

CLICKS GROUP LIMITED
Registration number: 1996/000645/06
Share code: CLS
ISIN: ZAE000134854
CUSIP: 18682W205

INTERIM CONDENSED CONSOLIDATED RESULTS
For the six months ended 28 February 2019

Group turnover up 6.2%
Health and beauty sales up 8.5%
Diluted HEPS up 13.2%
Interim dividend up 15.1%

COMMENTARY

OVERVIEW

Clicks Group delivered another strong health and beauty sales performance in the six months to February 2019 in an environment of low inflation, subdued economic growth and constrained consumer spending.

Retail health and beauty sales grew by 8.5%, with good volume growth and market share gains across most product categories.

UPD, the group's pharmaceutical distributor, reported a stellar performance by increasing operating profit by 27.2% and continuing to gain market share.

The group's performance for the half-year resulted in diluted headline earnings per share (HEPS) increasing by 13.2% to 300.1 cents per share. The interim dividend was increased by 15.1% to 118.0 cents per share.

FINANCIAL PERFORMANCE

Group turnover increased by 6.2% to R15.3 billion. Retail sales grew by 7.7% and by 4.5% in comparable stores, with selling price inflation of only 1.0%. Distribution turnover increased by 5.1% with price deflation of 0.2% for the six months.

Total income grew by 8.9% to R4.3 billion, with the group's total income margin improving by 60 basis points to 27.7%. The retail margin expanded owing to more customers switching to Clicks private label products and the positive mix impact from the stronger growth of front shop relative to pharmacy. UPD's margin benefited mainly from gaining new bulk distribution contracts.

Retail expenses increased by 7.8% as the group invested in 33 new Clicks stores, 35 pharmacies and space extensions in 25 stores over the past 12 months. Comparable retail costs were contained to growth of 5.4%. UPD costs were impacted by the new bulk distribution contracts and grew by 12.4%.

Group operating profit grew by 11.3% to R1 billion, with the operating margin expanding by 30 basis points to 6.8%. The retail and distribution businesses both improved operating margins despite low selling price inflation and challenging trading conditions.

Inventory was tightly managed to an increase of 6.4%. Retail stock days improved from 81 to 79 days. UPD increased from 43 to 46 days owing to the additional stock bought in during February before the higher increase in the single exit price (SEP) of medicines. Overall working capital continues to be efficiently managed and the group's net working capital improved from 41 to 37 days.

Cash generated by operations before working capital changes rose by 13.7% to R1.3 billion for the six months. Capital expenditure of R264 million was invested mainly in new stores and pharmacies, store refurbishments, supply chain and information technology.

The group returned R686 million to shareholders in dividends and share buy-backs.

TRADING PERFORMANCE

Retail health and beauty sales, which includes Clicks and the franchise brands of The Body Shop, GNC and Claire's, increased by 8.5%, driven by competitive pricing and appealing promotions. Sales in comparable stores increased by 5.2% and showed strong volume growth of 4.5%, with inflation of only 0.7% for the six months.

Clicks opened 17 stores in the past six months and expanded its store footprint to 680, including 496 convenience stores. A total of 18 new pharmacies were opened to extend the pharmacy network to 528. Clicks increased its share of the retail pharmacy market from 23.0% to 23.8% at the end of February 2019.

UPD's total managed turnover, combining wholesale and bulk distribution, increased by 21.9% to R10.2 billion. The business increased its bulk distribution portfolio to 24 clients by gaining four new distribution contracts over the past 12 months. UPD increased wholesale turnover by 5.2%, with market share growing from 25.4% to 26.0%.

OUTLOOK

Macroeconomic conditions are not anticipated to improve in the short to medium term and management expects the trading environment to remain challenging in the second half of the financial year. Electricity load shedding continues to have a negative impact on consumer confidence and trading.

However, the group's core health and beauty markets as well as the business model are resilient and the group's market-leading brands are well positioned to increase market share.

In this difficult environment Clicks plans to capitalise on opportunities to accelerate its store expansion programme by opening 41 new stores in the financial year, well ahead of the targeted 25 to 30 stores.

UPD has gained two new bulk distribution contracts which commence late in the second half and will also benefit from the slightly higher SEP increase granted for 2019.

Capital investment of R437 million is planned for the second half of the year, split across the store and pharmacy network, and group infrastructure to support the increased scale of the business.

FULL-YEAR EARNINGS FORECAST

The directors forecast that diluted HEPS for the financial year ending 31 August 2019 will increase by between 10% and 15% over the 2018 financial year.

The forecast is based on the following key assumptions:

- the trading environment will remain constrained in the second half of the financial year and could be further impacted by electricity load shedding; and
- retail selling price inflation is anticipated to average low single-digit levels for the financial year.

Shareholders are advised that this forecast has not been reviewed or reported on by the group's independent auditor.

INTERIM DIVIDEND

The board of directors has approved an interim gross ordinary dividend for the period ended 28 February 2019 of 118.0 cents per share (2018: 102.5 cents per share). The source of the dividend will be from distributable reserves and it will be paid in cash.

ADDITIONAL INFORMATION

Dividends Tax (DT) of 20% amounting to 23.6 cents per ordinary share will be withheld in terms of the Income Tax Act. Ordinary shareholders who are not exempt from DT will therefore receive a dividend of 94.4 cents net of DT.

The company has 262 083 439 ordinary shares in issue. Its income tax reference number is 9061/745/71/8.

Shareholders are advised of the following salient dates in respect of the interim dividend:

Last day of trade "cum" the dividend	Tuesday, 25 June 2019
Shares trade "ex" the dividend	Wednesday, 26 June 2019
Record date	Friday, 28 June 2019
Payment to shareholders	Monday, 1 July 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 26 June 2019 and Friday, 28 June 2019, both days inclusive.

The board of directors has determined that dividend cheques amounting to R50.00 or less due to any ordinary shareholder will not be paid unless a written request to the contrary is delivered to the transfer secretaries, Computershare Investor Services Proprietary Limited, by no later than close of business on Tuesday, 25 June 2019, being the day the shares trade "cum" the dividend. Unpaid dividend cheques will be aggregated with other such amounts and donated to a charity to be nominated by the directors.

By order of the board

Matthew Welz
Company secretary

17 April 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME R'000

	Six months to 28 February 2019 (unaudited)	Restated six months to 28 February 2018 (unaudited)	% change	Restated year to 31 August 2018
Revenue	16 245 459	15 241 562	6.6	30 981 958
Turnover	15 334 139	14 432 573	6.2	29 239 054
Cost of merchandise sold	(11 970 087)	(11 324 681)	5.7	(23 071 202)
Gross profit	3 364 052	3 107 892	8.2	6 167 852
Other income	887 550	796 650	11.4	1 717 147
Total income	4 251 602	3 904 542	8.9	7 884 999
Expenses	(3 207 417)	(2 966 136)	8.1	(5 852 575)
Depreciation and amortisation	(177 242)	(160 500)	10.4	(319 976)
Occupancy costs	(498 826)	(458 358)	8.8	(927 661)
Employment costs	(1 678 429)	(1 545 231)	8.6	(3 094 845)
Other costs	(852 920)	(802 047)	6.3	(1 510 093)
Operating profit	1 044 185	938 406	11.3	2 032 424
Profit/(loss) on disposal of property, plant and equipment	491	(112)		(1 287)
Profit before financing costs	1 044 676	938 294	11.3	2 031 137
Net financing income/(costs)	13 221	(1 129)		2 065
Financial income	23 770	12 339	92.6	25 757
Financial expense	(10 549)	(13 468)	(21.7)	(23 692)
Profit before earnings from associate	1 057 897	937 165	12.9	2 033 202
Share of profit of an associate	1 308	1 345	(2.8)	2 541
Profit before taxation	1 059 205	938 510	12.9	2 035 743
Income tax expense	(295 518)	(262 723)	12.5	(567 375)
Profit for the period	763 687	675 787	13.0	1 468 368
Other comprehensive (loss)/income: Items that may be subsequently reclassified to profit or loss				
Exchange differences on translation of foreign subsidiaries	(4 980)	(405)		9 242
Cash flow hedges	(82 950)	(13 440)		58 154
Change in fair value of effective portion	(115 208)	(18 667)		80 770
Deferred tax on movement of effective portion	32 258	5 227		(22 616)
Cost of hedging reserve	(7 421)	(10 194)		(18 409)
Cost of hedging recognised	(10 307)	(14 159)		(25 568)
Deferred tax on cost of hedging	2 886	3 965		7 159
Other comprehensive (loss)/income for the period, net of tax	(95 351)	(24 039)		48 987
Total comprehensive income for the period	668 336	651 748		1 517 355
Earnings per share (cents)	311.0	284.3	9.4	609.1
Diluted earnings per share (cents)	300.2	265.2	13.2	575.0

HEADLINE EARNINGS RECONCILIATION R'000

	Six months to 28 February 2019 (unaudited)	Restated six months to 28 February 2018 (unaudited)	% change	Restated year to 31 August 2018
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Total profit for the period	763 687	675 787		1 468 368
Adjusted for:				
(Profit)/loss net of tax on disposal of property, plant and equipment	(353)	81		927
Headline earnings	763 334	675 868	12.9	1 469 295
Headline earnings per share (cents)	310.8	284.4	9.3	609.5
Diluted headline earnings per share (cents)	300.1	265.2	13.2	575.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
R'000

	As at 28 February 2019 (unaudited)	Restated as at 28 February 2018 (unaudited)	Restated as at 31 August 2018
Non-current assets	3 014 091	2 954 987	3 233 920
Property, plant and equipment	1 930 401	1 640 482	1 843 402
Intangible assets	461 714	451 356	476 761
Goodwill	103 510	103 510	103 510
Deferred tax assets	293 978	610 756	478 608
Investment in associate	20 320	20 665	20 044
Loans receivable	14 491	8 572	15 003
Financial assets at fair value through profit or loss	73 518	25 265	82 482
Derivative financial assets	116 159	94 381	214 110
Current assets	8 986 742	7 855 888	8 354 984
Inventories	4 835 256	4 544 782	4 250 907
Trade and other receivables	2 626 468	2 244 047	2 331 531
Loans receivable	691	9 000	9 675
Cash and cash equivalents	1 452 400	886 543	1 523 815
Derivative financial assets	71 927	171 516	239 056
Total assets	12 000 833	10 810 875	11 588 904
Equity and liabilities			
Total equity	4 388 327	3 703 753	4 424 007
Non-current liabilities	380 916	357 086	447 546
Employee benefits	181 987	158 396	245 407
Operating lease liability	198 929	198 690	202 139
Current liabilities	7 231 590	6 750 036	6 717 351
Trade and other payables	6 911 605	6 383 803	6 227 123
Employee benefits	276 374	280 950	418 216
Provisions	6 937	4 993	4 993
Income tax payable	35 939	53 624	67 019
Derivative financial liabilities	735	26 666	-
Total equity and liabilities	12 000 833	10 810 875	11 588 904

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
R'000

	Six months to 28 February 2019 (unaudited)	Restated six months to 28 February 2018 (unaudited)	Restated year to 31 August 2018
Operating profit before working capital changes	1 263 051	1 110 552	2 264 349
Working capital changes	(412 635)	(52 983)	191 206
Net interest received	20 959	6 093	16 301
Taxation paid	(136 409)	(173 973)	(267 341)
Cash inflow from operating activities before dividends paid	734 966	889 689	2 204 515
Dividends paid to shareholders	(682 486)	(559 324)	(811 578)
Net cash effects from operating activities	52 480	330 365	1 392 937
Net cash effects from investing activities	(253 523)	(272 871)	(726 900)
Capital expenditure	(263 956)	(269 405)	(671 233)
Other investing activities	10 433	(3 466)	(55 667)
Net cash effects from financing activities	129 628	128 576	157 305
Acquisition of derivative financial asset	(66 313)	(62 272)	(83 115)
Settlement of derivative financial asset	199 816	190 848	190 848
Proceeds from sale of treasury shares	-	-	49 855
Purchase of treasury shares	(3 875)	-	-
Transaction cost on issue of shares	-	-	(283)
Net (decrease)/increase in cash and cash equivalents	(71 415)	186 070	823 342
Cash and cash equivalents at the beginning of the period	1 523 815	700 473	700 473
Cash and cash equivalents at the end of the period	1 452 400	886 543	1 523 815

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
R'000

	Six months to 28 February 2019 (unaudited)	Restated six months to 28 February 2018 (unaudited)	Restated year to 31 August 2018
Opening balance	4 424 007	3 296 894	3 296 894
Dividends paid to shareholders	(682 486)	(559 324)	(811 578)
Total comprehensive income for the period	668 336	651 748	1 517 355
Transaction cost on share issue	(299)	(283)	(283)
Share-based payment reserve movement	(26 699)	251 906	341 284
Net treasury share movement	(3 875)	49 855	49 855
Transfer of reserves to inventory	9 343	12 957	24 846
Withholding tax on distribution to shareholders*	-	-	5 634
Total	4 388 327	3 703 753	4 424 007
Dividend per share (cents)			
Interim declared/paid	118.0	102.5	102.5
Final paid	-	-	277.5
	118.0	102.5	380.0

* Related to retrospective withholding tax overprovision on the 2012 interim dividend.

SEGMENTAL ANALYSIS

The group's reportable segments under IFRS 8 are Retail and Distribution.

R'000	Turnover	Profit before taxation	Total assets	Capital expenditure	Total liabilities
Six months to 28 February 2019 (unaudited)					
Retail	11 329 682	863 673	5 634 855	231 716	3 531 254
Distribution	6 650 524	194 330	6 926 771	12 587	4 831 130
Inter-segmental	(2 646 067)	(13 818)	(3 217 839)	-	(3 142 010)
Total reportable segmental balance	15 334 139	1 044 185	9 343 787	244 303	5 220 374
Non-reportable segmental balance	-	15 020	2 657 046	19 653	2 392 132
Total group balance	15 334 139	1 059 205	12 000 833	263 956	7 612 506
Six months to 28 February 2018 (restated)*					
Retail	10 522 153	789 265	5 343 626	215 787	3 454 413
Distribution	6 327 735	152 729	6 029 589	41 689	4 305 983
Inter-segmental	(2 417 315)	(3 588)	(2 879 516)	-	(2 839 112)
Total reportable segmental balance	14 432 573	938 406	8 493 699	257 476	4 921 284
Non-reportable segmental balance	-	104	2 317 176	11 929	2 185 838
Total group balance	14 432 573	938 510	10 810 875	269 405	7 107 122
Twelve months to 31 August 2018 (restated)*					
Retail	21 062 318	1 695 304	5 194 332	539 775	3 264 053
Distribution	13 376 110	362 314	6 316 781	74 512	4 409 593
Inter-segmental	(5 199 374)	(25 194)	(3 227 746)	-	(3 165 735)
Total reportable segmental balance	29 239 054	2 032 424	8 283 367	614 287	4 507 911
Non-reportable segmental balance	-	3 319	3 305 537	56 946	2 656 986
Total group balance	29 239 054	2 035 743	11 588 904	671 233	7 164 897

* Retrospective adjustment relating to the adoption of IFRS 15 and IFRS 9

R'000	As at 28 February 2019 (unaudited)	As at 28 February 2018 (unaudited)	As at 31 August 2018
Non-reportable segmental profit before taxation consists of:			
Profit/(loss) on disposal of property, plant and equipment	491	(112)	(1 287)
Financial income	23 770	12 339	25 757
Financial expense	(10 549)	(13 468)	(23 692)
Share of profit of an associate	1 308	1 345	2 541
	15 020	104	3 319

SUPPLEMENTARY INFORMATION

	As at 28 February 2019 (unaudited)	Restated as at 28 February 2018 (unaudited)	Restated as at 31 August 2018
Number of ordinary shares in issue (gross) ('000)	262 083	253 948	253 948
Number of ordinary shares in issue including "A" shares issued in terms of employee share ownership programme (gross) ('000)	262 083	268 525	268 525
Number of ordinary shares in issue (net of treasury shares) ('000)	252 355	244 505	244 505
Weighted average number of shares in issue (net of treasury shares) ('000)	245 582	237 678	241 073
Weighted average diluted number of shares in issue (net of treasury shares) ('000)	254 394	254 833	255 385
Net asset value per share (cents)	1 739	1 515	1 809
Net tangible asset value per share (cents)	1 515	1 288	1 572
Depreciation and amortisation (R'000)	191 062	167 959	339 142
Capital expenditure (R'000)	263 956	269 405	671 233
Capital commitments (R'000)	436 617	434 447	698 949

ACCOUNTING POLICIES AND NOTES

1.1 These condensed consolidated financial statements for the six months ended 28 February 2019 have been prepared in accordance with the requirements of the JSE Limited Listings Requirements for interim reports and the requirements of the Companies Act of South Africa. The Listings Requirements require interim reports 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 information contained in the interim report has neither been audited nor reviewed by the group's external auditors. These condensed consolidated financial results have been prepared under the supervision of M Fleming CA (SA), the chief financial officer of the group.

The accounting policies used in the preparation of the financial results for the six months ended 28 February 2019 are in terms of IFRS and are consistent with those applied in the audited annual financial statements for the year ended 31 August 2018, with the exception of the adoption of IFRS 15 and IFRS 9 for which the accounting policies were changed from 1 September 2018.

1.2 The segmental analysis for the period ended 28 February 2018 and the year ended 31 August 2018 have been restated with the adoption of IFRS 15 and IFRS 9. The restatements have been outlined in note 1.8.

1.3 Related party transactions for the current period are similar to those disclosed in the group's annual financial statements for the year ended 31 August 2018. During the period Clicks Group Limited issued 261 396 ordinary shares to The New Clicks Foundation Trust arising from the unwind of the final 50% of the employee share ownership scheme. No other significant related party transactions arose during the current period.

1.4 In terms of the unwind of the final 50% of the Clicks Group Employee Share Ownership Scheme, 8 135 087 ordinary shares were issued to beneficiaries of the scheme and 14 576 648 ordinary "A" shares were repurchased by Clicks Group Limited from the Employee Share Ownership Trust.

The New Clicks Foundation Trust acquired 261 396 ordinary shares from the vesting of the ESOP scheme as at 28 February 2019.

- 1.5 During the period, the group acquired 23 850 Clicks Group Limited ordinary shares.
- 1.6 The carrying value of all financial instruments approximates fair value. All financial instruments are held at amortised cost, with the exception of derivative instruments, the investment in Guardrisk Insurance Company Limited and investments held by The New Clicks Foundation Trust which are accounted for at fair value through profit or loss. The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques; if all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. All financial instruments accounted for at fair value through profit or loss are considered to be level 2 investments, with the exception of investments held by The New Clicks Foundation Trust which are considered to be level 1 instruments. There have been no transfers between levels 1, 2 and 3 during the period.
- 1.7 The majority of the current and non-current derivative financial assets are to hedge obligations under the cash-settled share compensation scheme.
- 1.8 The statements of financial position at 28 February 2018 and 31 August 2018, the statements of comprehensive income, changes in equity and cash flows for the period and year then ended respectively have been restated.

IFRS 15

The IFRS 15 restatement applies to the revenue as disclosed below:

R'000	2019	Restated 2018
Revenue from contracts with customers		
Goods sold to customers	15 334 139	14 432 573
Other income	887 550	796 650
Distribution and logistics fees	413 751	357 792
Cost recoveries and other	473 799	438 858
	16 221 689	15 229 223

The group adopted IFRS 15 - Revenue from Contracts with Customers, which provides a five-step model for the recognition, measurement and disclosure of revenue arising from contracts with customers. The group has elected to apply the new standard on a full retrospective basis. The group recognises revenue when goods are sold to the customer at the consideration received.

The sale of certain items provides customers with a right of return. When contracts provide customers with a right to return goods, the group recognises a refund liability in trade and other payables and an asset for the right to recover products from a customer in inventories with the difference recognised in retained earnings. The movement in the refund liability was recognised in sales and the right of return asset in cost of sales in the comparative periods. The adjustments resulted in a deferred tax asset being raised.

IFRS 9

The group adopted IFRS 9 - Financial Instruments. The standard covers the recognition, derecognition, classification and measurement of financial instruments, provides guidance on hedge accounting and provides an expected credit loss model to determine the impairment provision of financial assets. The group has elected to apply the new standard on a full retrospective basis. Costs of hedging (forward element) related to forward exchange contracts on foreign purchases previously recognised at fair value through profit or loss are now recognised in other comprehensive income and are recognised in a separate reserve; cost of hedging reserve. The basis adjustment is subsequently reclassified directly from equity. Consequently, cost of sales is increased for the period ended 28 February 2018 and year ended 31 August 2018, since the costs of hedging were previously recognised in cost of sales.

Classification and measurement

IFRS 9 requires all financial assets to be classified and measured on the basis of the group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Management has assessed the business models which apply to the financial assets held by the group and the financial instruments have been classified into the appropriate IFRS 9 categories.

Hedge accounting

The group has elected to adopt hedge accounting in accordance with IFRS 9 at the date of the initial application. The group applied hedge accounting prospectively, except as stated below.

Since the adoption of IFRS 9 the group recognises changes in the fair value of foreign currency forwards attributable to forward points in the costs of hedging reserve within equity. The deferred costs of hedging are included within the initial cost of the related hedged item (inventory) when it is recognised. This change has been applied retrospectively for foreign currency forwards in cash flow hedge relationships resulting in the adjustments as per the table noted below.

R'000	28 February 2018 (unaudited)	IFRS 15	IFRS 9	28 February 2018 restated
Consolidated statement of financial position				
Non-current assets				
Deferred tax asset	609 422	1 334	-	610 756
Current assets				
Inventory	4 522 197	22 585	-	4 544 782
Equity				
Distributable reserve	3 403 837	(3 502)	8 156	3 408 491
Cost of hedging reserve	-	-	(8 156)	(8 156)
Current liabilities				
Trade and other payables	6 356 382	27 421	-	6 383 803
Consolidated statement of comprehensive income				
Turnover	14 432 648	(75)	-	14 432 573
Cost of merchandise sold	11 320 882	(39)	3 838	11 324 681
Income tax expense	(263 788)	(10)	1 075	(262 723)
Consolidated cash flow statement				
Operating cash flow before working				

capital changes	1 114 426	(36)	(3 838)	1 110 552
Increase in working capital	(56 857)	36	3 838	(52 983)
R'000	31 August 2018 (audited)	IFRS 15	IFRS 9	31 August 2018 Restated
Consolidated statement of financial position				
Non-current assets				
Deferred tax asset	477 352	1 256	-	478 608
Current assets				
Inventory	4 227 336	23 571	-	4 250 907
Equity				
Distributable reserve	3 953 831	(3 861)	4 482	3 954 452
Cost of hedging reserve	-	-	(4 482)	(4 482)
Current liabilities				
Trade and other payables	6 198 435	28 688	-	6 227 123
Consolidated statement of comprehensive income				
Turnover	29 239 688	(634)	-	29 239 054
Cost of sales	(23 062 579)	318	(8 941)	(23 071 202)
Income tax expense	(569 790)	(88)	2 503	(567 375)
Consolidated cash flow statement				
Operating cash flow before working capital changes				
Increase in working capital	2 273 606	(316)	(8 941)	2 264 349
	181 949	316	8 941	191 206

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* Independent non-executive
Company secretary: M Welz
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Share code: CLS ISIN: ZAE000134854 CUSIP: 18682W205
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