Woolworths Holdings Limited
(Incorporated in the Republic of South Africa)
Registration number 1929/001986/06
LEI: 37890095421E07184E97
Share code: WHL
Share ISIN: ZAE000063863
Bond code: WHLI
(‘the Company’, `WHL´ or `the Group´)

FURTHER UPDATE ON THE IMPACT OF COVID-19, TRADING UPDATE and STRATEGIC INITIATIVES

Further to the operational update published by the Company on the Stock Exchange News Service (SENS) of 6 April 2020, the spread of COVID-19 continues to have a pronounced impact on the Group. Given these unprecedented times, we wish to provide shareholders with an update on the trading and operational environment across the business and the strategic initiatives underway to reposition the Group to deliver sustainable long-term shareholder value.

Trading update

As previously reported, Group turnover and concession sales in the first nine weeks (to 1 March) of the second half of the financial year (“H2”) was broadly in line with that of the prior comparable period (+1.9% in constant-currency terms). The temporary closure of the majority of the Group’s non-food stores, coupled with the significant decline in foot traffic and consequent loss of trade, saw turnover and concession sales decline by 18.5% in the subsequent eight weeks to 26 April (-18.8% in constant-currency terms). The pace of decline has since slowed as lockdown restrictions have begun to ease. The 2019 financial year included a 53rd week, which resulted in a shift in trading weeks in 2020 compared to the prior financial year. Adjusting for this, Group turnover and concession sales grew by 4.2% in the first nine weeks of H2, versus a decline of 17.0% in the subsequent eight weeks (all other sales growth figures referenced below adjust for this same shift in trading weeks to provide a more comparable basis of performance).

We expect constrained trading conditions to persist over the remainder of the second half of the financial year. Management has intensified its focus on liquidity, minimising operating and capital expenditure and managing working capital across the Group. Investments in strengthening online capabilities continue to be prioritised, given the growing importance of this channel. To stimulate trade and manage inventory levels throughout this period, management has executed a series of focused promotional and clearance initiatives targeted at generating and preserving cash, which will negatively impact this financial year’s gross profit margin.

Notwithstanding the considered actions taken by management, the wide-ranging effects of the pandemic and consequent lockdowns will be likely to have an adverse impact on the Group’s Adjusted headline earnings per share (HEPS) and cash flow in the second half of the financial year. A further trading statement to that issued on 6 April 2020 will be issued to provide specific guidance once the Group is reasonably certain regarding the HEPS and earnings per share (EPS) ranges for the 52-week period ending 28 June 2020.

Southern Africa

Woolworths Food: While the weeks immediately preceding the lockdown saw significant spikes in trade, demand has since moderated with shopping patterns reflecting reduced footfall but increased average basket size. Woolworths' foods business has been resilient throughout this period, supported by strong relationships across the supply chain. Sales and concession sales in the first nine weeks of H2 grew by 7.5% and growth accelerated to 17.4% in the subsequent eight weeks to end-April. Sales growth in May has remained strong to date, despite trading conditions still being constrained by the impact of the lockdown, social distancing, and the closure of our hot food counters, wine alcoves and WCafé business. We continue to intensify our focus on enhancing our online platform to better service the significant increase in demand through this channel.

Woolworths Fashion Beauty Home ("FBH"): The performance of our FBH business has been materially impacted as a result of the extended national lockdown, which saw the temporary closure of our stores up until 1 May. Sales in the first nine weeks of H2 grew by 1.9% but the ensuing eight weeks to end-April delivered a decline of 61.4%. FBH stores have now reopened to sell essential items only (which comprise of winter clothing, footwear, personal care and bedding). Online deliveries in these essential categories have resumed with effect from 1 May and in addition online sales of all goods has been permitted since 14 May, which has since stemmed the pace of the sales decline over the most recent period. Our teams are well-prepared for a further lifting of lockdown restrictions as South Africa moves to Level 3 from 1 June.

Woolworths Financial Services ("WFS"): WFS has been negatively impacted by the closure of stores, a pull-back in non-essential spend and lower prevailing interest rates, all of which have placed pressure on book and revenue growth. In addition, a deterioration in customer collections will increase impairments for the second half of the financial year. In response, management has taken proactive steps to increase collections capacity, review credit risk strategies and implement customer relief programmes.

Australasia

David Jones ("DJ"): Although DJ has continued to trade in its large format stores through the period, the impact of COVID-19 has had a significant impact on foot traffic and store sales. Sales and concession sales for the first nine weeks of H2 were up 0.5% in local currency but declined by 35.8% in the subsequent eight weeks to end-April. DJ's online penetration continues to grow strongly, with sales in H2 to-date having doubled versus that of the prior comparable period. The easing of restrictions in Australasia has also commenced, and we are seeing a positive uplift in footfall and a commensurate, encouraging sales performance, across the DJ network of stores.

Country Road Group ("CRG"): Overall turnover within CRG has been more adversely impacted as a result of the decision to close all stores given the challenge of maintaining social distancing protocols across their smaller store formats. This resulted in a 50.4% drop in sales in local currency in the eight weeks to end-April, versus an increase of 1.7% in the preceding nine weeks. Online sales remain strong, with growth of 19% in H2 to date. CRG stores began their planned re-opening as of 22 May.

Sales Performance

Sales growth by division, adjusted for the shift in trading weeks (percentage year-on-year)	First nine weeks of H2 FY20	Second eight weeks of H2 FY20
Woolworths FBH	1,9	(61,4)^
Woolworths Food	7,5	17,4
David Jones (A$)	0,5	(35,8)
Country Road Group (A$)	1,7	(50,4)^
Group total (including concession sales)	4,2	(17,0)

^ *Includes the closure of all stores for in excess of four weeks within this eight-week period*

Current focus and strategic initiatives

Given the high levels of uncertainty and significant business disruptions during this period, management has been focused on the health and safety of our customers and employees, stabilising the operations, and cash flow. To this end, a range of cash generation and preservation initiatives, which were expanded upon in our update of 6 April 2020, is being successfully implemented across all business units.

The Board and management team have also initiated several key strategic projects across the business, targeted at protecting and strengthening our balance sheet and establishing a platform which enables us to position the Group for sustainable, longer-term growth.

In support of the strategic project work, a number of underpinning initiatives have been launched including, amongst others, the following:

1. Proactively engaging with our South African funders - given the continued impact of the adverse trading environment across the Southern African operations (notably in FBH), we have had positive discussions with our South African banks with regard to any potential covenants impacts. The business has significant liquidity headroom in terms of its forecast cash flows and existing facilities. We have also successfully renewed our South African Revolving Credit Facility (“RCF”) funding lines.
2. The provision of funding support of A$75 million to the Australasian businesses from WHL, in the form of a loan secured by a second lien. The funding support is conditional upon securing the suspension of covenant testing from the Australasian funders. Provision has also been made for further in-principle support to the business to the value of A$25 million, to the extent that it may be required.
3. Proactively seeking suspension of covenant testing for the Australasian funding - the COVID-19 impact and the challenging trading environment is expected to reduce headroom for the June and December covenant periods. The lending banks have granted the requisite suspension of covenant testing and the process with the bondholders has commenced and is expected to be concluded by the end of the financial year.
4. A review of the capital structure of the Australasian entities has been initiated and will include the restructuring of its borrowings to ensure a more sustainable funding structure. UBS Australia has been appointed to support this process and will conduct a full review of options relating to the Australasian property portfolio. Any proceeds generated as a result of our capital management initiatives will be applied to the repayment and cancelation of debt facilities.

  - As a first measure, with specific regard to the status of the sale of the Bourke Street Menswear building, contracts have been exchanged between DJ and the preferred purchaser. The sale price achieved is in line with expectations and final settlement is anticipated before the end of July 2020 following the fulfillment of customary conditions precedent.
5. Discussions with Australasian landlords are underway in relation to an accelerated restructure of the David Jones network of stores/locations and reduction in floor space.
6. The Board believes that it is in the best interest of the Company for distributions to WHL shareholders to be suspended until such time as the situation arising from COVID-19 stabilises. The Board will consequently not declare a final FY20 dividend and will consider dividends thereafter in the context of the conditions prevailing at the time.

Conclusion

We expect the challenging and fluid operating environment brought about by the pandemic, to continue for the foreseeable future. While the business is well prepared to take full advantage of any improvement in trading conditions as government restrictions continue to ease, these circumstances also present opportunity to take clear and decisive actions to improve the effectiveness of our business model.

In these unprecedented times, the Board and management team will continue to act swiftly and decisively to protect the Group's financial position, to optimise its liquidity and capital structure, and to reposition the business to deliver sustainable long-term shareholder value.

We extend our sincere gratitude to our customers for their ongoing support, particularly during these times and also recognise our highly dedicated team members for their substantial contributions and ongoing commitment to our Company.

We expect to release a further trading update for the 52 weeks ended 28 June 2020 on SENS on or around 16 July 2020, ahead of our formal FY20 results on or around 27 August 2020.

The information contained in this announcement has not been reviewed or reported on by the Group´s external auditors.

Constant Currency Information

The constant currency information contained in this announcement has been presented to illustrate the impact of changes in the Group's major foreign currency, the Australian dollar. In determining the constant currency turnover and concession sales growth rate, turnover and concession sales denominated in Australian dollars for the current periods from 30 December 2019 to 1 March 2020 (first nine weeks), and from 2 March 2020 to 26 April 2020 (second eight weeks) have been adjusted by application of the aggregated monthly average Australian dollar exchange rates for the prior periods from 24 December 2018 to 24 February 2019 (first nine weeks), and 25 February 2019 to 21 April 2019 (second eight weeks). The foreign currency fluctuations of our rest of Africa operations are not considered material and have therefore not been applied in determining the constant currency turnover and concession sales growth rate. The aggregated monthly average Australian dollar exchange rates are 9.95 (first nine weeks) and 10.93 (second eight weeks) for the current periods and 9.93 and 10.12 for the prior periods, respectively.

The constant currency information, which is the responsibility of the Group's directors, has been prepared for illustrative purposes only and may not fairly present the Group's financial position, changes in equity, cash flows or results of operations.

The information contained in this announcement, including voluntary estimated financial information and constant currency information, has not been reviewed or reported on by the Group's external auditors.

	H2 FY20	H2 FY19	Exchange rate used in H2	Exchange rate used in H2 FY19
First nine weeks of FY20	30 December 2019 to 1 March 2020, both days inclusive	24 December 2018 to 24 February 2019, both days inclusive	9.95	9.93
Second eight weeks of FY20	2 March 2020 to 26 April 2020, both days inclusive	25 February 2019 to 21 April 2019, both days inclusive	10.93	10.12

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Cape Town
27 May 2020

Sponsor:
Rand Merchant Bank, a division of FirstRand Bank Limited