

Pepkor Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2017/221869/06)
Share code: PPH
Debt code: PPHI
ISIN: ZAE000259479
LEI: 3789006D677C34F69875



("Pepkor", the "company" or the "group")

TRADING UPDATE AND TRADING STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2023

1. TRADING UPDATE

CONTINUING OPERATIONS

GROUP REVENUE

Group revenue for the year ended 30 September 2023 ("FY23") increased by 7.7% to R87.4 billion. The Avenida business in Brazil (which was acquired in February 2022) increased its contribution to group revenue to 4.3% in FY23 from 2.4% in the prior year - in-line with prior guidance.

FY23 included a 53rd trading week for the South African-based clothing and general merchandise retail brands. On a comparable 52-week basis, group revenue increased by 6.5% for the year. Revenue growth strengthened during the second half of FY23 ("H2FY23") to 8.8% compared to growth of 4.3% reported for the first half of FY23 ("H1FY23").

TRADING PERFORMANCE - Stronger sales performance in the second half of FY23

Group merchandise sales ("sales") increased by 7.9% for the year. On a 52-week basis, FY23 sales increased by 6.4%, including sales growth of 8.2% in H2FY23 and 4.8% in H1FY23.

Group like-for-like sales growth (which excludes the newly-acquired Avenida business) amounted to 0.7% for FY23, strengthening to 3.9% in H2FY23 compared to the 2.2% decline reported for H1FY23.

Customers continue to face financial pressure due to high living costs. Their ability to earn an income remains negatively impacted by high unemployment, continued electricity supply interruptions as a result of load shedding and disruption in the payment of social grants.

Market share gains were achieved in key product categories. PEP achieved gains in babies, adults and home while Speciality expanded market share in adults. Ackermans gained share in schoolwear, younger girls and lingerie (based on 12-month moving average RLC data to September 2023). JD Group expanded market share in computer and audio based on GfK data to September 2023.

Sales growth	FY23 Total sales growth 53 weeks	FY23 Total sales growth 52 weeks	H1FY23 Like-for-like sales growth	H2FY23 Like-for-like sales growth	FY23 Like- for-like sales growth
Retail segments	7.9%	6.4%	(2.2%)*	3.9%*	0.7%*
Clothing & general merchandise segment	11.1%	9.1%	(2.1%)*	5.7%*	1.5%*
- PEP	10.1%	8.2%	0.5%	9.0%	4.5%
- Ackermans	2.6%	0.7%	(8.3%)	(1.1%)	(5.1%)
- Speciality	11.2%	8.7%	2.4%	7.1%	4.5%
- PEP Africa**	14.6%	11.8%	6.0%	14.1%	9.9%
- Avenida**	13.6%	13.6%	8.5%	7.0%	7.8%
Furniture, appliances & electronics segment - JD Group	(1.2%)	(1.2%)	(3.7%)	(0.2%)	(2.1%)
Building materials segment - The Building Company	(0.1%)	(0.1%)	(0.8%)	(0.8%)	(0.8%)

* Like-for-like sales growth excludes Avenida acquired in February 2022.

** Constant currency sales growth is reported for PEP Africa and Avenida.

Group cash sales increased by 5.6% and credit sales increased by 35.6%, driven by the implementation of the group's credit interoperability strategy in the South African-based clothing, footwear and home (CFH) retail brands. As a result, the overall group credit sales mix increased to 10% from 8% in the prior year.

With 90% of sales generated in cash, credit is not a material sales enabler for the group. Credit continues to be granted on a prudent basis within the group's conservative credit methodologies.

Retail selling price inflation in PEP, Ackermans and Speciality (in aggregate) amounted to 7.3% for the year.

During the year 324 new stores were opened (87 on a net basis), expanding the group retail store base to 5 917 stores. The Dealz discount variety format in South Africa and Giovanna footwear stores in Brazil were closed during the year in addition to PEP Africa's exit from Nigeria. Retail space growth amounted to 1.1% for the year.

PEP achieved very pleasing results with strong like-for-like sales growth of 9.0% in H2FY23 (on a 52-week basis). Market share was expanded in babies, adult and home product categories (latest RLC data). PEP's credit sales mix increased to 4% of total sales (0% historically), supported by the group's credit interoperability strategy.

Trading in Ackermans showed a marked improvement in H2FY23, with like-for-like sales declining by 1.1% compared to a decline of 8.3% reported for H1FY23 (on a 52-week basis). Good progress was made to clear under-performing merchandise through markdowns, resulting in improved inventory levels.

Performance in Avenida exceeded expectations and the business is well ahead of its original value creation plan. Plans to expand the retail footprint and distribution network have been accelerated.

Both Speciality and PEP Africa also reported stronger trading performance during H2FY23. PEP Africa completed its planned exit from Nigeria.

Weaker trading in durable products and the building materials market weighed on performance in JD Group and The Building Company. However, both businesses outperformed their peers.

FINANCIAL SERVICES

Performance in the financial services businesses was supported by the group's credit interoperability strategy and a high interest rate environment. Tenacity opened a record number of new accounts (794 000) during the year, which benefited sales via cross-shopping by customers in group retail brands.

The group maintained its conservative approach to credit granting. Collections, non-performing loans and provision levels remain well within tolerable levels across all credit books. Credit book growth has, however, resulted in increased debtors' costs for the year.

The revenue decline in the Flash business due to a deliberate change in product mix has started to normalise. Management turnover (based on face value of products sold) increased by 11.6% and profitability increased by more than 20% for the year.

DISCONTINUED OPERATIONS

As announced at the interim results published on 30 May 2023, the decision was made to exit PEP Africa's operations in Nigeria. This is part of the ongoing strategic review of the PEP Africa business on a country-by-country basis. The Nigerian operations will therefore be classified as discontinued operations in the group's FY23 annual results. The Nigerian operations contributed less than 1% to group revenue in the prior year.

2. TRADING STATEMENT

In terms of the JSE Limited ("JSE") Listings Requirements, a listed company is required to publish a trading statement as soon as it becomes aware that a reasonable degree of certainty exists that the financial results for the financial period to be reported on next will differ by at least 20% from the financial results for the previous corresponding period.

Impairment of goodwill and intangible assets

The outcome of the annual impairment assessment process on goodwill and intangibles with a carrying value of R57.5 billion, as required by IFRS, resulted in a total impairment of R6.6 billion to be recognised in FY23 (the "impairment").

The methodology applied in the impairment assessment is consistent with prior years, however a higher weighted average cost of capital ("WACC") was applied. The WACC rate increased from 14.4% in the prior year to 15.7% this year and is attributed to increased market volatility and higher interest rates. This resulted in an impairment of R5.9 billion attributable to the clothing and general merchandise cash generating unit, which includes Ackermans, Dunns, PEP, PEP Africa, Refinery and Shoe City.

An impairment of R703 million is attributable to the Tekkie Town cash generating unit with 90% of this due to softer performance in a highly competitive branded footwear market. The remaining 10% is attributable to the higher WACC.

The impairment will impact earnings but will be excluded from headline earnings - as prescribed by Circular 1: 2023 - Headline Earnings issued by the South African Institute of Chartered Accountants ("SAICA").

Shareholders and noteholders are hereby advised that a reasonable degree of certainty exists that the group's statutory headline earnings per share ("HEPS") and earnings per share ("EPS") for the year ended 30 September 2023, when compared to the previous corresponding period, are expected to fall within the ranges reflected in the table below.

Statutory results	FY23 expected range (cents)	FY23 expected change (%)	FY22 actual (cents)
HEPS - including discontinued operations	139.3 to 155.6	(4.3%) to (14.3%)	162.6

HEPS - continuing operations	138.3 to 154.6	(5.2%) to (15.2%)	163.1
EPS - including discontinued operations	(24.8) to (41.4)	(115.0%) to (125.0%)	165.5
EPS - continuing operations	(24.5) to (41.1)	(114.7%) to (124.7%)	166.6

Dividend consideration

Based on the group's credible operating performance and strong cash generation during the year, in addition to its healthy financial position, the board has resolved that the FY23 impairment will be disregarded in the consideration and determination of the FY23 dividend. The impairment will therefore not negatively impact any dividend declared for FY23.

Pro forma constant currency disclosure

The Pepkor group discloses unaudited constant currency information to indicate PEP Africa and Avenida's performance in terms of sales growth, excluding the effect of foreign currency fluctuations. To present this information, current period turnover for these businesses reported in currencies other than the rand is converted from local currency actuals into rand at the prior period's actual average exchange rates per country. The table below sets out the approximate average rand cost for one unit as well as percentage change in sales, based on the actual continuing results for the period, in reported currency and constant currency, for the basket of currencies in which these businesses operate.

% change in sales compared to the prior period	Reported currency	Constant currency
PEP Africa	23.4%	14.6%
Avenida	26.7%	13.6%

The constant currency information has been prepared for illustrative purposes only. The information included in this announcement is the responsibility of the directors and does not constitute an earnings forecast and has not been reviewed and reported on by the group's external auditors.

Results announcement and webcast

Pepkor's results for the year ended 30 September 2023 will be published on SENS on Wednesday, 29 November 2023.

A results presentation will be broadcast at 11:00am (SAST) on Wednesday, 29 November 2023. The webcast registration link will be made available prior to publication of the results on the Pepkor website: www.pepkor.co.za.

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2 November 2023

Equity sponsor
Investec Bank Limited

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