PEPKOR'S BUSINESS MODEL SHOWS RESILIENCE AND GROWTH IN MARKET SHARE

Cape Town, 27 May 2020: JSE-listed Pepkor Holdings Limited delivered a commendable set of interim results with revenue growth of 6,5% in a very challenging retail market for the six months to March 2020. This highlights the group's robust and resilient business proposition which focuses on the defensive discount and value retail markets, underpinned by a low-cost operating model. The Group which operates iconic brand names such as PEP Stores and Ackermans was able to grow market share in Clothing, Footwear and Homeware by 90 basepoints against the backdrop of a restricted total retail market. Pepkor opened 145 new stores across its brands increasing the retail footprint to 5 498 stores.

CEO Leon Lourens said that despite the lockdown and resultant economic impact, Pepkor is positive about the future and confident that they can gain significant market share: "Thanks to our defensive market position, our business model may prove to be quite resilient, in the post-COVID-19 environment. Consumers will need the affordability of prices in the discount and value segments of the retail market and that is exactly what we provide. A large part of our range includes basic and replenishment products, with a big focus on babies and kids, and therefore we are less exposed to fashion risk and the resultant markdowns. The fact that the group operates at the lowest cost of doing business in the market also adds to the resilience of the business model."

The implementation of the new accounting standard on leases - IFRS 16 – had a material impact and reduced earnings from continued operations by R200-million and negatively impacted headline earnings per share by 12,3%.

HIGHLIGHTS, EXCLUDING THE ADOPTION OF IFRS 16

1. 6,5% revenue growth to R37,6-billion from continuing operations
2. 0,3% growth in comparable operating profit to R3,4-billion from continuing operations
3. 1,5% decrease in comparable headline earnings per share to 50,4 cents
4. R2,9-billion cash generated from operations (excluding R1.2-billion investment in new credit books)

STATUTORY HIGHLIGHTS, INCLUDING THE ADOPTON OF IFRS 16

1. 6,5% revenue growth to R37,6-billion from continuing operations
2. 17,2% growth in operating profit to R4-billion from continuing operations
3. 13,6% decrease in statutory headline earnings per share to 44,3 cents

The commentary below focuses on the exclusion of IFRS 16 so as to allow for a meaningful comparison of its interim results.

Despite the backdrop of a challenging local retail environment, worsened by the national lockdown which impacted trading towards the end of March 2020, the Group achieved respectable growth in revenue of 6,5% to R37,6-billion on a half year basis. Operating profit and earnings growth were negatively impacted as the group completed its investment in two new credit books. Basic earnings per share dropped slightly by 4,7% to 48,9 cents and headline earnings per share reduced by 1,5% to 50,4 cents.

Leon Lourens, Pepkor's CEO says the group remained single-minded in its focus on customers' needs for value, while driving a low-cost business model.

"Our group strategy of providing the right product at the best possible price in accessible locations, continues to underpin our performance. This translated into continued market share gains in most of our clothing, footwear and homeware retail brands."

The **clothing and general merchandise segment** which includes PEP, Ackermans, PEP Africa and Speciality Stores contributed 64,8% to group revenue. This segment saw revenue increase by 5,4% to R24,3-billion and delivered a 1,3% increase in operating profit to R3,1-billion, impacted by lower profitability levels in PEP Africa and Speciality.

In aggregate, PEP and Ackermans reported merchandise sales growth of 7.3% and like-for-like growth of 3.6% despite lost trading due to the national lockdown.

PEP once again outperformed the market, further strengthening its position as leader in the discount clothing and general merchandise segment. While customers face financial pressure and high levels of unemployment, PEP continues to fulfil their needs for basic and essential products and services. PEP expanded by 44 new stores during the period resulting in 2 357 stores, growing retail space by 2,9%. Financial services achieved transaction growth of 21% and the PAXI initiative continues to prove successful in leveraging PEP's retail footprint with 730 000 parcels distributed for customers and SMEs during the past six months.

Ackermans's value proposition, aimed at 'women with kids in their lives', again delivered a sturdy performance. It added 33 new stores, expanding to 837 in total which represents a 7,2% retail space growth year-on-year. The credit sales mix was maintained at a conservative 18% while laybys achieved strong growth and increased its sales contribution to 18,7%. The Babies product category led with double-digit growth and Cellular performed positively too.

PEP Africa remains profitable and continues to consolidate amid adverse macroeconomic conditions across most countries of operation, while performance of the Speciality division has been most severely affected by the challenging retail environment of more discretionary products such as footwear and adult apparel.

With continued weak consumer demand for durable products, the **furniture, appliances and electronics segment** (JD Group), which includes brands such as Russells, Bradlows and Incredible Connection to name a few, grew revenue by 1,7% to R5,1-billion. Operating profit increased by 11,7% to R67-million supported by continued profitability at the retail operating level and the contribution from the Abacus insurance business which was acquired in December 2019. The store base is now at 921, while retail space decreased by 1,8%.

As of mid-March, sales in the furniture division were severely impacted by the lead-up to the implementation of the national lockdown. However, the electronics and appliances division benefited from the investment in online transacting and fulfilment systems and achieved strong growth in online trading, and the contribution from divisional online sales increased by 6,3%. This division is well poised to take advantage of expected growth in online.

Trading activity in **the building material segment** continued to weaken in the shrinking building industry**.** Segmental revenue declined by 5,1% to R3,8-billion and like-for-like sales declined by 4%. Operating profit reduced to R4.0 million as performance was severely impacted in the lead-up to the national lockdown In the retail division good progress was made to improve margins and in areas such as centralised procurement and automatic replenishment initiatives, however reduced activity in the specialist and wholesale divisions weighed on the performance of this segment.

The FinTech segment increased revenue by 36,4% to R4,3-billion and although operating profit was maintained, growth was impacted by the application of IFRS 9 on the new Capfin credit book. FLASH continues to report strong growth with virtual turnover in its trader business increasing by 21% with 172 000 FLASH traders now operating in the informal market. Investments in new products, channels and geographies are gaining momentum. Capfin increased its active accounts to 333 000, but credit granting was severely curtailed towards the end of March as a result of COVID-19 and the focus in this business is now on collections.

The overall results on continued operations for the group was impacted by the funding of its two credit books – Connect & Capfin credit books – with resultant higher provisions for bad debts. The application of

IFRS 9 resulted in additional provisions amounting to R134-million during the current period compared to R50-million in H1FY19, while funding of the new credit books inflated net finance costs by 6,1% to R784-million.

On 31 March 2020, net debt amounted to R14,1-billion (Sept 30, 2019: R13,9 billion).

As part of the group's stated ambition to reduce gearing and the cost of funding while diversifying the sources of funding, Pepkor successfully raised R1-billion in bonds issued under its Domestic Medium-Term Note Programme at favourable interest rates. The proceeds from the bond issue were used to settle other debt. Moody's also affirmed Pepkor's credit rating on 6 April 2020.

Commenting on the impact of COVID-19, Lourens said the group saw an estimated R4760 million loss in revenue and an estimate R150-million decrease in operating profit.

"We prioritised the livelihoods of our more than 50 000 employees to curb salary cuts and job losses where possible and made substantial contributions to help fight and alleviate the impact of COVID-19. We repurposed the Pepclo manufacturing facility to produce personal protective equipment (PPE); used the group's reach into informal communities to distribute food vouchers using FLASH technology; leveraged the Pepkor store footprint to allow customers to make donations at till points and implemented immediate salary sacrifices for the Pepkor board and executives. We also employed additional measures to support our customers who cannot afford to make debt repayments on a case-by-case basis."

Lourens says the risk posed by COVID-19 to the group and its operations required urgent and tactical measures to mitigate the impact.

"We implemented a number of measures to protect and sustain the business including reducing operating costs, capital expenditure and stock inflows in anticipation of lower consumer demand levels. We proactively engaged with our funders and secured additional seasonal facilities as a contingency. We are in constructive discussions with funders in relation to existing covenant waiver and amendments for the periods ending September 2020 and March 2021, respectively.

"We are confident that Pepkor is ideally positioned to gain market share in the post-COVID-19 'new economy' with its defensive discount and value positioning being more resilient through its focus on babies' and children's clothing and large contribution of basic and replenishment products. The group's purpose and mission are now more relevant than ever – to make a positive difference in the lives of our customers and the communities in which we operate by providing convenient access to everyday products and services at affordable prices," says Lourens.

The duration and evolution of the COVID-19 pandemic and the related impact on trading is uncertain and as such the effect that it may have on the Group's financial performance in the near term. The group is continuously assessing various scenario plans and stress tests to ensure that the business is taking appropriate financial actions to reduce costs, conserve cash and access liquidity during these unprecedented circumstances," Lourens concluded.

Ends

For media enquiries, contact: Claire Williams, Atmosphere Communications: 083-928-1962 or email claire@atmosphere.co.za
On behalf of Pepkor Holdings Limited, www.pepkor.co.za