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Pick n Pay Stores Limited
 Incorporated in the Republic of South Africa
 Registration number: 1968/008034/06
 JSE share code: PIK
 ISIN: ZAE000005443
 (“Pick n Pay” or “the Company”)

Sales and balance sheet update for the 47 weeks ended 21 January 2024, further trading statement for the full 2024 financial year, strategic response and cautionary announcement

Sales update for the 47 weeks ended 21 January 2024

The Company and its subsidiaries (“the Group”) increased total sales by +5.3% for the 47 weeks ended 21 January 2024 (“the period”) with like-for-like sales growth of +2.9%.

The Group’s key growth drivers comprising Boxer, Pick n Pay Clothing and Online continued to deliver strong results, with Boxer and Pick n Pay Clothing each improving on the growth delivered in the first half of the year.

The Pick n Pay supermarkets performance was below expectation, reflecting increased competitive intensity in the market.

	Previously published 26 weeks ended 27 August 2023 (H1 FY24) % growth	21 weeks ended 21 January 2024 % growth	47 weeks ended 21 January 2024 % growth
South Africa			
Pick n Pay	0.3%	-0.5%	-0.1%
Boxer	16.1%	18.2%	17.1%
Total	5.1%	5.3%	5.2%
Rest of Africa	14.4%	5.9%	10.3%
Group sales	5.4%	5.3%	5.3%

Pick n Pay South Africa sales for the period declined by -0.1%, with like-for-like sales growth of +0.7% reflecting action taken to close under-performing stores. Lower than expected sales volumes over the November and December trading period resulted in higher inventory levels which negatively impacted the Group’s working capital cycle and cash generation for the period. Good progress has been delivered in reducing inventory levels over the past few weeks, with the cash benefits expected to flow after year-end.

Pick n Pay Clothing stores delivered strong sales growth of +17.5% for the period, with like-for-like growth of +8.0%. The stronger second-half performance reflects a successful store opening programme and market share gains across all key categories. Pick n Pay Online delivered sales growth of +75.8% for the period, with strong performances from both the relaunched asap! platform and the Group's strategic partnership with Mr D.

Boxer continued to deliver on its commitment to providing exceptional value for customers, with sales growth of +17.1% for the period and like-for-like growth of +7.3%. The Group believes that this leading performance demonstrates the strength of the Boxer brand and the resilience of its operating model in a difficult and highly competitive trading environment.

The Rest of Africa division increased its sales for the period by +10.3% and +12.4% on a constant currency basis, in line with H1 FY24 (+12.2%). The sustained year-on-year improvement in the Rest of Africa was driven by a strong turnaround in Zambia.

Balance sheet update and discussions with lenders

The disappointing trade performance from Pick n Pay supermarkets, increased inventory levels and strategic investment into the Group's growth engines have led to a marked increase in the Group's level of net debt from R3.8 billion on 27 August 2023 to R7.2 billion as at 21 January 2024. The Group's net debt position improved in February 2024, largely as a result of the receipt of R0.5 billion of cash proceeds from the sale of property, as disclosed to shareholders in October 2023. Pick n Pay has actively engaged with the key lenders under its long-term syndicated and bilateral loan facilities to ensure continued compliance with the Group's long-term debt covenants under these facilities.

Following this engagement, long-term lenders have agreed to waive all covenants on the syndicated loan and bilateral loan facilities as at 25 February 2024 while amending them for 31 August 2024. These waivers have provided the Group with sufficient time and flexibility to strategically assess the Group's gearing position and progress the optimal course of action to correct the capital structure. The board of directors of Pick n Pay ("the Board") extends its sincere thanks to its lenders for their continued support.

Further Trading Statement

Shareholders are referred to the announcement released on the JSE Stock Exchange News Service ("SENS") on 18 October 2023, wherein the Group advised shareholders that it was likely that its H2 FY24 earnings (26 weeks to 25 February 2024) would be below the earnings reported in H2 FY23 (26 weeks to 26 February 2023). In terms of section 3.4(b) of the JSE Listings Requirements, the Group guided that it expected its earnings, headline earnings and pro forma headline earnings for the financial year ending 25 February 2024 ("FY24") to decrease by more than 20% when compared to the EPS, HEPS and pro forma HEPS reported for FY23.

Shareholders are advised that the Group will compile and finalise its financial results for FY24 over the coming weeks, the publication of which is scheduled for late May 2024. The Group expects to publish a loss at the earnings, headline earnings, and pro forma headline earnings levels for FY24. The loss is entirely attributable to the performance of the Pick n Pay supermarkets business, which was primarily due to a weaker than expected trade performance, the duplication of supply chain costs related to the move from Longmeadow to the Eastport distribution centre, once-off restructuring costs and the net incremental costs of loadshedding. The Group's Boxer and Pick n Pay Clothing businesses remain highly profitable.

Management does not yet have the required degree of certainty to provide details of the anticipated ranges for earnings, headline earnings, and pro forma headline earnings levels for FY24. Management will provide a further update to this trading statement once the Group has the required degree of certainty to do so.

Strategic response and cautionary announcement

In October 2023, the Company appointed Sean Summers as its new CEO to urgently address the under-performance of the Pick n Pay supermarkets business, and to assess ways in which the Group could unlock value for shareholders from Pick n Pay's broader business.

While the Board recognised that the Pick n Pay supermarkets turnaround would be a multi-year strategy, significant progress has nevertheless been made in the appointment of a new leadership team and the implementation of a strengthened and simplified operational structure which aims to drive rapid decision making, improved in-store execution and excellent customer service.

Alongside the immediate action taken at an operational level, the Board prioritised the development of a sustainable capital structure for the Group, which would reduce debt levels, provide sufficient support for investment in the turnaround of Pick n Pay and unlock shareholder value.

In this context, the Board appointed financial advisors who have been working alongside the Board and management team to evaluate the Group's strategic alternatives to achieve these objectives and unlock the value inherent in the Group.

To this end, the Board has approved a plan to prepare for a two-step recapitalisation plan which, subject to final approval by the Board as well as the requisite shareholder and other regulatory approvals being obtained, will comprise a rights offer to existing shareholders of the Company of up to R4.0 billion to provide near-term liquidity, followed by an offering and listing of the Group's Boxer business on the Main Board of the Johannesburg Stock Exchange ("IPO"). The rights offer is currently expected to take place in the middle of 2024, followed by the IPO towards the end of 2024. At this time, the Group intends to retain a majority stake in Boxer after the IPO.

In taking this decision, the Board believes that the two-step recapitalisation plan is the best course of action to not only stabilise the Group's balance sheet, strengthen Group liquidity and provide adequate capital funding for long-term sustainable growth, but importantly to unlock shareholder value. The controlling shareholder of the Group has indicated its in-principle support for the proposed two-step recapitalisation plan.

As the terms and conditions of the recapitalisation plan are still being developed with Pick n Pay's financial advisors and are subject to ongoing Board engagement and approvals, shareholders are advised to exercise caution when dealing in the Company's securities until these details are finalised and a further announcement is made.

FY24 financial results announcement and strategic update

Shareholders are advised that the Group expects to release its financial results for the 52 weeks ended 25 February 2024 on SENS in late May 2024, followed by an in-person and online results presentation. The presentation will include a formal update on Group strategy and the Group's plans to raise capital. Further details will be provided in due course.

The information contained in this announcement is presented in accordance with the JSE Listings Requirements and is the responsibility of the Board. The financial information on which this trading statement is based has not been reviewed by or reported on by the Group's external auditors.

By order of the Board
Cape Town
22 February 2024

Sponsor: Investec Bank Limited

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.

Forward-looking information contained in this announcement

This announcement contains certain forward-looking statements which relate to the Group's possible future actions, long-term strategy, performance, liquidity position and financial position. All forward-looking statements are solely based on the views and considerations of the Board, and in particular as at the date hereof. These statements involve risk and uncertainty as they relate to events and depend on circumstance that may or may not occur in the future.

The Group does not undertake to update or revise any of these forward-looking statements publicly, whether to reflect new information, future events or otherwise. These forward-looking statements have not been reviewed or reported on by the Group's external auditors.

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The information contained herein is only preliminary and indicative and does not purport to contain any information that would be required to evaluate the Group, its respective financial position and/or any investment decision. This announcement is not intended to provide, and should not be relied upon for, accounting, legal or tax advice nor does it constitute a recommendation regarding any potential securities offering. In particular, this announcement should not be considered as “advice” as defined in the South African Financial Advisory and Intermediary Services Act, 37 of 2002 and should not be construed as an express or implied recommendation, guide or proposal that any transaction, or in relation to the business or future investments of the Group, is appropriate to the particular investment objectives, financial situations or needs of any person.