



THE SPAR GROUP LTD

# RESULTS PRESENTATION

FOR THE YEAR ENDED  
30 SEPTEMBER 2018

INTRODUCTION	Graham O'Connor, CEO
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# INTRODUCTION

GRAHAM O'CONNOR  
CEO

## SOUTH AFRICA

- 2 236 stores served
- 295 500m<sup>2</sup> warehousing space
- R68.8bn turnover
- R2.1bn operating profit

## IRELAND

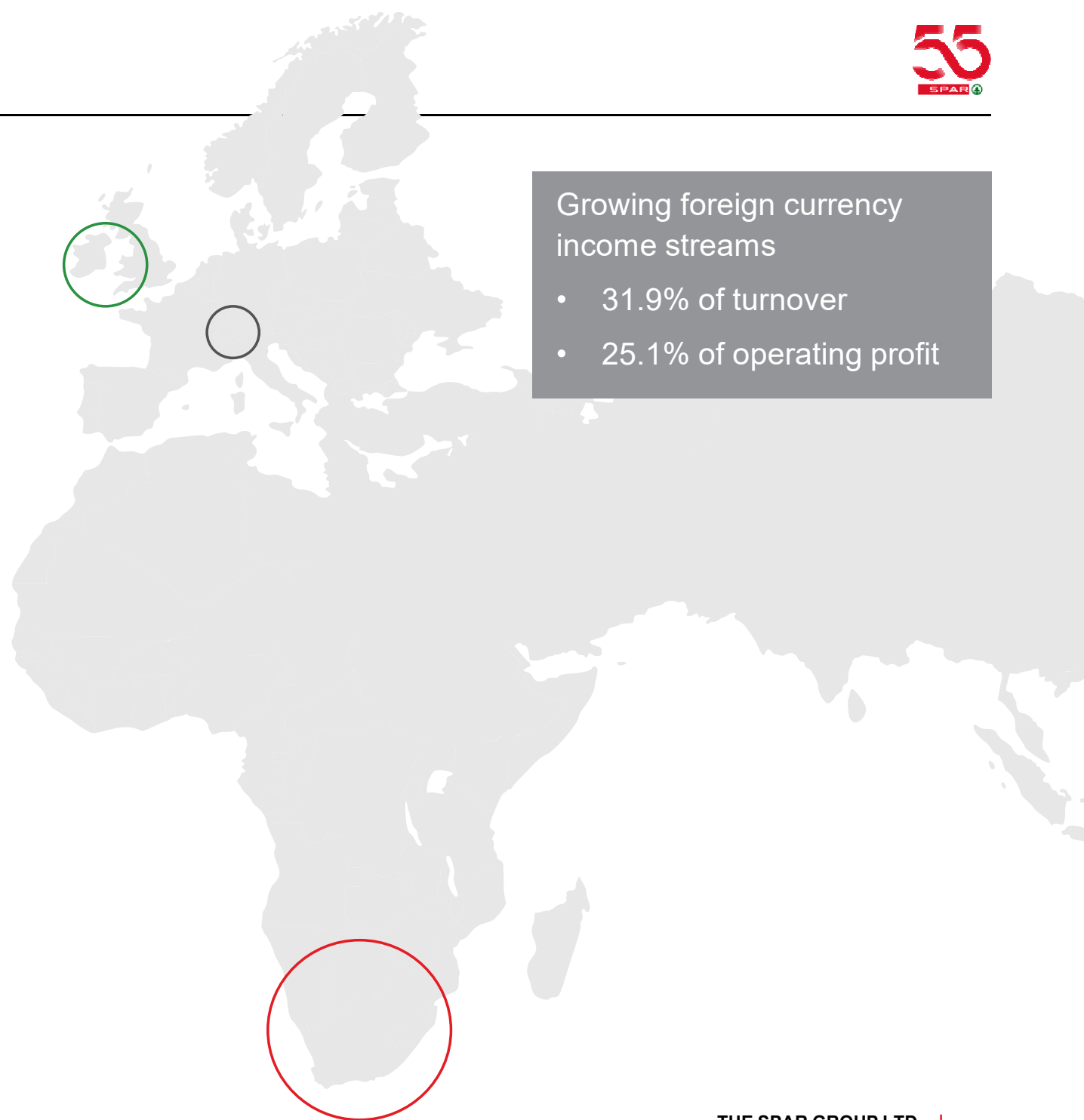
- 1 371 stores served
- 34 560m<sup>2</sup> warehousing space
- R22.5bn turnover
- R574.4m operating profit

## SWITZERLAND

- 315 stores + 11 cash & carry
- 44 000m<sup>2</sup> warehousing space
- R9.8bn turnover
- R124.6m operating profit

Growing foreign currency income streams

- 31.9% of turnover
- 25.1% of operating profit



## SOUTHERN AFRICA

- Organic growth and continued revamps throughout SPAR Group’s network 276 store revamps ✓
- Continue to leverage TOPS’ successful marketing and promotional campaigns “Good Advice” campaign ✓
- Investments to expand warehousing and distribution in South Africa R257m invested ✓
- Strategic marketing efforts of Build it brand Market share gains ✓
- Conclude purchase of S Buys pharmaceutical wholesaler and Knowles Property Acquisitions completed ✓
- Adopt new strategy and drive our values In progress ✓

## IRELAND

- Finalise 4 Aces Wholesale Ltd acquisition by BWG Group Acquisition completed ✓
- Further investments in retail Good progress ✓
- Improve cashflow Excellent cash flow management ✓

## SWITZERLAND

- Enhance retail offering and in-store standards Category management implemented ✓
- Drive fresh and HMR product lines New generation store roll out ✓
- Unlock operational efficiencies Significantly reduced costs ✓
- Explore domestic expansion opportunities: Western region of Switzerland In progress ✓
- Increased supplier contributions due to better deals Good progress ✓
- Drive turnaround strategy Good progress ✓

## SRI LANKA JV OPPORTUNITY

- Open first corporate retail stores 1<sup>st</sup> store opened Apr 2018 and 2<sup>nd</sup> store opening in Nov 2018 ✓



**Turnover\***  
**+ 5.9% to**  
R101.0 bn



**Operating profit\***  
**+ 7.9% to**  
R2.8 bn



**Normalised headline  
earnings per share\*#**  
**+ 8.9% to**  
1 063.2 cents



**Dividend  
per share**  
**+ 8.0%**  
729 cents



**NAV  
per share**  
**+ 8.4% to**  
3 692.2 cents

\* Restated prior year figures

# Headline earnings adjusted for fair value adjustments to, and foreign exchange losses on financial liabilities, and business acquisitions costs



# FINANCIAL OVERVIEW

MARK GODFREY  
CFO

## FINANCIAL OVERVIEW: SALIENT FEATURES



R million	2018	2017*	Change %
Turnover	101 018.0	95 373.1	+5.9
Operating profit	2 779.3	2 576.1	+7.9
Profit after tax	1 827.2	1 820.6	+0.4
Earnings per share (cents)	948.9	945.5	+0.4
Headline earnings per share (cents)	965.7	952.8	+1.4
Normalised headline earnings per share (cents)**	1 063.2	976.0	+8.9
Dividend per share (cents)	729.0	675.0	+8.0
Net asset value per share (cents)**	3 692.2	3 407.0	+8.4

\* Restated

\*\* Weighted average number of ordinary shares (net of treasury shares) 192 563 180 (2017: 192 555 203 )

- PBT of R2.5 bn was adversely impacted by fair value adjustments to, and foreign exchange losses on financial liabilities, together with increased interest expenditure resulting from cash outflows for acquisitions.
- Normalised HEPS is calculated on headline earnings adjusted for fair value adjustments to, and foreign exchange losses on financial liabilities, and business acquisitions costs.



# FINANCIAL OVERVIEW: RESTATEMENT EFFECT



Rmillion	%	2018	WESBANK RESTATE- MENT IAS 39	Swell & Damages IAS 2 & IAS 18	IAS 2/ IFRS 15	2018
Revenue	6.0%	103 007.5	(4.2)	(95.3)	90.6	103 016.4
Turnover	5.9%	101 018.0		(95.3)	–	101 113.3
Cost of sales	5.9%	(90 225.0)		135.0	557.9	(90 917.9)
Gross profit	5.7%	10 793.0	–	39.7	557.9	10 195.4
Gross profit %		10.7%				10.1%
Other income	8.4%	1 989.5	(4.2)	–	90.6	1 903.1
Net operating expenses	5.6%	(10 001.8)	–	(39.7)	(648.5)	(9 313.6)
Operating expenses %		9.9%				9.2%
Trading profit	7.9%	2 780.7	(4.2)	–	–	2 784.9
BBBEE transactions		(1.4)			–	(1.4)
Operating profit	7.9%	2 779.3	(4.2)	–	–	2 783.5

## FINANCIAL OVERVIEW: KEY REGIONAL METRICS



Rmillion	Southern Africa	Ireland	Switzerland	SPAR Group
<b>Income statement</b>				
Turnover	68 753.4	22 495.5	9 769.1	101 018.0
Gross profit	6 190.7	2 823.6	1 778.7	10 793.0
<i>Gross profit %</i>	<i>9.0%</i>	<i>12.6%</i>	<i>18.2%</i>	<i>10.7%</i>
Operating expenses	4 808.8	2 705.3	2 487.7	10 001.8
Profit before tax	1 841.6	537.9	84.6	2 464.1
Profit after tax	1 267.7	492.4	67.1	1 827.2
<i>Earnings per share (cents) – by segment contribution</i>	<i>683.7</i>	<i>231.0</i>	<i>34.8</i>	<i>948.9</i>
<i>Headline earnings per share (cents) – by segment contribution</i>	<i>689.5</i>	<i>236.2</i>	<i>40.7</i>	<i>965.7</i>

\* - adjusted for inter-group charges

## FINANCIAL OVERVIEW: **TURNOVER**

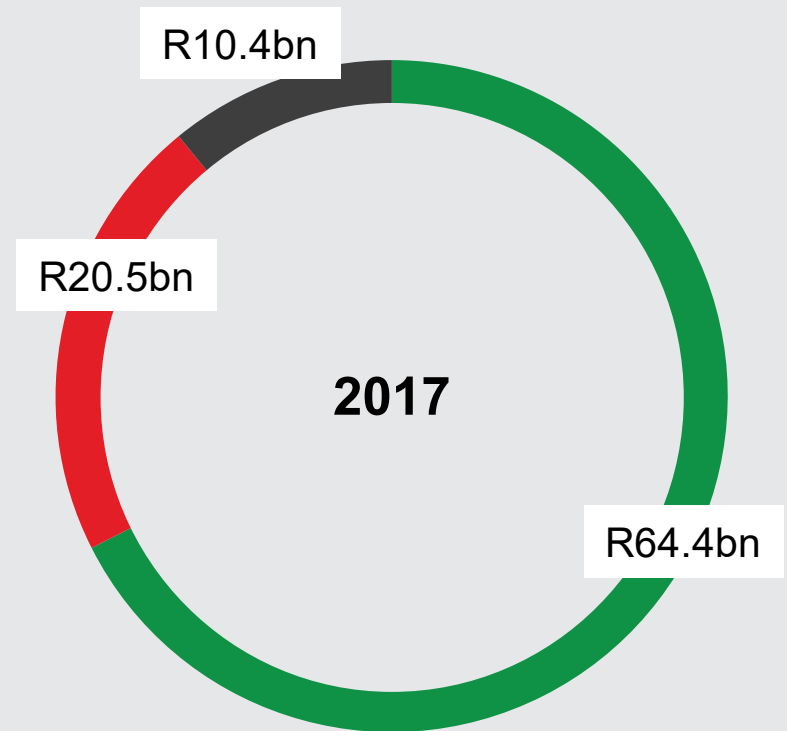
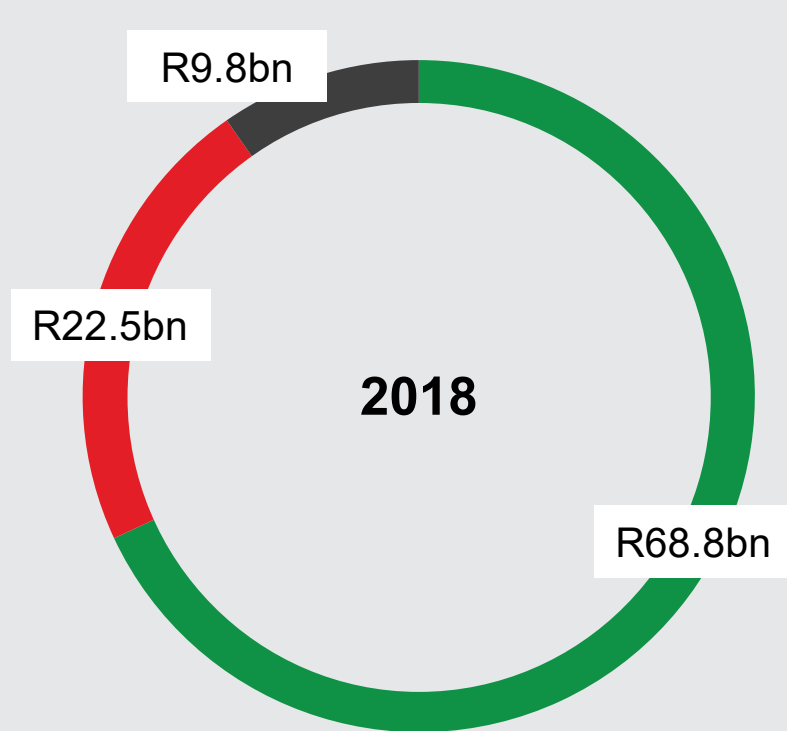


R million	<b>2018</b>	2017	Change %
<b>SPAR/TOPS</b>	60 246.9	57 362.7	# +5.0
<i>Liquor sales (SPAR/TOPS)</i>	6 504.3	5 757.7	+13.0
<b>Build it</b>	7 577.5	7 050.1	+7.5
<b>South Africa (Comparable base)</b>	<b>67 824.4</b>	<b>64 412.8</b>	<b>+5.3</b>
S Buys – Pharmaceutical business	929.0		+100.0
<b>Total Southern Africa</b>	<b>68 753.4</b>	<b>64 412.8</b>	<b>+6.7</b>
Ireland*	22 495.5	20 528.7	+9.6
Switzerland**	9 769.1	10 431.6	(6.4)
<b>Total Group</b>	<b>101 018.0</b>	<b>95 373.1</b>	<b>+5.9</b>

# Restated for IAS 18 rebates

\* Ireland: €-denominated sales up 4.2%

\*\* Switzerland: CHF-denominated sales down (5.1)%



■ SPAR Southern Africa   
 ■ SPAR Ireland   
 ■ SPAR Switzerland

SPAR Southern Africa: 68.1% (2017: 67.5%)  
 SPAR Ireland: 22.3% (2017: 21.5%)  
 SPAR Switzerland: 9.7% (2017: 10.9%)

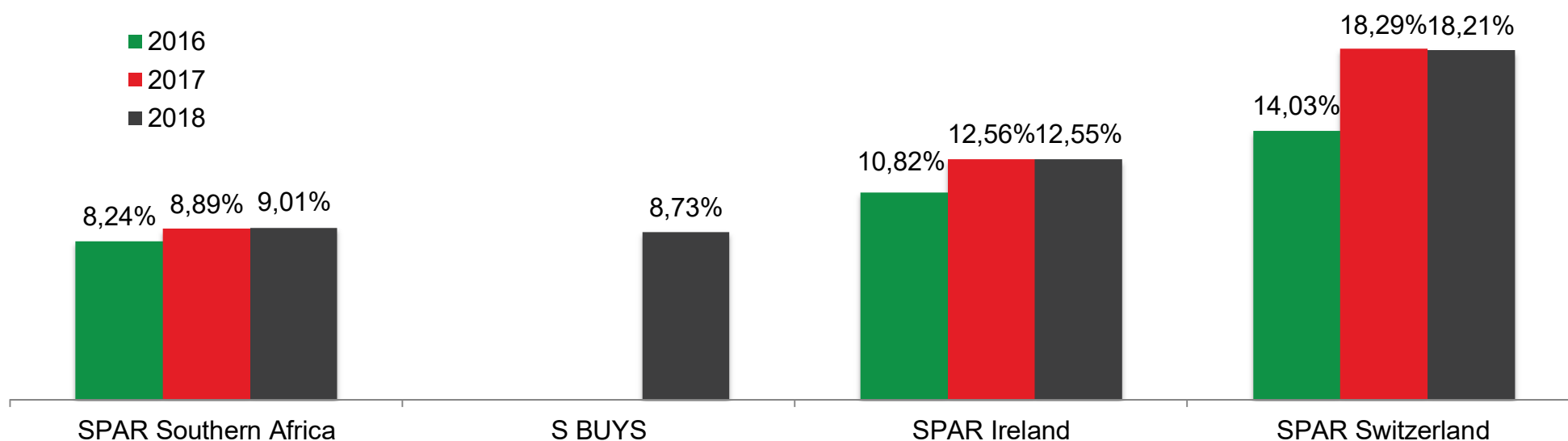
# FINANCIAL OVERVIEW: GROSS MARGINS



R million	2018 Turnover	Gross margin	2018 (GP%)	Change	2017 (GP%) *
<b>Total South Africa</b>	<b>67 824.4</b>	<b>6 109.6</b>	<b>9.01%</b>	↑	<b>8.89%</b>
S Buys	929.0	81.1	8.73%		
<b>Total Southern Africa</b>	<b>68 753.4</b>	<b>6 190.7</b>	<b>9.00%</b>	↑	<b>8.89%</b>
Ireland	22 495.5	2 823.6	12.55%	↓	12.56%
Switzerland	9 769.1	1 778.7	18.21%	↓	18.29%
<b>Total Group</b>	<b>101 018.0</b>	<b>10 793.0</b>	<b>10.68%</b>	↓	<b>10.71%</b>

\*Restated for IAS2 adjustments

## REGIONAL MARGIN PROGRESSION



R million	2018		2017		% increase
	Expenses	% of sales	Expenses	% of sales	
<b>Total South Africa</b>	<b>4 723.2</b>	<b>7.0</b>	<b>4 379.6</b>	<b>6.8</b>	<b>+7.8</b>
S Buys	85.6	9.2			
<b>Total Southern Africa</b>	<b>4 808.8</b>	<b>7.0</b>	<b>4 379.6</b>	<b>6.8</b>	<b>+9.8</b>
Ireland	2 705.3	12.0	2 480.3	12.1	+9.1
Switzerland	2 487.7	25.5	2 609.1	25.0	(4.7)
<b>Total Group</b>	<b>10 001.8</b>	<b>9.9</b>	<b>9 469.0</b>	<b>9.9</b>	<b>+5.6</b>

## Southern Africa

- Warehouse & distribution expenses
  - Employment costs
    - wage settlements above CPI
  - Vehicle expenses
    - fuel price increases of 17.9%

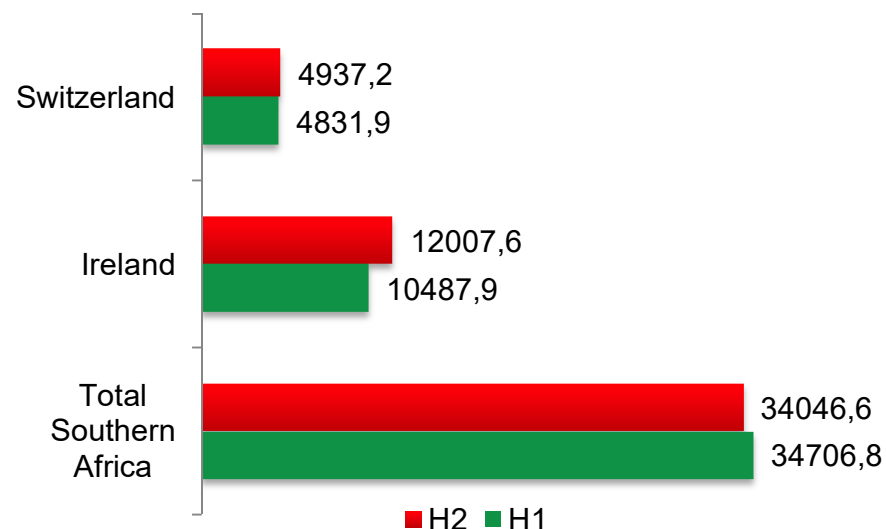
## SPAR Ireland

- Expenses up 4.1% in EUR terms (9.1% in ZAR)

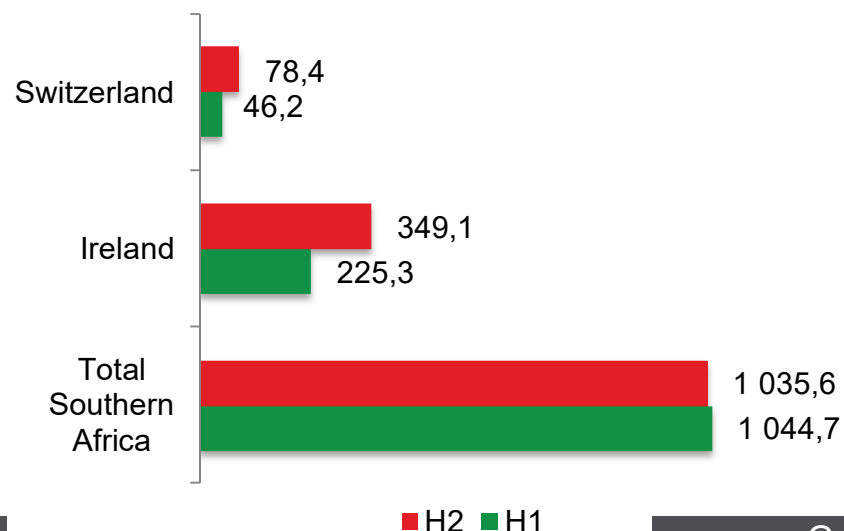
## Switzerland

- Expenses down 3.3% in CHF terms (4.7% in ZAR)

## 2018 TURNOVER (Rm)



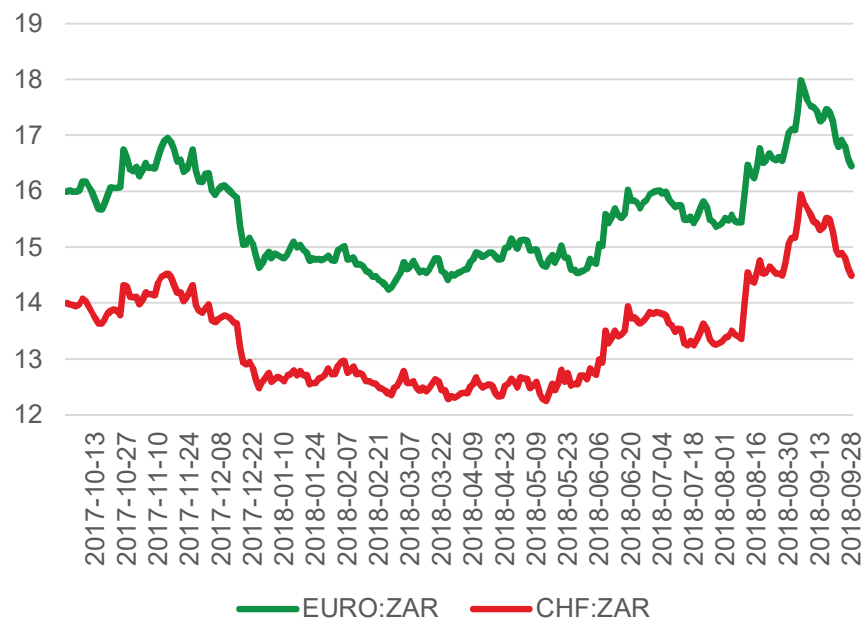
## 2018 OPERATING PROFIT (Rm)



	Growth
<b>First half</b>	<b>+5.7%</b>
<i>Southern Africa</i>	<i>+6.8%</i>
<i>Ireland</i>	<i>+8.8%</i>
<i>Switzerland</i>	<i>-7.4%</i>
<b>Second half</b>	<b>+6.2%</b>
<i>Southern Africa</i>	<i>+6.7%</i>
<i>Ireland</i>	<i>+10.2%</i>
<i>Switzerland</i>	<i>-5.3%</i>

	Growth
<b>First half</b>	<b>+9.1%</b>
<i>Southern Africa</i>	<i>+3.4%</i>
<i>Ireland</i>	<i>+10.1%</i>
<i>Switzerland</i>	<i>+656.6%</i>
<b>Second half</b>	<b>+6.9%</b>
<i>Southern Africa</i>	<i>+4.8%</i>
<i>Ireland</i>	<i>+15.0%</i>
<i>Switzerland</i>	<i>+1.4%</i>

Euro/Swiss Franc vs Rand  
Sept 2017 - Sept 2018



EUR/GBP October 2016 - Sept 2018



Ireland (€)

Switzerland (CHF)

	2018	2017	2018	2017
<b>Year end rate</b>	16.46	15.96	14.44	13.95
<b>Average rate</b>	15.56	14.81	13.40	13.59

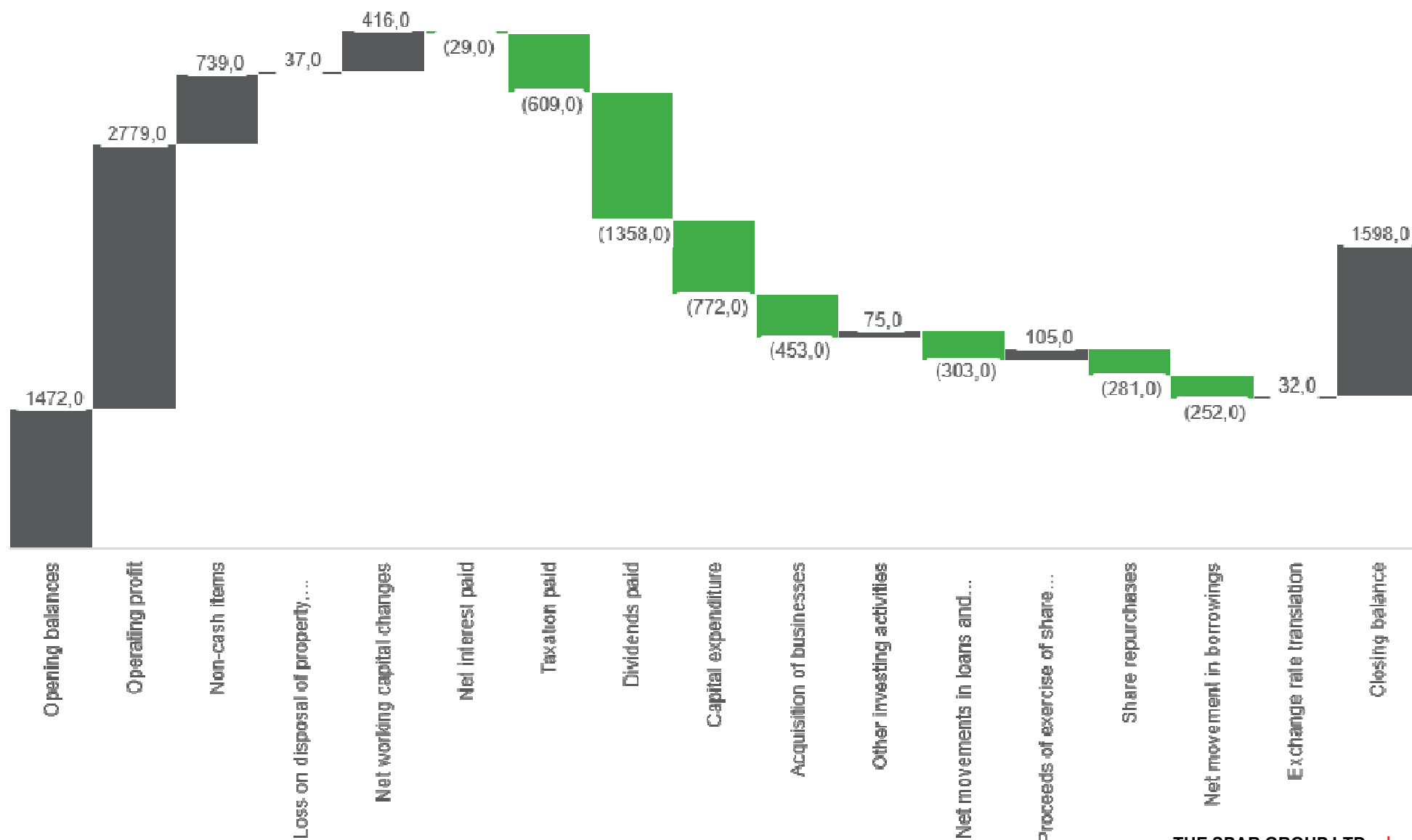


## FINANCIAL OVERVIEW: CASH FLOW



Rmillion	2018	2017
Cash flow from operating activities (adjusted for non-cash items)	3 555.4	3 272.7
Working capital changes	416.3	13.0
<ul style="list-style-type: none"> <li>• Decrease/(Increase) in inventory</li> <li>• Increase in trade receivables</li> <li>• Increase in trade payables</li> </ul>	94.7	(23.7)
	(1 094.0)	(221.7)
	1 415.6	258.4
Cash generated from operations	3971.7	3285.7
Interest paid (net)	(29.3)	3.8
Taxation paid	(608.8)	(626.6)
Dividends paid	(1 357.8)	(1 251.7)
Capital expenditure	(772.3)	(1 090.9)
Acquisition of businesses	(453.2)	(142.7)
Proceeds from disposal of businesses	47.7	48.0
Disposal of assets held for sale	27.5	25.9
Loans/share repurchases	(428.0)	3.4
Borrowings repaid/ raised	(303.0)	(336.3)
<b>Net cash movement</b>	<b>94.5</b>	<b>(81.4)</b>

# FINANCIAL OVERVIEW: CASH FLOW



## FINANCIAL OVERVIEW: BALANCE SHEET REGIONAL KEY METRICS



R million	Southern Africa	Ireland	Switzerland	Group
<b>Balance sheet</b>				
Property, plant and equipment	2 667.2	1 800.7	2 499.0	6 966.9
Goodwill and intangible assets	636.8	3 474.1	325.7	4 436.6
Current assets	11 750.8	4 322.3	2 093.2	18 166.3
Current liabilities	(10 495.0)	(4 539.6)	(1 073.8)	(16 108.4)
Long-term liabilities	(2 223.3) <sup>1</sup>	(2 723.9)	(3 090.1) <sup>2</sup>	(8 037.3)
<i>Net asset value per share (cents)</i>	<i>2 797.1</i>	<i>1 214.4</i>	<i>456.0</i>	<i>3 692.2</i>

1. Includes financial liability of R1 216.2m relating to BWG minority purchase and R49.2m relating to S Buys minority purchase

2. Includes financial liability of R777.5m relating to Swiss minority purchase

# CAPITAL EXPENDITURE



Rmillion	2018	2017
Investing to expand operations	(456.1)	(842.1)
Investment to maintain operations	(316.2)	(248.8)
<ul style="list-style-type: none"> <li>• Replacement of property, plant and equipment</li> <li>• Proceeds on disposal of property, plant and equipment</li> </ul>	(352.9)	(330.0)
	36.7	81.2
Acquisition of business/subsidiaries	(453.2)	(142.7)
	(1 225.5)	(1 233.6)

## FINANCIAL OVERVIEW: REGIONAL CAPITAL EXPENDITURE



Rmillion	Expansion	Replacement	Total
South Africa	172.8	85.0	257.8
Ireland	199.0	161.0	360.0
Switzerland	84.3	106.9	191.2
	<b>456.1</b>	<b>352.9</b>	<b>809.0</b>

## FINANCIAL OVERVIEW: OFFSHORE DEBT OVERVIEW



R million	2018	2017
<b>SPAR Ireland: €-denominated</b>		
Balance at beginning of year	963.8	824.4
Finance costs recognised in profit or loss (6.7%)	72.3	60.1
Net exchange differences arising during the period	40.6	27.7
Fair value adjustment	139.5	51.6
<b>Balance at end of year</b>	<b>1 216.2</b>	<b>963.8</b>
<b>SPAR Switzerland: CHF-denominated</b>		
Balance at beginning of year	736.3	743.6
Finance costs recognised in profit or loss (2.0%)	14.3	14.2
Net exchange differences arising during the period (CHF to €)	2.9	(37.6)
Foreign exchange translation	24.0	16.1
<b>Balance at end of year</b>	<b>777.5</b>	<b>736.3</b>
<b><i>Total financial liabilities recognised</i></b>	<b>1 993.7</b>	<b>1 700.1</b>

Rmillion	2018	2017
Balance at beginning of year	-	-
Initial recognition	54.4	-
<i>Initial recognition reducing non-controlling interest balance</i>	27.6	-
<i>Initial recognition in equity reserve</i>	26.8	-
Finance costs recognised in profit or loss	6.4	-
Fair value adjustment	(11.6)	-
<b>Balance at end of year</b>	<b>49.2</b>	-
<b>Total financial liabilities</b>	<b>2 042.9</b>	<b>1 700.1</b>

## FINANCIAL OVERVIEW: RECONCILIATION OF NORMALISED HEPS\*



Rmillion	2018	2017	Change (%)
Reported headline earnings	1 859.6	1 834.7	+ 1.4
Adjusted for:			
• Fair value adjustment to financial liabilities	127.9	51.6	
• Foreign exchange (gain)/losses on financial liabilities	43.5	(9.9)	
• Business acquisition costs	16.3	3.0	
Normalised headline earnings	2 047.3	1 879.4	+ 8.9
<b>Normalised headline earnings per share (cents)</b>	<b>1 063.2</b>	<b>976.0</b>	<b>+ 8.9</b>
<i>Weighted average number of ordinary shares (millions) (net of treasury shares)</i>	192.6	192.6	
<i>Diluted weighted average number of ordinary shares (millions) (net of treasury shares)</i>	193.9	193.8	

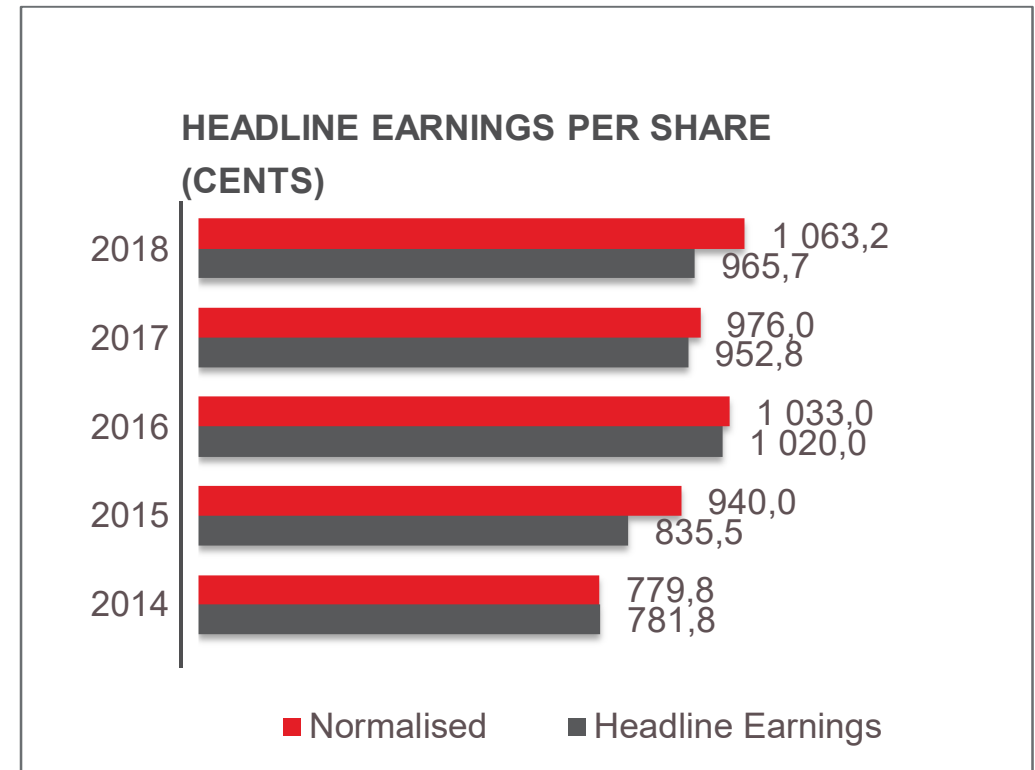
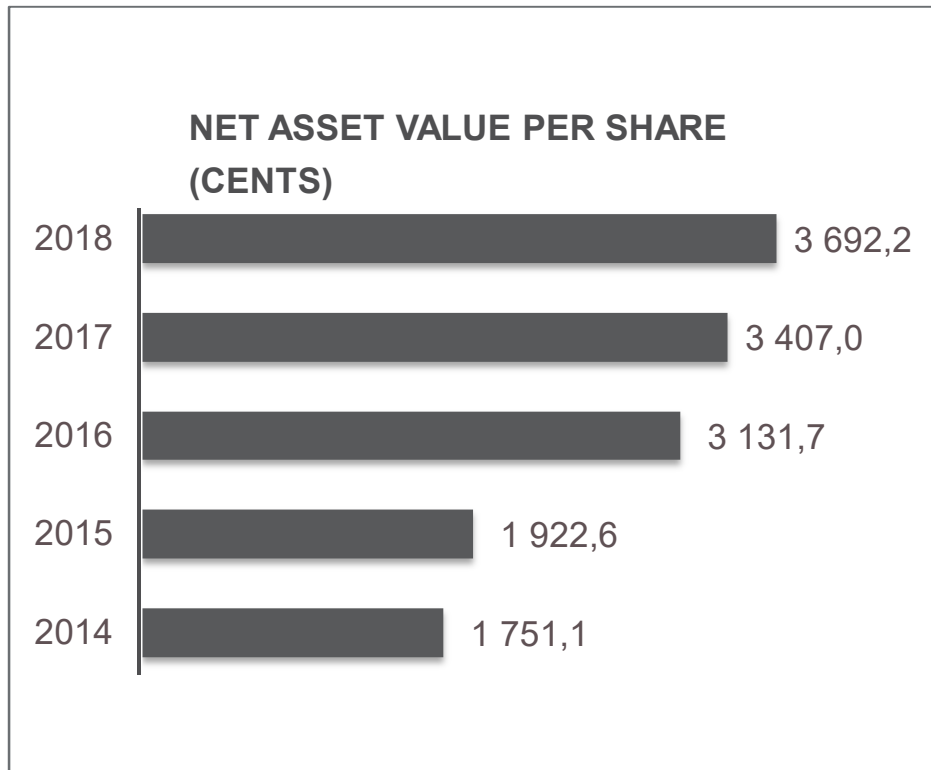
\* Normalised headline earnings is calculated as an additional performance indicator, to take into account the effect of business-defined exceptional items that have affected headline earnings during the year. This is calculated as headline earnings, adjusted for fair value adjustments to financial liabilities, foreign exchange gains or losses on financial liabilities and business acquisitions costs.



## FINANCIAL OVERVIEW: RECONCILIATION OF DIVIDEND



Rmillion	2018
Reported headline earnings	1 859.6
Adjusted for:	
• <i>Forex gain on financial liability measurement (non-cash related)</i>	43.5
• <i>Fair value adjustment to financial liabilities</i>	127.9
Adjusted headline earnings	2 031.0
Dividend cover	1.45 times
Dividend declared (total payable Rm)	1 400.7
<i>Shares ranking for dividend at declaration date* ('000s)</i>	192 602
Dividend per share (cents)	729.0



## FINANCIAL OVERVIEW: SALIENT FEATURES



R million	2018	2017*	Change %
Turnover	101 018.0	95 373.1	+5.9
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Dividend per share (cents)	729.0	675.0	+8.0
Net asset value per share (cents)**	3 692.2	3 407.0	+8.4

\* Restated

\*\* Weighted average number of ordinary shares (net of treasury shares)

192 563 180 (2017: 192 555 203)



# OPERATIONAL OVERVIEW

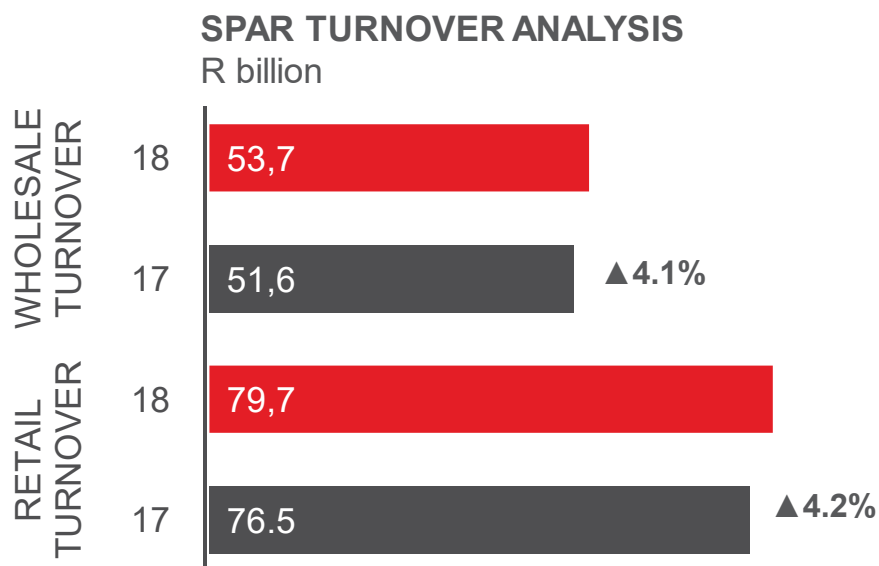
GRAHAM O'CONNOR  
CEO

- Internally calculated food inflation
  - FY18 - 1.4%
  - FY17 - 6.0%
- Combined SPAR & TOPS up 5.1% (retail sales)

Retail sales growth	Total growth %	Like-for-like %
SPAR	+4.2	+2.3
TOPS	+11.3	+7.5
Build it	+9.7	+7.4



- Total house brands turnover +4.3% to R10.7 bn (incl. all brands)
- SPAR private label turnover +5.8% to R8.5 bn
- SPAR natural store-in-store launched 2018
- Greater opportunity to drive consumer value and quality

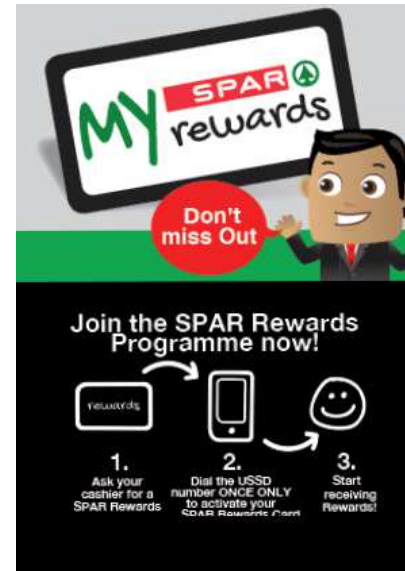


**SPAR** Natural

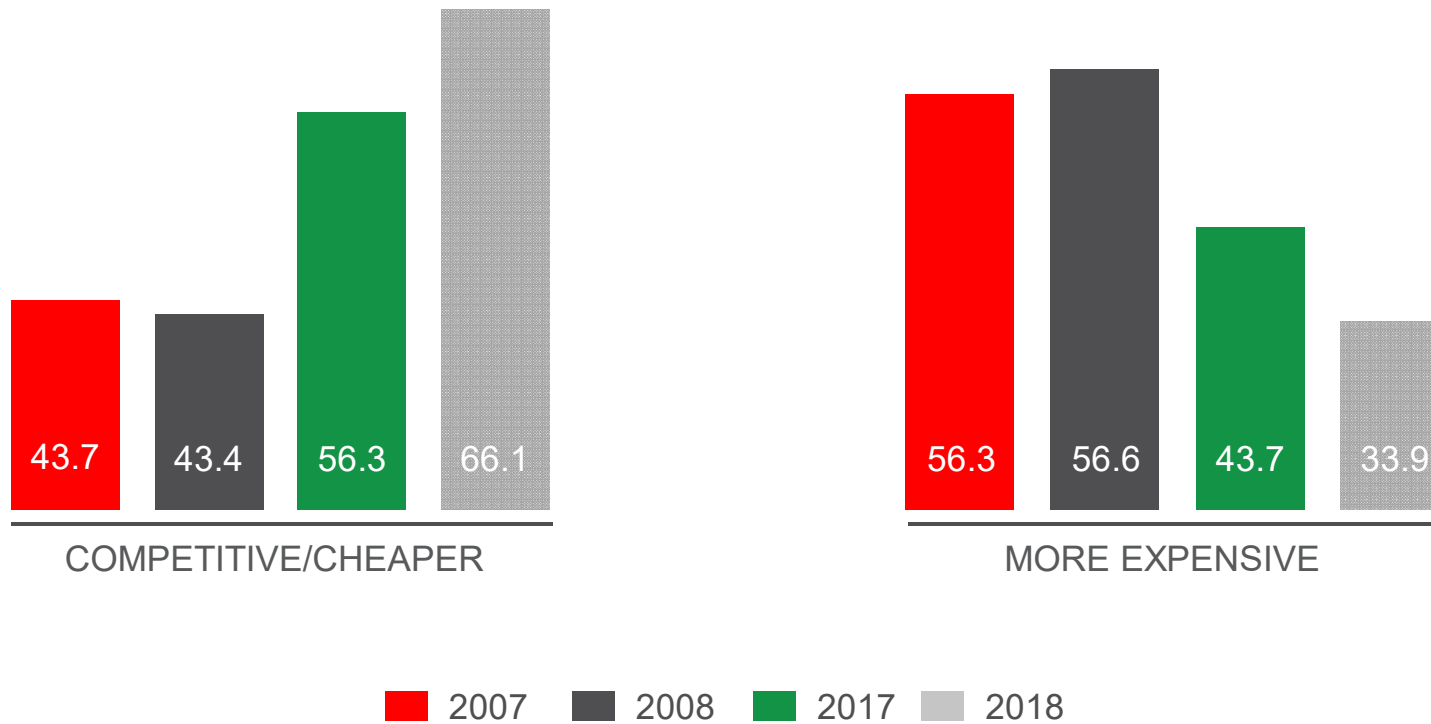


## Compelling pricing

- Advertising & promotions
  - My SPAR Rewards & SPAR TEXT ME!
  - Super Saturday Sale
  - Six week 55<sup>th</sup> birthday promotion
  - Win a car & Zyliss knives



SPAR PRICE PERCEPTION STUDY 2018

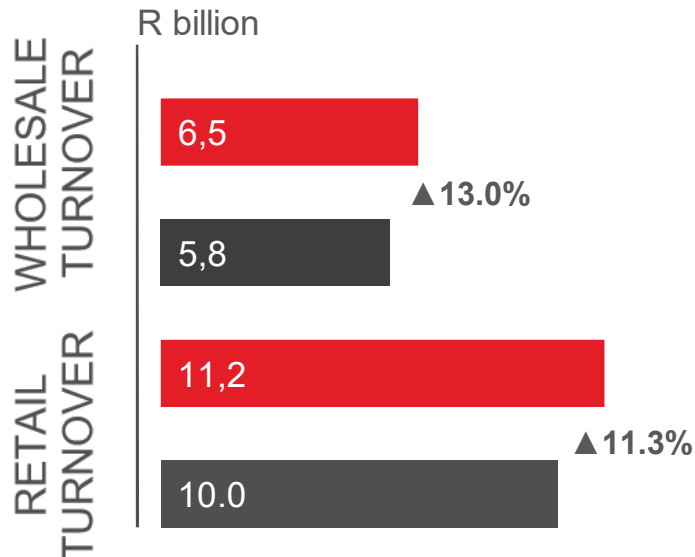




- “Good Advice” campaign
- SIPFEST campaign
- TOPS wine show
- Once again recognised as sector leader
  - Sunday Times Liquor Store of the Year
  - Daily News Choice Awards Best Liquor Store



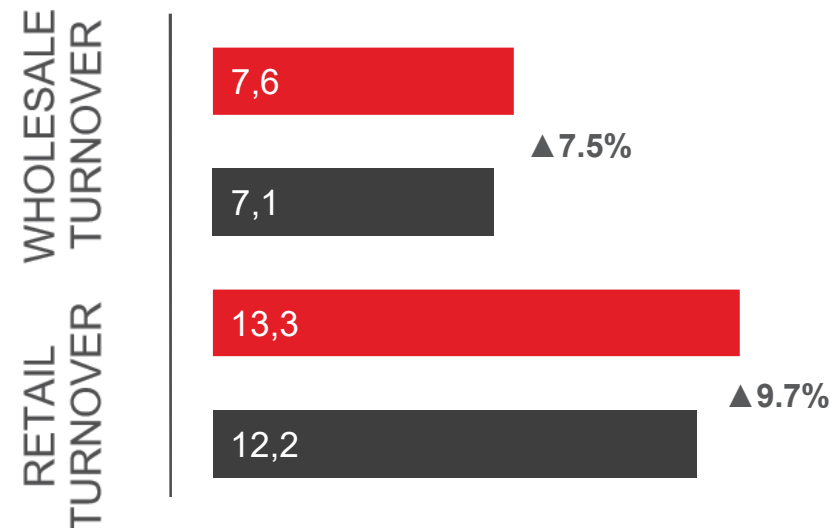
## TOPS TURNOVER ANALYSIS



- Increased retailer loyalty through improved product pricing
- Build it house brand sales and imports showed solid growth of 11% for the year
- Focus on retail execution is paying off



BUILD IT TURNOVER ANALYSIS  
R billion



- SPAR Express strategic partnership with Shell
- Petrol-forecourt convenience shopping
- Convenience combined with the value and quality customers trust in SPAR



## S BUYS pharmaceutical wholesale business

- Acquired with effect 1 Oct 2017
- Provides full pharmaceutical wholesale service for Pharmacy at SPAR retailers

## Pharmacy at SPAR

- Continued growth trajectory
- 26 new stores during FY18
- 101 stores at year end
- Retail turnover +44.3% to R961m



- Continued support of retailer profitability
- **GUEST** customer care program well received by retailers
- Changing perception of staff to treat customers as guests
- Putting 'consumers at our heart'



GREET

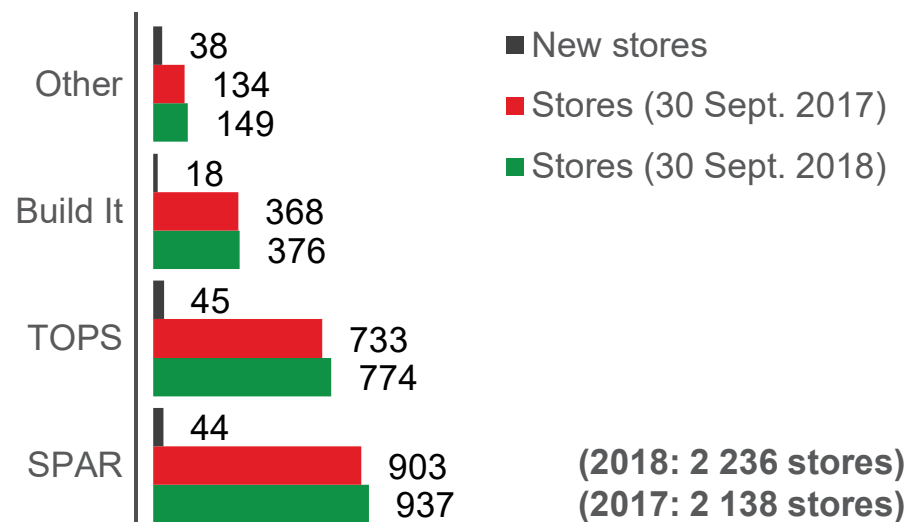
UNIFORM

ENGAGE

SELL

THANK

- Case volumes through distribution centres
  - +3.2% to 231.7m cases
  - reversing decline in prior year (2017: - 2.6%)
- Ongoing investments to support growth
  - S Buys pharmaceutical wholesaler R74.4m
  - Knowles shopping centre R165.7m
- Supporting retailer profitability through growth
  - 276 refurbishments including 170 SPAR stores
  - Additional upgrades across TOPS, Build it and Pharmacy



- Strong operational performance
- EUR-denominated turnover +4.2%, with positive sales growth across all retail brands
- Record case movements through Kilcarbery DC centre with turnover +6.9%
- Turnover for Gillets in SW England up 6.9% (sterling denominated)
- Positive contribution from 4 Aces wholesaler acquired during the year
- Record breaking year for Londis qualifying and winning industry awards
- Additional 105 stores; 1,371 stores in total end of FY18



- Core distribution centre turnover +0.6%
- Turnover impacted by weak retail environment and strategic closure of and sale of unprofitable corporate retail stores
- Significant improvement in logistics efficiencies, productivity and overall costs
  - Store delivery frequency
  - Fleet optimisation
  - In store ordering initiatives
  - Backhaul contracts
- Additional 46 new stores; 315 stores in total end of FY18







# STRATEGIC UPDATE – SOUTHERN AFRICA

GRAHAM O'CONNOR  
CEO



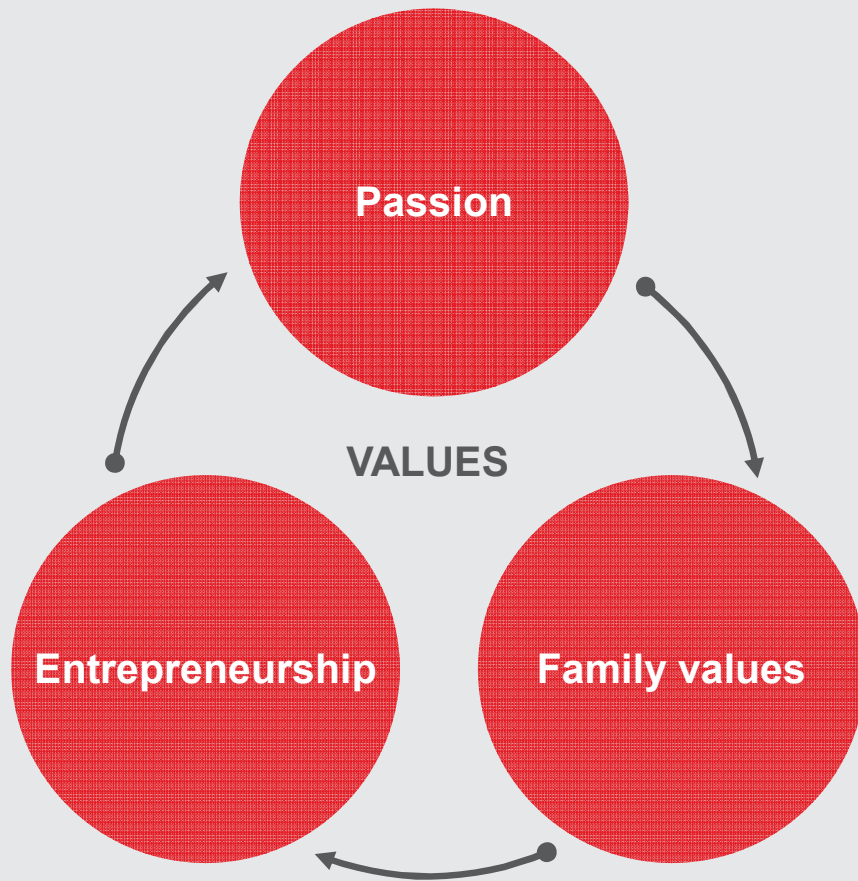
# REFRESHING OUR STRATEGY



OUR VISION

1<sup>ST</sup> CHOICE BRAND IN THE  
COMMUNITIES WE SERVE





1<sup>ST</sup> CHOICE BRAND IN THE COMMUNITIES WE SERVE





# PROSPECTS

GRAHAM O'CONNOR  
CEO

## SOUTHERN AFRICA

### Drive our retail business

- Ongoing investments in distribution network, competitive pricing and comprehensive product range
- Drive our retailer business through upgrades
- Drive on fresh
- Focus on GUEST programme
- Engagement with Government

## IRELAND

### Still good prospects

- Confident in delivering further solid results
- Best retail convenience offer in Ireland

## SWITZERLAND

### Focus on retail offering

- Maintain focus on driving strategic initiatives to improve turnover
- Focus on turnaround strategy

## GROUP

### Well-established retail brands in chosen markets

- Board and management are confident that group is well placed to continue delivering value
- Off-shore opportunities

## DISCLAIMER

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This presentation contains forward-looking statements about the company's operations and financial conditions.

They are based on **SPAR** Group Limited's best estimates and information at the time of writing. They are nonetheless subject to significant uncertainties and contingencies many of which are beyond the control of the company. Unanticipated events will occur and actual future events may differ materially from current expectations due to new business opportunities, changes in priorities by the company or its joint ventures as well as other factors. Any of these factors may materially affect the company's future business activities and its ongoing financial results.



