

**Pepkor Holdings Limited**

(Incorporated in the Republic of South Africa)

(Registration number: 2017/221869/06)

Share Code: PPH

Debt Code: PPHI

ISIN: ZAE000259479

("Pepkor" or the "group")

**VOLUNTARY TRADING UPDATE AND UPDATED TRADING STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2020****VOLUNTARY TRADING UPDATE**

The aim of this voluntary trading update is to provide shareholders and noteholders with an appreciation of the performance of the group and the impact of the COVID-19 pandemic on the group and its operations. This trading update covers the financial year ended 30 September 2020 ("FY20") and follows the previous trading update published on 24 July 2020 which covered the nine months ended 30 June 2020 ("Nine-month Trading Update").

Trading conditions since the relaxation of national lockdown measures have favoured Pepkor's defensive discount and value positioning. This resulted in the exceptional outcome of achieving revenue growth in FY20 compared to the prior year.

The group's focus on less discretionary and more affordable products and services has resulted in substantial market share gains. Pepkor's retail brands benefited from consumers seeking value while its expansive store footprint appealed to customers choosing to shop in more convenient locations closer to their homes.

Group revenue including discontinued operations increased by 1.9% to R70.9 billion compared to R69.6 billion in the prior financial year ended 30 September 2019 ("FY19"). Revenue from continuing operations increased by 3.6% to R63.7 billion (FY19: R61.5 billion).

The trade restrictions imposed in terms of the national lockdown prevented retail stores from trading and revenue of approximately R5.0 billion was lost during the five-week level-5 lockdown period. Further trading restrictions resulted in the group not being able to trade in its full merchandise range until June 2020.

**Discontinued operations**

As per the 4 August 2020 SENS announcement, the group's portfolio strategy to focus on its core business resulted in the decision to dispose of The Building Company. Pepkor's Building materials

reporting segment, in its entirety, will therefore be classified as discontinued operations in the group's FY20 financial results. The Building Company contributed c.10% to FY20 group revenue (including revenue from discontinued operations).

Discontinued operations further include Pep Africa's operations in Zimbabwe following the decision in FY19 to exit the country. The exit from Zimbabwe was concluded on 30 September 2020.

### **Clothing and general merchandise**

The clothing and general merchandise segment reported an increase in revenue of 1.4% for the year to R45.6 billion. This includes revenue growth of 12.1% during the fourth quarter, recovering from a 15.9% decline reported during the third quarter.

Pep and Ackermans in aggregate, reported an increase in sales of 2.6% with a decrease in like-for-like sales of 0.5% for FY20. Retail space expanded by 2.5% year-on-year as new store openings slowed during the second half of the year. Pep and Ackermans opened 145 new stores during the year.

Lower credit sales in Ackermans resulted in a reduction in the credit sales contribution to 17% from 19% in FY19. Notwithstanding good collections, provision levels on the Tenacity credit book were increased to 22% from 17% in FY19.

In Pep Africa's continuing operations, constant currency sales declined by 7.0%, while like-for-like sales decreased by 9.6%. Weakening currencies resulted in a decrease of 16.2% in sales at actual rates.

The Speciality business reported a decrease in sales of 3.6% with like-for-like sales decreasing by 4.6% for the year.

<b>Like-for-like sales growth % (year-on-year)</b>	<b>Nine months ended 30 June 2020*</b>	<b>Three months ended 30 September 2020 Q4</b>	<b>Year ended 30 September 2020 FY20</b>
<b>Pep and Ackermans</b>	(3.5%)	9.8%	(0.5%)
<b>Pep Africa (constant currency)</b>	(14.0%)	6.1%	(9.6%)
<b>Speciality</b>	(9.8%)	13.3%	(4.6%)

\* As reported in the Nine-month Trading Update

## Furniture, appliances and electronics

The furniture, appliance and electronics segment reported revenue growth of 1.4% to R9.5 billion for the year. Merchandise sales for the year decreased by 0.4% with a decrease in like-for-like sales of 1.6%.

Curtailed credit granting and good post-lockdown collections resulted in a reduction in the gross Connect credit book from R1.8 billion at 31 March 2020 to R1.6 billion at 30 September 2020. Total credit sales contribution reduced from 19% in FY19 to 13%, most notably in the furniture division where the credit sales mix reduced to 20% (FY19: 27%). Credit book provision levels were increased to 42% compared to 33% in FY19.

Like-for-like sales growth % (year-on-year)	Nine months ended 30 June 2020*	Three months ended 30 September 2020 Q4	Year ended 30 September 2020 FY20
<b>JD Group (total)</b>	(9.5%)	23.4%	(1.6%)
<b>Consumer electronics and appliances division</b>	(2.6%)	37.7%	7.0%
<b>Furniture division</b>	(15.5%)	11.2%	(9.1%)

\* As reported in the Nine-month Trading Update

## Fintech

The Fintech segment reported revenue growth of 20.4% for the year to R8.6 billion.

FINTECH SEGMENT	Nine months ended 30 June 2020*	Three months ended 30 September 2020 Q4	Year ended 30 September 2020 FY20
Revenue growth	23.8%	11.8%	20.4%

\* As reported in the Nine-month Trading Update

The FLASH business achieved strong growth during the fourth quarter. Virtual turnover in the informal trader business increased by 25.7% for the year.

Collections on the Capfin credit book exceeded expectations and conservative credit granting resulted in the gross Capfin credit book reducing to R1.9 billion at 30 September 2020 from R2.6 billion at 31 March 2020. The credit book provision level was increased to 26% from 15% in the prior year.

## Building materials - discontinued operations

The Building Company reported a decline in sales of 12.6% and a decrease in like-for-like sales of 11.3% for the year.

Like-for-like sales growth % (year-on-year)	Nine months ended 30 June 2020	Three months ended 30 September 2020 Q4	Year ended 30 September 2020 FY20
<b>The Building Company</b>	(16.2%)	2.7%	(11.3%)

*\* As reported in the Nine-month Trading Update*

## Balance sheet and liquidity

The trading performance resulted in lower inventory levels and very strong cash generation. This, in addition to the accelerated bookbuild completed in June 2020 which raised R1.9 billion, enabled the group to reduce net debt from R14.1 billion at 31 March 2020 to c.R7.0 billion at 30 September 2020 (excluding the adoption of IFRS 16).

Substantial progress was therefore made to enhance the efficiency and flexibility of the Pepkor balance sheet.

## UPDATED TRADING STATEMENT

In terms of the JSE Limited Listings Requirements, a listed company is required to publish a trading statement once it is satisfied that a reasonable degree of certainty exists that its results will differ by at least 20% compared to FY19.

Pepkor published an initial Trading Statement on SENS on 15 October 2020 advising shareholders and noteholders that a reasonable degree of certainty existed that Pepkor's FY20 earning per share ("EPS") and headline earnings per share ("HEPS") results would decrease by at least 20% compared to the previous corresponding period. Pepkor is now able to provide an updated trading statement.

The following aspects will impact Pepkor's FY20 results and have been communicated as part of previous results announcements and/or trading updates:

### 1. Adoption of IFRS 16: Leases

The group adopted IFRS 16: Leases (IFRS 16) on 1 October 2019 using a modified retrospective approach with no restatement of the FY19 reported results. The adoption of IFRS 16 will have a negative impact on Pepkor's results.

### 2. Impairment of goodwill and intangible assets

The COVID-19 pandemic impacted performance of the group in many areas, most notably through lost sales and increased credit book provision levels. The uncertainty surrounding the longer term impact of the COVID-19 pandemic continues to impact the group's forecasting ability. Pepkor has therefore applied a conservative approach in areas such as capital allocation and expenditure.

The conservative outlook further contributed to the impairment of carrying values of goodwill and intangible assets. Following the completion of impairment assessments an impairment of R4.8 billion will be recognised in FY20 and is allocated to the respective operations as indicated in the table below.

The impairment is a result of constrained future growth expectations in Pep Africa, Speciality, Tekkie Town and the JD Group in addition to an increased weighted average cost of capital.

The impairment will impact basic earnings from continuing operations but will be excluded from headline earnings from continuing operations - as prescribed by *Circular 1: 2019 - Headline Earnings* as issued by the South African Institute of Chartered Accountants (SAICA).

Reporting segment / operations (R million)	Goodwill and intangible assets associated with the operations at 30 September 2019 (before impairment)	Impairment of goodwill and intangible assets to be recognised in FY20
<b>Clothing and general merchandise</b>		
Ackermans, Dunns, John Craig, Pep, Pep Africa, Refinery, Shoe City and Tenacity	55 301	3 019
Tekkie Town	3 017	1 645
<b>Furniture, appliances and electronics</b>		

Bradlows, HiFi Corporation, Incredible Connection, Rochester, Russells, Sleepmasters	920	103
<b>Total</b>	<b>59 238</b>	<b>4 767</b>

Pepkor hereby advises shareholders and noteholders that a reasonable degree of certainty exists that the group's FY20 statutory EPS and HEPS compared to FY19 are expected to fall within the ranges reflected in the tables below.

Statutory results	FY19 actual	FY20 expected range	FY20 expected change
	IAS 17 basis (cents)	IFRS 16 basis (cents)	IFRS 16 basis (%)
EPS - including discontinued operations	62.6	(90.8) to (84.5)	(245.0%) to (235.0%)
EPS - continuing operations	93.8	(86.7) to (77.3)	(192.5%) to (182.5%)
HEPS - including discontinued operations	96.8	59.8 to 69.5	(38.2%) to (28.2%)
HEPS - continuing operations	95.5	56.9 to 66.4	(40.5%) to (30.5%)

The financial information on which this trading statement is based has not been reviewed or reported on by Pepkor's external auditors.

### Publication of results

Pepkor's FY20 results will be published on SENS on Monday, 23 November 2020. A live webcast of the results presentation will be broadcast at 12:00pm (SAST). The webcast registration link is: <https://www.corpcam.com/Pepkor23112020> and is also available on the Pepkor website: [www.pepkor.co.za](http://www.pepkor.co.za)

### Pro forma constant currency disclosure

The group discloses unaudited constant currency information to indicate Pep Africa's performance in terms of sales growth, excluding the effect of foreign currency fluctuations. To present this information, current period turnover for Pep Africa reported in currencies other than

ZAR are converted from local currency actuals into ZAR at the prior year's actual average exchange rates. The table below sets out the percentage change in sales, based on the actual results for the year, in reported currency and constant currency for the basket of currencies in which Pep Africa operates.

% change in sales compared to the prior year	Reported currency	Constant currency
Pep Africa	(16.2%)	(7.0%)

The constant currency information has been prepared for illustrative purposes only. The information included in this announcement is the responsibility of the directors and does not constitute an earnings forecast and has not been reviewed and reported on by the group's external auditors.

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6 November 2020

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