

From Durban to Düsseldorf: MRP's Big European Adventure Begins

Mr Price Group has long been a staple of the South African retail sector, prized for its debt-free balance sheet, consistent dividend payouts, and ability to capture “trade-down” shoppers in a tough economy. However, the Group’s recent 100% acquisition of European value retailer NKD Group for approximately R9.7 billion has sent shockwaves through the market. While the move signals a bold departure from Mr Price’s traditionally conservative, “SA-only” focus, it represents a calculated attempt to break out of a saturated local market and secure a high-growth runway in Central and Eastern Europe.

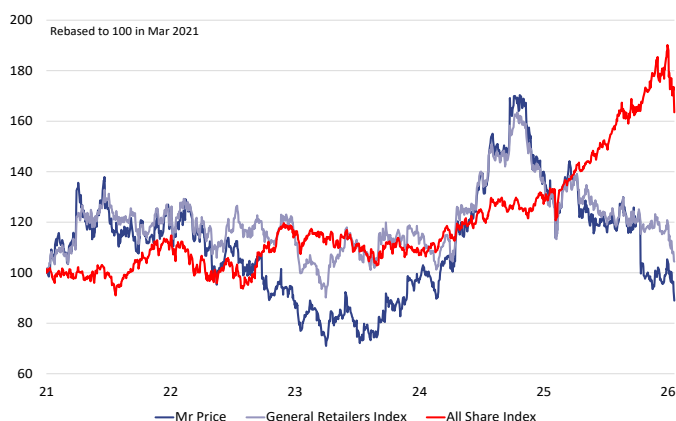


**Jana
van Rooyen**

Mr Price Group (MRP) has long been a darling of the South African retail sector, and for good reason. Our preference for the stock was anchored by three core strengths: a pristine, debt-free balance sheet with robust cash reserves; a disciplined focus on the local market while peers stumbled offshore; and a high cash-flow conversion that supported a generous 63% dividend payout ratio. Even as a constrained consumer shifted spending toward essentials, MRP’s dominant position in the value segment allowed it to capture “trade-down” shoppers, making it an ideal defensive play in a tough economy.

The Group’s interim results for FY26, posted in late November, reinforced this thesis. Despite a promotional competitor

MR PRICE: RELATIVE PERFORMANCE



The chart compares the performance of Mr Price relative to the retail sector and broader market. The Group enjoyed a strong rally in 2024 following the GNU, but 2025 was tougher, and the acquisition of NKD saw the share underperform sharply.

SPEED READ

- **Strategic Pivot:** After years of a “lazy” balance sheet, MRP is entering “Phase 2” of its growth strategy, acquiring the 60-year-old NKD brand to diversify geographic risk as the South African market reaches maturity.
- **Operational Synergy:** Unlike previous failed offshore ventures by SA retailers, MRP is retaining NKD’s experienced local management and leveraging a sophisticated “geo-tool” data science algorithm to optimise store performance and margins.
- **Scale vs. Margin:** While NKD is expected to contribute a substantial 25% to Group revenue, its current EBITDA contribution is only 9%, reflecting the lower-margin nature of the business and the operational work ahead.
- **The Bottom Line:** we are wary of the change in strategy but retain a cautiously optimistic bias; although the deal introduces gearing, the acquisition is expected to be earnings accretive by within 18 months and self-funding for future growth.

environment and a higher base, MRP outperformed the market and gained share without sacrificing margins. Investors cheered the performance, sending the share price up 8% on the day. However, this optimism was short-lived.

Just 20 days later, on 10 December 2025, MRP caught the market off guard by announcing the 100% acquisition of NKD Group GmbH (“NKD”), a European value retailer, from a private equity firm. The immediate and sharp decline in the share price following this announcement, as illustrated in the chart on the left, serves as a clear indicator of the market’s apprehension toward this sudden strategic pivot.

Leading up to this acquisition

For years, Mr Price was criticised for a “lazy” balance sheet

and a twenty-year drought in M&A. This changed in 2020 with a multi-phase strategic pivot. Phase 1 focused on fortifying the South African core through high-impact acquisitions like Power Fashion, Yuppiefchef and Studio 88. These were integrated with a “light touch” to preserve their cultures, ultimately contributing R1.2 billion to FY25 operating profit.

Alongside these deals, management drove aggressive organic growth by launching standalone Kids, Baby, and Cellular formats. Despite the challenges of COVID-19, these efforts generated R4.3 billion in additional organic sales by FY25, shifting the Group’s narrative toward a disciplined, high-growth story.

The Group is now entering Phase 2, a strategy centred on the next decade of expansion. For three years, this phase was represented only as a “blank box” in investor presentations - a placeholder for future intent. It is now evident that this silence masked an ambitious scale of expansion, signalling that its next moves may be even more transformative than the last.

The big acquisition: Who is NKD and why

MRP recently announced its acquisition of 100% of NKD, a European value apparel and homeware retailer, for a maximum consideration of €487 million (c. R9.7 billion at the time of the announcement). This move marks a definitive shift toward offshore growth as the South African market reaches saturation.

Unlike previous failed attempts to export the MRP brand, this acquisition prioritises local expertise and brand heritage:

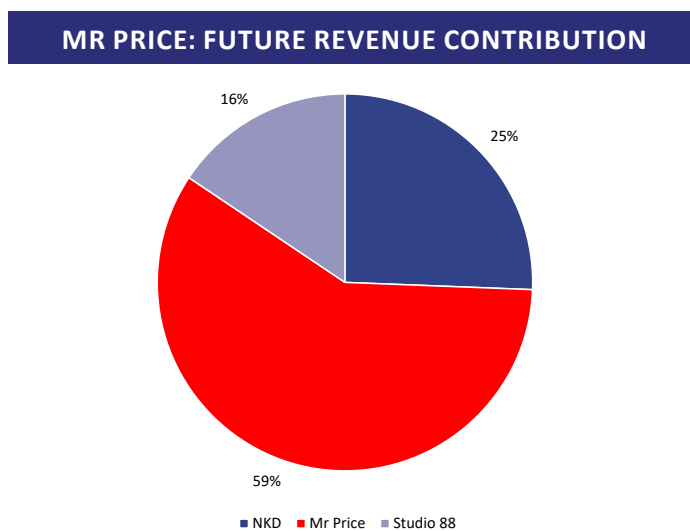
- **Brand Affinity:** NKD is an established 60-year-old brand with high top-of-mind awareness in Central and Eastern Europe.
- **Management Continuity:** To avoid overstretching local resources, NKD’s experienced senior management team will remain at the helm.
- **Model Alignment:** Both companies share a cash-based, value-focused model - even down to their bold red branding.

While the two retailers share a similar DNA, MRP remains the

Metric	MRP March 2025 FY	NKD December 2024 FY
Annual Revenue	R40.9 billion	c. R13.8 billion (€712m)
EBITDA	R5.78 billion	c. R2.4 billion (€122m)
Store Footprint	c.3,100 stores	c. 2,100 stores
Target Market	Youth/Fashion-forward	Females 40+ / Value-basic

dominant entity in terms of scale and profitability:

NKD will immediately diversify MRP’s geographic risk and contribute approximately 25% to Group revenue, providing a significant runway for future European expansion.



This chart illustrates the sizeable contribution NKD will make to Group revenue. But what market didn’t like is that the EBITDA contribution of NKD will only be 9%, which shows how much NKD’s margin are relative to the SA operations.

Why the Market’s negative reaction: departure from tradition

The market’s initial negative reaction to the NKD announcement reflects a core concern: that Mr Price may be overpaying to dilute its traditionally conservative, cash-rich South African model. Historically, MRP’s primary appeal has been its locally focused strategy and its robust, debt-free balance sheet (currently holding R3 billion in net cash). This acquisition introduces both offshore exposure and leverage for the first time in decades.

While the price tag raised eyebrows, the underlying metrics tell a more nuanced story:

- **EV/EBITDA:** At an Enterprise Value of €500 million, the multiple sits at 11.14x (pre-IFRS 16). While this is above European norms, it is defensible given NKD’s 60-year heritage and margin potential. On a post-IFRS 16 basis, the multiple drops to 4.1x, aligning it closely with the successful Studio 88 acquisition.
- **The P/E Distortion:** A P/E ratio of 37x appears high at face value; however, this is largely distorted by private-equity financing structures that have historically suppressed NKD’s net profit.

By onboarding NKD, MRP is intentionally sacrificing its “net cash” status and near-term Group margins in exchange for a massive European growth runway. As comparisons

to previous South African retail ventures abroad suggest: “History doesn’t repeat itself, but it often rhymes.” Investors remain cautious as to whether this chapter will break the cycle of international underperformance or simply echo the past.

Final Verdict: The NKD Strategic Roadmap

After a period of restricted communication due to private equity exit protocols (MRP was not the only possible buyer), MRP has confirmed the NKD acquisition is binding, with a closing date set for 31 March 2026. At the recent Capital Markets Day on 17 March, management provided deep-dive clarity on why the “past does not reflect the future” for this European retailer.

1. Turnaround and Operational Resilience. NKD’s historical underperformance was attributed to a “perfect storm” of COVID-19, 30-year inflation highs in Germany, and global supply chain disruptions. However, the executive team appointed in 2022 has already stabilised the business:

- **Logistics and Sourcing:** NKD operates a fully integrated, cost-efficient in-house logistics network. Sourcing is concentrated in Bangladesh, China, and Myanmar, supported by a dedicated Eastern European sourcing office and long-term, 100% compliant supplier relationships.
- **Data Science Edge:** A proprietary “geo-tool” algorithm optimises site selection and markdown decisions. This tool has already driven a 400 bps increase in store contribution margins and ensures a rapid 2.4-year capital expenditure payback on new sites.

2. **"Vision 2030": The Growth Targets.** MRP has set ambitious targets to transform NKD into a €1 billion sales business by 2030 (up from €712 million in 2024). Key pillars include:

3. **Profitability:** Expanding EBIT margins from 4% to 8% -10% via efficiency and data tools.
4. **Expansion:** Focusing 72% of new store openings on Germany and Poland, targeting a net space growth of 3% - 4% per annum.
5. **Market Opportunity:** The European value segment accounts for ~22% of a €500 billion market and is expected to grow at twice the rate of the broader retail sector.

The Investment Case: Risk vs. Reward

While the strategic logic is sound, the financial transition

introduces new pressures. The first is, gearing. Combined Group debt will reach R7 billion in South Africa and R1.2 billion in Germany. The expected gearing ratio of 1.5x – 1.75x (Net Debt/EBITDA) sits at the upper limit of our comfort zone. Second is the earnings impact. Although the 63% dividend payout policy remains, increased debt-servicing costs will weigh on near-term earnings. NKD is expected to be earnings accretive by Year 2. Third is self-sufficiency. Critically, NKD is expected to self-fund its growth, meaning South African capital shouldn’t need to be diverted offshore.

The success of this deal hinges on cash conversion and debt reduction. If management executes the 2030 vision as outlined, the acquisition provides the geographic diversification MRP needs to break out of a saturated local market.

Conclusion and Harvard House’s approach

At Harvard House, we are wary of the change in direction but have decided to give management the benefit of the doubt. MRP has demonstrated a high level of competence through its last three acquisitions, proving it can profitably scale value brands while maintaining strict capital discipline. This deal is not merely about expanding the geographic footprint; it offers significant operational upside through combined buying power, an exchange of data science expertise, and the integration of NKD’s “geo-tool” algorithms with MRP’s existing merchandise processes.

While offshore exposure and increased leverage are new chapters for the MRP story, the Group’s commitment to its dividend payout remains intact. Crucially, management has signalled that South African operations will not be deprived of investment. Instead, NKD is expected to be self-funding for its own growth, allowing Mr Price to pursue a multi-layered expansion strategy across both regions simultaneously.

The market remains understandably sceptical, wary of the “rhyme” of past South African retail failures abroad. However, by retaining a strong, experienced local management team and sticking to a proven, high-performing value model, MRP has mitigated the primary risks that hampered previous international ventures. If execution follows the “Vision 2030” roadmap, this transaction should prove value-accretive by the second year, successfully transforming MRP into a diversified, global value powerhouse.

“The success of this deal hinges on cash conversion and debt reduction.”



Our next seminar will be held in June. As usual, we will review the first six months of the year and update our outlook for the remaining six months.



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Topic: **2026: The first six months**

Natal Midlands

Date: 4 June 2026

Venue: Christ Church Howick, 23 Mare Street, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: 9 June 2026

Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham

Time: 7am for 7.30am

Cape Town

Date: 11 June 2026

Venue: Kelvin Grove Club, 144 Camp-ground Rd, Newlands, 7700

Time: 7.30am

Venue: Helderberg Village Lifestyle Estate, 63 Bakkerskloof Rd, Helderberg Village, Cape Town

Time: 5.30pm for 6pm



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