

CHOPPIES

VALUE FOR YOUR MONEY!

A photograph of a smiling woman with dark hair in braids, wearing a light green top, standing in a grocery store aisle. The image is framed by a white, torn-paper-style border. The background shows shelves stocked with various products.

Interim Financial Results

for the six months ended 31 December 2014

Executive Summary

- Choppies is the largest, most profitable and fastest growing grocery retailer in Africa, outside of South Africa
- Building from its strong market-leading base in Botswana, Choppies is growing rapidly and profitably in South Africa and Zimbabwe, and is building its first stores in Zambia and Tanzania
- Despite investing heavily in rapid growth, Choppies continues to generate cash, increase gross profit margin and grow profits
- Choppies is well positioned to achieve its target of over 200 stores across 6 countries by December 2016
- Choppies is evaluating a possible secondary listing on the JSE in 2015

Section 1: Group Results

Operational Highlights – H1 2015

- Added **16 new stores** to our footprint:
 - 5 new stores in Botswana
 - 6 new stores in South Africa
 - 5 new stores in Zimbabwe
- Choppies now has **121 stores** with total retail space of 177 031 sqm
- Opened **2 new Distribution Centres**:
 - 8 000 sqm Fruit and Veg facility in Rustenburg
 - 3 000 sqm facility in Harare
- Choppies now has 7 **Distribution Centres** with total warehouse space of 50 313 sqm
- Successful implementation of new ERP system in Botswana and Zimbabwe
- Monthly average transaction volumes up **19%**
- Average basket size up **7%**

Financial Highlights – H1 2015

- Revenue **+20%** to P3 billion
- Same store sales growth **+5%**
- Gross Profit **+21%** to P644 million
 - Gross profit margin improved from 21.3% to 21.4%
- EBITDA **+12%** to P206 million
- Profit After Tax **+2%** to P103 million
- Assets **+22%** to P2.1 billion

Strong Balance Sheet

<i>in Pula m</i>	30 June 2014	31 Dec 2014
Total assets	1 749	2 143
Non-current assets	1 095	1 223
<i>Plant & equipment</i>	597	735
Current assets	654	920
<i>Inventory</i>	408	543
<i>Accounts receivable</i>	89	209
<i>Cash on hand</i>	103	118
Equity	869	913
Non-current liabilities	244	401
<i>Long-term borrowings</i>	210	363
Current liabilities	636	829
<i>Accounts payable</i>	506	587
<i>Current portion of long term borrowings</i>	70	103
<i>Bank overdraft</i>	46	82
Total equity & liabilities	1 749	2 143

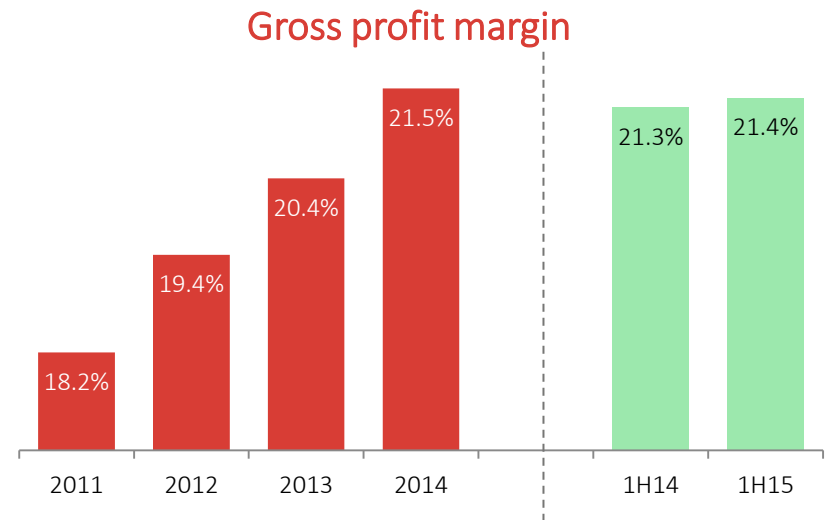
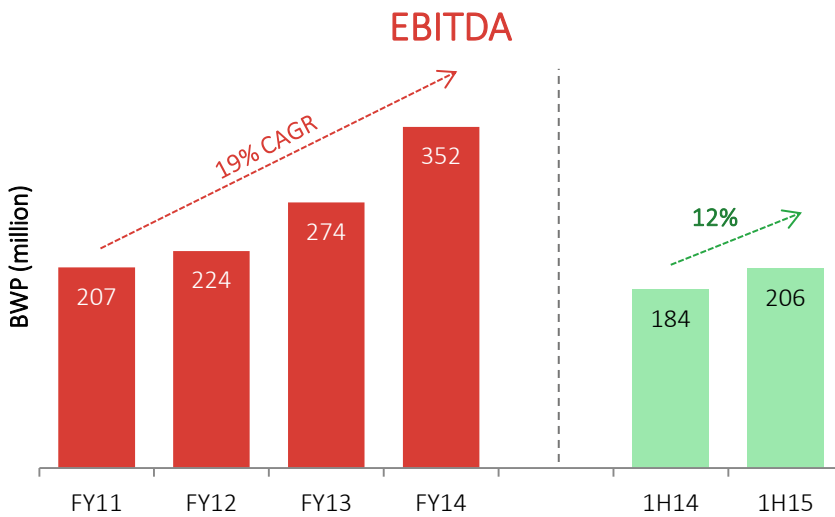
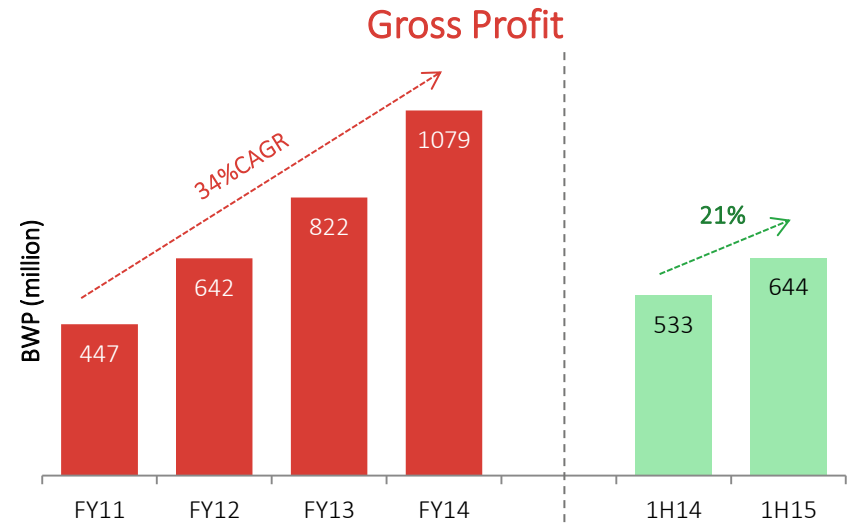
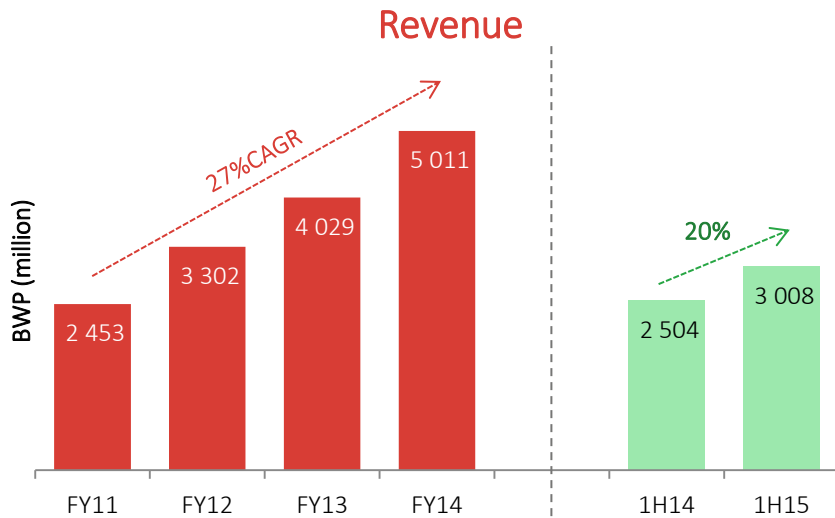
- Strong growth in assets as expansion efforts continue
- Total borrowings increased to P466 million (1.25 x LTM EBITDA) to fund capital expenditure

Rapid Profitable Growth

<i>in Pula m</i>	12 months to June 2014	6 months to Dec 2013	6 months to Dec 2014	% growth
Revenue	5 012	2 504	3 008	+20.1%
<i>Cost of Sales</i>	(3 933)	(1 971)	(2 364)	
Gross profit	1 079	533	644	+20.9%
<i>Other Income</i>	9	8	11	
<i>Operating costs</i>	(846)	(408)	(514)	
Operating profit	242	133	141	+5.5%
<i>Interest paid</i>	(16)	(5)	(12)	
<i>Interest received</i>	4	3	1	
Profit before taxation	230	131	130	(1.1)%
<i>Taxation</i>	(52)	(29)	(26)	
Profit for the year	178	102	104	+1.7%
<i>Foreign currency translation</i>	3	(17)	(6)	
Profit for the year	181	85	96	+13.3%
<i>Attributable to owners</i>	173	86	99	
EBITDA	352	184	206	+11.8%
Earnings per share	14.3	8.25	8.57	+3.9%

- Continued delivery of strong revenue growth and improvement in gross profit margin
- Operating profit constrained by stores in ramp-up mode and increased marketing spend as we enter new markets
- Increased net interest costs related to borrowing for capital expenditure

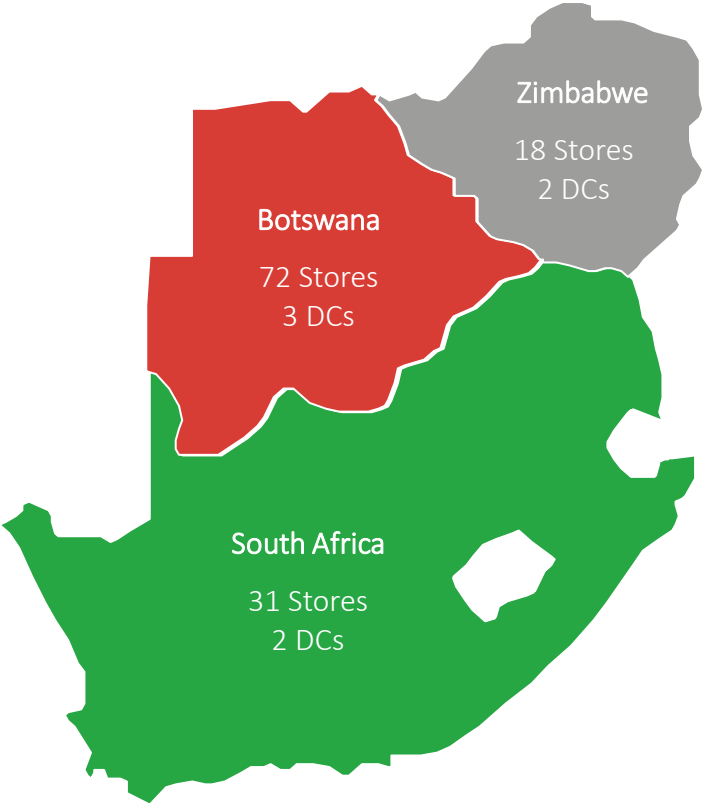
Continued delivery of strong financial growth



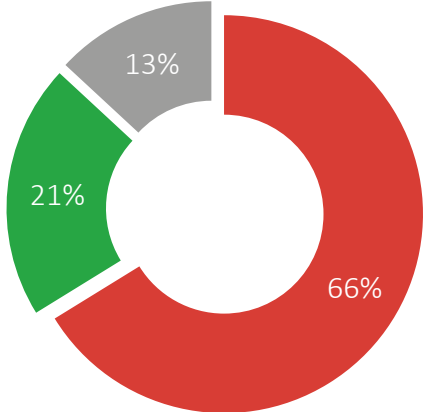
Section 2: Segment Update and Results

Segmental Performance

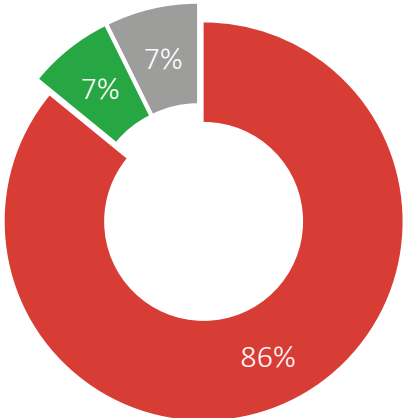
Regional footprint (31 Dec 2014):



Revenue Contribution (1H 2015):



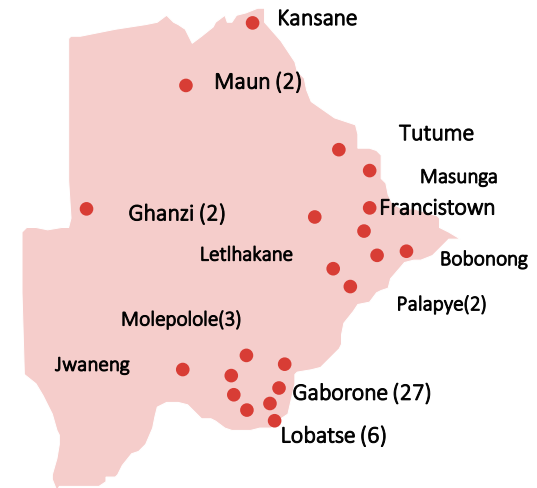
EBITDA Contribution (1H 2015):



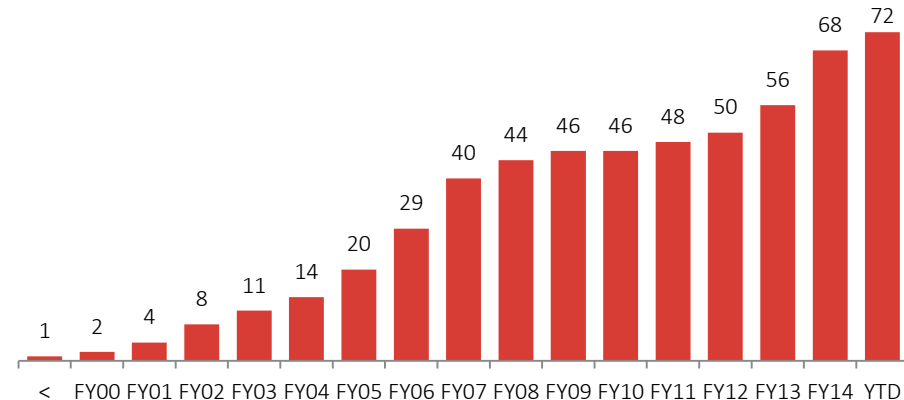
Botswana – our core market



- First store opened in Lobatse in 1986 - 72 stores today
- Choppies has the **market-leading** position in Botswana with c.34%⁽¹⁾ of the national market
- Choppies is well poised to capture the ongoing shift from informal to formal trade
- Growth has been strong and consistent
- Highly cash generative business will continue to support the Group's expansion plans



Store growth

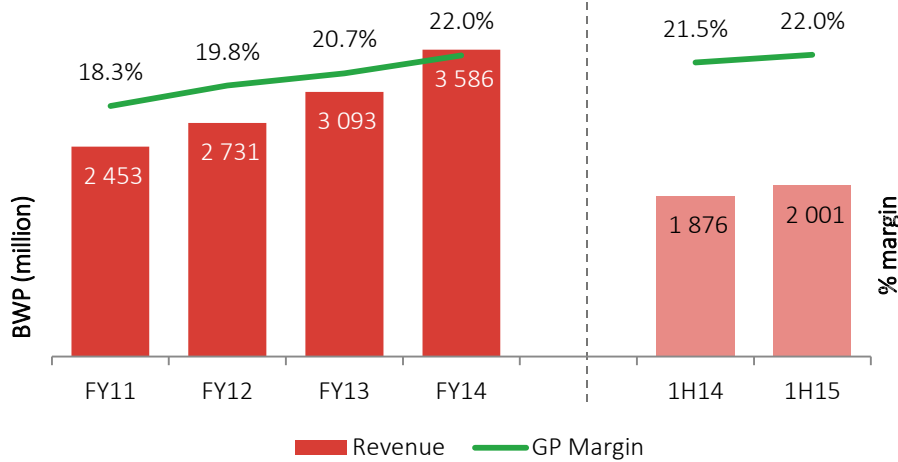


Note
1: Briggs& associates 2014

Botswana financial performance

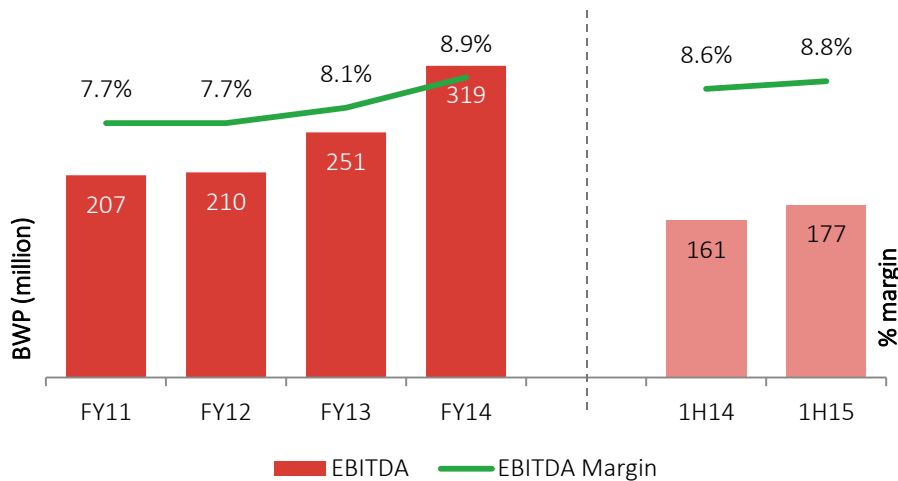


Revenue and gross profit margin



- Revenue **+6.7%** to P2.0 billion
- Gross Profit **+9.4%** to P441 million
 - 22.0% gross profit margin
 - Medium term target is 23.0%

EBITDA and EBITDA margin

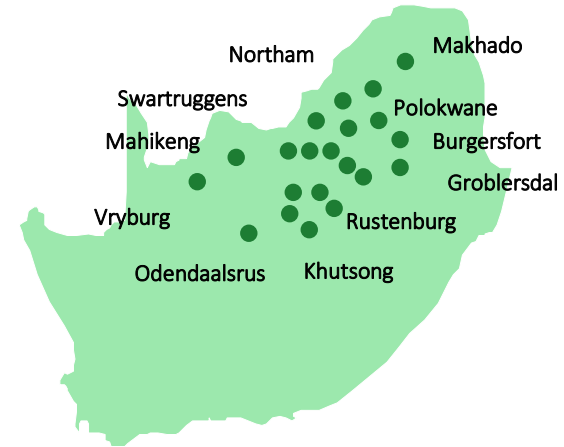


- EBITDA **+9.9%** to P177 million
 - 8.8% EBITDA margin
 - Medium term target is 9.0%

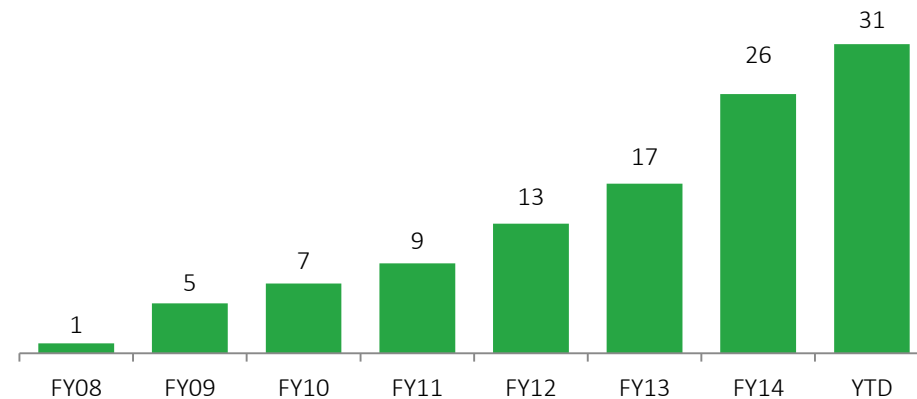
South Africa – approaching critical mass



- Choppies opened its first store in South Africa in 2008 in Zeerust - 31 stores today
- Rustenburg Distribution Centre has capacity to profitably serve up to 100 stores in a 500km radius of Rustenburg
 - current utilisation 35-40%
- Fruit & Veg DC operational since December 2014 will further improve efficiencies
- Economies of scale expected to deliver profitability in 2H15



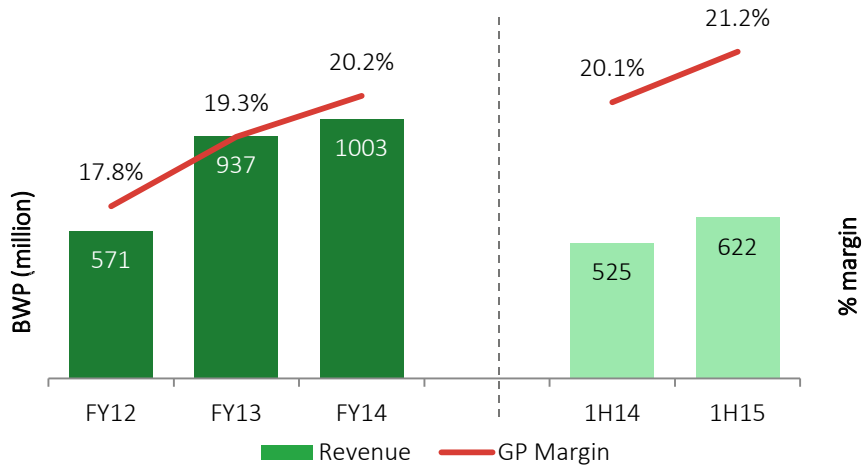
Store growth



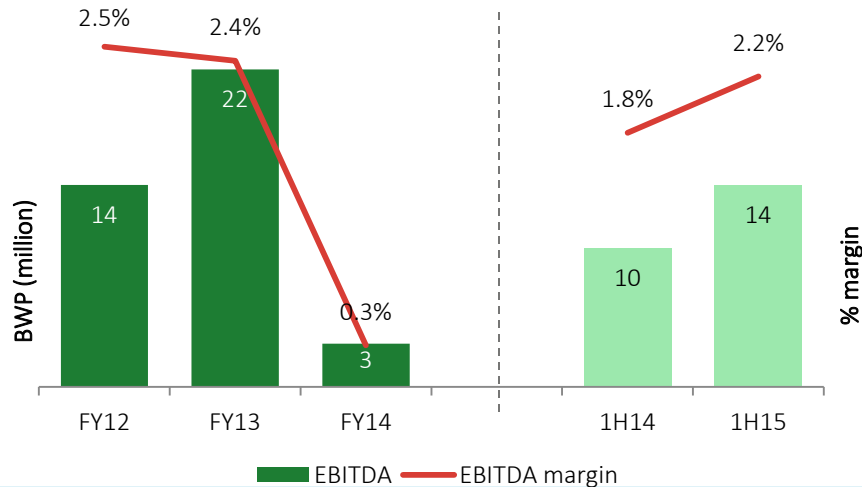
South Africa financial performance



Revenue and gross profit margin



EBITDA and EBITDA margin

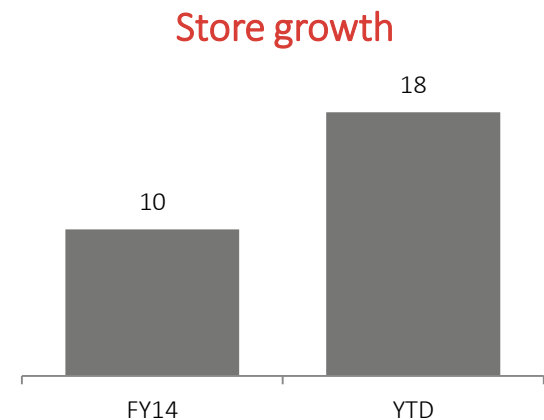
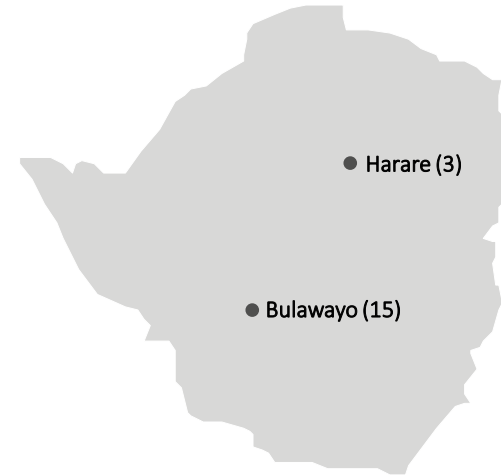


- Revenue **+19%** to P622 million
- Gross Profit **+21.2%** to P132 million
 - 21.2% Gross profit margin
 - Medium term target is 22%
- EBITDA **+40%** to P14 million
 - 2.2% EBITDA margin
 - Medium term target is 5%
- South African business was significantly impacted by the mining sector strike in 2H14
 - Financial performance and profitability have recovered strongly and FY15 will show significant improvement

Zimbabwe - opportunity for rapid growth



- Acquired 10 Spar stores in Bulawayo in 2013
–18 stores today
 - All stores have been rebranded under the Choppies banner
- Most stores easily serviced with Choppies' existing supply chain
- Opened a new Distribution Center in Harare in May 2014
- Opportunity for 30+ stores in Harare alone



Zimbabwe financial performance



- Revenue up more than **250%** to P395 million

- Gross Profit **+18%** to P71 million
 - 18.0% gross profit margin
 - Medium term target is 19%

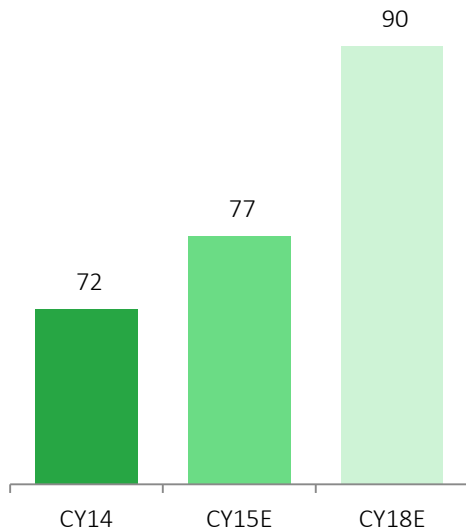
- EBITDA **+15%** to P15 million
 - 3.8% EBITDA margin
 - Medium term target is 6%

- Aggressive entry into the Harare market
 - Investment in marketing spend and promotional campaigns negatively impacted operating margin
 - Margin is expected to improve in 2H15

Section 3: Strategy and Key Initiatives

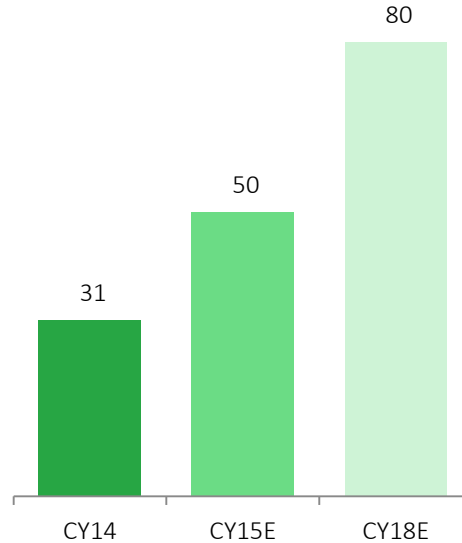
1 Grow in existing markets

Botswana



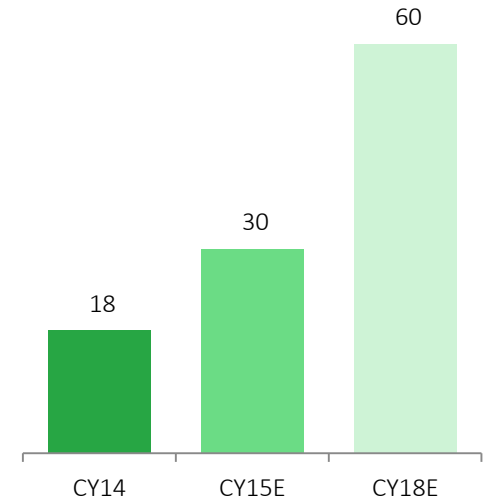
- Formalisation of the retail channel provides an opportunity for growth
- Extensive logistics infrastructure and a strong base enables rural expansion
- **Plan to open 5 new stores by 31 December 2015**

South Africa



- Target medium scale towns in Mpumalanga, Limpopo, NW and Northern Free State
- Strong store pipeline of over 30 high-probability locations identified
- **Plan to open 19 new stores by 31 December 2015**

Zimbabwe



- Zimbabwe is significantly less penetrated by formal retail ⁽¹⁾
- Expansion from Bulawayo hub to the north; over 30 identified sites in Harare alone
- **Plan to open 12 new stores by 31 December 2015**

2 Drive same-store footfall growth

Better value

- Lowest prices based on a broad basket of Known Value Items
- Local distribution capabilities and market leadership in procurement give permanent cost advantages over competitors
 - strong fresh fruit and vegetables sourcing direct from the farm
 - efficiencies driven by “reverse logistics”
- Private label and promotions for value-conscious customers

Broader offering

- Value-added offerings drive basket-size and margin
 - butchery
 - bakery
 - fresh fruit and vegetable
 - takeaway
- Broader product offering with new products and SKUs (e.g. cosmetics)

Greater convenience

- Longer shopping hours
- Convenient store locations:
 - near residential locations in Botswana
 - near transport nodes (e.g. taxi ranks) in South Africa
- New service initiatives drive footfall
 - airtime
 - pension payout
 - travel
 - money transfers
 - utility payments

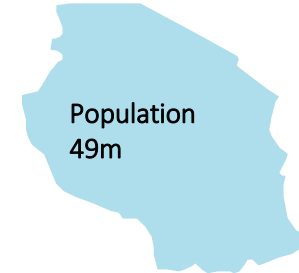
3 Expand into new markets



Kenya⁽¹⁾



Tanzania⁽¹⁾



Choppies has entered into a joint-venture agreement with a strong local partner for expansion into East Africa

- Formal retail channel makes up c. 49% of the retail market
- The grocery retail market is expected to grow at a CAGR of 30.2% by 2019
- Economy is expected to expand at a real CAGR of 6.4% by 2019
- Choppies is assessing entry into the Kenyan market

- Huge potential for formal retail; currently only 13% of the total retail market
- The grocery retail market is expected to grow at a CAGR of 24% through 2019
- Economy is expected to expand at a real CAGR of 7.0% by 2019
- Choppies expects to open stores in Tanzania before the end of FY 2015.

Note:

1) All economic and industry specific statistics obtained from Business Monitor International Research 2015 and IMF Research 2015

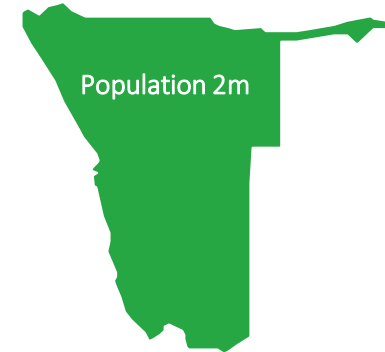
3 Expand into new markets *continued...*



Zambia⁽¹⁾



Namibia⁽¹⁾



- Huge potential for formal retail; currently only 14% of the total retail market
- The grocery retail market is expected to grow at a CAGR of 13.4% by 2019
- Economy is expected to expand at 6.7% through 2019
- **Choppies expects to open its first store before the end of FY 2015.**

- Similar market to our 'core' Botswana base
- The grocery retail market is expected to grow at a CAGR of 11.5% by 2019
- High GDP/capita and robust expected growth of 4.7% through 2018
- Proximity to Botswana and SA operations would allow us to leverage existing infrastructure, alongside outsourced distribution
- **Choppies is assessing entry into the Namibian market**

Note:

1) All economic and industry specific statistics obtained from Business Monitor International Research 2015 and IMF Research 2015

4 Secondary listing on JSE

- We continue to evaluate a secondary listing on the JSE in 2015
- A secondary listing is anticipated to provide the following benefits to Choppies and its stakeholders:
 - ✓ provide access to an additional source of capital to support our continued expansion into existing and new markets;
 - ✓ enhance the liquidity and tradability of our shares on the BSE and the JSE through a greater spread and diversity of investors;
 - ✓ increase analyst research coverage to support a fair market value for the shares; and
 - ✓ enhance Choppies' public profile in the South African market.
- Approval by existing BSE shareholders will be required for any new shares issued in contemplation of the secondary listing

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