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 28 February 2021

	12 months to 28 February 2021	12 months to 29 February 2010	% change
Group revenue	R26.3 billion	24.0 billion	9.6%
Earnings per share	77.8 cents	69.6 cents	11.8%
Headline earnings per share	77.8 cents	69.6 cents	11.8%
Dividend declared per share	31.1 cents	12.8 cents	148%

Overview
Despite a tough economic environment, with the COVID-19 pandemic directly overlapping the reporting period, and the deepening economic recession, the Dis-Chem Group achieved positive results.

Earnings attributable to shareholders and headline earnings increased by 11.8% over the corresponding period. Earnings per share (EPS) and headline earnings per share (HEPS) are both 77.8 cents per share, an increase of 11.8%.

Retail operating profit was R1.2 billion and the wholesale segments performance continued to improve reporting an operating profit of R65 million.

COVID-19
Despite the Group being an essential service provider and trading throughout the lockdown period, the various COVID-19 regulations imposed during the different levels of lockdown, restricted the Group from trading over its usual operating hours and selling across all categories. 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.

The various restrictions during each level of lockdown dramatically changed the shopping behaviour of our customers and the Group experienced significant online sales growth of 260.7%. The strategic deployment of 39 additional hub spaces in response, together with continued investment in the Group's e-commerce platform, enabled it to meet the increased demand.

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 across the winter months.

The Group continues to take every possible step to safeguard the well-being of its employees, customers and patients. Costs directly related to COVID-19 amounted to R56.6 million, mainly relating to providing personal protection equipment, screening costs, staff COVID-19 testing and the largest cost being related to the vouchers valued at R23.5 million that the Group distributed to all staff as a gratuity for their commitment to the front-line fight against the virus.

The growth seen in our clinics 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 believe the pandemic has highlighted the need to solve for increased, lower priced healthcare delivery to more South Africans.

The Group has taken several steps to strengthen its financial position and maintain financial liquidity and the Group's financial position has been assisted by the lowering of interest rates. The Group believes the adaptation of the business to a focussed Return on Invested Capital ("ROIC") approach positions it well to fast changing trading patterns.

Review of financial performance

Revenue
During the twelve-month period from 1 March 2020 to 28 February 2021, Dis-Chem recorded Group revenue growth of 9.6% to R26.3 billion.

Retail revenue grew by 7.6% to R23.4 billion with comparable store revenue at 2.7%. The Group opened nett 22 new stores, including 3 Mediclinic stores, and acquired two new pharmacies during the year, with 194 stores at the end of February 2021. These new stores contributed R491 million to revenue. Baby City has contributed R128 million to revenue in January and February 2021, 0.6% of the retail revenue growth.

Wholesale revenue grew by 16.4% to R19.3 billion. Wholesale revenue to our own retail stores, still the biggest contributor, grew by 14.4%, while external revenue to independent pharmacies and The Local Choice ("TLC") franchises grew by 27.7% and 37.1% respectively over the corresponding period. TLC growth is due to a combination of an increase in TLC franchise stores from 104 to 122 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 8.5% to R7.4 billion, with the Group's total income margin being 28.3%.

Retail total income grew by 6.5% with the retail margin decreasing from 27.7% to 27.5%. The Group experienced a change in its sales and gross margin mix due to sales restrictions during lockdown, with the sales of lower margin COVID-19 related products increasing.

The impact on transactional gross margin as a result of the sales and gross margin mix was 0.8% lower in the retail segment. This impact was partially offset by improved back-end trade terms as a function of the continued focus on ROIC. Back-end trade terms grew by 16.5% compared to purchases growth of 10.9% (excluding COVID-19 related inventory and Baby City).

Wholesale total income grew by 10.1% with the wholesale margin now at 7.6%.

Other expenses
Retail expenses (excluding depreciation) grew by 9.1% as the Group invested in nett 24 new stores since the corresponding period as well as due to the additional COVID-19 related expenses.

Excluding costs directly related to COVID-19, retail expenses (excluding depreciation) grew 7.9%.

Employee costs (excluding employee costs directly related to COVID-19), the biggest contributor of expenses, was well managed in experiencing growth of 6.6%. With the reduction in trading hours across the different levels of lock down, the Group was able to reduce employee variable cost in stores.

Dispensary employee costs, both fixed and variable, the largest contributor to employee costs was extremely well managed and increased by only 1.28%.

Wholesale expenses (excluding depreciation and costs directly related to COVID-19) only grew by 0.5% compared to the prior comparable period. The low growth in wholesale expenses is a result of the investment in technology in the prior financial year that allows for greater visibility of productivity, customer performance and individual supplier profitability within the wholesale space. Employee costs were well managed with a growth of 6.5% (excluding COVID-19 costs) compared to the prior comparable period in relation to revenue growth of 16.4%.

Net finance costs
Net financing costs have decreased by 13.7% from the prior period due to the reduction in the prime interest rate as well as average lower levels of working capital during the year 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 increased by R1.2 billion from February 2020 due to the holding of additional COVID-19 specific inventory, additional inventory of R127 million relating to Baby City and the buy-in of inventory of approximately R300 million in February 2021 before the Single-Exit Price ("SEP") increases. The majority of COVID-19 specific inventory was purchased cash-on-delivery without terms and continues to cycle out of the balance sheet.

Net working capital, at 29.6 days, continued to improve from 33.3 days at 29 February 2020 as the Group continues to focus on ROIC. Excluding Baby City the net working capital was at 29.2 days.

Capital expenditure
Capital expenditure on tangible and intangible assets of R401 million comprised R311 million of expansionary expenditure as the Group invested in additional stores as well as information technology enhancements across both the retail and wholesale segments, including R88 million in SAP software licences. The balance of R90 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.

Dividends declaration
With indications of normalised trading patterns, the Group has reinstated its dividend policy and notice is hereby given that a gross final cash dividend of 31.10346 cents per share, in respect of the year ended 28 February 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 24.88277 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, 8 June 2021
- First trading day ex dividend on the JSE: Wednesday, 9 June 2021
- Record date: Friday, 11 June 2021
- Payment date: Monday, 14 June 2021

Share certificates may not be dematerialised or rematerialised between Wednesday, 9 June 2019 and Friday, 11 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.

Strategic acquisitions affecting the reporting period

Baby City
The Group acquired 100% of Baby City on 1 January 2021 for R422 million. Baby City is a specialist destination baby retailer that operates a network of 33 stores across South Africa. It sells a comprehensive range of branded baby products at reasonable "Everyday Low Prices". The brand's focus is primarily on first-time parents and caters for moms' and babies' every need. Baby City offers a complete baby shopping experience to its customers and prides itself on its consumer-centric approach in a resilient industry.

All Baby City stores have completed the migration onto the Group's common technology platform. This was a necessary first step to enable the extraction of the planned synergistic benefits across both brands. Baby City contributed R128 million to Group revenue for the period ended 28 February 2021.

Strategic acquisitions affecting future reporting periods

Healthforce
Effective 1 December 2020, the Healthforce solution was rolled out to the Group's 336 clinic rooms, becoming the single technology platform used to facilitate all nurse-led consultations. Over the three-month period since migration to the end of 28 February 2021, Healthforce facilitated 180,000 nurse-led consultations within Dis-Chem's clinics.

On 1 March 2021, the Group acquired 87.5% of Healthforce (Proprietary) Limited ("Healthforce") 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 telemedicine capability, which provides realtime video connections between patients and nurses and an on-demand remote doctor network. The solution focuses on enabling a multi-disciplinary team-based care offering.

In the face of a changing primary healthcare landscape, Healthforce presents the Group with an investment in a strategic asset through which it can advance its ambitions to be at the forefront of innovation in the delivery of care.

Medicare
On 14 December 2020, the Group entered into a binding agreement with Pure Pharmacy Holdings (trading as Medicare Health ("Medicare") and its existing shareholders, to acquire 100% of the equity in Medicare, for a purchase consideration of R282 million. The transaction includes a net working capital guarantee to ensure that the working capital metrics align with those of Dis-Chem.

Medicare is a healthcare and pharmacy group, operating 50 pharmacies across four 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. For the year ended 28 February 2021, Medicare generated revenue of 1.1 billion, with dispensary contributing approximately two thirds.

The transaction is currently 106 business days into the merger notification process with the competition authorities, which is within the 120-day service standard period for a phase three large merger notification.

Kaelo
The Group has entered into agreements with the shareholders of Kaelo Holdings ("Kaelo") in which it will acquire 25% of the equity of Kaelo, for a purchase consideration of up to R195 million, subject to company performance hurdles in each of the FY21 and FY22 periods. Upon closure, an initial amount of R120 million will be payable. The Group can now report that the transaction was recently filed with the Competition Authorities as a large merger.

Kaelo houses a complementary portfolio of health assets, including benefit-rich gap and primary health insurance products, occupational health clinics, and is the owner of the AskNelson psychological wellbeing platform.

Kaelo has delivered impressive and consistent annual performance, with CAGR product revenue growth of 30% over the last 3-years. Profit growth for the 12-months to 30 June 2021 is expected to be 65% higher than the corresponding period.

The market opportunity for Kaelo's insurance products is significant. With only 16% of the approximately four million active medical scheme policyholders also holding gap insurance policies, and 12.4 million employed and uninsured people in SA, the gap shortfall and primary health insurance opportunities, to offer affordable and quality primary health insurance, is sizable.

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 10 weeks to 10 May 2021, the Group's revenue increased by 12.6% over the prior comparable period.

Dis-Chem's commitment to partnering with government to fight the COVID-19 pandemic remains steadfast. Since 17 May 2021, the Group has been vaccinating over 60s and its healthcare workers. The Group has secured 32 dedicated vaccination sites, 11 of which will commence administration of vaccines to the public from 24 May 2021. Additional capacity from in-store clinics will be added, when the J&J vaccination becomes available. Operating at full capacity, the Group will be able to administer up to 800 000 vaccines per month.

The Group expects that, with the full extent of the impact of COVID-19 still unknown, 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 brands positioning, the Group is continuing to adapt to the current environment. With a focus on mitigating the near-term impact, the Group is well positioned for continued success in the future.

Approval
The provisional reviewed annual condensed consolidated results of the Group were authorised for issue in accordance with a resolution of the directors on 20 May 2021.

On behalf of the Board

Ivan Saltzman	Rui Morais
Chief Executive Officer	Chief Financial Officer

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/2021/jse/isse/dcpe/FY21.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.

Supplementary information
Registered office:
23 Stag Road, Midrand, 1685

Independent non-executive directors:
LM Nestadt (Chairman), MJ Bowman, A Coovadia, JS Mthimunye, MSI Gani (resigned 9 September 2020) and A Sithebe (appointed 12 January 2021)

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:
NJ Lumley (appointed 1 March 2021); WT Green (resigned 28 February 2021)

Registered auditors:
Ernst & Young Inc.

Sponsor:
The Standard Bank of South Africa Limited

Transfer secretaries:
Computershare Investor Services Proprietary Limited

21 May 2021
Midrand