# RESULTS PRESENTATION

FOR THE 52 WEEKS ENDED
25 FEBRUARY 2018

# AGENDA

1. **Chairman’s introduction**
   Gareth Ackerman | **Chairman**

2. **Results overview**
   Bakar Jakoet | **Chief Finance Officer**

3. **Progress on our plan**
   Richard Brasher | **Chief Executive Officer**

# CHAIRMAN'S INTRODUCTION

Gareth Ackerman
**Chairman**

# Chairman’s introduction

**Our core values**

1 Consumer sovereignty

2 Business efficiency

3 Doing good is good business

**We have a new wave of optimism in our country. Lets build on that together.**

# Chairman’s introduction

- Earning trust
- Creating opportunity
- Behaving sustainably

# Chairman’s introduction

## Earning trust

- Our sector has faced big challenges in recent months
  - Listeriosis
  - Western Cape drought
- The public looks for reassurance and answers – not just from government, but from the businesses they trust to help them
- I’m proud that we don’t hide in crisis. We step forward and take responsibility

## Creating opportunity

- What South Africa needs more than anything else is investment and jobs
- Pick n Pay has stayed true to our commitments to South Africa
- Over the past three years, we’ve invested R5.3 billion in opening and refurbishing stores and building our supply chain
- By doing so we have created 13 700 new jobs

# Chairman’s introduction

## Behaving sustainably

- As a retailer with thousands of suppliers and millions of customers, you must always remember that you have a broad reach and a broad impact
- We are working to make food waste a thing of the past
- We’ve made good progress in helping customers switch away from single-use plastic carrier bags

**Our pledge is that Pick n Pay, working with our partners and suppliers, will lead change in plastic use in our business and for consumers**

- Environmental damage resulting from our use of plastic has become more clear and more worrying
- We need to be among the vanguard of those taking action to reverse the tide of plastic damage
- Our reliance on plastic – to protect products, to aid food safety, for convenience and to make products affordable – makes it a highly complex issue

# Chairman’s introduction

- What we achieve is only possible if we remain a successful business
- And as we grow, the benefits we bring grow with us
- We have made great progress as a business over the past year
- We must celebrate the progress we have made.  And be even more excited about what is still to come

**Thank you to everyone in Pick n Pay for achieving this result**

Pick n Pay

# RESULTS OVERVIEW

Bakar Jakoet
**Chief Finance Officer**

# Key indicators

| | **FY18** | FY17* | % change |
|---|---|---|---|
| Turnover | **R81.6bn** | R77.5bn | 5.3 |
| Gross profit margin | **18.7%** | 18.7% | |
| Trading profit | **R1 819.9m** | R1 735.6m | 4.9 |
| Trading profit margin | **2.2%** | 2.2% | |
| Profit before tax (before capital items) | **R1 789.1m** | R1 723.3m | 3.8 |
| Profit before tax (PBT) | **R1 768.1m** | R1 677.0m | 5.4 |
| Profit before tax margin | **2.2%** | 2.2% | |
| HEPS | **276.98 cents** | 258.65 cents | 7.1 |
| Diluted HEPS | **271.61 cents** | 252.13 cents | 7.7 |

* *The FY17 financial information presented above is on a restated basis. Please refer to note 10 of the summarised financial statements for further information.*

- Decisive steps to improve long-term sustainable earnings
- Action taken to deliver leaner and fitter operating model included a voluntary severance programme (VSP), with a once-off severance cost of R250m
- Trading profit up 4.9%, margin maintained at 2.2%
- Excluding VSP cost, trading profit up 19.3%, at 2.5% of turnover, a good indication of the Group’s sustainable profit margin improvement
- HEPS up 7.1%, diluted HEPS up 7.7%

# Earnings per share

| | FY18 cents | FY17 cents | % change |
|---|---|---|---|
| Basic EPS | **273.64** | 250.98 | 9.0 |
| HEPS | **276.98** | 258.65 | 7.1 |
| Diluted HEPS | **271.61** | 252.13 | 7.7 |

- Solid progress against long-term plan
- Decisive action taken to drive operational efficiency had an impact on profitability in FY18
- The difference in basic EPS growth and HEPS growth is attributable to capital losses
- The difference in the growth in PBT before capital items and the growth in HEPS is due to:
  - lower effective tax rate
  - higher weighted average number of treasury shares
- Diluted HEPS reflects the dilution effect of share options held by employees

# Dividends per share

| | FY18 cents | FY17 cents | % change |
|---|---|---|---|
| Interim dividend | **33.40** | 29.90 | 11.7 |
| Final dividend | **155.40** | 146.40 | 6.1 |
| Total dividend | **188.80** | 176.30 | 7.1 |

- Total dividend up 7.1%, in line with HEPS growth
- Annual dividend cover of 1.5 times HEPS maintained for the full year

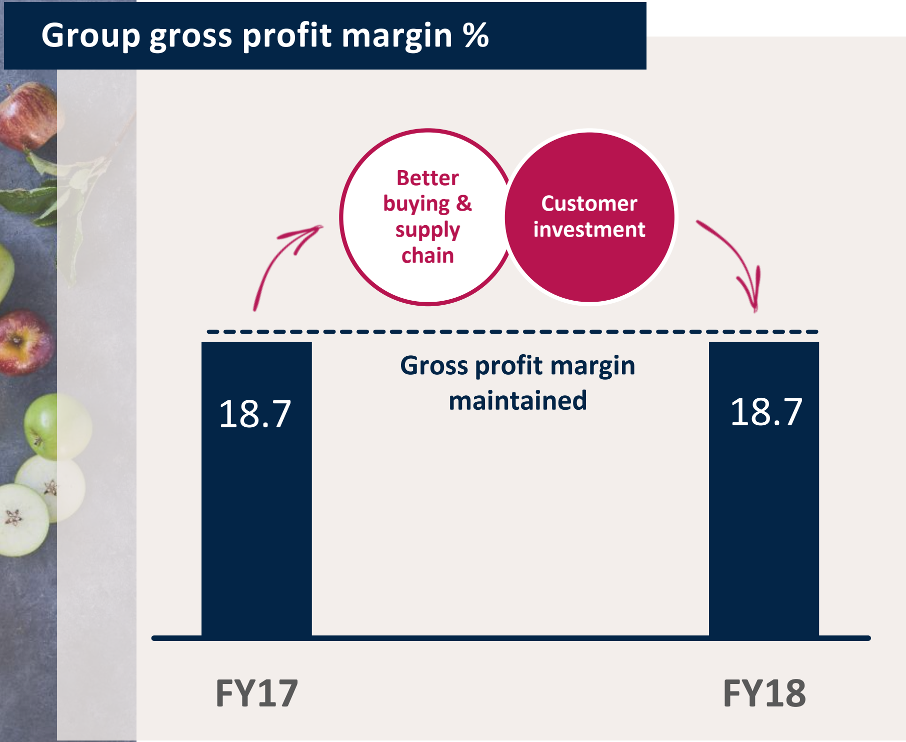
# Turnover

| | FY18 | FY17 |
|---|---|---|
| Turnover growth | **5.3%** | 7.0% |
| Internal selling price inflation | **2.2%** | 6.1% |
| Like-for-like turnover growth | **2.2%** | 3.4% |
| Turnover growth from net new space | **3.1%** | 3.6% |
| Net new stores* | **124** | 151 |
| Customer growth (number of transactions) | **2.6%** | 4.7% |
| Basket size growth (average transaction value) | **2.7%** | 1.7% |

- Turnover growth of 5.3% over a tough trading year, LFL growth of 2.2%
- Internal food inflation fell to 2.2% for the year - just 0.2% in Q4
- Substantial investment in customer offer drives strong Q4 performance
- South African segment delivered market-beating sales growth of 8.0% (LFL 5.3%) in Q4 – with volume growth of 5.1%
- 124 net new stores opened over the year, including 27 new supermarkets, adding 3.1% to turnover growth and 3.3% to space

* *Excluding TM supermarkets in Zimbabwe*

# Gross profit




- Gross profit margin maintained at 18.7%
- Lower prices supported by progress across the procurement and supply chain channel
  - Better buying
  - Improved operating efficiency
  - Cost discipline
  - Lower cost Smart Shopper programme
- Increasingly competitive in a tough consumer environment

# Other trading income

| | FY18 Rm | FY17 Rm | % change |
|---|---|---|---|
| Other trading income | **1 760.6** | 1 522.4 | 15.6 |
| Franchise fee income | **400.1** | 349.8 | 14.4 |
| Operating lease income | **446.1** | 345.3 | 29.2 |
| Commissions, income from value-added services and other supplier income | **914.4** | 827.3 | 10.5 |

- Franchise fee income up 14.4%. This reflects the restructure of legacy franchise agreements, with related increases in loyalty fees paid included within gross profit
- Franchise fee income up 4.3% on a comparable basis
- Growth in operating lease income driven by strategic head leases added over the year (related rental expenses included within occupancy costs)
- Strong growth across all categories of value-added services, with VAS income up 30.1%
- Other trading income up 15.6%, and 8.4% on a comparable basis (excluding restructured franchise agreements and the impact of new head leases)

# Trading expenses

| | FY18 Rm | FY17 Rm | % change | % LFL change |
|---|---|---|---|---|
| Trading expenses | **15 191.0** | 14 243.4 | 6.7 | 1.6 |
| Employee costs | **6 688.7** | 6 414.0 | 4.3 | (2.3) |
| Occupancy | **3 086.6** | 2 678.9 | 15.2 | 7.2 |
| Operations | **3 178.8** | 2 961.7 | 7.3 | 2.4 |
| Merchandising & administration | **2 236.9** | 2 188.8 | 2.2 | 1.7 |

- Trading expenses up 6.7%
- LFL expense growth contained at 1.6%, below LFL turnover growth of 2.2%
- Excluding the R250m cost of the VSP, trading expenses reduced to 18.3% of turnover (2017: 18.4%)
- LFL employee costs restricted to -2.3%
- Excluding the cost of the VSP, employee costs down 0.4%pts to 7.9% of turnover (2017: 8.3%)
- LFL occupancy costs up 7.2% driven by increases in rates and security costs
- Well-managed operations costs despite regulatory increases in electricity and utility charges

# Profit analysis

| | % change | FY18 % of turnover | FY17 % of turnover |
|---|---|---|---|
| EBITDA (excluding capital items) | 8.1 | **3.7** | 3.6 |
| EBIT (excluding capital items) | 6.6 | **2.4** | 2.3 |
| Profit before tax (before capital items) | 3.8 | **2.2** | 2.2 |
| Profit before tax | 5.4 | **2.2** | 2.2 |
| Profit after tax | 6.6 | **1.6** | 1.6 |

- Earnings growth reflects cost of action taken to improve operating efficiency over long-term
- EBITDA margin up 0.1%pt to 3.7%
- Depreciation and amortisation costs up 10.8%, in line with the Group's ongoing capital investment programme
- Net finance costs increased to R147.1m, impacted by:
  - investment in capital assets related to new stores and centralisation
  - shares purchased in respect of employee incentive schemes
- The effective tax rate of 26.7%, is down on the 27.5% of last year, due to greater participation of foreign operations at lower effective tax rates

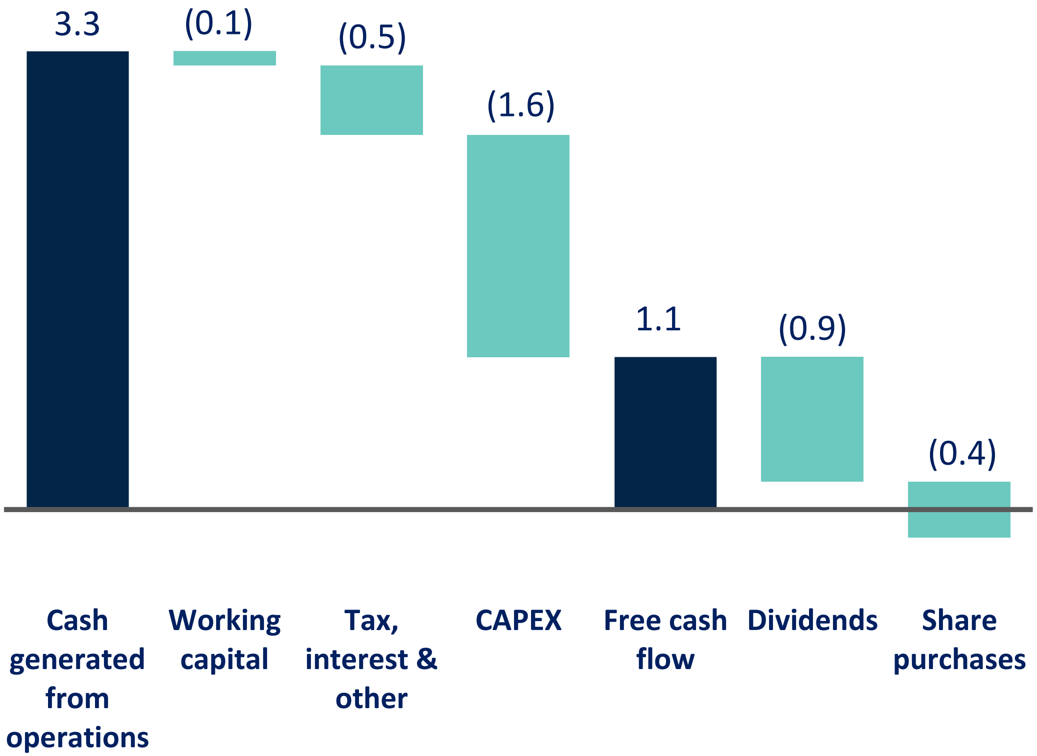
# Rest of Africa

| | FY18 | FY17 | % change |
|---|---|---|---|
| Segmental revenue | **R4 648.1m** | R4 315.7m | 7.7 |
| Segmental profit* | **R287.9m** | R225.5m | 27.7 |
| Number of stores | **144** | 140 | |

* *Segmental profit comprises the segment's trading result and directly attributable costs only. No allocations are made for indirect or incremental cost incurred by the South Africa segment relating to this division.*

- In constant currency terms, revenue up 9.3%, with LFL revenue growth of 1.4%
- TM Supermarkets in Zimbabwe the stand out performer, with strong turnover and profit growth
- Solid franchise performance in Namibia and Swaziland
- The trading environment in Zambia remains challenging
- Opened 4 net new stores – 3 in Swaziland and 1 in Zimbabwe

# Cash generation and utilisation – Rbn




- Cash from operations up 5.5% on last year to R3.3bn
- Working capital impacted by new stores and distribution centres and investment buys ahead of year-end
- The Group has:
  - Invested R1.6bn in improving the estate
  - Paid almost R1.0bn to shareholders, up 15% on last year
  - Purchased shares to the value of R0.4bn to reward employees under share incentive schemes
- Cash outflows were largely funded from internal cash generation, with R1.1bn of free cash flow generated over the year

# Net funding

| | FY18 Rm | FY17 Rm |
|---|---|---|
| Cash | **1 129.1** | 961.9 |
| Cost-effective overnight borrowings | **(1 800.0)** | (1 800.0) |
| **Cash and cash equivalents** | **(670.9)** | (838.1) |
| Total borrowings | **(528.8)** | (133.2) |
| **Net funding** | **(1 199.7)** | (971.3) |

- The Group's net funding position increased R228m on last year, driven by a strong store opening and refurbishment programme
- The Group raised R400m of 3-month debt to take advantage of competitive interest rates
- The Group's liquidity position remains strong, with R5.5bn unutilised borrowing facilities at year-end

# Capital expenditure

| | FY18 Rm | FY17 Rm |
|---|---|---|
| Expansion into new stores | **652** | 634 |
| Improving existing stores | **673** | 900 |
| **Improving the customer experience** | **1 325** | 1 534 |
| Investing in future infrastructure | **87** | 154 |
| Maintaining current infrastructure | **237** | 198 |
| **Total capital investment** | **1 649** | 1 886 |

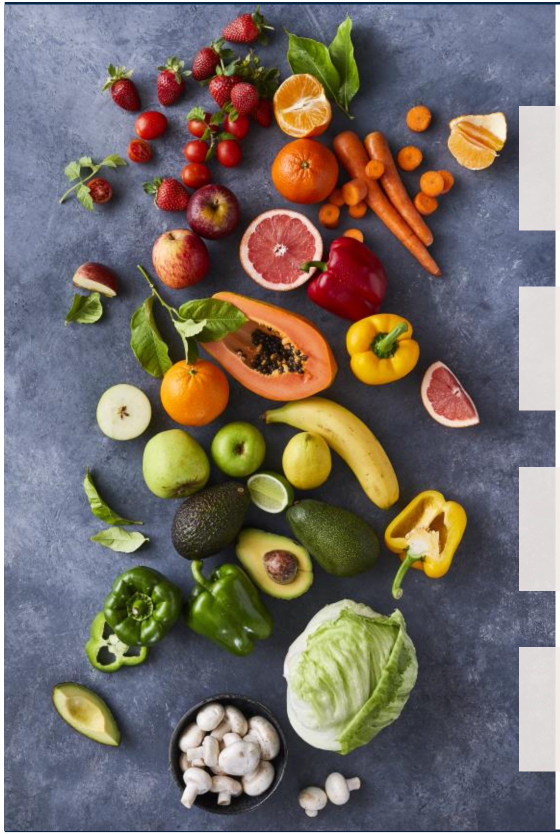
- Ongoing capital investment in line with growth and refurbishment strategy
- 94 new company-owned stores opened during the year - 72 Pick n Pay and 22 Boxer
- 61 refurbishments of company-owned stores during the year, including our flagship supermarket in Constantia and new-look Durban North and Northgate hypermarkets
- 80% of capital investment aimed at improving the customer experience
- Strong discipline on capital budgets while delivering against plan
- R1.7bn planned for 2019

Pick n Pay

# PROGRESS ON OUR PLAN

Richard Brasher
**Chief Executive Officer**

# Our 50th year was a very important and successful year for the company



| | FY18 growth |
|---|---|
| Turnover | 5.3% |
| HEPS | 7.1% |
| Trading profit | 4.9% |
| Trading profit excl. VSP cost | 19.3% |

Decisive steps taken to increase long-term sustainable earnings

Reduced our operating costs and improved our competitiveness

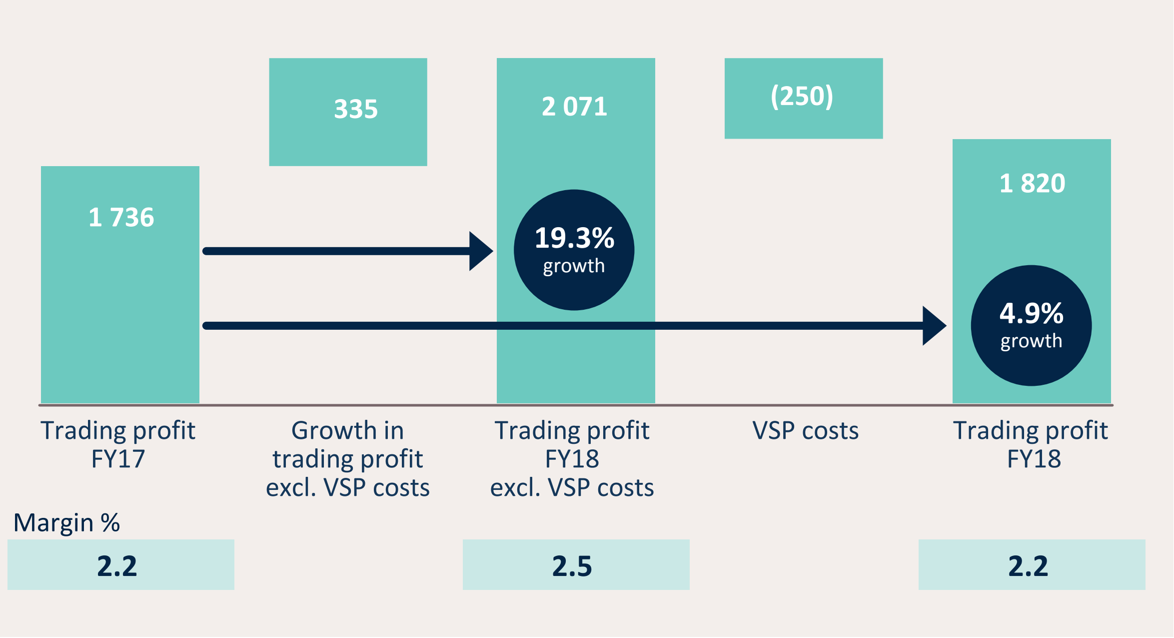
The VSP and other actions have delivered a leaner and fitter operating model

In-year profit growth impacted by the once-off R250m cost of the VSP

Benefits of these structural changes to be enjoyed in future years

# Excluding the VSP payments, trading profit for the year was up 19.3%, with trading margin improving to 2.5%

## Trading profit – R million



# The bulk of action to reduce cost was taken in the 1st half of the year, with the associated savings invested in lower prices and better promotions in the 2nd half

**H1 FY18**

**Save**

Reductions in operating and head office costs and buying

**H2 FY18**

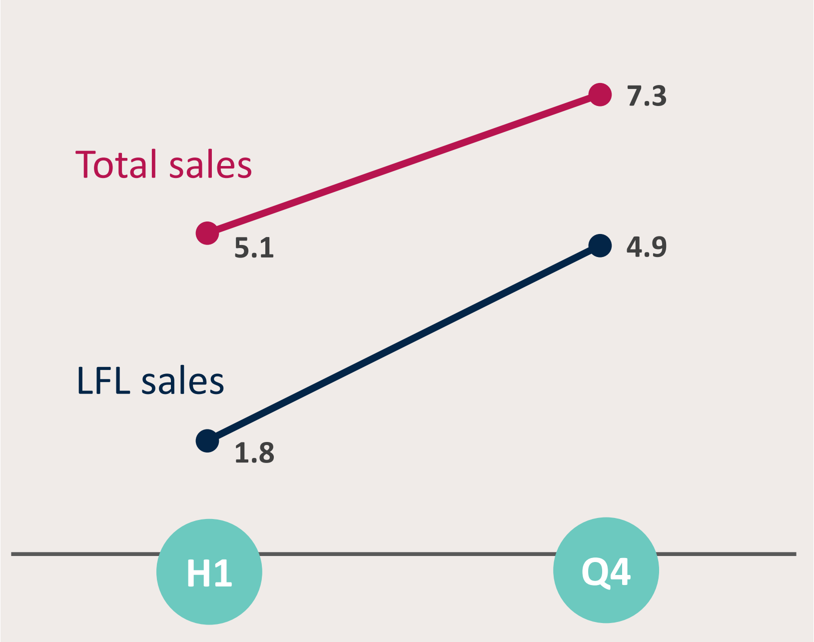
**Invest**

Lower prices and better value for customers

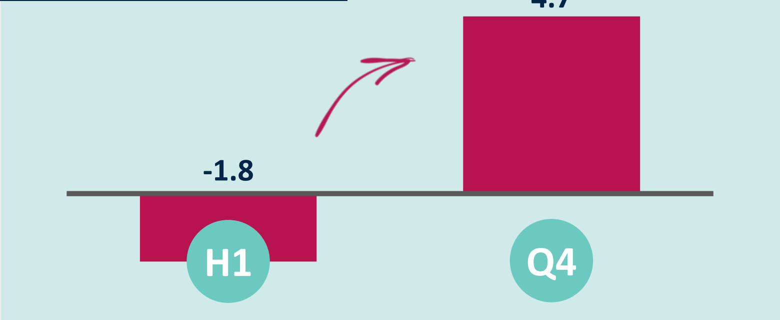
***Headroom for investment created through savings in H1***

# Our price investment paid off with a notable sales uplift in the 4th quarter

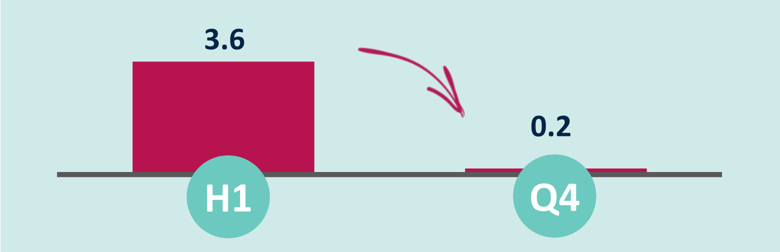
**Group sales growth %**



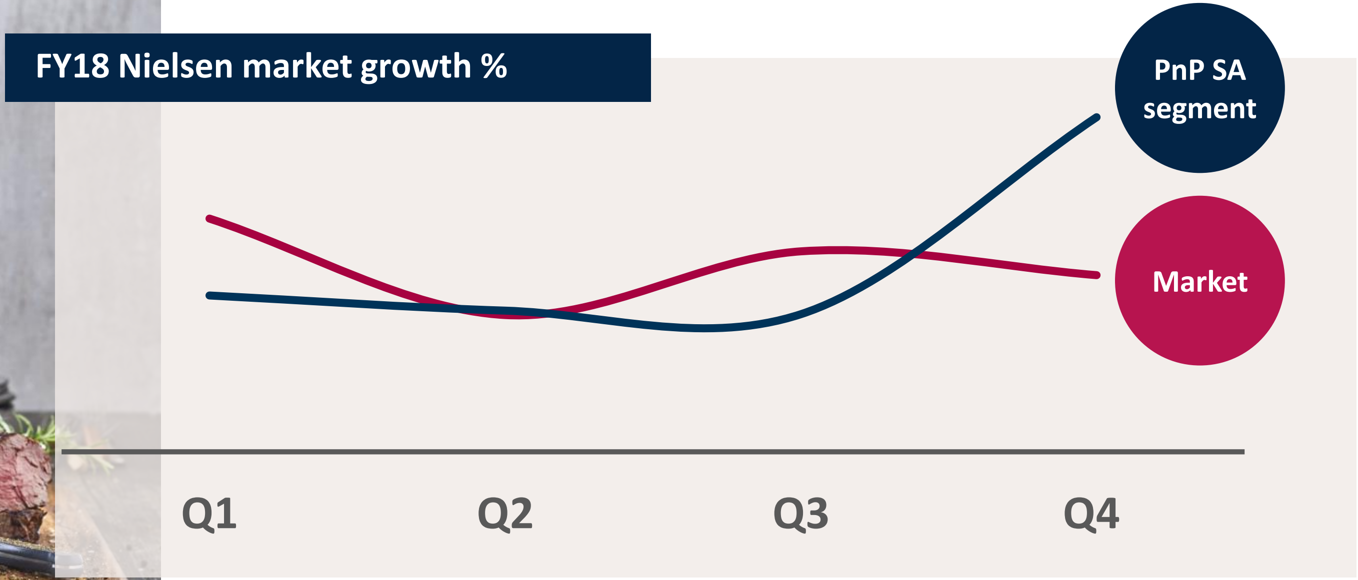

**LFL volume growth %**




**Internal inflation %**

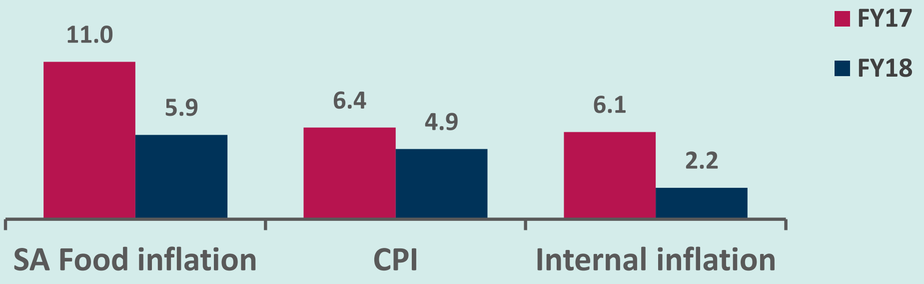


# We saw market-beating sales growth of 8.0% with LFL of 5.3% in the Group's South Africa segment in the final quarter



# Performance highlights: lower prices and better promotions


## FY18 inflation %




- Significant investment in price and promotions
- Price cuts across 2 000 everyday lines
- Internal inflation kept low at 2.2%
- Customer investment paid off with a notable sales uplift in Q4

# Performance highlights: innovation in private label


- Launched more than 700 new and repackaged private label products across PnP and Boxer
- Key lines growing twice as fast as branded alternatives
- Winning convenience range: 20 first place Sunday Times Food Awards
- New health and wellness ranges: Free From, Live Well and Carb Sharp

# Performance highlights: more stores, better stores


**153**
new stores

**80**
revamps

**50%**
of our supermarket estate is new or has been revamped the past 3 years

- Measured and considered approach to new space growth
- 124 net new stores
- 29 closures
- New stores contributed 3.1% to turnover growth
- 59 new franchise stores
- 22 new Boxer stores
- Major PnP supermarket revamps included Constantia and Polokwane

# Performance highlights: reinvigorating hypermarkets


**20**

**Hypermarkets**

***Destination shopping experience with great weekly deals***

Pick n Pay
HYPERMARKET

- Good progress on journey to reinvigorate our hypermarket business
  - 75% now the right size
  - 50% modernised
  - 100% more competitive
- Two major revamps in FY18 marked the first Next Generation blueprints for hypermarkets: Durban North Hyper and Northgate Hyper
- Starting to show good signs of growth

# Performance highlights: a more modern Smart Shopper

## 7 million

unique active Smart Shoppers

## R3 billion

in personal discounts offered to Smart Shoppers

## 100% increase

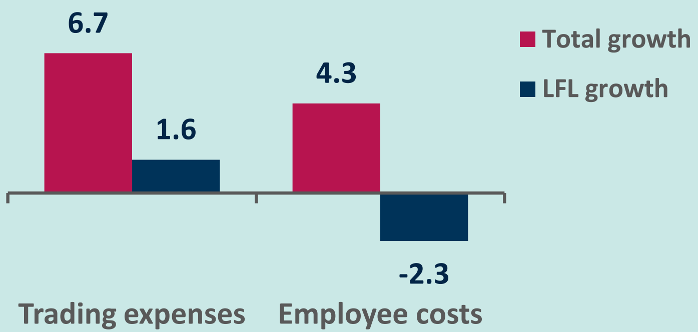
in number of personalised vouchers redeemed

## 5 million

copies of Fresh Living magazine given to Smart Shoppers

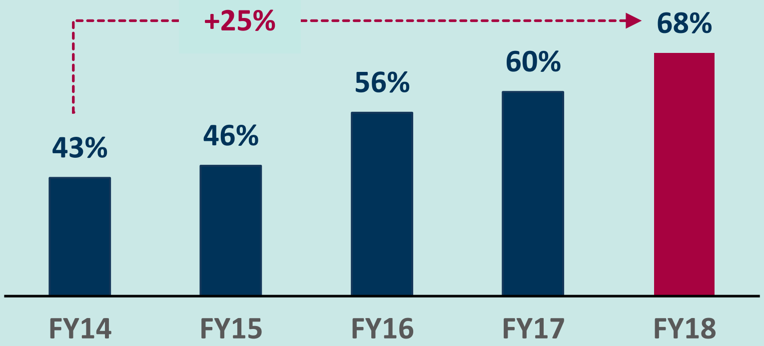

# Performance highlights: operating efficiencies

## Trading expenses growth %




- Employee costs as a % of turnover fell by 0.1%pt to 8.2%
- Excluding the once-off R250m VSP cost, total employee costs grew only 0.4% year-on-year, falling to 7.9% of turnover

## Total centralisation




- Centralisation increased by 8% in FY18 to 68%
- Centralisation of fresh and perishable produce is 80%
- Two new DCs: Boxer Eastern Cape and PnP KZN

# Our engines of growth

**1. South Africa's most trusted retailer**

Pick n Pay

**2. Africa's favourite discounter**

Boxer

**3. Value-added customer services**

Value-added services, financial services and online shopping

**4. Expansion in Africa**

Zimbabwe, Zambia, Botswana, Lesotho, Namibia, Swaziland and Nigeria

**5. Force for good**

Youth job creation, small business development and education

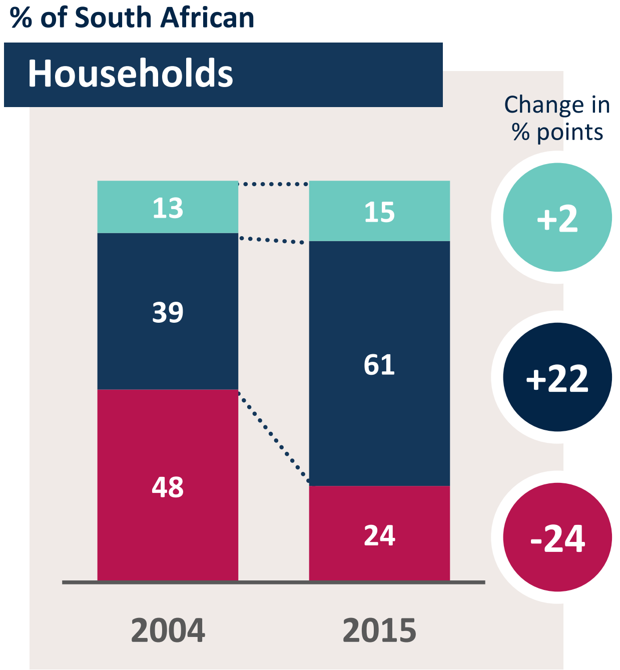
# Growth in the R870 billion retail grocery market is coming from middle of the market

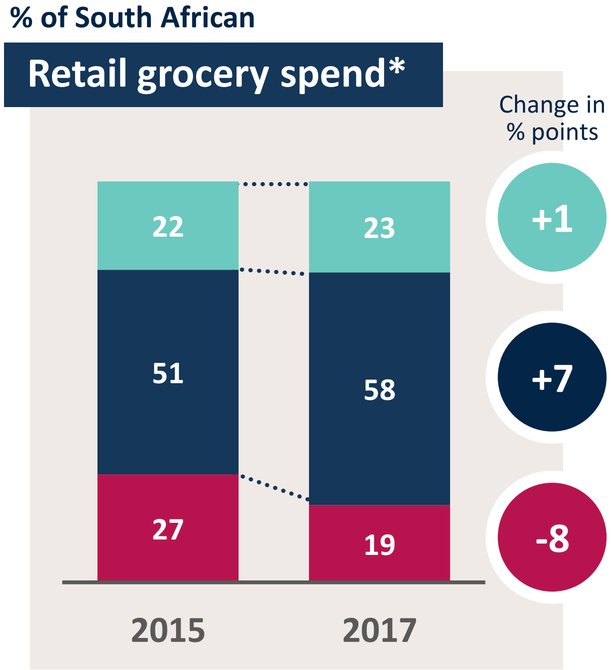
**Living Standards Measure (LSM)**

**LSM 9 - 10**
Household income approx. **> R20K p/m**

**LSM 5 - 8**
Household income approx. **R5K - R20K p/m**

**LSM 1 - 4**
Household income approx. **< R5K p/m**




*Source: AMPS, Nielsen, Stats SA*
**spend data is formal retail grocery market only*

# Pick n Pay has the broadest range of formats and is well positioned to take advantage of growth in the market

1 South Africa's most trusted retailer





hypermarkets

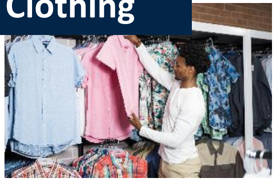
supermarkets

convenience

**Franchise**

**Liquor**

**Clothing**



**Pharmacy**

**Online**

# We have store blueprints to serve the full spectrum of our customers, from low-income through to affluent households

1 South Africa's most trusted retailer

Premium stores

Core stores

Budget stores

- Constantia revamp – large premium supermarket
- Wide range
- Focus on fresh, convenience, service counters and speciality lines

- Serving households earning R5K – R10K p/m
- Tight, relevant range
- Very strong combo deals and bulk offers
- Clear price communication


# Boxer is growing and presents a significant opportunity in South Africa and the rest of Africa

2 Africa's favourite discounter


## Modern shopping experience

- Clean, tidy and bright stores
- Limited range
- Innovation in private label
- Exceptional value for customers
- Growing ahead of the market

## Efficient operating model

- Tight management of costs
- Two distribution centres, with centralisation underway
- Reduced stock holding
- Better waste management

**246** stores

*Strong opening and refurbishment programme*

# Services are an ever-increasing contributor to growth

**3** Value-added services for customers


**160**
**Money counters**

## Partnership with TymeDigital

A subsidiary of the **Commonwealth Bank of Australia**

## Money transfers

Simple and immediate process in-store, allowing customers to send money from any till point.
**300 000 customers registered**

## Store account

In partnership with **RCS**, offering the most affordable form of credit in the market. **56 000 accounts opened**, providing customers with 55 days interest-free credit

***Greater access to affordable banking services***

MoneyTransfer
Also available at BOXER stores.

# Leading online offer



**New mobile-enabled website launched in September**

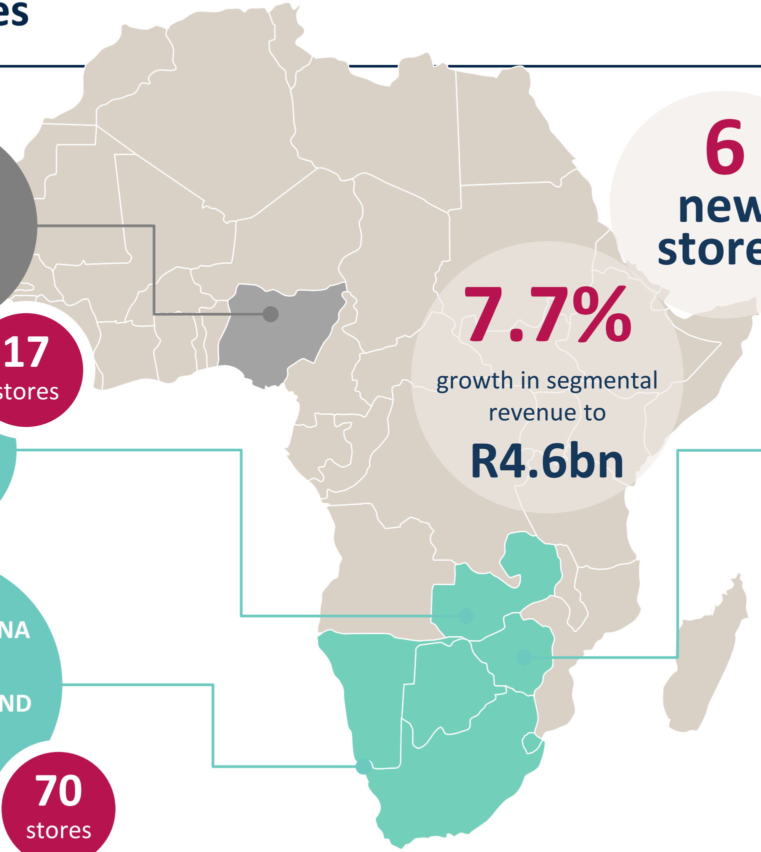
- 150% increase in online registrations
- 70% increase in customers accessing the website from a mobile device

**Broader range and higher standards of delivery**

- Dedicated warehouses in Cape Town and Johannesburg
- Extended delivery service hours in high-demand areas
- Extended geographic reach to 68 additional suburbs (now 2 900 in total)

# Building scale in Africa through partnerships with established players and Pick n Pay franchisees

4 Growth across Africa



NIGERIA

6 new stores

7.7% growth in segmental revenue to R4.6bn

**17** stores

**ZAMBIA**

**Tight cost control** in a tough trading environment

**70** stores

**BOTSWANA**
**LESOTHO**
**SWAZILAND**
**NAMIBIA**

**Good performance** from franchise operations, particularly in **Namibia** and **Swaziland**

**Boxer presence in Swaziland**

**57** stores

**ZIMBABWE**

- **49% investment** in associate TM supermarkets
- **Strong performance** driven by PnP branded stores
- **45% growth** in share of TM's profit

# Building a better South Africa

5 Force for good

## More jobs

- 13 700 jobs created over the past 3 years
- 15 000 new jobs to be created over the next 3 years

## More entrepreneurs


- PnP franchise has created 770 entrepreneurs
- PnP has helped 16 spaza owners to modernise and transform their stores

## More independent suppliers

- PnP has more than 2 000 small suppliers
- Being a PnP supplier gives immediate access to a national market

## More support for schools

- PnP School Club gives support to over 3 300 schools
- Provides much-needed learning and classroom materials

# FY18 has been one of our most significant years

- We have delivered a 20% HEPS CAGR over the past five years
- We have reset the business to be leaner, fitter and stronger
- We are starting to win our share of the market
- There is more to come