mr price group limited

Group Results & Interim Cash Dividend Declaration

For the 26 weeks ended 30 September 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/23112023.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*
R16.8bn	R3.3bn	R1.9bn
+26.4%	+14.7%	(0.4%)
HEPS	**Cash resources**	**Interim dividend per share**
449.9c	R1.1bn	283.5c
(9.3%)	Zero long-term debt^	63.0% pay-out ratio

*Profit before finance income and costs | ^Excl Studio 88

Interim Cash Dividend Declaration

An interim dividend of 283.5 cents per share (226.80 cents net of dividend withholding tax of 20% for shareholders who are not exempt) was declared. The dividend has been declared from income reserves. The salient dates for the dividend are as follows:

Last date to trade 'cum' dividend	Monday	11 December 2023
Date trading commences 'ex' dividend	Tuesday	12 December 2023
Record date	Thursday	14 December 2023
Payment date	Monday	18 December 2023

Note:
Shareholders may not dematerialise or rematerialise their share certificates between Tuesday, 12 December 2023 and Thursday, 14 December 2023, both dates inclusive.

Commentary: Positive momentum change lays platform for recovery in H2

Mr Price today released its interim results for the 26 weeks ended 30 September 2023 ("Period"), during which the group recorded growth in revenue of 26.4% to R16.8bn. This performance includes the recently acquired Studio 88 Group (S88), effective 4 October 2022, excluding which revenue grew 3.5% to R13.7bn.

Basic and headline earnings per share of 448.8 cents and 449.9 cents were down 10.3% and 9.3% respectively. Diluted headline earnings per share decreased 9.6% to 439.5 cents against growth in the prior period of 10.8%. An interim dividend of 283.5 cents per share was declared, maintaining the 63% pay-out ratio.

Results were characterised by the same challenging circumstances that carried over from H2 in the prior financial year. In the FY2023 results announcement in June 2023 and the Q1 trading update issued in July 2023, shareholders were cautioned about the impacts of several disruptive events and the inclusion of S88 in group results:

- Loadshedding, was four times higher in Q1 than the same period in the prior year. During this period the group spent R140m to accelerate its back-up power solutions (60% of core business had back-up power at the start of Q1) and achieved 100% coverage by the end of the first quarter. The group estimates a loss of 60 000 trading hours from loadshedding in H1, equivalent to approximately R190m in revenue;
- The poor economic and consumer retail environments, including double digit inflation in food and public transport which impacted the value customer more severely, coupled with rising interest rates;
- Elevated inventory levels in the sector resulted in a highly promotional retail environment, which adversely impacted the group's EDLP model. Higher markdowns were required to clear excess inventory which impacted gross profit margins; and
- S88 trades at a lower GP% than the group, and has an earnings profile materially weighted to H2.

Pleasingly, there was a significant momentum shift in Q2, with sales growth improvements in all sales channels, tender types and geographies, resulting in market share gains, and an uplift in GP%. The positive market share trend continued into H2, with market share up 70 basis points (bps) in October 2023, according to the RLC.

Group results summary

Group revenue grew 26.4% to R16.8bn. This included retail sales of R16.1bn increasing 27.8%, other income of R607m improving 13.3% and finance income of R57m declining 55.6%, due to the acquisition of S88 which was funded entirely from cash resources. Retail sales excluding S88 grew 3.8% (Q1: 0.9%; Q2: 7.1%) and comparable store sales decreased 0.8% (Q1: -3.8; Q2: 2.6%).

Store sales increased 28.8% (excluding S88: 4.1%). Online sales decreased 3.2% (excluding S88: -5.7%), against double-digit growth of 11.2% in the prior period. The group's omni-channel strategy enables profitable online growth to support a value business, while ensuring that it continues to serve the needs and shopping preferences of its customers. Total unit sales increased 8.0% (excluding S88: -1.1%). Group Retail selling price (RSP) inflation increased to 19.1% due to the inclusion of the higher price point merchandise in S88, excluding which, RSP inflation was 5.4%.

The store footprint advanced to a total of 2 809 stores, increasing by 121 new stores (63 new stores from the existing business and 58 from S88), across the group's 13 trading chains. Weighted average trading space increased 28.5% (excluding S88 5.6%), and the group's return thresholds, which are well in excess of its cost of capital, are being achieved.

Cash sales constituted 87.8% of group retail sales and increased 32.0% (excluding S88: 3.8%). Credit sales growth of 3.3% reflected the group's caution regarding the deteriorating credit environment and the implementation of its strict credit granting criteria, limiting new account growth accordingly. Transunion's Consumer Credit Index (Q2 2023) reported its lowest level on record, and although credit applications received increased 14.2%, the approval rate decreased to 18.6% from 27.1% in the prior year.

The gross profit margin declined by 170bps to 38.6%. This was impacted by higher markdowns, (particularly in Q1), the inclusion of S88 which operates at a lower margin than the group and further currency depreciation. Excluding S88 gross profit margin was down 100bps due to the impact of Q1 (-350bps) but recovered strongly in Q2, up 190bps on the prior year, as excess inventory was cleared, and fresh summer inputs took effect. Pleasingly, Power Fashion, Yuppiechef and the Telecoms business all grew their gross profit margin during H1, while those same businesses, as well as Mr Price Apparel and Sheet Street achieved gains in Q2.

Total expenses increased 33.6%, and 6.1% excluding S88. Profit from operating activities decreased 0.4% to R1.9bn and the operating margin decreased 320bps to 11.5% of retail sales and other income (RSOI). Net finance expense was 88.3% higher at R336m, due to lower bank interest received because of the S88 acquisition consideration being paid in cash, and an increase in interest on lease liabilities. Management is confident that the margin contraction during the Period is temporary and is mainly attributable to Q1 performance and S88's earnings being weighted to H2.

Debtors' interest and fees increased 14.5% due to a higher average debtors' book and a further 50bps increase in the repo rate over the Period. Net bad debt to book ratio increased to 10.0%. The impairment provision increased to 10.5% (H1 FY2023: 7.9%).

The group placed a sharp focus on inventory management to ensure that it traded out of its excess stock carry from FY2023 and exited winter in a clean position. Excluding S88 stock was up 2.1%, in line with management's expectation. Stock freshness (0 - 3 months ageing) at the end of the Period was 81.7%. The inclusion of S88 inflated the group's gross closing inventory position which was up 64.3%.

Capital expenditure of R637m was primarily allocated towards new stores and the installation of back-up power solutions over Q1. The group remains highly cash generative, and its cash conversion ratio increased to 81.4% as it ended the Period with available cash of R1.1bn. The unencumbered position of the balance sheet continues to support its focus on growth, and its identified capital allocation opportunities.

Outlook

South African consumers are likely to remain constrained into 2024 as the recovery in employment has lagged economic activity and real wage growth has been negative. The recent improvements in consumer price inflation, fuel prices, currency exchange rates and unemployment will bring some respite to business and consumers. The interest rate cycle is anticipated to turn positive by mid-2024, which will alleviate consumer pressure. Electricity supply remains a risk to economic activity, however there is expectation that the loadshedding intensity moderates.

An increasing risk to business in South Africa is the instability of port operations. The company will continue to take the necessary steps to minimise this impact and management is satisfied that the group has adequate stock levels for the upcoming festive season.

The group's fashion-differentiation, EDLP model and deep knowledge of the South African consumer has enabled it to withstand many historical economic cycles and periods of increased competition. Its core brands have recently been voted the most valuable apparel retailer in South Africa, the most shopped retailer, the coolest clothing store in SA and the most loved homeware retailer in SA by various independent sources. This external recognition, and the unwavering support of its 28 000 associates and suppliers, provides the group with confidence that the positive momentum experienced in Q2, can continue into H2 and beyond. Its acquisitions have been earnings accretive to date and there are several attractive growth opportunities available. This includes Mr Price Kids, which now has a total of 16 standalone stores which are exceeding expectations and has the potential to be a significant retail chain for the group.

Retail sales post the reporting period reflected a tougher October for the sector. According to the RLC, the comparable total market declined 1.5% while the group recorded positive retail sales of 2.3%, gaining 70bps of market share. Retail sales improved in the first two weeks of November, up 6.2%.

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

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