

2008

**SHOPRITE**   
HOLDINGS LTD

# Financial Results

FOR THE YEAR ENDED 30 JUNE 2008

# Financial Highlights

**Carel Goosen** *Deputy Managing Director*

## Size of Operation

	June 2008
Turnover	R48 bn
Owned Outlets	984
Franchise Outlets	256
Countries	17
Employees	73,000
Market Capitalisation	R24 bn*

\*During August 2008

# Financial Results

Turnover **+ 22.3%** R 47,7bn

Trading Profit **+ 43.7 %** R 2,3bn

Trading Margin **From 4.1% to** 4.8%

Diluted Headline EPS **+ 54.1%** 298.6c

Dividend per share **Cover = 2x** 155.0c

# Key Information

- **Turnover**

- Total	+ 22.3%
- RSA Supermarkets	+ 21.8%
- Non-RSA Supermarkets	+ 38.1%
- Furniture	+ 5.6%
- Franchise	+ 17.7%

- **Trading profit**

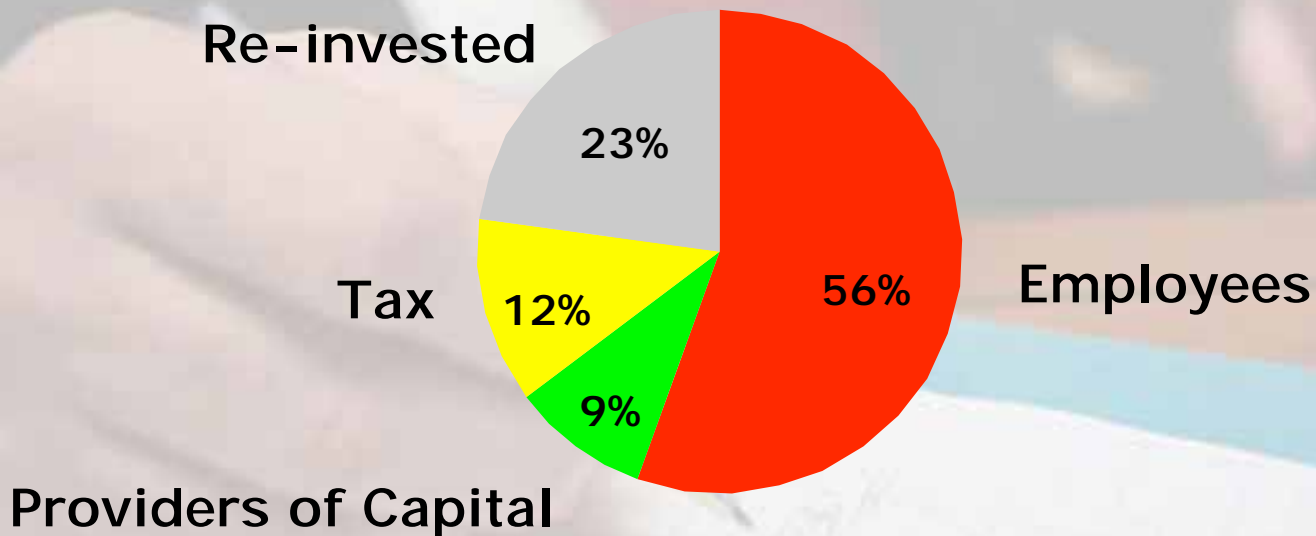
- Total	+ 43.7%
- RSA Supermarkets	+ 47.1%
- Non-RSA Supermarkets	> 100.0%
- Furniture	- 24.2%
- Franchise	+ 71.6%

## Key Information

- Diluted Headline EPS + 54.1% to 298.6c
- Dividends per share + 53.5% to 155.0c
- NAV per share + 30.8% to 938.0c

## Value Added Statement (R'm)

• Employees	3 913
• Providers of Capital	643
• Tax	876
• Re-invested	1 614



# Sales Growth Analysis

	Existing stores	Net New stores	Total
RSA Supermarkets	17.9%	3.9%	21.8%
Non-RSA Supermarkets	30.5%	7.6%	38.1%
Furniture	(1.1%)	6.7%	5.6%
Franchise	21.0%	(3.3%)	17.7%

## Store Portfolios

	July 2007	Opened	Closed	June 2008
Supermarkets	604	42	(10)	636
Hungry Lion	97	18	(3)	112
Furniture	216	22	(2)	236
<b>Owned Stores</b>	<b>917</b>	<b>82</b>	<b>(15)</b>	<b>984</b>
Franchise	264	29	(37)	256
<b>Total Stores</b>	<b>1,181</b>	<b>111</b>	<b>(52)</b>	<b>1,240</b>
Pharmacies	44	10	(1)	53
Liquor stores	18	14	-	32
Countries	17	-	-	17

# Highlights of Results

## Gross margin decreased

- Cut margins on basic foods
- Alleviate impact of high food inflation on consumers
- Resulting in high sales volumes

# Highlights of Results

Other operating income increased 23.1%

	Jun 2007 R'm	Jun 2008 R'm	Growth %
Finance income earned	163	171	4.7
Net premiums earned	186	201	8.0
Operating lease income	175	197	12.5
Commissions received	169	210	24.4
Franchise fees received	24	29	20.3
Investment income	8	28	259.7
Sundry income	73	147	100.1
<b>Total</b>	<b>798</b>	<b>983</b>	<b>23.1</b>

## Highlights of Results

- **Depreciation and amortisation increased 15.4%**
  - Increased spend on revamps and new branches
- **Operating lease increased 12.5%**
  - Due to 67 corporate stores opened in financial year
  - Turnover rentals on high sales growth
- **Employee benefits increased 17.9%**
  - Resulting staffing requirements due to increased turnover
  - Productivity increased
  - New stores
- **Other operating expenses increased 8.4%**
  - Lower than CPIX of 8.7% for the year
  - Good cost control

## Highlights of Results

- **Trading profit increased 43.7% with turnover increasing by 22.3%**
  - Contained overhead costs
  - Cut in gross margins resulted in higher sales growth
  - Higher turnover growth than expense growth
  - Growth in service departments
  - Trading margin highest ever: 4.8%
  - Increased contribution from Non-RSA operations

## Highlights of Results

### Exchange rate gains increased 39.9%

- Jun 2007: R24 million
- Jun 2008: R33 million

### Rand to US Dollar exchange rates (R:\$)

- June 2006 R7.11
- June 2007 R7.10
- June 2008 R7.96

# Highlights of Results

## Capital items

- Mainly relating to fixed assets in the current year and sale of investments in the previous year

## Net interest received

- Higher interest rates and improved cash flows

## Tax

- Normal
- STC
- Deferred

## Total

2007	2008
R'm	R'm
60	7
25	125
597	812
57	55
(31)	9
<b>623</b>	<b>876</b>

# Highlights of Results

## Capital Expenditure

	2007 R'm	2008 R'm
Land and buildings	308	401
Store Refurbishment	463	458
New Stores	239	220
Information Technology	159	213
Other replacements*	95	149
<b>Total</b>	<b>1,264</b>	<b>1,441</b>

\*Distribution Centres, Motor Vehicles, Generators & Office Furniture

# Highlights of Results

## Inventory

Provisioning of new stores  
Avoid "out-of-stock" due to lower supplier service standards  
Forward buying – global food shortages and higher food inflation

## Cash balances vs. Trade Creditors

Increases due to balance sheet closing date

2007	2008	Growth
R'm	R'm	%
3,699	4,707	27.3

# Highlights of Results

## Debtors

	2007 R'm	2008 R'm	Growth %
Furniture (net)	571	608	6.5
Franchise	285	375	31.6
Buy aid organisations	96	114	18.8
Other receivables	570	593	4.0
<b>Total</b>	<b>1,522</b>	<b>1,690</b>	<b>11.0</b>

# Highlights of Results

## Cash flow reconciliation

	R'm
Cash at June 2007	1,988
Cash from operations	2,890
Changes in working capital	397
Net interest received	146
Dividends paid	(588)
Tax paid	(616)
Purchase of assets	(1,436)
Proceeds on disposal of assets	263
Other	92
<b>Cash at June 2008</b>	<b>3,136</b>

# Highlights of Results

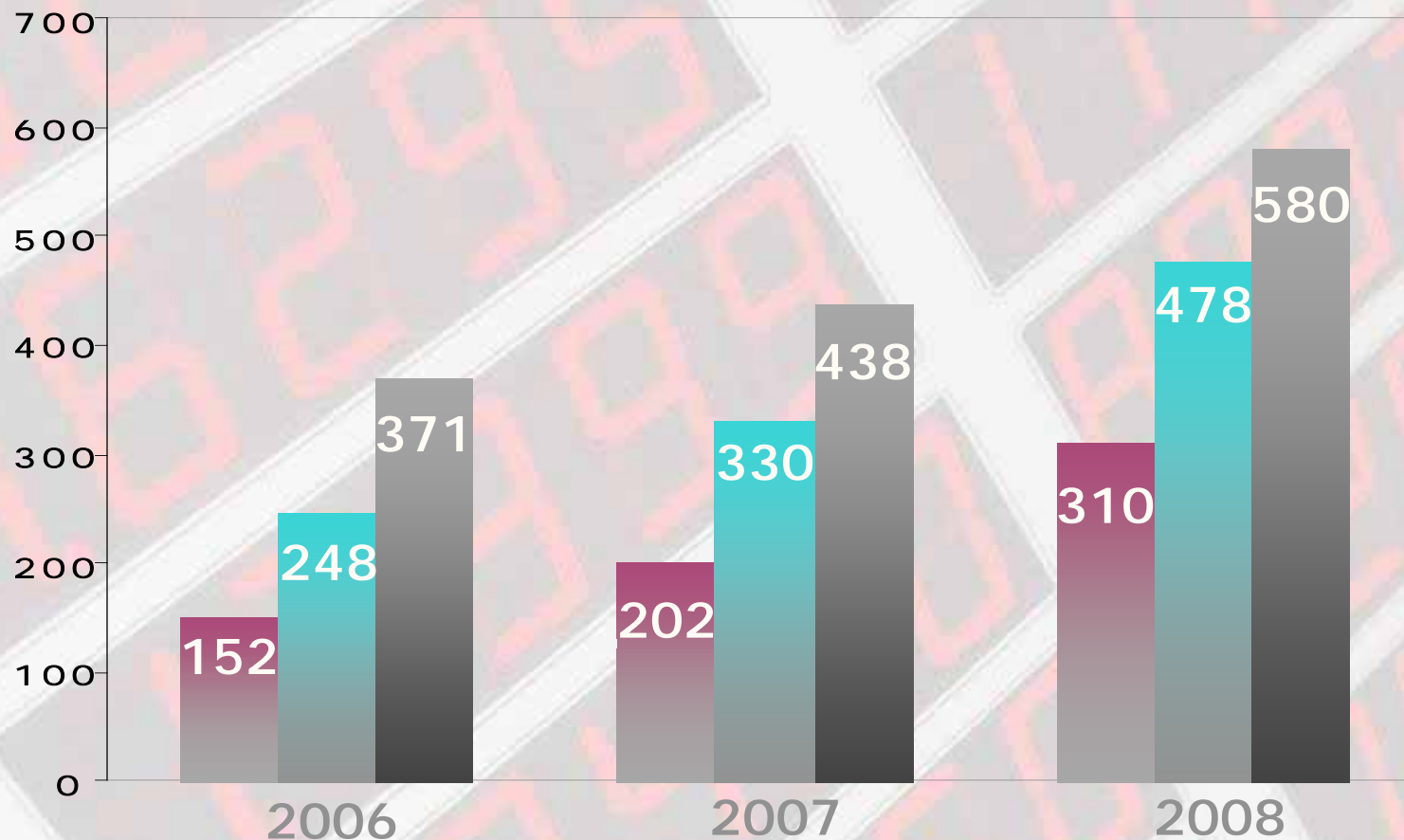
## Cash Earnings\* (R'm)



\*Cash flows from operating activities excluding dividends paid and changes in working capital

# Highlights of Results

HEPS vs Cash EPS\* vs EBITDA per share (cents)



\*Cash flows from operating activities excluding dividends paid and changes in working capital

# Furniture

Aubrey Karp



# Furniture

- **Highlights**

- Sales increase by 5.6% to R2,26bn
- Sales and income growth in OK Furniture outstrips inflation
- 22 new stores opened
- First batch of salespeople learnerships now complete
- Trading profit drops by 24,2% to R155,18 million (2006 – R204,84 million)
  - Significantly affected by sluggish trading and ongoing reductions in the House & Home credit business
  - House & Home profit reductions limited by excellent growth in OK Furniture and OK Power Express

# Furniture

- **Trading environment**

- Slowdown in expenditure and disposable income erosion continues in the middle to higher consumer LSM's
- Mainly precipitated by:
  - Past uncontrolled and excessive credit binges and high levels of consumer credit exposure (78%)
  - High interest rates and massive increases in food, petrol, electricity, medical and other costs
- Price deflation persists in the home entertainment and furniture related departments, with only small increases in the appliance departments

# Furniture

Stores	Opened	Total	Confirmed until June 2009
OK Furniture	14	183	16
OK Power Express	0	14	0
House and Home	8	39	7
<b>Total</b>	<b>22</b>	<b>236</b>	<b>23</b>

Target remains 265 stores by June 2009

# Furniture

- Sales Growth

	2007 (R'bn)	2008 (R'bn)
Increased by 5.6%	2,139	2,258

- OK Furniture and OK Power Express increased by 13.23% (GEB: 8.39%)
- House and Home decreased by 3.20% (GEB: -11.73%)
- Reported Department of Statistics furniture and appliance deflation: 0.90%
- Furniture division – internal deflation: 0.20%

# Furniture

- Sales Mix – Merchandise Sales

	2007	2008
Home entertainment & appliances	64%	65%
Furniture, bedding, patio & carpeting	36%	35%

# Furniture

- Sales Mix – Cash and Credit

	2007	2008
Cash	67.90%	69.75%
Credit	30.10%	30.25%
# of new contracts (4.28% decrease)	249 134	238 482

- OK Furniture credit participation now higher than the previous year
- House and Home still significantly down ( - 6.76%)

# Furniture

- **National Credit Act**

- Continuing negative effect on credit advancement – particularly in the market serviced by House and Home
- Still no specific guidelines on affordability formula standardisation
- Debtors reluctant to provide detail of monthly expenditure and sometimes no clear lines as to “who pays what” (Credit application changed to include customer and spouse financial details)
- More stable debt administration process, but remains under pressure (long delays) and some abuse already reported
- Joint retailers and banks national debt mediation association now implemented, with qualified debt administrators (supported by Regulator)

# Furniture

- Trading Profit

	2007 (R'000)	2008 (R'000)
Decreased by 24.2%	204 839	155 181

- Affected by:
  - Reduced sales and credit in the House & Home – affects all other incomes, (finance, insurance, carpet fitting and contract initiation incomes)
  - No product inflation and in some cases ongoing deflation
  - Market competitiveness – affects margins

# Furniture

Debtors Book	2007	2008	% Variance
Actual Arrears	4.12%	5.80%	43.42%
Balance of Contract Arrears	18.82%	24.20%	28.40%
Bad Debt and UFC Provisions	18.72%	11.69%	-37.64%

House & Home book balance decrease (-34.14%)

NCA debt administration process and time lag

UFC will eventually reduce to zero

# Furniture

- **Prospects**

Expect slower trading environment and growth to continue – at least until the end of 2009

- As a consequence of:

- Remaining negative effects of new Credit Act
- The ongoing erosion of consumer disposable income

- Caused primarily by:

- High debt levels affecting NCA affordability
- Previous interest rate increases
- Ongoing food, medical, energy and fuel cost increases

# Furniture

- **Prospects**
- Some level of product inflation expected
- Due to increased raw material, transport and labour costs caused by:
  - Petrol price increases
  - Weaker Rand exchange rates
  - Weaker currencies in most export countries

# Furniture

- **Growth**
- Future focused on organic growth, sales and customers:
  - Continuation of planned store footprint expansion
  - Continued range enhancements and product innovation
  - Increased imported product participation (margin advantage)
  - Continued achievement of volume growths through discounted pricing (other traditional furniture retailers starting to follow)

# Furniture

- **Growth**
- Future focused on organic growth, sales and customers:
  - Continual customer service focus and improvement
  - Enhanced staff training and development programmes to provide better product knowledge and customer service (SETA approved salespeople, store management and other learnerships)
  - Maintain focus on costs – squeeze additional reductions through operating efficiencies

# Operating Highlights

**Whitey Basson** *Chief Executive Officer*

## Performance History

- The average cumulative growth for the 22 years since listing in 1986:
  - Sales 30.9%
  - Trading profit 33.6%
  - R100 invested in Shoprite Shares in 1986 would be worth R30 000 today – growth of 30% per annum
  - Market Cap of R24bn

# Market Capitalisation of Retailers at the end of August 2008



## Operational Review

- Sales growth of 22.3%
  - Selling enough sausage that will span the coastline of Africa
  - 10 000 ha of potatoes
  - And apples that would stretch from Cape Town to Paris and back
  - Sugar enough to give each one on earth a double chocolate chip cookie
  - Processing 6 million orders per year
- Number of customers increased by 10.3%
- We now serve more than 55m customers p/month

# Operational Review

- Lower Supplier Service levels – some were 20% lower than that of the DC – required a larger investment in stock
- Direct-to-store service levels have hit an all time low of 67% following capacity constraints and the profits of high inflation
- Interesting to note Group uses 15m liters of fuel p.a
- Every 10c fuel price increase costs group R1.5m
- RSA Market Share of 29.3% up 1.84% for the month of June
- Trading profit growth of 43.7%
- Trading margin of 4.8% as a result of a deliberate reduction in gross profit which improved sales volume

# % Food Inflation vs % Sales Growth



Source: Statistics South Africa, Shoprite Internal Results June 2008

## Operational review

- Enjoy the strongest consumer loyalty as 63% (2% more than 12 months before) of adult population does their bulk shopping at any of our RSA Supermarkets (Nielsen: Shopper Trends Plus, June 2008)
- 16.6m unique adult shoppers per month – the largest of all retailers (AMPS 2007 AB)

**Enjoy more customer support  
than any other retailer**



Source: All Media and Products Survey (AMPS), 2007



# Non-RSA



## Non-RSA Overview

	2007	2008
Turnover growth	29.4%	38.1%
Non-RSA sales participation	10.8%	12.1%
Number of stores	95	100
Profit growth	> 50%	> 100%

6 premises purchased for own development in the next year

## Non-RSA Overview

- The good results of Non-RSA was influenced by:
  - The boom in commodity prices raising GDP growths
  - Strengthening of currencies against the US Dollar while the Rand weakened
  - High inflation on average over 10%
- Export volumes up 24% in real terms but the supply chain worsened
- Average lead times increased from 30 to 55 days (some countries on 85 days) with port delays of up to 6 weeks
- Still have unresolved differences on tax rebates for exports

# Non-RSA Overview

- India, Tanzania and Madagascar not profitable
- **India:**
  - Progress on FDI and MRP rules have been slower than anticipated and as a result:
    - Local and international retailers have slowed their India expansion
    - Evaluating our investment at present
- **Tanzania:**
  - After some changes during the 2<sup>nd</sup> part of the year Tanzania trading results improved substantially
  - Looks set for a good 2009
- **Madagascar:**
  - Current small format stores will be complemented with a new big store that will bring the required product differentiation