Mr Price Group Limited
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Incorporated in the Republic of South Africa
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JSE and A2X share code: MRP
(Company or group)

TRADING UPDATE FOR THE 13 WEEKS ENDED 1 JULY 2023

During the first quarter from 2 April 2023 to 1 July 2023 (the Period) of the financial year ending 30 March 2024 (FY2024), the group recorded growth in retail sales and other income (RSOI) of 21.4% to R8.4bn. This performance includes the recently acquired (effective 4 October 2022) Studio 88 Group (S88), excluding which RSOI grew 1.2% to R7.0bn.

Operational background

Soft retail demand experienced by the sector during H2 of FY2023 continued into the first quarter of FY2024, aggravated by the highest levels of loadshedding in the calendar year recorded in April and May 2023. Consumers continued to be negatively impacted by the rising cost of debt after the most recent interest rate increases in March and May 2023. Cumulatively, interest rates have increased 475 basis points since November 2021, now at their highest level in 14 years.

Positively, headline CPI appears to be moderating with June 2023 CPI receding back within the targeted range. However, food and public transport inflation, which index higher in low to middle income household budgets, remains at double digit levels. These cost pressures have not been sufficiently offset by nominal (+3.8%) and real (-3.3%) wage growth, which recently fell to its lowest level (outside of recessions) since 1994. These conditions are not favorable for discretionary retail, placing considerable pressure on household disposable income and indebtedness.

Performance summary

As experienced by the retail market in general the group's new financial year got off to a slow start. April commenced with power back-up in 60% of stores in the group's core business, and recorded sales growth of 12.8% (excluding S88: -5.0%). Trading performance improved as back-up power solutions were extended to all stores by 30 June 2023, with retail sales for May and June combined increasing by 33.0% (excluding S88: 5.6%).

Retail sales for the group’s corporate-owned stores was as follows:

FY2024 vs FY2023	Incl. S88	Excl. S88
Apparel segment	29.5%	1.2%
Home segment	-1.7%	NA
Telecoms segment	11.0%	NA
Group	21.9%	0.9%

The commentary below relates to key group performance metrics including S88 unless specifically mentioned.

Retail sales grew 21.9% to R8.1bn (comparable stores decreased 3.8%). Excluding S88 retail sales increased 0.9%. Other income increased 8.8% to R293m as debtors’ interest and fees increased 17.6% due to a higher average debtors’ book and interest rates. This was tempered by flat insurance revenue growth during the Period.

South African retail sales grew 20.9% (excluding S88: 0.6%) to R7.5bn while non-South African corporate-owned store sales increased 35.9% (excluding S88: 4.4%) to R614m.

Total store sales increased 22.8% (excluding S88: 1.2%). Online sales, which contributed 2.4% to retail sales, decreased 5.3% (excluding S88: -7.5%, off a high base of 21.4% in the prior period).

Group retail selling price (RSP) inflation of 13.8% was impacted by the higher average retail selling price of S88. Excluding S88, RSP inflation of 2.4% was tempered by higher markdowns, with the retail sector remaining highly promotional as retailers continued to clear excess inventory, compounded by the late onset of winter. Total unit sales increased 6.8% (excluding S88: -1.5%).

The store footprint increased by 58 new stores and the group’s total footprint expanded to 2 756 stores. Trading space increased 22.6% on a weighted average basis and 28.7% on a closing basis (excluding S88: weighted average 5.8%; closing 5.9%).

Cash sales which constitute 87.8% of total retail sales grew 26.4% (excluding S88: 1.5%). Credit sales decreased 2.7% as the group continue to enforce its strict credit granting criteria, limiting new account growth as it continues to cautiously manage the deteriorating credit environment.

Retail sales in the Apparel segment grew 29.5% (excluding S88: 1.2%). Retail sales and comparable store sales trends in the group’s largest division, Mr Price Apparel, improved each month as the quarter progressed. Power Fashion and S88 continued to grow retail sales by double digits, and both businesses reported positive comparable store sales.

In the Home segment retail sales momentum improved from the double-digit decline in the fourth quarter of FY2023 to a decrease of 1.7%, as performances in Mr Price Home and Sheet Street improved. Yuppiechef continued to report double digit sales growth supported by its omni-channel expansion.

The Telecoms segment remains robust, with sales in cellular handsets and accessories up 11.0%. Cellular merchandise is now trading in 484 stores, including 18 standalone stores, which continue to report strong comparable store sales growth.

OUTLOOK

The growth outlook both globally and in South Africa for the remainder of 2023 is likely to remain muted. Disposable income is only anticipated to meaningfully improve during 2024, as inflation moderates and interest rate relief is experienced by consumers.

Persistent and elevated loadshedding continues to be a drain on growth and a hindrance to economic progress in South Africa. Despite implementing back-up power solutions, concerns remain regarding the resultant impacts these conditions are having on small businesses, employment and changing shopping behaviour.

As recently communicated, the group’s H1 performance is expected to remain challenging. While management is satisfied with the increased sales momentum achieved in July 2023 to date, H1 RSOI growth above will not directly translate into gross and operating profit growth due to the significant effects of:

- Higher markdowns than the prior period
- The inclusion of S88, which trades at lower gross margins than the group, and whose sales, gross margin % and earnings profiles are materially weighted to H2
- Significant impact of mix contribution by high growth acquisitions which trade at lower gross margins than the group’s core business

An improved performance in H2 is expected (compared to H1 FY2024 and the corresponding H2 period), as elevated levels of loadshedding will be fully in the base and the group now has back up power in all its stores. Furthermore, inventory levels in the group and retail sector should normalise.

Focus remains on increasing comparable store sales growth, and responsible stock management (targeting low single digit inventory growth by the end of H1 FY2024). The group will continue to maximise the contribution from its acquisitions and is confident that they will deliver on their strategic ambitions.

The above-mentioned figures and any information contained herein do not constitute an earnings forecast or estimate and have not been reviewed and reported on by the Company's external auditors.

Durban
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