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

Interim Condensed Consolidated Financial Results for the six months ended 31 August 2020

This short-form announcement is the responsibility of the Company's board of directors and is only a summary of the information in the full announcement and therefore does not contain full or complete details. Any investment decisions by investors and/or shareholders should be based on consideration of the full announcement published on the Group's website www.dischemgroup.com and on the JSE website using https://senspdf.jse.co.za/documents/2020/jse/isse/dcpe/HY21.pdf

Copies of the full announcement are available for inspection at the registered office of the Company and the Company's Sponsor, at no charge, during office hours. For more information contact investorrelations@dischem.co.za or visit our website.

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

	6 months to 31 August 2020	6 months to 31 August 2019	% change
Group revenue	R12.8 billion	R11.8 billion	8.1%
Earnings per share	36.0 cents	31.0 cents	16.1%
Headline earnings per share	36.0 cents	31.0 cents	16.2%

Overview

Despite a tough economic environment with the Covid-19 pandemic directly overlapping the reporting period together with the deepening economic recession, the Dis-Chem Group achieved positive results.

Earnings attributable to shareholders and headline earnings increased by 16.1% and 16.2% respectively over the corresponding period. Earnings per share (EPS) and headline earnings per share (HEPS) are both 36 cents per share, an increase of 16.1% and 16.2% respectively.

Retail operating profit was R585 million and the wholesale segment reported a positive operating profit of R41 million.

Covid-19

Despite the Group being an essential service provider and trading throughout the lockdown period, the various Covid-19 regulations imposed during the different levels of lockdown, restricted the Group from trading over its usual operating hours and selling across all its categories. During level 5 of the lockdown period, the Group was unable to sell 20% of its products, including higher-margin products from its Beauty category.

The various restrictions during each level of lockdown dramatically changed the shopping behaviour of customers and the Group experienced significant online sales growth of 353%. The quick deployment of additional hub stores together with continued investment in the Group's e-commerce platform enabled it to meet the increased demand as best as possible.

As a result of social distancing, increased sanitising measures, people working from home and children not going to school, the country experienced fewer cold and flu cases than in previous years. This adversely impacted the dispensary category, specifically over the counter ("OTC") sales. Strong chronic drug adherence due to health education, awareness and higher patient risk, partially offset the impact.

The Group has taken and continues to take every possible step to safeguard the well-being of its employees, customers and patients. Costs directly related to Covid-19 amounted to R45.4 million mainly relating to providing personal protective equipment, screening costs, staff Covid testing and the largest cost being related to the staff vouchers valued at R23.5 million that the Group distributed to all staff as a gratuity for their commitment to the front-line fight against the virus.

The growth seen in our clinics together with our Telemedicine offering, will play an important role in the delivery and growth of the primary care market within South Africa's healthcare system. We believe the pandemic has highlighted the need to solve for increased, lower priced healthcare delivery to more South Africans.

The Group has taken several steps to strengthen its financial position and maintain financial liquidity and the Group's financial position has been assisted by the lowering of interest rates. The Group believes the adaptation of the business to a focussed Return on Invested Capital ("ROIC") approach positions it well to fast changing trading patterns.

Review of financial performance

Revenue

During the six-month period from 1 March 2020 to 31 August 2020, Dis-Chem recorded Group revenue growth of 8.1% to R12.8 billion.

Retail revenue grew by 6% to R11.4 billion with comparable store revenue at 1.5%. The Group opened 23 new stores and acquired one new pharmacy from the corresponding period resulting in 182 stores at August 2020. These new stores contributed R448 million to revenue.

Wholesale revenue grew by 14.9% to R9.3 billion. Revenue to our own retail stores, still the biggest contributor to wholesale revenue, grew by 12.8% while external revenue to independent pharmacies and The Local Choice ("TLC") franchises grew by 36.4% and 25.7% respectively from the corresponding period. TLC growth is due to a combination of an increase in TLC franchise stores from 96 to 110 together with increasing support of the supply chain from existing TLC franchisees. Independent Pharmacy growth is due to new customers and increased support from the current base. The Group has been able to maintain its excellent service levels during these trying times in terms of operating hours, delivery times and stockholding.

Total income
Total income grew by 9.4% to R3.6 billion. With the continued focus on Return on Invested Capital (ROIC), the Group's total income margin increased from 27.5% to 27.9%.

Retail total income grew by 6.2% with the retail margin increasing from 27.2% to 27.3%. The Group experienced a change in its sales and gross margin mix due to sales restrictions during level 5 of lockdown, with the sales of lower margin Covid-19 related products increasing and reduced impulse purchases because of lower foot traffic. The Group is slowly starting to see the sales and gross margin mix normalise but continues to expect gross margin to track behind sales growth into the second half of the financial year.

Wholesale total income grew by 20.7% with the wholesale margin increasing from 7.5% to 7.9%. The wholesale segment has benefitted from better terms as prior investments in technology is utilised to enhance visibility of supplier profitability.

Other expenses
Retail expenses (excluding depreciation) grew by 11.1% as the Group invested in 24 new stores since the corresponding period as well as due to the additional Covid related expenses.

Excluding costs directly related to Covid-19, retail expenses (excluding depreciation) grew 9.1%.

Employee costs (Excluding employee costs directly related to Covid-19), the biggest contributor of expenses, was well managed in experiencing growth of 6.5%. With the reduction in trading hours across the different levels of lock down, the group was able to reduce employee variable cost in stores.

Wholesale expenses (excluding costs directly related to Covid-19) only grew by 0.3% compared to the prior comparable period. This low growth in wholesale expenses is a result of the investment in technology in the

prior financial year that allows for greater visibility of productivity, customer performance and individual supplier profitability within the wholesale space.

Net finance costs
Net financing costs have decreased by 17.4% from the prior period due to the reduction in the prime interest rate as well as lower levels of working capital due to the focus on ROIC. R125 million capital repayments have also been made on the ABSA loan reducing the interest paid on the long term loan.

Net working capital
During the current period, the Group's inventory increased by R334 million from February 2020 due to the holding of additional Covid specific inventory. The majority of Covid specific inventory was purchased cash-on-delivery without terms and is now cycling out of the balance sheet.

Net working capital, at 32.1days, continued to improve from 33.3 days at 29 February 2020 as the group continues to focus on ROIC.

Capital expenditure
Capital expenditure on tangible and intangible assets of R229 million comprised R183 million of expansionary expenditure as the Group invested in additional stores as well as information technology enhancements across both the retail and wholesale segments. The balance of R46 million relates to replacement expenditure incurred to maintain the existing retail and wholesale networks.

Directorate
Mr. Mahomed Gani resigned as a non-executive director of Dis-Chem on 9 September 2020 due to ill-health. The board of directors thanks Mr. Gani for his past services and contribution as a director of the Company and wishes him all the best for the future.

Dividend declaration
Due to the future unknown impact of Covid-19 together with a number of potential strategic acquisitions, including the acquisition of Baby City, it has been decided to preserve cash resources in order to fund these acquisitions and not declare a dividend.

Outlook
For the 9 weeks to 31 October 2020, Group revenue has grown by 7.1% from the prior comparable period.

The Group expects that the consumer will continue to remain constrained and the full extent of the impact of Covid-19 still unknown. The gross margin pressure currently being experienced by the Group is expected to continue into the second half of the year. As South Africa's economy opens and we shift through the different levels of lockdowns, the stores' trading hours will return to normal which will increase the employee variable costs in store.

With the focus on ROIC, the resilient nature of the markets in which the Group operates, together with the brand position, the Group is continuing to adapt quickly to the current environment, with a focus on mitigating the near-term impact whilst positioning itself for success in the future.

Acquisitions
Community Based Pharmacy Group
The group is investigating an acquisition of a community based pharmacy group that will expand its store base and ability to provide primary healthcare solutions.

Currently in the due diligence stage, this acquisition will increase the existing store network with the majority of these being in convenience centres.

Health Care Insurance Asset
The group is in the advanced stages of concluding the acquisition of a strategic interest in a healthcare asset, with specialisation in the design, administration, risk management and delivery of primary healthcare insurance, as well as gap cover and psychological wellbeing. COVID-19 has highlighted that individuals and companies are more prepared than ever to spend on healthcare and has also led to a deeper understanding of the importance of mental health, accelerating the need for companies to provide support to employees and their families.

Through this transaction, the group will benefit from vertical integration into the health value chain, with access to a unique set of assets, in a sector of the healthcare market that is experiencing rapid and sustainable growth. All this at margins that are significantly higher than those in the core retail business.

This investment also provides access to segments of the population who have historically not been covered by the private healthcare sector. In so doing it will assist in providing deeper access to healthcare to a wider and under-served community. This transaction builds on other strategic infrastructure and asset investments made in prior periods, which together promote economies of scale, and deliver enhanced value to all stakeholders, customers and benefit members.

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

Approval
The interim condensed consolidated results of the Group were authorised for issue in accordance with a resolution of the directors on 4 November 2020.

On behalf of the Board

Ivan Saltzman	Rui Morais
Chief Executive Officer	Chief Financial Officer

Supplementary information
Registered office: 23 Stag Road, Midrand, 1685
Independent non-executive directors: LM Nestadt (Chairman), MJ Bowman, A Coovadia, JS Mthimunye and MSI Gani (resigned 9 September 2020)
Executive directors: IL Saltzman (Chief Executive Officer), LF Saltzman (Managing Director), RM Morais (Chief Financial Officer) and SE Saltzman (Alternate for LF Saltzman)
Company secretary: WT Green
Registered auditors: Ernst & Young Inc.
Sponsor: The Standard Bank of South Africa Limited
Transfer secretaries: Computershare Investor Services Proprietary Limited

5 November 2020
Midrand