Dis-Chem
PHARMACIES

2021

Provisional Reviewed Annual Condensed Consolidated Results

for the twelve months
ended 28 February

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COMMENTARY

Overview

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

Earnings attributable to shareholders and headline earnings increased by 11.8% over the corresponding period. Earnings per share (EPS) and headline earnings per share (HEPS) are both 77.8 cents per share, an increase of 11.8%.

Retail operating profit was R1.2 billion and the wholesale segments performance continued to improve reporting an operating profit of R65 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 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 our customers and the Group experienced significant online sales growth of 260.7%. The strategic deployment of 39 additional hub spaces in response, together with continued investment in the Group's e-commerce platform, enabled it to meet the increased demand.

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 across the winter months.

The Group 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 R56.6 million, mainly relating to providing personal protection equipment, screening costs, staff COVID-19 testing and the largest cost being related to the 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 twelve-month period from 1 March 2020 to 28 February 2021, Dis-Chem recorded Group revenue growth of 9.6% to R26.3 billion.

Retail revenue grew by 7.6% to R23.4 billion with comparable store revenue at 2.7%. The Group opened nett 22 new stores, including 3 Mediclinic stores, and acquired two new pharmacies during the year, with 194 stores at the end of February 2021. These new stores contributed R491 million to revenue. Baby City has contributed R128 million to revenue in January and February 2021, 0.6% of the retail revenue growth.

Wholesale revenue grew by 16.4% to R19.3 billion. Wholesale revenue to our own retail stores, still the biggest contributor, grew by 14.4%, while external revenue to independent pharmacies and The Local Choice ("TLC") franchises grew by 27.7% and 37.1% respectively over the corresponding period. TLC growth is due to a combination of an increase in TLC franchise stores from 104 to 122 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.

COMMENTARY CONTINUED

Total income

Total income grew by 8.5% to R7.4 billion, with the Group's total income margin being 28.3%

Retail total income grew by 6.5% with the retail margin decreasing from 27.7% to 27.5%. The Group experienced a change in its sales and gross margin mix due to sales restrictions during lockdown, with the sales of lower margin COVID-19 related products increasing.

The impact on transactional gross margin as a result of the sales and gross margin mix was 0.8% lower in the retail segment. This impact was partially offset by improved back-end trade terms as a function of the continued focus on ROIC. Back-end trade terms grew by 16.5% compared to purchases growth of 10.9% (excluding COVID-19 related inventory and Baby City).

Wholesale total income grew by 10.1% with the wholesale margin now at 7.6%.

Other expenses

Retail expenses (excluding depreciation) grew by 9.1% as the Group invested in nett 24 new stores since the corresponding period as well as due to the additional COVID-19 related expenses.

Excluding costs directly related to COVID-19, retail expenses (excluding depreciation) grew 7.9%.

Employee costs (excluding employee costs directly related to COVID-19), the biggest contributor of expenses, was well managed in experiencing growth of 6.6%. With the reduction in trading hours across the different levels of lock down, the Group was able to reduce employee variable cost in stores.

Dispensary employee costs, both fixed and variable, the largest contributor to employee costs was extremely well managed and increased by only 1.28%.

Wholesale expenses (excluding depreciation and costs directly related to COVID-19) only grew by 0.5% 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. Employee costs were well managed with a growth of 6.5% (excluding COVID-19 costs) compared to the prior comparable period in relation to revenue growth of 16.4%.

Net finance costs

Net financing costs have decreased by 13.7% from the prior period due to the reduction in the prime interest rate as well as average lower levels of working capital during the year 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 R1.2 billion from February 2020 due to the holding of additional COVID-19 specific inventory, additional inventory of R127 million relating to Baby City and the buy-in of inventory of approximately R300 million in February 2021 before the Single-Exit Price (SEP) increases. The majority of COVID-19 specific inventory was purchased cash-on-delivery without terms and continues to cycle out of the balance sheet.

Net working capital, at 29.6 days, continued to improve from 33.3 days at 29 February 2020 as the Group continues to focus on ROIC. Excluding Baby City the net working capital was at 29.2 days.

Capital expenditure

Capital expenditure on tangible and intangible assets of R401 million comprised R311 million of expansionary expenditure as the Group invested in additional stores as well as information technology enhancements across both the retail and wholesale segments, including R88 million in SAP software licences. The balance of R90 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.
Ms. A Sithebe was appointed on 12 January 2021 as an independent non-executive director.

Dividends declaration

With indications of normalised trading patterns, the Group has reinstated its dividend policy and notice is hereby given that a gross final cash dividend of 31.10346 cents per share, in respect of the year ended 28 February 2021 has been declared based on 40% of headline earnings. 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 24.88277 cents per share to those shareholders who are not exempt from paying dividend tax. Dis-Chem's tax reference number is 9931586144.

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

- Last day to trade *cum* dividend on the JSE: Tuesday, 8 June 2021
- First trading day *ex* dividend on the JSE: Wednesday, 9 June 2021
- Record date: Friday, 11 June 2021
- Payment date: Monday, 14 June 2021

Share certificates may not be dematerialised or rematerialised between Wednesday, 9 June 2019 and Friday, 11 June 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.

Strategic acquisitions affecting the reporting period

Baby City

The Group acquired 100% of Baby City on 1 January 2021 for R422 million. Baby City is a specialist destination baby retailer that operates a network of 33 stores across South Africa. It sells a comprehensive range of branded baby products at reasonable "Everyday Low Prices". The brand's focus is primarily on first-time parents and caters for moms' and babies' every need. Baby City offers a complete baby shopping experience to its customers and prides itself on its consumer-centric approach in a resilient industry.

All Baby City stores have completed the migration onto the Group's common technology platform. This was a necessary first step to enable the extraction of the planned synergistic benefits across both brands. Baby City contributed R128 million to Group revenue for the period ended 28 February 2021.

Strategic acquisitions affecting future reporting periods

Healthforce

Effective 1 December 2020, the Healthforce solution was rolled out to the Group's 336 clinic rooms, becoming the single technology platform used to facilitate all nurse-led consultations. Over the three-month period since migration to the end of 28 February 2021, Healthforce facilitated 180,000 nurse-led consultations within Dis-Chem's clinics.

On 1 March 2021, the Group acquired 87.5% of Healthforce (Proprietary) Limited ("Healthforce") for R48 million. Healthforce offers clinic management software that, amongst other system capabilities, sets up clinic nurses as the low-cost entry point into the healthcare system. The technology includes telemedicine capability, which provides realtime video connections between patients and nurses and an on-demand remote doctor network. The solution focuses on enabling a multi-disciplinary team-based care offering.

In the face of a changing primary healthcare landscape, Healthforce presents the Group with an investment in a strategic asset through which it can advance its ambitions to be at the forefront of innovation in the delivery of care.

Medicare

On 14 December 2020, the Group entered into a binding agreement with Pure Pharmacy Holdings (trading as Medicare Health ("Medicare") and its existing shareholders, to acquire 100% of the equity in Medicare, for a purchase consideration of R282 million. The transaction includes a net working capital guarantee to ensure that the working capital metrics align with those of Dis-Chem.

COMMENTARY CONTINUED

Medicare is a healthcare and pharmacy group, operating 50 pharmacies across four provinces. Many of the stores in the Medicare portfolio are located in convenience centres, in geographies where Dis-Chem is currently under-represented, giving the Group access to new markets. For the year ended 28 February 2021, Medicare generated revenue of R1.1 billion, with dispensary contributing approximately two thirds.

The transaction is currently 106 business days into the merger notification process with the Competition Authorities, which is within the 120-day service standard period for a phase three large merger notification.

Kaelo

The Group has entered into agreements with the shareholders of Kaelo Holdings ("Kaelo") in which it will acquire 25% of the equity of Kaelo, for a purchase consideration of up to R195 million, subject to company performance hurdles in each of the FY21 and FY22 periods. Upon closure, an initial amount of R120 million will be payable. The Group can now report that the transaction was recently filed with the Competition Authorities as a large merger.

Kaelo houses a complementary portfolio of health assets, including benefit-rich gap and primary health insurance products, occupational health clinics, and is the owner of the AskNelson psychological wellbeing platform.

Kaelo has delivered impressive and consistent annual performance, with CAGR product revenue growth of 30% over the last 3-years. Profit growth for the 12-months to 30 June 2021 is expected to be 65% higher than the corresponding period.

The market opportunity for Kaelo's insurance products is significant. With only 16% of the approximately four million active medical scheme policyholders also holding gap insurance policies, and 12.4 million employed and uninsured people in SA, the gap shortfall and primary health insurance opportunities, to offer affordable and quality primary health insurance, is sizable.

Dis-Chem and Kaelo are both committed to playing leading roles in the ubiquitous access to affordable and quality private primary healthcare.

Outlook

For the 10 weeks to 10 May 2021, the Group's revenue increased by 12.6% over the prior comparable period.

Dis-Chem's commitment to partnering with government to fight the COVID-19 pandemic remains steadfast. Since 17 May 2021, the Group has been vaccinating over 60s and its healthcare workers. The Group has secured 32 dedicated vaccination sites, 11 of which will commence administration of vaccines to the public from 24 May 2021. Additional capacity from in-store clinics will be added, when the J&J vaccination becomes available. Operating at full capacity, the Group will be able to administer up to 800 000 vaccines per month.

The Group expects that, with the full extent of the impact of COVID-19 still unknown, the consumer will continue to remain constrained. With the focus on ROIC, the resilient nature of the markets in which the Group operates, together with the brands positioning, the Group is continuing to adapt to the current environment. With a focus on mitigating the near-term impact, the Group is well positioned for continued success in the future.

Approval

The provisional reviewed annual condensed consolidated results of the Group were authorised for issue in accordance with a resolution of the directors on 20 May 2021.

On behalf of the Board

Ivan Saltzman
Chief Executive Officer

Rui Morais
Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	YEAR TO 28 FEBRUARY 2021 (REVIEWED) R'000	YEAR TO 29 FEBRUARY 2020 (REVIEWED) R'000	% CHANGE
Revenue from contracts with customers	**26 278 196**	23 984 296	9.6
Cost of sales	**(20 441 719)**	(18 428 773)	10.9
Gross profit	**5 836 477**	5 555 523	5.1
Other income	**1 589 453**	1 290 082	23.2
Total income	**7 425 930**	6 845 605	8.5
Other expenses	**(6 160 258)**	(5 597 204)	10.1
Operating profit	**1 265 672**	1 248 401	1.4
Net financing costs	**(327 727)**	(379 752)	(13.7)
– Finance income	**16 853**	22 297	
– Finance costs	**(344 580)**	(402 049)	
Profit from associates and joint ventures	**2 997**	195	
Profit before taxation	**940 942**	868 844	8.3
Taxation	**(253 291)**	(240 647)	5.3
Total profit for the year, net of taxation	**687 651**	628 197	9.5
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
– Exchange differences on translating foreign subsidiaries	**(322)**	73	
Other comprehensive income for the year, net of taxation	**(322)**	73	
Total comprehensive income for the year	**687 329**	628 270	9.4
Profit attributable to:			
– Equity holders of the parent	**668 687**	598 225	
– Non-controlling interests	**18 964**	29 972	
Total comprehensive income attributable to:			
– Equity holders of the parent	**668 365**	598 298	
– Non-controlling interests	**18 964**	29 972	
Earning per share (cents)			
– Basic	**77.8**	69.6	
– Diluted	**77.8**	69.6	

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	AS AT 28 FEBRUARY 2021 (REVIEWED) R'000	AS AT 29 FEBRUARY 2020 (REVIEWED) R'000
ASSETS		
Non-current assets	4 767 580	3 754 625
Property, plant and equipment (including right-of-use asset)	3 715 961	3 095 352
Intangible assets	897 888	456 263
Investment in associates and joint ventures	13 180	13 703
Deferred taxation	140 551	189 307
Current assets	8 420 008	6 832 006
Inventories	5 691 382	4 506 760
Trade and other receivables	1 905 031	1 655 782
Loans receivable	274 916	213 338
Taxation receivable	8 947	4 282
Cash and cash equivalents	539 732	451 844
Total assets	13 187 588	10 586 631
EQUITY AND LIABILITIES		
Equity and reserves	2 908 646	2 253 379
Share capital	6 155 554	6 155 554
Retained earnings	1 368 478	717 816
Other reserves	(4 615 386)	(4 619 991)
Non-controlling interest	43 018	60 814
Total equity	2 951 664	2 314 193
Non-current liabilities	3 446 642	3 109 234
Lease liability	2 823 052	2 374 961
Loans payable	607 210	679 450
Contingent consideration	–	19 494
Deferred taxation	16 380	35 329
Current liabilities	6 789 282	5 163 204
Trade and other payables	5 389 310	4 258 659
Lease liability	482 605	350 721
Loans payable	159 010	142 432
Employee-related obligations	224 310	190 015
Deferred revenue (contract liability)	93 176	36 323
Contingent consideration	15 913	25 627
Taxation payable	21 042	7 860
Bank overdraft	403 916	151 567
Total equity and liabilities	13 187 588	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
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	–	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)
Restated balance at 29 February 2020	6 155 554	717 816	(4 619 991)	60 814	2 314 193
Profit/total comprehensive income for the year	–	668 687	(322)	18 964	687 329
Profit for the year, net of taxation	–	668 687	–	18 964	687 651
Other comprehensive income for the year, net of taxation	–	–	(322)	–	(322)
Change in ownership interest in subsidiary and acquisitions (note 6)	–	(19 504)	–	2 744	(16 760)
Share-based payment expense	–	–	6 406	–	6 406
Exercise of share-based payment	–	1 479	(1 479)		–
Dividends paid	–	–	–	(39 504)	(39 504)
Balance at 28 February 2021 (reviewed)	**6 155 554**	**1 368 478**	**(4 615 386)**	**43 018**	**2 951 664**

	AS AT 28 FEBRUARY 2021 (REVIEWED) CENTS	AS AT 29 FEBRUARY 2020 (REVIEWED) CENTS
Dividend per share		
- Interim paid	–	12.8
- Final declared	31.1	–

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR TO 28 FEBRUARY 2021 R'000	YEAR TO 29 FEBRUARY 2020 R'000
Cash flow from operating activities	1 124 070	1 256 978
Cash inflow from trading operations	2 058 895	1 851 142
Movement in working capital	(335 180)	265 680
Finance income received	10 582	22 297
Finance costs paid	(335 280)	(383 925)
Taxation paid	(235 443)	(231 828)
Dividends paid	(39 504)	(266 388)
Cash flow from investing activities	(779 747)	(413 218)
Additions to property, plant and equipment and intangible assets		
– To maintain operations	(90 213)	(139 737)
– To expand operations	(310 974)	(223 617)
Proceeds on disposal of property, plant and equipment and intangible assets	12 242	10 058
Acquisition in business combination and subsidiaries, net of cash acquired	(394 322)	(43 922)
Investment in joint ventures	3 520	(16 000)
Cash flow from financing activities	(498 126)	(61 436)
Long term loans repaid	(159 187)	(593 750)
Receipt of long term loans	102 852	900 000
Lease liability repayment	(393 441)	(324 326)
Purchase of treasury shares	–	(13 152)
Contingent consideration repayment	(31 590)	(29 672)
Change in ownership interest in subsidiary	(16 760)	(536)
Net (decrease)/increase in cash and cash equivalents	(153 803)	782 324
Foreign currency	(10 658)	(1 009)
Cash and cash equivalents at beginning of year	300 277	(481 038)
Cash and cash equivalents at end of year	135 816	300 277

EARNINGS PER SHARE

	AS AT 28 FEBRUARY 2021 R'000	AS AT 29 FEBRUARY 2020 R'000
Reconciliation of profit for the year to headline earnings		
Profit attributable to equity holders of the parent	668 687	598 225
Net loss/(profit) on disposal of property, plant and equipment and intangible assets	143	(153)
Taxation	(40)	43
Headline earnings	668 790	598 115
Earnings per share (cents)		
– Basic	77.8	69.6
– Diluted	77.8	69.6
Headline earnings per share (cents)		
– Basic	77.8	69.6
– Diluted	77.8	69.6

	YEAR TO 28 FEBRUARY 2021 '000	YEAR TO 29 FEBRUARY 2020 '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
Total number of treasury shares in issue at the beginning of the period	(531 856)	–
Total number of shares outstanding at the beginning of the period	859 552 627	860 084 483
Treasury shares issued during the year weighted for the period outstanding	–	(343 672)
Treasury shares exercised and issued under the share scheme	207 391	–
Total weighted number of shares in issue at the end of the period	859 760 018	859 740 811
Share options	–	–
Total diluted weighted number of shares in issue at the end of the period	859 760 018	859 740 811

At 28 February 2021 the unweighted treasury shares amounted to 255,587.

SEGMENTAL INFORMATION

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

28 February 2021	RETAIL R'000	WHOLESALE R'000	INTERGROUP/ CONSOLIDATION R'000	TOTAL R'000
External customers	23 446 200	2 831 996	–	26 278 196
Inter-segment	–	16 443 986	(16 443 986)	–
Total turnover	23 446 200	19 275 982	(16 443 986)	26 278 196
Cost of sales	(18 508 185)	(17 947 863)	16 014 329	(20 441 719)
Gross profit	4 938 015	1 328 119	(429 657)	5 836 477
Other income	1 502 517	143 403	(56 467)	1 589 453
Total income	6 440 532	1 471 522	(486 124)	7 425 930
Other expenses (excluding depreciation and amortisation)	(4 648 982)	(1 297 393)	491 068	(5 455 307)
Depreciation and amortisation	(595 331)	(109 620)	–	(704 951)
Operating profit	1 196 219	64 509	4 944	1 265 672
Net finance costs	(265 562)	(62 165)	–	(327 727)
Share of profit from associates and joint ventures	2 997	–	–	2 997
Profit before tax	933 654	2 344	4 944	940 942
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 794 547	174 129	4 944	1 973 620
Capital expenditure	(362 459)	(38 728)	–	(401 187)
Total assets	9 516 805	6 784 665	(3 113 912)	13 187 588
Total liabilities	6 262 369	5 464 361	(1 490 806)	10 235 924
Total income margin	27.5%	7.6%		28.3%
EBITDA margin	7.7%	0.9%		7.5%
Operating margin	5.1%	0.3%		4.8%

SEGMENTAL INFORMATION

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 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%

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 2021	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000
Financial liabilities at fair value through profit and loss – Contingent consideration	–	–	**15 913**
February 2020			
Financial liabilities at fair value through profit and loss – Contingent consideration	–	–	45 121

The contingent consideration relates to 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 the performance targets in the remaining year and that the selling non-controlling shareholders will therefore be entitled to the contingent consideration. The present value of estimated contingent consideration is recognised as a liability which will be unwound over the remaining year (2020: two 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 7.9% (2020: 10.1%) used to determine the present value of the future cash flows.

	AS AT 28 FEBRUARY 2021 R'000	AS AT 29 FEBRUARY 2020 R'000
Reconciliation of recurring Level 3 fair value movements:		
Opening balance	**45 121**	64 345
Payments	**(31 590)**	(29 672)
Interest	**2 838**	7 075
Unrealised fair value adjustment [1]	**(309)**	1 481
Realised fair value adjustment [1]	**(147)**	1 892
Closing balance	**15 913**	45 121

[1] *Amount reflected in other expenses (2020: other income) in Statement of Comprehensive Income*

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 2021 and 2020.

The fair value of all other financial instruments approximates their carrying amounts.

ADDITIONAL INFORMATION

		28 FEBRUARY 2021	29 FEBRUARY 2020
Ordinary shares in issue (000's):		860 084 483	860 084 483
Closing share price	(R/share)	22.40	21.62
Twelve-month share price (high)	(R/share)	26.50	29.17
Twelve-month share price (low)	(R/share)	16.55	19.85
Net asset value per share (WANOS)	(cents/share)	343.31	269.17
Net asset value per share (actual shares at year-end)	(cents/share)	343.18	269.07

NOTES TO THE PROVISIONAL REVIEWED ANNUAL CONDENSED CONSOLIDATED RESULTS

1. These condensed consolidated financial results for the twelve months ended 28 February 2021 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 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 28 FEBRUARY 2021 %	AS AT 29 FEBRUARY 2020 %
Dispensary	37	36
Personal care and beauty	28	28
Healthcare and nutrition	20	20
Baby care	6	6
Other	9	10
	100	100

3. Dis-Chem enters into certain transactions with related parties (lessor) including the rental of certain stores and warehouses.

   The lease liability relating to these leases amounted to R1 billion at 28 February 2021 (2020: R1 billion).

   Loans receivable from Mathimba Proprietary Limited at 28 February 2021 amounted to R24 million (2020: R24 million). Loans receivable from Dis-Chem Bothamed, Dis-Chem Namibia, Dis-Chem Swakopmund, Dis-Chem Dunes, Geniob and Origin Brands (all Proprietary Limited's) at 28 February 2021 amounted to R104 million (2020: R117 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 29 February 2020.

4. There were no material impairments of assets in the current and prior comparable periods.

   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 impairments of the Group's assets arose 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.

NOTES TO THE PROVISIONAL REVIEWED ANNUAL CONDENSED CONSOLIDATED RESULTS CONTINUED

5. No shares were issued during the current and prior comparable periods.

   During the year, 276 269 treasury shares, acquired in the previous financial year, were issued as part of the share based payment scheme. The share based payment reserve (other reserves in the Statement of Changes in Equity) was reduced by R8.2 million and treasury shares reduced by R6.7 million (other reserves in the Statement of Changes in Equity), representing the value at which they were purchased in the past. The difference of R1.5 million was recognised in retained income.

6. During the current year, the group acquired the following companies in order to further increase store foot print and baby care market share:

   - The acquisition of 100% of Baby City (trading as Somerset and Fairy Tales Proprietary Limited), 33 premiere specialist stores for baby goods, for R422 million on 1 January 2021.
   - The acquisition of 100% of TLC Kungwini, a pharmacy in Bronkhorstspruit, for R4.6 million on 1 March 2020.
   - The acquisition of 100% of TLC Scot Street, a pharmacy in Scottburgh, for R8 million on 1 November 2020.

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

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

	BABY CITY R'000	TLC KUNGWINI R'000	TLC SCOT STREET R'000	TOTAL R'000
Assets				
Property, plant and equipment	10 902	70	133	11 105
Right of use asset	277 807	–	–	277 807
Brand value	123 844	–	–	123 844
Trade and other receivables [(1)]	2 025	11	–	2 036
Inventories	164 130	802	1 768	166 700
Bank	40 673	12	–	40 685
Tax receivable	82	–	–	82
Liabilities				
Lease liability	(277 807)	–	–	(277 807)
Loans	(10 632)	–	–	(10 632)
Trade and other payables	(128 221)	–	–	(128 221)
Employee benefits	(11 792)	–	–	(11 792)
Deferred revenue	(8 471)	–	–	(8 471)
Deferred tax	(20 558)	–	–	(20 558)
Total identifiable net assets at fair value	161 982	895	1 901	164 778
Non-controlling interest at proportionate interest	–	–	–	–
Goodwill arising on acquisition	260 443	3 719	6 067	270 229
Purchase consideration transferred [(2)]	422 425	4 614	7 968	435 007

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

(2) *The purchase price has been settled fully in cash.*

The goodwill comprises the value of expected synergies arising from the acquisition which is not separately recognised. These synergies include expansion of product and clinic offerings, trade term agreements and overall availability of resources.

From the date of acquisition, R162 million in revenue and R20 million profit before tax was contributed to the Group from the above acquisitions. If the acquisitions had taken place at the beginning of the year, R883 million in revenue and R14 million loss before tax would have been contributed to the Group from the above acquisitions. Immaterial acquisition related costs were expensed in the period.

During the current year, the Group acquired an additional 23.5% interest in Dis-Chem Glen Fair and sold 30% interest in Dis-Chem Mega Mall and 15% in Dis-Chem Wernhill.

NOTES TO THE PROVISIONAL REVIEWED ANNUAL CONDENSED CONSOLIDATED RESULTS CONTINUED

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

	28 FEBRUARY 2021		29 FEBRUARY 2020	
	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
Net additions (including acquisitions)	975 266	975 266	349 101	349 101
Modifications in lease terms and disposals	(8 343)	(4 598)	(54 848)	(53 847)
Depreciation	(426 237)	–	(361 696)	–
Finance costs	–	251 402	–	242 371
Payments	–	(644 843)	–	(566 697)
Foreign currency	2 578	2 748	2 388	2 233
Closing balance	2 728 115	3 305 657	2 184 851	2 725 682

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) amount to R2 million and R31 million relating to short-term leases. There was no expense in the current or prior period relating to low-value assets.

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. Events after the balance sheet date

Healthforce

Healthforce offers clinic management software that, amongst other system capabilities, sets up clinic nurses as the low-cost entry point into the healthcare system. The technology includes telemedicine capability, which provides real-time video connections between patients and nurses and an on-demand remote doctor network. The solution focuses on enabling multi-disciplinary team-based care.

In the face of a changing primary healthcare landscape, Healthforce presents the Group with an investment in a strategic asset through which it can advance its ambitions to be at the forefront of innovation in the delivery of care.

On 1 March 2021, the Group entered into a written share purchase agreement with Pure Pharmacy Holdings and its existing shareholders, in terms of which it acquired 87.5% of the issued share capital and 100% of the shareholder claims of Healthforce (Proprietary) Limited for R48 million.

The provisional fair values of the identifiable assets and liabilities of the company as at the date of acquisition of the subsidiary has not been disclosed due to the initial accounting and finalisation not yet being complete.

Medicare

Medicare is a healthcare and pharmacy group, offering a one-stop solution for everyday pharmacy and primary healthcare needs, all under one roof, in 50 pharmacies across four provinces. The group provides affordable healthcare and convenience, adding value by saving both time and money on everyday healthcare products, medication and clinic services.

The Group entered into a binding agreement with Pure Pharmacy Holdings and its existing shareholders, in terms of which it will acquire 100% of the issued share capital and shareholder claims of Pure Pharmacy Holdings (Proprietary) Limited, trading as Medicare Health ("Medicare"). Dis-Chem will pay a purchase consideration of R282 million upon closure. The Transaction includes a net working capital guarantee to ensure that the working capital metrics align with that of Dis-Chem. The Transaction remains subject to suspensive conditions, including approval from the competition authorities and is not a categorised transaction in terms of the JSE Listings Requirements.

8. Events after the balance sheet date continued

Kaelo

Over the last 15 years, Kaelo Holdings ("Kaelo") has consistently grown its offering, which today features a complementary portfolio of health assets. In addition to providing benefit-rich gap and primary healthcare insurance products, Kaelo is a leading managed care organisation, operator of occupational health clinics and owner of the AskNelson psychological wellbeing platform.

The Group has entered into agreements with the founding shareholders and management of the Kaelo Group of Companies, in which it will acquire 25% of the issued share capital and shareholder claims of Kaelo. The Transaction remains subject to approval by the competition authorities and the fulfillment of commercial suspensive conditions.

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

Capital expenditure- to maintain operations	Capital expenditure incurred to maintain or replace assets e.g. the refurbishment of an existing store.
Capital expenditure- to maintain 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.
Dividend per share (DPS)	Dividend per share is the payment to investors for each share of stock owned. It is calculated as headline earnings per share (HEPS) 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 headline earnings attributable to holders of the Group.
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 Rand 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 Rand's of profit a company generates with each Rand 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)	(Resigned 9 September 2020)
A Sithebe	(South African)	(Appointed 12 January 2021)

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

NJ Lumley	(Appointed 1 March 2021)
WT Green	(Resigned 28 February 2021)

Registered auditors

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JSE code

DCP

ISIN

ZAE000227831

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2196
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Transfer secretaries

Computershare Investor Services Proprietary Limited
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