Pick n Pay Stores Limited
Incorporated in the Republic of South Africa
Registration number: 1968/008034/06
JSE Share Code: PIK
ISIN code: ZAE000005443
("Pick n Pay" or "the Group")

Pick n Pay - Trading update for the 18 weeks ended 3 July 2022

Group sales for the first 18 weeks of FY23 (YE February 2023), covering the period 28 February 2022 to 3 July 2022 increased 10.7%. The Group's South Africa segment grew sales by 10.5%, with like-for-like sales growth of 8.3%. South African internal selling price inflation for the period was restricted to 5.0%, below 7.1% CPI Food. The Group's Rest of Africa segment revenue increased by 18.9% and by 9.5% on a constant currency basis.

The FY22 sales base for the period (first 18 weeks of FY22) was unaffected by the July 2021 civil unrest, which began on 9 July 2021. However, the FY22 base period did include the loss of 18 days of liquor trading due to Covid-19 trading restrictions.

Category performance

Group liquor sales for the period increased 17.2% year-on-year, supported by the annualisation of a full liquor lockdown in week 18 of the base period. Liquor sales growth for the first 17 weeks of FY23, at 9.6%, provides a better indication of the underlying liquor sales trend.

The clothing division delivered another strong performance, with sales increasing 17.1% on a year-on-year basis.

Total Online sales for the period, including scheduled delivery, click and collect, and asap!, our on-demand online service, grew 97.3%.

As previously communicated, Boxer segmental sales will be disclosed going forward, starting with the interim FY23 result.

Ekuseni Strategic Plan

Pick n Pay has now upgraded 10 stores to the new Ekuseni customer value proposition (CVP), including 6 in the Project Red format, with exceptionally encouraging initial results. Weekly sales of the initial 5 pilot CVP stores (whose longer sales history provides a more accurate underlying read than for all 10 stores) grew by 18% on average since launch. This excludes the first 3 weeks of trading post the upgrades, where sales growth was considerably higher but supported by re-launch promotional activity. Sales growth was driven by increases in both traffic and basket size, and growth in the identified Power Categories of each format has been particularly pleasing.

The Net Promoter Score (NPS) of the upgraded stores has improved by more than 25% on average in the 6 weeks since launch. Ekuseni is targeting 20% growth in the NPS score across Pick n Pay company-owned supermarkets over the term of the plan.

Lessons learnt from the initial upgrades include that strong results are achievable with limited capital expenditure per store given the right CVP and rigorous execution. This has given us confidence to accelerate the plan. Our objective is to have 40 stores upgraded to the new CVP by the end of H1FY23, and 150 by February 2023.

The acceleration of our Boxer and Clothing store opening plans is proceeding well. Pick n Pay Clothing has 73 new store openings confirmed for FY23 (vs. 27 in the whole of FY22). Boxer is on track for 61 FY23 new store openings (vs. 36 in FY22). Boxer continues to grow ahead of the market and is progressing well on its plan to double sales by the end of FY26.

Progress towards our goal of a step-change increase in online sales continues. The launch of a dedicated Pick n Pay food and grocery offer on the Mr D App is on track. The initial launch will be in a limited number of stores in August, with national coverage targeted by the end of FY23.

Project Future

The Group is making good progress on its target to improve efficiency and reduce costs by R3 billion over the next three years. Among the key elements in delivering this plan, the Group has now announced the closure of its Kensington campus in Johannesburg by December 2023 as part of its move to a more flexible and cost-effective support office. The Group is continuing to achieve ongoing supply chain efficiencies, and Pick n Pay's new Eastport DC is on-track to open in March 2023. Discussions with unions are progressing on delivering a more flexible and productive workforce which can better serve customers.

Operating expenses

In common with other businesses, the Group is experiencing significant operating cost pressures in the current financial year. These include material increases in rates, electricity, utility and fuel costs. The July 2021 riots have also resulted in very significant increases in the cost of insurance and security. As previously announced, the implementation of the Group's Ekuseni strategic plan also gives rise to additional costs in the current financial year – to fund the acceleration of our Boxer and Clothing store rollouts, and store upgrades as Pick n Pay implements its new CVP.

Project Future's objective is to deliver savings in order to offset some of these operating cost pressures. However, the magnitude of cost inflation, and that Ekuseni investment precedes Project Future savings in some respects, mean that FY23 cost pressures will not all be offset through greater efficiency.

Inflation

The Group's objective is to maintain price investment at a particularly challenging time for consumers. The Group's 5% RSA internal inflation was below 7.1% CPI Food for the period. Advance purchases of strategic stock, totalling R0.9bn at February 2022, have assisted in keeping internal price inflation below CPI Food. We anticipate CPI Food to accelerate further (June CPI Food was 8.6%) and will continue to invest in price in order to support consumers.

Outlook

The Group's sales growth in July is accelerating as we annualise the civil unrest, which began on 9 July 2021, and restrictions on liquor sales in July 2021. As a reminder, 763 of the Group's stores (40% of the base) were closed in July 2021, with 67 still closed in August 2021. We estimate lost sales for July and August 2021 of R0.93bn from the civil unrest alone (excluding liquor restrictions).

More broadly, the Group expects the consumer environment to remain challenging, as a result of globally rising inflation and interest rates, and the ongoing impact of severe load-shedding locally.

Despite this, the Group remains confident that it has the right Ekuseni strategic plan, with its emphasis on delivering greater efficiency and growth focused on areas of the market where consumers are seeking unbeatable value. We are confident our Ekuseni initiatives will continue to drive sales momentum this year.

Taking into account the FY23 operating cost pressures mentioned above, we reiterate our guidance that we expect Ekuseni to drive meaningful earnings growth from FY24 only (vs. the FY22 Pro forma Headline Earnings base).

Pro forma constant currency information

The constant currency sales growth information contained in this announcement has been presented to illustrate the impact of changes in the Group's major foreign currencies - namely the Zambian kwacha and the Botswana pula - on the sales growth of its Rest of Africa segment. The Group's Rest of Africa segmental revenue growth in constant currency is calculated by translating the prior period local currency revenue at the current period average exchange rates on a country-by-country basis and then comparing that against the current period revenue translated at current period average exchange rates. The pro forma constant currency information is presented in accordance with the JSE Listings Requirements, is the responsibility of the Board of directors of the Group and is presented for illustrative purposes only. The pro forma financial information may not fairly present the Group's financial position, changes in equity, results of operations or cash flows.

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

By order of the Board
Cape Town
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