



## Dedicated to Value



Massmart Reviewed Results  
for the 26 weeks to 26 December 2010

Presentation to Investors, Analysts and Media  
February 2011



# Agenda

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- Group Financial Performance
- Divisional Financial Performance
- Highlights of the Operational Performance
- The Environment
- Vision for Growth 2013
- Risks & Prospects
- Conclusion

ADDENDUM – Additional financial data



# December 2010 Group Financial Performance



# Key Financial Points

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Performance typical of a low inflation / low interest environment:

- General Merchandise & Home Improvement sales bolstered by positive consumer environment and product deflation
- Food sales affected by competition and product deflation

Weak sales recovery in Africa, hampered by Rand strength

High expense growth due to accelerated investment in growth and capacity

Very significant capital investment since December 2009

Working capital steady. Overstocked in Massdiscounters

# Sales Inflation

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- YTD sales inflation to December 2010:
  - General Merchandise -8.7%
  - Home Improvement 0.2%
  - Food & Liquor -0.7%
  - Total -2.9%
  
- General Merchandise deflation from relative Rand strength
- Food in deflation. Returning gradually to inflation

# Sales

(Rm's)	Dec 2010	Dec 2009	Total % Chg	Comp % Chg	Infl %
Massdiscounters	6 994	6 114	14.4	9.0	-8.2
Makro	6 593	5 956	10.7	7.8	-1.2
Massbuild	3 782	3 190	18.6	11.8	0.3
Masscash	10 006	8 894	12.5	4.2	-1.3
<b>Total</b>	<b>27 376</b>	<b>24 154</b>	<b>13.3</b>	<b>7.3</b>	<b>-2.9</b>

- Inflation = financial YTD product inflation
- Significant volume growths across all Divisions



# Store Portfolio

	Massdiscounters	Makro	Massbuild	Masscash	Total
June 10	102	13	76	97	288
Acquired	-	-	1	4	5
Closed	-	-	(1)	-	(1)
Openings	7	1	4	4	16
<b>Dec 10</b>	<b>109</b>	<b>14</b>	<b>80</b>	<b>105</b>	<b>308</b>

- Massdiscounters stores: six new Game & one Dion Wired
- Massbuild stores: three new Warehouse, one Express. One Depot closure. One acquired (Cedar Square)
- Masscash stores: four acquired & four Cambridge opened

# Sales Growth

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	%
Existing stores (comparable growth)	7.3
New stores & acquisitions	6.0
<b>Total sales growth to Dec 2010</b>	<b><u>13.3</u></b>

- 34-week sales growth update to 20 February 2011:
  - 12.6% total
  - 6.4% comparable
  - Slowing growth as all Divisions evident over Christmas and subsequently



# Gross Profit

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	Dec 2010	Dec 2009
Gross Profit	R4 944m	R4 301m
<i>As % of Sales</i>	18.1%	17.8%

- Gross margins recovered in all Divisions
- This despite increased promotional buying by customers
- Great trading performance given the product deflation and competition, particularly in Food

# Operating Costs

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	Dec 2010	Dec 2009
Operating Costs	R3 763m	R3 240m
<i>As % of Sales</i>	<i>13.7%</i>	<i>13.4%</i>

- Figures exclude Forex gains / losses and Other Income in both periods
- Total expenses 16.2% increase. Comparable increase 7.8%
- A better indicator of Group activity is the total sales volumes of 16.2% (and comparable of 10.2%)
- New Massdiscounters RDC added R30m to Group costs (+1%)
- New stores adversely impact expense ratios
- No material Walmart transaction costs

## Employment Costs (49% of total costs)

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	Dec 2010	Dec 2009
Employment Costs	R1 837m	R1 621m
<i>As % of Sales</i>	6.7%	6.7%

- Total 13.3% increase
- 8.5% increase in staff (FTEs) to > 34 000
- Salary & wage inflation
- Includes non-cash IFRS 2 (share-based payments) charges of R53m (2009: R79m)

# Occupancy Costs (22% of total costs)

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	Dec 2010	Dec 2009
Occupancy Costs	R 827m	R 689m
<i>As % of Sales</i>	3.0%	2.9%

- Total 20% increase.
- Leases comprise 68% of these costs
- 8.7% trading space increase (from December 2009)
- New Massdiscounters RDC adds R19m (+3%)
- Some effect from increased proportion of more expensive retail space in Masscash (+2%)
- Continued large increases in rates & services

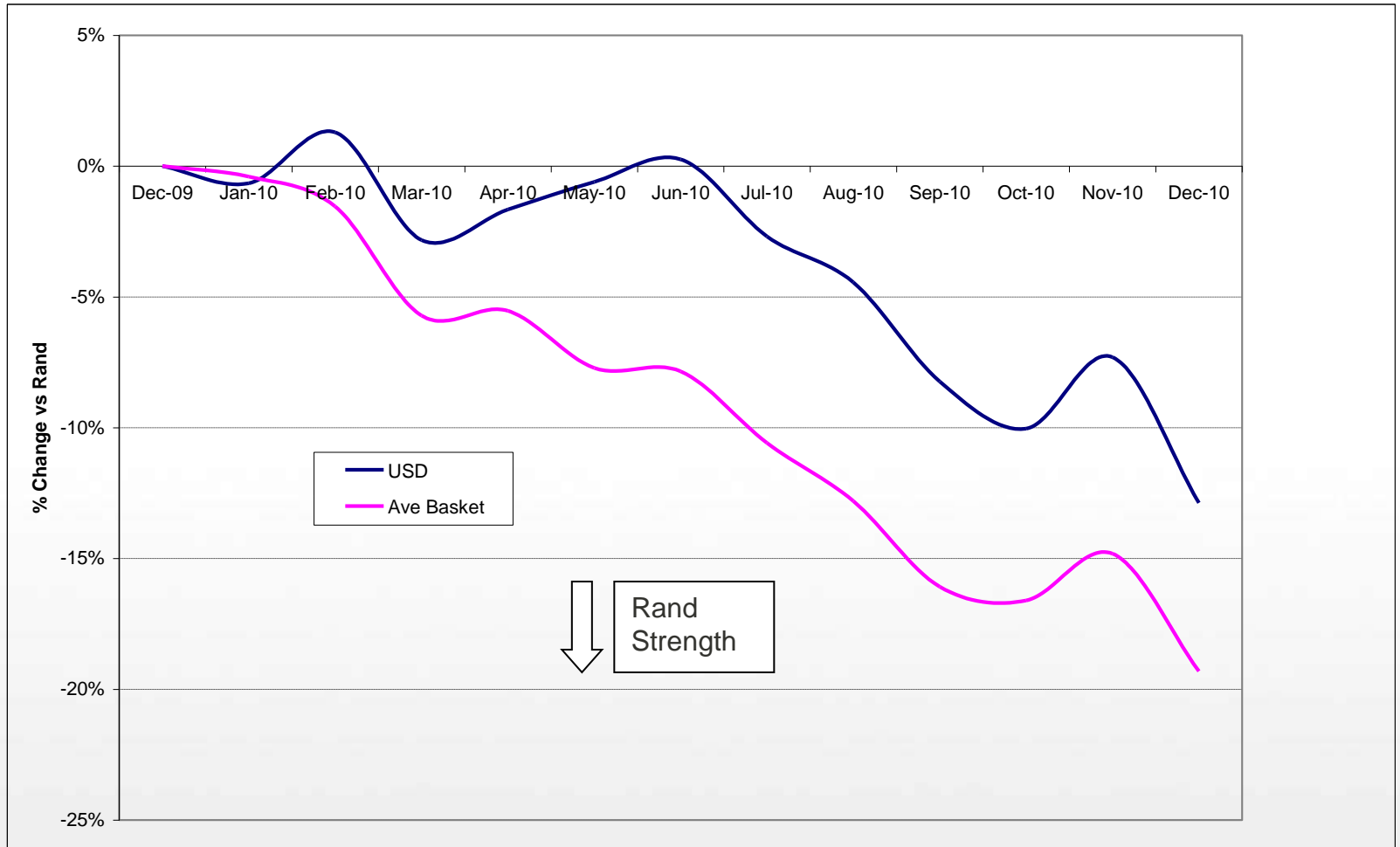
# Depreciation and amortisation (6% of total costs)

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	<b>Dec 2010</b>	<b>Dec 2009</b>
Depreciation	R222m	R187m
<i>As % of Sales</i>	<i>0.81%</i>	<i>0.77%</i>

- Total 18.4% increase
- From significant investments in new stores and acquisitions

# Game Africa - Currency moves



Shows y-on-y change per month of ZAR / US\$ and average of Masdiscounters African currencies' basket (using spot rates at month-end)

## Forex Gains & Losses (unrealised & realised)

<i>Rm's</i>	<b>Dec 2010</b>	<b>Dec 2009</b>
Massdiscounters	(57.7)	(7.0)
Other	(21.8)	(6.9)
<b>Total</b>	<b>(79.5)</b>	<b>(13.9)</b>

- Stronger Rand: *spot* rate 11% stronger (June 2010) and *average* 7% stronger (Dec 2009)
- Massdiscounters: predominantly unrealised net losses, some realised losses, from African operations' balance sheet translation
- Other: predominantly unrealised losses from translation of non-African offshore monetary balances
- January 2011 relative Rand weakness reversed 1/3 of this amount

# Divisional Trading Profit before Interest

<i>Rm's</i>	December		
	2010	2009	%
Massdiscounters	473.6	396.2	19.5
Makro	397.1	360.5	10.2
Massbuild	189.5	139.9	35.5
Masscash	224.5	264.7	(15.2)
<b>Trading Profit before Interest</b>	<b>1 284.7</b>	<b>1161.3</b>	<b>10.6</b>

Trading profit excludes foreign exchange gains and losses



# Net Interest Paid

<i>Rm's</i>	December		
	2010	2009	%
Massdiscounters	13.0	16.6	(21.7)
Makro	25.3	21.6	17.1
Massbuild	20.3	14.2	43.0
Masscash	12.3	15.4	(20.1)
Corporate	(111.6)	(94.3)	(18.4)
<b>Total interest paid</b>	<b>(40.7)</b>	<b>(26.5)</b>	<b>(53.6)</b>

- Massdiscounters and Masscash less interest received due to lower rates. Improving w/capital in Makro and Massbuild
- Corporate: pays Divisions' interest & funds the net Group position

# Divisional Trading Profit before Tax

<i>Rm's</i>	Dec		
	2010	2009	%
Massdiscounters	486.6	412.8	17.9
Makro	422.4	382.1	10.5
Massbuild	209.8	154.1	36.1
Masscash	236.8	280.1	(15.5)
<b>Trading Profit before tax</b>	<b>1 355.6</b>	<b>1 229.1</b>	<b>10.3</b>

Trading profit excludes foreign exchange gains and losses

# Likely Walmart transaction costs

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In the event that the Walmart transaction becomes effective, then likely costs directly associated with the transaction will be:

- Advisors' fees R194m
- IFRS 2 (share-based payments) charge of R119m. Not a new cost as this would have been incurred in future years, but is now brought forward as a result of the acquisition of 51% of all vested & unvested share options in Employee Share Trust
- Both in FY2011

And:

- Anticipated 6% increase in issued shares (to approx 213.6m)
- Share equity and cash will increase by approx R516m from cash settlement of Employee Share Trust options

# Tax Charge

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	Dec 2010	Dec 2009
Total tax	R363m	R345m
<i>Tax rate</i>	31.7%	31.9%

- Non-deductible IFRS 2 charges increase this tax rate by 1.4% (2010: 2.2%)
- Includes STC on dividends 2.6% (2009: 2.8%)
- Overall tax rate should improve slightly as profits grow (reduces impact of non-deductible expenses)

# Dividend

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	Dec 2010	Dec 2009
Interim dividend per Share (cents)	252	252

- Have maintained dividend (cents) since FY09 despite lower HEPS over that period. Effectively lowered dividend cover
- Will next increase dividend (cents) when Group dividend policy can return to 1.7x cover
- Will not adjust dividend for forex gains or losses unless very significant

# Balance Sheet - Key Points

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Working capital management:

- Stock levels higher from sales growth & new stores
- Supplier funding steady

Significant increases in capital expenditure and investment :

- Spent R1.4bn since December 2009
- A 37% increase in total fixed assets

Higher debt gearing

# Stock & Creditors

	Dec 2010		Dec 2009	
	Rms	Days	Rms	Days
Net Stock (1)	7 336	59.7	5 997	55.2
Trade Creditors (1)	10 261	73.2	9 117	73.5

Stock levels increased with sales growth, apart from:

- Massdiscounters over-stock approx R300m
- New Makro store adds approx R100m (and distorts stock days calc)

1. Days calculated using historic cost of sales (excludes Corporate).

# Debtors

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	Dec 2010		Dec 2009	
	Rms	Days	Rms	Days
Gross Trade Debtors	1 333	7.8	1 380	9.2

- Improvements in Masscash
- Closely monitor credit
- Bad debts improved
- Credit insurance in place



# Net Capital Expenditure

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<i>Rm's</i>	Dec 2010	Dec 2009
Replacement Capex	216	138
Investment Capex	350	154
<b>Total Capex</b>	<b>566</b>	<b>292</b>
<i>Depreciation &amp; amortisation</i>	222	187
Businesses acquired	87	146

- Major investment capex: 16 new stores
- Businesses acquired: five stores

# Group Gearing

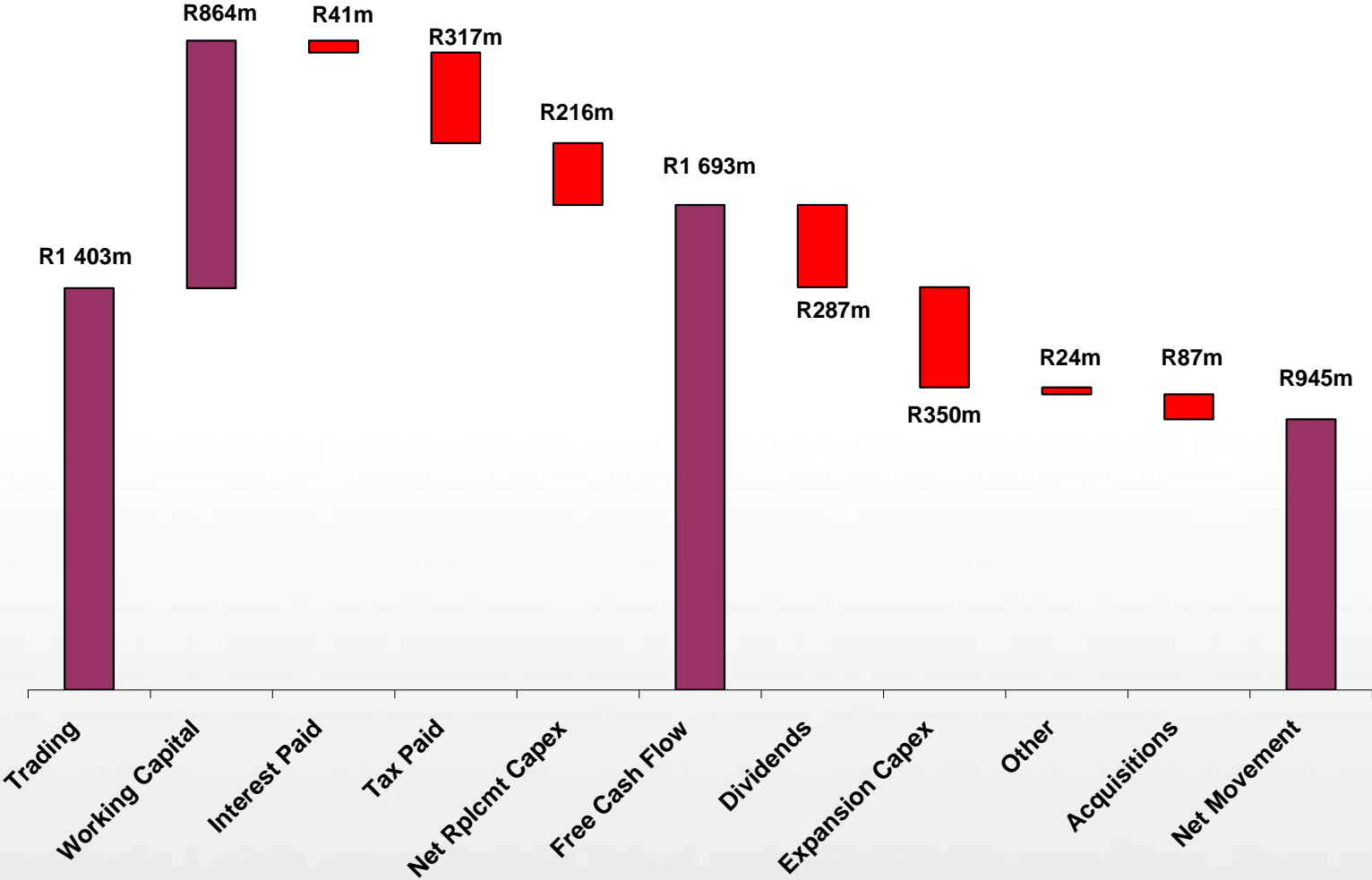
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- Average Group net borrowings R1.2bn (2009: R616m), calculated using net interest paid
- Average net debt:equity gearing of 31% (2009: 18%), ignoring property leases
- New proposed accounting standard may require capitalisation of most operating leases. Method & calculation unclear, so likely impact uncertain. Timing unknown

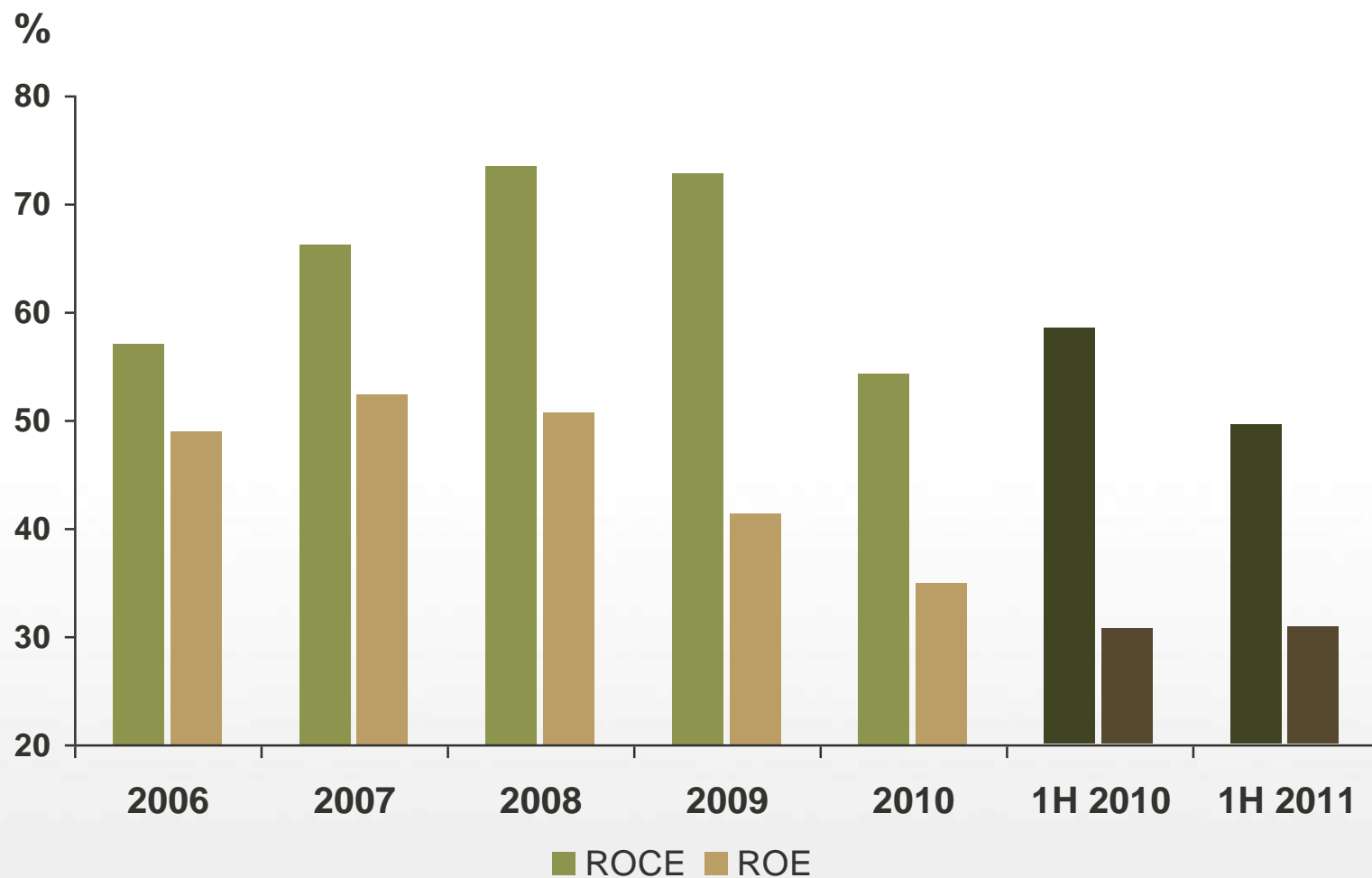
# Cashflow Statement

<i>Rm's</i>	Dec 2010	Dec 2009
Operating cashflows	1 368	1 332
Working capital release	864	1 253
Cash from Operations	2 232	2 585
Interest & Tax paid	(323)	(267)
Replacement capex	(216)	(138)
Free cashflow	1 693	2 180
Dividends paid	(287)	(282)
Net investment capex & acquisitions	(461)	(285)
Cash inflow before Financing	945	1 613

# Cashflow Analysis



# Returns

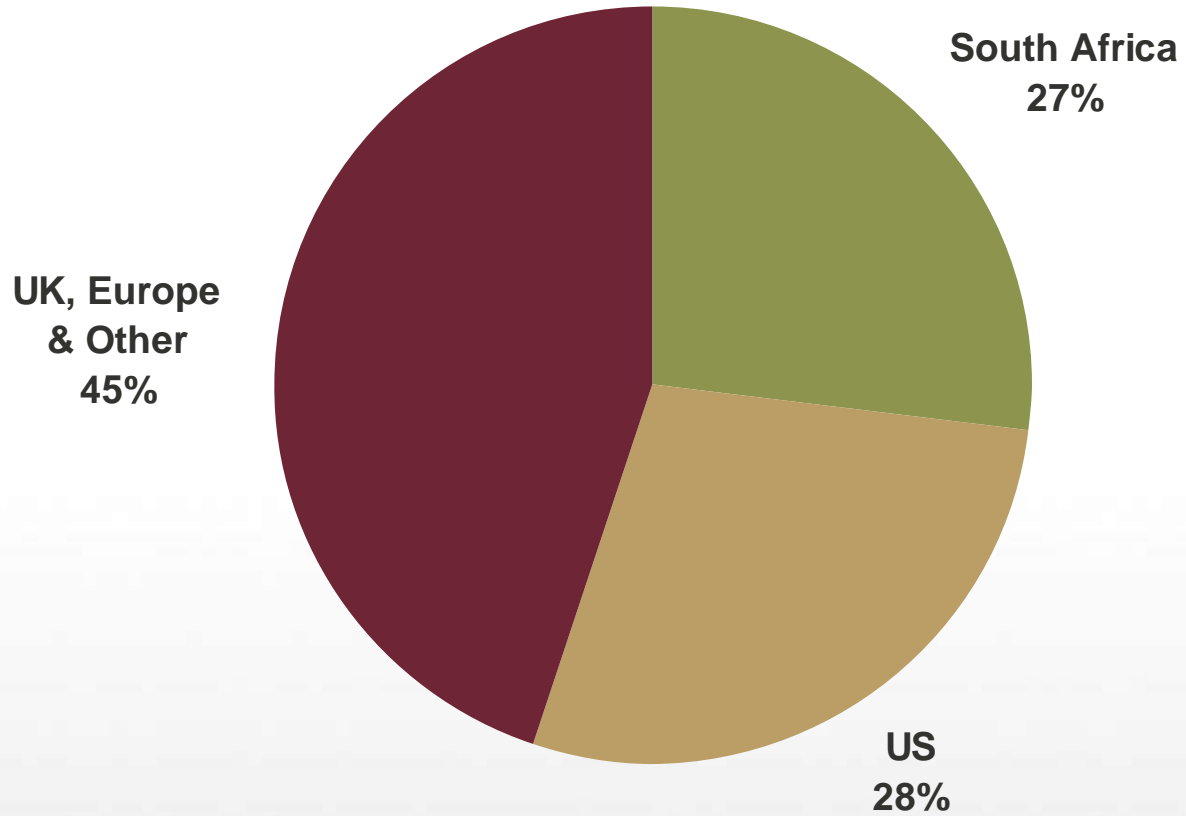


ROCE:  $\text{EBITA} / \text{Average Capital Employed}$

ROE:  $\text{Headline Earnings} / \text{Average Shareholders Equity}$

# Massmart Shareholding - December 2010

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Source: JPMorgan Cazenove.  
Data shows % owners' not managers' holdings



## December 2010 Divisional Financial Performance



# Massdiscounters

	2011	% change
Sales	R6 994m	14.4%
PBT excl Forex	R487m	17.9%
<i>PBT margin</i>	<i>7.0%</i>	

- Sales deflation 8.2%. Comparable sales 9.0%
- Game SA: total and comparable sales growing at 16.8% and 11.7% respectively
- New Gauteng RDC opened July 2010
- Foodco performing above expectations. A third store to be converted in Cape Town in FY2011
- Africa trading well in own currency: total and comparable sales growing at 9.8% and 6.7% respectively
- 6 New Game stores and 1 new DionWired store – all trading well
- Re-launched Game store credit card (outsourced) beating expectations
- DionWired continues to take market share; total sales growth at 27%



# Masswarehouse

	2011	% change
Sales	R6 593m	10.7%
PBT	R422m	10.5%
<i>PBT margin</i>	<i>6.4%</i>	

- Sales deflation 1.2%. Comparable sales +7.8%
- General Merchandise has performed well and increased contribution to total sales. Food and Liquor began to recover towards the end of the period
- The two Zimbabwe stores have been sold to OK Zimbabwe
- Fruit & Veg sales now R1 million a month at the new Vaal store
- Three new stores by November 2011: Nelspruit, Polokwane and Milnerton
- Two new Directors appointed: Finance and HR

# Massbuild

	2011	% change
Sales	R3 782m	18.6%
PBT	R210m	36.1%
<i>PBT margin</i>	<i>5.5%</i>	

- Sales inflation 0.3%. Comparable sales +11.8%
- Retail business in BW and BEX performing very well in a very poor market. Trade business struggling somewhat
- Integration of Trade Depot and Kangela in progress
- Opening first African Builders Warehouse store in July 2011 (Gaborone)
- Discussions concerning the acquisition of Pupkewitz have been terminated
- The Massbuild RCS card will be launched by the end of March
- Three new BWH stores and two BEX stores were opened or acquired

# Masscash

	2011	% change
Sales	R10 006m	12.5%
PBT	R237m	-15.5%
<i>PBT margin</i>	<i>2.4%</i>	

- Sales deflation of 1.3%. Comparable sales 4.2%. Inflation returning. Deflation in some commodities
- Cash and Carry business affected by the exposure to commodities and a poor trading environment.
- Retail continues to grow aggressively. As a result, cost growth exceeded sales growth
- Roll-out of new in-store IT system in Wholesale complete
- Two new Wholesale Cash and Carry stores and six new Retail Cash and Carry were opened or acquired

# Masscash Cont.

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## Retail

- Number of Stores – 26
- 18 stores are branded Cambridge
- Annualised turnover – R3.5bn
- New acquisitions include JD's and Savemoor
- We are continuing to invest in building a retail management structure capable of running a R10 billion, 100 store, national food retailer
- Planning to open 10 – 20 stores a year
- Rhino acquisition about to go to Competition Commission



## Highlights of the Operational Performance

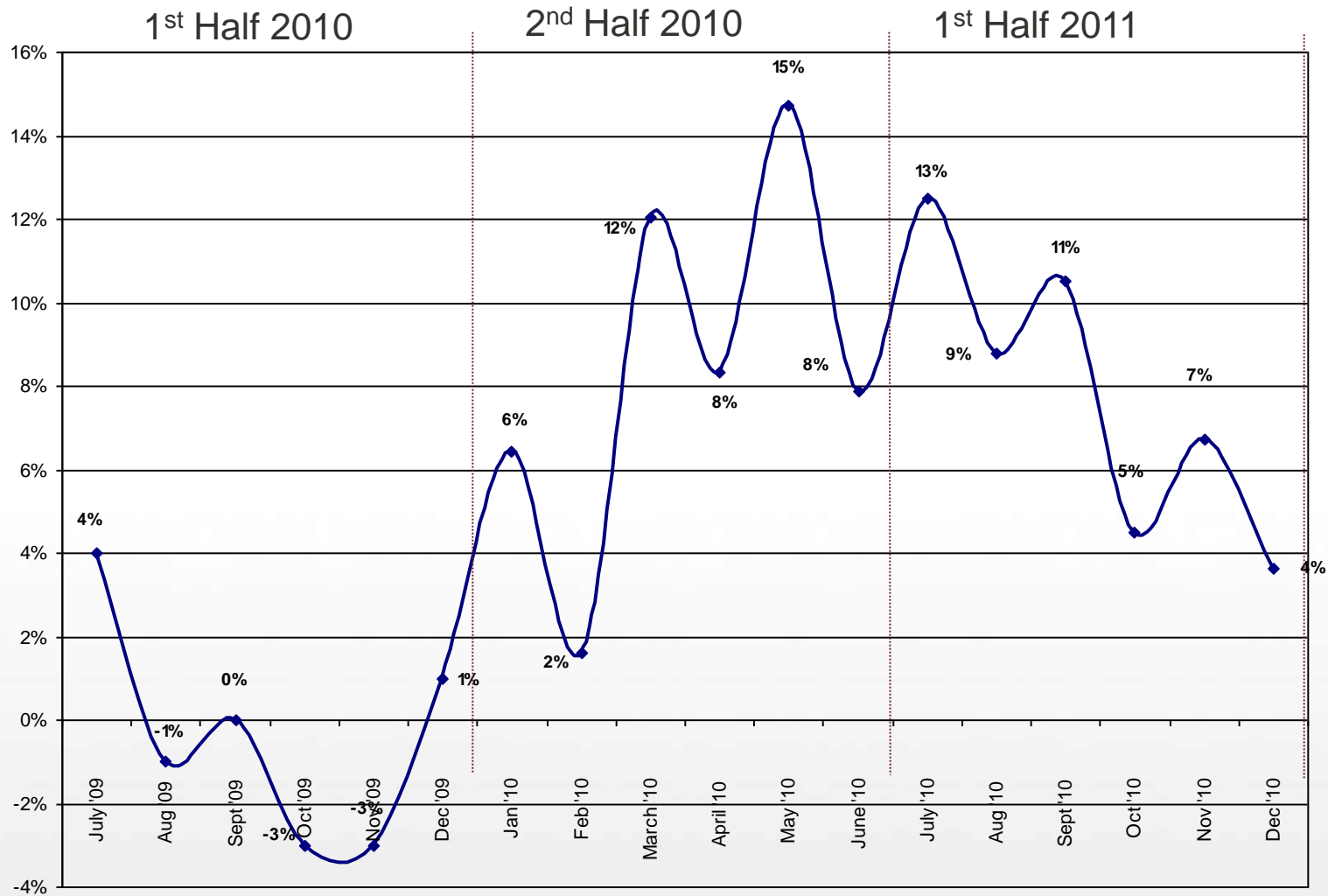


# Group Operating Performance Highlights

**Dec 10**

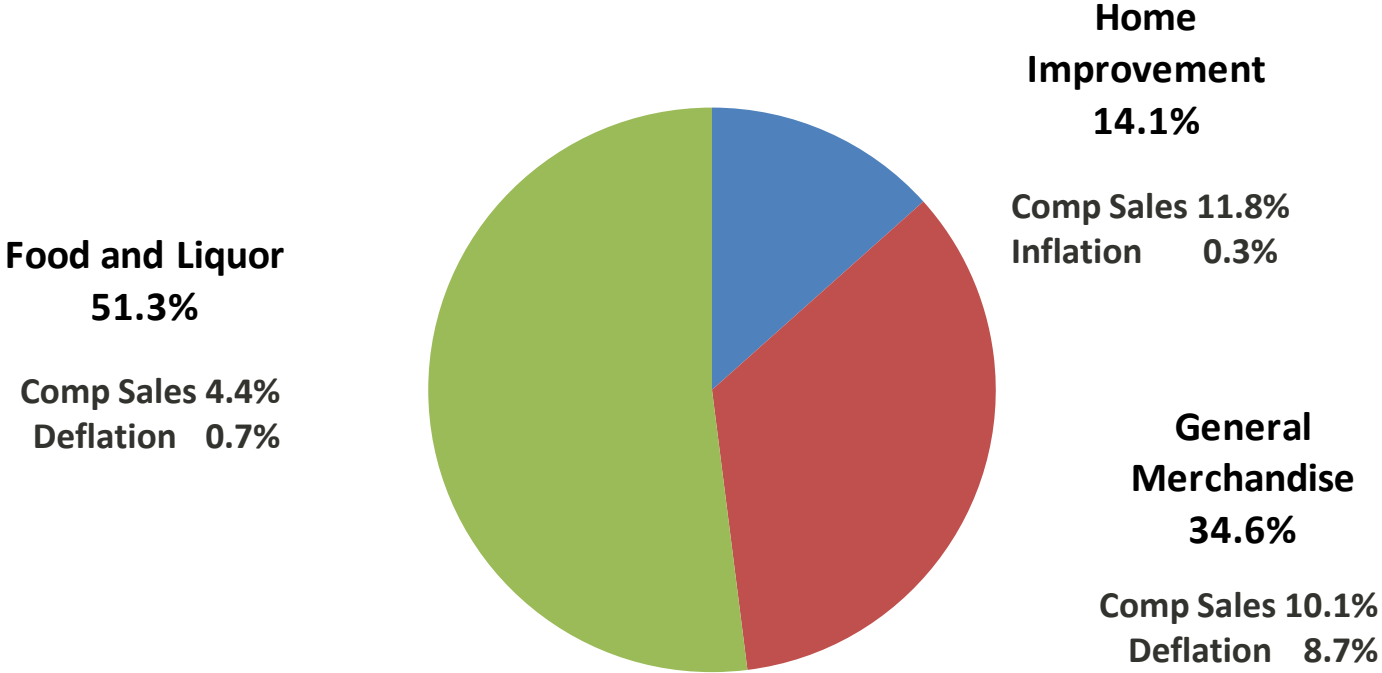
Total Sales growth	+13.3%	<i>5.9% Additional space</i>
Comparable Sales growth	+7.3%	<i>Low inflation</i>
Comparable store expense growth	+7.8%	<i>Retail refurbishment programme</i>
Increase in Trading Profit excl Forex	+10.3%	<i>Was at -3.5% FY2010</i>
Increase in Inventories	+22.3%	<i>Softer Christmas; Gauteng RDC</i>
Decrease in Cash Generated by Ops	-13.7%	
Good progress with Retail Cash and Carry	<i>R4.7bn</i>	<i>Annualized and including Rhino</i>
BEE scorecard	<i>75.8%</i>	<i>Ahead of plan</i>

# Comparable store sales growth - Total Massmart

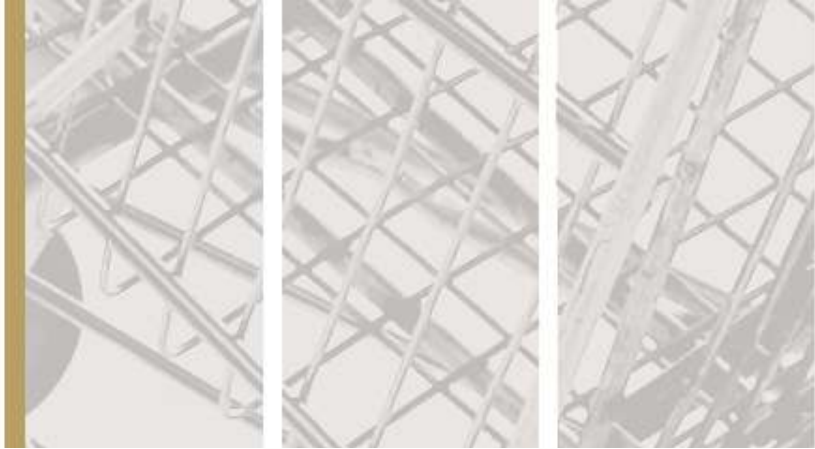


# Contribution and Performance by Category

**Total Contribution by Category**







## Environment



# Environment

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- The National Economic Data has shown a growth in GDP during 2010
- The stronger Rand has translated into inflation being lower than expected
- The reduction in interest rates over the last two years has also played a role in the growth of retail sales
- The economic activity was also boosted by the 2010 FIFA World Cup.
- Building and Construction markets in post-FIFA World Cup hang-over
- The last 8 weeks of trade were below trend suggesting that the South African economy may not yet be in a sustainable recovery

# Environment - Competitive Retail

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- **Retail market**

- The national economic data has shown a growth in retail sales for four successive months up to December.
- Consumers enjoyed record levels of product deflation.
- However retail inflation is turning.
- Consumers beginning to use store credit again.

- **Massmart performance was affected by:**

- Tougher trading conditions in our 2<sup>nd</sup> quarter.
- Rand strength resulting in tough Rand performance in Africa.
- Product deflation at record levels driving volumes and therefore costs.
- Cyclicity of wholesale food in respect of food inflation.

# Environment

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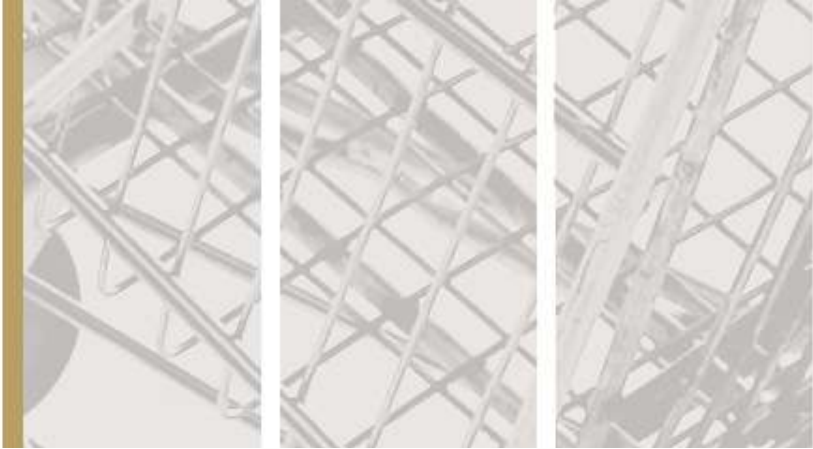
- **Challenges**

- Africa is trading better in own currency, but continued Rand strength makes it difficult to grow profits in Rands.
- Reading relative performance.
- Deflation impact on gross margins, and inventory control.
- Expense growth.
- Legislative uncertainty around labour.

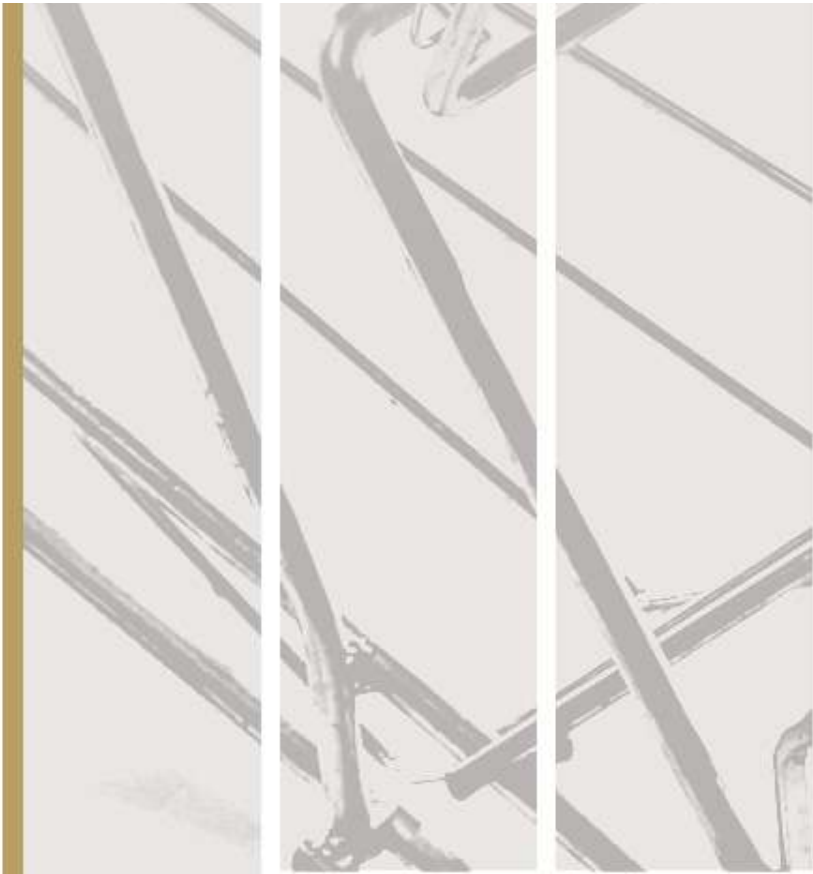
# Environment - Walmart

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- The deal is subject to the approval by the Competition Tribunal, with a recommendation by the Competition Commission in favour of the transaction with no conditions.
- Tribunal hearing date is 22 March (three days), after which the Tribunal has 10 working days to announce its findings.
- Management in planning phase for post-implementation Integration.
- Held Question and Answer workshops for Suppliers in Johannesburg, Durban and Cape Town. 2000 attendees.
- Engaging as best we can in “social dialogue” with SACCAWU and opponents to the Transaction.
- Key issue is protection of workers’ rights, employment and local manufacturing.



## Vision for Growth 2013



# Update on Vision for Growth 2013

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- Leadership and Transformation
- Growth of the core business
- Organic growth
- New formats and categories
- Customer 2.0
- Sustainability

# Vision for Growth 2013 - update

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- Two Game stores converted to Game Foodco
- Opened and commissioned the 70,000m<sup>2</sup> MDD Gauteng RDC
- Opened up Makro Vaal with a full Fresh offering
- Launched Major Appliances pilot into Massbuild
- Started Makro Logistics Services focused on collecting stock from suppliers
- Disposed of Makro Zimbabwe
- Opened Game Lilongwe in Malawi
- Converted Masscash Gauteng retail stores into Cambridge and opened two new stores
- Rhino acquisition (the last large independent retail group)
- Achieved level 3 BEE status
- Fully complied with the EE Act and achieved the 7th best EE performance by a private company in South Africa



# Vision for Growth 2013

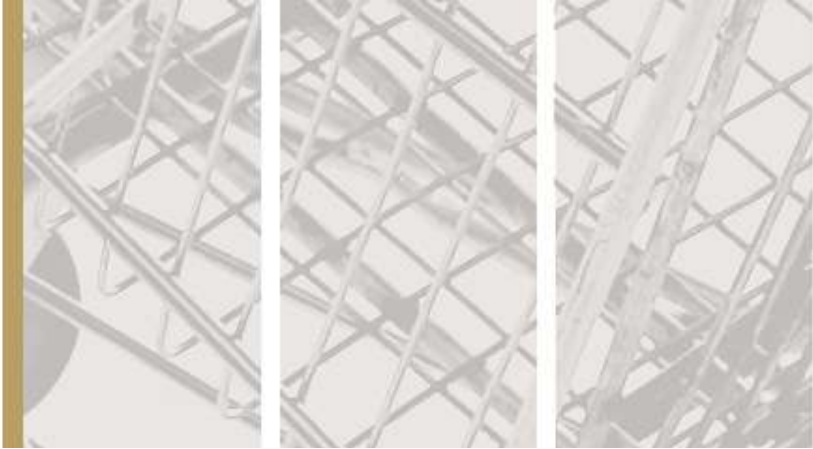
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- **Growth**

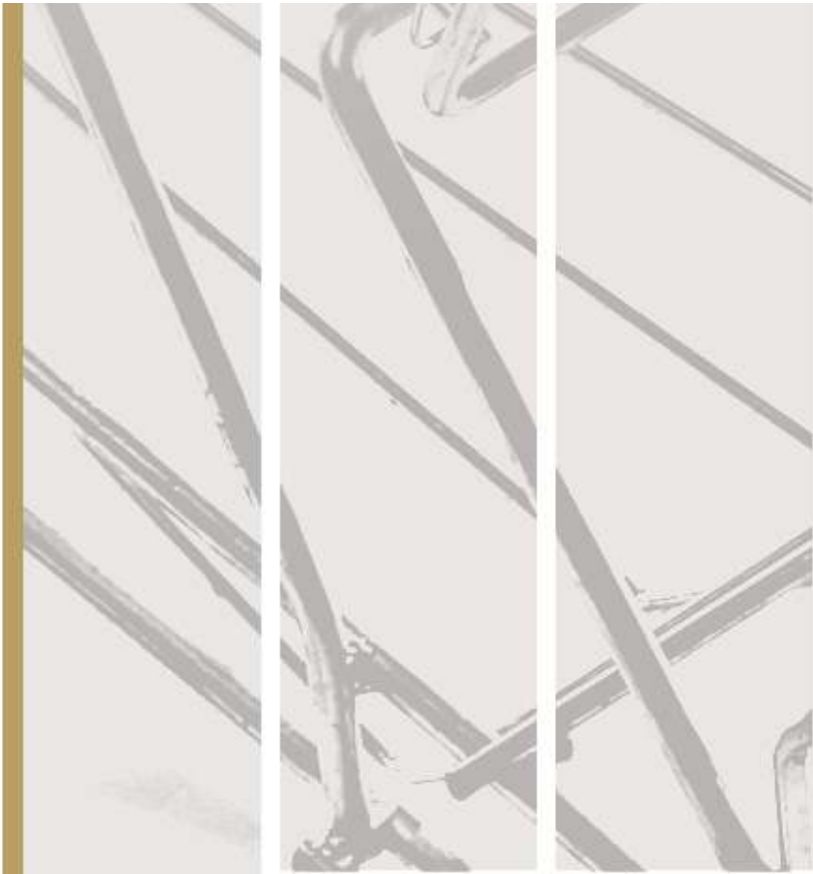
- Trading space planned growth (including store acquisitions):
  - 2011 – 8.0% (5.9%)
  - 2012 – 8.0%
  - 2013 – 5.0%

- **New stores – (including store acquisitions)**

- 30 (21) stores:
  - 11 (6) Game, 3(1) Dion Wired
  - 1 (1) Makro
  - 0 (2) Wholesale Cash and Carry
  - 10 (6) Retail Cash and Carry
  - 3 (3) Builders Warehouse, 2 (2) Builders Express
  - 0 (0) Builders Trade Depot



## Risks & Prospects

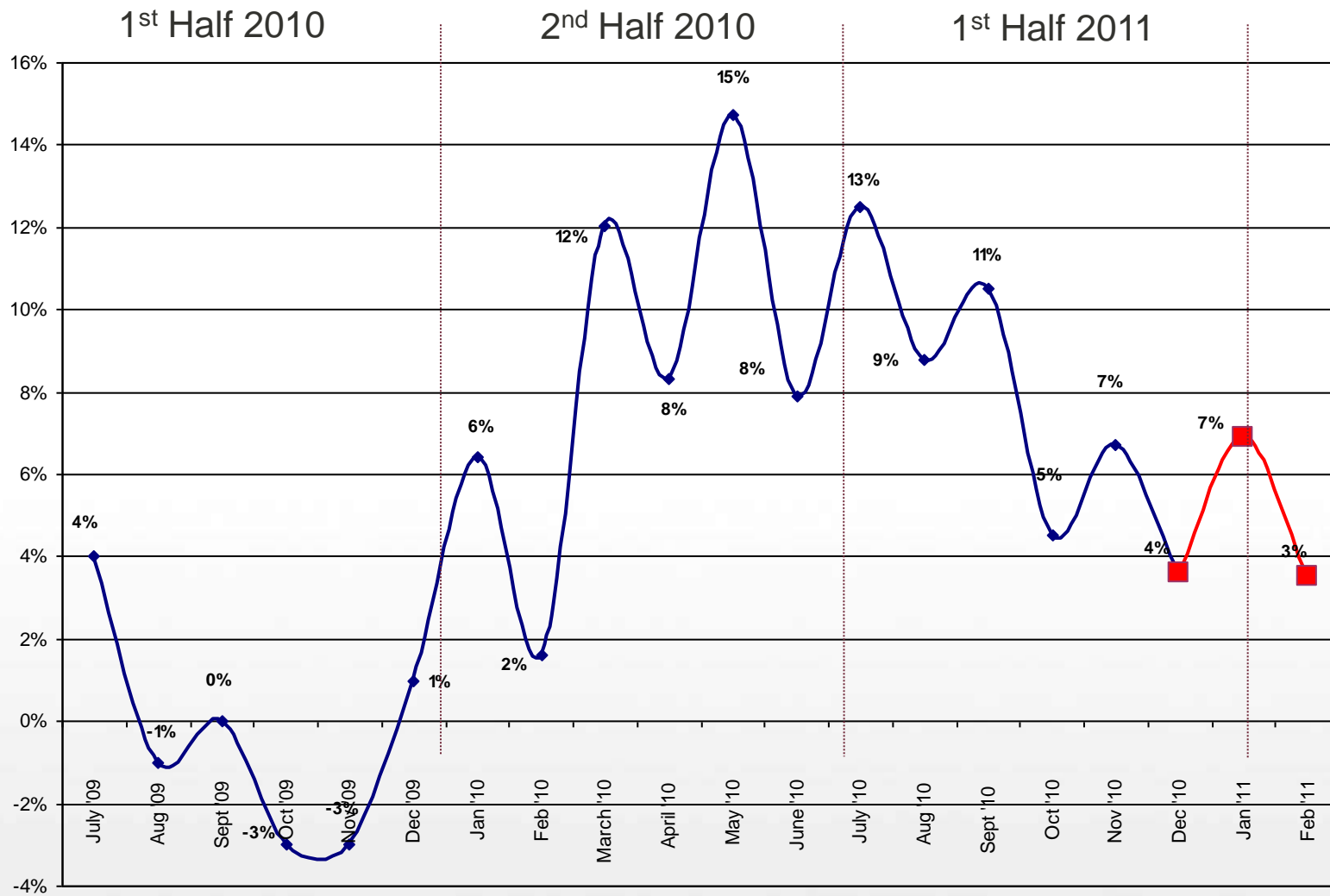


# Massmart's 2011 Prospects

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- We may be about to switch from a low inflation cycle into a high inflation cycle
- Food inflation expected to rise to 3% - 4%
- We expect a difficult second half should trends experienced in the Christmas period and the subsequent 8 weeks continue
- Management will be focused on reducing stock levels, holding gross margins, and containing costs
- The World Cup 'effect' will make comparisons difficult in June
- Space growth of 8% this year
- Further Rand strength will have an impact on Africa profitability
- Competition Tribunal to hand down decision on the Walmart transaction in mid-April

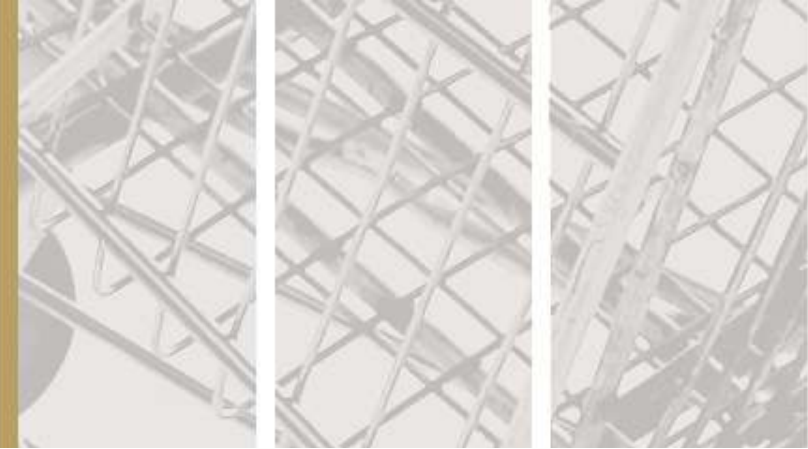
# Comparable store sales growth - Total Massmart



# Risks

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- Walmart integration distraction
- Volatility of Rand
- Local and Provincial Government service costs and taxes
- Labour Amendment Bill
- Opposition to the Walmart Transaction
- Inflation Volatility



## Conclusion



# Conclusion

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- Good first half performance in three Divisions
- The slow-down in Christmas could suggest that the South African economy may not be in sustainable recovery
- Despite the tough trading environment, we continued to invest for growth
- Momentum building in Retail Food
- Should the Walmart transaction be approved, integration will become a new focus area
- We expect a difficult second half



## Additional Financial Data





# Headline Tax Rate Reconciliation

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		<b>Dec 2010</b>	<b>Dec 2009</b>
	%		
Standard tax rate		28.0	28.0
Disallowed expenses		3.1	3.4
Exempt income		(0.1)	(0.2)
Foreign tax		(0.2)	(0.1)
Prior year		(1.0)	(0.2)
STC		2.6	2.8
Other		(0.7)	(1.8)
<b>Group tax rate</b>		<b>31.7</b>	<b>31.9</b>

# Analysis of Tax Charge

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	Rm's	Dec 2010	Dec 2009
SA tax		307.9	256.4
STC		28.6	21.0
Deferred tax		2.8	34.2
Foreign tax		29.2	28.7
Foreign deferred tax		(6.0)	4.7
<b>Income Statement Charge</b>		<b>362.5</b>	<b>345.0</b>

# Capital Expenditure

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Rm's	Dec 2010	Dec 2009
Land & buildings	50.6	5.8
Leasehold improvements	67.1	38.0
PPE	347.8	166.9
Computers	74.7	71.0
Motor vehicles	25.8	12.3
<b>Total</b>	<b>566.0</b>	<b>294.0</b>

# Headline Earnings Reconciliation

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Rm	Dec 2010	Dec 2009
Attributable earnings	738.5	693.7
Loss on fixed asset disposals	0.8	0.9
Release of negative goodwill	(0.2)	-
Loss on sale of assets classified as held for sale	0.7	-
Tax effects on adjustments	(0.3)	(0.3)
<b>Headline earnings</b>	<b>739.5</b>	<b>694.3</b>

# Number of Shares

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	(000's)
At June 2010	201 496
Shares issued	2 258
At December 2010	203 754
Weighted-average for period	202 185
Fully-diluted weighted average	215 581

IAS 33 requires the fully-diluted weighted-average shares calculation to be based on the extent to which the BEE shares are in-the-money. This must take into account the strike price, the associated IFRS 2 charge and average annual share price for the past financial year.

The higher Massmart share price in FY2011 takes this calculation to the additional 13.3m shares that are now included in the fully-diluted weighted-average number of shares.

# Targets

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Group Annual ROS > 5.5%

Interest-bearing Debt : Equity < 30%

Return on Capital Employed > 45%

Return on Equity > 35%

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

(ROE = Headline Earnings / Average shareholders equity, excluding goodwill and deferred tax assets)



# Dedicated to Value

Dedicated to Shareholder Value

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

