



Integrated Report  
for the financial year ended  
28 February

**2019**



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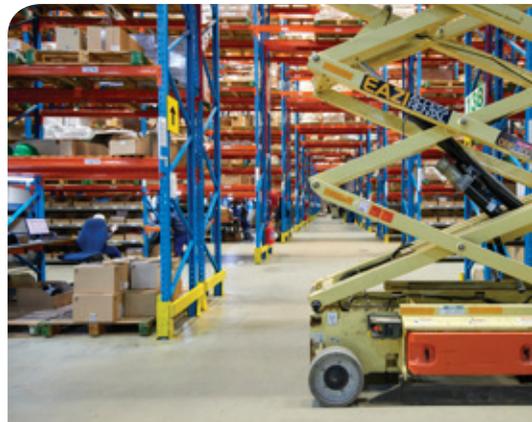
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FINANCIAL CAPITAL



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HUMAN CAPITAL



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NATURAL CAPITAL



SOCIAL AND RELATIONSHIP CAPITAL

### Stakeholders



SHAREHOLDERS AND THE INVESTMENT COMMUNITY



EMPLOYEES, ASSOCIATES AND PARTNERS



CUSTOMERS



GOVERNMENT AND SOCIETY



SUPPLIERS

## Feedback

Your feedback is important to us and we welcome your input to enhance our reporting structure. Contact us at [investorrelations@dischem.co.za](mailto:investorrelations@dischem.co.za)

## On the website

The following additional documents can be found on our website at [www.dischemgroup.com](http://www.dischemgroup.com)

- Register documenting the assessment of the principles of King IV
- Year-end results presentation
- Code of Conduct
- Group and company audited annual financial statements and notes including our independent auditors' report and the Audit and Risk Committee's report
- Five-year financial review
- Board charters
- Notice to shareholders and proxy form



The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth - all while tackling climate change and working to preserve our oceans and forests. Dis-Chem is encouraged to be part of the change and achievement of these goals.

**Dis-Chem has identified and prioritised the following nine SDGs which we can recognise ourselves with and implement the most significant change.**



End hunger, achieve food security and improved nutrition and promote sustainable agriculture



Enable healthy lives and promote well-being for all at all ages



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all



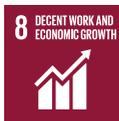
Achieve gender equality and empower all women and girls



Ensure availability and sustainable management of water and sanitation for all



Ensure access to affordable, reliable, sustainable and modern energy for all



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all



Reduce inequality within and among countries



Take urgent action to combat climate change and its impacts



CLICK AND  
COLLECT  
IN EVERY  
STORE

OVER  
4.7 MILLION  
LOYALTY  
CUSTOMERS

# Overview of the group

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OVER 280  
CLINICS

FIRST STORE  
OPENED IN  
BOTSWANA

OPENED 20  
NEW STORES

# About this report

We are pleased to present the 2019 financial year's integrated report for Dis-Chem Group Limited to our stakeholders, locally and abroad. The purpose of this report is to give our stakeholders an overview of our business, our performance and achievements over the past financial year as well as our future targets and opportunities.

We believe that it's essential to reflect on how we see the future to assess how we are positioning the company to ensure its success in an increasingly competitive and stringent economic environment.

## The scope of the report

The Integrated Annual Report covers the operating performance of the Dis-Chem Group and its principal operating segments for the audited 2019 financial year and is supplemented by the Group's annual financial statements which are available on our website at [www.dischemgroup.com](http://www.dischemgroup.com). In addition, the report includes the risks, opportunities and outcomes relating to the Group and the industry it operates in as well as our engagement with key stakeholder groups.

The main operating segments of the Group entail Retail and Wholesale. Dis-Chem operates primarily in South Africa and has a retail presence in Namibia and Botswana.

Where applicable, our report has been prepared in accordance with the King Code of Corporate Governance (King IV), the JSE Listings Requirements and the Companies Act. It draws on the international IR Framework of IIRC which was considered, but not adopted, in the preparation of the Integrated Report. We report our summary financial information according to International Financial Reporting Standards (IAS 34).

## Materiality

Our Integrated Report aims to provide concise and material information on the Group's strategy, performance and prospects. The Board and management have used their judgement and applied the Sustainable Development Goals (SDGs) in determining the issues that could substantively affect the Group's ability to create and sustain value for our stakeholders. In deciding our material issues, we have considered our top business as well as operational risks identified through interaction with our stakeholders, and consists of both financial and non-financial risks.

## Integrated reporting framework

Key to the framework is reporting with respect to our six capitals, our strategic matters, our values and the applicable sustainable development goals applied in creating value for the company. The impact of the various capitals, matters and goals in value creation is covered in the relevant sections of this report.

## Assurance

Dis-Chem applies a combined assurance model which seeks to optimise assurance obtained from management and external assurance providers. The Group's external auditor, Ernst & Young Inc. (EY), provided reasonable assurance on the annual financial statements and expressed an unmodified audit opinion. EY has also audited the accuracy of the summary financial information extracted from the annual financial statements that appear in the Integrated Report.

PricewaterhouseCoopers (PwC) was appointed as the internal audit providers to the Group in March 2017 and provided additional assurance for the Group. Certain non-financial information, such as market share statistics, was supplied by accredited service providers.

The Dis-Chem Board and senior management have reviewed the content of the Integrated Report, but it has not been independently assured.

## Forward-looking information

Dis-Chem's Integrated Annual Report contains certain forward-looking information and statements concerning the financial condition and results of operations of the Group.

The Dis-Chem Group has made every reasonable effort to ensure the accuracy of the information in the report, but forward-looking information by their very nature involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Past performance is not indicative of future results.

No assurance can be given that the forward-looking information will prove to be correct and undue reliance should not be placed on such information. Factors that could cause actual results to differ materially from those in the forward-looking information include, but are not limited to: global and local economic conditions; changes in legislation; changes to International Financial Reporting Standards and interpretations; changes in trading space availability; changes in working capital and changes in margins achieved.

The Dis-Chem Group does not undertake to update or revise any of the forward-looking information, whether to reflect new or future events and no liability is accepted by the Dis-Chem Group whatsoever for any direct or consequential loss arising out of reliance upon all or any part of the information contained in this report.

## Directors' approval

As part of the Board Charter, the Board is responsible for the integrity of the Integrated Report and acknowledge this responsibility. The Board confirms that they have collectively assessed the content of this report and approved it for release to stakeholders.

The Audit and Risk Committee, which has oversight responsibility for the Integrated Annual Report, recommended the report for approval to the Board. The Board approved the Integrated Annual Report on 24 June 2019 and was signed on its behalf by:



**Larry Nestadt**  
*Independent Non-executive  
Chairman*



**Ivan Saltzman**  
*Chief Executive Officer*

# Highlights of the year



## FINANCIAL CAPITAL

- Revenue increased by 10.0% to R21.4bn
- Gross margin came in at 24.4%
- Total income increased by 14.2% to R6.2bn
- Operating profit increased by 8.2% to R1.2bn
- Operating margin came in at 5.7%
- Headline earnings increased by 7.4% to R735m
- HEPS increased 7.4% to 85.4 cents
- Return on equity (ROE) came in at 40.1%
- R22.2bn market capitalisation
- R1.1bn in free cash flow



## MANUFACTURED CAPITAL

- Opened 20 new stores increasing the store footprint to 149 stores
- All warehouses are now fully operational
- Fully SAP integrated excluding Delmas and Quenets
- Introduced SAP upgrade, Hana



## HUMAN CAPITAL

- More than 17 500 permanent, fixed-term and casual employees
- Successfully absorbed casual staff as permanent staff
- 81.1% of employees are black
- 60.5% of employees are women
- 8 886 employees completed learnership agreements
- Over R40m spent on training and education
- More than R3m in bursary grants to pharmacy students



## INTELLECTUAL CAPITAL

- Gained market share in all key categories
- Over 200 years of experience among eight board members
- Wholesale control of own store stock at 80%



## NATURAL CAPITAL

- More than 4 000 tons of recycling
- Ethical waste management
- Over 10 000m<sup>2</sup> of cultivated land for food garden
- 1.2 million litres of fuel used \*SA only
- Energy management initiatives
- Water waste management



## SOCIAL AND RELATIONSHIP CAPITAL

- 3.8m active loyalty customers
- R262.5m redeemed by loyalty programme members
- Over R13.6m donated to the Dis-Chem Foundation
- Various social campaigns including:
  - > Feeding schemes
  - > Mobile health clinic
  - > Million comforts
- Foundation projects include:
  - > Million Comforts
  - > Reach for a dream
- Engagement with regulators
- Positive supplier relationships
- Trusted brand

# Group profile

## About Dis-Chem

Dis-Chem is a leading retail pharmacy group with operations in South Africa, Namibia and Botswana. The group was co-founded by Ivan and Lynette Saltzman in 1978 when they opened their first retail pharmacy store in Mondeor, south of Johannesburg. The Group has a PHARMACY FIRST approach meaning it has a dispensary in all of its stores functioning the same hours as the store's front shop. The Group follows an Everyday Low Price (EDLP) strategy, positioning itself as a discount brand.

## Operational structure

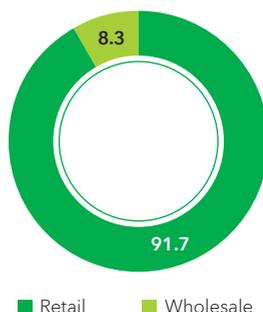
Dis-Chem operates two main divisions namely **Retail, which contributes the most significant share to total revenue and operating profit, and Wholesale.**

The Group is positioned to be a destination store, offering consumers a full basket of products from its core and other categories.

The retail division consists of a store base of 149 stores, over 280 clinics providing general health services, the courier business known as Dis-Chem Direct, the online and Click & Collect business as well as ancillary services which include hair and beauty salons.

The Group operates three store formats: 1) Big box format, 2) Smaller format and 3) Dis-Chem TLC. Its core categories include i) Dispensary ii) Personal Care and Beauty, iii) Healthcare and Nutrition, and iv) Baby Care

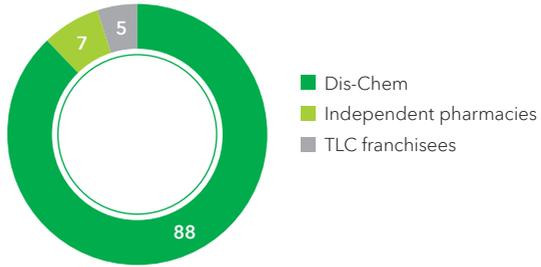
REVENUE CONTRIBUTION TO GROUP (%)



Store format	Centre type	Trading space	Product range	Minority partner
<b>Big box format</b>	Super regional/ regional	1 000 m <sup>2</sup> plus	Full core and ancillary	Unlikely
<b>Smaller format</b>	Community/ convenience	650 m <sup>2</sup> - 1 000 m <sup>2</sup>	95% core No ancillary	Possible
<b>Dis-Chem TLC</b>	Neighbourhood/ residential	350 m <sup>2</sup> - 1 000 m <sup>2</sup>	75% core No ancillary	Very likely

The Wholesale division operates a fine picking wholesale business and has three contributors to turnover: 1) Dis-Chem stores, 2) Independent pharmacies and 3) TLC franchisees. The group has four fully operational distribution centres located in Midrand, Delmas, KZN and Cape Town.

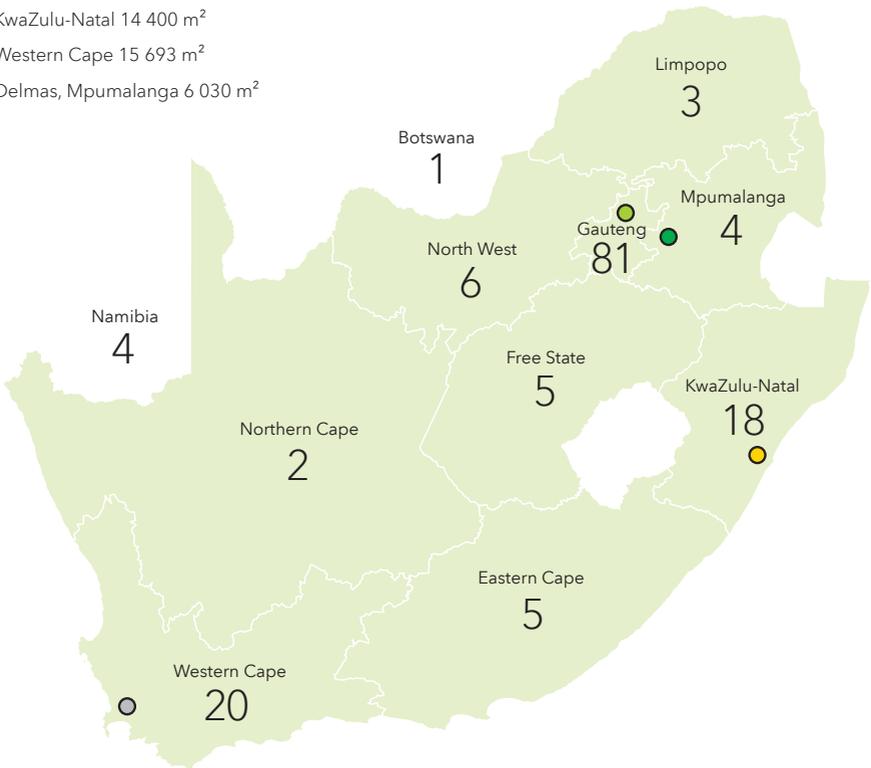
REVENUE CONTRIBUTION – WHOLESAL (%)



STORES AND DISTRIBUTION CENTRES

Distribution centres

- Midrand, Gauteng 44 000 m<sup>2</sup>
- KwaZulu-Natal 14 400 m<sup>2</sup>
- Western Cape 15 693 m<sup>2</sup>
- Delmas, Mpumalanga 6 030 m<sup>2</sup>



## Ownership structure of the distribution centre



### DIS-CHEM ADVENTURE TRUST

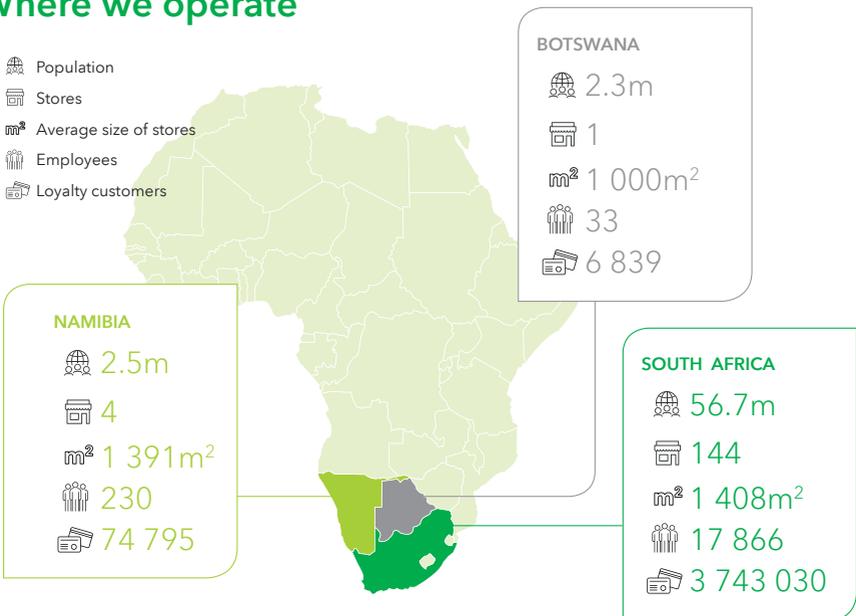
The Saltzman Family Trust	<b>78%</b>
The Stanley Goetsch Family Trust	<b>12%</b>
The Niall Hegarty Family Trust	<b>6%</b>
The Kevin Sterling Family Trust	<b>2%</b>
The Busdis Trust	<b>2%</b>

### ADVENTURE COMMERCIAL HOLDINGS (PTY) LTD

Ivlyn Pty Ltd	<b>76.2%</b>
SGFT Investment Holdings (Pty) Ltd	<b>11.9%</b>
Niall Hegarty Family Properties (Pty) Ltd	<b>5.9%</b>
Busdis (Pty) Ltd	<b>2.0%</b>
Kevlu (Pty) Ltd	<b>2.0%</b>
Melnique (Pty) Ltd	<b>1.0%</b>
Sauta (Pty) Ltd	<b>1.0%</b>

## Where we operate

- Population
- Stores
- Average size of stores
- Employees
- Loyalty customers



## Core categories

The group operates four key core categories:

- > DISPENSARY
- > PERSONAL CARE AND BEAUTY
- > HEALTHCARE AND NUTRITION
- > BABY

REVENUE CONTRIBUTION – CORE CATEGORIES (%)



- Dispensary
- Personal care and beauty
- Healthcare and nutrition
- Baby care
- Other

### Dispensary

The dispensary category contributes the biggest share to retail revenue- approximately 36%. Dispensary growth in new stores generally lags the growth of other categories as the new prescription base develops in new areas of development. We typically have a four-year maturity cycle. The Department of Health (DoH) regulates the dispensing fees charged by pharmacists. Dis-Chem has the ability to discount these fees and as a result has designated service provider (DSP) status with certain medical aids, driving footfall into our stores.

### Personal Care and Beauty

This is our second biggest category in terms of revenue contribution. Our focus in this category remains our Every Day Low Price (EDLP) strategy as we believe it is a reliable volume driver.

### Healthcare and Nutrition

Due to the increased move by consumers towards a healthier lifestyle, this is our fastest growing category. Due to regulations, we have expanded our product contribution to healthy foods which has boded well for us.

The regulation relating to Complementary and Alternative Medicines regulations (CAMs) came into effect in 2013. It continues to stifle innovation and will limit competition and raise barriers to entry. This creates an opportunity for Dis-Chem to increase its market share by pushing its own private label brands like Biogen, Dis-Chem Gold and Lifestyle.

### Baby

Despite this category being the smallest contributor to revenue, we believe that the opportunities are vast.

## Ancillary services

The Group's ancillary services include hair and beauty salons as well as nail bars. Eight of our stores have hair salons, and 100 stores have beauty salons and nail bars. One hundred and twenty qualified therapists and nail technicians staff the salons.

The hair salons enable the group to sell high-end hair care products otherwise not sold in retail stores.



## Clinics

Dis-Chem currently has 284 clinics in its stores providing preventative healthcare and early risk detection solutions that will assist the patient in proactively managing their health. The Group has employed over 280 registered nursing practitioners over the past eight years, and we are proud to say that we have appointed our first male nurses. Nursing practitioners receive post-graduate training when employed by the Group. There were more than 800 000 consultations during the 2019 financial year. We run 21 corporate clinics which assist in increasing productivity of employees by looking after their health and offering the Dis-Chem solution without the employee having to leave the workplace.

Services offered include:

- Baby and adult immunisation
- Wellness screenings
- Female health
- Wound care
- Administration of medication
- Specialised screenings
- Male health
- Chronic disease management

## Dis-Chem Direct

This courier business of the Group services medical aids, corporates, individuals, healthcare providers and the government. It has specific contracts with medical insurance providers and companies to deliver medicines to their medical aid members and employees. It also facilitates the delivery of drugs to state patients.

## Employees

The group's strength lies in its team of almost 18 000 employees whose rights are respected through human resources, industrial relations and legal compliance frameworks implemented throughout the Group.

## E-commerce

Online shopping has gained a lot of traction in South Africa over the past couple of years, and Dis-Chem has combined the strengths of both online and in-store shopping to ensure customer needs are met on all levels. We also have Click & Collect in all of our stores and multiple payment methods to keep our customers' minds at ease. This creates a hybrid approach to our customers' shopping experience.



## Loyalty programme

Dis-Chem's loyalty programme was first launched in 2003 and currently has around 3.8 million active loyalty cardholder members. Loyalty members are responsible for around 72% of total retail sales and have a higher spend per basket than non-loyalty members. The benefits of being a member include instant cash discounts, a quarterly benefits magazine, exclusive offers and discounts on products and automatic entry into competitions. The group differentiates its loyalty programme from others in the market through its loyalty partner programmes. Partners include Discovery Vitality, Legacy Lifestyle, eBucks, School-Days, Total, Momentum Multiply, Absa Rewards, Best Med, Health Care and Medihelp.

## Private label

Dis-Chem's private label brands include its exclusive brands on offer.



# Investment case

The Dis-Chem Group offers local and international investors exposure to the fairly defensive Food and Drug Retailer industry together with its middle to higher income customer base and its diverse product range. Our Board of Directors believes that the following factors should enable the Group to continue to deliver competitive returns and value for shareholders through sustainable dividend and return on equity growth.

## ENTREPRENEURIAL, FOUNDER-LED MANAGEMENT TEAM

Our highly experienced founders, Ivan and Lynette Saltzman, are supported by a highly skilled, competent and professional management team.

## PROVEN FINANCIAL METRICS AND TRACK RECORD

Consistent, strong compound growth in earnings and dividends. Large footfall and Leading trading densities. Cash generative operations.

## STRONG MARKET AND INDUSTRY POSITIONING

We are a recognized brand in South Africa targeting consumers in LSM 6-10, a fast growing LSM range. We also benefit from increased healthy living awareness, urbanization, a higher disease burden and an ageing population.

## ORGANIC AND ACQUISITIVE GROWTH

The Group's strong organic growth is complemented by our strategic acquisitions and the ability to vertically integrate these acquisitions.

### OPERATE IN RESILIENT MARKETS

The Food and Drug Retail industry is fairly resilient and protects against a weak economic environment.

### CUSTOMER CENTRIC STRATEGY

Our category-specific customer service excellence is an ethos upon which the company was founded and is embedded into our corporate culture.

## PHARMACY FIRST APPROACH

The dispensary is our biggest driver of feet into our stores. We believe that our focused approach to pharmacy differentiates us and allows us to create and sustain value for our stakeholders.

**A key differentiator of the group is that there is a dispensary in every store.**

**Pharmacy and front shop operating hours are the same.**

**Over 1 800 full-time pharmacists employed.**

**Over 2 million scripts filled monthly.**

### QUALIFIED STAFF

The group employs highly qualified staff and continues to invest in training to improve service standards.

### WELL INVESTED ASSET BASE

Invested in our infrastructure to cater for growth mainly through new stores, warehouses and IT.

### WINNING RETAIL BUSINESS MODEL

We pride ourselves in having an extensive product range at everyday low prices.

# External environment

South Africa's macroeconomic variables continued to create a challenging environment with factors like a volatile exchange rate and high unemployment figures subduing the trading environment.

## Trading environment

The South African economy came under pressure due to numerous factors including the 1% VAT increase which came into effect 1 April 2018, multiple fuel price hikes throughout the year and political uncertainty despite the leadership change in the ANC in early 2018.

Unemployment remains high, further dampening consumer confidence and in turn consumer spending.

Despite Dis-Chem being positioned defensively, we are not insulated from the economic headwinds. Although we have high exposure to discretionary consumer spending, we believe that the growing disease burden in South Africa will continue to support volume growth in our dispensaries. Furthermore, the Group offers a full basket in the front shop making us a destination store.

## Market trends

Healthy living and wellness have become increasingly popular among South Africans, and naturally healthy food products volume sales are on the rise. Manufacturers are focusing on producing products that contain or exclude specific ingredients to

provide natural benefits to the end user.

Dis-Chem has seized the opportunity to grow its Healthcare and Nutrition category and has a market share of over 46%.

## Competitive landscape

Independent pharmacies still own the biggest share of the pharmaceutical industry. Dis-Chem has partnered with independents either through its TLC franchise offering or through a majority or full buy-out and conversion to a Dis-Chem store or a Dis-Chem TLC store.

Retail pharmacies like Dis-Chem remain competitive in the market through their loyalty programmes, extensive product range and discounted dispensing fees.

## Availability of skills

The number of pharmacy students currently qualifying from academic institutions appears to be more than the job market can currently employ, so at this point, Dis-Chem has no shortage of skills. We continue to be involved in the training and development of pharmacist

assistants via our Pharmacy Development Academy (PDA).

## Regulations

Dis-Chem operates in a highly regulated pharmaceutical environment to ensure compliance with national safety laws. Recent amendments to the Medicines Act brought about the replacement of the Medicines Control Council (MCC), with the South African Health Products Regulatory Authority (SAHPRA) in 2018. The Authority has a broader mandate that includes the regulation of complementary medicines and medical devices.

## Pricing

### Single Exit Price

The single exit price (SEP) system was implemented in 2004 and prescribed that no manufacturer, importer, distributor or wholesaler may charge any fee or amount other than the SEP in respect of the sale of medicines or scheduled substances to a person other than the state. In December 2018 the Department of Health (DoH) published that the SEP of Medicines and Scheduled Substances may be adjusted to a maximum of 3.78% in 2019. This was an improvement from the 1.26% granted in 2018.

## Dispensing fee

Dispensing pharmacists may charge a dispensing fee to supplement the SEP. This is a professional fee charged every time a prescription is filled and is also regulated by the DoH. Dis-Chem competes in the pharmacy market by offering discounted dispensing fees and receiving a Designated Service Provider (DSP) status from medical insurers.

## National Health Insurance (NHI)

The move towards National Health Insurance (NHI) in South Africa is a development set to impact the health and pharmaceutical sector over the next couple of years. The National Health Insurance White Paper states that the NHI will accredit and contract with private retail pharmacies based on need. Accredited retail pharmacies will be able to order drugs from nationally agreed pharmaceutical contracts and will be required to dispense such drugs to NHI patients at subsidised prices. The NHI Fund will then reimburse the cost of the subsidised medicines as well as pay a capitated administration fee to the retail pharmacies.

We believe that NHI will create new growth opportunities for both Dis-Chem's Retail and Wholesale divisions. As a starting point for the NHI, the government's focus will be on primary care to increase accessibility, which Dis-Chem's Wellness Clinic offering includes.

## Outlook

We believe that the consumer environment will remain challenging with continued pressure on real household consumption expenditure. The Group's exposure to the higher, growing LSM market and its brand positioning will support its future growth expectations.



NATIONAL  
WHOLESALE  
FOOTPRINT

ECONOMIES  
OF SCALE  
FOR KEY  
PRODUCTS



# Creating sustainable value

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LOW STAFF  
TURNOVER

ACCREDITED  
TRAINING  
PROGRAMMES

MARKET  
SHARE  
GAINS

# Vision, mission and values

Our internal business philosophy is key to our success and ensures that our strategies remain aligned to create value for all our stakeholders.

We aim to provide our customers with the best quality service and products at affordable prices and in fulfilling this we adhere to all applicable regulations, legislation and guidelines governing the industry in which we operate.

Our Code of Conduct and Ethics Policy is a value-based code aimed at governing the conduct of all our employees.

## ● OUR VISION

**Dis-Chem's vision is to be the top performing retail pharmacy in South Africa and abroad and to continue expanding our wholesale and retail footprint. We want to drive innovation to grow ancillary revenue streams and margin opportunities. We want to provide a growth platform for independents through partner store consolidation opportunities and participation in the distribution network.**

## ● OUR MISSION

**Our mission is to add value to our customers' lives while caring for the communities and environments in which we operate.**

## ● OUR VALUES

**The following values are the foundation in achieving our vision:**

### **EXCELLENCE**

- Quality
- Commitment
- Professional
- Passion

### **ENTREPRENEURIAL SPIRIT**

- Unique
- Innovation
- Resilience
- Flexible

### **CUSTOMER SERVICE**

- Respect
- Engagement
- Brand Conscious
- Empathy

### **DO THE RIGHT THING**

- Integrity
- Teamwork
- Accountability
- Delivery

# Strategy

Dis-Chem's strategy is built on six pillars:

## 1

### INCREASING OUR STORE FOOTPRINT

- The group has three successful store formats- Big box, Smaller and Dis-Chem TLC
- We plan to open 20 plus new stores in FY2020 across the three formats
- Our total floor space will increase by approximately 25 000 m<sup>2</sup>
- We are still on track to reach our target number of 200 stores by 2021

## 2

### DRIVING SECONDARY RETAIL OPPORTUNITIES THROUGH INNOVATION

- Retain first to market innovative practices to deliver revenue diversification
- Enhance customer convenience through Dis-Chem Direct and our Clinics
- Enhance our e-commerce platform
- Increase contribution from speciality medicines

## 3

### DRIVING REVENUE, MARGIN AND MARKET SHARE GROWTH

- Continue to leverage off existing head office infrastructure cost base
- Negotiate better commercial terms with vendors
- Enhance trading densities
- Continue with EDLP strategy to grow market shares

## 4

### ACHIEVE STRATEGIC ADVANTAGE THROUGH OUR INTEGRATED SUPPLY CHAIN

- Distribution cost savings
- Potential to expand into new geographies
- National footprint allows us to enter the pre-distribution market
- Potential industry consolidation
- Growth in The Local Choice franchise

## 5

### TO PRACTICE GOOD CORPORATE CITIZENSHIP

- Focus on environmental protection
- Partner with government- NHI

## 6

### CREATE SUSTAINABLE VALUE FOR ALL OUR STAKEHOLDERS

- Strong cash generation
- Drive customer loyalty
- Create strong brand recognition

# Value creating business model

Dis-Chem's business model is underpinned by its PHARMACY FIRST approach. All our stores have a pharmacy and customers can always be assured that there will be a pharmacist to attend to their pharmaceutical needs.

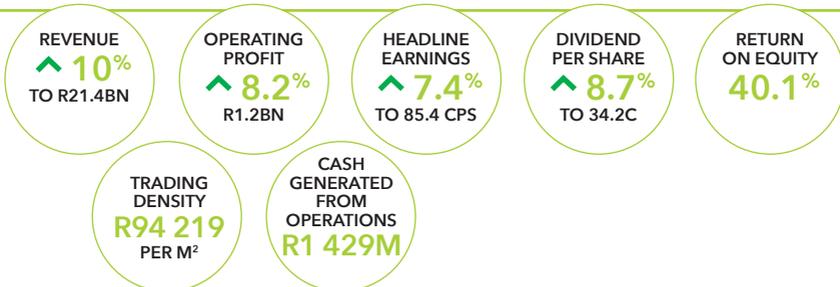
Despite the dispensary being run as a separate division to the front shop, trading hours of the two are the same. Most of our pharmacists are employed full-time. We feel that we differentiate ourselves through the wide range of products that we offer as well as our superior trading densities. **We use our six capital and value drivers to provide high quality products and services to create sustainable value for our stakeholders in a responsible manner.**

## FINANCIAL CAPITAL

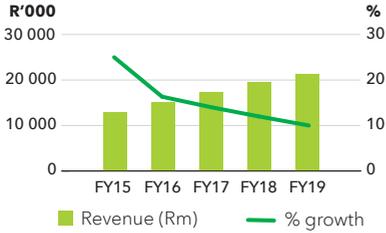
We aim to create value for our stakeholders by increasing our revenue and profitability through expansion both organically and acquisitively. Our goal is to manage our financial capital in such a way that we can sustain long-term economic growth.



## OUTCOMES



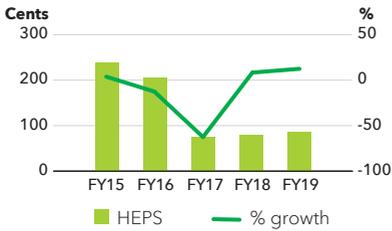
REVENUE



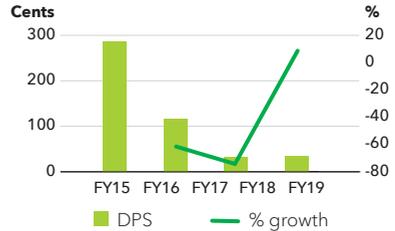
OPERATING PROFIT



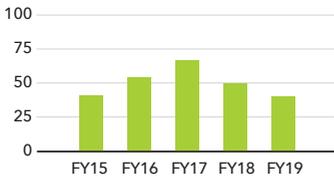
HEADLINE EARNINGS PER SHARE



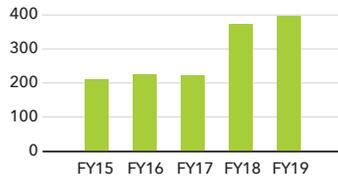
DIVIDENDS PER SHARE



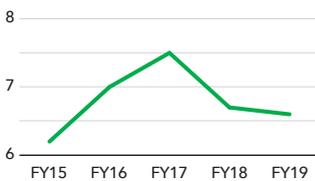
RETURN ON EQUITY (%)



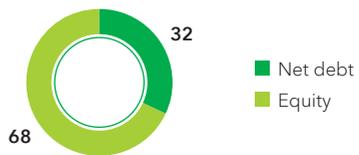
CAPITAL EXPENDITURE (RM)



EBITDA MARGIN (%)



NET DEBT / EQUITY (%)



# MANUFACTURED CAPITAL



The continued investment in our distribution centres and retail stores is a key enabler in supporting our mission to produce high quality, superior customer service.



KEY STAKEHOLDERS



OUTCOMES

**80 123M<sup>2</sup>**  
OF WAREHOUSE SPACE

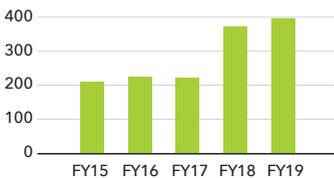
ADDED 20 NEW STORES INCREASING OUR STORE FOOTPRINT TO 149

THREE SUCCESSFUL STORE FORMATS- BIG BOX, SMALLER AND DIS-CHEM TLC

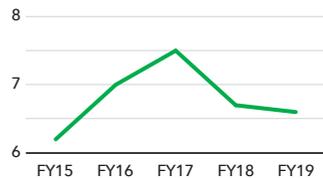
INVESTED **R395M** IN CAPITAL EXPENDITURE

ADDED FOURTH STORE IN NAMIBIA AND FIRST STORE IN BOTSWANA

CAPITAL EXPENDITURE (RM)



EBITDA MARGIN (%)



# HUMAN CAPITAL



Our people are our biggest asset and our goal is to provide a safe and rewarding environment for all of our employees.

## INPUTS

- Appropriate skill sets and integrity in Wholesale and Retail
- Training and development
- Strong and diverse leadership team
- Organisational structures throughout the group

## BUSINESS ACTIVITIES

- Appropriate remuneration, incentive and performance management practices
- Continued investment in skills development and training
- Focus on achieving diversity in the workforce
- Constructive engagement with employees

## OUTPUTS

- Competitive remuneration paid to employees
- Safe and healthy workforce
- Retention of skills
- Skilled, capable and diverse teams motivated to achieve objectives and able to deliver high quality service
- Low staff turnover
- Accredited training programmes for pharmacists and store managers

## KEY STAKEHOLDERS



## OUTCOMES

ALMOST  
**18 000**  
EMPLOYEES

8 500+  
EMPLOYEES  
TRAINED  
INTERNALLY  
AND  
EXTERNALLY

OVER  
**R145M**  
PAID IN  
EMPLOYEE  
BENEFITS

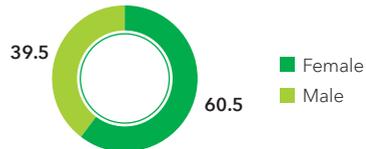
OVER  
**R40M**  
SPENT ON  
TRAINING AND  
EDUCATION

MORE  
THAN 300  
BURSARIES TO  
PHARMACY  
STUDENTS

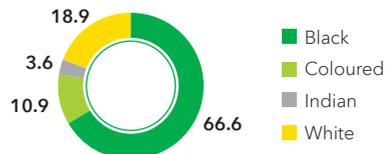
**81%**  
OF  
EMPLOYEES  
ARE BLACK

**61%**  
OF  
EMPLOYEES  
ARE WOMEN

### GENDER (%)



### RACE (%)



## INTELLECTUAL CAPITAL



By embracing technology and market shifts, we lead through innovation.

### INPUTS

- Goodwill
- IT solutions
- Entrepreneurial founder-led management team

### BUSINESS ACTIVITIES

- Responsible marketing and promotion of products
- Integration of acquired businesses into our value chain
- Identification of acquisition opportunities
- White space exercises to identify new store space
- Continuous IT investment
- Efficient product sourcing

### OUTPUTS

- Ecommerce growth
- Click and Collect in every store
- Extensive range of products that meet our customer needs
- Market share gains in all key categories

### KEY STAKEHOLDERS



### OUTCOMES

OVER  
**R100M**  
SPENT ON I.T.

WHOLESALE  
CONTROL  
OF OWN  
STOCK AT  
**80%**



# NATURAL CAPITAL

We are committed to reduce our impact on the environment through responsible environmental management.

## INPUTS

- Natural resources used

## BUSINESS ACTIVITIES

- Monitoring of emissions
- Responsible water management and usage across manufacturing sites
- Promotion of waste recycling initiatives

## OUTPUTS

- Utilities management
- Ethical waste management
- Recycling of packaging
- Reduction of carbon footprint

## KEY STAKEHOLDERS



## OUTCOMES

OVER  
**4 000**  
TONS  
RECYCLED

OVER  
**87 000**  
LITRES OF  
WATER SAVED

OVER  
**13M KW**  
ENERGY SAVED

**10 000M<sup>2</sup>**  
CULTIVATED LAND  
FOR DIS-CHEM'S  
FOUNDATION  
FOOD GARDEN



## SOCIAL & RELATIONSHIP CAPITAL



We strive to build and maintain relationships with our stakeholders and are committed to social initiatives. We believe that responsible corporate citizenship is key to ensure sustainable growth.

### INPUTS

- Relationship with all our stakeholders through various platforms
- Responsible corporate citizenship



### BUSINESS ACTIVITIES

- Ongoing engagement with all our internal and external stakeholders
- Social campaigns run through the Dis-Chem Foundation



### OUTPUTS

- Upliftment of communities in which we work
- Programme of engagement such as roadshows

### KEY STAKEHOLDERS



### OUTCOMES

**97%**  
OF INVENTORY  
PURCHASED  
LOCALLY

**280**  
IN STORE  
CLINICS

OVER  
**4.7M**  
LOYALTY  
CUSTOMERS

**R262.5M**  
PAID BACK  
TO LOYALTY  
PROGRAMME  
MEMBERS

OVER  
**R13.6M**  
DONATED TO  
THE DIS-CHEM  
FOUNDATION





RIGHT OF ADMISSION AND DISCLAIMER

All proceeds from this garden go to the Dis-Chem Foundation Food Garden.

We reserve the right of admission to these premises and the right to search anyone entering or leaving these premises.

Dis-Chem does not accept any liability for any injury to person and/or loss or damages to property sustained in any way whatsoever while on these premises.

Enter at your own risk.

No loitering.



Our Produce is cultivated using certified organic products and organic farming principles are employed

# Stakeholder relationships

Dis-Chem believes that it is vital to include its stakeholders in its activities to create value in the short, medium and long-term. Stakeholder management ultimately lies with the board who ensure that our approach balances the needs, interests and expectations of stakeholders in the best interests of the organisation and the stakeholders.

The implementation and monitoring of stakeholder engagement are entrusted to the management teams across the group.

## Key stakeholders

### 1. Shareholders and the investment community

These include our primary providers of financial capital and the broader investment context and fraternity in which they exist.

### 2. Employees, associates and partners

This includes the primary source of our human and social and relationship capital that drive our day-to-day operations and have face-to-face interactions with our customers.

### 3. Customers

This includes the primary market that we provide products and services to and that help us create a sustainable, value-creating organisation.

### 4. Government and society

This includes our broader national community and the representatives that serve their interests in public institutions.

### 5. Suppliers and vendors

This includes members of our supply chain that drive our operations through the supply of, and connection to, key means of production.

## Stakeholders

### Shareholders and the investment community



### Employees, associates and partners



### Customers



### Government and society



### Suppliers



Why we engage	How we engage	Value creation measurement
<ul style="list-style-type: none"> <li>• To create an informed view of the group</li> <li>• To disclose company performance, prospects and strategy</li> <li>• To disclose group returns</li> <li>• To give a view on the economic, social and environmental outlook</li> </ul>	<ul style="list-style-type: none"> <li>• Results presentations</li> <li>• Local and offshore roadshows</li> <li>• Integrated Annual Report</li> <li>• Annual General Meeting (AGM)</li> <li>• Investor Relations Website</li> </ul>	<ul style="list-style-type: none"> <li>• Investor relations team</li> <li>• Investor days</li> <li>• Strong investment case and performance</li> </ul>
<ul style="list-style-type: none"> <li>• To enhance their sense of value, commitment and motivation</li> <li>• To align thinking with the group strategy</li> <li>• To receive feedback on areas for workplace and performance improvement</li> <li>• To discuss competitive and fair remuneration and incentives</li> <li>• To install trust in management</li> </ul>	<ul style="list-style-type: none"> <li>• Management and team meetings</li> <li>• Internal publications</li> <li>• Performance reviews</li> <li>• Intranet</li> </ul>	<ul style="list-style-type: none"> <li>• Market remuneration benchmark exercise done annually</li> <li>• Effective intranet to facilitate communication across the Group</li> <li>• Staff wellness programme</li> </ul>
<ul style="list-style-type: none"> <li>• To understand what customers value</li> <li>• To meet customer needs and increase long-term loyalty</li> <li>• To enhance the group's brands and grow market share</li> <li>• To encourage product and quality feedback</li> <li>• To improve customer service levels</li> </ul>	<ul style="list-style-type: none"> <li>• Direct engagement with customers</li> <li>• Online and social media interaction</li> <li>• Call centres</li> <li>• Dis-Chem magazines</li> </ul>	<ul style="list-style-type: none"> <li>• Customer complaint line monitored by senior management</li> <li>• Investment in social media teams</li> <li>• Promotional activities</li> <li>• Internal quality control team ensuring product quality and credibility</li> </ul>
<ul style="list-style-type: none"> <li>• To fulfil legislative requirements</li> <li>• To contribute to community upliftment</li> <li>• Return through taxes</li> <li>• Transformation</li> <li>• Pharmacy licenses</li> </ul>	<ul style="list-style-type: none"> <li>• Regular meetings with MCC, the South African Pharmacy Council and the Department of Health</li> <li>• Engagement with the Department of Labour</li> </ul>	<ul style="list-style-type: none"> <li>• Internal relations department has active engagement with the Department of Labour</li> <li>• Compliance teams in place to ensure adherence to regulation</li> <li>• Donating to the foundation</li> <li>• Clinic services</li> </ul>
<ul style="list-style-type: none"> <li>• To gain visibility into order quantities, factory capacities, product costs and quality</li> <li>• To improve supplier performance</li> <li>• To track core competencies</li> <li>• To enhance quick response times</li> <li>• To enhance safety and quality</li> </ul>	<ul style="list-style-type: none"> <li>• Regular meetings with suppliers</li> <li>• Site visits</li> <li>• Electronic communication</li> </ul>	<ul style="list-style-type: none"> <li>• Category led business model encouraging engagement with suppliers</li> <li>• Consistent site audits by quality check team to ensure supplier standards are maintained</li> </ul>

# Material issues

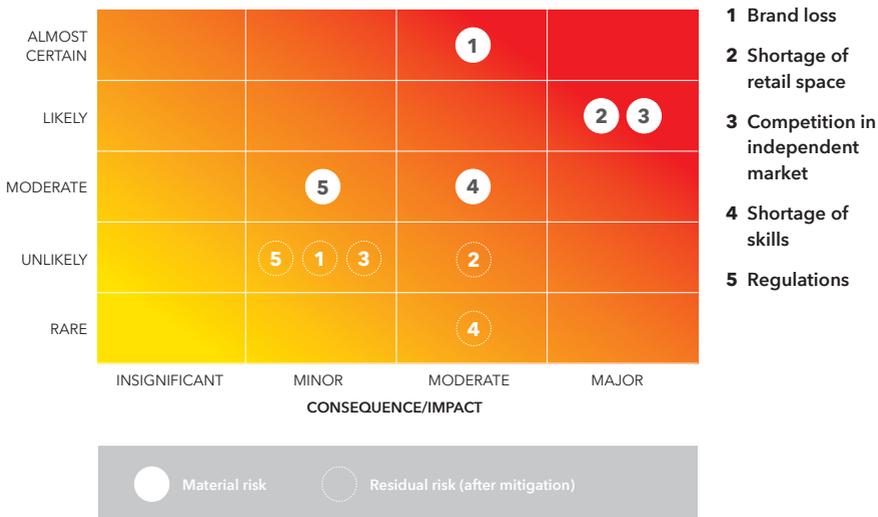
We identify and revise our material issues on an annual basis at our strategic planning meeting attended by executive directors and senior management of the Group. These are key operational risks which could have the largest material impact on the Group's ability to create and sustain value for its stakeholders. The risks include both financial and non-financial risks.

The Audit and Risk committee is an integral component of the risk management process of the Group and oversees the development and annual review of the risk policy and plan for risk management. This policy and plan is recommended to and approved by the Board annually. In addition, the Audit and Risk Committee ensures a risk register is maintained by management and ensures management considers and implements appropriate risk responses.

The following factors were considered in identifying the Group's material issues:

- The political and macro-economic environment
- Trading environment- current and forecast
- Competitive landscape
- Business strengths, weaknesses, opportunities and threats
- Capital resources
- Regulation
- Key risks
- Strategic objectives

The material risks as obtained from the risk register:



## Managing our material issues, risks and opportunities

Material issue	Principal risk	Mitigation/opportunity
<p><b>1</b> <b>Brand loss</b></p>	<p>Dis-Chem’s financial performance is influenced by the image, perception and recognition of the Dis-Chem brand, which, in turn, depends on many factors. These factors include:</p> <ul style="list-style-type: none"> <li>• the ability to maintain high levels of service in store;</li> <li>• the ability to offer a wide range of products and services responsive to customers’ needs;</li> <li>• the quality of its products;</li> <li>• the ability to offer competitive pricing;</li> <li>• the availability of stock in store;</li> <li>• the image of its stores; the perception of its loyalty programme;</li> <li>• the strength of its communication activities including advertising campaigns.</li> </ul> <p>Any failure to maintain favourable brand recognition could have a material adverse effect on Dis-Chem’s business, results of operations and financial condition.</p>	<p>Dis-Chem focuses on having a wide range of products that meet its customers’ needs:</p> <ul style="list-style-type: none"> <li>• Deliveries to stores are made on a regular basis to ensure availability of stock in store. This will be further enhanced in areas outside of Johannesburg with the KwaZulu-Natal and Cape Town warehouses that are operational</li> <li>• Dis-Chem prides itself on excellent customer service</li> <li>• Loyalty programme gives benefit back to customers for shopping in the Dis-Chem stores</li> <li>• Dis-Chem has an “Everyday Low Price” strategy</li> </ul>
<p><b>2</b> <b>Shortage of retail space</b></p>	<p>Part of Dis-Chem’s growth strategy is to increase the number of stores it has by opening new stores or by acquiring existing independent pharmacies and converting them into Dis-Chem pharmacies. Dis-Chem’s ability to acquire or open profitable new stores in line with its strategy depends on many factors, including its ability to identify and secure attractive acquisitions, and locations for new stores. If Dis-Chem does not open new stores on a timely or profitable basis, it may not realise its growth strategy.</p>	<ul style="list-style-type: none"> <li>• 22 new stores have already been identified and secured for FY2020</li> <li>• Growth in Dis-Chem brand has made it an anchor store in malls</li> <li>• Fourth store was opened in Namibia in FY2019 and the first store in Botswana</li> <li>• Should reach 200 stores by 2021/2022</li> </ul>

Material issue	Principal risk	Mitigation/opportunity
<p><b>3</b>  <b>Competition in independent market</b></p>	<p>The level of competition faced by Dis-Chem’s network of retail pharmacy stores and its e-commerce website, its corporate wellness clinics and its courier service is high. This affects pricing, product range and quality, store location and format, customer service levels and advertising. Dis-Chem competes at the local, regional and national levels with a wide variety of retailers of differing sizes and with differing but competing offerings, including other pharmacy groups, independent pharmacies, courier prescription providers and various other retailers such as grocery stores, convenience stores and online retailers. If Dis-Chem cannot respond adequately to these multiple sources and types of competition, it could have a material adverse effect on Dis-Chem’s business, results of operations and financial condition.</p>	<p>Dis-Chem continues to look for opportunities to be price competitive including 2-plus-1 sale items</p> <ul style="list-style-type: none"> <li>• Dis-Chem focuses on having a wide range of products that meets its customers’ needs</li> <li>• Loyalty programme gives benefit back to customers for shopping in the Dis-Chem stores</li> <li>• Dis-Chem prides itself on excellent customer service</li> <li>• 100% of stores have Click &amp; Collect thereby ensuring convenience for customers</li> <li>• Dis-Chem works closely with key suppliers to optimise supply chain efficiency</li> <li>• Dis-Chem has an “Everyday Low Price” strategy</li> </ul>
<p><b>4</b>  <b>Shortage of skills</b></p>	<p>Dis-Chem’s operations are dependent on the efforts, ability and experience of the professionals it employs, in particular pharmacists, qualified pharmacy assistants and store managers. Dis-Chem competes with other employers, including other pharmacies, healthcare providers and the government, in recruiting and retaining these professionals. If Dis-Chem is unable to hire qualified personnel when needed, or experiences a higher than normal turnover rate for its employees, it could have a material adverse effect on Dis-Chem’s business, results of operations and financial condition.</p>	<ul style="list-style-type: none"> <li>• Competitive remuneration paid to employees</li> <li>• Short-term and long-term incentives in place including the introduction of a share scheme participation for senior management (refer to Remuneration section)</li> <li>• Implementation of measures to encourage and develop the pharmacy profession, such as through running an undergraduate bursary programme for pharmacy students and by facilitating ways for employees to fulfil continuing professional development requirements</li> <li>• Accredited training programmes for store management</li> </ul>

Material issue	Principal risk	Mitigation/opportunity
<p><b>5</b> <b>Regulations</b></p>	<p>The healthcare industry in South Africa is subject to extensive government regulation. Dis-Chem is subject to, and incurs costs to comply with, numerous laws and regulations, such as the Pharmacy Act, the Medicines Act and the Consumer Protection Act. There is uncertainty regarding the coming into force (either in their current form or at all) of various draft regulations which have been issued by the National Department of Health and the SAPC. Untimely compliance or non-compliance with these laws and regulations could result in increased expenditure or the imposition of civil and criminal penalties that could adversely affect the continued operation of Dis-Chem’s business, such as loss of licences, inability to obtain new licences or significant monetary fines. Any changes in the legislation, regulation or healthcare policies in South Africa, or the imposition of further requirements or restrictions on Dis-Chem, could have a material adverse effect on Dis-Chem’s business, results of operations and financial condition.</p>	<p>Dis-Chem actively monitors changes in regulation to ensure they are aware of any upcoming changes. This includes any draft regulations that are issued</p> <ul style="list-style-type: none"> <li>• Regular meetings held with the National Department of Health and the South African Pharmacy Council</li> <li>• Internal quality check team to administer compliance programme and audit</li> </ul>

# BioNike

HEALTH & BEAUTY



# Corporate Governance

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**ENERGY  
MANAGEMENT  
INITIATIVES**

**USE 100%  
RECYCLED  
PLASTIC BAGS**

**SUPPORTED  
423 PEOPLE  
WITH  
DISABILITIES**

# Chairman's statement

*Despite a tough year on the economic, labour and regulatory fronts, Dis-Chem reached its 40th anniversary in style and again reported a solid set of returns.*

Larry Nestadt



Over 40 years Dis-Chem has grown steadily, albeit at a slower pace during economic down cycles. Now in its third year of being a JSE listed company, with its complex requirements and regulations, the Dis-Chem business model continues delivering true to form. The 20 new stores added during the reporting period and a further 22 outlets planned for 2019/20 are ample proof of our robust business health.

Dis-Chem's resilience was confirmed by a labour strike over the peak December season that reduced earnings for the group and striking employees, but did not impact the core sustainability of the business. All parties involved in the strike should take its lessons to heart.

Dis-Chem differs from most multi-outlet businesses in that it grew organically in line with the founders' unwavering

focus on community needs. In 2007 our community mission was housed in the Dis-Chem Foundation specifically set up for this purpose.

Our 'pharmacy first' Dis-Chem model anchors every Dis-Chem outlet to comprehensively stocked, pharmacist-led dispensaries, supported by wellness clinics staffed by qualified medical personnel. Our larger outlets are adding beauty and hair salons to the Dis-Chem mix. Behind the scenes, our distribution, wholesale and online platforms complete the equation for creating value for a wide range of stakeholders.

As a result our Dis-Chem stores are valued community destinations in the traditional pharmaceutical and healthcare sense, yet enhanced by the discounted pricing, wide inventory and high service standards made possible by our scale, resources and business model.

## Operating environment

Political, economic and regulatory events, in Southern Africa and globally, remain the dominant factors in our operating context. In recent years South Africa has stumbled from crisis to crisis, with its economy presently unable to generate the jobs and consumer income to lift GDP growth.

Fortunately Dis-Chem plies its business in the healthcare and wellness sectors, which remain vigorous in the current environment.

South Africa's general election in May 2019 introduced a fresh cabinet under President Ramaphosa, including Dr Zweli Mkhize as the new Minister of Health and Mr Ebrahim Patel as the incoming Minister of Trade and Industry. We warmly thank their predecessors for their inputs over many years and welcome the incoming ministers to their portfolios.

Their appointments are too fresh to appraise any shifts in government policy, but I do appreciate the daunting challenges the new incumbents face, given the depressed business environment and the thorny issues apparent in the national healthcare sector.

The previous health minister's steady push to introduce National Health Insurance (NHI) is having a major impact on private healthcare and its regulatory framework. A draft NHI bill released in February 2019 for public comment has attracted widespread attention and is presently being evaluated by hospital groups, medical aid funders (MAFs) and organisations representing patients and medical professionals.

In terms of the current NHI draft and negotiations, the Dis-Chem group appears well-placed to provide services to the envisaged national health programme. Nevertheless, South Africa's NHI still has a long road to travel before it can become reality.

Our store and distribution growth plans are being impeded by the slowing pace of obtaining regulatory signoffs for products and new facilities. Inadvertently inhibiting Dis-Chem's expansion, along with other impacted businesses, also slows the national imperative of creating new jobs and growing GDP. I urge the incoming minister to pay urgent attention to the efficient oversight of healthcare policy and regulation.

## Long term sustainability

The Saltzman family instituted societal and environmental responsibility as a core Dis-Chem value many years before regulators introduced the concept to commercial law. We value the symbiotic relationship we've created between shareholders, other stakeholders and the natural environment that enables us to optimally serve our communities. Our business mission would not be possible without these entwined and mutually beneficial relationships.

Even so, management's first priority is to secure the group's commercial sustainability as creator of value for shareholders and funding for worthy causes. Dis-Chem's commercial and social objectives depend on the group remaining consistently profitable.

Information technology (IT) is disrupting many industries by opening up more efficient ways of analysing and servicing our markets. Healthcare in particular – and the overall customer experience – can be enhanced by simplifying and speeding up interactions through appropriate IT.

We are introducing new systems to manage the intricate logistics behind our distribution and wholesaling networks, which must continually prepare for growing delivery volumes and customer expectations.

On the pharmacy side, our customers and the group will benefit from deeper analysis of customer transactional data to create health profiles. We can then more proactively manage their prescriptions to ensure that therapy regimes are properly completed, which is a major issue in chronic medicine dispensing.

## Ethics, leadership and corporate governance

Since our JSE listing the board has overseen the implementation of a corporate governance framework based on the recently introduced King IV code. This process involved drawing up and instituting policies for ethical behaviour, internal and external audits, and for handling board and executive matters. This exercise was largely completed during the period under review.

The Dis-Chem board appointed during the listing process has remained unchanged for the consequent three years, enabling board members to settle into their roles and establish a productive working relationship. They have managed the transition from a private to a listed company seamlessly and are continuously invaluable assets to the group's leadership body. With a stable board and executive team in place,

planning for leadership succession and increased board diversity are well advanced.

The single most consequential matter dealt with by the board in the period of review was the labour strike at several of our premises between November 2018 and March 2019. We oversaw the process of finding the eventual negotiated solution that ended the impasse.

With the future of South Africa's economy still at a crossroads at the time of writing this report, I can safely forecast that economic and political events will probably occupy much of the board's attention in the forthcoming financial year. Outside of South Africa, the developing 'trade war' between China and the US could impact the foreign exchange markets and the costs of importing products and pharmaceuticals into South Africa, placing further strain on consumer disposable income.

The board will pay close attention to how the executive and their management teams perform against their targets in the current and probably volatile financial year.

## Prospects

Looking ahead, this is a particularly difficult time to venture any predictions. South Africa and the world at large have so many issues to tackle, with potential responses that vary so widely.

What I can safely predict is that Dis-Chem is as well prepared as any competitor to take on any predicted challenges - or those that may yet emerge. Having worked alongside Dis-Chem people for many years, and noting with respect the high calibre of the incoming Dis-Chem generation, I have no doubt the Dis-Chem story will continue growing as healthily as always.

I thank all directors, managers and staff members for your outstanding efforts to bring Dis-Chem safely and profitably through another year in the face of steep challenges. Your dedication is the key to making Dis-Chem great.





# Our Board



Laurence Michael Nestadt



Ivan Leon Saltzman



Lynette Frances Saltzman



Rui Manuel Morais



Mark Bowman



Saul Eytan Saltzman



Anuschka Coovadia



Joe Mthimunye



Mahomed Gani

## 1 Laurence Michael Nestadt (68)

BCom

Appointed to the board in November 2016

### Chairman of the board

Independent non-executive director

**Member of:** Remuneration Committee

**Background:** Larry has a long and successful global corporate career. He is a co-founder of Investec Bank Ltd and has been instrumental in the creation and strategic development of a number of listed companies. Larry is a life member of the World Presidents Organisation and is a honorary colonel in the South African Air Force.

**Other boards:** Global Capital, Blue Label Telecoms, Universal Partners, National Airways Corporation, Morecorp Group, Melrose Motor Investments, SellDirect Marketing, Cell C

## 2 Ivan Leon Saltzman (68)

DipPharm

Appointed to the board in November 2016

### Chief Executive Officer

Co-founder of Dis-Chem

**Member of:** Social and Ethics Committee

**Background:** As co-founder of Dis-Chem and a qualified pharmacist, Ivan has over 40 years of experience in the pharmaceutical industry. He is fully committed to the business and is still involved in the daily operations and decision making of the group.

## 3 Lynette Francis Saltzman (66)

DipPharm

Appointed to the board in November 2016

### Managing Director

Co-founder of Dis-Chem

**Member of:** Social and Ethics Committee

**Background:** As co-founder of Dis-Chem and qualified pharmacists, Lynette has over 40 years of experience in the pharmaceutical industry. She is also the founder and director of The Dis-Chem Foundation.

## 4 Rui Manuel Morais (35)

BCom, CA(SA)

Appointed to the board in November 2016

### Chief Financial Officer

**Background:** Rui has 11 years of experience in the retail Pharmacy space in South Africa and has been with Dis-Chem for eight years. Before joining Dis-Chem, he had senior managerial roles at Ernst & Young.

## 5 Mark Bowman (52)

BCom, MBA

Appointed to the board in November 2016

Independent non-executive director

**Member of:** Audit Committee, Nominations Committee, Remunerations Committee (chairman)

**Background:** Mark has over 23 years of experience in the South African corporate sector. He was involved in the consolidation of SABMiller's South African beverage business and the Africa division.

**Other boards:** Tiger Brands, MRP, Grand Parade Investments

## 6 Saul Eytan Saltzman (39)

BCom

Appointed to the board in November 2016

Alternate executive director to Lynette Saltzman

**Background:** Saul has 17 years of experience in the pharmaceutical Sector, all of which have been at Dis-Chem. Saul has had numerous strategic roles in the business including heading up the import division and focussing on the group's private label strategy.

## 7 Anuschka Coovadia (42)

MBChB, MAP, MSE

Appointed to the board in November 2016

Independent non-executive director

**Member of:** Audit Committee, Social and Ethics Committee (chairman)

**Background:** Dr Anuschka is the Chief Executive Officer of Usizo Advisory Solutions, which is an independent health advisory consultancy. She was the previous Head of Healthcare for Africa for KPMG International, a director on a healthcare investment development fund - Ayurveda Investments and a member of a global task team on Universal Health Coverage. She has more than 15 years of experience in the health and research industry.

**Other boards:** Investment Committee, Caprisa

8 **Joe Mthimunye** (53)

BCompt (Hons), CTA, CA(SA)  
Appointed to the board in November 2016

Independent non-executive director

**Member of:** Audit Committee (chairman), Nominations Committee, Remunerations Committee

**Background:** Joe is the co-founder and executive chairman of aloeCap, a boutique corporate finance and investment company. Prior to aloeCap he was one of the founding partners of Gobodo Inc, the accounting and auditing practice that is a forerunner to the newly merged SNG Grant Thornton.

**Other boards:** Blue Label Telecoms and Cell C.

9 **Mahomed Gani** (66)

BCompt (Hons), CA(SA)  
Appointed to the board in May 2017

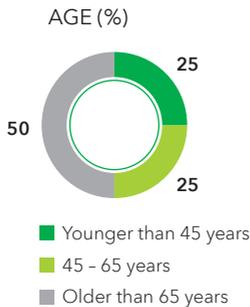
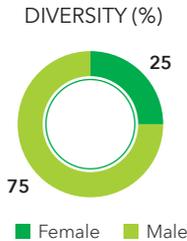
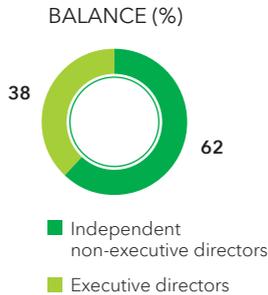
Independent non-executive director

**Member of:** Audit Committee, Nominations Committee, Remunerations Committee

**Background:** Mohamed is a Chartered Accountant with over 35 years' experience in the accounting and auditing profession. He was a founding partner of Saboor Gani and Co, MSGM Masuku Jeena Inc and a partner of PwC until his retirement in June 2013.

**Other boards:** Tsogo Sun Holding Limited, Hosken Consolidated Investments Limited, Wits Health Consortium. He is also a member of the Investigations Committee of IRBA

## Board composition



The Board is committed to gender and race diversity and director appointment policies require director appointments to appropriately address gender representation. Currently 25% of the Board is female and 37.5% black. The Board will pro-actively monitor the company's performance in gender and race representation which will include an annual review of the objectives set by the Board and its progress in achieving them.

## Succession

Co-founders Ivan and Lynette Saltzman are fully committed and invested in the business. Together they have over 80 years experience in the retail pharmacy space. The Group has invested in the senior management teams below the CEO and MD and has sufficient management depth.



# Group leadership



**Brian Epstein**



**Caryn Barker**



**Christopher Williams**



**Craig Fairweather**



**Kim Sim**



**Melanie van Rooy**



**Stan Goetsch**



**Kevin Sterling**

**1 Brian Epstein**

AGA(SA), CFA, ACIS, MBA

**Operations Divisional Director**  
Joined Dis-Chem in March 1996

**Background:** Brian held various posts as Financial Manager of commercial firms, including Primedia Publishing. His experience includes labour relations, financial reporting and the importing of goods. Shortly after joining Dis-Chem, Brian was promoted to Financial Director. Due to a change in operational involvement, Brian was appointed as the Operations Divisional Director.

**2 Caryn Barker**

BSoc.Sci (Hons) - Organisational Psychology

**Human Resources Director**  
Joined Dis-Chem in 2018

**Background:** Caryn has 20 years of experience in the Human Resources field, spanning the FMCG, Logistics, Pharmaceutical and now Retail industries. Her experience within the HR field spans all areas of focus, including Talent Acquisition and Management, Organisational Development, Employee Relations and Transformation.

**3 Christopher Williams**

BPharm, MBA

**Supply Chain Director**  
Joined Dis-Chem in March 2017

**Background:** Chris owned and ran a group of Independent Pharmacies for about ten years whereafter he started a Pharma Wholesale business in 2004 (CJ Pharmaceuticals). 50% of the Wholesale business was sold off to Dis-Chem, and two years later the remaining 50%. He is now the Supply Chain Director for the Dis-Chem Group and his division trades under CJ Distribution.

**4 Craig Fairweather**

**Commercial Director**  
Joined Dis-Chem in 2007

**Background:** promotions; retail sales; store management; imports and new product development; sales; brand development; sales & marketing; buying and private label; category management; Commercial and ROCE

**5 Kim Sim**

BCom Retail Management  
**Chief Information and Innovation Officer**  
Joined Dis-Chem in June 2012

**Background:** Most of Kim's career has been in the retail sector, with her involvement in SAP projects beginning with Dion Wired, followed soon after by Makro. After a few years abroad, Sim returned to South Africa to implement SAP at Builders Warehouse. After a short stint in banking, she returned to retail as a consultant, working in various roles, from sales to delivery and project management on SAP implementations. She also provided strategic business consulting and has worked with retailers such as Save Cash and Carry, Spitz, Pick n Pay, Kalahari.com & Dis-Chem, before joining them in 2012.

**6 Melanie van Rooy**

DCom Econometrics and MBA  
**Group Marketing Director**  
Joined Dis-Chem in 2017

**Background:** Melanie started her career as a research assistant in the Econometrics Department of the South African Reserve Bank in 1986. From 1988 - 1995, she lectured full time as a senior lecturer in Economics and Econometrics at the University of Pretoria, Rand Afrikaans University and Potchefstroom University.

From 1996 - 2001, she ran her own consulting firm as well as a computer maths centre for school pupils. From 2001 to 2010, she was Head of Strategy and Research at ABL, the soft drink division of SAB Ltd. From 2011 to 2012 she was the Commercial Director for Valorem Holdings and joined Makro (part of Massmart) as Marketing Director from 2013 until 2017 after which she joined Dis-Chem.

**7 Stan Goetsch**

BPharm  
**Executive Director**  
Joined Dis-Chem in 1983

**Background:** Stan obtained his pharmacy degree at Rhodes University after which he did his internship in the Eastern Cape. During his first year working as a qualified pharmacist, Stan joined Ivan and Lynette in 1983. During his time at Dis-Chem, Stan's had various roles including Head of Healthcare and Nutrition.

**8 Kevin Sterling**

DipPharm  
**Executive**  
Joined Dis-Chem in 2002

**Background:** Kevin had his own pharmacy group in the Western Cape. He joined Ivan and Lynette in 2002 and in turn expanded Dis-Chem's footprint into the Western Cape. He currently oversees the Cape region and Namibia.

# Governance report

Our commitment to best practice governance drives us to constantly improve the way our business is managed and ensures decisions are taken openly and transparently within an ethical framework.

## Principles

We aim to apply the principles of King IV and its recommended practices to achieve the intended outcomes of the code, which includes adequate controls and legitimacy, good performance and an ethical culture.

We aim to maintain a standard of reporting and disclosure, keeping in mind that the best interest of our stakeholders. The Board is satisfied that the Group has complied with the substance of the King IV principles.

The Board ensures that reports issued by Dis-Chem enable stakeholders to make informed assessments of Group's performance, and its short-, medium-, and long-term prospects.

Refer to our website [www.dischemgroup.com](http://www.dischemgroup.com) to access our King IV register which gets reviewed and updated annually.

**We are committed to fully complying with the JSE Listings Requirements.**

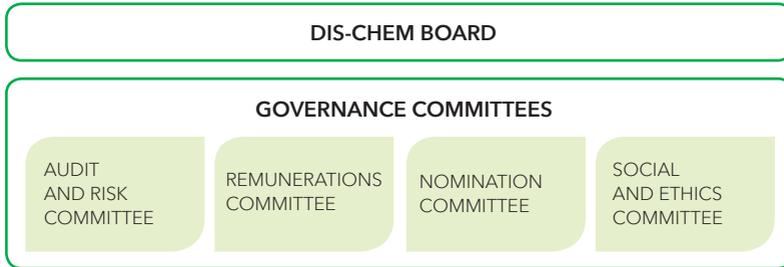
## Concerns

Our shareholders have brought to our attention their concerns within the Group regarding governance. We have tried our best to address these concerns which have been summarised in the table below.

Concern	Solution
<b>Board diversity</b>	The Board is satisfied that it has sufficient professional and industry knowledge and healthy independence for the nature, complexity and strategic demands of the Group.
<b>Management KPIs</b>	Improved disclosure
<b>Succession planning</b>	The Board's succession plans are adequate, including interim measures in the event of a sudden loss of expertise.
<b>Conflicts of interest/ Related party transactions</b>	We strictly manage conflicts of interest

## Framework

Our governance framework is structured in such a way to achieve our strategic objectives within compliance requirements and by balancing the interests of our stakeholders, minimising and avoiding conflicts of interest, and practising good corporate behaviour.



## Board of Directors

Dis-Chem has a unitary board structure consisting of eight directors, five of which are independent non-executive directors, and one alternate director. The Board is chaired by Larry Nestadt, who is an independent non-executive director.

The Board has determined a policy detailing the procedures for appointment to the Board. Such appointments should be formal and transparent and a matter for the Board as a whole assisted by the Nomination Committee. Members of the Board are appointed by the Company's shareholders. The Board also has the powers to appoint additional directors, subject to such appointment being approved by shareholders. In terms of the Board charter, appointments to the Board are made on the recommendation of the nominations committee. A formal policy detailing the procedures for appointment to the Board has been adopted by the Company.

The Board is responsible for the Group's performance, its overall strategic direction, values and governance. It provides the leadership required for the Group to meet its business objectives within the framework of its internal controls.

The Board recognises that there may be occasions where one or more Directors feel it necessary to seek independent professional advice, and the Company has agreed to bear the expenses of such advice if certain procedures are followed.

The requirements of the non-executive directors include dedicating sufficient time and energy to the concerns of the Board. They are permitted to serve on other Boards provided that their other duties do not inhibit their commitment to the Dis-Chem Board to add value.

## Skills

The Board possesses extensive business experience and specialist skills across a range of sectors including accounting, finance, retail and healthcare. This diversity enables them to provide balanced and independent advice and judgement in the decision-making process.

The board comprises the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

The Group has a controlling shareholder with direct shareholder representation on the Board.

### SKILLS (NUMBER OF BOARD MEMBERS)



## Performance evaluation

The board gets evaluated annually to assess its effectiveness as a unit. The following is taken into regard:

- Role and responsibilities
- Composition, size and independence
- Director orientation and development
- Leadership, teamwork and relationships with management
- Board and committee meeting productivity
- Director evaluation and compensation
- Succession planning
- Ethical leadership and culture
- Stakeholder engagement

The Board ensures that the evaluation of its own performance and that of its committees, its chair and its individual members supports continued improvements in its performance and effectiveness.

The Board will appraise the Chairman's performance and ability to add value to the Company on an annual or such other basis as the Board may determine. The Chairman, or a sub-committee appointed by the Board, will appraise the performance of the Group Chief Executive Officer at least annually. The Board as a whole and individual Directors will have their overall performance periodically reviewed to identify areas for improvement in the discharge of individual Director's and the Board's functions on an annual basis. This review will be undertaken by the Chairman and, if so determined by the Board, an independent service provider.

## Board responsibilities

The role and responsibilities of the Board are included in its approved charter and include the following: To

- act as the focal point for corporate governance
- provide effective leadership on an ethical foundation
- ensure the Group is a responsible corporate citizen by regarding the impact of operations on the environment and the society in which it operates
- ensure that the Group's ethics are managed effectively

- ensure the Group has a competent and independent audit committee
- be responsible for the governance of risk
- be responsible for information technology (IT) governance
- ensure the Group complies with applicable laws and considers adherence to non-binding rules and standards
- ensure that there is an effective risk-based internal audit
- appreciate that stakeholders perceptions affect the Group's reputation
- ensure the integrity of the Group's integrated report
- act in the best interest of the group by ensuring that directors
  - » adhere to legal standards of conduct
  - » are permitted to take independent advice in connection with their duties following an agreed procedure
  - » disclose real or perceived conflicts to the board and deal with them accordingly
  - » deal in securities only in accordance with the policy adopted by the Board
- consider business rescue proceedings or other turnaround mechanisms as soon as the Group is financially distressed
- elect a Chairman of the Board that is an independent Non-Executive Director
- appoint and evaluate the performance of the Group Chief Executive Officer.

The Board is satisfied that it has fulfilled its responsibilities.

The role and duties of the non-executive chairman are separated from those of the CEO and are clearly defined. The CEO, CFO, and Managing Director are the most senior decision-making executives in the Group. With the help of relevant sub-committees they deliberate, take decisions or make recommendations on all matters of strategy and operations. The decisions are referred to the Board or its relevant committee for final approval when required, while in other cases the power to take decisions is delegated to the CEO, CFO and Managing Director.

The primary function of the Board is to steer and set the company's strategic direction and to exercise prudent control over the company and its affairs. The Board informs and approves strategy, as opposed to being a passive recipient of strategy as proposed by management.

The Board ensures that the appointment of, and delegation to management contribute to role clarity and the effective exercise of authority and responsibilities.

The Board is expected to meet at least four times a year. For any specific business issues that may come about between scheduled meetings, additional meetings can be assembled to consider these issues.

## Share dealings

The directors' dealing policy governs directors' dealings in Dis-Chem shares. All directors and the Company Secretary must receive written approval from the Chairman prior to buying or selling Dis-Chem shares. The Chairman is required to obtain approval from the Chairman of the Audit and Risk Committee before undertaking any share dealings. It is mandatory for directors to notify the Company Secretary of any dealings in the company's shares. This information is then disclosed on SENS within 24 hours of receipt of such information. The Group operated a closed period policy in line with the JSE Listings Requirements. During closed period, directors are prohibited from dealing in Dis-Chem shares. Parties who may have access to confidential or price sensitive information are cautioned against the possibility of insider trading

during these periods. Embargoes can also be placed on share dealings at any other time if directors or executives have access to price sensitive information which is not in the public domain.

## Director appointment

Our Board-approved director appointment policy ensures a balance of power and authority within the Board composition. Directors have no fixed term of appointment and will retire by rotation every three years. If available, they are considered for re-appointment at the Annual General Meeting. The appointment of new directors is subject to confirmation by shareholders at the first Annual General Meeting after their appointment. Directors are entitled to seek independent professional advice at the company's expense after consultation with the chairman of the Board. No directors exercised this right during the year.

## Access to information and professional advice

The directors have unrestricted access to all Group information, records, documents and property. Information is distributed in a timely manner prior to Board meetings, to enable directors to adequately prepare and apply their minds.

## Conflict of interest

Directors are required to declare any personal financial interest that poses a conflict of interest through a formal disclosure process. This process will take place periodically. Where a conflict of interest may exist, directors are required to excuse themselves from the meeting. The directors' share dealing policy also requires a declaration of interest.

## Governance committees

### Audit and Risk Committee

**Current members:**

JS Mthimunya (Chairman),  
MSI Gani, MJ Bowman,  
A Coovadiya

The role of the committee is to assist the Board by:

- Providing additional assurance regarding the quality and reliability of financial information used by the Board.
- Reviewing the internal control systems, the financial control systems, the accounting systems and reporting, the internal audit functions
- Ensuring that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities.
- Liaising with the Group's external auditors, monitoring compliance with legal requirements, ensuring management addresses any identified internal control weakness, assessing the performance of financial management, assessing the companies going concern status
- Approving external audit fees, budgets, plans and performance

- Conducting an annual review and assessment of the financial reporting risks the Group faces
- Ensuring that senior management processes and procedures are adequate to identify, assess, manage and monitor Group-wide risk.

**The committee will meet at least two times a year.**

## Remuneration Committee

**Current members:** MJ Bowman (Chairman), LM Nestadt, JS Mthimunye, MSI Gani

The role of the committee is to assist the Board by:

- Determining the specific remuneration packages for each of the executive directors and the chairman
- Considering the bonuses, which are discretionary and based upon general economic variables, the performance of the company and the individual's performance

**The committee will meet at least two times a year.**

## Nominations Committee

**Current members:** LM Nestadt (Chairman), MJ Bowman, JS Mthimunye, MSI Gani

The role of the committee is to assist the Board by:

- Leading the process of Board appointments, composition and balance
- Considering succession planning

**The committee will meet at least two times a year.**

## Social and Ethics Committee

**Current members:** A Coovadiya (Chairman), LF Saltzman, MSI Gani

The role of the committee is to assist the Board by:

- Considering matters about the Group's activities having regard to any relevant legislation, other legal requirements and prevailing codes of best practice
- Advising on all relevant aspects that may have a significant impact on the long-term sustainability of the Group
- Embedding an ethical culture

**The committee will meet at least two times a year.**

The Board is satisfied that the delegation of authority framework contributes to role clarity and the effective exercise of authority and responsibilities.

## Board and Committee meetings and attendance

1 March 2018 – 28 February 2019

Director	Board meeting	Audit and Risk Committee meeting	Nominations Committee meeting	Remuneration Committee meeting	Social and ethics committee meeting
LM Nestadt	4/4		1/1	1/1	
IL Saltzman	4/4				
LF Saltzman	4/4				1/1
RM Morais	4/4				
JS Mthimunye	4/4	4/4	0/1	0/1	
MJ Bowman	4/4	3/4	1/1	1/1	
A Coovadiya	4/4	4/4			1/1
MSI Gani	4/4	4/4	1/1	1/1	1/1
Other					

## Compliance

The Risk Committee monitors the Group's compliance risk, which is managed through the compliance framework and compliance reviews. The legislative landscape is continuously monitored, and the potential impact of new laws and regulations on the Group is assessed. All business units, departments and subsidiaries are required to comply with all applicable legislation and regulation.

## Reporting frameworks

Reporting frameworks were in line with the requirements of the International Integrated Reporting Framework and the Compliance Act of South Africa.

## Regulatory compliance

All business units, departments and subsidiaries are required to comply with all applicable legislation and regulations. Compliance risk is monitored by the Audit and Risk Committee and through the compliance framework, which includes compliance reviews.

## Legal and regulatory environment

Legal and regulatory compliance is a core part of our corporate governance given the vast regulatory environment in which we operate and the need to follow various legal and licence requirements. Although the outcomes of legal proceedings, claims and actions instituted against the Group cannot be predicted, the Group is suitably resourced to manage this process.

The Board governs compliance with applicable laws and adopted non-binding rules, codes and standards in a way that supports Dis-Chem being ethical and a good corporate citizen.

The Board is of the opinion that there is no current or pending legal action that will materially affect the operations of the Group.

## Going concern

The Group's financial statements have been prepared on a going-concern basis. The directors have reviewed the Group's budget and cash flow forecast, and are satisfied that the Group is in a sound financial position with access to sufficient borrowing facilities to meet its foreseeable cash requirements.

## Sustainability

Dis-Chem's direct impact on the environment is limited, and we focus on implementing mechanisms to manage the Group's utilities where applicable effectively. This includes minimising our carbon footprint, energy and water efficiency considerations, and recycling and control of water waste.

## Accountability and control

The annual financial statements are based on appropriate accounting policies and the external auditors independently examine the annual financial statements in accordance with International Standards of Auditing. The Board is satisfied that the Group annual financial

statements for the 2019 financial year fairly represents the Group's operational results and financial position.

## Internal control and internal audit

The Dis-Chem Board is responsible for ensuring that an appropriate system of internal controls is maintained to provide reasonable assurance that:

- Dis-Chem's assets are appropriately safeguarded and managed;
- losses arising from fraud and/or other illegal acts are minimised; and
- accounting records, financial statements and operating information are accurate, complete and fairly presented.

PwC was appointed as the Group's internal auditors in March 2017, and fulfil an assurance and consulting function, and is mandated to provide independent and objective assurance on Dis-Chem's system of internal controls. They employ a systematic and disciplined approach when evaluating the effectiveness of risk management, control and governance processes. In addition to highlighting process improvements, Group Internal Audit's activities provide assurance to

Dis-Chem's stakeholders that the organisation operates in a responsible manner.

Group Internal Audit reports to the Audit and Risk Committee and assists this committee in effectively discharging the responsibilities delegated to it by the Dis-Chem Board. This is achieved through independent financial, IT, compliance and operational process reviews.

## Governance of IT

IT plays a critical role in achieving the Group's objectives and managing its risks. Integrating good governance into the Group's IT requirements ensures that our business practices are sustainable. IT governance is integrated into the Group's operations.

The IT governance policy is informed by King IV principles and the COBIT framework. Dis-Chem Pharmacies Ltd has adopted COBIT 5. COBIT 5 is a framework from the Information Systems Audit and Control Association (ISACA) for the management and governance of information technology (IT). COBIT starts from the premise that IT needs to deliver the information that the enterprise needs to achieve its objectives. In addition to promoting process focus and process ownership, COBIT looks at fiduciary, quality and security needs of

enterprises and provides information criteria that can be used to define generically what the business requires from IT: effectiveness, efficiency, availability, integrity, confidentiality, reliability and compliance.

The COBIT 5 framework further divides IT into processes belonging to domains that address planning, implementation, delivery, support, monitoring and reporting.

### The 5 key elements of COBIT:

**Strategic alignment** focuses on ensuring the linkage of business and IT plans, defining, maintaining and validating the IT value proposition, and aligning IT operations with enterprise operations.

Value delivery is about executing the value proposition throughout the delivery cycle, ensuring that IT delivers the promised benefits against the strategy, concentrating on optimising costs and proving the intrinsic value of IT.

**Resource management** is about the optimal investment in, and the proper management of, critical IT resources: applications, information, infrastructure and people. Key issues relate to the optimisation of knowledge and infrastructure.

**Risk management** requires risk awareness by senior organisational officers, a clear understanding of the enterprise's appetite for risk, understanding of compliance requirements, transparency about the significant risks to the enterprise and embedding of risk management responsibilities into the organisation.

**Performance measurement** tracks and monitors strategy implementation, project completion, resource usage, process performance and service delivery, using, for example, balanced scorecards that translate strategy into action to achieve goals measurable beyond conventional accounting.

Dis-Chem Pharmacies Ltd's IT Governance framework provides guidance to the organisation for the use and deployment of IT as follows:

- The Dis-Chem Pharmacies Ltd Board assumes responsibility for IT governance and delegates this responsibility to the Audit and Risk Committee
- The Audit and Risk Committee has delegated to management the responsibility for the implementation of IT governance and management and has duly appointed a suitably qualified and experienced Chief Information and Innovation Officer (CIIO). Collectively they assist in carrying out the Dis-Chem Pharmacies Ltd IT obligations:

- » Oversight responsibility for information technology (IT and data) governance
- » Ensure that IT and data is aligned with the business objectives
- » Delegate to management the responsibility for the implementation of an IT and data governance framework
- » Ensure that IT and data forms an integral part of the companies Enterprise Risk Management framework
- » Ensure that information assets are managed effectively
- » Monitor and evaluate significant IT investments and expenditure
- » Ensuring promotion of an ethical IT governance culture and awareness

Key focus areas for Dis-Chem Pharmacies IT includes data management with a specific view to legislative compliance (such as POPIA) and an aggressive focus on cyber security management across the group.

## Company Secretary

All directors have access to the advice and services of the Company Secretary, Mr W Green, who acts as a channel between the Dis-Chem Board and the Group. He is not a director of the Group. The Company Secretary is responsible for the flow of information to the Board and its committees, and for ensuring compliance with the Board procedures. In line with the JSE Listings Requirements, the qualifications and experience of the Company Secretary were formally evaluated by the Nominations Committee and subsequently approved by the Board. The committee specifically evaluated the objective nature of the role of the Company Secretary, confirming that he has no affiliation or association to any single Board member, holds no directorship and provides independent advice to the Board as a whole. The evaluation found that the Company Secretary is suitably qualified, experienced and fit and proper to perform the function of Company Secretary and that an arm's length relationship with the Board is maintained. The appointment and removal of the Company Secretary is a matter for the Board and not the executive management team. The Company Secretary coordinates the induction

programme for newly appointed directors as well as the annual Board evaluation process.

## Stakeholder relationships

The Group's relevance to the market depends on meaningful engagement with all stakeholders to ensure and maintain a good relationship. This, in turn, assists the Group to understand the expectations of shareholders and minimise reputational risk. Financial and non-financial information is disseminated timeously and accurately to all stakeholders.

## Investor relations

The Group ensures effective dialogue with all shareholders, where practicable. Communications around Group strategies and financial performance in a timely, relevant and balanced manner is key to ensure transparency, objectiveness, and honesty. Regular communication assists the Group to improve shareholder relationships. Shareholders, potential shareholders, analysts and other relevant parties are invited to presentations by the Group after the announcement of their interim and final results. These presentations are published on the Dis-Chem Group website. Care is exercised to ensure that all

price sensitive information is released to all shareholders and relevant parties at the same time in accordance with the JSE Listings Requirements. Shareholders are also encouraged to attend the Annual General Meeting (AGM) which provides an opportunity for shareholders to raise pertinent questions and to interact with directors.

## Ethics

Dis-Chem is committed to a policy of fair dealing and integrity in the conduct of their business. This commitment, which is actively endorsed by the Board of Directors, is based on a fundamental belief that business should be conducted honestly, fairly and legally. The directors expect all employees and other representatives to share its commitment to high moral, ethical and legal standards. Any employee who has questions regarding conduct in specific situations should obtain guidance from his or her Manager, a Director or the CEO.

It is the duty of all directors and all managers in the Group to ensure that the Group ethical standards and policies are made known to all employees for whom they are responsible. Ultimately, however, it is up to each one of the employees to adhere to Dis-Chem's principles of honesty, integrity and fairness, and to perform their duties in accordance with all laws and regulations.

The Board governs Dis-Chem's ethics in a way that supports the establishment of an ethical culture. The Social and Ethics Committee is tasked with monitoring organisational ethics.

## Managing unethical behaviour

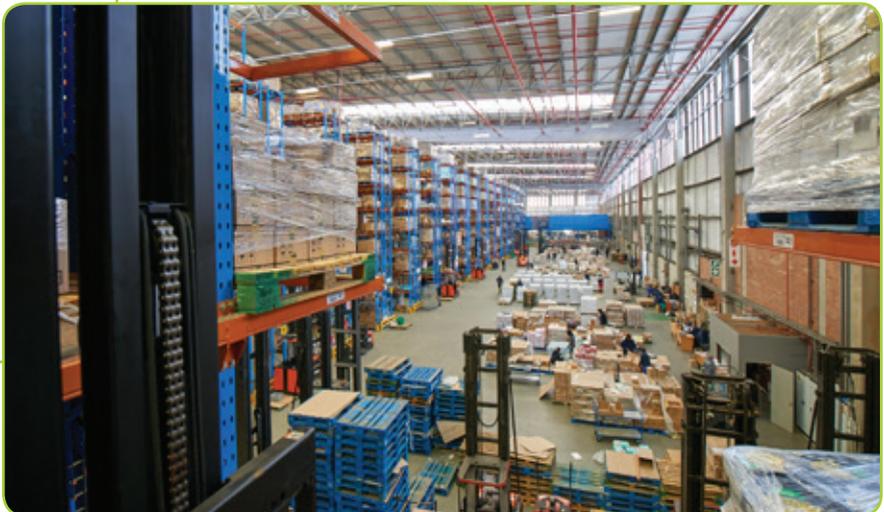
As a responsible corporate citizen, Dis-Chem takes a zero-tolerance approach to theft, fraud and corruption. The Group evaluates reported incidents of theft, fraud and corruption to determine the appropriate manner in which these incidents should be investigated. All identified cases are reported to the South African Police Services and, where appropriate, to the applicable registered bodies such as the HPCSA. Civil recoveries are pursued by prejudiced business units where financially appropriate.

Several mechanisms are in place for stakeholders to report irregularities such as alleged theft, or fraudulent, corrupt or unethical behaviour, including unethical medical behaviour. These mechanisms are available to all Dis-Chem employees in South Africa and the public, including suppliers and consumers.

## Political party support

While the Group supports democracy in South Africa, it does not make financial donations to individual political parties.





# Remuneration report

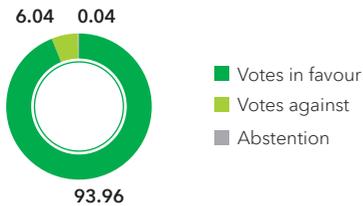
Dis-Chem’s Remuneration Committee is pleased to present the remuneration report for the financial year ended 28 February 2019. The report is presented in three parts to align with the principles of King IV.

## 1. Background statement

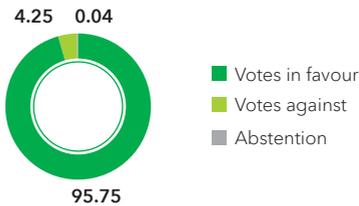
To align with our shareholders’ expectations, the Remuneration Committee reviewed its processes and the remuneration policy. It concluded that no change to the remuneration principles was necessary for this financial year.

Shareholders will be requested to vote on two separate non-binding advisory votes regarding the Remuneration Policy and the Implementation Report at the annual general meeting (AGM). At the AGM held in July 2018, the Group’s shareholders voted as follows:

REMUNERATION POLICY (%)



IMPLEMENTATION REPORT (%)



Should either our remuneration policy or implementation report be voted against by 25% or more of the voting rights exercised at the 2019 AGM, the Board and the Remuneration Committee will:

- Engage with our shareholders to understand their reasons for voting against
- Address legitimate and reasonable concerns raised by the shareholders and clarify processes
- Amend our remuneration policy if required
- The below table illustrates the shareholders’ concerns raised during the year.

Concern	Dis-Chem’s response
Limited disclosure on STI and LTI performance metrics and targets	Amended disclosure
Non-executive remuneration	An external benchmarking study was performed on a comparative group of JSE listed companies

The Group will continue to engage with shareholders and consider their feedback on our remuneration policy and its implementation.

## Remuneration philosophy and principles

The Group's remuneration philosophy is aimed at driving a high-performance culture that delivers the Group's long-term strategic objectives as well as sustainable shareholder return within the Group's risk appetite. Remuneration practices are closely linked to the achievement of Group, subsidiary company, team and individual performance objectives. The composition of total remuneration is based on the employee's role and level in the Group.

### Remuneration policy changes approved by the Remco

The timing of bonus payments, i.e. 13th cheque, changed from December to the individual employees' birthday month

Bonuses are now guaranteed

### Remuneration policy changes proposed to the Remco

Return on capital employed (ROCE) targets were proposed by executive management.

Remuneration is made up of the following elements:

Financial	Non-financial
Guaranteed package	Leave
Short-term incentives	Leaning and development
Long-term incentives	Diversity and inclusiveness

Remuneration arising from short-term incentives (STI) and long-term incentives (LTI) is linked to the Group's financial performance.

## Fair and responsible pay

In accordance with principle 14 of King IV, Dis-Chem aims to remunerate fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

A core component of the Group's executive incentive scheme is to reward individual, and team performance, based on individual and collective success and output in meeting agreed performance objectives.

The remuneration committee will continue to review the appropriateness of the principles of fair and responsible pay relating to the Group's strategy and remuneration philosophy and will report any changes in the next remuneration report.

## Members

The members of the remuneration committee are as per King IV all independent non-executive directors.

## Annual General Meeting

For the 2018 financial year, Dis-Chem received a 93.96% non-binding advisory vote in favour of the remuneration policy.

## Board approval

The Remuneration Committee reviewed and recommended the remuneration report to the Board for approval.

## 2. Overview of the remuneration policy

The Group's remuneration policy and philosophy were designed to ensure that all employees across the Group are rewarded appropriately for their contribution to the overall Group strategy. The Group's philosophy is to attract, motivate and retain the best people to ensure a workforce that is highly capable and motivated.

## Summary of the Group's remuneration structure

	Guaranteed package	Short-term incentive
	Base and benefits	Bonus
<b>Design</b>	Attract, motivate and retain the best people to ensure a workforce that is highly capable and motivated	Incentivise and reward employees for the achievement of company and personal short-term performance objectives
<b>Nature</b>	Market-related level of remuneration per specific role and includes salary and benefits: <ul style="list-style-type: none"> <li>retirement contribution based on years of service</li> <li>car or travel allowance</li> <li>medical aid</li> <li>staff discounts</li> </ul>	13th cheque or annual bonus
<b>Basis for determination/ performance conditions</b>	<ul style="list-style-type: none"> <li>Determined based on employees role, market value, length of service, company performance and personal performance.</li> <li>Salaries are also compared to external benchmarks</li> <li>Annual assessment is performed and increases are awarded in March each year</li> </ul>	<ul style="list-style-type: none"> <li>Employees from a senior manager level receive an annual bonus</li> <li>The balance of employees receive a 13th cheque</li> <li>Dispensary/store manager: KPA(4) x TGP in May x number of cheques(5)</li> <li>Head office/ warehouse manager: TGP(1) x bonus pool %(2) x manager tier %(3)</li> </ul> <p>Individual performance criteria must be met to receive a bonus</p>
<b>Method of payment</b>	Monthly payment after deducting contributions to retirement funding and medical scheme	<ul style="list-style-type: none"> <li>Bonus paid in June</li> <li>13th cheque paid in December or birthday month</li> </ul>
<b>Limit</b>	n/a	n/a

Long-term incentive (i)	Long-term incentive (ii)
Share appreciation rights (SAR)	Forfeitable share plan (FSP)
Align the long-term interest of employees and shareholders, such that employees are encouraged to consider the long-term future of the business. Retain high-performing employees	Align the long-term interest of employees and shareholders, such that employees are encouraged to consider the long-term future of the business. Retain high-performing employees
Participants share in the growth in the share price between the grant price and the exercise price and receive shares to the value of the appreciation;	Participants have all shareholders rights including dividends from date of award and comprise bonus and restricted shares
<ul style="list-style-type: none"> <li>• Annual award to tier 2 managers and upwards</li> <li>• CEO: 30% of TGP(1)</li> <li>• MD: 25% of TGP</li> <li>• CFO: 25% of TGP</li> <li>• Exco: 22.5% of TGP</li> <li>• T3 managers: 30% of TGP</li> <li>• T2 managers: 18% of TGP</li> <li>• HEPS threshold of CPI + 1% growth must be reached, and individual performance conditions met before any issues made</li> <li>• Three-year vesting period</li> <li>• Exercisable for three years after vesting after which award will lapse</li> </ul>	<ul style="list-style-type: none"> <li>• Annual bonus shares are awarded to regional managers and restricted shares to selected pharmacists</li> <li>• Bonus shares: 40% to 100% of the bonus earned under STI</li> <li>• Restricted shares: 15% of TGP</li> <li>• Three year vesting period exercisable on vesting date</li> </ul>
Shares will be issued from vesting date until they lapse	Shares will be issued on vesting date
Maximum number of shares that can be allocated to one employee is 1% of issued share capital	Maximum number of shares that can be allocated to schemes is 5% of issued share capital

**Notes:**

- TGP – total guaranteed package
- The bonus pool % is the total bonuses earned as a percentage of the total annual packages of all of the regional and store managers. The regional and store managers earnings are structured in a manner which ensures profitability growth and therefore bonus affordability
- Three management tiers have been created; each tier is linked to a range of percentages. The placement of employees into the tiers is primarily based on the following two criteria: - The level of responsibility linked to the employee’s role - The ability that the employees have in their current role, to influence the profitability of the Group, through strategic decision making
- KPA’s, these are based on the following rankings
  - If the employees achieve their net profit budget, their KPA will be set at 3/3, i.e. 100%
  - If the employee doesn’t achieve their net profit but they achieve their Turnover budget, their KPA will be set at 2/3, i.e. 66.67%
- Number of cheques is based on years of achievable targets capped at four years

After the financial year-end, on 1 June 2018, an offer of 276 269 shares on the Forfeitable Share Plan and 2 223 574 options on the Share Appreciation Rights Plan was made to employees. These offers need to be accepted by the employees by 30 June 2018.

## Key performance indicators

### Long-term incentives (LTIs)

**THRESHOLD: CPI + 1% growth per annum over the performance period**

**TARGET: CPI + 3% growth per annum over the performance period**

HEPS growth will be measured between the base year and the last year in the performance period. For the first award under the SAR, the base year HEPS will be adjusted to take into account the number of shares on listing.

### Short-term incentives (STIs)

The financial performance will be based on Group Profit Before Tax (“PBT”) and ROCE. The targets and related Financial Multiplier agreed with management is as follows:

Level	% of budget	Financial multiplier
Threshold	95%	75%
Target	100%	100%
Stretch	110%	125%

### 3. Implementation report

#### Annual salary increases

The annual performance linked salary increases for all employees were linked to CPI and came into effect on 1 March 2018. The same principle will be applied in 2019.

#### Executive directors' remuneration

The Remuneration and Nomination committee has responsibility for the determination of specific remuneration packages for each of the executive directors and the Chairman. The Remuneration committee also considers the bonuses, which are discretionary and based upon general economic variables, the performance of the company and the individual's performance and certain other employee benefits and schemes. No remuneration of any nature shall be paid, increased or varied to any director without the prior approval of the remuneration function of the Remuneration and Nomination committee. In terms of their respective service agreements, each executive director is entitled to a gross annual remuneration package payable to him which is allocated towards

- a base salary,
- pension fund Implementation report contributions by the company
- travel allowances and
- other benefits.

Also, they are entitled to consideration for annual incentive bonus payments based on the fulfilment of specific targets set by the Board. In the current financial year, the directors weren't awarded a bonus as ROCE and profit after tax targets were not met. The service contracts of executive directors contain a three month notice period for termination of employment (exclusive of termination for any reasons justifying summary dismissal in law), and all of the executive directors are subject to restraints of trade.

#### Non-executive directors' fees

The non-executive directors have no fixed term of appointment except as rotation of directors is required by the company's Memorandum of Incorporation. Regarding their service agreements, non-executive directors who wish to resign from the Board are required to give three months written notice to that effect. The chairman is entitled to a fixed annual fee and the non-executive directors receive a fee per meeting attended.

##### Summary of directors' remuneration

R'000	2019	2018
Non-executive directors	4 875	3 919
Executive directors	34 032	42 356
<b>Total</b>	<b>38 907</b>	<b>46 275</b>

## Remuneration report continued

### Overview of the non-executive and executive directors emoluments for 2019

R'000	Services as director	Salary and allowances	Bonuses	Retirement and related benefits	Other benefits	Total
<b>Non-executive directors</b>						
LM Nestadt	2 830	-	-	-	-	2 830
MJ Bowman	566	-	-	-	-	566
A Coovadia	362	-	-	-	-	362
JS Mthimunye	666	-	-	-	-	666
MSI Gani	451	-	-	-	-	451
<b>Executive directors</b>						
IL Saltzman	-	12 478	-	72	286	12 836
LF Saltzman	-	10 245	-	72	117	10 434
RM Morais	-	5 224	-	72	130	5 426
SE Saltzman (alternate)	-	5 021	-	72	243	5 336

### Overview of the non-executive and executive directors emoluments for 2018

R'000	Services as director	Salary and allowances	Bonuses	Retirement and related benefits	Other benefits	Total
<b>Non-executive directors</b>						
LM Nestadt	2 628	-	-	-	-	2 628
MJ Bowman	335	-	-	-	-	335
A Coovadia	290	-	-	-	-	290
JS Mthimunye	316	-	-	-	-	316
MSI Gani	-	-	-	-	-	350
<b>Executive directors</b>						
IL Saltzman	-	12 388	3 744	72	226	16 430
LF Saltzman	-	10 155	2 550	72	91	12 868
RM Morais	-	5 029	1 290	72	251	6 642
SE Saltzman (alternate)	-	4 827	1 161	72	356	6 416

Proposed fees for 2020 subject to approval by shareholders at the AGM

## Proposed fees for 2020 (Rand)

Position	Fee per meeting	Number of anticipated meetings	Total fee for meetings	Base fee	Total fee
Chair: Board				3 000 000	3 000 000
Non-executive director	69 600	4	278 400	-	278 400
Chair: Audit committee	73 200	4	292 800	-	292 800
Member: Audit committee	46 980	4	187 920	-	187 920
Chair: Remuneration and nomination committee	35 230	3	140 930	-	140 930
Member: Remuneration and nomination committee	18 900	3	75 600	-	75 600
Chair: Social and ethics committee	17 100	3	68 400	-	68 400
Member: Social and ethics committee	9 400	3	37 620	-	37 620
Chair: Special committees			7 400 per hour		
Member: Special committees			6 740 per hour		

## Direct and indirect shares held by the executive and non-executive directors

	2019		2018	
	Direct interest	Indirect interest	Direct interest	Indirect interest
LM Nestadt		1 500 000		1 500 000
MJ Bowman	81 081	-	81 081	-
A Coovadia	-	162 162	-	162 162
JS Mthimunye	-	81 162	-	81 162
MSI Gani	-	-	-	-
IL Saltzman and LF Saltzman	-	453 041 396	-	453 041 396
RM Morais	-	12 672 192	-	6 672 192
SE Saltzman (alternate)	-	6 734 781	-	6 672 192

## Remuneration report continued

During the current year, SE Saltzman bought 62 589 shares for R1 977 402.75 on 7 May 2018.

RM Morais bought 1 818 182 shares for R49 109 095.82 on 15 June 2018 and took out an off-market collar hedge over 4 181 818 shares.

During the prior year, LM Nestadt sold 409 890 shares for R34.05 and 792 813 shares for R33.74; JS Mthimunye sold 81 000 shares for R34.00. IL Saltzman and LF Saltzman sold 4 million shares for R35.00 per share.

There have been no changes to the directors' interests between the end of the 2019 financial year and the date of approval of the annual financial statements.



# Social and ethics committee report

The Social and Ethics Committee is a formal subcommittee of the Board operating under a mandate from the Board and by its terms of reference. The committee monitors the activities of Dis-Chem and its subsidiary companies with regards to any legislation or current codes of best practice as prescribed by law. It also focuses on ensuring sustainable social responsibility, ethics, health, safety and transformation initiatives with specific emphasis on transformation regarding ownership, procurement, Employment Equity and skills development.

## Members

The Nominations committee recommend members for the Social and Ethics Committee. The committee is represented by the following individuals:

- Anuschka Coovadia (chairperson)
- Lynette Saltzman
- Mohamed Gani

## Meetings

The committee had one meeting during the financial year, and all members were present.

## Duties

The committee is responsible for assisting the Board on the following:

- Monitoring the Group's activities regarding any relevant legislation, other legal requirements or current codes of best practice with regards to matters relating to
  - » Social and economic development via
    - The ten principles set out in the United Nations Global Compact Principles
    - The OECD recommendations regarding corruption
    - The Employment Equity Act
    - The Broad-Based Black Economic Empowerment Act
  - » Good corporate citizenship including
    - The promotion of equality, prevention of unfair discrimination, and reduction of corruption;
    - Contribution to the development of the communities in which its activities are predominantly conducted or within which its products or services are mainly marketed
    - Record of sponsorship, donations and charitable giving
    - The environment, health and public safety
    - Consumer relationships
    - Labour and employment

## Authority and reporting

The chairperson of the Social and Ethics Committee formally reports to the Board on the proceedings after each meeting. The committee acts in accordance with its statutory duties and the delegated authority of the Board as recorded in this mandate and terms of reference.

### **Anuschka Coovadia**

*Independent non-executive chairman*

# Environmental and social report

## Environment

The Group appreciates that we both get impacted by as well as impact the natural environment in which we operate. We aim to improve the understanding and management of environmental risks and consequences in a manner which will conserve and protect resources across our operations.

Our Group's primary focus areas include energy and fuel consumption, water usage, as well as general and healthcare waste management. Our commitment to environmental sustainability and investment in identified initiatives have already yielded significant reductions in energy consumption and related costs.

## Climate-related issues

Aligning sustainability to the business is a long-term goal for the Group. Pressure from investors and customers, together with climate change policies necessitates the Group to investigate its environmental policies and procedures to negate negative impacts on the environment as a result of its day to day operations. Awareness of climate change will increase over time as the consequences become more apparent.

During the period under review, the following environmental initiatives were undertaken:

- Energy management initiatives,
- Recycling
- Water waste management

## Energy management initiatives

### Metering, lighting retrofit and power factor correction

In late 2018, the Group took the initiative to reduce its energy usage and carbon footprint and opted to pilot ten of our stores. Firstly, check meters were introduced to the main electricity supply lines to select the most optimal tariff structures. The meters allow for daily monitoring of data as well as same day response to any abnormal changes in consumption levels. The result was a significant reduction in energy costs as energy data is more accurate. It also allows for precise budget forecasting for future energy consumption and creates opportunities for better management processes, which will lead to even better efficiencies.

Secondly, the stores' lights were replaced with high quality LED lighting. We have been able to achieve significant electricity consumption savings of up to 53% in the pilot stores as well as reduced carbon emissions. The before and after photos below clearly shows the improvement in the quality of lighting in these stores.

Thirdly, it is possible to be billed incorrectly for energy use when there is a difference between real power and apparent power. We are investigating the tariff structures that are being applied to our stores. We need to ensure not only that it is correct, but also to eliminate any unnecessary charges and hidden costs.

After the successful pilot phase of testing LED lighting, it will be rolled out to the rest of our stores that don't currently have LED lighting as well as all new stores. LEDs have proven to be approximately 50% more efficient compared to conventional lighting in terms of kWh consumption.



Before



After

## Solar

As most of our stores are located in malls and convenience centres, the opportunity for alternative power sources is limited. However, we can pursue innovative solutions to our head office and distribution centres.

## Water

We appreciate that water is a scarce resource in South Africa and a top business risk, and we accept the responsibility to encourage responsible water consumption.

Our water saving initiatives include:

- Recycling of rain and stormwater for our vegetable garden
- Attenuation pond and Jo-jo tanks
- No hot water supply to restrooms
- Timers on our restroom taps

We are in the process of testing the feasibility of a borehole at our Midrand DC. This will reduce the demand for municipal water.

## Waste

Dis-Chem is continuously looking for ways to reduce, reuse and recycle packaging material in an environmentally friendly manner. Below are the volumes of packaging recycled during the reporting period:

Distribution site	Total tons recycled 2019	Total tons recycled 2018
Cosmetic DC	29.17	n/a
Cape Town DC	778.50	457.89
KZN DC	487.33	370.46
Midrand DC	2 686.91	2565.31
<b>Total</b>	<b>4005.68</b>	<b>3393.66</b>

Dis-Chem’s primary environmental obligation is the proper disposal of medical waste. We have for several years implemented systems which ensure that healthcare risk waste is managed according to the applicable legislative requirements to protect staff and members of the public from any form of risk. Certified waste management service providers collect the Group’s medical waste for treatment and disposal and once collected it is the responsibility of the service provider. Dis-Chem monitors its providers’ medical waste disposal to ensure compliance with its regulatory obligations.

Computers and other IT equipment get sold to a service provider who provides a certificate of destruction.

Waste reduction initiatives include:

- Recycled shrink wrap used in the DC’s
- Use 100% recycled plastic bags
- Introduced PLA straws in our stores
- Roll-out of biodegradable bags

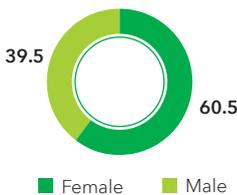


## Social

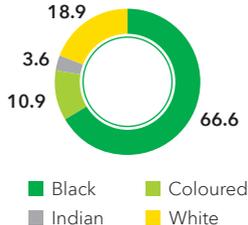
### Human Capital

	2019	2018
Total number of employees	17 866	15 239
Executives	40	40
Fixed-term	431	316
Non-permanent	3 206	2936
Permanent	14 189	11 947
Employee turnover rate	18.05%	18.05%
Skills development expenditure	R40 397 965	R28 060 184
Number of employees trained	8 886	

GENDER (%)



RACE (%)



Dis-Chem strives to be the retail pharmacy employer of choice for people with the same values as the Group. We continue to invest in attracting, developing and retaining talented, qualified employees by spending on training and development and investing in their financial and broader well-being.

The Group's workforce comprises full-time, non-permanent and permanent employees. Non-permanent employees' work hours are dependent on demand. During the financial year, the Group absorbed non-permanent employees as permanent employees due to a change in legislation in South Africa. The Group follows responsible and cautious staffing strategies to ensure we remain a stable, reliable employer for all our employees.

### Policies, procedures and codes

Dis-Chem has policies and procedures in place to ensure that all employees are aware of the conduct which aligns our ethos and their rights as employees. These policies, procedures and codes include:

- Social and ethics policy
- Employment equity policy
- Whistleblowing
- Disciplinary policy
- Bonus policy
- IT policy
- Code of Good Conduct
- HIV and Aids policy

### Summary of our leave policy

- Annual leave: The Group allows for a regular and sufficient period of relaxation conducive to the maintenance of employee health, morale and productivity. Dependent on working days per week and varies from 15-18 days
- Family responsibility leave: Full-time employees employed longer than four months can take three days paid family responsibility leave per year on request
- Maternity leave: Female employees who are in the full-time employ of the Company will be entitled to the Group's maternity benefit
- Sick leave: Paid sick leave will be granted to employees who are absent from work through incapacity

## Environmental and social report continued

- Study and examination leave: Such leave will be granted based on one working day's leave for each subject, up to a maximum of five working days in each leave year. Also, the employee will be granted leave on the day the employee writes the examination.
- Unpaid leave: Management may grant unpaid leave to an employee

### Workplace profiles

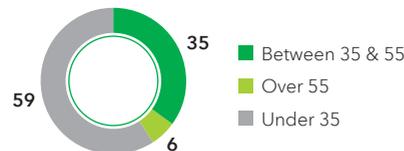
Occupation level	Number of employees
Top Management/Executive	14
Senior Management	54
Prof Qualified & Specialists/Mid-Management	2,066
Skilled Tech, Academic Qualified, Junior Management	2,750
Semi Skilled & Discretionary Decision Making	11,861
Unskilled & Defined Decision Making	1,121
<b>Total</b>	<b>17,866</b>

### Training, talent and skills development

#### Youth

59% of all development projects funded at Dis-Chem were ear-marked for unemployed youth, under the age of 26 years. Recruitment drives conducted at high schools were used to identify youth with an interest in retail, yet had no financial aid or opportunity for further education. Through learnership programmes, like the Dis-Chem WhatsNext and the Cosmetic Retail programme, youth were given an opportunity to earn a qualification, whilst being mentored by a seasoned professional.

#### SPEND ON YOUTH (%)



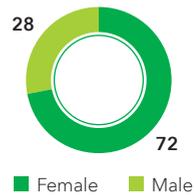
Dis-Chem offered various higher education bursaries to 155 youth, funding the dreams of talented individuals to become contributing members of society.

Dis-Chem opened its doors to 163 unemployed Graduates in 2019 in our HR, SAP, Finance and Health Retail departments. These youths with a newly acquired qualifications an opportunity to gain valuable workplace experience, under the guidance of a mentor.

#### Women

A core focus of Dis-Chem's transformation is to upskill women. Women were the main beneficiaries of all accredited development programmes.

#### BENEFICIARIES (%)



#### People With a Disability (PWD)

Dis-Chem supported 423 people with disabilities to enter the world of work this year through a various Retail learnership programmes.

#### Employment equity

Dis-Chem recognises the value in diversity and need for its workforce to be representative of South Africa's national and regional demographics. We are committed to employing

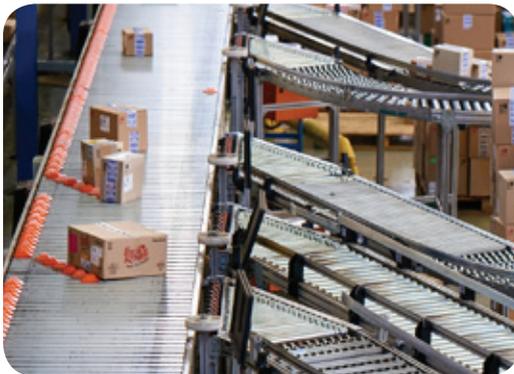
and developing people from designated groups to further our employment equity objectives. There is a strong focus on diversity and inclusion in all organisational culture and leadership initiatives to help identify a representative workforce.

Dis-Chem Pharmacies currently has an Employment Equity Plan which represents the organisation's Employment Equity goals and objectives for the period 2016 to 2021. The goals and objectives developed in the plan have taken cognisance of the purpose and scope of the Employment Equity Act. Affirmative action measures have been developed to ensure the achievement of these goals and objectives but have also taken into account the constraints presented by the labour market and the significant shortage of designated employees with the qualifications, skills and work experience necessary to occupy senior occupational levels within the organisation. The company continues to up skill and develop its employees in order achieve its objectives and goals. The Employment Equity Plan is monitored annually through our Department of Labour workforce movement and income differentials reporting including quarterly monitoring through Employment Equity committee meetings.

## Health, safety and well-being

Health and safety in the retail environment is generally low risk, but we still aim to ensure the safety of all our employees as well as our customers.

There were no severe or fatal workplace injuries in the reporting period.



## Corporate Social Investments and Responsibility

### The Dis-Chem Foundation

Corporate social responsibility (CSR) is a vital component of Dis-Chem's corporate ethos, and we are committed to contributing to the society in which we operate. We aim to genuinely impact communities in a meaningful and enduring way through Foundation initiated projects.

Founders Ivan and Lynette Saltzman established The Dis-Chem Foundation in 2006 to improve the lives of individuals while relieving the burden on communities, families and friends. The Foundation heads, Shereen Saltzman and Melanie Saltzman oversee the Foundation's projects, funding, and beneficiaries and have a passionate team of Dis-Chem social workers and caregivers.

The Foundation provides support in the areas of health, nutrition and education to babies, children, the elderly, abused and the homeless. It is funded through the Dis-Chem Pharmacies Benefits Programme where a percentage of turnover is donated to the Foundation.

#### Foundation beneficiaries

The Dis-Chem Foundation receives multiple requests from individuals and charities daily. We place community needs and the forefront of our selection process and choose credible beneficiaries who are registered non-profit organisations (NPOs). Requests for funding are considered on the NPOs community merits within the ambit of the Foundation's CSR budget. Each application is evaluated for challenges, opportunities and its problem-solving potential to the beneficiaries. Dis-Chem Foundation beneficiaries include:

- Abraham Kriel Children's Home
- African Children's Feeding Scheme
- Afrika Tikun
- Bagdad Squatter Camp
- Boikanyo
- Cape Town Refugee Centre
- Caring 4 Girls
- Child Line
- Chris Hani Baragwanath Academic Hospital
- Claremont Primary School
- Claw
- Cotlands
- Dew of Quietness
- FEED SA
- Fodisong Health Centre
- Forest Town School
- Freda Hartley Home
- Friends of Child Protection
- Highway Hospice
- Holy Cross Frail Home
- Home of Hope
- Impilo Children's Home
- Kaya Sands Fire Fighters
- Kidz Clinic
- Kwaggaspoort Reddingsdaad
- Lambano Sanctuary
- Lead SA Heroes
- Lifeline
- Little Eden
- Little Feet Home
- Lonely Road Foundation
- Meals on wheels
- Operation Hydrate
- Paballo
- Pediatric Colorectal Unit Bara
- Pink Drive
- Rachel Swart Fund
- Rape Crisis Helderberg
- Reach for a Dream
- Red Light SA
- Reiger Park Cancer Group
- Safe House
- South African Depression and Anxiety Group

- Soweto Animal Rescue and Advisory Centre
- SPCA
- Super Tutor Programme with KFM
- The Green Door
- The Place RSA
- The Robin Hood Foundation
- The Smile Foundation
- The Soup Clinic
- Thuthuzela Crisis Clinic
- Top Dogs
- Topsy Foundation
- Ububele
- Union of Jewish Women Soup Kitchen
- Victory Outreach
- Walter Sisulu Environmental Centre
- Warm the World
- Wits Hospice
- Wits Hospice
- Wits Medical School Clinic
- Woodside Special Care Centre
- Yad Aaron

## Foundation projects

Investment initiatives range from disability sponsorships, investing in schools, caring for the elderly, abandoned or homeless and other deserving causes. Project highlights during the reporting period include:



### Million Comforts

Dis-Chem ran the #MillionComforts campaign for a fifth consecutive year and is going from strength to strength. The campaign together with Caring4Girls donated over ten million pads to the Imbumba Foundation.



### reach for a dream

#### Reach for a dream

We sold wrist bands instore for slipper day and managed to raise over R1.2 million for the project.

An aerial photograph of a large industrial facility, likely a chemical plant, with a vast parking lot filled with cars. In the foreground, there is a well-maintained garden with rows of green plants and a structure covered with a green tarp. The background shows a cityscape under a clear blue sky.

## Dis-Chem Food Garden

The Dis-Chem Food Garden was started in August 2013 when a heightened need for food within local communities was identified. Utilising space adjacent to the Group's Head Office, the area was astutely reconditioned into a Food Garden. Almost five years later, this Food Garden is now a thriving farm, feeding over 10 000 people a month. Fresh produce is delivered to various NGOs across Gauteng weekly, including the African Children's Feeding Scheme, Feed SA, Victory Outreach, and Ladies of Hope.

The project reaches beyond food provision. Education and training have become an essential part of this dynamic. The garden team includes 18 community members who have been upskilled over the years to become fully self-sustainable farmers and have received full-time employment. The garden hosts educational school visits, agricultural sector interns, drug rehab patients, and mentally and physically challenged individuals who come to learn and heal from this environmentally friendly haven.

## Public-Private Partnership

Dis-Chem Foundation sponsors two mobile wellness buses working together with the Department of Health in the Western Cape. The buses serve the community in the Winelands area as well as the metro area in the Western Cape. The Foundation sponsors two nursing practitioners to assist and support government clinics in the Paarl area and Graafwater.

During the period 3 500 dental packs (toothpaste and toothbrushes) were sponsored for all wellness buses in the Cape Town area. The Foundation also sponsored "Hello Dr" at one government clinic in the Western Cape. State patients can phone or SMS "Hello Dr" for a physician to assist with any health-related queries.

## Conclusion

Dis-Chem seeks to maintain a satisfactory balance between its financial and non-financial operations and its Economic, Social and Governance (ESG) responsibilities.

# Dis-Chem





# Financial Performance

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MARKET  
SHARE GAINS  
ACROSS ALL  
CATEGORIES

SUCCESSFUL  
SMALLER  
FORMAT  
STORES

FINAL  
DIVIDEND OF  
34.2 CENTS

# CEO's statement

*I am very pleased with Dis-Chem's performance for the year ended 28 February 2019. We have reported positive results with improved market share across all our core categories.*

Ivan Leon Saltzman



## Overview

We celebrated Dis-Chem's 40th anniversary in the last financial year. When Lynette and I opened our first pharmacy in the south of Johannesburg in 1978, we could never have imagined that Dis-Chem would grow to the size that it has become, enabling direct employment for more than 18000 people and serving customers in 150 stores across southern Africa.

40 years later, our ethos of caring is as strong as ever, which is evident in our passion for customer satisfaction, earning us numerous awards over the years. Equally pleasing, is that our growth and success over the years has allowed us to contribute beyond our shareholder, employee and customer base, to members of disadvantaged communities who benefit from the work of the Dis-Chem Foundation that was established in 2006, including the Food Garden that helps to feed thousands of people.

Our collective achievements, hard work and commitment have made Dis-Chem one of South Africa's most loved brands, as our 4.8m loyalty members will attest.

South Africa's successful national election has culminated in the formation of a more streamlined cabinet which, maybe hopefully, aims to introduce policies that will enhance job creation and provide more clarity on investment and business policy. This is imperative for all of us to proceed with our respective growth and development activities with far greater confidence and to position Dis-Chem for the next uprising in the economy.

## Group performance

I am very pleased with Dis-Chem's performance for the year ended 28 February 2019. We have reported positive results with improved market share across all our core categories, despite the ongoing economic pressure that our customers are continuing to experience.

Dis-Chem's market share gains, which are the largest we have seen in the last three years, were driven by our everyday low-price strategy and deep cut promotions, our trusted in-store service, the availability of choice and our continued focus on exclusive brands and private labels. All of these factors make us a preferred destination for cost-conscious consumers searching for value offerings.

We experienced a strike during the year, which lasted

five months and which had a marked impact on the Group's performance. I must commend our management team and all employees for their efforts during the strike. All stores operated with minimal disruption and customers continued to receive our renowned service and quality. Management's focus remains on developing a productive relationship with our employees, improving wholesale productivity levels and cost efficiency as well as optimising the levels of stock holdings, which the strike necessitated.

We have achieved our store roll-out plan of adding 20 stores or more annually, and this remains on track for future years.

Earnings attributable to shareholders and headline earnings both grew by 7.4%, while earnings per share and headline earnings per share increased 7.4% to 85.4 cents.

Group turnover grew by 10% to R21.4 billion, with a 9.7% increase in our retail turnover to R19.6 billion and a 11.2% increase in our wholesale turnover to R14.5 billion.

Cost efficiency is a major focus for us and having wholesale operations that are more geographically aligned with our core retail store base, as well as the independent pharmacy market we serve, should lead to additional cost containment in the next financial period.

## Operating and Regulatory Environment

The SEP prescribed by the Department of Health for regulated drugs negatively affected comparable store revenue and selling price inflation following the 1.26% SEP increase, which was effective 1 March 2018. SEP affects approximately a third of our retail sale. However, the most recently gazetted increase of 3.78% should deliver some relief in the coming financial year.

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

There are restrictions on retail licences that inhibit pharmacies from opening anywhere. We are pleased that we have licences for all sites in which we have situated new stores.

## Industrial Action

The Group was the target of a national strike by a group of employees belonging to the National Union of Public Service and Allied Workers (NUPSAW) that started on 16 November 2018. A total of 2 300 employees, the majority from our wholesale operations, took part in the protected strike. At the start of the industrial action, less than 13% of our employees

were registered as NUPSAW members. This continues to fall and is currently below 10%.

The union's demands included a minimum wage of R12 500 across the board, an annual increase of 12.5% (guaranteed for the next three years) for all employees and a guaranteed annual bonus. Following discussions with the CCMA, an additional demand was made to take back all employees that had transgressed picketing rules, had damaged company property and/or attacked fellow employees and damaged their possessions. The decision is still pending regarding the out of their appeal.

The industrial action came to an end on 10 of April 2019, with NUPSAW withdrawing all demands and employees returning to work. NUPSAW agreed to re-instate the original organisational rights agreement signed with Dis-Chem in January 2018 that it broke, namely that it would only be entitled to engage in collective bargaining once the threshold of 50% plus 1 member in the workplace has been met.

We agreed to pay pro rata bonuses to all eligible employees who were not paid their bonus for the year ending 2018. From 2019 onwards, the bonus policy will no longer apply a forfeiture of the bonus payment in relation to those employees who have valid final written warnings on file.

The industrial action which started before Black Friday and Christmas of 2018 had both a direct and indirect impact on our financial performance, with total costs adding up to R75 million. This included R50.4 million of additional direct costs, primarily in increased security at certain targeted stores and our head office, relocating vulnerable employees to other premises and legal fees. Other major direct cost contributors included having to employ and train temporary staff in our distribution centres as well as our inability to invoice logistic fees as certain suppliers had to deliver inventory straight to stores and not through our distribution centres.

Indirect costs were estimated at between R17.3 million and R21 million. Retail revenue growth in December (the most impacted retail trading month) was only 6.2% with comparable store revenue at -2.5%, which was well below our expectations, but was however in line with or above other retail. In addition, our primary external customer facility in Delmas was significantly impacted over the period of the industrial action, reporting growth of negative 0.58% against wholesale external growth of 5% delivered in the first half of the financial year.

We opened 20 new stores, including flagship stores in Sandton, Eastgate and Gateway as well as our first store in Botswana. Collectively, these new stores added R647 million to revenue, while the 21 stores opened in the previous financial year contributed an additional R1,4 billion.

The Dis-Chem brand's positioning and strength, the maturing of our store base and the addition of new stores, supported by our successful promotions, especially the Micropopz! campaign, partially offset the economic and labour challenges that we experienced in the last four months of the financial year.

## Strategy and business model

The Group aims to continue growing market share across all categories by focusing on customer relationships and on the positioning and alignment of the Dis-Chem brand. We strive to maintain category leadership by being close to consumer preferences and trends. Other than the significant and tremendous work taking place inside the stores, we are also enhancing our systems, distribution processes as well as products and services to improve market share and continue to build customer acceptance. The ongoing strategic initiatives will, we believe, result in enhanced profitability and returns in future years.

Dis-Chem's strategy will continue to align to our dispensary-led footfall to generate revenue from the front shop. The destination format drives very superior trading densities and customer loyalty. Being a non-discretionary pharmacy business, the group combines defensiveness with high-growth expansion opportunities.

We acknowledge the importance of driving volume growth and managing costs in our mature space, ensuring that we maintain and improve our retail operating margins. We continue to focus on driving dispensary volumes, the core of our business.

With chronic medication a significant contributor to total dispensary sales and volumes, we are focusing on strategies to increase patient adherence rates and customer retention. This includes the use of adherence technology. Besides the commercial benefits, the technology provides the ability to monitor non-adherence and to prompt patients to persist with therapy for health reasons. It also enables the provision of disease education through electronic means and the prediction of disease and progression rates, using AI to create customer health profiles based on transactional data.

Our aim is to manage all chronic patients through their preferred channel.

## Looking ahead

We remain very confident about our offering and we will therefore continue adding retail stores. Five stores have been opened since the beginning of March 2019 and an additional 17 store openings are planned through to February 2020. In-store enhancements will also remain a feature to ensure an ever-improving shopping experience, coupled with a more streamlined distribution channel, competitive pricing and quality products.

We expect that the consumer will remain under pressure, despite the slight rise in consumer confidence in the second quarter of 2019. As was the case previously, the resilient markets in which the Group operates together with our brand positioning will offer a certain amount of protection against the weak environment. I believe we are well positioned to benefit from consumers' additional disposable income, which should eventuate when South Africa's economy stabilises.

## Appreciation and conclusion

I wish to express my appreciation to the entire Dis-Chem family that have been unstinting in their efforts and contributions during the year. Considering the challenging year, particularly as a result of the depressed economy and the strike, the entire team has made a significant contribution, which has ultimately resulted in our pleasing performance over the last year.

My appreciation is also directed toward the Board of Directors for their combined support, guidance and stewardship. Their invaluable input is serving to make a better, stronger and more robust Group.

Lynette and I remain very proud of what has been built over the last 40 years and we are excited and invigorated as the Dis-Chem story will continue well into the future with our enlarged management team.

# CFO's statement

*The group experienced a challenging year with multiple factors impacting operations. However, despite the headwinds that the group faced during the financial period reported, we are pleased with the results achieved.*

Rui Morais



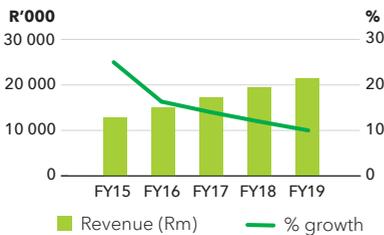
## Group operating highlights



### Revenue

The group's revenue grew by 10.0% to R21.4bn, underpinned by our brand's positioning in a deteriorating consumer spending environment, the maturing of our store base and the addition of new stores.

#### REVENUE



## Retail

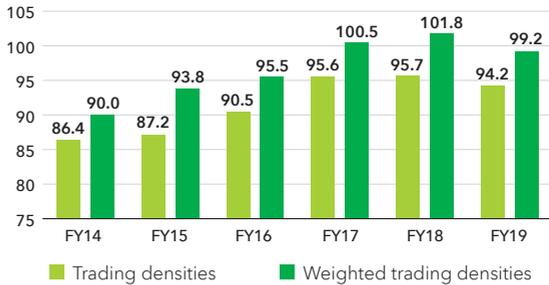


**Retail revenue, however negatively impacted by the challenging macro environment, improved by 9.7% to R19.6bn.**

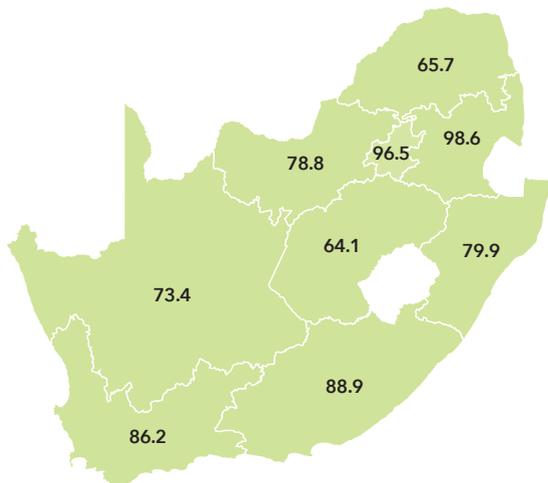
Comparable store revenue growth and selling price inflation were 3.4% and 1.2% respectively. These numbers were impacted by the low 1.26% Single Exit Price (SEP) increase, which came into effect in March 2018 and continued competitive pricing across the personal care and baby categories. Our trading densities remained superior in the retail industry and came in at R94 219/m<sup>2</sup>. The decline is predominantly as a result of low price inflation.

The Group opened 20 new stores including its fourth store in Namibia and its first store in Botswana. The Group operates three successful store formats (refer to page 10) to accommodate the changing retail landscape in South Africa. 132 of our stores are wholly owned, and 17 stores are majority-owned subsidiaries. **We added 21 349 m<sup>2</sup> of space during the financial year.**

TRADING DENSITIES



TRADING DENSITIES PER PROVINCE



New stores opened in FY2019	Store size (m <sup>2</sup> )
The Club	760
Sandton	1 793
Loftus Park	851
Kalahari Mall	1 200
Gateway	1 289
Wernhill	1 233
Greystone Crossing	1 472
Modderfontein	909
Preller Square	1 400
Albermarle Gardens	1 443

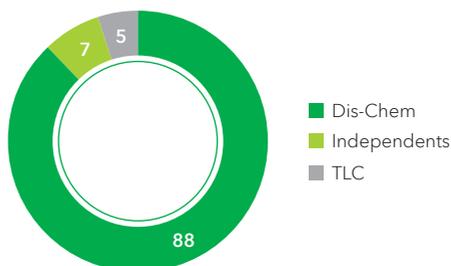
New stores opened in FY2019	Store size (m <sup>2</sup> )
Eastgate	1 518
Sunward Park	761
Dewiekus TLC	574
Goldfields Mall	940
Mams Mall	950
Toti Centre	707
Mega City	1 200
Goodwood	619
Botswana Airport Junction	1 000
York Street Pharmacy	730

## Wholesale



**Wholesale revenue increased by 11.2% to R14.5bn.** Despite the negative impact of the strike on wholesale, the segment was strengthened by the Quenets acquisition, which was concluded on 1 November 2018. Out internal sales are at our optimal target level of 80%. Our external sales increased by 12.9%, and sales to our 91 TLC franchise customers increased by 12.2%.

CONTRIBUTION TO WHOLESALE REVENUE (%)

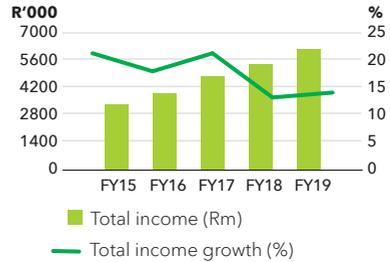


## Total income

**Total income increased by 14.2% to R6.2bn.**  
This was predominantly as a result of:

- Better trade terms as we gain market share
- Reclassification of rebates dependent on the nature of the rebates
- Unearned fee release in wholesale due to the redistribution of stock between retail and wholesale
- Margin extraction within sub-categories of products with high price elasticity

TOTAL INCOME



## Operating expenditure

**Operating expenditure increased by 13.7% to R4.3bn.** The drivers of this increase include increased retail space of over 21 000 m<sup>2</sup>, employment costs impacted by regulation change requiring the group to absorb temporary staff as permanent staff as well as the labour unrest.

Our human capital and workforce management solution has assisted in managing variable employment costs. We also continue to focus on productivity and cost efficiency.

	FY2019	FY2018	% change
Other expenses	5 015	4 331	15.8%
Depreciation and amortisation	187	173	7.6%
Occupancy costs	702	602	16.6%
Employment costs	2 825	2 488	13.3%
Other operating costs	1 301	1 067	22.6%

## Net finance costs

Net finance costs increased by 1.4% to R162m due to acquisition funding and an additional ten day's inventory carried to ensure sufficient stock availability. On 1 March 2019, the Group took advantage of favourable financing by replacing the existing Absa loan facility of R500 million with a new facility of R900 million. R400 million of this loan will become part of the working capital facility that was and will be used for acquisitions, and R500 million will be repaid over four years with the remaining R400 million bullet paid at the end of the fourth year.

## Taxation

The group's effective tax rate was 27.6% on the back of Employment Tax Incentive (ETI) benefits and learnership structures.

Effective tax rate	FY2019
Standard tax rate	28.0%
Prior year adjustment	0.30%
Non-taxable items	(1.28%)
Non-deductible items	0.57%
Other	(0.02%)
<b>Total</b>	<b>27.6%</b>

## Earnings

Earnings per share and headline earnings per share were both 85.4 cents. The weighted average number of shares (WANOS) and diluted WANOS in issue were 860 084 483 and 860 090 598 respectively.

'000	2019	2018
<b>Reconciliation of profit for the year to headline earnings</b>		
Profit attributable to equity holders of the parent	734 723	684 254
Net profit on disposal of property, plant and equipment and intangible assets	(15)	(25)
Taxation	4	7
<b>Headline earnings</b>	<b>734 712</b>	<b>684 236</b>
<b>Earnings per share (cents)</b>		
Basic	85.4	79.6
Diluted	85.4	79.6
<b>Headline earnings per share (cents)</b>		
Basic	85.4	79.6
Diluted	85.4	79.6

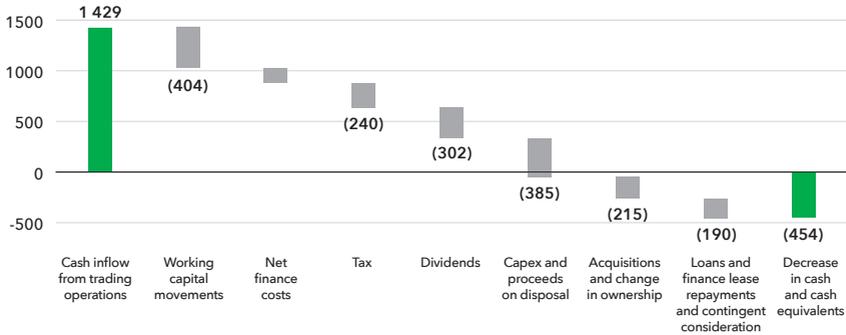
## Working capital

The worsening in working capital days from 36 to 38 days was as a result of higher inventory days due to stock buy-in ahead of the single exit price (SEP) increase and additional stock held before and during the strike. The improvement in creditor days was on the back of our continued focus on our supply chain finance programme offered to vendors.

'000	FY2019	FY2018
Debtors days	21	20
Inventory days	102	89
Creditors days	85	73
<b>Total working capital</b>	<b>38</b>	<b>36</b>

## Cash management

Cash inflow from trading operations improved by R99m to R1 429m.



## Capital management

Expansion capex of R247 million and maintenance capex of R148 million contributed to the total group capex of R395 million spent during the financial year. The increase in maintenance capex was due to replacement spend in the wholesale segment.

	FY2019	FY2018	% change	As a % of revenue
Expansion capex	247	296	(16.6)	1.2
Maintenance capex	148	78	89	0.7
<b>Total capex</b>	<b>395</b>	<b>374</b>	<b>5.5</b>	<b>1.8</b>

## Dividends

An interim dividend of 20.7 cents per share, amounting to R170m was declared and paid to shareholders on 5 November 2018.

A final dividend of 13.4725 cents per share or R116 million was approved by the directors on 15 May 2019 and paid on 10 June 2019 to shareholders registered on 5 June 2019. The Group's pay-out ratio remained 40% based on headline earnings per share.

## Outlook

We believe that the economic environment will continue to be constrained, and the consumer will remain under pressure. We believe that consolidation in the pharmacy industry will continue and we will look at synergistic acquisitions in line with how we evaluate new space. We feel that productivity and cost efficiencies are crucial in this environment.

## Appreciation

I would like to thank all involved in the preparation of the Integrated Annual Report as well as our board of directors.

**Rui Morais**  
Chief Financial Officer

# Targets

## MEDIUM-TERM TARGETS



- Improve trading density by price inflation
- Gain market share in all key categories
- Improve volume growth
- Drive and grow customer loyalty
- Enhance e-commerce platform
- Increase number of loyalty partnerships
- Drive secondary retail opportunities
- Leverage off existing head office infrastructure cost base
- Open on average 20 stores per year
- Look for consolidation opportunities
- Train and motivate employees

## MEDIUM-TERM TARGETS



- Negotiate better commercial terms with vendors
- Leverage our infrastructure
- Gain scale through acquisitions
- Capture supply chain by adding TLC franchisees
- Invest in price to attract independent volume
- Focus on productivity and cost efficiency
- Extract benefits from Finamics
- Vendor management to improve vendor profitability

Medium-term	Achieved FY2018	Achieved FY2019	Target FY2020 - FY2022
Working capital days	36	36.4	25 - 30
New store capex (m <sup>2</sup> )	5 670	6 120	Inflation adjusted
Total income margin (%)	28.0	29.1	28.5 - 29.5
EBITDA (%)	6.7	6.6	6.5 - 7.5*
Operating margin (%)	5.8	5.7	5.5 - 6.5*
Dividend pay-out ration (%)	40	40	40 - 50*

# Commentary

## Overview

Despite a tough economic environment and prolonged industrial action, which affected close to a third of the financial year, the Dis-Chem Group reports positive results with improved market shares across all of its core categories and continues to produce attractive returns to shareholders.

Earnings attributable to shareholders and headline earnings both grew by 7.4% over the corresponding period in the prior year ("corresponding period"). Earnings per share and headline earnings per share are both 85.4 cents per share, an increase of 7.4%.

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

Our store roll-out plan of adding more than 20 stores annually continues to remain on track. We are increasingly 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 remains and will continue to remain a fundamental driver of Group growth.

We acknowledge the importance of driving volume growth and managing costs in our mature space, ensuring that we maintain and improve our retail operating margins. We continue to focus on driving dispensary volumes, the core of our business. Recently this has been evidenced by our investment in an adherence management technology business focused on driving chronic volumes - chronic volumes currently represent 50% of our dispensary business. Coupled with this, leveraging our loyalty partnerships and finding ways to better commercialise our extensive loyalty data will assist in growing volumes and share in all of our spaces.

Unfortunately, the industrial action which began mid-November last year heavily impacted the Group's performance in the current financial period. The demands by the union were unreasonable considering the economic climate and the nature of the industry in which we operate. We are pleased that the industrial action has been concluded and our focus is now on continuing to develop a productive employer/employee relationship, improving wholesale productivity levels and cost efficiency, as well as optimising the levels of stock holding in the Group which the industrial action necessitated."

## Industrial Action Summary

### Background

The Group was the target of a national strike by a group of employees belonging to the National Union of Public Service and Allied Workers (NUPSAW) that started on the 16th of November 2018 and concluded on the 10th of April 2019. Two thousand three hundred (2 300) employees, the majority from our wholesale operations, were part of the protected strike. At the start of the industrial action, less than 13% of our employees were registered as NUPSAW members.

## Demands

The union's demands included a minimum wage of R12 500 across the board, an annual increase of 12.5% (guaranteed for the next three years) for all employees and a guaranteed annual bonus. In addition, post discussions with The Commission for Conciliation, Mediation and Arbitration (CCMA), an additional demand was made to take back all employees that had transgressed picketing rules, had damaged company property and/or attacked fellow employees and damaged their possessions.

## Conclusion

The industrial action came to an end on the 10th of April 2019 with NUPSAW withdrawing all demands and employees returning to work. The following provisions were agreed to as part of the conclusion of the industrial action:

- Employees that had not returned to work within three working days of the conclusion of the strike were deemed to have permanently abandoned their employment;
- NUPSAW agreed that they will only be entitled to engage in collective bargaining once the threshold of 50% plus 1 member in the workplace has been met; this was included in the original organisational rights agreement signed by Dis-Chem and NUPSAW in January 2018;
- Any future disputes between Dis-Chem and NUPSAW as to NUPSAW's membership within the workplace will require verification. The verification will be conducted on an open and transparent basis through the CCMA;
- Dis-Chem agreed to pay pro rata bonuses to all eligible employees who were not paid their bonus for the year ending 2018. From 2019 onwards, the bonus policy will no longer apply a forfeiture of the bonus payment in relation to those employees who have valid final written warnings on file; and
- Dis-Chem retained and reserved all of its rights in law to take disciplinary action for misconduct committed during the strike, as well as Dis-Chem's rights in relation to the cost orders granted in Dis-Chem's favour by the Labour Court.

## Financial Consequence

The industrial action that affected the Group for close to a third of the financial year, had both a direct and indirect impact on the financial performance of the Group.

R50.4 million of additional direct costs were incurred, the primary contributing costs include:

- Increased investment in security at all our distribution centres, our head office and certain targeted stores to ensure our consumers, our employees and our assets were protected;
- Employment and training of temporary staff in our distribution centres to fill the void in the wholesale segment left by striking employees;
- Relocating head office staff to other premises to ensure their safety;
- Inability to invoice logistic fees as certain suppliers had to deliver inventory straight to stores and not through our distribution centres; and
- Related legal costs incurred.

Indirect costs were estimated between R22.3 million and R26 million. In December, which was the most impacted trading month, retail revenue growth was only 6.2% with comparable store revenue of negative 2.5%, which was well below our expectations. Although contingency plans were in place to ensure minimal disruption at our retail stores, we experienced lost opportunity sales primarily due to stock supply challenges. This was further supported by the fact that we reported our lowest market share gains of the financial year in the month of December. In addition, our primary external customer facility in Delmas was significantly impacted over the period of the industrial action reporting growth of negative 0.58% compared to wholesale external growth of 5.1% reported in the first half of the financial year.

## 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.

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 was negatively impacted by the 1.26% Single Exit Price ("SEP") increase effective 1 March 2018. The SEP is prescribed by the Department of Health and impacts approximately a third of Dis-Chem's retail sales. Wholesale revenue grew by 11.2% to R14.5 billion.

Total income, comprising 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% predominately 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. In the current period - H1 FY19 - the Group benefited from the release of unearned rebates. The release was as a result of a redistribution of inventory across the Retail and Wholesale segments.

Retail expenses grew by 13.7% as the Group invested in 20 new stores over the comparable period. Wholesale expenses grew by 13.0% and although significantly lower than the growth in the comparable period of 31%, the segment was negatively impacted by the additional costs caused by the industrial action. With cost efficiency a main focus for the Group and now having wholesale operations that are more geographically aligned with its retail store base and the independent pharmacy market it serves, further cost containment is anticipated in the next financial year.

Operating profit grew by 8.2% to R1.2 billion, with the Group operating margin being 5.7%. Retail operating profit for the period was R1.35 billion with an operating margin of 6.9%. The Wholesale segment incurred an operating loss amounting to R102 million (EBITDA loss of R58 million). The Wholesale segment did not break even at an EBITDA level in the current period as initially expected due to the industrial action that took place resulting in additional direct and indirect costs.

Net finance costs increased slightly by 1.4% to R162 million. The increase was primarily due to the funding of new acquisitions. New acquisition spend totalled R215 million for the period under review. Furthermore, additional funding was required to carry, on average, an extra 10 days of inventory to ensure sufficient availability before and during the industrial action period.

The Group's net working capital at 28 February 2019 is 37.7 days compared to 36.4 days at 28 February 2018. Creditors' days have continued to improve due to concentrated efforts on supply

chain finance offered to the Group's vendor base. Inventory days have increased from the prior comparable period due to a buy-in of pharmaceutical products before the SEP increase of 3.78% in March 2019 together with the additional inventory held as a result of the industrial action.

Total capital expenditure of R395 million comprised R247 million of expansionary expenditure as the Group invested in 20 additional stores as well as information technology enhancements across both the retail and wholesale segments. The balance of R148 million relates to replacement expenditure incurred to maintain the existing retail and wholesale network.

## 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% 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%. We expect some relief in the coming financial year from the most recently gazetted SEP increase of 3.78%.

In the current period, the Group opened 20 new stores, including flagship stores in Sandton, Eastgate and Gateway as well as our first store in Botswana, resulting in 149 stores at February 2019. New stores added in the period under review contributed R647 million to revenue. The 21 new stores that were opened in the prior period contributed R1.4 billion to current period revenue.

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

### Wholesale

Wholesale revenue grew by 11.2% to R14.5 billion. Revenue to our own retail stores, still the biggest contributor to wholesale sales grew by 11% as we achieved 80% internal supply. Wholesale sales to external customers – The Local Choice ("TLC") and independent pharmacies – grew by 12.9% primarily as a result of the Quenets acquisition on 1 November 2018. The increase in external customer growth was despite our primary external customer facility, Delmas, being significantly impacted by the industrial action resulting in lower than anticipated sales over the strike period. Delmas reported external sales growth of negative 0.58% over the period of the industrial action compared to the 5.1% wholesale external growth reported in the first half of the financial year.

## Directorate

No changes have been made to the board since year-end or the prior corresponding period.

## Board approval

The summary consolidated financial statements were approved by the Board on 24 June 2019.

# Auditor's report

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DIS-CHEM PHARMACIES LIMITED

### Report on the summary consolidated group financial statements

#### Opinion

The summary consolidated Group Financial Statements of Dis-Chem Pharmacies Limited, incorporated in the 'Financial performance' section of this Integrated Annual Report, which comprise the summary consolidated statement of financial position as at 28 February 2019, the summary consolidated income statement, the summary consolidated statement of comprehensive income and summary consolidated statement of changes in equity, and the summarised consolidated statement of cash flows for the year then ended, on pages 101 to 104, the related notes to the summarised consolidated Group Financial Statements on pages 110 to 114 are derived from the audited consolidated Group Annual Financial Statements of Dis-Chem Pharmacies Limited for the year ended 28 February 2019.

In our opinion, the accompanying summary consolidated Group Financial Statements are consistent, in all material respects, with the audited consolidated Group Annual Financial Statements of Dis-Chem Pharmacies Limited for the year ended 28 February 2019, in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set out in the 'Board approval' on page 98, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

#### Summary Financial Statements

The summary consolidated Group Financial Statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated Group Financial Statements and the auditor's report there on, therefore, is not a substitute for reading the audited consolidated Group Annual Financial Statements of Dis-Chem Pharmacies Limited and the auditor's report thereon.

The summary consolidated Group Financial Statements and the audited consolidated Group Annual Financial Statements do not reflect the effect of events that occurred subsequent to the date of our report on the audited consolidated Group Annual Financial Statements.

#### The audited consolidated Group Annual Financial Statements and our report thereon

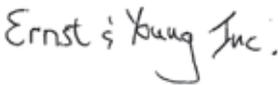
We expressed an unmodified audit opinion on the audited consolidated Group Annual Financial Statements of Dis-Chem Pharmacies Limited in our report dated 24 June 2019. That report included the communication of other key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period.

#### Directors' responsibility for the summary consolidated Group Financial Statements

The Directors are responsible for the preparation of the summary consolidated Group Financial Statements in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set out in the 'Board approval' on page 98 and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

#### Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated Group Financial Statements are consistent, in all material respects, with the audited consolidated Group Annual Financial Statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.



Director: **Derek Engelbrecht**  
Registered Auditor  
24 June 2019

102 Rivonia Road  
Sandton  
2196



# Summarised audited consolidated statement of comprehensive income

	Year to 28 February 2019 R'000	Restated* Year to 28 February 2018 R'000	% change
Revenue from contracts with customers	21 420 023	19 479 553	10.0
Cost of sales	(16 197 190)	(14 710 016)	10.1
<b>Gross profit</b>	<b>5 222 833</b>	<b>4 769 537</b>	<b>9.5</b>
Other income	1 010 258	686 271	47.2
<b>Total income</b>	<b>6 233 091</b>	<b>5 455 808</b>	<b>14.2</b>
Other expenses	(5 015 225)	(4 330 728)	15.8
<b>Operating profit</b>	<b>1 217 866</b>	<b>1 125 080</b>	<b>8.2</b>
Net financing costs	(162 254)	(160 082)	1.4
- Finance income	20 183	28 321	
- Finance costs	(182 437)	(188 403)	
<b>Profit before taxation</b>	<b>1 055 612</b>	<b>964 998</b>	<b>9.4</b>
Taxation	(291 040)	(266 696)	9.1
<b>Profit for the year, net of tax</b>	<b>764 572</b>	<b>698 302</b>	<b>9.5</b>
<b>Other comprehensive income</b>			
Items that may be subsequently reclassified to profit or loss			
- Exchange differences on translating foreign subsidiaries	46	-	
<b>Other comprehensive income for the year, net of tax</b>	<b>46</b>	<b>-</b>	
<b>Total comprehensive income for the year</b>	<b>764 618</b>	<b>698 302</b>	<b>9.5</b>
<b>Profit attributable to:</b>			
- Equity holders of the parent	734 723	684 254	
- Non-controlling interests	29 849	14 048	
<b>Total comprehensive income attributable to:</b>			
- Equity holders of the parent	734 769	684 254	
- Non-controlling interests	29 849	14 048	
<b>Earning per share (cents)</b>			
- Basic	85.4	79.6	
- Diluted	85.4	79.6	

\* Refer to note 2.

# Summarised audited consolidated statement of financial position

	As at 28 February 2019 R'000	Restated* As at 28 February 2018 R'000	Restated* As at 28 February 2017 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>	1 987 167	1 664 700	1 192 144
Property, plant and equipment	1 370 310	1 182 394	995 401
Intangible assets	447 112	300 461	40 310
Deferred taxation	169 745	181 845	156 433
<b>Current assets</b>	6 849 048	5 470 665	4 710 176
Inventories	5 115 579	3 947 937	3 233 911
Trade and other receivables	1 354 016	1 118 855	1 097 156
Loans receivable	198 317	113 876	72 270
Taxation receivable	3 704	9 998	12 141
Cash and cash equivalents	177 432	279 999	294 698
<b>Total assets</b>	8 836 215	7 135 365	5 902 320
<b>EQUITY AND LIABILITIES</b>			
<b>Equity and reserves</b>	2 037 883	1 630 992	1 105 862
Share capital	6 155 554	6 155 554	6 140 554
Common control reserve	-	-	(990 991)
Retained earnings/(loss)	497 165	97 481	(4 043 701)
Other reserves	(4 614 836)	(4 622 043)	-
<b>Non-controlling interest</b>	68 101	55 147	23 581
<b>Total equity</b>	2 105 984	1 686 139	1 129 443
<b>Non-current liabilities</b>	1 266 115	1 388 846	1 522 378
Finance lease obligation	620 724	621 543	622 907
Operating lease obligation	236 375	213 198	179 162
Loans payable	346 000	499 605	647 000
Contingent consideration	40 797	54 500	73 309
Deferred taxation	22 219	-	-
<b>Current liabilities</b>	5 464 116	4 060 380	3 250 499
Trade and other payables	4 325 818	3 262 280	2 647 914
Employee-related obligation	163 933	146 014	125 391
Deferred revenue (contract liability)	43 798	81 292	95 364
Contingent consideration	23 548	21 749	24 003
Finance lease obligation	22 593	9 943	2 390
Loans payable	170 989	198 798	173 659
Taxation payable	54 967	32 790	14 719
Bank overdraft	658 470	307 514	167 059
<b>Total equity and liabilities</b>	8 836 215	7 135 365	5 902 320
Net asset value per share (WANOS)	244.9	196.0	138.3
Net asset value per share (actual shares at year-end)	244.9	196.0	131.4

\* Refer to note 2.

# Summarised audited consolidated statement of changes in equity

	Share capital R'000	Retained earnings/ (loss) R'000	Common control reserve R'000	Other reserves R'000	Non-controlling interest R'000	Total R'000
As previously reported	1 352 074	361 483	(990 991)	-	117 117	839 683
Adjustment for IFRS 15	-	(652)	-	-	-	(652)
<b>Restated balance at 29 February 2016*</b>	1 352 074	360 831	(990 991)	-	117 117	839 031
Profit/Total comprehensive income for the year	-	611 958	-	-	42 766	654 724
Acquisition of non-controlling interests	-	(515 438)	-	-	(100 885)	(616 323)
Acquisition of subsidiary	-	-	-	-	4 510	4 510
Shares issued during the year	4 830 774	-	-	-	-	4 830 774
Capitalised share costs for listing	(42 294)	-	-	-	-	(42 294)
Shares repurchased during the year	-	(3 631 052)	-	-	-	(3 631 052)
Dividends paid	-	(870 000)	-	-	(39 927)	(909 927)
<b>Restated balance at 28 February 2017*</b>	6 140 554	(4 043 701)	(990 991)	-	23 581	1 129 443
Profit/Total comprehensive income for the year	-	684 254	-	-	14 048	698 302
Change in ownership interest in subsidiary	-	50 179	-	-	26 104	76 283
Shares issued during the year	15 000	-	-	-	-	15 000
Transfer to other reserves	-	3 631 052	990 991	(4 622 043)	-	-
Dividends paid	-	(224 303)	-	-	(8 586)	(232 889)
<b>Restated balance at 28 February 2018*</b>	6 155 554	97 481	-	(4 622 043)	55 147	1 686 139
Profit/Total comprehensive income for the year	-	734 723	-	46	29 849	764 618
Profit for the year, net of tax	-	734 723	-	-	29 849	764 572
Other comprehensive income for the year, net of tax	-	-	-	46	-	46
Change in ownership interest in subsidiary	-	(47 489)	-	-	(2 746)	(50 235)
Share-based payment expense	-	-	-	7 161	-	7 161
Dividends paid	-	(287 550)	-	-	(14 149)	(301 699)
<b>Balance at 28 February 2019</b>	6 155 554	497 165	-	(4 614 836)	68 101	2 105 984

\* Refer to note 2.

	Year to 28 February 2019 cents	Year to 28 February 2018 cents
<b>Dividend per share</b>		
- Interim paid	20.7	18.7
- Final declared/paid	13.5	12.8

# Summarised audited consolidated statement of cash flows

	Year to 28 February 2019 R'000	Year to 28 February 2018 R'000
<b>Cash flow from operating activities</b>	336 040	348 473
Cash inflow from trading operations	1 428 516	1 323 624
Movement in working capital	(403 526)	(295 931)
Finance income received	20 183	23 836
Finance costs paid	(167 446)	(164 424)
Taxation paid	(239 988)	(305 743)
Dividends paid	(301 699)	(232 889)
<b>Cash flow from investing activities</b>	(549 721)	(396 050)
Additions to property, plant and equipment and intangible assets		
- To maintain operations	(147 850)	(78 242)
- To expand operations	(246 659)	(295 586)
Proceeds on disposal of property, plant and equipment and intangible assets	9 313	1 123
Acquisition of subsidiaries and assets and liabilities in business combination, net of cash acquired	(164 525)	(23 345)
<b>Cash flow from financing activities</b>	(239 987)	(107 577)
Long-term loans repaid	(150 000)	(153 410)
Contingent consideration paid	(23 133)	(22 941)
Finance lease repaid	(16 415)	(6 226)
Change in ownership interest in subsidiaries	(50 439)	75 000
<b>Net decrease in cash and cash equivalents</b>	(453 668)	(155 154)
Foreign currency	145	-
<b>Cash and cash equivalents at beginning of year</b>	(27 515)	127 639
<b>Cash and cash equivalents at end of year</b>	(481 038)	(27 515)

## Earnings per share

	As at 28 February 2019 R'000	Restated* As at 28 February 2018 R'000
<b>Reconciliation of profit for the year to headline earnings</b>		
Profit attributable to equity holders of the parent	734 723	684 254
Net profit on disposal of property, plant and equipment and intangible assets	(15)	(25)
Taxation	4	7
<b>Headline earnings</b>	<b>734 712</b>	<b>684 236</b>
<b>Earnings per share (cents)</b>		
- Basic	85.4	79.6
- Diluted	85.4	79.6
<b>Headline earnings per share (cents)</b>		
- Basic	85.4	79.6
- Diluted	85.4	79.6

\* Refer to note 2.

	As at 28 February 2019 '000	As at 28 February 2018 '000
<b>Reconciliation of shares in issues to weighted average number of shares in issue</b>		
Total number of shares in issue at beginning of the period	860 084 483	859 273 673
Shares issued during the year weighted for the period outstanding	-	799 703
Total weighted number of shares in issue at the end of the period	860 084 483	860 073 376
Share options	6 115	-
<b>Total diluted weighted number of shares in issue at the end of the period</b>	<b>860 090 598</b>	<b>860 073 376</b>

# Segmental information

The Group has identified two reportable segments being Retail and Wholesale.

28 February 2019	Retail R'000	Wholesale R'000	Intergroup/ consolidation R'000	Total R'000
External customers	19 643 739	1 776 284	-	21 420 023
Inter-segment	-	12 745 625	(12 745 625)	-
<b>Revenue from contracts with customers</b>	19 643 739	14 521 909	(12 745 625)	21 420 023
Cost of sales	(15 051 513)	(13 307 293)	12 161 616	(16 197 190)
<b>Gross profit</b>	4 592 226	1 214 616	(584 009)	5 222 833
Other income	1 034 346	47 942	(72 030)	1 010 258
<b>Total income</b>	5 626 572	1 262 558	(656 039)	6 233 091
Other expenses (excluding depreciation and amortisation)	(4 132 452)	(1 320 841)	624 666	(4 828 627)
Depreciation and amortisation	(142 501)	(44 097)	-	(186 598)
<b>Operating profit</b>	1 351 619	(102 380)	(31 373)	1 217 866
Net finance costs	(99 365)	(62 889)	-	(162 254)
<b>Profit/(loss) before tax</b>	1 252 254	(165 269)	(31 373)	1 055 612
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	1 494 120	(58 283)	(31 373)	1 404 464
Capital expenditure	(303 548)	(90 961)	-	(394 509)
<b>Total assets</b>	6 233 819	4 989 857	(2 387 461)	8 836 215
<b>Total liabilities</b>	3 550 146	3 928 564	(748 479)	6 730 231
Gross profit margin	23.4%	8.4%		24.4%
EBITDA margin	7.6%	(0.4%)		6.6%
Operating margin	6.9%	(0.7%)		5.7%

<b>Restated 28 February 2018*</b>	<b>Retail R'000</b>	<b>Wholesale R'000</b>	<b>Intergroup/ consolidation R'000</b>	<b>Total R'000</b>
External customers	17 906 653	1 572 900	-	19 479 553
Inter-segment	-	11 481 381	(11 481 381)	-
<b>Revenue from contracts with customers</b>	17 906 653	13 054 281	(11 481 381)	19 479 553
Cost of sales	(13 538 580)	(12 063 447)	10 892 011	(14 710 016)
<b>Gross profit</b>	4 368 073	990 834	(589 370)	4 769 537
Other income	704 331	47 686	(65 746)	686 271
<b>Total income</b>	5 072 404	1 038 520	(655 116)	5 455 808
Other expenses (excluding depreciation and amortisation)	(3 626 131)	(1 166 498)	635 353	(4 157 276)
Depreciation and amortisation	(132 561)	(40 891)	-	(173 452)
<b>Operating profit</b>	1 313 712	(168 869)	(19 763)	1 125 080
Net finance costs	(101 945)	(58 137)	-	(160 082)
<b>Profit/(loss) before tax</b>	1 211 767	(227 006)	(19 763)	964 998
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	1 446 308	(127 978)	(19 763)	1 298 567
Capital expenditure	(308 842)	(64 986)	-	(373 828)
<b>Total assets</b>	5 252 719	4 332 658	(2 450 426)	7 134 951
<b>Total liabilities</b>	3 218 692	3 117 477	(886 943)	5 449 226
Gross profit margin	24.4%	7.6%		24.5%
EBITDA margin	8.1%	(1.0%)		6.7%
Operating margin	7.3%	(1.3%)		5.8%

\* Refer to note 2.

# Fair value hierarchy

The information below analyses financial assets and liabilities that are carried at fair value or financial assets and liabilities that have carrying amounts that differ from their fair values:

February 2019	Level 1 R'000	Level 2 R'000	Level 3 R'000
<b>Financial liabilities at fair value through profit and loss</b>			
- Contingent consideration	-	-	64 345
<b>February 2018</b>			
<b>Financial liabilities at fair value through profit and loss</b>			
- Derivative liability	-	1 500	-
- Contingent consideration	-	-	76 249

The derivatives represent forward exchange contracts (FECs). The fair value of the FEC liability is measured with reference to market data. The key input into this valuation is the forward exchange rate as provided by a reputable bank.

The fair value of the contingent consideration payable is measured with reference to the performance forecasts which can be used to estimate future cash flows. The key inputs into this valuation are the estimated future cash flows and the average discount rate of 12.3% (2018: 11.4%) used to determine the present value of the future cash flows.

	As at 28 February 2019 R'000	As at 28 February 2018 R'000
Reconciliation of recurring level 3 fair value movements:		
Opening balance	76 249	97 312
Payments	(23 133)	(22 941)
Interest	7 588	10 744
Release to other income <sup>1</sup>	-	(10 735)
Fair value adjustment	3 641	1 869
<b>Closing balance</b>	<b>64 345</b>	<b>76 249</b>

<sup>1</sup> Relates to an amount, reflected in other income, that was not paid by the Company due to performance conditions not being met and expected future performances not being met.

A reasonable movement in the unobservable inputs would not significantly impact the fair value of the contingent consideration as at the end of the reporting period and therefore not significantly impact profit after tax or equity.

There were no transfers of financial instruments between level 1, level 2 and level 3 fair value measurements during the periods ended February 2019 and 2018.

## Commitments

	As at 28 February 2019 R'000	As at 28 February 2018 R'000
<b>Operating lease commitments</b>		
- Within one year	471 312	437 145
- Two to five years	1 591 017	1 652 874
- Over five years	787 788	1 064 360
<b>Finance lease commitments</b>		
- Within one year	82 761	70 793
- Two to five years	288 686	292 726
- Over five years	1 133 405	1 187 783

## Additional information

	28 February 2019	28 February 2018
Ordinary shares in issue:	860 084 483	860 084 483
Closing share price (R/share)	25.80	34.40
Twelve-month share price (high) (R/share)	38.00	39.95
Twelve-month share price (low) (R/share)	24.00	21.40

# Notes to the summarised audited consolidated results

1. These summary consolidated Group Financial Statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), its interpretations issued by the IFRS Interpretations Committee, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, presentation and disclosure as required by International Accounting Standard (IAS) 34 'Interim financial reporting', the JSE Limited Listings Requirements and the requirements of the Companies Act, 71 of 2008 of South Africa. The accounting policies and methods of computation used in the preparation of the summary consolidated Group Financial Statements are in terms of IFRS and are consistent in all material respects with those applied in the most recent Annual Financial Statements.

The summary consolidated Group Financial Statements have been audited by independent external auditors, Ernst & Young Inc. Any reference to future financial performance included in this report has not been reviewed or reported on by the Group's external auditors. The preparation of the summary consolidated Group Financial Statements was supervised by the Chief Financial Officer, RA Morais, CA(SA).

The Audited Annual Financial Statements were approved on 24 June 2019.

2. Restatement of comparative figures

The Group adopted IFRS 9, '*Financial Instruments*' in the current financial period and elected to apply the standard on the modified retrospective approach. IFRS 9 has had an insignificant impact to the Group.

The Group adopted IFRS 15, '*Revenue from Contracts with Customers*' in the current financial period and elected to apply the standard on a full retrospective basis whereby the cumulative effect of the retrospective application is recognised by adjusting the opening retained profits for the earliest comparative period presented (which for the Group is the comparative period beginning on 1 March 2017). None of the practical expedients were used in the restatement. The impact has resulted in the recognition of a right to return liability and right to return asset on a gross basis. Another key area of impact is the change in the principal *versus* agent recognition of third party vouchers and coupons whereby these transactions are now recognised on a net basis.

In addition, a new sub-total line has been disclosed on the face of the statement of comprehensive income called total income. This additional line item has been included in order to show the total of gross profit and other income for the period in order to give information that Dis-Chem believes is important to a user of the financial statements.

	February 2018 (previously stated) R'000	IFRS 15 impact R'000	Adjusted total R'000
<b>Statement of financial position</b>			
Trade and other receivables	1 113 313	5 542	1 118 855
Trade and other payables	(3 255 259)	(7 021)	(3 262 280)
Deferred taxation	181 431	414	181 845
Retained earnings	(98 546)	1 065	(97 481)
<b>Statement of comprehensive income</b>			
Revenue from contracts with customers	19 560 462	(80 909)	19 479 553
Cost of sales	(14 790 890)	80 874	(14 710 016)
	4 769 572	(35)	4 769 537
Taxation	(266 706)	10	(266 696)
	4 502 866	(25)	4 502 841
Earnings per share (cents)	79.6	-	79.6

	February 2017 (previously stated) R'000	IFRS 15 impact R'000	Adjusted total R'000
<b>Statement of financial position</b>			
Trade and other receivables	1 091 901	5 255	1 097 156
Trade and other payables	(2 641 215)	(6 699)	(2 647 914)
Deferred taxation	156 029	404	156 433
Retained earnings	4 042 661	1 040	4 043 701
<b>Statement of comprehensive income</b>			
Revenue from contracts with customers	17 268 475	(36 763)	17 231 712
Cost of sales	(13 059 154)	36 224	(13 022 930)
	4 209 321	(539)	4 208 782
Taxation	(246 871)	151	(246 720)
	3 962 450	(388)	3 962 062
Earnings per share (cents)	75.0	-	75.0

# Notes to the summarised audited consolidated results

continued

Revenue from contracts with customers can be further disaggregated between the following retail categories:

	As at 28 February 2019 %	As at 28 February 2018 %
Dispensary	36	37
Personal care and beauty	28	27
Healthcare and nutrition	20	20
Baby care	6	7
Other	10	9
	<b>100</b>	<b>100</b>

3. Dis-Chem enters into certain transactions with related parties. A finance lease has been entered into with Columbia Falls Property 7 Proprietary Limited on which rental of R64 million was incurred during the twelve-month period (2018: R59 million).

This finance lease obligation amounted to R614 million at 28 February 2019 (2018: R619 million). Rental paid to other related party property companies amounted to R71 million (2018: R55 million).

Amounts owing from MSDS No. 3 Proprietary Limited, Eleador Proprietary Limited and Mathimba Proprietary Limited at 28 February 2019 amounted to Rnil, R3 million and R22 million respectively (2018: R17 million, R3 million and R22 million respectively). Amounts owing to Josneo Proprietary Limited and Minlou Proprietary Limited at 28 February 2019 amounted to Rnil and R2 million respectively (2018: R14 million and R3 million respectively).

Amounts owing from Dis-Chem Bothamed, Dis-Chem Namibia, Dis-Chem Swakopmund, Dis-Chem Dunes, Origin Brands and Geniob (all Proprietary Limited's) at 28 February 2019 amounted to R91 million (2018: R31 million).

4. There were no impairments of non-financial assets in the current and prior comparable period.
5. During the period, no shares were issued (2018: 810 810 shares worth R15 million).

On 1 June 2018, 276 269 shares on the Forfeitable Share Plan and 1 325 970 options on the Share Appreciation Rights Plan were awarded and accepted. On 1 February 2019, 255 588 shares on the Forfeitable Share Plan and 1 143 929 options on the Share Appreciation Rights Plan were awarded and accepted.

6. During the year the Group acquired the following companies:
- 100% of the shares of Bemax Proprietary Limited, an import company of retail products. The main shareholder of this company is a related party to key management personnel of Dis-Chem Pharmacies Limited and received 80% of the purchase consideration transferred.
  - 100% of the shares of Quenets Proprietary Limited, a wholesale company in Worcester, Cape Town.
  - 100% of the shares of A Retief Proprietary Limited, a pharmacy in George.
  - 70% of certain assets and liabilities of TLC De-Wiekus, a pharmacy in Gauteng.

The fair values of the identifiable assets and liabilities of the companies as at the date of acquisition were:

	Bemax R'000	Quenets R'000	A Retief R'000	De- Wiekus R'000	Total R'000
<b>Assets</b>					
Property, plant and equipment	112	599	163	3 136	4 010
Trade and other receivables	11 952	56 242	1 074	492	69 760
Inventories	17 091	34 535	2 626	1 813	56 065
Bank	-	2	4 087	-	4 089
Other intangibles	15 623	7 770	5 206	-	28 599
<b>Liabilities</b>					
Trade and other payables	(5 586)	(40 581)	(6 105)	(4 759)	(57 031)
Bank overdraft	(376)	(7 206)	-	-	(7 582)
Taxation owing	(2 462)	(988)	(315)	-	(3 765)
Deferred tax	(4 374)	(2 175)	(1 459)	-	(8 008)
<b>Total identifiable net assets at fair value</b>	<b>31 980</b>	<b>48 198</b>	<b>5 277</b>	<b>682</b>	<b>86 137</b>
Non-controlling interest at proportionate interest	-	-	-	(205)	(205)
Goodwill arising on acquisition	37 370	15 206	21 500	1 023	75 099
<b>Purchase consideration transferred</b>	<b>69 350</b>	<b>63 404</b>	<b>26 777</b>	<b>1 500</b>	<b>161 031</b>

# Notes to the summarised audited consolidated results

continued

The goodwill comprises the value of expected synergies arising from the acquisition which is not separately recognised.

The previous owners of Bemax will also be entitled to an additional payment of the net profit after tax of Bemax as long as they are still employed by Dis-Chem and meet certain performance conditions.

During the current year, the Group sold 10% of their interest in Dis-Chem Jubilee Proprietary Limited and 25% of their interest in Dis-Chem Ballito Lifestyle Proprietary Limited. The Group also acquired an additional 5% interest in Dis-Chem Ballito Junction Proprietary Limited and an additional 24.5% interest in Dis-Chem Glen Fair Proprietary Limited.

7. No material subsequent events have taken place since reporting date, except for:
  - on 1 March 2019, the Group took advantage of favourable financing by replacing the existing Absa loan facility of R500 million with a new loan facility of R900 million. R400 million of this loan will become part of the working capital facility that was and will be used for relevant acquisitions. R500 million will be repaid over four years with the remaining R400 million bullet paid at the end of the fourth year.
  - the acquisition of 65% of Mundel Gien (Pty) Ltd (trading as Springbok Pharmacy), a pharmacy in Alberton, for R32.5 million on 1 April 2019. The provisional fair value of the identifiable assets and liabilities are R50.6 million and R20.8 million respectively, resulting in goodwill of R13.1 million after taking into account non-controlling interest at proportionate interest of R10.4 million.
  - The acquisition of 50% of Health Window Proprietary Limited and 51% of Differenza Proprietary Limited, pharmaceutical adherence businesses for R17.5 million, on 31 May 2019. The provisional fair value of the identifiable assets and liabilities are R26.8 million and R5.0 million respectively, resulting in goodwill of R6.6 million after taking into account non-controlling interest at proportionate interest of R10.9 million.





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Wholefoods

Flour

Nuts

Seeds

Powders

Oats

Grains

# Analysis of ordinary shareholders

as at 28 February 2019

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 - 1 000	10 345	61,96	3 083 467	0,36
1 001 - 10 000	5 100	30,55	16 704 569	1,94
10 001 - 100 000	1 003	6,01	28 481 358	3,31
100 001 - 1 000 000	200	1,20	58 689 333	6,82
Over 1 000 000	47	0,28	753 125 756	87,56
<b>Total</b>	<b>16 695</b>	<b>100,00</b>	<b>860 084 483</b>	<b>100,00</b>

Distribution of shareholders	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Assurance Companies	115	0,69	10 351 064	1,20
Close Corporations	96	0,58	731 199	0,09
Collective Investment Schemes	267	1,60	97 205 252	11,30
Custodians	19	0,11	11 861 496	1,38
Foundations and Charitable Funds	65	0,39	1 525 509	0,18
Hedge Funds	13	0,08	1 213 532	0,14
Insurance Companies	15	0,09	893 254	0,10
Investment Partnerships	58	0,35	333 939	0,04
Managed Funds	42	0,25	12 537 492	1,46
Medical Aid Funds	22	0,13	777 315	0,09
Organs of State	12	0,07	63 110 834	7,34
Private Companies	320	1,92	582 615 078	67,74
Public Companies	6	0,04	1 468 214	0,17
Public Entities	8	0,05	582 309	0,07
Retail Shareholders	14 166	84,85	28 504 666	3,31
Retirement Benefit Funds	225	1,35	30 879 949	3,59
Scrip Lending	10	0,06	2 086 820	0,24
Sovereign Funds	2	0,01	1 064 147	0,12
Stockbrokers and Nominees	21	0,13	2 399 541	0,28
Trusts	1 213	7,27	9 942 873	1,16
<b>Total</b>	<b>16 695</b>	<b>100,00</b>	<b>860 084 483</b>	<b>100,00</b>

Shareholder type	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Non-public shareholders	11	0,07	467 082 939	54,31
Directors and associates	11	0,07	467 082 939	54,31
Public shareholders	16 684	99,93	393 001 544	45,69
<b>Total</b>	<b>16 695</b>	<b>100,00</b>	<b>860 084 483</b>	<b>100,00</b>

Fund managers with a holding greater than 3 of the issued shares	Number of shares	% of issued capital
Capital Research and Management Company	41 240 922	4,79
Public Investment Corporation	37 683 832	4,38
<b>Total</b>	<b>78 924 754</b>	<b>9,18</b>

Beneficial shareholders with a holding greater than 3 of the issued shares	Number of shares	% of issued capital
Ivlyn (Pty) Ltd	453 041 396	52,67
Government Employees Pension Fund	56 735 675	6,60
Stansh (Pty) Ltd	50 020 121	5,82
Capital Research and Management Company	41 240 922	4,79
<b>Total</b>	<b>601 070 045</b>	<b>69,89</b>

# Notice of annual general meeting

## 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")

Notice is hereby given that the ninth annual general meeting of shareholders of Dis-Chem Pharmacies Limited ("Dis-Chem" or "the Company") will be held at the offices of Dis-Chem, 23 Stag Road, Midrand on Wednesday, 31 July 2019 at 10:00. To ensure that registration procedures are completed by 10:00, please register for the annual general meeting from 09:30. Only those shareholders listed in the shareholders' register as at Friday, 26 July 2019 will be eligible to vote at the annual general meeting.

The purpose of the annual general meeting is to propose the passing of the following ordinary and special resolutions:

## 1. Ordinary resolution number 1

### Approval of annual financial statements

**Resolved that** the annual financial statements of the Company and its subsidiary companies for the year ended 28 February 2019, together with the reports of the directors, auditors and Audit and Risk Management Committee be and are hereby considered and adopted.

## 2. Ordinary resolution number 2

### Appointment of auditors and designated auditor

**Resolved that** Ernst and Young Inc. be and are hereby re-appointed auditors of the Company and that Mr Derek Engelbrecht is hereby appointed the designated auditor to hold office for the ensuing year.

The Company's Audit and Risk Committee has recommended the re-appointment of Ernst & Young Inc. as auditors of the Company with Mr Derek Engelbrecht being appointed the designated auditor for the current financial year.

## 3. Ordinary resolution number 3

### Re-election of director

**Resolved that** Mr Laurence Michael Nestadt, who retires in terms of the Company's memorandum of incorporation, be re-elected a director of the Company.

The *curriculum vitae* for Mr Nestadt appears on page 45 of this annual report.

## 4. Ordinary resolution number 4

### Re-election of director

**Resolved that** Mr Johannes Sanyana Mthimunye, who retires in terms of the Company's memorandum of incorporation, be re-elected a director of the Company.

The *curriculum vitae* for Mr Mthimunye appears on page 46 of this annual report.

## 5. Ordinary resolution number 5

### Appointment of Audit and Risk Committee member

**Resolved that** Ms Anuschka Coovadia be appointed a member of the Company's Audit and Risk Committee and that this appointment shall be valid up to the date of the next annual general meeting of the Company.

## 6. Ordinary resolution number 6

### Appointment of Audit and Risk Committee member

**Resolved that** Mr Mark John Bowman be appointed a member of the Audit and Risk Committee and that this appointment shall be valid up to the date of the next annual general meeting of the Company.

## 7. Ordinary resolution number 7

### Appointment of Audit and Risk Committee member

**Resolved that** Mr Mohamed Salim Ismail Gani be appointed a member of the Audit and Risk Committee and that this appointment shall be valid up to the date of the next annual general meeting of the Company.

## 8. Ordinary resolution number 8

### Appointment of Audit and Risk Committee member

**Resolved that** Mr Johannes Sanyana Mthimunye be appointed a member of the Audit and Risk Committee and that this appointment shall be valid up to the date of the next annual general meeting of the Company subject to his re-election as a director pursuant to ordinary resolution number 4.

## 9. Ordinary resolution number 9

### Remuneration Philosophy and Policy And Implementation Report

Section 3.84 (k) of the JSE Listings Requirements require the Company to submit its remuneration philosophy and report and implementation report every year to shareholders for consideration and to provide shareholders with an opportunity to indicate whether they do or do not support the material provisions of the remuneration philosophy and policy of the Company and the implementation thereof. Shareholders are referred to the Remuneration Philosophy and Policy and Implementation Report set out on pages 62 to 70 of the integrated annual report.

## Notice of annual general meeting continued

As the above are not matters that are required to be resolved or approved by shareholders, no minimum voting threshold is required. Nevertheless, for record purposes, the minimum percentage of voting rights that is required for each resolution to be adopted as non-binding advisory votes is 50% (fifty percent) of the voting rights plus 1 (one) vote to be cast on the resolution.

### Ordinary resolution 9.1

**Resolved that**, as a non-binding advisory vote, the Remuneration Philosophy and Policy, as tabled, be and is hereby approved.

### Ordinary resolution 9.2

**Resolved that**, as a non-binding advisory vote, the Implementation Report, as tabled, be and is hereby approved.

## 10. Special resolution number 1

Non-executive directors' fees for the financial year ending 28 February 2019 and quarter ending 31 May 2019.

**Resolved that** the fees excluding VAT, to be paid to the non-executive directors for their services as directors of the Company, for the year ending 28 February 2020 and the quarter ending 31 May 2020 (being a quarter of the fees payable for the year ending 28 February 2020) be approved as follows:

	28 February 2020	31 May 2020
• Chairperson	R3 000 000.00	R750 000.00
• Non-executive director	R278 400.00	R69 600.00
• Chairperson of the Audit Committee	R292 800.00	R73 200.00
• Member of the Audit Committee	R187 920.00	R46 980.00
• Chairperson of the Remuneration and Nomination Committees	R140 930.00	R35 230.00
• Member of the Remuneration and Nomination Committees	R75 600.00	R18 900.00
• Chairperson of the Social and Ethics Committee	R68 400.00	R17 100.00
• Member of the Social and Ethics Committee	R37 620.00	R9 400.00
• Chairperson of Special Committees	R7 400.00	R7 400.00
	per hour	per hour
• Member of special committees	R6 740.00	R6 740.00
	per hour	per hour

**Further that** the payment for the adjustment in the directors fees for the quarter ended 31 May 2019 amounting to R144 399.00 (6%) be approved.

The reason for this special resolution is to obtain shareholder approval for the remuneration of each of the non-executive directors of the Company for the financial year ending 28 February 2020 and for the quarter ending 31 May 2020 in accordance with section 66(9) of the Companies Act, 2008. The passing of this special resolution will have the effect of approving the remuneration of each of the non-executive directors of the Company for

the financial year ending 28 February 2020 and quarter ending 31 May 2020. The fees payable for the quarter ending 31 May 2020 will be based on a quarter of the fees as approved above. Shareholders will be requested to approve any adjustment to the fees payable for the quarter ending 31 May 2020 at the 2020 annual general meeting.

## 11. Special resolution number 2

### Loans or other financial assistance

**Resolved that** the Company be authorised, in terms of section 45 of the Companies Act, 2008, to provide any direct or indirect financial assistance to any related or inter-related companies as defined in section 2 of the said Companies Act, 2008.

The reason for special resolution number 2 is to approve generally the provision of financial assistance to related or inter-related companies. Any financial assistance given will be subject to the Company complying with the Solvency and Liquidity Test as more fully set out in section 4 of the Companies Act, 2008. The Board will ensure that the terms of the financial assistance granted are fair and reasonable to the Company.

## 12. Ordinary resolution number 10

### General authority over unissued shares

**Resolved that** 5% of the authorised unissued ordinary shares in the Company i.e. 43 004 224 shares be and are hereby placed under the control of the directors until the date of the next annual general meeting, subject to the provisions of the JSE Listings Requirements and the condition that no issue of these shares will be made if it could have the effect of changing control of the Company.

No issue of these shares is contemplated at the present time and no issue will be made that could effectively change the control of the Company without the prior approval of shareholders in a general meeting.

## 13. Ordinary resolution number 11

### General authority to issue shares for cash

Resolved that the directors of the Company be and are hereby authorised, by way of a general authority, to issue shares for cash for up to 5% i.e. 43 004 224 of the issued shares in the capital of the Company as and when they in their discretion deem fit, subject to the Companies Act, No. 71 of 2008, as amended, the memorandum of incorporation of the Company and the JSE Listings Requirements as presently constituted and which may be amended from time to time.

The reason for the above ordinary resolution number 11 is to give the directors authority to issue up to 5% of the unissued shares for cash to enable the Company to pursue suitable business opportunities as and when they arise.

### Additional requirements imposed by the JSE Listings Requirements

It is recorded that the Company may only make an issue of shares (as defined in the JSE Listings Requirements) for cash under the above general authority if the following JSE Listings Requirements are met:

- (a) The shares, which are the subject of the issue for cash, must be of a class already in issue, or where this is not the case, must be limited to such equity securities or rights that are convertible into a class already in issue.
- (b) The general authority shall only be valid until the Company's next annual general meeting or for 15 (fifteen) months from the date of passing of this ordinary resolution, whichever period is shorter.
- (c) A SENS announcement will be published giving full details, including the number of shares issued, the average discount to the weighted average traded price of the shares over the 30 (thirty) days prior to the date that the price of the issue was agreed in writing between the Company and party/ies subscribing for such shares at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) of the number of shares in issue prior to that issue.
- (d) That issues in the aggregate in any 1 (one) financial year may not exceed 10% (ten percent) of the number of the shares of the Company in issue of that class of shares before such issue, taking into account the dilution effect of convertible equity securities and options in accordance with the JSE Listings Requirements.
- (e) In determining the price at which an issue of shares may be made in terms of this general authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of those shares measured over the 30 (thirty) business days prior to the date that the price of the issue is agreed to between the Company and the party/ies subscribing for the shares.
- (f) Any issue will only be made to "public shareholders" as defined by the JSE Listings Requirements and not to related parties.

## 14. Ordinary resolution number 12

Directors' or Company Secretary's authority to implement special and ordinary resolutions

**Resolved that** any director of the Company or the Company Secretary be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the resolutions passed at this meeting.

## 18. Social and ethics committee

A report on the Social and Ethics Committee, in terms of Regulation 43 of the Companies Act, 2008, has been included in the annual report (page 71). The report sets out the matters as required in terms of the Social and Ethics Committee's terms of reference. Shareholders will not be asked to vote on any matters contained in the Social and Ethics Committee's terms of reference but may raise any questions they may have regarding the said terms of reference.

## Voting and proxies

All ordinary resolutions (except for Ordinary resolution number 11) will, in terms of the Companies Act, 2008, require the support of more than 50% of the voting rights of shareholders exercised thereon to be approved.

A general issue of shares for cash must be approved by ordinary resolution with a 75% majority of shareholders voting in favour thereof. Accordingly ordinary resolution number 11 will require the support of more than 75% of the voting rights of shareholders exercised thereon to be approved.

All the special resolutions will, in terms of the Companies Act, 2008, require the support of at least 75% of the total voting rights exercised thereon to be approved.

### General instructions and information

The annual report to which this notice of the annual general meeting is attached, provides details of:

- the directors of the Company on pages 44 to 46;
- the major shareholders of the Company on page 119;

the director's shareholding in the Company on page 119; and

All shareholders are encouraged to attend, speak and vote at the annual general meeting.

Entitlement to attend and vote at the annual general meeting in person or by proxy.

All shareholders are encouraged to attend, speak and vote at the annual general meeting.

If you hold certificated shares (i.e. have not dematerialised your shares in the Company) or are registered as an own name dematerialised shareholder (i.e. have specifically instructed your Central Securities Depository Participant ("CSDP") to hold your shares in your own name in the Company sub-register), as at Friday, 26 July 2019:

- You may attend and vote at the annual general meeting; or alternatively
- You may appoint an individual as a proxy, (who need not also be a shareholder of the Company) to attend, participate in and speak and vote in your place at the annual general meeting, by completing the attached form of proxy and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services Proprietary Limited, the details of which are set out on page 134 of the annual report. Please note that your proxy may delegate his/her authority to act on your behalf to another person, subject to the restrictions set out in the attached form of proxy. Please also note that the attached form of proxy must be delivered to the registered office of the Company or to the transfer secretaries, Computershare Investor Services Proprietary Limited as aforesaid, before your proxy may exercise any of your rights as a shareholder at the annual general meeting.

Any shareholder of the Company that is a company may authorise any person to act as its representative at the annual general meeting. Section 63(1) of the 2008 Companies Act, requires that persons wishing to participate in the annual general meeting (including the aforementioned representative) provide satisfactory identification before they may so participate.

## Notice of annual general meeting continued

Please note that if you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Share Transactions Totally Electronic ("STRATE") held through a CSDP or broker (or their nominee) and are not registered as an "own name dematerialised shareholder" then you are not a registered shareholder of the Company, but your CSDP or broker (or their nominee) would be.

Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker as the case may be:

- If you wish to attend the annual general meeting you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; or alternatively
- if you are unable to attend the annual general meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the annual general meeting and/or request your CSDP to appoint a proxy.

You must not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.

CSDPs, brokers or their nominees, as the case may be, recorded in the Company's sub-register as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of STRATE should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the Company, vote by either appointing a duly authorised representative to attend and vote at the annual general meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the registered office of the Company or to the transfer secretaries, Computershare Investor Services Proprietary Limited, the details of which are set out on page 134 of the annual report.

By order of the Board

**WT Green**

*Company Secretary*

Johannesburg

24 June 2019

# Form of proxy

Form of proxy for use at the annual general meeting of Dis-Chem Pharmacies Limited ("the Company") to be held at Dis-Chem Head Office, 23 Stag Road, Glen Austin, Midrand at 10:00 on 31 July 2019. Shareholders listed in the shareholder register as at Friday, 26 July 2019 will be eligible to vote at the annual general meeting.

This form of proxy is not to be used by beneficial owners of shares who have dematerialised their shares ("dematerialised shares") through a Central Securities Depository Participant ("CSDP") or broker, as the case may be, unless you are recorded on the sub-register as an own name dematerialised shareholder. Generally, you will not be an own name dematerialised shareholder unless you have specifically requested your CSDP to record you as the holder of the shares in your own name in the Company's sub-register.

This form of proxy is only for use by certificated, own name dematerialised shareholders and CSDPs or brokers (or their nominees) registered in the Company's sub-register as the holder of dematerialised ordinary shares.

Each shareholder entitled to attend and vote at the annual general meeting is entitled to appoint a proxy (who need not also be a shareholder of the Company) to attend, participate in and speak and vote in place of that shareholder at the annual general meeting, and at any adjournment thereafter.

Please note the following:

- The appointment of your proxy may be suspended at any time to the extent that you choose to act directly and in person in the exercise of your rights as a shareholder at the annual general meeting.
- The appointment of the proxy is revocable.
- You may revoke the proxy appointment by:
  - (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and
  - (ii) delivering a copy of the revocation instrument to the proxy, and to the Company.

Please note that any shareholder of the Company that is a company may authorise any person to act as its representative at the annual general meeting. Please also note that section 63(1) of the Companies Act, 2008 requires that persons wishing to participate in the annual general meeting (including the aforementioned representative) provide satisfactory identification before they may so participate.

Note that voting will be performed by way of a poll so each shareholder present or represented by way of proxy will be entitled to vote.

I/We

Address:

Contact telephone number:

being the holder/s of

ordinary shares in the Company, hereby appoint:

1. \_\_\_\_\_ or failing him/her,

2. \_\_\_\_\_ or failing him/her,

3. The Chairman of the annual general meeting, as my/our proxy to attend, participate in and speak and vote at the meeting in my/our place and on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing the resolutions to be proposed thereat and at any adjournment thereof and to vote for or against such resolutions or to abstain from voting in respect of the shares in the issued capital of the Company registered in my/our name/s, in accordance with the instructions set out below.

My/our proxy may delegate to another person his/her authority to act on my behalf at the annual general meeting, provided that my/our proxy:

- may only delegate his/her authority to act on my behalf at the annual general meeting to a director of the Company;
- must provide written notification to the transfer secretaries of the Company, namely Computershare Investor Services Proprietary Limited, of the delegation by my/our proxy of his/her authority to act on my behalf at the annual general meeting; and
- must provide to his/her delegee a copy of his/her authority to delegate his/her authority to act on my behalf at the annual general meeting.

## Form of proxy continued

Number of votes (one vote per ordinary share)	For	Against	Abstain
<b>ORDINARY RESOLUTION NUMBER 1:</b> Adoption of annual financial statements as at 28 February 2019			
<b>ORDINARY RESOLUTION NUMBER 2:</b> Appointment of the auditors and designated auditor			
<b>ORDINARY RESOLUTION NUMBER 3:</b> Re-election of Mr LM Nestadt as a director			
<b>ORDINARY RESOLUTION NUMBER 4:</b> Re-election of Mr JS Mthimiyune as a director			
<b>ORDINARY RESOLUTION NUMBER 5:</b> Appointment of Audit and Risk Committee member Ms A Coovadia			
<b>ORDINARY RESOLUTION NUMBER 6:</b> Appointment of Audit and Risk Committee member Mr MJ Bowman			
<b>ORDINARY RESOLUTION NUMBER 7:</b> Appointment of Audit and Risk Committee member Mr MSI Gani			
<b>ORDINARY RESOLUTION NUMBER 8</b> Appointment of Audit and Risk Committee member Mr JS Mthimiyune			
<b>ORDINARY RESOLUTION NUMBER 9.1:</b> Approval of Remuneration Policy and Report			
<b>ORDINARY RESOLUTION NUMBER 9.2</b> Approval of Implementation Report			
<b>SPECIAL RESOLUTION NUMBER 1:</b> Approval directors' remuneration			
<b>SPECIAL RESOLUTION NUMBER 2:</b> Approval loans or other financial assistance			
<b>ORDINARY RESOLUTION NUMBER 10:</b> General authority over unissued shares			
<b>ORDINARY RESOLUTION NUMBER 11:</b> General authority to issue shares for cash			
<b>ORDINARY RESOLUTION NUMBER 12:</b> Authority for any director or Company Secretary to sign documents			

Insert an "X" in the relevant spaces above according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you desire to vote.

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2019

Signature: \_\_\_\_\_ Telephone number: \_\_\_\_\_

(Authority of signatory to be attached if applicable - see note 8)

# Notes to the form of proxy

## Summary of shareholders rights in respect of proxy appointments as contained in section 58 of the Companies Act, 2008

Please note that in terms of section 58 of the Companies Act, 2008:

- this proxy form must be dated and signed by the shareholder appointing the proxy.
  - you may appoint an individual as a proxy, including an individual who is not a shareholder of the Company, to participate in and speak and vote at the annual general meeting on your behalf.
  - your proxy may delegate his/her authority to act on your behalf to another person, subject to any restriction set out in this proxy form.
  - this proxy form must be delivered to the Company, or to the transfer secretaries of the Company, namely Computershare Investor Services Proprietary Limited, before your proxy exercises any of your rights as a shareholder at the annual general meeting.
  - the appointment of your proxy or proxies will be suspended at any time to the extent that you choose to act directly and in person in the exercise of any of your rights as a shareholder at the annual general meeting.
  - the appointment of your proxy is revocable unless you expressly state otherwise in this proxy form as the appointment of your proxy is revocable, you may revoke the proxy appointment by:
    - (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and
    - (ii) delivering a copy of the revocation instrument to the proxy and to the Company. Please note the revocation of a proxy appointment constitutes a complete and final cancellation of your proxy's authority to act on your behalf as of the later of (i) the date stated in the revocation instrument, if any, or the date on which the revocation instrument was delivered to the Company and the proxy as aforesaid.
  - If this proxy form has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Companies Act, 2008 or the Company's Memorandum of Incorporation to be delivered by the Company to you will be delivered by the Company to you or your proxy or proxies, if you have directed the Company to do so, in writing and paid any reasonable fee charged by the Company for doing so.
  - Your proxy is entitled to exercise, or abstain from exercising, any voting right of yours at the annual general meeting, but only as directed by you on this proxy form.
  - The appointment of your proxy remains valid only until the end of the annual general meeting or any adjournment or postponement thereof or for a period of 6 (six) months, whichever is shortest, unless it is revoked by you before then on the basis set out above.
1. Only shareholders listed in the shareholder register as at Friday, 26 July 2019 will be eligible to vote at the annual general meeting to which this proxy forms part.
  2. The person whose name stands first on the proxy form and who is present at the Annual General Meeting will be entitled to act as a proxy to the exclusion of those whose names which follow thereafter.
  3. If no proxy is inserted in the spaces provided, then the Chairperson shall be deemed to be appointed as the proxy to vote or abstain as the Chairperson deems fit.

## Notes to the form of proxy continued

4. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. If there is no clear indication as to the voting instructions to the proxy, the proxy form will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat.
5. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
6. Proxy forms must be lodged at the Head Office of the Company, 23 Stag Road, Midrand or posted to the Company Secretary at PO Box 260362, Excom, 2023, or lodged with or posted to the transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 62053, Marshalltown, 2107, South Africa).
7. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Company Secretary or waived by the Chairperson of the annual general meeting if he is reasonably satisfied that the right of the representative to participate and vote has been reasonably verified. CSDPs or brokers registered in the Company's sub-register voting on instructions from beneficial owners of shares registered in the Company's sub-register, are requested that they identify the beneficial owner in the sub-register on whose behalf they are voting and return a copy of the instruction from such owner to the Company Secretary or to the transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 62053, Marshalltown, 2107), together with this form of proxy.
8. Any alteration or correction made to this proxy form must be initialed by the signatory/ies, but any such alteration or correction will only be validly made if it is accepted by the Chairperson.
9. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Company Secretary.

# Shareholders' diary

## ANNUAL GENERAL MEETING

AGM 31 July 2019

## REPORTS

Final results to 28 February 2019 16 May 2019

Publication of FY2019 Integrated Annual Report 26 June 2019

Interim results to 31 August 2019 7 November 2019

## DIVIDENDS

Last day to trade *cum* dividend on the JSE: FY2019 final dividend May 2019

Payment date: FY2019 final dividend May 2019

Last day to trade *cum* dividend on the JSE: FY2020 interim dividend November 2018

Payment date: FY2020 interim dividend November/December 2019

# Definitions

<b>Capital expenditure - to maintain operations</b>	Capital expenditure incurred to maintain or replace assets, e.g. the refurbishment of an existing store.
<b>Capital expenditure - to expand operations</b>	Capital expenditure for acquisitions or capital improvements to increase productive capacity, e.g. the opening of a new store.
<b>Creditor days</b>	Creditor days estimates the average time it takes the business to settle its debts with trade suppliers. It is calculated as the average trade and other payables divided by the cost of goods sold for the period multiplied by 365 days.
<b>Debtors days</b>	Debtors days measures how quickly cash is being collected from debtors. It is calculated as the average trade and other receivables divided by revenue for the period multiplied by 365 days.
<b>Dividend pay-out ratio</b>	The dividend pay-out ratio is the amount of dividends paid to stockholders relative to the amount of total net income to the company. The target ratio for Dis-Chem is between 40% and 50%.
<b>Dividend per share</b>	Dividend per share is the payment to investors for each share of stock owned. It is calculated as headline earnings per share (HEPS) multiplied by the pay-out ratio.
<b>Earnings per share</b>	Earnings per share is the portion of a company's profit allocated to each outstanding share of common stock.
<b>EBITDA (Earnings before interest, tax, depreciation and amortisation)</b>	Earnings before interests, tax, depreciations and amortisation is a measure of the company's operating performance. It is calculated as EBIT plus depreciation and amortisation.
<b>EBIT (Earnings before interest and tax)</b>	Earnings before interest and tax is a measure of the firm's profit that includes all expenses except interest and income tax expense.
<b>Gross profit margin</b>	Gross profit margin is a financial metric used to assess the company's financial health and business model by revealing the proportion of money left over from revenues after accounting for the cost of goods sold (COGS). It is calculated by dividing gross profit by revenue.
<b>Headline earnings</b>	Profit attributable to holders of the parent adjusted for the after tax effect of goodwill, impairment and certain other capital items.
<b>Headline earnings per share</b>	The per share value of the profit attributable to holders of the parent.
<b>Inventory days</b>	The number of days of sales in inventory. It is calculated as the average inventory divided by cost of goods sold (COGS) multiplied by 365.
<b>Like-for-like revenue growth</b>	This is a measure of growth in sales, adjusted for new or divested businesses. Dis-Chem takes into account stores that have been open for at least two full financial years.
<b>Net asset value per share (WANOS)</b>	This is the company's total assets less its total liabilities, divided by its weighted number of shares outstanding.

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<b>Net asset value per share (actual shares at year-end)</b>	This is the company's total assets less its total liabilities, divided by its actual number of shares outstanding at year-end.
<b>Operating margin</b>	Operating margin is a measure of profitability. It indicates how much of each ZAR of revenues is left over after both cost of goods sold (COGS) and operating expenses are considered. It is calculated as operating profit divided by revenue.
<b>Return on equity (ROE)</b>	Return on equity is a measure of profitability that calculates how many ZARs of profit a company generates with each ZAR of shareholders' equity. It is calculated as profit attributable to the equity holders of the parent divided by the average shareholders' equity.
<b>Total working capital days</b>	Measures a company's efficiency and short-term health. It is calculated as debtors days plus inventory days less creditors days.
<b>Weighted average number of shares</b>	This is a calculation that takes into consideration any changes in the number of outstanding shares over a specific reporting period. A share split is taken into account as if the shares were issued for the whole year and all earlier years.

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# Corporate information

## **Dis-Chem Pharmacies Limited**

Registration number 2005/0097/66/06

JSE code: DCP

ISIN: ZAE000227831

## **Registered office**

23 Stag Road

Glen Austin

1685

## **Company secretary**

WT Green

## **Registered office**

23 Stag Road

Glen Austin

Midrand

## **Contact details**

Tel: 011 589 2200

[www.dischemgroup.com](http://www.dischemgroup.com)

[www.dischem.co.za](http://www.dischem.co.za)

## **Registered auditors**

Ernst & Young Inc.

102 Rivonia Road

Sandton

Johannesburg

2196

South Africa

## **Sponsor**

The Standard Bank of South Africa Limited

3rd Floor, East Wing

30 Baker Street

Rosebank

2196

Johannesburg

## **Transfer secretaries**

Computershare Investor Services

Proprietary Limited

Rosebank Towers

15 Biermann Avenue

Rosebank

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## **Investor relations**

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