

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 PERIOD 1 MARCH 2021 TO 6 AUGUST 2021, UPDATE ON VACCINE ROLLOUT, TRANSACTION UPDATE AND CIVIL UNREST FEEDBACK

The following trading update aims to provide an understanding into the Group’s trading performance amidst the backdrop of the ongoing pandemic, the vaccine rollout and the civil unrest and looting events of July and to provide an update on the progress of the pre-announced transactions relating to Medicare and Kaelo.

GROUP

During the 22 weeks from 1 March 2021 to 6 August 2021, the Group recorded revenue growth of 16.3% to R13bn over the corresponding period in the prior year (**“Corresponding Period”**).

Chief Executive Ivan Saltzman: “Over the period under review, Covid-19 continued to influence what has become a volatile and unpredictable retail landscape. Dis-Chem continues to play a vital role as one of the country’s essential service operators, a role which gathered increasing momentum as the vaccine rollout accelerated. The total income margin has been impacted as a function of high-volume sales of low margin, Covid-related products, especially during the current third wave and the return to level 4, with the inevitable result of transactional gross margins lagging sales.

Dis-Chem was also affected by the civil unrest and looting that occurred in KwaZulu-Natal and Gauteng in July. With committed management and staff working round the clock to replenish shelves and repair damage, we are pleased that all stores, barring two (both of which suffered structural damage) have returned to trading. We anticipate that these final two stores will be trading by the end of September.

Dis-Chem has responded to the pandemic in multiple ways. Starting with testing centres where each week thousands of tests were performed. More recently Dis-Chem has, in accordance with Government guidelines, opened nationwide mass vaccination sites and in store clinics that collectively have the capacity to administer approximately 290,000 vaccinations monthly.

Despite the challenging environment the Group has continued to take market share in all categories and has delivered strong cash generation. We continue to remain committed to meeting the needs and demands of our customers, and for this I particularly wish to thank our dedicated staff and acknowledge the often-selfless role played by my management team.”

RETAIL

Retail revenue increased by 16.0% to R11.5bn over the Corresponding Period. Comparable sales growth was 6.7%.

The Group continued to experience a change in its sales and transaction gross margin mix due to altered consumer behaviour during the varying levels of lockdown. The sales of lower margin Covid-related products, which are decreasing in price, increased disproportionately, during and subsequent to the second and third waves of infections. This has resulted in transactional margin lagging sales growth over the Corresponding period. The Group anticipates a normalisation of

transactional gross margin mix and sales contribution in the 2023 financial year, with an expected step change increase in the total income margin.

Since the initial lockdown, the Group has rapidly adapted to an e-commerce environment, which had the unexpected benefit of accelerating its digital advance by as much as five years. As a result, Dis-Chem has continued to experience growth of online sales by 14.4% over the Corresponding Period, which already included an increase of 345.9% over the 2019 comparable period. The quick deployment of an additional 44 e-commerce hubs and increased investment in the Group's e-commerce platform enabled it to meet increased online demand. The most recent launch of Dis-Chem DeliverD, a one hour on-demand delivery service, has been trialled in 31 stores and has seen positive consumer uptake. This service is being rolled out to a further 30 stores within the next month.

Retail categories

As in the previous reporting period, as a consequence of social distancing, increased sanitising measures and working from home, fewer people experienced colds and flu than in previous years. While this continues to have a dampening effect on the dispensary category, this was more than offset by the continued increased adherence by patients to their chronic drug prescriptions. This was further supported by the Group's digital chronic engagements and strong focus on consumer health education and awareness of the higher risk factors associated with Covid-19.

As of 6 August, the Group has administered 257,032 Covid-19 vaccine doses. The Group is currently operating 27 mass and 28 in-store clinic vaccination sites and will increase to a total of 82 sites within the next two weeks, providing a monthly capacity to administer up to 340,000 vaccinations. This will greatly support the increased demand created by the opening of the between 18 – 34 age cohort and continue to positively impact sales growth.

The dispensary category has seen growth of 16.9% over the Corresponding Period and continues to increase the Group's prescription drug market share.

In the Baby category, Baby City has contributed R326m to sales and has now been fully integrated into the Group. Management continues to focus on unlocking identified synergies and, to this end, the majority of the Baby City stores will have operational clinics by the end of October 2021.

Healthcare and Nutrition continued to see good growth over the Corresponding Period on top of the growth that the category experienced at the outset of the pandemic. The category has increased sales by 6.3% as customers continue to increase their spend on preventative healthcare in vitamins and immune boosters. The Group believes that Healthcare and Nutrition will continue to enjoy additional share of consumer spend as a result of increased health awareness in the aftermath of the pandemic.

The protocols set up to deal with Covid-19, to ensure the wellbeing of our staff and customers, continued to result in additional costs. The majority of these being for personal protective equipment and screening costs, as well as staff Covid-19 testing and store sanitising protocols.

The Return on Invested Capital (ROIC) focus continues to improve all working capital metrics. This resulted in the Group's cash on hand being approximately R585 million higher than the Corresponding Period.

Being a critical point of contact for primary healthcare, the Group has not slowed down its store rollout programme and looks forward to opening its landmark 200th Dis-Chem store in September.

During the twelve months to 6 August 2021, eighteen Dis-Chem and three Baby City stores have been opened.

Category sales growth

	% sales growth
Dispensary	16.9
Personal care and beauty	9.8
Healthcare and nutrition	6.3
Baby	80.7
Other	16.7

WHOLESALE

Wholesale revenue increased by 17.0% to R9.5bn as our independent and franchise customer bases continue to grow. Sales to our retail stores, which contribute 84.0% of wholesale revenue, grew by 16.6%. Sales to Independent Pharmacies increased by 10.1% and, to The Local Choice ("TLC") franchisees by 34,7%.

Independent Pharmacy growth is negatively influenced by once-off business-to-business sales included in the prior period that inflated the comparable base by R59m. When excluding this amount, Independent Pharmacy sales grew by 18.0% - as a result of a combination of new customers and increased support from the existing customer base. This can be attributed to excellent customer service being maintained, despite difficult circumstances relating to the pandemic.

The number of TLC franchisees as of 6 August, increased to 132, compared to 108 at the end of the Corresponding Period. The rebranding of TLC remains highly successful as it continues its contribution to Wholesale business growth.

SUMMARY

	1 March 2021 – 6 August 2021	1 March 2020 – 6 August 2020	% change	% like-for-like retail revenue growth
Retail	11 469	9 890	16.0	6.7
Wholesale	9 497	8 118	17.0	
Intergroup	(7 982)	(6 844)	16.6	
Total	12 984	11 164	16.3	

TRANSACTIONS CONSIDERED BY THE COMPETITION COMMISSION

Medicare

On 14 December 2020, the Group entered into a binding agreement with Pure Pharmacy Holdings (trading as Medicare Health ("Medicare")) and its existing shareholders, to acquire 100% of the equity in Medicare, for a purchase consideration of R282 million. The transaction includes a net working capital guarantee to ensure that the working capital metrics align with those of Dis-Chem.

The transaction is currently 171 business days into the merger notification process with the competition authorities, with the hope that they will issue their decision as soon as possible.

Although now outside of the standard service period, delays of this nature are not unexpected in a complex transaction of this nature with a high number of overlapping markets.

Kaelo

On 13 May 2021, the Group entered into share purchase agreement with the shareholders of Kaelo Holdings ("Kaelo") in which it will acquire 25% of the equity of Kaelo, for a purchase consideration of up to R195 million, subject to company performance hurdles in each of the FY21 and FY22 periods. Upon closure, an initial amount of R120 million will be payable.

The Group can confirm that the transaction is currently 79 business days into the merger notification process with the competition authorities, with the hope that they will issue their decision as soon as possible.

The Medicare and Kaelo transactions are not deemed to be categorised transactions in terms of the Listings Requirements of the JSE Limited.

CIVIL UNREST

During the civil unrest and looting in July, three Dis-Chem stores and one Baby City store were impacted with stock and assets stolen or damaged amounting to approximately R40 million. Two stores have been reopened and are trading, whilst the other two are expected to reopen by the end of September 2021.

During the unrest, numerous stores were closed in KwaZulu-Natal and Gauteng with lost sales during this period estimated at approximately R70m, resulting in approximately R15 million loss in total income. The Group is adequately insured to cover these losses.

The figures mentioned above and any information contained herein have not been reviewed or reported on by the Group's external auditors.

The Group will report interim results for the six months ended 31 August 2021 on Wednesday, 3 November 2021. The results presentation will be webcast only, and further details will be communicated in due course.

Midrand

24 August 2021

Sponsor

The Standard Bank of South Africa Limited