<u>PEPKOR ACHIEVES SALES GROWTH AND SUBSTANTIAL MARKET SHARE GAINS</u>

Defensive discount and value positioning underpin the retailer's resilient performance during COVID-19

Monday 23 November 2020, Cape Town: JSE-listed Pepkor Group, which includes well-known brands such as Pep Stores, Ackermans and Incredible Connection, achieved a 3,6% growth in revenue to R63,7-billion, for the financial year ending 30 September 2020.

This was an exceptional result considering the fact that the group lost approximately R5 billion in sales during the hard lockdown period when retail stores were closed. Pepkor was able to navigate the challenges that COVID-19 presented and exceeded expectations by remaining focused on their discount and value business models - providing affordable products to their large customer base. The group achieved huge market share gains since April with growth of 240 basis points in clothing, footwear and homeware (RLC) and 370 basis points growth in cellular (Gfk).

Pepkor CEO, Leon Lourens, says, "We are very happy with our exceptional sales performance since our stores re-opened after the hard lockdown, and the resultant market share gains. Our discount and value business model provided much needed affordability to our customers during these tough economic times. Our expansive store footprint helped our customers to shop for their basic and essential products closer to their homes. We are also happy to have kept our expense growth under control and we continue to trade at the lowest cost of doing business in the market".

"We were able to reduce our debt by R6.9 billion as prudent capital allocation and a very productive cash conversion rate of 136% assisted to bolster our balance sheet. The exceptional sales performance, strict cost control and conservative credit book management contributed to phenomenal cash generation of R9.2-billion".

Lourens ascribed the solid set of results to the strong defensive business model of the group. This together with the ability to react and adapt quickly to the unique challenges of COVID-19 ensured that Pepkor protected the sustainability of the group.

Pepkor took deliberate steps to bolster its balance sheet and reduce debt in response to the crisis. This included:

- Reducing expenditure by R700 million compared to budgeted levels.
- Reducing capital expenditure by R320 million during the last 6 months and optimising capital allocation.
- Curtailing credit granting to consumers.
- Raising R1.9-billion from equity investors via an accelerated book-build in June 2020 which resulted in the issuing of 172.5 million new Pepkor shares.
- Early settlements of bridge term loan facilities (R1.5-billion) and preference share funding (R4-billion).
- The launch of the R10-billion domestic medium-term note programme, allowing the group to raise R1-billion in three and five year bonds at favourable interest rates.

"Pepkor's balance sheet is now far more efficient and flexible which places us in a strong position to weather potential future impacts from COVID-19 and more importantly, to capitalise on successes from this year, identify new growth opportunities and ensure our sustainability into 2021," adds Lourens.

"We are well positioned to perform in a constrained retail environment and will focus on entrenching our discount and value positioning and further expand our market share as consumers ‘buy down’ in search of value. However, the uncertainty surrounding the longer term impact of the COVID-19 pandemic remains and we will continue to apply a conservative approach in areas such as capital allocation and expenditure,” says Lourens.

Pepkor is investing in and expanding its use of technology and developing innovative products and services in areas of e-commerce and fintech while leveraging its physical store footprint with parcel delivery. Significant progress was also made to restructure and consolidate the portfolio of operations to enhance efficiency and profitability levels.

Pepkor results highlights from continuing operations

1. Operating profit decreased by 18.4% to R5.3 billion.
2. Headline earnings per share reduced by 21% to 75.4 cents.
3. 230 new stores were opened in the past 12 months.
4. Inventory levels reduced by more than 13% compared to last year with much increased freshness levels. Focus on affordable products and services has resulted in substantial market share gains.
5. R9.2 billion cash generated
6. Defensive positioning proves resilient in current trading conditions

- With the adoption of IFRS16, operating profit decreased by a mere 0.3% to R6,5-billion (excl. IFRS16: decreased by 18.4%)
- With the adoption of IFRS16, HEPS decreased by 34,4% to 62,6 cents (excl. IFRS16: decreased by 21%)

Results from continuing operations, excluding the adoption of IFRS 16
Group revenue increased by 3,6% to R63.7-billion despite about R5-billion in turnover being lost in sales as a result of the national lockdown.

Operating costs, excluding debtors’ costs and depreciation, increased by 3,4%. This includes cost savings of R700 million.

Debtors’ costs increased by 48.4% to R1.7-billion as a result of increased credit book provision levels and bad debts. A conservative approach was applied in anticipation of a deterioration in the credit health of consumers, notwithstanding, collection levels exceeded the initial expectations.

Operating profit (before capital items) decreased by 18.4% to R5.3 billion. Net finance costs reduced by 13.3% to R1.4 billion supported by strong cash generation and reduction in interest rates.

Earnings were impacted by the impairment of goodwill and intangible assets of R4.8-billion. The impairment is a result of constrained future growth expectations in Pep Africa, Speciality, Tekkie Town and the JD Group in addition to an increased weighted average cost of capital. This resulted in a loss per share of 62.5 cents. Headline earnings per share reduced by 21% to 75.4 cents.

No dividend was declared based on heightened levels of prudence applied by the board and the focus on liquidity preservation and allocation of resources.

Cash generated by operations, including discontinued operations, amounted to R9.2-billion based on strong trading and resulted in cash conversion of 134%. As a result, inventory levels reduced by 13% to R10.7-billion (excluding discontinued operations).

The group's conservative approach to consumer credit resulted in reduced credit granting prior to the onset of COVID-19. Since then, credit granting was curbed even more which resulted in a drastic reduction in approval levels. This, in addition to good post-lockdown collections, brought about a total reduction of R1.1-billion in the gross size of all credit books since March 31, 2020.

OPERATIONAL PERFORMANCE

Clothing and general merchandise

The clothing and general merchandise segment reported an increase in revenue of 1.4% for the year to R45.6-billion. This includes revenue growth of 12.1% during the last quarter, recovering from a 15.9% decline during the third quarter.

Operating profit decreased by 15.6% to R5.2-billion, impacted by lost sales and increased provision levels. Retail store expansions slowed slightly during the second half of the year and this segment's stores are now at 4 375 stores.

PEP and Ackermans benefited from strong trading following the reopening of stores in May 2020. While the strong trading performance can be attributed to pent-up demand and additional social grant payments, the value propositions of both Pep and Ackermans resonated as more customers in search of value. Both Pep and Ackermans grew their market share and sales were up by 2.6% for Pep while Ackermans with a slight decrease in like-for-like sales of 0.5%. Pep and Ackermans sold 12.6 million mobile handsets during this period with the bulk of the units now coming from the smartphone categories.

PEP with its refreshed brand, has continued to deliver the lowest possible price on basic and essential products. While customers' shopping frequency reduced, their basket sizes increased substantially. The 'Babies' product segment delivered, while 'back-to-school' July trading was impacted by the lockdown. In Cellular, smartphone volumes increased by almost 20%, driven by strong customer demand and changing behaviour. PAXI, the parcel delivery initiative for customers, distributed more than double the number of parcels than the year before, bringing the total to 1.9-million parcels compared to 850 000 during the previous year.

Ackermans achieved market-leading results, growing its appeal to 'women with kids in their lives'. The store network increased by 62 to bring the total to 861 stores. Although lower credit sales resulted in lower contribution of 17% (2019: 19%), performance in lay-bys achieved record fulfilment levels. Babies, Kids and cellular handsets resulted in strong growth and the Ackermans Woman retail concept drove sales and market share with 26 new stand-alone stores launched during the year. Ackermans was also voted as the winner in the children's clothing category for the eighth consecutive year by Ask Africa Icon Brands.

PEP Africa contributed approximately 3% to group revenue during the year as adverse macroeconomic conditions impacted most countries. Weakening currencies resulted in a decrease of 16.2% in sales at actual rates. The retail store footprint decreased to 301 stores as 23 stores were closed. The exit from Zimbabwe was completed and in Uganda, 13 stores will be closed as expansion into East Africa was no longer feasible.

Speciality experienced improved trading following the relaxation of lockdown measures, but reported mixed results with weaker demand for discretionary purchases such as adult footwear and apparel. A drop in sales of 3.6% with like-for-like sales decreasing by 4,6% for the year was reported. The division closed 35 stores, reducing the total store base to 829 stores.

New structures and processes at Tekkie Town are bearing fruit, but lower consumer spending impacted this business and that of Shoe City. The Dunns retail brand achieved profitability and Refinery strengthened its brand equity, while successfully launching an e-commerce platform. John Craig's performance was impacted by the shift in consumer demand and the business will be sold.

Furniture, appliance and electronics reported revenue growth of 1.4% to R9.5-billion. The JD Group experienced strong trading momentum. Consumer demand continues to be driven by technology upgrades and work/school-from-home and its investment in omnichannel capability saw the number of online transactions increase by 135%. The contribution from online sales in CEAD nearly doubled to 7% from the prior year as a result of investments in omnichannel capability.

Fintech reported revenue growth of 20.4% for the year to R8.6-billion and operating profit decreased by 5.8% to R455-million as a result of a higher credit book provision in the Capfin unsecured lending business. FLASH achieved strong growth with turnover in the informal trader business increasing by 25.7% for the year and the trader business now includes 194 000 traders in the informal market. Capfin reduced the number of active accounts by 34% to 219 000 as it reduced credit approval levels.

Building materials, which forms part of the discontinued operations, reported a decline in sales of 12.6% and a decrease in like-for-like sales of 11.3%. Cashbuild is set to acquire The Building Company for R1.2-billion subject to regulatory approvals. Good progress was made in consolidation of the other brands in this segment and margin improvements were achieved in the retail division through centralised procurement and automatic replenishment initiatives.

Notes to editors:
RLC - Retailers' Liaison Committee (www.retailers.org.za)
GFK - Growth from Knowledge (www.gfk.com)
CEAD - Consumer, Electronics and Appliance Division

About Pepkor
Pepkor has the largest retail store footprint in southern Africa with more than 5 200 stores operating across 10 African countries and includes trusted brands such as Pep, Ackermans, Tekkie Town and Refinery. Established 100 years ago, Pepkor continues to provide South Africans with the right products, at the right price, and at their convenience. The majority of Pepkor's retail brands operate in the discount and value market segment, which enjoys natural resilience thanks to customers' ability to buy 'up' or 'down' according to their budgets, and prevailing economic conditions.

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