

Pepkor Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2017/221869/06)
Share code: PPH
Debt code: PPHI
ISIN: ZAE000259479
("Pepkor", the "company" or the "group")



REVIEWED ANNUAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2022 AND DIVIDEND DECLARATION

Pepkor continues to deliver strong earnings growth in challenging operating conditions.

Highlights

- **5.3% growth in revenue to R81.4 billion**
 - **8.1% revenue growth excluding Flash and lost sales due to the impact of floods**
 - **Revenue growth negatively impacted by:**
 - **KwaZulu-Natal flooding of the PEP distribution centre in April 2022**
 - **Recovery from the social unrest in July 2021**
 - **Flash's change in product mix**
- **20.1% increase in HEPS to 162.6 cents**
 - **+15.7% increase in normalised¹ HEPS to 150.7 cents**
- **4.2% compound annual growth in group like-for-like sales over three years**
- **R11.2 billion cash generated from operations with 92% of sales in cash**
- **123 bps gain in market share since pre-COVID-19²**
- **1.9 billion transactions processed**
- **Pepkor sells 7 out of 10 cellphones in South Africa**
- **319 new stores opened (215 on a net basis)**
- **Recently acquired Brazilian value retailer Avenida performing above expectations**
 - **5 new stores opened, expanding the store base to 135 stores**
- **24.9% increase in dividend to 55.2 cents per share**

¹ Normalised results exclude non-recurring items – refer to the Normalised results section for further information.

² Retailers' Liaison Committee (RLC) and Growth from Knowledge (GfK) data over three years

Results	Year ended 30 September 2022 ("FY22")	Year ended 30 September 2021 ("FY21")	% change
Revenue (Rm)	81 396	77 329	5.3%
Operating profit before capital items (Rm)	10 333	9 305	11.0%
Earnings per share (cents)	165.5	132.7	24.7%
Headline earnings per share (cents)	162.6	135.4	20.1%
Dividend per share (cents)	55.2	44.2	24.9%
Net asset value per share (cents)	1 706.5	1 573.8	8.4%

Normalised results

Normalised results exclude the following three non-recurring items in FY21 and FY22 results:

- 1. FY22 – Non-recurring recovery of exposure and settlement of claims and litigation**
As reported during the group's FY22 interim results published on 27 May 2022, the group recovered its full exposure in terms of the management investment company loan, Business Venture Investments 1499 (RF) Proprietary Limited (BVI) and associated loans and settled all Tekkie Town-related claims and litigation. This contributed c. 12 cents to FY22 earnings and headline earnings per share.
- 2. FY22 – Non-recurring insurance recovery of capital items**
Earnings benefited from insurance proceeds recovered for the damage sustained to fixture and fittings during the social unrest reported in July 2021. Damaged fixtures and fittings were written off at net book value, after accumulated depreciation, while the full replacement value was recovered from insurance. This recovery is included as a capital item in the group's FY22 results and contributed c. 6 cents to earnings per share only. Headline earnings, by definition, exclude capital items and are therefore not impacted by this insurance recovery.
- 3. FY21 – Non-recurring IFRS 16 gain pertaining specifically to the acquisition of properties**
As reported in the FY21 results published on 19 November 2021, a gain attributable to the acquisition of the portfolio of leased properties of R265 million is considered to be non-recurring in nature and contributed c. 5 cents per share to earnings and headline earnings per share in FY21.

Performance during the year

Pepkor achieved solid earnings growth during FY22. Good operational execution and disciplined cost control contributed to strong growth in profitability. Headline earnings per share (“HEPS”) increased by 20.1% to 162.6 cents. On a normalised¹ basis, which excludes non-recurring items, HEPS increased by 15.7% to 150.7 cents. A dividend of 55.2 cents per share was declared.

Operating conditions were challenging during the period and worsened towards the end of the financial year with trading impacted by numerous factors:

1. Social unrest

The social unrest in July 2021 resulted in the looting and damage of 549 of the group’s stores and, while 386 of these stores were reopened by 30 September 2021, the reopening of 104 stores could only be completed during the current financial year due to factors outside the group’s control, including infrastructure rebuild and delays in the reopening of shopping complexes. A further 37 stores will be reopened in the next financial year.

A significant achievement was the recovery of the total loss suffered during the social unrest and is the result of many hours of hard work to firstly restore operations as soon as possible and secondly, the insurance claims process, which took more than a year to complete.

2. KwaZulu-Natal floods

The widespread flooding in KwaZulu-Natal in April 2022 damaged the PEP distribution centre, which represents 40% of the PEP business’s total distribution capacity. This negatively impacted in-store product availability and resulted in estimated lost sales of R460 million.

Operations were fully restored 16 weeks after the floods, and the total loss suffered is estimated at R800 million. The group carries insurance cover for material damage and business interruption and the claims process is underway. An interim payment of R396 million was received during the year, with the remainder to be recovered in the next financial year.

3. Social grant payments

The disruption in social grant payments during the third and fourth quarter resulted in delays in payments to beneficiaries – negatively impacting consumer income and spending. The extension of the Social Relief of Distress (“SRD”) grant to March 2024 will support beneficiaries who need it the most.

4. Electricity supply

Electricity load shedding increased to unprecedented levels, especially during the last quarter. During the first half of 2022, load shedding increased by 80% compared to the prior year. Following this, load shedding increased to level 6. As a result, the group reported 313 000 lost trading hours during the year, reflecting an increase of 123.2% compared to the prior year. While 70.3% of the group's stores have backup power sources to support trading during power interruptions, the negative impact of load shedding on consumer behaviour is far reaching, with fewer customers visiting stores.

Group revenue increased by 5.3% to R81.4 billion, coming off a high base in the prior year where revenue growth of 9.2% was reported. Excluding the Flash business, where lower revenue was recognised due to a planned change in product mix, and R460 million in lost sales as a result of the flood damage to PEP's distribution centre, revenue growth is estimated at 8.1%.

Since the onset of COVID-19 three years ago, trading has been extremely volatile and it is pleasing that the group achieved compound annual like-for-like sales growth of 4.2% over this period. This highlights Pepkor's ability to produce consistent results through times of market uncertainty and demonstrates the strength of the group's positioning in the market.

Pepkor's market share expanded by a substantial 123 basis points across various product categories² over these three years, further underscoring the discount and value leadership of Pepkor's retail brands.

The group remains highly cash generative with 92% of sales in cash. Cash of R11.2 billion was generated by the group during the year.

The group processed 1.9 billion sales transactions in FY22, leveraging its close proximity to customers through its expansive retail store footprint of 5 830 stores and reach into the informal market through 202 000 Flash traders. Pepkor's retail store footprint was expanded by 319 new store openings during the year (215 on a net basis) spanning across 2.6 million m².

The newly acquired Avenida value retail business in Brazil exceeded expectations in many respects as the value creation plan is rolled out. Five new stores were opened during the year.

Outlook

Trading during October 2022 continued to be volatile, especially where retail brands were impacted by electricity load shedding, and the group is concerned about consumer spending power given the macroeconomic backdrop. Plans are in place across all brands to optimise sales over the coming peak trading period.

Higher levels of inflation are expected during the coming winter season and the group's merchandise teams continue to focus on supporting customers by minimising price increases. Supply chain disruptions have reduced, including the cost of shipping.

As the leader in the discount and value retail space, Pepkor has an unparalleled ability to operate in close proximity to customers from both the formal and informal retail market perspectives, enabled by its physical and virtual presence and capability.

The group's ability to sell outside of normal trading hours through its 202 000 Flash traders allows it to reach customers through means easily accessible to them. Pepkor sold 12 million cellular handsets in FY22, representing seven out of 10 cellular handsets sold in South Africa, and will focus on enabling customers to access products and services that they need from Pepkor in an ever-increasingly competitive landscape.

Dividend declaration

The board declared a dividend of 55.16667 cents per ordinary share payable to shareholders on Monday, 23 January 2023. The dividend has been declared out of income reserves.

The salient dates of the dividend declaration are:

Last date to trade cum dividend	Tuesday, 17 January 2023
Date trading commences ex-dividend	Wednesday, 18 January 2023
Record date	Friday, 20 January 2023
Payment date	Monday, 23 January 2023

Share certificates may not be dematerialised or rematerialised between Wednesday, 18 January 2023 and Friday, 20 January 2023, both days inclusive. The maximum local dividend tax rate is 20%. The net local dividend amounts to 44.13333 cents per share for shareholders liable to pay dividend tax at the maximum rate, and 55.16667 cents per share for shareholders exempt from paying dividend tax. The issued ordinary share capital of Pepkor Holdings Limited as at the date of this declaration is 3 678 million ordinary shares. Pepkor Holdings Limited's tax reference number is IT9542320180.

Results webcast

A webcast of the results presentation will be broadcast at 10:00 am (SAST) on Tuesday, 22 November 2022. The webcast registration link is: and can be accessed on the Pepkor website: www.pepkor.co.za.

Short-form announcement

This short-form announcement (this announcement) is the responsibility of the directors. It should be noted that this announcement is only a summary of the information contained in the detailed announcement and therefore does not contain full or complete details.

Any investment decisions by investors and/or shareholders should be based on the information in the detailed announcement. The full announcement can be accessed at: <https://senspdf.jse.co.za/documents/2022/jse/isse/pphe/FY22.pdf>.

Copies of the detailed announcement are also available for viewing on the company's website at: <https://www.pepkor.co.za/wp-content/uploads/2022/11/Pepkor-reviewed-results-for-the-year-ended-30-September-2022.pdf> or may be requested in person at the company's registered office or the office of the equity sponsor, at no charge, during office hours.

Parow
22 November 2022

Equity sponsor
PSG Capital



Debt sponsor
Rand Merchant Bank (A division of FirstRand Bank Limited)

