mr pricegrouplimited

INTERIM RESULTS FY2018

SEPTEMBER 2017

Interim results FY2018

GROUP HIGHLIGHTS

Revenue
R9.8bn
+6.7%

Operating profit
R1.5bn
+22.0%

Operating margin
15.7%
+200bps

EBITDA
R1.7bn
+22.6%

Diluted HEPS
434.1c
+23.6%

Dividend per share
279.0c
+22.3%

Trading environment overview

ECONOMY

- Sept 17 headline CPI 5.1% (avg March – Sept 5.1%)
- Interest rates between 10.25% & 10.50% since Jan ‘16
- Labour force up 696k (employed +358k, unemployed +338k). Unemployment rate 27.7%
- Q2 17 GDP grew 2.5%, previous two quarters declined
- ZAR / USD exchange rate steadily improving between Jan ‘16 - Sep ‘17

CONSUMERS

- Confidence levels remains negative
- Essential items remain prioritised in the consumer basket
- Value a key driver of purchase behaviour
- Benefitting from retailers competing for market share

Growth drivers

Cash sales improved
7.2% (2017) VS 1.9% (2016)

Credit sales grew
5.1% (2017) VS -6.2% (2016)

RSA sales growth
7.0% (2017) VS 0.8% (2016)

Non RSA sales growth*
3.6% (2017) VS -5.0% (2016)

W. Avg space growth
2.3% (2017) VS 2.2% (2016)

Lower RSP inflation
2.6% (2017) VS 11.4% (2016)

Unit growth achieved
4.2% (2017) VS -10.2% (2016)

Higher Gross Profit %
42.0% (2017) VS 39.2% (2016)

* Excludes franchise stores

Segment analysis

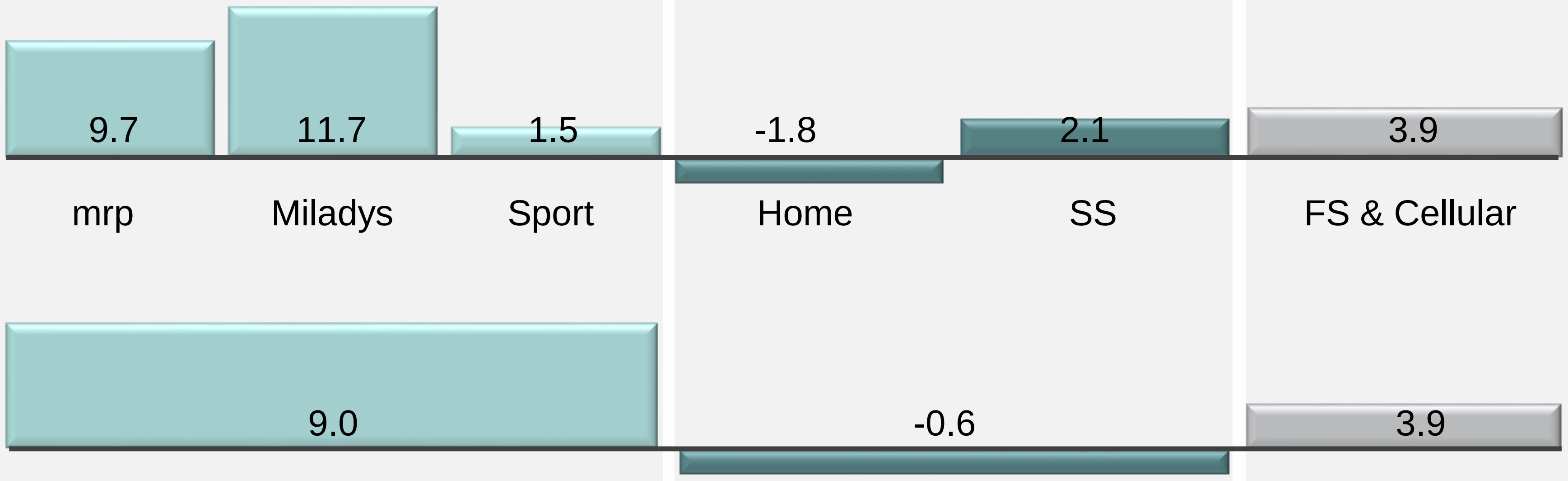
	Apparel segment	Home segment	Financial Services

Division

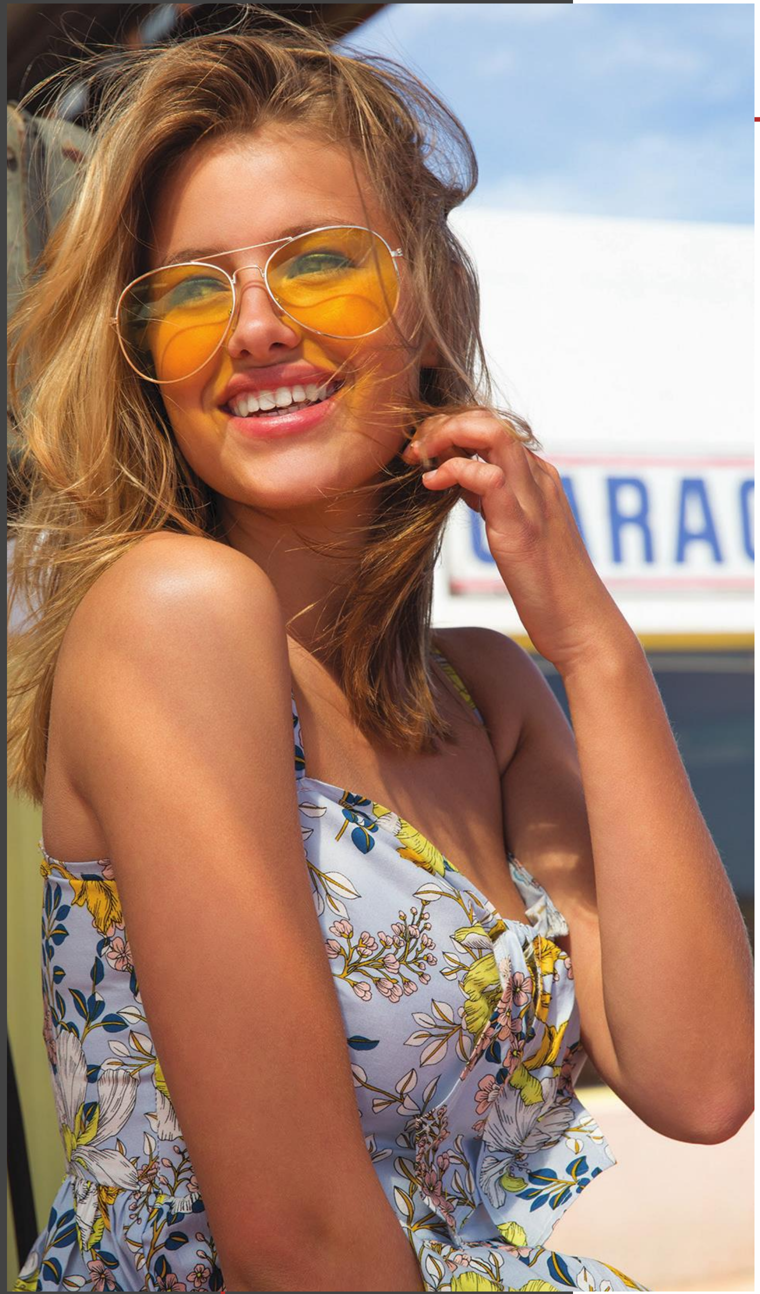
RSOI Growth

Segment

RSOI Growth



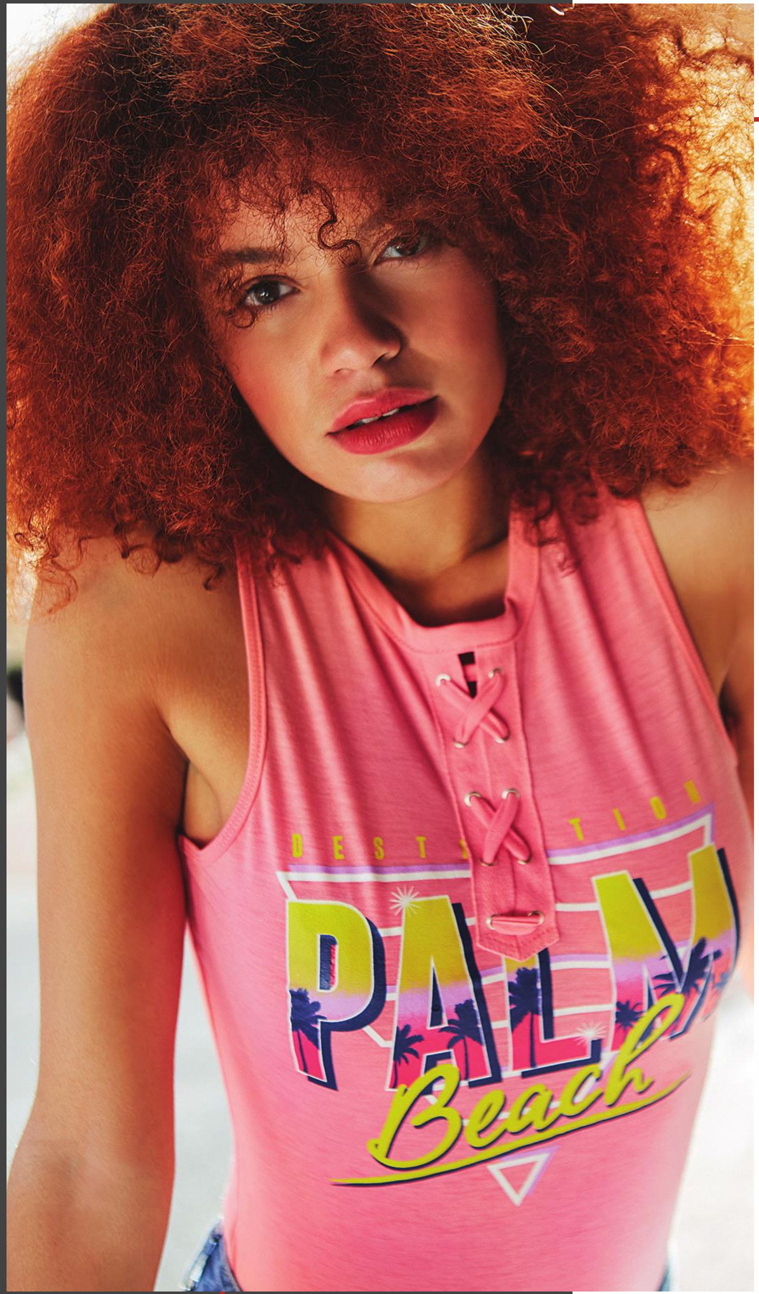
	Apparel segment	Home segment	Financial Services
RSOI Contribution	71.0% (PY 69.2%)	23.3% (PY 25.0%)	5.6% (PY 5.7%)
Operating profit growth	42.5% (PY -26.7%)	-16.2% (PY 20.4%)	11.2% (PY 4.1%)
Operating profit contribution	68.7% (PY 58.9%)	18.8% (PY 27.4%)	12.5% (PY 13.7%)
Operating profit margin	16.1% (PY 12.3%)	13.4% (PY 15.9%)	37.0% (PY 34.6%)



Earnings per share

	2017	2016	% change
Profit attributable to shareholders (R'm)	R1 138m	R921m	23.6%
W. Avg shares in issue (000)[1]	258 196	254 562	
Basic earnings per share	440.9c	361.8c	21.9%
Addbacks (R'm)[2]	R5m	R1m	
Headline earnings (R'm)	R1 143m	R922m	
Headline earnings per share	442.9c	362.3c	22.2%
Shares for diluted earnings (000)[3]	263 436	262 599	
Diluted earnings per share	434.1c	351.2c	23.6%

- [1] Movement relates to LTI schemes' shares vesting. Shares previously held by trusts now back in the market
- [2] Loss on disposal & impairment of PPE & intangible assets
- [3] Lower dilution impact than PY
  - lower weighted average share price
  - reduced weighted average share options outstanding



Comparable performance

HEPS 5 year CAGR	%
MRP	12.6
Competitor A	4.7
Competitor B	9.5
Competitor C	7.3
Competitor D	5.0

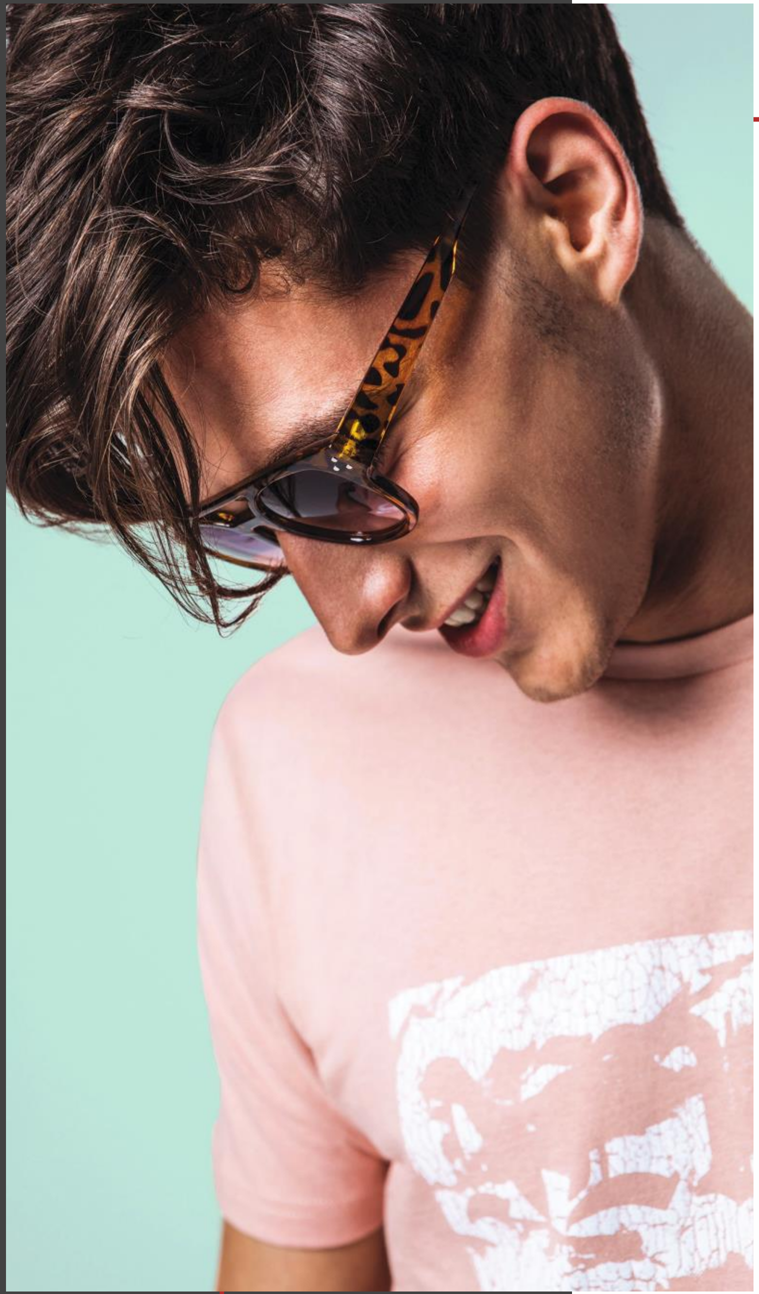
Costs as a % of sales	
MRP	28.3
Competitor A	39.2
Competitor B	32.9
Competitor C	45.7
Competitor D	33.6

ROOA
49.3%

RONW
33.6%

ROCE
49.3%

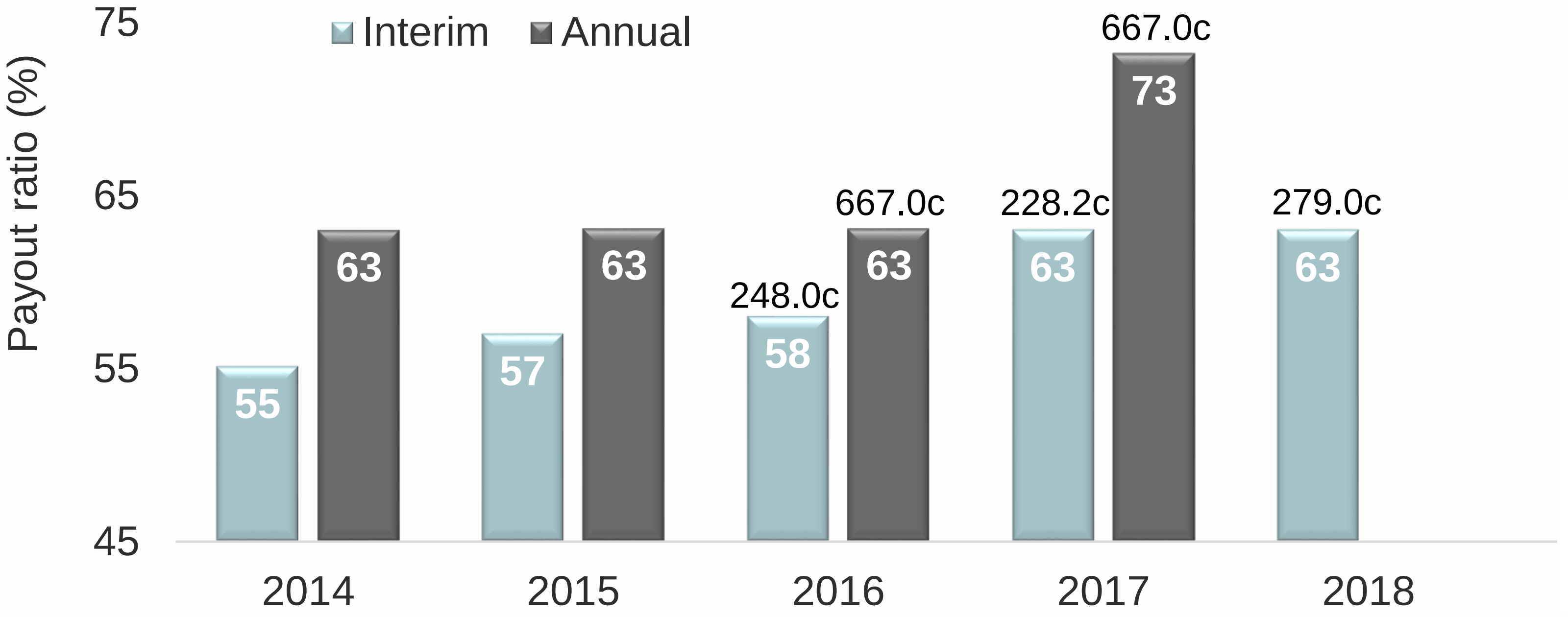
Information pertains to most recent full financial year



Dividends per share

Cents	2017	2016	% change
Interim dividend	279.0c	228.2c	22.3%

- Interim & annual payout ratio aligned at 63% at interim stage last year
- Annual FY17 payout ratio higher due to maintaining dividends despite an earnings decline
- Normalised payout ratio is 63%



Group income statement

R'm	2017	2016	% change
Retail sales & other income (pg 9)	9 711	9 131	6.3%
Total costs	8 185	7 880	3.9%
Cost of sales[1]	5 411	5 347	1.2%
Expenses[2]	2 774	2 533	9.5%
Profit from operating activities	1 526	1 251	22.0%
Net finance income	67	35	89.5%
Profit before taxation	1 593	1 286	23.9%
Taxation[3]	454	365	24.5%
Profit after taxation	1 139	921	23.7%
Profit attributable to minorities[4]	(1)	-	
Profit attributable to shareholders	1 138	921	23.6%
EBITDA	1 684	1 373	22.6%

- [1] Higher merchandise & cellular GP% (pg 13)
- [2] As expected, an improved GP% funded overhead growth (pg 14,15)
- [3] Effective tax rate 28.5% (PY: 28.4%)
- [4] Outside shareholder's interest in mrpMobile

Revenue analysis

R'm	2017	2016	% change
Retail sales[1]	9 135	8 588	6.4%
Financial services & cellular (pg 22)	545	525	3.9%
Other[2]	31	18	67.8%
Total other income	576	543	6.0%
Total retail sales, interest & other income	9 711	9 131	6.3%
Finance income[3]	67	35	89.5%
Total revenue	9 778	9 167	6.7%

- [1] Total sales growth per trading update 1 April to 5 August of 6.2%
  RSA store sales growth 7.0%, non RSA up 3.6%
  Comparable stores sales growth 4.6%
- [2] External donations to mrpFoundation R7m, mrpHome insurance claim R11m (refer pg 20), Miladys club fees R11m
- Club fees matter- papers filed, requested National Consumer Tribunal to stay the matter until Edcon judgment handed down
- [3] Interest on higher cash balances (refer cash flow pg 28)

RSA online sales

R90.6m represents 1.3% of divisional sales. Increase of 6.4%

mrpApparel
+29.7%

46% of total sales

mrpSport
+3.1%

4% of total sales

mrpHome
-7.5%

50% of total sales

NO1
SA FASHION RETAILER
1 million fans

NO1
SA FASHION RETAILER
293k followers

100%
GROWTH
VS PREVIOUS YEAR
3 million views

mrp online/digital review

65%
OF MRP.COM USERS BROWSE ONLINE BEFORE SHOPPING INSTORE

50%
OF ALL ORDERS ARE COLLECTED IN STORE

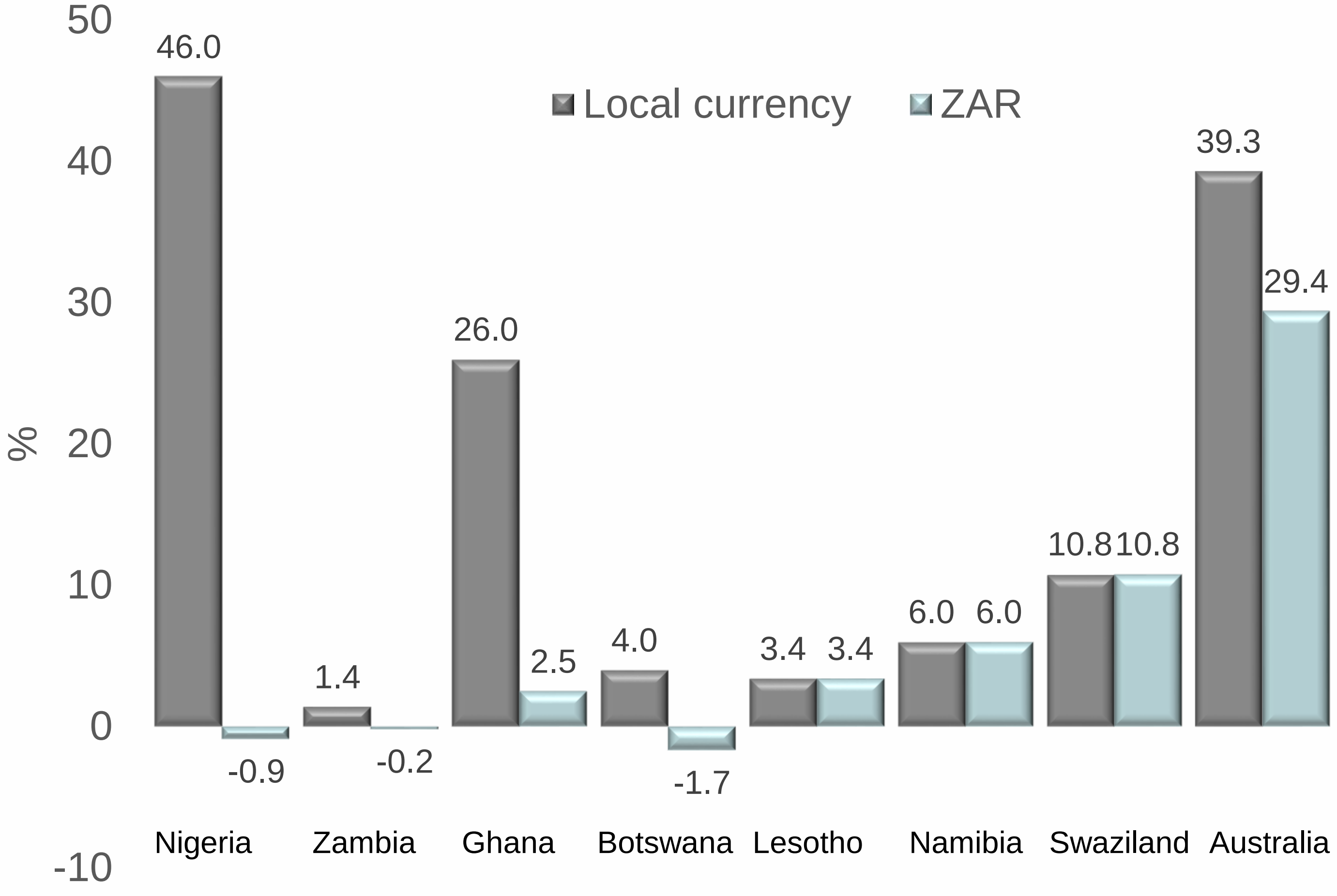
SITE VISITS 70%
GROWTH VS H1 F17

20%
OF ONLINE CUSTOMERS MAKE AN ADDITIONAL PURCHASE WHILE INSTORE

100%
GROWTH FOR ACTIVE APP USERS SINCE JANUARY 2017

ONLINE BASKET SIZE IS DOUBLE THAT OF INSTORE

International sales growth

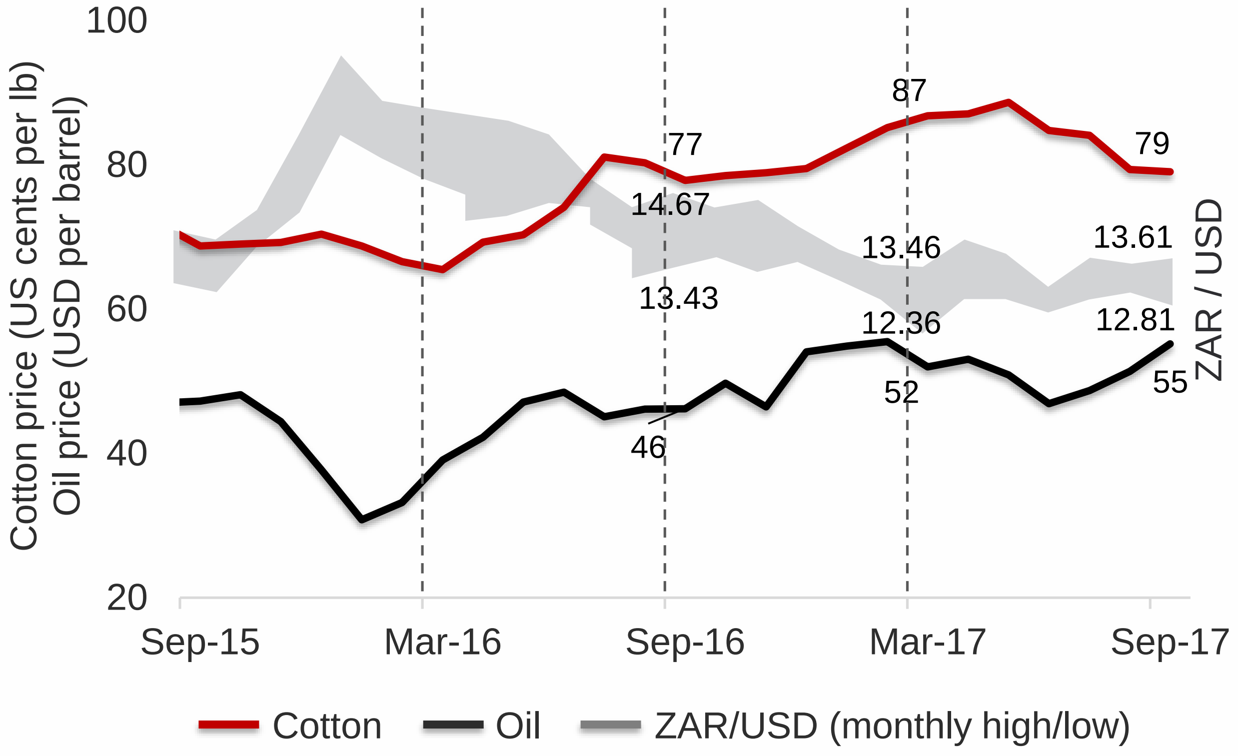


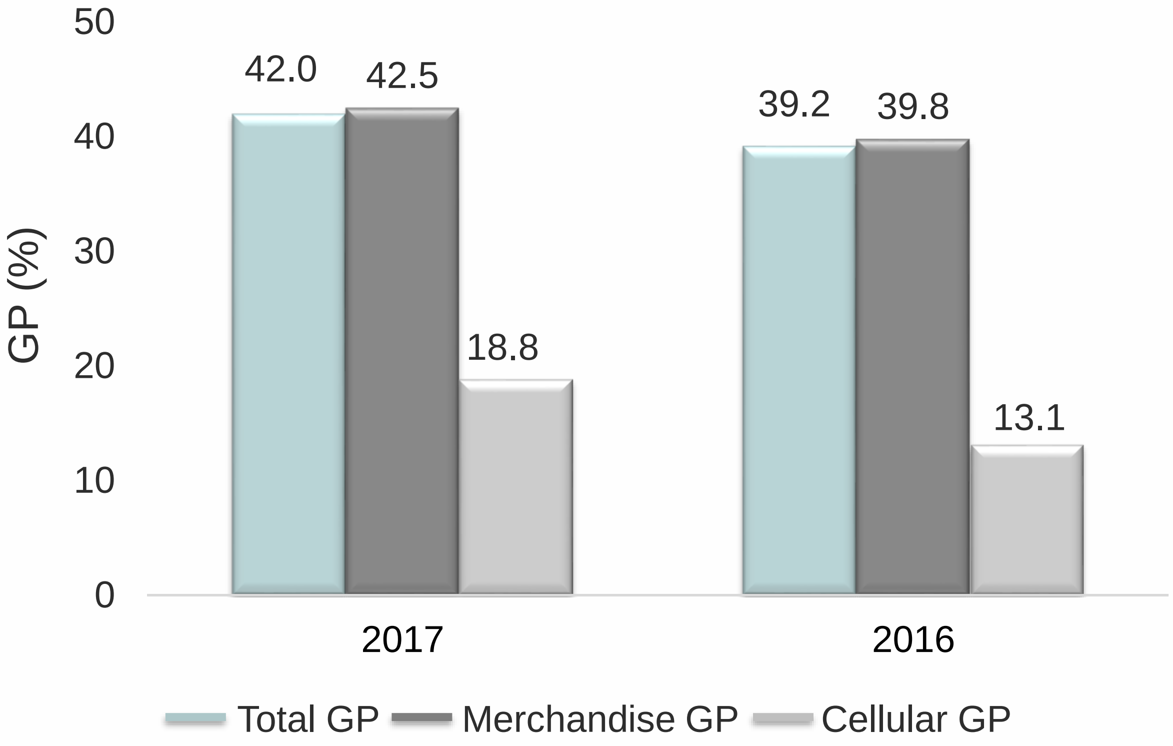
	Sales contribution	Stores Change	Stores Total
Botswana	23%	2	24
Lesotho	4%	-1	5
Namibia	41%	-	37
Swaziland	7%	1	8
Total BLNS	75%	2	74
Nigeria	6%	-	5
Zambia	8%	-	9
Ghana	4%	-2	4
Australia	3%	3	5
Total owned stores	96%	3	97
Franchise & online	4%	-	21
Total	100%	3	118

- Positive growth in local currency in all markets
- Repatriated R61m from Nigeria
- Acquisition of Kenyan franchise in progress (9 mrp; 3 mrpHome stores)

- Australian growth
  - mrpHome not in the base
  - reduced weighted average space in mrp by 28.9%, sales 9.2% lower (AUD). Good pick up in unit densities

Gross profit margin





- Merchandise GP improved by 270bps
  - driven by apparel chains
  - home chains declined slightly
- Improved ingoing margins & markdowns

- Cellular margin continues to increase
- Most significant improvement in mrpMobile MVNO
  - despite lower revenues, higher GP rands
  - product mix changes away from postpaid

Selling expenses

R'm	2017	2016	% change
Total selling expenses	2 104	1 914	9.9%

- Weighted average space growth of 2.3%
- Retail bad debts written off up 9.0%, mrpMobile net bad debts down 18.6%
- Employment costs up 13.6%
  - excluding lower ETI & higher performance based incentives, costs increased by 10.6%
- Rental costs up 10.4%
  - basic rentals & operating costs up 7.2%
  - higher straight line lease adjustments & turnover rentals
- Remainder of other costs well controlled, up 6.3%

Administrative expenses

R'm	2017	2016	% change
Total admin expenses	670	619	8.1%

- Employment costs up 19.1%
  Excluding higher performance based incentives, increase is 6.2%
- Foreign exchange loss R536k vs R33.7m in PY
- Excluding impact of incentives, foreign exchange costs & once off credits in the base, expenses are up 3.2%

mrp

	2017	2016	% change
Retail sales[1]	R5 562m	R5 046m	10.2%
Comparable sales	7.8%	(4.1%)	
Unit sales	65.7m	61.2m	7.4%
RSP inflation	2.6%	8.8%	
Weighted average space growth	3.4%	5.0%	
Trading density	R37 336m^{-2}	R37 594m^{-2}	(0.7%)

- Positive results reflective of focus on assortment & value proposition
- Double digit sales growth in ladies & men's outerwear, with excellent performance in the junior RT business, which grew >20%
- Trading density for the 6 month period is up 6.6%
- Significant opportunities to capture market share still exist
- Gross profit growth was well ahead of expense growth, resulting in a strong operating profit improvement
- Stock on hand in better shape at end of Sep vs PY – lower balance, improved freshness & full priced merchandise substantially higher

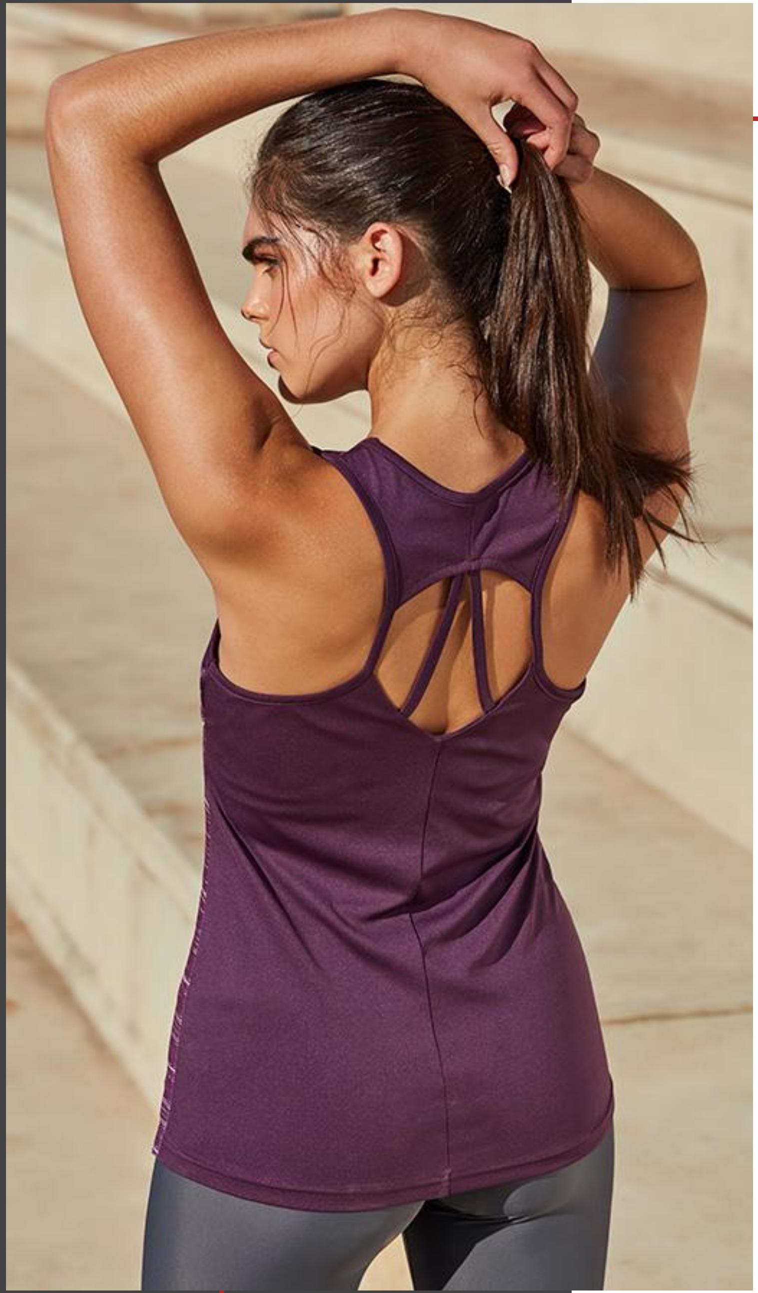
1: Excludes franchise

Impact of foreign retailers

Sales growth is generally higher in locations where we compete with:

- **H&M:**
  - mrp sales growth in locations where H&M trade (13 stores) exceeds divisional large store average

- **Cotton On:**
  - mrp sales growth in locations where Cotton On trade is ahead of locations where they do not



mrpsport

	2017	2016	% change
Retail sales	R644m	R634m	1.5%
Comparable sales	(4.6%)	2.1%	
Unit sales	5.6m	5.5m	1.1%
RSP inflation	0.9%	16.9%	
Weighted average space growth	6.3%	6.7%	
Trading density	R22 294m^{-2}	R23 113m^{-2}	(3.5%)

- Sales muted due to discretionary nature of sports merchandise
- Footwear
  - recorded strongest growth at 10.4%
  - athletes in Maxed brand won 3 Comrades Marathon gold medals
- Ladies, men’s & youth apparel all recorded growth of 3 - 4%. Good performance in ‘fitness’ & disappointing ‘outdoor’
- Equipment & accessories declined by 5.9%
- Opened 100th store in Sep ‘17
- Improved gross profit %, unable to offset expense growth given inflation & space growth

MILADYS

	2017	2016	% change
Retail sales	R652m	R582m	11.9%
Comparable sales	11.8%	(12.4%)	
Unit sales	3.4m	3.3m	3.0%
RSP inflation	9.3%	10.4%	
Weighted average space growth	(0.5%)	0.4%	
Trading density	R22 386m^{-2}	R21 158m^{-2}	5.8%

- Clear view of our niche customer
- Extended sizes in all stores from July ‘17
- Apparel sales 16.7% higher, driven by leisurewear department
- Non apparel sales up 5.1% due to double digit increases in footwear, swimwear & accessories. Opportunity in other categories (sleepwear, underwear, handbags, costume jewellery)
- Strong sales growth, improved GP% via lower markdowns & overhead control resulted in an excellent improvement in bottom line
- Ask Africa Orange Index Awards - placed 3rd in clothing retail category. 4th overall out of 165 entrants

mrphome

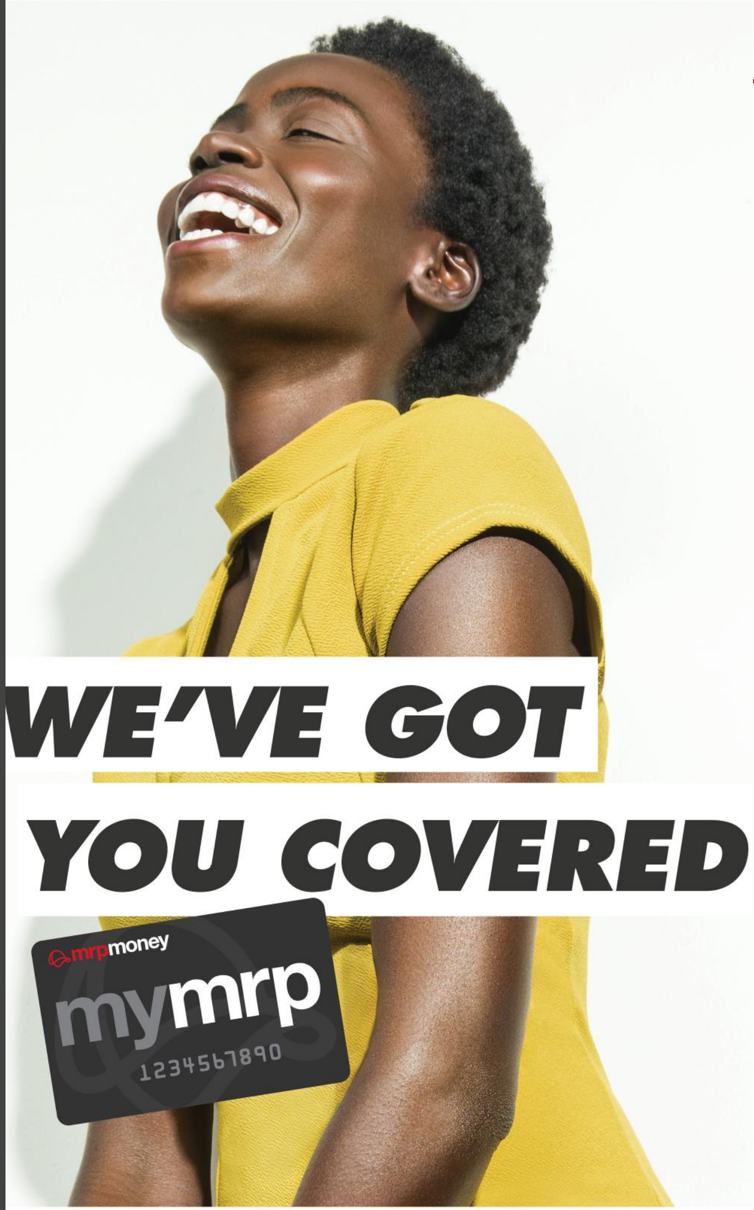
	2017	2016	% change
Retail sales	R1 558m	R1 590m	(2.0%)
Comparable sales	(3.4%)	(0.7%)	
Unit sales	14.7m	15.3m	(3.5%)
RSP inflation	2.1%	19.1%	
Weighted average space growth	0.3%	(3.4%)	
Trading density	R25 238m^{-2}	R25 529m^{-2}	(1.1%)

- Sales growth indicative of continued pressure on the homeware sector
- Temporary closure of a flagship store due to storm damage impacted sales growth by ~ 2%
- Consistent performance across regions & departments, with the exception of:
  - more discretionary furniture & kids departments
  - successful launch of mrpINC (novelty & gifting)
- Profit decline was off a very strong base, particularly GP performance in PY. No GP ‘recovery’ to offset lower sales growth & overhead growth

sheet street

	2017	2016	% change
Retail sales	R695m	R680m	2.1%
Comparable sales	1.1%	3.3%	
Unit sales	7.7m	7.9m	(2.7%)
RSP inflation	5.2%	12.7%	
Weighted average space growth	0.1%	(0.3%)	
Trading density	R29 730m^{-2}	R28 818m^{-2}	3.2%

- Strongest sales growth in livingroom department of 8.2%
- Decline of 1.4% in bedroom department (largest), due to assortment issues
- Gross margin % declined slightly due to higher promotional markdowns. Overhead costs growth well below inflation rate
- Marginal drop in profits off a strong PY performance
- Daily News Your Choice Awards – voted Best Linen Store

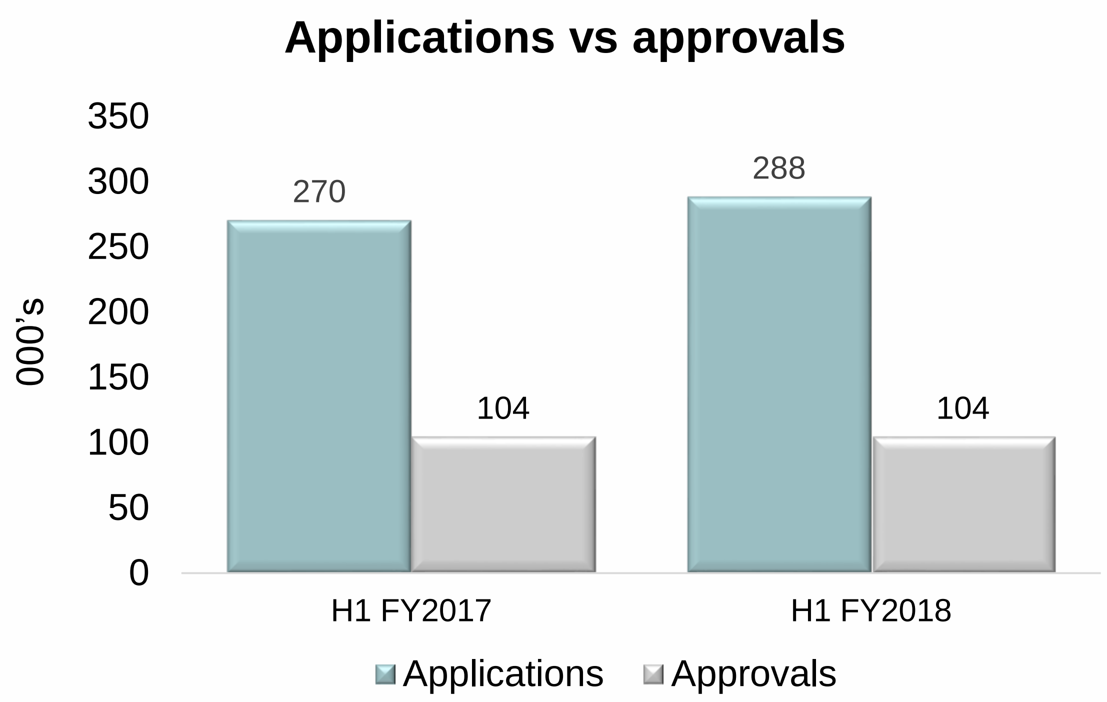


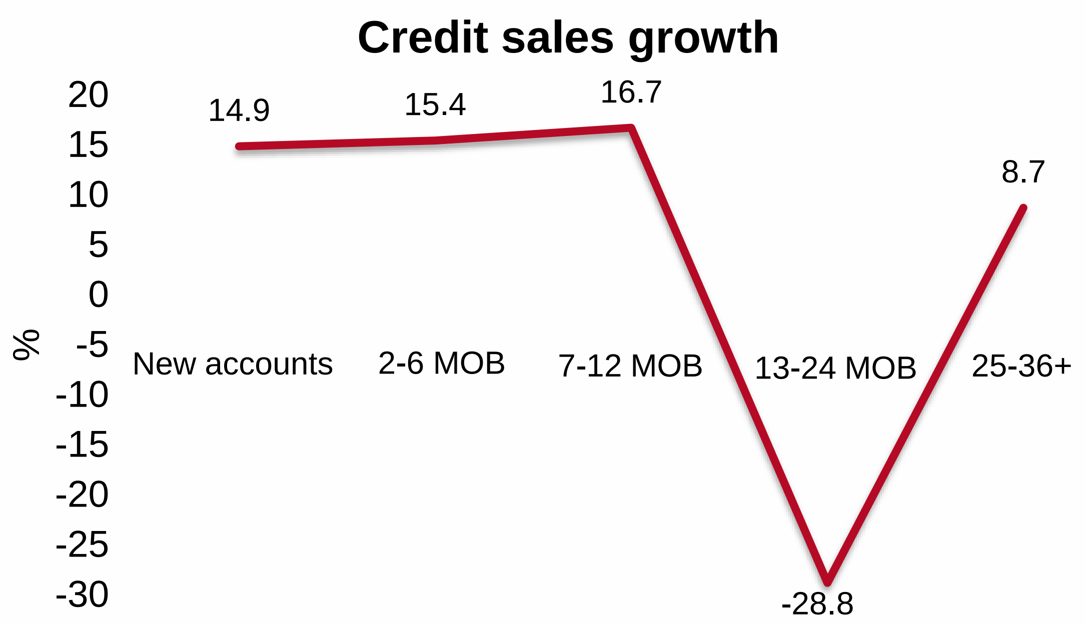
mrpmoney

R'm	2017	2016	% change
Credit- interest & charges	229	215	6.6%
Insurance	121	105	15.2%
Cellular	195	205	(5.0%)
- mrpMobile MVNO	84	113	
- Cellular (Hello mrp)	14	-	
- Airtime sales & commission	96	92	
Total revenue	545	525	3.9%

- **Credit-** higher credit sales & debtors book. Monthly service fees increased to R8.50. No change in initiation fee
- **Insurance-** good balance between growth in volume & price
- **Mobile-** temporary slowdown to focus on process improvement. Product mix changes which led to a higher gross profit
- **Cellular-** sale of handsets, simcards & accessories via in-store kiosk tested in mrp. Exceeded expectations & further rollout planned

Credit performance





- Credit sales grew by 5.1% & contribute 17.6% of total sales (PY 17.9%)
- New account applications up 6.6%, driven by mrp & Miladys
- Approvals are flat - continue to be impacted by bureau challenges & income verification rules
- Affordability regulations - joint review application heard in Aug ‘17. Anticipate judgement to be handed down prior to end Dec ‘17
- Credit growth in new & >24 MOB categories. 13-24 MOB impacted by regulations introduced in Sep ’15

Trade receivables

R'm	2017	2016	% change
Retail debtors	2 011	1 882	6.9%
Mobile* & franchise debtors	74	116	(37.1%)
Total debtors book	2 085	1 998	4.3%
Retail debtors (97% of total)			
- Net bad debts: book	5.9%	5.6%	
- Impairment provision	7.3%	7.4%	

- Per the National Credit Regulator, the number of consumers & number of accounts in 'good standing' in RSA continues to improve
- MRP
  - retail book ageing profile similar to PY & continues to perform well
  - maintained impairment provision at FY17 level

* Includes debtors with repayment terms greater than 12 months

Financial position

R'm	Sept 2017	March 2017
Non-current assets		
Property, plant & equip (pg 27)	2 076	2 130
Intangible assets (pg 27)	448	356
Other non-current assets[1]	76	91
Current assets		
Inventories[2]	2 159	2 102
Trade & other receivables (pg 24)	2 318	2 284
Cash & cash equivalents (pg 28)	1 560	1 823
Reinsurance assets[3]	212	129
Total	8 849	8 915
Equity & liabilities		
Shareholders equity	6 616	6 729
Non-current liabilities[4]	301	335
Current liabilities[5]	1 932	1 812
Bank overdraft	-	39
Total	8 849	8 915

- [1] Lower deferred tax assets
- [2] Increase of 2.7% due to higher GIT, excl which, inventories were 8% lower. Inventories in much better shape than PY
- [3] Mainly cash
- [4] Reduction mainly due to lower SLLA >12 months
- [5] Increase of 6.6% due to:
  - weighting of GIT vs landed
  - extended payment terms
  - higher incentive provision

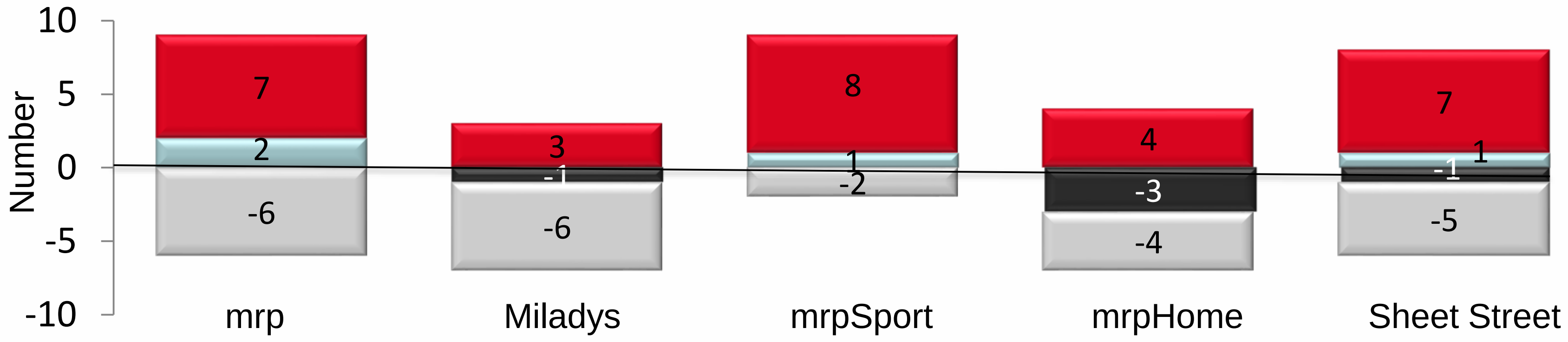
Restatement of comparative information

- In H2 FY17 voluntarily changed the treatment of amounts previously recognised in equity for cash flow hedge accounting from the recycling method to the basis adjustment method
- When a hedged item is a non-financial asset/liability, amounts recognised in OCI are transferred to the carrying value of the item
- Amounts are still recognised in income statement when the item is sold
- Adjustments to PY balances:
  - inventory DR R31m, comprehensive income CR R22m, taxation liability CR R9m
  - no impact on previously reported profit attributable to shareholders

PPE & intangibles

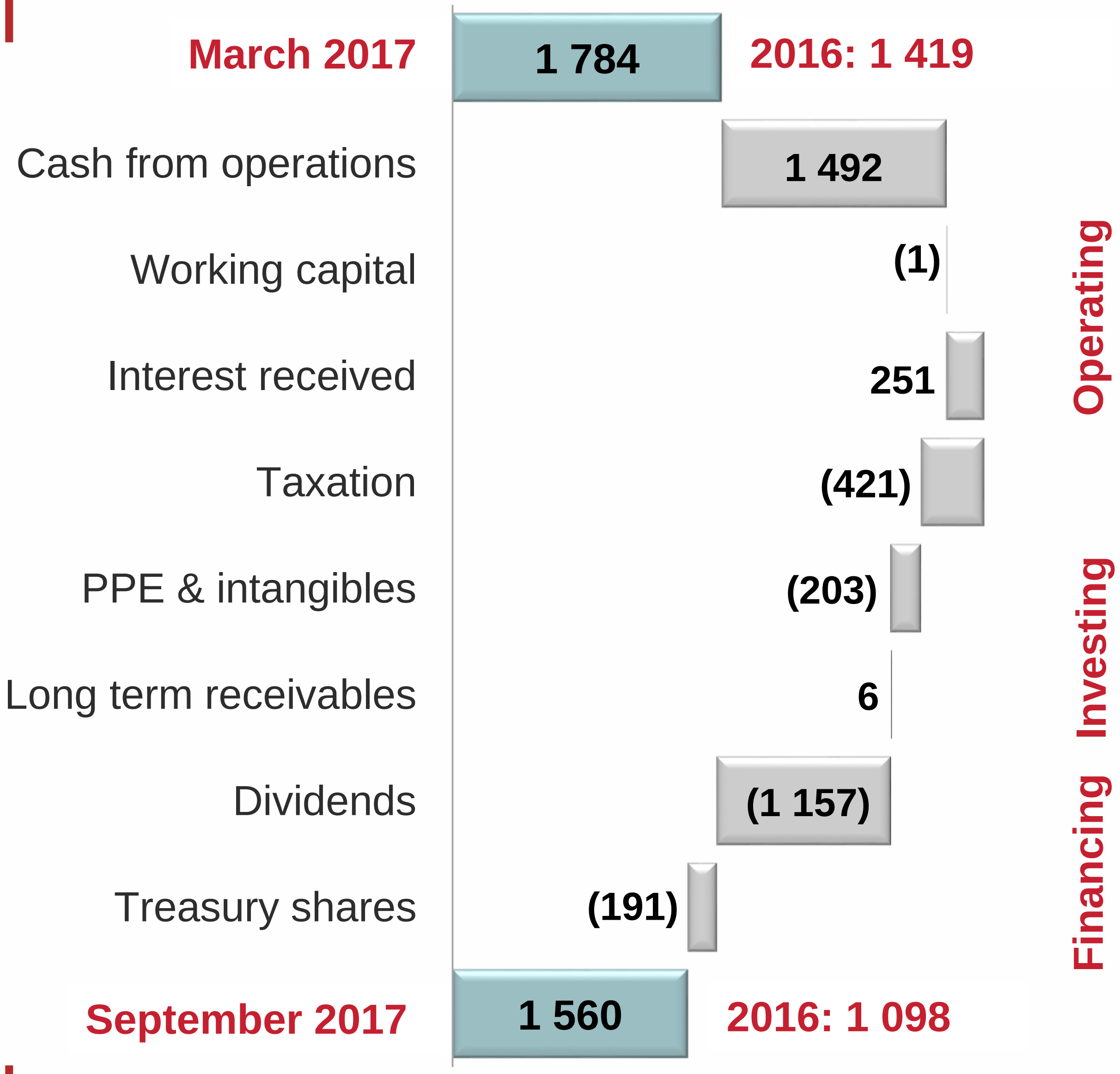
R'm	Total	PPE	Intangibles
Opening April 2017	2 486	2 130	356
Additions	203	140	63
Disposals, impairments, revaluations & reclassification	(7)	(62)	55
Depreciation & amortisation	(158)	(132)	(26)
Closing Sep 2017	2 524	2 076	448

Store movements



	Stores	Space growth
New stores	29	2.7%
Expansions	4	1.1%
Weighted average new space growth		3.8%
Reductions	23	(1.2%)
Closures	5	(0.3%)
Net weighted average space growth		2.3%

Cash flow movements (R’M)



Operating R1.3bn (+16.0%)

- Increase of 28.7% on H1 FY 17
- Increases in receivables & inventory offset by increase in payables
- Higher debtors book & cash balances
- Last year the first provisional tax payment fell into H2

Investing (R0.2bn)

- Additions 49% lower than PY due to distribution centre – refer pg 29

Financing (R1.3bn)

- Final FY17 dividend paid in June 2017 was up 6.2%
- Long term incentive schemes

- R1 771m including cash in reinsurance assets

Hammarsdale

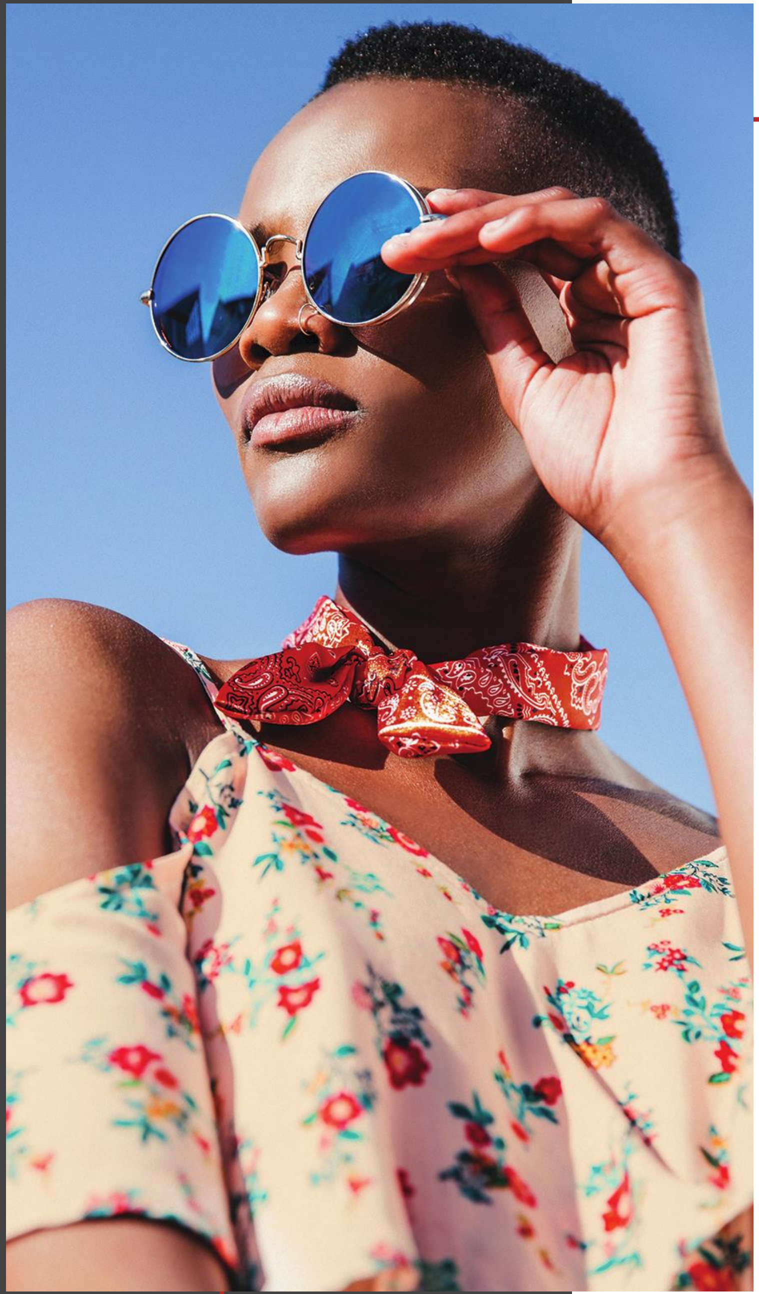
Distribution Centre

Successfully transitioned all divisions to new site in 3 months (June - September '17)

Delivered on time and within budget Cost R1.2b

	Cost	Annual depreciation R'm	%
Land & buildings	R620m	R11m	1.8%
Equipment	R548m	R33m	6.0%
Computer software	R74m	R7m	10.4%
Total spend	R1 242m	R51m	4.1%

- Exiting Riverhorse facility 3 months earlier than anticipated (Dec '17)



Outlook

- Politics will continue to take centre stage
  - cabinet reshuffle in October ‘17 weakened ZAR/USD
  - ratings agencies’ reviews – maintain investment grade status?
  - ANC leadership conference – voting on new leadership & party policies (including economic for next 5 years) on 19 Dec ’17?
- Outcome of the above likely to have a significant impact on:
  - exchange rates
  - business & consumer confidence
  - the broader RSA economy

Outlook

- Concerned about congestion at Durban port:
  - shipping lines re-routing to Coega in Eastern Cape
  - working on plans to minimise disruptions
- On track to achieve annual target of opening 43 stores
- Expect an uncertain & difficult trading environment given the macro issues, however encouraged by:
  - October retail sales increase of 8.3%
  - further momentum gained going into November

Well executed, our fashion value EDLP model is a key differentiator throughout economic cycles

mr price group limited

Thank you