

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 – Reviewed Interim Results for the Period ended 28 June 2020

Date: 2020/08/27

Shareholders are referred to the SENS announcement issued on 20 August 2020, which provided a sales update and trading statement for the 26-week period ended 28 June 2020.

### Interim Results

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.

### Performance summary

Rm	26 weeks June 2020 (Reviewed)	26 weeks June 2019 (Reviewed)	Period % change	52 weeks December 2019 (Audited)
<b>Sales</b>	<b>39,599.2</b>	<b>43,832.4</b>	<b>(9.7)</b>	<b>93,660.0</b>
<b>Trading (loss)/profit before interest and taxation</b>	<b>(266.6)</b>	<b>318.9</b>	<b>(183.6)</b>	<b>1,111.2</b>
<b>EBITDA, before non-trading items</b>	<b>1,253.5</b>	<b>1,867.3</b>	<b>(32.9)</b>	<b>4,178.3</b>
<b>Loss for the period</b>	<b>(1,166.8)</b>	<b>(832.4)</b>	<b>(40.2)</b>	<b>(1,296.4)</b>
<b>Basic EPS (cents)</b>	<b>(534.2)</b>	<b>(382.8)</b>	<b>(39.6)</b>	<b>(600.6)</b>
<b>Headline loss</b>	<b>(1,090.3)</b>	<b>(800.7)*</b>	<b>(36.2)</b>	<b>(1,151.5)*</b>
<b>Headline EPS (cents)</b>	<b>(501.6)</b>	<b>(366.6)*</b>	<b>(36.8)</b>	<b>(529.0)*</b>

*\*Restated June and December 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.*

### Group overview

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 increasing by only 0.8% to R916.6 million during the period.

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 profitmaking entities.

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.

### **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 Walmart India Development Centre, confirming 80-140bps opportunity.
2. Portfolio optimisation: Closed 23 DionWired stores and as previously communicated are finalising sale of 8 Masscash Stores, while working through the details of the remaining 3 stores.
3. Game reset: Completed the SAP S/4 HANA ERP implementation and expediting everyday low cost execution, leading to a 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, contributing to a GP margin uplift of 50bps.
5. Supply chain optimisation: Increased vendor on-boarding into network, delivered phase 1 of temperature controlled network and reduced Game aged and obsolete stock by 10%. This achieved 50bps of the 1% COGS reduction opportunity.
6. Cost reset: Validated R1.9bn selling, general and administrative (SG&A) savings opportunity and aggressively executing against it, unlocking 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](http://www.massmart.co.za)*

### **Outlook**

Total sales for the 33 weeks to 16 August 2020 of R50.0 billion represents 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**

Massmart's 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.

### **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 can be found on the JSE website at <https://senspdf.jse.co.za/documents/2020/jse/isse/MSM/MSMJun2020.pdf> and is also available on the Company's website: <https://www.massmart.co.za/interimresults2020>. 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

26 August 2020

Sponsor: J.P. Morgan Equities South Africa (Pty) Ltd

Mohammed Abdool-Samad

Chief Financial Officer