SOLID INTERIM RESULTS FROM PEPKOR HOLDINGS DESPITE A TOUGH TRADING ENVIRONMENT

HIGHLIGHTS

1. Revenue is up by 7,0%
2. Operating profit is higher, on a comparable basis, by 6,9%
3. Headline earnings per share, on a comparable basis, is higher by 3,4% to 52,4 cents
4. 164 new stores opened, growing the group's retail store footprint to more than 5 300 across the country
5. Funding of the internal credit books has commenced
6. Pepkor's retail brands solidified and grew market share in a challenging retail environment

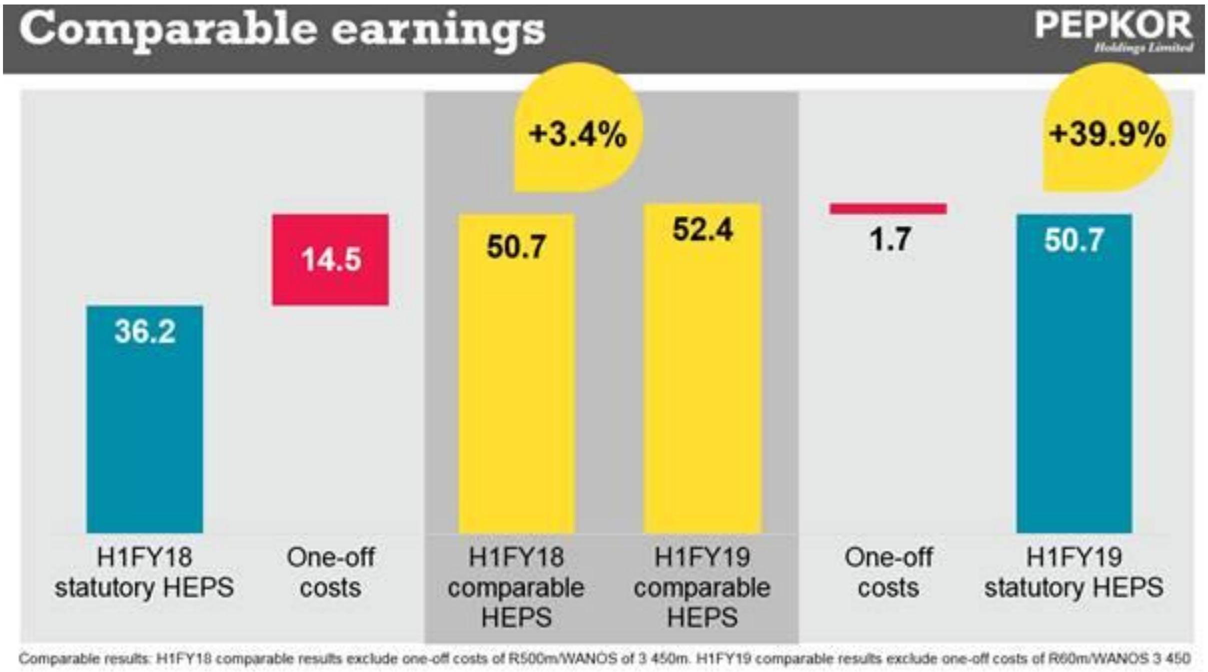
Pepkor Holdings, with a track record of several decades in the Southern African retail industry, released its results for the six months ending March 31, 2019. Despite a challenging retail environment where consumer spending remained under pressure, Pepkor's defensive market strategy and everyday affordable prices proved resilient in driving sales growth, protecting margins and delivering respectable growth in earnings. The group achieved revenue growth of 7,0% to R35,3-billion and operating profit growth of 6,9% on a comparable basis, to deliver R3,4-billion during the first six months of its 2019 financial year.

When comparing the first six months of 2019 with the same period last year, the 2018 period was impacted by a R500-million one-off costs – a provision for exposure in terms of a corporate financial guarantee and associated loans – which impacted the 2018 interim earnings per share by about 14,5 cents.

During the 2019 interim period, an additional R60-million was incurred due to accumulated interest costs and an additional provision for increased credit exposure in terms of the same matter. The 2019 interim earnings per share was impacted as a result by 1,7 cents. As in the previous six month period, no interim dividend was declared.

		Comparable results for the six months ended 31 March 2019 Rm	**Provision for guarantee and loan impairment Rm**		**Comparable results for the six months ended 31 March 2018 Rm**
			'19	**'18**	
Operating profit before capital items	+6,9%	3 430	40	500	3 208
Capital items		2	-	-	(1)
Operating profit after capital items		3 432	40	500	3 207
Net finance costs		(718)	20		(553)
Profit before taxation		2 714	60	500	2 654
Taxation		(903)	-	-	(899)
Profit for the period		1 811	60	500	1 755
Profit attributable to:					
Owners of the parent		1 811	60	500	1 749
Non-controlling interest		-	-	-	6
Headline earnings per ordinary share (cents)		52.4	1.7	14.5	50.7

		Comparable results for the six months ended 31 March 2019 Rm	Provision for guarantee and loan impairment Rm		Comparable results for the six months ended 31 March 2018 Rm
Basic earnings per ordinary share (cents)		52.5	1.7	14.5	50.7
Number of ordinary shares in issue (millions)		3 450	-	-	3 450



**comparable results are for illustrative purposes only*

Net finance costs increased by 33,5% to R738 million (29,8% to R718-million excluding one-off costs) as a result of the capital investment made to fund the two new credit books internally. The internal funding of the new credit books commenced during the reporting period. The new JD Group credit book, Connect Financial Solutions, amounted to R1.0 billion (gross) and the new Capfin credit book amounted to R0.3 billion (gross) at 31 March 2019. The new credit books are funded by R2.5 billion bridging finance secured during the period. Opportunities to diversify funding sources are being explored.

Cash generation was negatively impacted by the funding of the new credit books and higher net working capital levels. Higher inventory levels at March 31, 2019 – compared to the prior year – were influenced by the shift of Easter to April, as well as an expanded store base.

OPERATIONAL PERFORMANCE

The challenging conditions within the discount and retail sectors weighed on sales growth. By Pepkor standards the sales growth achieved by many of its retail brands in its Clothing and general merchandise segment were lower than expected, although according to the Retail Liaison Committee, the group grew its market share. Revenue grew by 5,2% to R23,1-billion, while operating profit increased by 6,6% to R3,1-billion. This segment contributed 66% of group revenue during this interim period.

The retail brands within this segment opened 136 new stores during the period, resulting in a total of 4 310 stores and equating to retail space growth of 4.8% year-on-year.

PEP
PEP remains the leader in the competitive discount market segment and it maintained its "best price" leadership position at 97% - it opened 47 new stores in the interim period across the PEP, PEP Home and PEP Cell stores.
Good performance was reported in the Babies and Home departments, with strong growth in Fast-Moving-Consumer-Goods (FMCG) and Financial Services. Performance in Cellular was below expectation following price increases in handsets.
The PAXI parcel delivery service, which successfully leverages and monetises the PEP retail footprint, celebrated its first full year of operation. Good growth momentum continues, with 45 000 parcels being delivered on a monthly basis.
The new Dealz discount variety retail concept rolled out four additional stores and performed well with strong like-for-like and basket size growth. Plans are in place to open a further six stores during the remainder of FY19.

Ackermans
Ackermans' strong customer positioning continued to drive growth and outperformed the market. 31 new stores were opened during the period, expanding the store base to 759 stores.
The credit sales mix, facilitated by Pepkor's *Tenacity Financial Services business*, was maintained at 17%, with lay-bys contributing a further 18% to total sales.
Growth in clothing, foot and home was supported by double-digit growth in the Essentials, Babies and Women's Wear product categories. The Ackermans Woman retail format continues to perform well and an additional three stores were opened during the period, bringing the total store base to six.

PEP Africa
PEP Africa contributed 3,4% to group revenue sales and reported like-for-like sales growth of 10.8%. The devaluation of Angolan and Zambian currencies resulted in a sales decline of 3,4% in actual exchange rate terms. Performance in all countries improved, except for Zimbabwe, where operations have been purposefully slowed down so as to manage risk.

Speciality
The Speciality Division reported strong results, delivering sales growth of 9,4% and like-for-like growth of 4,1%. The total store footprint across five retail brands was expanded to 939 stores, with 47 new store openings. Lourens says that footwear businesses are facing challenging conditions.

"Footwear is a relatively higher-priced product which is easily deferred during difficult economic conditions. But against this background, Tekkie Town and Shoe City performed well and Tekkie Town, with now more than 400 stores, continues to grow and expand while key projects are underway to enhance its supply chain and stock management ability. Dunns delivered a positive performance while John Craig and Refinery brands continue to report double-digit sales and like-for-like growth."

Furniture, appliances and electronics – JD Group
Turnover in this segment – which contributes 14% to group revenue - increased by 7,2% to R5-billion. The JD Group now funds and manages credit internally under Connect Financial Services, and credit sales contributed 18% to overall sales – this includes a sales mix of 27% on furniture brands and 7% for consumer electronics and appliance brands. "Compared to two years ago where the credit contribution to sales was 70%, we feel much more confident with the current contribution as a sustainable enabler of the business model. Although sales growth was inhibited with customers only spending on essentials vs. durables, profitability was restored."

Management continues to optimise the retail store footprint, currently at 900 stores – both in terms of locations and reducing store sizes.

Building materials

This segment – which contributes 12% to group revenue – reported a 1.5% higher turnover at R4-billion, however operating profit decreased by 66,9% to R42-million. The building materials market is experiencing its worst contraction in almost a decade (*First quarter 2019 Building Report published by the Bureau for Economic Research)*, and the business is facing the dual challenge of defending its market share and protecting margins and profitability. Strategic development continues across the business, including initiatives to improve margins with a focus on profitability.

Fintech

This segment - which contributes about 9% to group turnover - increased revenue by 32,3% to R3,2-billion, while operating profit increased by 36,7% to R201-million. The FLASH business continues to report strong growth, exceeding 20%, while the number of FLASH traders increased by 19% to 156 000.

The Capfin business performed well during the period with a 36% growth in new loan applications supported by the introduction of new digital channels and a new marketing campaign.

Lourens added that the growth of the latter should be seen in context – unsecured lending is managed on a very conservative basis and the business has stringent credit scoring and affordability measures in place.

Lourens concluded, "We believe Pepkor is ideally positioned for growth, even in these difficult operating conditions because of our discount and value positioning. Our businesses are focused on delivering variety, affordability and accessibility to our customers each day. Our 49 000 committed Pepkor employees remains steadfast in out to provide value that enriches customers' lives."

He added that management remains cautiously optimistic about the retail environment and expects some improved consumer confidence for the remainder of 2019.