# mr price group limited

**Preliminary results**
For the 52 weeks ended 1 April 2023

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/2023/JSE/ISSE/MRPE/22062023.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 | EBITDA | Operating profit* |
|---|---|---|
| R32.9bn | R7.2bn | R4.9bn |
| +17.0% | +5.4% | (0.5%) |
| **HEPS** | **Cash resources** | **Final dividend per share** |
| 1 205.7c | R1.4bn | 447.1c |
| (6.0%) | Free of financing debt | 63.0% pay-out ratio |

*Profit before finance income and costs

## FINAL CASH DIVIDEND DECLARATION

A final dividend of 447.1 cents per share (357.68 cents net of dividend withholding tax of 20% for shareholders who are not exempt) was decalred. The dividend has been declared from income reserves. The salient dates for the dividend are as follows:

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|---|---|---|
| **Last date to trade 'cum' dividend** | Tuesday | 11 July 2023 |
| **Date trading commences 'ex' dividend** | Wednesday | 12 July 2023 |
| **Record date** | Friday | 14 July 2023 |
| **Payment date** | Monday | 17 July 2023 |

**Note:**
Shareholders may not dematerialise or rematerialise their share certificates between Wednesday, 12 July 2023 and Friday, 14 July 2023, both dates inclusive.

## COMMENTARY: Weathered multiple storms in the second half. Healthy balance sheet supports growth strategy

Mr Price today released its FY2023 year end results for the 52 weeks ended 1 April 2023 ("Period"). Group revenue was up 17.0% to R32.9bn aided by the inclusion of the acquisition of 70% of the Studio 88 Group (S88), effective 4 October 2022, which brought the total number of stores in the group to 2 702. The three recent acquisitions grew sales at double-digit levels and were earnings accretive to the group. A significant increase in loadshedding heavily impacted the most important festive trading months, resulting in an annual EBITDA increase of only 5.4% to R7.2bn.

Basic and headline earnings per share of 1 210.7 cents and 1 205.7 cents were down 6.8% and 6.0% respectively. Diluted headline earnings per share decreased 6.0% to 1 178.4 cents against a demanding base of 19.5%. A final dividend of 447.1 cents per share was declared, maintaining the 63% pay-out ratio.

### Loadshedding

The group's core trading divisions were materially impacted in H2, particularly over the key festive season period. At the end of September 2022, back-up power was only available in 37% of the core business (58% including acquisitions). As a value retailer, the group had been conservative in its back-up power investment, as the historical implementation of loadshedding was manageable until September 2022, after which date it escalated to unprecedented levels. The cumulative quantum of loadshedding from September 2022 to March 2023 was greater than the previous 15 years combined, resulting in an estimated annual loss of 318 000 trading hours, equivalent to approximately R1bn in revenue. The indirect impact of loadshedding on changing customer shopping behaviour and lower levels of consumer confidence, coupled with the need to markdown higher levels of unsold stock, additionally weighed on the group's H2 performance.

The group accelerated its energy continuity roll-out plans and an investment of R220m in back-up solutions will result in 100% store coverage by end June 2023. This has had a positive effect with a 5% average sales growth differential in stores pre vs post back-up power installation.

### Consumer and Competitor Environments

Rising inflation which averaged 6.9% in FY2023 (FY2022: 4.5%) and interest rate increases totalling 350 basis points, proved to be significant headwinds for consumers. Real wage growth decreased 3.3% in Q4 2022 and has particularly impacted the group's low-to-middle income, cost-conscious customer base. Consumers are under considerable pressure resulting in a diversion of spending towards non-discretionary items.

These conditions together with loadshedding, contributed to forecast sales calls not materialising across the sector, resulting in a highly promotional trading environment. Retailers actively managed the build-up of inventory levels and higher than anticipated markdowns across the industry cut into H2 gross margins. The heavy discounting in the market undermined the group's everyday low-price positioning and compromised its ability to showcase its relative value.

### Oracle ERP system

The implementation of a new Oracle Merchandise Enterprise Resource Planning system in April 2022 was a significant milestone for the group, de-risking its legacy, home-grown IT environment and building a firm platform for its growth ambitions. As noted in prior SENS announcements, post go-live stabilisation challenges were encountered, which are typical in such large company-wide installations and resulted in disruption and significant distraction to merchant activities. An internal diagnostic performed by management revealed that the system cut over impacted the group's competitive advantage of in-season trade and the execution of key sales, stock and margin management planning activities over the year. The project was successfully closed on 15 March 2023.

### Results summary

Group retail sales grew 18.0% to R31.5bn (comparable stores decreased 3.4%). Excluding S88 retail sales grew 2.1% but decreased 0.9% in H2 FY2023 due to the above detailed factors. Other income decreased 1.0% to R1.2bn, impacted by the insurance proceeds in the prior period predominantly from the civil unrest claims. Excluding insurance proceeds, other income grew 18.0%.

Total store sales which contribute 97.5% to retail sales, increased 18.5% (excluding S88: 2.2%). Online sales increased 3.2% (excluding S88: 1.8%), off a strong growth of 48.2% in the prior period. Total unit sales increased 2.7% (excluding S88: -2.0%). Group RSP inflation rose to 15.0%, impacted by higher price point merchandise in S88. Excluding S88, inflation of 4.3% was well contained below CPI.

The store footprint increased by 1 000 stores during the Period as a result of 171 new stores from the core business, 51 from S88, and 778 acquired S88 stores. The total store footprint at the end of the Period was 2 702. Trading space increased 16.9% on a weighted average basis and 28.0% on a closing basis (excluding S88: weighted average 5.7%; closing 5.8%).

The group's core customer typically prefers to transact with cash, which contributed 87.3% of group retail sales during the Period. Cash sales growth of 19.7% was boosted by the inclusion of S88 (up 1.2% excluding S88). In comparison, credit sales grew 8.3%.

The gross profit margin declined by 150 basis points to 39.5%. Higher markdowns, increased input prices due to global inflation effects, currency depreciation and the inclusion of high growth, lower margin acquisitions impacted the gross profit margin. Total expenses increased 21.2%, driven by the inclusion of S88. Excluding S88, expenses were contained below CPI and increased 6.7% driven by new weighted average space in these divisions up 6.4% and a higher-than-normal movement in net bad debts. Profit from operating activities decreased 0.5% to R4.9bn and the operating margin decreased 260bps to 15.1% of retail sales and other income (RSOI).

The debtors' book grew 9.3%, supported by strong credit sales and a 350 basis points increase in the repo rate over the Period. The net bad debt to book percentage increased to 8.4% (FY2022: 6.0%), adequately covered by the impairment provision of 10.0% (FY2022: 9.1%).

Inventory growth of 85.1% was inflated by the introduction of Studio 88, excluding which the increase was 18.6% (including goods in transit) outside the group's targeted plan due to the trade disruption factors noted above. Stock freshness (0-3 months ageing) at the end of the Period was 83.4% and acute focus is being placed on stock management at improved stock turns.

The group ended the Period with available cash of R1.4bn, having settled the S88 acquisition of R3.6bn in H2. Capital expenditure of R945m was primarily allocated towards new store development and store revamps, and R67.8m was redirected towards the installation of back-up power solutions.

### Outlook

The trading circumstances detailed earlier are expected to continue throughout H1 FY2024. However a recovery from September 2023 should start to be seen - power outages will be in the base, inventory levels should be at desired levels, and hopefully inflation and interest rates start abating. The group is confident in its business model and ability to execute its plans in the absence of the significant disruption experienced in FY2023.

CEO Mark Blair said "Despite a challenging environment, we are a resilient, motivated team, and can still see many opportunities, within our existing businesses and in the market. In the last two financial years, we have invested approximately R5.5bn in acquisitions, R1.7bn in capex and paid R4bn in dividends. This was funded wholly with cash and we have ended this year with an unencumbered balance sheet."

Management and the Board wish to express its gratitude to all the wonderful people in the Mr Price family and to shareholders for their continued support.

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| **Directors** | SB Cohen* (Honorary chairman), NG Payne* (Chairman), MM Blair (CEO), MJ Stirton (CFO), N Abrams^*, MJ Bowman*, JA Canny*, M Chauke*, SA Ellis*, K Getz*, D Naidoo*, LA Swartz*, * Non-executive director, ^ Alternate director |
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