

Dis-Chem Pharmacies Limited
(Incorporated in the Republic of South Africa)
(Registration number 2005/009766/06)
JSE share code: DCP ISIN: ZAE000227831
(“Dis-Chem” or “the Company” or “the Group”)

TRADING STATEMENT

In terms of the Listings Requirements of the JSE Limited (“JSE”), a company is required to issue a trading statement once it is satisfied that a reasonable degree of certainty exists that the financial results for the period to be reported upon will differ by at least 20% from the financial results for the previous corresponding period.

Accordingly, shareholders are advised that in respect of the six-months ended 31 August 2019, the Company is expecting to announce earnings per share (“EPS”) and headline earnings per share (“HEPS”) of between 30.7c and 31.7c. This is a decrease of between 38.7% and 40.6% compared to the published 1H19 EPS and HEPS numbers of 51.7c and a decrease of between 37.5% and 39.5% compared to the restated EPS and HEPS of 50.7c* for the corresponding period.

	<u>1H19 pre-IFRS 16</u>	<u>1H20 expected</u>	<u>% change</u>
EPS	51.7c	30.7c – 31.7c	(38.7%) – (40.6%)
HEPS	51.7c	30.7c – 31.7c	(38.7%) – (40.6%)

	<u>1H19* post IFRS 16</u>	<u>1H20 expected</u>	<u>% change</u>
EPS	50.7c	30.7c – 31.7c	(37.5%) – (39.5%)
HEPS	50.7c	30.7c – 31.7c	(37.5%) – (39.5%)

Shareholders are reminded of, as per our previous trading update on 28 August 2019, the following once-off earnings and costs in FY2019 and FY2020 that have negatively impacted the first-half of FY2020:

- The unearned rebate release of approximately R81 million which increased the 1H19 base;
- The change in the Group’s bonus policy relating to employee’s 13th cheques. Previously the Group expensed the full bonus amount when paid in December of each year. The bonus is now evenly accrued throughout the financial period due to its guaranteed nature. The effect of the change has resulted in the recognition of R75 million in 1H20;
- In the period from FY2019 year-end to the conclusion of the strike on 10 April 2019, the Group continued to incur strike-related costs in the form of additional security and payroll of approximately R19 million; and
- The Group incurred an additional R23 million in finance costs as a result of the additional stock held over the strike period to ensure trading in the stores was not compromised.

* Restated for IFRS 16

With the challenges of the strike dealt with and the decentralisation of the wholesale space now concluded, together with the Group's Return on Invested Capital ("ROIC") focus, the necessary stock reduction and rationalisation has taken place resulting in stock levels decreasing by R776 million since 28 February 2019.

As a result, and despite the continued and successful improvement of additional back end trade terms, the increase in purchases of only 1.5% compared to the increase in sales of 13.2% from the prior comparative period has had a direct impact on the Rand value growth of trade terms as well as the sacrifice of purchase linked growth rebates received from suppliers and therefore, by implication, a negative impact on the total income margin of the Group.

The ROIC capital focus together with the reduction and rationalisation of stock have resulted in net working capital requirements reducing to R22 million for the period under review compared to R111 million in August 2018 and R404 million in February 2019. As a result, the Group has and continues to see strong cash generation on the back of this process. We will continue to apply the capital allocation strategy of the Group to the additional cash generated.

IFRS 16, *Leases*, was adopted in the current financial period and the Group has elected to restate its comparative periods to allow for comparability between periods. The Group's EPS at 31 August 2018, which was 51.7c, has been restated to 50.7c.

Due to the relatively young age of the Group's lease portfolio and new stores continually being opened, the new standard has and will continue to be earnings dilutive in the short and medium-term.

The adoption of IFRS 16 will impact certain key performance indicators ("KPIs") such as EBITDA, EBIT, EPS, ROCE and gearing ratios. Importantly, however, it does not change the Group's underlying, fundamental economic business model, investment case or strategy.

The financial information contained in this announcement has not been audited, reviewed or reported on by the Group's external auditors.

Dis-Chem will release its results for the six months ended 31 August 2019 on 7 November 2019. There will be a live webcast at 10:00 am which can be accessed using the following link: <https://www.corpcam.com/Dischem07112019>. The slides accompanying the presentation will be available on the Group's Investor Relations website in the Investors section at www.dischemgroup.com shortly before the commencement of the presentation. A playback of the webcast will be available approximately two hours after the presentation.

Midrand
1 November 2019

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