Mr Price Group Limited
(Registration number 1933/004418/06)
Incorporated in the Republic of South Africa
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(Company or group)

TRADING UPDATE FOR THE 13 WEEKS ENDED 31 DECEMBER 2022

During the third quarter from 2 October 2022 to 31 December 2022 (the Period) of the financial year ending 1 April 2023 (FY2023), the group recorded growth in retail sales and other income (RSOI) of 34.0% to R12.4bn. Supported by the inclusion of the recently acquired Studio 88 Group (S88), this is the highest Q3 sales level achieved in the history of the group.

All the recently acquired businesses (S88, Power Fashion and Yuppiechef) achieved double digit sales growth over the Period. Notably, these divisions were not impacted by the group's ERP systems change earlier in the year and had a higher proportion of stores with back-up power supply than the rest of the group's retail chains (refer targets in outlook paragraph).

CEO Mark Blair said, "I am pleased with the positive impact that our recent strategic acquisitions are making on the group, which give us exposure to customer segments that we previously did not serve."

Retail sales for the group's corporate-owned stores was as follows:

	Retail sales growth – Q3 FY2023 vs FY2022
Apparel segment	49.3%
Apparel segment excl S88	2.2%
Home segment	-3.5%
Telecoms segment	10.7%
Group	36.5%
Group excl S88	1.2%

Rising inflation and interest rates and negative real wage growth resulted in continued financial constraint for consumers. Additionally, loadshedding escalated significantly throughout the Period and presented the group with a major challenge in the quarter, especially as peak trading periods were affected.

According to the national electricity provider Eskom, December 2022 (the group's single largest trading month) experienced the highest recorded monthly load reduction of electricity supply, which caused a significant loss in trading hours in the retail sector and inhibited sales growth.

The impact of loadshedding can be seen in the significant variances in sales growth between stores that have backup power and those that do not. The group has taken urgent steps to limit the effect of loadshedding, albeit at considerable cost.

The gross margin % was lower than the comparable period as a result of the inclusion of acquisitions (which operate at lower gross margins), protecting key price points in certain categories and higher markdowns to manage inventory levels in an extremely volatile environment.

The commentary below relates to key group performance metrics including S88 unless specifically mentioned.

Retail sales grew 36.5% to R12.0bn and on a 2-year CAGR basis grew 26.4%. Comparable store sales decreased 3.9%.

South African retail sales grew 36.8% (excluding S88: 1.5%) to R11.2bn while non-South African corporate-owned store sales increased 32.5% (excluding S88: -3.3%) to R816m.

Total store sales increased 38.0% (excluding S88: 1.8%). Online sales decreased 3.1% (excluding S88: -6.1%, off a strong growth of 51.8% in the prior period), as the sector trend of customers returning to physical stores post COVID-19 restrictions, continued.

Total unit sales increased 3.9% (excluding S88: -4.8%). Group retail selling price inflation of 28.9% was elevated by the higher average retail selling price of S88 merchandise. Excluding S88, inflation of 6.2% was below CPI and continues to be managed prudently as the group strives to reinforce its value positioning.

The store footprint increased by 103 new stores and the group's total footprint expanded to 2 670. Trading space increased 13.1% on a weighted average basis and 27.7% on a closing basis (excluding S88: weighted average 5.4%; closing 5.8%).

Cash sales which constitute 89.8% of total retail sales grew 41.2%. Cash sales grew 0.6% excluding S88 (which does not sell on credit), behind credit sales growth of 5.5% as credit continued to be the preferred short-term tender type, a signal of consumer distress and limited disposable income. Demand for new credit accounts increased 31.0%, however the approval rate dropped from 32.2% to 18.8% compared to the prior period, in line with the group's conservative approach to granting credit despite this cyclical trend.

Retail sales in the apparel segment grew 49.3% (excluding S88: 2.2%) over the Period. Pleasing growth rates in Miladys and Mr Price Sport were achieved, aided by a higher contribution of credit transactions than that of predominantly cash based Mr Price Apparel. Power Fashion achieved double-digit sales growth and gained market share in each month during the Period (according to the Retailers' Liaison Committee to November 2022 – latest data available).

Retail sales in the highly competitive home segment decreased 3.5% against a base growth of 8.3%. Yuppiechef continued to gain momentum as it expands its omni-channel offering and reported double digit sales growth.

Cellular handsets and accessories sales grew 10.7% with 2-year CAGR of 25.9% and continued to gain market share according to Growth for Knowledge (November 2022 latest data available). S88 does not trade in this segment.

Other income decreased 16.6% to R360m due to the base effect of the insurance claim received in Q3 FY2022 in relation to the civil unrest. Excluding this once off insurance receipt, other income increased 23.9% supported by higher debtors' interest and fees from the group's retail debtors' book.

OUTLOOK

The global growth outlook is likely to remain pedestrian despite inflation across most markets appearing to have peaked. Interest rates should start to decline which will bring some relief to household disposable income which is currently highly constrained. This outlook will weigh on South Africa's GDP recovery prospects, which have been severely impacted by excessive load shedding, placing strain on both businesses and households, and negatively impacting confidence levels.

Loadshedding levels are anticipated to worsen in Q4 FY2023 which will continue to burden business effectiveness. During Q3 FY2023, management took the decision to significantly accelerate its rollout of back-up power across its existing chains and are on track to reach its target of back-up power in 70% of the group's South African stores by the end of FY2023 and 100% as soon as possible thereafter. This cover taken is adequate to a certain threshold of loadshedding, however due to recent intensity levels this is under review. "It is critical for government to communicate its official and detailed plan for the solution to the energy crisis in South Africa, in order to protect and grow the economy and for business to plan accordingly. The current situation is untenable, and government needs to take decisive action and to be held accountable for implementation." said Chairman Nigel Payne.

The challenging consumer environment is expected to continue into FY2024. The group's diversified retail portfolio together with its everyday low-price positioning will be key in signaling value to constrained customers and defending market share. The industry trend of high credit sales growth is expected to continue in the short term. The group continues to maintain a prudent credit posture in this climate to protect the health of its credit book as deteriorating credit risk profiles continue to be observed.

While the short term will be challenging, management remains focused on the execution of its long-term vision. Successful integration of its acquisitions, consistent comparable growth in its core business, investment into its market leading brand and testing new organic concepts remain its key focus areas. It remains dedicated to its purpose of being 'Your Value Champion', delivering differentiated fashion-value merchandise at everyday low prices.

The above-mentioned figures and any information contained herein do not constitute an earnings forecast or estimate and have not been reviewed and reported on by the Company's external auditors.

Durban
20 January 2023
JSE Equity Sponsor and Corporate Broker
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