



Presentation of consolidated results

For the quarter ended 28 December 2013



Strategic and operational update



Jürgen Schreiber
CEO

Financial review



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Looking forward



Jürgen Schreiber
CEO

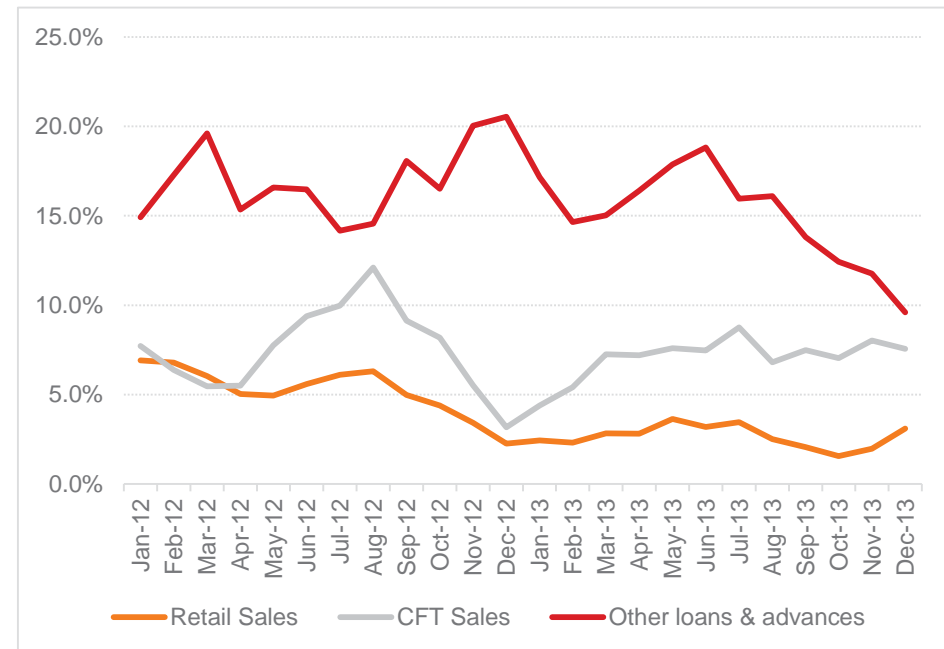


Strategic and
operational update

Macro backdrop

- Growth in unsecured lending continues to slow
- CFT sales growth relatively consistent
- Deteriorating consumer outlook
 - Higher inflation
 - Rising, but still low, interest rates following unexpected hike in Jan 2014
 - Weak consumer confidence
- ZAR weakness

Credit growth versus retail sales (1)



(1) Stats SA and SARB – Jan 2014





Key strategic levers remain priority

Comparable store growth

- Revamp stores and service
- Store optimisation
- Assortment: brands and improved private label
- Leverage loyalty programme

Margin expansion

- Sourcing
- Pricing management
- Group efficiencies

New space growth

- Grow existing format footprint
- Rollout of tested new formats
- Expand into rest of Africa

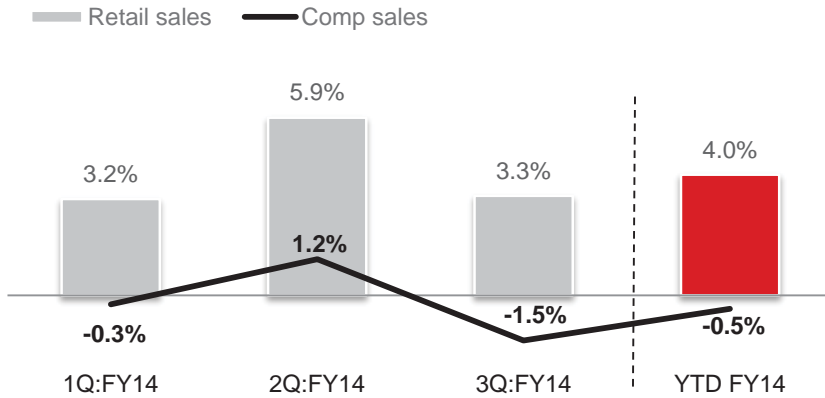
Credit

- Implement a second look credit provider
- Broaden financial services offering

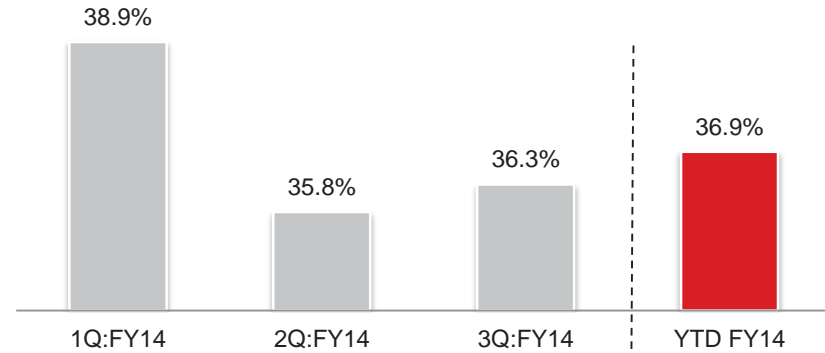


Performance against strategic levers

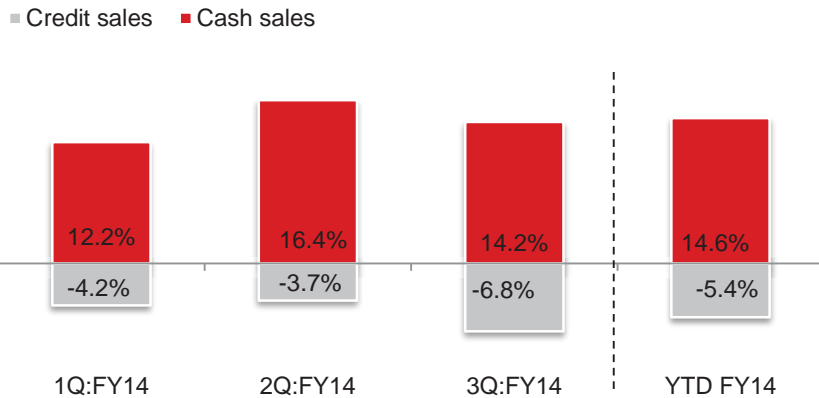
Sales growth



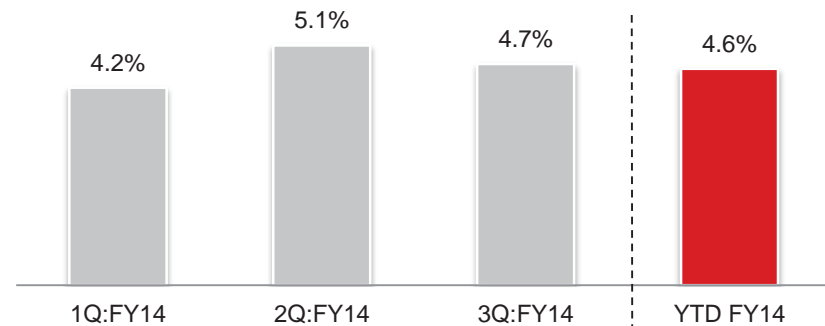
Margin ⁽¹⁾



Credit and cash



New space growth ⁽²⁾



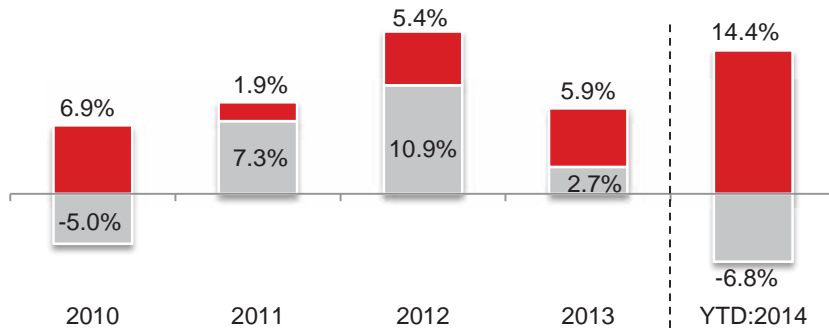
(1) Gross profit margin; (2) Average space growth for the period
All numbers include Edgars Zimbabwe



A solution to declining credit sales required

Edgars division

■ Credit sales ■ Cash sales

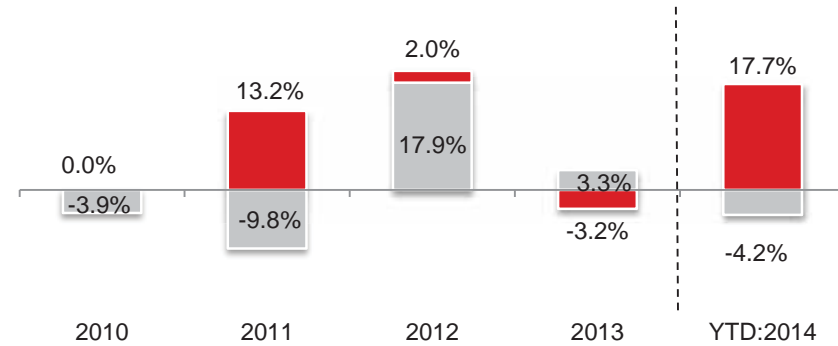


Credit as % of sales

2010	2011	2012	2013	YTD:FY14
57.9%	59.1%	60.4%	59.6%	55.5%

Discount division

■ Credit sales ■ Cash sales



Credit as % of sales

2010	2011	2012	2013	YTD:FY14
46.0%	40.5%	44.0%	45.6%	41.3%





Edgars division performance for Q3:FY14

Sales growth

- Diversity between cash sales growth of 13.5% and credit sales decline of 8.3%
- Sound performance in specialty and mono-branded stores
- Mixed trading performance in refurbished stores

Retail Sales

0.6%



LFL

4.8%



New space growth

- Expansion key
- 15 new stores (5 closures):
 - 7 Edgars Active
 - 5 Edgars,
 - 2 Boardmans
 - 1 Edgars Shoe Gallery

Average

756.0m²

476 stores

4.5%



Margin expansion

- Margin pressure expected to continue in the short term
- Impacted by higher level of promotional activity required based on low credit sales

GP margin

37.8%

3.2pts



Mixed results across the division...

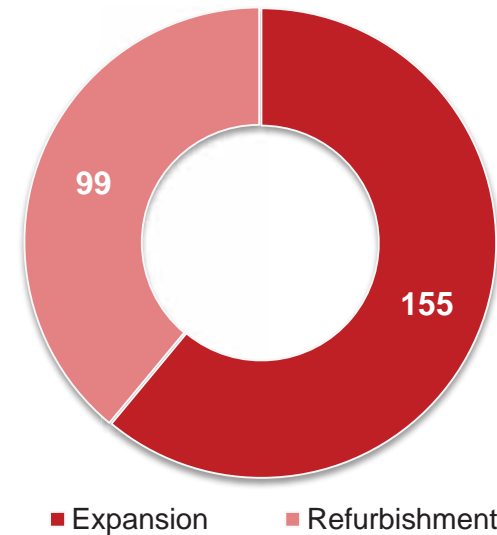




Capital investment key to transformation

- Total of R254m spent in the quarter
 - R791 million⁽¹⁾ spent YTD
 - Expect to bring forward capex from FY2015
- Edgars refurbishment substantially completed
 - All but two expansion stores completed
 - Cumulative spend of R517 million at end of Q3:FY14 for refurbishment project
 - Expansion in key malls a key part of refurbishment project

Capex Q3:FY14
(R millions)



(1) Includes R9 million incorrectly allocated to "other corporate capex" in Q1:FY14





Discount division performance for Q3FY14

Sales growth

- Diversity between cash sales growth of 18.2% and credit sales decline of 4.8%
- All merchandise groups performed well

Sales
7.8%



LFL
2.8%



New space growth

- Driving space in both SA and beyond
- 28 new stores (9 closures):
 - 17 Jet
 - 4 Jet Mart
 - 7 Legit

Average
614.6m²
685 stores

5.7%



Margin expansion

- GP margin continues to improve based on
 - Product mix
 - Merchandise flow
 - Improved buying

GP margin
35.0%

0.7pts



Pleasing performance...

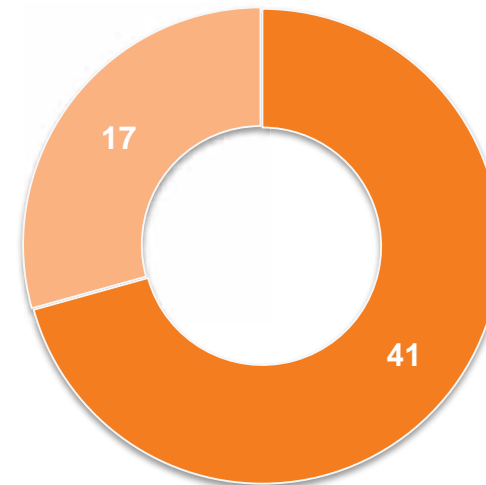




Measured capital expansion programme

- Total of R58 million spent in the quarter
 - R207 million⁽¹⁾ spent YTD
- Store expansion on proven business model
- Number of stores outside of South Africa increased to 163 from 129 in 3Q:FY13

Capex Q3:FY14
(R millions)



■ Expansion ■ Refurbishment

(1) Includes R8 million incorrectly allocated to "other corporate capex" in Q1:FY14
Note: Rest of Africa performance includes Edgars, Edgars Active, Jet and Jet Mart stores





CNA division performance for Q3FY14

Sales growth

- Retail sales up 0.3%, credit a much smaller part of the business
- Continued growth in digital merchandise sales

Sales

0.3%



LFL

0.8%



New space growth

- Space decrease in line with strategy
- 5 new stores and 3 closures
- Capex spend of R17m YTD
 - R6 million spent in 3Q:FY14

Average

87.9 m²

196 stores

2%



Margin

- Margin decrease due to digital sales and mix.

GP margin

29.7%

2.1 pts



Right sizing this business...





Financial review



Key considerations for Q3:FY14

Mix impact

- Edgars contribution significantly impacting overall results

Q3:FY 14 contribution	Retail sales	Gross profit
Edgars	52.1%	54.2%
Discount	38.9%	37.4%
CNA	7.3%	6.0%
Zimbabwe	1.7%	2.4%
Total	100%	100%

- Credit: Cash sales ratio of 47.2% (vs 51.4% in 3Q:FY13)

Margin management

- Gross profit improvements in Discount while Edgars and CNA margin declines
 - Margin pressure anticipated while credit sales issue continues in Edgars division
- Edgars has been transforming its overall offering for some time now but the chain is still below its productivity and efficiency targets. The rationalization of the Edgars employee structure follows, and is part of, the optimisation initiatives that are being implemented.





Statement of comprehensive income

Q3:FY13	Q3:FY14	% change	(R millions)	YTD:FY13	YTD:FY14	% change
8 506	8 787	3.3	Retail sales	20 202	21 009	4.0
3 226	3 193	(1.0)	Gross profit	7 533	7 759	3.0
37.9	36.3	(1.6)pts	<i>Gross profit margin</i>	37.3	36.9	(0.4)pts
185	241	30.3	Other income	507	743	46.5
(1 399)	(1 578)	12.8	Store costs	(3 811)	(4 193)	10.0
(1 676)	(1 126)	(32.8)	Other operating costs	(3 481)	(3 380)	(2.9)
167	176	5.4	Income from joint operation	482	534	10.8
503	906	80.1	Trading profit	1 230	1 463	18.9
1 284	1 200	(6.5)	Pro forma adjusted EBITDA	2 393	2 408	0.6



Growth in pro forma adjusted EBITDA

Q3:FY13	Q3:FY14	% change	(R millions)	YTD:FY13	YTD:FY14	% change
503	906		Trading profit	1 230	1 463	
260	294		Depreciation & amortisation	793	848	
5	2		Net asset write off ⁽¹⁾	21	4	
28	(22)		Profit/(Loss) before tax from discontinued operations	334	(36)	
566	15		Non-recurring costs ⁽²⁾	564	127	
1 362	1 195	(12.3)	Adjusted EBITDA	2 942	2 406	(18.2)
(93)	2		Net income from previous card programme ⁽³⁾	(702)	(23)	
15	3		Net income from new card programme ⁽⁴⁾	153	25	
1 284	1 200	(6.5)	Pro forma adjusted EBITDA	2 393	2 408	0.6
15.1%	13.7%	(1.4) pts	<i>Pro forma adjusted EBITDA margin</i>	11.8%	11.5%	(0.3) pts

(1) Relates to assets written off in connection with store conversions, net of related proceeds.

(2) Relates to one off strategic initiatives in Q3:FY13 of R9m (YTD:FY13 R78m), costs associated with the sale of the trade receivables book in Q3:FY13 of R557m (YTD:FY13 R627m) and Q3:FY14 of R1m (YTD:FY14 R78m), costs associated with corporate and operational overhead reductions in Q3:FY14 of R14m (YTD:FY14 R49m) and income on termination of Mastercard agreement in YTD:FY13 of R141m .

(3) Net income derived from 100% of the trade receivables including finance charges revenue, bad debts and provisions.

(4) Pro forma fee earned by Edcon under the new arrangement with Absa, based on 100% of the trade receivables book.



Update on cost programme

(R millions)

Q3:FY14

LTM pro forma adjusted EBITDA (reported)

2 775

Permanent adjustments:

Corporate and operational overhead reductions

45

Renegotiation of contracts

34

LTM pro forma adjusted EBITDA (incl. adjustments)

2 854

Normalised pro forma net debt/LTM pro forma adjusted EBITDA (times)

6.7

- No new cost initiatives included, but further work well under way to manage costs going forward
- Benefit of approx R73 million included in the quarter's profit



Other operating costs

- Good cost containment with other operating costs decreasing by 3.5%
- Store card administration in for only 2 months in prior year and lesser portion of the trade receivables book
- Lower non-recurring costs helped improve trading profit and cashflow

(R millions)	Q3:FY13	Q3:FY14	% change
Other operating costs	1 009	974	(3.5)
Store card administration	101	137	
Non-recurring (income)/costs	566	15	
Total other operating costs	1 676	1 126	(32.8)

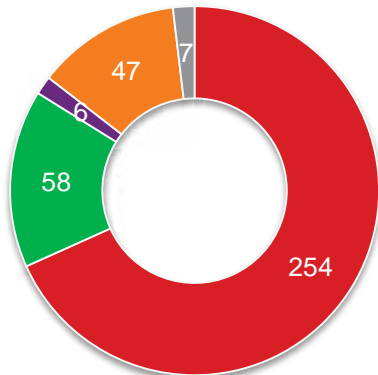
Store costs

- Store costs increased 12.8%
 - Specifically in Edgars division
 - Discount divisional costs well maintained
- Rental and manpower costs (which constitute 62.7% of store costs) increased 17.9% and 13.0% respectively



Total capex breakdown

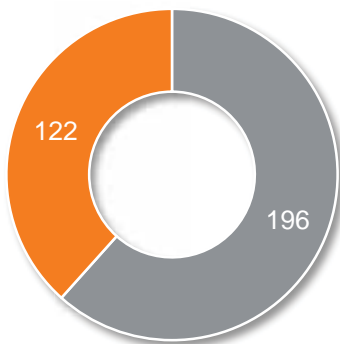
(R millions)



■ Edgars ■ Discount ■ CNA ■ IT ■ Other

Store capex mix

(R millions)



■ Expansion ■ Refurbishment

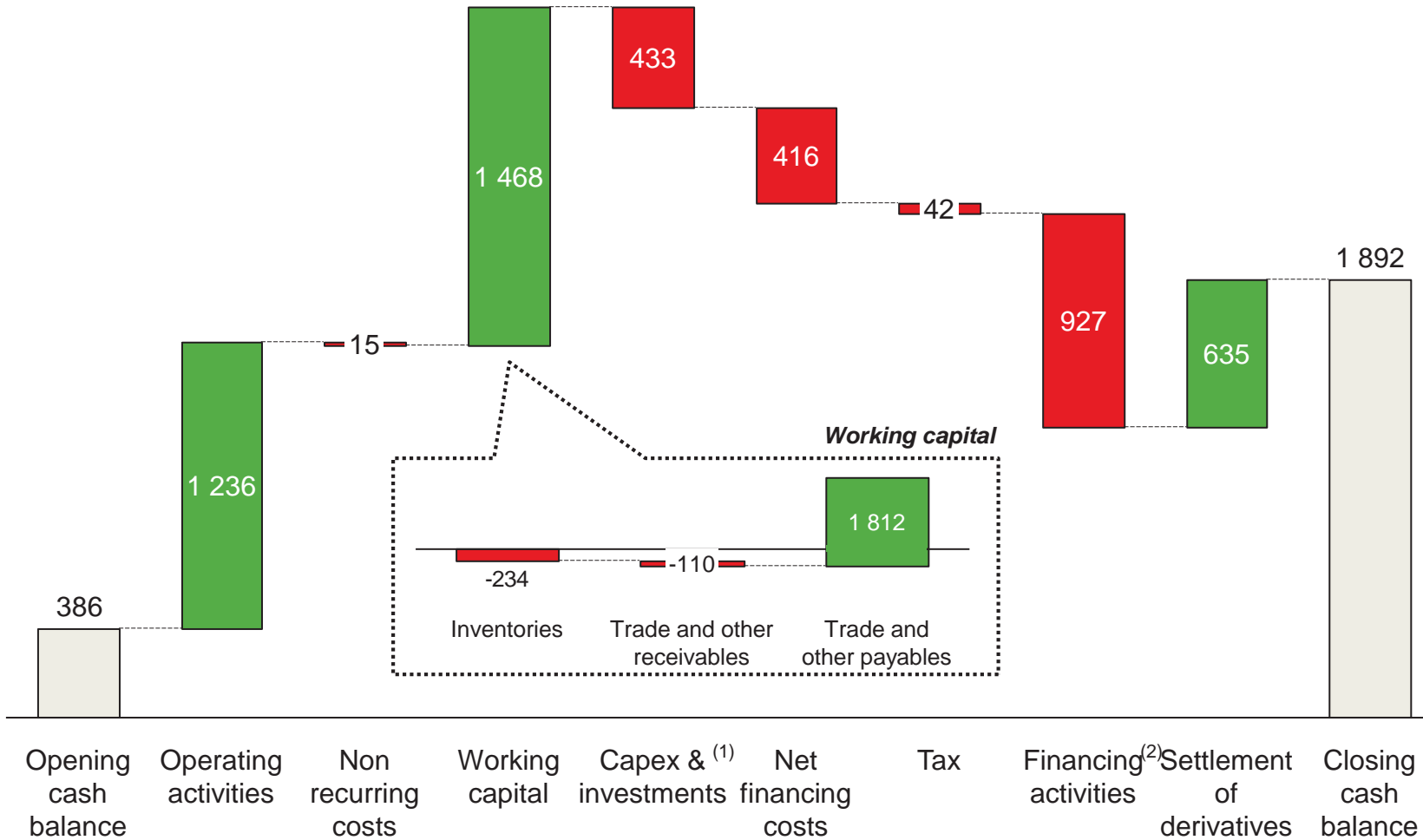
Refurbishment still the priority

- Total capex, excluding leases, of R372m for Q3:FY14
 - 29 stores opened (excl. 26 conversions)
- R151m increase in store spend to R318m in Q3:FY14 from R167m in Q3:FY13
 - Edgars expansion refurbishment project costs of R254m for Q3:FY14
- Expecting to spend R100-R150 million more than previous estimate of R1,175m for FY14
 - Bringing forward from fiscal year 2015





Cashflow for Q3:FY14



(1) Includes R431m of capital expenditure and R2m of other investing activities

(2) Includes R1m FX movement



Liquidity and capital resources adequate

Key considerations

- Undrawn RCF of R3 881m
 - R3 717m matures 31 December 2016
 - R250m matures on 31 March 2014
- Lowest point in the working capital cycle
- Working capital management requires focus post implementation of strategic change
- Proceeds from sale of the book still to come of approximately R747m
- No medium term refinancing concerns
- Remain exposed to foreign currency movements

(R millions)	Q3:2013 Drawn ⁽¹⁾	Q3:2014 Drawn ⁽¹⁾
Super senior secured		
Revolving credit facility in ZAR	199	86
2016's ZAR Floating notes – J+625bps	1 010	1 010
Senior secured		
2017 ZAR Term loan – J+700bps		4 001
2014's Floating notes – E+325bps	12 705	
2018's € Fixed rate – 9.5%	3 419	8 619
2018's \$ Fixed rate – 9.5%	2 118	2 585
Deferred option premium	352	1 034
Lease liabilities	322	284
Senior		
2015's € FRN's – E+550bps	4 182	
2019's € FRN's – 13.375%		5 903
Other loans⁽²⁾	137	163
Gross debt	24 444	23 685
Derivatives	(1 131)	(2 020)
Cash on hand	(6 706)	(1 892)
Net debt	16 607	19 773

(1) FX rates at Q3:FY13 were R8.47:\$ and R11.20: € and at Q3:FY14 were R10.50:\$ and R14.44:€

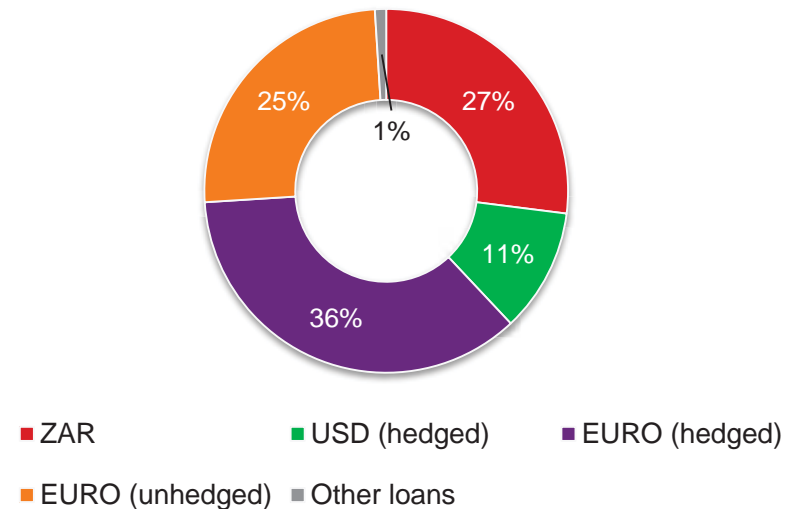
(2) R137 million in Q3:FY13 and R160 million in Q3:FY14 relates to Edgars Zimbabwe



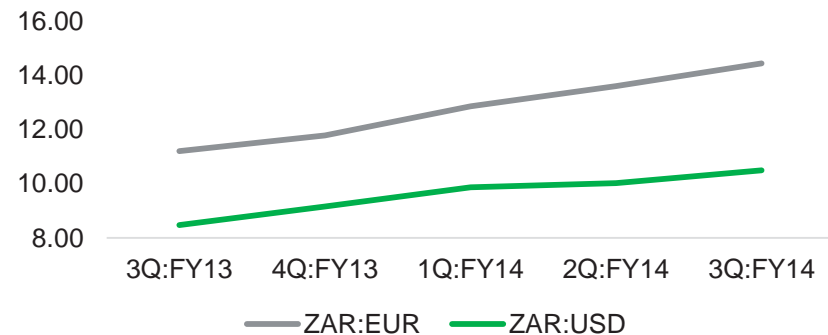
Ongoing foreign exchange management

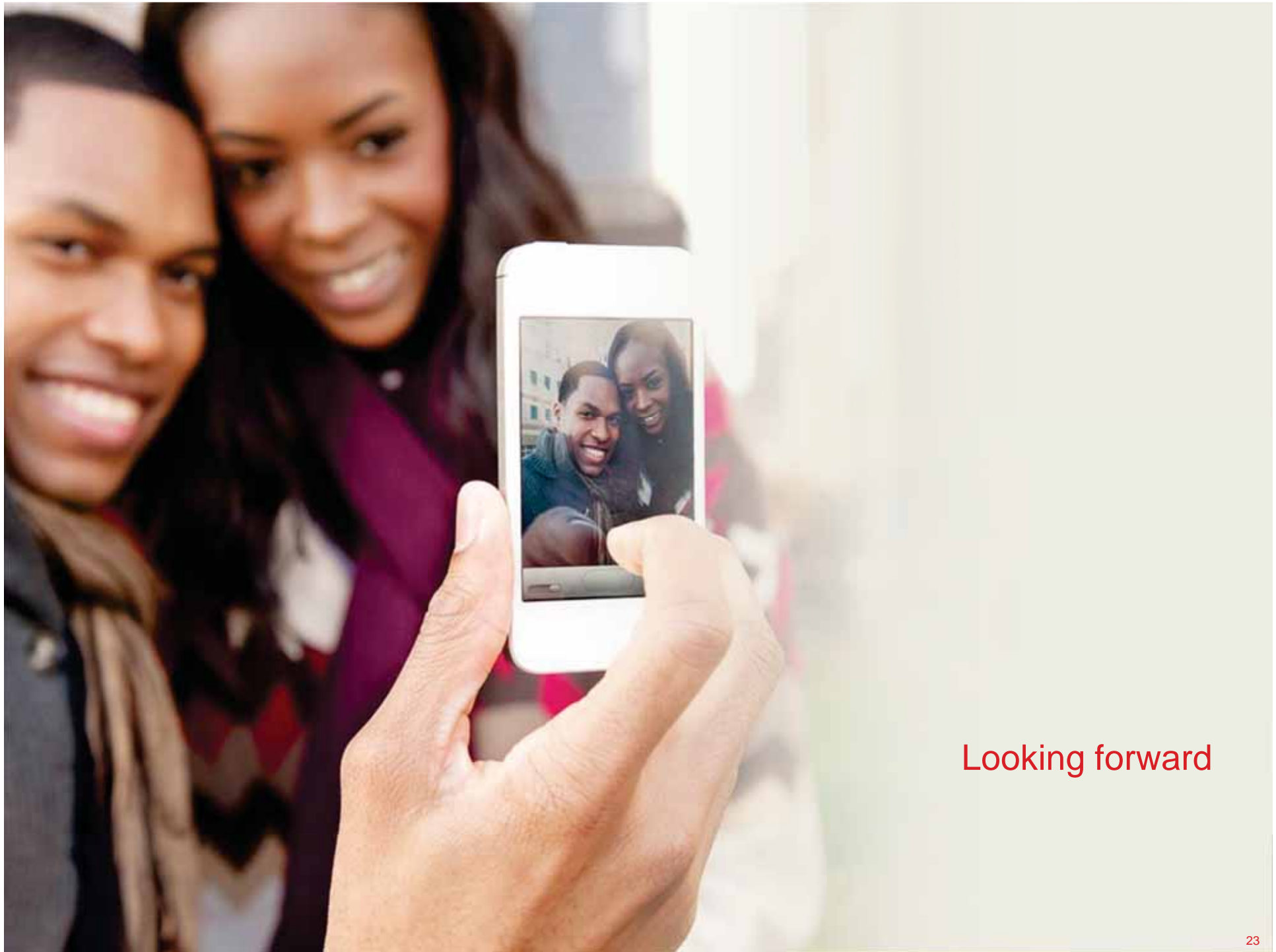
- Only 2019 fixed rate notes remain exposed to FX movements
 - R322 million loss in the quarter due to a 6.2% ZAR depreciation against the EUR
- All coupons fully hedged to Mar 2015
- Deferred option premiums (“DOP”) are expensed when incurred on a fair value basis
 - R255 million of net loss attributable to the increase in DOP in the quarter
- After the reporting period ended, all Mar 2014 maturities were extended to Dec 2015
 - Net proceeds of R45 million received

Hedging of gross debt



Exchange rate movement





Looking forward

- Finalise and implement on a second look credit provider solution to grow credit sales
- Refinement to transformation made in Edgars store chain
- Improving productivity and efficiency within Edgars store chain
- Maintain Discount division strategy and further enhance position
- Continue to develop winning *Thank U* loyalty card programme
- Execute on space growth pipeline and vision for rest of Africa
- Leverage specialty store and mono-brand store opportunities
- Management team changes drive energy and focus





Thank you

For more information

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