



Consumer Trends

6 June 2007

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Disclaimer

- Massmart has a June year-end and we are in a closed period
- I am not an economist so I will not attempt an amateur's interpretation of the latest economic indicators
- The insights I share with you are specific to our customers and markets



Different Point of View

- Investors interested in the “alpha” and the “beta” to make asset class/country/sector/company choices
- Management need to separate the “alpha” from the “beta” so that we can diagnose our over/under performance relative to the market.
- For example, 5% comparable sales growth in a 8% market and 5% comparable sales growth in a 3% are two very different things.



Format

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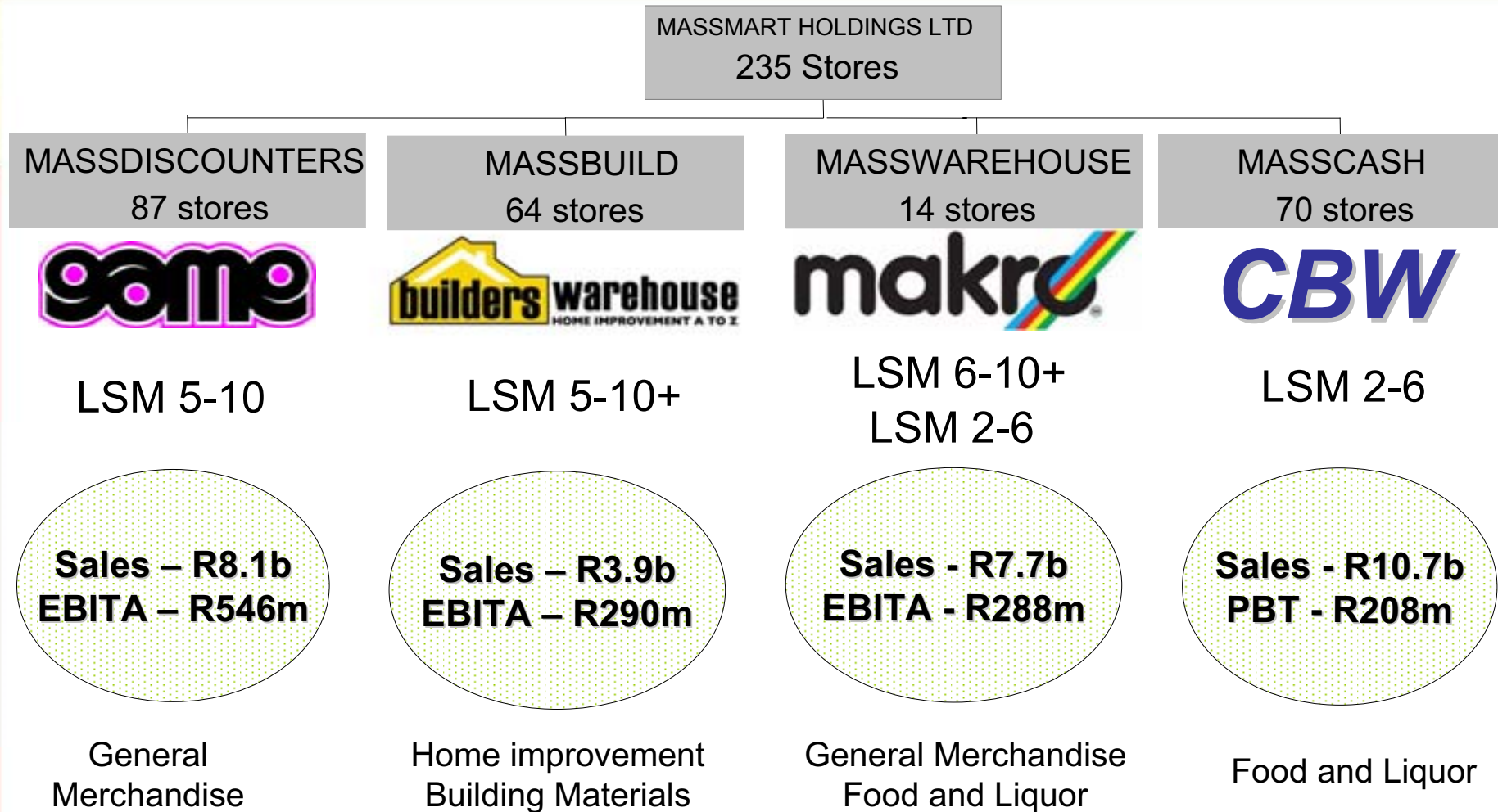
Our Business

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Massmart

(Leadership in 4 market segments)



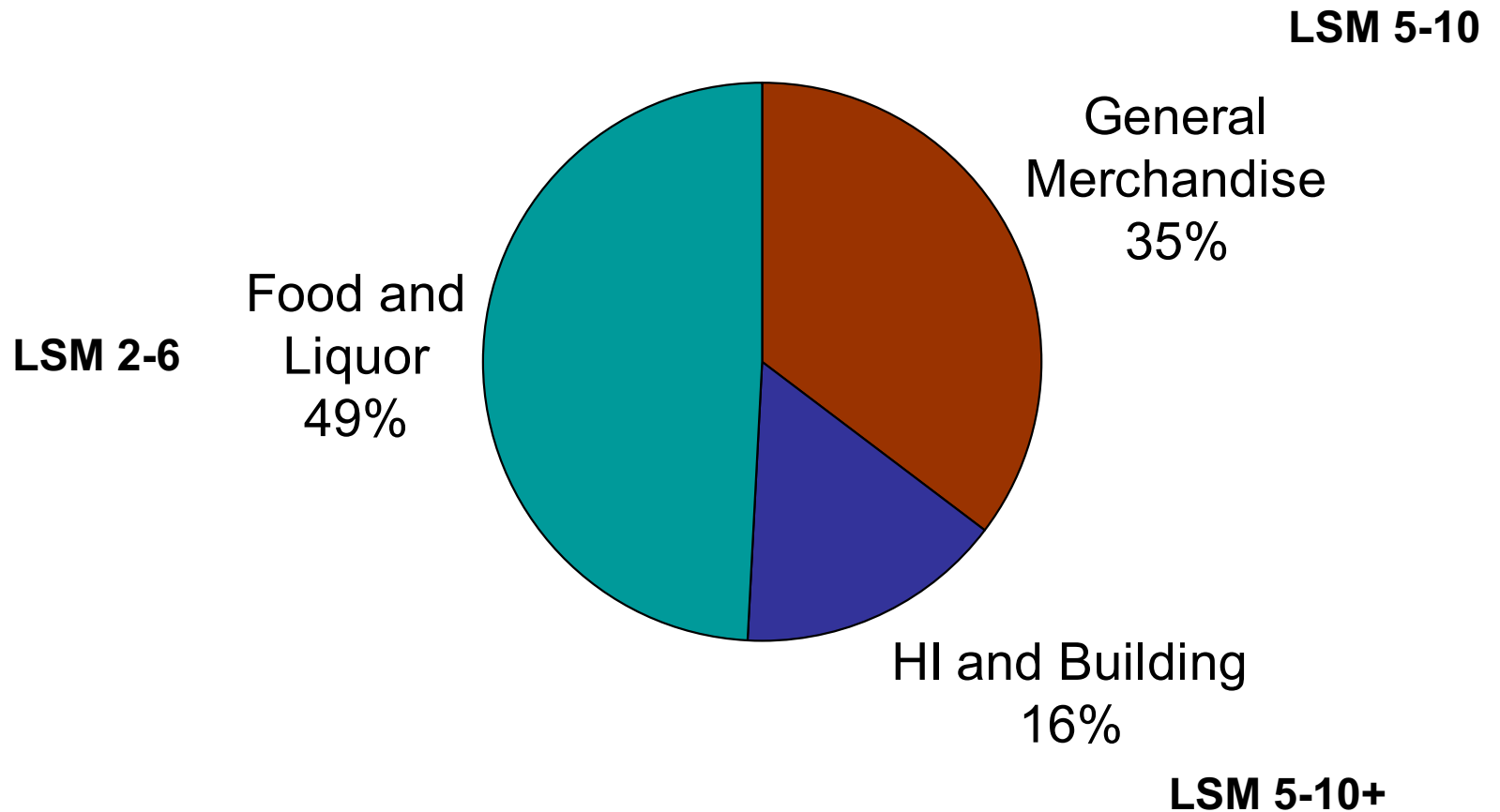
Source Massmart 2006 Annual Report and Dec 2006 half-year results announcement

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Category Contribution



Source Massmart Dec 2006 half-year results announcement

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Other facts

- We are a cash business (Consumer Credit 1.2% of sales)
- Approximately 35% of our sales are on third party Credit Cards
- We move 19% of all goods at Cost of Sales of Listed Retailers through only 3% of the Outlets and 14% of the space
- We have a presence in all geographical areas of South Africa, and 12 African Countries plus Mauritius

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Inflation

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Inflation

- Our Product Inflation and CPIX vary materially (Food 25% of CPIX)
- GM/Hi inflation exposed to Rand/Dollar
- Food inflation exposed to Rand/Dollar and commodity cycles
- In Food and Liquor volumes constant, inflation flows through to nominal sales growth. Some switch within grains and proteins
- In GM/Hi volumes vary, but nominal sales growth best approximated by CPIX plus GDP (i.e. approx nominal GDP Growth).
- In Building Material, we are still learning so can't tell how inflation affects this category yet, but we suspect that Home Improvement is similar to GM and Building to Food (although with different drivers).
- Most importantly it doesn't make a difference to us whether sales growth comes from volume or product inflation.



China-Driven Dollar Deflation

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China-Driven Dollar Deflation

- Product Inflation is a misleading measure in certain categories
- Other than big ticket items, durables (GM) are much more affordable and disposable, and therefore fashionable.
 - Small appliances, house wares, etc
- Hi-tech product needs to be replaced regularly
 - Computers Printer, audio visual,
- Driven by value and innovation
 - MP3, Plasma/LCD, Digital TV/music/wireless
- No one fixes products outside of warranty anymore
- i.e. more annuity-type business
- Also Price deflation results in customers shopping up
- Our responsibility is to keep the average unit prices growing by managing the mix.
- You can get sales growth, despite deflation

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Interest Rates

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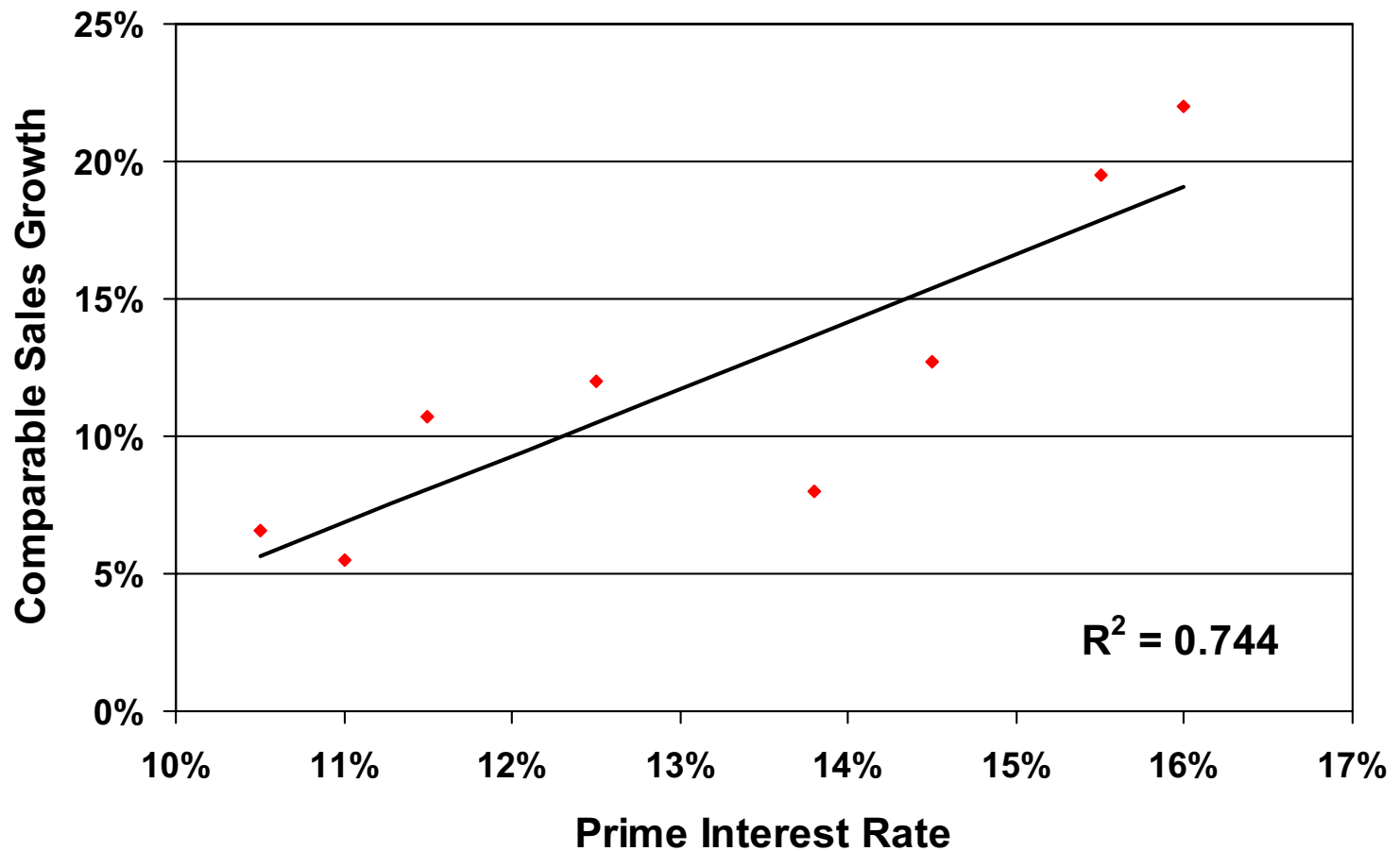
Interest Rates

- In SA inflation-targeting environment, movements in currency/food inflation/interest rates are all linked together.
- Our Food business is therefore countercyclical to interest rates and seemingly more so than our GM business is cyclical.



Counter Cyclical

Comparable Sales Growth versus prime



Source: Massmart Annual reports

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Interest Rates

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- “Spending Growth has been matched by income growth ... and has not been excessive ... and credit growth has been used to finance savings or investment” (Deutsche Jan 2007 “The Prudent SA Consumer)
- We have a small credit book (132,000 customers 1.2% of our total sales):
 - % of credit sales to cash sales has been very constant.
 - acceptance/decline rates have not changed.
 - any increase in credit sales must be a result of aggressive marketing and increased risk in the scorecards (more accounts and higher credit limits) than from consumer demand.
- Unsecured consumer credit put into the market probably flows through to all retailers.
- When interest rates start to bite - we don't worry about a debtors book.

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Housing Prices

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Housing Prices

- Mortgage advances have grown but must be seen as form of savings.
- “Strong credit growth could be the result of balance sheet transaction, rather than excessive consumer spending growth” (Deutsche)
- Home equity is driving sales in this market.
- Recently we have seen a move from residential to commercial buildings (plans passed). We are exposed to both although majority residential
- If liquidity dries up. We expect a shift into residential renovations.
- The fundamental remains that there is a shortage of houses.
- Builders Warehouse is a phenomenon and is restructuring an industry.

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New Credit Act

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New Credit Act

- The new act is fundamentally about administration and responsibility.
- In terms of the effect on us – nothing - other than perhaps stopping us from granting interest bearing staff loans.
- However we believe that the more powerful force is going to be increased competition in credit granting.
- Ultimately banks, and specialist loan companies should dominate this market and we are looking forward to participating in encouraging competition.
- This competition should reduce the dependency of getting store specific debt and encourage consumers to shop for the best price.
- For us, we hope to see a material reduction in credit switching fees as competition increases for a share of our approx R20bn retail spend.

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Summary

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Summary

Despite some Risks

External

- Skills shortage
- Capacity shortage
- Labour wage demands
- Currency shock
- All driving inflation
- Extended interest rate tightening cycle

Internal

- Business integration risks
- Shortage of property in some areas



Summary

The fundamentals remain in place

In a 2006 report the BER noted that the main drivers of consumer spending are:

Prime overdraft rate	No blowout predicted
Disposable Income	Nominal GDP Growth (Wages/Tax/Social Spending)
Rand Exchange Rates	Drives product inflation
CPI/CPIX	Medium term 5%
The Wealth Effect – House Prices/Shares	ABSA housing index 15.5%
Consumer Confidence	High (1Qtr 2007 25 year high)
Growing Middle Class	Employment/BEE

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Questions

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