

# PEPKOR **UNAUDITED INTERIM RESULTS** FOR THE SIX MONTHS ENDED 31 MARCH 2020

Holdings Limited



Pepkor's defensive discount and value positioning underpinned resilient performance.

## STATUTORY INTERIM RESULTS\*

	Six months ended 31 March 2020	Six months ended 31 March 2019	% change
Revenue (Rm)	37 552	35 273	6.5
Operating profit <sup>1</sup> (Rm)	3 990	3 405	17.2
Headline earnings per share (cents)	44.3	51.2	(13.6)
Earnings per share (cents)	42.1	51.2	(17.7)

\* From continuing operations

**↑6.5%**  
GROWTH IN REVENUE TO  
R37.6bn

**↑17.2%**  
GROWTH IN OPERATING  
PROFIT<sup>1</sup> TO  
R4.0bn

**↓13.6%**  
DECREASE IN HEADLINE  
EARNINGS PER SHARE TO  
44.3 cents

**145**  
NEW STORES OPENED  
TOTTALLING  
5 498 stores

**↑0.3% GROWTH IN OPERATING  
PROFIT<sup>1</sup> TO R3.4bn<sup>2</sup>**

**↓3.8% DECREASE IN HEADLINE  
EARNINGS PER SHARE TO 49.3 cents<sup>2</sup>**

<sup>1</sup> Before capital items  
<sup>2</sup> Excluding the impact of adoption of IFRS 16: Leases during the current reporting period. To provide a meaningful assessment of group performance, the commentary included in this announcement focuses on results from continuing operations and excludes the impact of the adoption of IFRS 16.  
Additional information is included in the detailed announcement available on the company's website: [www.pepkor.co.za](http://www.pepkor.co.za)



## OVERVIEW

The Pepkor group achieved commendable results for the six months ended 31 March 2020 as its proven defensive discount and value market positioning, disciplined focus on customer needs and leading low cost of doing business underpinned performance.

The retail environment was constrained with low consumer spending, high levels of unemployment, load shedding and low economic growth. This was exacerbated during March with the spread of the Coronavirus (COVID-19) across South Africa and the globe – resulting in the declaration of a national state of disaster and the implementation of a national lockdown effective from 27 March 2020 until 30 April 2020.

The group's continuing operations achieved revenue growth of **6.5%** to **R37.6 billion** for the period, while operating profit before capital items increased by **0.3%** to **R3.4 billion**. Operating profit growth was significantly impacted by increased debtors' costs while higher funding costs weighed on earnings growth.

As part of the group's stated ambition to reduce gearing and the cost of funding while diversifying its sources of funding, Pepkor successfully raised **R1 billion** in three- and five-year bonds issued on 10 March 2020 under its **R10 billion** domestic medium-term note programme at favourable interest rates. The proceeds from the bond issuance were used to settle the majority of the **R1.5 billion** bridge funding facility that was repayable in 2020. Pepkor's credit rating was affirmed by Moody's Investors Services on 6 April 2020.



### Clothing and general merchandise

Segmental revenue increased by **5.4%** to **R24.3 billion** and represents **64.8%** of group revenue. Operating profit was maintained at **R3.1 billion**, with growth impacted by lower profitability levels in PEP Africa and Speciality.

The segment's store base was expanded to **4 457 stores** during the period and included 105 new store openings led by PEP and Ackermans. The discount and value positioning of PEP and Ackermans proved resilient during the period as confirmed by continued market share growth according to Retail Liaison Committee (RLC) data. In aggregate, PEP and Ackermans reported merchandise sales growth of **7.3%** and like-for-like growth of **3.6%**.

PEP outperformed the market, further strengthening its position as leader in the discount clothing segment. While customers face financial pressure and high levels of unemployment, PEP continues to fulfil their need for basic and essential products and services and maintained its price-leading position, with best price leadership (BPL) remaining above **95%**. A **26%** positive price differential was achieved compared to other retailers.

The customer value proposition of Ackermans aimed at 'women with kids in their lives' again delivered strong performance, with double-digit growth in the Babies product category. Women's wear benefited from improved visual merchandising and successful marketing campaigns. The store base of the Ackermans Woman retail concept was expanded to **20 stand-alone stores**.

PEP Africa remains profitable and continues to consolidate amid adverse macroeconomic conditions across most countries of operation, while performance of the Speciality division has been most severely affected by the challenging retail environment of more discretionary products such as footwear and adult apparel.



### Furniture, appliances and electronics

Segmental revenue increased by **1.7%** to **R5.1 billion** with continued weak consumer demand for durable products. Operating profit increased by **11.7%** to **R67 million**, supported by sustained profitability at the retail operating level and the contribution from the Abacus insurance business.

Merchandise sales decreased by **0.1%** while like-for-like sales declined by **2.7%**. Credit sales contribution reduced to **16.6%** from **18.0%**, resulting from continued prudent credit granting criteria and improved fraud prevention measures.

Sales in the furniture division were severely impacted from middle-March in the lead up to the implementation of the national lockdown. The electronics and appliances division benefited from the investment in online transacting and fulfilment systems and achieved strong growth in online transactions. The contribution from online sales in this division increased to **6.3%** for the period.



### Building materials

Segmental revenue and merchandise sales declined by **5.1%** to **R3.8 billion**, and like-for-like sales declined by **4.0%** as trading activity continued to weaken in a contracting building industry. Operating profit reduced to **R4.0 million** as performance was severely impacted in the lead-up to the national lockdown.

Good progress was made in the retail division through margin improvement, centralised procurement and automatic replenishment initiatives.



### FinTech

The FinTech segment increased revenue by **36.4%** to **R4.3 billion** and operating profit was maintained at **R200 million**.

FLASH, with its reach into the informal market, continues to report strong growth with virtual turnover in its trader business increasing by **20.2%** during the period. The number of FLASH traders increased to **172 000** from **156 000** in the comparative period and investments in new products, channels and geographies are gaining momentum.

Capfin increased active accounts to **333 000**. Credit granting was severely curtailed towards the end of March as a result of COVID-19 and focus has now turned to collections.

### 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](http://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 equity 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](mailto:investors@pepkor.co.za) or by contacting Pepkor investor relations on +27 21 929 4800.

By order of the board  
Pepkor Proprietary Limited  
27 May 2020

## LOOKING AHEAD

The duration and evolution of the COVID-19 pandemic and the related impact on the group's trading in the near to medium term remains uncertain. It is expected that COVID-19 and the lockdown measures will severely impact the South African economy, the retail sector as a whole and the Pepkor group as consumers face increased unemployment and hardship. Pepkor prioritised the livelihoods of its more than **50 000** employees to curb salary cuts and job losses where possible, and stepped up to its responsibility through various contributions to help fight and alleviate the impact of COVID-19 on the people and communities of South Africa – making a difference in the lives of our customers.

Pepkor is confident that it is well positioned to gain market share in the post-COVID-19 'new economy' with its defensive discount and value positioning being more resilient through its focus on babies' and children's clothing and large contribution of basic and replenishment products.

The Pepkor management and board appreciates the resolve, resilience and loyalty shown by customers and employees alike during one of the most challenging periods in history. The strong and healthy corporate cultures of the group and its retail brands have helped sustain the business through this trying time and will stand it in good stead for the future.

The support and understanding from our loyal, long-standing suppliers and business partners have been invaluable and similarly we value the support from our investors as the group focuses on reinventing itself to be future fit to create sustainable value for all stakeholders.

For further information, refer to Pepkor's detailed results announcement, available on

[www.pepkor.co.za](http://www.pepkor.co.za)

## 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), TL de Klerk, LJ du Preez, MJ Harris\* (resigned 19 February 2020), WYN Luhabe\*, SH Müller\*, F Petersen-Cook\*, JD Wiiese \*Independent

REGISTRATION NUMBER 2017/221869/06 | SHARE CODE PPH | DEBT CODE PPHI | 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](mailto: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. | EQUITY SPONSOR PSG Capital Proprietary Limited | DEBT SPONSOR Rand Merchant Bank (A division of FirstRand Bank Limited) |

ANNOUNCEMENT DATE 27 May 2020