



Results Presentation

For the 26 weeks
ended 1 September 2019

Chairman's introduction

Gareth Ackerman | **Chairman**

Results overview

Lerena Olivier | **Chief Finance Officer**

Progress on our plan

Richard Brasher | **Chief Executive Officer**



Pick n Play

Agenda



Pick n Play

Chairman's Introduction

Gareth Ackerman
Chairman

Chairman's Introduction



Congratulations to the Pick n Pay and Boxer teams for this result

Chairman's Introduction



Despite all the doom and gloom, we are making positive changes. Modern retail exists to make people's lives better

Chairman's Introduction

OUR BUSINESS IS BUILT ON 3 CORE VALUES



1

Consumer
sovereignty



2

Business
efficiency



3

Doing good is
good business

Chairman's Introduction



Our re-opened On Nicol store is the best, most modern, most customer-centric and environmentally friendly store in Southern Africa



Chairman's Introduction



- We can achieve more in partnership with others
- One of the areas where partnership is vital is on reducing food waste
- Reducing food waste has been a priority for Pick n Pay for years. Through our partnership with Food Forward, we donate more than 1 600 tonnes of food every year to the needy
- We are one of 10 of the world's largest food retailers and food manufacturers to sign a new global initiative
- The project is called 10x20x30 and is committed to a 50% reduction in food waste by 2030
- We have pledged to ask 20 of our largest suppliers to help us reduce food waste. I will be writing to them to elicit their support and commitment



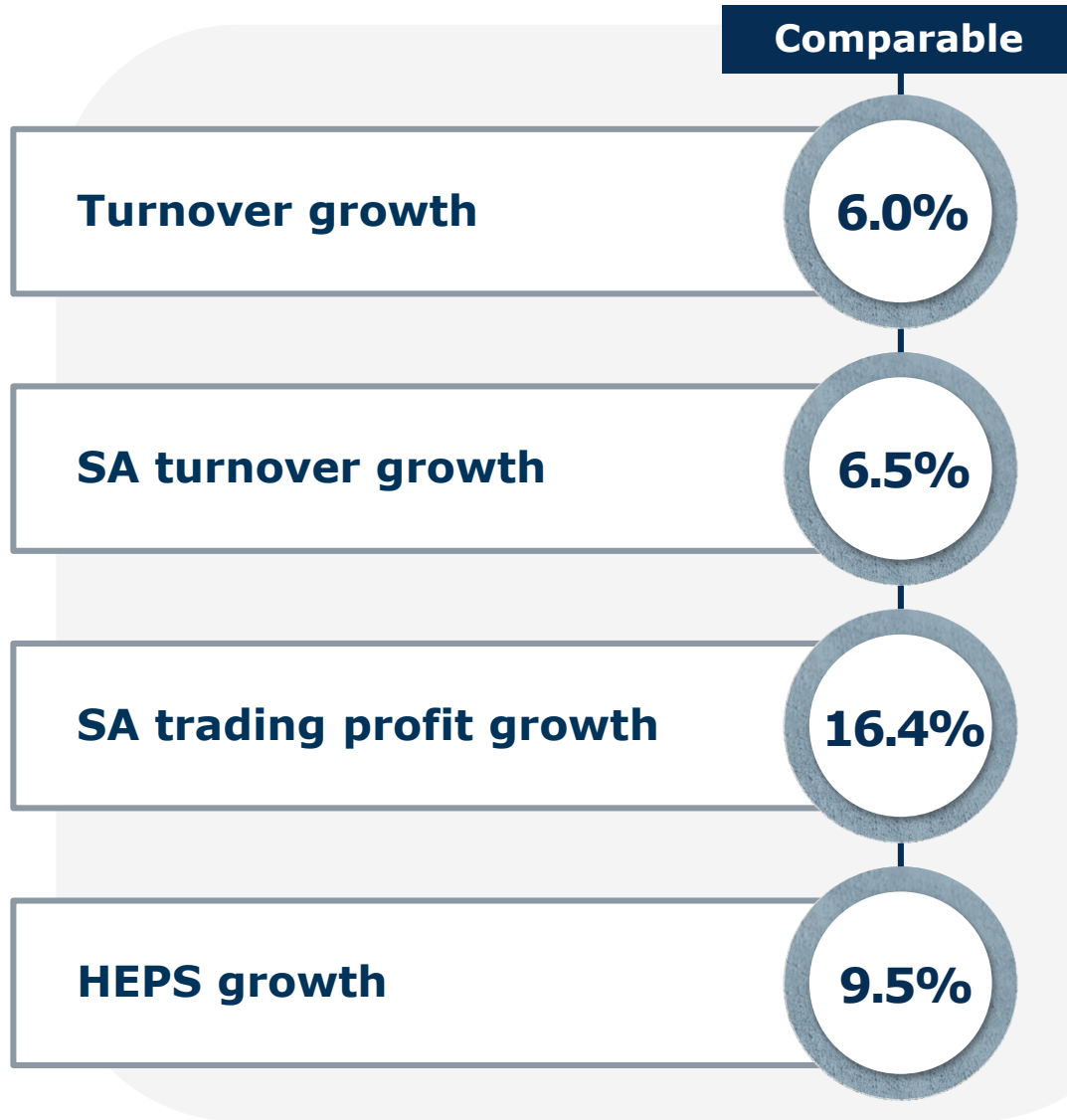
Pick n Play

Results Overview

For the 26 weeks
ended 1 September 2019

Lerena Olivier
Chief Finance Officer

Consistency at the core delivers another strong result



- Consistent execution of long-term strategy
- Sustained progress in:
 - customer offer
 - new store and refurbishment programme
 - cost and working capital discipline
- Turnover and earnings growth in a constrained consumer environment
- Solid performance from core South African operations – mitigates economic challenges in Zambia and Zimbabwe
- Comparable earnings growth of 9.5%

Understanding the accounting complexities

IFRS 16 - Leases

H1 2019
Reported
100.2c

H1 2019
Restated
77.7c

- Full retrospective adoption
- Historic financial information restated
- Performance measures recalibrated

IFRS 15 - Revenue from contracts

H1 2020
Reported
4.8%

H1 2020
Comparable
6.0%

- Strategic change to only sell airtime and data on an agency basis this year
- Sales and purchases previously recognised in turnover and cost of sales, now recognised within other income

IAS 29 - Hyperinflation accounting

H1 2020
Reported
17.5%

H1 2020
Comparable
9.5%

- Income from associate in Zimbabwe now accounted for under hyperinflation accounting standard

The result which follows is presented on a restated fully comparable basis to reflect the underlying operational performance of the business

Result snapshot – 26 weeks

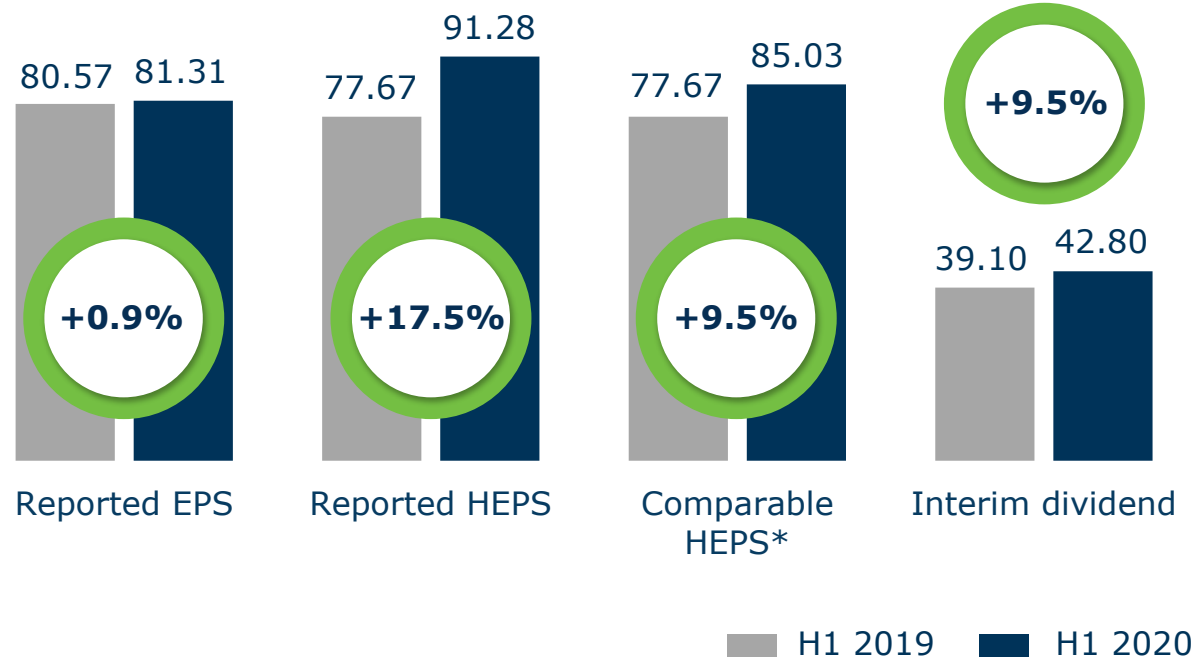
	H1 2020	H1 2019	% change
Comparable turnover	R43.1bn	R40.7bn	6.0
<i>Gross profit margin</i>	19.8%	18.8%	
Trading expenses	R8 128m	R7 404m	9.8
<i>Expenses margin</i>	18.8%	18.0%	
Trading profit	R1 188m	R1 056m	12.5
<i>Trading profit margin</i>	2.7%	2.6%	
Trading profit – SA	R1 158m	R995m	16.4
<i>Trading profit margin</i>	2.8%	2.5%	
Comparable PBT*	R555m	R506m	9.7
<i>PBT margin*</i>	1.3%	1.2%	
Comparable HEPS*	85.03c	77.67c	9.5
Comparable Diluted HEPS*	84.41c	76.27c	10.7

- Successful execution, consistent earnings growth
- Stronger customer offer drives improved performance across all formats
- Increased relative sales and earnings contribution from company-owned stores, lifts gross profit and trading expenses as a percentage of turnover
- Solid performance from SA - trading profit up 16.4%
- Comparable profit before tax (PBT) up 9.7% to 1.3% of turnover
- HEPS up 9.5% on a comparable basis

* Excluding capital items, hyperinflation net monetary gain and impairment loss

Sustained growth in shareholder returns

Earnings per share (cents)



* Excluding capital items, hyperinflation net monetary gain and impairment loss

- Reported EPS reflects hyperinflation and other capital losses this year, against capital profits last year
- Reported HEPS excludes all capital items, but includes hyperinflation gain in Zimbabwe
- Comparable HEPS excludes all capital items and the hyperinflation gain in Zimbabwe – reflecting underlying operating performance
- Interim dividend up 9.5%, in line with comparable HEPS growth – with plans to maintain an IFRS 16 recalibrated dividend cover of 1.3 times earnings for the full year

Earnings growth in a tough market

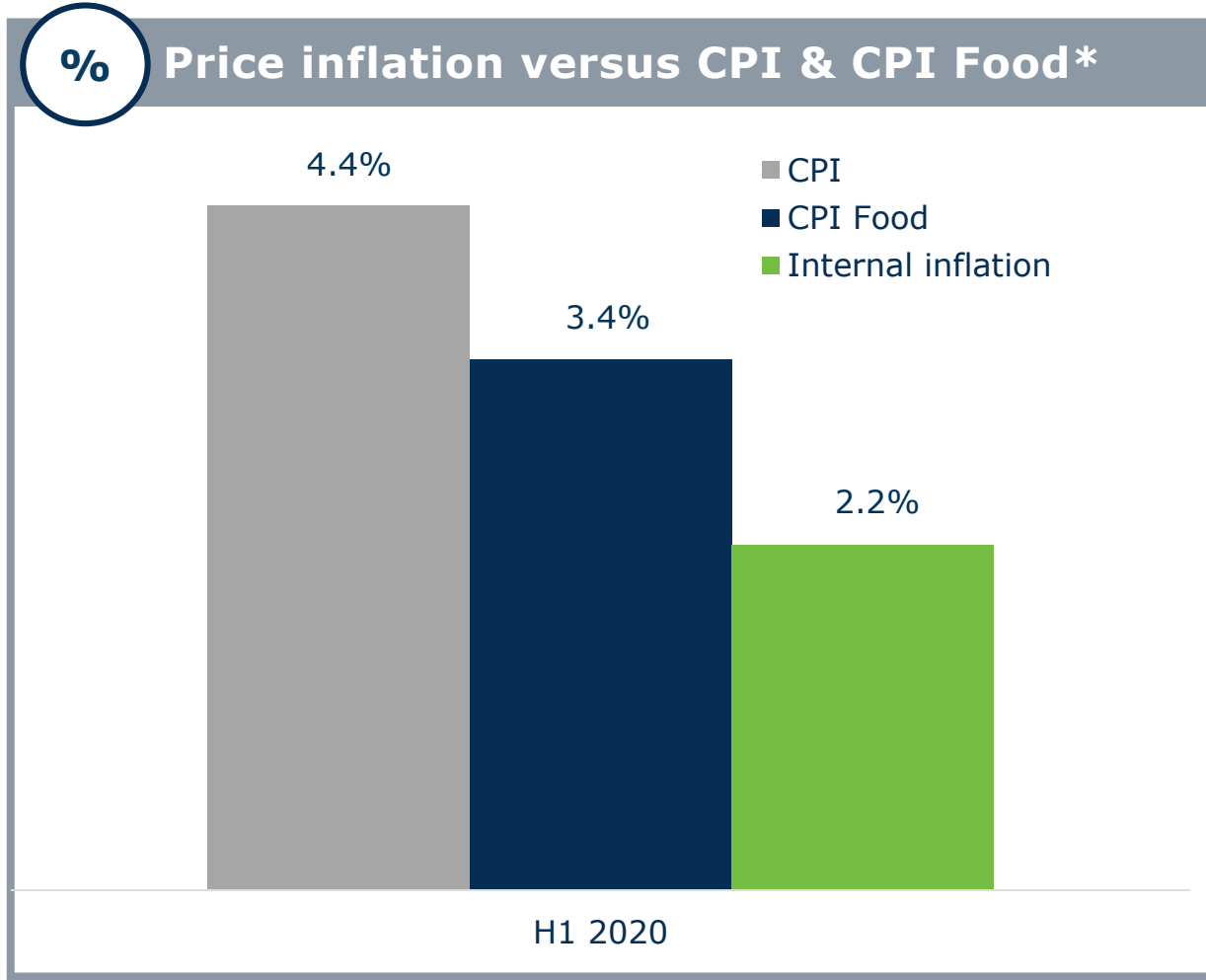
Solid trading performance against strong base

	H1 2020*	H1 2019	
Turnover growth	6.0%	6.4%	• Group turnover up 6.0% driven by strong core SA performance
Like-for-like turnover growth	2.9%	3.8%	• SA turnover up 6.5%, with 3.5% LFL growth
SA turnover growth	6.5%	6.7%	• LFL volume growth of 1.3% in a difficult economy - anchored by sustained improvements in customer offer
SA like-for-like turnover growth	3.5%	4.2%	• 63 net new stores - 75 new and 12 closures
Internal selling price inflation	2.2%	0.3%	• Net new stores added 3.1% to turnover growth
SA like-for-like volume growth	1.3%	3.9%	
Turnover growth from net new space	3.1%	2.6%	
Net new stores	63	47	
Customer growth (number of transactions)	3.6%	4.4%	
Basket size growth (avg. transaction value)	2.8%	2.2%	

* Comparable

Strong performance from core SA engine

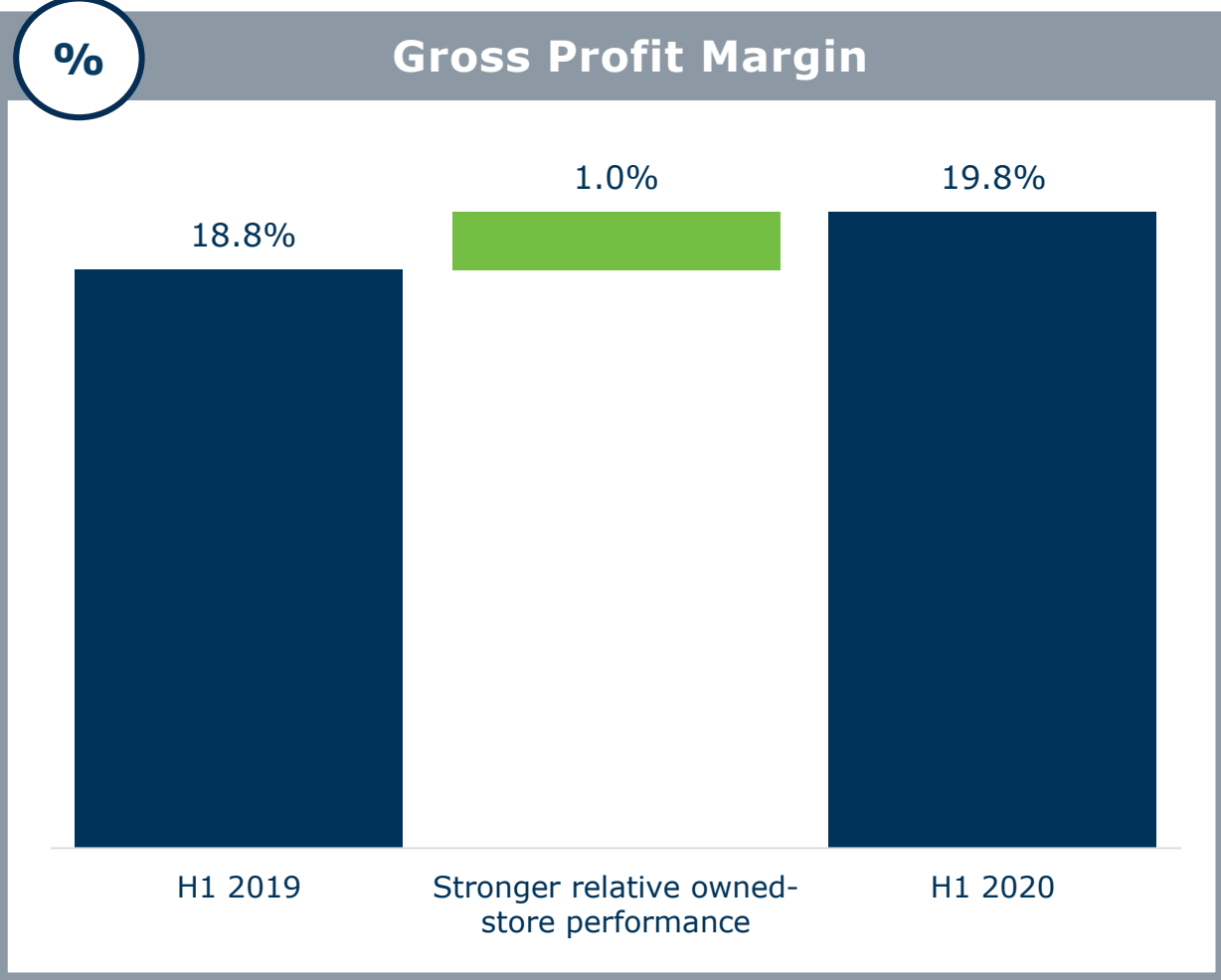
Ongoing investment in customer value



* Data from Stats SA

- Ongoing price investment restricts selling price inflation to 2.2%, supported by:
 - Better buying
 - Greater efficiency through range optimisation
 - Less waste
 - Improving supply chain efficiency
- Internal selling price inflation kept below general price and food inflation

Stronger execution lifts margin



- Consistent execution of strategy means a better business in all formats
- Increased sales and earnings contribution from owned stores, relative to a lower-margin franchise business
- This changing shape of our business has lifted gross profit margin to 19.8%

Added convenience through value-added services

	H1 2020 Rm	H1 2019 Rm	% change
Other income	755.5	719.9	4.9
Franchise fee income	204.5	196.4	4.1
Operating lease income	67.2	63.2	6.3
Commissions and other income, including value-added services	483.8	460.3	5.1

- Other trading income up 4.9%
- Commissions and other income up 5.1%, and includes all commission and incentive income not directly related to the sale of inventory
- Income from value-added services grew 16.1% year-on-year, with growth across our platform, including financial services, third party bill payments, travel and event ticketing, and the sale of prepaid electricity

Value-added services are a key component of the broader customer offering

Greater efficiency mitigates rising costs

	H1 2020 Rm	H1 2019 Rm	% change	% LFL change	
Trading expenses	8 128.2	7 403.9	9.8	7.4	<ul style="list-style-type: none"> • Trading expense growth of 9.8% (LFL 7.4%)
Employee costs	3 876.4	3 446.7	12.5	10.3	<ul style="list-style-type: none"> • Employee costs up 12.5% (LFL 10.3%) driven by: <ul style="list-style-type: none"> - growing contribution from owned stores - strengthened management structures - more hours in-store delivering improved service - owned store employee costs up 6.9% LFL
Occupancy	1 119.7	1 029.2	8.8	6.0	<ul style="list-style-type: none"> • Occupancy costs up 8.8% (LFL 6.0%), driven by double-digit increases in rates and security
Operations	1 879.7	1 752.7	7.2	4.0	<ul style="list-style-type: none"> • Operations costs up 7.2% (LFL 4.0%) with operating efficiency and lower energy consumption mitigating high increases in fuel, water and other utilities
Merchandising and administration	1 252.4	1 175.3	6.6	5.1	<ul style="list-style-type: none"> • Merchandising and administration well controlled, up 6.6% (LFL 5.1%)

Bearing down on costs remains a key priority and is an engine of earnings growth

Margin expansion in a challenging market

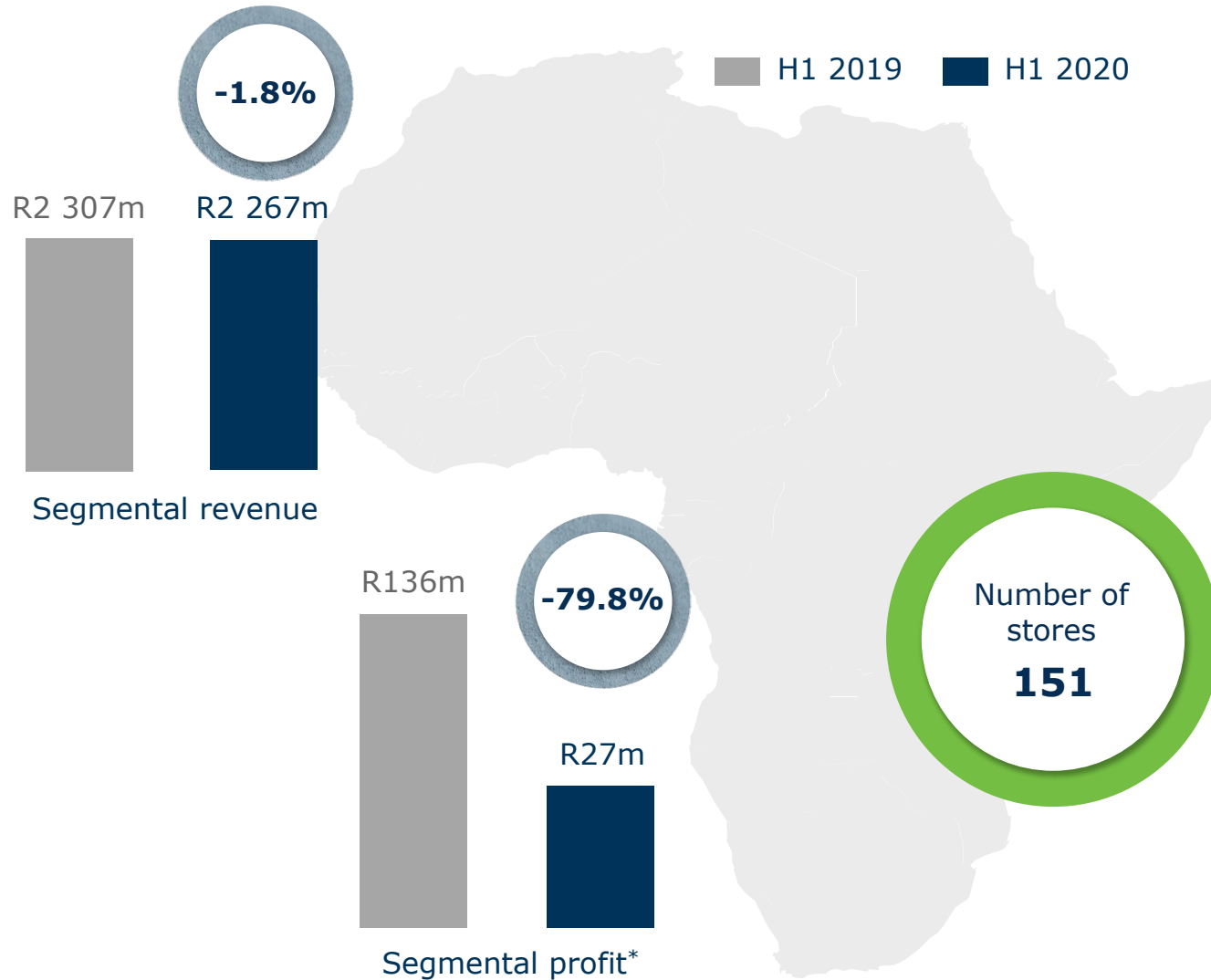
Rm	South Africa			Group		
	H1 2020	H1 2019	% change	H1 2020	H1 2019	% change
EBITDA*	2 569	2 298	11.8	2 642	2 410	9.6
<i>EBITDA margin</i>	6.2%	5.8%		6.1%	5.8%	
EBIT*	1 158	995	16.4	1 188	1 056	12.5
<i>EBIT margin</i>	2.8%	2.5%		2.7%	2.6%	
Comparable PBT*	510	370	37.8	555	506	9.7
<i>PBT margin</i>	1.2%	0.9%		1.3%	1.2%	

- Group EBITDA up 9.6% to R2.6bn, with margin improvement of 0.3%pts to 6.1% of turnover
- Leading performance from Group's South Africa division – EBIT up 16.4% with margin improvement of 0.3%pts to 2.8%
- Net interest up 3.4% - driven by 4.6% increase in implied IFRS 16 interest charge, with net funding interest well managed
- IFRS 16 implied depreciation and interest charges collectively up 6.9% in line with rent paid
- Effective tax rate now at 28%, driven by adoption of hyperinflation accounting in Zimbabwe

* Excluding capital items, hyperinflation net monetary gain and impairment loss

Consistent margin improvement in SA

Currency devaluation hits Rest of Africa division



- Tough trading conditions outside of SA
- Segmental revenue down 1.8%, increasing 2.4% in constant currency terms
- Constrained trading environment in Zambia characterised by low economic growth and low consumer confidence
- Segmental profits down 79.8% year-on-year with contribution from TM Supermarkets in Zimbabwe down from R77.8m profit last year to a R1.7m loss
- 3 net new stores across Namibia, Eswatini and Zimbabwe

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

Hyperinflationary operating environment in Zimbabwe

	H1 2020 Rm	H1 2019 Rm
Group's share of TM's earnings	16.6	77.8
TM trading result	74.6	77.8
Forex loss on translation of foreign debt	(58.0)	-
Hyperinflation - net monetary gain	29.7	-
Hyperinflation - impairment	(48.0)	-
TM earnings contribution	(1.7)	77.8

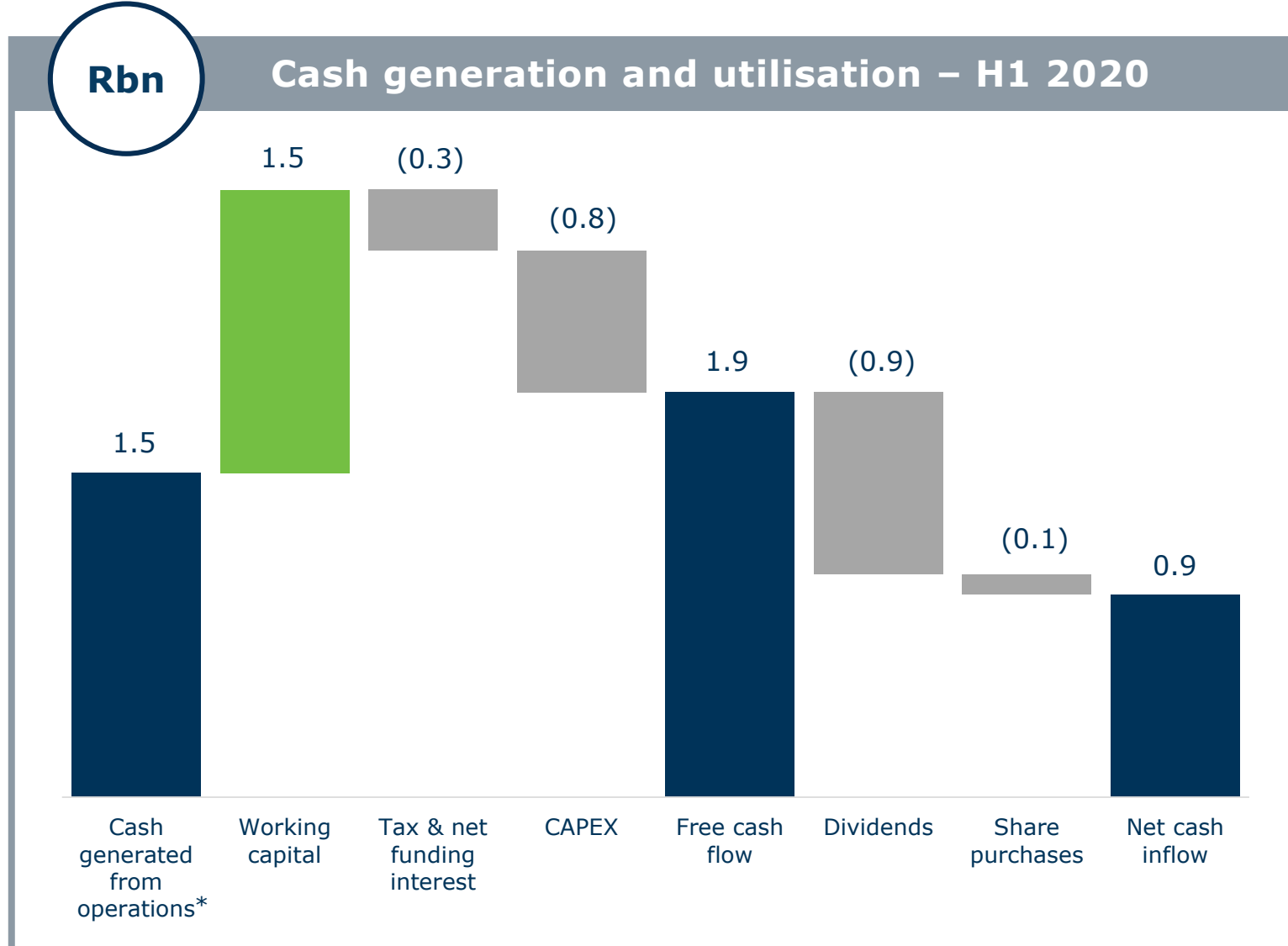
- Group's share of TM trading result, excluding forex losses, at R74.6m
- Forex loss on translation of TM's foreign debt reduced our earnings by R58.0m
- TM is operating in a hyperinflationary economy - our share of earnings is accounted for under the provisions of IAS 29 Hyperinflation accounting
- Hyperinflation net monetary gain of R29.7m on the re-measurement of TM's assets to reflect the current purchasing power of the Zimbabwe dollar
- Hyperinflated assets were subsequently tested for impairment - resulting in a R48m capital impairment loss
- Group comparable HEPS excludes the impact of hyperinflation gains and losses

Fair value of TM reflects impact of currency devaluation

	Equity Investment	Amounts Receivable	Total
At 3 March 2019	184.4	132.9	317.3
FCTR – devaluation of Zim dollar	(132.3)	-	(132.3)
TM earnings contribution	(1.7)	-	(1.7)
Net repayments	-	(36.1)	(36.1)
At 1 September 2019	50.4	96.8	147.2

- Our total investment in TM consists of our 49% equity share of R50.4m and amounts receivable of R96.8m
- Significant currency devaluation over the period:
 - 3 March 2019 3.3 ZWL : 1.0 USD
 - 1 Sept 2019 12.4 ZWL : 1.0 USD
- Equity investment in TM Supermarkets written down by R132.3m as a result, through FCTR
- Share of associates losses of R1.7m
 - Investment fairly valued at R50.4m - no further impairment required
 - Amounts receivable fairly valued and considered recoverable – payments received as foreign currency becomes available

Strong cash generation and working capital management



- Cash generated through operations of R1.5bn
- Net funding costs decreased 8.4%, from R58m to R53m
- Group maintains working capital benefits delivered last year
- R1.9bn of free cash flow generated over the period - reflecting benefits from the timing of financial calendar cut-off
- R930m paid to shareholders in H1

* Cash generated before working capital net of movement in lease liabilities and lease receivables

Strategic investment enhances customer experience

Rm	Actual H1 2020	Planned FY20	Actual FY19
Expansion into new stores	218	550	476
Improving existing stores	332	840	620
Improving the customer experience	550	1 390	1 096
Investing in future infrastructure	92	150	164
Maintaining current infrastructure	116	160	213
Total capital investment	758	1 700	1 473

- Capital investment reflects strong new store and refurbishment programme focused on sustainable returns
- 75 new stores:
 - 40 company-owned stores
 - 33 franchise stores
 - 2 TM Supermarkets
- Closed 12 stores
- 25 stores modernised during the period
- R1.7bn planned for FY20 – delivering on plan with capital cost discipline

Stringent capital control to optimise return on investment

Low debt, high liquidity

Rm	1 September 2019	26 August 2018
Cash	2 063.3	1 209.0
Cost-effective overnight borrowings	(1 000.0)	(500.0)
Cash and cash equivalents	1 063.3	709.0
1- to 3-month borrowings	(1 700.3)	(1 075.0)
Secured borrowings	-	(17.1)
Net funding position	(637.0)	(383.1)

- Free cash flow supported by:
 - Higher profitability
 - Greater efficiency
 - Effective capital investment programme
 - Comparability impacted by calendar cut-off
- 1- to 3-month debt takes advantage of competitive interest rates
- No long term funding
- The Group's liquidity position remains strong, with R4.7bn of unutilised facilities

Strong cash generation and stable balance sheet reflects consistent execution of long term plan



Progress on Our Plan

Richard Brasher
Chief Executive Officer

Consistency at the core delivers another strong result

	H1*	
	Group	SA
Turnover growth	6.0%	6.5%
LFL turnover growth	2.9%	3.5%
Trading profit growth	12.5%	16.4%
HEPS growth	9.5%	n/a

- Another reporting period of positive turnover and profit growth – despite tough conditions inside and outside South Africa
- Strong South Africa performance by Pick n Pay and Boxer. Our offer is:
 - more competitive
 - more relevant
 - more efficient
- South Africa trading profit up 16.4%
- South Africa trading profit margin up from 2.5% to 2.8% of turnover
- Comparable HEPS growth of 9.5%

**All financial information provided is on a comparable basis excluding the impact of hyperinflation*

Six engines of growth



Highlights: Delivering great value for customers

SA's
most trusted
retailer



- Giving customers low prices, great promotions and exceptional value remains at the heart of our plan
- Focus on fewer, deeper promotions, more relevant to customers
- Restricted internal price inflation to 2.2% - below general inflation and food inflation
- Customers responded by giving us another period of positive volume growth – against a strong base
- Strong growth in clothing and liquor and significant opportunity to grow market share further

Highlights: Best range with excellence in fresh

SA's most trusted retailer



- Progress on range optimisation – achieving the right mix of products in every store
- Transformed our fresh offer – with strong growth in a number of produce, butchery, bakery and convenience lines
- Better operating standards mean improved on-shelf availability and less waste
- More than 320 new own brand products, with own brand participation now at 22%
- Pick n Pay has won many accolades for quality and innovation this year, including 5 Sunday Times food awards

Highlights: Helping our customers to live well

SA's
most trusted
retailer

— Pick —
one **small** thing

Switch to Cranberry & Vanilla
Granola for a sweet start
that's low in sugar.



Pick n Pay
Pick well. Live well.

- Growing health and wellness challenge. Rising obesity and associated problems including heart disease, stroke and diabetes
- 80% of customers across all social groups want help to live more healthily and tackle specific dietary needs
- Our new LiveWell campaign empowers customers by giving them healthy choices and better information
- Recently introduced new LiveWell products - including lower salt, no sugar, gluten free, lactose free, vegan, vegetarian and low carb
- Tackling the perception that healthier products are less affordable – with great promotions on fresh and LiveWell products

Highlights: Extra value through personalised loyalty



- Huge scale: Now well over R7m active customers
- Significant investment in the customer: >R200m in points given every year, plus specific Smart Shopper promotions
- 7 years of data driving business decision making, and shared with suppliers.
- Driving personalised value to customers: 72% increase in redemptions of personalised cash-off vouchers
- New BP partnership has delivered 10bn points to Smart Shoppers
- Smart Shopper voted SA's best loyalty programme for a 7th consecutive year

Highlights: A store format for every customer

SA's
most trusted
retailer



- Group now has 1 858 stores across all formats, including 744 franchise stores
- Opened 40 company owned stores, 33 franchises and 2 TM stores in Zimbabwe
- Closed 12 underperforming stores
- Completed 25 refurbishments – better layouts, lower shelves, wider aisles and brighter, energy-efficient lighting
- Growing importance of our convenience store formats – meeting the customer demand for a tighter range in smaller, well-located stores
- New flagship On Nicol store launched last week

Highlights: Accelerated Boxer momentum

Africa's
favourite
discounter



- More customers turning to Boxer for unbeatable value, choice and shopping experience
- Excellence on range, pricing, promotions and availability rewarded by growing basket size
- Key focus on fresh – strong growth in butchery and bakery offer, including bread volumes up over 30% year-on-year
- Own brand an increasingly important part of the Boxer offer, now close to 20% of participating categories
- Growing value-added services offer- customers can now join and use TymeBank in all Boxer stores

Highlights: More effective Boxer stores



Africa's favourite discounter

- Relentless Boxer focus on simplicity, tight range, efficient store operations and great customer engagement
- Boxer opened 14 new stores in H1 and converted 2 Pick n Pay franchise stores to Boxer
- Boxer now has 286 stores in total
- 80% of Boxer supermarket estate is now in its New Generation format
- 10 new store openings planned for H2
- Strong progress on supply chain centralisation, with close to 45% of Boxer products now distributed through its own DCs

Highlights: Greater operational efficiency and cost discipline

Bearing
down on
costs



- Supply chain centralisation now close to 80%, with perishables and non-edible groceries now over 90%
- Good control of shrink and waste
- Like-for-like inventory down 5% year-on-year
- Mitigated the increase in rental expenses through rental renegotiations and other initiatives
- Increases in employee costs mitigated by greater operating efficiencies
- Environmental initiatives – e.g. solar PV, natural light domes, doors on fridges, CO2 refrigeration – have reduced energy usage

Highlights: Ongoing innovation in value-added services

Value-added
customer
services



- Income from value-added services up 16.1%
- 850 000 TymeBank accounts opened in Pick n Pay and Boxer stores – one of the fastest growing digital banks in the world
- Banking at POS platform growing by 50% - now accepting account deposits from four Banks
- 2 million customers visited our Pick n Pay online shop this year delivering a 24% increase in order volumes
- 150 000 customers now use Storecard – with rigorous processes to ensure a responsible low-cost credit offer
- Partnered with Hollard to offer a broad range of insurance solutions

Highlights: Challenging conditions outside South Africa

Growth outside South Africa

Zambia

Trading performance negatively impacted by sluggish economy, local currency weakness and low consumer confidence

20
Stores

Segmental revenue in constant currency up 2.4%

3
Net new stores

Zimbabwe

Earnings negatively impacted by economic and social instability, hyperinflation, and foreign exchange losses

58
Stores

Namibia, Botswana, Lesotho, Eswatini

Positive segmental revenue growth from franchise operations

73
Stores

Highlights: Resilience outside South Africa

Growth
outside
South Africa



- Despite very tough conditions in Zimbabwe and Zambia, our Rest of Africa operations remain resilient
- Dedicated teams - despite adversity, they deliver for customers everyday, and enjoy huge loyalty in return
- Operations outside SA contributed R46m to comparable PBT this year (excluding hyperinflation gains and losses)
- Pick n Pay is stronger, not weaker, for their participation – alongside that of our franchise partners in Namibia, Eswatini, Botswana and Lesotho

Highlights: Our people make the difference

Doing good
is good
business



- Over 100 managers completed formal management development programmes at a top university
- Pick n Pay offers over 330 training programmes to employees, from basic literacy and numeracy to advanced leadership programmes
- Dedicated retail learnership programme for people with disabilities
- Over 1 200 promotions
- New 3-year wage deal with labour union provides stability and security for employees
- New Employment Equity Plan submitted for 2019–2024

Highlights: Positively impacting the community

Doing good
is good
business

Environment



Launched lowest priced reusable bags in South Africa

Community



Established 3 800 community and home gardens to date

Donations



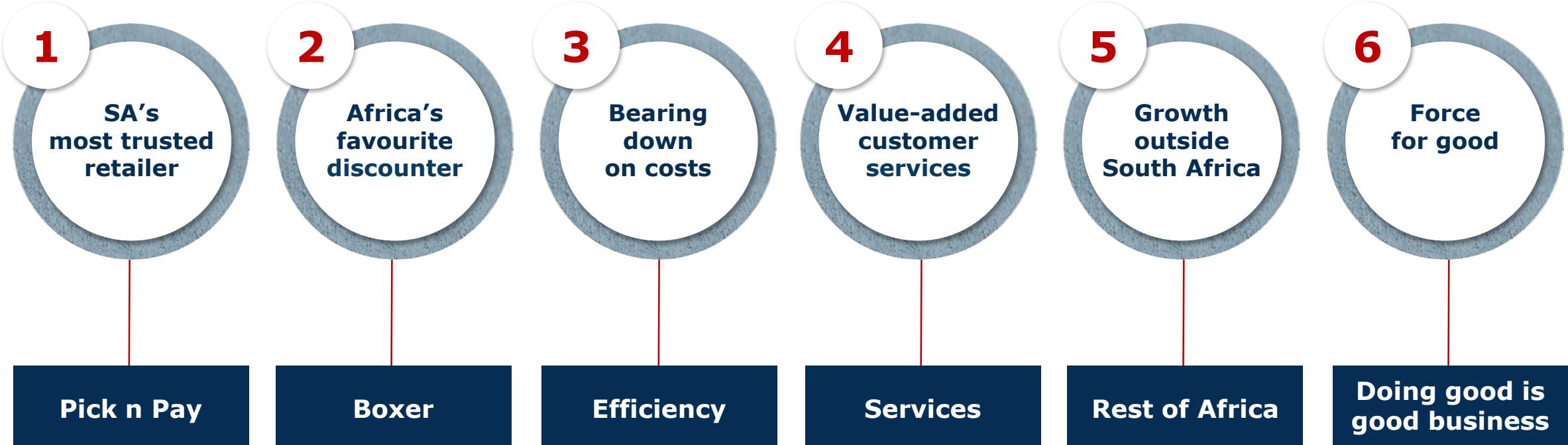
Donated more than 1 600 tonnes of food every year

Education

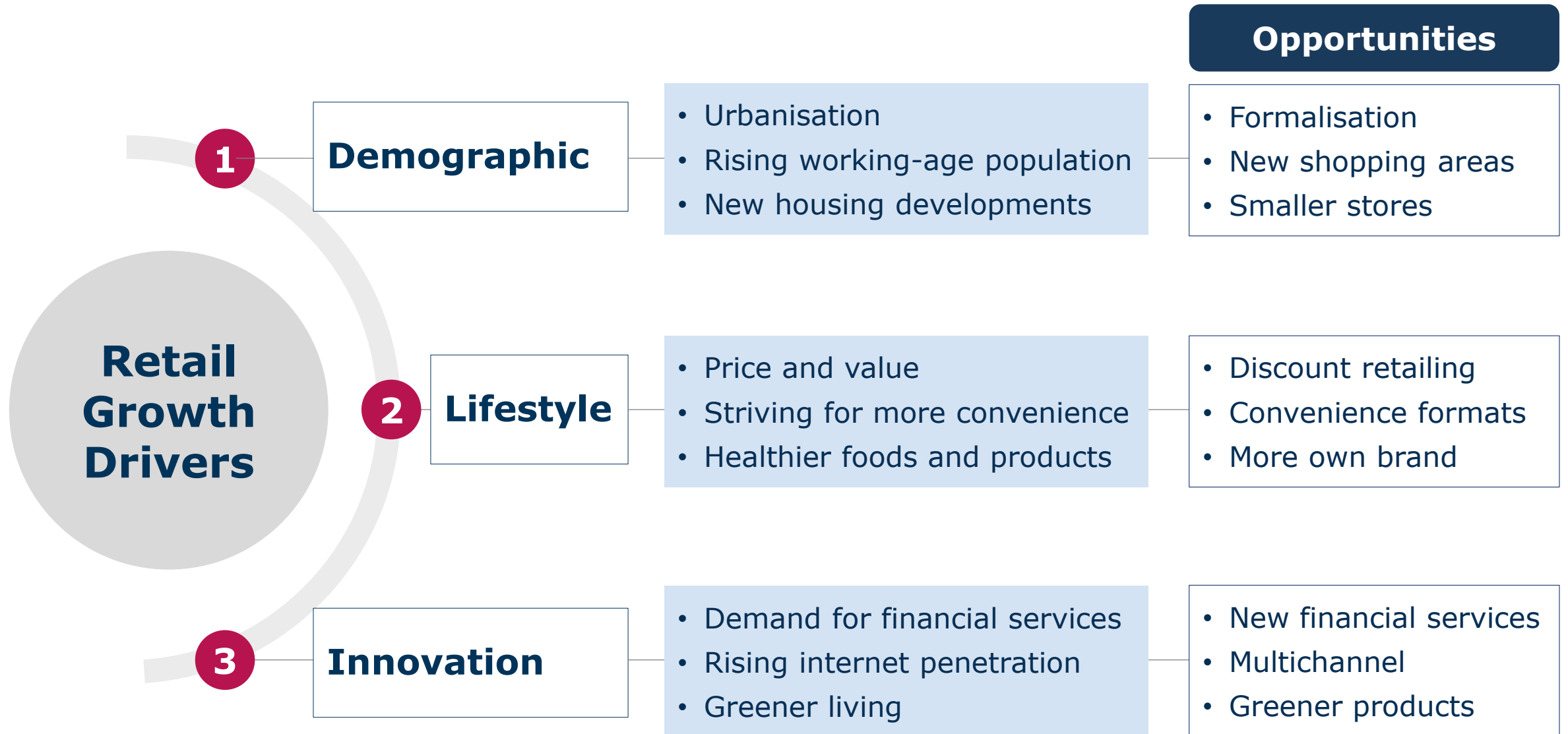


Supported over 2 million learners through Pick n Pay School Club

Our six engines of growth remain core to our plan

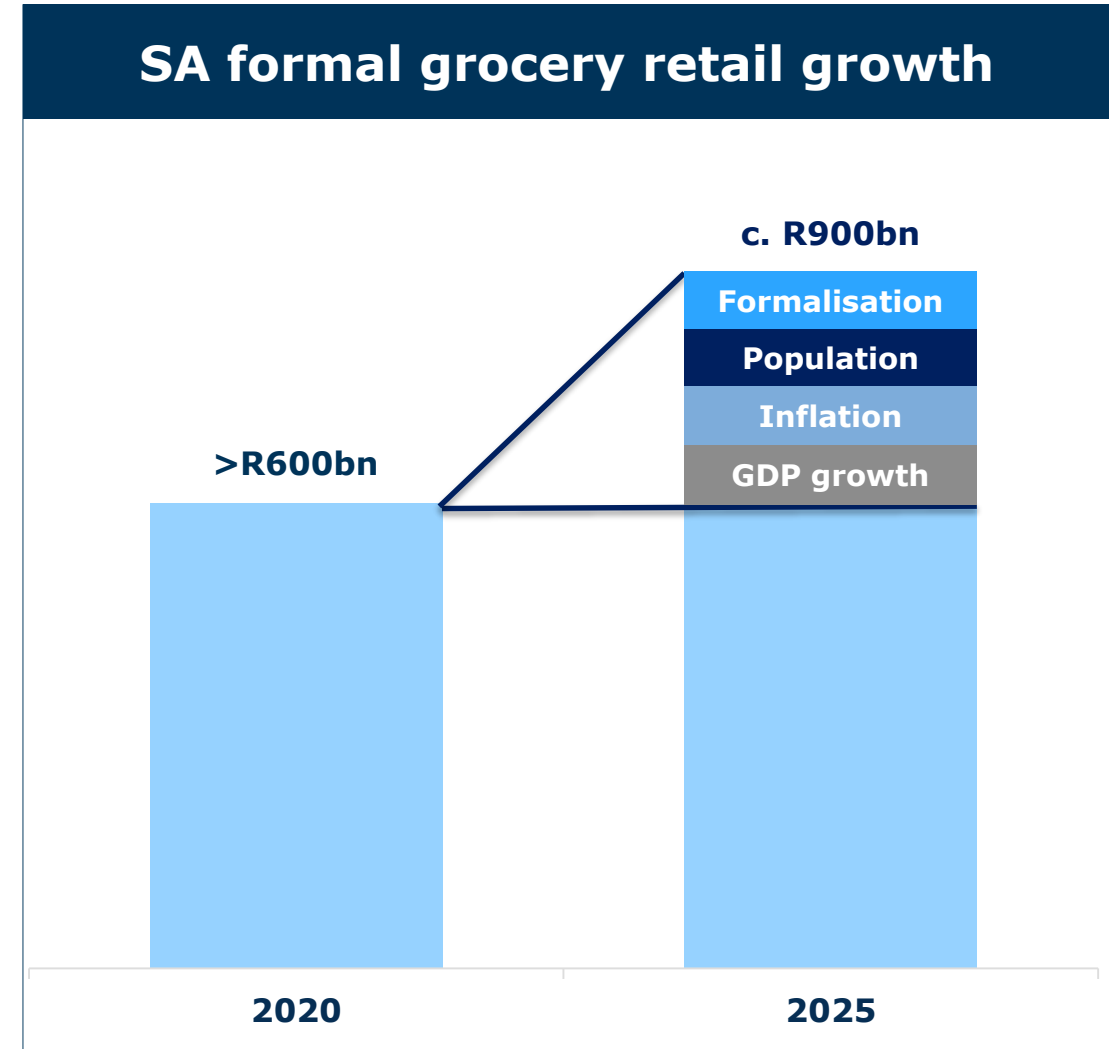


Looking forward: Retail market growth drivers 2020-25



Looking forward: Grocery retail market growth 2020-25

- Muted growth forecasts for the next five years, with real GDP at 1–1.5% pa and CPI around 5% pa
- However, we expect additional consumer demand as a result of dynamic changes in the economy:
 - Population growth is forecast to grow at just over 1.5% pa
 - A third of the population is younger than 16, which should provide an influx of income earners in coming years
 - As urbanisation continues, more people will access the formal market and modern grocery retail
- The grocery retail market could therefore grow around 1–1.5% ahead of GDP + inflation
- This will not be evenly distributed across LSM groups. Future success will therefore depend on having a dynamic and flexible approach to growth



A dynamic and flexible plan linked to demographic growth

Less-affluent market

75% households
60% spend

Middle market

20% households
25% spend

More-affluent market

5% households
15% spend

Distribution of formal grocery spend (%)

BOXER



2 000 - 3 000 SKUs

Pick n Pay



4 000 - 8 000 SKUs

Pick n Pay



6 000 - 12 000 SKUs

Pick n Pay



10 000 - 20 000 SKUs

Value

Core

Select

Lean operating model

Full service offer



Pick n Play

Thank You