

PRELIMINARY REVIEWED CONDENSED CONSOLIDATED RESULTS  
FOR THE YEAR ENDED 31 AUGUST 2017



CLICKS GROUP  
LIMITED

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Group turnover up

**10.9%**

Cash from operations

**R2 billion**

Diluted HEPS up

**14.5%**

Total dividend up

**18.4%**

Return on equity of

**44.1%**

# COMMENTARY

## Overview

Clicks Group delivered another resilient performance in tough retail trading conditions and reported robust health and beauty sales, increased margins, strong cash generation and enhanced returns to shareholders.

Retail health and beauty sales increased by 14.7% with strong volume growth and market share gains in all product categories. UPD, the group's pharmaceutical distributor, also recorded double-digit sales and profit growth.

Diluted headline earnings per share (HEPS) increased by 14.5% to 502.1 cents. The total dividend was increased by 18.4% to 322 cents per share, with the dividend payout ratio moving up to 60%.

The group continues to deliver a high return on equity of 44.1%.

## Financial performance

Group turnover increased by 10.9% to R26.8 billion, with retail sales growing by 13.5% and distribution turnover by 11.4%. Selling price inflation for the group averaged 5.3% for the year.

Total income grew by 12.2% to R7.1 billion. The group's total income margin strengthened by 40 basis points to 26.7% owing to the favourable mix impact from the faster growth in retail.

Retail expense growth of 12.8% was contained below sales growth despite the investment in new stores and pharmacies. Comparable retail costs increased by 6.3%. UPD again demonstrated excellent cost control with expenses up only 2.7% on last year.

The group's operating profit increased by 15.4% to R1.8 billion, with the group operating margin expanding by 30 basis points to 6.8%.

Inventory was tightly managed with stock days improving from 66 to 65 days. Inventory levels were 7.9% higher, well below the rate of sales growth.

Cash generated by operations increased by 11.3% to R2.0 billion. The group returned R677 million to shareholders in dividends. Capital expenditure of R518 million (2016: R433 million) was invested mainly in new stores and pharmacies, store refurbishments, supply chain and information technology.

## Trading performance

Retail health and beauty sales, including Clicks and the franchise brands of The Body Shop, GNC and Claire's, increased by 14.7%. Comparable stores sales grew by 8.6%.

Clicks opened 111 stores, including 80 through the outsourcing agreement with the Netcare Group, and expanded the store footprint to 622. The pharmacy network was increased to 473 as a net 73 pharmacies were opened.

Clicks ClubCard increased active membership to 7 million, with the loyalty programme accounting for 77.4% of sales in Clicks.

UPD increased wholesale turnover by 12.1%, benefiting from the growth from Clicks and the private hospital groups, and the higher increase in the single exit price of medicines in the past year.

## Outlook

Low economic growth and political uncertainty are expected to continue to dampen consumer confidence and constrain spending in the year ahead.

The core health and beauty markets in which the group operates are defensive and have proven to be relatively resilient in challenging trading conditions. The group's market-leading brands are well positioned in this environment.

A record capital investment of R680 million is planned for the 2018 financial year as the group continues to invest for long-term growth. This includes the opening of 25 to 30 new Clicks stores and 30 to 35 new pharmacies, with significant investment in the retail and pharmaceutical supply chain to support the increased scale of the group.

## Final dividend

The board of directors has approved a final gross ordinary dividend of 234.0 cents per share (2016: 196.0 cents per share) and 32.2 cents per ordinary "A" share (2016: 27.2 cents per share). The source of the dividend will be from distributable reserves and paid in cash.

## Additional information

Dividends Tax (DT) of 20% amounting to 46.80 cents per ordinary share and 6.44 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 187.20 cents net of DT and ordinary "A" shareholders will receive a dividend of 25.76 cents net of DT.

The company has 245 968 968 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 dividend:

Last day to trade "cum" the dividend	Tuesday, 23 January 2018
Shares trade "ex" the dividend	Wednesday, 24 January 2018
Record date	Friday, 26 January 2018
Payment to shareholders	Monday, 29 January 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 24 January 2018 and Friday, 26 January 2018, both days inclusive.

The board of directors has 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 Tuesday, 23 January 2018, 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

**Matthew Welz**  
Company secretary

26 October 2017

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Year to 31 August 2017	Year to 31 August 2016	% change
Revenue	28 342 607	25 530 967	11.0
<b>Turnover</b>	<b>26 809 101</b>	24 170 879	10.9
Cost of merchandise sold	(21 185 124)	(19 156 612)	10.6
<b>Gross profit</b>	<b>5 623 977</b>	5 014 267	12.2
Other income	1 523 005	1 353 833	12.5
<b>Total income</b>	<b>7 146 982</b>	6 368 100	12.2
Expenses	(5 333 405)	(4 796 464)	11.2
Depreciation and amortisation	(283 227)	(252 662)	12.1
Occupancy costs	(794 796)	(682 827)	16.4
Employment costs	(2 845 838)	(2 550 731)	11.6
Other costs	(1 409 544)	(1 310 244)	7.6
<b>Operating profit</b>	<b>1 813 577</b>	1 571 636	15.4
Loss on disposal of property, plant and equipment	(4 868)	(6 388)	
<b>Profit before financing costs</b>	<b>1 808 709</b>	1 565 248	15.6
Net financing costs	(37 337)	(52 851)	(29.4)
Financial income	10 501	6 255	67.9
Financial expense	(47 838)	(59 106)	(19.1)
<b>Profit before earnings from associate</b>	<b>1 771 372</b>	1 512 397	17.1
Share of profit of an associate	2 900	2 254	28.7
<b>Profit before taxation</b>	<b>1 774 272</b>	1 514 651	17.1
Income tax expense	(496 630)	(420 779)	18.0
<b>Profit for the year</b>	<b>1 277 642</b>	1 093 872	16.8
<b>Other comprehensive (loss)/income:</b>			
Items that will not be subsequently reclassified to profit or loss	3 236	–	
Remeasurement of post-employment benefit obligations	4 495	–	
Deferred tax on remeasurement	(1 259)	–	
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign subsidiaries	(6 561)	(526)	
Cash flow hedges	(13 234)	(6 580)	
Change in fair value of effective portion	(17 892)	(9 139)	
Deferred tax on movement of effective portion	4 658	2 559	
<b>Other comprehensive loss for the year, net of tax</b>	<b>(16 559)</b>	(7 106)	
<b>Total comprehensive income for the year</b>	<b>1 261 083</b>	1 086 766	
Earnings per share (cents)	540.2	460.5	17.3
Diluted earnings per share (cents)	505.7	436.7	15.8

## HEADLINE EARNINGS RECONCILIATION

R'000	Year to 31 August 2017	Year to 31 August 2016	% change
Total profit for the year	1 277 642	1 093 872	
Adjusted for:			
Loss net of tax on disposal of property, plant and equipment	3 506	4 599	
Gain on consolidation of the New Clicks Foundation Trust	(12 596)	–	
<b>Headline earnings</b>	<b>1 268 552</b>	1 098 471	15.5
Headline earnings per share (cents)	536.3	462.4	16.0
Diluted headline earnings per share (cents)	502.1	438.5	14.5

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	As at 31 August 2017	As at 31 August 2016
<b>Non-current assets</b>	<b>2 854 281</b>	2 507 207
Property, plant and equipment	1 533 935	1 345 024
Intangible assets	457 603	434 083
Goodwill	103 510	103 510
Deferred tax assets	572 223	347 400
Investment in associate	20 039	20 282
Loans receivable	4 500	9 521
Financial assets at fair value through profit or loss	27 580	16 145
Derivative financial assets	134 891	231 242
<b>Current assets</b>	<b>6 866 834</b>	5 869 689
Inventories	3 753 794	3 478 717
Trade and other receivables	2 212 719	2 012 696
Loans receivable	9 000	8 476
Cash and cash equivalents	700 473	369 800
Derivative financial assets	190 848	–
<b>Total assets</b>	<b>9 721 115</b>	8 376 896
<b>Equity and liabilities</b>		
<b>Total equity</b>	<b>3 300 350</b>	2 452 241
<b>Non-current liabilities</b>	<b>402 257</b>	405 541
Employee benefits	209 231	215 132
Operating lease liability	193 026	190 409
<b>Current liabilities</b>	<b>6 018 508</b>	5 519 114
Trade and other payables	5 475 182	5 148 411
Employee benefits	394 460	241 986
Provisions	6 733	6 939
Income tax payable	132 991	92 476
Derivative financial liabilities	9 142	26 971
Financial liability at fair value through profit or loss	–	2 331
<b>Total equity and liabilities</b>	<b>9 721 115</b>	8 376 896

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Year to 31 August 2017	Year to 31 August 2016
Operating profit before working capital changes	2 040 098	1 846 993
Working capital changes	(5 790)	(19 467)
Net interest paid	(31 090)	(38 831)
Taxation paid	(472 023)	(443 793)
Cash inflow from operating activities before dividends paid	1 531 195	1 344 902
Dividends paid to shareholders	(677 399)	(585 757)
Net cash effects from operating activities	853 796	759 145
Net cash effects from investing activities	(512 368)	(454 765)
Capital expenditure	(517 850)	(432 959)
Other investing activities	5 482	(21 806)
Net cash effects from financing activities	(10 755)	(335 318)
Purchase of treasury shares	–	(290 171)
Acquisition of derivative financial assets	(39 064)	(45 147)
Settlement of derivative financial asset	28 309	–
Net increase/(decrease) in cash and cash equivalents	330 673	(30 938)
Cash and cash equivalents at the beginning of the year	369 800	400 738
Cash and cash equivalents at the end of the year	700 473	369 800

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Year to 31 August 2017	Year to 31 August 2016
Opening balance	2 452 241	2 012 807
Purchase of treasury shares	–	(290 171)
Dividends paid to shareholders	(677 399)	(585 757)
Total comprehensive income for the year	1 261 083	1 086 766
Share-based payment reserve movement	264 425	228 596
<b>Total</b>	<b>3 300 350</b>	<b>2 452 241</b>
Dividend per share (cents)		
Interim paid	88.0	76.0
Final declared/paid	234.0	196.0
	<b>322.0</b>	<b>272.0</b>

## SEGMENTAL ANALYSIS

The group's reportable segments under IFRS 8 are Retail and Distribution.

R'000	Turnover	Profit before taxation	Total assets	Capital expenditure	Total liabilities
<b>Twelve months to 31 August 2017</b>					
Retail	18 893 563	1 484 801	4 368 722	436 715	2 874 057
Distribution	12 320 584	330 177	5 560 144	30 529	4 004 876
Inter-segmental	(4 405 046)	(1 401)	(2 590 380)	–	(2 553 563)
Total reportable segmental balance	26 809 101	1 813 577	7 338 486	467 244	4 325 370
Non-reportable segmental balance	–	(39 305)	2 382 629	50 606	2 095 395
<b>Total group balance</b>	<b>26 809 101</b>	<b>1 774 272</b>	<b>9 721 115</b>	<b>517 850</b>	<b>6 420 765</b>

<b>Twelve months to 31 August 2016</b>					
Retail	16 640 227	1 305 687	3 937 799	323 243	2 605 804
Distribution	11 054 959	276 005	5 177 762	34 286	3 900 597
Inter-segmental	(3 524 307)	(10 056)	(2 425 935)	–	(2 390 519)
Total reportable segmental balance	24 170 879	1 571 636	6 689 626	357 529	4 115 882
Non-reportable segmental balance	–	(56 985)	1 687 270	75 430	1 808 773
<b>Total group balance</b>	<b>24 170 879</b>	<b>1 514 651</b>	<b>8 376 896</b>	<b>432 959</b>	<b>5 924 655</b>

R'000	Year to 31 August 2017	Year to 31 August 2016
<b>Non-reportable segmental profit before taxation consists of:</b>		
Loss on disposal of property, plant and equipment	(4 868)	(6 388)
Financial income	10 501	6 255
Financial expense	(47 838)	(59 106)
Share of profit of an associate	2 900	2 254
	<b>(39 305)</b>	<b>(56 985)</b>

## SUPPLEMENTARY INFORMATION

		As at 31 August 2017	As at 31 August 2016
Number of ordinary shares in issue (gross)	('000)	<b>245 969</b>	246 138
Number of ordinary shares in issue including "A" shares issued in terms of employee share ownership programme (gross)	('000)	<b>275 122</b>	275 291
Number of ordinary shares in issue (net of treasury shares)	('000)	<b>236 526</b>	236 526
Weighted average number of shares in issue (net of treasury shares)	('000)	<b>236 526</b>	237 565
Weighted average diluted number of shares in issue (net of treasury shares)	('000)	<b>252 641</b>	250 501
Number of ordinary shares repurchased	('000)	–	3 360
Net asset value per share	(cents)	<b>1 395</b>	1 037
Net tangible asset value per share	(cents)	<b>1 158</b>	809
Depreciation and amortisation	(R'000)	<b>297 066</b>	264 144
Capital expenditure	(R'000)	<b>517 850</b>	432 959
Capital commitments	(R'000)	<b>680 513</b>	577 400

## ACCOUNTING POLICIES AND NOTES

1.1 These condensed consolidated financial statements for the year ended 31 August 2017 have been prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 – Interim Financial Reporting.

Ernst & Young Inc., the group's independent auditor, has reviewed the preliminary condensed consolidated financial statements contained on pages 2 to 5 of this preliminary report and has expressed an unmodified review conclusion on the preliminary condensed consolidated financial statements. Their review report is available for inspection at the company's registered office together with the preliminary condensed consolidated financial statements identified in the auditor's report. These condensed financial statements have been prepared under the supervision of Mr M Fleming CA (SA), the Chief Financial Officer of the group.

The accounting policies used in the preparation of the financial results for the year ended 31 August 2017 are in terms of IFRS and are consistent with those applied in the Audited Financial Statements for the year ended 31 August 2016.

- 1.2 Related party transactions for the current year are similar to those disclosed in the group's annual financial statements for the year ended 31 August 2016. No other significant related party transactions arose during the current year.
- 1.3 During the period under review the Clicks Group entered into a long-term rental agreement with the Netcare Group. In terms of the agreement Clicks will manage the 37 retail pharmacies in Medicross medical and dental centres and the 44 Netcare hospital front shop operations. This transaction has not resulted in any material impact to either the statement of comprehensive income or the statement of financial position.
- 1.4 No shares were repurchased during the current year. On 1 February 2017 the company cancelled and delisted 168 795 ordinary shares previously held as treasury shares.
- 1.5 The carrying value of all financial instruments approximates fair value. All financial instruments are held at amortised cost, with the exception of derivative instruments, the investment in Guardrisk Insurance Company Limited and investments in equity and other similar instruments which are accounted for at fair value through profit or loss. The fair value of financial instruments that are not traded in active markets are determined by using valuation techniques; if all significant inputs required to fair value an instrument are observable, the instrument is included in level 2 and if the significant inputs required to fair value an instrument are unobservable, the instrument is included in level 3. The derivative instruments comprise equity derivative hedges which are calculated using a Monte Carlo option pricing model with reference to the closing share price, 250-day historical volatility, the 12-month trailing dividend yield and the risk-free rate; and forward exchange contracts which are calculated using standard market calculation conventions with reference to the relevant closing market spot rates, forward foreign exchange rates and interest rates. All financial instruments accounted for at fair value through profit or loss are considered to be level 2 investments, with the exception of investments in equity and other similar instruments which are considered to be level 1 instruments. There have been no transfers between levels 1, 2 and 3 during the year.

The majority of the non-current and current derivative financial assets are to hedge obligations under the cash-settled share compensation scheme.



**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, M Fleming (Chief Financial Officer), NN Gobodo\*, F Jakoet\*, DA Kneale\* (Chief Executive Officer), M Rosen\*

\* Independent non-executive # British

**Company secretary:** M Welz

**Registration number:** 1996/000645/06

**Share code:** CLS **ISIN:** ZAE000134854 **CUSIP:** 18682W205

**Transfer secretaries:** Computershare Investor Services Proprietary Limited  
Rosebank Towers, 15 Biermann Avenue, Rosebank 2196. PO Box 61051, Marshalltown 2107

**Sponsor:** Investec Bank Limited

This information, together with additional detail, is available on the Clicks Group Limited website:

[www.clicksgroup.co.za](http://www.clicksgroup.co.za)