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")

**TRADING UPDATE FOR THE 22 WEEKS TO 2 FEBRUARY 2019 AND AN UPDATE ON THE GROUP'S INDUSTRIAL ACTION**

**GROUP**
During the 22 weeks from 1 September 2018 to 2 February 2019, Dis-Chem recorded Group revenue growth of 10.7% to R9.4bn over the corresponding period in the prior year ("Corresponding Period")

Chief executive Ivan Saltzman: "As was the case in the previous calendar year we continue to see constrained consumers searching for value offerings. Our everyday low price strategy and the availability of choice for our customers enabled us to continue to gain market share in all of our core categories.

We saw the biggest market share gains for the financial year in October and November on the back of a successful MicroPopz! Promotional Campaign. Pleasingly, the MicroPopz! Campaign saw 500 000 new customers walking through our doors and a high conversion rate of these customers into loyalty members.

The current ongoing industrial action heavily impacted December trade and continues to affect the Group. As a result, we experienced an extremely tough trading month with retail revenue growth at 6.2% and retail comparable store revenue at -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 in December 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 December month.

As challenging as these last three months have been, with operations in three of our four distribution centres being impacted, our stance on the industrial action is that we will not negotiate with any Union who is not representative of our workforce. In the interim, we are focusing on improving wholesale productivity and ensuring stock availability and consistency in our retail stores.''

**Retail**
Retail sales increased by 10% to R8.6bn for the 22 weeks to 2 February 2019 over the Corresponding Period. 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, offset a very challenging December trading month. Although revenue was below our expectations in the 22 weeks, we continue to be encouraged by our market share gains across our core categories.

Comparable store revenue growth and selling price inflation were 3.7% and 1.1% respectively. These numbers continue to be impacted by a low 1.26% Single Exit Price ("SEP") which came into effect on the 1st of March 2018, as well as competitive pricing across the personal care and baby categories. We expect some relief in FY2020 from the most recently gazetted SEP of 3.78%.

During the 22 weeks under review, the Group added 13 new stores which contributed R152m to revenue.

**Wholesale**
Wholesale revenue grew by 8.4% to R6.0 billion. Sales to our retail stores, which grew by 7%, lagged retail revenue growth as a result of the industrial action challenges at three of our four distribution centres. Wholesale sales to external customers - The Local Choice (“TLC’’) and independent pharmacies - grew at 18,7% primarily as a result of the Quenets acquisition. We received Competition Commission approval for the acquisition at the end of October 2018.

**SUMMARY**

| **R’m** | **22-weeks to 2 February 2019** | **22-weeks to 2 February 2018*** | *% change* | **% like-for-like revenue growth** | **% price inflation** |
|---|---|---|---|---|---|
| **Retail** | R8 637m | R7 851m | *10.0%* | 3.7% | 1.1% |
| **Wholesale** | R6 028m | R5 563m | *8.4%* | | |
| **Intergroup** | -R5 262m | -R4 918m | *7.0%* | | |
| **Total group** | R9 403m | R8 496m | *10.7%* | | |

* FY2018 number have been restated to apply IFRS15

**INDUSTRIAL ACTION UPDATE**
**Background**
Dis-Chem has been the target of a national strike by a group of employees belonging to the National Union of Public Service and Allied Workers (NUPSAW) since 16 November 2018. 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 Dis-Chem’s employees were registered as NUPSAW members.

Currently in place, and on the back of the labour unrest in January 2018, Dis-Chem and NUPSAW signed an organisational rights agreement that sets out the representation levels that are required by the Union to engage with Dis-Chem in their capacity as a representative Union. The organisational rights agreement requires 30% employee representation.

The Group anticipated the strike and put contingency plans in place ahead of time to ensure that stores’ operations were largely unaffected, and the customer experience and service level standards remained as expected. The contingency plans included, but was not limited to the following:

- Direct store deliveries by suppliers
- Increased security levels at distribution centres, stores and head office
- Productivity outside of picketing hours focused at night time receiving and dispatch

**Demands**
The union’s demands include 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 CCMA, a requirement to take back all employees that have transgressed picketing rules, have damaged company property and attacked fellow employees and damaged their possessions.

The Group feels the demands are unreasonable considering the economic climate and the nature of the industry in which the wholesale business competes.

**Court Order**
As a result of continued violence focussed at group assets and employees, the Labour Court, in a historic first, ruled on 5 December 2018 that NUPSAW and its members are barred from picketing and protest action until 27 February 2019, while upholding the union's right to strike. Nonetheless, there continues to be a presence of protestors at the affected distribution centres.

**Impact**
Even though we anticipated the Industrial action and contingency plans were put in place, the impact on our business as a result of the prolonged period and intensity of the strike has been more severe than was initially estimated.

We continue to incur additional costs, and certain conditions have materialised which we did not anticipate at the time of setting our guided earnings growth range of 16% - 24%.

Additional costs and challenges related to the industrial action, include, but are not limited to the following:

i. Retail stock shortages as a result of longer lead times from suppliers delivering directly to stores and the affected wholesale operation not being able to adequately meet retail store demand.
ii. Increased investment in security at all of our distribution centres, our head office and certain targeted retail stores to ensure that our assets and employees were/are protected.
iii. Relocating head office staff (around 400 employees) to other premises to ensure their safety.
iv. Initial lower productivity levels of temporary staff in our distribution centres who needed to be trained and upskilled to fulfil the void in wholesale functions left by striking employees.
v. Inability to invoice Logistic fees as certain suppliers have been required to supply stores directly. (Logistic fees compensate the wholesale segment for the centralised distribution done on behalf of suppliers)

Since the labour unrest is still ongoing, the full quantum of the impact is still unknown, but to date, loss of income and additional costs directly linked to the industrial action have amounted to approximately R50 million. As a result, we expect earnings growth to be below our guided range.

As it stands, improving wholesale productivity levels and supplier deliveries moving back into our distribution centres have resulted in increased stock availability in our retail stores. This was evident in our January retail revenue sales growth of 10%.

The financial information in this trading update has not been reviewed or reported on by the Group's independent auditor Ernest and Young.

For further information, contact our Investor Relations
investorrelations@dischem.co.za.

Midrand
14 February 2019

Sponsor
The Standard Bank of South Africa Limited