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Dedicated to Value

# Reviewed Results

for the 26 weeks to 26th December 2004

Presentation to Investors, Analysts and Media – February 2005

# Agenda

- Financial & Operating Highlights
- Environment
- Operating & Financial Performance
- “Vision for Growth 2007”
- Prospects

ADDENDA – Additional data

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# Financial & Operating Highlights

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# Financial highlights

| | | | | |
|---|---|---|---|---|
| R13 929m | | R620m | R443m | R427m |
| 14% | 8% | 14% | 21% | 18% |
| Sales | Comparable Sales | Trading Profit | Headline Earnings | Headline Earnings Before Acquisitions |

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# Financial highlights

| 223.1 c | R1152m | 4.4% | 36.2% | 111cps |
|---|---|---|---|---|
| 22% | 7% | No Change | 12% | 82% |
| **Headline EPS** | **Cash flow from Operations** | **Return on Sales** | **Return on Equity** | **Dividend** |

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# Operating Highlights

- Record first half sales and profits
- Real comparable store and member growth of 10.5% (deflation of 2.3%)
- Record 4.45% pre interest operating profit margins
- Stable 4.42% post interest operating profit margins
- Store network increased to 168 stores with the acquisition or opening of 11 stores with estimated annual sales of R1.3b

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# Operating Highlights (cont.)

- Exceptional performance from Massdiscounters
- Two new Makro stores (relocation/replacement) exceeded sales expectations
- High comparable & new store growth from Builders Warehouse & Tile Warehouse
- Deflation undermined Masscash sales and profits
- Clarity on Masstrade systems & accounting (audited)

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# Environment

# Environment

- Two markets
- LSM 5 – 10+
  - Expanding consumer market (structural)
  - Affected by inflation, interest rates, exchange rates & confidence (cyclical)
  - Utilising credit
  - 54% of Massmart sales (mainly retail) & 77% profits
- LSM 1 – 4
  - Cautious, unemployed
  - Supply chain challenged by low/negative inflation
  - 46% of Massmart sales (wholesale) & 23% profits

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# Environment

| | D '03 | D '04 |
|---|---|---|
| Rand/$ | 6.69 | 5.67 |
| PPI Import % | -8.2 | -0.1 |
| CPIX % | 4.0 | 4.3 |
| Retail Infl. % | 2.1 | 3.8* |
| CPI Food % | 4.3 | 1.5 |

* Oct '04

## Impact

**Cost of goods falling**
- Buoyant durables trading
- Low food volume sensitivity
- Deflation lowers R's banked
- Deflation depresses gross margins through markdowns

## Action

**Competitive stance**
- Maintain competitive pricing
- Shorten promotional lead times
- Build margin through mix
- Range differentiation vs. competition
- Intelligent import program and capability
- Maintain low expense base

**Asset management**
- Clear aged/overpriced stock quickly
- Collaborate with suppliers for supply chain efficiency
- Buy less stock more frequently
- Maintain high stock turns
- Portfolio optimisation

# Operating & Financial Performance

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# Inflation

- Group inflation for the period to December 04:
  - General Merchandise: -5.2%
  - Food: -0.7%
  - Liquor: +7.0%
  - Total: -2.3%
- Excluding Liquor, every business experienced deflation during the period
- Significant deflation in some Food commodities
- *Calculated on prices of actual purchases in the current period vs. prior period*

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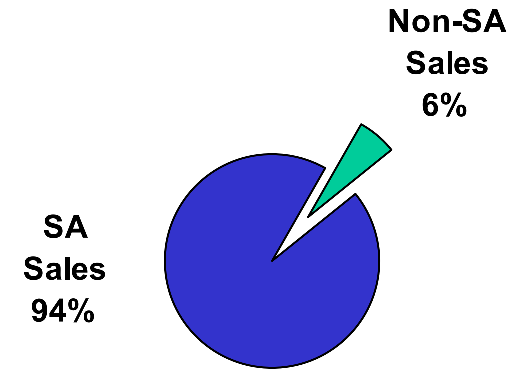
# Sales




| (Rm's) | 2004 | 2003 | % Chg | Comp. % Chg |
|---|---|---|---|---|
| Massdiscounters | 3 966 | 3 590 | *10.5* | *6.5* |
| Masswarehouse | 4 292 | 3 668 | *17.0* | *14.2* |
| Masscash | 5 671 | 4 996 | *13.5* | *5.0* |
| Total | 13 929 | 12 254 | *13.7* | *8.2* |

# Store Portfolio

| | MDD | Makro | Builders | CBW | Jumbo | Total |
|---|---|---|---|---|---|---|
| July '04 | 67 | *12 | 15 | 57 | 6 | 157 |
| Acquired | - | | 2 | - | 1 | 3 |
| Openings | 5 | 1 | 2 | 1 | - | 9 |
| Closures | - | -1 | - | - | - | -1 |
| Dec '04 | 72 | 12 | 19 | 58 | 7 | 168 |

*Excludes two Makro Zimbabwe stores but includes Strubens Valley

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# Sales Growth Analysis

| | % |
|---|---|
| Existing stores (*comparable* growth) | 8.2 |
| New stores | 3.1 |
| Acquisitions (Trident & Mica) | 2.4 |
| Total sales growth | 13.7 |
| Group deflation | -2.3 |

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# Massdiscounters

| | 2004 | 2003 | % |
|---|---|---|---|
| Sales | 3 966 | 3 590 | *10.5* |
| PBIT | 312.4 | 229.5 | *36.1* |
| Interest | (2.2) | (15.6) | *85.9* |
| PBT | 310.2 | 213.9 | *45.0* |

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# Massdiscounters

General Merchandise discounter: 61 Game & 11 Dion stores:

- Game South Africa
  - Deflation 4.3%
  - Exceptional control of margin, expenses, inventory & debtors
  - Four new stores > Mitchells Plain very successful
- Game Africa
  - New store in Maputo (December 04)
  - Rand sales 15% higher.  Comparable sales flat
  - Forex loss R13m
- Dion
  - Good comparable sales growth.  Good margin

# Masswarehouse

| | **2004** | **2003** | **%** |
|---|---|---|---|
| Sales | 4 292 | 3 669 | *17.0* |
| PBIT | 208.3 | 157.0 | *32.7* |
| Interest | 6.7 | 13.3 | *(49.6)* |
| PBT | 215.0 | 170.3 | *26.2* |

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# Masswarehouse

Makro:

- 12 warehouse club stores
- Strubens Valley reopened. Wonderboom relocated from Pretoria-West. Both trading well
- Good General Merchandise & Liquor sales & margin growth
- Low Food growth & softer margin
- One-off expenses of R13m (restraints & opening costs)
- Higher insurance costs (R7m)
- Increased focus on costs

# Masswarehouse

Builders Warehouse & Tile Warehouse:

- Home Improvement, DIY & Builders hardware outlets
- 10 Builders Warehouses & 9 Tile Warehouses
- Polokwane opened (December 04)
- Two ex-Mica stores acquired in Rivonia & Edenvale. Rebranded and trading very well. Both owners have joined BW executive directorate
- Finance, procurement & operations capacity strengthened
- SAP Retail implemented
- Strong comparable sales growth & firmer margins

# Masscash (including Masstrade)

| | 2004 | 2003 | % |
|---|---|---|---|
| Sales | 5 671 | 4 996 | *13.5* |
| PBIT | 99.6 | 157.5 | *(36.8)* |
| Interest | (0.3) | 6.4 | - |
| PBT | 99.3 | 163.9 | *(39.4)* |

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# Masscash

Masscash

- CBW (58 outlets):
  - 1 new store.  Trident 25% minority acquired (Botswana)
  - Food deflation 2.1%.  Significant deflation in commodities from Rand strength and over-supply
  - Deflation, low growth & competition caused pressure on sales & gross margins
  - Although low cost base, lower GPs result in much lower net margins
- Jumbo (7 outlets):
  - Durban relocated.  CT outlet acquired
  - Competition continues in Crown Mines
  - Higher gross margins & better expense control

# Masstrade

- Trading profit depressed by deflation, excessive costs & lower rebates to R15m
- Management substantially changed in July 04
- In August 04 reported a non-cash adjustment of R25m attributable to 2003
- In December 04 we cautioned about further adverse adjustments
- Following new management's systems & accounting review (audited by Deloitte) rebate over-accrual in both businesses found to be R43m (25m taken last year)
- Final adjustment of R18.3m therefore taken against '04
- Current profitability impaired & likely to remain at current levels

# Masstrade

| | Dec 2004 | June 2004 | June 2003 |
|---|---|---|---|
| Sales | 1 835 | 3 288 | 2 695 |
| PBT reported | *(3.3) | *57.1 | 77.8 |
| Add back prior year adjustment | 18.3 | 25.0 | |
| Apply adjustments | | (18.3) | (25.0) |
| Actual trading PBT | 15.0 | 63.8 | 52.8 |

* After the adjustments applicable to the previous year

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# Forex Losses

| *Rm's* | 2004 | 2003 |
|---|---|---|
| Massdiscounters | (12.9) | (11.5) |
| CBW / Trident | - | 1.0 |
| Other | (4.5) | (12.6) |
| Total | (17.4) | (23.1) |

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# Divisional PBIT

| (Rm's) | December | | |
|---|---|---|---|
| | 2004 | 2003 | % |
| Massdiscounters | 312.4 | 229.5 | *36.1* |
| Masswarehouse | 208.3 | 157.0 | *32.7* |
| Masscash | 99.6 | 157.5 | *(36.8)* |
| Total | 620.3 | 544.0 | *14.0* |

PBIT = Profit before Interest & Tax

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# Interest Paid

| (Rm's) | December 2004 | December 2003 |
|---|---|---|
| Massdiscounters | (2.2) | (15.7) |
| Masswarehouse | 6.7 | 13.3 |
| Masscash | (0.3) | 6.4 |
| Corporate | (9.4) | (7.0) |
| Total interest | (5.2) | (3.0) |

Average Group gearing of 8%

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# Divisional PBT

(Rm's)

| | 2004 | 2003 | % |
|---|---|---|---|
| Massdiscounters | 310.2 | 213.9 | *45.0* |
| Masswarehouse | 215.0 | 170.3 | *26.2* |
| Masscash | 99.3 | 163.9 | *(39.4)* |
| Total | 624.5 | 548.1 | *13.9* |

PBT = Profit before Tax

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# Tax Rate Reconciliation

| | Dec 04<br>% | Dec 03<br>% |
|---|---|---|
| *Standard rate* | 30.0 | 30.0 |
| Exempt income | -2.3 | -2.1 |
| Disallowables | 0.6 | 0.4 |
| STC | 0.1 | 1.9 |
| Foreign tax | -0.2 | 0.4 |
| Other allowances | -0.5 | 1.0 |
| *Effective headline tax rate* | 27.7 | 31.6 |

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# Sustainable tax rate

- Current tax rate low due to no STC charge (a distribution of share premium in 2004)
- Now a significant STC charge on the interim dividend paid in the six months to June 05, due to earnings growth & lower dividend cover
- Will add approximately 2.5% to annual effective tax rate
- The higher effective rate is expected to continue

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# Stock & Creditors

| | Dec 2004 | | Dec 2003 | |
|---|---|---|---|---|
| | Rms | Days | Rms | Days |
| Net Stock (1) | 3 263 | 58 | 2 753 | 56 |
| Trade Creditors (1) | 5 271 | 70 | 4 463 | 67 |

1. Days calculated using historic cost of sales.

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# Debtors

| | Dec 2004 | | Dec 2003 | |
|---|---|---|---|---|
| | Rms | Days | Rms | Days |
| Trade Debtors (1) | 1 140 | 52 | 940 | 47 |
| Consumer Debtors (2) | 268 | 214 | 256 | 224 |

1. Includes Furnex, Shield, Makro, Jumbo, Builders Warehouse & CBW. Days calculated using historic sales.
2. Massdiscounters HP & Revolving Credit.

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# Depreciation & Capex

| *Rm's* | 2004 | 2003 |
|---|---|---|
| Depreciation | 71 | 65 |
| Replacement Capex | 131 | 97 |
| Investment Capex | 148 | 148 |

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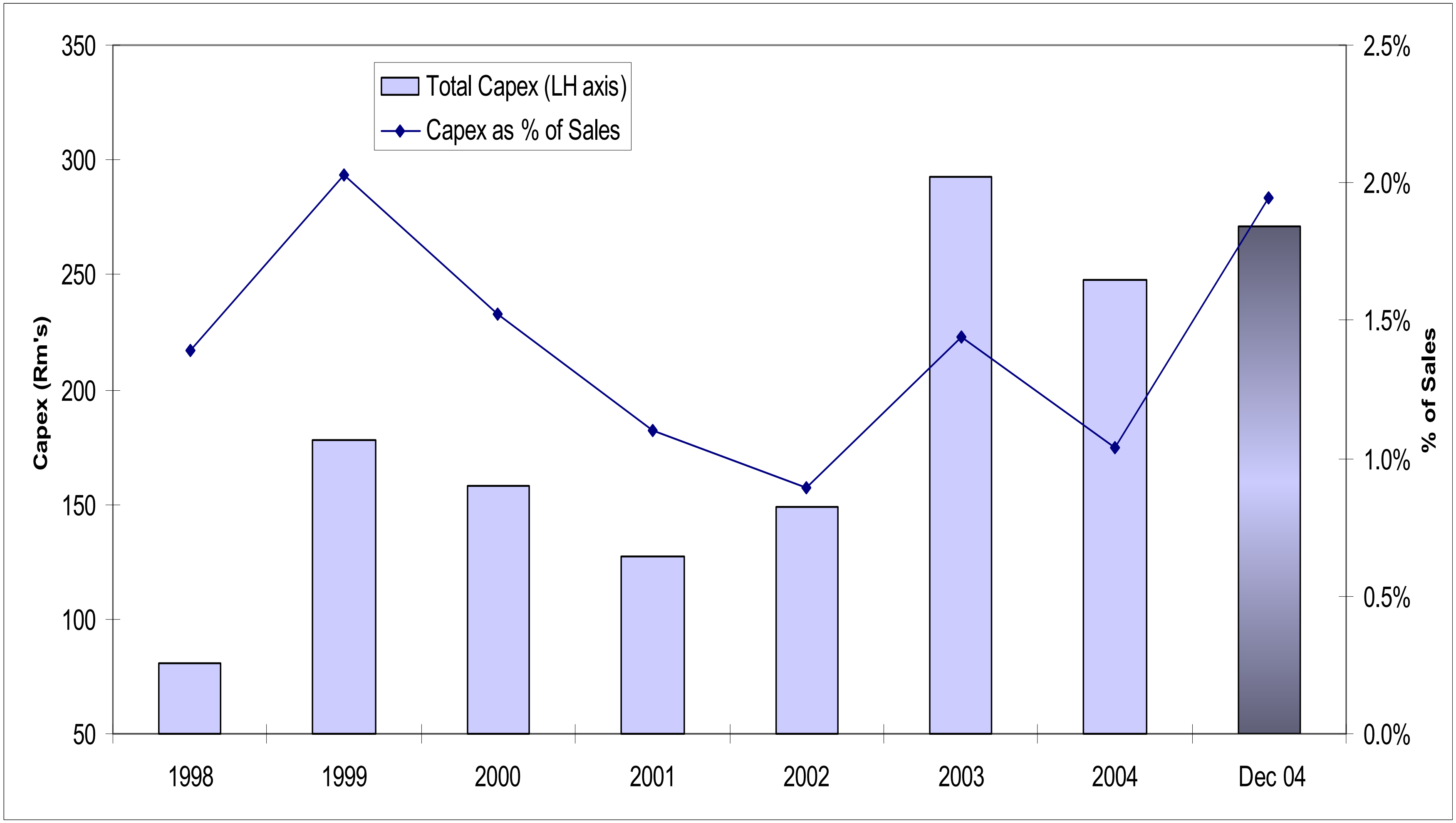
# Capital Expenditure




Capex excludes goodwill on CBW minorities buyouts

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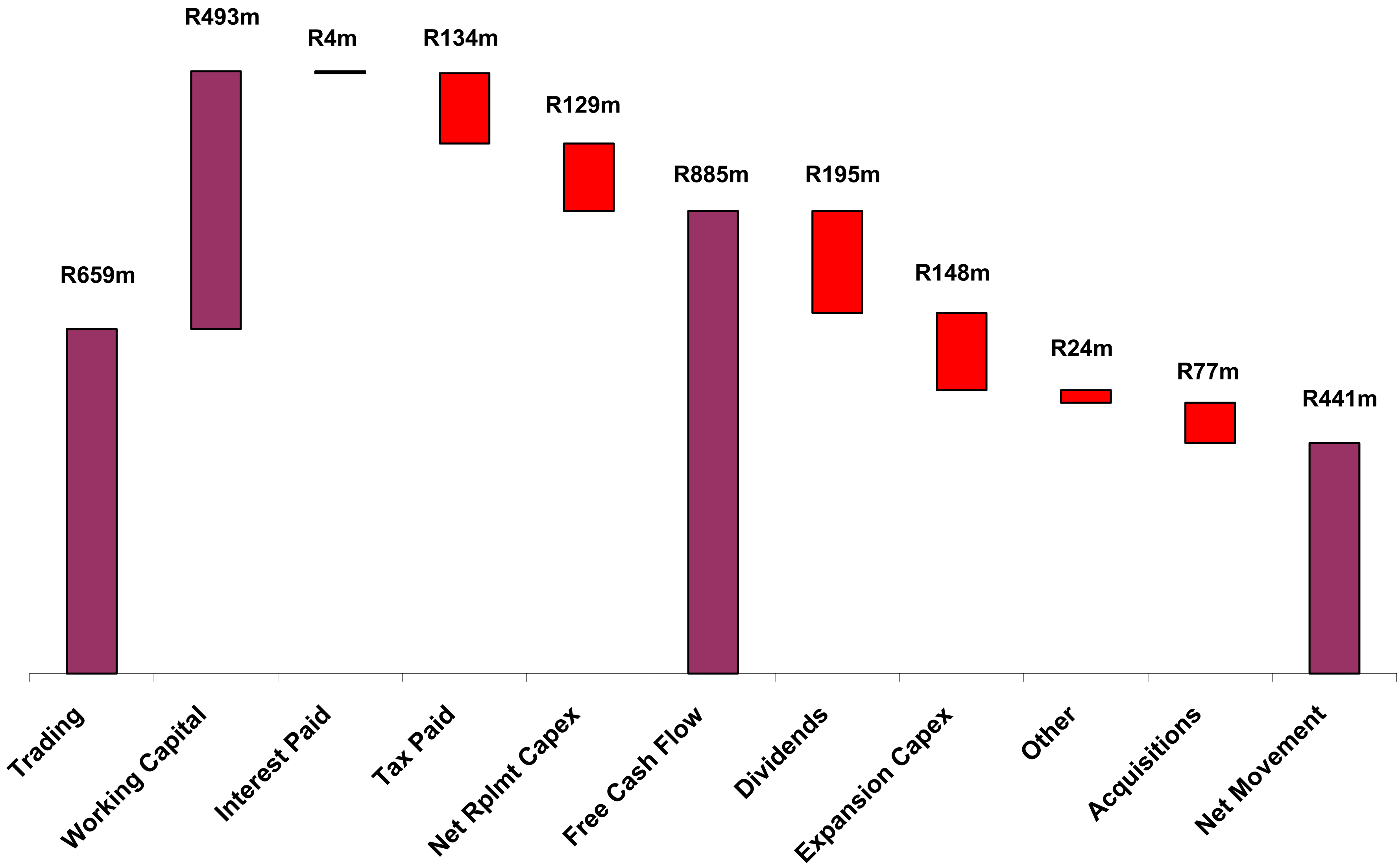
# Cashflow Analysis

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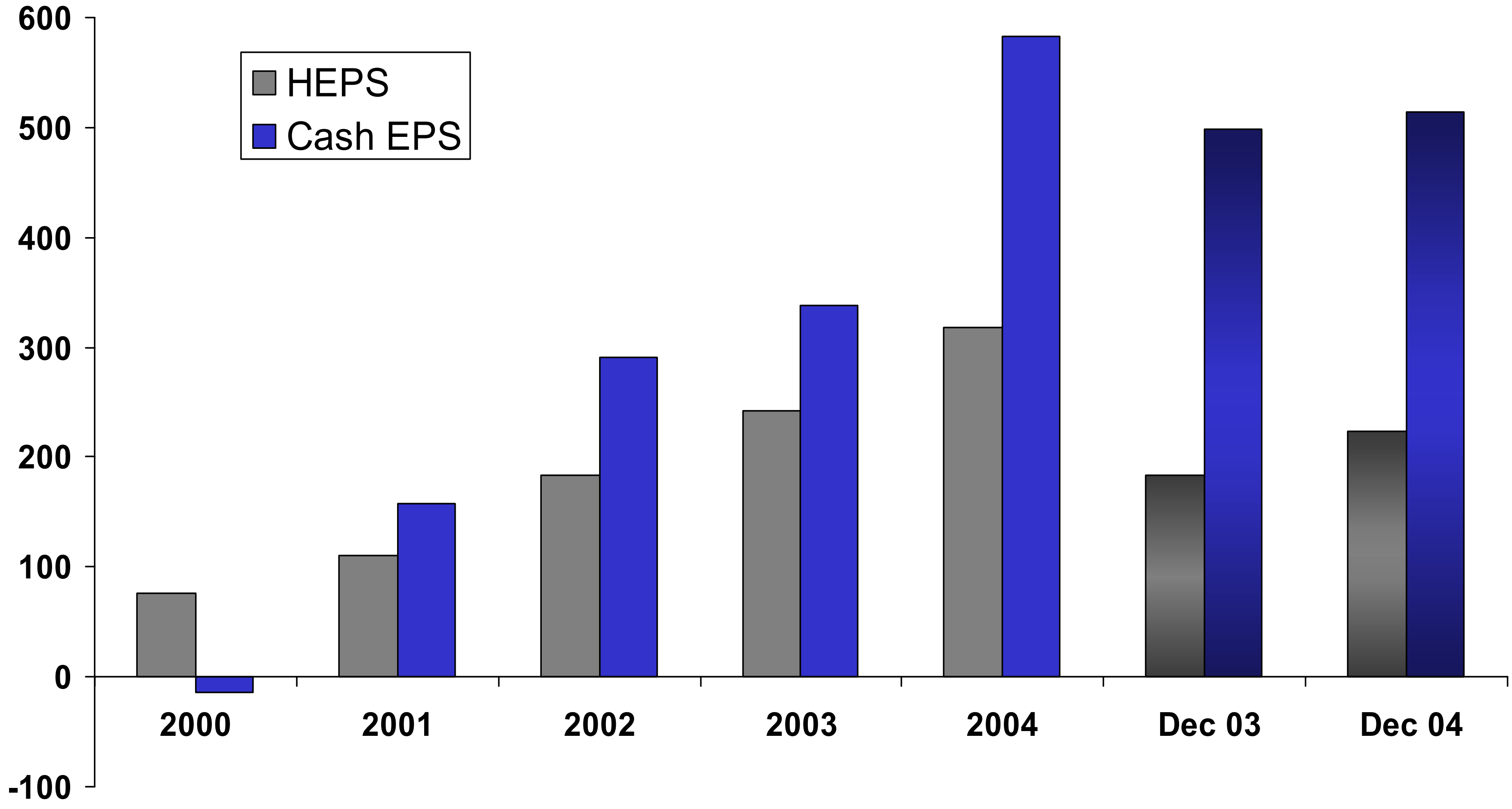
# Cash Earnings




HEPS – Headline Earnings per Share (cents)

Cash EPS – Cash from Operating Activities, before dividends paid

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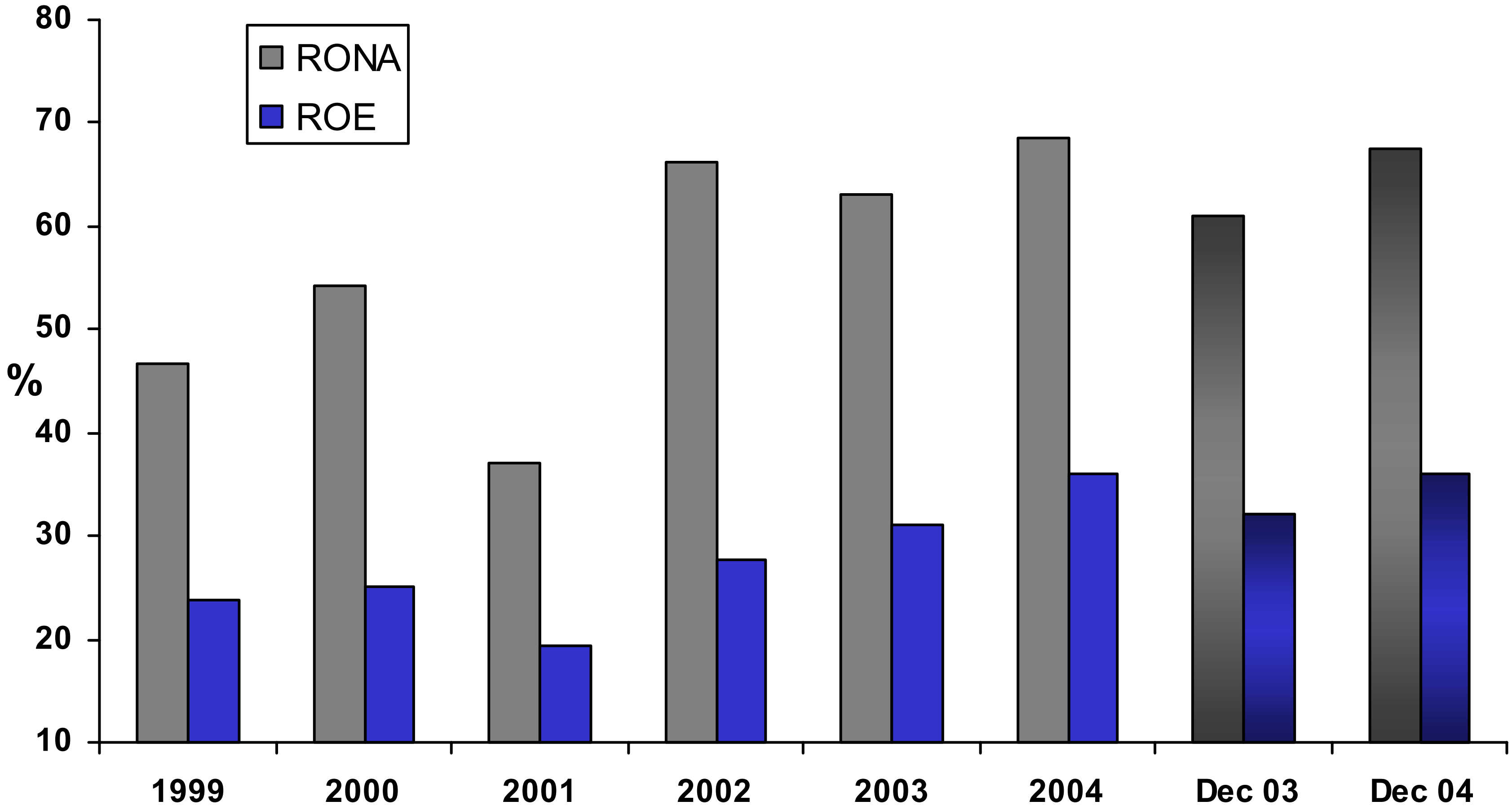
# Returns




RONA - EBITA / Average Net Assets

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

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# "Vision for Growth 2007"

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# Vision for Growth 2007

- Three year financial targets arising from successful implementation of competitive growth strategy
- "Vision for Growth"
  - 2002 launched Vision 2005 > sales approaching R30b & operating profit of R1b
  - 2004 updated to Vision 2007 > targeted sales R36b HEPS 600c
  - Report on Vision 2007 progress & update to Vision 2008 in August
- Organic & acquisitive growth in familiar categories

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# H1 organic & acquisitive sales growth

| Strategic Objectives | Progress as at December 2004 |
|---|---|
| Continued real sales growth from existing outlets | 10.5% |
| Expansion into new categories and formats | • Increasing SKU's in Builders Warehouse & Tile Warehouse<br>• Game clearance outlet |
| New outlets | • 11 new stores (estimated annualised sales R1.3b) |
| Selected acquisitions that conform to Massmart's strategic and financial criteria | • 1 C&C |

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# H2 organic & acquisitive sales growth

| **Strategic Objectives** | **Plans to June 2005** |
|---|---|
| Continued real sales growth from existing outlets | • ? |
| Expansion into new categories and formats | • Upscale Dion finalised<br>• Smaller format Game<br>• CBW catering |
| New outlets | • 6 new stores (estimated annualised sales R700m) |
| Selected acquisitions that conform to Massmart's strategic and financial criteria | • Acquisitions announced<br>• Pending acquisition |

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# Acquisitions announced

- De La Rey & Federated Timbers purchase consideration R576m to R660m dependent on performance
- 2006 estimated sales R1.7b
- PBT margins above Masswarehouse where both businesses will be housed
- Further strategic objective to become major participant in DIY/HI distribution
- Provide national footprint and exceptional procurement opportunities

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# De La Rey

- Subject to regulatory authorities approval
- Very similar to Builders Warehouse
- 3 stores (expanding) in Western Cape
- Mainly cash retail customers with lesser participation by small building contractors
- Excellent management

# Federated Timbers

- Subject to regulatory authorities approval
- Mirror image of Builders Warehouse
- 34 stores in 9 provinces
- Mainly small building contractors with lesser participation by cash retail customers
- Excellent management

# Vision for Growth 2007

- Three year financial targets arising from successful implementation of competitive growth strategy
- “Vision for Growth”
  - 2002 launched Vision 2005 > sales approaching R30b & operating profit of R1b
  - 2004 updated to Vision 2007 > targeted sales R36b HEPS 600c
  - Update on Vision 2007 progress and update toVision 2008 in August
- Organic & acquisitive growth in familiar categories
- Margin enhancement through portfolio mix, product mix & productivity

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# New Structure - Targeted PBT ROS

| | ***Med. term full year target*** | *Dec '04* | **Jun '04** | Dec '03 | **Jun '03** | Dec '02 | **Jun '02** | Dec '01 | **Jun '01** | Dec '00 |
|---|---|---|---|---|---|---|---|---|---|---|
| Massdiscounters | ***6.0*** | *7.82* | **4.77** | 5.83 | **3.64** | 5.40 | **3.36** | | **2.02** | 3.2 |
| Masswarehouse | ***5.0*** | *5.00* | **4.30** | 4.64 | **3.03** | 3.29 | **2.91** | 3.9 | **2.52** | 3.3 |
| Masscash | ***3.0*** | *1.75* | **3.00** | 3.08 | **4.08** | 3.46 | **3.92** | 3.1 | **3.52** | 3.0 |
| Group | ****4.47*** | *4.48* | **3.97** | 4.47 | **3.49** | 3.80 | **3.29** | | **2.48** | |

* Proforma using actual sales mix (December '04) and target margins

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# Leadership

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# Leadership

- Grant Pattison appointed Group Commercial Director
- Aubrey Cimring appointed to Executive Committee as Deputy CFO
- 13% executive directors, 15% top mgmt, 27% senior mgmt, 43% professionally qualified middle mgmt, 50% academically qualified junior & supervisory mgmt from previously disadvantaged groups

# Prospects

# Environmental outlook

- Past four years RSA retail beneficiary of:
  - favourable economic conditions
  - evolution of new consumer market
  - upward valuation of domestic property
- Developments more structural than cyclical
- Cautiously confident about consumer spending
- Good growth of retail economy – but at lower rate than 2004

# Massmart's Prospects

- Confident of leadership, portfolio, unique approach to high volume low cost distribution
- Manifest in capex & investment programme
- Lower operating income growth in H2
  - Exceptional working capital improvements in Massdiscounters in H2 03/04
  - Under performance of new Masscash
- H2 EPS growth depressed by STC (not applicable in '04)

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# Dedicated to Shareholder Value

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# Additional Financial Data

# Capital Expenditure

| (Rm's) | Dec 04 | Dec 03 |
|---|---|---|
| Land & buildings | 55 | 13 |
| Leasehold improvements | 32 | 6 |
| PPE | 158 | 52 |
| Computers | 19 | 57 |
| Motor vehicles | 7 | 8 |
| Sub-total | 271 | 136 |
| Goodwill | 8 | 103 |
| Total | 279 | 238 |

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# Headline Earnings Reconciliation

| | Rm's |
|---|---|
| Attributable earnings | 396.6 |
| Goodwill | 46.3 |
| Loss on fixed asset disposals | 0.5 |
| Headline earnings | 443.4 |

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# Analysis of Tax Charge

| | Dec 04 | Dec 03 |
|---|---|---|
| Current tax | 173.4 | 155.2 |
| Deferred tax | (15.5) | (1.7) |
| Foreign tax | 12.4 | 18.3 |
| Income Statement Charge | 170.3 | 171.8 |

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# Number of Shares

| | (000's) |
|---|---|
| At 1 July 2004 | 199 191 |
| Shares issued | - |
| At 27 June 2004 | 199 191 |
| Weighted-average for period | 198 803 |
| Fully-diluted weighted average | 205 898 |

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# Targets

| | |
|---|---|
| Group Annual ROS | > 4.5% |
| Int-bearing Debt : Equity | < 30% |
| Return on Capital Employed | > 45% |
| Return on Equity | > 30% |

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

(ROE = Headline Earnings / Average shareholders equity)

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