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")

UNAUDITED INTERIM CONDENSED CONSOLIDATED RESULTS
for the six months ended 31 August 2019

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/2019/jse/isse/dcpe/HY_20.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 2019	6 months to 31 August 2018	Restated* 6 months to 31 August 2018	% change	Restated* % change
Group revenue	R11.8 billion	R10.5 billion	R10.5 billion	13.2%	13.2%
Earnings per share	31.0 cents	51.7 cents	50.7 cents	(40.1%)	(38.9%)
Headline earnings per share	31.0 cents	51.7 cents	50.7 cents	(40.1%)	(38.9%)
Interim dividend	12.8 cents	20.7 cents	20.7 cents	(38.2%)	(38.2%)

* The financial information presented for the prior period is restated due to the adoption of IFRS 16.

Overview

In the current period, with the challenges of the strike coming to an end and the decentralisation of the wholesale space now concluded, the Group continues to focus on Return on Invested Capital ("ROIC") to ensure optimal returns to shareholders over the long term. This has resulted in the necessary inventory reduction and rationalisation without compromising sales to our customers. The rationalisation has resulted in strong cash generation over the corresponding period in the prior year ("corresponding period") and together with the continued emphasis on cost management, positions the Group well to benefit from future growth opportunities.

Despite the difficult consumer environment revenue has grown by 13.2% over the corresponding period. External revenue in the wholesale environment grew by 28.5%, mainly due to the successful acquisitions and integration of Quenets - the acquired Western Cape wholesaler. The Group continues to report revenue growth ahead of market growth, as it grows space and benefits from a maturing store base. As a result the Group has improved its market shares across all core categories.

The Group's earnings in the current period was not only impacted by once off items (as described below) but was also impacted by the low growth in purchases from suppliers of only 1.5% against the corresponding period which, despite the successful improvement in additional trade terms, has resulted in the total income margin declining.

Earnings attributable to shareholders and headline earnings both declined by 39.0% over the corresponding period. Earnings per share (EPS) and headline earnings per share (HEPS) are both 31.0 cents per share, a decrease of 38.9%.

Chief executive, Ivan Saltzman: "I am very pleased that in this extremely tough trading environment we managed strong revenue growth in both our retail and wholesale segments resulting in a 13.2% increase in Group revenue to R11.8 billion.

This growth together with the continued roll out of more than 20 stores led to market share gains in all of our core categories.

As we have reiterated, commercial decisions made are for the long term benefit of Group growth considering the position of our brand within a resilient, consolidating market.

This set of half year results is the last set impacted by once off strike related items which, once eliminated, highlight our cost containment efforts together with a significant stock rationalisation, effected post the conclusion of the strike, driven by our return on investment focus.

The labour issues that led to strikes across two consecutive financial years have been settled and we are actively rebuilding the relationship with distribution staff so that they understand the culture of our brand and our commitment to values that I, together with my partners, have built over many years.

NHI's aim is for affordable access to healthcare and we expect that this will frame a change in the consumption of care in the private space going forward. It is no secret that we have the largest and most consistent clinic offering and we are expanding the service scope of our Clinic sisters as well as investing in Telemedicine technology across our 310 clinics to increase the reach and reduce the costs of specialist services for patients. I am excited about the fruition of my vision for Dis-Chem, to play a significant role in bringing affordable healthcare to the many South Africans that are in need."

IFRS 16 Leases

The Group adopted IFRS 16, Leases, in the current period and elected to present financial information on a restated basis in order to allow for comparability between periods. The new standard aligns the accounting of leased assets with owned assets and has resulted in the majority of the Group's store and warehouse leases being brought onto the Statement of Financial Position as a finance lease with a corresponding right-of-use asset (reflected in property, plant and equipment). The rental occupancy costs in the Statement of Comprehensive Income have been replaced by depreciation of the right-of-use asset and finance costs in relation to the finance liability.

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 (excluding any renegotiation of lease terms that may take place).

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 Group's EPS at 28 February 2019 and 31 August 2018, which was previously 85.4 cents per share and 51.7 cents per share respectively, has been restated to 83.6 cents per share and 50.7 cents per share respectively.

The presented financial performance of the Group is based on restated numbers after the adoption of IFRS 16.

Review of financial performance

Revenue

During the six-month period from 1 March 2019 to 31 August 2019, Dis-Chem recorded Group revenue growth of 13.2% to R11.8 billion.

Retail revenue grew by 11.8% to R10.7 billion with comparable store revenue at 5.4%. The Group restricted selling price inflation to 2.3% thereby achieving positive volume growth despite the difficult economic climate. The Group opened 20 new stores and acquired 2 new pharmacies from the corresponding period resulting in 158 stores at August 2019. These new stores contributed R545 million to revenue, including R78 million from the acquisition of Springbok Pharmacy on 1 April 2019.

Dis-Chem loyalty members continue to grow, especially through the successful reward driven campaigns, bringing total members to 5.1 million, up from 4.7 million in the corresponding period.

Wholesale revenue grew by 9.0% to R8.1 billion. Revenue to our own retail stores, still the biggest contributor to wholesale revenue, grew by 6.4% while external revenue grew by 28.5% from the prior comparative period.

The wholesale internal revenue growth lagged that of the retail growth as a result of the necessary inventory rationalisation post the strike.

The external wholesale revenue growth of 28.5% is due to the successful acquisition and integration of Quenets (acquired in November 2018) which resulted in additional revenue of R180 million as well as the TLC franchises growing from 76 at August 2018 to 96 at August 2019.

Total income

Total income, comprising gross profit and other income, grew by 6.0% to R3.3 billion. In the prior period - H1 FY19 - the Group benefitted from the release of unearned rebates of approximately R81 million as a result of a redistribution of inventory across the retail and wholesale segments which did not occur again in the current period. Excluding this once off amount, total income growth is 8.9%.

Despite the continued and successful improvement of additional trade terms, the Group's total income margin reduced from 29.4% (28.6% excluding the prior year unearned rebate release) to 27.5%.

With the optimisation of inventory levels together with the increased focus on ROIC in the current period, the lower increase in purchases from suppliers (1.5%) compared with the increase in revenue (13.2%) resulted in a negative impact on the total margin of the Group. Lower purchases resulted in a sacrifice of purchase driven growth rebates together with lower supplier purchase linked fee for service income.

Retail total income grew by 4.8%, carrying the majority of the terms sacrifice as a result of the lower purchases while wholesale total income, excluding the once off unearned rebate release, grew by 7.3%.

Other expenses

Other expenses grew by 16.5% over the corresponding period to R2.7 billion. This increase is partly due to the following once-off transactions that impacted the current and corresponding period:

- 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. This change has resulted in the recognition of an additional R75 million cost in 1H20; and
- Additional strike-related costs (additional security and payroll) incurred between the FY19 year end and the conclusion of the strike on 10th April was approximately R19 million.

Excluding these once-off costs, expenses would have grown by 12.4% over the corresponding period, lower than the growth in revenue of 13.2%, and corroborates our commitment to continued cost management.

Retail expenses, excluding the once-off transactions, grew by 11.2% as the Group invested in 22 new stores since the corresponding period. Wholesale expenses, excluding the once-off transactions, declined by 3.6%.

This decline in Wholesale expenses was as a result of investment in technology that allowed for greater visibility of productivity, customer performance and individual supplier profitability within the wholesale space. Supplier profitability within the wholesale space was driven by understanding factors influencing the cost of carrying supplier inventory. Factors included inventory turn, space allocation and bin consumption across each warehouse within our wholesaling environment. This supplier specific profitability analysis

enabled better informed commercial discussions to ensure improved space optimisation and efficiencies.

Net finance costs

Net finance costs increased by 20.7% to R202 million. This increase was primarily due to R23 million additional interest cost as a result of the additional inventory held over the strike period to avoid compromising stock levels in our stores and R11 million additional interest from the new term loan that was taken out on 1 March 2019. The Group took advantage of favourable financing by replacing the existing ABSA facility with a new facility in order to facilitate the recent acquisitions in both the retail and wholesale businesses. With the improvement in cash levels already being seen from the rationalisation of inventory, finance costs are expected to reduce favourably in the short term.

Net working capital

During the current period, the Group reduced inventory holdings by R776 million from February 2019. This was achieved through the afore-mentioned ROIC processes and simplified by normalised trade in our wholesale business post the strike allowing more efficient replenishment cycles and focus on excess stock levels. This net working capital outflow improvement, from R111 million in August 2018 and R404 million in February 2019 to R22 million in August 2019 has resulted in a greatly improved cash generation for the Group.

The Group's net working capital at 31 August 2019 is 37.3 days compared to 37.7 days at 28 February 2019.

Capital expenditure

Capital expenditure on tangible and intangible assets of R214 million comprised R140 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 R74 million relates to replacement expenditure incurred to maintain the existing retail and wholesale network. The increase in replacement expenditure over the prior comparable period is a result of five additional store renovations together with two more costly store relocations to improve trading positions in those respective retail centres.

Capital expenditure on acquisitions amounted to R52 million with the acquisition of two independent pharmacies and a pharmaceutical adherence business in the current period.

Directorate

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

Outlook

The Group expects that the consumer will continue to remain constrained as a result of the current macroeconomic environment. As was the case previously, the resilient markets in which the Group operates together with the brand positioning will offer a certain amount of protection against the weak environment and the Group is well positioned to benefit from additional consumer disposable income.

The Group remains focused on adding retail stores. Four stores have been added since the reporting period and an additional seven store openings are planned through to February 2020.

Dividend declaration

The Group has decided that the impact of IFRS 16 should not impact the payment of cash dividends to shareholders and therefore the Group's dividend in the current period is based on 40% of headline earnings, excluding the impact of IFRS 16.

Notice is hereby given that a gross interim cash dividend of 12.79404 cents per share, in respect of the interim ended 31 August 2019 has been declared based on 40% of headline earnings (excluding the impact of IFRS 16). The number of shares in issue at the date of this declaration is 860 084 483. The dividend has been declared out of income reserves as defined in the Income Tax Act, 1962, and will be subject to the South African dividend withholding tax ("DWT") rate of 20% which will result in a net dividend of 10.23523 cents per share to those shareholders who are not exempt from paying dividend tax. Dis-Chem's tax reference number is 9931586144.

The salient dates relating to the payment of the dividend are as follows:

- Last day to trade cum dividend on the JSE: Tuesday, 26 November 2019
- First trading day ex dividend on the JSE: Wednesday, 27 November 2019
- Record date: Friday, 29 November 2019
- Payment date: Monday, 2 December 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 27 November 2019 and Friday, 29 November 2019, both days inclusive. Shareholders who hold ordinary shares in certificated form ("certificated shareholders") should note that dividends will be paid by cheque and by means of an electronic funds transfer ("EFT") method. Where the dividend payable to a particular certificated shareholder is less than R100, the dividend will be paid by EFT only to such certificated shareholder. Certificated shareholders who do not have access to any EFT facilities are advised to contact the company's transfer secretaries, Computershare Investor Services Proprietary Limited at Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196; on 011 370 5000; or on 0861 100 9818 (fax), in order to make the necessary arrangements to take delivery of the proceeds of their dividend. Shareholders who hold ordinary shares in dematerialised form will have their accounts held at their CSDP or broker credited electronically with the proceeds of their dividend.

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

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

7 November 2019

Midrand