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 Company" or "the Group")

INTERIM CONDENSED CONSOLIDATED FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2023

Highlights

	6 months to 31 August 2023	6 months to 31 August 2022	% change
Group revenue	R17.9 billion	R16.3 billion	9.4%
Earnings per share	58.3 cents	70.1 cents	(16.7%)
Headline earnings per share	58.2 cents	70.3 cents	(17.2%)
Dividend declared per share	23.2 cents	28.1 cents	(17.3%)

Overview

The Group is satisfied with its performance during the period, notwithstanding a tough trading environment. The constrained economic environment, higher interest rates and costs associated with load-shedding, has resulted in a weaker performance by the Group over the prior comparative period. In the current financial year, the Group has also been impacted by the base effects of the prior year's performance, which were distinctly different across the two halves of the year, with the first half of the prior year delivering a strong performance when compared to the second half of the prior year. A more equal distribution of earnings across halves is expected in the current financial year. Contributing to the stronger first half performance in the prior year, was the acquisitions of the warehouse properties resulting in a R72 million once-off gain from the release of the lease liability and right-of-use asset as well as the impact of COVID-19 vaccine administration and testing services which has ended and did not contribute in the current financial period. Basic earnings per share (EPS) and basic headline earnings per share (HEPS) are 58.3 cents and 58.2 cents per share respectively, a decrease of 16.7% and 17.2% respectively.

Earnings Distribution Across Halves

The table below shows the historic distribution of earnings before taxation across halves, which demonstrates the consistency of stronger second half earnings. In FY23, the softer second half performance was largely attributable to the impact of negative publicity, which was carried forward into the first quarter of FY24. As a function of being a high growth business, investment in resources to facilitate growth is necessary, but does introduce the risk of negative operating leverage during periods of softer sales.

	FY21	FY22	FY23 *	FY24
H1	443m (47.1%)	595m (48.5%)	785m (58.4%)	702m
H2	498m (52.9%)	632m (51.5%)	560m (41.6%)	
Full Year	941m (100%)	1 227m (100%	1 345m (100%)	

** Excludes once off property gain of R72m*

The group anticipates a stronger FY24 second half in line with the historical trend. The anticipated performance improvement will be further supported by progress in cost control measures, with a particular focus on the management of staff costs. The differential between revenue growth and payroll growth has shifted from -3.7% at the end of the first quarter to +3.0% in the month of October. This progress in managing the Group's largest cost line represents a significant step in securing positive operating leverage translating into operational profit improvements in the second half of FY24 and over time.

Review of financial performance

Revenue

During the six-month period from 1 March 2023 to 31 August 2023, Dis-Chem recorded Group revenue growth of 9.4% to R17.9 billion.

Retail revenue grew by 8.1% to R15.6 billion with comparable pharmacy store revenue growth at 5.9%. Retail revenue growth was impacted by COVID-19 vaccine administration and testing services in the prior period compared to the current period. If the contribution of COVID-19 vaccines and testing are excluded from both periods, retail revenue grew by 9.2%. During the six months to 31 August 2023, 10 retail pharmacy stores were opened or acquired, resulting in 268 retail pharmacy stores and 54 retail baby stores at 31 August 2023. Wholesale revenue grew by 13.5% to R13.7 billion.

Wholesale revenue to our own retail stores, still the biggest contributor, grew by 12.5% while external revenue to independent pharmacies and The Local Choice (TLC) franchises grew by 19.1% over the comparable period. Independent pharmacy growth was 18.0% attributable to both new customers and increased support from the current base, and TLC growth was 20.4% due to a combination of an increase in TLC franchise stores from 153 to 180 together with increasing support of the supply chain from existing TLC franchisees.

Total income

Total income grew by 5.1% to R5.4 billion, with the Group's total income margin being 30.5% compared to 31.7% in the prior comparative period (31.3% when excluding the property gain in the prior period relating to the purchase of the wholesale properties).

Retail total income grew by 6.5% with the retail margin decreasing from 30.2% to 29.8% over the comparable period. If the contribution of COVID-19 vaccines and testing are excluded from both periods, retail total income grew by 7.7%. The decrease in retail margin is due to continued investment in promotional activity to ensure market share retention which impacted transactional margin in personal care and beauty.

Wholesale total income (excluding the property gain in the prior period) grew by 8.4%.

Other expenses

Expenses grew by 9.4% over the comparable period (excluding depreciation, expenses grew by 8.5% over the comparable period).

Retail expenses grew by 11.3% (excluding depreciation, expenses grew by 10.8%) as the Group invested in new stores and acquisitions since the comparable period. Retail costs were also influenced by employee costs increasing by 9.8%, higher diesel costs to run generators for stores to remain operational during load-shedding, higher IT costs with the remaining roll-out of the new point-of-sale system to stores and increased advertising expenditure.

Cost containment is a focus area for the Group in the current financial period, especially in relation to employee costs that currently accounts for approximately 64% of retail expenses. The emphasis is on achieving the consistent and optimal mix of staff to ensure that stores can run as efficiently as possible, without compromising on the differentiated service levels that our customers have come to know and expect.
Wholesale expenses grew by 5.5% (excluding depreciation, expenses grew by 4.2%) due to the increase in volumes through the wholesale space resulting in an increase in casual labour shifts as well as higher costs relating to diesel and municipal costs.

Net finance costs

Net financing costs increased by 33.2% from the prior comparable period. Excluding finance costs from IFRS 16 and interest on the new term loan, net financing costs increased by 15.7%. This increase is due to the additional interest paid on the existing loans with the increase in the prime interest rate as well as the overdraft facility used for the additional inventory levels. The new term loan facility taken out with Standard Bank amounted to R455 million and was used to fund the acquisition of the warehouse properties in the prior financial period.

Net working capital

During the current period, the Group's inventory increased by R570 million or 9.0% from February 2023 due to the additional inventory held in new stores and the distribution channel due to strategic buy-ins. Inventory days, down from 88.2 days at 28 February 2023, to 88.1 days, have been maintained. After adjusting creditors days to take into account trade terms, creditors days have improved from 94.6 days to 95.3 days.

Net working capital at 20 days, has remained stable from 20.1 days at 28 February 2023, as the Group continues to focus on ROIC.

Capital expenditure

Capital expenditure on tangible and intangible assets of R279 million comprised of R156 million for 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 R123 million relates to replacement expenditure incurred to maintain the existing retail and wholesale networks.

In October 2023, the Competition Commission approved the purchase of the 63,000m^2 distribution centre in Gauteng, for a purchase consideration of R502 million which will increase the Capex spend in the second half of the year. The growth of the Group has caused the need for the additional warehouse capacity to service increased demand from both our own retail stores and the independent market. The warehouse will be debt funded.

Directorate

On the 1 July 2023, R. Morais who was the Group's Chief Financial Officer ("CFO") succeeded I. Saltzman as the Chief Executive Officer ("CEO") of the Group. I. Saltzman remains an executive director on the Board and continues to serve as an active member of the executive management team. J. Pope who was the Group's executive head of finance succeeded R. Morais as CFO.

Dividend declaration

Notice is hereby given that a gross interim cash dividend of 23.24348 cents per share, in respect of the interim period ended 31 August 2023 has been declared based on 40% of headline earnings. This is a decrease of 17.3% from the prior comparable period. 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 18.59478 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, 21 November 2023
• First trading day ex dividend on the JSE: Wednesday, 22 November 2023
• Record date: Friday, 24 November 2023
• Payment date: Monday, 27 November 2023

Share certificates may not be dematerialised or rematerialised between Wednesday, 22 November 2023 and Friday, 24 November 2023, both days inclusive. Shareholders who hold ordinary shares in certificated form ("certificated shareholders") should note that dividends will be paid by means of an electronic funds transfer ("EFT") method. 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 (by facsimile), 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.

Outlook

For the two-month period 1 September to 31 October 2023, Group revenue grew by 12.1% over the prior comparable period.

The Group expects that the consumer will remain constrained due to the current economic climate. The Group continues to adapt to the current environment, mitigating the near-term impact on the business. The resilient nature of the markets in which the Group operates, together with the brand position, proven business model, and heightened focus on key drivers of growth, will position it for success in the future.

The Group has identified seven strategic areas of focus aimed at delivering enhanced shareholder returns over the long-term.
• Property: addition of approximately 137,000m² of retail space over 36 months.
• Wholesale Market Share Expansion: dual strategy of supporting internal retail property growth while continuing to grow independent pharmacy market ahead of peers.
• Total Income: maintain with incremental improvements over the medium-term.
• Cost Control: focus on securing sustained positive operating leverage, following the establishment of a staffing framework with leadership and management accountability.
• Working Capital: 10% improvement in inventory days over the medium-term while maintaining debtor and creditor days.
• Integrated Healthcare Ecosystem: reimagine healthcare access via a portfolio of health-centric financial services products and the synergistic interaction of the Group's pharmacy and clinic footprint.
• Leveraging Analytics: with a focus on relevance, commercialise health consumption data to deliver enhanced shopper- and patient-centric value.

The information contained in the outlook commentary has not been audited or reviewed by the group's independent auditor.

Approval

The condensed consolidated results of the Group were authorised for issue in accordance with a resolution of the directors on 1 November 2023.

On behalf of the Board of Directors

Rui Morais	Julia Pope
Chief Executive Officer	Chief Financial Officer

THIS IS A SUMMARY OF THE INFORMATION IN THE FULL RESULTS ANNOUNCEMENT, WHICH IS AVAILABLE ON OUR WEBSITE: DISCHEMGROUP.COM
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 SENS on 3 November 2023 and on the Company's website: Dischemgroup.com or https://senspdf.jse.co.za/documents/2023/jse/isse/dcpe/HY24.pdf
Copies of the full announcement are available for inspection at the registered office of the Company, at no charge, during office hours. For more information contact investorrelations@dischem.co.za

Supplementary information

Registered office: 23 Stag Road, Midrand, 1685
Executive directors: RM Morais (Chief Executive Officer) ,JD Pope (Chief Financial Officer), IL Saltzman , SE Saltzman, and SRN Goetsch
Non-executive directors: LM Nestadt (Chairman), A Coovadia, JS Mthimunye, A Sithebe, H Masondo, and KKD Kobue.
Company secretary: NJ Lumley
Registered auditors: Mazars
Sponsor: The Standard Bank of South Africa Limited
Transfer secretaries: Computershare Investor Services Proprietary Limited

03 November 2023
Midrand