



Massmart Interim Results  
for the 26 weeks ended 30 June 2019

Media Release

29 August 2019

## Focused on leveraging group scale more effectively to optimise store portfolio performance, improve buying and logistics efficiencies and reduce costs

Massmart today reported interim results for the 26 weeks ended 30 June 2019 against a backdrop that offers little external support, both in South Africa and the 12 other African countries in which Massmart operates. The South African consumer environment, which accounts for 91.1% of Group sales remains challenging with no significant improvement during the past six months. Factors that have impacted trading performance are well-known to the market and included low consumer confidence, negative GDP growth (-3.2%) in quarter one and increased unemployment (29%).

We are mindful that our commitment to 'save customers money so that they can live better' is especially relevant in difficult economic circumstances. This requires that we are able to continually identify opportunities to adapt and improve upon our low cost operating model. To this end a priority is to leverage group scale more effectively to enable our business units to optimise store portfolio performance, improve buying and logistics efficiencies and reduce costs.

The adoption of the IFRS 16 leasing standard during this period complicates performance comparison between the results of the current and prior periods. To provide a more meaningful assessment of the current period's performance, and unless otherwise stated, the commentary below has been provided on a like-on-like basis, i.e. excluding the impact of IFRS 16 in both the current and prior periods.

Massmart reported total sales of R43.8bn, for the 26-week period representing total sales growth of 5.5% and comparable growth of 3.6%. The trading period was notable for lower sales in high margin Durable Goods categories and higher sales in lower margin Food and Liquor categories. Gross margins decreased by 36 basis points, while expenses increased by 11.8% resulting in considerably lower trading profit and Massmart reporting a trading loss of R1.4 million.

These results are, however, also reflective of internal missteps which have led to a number of fixable lapses within the business. These include; insufficiently robust trading disciplines, negative inventory adjustments and delayed implementation of the SAP IT solution at Game, and inventory management, and ad hoc collections lapses at Masscash. Actions are underway to fix these issues under the guidance of new leadership in these business units.

A highlight during the period was the outcome of a market research study that polled consumer intentions to shop a broad range of General Merchandise categories. The poll confirmed the strength of our general merchandise proposition. For example, 72% of respondents indicated intent to shop for large appliances TV and electronics at Game, Dion-Wired or Makro. Respondent feedback for small appliances, outdoor & camping, patio & garden, health & fitness and DIY products was also very good.

Because of slightly lower sales performance for the period from 1 July to 18 August 2019 we remain cautious about the consumer outlook for the second half of the financial year.

## Divisional performance

Masswarehouse: Total sales of R13.4 billion increased by 3.7%, while comparable sales were up 1.9%. The second quarter of 2019 saw an increase in sales growth of food and liquor but a decline in sales growth in General Merchandise.

Massbuild: Total sales of R6.7 billion increased by 5.0%, while comparable sales were up 1.8%. Contractor sales remain under pressure and were below the prior period.

Masscash: Total sales of R14.3 billion increased by 9.1%, while comparable sales were up 8.2%. Sales in the Wholesale division grew by 13.3% and by only 2.9% in the Retail business.

Massdiscounters: Total sales of R9.4 billion increased by 3.0% while comparable sales were up 0.7%. In South Africa customer count was up 5.5%, whilst basket size decreased as customers bought more Food items.

Commenting on the performance, Massmart CEO, Guy Hayward said: *"The prevailing low growth economy, coupled with various internal missteps, have contributed to an unsatisfactory set of results. Going forward we see useful opportunity to improve our operating model to position the business to better adjust to the changed economic reality."*

## Outlook

The current period marks one of transition for Massmart. The company is fortunate in that there is significant depth of experience across the specialist areas of each division. This experience, together with the fresh perspective brought by new senior management will see the business well placed to remediate identified short-term performance issues and reform the operating model.

Externally, while we are hopeful for a slightly improved second half of the year, local and international uncertainty makes near-term financial guidance difficult.

## For Media Enquiries

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Massmart powered by Walmart, comprises four divisions operating 441 stores, across 13 sub-Saharan countries. Through our widely-recognised retail and wholesale formats (including; Cambridge Food, Builders Warehouse, DionWired, Game, Jumbo Cash & Carry, Makro and Shield), we have leading shares in the General Merchandise, Liquor, Home Improvement and Wholesale food markets.

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