

RESULTS PRESENTATION

FOR THE 26 WEEKS TO
30 DECEMBER 2018

SHOPRITE 
HOLDINGS LTD



WELCOME

1.FINANCIAL OVERVIEW

2.OPERATIONAL OVERVIEW

3.STRATEGIC UPDATE

4.QUESTIONS

FINANCIAL RESULTS

**ANTON
DE BRUYN**



FINANCIAL RESULTS

1. Overview of Key Indicators
2. Performance Impacts
3. Unpacking Financial Results
4. New IFRS Standards



FINANCIAL RESULTS

Checkers

SALES

+0.2%

R75.8bn

GROSS PROFIT

-2.8%

R17.5bn

TRADING PROFIT

-19.0%

R3.3bn

Checkers

Checkers

FINANCIAL RESULTS

Checkers

EARNINGS PER SHARE

-21.9%

407.3c

HEPS

-24.1%

398.9c

DIVIDEND PER SHARE

-23.9%

156.0c

Checkers

Checkers

HYPERINFLATION

REQUIREMENT

- Angola's economy was assessed to remain hyperinflationary
- Adjust index from acquisition to reporting date
- Cumulative 3-year inflation of 107%

FINANCIAL IMPACT DEC 2018

R2.3bn

STATEMENT OF FINANCIAL
POSITION

PPE	R2.1bn
Reserves	R1.7bn

R287m
NET PROFIT

STATEMENT OF COMPREHENSIVE
INCOME

Primary adjustments:

Gross profit	R10m↓
Depreciation	R49m↑
Net monetary gain	R439m↑

SEGMENTS AFFECTED

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

PERFORMANCE IMPACTS

>R250m

Centurion DC disruption profitability impact

R614.5m

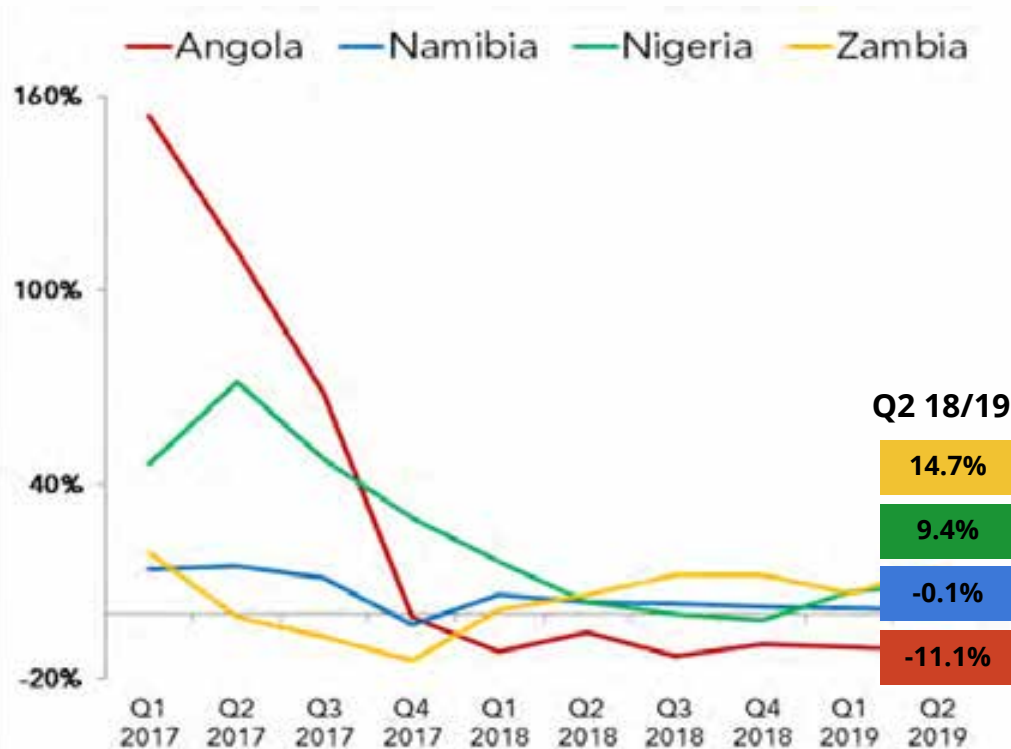
Decline in Supermarkets Non-RSA trading profit

R95.2m

RMA → MAC

SUPERMARKETS NON-RSA PERFORMANCE

QUARTERLY SALES GROWTH IN LOCAL CURRENCY



- **Angola:** Unprecedented currency devaluation
- **Nigeria:** Impact of the NIFEX rate
- **Zambia:** Stronger performance
- **Kenya:** Establishment cost of greenfield operation
- Closure of **Mauritius**

RMA → MAC

RMA → MAC

- Both methods approximate cost
- Retail Method of Accounting (RMA): Margin per department
- Moving Average Cost (MAC): Margin per line item

IMPACT: STATEMENT OF FINANCIAL POSITION

- Inventory adjustment all accounted for in June 2018
- No further adjustment on inventory to June 2019

IMPACT: STATEMENT OF COMPREHENSIVE INCOME

- Once-off Gross Profit adjustment: Debit of **R95.2m**
- Gross Margin impact
- Impact fully accounted for

SALES GROWTH PER SEGMENT

0.2%

SALES GROWTH

R75.8bn

	Existing stores	Net new stores	Total
Supermarkets RSA	-0.5%	3.1%	2.6%
Supermarkets Non-RSA	-16.5%	3.2%	-13.3%
Furniture	4.2%	0.1%	4.3%
Other Operating Segments	3.9%	2.6%	6.5%
Total Operating Segments	-2.7%	2.9%	0.2%
Total Including Hyperinflation			0.2%

SALES: SUPERMARKETS RSA

- >R1 billion lost sales due to industrial action and the subsequent SAP ERP system go-live
- Checkers positive growth, Hypers growth still impacted by revamp programme
- Shoprite and Usave brands growth most affected by Centurion DC challenges
- Liquor stores delivered solid growth

Supermarkets RSA
contribution to Group sales

72.3%
2017

74.0%
2018

2.6%
SALES GROWTH TO

R56.1bn

SALES: SUPERMARKETS NON-RSA

13.3%
SALES DECLINE TO
R11.1bn

CONSTANT
CURRENCY
+0.05%

Supermarkets
Non-RSA contribution
to Group sales

16.9%
2017

14.7%
2018



Angola

SALES
GROWTH

-45.0%

CONSTANT
CURRENCY

-9.9%



Zambia

+0.7%

+11.0%



Namibia

+1.1%

+1.1%



Nigeria

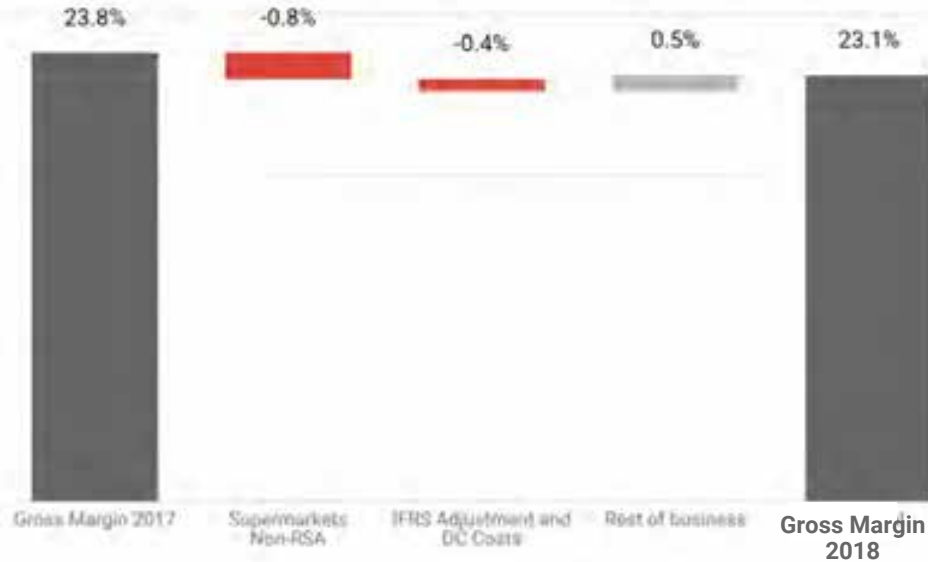
-1.4%

+8.4%

GROSS MARGIN

DEC 2017:
23.8%

DEC 2018:
23.1%



- Components of gross margin
- Margin intact
- Impact of Non-RSA performance

OTHER OPERATING INCOME

	2017 Rm	2018 Rm	Growth
Finance income earned	146	140	-4.1%
Net premiums earned	177	137	-22.6%
Operating lease income	232	251	8.2%
Commissions received	431	447	3.7%
Franchise fees received	41	45	9.8%
Investment income	160	244	52.5%
Sundry income	244	301	23.4%
Total	1 431	1 565	9.4%

COST ANALYSIS

DEPRECIATION

9.6%

R1.3bn

- R49m impact as a result of the hyperinflation adjustment
- Excl. hyperinflation adjustment the growth is 5.5%
- SAP ERP replaced legacy systems which were fully depreciated during the period

OPERATING LEASES

7.4%

R2.3bn

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

EMPLOYEE BENEFITS

6.2%

R5.9bn

- Created 1 758 new jobs since June 2018
- Implemented the YES-programme
- New minimum wage increase effective January 2019

OTHER OPERATING EXPENSES

3.8%

R6.7bn

- Electricity and water increased by 6.1%

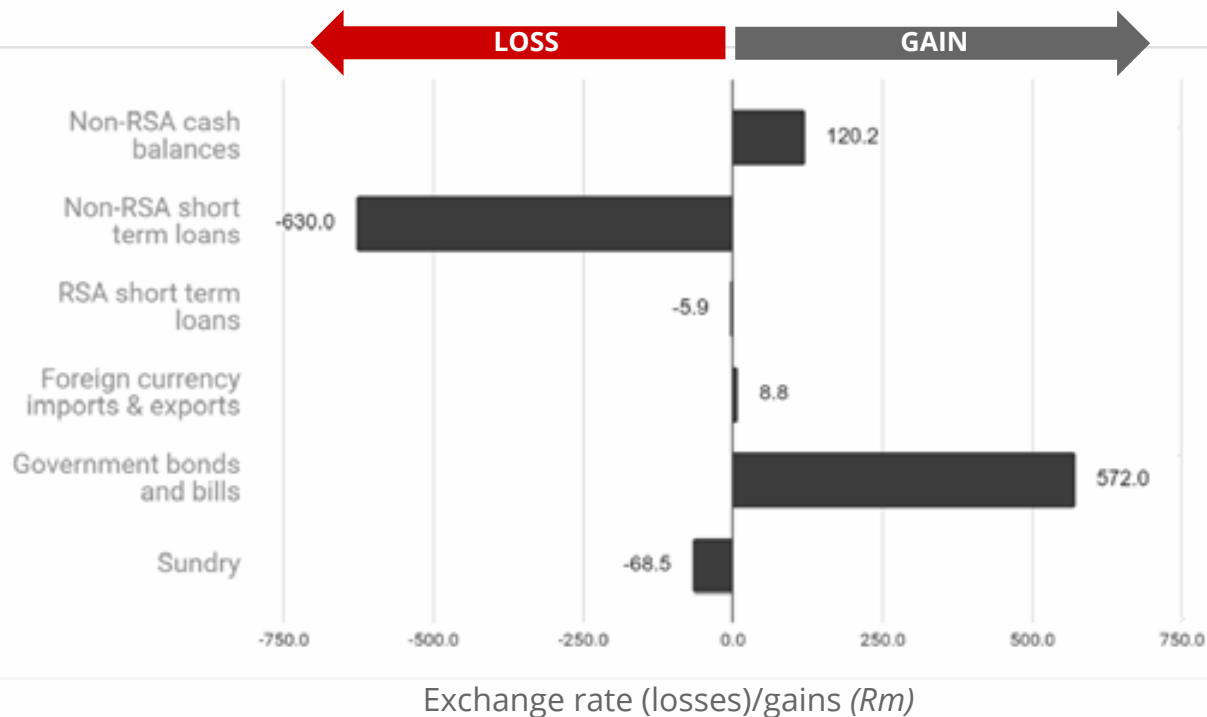
TRADING PROFIT

	2017 Rm	2018 Rm	Growth
Supermarkets RSA	3 342	2 839	-15.1%
Supermarkets Non-RSA	553	-62	-111.2%
Furniture	110	104	-5.5%
Other Operating Segments	99	66	-33.3%
Total Operating Segments	4 104	2 947	-28.2%
Hyperinflation Effect	-	376	
Total Including Hyperinflation	4 104	3 323	-19.0%

EXCHANGE RATE LOSSES

DEC 2017: **R4.0m gain**

DEC 2018: **R3.4m loss**

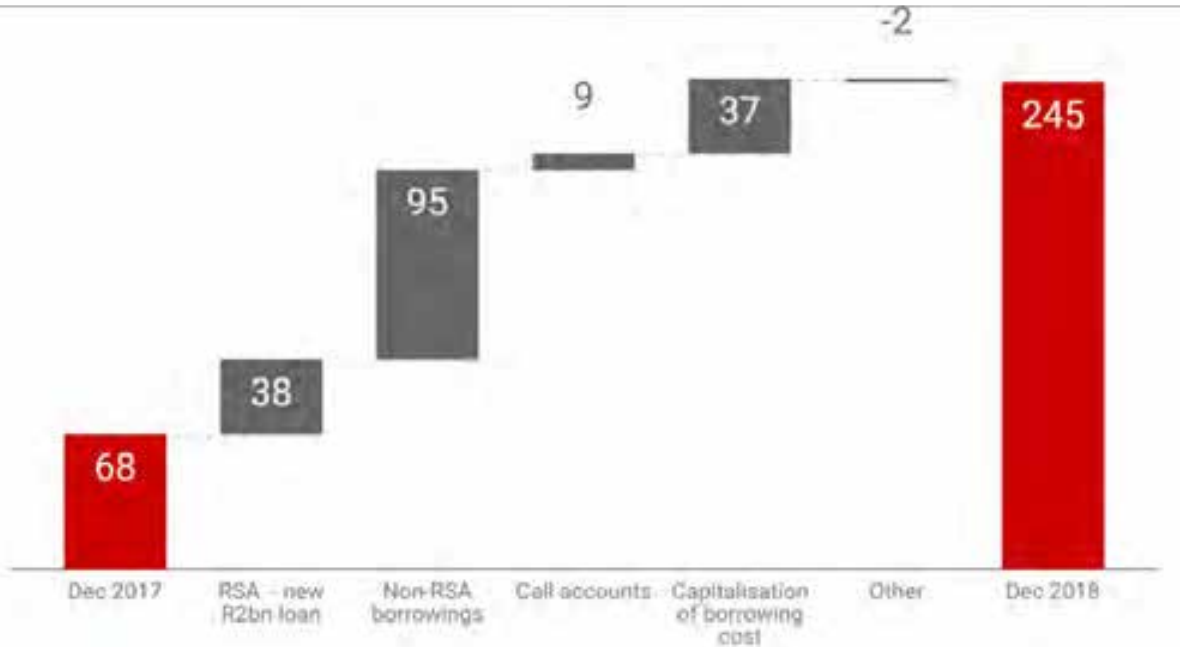


- Hedging strategy for Non-RSA was effective
- Investments (Angola): R3.5bn

ITEMS OF A CAPITAL NATURE

	2017 Rm	2018 Rm
Impairment of assets	-40	-62
(Loss)/Profit on sale of assets	-16	26
Insurance claims receivable	-	103
Profit/(loss) on other investing activities	22	-2
Total	-34	65

NET FINANCE COST



	2017 Rm	2018 Rm
Interest received	121	139
Interest paid	189	384
Net finance cost	68	245

Contributing factors to increase in net finance cost (Rm)

FINANCIAL POSITION

CAPITAL SPEND
-4.7%

R2.8bn

INVENTORY
-0.3%

R21.7bn

WORKING CAPITAL
-26.6%

R2.6bn

NET CASH
+59.3%

R4.9bn

NET DEBT
+96.4%

R5.2bn

CAPITAL SPEND

DEC 2017:
R2.9bn

DEC 2018:
R2.8bn

TO EXPAND OPERATIONS:
R1.9bn

TO MAINTAIN OPERATIONS:
R0.9bn



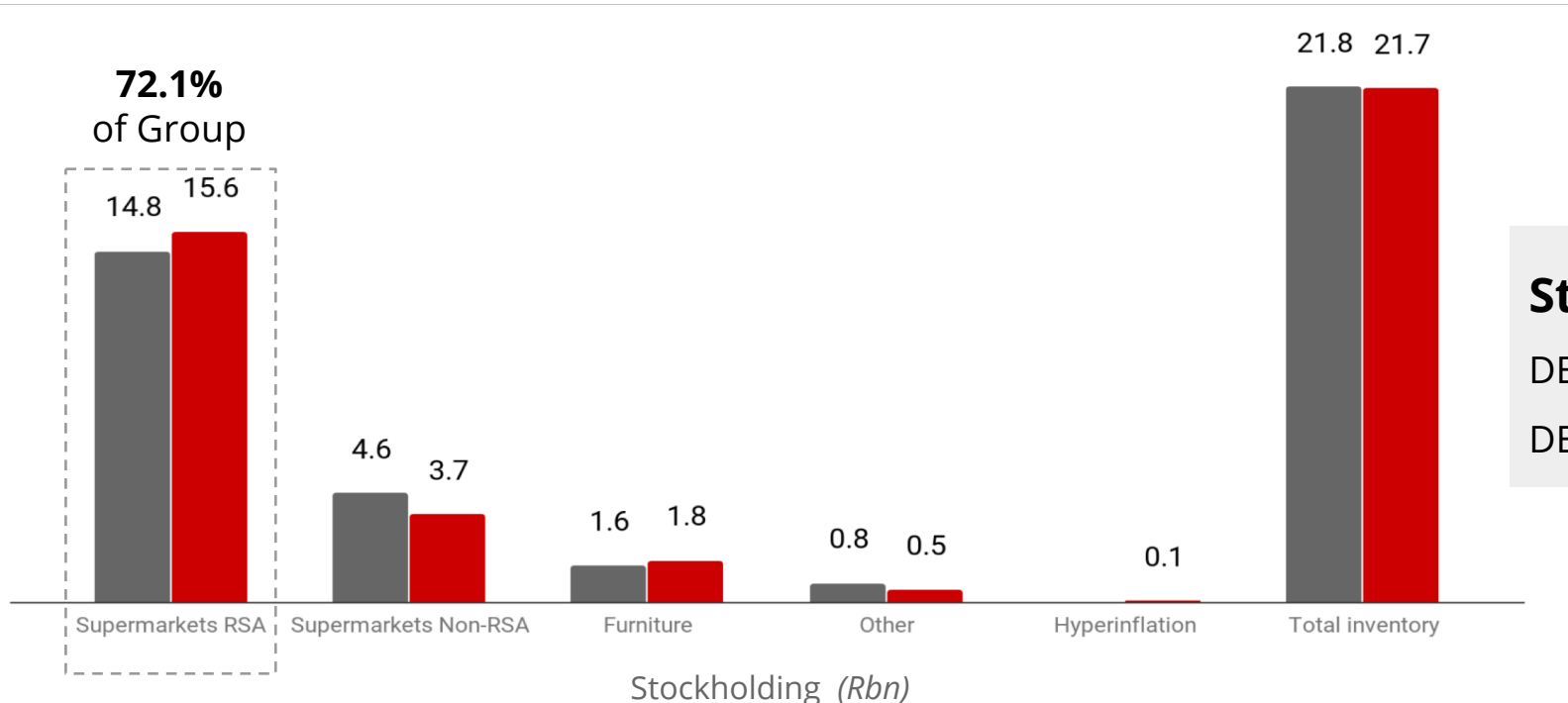
Capital Spend (Rm)

STOCKHOLDING

DEC 2017:
R21.8bn

DEC 2018:
R21.7bn

-0.3%



Stock turn

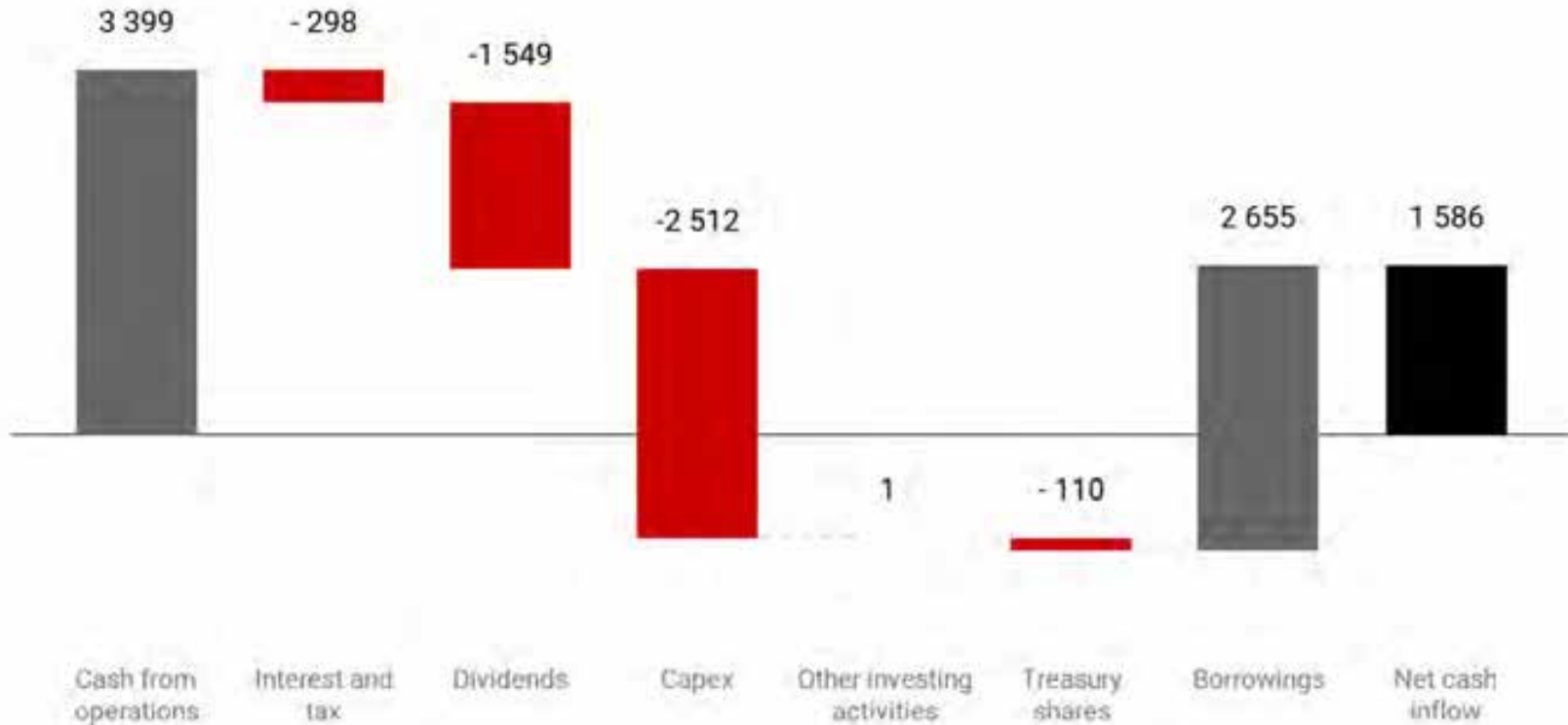
DEC 2017: **5.8**

DEC 2018: **5.9**

TREASURY

	2017 Rm	2018 Rm
Cash and cash equivalents	8 466	8 760
Bank overdrafts	-5 406	-3 885
Net cash position	3 060	4 875
Short-term borrowings	-4 451	-2 968
Long-term borrowings	-1 241	-7 077
Net debt	-2 632	-5 170

CASH FLOW



Cash generation/ (utilisation) (Rm)

IMPACT ON RESULTS - IFRS 9

REQUIREMENT

- Financial Instruments
- Classification, measurement and derecognition of financial assets and liabilities
- Introduces new rules for hedge accounting and a new impairment model for financial assets

FINANCIAL IMPACT

- Changes in accounting policies
- Comparatives not restated
- Opening retained earnings adjustment

2 JUL 2018
STATEMENT OF FINANCIAL
POSITION

R412m

SEGMENTS AFFECTED

Retained earnings - 2 Jul 2018

SUPERMARKETS RSA

R20m

SUPERMARKETS NON-RSA

R133m

FURNITURE

R259m

IMPACT ON RESULTS - IFRS 15

REQUIREMENT

- Revenue from contracts with customers
- Classification, measurement and disclosure of revenue from contracts with customers
- Recognise revenue over time or at a point in time as or when performance obligations are satisfied and control of goods or services transfers to customers

FINANCIAL IMPACT

2 JUL 2017
STATEMENT OF FINANCIAL
POSITION

R10m

Opening retained earnings adj.

31 DEC 2017
STATEMENT OF COMPREHENSIVE
INCOME

Sales	R119m ↓
Cost of sales	R94m ↓
Other operating income	R71m ↑
Other operating expense	<u>R46m ↑</u>
Trading profit	R0m

SEGMENTS AFFECTED

Retained earnings - 2 Jul 2017

SUPERMARKETS RSA

R9m

SUPERMARKETS NON-RSA

R4m

OTHER OPERATING SEGMENTS

R3m

OPERATIONAL OVERVIEW

**PIETER
ENGELBRECHT**



YEAR OF TRANSITION

'There is no education like adversity' *Benjamin Disraeli*

2018 saw a convergence of extraordinary factors:

1

Completion of multi-year ERP re-platforming (>50% business went live H1)

2

Aftermath from May-June industrial action at our largest DC disrupted supply chain

3

Dramatic Angola kwanza devaluation of 85.1% against the USD

4

Longest period of stagnant internal inflation in a decade (six consecutive quarters)

- 26 weeks to Dec 2018 performance is not a reflection of the fundamental strength of the business

GROUP OPERATIONAL HIGHLIGHTS

+1.7%
CUSTOMER GROWTH

563m
CUSTOMERS SERVED

RECORD BLACK
FRIDAY SELLING

1,781
ITEMS PER SECOND

WON MORE
CONSUMER
AWARDS IN 2018
THAN ANY OTHER
SUPERMARKET

+0.2%
VOLUME GROWTH

3.75bn
PRODUCTS SOLD

CREATED
1,758
NEW JOBS

RANKED
86th
GLOBAL RETAILER
Deloitte 2019

ERP SYSTEM RE-PLATFORMING

- **Why we did it:**
 - Necessary pain to improve global competitiveness
 - New IT system for inventory, master data, ordering and store operations
- **What it meant:**
 - IT replacement of this size unparalleled, 4 year project
 - Required 81,000 man-days from store teams for training
 - Concurrent change from RMA to MAC stock valuation
- **What happened:**
 - Underestimated change impact
 - DC industrial action midway through deployment
 - Limited flexibility in deployment due to coexistence costs
- **What's next:**
 - Sharpen the sword

1,778
STORES

15
COUNTRIES

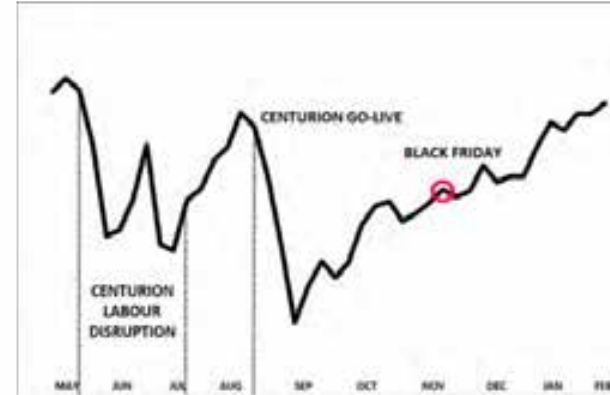
9
DCs

81,000
MAN-DAYS FOR
TRAINING



IMPACT OF SUPPLY CHAIN DISRUPTION

- Labour disruption in our largest DC in May-June 2018
- Resulted in large order backlog before August ERP go-live
- Compounded inability to meet store demand
- Exacerbated by a record Black Friday
- Direct-to-store supplier deliveries affected distribution fees
- Product availability improvements achieved but work remains



Store in stock percentage

>R1bn Missed Sales

Centurion DC supply line issues

>R250m Profit Impact

Gross Profit on lost sales, loss in distribution fees & additional expenses incurred

CYCLICAL CHALLENGES IN ANGOLA



- -9.9% Constant Currency Sales Growth
 - Adversely impacted by 85.1% currency devaluation
 - Hyperinflationary economy in recession

Angola GDP Growth rate

-1.3%	-2.2%	-4.5%	-1.6%
Q4 '17	Q1 '18	Q2 '18	Q3 '18

CYCLICAL CHALLENGES IN ANGOLA



- -9.9% Constant Currency Sales Growth
 - Adversely impacted by 85.1% currency devaluation
 - Hyperinflationary economy in recession
- Shielded customers from price increases
- Slower store expansion
- Negotiating property disposal
- Optimistic about Angola
 - Structural changes are positive for economy in LT
 - Rapid population growth forecast: 31m to 44m by 2030

Angola GDP Growth rate

-1.3%	-2.2%	-4.5%	-1.6%
Q4 '17	Q1 '18	Q2 '18	Q3 '18



SUPERMARKETS NON-RSA PORTFOLIO

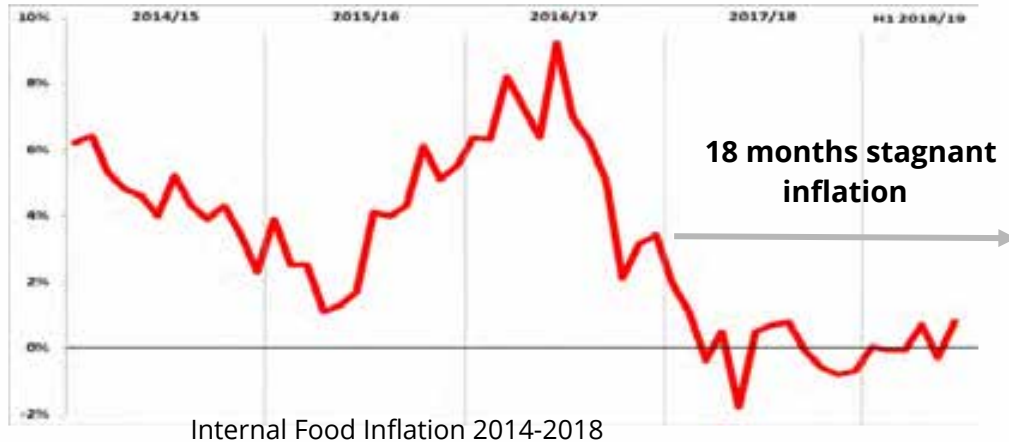
- Sales Growth positive in constant currency
- Story of currency devaluations
- Limited hedge
- Smaller countries performing well



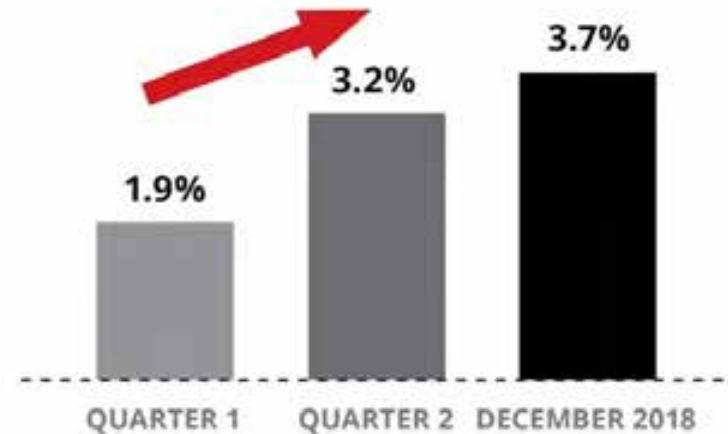
SUPERMARKETS RSA

- 2.6% Sales Growth underperformed the market
- 10,719 items remain in selling price deflation in Dec '18 benefiting customers
- 2% customer growth but volume upside constrained by supply

Internal Inflation persistently low H1: 0.4%



Improved sales growth trend



STRATEGIC FOCUS AREAS

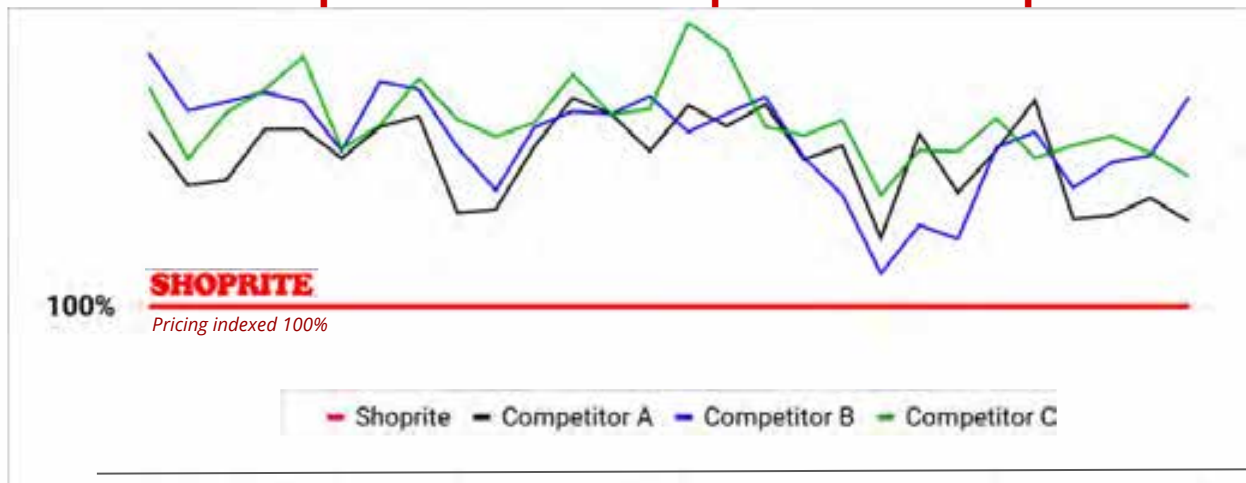


6 DRIVERS OF GROWTH



1.CUSTOMER FIRST: OUR LOW PRICE PROMISE

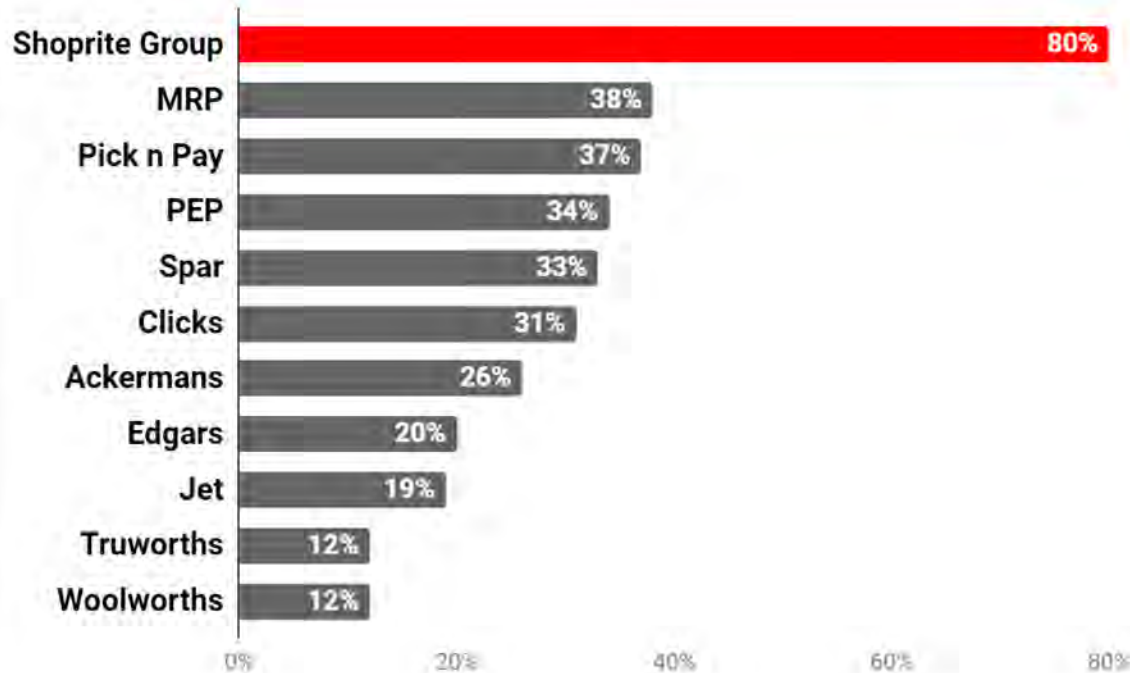
Low Price leadership uncontested despite increased promotional activity



Weekly indexed price sensitive basket vs key competitors: *July - December 2018*

SA'S MOST SHOPPED RETAILER

80% SA market penetration



**AFRICA'S MOST
ACCESSIBLE RETAILER**

Establishment Survey 2018 A: SEM = Socio-economic measure. Based on Shoprite Group: Shoprite, Checkers, Checkers Hyper, OK, Population 40m. Shopped last month

2. GROWING UPMARKET SHARE OF WALLET



- Checkers brand still leading our growth
- Market share gains in Fresh and Convenience foods
- FreshX concept store performing ahead of expectations: 20/80 target stores completed
- Healthier Simple Truth range launched: 360k new customers and 3x ave. basket spend

3. DEVELOPING PRIVATE LABEL

LOWER PRICES. MORE CHOICE. BETTER MARGIN

- Private label growth at double the pace of all brands
 - Participation up +0.6 percentage points to 16%
- 51% product innovation targets upmarket choice

**767 NEW
PRODUCTS**

**NO.1 USAVE
PRIVATE LABEL
BRAND**



4. STRONGER FRANCHISE OFFER

- Market share gain with 8.3% turnover growth
- 19,000 products available through Shoprite Group backbone
- 35 OK Express forecourt stores (+11 new in H1)



Market share source: Nielsen



5. STRATEGIC EXPANSION

- 1.9% supermarket space growth
 - 37 new RSA Supermarkets to open by June (6 Non-RSA)
- Kenya opening marks entry into East Africa's largest economy
- Future-fit formats with lower capex



- Liquorshop sales increased 20.3%
- Opened a store a week
- New online channels performing well:
 - On-demand home delivery partnership with MR D
 - Click 'n Collect now available at 257 Checkers stores

6. LEVERAGE AFRICAN ADVANTAGE

Courage to invest in long term potential



UNRIVALLED AFRICAN FOOTPRINT

419 stores in rest of
Africa serving over
15.4 million customers
every month

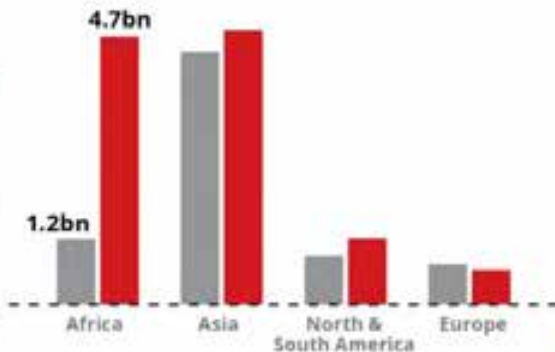


OPPORTUNITY IN NEW SERVICES

>R100bn in till-to-
till cash remittances
since 2008

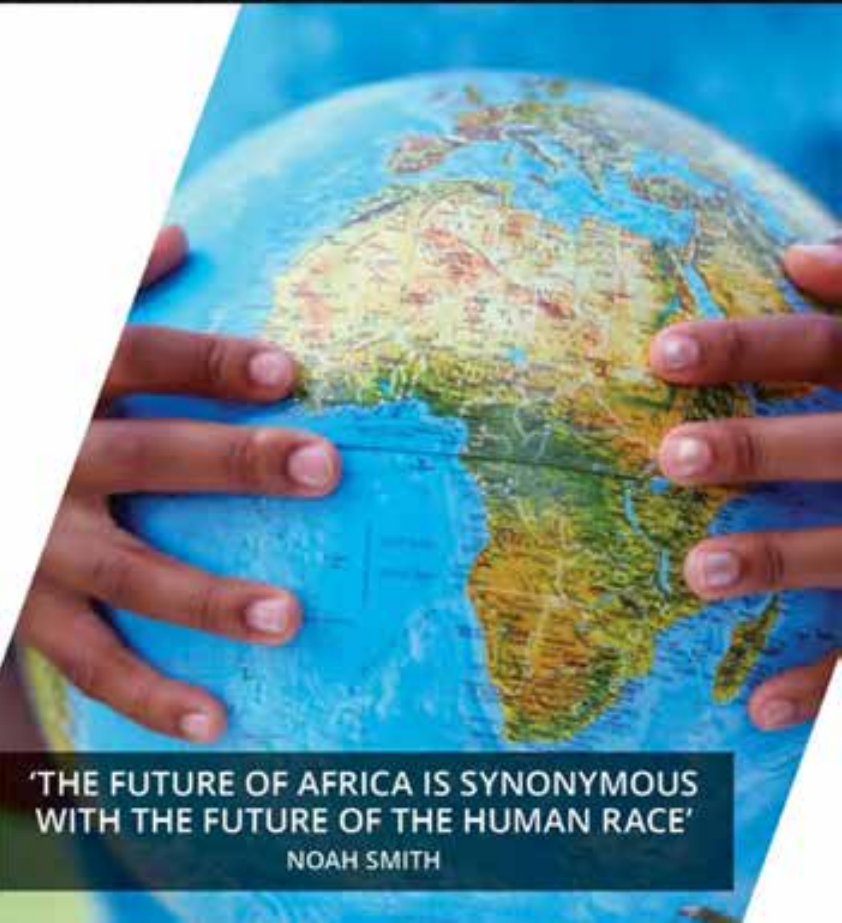
EXPLOSIVE POPULATION GROWTH

1/3rd of world
population will be
African by 2100



**'THE FUTURE OF AFRICA IS SYNONYMOUS
WITH THE FUTURE OF THE HUMAN RACE'**

NOAH SMITH



OUTLOOK



ENGINEERING THE NEXT ERA OF GROWTH

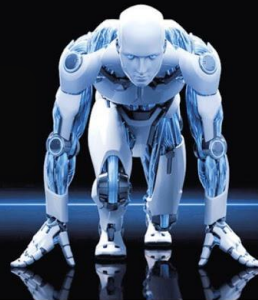
2018 REPLATFORM

- Single system of record
- Real-time collaboration



2020 OPTIMISE

- Precision retailing through AI powered platform



2022 IGNITE

- Fuse scale & agility benefits
- High growth
- Rooted in Africa with a Global impact

ONE TRUTH



SMARTER
DECISIONS



GLOBAL
COMPETITIVENESS



OUTLOOK

- Stronger sales growth for first 8 weeks since Jan 2019
- Improving stock availability remains highest priority
- Two year labour agreement
- Food inflation in Maize, Sugar and Chicken before June
- Load shedding and elections risks
- An improved H2 unlikely to fully offset H1 performance
- Predictions are difficult given upside and downside risks



THANK YOU

QUESTIONS

