

Dis-Chem
PHARMACIES

Dis-Chem

PHARMACIES
2022

**Interim
Condensed
Consolidated
Financial
Results**

for the six months ended
31 August 2021

Dis-Chem Pharmacies Limited
Registration number 2005/0097/66/06

COMMENTARY

Overview

Despite a tough economic environment with the COVID-19 pandemic and the deepening economic recession, the Group has achieved positive results, continued to take market share in all categories and delivered strong cash generation.

Earnings attributable to shareholders and headline earnings increased by 34.6% and 35.3% respectively over the previous corresponding period. Earnings per share (EPS) and headline earnings per share (HEPS) are 48.4 cents per share and 48.7 cents per share respectively, an increase of 34.4% and 35.3% respectively.

Dis-Chem was affected by the civil unrest and looting that occurred in KwaZulu-Natal and Gauteng in July. Our committed management and staff worked tirelessly, ensuring that three stores returned to regular trading within a month, while the final Dis-Chem store reopened on the 7th of October. The Group is adequately insured to cover the losses incurred.

Dis-Chem continues to support the national response to the COVID-19 pandemic by operating a national vaccination site network, comprising mass and in-store clinic sites. During the period under review, Dis-Chem administered 405,000 vaccine doses, with that number increasing to 860,000 by the end of October.

Review of financial performance

Revenue

During the six-month period from 1 March 2021 to 31 August 2021, Dis-Chem recorded Group revenue growth of 16.6% to R14.9 billion.

Retail revenue grew by 16.0% to R13.2 billion with comparable store revenue at 6.8%. During the twelve months to 31 August 2021, eighteen Dis-Chem and three Baby City stores were opened resulting in 199 Dis-Chem and 35 Baby City stores at August 2021. These stores together with the Baby City stores acquired on 1 January 2021 contributed R822 million to revenue. The Group opened its landmark 200th Dis-Chem store in October.

Baby City has now been fully integrated into the Group. Management continues to focus on unlocking identified synergies and, to this end, the majority of the Baby City stores now have operational clinics.

Wholesale revenue grew by 17.3% to R10.9 billion. Wholesale revenue to our own retail stores, still the biggest contributor, grew by 16.5%, while external revenue to independent pharmacies and The Local Choice ("TLC") franchises grew by 13.6% and 31.2% respectively over the corresponding period. Independent pharmacy growth is negatively influenced by once-off business-to-business sales included in the prior period that inflated the comparable base by R59 million. When excluding this amount, independent pharmacy sales grew by 21.4%. TLC growth is due to a combination of an increase in TLC franchise stores from 110 to 134 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.

Total income

Total income grew by 18.1% to R4.2 billion, with the Group's total income margin being 28.2% compared to 27.9% in the prior comparative period.

Retail total income grew by 17.9% with the retail margin increasing from 27.3% to 27.7% over the comparable period. The Group continued to experience changes in its sales and transaction gross margin mix due to altered consumer behaviour during the varying levels of lockdown. The sales of lower margin COVID related products, which are decreasing in price, increased disproportionately, during and subsequent to the second and third waves of infections. This has resulted in transactional gross margin lagging sales growth over the corresponding period.

Wholesale total income grew by 11.0% with the wholesale margin now at 7.5%.

Other expenses

The protocols set up to deal with COVID-19, to ensure the wellbeing of our staff and customers, continued to result in additional costs. The majority of these costs were for personal protective equipment and screening, as well as staff COVID-19 testing and store sanitising protocols.

Expenses (excluding depreciation) grew by 15.8% over the corresponding period, lower than the growth in revenue of 16.6%, and corroborates our commitment to cost management.

Retail expenses (excluding depreciation) grew by 15.8% as the Group invested in 21 new stores since the corresponding period and wholesale expenses (excluding depreciation) grew by 10.8% compared to the prior corresponding period.

COMMENTARY CONTINUED

Net finance costs

Net financing costs decreased by 1.3% from the prior comparable period. Excluding finance costs from IFRS 16, net financing costs decreased by 27.6% due to the reduction in the prime interest rate as well as lower average levels of working capital during the period 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 decreased by R141 million from February 2021 due to the reduction in the holding of additional COVID-19 specific inventory.

Net working capital, at 25.7 days has continued to improve from 29.6 days at 28 February 2021 as the Group continues to focus on ROIC.

Capital expenditure

Capital expenditure on tangible and intangible assets of R144 million comprised of R84 million for 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 R60 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.

Dividend declaration

Notice is hereby given that a gross interim cash dividend of 19.48540 cents per share, in respect of the interim period ended 31 August 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 15.58832 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, 23 November 2021
- First trading day *ex* dividend on the JSE: Wednesday, 24 November 2021
- Record date: Friday, 26 November 2021
- Payment date: Monday, 29 November 2021

Share certificates may not be dematerialised or rematerialised between Wednesday, 24 November 2021 and Friday, 26 November 2021, 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

Healthforce

On 1 March 2021, the Group acquired 87.5% of Healthforce (Proprietary) Limited 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 a telemedicine capability, which provides real time video connections between patients and nurses with 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 a strategic asset through which it can advance its ambitions to be at the forefront of innovation in the delivery of care.

COMMENTARY CONTINUED

Strategic acquisitions subsequent to the reporting period

Medicare

On 1 October 2021, the Group acquired 100% of the issued share capital in and shareholder claims of Pure Pharmacy Holdings (Proprietary) Limited, trading as Medicare Health ("Medicare") for R247 million.

Medicare is a healthcare and pharmacy group, operating 50 pharmacies across 4 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.

Kaelo

Effective 1 November 2021, the Group acquired 25% of the issued share capital and shareholder claims of Kaelo Holdings ("Kaelo") for a purchase consideration of up to R195 million, subject to company performance hurdles in the FY22 period. Upon closure, an initial amount of R160 million will be payable. This acquisition positions Dis-Chem to augment the provision of care in a rapidly evolving primary care landscape. 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 period 1 September to 31 October 2021, Group revenue grew by 19.2% over the prior comparable period.

The Group expects that 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 brand position, the Group is continuing to adapt to the current environment, with a focus on mitigating the near-term impact whilst positioning itself for success in the future.

Approval

The interim condensed consolidated results of the Group were authorised for issue in accordance with a resolution of the directors on 2 November 2021.

On behalf of the Board

Ivan Saltzman
Chief Executive Officer

Rui Morais
Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months to 31 August 2021 (Unaudited) R'000	Six months to 31 August 2020 (Unaudited) R'000	change %	Year to 28 February 2021 (Audited) R'000
Revenue from contracts with customers	14 936 313	12 807 349	16.6%	26 278 196
Cost of sales	(11 676 326)	(9 962 483)	17.2%	(20 441 719)
Gross profit	3 259 987	2 844 866	14.6%	5 836 477
Other income	956 792	724 752	32.0%	1 589 453
Total income	4 216 779	3 569 618	18.1%	7 425 930
Other expenses	(3 458 443)	(2 962 150)	16.8%	(6 160 258)
Operating profit	758 336	607 468	24.8%	1 265 672
Net financing costs	(164 389)	(166 547)	(1.3%)	(327 727)
- Finance income	5 047	9 750	(48.2%)	16 853
- Finance costs	(169 436)	(176 297)	(3.9%)	(344 580)
Profit from associates and joint ventures	1 236	1 900	(34.9%)	2 997
Profit before taxation	595 183	442 821	34.4%	940 942
Taxation	(159 772)	(121 333)	31.7%	(253 291)
Total profit for the year, net of taxation	435 411	321 488	35.4%	687 651
Other comprehensive income				
Items that may be subsequently reclassified to profit or loss				
- Exchange differences on translating foreign subsidiaries	318	(23)		(322)
Other comprehensive income for the year, net of taxation	318	(23)		(322)
Total comprehensive income for the year	435 729	321 465	35.5%	687 329
Profit attributable to:				
- Equity holders of the parent	416 443	309 378		668 687
- Non-controlling interests	18 968	12 110		18 964
Total comprehensive income attributable to:				
- Equity holders of the parent	416 761	309 355		668 365
- Non-controlling interests	18 968	12 110		18 964
Earnings per share (cents)				
- Basic	48.4	36.0		77.8
- Diluted	48.4	36.0		77.8

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 August 2021 (Unaudited) R'000	As at 31 August 2020 (Unaudited) R'000	As at 28 February 2021 (Audited) R'000
ASSETS			
Non-current assets	4 744 318	3 901 483	4 767 580
Property, plant and equipment (including right-of-use asset)	3 634 318	3 166 647	3 715 961
Intangible assets	958 928	525 097	897 888
Investment in associates and joint ventures	14 416	15 602	13 180
Deferred taxation	136 656	194 137	140 551
Current assets	8 534 362	7 348 605	8 420 008
Inventories	5 550 716	4 840 424	5 691 382
Trade and other receivables	1 895 391	1 841 227	1 905 031
Loans receivable	217 860	239 379	274 916
Taxation receivable	-	6 129	8 947
Cash and cash equivalents	870 395	421 446	539 732
Total assets	13 278 680	11 250 088	13 187 588
EQUITY AND LIABILITIES			
Equity and reserves	3 056 325	2 566 951	2 908 646
Share capital	6 155 554	6 155 554	6 155 554
Retained earnings	1 506 176	1 029 152	1 368 478
Other reserves	(4 605 405)	(4 617 755)	(4 615 386)
Non-controlling interest	63 253	53 420	43 018
Total equity	3 119 578	2 620 371	2 951 664
Non-current liabilities	3 312 297	3 075 932	3 446 642
Lease liability	2 749 476	2 429 387	2 823 052
Loans payable	538 994	616 950	607 210
Deferred taxation	23 827	29 595	16 380
Current liabilities	6 846 805	5 553 785	6 789 282
Trade and other payables	5 559 907	4 326 229	5 389 310
Lease liability	473 249	352 743	482 605
Loans payable	269 192	147 626	159 010
Employee-related obligations	245 891	228 487	224 310
Deferred revenue (contract liability)	83 541	73 770	93 176
Contingent consideration	-	16 105	15 913
Taxation payable	14 029	25 533	21 042
Bank overdraft	200 996	383 292	403 916
Total equity and liabilities	13 278 680	11 250 088	13 187 588

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 29 February 2020 (audited)	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 (unaudited)	6 155 554	1 029 152	(4 617 755)	53 420	2 620 371
Total comprehensive income for the year	-	359 309	(299)	6 854	365 864
Profit for the year, net of taxation	-	359 309	-	6 854	366 163
Other comprehensive income for the year, net of taxation	-	-	(299)	-	(299)
Change in ownership interest in subsidiary and acquisitions	-	(19 983)	-	3 223	(16 760)
Share-based payment expense	-	-	2 668	-	2 668
Dividends paid	-	-	-	(20 479)	(20 479)
Balance at 28 February 2021 (audited)	6 155 554	1 368 478	(4 615 386)	43 018	2 951 664
Total comprehensive income for the year	-	416 443	318	18 968	435 729
Profit for the year, net of taxation	-	416 443	-	18 968	435 411
Other comprehensive income for the year, net of taxation	-	-	318	-	318
Change in ownership interest in subsidiary and acquisitions	-	(9 871)	-	4 299	(5 572)
Share-based payment expense	-	-	9 888	-	9 888
Exercise of share-based payment	-	(637)	(225)	-	(862)
Dividends paid	-	(268 237)	-	(3 032)	(271 269)
Balance at 31 August 2021 (unaudited)	6 155 554	1 506 176	(4 605 405)	63 253	3 119 578

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months to 31 August 2021 (Unaudited) R'000	Six months to 31 August 2020 (Unaudited) R'000	Year to 28 February 2021 (Audited) R'000
Cash flow from operating activities	959 223	241 413	1 124 070
Cash inflow from trading operations	1 181 936	1 015 830	2 058 895
Movement in working capital	361 354	(482 151)	(335 180)
Finance income received	5 047	9 750	10 582
Finance costs paid	(162 325)	(166 921)	(335 280)
Taxation paid	(155 520)	(116 070)	(235 443)
Dividends paid	(271 269)	(19 025)	(39 504)
Cash flow from investing activities	(210 623)	(224 627)	(779 747)
Additions to property, plant and equipment and intangible assets			
- To maintain operations	(60 273)	(45 293)	(90 213)
- To expand operations	(84 162)	(183 227)	(310 974)
Proceeds on disposal of property, plant and equipment and intangible assets	332	4 602	12 242
Acquisition in business combination and subsidiaries, net of cash acquired	(66 520)	(709)	(394 322)
Investment in joint ventures	-	-	3 520
Cash flow from financing activities	(224 384)	(277 709)	(498 126)
Loans repaid	(148 727)	(62 500)	(159 187)
Receipt of loans	193 039	-	102 852
Lease liability repayment	(241 390)	(183 619)	(393 441)
Contingent consideration repayment	(16 455)	(31 590)	(31 590)
Change in ownership interest in subsidiary	(10 851)	-	(16 760)
Increase/ (decrease) in cash and cash equivalents	524 216	(260 923)	(153 803)
Foreign currency implications of cash and cash equivalents	9 367	(1 200)	(10 658)
Cash and cash equivalents at beginning of period	135 816	300 277	300 277
Cash and cash equivalents at end of period	669 399	38 154	135 816

EARNINGS PER SHARE

	Six months to 31 August 2021 (Unaudited) R'000	Six months to 31 August 2020 (Unaudited) R'000	Year to 28 February 2021 (Audited) R'000
Reconciliation of profit for the year to headline earnings			
Profit attributable to equity holders of the parent	416 443	309 378	668 687
Net loss on disposal of property, plant and equipment and intangible assets	447	300	143
Impairment of property, plant and equipment and intangible assets	6 469	-	-
Compensation from third parties for items of property, plant and equipment and intangible assets	(4 382)	-	-
Taxation	-	(84)	(40)
Headline earnings	418 977	309 594	668 790
Earnings per share (cents)			
- Basic	48.4	36.0	77.8
- Diluted	48.4	36.0	77.8
Headline earnings per share (cents)			
- Basic	48.7	36.0	77.8
- Diluted	48.7	36.0	77.8

	Six months to 31 August 2021	Six months to 31 August 2020	Year to 28 February 2021
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
Total number of treasury shares in issue at the beginning of the period	(255 587)	(531 856)	(531 856)
Total number of shares outstanding at the beginning of the period	859 828 896	859 552 627	859 552 627
Treasury shares exercised and issued under the share scheme	44 450	139 636	207 391
Total weighted number of shares in issue at the end of the period	859 873 346	859 692 263	859 760 018
Share options	320 445	-	-
Total diluted weighted number of shares in issue at the end of the period	860 193 791	859 692 263	859 760 018

SEGMENTAL INFORMATION

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

Six months to 31 August 2021 (unaudited)	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
External customers	13 201 230	1 735 083	-	14 936 313
Inter-segment	-	9 184 325	(9 184 325)	-
Total revenue from contracts with customers	13 201 230	10 919 408	(9 184 325)	14 936 313
Cost of sales	(10 439 846)	(10 176 870)	8 940 390	(11 676 326)
Gross profit	2 761 384	742 538	(243 935)	3 259 987
Other income	898 092	73 540	(14 840)	956 792
Total income	3 659 476	816 078	(258 775)	4 216 779
Other expenses (excluding depreciation and amortisation)	(2 607 814)	(705 817)	260 365	(3 053 266)
Depreciation and amortisation	(351 961)	(53 216)	-	(405 177)
Operating profit	699 701	57 045	1 590	758 336
Net finance costs	(154 081)	(10 308)	-	(164 389)
Share of profit from associates and joint ventures	1 236	-	-	1 236
Profit/(loss) before taxation	546 856	46 737	1 590	595 183
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 052 898	110 261	1 590	1 164 749
Capital expenditure	(125 060)	(19 375)	-	(144 435)
Total assets	9 801 269	7 091 712	(3 614 301)	13 278 680
Total liabilities	6 557 522	5 472 199	(1 870 619)	10 159 102
Total income margin	27.7%	7.5%		28.2%
EBITDA margin	8.0%	1.0%		7.8%
Operating margin	5.3%	0.5%		5.1%

SEGMENTAL INFORMATION CONTINUED

Six months to 31 August 2020 (unaudited)	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 revenue from contracts with customers	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 taxation	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

Twelve months to 28 February 2021 (audited)	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 revenue from contracts with customers	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/(loss) before taxation	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	(3 113 882)	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%

FAIR VALUE HIERARCHY

The information below analyses financial assets and liabilities that are carried at fair value:

	Level 1 R'000	Level 2 R'000	Level 3 R'000
August 2021			
Financial liabilities at fair value through profit and loss			
- Contingent consideration	-	-	-
August 2020			
Financial liabilities at fair value through profit and loss			
- Contingent consideration	-	-	16 105
February 2021			
Financial liabilities at fair value through profit and loss			
- Contingent consideration	-	-	15 913

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.

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 7.1% (2020: 8.1%) used to determine the present value of the future cash flows.

	As at 31 August 2021 R'000	As at 31 August 2020 R'000	As at 28 February 2021 R'000
Reconciliation of recurring Level 3 fair value movements:			
Opening balance	15 913	45 121	45 121
Payments	(16 455)	(31 590)	(31 590)
Interest	630	2 264	2 838
Fair value adjustment (1)	(88)	310	(456)
Closing balance	-	16 105	15 913

(1) Amount reflected in other expenses or 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.

There were no transfers of financial instruments between Level 1, Level 2 and Level 3 fair value measurements during the periods ended August 2021, August 2020 and February 2021.

ADDITIONAL INFORMATION

		31 August 2021	31 August 2020	28 February 2021
Ordinary shares in issue		860 084 483	860 084 483	860 084 483
Closing share price	(R/share)	31.18	18.26	22.40
Six-month/(twelve-month) share price (high)	(R/share)	32.50	26.50	26.50
Six-month/(twelve-month) share price (low)	(R/share)	21.81	16.55	16.55
Net asset value per share (WANOS)	(cents/share)	362.66	304.80	343.31
Net asset value per share (actual shares)	(cents/share)	362.71	304.66	343.18

NOTES TO THE INTERIM CONDENSED CONSOLIDATED RESULTS

1. These interim condensed consolidated financial results for the six months ended 31 August 2021 have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting and measured in accordance with International Financial Reporting Standards (IFRS), 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 28 February 2021.

The accounting policies and methods of computation used in the preparation of the interim condensed consolidated financial results are consistent in all material respects with those applied in the Group's annual financial statements as at 28 February 2021.

None of the new standards, interpretations and amendments effective as of 1 March 2021 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 2021 %	As at 31 August 2020 %	As at 28 February 2021 %
Dispensary	36	36	37
Personal care and beauty	26	27	28
Healthcare and nutrition	24	23	20
Baby care	8	5	6
Other	6	9	9
	100	100	100

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

The finance lease obligation relating to these leases amounted to R0.9 billion at 31 August 2021 (2020: R1 billion).

Amounts owing from Mathimba Proprietary Limited at 31 August 2021 amounted to R24 million (2020: R24 million).

Amounts owing from Dis-Chem Bothamed, Dis-Chem Namibia, Wernhill Pharmacy, Walvis Bay Pharmacy, Servco, Geniob and Origin Brands (all Proprietary Limited's) at 31 August 2021 amounted to R60 million (2020: R108 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 28 February 2021.

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

During the period, 255 587 treasury shares were issued as part of the share based payment scheme. The share based payment reserve (included in other reserves in the Statement of Changes in Equity) was reduced by R5.8 million and treasury shares reduced by R6.4 million (included in other reserves in the Statement of Changes in Equity), representing the value at which they were purchased in the past. The difference of R0.6 million was recognised in retained income.

5. The civil unrest and looting in July resulted in an impairment of inventory of R28 million and property, plant and equipment of R6.5 million (2020: Rnil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED RESULTS CONTINUED

6. During the interim period, the Group acquired the following businesses in order to further increase store footprint and invest in a strategic asset through which it can advance its ambitions to be at the forefront of innovation in the delivery of care:

- The acquisition of assets and liabilities of Ferngate, an independent pharmacy, on 1 July 2021.
- The acquisition of assets and liabilities of Northlands, an independent pharmacy, on 1 May 2021.
- The acquisition of 87.5% of Healthforce, which offers clinic management software that, amongst other system capabilities, sets up clinic nurses as the low-cost entry point into the healthcare system, on 1 March 2021.

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

	Ferngate R'000	Northlands R'000	Healthforce R'000	Total R'000
Assets				
Property, plant and equipment	29	-	709	738
Other intangibles	5 084	-	52 618	57 702
Trade and other receivables	63	651	1 693	2 407
Inventories	3 010	505	-	3 515
Bank	6 290	-	1 035	7 325
Loan receivable	-	-	1 201	1 201
Liabilities				
Trade and other payables	(5 776)	-	(2 277)	(8 053)
Employee benefits	(57)	-	(968)	(1 025)
Deferred tax	(1 424)	-	(7 601)	(9 025)
Loan payable	-	-	(4 171)	(4 171)
Total identifiable net assets at fair value	7 219	1 156	42 239	50 614
Non-controlling interest at proportionate interest	-	-	(5 280)	(5 280)
Goodwill arising on acquisition	16 695	856	10 960	28 511
Purchase consideration transferred	23 914	2 012	47 919	73 845

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

From the date of acquisition, R31 million in revenue and R12 million loss before tax was contributed to the Group from the above three acquisitions.

During the current period, the Group bought back 29.33% of Dis-Chem Rynfield. During the prior period, the Group sold 30% of Dis-Chem Mega Mall.

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

	August 2021		August 2020		February 2021	
	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	2 728 115	3 305 657	2 184 851	2 725 682	2 184 851	2 725 682
Additions (including acquisitions)	168 827	168 827	237 384	237 384	975 266	975 266
Modifications in lease terms and disposals	(7 364)	(8 975)	1 185	2 335	(8 343)	(4 598)
Depreciation	(246 263)	-	(183 985)	-	(426 237)	-
Foreign currency	(1 082)	(1 394)	213	348	2 578	2 748
Finance costs	-	130 960	-	120 095	-	251 402
Payments	-	(372 350)	-	(303 714)	-	(644 843)
Closing balance	2 642 233	3 222 725	2 239 648	2 782 130	2 728 115	3 305 657

NOTES TO THE INTERIM CONDENSED CONSOLIDATED RESULTS CONTINUED

8. Events after the reporting date

On 1 October 2021, Dis-Chem acquired 100% of the issued share capital in and shareholder claims of Pure Pharmacy Holdings (Proprietary) Limited, trading as Medicare Health ("Medicare") for R247 million. Medicare is a healthcare and pharmacy group, operating 50 pharmacies across 4 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.

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

Effective 1 November 2021, the Group acquired 25% of the issued share capital and shareholder claims of Kaelo Holdings ("Kaelo") for a purchase consideration of up to R195 million, subject to company performance hurdles in the FY22 period. Upon closure, an initial amount of R160 million will be payable. This acquisition positions Dis-Chem to augment the provision of care in a rapidly evolving primary care landscape. Dis-Chem and Kaelo are both committed to playing leading roles in the ubiquitous access to affordable and quality private primary healthcare.

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

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

DEFINITIONS

Capital expenditure to 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	$\frac{\text{Average trade and other payables}}{\text{Cost of goods sold} \times 365}$
Debtors days	A ratio that measures how quickly cash is being collected from debtors.
Calculation	$\frac{\text{Average trade and other receivables}}{\text{Revenue} \times 365}$
Dividend payout ratio	The amount of dividends paid to shareholders relative to the amount of total net income of the Group.
Calculation	$\frac{\text{Dividends paid}}{\text{Net income}}$
Dividend per share ("DPS")	The sum of declared dividends issued by a company for every ordinary share outstanding.
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	$\frac{\text{Earnings attributable to equity holders of the Group}}{\text{WANOS}}$
Effective tax rate	The average tax rate paid by the Group.
Calculation	$\frac{\text{Taxation paid (as per statement of comprehensive income)}}{\text{Profit before tax}}$
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	$\frac{(\text{Revenue} - \text{COGS})}{\text{Revenue}}$
Headline earnings	A measurement of the Group's earnings based solely on operational and capital investment activities as determined by the SAICA Circular 1/2021.
Headline earnings per share ("HEPS")	The per-share value of the headline earnings attributable to holders of the Group.
Calculation	$\frac{\text{Headline earnings}}{\text{WANOS}}$

DEFINITIONS CONTINUED

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	$\frac{\text{Average inventory}}{\text{Cost of goods sold} \times 365}$
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	$\frac{\text{Total assets} - \text{total liabilities}}{\text{Actual number of shares outstanding}}$
Net asset value per share – WANOS	
Calculation	$\frac{\text{Total assets} - \text{total liabilities}}{\text{WANOS}}$
Net working capital days	The average number of days it takes the Group to convert working capital into revenue.
Calculation	$\text{Debtor days} + \text{Inventory days} - \text{Creditor days}$
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	$\frac{\text{Operating profit}}{\text{Revenue}}$
Return on capital employed ("ROCE")	Determines a company's profitability after taking into account the amount of capital used.
Calculation	$\frac{\text{EBIT}}{\text{Capital employed}}$
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	$\frac{\text{Net income attributable to equity holders}}{\text{Average shareholders' equity}}$
Return on invested capital ("ROIC")	The percentage return made over invested capital
Calculation	$\frac{\text{Net income} - \text{dividend}}{\text{Debt} + \text{Equity}}$
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)	
M 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 L F Saltzman)

Company registration number

2005/009766/06

Registered office

23 Stag Road
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1685

Company secretary

NJ Lumley

Registered auditors

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DCP

ISIN

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Rosebank
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Johannesburg

Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers
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