RESILIENT BUSINESS MODEL SUPPORTS PERFORMANCE AND MARKET SHARE GROWTH FOR CORE PEPKOR BUSINESSES

Monday, November 25, 2019, Cape Town.

Pepkor Holdings delivered a strong set of results for the financial year up to September despite a very difficult trading environment. The group's defensive market positioning in the value and discount markets of South Africa and Africa proved to be a competitive advantage in an environment where high unemployment and slow economic growth constrained consumer spending.

Pepkor's resilient business model which operates more than 15 household brands such as Pep Stores, Ackermans, Incredible Connection, Russells and Shoe City, enabled the group's experienced management team to capitalise on market opportunities and make significant gains in market share – especially in the Clothing, Footwear, Home divisions.

Its latest set of annual results for the year ending September 30, 2019, highlights how the group's strong value proposition, with its diversified product and services offering continue to resonate with its loyal customer base and supported growth. Pepkor generated R70 billion in turnover, reflecting 9% growth on the prior year and increased operating profit by 15,6% to R7 billion.

The group continued its expansion of the business and opened 338 new stores, some with new retail formats, expanding the group's overall footprint to 5 415 stores.

Headline earnings per share increased by 14.5% to 96.8 cents, significantly affected by IFRS 9 provisions which are not included in the prior year base. On a normalised basis, headline earnings per share increased by 8.3% to 107.3 cents.

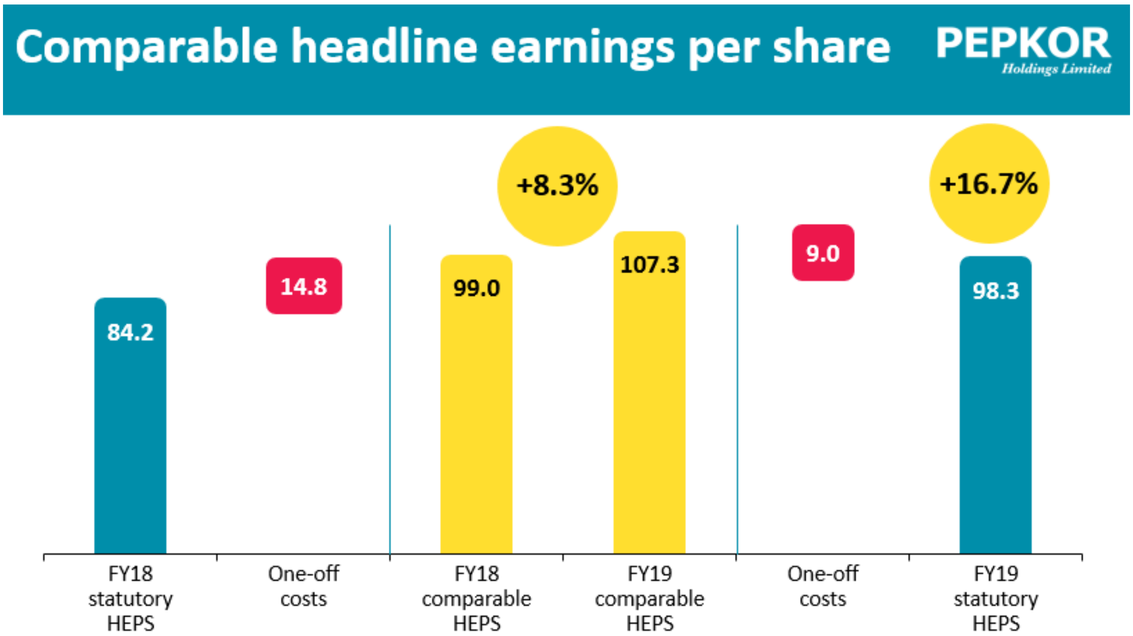
A dividend of 20.9 cents per share was declared, payable in the form of scrip (ordinary shares in Pepkor), with a cash alternative.

STATUTORY HIGHLIGHTS

1. 9% revenue growth to R69.6bn from continuing operations
2. 15.6% growth in statutory operating profit to R6.8bn from continuing operations and including the impact of once-off costs
3. 14.5% growth in statutory headline earnings per share to 96.8 cents

COMPARABLE HIGHLIGHTS

1. 9% revenue growth to R69.6bn from continuing operations
2. 12.0% growth in comparable operating profit to R7.2bn from continuing operations excluding the impact of once-off costs
3. 8.3% growth in comparable headline earnings per share to 107.3 cents
4. R7.6bn cash generated from operations (excluding funding of the new credit books)



**The comparability of Pepkor's statutory results is inhibited as a result of one-off costs due to provision for exposure in terms of a corporate financial guarantee and associated loans in addition to the adoption of IFRS 9 – Financial Instruments which requires a higher level of debtor provisioning. The graph above excludes discontinued operations in Zimbabwe.*

Leon Lourens, Pepkor's CEO said, "We are very satisfied with a strong set of results in a challenging environment. The ongoing focus on the needs of our customers, discipline in leveraging off our strategic strengths and ability to operate at a low cost of doing business, again proved to be successful and shows the business' resilience in difficult trading conditions. In the current trading environment it is even more important that we provide everyday products at affordable prices to our customers – in the process helping to make their lives easier and better. We are particularly satisfied that all our Clothing, Footwear, Home brands achieved market share gains over the last year. Our flexible store formats supported our continued expansion with the opening of 338 new stores during the year – taking our brands closer to where our customers live."

Looking at the year ahead Lourens added, "Retail requires a healthy balance between caution and optimism. We have the right team in place and a proven business model with a diversified offering – so despite expecting these challenging operating conditions to continue, we see many opportunities for market share expansion through continued focus on satisfying the needs of our customers in the value and discount segments of the market, leveraging our footprint and improving our operating cost efficiencies. Our merchandise buying plans reflect our optimistic outlook for the year ahead and management will continue to allocate capital effectively by investing in areas with good prospects, while reducing capital allocation in areas under pressure."

The **clothing and general merchandise segment** which includes PEP, Ackermans, PEP Africa and Speciality Stores contributed 64.6% to group revenue. This segment saw revenue grow by 6.5% to R45 billion including solid like-for-like growth by the brands. According to Retail Liaison Committee data, PEP, Ackermans and Pepkor Speciality retail brands continue to resonate with customers, showing strong market share expansion.

PEP maintained its price-leading position in the discount market, and financial services transactions, including bill payments and money transfers, increased by 41% with 67 million of these transactions completed during the year. This highlights the success of a diversified product and services range offered to customers through an extensive store footprint of more than 2 300 stores. PEP's standalone concept store, PEP Home, performed well and has now grown to 239 stores.

Ackermans continues to gain significant market share through its customer value proposition aimed at 'women with kids in their lives'. With 14 standalone **Ackermans Woman** concept stores in operation at year end. Valuable learnings will be applied to expand this to 30 stores in the next year.

PEP Africa, which contributed 3.2% to group revenue, is in a consolidation phase and the decision was made to exit Zimbabwe after closing 19 stores, with 20 still remaining. Excluding Zimbabwe, strong sales growth was delivered in constant currency terms. Selective store expansion in smaller towns in rural Nigeria was very well received and the successful introduction of cellular products benefited its performance in Angola.

The **Speciality division** reported sales growth of 7.7% and the total store footprint across the five retail brands expanded to 949 stores. This included strong performances by the apparel retail brands, while the footwear retail brands faced challenging market conditions. In Tekkie Town the stockholding and other inefficiencies are being addressed to enhance the quality of earnings of this business going forward.

The furniture, appliance and electronics segment (JD Group) includes brands such as Russells, Bradlows and HiFi Corporation to name a few, grew revenue by 8.3% to R9.3 billion and restored profitability of its retail operations which is a major achievement in this tough segment. The turnaround of this business is now nearly complete and the foundation is now laid for future profit growth. Online sales also saw significant growth and now contributes 4% to the electronics and appliances division's turnover. The new accounting standard, IFRS 9 which requires increased provision levels based on expected credit losses, however resulted in an operating loss for this division of R85 million. Management continues to focus on operational initiatives to improve sales performance including store locations, product range, omni-channel, supply chain efficiencies and service offerings in the respective brands.

The building material segment – with brands such as Buco, Timber City and Tiletoria – declared stable revenue at R8.2 billion. A write down of goodwill and intangible assets in the Building Company of R1.2 billion as a result of the contraction in the building materials market impacted this division. Operating profit, before the impairment, decreased by 28.5% to R153 million. The business is in process of consolidation, following a prolonged period of corporate activity which included various acquisitions. In the current operating environment the business remains focused on protecting volumes and market share. The business progressed substantially in the process of restructuring and consolidation while opportunities to restructure and realise efficiencies are being explored. Their e-commerce offering, via an online app was launched, a first in the building materials retail market.

The FinTech segment increased revenue by 43.9% to R7.2 billion, while operating profit increased to R483 million. The **FLASH business** continues to report strong growth, completing an average of 3.2 million daily transactions in the informal market with virtual turnover growth exceeding 20%. Performance in Capfin was supported by appealing to a broader range of customers through its digital channels. It further successfully established its own internally-funded credit book which remains healthy with credit performance meeting expectations.

Cash of R4.1 billion, generated by operations, was negatively impacted by the funding of the new credit books. Excluding the funding of the new credit books, R7.6 billion cash was generated.

Disciplined markdowns ensured ongoing stock freshness and although trading was weaker, inventory levels increased by a modest 7.6%. The expanded store base, increased levels of imported cellular handsets and virtual airtime, contributed to these slightly higher inventory levels.

"While Pepkor remains cautiously optimistic about the South African retail environment, our teams continue to identify opportunities for growth and expansion such as leveraging our footprint, opening more new stores, fresh retail formats and innovative channels to serve customers," Lourens concluded.

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