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

Provisional Reviewed Annual Condensed Consolidated Results for the twelve months ended 29 February 2020

This short-form announcement is the responsibility of the Company's board of directors and is only a summary of the information in the full announcement and therefore does not contain full or complete details. Any investment decisions by investors and/or shareholders should be based on consideration of the full announcement published on the Group's website www.dischemgroup.com and on the JSE website using https://senspdf.jse.co.za/documents/2020/jse/isse/dcpe/FY20.pdf

Copies of the full announcement are available for inspection at the registered office of the Company and the Company's Sponsor, at no charge, during office hours. For more information contact investorrelations@dischem.co.za or visit our website.

The information in this announcement has been reviewed by the Group's external auditors.

	12 months to 29 February 2020	12 months to 28 February 2019	Restated* 12 months to 28 February 2019	% change	Restated % change
Group revenue	R24.0 billion	21.4 billion	R21.4 billion	12.0%	12.0%
Earnings per share	69.6 cents	85.4 cents	83.6 cents	(18.5%)	(16.7%)
Headline earnings per share	69.6 cents	85.4 cents	83.6 cents	(18.5%)	(16.7%)

* The financial information presented for the prior period is restated due to the adoption of IFRS 16.

Overview

In the current period, with the challenges of the corresponding period strike coming to an end and the decentralisation of the wholesale space now concluded, the Group continued to focus on Return on Invested Capital (''ROIC'') to ensure optimal returns to shareholders over the long term. This has resulted in the necessary inventory reductions and rationalisation across the wholesale space without compromising revenue to our customers. Cash generated from operating activities, which takes into account the effect of the ROIC focus, increased by R671 million or 115% from the corresponding period.

Despite the difficult consumer environment, revenue has grown by 12% over the corresponding period. External revenue in the wholesale environment grew by 23.3%, mainly due to the successful acquisition and integration of Quenets — the acquired Western Cape wholesaler. The Group continues to report revenue growth ahead of market growth, as it grows space and benefits from a maturing store base. As a result, the Group has improved its market shares across all core categories.

The Group's earnings in the current period were not only impacted by once off items (as described below) but were also impacted by the low growth in purchases from suppliers of only 2.6% against the corresponding period which, despite the successful improvement in additional trade terms, has resulted in the total income margin declining.

Earnings in the first half of the year decreased by 37.4% compared to the corresponding period due to the majority of the inventory rationalisation taking place in this period. As more normalised purchases took place in the second half of the year, earnings increased by 16.7% compared to the corresponding period. Earnings, excluding once off items, decreased by 5.9% over the corresponding period.

Earnings attributable to shareholders and headline earnings both declined by 16.8% over the corresponding period. Earnings per share ("EPS") and headline earnings per share ("HEPS") are both 69.6 cents per share, a decrease of 16.7%.

IFRS 16 Leases

The Group adopted IFRS 16, Leases, in the current period and elected to present financial information on a restated basis in order to allow for comparability between periods.

The adoption of IFRS 16 impacted certain key performance indicators ("KPI's") such as EBITDA, EBIT, EPS, ROCE and gearing ratios. Importantly, however, it does not change the Group's underlying, fundamental economic business model, investment case or strategy.

The Group's EPS at 28 February 2019, which was previously 85.4 cents per share, has been restated to 83.6 cents per share.

Review of financial performance

Revenue

During the twelve-month period from 1 March 2019 to 29 February 2020, Dis-Chem recorded Group revenue growth of 12% to R24 billion.

Retail revenue grew by 11% to R21.8 billion with comparable store revenue at 4%. The Group restricted selling price inflation to 2.2% thereby achieving positive volume growth despite the difficult economic climate. The Group opened 18 new stores and acquired 3 new pharmacies from the corresponding period resulting in 170 stores at February 2020. These new stores contributed R656 million to revenue, including R165 million from the acquisition of Springbok Pharmacy on 1 April 2019.

Wholesale revenue grew by 14% to R16.6 billion. Revenue to our own retail stores, still the biggest contributor to wholesale revenue, grew by 12.8% while external revenue grew by 23.3% from the corresponding period.

The external wholesale revenue growth of 23.3% is due to the successful acquisition of Quenets (acquired in November 2018) which resulted in additional revenue of R271 million as well as the number of TLC franchises growing from 91 at February 2019 to 104 at February 2020.

Total income
Total income grew by 9.8% to R6.8 billion. In the corresponding period the Group benefitted from the release of unearned rebates of approximately R81 million as a result of a redistribution of inventory across the retail and wholesale segments which did not occur again in the current period. Excluding this once off amount, total income grew by 11.3%.

Despite the continued and successful improvement of additional trade terms, the Group's total income margin reduced from 29.1% (28.7% excluding the corresponding years unearned rebate release) to 28.5%. Due to the majority of the inventory rationalisation taking place in the first half of the year, the total income margin increased from 27.5% in the first half of the year to 28.5% in the second half of the year.

With the optimisation of inventory levels together with the increased focus on ROIC in the current period, the lower increase in purchases from suppliers (2.6%) compared with the increase in revenue (12%) resulted in a negative impact on the total margin of the Group. Lower purchases resulted in a sacrifice of purchase driven growth rebates together with lower supplier purchase linked fee for service income.

Retail total income grew by 7.5%, carrying the majority of the terms sacrifice as a result of the lower purchases while wholesale total income, excluding the once off unearned rebate release, grew by 13.1%.

Other expenses
Other expenses grew by 15.2% over the corresponding period to R5.6 billion. This increase is partly due to the following once-off transactions that impacted the current and corresponding period:

- The change in the Group's bonus policy relating to employee's 13th cheques resulting in a lower bonus in the corresponding year of R60 million compared to the current year; and
- Additional strike-related costs (additional security and payroll) incurred between the FY19 year end and the conclusion of the strike on 10th April was approximately R19 million compared to strike-related costs of R50 million in the corresponding year.

Excluding these once-off costs, expenses would have grown by 14.6% over the corresponding period.

Retail expenses, excluding the once-off transactions, grew by 13% as the Group invested in 21 new stores since the corresponding period. Wholesale expenses, excluding the once-off transactions, grew by 5.2%.

The low growth in Wholesale expenses is a result of the investment in technology that allows for greater visibility of productivity, customer performance and individual supplier profitability within the wholesale space. Supplier profitability within the wholesale space was driven by understanding factors influencing the cost of carrying supplier inventory. Factors included inventory turn, space allocation and bin consumption across each warehouse within our wholesaling environment. This supplier specific profitability analysis enabled better informed commercial discussions to ensure improved space optimisation and efficiencies.

Net finance costs
Net finance costs increased by 10.1% to R380 million. This increase was primarily due to additional interest cost in the first half of the year as a result of the additional inventory held over the strike period to avoid compromising stock levels in our stores. Net finance costs (excluding IFRS 16) in the first half of the year amounted to R77 million compared to R61 million in the second half of the year. The Group took advantage of favourable financing by replacing the existing ABSA facility with a new facility in order to facilitate acquisitions in both the retail and wholesale businesses.

Net working capital
During the current period, the Group reduced inventory holdings by R609 million from February 2019. This was achieved through the afore-mentioned ROIC processes and simplified by normalised trade in our wholesale business post the strike, allowing more efficient replenishment cycles and focus on excess stock levels. This net working capital improvement, from an outflow of R404 million in February 2019 to an inflow of R266 million has resulted in a greatly improved cash generation for the Group.

The Group's net working capital improved from 28 February 2019 of 38.3 days to 33.3 days at 29 February 2020.

Capital expenditure
Capital expenditure on tangible and intangible assets of R363 million comprised R223 million of expansionary expenditure as the Group invested in additional stores as well as information technology enhancements across both the retail and wholesale segments. The balance of R140 million relates to replacement expenditure incurred to maintain the existing retail and wholesale networks.

Capital expenditure on acquisitions amounted to R60 million with the acquisition of three independent pharmacies and a pharmaceutical adherence business in the current period.

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

Dividend declaration

With the on-going Covid-19 pandemic and the uncertainty around how quickly South Africa will transition through the new stage-based plan announced by the government, it has been decided to preserve cash resources. The dividend payment will be deferred until the next dividend cycle once the Group better understands normalised trading conditions and considers the funding sources for the Baby City transaction. The Group returned R266 million to shareholders in dividend payments during the year, 11.7% lower than the prior period.

Trading subsequent to year end
After year end, due to the Covid-19 pandemic, the Group has experienced different trading patterns to that of corresponding years. During March, before the lock down came into effect on 27 March 2020, retail stores

experienced a substantial increase in revenue compared to the corresponding period of 45.6% as customers stocked up on products. Increased revenue were seen across all categories but especially in the pharmacy, healthcare and nutrition category. This trading pattern was then reversed during the lock down, when only essential products could be sold, and retail revenue decreased by 20.9% compared to the corresponding period. Since level 4 came into effect the Group is starting to see a recovery in its revenue with retail revenue increasing by 2.8% from 1 May until 16 May 2020 compared to the corresponding period.

For the eleven weeks to 16 May 2020, retail revenue grew by 6.2% and wholesale revenue grew by 25% from the corresponding period.

The wholesale business benefitted from the resilient nature of independent pharmacy with pharmacy, healthcare and nutrition revenue growing both prior to and during the Covid-19 period. In addition a business to business solution was developed, offering all businesses returning back the ability to access the appropriated products (PPE, sanitation products) and services (screening and testing services offered by our clinic sisters) at wholesale prices.

Outlook

The Group is pleased to announce that on 11 May 2020 it entered into inter-conditional agreements in terms of which it will acquire 100% of the issued share capital in and shareholder claims of Fairy Tales Boutiques (Proprietary) Limited and Somerset Baby Hyper (Proprietary) Limited, which in aggregate, comprise the well-known baby care products retailer Baby City. Michel Aronoff, who conceptualised and strategized Baby City's direction, will continue to serve as managing director of Baby City following closure of the transaction and current staff will be retained. The Group will pay a purchase consideration of R430 million upon closure. The transaction remains subject to suspensive conditions, including approval from competition authorities, which are subject to fulfilment by 31 October 2020.

Chief Executive Officer, Ivan Saltzman, "The acquisition is a great cultural fit and has been a target of ours for many years. The brands and businesses were built with similar philosophies, ensuring management team alignment as we take steps to unlock the value we see in the Baby City brand."

The Group expects that the consumer will continue to remain constrained and the full extent of the impact of Covid-19 is still unknown. The ultimate impact on trade in the 2021 financial year is currently unknown, as it will depend heavily on the duration of the lock down levels and the normalisation of retail trade. With the focus on ROIC and the cash generation in the 2020 financial year, the Group has a strong balance sheet and is continuing to adapt quickly to the current environment, with a focus on mitigating the near-term impact whilst positioning itself for success in the future.

The Group continues to remain focused on adding retail stores with 21 stores planned to be opened in the 2021 financial year.

The 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 website: www.dischemgroup.com. This short-form announcement itself has not been reviewed and reported on by the company's auditors. The financial information in this outlook paragraph has not been audited, reviewed or reported on by the Group's external auditors.

Approval

The provisional annual condensed consolidated results of the Group were authorised for issue in accordance with a resolution of the directors on 19 May 2020.

On behalf of the Board

Ivan Saltzman	Rui Morais
Chief Executive Officer	Chief Financial Officer

Supplementary information

Registered office: 23 Stag Road, Midrand, 1685

Independent non-executive directors:
LM Nestadt (Chairman), MJ Bowman, A Coovadia, JS Mthimunye and MSI Gani

Executive directors:
IL Saltzman (Chief Executive Officer), LF Saltzman (Managing Director),
RM Morais (Chief Financial Officer) and SE Saltzman (Alternate for LF Saltzman)

Company secretary:
WT Green

Registered auditors:
Ernst & Young Inc.

Sponsor:
The Standard Bank of South Africa Limited

Transfer secretaries:
Computershare Investor Services Proprietary Limited

20 May 2020
Midrand