SPAR DELIVERS A STRONG PERFORMANCE, BOOSTED BY SATISFYING CONTRIBUTIONS FROM EUROPEAN BUSINESS OPERATIONS

INTERIM RESULTS FOR SIX MONTHS ENDED MARCH 2018

- **Turnover up 5.6%**
- **Profit before tax up 9.4%**
- **Headline earnings up 13.8%**
- **Net asset value per share up 10.9%**
- **Interim dividend declared 270 cents per share**

Overview of Trading Results

SPAR Southern Africa contributed a growth in wholesale turnover of 6.8%.

- The sales result was positively influenced by the earlier timing of the Easter holidays; however, this was muted by substantially lower internally measured food inflation and the general impact of the listeriosis outbreak.
- Sales in the chilled processed meat category were significantly affected, without a clear trend in substitute product sales becoming evident.
- The TOPS liquor brand continued to deliver impressive results with a wholesale sales growth of 12.6%.
- Despite a generally weak sector, the building materials business grew sales by 8.6% through increased retailer loyalty and strong marketing.
- The SPAR Southern Africa store network increased to 2 184 stores, with new stores opened across all brands.
- The group completed 131 store upgrades across all brands, compared to 89 upgrades in the previous period.

The **BWG Group (SPAR Ireland)** has once again delivered solid euro-denominated results, with all retail brands reporting positive growth.

- The BWG Wines & Spirits and BWG Foodservice businesses reported impressive double-digit turnover growths, while the Gilletts corporate stores continued to make a strong contribution to the overall Irish performance.
- SPAR Ireland's store network remained constant at 1 330 stores.

Despite the challenging sales environment, **SPAR Switzerland** has made significant progress in addressing the business performance.

- While the reported turnover growth remained negative, this was partly due to the strategic closure, or sale, of five unprofitable corporate retail stores in this period.
- The core wholesale and cash-and-carry businesses continued to record profitability improvements.
- SPAR Switzerland's total store network declined to 289 stores.

Commenting on the SPAR's performance, CEO Graham O' Connor, said:

"Our performance for the six months ended 31 March 2018 was strong, boosted by very good contributions from our European operations. The group achieved a 5.6% increase in turnover while profit after tax grew by 13.2%. Our Southern African business continued to be influenced by tough market conditions. Our TOPS liquor brand continued to deliver impressive results with wholesale turnover growth of 12.6%, and our building materials business had very good sales growth of 8.6% in a weak sector. The strong euro-currency performance of our Irish business, with 2.9% turnover growth in a flat environment, was further enhanced by significant appreciation of the Euro against the rand. Despite the challenging sales environment, SPAR Switzerland has made significant progress in addressing the business performance and reported a profit for the period."

"Despite the early indications of improving consumer and business confidence in Southern Africa, the trading environment is expected to remain very tough in the medium term. Our extensive distribution capability and market-leading brands are well positioned to deliver exceptional value to consumers in a tough environment.

The BWG Group's growth outlook, still underpinned by Brexit uncertainties, remains positive.

The acquisition of the 4 Aces wholesale business, subsequent to the reporting date, will further strengthen the Irish group's growth.

The Swiss business will maintain its focus on driving the identified strategic initiatives to improve the performance. We recognize that these plans will take time to realise but early signs point to positive change. "

Financial overview

Group Results

- The turnover of The SPAR Group grew by 5.6% to R50.0 billion (2017: R47.4 billion), with 30.6% of total turnover generated in foreign currency.
- The comparable Southern African business, with reported turnover growth of 5.4%, continued to be impacted by tough trading conditions despite early signs of improving consumer confidence.
- The turnover of the BWG Group increased by 2.9% in euro-currency terms.
- The depreciation of the rand against the euro over this period resulted in an 8.8% increase in reported turnover to R10.5 billion (2017: R9.6 billion).
- SPAR Switzerland contributed turnover of R4.8 billion (2017: R5.2 billion) with sales continuing to decline in an extremely difficult market.
- All regions benefited from the earlier timing of Easter in the current period compared to the prior year.
- The group's gross margin increased to 9.9% (2017: 9.6%).
    - Despite the competitive market, SPAR Southern Africa increased its gross margin slightly to 8.2%, as it continued to drive the fresh and perishable contribution through its facilities.

    - The BWG Group and SPAR Switzerland, which both operate in the higher margin convenience sector, reported gross margins of 12.1% (2017: 12.2%) and 17.7% (2017: 13.9%) respectively.
- Group operating expenses increased by 4.7%, or 3.8% if the newly acquired pharmaceutical business is excluded.
    - Expenses were significantly impacted by the 7.3% reduction in costs in the Swiss business.
    - In Southern Africa, comparable operating expenses were up 8.9%. This was attributable to strong increases in marketing and promotional expenditures which contributed 4.6%, higher transport and distribution costs and continued investment in IT infrastructure.
    - A further 1.9% of the increase is due to additional costs associated with the corporate stores.
    - The BWG Group's expenses grew by a well-controlled 2.1% in euro terms and were impacted by increased depreciation charges and higher staff costs.
- Profit before tax was up 9.4% to R1.3 billion (2017: R1.2 billion), but was impacted by a net interest expense of R25.2 million, compared to net interest income of R2.5 million a year ago.
- Profit after tax improved 13.2% to R1 027.7 million (2017: R908.0 million), due to lower effective tax rates in South Africa and Ireland.
- Headline earnings per share increased by 13.8% to 541.2 cents (2017: 475.5).
- The board approved an interim dividend of 270 cents per share.
- Cash generated from operations totaled R28.3 million (2017: R108.3 million) and decreased against the comparative period due to increased working capital levels.
    - This was largely attributed to the earlier timing of the Easter holiday.
    - The SPAR Group's cash flow from investing activities showed an outflow of R730.5 million, including total net capital expenditure of R384.9 million (2017: R505.5 million).
    - During this period the group also concluded two major acquisitions in South Africa, namely a controlling interest in the S Buys pharmaceutical wholesaler for R74.9 million and the Knowles Shopping Centre for R165 million.
    - Taking into account the impact of a net R216.8 million outflow to reduce borrowings, the group had a net overdraft position of R850.8 million (2017: overdraft of R153.3 million) at the reporting date.
- The group's capital expenditure during the period included operational investments of R124.5 million in Southern Africa.
    - These comprised primarily transport and logistics requirements and also include further investment in IT infrastructure upgrades and software development.
    - The BWG Group's capital expenditure amounted to R179.7 million, the majority of which was warehouse equipment, but also included additional investments in retail property.
    - Capital expenditure in the Swiss operations of R102.4 million was incurred, including further store refurbishments and ongoing technology upgrades to enhance the retail offering.
    - The group made further investments of R70.6 million to acquire seven corporate stores, defending strategically located retail locations in South Africa and the United Kingdom.
    - The capital expenditure budget in Southern Africa for the next six months is expected to reduce to normal operating levels, as no further property acquisitions are planned and construction plans for the previously announced distribution facilities will not commence before 2019.

GEOGRAPHICAL REVIEW

SPAR Southern Africa

- The turnover of SPAR Southern Africa increased 6.8% to R34.7 billion (2017: R32.5 billion), but was positively influenced by the inclusion of the S Buys pharmaceutical business acquired on 1 October 2017.
- Excluding this new turnover, the comparable business grew by 5.4% (2017: 4.9%), reflecting the continued tough retail market, which remains underpinned by weak consumer spend.
- This result was positively boosted by extremely strong liquor turnover growth of 12.6% and a very pleasing increase in the building materials business of 8.6%.
- The latter was contrary to a weak sector performance and reflected increased retailer loyalty and strong marketing investments.
- Combined food and liquor wholesale turnover growth was recorded at 5.1% and has to be viewed against internally calculated food inflation of 1.9%.
- This inflation measure has fallen 6.3% from that reported in the 2017 results.
- Case volumes handled through the seven distribution centres continued to reflect the constrained market and increased 2.6% to 115.4 million cases (2017: 112.5 million cases).
- This positive growth reversed the decline in cases delivered experienced in the comparative period.
- The retail turnover of **SPAR** stores increased 4.9% to R40.4 billion (2017: R38.5 billion) and recorded like-for-like growth of 2.9%.
    - The combined food and liquor retail sales, which allow for a better industry comparison, increased by 5.7% and should be viewed against the significant decrease in food price inflation over the year.
    - Wholesale turnover grew 4.2% to R27.2 billion, continuing to reflect the independent retailers' support of the group's voluntary trading model.
    - The SPAR-branded private-label products continued to offer real consumer value and quality and remain a shopping differentiator for SPAR retailers. The substantial deflation recorded in certain commodity categories impacted the private-label turnover which increased by a muted 2.9% to R5.3 billion.
    - Wholesale perishable sales growth continued to outstrip the ambient categories in line with the group's strategic focus on Fresh and was underpinned by strong performances in the butchery, bakery and frozen product categories.
    - The group maintained a strong organic growth focus to support the profitability of existing retailers.
    - Total retail space recorded an impressive growth of 2.7% (2017: 0.6%) and was boosted by several large new stores.
    - In addition, 80 SPAR stores were refurbished during the period to ensure they continued to provide retail offerings to exceed consumer demands.
    - A net 18 stores were opened, bringing the total SPAR store numbers to 921 by 31 March 2018.
- The retail turnover of **TOPS at SPAR** increased 12.8% to R5.8 billion (2017: R5.2 billion), as strong marketing initiatives and continued brand growth attracted consumer spend.
    - Same store growth amounted to 8.6% for the period.
    - Wholesale turnover closely tracked the retail performance and grew by 12.6% to R3.4 billion (2017: R3.0 billion).
    - During the period, the TOPS at SPAR store network increased by 21 stores on a net basis to 754 stores, while 29 stores were revamped.
- **Build it's** retail turnover growth increased to 10.4% for the period, significantly higher than building sector calculated inflation of 3.4%, and against the backdrop of a challenging trading environment.

    - This performance was underpinned by further innovative marketing and a focus on retail execution to differentiate the brand.
    - The group's buying teams drove increased retailer loyalty through improved product pricing. The influence of cement, which is a significant component of Build it's overall sales, has largely stabilised and the industry has seen slight inflation in this commodity over the period.
    - Retail activity in the neighbouring countries reported strong growth increases in Mozambique, while Namibia reported improved performance, despite ongoing country challenges.
    - At a wholesale level, turnover increased 8.6% to R3.7 billion (2017: R3.4 billion) reflecting further opportunities to increase retailer loyalty.
    - Build it's house brand imports showed solid growth of 10.7% for the period.
    - As at 31 March 2018, Build it's store network totalled 371 stores, having opened a net three stores in the period.
- The **S Buys** pharmaceutical wholesale business was acquired with effect from 1 October 2017 with revenue and profit recognised for the first time in this period.
    - This strategic investment will support the Pharmacy at SPAR brand and management are actively working to convert purchases to the wholesaler.
    - At the end of the period there were 94 Pharmacy at SPAR stores.
    - The S Buys Group reported turnover of R438.4 million for the period, which amounted to an impressive growth of 11.3%, driven by increases of 14.9% in the Scriptwise business catering for high-value speciality scripts and 9.7% in wholesale sales.
    - The profitability of the business was, however, impacted by a lower than expected government regulated price increase.

SPAR Ireland

- The BWG Group again delivered strong results for the six months and reported euro-denominated growth of 2.9%.
- Recent deflation trends have slowed and reversed in certain retail categories. Latest measures indicate that food and non-alcoholic drinks declined 0.2%, while alcohol and tobacco increased by 0.1%. An increase in consumer spending in the grocery retail sector remains elusive.
- The business recorded significant turnover growths in the month of March, not only impacted by the earlier Easter, but also driven by the major storm weather that closed down large portions of Ireland and the United Kingdom as consumers bought in large quantities of food and beverages.
- The hospitality sector remained strong and again boosted the sales of the BWG Wines & Spirits and BWG Foodservice divisions which reported turnover growths of 11.8% and 18.6% respectively.
- In comparison with last year, all retail brands recorded positive growth, with the XL brand increasing by 6.3% and Londis reporting turnover up by 6.2%.
- The BWG Group suffered from the loss of a small retail group but still managed to close the period with an unchanged number of total stores.
- The group's distribution volumes continued to show good increases and record case movements were handled in the Kilcarbery distribution centre.
- Recent recognition through several prestigious logistics and transport awards, including the Irish Logistics Company of the Year award, was a real highlight for this business.
- In South West England, the Gilletts corporate stores grew by 7.4% and further contributed to the increased group turnover.
- Appleby Westward, BWG Group's wholesale operations, showed a decline following the loss of two independent retailer groups in the previous year.

- The combined business reported a decline in turnover of 0.2% in sterling terms. The further weakening of the sterling increased the loss in reported euro terms to 2.5%.
- This business represents approximately 11.7% of the consolidated BWG Group.
- The total number of stores across BWG Group's store formats as at 31 March 2018 remained unchanged at 1 330, with 26 new stores opened.
- The group's management continued to apply strict cost management measures which underpinned the double-digit growth in profit.

- Subsequent to the reporting period, the BWG Group announced the completion of the acquisition of 4 Aces Wholesale, a leading independent wholesaler supplying the grocery retail, licensed and foodservice trades in Ireland.
- The acquisition of the wholesaler provides the group with new trading relationships with the Gala convenience stores that are currently serviced by 4 Aces, in addition to over 1 500 independent retail and trade customers.

SPAR Switzerland

- Sales of SPAR Switzerland continued to be negatively impacted by low economic growth in the market.
- While slight inflationary trends have been noted – with prices of food and non-alcoholic beverages increasing by 0.9% and alcoholic beverages 0.4% higher, and a slight devaluation of the Swiss franc against the euro – these have been insufficient to slow the attraction of cross-border shopping. Largely as a result of this impact, SPAR Switzerland reported a decline in local currency measured turnover of 5.3%. However, this result was partly influenced by the strategic decision to exit from five unprofitable corporate retail stores.
- Six new stores were opened and at the end of the period there were 289 SPAR and SPAR Express stores serviced.
- The cash-and-carry business, trading as TopCC, reported a modest recovery in turnover which was attributed to the various marketing programmes.
    - The sector continues to be adversely impacted by the declining Swiss restaurant and hospitality sectors.
    - The group is investigating upgrade opportunities in these stores with an increased emphasis on liquor, butchery and fresh produce offerings.
    - Warehouse turnover improved as SPAR retail activity was positively influenced by several innovative marketing campaigns and programmes, including the launch of a consumer loyalty card. The decline in warehouse volumes has largely been halted and turnover reported for this period was flat when measured against the comparative period.
- Despite the decline in overall turnover, the business succeeded in improving margins and reducing costs. The latter saving was assisted by the corporate store closures and substantially contributed to the overall result.
- The region reported turnover of R4.8 billion for the six months (2017: R5.2 billion). Profit before tax increased to R47.7 million from a previous year loss of R39.8 million.

Distributed by The SPAR GROUP

Notes to the editor

The SPAR Group (SPAR) commenced trading in South Africa in 1963 and is listed on the Retail sector of the JSE Limited. It is primarily a wholesaler and distributor of goods and services to some 2 184 independent retailers who trade under the SPAR brand as Superspar, SPAR, Kwikspar and SaveMor supermarkets; Build It building materials outlets; TOPS at SPAR liquor stores and Pharmacy at SPAR healthcare outlets.

Seven distribution centres provide goods and services to retail stores in South Africa, Swaziland, Botswana, Lesotho, Mozambique and Namibia. In addition, SPAR wholesales goods to independent SPAR stores in Zambia, Zimbabwe and Malawi although these stores do not fall under a licence agreement controlled by SPAR South Africa.

Distribution centres handle nearly 70% of SPAR's turnover, with the remaining 30% of value delivered directly by suppliers to stores.

SPAR has a controlling interest in the BWG Group, a leading food retail and wholesale distribution company and SPAR brand owner, with operations in Ireland and South West England, servicing 1 330 stores. SPAR owns 60% of SPAR Switzerland, which supplies a wide range of food and beverage products to consumers through 289 company-owned and independent retailer stores as well 11 company-owned cash-and-carry outlets.

SPAR, as well as all the independent retailers using the SPAR brand, are members of either the SPAR or the Build It guilds, who in turn are members of SPAR International. SPAR International has been operating according to the principles of voluntary trading for more than 80 years and has retail operations in 48 countries, with South Africa being the second biggest contributor.

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