CEO statement

Amid ongoing uncertainty about the duration and severity of the pandemic, this has been a period of successful implementation, integration and growth for Dis-Chem.

Ivan Saltzman

Group revenue	EPS	Dividend declared at	Operating profit
^15.7%	^27.6%		^21.6%
R30.4 billion	**99.2c**	**39.7cps**	**R1.54 billion**

Over the last financial year, we have navigated a challenging and complex operating environment amid ongoing uncertainty about the duration and severity of the pandemic. July was a particularly difficult month, with tighter lockdown restrictions because of the Delta variant and the devastating impact of widespread riots leading to a contraction of the economy in the third quarter of 2021.

In the face of all these challenges and rapid changes in consumer behaviour, we progressed strategic initiatives and completed acquisitions that will continue to drive the Group forward in years to come.

Dis-Chem's customer-centric approach and our focus on execution has allowed us to deliver a quality set of operating and financial results. This would not have been possible without our dedicated team of employees, who once again worked tirelessly to ensure Dis-Chem remained the retail pharmacy destination of choice for consumers in South Africa, Botswana and Namibia.

Financial overview

On the back of significant investments in prior periods, this financial year has been a period of successful implementation, integration, and growth. We continued our capital investment programme, opening 12 Dis-Chem and three Baby City stores, which added 12 666m² of floor space. Dis-Chem's property footprint as at the end of February 2022 was made up of 254 retail pharmacy stores and 35 retail baby stores.

We performed well across key metrics, with market share gains across all core categories, supported by further normalisation in gross margins. This is being driven by a sustained return to regional shopping malls, where many mature Dis-Chem stores are located.

The addition of Medicare to our portfolio contributed to strong market share gains in our Dispensary category, which by March 2022 had increased to 26.3%. I am proud to say that we are now South Africa's largest retail pharmacy group by dispensary market share. Our share of the baby care market grew by 16.1% post the integration of Baby City and we expect to see a steady increase in this category.

Overall Group revenue was up 15.7% to R30.4 billion, exceeding R30 billion for the first time, while operating profit rose 21.6% to R1.54 billion. New stores, including three Baby City Stores, contributed R531 million to revenue. Revenue growth was driven by our commitment to excellent service, competitive pricing, a more comprehensive range of products, and improved stock availability, specifically in our regional DCs. Earnings per share rose 27.6% to 99.2 cents.

Our commitment to the Covid vaccine programme continues as we recognise the crucial role Dis-Chem plays in promoting access to the vaccine.

Following our concerted efforts over recent years to offer the convenience of online shopping, it continues to deliver with revenue growth of 22% this past period, despite more customers resuming in-store shopping. We saw strong sales growth in our on-demand DeliverD one-hour service, highlighting the convenience offered by our various online channels which are serviced from our 82 fulfilment hubs. Our online store remains profitable, with our investment in cutting-edge technologies helping to drive costs down and improve efficiencies and revenue, while reducing delivery lead times and improving customer service.

The Group's total capex decreased 6% to R377 million, with R237 million allocated to additional stores as well as information technology enhancements, with the balance incurred to maintain the existing retail and wholesale networks.

Retail revenue grew by 15.6% to R27.1 billion, with comparable store revenue growing at 6.1% and operating profit up 18.5% to R1.4 billion. Like-for-like retail sales growth was 6.1%.

The wholesale segment's performance continued to improve, with a revenue increase of 13.7% to R21.9 billion and an operating profit of R115 million. Wholesale revenue to our own retail stores, still the biggest contributor, grew by 13.2%, while external revenue to independent pharmacies and The Local Choice (TLC) franchises grew by 10.9% and 25.2% respectively over the corresponding period. Support from TLC continues to be strong, underscoring the success of the franchise model. Excluding one-off business-to-business sales, independent pharmacy sales grew by 14.8%.

Group expenses (excluding depreciation) grew by 17.3%, driven largely by investments in new stores and acquisitions. Retail costs were also influenced by the investment in pharmacists and clinic sisters to facilitate the national vaccine programme.

Our earnings per share (EPS) and headline earnings per share (HEPS) both increased by 27.6% to 99.2 cents.

Wholesale expenses (excluding depreciation) grew by 8.7% due to the increase in third-party sales resulting in higher delivery costs compared to the prior comparable period. Wholesale employments costs which grew by 4.5% were well managed as the Group continues to focus on efficient shift pattern staffing.

Operating environment

Dis-Chem was directly impacted by the civil unrest and looting that occurred in KwaZulu-Natal and Gauteng in July 2021. Our committed management and staff worked tirelessly, ensuring that three affected stores returned to regular trading within a month, while another Dis-Chem store reopened later, on 7 October 2021. The Group was adequately insured.

We have seen a stabilisation in our operating environment as Covid-19 waves became less severe, with consumers resuming their pre-pandemic routines and shopping habits, driving normalisation of baskets and seasonal patterns as well as a recovery in higher margin categories.

Sales growth of preventative healthcare products, including vitamins and nutraceuticals, was muted as the second Covid-19 wave gave way to the less severe Omicron-variant fourth wave.

However, our Dispensary transactional gross margin was influenced by better contracted dispensing fees with medical insurers as well as higher growth of OTC medication and clinic services.

The Group has maintained a strong balance sheet, with solid cash flows. This has been helped by improved efficiencies as well as focused cost, inventory and working capital management. Cash generated from operating activities was R2.4 billion, while cash and cash equivalents were R136 million.

We continue to see improvements in our back-end trading terms and service income because of our ever-increasing scale and ongoing Return on Invested Capital (ROIC) focus.

Inventory has been well managed and inventory days have decreased, while net working capital has continued to improve and is now at 26.5 days. The 17.8% improvement in warehouse activity efficiency can be attributed to the consistency that RPA (Robotic Process Automation) technology has brought to the time and resource-intensive processes in our warehouse operations.

Our commitment to the Covid vaccine programme continues as we recognise the crucial role Dis-Chem plays in promoting access to the vaccine. We administered 1.4 million doses as part of our Covid-19 vaccination programme, which contributed R513 million to revenue. Given the declining demand, most of our mass sites have transitioned to instore clinics, and we currently have 95 active vaccination sites.

Demand for affordable medical cover continues to grow in an environment impacted by continued financial pressure on consumers and the strained quality of, and access to, public health services. The growth in our clinics, together with our telemedicine offering and the launch of our health insurance offerings positions us well to play an important role in the delivery and growth of the primary-care market.

While we may have seen the worst of the pandemic, its impact on poor South Africans is likely to be long-lasting. Through the Dis-Chem Foundation and other focussed initiatives, we continue to support communities in need, thanks to the contribution of the Dis-Chem Group's Benefit Programme, which has 6.8 million members who contribute around 71.9% of 'front shop' revenue. We have seen a substantial increase in loyalty redemption rates, which are now averaging 101%, thanks to normalised trading.

The rapid rise in digitalisation has also had unintended consequences, notably the increase in cyberattacks. Dis-Chem experienced this first hand, when we were made aware of a data breach involving one of our third-party service providers. This resulted in an unauthorised person accessing customers' contact details. There is no reason to believe that customers' personal data has been compromised and additional safeguards have been introduced to ensure the protection and security of information on the database.

Integration of acquisitions

Baby City and Medicare have been fully integrated into the Group including migration onto the Group's common technology platforms.

Baby City stores have been rebranded as Dis-Chem Baby City and renovations and new store openings are continuing. There is now price parity between the two brands as well as alignment of our strong partner-supported Dis-Chem loyalty programme.

Half of the 48 Medicare stores have already rebranded as Dis-Chem pharmacies offering our benefit programme, best-in-class pricing, and everything else that is offered through the Dis-Chem Brand.

We continue to focus on unlocking identified synergies with these acquisitions which is expected to be further seen in the Group's performance in FY23.

Ongoing investment in primary healthcare

Our 436 in-store clinics are operating at high capacity and there are now 34 Mom & Baby clinics within Dis-Chem Baby City. We are also investing in Dis-Chem Clinic Connect, our nurse-led telemedicine business powered by Healthforce, from a tech and primary health perspective.

Our strong strategic partnership with Kaelo has seen us launch health insurance in March 2022, while our gap cover product was launched at the beginning of May. Uptake has exceeded our initial expectations and we will continue to evolve our offering as we launch products in what we see is the health opportunity in the insurance space.

Dividend

A full-year dividend of 39.7 cents per share has been declared, which represents a 27.6% increase over the previous year.

Outlook and appreciation

While there are indications that the worst of the pandemic is behind us, we will continue to take precautions to ensure the health and wellness of our nearly 20 000 Dis-Chem team members.

Looking forward, the group expects that the trading environment will remain constrained as rising fuel, energy, and food prices along with interest rate increases continue to put pressure on consumers. While good progress has been made on transactional gross margin, we still see further opportunities for improvement. Regardless, our focus on value, which positions the Group to support financially constrained consumers, remains unwavering.

The group has secured an additional 16 new Dis-Chem stores and seven new Baby City sites for FY2023, and we remain focused on adding additional space. Medicare rebranding is under way and will be completed during FY2023. Wholesale growth will continue to be driven by increased support from TLC franchises and independent pharmacies.

In August 2021, we announced a Management Retention Scheme aimed at retaining important executives who are key to the delivery of the long-term strategic objectives of our group, and which is in the process of being finalised. I congratulate our current CFO Rui Morais, who has been named as my eventual successor.

I said at the outset that the past year had been one of integration, implementation, and growth. Once again, our people have shown their mettle, with excellent delivery across all three areas of endeavour, notwithstanding a complex and challenging environment. Thank you everyone for your outstanding contribution to our success.

I also wish to thank my fellow board members for their ongoing guidance and support.

Ivan Saltzman
Chief executive officer