MEDIA RELEASE

Good value and customer choice at Dis-Chem overcome strike impact

Dis-Chem results for the 12 months ended 28 February 2019

Highlights

- Group revenue up 10% to R21.4 billion
- Headline earnings up 7.4%

Midrand, 16 May 2019 - Despite a tough economic environment and prolonged industrial action, which affected almost a third of the financial year, Dis-Chem reported positive results with improved market share across all of its core categories as it continues to produce attractive returns to shareholders.

Headline earnings increased by 7.4% for the 12 months ended 28 February 2019, with earnings per share and headline earnings per share increasing to 85.4 cents.

Chief executive, Ivan Saltzman, commented: *"It is pleasing to see ongoing market share gains across all of our core categories. With constrained consumers continually searching for value offerings, we believe these gains are driven by our everyday low-price strategy coupled with aggressive promotional activity, our trusted in-store service, the availability of choice and our continued focus on private label and exclusive brands.*

"Our roll-out plan of adding 20 stores or more annually remains on track. We are extremely pleased with the performance of our new stores, across all formats, as we enter new markets and grow our share in existing markets."

Considering the consolidation theme playing out in the retail pharmacy industry, space growth using the appropriate store format will remain a fundamental driver of Group growth.

Unfortunately, the industrial action which began mid-November last year heavily impacted the Group's performance in the current financial period. Dis-Chem believes the demands by the union were unreasonable considering the economic climate and the nature of the industry.

Now that the industrial action has been concluded, management's focus is on continuing to develop a productive employer/employee relationship, improving wholesale productivity levels and cost efficiency, as well as optimising the levels of stock holdings which the industrial action necessitated.

Financial performance

During the 12-month period from 1 March 2018 to 28 February 2019, Dis-Chem recorded Group revenue growth of 10% to R21.4 billion.

Total income, comprising of gross profit and other income, grew by 14.2% to R6.2 billion. The Group's total income margin improved from 28.0% to 29.1% predominantly as a result of a focused exercise by categories to review and increase gross margin across inelastic products. The Group continues to benefit from better trade terms with suppliers as it grows market share across core categories.

Operating profit grew by 8.2% to R1.2 billion, with the Group operating margin being 5.7%.

Net finance costs increased slightly by 1.1% to R162 million. The increase was primarily due to funding of new acquisitions totalling R215 million for the period under review.

Dis-Chem's total capital expenditure of R395 million comprised R247 million in expansionary expenditure and R148 million in replacement expenditure.

Cost efficiency remains a main focus for the Group and having wholesale operations that are more geographically aligned with its retail store base and the independent pharmacy market should lead to further cost containment in the next financial period.

Trading performance

Retail

Retail revenue grew by 9.7% to R19.6 billion with comparable store revenue at 3.4% and selling price inflation of only 1.16%.

Comparable store revenue and selling price inflation were negatively impacted by the 1.26% Single Exit Price ("SEP") increase effective 1 March 2018, as well as competitive pricing across the personal care and baby categories. Total dispensary revenue growth was 9.4%, lagging the average front shop revenue growth of 11.2%. In the coming financial period, the most recently gazetted SEP increase of 3.78% is expected to bring some relief.

In the current period, Dis-Chem opened 20 new stores, including flagship stores in Sandton, Eastgate and Gateway as well as its first store in Botswana, adding R647 million to revenue, while the 21 stores opened in FY 2018 contributed R1.4 billion.

At the end of February 2019, Dis-Chem had 149 stores in total.

The brand's position in a deteriorating consumer spending environment, the maturing of the store base and the addition of new stores, supported by the Micropopz! campaign, partially offset the industrial action challenges in the last four months of the financial year.

Wholesale

Wholesale revenue grew by 11.2% to R14.5 billion. Revenue from Dis-Chem's retail stores, still the biggest contributor to wholesale sales, grew by 11% as the business reached over 80% of internal supply. The Local Choice (TLC) and independent pharmacies grew by 12.9% primarily as a result of the acquisition of Western Cape wholesaler Quenets on 1 November 2018.

The increase in external customer growth was despite Dis-Chem's primary external customer facility, Delmas, being significantly impacted by the industrial action, resulting in lower than anticipated sales over the strike period.

Outlook

For the 11 weeks to 10 May 2019, Group turnover grew by 12% compared to the previous period. Dis-Chem expects that the consumer will remain constrained as a result of the current macroeconomic environment.

As was the case previously, the resilient markets in which Dis-Chem operates, together with the brand positioning, will offer a certain amount of protection against the weak environment.

The Group remains focused on adding retail stores. Five stores have been added since the reporting period and an additional 19 store openings are planned through to February 2020.

Ends

Issued by Aprio on behalf of Dis-Chem

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