Mr Price Group Limited
Registration number 1933/004418/06)
Incorporated in the Republic of South Africa
ISIN: ZAE000200457
LEI number: 378900D3417C35C5D733
JSE and A2X share code: MRP
("group" or "company")

TRADING UPDATE FOR THE 20 WEEKS ENDED 15 AUGUST 2020 AND TRADING STATEMENT FOR THE 6 MONTHS ENDING 26 SEPTEMBER 2020

Trading update

The material disruptions stemming from COVID-19 had a significant impact on the group's trading performance in the first 20 weeks from 29 March to 15 August 2020 (the "Period") of the financial year ending 3 April 2021 ("FY21"). Despite this, performance exceeded internal expectations and the group has gained market share for four months in a row to June 2020, the latest period for which RLC data is available. The group's rolling annual market share at the end of June 2020 was at its highest level in the last fourteen months. This is a strong signal that its everyday low price and fashion-value model has enabled customers to find value despite the extremely challenging economic environment.

Retail sales of R6.2bn in corporate owned stores performed against the corresponding 20-week period to 15 August 2019 ("Corresponding Period") as follows:

	Total sales	Comparable Store sales	Units sold	RSP Inflation
Apparel Segment	-22.2%	-23.8%	-25.4%	4.4%
Home Segment	-15.0%	-16.0%	-17.4%	2.6%
Group*	-19.2%	-20.6%	-23.3%	5.4%

*Includes Cellular (handsets and accessories)

As previously communicated on the Stock Exchange News Service ("SENS") on 25 June 2020, all the group's South African stores were closed for the month of April 2020 which resulted in retail sales decreasing 89.9% on the Corresponding Period. Following the lifting of the COVID-19 level 5 lockdown restrictions, in the period May to 15 August 2020("Post Lockdown") a high level of pent-up consumer demand was initially experienced. Retail sales Post Lockdown grew 5.4% (RSA 6.0%) despite restrictions on the range of merchandise permitted to be sold in both the apparel and home segments.

Sales growth slowed significantly in the last week of June 2020, impacted by base effects relating to pay-day timing and school holidays. As anticipated, retail sales during July 2020 continued to slow as pent-up demand subsided, particularly in the apparel segment. Some stock shortages were experienced as a result of certain categories trading ahead of expectations. In the first two weeks of August 2020, inventory service levels increased and the group reported double digit sales growth.

Customers continue to favour cash as a tender type ahead of credit. Post Lockdown cash sales were up 8.9%, constituting 86.2% of total sales. Credit sales decreased 12.3%.

Group online sales Post Lockdown were up 75.0% with average weekly sales above the levels reported in the week of Black Friday in 2019. The group's early investment into this channel has allowed it to respond swiftly to the increased e-commerce adoption by consumers.

All divisions have experienced smaller convenience store locations outperforming major regional shopping nodes. Regional retail sales performance has correlated with COVID-19 infections, with the Western Cape and Gauteng most severely impacted over the Period. Historically, Gauteng makes the largest contribution to group sales.

The group's largest division, Mr Price Apparel, having effectively managed stock flow during the level 5 lockdown period, subsequently responded swiftly to over-trading categories, utilising its strong supply chain network. While not all the sales opportunities could be realised, performance exceeded expectations.

Mr Price Sport experienced high demand for fitness and equipment categories after the initial lockdown period. The division's performance has been negatively affected by restrictions on school activities and team sports, as well as gym closures.

Miladys' more mature and conservative customer is avoiding regional shopping centres, which has impacted sales. Given its higher proportion of credit sales, this division is more affected by the general slowdown in the credit environment than the other divisions.

The Home segment is following global trends of increased spend due to a shift to work from home and customers wanting to update their living spaces.

Cellular (handsets and accessories) recorded growth of 49.7% in the Period and are now available online, adding further opportunity for growth.

Divisional performance breakdown:

	Apr'20*	May – 20 Jun'20*	21 Jun- 15 Aug'20	Post Lockdown	The Period
Mr Price Apparel	-88.7%	15.8%	-6.5%	4.2%	-19.7%
Mr Price Sport	-90.2%	7.9%	-13.1%	-3.3%	-26.4%
Miladys	-94.7%	-13.7%	-21.6%	-17.6%	-37.8%
Apparel Segment	-89.5%	11.8%	-8.6%	1.2%	-22.2%
Mr Price Home	-92.4%	1.1%	14.3%	8.3%	-17.5%
Sheet Street	-90.5%	15.2%	21.2%	18.4%	-9.4%
Home Segment	-91.8%	5.4%	16.4%	11.4%	-15.0%
Group#	-89.9%	12.0%	-0.4%	5.4%	-19.2%

*Previously reported on SENS on 25 June 2020
#Includes Cellular (handsets and accessories)

The group is satisfied with the ongoing improvements in its merchandise assortment and sold more full priced items due to lower markdowns, which contributed to its GP% being in line with the Corresponding Period. At the end of the Period, the group had low terminal winter inventory and is targeting double-digit negative stock growth by the end of H1 FY21.

Other income, excluding Cellular (handsets and accessories), is reported to 1 August 2020 due to the debtors' book cut-off date and decreased 13.1% to R329m. Debtors interest and fees decreased by 9.9% to R151.1m, adversely affected by declining consumer credit health and the cumulative 300bps repo rate cuts since January 2020. The group believes that its historically prudent credit granting approach will benefit it during an expected prolonged period of credit weakness. Collections as a percentage of debtors' book are down 8.7% on the Corresponding Period. However, focused collection strategies have resulted in collections improving each month since the level 5 lockdown and, in July 2020, were marginally ahead of the Corresponding Period.

Equity raise

At the general meeting of the company's shareholders held on 29 June 2020, all the resolutions in the notice of general meeting attached to the circular dated 20 May 2020 regarding authority for a specific issue of shares for cash were passed. The purpose of the proposed equity raise was to strengthen the balance sheet in anticipation of extended COVID-19 lockdowns and resulting trade weakness, as well as to take advantage of opportunistic acquisitions. The group has six months to exercise the authority to raise equity up to the value of 10% of its issued ordinary shares. Fortunately, the group’s balance sheet has recovered well from the initial impact of the level 5 lockdown. While the group continues to evaluate potential acquisitions, at this stage no specific targets have met its strict criteria (including appropriate valuations that comprehend the difficult forward trading environment). Consequently, the group has no immediate intention to action the equity raise.

Outlook

Consumer health is anticipated to worsen as various government assistance measures come to an end over the coming months. Disposable income levels will weaken further as mortgage holidays end, emergency savings are depleted, unemployment grows and low to no wage inflation takes effect. In Q2 2020, the BER Business and Consumer Confidence Indices were at their lowest levels in 35 years. This signals that the economic and consumer environments are likely to be very challenging for the next 12 to 18 months.

Management’s focus is on dealing with the extreme volatility that is likely to continue for the rest of FY21. Erratic sales trends make forecasting challenging and the impact of the recent move into level 2 lockdown adds further uncertainty. Inventory sell off management remains key in order to avoid excessive markdowns and resultant margin pressure. The exchange rate will become a growing concern for the rest of the financial year and, while the group’s hedging policy is effective, margins will be put under pressure in H2 FY20. Managing this impact and carefully considering the ability of an already constrained consumer to absorb inflation will be a key balance to strike during the remainder of FY21.

Consumers will be highly constrained and seeking value and the group will endeavor to further entrench its reputation as ‘the people’s value champion’. The group’s fashion-value business model has proven resilient through COVID-19 thus far and it believes that it is positioned favourably to capitalise on current retail trends as well as continue to capture market share in the long term. As a predominantly cash retailer, the group is well-positioned to benefit in an environment where consumer credit is restricted.

The group's healthy balance sheet, combined with supplementary funding in the form of debt and/or equity if required, provides the necessary liquidity to pursue growth opportunities. Organic growth opportunities are being pursued, including the launch of several new merchandise categories in H2 FY21.

Trading statement

As per paragraph 3.4(b)of the JSE Limited Listings Requirements, shareholders are advised that the group's interim financial results for the six months ending 26 September 2020 are likely to be at least 20% lower than those reported for the six months ended 28 September 2019, as follows:

	Reported interim 28/09/2019	Expected minimum difference 26/09/2020	
	cents	cents	%
Basic earnings per share	443.6	-88.7	-20.0
Basic headline earnings per share	443.2	-88.6	-20.0
Diluted earnings per share	436.3	-87.3	-20.0
Diluted headline earnings per share	435.9	-87.2	-20.0

There are six weeks of the 26-week H1 FY21 trading period remaining. Further guidance will be provided when management has a reasonable degree of certainty over the expected earnings numbers and prior to the release of the interim financial results ending 26 September 2020, which is expected to be on 26 November 2020.

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

Durban
20 August 2020

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