

# MASSMART

Dedicated to Value

## Reviewed Results

for the 26 weeks to 25<sup>th</sup> December 2005

Presentation to Investors, Analysts and Media – February 2006

### Agenda

- Financial & Operating Highlights
- Environment
- Operating & Financial Performance
- Strategy
- “Vision for Growth 2008” – Report Back
- Risks & Prospects

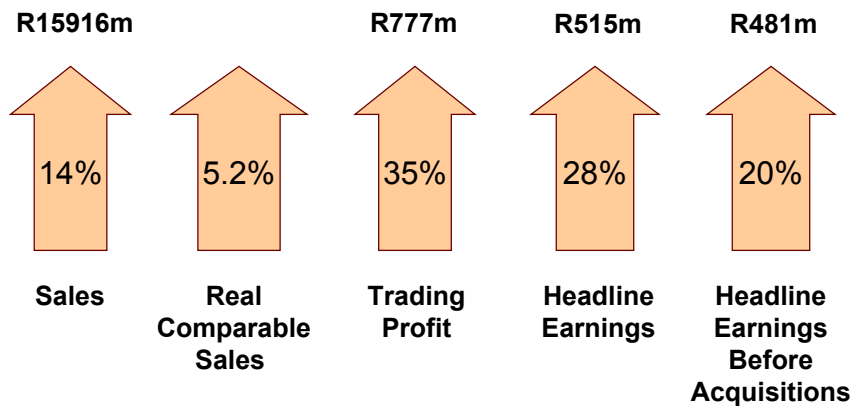
ADDENDA – Additional data

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# Financial & Operating Highlights

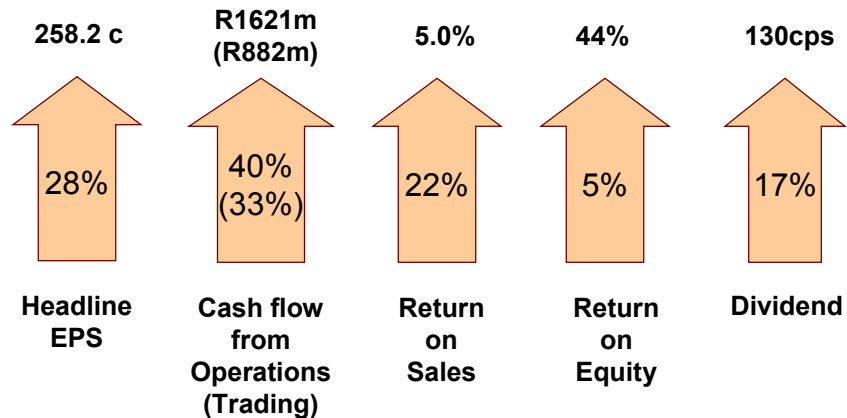
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## Financial highlights



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## Financial highlights



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## Operating Highlights

- Record first half sales of R15.9b, 6.4% of which was from 19 foreign stores in 9 countries
- With estimated average deflation of 0.0%, real comparable store sales grew 5.2% and real sales before acquisitions grew 7.8%.
- Consumer credit sales comprised 2% of Group sales.
- Trading profit grew almost three times faster than sales to R801m
  - 83% of the full year trading profit to June 2005
  - 8% from foreign stores

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## Operating Highlights (cont.)

- Pre and post interest operating profit margins increased to 4.9% and 5.0% respectively.
- Store network increased to 222 (882 205 m sq) with the opening of 9 new stores with estimated annual sales of > R1.0b
- Average sales per store R136m

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## Environment

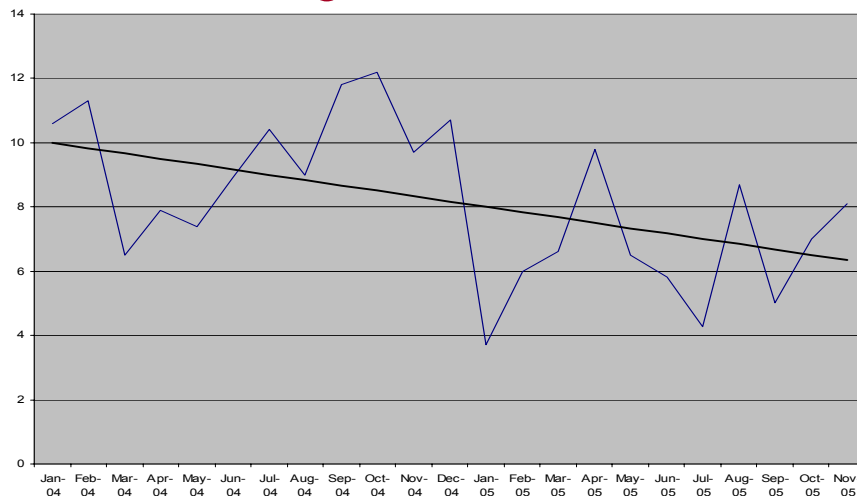
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## Environment

- Retail market buoyed by:
  - Structural change in consumer economy
  - Benign interest rate outlook
  - High consumer confidence
- Massmart performance enhanced by:
  - Slight inflationary pressures
  - Consumer investment in durables & home improvement
  - Slight improvement in the position of lowest income consumers
- Gradual declining trend in robust retail sales growth (Stats SA)

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## Retail sales growth trend (STATS SA)



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# Operating & Financial Performance

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## Inflation

- Group inflation for six months to December 2005:

– General Merchandise *	- 2.0%
– Food	+ 1.4%
– Liquor	+ 7.2%
– Total	0%
- Inflation returned in Commodities
- Outlook for overall Group inflation remains benign, probably below +3.0% for year to June 2006 (this is Rand & oil dependant)

\* General Merchandise includes Home Improvement

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## IFRS

- Reporting for the first time
- Standards primarily affecting Massmart:
  - Share-based payments
  - Business combinations (intangibles & impairment)
  - Effects of changes in exchange rates
- Also now consolidate Makro Zimbabwe, under Hyperinflation Accounting
- All prior year figures restated

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## Sales Growth Analysis

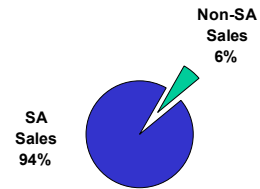
	<u>%</u>
Existing stores ( <i>comparable</i> growth)	5.2
New stores	2.6
Acquisitions	<u>7.5</u>
Total sales growth	<u><u>15.3</u></u>

This sales growth figure excludes figures for Makro Zimbabwe

Acquisitions: Feds, De La Rey & Servistar

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## Sales



(Rm's)	<u>2005</u>	<u>2004</u>	<u>% Chg</u>	<u>Comp. % Chg</u>
Massdiscounters	4 196	3 966	5.8	-0.2
Masswarehouse	4 057	3 815	6.3	5.9
Massbuild	1 935	675	186.7	17.4
Masscash	5 728	5 488	4.4	7.7
<b>Total</b>	<b>15 916</b>	<b>13 944</b>	<b>14.1</b>	<b>5.2</b>

Masswarehouse comparable sales exclude Makro Zimbabwe.  
Masscash comparable sales for CBW & Jumbo only.

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## Store Portfolio

	<b>MDisc</b>	<b>MWare</b>	<b>Mbuild</b>	<b>MCash</b>	<b>Total</b>
July '05	72	*14	62	65	213
Acquired	-	-	-	1	1
Openings	4	-	2	2	8
<b>Dec '05</b>	<b>76</b>	<b>*14</b>	<b>64</b>	<b>68</b>	<b>222</b>

\* Includes two Makro Zimbabwe stores

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## Gross Profit

	<u>2005</u>	<u>2004</u>
	R2 401m	R2 003m
<i>% of Sales</i>	15.1%	14.4%

- Impact of higher margins in Builders Warehouse and Massbuild acquisitions
- Slightly higher GPs in Masscash and Masswarehouse
- Christmas trading boosts GPs, full-year figure likely to be lower (June 2005: 13.7%)

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## Net Operating Costs

	<u>2005</u>	<u>2004</u>
	R1 623m	R1 428m
<i>% of Sales</i>	10.2%	10.2%

- Total increase of 13.7% before items below
- Figures include a Zimbabwe *monetary adjustment* i.t.o. Hyperinflation Accounting of +R7m (2004: -R104m)
- Adjusting for this, increase of 23%
- Before this and acquisitions, increase of 9%

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## Lease Smoothing

- Total pre-tax lease adjustment R14m (2004: R30m)
- Non-cash adjustment
- Massdiscounters adjustment turned positive this year
- Negative adjustments in Makro, Massbuild and Masscash
- Due to new stores, Builders Warehouse lease-smoothing adjustment (in Massbuild) will be more severe going forward
- Not a linear trend – will be a step increase with each new store

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## Forex Gains & Losses

<i>Rm's</i>	<u>2005</u>	<u>2004</u>
Massdiscounters	(14)	(23)
Trident	1	-
Other	(5)	1
AC 133	1	(6)
Total	<u>(17)</u>	<u>(28)</u>

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## Changes in Exchange Rate

- IFRS has effectively de-linked the natural hedge accounting between certain foreign assets & liabilities
- In these cases, a translation gain could be accounted for in the Income Statement, while a translation loss may be accounted for in the Balance Sheet
- In Massdiscounters this increases the volatility of reported profits & losses on translation

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## Divisional PBIT

(Rm's)	<u>Year to December</u>		
	<u>2005</u>	<u>2004</u>	<u>%</u>
MDD	351.9	299.8	17.4
Masswarehouse	167.6	107.5	55.9
Massbuild	146.2	73.2	99.7
Masscash	111.4	94.4	18.0
Total	<u>777.1</u>	<u>574.9</u>	35.2

PBIT = Profit before Interest & Tax

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## Net Interest Paid

(Rm's)

	<u>2005</u>	<u>2004</u>
Massdiscounters	8.2	(2.2)
Masswarehouse	10.8	3.4
Massbuild	1.3	1.5
Masscash	3.5	(0.3)
Corporate	(42.1)	(9.4)
Total interest	<u>(18.3)</u>	<u>(7.0)</u>

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## Divisional PBT

(Rm's)

	<u>2005</u>	<u>2004</u>	<u>%</u>
MDD	360.1	297.6	21.0
Masswarehouse	178.4	110.9	60.9
Massbuild	147.5	74.7	97.5
Masscash	114.9	94.1	22.1
Total	<u>800.9</u>	<u>577.3</u>	38.7

PBT = Profit before Tax

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## Tax Charge

	<u>2005</u>	<u>2004</u>
Total	R234m	R164m
<i>Total tax rate</i>	30.8%	31.4%
<i>Headline tax rate</i>	31.2%	29.0%

- SA Corporate rate 29% (December 2004: 30%)
- STC 2.0% (2004: 0.1%). Higher due to distribution from share premium in the prior year

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## Stock & Creditors

	<u>Dec 2005</u>		<u>Dec 2004</u>	
	<u>Rms</u>	<u>Days</u>	<u>Rms</u>	<u>Days</u>
Net Stock <sup>(1)</sup>	3 547	54	3 263	58
Trade Creditors <sup>(1)</sup>	5 823	69	5 273	70
Provisions & Accruals	1 498	-	1 162	-

1. Days calculated using historic cost of sales.  
(excludes Corp. and Makro Zimbabwe)

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## Debtors

	<u>Dec 2005</u>		<u>Dec 2004</u>	
	<u>Rms</u>	<u>Days</u>	<u>Rms</u>	<u>Days</u>
Trade Debtors (1)	1 200	53	1 139	52
Consumer Debtors (2)	274	183	268	213

1. Days calculated using historic sales.
2. Massdiscounters HP & Revolving Credit.

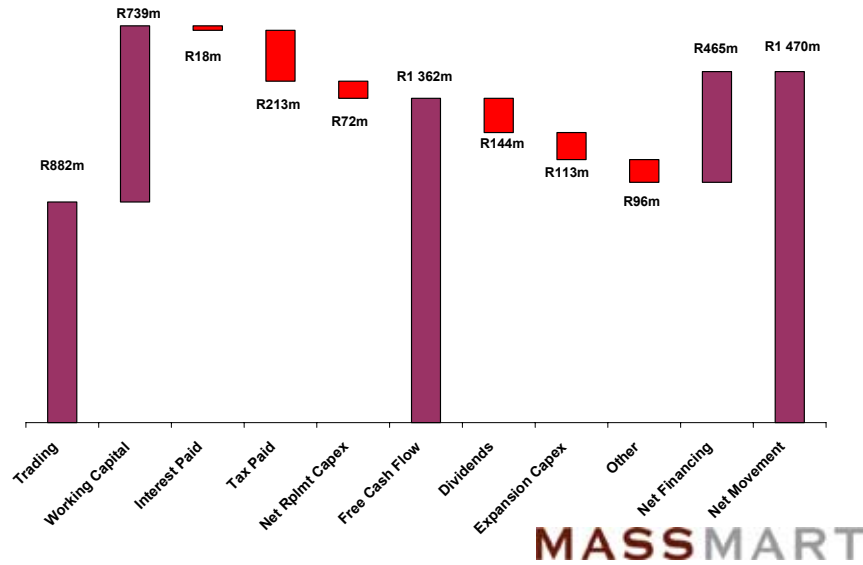
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## Depreciation

<i>Rm's</i>	<u>2005</u>	<u>2004</u>
Depreciation	101	71
Replacement Capex	72	131
Investment Capex	114	148

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## Cashflow Analysis

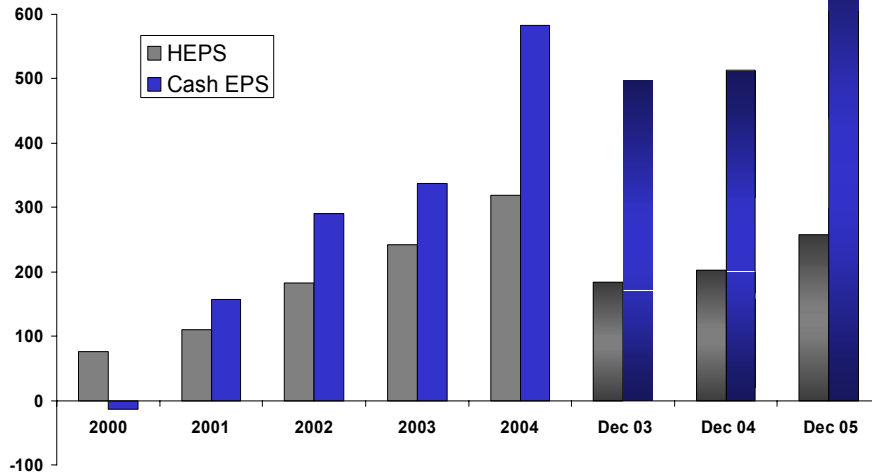


## Gearing

- Average net gearing of 17%
- Two R250m five-year loans signed during the period
- Depending upon Competition Tribunal approval of Moresport acquisition, may be raising permanent preference share capital:
  - R500m
  - Floating, linked to prime interest rate
  - Possibly in April?

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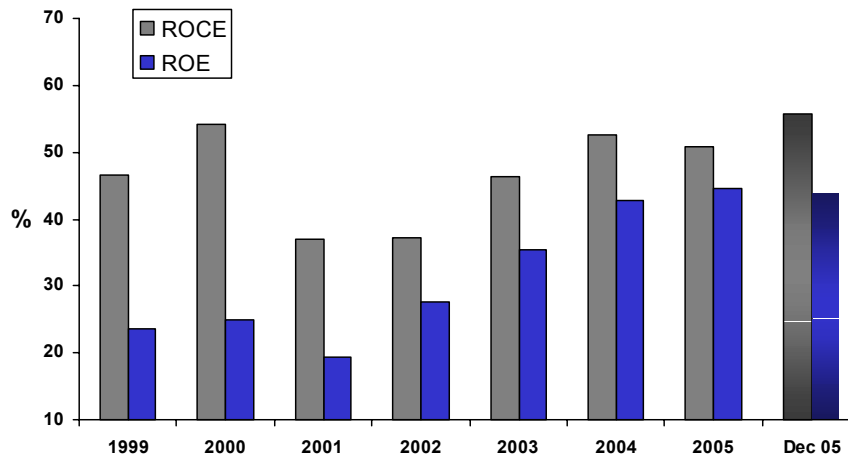
## Cash Earnings



HEPS – Headline Earnings per Share (cents)  
Cash EPS – Cash from Operating Activities, before dividends paid

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## Returns (IFRS and Lease-smoothing from 2004 only)



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

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# Strategy

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## Competitive Growth Strategy

- Three major thrusts:
  - Build portfolio through acquisitive & organic growth, based on category expertise
  - Mitigate portfolio costs through internal collaboration & joint initiatives (not centralised)
  - Incentivise for alignment
- Implementing for 18 years – 15 major acquisitions, 39% organic growth
- Resulted in Massmart being:
  - 3<sup>rd</sup> largest retail business on African continent
  - 161<sup>st</sup> largest retailer in world (Deloitte)
  - 24<sup>th</sup> fastest growing of worlds largest 250 retailers over past 5 years (Deloitte)

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## Strategy implemetation

- Specific plans and objectives for:
  - Real sales growth from existing outlets
  - Expansion into new categories & formats
  - New outlets
  - Relocation, right sizing & refurbishment of selected outlets
  - Selected acquisitions that conform to Massmart's strategic & financial criteria
  - Net margin growth
- Additional emphasis
  - **Simplify for efficiency, expense reduction & management leverage (ROEffort)**

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## Strategy implementation

Plans & Objectives	Progress to December 2005
Continued real sales growth from existing outlets	• 5.2%
Expansion into new categories & formats	• New categories/products in GM & HI • Small Game stores • Latest format Builders Warehouse
New outlets	• 9 new stores • Estimated annualised sales >R1.0b
Selected acquisitions that conform to Massmart's strategic & financial criteria	• Integration of HI businesses • Moresport pending Competitions Tribunal ruling
Simplify structures & processes to reduce expenses & leverage management capability	• Integrated Tile Warehouse into BW • Sold Furnex

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# **“Vision for Growth 2008” - Report Back**

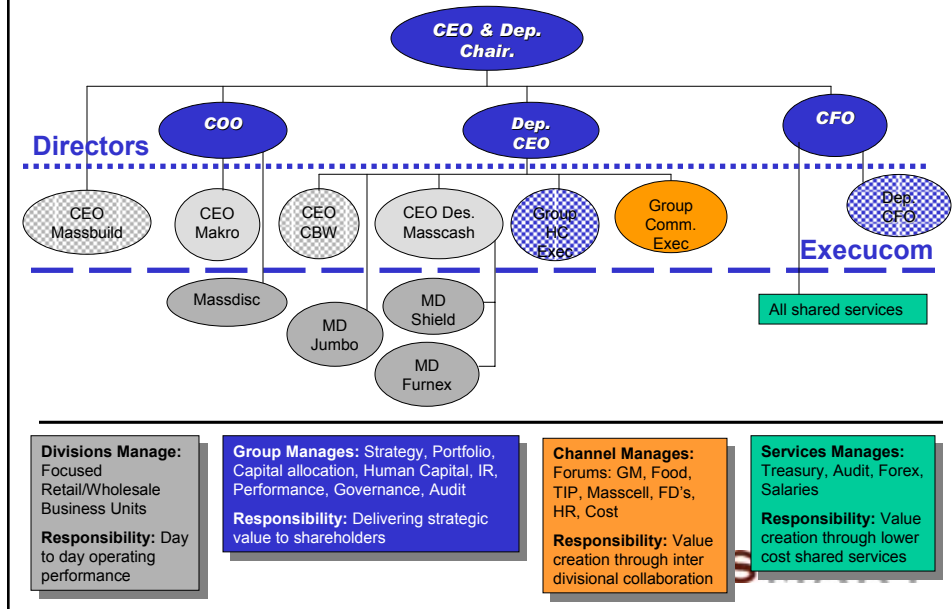
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## ***“Vision for Growth 2008” is about.....***

- Refined organisation & management structure (focussed leadership & reporting)
  - Executive Committee now 11 people
  - Average age 41, 25 degrees, average 14 years trading experience, 100 years service with Massmart/subsidiaries

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## Leadership structure (February 2006)



## *“Vision for Growth 2008” is about.....*

- Refined organisation & management structure (focussed leadership & reporting)
- Refined market focus (profitable sales)
  - Low return high risk business curtailed
  - Concluded largest ever market research into GM, HI, C&C markets (market positioning chains, customer awareness perceptions brands, shopping frequency, attractors & repellers, strengths & weaknesses)

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***“Vision for Growth 2008” is about.....***

- Refined organisation & management structure (focussed leadership & reporting)
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- Merchandise & marketing innovation (real comparable growth & pricing power)

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***“Vision for Growth 2008” is about.....***

- Refined organisation & management structure (focussed leadership & reporting)
- Refined market focus (profitable sales)
- Merchandise & marketing innovation (real comparable growth & pricing power)
- Store portfolio optimisation (penetrating markets & sweating assets)
  - Store development decision support system implemented (Vantage)
  - All “old group” store development opportunities identified
  - Home improvement opportunities clarified by March '06

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## ***“Vision for Growth 2008” is about.....***

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- 3 year Growth Vectors (expanding footprint)

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## **Growth Vectors (Progress to December '05)**

- Africa (**cautious progress**)
  - 2008 target – 5 Game (R0.5b)
  - 2006 H1 – Game Nigeria
  - Present commitment – 3 Game
- FMCG wholesaling (**slow growth for cash & returns**)
  - 2008 target 5 CBW & 1 Jumbo stores (R0.75b)
  - 2006 H1 – 1 CBW & 1 Jumbo
  - Present committment – 2 CBW
- Home improvement (**growth for market leadership**)
  - 2008 target – 7 BW, 2 De La Rey, 9 Servistar (R1.5b)
  - 2006 H 1 – 1 BW
  - Present commitment – 3 BW, 2 De La Rey, 2 Sevistar

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## **Growth Vectors** (Progress to December '05)

- Opportunities under research – Game RSA, smaller format Game, reposition Dion (**exploit when proven**)
  - 2008 target 4 L Games, 22 S Games (R1.35b)
  - 2006 H 1 – 1 L Game, 2 S Games
  - Present commitment – 3 L Games, 10 S Games

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- **Acquisitions**
  - Moresport pending

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- 3 year Growth Vectors (expanding footprint)
- Acquisitions (enhancing portfolio)
- Margin improvement (enhancing productivity)

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## **Progress towards targeted PBT ROS**

(%)	Target	**H1 '06	International benchmark
M'discounters	7.0%	<b>8.6%</b>	Walmart ex food 7.4%
M'warehouse	4.0%	<b>4.4%</b>	Metro AG C&C 5.0%
M'build	8.0%	<b>7.6%</b>	Home Depot/B&Q 10.0%
M'cash	3.0%	<b>2.0%</b>	N/A 3.0%
Group	<b>*5.8%</b>	<b>5.0%</b>	<b>*6.2</b>

\* Proforma using H1 2006 sales

\*\* Sales & profit weighting towards H1 makes this higher than full year

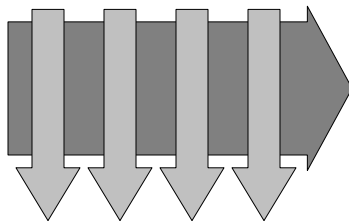
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- Collaboration (whole > sum of parts)

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## **Business Model**



### **Channel collaboration**

- Procurement (Forums)
- Coordinated retailing (Positioning, Pricing & Promotion)

### **Shared services**

- Non differentiating services rendered at lower cost to Divisions
- Human Capital management

### **Divisional growth**

- Differentiated competitive offerings
- Dominant in complementary product categories
- Multiple target markets & regional reach
- Favorable cash characteristics
- Sound organic growth
- Strict acquisition criteria

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- Collaboration (whole > sum of parts)
- **BEE (alignment with national imperative)**
  - Accelerating progress with all 7 dimensions (DTI)
  - Code provided clarity

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- Collaboration (whole > sum of parts)
- BEE (alignment with national imperative)
- **Governance (stakeholder protection)**
  - Compliant
  - JSE Sustainability index

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# Risks & Prospects

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## Risks

- External
  - Economic growth / Consumer confidence
  - Lower or falling inflation
  - R/\$ volatility
  - Labour costs
- Internal
  - Strategic & operating integration of acquisitions
  - Maintaining control of a large, complex, trading business
  - Weaker Rand impact on direct or indirect imports (30% purchases)
  - Attracting, developing & retaining leadership/management competence & experience

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## Massmart's 2006 Prospects

We are confident of:

- The sustained health of South African consumer economy
- Massmart's leadership, portfolio, unique approach to high volume low cost distribution
- The growth prospects of the new home improvement division
- A record R495m capex programme
- Budgeted sales growth >R30b
- Improved margins
- Full year EPS growth higher than 2005

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- Improved margins
- Full year EPS growth higher than 2005 (**may be lower than H1 06**)

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

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Additional Financial Data

## Headline Tax Rate Reconciliation

	%
Standard tax rate	29.0
Disallowed expenses	1.4
Exempt income	-1.8
Foreign income	0.4
Prior year	-0.2
STC	2.0
Other	0.4
	<u>31.2</u>

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## Analysis of Tax Charge

	R'm
Current tax	222.0
Deferred tax	(4.4)
Foreign tax	18.4
Foreign deferred tax	(2.4)
Income Statement Charge	<u>233.6</u>

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## Capital Expenditure

(Rm's)	<u>Dec 05</u>	<u>Dec 04</u>
Land & buildings	6	55
Leasehold improvements	33	32
PPE	99	158
Computers	26	19
Motor vehicles	11	7
Sub-total	<u>175</u>	<u>271</u>
Goodwill	<u>10</u>	<u>8</u>
Total	<u>185</u>	<u>279</u>

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## Headline Earnings Reconciliation

	<u>Rm's</u>
Attributable earnings	515.1
Profit on fixed asset disposals	(0.6)
Headline earnings	<u>514.5</u>

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## Number of Shares

	(000's)
At 26 June 2005	199 641
Shares issued	100
At 25 December 2005	199 741
Weighted-average for period	199 293
Fully-diluted weighted average	206 006

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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, excluding goodwill and deferred tax assets)

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