

INTERIM RESULTS PRESENTATION

For the 26 weeks to
29 December 2019



WELCOME

PRESENTATION OUTLINE

FIRST HALF REVIEW

Pieter Engelbrecht

FINANCIAL RESULTS

Anton de Bruyn

STRATEGY UPDATE

QUESTIONS

Pieter Engelbrecht



FIRST HALF REVIEW

Chief Executive Officer
PIETER ENGELBRECHT





FIRST HALF 2020 HIGHLIGHTS

SALES

R81.2bn

+7.0%

GROSS PROFIT

R19.1bn

+8.7%

TRADING PROFIT

R4.0bn

-3.9%

Excl.
hyperinflation
+7.0%

TOTAL EXPENSES

R16.5bn

+7.7%

EBITDA

R6.8bn

+5.3%

Excl.
hyperinflation
+13.0%

DILUTED HEPS

372.4c

-2.6%

Excl.
hyperinflation
+15.7%



STRONG OPERATIONAL METRICS

**MORE
CUSTOMERS**



+2.1%

GROUP CUSTOMER GROWTH

**HIGHER
VOLUMES**



+4.4%

GROUP VOLUME GROWTH

**PROFITABLE
MARKET SHARE GAINS**



+R2.4bn

RSA MARKET SHARE GAIN

+12.0m

CUSTOMER VISITS

4.0bn

PRODUCTS SOLD

+1.1%

RSA MARKET SHARE GAIN

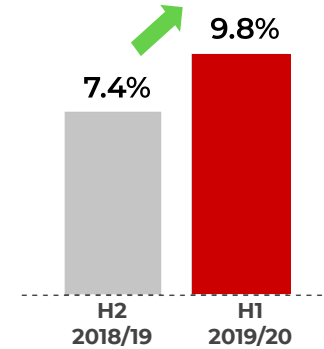


CORE RSA BUSINESS DRIVING GROWTH

- **Accelerated Supermarkets RSA sales growth of 9.8%**

- Like-for-like: 6.6%
- Internal sell inflation remained low at 2.7%
- 1.2% space growth (m²), net +102 stores
- Liquor sales increased 20.5%

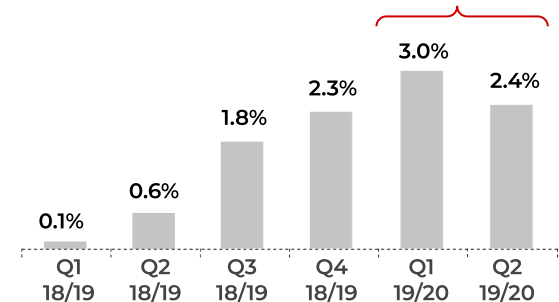
Supermarkets RSA sales growth



- **As growth in the rest of the market slowed**

- Other retailers' sales growth slowed to just 4.5%
(Nielsen: 6mm Dec 2019)
- 11-year low total retail sales growth in December
(StatsSA)

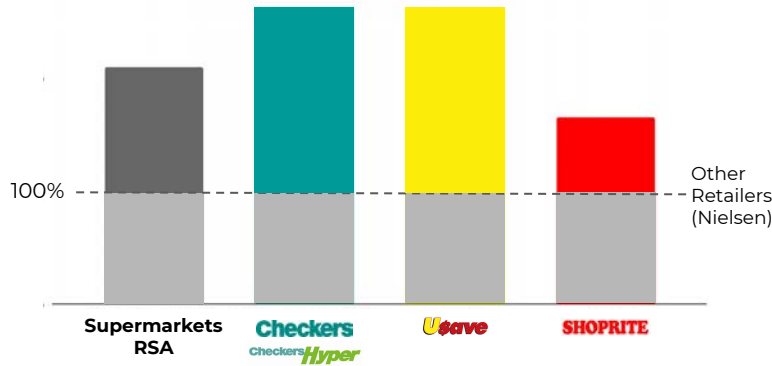
Supermarkets RSA
internal sell inflation 2.7%



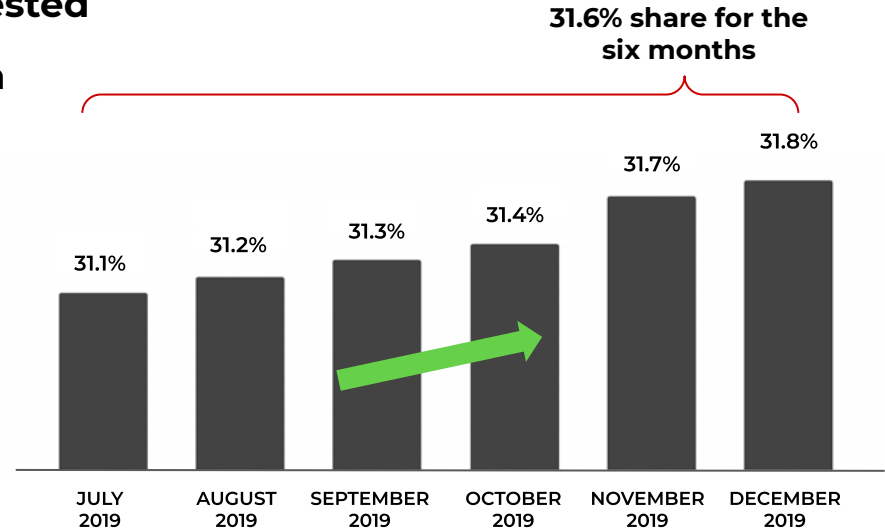


PROGRESSIVE MARKET SHARE GAINS

- All our supermarket brands showed growth ahead of peers
- Shoprite's price leadership remains uncontested
- Checkers delivered industry-leading growth



**Supermarkets RSA brands' indexed sales growth
vs Nielsen Other Retailers (excl. Liquor)
for the six months to Dec 2019**







**Supermarkets RSA 3mm market share
July - December 2019**



SUPERMARKETS NON-RSA PERFORMANCE

- **Supermarkets Non-RSA operational strength evidenced by**
 - 4.8% sales growth in constant currency terms
 - 10 of 14 countries increased sales in constant currency terms
 - 5.4% volume growth
 - Zambia sales up 14.7% in constant currency terms
- **3.1% sales decline in rand terms**
 - Significant currency devaluation in Angola and Zambia
- **Currency instability remains the largest uncontrollable issue**
- **Further import restrictions, limited local supply exists**
- **Challenges are complex and country-specific**
- **0.5% trading margin**

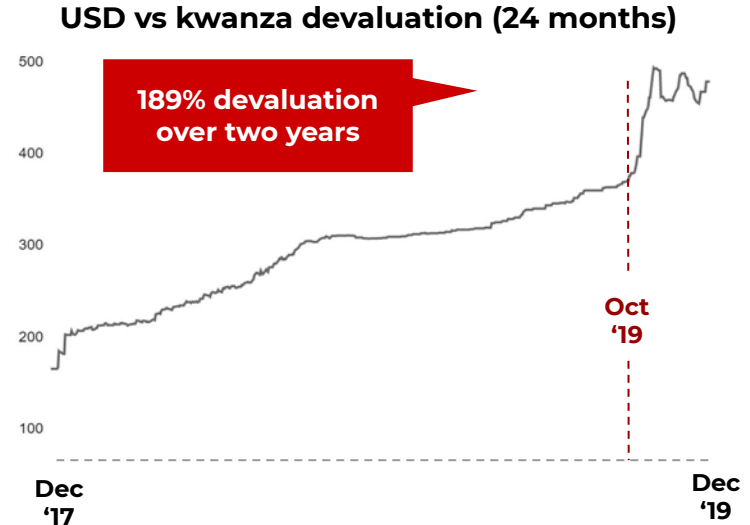
	Constant currency	Sales growth (ZAR)
ANGOLA 	-1.9%	-27.5%
NIGERIA 	-8.1%	-5.9%
NAMIBIA 	+3.7%	+3.7%
ZAMBIA 	+14.7%	-1.5%



ANGOLA PERFORMANCE



- **Affordability for consumers remains challenging**
- **Conditions worsened in Q2**
 - 14% VAT introduced in Oct 2019 hurt consumers
 - Further 29.6% devaluation against USD in Q2 drove sharp increase in price inflation
- **Gross margin percentage maintained**
- **Sufficient liquidity, self-funding operations**
- **Improved stock availability**
- **Repatriated \$34m from Angola**





NIGERIA PERFORMANCE

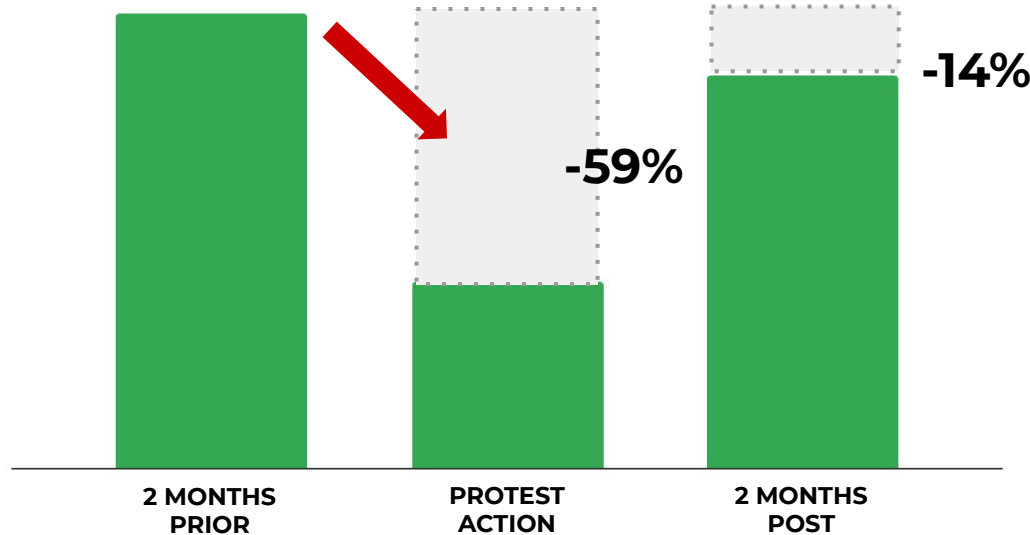


- September protests disrupted footfall in shopping centres

Constant
currency sales

-8.1%

Nigeria supermarkets ave. weekly customer visits





NON-RSA ACTIONS



- Remain committed to the continent, but not at all cost
- Looking at long-term options, but our focus is on immediate actions
- Alternate operating models and structures are under review
- Reviewing options country by country
- Renewed buying interest in our property portfolio could reduce capital invested

Immediate actions taken:

- **Focus on reducing cost of operations**
 - Rent reductions in 17 supermarkets (16 more underway)
 - De-dollarising rent and borrowings
- **Productivity improvements of 2.4% (H1)**
- **Assessing viability of unprofitable stores (closed 4 supermarkets during the period Jan to Dec 2019)**
- **Curbing capital allocation for new stores and developments**
 - Will only have opened 13 supermarkets for the full financial year ending June 2020 (vs 17 planned)
- **Operational actions should improve financial performance**



FURNITURE & OTHER OPERATING SEGMENTS

**House
& Home**

OK
Furniture
OK Power Express

Furniture
sales

R3.3bn

-2.7%

- Closure of 32 unprofitable stores
- Like-for-like sales growth +0.3%

OK
FRANCHISE DIVISION

CFS
Checkers Food Services
QUALITY SUPPLIER TO THE HOSPITALITY & CATERING INDUSTRY

 | Transpharm

Medirite+

Other operating
segments sales

R5.4bn

+4.4%

- OK Franchise division sales +7.5%
 - 470 stores (+22)
- 6-week Transpharm strike
- Trading profit +63.9%

FINANCIAL RESULTS

Chief Financial Officer
ANTON DE BRUYN





IFRS CHANGES SINCE DEC 2018

IAS 29: FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

DECEMBER 2018

- Hyperinflation accounting applied
- Net monetary gain of R458m included in trading profit

DECEMBER 2019

- Hyperinflation accounting not applied
- Additional depreciation of R48m due to hyperinflation accounting up to June 2019

IFRS 16: LEASES

- Restated for IFRS 16:
 - Lease expense
 - Forex exposure
 - Depreciation
 - Finance costs

- IFRS 16: Leases fully implemented



FINANCIAL OVERVIEW

	2018	2019	Change
Sale of merchandise	R75 837m	R81 150m	7.0%
Gross margin	23.1%	23.5%	
Total expenses	R15 357m	R16 545m	7.7%
Net monetary gain	R458m	-	-
Trading profit	R4 196m	R4 033m	-3.9%
Trading margin	5.5%	5.0%	
Trading profit (excl. hyperinflation)	R3 815m	R4 081m	7.0%
Trading margin (excl. hyperinflation)	5.0%	5.0%	
EBITDA	R6 486m	R6 833m	5.3%
EBITDA (excl. hyperinflation)	R6 052m	R6 838m	13.0%
Effective tax rate	27.8%	31.2%	
Diluted HEPS	382.4c	372.4c	-2.6%
Diluted HEPS (excl. hyperinflation)	327.8c	379.3c	15.7%



SALES GROWTH PER SEGMENT

	Like-for-like %	Net new stores %	Total sales %
Supermarkets RSA	6.6	3.2	9.8
Supermarkets Non-RSA	-7.4	4.3	-3.1
Furniture	0.3	-3.0	-2.7
Other operating segments	5.3	-0.9	4.4
Consolidated	4.2	2.8	7.0



OTHER OPERATING INCOME

	2018 Rm	2019 Rm	Change %
Finance income earned	140	133	-5.0
Premiums earned	137	124	-9.5
Commissions received	447	477	6.7
Operating lease income	251	257	2.4
Investment income	244	162	-33.6
Franchise fees received	45	52	15.6
Sundry income	301	322	7.0
Total	1 565	1 527	-2.4

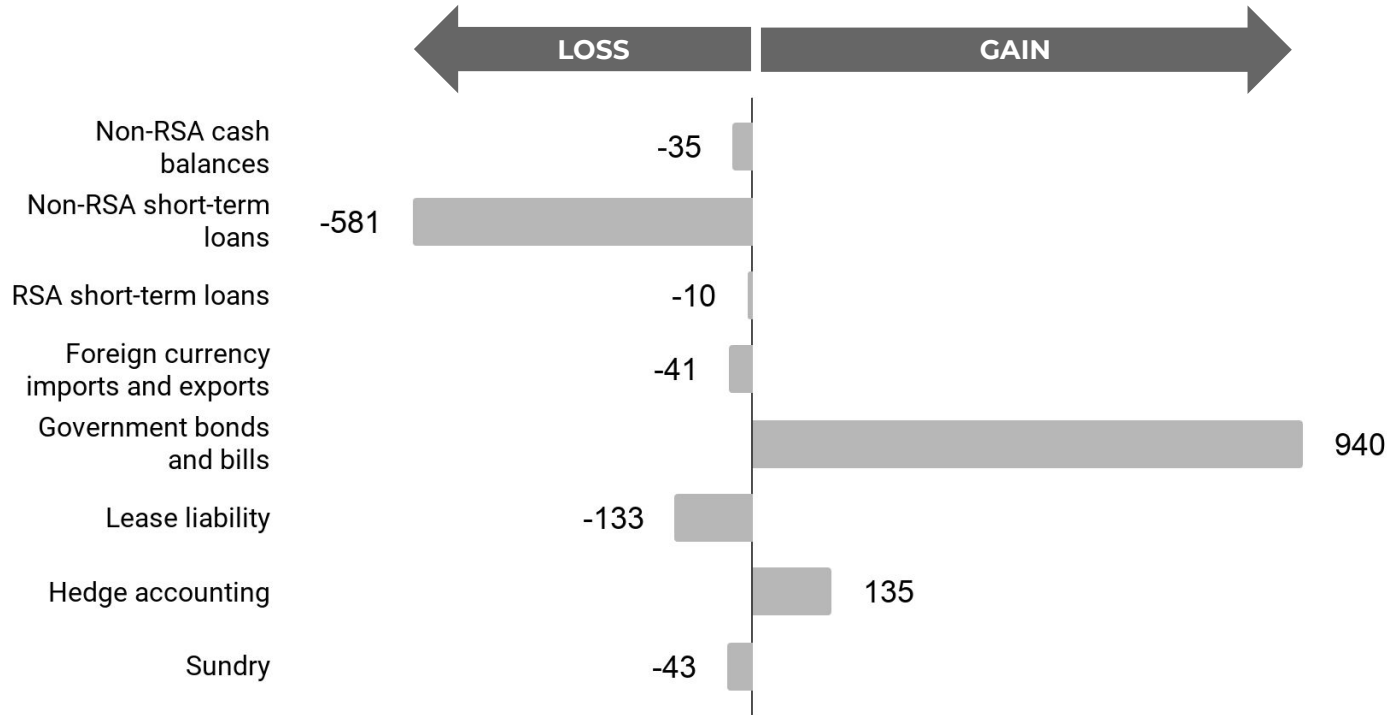


TRADING PROFIT BY SEGMENT

	2018 Rm	2019 Rm	Change %	2019 Trading margin %
Supermarkets RSA	3 412	3 736	9.5	6.1
Supermarkets Non-RSA	154	58	-62.3	0.5
Furniture	177	169	-4.5	5.1
Other operating segments	72	118	63.9	2.2
Total operating segments	3 815	4 081	7.0	5.0
Hyperinflation effect	381	-48	-112.6	-
Consolidated	4 196	4 033	-3.9	5.0



FOREX



2019 Exchange rate losses/gains (Rm)

FOREX

2018: R141m loss
2019: R232m gain

- Hedging strategy for Non-RSA was effective
- R2.5bn invested in Angola, forming a natural hedge



ITEMS OF A CAPITAL NATURE

	2018 Rm	2019 Rm
Profit on disposal of assets held for sale	32	207
Profit on disposal of right-of-use assets	-	72
Impairment of PPE and intangible assets	-62	-97
Impairment of right-of-use assets	-72	-157
Insurance claims receivable	103	6
Other	-8	-9
Total (loss)/profit	-7	22



NET FINANCE COSTS

	2018 Rm	2019 Rm
Interest received	139	187
Finance costs	1 280	1 467
Net finance costs	1 141	1 280
Less lease liability finance charges	-896	-968
Net finance costs excl. lease liability finance charges	245	312

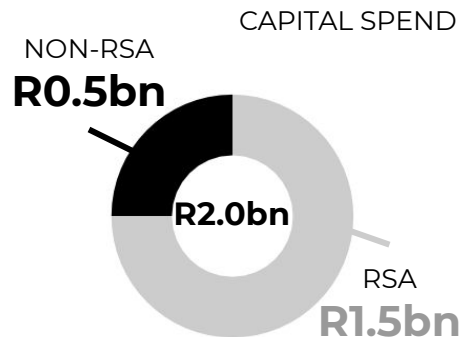


ASSETS AND CAPITAL SPEND

	2018 Rm	2019 Rm
Group total assets	84 635	86 219
Supermarkets Non-RSA total assets	19 639	17 454
Government bonds and bills	3 522	2 512
Inventories	3 733	3 496
PPE and ROU assets	7 435	6 647
Other	4 949	4 799

CAPITAL SPEND
2018: R2.8bn
2019: R2.0bn

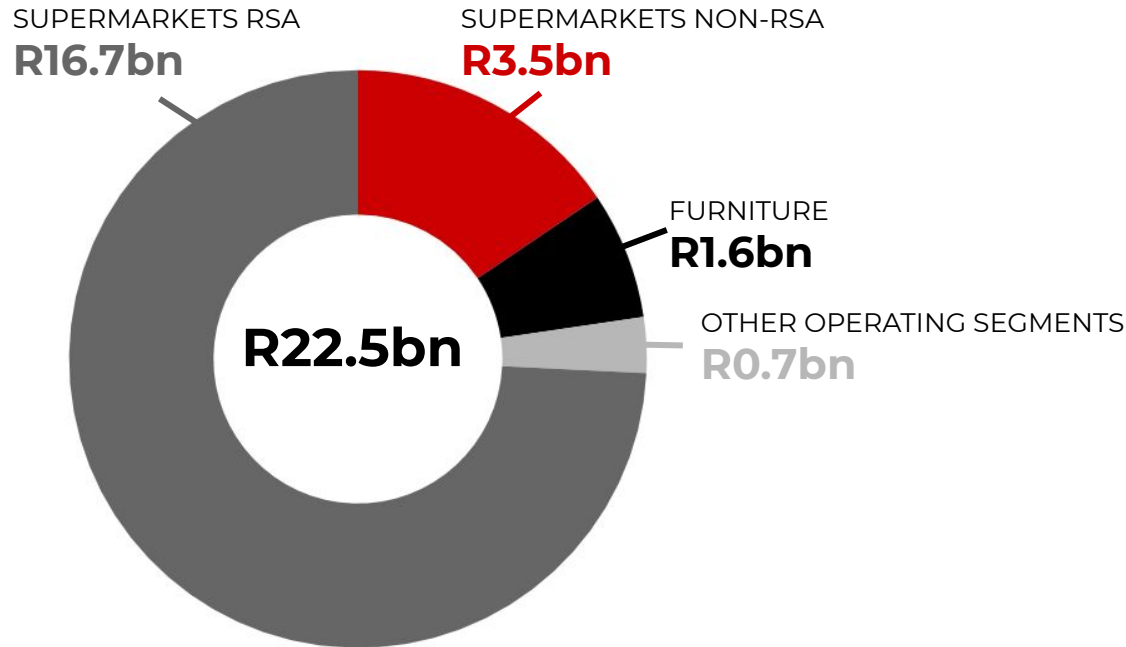
-30.0%



CAPITAL SPEND AS % OF LAST 12
MONTHS SALES
2018: 1.9%
2019: 1.3%

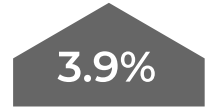


INVENTORIES



Inventories by segment

INVENTORIES
2018: R21.7bn
2019: R22.5bn

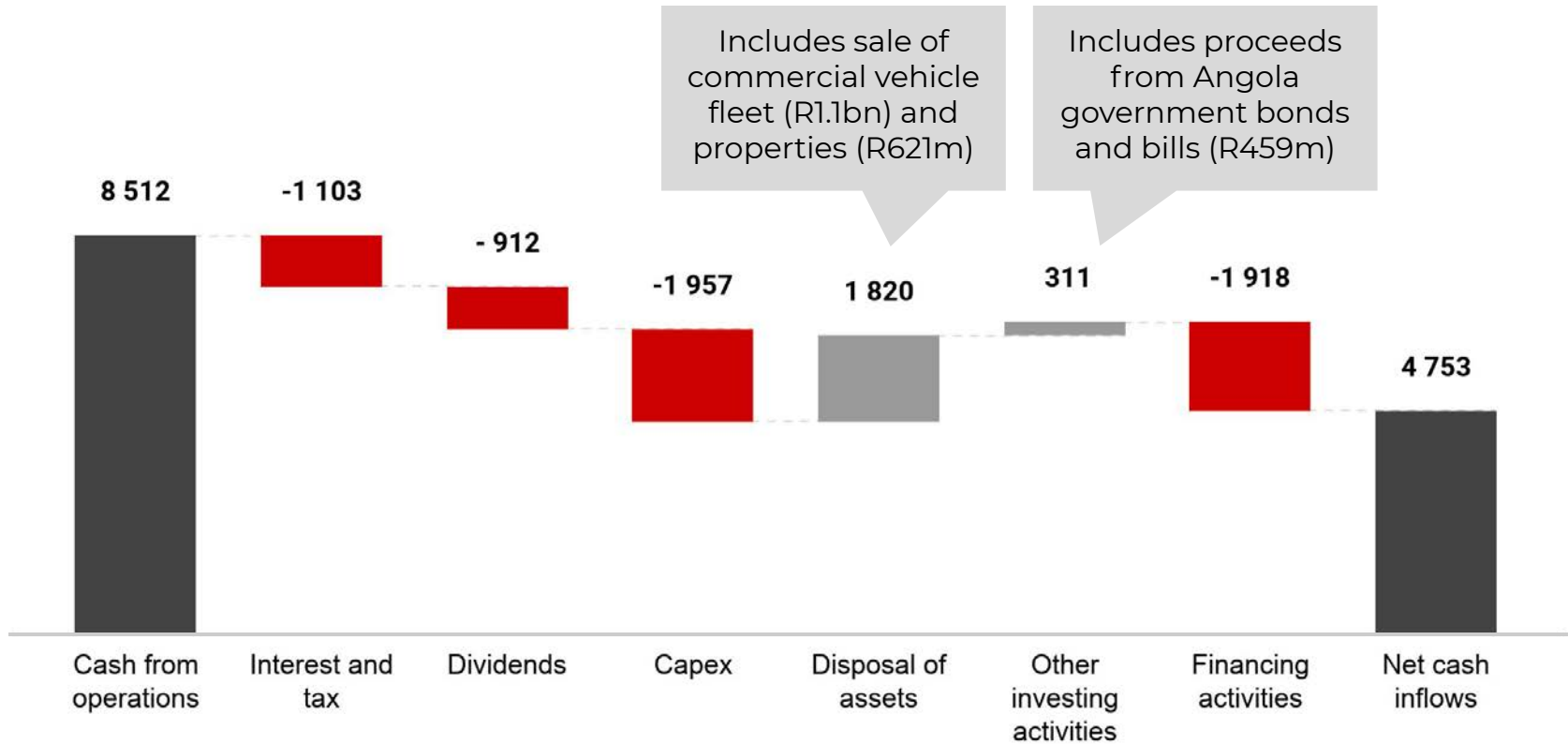


CHANGES IN WORKING CAPITAL
2018: -R0.9bn
2019: R2.0bn

INVENTORIES AS % OF LAST 12 MONTHS SALES
2018: 14.9%
2019: 14.5%



CASH FLOWS



Cash flows (Rm)



NET DEBT

	JUN 2019 Rm	DEC 2019 Rm
Net cash position	3 583	8 028
Borrowings	-11 706	-11 363
Net borrowings	-8 123	-3 335
Lease liabilities	-21 478	-23 841
Net debt	-29 601	-27 176

NET BORROWINGS
JUN 2019: R8.1bn
DEC 2019: R3.3bn

-58.9%

NET BORROWINGS: EBITDA
JUN 2019: 0.6
DEC 2019: 0.3

NET DEBT: EBITDA
JUN 2019: 2.3
DEC 2019: 2.1



PROPERTY TRANSACTION

Salient transaction terms:

Propco	<ul style="list-style-type: none">• Unlisted property entity to be established with Equites• Shoprite interest: 49.9% (equity accounted)
Consideration	<ul style="list-style-type: none">• PropCo shares and cash (R1.2bn)
Disposal yield	<ul style="list-style-type: none">• 7.5%
Distribution centres included	<ul style="list-style-type: none">• Brackenfell, Centurion and Cilmor
Lease terms	<ul style="list-style-type: none">• Tenure 20 years• Three 10-year renewal options• Escalation fixed at 5% per annum



UPDATE ON SALE OF DCs



Strategic rationale:

- ✓ In line with the Group's strategy to optimise ROIC
- ✓ Release of capital to be deployed into higher yielding retail projects and technology, as opposed to debt reduction
- ✓ Provides operational and capital flexibility
- ✓ Results in a strategic partnership with a best-in-class logistics property company in South Africa



UPDATED METRICS AND GUIDANCE

ROIC

9.6%-11.6%

UPDATED
2020-2022 TARGET

DILUTED HEPS

5%-7%

UPDATED
2020-2022 TARGET

DIVIDEND

156 cents

POLICY CONSISTENT WITH
PREVIOUS YEARS

GROUP
CAPEX GUIDANCE

R4.8bn

JUN 2020

INVENTORIES
% OF SALES TARGET

12.4%

JUN 2020

EFFECTIVE TAX RATE
GUIDANCE

31%-33%

JUN 2020

STRATEGY UPDATE

Chief Executive Officer
PIETER ENGELBRECHT





STRATEGY UPDATE

1. A TRULY
CUSTOMER-FIRST
CULTURE

2. DEVELOP
FUTURE-FIT
CHANNELS

3. ENABLE
PRECISION
RETAILING

4. TRUSTED,
PROFITABLE
PRIVATE LABELS

5. GROW SHARE IN
PREMIUM FOOD
& FRESH

6. A STRONGER
FRANCHISE
OFFER

7. PRESERVE
OUR AFRICAN
ADVANTAGE

8. REFOCUS
CAPITAL
ALLOCATION

9. UNLOCK
ALTERNATIVE
REVENUE

**A SMARTER
SHOPRITE**

**CLOSING THE GAP
IN KEY SEGMENTS**

**WINNING IN THE
LONG TERM**



GROWTH STRATEGY UPDATE



Significant milestones in H1

Advancing customer centricity through digital transformation

- ✓ Launch of Checkers Xtra Savings Rewards Programme
- ✓ Pioneered 1-hour grocery delivery service Sixty60

Closing headroom opportunity in key segments

- ✓ Checkers leading market share gains
- ✓ Constantia and Sandton FreshX flagship stores
- ✓ Uninterrupted share gains in Liquor, Fresh and Convenience foods
- ✓ Further increase in private label participation (+10bps to 16.1%)



CUSTOMER-FIRST CULTURE



250

**SIGN UPS
PER SECOND AT
LAUNCH**

- Checkers Xtra Savings Rewards Programme launched Oct 2019
- 3.8m sign ups already, completely paperless
- Record market share achieved during the period
- Enables precision marketing and personalisation

One million customers sign up for Checkers Xtra Savings in the first week

COMPANIES / 21 OCTOBER 2019, 1:15PM / STAFF REPORTER





PIONEERED 1 HOUR GROCERY DELIVERY



- Sixty60 on demand grocery delivery launched Nov 2019
- Doing more for customers - ultra fast convenience shopping
- Beta testing performing well - avg. delivery time 50m 10sec
- Positive customer response

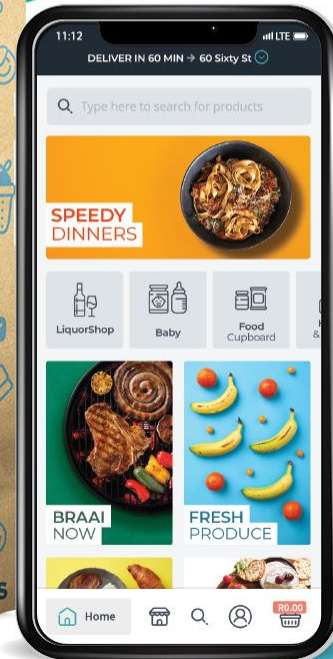
Thank you @CheckersSA @checkers60sixty! What a great experience - delivery under 60 minutes! Loving these paper bags as well. #service #fast #delivery #checkers60sixty 🙌
pic.twitter.com/zN2hZf8Z1l





Sixty60

video

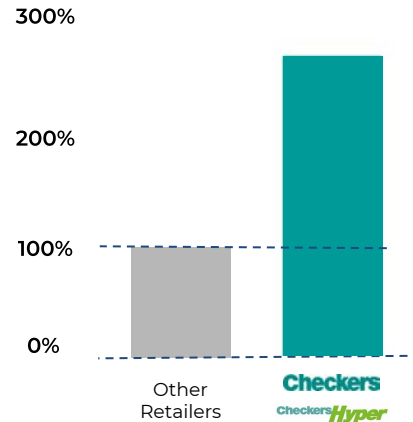




GROWING SHARE IN PREMIUM AND FRESH



- Our assault on premium food retail is gathering pace
- Achieved a further R350m fresh share gains for H1
- Checkers sales growth 2.7x other retailers' sales growth



**Checkers indexed sales growth
vs Other Retailers for the six months to Dec '19**

SOURCE: Nielsen, 2019 RSA





GROWING SHARE IN PREMIUM AND FRESH

Unveiled FreshX flagship stores in the affluent Sandton and Constantia areas



EXPRESS SANDTON
OPENED SEPT '19

CONSTANTIA
OPENED NOV '19

3.5x

More upmarket
customer visits

1.5x

Basket value vs. rest
of Checkers



LEADING GROWTH IN LIQUOR



- Runway for growth (19.9% RSA liquor share vs. 31.6% in grocery)
- 518 Stores - opened more than a store a week

20.6%
SALES GROWTH
H1 2019/20

+1.9%
RSA MARKET SHARE
GAINS
NIELSEN 6MM DEC 2019

LiquorShop
SHOPRITE

LiquorShop
Checkers

SOURCE: Nielsen, 2019 RSA



WINNING IN THE LONG TERM

- Shifting to optimisation phase of our long-term strategy
- Precision retailing and personalisation through Xtra Savings customer platform
- Engineering the next era of growth to unlock new revenue streams



OUTLOOK





OUTLOOK



- Inflation not expected to increase materially
- Sales growth momentum for first 6 weeks in line with H1
- More demanding RSA sales base, especially in Q4
- No expected Non-RSA macroeconomic relief, but actions should improve performance
- Supermarket expansion continues in H2, focus on smaller formats
 - 40 new supermarkets (28 are Usaves)
- Shoprite will continue to grow through price leadership

QUESTIONS

SHOPRITE
HOLDINGS LTD 