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")

Trading update for the 43 weeks ended 25 December 2022

Over the past 10 months, the Group has made excellent progress in implementing its Ekuseni Strategic Plan, including implementation of the new customer value propositions (CVP) in Pick n Pay and Pick n Pay QualiSave, accelerated rollout of the Boxer and Clothing growth engines, innovation and growth in omnichannel, and momentum on the Group's Project Future efficiency programme.

The Group has more recently had to contend with a significantly more difficult trading environment, with unprecedented load shedding and a further downturn in the economy. Our priority has been to provide an uninterrupted service for customers in our stores, whatever the level of load shedding. Inevitably, load shedding has disrupted customers, with some impact on turnover. Of greater consequence, however, are the substantial unplanned costs incurred in running localised power generation for stores.

Group sales

Group sales for the first 10 months of the 2023 financial year (FY23), covering the 43-week period from 28 February 2022 to 25 December 2022, increased 9.3%. South Africa sales growth for this 10-month period was 9.0%, with like-for-like sales growth of 4.8%. The Group's Rest of Africa segment increased sales for the 10-month period by 17.0% (9.0% on a constant currency basis).

Group sales for the first 17 weeks of H2FY23, covering the period 29 August 2022 to 25 December 2022 increased 6.4%. South Africa sales growth for the 17-week period was 6.1% (2.0% like-for-like). The Group's Rest of Africa segment sales increased by 15.8% for the 17-week period (10.0% on a constant currency basis).

Group clothing sales grew 11.0% for the first 10 months of FY23. Sales for the 17-week period grew 6.2%, ahead of peers in the value-fashion clothing segment. Importantly, sales in standalone clothing stores (i.e. excluding supermarkets where clothing sales were disrupted by CVP upgrades) grew 11.4% for the 17-week period. Group liquor sales for the 10 months period grew 22.7%, while sales for the 17-week period increased 9.8%.

South Africa sales

South Africa sales for the 17-week period was constrained by base effects, the disruptive impact of accelerated CVP rollout, and a substantial increase in load shedding. October trade was particularly soft (sales +3.3%) and was followed by improved November momentum thanks to a solid Black Friday promotional campaign, and further improvement over December (+7.2%) as customers responded to the Group's seasonal product offering.

- **Pick n Pay South Africa** sales grew 4.5% (3.8% like-for-like) in the 43-week period, and 3.2% (2.8% like-for-like) for the 17-week period. Sales growth in the 17-week period was impacted by a stronger base (lesser civil unrest impact in base compared to the first half of the year, and 11 lost liquor trading days in the base against 55 in the first half) as well as an increase in CVP store upgrades and store revamps (26 during the period).

- **Boxer South Africa** sales growth was 20.7% (7.6% like-for-like) for the 43-week period and 13.1% (0.2% like-like) for the 17-week period. The deceleration in like-for-like sales growth in the latter part of the 43-week period was driven by a strong base associated with the impact of the July 2021 civil unrest on Boxer's promotional campaign timing in the base year. This has now normalised and Boxer SA sales have accelerated post period-end, with like-for-like sales for the month of January at 9.7%. Boxer has gained market share in 10 of the first 11 trading months of FY23.

South African internal selling price inflation for the 17-week period was restricted to 10.0%, below 12.2% CPI Food. Group selling price inflation was impacted by Boxer's greater exposure to commodity categories, where inflationary pressure has been highest.

	43 weeks ended 25 December % growth	**17 weeks ended 25 December % growth**
Pick n Pay SA sales	4.5%	3.2%
Boxer SA sales	20.7%	13.1%
SA total sales	**9.0%**	**6.1%**
Rest of Africa sales	17.0%	15.8%
Group turnover	**9.3%**	**6.4%**

Ekuseni Strategic Plan

The Group is making pleasing progress on each of the five pillars of its Ekuseni strategic plan:

- We have fully converted 93 stores to the Pick n Pay QualiSave banner and are on track to convert 130 Pick n Pay and Pick n Pay QualiSave stores to the full new CVP. Sales growth from stores fully converted is significantly higher than in non-converted stores, and averages an encouraging 10.5%.

- The Group is accelerating the rollout of its growth engines, with 44 Boxer stores and 58 standalone clothing stores opened this year, putting the Group on track to meet its FY23 store opening targets for these formats.

- The new Pick n Pay on-demand grocery offer has been successfully launched on the Mr D app, and is now available across the country, alongside the existing Pick n Pay asap! offer. Sales growth across all online platforms is a strong 69.6% year-to-date, with on-demand year-to-date growth in excess of 100%.

- The Group is on-track to deliver its targeted efficiency savings for FY23 across its store operations, support offices and supply chain, and is fully focused on delivering its target R3 billion over three years.

- Multitasking of colleagues in Pick n Pay stores is being implemented, delivering better customer service and greater productivity.

Impact of load shedding

The ongoing crisis in national electricity generation is having a profound impact on every part of society and the economy.

All Pick n Pay and Boxer stores have backup power and are operational throughout load shedding. However, severe load shedding creates significant challenges. Customer demand is dampened as a result of disruption, inconvenience, and a concern that food may spoil due to interruptions to power at home. The production of food and other goods is disrupted, creating stock challenges. Diesel generators are not designed to run for many hours on end and suffer breakdowns.

Above all, the generation of emergency, localised, electricity supply is a severe cost to the Group. The Group spent an additional R346 million year-on-year on diesel to run generators at stores in the first 10 months of the year, with the costs concentrated over the latter months, and is currently on a run rate of approximately R60 million per month, depending on the stage of load shedding experienced. In addition to the above, the Group is experiencing increased generator repairs and maintenance costs and some additional food waste costs.

The Group previously guided the market to expect broadly flat FY23 earnings (against the FY22 pro forma earnings base) and guided in its interim result in October that external headwinds, including unprecedented load shedding, would have an additional impact on the full-year result. There has been a further escalation in load shedding since then, resulting in the additional cost pressure outlined above. The Group is working exceptionally hard to mitigate as much as possible of the additional cost pressure.

Confronting the new reality

The government needs rapidly to come forward with a sustainable plan to solve the electricity crisis, including by taking every step possible to ease the way for businesses to generate and use their own sustainable energy.

It is clear that progress will not be rapid. The Group therefore takes the view that the current crisis is a permanent new reality, requiring a rapid, determined and concerted response. We are determined to be on the front foot in adapting our Ekuseni strategic plan and our operations successfully to the new reality.

More details will be set out when the Group reports on its full-year financial results. However, among the key steps on which we are currently focused are:

1. An energy resilience plan, comprising various facets:

    a. The Group has made great progress over the past decade in reducing energy consumption per trading floor area by 35.1% in its Pick n Pay corporate stores, against our 2009 baseline. We will now redouble these efforts, looking across air-conditioning and refrigeration, food preparation, lighting and other uses of electricity to reduce usage further, without unduly impacting customer service.
    b. Negotiations with landlords to ensure that they enable us to maximise installation of solar electricity on the roofs of our stores or allocate us a fair share of renewable electricity that they generate.
    c. Installing inverter and battery power solutions to operate supermarkets sustainably through load shedding. The Group will have trial supermarkets operational in the coming weeks. All of our standalone corporate clothing stores already have power backup, with more than half of these on inverter and battery power.

2. Depending on the energy options pursued, the Group may need to reprioritise other demands for capital investment. In this event, priority will continue to be given to funding expansion of the Group’s Boxer and Clothing growth engines, which are likely to deliver the best combination of sales growth and sustainable returns in the coming years. The Group will reappraise the phasing of its CVP rollout plan to ensure maximum uplift in performance from allocated capital.

3. The Group also intends to accelerate growth opportunities that are less directly disrupted by interruptions to infrastructure. We will accelerate our digital ambitions, including new initiatives in omnichannel retailing and digital media, alongside plans to step change our market-leading Smart Shopper loyalty programme.

In summary, the Group is fully focused on the successful delivery of its strategy. Shareholders should draw confidence from the excellent progress achieved to date in executing our Ekuseni strategic plan, the underlying strong performance across our various operating divisions, and the proactive steps we are taking to succeed despite more challenging circumstances.

FY23 result announcement

Shareholders are advised that the Group plans to release its financial results for the 52 weeks ended 26 February 2023 early in May 2023, followed by an online results presentation. Further details will be provided in due course.

Pro forma information

The pro forma constant currency information is presented in accordance with the JSE Listings Requirements 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 is the responsibility of the Board of directors of the Group and has not been reviewed by or reported on by the Group's external auditors.

By order of the Board
Cape Town
8 February 2023

Sponsor: Investec Bank Limited