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EDCON'S CHANGE STRATEGY CONTINUES TO DELIVER RESULTS

Key features

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

- ***Pro-forma adjusted EBITDA increased by 106.3% to R1 million***
- ***For the six-month period, pro-forma adjusted EBITDA increased by 74% and the underlining profit was up 19.1%***
- ***Gross profit margin up 370 bps from 33.8% to 37.5%***
- ***Gross profit increased by R74 million to R2,024 million from R1,950 million***
- ***Operating cash before changes in working capital increased by R310 million***
- ***Group transformation strategy continues to deliver encouraging results in categories such as ladieswear and cellular in both Edgars and Jet, and childrenswear, footwear and cosmetics in Edgars***

Johannesburg, 14 November 2017: The Edcon Group's pro-forma adjusted EBITDA increased by R17 million, or 106.3%, to R1 million for the three months ended 23 September 2017. This was despite difficult macro-economic factors that continue to weigh on consumers, as well as increased competition from established market participants and new market entrants.

For the first six months of the financial year, Edcon's pro-forma adjusted EBITDA increased by 74% and the underlining profit was up 19.1%.

Edcon Chief Executive Officer, Bernie Brookes, commented, "Our trading environment remains challenging as consumer demand is weak on the back of tight credit conditions, low growth in consumer disposable income, political uncertainty and restrictive fiscal policy. Despite this, it is pleasing that the Group's strategic transformation is delivering positive retail sales growth in certain merchandise categories, such as ladieswear in both Edgars and Jet, as well as cellular in Jet, while childrenswear, footwear, cosmetics and cellular within Edgars are also starting to show signs of change."

The gross profit margin for the quarter was 37.5%, up 370 bps from 33.8% in the second quarter 2017. The improvement in gross profit margin was achieved through improved rebates and settlement discounts negotiated with suppliers as well as a reduction in markdowns. Although clearance activity has decreased compared to the second quarter 2017, it remained higher than anticipated as a result of competitors' promotional and markdown activity. First margins, being the margin before promotional and clearance markdowns, improved 140 bps in the second quarter 2018.

Gross quarterly profit increased by R74 million to R2,024 million from R1,950 million.

Operating cash before changes in working capital increased by R310 million from a cash outflow of R297 million in the second quarter 2017 to a cash inflow of R13 million in the second quarter 2018. This increase is as a result of the improved gross profit generated over the quarter and store expense cost reductions.

The Group's overall retail sales have also been affected by fierce price competition through ongoing promotions by competitors as well as Edcon's strategic intent to exit non-profitable stores. Like-for-like retail sales decreased by 2.0%.

Credit sales decreased slower than during the same period in 2017, declining by 3.8% (or 1.6% if Legit and Edgars Shoe Gallery are excluded) compared to a decrease of 18.1% in the second quarter 2017. This follows the revised arrangement with Absa introduced in the third quarter 2017.

The Group's in-house trade receivables book as at 23 September 2017 was R660 million, up R483 million from R177 million as at 24 September 2016 and has increased by R242 million compared to R418 million as at 25 March 2017. Credit sales contributed 36.3% of total retail sales for the second quarter 2018, an increase of 0.9%, from 35.4% in the second quarter 2017. Cash sales including the Legit business, Edgars Shoe Gallery and the international brands that are being exited, decreased by 7.6% (excluding Legit and Edgars Shoe Gallery cash sales decreased by 2.7%). This is largely as a result of weaker consumer demand in the second quarter 2018.

Mike Elliot will be joining the Group as Edgars Chief Executive (designate), with effect from 4 December 2017. Mike will assume the role of Chief Executive of Edgars on 1 February 2018 and will replace Andrew Levermore who has resigned from the Group. Mike is a CA(SA), has senior executive experience, strong fashion credentials and a local knowledge of our market, having been Managing Director of Naartjie Clothing and Sunglass Hut.

Bernie Brookes said, "We are very pleased to have attracted a person of Mike's calibre and experience. We see him as an ideal fit to drive the advancing turnaround and re-set strategy currently underway at Edgars. Edgars' current Chief Executive, Andrew Levermore, has resigned to pursue a private equity opportunity. I wish to express my sincere thanks to Andrew for his significant contribution to Edgars, where he has been instrumental in the development of the new Edgars strategy."

Edgars: Retail sales decreased by R22 million, or 0.9%, from R2,486 million in the second quarter 2017 to R2,464 million in the second quarter 2018. Edgars cash sales increased by 0.8% compared to the second quarter 2017 and credit sales decreased by 3.0% over the same period. Same store sales decreased by 0.8% compared to the second quarter 2017. New strategies implemented continue to show benefits for customers across certain categories, and while cellular declined, the decrease compared to the second quarter 2017 was marginal following improvement initiatives implemented. Edgars' gross margin was 41.6% for the second quarter 2018, an increase from the 38.5% for the corresponding quarter.

Jet: Retail sales decreased by R22 million, or 1.0%, from R2,306 million in the second quarter 2017, to R2,284 million in the second quarter 2018. The revised arrangement with Absa introduced in the third quarter of fiscal 2017 continues to positively affect credit sales in the Jet division where credit sales increased by 2.7% compared to the corresponding quarter. Cash sales decreased by 2.4%, largely as a result of weak consumer demand and customers taking up the new credit offering. Same store sales decreased by 1.5% compared to the second quarter 2017. The Jet division's strategic initiatives targeted towards improved sales, gross profit, an enhanced credit offering to customers and the empowerment of the Jet team, continues to show encouraging improvements. The gross profit margin increased to 32.4% from 27.9% due to improved supplier rebates as well as a reduction in markdown activity.

Specialty: Specialty includes CNA as well as the Group's mono-branded stores in the second quarter 2018. The corresponding 2017 quarter included the Legit business (the majority of which was sold in January 2017) and the remaining Legit business in Botswana (sold effective 30 April 2017), as well as the Edgars Shoe Gallery stores (closed during fiscal 2017). Total retail sales for the second quarter 2018 was R463 million, a decrease of R329 million, or 41.5% compared to retail sales of R792 million in the second quarter 2017. Excluding Legit, Edgars Shoe Gallery and unprofitable brands being exited, retail sales for the second quarter 2018 was R434 million, a decrease of 11.4%. Retail sales in CNA decreased by 12.1% whilst the mono-branded stores retail sales decreased by 27.2% (7.9% excluding non-profitable brands being exited). Supplier discounts contributed to an increase in gross margin of 2.9% from 34.5% to 37.4%. Excluding Legit, Edgars Shoe Gallery and the brands being exited, gross margin increased 600bps to 38.7% from 32.7%.

Africa: Sales from countries other than South Africa decreased by 6.9% (11.3% excluding Zimbabwe) compared to the second quarter 2017, and contributed 12.8% (9.6% excluding Zimbabwe) of retail sales for the second quarter 2018, down from 12.9% (10.1% excluding Zimbabwe).

Total store costs decreased by R16 million, or 1.0%, from R1,665 million in the second quarter 2017, to R1,649 million in the second quarter 2018. The decrease in store costs is due to the closure of unprofitable stores, offset by costs related to new store openings in the second quarter 2018. Rental and manpower costs constituted 60.0% of total costs for the second quarter of 2018. Other operating costs, excluding non-recurring costs, increased by R83 million, or 8.1%, from R1,027 million to R1,110 million.

Capital expenditure increased by R22 million to R127 million from R105 million. The Edcon Group has planned total capital expenditure of approximately R600 million for fiscal year 2018.

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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 1,318 stores as at 23 September 2017, including 181 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 291 stores in our Edgars Division and an average retail space of 759 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 717 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 259 stores in this division and an average space of 92 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.

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