

CLICKS GROUP LIMITED

REVIEWED PRELIMINARY GROUP RESULTS for the year ended 31 August 2012

Group turnover up
9.2%

Diluted headline EPS up
9.5%

Total distribution up
21.6%

Return on equity of
59.9%

Consolidated statement of comprehensive income

R'000	Year to 31 August 2012 (reviewed)	Year to 31 August 2011 (audited)	% change
Revenue	16 243 377	14 833 118	9.5
Turnover	15 436 947	14 135 948	9.2
Cost of merchandise sold	(11 961 536)	(10 879 173)	9.9
Gross profit	3 475 411	3 256 775	6.7
Other income	800 554	688 935	16.2
Total income	4 275 965	3 945 710	8.4
Expenses	(3 264 637)	(3 008 120)	8.5
Depreciation and amortisation	(171 535)	(149 714)	14.6
Occupancy costs	(471 897)	(422 596)	11.7
Employment costs	(1 582 459)	(1 496 491)	5.7
Other costs	(1 038 746)	(939 319)	10.6
Operating profit	1 011 328	937 590	7.9
Loss on disposal of property, plant and equipment	(6 578)	(6 250)	
Profit before financing costs	1 004 750	931 340	7.9
Net financing costs	(46 396)	(33 626)	38.0
Financial income	5 876	8 235	(28.6)
Financial expense	(52 272)	(41 861)	24.9
Profit before taxation	958 354	897 714	6.8
Income tax expense	(269 974)	(246 749)	9.4
Profit for the year	688 380	650 965	5.7
Other comprehensive income/(loss):			
Exchange differences on translation of foreign subsidiaries	1 615	(220)	
Cash flow hedges	1 485	2 105	
Change in fair value of effective portion	2 063	2 924	
Deferred tax on movement of effective portion	(578)	(819)	
Other comprehensive income for the year, net of tax	3 100	1 885	
Total comprehensive income for the year	691 480	652 850	
Profit attributable to:			
Equity holders of the parent	688 687	650 932	
Non-controlling interest	(307)	33	
	688 380	650 965	
Total comprehensive income attributable to:			
Equity holders of the parent	691 787	652 817	
Non-controlling interest	(307)	33	
	691 480	652 850	
Earnings per share (cents)	272.0	248.3	9.5
Diluted earnings per share (cents)	271.9	248.0	9.6

Headline earnings reconciliation

R'000	Year to 31 August 2012 (reviewed)	Year to 31 August 2011 (audited)	% change
Total profit for the year attributable to equity holders of the parent	688 687	650 932	
Adjusted for:			
Loss on disposal of property, plant and equipment	4 736	4 500	
Insurance recovery income	(1 018)	-	
Headline earnings	692 405	655 432	5.6
Headline earnings per share (cents)	273.5	250.1	9.4
Diluted headline earnings per share (cents)	273.4	249.7	9.5

Condensed consolidated statement of financial position

R'000	As at 31 August 2012 (reviewed)	As at 31 August 2011 (audited)
Non-current assets	1 490 348	1 414 484
Property, plant and equipment	1 010 657	949 906
Intangible assets	306 286	301 579
Goodwill	103 510	103 510
Deferred tax assets	57 401	53 756
Loans receivable	12 494	5 733
Current assets	3 286 064	2 840 299
Inventories	2 080 375	1 802 557
Trade and other receivables	1 171 541	998 944
Loans receivable	3 710	17 901
Cash and cash equivalents	25 451	17 790
Derivative financial assets	4 987	3 107
Total assets	4 776 412	4 254 783
Equity and liabilities		
Total equity	1 348 904	965 187
Non-current liabilities	286 601	264 829
Interest-bearing borrowings	-	19
Employee benefits	105 989	92 473
Deferred tax liabilities	39 555	46 695
Operating lease liability	141 057	125 642
Current liabilities	3 140 907	3 024 767
Trade and other payables	2 768 759	2 431 756
Employee benefits	109 861	164 669
Provisions	8 828	5 217
Interest-bearing borrowings	214 566	375 217
Income tax payable	37 536	44 489
Derivative financial liabilities	1 357	3 419
Total equity and liabilities	4 776 412	4 254 783

Notes

Auditor's preliminary report

1.1 KPMG Inc., the group's independent auditor, has reviewed the condensed consolidated preliminary financial statements contained in this preliminary report, and has expressed an unqualified review conclusion on the condensed consolidated preliminary financial statements. Their review report is available for inspection at the company's registered office. These condensed consolidated preliminary financial statements for the year ended 31 August 2012 have been prepared in accordance with framework concepts, the measurement and recognition requirements of International Financial

Condensed consolidated statement of cash flows

R'000	Year to 31 August 2012 (reviewed)	Year to 31 August 2011 (audited)
Operating profit before working capital changes	1 235 114	1 075 227
Working capital changes	(161 586)	(105 055)
Net interest paid	(33 465)	(21 113)
Taxation paid	(276 458)	(271 988)
Cash inflow from operating activities before distributions	763 605	677 071
Dividends/distributions paid to shareholders	(337 285)	(295 507)
Net cash flows from operating activities	426 320	381 564
Net cash flows from investing activities	(247 949)	(209 353)
Capital expenditure	(255 789)	(215 701)
Acquisition of businesses	-	(10 225)
Other investing activities	7 840	16 573
Net cash flows from financing activities	(170 710)	(306 473)
Purchase of treasury shares	(12 013)	(552 406)
Other financing activities	(158 697)	245 933
Net increase/(decrease) in cash and cash equivalents	7 661	(134 262)

Condensed consolidated statement of changes in equity

R'000	Year to 31 August 2012 (reviewed)	Year to 31 August 2011 (audited)
Opening balance	965 187	1 141 328
Purchase of treasury shares	(12 013)	(552 406)
Disposal of treasury shares	1 973	2 579
Total comprehensive income for the year	691 480	652 850
Share-based payment reserve movement	39 562	16 343
Dividends/distributions to shareholders	(337 285)	(295 507)
Total	1 348 904	965 187
Dividend/distribution per share (cents)		
Interim paid	44.1	37.0
Final declared/paid	107.9	88.0
	152.0	125.0

Segmental analysis

The group's reportable segments under IFRS 8 are as follows: Clicks (including Clicks Direct Medicines), Musica, The Body Shop and United Pharmaceutical Distributors (UPD)

R'000	Turnover	Profit before taxation	Total assets	Capital expenditure	Total liabilities
Year to 31 August 2012 (reviewed)					
Clicks	10 685 592	787 866	2 478 786	178 562	1 473 333
Musica	871 515	42 810	177 761	9 410	131 624
The Body Shop	122 972	23 837	31 978	3 770	12 794
United Pharmaceutical Distributors	6 223 807	155 052	2 430 961	32 040	1 969 920
Inter-segmental	(2 466 939)	1 763	(1 037 850)	-	(1 028 712)
Total reportable segmental balance	15 436 947	1 011 328	4 081 636	223 782	2 558 959
Non-reportable segmental balance	-	(52 974)	694 776	32 007	868 549
Total group balance	15 436 947	958 354	4 776 412	255 789	3 427 508

Year to 31 August 2011 (audited)

Clicks	9 789 459	750 836	2 234 077	173 278	1 385 885
Musica	895 600	31 418	202 074	10 520	98 843
The Body Shop	107 786	20 575	24 090	1 797	13 139
United Pharmaceutical Distributors	5 601 891	130 808	1 951 839	10 701	1 651 787
Inter-segmental	(2 258 788)	3 953	(835 282)	-	(824 381)
Total reportable segmental balance	14 135 948	937 590	3 576 798	196 296	2 325 273
Non-reportable segmental balance	-	(39 876)	677 985	19 405	964 323
Total group balance	14 135 948	897 714	4 254 783	215 701	3 289 596

R'000	Year to 31 August 2012 (reviewed)	Year to 31 August 2011 (audited)
Non-reportable segmental profit before taxation consists of:		
Loss on disposal of property, plant and equipment	(6 578)	(6 250)
Financial income	5 876	8 235
Financial expense	(52 272)	(41 861)
	(52 974)	(39 876)

Supplementary information

	Year to 31 August 2012 (reviewed)	Year to 31 August 2011 (audited)
Number of ordinary shares in issue (gross) ('000)	276 123	270 652
Number of ordinary shares in issue including "A" shares issued in terms of employee share ownership programme (gross) ('000)	305 277	299 805
Number of ordinary shares in issue (net of treasury shares) ('000)	253 042	252 959
Weighted average number of shares in issue (net of treasury shares) ('000)	253 154	262 118
Weighted average diluted number of shares in issue (net of treasury shares) ('000)	253 258	262 515
Net asset value per share (cents)	533	382
Net tangible asset value per share (cents)	371	221
Depreciation and amortisation (R'000)	181 102	158 285
Capital expenditure (including acquisition of businesses) (R'000)	255 789	225 926
Capital commitments (R'000)	355 700	257 100



COMMENTARY

Trading environment

Middle income consumers in the Clicks target market have remained under financial pressure over the past year. The health and beauty markets in which the group operates have been reliant on promotional activity to sustain sales volumes and attract value-conscious consumers. As anticipated, selling price inflation has remained low.

In this environment the group has focused on staying competitive and maintaining tight expense control while continuing to invest for long-term growth.

Despite the trading challenges, the appeal of the Clicks brand remains strong and the chain gained market share in all key product categories. The Clicks ClubCard loyalty base grew by over 300 000 to 3.9 million active members.

Musica and The Body Shop both performed well.

UPD showed an improved performance as the distribution agency business gained further momentum. This assisted UPD in growing its share of the private pharmaceutical wholesale market from 23.1% to 24.3%.

Financial performance

Group turnover increased by 9.2% to R15.4 billion, with selling price inflation of 0.5% for the year. Retail turnover grew by 8.2% with inflation of 0.7%, while UPD increased turnover by 11.1% with price inflation averaging only 0.1%. All the group's businesses showed real sales growth in this low inflationary environment.

Total income increased by 8.4% and the total income margin was 20 basis points lower at 27.7%, reflecting the impact of the strong promotional programme in Clicks and the faster growth of UPD.

Operating expenses were 8.5% higher. Retail costs increased by 8.1% with the continued investment in new stores, pharmacies and IT systems. On a comparable basis, retail cost growth was contained to 5.0%. UPD's cost growth of 13.0% includes further investment in distribution capacity, with comparable costs increasing by 6.7%.

Operating profit increased by 7.9% and exceeded R1 billion for the first time. The group's operating margin was maintained at 6.6% despite the trading pressures encountered during the year.

Headline earnings increased by 5.6% to R692 million. Diluted headline earnings per share grew by 9.5% to 273.4 cents, in line with the earnings growth forecast provided with the group's interim results in April 2012.

Inventory days in stock moved from 60 to 63 days. Inventory levels were 15.4% higher at year-end as Clicks increased stock levels to improve availability and introduce more new products. UPD stock levels were higher owing to the new distribution contracts taken on during the period.

Cash generated by operations (before interest and taxation) increased to R1.1 billion. The group returned R349 million to shareholders through distribution payments and share buy-backs while R256 million was invested in capital expenditure.

The total distribution to shareholders for the financial year was increased by 21.6% to 152.0 cents per share, based on a reduced distribution cover of 1.8 times.

Return on shareholders' equity (ROE) remains at an industry leading level of 59.9%.

Trading performance

Clicks increased turnover by 9.2% as inflation averaged only 1.2% for the year. Comparable store sales grew by 5.9%. The chain's store footprint was expanded to 420 following the opening of a net 20 new stores. The pharmacy base was extended by 23 to 306. Operating profit increased by 4.9% and the operating margin of 7.4% remains within the medium-term target range of 7% to 8%.

Musica gained market share in CDs, DVDs and gaming. The ongoing right-sizing of the brand which resulted in the net closure of a further 14 stores contributed to operating profit increasing by 36.3%. The Body Shop increased turnover by 14.1% with price deflation of 1.9%, and grew operating profit by 15.9%.

UPD increased wholesale turnover by 11.1%. Ten new agency distribution contracts were awarded during the year and this trebled the notional turnover of the distribution business to R1.7 billion. UPD increased its operating margin to 2.5% and lifted operating profit by 18.5%.

Prospects

Growth in consumer spending is expected to remain muted in the year ahead and the health and beauty markets will continue to be promotionally driven. Selling price inflation is currently anticipated to remain at low single-digit levels.

The group's focus in this trading environment will therefore be on growing sales volumes and containing costs.

Capital expenditure of R356 million has been committed for 2013 for new stores, new pharmacies, store revamps, IT systems and the expansion of UPD's distribution infrastructure. Trading space is planned to increase by 4% to 5%.

The group's brands are all leaders in their respective markets and have proven track records of gaining market share. Based on the growth potential of Clicks and UPD, together with the group's strong cash-generating ability, management is confident of achieving its medium-term financial targets.

Final dividend

The board of directors has approved a final ordinary dividend of 107.9 cents per share (2011: 88.0 cents per share) and a 15.2 cents per ordinary "A" share (2011: 12.5 cents per share). The source of the dividends will be from distributable reserves and paid in cash.

Additional information

No Secondary Tax on Companies ("STC") credits have been utilised as part of these declarations.

Dividends Tax ("DT") amounting to 16.185 cents per ordinary share and 2.28 cents per ordinary "A" share will be withheld in terms of the Income Tax Act. Ordinary shareholders who are not exempt from DT will therefore receive a dividend of 91.715 cents net of DT and ordinary "A" shareholders will receive a dividend of 12.92 cents net of DT.

The company has 276 123 498 ordinary shares and 29 153 295 ordinary "A" shares in issue. Its income tax reference number is 9061/745/71/8.

Shareholders are advised of the following salient dates in respect of the final dividends:

Last day to trade "cum" the dividend	Friday, 18 January 2013
Shares trade "ex" the dividend	Monday, 21 January 2013
Record date	Friday, 25 January 2013
Payment to shareholders	Monday, 28 January 2013

Share certificates may not be dematerialised or rematerialised between Monday, 21 January 2013 and Friday, 25 January 2013, both days inclusive.

The directors of the company have determined that dividend cheques amounting to R50.00 or less due to any ordinary shareholder will not be paid unless a written request to the contrary is delivered to the transfer secretaries, Computershare Investor Services (Proprietary) Limited, by no later than close of business on Friday, 18 January 2013, being the day the shares trade "cum" the dividend. Unpaid dividend cheques will be aggregated with other such amounts and donated to a charity to be nominated by the directors.

By order of the board

David Janks

Company secretary

18 October 2012

Registered address: Cnr Searle and Pontac Streets, Cape Town 8001
PO Box 5142, Cape Town 8000

Directors: F Abrahams*, JA Bester*, BD Engelbrecht, M Fleming (Chief Financial Officer), F Jakoo*, DA Kneale* (Chief Executive Officer), N Mattiala*, DM Nurek* (Chairman), M Rosen* *Independent non-executive * British

Transfer secretaries: Computershare Investor Services (Proprietary) Limited
70 Marshall Street, Johannesburg 2001, PO Box 61051, Marshalltown 2107

Sponsor: Investec Bank Limited

Registration number: 1996/000645/06 Share code: CLS ISIN: ZAE000134854