

Dis-Chem Pharmacies Limited
(Incorporated in the Republic of South Africa)
(Registration number 2005/009766/06)
JSE share code: DCP ISIN: ZAE000227831
(“Dis-Chem” or the “Group”)

TRADING UPDATE FOR THE 24 WEEKS ENDED 15 AUGUST 2020

The following trading update aims to provide understanding into the Group’s trading performance amidst the backdrop of the COVID-19 pandemic together with its challenges and brought on regulations.

GROUP

During the 24 weeks from 1 March 2020 to 15 August 2020, the Group recorded revenue growth of 8.8% to R11.7bn over the corresponding period in the prior year (“Corresponding Period”).

Chief executive Ivan Saltzman: “Over the past four and a half months, Dis-Chem played a vital role as one of the country’s essential service operators, supplying its customers with the necessary medicines and other products during the nationwide lockdown. Despite the negative factors that constrained regular trading, we remained committed to meeting the needs and demands of our customers.

We continue to benefit from the resilient nature of the industry in which we operate and are encouraged by elements of the changing healthcare landscape that highlight the importance of our core dispensary and clinic offerings. We are excited about the growth we have seen in our clinics, which together with our Telemedicine offering, will play an important role in the delivery and growth of the primary care market within South Africa’s healthcare system.

We experienced disruptions to trade through store closures following positive COVID-19 cases among employees where we followed strict protocols to test staff members, disinfect stores and create a safe environment for our employees and customers. The Group continues to maintain the highest possible standards of hygiene and safety.”

RETAIL

Retail revenue increased by 6.3% to R10.4bn over the Corresponding Period. Comparable sales growth was 1.5%.

Despite the Group being an essential service provider and trading throughout the lockdown period, the various COVID-19 regulations implemented during the different levels of lockdown restricted the Group from selling all its products and trading within its usual operating hours. During level 5 of the lockdown period, the Group was unable to sell 20% of its products, including higher-margin products from its Beauty category. Lost revenue as a result of the restriction was approximately R200 million for April.

The various restrictions during each level of lockdown dramatically changed the shopping behaviour of our customers. Fashion and entertainment are the biggest drivers of footfall in malls. As such, the location of our stores in convenience centres vs malls played a vital role in the composition of turnover growth. The Group is amply represented in malls, thus the trend across the different levels of lockdown (See table 1).

Table 1: Breakdown of retail sales and like-for-like sales growth in convenience centres and malls during the various levels of lockdown

| Sales growth (%) | Pre-lockdown 1 March 2020 – 26 March 2020 | Level 5 27 March 2020 – 30 April 2020 | Level 4 1 May 2020 – 31 May 2020 | Level 3 1 June 2020 – 15 August 2020 | Total |
|---------------------|--|--|-------------------------------------|---|------------|
| Convenience centres | 58.3 | (8.6) | 9.7 | 17.2 | 16.4 |
| Malls | 29.0 | (38.1) | (11.1) | (5.0) | (7.8) |
| Total | 45.6 | (20.9) | 1.0 | 8.0 | 6.3 |
| Online sales growth | 375 | 262 | 387 | 404 | 344 |

| Like-for-like sales growth (%) | Pre-lockdown 1 March 2020 – 26 March 2020 | Level 5 27 March 2020 – 30 April 2020 | Level 4 1 May 2020 – 31 May 2020 | Level 3 1 June 2020 – 15 August 2020 | Total |
|--------------------------------|--|--|-------------------------------------|---|------------|
| Convenience centres | 46.3 | (15.0) | 2.8 | 8.8 | 8.3 |
| Malls | 28.4 | (38.4) | (11.2) | (4.9) | (7.9) |
| Total | 38.6 | (24.9) | (3.0) | 3.1 | 1.5 |

The Group experienced significant online sales growth of 344%. The quick deployment of additional hubs together with an investment in the Group’s e-commerce platform enabled it to meet the increased demand as best as possible. COVID-19 has matured the e-commerce environment and consumer adaption by 3 to 5 years.

Retail categories

The Group experienced a change in its sales and gross margin mix due to sales restrictions during level 5 of lockdown, with the sales of lower margin COVID-19 related products increasing and reduced impulse purchases because of lower foot traffic. COVID-19 related products represented approximately 9% of total retail sales and 13.8% of front shop sales. The Group is slowly starting to see the sales and gross margin mix normalise.

As a result of social distancing, increased sanitising measures, people working from home and children not going to school, the country experienced fewer cold and flu cases than in previous years. This adversely impacted the dispensary category, specifically over the counter (“OTC”) sales. Strong chronic drug adherence due to health education, awareness and higher patient risk, partially offset the impact.

Non-essential product sales restrictions hurt our higher-margin Beauty category sales with two of our biggest promotions, Beauty Fair and Mother’s Day falling within the lockdown period. This category was also impacted by our large flagship stores located in malls, trading down. The Group did not experience the commonly expected “Lipstick Effect”, demonstrating the change in the social behaviour of consumers.

Healthcare and Nutrition performed exceptionally well as customers increased their spend on vitamins and immune boosters. Sports supplement sales within the category declined vs the corresponding period as a result of the closing of gyms and cancelling of sporting events. The Group, however, believes that Healthcare and Nutrition will continue to take an additional share of customers wallets as a result of improved health education and awareness in light of the pandemic.

In the Baby category, the Group experienced pre-lockdown stocking up, adversely affecting sales during the lockdown period. Expecting mothers were the most cautious shoppers, which contributed to both the decline in in-store purchases and the exponential online sales growth in this category.

Table 2: Category sales growth

| | % sales growth |
|---------------------------------|-----------------------|
| Dispensary | 1.9% |
| Personal Care and Beauty | 4.8% |
| Healthcare and Nutrition | 19.0% |
| Baby | -2.6% |
| Other | 2.4% |

To date, the Group has added 11 new stores.

WHOLESALE

Wholesale revenue increased by 16.4% to R8.6bn. Sales to our retail stores, which contribute 84% of wholesale revenue, grew by 13.8%. Sales to independent pharmacies and The Local Choice (“TLC”) franchisees increased by 39.9% and 27.0% respectively, as our independent and franchise customer bases continue to grow.

Independent Pharmacy growth is due to a combination of new customers and increased support from the current base. The Group has been able to maintain its excellent service levels during these trying times in terms of operating hours, delivery times and stockholding, which is proving to be rewarding. The shift in customer behaviour from big malls to more convenient shopping during the lockdown has also benefited Independent Pharmacy trade.

The growth in the number of TLC franchises, together with the growth that these stores experience post their joining and rebranding, is proving to be very successful and beneficial to the wholesale business. Favourable initiatives that franchisees experience on joining include national advertising, centralised retail expertise and a franchise-specific loyalty programme.

Table 3: SUMMARY

| | 24 weeks ended 15 August 2020 (R'm) | 24 weeks ended 15 August 2019 (R'm) | % change | % like-for-like retail revenue growth |
|-------------------|--|--|-----------------|--|
| Retail | 10 394 | 9 780 | 6.3% | 1.5% |
| Wholesale | 8 602 | 7 391 | 16.4% | |
| Intergroup | (7 256) | (6 378) | 13.8% | |
| Group | 11 740 | 10 793 | 8.8% | |

Additional costs as a result of COVID-19

The protocols set up to deal with the COVID-19 pandemic and ensure the protection of our staff and customers resulted in additional costs.

The largest cost being vouchers valued at R23,5 million that the Group distributed to all staff who continue to work at the frontline of the pandemic. Management believes this to be a valuable gratuitous investment in thanking them for their unselfish loyalty during this challenging time.

Table 4: Additional COVID related costs

| Expense | Amount (R'000) |
|---|-----------------------|
| Staff vouchers and donations | 25 500 |
| Personal protective equipment and screening costs | 9 117 |
| Staff COVID-19 testing | 2 407 |
| Other | 4 086 |
| Total | 41 110 |

The figures mentioned above and any information contained herein have not been reviewed or reported on by the Group's external auditors.

The Group will report interim results for the six months ended 31 August 2020 on Thursday, 5 November 2020. The results presentation will be webcast only, and further details will be communicated in due course.

Midrand

25 August 2020

Sponsor

The Standard Bank of South Africa Limited