

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")

Results for the 52 weeks ended 26 December 2021 ("2021 reporting period"), trading update for the eight weeks ended 20 February 2022 and notification of change of auditors

Massmart is an African retail group, with total Group sales of R84.9 billion. Through our widely recognised and differentiated retail and wholesale formats, represented in 408 Retail and Wholesale stores in 13 sub-Saharan countries, we have leading market shares in the general merchandise, liquor, home improvement and wholesale food markets. The Group's key foundations of high volume, low cost, responsible business and operational excellence enable our price leadership. We are the second largest retail website traffic generator in South Africa. This presence, together with our buying scale and national store footprint, supported by a sophisticated Distribution Centre network, presents a clear opportunity to become the Business-to-Business and Business-to-Consumer Omnichannel market leader.

### Results for the 52 weeks ended 26 December 2021

Performance for the 52 weeks ended 26 December 2021 was impacted by two waves of Covid-19 and resultant lockdowns, as well as civil unrest. Black November and Festive season trading were also impacted by stock availability, resulting from the destruction of two Distribution Centres (DCs) during the July unrest, including our primary import processing centre, and from supplier stock-outs arising from the unrest in the electronic goods and home appliances supply chain. Expenses were well controlled with total SG&A only increasing by 0.1%.

### Performance summary – Total Group

Rm	52 weeks December 2021 (Reviewed)	52 weeks December 2020 (Audited)	Period % change
<b>Sales</b>	<b>84,867.3</b>	<b>86,485.5</b>	<b>(1.9)</b>
<b>Trading profit before interest and taxation</b>	<b>195.4</b>	<b>1,172.7</b>	<b>(83.3)</b>
<b>Loss for the year</b>	<b>(2,203.9)</b>	<b>(1,753.4)</b>	<b>(25.7)</b>
<b>Basic EPS (cents)</b>	<b>(1,029.9)</b>	<b>(802.3)</b>	<b>(28.4)</b>
<b>Headline loss</b>	<b>(1,524.8)</b>	<b>(924.3)</b>	<b>(65.0)</b>
<b>Headline EPS (cents)</b>	<b>(705.5)</b>	<b>(426.8)</b>	<b>(65.3)</b>
<b>Total dividend (cents)</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Performance summary – Continuing Operations

Rm	52 weeks December 2021 (Reviewed)	52 weeks December 2021 (Restated)*	Period % change
Sales	77,621.6	77,568.5	0.1
Trading profit before interest and taxation	830.6	1,613.0	(48.5)
Loss for the year	(1,577.7)	(1,027.9)	(53.5)
Basic EPS (cents)	(741.6)	(477.2)	(55.4)
Headline loss	(980.2)	(831.0)	(18.0)
Headline EPS (cents)	(453.5)	(383.7)	(18.2)
Total dividend (cents)	-	-	-

\* The comparative numbers have been restated in terms of IFRS 5 due to the discontinued operation classification of the Cambridge, Rhino and Massfresh businesses.

### Total Group Performance

Massmart's total Group sales for the 52-weeks ended 26 December 2021 of R84.9 billion represented a 1.9% decrease compared to the same period in 2020, while comparable store sales grew by 1.7% over the same period. Gross margin decreased by 191bps to 18.5%. Excluding inventory write-downs as a result of the civil unrest, gross margin decreased by 45bps to 19.9%. Through our sustainable cost-saving initiatives, expenses decreased by 1.2%. Other income increased by 280.9% to R1.1 billion and primarily related to insurance proceeds received from material damage and business interruption claims related to the civil unrest. This resulted in a trading profit of R195.4 million, a decrease of 83.3% from the prior year. The Group recognised an impairment expense of R1,066.3 million, the majority of which related to assets impacted by the civil unrest of R230.7 million, and Game's corporate assets of R507.2 million, the most significant of which is the SAP S/4 HANA ERP system software asset. Weaknesses in African currencies, together with hedging costs associated with the USD denominated Walmart loan, resulted in foreign exchange losses of R178.5 million which represents a 53.2% decrease from 2020. Net interest expenses increased by 2.3% to R1,778.4 million. As a result of the above, the Group incurred a net loss of R2,203.9 million, which represents an increase of 25.7% from the prior year loss of R1,753.4 million. The headline loss amounted to R1,524.8 million, and increased by 65.0% from the prior year headline loss of R924.3 million.

### The impact of Covid-19 and the civil unrest

#### Covid-19

Under Government regulations, Liquor sales were prohibited for approximately 110 days of our trading year. The ban and restrictions on Liquor trading impacted the Total Group by an estimated R1.8 billion in lost Liquor sales, which translated into an estimated R193.0 million in lost sales margin during 2021. Liquor sales contributed 15% of total sales during the year (2020: 13%).

Additional Covid-19-related costs associated with ensuring a safe shopping and workplace environment for customers and associates amounted to R77.7 million (2020: R132.4 million). Government-supported Temporary Employment Relief Scheme (TERS) benefits and negotiated rental relief of R62.2 million (2020: R288.0 million) were received by the Group during the year.

#### Civil unrest

As previously reported, during July 2021, the KwaZulu-Natal and Gauteng provinces of South Africa experienced civil unrest, which directly impacted 43 of our stores and two DCs. Of these, only nine stores and both DCs still remain closed due to significant damage. Damages incurred from the civil unrest from inventory written-off and assets impaired amounted to R1,469.6 million. Including directly related costs this amounted to R1,534.7 million for the Total Group. Insurance proceeds recouped for damaged inventory and assets was R1 billion of which R171.2 million relates to third party liabilities. Of this, R434.8 million was received and R565.2 million was accrued during 2021. The accrued amount was received in January 2022, post our financial year-end. In addition to this, an interim amount of R100 million was received in relation to our business interruptions claims. This resulted in a Total Group net accounting loss of R605.9 million. The majority of business interruption claims are still in the processing phase and will be received during 2022. As previously announced, the Group is comfortable that it is adequately covered for the full extent of the business interruption losses through a non-SASRIA policy.

Lost sales directly related to store closures as a result of the civil unrest is estimated to be R2.7 billion, with lost sales margin estimated to be R473.1 million for the Total Group.

### **Discontinued operations**

It was previously announced that the Board made the decision to divest the Group's Cambridge, Rhino and Massfresh (comprising The Fruitspot and a meat processing facility) assets. Following this, the Cambridge, Rhino and Massfresh businesses have been classified as one disposal group and reported as discontinued operations in terms of IFRS 5.

### **Group overview from continuing operations**

Massmart's total sales from continuing operations for the 2021 reporting period of R77.6 billion represents an increase of 0.1%, and an increase of 3.0% on a comparable store sales basis. Sales from our South African stores increased by 0.9% and by 4.3% on a comparable store sales basis. Total sales from our rest of African stores decreased by 7.5% in Rands, and increased by 0.3% in constant currencies.

Gross margin decreased by 187bps to 18.7% and was impacted by promotional and sales mix, and inventory write-offs as a result of the civil unrest. Excluding inventory write-offs as a result of the civil unrest, gross margin decreased by 62bps to 19.9%.

Our continued focus on sustainable cost-saving and Smart Spend initiatives resulted in only a 0.1% increase in costs, and an increase of 1.4% on a comparable store basis.

The above resulted in a trading profit of R830.6 million compared to a trading profit of R1,613.0 million in 2020.

During the year, the Group incurred retrenchment and business transformation costs of R80.7 million, compared to R107.8 million in the prior year. This mainly related to the turnaround initiative which involved moving certain corporate support functions into centralised Centres of Excellence, as previously announced, as well as professional fees incurred as part of the Group's disposal programmes.

Impairment losses of R960.3 million were recognised during the year and primarily related to the impact of the civil unrest of R210.7 million, Game's corporate assets of R507.2 million, the most significant of which is the SAP S/4 HANA ERP system software asset, as well as the property, plant and equipment and lease assets of certain underperforming Game stores in South Africa and Kenya. Insurance proceeds received in relation to asset impairments resulting from the civil unrest amounted to R118.4 million.

We have benefitted from the strengthening of certain currencies against the South African Rand. This, together with hedging costs associated with the USD denominated Walmart loan resulted in a foreign exchange loss of R178.5 million, compared to a loss of R381.1 million in the prior year.

Net finance costs of R1,695.4 million represents an increase of only 2.8% compared to R1,649.4 million in the prior year. Total net interest expenses in relation to the Group's financiers, excluding those related to lease liabilities, decreased by R38.0 million compared to the prior year. This was partially offset by an increase in finance costs related to lease liabilities.

The Group's effective tax rate of 19.6% (2020: -47.4%) was impacted by the limitation of the recognition of deferred tax assets relating to certain loss-making entities and disallowed expenditure.

A net loss of R1,577.7 million was incurred for the 2021 reporting period (2020: R1,027.9 million), with a headline loss of R980.2 million (2020: R831.0 million).

### **Outlook and trading update**

Total Group sales for the eight weeks to 20 February 2022 of R12.3 billion represents an increase of 1.7% and a comparable store sales increase of 5.1% over the same period in 2021. Sales from continuing operations of R11.3 billion represents an increase of 3.6% and a comparable store sales increase of 6.6% for the eight-week period to 20 February 2022, over the same period in 2021.

While we remain uncertain of the future in terms of potential Covid-19 trading restrictions and global and local supply chain challenges on our business, we are confident in our ability to successfully navigate through these challenges and serve our customers. We are focused on re-opening the remainder of those stores damaged during the civil unrest. At the same time, we expect our improved expense control from sustainable cost-saving initiatives to continue at pace. Finally, we have addressed the impediments to past performance through our Turnaround plan, and are now well-positioned to pursue growth in e-commerce, Home Improvement and General Merchandise, and in the Wholesale Food & Liquor space.

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, the need to preserve cash and the ongoing impact of the civil unrest and Covid-19 pandemic on our operating environment, no final dividend has been declared during this financial year (2020: nil).

### **Notification of change of auditors**

The Massmart Group is required to rotate its external auditors before its 2024 financial year in accordance with the Independent Regulatory Board for Auditors' Mandatory Audit Firm Rotation (MAFR) directive issued on 2 June 2017, which determined that an external audit firm may not be appointed as the auditor of a public interest entity for a period of more than ten years. The Board and Audit Committee of the Group would like to inform the Group's stakeholders that subject to shareholder approval, Ernst & Young Incorporated (EY) will continue as the external auditor for the 2022 financial year. The Board and Audit committee of the Massmart Group further advises that following a comprehensive tender process, the Group intends to appoint KPMG Incorporated (KPMG) as the external auditor for the financial year ended 31 December 2023. The appointment of KPMG as the external auditor for the 2023 financial year will be recommended to the ordinary shareholders for approval at the relevant Annual General Meeting.

### **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 short form announcement has been released on the JSE Stock Exchange News Service and the long form announcement can be found at (<https://senspdf.jse.co.za/documents/2022/jse/isse/MSM/FY21Result.pdf>), and is also available on the Company's website: <https://www.massmart.co.za/results2021>. Copies of the full announcement are available electronically, at no charge, and may be requested by emailing [investor.relations@Massmart.co.za](mailto:investor.relations@Massmart.co.za) during office hours. The full announcement has been reviewed by independent external auditors, Ernst & Young Inc. and their unmodified review report is available for inspection at the Company's registered office. 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.

Massmart will host a virtual presentation covering these results, on Monday, 7 March 2022, at 10.30am. Details of the virtual presentation can be found on our results website, <https://www.massmart.co.za/results2021>.

By order of the board

Mitchell Slape

Chief Executive Officer

7 March 2022

Sponsor: JP Morgan Equities South Africa (Pty) Ltd

Mohammed Abdool-Samad

Chief Financial Officer