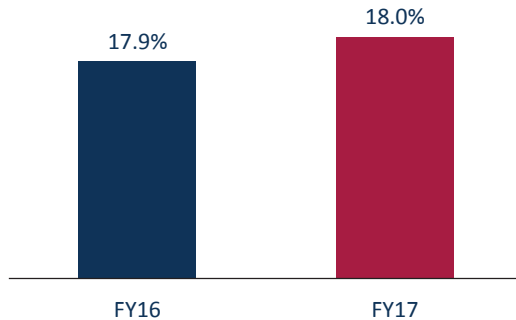
* Including TM supermarkets in Zimbabwe

NOTES

GROSS PROFIT MARGIN



GROSS PROFIT MARGIN (%)



- Progress across the procurement and supply chain channel:
 - › Better buying
 - › Improved operating efficiency
 - › Cost discipline
- Provided headroom for meaningful price investment
- And delivered an improvement in the gross profit margin of 0.1% pts, to **18.0%**

NOTES

OTHER TRADING INCOME



	FY17 Rm	FY16 Rm	% Change
Other trading income	1 093.3	971.3	12.6
Franchise fee income	349.8	316.7	10.5
Operating lease income	345.3	329.1	4.9
Commissions, dividends received and other income	398.2	325.5	22.3

- Other trading income up **12.6%**
- Franchise fee income up **10.5%**, with a net increase of 65 franchise stores
- Rental income up **4.9%**, with a number of non-strategic head leases not renewed this year. Excluding this impact, rental income up 7.4% in line with rental escalations in third party lease agreements
- Commissions, dividends received and other income up **22.3%** - with strong growth across all categories of value-added services

NOTES

TRADING EXPENSES



	FY17 Rm	FY16 Rm	% Change	% LFL Change
Trading expenses	13 256.2	12 425.3	6.7	3.0
Employee costs	6 414.0	6 060.6	5.8	3.3
Occupancy	2 678.9	2 337.6	14.6	7.2
Operations	2 961.7	2 848.1	4.0	1.5
Merchandising & administration	1 201.6	1 179.0	1.9	(3.3)

- Trading expenses down 0.1% pts to 17.1% of turnover
- Efficiency gains helped restrict LFL trading expense to 3.0%
- Employee costs down 0.1% pts, to 8.3% of turnover. LFL employee costs up just 3.3%
- Increased occupancy costs reflect 86 net new company-owned stores. LFL occupancy costs up 7.2%, driven by rates and security costs
- Operations costs tightly controlled, despite regulatory increases in electricity and utility charges
- Merchandising and administration costs reflect ongoing financial discipline in respect of professional support services

NOTES

PROFIT ANALYSIS



	% Change
EBITDA (excluding capital items)	13.3
EBIT (excluding capital items)	18.7
Profit before tax (excluding capital items)	17.0
Profit before tax	16.4
Profit after tax	16.7

- EBITDA margin up 0.2% pts to 3.7%
- Depreciation and amortisation costs well managed, with items of fixed and intangible assets becoming fully depreciated in H2
- Net finance costs increased to R92.5 million, impacted by higher interest rates and gearing over the year due to:
 - › investment in capital assets and inventory related to new stores and centralisation
 - › R345.4 million of share purchases in respect of employee share incentive schemes
- PBT before capital items up 20% in core SA operations
- The effective tax rate of 27.5%, slightly down on the 27.7% of last year

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NOTES

REST OF AFRICA



	FY17	FY16	% Change
Segmental revenue	R4 315.7m	R4 005.6m	7.7
Segmental profit*	R225.5m	R226.1m	(0.3)
Segmental profit margin	5.2%	5.6%	
Number of stores	140	130	

- Revenue up 7.7%, with LFL revenue growth of -2.3%
- In constant currency terms, revenue up 8.7%, with LFL revenue growth of -0.4%
- Result reflects challenging trading environment in Zambia
- Strong performance from TM in Zimbabwe, with profits up 74.7%, driven by successful collaboration between TM and Pick n Pay, and strong trade from rebranded Pick n Pay stores
- Solid performance from franchise operations outside SA, with new stores in Botswana for the first time in 5 years and a new franchise partner in Swaziland
- Opened 12 new stores – 2 in Botswana, 3 in Namibia, 6 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 cost incurred by the South Africa segment relating to this division.*

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NOTES

CASH FLOW SUMMARY



	FY17 Rm	FY16 Rm
Cash from operations	3 112.5	2 736.3
Change in working capital	(986.3)	728.7
Impact of calendar cut-off on trade payables	57.0	(1 145.4)
Net interest and tax paid	(561.7)	(391.9)
Comparable cash from trading activities	1 621.5	1 927.7
Dividends paid	(753.5)	(589.5)
Cash available for investment	868.0	1 338.2
Capital investment	(1 886.2)	(1 791.3)
Repayment of long-term borrowings	(445.1)	(254.7)
Share purchases	(345.4)	(126.2)
Other	158.8	32.4
Comparable decrease in cash	(1 649.9)	(801.6)
Net cash and cash equivalents (end of period)	(838.1)	882.9
Cash	961.9	982.9
Cost-effective short-term borrowings	(1 800.0)	(100.0)

- Cash from operations up **14%** on last year to R3.1bn
- **Working capital** impacted by the timing of creditor payments over financial year-end
- Comparable cash from trading activities reflects **increased investment in inventory:**
 - › New stores and greater centralisation
 - › Strategic buy-ins at year-end
- The Group has:
 - › Paid **R754m** to shareholders (up **28%** on last year)
 - › Invested **R1.9bn** in improving the estate – funded through cost-effective short-term borrowings
 - › Repaid **R445m** in expensive long-term debt
 - › Purchased treasury shares to the value of **R345m** to reward employees under share incentive schemes

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NOTES

CAPITAL EXPENDITURE



	FY17 Rm	FY16 Rm
Expansion into new stores	634	634
Improving existing stores	900	856
Improving the customer experience	1 534	1 490
Investing in future infrastructure	154	88
Maintaining current infrastructure	198	213
Total capital investment	1 886	1 791

- Increased capital expenditure in line with growth and refurbishment strategy
- Strong discipline on capital budgets while delivering against plan
- 93 new company-owned stores opened during the year – 68 PnP, 25 Boxer
- 62 refurbishments during the year
- Over 80% of capital investment aimed at improving the customer experience
- A further R1.8bn planned for FY18

NOTES



PROGRESS ON OUR PLAN

RICHARD BRASHER | CHIEF EXECUTIVE OFFICER

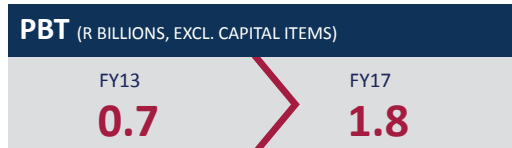


NOTES

TAKING STOCK AFTER FOUR YEARS



- Sales-led as well as cost-driven recovery
- Eight consecutive periods of profit and turnover growth
- PBT margin up to 2.3%
- Well on our way to restoring a sustainable profit margin



NOTES

OUR STRATEGIC PILLARS



- 1 BETTER FOR CUSTOMERS
- 2 A FLEXIBLE AND WINNING ESTATE
- 3 EFFECTIVE AND EFFICIENT OPERATIONS
- 4 EVERY PRODUCT, EVERY DAY
- 5 A WINNING TEAM
- 6 BOXER – A NATIONAL BRAND
- 7 REST OF AFRICA – 2ND ENGINE OF GROWTH

NOTES

IMPROVED CUSTOMER OFFER, ESPECIALLY THROUGH FRESH AND PRIVATE LABEL



- Launched over 1 700 new and repackaged private label products over past 2 years
- Private label participation has increased by 3% since FY15 to 18% of turnover in FY17
- Private label growth is well ahead of the market in a number of categories
- Convenience range continues to see strong growth



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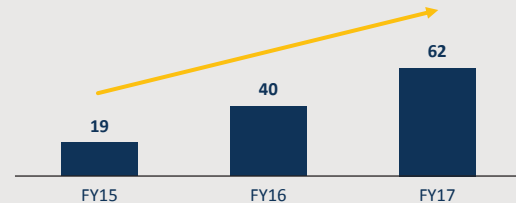
NOTES

NEW SPACE AND REFURBISHMENTS

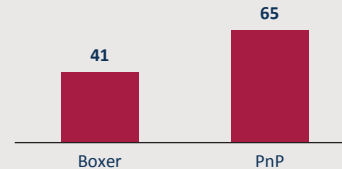


- Opened 150 net new stores in FY17
- Estate grew to over 1 500 stores, with more than 750 supermarkets
- Continued to accelerate refurbishments, with 62 in FY17, including 28 PnP supermarkets and 16 Boxer superstores
- Next Generation stores now total 106, accounting for 18% of our South African supermarket estate

NUMBER OF REFURBS



NUMBER OF NEXT GEN STORES



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NOTES

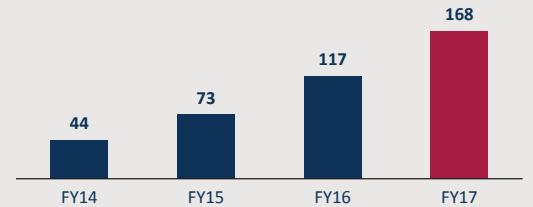
GROWING DEMAND FOR CONVENIENCE THROUGH LOCAL AND EXPRESS



- Convenience estate has quadrupled over the past 4 years
- Successful partnership with BP has enabled rapid roll-out of PnP Express
- PnP Local enables us to successfully operate smaller stores in neighbourhood centres
- Bigger and better convenience food range has enhanced the offer in these stores
- Online shopping and Click & Collect enhance our convenience offer



NUMBER OF CONVENIENCE STORES

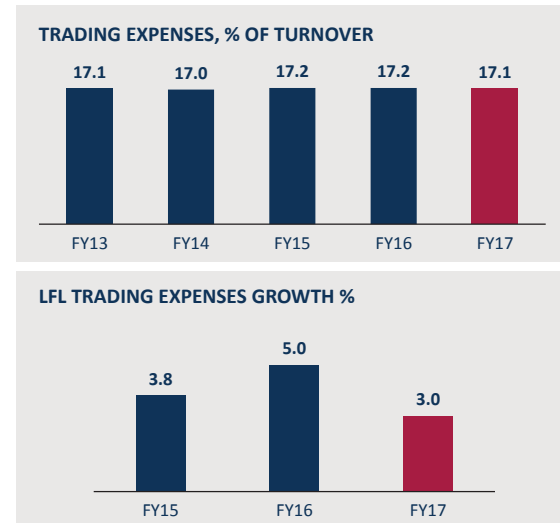


NOTES

LOWER COST OPERATING MODEL, WITH MORE FLEXIBLE LABOUR



- Like-for-like trading expenses grew at 3.0%
- Benefiting from a lower-cost operating model in stores:
 - Streamlined management structures
 - Flexibility in roles
 - Technological innovation
 - Investment in better refrigeration and lighting
- Concluded 3 year wage agreement delivering fair wage increase and competitive and flexible employment



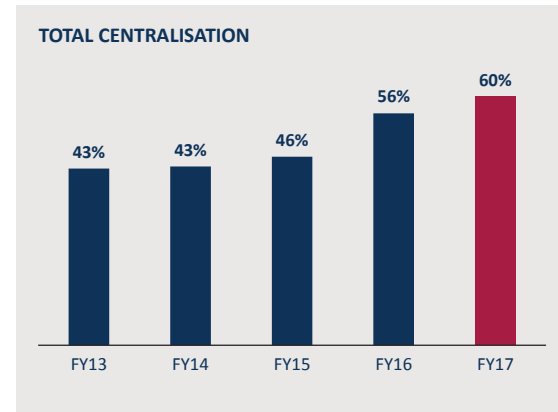
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NOTES

CENTRALISED SUPPLY CHAIN, BETTER AVAILABILITY AND LOWER COST



- Total company centralisation has increased by 17% to 60% of total volumes over the past 4 years
 - Western Cape DC grocery centralisation has reached 87%; 33% up on FY13
 - Inland DC grocery centralisation has reached 68%; 15% up on FY13
- DC issues grew 20% for the year; 21% CAGR across FY13 to FY17
- On-shelf stock availability consistently maintained at 96% over the year



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NOTES

INVESTMENT IN TECHNOLOGY IS IMPROVING PRODUCTIVITY AND CUSTOMER EXPERIENCE



INVESTMENT IN TECHNOLOGY IS PAYING OFF

**GREATER
PRODUCTIVITY
AT A LOWER COST
RESULTING IN A BETTER
CUSTOMER EXPERIENCE**



- **Improved DC productivity** through our integrated warehouse management systems
- **Improved replenishment and availability** through better forecasting and replenishment systems, Wi-Fi in stores and our mobile stock management app
- **Improved customer frontline experience** - first major retailer to launch Tap & Go, with improved bank card processing time for all transactions
- **Lower operating costs** - In-house development of Brand Match system and in-sourced Smart Shopper loyalty engine

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NOTES

BOXER SATISFYING MORE CUSTOMERS BY OFFERING EXCEPTIONAL VALUE



- Celebrating 40 years of Boxer this year
- Price investment has enabled us to deliver turnover growth, despite incomes being under even greater pressure in this segment of the market
- A far stronger meat, produce and deli offer
- Successful Next Generation store model
- A more modern estate, with 25 new stores opened this year



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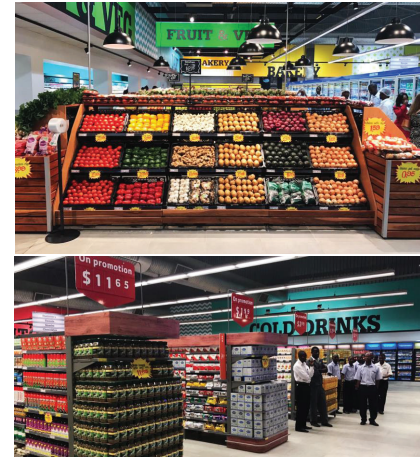
NOTES

STRENGTHENING OUR POSITION IN REST OF AFRICA, AN ENGINE FOR FUTURE GROWTH



- We remain committed to a measured expansion in Rest of Africa
- Present in six countries, with plans in place to open stores in two more countries over the next two years
- Stores in Africa now total 140, with 12 stores opened in the past year and a total of 38 stores opened over the past four years
- Franchise businesses in BLNS continue to trade well
- Tough trading conditions in Zambia at present
- Strong performance in partnership with TM Supermarkets in Zimbabwe

**FIRST NEXT GENERATION STORE OPENED
IN ZIMBABWE – BORROWDALE, HARARE**



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NOTES

ONLINE AND RETAIL SERVICES ARE GENUINE ENGINES OF GROWTH



ONLINE

- Dedicated online warehouse in Western Cape; sales growth of 30%
- Second dedicated online warehouse now operational in Gauteng
- New mobile-enabled online shopping website launches this year

VALUE-ADDED SERVICES

- Double-digit growth in commission income from prepaid electricity, third party bill payments, ticketing and financial services
- R24 billion in cash withdrawals at our tills in FY17. SASSA beneficiaries receive free cash withdrawal, R7bn withdrawn in FY17
- New low-cost money transfer service launched in partnership with the Commonwealth Bank of Australia. 100 000 customers in first 5 months
- 100 Next Generation money counters



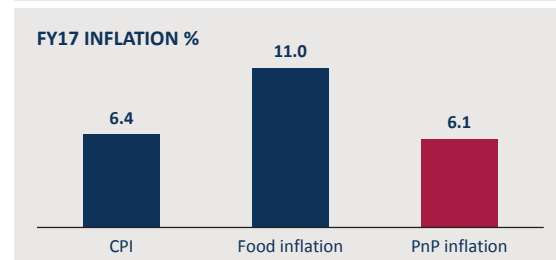
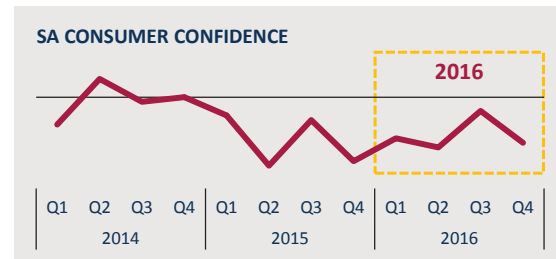
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NOTES

THE NEW NORMAL: OPERATING ENVIRONMENT IN 2017



- Incomes have lagged inflation, leading to an increasingly stressed consumer
- Economic growth is unlikely to accelerate for some time
- Customers shopping around for lower prices and best value is the new normal



NOTES

WE ARE NOW ACCELERATING OUR PROGRESS



LOWER PRICES

We will deliver consistently better value for customers, particularly through lower prices

- Strong start in March with permanently lower prices on key fresh lines, relaunched Smart Shopper with instant personal discounts; and fewer, deeper promotions
- More to come in following months

LOWER COSTS

We are enabling this better value by reducing our costs and becoming more productive

- Better productivity and lower cost provides more headroom to invest in customers
- Aligning stores and offices to new operating models

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NOTES

COMMITMENT TO LOWER PRICES, WITH 1 300 PRICES CUT LAST MONTH



- 50th birthday: Returning to our roots and getting cheaper for customers
- Everyday lower prices on key grocery lines
- Lower prices on fresh
- Fruit, veg and meat deals – combo and bulk
- Higher-impact promotions
- Great value on private label



NOTES

UPDATED SMART SHOPPER TO GIVE MORE VALUE IN TOUGH TIMES



- SA's favourite loyalty programme – now more personal, with more instant rewards
- Weekly personalised discounts, tailored specifically to each individual Smart Shopper – 3 million unique coupon combinations via email each week
- Powered by a system which processes 600 million transactions involving 6 billion products across 11 million customers – to identify what you are most likely to buy next



3 PERSONALISED **DISCOUNTS** JUST FOR RICHARD



R16.40 OFF
BABY SOFT TOILET PAPER



R2.30 OFF
CLOVER MILK 1L



R3.40 OFF
PNP FRUIT JUICE BLEND 1.5L

NOTES

WHAT TO EXPECT IN FY18



- | | |
|--|---|
| 1 BETTER FOR CUSTOMERS | <ul style="list-style-type: none">▪ Lower everyday prices on key grocery lines▪ Exceptional value through more private label |
| 2 A FLEXIBLE AND WINNING ESTATE | <ul style="list-style-type: none">▪ Next Generation coming to more stores▪ Focus on convenience in new space growth |
| 3 EFFECTIVE AND EFFICIENT OPERATIONS | <ul style="list-style-type: none">▪ Leaner operating model across stores▪ Better front-line service |
| 4 EVERY PRODUCT, EVERY DAY | <ul style="list-style-type: none">▪ Further DC centralisation▪ Lower cost and better availability in stores |
| 5 A WINNING TEAM | <ul style="list-style-type: none">▪ Leaner and fitter head office▪ Focus on training in customer service |
| 6 BOXER – A NATIONAL BRAND | <ul style="list-style-type: none">▪ Focus on providing best value in the market▪ More stores serving more communities |
| 7 REST OF AFRICA – 2 ND ENGINE OF GROWTH | <ul style="list-style-type: none">▪ Maintain progress in Zimbabwe, improve in Zambia▪ Opening in Ghana and Nigeria |

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NOTES



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THANK YOU

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