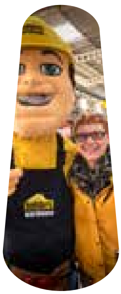
Massmart powered by Walmart

Saving our customers money so they can live better



Reviewed Interim Results

for the 26 weeks ended 28 June 2020

Massmart, with total half-year sales of R39.6 billion, comprises two Business Units operating 420 retail and wholesale stores, in 13 sub-Saharan countries. Through our widely-recognised, differentiated retail and wholesale formats, we have leading market 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.

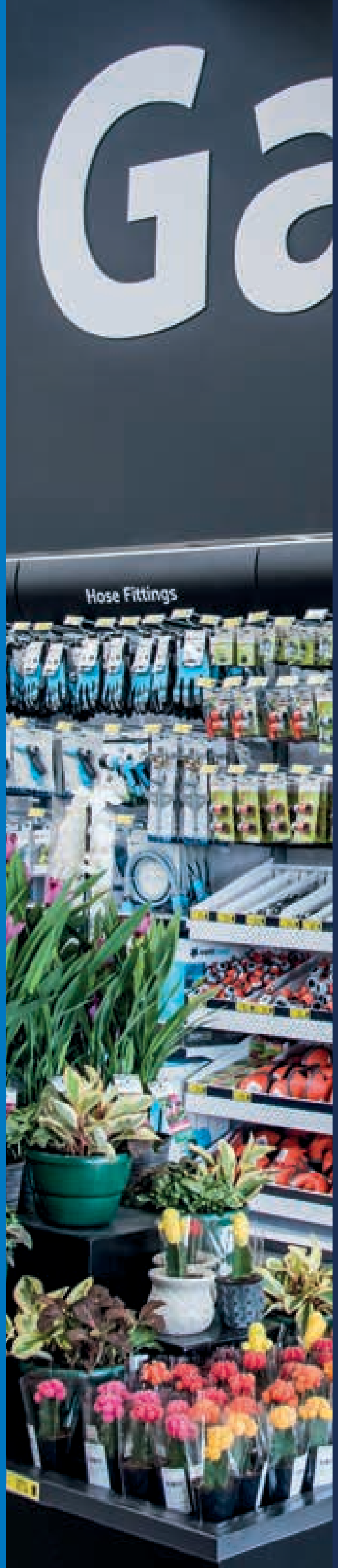
MASSMART GROUP

Massmart Retail powered by Walmart

- Game
- Builders
- Cambridge Food
- Rhino

Massmart Wholesale powered by Walmart

- Makro
- The Fruitspot
- Jumbo Wholesale
- Shield



Performance summary

for the 26 weeks ended 28 June 2020

↓ 9.7%
Sales
R39.6 billion
2019: R43.8 billion

↓ 40.2%
Loss for the period
R1.2 billion
2019: R0.8 billion

↓ >100%
Trading (loss)/profit before interest and taxation
(R266.6 million)
2019: R318.9 million

↓ 36.2%
Headline loss
R1.1 billion
2019: R0.8 billion*

↓ 32.9%
EBITDA, before non-trading items
R1,253.5 million
2019: R1,867.3 million

↓ 45.9%
Headline loss before reorganisation, restructure and foreign exchange costs (taxed)
R1.0 billion
2019: R0.7 billion*

All statistics reported are inclusive of IFRS 16, in both periods, unless stated otherwise.
** Restated 2019 to apply the SAICA Circular 1/2019 on headline earnings which resulted in a prior year amount of R5.7 million relating to the pre-tax loss arising from the partial or full termination of leases no longer being a headline earnings adjustment. Refer to note 1.*

Massmart Reviewed Interim Results

for the 26 weeks ended 28 June 2020

Group performance

Massmart's total sales for the 26 weeks ended 28 June 2020 of R39.6 billion represents a decline of 9.7% compared to the same period in 2019, with a similar decline in comparable store sales. Sales were significantly impacted by various restrictions put in place by respective Governments in response to the Covid-19 pandemic in the jurisdictions in which we operate.

An increased focus on optimising our product and promotional mix, combined with shifting towards the everyday low price (EDLP) proposition resulted in the gross margin increasing by 90bps to 20.1% from June 2019.

With sales pressure and the significant impact of the Covid-19 pandemic on cash flows, we remain focused on improving expense management, with further savings being realised through cost saving initiatives implemented as part of our cost reset strategy. This resulted in operating expenses increasing by only 1.9% over the prior year period. A trading loss of R266.6 million was reported for the period.

As part of the turnaround plan, and as previously announced, the Group successfully closed 23 DionWired stores during the period. Restructure costs associated mainly with the above store closures and the potential closure of 11 Cambridge and Wholesale Cash & Carry stores, as previously announced, resulted in additional costs of R47.4 million. We have also impaired certain Game, Cambridge and Wholesale Cash & Carry stores resulting in impairment expenses of R55.5 million during the period.

Fluctuations in African currencies continue to negatively impact the Group, particularly the effect of US dollar denominated leases in other African countries, resulting in a total foreign exchange loss of R112.3 million. Despite pressure associated with lower cash flows from restrictions relating to the Covid-19 pandemic, the combination of ongoing focus on working capital management and reduced interest rates resulted in net finance costs (inclusive of lease liabilities) increasing by only 0.8% to R916.6 million during the period.

The Group reported a net loss of R1.2 billion for the period, compared to a loss of R0.8 billion during the same period in 2019, while reporting a headline loss of R1.1 billion for the period compared to a headline loss of R0.8 billion during the same period last year.

Operating environment and Covid-19 impact

Operating environment

The global outbreak of the Covid-19 pandemic has presented unique and significant challenges in both our economic and operating environments. The South African Government, and those of other African countries we operate in, implemented measures in an attempt to curb the spread of the virus. While we fully support these measures, they have had a significant negative impact on our trading. These unprecedented times brought with it further deterioration of the already weakened South African economy; with increasing unemployment rates, continued Rand depreciation and a further contracting GDP; placing additional financial strain on consumers.

Covid-19 impact

The measures put in place by Government have had a significant impact on our normal trading patterns during the reporting period.

During the five-week lockdown level 5 period, introduced from 26 March 2020, the sale of non-essential goods, General Merchandise, Home Improvement, Liquor and tobacco products were prohibited. None of our South African Builders stores were permitted to trade during this period, severely impacting our Home Improvement business. The above categories combined contributed approximately 56% of the Group's total sales in the 26-week period ending June 2019.

With the introduction of lockdown level 4 at the beginning of May 2020, all Builders stores, in South Africa and the rest of Africa, were permitted to recommence trading. The sale of Liquor and tobacco products remained prohibited under lockdown level 4.

Liquor trading was permitted under lockdown level 3 from 1 June 2020, with restricted trading hours and days. On 12 July 2020, Liquor trading was once again prohibited, with tobacco sales still remaining prohibited since the beginning of the lockdown.

With the introduction of lockdown level 2 from 18 August 2020, the trading of both Liquor and tobacco products has been permitted, with restrictions on Liquor trading hours and days.

On a comparable basis, sales for the nine weeks restricted by the lockdown level 5 and 4 regulations, were R4.6 billion in the 2019 financial year. During this 2020 reporting period, additional employment and operating costs (of R76.2 million) were incurred in response to trading and operational challenges, including ensuring a safe shopping and workplace environment for customers and associates. Included in the employment and occupancy costs are Government supported Temporary Employment Relief Scheme (TERS) benefits and negotiated rental relief of R230.0 million in total received by the Group during the period.

The Group focused on preserving cash during the lockdown, while continuing to implement the turnaround plan. The lockdown further accelerated the implementation of the turnaround plan.

During the lockdown, we continued to pay suppliers on time and in full, which contributed to enhanced supplier relationships, ensuring no disruption in the supply of stock. Supplier payment terms were also renegotiated, where possible, to preserve cash while taking care of our most vulnerable smaller suppliers. The Group also continued to pay associates' salaries and benefits on time and in full throughout the lockdown, partially supplemented by the TERS benefit received from the South African Government.

Group overview

Financial review

Massmart's total sales for the 26 weeks of R39.6 billion represents a decline of 9.7%, with the same movement in comparable store sales and year-to-date internal sales inflation estimated at 3.7%. Sales from our South African stores decreased by 10.6%, with comparable stores sales decreasing by 10.5%. Total sales from our rest of Africa stores decreased by 0.1% in Rands, and by 3.8% in constant currencies. On a comparable store basis, our rest of Africa store sales decreased by 1.5% in Rands and by 5.1% in constant currencies.

The sales performance across our major categories is reflective of the dramatically shifting purchasing patterns seen by consumers during the Covid-19 pandemic, as well as trading restrictions. Food and Liquor sales of R23.1 billion decreased by 7.2% (June 2019: R24.9 billion), Home Improvement sales of R5.8 billion decreased by 13.4% (June 2019: R6.7 billion) and General Merchandise sales of R10.7 billion decreased by 12.3% (June 2019: R12.2 billion).

A combination of product and promotional mix optimisation and shifting towards the EDLP proposition resulted in gross margins improving from 19.2% to 20.1%.

Our continued focus on cost savings as part of the cost reset strategy, further accelerated by the lockdown, resulted in expense growth of only 1.9% over the prior year period, with a comparable expense growth of only 1.2%.

Employment costs, the Group's biggest cost category decreased by 2.2% (with a comparable increase of 1.1%), due to the closure of DionWired stores, recruitment freezes and the impact of the South African Government TERS and Skills Development Levy relief. We also paid once off bonuses of R12 million to our front-line staff during April in appreciation of their commitment during the most severe lockdown period.

Occupancy costs decreased by 6.4% (with a comparable decrease of 7.3%), mainly as a result rental relief from landlords and lower utility costs as a result of the lockdown. Rental re-negotiation benefits will be realised from the second half of the year and beyond.

Depreciation and amortisation decreased by 1.8% (and by 2.1% on a comparable basis) due to reduced capital investments with a primary focus on cash preservation and the closure of DionWired stores.

Included in other operating costs are once off expenses which relate to value enhancing turnaround plan costs. Also included are implementation costs associated with the SAP S/4 HANA ERP system go-live in Game during the period, as well as maintenance costs of the Hybris web and fulfillment platform implemented in Makro in 2019.

The above resulted in a trading loss of R266.6 million compared to a trading profit of R318.9 million in the same period in 2019.

As part of the Group's portfolio optimisation project, restructure costs of R47.4 million were incurred with the closure of the 23 DionWired stores and potential closure of the 11 Cambridge and Wholesale Cash & Carry stores.

Impairment costs of R55.5 million were recognised during the period relating to certain ongoing loss-making Game, Cambridge and Wholesale Cash & Carry stores.

Continued African country currency weaknesses, combined with the impact of US dollar denominated leases, resulted in total foreign exchange losses of R112.3 million.

Interest expense, excluding those related to lease liabilities, of R347 million was incurred in relation to the Group's financiers and decreased by 0.8% compared to the same period last year. Total net cash finance costs increased by 2.5% to R851.8 million.

The Group's effective tax rate of 16.6% (2019: -4.8%) is mainly due to limiting the recognition of certain deferred tax assets and the taxation charge on profit-making entities.

Financial position

Capital expenditure was responsibly managed to preserve cash during the period. The Group continued to invest in IT infrastructure and the refurbishment of selected existing stores. Total capital expenditure for the period amounted to R354.1 million, down 49.1% from the same period in 2019. This, together with the impact of asset impairments, resulted in property, plant and equipment decreasing by 5.0% compared to June 2019. Expansionary capital expenditure amounted to R242.9 million, of which IT infrastructure was R148.8 million mostly associated with the SAP S/4 HANA ERP system implementation in Game, while replacement capital expenditure amounted to R111.2 million.

We continue to focus on improving working capital. Reduced General Merchandise and Home Improvement sales and increased Food sales during the lockdown period resulted in a 1.4% decrease in inventory compared to June 2019. Due to the shift from non-Durables to Food sales, inventory days increased by six days. While trade receivables decreased by 14.5%, debtors days decreased by two days to eight days. Trade creditors decreased by 8.6% while creditors days increased by two days.

Operating cash inflows before working capital movements of R1,927.0 million improved by 3.1% over the prior year period from concerted efforts in cash preservation.

Despite the trading loss incurred during this reporting period (compared to a profit in June 2019), responsible cash management and cost saving initiatives resulted in an increase of net debt of 3.1% (excluding debt related to lease liabilities) compared to the prior year period.

Appreciation

We are thankful to all our associates, especially our frontline associates, who have adapted to new ways of working during these unprecedented times and continue to contribute to the Group's performance and serving our number one asset, our customers. We are proud of the role we played as an essential goods provider during the lockdown period, while ensuring a safe environment for customers and associates. We are also thankful to the Board and Management teams for their continued support and commitment to the Group.

Directorate

On 25 February 2020, the resignation of Enrique Ostalé from the Board, Remuneration and Nominations Committee was announced. The appointment of JP Suarez to the Remuneration and Nominations Committees was also announced, effective 25 February 2020. On the same day shareholders were informed that Charles Redfield was nominated for appointment as a non-Executive Director of the Board, effective 25 February 2020.

On 6 March 2020, Phumzile Langeni's resignation from the Risk and Audit Committees to focus on her other Massmart Board and Committee duties was announced, with effect from 21 May 2020.

The appointment of Sandile Lukhele as the Group Company Secretary was announced on 13 August 2020, with effect from 1 October 2020. Sandile will also assume the role of Senior Vice President, Massmart General Counsel and Company Secretary and will serve as a member of Massmart's Executive Committee, with effect from 1 October 2020.

Turnaround plan update

During the period, we have progressed our turnaround plan and have achieved the following thus far:

1. Group operating model:

Reorganised the Group operating structure into two Business Units, initiated Centres of Excellence and outsourced applications support to the Walmart India Development Centre.

80-140bps opportunity

2. Portfolio optimisation:

Closed 23 DionWired stores and, as previously communicated, are finalising the sale of 8 Masscash stores, while working through details of the remaining 3 stores.

R160 million PBIT improvement

3. Game reset:

Completed the SAP S/4 HANA ERP implementation and expediting everyday low cost execution.

220bps GP margin uplift

4. Wholesale integration:

Constituted a single Executive Committee, being presented as a single business to suppliers strengthening price competitiveness and piloted the integration of Makro and Builders onto the Shield B2B platform.

GP uplift of 50bps

5. Supply chain optimisation:

Increased vendor on-boarding into the network, delivered phase 1 of temperature controlled network and reduced Game aged and obsolete stock by 10%.

50bps of the 1% COGS reduction opportunity

6. Cost reset:

Validated R1.9 billion selling, general and administrative (SG&A) savings opportunity and aggressively executing against it.

54bps (as % of sales)

While we will continue to reach key milestones across the work streams according to our clear plan, we remain operationally focused on improving our professional retail effectiveness; our obsession with everyday low costing; and improving our margins through EDLP.

For a detailed update on our turnaround plan refer to the interim results presentation on our website: www.massmart.co.za

Outlook

Total sales for the 33 weeks to 16 August 2020 of R50.0 billion represents a sales decline of 10.5%, with the same movement in comparable sales growth. Product inflation is estimated to be 3.7%.

We expect the uncertain operating environment and negatively impacted economy related to the Covid-19 pandemic to persist. While trade in all our categories is currently permitted, future Covid-19 related trading restrictions remain uncertain. We are however, confident that we will be able to navigate through this, as we successfully did during the first half of this year. We will continue to accelerate the implementation of our turnaround plan and we expect SG&A and GP margin performance achieved during this reporting period to continue into the second half of the year.

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

Dividend

Our current dividend policy is to declare and pay an interim and final cash dividend representing a 2.0 times dividend cover, unless circumstances dictate otherwise. Due to the headline loss reported and the need to preserve cash, as a result of the uncertain economic outlook, no interim dividend has been declared. No interim dividend was declared in June 2019.

Mitchell Slape
Chief Executive Officer

Mohammed Abdool-Samad
Chief Financial Officer

26 August 2020

Business Unit performance*

Massmart Retail powered by Walmart

Game

TRADING GENERAL MERCHANDISE AND FOOD RETAILER

↓ 11.8%
R8.3bn
Sales
2019: R9.4 billion

↓ 55.5%
(R416.3m)
Trading loss
2019: (R267.8 million)^

150 stores
in South Africa, Botswana, Ghana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Tanzania, Uganda and Zambia
Dec 2019: 173

As part of the turnaround plan, and as previously announced, the Group successfully closed 23 DionWired stores during the period.

Game's total sales, excluding DionWired, for the 26 weeks of R8.2 billion represents a 9.2% decrease compared to June 2019, while comparable store sales contracted by 10.2%. Product inflation was 4.6%.

Trading restrictions in South Africa resulted in reduced categories permitted to trade in Game in the second quarter; 29% in April, 67% in May and 80% in June 2020. Lost sales from the Covid-19 pandemic impact is estimated to be R0.9 billion. While we saw a decrease in foot traffic, basket sizes increased during this period. Game's online sales increased by 100% compared to the prior year period. Teething issues from the SAP S/4 HANA ERP system implementation, after a four year journey, negatively impacted sales. Sales from the South African Game stores declined by 11.0%. Sales from the rest of Africa stores decreased by 1.5% in Rands and by 6.2% in constant currencies due to continued currency weaknesses during the period.

Reduced stock obsolescence from improved stock management and optimising product and promotional mix from the shift towards the EDLP proposition improved gross margin by 220bps to 25.5%. Cost saving initiatives implemented resulted in savings in occupancy costs from successful rental re-negotiations, better supplier price negotiations and efficiencies realised through improved overtime scheduling. Expenses decreased by 1.0% and comparable expenses decreased by 0.4%. Included in this are the IT costs associated with the system implementation.

No Game stores were opened nor closed during the period. The closure of 23 DionWired stores resulted in trading space reducing by 3.5% to 542,392m².

Builders

TRADING DIY, HOME IMPROVEMENT AND BUILDING MATERIALS RETAILER

↓ 13.3%
R5.8bn
Sales
2019: R6.7 billion

↓ 32.7%
R214.3m
Trading profit
2019: R318.4 million^

117 stores
in South Africa, Botswana, Mozambique and Zambia
Dec 2019: 118

Builders total sales of R5.8 billion represents a decrease of 13.3% compared to June 2019, while comparable store sales declined by 14.1%, with product inflation of 6.2%.

Trading restrictions resulted in the closure of all South African Builders stores under lockdown level 5. Lost sales from the Covid-19 pandemic impact is estimated to be R1.0 billion. Sales from South African stores declined by 14.8% and by 15.7% on a comparable store sales basis. Sales from the rest of Africa stores increased by 2.4% and was flat in constant currencies.

The slowdown in the construction sector was exacerbated by the lockdown. Post the lockdown level 5 period, Builders stores have seen an increase in retail sales as consumers continue to prioritise home improvement and DIY projects. This, combined with optimising product and promotional mix resulted in an improved margin of 33.3%, up 220bps compared to June 2019.

Efforts made in online fulfilment practices have been beneficial with online sales increasing by 160% and click-and-collect sales growing by 150% over the prior year period.

Expenses were well managed and efforts made in cost saving initiatives continue to reap benefits. Expenses decreased by 3.1% during the period, and by 1.5% on a comparable basis.

One Builders Superstore was closed in South Africa during the period, resulting in a 0.2% decrease in trading space to 477,530m².

Post the reporting period, a Builders Warehouse store was opened in Kenya on 20 August 2020.

Cambridge / Rhino

FOOD RETAILER

↓ 15.6%
R3.9bn
Sales
2019: R4.6 billion

↓ >100%
(R314.5m)
Trading loss
2019: (R91.9 million)^

64 stores
in South Africa
Dec 2019: 63

Cambridge and Rhino total sales of R3.9 billion declined by 15.6%, and by 14.5% on a comparable store sales basis. Product inflation was 6.5%. Sales were further impacted by store closures during the period due to positive Covid-19 cases and store sanitisations. Lost sales from the Covid-19 pandemic impact is estimated to be R0.4 billion.

Increased commodities and retail sales and optimising product and promotional mix with the EDLP proposition led to an improvement of 110bps in margin to 17.3% compared to June 2019.

Continued focus on working capital initiatives led to minimal stock obsolescence and stable stock aging. Expenses decreased by 2.9% and by 1.6% on a comparable basis. Impairments relating to loss-making stores were also recognised during the period.

One Cambridge store was opened in South Africa during the period, resulting in an increase of 1.6% of trading space to 108,205m².

Business Unit performance*

Massmart Wholesale powered by Walmart

TRADING GENERAL MERCHANDISE, FOOD AND LIQUOR

↓ 10.4%
R12.0bn
Sales
2019: R13.4 billion

↓ 43.4%
R237.0m
Trading profit
2019: R418.4 million^

22 stores
in South Africa
Dec 2019: 22

Makro total sales of R12.0 billion decreased by 10.4% compared to June 2019, with comparable stores sales contracting by 11.0%. Product inflation was 3.6%, and margins improved by 70bps to 18.2% compared to June 2019. Lost sales from the Covid-19 pandemic impact is estimated to be R1.9 billion.

Shifting consumer patterns emerging from the lockdown led to an increase in retail customers, and a reduction in wholesale and commercial customers. Makro also partnered with OneCart during the period further enabling the sale and delivery of over 11,000 grocery items and 124 liquor items. Online sales increased by 84% during the period.

Expenses were well managed despite increased bad debts (mainly from the liquor and hospitality industries), stock obsolescence and increased IT costs related to the Hybris web and fulfillment platform. Expenses increased by 1.6% during the period, with the same increase in comparable expense.

There were no stores opened nor closed during the period and trading space remained at 246,125m².

FOOD WHOLESALER

↓ 2.1%
R9.5bn
Sales
2019: R9.7 billion

↑ >100%
R12.9m
Trading profit/(loss)
2019: (R56.7 million)^

67 stores
in South Africa, Botswana, Lesotho, Mozambique, Namibia, Swaziland and Zambia
Dec 2019: 67

Cash & Carry total sales of R9.5 billion declined by 2.1%, and similarly on a comparable store sales basis. Product inflation was 6.5%. Sales from the rest of Africa stores increased by 0.6% and declined by 2.3% in constant currencies. Sales were impacted by the significant reduction of hospitality and commercial consumers, which also led to an increase in bad debts. Lost sales from the Covid-19 pandemic impact is estimated to be R0.4 billion.

Optimising product and promotional mix from the EDLP proposition and shelf-pricing improvements led to improved margins of 80bps to 10.9% compared to June 2019.

A focus on expense management and cost saving initiatives were realised in travel and consulting fees. Expenses increased by 2.7% during the period, with a similar increase in comparable expenses. Certain loss-making stores resulted in impairments expenses during the period.

There were no stores opened nor closed during the period and trading space remained at 282,264m².

** Restated according to the new operating structure of the Group as required by IFRS 8. Refer to note 2.*
^ Business Unit trading (loss)/profit includes Corporate allocations.

Business Unit operational review

Rm	26 weeks June 2020 (Reviewed)	% of sales	26 weeks June 2019 (Restated)*	% of sales	Period % growth	Comparable % sales growth	Estimated % sales inflation#	52 weeks December 2019 (Restated)*	% of sales
Sales	**39,599.2**		43,832.4		(9.7)	(9.7)	3.7	93,660.0	
Game	**8,303.9**		9,420.0		(11.8)	(10.6)	4.6	19,796.0	
Builders	**5,836.8**		6,734.6		(13.3)	(14.1)	6.2	14,219.0	
Cambridge and Rhino	**3,922.3**		4,648.7		(15.6)	(14.5)	6.5	9,553.1	
Massmart Wholesale^+	**21,536.2**		23,029.1		(6.5)	(7.1)	4.7	50,091.9	
Trading (loss)/profit before interest and taxation**	**(266.6)**	(0.7)	320.4	0.7	(183.2)			1,111.2	1.2
Game	**(416.3)**	(5.0)	(267.8)	(2.8)	(55.5)			(391.0)	(2.0)
Builders	**214.3**	3.7	318.4	4.7	(32.7)			848.5	6.0
Cambridge and Rhino	**(314.5)**	(8.0)	(91.9)	(2.0)	(242.2)			(310.2)	(3.2)
Massmart Wholesale+	**249.9**	1.2	361.7	1.6	(30.9)			963.9	1.9

** Restated according to the new operating structure of the Group as required by IFRS 8. Refer to note 2.*
***The 'trading (loss)/profit before interest and taxation' above is the amount per the Condensed Consolidated Income Statement less the BEE transaction IFRS 2 charge. Business Unit trading (loss)/profit includes Corporate allocations.*
 # Group sales inflation is a weighted inflation.
^ Included in the sales number is R147.3 million commission income (2019: R129.1 million) earned by acting as an agent through the Shield arrangement (a voluntary buying association). In cases where the Group acts as an agent in a transaction and where sales are recognised on a net basis, the contractual terms of such arrangements do not meet the requirements that allow offsetting financial instruments resulting in the related receivable and payable balances being disclosed on a gross basis.
+ Massmart Wholesale comprises one operating segment due to their underlying brands sharing similar economic characteristics per the IFRS 8 criteria. Refer to note 2.

Business Units assets and liabilities

Rm	Game	Builders	Cambridge and Rhino	Massmart Wholesale+	Other	Total
June 2020 (Reviewed)						
Total Assets	**9,425.7**	**7,351.9**	**3,112.6**	**12,967.0**	**5,518.2**	**38,375.4**
Total Liabilities	**6,772.3**	**5,443.2**	**1,807.8**	**12,026.0**	**8,690.9**	**34,740.2**
June 2019 (Reviewed)						
Total Assets	9,854.0	7,178.4	3,308.1	13,539.1	5,727.7	39,607.3
Total Liabilities	7,493.2	5,197.8	1,950.7	11,342.5	8,342.8	34,327.0
December 2019 (Restated)*						
Total Assets	10,019.7	7,360.1	2,912.1	14,322.2	5,723.7	40,337.8
Total Liabilities	8,889.5	5,982.8	2,070.4	15,006.6	3,587.7	35,537.0

** Restated according to the new operating structure of the Group as required by IFRS 8. Refer to note 2.*
+Massmart Wholesale comprises one operating segment due to their underlying brands sharing similar economic characteristics per the IFRS 8 criteria. Refer to note 2.

Condensed consolidated income statement

Rm	26 weeks June 2020 (Reviewed)	26 weeks June 2019 (Reviewed)	Period % change	52 weeks December 2019 (Audited)
Revenue	39,707.0	43,909.4	*(9.6)*	93,843.1
Sales	39,599.2	43,832.4	*(9.7)*	93,660.0
Cost of sales	(31,627.4)	(35,403.5)	*10.7*	(75,946.8)
Gross profit	7,971.8	8,428.9	*(5.4)*	17,713.2
Other income	107.8	76.6	*40.7*	179.7
Depreciation and amortisation	(1,520.1)	(1,548.4)	*1.8*	(3,067.1)
Employment costs	(3,881.7)	(3,967.4)	*2.2*	(8,188.0)
Occupancy costs	(603.0)	(644.6)	*6.5*	(1,365.8)
Other operating costs	(2,341.4)	(2,026.2)	*(15.6)*	(4,160.8)
Trading (loss)/profit before interest and taxation	(266.6)	318.9	*(183.6)*	1,111.2
Reorganisation and restructure cost	(47.4)	–	*(100.0)*	(33.1)
Impairment of assets	(55.5)	(46.9)	*(18.3)*	(229.5)
Insurance proceeds on items in PP&E	–	0.4	*(100.0)*	3.4
Operating (loss)/profit before foreign exchange movements and interest	(369.5)	272.4	*(235.6)*	852.0
Foreign exchange loss (note 4)	(112.3)	(157.1)	*28.5*	(143.0)
Operating (loss)/profit before interest	(481.8)	115.3	*(517.9)*	709.0
- Finance costs	(928.2)	(921.9)	*(0.7)*	(1,860.4)
- Finance income	11.6	12.3	*(5.7)*	61.3
Net finance costs	(916.6)	(909.6)	*(0.8)*	(1,799.1)
Loss before taxation	(1,398.4)	(794.3)	*(76.1)*	(1,090.1)
Taxation (note 12)	231.6	(38.1)	*707.9*	(206.3)
Loss for the period	(1,166.8)	(832.4)	*(40.2)*	(1,296.4)
Loss attributable to:				
- Owners of the parent	(1,161.1)	(836.1)	*(38.9)*	(1,307.5)
- Non-controlling interests	(5.7)	3.7	*(254.1)*	11.1
Loss for the period	(1,166.8)	(832.4)	*(40.2)*	(1,296.4)
Basic EPS (cents)	(534.2)	(382.8)	*(39.6)*	(600.6)
Diluted basic EPS (cents)	(534.2)	(378.3)	*(41.2)*	(594.9)

Headline earnings

Rm	26 weeks June 2020 (Reviewed)	26 weeks June 2019 (Restated)*	Period % change	52 weeks December 2019 (Restated)*
Reconciliation of loss for the period to headline earnings				
Loss for the period attributable to owners of the parent (IAS 33 earnings)	(1,161.1)	(836.1)	*(38.9)*	(1,307.5)
Write-off of tangible and intangible assets	56.3	60.0	*(6.2)*	245.3
Net loss/(profit) on disposal of tangible and intangible assets	15.0	(3.3)	*554.5*	(2.5)
Profit on sale of non-current assets classified as held for sale	–	(11.8)	*100.0*	(27.6)
Insurance proceeds on items of PP&E	–	(0.4)	*100.0*	(3.4)
Total tax effects of adjustments	(0.5)	(9.1)	*94.5*	(55.8)
Headline loss	(1,090.3)	(800.7)	*(36.2)*	(1,151.5)
Reorganisation and restructure costs after taxation	34.1	–	–	23.8
Headline loss before reorganisation and restructure costs (taxed)	(1,056.2)	(800.7)	*(31.9)*	(1,127.7)
Foreign exchange loss after taxation	107.2	150.1	*(28.6)*	146.5
Headline loss before reorganisation, restructure and foreign exchange costs (taxed)	(949.0)	(650.6)	*(45.9)*	(981.2)
Headline EPS (cents)	(501.6)	(366.6)	*(36.8)*	(529.0)
Headline EPS reorganisation, restructure and foreign exchange costs (taxed) (cents)	(436.6)	(297.9)	*(46.6)*	(450.7)
Diluted headline EPS (cents)	(501.6)	(362.3)	*(38.4)*	(523.9)
Diluted headline EPS reorganisation, restructure and foreign exchange costs (taxed) (cents)	(436.6)	(294.4)	*(48.3)*	(446.4)

**Restated to apply the SAICA Circular 1/2019 on headline earnings which resulted in a prior year amount of R5.7 million relating to the pre-tax loss arising from the partial or full termination of leases no longer being a headline earnings adjustment.*

Condensed consolidated statement of comprehensive income

Rm	26 weeks June 2020 (Reviewed)	26 weeks June 2019 (Reviewed)	Period % change	52 weeks December 2019 (Audited)
Loss for the period	**(1,166.8)**	(832.4)	*(40.2)*	(1,296.4)
Items that will not subsequently be re-classified to the Income Statement:	**–**	–	–	8.1
Net post retirement medical aid actuarial profit	**–**	–	–	8.1
Items that will subsequently be re-classified to the Income Statement:	**33.0**	(40.1)	*182.3*	(76.9)
Foreign currency translation reserve	**61.8**	(48.0)	*228.8*	(91.8)
Fair value movement on OCI financial assets	**(0.2)**	(0.2)	–	(0.3)
Income tax relating to components of other comprehensive income	**(28.6)**	8.1	*(453.1)*	15.2
Total other comprehensive profit/(loss) for the period, net of tax	**33.0**	(40.1)	*182.3*	(68.8)
Total comprehensive loss for the period	**(1,133.8)**	(872.5)	*(29.9)*	(1,365.2)
Total comprehensive loss attributable to:				
- Owners of the parent	**(1,128.1)**	(876.2)	*(28.8)*	(1,376.3)
- Non-controlling interests	**(5.7)**	3.7	*(254.1)*	11.1
Total comprehensive loss for the period	**(1,133.8)**	(872.5)	*(29.9)*	(1,365.2)

Condensed consolidated statement of financial position

Rm	26 weeks June 2020 (Reviewed)	26 weeks June 2019 (Reviewed)	Period % change	52 weeks December 2019 (Audited)
ASSETS				
Non-current assets	**21,887.5**	22,086.7	*(0.9)*	21,747.2
Property, plant and equipment, including investment property	**8,382.7**	8,820.5	*(5.0)*	8,585.9
Lease assets	**8,201.9**	8,571.6	*(4.3)*	8,283.1
Goodwill and other intangible assets	**3,899.9**	3,745.8	*4.1*	3,865.5
Investments and other financial assets	**140.8**	143.6	*(1.9)*	127.0
Deferred taxation	**1,262.2**	805.2	*56.8*	885.7
Current assets	**16,392.9**	17,353.9	*(5.5)*	18,431.1
Inventories	**10,935.5**	11,086.7	*(1.4)*	11,893.8
Trade, other receivables and prepayments	**3,931.6**	4,460.4	*(11.9)*	5,020.8
Taxation	**130.5**	448.6	*(70.9)*	224.7
Cash on hand and bank balances	**1,395.3**	1,358.2	*2.7*	1,291.8
Non-current and current assets held for sale	**95.0**	166.7	*(43.0)*	159.5
Total assets	**38,375.4**	39,607.3	*(3.1)*	40,337.8
EQUITY AND LIABILITIES				
Total equity	**3,635.2**	5,280.3	*(31.2)*	4,800.8
Equity attributable to owners of the parent	**3,629.8**	5,267.4	*(31.1)*	4,785.5
Non-controlling interests	**5.4**	12.9	*(58.1)*	15.3
Non-current liabilities	**9,214.4**	11,502.5	*(19.9)*	11,121.2
Interest-bearing borrowings	**–**	2,267.6	*(100.0)*	2,000.0
Lease liability	**8,987.8**	9,056.6	*(0.8)*	8,950.7
Deferred taxation	**137.0**	86.5	*58.4*	79.7
Other non-current liabilities and provisions	**89.6**	91.8	*(2.4)*	90.8
Current liabilities	**25,525.8**	22,824.5	*11.8*	24,415.8
Trade, other payables and provisions	**15,328.7**	15,354.9	*(0.2)*	21,117.0
Taxation	**150.1**	68.7	*118.5*	200.4
Bank overdrafts and debt facilities (note 11)	**120.3**	76.3	*57.7*	141.2
Interest-bearing borrowings	**8,452.3**	5,974.4	*41.5*	1,572.8
Lease liability	**1,474.4**	1,350.2	*9.2*	1,384.4
Total equity and liabilities	**38,375.4**	39,607.3	*(3.1)*	40,337.8

Condensed consolidated statement of cash flows

Rm	26 weeks June 2020 (Reviewed)	26 weeks June 2019 (Reviewed)	52 weeks December 2019 (Audited)
Operating cash before working capital movements	1,927.0	1,869.9	4,296.8
Working capital movements	(4,645.5)	(4,370.1)	(82.0)
Cash (utilised by)/generated from operations	(2,718.5)	(2,500.2)	4,214.8
Taxation paid	(63.9)	(328.6)	(191.1)
Net interest paid	(851.8)	(831.2)	(1,714.7)
Dividends received	–	–	20.0
Dividends paid	(4.0)	(129.7)	(162.4)
Cash (outflow)/inflow from operating activities	(3,638.2)	(3,789.7)	2,166.6
Investment to maintain operations	(111.2)	(318.8)	(580.3)
Investment to expand operations	(242.9)	(376.9)	(791.5)
Investment in subsidiaries	(0.2)	–	–
Proceeds on disposal of property, plant and equipment	4.0	0.6	7.9
Proceeds on disposal of assets classified as held for sale	–	13.5	41.3
Proceeds on disposal of intangible assets	1.3	–	–
Other net investing activities	7.6	8.3	11.3
Cash outflow from investing activities	(341.4)	(673.3)	(1,311.3)
Increase in non-current liabilities	817.0	600.0	600.0
Increase/(Decrease) in current liabilities	3,306.1	2,867.6	(2,613.4)
Non-controlling interests acquired	–	(0.8)	–
Net acquisition of treasury shares	(58.6)	(78.0)	(48.4)
Cash inflow/(outflow) from financing activities	4,064.5	3,388.8	(2,061.8)
Net increase/(decrease) in cash and cash equivalents	84.9	(1,074.2)	(1,206.5)
Foreign exchange movements on cash and cash equivalents	39.5	(13.6)	(12.7)
Opening cash and cash equivalents	1,150.6	2,369.8	2,369.8
Closing cash and cash equivalents	1,275.0	1,282.0	1,150.6

Condensed consolidated statement of changes in equity

Rm	Share capital	Share premium	Other reserves	Retained profit	Equity attributable to owners of the parent	Non-controlling interests	Total
Balance as at December 2018 (Audited)	2.2	139.1	729.6	5,416.0	6,286.9	14.6	6,301.5
Dividends declared	–	174.3	–	(302.6)	(128.3)	(32.6)	(160.9)
Total comprehensive income	–	–	(68.8)	(1,307.5)	(1,376.3)	11.1	(1,365.2)
Changes in non-controlling interests	–	–	0.5	–	0.5	22.2	22.7
IFRS 2 charge and treasury shares acquired	–	(103.6)	102.4	3.9	2.7	–	2.7
Balance as at December 2019 (Audited)	2.2	209.8	763.7	3,809.8	4,785.5	15.3	4,800.8
Dividends declared	–	–	–	–	–	(4.0)	(4.0)
Total comprehensive income	–	–	33.0	(1,161.1)	(1,128.1)	(5.7)	(1,133.8)
Changes in non-controlling interests	–	–	–	–	–	(0.2)	(0.2)
IFRS 2 charge and treasury shares acquired	–	(68.8)	39.8	1.4	(27.6)	–	(27.6)
Balance as at June 2020 (Reviewed)	2.2	141.0	836.5	2,650.1	3,629.8	5.4	3,635.2
Balance as at December 2018 (Audited)	2.2	139.1	729.6	5,416.0	6,286.9	14.6	6,301.5
Issue of share capital	–	174.3	–	–	174.3	–	174.3
Dividends declared	–	–	–	(302.6)	(302.6)	(4.2)	(306.8)
Total comprehensive income	–	–	(40.1)	(836.1)	(876.2)	3.7	(872.5)
Changes in non-controlling interests	–	–	0.5	–	0.5	(1.2)	(0.7)
IFRS 2 charge and treasury shares acquired	–	(36.3)	20.3	0.5	(15.5)	–	(15.5)
Balance as at June 2019 (Reviewed)	2.2	277.1	710.3	4,277.8	5,267.4	12.9	5,280.3

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments identified below. The table below reflects 'Financial instruments' and 'Non-current assets classified as held for sale' carried at fair value, and those 'Financial instruments' and 'Non-current assets classified as held for sale' that have carrying amounts that differ from their fair values, in the Statement of Financial Position:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

	June 2020 (Reviewed)					June 2019 (Reviewed)					December 2019 (Audited)				
Rm	Total carrying amount	Total Fair Value	Level 1	Level 2	Level 3	Total carrying amount	Total Fair Value	Level 1	Level 2	Level 3	Total carrying amount	Total Fair Value	Level 1	Level 2	Level 3
Financial assets															
Financial assets at fair value through profit or loss	157.5	157.5	–	17.6	139.9	159.1	159.1	–	29.2	129.9	154.7	154.7	–	28.5	126.2
Financial assets at amortised cost	–	–	–	–	–	7.4	6.1	–	6.1	–	7.5	7.3	–	7.3	–
Financial assets measured at fair value through OCI	0.6	0.6	0.6	–	–	0.9	0.9	0.9	–	–	0.8	0.8	0.8	–	–
Non-current assets classified as held for sale	95.0	95.0	–	–	95.0	166.7	166.7	–	–	166.7	159.5	159.5	–	–	159.5
	253.1	253.1	0.6	17.6	234.9	334.1	332.8	0.9	35.3	296.6	322.5	322.3	0.8	35.8	285.7
Financial liabilities															
Financial liabilities at amortised cost	2,328.7	2,441.6	–	2,441.6	–	2,267.6	2,345.2	–	2,345.2	–	2,266.5	2,326.3	–	2,326.3	–
Financial liabilities at fair value through profit or loss	21.0	21.0	–	21.0	–	24.4	24.4	–	24.4	–	37.4	37.4	–	37.4	–
	2,349.7	2,462.6	–	2,462.6	–	2,292.0	2,369.6	–	2,369.6	–	2,303.9	2,363.7	–	2,363.7	–

The Group's unlisted investments in insurance cell-captives were previously categorised within Level 2 of the fair value hierarchy. Due to the unobservability of the lowest level input that is significant to the entire valuation the financial assets was re-categorised to Level 3. Other than this transfer, there were no further transfers between Level 1, Level 2 and Level 3 fair value categories during the financial period.

The financial assets and financial liabilities have been presented based on an analysis of their respective natures, characteristics and risks.

The valuation techniques and significant inputs driving the fair value determination have remained unchanged since the Group's December 2019 year-end. For more detail in this regard, refer to the 2019 Massmart Group audited consolidated annual financial statements available on the Group's website.

The Group has considered the significant unobservable inputs, the sensitivities attached to them as well as any possible interrelationship between significant unobservable inputs. Currently it is assessed that no such material inputs exist and that no reasonable movement in such an input would result in a material impact for the Group.

Additional information

	June 2020 (Reviewed)	June 2019 (Reviewed)	December 2019 (Audited)
Net asset value per share (cents)	1,656.4	2,403.7	2,183.8
Ordinary shares (000's):			
- In issue	219,138.8	219,138.8	219,138.8
- Weighted average (net of treasury shares)	217,361.4	218,400.1	217,686.4
- Diluted weighted average	220,143.5	221,006.5	219,793.1
Preference shares (000's):			
- Black Scarce Skills Trust 'B' shares in issue	2,797.7	2,797.7	2,797.7
Capital expenditure (Rm):			
- Authorised and committed	601.2	436.1	1,018.4
- Authorised not committed	1,041.2	1,212.6	1,047.3
US dollar exchange rates:			
- Period end (R/$)	17.30	14.08	14.03
- Average (R/$)	17.10	14.20	14.42

Share data

Share Data: 30 Dec 2019 - 28 June 2020	
Closing price, 26 Jun 2020	R23.80
Share price (26 week high)	R62.00
Share price (26 week low)	R20.33
Market Cap (billions)	R5.16
Shares in issue (millions)	217.0
Shares traded (millions)	140.1
Percentage of shares traded	64.6%
Reuters	MSMJ.J
Bloomberg	MSM SJ

Fair value measurements categorised within Level 3 reconciliation

	Financial assets measured at fair value through profit or loss			Non-current assets and liabilities classified as held for sale		
Rm	June 2020 (Reviewed)	June 2019 (Reviewed)	December 2019 (Audited)	June 2020 (Reviewed)	June 2019 (Reviewed)	December 2019 (Audited)
Opening balance	126.2	–	–	159.5	11.6	11.6
Financial assets re-categorised to Level 3	–	100.9	100.9	–	–	–
Fair value adjustments recognised in the Income Statement	13.7	29.0	25.3	–	–	(16.9)
Held for sale assets and liabilities sold during the period	–	–	–	–	(11.6)	(11.6)
Assets and liabilities transferred as held for sale during the period	–	–	–	75.5	166.7	166.7
Held for sale assets and liabilities transferred (to)/from property, plant and equipment during the period	–	–	–	(140.0)	–	9.7
Closing balance	139.9	129.9	126.2	95.0	166.7	159.5

Notes

1. These reviewed interim condensed consolidated results have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), its interpretations issued by the IFRS Interpretations Committee, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, presentation and disclosure as required by International Accounting Standard (IAS) 34 'Interim financial reporting', the JSE Limited Listings Requirements and the requirements of the Companies Act 71 of 2008 of South Africa. The accounting policies and methods of computation used in the preparation of the reviewed interim condensed consolidated results are in terms of IFRS and are consistent in all material respects with those applied in the most recent Annual Financial Statements, except for the IFRS 16 practical expedient on lease concessions as well as the SAICA Circular 1/2019 on headline earnings which were applied for the first time.

2. During the reporting period, as part of the turnaround plan, the Group operating model was restructured from its previous four Divisions into two Business Units. The four Divisions comprised of Massdiscounters (incorporating the Game and DionWired brands); Masswarehouse (incorporating the Makro and Fruitspot brands); Massbuild (incorporating the Builders Warehouse; Builders Express; Builders Trade Depot and Builders Superstore brands); and Masscash (incorporating the Jumbo; Cambridge Food; Rhino; Trident; Jumbo Shield and Saverite brands). The two new Business Units comprise of Massmart Retail (incorporating Game, Builders, Cambridge and Rhino); and Massmart Wholesale (incorporating Makro, Fruitspot, Wholesale Cash & Carry). In terms of the requirements of IFRS 8 the composition of the Group's reportable segments were restated due to this structure change. The Group's reportable segments comprise Game (incorporating the Game and DionWired brands), Builders (incorporating the Builders Warehouse; Builders Express; Builders Trade Depot and Builders Superstore brands), Cambridge and Rhino (incorporating the Cambridge Food and Rhino brands) and Massmart Wholesale (incorporating the Makro, Fruitspot, Jumbo, Trident; Jumbo Shield and Saverite brands).

3. In May 2020, the International Accounting Standards Board issued an amendment to IFRS 16 'Leases', dealing specifically with Covid-19 related rent concessions. In line with the practical expedient provided in the amendment, the Group recognised R97 million rental relief in the occupancy costs line of the condensed consolidated income statement relating to rent concessions meeting the conditions specified and occurring as a direct consequence of the Covid-19 pandemic.

4. The majority of Massmart's realised and unrealised foreign exchange loss was primarily a result of currency weakness in Mozambique, Nigeria and Zambia.

5. Following the announcement of the Group entering into a consultation process in terms of section 189 and section 189A of the Labour Relations Act 66 of 1995, as amended (the LRA) relating to 10 Cambridge and Rhino stores and 1 Wholesale Cash & Carry store, the Group received interest from various parties to acquire these stores. The Group remains in negotiations with one interested party regarding the sale of these stores. Further to this, in August 2020, we also announced the initiation of a section 189 and section 189A of the LRA process, to reorganise the Group's Centres of Excellence into a low cost, customer-first operating structure. This may potentially affect 165 associates at our regional and home offices.

6. On 7 July 2020 the Group announced via SENS that it had completed an assessment of opportunities to improve South African Game store efficiencies and consequent to this project a consultation process in terms of section 189 and section 189A of the LRA mentioned above, with organised labour and other relevant stakeholders commenced.

7. On 24 July 2020 the R4 billion Rand denominated loan owing to Walmart as at 28 June 2020 was repaid and a new loan agreement has been concluded with Walmart for a R4 billion US dollar denominated loan. This loan bears interest at the United States prime lending rate which is currently 3.25%. A forward exchange contract was entered into to mitigate the foreign exchange risk related to this loan.

8. Massmart and its Business Units enter into certain transactions with related parties in the normal course of business. As a 52.8% shareholder, Main Street 830 Proprietary Limited, a subsidiary of Walmart, is entitled to a dividend based on their number of shares held. A net amount of R4.1 billion remains payable to Walmart, largely due to the loan advanced during the interim reporting period. Non-loan related amounts due to and from Walmart are accounted for in 'trade, other payables and provisions' and 'trade, other receivables and prepayments' respectively.

9. Massmart offers a diverse range of retail offerings to the market consisting of Food & Liquor, General Merchandise and Home Improvement. Due to the cyclical nature of this industry, higher revenues and operating profits are usually expected in the second half of the year rather than in the first six months. Higher sales during the period October to December are mainly attributed to the increased demand for our non-Food categories where we see an increase in discretionary spend leading up to the Black Friday and Christmas holiday periods. This information is provided to allow for a better understanding of the results.

10. The constant currency information included in these reviewed interim condensed consolidated results has been presented to illustrate the Group's underlying rest of Africa business performance excluding the effect of foreign currency fluctuations. In determining the application of constant currency, sales for the prior comparable financial reporting period have been adjusted to take into account the average monthly exchange rate for the current period. The table below depicts the percentage change in sales in both reported currency and constant currency for the given material currencies. The constant currency information incorporated in these reviewed interim condensed consolidated results has not been audited or reviewed or otherwise reported on by our external auditors. The constant currency information is the responsibility of the Directors of Massmart. It has been prepared for illustrative purposes only and due to its nature, may not present Massmart's financial position, changes in equity, results of operations or cash flows.

Sales growth in:	Reported currency	Constant currency
Botswana Pula	(7.8%)	(13.9%)
Mozambican Metical	14.9%	3.2%
Nigerian Naira	(3.9%)	(10.2%)
Zambian Kwacha	0.1%	17.9%
Kenyan Shilling	34.7%	18.9%
Rest of Africa	(0.5%)	(5.1%)

11. Total interest-bearing borrowings and debt facilities, including bank overdrafts and lease liabilities, increased by only R309.8 million since June 2019. This minimal movement is largely due to stringent working capital management and various cash preservation initiatives being applied. The approximate R5 billion increase since December 2019 is largely due to the R4 billion loan received from Walmart and an additional drawdown on the Group's debt facilities.

12. The Group's effective tax rate, of 16.6% (2019: -4.8%) is mainly as a result of limiting the recognition of certain deferred tax assets and the taxation charge on profit-making entities.

13. These reviewed interim condensed consolidated results have been reviewed by independent external auditors, Ernst & Young Inc. and their unmodified review report is available for inspection at the Company's registered office. The review was performed in accordance with ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Group's external auditors. The auditor's report does not necessarily report on all of the information contained in this announcement/financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the Group's registered office. The Chief Financial Officer, Mohammed Abdool-Samad CA (SA), supervised the preparation of the Group's reviewed interim condensed consolidated results.

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or visit massmart.co.za/interimresults2020

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