

OPERATIONAL AND VOLUNTARY TRADING UPDATE (52 WEEKS ENDED 28 JUNE 2020)

Trading environment

This operational update, inclusive of voluntary earnings per share (EPS) and headline earnings per share (HEPS) guidance, is more comprehensive than usual for the purpose of providing shareholders and investors with an understanding of how the Group has traded during the COVID-19 pandemic.

Despite difficult circumstances, in a year incorporating the COVID-19 lockdown and accompanying regulations governing trade, transport and operations, the Group increased total sale of merchandise for the 52 weeks to 28 June 2020 (including the impact of hyperinflation in the prior year) by 6.4% to approximately R156.9 billion. Like-for-like growth for the year was 4.4%.

The Shoprite Group remained committed to meeting the demands of our customers, whilst focusing on value and remaining solution oriented. This was evidenced, inter alia, by our digital voucher innovation, ongoing private label development and the conversion of our Checkers Food Services (CFS) business to include a consumer facing offering. In addition, the rapid scaling of our innovative Checkers Sixty60 digital shopping application, which after a test phase introduction in November 2019, was operational from 87 stores nationwide by June 2020.

As a Group, our initiatives pertaining to inventory and capital management began early in our financial year and carried on unabated despite the nationwide lockdown. From a liquidity and net debt standpoint, the Group has managed to meaningfully improve its financial position since reporting in February 2020 on our first half results. The transaction involving the sale of our distribution centres to Equites Property Fund Limited is in its final phase of Competition Commission approval and we anticipate transfer will be affected during the first half of the 2021 financial year.

Supermarkets RSA's sales growth (inclusive of liquor) of 8.7% for the year was underpinned by a strong second half, in which sales grew 7.5%, notwithstanding a high second half base in the prior year during which fourth quarter sales grew by 9.4%. As a result of lockdown, customer visits for the year declined by 7.4%, however, average basket spend increased by 18.4%. Superb execution across the business coupled with considerable efforts from our suppliers resulted in volume growth of 2.3% for the year. Market share figures insofar as they are available (up to the end of May 2020) reflect consecutive monthly market share gains for the past 15 months.

In equally, if not more difficult circumstances resulting from COVID-19 lockdown regulations, Supermarkets Non-RSA's second half reported an increase in sales of 0.1%, resulting in an overall decline in sales of 1.4% for the year but in constant currency increased by 6.6%.

Nigeria – discontinued operations

Following approaches from various potential investors, and in line with our re-evaluation of the Group's operating model in Nigeria, the Board has decided to initiate a formal process to consider the potential sale of all, or a majority stake, in Retail Supermarkets Nigeria Limited, a subsidiary of Shoprite International Limited. As such, Retail Supermarkets Nigeria Limited may be classified as a discontinued operation when Shoprite reports its results for the year. Any further updates will be provided to the market at the appropriate time.

Group segmental sales

Segmental sales growth for the twelve months to June 2020 is as follows:

Sales growth %	H1 ended Dec 2019	H2 ended Jun 2020	FY 2020
Supermarkets RSA	9.8	7.5	8.7
Supermarkets Non-RSA	-2.7	0.1	-1.4
Furniture	-2.7	-23.1	-11.9
Other operating segments	4.4	3.5	3.9
Total continuing operating segments	7.2	5.2	6.2
Discontinued operations (Nigeria operations)	-5.9	-6.7	-6.3
Total operating segments including discontinued operations	7.0	5.0	6.0
Total continuing consolidated operations*	7.3	5.4	6.4

* Including the impact of hyperinflation in the comparative period.

The following information provides context to the Group's sales growth for the year:

Supermarkets RSA

- The Group's core business, Supermarkets RSA (including liquor), contributing 78.0% to Group sales, achieved sales growth of 8.7% for the year. Like-for-like growth for the year measured 6.8%.
- Shoprite and Usave reported full year sales growth of 6.7% (second half sales growth: 5.7%) and Checkers and Checkers Hyper reported full year growth of 13.5% (second half sales growth: 16.1%).
- Second half internal inflation of 3.4% increased marginally from the 2.7% reported for the first six months to average 3.0% for the year.
- Our private label business, spanning our three supermarket chains and offering better value and range to our customers, managed to increase its Supermarkets RSA sales participation to 17.1%, up 60 basis points compared to the previous year.
- South African COVID-19 lockdown regulations implemented from 27 March 2020 restricted trade in several categories within our supermarket business and as such, impacted the business differently at different times. However, across the board, our Checkers, Checkers Hyper, Shoprite and Usave brands performed admirably in what can only be described as incredibly difficult conditions for both our employees and customers. The two weeks preceding South Africa's initial 35 days of Level 5 lockdown resulted in elevated sales growth across all three of our supermarket brands but noteworthy was the significant growth reported by our repositioned mid-to-upper end Checkers (including Checkers Hyper) business which now represents 39.6% of Supermarkets RSA's sales.
- The sales growth momentum achieved in our liquor business during our first half continued up to February and accelerated, pre-lockdown, during March. COVID-19 lockdown regulations required the complete closure of our liquor business for 66 days and subsequently restricted trade to four days a week (Monday to Thursday) for the month of June. The combined result of a first half during which sales grew by 20.5% followed by a second half during which sales declined by 29.5%, resulted in a year in which sales declined by 3.3%. Liquor represents 5.8% of Supermarkets RSA's sales.

Supermarkets Non-RSA

- Given the aforementioned comment regarding the pending classification of Nigeria as a discontinued operation, Supermarkets Non-RSA (excluding Nigeria) contributing 11.6% to Group sales, recorded a decline in sales of 1.4% for the year.
- Second half constant currency sales growth of 6.3% was significantly impacted by lockdown regulations across the 14 African countries in which we trade. Lockdown restrictions pertaining to store closures; social distancing; transport restrictions; the movement of people; trading hours; workforce limitations and trade in alcohol impacted various regions to differing degrees at different times.

Furniture

- The Group's Furniture segment, representing 3.5% of Group sales, reported a decline in sales of 11.9% for the year. Like-for-like sales for the year declined by 10.3%.
- Second half trade was significantly impacted by lockdown regulations which required our South African store base to close for 52 days and our Non-RSA regions to close, on average, for 31 days. Consequently, second half sales declined by 23.1%.
- Debtor book collections were hampered during the lockdown period and are expected to deteriorate in line with the anticipated economic downturn. The assessment of expected credit losses for the year is in the process of being finalised, however, our expectation in accordance with IFRS 9: Financial Instruments is that the provision against the debtor book will increase from 35.8% to approximately 50.5% compared to the previous year. The movement in the provision equates to an income statement charge of approximately R325 million.

Other operating segments

The Group's Other operating segments, representing 6.9% of Group sales and comprising OK Franchise, Transpharm, MediRite Pharmacies, CFS and Computicket, achieved sales growth of 3.9% for the year. This was achieved despite lockdown limitations impacting CFS, given that its primary customers (the restaurant and hospitality industry) were closed during lockdown, as well as Computicket, with lockdown restrictions having a significant impact on events and travel related ticketing. Notwithstanding these restrictions, the businesses' ability to adapt and innovate resulted in second half sales increasing by 3.5%.

COVID-19 costs

The Group believes it is appropriate to highlight the COVID-19 costs incurred pertaining to compliance with national lockdown regulations together with managing and protecting our employees, customers, stores, inventory and distribution infrastructure. In this regard, the Group has incurred a net total of R327.2 million spent across the areas of health and safety, security, mobile clinics, personal protective equipment, temperature scanners, store and distribution centre sanitation, employee meals, communication costs and remote network access for employees. The most significant spend pertained to R116.9 million paid to our employees, inclusive of an appreciation bonus to assist them with the difficulties we anticipated would accompany the nationwide lockdown.

Impairment of non-financial assets

Impairments for the year approximate R1.3 billion, mainly in the Supermarkets Non-RSA and Furniture segments as a result of the deterioration in the current and future economic outlook. Impairments, net of income tax, form part of items of a capital nature and as such impact EPS but not HEPS.

Voluntary trading update

The following information is supplied in order to assess the impact of the impairments raised and the aforementioned COVID-19 costs on the Group's results for the year.

Furthermore, due to the potential classification of our Nigerian business as a discontinued operation, we present continuing operations excluding Nigeria as an alternative.

For ease of comparison of the like-for-like relative performance of the operations, we have included an adjusted basic HEPS which excludes the after tax effect of exchange rate gains or losses and the impact of hyperinflation. In addition, we have calculated this metric to exclude once-off COVID-19 costs.

	Estimated 28 Jun 2020 cents	Restated for IFRS 16 30 Jun 2019 cents	Expected change %
Earnings including discontinued operations:			
Basic EPS	601.9 to 652.0	625.3	-3.7 to 4.3
Basic HEPS	748.1 to 804.1	699.2	7.0 to 15.0
Adjusted basic HEPS*	714.5 to 763.1	607.2	17.7 to 25.7
Adjusted basic HEPS excl. COVID-19 costs	757.6 to 806.2	607.2	24.8 to 32.8
Earnings from continuing operations:*			
Basic EPS	594.1 to 649.1	687.6	-13.6 to -5.6
Basic HEPS	735.6 to 795.4	747.7	-1.6 to 6.4
Adjusted basic HEPS	700.2 to 749.3	613.5	14.1 to 22.1
Adjusted basic HEPS excl. COVID-19 costs	742.9 to 792.0	613.5	21.1 to 29.1

*The adjusted basic HEPS and continuing operations information provided, constitutes pro forma financial information in terms of JSE Listing Requirements.

Impact of the Group's pro forma constant currency disclosure

The Group discloses unaudited constant currency information to indicate the Supermarkets Non-RSA operating segment performance in terms of sales growth, excluding the effect of foreign currency fluctuations. To present this information, current year sales for entities reporting in currencies other than ZAR are converted from local currency actuals into ZAR at the prior year's actual average exchange rates on a country-by-country basis.

For the year ended 28 June 2020, the Angolan economy was assessed not to be hyperinflationary, whilst it was assessed to be hyperinflationary during the prior year ended 30 June 2019. As such, in respect of Angola, the constant currency information has been prepared excluding the impact of hyperinflation.

The table below sets out the percentage change in sales, based on the actual results for the financial year, in reported currency and constant currency for the following major currencies. The total impact on Supermarkets Non-RSA is also reflected after consolidating all currencies in this segment.

% Change in sales on prior year 52 weeks	Reported currency	Constant currency
Angola kwanza	-29.1	-1.2
Nigeria naira	-6.3	-12.3
Zambia kwacha	0.2	15.7
Mozambique metical	9.4	3.8
Supermarkets Non-RSA including discontinued operations	-2.0	4.0
Supermarkets Non-RSA continuing operations	-1.4	6.6

Statement on pro forma financial information

The pro forma financial information contained in this announcement, which is the responsibility of the Group's directors, has been prepared for illustrative purposes only and may not fairly present the results of operations.

The information contained in this announcement has not been reviewed or reported on by the Group's external auditors.

Group annual results release and presentation update

As experienced by many companies, the lockdown has created practical difficulties in finalising our annual financial statements. Consequently, the Group plans to publish and present its 2020 year end results on Tuesday, 8 September 2020.

The results presentation will be webcast only and further details, including the webcast registration link, will be communicated via a separate SENS release during August 2020.

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Sponsor: Nedbank Corporate and Investment Banking

Shoprite Holdings Limited Tel: 021 980 4000
Pieter Engelbrecht, Chief Executive Officer
Anton de Bruyn, Chief Financial Officer
Adele Lambrechts, Corporate affairs and communications
Natasha Moolman, Investor relations