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RETAIL SECTOR REPORT 2021

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Introduction

The Johannesburg Stock Exchange lists 29 companies in the two categories Food & Drug Retailers and General Retailers. Of this list, our sample includes nine companies. These companies are:

Cashbuild
Foschini
Massmart
Mr Price
Pick n Pay Stores Ltd
Shoprite
Spar
Truworths
Woolworths

The retail sector in South Africa is the second largest employer after the government. This makes it a key sector for the LRS to monitor. Firstly, this report takes a look at the significant effect the COVID 19 pandemic has had on the sector. The rich data extracted from the LRS's MNC Database further enables a retrospective view of company performance over the course of the last seven years. Following this, we analyse the notoriously high remuneration packages received by directors in this sector.

COVID-19

Over the course of the last year and a half, COVID-19 has caused a significant slowdown in world trade and disrupted global supply chains. In addition to these disruptions, South Africa's national lockdowns over the course of 2020 and 2021 have severely impacted the retail sector.

At the start of the pandemic in March 2020, retailers expected to be hit hard: Retailer Woolworths expected their profit to fall by around 20% in its financial year end June 2020. The company pledged to continue to pay staff during the lockdown. Senior Management pledged to cut their salaries by a third for three months to provide additional funds for employees. Given their large salaries, this is hardly a scratch on the surface of the remuneration received by CEOs in South Africa. Retail CEOs and other executives are known for big total remuneration packages, the most notorious of which being then Shoprite CEO Whitey Basson who, in 2016, received an annual total remuneration package of over R 100 million.

Africa's largest retailer, Shoprite, paid its shop floor and distribution staff an 'appreciation bonus' adding up to around R102 million. This amounted to a R700 'voucher' to Shoprite. CEO Pieter Engelbrecht, whose 2020 total remuneration amounted to just over ZAR28 million, said that 'Our employees are crucial players in the task ahead and the group wants to thank and reward them for their tireless efforts to stock our shelves with food and other essentials for our 29 million shoppers.' The lowest-paid full-time worker at Shoprite in South Africa receives a pay check of around R4,500 per month (in 2019). Entry-level part-time workers receive around R18 per hour (2019). Shoprite employs over 147,000 people on the continent.

While thousands of workers have been told to stay home, grocery retail workers have continued to go to work. Workers report long shifts and extra workloads in order to keep up with demands, and many workers say they don't have enough protective gear to deal with the hundreds of customers a day.

This crisis provides an opportune time for retailers to revisit remuneration policies. Covid-19 highlights the importance of workers at the forefront, and it is time for big retailers to recognise that.

The current crisis has forced retailers to increase online capabilities: for the ten days leading up to the lockdown, Pick n Pay saw a significant increase in online orders. This prompted Pick n Pay to launch a same-day delivery service, competing with Shoprite's Checkers Sixty60 app, which promises to deliver you online order within 60 minutes. This speaks to an important change in the South African retail landscape – in the last two years, South Africa's online retail has more than doubled.[1] By the end of 2021, however, online retail will likely account for only 4% of all retail in South Africa.

One company stands out as struggling the most over the course of the last year. Going in to the pandemic, Massmart was already in crisis. From the financials below, we can see the steady decline of Massmart over the last few years. CEO Mitchell Slape closed 34 underperforming DionWired and Masscash stores in 2020, affecting 1440 jobs. The bulk of Massmart's profit comes from Masswarehouse (Makro, Fruitspot) and Massbuild (Builders' Warehouse). Masscash (Rhino, Cambridge and Jumbo) was already suffering in the preceding year, and at the time it was doubtful this part of the business would survive the crisis unless there was urgent intervention. In fact, in August 2021, Massmart announced the sale of Cambridge Food, Rhino and Massfresh (The Fruitspot) as well as 12 Cash and Carry stores to Shoprite.

Financials

Revenue

On average, this list of companies reported a 3,81% (*see Figure 4*) increase in revenue in what could be termed one of the most difficult years in retail (however, some companies' 2020 financial year end did come before the worst of the pandemic could be felt, and these effects will be more easily seen in 2021 financials. This is compared to a 4.42% increase in revenue for the same companies in 2019. From the graph below, the trend line shows a steady upward trend in retail revenue since 2012. This is expected to continue.

The biggest increase in revenue was reported by Spar, with an increase of 13.52% or ZAR 14 billion. Foschini, Woolworths, Shoprite and Mr Price all reported an increase in revenue as well. Shoprite, the biggest employer in the sector, reported revenue growth of 4,3%. Pick n Pay reported a small decrease in revenue of 1,31%, and Cashbuild reported a decrease of 6,75%. Massmart's revenue fell further by another 7,54%. Truworths also reported a small decrease in

[1] https://www.businessinsider.co.za/sas-online-retail-has-more-than-doubled-in-two-years-but-the-best-is-probably-over-2021-5

revenue of 0,62% in the same year that it's direct competitor Foschini report an increase of 12,8%.

From the chart below (*Figure 1*), it is clear that Shoprite remains the biggest company in the retail sector, with Spar and Pick and Pay following. Massmart follows, but is set to decrease in size significantly with the amount of store closures the company has faced over the course of the last year. *Figure 2* shows a pie chart of the companies in our sample by revenue. This chart shows clearly the size of the sample market that each company has by revenue. Woolworths remains a small competitor when compared to other grocery retailers Shoprite and Pick n Pay.

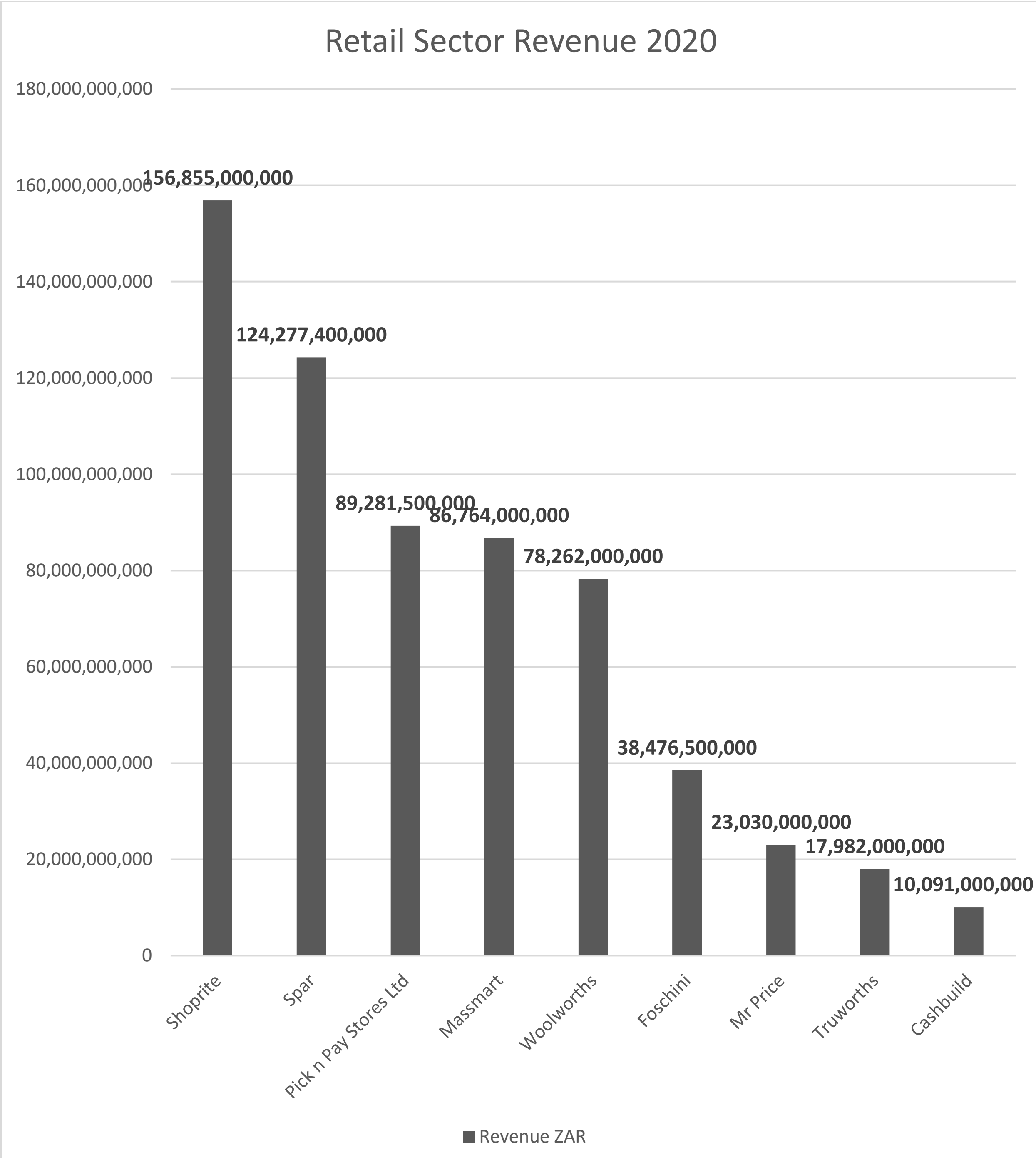

Figure 1 Retail Sector Revenue 2020

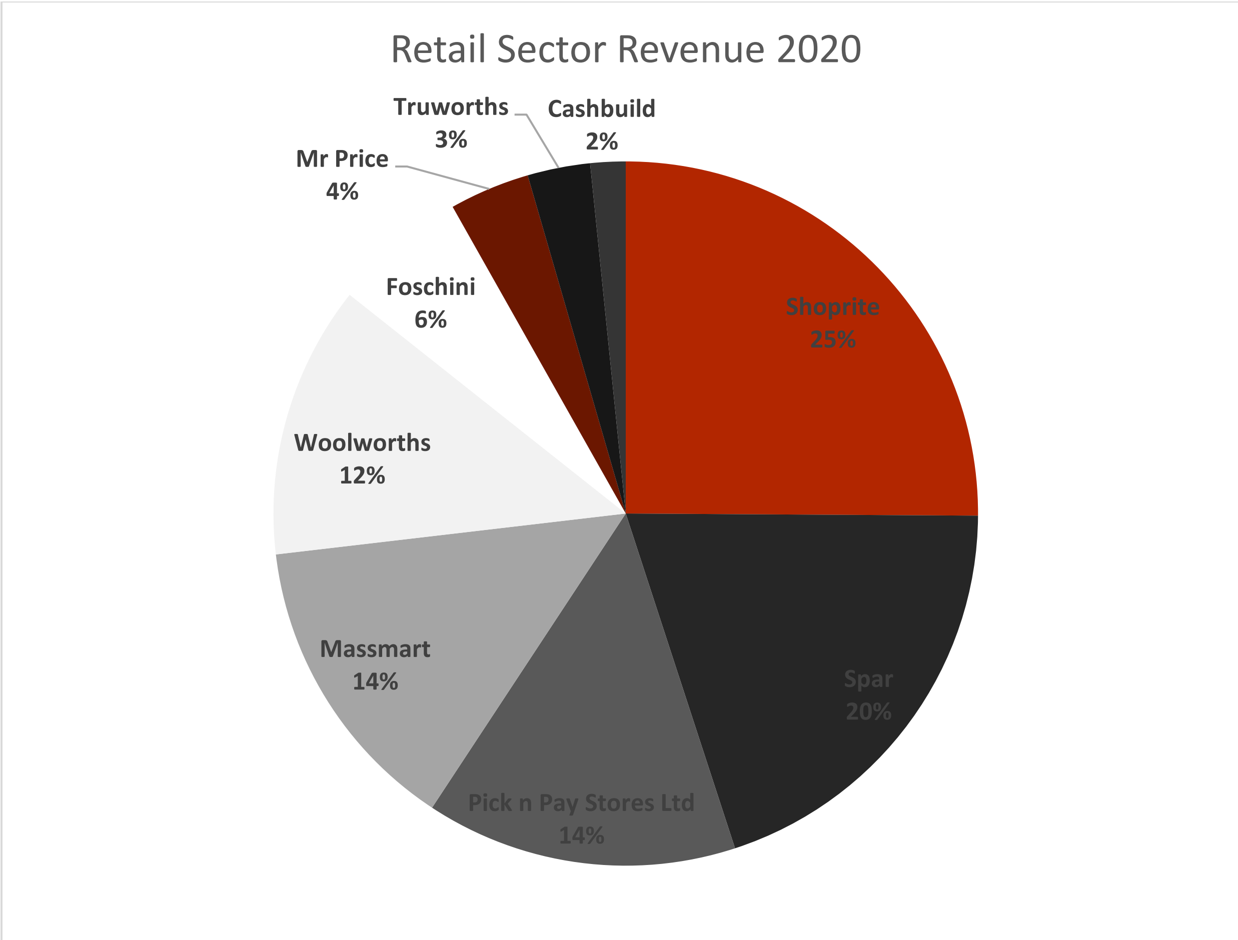

Figure 2 Retail Sector Revenue Pie Chart 2020

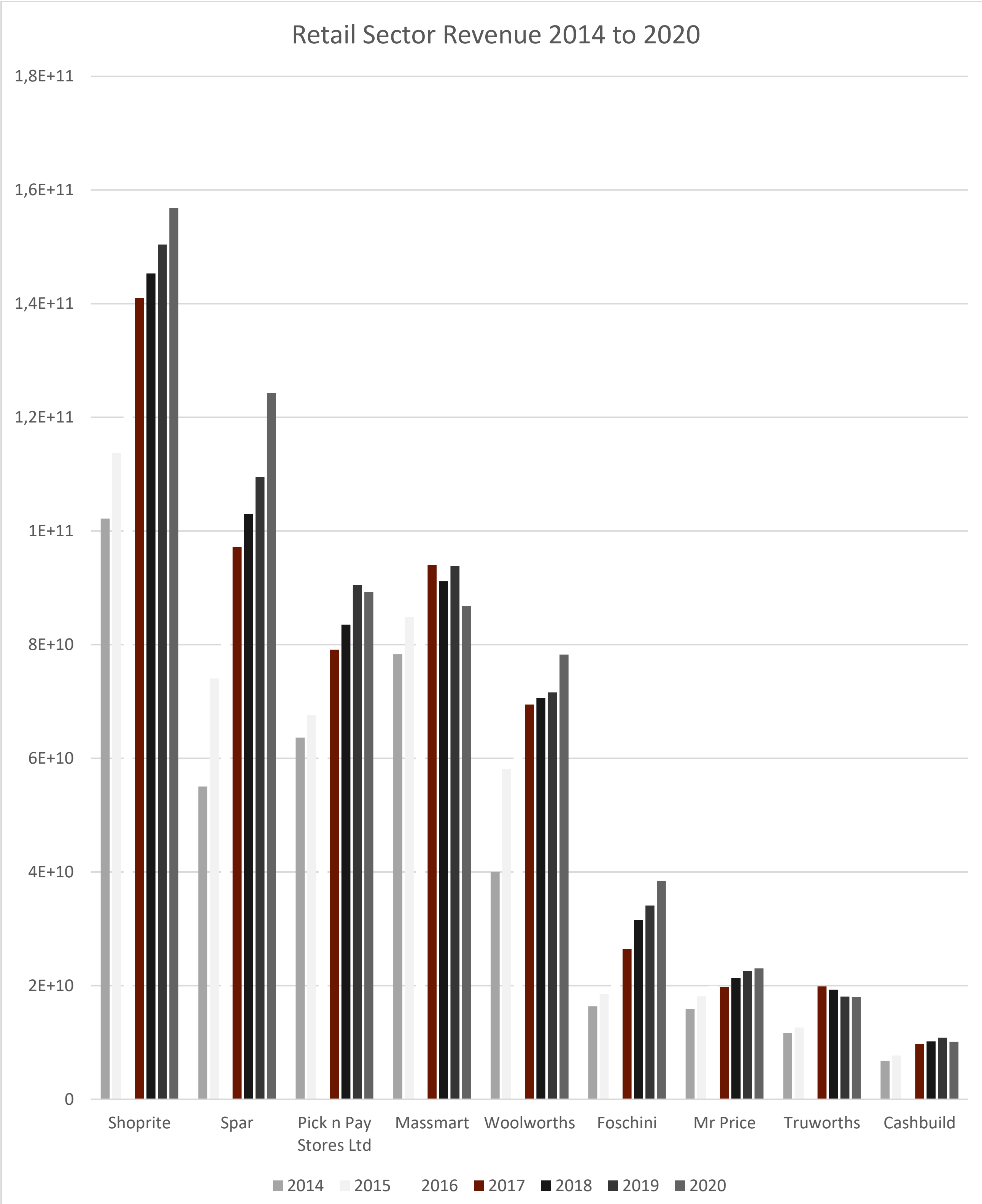

Figure 3 Retail Sector Revenue 2014 to 2020

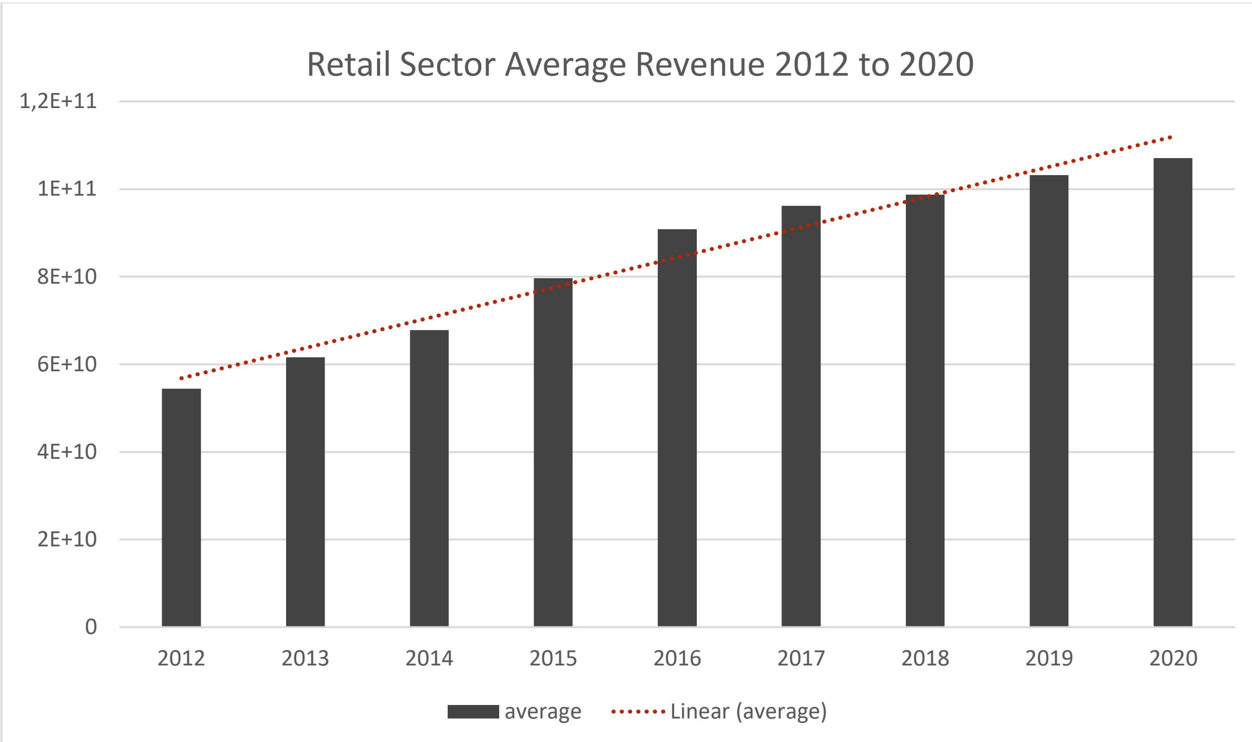

Figure 4 Retail Sector Average Revenue 2012 to 2020

Profit before Tax

In 2019, Profit before Tax in this sector took a big hit. On average, reported PBT went down by over 6.4% (see *Figure 8*). In 2020, however, companies reported some more significant losses. Only one company reported an increase in Profit before Tax –Woolworths - who reported a Profit for the first time since 2017. Woolworths reported a loss of over ZAR 2 billion in 2019, but in 2020 reported PBT of over ZAR 2,168 billion. Truworths reported a loss for the first time in over 5 years.

Massmart continued to operate at a loss. For the 2020 financial year, the company reported a loss of over ZAR 1,8 billion (see *Figure 5*).

Shoprite remains the biggest earner in the sample.

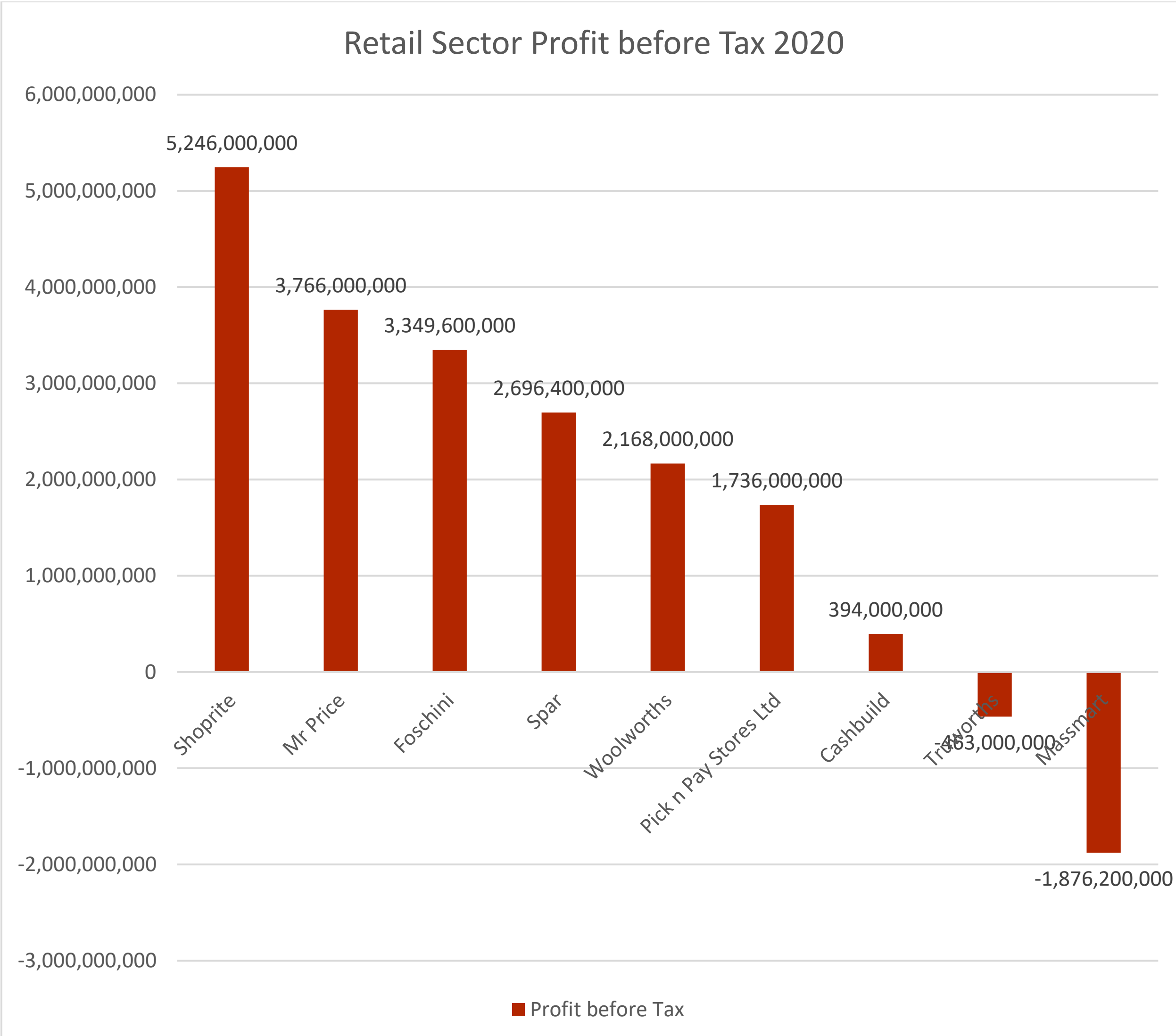

Figure 5 Retail Sector Profit before Tax 2020

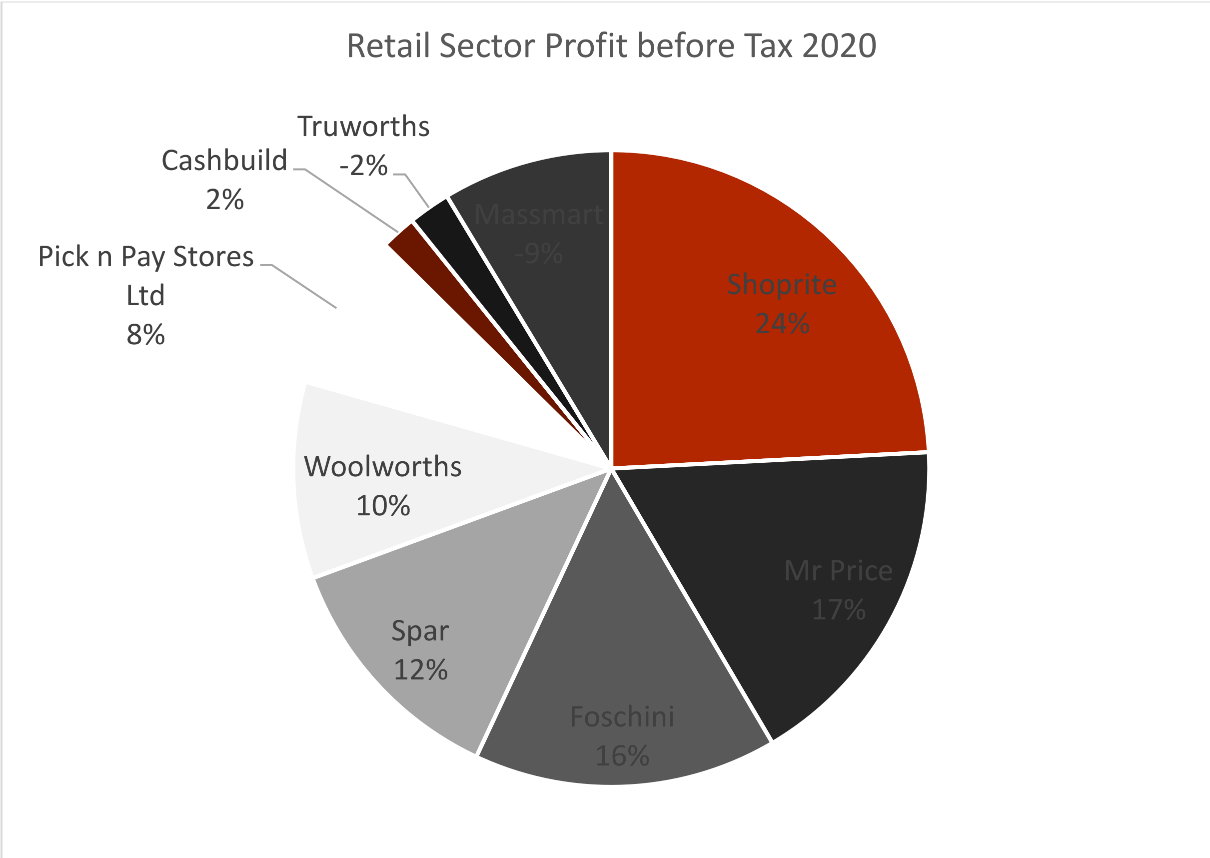

Figure 6 Retail Sector Profit before Tax 2020

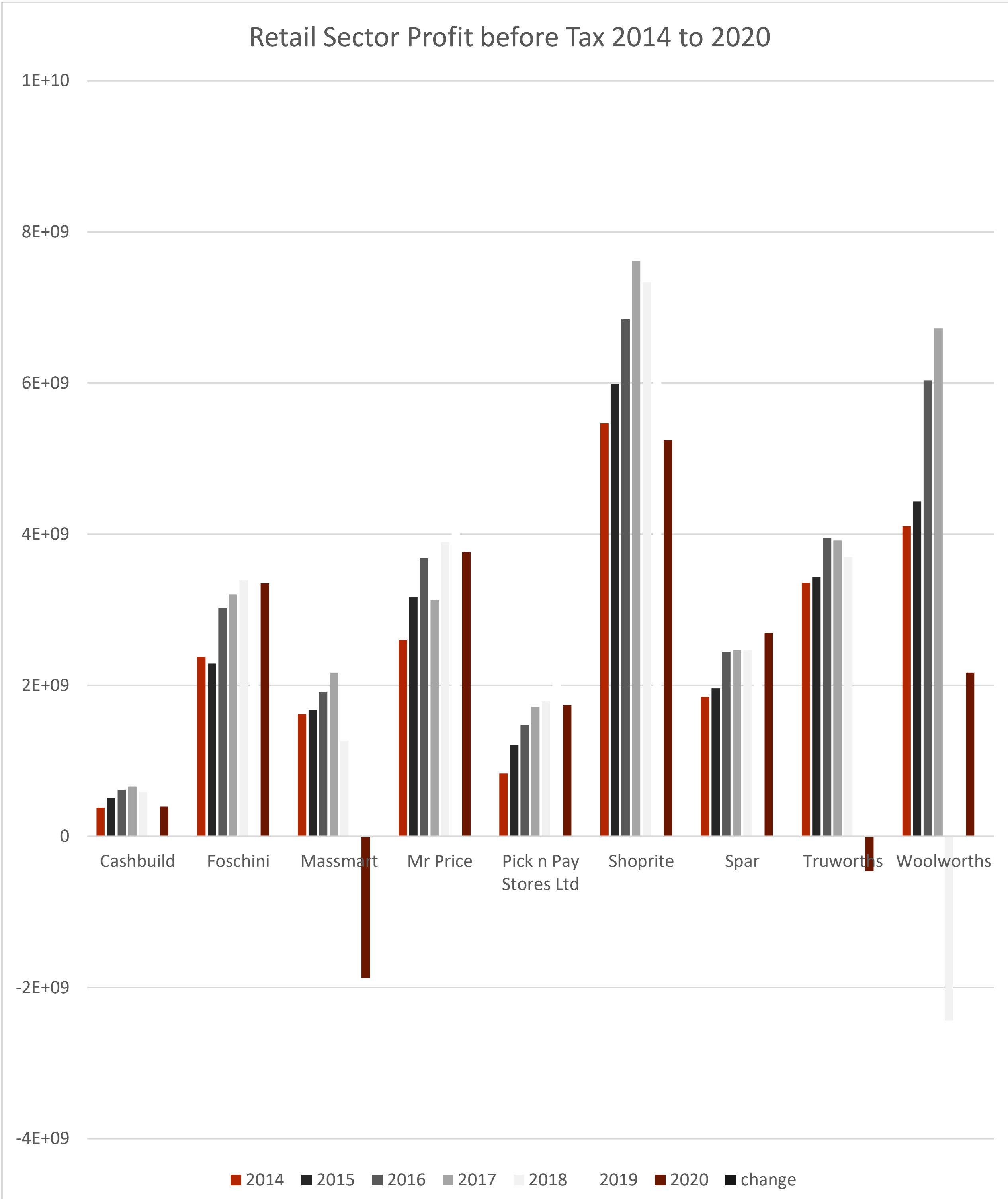

Figure 7 Retail Sector Profit before Tax 2014 to 2020

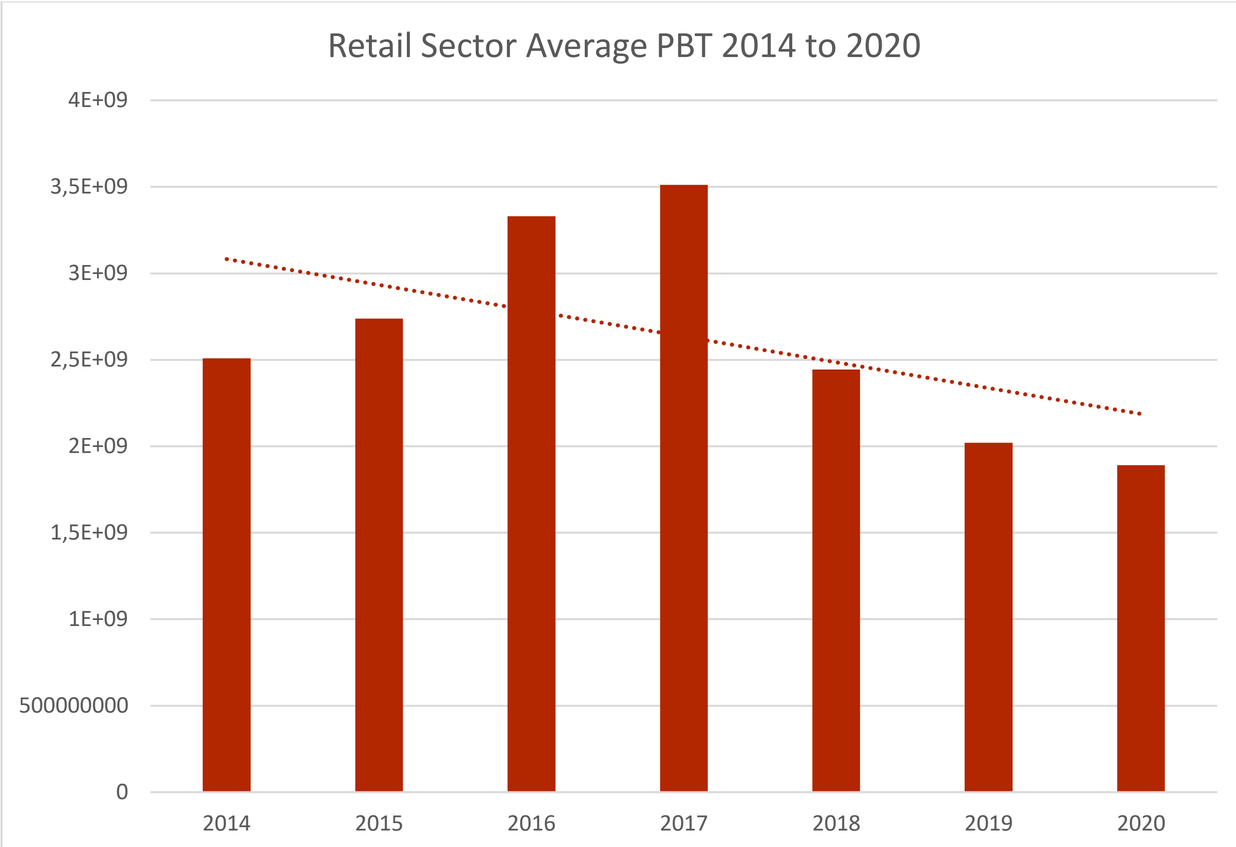

Figure 8 Retail Sector Average PBT 2014 to 2020

Directors' Remuneration: a ten year retrospective

The LRS MNC database allows us to look at CEO remuneration over the course of the last ten years. In the retail sector, and our sample specifically, we see the general trend over time being upwards, with a large spike in 2016 when the then Shoprite CEO retired and was paid a significant LTI (see *Figure 9*).

When looking at *Figure 9*, we see that in 2017, 2018, and 2019 we can see a large gap between the average total remuneration without LTI and total remuneration including LTI. This shows that large LTIs were paid in these three years. This gap closes in 2020, which was arguably a very difficult year for retailers. However, another possibility is that companies are simply increasing salaries and other benefits in order to compensate for less LTI payments. From 2019 to 2020, average total remuneration (without LTI) went up by 37,83% - compared to an 8,24% decrease in total remuneration including LTI.

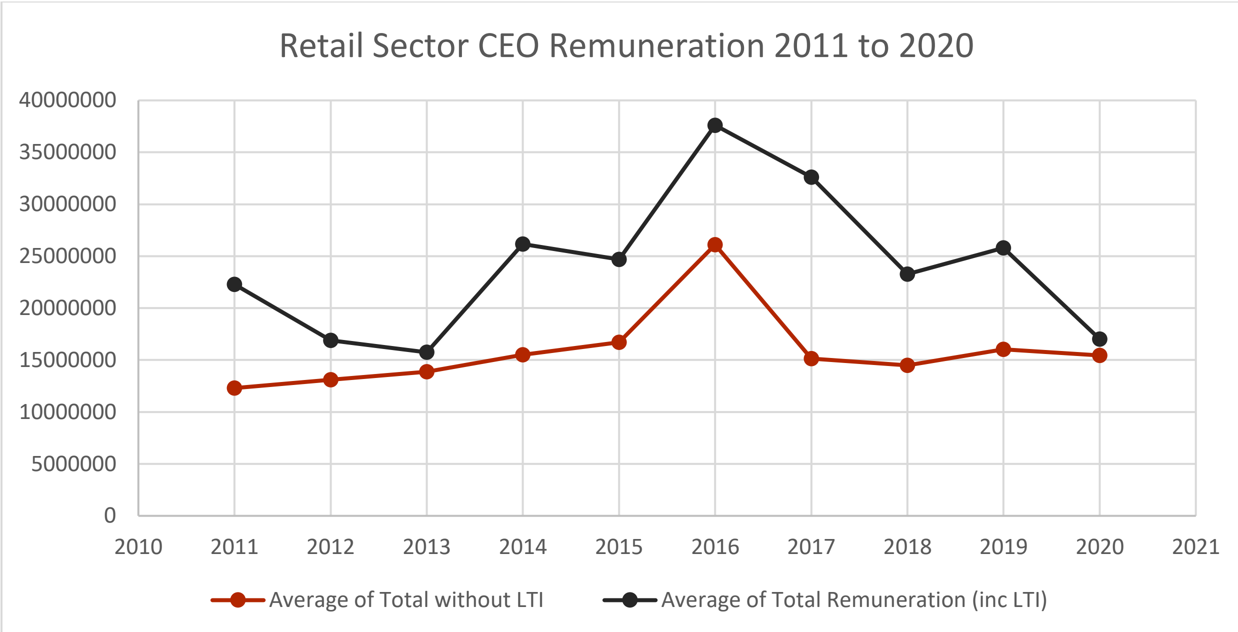

Figure 9 Retail Sector CEO Remuneration 2011 to 2020

CEO Remuneration 2020

In the retail sector, the CEO of Shoprite, Pieter Engelbrecht, received total remuneration of ZAR 28.7 million, which includes an LTI payment of ZAR 4 million and a cash bonus of ZAR 7,6 million. This makes him the highest earner in the sample for the 2020 year, in line with the company's performance in revenue and profit before tax. However, when considered in percentage terms, Engelbrecht's total remuneration went up by almost 35% - compared to a 17% decrease in Profit before Tax.

Despite significant and ongoing losses, Massmart CEO Mitchell Slape earner total remuneration of over ZAR 24 million. This is inclusive of a ZAR 6 million cash bonus as well as over ZAR 6 million in 'benefits'. This is concerning given the ongoing losses the company is facing, the retrenchments and store closures. On average, from 2019 to 2020, average total remuneration went down by over 8%. In the same time period, average non-executive remuneration went up by 8.4%.

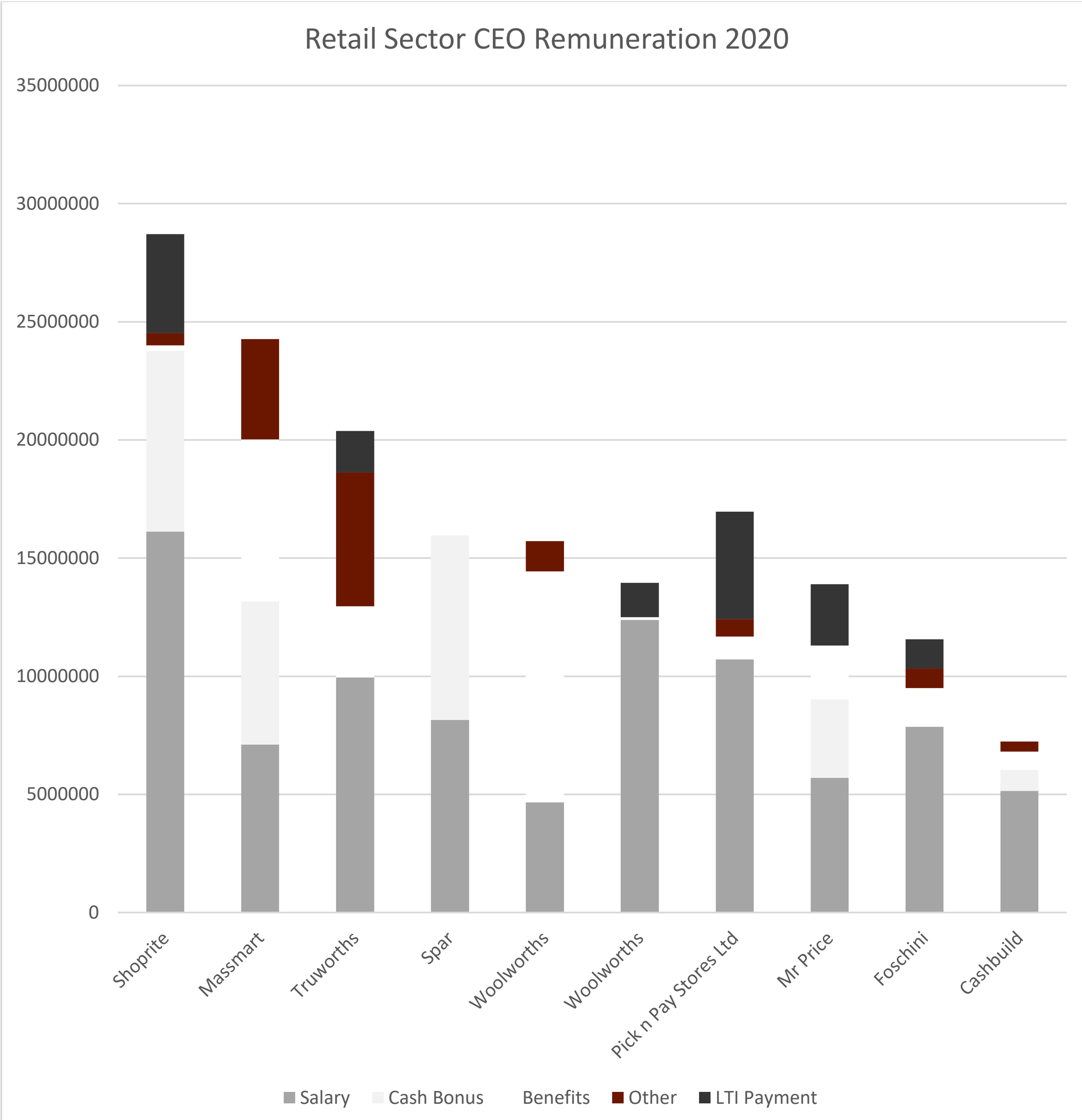

Figure 10 Retail Sector CEO Remuneration 2020

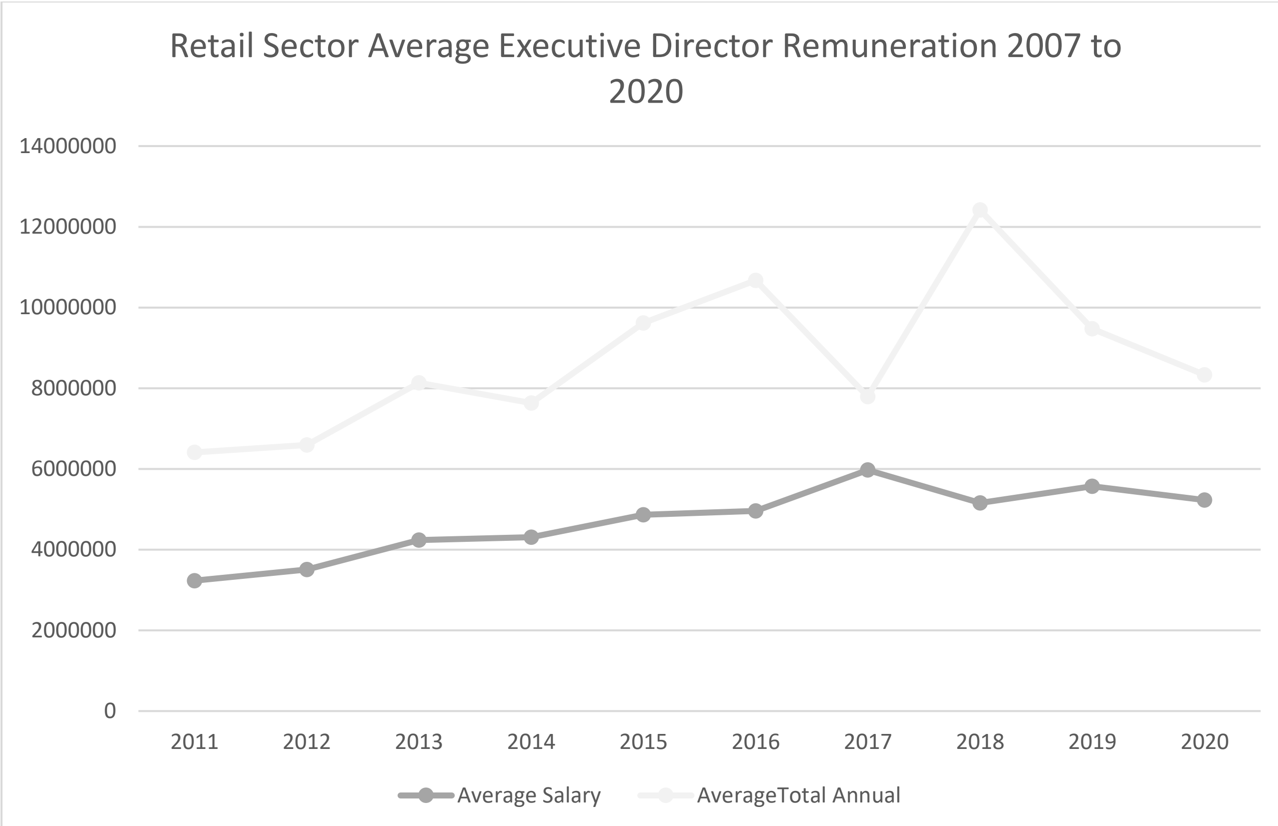

Figure 11 Retail Sector Average Executive Director Remuneration 2007 to 2020

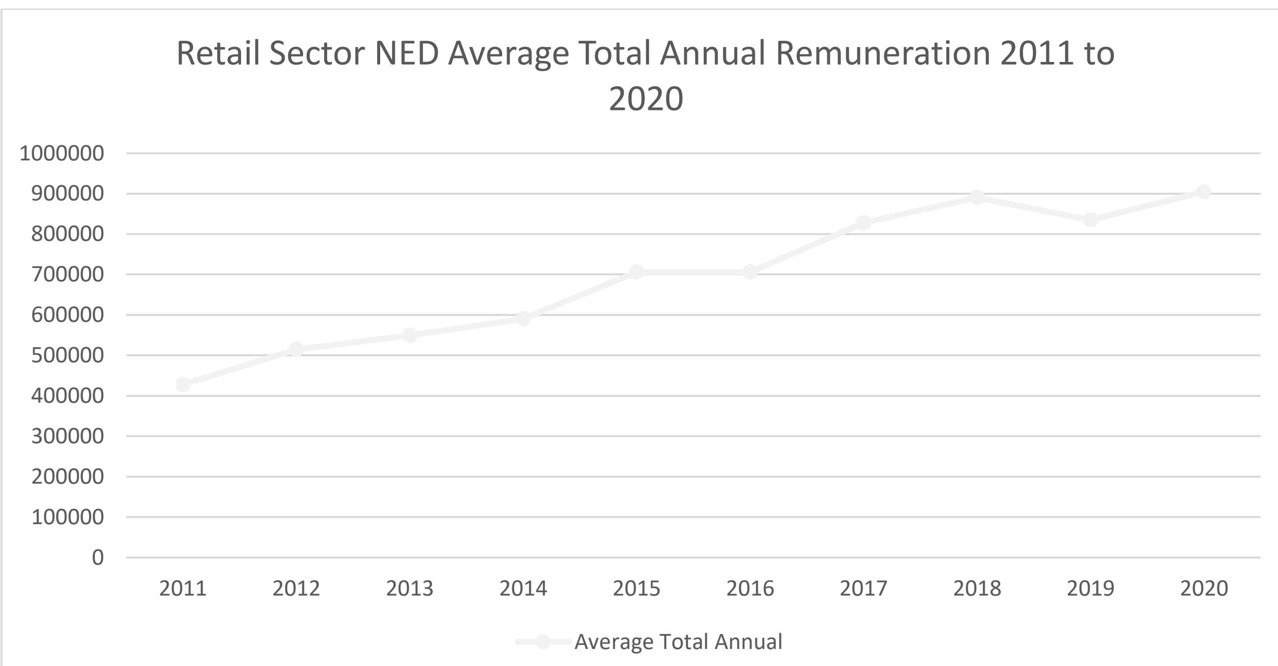

Figure 12 Retail Sector NED Average Total Annual Remuneration 2011 to 2020