



# MASSMART

Dedicated to Value

Interim consolidated results for the 26 weeks ended December 2003

## Simply unique

Massmart, is a unique, managed portfolio of nine wholesale or retail chains, each focused on high-volume, low margin, low cost distribution of mainly branded consumer goods for cash, in eight countries in southern Africa. The Group is the third largest distributor of consumer goods in southern Africa, the leader in general merchandise and liquor and the fourth largest in food.

Sales increase	Trading profit increases	Headline earnings increase	Headline earnings before acquisitions increase	Headline EPS increases	Cash flow from operations increases	Distribution to shareholders increases
<b>16%</b>	<b>30%</b>	<b>27%</b>	<b>20%</b>	<b>26%</b>	<b>92%</b>	<b>27%</b>
to R12 255 million	to R561 million	to R366 million	to R337 million	to 183,5 cents	to R1 078 million	to 61 cents per share

### Overview

Massmart's 30th consecutive half-year of double digit sales growth was achieved despite a stronger Rand which undermined foreign sales and contributed to the lowest inflation rate recorded since the company's founding. Appropriate management of merchandise, marketing, pricing, expenses and working capital resulted in a pleasing growth of profits, profitability and cash flow.

The highlights of the half-year were:

- record half-year sales and pre- and post-interest profits in all divisions;
- record half-year pre-interest trading margins in all divisions;
- record half-year post-interest trading margins in all divisions other than Masstrade, which maintained that of the comparable period;
- half-year pre-interest operating profit at 4,57% and post-interest operating profit at 4,55% of sales, both exceeding 4,5% for the first time;
- comparable store and comparable member sales growth of 8,5% with an average selling price inflation of zero across all Massmart product categories;
- improved working capital management with cash flow from operations exceeding R1 billion;
- an improvement in rolling twelve-month return on equity from 30,3% to 32,2%;
- the acquisition and opening of 10 new stores with estimated annualised sales of R80 million per store; and
- the inclusion of Builders Warehouse for the full period.

### Strategy and implementation

Since 1990, Massmart's growth and profitability have been reliant on the achievement of an appropriate balance between two major objectives. The first is strategically aligned, organic and acquisitive growth through trading divisions constituted on the basis of similar target markets and business models. The second, collaboration between these divisions, which results in profitability and returns greater than could otherwise be achieved.

Notwithstanding economic volatility and heightened competition in recent years, the successful implementation of this strategy has resulted in a sustained growth of sales, profits, profitability, and returns, off an increasingly demanding base.

In August 2002, shareholders were advised of a "Vision for Growth", which targeted sales of R30 billion and operating profit of R1 billion by June 2005. In August 2003, these targets were increased and extended to June 2007 founded on: continued real sales growth from existing outlets; expansion into new categories and formats; new outlets; and selected acquisitions that conform to Massmart's strategic and financial criteria. Since then 12 of the 44 stores planned have been added to the Group and all other aspects of the Vision are in line with objectives.

Successful implementation is always a collective achievement – more so in challenging times – and we thank the 17 527 Massmart associates whose daily focus is providing exceptional value across a very wide range of merchandise to a broad profile of southern African consumers. It is solely their dedication and competence that has mitigated the risks implicit in fast growth.

### Environment

During the reporting period the Rand/Dollar exchange rate remained relatively stable although approximately 30% firmer than the same period in 2002. Year-end prime interest rates were 5,5 percentage points or 30% lower than in 2002. All inflation indices accelerated their downward trend of early 2003. The Producer Price Index (PPI) fell to its lowest level ever recorded, driven by the impact of a stronger currency on the imported component of PPI, and competitive pressure on local manufacturers. The Consumer Price Index (CPI), the Consumer Price Index excluding mortgage costs (CPIX) and retail inflation touched their lowest levels in decades. This resulted in low levels of inflation in food and liquor and deflation in most general merchandise categories with a consequent high growth of durable and semi-durable volumes. Relative to the same period last year, the low increase in the cost of living, an increase in real wages and 5,5% lower interest rates, enhanced disposable income and thus consumer spending for middle to upper income consumers.

Competition was intense across all product categories. The general merchandise sector experienced margin pressure as retailers moved to clear stock bought at higher prices, and thus increased sales volumes without a concomitant increase in sales values. Notwithstanding the low levels of food inflation, there was little increase in retail food volumes, and wholesalers reduced inventories in anticipation of little or no inflation, while competing aggressively to ensure that market share and Rand margins were maintained. Gross margins in the fragmented retail liquor sector came under pressure as traders sacrificed price in the vain hope that volume would compensate.

This economic and competitive environment imposed the following demands on the business:

- imported stock on hand lost value as the currency strengthened, requiring significant markdowns to remain price competitive and ensure stock turns remained high;
- improved stock management and supplier collaboration were required to reduce stock in order to mitigate the exposure to further currency volatility;
- with US Dollar linked sales under pressure from the strengthening Rand, foreign stores required more intense management of inventory, margins and promotions; and
- as cost prices fell, buyers were forced to adopt a more flexible approach to mark-ups in order to preserve margin while maintaining a competitive stance.

### Performance

Massmart's real sales growth accelerated throughout the half-year. Sales growth before acquisitions was 11,5%. Acquisitions, comprising Builders Warehouse, Tile Warehouse, and seven cash and carry outlets, contributed sales of R483 million. Comparable store and member growth of 8,5%, was depressed by a 10 percentage point decrease in inflation and the impact of the stronger Rand on foreign sales. General merchandise grew 24%, food 8% and liquor 30%. Massmart's zero inflation on selling prices was the weighted average of 8% deflation in general merchandise, 2% inflation in food and 10% inflation in liquor.

Trading profit before tax and acquisitions grew 23,7% to R517 million. Headline earnings before acquisitions grew 20% to R337 million.

Industry statistics and the reported sales of competitors indicate that Massmart's R1,7 billion sales increase resulted in market share gains.

	<b>December 2003 (Reviewed) Rm</b>	December 2002 (Reviewed) Rm	% change	June 2003 (Audited) Rm
Trading profit before tax*	<b>564,5</b>	415,3	35,9	711,9
As a % of sales	<b>4,6</b>	3,9		3,5
Massdiscounters	<b>213,8</b>	180,8	18,3	227,0
Masswarehouse	<b>170,3</b>	94,0	81,2	173,1
Masscash (note 2)	<b>133,8</b>	102,1	31,0	234,0
Masstrade	<b>46,6</b>	38,4	21,4	77,8

\* Trading profit before tax is before corporate interest paid of R7,0 million (2002: R2,7 million received), goodwill amortisation and exceptional items.

**Massdiscounters** – comprises retail general merchandise discounters Game (55 stores) and Dion (11 stores). Aggressive merchandising and marketing enabled Game South Africa to sustain a high rate of comparable store growth despite deflation for the period of 8%. A mediocre first quarter for Dion and foreign sales in Rands well below the previous year, depressed Massdiscounters' comparable store sales growth to 7,4%. A new Game outlet in Kampala, Uganda, will open in June. Despite a foreign exchange loss of R12 million, exceptional control of expenses and working capital resulted in pleasing progress towards the division's medium term annual profit before tax return on sales of 5%.

**Masswarehouse** – comprises the 12-store Makro warehouse club trading in food, general merchandise and liquor, eight Builders Warehouse outlets trading in DIY and builders hardware and seven Tile Warehouse outlets trading in tiles and sanitary ware. Comparable store sales grew 11,9%.

In Makro, good general merchandise growth, the successful recruitment of new card-holders and innovative marketing was underpinned by sound control of margin, expenses and working capital to produce profit growth more than double that of sales. The success of the Strubens Valley store opened in October 2002 has prompted the decision to enlarge it later this year.

Massmart's early influence on Builders Warehouse and Tile Warehouse was manifest in improvements to the structure and calibre of management, the quality of procurement and promotional activity, the upgrading of systems and in the design and layout of the new Strubens Valley and Rustenburg stores which opened in November and January respectively. These initiatives resulted in enhanced profitability from sales of R364 million and established a firmer foundation for the aggressive roll out of these chains.

An unwavering commitment to high volume, low price operating principles, the refurbishment and relocation of selected Makro outlets and rapid expansion of the Builders Warehouse and Tile Warehouse stores will be complemented by the sensible pursuit of back office synergies between the three chains, to ensure the achievement of the division's targeted annualised profit before tax return on sales of 4%.

**Masscash** – comprises 55 CBW and five Jumbo wholesale cash and carry outlets. Comparable store sales grew 4,5%.

Despite low food inflation and subdued demand from small traders, CBW produced a good result increasing profits before tax by 43,0% (excluding the profit referred to in note 2) from a sales growth of 13,6%. New stores were opened in Kimberley and Klerksdorp, the integration of the Trident and Drinks Galore acquisitions proceeded according to plan, and two new stores are planned for the current financial year.

Despite aggressive competition, falling inflation, a decline in exports resulting from a stronger Rand, and a 14-day strike in October, Jumbo almost maintained comparable store sales. This was achieved at the expense of gross margins in selected stores, which together with the closure of Isipingo, depressed profits before tax. Progress during the last quarter was pleasing with sales, margins and costs responding favourably to the restructuring and strengthening of branch and head office management. Store development will entail one new store and one relocation in the current financial year. To facilitate succession and advance the integration of Jumbo into Masscash, Surendra Bhawan was appointed Deputy Chairman and Fred Cresswell Managing Director.

Excluding a R16,5 million profit on the sale of land and buildings, Masscash achieved a record profit before tax return on sales moving closer to its 4% annual target.

**Masstrade** – comprises voluntary buying organisations Shield (serving 766 independent food traders) and Furnex (serving 853 independent furniture and appliance traders). Comparable member growth was 14,2%.

In Shield the steady growth of comparable sales and an increase in members during the period produced a pleasing growth in profit before interest while a substantial growth of new members contributed to an

excellent performance from Furnex. The integration of the two businesses into Masstrade is reaching conclusion with the implementation of a new system in Shield, improving administration and debtors control and the appointment of Mike Marshall as Operations Director to refine and reduce the costs of the division's business processes.

Although Masstrade's profit before interest grew well ahead of sales, profit before tax return on sales remained static relative to the division's annual target of 3%.

## Group Initiatives

Other non-trading highlights include the adoption of a new Group Human Capital Strategy which aims to focus and integrate the development of all Massmart associates; the formulation of an integrated Black Economic Empowerment Strategy to achieve the objectives of the new Act; the approval of an Ethical Code of Conduct in line with Corporate Governance standards and the consolidation of our interdivisional collaborative efforts under the recently created position of Group Commercial Executive.

## Game Trademark

Massmart has received written notice from SARS that it has withdrawn its written ruling issued in 2002 concerning the valuation of the Game trademark for tax purposes and the related write-off period. At that time, following correspondence and discussions between Massmart and SARS, it was agreed that the Game trademark valuation, for the purposes of s11(gA) of the Income Tax Act, would be R475 million and that it was to be written off over ten years commencing in 1999. The annual cash tax benefit was therefore R14,25 million.

Massmart has taken legal counsel and believes that it has strong grounds to oppose the withdrawal. Massmart and SARS remain in discussion on this matter.

Should the SARS decision be upheld then any tax payable will not impact earnings in the current or prior years. It will however impact interest foregone on additional cash tax payments made in 2004 and thereafter.

## Board changes

Pursuant to the sale of its 30,9% shareholding in Massmart on 21 January, SHV appointees Messrs Mavuso Msimang, Folkert Schukken and his alternate Derk Doijer resigned from the Board. We thank them all for their valued contribution, but in particular Mr Folkert Schukken who has served on the Board for eight years.

## Prospects

Massmart faced a number of environmental and internal challenges in the period from January to June 2003. Trading conditions and the state of the Group are far better a year later and there is every indication of a good second half.

Sales growth has continued to accelerate and margins have firmed in early 2004 with January's profits ahead of budget. The business is appropriately stocked and margins, costs and cash are in better control than at this time last year. In the absence of unforeseen circumstances, it is likely that the second half growth of EPS will compare with that of the first half.

For the 34 weeks to 22 February 2004 total sales grew 17,4%, sales before acquisitions grew 12,2% and comparable store sales grew 9,8%.

## Distribution and dividend policy

Massmart's dividend policy is to declare and pay an interim dividend representing a three times dividend cover but a total annual dividend of two and a half times cover, unless circumstances dictate otherwise.

In terms of the authority granted by shareholders in the annual general meeting, notice is hereby given that the company will distribute out of share premium, in lieu of dividends, an amount of 61,0 cents per share. This amount will be payable to the holders of ordinary shares recorded in the books of the company on 19 March 2004. The last date to trade "cum" the distribution will be 12 March 2004 and Massmart shares will trade "ex" the distribution from 15 March 2004. Payment of the distribution will be made on 23 March 2004. Share certificates may not be dematerialised or rematerialised between 15 March 2004 and 19 March 2004, both days inclusive.

In terms of the requirements of the Companies Act, the directors confirm that after the payment of the distribution, Massmart will be able to pay its debts as they become due in the ordinary course of the business, and its consolidated assets, fairly valued, will exceed its consolidated liabilities.

## On behalf of the Board

Mark J Lamberti  
Deputy Chairman and  
Chief Executive Officer

Guy Hayward  
Chief Financial Officer

25 February 2004

## Income statement

	6 months ended December 2003 (Reviewed) Rm	6 months ended December 2002 (Reviewed) Rm	% change	Year ended June 2003 (Audited) Rm
<b>Sales</b>	<b>12 254,7</b>	10 555,0	16,1	20 369,5
Massdiscounters	3 590,0	3 346,1	7,3	6 229,3
Masswarehouse	3 668,7	2 855,4	28,5	5 704,7
Masscash	3 280,3	2 951,2	11,2	5 740,1
Masstrade	1 715,7	1 402,3	22,3	2 695,4
Trading profit before interest	560,5	429,9	30,4	747,7
As a % of sales	4,6	4,1		3,7
Massdiscounters	229,5	213,4	7,5	297,4
Masswarehouse	157,0	87,3	79,8	160,1
Masscash (note 2)	122,5	91,2	34,3	208,8
Masstrade	51,5	38,0	35,5	81,4
Goodwill amortisation	(35,9)	(22,2)	61,7	(49,5)
Exceptional items	-	-	-	6,7
Net interest paid	(3,0)	(11,9)	74,8	(50,4)
Profit before tax	521,6	395,8	31,8	654,5
Taxation	(171,8)	(126,3)	(36,0)	(215,2)
Profit after tax	349,8	269,5	29,8	439,3
Minorities	(4,3)	(5,0)	14,0	(10,0)
Net profit for the period	345,5	264,5	30,6	429,3
<b>Reconciliation of net profit for the period to headline earnings</b>				
Net profit for the period	345,5	264,5		429,3
Exceptional items	-	-		2,3
Goodwill amortisation	35,9	22,2		48,9
(Profit)/loss on sale of fixed assets	(15,8)	0,5		(0,5)
Headline earnings	365,6	287,2	27,3	480,0
Headline EPS (cents)	183,5	145,4	26,2	242,4
Diluted headline EPS (cents)	176,6	141,8	24,5	235,6
Attributable EPS (cents)	173,5	133,9	29,6	216,8
Diluted attributable EPS (cents)	166,9	130,6	27,8	210,7
Distribution/dividend (cents):				
– Interim	61,0*	48,0*	27,1	48,0
– Final	-	-		49,0*
Ordinary shares (000's):				
– In issue	199 191	196 822		198 587
– Weighted-average	199 191	197 547		198 050
– Diluted weighted-average	207 068	202 556		203 763

\* Declared and paid after the accounting period

## Balance sheet

	December 2003 (Reviewed) Rm	December 2002 (Reviewed) Rm	June 2003 (Audited) Rm
<b>Assets</b>			
Property, plant and equipment	604,3	522,3	546,2
Goodwill	604,1	369,7	499,7
Investments and loans	240,2	260,8	277,8
Deferred tax	115,5	166,9	157,1
Inventories	2 753,2	2 909,7	2 236,7
Accounts receivable and prepayments	1 919,2	1 468,7	1 464,4
Cash and bank balances	1 433,7	924,2	612,1
Total	7 670,2	6 622,3	5 794,0
<b>Equity and liabilities</b>			
Shareholders' equity	1 899,0	1 574,9	1 666,1
Minority interests	27,4	17,5	22,4
Long-term liabilities – interest bearing	246,6	273,6	247,8
Other long-term liabilities and provisions	34,0	33,6	32,2
Deferred tax	29,5	8,3	25,7
Accounts payable and accruals	5 109,1	4 511,4	3 692,2
Bank overdraft and short-term borrowings	324,6	203,0	107,6
Total	7 670,2	6 622,3	5 794,0
Net asset value per share (cents)	953,4	800,2	839,0

## Cash flow statement

	6 months ended December 2003 (Reviewed) Rm	6 months ended December 2002 (Reviewed) Rm	Year ended June 2003 (Audited) Rm
Cash inflow from trading	596,9	472,1	848,9
Working capital movement	481,0	89,6	(63,6)
Cash flow from operations	<b>1 077,9</b>	561,7	785,3
Taxation paid	(93,4)	(42,6)	(77,5)
Net interest paid	(3,0)	(11,8)	(50,4)
Investment income	10,6	0,8	11,0
Dividends paid	(97,5)	(71,3)	(166,6)
Net replacement of fixed assets	(52,2)	(55,7)	(59,8)
Investment in fixed assets	(148,2)	(146,7)	(216,6)
Businesses acquired	(102,4)	–	(173,6)
Other investing activities	(15,5)	(20,2)	(59,0)
Net financing activities	37,7	37,3	30,8
Net share buyback	–	(17,3)	–
Foreign exchange losses taken to statement of changes in equity	(2,7)	(6,1)	(10,5)
Opening cash and cash equivalents	<b>563,4</b>	550,3	550,3
Closing cash and cash equivalents	<b>1 174,7</b>	778,4	563,4

## Statement of changes in equity

Opening balance	1 666,1	1 414,0	1 414,0
Prior year adjustment	–	(5,2)	(6,1)
Exchange differences	(2,7)	(6,1)	(10,5)
Dividends paid	(97,5)	(71,3)	(166,6)
Net profit for the period	345,5	264,5	429,3
Shares issued/converted	12,8	1,8	14,9
Reduction of deferred tax asset	–	(5,5)	(5,5)
Net share buyback	–	(17,3)	–
Share trust loss	(25,2)	–	(3,4)
Closing balance	<b>1 899,0</b>	1 574,9	1 666,1

## Additional information

Trading profit before items below:	625,9	481,5	855,5
– Depreciation	(65,4)	(51,6)	(107,8)
Trading profit before interest	<b>560,5</b>	429,9	747,7
Capital expenditure:			
– Authorised and committed	19,8	43,1	103,1
– Authorised not committed	132,8	25,3	47,5
Contingent liabilities	8,5	4,6	13,3
Operating lease commitments (2004 – 2013)	3 903,8	4 224,4	4 223,6
US dollar exchange rates – period end	6,86	8,76	7,55
– average	7,02	9,95	8,96

## Notes

1. Deducted from trading profit is R10,0 million (2002: R19,1 million) in net realised and unrealised foreign exchange translation losses and a translation loss on open forward exchange contracts at December 2003 of R7,6 million (2002: R6,6 million).
2. Included in the Masscash result is a profit on sale of land and buildings of R16,5 million. This amount is included with other net losses on sale of fixed assets which are excluded from headline earnings.
3. These financial statements have been prepared in accordance with AC127 (Interim Financial Reporting), using accounting policies which are in line with South African Statements of Generally Accepted Accounting Practice and on a basis consistent with prior periods, except for the consolidation of the Massmart Share Trust. The Trust has been consolidated in line with the ruling of the JSE's GAAP Monitoring Panel. Comparatives have been restated accordingly and there is no earnings impact.
4. Due to Christmas trading, Massmart's earnings are weighted towards the six months to December.
5. Share buyback – In terms of the authority granted by shareholders, Massmart acquired a total of 1 437 629 shares during the period under review, representing 0,7% of the shares now in issue. The shares were acquired at an average price of R24,51 for a consideration of R35,2 million by a wholly owned subsidiary of Massmart and were sold to the Massmart Share Trust during the year.
6. These results have been reviewed by Auditors, Deloitte, and their unqualified review opinion is available for inspection at the registered office.

**Directorate:** CS Seabrooke (Chairman), MJ Lamberti<sup>†</sup> (Chief Executive and Deputy Chairman), DG Barrett<sup>\*</sup>, MD Brand, ZL Combi, GRC Hayward<sup>†</sup>, W Kirsh, S Leggatt<sup>\*</sup>, IN Matthews, P Maw, DNM Mokhobo, MJ Rubin, <sup>†</sup>UK <sup>†</sup>Executive

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**Registered office:** Massmart House, 16 Peltier Drive, Sunninghill Ext 6, 2157, **Company secretary:** A Cimring **Auditors:** Deloitte

**For more information: [www.massmart.co.za](http://www.massmart.co.za)**