

SHOPRITE



RESULTS PRESENTATION

FOR THE 52 WEEKS ENDED 30 JUNE 2019

SHOPRITE 
HOLDINGS LTD



2 934
OUTLETS

ACROSS
15 COUNTRIES



1.12bn
CUSTOMERS
SERVED

AFRICA'S
LARGEST
RETAILER



147 268
EMPLOYEES

NO. 1 PRIVATE
EMPLOYER IN RSA



7.6bn
PRODUCTS
SOLD



WELCOME

-
1. FINANCIAL RESULTS
 2. OPERATIONAL OVERVIEW
 3. STRATEGIC UPDATE
 4. QUESTIONS



FINANCIAL RESULTS

ANTON
DE BRUYN





FINANCIAL RESULTS

-
1. KEY MEASURES
 2. ITEMS IMPACTING COMPARABLE PERFORMANCE
 3. FINANCIAL RESULTS
 4. ESTIMATED IFRS 16 IMPACT





KEY MEASURES

+7.4%

H2 SALES GROWTH
SUPERMARKETS RSA

23.5%

GROSS PROFIT MARGIN

5.3%

TRADING MARGIN:
SUPERMARKETS RSA

R265m

TRADING LOSS:
SUPERMARKETS NON-RSA

R5.3bn

CAPEX SPEND

+16.3%

INVENTORY



PERFORMANCE IMPACT

	DEC 2018	JUN 2019
Centurion DC disruption profitability impact	>R250m	>R250m
Movement in Supermarkets Non-RSA trading profit	R614.5m	R914.9m
RMA to MAC	R95.2m	R95.2m



IMPACT ON RESULTS - IFRS 9

REQUIREMENT

- Financial instruments
- Classification, measurement and derecognition of financial assets and liabilities
- Introduces new rules for:
 - Hedge accounting
 - Impairment model for financial assets

FINANCIAL IMPACT

- Change in accounting policies
- Comparatives not restated
- Opening retained earnings adjustment on 2 July 2018

Statement of financial position
Retained earnings

-R381m

SEGMENTS AFFECTED

- Supermarkets RSA
- Supermarkets Non-RSA
- Furniture



IMPACT ON RESULTS - IFRS 15

REQUIREMENT

- Revenue from contracts with customers
- Classification, measurement and disclosure of revenue
- Recognise revenue over time or at a point in time as or when:
 - Performance obligations satisfied
 - Control transfers

FINANCIAL IMPACT

- Change in accounting policies
- Restated comparatives for 2018
- Opening retained earnings 2 July 2017: **-R10m**

2018 COMPARATIVES:

Gross profit	- R37m
Other operating income	R147m
Other operating expenses	- R97m
Trading profit	<u>R13m</u>

SEGMENTS AFFECTED

- Supermarkets RSA
- Supermarkets Non-RSA
- Other operating segments



IMPACT ON RESULTS - HYPERINFLATION

REQUIREMENT

- Angola's economy was assessed to remain hyperinflationary
- Adjust index from acquisition to reporting date

FINANCIAL IMPACT

- Statement of financial position
- Statement of comprehensive income
- ROIC dilutive in the future
- Cash flow

SEGMENTS AFFECTED

- Not allocated to a segment, but treated as a reconciling item to the consolidated results

STATEMENT OF FINANCIAL POSITION

Primary adjustments:

PPE	+ R2.2bn
Reserves	+ R1.9bn

STATEMENT OF COMPREHENSIVE INCOME

Primary adjustments:

Gross profit	- R47m
Depreciation	+ R88m
Net monetary gain	+ R920m



FINANCIAL RESULTS

+3.6%

SALES GROWTH

R150.4bn

23.5%

GROSS PROFIT
MARGIN

R35.3bn

4.6%

TRADING PROFIT
MARGIN

R6.9bn



FINANCIAL RESULTS

-17.9%
BASIC EPS

768.2c

-19.6%
DILUTED HEPS

779.9c

-34.1%
DIVIDEND PER SHARE

319.0c



SALES GROWTH PER SEGMENT



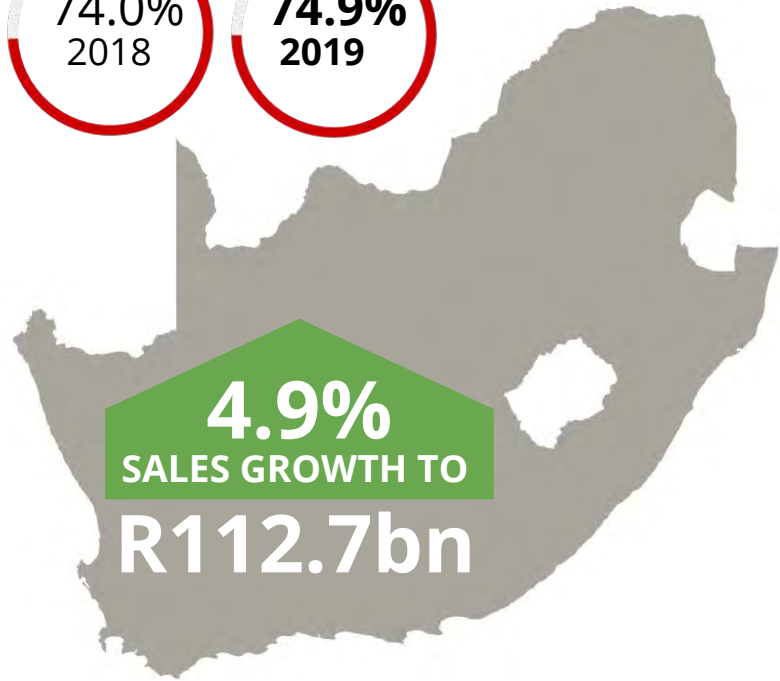
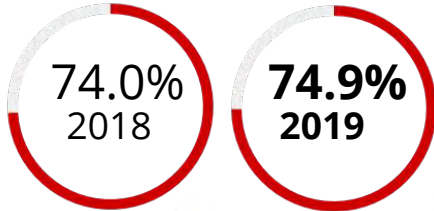
	Existing stores	Net new stores	Total
Supermarkets RSA	1.9%	3.0%	4.9%
Supermarkets Non-RSA	-11.9%	4.2%	-7.7%
Furniture	5.3%	-1.3%	4.0%
Other operating segments	6.2%	3.8%	10.0%
Total operating segments	0.1%	3.1%	3.2%
Consolidated			3.6%



SUPERMARKETS RSA



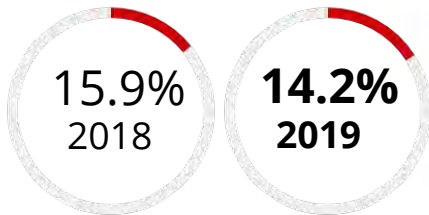
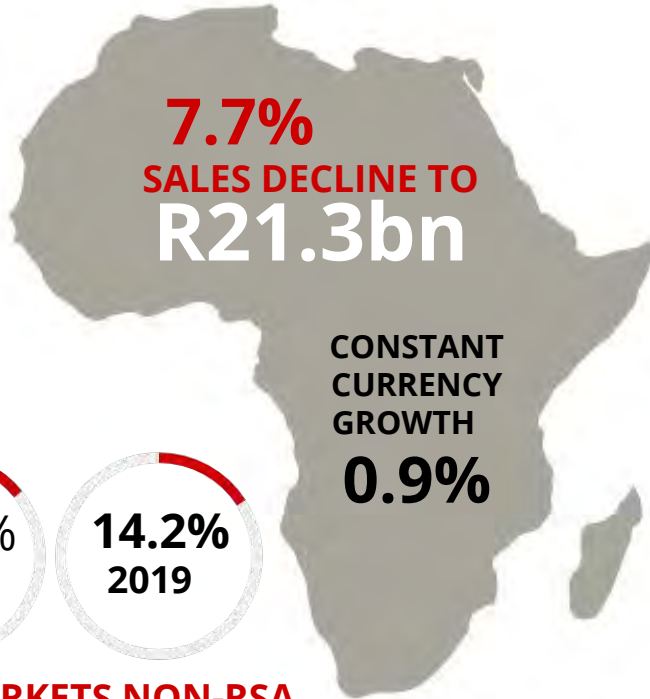
SUPERMARKETS RSA CONTRIBUTION TO GROUP SALES



SALES GROWTH	
SHOPRITE & Usave	+3.2%
Checkers & Hyper	+4.6%
Rest of SA business	+25.7%



SUPERMARKETS NON-RSA



**SUPERMARKETS NON-RSA
CONTRIBUTION TO GROUP SALES**

 Zambia

 Angola

 Namibia

 Nigeria

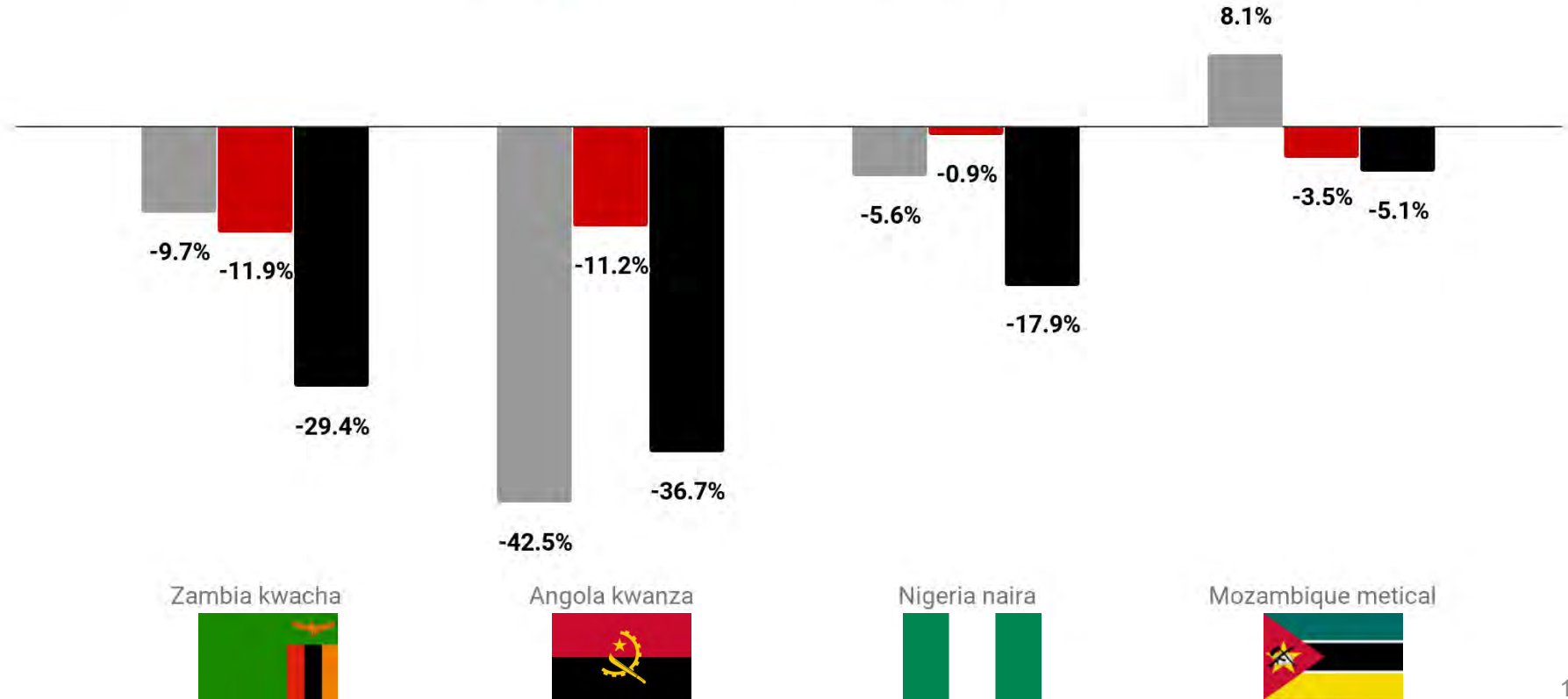
 Mozambique

SALES GROWTH (ZAR)	CONSTANT CURRENCY GROWTH
+0.4%	+10.1%
-38.4%	-12.2%
+3.9%	+3.9%
-0.0%	+5.6%
+7.8%	-1.0%



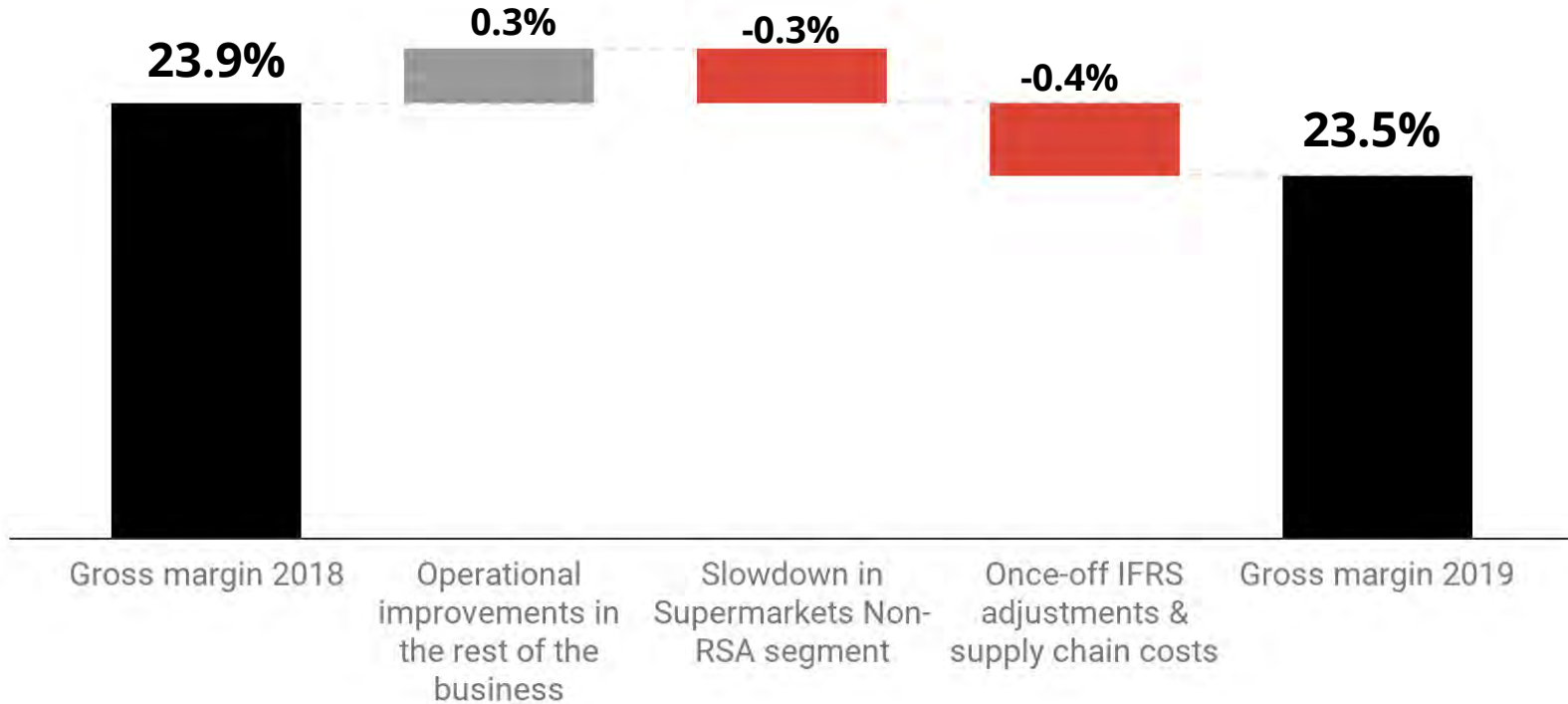
NON-RSA CURRENCY MOVEMENTS

■ AVERAGE 2018 vs 2019 (ZAR) ■ AVERAGE H1 vs H2 (ZAR) ■ CLOSING 2018 vs 2019 (USD)





GROSS PROFIT MARGIN





OTHER OPERATING INCOME

	2018 Rm	2019 Rm	Change
Finance income earned	355	320	-9.9%
Net premiums earned	327	267	-18.3%
Commission received	856	882	3.0%
Operating lease income	455	504	10.8%
Investment income	344	444	29.1%
Franchise fees received	84	96	14.3%
Sundry income	505	705	39.6%
Total	2 926	3 218	10.0%



COST ANALYSIS

DEPRECIATION

+4.3%

R2.6bn

- R88m impact as a result of the hyperinflation adjustment
- SAP ERP replaced legacy systems which were fully depreciated during the first half of the year

OPERATING LEASES

+8.7%

R4.6bn

- RSA like-for-like growth in line with CPI
- Non-RSA USD rentals - impacted by devaluation

EMPLOYEE BENEFITS

+10.6%

R12.0bn

- Implementation of the minimum wage legislation from January 2019
- Annual two year wage agreement
- Increase in employee development spend including YES-program & SETA

OTHER OPERATING EXPENSES

+5.7%

R13.3bn

- Electricity and water increased by 9.3%
- Repairs and maintenance increased by 6.9%



TRADING PROFIT

	2018 Rm	2019 Rm	Change
Supermarkets RSA	6 551	5 952	-9.1%
Supermarkets Non-RSA	650	-265	-140.8%
Furniture	256	152	-40.6%
Other operating segments	251	169	-32.7%
Total operating segments	7 708	6 008	-22.1%
Hyperinflation effect	316	868	174.7%
Consolidated	8 024	6 876	-14.3%



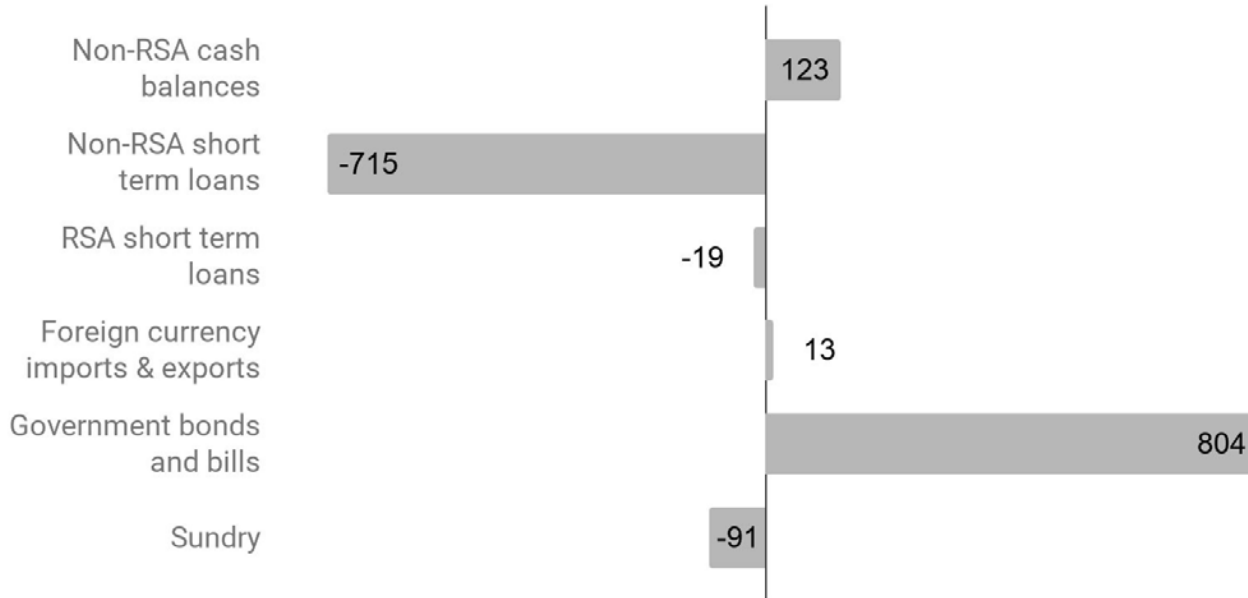
FOREX

2018: R251m loss

2019: R115m gain

LOSS

GAIN



Exchange rate losses/gains (Rm)

- Hedging strategy for Non-RSA was effective
- Investments (Angola): **R3.0bn**

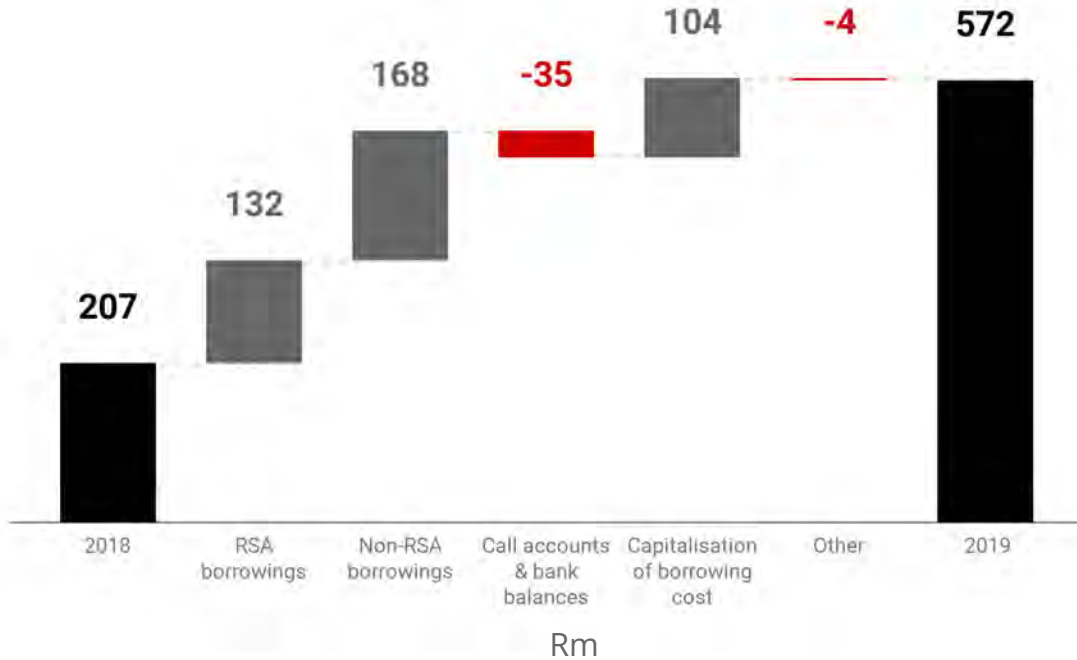


ITEMS OF A CAPITAL NATURE

	2018 Rm	2019 Rm
Impairment of assets	-49	-144
Loss on disposal and scrapping of assets & intangibles	-108	-103
Profit on disposal of assets held for sale	20	101
Insurance claims receivable	-	97
Impairment of intangible assets	-51	-40
Other	-58	9
Total	-246	-80



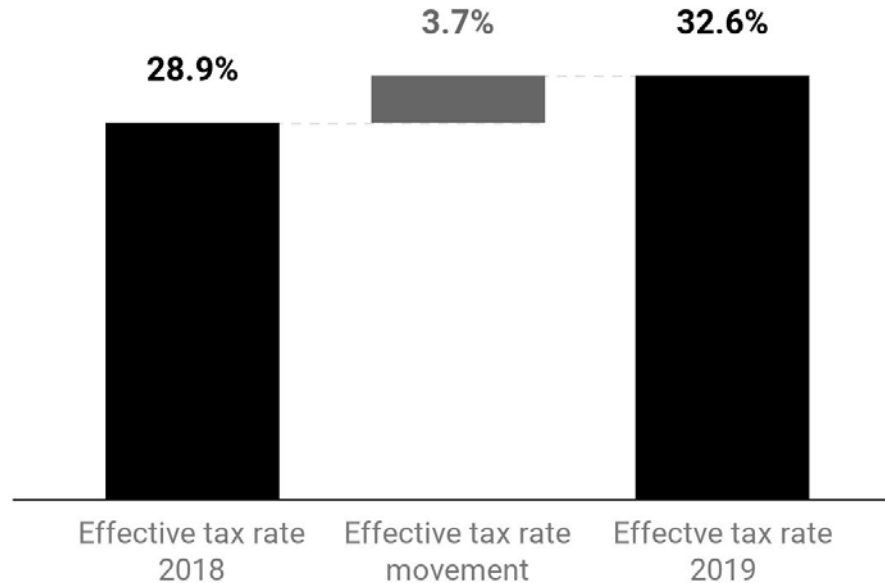
NET FINANCE COST



	2018 Rm	2019 Rm
Interest income	215	273
Interest expense	422	845
Net finance cost	207	572



TAXATION



- Deferred tax asset not recognised
- Impact on Diluted HEPS due to increase in effective rate: **-4.3%**
 - Diluted HEPS 2019: **-19.6%**
 - If effective tax rate remained unchanged at 28.9%, Diluted HEPS: **-15.3%**



FINANCIAL POSITION

FIXED & INTANGIBLE
ASSETS

+1.3%

R24.5bn

INVENTORY

+16.3%

R20.9bn

NET DEBT

+132%

R8.1bn

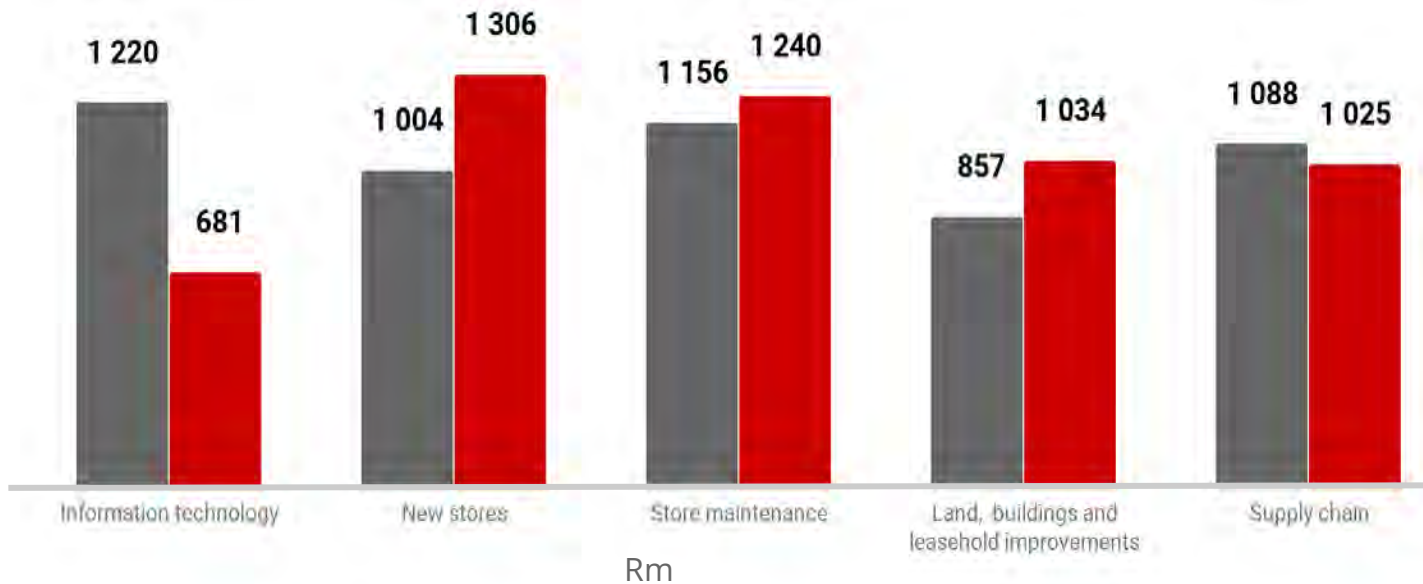


CAPITAL SPEND

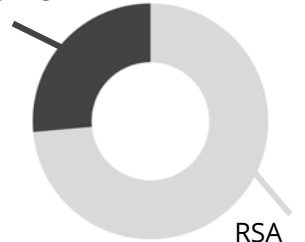
2018:
R5.3bn

2019:
R5.3bn

-0.7%



NON-RSA
R1.4bn



RSA
R3.9bn

TO MAINTAIN OPERATIONS
R1.6bn



TO EXPAND OPERATIONS
R3.7bn



INVENTORY

■ 2018:
R18.0bn

■ 2019:
R20.9bn

+16.3%

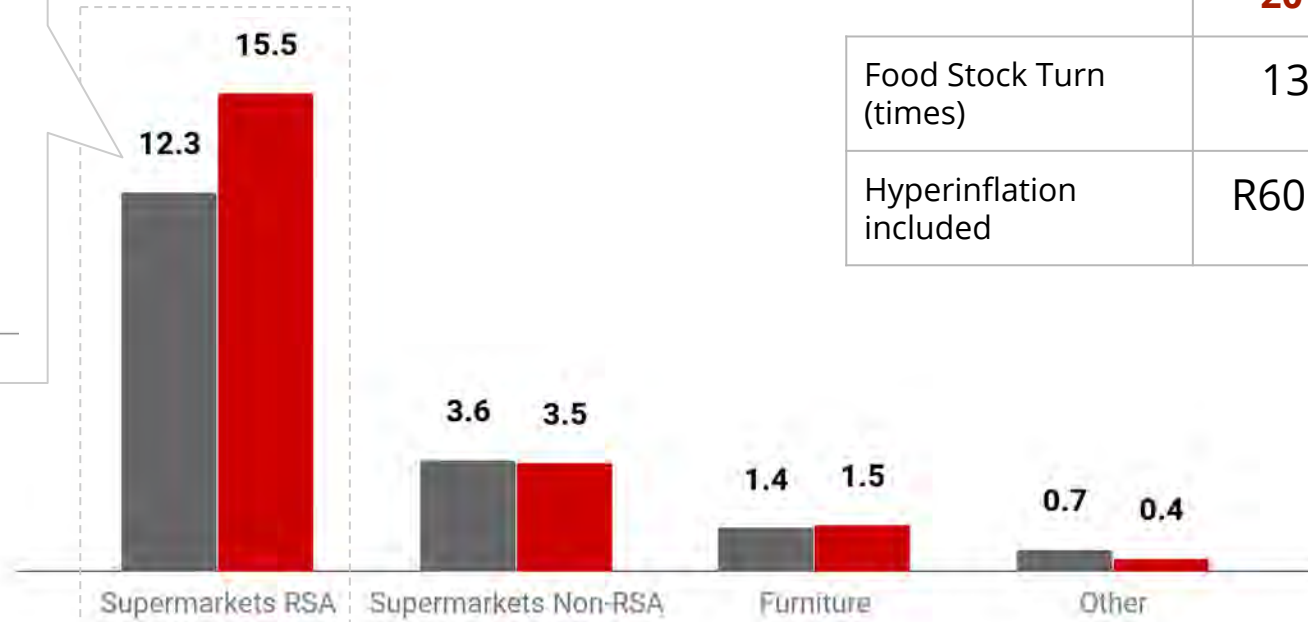
+R3bn

Exports

Cilmor DC

New stores

On shelf
availability



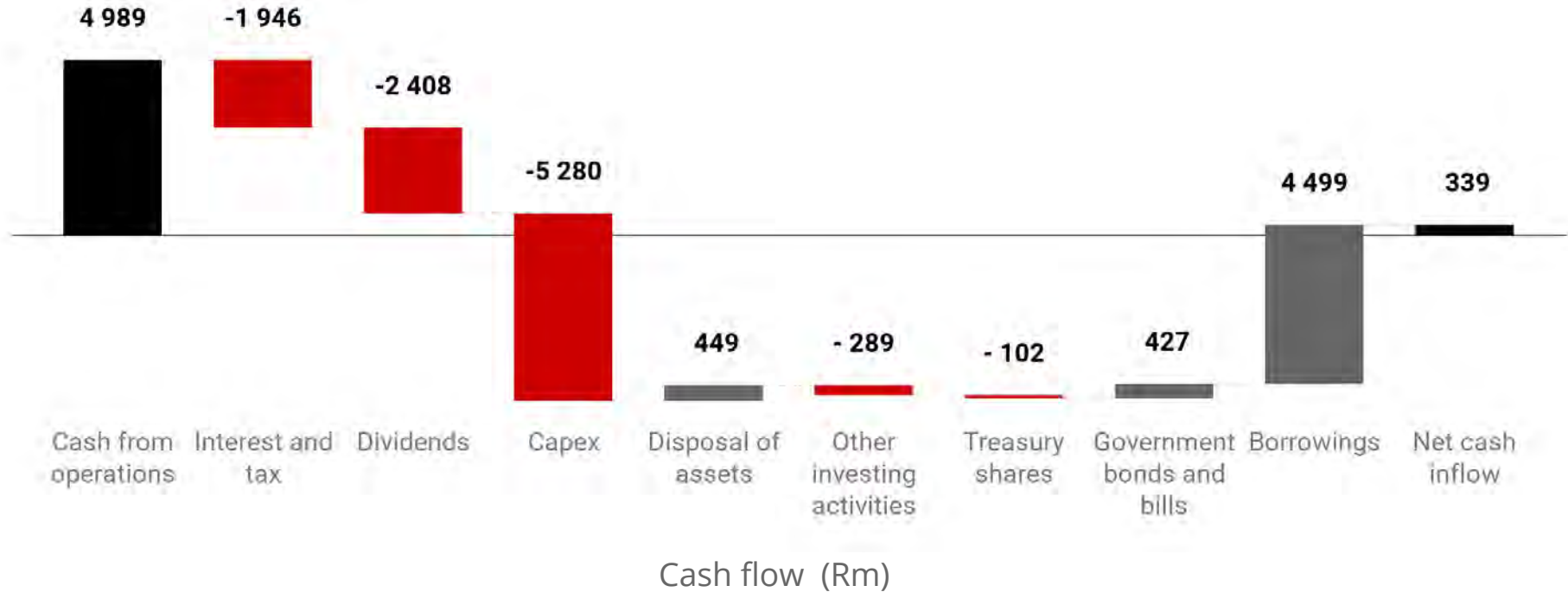
74.2% of Group

Rbn

	2018	2019
Food Stock Turn (times)	13.8	12.9
Hyperinflation included	R60m	R33m



2019 CASH FLOW





TREASURY

	2018 Rm	2019 Rm
Cash and cash equivalents	7 465	7 707
Bank overdrafts	-3 995	-4 124
Net cash position	3 470	3 583
Short term borrowings	-5 606	-2 662
Long term borrowings	-1 371	-9 044
Net Debt	-3 507	-8 123



DEBT ANALYSIS

DENOMINATION	DETAILS		
ZAR	R4.1bn Interest ranges: 8.4% - 8.8% Tenor: 3-5 years		
USD	R7.4bn (\$524.2m) Interest: 2.9% - 4.3% Tenor: 1-3 years		
OTHER DENOMINATIONS	<table border="0"><tr><td>KENYA: R84m Interest: 9.2% Tenor: 3 years</td><td>NAMIBIA: R140m 9.5% Payable on demand</td></tr></table>	KENYA: R84m Interest: 9.2% Tenor: 3 years	NAMIBIA: R140m 9.5% Payable on demand
KENYA: R84m Interest: 9.2% Tenor: 3 years	NAMIBIA: R140m 9.5% Payable on demand		



IFRS 16 - ACCOUNTING FOR LEASES



REQUIREMENT

- Distinction between operating and finance leases removed
- Recognise an asset representing the right of use of leased item
- Recognise a financial liability to pay rentals
- Effective from 1 July 2019



FINANCIAL IMPACT

- 2019 comparatives will be restated
- Recognise a right of use asset
- Reclassification of prepaid leases from trade and other receivables to right of use asset
- Recognise a lease liability
- Derecognise fixed escalation operating lease accruals and onerous lease provisions
- Recognise deferred income tax asset
- Operating lease rental expense replaced with depreciation of right of use asset and interest on the lease liability
- Forex impact of dollar denominated liability



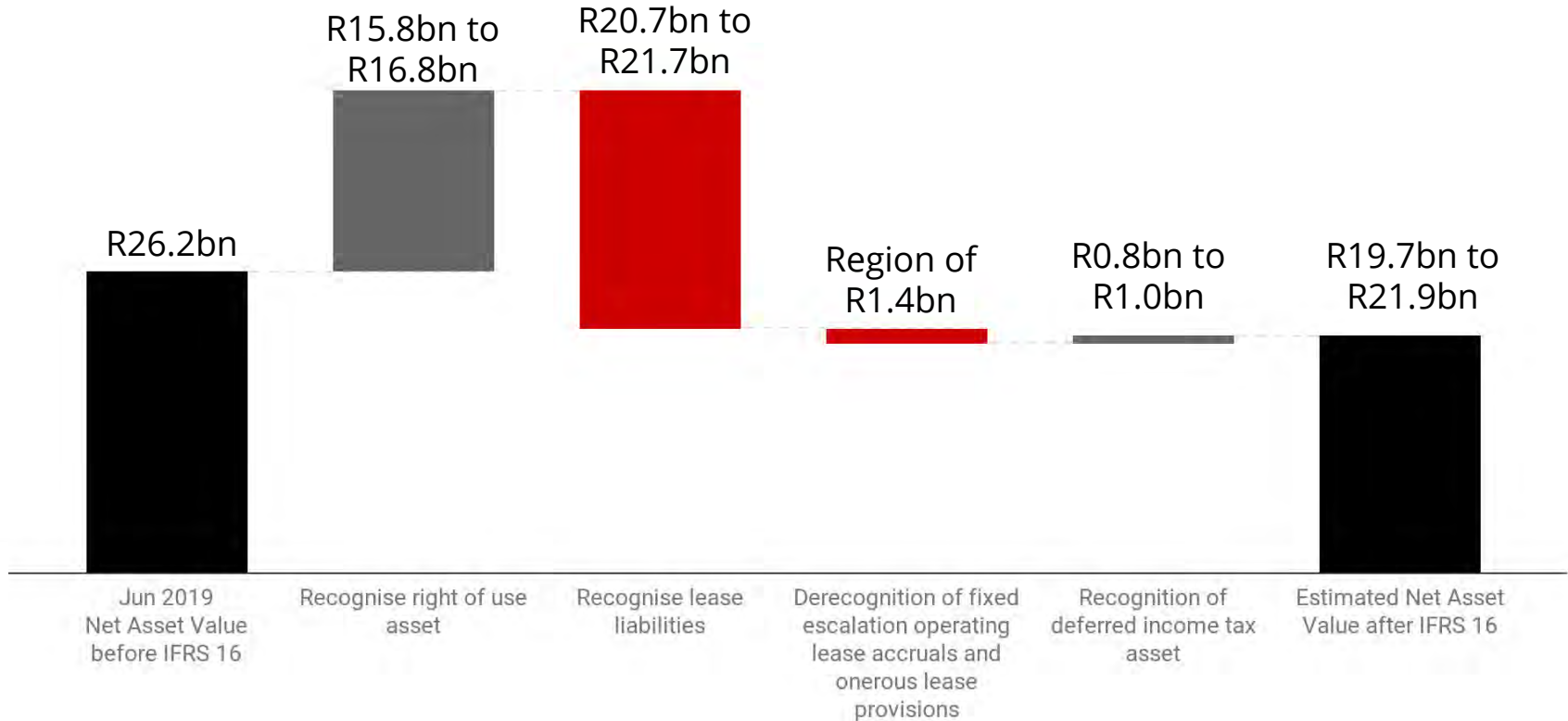
SEGMENTS AFFECTED

- All segments will be affected



IFRS 16 - ACCOUNTING FOR LEASES

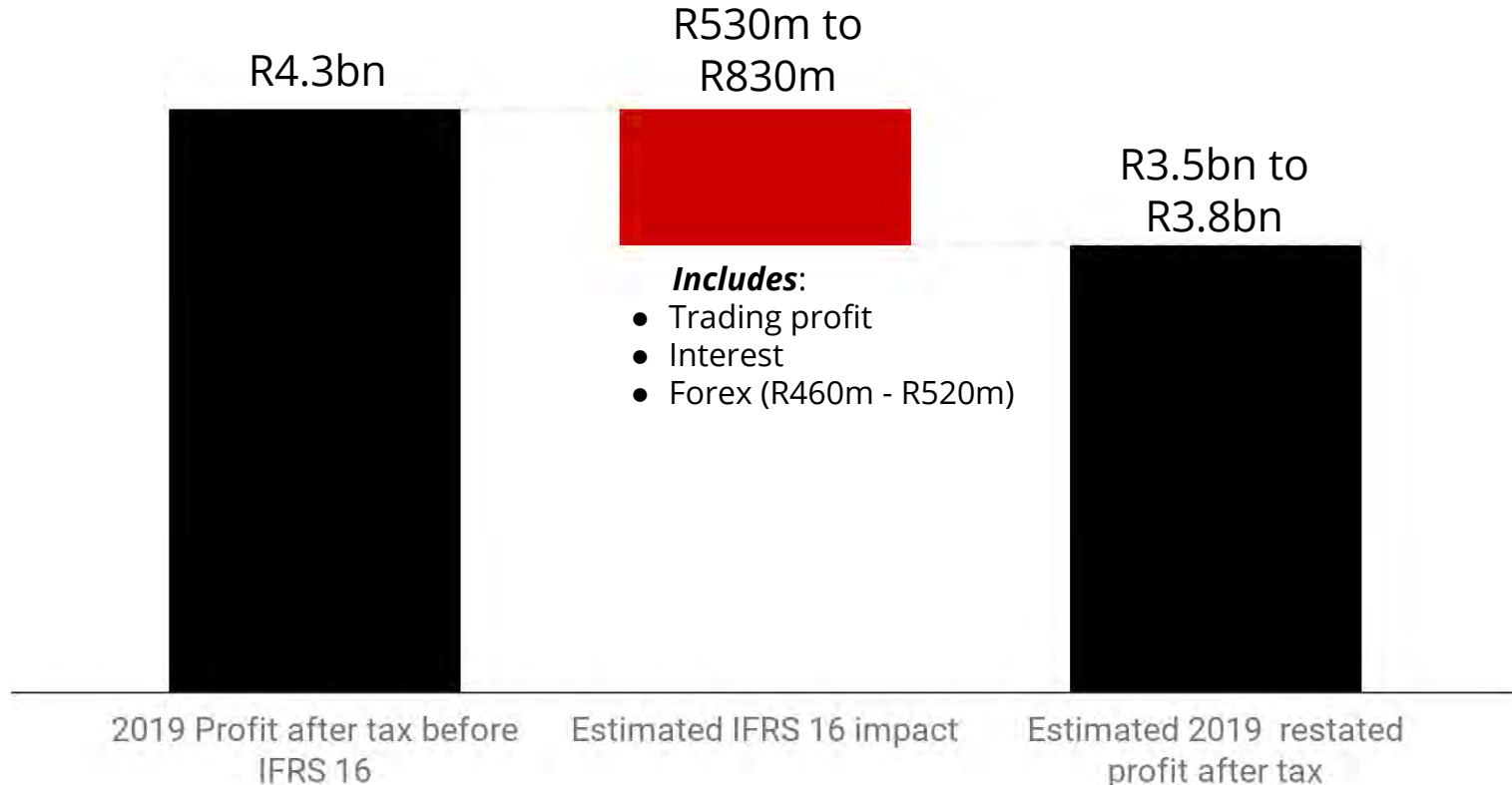
ESTIMATED IMPACT ON STATEMENT OF FINANCIAL POSITION





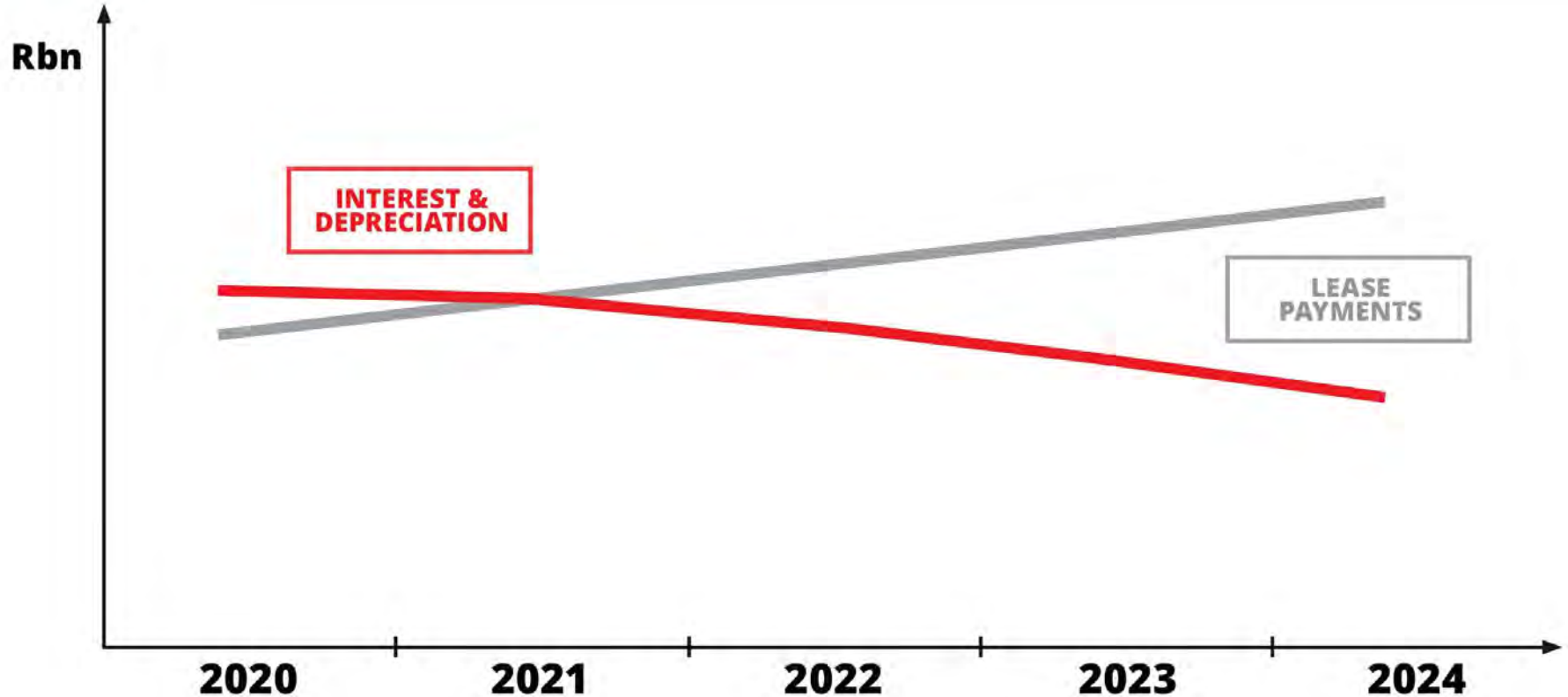
IFRS 16 - ACCOUNTING FOR LEASES

ESTIMATED IMPACT ON STATEMENT OF COMPREHENSIVE INCOME





IFRS 16 - NET IMPACT



OPERATIONAL OVERVIEW

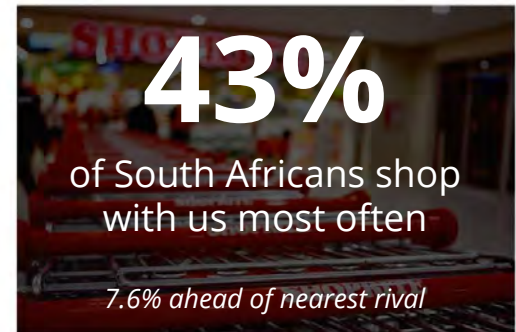
**PIETER
ENGELBRECHT**





A TRANSFORMATIONAL YEAR

- **ERP-replatforming necessary to improve global competitiveness**
 - More than half of the stores went live during this financial year
 - New IT system for inventory, data, ordering and store ops
- **Customer support remains strong despite strike and stock issues**
- **Price leadership uncontested**
- **Created 3175 new jobs**
- **RSA operational performance restored**
- **Non-RSA conditions remain relentless**

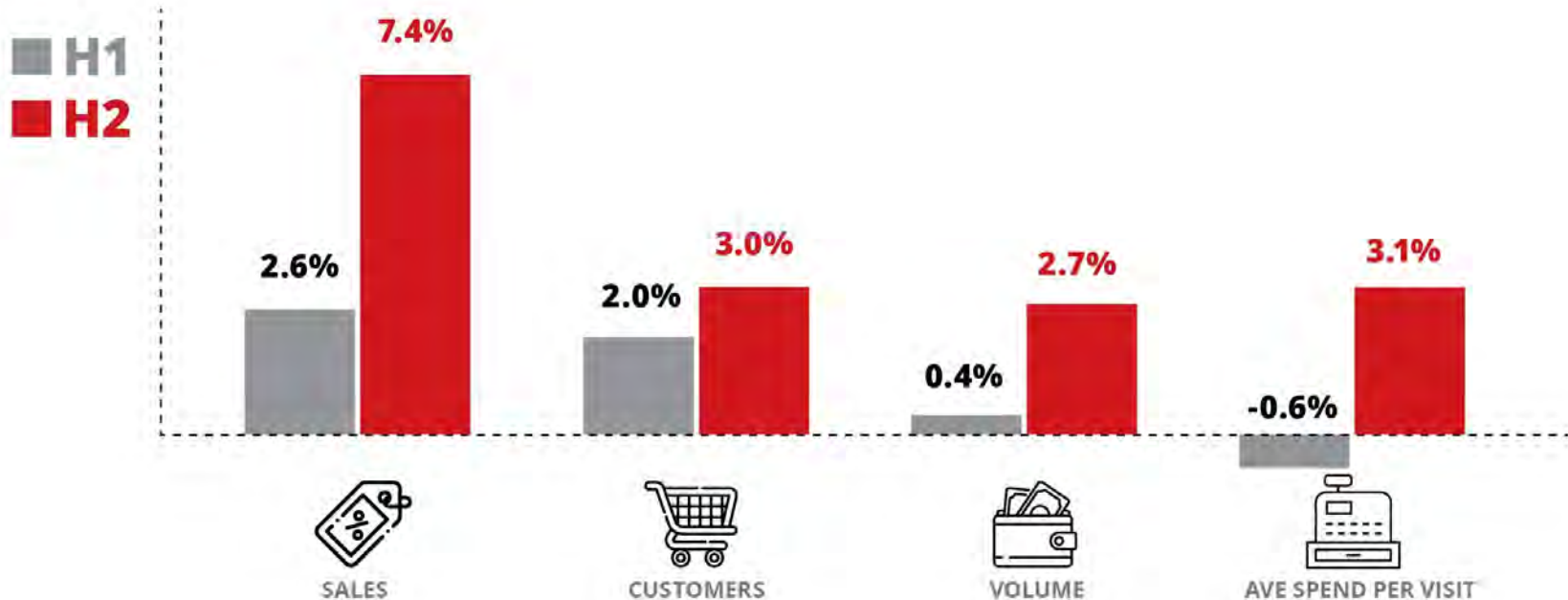


Customer Satisfaction survey July 2019, n=10 116



SUPERMARKETS RSA: A STRONGER H2

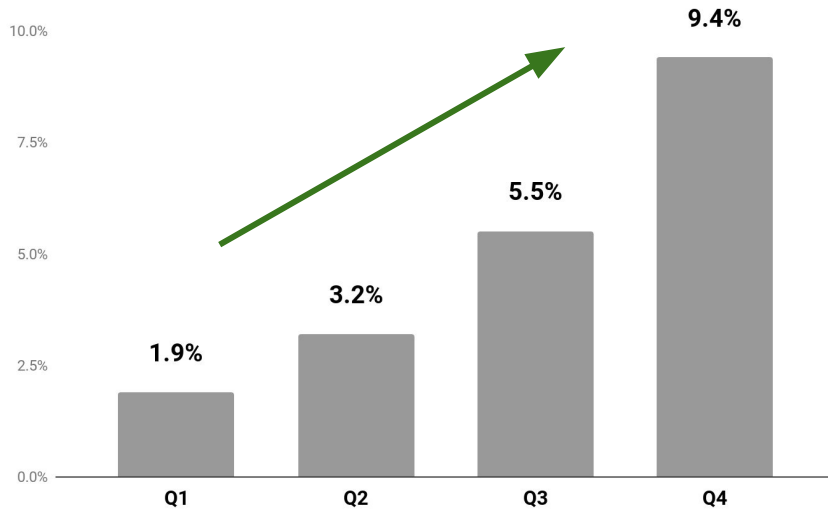
- 4.9% sales growth for the year reflects two contrasting halves
- Back to business in H2 with improved volumes, visits and spend per visit



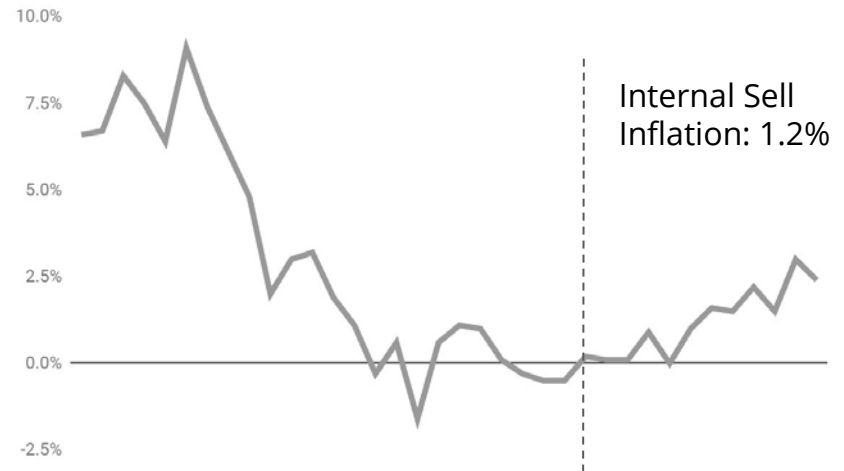


SUPERMARKETS RSA MOMENTUM

- **Increasing sales momentum to 9.4% in Q4**
 - Regained R282m in market share
- **Small uptick in internal inflation, however 9 679 items in deflation in June**



QUARTERLY SALES GROWTH SUPERMARKETS RSA

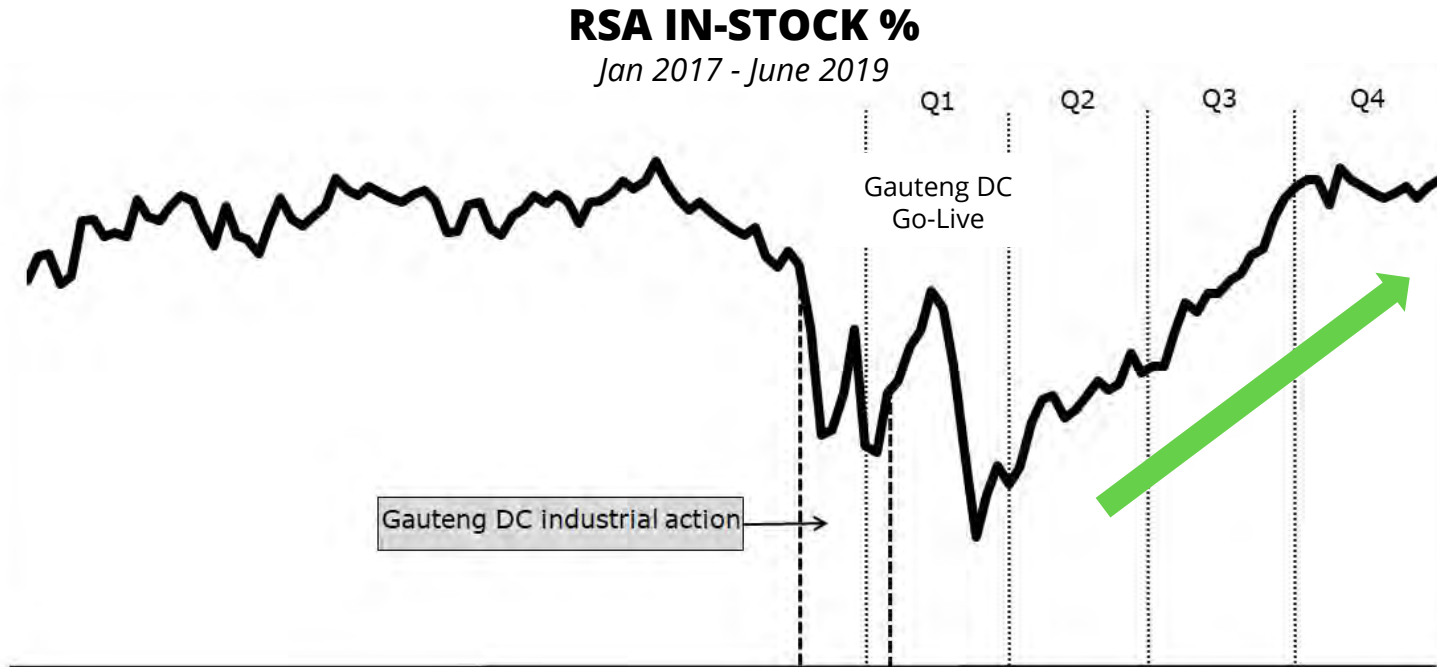


RSA INTERNAL SELL INFLATION (36 MONTHS ENDING JUNE 2019)



BETTER ON-SHELF AVAILABILITY

- 2018 once-offs now behind us
- In-stock level surpasses pre-system implementation

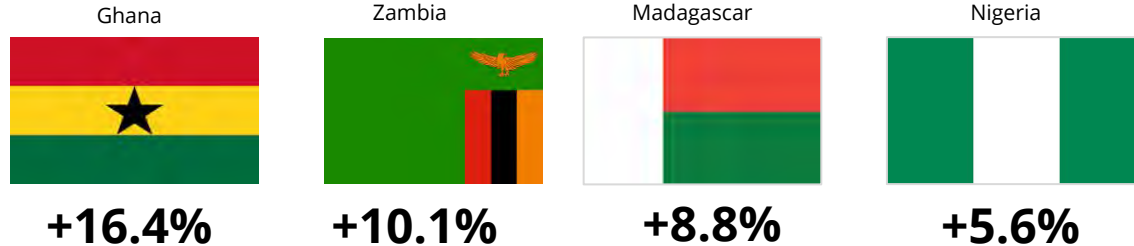




SUPERMARKETS NON-RSA

- Remain Africa's No. 1 retail brand with growing customer base (+1.3%)
- Relentless trading conditions and extreme currency volatility
- Kenya greenfield operation
- Constant currency growth reflects underlying operational strength

Sales Growth in Local Currencies



- Currency devaluations against the dollar impact costs



ANGOLAN OPERATION



- **Angola operationally sound, but hampered by environmental factors**
- **Currency collapse and multi-year recession**
 - National dependency on food importation
 - Gross margin affected by consumer affordability issues
 - Letters of Credit introduced impacted stock funding
 - New customs declarations in March: 250 containers affected (R1bn)
- **Non-RSA actions**
 - Decreased capital spend plan, albeit with a lag effect
 - Closure of some unprofitable Non-RSA outlets





STRONG LIQUOR PERFORMANCE

LiquorShop
SHOPRITE

LiquorShop
CHECKERS

+25.3%
SALES GROWTH



2.2X
SALES GROWTH AHEAD
OF OTHER RETAILERS
NIELSEN (12MM JUNE 2019)



500th
STORE OPENING IN
AUGUST 2019



STRATEGIC FOCUS AREAS



1997

241

STORES

20 000

EMPLOYEES

R9.4bn

SALES

THIS TROLLEY IS
THE PROPERTY OF
SHOPRITE CHECKERS (PTY) LTD

SHOPRITE

THIS TROLLEY IS
THE PROPERTY OF
SHOPRITE CHECKERS

2019

2 779

STORES

147 268

EMPLOYEES

R150.4bn

SALES

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NEXT ERA OF GROWTH

2018

ONE TRUTH >

REPLATFORM

2020

SHIFT FROM
EXPLOSIVE
EXPANSION TO
**PRECISION
RETAILING** >

OPTIMISE

2022

GLOBAL
COMPETITIVENESS >

IGNITE



NINE STRATEGIC FOCUS AREAS

1. A TRULY CUSTOMER-FIRST CULTURE

4. TRUSTED, PROFITABLE PRIVATE LABELS

7. PRESERVE OUR AFRICAN ADVANTAGE

2. DEVELOP FUTURE-FIT CHANNELS

5. GROW SHARE IN PREMIUM FOOD & FRESH

8. REFOCUS CAPITAL ALLOCATION

3. ENABLE PRECISION RETAILING

6. A STRONGER FRANCHISE OFFER

9. UNLOCK ALTERNATIVE REVENUE

▼
A SMARTER SHOPRITE

▼
CLOSING THE GAP IN KEY SEGMENTS

▼
WINNING IN THE LONG TERM



1. A TRULY CUSTOMER-FIRST CULTURE

- **Digital Customer Transformation on top of ERP system**
 - Deepen customer knowledge and personalised experiences
- **Low Price leadership remains our North Star**

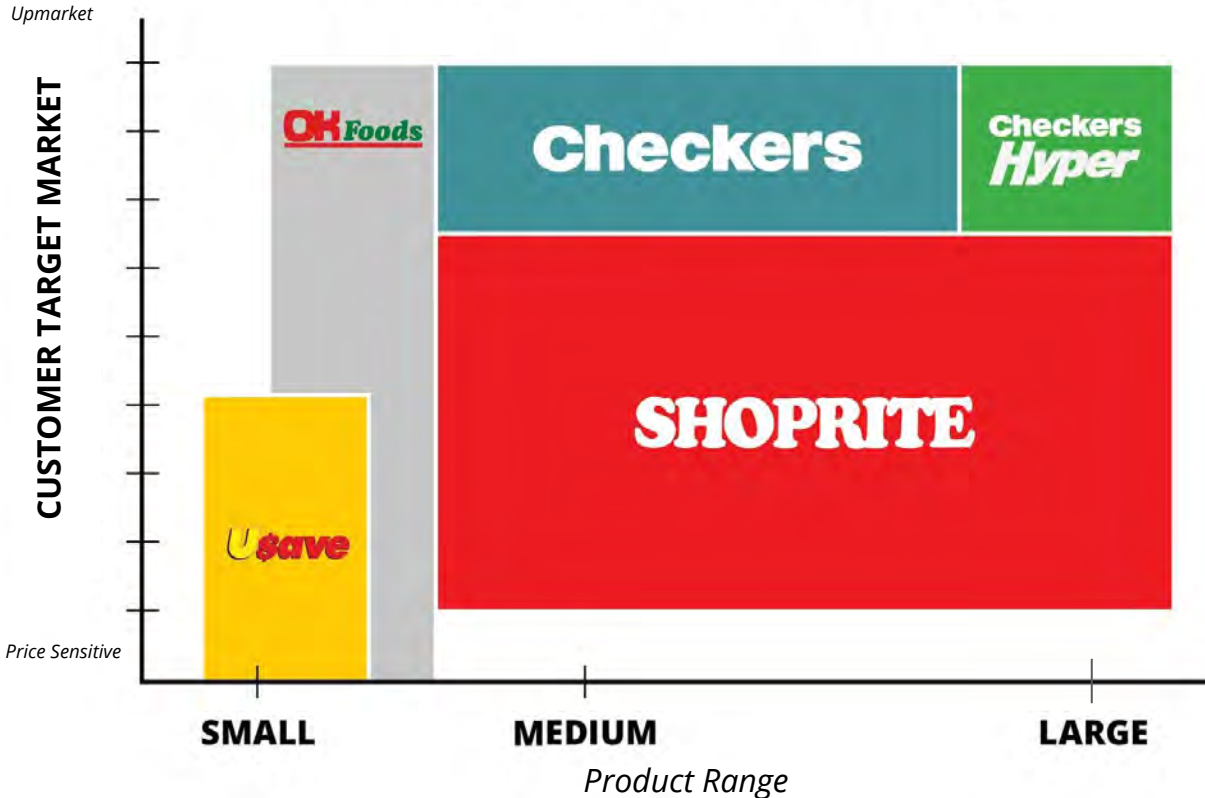


Customer Satisfaction Survey
n =10,116 (July 2019)



1. A TRULY CUSTOMER-FIRST CULTURE

OUR SUPERMARKET BRANDS



SHOPRITE
AFRICA'S LOW PRICE LEADER
Lowest prices on the trusted brands without compromise on customer service and product quality.

CHECKERS
BEST VALUE IN FRESH & PREMIUM
Market leader in value on fresh produce, groceries and premium food.

CHECKERS HYPER
AMPLIFIED VALUE
Checkers with wider ranges in bulk groceries, general merchandise and electronics.

USAVE
LIMITED ASSORTMENT DISCOUNTER
Offering a limited assortment of the most popular grocery items at everyday low prices in more accessible locations.

OK FOODS
ONE-STOP CONVENIENCE SHOPPING
Franchise arm of the Group offering monthly groceries and fresh food closer to communities.



2. DEVELOP FUTURE-FIT CHANNELS

Race for Reach

- Accelerating digital presence to match physical footprint
- On-demand liquor home delivery showing great promise with our proximity advantage

386%
ONLINE SALES
VALUE GROWTH

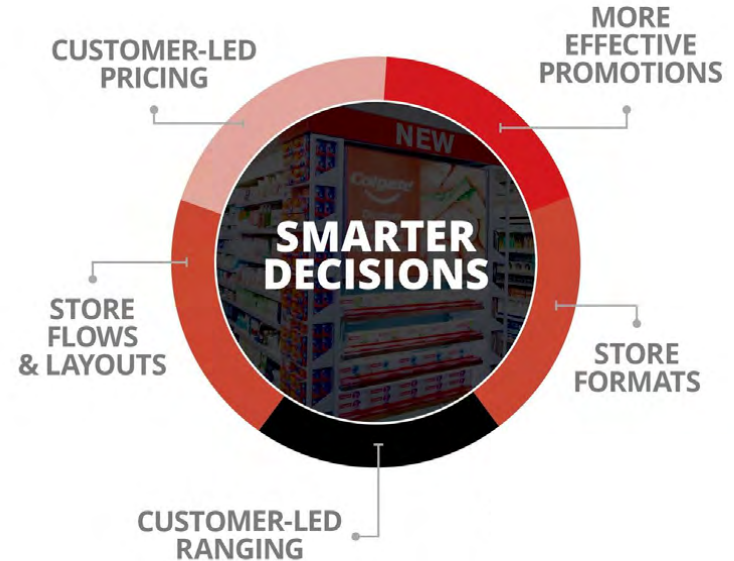
**9X GROWTH
IN ORDERS
H1 VS H2**





3. ENABLE PRECISION RETAILING

- **Sweat existing assets**
 - Investment in analytics
 - Smarter Pricing and Promotions
 - Accelerate stock turn
- **Fit-for-the-future talent**
 - Customer, E-commerce, Supply Chain, Financial services, Sustainability



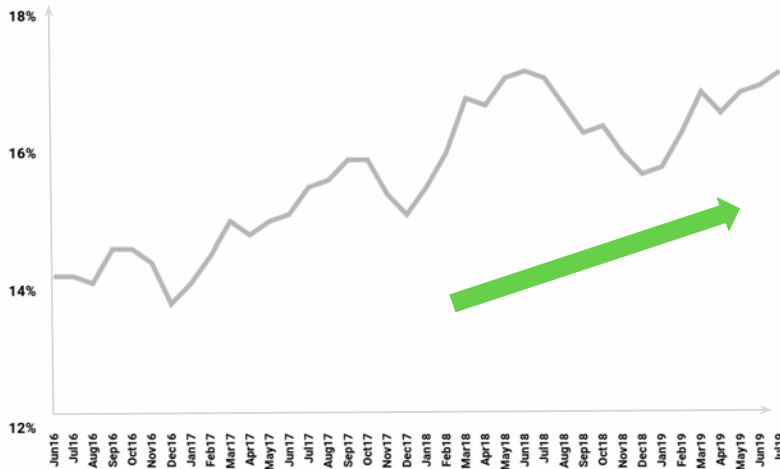


4. TRUSTED, PROFITABLE PRIVATE LABELS

- SA Private Label participation up 30 bps to 16.5%
- 21 Own brands worth > R100m each in annual sales
- Opportunity remains as we still underindex industry average

Private Label Participation

RSA Supermarkets three months moving (2016-2019)



LOW PRICE LEADER



BEST VALUE



DIVERSIFIED PRIVATE LABEL PORTFOLIO



GENERAL MERCHANDISE



PREMIUM & FRESH



5. GROW SHARE IN PREMIUM FOOD & FRESH

- Opportunity for Checkers in premium food retail remains
- Chasing share of wallet of 1.9m LSM 8-10 cross-shoppers
- More equal access to healthier, value-added foods
- Checkers supermarket format sales up 8.9% in second half





5. GROW SHARE IN PREMIUM FOOD & FRESH



21
FRESHX STORES.
ON TRACK TO 80
STORE TARGET



CHECKERS FRESHX
CONSTANTIA & SANDTON
Open by Dec '19



6. A STRONGER FRANCHISE OFFER

- **9.8% like for like growth: market share up by 1/3 in three years**
 - 2% of total measured food retail share in SA
- **Accelerated integration with Group supply chain**
 - Increased Fresh, Non-foods and Private Label
 - Consolidating four DCs
- **OK Express forecourt format increased to 38 stores (+15)**

OK
FRANCHISE DIVISION



11.5%
SALES GROWTH

460
STORES
(NET OPENED +42)

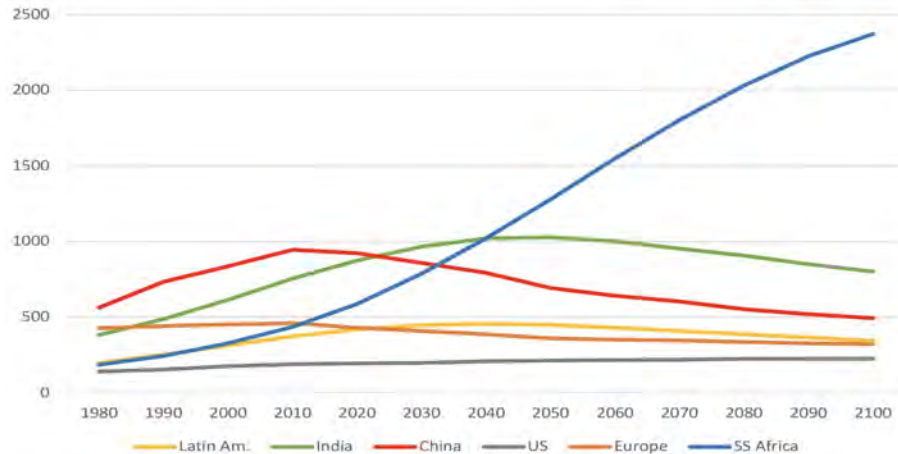
NEARING
1M
MEMBERS





7. PRESERVE AFRICAN ADVANTAGE

- Proud of the Non-RSA team's resilience
- Limit new capex but remain poised for economic upturn
- Committed to the continent but not at all costs
- Replacement value of infrastructure hard to replicate after 25 years
 - 424 stores in 14 countries



African working population to grow to **2.4bn** by 2100

Source: Hoover.org, Africa 2050, Jan 2019





8. REFOCUS CAPITAL ALLOCATION

- **Move toward formats closer to customers' homes**
- **Create flexibility and agility in capital allocation through the sale of non-strategic assets**
 - Rightsize property portfolio, focus on retail
 - DCs at good cap rate with leases to secure useful life
 - Truck fleet
- **Investment shift toward technology**





9. UNLOCK ALTERNATIVE REVENUE

Monetisation of 2 779 stores, 22m customer visits per week & supply chain strength

**RETAIL MEDIA
BUSINESS TO CONNECT
BRANDS TO OUR
CUSTOMERS**



**RE-ENERGISED
FINANCIAL SERVICES
& MOBILE**



**NEW ROUTES TO
MARKET FOR EXPORT
AND DISTRIBUTION**





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A SMARTER SHOPRITE

CLOSING THE GAP IN KEY SEGMENTS

WINNING IN THE LONG TERM

OUTLOOK



OUTLOOK

- Focused on growth opportunities in existing markets
- Return on technology investment and supply chain productivity
- Innovation projects will operationalise in first half
- Internal inflation expected to increase
- Little respite in Non-RSA conditions, but mitigation plans in place
- RSA sales momentum remains strong

THANK YOU

QUESTIONS

SHOPRITE 
HOLDINGS LTD