mr price group limited

REVIEWED FINAL RESULTS

FOR THE 52 WEEKS ENDED 28 MARCH 2020 AND TRADING UPDATE

This short-form announcement is the responsibility of the Mr Price Group Limited board of directors and is a summary of the information in the detailed results announcement available on https://senspdf.jse.co.za/documents/2020/JSE/ISSE/MRPE/25062020.pdf and https://www.mrpricegroup.com and does not contain full or complete details. These documents and the results presentation to the investment community are available on the group's website at www.mrpricegroup.com and copies may be requested from the company secretary (jcheadle@mrpg.com or +27 31 310 8000) at the company's registered office. Any investment decision in relation to the company's shares should be based on the full announcement.

SUMMARY

Revenue	Operating profit	Total diluted HEPS	Adjusted normalised diluted HEPS	Free cashflow conversion	Return on equity
R23.0bn +2.1%	R4.0bn 0.0%	1 029.4c (9.9%)	1 089.3c (4.6%)	133.3%	30.0%
	Normalised: (9.2%)	Normalised: (7.8%)			

COMMENTARY

Increasing sales momentum and market share gain in H2 and a strong performance post the COVID-19 lockdown

Due to the COVID-19 pandemic, a national state of disaster was announced by government on 15 March 2020 and a national lockdown was implemented from 27 March 2020 until 30 April 2020. The enforcement of the lockdown period has been guided by varying levels of restrictions in order to encourage social distancing and to slow the spread of the virus, which has created unprecedented operational disruption and significant uncertainty. The group has taken additional impairment provisions on stock, its debtors' book and insurance claims. Its associates and stakeholders have worked tirelessly to minimise the impact on performance and to safeguard the future of the business.

For the 52 weeks ended 28 March 2020, basic earnings per share decreased 9.5% to 1 042.4c, headline earnings per share (HEPS) declined 10.4% to 1 047.0c and diluted HEPS decreased 9.9% to 1 029.4c. Excluding the additional COVID-19 provisions detailed above and the effects of the transition to IFRS 16, the adjusted normalised diluted headline earnings per share decreased by 4.6% to 1 089.3c. On this same basis, H2 diluted HEPS of 641.8c were 2.7% lower than the corresponding period last year, a meaningful improvement from H1 despite the disruption in the last 2 weeks of trade.

The group reported improved sales momentum and market share growth in H2 and a strong performance post the COVID-19 lockdown. Total revenue from continuing operations (discontinued operations in Poland and Australia) grew 2.1% to R23.0bn with retail sales increasing by 1.5% (comparable stores -1.4%) to R21.2bn. Cash sales including cellular grew by 2.4% and constitute 84.3% of total sales. Annual retail sales excluding the last two weeks of March 2020 grew 2.7%. In H2 sales grew 3.7% (Q3 +3.5% and Q4 excluding the last two weeks of March 2020 +4.2%) and market share increased by 0.2%, led by its largest division Mr Price Apparel, whose previously stated turnaround initiatives gained traction. This improved performance was achieved in a highly promotional trading environment which was further disrupted by regular electricity load shedding throughout most of the period. In its COVID-19 update issued through the Stock Exchange News Service (SENS) on 26 March 2020, the group reported sales growth of 8.6% in the first two weeks of March 2020, however in the last two weeks, following the announcement of the national lockdown on 15 March 2020, sales growth declined 32.9% as consumers prioritised essential items.

Post Year End Trading update – 1 April to 20 June 2020

In the month of April 2020, all the group's South African stores were closed and retail sales were down 89.1% off a base of R1.9bn in April 2019.

Following the relaxation of lockdown restrictions to level 4 from 1 May 2020, high levels of pent up consumer demand were experienced. Retail sales for the period 1 May 2020 – 20 June 2020 were up 12.0% (Mr Price Apparel +16.1%, Mr Price Sport +7.7%, Miladys -13.8%, Mr Price Home +1.3% and Sheet Street +15.2%). Pent up demand for apparel in May shifted to homewares in June, as lockdown restrictions on merchandise permitted to be sold were fully lifted.

Consumers continue to favour transacting in cash. In May and June combined, cash sales increased 16.7% while credit sales declined 9.4%. The group anticipates that the credit landscape will deteriorate further positioning it well to capture market share. Cash sales contributed 85.6% of total sales in comparison to 82.2% in the prior year.

Various factors over this period have led to unusually high levels of consumer demand: the need for winter & kids' merchandise, increased SASSA grant payments, debt payment holidays, TERS claims and constrained spending under restriction level 4 and 5. Negative GDP and retail sales growth outlooks (together with rising unemployment) is providing caution that current sales growth levels may be temporary. Therefore, the order book remains carefully managed and stock is expected to decrease by double digits level by the end of H1. The group's diversified supply chain strategy will enable it to buy into stock, should trading conditions improve.

Online sales grew strongly and were up 90.1% over the period. Mr Price Apparel & Mr Price Sport sales growth exceeded 100%. It is still to be seen whether this is a permanent step change in consumer behaviour. The group's historic and ongoing investment into its omni-channel offering has positioned it to take advantage of this trend. In addition to the changing online consumer behaviour, a shift in store location has been notable. Super regional centres lagged smaller formats due to reduced trading hours and customers preferring to shop at more convenient locations. The combination of strong online sales and store locations which support customer's needs positions the group well as a leading omni-channel retailer in this changing landscape.

As is common with the rest of the retail sector, a high proportion of credit account payments are made in store. Therefore, closure of the store base materially impacted collections during lockdown and although the monthly trend is improving, they were lower than the prior year in May and June combined.

COVID-19

The current and forecast spread of the virus in South Africa remains a concern given its impact on society due to loss of life and the devastating financial impact on businesses and citizens. It is not possible at this stage to quantify the economic impact on the group, but ongoing operational disruptions and future uncertainty remain significant challenges.

The group anticipates an extremely constrained consumer environment. As a result, ~R300m in budgeted expense reduction has been identified as part of group wide austerity activities and cash preservation initiatives have been undertaken, including a ~23% reduction in budgeted capex for FY2021. No final dividend has been declared in order to preserve cash considering the uncertainty and future potential disruption, resulting in a decrease in annual dividends of 57.7%. The group experienced a decline in cash reserves of ~R2bn during the 5-week lockdown period. However, a strong, cash-based performance since then has ensured that the current financial position remains sound, with cash resources and a debt-free balance sheet available to support current business operations and future uncertainty.

Opportunities

Amid all the uncertainty, the group is fully focused on efficiency, effectiveness, innovation and growth. The way in which the balance sheet has historically been managed has put the group in this unique position. Plans are well advanced in identifying organic growth opportunities, which may be augmented by acquisitions.

On 20 May 2020 the group announced on SENS its intent to affect a capital raise of up to 10% of the company's ordinary issued shares, at an appropriate point in time and as market conditions permit. The board and management are of the view that anticipated market conditions will allow strong companies to capitalise on growth opportunities whilst maintaining financial flexibility. The group needs to be well positioned to respond with speed and agility to opportunities that may arise and seeks shareholders' support in its growth ambitions.

Partnership

Through this period, the group's focus has been primarily directed toward the safety of its associates and communicating with them frequently. All associates have been paid in full and thanks must be extended to them for the way in which they have pulled together, taken decisive action and acted in line with the group's values. Extensive safety measures have been implemented to protect customers and the group is grateful for their ongoing support and understanding during this very challenging time. The group's responsibilities extend to a wide set of stakeholders and the way in which it engages with each of them will shape its future. The test of any businesses' values takes place not when trade is buoyant, but rather when it is at its toughest, therefore partnership is a value that is required now more than ever before. Consumers will continue to be constrained and seek value and the group is confident that its robust cash-based, fashion value model and growth mindset, will enable it to gain further market share and emerge from this crisis fit for growth.

mr price | mr price home | mr price sport | mr price money | sheet street | MILADYS

Mr Price Group Limited Registration Number: 1933/004418/06 - Incorporated in the Republic of South Africa - ISIN: ZAE000200457 - JSE/A2X code: MRP

Directors SB Cohen* (Honorary chairman), NG Payne* (Chairman), MM Blair (CEO), MJ Stirton (CFO), N Abrams^, MJ Bowman*, M Chauke*, SA Ellis^, K Getz*, MR Johnston*, RM Motanyane-Welch*, D Naidoo*, B Niehaus*, * Non-executive director, ^ Alternate director

Sponsor Rand Merchant Bank (a division of FirstRand Bank Limited)

Transfer Secretaries Computershare Investor Services (Pty) Ltd