

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")

VOLUNTARY ANNOUNCEMENT RELATING TO THE ACQUISITION OF BABY CITY

1. Introduction and Salient Terms

Dis-Chem is pleased to announce that on 11 May 2020 it entered into inter-conditional agreements (the "Agreements") in terms of which it will acquire 100% of the issued share capital in and shareholder claims of:

- Fairy Tales Boutiques (Proprietary) Limited ("Fairy Tales"); and
- Somerset Baby Hyper (Proprietary) Limited ("Somerset"),

which, in aggregate, comprise the well-known baby care products retailer Baby City ("Baby City"), from the Baby City's founder shareholders, the Aronoff family ("the Transaction").

Michel Aronoff, who conceptualised and strategised Baby City's direction, will continue to serve as managing director of Baby City following closure of the Transaction and current staff will be retained. Dis-Chem will pay a purchase consideration of R430 million upon closure. The Transaction contains both a shareholder loan and a net working capital guarantee which ensures that Baby City's position upon closure resembles the pre-COVID 19 level, while incremental earnings accrue to Dis-Chem. The Transaction remains subject to suspensive conditions, including approval from competition authorities.

In terms of the Listings Requirements of the JSE Limited, the Transaction is not deemed to be a categorised transaction.

2. Information on Baby City

Baby City is a specialist destination baby retailer who operates a network of 33 stores across South Africa. It sells a comprehensive range of branded baby products at reasonable "Everyday Low Prices". The brand's focus is primarily on first-time parents and caters for moms and babies' every need. Baby City offers a complete baby shopping experience to its customers and prides itself on its consumer-centric entrepreneurial approach in a resilient market. It lives by the slogan "We know you care".

For the 12 months to February 2020, Baby City generated revenue of R855 million. It has continued to trade well relative to the COVID-19 lockdown environment demonstrating both the resilient nature of the industry and the inherent brand equity of the retailer.

3. Rationale

Dis-Chem recognises that the characteristics of the baby product sector align with the those of the pharmacy sector. Both sectors are extremely resilient with perpetual new entrants - the baby sector sees approximately 900 000 new babies annually. Dis-Chem's current offering is very focused on the FMCG and basic essentials categories which are

extremely sensitive to price and promotion. To deliver both a destination baby experience to the first time parent and allow growth into the more specialised baby categories such as Baby gear (prams, car seats, swings, bouncers and other nursery equipment), clothing, developmental toys, amongst other categories, Dis-Chem required a standalone baby destination store network whose brand positioning aligned with its own brand.

Both brands share destination store status, consumer-driven offerings underpinned by an “Everyday Low Price” strategy and unmatched stock range, service focussed customer experience and were both built around an entrepreneurial culture.

Both management teams believe that the similarities of the brands and their positioning in their respective sectors will allow the identified synergies to be extracted quickly and efficiently.

The most value-enhancing of these are:

- The Baby City retail stores will be integrated into Dis-Chem’s current supply chain and serviced by CJ Distribution. Dis-Chem’s recent, focussed Return on Invested Capital (“ROIC”) strategy has unlocked additional supplier terms which will enhance the commercial return of these incremental supply chain volumes. The additional volumes should be operating margin accretive to the CJ Distribution business.
- The inclusion of a Dis-Chem branded clinic will enhance baby City retail stores. The clinic will offer ante and post-natal clinic services aimed at babies and toddlers. These services will enhance the destination store status of the brand and in turn allow the Dis-Chem clinic infrastructure within its own stores, which currently offer these services, to handle the growth it is seeing in primary care clinics services volume.
- Currently, Baby City does not have a loyalty offering. Extending the Dis-Chem loyalty and partner offering, currently comprising of 4,5 million members and numerous value-enhancing partners, to Baby City customers will drive increased shopper frequency and bigger customer baskets. The combined loyalty offering will also ensure the ability to successfully capture the transition of the first time parent in the Baby City environment to the baby maintenance shopper in the Dis-Chem environment.
- The ability for Dis-Chem to extend private label brands into the Baby City stores, opens up the opportunity for gross margin expansion in the Baby City business.
- As part of the due diligence, a white space exercise was concluded based on the relationship between geographic baby density and baby retail store density. The exercise identified the potential for approximately another 30 sites for well traded Baby City outlets.

Dis-Chem’s CFO Rui Morais said: “There are clear opportunities to harness synergies across both brands. The brands and industries have very similar characteristics allowing for efficient synergy extraction. Baby City benefits from very strong brand equity amongst South African consumers, specifically from first-time parents which is core to our vision of creating a further enhanced baby destination store and experience. We are excited about the return enhancing nature of the transaction.”

“The acquisition is a great cultural fit and has been a target of ours for many years. The brands and businesses were built with similar philosophies, ensuring management team alignment as we take steps to unlock the value we see in the Baby City brand” says Ivan Saltzman , Dis- Chem's CEO.

Michel Aronoff, managing director of Baby City, says both organisations share the same ethos and passion inherent in entrepreneurially run businesses. “Our trajectory echoes Dis-Chem’s history and growth, and we are confident that our shared philosophy of customer-focused quality and service will translate into solid growth for Baby City as part of the Dis-Chem stable.”

4. Conditions Precedent:

The Baby City acquisition is subject to the fulfilment of the following conditions precedent by 31 October 2020, or later date as may be agreed to in writing (“Longstop Date”):

- obtaining the required approval in terms of the Competition Act for the implementation of the Transaction either unconditionally or subject to such conditions as the parties may agree in writing;
- delivery to all parties of the required resolutions by the directors of the purchaser and seller approving the Transaction;*
- Seller 1 (Michel Aronoff) having concluded a written two-year fixed-term employment agreement with Fairy Tales, including restraints reasonably necessary to protect Fairy Tales, Somerset and Dis-Chem; **
- individuals identified by Dis-Chem in its due diligence exercise as key employees of Fairy Tales having concluded a new written employment agreement with Fairy Tales, including restraints reasonably necessary to protect the economic interests of Fairy Tales and Dis-Chem; and **
- Fairy Tales and the landlord of its head office premises having concluded a new lease agreement, on terms and conditions approved by Dis-Chem in writing. **

**** These conditions precedent may be waived at any time prior to the Longstop Date by Dis-Chem.**

*** These conditions precedent may be waived by written agreement between Dis-Chem and the Fairy Tales Sellers at any time prior to the Longstop Date.**

5. Effective Date

The effective date for the Transaction is expected to be the last day of the calendar month in which the last of the conditions precedent is fulfilled (or waived, as the case may be), provided that, to the extent that the date of fulfilment (or waiver, as the case may be) of the last of the conditions precedent occurs after the 25th day of the calendar month in question, then the effective date is expected to be the last day of the succeeding calendar month.

Johannesburg
15 May 2020

| Advisers to Dis-Chem | Advisers to the Aronoff family | Competition advisers |
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| | | |
| Saltzman Attorneys | Transaction adviser: i capital advisers | Nortons Inc |
| | Legal adviser: NSG Attorneys | |
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