



Part 3

*By Praneel Nundkumar*

# Changing shape of the business & economy

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The business's evolution has provided the group with multiple earnings vectors

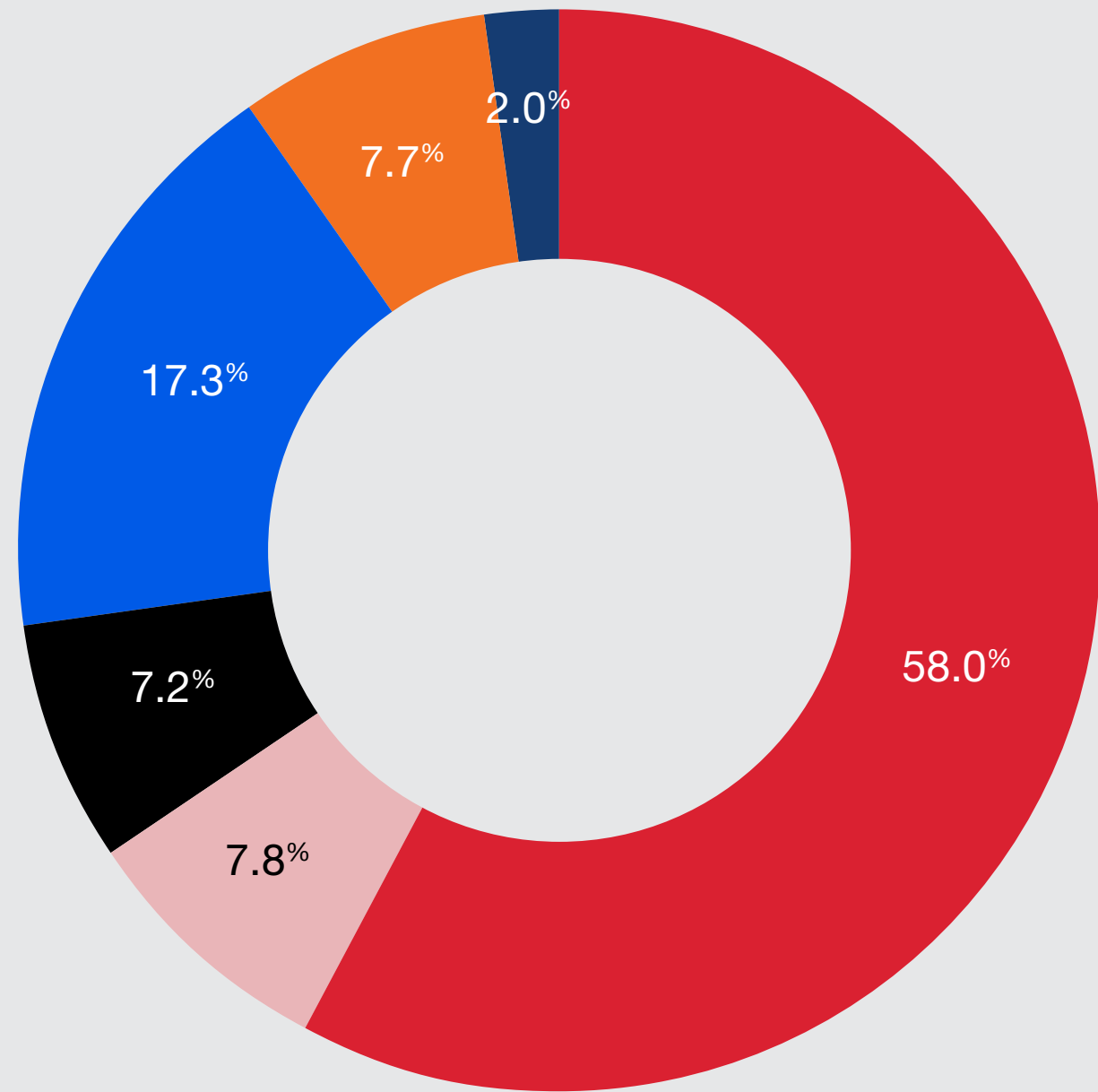


# Growth and diversification



FY2020

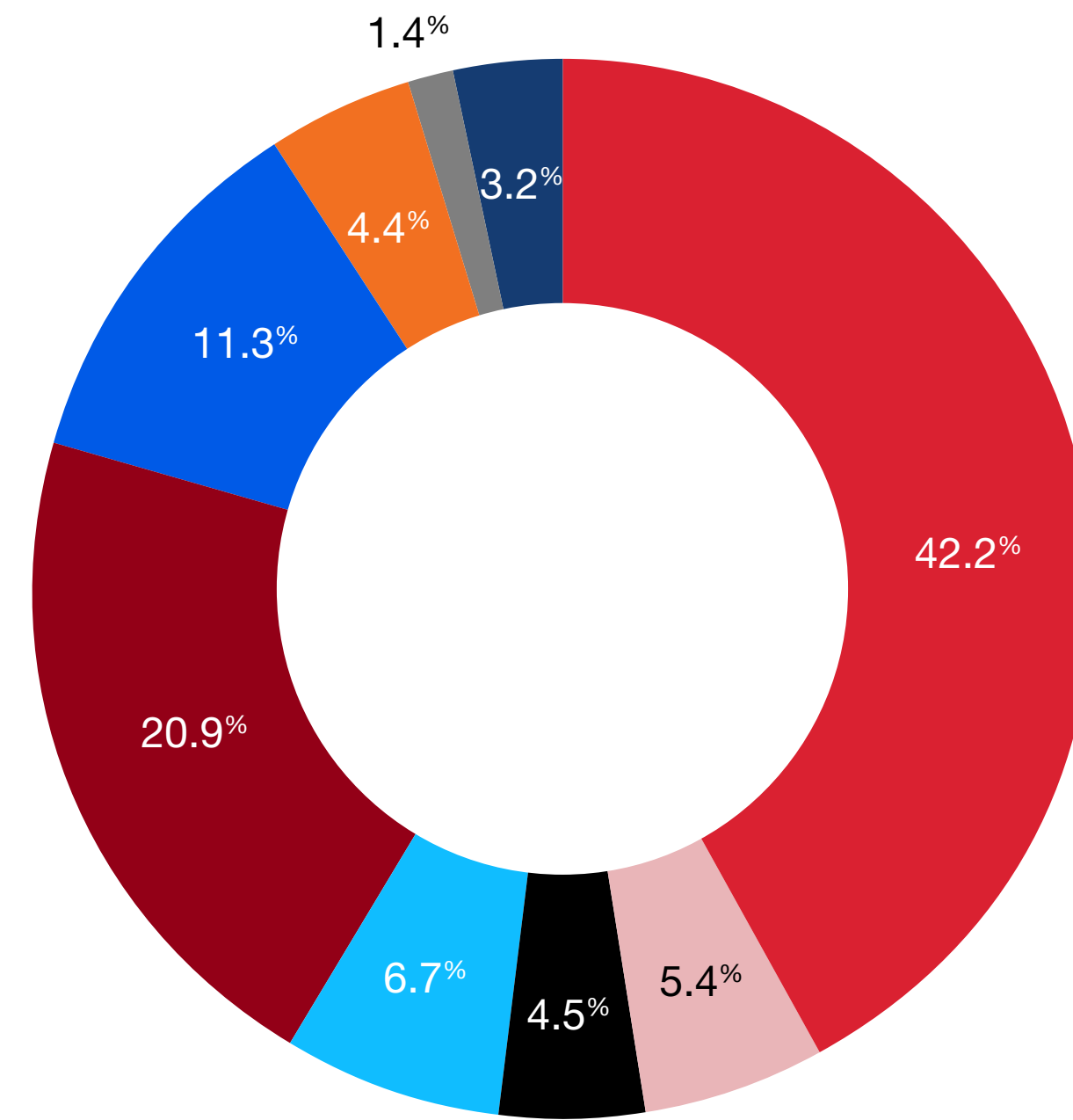
FY2024



Retail sales

R21.7bn

6 Divisions  
(5 retail chains)



Retail sales

R36.6bn

9 Divisions  
(15 retail chains)



STORES

ASSOCIATES

STORES

ASSOCIATES

1 378

~18 000

2 900

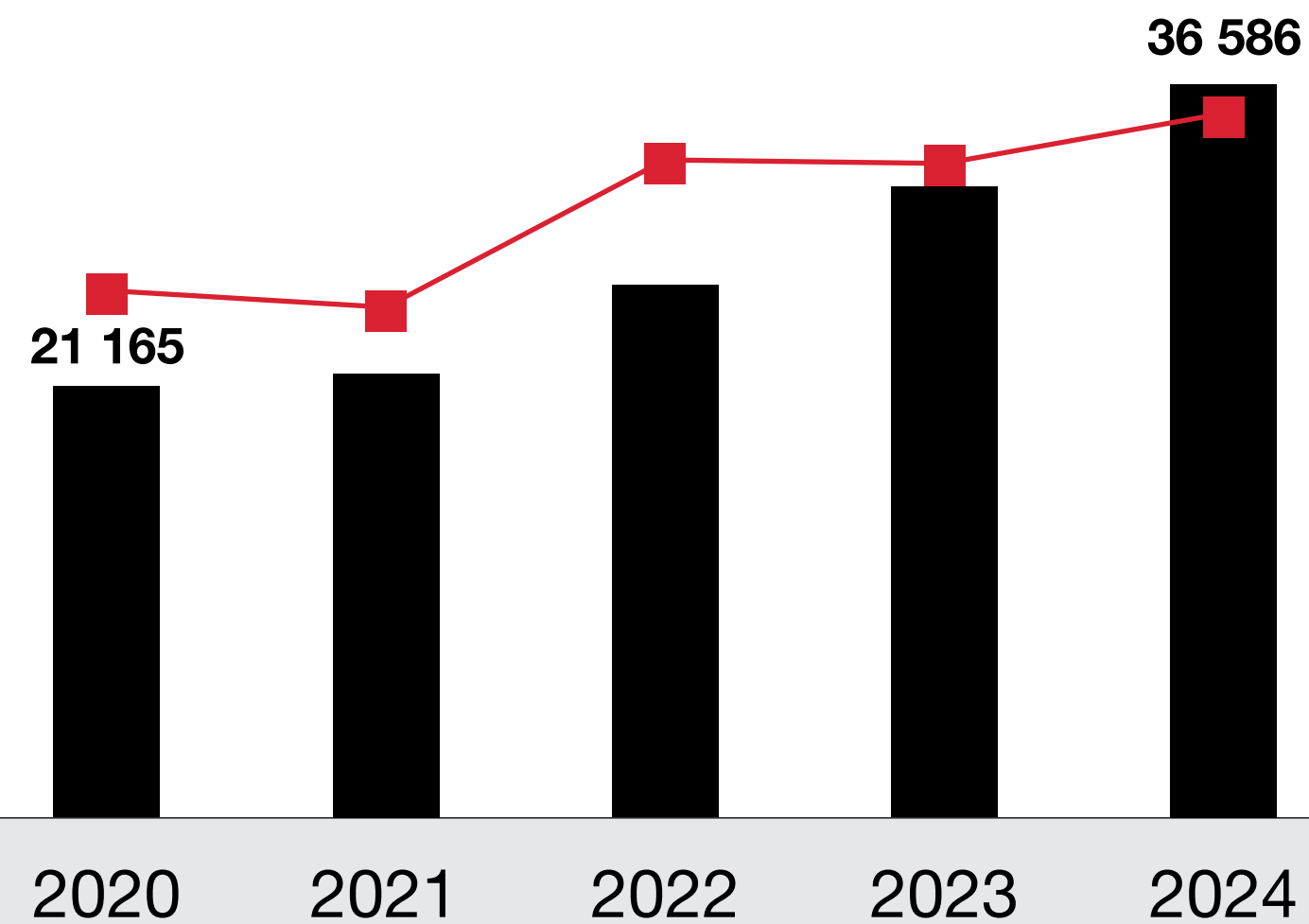
~32 000

# Business evolution

In a highly disruptive operating environment

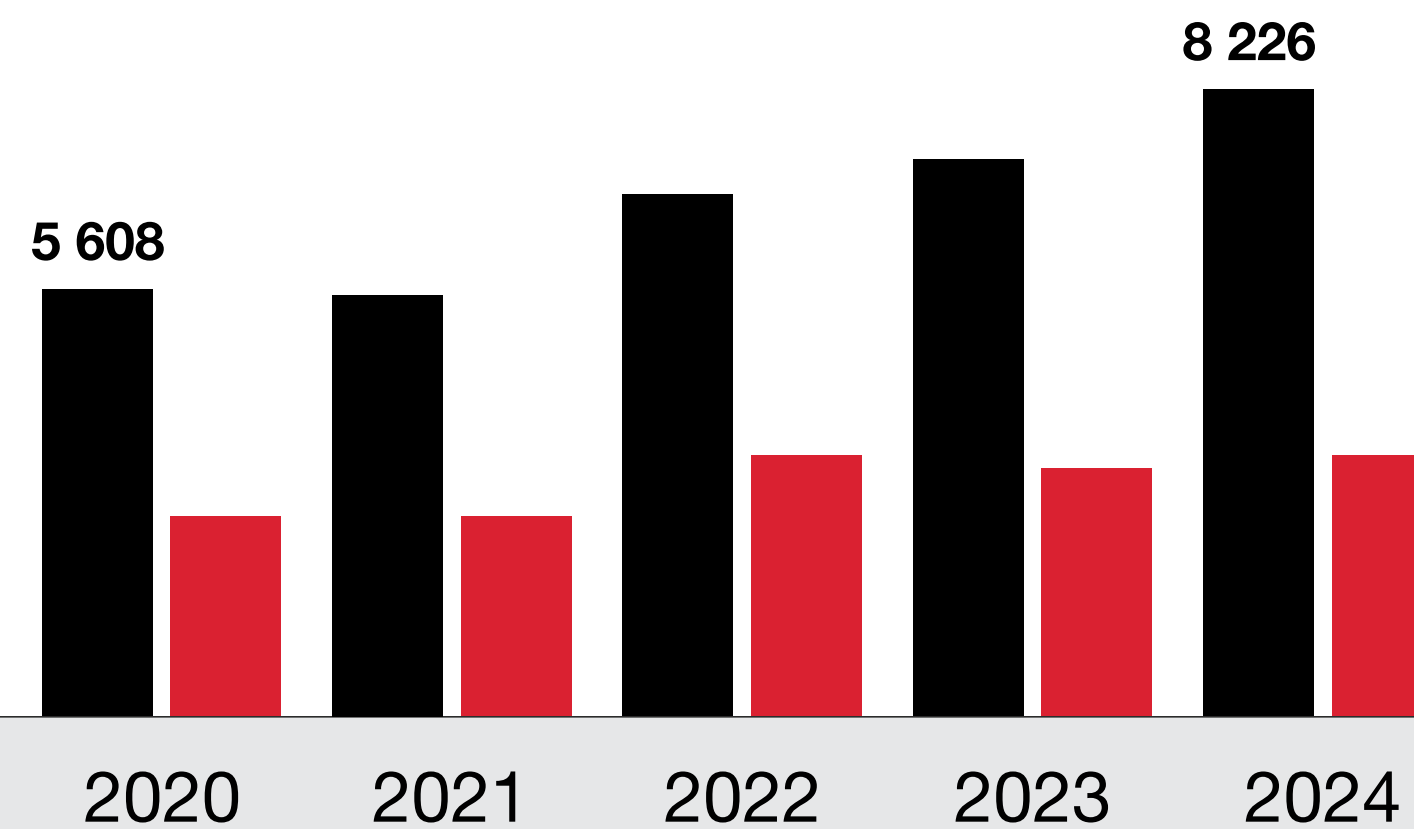


## RETAIL SALES AND OPERATING PROFIT (R'M)



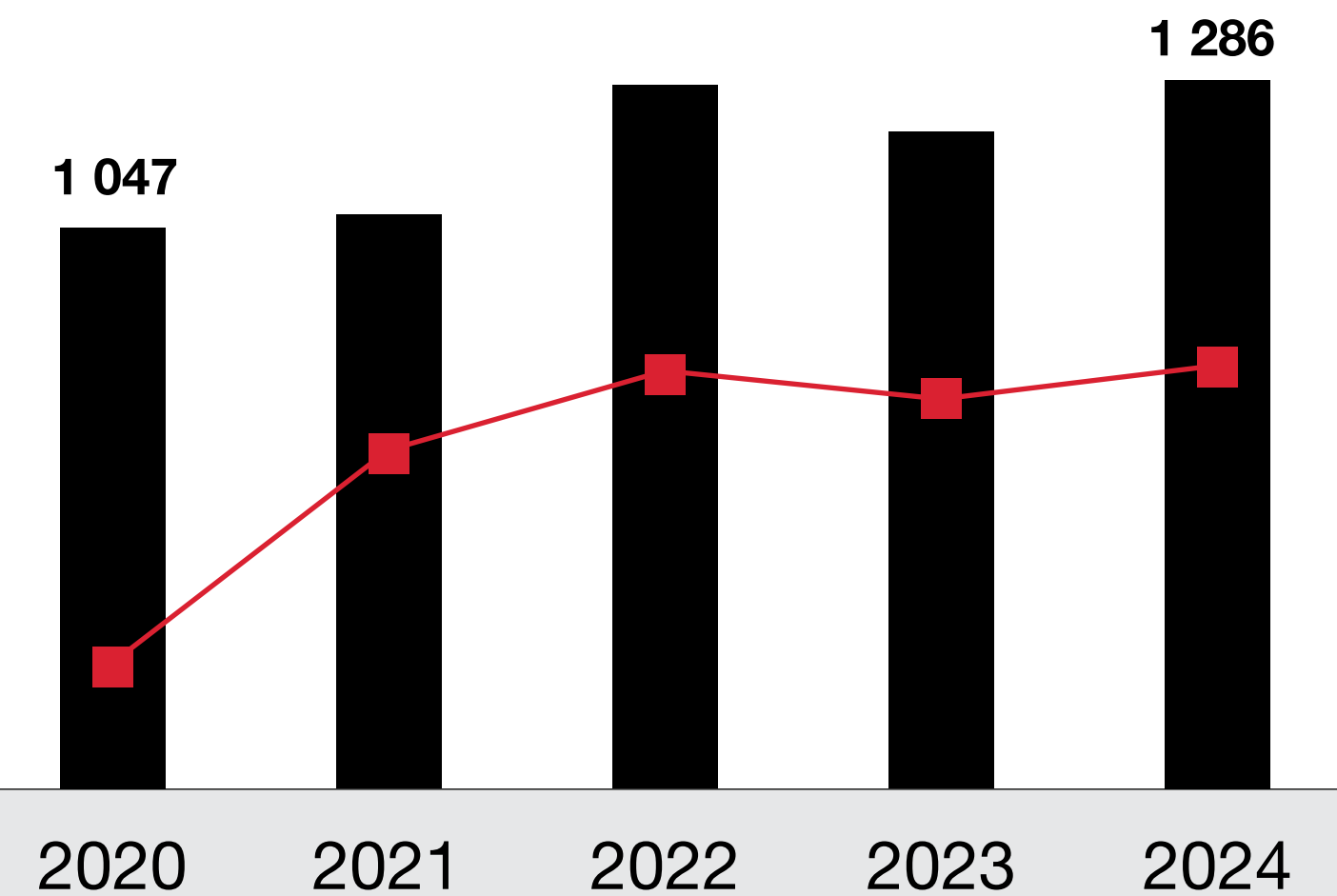
■ Retail sales    —■ Operating profit

## EBITDA AND PROFIT ATTRIBUTABLE TO SHAREHOLDERS (R'M)



■ EBITDA    ■ Profit attributable to shareholders

## HEADLINE EARNINGS AND DIVIDEND PER SHARE



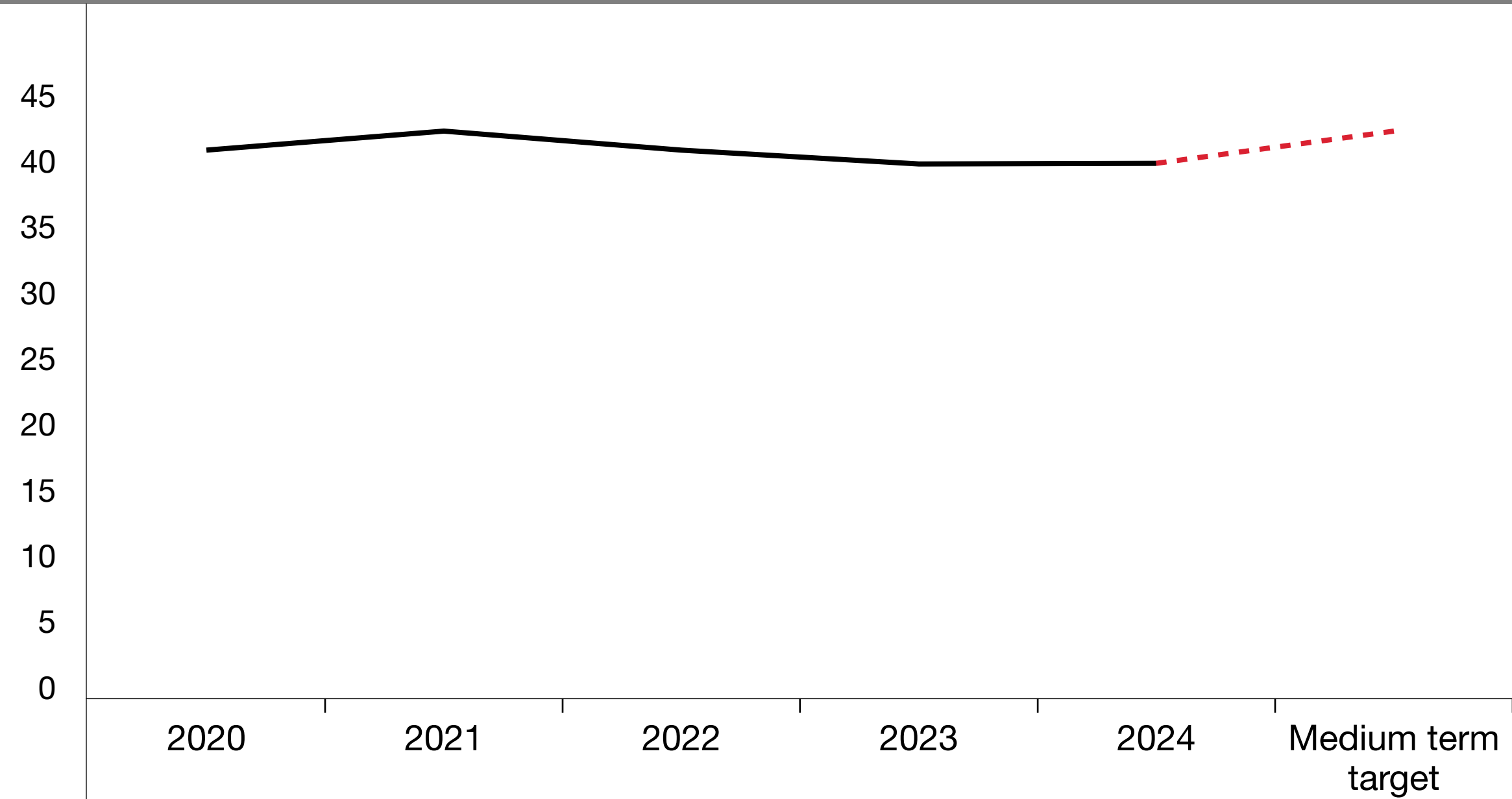
■ HEPS (cents per share)    —■ DPS (cents per share)

## SIGNIFICANT INCREASE IN THE SIZE OF THE BUSINESS THROUGH STRATEGIC ACQUISITIONS AND ORGANIC GROWTH

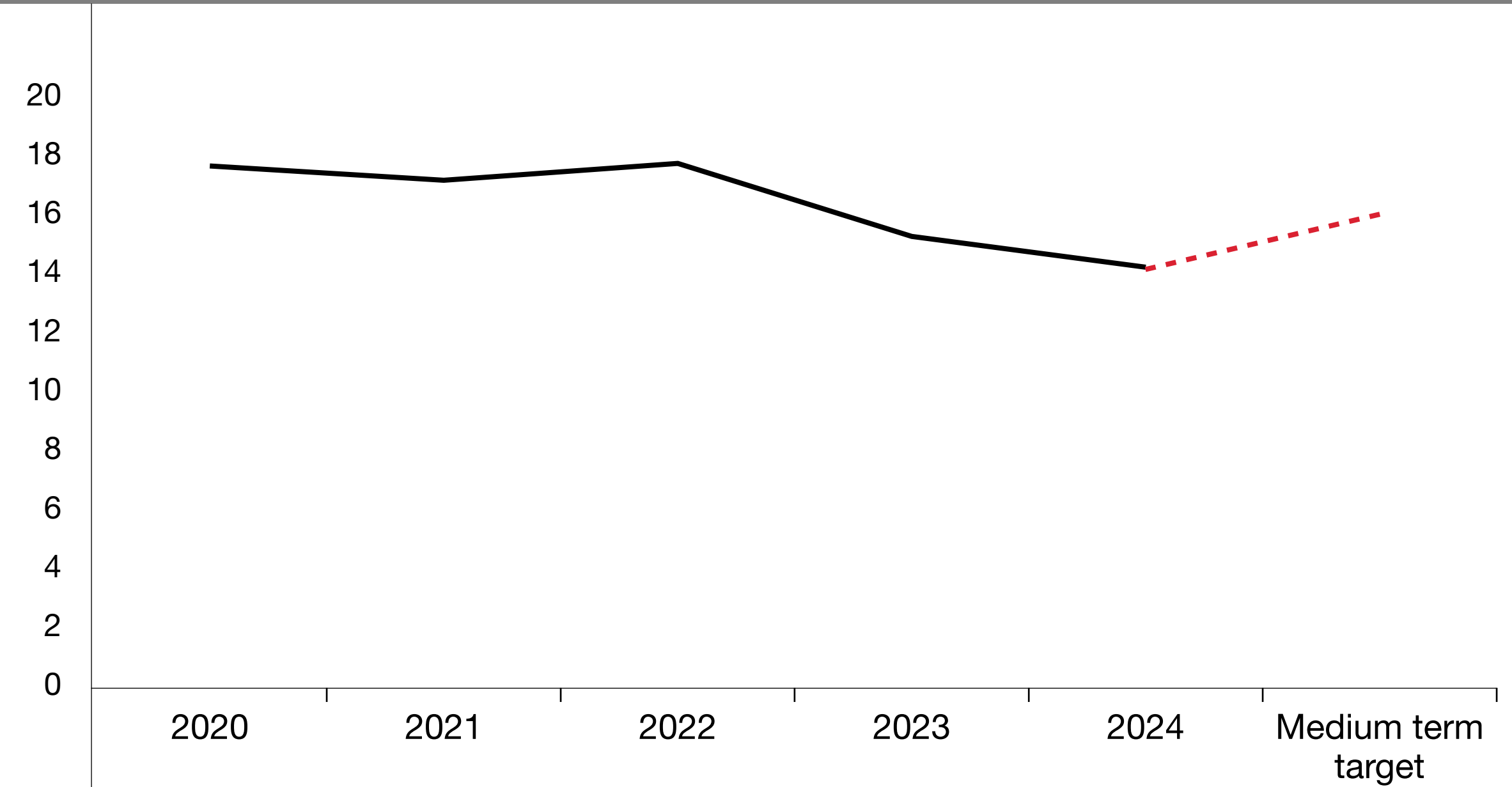
- Power Fashion acquired 1 April 2021
- Mr Price Cellular launched 22 November 2021
- Yuppiechef acquired 1 August 2021
- Mr Price Kids launched 1 October 2023
- Studio 88 acquired 4 October 2022



### GP MARGIN (%)



### OPERATING MARGIN (%)



## LOWER GROUP MARGINS

- High growth, lower margin acquisitions
- Economic headwinds
- Higher cost of doing business in SA:
  - Back-up power generation
  - Wage increases
  - Increased security costs
  - Increased logistics costs
- Disruptive operating environment

Margins reached cyclical low in FY2024, expected to recover off this base to sustainable target levels



## ECONOMIC AND CONSUMER CYCLES EXPECTED TO TURN, SUPPORTING HIGHER COMP SALES AND VOLUMES

### GP margin

- Acquisitions:
  - Growth of private label assortment (S88 & YC)
  - Increased contribution of opportunistic buying (PF)
  - Efficiencies achieved through integration
- Maintain margins in target range through focused merchandise execution, markdown management (apparel and homeware segments)
- Sourcing benefits from segmental procurement

### Operating margin

- Disciplined cost management
  - Expenses/RSOI medium-term target <28%
- Anticipated cost of doing business lowering
  - Cooling inflation to have knock-on effects
- Extraction of efficiencies and synergies

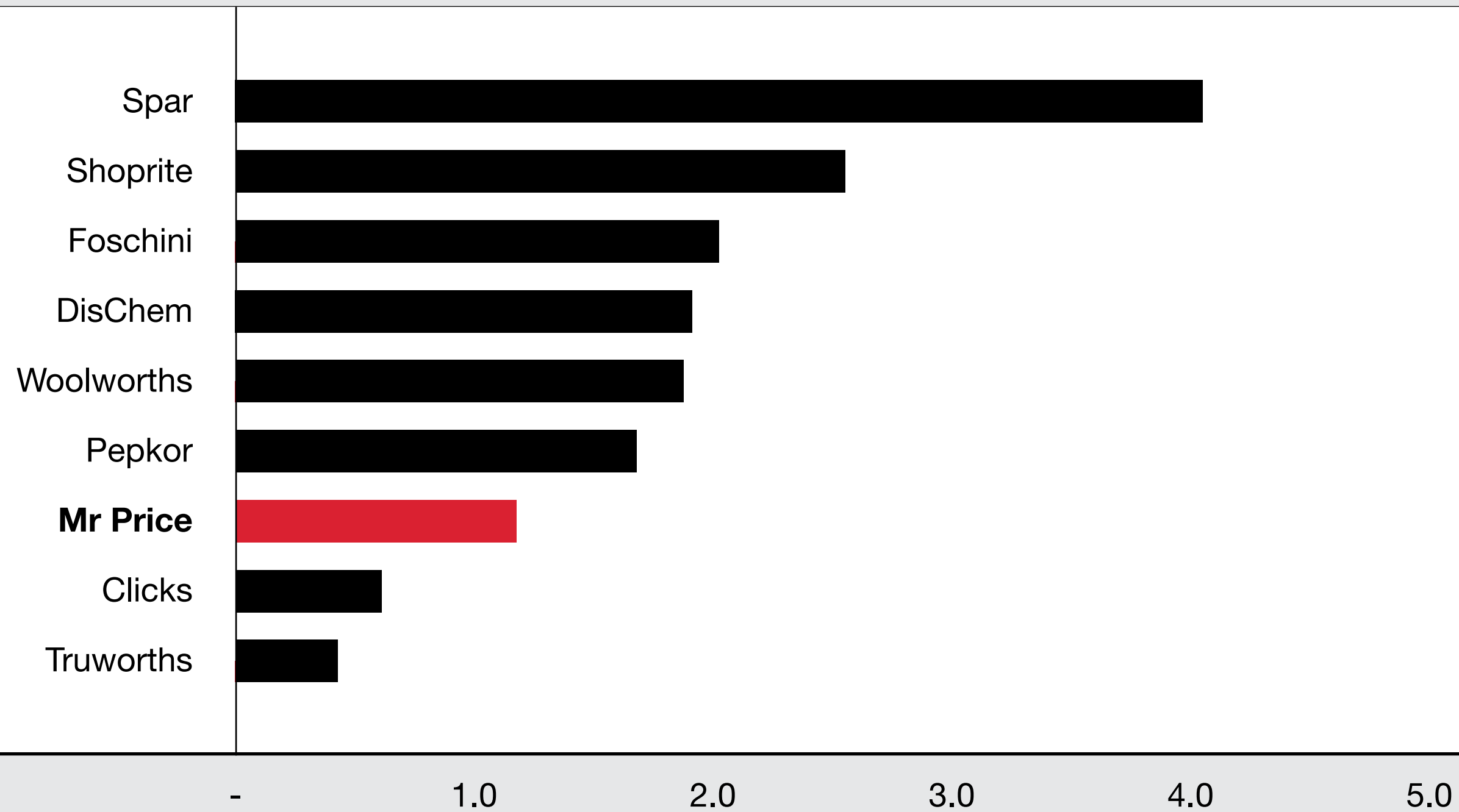


# Defensive operating model

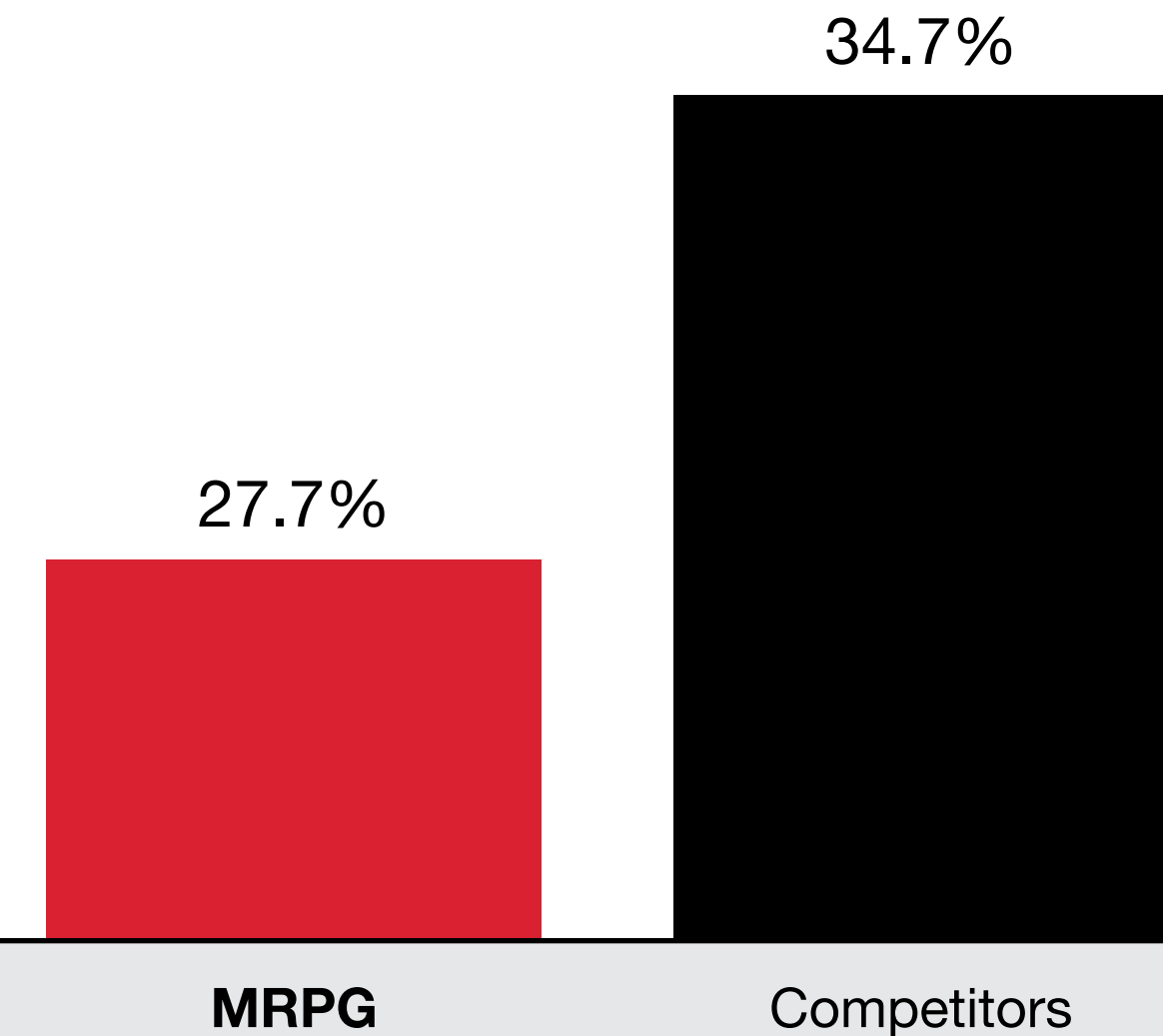


EVERY DECISION MADE EVERY DAY MUST SUPPORT OUR VALUE ROOTS

GROSS DEBT (LEASES AND LOANS) TO EBITDA



5-YEAR AVG. TOTAL EXPENSES AS A % OF SALES

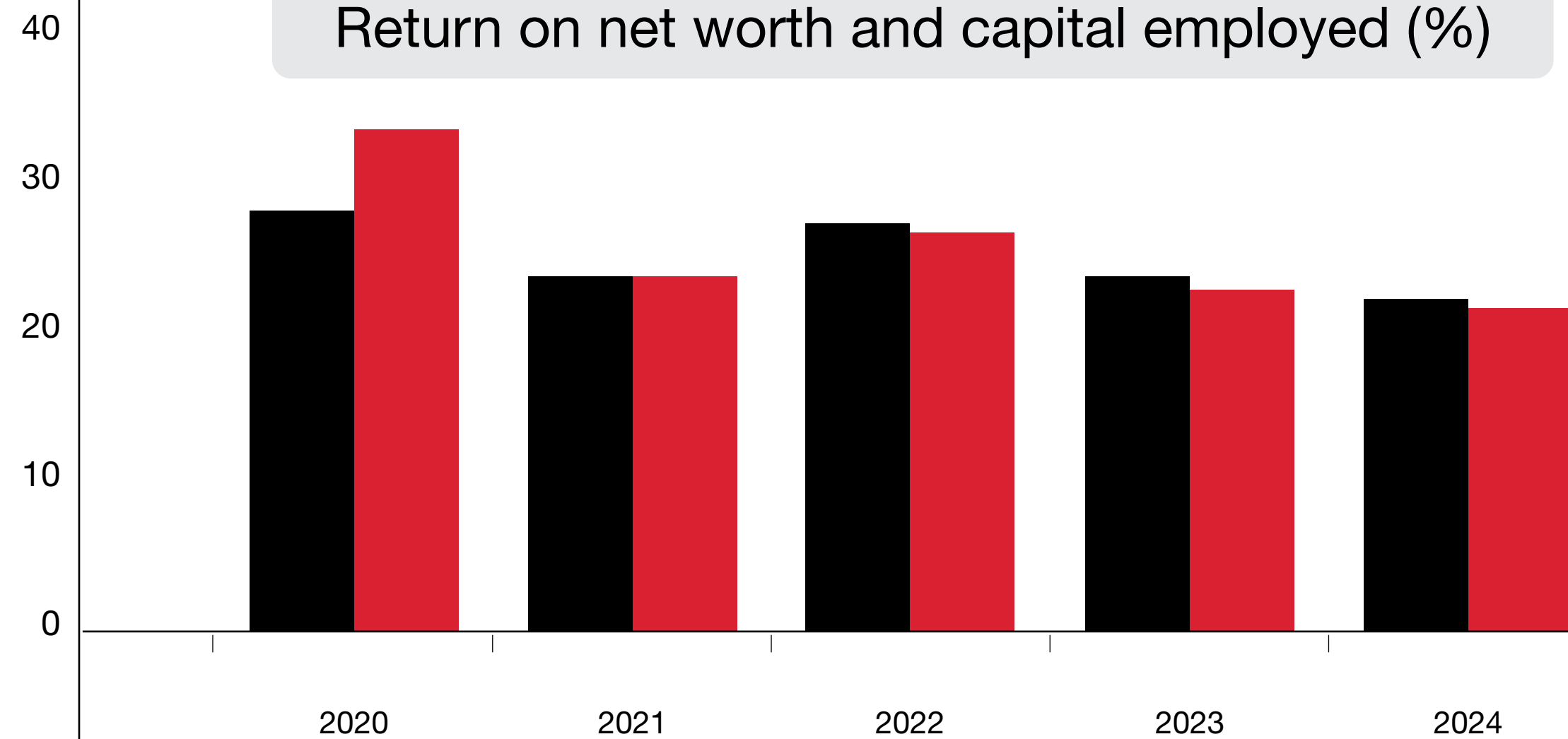


August 2023 - 2024

WE TAILOR COSTS TO TRADING CONDITIONS – CAN'T SAVE OUR WAY TO THE FUTURE

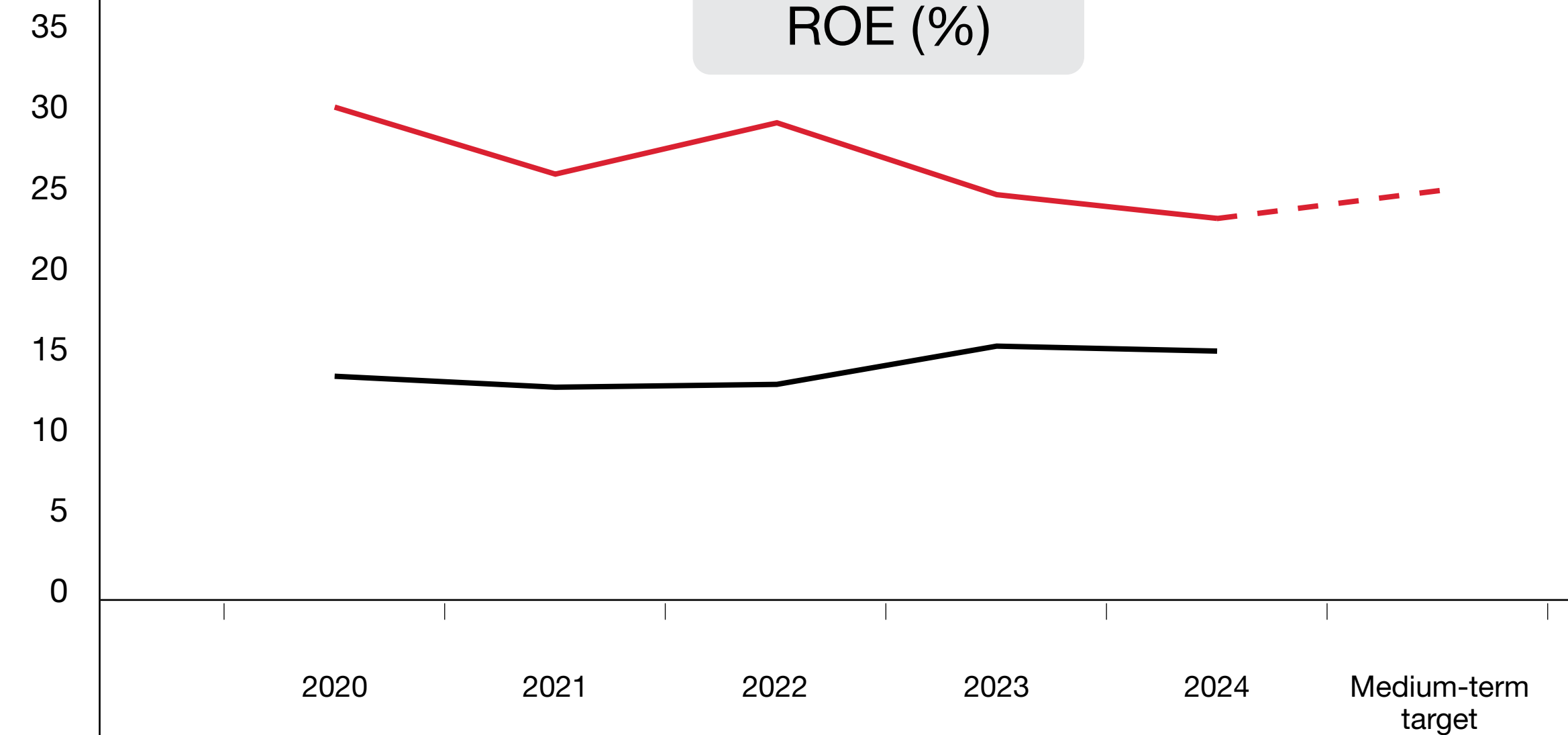


Return on net worth and capital employed (%)



Return on net worth      Return on capital employed

ROE (%)



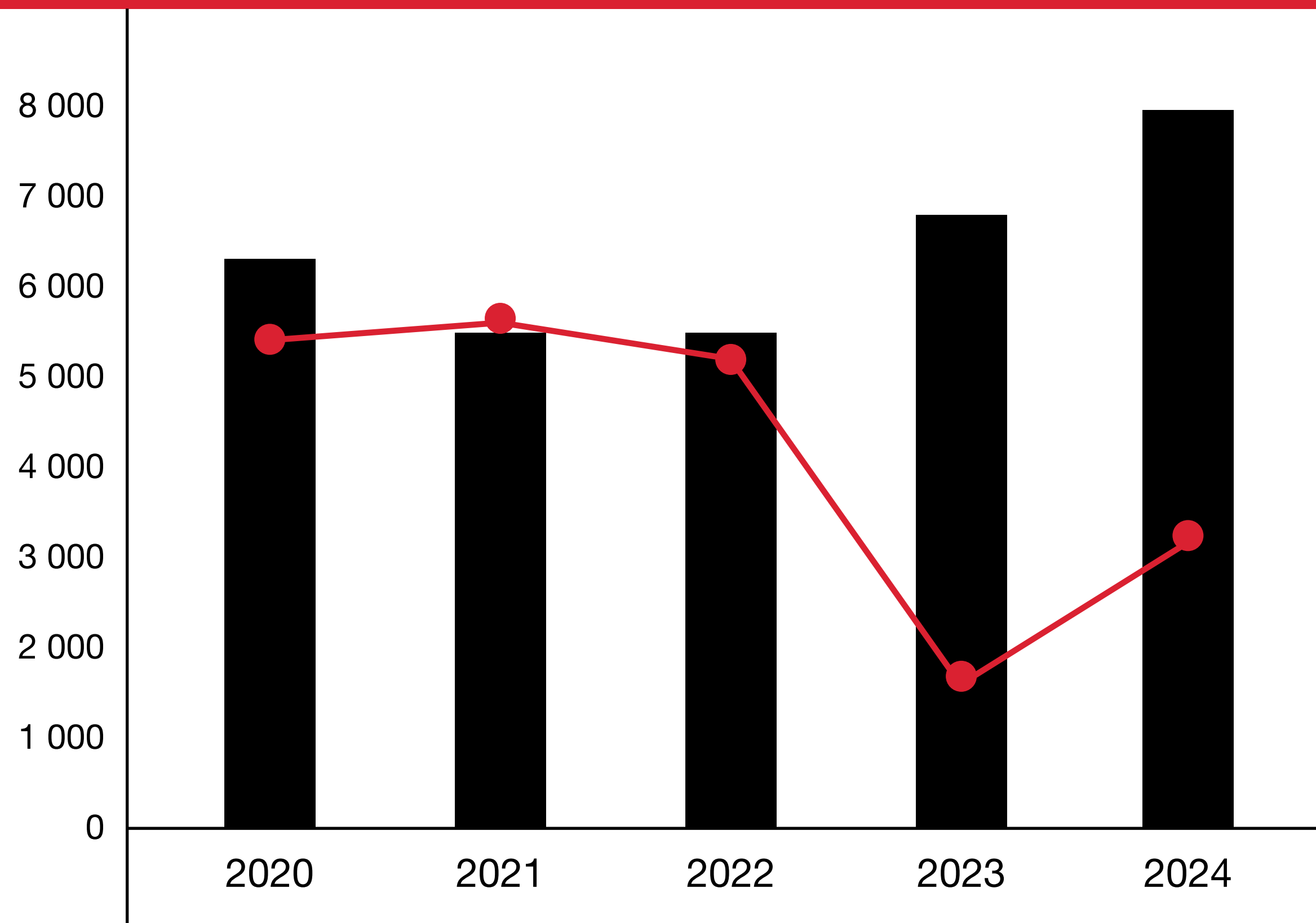
ROE      WACC

- Returns profile has changed due to the impact of:
  - IFRS 16 leases
  - Acquired businesses
    - o More capital intensive
    - o Lower margin than group
- ROE 5-year average: MRPG 26.7% | Competitors 22.6%
- WACC 5-year average: MRPG 14.6%
- Detailed plans by division to increase returns towards targets





## CASH GENERATED (R' MILLION)



Net cash generated from operations      Cash at year end

### Cash last 5 years

- Cash generated\*: R21.0bn
- Dividends paid: R8.6bn
- Acquisitions: R5.3bn
- Store investments: R2.2bn
- Technology and logistics: R1.0bn
- Cash at year end FY2024: R2.8bn



**STRONG CASH GENERATION FROM TRADE (88.9% OF SALES ARE CASH) | CASH CONVERSION RATIO OF 86.9%**



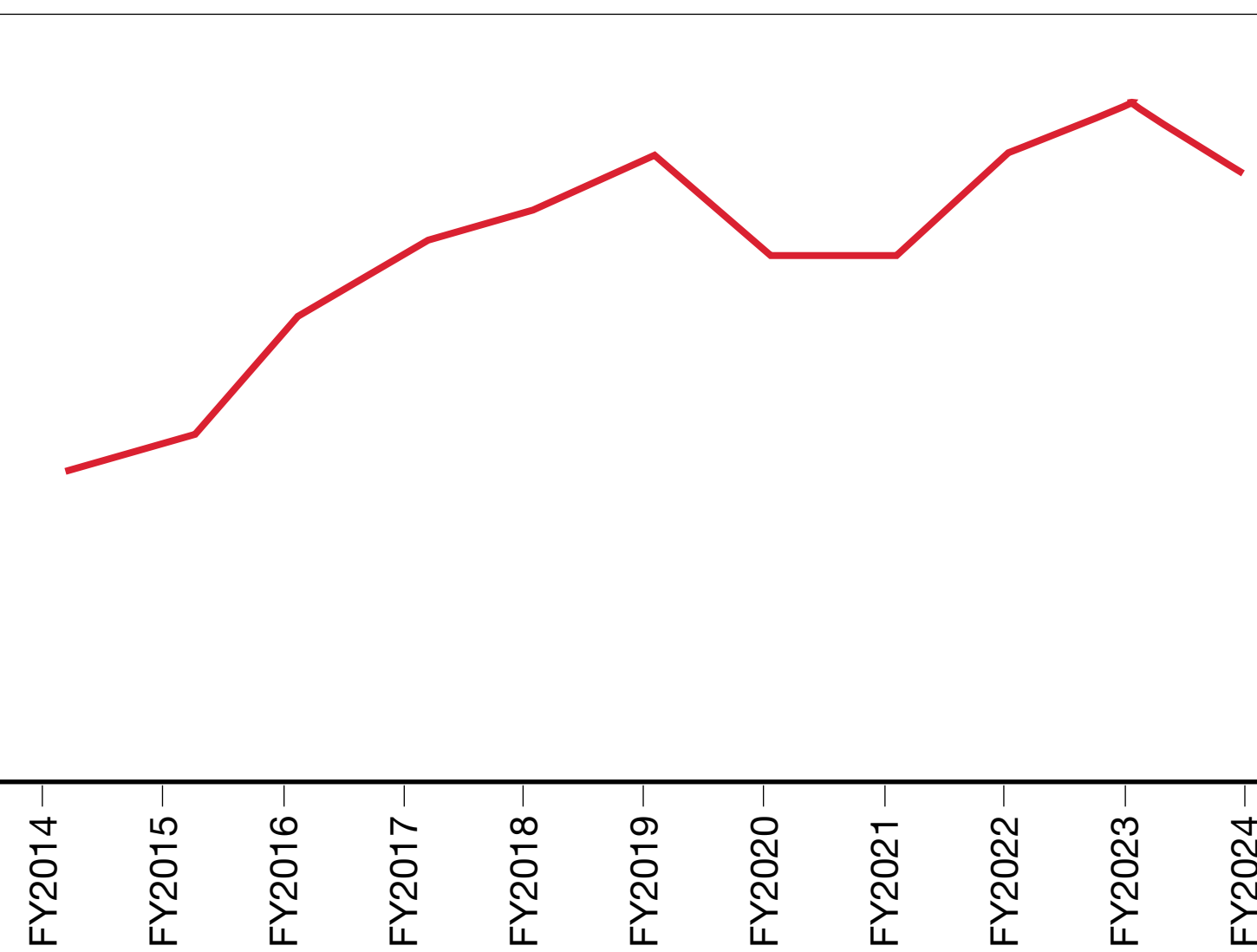


## INVENTORY

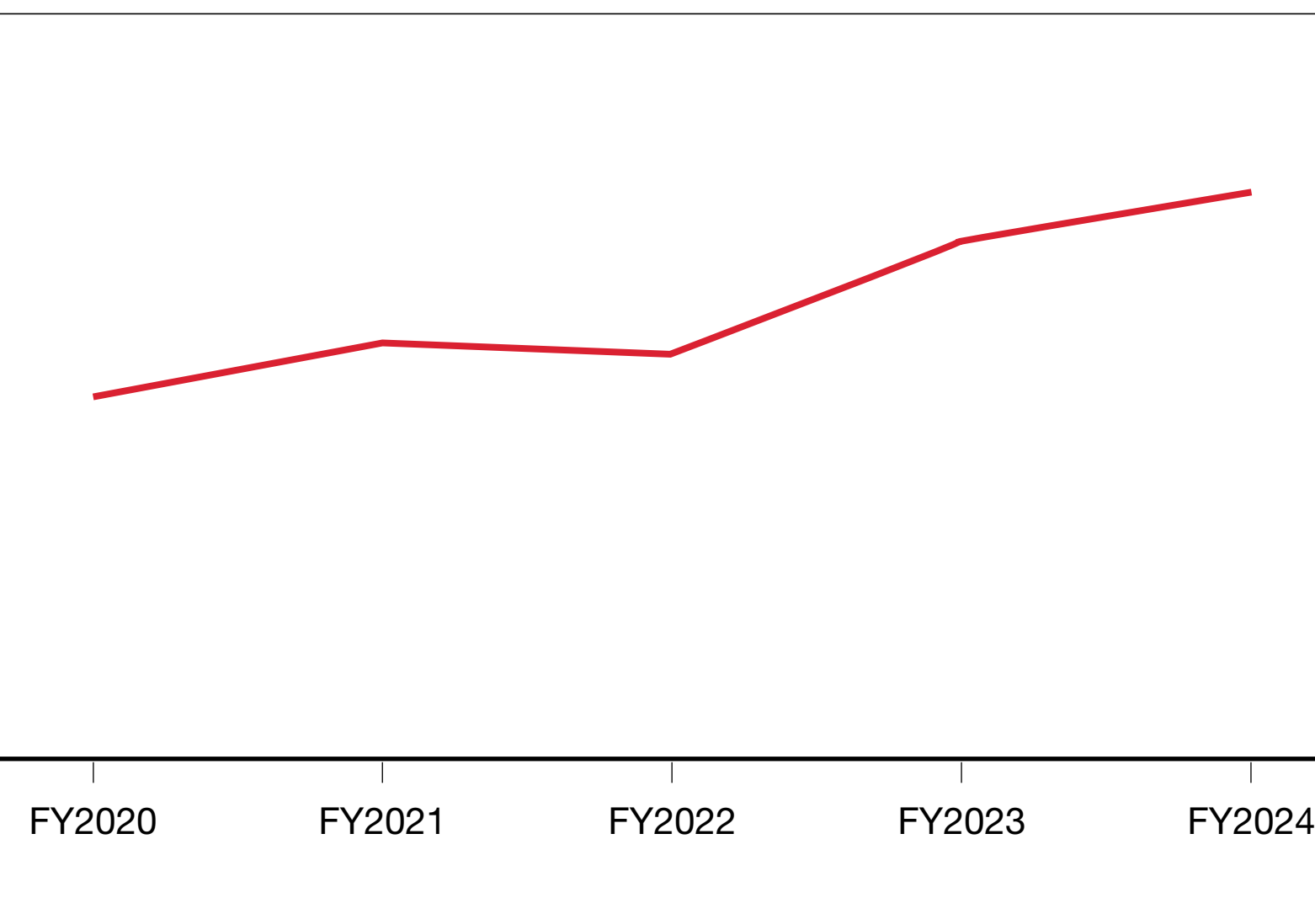
## OPPORTUNITY FOR GREATER OPERATIONAL EFFICIENCY

- Strong focus on inventory management
- Improved stock turn – currently 3.1 (3.7 excluding acquisitions) on better execution
- Reduced inventory lead times through increased local sourcing and strategic partnerships
- Improvement in national logistics infrastructure reducing inventory lead time buffers

### SECTOR INVENTORY DAYS



### MR PRICE GROUP INVENTORY DAYS



Source: Company, IML estimates



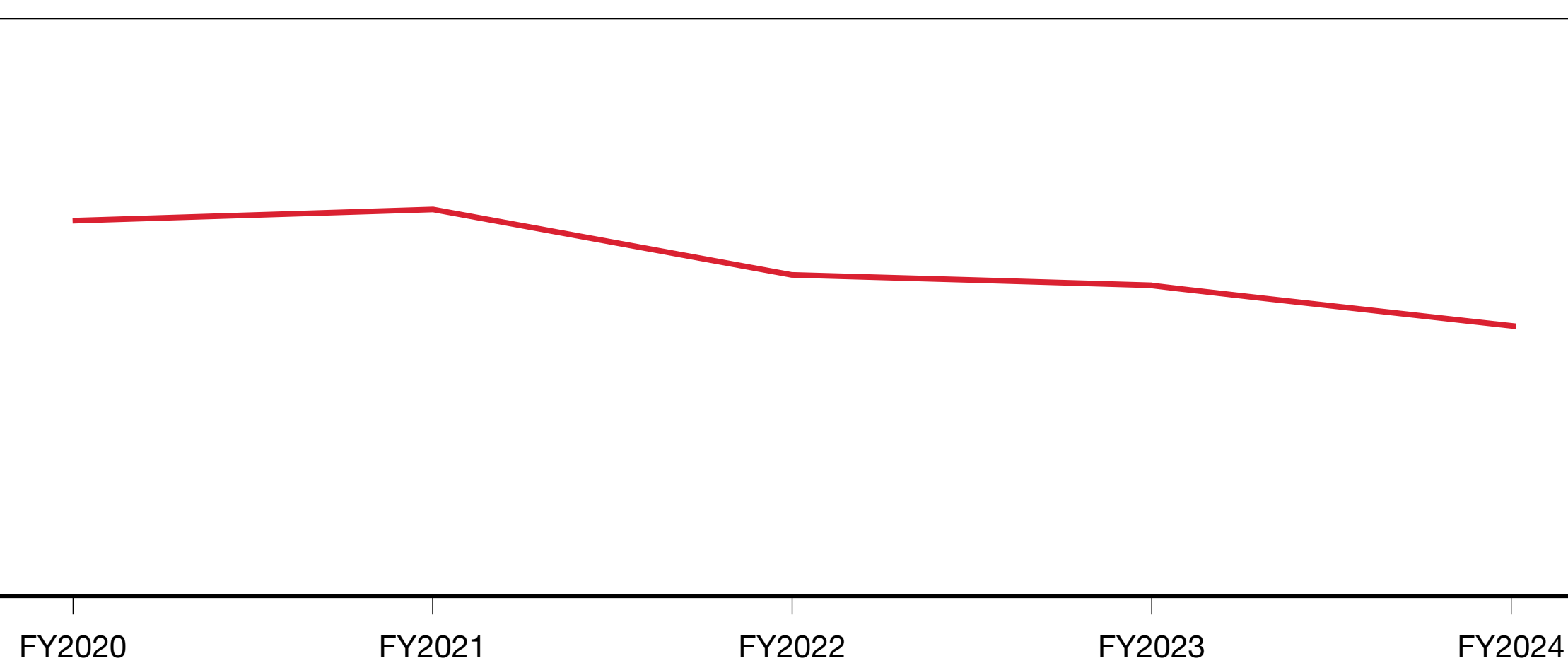


## DEBTOR'S BOOK

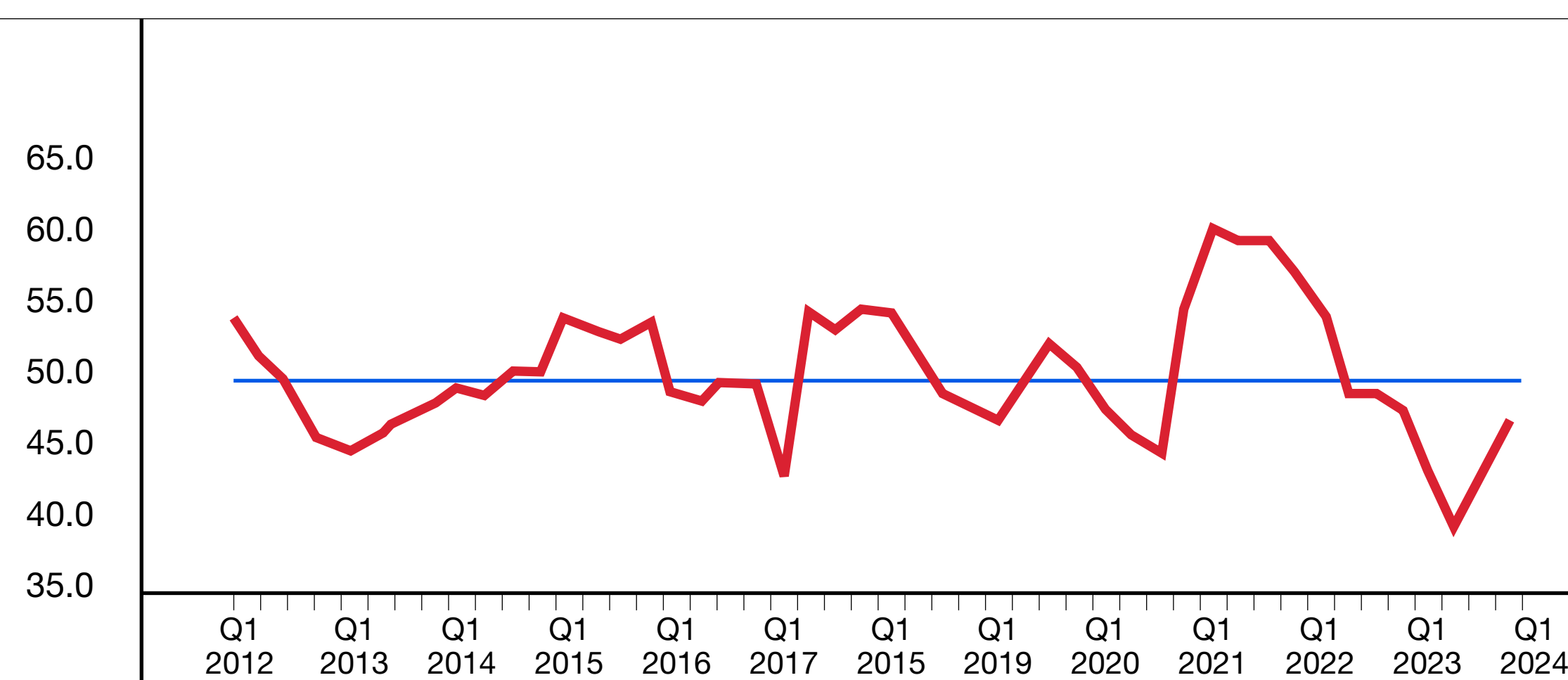
CREDIT GRANTING CRITERIA REMAINS RESPONSIBLE WITH OPPORTUNITY TO GROW IN A BETTER CYCLE

- Focus on healthy debtors' book growth
- Maintaining strong collections, lowering avg debtors' days
- Improving contribution of good paying customers in >12 months on book
- Focused collections strategy at stores including new digital channels
- Transunion consumer credit index moving back towards neutral

### MR PRICE GROUP DEBTORS DAYS



### TRANSUNION SA CONSUMER CREDIT INDEX



Source: Transunion



## CREDITORS

SUPPLY CHAIN FINANCE ALLOWS EXTENDED TERMS FOR PAYMENT TO THE GROUP, ENABLING SUPPLIERS TO ACCESS PAYMENT EARLIER

- High component of local suppliers on the programme, with opportunity to extend to international
- In FY2024 to date, R1.5bn working capital benefit unlocked
- Conversion of all suppliers onto the supply chain finance programme to unlock additional value of R900m in the next two years

MR PRICE GROUP SUPPLIER DAYS



# Medium-term targets

- Reflect the new shape of the business and consider all divisions in the current portfolio
- Targets are realistic and not falsely optimistic



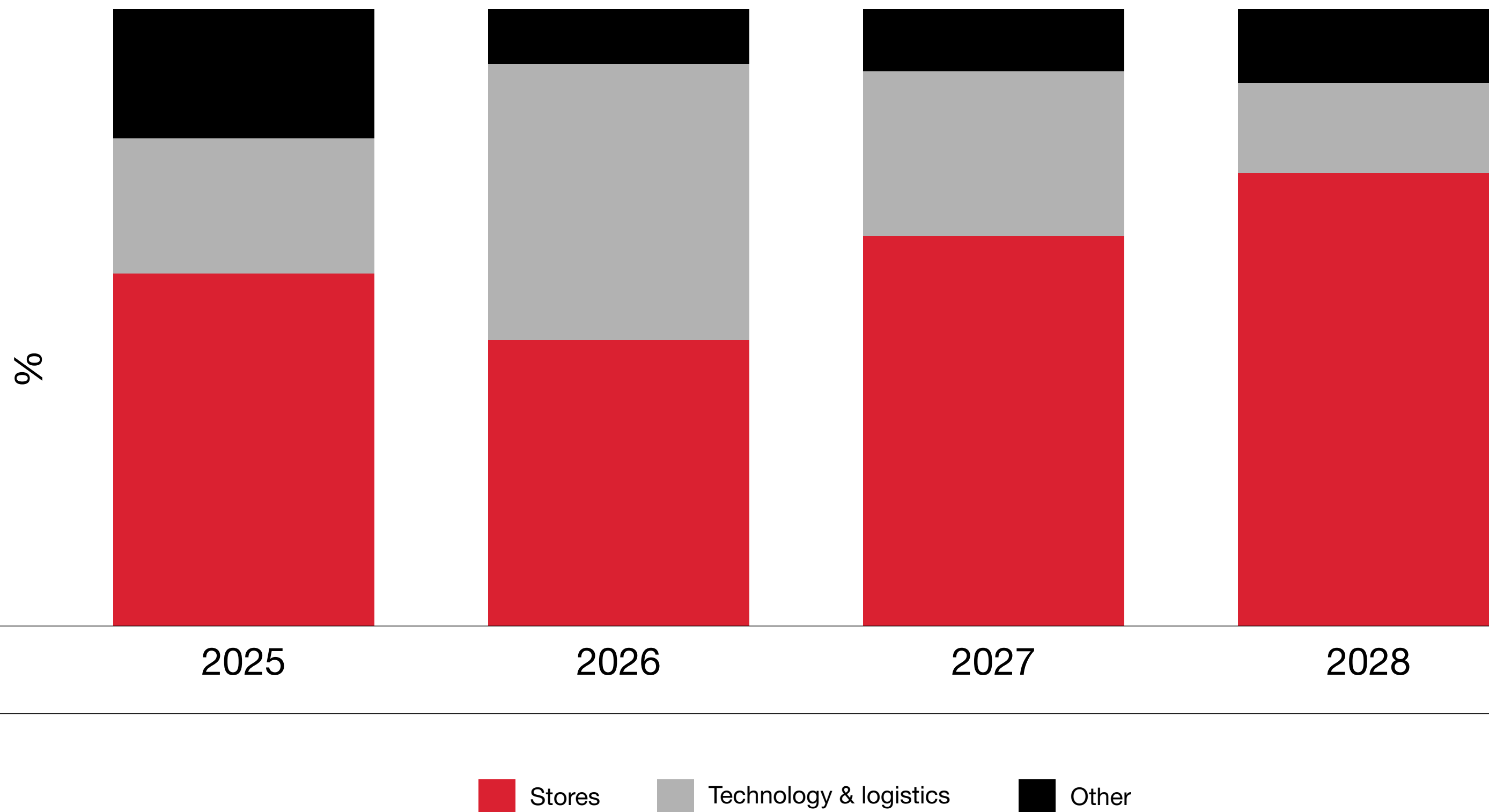
Key operating metrics	FY2024	Medium-term target
<b>RETURNS</b>		
ROE	23.3%	24% - 26%
ROA	11.7%	12% - 14%
Dividend payout ratio	63.0%	63.0%
<b>CASH GENERATION</b>		
Cash conversion ratio	86.9%	>80.0%
Stock turn	3.1x	>4.0x
<b>PROFITABILITY</b>		
Gross profit	39.7%	40% - 42%
Expenses/RSOI*	27.3%	<28%
Operating margin	14.0%	13% -15%
<b>GEARING</b>		
Debt: Equity^	0.93	Accretion considered



# Capex outlook



## EXPECTED FUTURE ALLOCATION OF CAPITAL



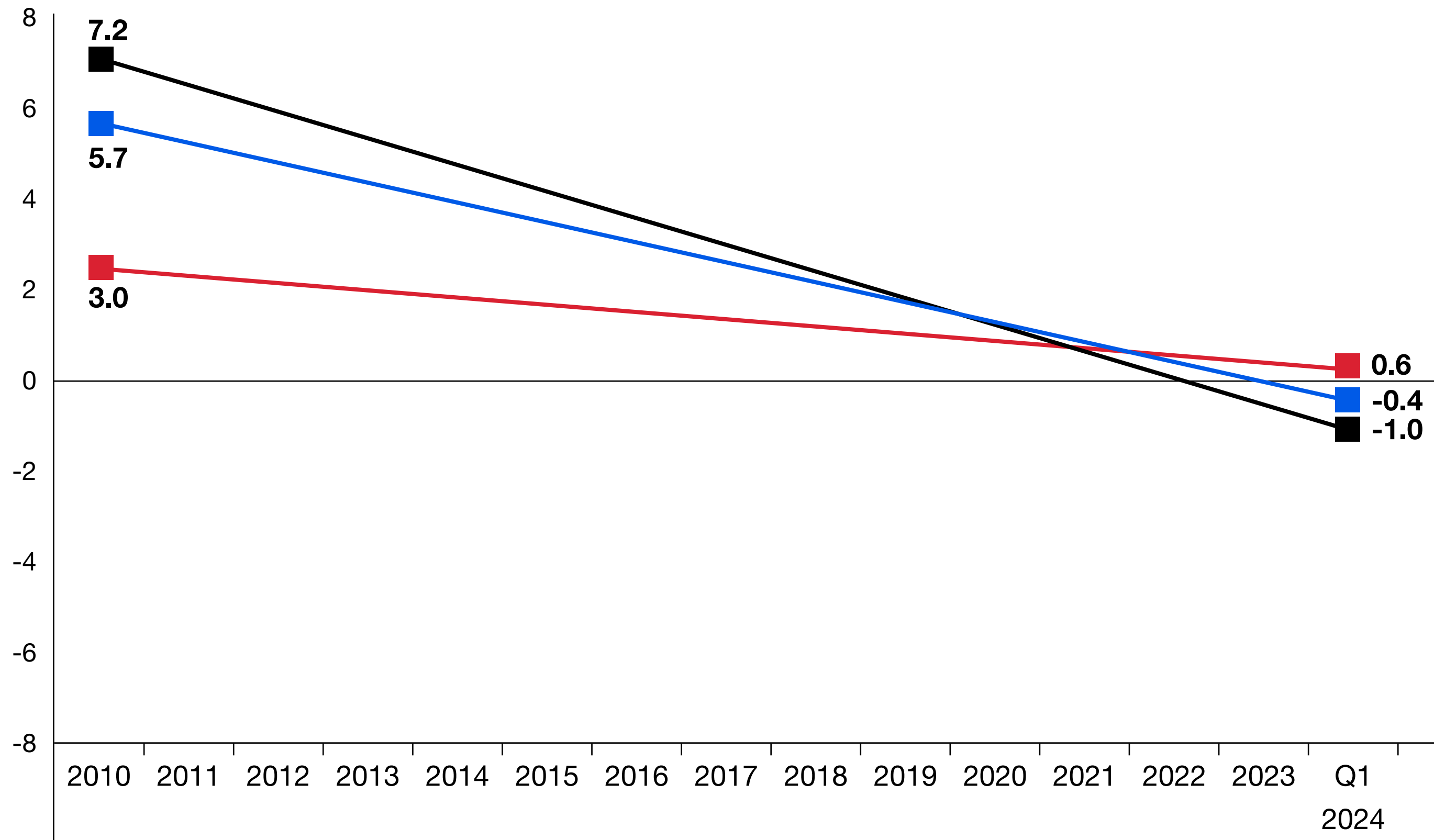
CUMULATIVE CAPEX FY2025 - FY2028: ~ R5.5BN



Dilutionary impact on returns and metrics was considered and expected as the group strategically invested to broaden its reach and to support long-term sustainable returns

**Positioned for  
a changing  
economic  
cycle**





## Forecast

GROWTH RATES (%)	2023	2024F	2025F
GDP	0.7	1.1	2.0
Household expenditure	0.7	0.5	1.9
Real wage growth	0.4	-1.0	1.7

- Higher GDP growth environment likely to support improved real wage growth and household expenditure growth, with positive impacts for the sector



### TRENDLINE (%)

— Real wage growth      — Household consumer expenditure growth      — GDP growth

### GROWTH (%)

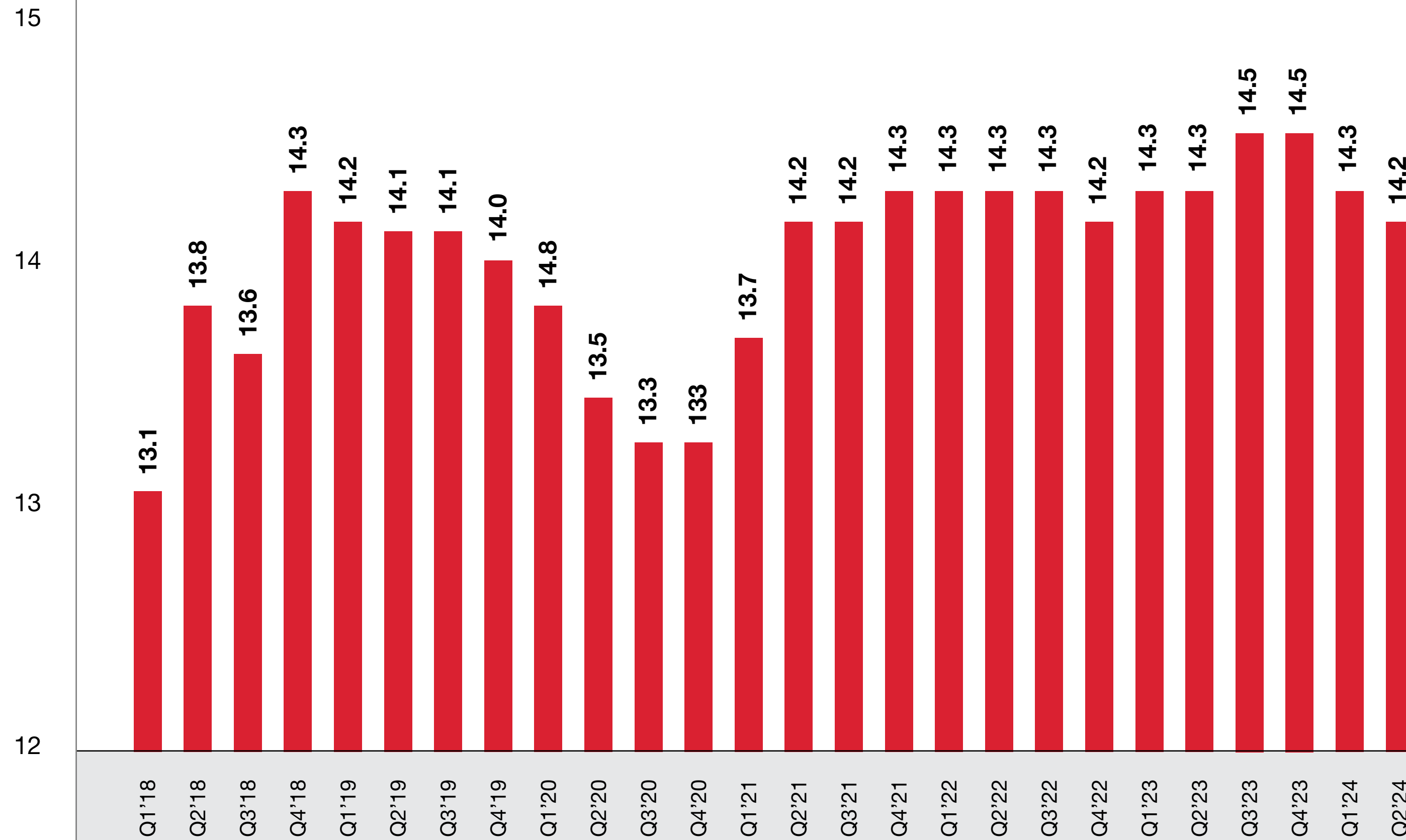
■ Real wage growth      ■ Household consumer expenditure growth      ■ GDP growth





## DESPITE MACRO CYCLES PROPORTIONAL SPEND ON FASHION & HOMEWARE TENDS TO BE VERY CONSISTENT

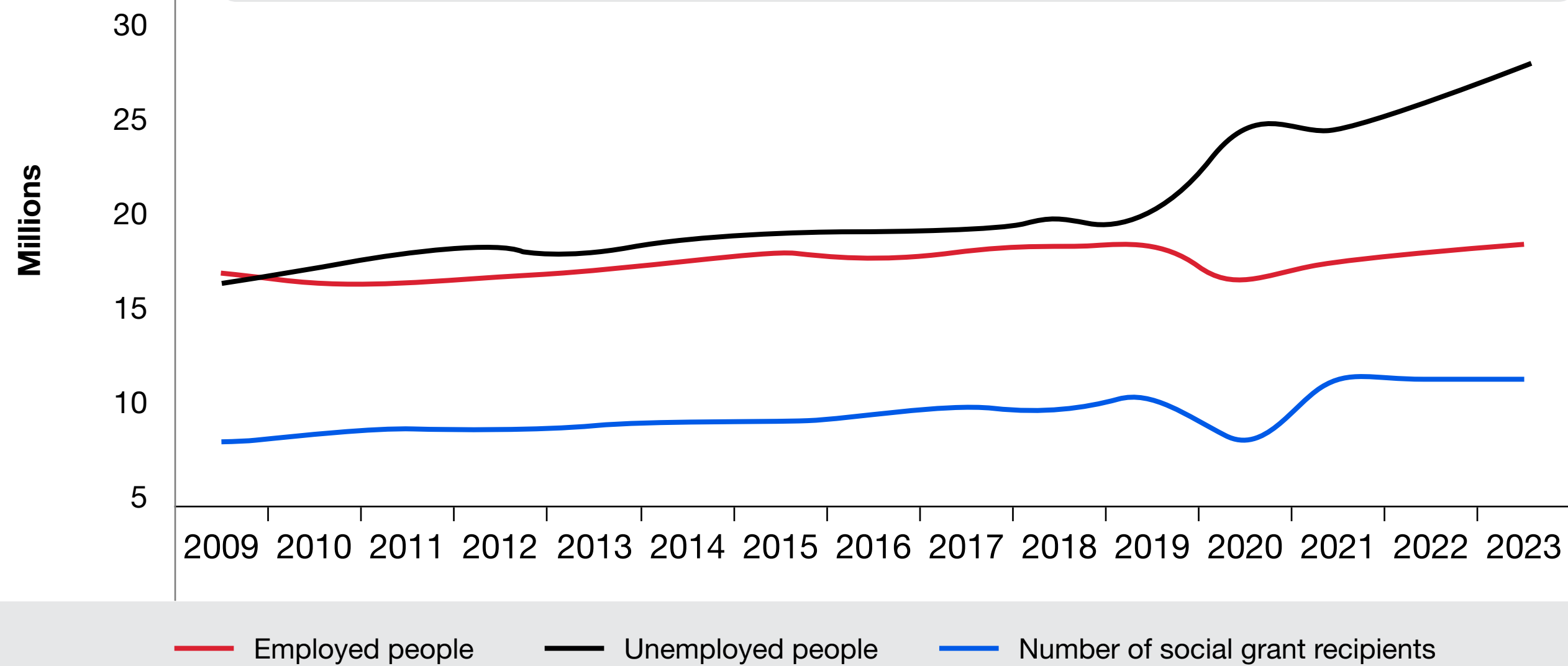
Total apparel & footwear wallet share (% of total retail sales)





- 40% of individuals and 50% of SA households are social grant beneficiaries
- Recent macro conditions increased reliance on grants
  - Has ensured a sustained income source to households
  - Often supplemented with other forms of income (side-hustles, etc)
- Social grants accounted for 17% of total retail sales in 2023
- Social grants support the informal sector valued at R750bn

Surge in number of grant beneficiaries since COVID-19



# Customer profile

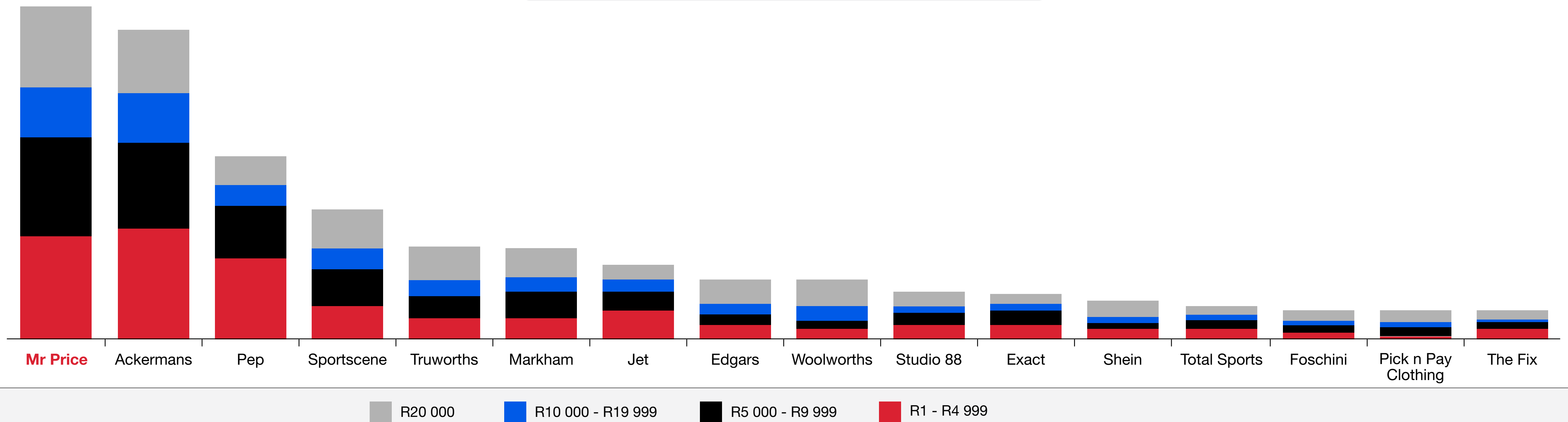


Most shopped apparel retailer with a diverse customer income profile



3.2m shoppers

SA apparel unique shopper profile by income



# The cycle is turning

# Anticipated tailwinds



- Moderating inflation across markets
- Anticipation of at least 100bps rate cuts in 2024/25
- Reduction of loadshedding
- Two-pot system implementation
- Positive consumer and business sentiment
- Strong currency gains, Rand anticipated to further strengthen
- Higher GDP growth and increase in real disposable income beneficial to discretionary retail sector

## MR PRICE GROUP IS WELL PLACED TO BENEFIT

### Correlation of discretionary sales growth with household disposable income

