Dis-Chem PHARMACIES

Interim Condensed Consolidated Financial Results

for the six months ended 31 August

2020

Commentary

Overview

Despite a tough economic environment with the Covid-19 pandemic directly overlapping the reporting period together with the deepening economic recession, the Dis-Chem Group achieved positive results.

Earnings attributable to shareholders and headline earnings increased by 16.1% and 16.2% respectively over the corresponding period. Earnings per share (EPS) and headline earnings per share (HEPS) are both 36 cents per share, an increase of 16.1% and 16.2% respectively.

Retail operating profit was R585 million and the wholesale segment reported a positive operating profit of R41 million.

Covid-19

Despite the Group being an essential service provider and trading throughout the lockdown period, the various Covid-19 regulations imposed during the different levels of lockdown, restricted the Group from trading over its usual operating hours and selling across all its categories. During level 5 of the lockdown period, the Group was unable to sell 20% of its products, including higher-margin products from its Beauty category.

The various restrictions during each level of lockdown dramatically changed the shopping behaviour of customers and the Group experienced significant online sales growth of 353%. The quick deployment of additional hub stores together with continued investment in the Group's e-commerce platform enabled it to meet the increased demand as best as possible.

As a result of social distancing, increased sanitising measures, people working from home and children not going to school, the country experienced fewer cold and flu cases than in previous years. This adversely impacted the dispensary category, specifically over the counter ("OTC") sales. Strong chronic drug adherence due to health education, awareness and higher patient risk, partially offset the impact.

The Group has taken and continues to take every possible step to safeguard the well-being of its employees, customers and patients. Costs directly related to Covid-19 amounted to R45.4 million mainly relating to providing personal protective equipment, screening costs, staff Covid testing and the largest cost being related to the staff vouchers valued at R23.5 million that the Group distributed to all staff as a gratuity for their commitment to the front-line fight against the virus.

The growth seen in our clinics together with our Telemedicine offering, will play an important role in the delivery and growth of the primary care market within South Africa's healthcare system. We believe the pandemic has highlighted the need to solve for increased, lower priced healthcare delivery to more South Africans.

The Group has taken several steps to strengthen its financial position and maintain financial liquidity and the Group's financial position has been assisted by the lowering of interest rates. 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.

Review of financial performance

Revenue

During the six-month period from 1 March 2020 to 31 August 2020, Dis-Chem recorded Group revenue growth of 8.1% to R12.8 billion.

Retail revenue grew by 6% to R11.4 billion with comparable store revenue at 1.5%. The Group opened 23 new stores and acquired one new pharmacy from the corresponding period resulting in 182 stores at August 2020. These new stores contributed R448 million to revenue.

Wholesale revenue grew by 14.9% to R9.3 billion. Revenue to our own retail stores, still the biggest contributor to wholesale revenue, grew by 12.8% while external revenue to independent pharmacies and The Local Choice ("TLC") franchises grew by 36.4% and 25.7% respectively from the corresponding period. TLC growth is due to a combination of an increase in TLC franchise stores from 96 to 110 together with increasing support of the supply chain from existing TLC franchisees. Independent Pharmacy growth is due to new customers and increased support from the current base. The Group has been able to maintain its excellent service levels during these trying times in terms of operating hours, delivery times and stockholding.

Commentary continued

Total income

Total income grew by 9.4% to R3.6 billion. With the continued focus on Return on Invested Capital (ROIC), the Group's total income margin increased from 27.5% to 27.9%.

Retail total income grew by 6.2% with the retail margin increasing from 27.2% to 27.3%. The Group experienced a change in its sales and gross margin mix due to sales restrictions during level 5 of lockdown, with the sales of lower margin Covid-19 related products increasing and reduced impulse purchases because of lower foot traffic. The Group is slowly starting to see the sales and gross margin mix normalise but continues to expect gross margin to track behind sales growth into the second half of the financial year.

Wholesale total income grew by 20.7% with the wholesale margin increasing from 7.5% to 7.9%. The wholesale segment has benefitted from better terms as prior investments in technology is utilised to enhance visibility of supplier profitability.

Other expenses

Retail expenses (excluding depreciation) grew by 11.1% as the Group invested in 24 new stores since the corresponding period as well as due to the additional Covid related expenses.

Excluding costs directly related to Covid-19, retail expenses (excluding depreciation) grew 9.1%.

Employee costs (excluding employee costs directly related to Covid-19), the biggest contributor of expenses, was well managed in experiencing growth of 6.5%. With the reduction in trading hours across the different levels of lock down, the Group was able to reduce employee variable cost in stores.

Wholesale expenses (excluding costs directly related to Covid-19) only grew by 0.3% compared to the prior comparable period. The low growth in wholesale expenses is a result of the investment in technology in the prior financial year that allows for greater visibility of productivity, customer performance and individual supplier profitability within the wholesale space.

Net finance costs

Net financing costs have decreased by 17.4% from the prior period due to the reduction in the prime interest rate as well as lower levels of working capital due to the focus on ROIC. R125 million capital repayments have also been made on the Absa loan reducing the interest paid on the long term loan.

Net working capital

During the current period, the Group's inventory increased by R334 million from February 2020 due to the holding of additional Covid specific inventory. The majority of Covid specific inventory was purchased cash-on-delivery without terms and is now cycling out of the balance sheet.

Net working capital, at 32.1 days, continued to improve from 33.3 days at 29 February 2020 as the Group continues to focus on ROIC.

Capital expenditure

Capital expenditure on tangible and intangible assets of R229 million comprised R183 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 R46 million relates to replacement expenditure incurred to maintain the existing retail and wholesale networks.

Directorate

Mr. Mahomed Gani resigned as a non-executive director of Dis-Chem on 9 September 2020 due to ill-health. The board of directors thanks Mr. Gani for his past services and contribution as a director of the Company and wishes him all the best for the future.

Dividend declaration

Due to the future unknown impact of Covid-19 together with a number of potential strategic acquisitions, including the acquisition of Baby City, it has been decided to preserve cash resources in order to fund these acquisitions and not declare a dividend.

Outlook

For the 9 weeks to 31 October 2020, the Group revenue has grown by 7.1% from the prior comparable period.

The Group expects that the consumer will continue to remain constrained and the full extent of the impact of Covid-19 still unknown. The gross margin pressure currently being experienced by the Group is expected to continue into the second half of the year. As South Africa's economy opens and we shift through the different levels of lockdowns, the stores' trading hours will return to normal which will increase the employee variable costs in store.

With the focus on ROIC, the resilient nature of the markets in which the Group operates, together with the brand position, 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.

Acquisitions

Community Based Pharmacy Group

The Group is investigating an acquisition of a community based pharmacy group that will expand its store base and ability to provide primary health solutions.

Currently in the due diligence stage, this acquisition will increase the existing store network with the majority of these being in convenience centres.

Health Care Insurance Asset

The Group is in the advanced stages of concluding the acquisition of a strategic interest in a healthcare asset, with specialisation in the design, administration, risk management and delivery of primary healthcare insurance, as well as gap cover and psychological wellbeing. Covid-19 has highlighted that individuals and companies are more prepared than ever to spend on healthcare and has also led to a deeper understanding of the importance of mental health, accelerating the need for companies to provide support to employees and their families.

Through this transaction, the Group will benefit from vertical integration into the health value chain, with access to a unique set of assets, in a sector of the healthcare market that is experiencing rapid and sustainable growth.

This investment also provides access to segments of the population who have historically not been covered by the private healthcare sector. In so doing it will assist in providing deeper access to healthcare to a wider and under-served community. This transaction builds on other strategic infrastructure and asset investments made in prior periods, which together promote economies of scale, and deliver enhanced value to all stakeholders, customers and benefit members.

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

Approval

The interim condensed consolidated results of the Group were authorised for issue in accordance with a resolution of the directors on 4 November 2020.

On behalf of the Board

Ivan Saltzman	**Rui Morais**
Chief Executive Officer	*Chief Financial Officer*

Condensed consolidated statement of comprehensive income

	Six months to 31 August 2020 R'000	Six months to 31 August 2019 R'000	change %	Year to 29 February 2020 R'000
Revenue from contracts with customers	12 807 349	11 847 642	8.1%	23 984 296
Cost of sales	(9 962 483)	(9 170 668)	8.6%	(18 428 773)
Gross profit	2 844 866	2 676 974	6.3%	5 555 523
Other income	724 752	586 010	23.7%	1 290 082
Total income	3 569 618	3 262 984	9.4%	6 845 605
Other expenses	(2 962 150)	(2 673 506)	10.8%	(5 597 204)
Operating profit	607 468	589 478	3.1%	1 248 401
Net financing costs	(166 547)	(201 665)	(17.4%)	(379 752)
– Finance income	9 750	8 524	14.4%	22 297
– Finance costs	(176 297)	(210 189)	(16.1%)	(402 049)
Profit from associates and joint ventures	1 900	281	576.2%	195
Profit before taxation	442 821	388 094	14.1%	868 844
Taxation	(121 333)	(105 762)	14.7%	(240 647)
Total profit for the year, net of tax	321 488	282 332	13.9%	628 197
Other comprehensive income				
Items that may be subsequently reclassified to profit or loss				
– Exchange differences on translating foreign subsidiaries	(23)	(92)		73
Other comprehensive income for the year, net of taxation	(23)	(92)		73
Total comprehensive income for the year	321 465	282 240	13.9%	628 270
Profit attributable to:				
– Equity holders of the parent	309 378	266 453		598 225
– Non-controlling interests	12 110	15 879		29 972
Total comprehensive income attributable to:				
– Equity holders of the parent	309 355	266 361		598 298
– Non-controlling interests	12 110	15 879		29 972
Earnings per share (cents)				
– Basic	36.0	31.0	16.1%	69.6
– Diluted	36.0	31.0	16.1%	69.6

Condensed consolidated statement of financial position

	As at 31 August 2020 R'000	As at 31 August 2019 R'000	As at 29-Feb 2020 R'000
ASSETS			
Non-current assets	3 901 483	3 696 261	3 754 625
Property, plant and equipment (including right-of-use asset)	3 166 647	2 992 284	3 095 352
Intangible assets	525 097	463 261	456 263
Investment in associates and joint ventures	15 602	15 589	13 703
Deferred taxation	194 137	225 127	189 307
Current assets	7 348 605	6 587 606	6 832 006
Inventories	4 840 424	4 339 208	4 506 760
Trade and other receivables	1 841 227	1 366 541	1 655 782
Loans receivable	239 379	224 544	213 338
Taxation receivable	6 129	–	4 282
Cash and cash equivalents	421 446	657 313	451 844
Total assets	11 250 088	10 283 867	10 586 631
EQUITY AND LIABILITIES			
Equity and reserves	2 566 951	2 023 532	2 253 379
Share capital	6 155 554	6 155 554	6 155 554
Retained earnings	1 029 152	495 650	717 816
Other reserves	(4 617 755)	(4 627 672)	(4 619 991)
Non-controlling interest	53 420	78 088	60 814
Total equity	2 620 371	2 101 620	2 314 193
Non-current liabilities	3 075 932	3 141 341	3 109 234
Lease liability	2 429 387	2 355 016	2 374 961
Loans payable	616 950	743 750	679 450
Contingent consideration	–	20 559	19 494
Deferred taxation	29 595	22 016	35 329
Current liabilities	5 553 785	5 040 906	5 163 204
Trade and other payables	4 326 229	3 517 033	4 258 659
Lease liability	352 743	306 492	350 721
Loans payable	147 626	154 923	142 432
Employee-related obligations	228 487	165 684	190 015
Deferred revenue (contract liability)	73 770	40 239	36 323
Contingent consideration	16 105	22 704	25 627
Taxation payable	25 533	5 178	7 860
Bank overdraft	383 292	828 653	151 567
Total equity and liabilities	11 250 088	10 283 867	10 586 631

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
Balance at 28 February 2019	6 155 554	344 888	(4 614 838)	64 125	1 949 729
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
Total comprehensive income for the year	–	331 772	165	14 093	346 030
Profit for the year, net of taxation	–	331 772	–	14 093	345 865
Other comprehensive income for the year, net of taxation	–	–	165	–	165
Change in ownership interest in subsidiary and acquisitions	–	438	–	(76)	362
Share-based payment expense	–	–	7 516	–	7 516
Dividends paid	–	(110 044)	–	(31 291)	(141 335)
Balance at 29 February 2020	6 155 554	717 816	(4 619 991)	60 814	2 314 193
Total comprehensive income for the year	–	309 378	(23)	12 110	321 465
Profit for the year, net of taxation	–	309 378	–	12 110	321 488
Other comprehensive income for the year, net of taxation	–	–	(23)	–	(23)
Change in ownership interest in subsidiary and acquisitions	–	479	–	(479)	–
Share-based payment expense	–	–	3 738	–	3 738
Exercise of share-based payment	–	1 479	(1 479)	–	–
Dividends paid	–	–	–	(19 025)	(19 025)
Balance at 31 August 2020	6 155 554	1 029 152	(4 617 755)	53 420	2 620 371

Condensed consolidated statement of cash flows

	Six months to 31 August 2020 R'000	Six months to 31 August 2019 R'000	Year to 29 February 2020 R'000
Cash flow from operating activities	241 413	398 546	1 256 978
Cash inflow from trading operations	1 015 830	876 854	1 851 142
Movement in working capital	(482 151)	(22 808)	265 680
Finance income received	9 750	8 524	22 297
Finance costs paid	(166 921)	(193 863)	(383 925)
Taxation paid	(116 070)	(145 108)	(231 828)
Dividends paid	(19 025)	(125 053)	(266 388)
Cash flow from investing activities	(224 627)	(261 435)	(413 218)
Additions to property, plant and equipment and intangible assets			
– To maintain operations	(45 293)	(73 730)	(139 737)
– To expand operations	(183 227)	(139 958)	(223 617)
Proceeds on disposal of property, plant and equipment and intangible assets	4 602	4 279	10 058
Acquisition in business combination and subsidiaries, net of cash acquired	(709)	(36 026)	(43 922)
Investment in joint ventures	–	(16 000)	(16 000)
Cash flow from financing activities	(277 709)	172 907	(61 436)
Purchase of treasury shares	–	(13 152)	(13 152)
Contingent consideration repayment	(31 590)	(29 672)	(29 672)
Change in ownership interest in subsidiary	–	(899)	(536)
Long-term loans repaid	(62 500)	(531 250)	(593 750)
Receipt of long-term loans	–	900 000	900 000
Lease liability repayment	(183 619)	(152 120)	(324 326)
Net (decrease)/increase in cash and cash equivalents	(260 923)	310 018	782 324
Foreign currency	(1 200)	(320)	(1 009)
Cash and cash equivalents at beginning of year	300 277	(481 038)	(481 038)
Cash and cash equivalents at end of year	38 154	(171 340)	300 277

Earnings per share

	Six months to 31 August 2020 R'000	Six months to 31 August 2019 R'000	Year to 29 February 2020 R'000
Reconciliation of profit for the year to headline earnings			
Profit attributable to equity holders of the parent	309 378	266 453	598 225
Net loss/(profit) on disposal of property, plant and equipment and intangible assets	300	(77)	(153)
Taxation	(84)	22	43
Headline earnings	309 594	266 398	598 115
Earnings per share (cents)			
– Basic	36.0	31.0	69.6
– Diluted	36.0	31.0	69.6
Headline earnings per share (cents)			
– Basic	36.0	31.0	69.6
– Diluted	36.0	31.0	69.6

	Six months to 31 August 2020 000	Six months to 31 August 2019 000	Year to 28 February 2020 000
Reconciliation of shares in issue 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 weighted for the period outstanding	(392 220)	(157 533)	(343 672)
Total weighted number of shares in issue at the end of the period	859 692 263	859 926 950	859 740 811
Share options	–	–	–
Total diluted weighted number of shares in issue at the end of the period	859 692 263	859 926 950	859 740 811

Segmental information

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

Six months to 31 August 2020	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
External customers	11 384 480	1 422 869	–	12 807 349
Inter-segment	–	7 882 218	(7 882 218)	–
Total turnover	11 384 480	9 305 087	(7 882 218)	12 807 349
Cost of sales	(8 959 615)	(8 640 943)	7 638 075	(9 962 483)
Gross profit	2 424 865	664 144	(244 143)	2 844 866
Other income	679 295	70 786	(25 329)	724 752
Total income	3 104 160	734 930	(269 472)	3 569 618
Other expenses (excluding depreciation and amortisation)	(2 251 458)	(637 082)	251 079	(2 637 461)
Depreciation and amortisation	(268 181)	(56 508)	–	(324 689)
Operating profit	584 521	41 340	(18 393)	607 468
Net finance costs	(128 245)	(38 302)	–	(166 547)
Share of profit from associates and joint ventures	1 900	–	–	1 900
Profit/(loss) before tax	458 176	3 038	(18 393)	442 821
Earnings before interest, tax, depreciation and amortisation (EBITDA)	854 602	97 848	(18 393)	934 057
Capital expenditure	(216 812)	(11 708)	–	(228 520)
Total assets	8 483 560	5 961 921	(3 195 393)	11 250 088
Total liabilities	5 607 487	4 548 623	(1 526 393)	8 629 717
Total income margin	27.3%	7.9%		27.9%
EBITDA margin	7.5%	1.1%		7.3%
Operating margin	5.1%	0.4%		4.7%

Segmental information continued

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)	898 172	(26 820)	(3 562)	867 790
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%

Twelve months to 29 February 2020	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	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%

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 2020	**Level 1 R'000**	**Level 2 R'000**	**Level 3 R'000**
Financial liabilities at fair value through profit and loss			
– Contingent consideration	–	–	16 105
August 2019			
Financial liabilities at fair value through profit and loss			
– Contingent consideration	–	–	43 263
February 2020			
Financial liabilities at fair value through profit and loss			
– Contingent consideration	–	–	45 121

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 8.1% (2019: 12.3%) used to determine the present value of the future cash flows.

	As at 31 August 2020 R'000	**As at 31 August 2019 R'000**	**As at 29 February 2020 R'000**
Reconciliation of recurring Level 3 fair value movements:			
Opening balance	45 121	64 345	64 345
Payments	(31 590)	(29 672)	(29 672)
Interest	2 264	3 682	7 075
Fair value adjustment	310	4 908	3 373
Closing balance	16 105	43 263	45 121

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 2020, August 2019 and February 2020.

Additional information

		31 August 2020	31 August 2019	29 February 2020
Ordinary shares in issue (000's):		860 084 483	860 084 483	860 084 483
Closing share price	(R/share)	18.26	22.25	21.62
Six-month/(twelve-month) share price (high)	(R/share)	26.50	28.08	29.17
Six-month/(twelve-month) share price (low)	(R/share)	16.55	19.85	19.85
Net asset value per share (WANOS)	(cents/share)	305.17	244.4	269.17
Net asset value per share (actual shares)	(cents/share)	304.66	244.35	269.07

Notes to the interim consolidated results

1. These interim condensed consolidated financial results for the six months ended 31 August 2020 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 Pronouncements 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 conjunction with the Group's annual financial statements as at 29 February 2020.

   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 29 February 2020.

   None of the new standards, interpretations and amendments effective as of 1 March 2020 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. Revenue from contracts with customers can be disaggregated between the following retail categories:

	As at 31 August 2020 %	**As at 31 August 2019 %**	**As at 29 February 2020 %**
Dispensary	36	37	36
Personal care and beauty	27	28	28
Healthcare and nutrition	23	20	20
Baby care	5	6	6
Other	9	9	10
	100	100	100

3. 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 31 August 2020 (2019: R1 billion).

   Amounts owing from Mathimba Proprietary Limited at 31 August 2020 amounted to R24 million respectively (2019: R22 million). Amounts owing to Minlou Proprietary Limited at 31 August 2020 amounted to Rnil million (2019: R2 million).

   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 2020 amounted to R108 million (2019: R120 million). Other related party transactions for the current period are similar in nature to those disclosed in the annual financial statements for the year ended 29 February 2020.

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

Notes to the interim condensed consolidated results continued

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

   As previously reported, the Group has seen disruption in trading conditions due to the Covid-19 pandemic. Despite the Group being an essential service provider and trading throughout the lockdown period, the various Covid-19 regulations implemented during the different levels of lockdown restricted the Group from selling all its products and trading within its usual operating hours. The protocols set up to deal with the Covid-19 pandemic and ensure the protection of staff and customers also resulted in additional costs being incurred.

   The Group has taken several steps to strengthen its financial position and maintain financial liquidity and the Group's financial position has been assisted by the lowering of interest rates thus reducing interest payable on its long term loan. 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. The Group has continued to pay its creditors with no extension on payment terms being required.

   The Group has seen an increase in the employee benefits liability with the reduction of employees taking leave over this period due to the restrictions placed on travel as well as a decrease in loyalty points being redeemed with the increase in online sales.

   The Group withdrew its appeal at the competition appeal court after being found guilty of excessive pricing of surgical masks and paid a fine of R1.2 million. The appeal was withdrawn in order to move forward and focus on delivering value to customers.

6. The Group made one acquisition in the current reporting period that was not significant and sold 30% of Dis-Chem Mega Mall.

   As previously announced, on 11 May 2020 the Group 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. At the current date the Group has submitted the relevant information to the Competition Commission and awaits feedback from them.

Notes to the interim condensed consolidated results continued

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

	August 2020		August 2019		February 2020	
	ROU asset R'000	Lease liability R'000	ROU asset R'000	Lease liability R'000	ROU asset R'000	Lease liability R'000
Opening balance	2 184 851	2 725 682	2 249 906	2 752 521	2 249 906	2 752 521
Additions (including acquisitions)	237 384	237 384	59 170	59 170	349 101	349 101
Modifications in lease terms and disposals	1 185	2 335	–	–	(54 848)	(53 847)
Depreciation	(183 985)	–	(176 281)	–	(361 696)	–
Foreign currency	213	348	1 746	1 937	2 388	2 233
Finance costs	–	120 095	–	121 470	–	242 371
Payments	–	(303 714)	–	(273 590)	–	(566 697)
Closing balance	2 239 648	2 782 130	2 134 541	2 661 508	2 184 851	2 725 682

The Group adopted the Covid-19 Related Rent Concessions, IFRS 16 amendment in the current year. The negotiated rental relief was accounted for by reducing the lease liability and recognising a negative variable lease payment credit in occupancy costs under other expenses. The impact of rental concessions was not significant.

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

The Group is investigating an acquisition of a community based pharmacy group that will expand its store base and ability to provide primary healthcare solutions.

The Group is in the advanced stages of concluding the acquisition of a strategic interest in a healthcare asset, with specialisation in the design, administration, risk management and delivery of primary healthcare insurance, as well as gap cover and psychological wellbeing. Covid-19 has highlighted that individuals and companies are more prepared than ever to spend on healthcare. Covid-19 has also led to a deeper understanding of the importance of mental health, accelerating the need for companies to provide support to employees and their families.

9. These interim condensed consolidated 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 has been prepared under the supervision of Mr Rui Morais CA(SA), the Chief Financial Officer of the Group.

Definitions

Capital expenditure to expand operations	Capital expenditure ("CAPEX") undertaken by the Group to further growth prospects and expand existing operations.
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.
Cash flow	
Financing activities	Activities that result in changes to the capital and funding structure of the Group.
Investing activities	Activities relating to the acquisition, holding and disposal of capital assets and long-term investments.
Operating activities	Activities that are not financing or investing activities that arise from the operations conducted by the Group.
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.
Calculation	*Average trade and other payables* / *Cost of goods sold x 365*
Debtors days	A ratio that measures how quickly cash is being collected from debtors.
Calculation	*Average trade and other receivables* / *Revenue x 365*
Dividend payout ratio	The amount of dividends paid to shareholders relative to the amount of total net income of the Group.
Calculation	*Dividends paid* / *Net income*
Dividend per share ("DPS")	The sum of declared dividends issued by a company for every ordinary share outstanding.
Calculation	*Headline earnings per share x Payout ratio*
Earnings before interest and tax ("EBIT")	A measure of the Group's profit that includes all incomes and expenses excluding interest and income tax expenses.
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	A measure of the Group's operating performance without factoring in financing or accounting decisions or the tax environment.
Earnings per share ("EPS")	The portion of the Group's profit allocated to each outstanding share of common stock.
Calculation	*Earnings attributable to equity holders of the Group* / *WANOS*
Effective tax rate	The average tax rate paid by the Group.
Calculation	*Taxation paid (as per income statement)* / *Profit before tax*
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 ("COGS").
Calculation	*(Revenue – COGS)* / *Revenue*
Headline earnings	A measurement of the Group's earnings based solely on operational and capital investment activities i.e. it excludes exceptional and once-off profits and losses.

Definitions continued

Headline earnings per share ("HEPS")	The per-share value of the headline earnings attributable to holders of the Group.
Calculation	$\frac{\textit{Headline earnings}}{\textit{WANOS}}$
Inventory days	An efficiency ratio that measures the average number of days the company holds its inventory before selling it i.e. the number of days that funds are tied up in inventory.
Calculation	$\frac{\textit{Average inventory}}{\textit{Cost of goods sold x 365}}$
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 – actual shares at year-end	
Calculation	$\frac{\textit{Total assets – total liabilities}}{\textit{Actual number of shares outstanding}}$
Net asset value per share – WANOS	
Calculation	$\frac{\textit{Total assets – total liabilities}}{\textit{WANOS}}$
Net working capital days	The average number of days it takes the Group to convert working capital into revenue.
Calculation	*Debtor days + Inventory days – Creditor days*
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.
Calculation	$\frac{\textit{Operating profit}}{\textit{Revenue}}$
Return on capital employed ("ROCE")	Determines a company's profitability after taking into account the amount of capital used.
Calculation	$\frac{\textit{EBIT}}{\textit{Capital employed}}$
Return on equity ("ROE")	A measure of profitability that calculates how many rands of profit a company generates with each rand of shareholders' equity.
Calculation	$\frac{\textit{Net income attributable to equity holders}}{\textit{Average shareholders' equity}}$
Return on invested capital ("ROIC")	The percentage return made over invested capital
Calculation	$\frac{\textit{Net income – dividend}}{\textit{Debt + Equity}}$
Weighted average number of shares ("WANOS")	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)	(Resigned 9 September 2020)

Executive directors

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

Company registration number

2005/009766/06

Registered office

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1685

Company secretary

WT Green

Registered auditors

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DCP

ISIN

ZAE000227831

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Transfer secretaries

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