PEPKOR delivers strong performance in a challenging operating environment

Performance driven by robust sales growth, margin improvement and momentum gains in FinTech

28 May 2024, Cape Town: JSE-listed PEPKOR has announced a 9.5% growth in revenue to R43.3 billion, driven by robust trading in traditional retail despite a persistently challenging operating environment. The group, which released its interim results for the six months ended 31 March 2024, owns popular household brands like PEP, Ackermans, Refinery and Incredible. Furthermore, the group's FinTech strategy achieved notable gains during the period, with FinTech revenue growing by 24.5% to R5.8 billion, driven by strategic initiatives such as:

- Retail credit interoperability, with 552 000 new A+ accounts opened;
- Making smartphones affordable via FoneYam, with 202 000 active customers; and
- Affordable insurance products enabled through Abacus, which nearly doubled the number of insurance policies to 650 000.

PEPKOR CEO Pieter Erasmus commented on the group's performance despite a challenging operating environment, "Our strong 9.5% revenue growth was driven largely by robust trading in our retail businesses with gross margins benefiting from lower markdown activity. Our FinTech strategy, enabled by the group's retail and customer acquisition capability, is gaining momentum and showing early signs of success as we focus on solving customer needs and providing them with access to affordable products and services such as credit, connectivity, smartphones and insurance."

Results highlights include:

- 9.5% growth in revenue to R43.3 billion
- 24.5% growth in FinTech revenue to R5.8 billion
- 200 bps increase in gross profit margin to 38.1%
- 4.0% growth in operating profit before capital items to R5.1 billion (+13.0% on a normalised basis)
- 3.1% decrease in HEPS to 75.0 cents (+7.8% on a normalised basis)
- 85% cash conversion achieved (rolling 12-month basis)

Robust sales growth and improved margins in retail

PEPKOR says sales growth strengthened in the second quarter ended March 2024 based on successful back-to-school campaigns and strong Easter trade with brands expanding market share (RLC data). Gross profit margins benefited from enhanced full-price sales and the continued recovery in Ackermans, where full-priced sales improved by 660 basis points.

The retail store base was expanded to 5 823 stores with 111 new stores opened during the period. New store openings in Avenida accelerated to 22 from six in the comparable period last year. Avenida operates 163 stores in Brazil.

Driving growth and meeting customer needs through FinTech

PEPKOR says its FinTech strategy significantly drove revenue growth and further supported gross margins. Credit interoperability, which allows customers to use their A+ credit accounts in various PEPKOR retail brands, expanded to 2.5 million A+ accounts, with 552 000 accounts opened during the period. This builds the group's share of the retail credit market, although credit still remains a relatively slow sales enabler at 13% of total sales (10% last year). The remaining 87% of sales is still transacted in cash. Credit is extended on a conservative and sensible basis and the group has seen lower approval rates with lower account limits allocated to customers.

The group sold 5.6 million cellular handsets during the period, with smartphones representing 58% of sales. The group says private-label handsets like Stylo and Premio contribute 18% to the product mix, achieving higher gross margins. The FoneYam cellular handset rental product was rolled out to 1 000 stores by the end of March 2024, with 202 000 handsets sold. The monthly activation rate was 60 000 handsets and continues to accelerate based on strong customer demand.

The group continues to leverage its insurance capability, capitalising on its trusted retail brands, store network, and ability to collect premiums. Abacus increased the number of written insurance policies by 96% to 650 000. Credit life was rolled out in Capfin with 87% coverage of Capfin loans and a 95% take-up rate on new loans. Parcel cover, embedded in PAXI, covered 2.7 million parcels during the period.

The +more customer value platform was successfully launched across more than 15 PEPKOR retail brands, covering more than 5 000 stores. Despite its infancy, +more is already expanding the group's known customer base, with 24% of current registrations coming from customers who were previously unknown to the group. The group expanded its reach into the bustling informal market in South Africa. Throughput value in Flash increased by 28% during the period, enabled by the 165 000 trader network.

"As a group, Pepkor has unrivalled customer acquisition capability through its retail brands and store network. This enables us to solve customer needs which go far beyond baby and school wear, such as affordable connectivity and smartphones. We have been deliberate in accelerating strategic execution in these areas, which weighs on profitability in the short term," adds Erasmus.

Erasmus concluded, "Strategic execution is on track, driving confidence in our ability to monetise opportunities and delivering sustainable growth well in excess of what the macroeconomic environment can provide. Additionally, the potential for expansion in Brazil remains compelling, allowing us to build international scale and once again establish PEPKOR as a global leader in discount and value retail."

Ends.

Note to editor:

As announced on 29 February 2024, PEPKOR entered into a sale agreement to dispose of The Building Company. The Building materials segment in its entirety is therefore classified as discontinued operations held for sale in the results and commentary focuses on continuing operations.

Media contact:

For further information, contact: Accenture Song | Elizabeth Senger
elizabeth.senger@accenture.com | 083 396 7608

About PEPKOR :

JSE-listed PEPKOR has the largest retail store footprint in southern Africa with more than 5 800 stores and includes trusted brands such as PEP, Ackermans, Refinery, Incredible and Bradlows. With some brands established 100 years ago, PEPKOR continues to provide South Africans with the right products, at the right price and at their convenience. PEPKOR gives customers access to value-for-money products and services at the lowest prices.

Building Better Business – PEPKOR's sustainability journey

Customers – enabling livelihoods

PEPKOR provides access and affordability to customers. The latest example of this is FoneYam which makes smartphones affordable for customers, fulfilling their need for connectivity and enabling them to participate in the digital world. At the end of March 2024, FoneYam already had 202 000 customers and continues to grow at a rapid rate.

Inclusive growth – employees, communities and suppliers

PEPKOR's PEP brand partnered with Kelmik, a black-owned, women-led clothing manufacturer in Port Shepstone. This collaboration has established a new production hub dedicated to manufacturing baby clothing for PEP, creating 150 local jobs and boosting the local economy. The partnership exemplifies PEP's commitment to supporting local manufacturing within the South African Retail Clothing, Textile, Footwear, and Leather (R-CTFL) sectors.

Environment – road to green

Despite the recent relief from electricity load shedding, PEPKOR is enhancing operational resilience while reducing its environmental footprint. This year, an additional 2.5 MWp of solar generation capacity will be installed, adding to the 6 MWp already in place. Collaboration with the City of Cape Town's load shedding curtailment programme has ensured uninterrupted energy supply and savings at PEPKOR's Parow Industria

facilities. This reduces grid reliance and fosters a resilient energy ecosystem, with PEPKOR and local businesses meeting specific reduction targets during load shedding stages.