18 November 2022 First quarter 2023 SENS update call.

Welcome Pieter, Anton, Neil, Natasha, Sanjeev … Any opening remarks?

Thank you.

Yes, I think it's important to note after some of the comments we've had, that the 19.9% growth we've reported doesn't come from a low base. Even if we exclude liquor, which is the way we also reported it, we grew sales 16.6%. Some of the retailers report inclusive of liquor, we also reported it without.

In addition, we've grown customers by 18%, and growth in customers is an imperative for us. We check on this regularly.

What does have a high base is basket size, but we still managed to grow it.

The Shoprite Group is the only food retailer in the RSA space that has grown volumes positively. This is important for manufacturers this is the tool that helps them manage their cost pressure as well.

This has culminated in 43 months of consecutive market share gains and it's not a one trick pony story, it's across all the brands. It's very easy to get bogged down with total market share (now 34% for the Group) but we look at it as Shoprite just above 18%, Checkers has grown over past five years from 9% to 14% then I think you will agree, there is still head space for us in this regard.

My last comment is on inflation, everybody wants to know what our view is. It accelerated to 8% over the quarter. October came down, slightly, off a September high. I don't see runaway inflation in RSA. We are sticking with our guidance of around 10%.

Q. Can we have more colour on growth per format – Checkers, Usave, Shoprite. You mentioned it's not a one trick pony. Was Checkers the growth driver helped by Sixty60?

All brands grew well. Checkers is being supported by Sixty60. The online business hasn't gone backwards. We are in 378 sites.

Great trend to our benefit is new customers using Sixty60 also frequent the stores, physically. Very few that use the online service exclusively, they now supplement their shop with a physical shop.

Q. ***Can you give us the LFL growth?***

No, we don't report LFL growth at this stage.

Q. What about President Hyper?

We report on what we sell into them as a franchisee and we earn franchise fees as a result of the transaction.

Q. Can we have an update on Comp Com / the Tribunal for the Cambridge and Rhino stores?

We've been saying since March/April 2022 that we are nearly there.

We have submitted everything to the Tribunal, I think we are at the last stage now, but we are getting very close to year end. From the date we get approval we have 30 days to take over, you can imagine if we get approval soon, it goes into Christmas. Hopefully we can conclude this side of the year but take over first or second week of January. That's basically where we are, waiting for the Tribunal to give us clearance.

Q. Can you give us any thinking on the potential of new formats – Outdoor, Pet, Little Me etc how should we think about these incremental add-ons?

It's a long-term decision - looking way ahead, in terms of growth. The idea was born out of the consumer data we got during Covid. An example being, how many customers got a puppy during Covid. In RSA retailers aren't allowed to premium pet food – we looked at the market size, it's about R3.5bn and we under indexed due to those rules so we identified the upside – long term. It's not going to move the dial short term; we should have about 50 stores by June.

In terms of outdoor stores there's only really one format in RSA, the others are apparel retailers that sell Victorinox knives. So, there's also for us potential in that market but, really, looking way ahead to broaden our retail reach and that can easily latch onto our existing supply chain and operational structures.

There is also an example now where in a strip mall scenario, all of our brands will be the only tenants, so we'll have a Checkers, Checkers LiquorShop, Little Me, PetshopScience, Medirite Plus, and a furniture store so we are anchoring the entire development. So that brings a different angle to the multiple offers.

Q. Can we have more colour around cost growth – you raised the R100m extra a month in your SENS update. It's clearly been a feature in a lot of the retail announcements coming out - can you give us a sense of the moving parts of your cost growth?

On wages, to note is the increase in the minimum wage and the Shoprite Share Trust for employees (it needs to annualise, it was accounted for in our H2). So, it's not in the base for the first half.

Our insurance expense increase is also up. We run two programs. One is our asset program where were insure our assets and there we had no increase. But before, we ran a R1.5 billion program through Sasria and we had loss of profits insurance cover. As you know we did receive our R1.5 billion but when we renewed, we could only get R500 million through Sasria and we had to source the rest in the London market. Now in the past we paid around R6m for the R1.5 billion but this year we will pay R200 million, so R100m for each half. It is something we are working on. We are building walls around our DC's so we are proactively trying to mitigate this risk, but for this year this increase in expense will feature.

And yes, as you mentioned there was a 56% increase is the cost of diesel. Now there are two parts to diesel (three actually, if you consider stock). There is only one way to get stock to stores, by truck, so on distribution, we travel a lot of miles with our trucks (more than 100 million kms a year) and then big one is the cost of running the generators. In the base is stage 2, that's in the base, I think all businesses have learned to deal with that but, stage 5 and up we run at R100 million a month. I can't give you guidance for how long this will be, but September and October were equally bad.

If its 12 months of this it’s going to cost R1.2 billion, there is nothing we can do about that. There is also a spin off on the manufactures. So, we’ve made a conscious decision regarding stock.

A year ago a single taxi trip was R28 now it’s R50. We want our consumers to find what they are looking for so we are running above 98% on shelf availability including general merchandise and that came with additional stock investment.

Loadshedding also has an impact on our suppliers and their operations (not just electricity but impacts water reservoirs filling up etc), this in turn impacts their ability to service our inventory requirements so for the first half to December the stock will be higher than last year. It’s good quality stock. Also due to global supply chain issues we brought in stock earlier than any year I can remember. These factors are all related. Diesel, supply chain, loadshedding.

Q. How should we think about margins?

Because of loadshedding and diesel – fuel cost is a big driver of inflation - this is the first time in 27 years I can remember than inflation won’t benefit us as retailers. Our 24.5% gross margin is high in the RSA context, we rather want to protect it, we have data and tools to protect it and rather want to rather invest in our customers. We want to retain the equity of our brand. Hence where I started, in terms of growing customer, it is important to us. Remember the 24.5% gross margin is a year-end number, it’s always lower at the first half due to the highly promotional period (c23.8-23.9%). And on trading margin, we’ve guided before that we believe we can maintain the Group trading margin going forward and we think it’s a good indicator of the overall health of the business but now you do need to take note of the costs noted in the SENS, that can have a 0.1-0.2 impact on trading margin depending on outages on power. Note the trading margin is always lower in first half due to promotional activity – Black Friday, straight into Christmas and then straight into January. We have high market share in back to school. Then we build the Group margin back up in the second half.

Q. In terms of strategy, you are in various categories? Would you go into apparel?

Yes, we are entering that category we plan to open in March next year a very specific proposition. We aren’t now discussing where we are pitching that. Also driven by the fact that we’ve taken clothing out of our Hyper stores. I’ve made up my own word, I feel customers have “preimmunized” clothing as a category. They don’t want to put their shirt to wear tomorrow on top of their chicken, so we took it out barring some basic items a basic t-shirt, flip flops. You will see it next year. We have brought the stock and secured the premises. At that time, we will tell you more.

Q. Does it integrate into you supply chain?

Yes. And from a buying point of view. We were in clothing so whilst it won’t be the same, we do have the buyers and the suppliers. What’s also nice is that we have been able to do some purchases from local producers. I’m very happy about that in terms of certain lines. We will start small. 10-12 stores and we will build slowly. We have this philosophy at Shoprite - fail fast - if we feel it takes too much effort and doesn’t give the return we move on.

Q. If you speak about how constrained your consumer is, most of your consumers are your employees. What's the outlook?

Highest inflation is in Usave – due to international commodity markets setting prices.

Oh you were asking about wage inflation…sorry.

… On wages, we were at 8.2% but then of course I did mention we did increase our minimum wage (we did that last year during our second half, already mentioned) and the Shoprite Share Trust (also reported on during our second half). That benefit goes to both RSA and Non-RSA staff. That all forms part of staff costs.

Q. Just on the customer data your competitors tell us suppliers want breadth of data in terms of history rather than quantity – so how do you think Checkers Xtra Savings is positioned relative to your peers, if a supplier was to use say just one?

We have 25 million members, 15 million are Shoprite customers and about half of them are cash customers. We have a usage rate north of 85%, that's people swiping with each transaction so the data quality is enormous. We have already launched a supplier platform (Rex) so suppliers can understand their customer shopping behavior better and meet their needs better e.g. time of day they shop, which day they shop etc.

We launched Checkers October 2019 and then Shoprite a year later October 2020 so we've got more than 2 years of data. We believe recency and breath are more important than going back. We think the fresher the data the better the learnings. We are a great proxy for the market. We are just scratching the surface and we are focused on this.

Q. Thank you for the time. I wanted to follow up- you didn't give the LFL, but trying to get a sense of what the 44 new stores equate to in terms of aggregate space growth

Ah, I would be guessing, maybe say 1%? We have 47 stores to open before Xmas and 69 in the first part of next year and that in total probably going to be just under 3% for the year. The numbers of stores stay high but the m2 will be low as the stores are smaller and more convenience.

Various average store sizes given – we have a format for all places and demographics.

Q. How much capacity do you think there is for Hypers going forward?

Five years ago, we all though hypers time was over but now its changed abut if you se our latest Hypers Now we call everything "x". Tech-X, Tool-X, Party shop, baby and we took clothing out as I said earlier to make space for this. It's become a pleasant experience and we have our partnerships Kauai and Starbucks and it's become an experience. So there are some more opportunities for them on the table being considered now.

We've also reopened the store in KZN too that was destroyed during the civil unrest.

Q. Thought I would ask about working capital? How much of your product is imported? Given you comments on bring stock in early?

Most of the general merchandise is imported, so about 9% of RSA revenue is imported. We've been able to develop local suppliers. On food, its negligible, if it was 2% it would be a lot. As part of our expansion as part of our September results presentation we mentioned we're adding to our warehousing space to manage and sustain our growth and our in-stock targets. So over time we will add to our ability to hold inventory. Our cash conversion is strong. The group has a strong balance sheet and generating sufficient cashflow to maintain our strategy around inventory where we decide to carry more stock – e.g. if we decide to hold 10% additional on top of our normal safety stock for top supply lines. It may be a surprise for you to learn some of our inbound service levels are between 50-60% and yet our outbound service levels to our stores runs at 98% so we have to compensate for that lack of supply.

Q. On loadshedding – what about potential capex? There has been a solar program – is there a capex requirement to add to it?

We've sold a lot of our properties, so the solar option sits with in most cases with the landlords. If you are running at stage 5 they (the generators) are not designed to run 24/7, they need downtime to be serviced. The replacement time in that scenario will require them to be replaced sooner than their lifespan but that all depends on how long we run at above level five.

Q. Are you able to comment on post period trade? In terms of your Shoprite specials and maybe it's a bit early to comment on Sixty60 specials?

No.

What I can say is I think the stock looks fantastic. We buy it in in January. It's looking beautiful. There is inflation on general merchandise for example a microwave last year, we sold if for R799 now it costs over R1,000 but fortunately people are buying air fryers now and we are selling a lot of them at R700. We are well positioned in general merchandise and as we said in the SENS our in stocks are looking good and I think we are well positioned for the festive period.

Q. You referred to 1.4% market share gains. Some of the peers have aggressive plans over the next few years. Can you unpack the market share gains?

No, I can't.

Shoprite continues to be the biggest. As a Group in South Africa, we have almost 34% market share and it's easy to look at that number. We rather look at the brands separately. Shoprite just over 18% and Checkers just over 14% - it's come from 9-14% over the past five years. We see a lot of head room. That's how we look at it.

Q. Can we talk about other income, the other generator of earnings?

Yes, as we reported for the year to June the other income line grew just under 20%.

Two years ago I was crucified for mentioning two terminologies:

1) precision retail and I continue to believe you need to be investing here, and

2) alternative revenue. This is part of the ecosystem strategy we refer to e.g., fees from franchise, insurance, deliveries, the media opportunity, it all adds up to contribute to other income and we foresee it can continue to grow double digit. Other income also includes transaction fees and commission but, note the costs sit in our operating costs. The traditional way of looking at sales growth vs cost growth also needs to consider the growth in other income. Need to revisit that and that's' why we say the state of the business is probably best served by looking at the trading margin. Other income in the past may have been viewed as temporary, it's not.

Q. Rest of Africa – can you highlight with currency helping, becoming a tail wind, you gave guidance before do you foresee margin expansion in the region?

We haven't changed our R500 million guidance medium-term target. On margin expansion, no, affordability is tight. I would have expected Angola to have kicked in due to the oil price but I suspect maybe they have pre sold some of their oil stocks. But the furniture business did do better in Angola. We have also assembled in country which has helped our pricing in future but on the food side, no.

Q. On insurance proceeds, there was potentially insurance proceeds to come?

We did create an intangible asset for R330 million and we have concluded with the insurers so we will bring in an amount. We did create an intangible asset for R330 million and we have concluded with the insurers so we will bring in an amount as part of H1 reporting. The R330m was the 100% upside, through the insurance process we have to make an assessment, we won't get the full claim but we have settled and I will report on it during the first half results.

Q. On social grants. Your view on if it will stay or Government will take it away and if they do what impact will it have on the RSA business given it was quite a tail wind during Covid and up to now?

I am assuming you are referring to the SRD grant?

I think it's unlikely to go away. There is talk I hear of it being increased to R480 so if anything, I expect it could benefit people, not the other way.

Q. On Sixty60, is there any insight you can give us on the customer – frequency, dark store impact etc?

It was originally conceived as a top up, "forecourt in your pocket" and we went from 9 stores to 360, now 378 stores. Virtually anything available in a Checkers that fits in a load box is available now so it's 17,000 products available inclusive of Xtra savings deals and offers. People are using it more frequently that a normal in store shopper and those customers are worth 2.5x a customer that just shops in store.

Higher typical baskets. It's frictionless, and it's been additive.

A third of customers are new to Checkers and about 10% in turn become in store customers.

Q. And the dark store?

Yes, its in cape Town CBD, about 2000m2.

Yes, it comes with more incremental rates.

Pick fill is good. Average delivery is 11 minutes. Early days 7 weeks in - lots to learn.

Q Any closing remarks?

No, other than to thank everybody. We will speak to you in March when we report our results.

Thank you.