

# MASSMART

Dedicated to Value

## Reviewed consolidated results for the 26 weeks ended 28 December 2008



Massmart is a managed portfolio of nine wholesale and retail chains, each focused on high-volume, low-margin, low-cost distribution of mainly branded consumer goods for cash, in 14 countries in sub-Saharan Africa through four divisions comprising 254 stores.

The Group is the third largest distributor of consumer goods in Africa, the leading retailer of general merchandise, liquor and home improvement equipment and supplies, and the leading wholesaler of basic foods.

### Accolades

For the second year running achieved "Top Performer" status in JSE Socially Responsible Investment Index

Ranked third overall for quality of reporting in 2008 Carbon Disclosure Project

Awarded level 5 BBEE contributor status by Empowerdex

### Overview

In the midst of the global economic turmoil, the South African consumer is behaving as one would expect through a traditional interest-rate cycle. Consumers have focused their purchases on their more immediate needs, have become more value conscious and have spent more using cash than using credit.

This consumer behaviour is evident in the differing performances across our four Divisions, resulting in a satisfactory Group sales and profit performance underpinned by powerful cash generation.

Group sales for the 26 weeks to 28 December 2008 increased by 13,1% and comparable store sales increased by 11,9%. Annual rolling inflation for the Group was 9,9%.

Profit before tax increased by 11,9%, and headline earnings per share increased by 13,1%.

Cash generated by operations increased by 41,1% as working capital management was tightened.

Trading patterns were as expected in this environment with strong Food and Liquor sales growth of 18,6%, General Merchandise growth holding steady at 11,8% and Home Improvement growth of 1,4% slowing through the period.

Masswarehouse and Masscash produced strong profit growth, Massdiscounters performed well supported by a strong performance in Africa, and Massbuild bore the brunt of the tighter interest-rate cycle with its exposure to bonded residential property.

Whilst being mindful of the current volatile and uncertain environment, we have continued to invest in our strategic growth plan. In this period, trading space increased 3,9%, by opening a net five new stores and acquiring seven stores.

### Environment

The global economic crisis dominated all agendas, introducing a recessionary environment across much of the developed world and globally. Governments across the world scrambled to shore up financial institutions and limit the downside risk, the merits and success of which remain to be seen.

In South Africa, high interest rates continued to exert pressure on real consumer spending, but inflation has finally reversed its upward trend, which signals the beginning of a lower interest rate environment. The effects of the global economic crisis however, began to be noticed in those sectors of the South African economy most exposed to the global slowdown such as mining, construction and export-orientated manufacturing.

African economies continued to perform well, but are likely to have a delayed reaction to the global slowdown.

### Divisional Operating Review

Rm	26 weeks December 2008 (Reviewed)	% of sales	26 weeks December 2007 (Reviewed)	% of sales	Period % growth	Comparable % sales growth	Estimated % sales inflation	53 weeks June 2008 (Audited)	% of sales
Sales	22 758,2		20 122,9		13,1	11,9	9,9	39 783,6	
Massdiscounters	6 087,7		5 383,6		13,1	14,6	1,8	10 406,5	
Masswarehouse	5 868,1		5 108,4		14,9	11,8	11,9	10 103,8	
Massbuild	2 936,2		2 896,6		1,4	(2,7)	10,6	5 662,9	
Masscash	7 866,2		6 734,3		16,8	16,9	15,9	13 610,4	
<b>Trading profit before interest and tax*</b>	<b>1 333,8</b>	<b>5,9</b>	1 200,5	6,0	11,1			2 156,9	5,4
Massdiscounters	513,2	8,4	444,0	8,2	15,6			724,6	7,0
Masswarehouse	405,9	6,9	335,8	6,6	20,9			640,2	6,3
Massbuild	146,2	5,0	222,7	7,7	(34,4)			390,1	6,9
Masscash	268,5	3,4	198,0	2,9	35,6			402,0	3,0
<b>Trading profit before tax**</b>	<b>1 444,7</b>	<b>6,3</b>	1 285,9	6,4	12,3			2 386,4	6,0
Massdiscounters	541,5	8,9	462,7	8,6	17,0			783,2	7,5
Masswarehouse	445,3	7,6	367,7	7,2	21,1			730,8	7,2
Massbuild	168,9	5,8	238,4	8,2	(29,2)			433,0	7,6
Masscash	289,0	3,7	217,1	3,2	33,1			439,4	3,2

\* Trading profit before interest and tax is before asset impairments and the BEE transaction IFRS 2 charge of R30,6 million (2007: R33,9 million).

\*\* Trading profit before tax is after divisional net interest but before corporate net interest of R140,0 million (2007: R113,3 million), asset impairments and the BEE transaction IFRS 2 charge of R30,6 million (2007: R33,9 million).

**Massdiscounters** – comprises the 87-store General Merchandise retail discounter Game, which trades in South Africa, Namibia, Botswana, Zambia, Uganda, Mozambique, Mauritius, Malawi, Tanzania, Nigeria, and Ghana; and the six-store Hi-tech retailer Dion Wired.

Divisional comparable store sales increased by 14,6% with estimated inflation of 1,8%. Total sales increased by 13,1% and trading profit before tax increased by 17,0%.

Given the exposure of the Game brand to the middle income consumer, the South African business performed well with comparable sales growth of 5,3%. The African business performed exceptionally with sales growing by 62,3% and 32% in local currency.

The investments in efficiency and competitiveness continued, and the new Cape Town Regional Distribution Centre opened in August 2008 is operating effectively.

In October 2008, a new look Game store in Boksburg was unveiled and achieved record-breaking opening sales.

During the period, two Game stores and one Dion Wired store were opened, increasing net trading space by 1,5%.

**Masswarehouse** – comprises the 13-store Makro warehouse club trading in Food, General Merchandise and Liquor in South Africa (and two Zimbabwean stores, not consolidated in the Group results).

Divisional comparable store sales increased by 11,8% with estimated inflation of 11,9%. Total sales increased by 14,9% and trading profit before tax increased by 21,1%.

By focusing on the detail, Makro took advantage of multiple trading opportunities. Internally, momentum gathered in securing new store sites and implementing the new SAP Forecasting and Replenishment system.

No new stores were opened.

**Massbuild** – comprises 71 stores, trading in DIY, Home Improvement and Builders Hardware, under the Builders Warehouse, Builders Express and Builders Trade Depot brands in South Africa.

Divisional comparable store sales decreased by 2,7% with estimated inflation of 10,6%. Total sales increased by 1,4% and trading profit before tax decreased by 29,2%.

Despite the pressure on sales, the Division delivered a strong operational performance with improvements in the control environment on all fronts. Inventory was significantly better controlled in both its absolute level and in age profile. Divisional management was strengthened with the appointment of a new CEO and Financial Director towards the end of the calendar year.

With the challenges resulting from the mergers now resolved, we are in a stronger position to respond to the softening sales and to prepare for the recovery in the bonded residential property market.

Our latest thinking for the look of the Builders Warehouse format was evident in the new Northriding store and in the relocated Centurion store.

One Builders Warehouse store, one Builders Express store and one Builders Trade Depot store were opened. Net trading space increased by 4,6% from the 2008 year-end.

**Masscash** – comprises 77 Cash and Carry stores trading in South Africa, Lesotho, Namibia and Botswana, and Shield, a voluntary buying association.

Divisional comparable store sales increased by 16,9% with estimated inflation of 15,9%. Total sales increased by 16,8% and trading profit before tax increased by 33,1%. The new BATSA cigarette distribution model adversely affected total sales growth in Masscash by 3,8% and comparable sales by 4,6% this period.

With Food inflation close to 20% during the period, efforts were focused on securing the lowest possible prices and passing them on to customers. Food inflation is expected to return to lower levels towards the middle of the calendar year, and deflation in some categories like oil and rice, for example, is expected.

The new in-store IT system continues to be rolled out as fast as possible.

The acquisition of Retail Cash and Carry formats continued with the acquisition of 51% of the six-store Cambridge Food business which became effective 1 December 2008. The Masscash executive team is focused on the growth of this format both through acquisition and new sites.

Net trading space increased by 8,3% from the 2008 year-end.

### Financial Review

#### Income Statement

Total sales growth for the 26-week period to 28 December 2008 was 13,1% and comparable sales growth was 11,9%. Total African sales represented 8,8% of Group sales and grew by 45,4%. Group sales inflation on an annual rolling basis is estimated to be 9,9%.

During the period one store was closed, six opened, and seven acquired, resulting in a total of 254 stores at the end of December 2008. Net trading space increased by 3,9% to a total of 1 052 555m<sup>2</sup>.

Gross profit of 18,1% was lower than the prior period's 18,4%, a combination of steady gross margins in Makro and Masscash, and lower gross margins in Massdiscounters and Massbuild.

Total expenses increased by 11,8% and improved as a percentage of sales over the prior period.

Disclosed separately in operating profit are net realised and unrealised foreign exchange gains of R52,7 million (2007: R14,9 million loss), most of which arose from the translation of Massdiscounters' African stores and foreign cash balances.

Profit before taxation and foreign exchange movements of R1 221,4 million grew 5,9% on the equivalent figure in the prior period.

Net interest paid increased due to higher inventory levels for most of the six-month period, but which has now normalised, and higher commercial interest rates.

A 51% shareholding in Cambridge Food was acquired for cash with effect from 1 December 2008. The effect of this acquisition on this period's results is not material.

The non-cash IFRS 2 charge associated with the Group's Staff Empowerment scheme, *Thuthukani*, was R30,6 million (2007: R33,9 million). The total cost of the scheme during the period was R42,4 million (2007: R38,9 million) and has increased because of the greater proportion of the preference dividend now accruing to scheme participants (see Note 5).

Adjusting for the non-deductible total IFRS 2 charges, the Group's effective tax rate is 28,2% (2007: 30,2%), which includes the effect of STC of 2,1% (2007: 2,3%).

The minority interests comprise mainly the CBW store managers' holdings in certain Masscash stores and the 49% minority interest in Cambridge Food.

Both headline earnings and headline EPS grew by 13,1% (the growth in both figures before net foreign exchange gains: 6,6%).

#### Balance Sheet

The sale of the Massdiscounters Consumer Credit division and debtors book was effective immediately after the close of the 2008 financial year. An amount of R174,3 million was received in cash on 30 June 2008.

Group inventory levels were higher at June 2008 and for much of this reporting period for reasons described at that time, but have since returned to acceptable levels as evidenced by the improvement in Cash generated from Operations. Massdiscounters and Massbuild, in particular, achieved substantial improvements to their respective inventory levels.

At the end of the period, the non-current interest-bearing debt of R213,4 million (2007: R346,2 million) represented an average debt:equity ratio of 9,7% (2007: 16,5%). Using net finance costs as a proxy, however, average interest-bearing debt for the year was R418 million, representing average gearing of 14,4%.

The 12-month rolling return on equity of 49,5% at December 2008 is an improvement on the equivalent December 2007 figure of 48,0%.

### Progress with Vision 2011

Although management focus has been somewhat diverted by managing a changing economic environment, overall excellent progress was made on all fronts of our Strategic Agenda. Highlights include:

- Upgrading our buyers and marketers skills in managing private brands and establishing internal performance targets;
- Securing at least one new site for a Makro store;
- Committing to building a Game Regional Distribution Centre in Gauteng, which is the second stage in our three-stage process to switch to a new Massdiscounters supply chain model;
- Concluding several purchase agreements for new Retail Cash and Carry stores, subject to the normal regulatory approvals; and
- Achieving independent verification of our increased BEE score moving us from a level 6 to a level 5 contributor.

### Prospects

For the 34 weeks to 22 February 2009, total sales increased by 12,7% and comparable sales increased by 11,3%.

All economists and participants in the consumer goods industry agree that 2009 will be more difficult than 2008, despite the expected interest rate cuts. Save for any further economic shocks, we anticipate some improvement in the South African consumer environment in the second half of the calendar year.

For the remainder of this financial year however, management is focused on achieving 2008 Group operating margins (adjusted for the 53<sup>rd</sup> week), which will require particular focus on Massbuild.

### Conclusion

We are satisfied with the performance of the Group in this environment, but still see many opportunities for improved performance. Management is endeavouring to balance a disciplined operating focus that is responding to the most recent trends, with investments in long-term competitiveness and growth, whilst being alert to cash preservation.

The Group is in a healthy position to weather the economic storm and we anticipate being in an advantageous position to participate in the next economic upswing.

### Distribution and Dividend Policy

Massmart's dividend policy is to declare and pay an interim and final cash dividend representing a 1,7 times dividend cover unless circumstances dictate otherwise.

Notice is hereby given that an interim cash dividend of 252 cents per share in respect of the period ended 28 December 2008 has been declared payable to the holders of ordinary shares recorded in the books of the company on Friday, 20 March 2009. The last day to trade cum-dividend will therefore be Friday, 13 March 2009 and Massmart shares will trade ex-dividend from Monday, 16 March 2009. Payment of the dividend will be made on Monday, 23 March 2009. Share certificates may not be dematerialised or rematerialised between Monday, 16 March 2009 and Friday, 20 March 2009, both days inclusive.

A Thuthukani dividend of 189 cents, equivalent to 75% of the Massmart ordinary dividend per share, will be paid to the Thuthukani participants on Monday, 23 March 2009.

On behalf of the Board

Grant Pattison  
Chief Executive Officer

Guy Hayward  
Chief Financial Officer

25 February 2009

