

MASS MART

Dedicated to Value

“Simply Unique”

UBS Investors Conference – June 2004

Format

- 1988 – 2004
 - The Strategy
 - The Result
- 2004 – 2007
 - Pillars of Future Growth
 - Our Corporate Conversation
- 2007 Vision for Growth

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1988 – 2004

The Strategy

Configuring assets for competitive advantage
in the industry (Addendum 1)

Massmart's Competitive Growth Strategy

- Build portfolio through acquisitive & organic growth, based on category expertise
 - Different formats enable broader, deeper market penetration than single retail/wholesale brand
 - Different formats duplicate costs
- Mitigate portfolio costs through internal collaboration & joint initiatives (not centralised)
 - Procurement
 - Coordinated retailing (Location, Positioning, Pricing & Promotion)
 - Cost reduction (Shared information & services)
 - Human capital development & motivation
- Incentivise for alignment

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Mission

Our definition of purpose - the assets and competencies used to realise our vision (Addendum 2)

Massmart is a **South African** based **international, management group**, invested in a portfolio of **differentiated, complementary, focused wholesale and retail formats**, each reliant on **high volumes** and **operational excellence** as the foundation of **price leadership**, in the distribution of mainly **branded consumer goods for cash**.

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Mission

Our definition of purpose - the assets and competencies used to realise our vision

The group actively seeks the continual improvement of performance in the portfolio and its parts, through **strategic and structural clarity, high market shares, excellent management and leadership, cost effective technology and the sharing or agglomeration of capabilities, knowledge, resources, influence and information.**

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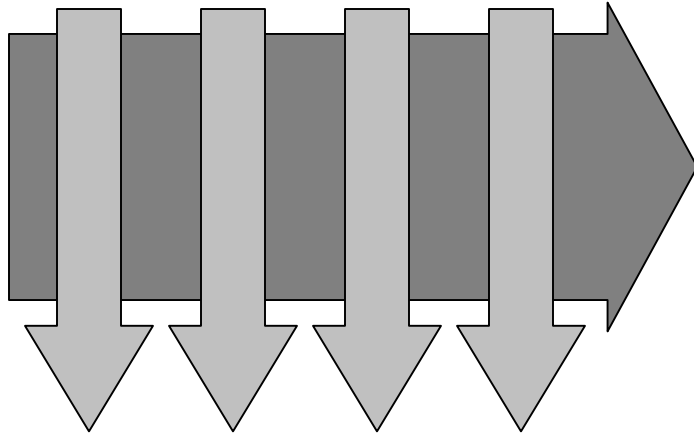
Mission

Our definition of purpose - the assets and competencies used to realise our vision

To this end thought leadership, individual and collective performance, and collaboration throughout the group are **highly rewarded**, with executive management **incentivised predominantly on group performance.**

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Business Model



Channel collaboration

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

Shared services

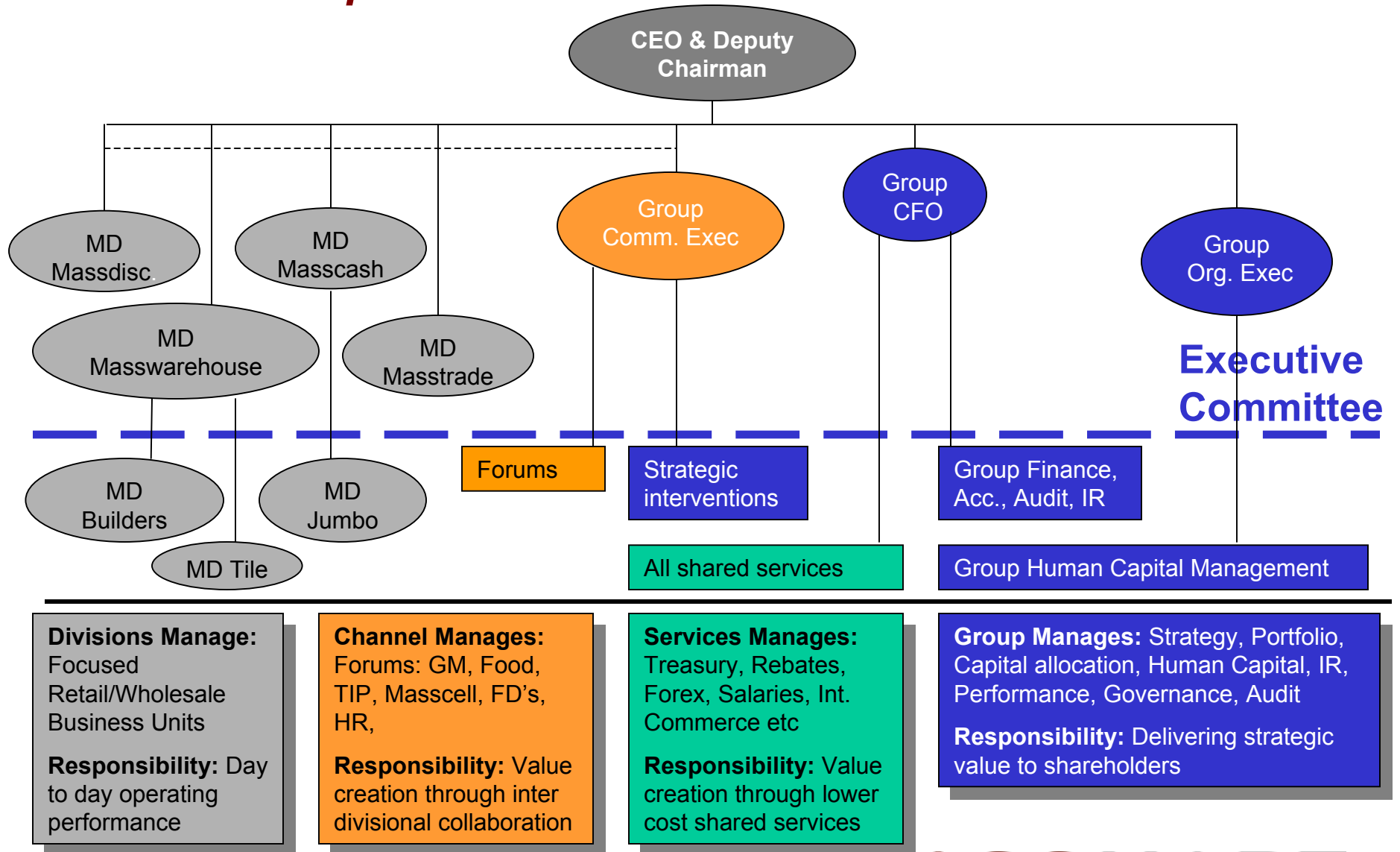
- Non differentiating services rendered at lower cost to Divisions
- Human Capital management

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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Leadership structure



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The Balance

“I believe that in today’s highly competitive, rapidly changing world, few if any large enterprises can pursue a strategy of total decentralisation. It is simply too expensive and too slow when significant changes have to be made. Thus, what every CEO has to do is decide what is going to be uniquely local (decentralised) and what is going to be common. Note the absence of the word “centralised” It is not a question of centralisation vs. decentralisation. Great institutions balance common shared activities with highly localised, unique activities”

Who Says Elephants Can’t Dance – Lou Gerstner, Jr

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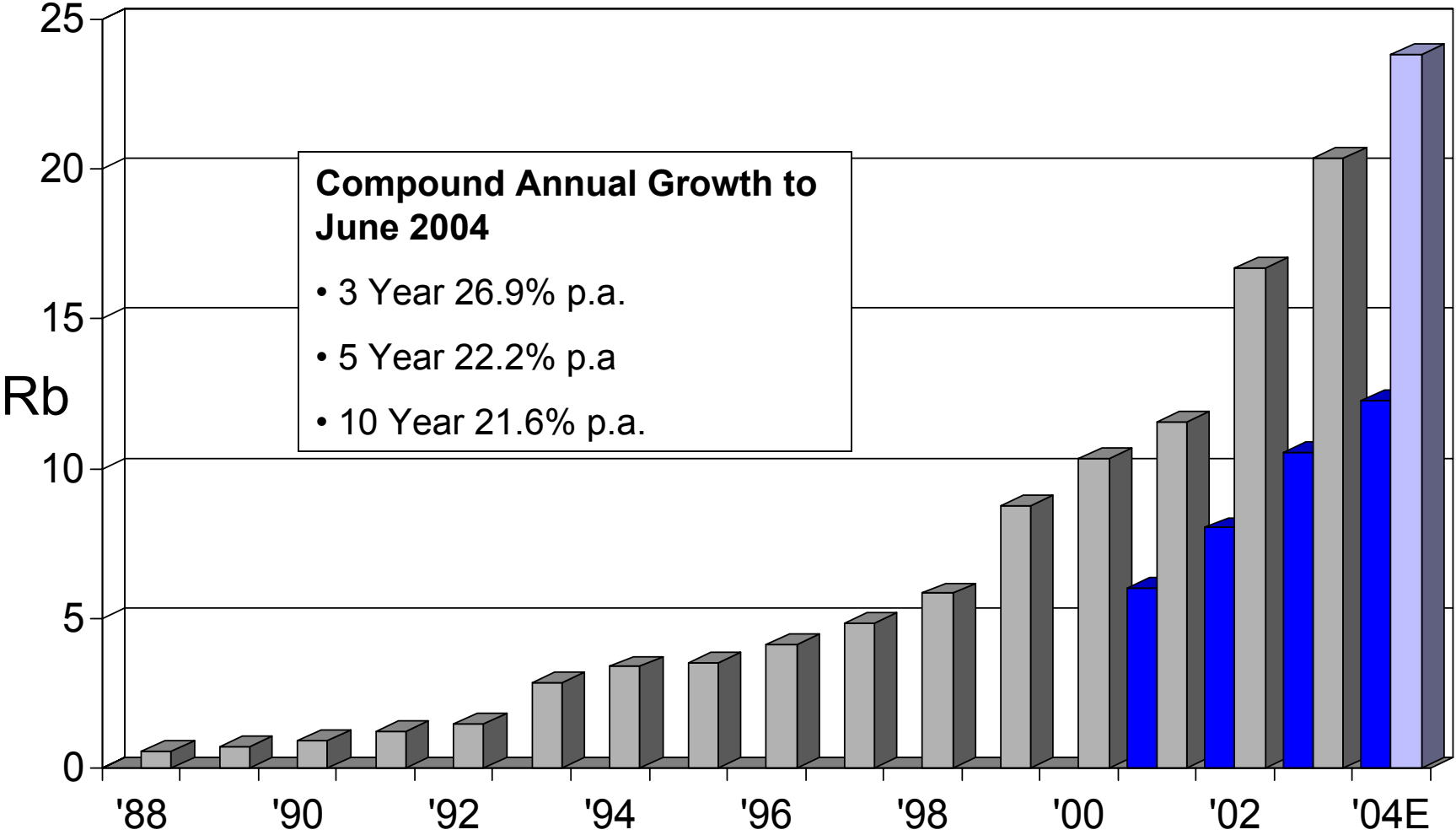
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1988 – 2004

The Result

Strategy in action

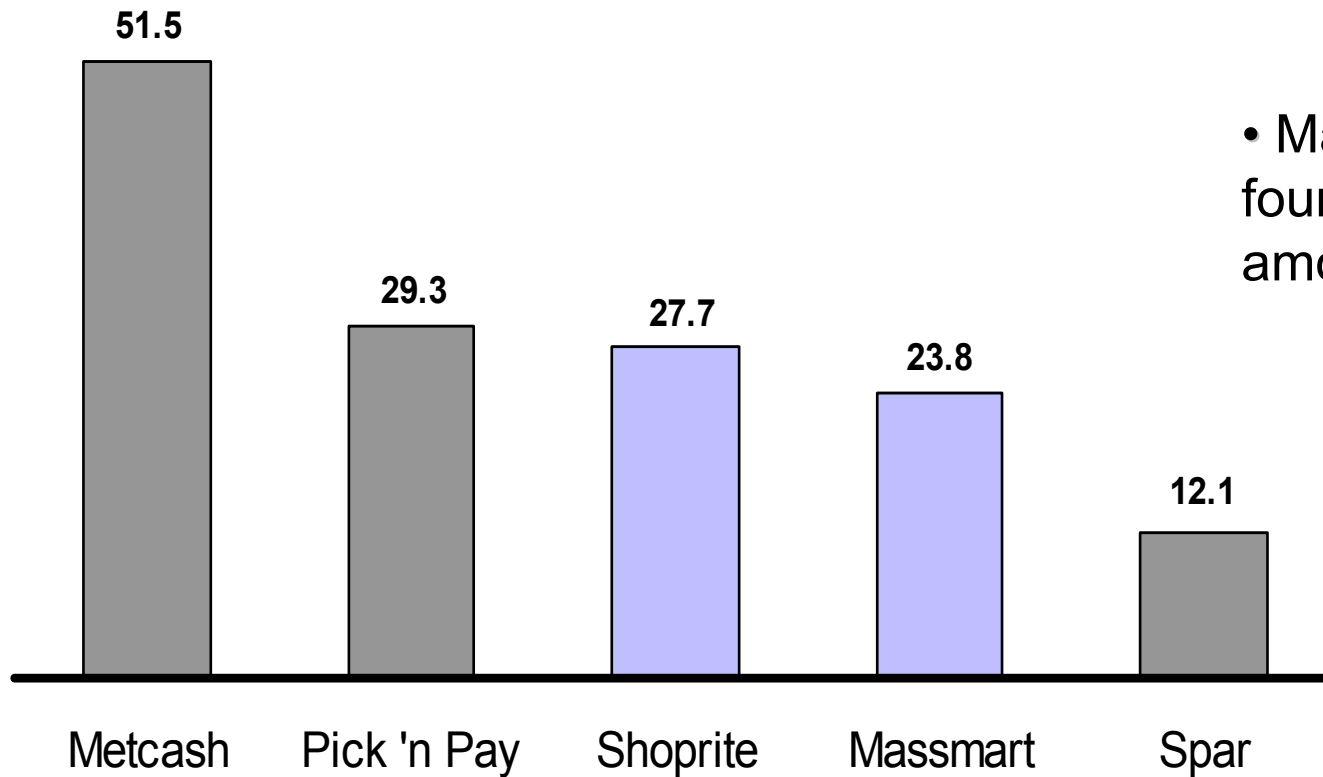
Sales growth



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Major RSA based mass marketer

(2003/04 turnover, Rb)



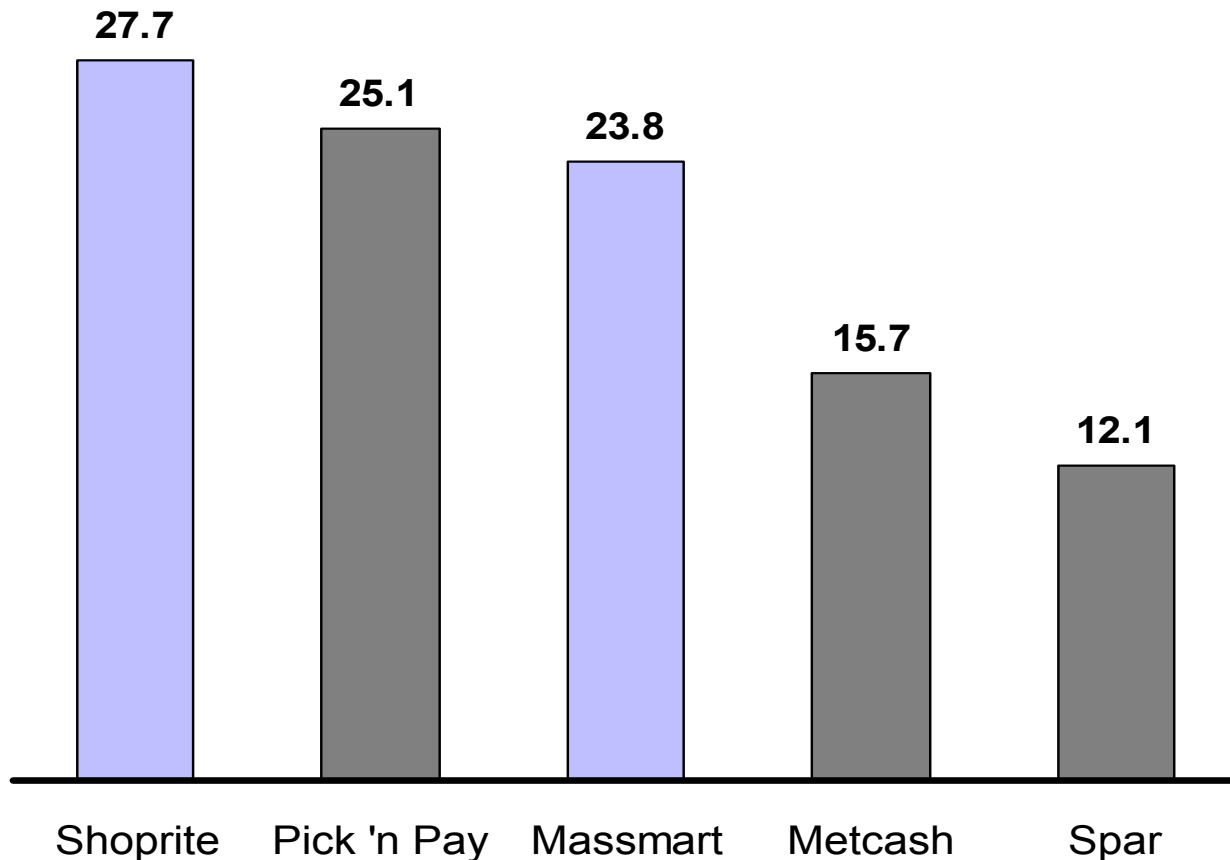
- Massmart ranked fourth in total sales among JSE Retailers

Source: Company reports/ UBS Estimates

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Major regional mass marketer

(2003/04 turnover, Rb)



- Massmart in Africa:
- Ranks 3rd in total sales
 - Ranks 1st in Gen. Merchandise, Liquor & Wholesale food
 - Ranks 3rd in food

Source: Company reports/ UBS Estimates

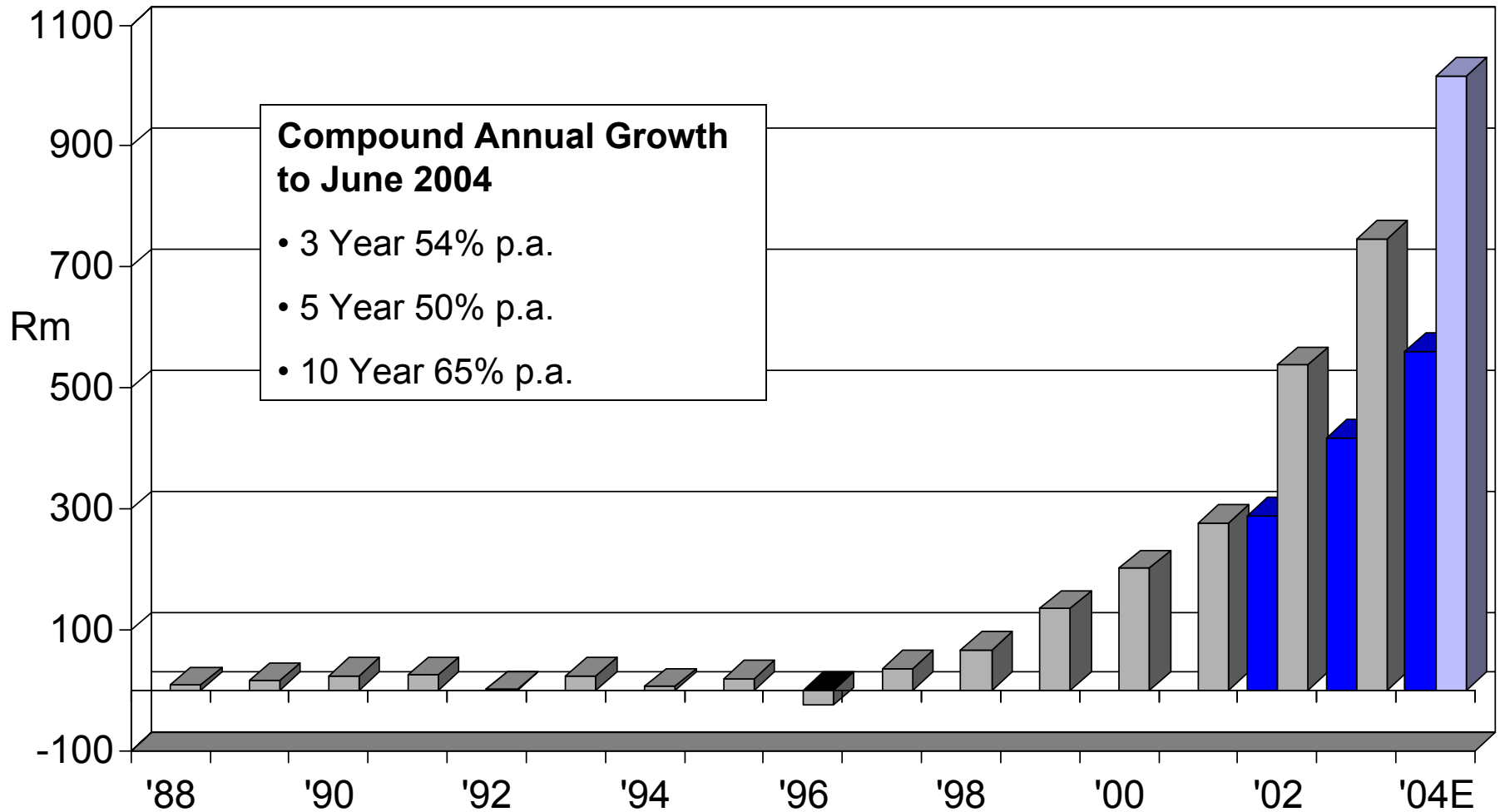
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Market penetration

% of total sales	1998	1999	2000	2001	2002	2003	2004
Shoprite ↓	27%	27%	26%	26%	24.5%	22.3%	22%
Pick 'n Pay →	21%	21%	21%	22%	21.1%	22.2%	21%
Massmart ↑	12%	14%	15%	15%	18.9%	19.5%	20%
Metcash ↓	15%	16%	15%	14%	13.5%	13.6%	12%
Edcon ↓	11%	10%	10%	9%	8.3%	8.5%	9%
Woolworths →	9%	8%	8%	9%	9.0%	8.5%	9%
JD Group ↑	5%	5%	5%	5%	4.7%	5.4%	7%

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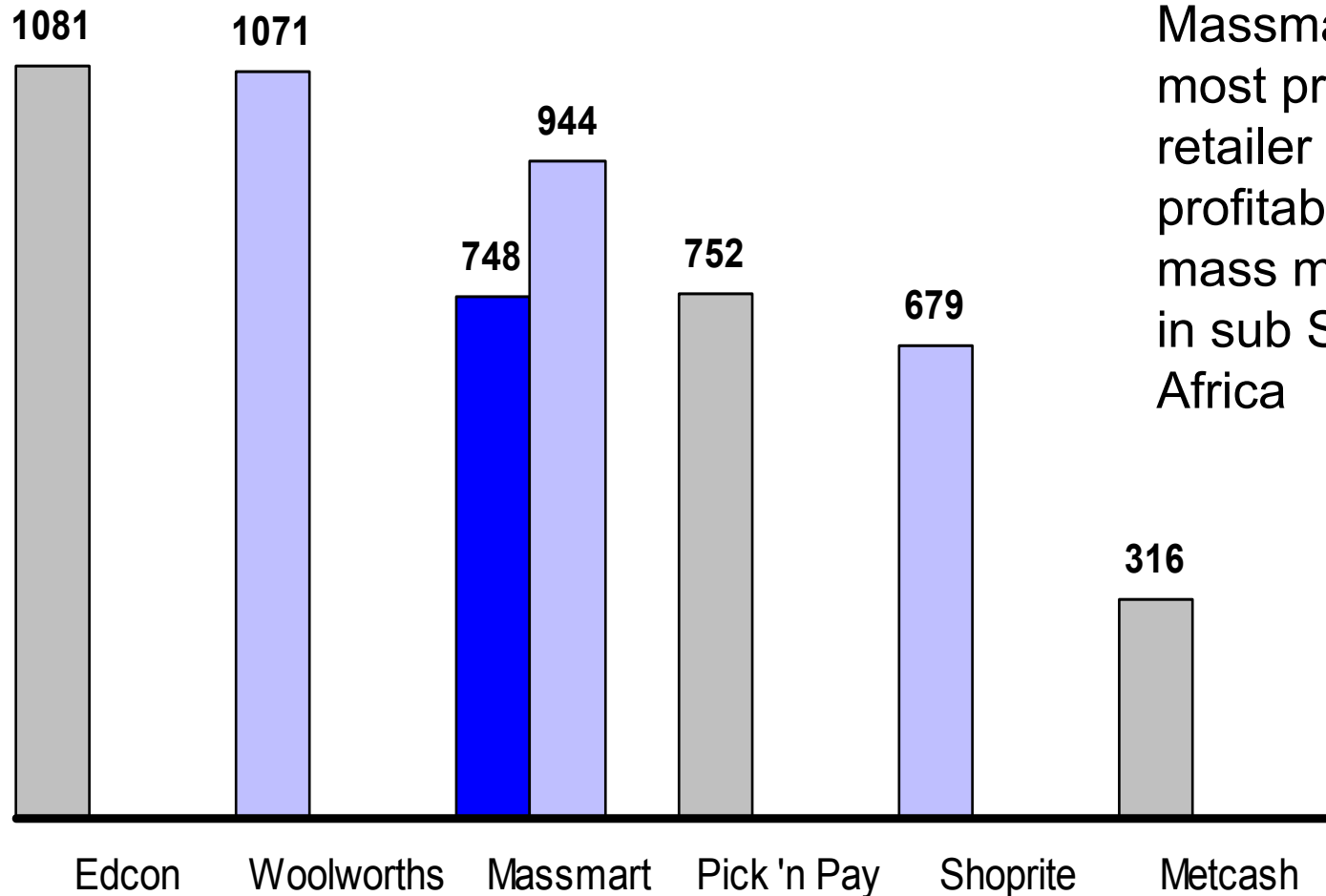
EBITA growth



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Regional profitability

(2003/04 EBIT, Rb)

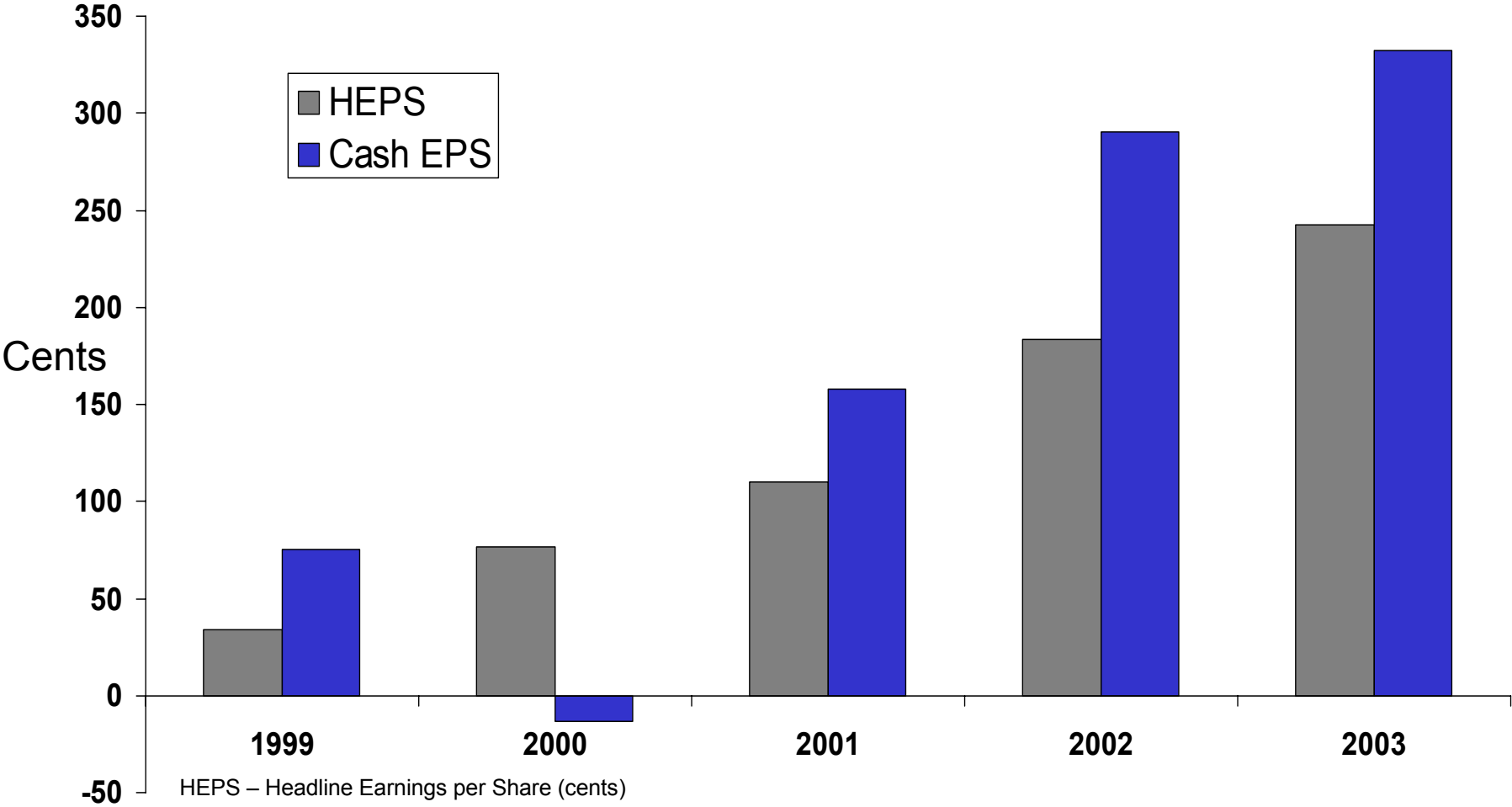


Massmart - third most profitable retailer & most profitable cash mass merchant in sub Saharan Africa

Source: Company reports/Bloomberg Analysts Estimates

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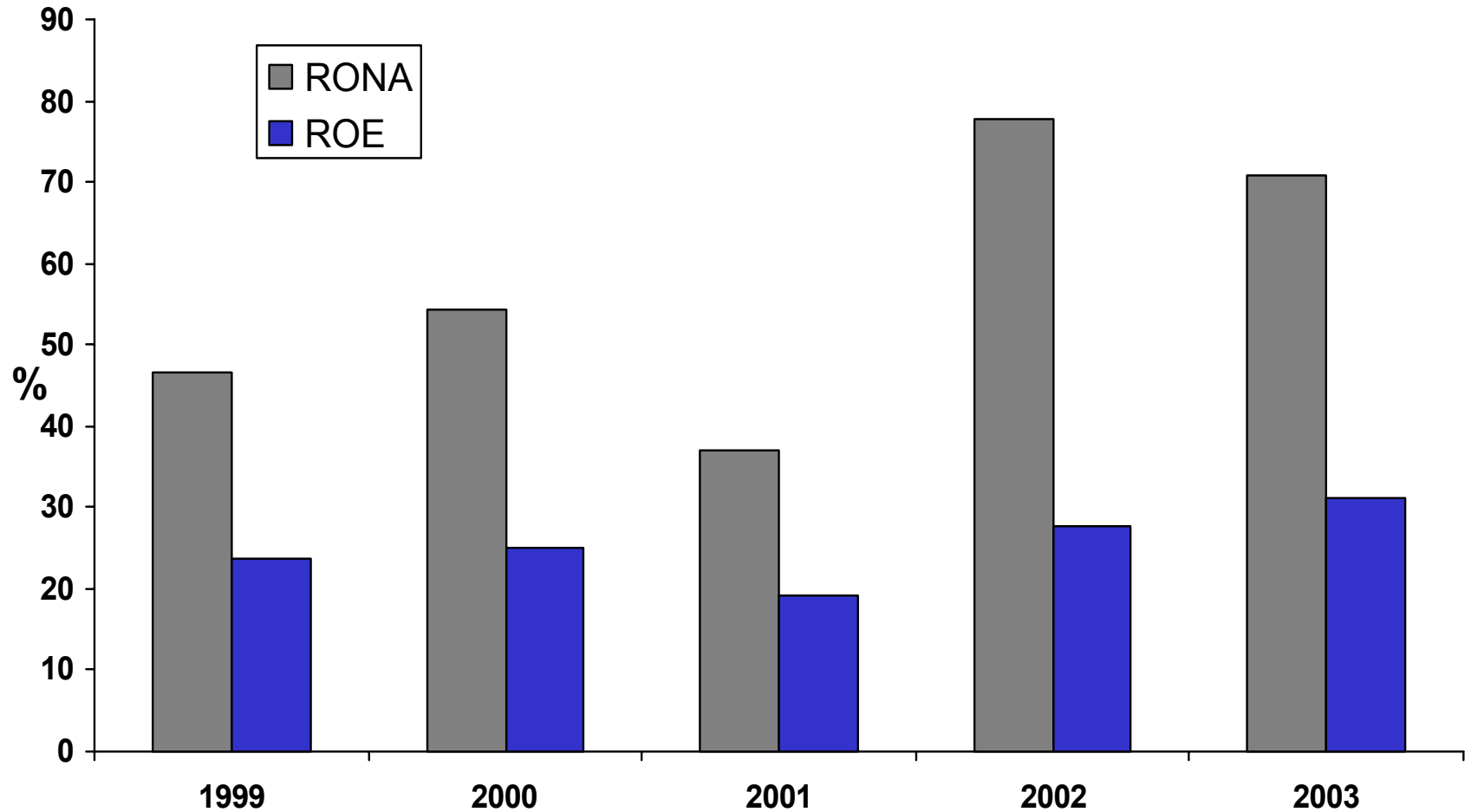
Cash Earnings



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



Returns



RONA - EBITA / Average Net Assets

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

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2004 – 2007

Pillars of future growth

Evolving from a solid core

Leading retail/wholesale brands

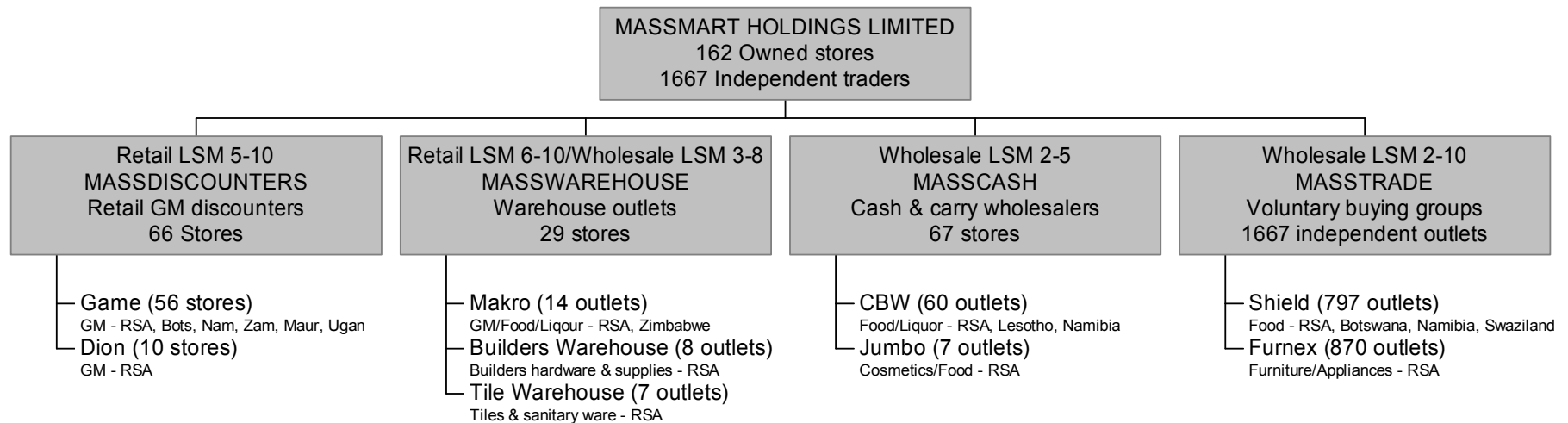
(Rated so by their target markets)



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Focussed divisional structure

(Based on target markets & business models)



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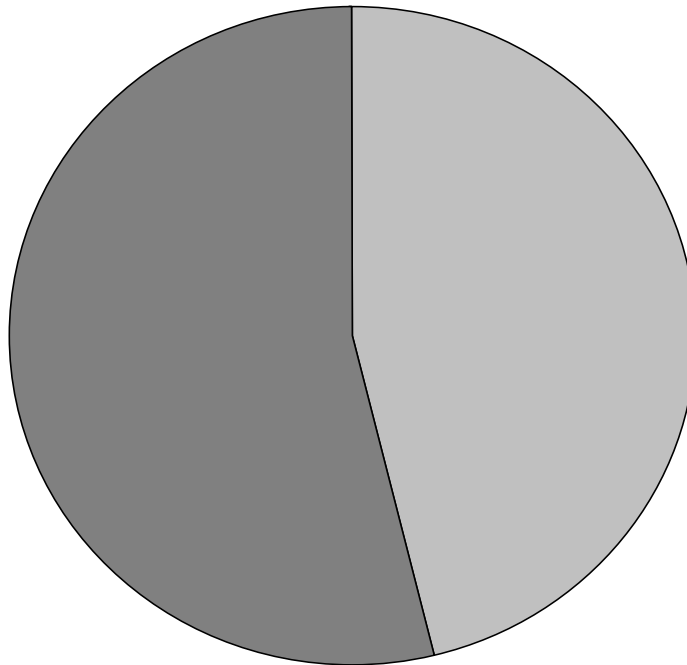
Expanding regional presence

- South Africa
 - Exceptional national footprint
 - Under represented (9%) in Western Province (19%)
- Lesotho
- Swaziland
- Botswana
- Namibia
- Zimbabwe
- Zambia
- Mauritius
- Uganda
- ***Mozambique***
- ***Tanzania***

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Broad socio economic reach

54% Wholesale
(mainly FMCG) to
retailers who
supply consumers
in the
LSM 2 - 6 groups

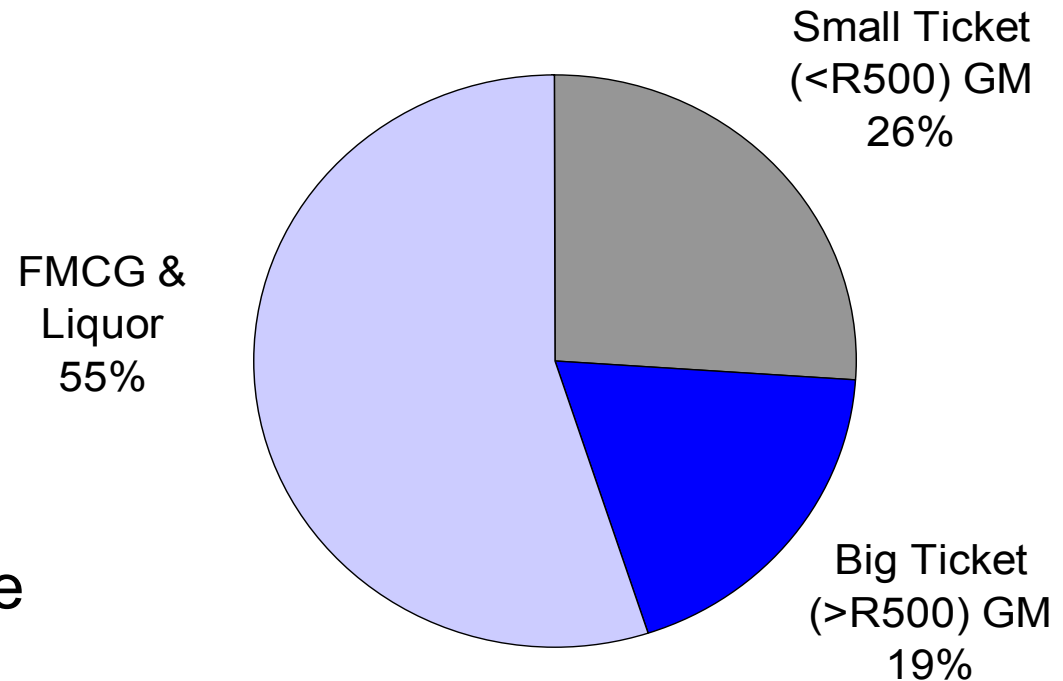


46% Retail
(mainly general
merchandise)
to end users
in the
LSM 6 -10 groups

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Leadership in 7 major product categories

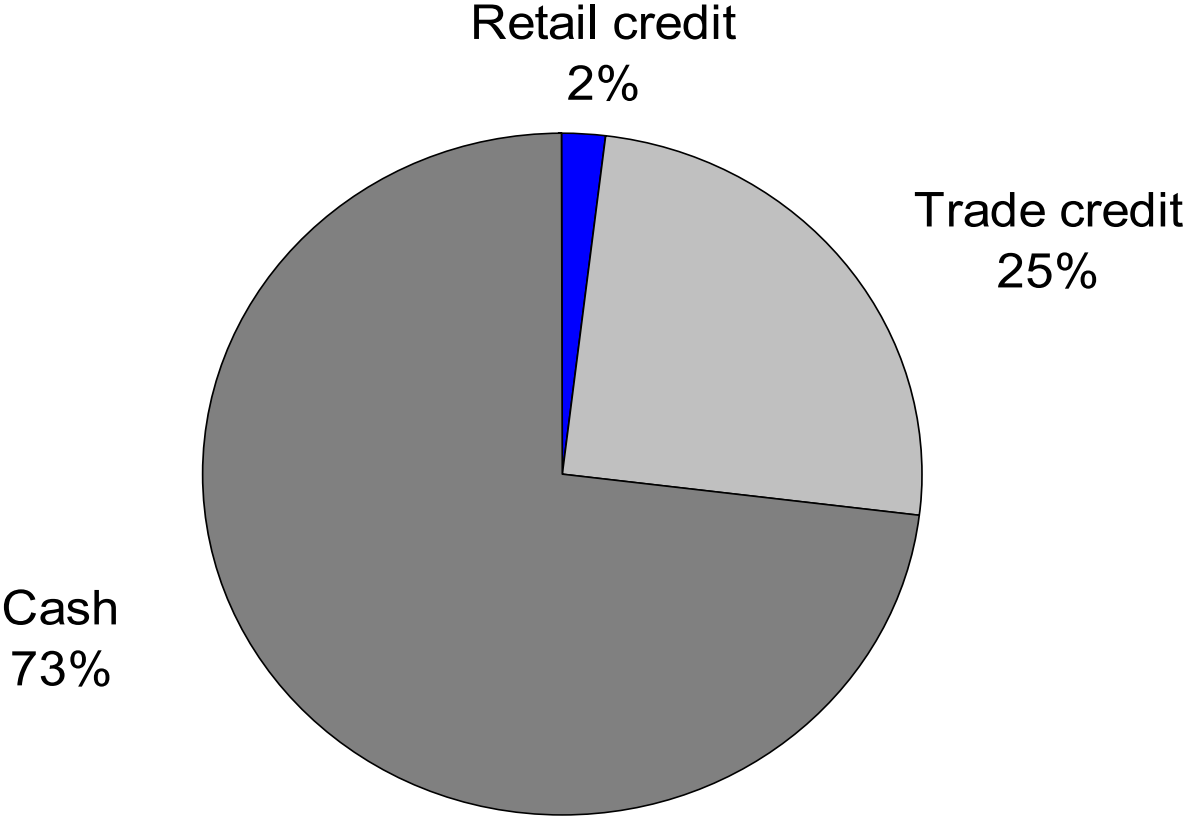
- FMCG
- Appliances
- DIY & Building
- Hi Tech
- Liquor
- Sports & Outdoor
- Multimedia & Office



(2004 Sales > R1.5b)

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Positive cash characteristics & flow



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High productivity (2003)

- Average sales per store R124m
 - 8 stores with sales >R500m
 - 18% of JSE listed retail & wholesale sales with only 3% of outlets
- Average sales per square meter R30k
- Average sales per employee R1.22m
- Average EBITA per store R5.3m
- Average EBITA per employee R45k
- Expenses as % sales fallen for four years

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Leadership

Young / diverse

- Top 52: young (41), educated (78 degrees), retail/wholesale experience (17 yrs.)
- Excellent mix of business experience, retail skills and academic qualifications
- Determination to bring science to retail/wholesale

Ranked 4 of 33 in UCT
Business School 2000
Entrepreneurship Index

Entrepreneurial

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

Institute of Marketing
Management 2001
Role of Honour

Aligning demographically

- 28% executive management, 58% management - equity appointments

Ranked 7 of 87 in
Deloitte's 2002 “Best
Company to Work For”

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Shareholding

- 15% international institutions
- 15% management (if all options exercised)
- 70% local institutions

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“Pillars of our future growth”

- High volume, low price, leading wholesale & retail brand portfolio, founded on merchandise expertise
- Coherent & accountable divisional/management structures implementing a collaborative business model to exploit intra & inter divisional synergies
- Broad regional & socio economic reach
- Merchandise complementarity & leadership
 - Food wholesaler & general merchandise retailer
 - Seasonality, cyclicity, margins, cash flow, productivity
- Experienced, cohesive & stable management
- Quality shareholder base & high liquidity

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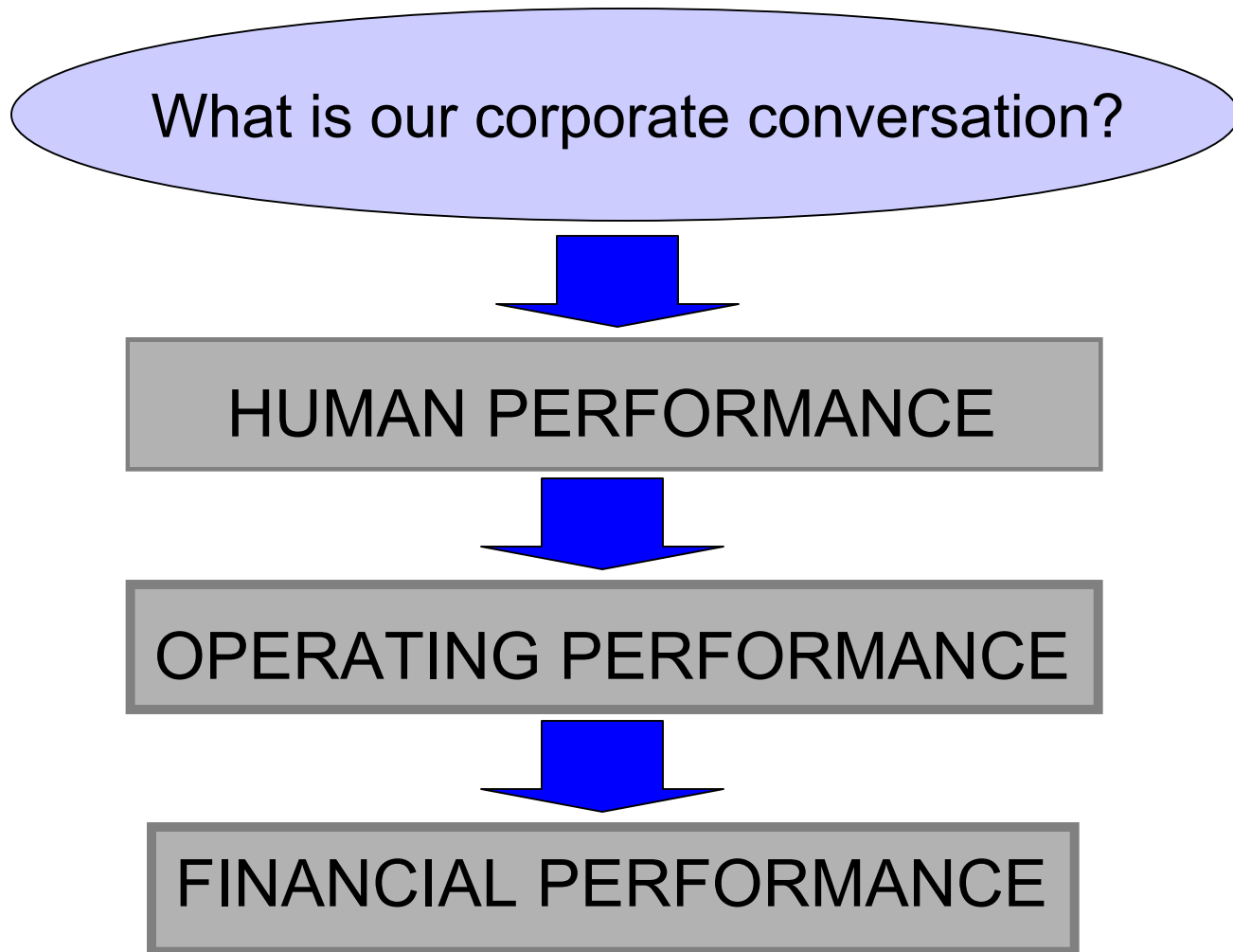
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2004 – 2007

Our corporate conversation

Sustaining growth of market share & returns

The leading indicator



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Our corporate conversation is about.....

- Unchanged market focus (profitable sales)
 - Customers (Value conscious), Geography (sub Saharan Africa) / Market (Mass) / Distribution type (Wholesale & retail) / Distribution model (High volume, low expense, low price) / Merchandise (Broad range, blatant value) / Payment (Mainly cash, no reliance on finance charges)

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Our corporate conversation is about.....

- Unchanged market focus (profitable sales)
- Merchandise & marketing innovation (pricing power & real comparable store growth)
 - 253 specialist, general merchandise, food and liquor buyers procure exceptional value, from 4286 local and international suppliers, across over 290 000 stock keeping units (SKU's) managed through 1940 article groups within 15 basic merchandise categories
 - in F2005, R260m invested in advertising 150 000 products promoted through 297m leaflets

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Merchandise innovation

“In retail, you are either operations driven - where your main thrust is towards reducing expenses and improving efficiency - or you are merchandise driven. If you are going to show the kind of double-digit comparable store sales increases that we show every year, and grow a company the way we’ve grown ours, you have to be merchandise driven. Retailers that are operations driven tend to level off and deteriorate.”

David Glass – Chairman Executive Committee Walmart

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Our corporate conversation is about.....

- Unchanged market focus (profitable sales)
- Merchandise & marketing innovation (real comparable growth & pricing power)
- Store portfolio optimisation (penetrating markets & sweating assets)
 - National store development grid by July

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Store portfolio optimisation

- Estimated growth & size of major consumer markets in RSA over the next ten years
- Researched existing store catchment areas
- Applied analog methodology
- Concluded that in Gauteng (excluding Builders & Tile Warehouse) we should:
 - Open 15 stores
 - Close 13 stores
 - Convert 5 stores
 - Enlarge 2 stores
 - Reduce 1 store
 - Relocate 1 store

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Massmart's portfolio optimisation

- Result:
 - 2 more stores
 - 29% improvement in trading density
 - 34% improvement in sales
 - 62% improvement in branch contribution
 - 164% return on the capital employed in the changes

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Our corporate conversation is about.....

- Unchanged market focus (profitable sales)
- Merchandise & marketing innovation (real comparable growth & pricing power)
- Store portfolio optimisation (penetrating markets & sweating assets)
- 3 year Growth Vectors (expanding footprint)

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Growth Vector 1 – Africa

- Constitutes 5% sales & 9% branch contribution
 - Game – 6 general merchandise discount stores, CBW – 9 wholesale food & liquor outlets, (Makro – 2 Zimbabwe stores not consolidated)
- First mover advantage in underserved markets
 - Game viable at 150 000 mid/upscale customers
- Risk mitigated by weekly cash extraction, very low cost management & logistics model, limited long term credit & country diversification
- High profitability – high trading densities, logistics, higher margins for higher risk
- Planned 7 Game & 4 CBW stores (R1.1b)

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Growth Vector 2 – FMCG wholesaling

- 35% share of R38b market
 - Constitutes 48% Group sales
 - Makro – 12 stores, CBW – 60 stores, Jumbo – 7 stores, Shield – 388 independent wholesalers & 409 independent retailers)
- Competitiveness & profitability ensured by low expense, high customer relationship operations (Makro CRM & overnight picking systems, CBW buying groups, Shield rebate sharing)
- ROS 3.4% - comparable to European food wholesaling, higher than SA food retailing
- Planned 15 CBW & 3 Jumbo stores in RSA (R1.8b)

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FMCG wholesaling

- FMCG distribution in RSA shaped by apartheid:
 - location & consumption of lower socio economic groups
 - 4.8m households (50.1%), 23.2m people (52.6%) in LSM 1 – 4 groups (Addendum 3)
- Cash & Carry plus Independent trader is an integral (R38b) part of (R120b+) FMCG supply chain
 - Low & slow penetration (est. R20m per store) of supermarket majors into traditional low income areas
- Contrary to Nielsen data, our experience suggests growth of FMCG wholesale
 - CBW producing real comparable store growth
 - Shield members enthusiastic & expanding
 - Makro customers growing

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Competitiveness of Independent retail

- Convenience/poor transport major competitive factors
- Low C&C expenses & prices plus the low expenses of independent retailer enables the latter to compete profitably with majors
 - Majors only < 6% cheaper on typical basket (Addendum 4) in shop out we conducted last week (Addendum 5)
- Majors struggling to define profitable low income supermarket format
 - Core, low income, low gross margin FMCG products constitute 40% - 60% of mix relative to <5% in middle/upmarket outlets
 - Store & corporate expenses much higher than independent (e.g. 3% PBT on 16% GP (Addendum 6))

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Growth Vector 3 – RSA Home improvement

- > R2b of R18b market
- Constitutes 8% of Group sales
 - Makro – 12 stores, Game – 49 stores, Dion – 10 stores, Builders Warehouse – 8 stores, Tile Warehouse – 7 stores
- Secular structural market development driven by:
 - Property prices
 - Increasing middle-market home ownership (BEE)
- Fragmented industry
- Opportunity for national market leader (e.g. Home Depot / B&Q)
- Planned 21 Builders Warehouse & 21 Tile Warehouse outlets in RSA (R2.1b)

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Growth Vector 4 – Opportunities under research

- Game RSA (new large stores) – 3 in 2005 (R0.3b)
- Support independent trade (Masstrade)
 - Currently supply 797 Shield food wholesalers & retailers, & 870 Furnex furniture retailers
 - Independent trade needs procurement assistance to compete
 - Independent trade fuelled by BEE enterprise development
 - Masstrade to add additional product categories onto our trading hub by acquisition or greenfields
- Smaller format Game (15 store opportunity)
- Reposition Dion (nett + 5 stores)

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Our corporate conversation is about.....

- Unchanged market focus (profitable sales)
- Merchandise & marketing innovation (real comparable growth & pricing power)
- Store portfolio optimisation (penetrating markets & sweating assets)
- 3 year Growth Vectors (expanding footprint)
- **Acquisitions (enhancing portfolio)**

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Our corporate conversation is about.....

- Unchanged market focus (profitable sales)
- Merchandise & marketing innovation (real comparable growth & pricing power)
- Store portfolio optimisation (penetrating markets & sweating assets)
- 3 year Growth Vectors (expanding footprint)
- Acquisitions (enhancing portfolio)
- PBT margin improvement (enhancing productivity)

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PBT margin improvement

- Higher gross margin through:
 - Pricing power (range/differentiation/exclusivity)
 - Promotional power (increasing marginal sales)
 - Procurement (lower logistics/intermediary costs)
 - Merchandise mix (higher value/margin products)
 - Portfolio mix (growth of higher margin formats Game/BW)
- Lower expenses through:
 - Systems, process improvement, productivity & discipline
 - Amortising central costs over more stores
- Working capital management
 - Systems (replenishment), logistics & discipline

(Note: Invested R600m in IT over past 3 yrs.)

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Targeted PBT ROS

(%)	<i>Target</i>	Dec 2003	June 2003	June 2002	June 2001	International bench mark
Massdiscounters	5.0	6.0	3.64	3.36	2.02	7.4
Masswarehouse	4.0	4.6	3.03	2.91	2.52	5.0
Masscash	4.0	3.6	4.08	3.92	3.52	3.5
Masstrade	3.0	2.7	2.89	2.51	2.73	3.0
Group	<i>*4.17</i>	4.6	3.49	3.29	2.48	<i>*5.0</i>

* Proforma using actual sales mix and target margins

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Our corporate conversation is about.....

- Unchanged market focus (profitable sales)
- Merchandise & marketing innovation (real comparable growth & pricing power)
- Store portfolio optimisation (penetrating markets & sweating assets)
- 3 year Growth Vectors (expanding footprint)
- Acquisitions (enhancing portfolio)
- Margin improvement (enhancing productivity)
- **Collaboration (whole > sum of parts)**

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Collaboration

Group wide Channel collaboration & integration through “Forums”, which seek synergies in:

- Food procurement
- General merchandise procurement
- TIP (Technology, Information & Processes)
- Human Capital management
- Expense rationalisation
- Finance & accounting

Current benefits > R150m operating profit

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Our corporate conversation is about.....

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- Store portfolio optimisation (penetrating markets & sweating assets)
- 3 year Growth Vectors (expanding footprint)
- Acquisitions (enhancing portfolio)
- Margin improvement (enhancing productivity)
- Collaboration (whole > sum of parts)
- **BEE (alignment with national agenda)**

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- Unchanged market focus (profitable sales)
- Merchandise & marketing innovation (real comparable growth & pricing power)
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- 3 year Growth Vectors (expanding footprint)
- Acquisitions (enhancing portfolio)
- Margin improvement (enhancing productivity)
- Collaboration (whole > sum of parts)
- BEE (alignment with national agenda)

An interesting conversation!!!

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2007 Vision for Growth

Doubling shareholder value over three years?

2007 Vision for Growth

	3 Yr effect	Rb	Cpd. Grth*
UBS forecast '04 sales base		23.8	
Inflation (6.5% pa)	20.8%	4.9	
Real comparable growth (4% pa)	12.5%	2.9	
50 new/acq.stores @ R100m ps 22 CBW/Jumbo , 21 BW & 7 Game		5.0	
Opportunities under research		0.3	
Acquisitions		?	
Sales to June 2007		36.9	15.6%
Targeted PBT margin 5.0%		1.83	25.1%
Targeted EPS		>600c	

*Based on UBS '04 sales & PBT forecasts

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Risks

- External
 - Economic growth / Consumer confidence
 - Lower or falling inflation
 - R/\$ volatility
 - Labour costs
 - Legislation of industry structure or pricing
- Internal
 - Maintaining strategic & structural focus
 - Maintaining control of a large, complex, trading business
 - Weaker Rand impact on direct or indirect imports (30% purchases)
 - Retaining leadership/management competence & experience

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Summary

Summary

- 1988 - 2004 – ***Strategy and results that have shaped our Group***
- 2004 – 2008 – ***Pillars of future growth and our corporate conversation***
- 2007 “Vision for Growth” – ***A subjective, optimistic, management view of our future***

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“Constantly making things better for the customers who shop in our stores is not something we can simply do in some general way. It isn’t something we can command from the executive offices because we want it to happen. We have to do it store by store, department by department, customer by customer, associate by associate”

Sam Walton – Founder Wal-Mart

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Dedicated to Value

Thank You

www.massmart.co.za

Addendum 1 – Strategic Principles

- There is no such thing as strategy at the level of the company - only at the level of the industry
- Strategy is about deploying resources & capabilities to achieve a superior competitive position within an industry – not about extending efficiency frontier
- Strategy is not about predicting the future, it is about building capabilities & competence to ensure superior relative performance in most environments
- Competitive advantage is made more sustainable by multiple interdependent activities
- Strategy demands leadership

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Addendum 2 - Vision

Our definition of victory – how we will know that we've won

Customers will regard Massmart's wholesale and retail formats as their **first choice** when buying those categories of merchandise offered by the formats.

Suppliers will regard Massmart as a **valued partner** in accessing and understanding their end consumers.

Career Retailers will regard Massmart as the **preferred employer** in the distribution industry.

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Addendum 2 - Vision

Our definition of victory – how we will know that we've won

Investors will regard Massmart as a portfolio rendering superior growth and total returns at relatively lower risk than alternative wholesale and retail investments.

The community will regard Massmart as a sensitive, caring, trustworthy, South African corporation.

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Addendum 3 - LSM 4

- Up to some high schooling
- Urban, conventional township housing & backyard rooms
- R1 570 per month income
- Monthly bulk shopping – Shoprite, Checkers, township supermarkets, informal traders and hawkers
- Increase in bank accounts
- Electricity, water on plot, flush toilet
- TV sets, hi-fi/radio set, stove, fridge
- Stokvel, lottery tickets

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Addendum 4 – Shop out basket 3/6/04

Maize meal

Margarine

Chicken

Baked beans

Pilchards

Jam

Washing Powder

Petroleum Jelly

Toilet Soap

Toothpaste

Toilet Roll

PM9 Batteries

Coffee

Tea

Salt

Cooking Oil

Laundry Bar

Candles

Mayonnaise

Tomato Sauce

Concentrate

Biscuits

UHT Milk

Eggs

Shoe Polish

Floor Polish

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Addendum 5 - Independent competitiveness

	Basket (1 of each)	Cum. GP%	Weighted (by usage)	Cum. GP %
Cost to Makro Score/Shoprite?	R193.86		R81.79	
Cost of basket from Makro (CBW similar)	R202.84	4.3	R83.79	2.4
Independent selling price (Zola)	R255.56	31.9	R103.88	27.0
Shoprite selling price (Zola)	R249.51	28.7	R102.18	24.9
Independent selling price (Meadowlands)	R251.48	29.7	R95.11	16.3
Score selling price (Meadowlands)	R238.68	23.1	R89.39	9.3

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Addendum 6 - Profitability of independent trader

Eastern Cape trader's Income Statement

	(R'000)	
– Sales	1 859	
– COS	<u>1 554</u>	
– GP	305	16%
– Gen Exp	114	6%
– Salary	<u>135</u>	
– PBT	<u>56</u>	3%

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