Media release

Pepkor's headline earnings are up 50% with growing customer base

Cape Town, *27 May 2021* – JSE-listed Pepkor Group reports a 50.6% increase in headline earnings per share with revenue of R36.5 billion for the six months ending 31 March 2021. Other highlights include an 18.5% growth in operating profit and significant market share gains across most merchandise categories.

Financial highlights

- 8.1% growth in revenue to R36.5 billion
- 50.6% increase in headline earnings per share to 68.8 cents
- 18.5% increase in operating profit to R4.6 billion
- R5 billion cash generated including discontinued operations (The Building Company)
- R8 billion reduction in net debt to R6.1 billion

"We are extremely satisfied with the very strong performance from all businesses across the group especially considering the economic context South African consumers face. The performance is also commendable in that the six-month period ended 31 March 2020 was largely unaffected by COVID-19. It is important for us to continue providing affordable products and services to our customers and operate at the lowest cost of doing business so that we make our customers' lives easier," says Pepkor CEO, Leon Lourens.

"In many instances, our businesses are the only option for consumers and we take our role in their lives very seriously. The value we provide our customers is rooted in operating a sustainable business underpinned by good corporate governance while taking care of our employees and looking after the communities," says Lourens.

The Pepkor Group continues its expansion and opened 108 new stores during the six months - most of which are PEP and Ackermans stores and are exceptionally strong and robust brands. This number will double during the second half of the financial year.

Pepkor achieved extraordinary market share gains over the last year. In the clothing, footwear and homeware (CFH) category, which is the biggest product category in the group, market share gained 296 basis points according to the Retailers' Liaison Committee. In cellular handsets market share increased 422 basis points and in branded footwear 331 basis points according to Growth from Knowledge (GfK) data.

Revenue growth of 9.9% was achieved, excluding the credit books where a conservative approach is followed. From a pure retail perspective gross profit margins increased by 30 basis points due to fewer markdowns on prices and selling at fuller prices. Operating costs, excluding debtors' costs, increased by only 4.3%.

The balance sheet continues to be strengthened through significant cash generation, debt reduction and prudent capital allocation. During the period R5 billion in cash was generated which helped to reduce Pepkor's net debt from R14.1 billion to R6.1 billion. Cash conversion of 75.2% was achieved and 93% of Pepkor's turnover is generated from cash. A continued conservative approach to Pepkor's credit books and good collections resulted in a reduction in debtors' costs of 49.6% to R428 million.

A successful, and oversubscribed, bookbuild resulted in Pepkor raising R2.2 billion in three- and five-year bonds at very competitive rates, further strengthening the group's liquidity and debt repayment profile.

"Pepkor is on track to exceed our target of achieving the 2019 EBIT numbers during this year. We are well positioned to keep serving our large customer base in the discount and value sector of the market during a time when customers are even more dependent on us than ever," says Lourens.

Segmental performance

Clothing, footwear and general merchandise

Household brands including PEP, Ackermans, Refinery, Tekkie Town and Shoe City increased revenue by 8.1% to R26.3 billion for the period and operating profit was up by 15.7% to R4.1 billion. The segment's store base comprised 4 421 stores at 31 March 2021. During the period 98 new stores were opened, led by PEP and Ackermans, and 163 stores were closed, including the disposal of 111 John Craig stores.

PEP and Ackermans together increased sales by 8.8% and like-for-like sales increased by 6.9%. **PEP** continues to see growth in Babies and Home while changing consumer behaviour was witnessed in cellular performance, driven by smartphone sales. Meanwhile, the PAXI parcel delivery initiative which leverages the group's extensive footprint distributed 1.7 million parcels in the period. **Ackermans'** value positioning appeals to 'women with kids in their lives and good growth was seen across all departments. Women's wear achieved 16.2% growth and the Ackermans Woman concept increased its footprint to 28 new stand-alone stores.

As one of the smaller contributors to group revenue at 2.4%, **PEP Africa** operations continue to be consolidated. The cost base in the business was reduced substantially and the business remains profitable. In constant currency terms, PEP Africa saw an increase in sales of 7.1% and like-for-like sales of 13.1%.

The Speciality business, excluding discontinued operation John Craig, increased sales by 16.6% and like-for-like sales by 13.5%. Notable performance was **Tekkie Town's** increase in market share by 331 basis points in branded footwear according to GfK data.

Furniture, appliances and electronics

The JD Group which includes some of Pepkor's oldest brands, **Bradlows** and **Russells**, as well as **Incredible Connection** and **HiFi Corp** increased sales by 16.4% for the period. Buoyed by the consumer trend around working or studying from home, JD Group experienced high demand from customers for technology upgrades, furniture and appliances. Operating profit for the segment increased by 15.4% to R209 million.

Performance was underpinned by strong growth in cash sales of 25.4%. Prudent credit granting resulted in the total credit sales mix reducing to 9% from 17% in the comparable period.

FinTech

The FinTech segment increased revenue by 3.1% to R4.5 billion for the period. Operating profit increased by 68.8% to R336 million and benefited from improved profitability in the Capfin unsecured lending business following its restructure.

The **Flash** business continued double digit revenue growth as it invests in new products, technology and channels. There are currently 196 000 traders who are empowered to grow their own businesses and create job opportunities in their local communities. Virtual turnover per device increased by 20.0% year-on-year which speaks to a more diverse offering of product and services such as 1FORYOU vouchers.

Reduced credit granting and lower interest rates impacted revenue growth in **Capfin** with the total number of accounts reduced to 214 000 from 333 000 a year ago. The Capfin gross credit book reduced to R1.9 billion from R2.6 billion a year ago. The credit book provision level sits at 18% versus 20% in the comparable period.

Building materials (discontinued operations)

The disposal of **The Building Company** is pending a final decision from the South African Competition authorities. The Building Company increased sales by 9.6% with like-for-like sales growth of 11.7%. Profitability improved on the back of a more robust business model, improved margins and an optimised cost base.

Outlook

The group's business model and market positioning have sustained performance since the onset of COVID-19. Pepkor has responded effectively to changes in the operating environment and consumer behaviour, thereby entrenching its position in the discount and value sector. During this time Pepkor has made excellent progress in strengthening its balance sheet and liquidity, which will support its investment in growth opportunities.

Varying degrees of government-mandated lockdown protocols were put in place from April 2020 to mitigate the spread of COVID-19. It would therefore be more meaningful for trading subsequent to March 2021 to be considered against the group's 2019 trading performance. Based on this comparison, Pepkor is pleased to report positive trading momentum in most retail brands subsequent to March 2021. This includes a good start to the winter-season trade in the CFH brands and continued demand for furniture, appliances and consumer electronics.

Even though the economic outlook remains uncertain with the majority of Pepkor's retail brands operating in the discount and value market segment, the group enjoys natural resilience through economic cycles, as customers buy according to their budgets with value becoming ever more important.

Dividend

Consistent with prior interim periods, no interim dividend is declared by the group. In response to the COVID-19 pandemic, the group suspended the dividend in the 2020 financial year with focus on liquidity preservation and allocation of resources. The dividend policy of three times earnings cover remains in effect.

Notes

- GfK is a global leader in data and analytics, providing consumer and market insights for over 85 years.

- RLC is an association of clothing, footwear, accessories and homeware retailers operating in South Africa, with the objective of reporting market performance data such as market share and category growths.

Ends.

About Pepkor

Pepkor employs 50 000 people and has the largest retail store footprint in southern Africa with more than 5 000 stores. The group includes trusted brands such as PEP, Ackermans, Tekkie Town and Bradlows, some of which were established more than 100 years ago.

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