



## RESULTS PRESENTATION

26 weeks ended 30 August 2015

# AGENDA

## CHAIRMAN'S INTRODUCTION



**Gareth Ackerman**  
Chairman

## RESULTS OVERVIEW



**Bakar Jakoet**  
Chief Financial Officer

## GAINING MOMENTUM



**Richard Brasher**  
Chief Executive Officer



## CHAIRMAN'S INTRODUCTION

Gareth Ackerman | Chairman

## CHAIRMAN'S INTRODUCTION

Thank you to the Pick n Pay team for achieving this result. Delivered in a difficult consumer environment, it demonstrates that the Pick n Pay recovery is gaining momentum.

- We have spoken often about the three principles which govern Pick n Pay:
  - Consumer sovereignty
  - Business efficiency
  - Doing good is good business
- What is particularly encouraging about this result is that all three principles are evident and are growing.
- It is pleasing to see the upward trajectory in sales, which demonstrates how hard the team is working on improving the shopping trip and ensuring that the Pick n Pay offer is in tune with the lives of our customers.
- It is also pleasing to see the work we are doing on efficiency is beginning to bear fruit. We are controlling the increase in operating costs below our increase in sales. Our work on efficiency is delivering a better shopping trip through improved availability, better ranges and fresher products.

## CHAIRMAN'S INTRODUCTION (continued)

- Our principle of doing good is good business remains at the heart of Pick n Pay.
- We launched our War on Waste campaign at our AGM in July. Initial targets are:
  - Reducing food waste to landfill by 20% by 2020
  - Reducing energy used per square metre by 20% by 2020, a 50% reduction on 2008
  - 20 new jobs per day between now and 2020 – approximately 5,000 a year
- I am particularly excited by our jobs announcement. With 50% or more of our youth population unemployed, and our economy growing at a sluggish rate, it is vital that responsible employers step forward and provide real jobs and career opportunities for young people.
- I am pleased to report that we have got off to a strong start – creating over 1,800 jobs in the first half of the year.
- Retail is a wonderful career for young people who want to learn a skill and want to use their skill and their determination to advance their careers. The skills we teach and develop are very varied, including management, customer service, food hygiene, butchery, bakery, logistics, finance and many others.

## CHAIRMAN'S INTRODUCTION (continued)

- At a time when everyone in the country is facing difficult economic circumstances, we all need to pull together and work as a team. The choice is not, as some politicians claim, between profits and jobs.
- As the Pick n Pay turnaround shows, it is by becoming more efficient, more customer-focused and more innovative that we can grow our sales. By growing our sales and improving our efficiency we not only increase our profits, we create employment, and with it, the dignity and hope which comes from having a job.
- I therefore urge the government to support business in this task. Rather than increasing the burdens on companies it must look at how it can make it easier to do business in South Africa. By helping us to grow and create jobs, this will benefit those millions of people who currently face the scourge of unemployment.
- I also call upon my colleagues in business to make their own pledges on jobs to bring confidence and hope in difficult times. We have always been at our best in South Africa when we work together.
- There is no better and no more important time to do this than the present.



## RESULTS OVERVIEW

Bakar Jakoet | Chief Financial Officer

## KEY INDICATORS

	<b>26 weeks ended 30 August 2015</b>	26 weeks ended 31 August 2014	<b>% change</b>
Turnover	<b>R34.9bn</b>	R32.1bn	8.5
Gross profit margin	<b>17.7%</b>	17.7%	
Trading expenses margin	<b>17.3%</b>	17.5%	
Trading profit	<b>R462.8m</b>	R386.6m	19.7
Trading profit margin	<b>1.3%</b>	1.2%	
Profit before tax	<b>R451.0m</b>	R366.8m	23.0
Profit before tax margin	<b>1.3%</b>	1.1%	

- Turnover growth of 8.5% compared to 6.1% in FY15 and 5.4% in FY15 H2
- Gross margin maintained by investing cost and efficiency improvements in customer offer
- Trading expenses as a percentage of turnover reduced from 17.5% to 17.3%
- Profit before tax margin improved from 1.1% to 1.3%



## EARNINGS PER SHARE

	26 weeks ended 30 August 2015	26 weeks ended 31 August 2014	% change
Basic EPS – cents	<b>66.40</b>	54.39	22.1
HEPS – cents	<b>66.62</b>	53.98	23.4
Diluted HEPS - cents	<b>65.35</b>	53.12	23.0

- Improved top-line performance, sound gross margin management and strong cost control drove headline earnings per share up 23.4%
- The difference in basic EPS growth of 22.1% and HEPS growth of 23.4% is attributable to profits and losses of a capital nature

## DIVIDENDS PER SHARE

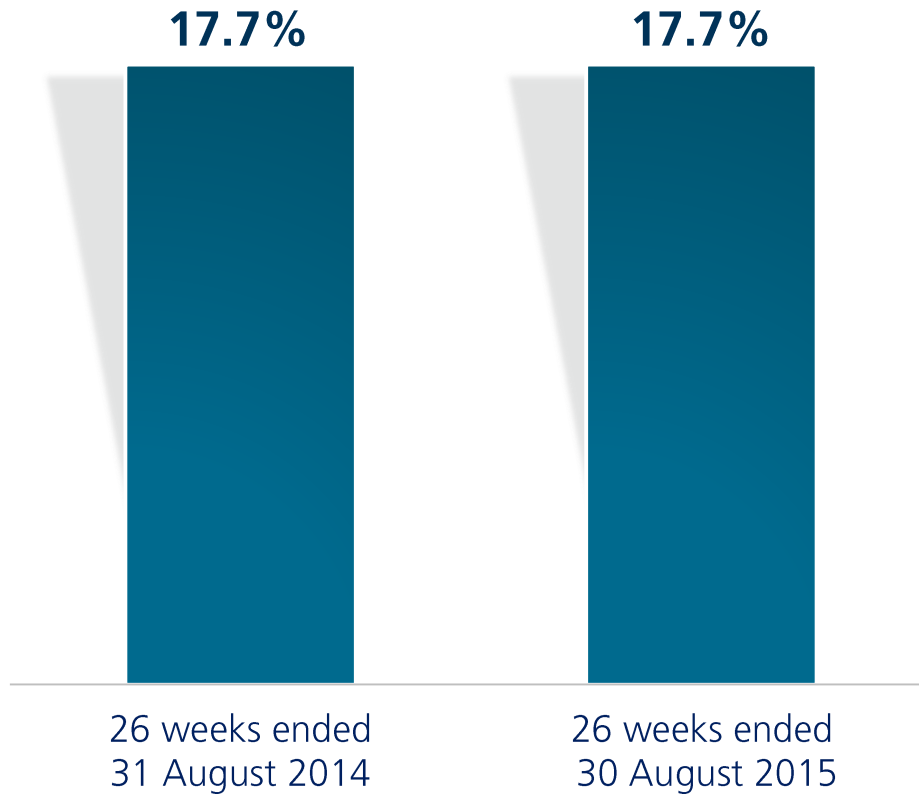
	26 weeks ended 30 August 2015	26 weeks ended 31 August 2014	% change
Interim dividend	<b>24.20</b>	19.60	23.5

- Dividend up 23.5% in line with HEPS growth, maintaining an annual dividend cover of 1.5 times HEPS for the full year

## SALES ANALYSIS

	26 weeks ended 30 August 2015 (% change)	
Like-for-like turnover growth	4.4%	<ul style="list-style-type: none"> <li>• Like-for-like turnover growth strengthened to 4.4%, from 3.6% in FY15 - and from 3.1% in H2 of FY15</li> <li>• Internal food inflation of 3.0% for the period, down from 6.3% in H2 of FY15</li> <li>• 83 new stores opened compared with 46 in the same period last year</li> </ul>
Turnover growth from new space	4.1%	
Growth in net new space at end of period (m <sup>2</sup> )	3.2%	
Customer growth (# of transactions)	5.9%	
Basket size growth (average transaction value)	2.8%	

## GROSS PROFIT MARGIN



(% of turnover)

- Sound gross profit management in a challenging trading environment
- Greater cost and operational efficiencies reinvested in customer offer – including lower prices for customers
- Successful promotions during the period included the launch of Brand Match 2.0 in March, PnP 48th birthday promotion in July and Stikeez in August

## OTHER TRADING INCOME

	26 weeks ended 30 August 2015	26 weeks ended 31 August 2014	% change
Other trading income	<b>320.0</b>	316.0	1.3
Franchise fee income	<b>161.5</b>	145.8	10.8
Operating lease income	<b>42.2</b>	33.6	25.6
Commissions and other income	<b>116.3</b>	136.6	(14.9)

- Franchise fee income up 10.8% on the prior year reflecting the 27 net new franchise stores and encouraging growth in franchise turnover
- Rental income up 25.6% on last year, reflecting substantial new head leases in Pick n Pay – with a corresponding increase in occupancy costs
- Commissions and other income down 14.9%, with commissions earned on iTunes in the prior year not repeated this year

## TRADING EXPENSES

	<b>26 weeks ended 30 August 2015</b>	26 weeks ended 31 August 2014	<b>% change</b>	<b>% LFL change</b>
Trading expenses	<b>6 023.5</b>	5 615.3	<b>7.3</b>	<b>4.6</b>
Employee costs	<b>3 014.2</b>	2 818.6	6.9	5.5
Occupancy	<b>1 032.4</b>	897.0	15.1	6.6
Operations	<b>1 399.5</b>	1 281.2	9.2	5.7
Merchandising and administration	<b>577.4</b>	618.5	(6.6)	(1.7)

- Trading expenses, expressed as a percentage of turnover, reduced from 17.5% to 17.3%
- Labour costs, expressed as a percentage of turnover, reduced from 8.8% to 8.6%
- Improvements in scheduling and productivity helped to keep increase in like-for-like employee costs to 5.5%
- Occupancy costs reflect new store openings

## TRADING EXPENSES (continued)

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- Operations costs well managed, despite regulatory increases in electricity and utility charges well ahead of inflation
- The 6.6% decrease in merchandising and administration charges reflects lower bank charges and reduced consultancy fees

## PROFIT ANALYSIS (excl. capital items)

	% change
<b>EBITDA</b>	<b>12.7</b>
<b>EBIT</b>	<b>19.0</b>
<b>PBT</b>	<b>23.0</b>

- Capital costs related to our store opening and refurbishment programme well managed, with depreciation and amortisation up only 6.7% on last year
- Net finance costs are down a further 23.3% due to stronger working capital management and the repayment of long-term debt



## REST OF AFRICA

	<b>26 weeks ended 30 August 2015</b>	26 weeks ended 31 August 2014	<b>% change</b>
Segmental revenue	<b>R1 958.3m</b>	R1 732.4m	13.0
Segmental profit *	<b>R115.7m</b>	R135.1m	(14.4)
Segmental profit margin	<b>5.9%</b>	7.8%	
Stores#	<b>122</b>	108	

- Revenue up 14.3% in local currency terms, with like-for-like revenue growth at 2.2%
- Pleased with the trading performance from regions within this division, particularly with the progress in Botswana and Zimbabwe
- Like-for-like revenue growth in Zambia under pressure in difficult trading conditions. Result also reflects devaluation of kwacha
- Opened 6 new stores outside of South Africa - 3 in Namibia, 1 in Zambia and 2 in Zimbabwe

\* Segmental profit comprises the segment's trading results and directly attributable costs only. No allocations are made for indirect or incremental cost incurred by the South Africa segment relating to this division

# Now includes all franchise clothing and liquor stores not previously reported

## CASH FLOW SUMMARY

	<b>26 weeks ended 30 August 2015</b>	26 weeks ended 31 August 2014
Cash generated before working capital	<b>1 049.1</b>	909.1
Change in working capital	<b>1 254.4</b>	943.9
Dividends and net interest paid	<b>(499.0)</b>	(400.7)
Tax paid	<b>(151.0)</b>	(136.3)
<b>Operating activities</b>	<b>1 653.5</b>	1 316.0
Investing activities	<b>(589.3)</b>	(395.8)
Financing activities	<b>(308.8)</b>	(825.5)
<b>Net movement</b>	<b>755.4</b>	94.7
<b>Net cash and cash equivalents (end of period)</b>	<b>1 439.9</b>	965.4
<b>Total borrowings (end of period)</b>	<b>(536.1)</b>	(781.3)
<b>Net funding position</b>	<b>903.8</b>	184.1

- Reduced debt and stronger working capital management offset the effect of increased capital investment
- Net interest charge down 23.3%
- Inventory levels, and related trade payables, elevated at period-end reflecting:
  - Provisioning ahead of potential transport strike
  - New stores
  - Increase in centralisation of suppliers
- Net funding position stronger than last year, with some positive impact attributable to financial calendar cut-off

# CAPITAL EXPENDITURE

	<b>Actual FY16 H1 Rm</b>	<b>Planned FY16 H2 Rm</b>	<b>FY16 Rm</b>	<b>FY15 Rm</b>
Expansion into new stores	<b>340</b>	482	822	378
Improving existing stores	<b>174</b>	703	877	438
<b>Improving the customer experience</b>	<b>514</b>	1 185	1 699	816
Investing in future infrastructure	<b>3</b>	159	162	131
Maintaining current infrastructure	<b>95</b>	116	211	158
<b>Total capital investment</b>	<b>612</b>	1 460	2 072	1 105

- Increased capital expenditure in line with plans to grow sustainably and to improve the overall quality of the estate
- 49 new corporate stores opened during the period - including 1 next generation store
- 27 refurbishments commenced during the period - including 2 next generation stores
- 84% of capital investment aimed at improving the customer experience



## GAINING MOMENTUM

Richard Brasher | Chief Executive Officer

## GAINING MOMENTUM

**Turnover growth accelerating** in a challenging market

**Good balance** between growth from new space and LFL:

- Improved new space strategy, with 83 new stores opened in H1 including “next generation” stores with new design, flow and operating model
- LFL of 4.4% against internal food inflation of 3%, underlining improvements in availability, fresh, private label and Brand Match

**Turnover growth achieved without sacrificing profit:** profit before tax up 23.0%, reflecting a business improving in the right shape:

- Supply chain centralisation proceeding, with improved efficiencies generating headroom to invest in the shopping trip while maintaining gross margin
- Trading expenses as % of turnover reduced from 17.5% to 17.3%
- Profit before tax margin increased from 1.1% to 1.3%

# THE PICK n PAY RECOVERY PLAN

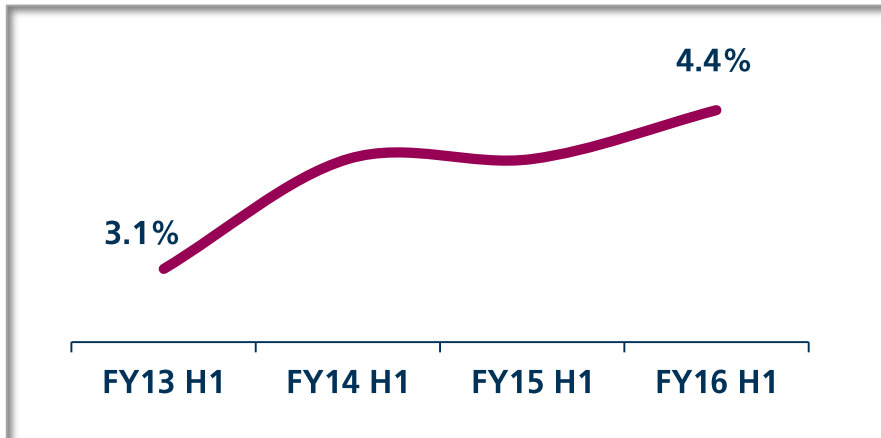
**Stage 1** **Stabilise the business****Stage 2****Change the trajectory****Stage 3****Sustainable long-term growth****Objectives**

- Improve for customers
- Accelerate sales growth
- Sustainable profit margin
- Maintain profit growth

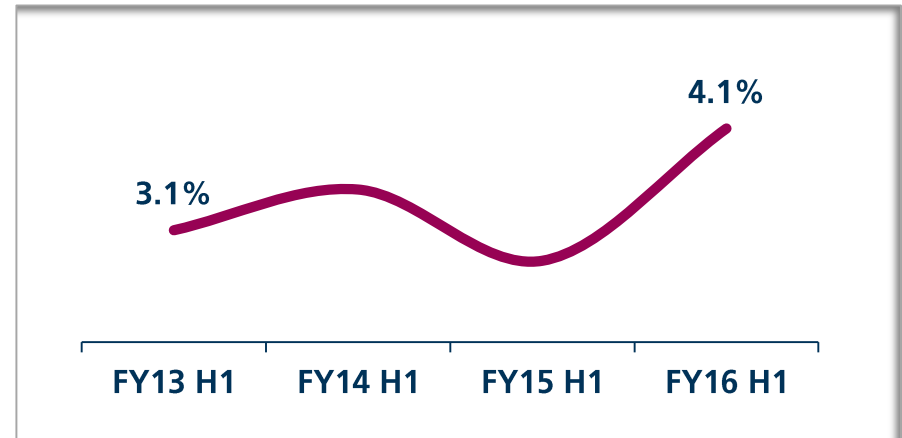
## ACCELERATING TURNOVER GROWTH

- Group **sales growth 8.5%** in the first half of the year
- Significant **increase in momentum** on the 6.1% achieved in FY15
- **Balanced growth** between LFL sales and new space
- **Internal food inflation at 3%** - below CPI food inflation
- **Positive real volume growth** for the past 6 months

### Like-for-Like growth (%)



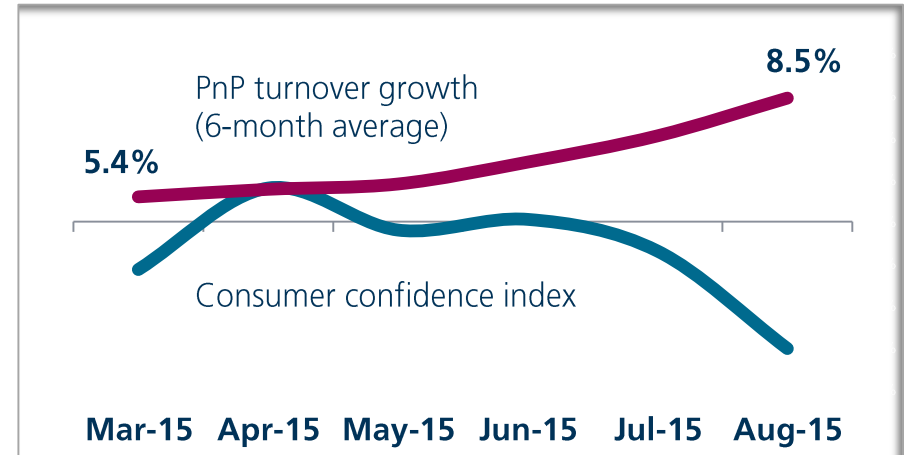
### New sales growth (%)



## GROWTH IN A CHALLENGING MARKET

- **Market conditions are difficult:** e.g. constrained global growth; downturn in China impacting emerging markets; weakening Rand; electricity constraints
- **Consumer confidence is low**, with recent downtick among higher-income consumers
- **But we are focused on our own business**, and believe there remains considerable scope for meaningful growth by improving our offer and our underlying efficiency

### PnP Turnover Growth vs. Consumer confidence





## WE ARE DELIVERING ON EACH OF OUR 7 STRATEGIC PILLARS

**1****Better for customers****2****A flexible and winning estate****3****Effective and efficient operations****4****Every product, every day****5****A winning team****6****Boxer – a national brand****7****Africa – 2<sup>nd</sup> engine of growth**

## BETTER FOR CUSTOMERS

- **Stronger range** – all category reviews completed
- **New approach to private label** – includes new product launches and packaging redesigns
- **Improved availability** by a further 2%
- **Competitive prices** – doubled coverage of Brand Match to 2,000 products. 60% of qualifying baskets are the same price or cheaper at PnP
- **Improving on fresh** – customers responding positively
- **Smart Shopper** - voted SA's best loyalty program for third year in a row
- Successful **Birthday month** – strong uplift in LFL sales
- Successful **Stikeez campaign**



## A FLEXIBLE AND WINNING ESTATE



- Opened **83 new stores** in H1, increasing the new store contribution to turnover growth to 4.1%
- **34 new franchise stores**
- **21 new convenience stores** opened under “Express” and “Local” formats
- **3 next generation stores** – achieving strong growth
- **Hypermarket performance improving**, through successful promotions and reducing costs
- **12 stores refurbished** in H1, incl. 2 next generation stores
- Group **closed 4 underperforming stores** – tail much shorter than 2 years ago

# NEXT GENERATION STORE

## Our new model store for the future

Incorporating our new thinking across the customer offer and our operating model all wrapped up in a new look and feel



# NEXT GENERATION STORE

## 3 pilot stores opened



### BLUE HILLS

(Johannesburg)  
Opened 30 July

### GLEN GARRY

(Cape Town)  
Opened 6 August

### BENMORE

(Johannesburg)  
Opened 13 August



**Strong weekly sales growth**



**Very positive feedback from customers\***

\*Source: PnP Customer Survey

## EFFECTIVE AND EFFICIENT OPERATIONS

- Resolute in **reducing costs** - trading expenses down as a percentage of turnover
- **Using space more efficiently** – 70/30 allowing us to open smaller stores but not lose out on trading space
- **Improved scheduling** across the Group, saving costs
- Rolling out **“operations for excellence”** – minimum standards that govern how we operate in stores
- **Implementation** in “next generation” stores

# 70:30

**More efficient  
use of floor space**



**Trading expenses  
decreased from  
17.5% to 17.3%  
expressed as % of  
turnover**

## EVERY PRODUCT, EVERY DAY



# 25.4%

Increase in DC volume issues

# 203



additional suppliers centralised

- Over **200 additional suppliers centralised** – more than last full financial year
- **Grocery centralisation** in the Western Cape region at 80%, and Inland region at 65%
- **DC volume issues** increased by 25.4% on H1 last year
- **Stronger DC efficiency** enabling us to become more cost efficient per case issued

## A WINNING TEAM

- **Created over 1,800 jobs** – equating to c.18 jobs per day
- **New store management structures** – being implemented across next generation stores
- Reduced support office cost as percentage of turnover



**18 new jobs per day**



**Reduction in support office  
cost as % of turnover**



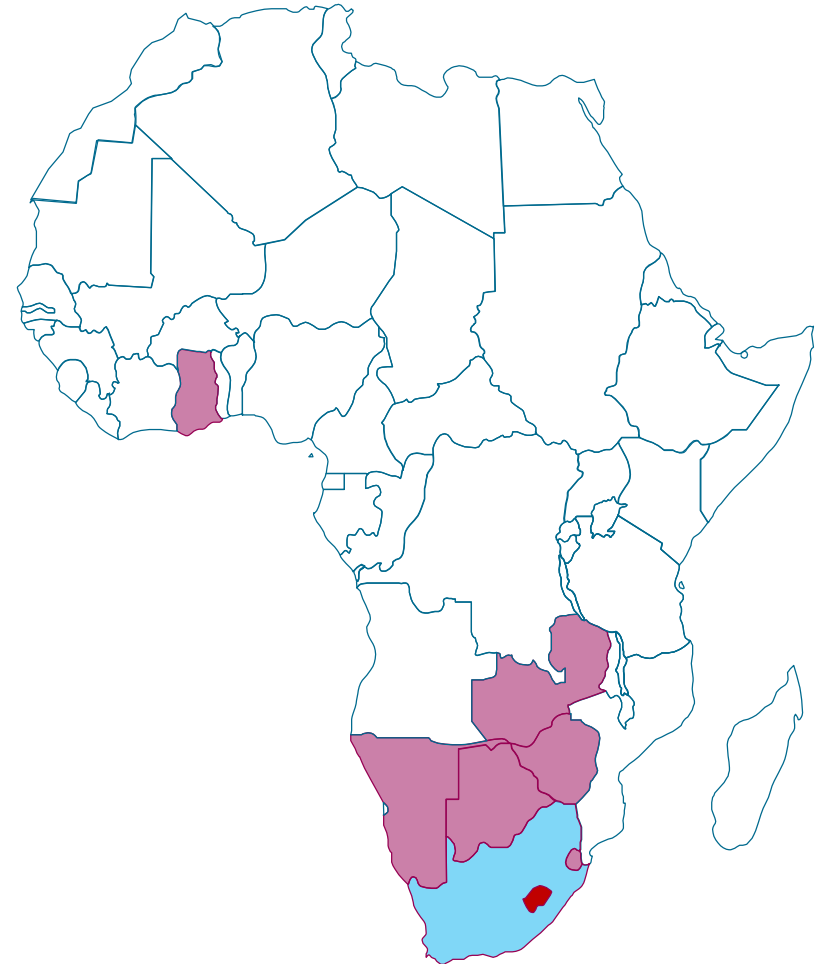
## BOXER – A national brand



- **Opened 12 new Boxer stores**
- **Strengthened price positioning**
- **Realigned management structure** to strengthen Category Management in Groceries and Fresh
- **Sound management of overheads**
- **Built a new DC** in KwaZulu-Natal: first outbound deliveries from October
- Prepared entry into the Western Cape - **opening first store** this year

## AFRICA – 2nd engine of growth

- Opened 6 new stores
- **Franchise operation** outside SA delivers strong growth - Botswana, Namibia, Lesotho and Swaziland
- **Zambia** – economy under pressure, impacting performance
- **Zimbabwe** - achieved turnover and profitability improvement, in spite of challenging trading environment
- **Ghana** – plans progressing to open first store in 2016



## WHAT TO EXPECT IN H2

**1 Better for customers**

Focus on price, improved product offer, more new private label

**2 A flexible and winning estate**

Accelerated new stores roll-out, more refits, all next generation stores

**3 Effective and efficient operations**

New operating model rolled out across more stores

**4 Every product, every day**

Continued centralisation, reduced order lead time, further availability improvements

**5 A winning team**

Creating more jobs, more training and development, more opportunity

**6 Boxer – a national brand**

Opening of first store in Western Cape, opening DC in Cato Ridge, focus on meat

**7 Africa – 2<sup>nd</sup> engine of growth**

Improved availability, more local supply, enhanced fresh food offer



Thank you