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EDCON STRATEGIC CHANGE PROGRAMME DELIVERING ENCOURAGING RESULTS

Key features

Pertaining to the first quarter 2018 compared to the first quarter 2017:

- ***Strategic change programme showing encouraging results in various categories***
- ***Trading profit up 165.4% to R89 million from a loss of R136 million***
- ***Pro-forma adjusted EBITDA increased by 12.7% to R354 million***
- ***Overall like-for-like retail sales decreased by only 1.4%, and Edgars' like-for-like sales increased 1.6%***
- ***Gross profit margin up 60 bps from 38.3% to 38.9%***
- ***Net cash inflow from operating activities increased by R525 million to an inflow of R151 million from an outflow of R374 million***
- ***Improved results delivered despite retail credit sales decreasing by 7.4% and cash sales down 8.0% (with more than 200 less stores, including the exit of Legit)***
- ***Store costs decreased by 8.5%***

Johannesburg, 18 August 2017: Edcon, South Africa's largest clothing and footwear retailer, has increased its pro-forma adjusted EBITDA by 12.7% for the three-months ended 24 June 2017, which is the best period since the first quarter of fiscal 2016.

Although underlying business conditions in South Africa deteriorated, which continued to impact the retail sector during the first quarter FY2018, Edcon's pro-forma adjusted EBITDA increased from R314 million to R354 million.

Chief Executive, Bernie Brookes, commented, "Our strategic repositioning and transformation process has started indicating the green-shoots of change. These results demonstrate the initial indicators of our turnaround plan. Edgars and Jet delivered better customer service scores, an improvement in retail sales performance, and there was excellent cost containment throughout Edcon."

Retail sales, excluding Edgars Shoe Gallery (now closed), the Legit business (which has been sold) and the unprofitable brands that are being exited, decreased by 3.8% from R5,701 million in the first quarter 2017 to R5,484 million in the first quarter 2018.

The improved EBITDA was achieved despite total retail sales decreasing by 7.8% to R5,508 million in the first quarter from R5,973 million this time last year.

Overall like-for-like retail sales decreased by only 1.4%, while Edgars' like-for-like sales rose 1.6% over the quarter.

Edcon's total revenues decreased by R394 million, or 6.1%, from R6,442 million in the first quarter 2017 to R6,048 million in the first quarter 2018.

The gross profit margin for the first quarter 2018 was 38.9%, which is 60 bps higher from 38.3% in the first quarter 2017.

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Edcon's trading environment remains challenging as macro-economic factors continue to weigh on consumers, and the Group faces increased competition from established market participants as well as new market entrants. Underlying consumer demand remains weak on the back of tight credit conditions, low growth in consumer disposable income, political uncertainty and restrictive fiscal policy.

Bernie Brookes added, "It has been pleasing to note that Edcon's employee retention has improved markedly following the stabilisation of the balance sheet, and the implementation of the strategic transformation process. Additionally, following the appointment of Grant Pattison as Chief Operating Officer and Chief Executive (designate, from early 2018), the smooth transition of company leadership is progressing seamlessly."

The quarter's credit sales decreased slower than during the same period in 2017, declining by 7.4% (including the Legit business, Edgars Shoe Gallery, and the exited unprofitable international brands), compared to a reduction of 15.6% in the first quarter 2017. A revised credit granting arrangement was introduced with Absa in the third quarter 2017. Absa now books approximately 20% of new credit applications with the balance of new credit accounts being funded by Edcon, with higher average credit limits offered. Edcon's in-house trade receivables book as at 24 June 2017 was R569 million, an increase of R392 million compared to the R177 million reported as at 25 June 2016 and an increase of R151 million from R418 million as at 25 March 2017.

Credit sales contributed 38.8% of total retail sales for the first quarter 2018 from 38.6% in the first quarter 2017. Cash sales in the business, including the Legit business, Edgars Shoe Gallery and the exited unprofitable international brands, decreased by 8.0%, because of weaker consumer demand in the first quarter 2018.

Net cash inflow from operating activities increased by R525 million, from an outflow of R374 million in the first quarter 2017 to an inflow of R151 million in the current quarter. This was largely as a result of cost reductions in both store expenses achieved through the closure of non-profitable stores and other operating costs.

The continued rationalisation of Edcon's international brands has progressed well. Certain free-standing stores have been closed, non-profitable brands are being exited and the stock flow of existing brands has been improved. Some of the remaining international brands provide a point of difference for Edcon, and remain relevant to clients. Following this rationalisation, Edcon is nearing the conclusion of the once off costs associated with the discontinuation of selected international brands, the elimination of non-productive space, as well as the clearance of aged stock. Stock disciplines are now such that inputs and clearance occur over a normal retail cycle.

"The merchandising strategy across Edcon," said Bernie Brookes, "of rationalising suppliers and range, ensuring fresh and relevant stock, as well as more competitive pricing, has resulted in an improving customer franchise and more consistent dealings with our trading partners. We are also continuing to invest heavily in customer research, testing and feedback mechanisms in all major decisions."

Retail sales in the **Edgars division** decreased 2.9% from R2,632 million in the first quarter 2017 to R2,556 million in the first quarter 2018. The gross margin increased to 42.4% from 41.8%. Edgars achieved positive retail sales growth in ladieswear, childrenswear, footwear and cosmetics, whilst menswear, homeware, cellular and active clothing traded down when compared to the first quarter 2017. Edgars cash sales decreased only marginally by 0.5% and credit sales were lower by 5.5% over the same period. The strategies adopted, which are aimed at rebuilding the Edgars brand, improving the customer experience, focused category management, driving credit and financial services products and change management are starting to show benefits to customers across categories.

Retail sales in the **Jet division** decreased 2.3% from R2,419 million to R2,363 million, while the gross profit margin increased to 34.7% from 34.2%. Credit sales improved, decreasing by 1.8% after being significantly impacted in prior financial periods, when double digit declines were recorded. The revised arrangement with Absa introduced in the third quarter of fiscal 2017 has positively affected credit sales. Cash sales decreased by 2.6%. Ladieswear and homeware grew positively, but the remaining categories including menswear, childrenswear, footwear, cellular and hardlines underperformed. Same store sales decreased by only 1.6% driven by the division’s strategic initiatives targeted towards improved sales, gross profit, the credit offering to customers, as well as the empowerment of its team of people.

Retail sales in the **Specialty division**, including **CNA and the various mono-branded stores,** was R457 million, a decrease of R311 million, compared to retail sales of R768 million in the first quarter 2017. The strategically planned exit of unprofitable international brands such as Lucky Brand, Tom Tailor, River Island, One Green Elephant, Geox, Express and others, which commenced during fiscal 2017, has progressed well. Negotiated supplier rebates and discounts contributed to an increase in gross margin of 0.8% from 37.9% to 38.7%. Bernie Brookes commented, “Whereas our strategy implementation is well underway in Edgars and Jet, we have just completed the ‘test and learn’ process for CNA and Active, where we intend updating the business models. Both these chains will benefit from a revamp over the next year.”

Sales from **countries other than South Africa** decreased by 11.8% compared to the first quarter 2017, and contributed 11.4% of Edcon’s overall retail sales for the first quarter 2018. All territories except Mozambique reported a decrease in retail sales with Namibia, Swaziland, Lesotho, Zambia and Botswana impacted by the sale of the Legit business. Mozambique and Ghana reported positive growth in their respective local currencies.

Total Edcon store costs decreased 8.5%, from R1,703 million to R1,559 million. The decrease in store costs is due to the closure of 27 unprofitable stores in the first quarter 2018, and the sale of the Legit business. Thirty stores were opened during the first quarter of 2018, of which 22 were in the Jet division. These Jet division stores are significantly smaller than normal, averaging 295 square meters per store. Rental and manpower costs constituted 61.7% of total costs for the first quarter of 2018.

Other operating costs, excluding non-recurring costs, decreased 5.3% from R1,049 million to R993 million. Cost savings were offset by a R20 million increase in manpower costs in Information Technology (IT) as Edcon embark on a revised IT strategy, where a R1.5 billion investment is underway. This is aimed at halving IT costs by year three, and significantly transforming the IT infrastructure, point of sale, merchandise and financial systems. A robust process of awarding contracts, following a significant testing of scope and business needs, is concluding.

Capital expenditure decreased by R3 million to R178 million in the first quarter 2018, from R181 million in the first quarter 2017. Edcon has planned total capital expenditure of approximately R600 million for fiscal year 2018.

The remainder of the year will be focused on the continued roll-out of the strategic and tactical initiatives for all areas of the business, and preparing for the pre- and Christmas-period activities, where approximately half of Edcon's annual EBTDA is generated in a single month.

The strategic and tactical initiatives include enhancing and improving the private label offering, the store optimisation and service delivery model across additional stores, as well as completing the implementation of the Net Promotor Store (NPS) system, while also further embedding customer service into the various chains. Other ongoing initiatives that remain a priority, are being even more price competitive, initiating faster stock turns, continued attention on the rationalisation of the overall range, and advancing the plans for the turn-around of CNA, Cellular and other chains.

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Contact details:

Edcon

Vannie Pillay

GM: Corporate Affairs and Communication

chr@edcon.co.za

Aprio

Communications Advisor to Edcon

South Africa: Julian Gwillim

julian@aprio.co.za

About Edcon

Edcon is southern Africa's largest non-food retailer. We have been in operation for more than 80 years and have expanded our footprint to 1,336 stores as at 24 June 2017, including 183 stores in eight countries outside of South Africa. We operate our business under three principal operating divisions comprising eight key store chains as well as mono-branded stores throughout southern Africa:

- Our Edgars Division, is targeted at middle-to-upper-income customers and includes the *Edgars* store chains. We have 308 stores in our Edgars Division and an average retail space of 765 thousand square meters.
- Our Jet Division, which consists of discount stores selling value merchandise targeted at lower- to middle-income customers, includes store chains Jet and Jet. We have 711 stores in this division and an average retail space of 652 thousand square meters.
- Our Specialty division, which consist of stores selling value merchandise targeted at middle to upper-income customers, includes store chains CNA, as well as our mono-branded stores. We have 266 stores in this division and an average space of 97 thousand square meters.

We offer credit and insurance products to the Edcon's customers via our strategic partnerships. Edcon owns a controlling stake in Celrose Proprietary Limited which controls Eddels Proprietary Limited, which are both South African manufacturing businesses. Celrose manufactures apparel whilst Eddels manufactures footwear.

Our *Thank U* rewards program, which was introduced in 2012, allows customers to earn *Thank U* points for their purchases in most of our stores which can be redeemed on future purchases. As at 24 June 2017, the *Thank U* rewards program had over 11 million members.

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Our primary operations are in South Africa where Edcon generated 88% of our retail sales in financial year 2017. The rest of our operations are in neighbouring Namibia, Botswana, Lesotho, Swaziland, Mozambique, Ghana, Zimbabwe and Zambia, where we operate 183 retail outlets. Edgars Zimbabwe is managed independently and disclosed as a separate division.

For more information, please visit the Edcon website: www.edcon.co.za