Pick n Pay

Results presentation

for the 26 weeks ended 26 August 2018

Agenda

Chairman's introduction

Gareth Ackerman | Chairman

Results overview

Bakar Jakoet | Chief Finance Officer

Progress on our plan

Richard Brasher | Chief Executive Officer

Chairman's introduction

Gareth Ackerman
Chairman

Chairman’s introduction

A result like this in the current environment is a creditable performance and a consequence of hard work, considerable dedication, and consistent execution of strategy

Chairman's introduction

"South Africa is a complex place to do business, all of us in the corporate sector need to stay attuned to the economic, social and environmental needs of our country. We're doing everything we can to play our part."

Gareth Ackerman
Chairman

Creating jobs

Lowering prices

Trading more sustainably

Chairman's introduction

Creating jobs

- Over R5 billion investment in our estate over 3 years
- We are investing in creating entrepreneurs through different parts of our business
- I'm particularly proud of our spaza-to-store initiative, which builds existing entrepreneurs and gives them access to training, buying and retail skills

Lower prices

- Customers are looking to us to help in a tough economy and we accepted this challenge
- We kept our internal price inflation at 0.3%, well below food inflation of 3.5%
- We reduced the prices of 2,500 every day grocery products
- We offered more than R2.4 billion in personalised discounts
- Through that we saved the average family over R1,300 over the last year

Trading more sustainably

- Consumers have become increasingly concerned about plastic waste
- We have taken several actions to combat plastic waste through our business
- In August, we introduced 100% recyclable bags into our stores and these are now being rolled out countrywide
- We are removing plastic straws from Pick n Pay and Boxer stores
- In this, as with many other important issues, our industry works best when it works together

Thank you to our Pick n Pay and Boxer teams for delivering a strong result in challenging economic conditions

Results overview

Bakar Jakoet
Chief Finance Officer

Strategy on track in a tough market

Normalised key indicators#	H1 2019	H1 2018*	% change
Turnover	**R41.2bn**	**R38.8bn**	6.4
Gross profit margin	**18.6%**	**18.6%**	
Trading profit	**R631.8m**	**R599.1m**	5.5
Trading profit margin	**1.5%**	**1.5%**	
Trading profit – South Africa	**R576.4m**	**R515.2m**	11.9
Profit before tax (PBT)	**R670.2m**	**R562.8m**	19.1
Profit before tax margin	**1.6%**	**1.5%**	
HEPS	**100.18 cents**	**85.62 cents**	17.0
Diluted HEPS	**98.38 cents**	**84.11 cents**	17.0

To ensure year-on-year comparability, this review excludes the net impact of the voluntary severance programme of R200 million (R145 million net of tax), in the prior year base

* The H1 2018 financial information presented above is on a restated basis. Please refer to note 10 of the summarised financial statements for further information

- Decisive action delivers a leaner and fitter business
- Greater value for customers without sacrifice in earnings or profit margin
- HEPS and diluted HEPS up 80.5% and 80.4% respectively
- Strong normalised result – SA trading profit up 11.9%
- PBT up 19.1% to 1.6% of turnover
- Normalised HEPS and diluted HEPS up 17.0%

Sustained earnings growth drives shareholder returns

Normalised	H1 2019 cents	H1 2018 cents	% change
Basic EPS	**102.98**	**84.77**	21.5
HEPS	**100.18**	**85.62**	17.0
Diluted HEPS	**98.38**	**84.11**	17.0
Interim dividend	**39.10**	**33.40**	17.1

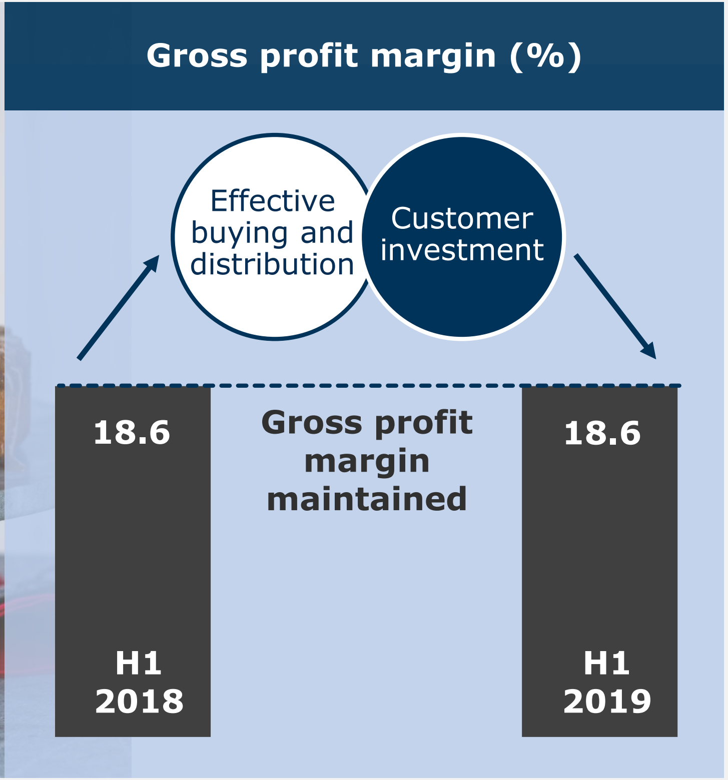
- Headline and diluted headline earnings per share up 17.0%
- The difference in basic EPS growth and HEPS growth is attributable to capital profits
- The difference in the growth in PBT before capital items of 14.6% and the growth in HEPS of 17.0% is due to:
  - lower effective tax rate
  - higher weighted average number of treasury shares
- Dividend up 17.1% in line with normalised HEPS growth

Volume growth and market share gains

	H1 2019	H1 2018
Turnover growth	6.4%	5.1%
Internal selling price inflation	0.3%	3.6%
Like-for-like turnover growth	3.8%	1.8%
Volume growth	3.5%	-1.8%
Turnover growth from net new space	2.6%	3.3%
New stores	60	63
Customer growth (number of transactions)	4.4%	2.2%
Basket size growth (average transaction value)	2.2%	3.1%

- Improved trade performance anchored by stronger price position
- Turnover up 6.4%, with sales growth of 6.7% in South Africa
- Selling price inflation at 0.3% against CPI food of 3.5%
- LFL turnover growth of 3.8% and LFL volume growth of 3.5%
- Net new stores over 12 months added 2.6% pts to turnover growth
- 60 new stores and 13 store closures in H1 FY19

Increasingly competitive in a tough consumer environment



- Lower prices and stronger promotions
- Gross profit margin maintained at 18.6%
- Competitive price position supported by:
  - Buy better programme
  - Greater levels of centralisation
  - Cost discipline and greater efficiency
  - Improved management of shrink and waste

Value-added services, a growing engine

Pick n Pay

	H1 2019 Rm	H1 2018 Rm	% change
Other income	**920.7**	**841.0**	9.5
Franchise fee income	**196.4**	**202.5**	(3.0)
Operating lease income	**264.0**	**231.0**	14.3
Commissions and other income, including value-added services (VAS)	**460.3**	**407.5**	13.0

- Other income up 9.5%
- Franchise fee income down 3.0% with a change in the franchise agreement to drive the growth of the Pick n Pay Express convenience format
- Franchise fee income up 4.9% 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)
- VAS income up more than 60%, with growth across all services

Ongoing cost discipline and efficiency gains

	H1 2019 Rm	H1 2018 Rm	% change	% LFL change
Trading expenses	**7 978.9**	**7 466.8**	6.9	4.2
Employee costs	**3 446.7**	**3 267.5**	5.5	3.3
Occupancy	**1 614.9**	**1 502.1**	7.5	3.7
Operations	**1 751.5**	**1 578.1**	11.0	7.8
Merchandising and administration	**1 165.8**	**1 119.1**	4.2	2.3

- LFL expense growth contained at 4.2%
- SA division contained LFL expense growth in line with LFL sales growth
- Pick n Pay LFL store employee costs up just 2.8%
- LFL occupancy costs up just 3.7% despite high increases in the cost of security, insurance and rates
- Operations costs reflect higher depreciation charges related to our capital investment programme and an ongoing repairs and maintenance programme

Improved profit margins

	H1 2019 % of turnover	H1 2018 % of turnover	% change
EBITDA (before capital items)	**3.2**	**3.0**	11.4
EBIT (before capital items)	**1.7**	**1.6**	11.0
Profit before tax (before capital items)	**1.6**	**1.5**	14.6
Profit before tax	**1.6**	**1.5**	19.1
Profit after tax	**1.2**	**1.1**	19.8

- EBITDA margin up 0.2% pts to 3.2%
- Depreciation and amortisation costs up 12.0%, in line with the Group’s ongoing capital investment programme
- Strong cash generation and working capital management reduced the net interest bill by 17.8% to R58.0m, with lower borrowings over the period
- The effective tax rate of 27.0% is largely in line with FY 2018

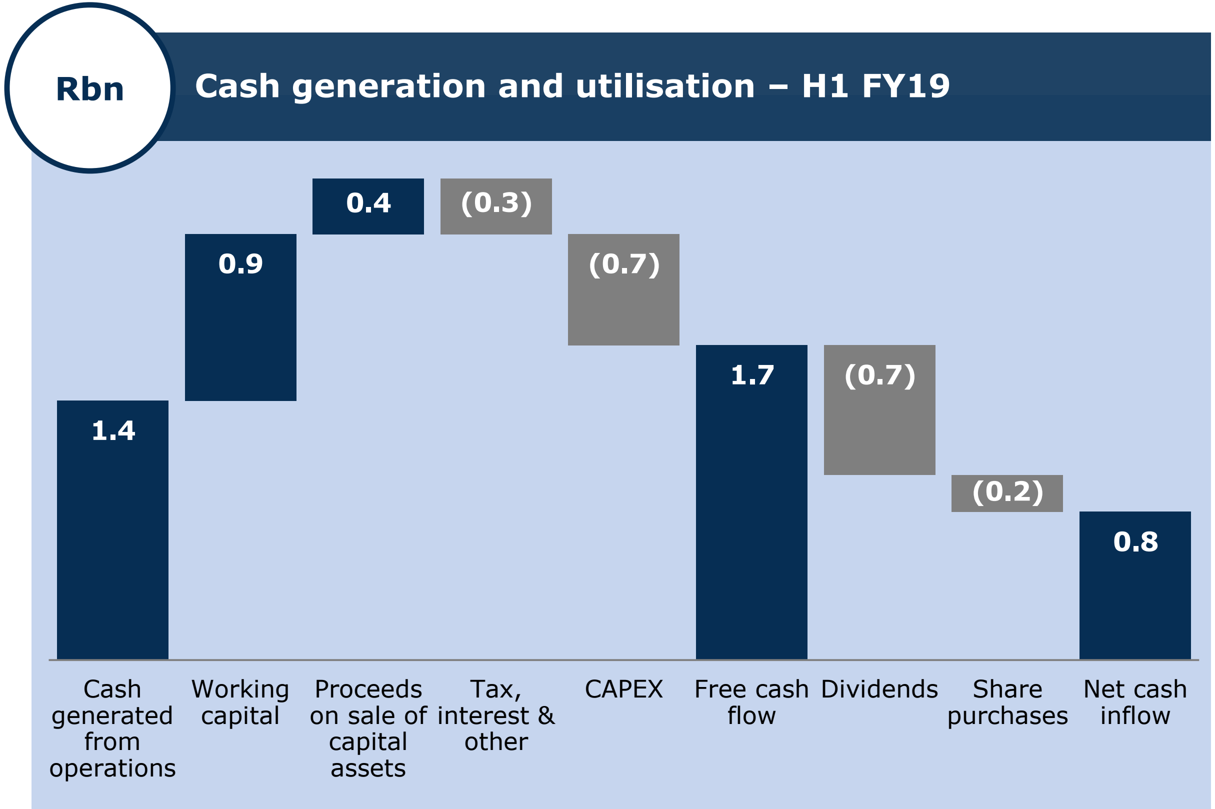
Outstanding TM performance in Rest of Africa division

	H1 2019	H1 2018	% change
Segmental revenue	**R2 311.3m**	**R2 303.3m**	0.4
Segmental profit*	**R136.1m**	**R126.8m**	7.3
Number of stores	**144**	**142**	

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

- Rest of Africa revenue growth of 3.9%, in constant currency
- LFL revenue growth of 0.6%, in constant currency
- Segmental profits up 7.3%
- Zambia remains challenging – constrained consumer, intense competition and deflation
- TM Supermarkets in Zimbabwe delivered strong sales and profit growth underpinned by competitive promotions and improved on-shelf availability

Strong cash generation improves net funding position by R0.8bn



- Cash from operations of R1.4bn
- Improved working capital anchored by strong inventory management, with LFL stock down 11.6% on last year
- The Group invested R655m in improving the estate
- R1.7bn of free cash flow over 6 months

Strong liquidity position

	H1 2019 Rm	FY 2018 Rm	H1 2018 Rm
Cash	1 209.0	1 129.1	966.3
Cost-effective overnight borrowings	(500.0)	(1 800.0)	(1 800.0)
Cash and cash equivalents	709.0	(670.9)	(833.7)
3-month borrowings	(1 075.0)	(400.0)	–
Long-term borrowings	(17.1)	(128.8)	(128.6)
Net funding	(383.1)	(1 199.7)	(962.3)

- The Group's net funding position improved by R817m on FY18, and R579m year-on-year driven by strong free cash flow
- The Group raised R1.1bn of 3-month debt to take advantage of competitive interest rates
- Long-term borrowings to be fully repaid end October 2018
- R6.2bn unutilised borrowing facilities at period-end

Ongoing capital investment to drive future growth

	Actual H1 2019 Rm	Planned FY 2019 Rm	Actual FY18 Rm
Expansion into new stores	**223**	**680**	**652**
Improving existing stores	**208**	**670**	**673**
Improving the customer experience	**431**	**1 350**	**1 325**
Investing in future infrastructure	**92**	**130**	**87**
Maintaining current infrastructure	**132**	**220**	**237**
Total capital investment	**655**	**1 700**	**1 649**

- Capital investment reflects strong growth and refurbishment strategy
- 32 new company-owned stores - 21 Pick n Pay and 11 Boxer
- Broad investment programme - 33 stores refurbished during the period
- Strong discipline on capital budgets while delivering against plan
- R1.7bn planned for full FY 2019

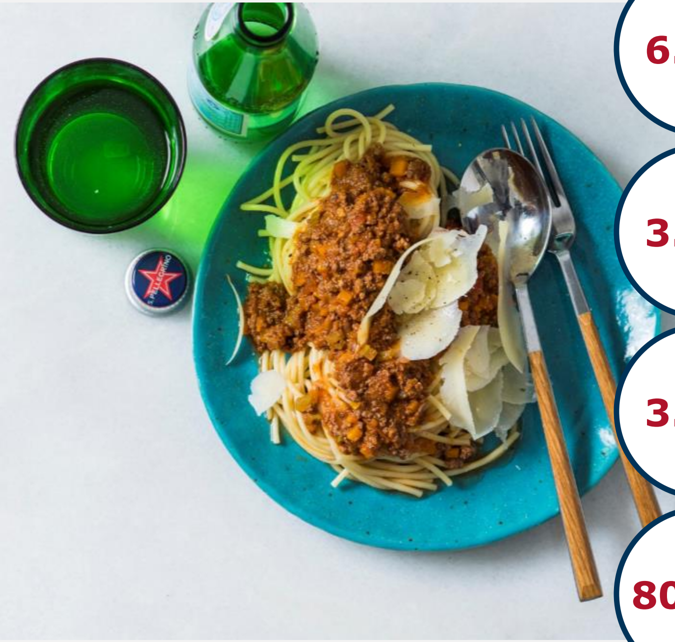
Pick n Pay

Progress on our plan

Richard Brasher

Chief Executive Officer

Winning customers in a tough economy



FY19 H1 growth

6.4%	**Turnover**
3.8%	**LFL turnover**
3.5%	**LFL volume**
80.5%	**HEPS**

- Decisive action taken last year to create a leaner and fitter business has stood us in good stead this year
- Strong volume growth and market share gains demonstrate our ability to compete and deliver great value for customers
- Normalised HEPS growth of 17.0%

Our South African operations performed well

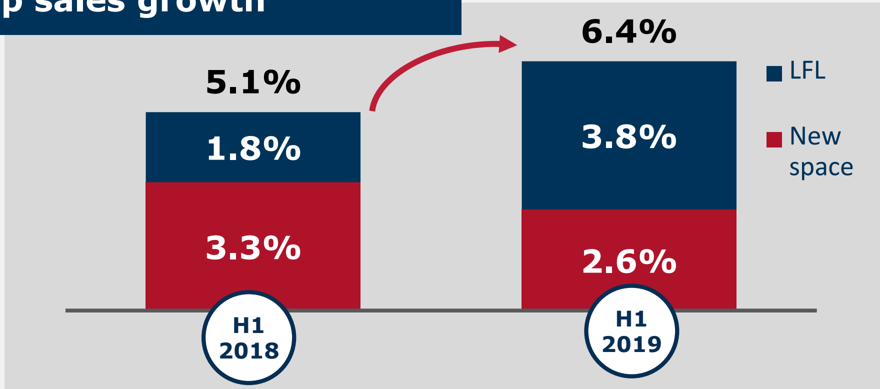
	FY19 H1 growth*
Turnover	6.7%
LFL turnover	4.2%
Trading profit	11.9%
Profit before tax†	16.7%

*Normalised
†before capital items

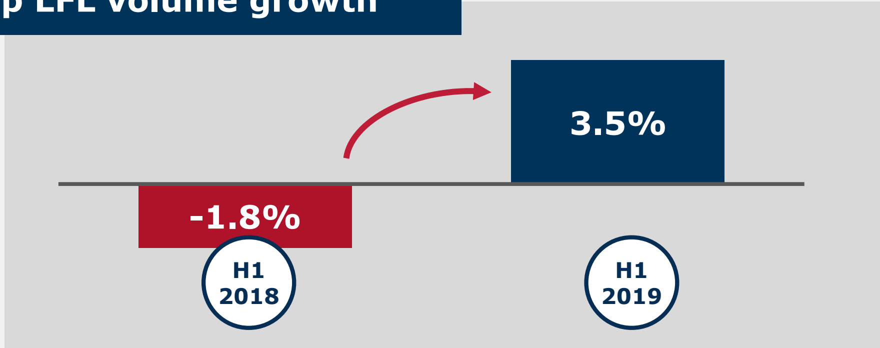
Our sales growth built on the momentum created in FY18

- Sales growth of 6.4% in H1 compared to 5.1% a year ago, driven by strong like-for-like performance
- We delivered exceptional value for customers
- Internal price inflation restricted to 0.3% compared to CPI food of 3.5%
- The result was positive LFL volume growth of 3.5%

Group sales growth

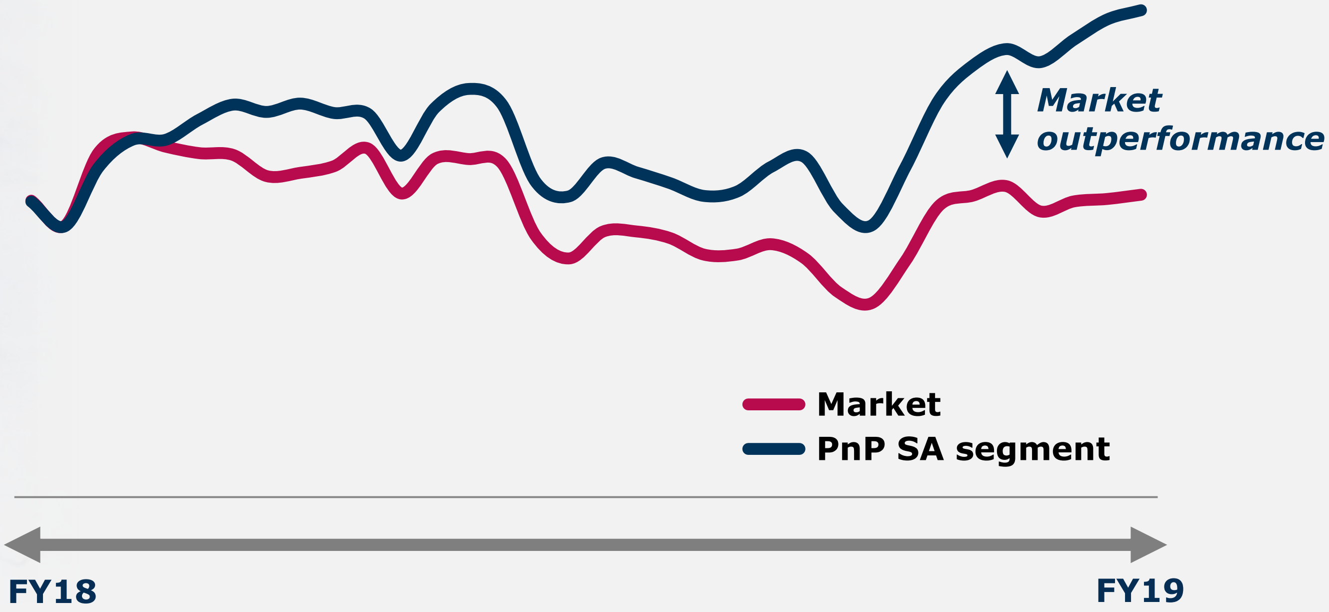


Group LFL volume growth



As a result we continued to outperform the market in H1

FY19 H1 market growth trend



Source: Nielsen data

Our performance was delivered by our five engines of growth

	1	2	3	4	5
Engine	South Africa's most trusted retailer	Africa's favourite discounter	Value-added customer services	Growth across Africa	Force for good
Delivered by	Pick n Pay	Boxer	Value-added services, financial services and online shopping	Zimbabwe, Zambia, Botswana, Lesotho, Namibia and Swaziland	Positive force in the communities we serve

Actions taken last year enabled us to invest in our customer offer

Save

- ✓ Operating cost efficiencies
- ✓ Voluntary Severance Programme
- ✓ Better buying

Invest

- Lower prices
- Better promotions
- Better quality

Great prices and unbeatable promotions

- Lower every day prices
- Cheaper products that matter most to our customers
- More competitive fresh meat and produce across Pick n Pay and Boxer
- Well-executed promotions – e.g. combination deals/Hyper Savers/Win shopping for free
- Successful fresh produce combo deals

Cheaper prices on over 2,500 products

Continuously improving quality

- Launched "Fresh Promise" in May 2018
- Guaranteeing high quality fresh produce, responsibly sourced at competitive prices
- Improved quality and redesigned packaging in produce and meat categories
- Strong sales growth across key fresh categories with sales volumes up in fruit and vegetables

Product innovation

- Over 630 new Pick n Pay own brand products across grocery and fresh
- Several own brand categories outperforming national brands in Pick n Pay and Boxer
- Very successful Easter with strong double digit own brand sales growth
- Own brand participation of 21% in Pick n Pay

Formats tailored to the needs of every customer

Pick n Pay

- 1,732* stores across the Group providing a range tailored to all tastes
- 60 new stores in H1
- Strong LFL turnover performance and improved trading densities from refurbished stores
- Completed a further 33 refurbishments during H1
- Better range and more exciting promotions in hypermarkets are delivering improved trade
- Double digit growth in Clothing and Liquor

60
New stores

33
Refurbishments

Across the Pick n Pay and Boxer estate

*including TM Supermarkets

Cost discipline providing customers with better value

- LFL expense growth in SA in line with LFL sales growth
- Buy Better Programme unlocking efficiencies across the supply chain
- 300 new suppliers added to central supply chain, supporting a 12% increase in DC issues
- Grocery and fresh centralisation close to 80% nationally
- Reduced stock days by 4 - LFL inventory value down 11.6% year-on-year
- Well-managed shrink and waste across the supply chain
- Strong cash generation, with interest bill down 17.8%

Africa’s favourite discounter delivered its strongest result

- Double digit customer growth
- Exceptional growth in butchery division with sales participation growing substantially
- Fresh produce and deli also delivered strong sales growth
- Private label products continue to deliver excellent value for customers
- Excellent working capital management and well-managed stock days

Boxer now has over 250 stores

- A tight grocery range complemented by an exceptional meat, produce and deli offer
- Record volumes through DCs with ongoing centralisation of supply chain
- Two thirds of estate are now in the bright and modern Next Generation Boxer format

11
New Boxer stores

257
Stores and growing

Our range of value-added customer services continues to grow

- Income from value-added services grew more than 60%
- Customers can now buy prepaid electricity and airtime through the PnP App and switch Smart Shopper points into value-added services
- PnP is the largest reseller of prepaid electricity in SA, and the largest processor of third-party bill payments
- R14bn in cash withdrawals and money transfers up 30%
- Store account now used by 100 000 customers as a low cost, convenient credit alternative

More and more customers are choosing to shop online

- Online sales from dedicated distribution centres grew by 25%
- Improved website offers more convenience – including personalised "Favourites" aisle
- PnP online traffic is up almost 70% and online shopper registrations grew by 30%
- Click n Collect orders have grown by 60%
- Focused campaigns drove strong general merchandise sales through the website
- We extended our cut-off times for orders and now offer our regular shoppers delivery bundles at discounted rates

SA's favourite and most innovative loyalty programme

H1 highlights

- Amongst the world's most personalised loyalty programmes, offering R2.4 billion in personalised discounts in H1
- 56 million vouchers issued each week, with the number of customer redemptions more than double that of last year
- Customers can now scan their mobile apps in place of their Smart Shopper cards

Coming soon

→ Spend Smart Shopper points effortlessly at the checkout from 24 October

→ Later this year Smart Shopper partners with BP to reward points for every fuel purchase

Our Rest of Africa business is robust in challenging markets

Pick n Pay

- Our strategy has been to take a measured approach to growing operations outside SA
- 6 countries – on an owned and franchise basis, with a 49% investment in TM Supermarkets in Zimbabwe
- TM grew profits 94.5% year-on-year, underpinned by a strong performance in Zimbabwe from its Pick n Pay branded stores
- Tough trading conditions in Zambia
- Plans for Nigeria progressing – smaller format stores, with tight ranges and a lean operating model

TM Supermarkets turnover growth — **30%**

PBT growth — **7.3%**

Contribution to Group segmental revenue — **5.4%**

Segmental revenue growth* — **3.9%**

**in constant currency*

We are a force for good in communities

Building entrepreneurs

- More than R25 billion in goods and 90% of fresh foods procured from local suppliers during the half
- We have over 2,000 small businesses in our supply chain
- Outstanding success with spaza-to-store conversions – 20 more partnerships to come in H2

Extra mile for communities

- 2nd Mandela Day Food drive – 1.2 million meals donated in total
- Supported 3,200 schools through our Schools Club
- Free fruit for children in our stores

Looking forward in H2

Pick n Pay

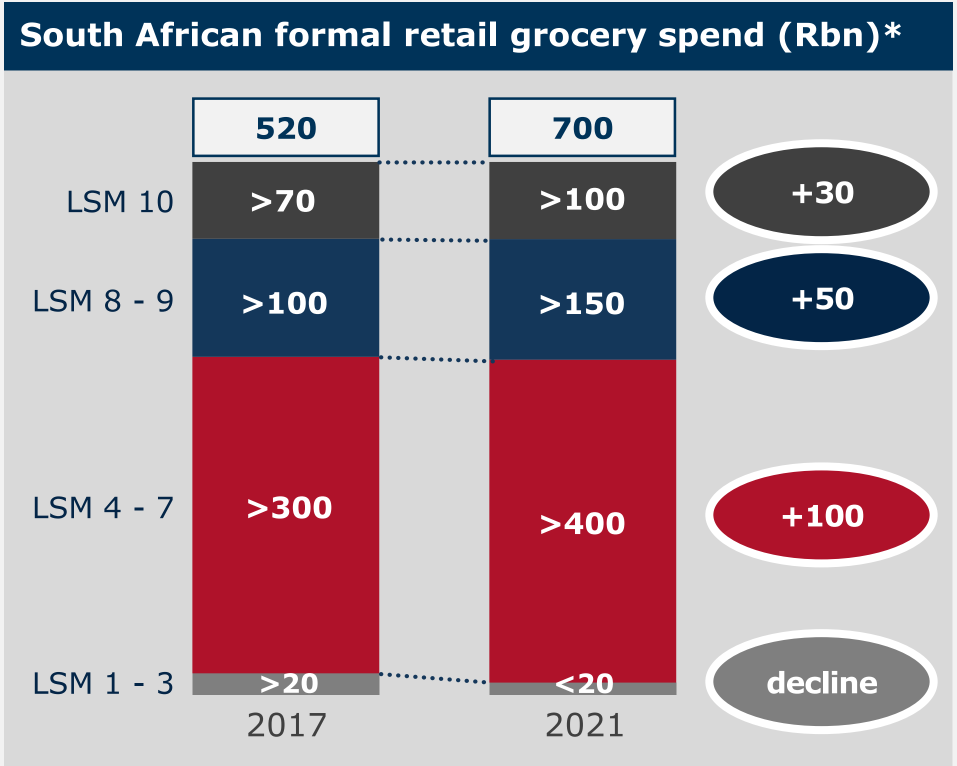
LOWER PRICES

H1 promo. More exciting promotions to follow n H2

- More unbeatable prices and promotions
- Continue to drive our Fresh Promise
- More own brand innovation and value
- Stronger Smart Shopper programme
- More than 70 new stores; 20 spaza-to-store conversions

The Pick n Pay Group is well placed to serve all customers

- Although the economy will remain tough, we expect the market to continue to grow
- The highest levels of growth are likely to be in the middle of the market – LSMs 4-7
- Urbanisation is a key driver of this trend
- A recovery in real economic growth will translate into more jobs and more spend
- There will be opportunity for retailers who can operate flexibly and dynamically to meet the growing needs of customers



*Source: Eighty20, PAMS, AMPS, Stats SA
spend data is formal retail grocery market only

Our five engines are the foundations of future growth

Pick n Pay

1	2	3	4	5
South Africa's most trusted retailer	**Africa's favourite discounter**	**Value-added customer services**	**Growth across Africa**	**Force for good**
Pick n Pay	**Boxer**	**Services**	**Rest of Africa**	**A positive force**
Grow by optimising range and operating model to succeed wherever the market is growing	Accelerate the business to become the undisputed national discount champion for customers	Make financial and other services a seamless part of the shopping trip in stores and online	Flexible and adaptable store model to grow sustainably in African markets	More opportunities for colleagues, suppliers, franchisees, other partners and the communities we serve