



# Interim Results Presentation

For the 26 weeks ended  
26 June 2016





Sales

**R42,310.9 million**

↑ UP BY 8.7%

2015: R38,917.4 m

Trading profit before forex and interest

**R902.8 million**

↑ UP BY 13.5%

2015: R795.3 m

Headline earnings before forex (taxed)

**R406.0 million**

↑ UP BY 14.2%

2015: R355.4 m



# The Macro environment

## The New Normal – low growth, rising inequality, with limited monetary & fiscal tools?

### Global & sub-Saharan Africa (SSA) per IMF

- Moderate global growth in 2016 (3.1%) and 2017 (3.4%)
- SSA growth revised down to 1.6% in '16 (was 3.0%) and to 3.3% in '17 (was 4.0%).
  - Due partly to Nigeria's economy likely to contract in '16 (-1.8%) and grow only by 1.1% in '17
- Commodities' pricing to remain low and US\$ relatively strong
- Some increased appetite for EM risk

### South Africa

- Positives – potential end of drought leading to lower inflation, stronger exports, stable electricity supply, restrained cost-inflation, no credit contraction
- Negatives – low consumer & business confidence, structural impediments to more employment (70% of respondents to recent McKinsey consumer survey concerned about imminent job loss)
- Uncertainties – Rand direction, no more interest rate increases, policy direction?



# SA Consumer & Retail environments

**With higher Food inflation, consumers are limiting spending to essentials. A difficult second half for 2016 is likely but may improve during 2017**

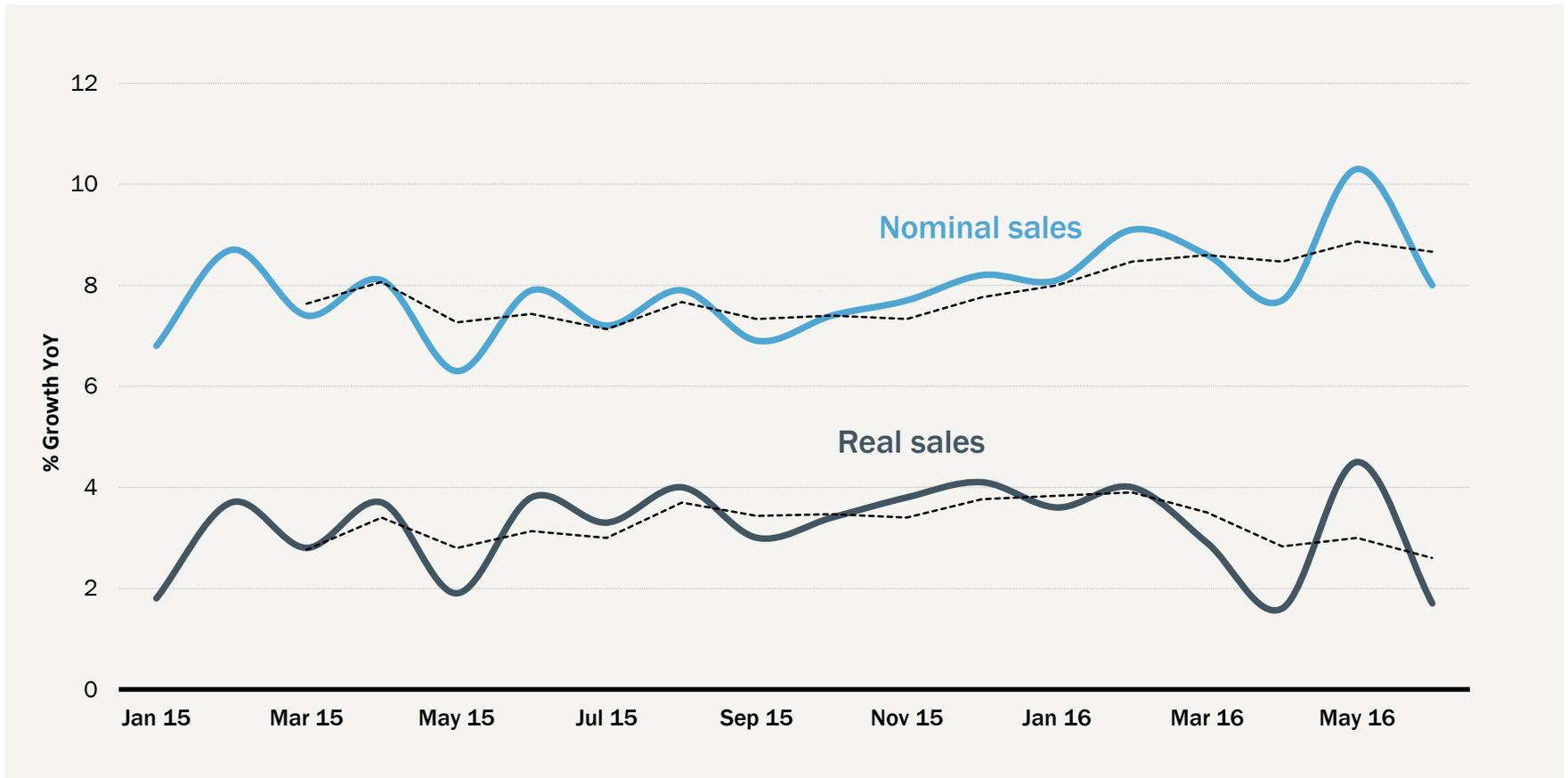
- Q1 of 2016 low-point of current economic cycle?
- Forecast South African PCE growth: 0.8% '16, 1.6% '17 and 1.4% in '18 (per Econometrix)
- Recent inflation (CPI) increases driven by Food. National Food & NAB inflation 11.3%. And Core inflation edged up to 6% at July '16
- Interest rates already +75 bps this year
- Consumers delaying purchases, trading down, buying singles, and reducing spending on durable goods to support spending on semi- and non-durables
- Daily in-store trading is generally softer except for key pay- and grant-days
- Customers search for value through: cherry-picking promotions, smaller pack sizes, multi-packs, private label
- Competitive promotional activity extreme, as is pricing

*Note: Core inflation excludes Food, Petrol & Electricity*



# SA National Retail sales

Inflation accelerating from April '16 and recently lower real growth



Source: StatsSA



# Food prices accelerate

Basic basket up 13% since February '16



## The Basket

- 23 basic items
- Not a full month's family shop
- Includes cordial, coffee creamer, pilchards, maize, salt, toilet paper, sugar, soap, spaghetti and rice

## Current pricing

- Now R874.08, up almost 13%
- 20 of 23 items now more expensive
- Maize, sugar & peanut butter amongst the highest increases



# Massmart response

Trust our model. Be patient and measured. Smart trading in shorter-term

- Maintain & grow market leadership in our major categories
- Due to two mature businesses with high market shares in South Africa, we are very deliberate about new space growth in Game and Masscash Wholesale:
  - In Group for six months to June '16: nine new stores, 2.4% new space, but closed seven stores, overall net space decline of -0.1%
- Our growth into Africa being led by Game and Builders Warehouse. Since June '15 we have opened four new stores in three countries. Will open four more stores to June '17
- Experiencing significant cost pressure across several areas: administered costs, new Labour legislation, US\$ costs in Africa, and imported equipment including IT software
- Maintain positive price-gap
- Private label
- Offer customers demonstrable value
- Find new sales opportunities – product categories, routes to market, geographic areas



We save our customers money,  
so they can live better

Based on our promotional activity

we saved our customers  
**R783m in 26 weeks**

gaining market share across all major categories





# We save our customers money, so they can live better

In July '16 Independent consumer website Retail Price Watch conducted a price survey across SA's seven biggest chains in four different categories. For total basket, Cambridge was cheapest and Makro second.

## Cereals & Porridge

(Bokomo Weetbix 900g; Jungle Oats 1kg; Jungle OatsoEasy 10 units; Kellogg's Corn Flakes Value Pack 2)



is the cheapest

## Staples

(Selati White Sugar 2.5kg; Iwisa Super Maize Meal 2.5kg; Lucky Star Pilchards in Tomato Sauce 400g; Spekko Parboiled Rice 2kg; Rama 500g Brick)



is the cheapest

## Beverages

(Nescafe Classic Jar 200g; Five Roses Tagless Black Tea 102 units; Joko Tagless Black Tea 100 units; Cremora 1kg; Freshpak Rooibos Tea 80 units)



is the cheapest



# Financial performance

Great sales and volume growth. Good cost control in tough environment

	Jun 2016 (Reviewed)	% of sales	Jun 2015 (Reviewed)	% of sales	% growth	Comparable % sales growth	Estimated % sales inflation
<b>Sales</b>	<b>42,310.9</b>		<b>38,917.4</b>		<b>8.7</b>	<b>6.4</b>	<b>5.8</b>
Massdiscounters	9,654.1		8,973.6		7.6	2.4	4.4
Masswarehouse	11,748.3		10,759.2		9.2	7.2	5.5
Massbuild	5,962.4		5,637.1		5.8	0.8	4.0
Masscash	14,946.1		13,547.5		10.3	10.9	7.9
<b>Trading profit before interest and tax</b>	<b>911.3</b>	<b>2.2</b>	<b>806.7</b>	<b>2.1</b>	<b>13.0</b>		
Massdiscounters	62.4	0.6	29.6	0.3	110.8		
Masswarehouse	508.1	4.3	461.3	4.3	10.1		
Massbuild	259.6	4.4	243.9	4.3	6.4		
Masscash	81.2	0.5	71.9	0.5	12.9		



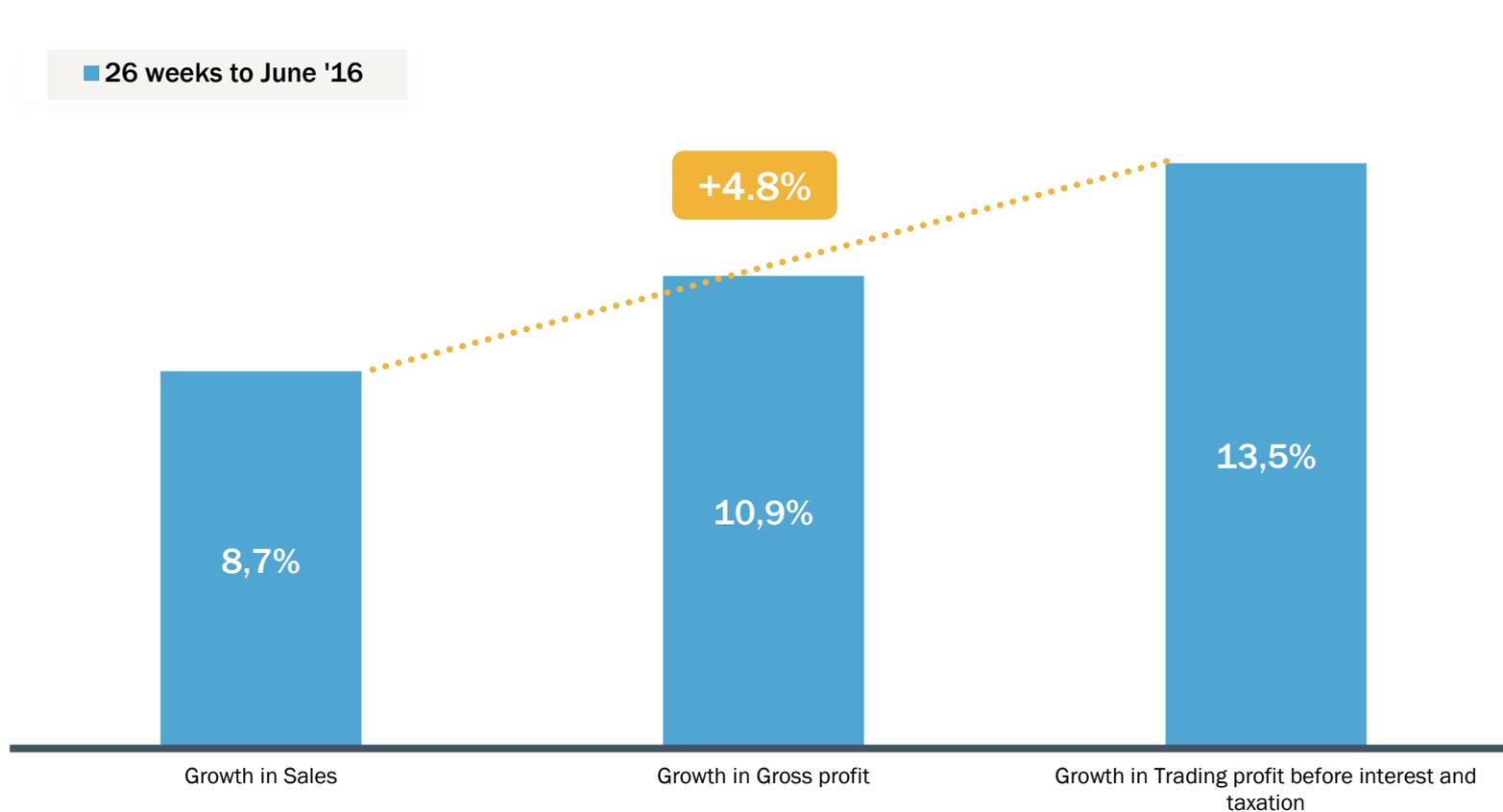
# Financial performance





# Continued strong performance

Profit growth ahead of sales growth by 4.8%

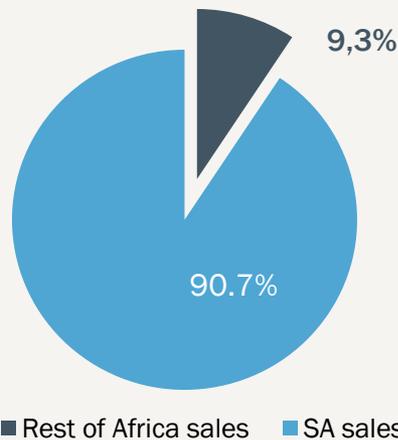




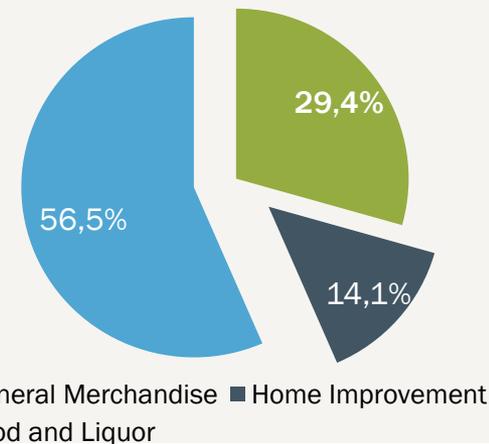
# Sales

## Robust sales in challenging environment

Rm	Jun 2016 (Reviewed)	Jun 2015 (Reviewed)	% growth	Comparable % sales growth	Estimated % sales inflation
<b>Total</b>	<b>42,310.9</b>	<b>38,917.4</b>	<b>8.7</b>	<b>6.4</b>	<b>5.8</b>
Massdiscounters	9,654.1	8,973.6	7.6	2.4	4.4
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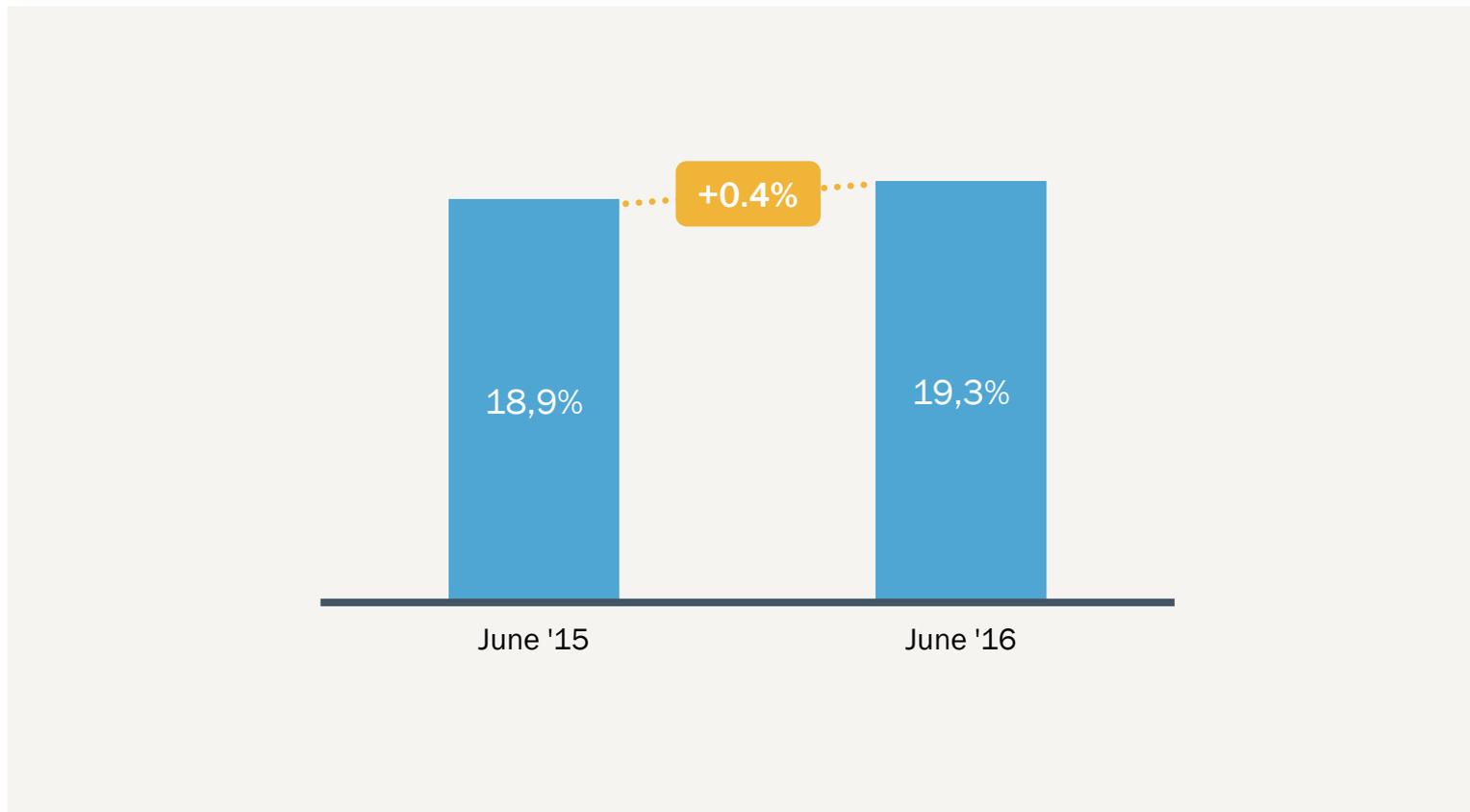
Rest of Africa businesses' sales growth: sales in ZAR grew by 23.2% / in constant local currencies grew by 16.5%





# Margin

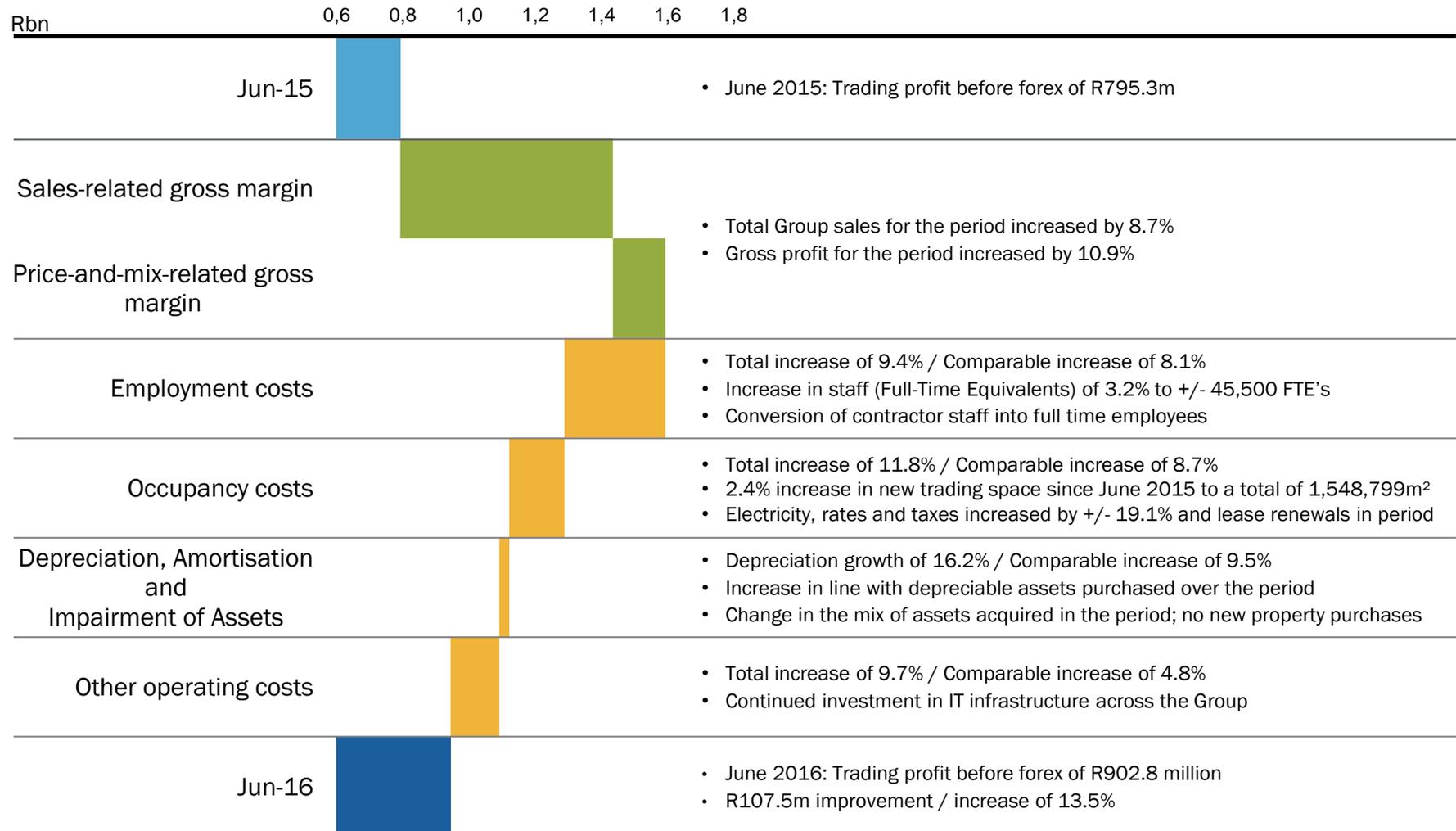
Our margin improved across divisions – nice recovery in Game





# Trading profit before forex and interest

Expenses as a percentage of sales decreasing year-on-year





# Trading profit before interest and taxation

## Strong divisional performance

Rm	Jun 2016 (Reviewed)	Jun 2015 (Reviewed)	% growth
<b>Total</b>	<b>911.3</b>	<b>806.7</b>	<b>13.0</b>
Massdiscounters	62.4	29.6	110.8
Masswarehouse	508.1	461.3	10.1
Massbuild	259.6	243.9	6.4
Masscash	81.2	71.9	12.9

- Massdiscounters continues their recovery
- Masswarehouse maintains its strong journey
- Massbuild improves margin through strong expense management
- Masscash Wholesale steady on improving sales
- Masscash Retail contributing increasingly to Masscash



# Good operating profit growth impacted by forex and interest

Profit for the period before forex growing by 21.6% / HEPS before forex grew by 19.3%

Rm	Jun 2016 (Reviewed)	Jun 2015 (Reviewed)	% change
<b>Operating profit</b>	<b>944.3</b>	<b>791.9</b>	<b>19.2</b>
Net finance costs	(279.2)	(234.8)	
Taxation	(162.5)	(143.8)	
<b>Profit for the period before forex</b>	<b>502.6</b>	<b>413.3</b>	<b>21.6</b>
Foreign exchange loss*	(125.2)	(106.7)	
<b>Profit for the period</b>	<b>377.4</b>	<b>306.6</b>	<b>23.1</b>
Basic EPS (cents)	164.7	129.9	26.8
Headline EPS (cents)	148.2	124.2	19.3
<b>Headline EPS before foreign exchange (taxed) (cents)</b>	<b>187.7</b>	<b>164.0</b>	<b>14.5</b>

\* majority is unrealised



# Interest

Rm	Jun 2016 (Reviewed)	Jun 2015 (Reviewed)	% change
Finance costs	(294.1)	(252.5)	
Finance income	14.9	17.7	
<b>Net finance costs</b>	<b>(279.2)</b>	<b>(234.8)</b>	<b>(18.9)</b>





# Forex

## Continued focus on reducing foreign exchange volatility for the Group

- Limited growth in foreign exchange result
- Weakening of the Rand against the average basket of African currencies and the USD during the first half of 2016 caused the majority of the Group's foreign currency loss
- Volatility in the past period has been particularly high
- Liquidity in Mozambique driving loss in Africa for otherwise well-hedged balances
- Most losses are unrealised



# Working capital

Net funding gap increased to 15 days (2015: 13 days)

- Increase in inventory mainly due to strategic buy-ins and net 9 new stores over the 12 months
- Debtors' days are calculated based on total Group sales
- Special care given towards trade credit in a more challenging environment for customers
- Decrease in creditors' days mainly due to accelerated payment of foreign creditors

	Jun 2016 (Reviewed)	Jun 2015 (Reviewed)
<b>Inventories (Rm)</b>	<b>11,591</b>	<b>10,531</b>
Inventory Days	62	61
<b>Trade Debtors (Rm)</b>	<b>2,373</b>	<b>2,320</b>
Debtors' Days	9	10
<b>Trade Creditors (Rm)</b>	<b>11,969</b>	<b>11,389</b>
Creditors' Days	56	58



# In summary

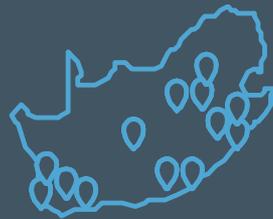
- Market share gains
- Strong sales in challenging H1
- Mix impacts improved gross margin
- Comp expenses as a % of sales going down
- Operating profit up 19.2% (before forex)
- HEPS up by 14.5% (before forex)
- Cash flows under control
- Investing in working capital for customers and reducing forex exposure



# Strategic priorities



Improve Profitability



Grow Retail Food & Builders formats in South Africa



Grow into Africa



Grow Online

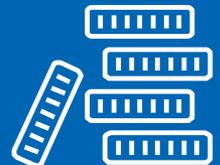


Improve  
profitability



**Fast fact**

Our Opex to Sales ratio of 16.4% is the lowest and enables us to compete aggressively on price





# Improving profitability

## Maintain focus on improving sales, operating margin & expenses

- Sales growth +8.7%, comps +6.4%
  - Drive existing sales through clear customer & value propositions, superb execution of retail basics, private label, innovative promotions, positive price-gap
  - Explore new opportunities – product categories, routes to market, geographic areas
- Gross profit +10.9%
  - Effective margin management through focus on buying, inventory ranges & levels, product innovation, supplier collaboration & route-to-market relevance
- Operating costs +10.4%, comps 7.5%. A sharp cost focus critical in current environment:
  - Careful new store decisions, store closures too
  - Leverage IT & digital to reduce / simplify in-store processes
  - Cost benefits from workforce scheduling, construct-for-less and operate-for-less projects
- Investing in value-added services & capacity

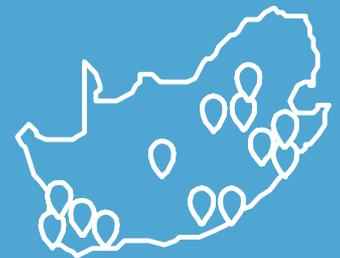


# Grow Retail Food & Builders formats in South Africa



## Fast fact

Our Food & Liquor sales  
are growing ahead of  
the SA market





# Grow Retail Food

Build a Retail Food proposition on our General Merchandise and Wholesale Food platforms

- In a defensive economic environment, Food acts as buffer from the pressure on our General Merchandise and DIY / Home Improvement categories
- Increases customer foot-fall
- Game's Food & Liquor sales participation already 22% despite not in all stores
- Sales growth of 14% across Group's Food private label portfolio including: Aro, Econo, First Value, Great Value & Marketside
- Fruitspot opens facilities in Cape Town (Aug '16) and Durban (Nov '16) delivering Group procurement and distribution efficiencies to our stores
- Cambridge opened three stores in H1 of '16, with another 15 planned to end 2017. Two closed in '16





# Grow Builders' formats

## Scale & leverage this powerful brand through several formats

- We have the highest relative market share domestically, but still low – can grow & expand
- More openings of successful Builders Express format due to currently limited real estate availability for larger Builders Warehouse
- Smaller lower-income format, Superstore, performing very well. Recently opened first store outside Gauteng
  - Sales growth > 25% and profitability improving fast
  - Now nine stores. Another nine new stores planned to June '18
- Launching pilot of Builder's online contractor platform in Q4
- Highest private label participation in Massmart



# Grow into Africa



## Fast fact

Builders annualised ex-SA sales exceed R1 billion





# Grow into Africa

## Cautious and measured long-term approach

- Despite economic pressures, total ex-SA sales growth strong at 23.2% and 16.6% in constant currencies
- Currently 38 stores in Africa, representing R3.9bn sales (9.3% participation), in 13 countries
- Weaker African currencies caused lower Rand profits and forex translation losses in H1 to June '16
  - Extreme currency movements in Mozambique (-30%) and Nigeria (-43%) against the Rand
- Establishing legal title to land and land pricing remain challenging
- US\$ as de facto currency currently causing extreme cost pressures
- Anticipate opening five new stores in next two years across Ghana, Mozambique, Nigeria & Zambia



online

# Grow online

## Fast fact

Makro attracted 74% more online visitors to its site and DionWired online visitors grew by 54%

Massmart + Walmart 





# Grow online

## Build a profitable omni-channel presence

- Why?
  - Customers' convenience
  - Enhance experience
  - New products & markets
- Makro online:
  - Is profitable and had H1 sales growth of 100%
  - B2B has in excess of 10,000 registered users
  - Rolled-out 20 more online pick-up lockers taking available sites to 30
- DionWired achieved 38% growth in online sales and is profitable
- In Makro & DionWired online represents about 2% of each categories' online sales
- Builder's online contractor platform is currently registering users, with pilot launch in Q4. This will be first African instance of SAP Hybris



# Investing in Local Supplier Development



## Fast fact

Massmart's verified procurement from small business is currently R4.2 billion per annum



# Investing in Local Supplier Development

Creating opportunities for everyone to prosper

- Total of R128 million has / will be disbursed by the Massmart Supplier Development Programme (SDF) since inception
- Current portfolio comprises 32 local suppliers (average annual turnover R13.5 million)
- Six of the 32 suppliers are involved in Massmart-led import-substitution projects
- Working closely with Economic Development ministry
- Supplier development benefits to Massmart include: product differentiation; improved price competitiveness; and improved fill rates
- Product focus includes cooler boxes, 4x4 storage boxes, toilet seats, ladders, nails, adhesives, paint, hollow core doors, window frames, clay bricks, charcoal, office furniture and clothing
- Forecast procurement of R300 million per annum from SDF portfolio by 2019



# Responsible Retail



## Fast fact

Massmart will generate 3.5 million kWh electricity from solar facilities by Q1 in 2017



# Responsible retail

Making thoughtful choices for a better future

**100%**

of direct import suppliers that have undergone responsible sourcing audits

**207,000**

primary school learners receive meals prepared in Massmart mobile kitchens (annual)

**800,000 kWh**

is the annual output of Makro's Carnival store solar facility. Woodmead is next ...

**9,500,000 kg**

of paper, plastic and board already recycled across Massmart facilities in 2016



# Prospects



The Group sales update since June '16 and our short-term outlook



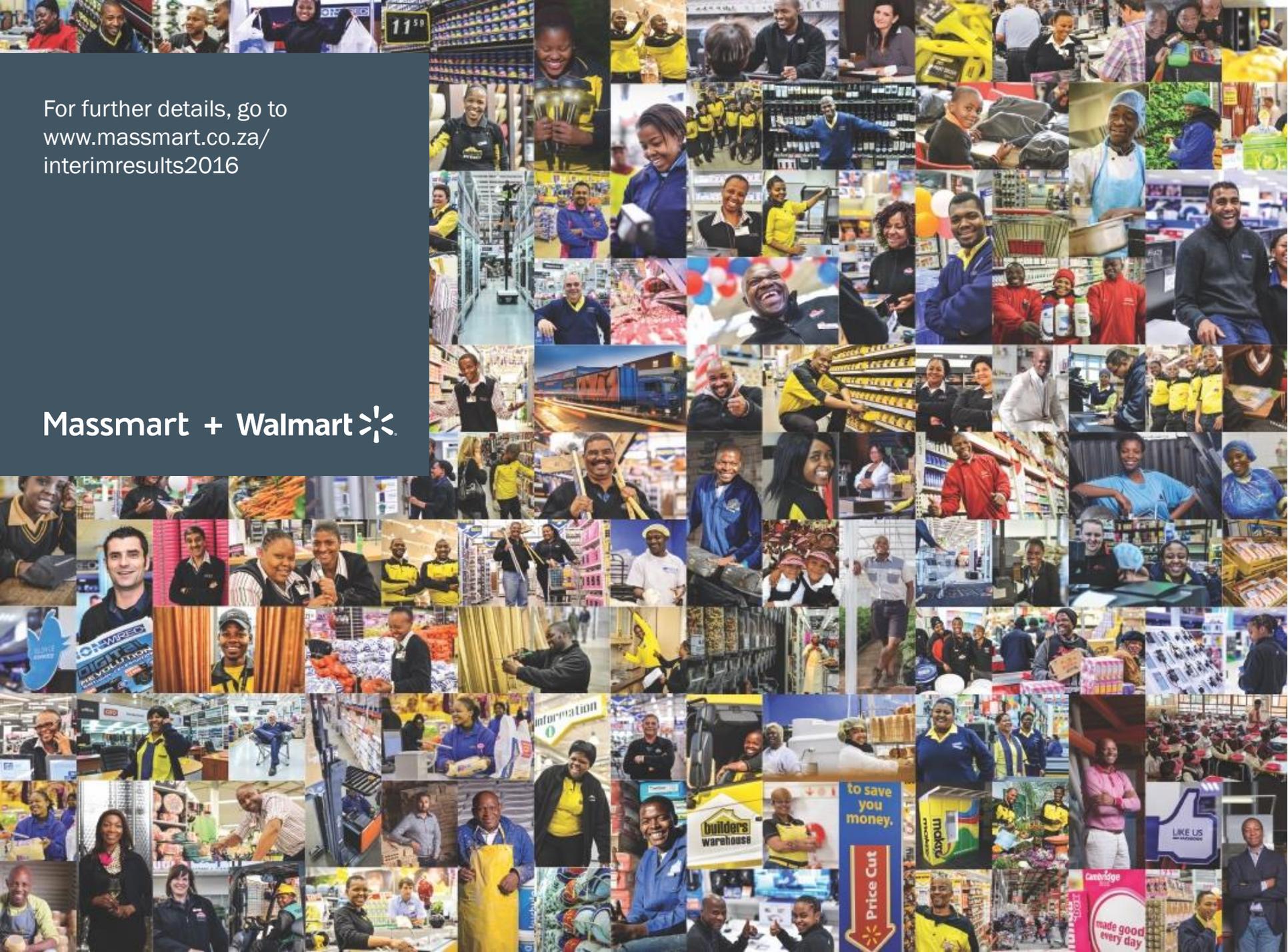
# Sales update & prospects

## Slowing sales and a cautious outlook

- For the 34 weeks to 21 August 2016, Massmart's total sales increased by 8.3% and comparable sales by 5.9%. Have seen a broad-based slowdown
- Prospects:
  - For the remainder of 2016, the SA economic environment will likely constrain consumer spending across General Merchandise and Home Improvement / DIY, whilst our Food and Liquor will likely continue to outperform
  - Notwithstanding the current uncertainty, should the Rand strengthen and Food pricing move into disinflation, possible that trading in 2017 may be relatively better
  - Trading conditions in non-SA countries are unlikely to deteriorate further provided no exogenous shocks.

For further details, go to  
[www.massmart.co.za/  
interimresults2016](http://www.massmart.co.za/interimresults2016)

Massmart + Walmart ✨





# Additional information



- Condensed Consolidated Income Statement
- Tax Rate Reconciliation
- Cash Flow Statement
- Capital Expansion
- Capex Per Category
- Store Portfolio
- Forecast Stores: Jul 2016 – Jun 2018
- Number of shares`



# Condensed Consolidated Income Statement

for the six months ended June 2016

Rm	Jun 2016 (Reviewed)	Jun 2015 (Reviewed)	% growth
Revenue	42,466.3	38,980.7	8.9
<b>Sales</b>	42,310.9	38,917.4	8.7
Cost of sales	(34,138.3)	(31,545.8)	(8.2)
<b>Gross Profit</b>	<b>8,172.6</b>	<b>7,371.6</b>	<b>10.9</b>
Other income	63.0	63.3	(0.5)
Depreciation and amortisation	(536.6)	(461.7)	(16.2)
Employment costs	(3,541.2)	(3,236.8)	(9.4)
Occupancy costs	(1,582.3)	(1,415.7)	(11.8)
Other operating costs	(1,672.7)	(1,525.4)	(9.7)
<b>Trading profit before foreign exchange movements and interest</b>	<b>902.8</b>	<b>795.3</b>	<b>13.5</b>
Impairment of assets	(50.9)	(3.4)	
Insurance proceeds on items in PP&E	92.4	-	
<b>Operating profit before foreign exchange movements and interest</b>	<b>944.3</b>	<b>791.9</b>	<b>19.2</b>
Foreign exchange loss	(125.2)	(106.7)	(17.3)
<b>Operating profit before interest</b>	<b>819.1</b>	<b>685.2</b>	<b>19.5</b>
Net finance costs	(279.2)	(234.8)	(18.9)
<b>Profit before taxation</b>	<b>539.9</b>	<b>450.4</b>	<b>19.9</b>



# Tax rate reconciliation

%	Jun 2016 (Reviewed)	Jun 2015 (Reviewed)
Standard tax rate	28.0	28.0
Non-taxable income and disallowable expenses	(1.7)	(1.0)
Assessed loss not utilised	4.7	4.8
Other - including foreign tax adjustments	(0.9)	0.1
<b>Group tax rate</b>	<b>30.1</b>	<b>31.9</b>

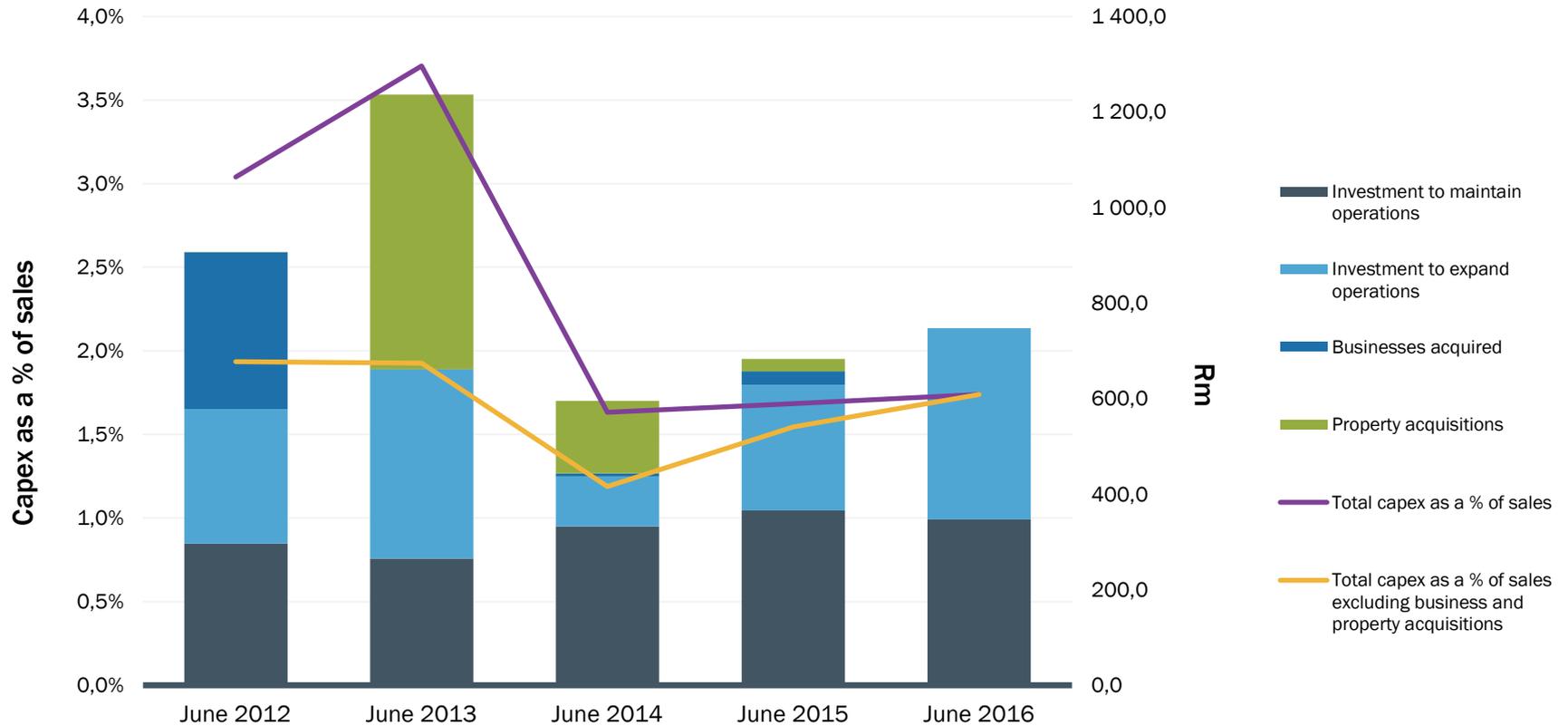


# Cash Flow Statement

Rm	Jun 2016 (Reviewed)	Jun 2015 (Reviewed)
Operating cash before working capital movements	1,666.4	1,308.8
Working capital movements	(4,095.2)	(2,925.3)
<b>Cash utilised in operations</b>	<b>(2,428.8)</b>	<b>(1,617.3)</b>
Net interest and tax paid	(461.1)	(523.1)
Net investment to maintain operations	(346.7)	(365.5)
<b>Free cash flow</b>	<b>(3,236.6)</b>	<b>(2,505.9)</b>
Dividends paid	(266.2)	(622.8)
Investment to expand operations and other net investing activities	(388.9)	(290.0)
<b>Cash outflow before financing activities</b>	<b>(3,891.7)</b>	<b>(3,418.7)</b>



# Capital expansion



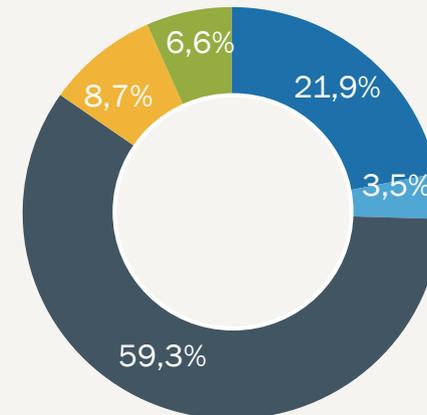


# Capex per category

Rm	Jun 2016 (Reviewed)	Jun 2015 (Reviewed)
Land and buildings/leasehold improvements	126.0	155.0
Vehicles	3.3	6.3
Fixtures, fittings, plant and equipment	220.7	110.9
Computer hardware	31.4	8.1
Computer software	19.5	8.9
<b>Investment to expand operations</b>	<b>400.8</b>	<b>289.2</b>
Land and buildings/leasehold improvements	37.8	56.6
Vehicles	23.2	26.6
Fixtures, fittings, plant and equipment	222.3	214.3
Computer hardware	33.5	47.6
Computer software	29.9	20.4
<b>Investment to maintain operations</b>	<b>983.7</b>	<b>365.5</b>

## 1.7% Total Capex as a % of sales

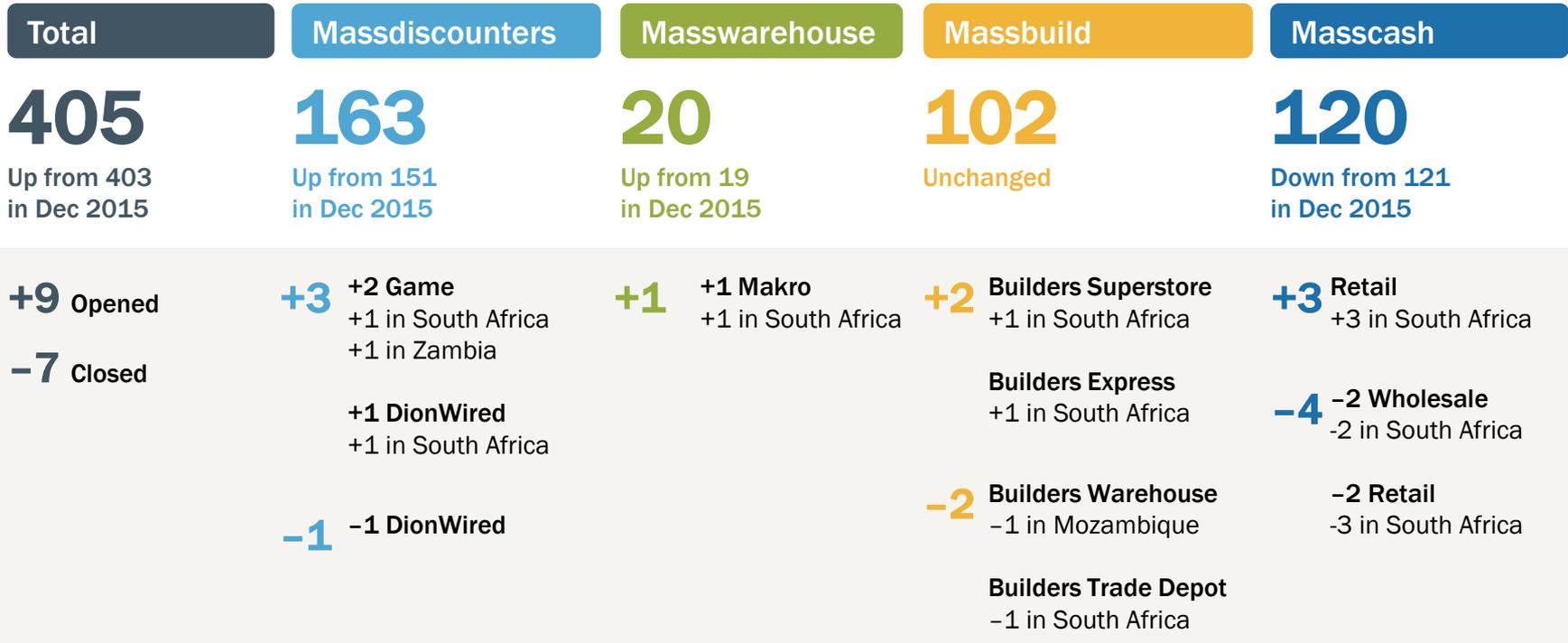
(June 2015: 1.7%)



- Land & buildings/leasehold improvements
- Vehicles
- Fixtures, fittings, plant & equipment
- Computer hardware
- Computer software

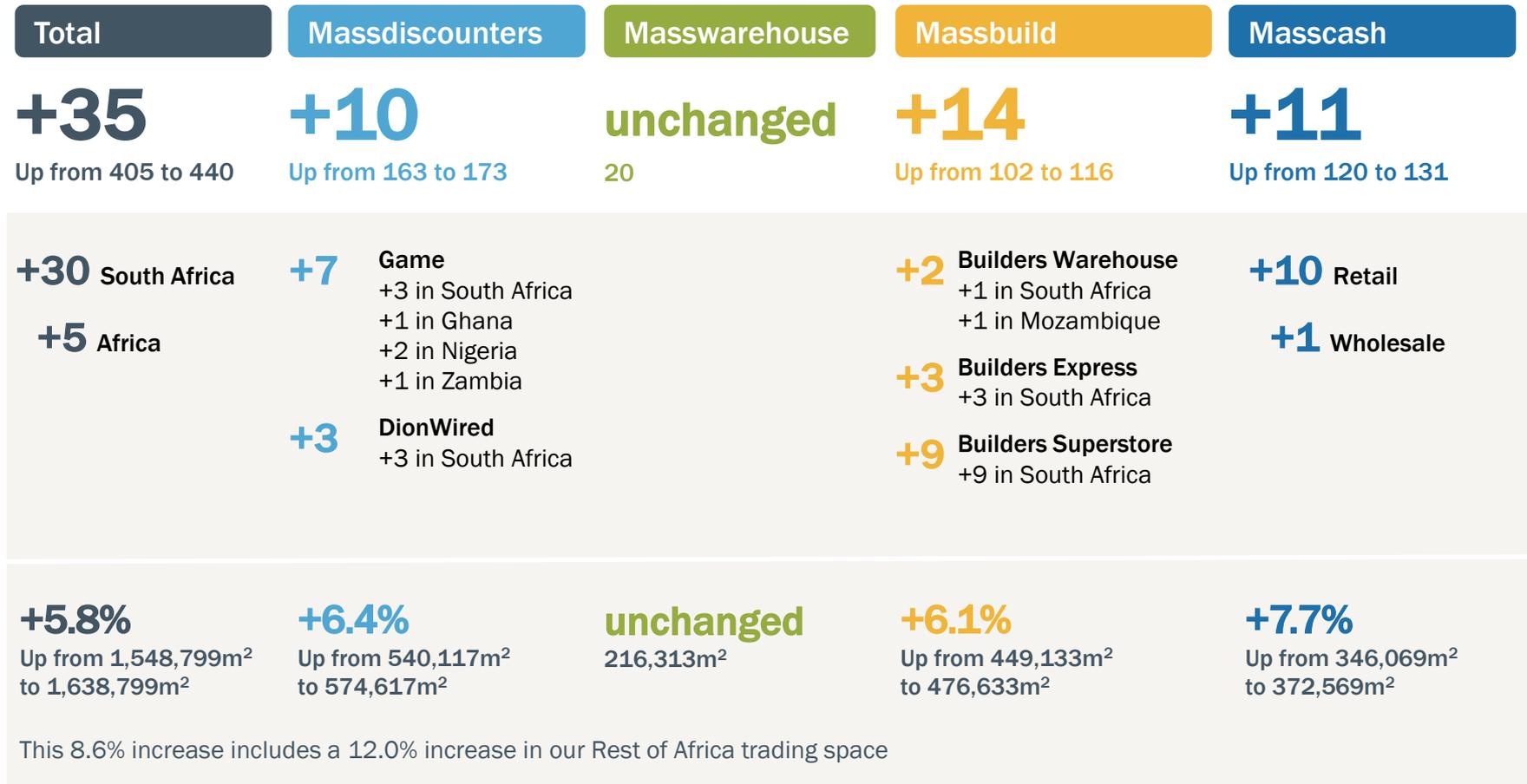


# Store portfolio





# Forecast stores: Jul 2016 – Jun 2018





# Number of shares

	'000
At June 2015	217,136
Shares issued	-
At June 2016	217,136
Weighted-average at June 2016	216,359
Diluted weighted-average at 2016	219,885