Dis-Chem Pharmacies Limited
("Dis-Chem" or "the Company")
(Incorporated in the Republic of South Africa)
(Registration number 2005/009766/06)
Share code: DCP
ISIN: ZAE000227831

Provisional Reviewed Annual Condensed Consolidated Results for the 12 months ended 28 February 2019

Commentary

Overview

Despite a tough economic environment and prolonged industrial action, which affected close to a third of the financial year, the Dis-Chem Group reports positive results with improved market shares across all of its core categories and continues to produce attractive returns to shareholders.

Earnings attributable to shareholders and headline earnings both grew by 7.4% over the corresponding period in the prior year ("corresponding period"). Earnings per share and headline earnings per share are both 85.4 cents per share, an increase of 7.4%.

Chief executive, Ivan Saltzman: "It is pleasing to continue to see market share gains across all of our core categories. With constrained consumers continually searching for value offerings we believe that these market share gains are driven by our everyday low price strategy coupled with aggressive promotional activity, our trusted in-store service and the availability of choice for our consumers, while we continue to focus on private label and exclusive brands.

Our store roll-out plan of adding more than 20 stores annually continues to remain on track. We are increasingly pleased with the performance of our new stores, across all formats, as we enter new markets and grow our share in existing markets. Considering the consolidation theme playing out in the retail pharmacy industry, space growth using the appropriate store format remains and will continue to remain a fundamental driver of Group growth.

We acknowledge the importance of driving volume growth and managing costs in our mature space, ensuring that we maintain and improve our retail operating margins. We continue to focus on driving dispensary volumes, the core of our business. Recently this has been evidenced by our investment in an adherence management technology business focused on driving chronic volumes - chronic volumes currently represent 50% of our dispensary business. Coupled with this, leveraging our loyalty partnerships and finding ways to better commercialise our extensive loyalty data will assist in growing volumes and share in all of our spaces.

Unfortunately, the industrial action which began mid-November last year heavily impacted the Group's performance in the current financial period. The demands by the union were unreasonable considering the economic climate and the nature of the industry in which we operate. We are pleased that the industrial action has been concluded and our focus is now on continuing to develop a productive employer/employee relationship, improving wholesale productivity levels and cost efficiency, as well as optimising the levels of stock holding in the Group which the industrial action necessitated."

Industrial Action Summary

Background

The Group was the target of a national strike by a group of employees belonging to the National Union of Public Service and Allied Workers (NUPSAW) that started on the 16th of November 2018 and concluded on the 10th of April 2019. Two thousand three hundred (2 300) employees, the majority from our wholesale operations, were part of the protected strike. At the start of the industrial action, less than 13% of our employees were registered as NUPSAW members.

Demands

The union's demands included a minimum wage of R12 500 across the board, an annual increase of 12.5% (guaranteed for the next three years) for all employees and a guaranteed annual bonus. In addition, post discussions with The Commission for Conciliation, Mediation and Arbitration (CCMA), an additional demand was made to take back all employees that had transgressed picketing rules, had damaged company property and/or attacked fellow employees and damaged their possessions.

Conclusion

The industrial action came to an end on the 10th of April 2019 with NUPSAW withdrawing all demands and employees returning to work. The following provisions were agreed to as part of the conclusion of the industrial action:

- Employees that had not returned to work within three working days of the conclusion of the strike were deemed to have permanently abandoned their employment;

- NUPSAW agreed that they will only be entitled to engage in collective bargaining once the threshold of 50% plus 1 member in the workplace has been met; this was included in the original organisational rights agreement signed by Dis-Chem and NUPSAW in January 2018.

- Any future disputes between Dis-Chem and NUPSAW as to NUPSAW's membership within the workplace will require verification. The verification will be conducted on an open and transparent basis through the CCMA;

- Dis-Chem agreed to pay pro rata bonuses to all eligible employees who were not paid their bonus for the year ending 2018. From 2019 onwards, the bonus policy will no longer apply a forfeiture of the bonus payment in relation to those employees who have valid final written warnings on file; and

- Dis-Chem retained and reserved all of its rights in law to take disciplinary action for misconduct committed during the strike, as well as Dis-Chem's rights in relation to the cost orders granted in Dis-Chem's favour by the Labour Court.

Financial Consequence
The industrial action that affected the Group for close to a third of the financial year, had both a direct and indirect impact on the financial performance of the Group.

R50.4 million of additional direct costs were incurred, the primary contributing costs include:

- Increased investment in security at all our distribution centres, our head office and certain targeted stores to ensure our consumers, our employees and our assets were protected;

- Employment and training of temporary staff in our distribution centres to fill the void in the wholesale segment left by striking employees;

- Relocating head office staff to other premises to ensure their safety;

- Inability to invoice logistic fees as certain suppliers had to deliver inventory straight to stores and not through our distribution centres; and

- Related legal costs incurred.

Indirect costs were estimated between R22.3 million and R26 million. In December, which was the most impacted trading month, retail revenue growth was only 6.2% with comparable store revenue of negative 2.5%, which was well below our expectations. Although contingency plans were in place to ensure minimal disruption at our retail stores, we experienced lost opportunity sales primarily due to stock supply challenges. This was further supported by the fact that we reported our lowest market share gains of the financial year in the month of December. In addition, our primary external customer facility in Delmas was significantly impacted over the period of the industrial action reporting growth of negative 0.58% compared to wholesale external growth of 5.1% reported in the first half of the financial year.

Financial performance
During the 12-month period from 1 March 2018 to 28 February 2019, Dis-Chem recorded Group revenue growth of 10% to R21.4 billion.

Retail revenue grew by 9.7% to R19.6 billion with comparable store revenue at 3.4% and selling price inflation of only 1.16%. Comparable store revenue and selling price inflation was negatively impacted by the 1.26% Single Exit Price ("SEP") increase effective 1 March 2018. The SEP is prescribed by the Department of Health and impacts approximately a third of Dis-Chem's retail sales. Wholesale revenue grew by 11.2% to R14.5 billion.

Total income, comprising gross profit and other income, grew by 14.2% to R6.2 billion. The Group's total income margin improved from 28.0% to 29.1% predominately as a result of a focused exercise by categories to review and increase gross margin across inelastic products. The Group continues to benefit from better trade terms with suppliers as it grows market share across core categories. In the current period - H1 FY19 - the Group benefited from the release of unearned rebates. The release was as a result of a redistribution of inventory across the Retail and Wholesale segments.

Retail expenses grew by 13.7% as the Group invested in 20 new stores over the comparable period. Wholesale expenses grew by 13.0% and although significantly lower than the growth in the comparable period of 31%, the segment was negatively impacted by the additional costs caused by the industrial action. With cost efficiency a main focus for the Group and now having wholesale operations that are more geographically aligned with its retail store base and the independent pharmacy market it serves, further cost containment is anticipated in the next financial year.

Operating profit grew by 8.2% to R1.2 billion, with the Group operating margin being 5.7%. Retail operating profit for the period was R1.35 billion with an operating margin of 6.9%. The Wholesale segment incurred an operating loss amounting to R102 million (EBITDA loss of R58 million). The Wholesale segment did not break even at an EBITDA level in the current period as initially expected due to the industrial action that took place resulting in additional direct and indirect costs.

Net finance costs increased slightly by 1.4% to R162 million. The increase was primarily due to the funding of new acquisitions. New acquisition spend totalled R215 million for the period under review. Furthermore, additional funding was required to carry, on average, an extra 10 days of inventory to ensure sufficient availability before and during the industrial action period.

The Group's net working capital at 28 February 2019 is 37.7 days compared to 36.4 days at 28 February 2018. Creditors' days have continued to improve due to concentrated efforts on supply chain finance offered to the Group's vendor base. Inventory days have increased from the prior comparable period due to a buy-in of pharmaceutical products before the SEP increase of 3.78% in March 2019 together with the additional inventory held as a result of the industrial action.

Total capital expenditure of R395 million comprised R247 million of expansionary expenditure as the Group invested in 20 additional stores as well as information technology enhancements across both the retail and wholesale segments. The balance of R148 million relates to replacement expenditure incurred to maintain the existing retail and wholesale network.

Trading performance

Retail

Retail revenue grew by 9.7% to R19.6 billion with comparable store revenue at 3.4% and selling price inflation of only 1.16%. Comparable store revenue and selling price inflation were negatively impacted by the 1.26% SEP increase effective 1 March 2018, as well as competitive pricing across the personal care and baby categories. Total dispensary revenue growth was 9.4% lagging the average front shop revenue growth of 11.2%. We expect some relief in the coming financial year from the most recently gazetted SEP increase of 3.78%.

In the current period, the Group opened 20 new stores, including flagship stores in Sandton, Eastgate and Gateway as well as our first store in Botswana, resulting in 149 stores at February 2019. New stores added in the period under review contributed R647 million to revenue. The 21 new stores that were opened in the prior period contributed R1.4 billion to current period revenue.

The brand's position in a deteriorating consumer spending environment, the maturing of our store base and the addition of new stores, supported by the Micorpopz! Campaign, partially offset the industrial action challenges that we saw in the last four months of the financial year.

Wholesale

Wholesale revenue grew by 11.2% to R14.5 billion. Revenue to our own retail stores, still the biggest contributor to wholesale sales grew by 11% as we achieved 80% internal supply. Wholesale sales to external customers - The Local Choice ("TLC'') and independent pharmacies - grew by 12.9% primarily as a result of the Quenets acquisition on 1 November 2018. The increase in external customer growth was despite our primary external customer facility, Delmas, being significantly impacted by the industrial action resulting in lower than anticipated sales over the strike period. Delmas reported external sales growth of negative 0.58% over the period of the industrial action compared to the 5.1% wholesale external growth reported in the first half of the financial year.

Directorate

No changes have been made to the board since year-end or the prior corresponding period.

Outlook

For the 10 weeks to 10 May 2019, Group revenue grew by 12% from the prior comparable period. The Group expects that the consumer will continue to remain constrained as a result of the current macroeconomic environment. As was the case previously, the resilient markets in which the Group operates together with the brand positioning will offer a certain amount of protection against the weak environment and the Group is well positioned to benefit from additional consumer disposable income.

The Group remains focused on adding retail stores. Five stores have been added since the financial year end and an additional 17 store openings are planned through to February 2020.

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

Dividends declaration

Notice is hereby given that a gross final cash dividend of 13.47250 cents per share, in respect of the year ended 28 February 2019 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 10.77800 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, 4 June 2019
- First trading day ex dividend on the JSE: Wednesday, 5 June 2019
- Record date: Friday, 7 June 2019
- Payment date: Monday, 10 June 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 5 June 2019 and Friday, 10 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.

Approval
The provisional reviewed annual condensed consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the directors on 15 May 2019.

On behalf of the Board

Ivan Saltzman	Rui Morais
Chief Executive Officer	Chief Financial Officer

Condensed consolidated statement
of comprehensive income

	Year to 28 February 2019 (Reviewed) R'000	Restated* Year to 28 February 2018 (Reviewed) R'000	% change
Revenue from contracts with customers	21 420 023	19 479 553	10.0
Cost of sales	(16 197 190)	(14 710 016)	10.1
Gross profit	5 222 833	4 769 537	9.5
Other income	1 010 258	686 271	47.2
Total income	6 233 091	5 455 808	14.2
Other expenses	(5 015 225)	(4 330 728)	15.8
Operating profit	1 217 866	1 125 080	8.2
Net financing costs	(162 254)	(160 082)	1.4
- Finance income	20 183	28 321	
- Finance costs	(182 437)	(188 403)	
Profit before taxation	1 055 612	964 998	9.4
Taxation	(291 040)	(266 696)	9.1
Profit for the year, net of tax	764 572	698 302	9.5
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
- Exchange differences on translating foreign subsidiaries	46	-	
Other comprehensive income for the year, net of tax	46	-	
Total comprehensive income for the year	764 618	698 302	9.5
Profit attributable to:			
- Equity holders of the parent	734 723	684 254	
- Non-controlling interests	29 849	14 048	
Total comprehensive income attributable to:			
- Equity holders of the parent	734 769	684 254	

- Non-controlling interests	29 849	14 048
Earning per share (cents)		
- Basic	85.4	79.6
- Diluted	85.4	79.6

* Refer to note 2.

Condensed consolidated statement
of financial position

	As at 28 February 2019 (Reviewed) R'000	Restated* As at 28 February 2018 (Reviewed) R'000	Restated* As at 28 February 2017 (Reviewed) R'000
ASSETS			
Non-current assets	1 987 167	1 664 700	1 192 144
Property, plant and equipment	1 370 310	1 182 394	995 401
Intangible assets	447 112	300 461	40 310
Deferred taxation	169 745	181 845	156 433
Current assets	6 849 048	5 470 665	4 710 176
Inventories	5 115 579	3 947 937	3 233 911
Trade and other receivables	1 354 016	1 118 855	1 097 156
Loans receivable	198 317	113 876	72 270
Taxation receivable	3 704	9 998	12 141
Cash and cash equivalents	177 432	279 999	294 698
Total assets	8 836 215	7 135 365	5 902 320
EQUITY AND LIABILITIES			
Equity and reserves	2 037 883	1 630 992	1 105 862
Share capital	6 155 554	6 155 554	6 140 554
Common control reserve	-	-	(990 991)
Retained earnings/(loss)	497 165	97 481	(4 043 701)
Other reserves	(4 614 836)	(4 622 043)	-
Non-controlling interest	68 101	55 147	23 581
Total equity	2 105 984	1 686 139	1 129 443
Non-current liabilities	1 266 115	1 388 846	1 522 378
Finance lease obligation	620 724	621 543	622 907
Operating lease obligation	236 375	213 198	179 162
Loans payable	346 000	499 605	647 000
Contingent consideration	40 797	54 500	73 309
Deferred taxation	22 219	-	-
Current liabilities	5 464 116	4 060 380	3 250 499
Trade and other payables	4 325 818	3 262 280	2 647 914
Employee-related obligation	163 933	146 014	125 391
Deferred revenue (contract liability)	43 798	81 292	95 364
Contingent consideration	23 548	21 749	24 003
Finance lease obligation	22 593	9 943	2 390
Loans payable	170 989	198 798	173 659
Taxation payable	54 967	32 790	14 719
Bank overdraft	658 470	307 514	167 059
Total equity and liabilities	8 836 215	7 135 365	5 902 320
Net asset value per share (WANOS)	244.9	196.0	138.3
Net asset value per share (actual shares at year-end)	244.9	196.0	131.4

* Refer to note 2.

Condensed consolidated statement
of changes in equity

	Share capital R'000	Retained earnings/ (loss) R'000	Common control reserve R'000	Other reserves R'000	Non-controlling interest R'000	Total R'000
As previously reported	1 352 074	361 483	(990 991)	-	117 117	839 683

Adjustment for IFRS 15	-	(652)	-	-	-	(652)
Restated balance at 29 February 2016 (reviewed)*	1 352 074	360 831	(990 991)	-	117 117	839 031
Profit/Total comprehensive income for the year	-	611 958	-	-	42 766	654 724
Acquisition of non-controlling interests	-	(515 438)	-	-	(100 885)	(616 323)
Acquisition of subsidiary	-	-	-	-	4 510	4 510
Shares issued during the year	4 830 774	-	-	-	-	4 830 774
Capitalised share costs for listing	(42 294)	-	-	-	-	(42 294)
Shares repurchased during the year	-	(3 631 052)	-	-	-	(3 631 052)
Dividends paid	-	(870 000)	-	-	(39 927)	(909 927)
Restated balance at 28 February 2017 (reviewed)*	6 140 554	(4 043 701)	(990 991)	-	23 581	1 129 443
Profit/Total comprehensive income for the year	-	684 254	-	-	14 048	698 302
Change in ownership interest in subsidiary	-	50 179	-	-	26 104	76 283
Shares issued during the year	15 000	-	-	-	-	15 000
Transfer to other reserves	-	3 631 052	990 991	(4 622 043)	-	-
Dividends paid	-	(224 303)	-	-	(8 586)	(232 889)
Restated balance at 28 February 2018 (reviewed)*	6 155 554	97 481	-	(4 622 043)	55 147	1 686 139
Profit/Total comprehensive income for the year	-	734 723	-	46	29 849	764 618
Profit for the year, net of tax	-	734 723	-	-	29 849	764 572
Other comprehensive income for the year, net of tax	-	-	-	46	-	46
Change in ownership interest in subsidiary	-	(47 489)	-	-	(2 746)	(50 235)
Share-based payment expense	-	-	-	7 161	-	7 161
Dividends paid	-	(287 550)	-	-	(14 149)	(301 699)
Balance at 28 February 2019 (reviewed)	6 155 554	497 165	-	(4 614 836)	68 101	2 105 984

* Refer to note 2.

	Year to 28 February 2019 (Reviewed) cents	Year to 28 February 2018 (Reviewed) cents
Dividend per share		
- Interim paid	20.7	18.7
- Final declared/paid	13.5	12.8

Condensed consolidated statement of cash flows

	Year to 28 February 2019 (Reviewed) R'000	Year to 28 February 2018 (Reviewed) R'000
Cash flow from operating activities	336 040	348 473
Cash inflow from trading operations	1 428 516	1 323 624
Movement in working capital	(403 526)	(295 931)
Finance income received	20 183	23 836
Finance costs paid	(167 446)	(164 424)
Taxation paid	(239 988)	(305 743)
Dividends paid	(301 699)	(232 889)
Cash flow from investing activities	(549 721)	(396 050)
Additions to property, plant and equipment and intangible assets		
- To maintain operations	(147 850)	(78 242)
- To expand operations	(246 659)	(295 586)
Proceeds on disposal of property, plant and equipment and intangible assets	9 313	1 123

Acquisition of subsidiaries and assets and liabilities in business combination, net of cash acquired	(164 525)	(23 345)
Cash flow from financing activities	(239 987)	(107 577)
Long-term loans repaid	(150 000)	(153 410)
Contingent consideration paid	(23 133)	(22 941)
Finance lease repaid	(16 415)	(6 226)
Change in ownership interest in subsidiaries	(50 439)	75 000
Net decrease in cash and cash equivalents	(453 668)	(155 154)
Foreign currency	145	-
Cash and cash equivalents at beginning of year	(27 515)	127 639
Cash and cash equivalents at end of year	(481 038)	(27 515)

Earnings per share

	As at 28 February 2019 (Reviewed) R'000	Restated* As at 28 February 2018 (Reviewed) R'000
Reconciliation of profit for the year to headline earnings		
Profit attributable to equity holders of the parent	734 723	684 254
Net profit on disposal of property, plant and equipment and intangible assets	(15)	(25)
Taxation	4	7
Headline earnings	734 712	684 236
Earnings per share (cents)		
- Basic	85.4	79.6
- Diluted	85.4	79.6
Headline earnings per share (cents)		
- Basic	85.4	79.6
- Diluted	85.4	79.6

* Refer to note 2.

	As at 28 February 2019 (Reviewed) '000	As at 28 February 2018 (Reviewed) '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	859 273 673
Shares issued during the year weighted for the period outstanding	-	799 703
Total weighted number of shares in issue at the end of the period	860 084 483	860 073 376
Share options	6 115	-
Total diluted weighted number of shares in issue at the end of the period	860 090 598	860 073 376

Segmental information

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

28 February 2019 (reviewed)	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
External customers	19 643 739	1 776 284	-	21 420 023
Inter-segment	-	12 745 625	(12 745 625)	-
Revenue from contracts with customers	19 643 739	14 521 909	(12 745 625)	21 420 023
Cost of sales	(15 051 513)	(13 307 293)	12 161 616	(16 197 190)
Gross profit	4 592 226	1 214 616	(584 009)	5 222 833
Other income	1 034 346	47 942	(72 030)	1 010 258
Total income	5 626 572	1 262 558	(656 039)	6 233 091
Other expenses (excluding depreciation and amortisation)	(4 132 452)	(1 320 841)	624 666	(4 828 627)
Depreciation and amortisation	(142 501)	(44 097)	-	(186 598)

Operating profit	1 351 619	(102 380)	(31 373)	1 217 866
Net finance costs	(99 365)	(62 889)	-	(162 254)
Profit/(loss) before tax	1 252 254	(165 269)	(31 373)	1 055 612
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 494 120	(58 283)	(31 373)	1 404 464
Capital expenditure	(303 548)	(90 961)	-	(394 509)
Total assets	6 233 819	4 989 857	(2 387 461)	8 836 215
Total liabilities	3 550 146	3 928 564	(748 479)	6 730 231
Gross profit margin	23.4%	8.4%		24.4%
EBITDA margin	7.6%	(0.4%)		6.6%
Operating margin	6.9%	(0.7%)		5.7%

Restated 28 February 2018 (reviewed)*	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
External customers	17 906 653	1 572 900	-	19 479 553
Inter-segment	-	11 481 381	(11 481 381)	-
Revenue from contracts with customers	17 906 653	13 054 281	(11 481 381)	19 479 553
Cost of sales	(13 538 580)	(12 063 447)	10 892 011	(14 710 016)
Gross profit	4 368 073	990 834	(589 370)	4 769 537
Other income	704 331	47 686	(65 746)	686 271
Total income	5 072 404	1 038 520	(655 116)	5 455 808
Other expenses (excluding depreciation and amortisation)	3 626 131)	(1 166 498)	635 353	(4 157 276)
Depreciation and amortisation	(132 561)	(40 891)	-	(173 452)
Operating profit	1 313 712	(168 869)	(19 763)	1 125 080
Net finance costs	(101 945)	(58 137)	-	(160 082)
Profit/(loss) before tax	1 211 767	(227 006)	(19 763)	964 998
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1 446 308	(127 978)	(19 763)	1 298 567
Capital expenditure	(308 842)	(64 986)	-	(373 828)
Total assets	5 252 719	4 332 658	(2 450 426)	7 134 951
Total liabilities	3 218 692	3 117 477	(886 943)	5 449 226
Gross profit margin	24.4%	7.6%		24.5%
EBITDA margin	8.1%	(1.0%)		6.7%
Operating margin	7.3%	(1.3%)		5.8%

* Refer to note 2.

Fair value hierarchy

The information below analyses financial assets and liabilities that are carried at fair value or financial assets and liabilities that have carrying amounts that differ from their fair values:

February 2019	Level 1 R'000	Level 2 R'000	Level 3 R'000
Financial liabilities at fair value through profit and loss			
- Contingent consideration	-	-	64 345
February 2018			
Financial liabilities at fair value through profit and loss			
- Derivative liability	-	1 500	-
- Contingent consideration	-	-	76 249

The derivatives represent forward exchange contracts (FECs). The fair value of the FEC liability is measured with reference to market data. The key input into this valuation is the forward exchange rate as provided by a reputable bank.

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 12.3% (2018: 11.4%) used to determine the present value of the future cash flows.

	As at 28 February 2019 (Reviewed)	As at 28 February 2018 (Reviewed)

	R'000	R'000
Reconciliation of recurring level 3 fair value movements:		
Opening balance	76 249	97 312
Payments	(23 133)	(22 941)
Interest	7 588	10 744
Release to other income(1)	-	(10 735)
Fair value adjustment	3 641	1 869
Closing balance	64 345	76 249

(1) Relates to an amount, reflected in other income, that was not paid by the Company due to performance conditions not being met and expected future performances not being met.

A reasonable movement in the unobservable inputs would not significantly impact the fair value of the contingent consideration as at the end of the reporting period and therefore not significantly impact profit after tax or equity.

There were no transfers of financial instruments between level 1, level 2 and level 3 fair value measurements during the periods ended February 2019 and 2018.

Commitments

	As at 28 February 2019 (Reviewed) R'000	As at 28 February 2018 (Audited) R'000
Operating lease commitments		
- Within one year	471 312	437 145
- Two to five years	1 591 017	1 652 874
- Over five years	787 788	1 064 360
Finance lease commitments		
- Within one year	82 761	70 793
- Two to five years	288 686	292 726
- Over five years	1 133 405	1 187 783

Additional information

		28 February 2019	28 February 2018
Ordinary shares in issue:		860 084 483	860 084 483
Closing share price	(R/share)	25.80	34.40
Twelve-month share price (high)	(R/share)	38.00	39.95
Twelve-month share price (low)	(R/share)	24.00	21.40

Notes to the provisional reviewed condensed consolidated results

1. These provisional reviewed condensed consolidated financial results for the 12 months ended 28 February 2019 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 provisional reviewed condensed consolidated financial results are consistent in all material respects with those applied in the Group's annual financial statements as at 28 February 2018, except for the adoption of IFRS 15 and IFRS 9 the impact of which is shown in note 2. None of the other new standards, interpretations and amendments effective as of 1 March 2018 have had material impact on the annual consolidated financial statements of the Group or the condensed consolidated financial statements of the Group.

   The Group anticipates a material impact as a result of the adoption of IFRS 16: 'Leases' which is effective from 1 January 2019.

   The standard will result in the capitalisation of leased stores (28 February 2019: 149) and warehouses (28 February 2019: 5) onto the statement of financial position as a finance lease liability and related right-of-use asset. The current operating lease costs in the statement of comprehensive income will be replaced by the depreciation of the right-of-use asset and finance costs in relation to the finance liability. Key matrix that will be impacted include EBITDA, EBITDA margin and earnings per share. We will give additional disclosure in our 2019 annual financial statements.

2. Restatement of comparative figures

The Group adopted IFRS 9, 'Financial Instruments' in the current financial period and elected to apply the standard on the modified retrospective approach. IFRS 9 has had an insignificant impact to the Group.

The Group adopted IFRS 15, 'Revenue from Contracts with Customers' in the current financial period and elected to apply the standard on a full retrospective basis whereby the cumulative effect of the retrospective application is recognised by adjusting the opening retained profits for the earliest comparative period presented (which for the Group is the comparative period beginning on 1 March 2017). None of the practical expedients were used in the restatement. The impact has resulted in the recognition of a right to return liability and right to return asset on a gross basis. Another key area of impact is the change in the principal versus agent recognition of third party vouchers and coupons whereby these transactions are now recognised on a net basis.

In addition, a new sub-total line has been disclosed on the face of the statement of comprehensive income called total income. This additional line item has been included in order to show the total of gross profit and other income for the period in order to give information that Dis-Chem believes is important to a user of the financial statements.

	February 2018 (previously stated) R'000	IFRS 15 impact R'000	Adjusted total R'000
Statement of financial position			
Trade and other receivables	1 113 313	5 542	1 118 855
Trade and other payables	(3 255 259)	(7 021)	(3 262 280)
Deferred taxation	181 431	414	181 845
Retained earnings	(98 546)	1 065	(97 481)
Statement of comprehensive income			
Revenue from contracts with customers	19 560 462	(80 909)	19 479 553
Cost of sales	(14 790 890)	80 874	(14 710 016)
	4 769 572	(35)	4 769 537
Taxation	(266 706)	10	(266 696)
	4 502 866	(25)	4 502 841
Earnings per share (cents)	79.6	-	79.6

	February 2017 (previously stated) R'000	IFRS 15 impact R'000	Adjusted total R'000
Statement of financial position			
Trade and other receivables	1 091 901	5 255	1 097 156
Trade and other payables	(2 641 215)	(6 699)	(2 647 914)
Deferred taxation	156 029	404	156 433
Retained earnings	4 042 661	1 040	4 043 701
Statement of comprehensive income			
Revenue from contracts with customers	17 268 475	(36 763)	17 231 712
Cost of sales	(13 059 154)	36 224	(13 022 930)
	4 209 321	(539)	4 208 782
Taxation	(246 871)	151	(246 720)
	3 962 450	(388)	3 962 062
Earnings per share (cents)	75.0	-	75.0

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

	As at 28 February 2019 %	As at 28 February 2018 %

Dispensary	36	37
Personal care and beauty	28	27
Healthcare and nutrition	20	20
Baby care	6	7
Other	10	9
	100	100

3. Dis-Chem enters into certain transactions with related parties. A finance lease has been entered into with Columbia Falls Property 7 Proprietary Limited on which rental of R64 million was incurred during the twelve-month period (2018: R59 million).

This finance lease obligation amounted to R614 million at 28 February 2019 (2018: R619 million). Rental paid to other related party property companies amounted to R71 million (2018: R55 million).

Amounts owing from MSDS No. 3 Proprietary Limited, Eleador Proprietary Limited and Mathimba Proprietary Limited at 28 February 2019 amounted to Rnil, R3 million and R22 million respectively (2018: R17 million, R3 million and R22 million respectively). Amounts owing to Josneo Proprietary Limited and Minlou Proprietary Limited at 28 February 2019 amounted to Rnil and R2 million respectively (2018: R14 million and R3 million respectively).

Amounts owing from Dis-Chem Bothamed, Dis-Chem Namibia, Dis-Chem Swakopmund, Dis-Chem Dunes, Origin Brands and Geniob (all Proprietary Limited's) at 28 February 2019 amounted to R91 million (2018: R31 million).

4. There were no impairments of non-financial assets in the current and prior comparable period.

5. During the period, no shares were issued (2018: 810 810 shares worth R15 million).

On 1 June 2018, 276 269 shares on the Forfeitable Share Plan and 1 325 970 options on the Share Appreciation Rights Plan were awarded and accepted. On 1 February 2019, 255 588 shares on the Forfeitable Share Plan and 1 143 929 options on the Share Appreciation Rights Plan were awarded and accepted.

6. During the year the Group acquired the following companies:

- 100% of the shares of Bemax Proprietary Limited, an import company of retail products. The main shareholder of this company is a related party to key management personnel of Dis-Chem Pharmacies Limited and received 80% of the purchase consideration transferred.

- 100% of the shares of Quenets Proprietary Limited, a wholesale company in Worcestor, Cape Town.

- 100% of the shares of A Retief Proprietary Limited, a pharmacy in George.

- 70% of certain assets and liabilities of TLC De-Wiekus, a pharmacy in Gauteng.

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

	Bemax R'000	Quenets R'000	A Retief R'000	De-Wiekus R'000	Total R'000
Assets					
Property, plant and equipment	112	599	163	3 136	4 010
Trade and other receivables	11 952	56 242	1 074	492	69 760
Inventories	17 091	34 535	2 626	1 813	56 065
Bank	-	2	4 087	-	4 089
Other intangibles	15 623	7 770	5 206	-	28 599
Liabilities					
Trade and other payables	(5 586)	(40 581)	(6 105)	(4 759)	(57 031)
Bank overdraft	(376)	(7 206)	-	-	(7 582)
Taxation owing	(2 462)	(988)	(315)	-	(3 765)
Deferred tax	(4 374)	(2 175)	(1 459)	-	(8 008)
Total identifiable net assets at fair value	31 980	48 198	5 277	682	86 137
Non-controlling interest at proportionate interest	-	-	-	(205)	(205)
Goodwill arising on acquisition	37 370	15 206	21 500	1 023	75 099
Purchase consideration transferred	69 350	63 404	26 777	1 500	161 031

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

The previous owners of Bemax will also be entitled to an additional payment of the net profit after tax of Bemax as long as they are still employed by Dis-Chem and meet certain performance conditions.

During the current year, the Group sold 10% of their interest in Dis-Chem Jubilee Proprietary Limited and 25% of their interest in Dis-Chem Ballito Lifestyle Proprietary Limited. The Group also acquired an additional 5% interest in Dis-Chem Ballito Junction Proprietary Limited and an additional 24.5% interest in Dis-Chem Glen Fair Proprietary Limited.

7. No material subsequent events have taken place since reporting date, except for:

- on 1 March 2019, the Group took advantage of favourable financing by replacing the existing Absa loan facility of R500 million with a new loan facility of R900 million. R400 million of this loan will become part of the working capital facility that was and will be used for relevant acquisitions. R500 million will be repaid over four years with the remaining R400 million bullet paid at the end of the fourth year.

- the acquisition of 65% of Mundel Gien (Pty) Ltd (trading as Springbok Pharmacy), a pharmacy in Alberton, for R32.5 million on 1 April 2019. The provisional fair value of the identifiable assets and liabilities are R50.3 million and R26.8 million respectively, resulting in goodwill of R17.2 million after taking into account non-controlling interest at proportionate interest of R8.2 million.

- the signature of the purchase agreement of 50% of Health Window (Pty) Ltd and Differenza (Pty) Ltd, pharmaceutical adherence business, on 30 April 2019. It is anticipated that the final conditions precedent in the agreement will be completed on 24 May 2019 with the purchase price being R17.5 million. The current carrying amount of the net assets amounts to R16.2 million.

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

Supplementary information

Directors

Independent non-executive directors

LM Nestadt	(South African)
MJ Bowman	(South African)
A Coovadia	(South African)
JS Mthimunye	(South African)
MSI Gani	(South African)

Executive directors

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

Company registration number
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Midrand
16 May 2019