PEPKOR HOLDINGS LIMITED

AUDITED RESULTS*

FOR THE YEAR ENDED 30 SEPTEMBER 2019

** Extracted financial information from the audited results for the year ended 30 September 2019*

PEPKOR
Holdings Limited

Pepkor's resilient business model supports performance and market share growth.

HIGHLIGHTS[1]

↑ 9.0%[2] REVENUE GROWTH TO **R69.6bn**

↑ 15.6%[3] GROWTH IN OPERATING PROFIT TO **R6.8bn**

↑ 16.7%[3] GROWTH IN HEADLINE EARNINGS PER SHARE TO **98.3 cents**

R7.6bn[4] CASH GENERATED FROM OPERATIONS

338 NEW STORES OPENED

RESULTS	Year ended 30 September 2019	Year ended 30 September 2018	% change
Revenue from continuing operations (Rbn)	**69.6**	63.9	9.0
Operating profit[◊] (Rbn)	**6.8**	5.9	15.6
Total headline earnings per share (cents)	**96.8**	84.5	14.5
Total earnings per share (cents)	**62.6**	83.6	(25.0)
Dividend per share (cents)	**20.9**	27.8	(24.8)

[◊] From continuing operations, before capital items and including the impact of BVI-related costs and IFRS 9 implementation.

[1] Shareholders are referred to Pepkor's annual results presentation, available on the Pepkor website, for further information on comparable results.
[2] From continuing operations.
[3] From continuing operations before capital items and including the impact of BVI-related costs and the implementation of IFRS 9.
[4] Excluding investment in new credit books.

Overview

Pepkor Holdings Limited (Pepkor) achieved a commendable set of operating results for the 2019 financial year (FY19), despite a very difficult retail environment where consumer spending remained constrained, fuelled by high levels of unemployment and low economic growth. The group's defensive discount and value market positioning, disciplined focus on customer needs and low cost of doing business proved to be resilient in this challenging environment.

Pepkor's strategy of providing the right product, at the best possible price, in accessible locations continues to underpin Pepkor's performance, resulting in continued market share gains in most of the retail brands. Creating value for our customers and improving their lives in the process remains the primary focus for each of the retail brands in the group.

Pepkor continued its expansion and opened **338 new stores**, expanding the group's footprint to **5 415 stores**. The group's flexible store formats enable it to open stores closer to its customers' homes, saving them transport costs and creating opportunities for more frequent customer spend.

With **56 100 employees**, the group remains one of the largest employers in the South African retail sector and will continue to focus on capitalising on its core competencies and assets to capitalise on the opportunities that the current market conditions present.

Clothing and general merchandise

This segment, which contributed **64.6%** to group revenue, increased revenue by **6.5%** to **R45.0 billion**, delivering a **3.7%** increase in operating profit to **R6.3 billion** (excluding BVI-related costs). All the Clothing, Footwear and Home (CFH) brands managed to grow market share during the period, which is testimony to the successful value propositions of Pepkor's retail brands that continue to resonate with its customers.

The largest brands, PEP and Ackermans, reported merchandise sales growth of **6.3%** and like-for-like growth of **2.6%**, indicating a stronger performance during the last six months of the year. Expansion plans for these two brands are on track with **198 new stores** opened during the year.

Within the core CFH product categories, retail selling price inflation strengthened to **4.8%** for the year compared to deflation in the prior year.

The African business is in a consolidation phase and **14 stores** were closed, reducing the store network to **313 stores** in total, excluding Zimbabwe. The decision to exit operations in Zimbabwe was based on the continued adverse macroeconomic conditions and weakening of the local currency.

Furniture, appliances and electronics

The JD Group performed well in a market characterised by difficult trading conditions, with consumers spending mainly on essentials rather than durables. Merchandise sales increased by **2.7%** while like-for-like sales declined by **0.6%**, indicating a stronger second half that included positive like-for-like performance.

Segmental revenue increased by **8.3%** to **R9.3 billion** and profitability was restored at the retail operating level for the first time in many years. The adoption of IFRS 9 resulted in incremental costs of **R252 million** due to of higher provisioning, resulting in an operating loss of **R85 million**.

Credit sales were maintained at a conservative level of **18.2%** of sales. The business continues to consolidate with a net opening of **eight stores**, while sales densities were increased with a **3.9%** reduction in space.

Building materials

The Building Company is trading in an exceptionally difficult environment but nevertheless produced a satisfactory sales performance with a like-for-like growth of **2.2%**. The focus remains on protecting and growing market share, impacting gross margins and consequently reducing profitability. The full value of goodwill and intangible assets pertaining to the business was impaired, amounting to **R1.2 billion**, as performance continues to be affected by the contraction in the building materials market. Encouraging progress was made on the restructuring and consolidation of the business while opportunities to realise efficiencies across the business units continue to be explored.

FinTech

The FinTech segment increased revenue by **43.9%** to **R7.2 billion**, with operating profit increasing to **R483 million**.

The FLASH business continues to report strong growth in trade and profitability. The number of FLASH traders increased from **145 000** to **169 000** during the year. The business continues to re-invest in future growth and the expansion of its product offer.

Capfin performed well, appealing to a broader range of customers through its digital channels. It further successfully established its own internally funded credit book, which remains healthy with credit performance meeting expectations.

For further information, refer to Pepkor's detailed results announcement, available on **www.pepkor.co.za**.

Outlook

Trading subsequent to year-end remains volatile and management is of the opinion that the difficult trading environment will persist as consumer spending continues to be constrained. Notwithstanding, the group is cautiously optimistic about growth for the coming year and its merchandise-buying plans reflect this.

The current environment provides opportunities for market share expansion and the strong customer value propositions of Pepkor's retail brands is expected to remain a competitive advantage.

Organic expansion opportunities remain top of mind, including store footprint expansion, the development of new retail formats and the creation of new channels through which to serve our customers. The group will continue to focus on market share expansion and improving operating cost efficiencies.

Dividend

Based on the stated ambition to reduce Pepkor's gearing to one times net debt-to-EBITDA, the board has elected to declare a scrip dividend with a cash alternative of **20.9 cents** (**27.8 cents** in the prior year) in respect of the year ended 30 September 2019. This is consistent with the previously announced dividend policy of a dividend being covered three times by earnings.

Pepkor's two largest shareholders, representing **79.8%** of the group's issued share capital, have committed to receive the scrip dividend.

About this short-form announcement

This short-form announcement ('this announcement') is the responsibility of the directors. It should be noted that this announcement is only a summary of the information in the detailed announcement and therefore does not contain full or complete details. Any investment decisions by investors and/or shareholders should be based on the information in the detailed announcement. The detailed announcement is available on the company's website www.pepkor.co.za through the link in the short-form announcement released on SENS, and is available for inspection at the registered office of the company and the offices of the sponsor, free of charge to investors and/or shareholders, during office hours (09:00 – 17:00) from Monday to Friday. Copies of the detailed announcement may be requested by emailing investors@pepkor.co.za or by contacting Pepkor investor relations on +27 21 929 4800.

By order of the board
Pepkor Proprietary Limited
25 November 2019

Corporate information

PEPKOR HOLDINGS LIMITED ('Pepkor' or 'the company' or 'the group') (Incorporated in the Republic of South Africa) | **EXECUTIVE DIRECTORS** LM Lourens (Chief executive officer), RG Hanekom (Chief financial officer) | **NON-EXECUTIVE DIRECTORS** J Naidoo (Chairman), JB Cilliers (Lead independent), T de Klerk, LJ du Preez, MJ Harris*, WL Luhabe*, SH Muller*, F Petersen-Cook*, JD Wiese **Independent*
REGISTRATION NUMBER 2017/221869/06 | **SHARE CODE** PPH | **ISIN** ZAE000259479 | **REGISTERED ADDRESS** 36 Stellenberg Road, Parow Industria 7493 | **POSTAL ADDRESS** PO Box 6100, Parow East 7501 | **TELEPHONE** 021 929 4800 | **E-MAIL** info@pepkor.co.za | **TRANSFER SECRETARIES** Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196
COMPANY SECRETARY Pepkor Proprietary Limited | **AUDITORS** PricewaterhouseCoopers Inc. | **SPONSOR** PSG Capital Proprietary Limited | **ANNOUNCEMENT DATE** 25 November 2019