INTUITION

5 NOVEMBER 2021

Mr Price: powering ahead

In 1985, founders Stewart Cohen and Laurie Chiappini recognised that due to the high cost of clothing at the time, factory shops selling quality merchandise at substantially lower prices were the future. A year later they acquired John Orrs Ltd, which also owned Miladys, and the first group-owned store was opened in 1987 in Brickhill Road, Durban, still the site of the Group's headquarters. Given record-high unemployment, multi-year high fuel prices driving up inflation, the July riots that caused store closures, Covid-19 lockdown restrictions, global supply-chain issues delaying stock delivery at ports and an imminent 25bps increase in the repo rate, the SA retail landscape remains under intense pressure. This article will look at why, despite all of the above near-term headwinds, Mr Price remains well-positioned to continue growing market share and pursue its new goal of becoming Africa's most valuable retailer.

Nick Rogers

SPEED READ

- **MRP Apparel has gained market share for 15 consecutive months as cash-strapped consumers trade down.**
- **Group online turnover is the equivalent of its 3 flagship stores combined sales whilst 86.4% of online traffic is via mobile devices.**
- **Mr Price recently acquired Yuppiechef and low LSM value retailer Power Fashion yet still has R4.2 billion of cash on its balance sheet.**

A good starting point is to clarify 'value retailing', the bedrock upon which Mr Price's success has been built. The term refers simply to a shop or chain of shops that sell low-priced goods. In MRP's case, this equates to 1,592 stores selling affordable fashion (MRP Apparel, Milady's & Power Fashion); homeware (Sheet Street, MRP Home & Yuppiechef); sportswear (MRP Sport) and beauty (Scarlett Hill). All of these products meet the consumer's aspirational needs including affordable fast fashion without compromising on quality. Let's now look at how MRP can continue to achieve lower prices whilst achieving attractive profit margins.

The pandemic has highlighted the risk of relying too heavily on Chinese imports. Sourcing locally made product leads to more efficient and reliable supply chains as well as lower shipping & transport costs. A fast-fashion retailer has to be agile and able to correct any fashion or seasonal mishaps at source within days (or weeks) rather than months to remain competitive. Mr Price's quality management spotted this risk early and by 2014 were already sourcing over 65 million garments from Southern Africa, in particular Mauritius, which falls within the African free-trade zone. Today, the company sources 78 million (almost 40%) of its garments from SA and is targeting 100 million by 2030. This is comforting given that there are currently over 500 container ships stuck outside ports globally causing supply-chain bottlenecks. But it has also fostered strong relationships with suppliers and allows MRP to order in sizeable quantities – both of which reduce input costs and allow MRP to simultaneously lower prices and earn higher gross margins.

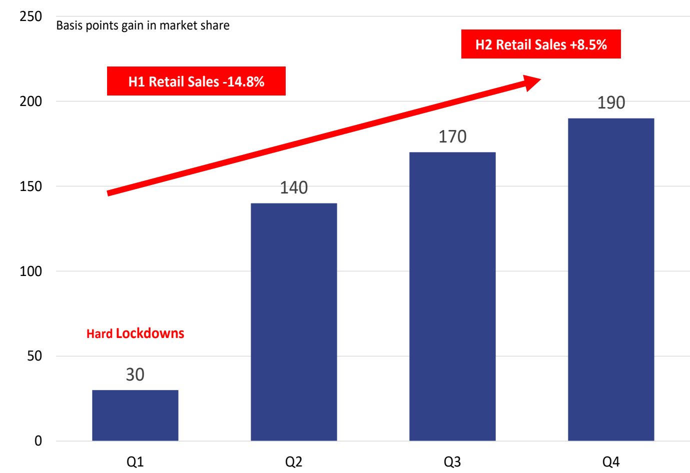
Mr Price has set itself a target to become the most valuable retailer in Africa. With a current market capitalisation of R46 billion, it is in 5th position behind Shoprite, Clicks, Pepkor and Woolworths. To achieve this, the company will focus on several strategic initiatives:

1. SA focus: over the next 3-5 years it will focus intensely on the SA market, which already comprises 92% of group revenue. Its Nigerian stores have recently been closed due to challenges operating profitably in that country. Similarly, it has also closed its Polish and Australian businesses. To further its penetration of the lower-end value segment, which remains highly fragmented and under-serviced by the large retailers, Mr Price acquired Power Fashion (174 stores across SA) in August. Power Fashion achieves slightly lower margins than Mr Price, but MRP believes they can open 25 new stores per annum which will drive annualised growth of 15%. Importantly, Power Fashion is an established brand and its management have remained within the enlarged company. Furthermore, Power

Fashion is ideally positioned to withstand the economic challenges of slow growth and high unemployment given that its customer base are beneficiaries of ever-rising social grants.

2. New categories: organic growth has dominated the company's rise over the decades and this trend has been reinforced by the newly launched categories of MRP Baby, MRP Schoolwear & Scarlett Hill beauty brands. Together, these new categories added R500 million to group sales over the past year. These products are still new, and hence there is much potential for further growth as they expand the range and availability.
3. Market share gains: Mr Price gained an impressive 1.5% of market share (worth R1.2 billion) from competitors over the Covid period and the apparel division (68% of sales) has gained market share for 15 consecutive months. Thanks to the work from home trend, MRP Home has shot the lights out and enjoyed double-digit sales growth and market share gains for 8 out of the past 10 months. It stands to benefit further from the structural trend of home improvement too. In addition, MRP Sport has been materially impacted by seasonal sports, gym & school closures but the structural global trend of athleisure will be a tailwind for years to come and as restrictions ease, sports kit sales will pick up. Interestingly, online sales for gym and sports equipment soared 97% as consumers stayed at home and society in general focused on healthy living. The above highlights the company's strong customer value proposition. This has been achieved through its differentiated merchandise and an intentional strategy to enhance the value offered to its customers.

MRP: MARKET SHARE GAINS



Mr Price gained 190 basis points of market share over its 2021 financial year, equivalent to R1.2 billion worth of extra sales.

4. Growing their e-commerce footprint: The importance of an omnichannel (i.e. bricks and mortar as well as online) retail offering cannot be over-emphasized. Management refers to it as "bricks v clicks". In their latest results, online sales comprised just 2.3% of total sales, but this grew 100% over the year. Online sales are now equivalent to its 3 flagship stores. The MRP app remains the number one apparel app in SA. One in six online orders is 'click & collect' so the physical store then has the same customer strolling through to collect the purchase and is often tempted into additional impulse buys. Miladys targets an older more conservative customer thus when COVID-19 hit, store visits plummeted more than the other more youthful divisions. Miladys Online was launched in July '21 and is already proving popular. To further its online ambitions, Mr Price recently announced the acquisition of Yuppiechef, one of the most well-known online retailers in SA. This is an astute move that allows Mr Price to gain access to a higher LSM customer base, enabling the growth of its share-of-wallet through 'aspirational value spending'. The focus will remain on value – for example, Yuppiechef's own-brand 'Sagenwolf' cookware set won the Fairlady magazine 2020 BestBuy award illustrating not just value but quality as well. The entire management team will remain on board to develop the range with Mr Price, and their expertise should benefit the entire group's online offering.

Whilst the above trends should fuel MRP's growth and help it achieve its goal, it is not all smooth sailing. The unrest in July saw 7% of stores looted, the consequence of which is approximately R1 billion in lost inventory, sales and damage. Despite this setback, management is confident that they are adequately insured, however, the pace at which damaged stores will reopen will have a larger than expected impact on revenue for some time. For example, they estimate that 15% of the damaged stores will only reopen in early 2023 – implying more than 20 months of lost sales. Nonetheless, management are still guiding for headline earnings to rise between 40% - 50% for the 6 months to September 2021. Mr Price boasts an impressive long-term track record across most financial metrics – earnings, dividends and shareholder returns. The company has a very robust balance sheet with a strong cash position of R4.2 billion, even after the acquisitions over the past 12 months. This 'war-chest' will allow Mr Price to cherry-pick opportunities at a time when many competitors are struggling. Shareholders will also delight in the 116% increase in the dividend - albeit off a low base from 2020.

In conclusion, we are confident that Mr Price's fashion-value merchandise offering is well-positioned to build on the market share gains from the past 18 months despite the challenging environment. The latest acquisitions coupled with an impressive track record of organic growth will continue to combine and add further strength to its ability to increase its share of lower LSM wallet. Given the fair valuation and attractive long-term structural story, we remain bullish and believe MRP has an exciting future ahead of it.

Now that we have moved back to Level 1, we are delighted to once again be able to host clients at our Insight Seminars. We will hold our next seminar in December, which will focus on the outlook for 2022 amd the key themes that we expect to unfold. For those based in the Midlands, please note the change of venue. The presentation will be followed by drinks and snacks. Seating is limited and subject to regulation, so please ensure that you book.

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Topic: **2022: a brighter year?**

Natal Midlands

Date:	2nd of December
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	13th January 2022
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

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