

Pick n Play



Results presentation

26 weeks ended 31 August 2014



Agenda

Introduction

Gareth Ackerman

Results overview

Bakar Jakoet

Progress on our plan

Richard Brasher



Introduction

Gareth Ackerman
Chairman



Introduction

- We are becoming a more efficient, effective and sustainable business
- We have always invested in the business, and are doing so even in challenging times
- We have invested almost R7bn over the past 5 years, and will invest a further R1.6bn this year. We are on track to create more than 3,000 new jobs this financial year
- We call on suppliers to join us in investing in South Africa
- Investment that enhances manufacturing capacity will benefit customers, and will strengthen the South African economy
- Very disappointed by Reserve Bank decision to postpone implementation of new interchange rates



Key indicators

	26 weeks ended 31 Aug 2014	26 weeks ended 1 Sept 2013	Change %
Till sales	R37.4bn	R35.0bn	7.1
Turnover	R32.1bn	R30.1bn	6.8
Gross profit margin	17.7%	17.9%	
Trading profit	R387m	R318m	21.8
Trading profit margin	1.2%	1.1%	
Profit before tax	R367m	R272m	35.0
Profit before tax margin	1.1%	0.9%	

- 7.1% till sales growth and 6.8% turnover growth in challenging market environment
- Strong trading profit growth driven by good expense control and improved operating efficiencies
- 35.0% growth in profit before tax reflects a substantial saving on interest costs due to stronger working capital management

Key indicators

	26 weeks ended 31 Aug 2014	26 weeks ended 1 Sept 2013	Change %
EPS - cents	54.4	40.0	35.8
HEPS – cents	54.0	40.8	32.3
Dividend - cents	19.6	14.8	32.4

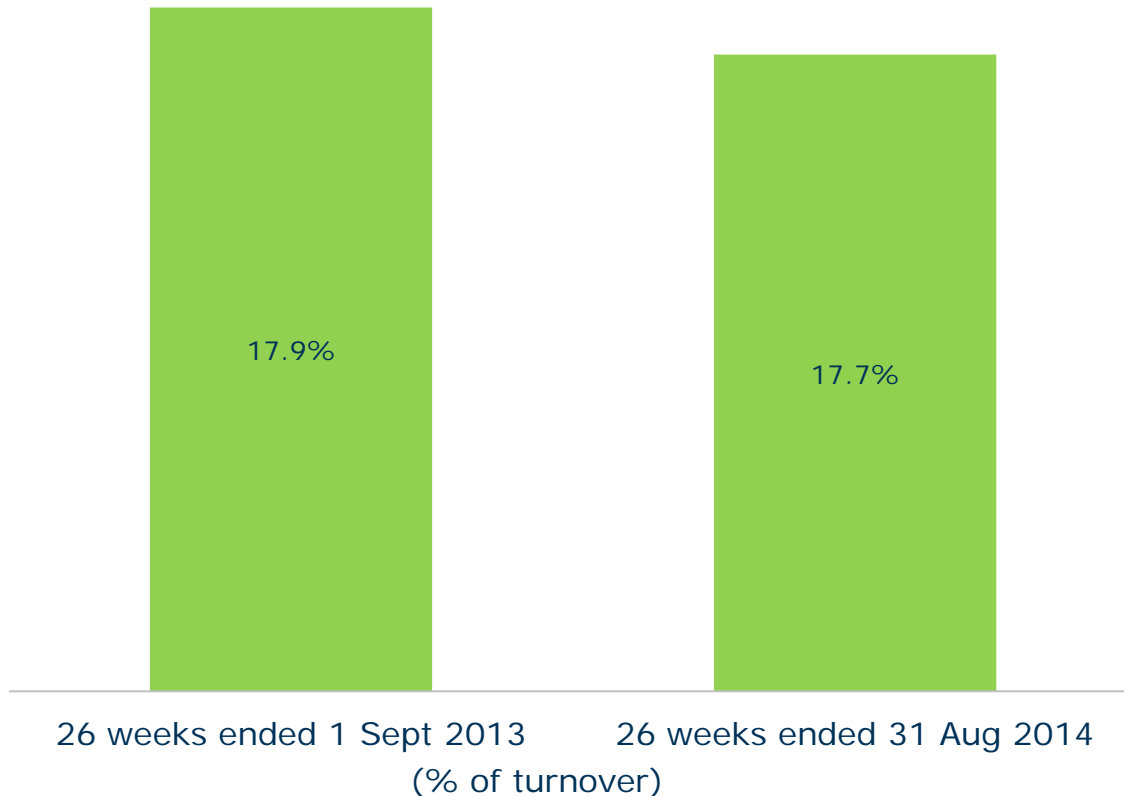
- The dividend is up 32.4% in line with HEPS growth, maintaining a dividend cover of 1.5 for the full year

Sales analysis

	26 weeks ended 31 Aug 2014 (% change)
Like for like till sales growth	4.7
Like for like turnover growth	4.0
Growth in net new selling space at end of period (m ²)	1.6
Customer growth (# of transactions)	1.1
Basket size growth (average transaction value)	6.4

- Like-for-like growth higher than in the comparative period:
 - Till sales up from 4.0% to 4.7%
 - Turnover up from 3.1% to 4.0%
- Continued investment in price – internal food inflation of 6.7% vs CPI food of 8.4% for the period
- 46 new stores opened in the period, 5 closed

Gross margin



- Continued supply chain efficiencies
- Improvement in store efficiency and shrink and waste management
- This created extra headroom to invest in customers in a difficult trading environment
- Resulting in a reduction in gross margin

Trading expenses

	26 weeks ended 31 Aug 2014	26 weeks ended 1 Sept 2013	Change %	LFL %	
Trading expenses	5 615	5 330	5.3	3.0	<ul style="list-style-type: none"> 5.3% increase in trading expenses held below turnover growth of 6.8%
Employee costs	2 819	2 678	5.3	3.0	<ul style="list-style-type: none"> Improvements in productivity and labour scheduling contained like-for-like employee cost increase at 3.0%
Occupancy	897	794	12.9	8.3	<ul style="list-style-type: none"> Occupancy costs up as a result of 71 net new company-owned stores since September 2013 and rates increases of up to 20%
Operations	1 281	1 282	(0.1)	(3.0)	<ul style="list-style-type: none"> Decrease in operations costs due to reduced depreciation charges as a result of assets written off in the prior year and improved efficiencies in stores
Merchandising and administration	619	576	7.4	8.8	

Rest of Africa

	26 weeks ended 31 Aug 2014	26 weeks ended 1 Sept 2013	Change %
Segmental revenue	R1 732m	R1 506	15.0
Segmental profit	R135m	R95m	43.0
Segmental profit margin	7.8%	6.3%	
Stores	98	98	

- Continued strong financial performance, like-for-like revenue growth of 7.8%
- Opened 3 stores during the period, closed 3 and refurbished stores in Zimbabwe business
- Mauritius closure had positive impact on profitability

Cash flow summary

	26 weeks ended 31 Aug 2014
Cash generated before working capital	909
Change in working capital	944
Dividends and net interest paid	-401
Tax paid	-136
Operating activities	1 316
Investing activities	-396
Financing activities	-825
Net movement	95
Cash and cash equivalents at beginning of period	870
Cash and cash equivalents at end of period	965

- On a like-for-like basis, cash and cash equivalents have improved by R425m on August 2013, and R245m since February 2014
- Cash position improved through stronger inventory management, with stock on hand down 6% on a like-for-like basis
- Improved cash flow has enabled us to repay debt during the period and has resulted in a decrease in net interest paid of R21m

Capital expenditure

	H1 Rm	Planned H2 Rm	FY'15 Rm	FY'14 Rm
Expansion into new stores	161	444	605	592
Improving existing stores	110	492	602	319
Improving the customer experience	271	936	1207	911
Investing in future infrastructure	12	128	140	158
Maintaining current infrastructure	111	156	267	191
Total	394	1220	1614	1 260

- ~70% of investment focused on expansion and improving the shopping experience
- Investment focused in 2nd half of the year, with strong pipeline of new store openings
- Continued commitments to capital discipline – reducing capex / m²



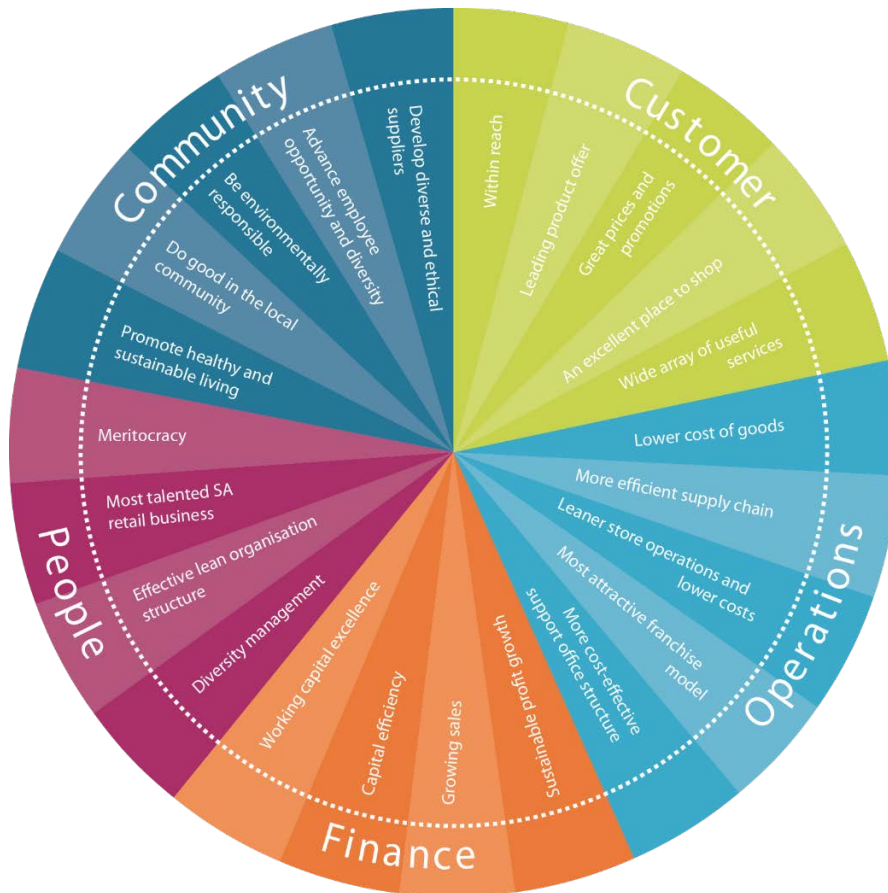
Headlines

- Thank you to all Pick n Pay and Boxer staff for delivering this result. Teamwork has made possible three consecutive periods of sustained profit growth for the Group
- Thank you also to our supplier base for their co-operation. As our Chairman has said, we have a shared interest in growing our businesses and building a stronger South Africa
- At the heart of this result is strong profit growth driven by stronger financial control and greater operating efficiency
- But our strategy is not to save our way to recovery. It is to build a stronger business which attracts more customers and delivers more sales
- Our progress on costs and efficiency is building a stronger Pick n Pay. Our business is more organised, more efficient, more productive, and more forward-looking than it was a year ago
- Customers are beginning to benefit from this transformation, and they will benefit more in the years to come. With lower costs we are investing more in the customer. By being more efficient we are improving the shopping trip

Headlines (continued)

- We have delivered improved like-for-like growth in a challenging market. Our Boxer business in particular has done a great job for less-affluent customers buffeted by rising commodity and utility prices, higher interest rates and growing economic uncertainty
- Customers reward innovation that meets their changing needs. Pick n Pay Brand Match has been enthusiastically welcomed by customers. It is building confidence in our prices and strengthening loyalty in our brand
- We are not in the business of buying market share or opening unprofitable stores. We want new space to deliver good returns, and our first-half openings reflect this. By using the flexibility available across our formats, we can grow sustainably and plan to do so in the second half
- Africa is emerging as our second engine of growth. We are investing in our stores and are generating more profit
- Pleased to announce today that we will be extending our operations to Ghana, one of the most exciting markets in Africa

Progress on our plan



- Reminder of our strategy:
 - Strengthen our core SA business
 - Africa as a second engine of growth
 - Build a high-performance culture
- We measure progress using our balanced scorecard, or steering wheel
- We have programmes, plans and KPIs in each of our five segments:
 - Customer
 - Operations
 - Finance
 - People
 - Community

A customer-focused business



- Encouraged by our improvement in like-for-like sales growth: 4.0% growth on last year
- Customer transactions also up 1.1% and average basket size up 6.4%
- Total turnover growth was 6.8%. Would have liked it to be higher, but it reflects our lower new space growth in H1
- Pleased with Franchise performance and we thank them for their contribution to our brand

Customer: more stores, better stores



- Opened 46 stores (equivalent to 2.0% new selling space) and closed 5 under-performing stores. Net new space grew by 1.6%
- Reviewed new space programme to ensure sustainable growth. Will accelerate development in H2 – over 80 new stores planned.
- Growing new space more efficiently:
 - Reducing the cost of new space by ~8% per m²
 - Better space utilisation: more trading space at the front; less needed for stock at the back
- Refurbishing three Hypers – improving customer offer and space utilisation

Boxer: a growing brand



- Boxer strengthening its offer and its reach among lower LSM customers
- Grew market share in very challenging economic conditions
- Opened 5 new stores and major refurbishment of 8
- Strong pipeline for H2 - 17 new stores
- Developing offer through Punch stores, commodities and money transfers
- Reduction in stock holding with further operational efficiencies planned for H2

Customer: great prices and promotions



- Very positive response to the launch of Brand Match
 - Customers pleased that they no longer have to shop around
 - It has given customers confidence in the competitiveness of our prices, borne out by:
 - For the majority of baskets, customers get a slip telling them we are cheaper or the same price
 - Of coupons issued, more than 60% are for less than R5
 - Brand Match provides useful insights into customer baskets and competitor pricing
- Strengthened promotional offer and in-store execution

Customer: improving fresh offer



- We reiterated our commitment to fresh through our Fresh Promise and trained all our staff on fresh-food handling
- We've invested in the chilled supply chain to enhance the quality and freshness of our products
- Customers are noticing the difference, with strong growth in meat and produce
- Customers excited by other new offers in stores – e.g. quality fresh flowers at great prices

Customer: better, simpler Smart shopper



- Delighted that Smart shopper has been voted No.1 Loyalty Programme in South Africa for the second year in a row
- We now have 8.6 million smart shoppers
- Sales participation is up 3% and redeemed smart shopper offers are up 42%
- We are offering better value for Smart shoppers with more partners – Galaxy, Spur, Ster Kinekor
- Smart shopper insight is strengthening our promotions e.g. understanding how customers like to buy different types of pasta at the same time and targeting multi-buys to help them do so

Customer: Services and Online

Get FREE money transfers
by linking your new MTN
Pick n Pay Boxer SIM to your
Mobile Money account.

Enquire in store

PLUS
• Free Money Transfer with Mobile Money via eCode.
• 500 MTN Loyalty Points once-off*.
• 500 Pick n Pay smart shopper Points once-off*.
• After first recharge of R10.

Connect with MTN.
Pick n Pay and Boxer to enjoy
10% free airtime
everytime you recharge
at a Pick n Pay or Boxer store.
(Minimum recharge of R10 to maximum of R180 daily)

MTN

Mobile Money call centre: 083 123 0145

- Strong revenue growth achieved through innovation in our offer
- Strategic partnership with MTN to deliver free money transfers via co-branded SIM
- Step change in Mobile Money
 - Over 1.8m million active customers
 - 250,000 customers use Mobile Money as bank accounts
- Continued strong growth in Online business
 - 37% growth in customers
 - 1.6% growth in average transaction value

Operations: centralised supply chain



- Our supply chain strategy is to centralise everything except live fish and newspapers
- Our goal is to pick more cases, more accurately, at lower cost. We have
 - Transformed the efficiency and capacity of Philippi from 8,000 to 14,500 lines by installing our new pick tunnel
 - Extended the EWM SAP warehousing system from Philippi to Longmeadow – which will increase picking efficiency by 40%
 - We are developing solutions for KZN and EC
- As a result we have reduced stock levels by 2 days in our DCs

Operations: better replenishment



- A centralised supply chain enables us to pursue a goal of delivering every product, every day to every store
- Starting with the Western Cape we have
 - Achieved every product, every day, to every store
 - Achieved a 24-hour lead time on groceries between stores ordering and receiving products
- We plan to roll out these benefits to other regions

Operations: more effective stores



- A centralised, more efficient supply chain means better organised, more productive stores
 - Western Cape stores now receive on average 70 fewer deliveries per week – enabling them to shift productivity and labour from goods at the back to customers at the front of the store
 - More efficient replenishment enables us to reduce storage space at the back and increase our trading area
 - Greater speed, accuracy and efficiency has enabled us to reduce stock levels by ~6% on a like-for-like basis
 - Customers benefit from improved availability – up 2% up on last year

People: driving higher performance



- Our goal is for our people to be effectively managed, well-trained, strongly motivated, and have the opportunity to progress within the business
 - New performance review and performance management systems completed for all senior management levels
 - Committed to advancement: 25% of our learning and skills programmes have been awarded to previously unemployed people and more than 10% of all staff between assistant manager and senior managers are enrolled in academic leadership programmes
 - Strengthened Group Executive with key internal promotions, and the introduction of long and short term incentive plans
 - Appointed Jonathan Muthige as Group HR Director to lead our plan to be employer of choice in the retail sector

Community: doing good is good business



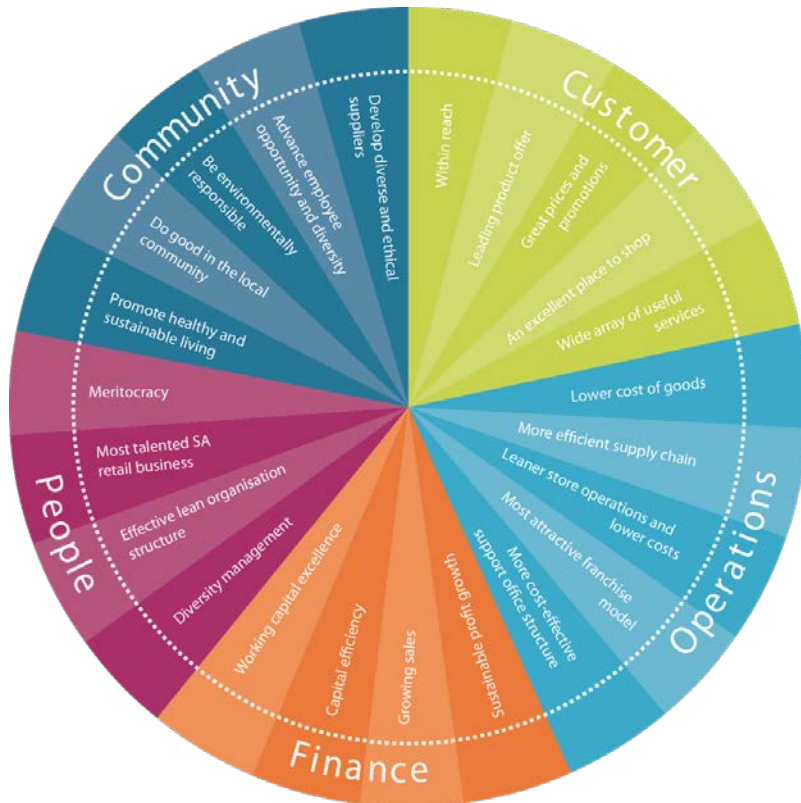
- Our sustainability and community initiatives grow from strength to strength:
 - Improving energy efficiency by cutting the kWh per m² by 30% since 2008
 - Leadership on climate change recognised in CDP Global Leaders Index and Dow Jones Sustainability Index
 - 18,000 participants in PnP Women's Walks in association with Pink Drive to raise awareness of breast cancer
 - Strong commitment to school children:
 - 2,800 schools in Pick n Pay School Club
 - Nearly 4,000 less-advantaged school children visiting National Parks

Africa: a second engine of growth



- Pleased with strong financial performance across our markets
 - Segmental revenue up by 15.0% to R1.7bn
 - Like-for-like segmental revenue up 7.8%
 - Trading profit up 43.0% to R135m
- Positive financial impact from closure of the Mauritius franchise operations
- Africa emerging as second engine of growth
 - Maintaining momentum in existing markets – e.g. 2 new stores in Zambia to come and major store refurbishment in Zimbabwe
 - Announcing decision to extend PnP offer to Ghana
 - Team has learned a lot about Nigeria – remains an exciting future opportunity

Focus for the next six months



- Will step up our plan. Focus areas include:
 - Opening more new space, serving communities we don't yet reach
 - More on cost and efficiency – building a better PnP as well as improving returns
 - Further improving the shopping trip – more focus on fresh, better availability
 - More innovation on value – as we have shown with Brand Match
 - Finding new ways to help lower income customers hardest hit in a tough economy – as we did with Mobile Money
- Economic outlook remains challenging. But the customer is there to be won and success is in our own hands

Pick n Play

Pick n Play

Thank you

