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
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.
“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
Chairman’s introduction

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
Chairman’s introduction

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

- 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%

**Normalised key indicators**

<table>
<thead>
<tr>
<th></th>
<th>H1 2019</th>
<th>H1 2018*</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>R41.2bn</td>
<td>R38.8bn</td>
<td>6.4</td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>18.6%</td>
<td>18.6%</td>
<td></td>
</tr>
<tr>
<td>Trading profit</td>
<td>R631.8m</td>
<td>R599.1m</td>
<td>5.5</td>
</tr>
<tr>
<td>Trading profit margin</td>
<td>1.5%</td>
<td>1.5%</td>
<td></td>
</tr>
<tr>
<td>Trading profit – South Africa</td>
<td>R576.4m</td>
<td>R515.2m</td>
<td>11.9</td>
</tr>
<tr>
<td>Profit before tax (PBT)</td>
<td>R670.2m</td>
<td>R562.8m</td>
<td>19.1</td>
</tr>
<tr>
<td>Profit before tax margin</td>
<td>1.6%</td>
<td>1.5%</td>
<td></td>
</tr>
<tr>
<td>HEPS</td>
<td>100.18 cents</td>
<td>85.62 cents</td>
<td>17.0</td>
</tr>
<tr>
<td>Diluted HEPS</td>
<td>98.38 cents</td>
<td>84.11 cents</td>
<td>17.0</td>
</tr>
</tbody>
</table>

# 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
Sustained earnings growth drives shareholder returns

- 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

### Normalised

<table>
<thead>
<tr>
<th>Normalised</th>
<th>H1 2019 cents</th>
<th>H1 2018 cents</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic EPS</td>
<td>102.98</td>
<td>84.77</td>
<td>21.5</td>
</tr>
<tr>
<td>HEPS</td>
<td>100.18</td>
<td>85.62</td>
<td>17.0</td>
</tr>
<tr>
<td>Diluted HEPS</td>
<td>98.38</td>
<td>84.11</td>
<td>17.0</td>
</tr>
<tr>
<td>Interim dividend</td>
<td>39.10</td>
<td>33.40</td>
<td>17.1</td>
</tr>
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Volume growth and market share gains

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

- 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

<table>
<thead>
<tr>
<th></th>
<th>H1 2019 Rm</th>
<th>H1 2018 Rm</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other income</strong></td>
<td>920.7</td>
<td>841.0</td>
<td>9.5</td>
</tr>
<tr>
<td><strong>Franchise fee income</strong></td>
<td>196.4</td>
<td>202.5</td>
<td>(3.0)</td>
</tr>
<tr>
<td><strong>Operating lease income</strong></td>
<td>264.0</td>
<td>231.0</td>
<td>14.3</td>
</tr>
<tr>
<td><strong>Commissions and other income, including value-added services (VAS)</strong></td>
<td>460.3</td>
<td>407.5</td>
<td>13.0</td>
</tr>
</tbody>
</table>

- 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

- 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

<table>
<thead>
<tr>
<th></th>
<th>H1 2019 Rm</th>
<th>H1 2018 Rm</th>
<th>% change</th>
<th>% LFL change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading expenses</td>
<td>7 978.9</td>
<td>7 466.8</td>
<td>6.9</td>
<td>4.2</td>
</tr>
<tr>
<td>Employee costs</td>
<td>3 446.7</td>
<td>3 267.5</td>
<td>5.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Occupancy</td>
<td>1 614.9</td>
<td>1 502.1</td>
<td>7.5</td>
<td>3.7</td>
</tr>
<tr>
<td>Operations</td>
<td>1 751.5</td>
<td>1 578.1</td>
<td>11.0</td>
<td>7.8</td>
</tr>
<tr>
<td>Merchandising and</td>
<td>1 165.8</td>
<td>1 119.1</td>
<td>4.2</td>
<td>2.3</td>
</tr>
<tr>
<td>administration</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Improved profit margins

<table>
<thead>
<tr>
<th></th>
<th>H1 2019</th>
<th>H1 2018</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of turnover</td>
<td>% of turnover</td>
<td></td>
</tr>
<tr>
<td>EBITDA (before capital items)</td>
<td>3.2</td>
<td>3.0</td>
<td>11.4</td>
</tr>
<tr>
<td>EBIT (before capital items)</td>
<td>1.7</td>
<td>1.6</td>
<td>11.0</td>
</tr>
<tr>
<td>Profit before tax (before capital items)</td>
<td>1.6</td>
<td>1.5</td>
<td>14.6</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>1.6</td>
<td>1.5</td>
<td>19.1</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>1.2</td>
<td>1.1</td>
<td>19.8</td>
</tr>
</tbody>
</table>

- 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

- 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

<table>
<thead>
<tr>
<th></th>
<th>H1 2019</th>
<th>H1 2018</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segmental revenue</td>
<td>R2 311.3m</td>
<td>R2 303.3m</td>
<td>0.4</td>
</tr>
<tr>
<td>Segmental profit*</td>
<td>R136.1m</td>
<td>R126.8m</td>
<td>7.3</td>
</tr>
<tr>
<td>Number of stores</td>
<td>144</td>
<td>142</td>
<td></td>
</tr>
</tbody>
</table>

* 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.
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

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.

<table>
<thead>
<tr>
<th></th>
<th>H1 2019 Rm</th>
<th>FY 2018 Rm</th>
<th>H1 2018 Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>1 209.0</td>
<td>1 129.1</td>
<td>966.3</td>
</tr>
<tr>
<td>Cost-effective overnight borrowings</td>
<td>(500.0)</td>
<td>(1 800.0)</td>
<td>(1 800.0)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>709.0</td>
<td>(670.9)</td>
<td>(833.7)</td>
</tr>
<tr>
<td>3-month borrowings</td>
<td>(1 075.0)</td>
<td>(400.0)</td>
<td>–</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>(17.1)</td>
<td>(128.8)</td>
<td>(128.6)</td>
</tr>
<tr>
<td><strong>Net funding</strong></td>
<td>(383.1)</td>
<td>(1 199.7)</td>
<td>(962.3)</td>
</tr>
</tbody>
</table>
Ongoing capital investment to drive future growth

- 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

<table>
<thead>
<tr>
<th></th>
<th>Actual H1 2019 Rm</th>
<th>Planned FY 2019 Rm</th>
<th>Actual FY18 Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expansion into new stores</td>
<td>223</td>
<td>680</td>
<td>652</td>
</tr>
<tr>
<td>Improving existing stores</td>
<td>208</td>
<td>670</td>
<td>673</td>
</tr>
<tr>
<td><strong>Improving the customer experience</strong></td>
<td>431</td>
<td>1 350</td>
<td>1 325</td>
</tr>
<tr>
<td>Investing in future infrastructure</td>
<td>92</td>
<td>130</td>
<td>87</td>
</tr>
<tr>
<td>Maintaining current infrastructure</td>
<td>132</td>
<td>220</td>
<td>237</td>
</tr>
<tr>
<td><strong>Total capital investment</strong></td>
<td>655</td>
<td>1 700</td>
<td>1 649</td>
</tr>
</tbody>
</table>
Progress on our plan

Richard Brasher
Chief Executive Officer
Winning customers in a tough economy

- 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%

<table>
<thead>
<tr>
<th>FY19 H1 growth</th>
<th>Turnover</th>
<th>LFL turnover</th>
<th>LFL volume</th>
<th>HEPS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.4%</td>
<td>3.8%</td>
<td>3.5%</td>
<td>80.5%</td>
</tr>
</tbody>
</table>
Our South African operations performed well

- **Turnover**: 6.7%
- **LFL turnover**: 4.2%
- **Trading profit**: 11.9%
- **Profit before tax †**: 16.7%

FY19 H1 growth*

*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%
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. South Africa’s most trusted retailer
2. Africa’s favourite discounter
3. Value-added customer services
4. Growth across Africa
5. Force for good

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

- Operating cost efficiencies
- Voluntary Severance Programme
- Better buying

Save

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

• 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

*including TM Supermarkets

Across the Pick n Pay and Boxer estate

SA’S MOST TRUSTED RETAILER | 31
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

• 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

<table>
<thead>
<tr>
<th>Metric</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>TM Supermarkets turnover growth</td>
<td>30%</td>
</tr>
<tr>
<td>PBT growth</td>
<td>7.3%</td>
</tr>
<tr>
<td>Contribution to Group segmental revenue</td>
<td>5.4%</td>
</tr>
<tr>
<td>Segmental revenue growth*</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

*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

LOWER PRICES

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

**South African formal retail grocery spend (Rbn)**

- **LSM 10**: 2017 >70, 2021 >100 (+30)
- **LSM 8 - 9**: 2017 >100, 2021 >150 (+50)
- **LSM 4 - 7**: 2017 >300, 2021 >400 (+100)
- **LSM 1 - 3**: 2017 <20, 2021 <20 (decline)

*Source: Eighty20, PAMS, AMPS, Stats SA spend data is formal retail grocery market only*
Our five engines are the foundations of future growth

1. **South Africa’s most trusted retailer**
   - *Pick n Pay*
   - Grow by optimising range and operating model to succeed wherever the market is growing

2. **Africa’s favourite discounter**
   - *Boxer*
   - Accelerate the business to become the undisputed national discount champion for customers

3. **Value-added customer services**
   - *Services*
   - Make financial and other services a seamless part of the shopping trip in stores and online

4. **Growth across Africa**
   - *Rest of Africa*
   - Flexible and adaptable store model to grow sustainably in African markets

5. **Force for good**
   - *A positive force*
   - More opportunities for colleagues, suppliers, franchisees, other partners and the communities we serve