

Massmart Holdings Limited  
(Incorporated in the Republic of South Africa)  
Company registration No. 1940/014066/06  
JSE Code: MSM  
ISIN: ZAE 000152617  
("Massmart", "Company" or the "Group")

MSM: MASSMART HOLDINGS LIMITED – Results for the 52 weeks ended 29 December 2019

Date: 27/02/2020

Massmart, with total sales of R93.7 billion, comprises four Divisions operating 443 stores, in 13 sub-Saharan countries. Through our widely-recognised, differentiated retail and wholesale formats, we have leading shares in the General Merchandise, Liquor, Home Improvement and Wholesale Food markets. Our key foundations of high volume, low cost and operational excellence enable our price leadership.

### Performance summary

Rm	52 weeks December 2019 (Reviewed)	IFRS 16 adjustment*	52 weeks December 2019 (Adjusted)*	52 weeks December 2018 (Audited)	Period % change	Adjusted* % change
Sales	93,660.0	-	93,660.0	90,941.6	3.0	3.0
Trading profit before interest and taxation	1,111.2	(682.9)	428.3	2,068.9	(46.3)	(79.3)
(Loss)/profit for the period	(1,296.4)	435.4	(861.0)	868.7	(249.2)	(199.1)
Basic EPS (cents)	(600.6)	199.8	(400.8)	410.6	(246.3)	(197.6)
Headline (loss)/earnings	(1,147.4)	400.1	(747.3)	901.2	(227.3)	(182.9)
Headline EPS (cents)	(527.1)	183.8	(343.3)	416.5	(226.6)	(182.4)
Total dividend (cents)	-	-	-	208.0	(100.0)	(100.0)

*\*To provide a more meaningful comparison of the current period's performance, the performance summary has been prepared on a like-on-like basis which excludes the impact of IFRS 16 'Leases' in 2019.*

### Group performance, including IFRS 16 in 2019

Massmart's total sales for the 52-weeks ended 29 December of R93.7 billion represents sales growth of 3.0%, with comparable sales growth of 1.5%. Trading pressures resulted in the gross margin declining by 54 basis points, with expenses increasing by 5.9%. This resulted in a trading profit of R1.1 billion, 46.3% lower than 2018. During the year, assets, including those relating to non-profitable stores in Massdiscounters and Masscash, were impaired resulting in an additional expense of R229.5 million. Fluctuations in African currencies negatively impacted the Group resulting in a foreign exchange loss of R143.0 million. Net finance costs increased to R1.8 billion as a result of the adoption of IFRS 16 and increased borrowings during the period. The Group reported a loss of R1.3 billion compared to a profit of R0.9 billion during 2018, and a headline loss of R1.1 billion compared to a profit of R0.9 billion during 2018.

### Group performance, excluding IFRS 16 in 2019

The adoption of the IFRS 16 'Leases' standard from 1 January 2019 complicates performance comparisons between the results of the current and prior year. To provide a more meaningful assessment of the current year'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 2019.

### **Group overview**

Massmart's total sales for the 52 weeks of R93.7 billion represents sales growth of 3.0%, with comparable sales growth of 1.5% and year-to-date internal sales inflation of 2.5%. Sales from our South African stores increased by 2.7%, with comparable stores sales increasing by 1.3%. Total sales from our rest of Africa stores increased by 6.4% in Rands, and by 5.5% in constant currencies.

The sales performance across our major categories is reflective of the spending pattern of a financially constrained consumer who continues to prioritise spending on non-Durables over Durable Goods. Food and Liquor sales of R53.5 billion increased by 5.1% (2018: R50.9 billion), Home Improvement sales of R14.2 billion increased by 3.4% (2018:R13.8 billion) and General Merchandise sales of R25.9 billion represents a decrease of 1.3% (2018: R26.3 billion).

A combination of increased promotional activity during the year and the shift of consumers prioritizing lower margin categories (Food and Liquor) over higher margin categories (General Merchandise and Home Improvement) resulted in gross margins declining from 19.5% to 18.9%.

While expense growth of 10.2% exceeded our sales growth of 3.0% during 2019, the second half of the year saw expenses increasing at a lower rate (8.6%) than the first half (11.8%) due to cost saving initiatives implemented by the Group. Expense growth however, still outpaced sales growth in the second half of 2019. Employment costs, the Group's biggest cost category increased by 8.0% (with a comparable increase of 7.8%), mainly impacted by the legislative requirement of converting temporary contractors to permanent associates in late 2018, in addition to the impact of new stores and annual labour cost inflation.

During the period, seven net new stores were opened, including the Makro store in Cornubia, north of Durban. Consequently, and further impacted by increased municipal tariffs, electricity costs and the cost associated with power generation as a result of load-shedding in February and again in December, occupancy costs increased by 8.4%.

Contributing to the 17.3% increase in depreciation and amortisation during the period was the impact of new stores and increased cost associated with the new SAP Hybris web and fulfilment platform in Makro.

Other operating expenses increased by 14.2%. This was impacted by costs associated with the current economic climate: 5.8% increase in credit card costs as we see bigger credit sales participation; 9.6% increase in security costs driven by the need to increase our security efforts; and a 66.1% increase in bad debts. In addition, pre-opening costs associated with opening new stores, increased by 21.2%.

The combination of the factors explained above culminated in trading profit decreasing by 79.3%.

The evaluation of loss-making stores conducted during the period and an assessment of non-current assets held for sale resulted in impairment costs of R169.5 million recognised during the period.

Currency weaknesses continued into the second half of the year, resulting in a foreign exchange loss of R53.3 million. Net finance costs increased by 10.6% to R689.8 million.

The Group's effective tax rate of -67.4% (2018: 31.5%) is as a result of impairing certain deferred taxation assets previously raised, limiting the recognition of further deferred tax assets and the impact of the taxation charge on profit-making entities. In addition to this, the decrease in share price further impacted the deferred tax asset recognised on the Group share scheme.

Consequently, the Group incurred a net loss for the year of R861.0 million, down from a profit of R868.7 million in 2018. Headline losses amounted to R747.3 million, down from headline earnings of R901.2 million in 2018.

The Group's net asset value of R4,800.8 million is 23.8% lower than 2018 of R6,301.5 million, which includes the IFRS 16 adoption adjustment.

The interim condensed consolidated results from which the information above have been extracted, have been reviewed by the Group's Independent External Auditors, Ernst & Young Inc. and their unmodified review report is available for inspection at the Company's registered office.

## **Outlook and trading update**

Massmart's total sales for the seven weeks to 16 February 2020 amounted to R11.4 billion and represents an increase of 2.2% over the prior year. Comparable store sales increased by 1.0% and product inflation is estimated at 2.3%. The subdued economic environment experienced in the latter part of 2019 continues and we expect margin pressure to persist in 2020.

The financial information on which this trading update is based has not been reviewed and reported on by the Company's external auditors.

## **About this announcement**

This short-form announcement is the responsibility of the Company's Board of Directors and is a summary of the information in the full results announcement and as such does not contain full or complete details of the full results announcement. The full announcement has been released on the JSE Stock Exchange News Service at (<https://senspdf.jse.co.za/documents/2020/jse/isse/MSM/MSMDec2019.pdf>) and is also available on the Company's website: <https://www.massmart.co.za/results2019>. Copies of the full announcement are available for inspection and may be requested at the Company's registered office, at no charge, during office hours. Any investment decisions by investors and/or shareholders, in relation to the Company's shares, should be based on a consideration of the full announcement.

By order of the board

Mitchell Slape

Chief Executive Officer

27 February 2020

Sponsor: JP Morgan Equities South Africa (Pty) Ltd

Mohammed Abdool-Samad

Chief Financial Officer