Dis-Chem
PHARMACIES

Interim Condensed Consolidated Financial Results

for the six months ended
31 August

2019

Commentary

Overview

In the current period, with the challenges of the strike coming to an end and the decentralisation of the wholesale space now concluded, the Group continues to focus on Return on Invested Capital (''ROIC'') to ensure optimal returns to shareholders over the long term. This has resulted in the necessary inventory reductions and rationalisation across the wholesale space without compromising sales to our customers. The rationalisation has resulted in strong cash generation over the corresponding period in the prior year ("corresponding period") and together with a continued emphasis on cost management, positions the Group well to benefit from future growth opportunities.

Despite the difficult consumer environment revenue has grown by 13.2% over the corresponding period. External revenue in the wholesale environment grew by 28.5%, mainly due to the successful acquisitions and integration of Quenets - the acquired Western Cape wholesaler. The Group continues to report revenue growth ahead of market growth, as it grows space and benefits from a maturing store base. As a result the Group has improved its market shares across all core categories.

The Group's earnings in the current period was not only impacted by once off items (as described below) but was also impacted by the low growth in purchases from suppliers of only 1.5% against the corresponding period which, despite the successful improvement in additional trade terms, has resulted in the total income margin declining.

Earnings attributable to shareholders and headline earnings both declined by 39.0% over the corresponding period. Earnings per share (EPS) and headline earnings per share (HEPS) are both 31.0 cents per share, a decrease of 38.9%.

Chief executive, Ivan Saltzman: "I am very pleased that in this extremely tough trading environment we managed strong revenue growth in both our retail and wholesale segments resulting in a 13.2% increase in Group revenue to R11.8 billion.

This growth together with the continued roll out of more than 20 stores led to market share gains in all of our core categories.

As we have reiterated, commercial decisions made are for the long term benefit of Group growth considering the position of our brand within a resilient, consolidating market.

This set of half year results is the last set impacted by once off strike related items which, once eliminated, highlight our cost containment efforts together with a significant stock rationalisation, effected post the conclusion of the strike, driven by our return on investment focus.

The labour issues that led to strikes across two consecutive financial years have been settled and we are actively rebuilding the relationship with distribution staff so that they understand the culture of our brand and our commitment to values that I, together with my partners, have built over many years.

NHI's aim is for affordable access to healthcare and we expect that this will frame a change in the consumption of care in the private space going forward. It is no secret that we have the largest and most consistent clinic offering and we are expanding the service scope of our Clinic sisters as well as investing in Telemedicine technology across our 310 clinics to increase the reach and reduce the costs of specialist services for patients. I am excited about the fruition of my vision for Dis-Chem, to play a significant role in bringing affordable healthcare to the many South Africans that are in need."

IFRS 16 Leases

The Group adopted IFRS 16, *Leases*, in the current period and elected to present financial information on a restated basis in order to allow for comparability between periods. The new standard aligns the accounting of leased assets with owned assets and has resulted in the majority of the Group's store and warehouse leases being brought onto the Statement of Financial Position as a finance lease with a corresponding right-of-use asset (reflected in property, plant and equipment). The rental occupancy costs in the Statement of Comprehensive Income have been replaced by depreciation of the right-of-use asset and finance costs in relation to the finance liability.

Due to the relatively young age of the Group's lease portfolio and new stores continually being opened, the new standard has and will continue to be earnings dilutive in the short and medium term (excluding any renegotiation of lease terms that may take place).

The adoption of IFRS 16 will impact certain key performance indicators ("KPI's") such as EBITDA, EBIT, EPS, ROCE and gearing ratios. Importantly, however, it does not change the Group's underlying, fundamental economic business model, investment case or strategy.

Commentary continued

The Group's EPS at 28 February 2019 and 31 August 2018, which was previously 85.4 cents per share and 51.7 cents per share respectively, has been restated to 83.6 cents per share and 50.7 cents per share respectively.

The presented financial performance of the Group is based on restated numbers after the adoption of IFRS 16.

Review of financial performance

Revenue

During the six-month period from 1 March 2019 to 31 August 2019, Dis-Chem recorded Group revenue growth of 13.2% to R11.8 billion.

Retail revenue grew by 11.8% to R10.7 billion with comparable store revenue at 5.4%. The Group restricted selling price inflation to 2.3% thereby achieving positive volume growth despite the difficult economic climate. The Group opened 20 new stores and acquired 2 new pharmacies from the corresponding period resulting in 158 stores at August 2019. These new stores contributed R545 million to revenue, including R78 million from the acquisition of Springbok Pharmacy on 1 April 2019.

Dis-Chem loyalty members continue to grow, especially through the successful reward driven campaigns, bringing total members to 5.1 million, up from 4.7 million in the corresponding period.

Wholesale revenue grew by 9.0% to R8.1 billion. Revenue to our own retail stores, still the biggest contributor to wholesale revenue, grew by 6.4% while external revenue grew by 28.5% from the prior comparative period.

The wholesale internal revenue growth lagged that of the retail growth as a result of the necessary inventory rationalisation post the strike.

The external wholesale revenue growth of 28.5% is due to the successful acquisition of Quenets (acquired in November 2018) which resulted in additional revenue of R180 million as well as the number of TLC franchises growing from 76 at August 2018 to 96 at August 2019.

Total income

Total income, comprising gross profit and other income, grew by 6.0% to R3.3 billion. In the prior period – H1 FY19 – the Group benefitted from the release of unearned rebates of approximately R81 million as a result of a redistribution of inventory across the retail and wholesale segments which did not occur again in the current period. Excluding this once off amount, total income grew by 8.9%.

Despite the continued and successful improvement of additional trade terms, the Group's total income margin reduced from 29.4% (28.6% excluding the prior year unearned rebate release) to 27.5%.

With the optimisation of inventory levels together with the increased focus on ROIC in the current period, the lower increase in purchases from suppliers (1.5%) compared with the increase in revenue (13.2%) resulted in a negative impact on the total margin of the Group. Lower purchases resulted in a sacrifice of purchase driven growth rebates together with lower supplier purchase linked fee for service income.

Retail total income grew by 4.8%, carrying the majority of the terms sacrifice as a result of the lower purchases while wholesale total income, excluding the once off unearned rebate release, grew by 7.3%.

Other expenses

Other expenses grew by 16.5% over the corresponding period to R2.7 billion. This increase is partly due to the following once-off transactions that impacted the current and corresponding period:

- The change in the Group's bonus policy relating to employee's 13th cheques - previously the Group expensed the full bonus amount when paid in December of each year. The bonus is now evenly accrued throughout the financial period due to its guaranteed nature. The effect of the change has resulted in the recognition of R75 million in 1H20; and
- Additional strike-related costs (additional security and payroll) incurred between the FY19 year end and the conclusion of the strike on 10th April was approximately R19 million.

Excluding these once-off costs, expenses would have grown by 12.4% over the corresponding period, lower than the growth in revenue of 13.2%, and corroborates our commitment to cost management.

Retail expenses, excluding the once-off transactions, grew by 11.2% as the Group invested in 22 new stores since the corresponding period. Wholesale expenses, excluding the once-off transactions, declined by 3.6%.

The decline in Wholesale expenses was as a result of investment in technology that allowed for greater visibility of productivity, customer performance and individual supplier profitability within the wholesale space. Supplier profitability within the wholesale space was driven by understanding factors influencing the cost of carrying supplier inventory. Factors included inventory turn, space allocation and bin consumption across each warehouse within our wholesaling environment. This supplier specific profitability analysis enabled better informed commercial discussions to ensure improved space optimisation and efficiencies.

Net finance costs

Net finance costs increased by 20.7% to R202 million. This increase was primarily due to R23 million additional interest cost as a result of the additional inventory held over the strike period to avoid compromising stock levels in our stores and R11 million additional interest from the new term loan that was taken out on 1 March 2019. The Group took advantage of favourable financing by replacing the existing ABSA facility with a new facility in order to facilitate the recent acquisitions in both the retail and wholesale businesses. With the improvement in cash levels already being seen from the rationalisation of inventory, finance costs are expected to reduce favourably in the short term.

Net working capital

During the current period, the Group reduced inventory holdings by R776 million from February 2019. This was achieved through the afore-mentioned ROIC processes and simplified by normalised trade in our wholesale business post the strike allowing more efficient replenishment cycles and focus on excess stock levels. This net working capital outflow improvement, from R111 million in August 2018 and R404 million in February 2019 to R22 million in August 2019 has resulted in a greatly improved cash generation for the Group.

The Group's net working capital at 31 August 2019 is 37.3 days compared to 37.7 days at 28 February 2019.

Capital expenditure

Capital expenditure on tangible and intangible assets of R214 million comprised R140 million of expansionary expenditure as the Group invested in additional stores as well as information technology enhancements across both the retail and wholesale segments. The balance of R74 million relates to replacement expenditure incurred to maintain the existing retail and wholesale network. The increase in replacement expenditure over the prior comparable period is a result of five additional store renovations together with two more costly store relocations to improve trading positions in those respective retail centres.

Capital expenditure on acquisitions amounted to R52 million with the acquisition of two independent pharmacies and a pharmaceutical adherence business in the current period.

Directorate

No changes have been made to the board since year-end or the prior corresponding period.

Outlook

The Group expects that the consumer will continue to remain constrained as a result of the current macroeconomic environment. As was the case previously, the resilient markets in which the Group operates together with the brand positioning will offer a certain amount of protection against the weak environment and the Group is well positioned to benefit from additional consumer disposable income.

The Group remains focused on adding retail stores. Four stores have been added since the reporting period and an additional seven store openings are planned through to February 2020.

The financial information in this outlook paragraph has not been audited, reviewed or reported on by the Group's external auditors.

Dividend declaration

The Group has decided that the impact of IFRS 16 should not impact the payment of cash dividends to shareholders and therefore the Group's dividend in the current period is based on 40% of headline earnings, excluding the impact of IFRS 16.

Notice is hereby given that a gross interim cash dividend of 12.79404 cents per share, in respect of the interim ended 31 August 2019 has been declared based on 40% of headline earnings (excluding the impact of IFRS 16). The number of shares in issue at the date of this declaration is 860 084 483. The dividend has been declared out of income reserves as defined in the Income Tax Act, 1962, and will be subject to the South African dividend withholding tax ("DWT") rate of 20% which will result in a net dividend of 10.23523 cents per share to those shareholders who are not exempt from paying dividend tax. Dis-Chem's tax reference number is 9931586144.

Commentary continued

The salient dates relating to the payment of the dividend are as follows:

- Last day to trade *cum* dividend on the JSE: Tuesday, 26 November 2019
- First trading day *ex* dividend on the JSE: Wednesday, 27 November 2019
- Record date: Friday, 29 November 2019
- Payment date: Monday, 2 December 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 27 November 2019 and Friday, 29 November 2019, both days inclusive. Shareholders who hold ordinary shares in certificated form ("certificated shareholders") should note that dividends will be paid by cheque and by means of an electronic funds transfer ("EFT") method. Where the dividend payable to a particular certificated shareholder is less than R100, the dividend will be paid by EFT only to such certificated shareholder. Certificated shareholders who do not have access to any EFT facilities are advised to contact the company's transfer secretaries, Computershare Investor Services Proprietary Limited at Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196; on 011 370 5000; or on 0861 100 9818 (fax), in order to make the necessary arrangements to take delivery of the proceeds of their dividend. Shareholders who hold ordinary shares in dematerialised form will have their accounts held at their CSDP or broker credited electronically with the proceeds of their dividend.

Approval

The interim condensed consolidated results of the Group were authorised for issue in accordance with a resolution of the directors on 6 November 2019.

On behalf of the Board

Ivan Saltzman
Chief Executive Officer

Rui Morais
Chief Financial Officer

Condensed consolidated statement of comprehensive income

	Six months to 31 August 2019 R'000	Restated * Six months to 31 August 2018 R'000	change August 2018 to August 2019 %	Restated * Year to 28 February 2019 R'000
Revenue from contracts with customers	**11 847 642**	10 464 943	13.2%	21 420 023
Cost of sales	**(9 170 668)**	(7 858 142)	16.7%	(16 197 190)
Gross profit	**2 676 974**	2 606 801	2.7%	5 222 833
Other income	**586 010**	471 667	24.2%	1 010 258
Total income	**3 262 984**	3 078 468	6.0%	6 233 091
Other expenses	**(2 673 506)**	(2 295 597)	16.5%	(4 857 179)
Operating profit	**589 478**	782 871	(24.7%)	1 375 912
Net financing costs	**(201 665)**	(167 146)	20.7%	(344 787)
– Finance income	**8 524**	9 223	(7.6%)	20 183
– Finance costs	**(210 189)**	(176 369)	19.2%	(364 970)
Profit from associates and joint ventures	**281**	–		–
Profit before taxation	**388 094**	615 725	(37.0%)	1 031 125
Taxation	**(105 762)**	(165 046)	(35.9%)	(284 185)
Total profit for the year, net of tax	**282 332**	450 679	(37.4%)	746 940
Other comprehensive income				
Items that may be subsequently reclassified to profit or loss				
– Exchange differences on translating foreign subsidiaries	**(92)**	–		44
Other comprehensive income for the year, net of taxation	**(92)**	–		44
Total comprehensive income for the year	**282 240**	450 679	(37.4%)	746 984
Profit attributable to:				
– Equity holders of the parent	**266 453**	436 472		718 723
– Non-controlling interests	**15 879**	14 207		28 217
Total comprehensive income attributable to:				
– Equity holders of the parent	**266 361**	436 472		718 767
– Non-controlling interests	**15 879**	14 207		28 217
Earnings per share (cents)				
– Basic	**31.0**	50.7		83.6
– Diluted	**31.0**	50.7		83.6

** Refer to note 2.*

Condensed consolidated statement of financial position

	As at 31 August 2019 R'000	Restated * As at 31 August 2018 R'000	Restated * As at 28 February 2019 R'000
ASSETS			
Non-current assets	**3 696 261**	3 480 638	3 672 379
Property, plant and equipment (including right-of-use assets)	**2 992 284**	2 881 144	2 994 756
Intangible assets	**463 261**	387 957	447 112
Investment in associates and joint ventures	**15 589**	–	–
Deferred taxation	**225 127**	211 537	230 511
Current assets	**6 587 606**	6 661 332	6 849 048
Inventories	**4 339 208**	4 358 618	5 115 579
Trade and other receivables	**1 366 541**	1 211 878	1 354 016
Loans receivable	**224 544**	185 375	198 317
Taxation receivable	**-**	1 667	3 704
Cash and cash equivalents	**657 313**	903 794	177 432
Total assets	**10 283 867**	10 141 970	10 521 427
EQUITY AND LIABILITIES			
Equity and reserves	**2 023 532**	1 825 142	1 885 604
Share capital	**6 155 554**	6 155 554	6 155 554
Retained earnings	**495 650**	289 207	344 888
Other reserves	**(4 627 672)**	(4 619 619)	(4 614 838)
Non-controlling interest	**78 088**	61 282	64 125
Total equity	**2 101 620**	1 886 424	1 949 729
Non-current liabilities	**3 141 341**	2 940 751	2 852 220
Lease liability	**2 355 016**	2 479 576	2 443 204
Loans payable	**743 750**	424 604	346 000
Contingent consideration	**20 559**	36 571	40 797
Deferred taxation	**22 016**	–	22 219
Current liabilities	**5 040 906**	5 314 795	5 719 478
Trade and other payables	**3 517 033**	3 727 728	4 294 456
Lease liability	**306 492**	281 341	309 317
Loans payable	**154 923**	172 093	170 989
Employee-related obligations	**165 684**	127 365	163 933
Deferred revenue (contract liability)	**40 239**	61 771	43 798
Contingent consideration	**22 704**	20 956	23 548
Taxation payable	**5 178**	49 863	54 967
Bank overdraft	**828 653**	873 678	658 470
Total equity and liabilities	**10 283 867**	10 141 970	10 521 427

** Refer to note 2.*

Condensed consolidated statement of changes in equity

	Share capital R'000	Retained earnings/ (loss) R'000	Other reserves R'000	Non-controlling interest R'000	Total R'000
As previously reported	6 155 554	97 481	(4 622 043)	55 147	1 686 139
Adjustment for IFRS 16	–	(134 576)	–	(4 052)	(138 628)
Restated balance at 28 February 2018 *	6 155 554	(37 095)	(4 622 043)	51 095	1 547 511
Profit/total comprehensive income for the year	–	436 472	–	14 207	450 679
Change in ownership interest in subsidiary	–	(630)	–	1 965	1 335
Share-based payment expense	–	–	2 424	–	2 424
Dividends paid	–	(109 540)	–	(5 985)	(115 525)
Restated balance at 31 August 2018 *	6 155 554	289 207	(4 619 619)	61 282	1 886 424
Profit/total comprehensive income for the year	–	282 251	44	14 010	296 305
Profit for the year, net of taxation	–	282 251	–	14 010	296 261
Other comprehensive income for the year, net of taxation	–	–	44	–	44
Change in ownership interest in subsidiary and acquisitions	–	(48 560)	–	(3 003)	(51 563)
Share-based payment expense	–	–	4 737	–	4 737
Dividends paid	–	(178 010)	–	(8 164)	(186 174)
Restated balance at 28 February 2019 *	6 155 554	344 888	(4 614 838)	64 125	1 949 729
Profit/ total comprehensive income for the year	**-**	**266 453**	**(92)**	**15 879**	**282 240**
Profit for the year, net of taxation	**-**	**266 453**	**-**	**15 879**	**282 332**
Other comprehensive income for the year, net of taxation	**-**	**-**	**(92)**	**-**	**(92)**
Change in ownership interest in subsidiary and acquisitions	**-**	**179**	**-**	**7 267**	**7 446**
Share-based payment expense	**-**	**-**	**410**	**-**	**410**
Treasury shares acquired	**-**	**-**	**(13 152)**	**-**	**(13 152)**
Dividends paid	**-**	**(115 870)**	**-**	**(9 183)**	**(125 053)**
Balance at 31 August 2019	**6 155 554**	**495 650**	**(4 627 672)**	**78 088**	**2 101 620**

** Refer to note 2.*

Condensed consolidated statement of cash flows

	Six months to 31 August 2019 R'000	Restated * Six months to 31 August 2018 R'000	Restated * Year to 28 February 2019 R'000
Cash flow from operating activities	**398 546**	503 948	585 716
Cash inflow from trading operations	**876 854**	1 001 074	1 860 725
Movement in working capital	**(22 808)**	(111 477)	(403 526)
Finance income received	**8 524**	13 745	20 183
Finance costs paid	**(193 863)**	(161 198)	(349 979)
Taxation paid	**(145 108)**	(122 671)	(239 988)
Dividends paid	**(125 053)**	(115 525)	(301 699)
Cash flow from investing activities	**(261 435)**	(222 187)	(549 721)
Additions to property, plant and equipment and intangible assets			
– To maintain operations	**(73 730)**	(37 466)	(147 850)
– To expand operations	**(139 958)**	(118 610)	(246 659)
Proceeds on disposal of property, plant and equipment and intangible assets	**4 279**	3 615	9 313
Acquisition in business combination and subsidiaries, net of cash acquired	**(36 026)**	(69 726)	(164 525)
Investment in joint ventures	**(16 000)**	–	–
Cash flow from financing activities	**172 907**	(224 130)	(489 663)
Purchase of treasury shares	**(13 152)**	–	–
Contingent consideration paid	**(29 672)**	(23 133)	(23 133)
Change in ownership interest in subsidiaries	**(899)**	–	(50 439)
Long-term loans repaid	**(531 250)**	(75 000)	(150 000)
Receipt of long-term loans	**900 000**	–	–
Lease liability repayment	**(152 120)**	(125 997)	(266 091)
Net increase/(decrease) in cash and cash equivalents	**310 018**	57 631	(453 668)
Foreign currency	**(320)**	–	145
Cash and cash equivalents at beginning of year	**(481 038)**	(27 515)	(27 515)
Cash and cash equivalents at end of year	**(171 340)**	30 116	(481 038)

** Refer to note 2.*

Earnings per share

	Six months to 31 August 2019 R'000	Restated * Six months to 31 August 2018 R'000	Restated * Year to 28 February 2019 R'000
Reconciliation of profit for the year to headline earnings			
Profit attributable to equity holders of the parent	**266 453**	436 472	718 723
Net loss/(profit) on disposal of property, plant and equipment and intangible assets	**(77)**	16	(15)
Taxation	**22**	(4)	4
Headline earnings	**266 398**	436 484	718 712
Earnings per share (cents)			
– Basic	**31.0**	50.7	83.6
– Diluted	**31.0**	50.7	83.6
Headline earnings per share (cents)			
– Basic	**31.0**	50.7	83.6
– Diluted	**31.0**	50.7	83.6

* *Refer to note 2.*

	Six months to 31 August 2019 '000	Six months to 31 August 2018 '000	Year to 28 February 2019 '000
Reconciliation of shares in issues to weighted average number of shares in issue			
Total number of shares in issue at beginning of the period	**860 084 483**	860 084 483	860 084 483
Treasury shares/ shares issued during the year weighted for the period outstanding	**(157 533)**	–	–
Total weighted number of shares in issue at the end of the period	**859 926 950**	860 084 483	860 084 483
Share options	**-**	109 710	6 115
Total diluted weighted number of shares in issue at the end of the period	**859 926 950**	860 194 193	860 090 598

Segmental information

The Group has identified two reportable segments being Retail and Wholesale.

Six months to 31 August 2019	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
External customers	10 736 899	1 110 743	–	11 847 642
Inter-segment	–	6 990 307	(6 990 307)	–
Total turnover	10 736 899	8 101 050	(6 990 307)	11 847 642
Cost of sales	(8 406 705)	(7 514 168)	6 750 205	(9 170 668)
Gross profit	2 330 194	586 882	(240 102)	2 676 974
Other income	593 893	22 176	(30 059)	586 010
Total income	2 924 087	609 058	(270 161)	3 262 984
Other expenses (excluding depreciation and amortisation)	(2 026 196)	(635 878)	266 599	(2 395 475)
Depreciation and amortisation	(227 582)	(50 449)	–	(278 031)
Operating profit	670 309	(77 269)	(3 562)	589 478
Net finance costs	(152 628)	(49 037)	–	(201 665)
Share of profit from associates and joint ventures	281	–	–	281
Profit/(loss) before tax	517 962	(126 306)	(3 562)	388 094
Earnings before interest, tax, depreciation and amortisation (EBITDA)	897 891	(26 820)	(3 562)	867 509
Capital expenditure	(182 005)	(31 683)	–	(213 688)
Total assets	8 138 119	5 075 892	(2 930 144)	10 283 867
Total liabilities	5 592 910	3 819 732	(1 230 395)	8 182 247
Total income margin	27.2%	7.5%		27.5%
EBITDA margin	8.4%	(0.3%)		7.3%
Operating margin	6.2%	(1.0%)		5.0%

Restated six months to 31 August 2018 *	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
External customers	9 600 518	864 425	–	10 464 943
Inter-segment	–	6 569 466	(6 569 466)	–
Total turnover	9 600 518	7 433 891	(6 569 466)	10 464 943
Cost of sales	(7 298 752)	(6 813 360)	6 253 970	(7 858 142)
Gross profit	2 301 766	620 531	(315 496)	2 606 801
Other income	489 029	27 842	(45 204)	471 667
Total income	2 790 795	648 373	(360 700)	3 078 468
Other expenses (excluding depreciation and amortisation)	(1 758 385)	(646 707)	354 129	(2 050 963)
Depreciation and amortisation	(206 366)	(38 268)	–	(244 634)
Operating profit	826 044	(36 602)	(6 571)	782 871
Net finance costs	(121 664)	(45 482)	–	(167 146)
Share of profit from associates	–	–	–	–
Profit/(loss) before tax	704 380	(82 084)	(6 571)	615 725
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 032 410	1 666	(6 571)	1 027 505
Capital expenditure	(130 346)	(25 730)	–	(156 076)
Total assets	7 822 474	5 039 029	(2 719 533)	10 141 970
Total liabilities	5 504 399	3 933 076	(1 181 929)	8 255 546
Total income margin	29.1%	8.7%		29.4%
EBITDA margin	10.8%	0.0%		9.8%
Operating margin	8.6%	(0.5%)		7.5%

** Refer to note 2.*

Segmental information continued

Restated 12 months to 28 February 2019 *	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
External customers	19 643 739	1 776 284	–	21 420 023
Inter-segment	–	12 745 625	(12 745 625)	–
Total turnover	19 643 739	14 521 909	(12 745 625)	21 420 023
Cost of sales	(15 051 513)	(13 307 293)	12 161 616	(16 197 190)
Gross profit	4 592 226	1 214 616	(584 009)	5 222 833
Other income	1 034 346	47 942	(72 030)	1 010 258
Total income	5 626 572	1 262 558	(656 039)	6 233 091
Other expenses (excluding depreciation and amortisation)	(3 725 449)	(1 265 479)	624 666	(4 366 262)
Depreciation and amortisation	(409 707)	(81 210)	–	(490 917)
Operating profit	1 491 416	(84 131)	(31 373)	1 375 912
Net finance costs	(251 519)	(93 268)	–	(344 787)
Share of profit from associates	–	–	–	–
Profit/(loss) before tax	1 239 897	(177 399)	(31 373)	1 031 125
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 901 123	(2 921)	(31 373)	1 866 829
Capital expenditure	(303 548)	(90 961)	–	(394 509)
Total assets	7 585 905	5 262 217	(2 326 695)	10 521 427
Total liabilities	5 083 895	4 236 282	(748 479)	8 571 698
Total income margin	28.6%	8.7%		29.1%
EBITDA margin	9.7%	0.0%		8.7%
Operating margin	7.6%	(0.6%)		6.4%

** Refer to note 2.*

Fair value hierarchy

The information below analyses financial assets and liabilities that are carried at fair value or financial assets and liabilities that have carrying amounts that differ from their fair values:

August 2019	Level 1 R'000	Level 2 R'000	Level 3 R'000
Financial liabilities at fair value through profit and loss			
– Contingent consideration	**–**	**–**	**43 263**
August 2018			
Financial liabilities at fair value through profit and loss			
– Contingent consideration	–	–	57 527
February 2019			
Financial liabilities at fair value through profit and loss			
– Contingent consideration	–	–	64 345

The fair value of the contingent consideration payable is measured with reference to the performance forecasts which can be used to estimate future cash flows. The key inputs into this valuation are the estimated future cash flows and the average discount rate of 12.3% (2018: 11.4%) used to determine the present value of the future cash flows.

	As at 31 August 2019 R'000	As at 31 August 2018 R'000	As at 28 February 2019 R'000
Reconciliation of recurring Level 3 fair value movements:			
Opening balance	**64 345**	76 249	76 249
Payments	**(29 672)**	(23 133)	(23 133)
Interest	**3 682**	4 411	7 588
Release to other income [(1)]	**–**	–	–
Fair value adjustment	**4 908**	–	3 641
Closing balance	**43 263**	57 527	64 345

(1) *Relates to an amount, reflected in other income, that was not paid by the Company due to performance conditions not being met and expected future performances not being met.*

A reasonable movement in the unobservable inputs would not significantly impact the fair value of the contingent consideration as at the end of the reporting period and therefore not significantly impact profit after tax or equity.

There were no transfers of financial instruments between Level 1, Level 2 and Level 3 fair value measurements during the periods ended August 2019, August 2018 and February 2019.

Additional information

		31 August 2019	31 August 2018	28 February 2019
Ordinary shares in issue (000's):		**860 084 483**	860 084 483	860 084 483
Closing share price	(R/share)	**22.25**	33.83	25.80
Six-month (12 month) share price (high)	(R/share)	**28.08**	38.00	38.00
Six-month (12 month) share price (low)	(R/share)	**19.85**	25.57	24.00
Net asset value per share (WANOS)	(cents/share)	**244.40**	219.33	226.69
Net asset value per share (actual shares at year-end)	(cents/share)	**244.35**	219.33	226.69

Notes to the provisional condensed consolidated results

1. These interim condensed consolidated financial results for the six months ended 31 August 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standard (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronoucements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act of South Africa and the JSE Listings Requirements.

   The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjuction with the Group's annual financial statements as at 28 February 2019.

   The accounting policies and methods of computation used in the preparation of the interim condensed consolidated financial results are consistent in all material respects with those applied in the Group's annual financial statements as at 28 February 2019, except for the adoption of IFRS 16 Leases which is shown in note 2.

   None of the other new standards, interpretations and amendments effective as of 1 March 2019 have had a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

2. **Restatement of comparative figures**

   The Group adopted IFRS 16, 'Leases' in the current financial period and elected to apply the standard on the full retrospective approach whereby the cumulative effect of the retrospective application is recognised by adjusting the opening retained profits for the earliest comparative period presented (which for the Group is the comparative period beginning on 1 March 2018). The Group has used the expendient where the Group is not required to reassess whether a contract is, or contains a lease.

   The impact of adopting IFRS 16 resulted in most of the Group's leases being brought onto the statement of financial position as a finance lease with a corresponding right-of-use asset (reflected in property, plant and equipment). The current operating lease costs in the statement of comprehensive income have been replaced by depreciation of the right-of-use asset and finance costs in relation to the finance liability. The operating lease obligation in the statement of financial position was reduced to Rnil.

   The Group has adopted a new accounting policy for leases as:

   At inception, the Group assesses whether a contract is or contains a lease. The Group recognises a right-of-use (ROU) asset and lease liability at the commencement date of the lease.

   The ROU asset is measured based on the present value of the lease payments, initial direct costs incurred when entering in the lease less any lease incentives received. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. An impairment review in undertaken for any right-of-use asset that shows indicators of impairment and an impairment loss recognised against any ROU lease assets that are impaired.

   The lease liability is measured at the present value of the lease payments net of cash lease incentives that are not paid at the balance date. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental borrowing rate implicit in the lease to achieve a constant rate of interest on the remaining balance of the liability. Lease payments for buildings exclude service fees and other costs.

Notes to the provisional condensed consolidated results continued

The impact of the standard is shown below:

	August 2018 (previously stated) R'000	IFRS 16 impact R'000	Adjusted Total R'000
Statement of financial position			
Non-current assets			
Property, plant and equipment	1 213 619	1 667 525	2 881 144
Deferred taxation	154 095	57 442	211 537
Equity and reserves			
Retained earnings	432 817	(143 610)	289 207
Non-controlling interest	65 379	(4 097)	61 282
Non-current liabilities			
Lease liability	618 723	1 860 853	2 479 576
Operating lease obligation	226 695	(226 695)	–
Current liabilities			
Lease liability	15 014	266 327	281 341
Trade and other payables (current portion of operating lease obligation)	3 755 539	(27 811)	3 727 728
Statement of comprehensive income			
Other expenses	(2 373 467)	77 870	(2 295 597)
– Occupancy costs		226 684	
– Depreciation		(148 814)	
Net financing costs	(76 664)	(90 482)	(167 146)
– Finance income		–	
– Finance costs		(90 482)	
Taxation	(168 577)	3 531	(165 046)
	(2 618 708)	(9 081)	(2 627 789)
Earnings per share (cents)	51.7	(1.0)	50.7
EBITDA – retail segment	832 559	199 851	1 032 410
EBITDA – wholesale segment	(25 167)	26 833	1 666
Statement of cash flows			
Cash flow from operating activities			
Cash inflow from trading operations	791 315	209 759	1 001 074
Finance costs paid	(70 716)	(90 482)	(161 198)
Cash flow from financing activities			
Lease liability repayment	(6 720)	(119 277)	(125 997)

	February 2019 (previously stated) R'000	IFRS 16 impact R'000	Adjusted Total R'000
Statement of financial position			
Non-current assets			
Property, plant and equipment	**1 370 310**	1 624 446	2 994 756
Deferred taxation	**169 745**	60 766	230 511
Equity and reserves			
Retained earnings	**497 165**	(152 277)	344 888
Non-controlling interest	**68 101**	(3 976)	64 125
Other reserves	**(4 614 836)**	(2)	(4 614 838)
Non-current liabilities			
Lease liability	**620 724**	1 822 480	2 443 204
Operating lease obligation	**236 375**	(236 375)	–
Current liabilities			
Lease liability	**22 593**	286 724	309 317
Trade and other payables (current portion of operating lease obligation)	**4 325 818**	(31 362)	4 294 456
Statement of comprehensive income			
Other expenses	**(5 015 225)**	158 046	(4 857 179)
– Occupancy costs		462 365	
– Depreciation		(304 319)	
Net financing costs	**(162 254)**	(182 533)	(344 787)
– Finance income		–	
– Finance costs		(182 533)	
Taxation	**(291 040)**	6 855	(284 185)
	(5 468 519)	(17 632)	(5 486 151)
Earnings per share (cents)	**85.4**	(1.8)	83.6
EBITDA – retail segment	**1 494 120**	407 003	1 901 123
EBITDA – wholesale segment	**(58 283)**	55 362	(2 921)
Statement of cash flows			
Cash flow from operating activities			
Cash inflow from trading operations	**1 428 516**	432 209	1 860 725
Finance costs paid	**(167 446)**	(182 533)	(349 979)
Cash flow from financing activities			
Lease liability repayment	**(16 415)**	(249 676)	(266 091)

Notes to the provisional condensed consolidated results continued

The movement in the right-of-use asset and lease liability (including amounts previously disclosed as such) are as follows:

	August 2019		August 2018		February 2019	
	ROU asset	Lease liability	ROU asset	Lease liability	ROU asset	Lease liability
Opening balance	**2 249 906**	**2 752 521**	2 248 802	2 694 266	2 248 802	2 694 266
Additions (including acquisitions)	**59 170**	**59 170**	192 648	192 648	324 346	324 346
Depreciation	**(176 281)**	**-**	(158 599)	–	(323 242)	–
Foreign currency	**1 746**	**1 937**	–	–	–	–
Finance costs	**-**	**121 470**	–	120 605	–	243 100
Payments	**-**	**(273 590)**	–	(246 602)	–	(509 191)
Closing balance	**2 134 541**	**2 661 508**	2 282 851	2 760 917	2 249 906	2 752 521

Many of the store and warehouse leases across the Group contain extension options. In many cases these terms are not reflected in measuring the lease liability until management is reasonably certain they will be exercised.

3. Revenue from contracts with customers can be disaggregated between the following retail categories:

	As at 31 August 2019 %	As at 31 August 2018 %	As at 28 February 2019 %
Dispensary	**37**	37	36
Personal care and beauty	**28**	27	28
Healthcare and nutrition	**20**	20	20
Baby care	**6**	6	6
Other	**9**	10	10
	100	100	100

4. Dis-Chem enters into certain transactions with related parties including the rental of certain stores and warehouses on which rental of R71 million was incurred during the six-month period (2018: R66 million). The finance lease obligation relating to these leases amounted to R1 billion at 31 August 2019.

   Amounts owing from MSDS No. 3 Proprietary Limited, Eleador Proprietary Limited and Mathimba Proprietary Limited at 31 August 2019 amounted to Rnil, Rnil and R22 million respectively (2018: R21 million, R3 million and R22 million respectively). Amounts owing to Josneo Proprietary Limited and Minlou Proprietary Limited at 31 August 2019 amounted to Rnil and R2 million respectively (2018: R12 million and R2 million respectively).

   Amounts owing from Dis-Chem Bothamed, Dis-Chem Namibia, Dis-Chem Swakopmund, Dis-Chem Dunes, Geniob and Origin Brands (all Proprietary Limited's) at 31 August 2019 amounted to R120 million (2018: R59 million).

5. There were no impairments of assets in the current and prior comparable period.

6. No shares were issed during the current and prior comparable period.

7. During the current period, the Group acquired the following companies:
   - the acquisition of 65% of Mundel Gien Proprietary Limited (trading as Springbok Pharmacy), a pharmacy in Alberton, for R32.5 million on 1 April 2019.
   - the acquisition of 50% of Health Window Proprietary Limited and 51% of Differenza Proprietary Limited, pharmaceutical adherence businesses for R17.5 million, on 31 May 2019.
   - the acquisition of 100% of Culemborg Pharmacy Proprietary Limited, a pharmacy in Cape Town, for R1 million on 1 March 2019.

   These are not categorised transactions in terms of the JSE Listing Requirements.

   The provisional fair values of the identifiable assets and liabilities of the company as at the date of acquisition of the subsidiaries were:

	Springbok R'000	Differenza R'000	Culemborg R'000	Total R'000
Assets				
Property, plant and equipment	1 461	–	–	1 461
Right of use asset	24 726	–	–	24 726
Other intangibles	2 890	–	–	2 890
Trade and other receivables	2 815	279	116	3 210
Inventories	34 332	–	503	34 835
Bank	–	359	291	650
Tax receivable	1 242	52	–	1 294
Deferred tax	366	11	–	377
Liabilities				
Lease liability	(24 726)	–	–	(24 726)
Loans	(2 379)	–	–	(2 379)
Bank overdraft	(1 646)	–	–	(1 646)
Trade and other payables	(15 990)	(175)	(878)	(17 043)
Total identifiable net assets at fair value	23 091	526	32	23 649
Non-controlling interest at proportionate interest	(8 082)	(257)	–	(8 339)
Goodwill arising on acquisition	17 491	1 261	968	19 720
Purchase consideration transferred	32 500	1 530	1 000	35 030

   The goodwill comprises the value of expected synergies arising from the acquisition which is not separately recognised.

   From the date of acquisition, R82 million in revenue and R5.8 million in profit before tax was contributed to the Group from the above acquisitions.

   Health Window Proprietary Limited was purchased for R16 million and is a joint venture and equity accounted for in the Group.

   During the current year, the Group acquired an additional 5% interest in Dis-Chem Amanzimtoti and sold 15% interest in Dis-Chem Goodwood.

8. No material subsequent events have taken place since the reporting date.

9. These interim condensed consolidated financial results have neither been audited nor reviewed by the Group external auditors.

   The directors take full responsibility for the preparation of these interim condensed consolidated financial results, which have been prepared under the supervision of Mr Rui Morais CA(SA), the Chief Financial Officer of the Group.

Definitions

Capital expenditure- to maintain operations	Capital expenditure incurred to maintain or replace assets e.g. the refurbishment of an existing store.
Capital expenditure- to expand operations	Capital expenditure for acquisitions or capital improvements to increase productive capacity e.g. the opening of a new store.
Creditors' days	Creditor days estimates the average time it takes the business to settle its debts with trade suppliers. It is calculated as the average trade and other payables divided by the cost of goods sold for the period multiplied by 365 days.
Debtors' days	The debtors' days ratio measures how quickly cash is being collected from debtors. It is calculated as the average trade and other receivables divided by turnover for the period multiplied by 365 days.
Dividend payout ratio	The dividend pay-out ratio is the amount of dividends paid to stockholders relative to the amount of total net income of the company. The target ratio for Dis-Chem is between 40 and 50%.
Dividend per share (DPS)	Dividend per share is the payment to investors for each share of stock owned. It is calculated as earnings per share (EPS) multiplied by the pay-out ratio.
Earnings per share (EPS)	Earnings per share is the portion of a company's profit allocated to each outstanding share of common stock.
EBITDA	Earnings before interest, tax, depreciation and amortisation is a measure of the company's operating performance. It is calculated as EBIT plus depreciation and amortisation.
EBIT	Earnings before interest and tax (EBIT) is a measure of the firm's profit that includes all expenses except interest and income tax expense.
Gross profit margin	Gross profit margin is a financial metric used to assess the company's financial health and business model by revealing the proportion of money left over from revenues after accounting for the cost of goods sold (COGS). It is calculated by dividing gross profit by revenues.
Headline earnings	Profit attributable to holders of the parent adjusted for the after-tax effect of goodwill, impairment and certain other capital items.
Headline earnings per share (HEPS)	The per share value of profit attributable to holders of the parent.
Inventory days	The number of days of sales in inventory. It is calculated as the average inventory divided by cost of goods sold (COGS) multiplied by 365 days.
Like-for-like revenue growth	This is a measure of growth in sales, adjusted for new or divested businesses. Dis-Chem takes into account stores that have been open for at least two full financial years.
Net asset value per share (WANOS)	This is the company's total assets less its total liabilities, divided by its weighted number of shares outstanding.
Net asset value per share(actual shares at year-end)	This is the company's total assets less its total liabilities, divided by its actual number of shares outstanding at year-end.
Operating margin	Operating margin is a measure of profitability. It indicates how much of each ZAR of revenues is left over after both cost of goods sold (COGS) and operating expenses are considered. It is calculated as operating profit divided by turnover.
Return on equity (ROE)	Return on equity (ROE) is a measure of profitability that calculates how many ZARs of profit a company generates with each ZAR of shareholders' equity. It is calculated as profit attributable to the equity holders of the parent divided by the average shareholders' equity.

Return on invested capital (ROIC)	A calculation to assess a company's efficiency at allocating the capital under its control to profitable investments. It gives a sense of how well a company is using its money to generate returns.
Total working capital days	Measures a company's efficiency and short-term health. It is calculated as debtors' days plus inventory days less creditors' days.
Weighted average number of shares (WANOS)	This is a calculation that takes into consideration any changes in the number of outstanding shares over a specific reporting period.

Supplementary information

Directors

Independent non-executive directors

LM Nestadt	(South African)
MJ Bowman	(South African)
A Coovadia	(South African)
JS Mthimunye	(South African)
MSI Gani	(South African)

Executive directors

IL Saltzman	(South African)	
LF Saltzman	(South African)	
RM Morais	(South African)	
SE Saltzman	(South African)	(Alternate for LF Saltzman)

Company registration number

2005/009766/06

Registered office

23 Stag Road
Midrand
1685

Company secretary

WT Green

Registered auditors

Ernst & Young Inc.
102 Rivonia Road
Sandton
Johannesburg
2196
South Africa

JSE code

DCP

ISIN

ZAE000227831

Sponsor

The Standard Bank of South Africa Limited
3rd Floor, East Wing
30 Baker Street
Rosebank
2196
Johannesburg

Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank
Johannesburg
2196
South Africa

www.dischemgroup.co.za