

**MASS** MART

**Dedicated to Value Retailing**

**Audited Annual Results**  
**to**  
**June 2002**

Presentation to Investors and Analysts – August 2002

# Agenda

- Environment
- Financial & Operating Highlights
- Integration of Jumbo, Browns and Weirs
- Integration of Furnex
- Massdiscounters
- Financial Performance
- Prospects
- A unique investment

ADDENDA – Additional structural & financial data

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# Environment

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# The South African Retail Market

- Small by world standards
- Dispersed
- Growing slowly
- Increasingly complex
- Poor retail differentiation
- Consolidating
- Formats converging
- Short of skills
- Strident shareholders
- Aggressive competitors

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# The South African Retail Market

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**Highly Competitive!**

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# The South African Retail Market

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**Consumer Confidence  
Better than 2000 !!**

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# The South African Retail Market

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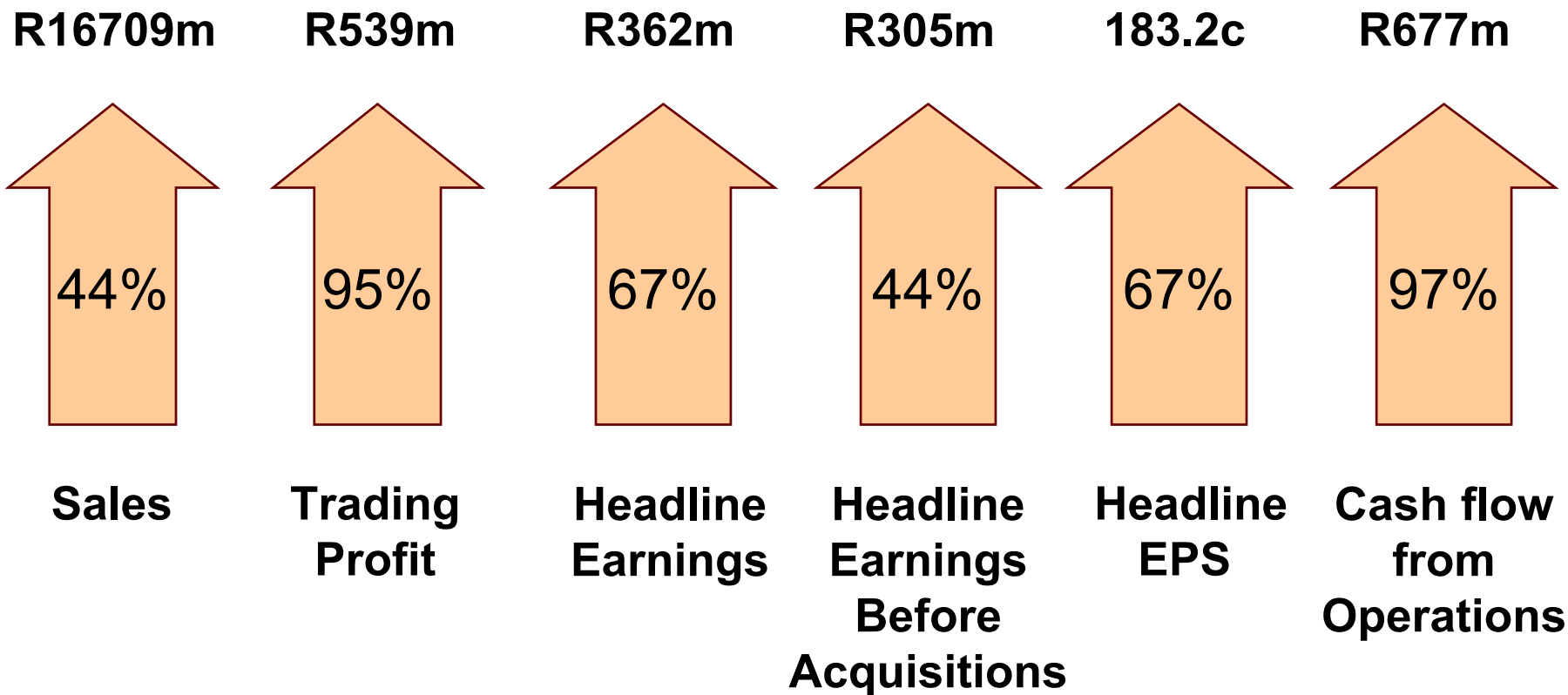
**Consumer Confidence  
7 Year High!!!**

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# Financial & Operating Highlights

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# Financial highlights



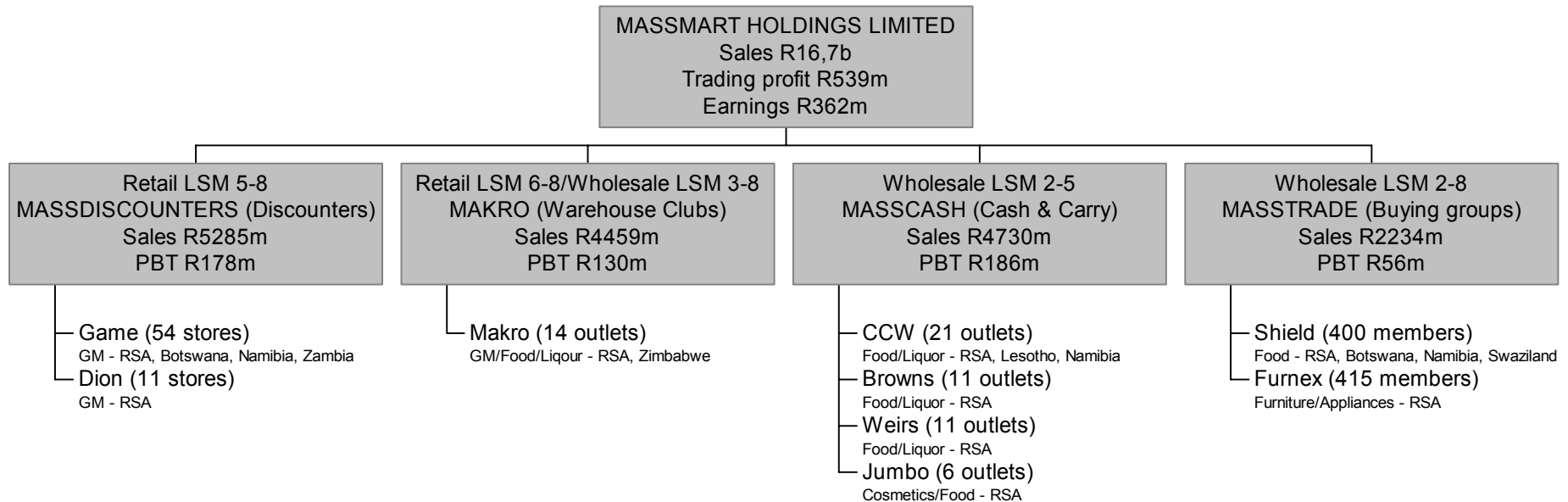
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# Operating highlights

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# Massmart Divisional Structure

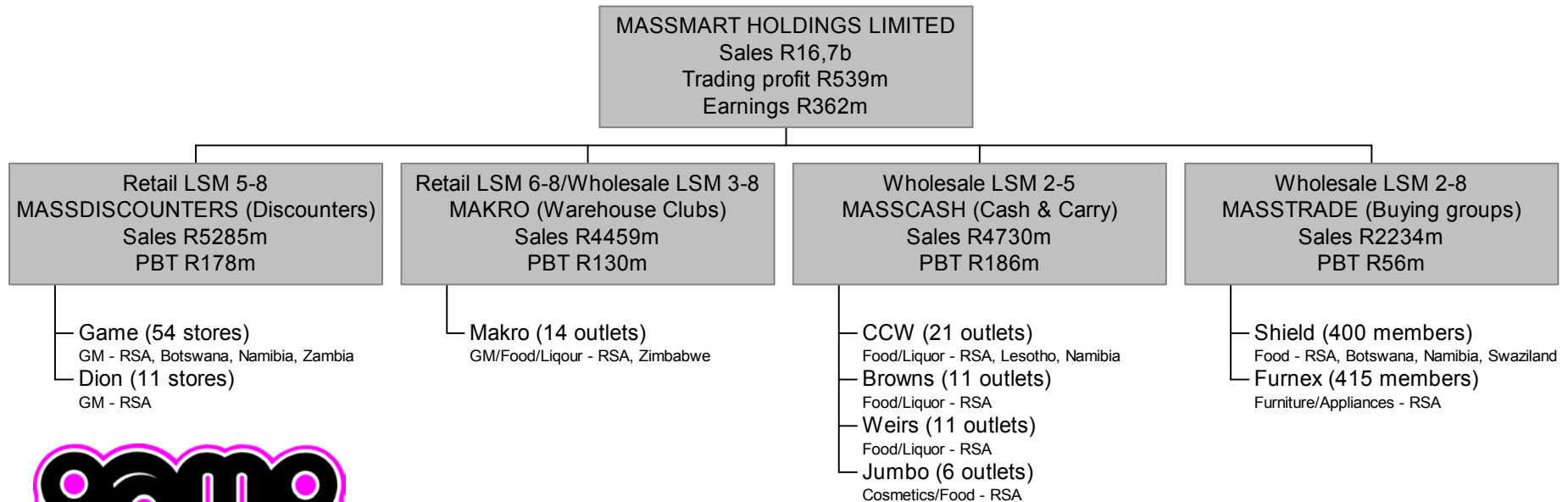
(Financials to June 2002)



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# Massmart Segmental Analysis

(Financials to June 2002)



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# Massmart Segmental Analysis

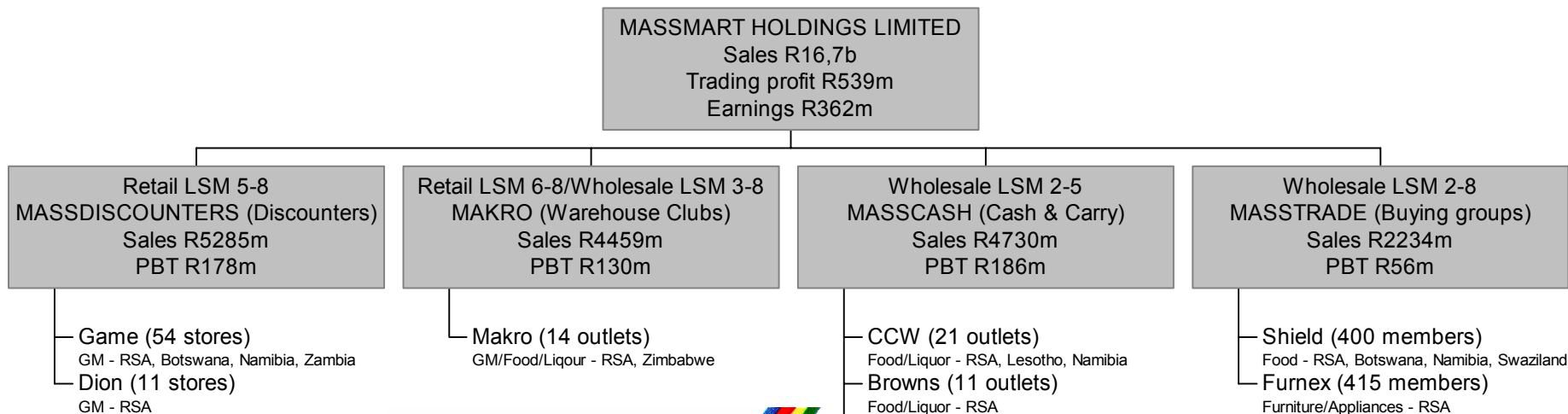
(Financials to June 2002)



**MASSMART**

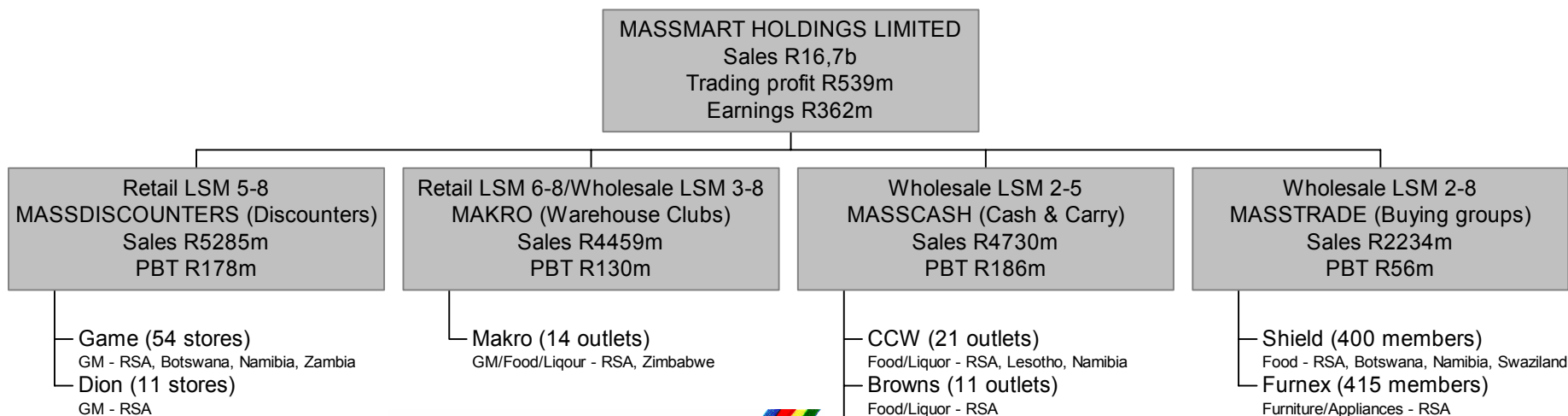
# Massmart Segmental Analysis

(Financials to June 2002)



# Massmart Segmental Analysis

(Financials to June 2002)



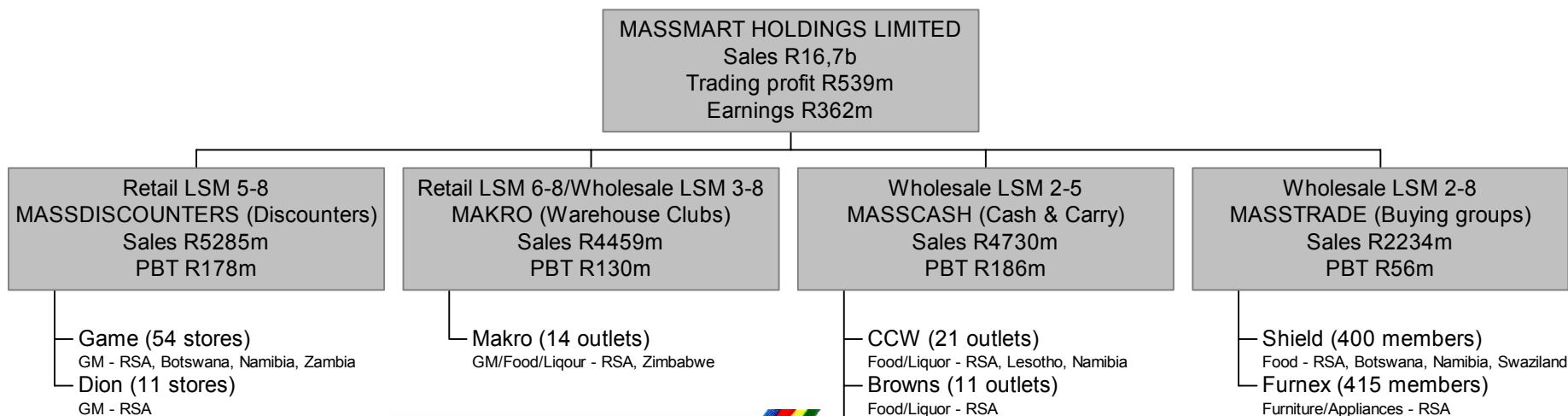
**CBW WHOLESALERS**



**MASSMART**

# Massmart Segmental Analysis

(Financials to June 2002)



**CBW WHOLESALERS**



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# Operating highlights

- All “old” businesses performed well
- Sales before acquisitions grew 23%
- “Old” comparable store sales grew 22%
- Operating profit before tax & acquisitions grew 61% to R445m
- Headline EPS before acquisitions up 44% to R305m
- Firmer margins demonstrate pricing power
- Integration speed & performance of acquisitions exceeded expectations
- Excellent progress with inter-chain collaboration
- Shield VAT fraud only blemish

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# Integration of Jumbo, Browns and Weirs

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# *Browns & Weirs* metrics

- Jumbo acquired effective March 2001, Browns and Weirs acquired July 2001.
- Assumed management control 21 September 2001
- Purchase price R483m
- Sales for 12 months to June R2.6b
- Pre-tax profits for 12 months to June R117m
- Transaction financing costs R45m



- Objectives & Progress

1. *Grow/maintain profitability* – Sales & profit ahead of expectations
  2. *Understand business* – Account for & analyse productivity, mix & profitability by branch, category, supplier & promotion
  3. *Evaluate management* – Solid committed entrepreneurs, very responsive to Massmarts direction. Board & Exec. functioning well. 8 senior appointments. Reporting to Dan Barrett from 12/08
  4. *Define growth strategy* – Completed apart from new store development plan
  5. *Exploit synergies* – Synergy gains 2003 invested in gross margin
- Confident of profit prospects & growth (synergies with CBW)

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# ***Browns & Weirs***

- Acquired
  - 22 Browns and Weirs cash and carry stores in Eastern Cape and KwaZulu Natal
  - all staff and assets related to these stores
  - demotivated management and staff - eager to be part of Massmart Vision
- Did not acquire Head Office and 20 unprofitable stores
- Merged with CCW to form CBW
- CBW and Jumbo constitute Masscash

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# ***Browns & Weirs***

- CCW profit share model applied to Browns & Weirs
- Assets sold into CCW resulting in Massmart share rising to 92%
- Management structured to manage larger Group
- Stock ranges rationalised
- Appointed key executive management ex Browns & Weirs
- Other assets and leases restructured
- Acquired minorities in 3 stores
- One IT system being developed

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# CBW WHOLESALERS

- Stores 43 (2001 : 20)
- One motivated Management team
- Robin Wright as Managing Director
- Fully integrated except IT
- Delighted with strategic, financial and operating benefits of acquisition

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# Integration of Furnex

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The logo for Furnex features a large, stylized blue letter 'F' with a red arrow-like shape pointing to the right, integrated into its top bar. Below the 'F', the letters 'U R N E X' are written in a blue, serif font, spaced out. To the right of 'FURNEX', the word 'metrics' is written in a red, lowercase, sans-serif font. A thin red curved line underlines the 'FURNEX' text.

# FURNEX metrics

- Assets and management of Furnex excluding consumer debtors book acquired effective January 2002.
- Assumed management control 8 May 2002
- Purchase price R45m
- Sales for 6 months to June R297m
- Pre-tax profits for 6 months to June R9m
- Transaction financing costs R3m

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- Voluntary buying organisation assisting 415 independent retailers of appliances, home electronics & furniture in Southern Africa with procurement & limited retail services
- Proven management team led by David Brouze
- Builds on Massmart's market presence in appliances, home electronics & extends Massmart's product (furniture), geographic (peri-urban) & customer (LSM 5-8) reach.

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- Merged with Shield to form Masstrade
- Same business model as Shield – different suppliers and members
- Finance, debtors, creditors, IT, HR systems in process of being integrated
- One head office
- Board, executive committee and management structure in place to manage larger group led by Ingo Meyer

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# Masstrade Now (Shield only 2002)

- Outlets 940 (2001 : 515)
- Finance, Creditors, Debtors, HR integrated by December, IT/Systems/Processes by June 2003
- Significant synergies will be realised in F2003
- Masstrade Vision and Strategy in place:  
Trading Hub for other potential trading groupings

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# Massdiscounters

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- Sales Growth 26%, PBIT 83%, PBT 111%
- New Executive Team
  - Balance of experience and new ideas
- Implementation of a new Strategy
  - Focus on the basics of “discounting”
  - Create a platform to leveraging our market leadership position

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- Focus on the basics of “discounting”
  - Aggressive promotions (including FACT show)
  - Increase in-stock levels
  - Clear old stock
  - Clean up Game Brand Message
  - Leverage Gauteng focussed Dion Brand
  - “Tune” up Africa

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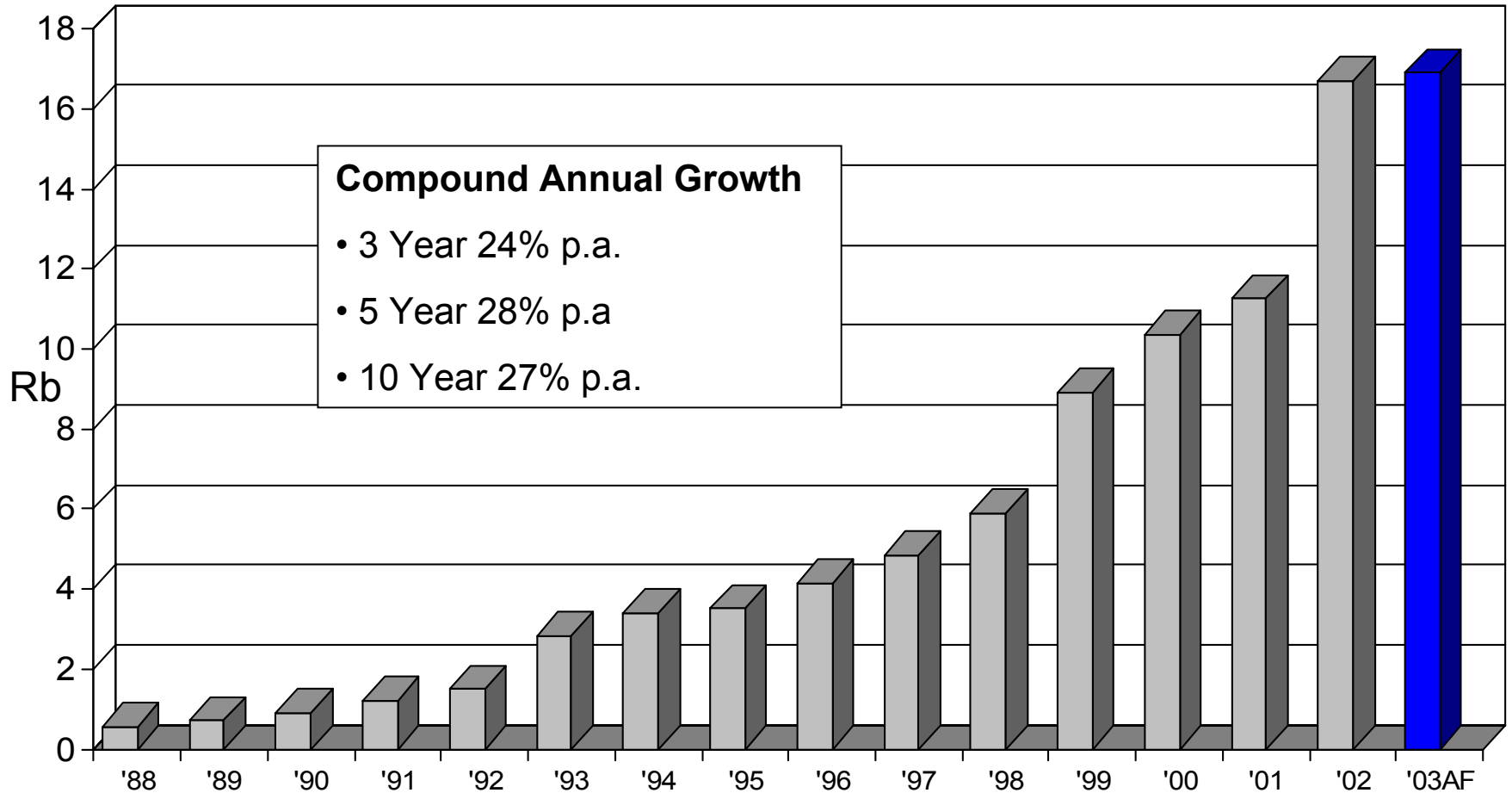
- Create a platform to leverage our market leadership position
  - Customer research at the category level
  - Business process re-engineering (in-stock levels, working capital, and markdown costs)
  - Decision making methodologies and systems
  - Supply chain re-engineering
  - Good progress in Africa preparation

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# Financial Performance

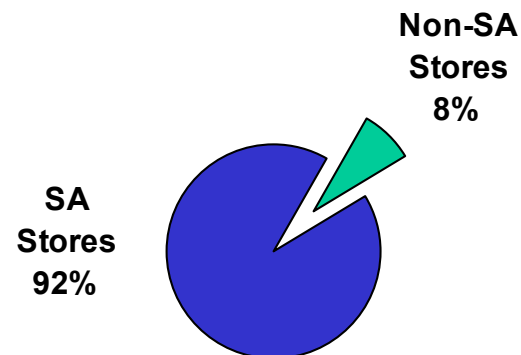
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# Sales growth



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# Sales



(Rm's)	<u>2002</u>	<u>2001</u>	<u>% Chg</u>	<u>Comparable % Chg</u>
MDD	5 285	4 184	26.3	26.9
Makro	4 460	3 903	14.3	16.3
Masscash	4 730	1 785	165.1	29.5
Masstrade	<u>2 234</u>	<u>1 697</u>	31.7	14.1
Total	<u>16 709</u>	<u>11 568</u>	44.4	21.6

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# Sales Growth Analysis

	<u>%</u>
Existing stores	19.3
53 <sup>rd</sup> week	<u>2.3</u>
Comparable Growth (incl 53 <sup>rd</sup> week)	21.6
New stores	1.0
Acquisitions	<u>21.5</u>
Total sales growth	<u>44.4</u>

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# Store Portfolio

	<u>Makro</u>	<u>MDD</u>	<u>Jumbo</u>	<u>CCW</u>	<u>Total</u>
July '01	*11	66	6	22	105
Openings	**1				1
Acquisitions				22	24
Closures		(1)		(1)	(2)
June '02	12	65	6	43	126

\*Excludes two Makro Zimbabwe stores

\*\*Makro Woodmead re-opened October 2001

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# Acquisitions

	<u>Sales</u>	<u>PBT</u>	<u>*Net PBT</u>
Jumbo, B&Ws (12 months)	R2,6bn	R117m	R72m
Furnex (6 months)	R297m	R9m	R6m

\*PBT after Interest on Financing Costs

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# Inflation

- Two *possible* financial impacts:
  - Increase in Rand sales and Rand profit if price increase higher than volume decrease
  - One-off gross margin (%) improvement from pre-increase buy-ins (or stock on hand)
- Group inflation estimates:
  - General Merchandise: 6,3%
  - Food: 8,8%
  - Liquor: 10,8%
- Estimated positive PBT impact approximately R20m

# 53<sup>rd</sup> Week Impact

- Sales impact: additional 2,3% growth
- Limited PBT impact:
  - Massmart operates on the *retail calendar*
  - In each prior year one day's expenses deferred
  - Cumulative deferred expenses (6 days) released in 53<sup>rd</sup> week to contra additional net margin in that week

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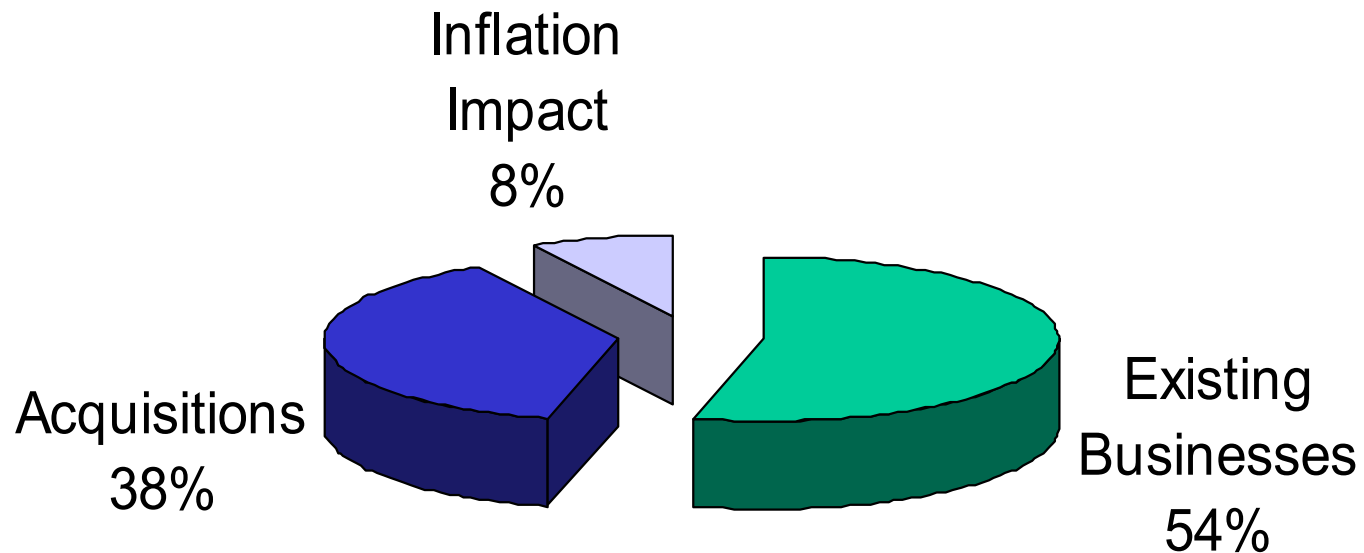
# Divisional PBIT

(Rm's)	<u>Year to June</u>		
	<u>2002</u>	<u>2001</u>	<u>%</u>
MDD	209,4	114,3	83,2
Makro	109,8	70,7	55,3
Masscash	167,2	54,9	204,6
Masstrade	<u>52,4</u>	<u>37,1</u>	41,2
Total	<u>538,8</u>	<u>277,0</u>	94,5

PBIT = Profit before Interest & Tax

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# PBIT Growth



Showing the contribution to Massmart's 94,5% growth in PBIT

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# Divisional PBT

(Rm's)	<u>Year to June</u>		
	<u>2002</u>	<u>2001</u>	<u>%</u>
MDD	178,0	84,4	110,9
Makro	130,0	98,4	32,1
Masscash	185,6	62,8	195,5
Masstrade	<u>56,2</u>	<u>46,3</u>	21,4
Total	<u>549,8</u>	<u>291,9</u>	88,4

PBT = Profit before Tax

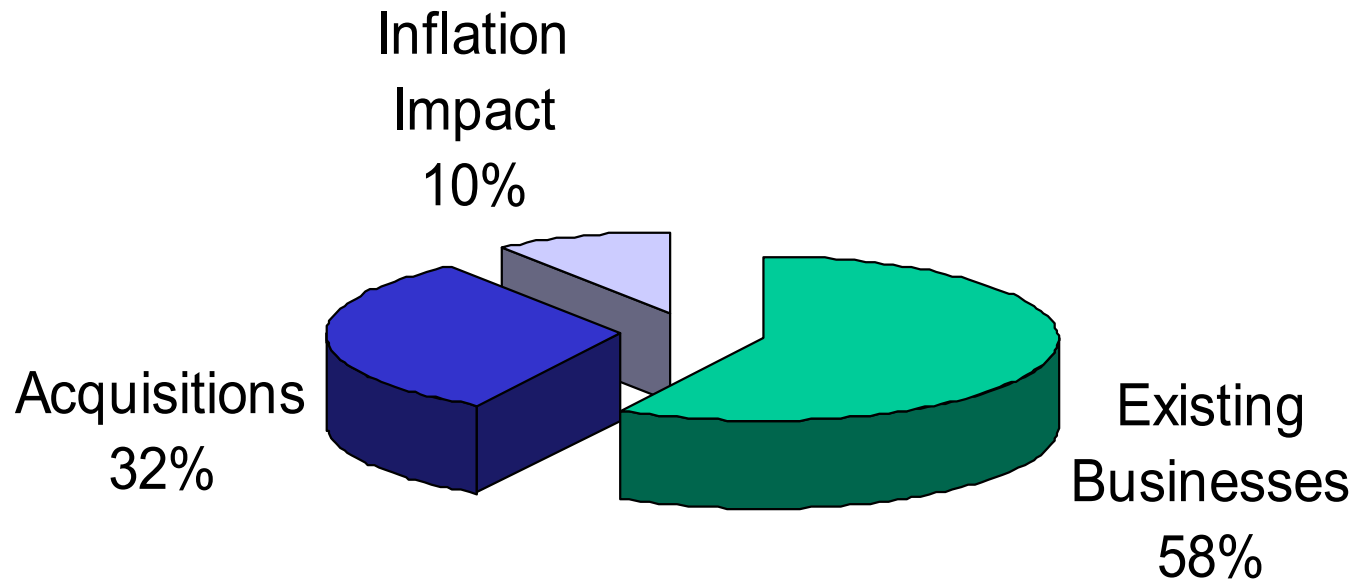
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# Targeted PBT ROS

	Target	June 2002	June 2001	June 2000
Massdiscounters	5.0	3.36	2.02	2.52
Makro	4.0	2.91	2.52	2.26
Masscash	3.5	3.92	2.67	3.10
Masstrade	3.0	2.51	2.73	2.78
Group (on June sales mix)	4.04	3.30	2.50	2.00

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# Headline Earnings Growth



Showing the contribution to Massmart's 67,4% growth in headline earnings

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# Working Capital

	June 2002	June 2001		
	<u>Rms</u>	<u>Days</u>	<u>Rms</u>	<u>Days</u>
Stock <sup>(1)</sup>	1 982	59	1 556	70
Trade Creditors <sup>(1)</sup>	2 664	65	2 150	74
HP Debtors <sup>(2)</sup>	181	185	186	228

1. Days calculated using historic sales and cost of sales.

2. Massdiscounters' HP and Revolving Credit debtors book.

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# Cash Flow (slide 1 of 2)

(Rm's)	<u>June '02</u>	<u>June '01</u>	<u>%</u>
From Operations	638	336	90
Working Capital	<u>39</u>	<u>9</u>	33
	677	345	96
Interest + Taxation	(104)	(34)	
Insurance Proceeds	31	-	
Fixed Asset Replacement	<u>(68)</u>	<u>(88)</u>	
Free Cash Flow	<u>536</u>	<u>223</u>	140

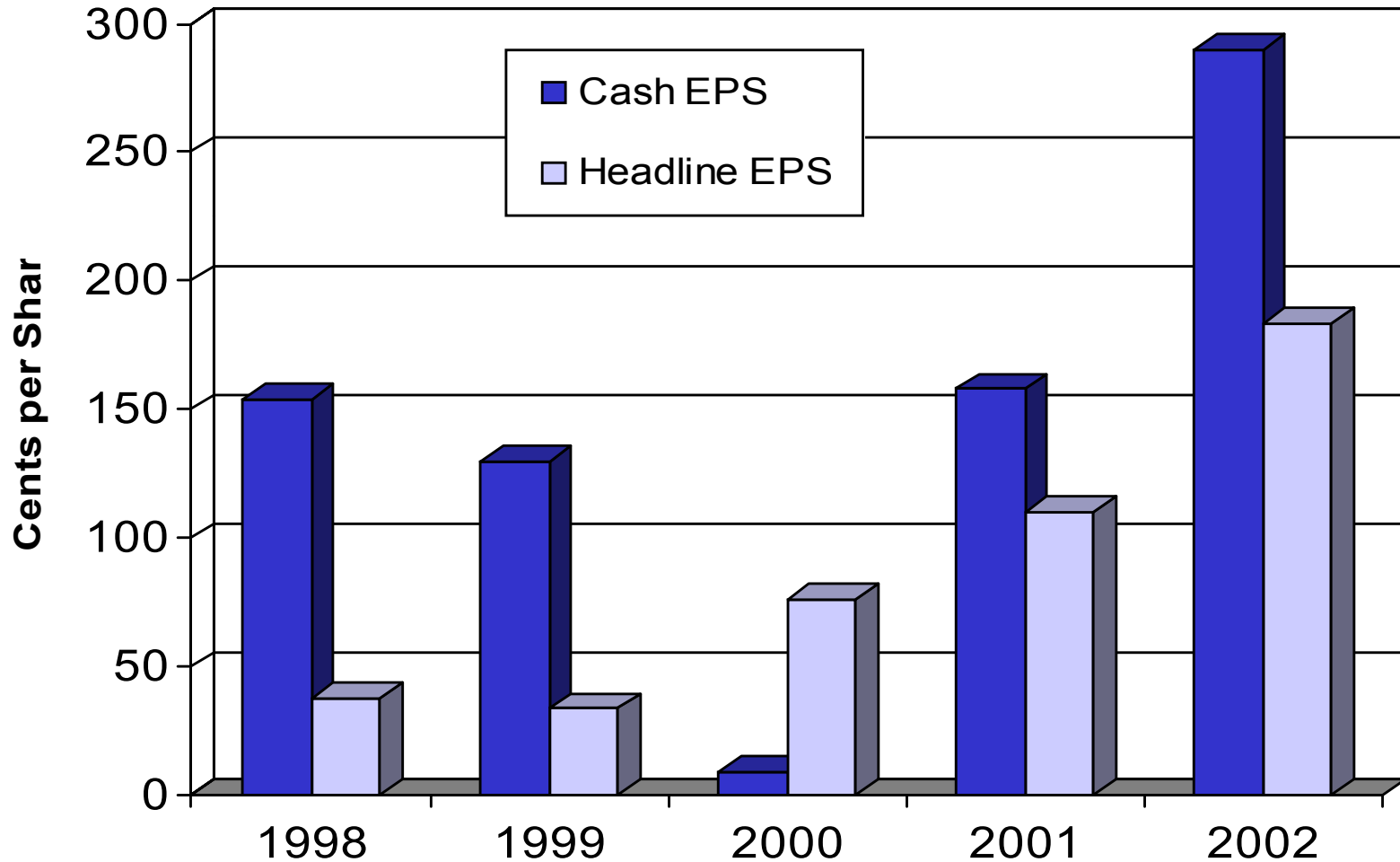
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# Cash Flow (slide 2 of 2)

(Rm's)	<u>June '02</u>	<u>June '01</u>	<u>%</u>
Free Cash Flow	536	223	140
Fixed Asset Investment	(73)	(32)	128
Investment in Businesses	(45)	(495)	
Dividend	(91)	(48)	
Jumbo Consideration	(502)	502	
Proceeds from Share Issue	7	475	
Net Loan Funding	<u>220</u>	<u>(43)</u>	
Net Cash Flow	<u>52</u>	<u>582</u>	

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# Cash Characteristics



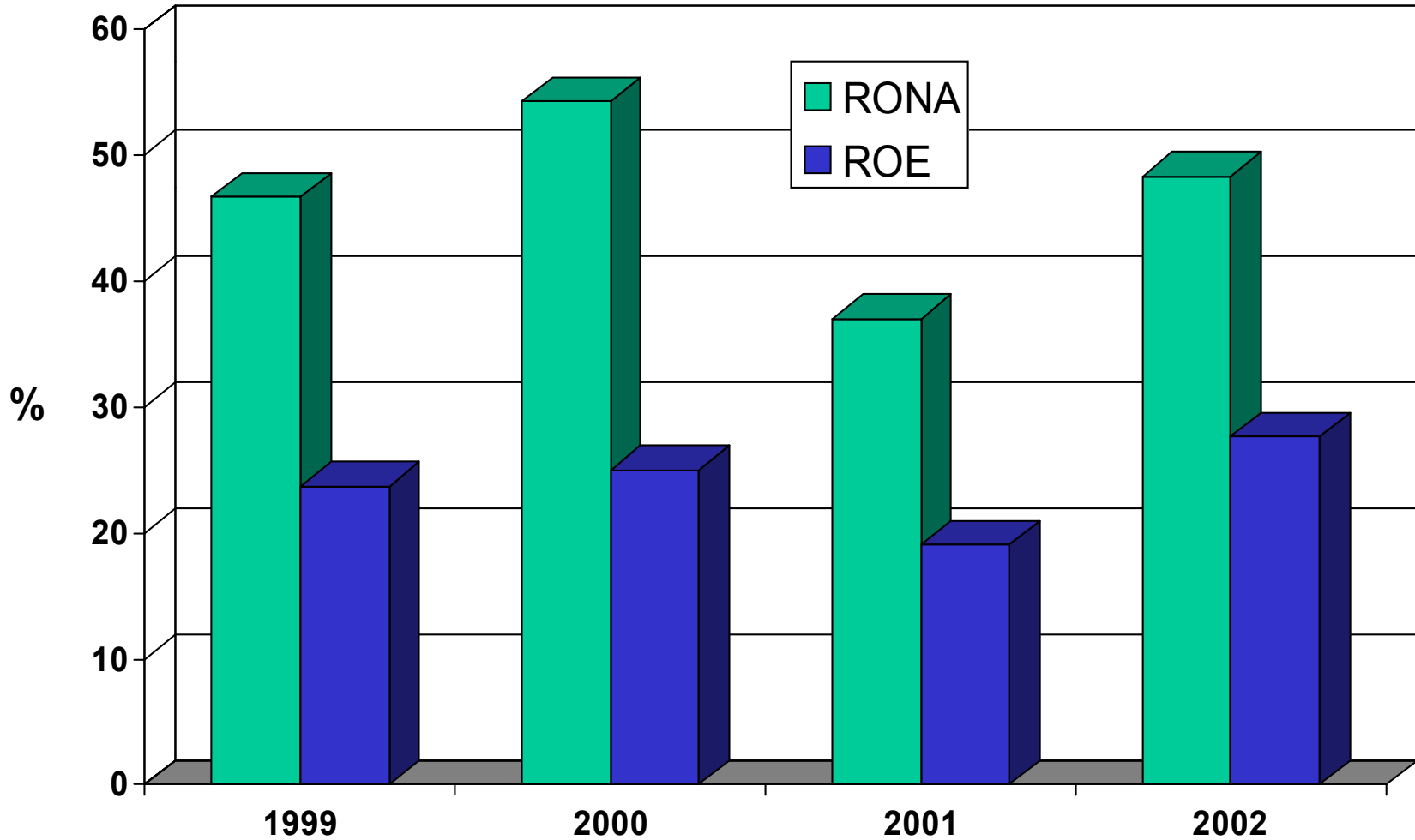
Cash EPS = Cash from Trading, less working capital, less net interest and tax paid ('99 and '00 adding back convertible debenture interest)

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# Gearing

- Average interest-bearing debt R210m
  - Primarily R300m 5-year loan. Repayable in 10 equal instalments
- Average shareholders equity R1,3bn
- Currently, conservative gearing of 16%
- Maximum target gearing of 25%

# Returns



RONA - EBIT / Average Net Assets

ROE - Headline Earnings / Average Shareholders Equity (ignoring previous goodwill & trademark write-offs)

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# Lease Commitments

	<u>Rm's</u>
Next year	365
Years 2 – 5	1 652
After year 5	<u>2 723</u>
Total	<u>4 740</u>

Included above is R1 529m in long-term Makro leases with a discounted present value of R538m.

Lease charges on land & buildings to June '02 of R304m represent 1,82% of sales.

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# Prospects

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# Prospects

- Cautiously optimistic about economy
- Elated about new phase of Massmart's development
  - Innovative growth & higher profitability
  - Greater expertise in strategy, marketing, retail, technology, logistics, measurement, accounting, executive development & governance
  - Demand improved individual and collective performance
  - Generational transition
- Vision for Growth – Sales R30b Operating profit >R1b by 2005
- On line to achieve real growth of EPS at forefront of sector unless economy deteriorates

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# A Unique Investment

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# Unique investment

- Massmart offers diversification:
  - Customers – LSM 4-8
  - Geography – Seven (soon nine) African countries
  - Merchandise – Leadership in 7 categories, defensive food profile
  - Four routes to market
- Massmart offers top line growth:
  - Proven record of organic (137000 sqm) & acquisitive (9 acquisitions) growth
  - Proven record of sales growth from existing space
  - New stores in South Africa planned for Makro, CCW & Jumbo
  - New stores in Africa for Game & Jumbo
  - Acquisition opportunities constantly under review

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# Unique investment (cont.)

- Massmart offers bottom line growth:
  - Improving operating practices and cost reduction
  - Collaborative “Forum” activity
  - Growing nett margins
- At relatively low risk:
  - Four business models
  - High cash flows and stock turns of food and the margins of general merchandise
  - High cash generation
  - High cash dividend growth
  - Retail credit only 2% of total sales
  - Conservative accounting
- Strategic & structural clarity
- Management quality & depth

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**Dedicated to Value Retailing**

**Dedicated to Shareholder Value**

[www.massmart.co.za](http://www.massmart.co.za)

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**Dedicated to Value Retailing**

**Additional Structural & Financial  
Data**

# *Major mass marketer*

(2001/02 turnover, Rb)



- Massmart ranked fourth in total sales on JSE Retail Sector

Source: Company reports / Bloomberg Estimates / Massmart Estimates

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(2001/02 turnover, Rb)



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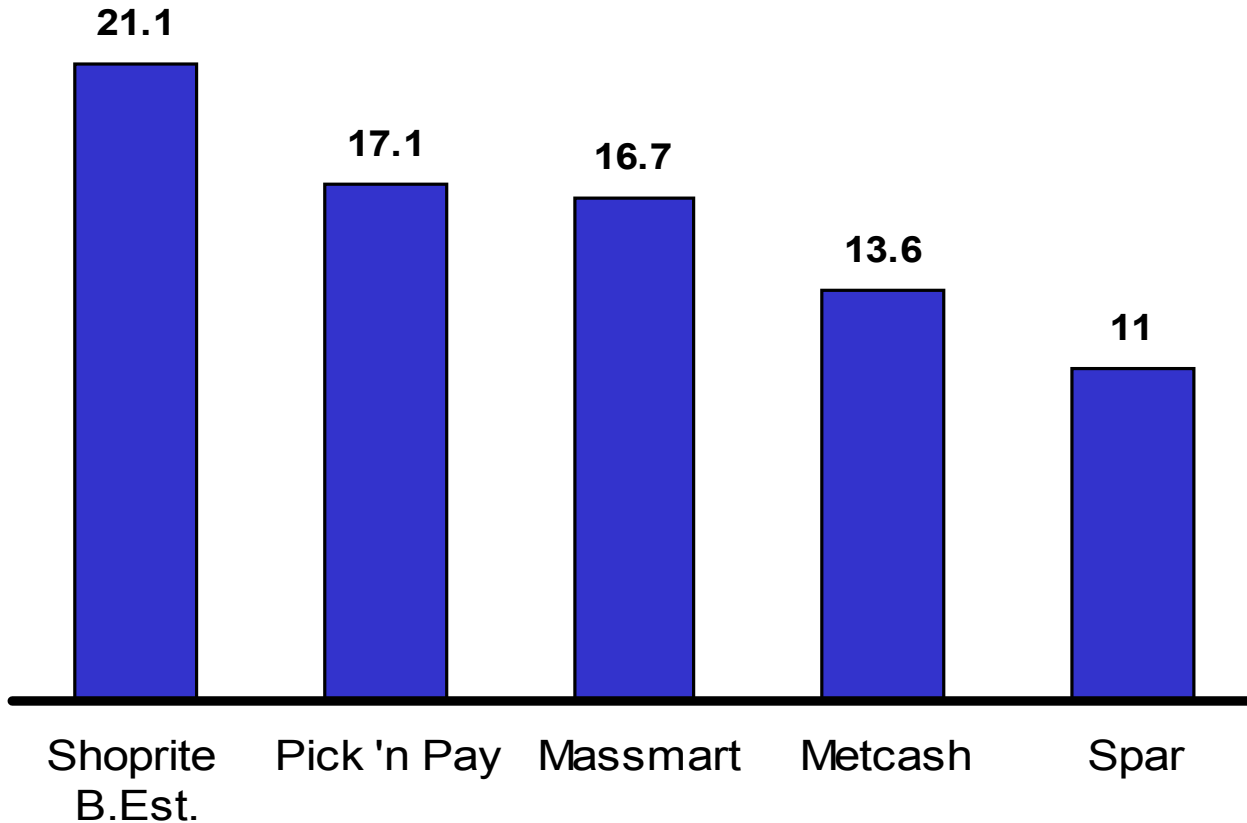
- Massmart largest mass distributor without a corporate jet

Source: Company reports / Bloomberg Estimates / Massmart Estimates

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# *Major mass marketer*

(2001/02 turnover, Rb)



Massmart in Africa:

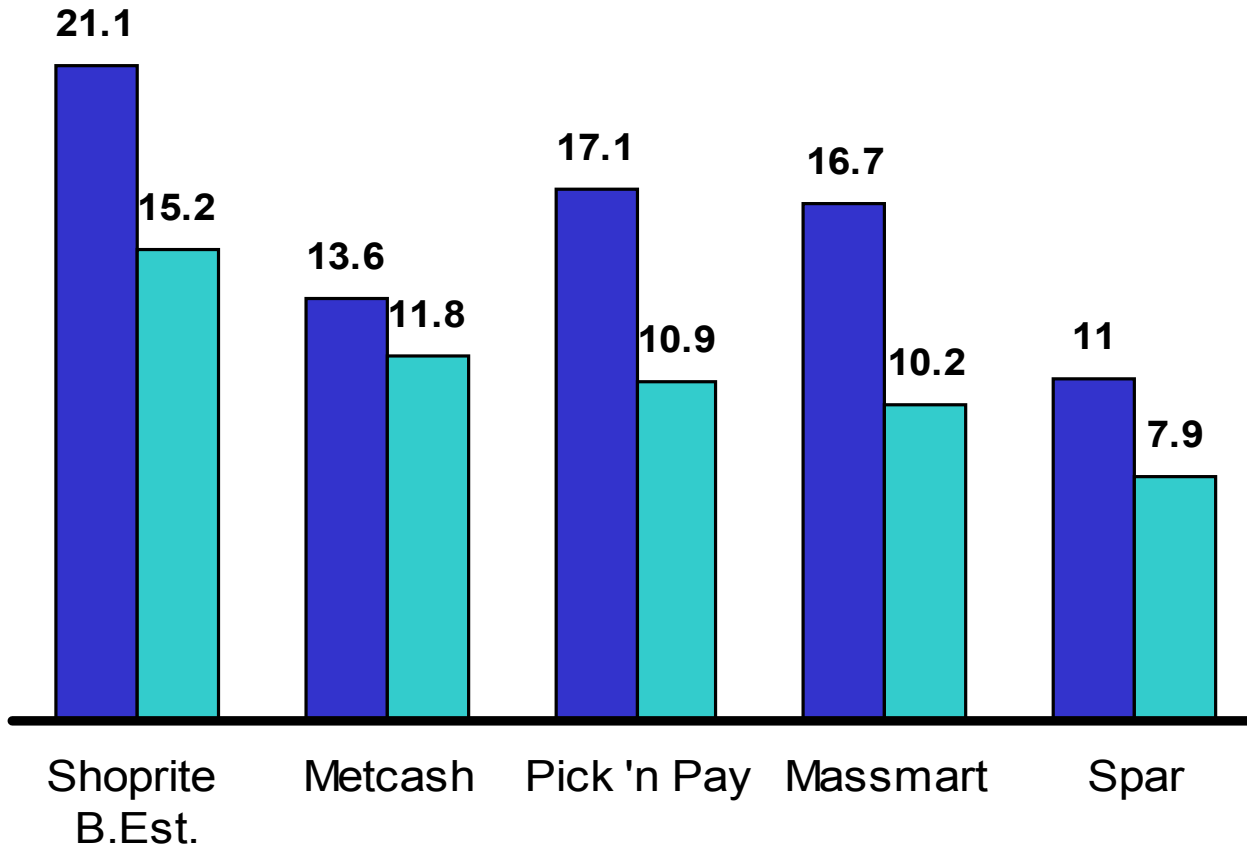
- Ranked third in total sales
- Ranked first in Gen. Merchandise
- Ranked first in Liquor

Source: Company reports / Bloomberg Estimates / Massmart Estimates

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# Major mass marketer

(2001/02 turnover, Rb)



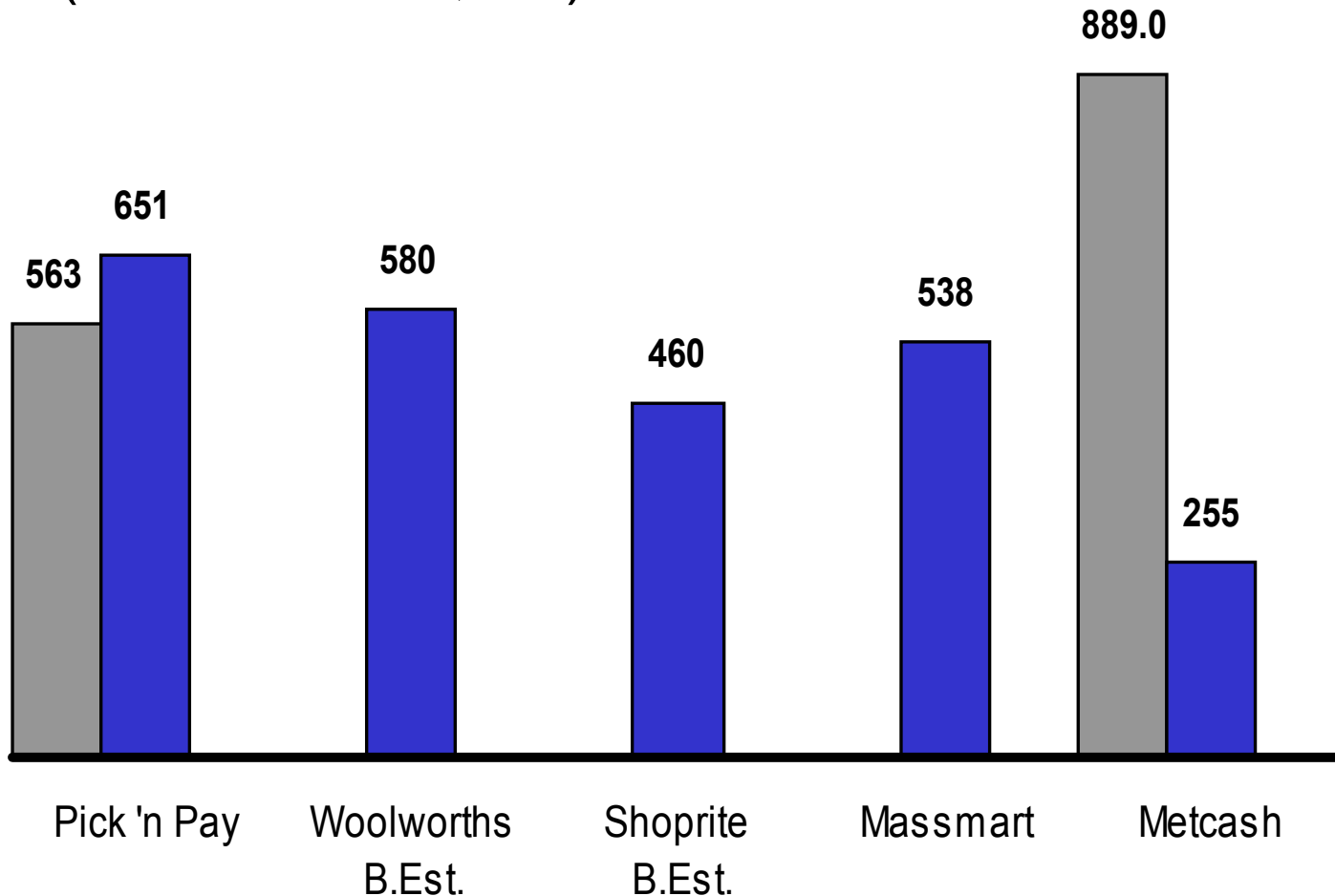
- Massmart ranked fourth in FMCG plus liquor in Africa

Source: Company reports / Bloomberg Estimates / Massmart Estimates

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# Major regional mass marketer

(2001/02 EBIT, Rb)



- Massmart estimated to rank fourth in EBIT in Africa

Source: Company reports/Bloomberg Estimates

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# Four major divisions

(Group Sales – June 2002)

## MASSDISCOUNTERS

65 retail discount stores



R5.29b

## MAKRO



14 warehouse club outlets

R4.46b

R2.23b

## MASSTRADE

voluntary buying association

815 independent traders



R4.73b

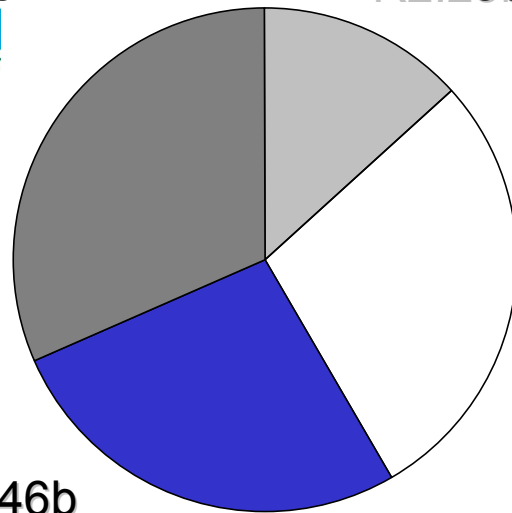
## MASSCASH

49 cash & carry stores



Weirs Browns

# MASSMART



# Four major profit contributors

(Segmental Profit Before Tax – June 2001)

## MASSDISCOUNTERS

65 retail discount stores



R178.0m

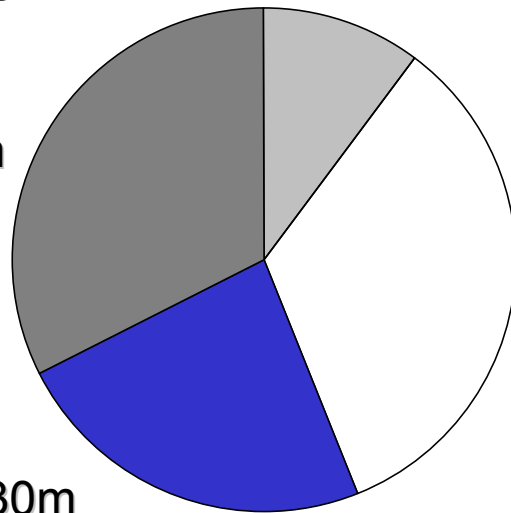
## MAKRO



14 warehouse club outlets

R130m

R56.2m



## MASSTRIDE

voluntary buying association

815 independent traders



R185.6m

## MASSCASH

49 cash & carry stores

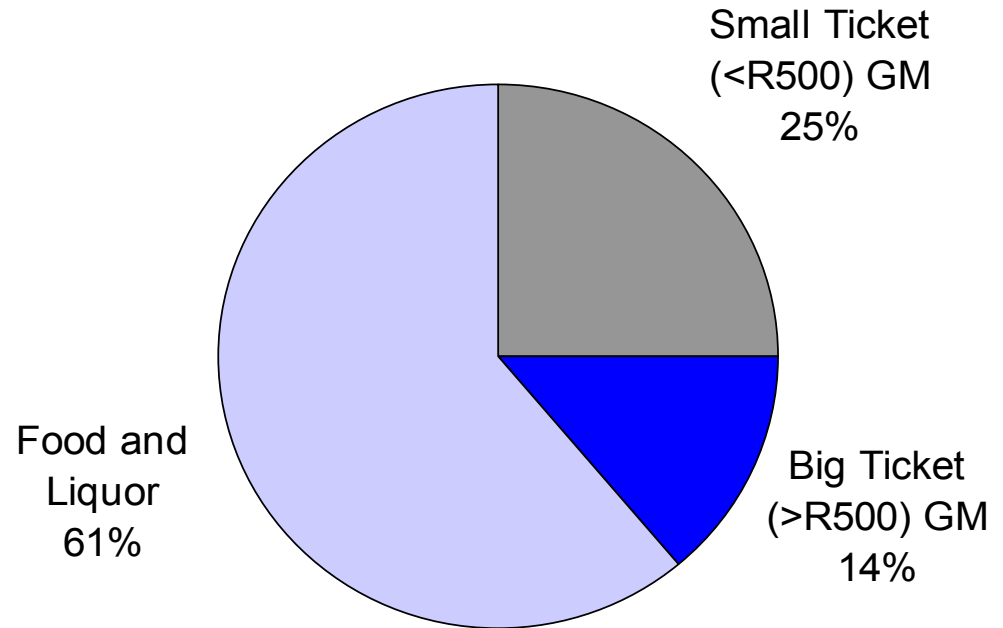


Weirs Browns

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# *Leadership & competence in seven major product categories*

- Food
- Appliances
- Office
- Liquor
- Sports/Outdoor
- DIY
- Hi Tech

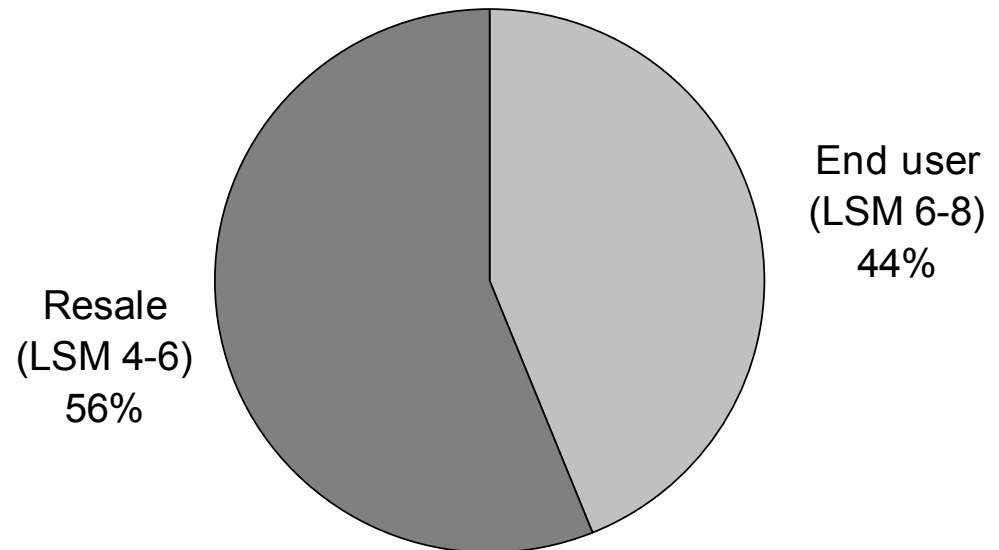


(2002 sales > R800m)

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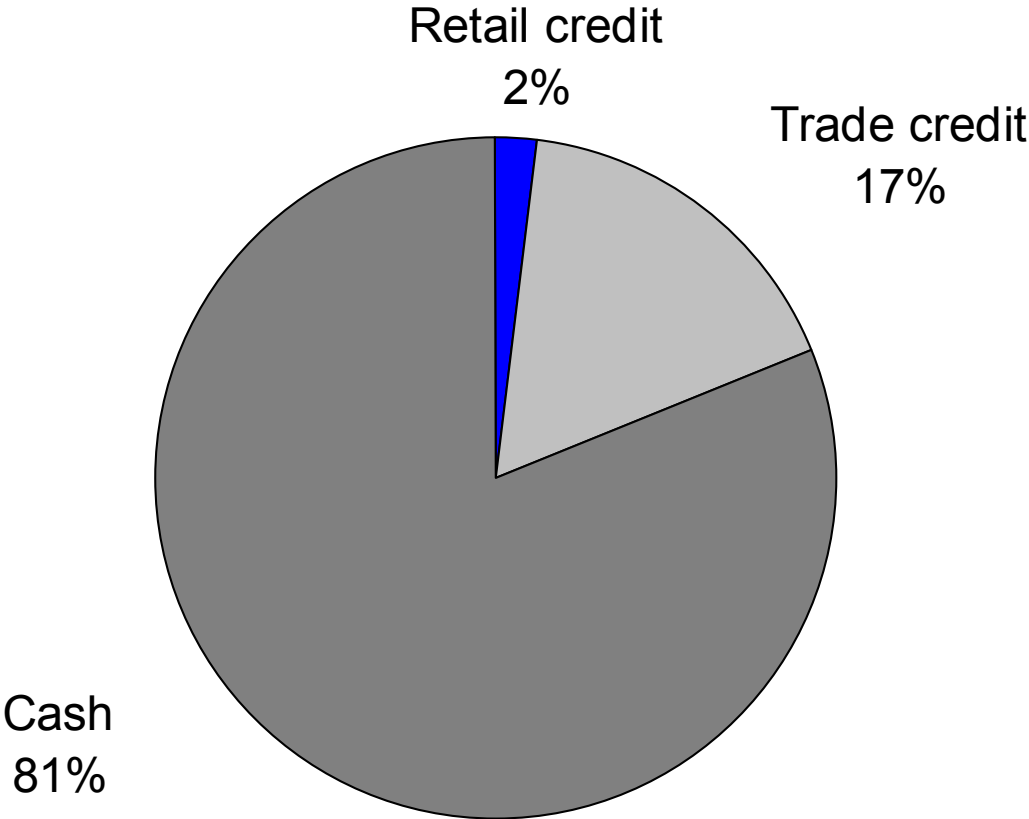
# *Broad segmental & regional reach*

- South Africa (Exceptional national footprint)
- Lesotho
- Swaziland
- Botswana
- Namibia
- Zimbabwe
- Zambia
- Mauritius
- *Mozambique*
- *Angola*
- *Kenya*
- *Uganda*
- *Tanzania*
- *Nigeria*



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# *Positive cash characteristics & flow*



# *Management quality & depth*

## Leadership

- Top 40: young (43), educated (69 degrees), retail/wholesale experience (18 yrs.)
- Excellent mix of business experience, retail skills and academic qualifications
- Determination to bring science to retail/wholesale

Ranked 19 of 82 in  
Deloitte's 2001 "Best  
Company to Work For"

## Entrepreneurship

- Empowered to trade
- Encouraged to innovate
- Incentivised to perform
- "We act like owners because we are"

Ranked 4 of 33 in UCT  
Business School 2000  
Entrepreneurship Index

## Affirmative action

- 39% management black, 37% female

Institute of Marketing  
Management 2001  
Role of Honour

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# *Stable workforce*

Description	FTE's	Permanent Heads	Union Members	as % of Permanents
Massdiscounters	8 129	5 043	2 588	51%
Makro	2 378	2 300	1 357	59%
Masscash	2 672	2 456	858	35%
Masstrade	293	341	49	14%
Corporate	98	101	0	0%
<b>Massmart</b>	<b>13 570</b>	<b>10 241</b>	<b>4 852</b>	<b>47%</b>

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# Analysis of Exceptional Items

(Rm)	<u>Gross</u>	<u>Tax &amp; Minorities</u>	<u>Net</u>	<u>Headline?</u>
Bad Debt (Shield VAT)	-15,9	4,8	-11,1	Yes
Net Insurance Proceeds	35,1	-8,7	26,4	No
Net Loss on Investments *	-7,8	-	-7,8	No
Net Investment Impairment **	<u>-6,2</u>	<u>-</u>	<u>-6,2</u>	No
Total	<u>5,2</u>	<u>-3,9</u>	<u>1,3</u>	

\* Includes Sip 'n Save, NetActive & TRVC

\*\* Includes Affinity Logic write-down

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# Headline Earnings

	<u>Rm's</u>
Attributable earnings	321,7
Insurance recoveries (a/tax)	-26,5
Restraint of Trade payments	7,9
Goodwill	39,2
Loss on fixed asset disposals	5,3
Net loss on investment disposals	6,9
Affinity Logic impairment	<u>7,1</u>
Headline earnings	<u>361,6</u>

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# Tax Rate Reconciliation

(%)	<u>Total</u>	<u>Headline</u>
Standard rate	<u>30,0</u>	<u>30,0</u>
Exempt income	-2,6	-1,7
Disallowables	4,7	1,3
Assessed losses	-0,7	-0,7
Withholding taxes	0,1	0,1
Adjustments to prior year	0,3	0,3
STC	1,5	1,4
Other	<u>0,3</u>	<u>0,3</u>
Effective Massmart rate	<u>33,6</u>	<u>31,0</u>

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# Number of Shares

(000's)

At 1 July 2001	197 077
New issue	<u>747</u>
At 30 June 2002	<u>197 824</u>
Weighted-average for period	<u>197 339</u>
Fully-diluted weighted average	<u>198 793</u>

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# Targets

Group Annual ROS > 4,0%

Int-bearing Debt : Equity < 25%

Return on Capital Employed > 35%

Return on Equity > 25%

(ROCE = EBITA / Average capital employed, excluding goodwill and deferred tax assets)

(ROE = Headline Earnings / Average shareholders equity)

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