Provisional Reviewed Annual Condensed Consolidated Results

for the twelve months ended 29 February

2020

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COMMENTARY

Overview

In the current period, with the challenges of the corresponding period strike coming to an end and the decentralisation of the wholesale space now concluded, the Group continued 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 revenue to our customers. Cash generated from operating activities, which takes into account the effect of the ROIC focus, increased by R671 million or 115% from the corresponding period.

Despite the difficult consumer environment, revenue has grown by 12% over the corresponding period. External revenue in the wholesale environment grew by 23.3%, mainly due to the successful acquisition 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 were not only impacted by once off items (as described below) but were also impacted by the low growth in purchases from suppliers of only 2.6% against the corresponding period which, despite the successful improvement in additional trade terms, has resulted in the total income margin declining.

Earnings in the first half of the year decreased by 37.4% compared to the corresponding period due to the majority of the inventory rationalisation taking place in this period. As more normalised purchases took place in the second half of the year, earnings increased by 16.7% compared to the corresponding period. Earnings, excluding once off items, decreased by 5.9% over the corresponding period.

Earnings attributable to shareholders and headline earnings both declined by 16.8% over the corresponding period. Earnings per share ("EPS") and headline earnings per share ("HEPS") are both 69.6 cents per share, a decrease of 16.7%.

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 adoption of IFRS 16 impacted 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.

The Group's EPS at 28 February 2019, which was previously 85.4 cents per share, has been restated to 83.6 cents per share.

Review of financial performance

Revenue

During the twelve-month period from 1 March 2019 to 29 February 2020, Dis-Chem recorded Group revenue growth of 12% to R24 billion.

Retail revenue grew by 11% to R21.8 billion with comparable store revenue at 4%. The Group restricted selling price inflation to 2.2% thereby achieving positive volume growth despite the difficult economic climate. The Group opened 18 new stores and acquired 3 new pharmacies from the corresponding period resulting in 170 stores at February 2020. These new stores contributed R656 million to revenue, including R165 million from the acquisition of Springbok Pharmacy on 1 April 2019.

Wholesale revenue grew by 14% to R16.6 billion. Revenue to our own retail stores, still the biggest contributor to wholesale revenue, grew by 12.8% while external revenue grew by 23.3% from the corresponding period.

The external wholesale revenue growth of 23.3% is due to the successful acquisition of Quenets (acquired in November 2018) which resulted in additional revenue of R271 million as well as the number of TLC franchises growing from 91 at February 2019 to 104 at February 2020.

Total income

Total income grew by 9.8% to R6.8 billion. In the corresponding period 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 11.3%.

Despite the continued and successful improvement of additional trade terms, the Group's total income margin reduced from 29.1% (28.7% excluding the corresponding years unearned rebate release) to 28.5%. Due to the majority of the inventory rationalisation taking place in the first half of the year, the total income margin increased from 27.5% in the first half of the year to 28.5% in the second half of the year.

COMMENTARY CONTINUED

With the optimisation of inventory levels together with the increased focus on ROIC in the current period, the lower increase in purchases from suppliers (2.6%) compared with the increase in revenue (12%) 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 7.5%, 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 13.1%.

Other expenses

Other expenses grew by 15.2% over the corresponding period to R5.6 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 resulting in a lower bonus in the corresponding year of R60 million compared to the current year; 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 compared to strike-related costs of R50 million in the corresponding year.

Excluding these once-off costs, expenses would have grown by 14.6% over the corresponding period.

Retail expenses, excluding the once-off transactions, grew by 13% as the Group invested in 21 new stores since the corresponding period. Wholesale expenses, excluding the once-off transactions, grew by 5.2%.

The low growth in Wholesale expenses is a result of the investment in technology that allows 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 10.1% to R380 million. This increase was primarily due to additional interest cost in the first half of the year as a result of the additional inventory held over the strike period to avoid compromising stock levels in our stores. Net finance costs (excluding IFRS 16) in the first half of the year amounted to R77 million compared to R61 million in the second half of the year. The Group took advantage of favourable financing by replacing the existing ABSA facility with a new facility in order to facilitate acquisitions in both the retail and wholesale businesses.

Net working capital

During the current period, the Group reduced inventory holdings by R609 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 improvement, from an outflow of R404 million in February 2019 to an inflow of R266 million has resulted in a greatly improved cash generation for the Group.

The Group's net working capital improved from 28 February 2019 of 38.3 days to 33.3 days at 29 February 2020.

Capital expenditure

Capital expenditure on tangible and intangible assets of R363 million comprised R223 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 R140 million relates to replacement expenditure incurred to maintain the existing retail and wholesale networks.

Capital expenditure on acquisitions amounted to R60 million with the acquisition of three 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 corresponding period.

Dividend declaration

With the on-going Covid-19 pandemic and the uncertainty around how quickly South Africa will transition through the new stage-based plan announced by the government, it has been decided to preserve cash resources. The dividend payment will be deferred until the next dividend cycle once the Group better understands normalised trading conditions and considers the funding sources for the Baby City transaction.

Trading subsequent to year end

After year end, due to the Covid-19 pandemic, the Group has experienced different trading patterns to that of corresponding years. During March, before the lock down came into effect on 27 March 2020, retail stores experienced a substantial increase in revenue compared to the corresponding period of 45.6% as customers stocked up on products. Increased revenue were seen across all categories but especially in the pharmacy, healthcare and nutrition category. This trading pattern was then reversed during the lock down, when only essential products could be sold, and retail revenue decreased by 20.9% compared to the corresponding period. Since level 4 came into effect the Group is starting to see a recovery in its revenue with retail revenue increasing by 2.8% from 1 May until 16 May 2020 compared to the corresponding period.

For the eleven weeks to 16 May 2020, retail revenue grew by 6.2% and wholesale revenue grew by 25% from the corresponding period.

The wholesale business benefitted from the resilient nature of independent pharmacy with pharmacy, healthcare and nutrition revenue growing both prior to and during the Covid-19 period. In addition a business to business solution was developed, offering all businesses returning back the ability to access the appropriated products (PPE, sanitation products) and services (screening and testing services offered by our clinic sisters) at wholesale prices.

Outlook

The Group is pleased to announce that on 11 May 2020 it entered into inter-conditional agreements in terms of which it will acquire 100% of the issued share capital in and shareholder claims of Fairy Tales Boutiques (Proprietary) Limited and Somerset Baby Hyper (Proprietary) Limited, which in aggregate, comprise the well-known baby care products retailer Baby City. Michel Aronoff, who conceptualised and strategized Baby City's direction, will continue to serve as managing director of Baby City following closure of the transaction and current staff will be retained. The Group will pay a purchase consideration of R430 million upon closure. The transaction remains subject to suspensive conditions, including approval from competition authorities, which are subject to fulfilment by 31 October 2020.

Chief Executive Officer, Ivan Saltzman, "The acquisition is a great cultural fit and has been a target of ours for many years. The brands and businesses were built with similar philosophies, ensuring management team alignment as we take steps to unlock the value we see in the Baby City brand."

The Group expects that the consumer will continue to remain constrained and the full extent of the impact of Covid-19 is still unknown. The ultimate impact on trade in the 2021 financial year is currently unknown, as it will depend heavily on the duration of the lock down levels and the normalisation of retail trade. With the focus on ROIC and the cash generation in the 2020 financial year, the Group has a strong balance sheet and is continuing to adapt quickly to the current environment, with a focus on mitigating the near-term impact whilst positioning itself for success in the future.

The Group continues to remain focused on adding retail stores with 21 stores planned to be opened in the 2021 financial year.

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

Approval

The provisional annual condensed consolidated results of the Group were authorised for issue in accordance with a resolution of the directors on 19 May 2020.

On behalf of the Board

Ivan Saltzman
Chief Executive Officer

Rui Morais
Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	YEAR TO 29 FEBRUARY 2020 (REVIEWED) R'000	RESTATED* YEAR TO 28 FEBRUARY 2019 (REVIEWED) R'000	% CHANGE
Revenue from contracts with customers	**23 984 296**	21 420 023	12.0
Cost of sales	**(18 428 773)**	(16 197 190)	13.8
Gross profit	**5 555 523**	5 222 833	6.4
Other income	**1 290 082**	1 010 258	27.7
Total income	**6 845 605**	6 233 091	9.8
Other expenses	**(5 597 204)**	(4 857 179)	15.2
Operating profit	**1 248 401**	1 375 912	(9.3)
Net financing costs	**(379 752)**	(344 787)	10.1
– Finance income	**22 297**	20 183	
– Finance costs	**(402 049)**	(364 970)	
Profit from associates and joint ventures	**195**	–	
Profit before taxation	**868 844**	1 031 125	(15.7)
Taxation	**(240 647)**	(284 185)	(15.3)
Total profit for the year, net of tax	**628 197**	746 940	(15.9)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
– Exchange differences on translating foreign subsidiaries	**73**	44	
Other comprehensive income for the year, net of tax	**73**	44	
Total comprehensive income for the year	**628 270**	746 984	(15.9)
Profit attributable to:			
– Equity holders of the parent	**598 225**	718 723	
– Non-controlling interests	**29 972**	28 217	
Total comprehensive income attributable to:			
– Equity holders of the parent	**598 298**	718 767	
– Non-controlling interests	**29 972**	28 217	
Earning per share (cents)			
– Basic	**69.6**	83.6	
– Diluted	**69.6**	83.6	

* *Restated due to adoption of IFRS 16 Leases - refer to note 2*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	AS AT 29 FEBRUARY 2020 (REVIEWED) R'000	RESTATED* AS AT 28 FEBRUARY 2019 (REVIEWED) R'000	RESTATED* AS AT 28 FEBRUARY 2018 (REVIEWED) R'000
ASSETS			
Non-current assets	**3 754 625**	3 672 379	3 351 276
Property, plant and equipment (including right-of-use asset)	**3 095 352**	2 994 756	2 815 059
Intangible assets	**456 263**	447 112	300 461
Investment in associates and joint ventures	**13 703**	–	–
Deferred taxation	**189 307**	230 511	235 756
Current assets	**6 832 006**	6 849 048	5 470 665
Inventories	**4 506 760**	5 115 579	3 947 937
Trade and other receivables	**1 655 782**	1 354 016	1 118 855
Loans receivable	**213 338**	198 317	113 876
Taxation receivable	**4 282**	3 704	9 998
Cash and cash equivalents	**451 844**	177 432	279 999
Total assets	**10 586 631**	10 521 427	8 821 941
EQUITY AND LIABILITIES			
Equity and reserves	**2 253 379**	1 885 604	1 496 416
Share capital	**6 155 554**	6 155 554	6 155 554
Retained earnings/(loss)	**717 816**	344 888	(37 095)
Other reserves	**(4 619 991)**	(4 614 838)	(4 622 043)
Non-controlling interest	**60 814**	64 125	51 095
Total equity	**2 314 193**	1 949 729	1 547 511
Non-current liabilities	**3 109 234**	2 852 220	2 992 681
Lease liability	**2 374 961**	2 443 204	2 438 576
Loans payable	**679 450**	346 000	499 605
Contingent consideration	**19 494**	40 797	54 500
Deferred taxation	**35 329**	22 219	–
Current liabilities	**5 163 204**	5 719 478	4 281 749
Trade and other payables	**4 258 659**	4 294 456	3 237 897
Lease liability	**350 721**	309 317	255 695
Loans payable	**142 432**	170 989	198 798
Employee-related obligation	**190 015**	163 933	146 014
Deferred revenue (contract liability)	**36 323**	43 798	81 292
Contingent consideration	**25 627**	23 548	21 749
Taxation payable	**7 860**	54 967	32 790
Bank overdraft	**151 567**	658 470	307 514
Total equity and liabilities	**10 586 631**	10 521 427	8 821 941

* *Restated due to adoption of IFRS 16 Leases - 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 (reviewed)*	6 155 554	(37 095)	(4 622 043)	51 095	1 547 511
Profit/total comprehensive income for the year	–	718 723	44	28 217	746 984
Profit for the year, net of taxation	–	718 723	–	28 217	746 940
Other comprehensive income for the year, net of taxation	–	–	44	–	44
Change in ownership interest in subsidiary and acquisitions	–	(49 190)	–	(1 038)	(50 228)
Share-based payment expense	–	–	7 161	–	7 161
Dividends paid	–	(287 550)	–	(14 149)	(301 699)
Restated balance at 28 February 2019 (reviewed)*	6 155 554	344 888	(4 614 838)	64 125	1 949 729
Profit/total comprehensive income for the year	**-**	**598 225**	**73**	**29 972**	**628 270**
Profit for the year, net of taxation	**-**	**598 225**	**-**	**29 972**	**628 197**
Other comprehensive income for the year, net of taxation	**-**	**-**	**73**	**-**	**73**
Change in ownership interest in subsidiary and acquisitions (note 7)	**-**	**617**	**-**	**7 191**	**7 808**
Share-based payment expense	**-**	**-**	**7 926**	**-**	**7 926**
Treasury shares acquired	**-**	**-**	**(13 152)**		**(13 152)**
Dividends paid	**-**	**(225 914)**	**-**	**(40 474)**	**(266 388)**
Balance at 29 February 2020 (reviewed)	**6 155 554**	**717 816**	**(4 619 991)**	**60 814**	**2 314 193**

* *Restated due to adoption of IFRS 16 Leases - refer to note 2*

	YEAR TO 29 FEBRUARY 2020 (REVIEWED) CENTS	YEAR TO 28 FEBRUARY 2019 (REVIEWED) CENTS
Dividend per share		
– Interim paid	**12.8**	20.7
– Final declared/paid	**-**	13.5

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR TO 29 FEBRUARY 2020 R'000	RESTATED * YEAR TO 28 FEBRUARY 2019 R'000
Cash flow from operating activities	**1 256 978**	585 716
Cash inflow from trading operations	**1 851 142**	1 860 725
Movement in working capital	**265 680**	(403 526)
Finance income received	**22 297**	20 183
Finance costs paid	**(383 925)**	(349 979)
Taxation paid	**(231 828)**	(239 988)
Dividends paid	**(266 388)**	(301 699)
Cash flow from investing activities	**(413 218)**	(549 721)
Additions to property, plant and equipment and intangible assets		
– To maintain operations	**(139 737)**	(147 850)
– To expand operations	**(223 617)**	(246 659)
Proceeds on disposal of property, plant and equipment and intangible assets	**10 058**	9 313
Acquisition of subsidiaries, assets and liabilities in business combination, net of cash acquired	**(43 922)**	(164 525)
Investment in joint ventures	**(16 000)**	–
Cash flow from financing activities	**(61 436)**	(489 663)
Purchase of treasury shares	**(13 152)**	–
Contingent consideration repayment	**(29 672)**	(23 133)
Change in ownership interest in subsidiary	**(536)**	(50 439)
Long-term loans repaid	**(593 750)**	(150 000)
Receipt of long-term loans	**900 000**	–
Lease liability repayment	**(324 326)**	(266 091)
Net increase/(decrease) in cash and cash equivalents	**782 324**	(453 668)
Foreign currency	**(1 009)**	145
Cash and cash equivalents at beginning of year	**(481 038)**	(27 515)
Cash and cash equivalents at end of year	**300 277**	(481 038)

** Restated due to adoption of IFRS 16 Leases - refer to note 2*

EARNINGS PER SHARE

	AS AT 29 FEBRUARY 2020 R'000	RESTATED* AS AT 28 FEBRUARY 2019 R'000
Reconciliation of profit for the year to headline earnings		
Profit attributable to equity holders of the parent	**598 225**	718 723
Net loss/(profit) on disposal of property, plant and equipment and intangible assets	**(153)**	(15)
Taxation	**43**	4
Headline earnings	**598 115**	718 712
Earnings per share (cents)		
– Basic	**69.6**	83.6
– Diluted	**69.6**	83.6
Headline earnings per share (cents)		
– Basic	**69.6**	83.6
– Diluted	**69.6**	83.6

* *Refer to note 2 for the impact of IFRS 16 on basic and diluted earnings per share.*

	AS AT 29 FEBRUARY 2020 '000	AS AT 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
Treasury shares/shares issued during the year weighted for the period outstanding	**(343 672)**	–
Total weighted number of shares in issue at the end of the period	**859 740 811**	860 084 483
Share options issued during the period	**–**	6 115
Total diluted weighted number of shares in issue at the end of the period	**859 740 811**	860 090 598

SEGMENTAL INFORMATION

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

29 February 2020 (reviewed)	RETAIL R'000	WHOLESALE R'000	INTERGROUP/ CONSOLIDATION R'000	TOTAL R'000
External customers	21 794 968	2 189 328	–	23 984 296
Inter-segment	–	14 372 136	(14 372 136)	–
Total turnover	21 794 968	16 561 464	(14 372 136)	23 984 296
Cost of sales	(17 063 709)	(15 273 055)	13 907 991	(18 428 773)
Gross profit	4 731 259	1 288 409	(464 145)	5 555 523
Other income	1 314 528	47 992	(72 438)	1 290 082
Total income	6 045 787	1 336 401	(536 583)	6 845 605
Other expenses (excluding depreciation and amortisation)	(4 261 667)	(1 285 083)	525 306	(5 021 444)
Depreciation and amortisation	(470 945)	(104 815)	–	(575 760)
Operating profit	1 313 175	(53 497)	(11 277)	1 248 401
Net finance costs	(283 585)	(96 167)	–	(379 752)
Share of profit from associates and joint ventures	195	–	–	195
Profit/(loss) before tax	1 029 785	(149 664)	(11 277)	868 844
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 784 315	51 318	(11 277)	1 824 356
Capital expenditure	(311 339)	(52 015)	–	(363 354)
Total assets	8 116 537	5 598 149	(3 128 055)	10 586 631
Total liabilities	5 379 153	4 372 156	(1 478 871)	8 272 438
Total income margin	27.7%	8.1%		28.5%
EBITDA margin	8.2%	0.3%		7.6%
Operating margin	6.0%	(0.3%)		5.2%

SEGMENTAL INFORMATION CONTINUED

Restated 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%	–		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:

February 2020	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
Financial liabilities at fair value through profit and loss			
– Contingent consideration	**-**	**-**	**45 121**
February 2019			
Financial liabilities at fair value through profit and loss			
– Contingent consideration	–	–	64 345

The contingent consideration relates to the acquisition of the non-controlling shareholders and is based on the future performance of each respective partner store each year for five years to be paid in cash if performance targets are met. The performance targets will be agreed on an annual basis with each selling non-controlling shareholder.

It is currently assumed that the majority of the partner stores will meet performance targets in the remaining 2 years and that the selling non-controlling shareholders will therefore be entitled to the contingent consideration. The present value of the estimated contingent consideration is recognised as a liability which will be unwound over the remaining two year period (2019: three year period).

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 10.1% (2019: 12.3%) used to determine the present value of the future cash flows.

	AS AT 29 FEBRUARY 2020 R'000	AS AT 28 FEBRUARY 2019 R'000
Reconciliation of recurring level 3 fair value movements:		
Opening balance	**64 345**	76 249
Payments	**(29 672)**	(23 133)
Interest	**7 075**	7 588
Fair value adjustment	**3 373**	3 641
Closing balance	**45 121**	64 345

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 period ended February 2020 and 2019.

ADDITIONAL INFORMATION

		29 FEBRUARY 2020	28 FEBRUARY 2019
Ordinary shares in issue (000's):		**860 084 483**	860 084 483
Closing share price	(R/share)	**21.62**	25.80
Twelve-month share price (high)	(R/share)	**29.17**	38.00
Twelve-month share price (low)	(R/share)	**19.85**	24.00
Net asset value per share (WANOS)	(cents/share)	**269.17**	226.69
Net asset value per share (actual shares at year-end)	(cents/share)	**269.07**	226.69

NOTES TO THE PROVISIONAL REVIEWED ANNUAL CONDENSED CONSOLIDATED RESULTS

1. These condensed consolidated financial results for the 12 months ended 29 February 2020 have been prepared in accordance with International Accounting Standard (IAS) 34 Financial Reporting and the requirements of the Companies Act of South Africa. The Listings Requirements of the JSE require summarised consolidated financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ('IFRS') and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

   The accounting policies and methods of computation used in the preparation of the 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 expedient 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 our leases being brought onto the statement of financial position as a lease liability 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 lease 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 right-of-use 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.

   The impact of the standard is shown below:

NOTES TO THE PROVISIONAL REVIEWED ANNUAL CONDENSED CONSOLIDATED RESULTS CONTINUED

	IFRS 16 R'000	FEBRUARY 2020 R'000
Statement of financial position		
Non-current assets		
Property, plant and equipment	1 571 395	**3 095 352**
Deferred taxation	65 113	**189 307**
Equity and reserves		
Retained earnings	(163 737)	**717 816**
Non-controlling interest	(3 652)	**60 814**
Other reserves - Foreign Currency Translation Reserve	(45)	**(4 619 991)**
Non-current liabilities		
Lease liability	1 765 221	**2 374 961**
Operating lease obligation	(245 308)	**-**
Current liabilities		
Lease liability	315 664	**350 721**
Trade and other payables (current portion of operating lease obligation)	(31 635)	**4 258 659**
Statement of comprehensive income		
Other expenses	165 802	**(5 597 204)**
– Occupancy costs	492 566	
– Depreciation	(326 764)	
Net financing costs	(181 269)	**(379 752)**
– Finance income	–	
– Finance costs	(181 269)	
Taxation	4 331	**(240 647)**
	(11 136)	**(6 217 603)**
Earnings per share - basic and diluted (cents)	(1.3)	**69.6**
Statement of cash flows		
Cash flow from operating activities		
Cash inflow from trading operations	479 869	**1 851 142**
Finance costs paid	(181 269)	**(383 925)**
Cash flow from financing activities		
Lease liability repayment	(298 600)	**(324 326)**

	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 - Foreign Currency Translation Reserve	**(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 - basic and diluted (cents)	**85.4**	(1.8)	83.6
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 REVIEWED ANNUAL CONDENSED CONSOLIDATED RESULTS CONTINUED

	FEBRUARY 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	1 182 394	1 632 665	2 815 059
Deferred taxation	181 845	53 911	235 756
Equity and reserves			
Retained earnings	97 481	(134 576)	(37 095)
Non-controlling interest	55 147	(4 052)	51 095
Non-current liabilities			
Lease liability	621 543	1 817 033	2 438 576
Operating lease obligation	213 198	(213 198)	–
Current liabilities			
Lease liability	9 943	245 752	255 695
Trade and other payables (current portion of operating lease obligation)	3 262 280	(24 383)	3 237 897
Statement of comprehensive income			
Other expenses	(4 330 728)	135 430	(4 195 298)
– Occupancy costs		404 665	
– Depreciation		(269 235)	
Net financing costs	(160 082)	(173 127)	(333 209)
– Finance income		–	
– Finance costs		(173 127)	
Taxation	(266 696)	10 556	(256 140)
	(4 757 506)	(27 141)	(4 784 647)
Earnings per share - basic and diluted (cents)	79.6	(3.1)	76.5

Statement of cash flows			
Cash flow from operating activities			
Cash inflow from trading operations	1 323 624	363 878	1 687 502
Finance costs paid	(164 424)	(173 127)	(337 551)
Cash flow from financing activities			
Finance lease repayment	(6 226)	(190 751)	(196 977)

The movement in the right-of-use asset and lease liability is as follows:

	FEBRUARY 2020		FEBRUARY 2019	
	ROU ASSET R'000	LEASE LIABILITY R'000	ROU ASSET R'000	LEASE LIABILITY R'000
Opening balance	**2 249 906**	**2 752 521**	2 248 802	2 694 266
Additions (including acquisitions)	**349 101**	**349 101**	324 346	324 346
Modifications in lease terms and disposals	**(54 848)**	**(53 847)**	–	–
Depreciation	**(361 696)**	**-**	(323 242)	–
Foreign currency	**2 388**	**2 233**	–	–
Finance costs	**-**	**242 371**	–	243 100
Payments	**-**	**(566 697)**	–	(509 191)
Closing balance	**2 184 851**	**2 725 682**	**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 liabilities until management is reasonably certain they will be exercised. The entity considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

Lease payments relating to variable lease payments (for example, turnover based rental) amounted to R5 million and R37 million relating to short-term leases. There was no expense in the current or prior period relating to low-value assets.

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

	AS AT 29 FEBRUARY 2020 %	AS AT 28 FEBRUARY 2019 %
Dispensary	**36**	36
Personal care and beauty	**28**	28
Healthcare and nutrition	**20**	20
Baby care	**6**	6
Other	**10**	10
	100	**100**

4. Dis-Chem enters into certain transactions with related parties including the rental of certain stores and warehouses. This finance lease obligation relating to these leases amounted to R1 billion at 29 February 2020.

   Amounts owing from Eleador Proprietary Limited and Mathimba Proprietary Limited at 29 February 2020 amounted to Rnil and R24 million respectively (2019: R3 million and R22 million respectively). Amounts owing to Minlou Proprietary Limited at 29 February 2020 amounted to Rnil (2019: R2 million).

   Loans receivable from Dis-Chem Bothomed, Dis-Chem Namibia, Dis-Chem Swakopmund, Dis-Chem Dunes, Geniob and Origin Brands (all Proprietary Limited's) at 29 February 2020 amounted to R117 million (2019: R91 million). Other related party transactions for the current year are similar in nature to those disclosed in the annual financial statements for the year ended 28 February 2019.

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

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

7. During the current year, 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.

NOTES TO THE PROVISIONAL REVIEWED ANNUAL CONDENSED CONSOLIDATED RESULTS CONTINUED

- The acquisition of 100% of TLC Medipark, a pharmacy in Gauteng, for R9.5 million on 1 September 2019.

These are not categorised transactions in terms of the JSE Listings 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	TLC MEDIPARK R'000	TOTAL R'000
Assets					
Property, plant and equipment	1 461	–	–	176	1 637
Right of use asset	24 726	–	–	3 644	28 370
Other intangibles	2 890	–	–	2 338	5 228
Trade and other receivables (1)	2 815	279	116	1 315	4 525
Inventories	34 332	–	503	4 497	39 332
Bank	–	359	291	1 604	2 254
Tax receivable	1 241	52	–	1 206	2 499
Deferred tax	366	11	–	(655)	(278)
Liabilities					
Lease liability	(24 726)	–	–	(3 644)	(28 370)
Loans	(2 379)	–	–	–	(2 379)
Bank overdraft	(1 646)	–	–	–	(1 646)
Trade and other payables	(15 989)	(175)	(878)	(5 182)	(22 224)
Total identifiable net assets at fair value	23 091	526	32	5 299	28 948
Non-controlling interest at proportionate interest	(8 082)	(263)	–	–	(8 345)
Goodwill arising on acquisition	17 491	1 267	968	4 201	23 927
Purchase consideration transferred	32 500	1 530	1 000	9 500	44 530

(1) The carrying amount reflects the gross contractual amounts receivable and we expected to receive the full amount raised at the date of acquisition.

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

From the date of acquisition, R217 million in revenue and 6 million loss before tax was contributed to the Group from the above acquisitions. If the acquisitions had taken place at the beginning of the year, R262 million in revenue and R4 million loss before tax would have been contributed to the Group from the above acquisitions. Immaterial acquisition related costs were expensed in the period.

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 and 5.9% in Dis-Chem Airport Junction.

8. Events after the balance sheet date

Baby City acquisition

The Group is pleased to announce that on 11 May 2020 it entered into inter-conditional agreements in terms of which it will acquire 100% of the issued share capital in and shareholder claims of the well-known baby care products retailer Baby City ("Baby City"), from the Baby City's founder shareholders, the Aronoff family ("the Transaction"). Michel Aronoff, who conceptualised and strategized Baby City's direction, will continue to serve as managing director of Baby City following closure of the Transaction and current staff will be retained. The Group will pay a purchase consideration of R430 million upon closure. The Transaction contains both a shareholder loan and a net working capital guarantee which ensures that Baby City's position upon closure resembles the pre-COVID 19 level, while incremental earnings accrue to Dis-Chem. The Transaction remains subject to suspensive conditions, including approval from competition authorities.

For the 12 month period to February 2020, Baby City generated revenue of R855 million. It has continued to trade well relative to the COVID-19 lock down environment demonstrating both the resilient nature of the industry and the inherent brand equity of the retailer.

The Group's current offering is very focused on the FMCG and basic essentials categories which are extremely sensitive to price and promotion. In order to both deliver a destination baby experience to the first time parent and allow growth into the more specialised baby categories such as Baby Gear (prams, car seats, swings, bouncers and other nursery equipment), clothing, developmental toys, amongst other categories, the Group requires a standalone baby destination store network whose brand positioning aligns with its own brand.

The transaction is subject to the fulfilment of the suspensive conditions by 31 October 2020.

For additional information, refer to SENS released on 15 May 2020.

Covid-19

During the lock down and as required by the state to ensure that all South African corporate citizens assist in flattening the curve, the Group has taken and continues to take every possible step to safeguard the wellbeing of its employees, customers and patients. The Group has put a number of very strict protocols in place and will continue to update these as any new risk is identified or in accordance to regulatory changes. The number of staff and employees in store have been limited in line with social distancing requirements, all employees in stores have been issued with masks which are compulsory to wear and daily screening of all employees is facilitated on their arrival to work. As a result of being in the front line of the pandemic and assisting the sickly – there have been and will continue to be employees who test positive in our stores. In these instances Department of Health protocol is followed prior to the reopening of the store.

The Group recognises the part its employees are playing to continue to provide an essential service to South Africans. The Group is making every effort to avoid retrenchments and has given every Dis-Chem staff member a R1,500 food and healthcare voucher, at a total value of R28 million, to demonstrate its gratitude to their commitment to the front-line fight against the virus. In addition the Group accepts its corporate responsibility to contribute to the Solidarity fund so as to help South Africans in need. The Group has contributed R2 million to date and it is encouraging its Benefit Card members to convert their points to grow the contribution, where it will furthermore match consumer donations rand for rand.

After health and safety, business continuity is of utmost importance and ensuring the Group retains a healthy statement of financial position to continue as a going concern.

The Group has seen disruption in trading conditions with its retail store revenue. During March, before the lock down came into effect on 27 March 2020, retail stores experienced a substantial increase in revenue compared to the corresponding period of 45.6% as customers stocked up on products. Increased revenue was seen across all categories but especially in the pharmacy, healthcare and nutrition category. This trading pattern was then reversed during the lock down (27 March to 30 April 2020), when only essential products could be sold, and retail revenue decreased by 20.9% compared to the corresponding period.

Since level 4 came into effect the Group has started to see a recovery in revenue with retail revenue increasing by 2.8% from 1 May until 16 May 2020 compared to the corresponding period.

The Group has taken several steps to strengthen its financial position and maintain financial liquidity, which include: operating cost reductions driven by a focus on reducing unnecessary variable cost spend, suspending direct marketing expenditure, reducing capital expenditure and deferring the final dividend. The Group's financial position has also been assisted by the lowering of interest rates thus reducing interest payable on its long term loan. The Group has engaged with financial institutions to ensure the availability of additional liquidity to the value of R850 million (currently unutilised) should this be needed for working capital management as it understands the trading cycles over this pandemic period, the Group believes the adaptation of the business to a focussed Return on Invested Capital ("ROIC") approach positions it well to fast changing trading patterns.

The wholesale division is not exposed to significant credit risk as a result of COVID-19 due to the majority of its customers continuing to trade as a result of their essential services status - no significant change in credit risk has been noted, however this will continue to be actively monitored. No significant impairments of the Group's assets are expected to arise and there has been no significant impact on the net realisable value of inventory as a result of the crisis. To date, the Group has not had to seek relief from the government or other suppliers in the face of Covid-19. The Group has continued to pay its creditors with no extension on payment terms being required. The

NOTES TO THE PROVISIONAL REVIEWED ANNUAL CONDENSED CONSOLIDATED RESULTS CONTINUED

Group has paid 83% of April rentals, representing the essential portion of the rental amount, and full payments continued from May.

The ultimate impact on trade in the 2021 financial year is currently unknown, as it will depend heavily on the duration of the lock down levels and the normalisation of retail trade. The Group is continuing to adapt quickly to the current environment, with a focus on mitigating the near-term impact whilst positioning itself for success in the future.

Competition Commission

The Competition Commission ("Commission") alleged on 24 April 2020 that during February and March 2020 the Group engaged in excessive pricing of surgical masks under and in terms of the Competition Act, read with the Consumer and Customer Protection and National Disaster Management Regulations and Directions (the "Regulations").

The Group presented a legal response within the 2-week period imposed by the Commission and tabled arguments on 4 and 6 May 2020. We presented 3 major arguments that our pricing behaviour for surgical masks does not comprise excessive pricing, under either the Competition Act or the Competition Act read with the Regulations.

The Commission indicated that it has no additional queries in terms of the original submission but has not yet communicated a ruling to the Tribunal. As this matter is still under review, the cost of the legal proceedings as well as the outcome cannot yet be determined.

9. These provisional reviewed condensed consolidated results have been reviewed by independent external auditors, Ernst & Young Inc. and their unmodified review report is available for inspection at the Company's registered office. The review was performed in accordance with ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

   Shareholders are advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a full copy of the auditor's report from Dis-Chem's registered office.

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

   The financial information on which any forward-looking statements are based have not been audited, reviewed or reported on by the Group's external auditors.

DEFINITIONS

Adjusted headline earnings	Adjusted headline earnings per share (AHEPS) is a performance measure derived from HEPS for three categories of items: • Items deemed to relate to the capital structure of the Group ,but are not explicitly provided for in the HEPS circular. • Items related to neither retail nor wholesale general operations. These items represent income and expenses that arise outside of the Group's core retail and wholesale business. • Items not expected to reoccur. These items are income and expenses that management does not expect to reoccur in the foreseeable future.
Capital expenditure - to maintain operations	Capital expenditure required by the Group to continue operating in its current form i.e. to maintain or replace assets.
Capital expenditure - to expand operations	Capital expenditure undertaken by the Group to further growth prospects and expand existing operations.
Creditor days	The numbers of days it takes the Group to pay its creditors. The ratio indicates the amount of credit given to the business by our suppliers.
Debtors days	A ratio that measures how quickly cash is being collected from debtors.
Dividend pay-out ratio	The amount of dividends paid to shareholders relative to the amount of total net income of the Group.
Dividend per share (DPS)	The sum of declared dividends issued by a company for every ordinary share outstanding.
Earnings per share (EPS)	The portion of the Group's profit allocated to each outstanding share of common stock.
EBITDA (Earnings before interest, tax, depreciation and amortisation)	A measure of the Group's operating performance without factoring in financing or accounting decisions or the tax environment.
EBIT (Earnings before interest and tax)	A measure of the Group's profit that includes all incomes and expenses excluding interest and income tax expenses.
Gross profit margin	A financial metric used to assess the Group's financial health and business model by telling the amount of money left over from revenue after deducting the cost of goods sold.
Headline earnings	A measure of the Group's earnings based solely on operational and capital investment activities i.e. it excludes exceptional and once-off profits and losses.
Headline earnings per share (HEPS)	The per-share value of the headline earnings attributable to holders of the Group.
Inventory days	An efficiency ratio that measures the average numbers of days the company holds its inventory before selling it i.e. the numbers of days that funds are tied up in inventory.
Like-for-like revenue growth	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	A measure of profitability that indicates how much of each rand of revenue is left over after both cost of goods sold and operating expenses are considered.
Return on equity (ROE)	A measure of profitability that calculates how many rands of profit a company generates with each rand of shareholders' equity.

DEFINITIONS CONTINUED

Net working capital days	The average number of days it takes the Group to convert working capital into revenue.
Weighted average number of shares	The number of shares at year-end taking into account any changes in the number of outstanding shares over the 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

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2196
South Africa

JSE code

DCP

ISIN

ZAE000227831

Sponsor

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Rosebank
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Johannesburg

Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers
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NOTES CONTINUED

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