

CLICKS GROUP - ANNUAL RESULTS 2023
SHORT-FORM ANNOUNCEMENT FOR SENS

Clicks Group Limited
(Incorporated in the Republic of South Africa)
Registration number: 1996/000645/06
JSE share code: CLS
ISIN: ZAE000134854
CUSIP: 18682W205
LEI: 378900E967958A677472
("Clicks Group" or "the group" or "the company")

CONDENSED CONSOLIDATED ANNUAL GROUP RESULTS FOR THE YEAR ENDED 31 AUGUST
2023 AND CASH DIVIDEND DECLARATION

SHORT-FORM ANNOUNCEMENT

KEY FEATURES

- Group turnover up 8.2%*
- Retail turnover up 12.2%*
- Adjusted operating margin up 30 bps[^] to 8.7%
- Adjusted diluted HEPS up 11.5%[^]
- Total dividend up 6.6% to 679 cents per share
- R5.9 billion cash generated by operations
- R2.3 billion returned to shareholders
- R2.5 billion cash on balance sheet

* Excluding vaccinations in current and prior periods. Including vaccinations, group turnover increased by 5.1%, while retail increased by 7.9%.

[^] Excluding insurance proceeds in prior period

Financial reporting for impact of civil unrest
In line with the group's recent reporting practice, certain financial information for the prior period has been adjusted for insurance recoveries related to the impact of the 2021 KwaZulu-Natal civil unrest to present a normalised view of the underlying operating performance of the group.

Overview

Clicks Group delivered another resilient performance as improving margins and robust cash flow generation contributed to adjusted diluted headline earnings per share (HEPS) increasing by 11.5%. The group achieved all its medium-term financial targets.

Clicks delivered stronger second half turnover growth and recorded market share gains in all core product categories in an environment of growing pressure on consumer disposable income. Strong growth in private label sales and the sustained recovery in the beauty category were supported by the Clicks ClubCard loyalty programme which has grown to 10.4 million active members.

The group successfully concluded three strategic acquisitions totalling R320 million to further entrench its leadership position in health and beauty retailing. These businesses are the Sorbet beauty salon franchise chain of 194 outlets, M-Kem, a long-established 24-hour pharmacy in the Western Cape, and 180 Degrees, a pharmacy software development company.

UPD reported improved turnover and profitability in the second half of the year. The business was impacted by the lower increase in the regulated single exit price (SEP) of medicines and operational challenges during the systems implementation in three of its distribution centres. The operational metrics in the distribution centres have normalised.

The group continued to invest for longer term growth, with record capital expenditure of R930 million committed to the expansion of the store network and integrated supply chain, as Clicks opened its 850th store and 700th pharmacy during the year.

Financial performance

Group turnover increased by 8.2% (excluding vaccinations) to R41.6 billion (up 5.1% including vaccinations), with retail turnover increasing by 12.2%. Distribution turnover grew by 1.5% for the year as UPD was impacted by lost sales opportunities to Clicks and private hospitals during the systems implementation in the first half, lower demand from independent pharmacies and the shift of products within UPD from the preferred supplier to the bulk distribution channel.

Adjusted total income grew by 10.8% to R12.2 billion (up 7.6% including the insurance recoveries). The retail margin expanded by 130 basis points and continued to benefit from the strong growth in higher margin private label products and the recovery in the beauty category, while the low margin vaccination programme came to an end. The increase in the distribution margin of 20 basis points reflects improved management of shrinkage and waste in UPD. The group's total income margin expanded by 150 basis points to 29.2% due to the stronger growth of retail relative to distribution.

Retail costs were impacted by higher insurance premiums and diesel costs, increasing by 11.4% with comparable retail cost growth of 7.4%. Distribution costs increased by 13.4% due to higher insurance, transport and diesel costs as well as increased employment costs to maintain service levels during the systems implementation. The group's diesel costs to operate generators during load shedding totalled R53.8 million.

Adjusted group operating profit excluding the insurance recoveries increased by 9.0% to R3.6 billion (decreased by 0.7% including insurance recoveries) while the group's adjusted operating margin increased by 30 basis points to 8.7%. The retail operating margin expanded by 60 basis points to 10.0% due to the growth in higher margin product categories. While UPD's margin reduced by 50 basis points due to the combined impact of load shedding, higher insurance costs, the low SEP increase and labour inefficiencies in the first half, the margin recovered in the second half to reach 2.8% for the year and is back within management's medium-term target range.

Total headline earnings, including insurance recoveries in the prior year, grew by 0.8% to R2.5 billion. Basic earnings per share declined by 3.5% to 1 042 cents with diluted HEPS increasing by 1.1% to 1 045 cents. Adjusting for the insurance recoveries in the prior year, diluted HEPS grew by 11.5%.

Inventory levels were well managed and grew by only 2.4%. Group inventory days reduced to 71 days (2022: 72 days), with the prior period benefiting from the faster stock turn of vaccines.

Cash generated by operations totalled R5.9 billion. Capital expenditure of R930 million (2022: R838 million) was invested mainly in new stores and pharmacies, store refurbishments, supply chain and information technology.

The group returned R2.3 billion to shareholders in dividend payments of R1.6 billion and share buybacks of R704 million. At year end the group held cash resources of R2.5 billion. Shares totalling R392 million have been repurchased post the year end.

Outlook

The group expects trading conditions to remain extremely constrained in the new financial year. The business model remains resilient and defensive and the group has proven its ability to adapt to changing market dynamics.

Management is confident that the organic growth opportunities in Clicks, together with the group's strong cash generation and healthy balance sheet, should ensure that the group continues to deliver on its medium-term financial and operating targets.

Clicks plans to open 40 - 50 new stores and 40 - 50 pharmacies for the financial year and remains committed to its longer-term target of 1 200 stores.

Capital investment of R880 million is planned for the 2024 financial year. This includes R487 million for new stores and pharmacies and the refurbishment of 50 - 60 stores. R393 million will be invested in supply chain, technology and infrastructure.

Final dividend

The board of directors has approved a final gross ordinary dividend for the period ended 31 August 2023 of 494.0 cents per share (2022: 457.0 cents per share). The source of the dividend will be from distributable reserves and paid in cash.

Additional information

Dividends Tax (DT) of 20% amounting to 98.8 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 395.2 cents net of DT.

The company has 239 712 465 ordinary shares. Its income tax reference number is 9061/745/71/8.

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

Last day to trade "cum" the dividend	Tuesday, 23 January 2024
Shares trade "ex" the dividend	Wednesday, 24 January 2024
Record date	Friday, 26 January 2024
Payment to shareholders	Monday, 29 January 2024

Share certificates may not be dematerialised or re-materialised between Wednesday, 24 January 2024 and Friday, 26 January 2024, both days inclusive.

David Nurek
Chairman

Bertina Engelbrecht
Chief executive officer

Gordon Traill
Chief financial officer

Cape Town
26 October 2023

This short-form announcement is the responsibility of the Clicks Group board of directors and is a summary of the information in the detailed annual results announcement and does not contain full or complete details.

The full announcement can be downloaded from <https://senspdf.jse.co.za/documents/2023/jse/isse/CLS/2023.pdf> or on the group's website at www.clicksgroup.co.za. The announcement is available for inspection, at no charge, at Clicks Group's registered office during business hours for a period of 30 calendar days following the date of this announcement. Any investment decision in relation to Clicks Group's shares should be based on the full announcement.

Ernst & Young Inc., the group's independent auditor, has reviewed the condensed consolidated financial statements and has expressed an unmodified review conclusion on the condensed consolidated financial statements. Their review report is available for inspection at the company's registered office together with the condensed consolidated financial statements identified in the auditor's report. These condensed financial statements have been prepared under the supervision of Mr GD Traill CA, the chief financial officer of the group.

Directors: DM Nurek* (Chairman), JA Bester*, BD Engelbrecht (Chief Executive Officer), R Inskip *#, NNA Matyumza*^, MJN Njeke*, SS Ntsaluba*, PM Osiris (née Moumakwa)*, KC Ramon*⁰, GD Traill*† (Chief Financial Officer)

* Independent non-executive

^ Appointed 1 September 2022

+ Appointed 1 January 2023

⁰ Appointed 7 February 2023

Appointed 1 July 2023

† British

Registered office: Cnr Searle and Pontac Streets, Cape Town 8001

Transfer secretaries: Computershare Investor Services (Proprietary) Limited

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