

#### COMMENTARY **Overview**

Clicks Group has continued to deliver a sustained financial performance through the focus on its core strategic objectives of building pre-eminence in

- health and beauty retailing; and
- healthcare supply and pharmacy management.

While there has been no marked improvement in consumer spending over the period, the health and beauty markets in which the group operates have continued to show their resilience and grown well ahead of the overall retail sector.

All the group's businesses traded well during the period and strengthened their market-leading

#### Financial performance

Retail turnover increased by 15.2% to R4.8 billion for the six months to February 2010 as the Clicks chain continued its strong growth trend and lifted turnover by 17.5%. Selling price inflation for the retail businesses was 7.9%

UPD's turnover grew by 6.7% (by 14.9% on a comparable basis as the wholesaler's distribution agency business is no longer reflected in turnover).

Group turnover increased by 9.5% to R6.6 billion.

Total income, comprising gross profit and other income, rose by 15.4% to R1.7 billion.

Operating expenses increased by 16.4%. Retail costs were 17.7% higher, impacted by the continued investment in new stores and dispensaries, and increased performance-related costs which were partially offset by the increase in valuation of the share incentive hedge. Excluding these costs, underlying retail expense growth was contained at 12.1%. UPD's cost growth was well managed at only 4.2%.

The group's operating profit margin improved from 5.9% to 6.0%, resulting in an 11.9% increase

Headline earnings increased by 18.7% to R275 million. Diluted headline earnings per share for the period increased by 24.5% to 100 cents per share, in line with the earnings guidance provided in the trading statement on 30 March 2010.

The board declared an interim distribution of 30.5 cents per share, an increase of 24.5% over the previous interim period.

The group's return on equity has continued to show pleasing improvement and increased from 38.1% to 46.2%.

Inventory levels were again tightly managed across the group and reduced by 10.8%, while inventory days in stock improved from 67 to 56 days.

# **Trading performance**

Clicks increased turnover by 17.5%, with strong real sales growth of 8.6%. Comparable store sales grew by 13.3%. Clicks recorded market share gains across all core merchandise categories. A further 17 in-store dispensaries were opened which extended the pharmacy network to 224 out of a total store base of 354. The operating profit margin increased to 6.6% (2009: 6.5%) through improved inventory management, good control of shrinkage and waste, and better margins on front shop products. This translated into operating profit growth of 18.1%.

UPD grew wholesale turnover by 14.9%. This performance was driven by the focus on the core customer groups of Clicks, hospitals, Link pharmacies and the export business, which collectively or 81% of wholesale turnover. UPD has continued to improve its cost e The 4.5% decline in operating profit is a result of the annual increase in the single exit price of medicines only being effective from May this year and not from February as in the previous year.

Musica continued to show its resilience by increasing turnover by 0.5% in an entertainment market which experienced negative growth. Musica continues to gain market share and remains the country's leading music and entertainment retailer. The business maintained its operating

The Body Shop increased turnover by 7.7%, lifted by new store openings, with operating profit up 19.8%

# **Prospects**

The retail trading environment is expected to remain challenging and any recovery in consumer spending is unlikely to benefit the group in the second half of the financial year. The impact of the 2010 FIFA World Cup on retail spending remains an unknown factor. Price inflation for the group should moderate in the months ahead.

Trading for the first seven weeks of the second half of the financial year has continued in line with the performance for the first half. Management will continue to maximise organic growth opportunities in the health and beauty markets with a clear value proposition for customers, and are confident of sustaining the current performance levels in the second half.

# **Employee share scheme**

The group is currently evaluating the viability of a broad-based employee share ownership scheme. Extending equity ownership to employees will accelerate transformation and build on the progress that has been made across all other areas of black economic empowerment within the group. In addition, this will enable the group to attract and retain scarce and specialist skills. Any proposed share ownership scheme will be subject to shareholder engagement and approval.

#### Full-year earnings forecast

The group currently anticipates that diluted headline earnings per share for the year to

31 August 2010 will increase by between 20% and 25% over the previous financial year This forecast is based on the following assumptions: The group's operational and trading performance for the second half will continue in line with the results achieved for the period under review; further organic growth will be generated from store expansion and the opening of additional pharmacies; and there will be no marked changes in trading conditions, the regulatory environment and in the macroeconomy that will impact on consumer spending.

# Interim distribution

The board of directors has approved an interim distribution of 30.5 cents per share (2009: 24.5 cents per share). The source of the distribution will be either from distributable reserves and paid as a cash dividend or a capital reduction out of share premium. The source of the distribution will be made known on or before Friday, 18 June 2010.

Shareholders are advised of the following salient dates in respect of the interim distribution:

Last day to trade "cum" the interim distribution Friday, 25 June 2010 Shares trade "ex" the interim distribution Payment in respect of the interim distribution

Monday, 28 June 2010 Friday, 2 July 2010 Monday, 5 July 2010

Share certificates may not be dematerialised or rematerialised between Monday, 28 June 2010

and Friday, 2 July 2010, both days inclusive. By order of the board

David Janks Company Secretary 22 April 2010

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

Directors: DM Nurek\* (Chairman), F Abrahams\*, JA Bester\*, BD Engelbrecht, MJ Harvey, F Jakoet\*, DA Kneale# (Chief Executive Officer), M Rosen\*, KDM Warburton (Chief Financial Officer) \* 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

Formerly New Clicks Holdings Limited

# CLICKS GROUP

# LIMITED

# INTERIM CONDENSED CONSOLIDATED RESULTS

For the six months ended 28 February 2010

Retail turnover up

15.2%

**Diluted HEPS** up

24.5%

Interim distribution Return on equity increases to

46.2% 30.5 cents

#### **Condensed Statement of Comprehensive Income**

	Six months	Six months		Year to
	28 February 2010	28 February 2009	%	31 August 2009
R'000	(unaudited)	(unaudited)	change	(audited)
Revenue	6 861 712	6 278 681	9.3	12 754 202
Turnover	6 565 754	5 994 535	9.5	12 175 312
Cost of merchandise sold	(5 109 066)	(4 757 073)	7.4	(9 657 930)
Gross profit	1 456 688	1 237 462	17.7	2 517 382
Other income	289 808	276 269	4.9	564 482
Expenses	(1 349 710)	(1 159 148)	16.4	(2 372 694)
Depreciation and amortisation	(60 508)	(55 314)	9.4	(113 665)
Occupancy costs	(200 808)	(171 847)	16.9	(352 055)
Employment costs	(694 079)	(551 360)	25.9	(1 156 928)
Other costs	(394 315)	(380 627)	3.6	(750 046)
Operating profit	396 786	354 583	11.9	709 170
Loss on disposal of property, plant				
and equipment	(1 175)	(938)		(7 177)
Profit before financing costs	395 611	353 645	11.9	701 993
Net financing costs	(19 379)	(35 011)	(44.6)	(54 773)
Financial income	6 150	7 877		14 408
Financial expense	(25 529)	(42 888)		(69 181)
Profit before taxation	376 232	318 634	18.1	647 220
Income tax expense	(103 473)	(87 610)	18.1	(174 619)
Profit for the period	272 759	231 024	18.1	472 601
Other comprehensive (loss)/income: Exchange differences on translation				
of foreign subsidiaries	(467)	357		(285)
Other comprehensive (loss)/income for the period, net of tax	(467)	357		(285)
Total comprehensive income for the period	272 292	231 381		472 316
Profit attributable to:				
Equity holders of the parent	274 109	230 971		472 387
Non-controlling interest	(1 350)	53		214
	272 759	231 024		472 601
Total comprehensive income attributable to:				
Equity holders of the parent	273 642	231 328		472 102
Non-controlling interest	(1 350)	53		214
	272 292	231 381		472 316
Earnings per share (cents)	100.2	80.5	24.5	165.6
Diluted earnings per share (cents)	99.7	80.0	24.6	163.8
Distributions per share (cents)				
Interim proposed/paid	30.5	24.5	24.5	24.5
Final paid	-		2	59.5
L	30.5	24.5	24.5	84.0

# **Headline Earnings Reconciliation**

Six months	Six months		year to
28 February	28 February		31 August
2010	2009	%	2009
(unaudited)	(unaudited)	change	(audited)
274 109	230 971		472 387
846	675		6 100
274 955	231 646	18.7	478 487
100.5	80.7	24.5	167.7
100.0	80.3	24.5	165.9
	28 February 2010 (unaudited) 274 109 846 274 955 100.5	28 February 2010 (unaudited)  274 109  230 971  846  675  274 955  231 646  100.5  80.7	28 February 2010 (unaudited) 2009 (unaudited) (unaudited) 230 971  846 675 274 955 231 646 18.7  100.5 80.7 24.5

Six months Six months

Six months Six months

# **Condensed Consolidated Statement of Cash Flows**

	28 February	28 February	31 August
	2010	2009	2009
R'000	(unaudited)	(unaudited)	(audited)
Operating profit before working capital changes	376 681	423 749	825 407
Working capital changes	(324 699)	101 378	489 583
Net interest paid	(14 291)	(26 671)	(28 337)
Taxation paid	(99 463)	(143 274)	(229 158)
Cash (outflow)/inflow from operating activities			
before distributions	(61 772)	355 182	1 057 495
Distributions paid to shareholders	(162 790)	(125 541)	(191 099)
Net cash effects of operating activities	(224 562)	229 641	866 396
Net cash effects of investing activities	(74 586)	(94 279)	(218 630)
Acquisition of business	_	(8 785)	(9 924)
Capital expenditure	(84 898)	(82 473)	(224 625)
Other investing activities	10 312	(3 021)	15 919
Net cash effects of financing activities	21 635	(65 036)	(339 151)
Purchase of treasury shares	(145 101)	(142 037)	(337 501)
Other financing activities	166 736	77 001	(1 650)
Net (decrease)/increase in cash and cash			
equivalents	(277 513)	70 326	308 615

# **Condensed Consolidated Statement of Changes in Equity**

	28 February	28 February	31 August
	2010	2009	2009
R'000	(unaudited)	(unaudited)	(audited)
Opening balance	1 125 263	1 141 604	1 141 604
Acquisition of subsidiary – non-controlling interest	_	1 469	1 925
Acquisition of option in subsidiary	_	(4 987)	(4 987)
Share cancellation expenses written off	_	_	(99)
Net cost of own shares purchased	(136 889)	(117 749)	(295 114)
Total comprehensive income for the period	272 292	231 381	472 316
Share-based payment reserve movement	301	405	717
Distributions to shareholders	(162 790)	(125 541)	(191 099)
Total	1 098 177	1 126 582	1 125 263

# **Supplementary Information**

	28 February	28 February	31 August
	2010	2009	2009
	(unaudited)	(unaudited)	(audited)
Number of ordinary shares in issue ('000)	281 546	302 639	302 841
Number of ordinary shares in issue (net of treasury			
shares) ('000)	270 609	284 472	276 306
Weighted average number of shares in issue (net of			
treasury shares) ('000)	273 555	286 949	285 249
Weighted average diluted number of shares in issue			
(net of treasury shares) ('000)	274 890	288 590	288 349
Net asset value per share (cents)	406	396	407
Net tangible asset value per share (cents)	256	256	263
Depreciation and amortisation (R'000)	64 977	59 363	121 917
Capital expenditure (R'000)	84 898	82 473	224 625
Capital commitments (R'000)	139 557	140 800	224 455

#### **Condensed Consolidated Statement of Financial Position**

	As at	As at	As at
	28 February	28 February	31 August
R'000	2010 (unaudited)	2009 (unaudited)	2009 (audited)
Non-current assets	1 333 177	1 298 678	1 361 915
Property, plant and equipment	840 602	756 605	829 513
Intangible assets	308 233	303 424	302 313
Goodwill	96 124	95 668	96 124
Deferred tax assets	56 539	79 750	88 243
Loans receivable	31 679	63 231	45 722
Current assets	2 692 914	2 716 068	2 819 291
Inventories	1 506 827	1 689 032	1 421 496
Trade and other receivables	891 201	812 684	908 398
Loans receivable	16 842	11 169	11 342
Cash and cash equivalents	132 241	171 465	409 754
Derivative financial assets	145 803	31 718	68 301
Total assets	4 026 091	4 014 746	4 181 206
Equity and liabilities			
Total equity	1 098 177	1 126 582	1 125 263
Non-current liabilities	286 281	346 460	317 753
Interest-bearing borrowings	32 082	67 956	37 428
Employee benefits	73 419	95 786	91 134
Deferred tax liabilities	69 547	81 167	83 351
Operating lease liability	111 233	101 551	105 840
Current liabilities	2 641 633	2 541 704	2 738 190
Trade and other payables	2 197 512	2 232 059	2 408 117
Employee benefits	219 556	156 585	240 596
Provisions	5 273	20 608	6 254
Interest-bearing borrowings	194 178	105 383	29 877
Income tax payable	18 839	25 248	33 316
Derivative financial liabilities	6 275	1 821	20 030
Total equity and liabilities	4 026 091	4 014 746	4 181 206

#### Segmental Analysis

Segmental Analysis					
			The Body		
R'000	Clicks	Musica	Shop	UPD	Total
Six months to 28 February 2010					
Segmental turnover	4 242 584	540 947	62 087	2 510 600	7 356 218
Inter-segmental turnover	-	_	-	(790 464)	(790 464)
Reportable segmental profit before tax	278 134	36 433	12 643	71 376	398 586
Reportable segmental assets	1 731 289	233 976	24 926	1 646 645	3 636 836
Capital expenditure	57 553	6 488	1 776	6 057	71 874
Reportable segmental liabilities	1 503 267	124 551	11 519	1 542 288	3 181 625
Six months to 28 February 2009					
Segmental revenue	3 611 899	538 245	57 633	2 352 874	6 560 651
Inter-segmental revenue	-	-	-	(566 116)	(566 116)
Reportable segmental profit before tax	235 484	36 208	10 553	74 720	356 965
Reportable segmental assets	1 682 262	259 519	22 105	1 492 147	3 456 033
Capital expenditure	61 884	7 625	1 262	10 444	81 215
Reportable segmental liabilities	1 270 664	144 336	13 302	1 205 971	2 634 273
Twelve months to 31 August 2009					
Segmental revenue	7 424 362	947 773	105 432	5 037 215	13 514 782
Inter-segmental revenue	_	-	_	(1 339 470)	(1 339 470)
Reportable segmental profit before tax	468 875	50 422	16 338	174 775	710 410
Reportable segmental assets	1 601 168	207 131	21 393	1 702 543	3 532 235
Capital expenditure	128 882	16 068	1 548	37 432	183 930
Reportable segmental liabilities	1 042 234	122 109	15 885	1 707 711	2 887 939

# **Notes**

Year to

# 1. Accounting policies

These interim financial results have been prepared in accordance with the recognition and measurement requirements of IFRS and the disclosure requirements of IAS 34. The accounting policies are consistent with those used in the annual financial statements for the financial period ended 31 August 2009 with the following exception:

During the period the group adopted the following new and amended IFRS statements to the extent that they are applicable to its activities:

- IAS 1: Presentation of Financial Statements
- IAS 32: Financial Instruments - IAS 39: Eligible Hedged Items
- IAS 39: Embedded Derivatives
- IFRS 8: Operating Segments - Annual improvements to IFRS statements (2008 and 2009)

# 2. Segmental reporting

The group has adopted IFRS 8: Operating Segments with effect from 1 September 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the board of directors (identified as the chief operating decision-maker of the group in terms of IFRS 8 requirements) in order to allocate resources to the segments and to assess their performance.

The group's reportable segments under IFRS 8 are therefore as follows:

Clicks (including Clicks Direct Medicines), Musica, The Body Shop and United Pharmaceutical Distributors (UPD).

	28 February	28 February	31 August
	2010	2009	2009
Turnover			
Segmental turnover	7 356 218	6 560 651	13 514 782
Inter-segmental turnover	(790 464)	(566 116)	(1 339 470)
Group turnover	6 565 754	5 994 535	12 175 312
Profit before tax			
Reportable segmental profit before tax	398 586	356 965	710 410
Loss on disposal of property, plant and equipment	(1 175)	(938)	(7 177)
External interest received	6 150	7 877	14 408
External interest paid	(25 529)	(42 888)	(69 181)
Inter-segmental profit	(1 800)	(2 382)	(1 240)
Group profit before tax	376 232	318 634	647 220
Assets			
Reportable segmental assets	3 636 836	3 456 033	3 532 235
Other – Group Services	1 081 781	690 392	1 377 458
Inter-segmental assets	(692 526)	(131 679)	(728 487)
	4 026 091	4 014 746	4 181 206
Liabilities			
Reportable segmental liabilities	3 181 625	2 634 273	2 887 939
Other - Group Services	430 173	377 587	914 248
Inter-segmental liabilities	(683 884)	(123 696)	(746 244)
	2 927 914	2 888 164	3 055 943