

Massmart Results
For the 52 weeks ended
29 December 2019

Media Release

Saving our
customers money
so they can
live better

27 February 2020

Massmart focuses strong underlying businesses on recovery

Action underway to remedy impediments to performance

Key highlights

- Total sales for year grew by 3.0% to R93.7 billion, while comparable store sales increased by 1.5%
- R1.5 billion selling, general and administration cost reset opportunity

Massmart today reported total sales of R93.7 billion for the 52-week period ending 29 December, representing total sales growth of 3.0%, comparable sales growth of 1.5% and year-to-date internal sales inflation of 2.5%. Sales from our South African stores increased by 2.7%, with comparable store sales increasing by 1.3%. Total sales from our rest of Africa stores increased by 6.4% in Rands, and on a comparable store basis increased by 2.9% in Rands.

Sales performance over the Black Friday period was robust and through Group collaboration saved customers in excess of R300 million. This momentum however, did not extend into the crucial festive season trading period.

A combination of increased promotions during the year and continued consumer prioritisation of lower margin categories (Food & Liquor) over higher margin categories (General Merchandise and Home Improvement) resulted in gross margins declining from 19.5% to 18.9%.

Disappointingly, the aforementioned factors, in combination with total expense growth of 10.2%, resulted in a like-on-like net loss for the period of R861 million, with a headline loss of R747 million.

These results are partly indicative of a constrained retail environment that worsened in the second half of 2019. Economic growth contracted in the third quarter and offered minimal relief during the fourth quarter. Compounding these tough trading conditions were trading disruptions resulting from protest action and load shedding, especially during the key December period.

As a historic indication of performance, these results are also indicative of an outmoded and inefficient approach to our markets. It is against this backdrop that we have launched a business turnaround process comprising a series of urgent and deliberate interventions that were shared with the market on 30 January 2020.

On 30 January we announced six turnaround interventions, these are:

1. Unlocking benefits of Group scale by implementing a Retail and Wholesale focused operating model, supported by centres of excellence;
2. Establishing a R50 billion consolidated, low-cost Wholesale route to market with high relevance to customers and suppliers;
3. Positioning the Group supply chain to improve stock availability, increase supplier income, and reduce operating costs and working capital;
4. Relentlessly pursuing a R1.5 billion cost reset opportunity covering expense lines including; rental, utilities, technology infrastructure and applications software;

5. Driving significantly better basic operational execution at Game to restore sales growth, recover margins and operate as a low cost discounter; and
6. Closure (subject to a Section 189 consultation process) of 34 persistently unprofitable DionWired and Masscash stores.

Mitch Slape, who was appointed CEO of Massmart in September 2019, commented: *“Our Road to Recovery acknowledges that the core underlying business is strong and comprised of entrenched brands with high customer appeal. However, the landscape has changed, and we have been slow to respond. We are now acting with urgency to reset and unlock the real potential of our business.”*

For Media Enquiries

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To view the full Road to Recovery presentation delivered to investors on 30 January 2020 visit

www.massmart.co.za

Divisional performance

Impacted by lower consumer spending on Durable Goods, Massdiscounters recorded an increase in total sales of 0.3% to R19.8 billion over the prior period. Encouragingly, Game South Africa saw foot traffic increase by 4% year-on-year, resulting in sales increasing by 1.9%.

Despite the significant slowdown in the construction sector Massbuild maintained its market leading performance in DIY, home maintenance and building supplies and grew total sales by 3.4% to R14.2 billion. Comparable store sales increased by 1.4%, while product inflation was 4.0%. Sales from the rest of Africa stores increased by 15.9% and similarly in constant currencies.

Masscash grew total sales by 5.6% to R30.3 billion supported by strong wholesale sales growth of 8.6%. Comparable store sales have shown a similar increase. Product inflation was 3.6%. Retail sales are flat on last year, testament to a very competitive market environment.

Masswarehouse recorded total sales of R29.4 billion, which was 2.0% up on last year, with comparable stores sales contracting by 0.3%. While General Merchandise sales remained flat on last year, Liquor sales grew by 3.5% with Food sales growing by 2.5%.

Outlook

The subdued economic environment experienced in the latter part of 2019 continues and we expect margin pressure to persist.

Massmart powered by Walmart, comprises four divisions operating 443 stores across 13 sub-Saharan countries. Through our widely-recognised retail and wholesale formats (including Builders Warehouse, Cambridge Food, DionWired, Game, Jumbo Cash & Carry, Makro and Shield) we have leading shares in the General Merchandise, Liquor, Home Improvement and Wholesale Food markets.

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