

# ACQUISITION OF GRUPO AVENIDA

3 February 2022



# PEPKOR TODAY

**JSE**

Largest non-grocery retailer<sup>1</sup>

**R88.4bn**

market capitalisation<sup>1</sup>

**47 000**

employees<sup>2</sup>

**5 470**

stores<sup>2</sup>

**R77.3bn**

revenue<sup>3</sup>

**R9.3bn**

operating profit<sup>3</sup>

**R11.0bn**

cash generated<sup>3</sup>

**0.5**

times net debt-to-EBITDA<sup>2</sup>

- (1) As at 28 January by market capitalisation  
(2) As at 30 September 2021  
(3) Financial year ended 30 September 2021.



# VISION

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is to be a **globally** respected discount and value retailer – by being the best place to shop, work and invest.



## OUR PURPOSE

is to make a **positive** difference in the lives of our customers.



## OUR OFFERING

Pepkor gives customers access to **value-for-money** products and services at the lowest prices, and at their convenience.

# OUR INTERNATIONAL EXPERIENCE



Discount and value market



Strength in baby and children's clothing



Lower risk of exposure to high fashion



Purchasing power due to scale and volume



Retail skills & experience



Low cost of doing business



Culture & Values



Pepkor sourcing office and supplier base



20 years of successful international experience

# WHY BRAZIL

		
<b>Total GDP</b>	<b>US\$1.4trn<sup>1</sup></b>	<b>US\$0.3trn<sup>1</sup></b>
GDP per capita	<b>US\$6.8k<sup>1</sup></b>	<b>US\$5.7k<sup>1</sup></b>
Population size	<b>211.8m<sup>2</sup></b>	<b>59.3m<sup>1</sup></b>
Unemployment	<b>13.5%<sup>2</sup></b>	<b>29.2%<sup>3</sup></b>

**Biggest  
economy in  
Latin America**

**Top 10 largest  
apparel &  
footwear market  
in the world<sup>4</sup>**

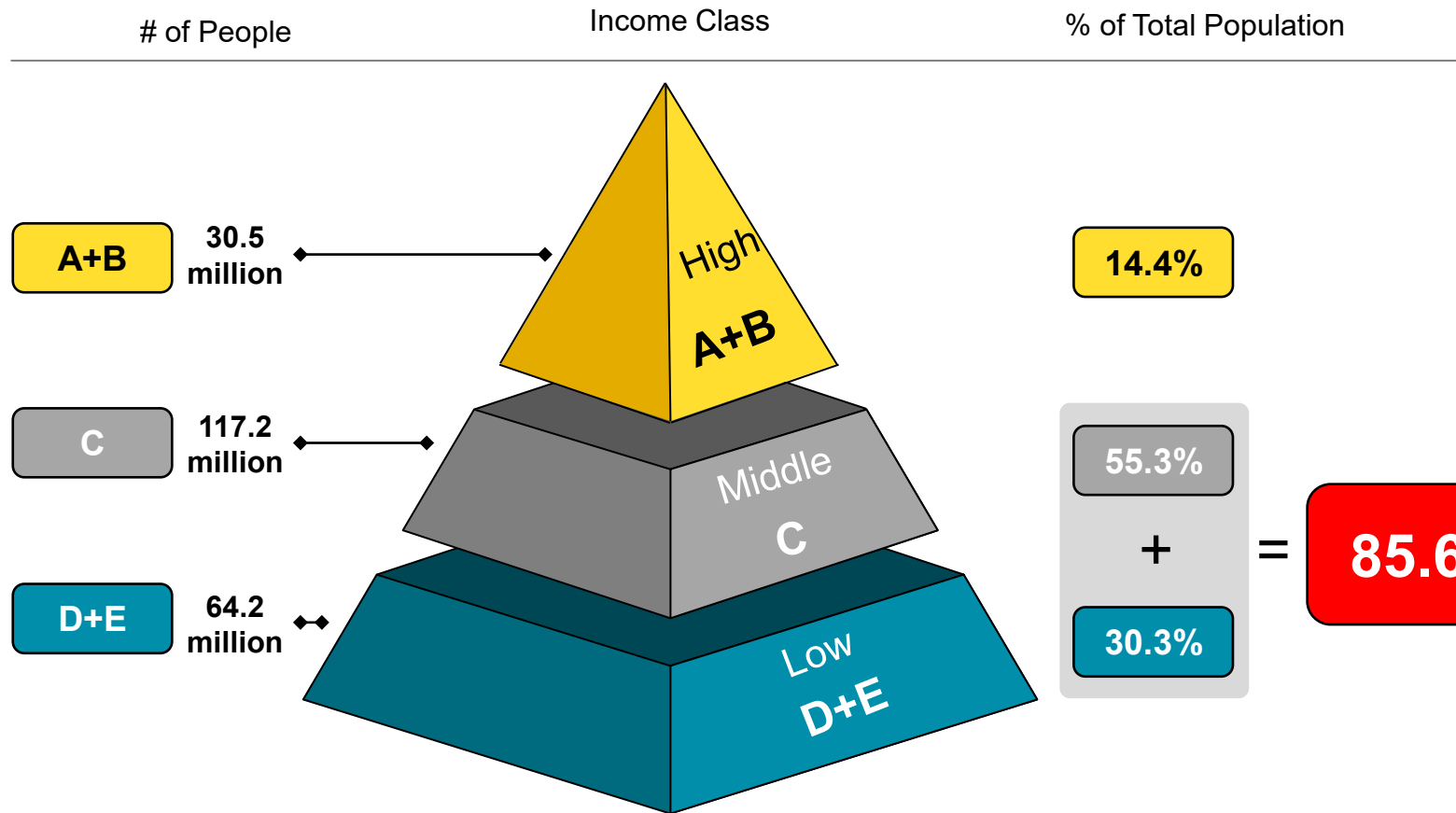
**Relatively  
stable  
currency**

**Enormous  
growth  
opportunity**

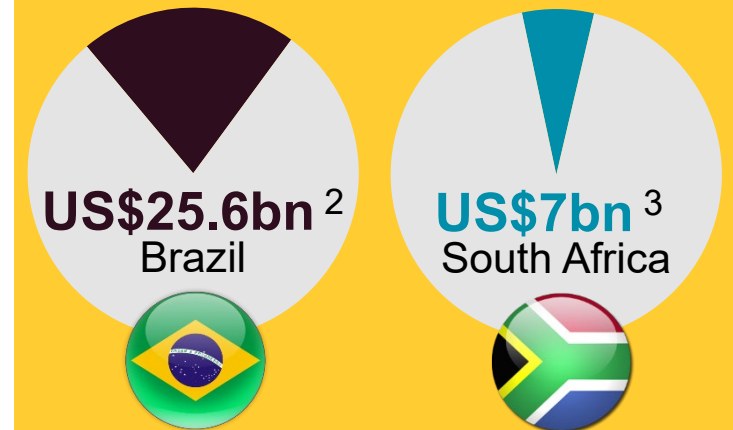
**Federal  
tax  
structure**

# BRAZIL VALUE MARKET

## BRAZILIAN POPULATION BY INCOME CLASS<sup>1</sup>



## CLOTHING, FOOTWEAR & HOME MARKET SIZE



- Fragmented market with 14.5% formal retail<sup>4</sup>
- 680 cities with more than 50 000 inhabitants<sup>5</sup>
- Untapped rural market
- Well developed local suppliers of apparel and footwear (95%)

(1) FGV Social as at November 2019  
 (2) Beragua  
 (3) RLC  
 (4) Beragua, company reports  
 (5) IBGE, 2020



**PEPKOR**

# **INTRODUCTION TO GRUPO AVENIDA**



**AVENIDA**

# CORPORATE HISTORY

Over 42 years of experience in the lower end of the market



Opening of **first store** in Cuiabá



Opening of the **first store outside** Mato Grosso state (located in Vitória – Espírito Santo state)

**Purchase and rent of properties from Casas Pernambucanas**

Opening of **first shopping mall store**

**Rodrigo Caseli becomes the CEO**

**Period of Material Changes**

Change from installment plan to private label card

Change of the purchasing office from Cuiabá to Sao Paulo state

Centralization of logistics in 1 distribution centre located in Campo Grande – Mato Grosso do Sul state

Change from salesperson to self-service operation

**Christian Caseli appointed chairman**

Entrance of **Kinea**

uma empresa **Itaú**

Acquisition by **PEPKOR**

1978

1985

1995 1998

2001

2010

2014

2022

1

10

20

31

69

117

130



Stores



# FINANCIAL HIGHLIGHTS



**14%**  
growth on  
2019<sup>1</sup>

**BRL 773m**  
net revenue  
in FY21<sup>2,3</sup>

**BRL 5.1m**  
Average turnover  
per store<sup>2,4</sup>

**1.2m**  
Future months  
stock holding<sup>5</sup>

**7.5m**  
transactions<sup>2</sup>

**47%**  
Avenida  
branded store  
card sales<sup>2</sup>

**2 475**  
number of  
employees<sup>5</sup>

(1) Financial year ended 31 December 2019 – balanced reflection pre-COVID-19.

(2) Preliminary results for the financial year ended 31 December 2021

(3) Sales net of any sales tax

(4) Estimated nett merchandise sales per store for the financial year ended 31 December 2021

(5) As at 31 December 2021

# STORE NETWORK

130  
STORES

11/26  
STATES

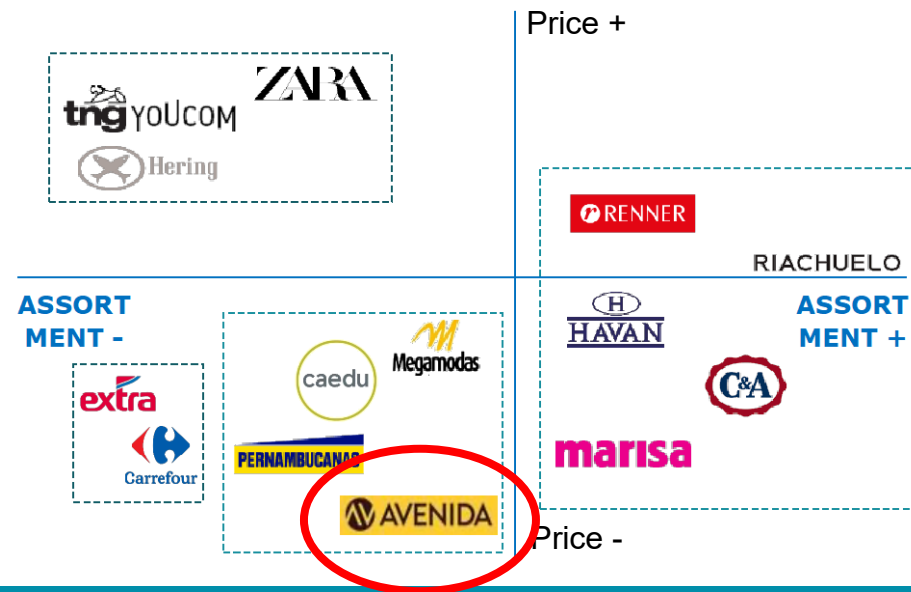


- **Leadership in central regions**
- **Presence in tier 1 & 2 cities**
- **Flexible size & locations**
- **Avenida - 110 stores**
- **Giovanna - 20 stores**
- **680 cities with >50 000 inhabitants**
- **Network expansion along 3 corridors**

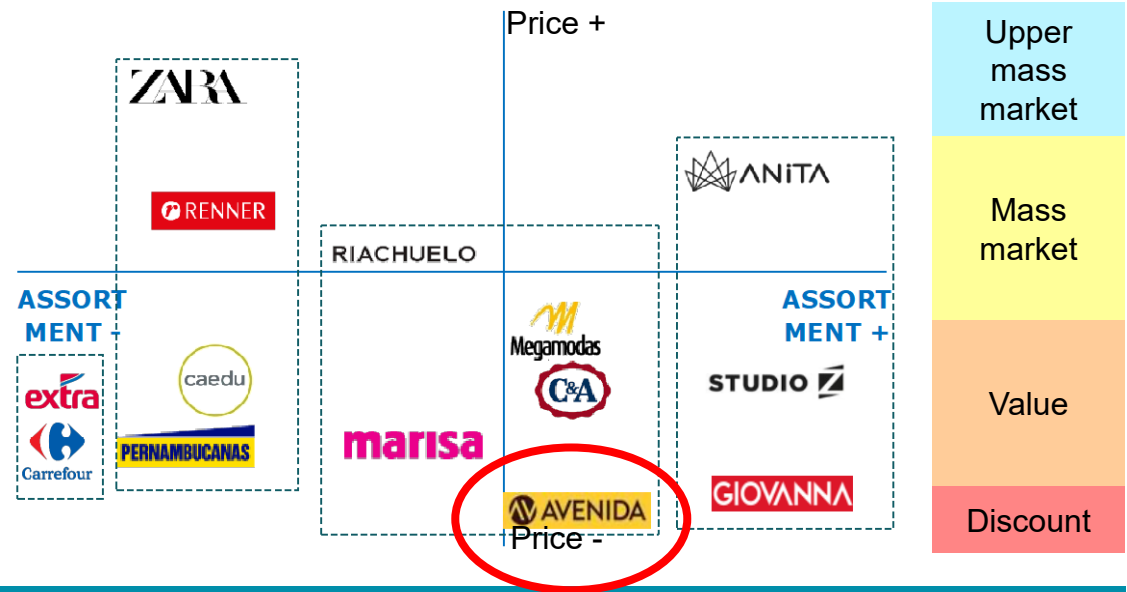
# GRUPO AVENIDA'S MARKET POSITIONING

One-stop-shop for clothing and home to the average Brazilian consumer family

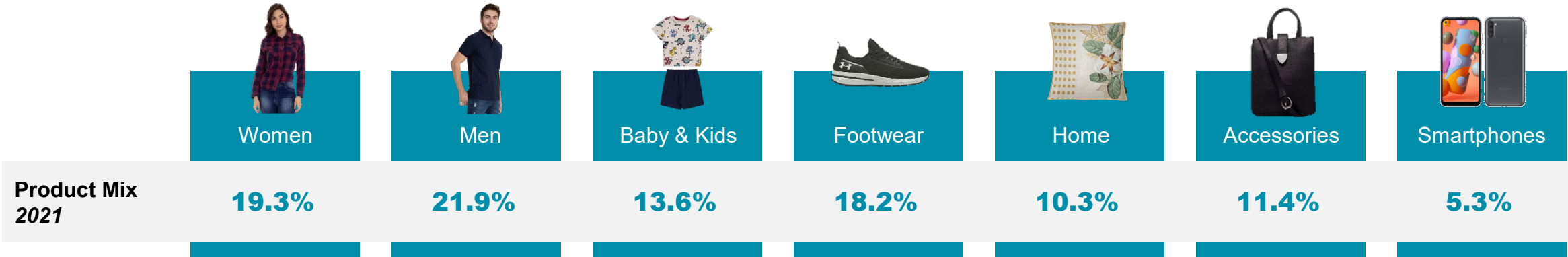
## APPAREL<sup>1</sup>



## FOOTWEAR<sup>1</sup>



## WIDE ASSORTMENT WITH A STRONG WOMEN AND MEN OFFERING



(1) Beragua

# OPERATIONS AND MANAGEMENT



**CEO**

Rodrigo Caseli

**26** years' service



**Director**

Christian Caseli

**29** years' service

- **2 Pepkor executives to join Exco**
- **Dedicated Pepkor retail expert advisor**



**CFO**

Ernane Abrahão

**4** years' service



**COO**

Martijn Winkel

**2** years' service



**DIGITAL  
TRANSFORMATION  
OFFICER**

Jonas Ferreira

**1** years' service



**EXPANSION  
DIRECTOR**

Ruda Azambuja  
Junior

**5** years' service



**PURCHASING  
DIRECTOR**

Julio Mancio

**19** years' service



**HUMAN  
RESOURCES  
MANAGER**

Gilson Santos

**5** years' service

# CORPORATE GOVERNANCE, COMPLIANCE AND REPORTING



Finance  
Committee



Investment  
Committee

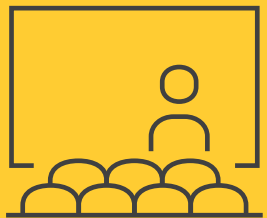


People  
Committee

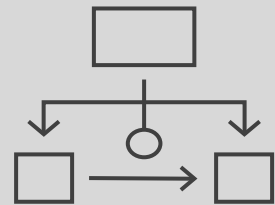
## Pre-Acquisition Board

- 2 x Caseli family
- 2 x Kinea
- 2 x Independent members

Audited by Ernst & Young



Digital  
Transformation  
Committee



Long-Term  
Incentive Plan  
(SOP)



Risk  
Council

## New Board

- Pepkor CEO & CFO
- 2 x Caseli family
- Head of Pepkor Brazil
- 1x Retail Director
- 1 x Independent Local expert

# TRANSACTION SUMMARY



## SUMMARY

- Acquire c.87%
- Working capital injection
- Family commitment – 7 yrs



## PAYMENT

- Cash
- Strong Pepkor balance sheet
- <4% of Pepkor market cap
- Put and call options



## DUE DILIGENCE

- Extensive due diligence (DD) - 2 year period
- Avenida visit to SA
- Online DD & physical DD
- Financial DD: PwC
- Commercial DD: Beragua
- Legal DD: Lefosse Advogados
- Financial Advisor: Rothschild & Co



# STRATEGICALLY ALIGNED ACQUISITION

1

Attractive country with large population

2

Top 10 largest apparel & footwear market in the world

3

Defensive & resilient discount and value fit

4

Established business with proven business model

5

Leading brand with a strong presence in core regions

6

Culture resonates with Pepkor

7

Highly regarded & experienced local management team

8

High levels of governance, compliance in systems & reporting

9

Meaningful size which is easily digestible by Pepkor

10

Pepkor can introduce best practices & synergies



# INITIAL VALUE CREATION PLAN

1 Adequately capitalise the business

2 Prepare the business for growth

3 Expand sourcing capabilities

4 Differentiate price positioning

5 Store expansion





# ACQUISITION OF GRUPO AVENIDA

Thank You



AVENIDA

**APPENDIX**



**AVENIDA**

# BRAZIL SNAPSHOT

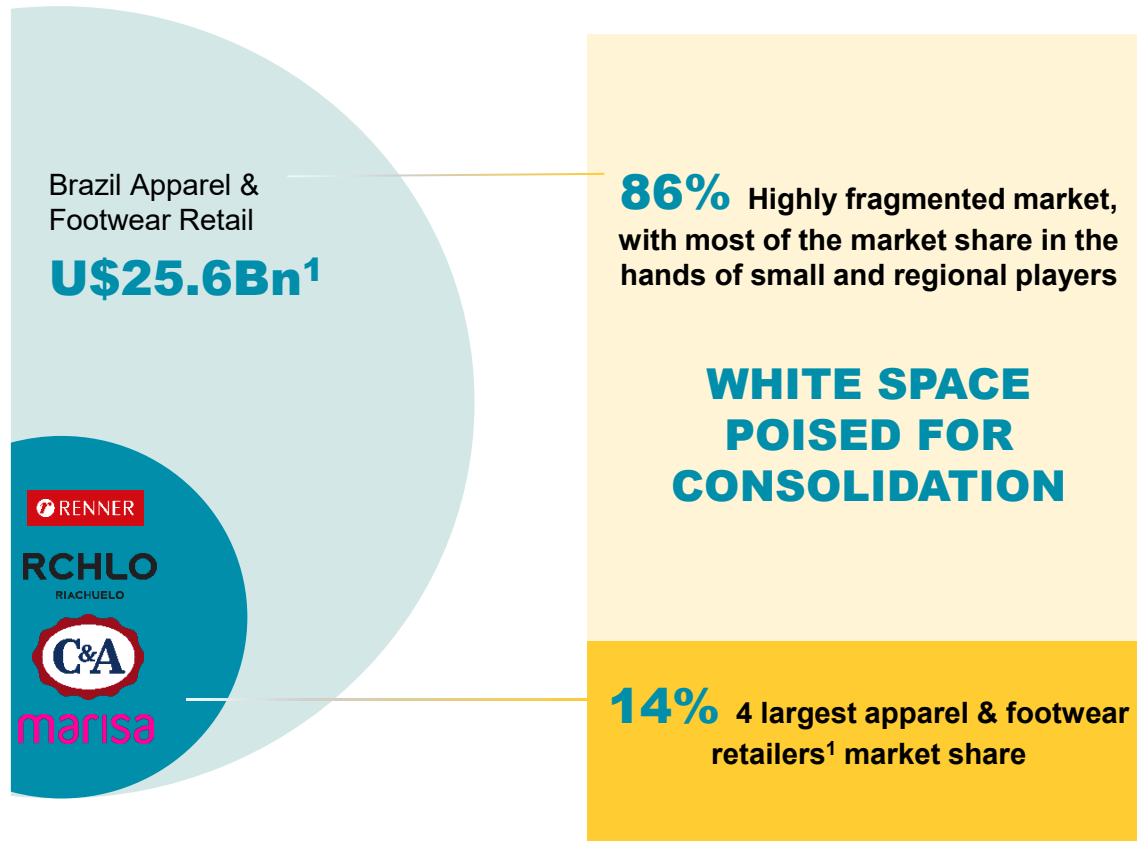


# FRAGMENTED APPAREL MARKET WITH POTENTIAL FOR CONSOLIDATION

Strong consolidation potential outside of the major metropolises

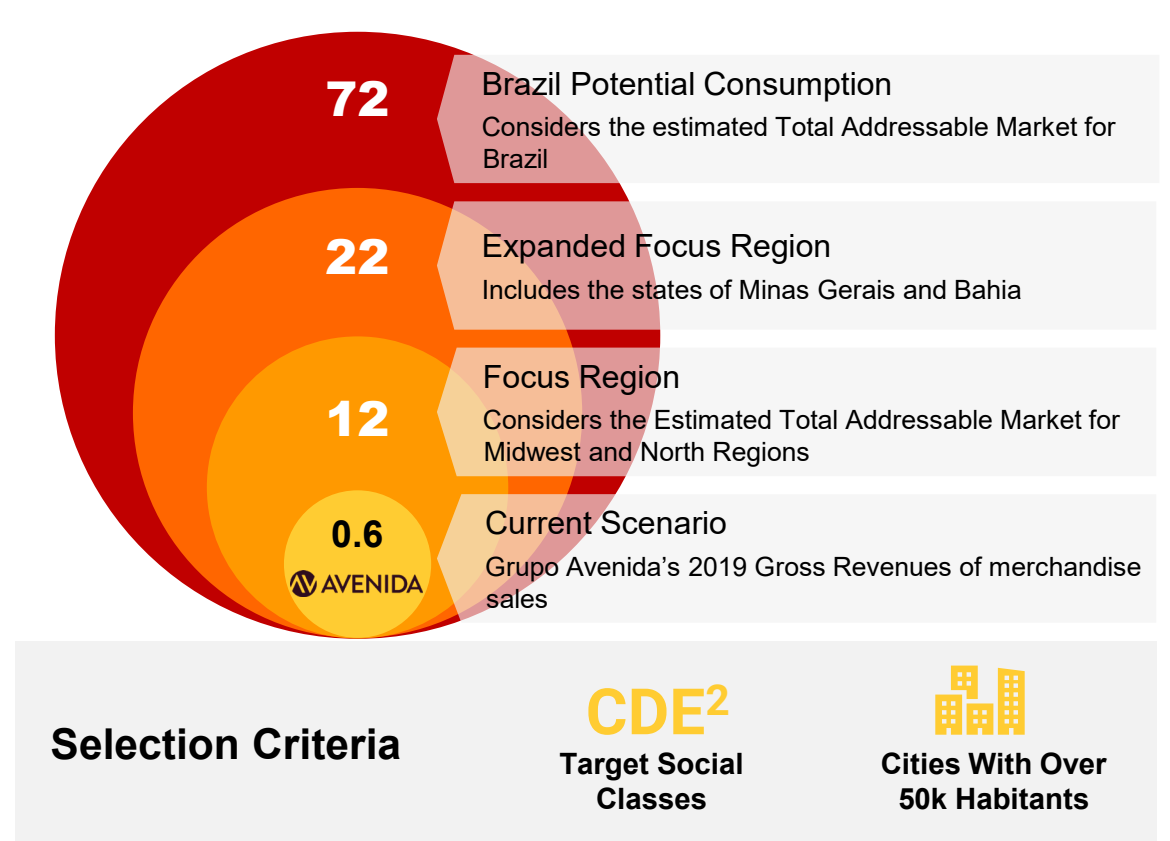
## BRAZILIAN APPAREL & FOOTWEAR TOTAL ADDRESSABLE MARKET<sup>1</sup> (2021)

High Market Fragmentation yields opportunity to grow with lower competitive pressure



## OUTSTANDING GROWTH POTENTIAL IN FOCUS DEMOGRAPHICS

Mid-West and North Regions Potential Annual Consumption (BRL Bn)



Source: Beragua and GEU

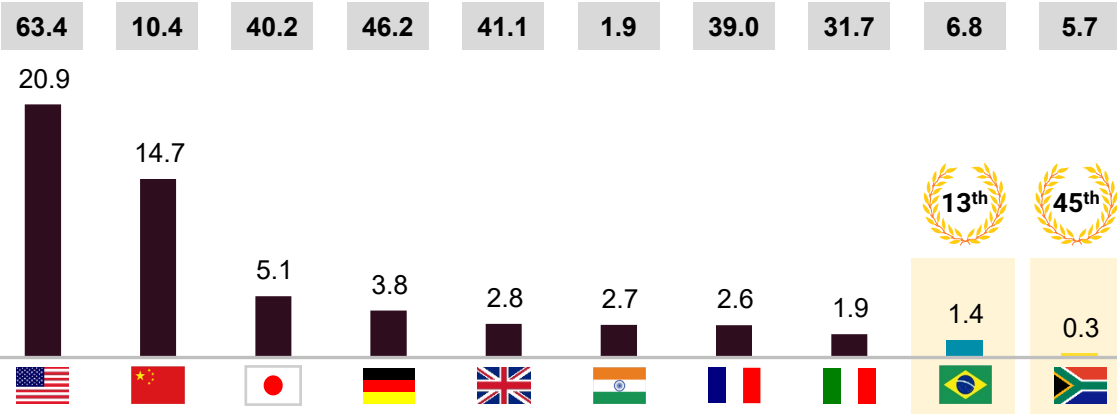
Notes (1) Considers Avenida, Renner, Riachuelo, C&A and Marisa market shares (2) Low to middle income classes

# SNAPSHOT OF THE BRAZIL ECONOMY

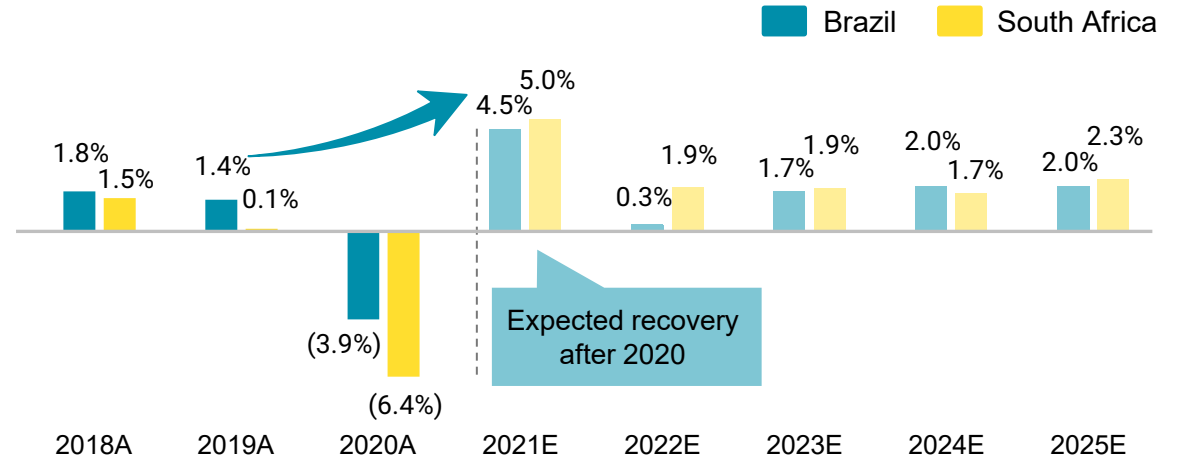
One of the largest global economies, with solid macroeconomic fundamentals

## GDP BY COUNTRY IN 2020 (CURRENT US\$TLN)

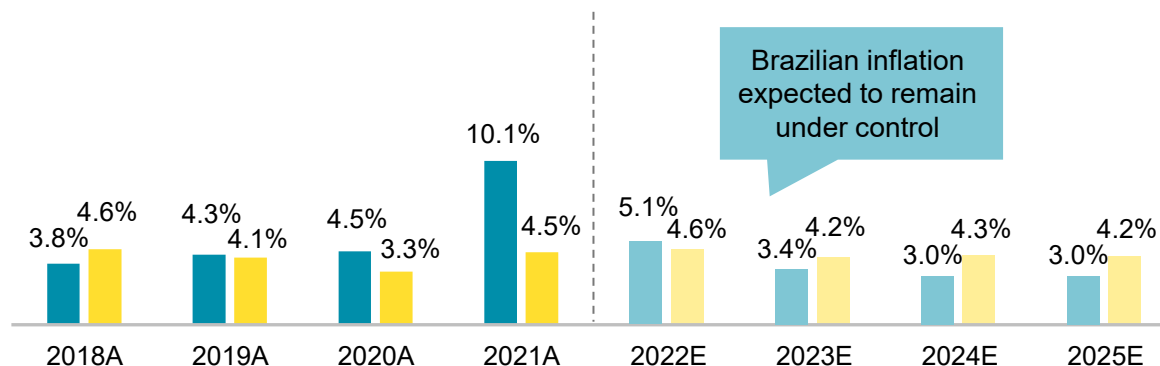
GDP per capita (US\$k)<sup>1</sup>



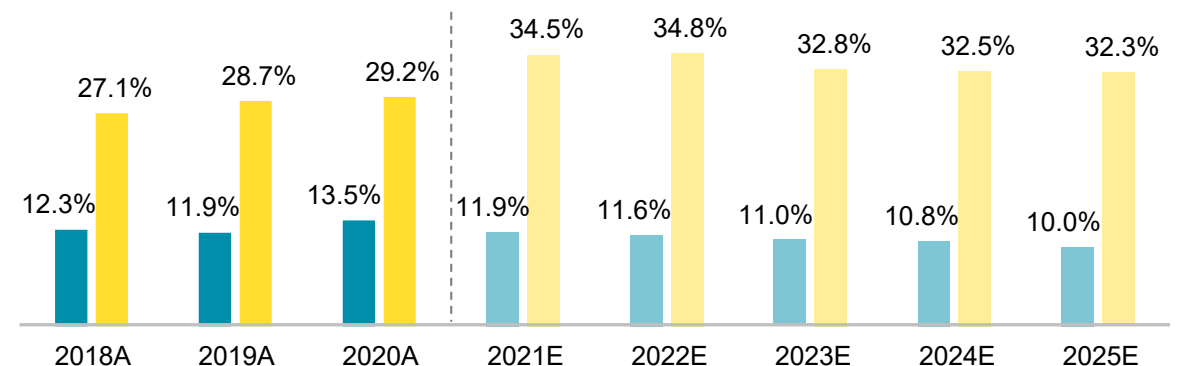
## GDP REAL GROWTH (%)<sup>2,4</sup>



## INFLATION - CPI (%)<sup>2,4</sup>



## UNEMPLOYMENT RATE (%)<sup>2,3,4</sup>



**Source** The World Bank, IBGE (Brazilian Institute of Geography and Statistics), Ipeadata (Brazilian government-led research organization), Central Bank of Brazil and IHS Markit

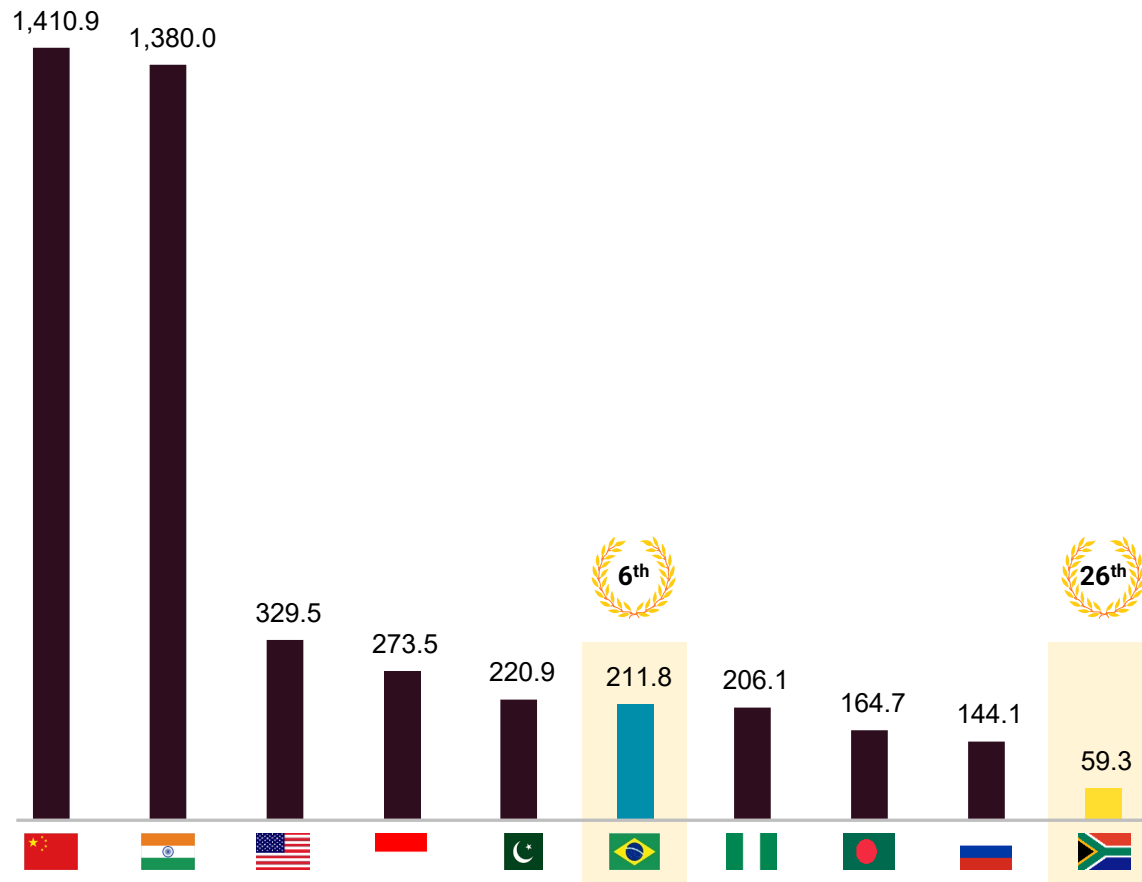
**Notes (1)** GDP per capita for Brazil calculated using IBGE data for population. For the remaining countries, it was calculated based on World Bank data for population; **(2)** Consensus estimates, based on the average of the weekly compilation of research estimates released by the Brazilian Central Bank on Jan/14/2022; **(3)** Historical unemployment rate based on the annual unemployment data from IBGE; **(4)** Data for South Africa according to IHS Markit

# BRAZILIAN DEMOGRAPHICS

Brazil's population is currently the 6th largest in the world and is expected to grow c. 9% in the next 20 years

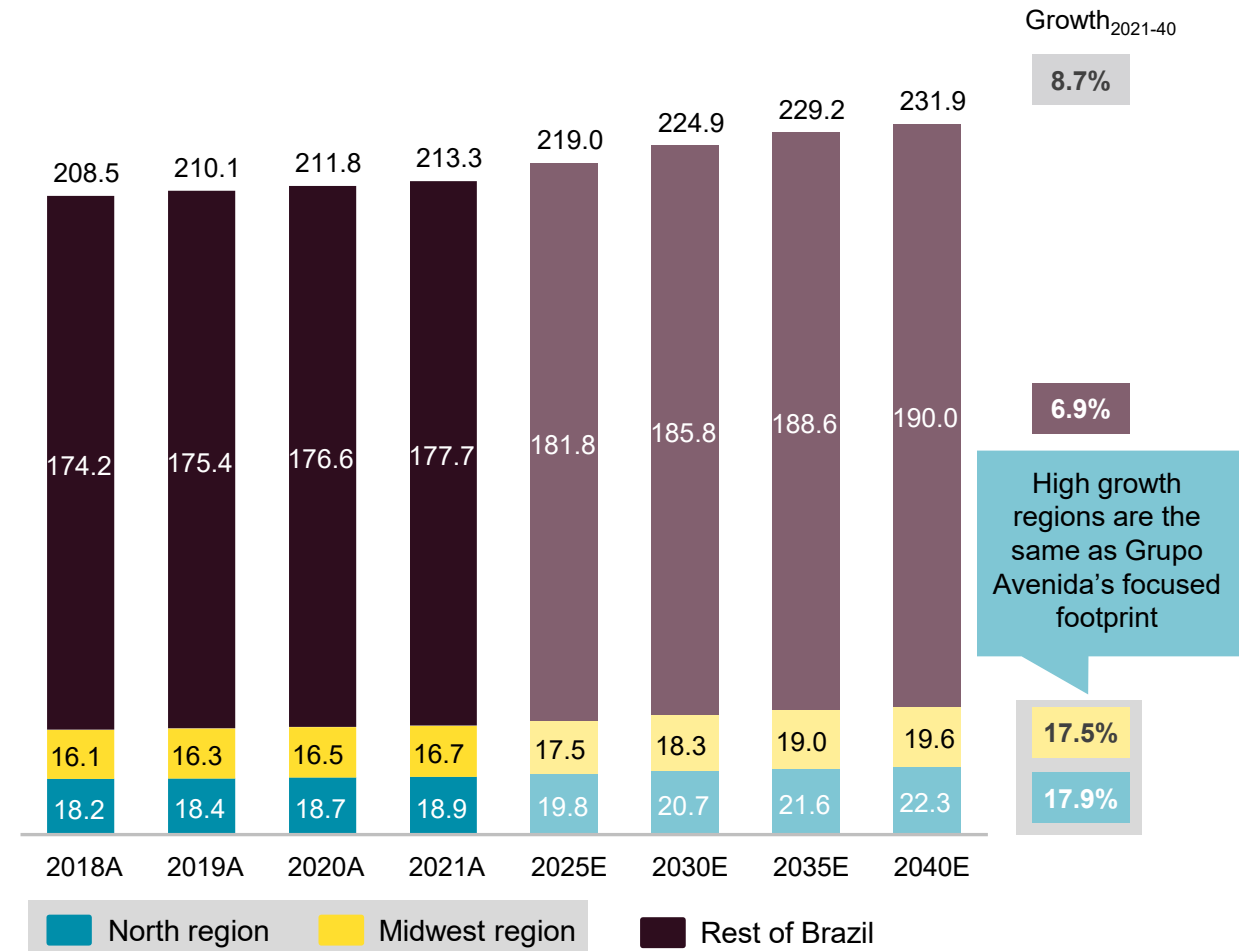
## POPULATION BY COUNTRY IN 2020<sup>1</sup> (MILLION)

One of the largest economies in the world with a sizeable population...



## BRAZIL'S POPULATION PER REGION (MILLION)<sup>2</sup>

...and high growth potential in the regions of Grupo Avenida's focused footprint



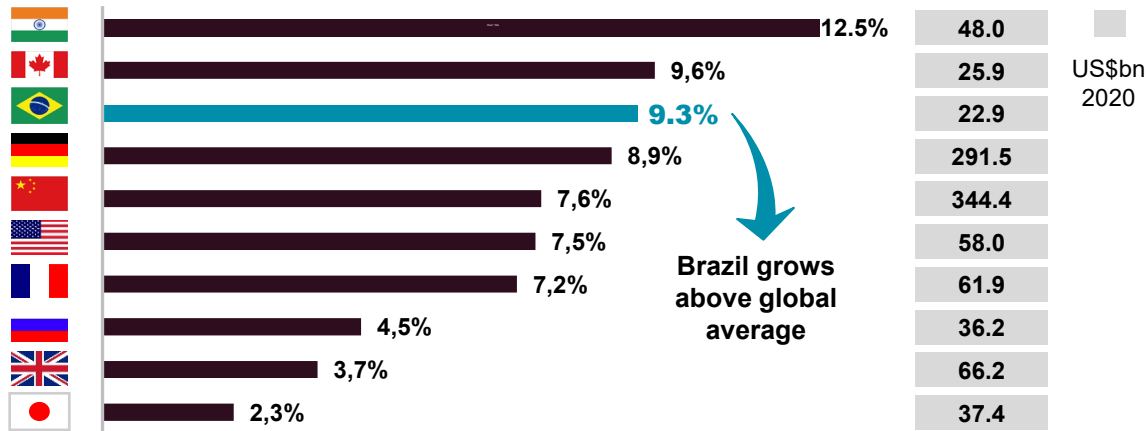
Source IBGE (Brazilian Institute of Geography and Statistics) and The World bank

Notes (1) Brazilian population according to IBGE data. Population data according to the World Bank for other countries; (2) Estimates according to IBGE's most recent study (2018)

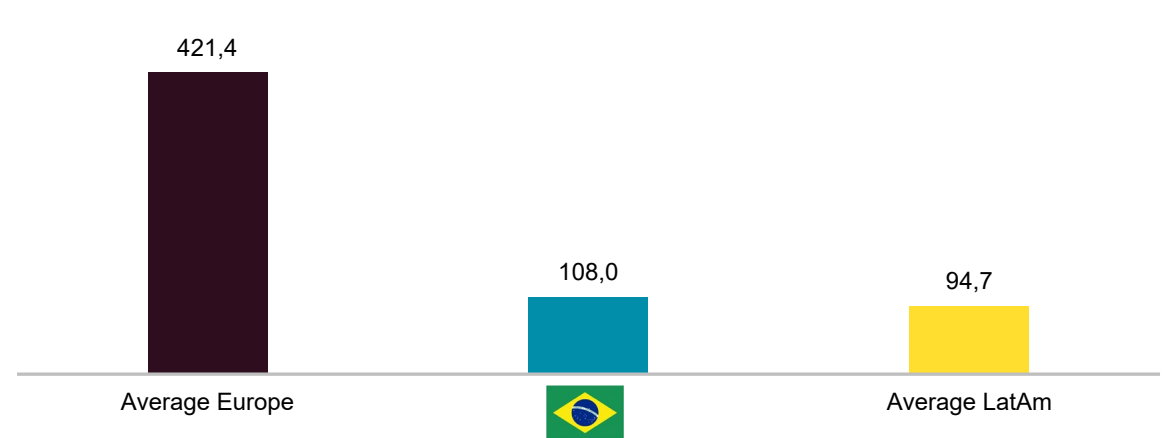
# RETAIL SECTOR IN BRAZIL

Apparel and footwear sales are expected to grow globally in coming years, with Brazil showing higher potential when compared to other sizeable economies

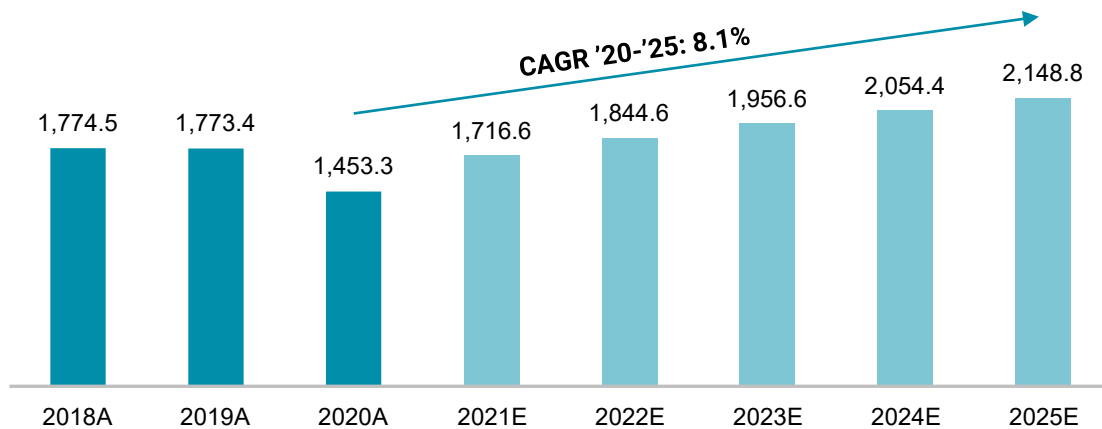
## APPAREL AND FOOTWEAR MARKET GROWTH CAGR (2020A-2025E)<sup>3</sup>



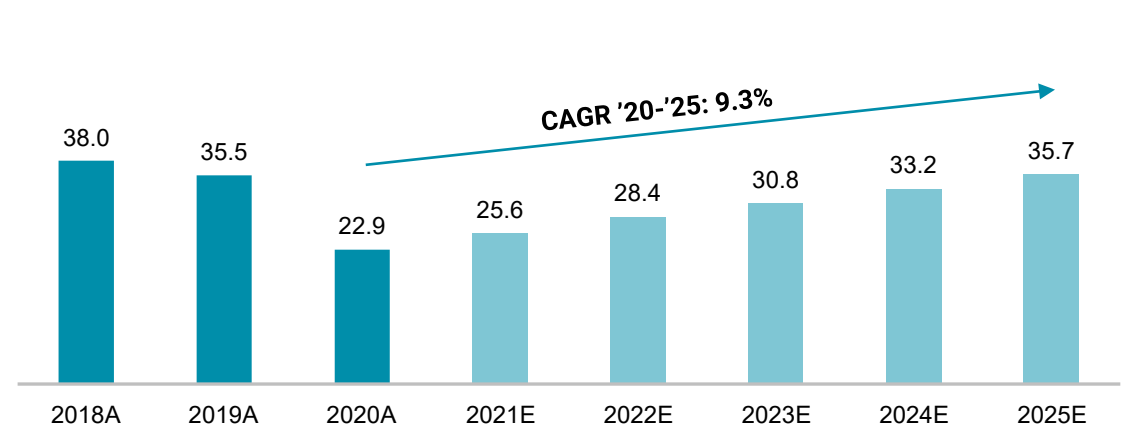
## A&F<sup>1</sup> EXPENDITURE 20A (USD PER CAPITA)



## GLOBAL APPAREL AND FOOTWEAR SALES (US\$BN)<sup>2,3</sup>



## BRAZIL APPAREL AND FOOTWEAR SALES (US\$BN)<sup>2,3</sup>

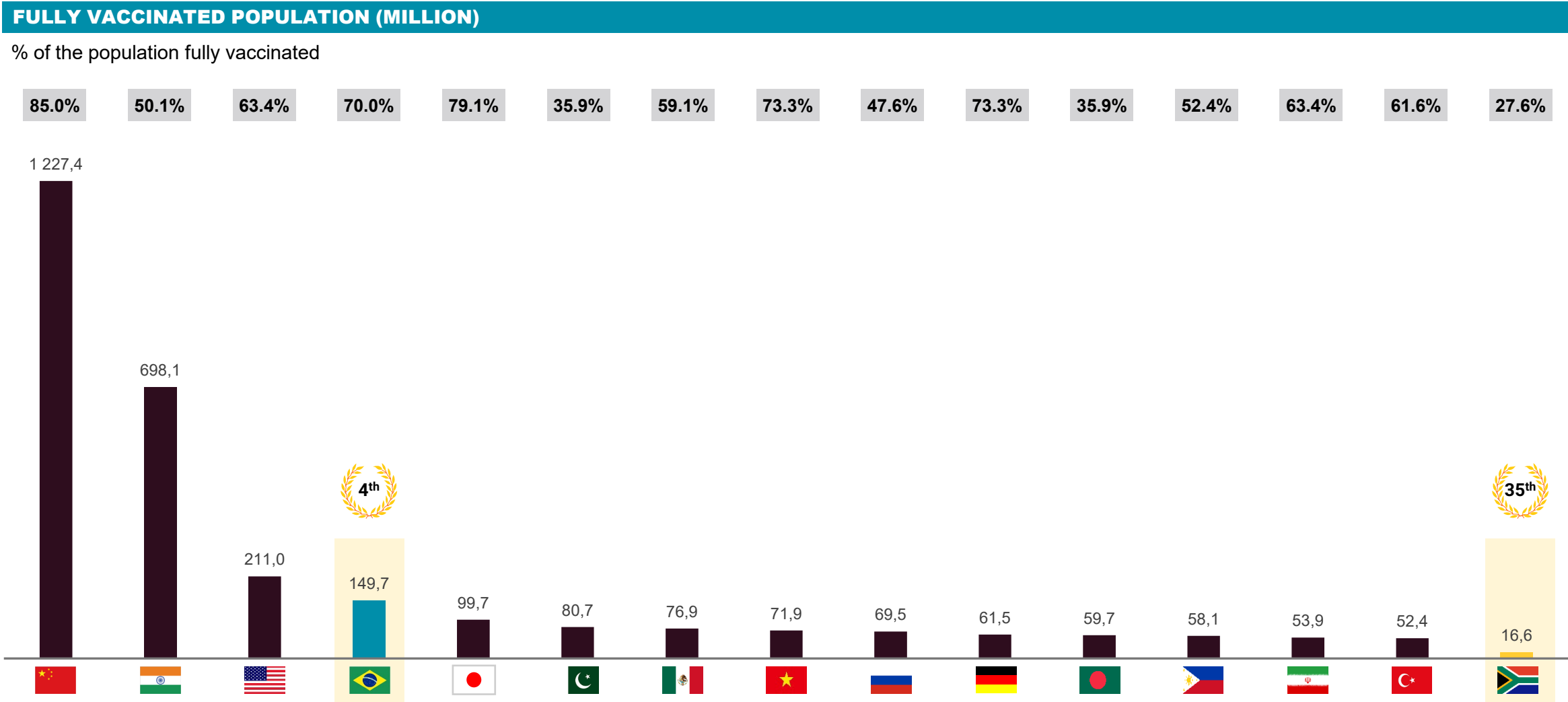


Source: Beragua

Notes (1) A&F stands for apparel and footwear; (2) Includes Sales Tax; (3) Converted with an average annual exchange ratio

# VACCINATION THROUGH THE WORLD

Brazil has one of the largest vaccinated populations in the world



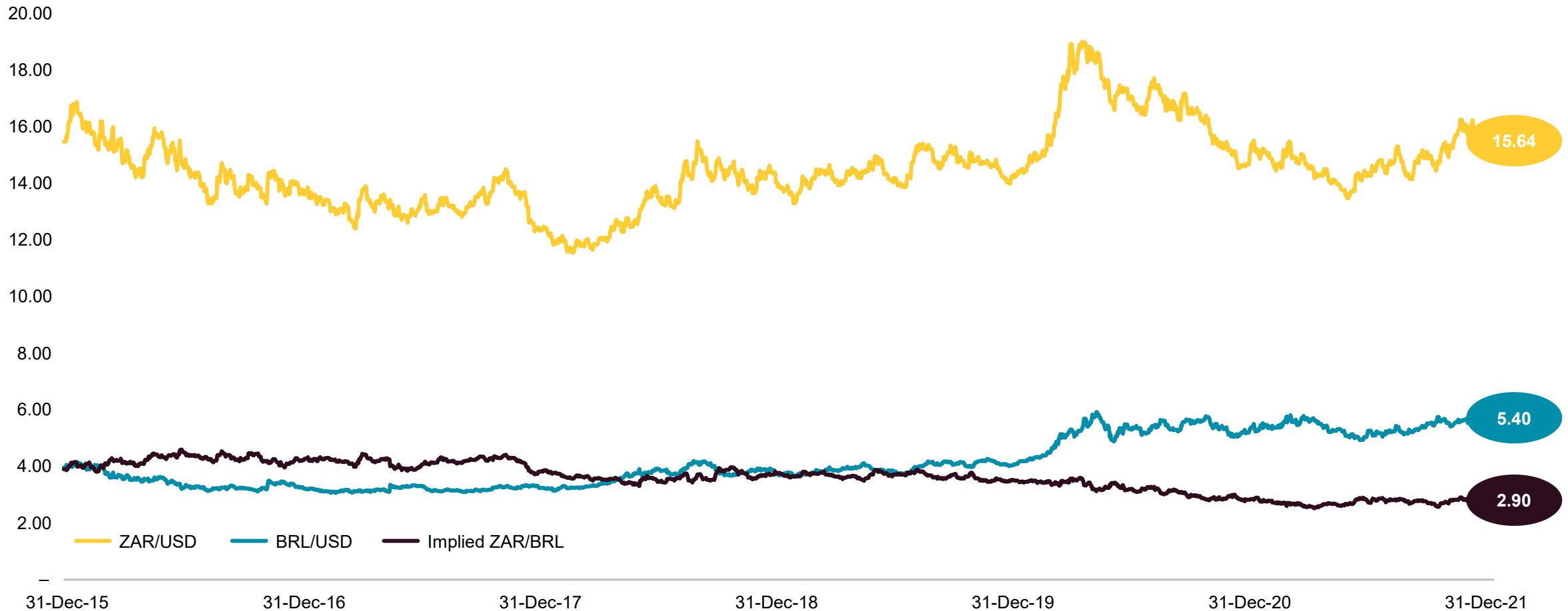
Source Our World in Data, as of January 28th, 2022



# EXCHANGE RATE EVOLUTION

Positive moment to invest in Brazil when considering the implied exchange rate between the Brazilian Real and the Rand

## EXCHANGE RATES EVOLUTION



Source Capital IQ from December 31<sup>st</sup>, 2015 to January 28<sup>th</sup>, 2022.

# ACQUISITION OF GRUPO AVENIDA

Thank You

