ABOUT CLICKS GROUP

Turnover

R31.4 billion

2018: **R29.2 billion**
2017: **R26.8 billion**

Health and beauty turnover growth

10.5%

2018: **11.7%**
2017: **14.7%**

Headline earnings

R1.7 billion

2018: **R1.5 billion**

Dividends

445 cents per share

2018: **380 cents per share**
2017: **322 cents per share**

Operating profit margin

7.4%

2018: **6.9%**
2017: **6.8%**

Gross profit margin

21.3%

2018: **21.1%**
2017: **21.0%**

Comparable stores turnover growth

6.4%

2018: **5.5%**
2017: **8.0%**


CLICKS
NYX
PROFESSIONAL MAKEUP
You Pay LESS
BEAUTY fair
now on
beauty
REVLON
THE BODY SHOP
Sorbet
STAR
new
No washing

CHIEF EXECUTIVE'S REPORT

It is a pleasure to report to shareholders for the first time following my appointment as chief executive officer of the Clicks Group in January this year.

SUSTAINED GROWTH MOMENTUM

2019 has seen the group sustain its growth momentum of recent years and deliver another highly competitive and resilient performance in challenging trading conditions. We have maintained our focus on the domestic market, executed tight operational disciplines, entrenched the market leadership of Clicks and UPD and continued to invest in our store network, with Clicks opening its 700th store in August 2019.

It has also been a year of record cash generation, sustained capital investment and enhanced returns to shareholders. Our financial performance has been supported by our focus on customer engagement, the investment in our people and our commitment to environmental, social and governance practices.

My predecessor, David Kneale, has left an incredible legacy. David had a distinguished career over 13 years at the helm of the group and made a significant contribution to the growth, development and value creation in the business. On a personal note, I thank David for the mentorship role he has played in my career over several years and for ensuring a seamless transition in group leadership.

"Our core product categories are defensive and we have continued to attract customers by being relevant and offering value."

STRONG AND RESILIENT PERFORMANCE

In an environment of low economic growth and intense pressure on consumer spending, both the retail and distribution businesses reported strong growth. While our business is certainly not immune to the economic slowdown, our core product categories are defensive and we have continued to attract customers by being relevant and offering value.

Retail health and beauty sales, including Clicks and the franchise brands of The Body Shop, GNC and Claire's, increased by 10.5%. Sales in comparable stores increased by 6.9% and showed strong volume growth of 5.8%, with inflation of only 1.1% for the year. Clicks was voted by customers as the number one health and beauty store and pharmaceutical outlet in the Sunday Times/Sowetan Shopper Survey for 2019.

We continued to focus on our positioning as a value retailer by offering customers competitive everyday pricing and appealing promotions.

Value is increasingly relevant to consumers in the tough economic climate and Clicks remains price competitive with all major national competitors. Customers are also spending an increasing proportion of their purchases on promotions, evidenced by the 19.5% increase in promotional sales which now account for 38.4% of turnover in Clicks.

"One in four medicines sold in South Africa today is from a Clicks pharmacy."

Robust sales growth, together with the expansion of the store and pharmacy footprint, enabled Clicks to gain market share across all merchandise categories. Front shop health market share increased to 31.4% and retail pharmacy market share to 24.9%, with one in four medicines sold in South Africa today being from a Clicks pharmacy. Market share of the baby category rose to 17.0%. In the beauty category, skincare market share grew to 37.6% and haircare to 29.5%.

UPD also performed well, growing its operating margin by 60 basis points by gaining new bulk distribution clients. The business increased its wholesale turnover by 6.8% and grew its market share to 27.0% at August 2019.

Total group turnover for the year increased by 7.2% to R31.4 billion. The financial performance is detailed in the chief financial officer's report on pages 20 to 25.

DELIVERING ON OUR STRATEGY

The group's strategy has been consistently applied over the past year and the directors believe the strategy remains relevant and appropriate in the current retail environment. The strategy is supported by favourable market dynamics for health and beauty which should ensure sustained organic growth. Refer to the group strategy on page 14 and value-creating business model on page 17 of the integrated annual report on the group's website.

The retail component of the strategy is focused on the three pillars of convenience, differentiation and personalisation, with encouraging progress being made on delivering on these strategic areas over the past year.

Clicks opened 41 new stores, for the second successive year, and expanded the chain to 704 stores, with 37 outside of South Africa. The store opening programme was accelerated in 2019 beyond the targeted 25 to 30 stores owing to opportunities for new space becoming available in existing shopping centres.

Our online store extends customer convenience and is currently the fastest-growing Clicks store. While the contribution to overall sales is low and equates to the turnover of a medium-sized store, online is expected to grow into the largest Clicks store in the medium term as online retail penetration grows in South Africa.

Clicks is the country's largest retail pharmacy chain and expanded the network to 545 with the opening of 35 pharmacies during the year. There are currently 76 Clicks stores still to get a pharmacy, which excludes stores where we do not plan to open a pharmacy, mostly non-South African stores, the Netcare hospitals and stores identified to be closed.

Currently 51% of the population live within five kilometres of a Clicks store and within six kilometres of a Clicks pharmacy, highlighting the convenience of the chain and our progress in making healthcare even more accessible to South Africans.

We remain committed to our goal of 900 Clicks stores in South Africa, with a pharmacy in every store.

Private label, exclusive and international franchise brands ensure Clicks provides differentiated products and offers customers a significant alternative to a branded product. Sales of private label and exclusive products grew by 15.6% and accounted for 21.7% of total sales in Clicks, with front shop sales at 29.1% and pharmacy at 7.1%. Our goal is to increase the contribution to 25% of total sales.

"Currently 51% of the population live within five kilometres of a Clicks store."

ClubCard increased its active membership to 8.1 million and accounted for 77.6% of sales in Clicks. Over R500 million was paid out to ClubCard members in cashback rewards. The Clicks mobile app is a virtual ClubCard and presents a strategic opportunity to personalise communication and influence customer behaviour by leveraging digital engagement.

UPD provides an efficient healthcare supply chain for Clicks which accounts for 55% of UPD's wholesale turnover. UPD has continued to reap the benefits of its strategy, which includes operating a bulk distribution business in tandem with its fine wholesaling business, with UPD's total managed turnover increasing by 17.6% to R21.1 billion. In the past year UPD gained four new distribution contracts and increased its portfolio of bulk distribution clients to 30. Clicks and the private hospital groups account for 83% of UPD's wholesale turnover, supporting the long-term sustainability of the business.

Our extensive store network and integrated supply chain provide competitive advantages which we aim to maintain by continued investment of over R2 billion over the next three years.

INVESTING IN OUR PEOPLE

One of the highlights of the year was the vesting of the final 50% of the group's employee share ownership programme (ESOP) with the payout of R1.5 billion to almost 7 800 beneficiaries. This brought the cumulative ESOP payout over the past two years to R2.8 billion, an average of R355 000 per employee. Beneficiaries also received dividends totalling R39 million over the course of the programme.

Launched in 2011, the ESOP successfully delivered on its objectives of attracting and retaining scarce and specialist skills, accelerating transformation and enabling employees to share in the growth of the business through equity ownership.

> ***"R2.8 billion was paid out to beneficiaries of the employee share ownership programme."***

In addition to the wealth created for employees, R100 million was donated from the ESOP Trust to the New Clicks Foundation to fund 100 bursaries annually for talented, previously disadvantaged South Africans.

In January 2019 the group introduced 100% company-funded primary health insurance to over 9 000 employees who were not covered by a medical aid. The annual cost of the scheme is approximately R31 million.

These initiatives have contributed to Clicks Group again being recognised as the top employer in the retail sector in South Africa by the Top Employers Institute.

Refer to the creating value through good citizenship report on pages 62 to 67 for further detail on our investment in our people.

> ***"Clicks Group was again recognised as the top employer in the retail sector in South Africa."***

NATIONAL HEALTH INSURANCE

We have long held the view that pharmacy can play a leading role in delivering government's healthcare agenda of increasing access to affordable healthcare. Retail pharmacy provides a convenient network for state patients to collect chronic medicines and relieve the pressure on overburdened and underresourced state facilities. Clicks has partnered with the Department of Health and over 420 of our pharmacies are registered as collection points for state chronic medicine parcels.

The publication of the National Health Insurance (NHI) Bill in August this year outlined the framework for ensuring that all South Africans will have access to quality health services by 2026.

We welcome the concept of universal health coverage but also recognise the long legislative and regulatory road that lies ahead. It is therefore too early to determine the potential impact of NHI on our business or the opportunity it presents.

As Clicks is the largest retail pharmacy chain and UPD the largest pharmaceutical wholesaler, the group is well positioned to support the NHI system and potentially service 58 million South Africans compared to the current 8.9 million covered by private health insurance.

OUTLOOK

While the consumer spending environment will continue to be constrained in the year ahead, the group has adapted well to trading in this protracted economic downturn and the group is confident of sustaining volume growth in the year ahead.

The business operates in defensive and growing health and beauty markets where the strategy and business model have proven to be resilient, ensuring that the group's market-leading brands are well positioned to increase market share.

Selling price inflation is expected to remain low in the first half of the 2020 financial year and the group anticipates that the annual increase in the single exit price (SEP) of medicines will be marginally higher than the current year.

Capital investment of R718 million is planned for the new financial year, focused on the store and pharmacy network, IT as well as retail and distribution infrastructure to support the increased scale of the business.

APPRECIATION

Thank you to our chairman, David Nurek, for his support and to our non-executive directors for their independent insight and guidance. I also extend my gratitude to the board for the confidence they have shown in me to lead the group.

My fellow executive directors Michael Fleming and Bertina Engelbrecht, together with the executive committees in Clicks and UPD, have again demonstrated outstanding leadership in ensuring the continued success of the business.

Our people at head office, stores and distribution centres ensure that we remain the country's leading health and beauty retailer and I thank them for their contribution in delivering results of which we can be truly proud.

Vikesh Ramsunder
Chief executive officer

CHIEF FINANCIAL OFFICER'S REPORT

In an environment of muted economic growth and low selling price inflation, Clicks Group delivered another year of strong growth with good margin management, tight expense control, efficient operating leverage, sound working capital management and enhanced returns to shareholders.

The group is highly cash generative, with cash from operations increasing by R480 million over the previous year to R2.9 billion. We have continued to support our organic growth strategy with ongoing investment in new stores, refurbishments, supply chain and information systems, and returned R1.2 billion to shareholders in dividends and share buy-backs.

The competitive trading performance, together with prudent capital management, contributed to growth of 16.8% in diluted headline earnings per share to 672 cents.

The board declared a total dividend of 445 cents per share, 17.1% higher than last year, with the dividend payout ratio being raised from 62% to 65%.

"The group has a strong balance sheet and the results reflect the resilience of the group's brands."

FINANCIAL PERFORMANCE

The analysis of the group's financial performance for the year ended 31 August 2019 focuses on the key line items of the statements of comprehensive income and financial position which management consider material to shareholders' understanding of the group's performance.

The following review should be read together with the annual financial statements as well as the summary statements of comprehensive income and financial position, and the five-year analysis of financial performance on pages 22 and 25 respectively.

The group adopted IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers for the 2019 financial year. The financial results for the year ended 31 August 2018 have been restated following the adoption of these new accounting standards.

STATEMENT OF COMPREHENSIVE INCOME

Turnover

Group turnover increased by 7.2% to R31.4 billion (2018: R29.2 billion). Selling price inflation for the group averaged only 1.2% for the year.

Turnover was again relatively consistent across the first half (49% of turnover) and second half (51% of turnover) of the year. There is usually minimal seasonal effect on the group's turnover as the Christmas trading period in the first half of the financial year is counter-balanced by the winter season, which is the peak trading period for the health and wellness business.

Retail turnover, including Clicks, The Body Shop, GNC, Claire's and Musica, increased by 9.7%. Retail selling price inflation has remained low during the year at only 1.5%, up 10 basis points on the previous year. Comparable stores sales grew by 6.4%.

Within the retail division, health and beauty sales increased by 10.5% reflecting the resilience of the core Clicks brand in the current constrained trading environment.

Growth in retail trading space accounted for 3.3% of the turnover growth with the net opening of 42 health and beauty stores and 35 pharmacies.

Distribution turnover grew by 4.0%, with price inflation of 0.9%, as the business experienced a slightly slower second half due to customers buying in stock ahead of the single exit price (SEP) increase in the first half of the year.

The trading performances of Clicks and UPD are covered in the business review on pages 42 to 55 of the integrated annual report on the group's website.

Total income

Total income grew by 9.7% to R8.7 billion (2018: R7.9 billion) with the total income margin expanding by 60 basis points to 27.6%.

The retail total income margin was impacted by increased transport costs and product mix and reduced by 30 basis points to 33.3%.

UPD's total income margin increased from 7.3% in 2018 to 8.2% in 2019. The business benefited mainly from gaining seven new bulk distribution contracts over the past 18 months as well as the slightly higher SEP increase of 3.78% granted in March 2019 compared to 1.26% in March 2018.

Operating expenditure

The group's operating expenses increased by 8.1%.

Retail operating expenditure as a percentage of turnover improved to 25.1% from 25.5% in the prior year.

Retail expenses grew by 8.1% following the opening of new stores and pharmacies, and the refurbishment of 56 stores. Comparable retail costs were contained to an increase of 5.6%.

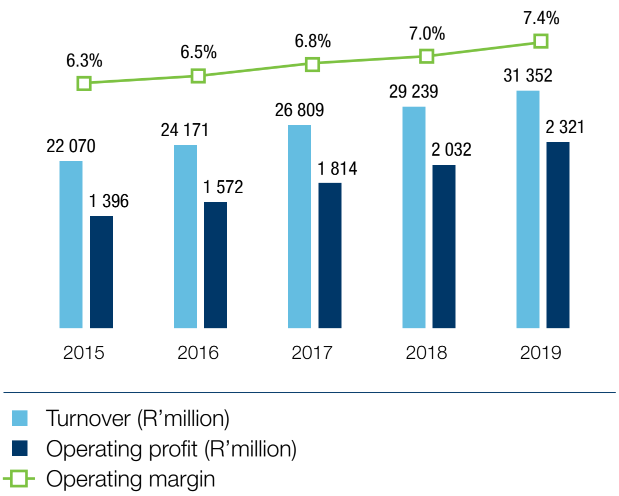
UPD expenses, which include the costs related to the new distribution contracts, grew by 10.2%, well below the 17.6% growth in total managed turnover.

Operating profit

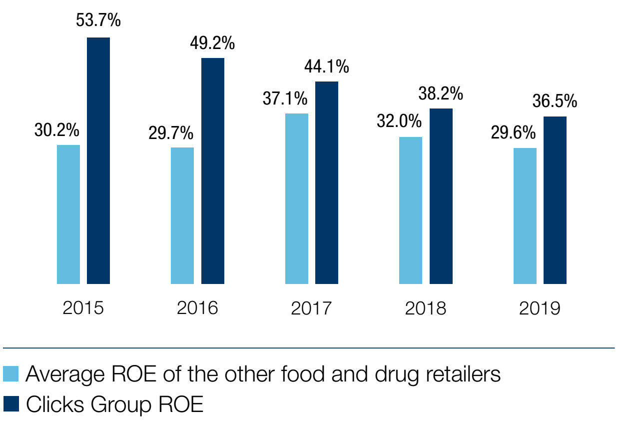
Operating profit increased by 14.2% to R2.3 billion (2018: R2.0 billion) as both the retail and distribution businesses achieved operating leverage and benefited from increased scale.

The operating margin strengthened by 40 basis points to 7.4% which is at the upper end of the group's medium-term target range.

Turnover, operating profit and margin



Return on equity (ROE)



SUMMARY STATEMENT OF COMPREHENSIVE INCOME

R'million	2019	% of turnover	Restated* 2018	% of turnover	% change
Turnover	**31 352**		29 239		7.2
Retail	**23 105**	**73.7**	21 062	72.0	9.7
Distribution	**13 909**	**26.3**	13 376	28.0	4.0
Intragroup	**(5 662)**		(5 199)		
Total income	**8 650**	**27.6**	7 885	27.0	9.7
Operating expenses	**(6 329)**	**20.2**	(5 853)	20.0	8.1
Retail	**(5 810)**		(5 375)		8.1
Distribution	**(682)**		(619)		10.2
Intragroup	**163**		141		
Operating profit	**2 321**	**7.4**	2 032	6.9	14.2
Retail	**1 881**	**8.1**	1 695	8.0	11.0
Distribution	**454**	**3.3**	362	2.7	25.4
Intragroup	**(14)**		(25)		
Loss on disposal of property, plant and equipment	**–**		(1)		
Net financing income	**40**		2		>100
Share of profit of an associate	**3**		2		
Income tax	**(661)**		(567)		16.4
Profit for the year	**1 703**		1 468		16.0

SUMMARY STATEMENT OF FINANCIAL POSITION

R'million	2019	Restated* 2018	% change
Non-current assets	**2 952**	3 234	(8.7)
Property, plant and equipment	**2 067**	1 843	12.1
Other non-current assets	**885**	1 391	(36.4)
Current assets	**10 103**	8 355	20.9
Inventories	**4 710**	4 251	10.8
Trade and other receivables	**2 647**	2 332	13.5
Other current assets	**2 746**	1 772	54.9
Total assets	**13 055**	11 589	12.6
Equity	**4 913**	4 424	11.0
Non-current liabilities	**392**	448	(12.4)
Current liabilities	**7 750**	6 717	15.4
Trade and other payables	**7 303**	6 227	17.3
Other current liabilities	**447**	490	(8.9)
Total equity and liabilities	**13 055**	11 589	12.6

* Prior-period amounts restated for the adoption of new accounting standards. Refer to note 35 in the annual financial statements.

STATEMENT OF FINANCIAL POSITION

The ratio of shareholders' interest to total assets declined marginally to 37.6% (2018: 38.2%) and the group largely maintained an ungeared balance sheet during the year.

The ratio of current assets to current liabilities at year-end was 1.3 times (2018: 1.2 times), indicating that working capital remains adequately funded. Other current assets include R2.6 billion in cash.

> ***"The group plans to invest more than R2 billion over the next three years."***

The group continues to hedge direct exposures to foreign exchange rate fluctuations which impact approximately between 6% and 7% of the cost of sales in the retail business. In addition, the group hedged elements of the long-term incentive scheme for the 2019 to 2021 period. Further detail on the respective hedges and risk management is contained in note 28 in the annual financial statements on the group's website.

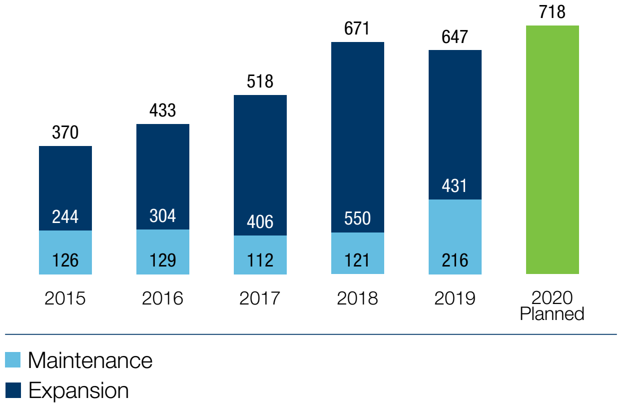
Working capital

Working capital continues to be well managed and the group's net working capital improved from 36 to 34 days. Trade debtor days, which relate primarily to UPD, reduced from 38 to 37 days while creditor days improved from 69 to 73 days.

Inventory days moved out from 67 to 70 days owing to higher inventory levels in retail and distribution. A single-pick retail facility will be commissioned in the Centurion distribution centre in the 2020 financial year which is aimed at improving stock efficiency.

Capital expenditure

R'million



Cash and capital management

Cash generated by operations increased by 19.5% to R2.9 billion, driven by the increase in operating profit and good working capital management.

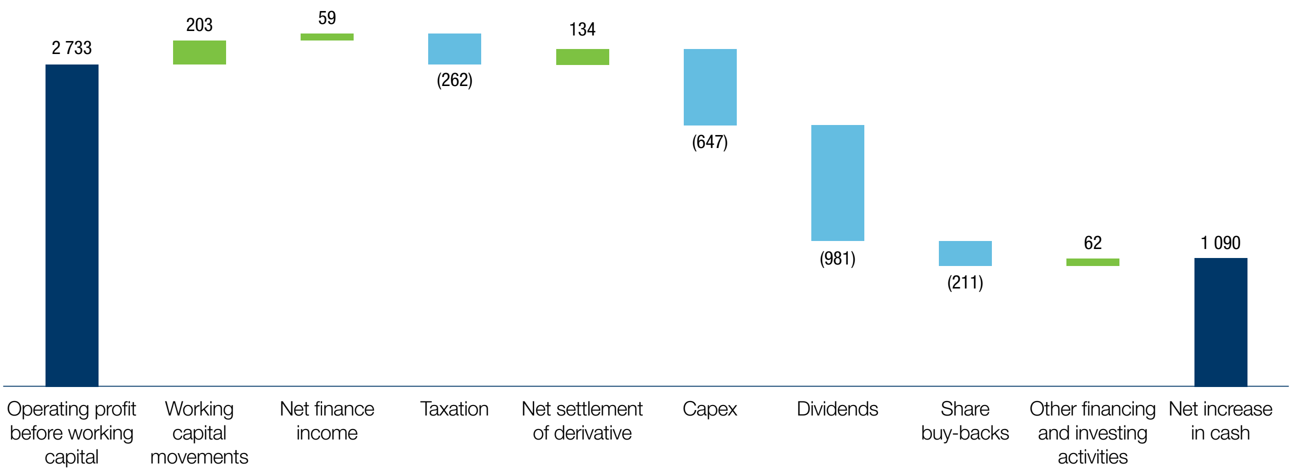
The group's capital management strategy is focused on investing in the organic growth of the business and returning surplus funds to shareholders through dividends and share buy-backs:

- Capital expenditure of R337 million was invested in new stores and refurbishments, R160 million on expanding distribution centres and R150 million on IT and retail infrastructure.
- The group returned R1.2 billion to shareholders through dividend payments and share buy-backs.

Cash resources increased by R1.1 billion over the previous year and the group ended the year with cash of R2.6 billion.

Cash flow analysis

R'million



DIVIDENDS

The total dividend for the financial year was increased by 17.1% to 445 cents per share (2018: 380 cents), based on an increased dividend payout ratio of 65% (2018: 62%) of HEPS. This comprises the interim dividend of 118 cents (2018: 102.5 cents) and a final dividend of 327 cents (2018: 277.5 cents).

INFORMATION TECHNOLOGY

Management aims to ensure IT systems and infrastructure are well maintained and remain relevant to future needs of the business.

During the year the group invested R80 million on computer hardware and R71 million on computer software.

FINANCIAL PLANS FOR 2020

Capital expenditure of R718 million is planned for the 2020 financial year:

- R404 million will be invested in the store portfolio, which includes 25 to 30 new Clicks stores, 30 to 35 new pharmacies and 60 store refurbishments, to ensure stores remain modern and relevant to customers.
- R314 million will be used for IT systems and infrastructure which includes R231 million in retail IT systems and infrastructure and R83 million on UPD IT systems and warehouse equipment.

The group plans to invest approximately R700 million in 2021 and R620 million in 2022 to support the expansion of the Clicks store footprint, improve efficiency in the distribution centres and invest in IT tools and systems.

Total retail trading space is expected to increase by approximately 5% in 2020.

"The group's medium-term financial targets rank in the upper quartile relative to comparable global health and beauty retailers."

ADOPTION OF IFRS 16 – LEASES

The group will adopt IFRS 16 – Leases during the 2020 financial year on a full retrospective basis, with the date of initial application being 1 September 2019.

The group has an extensive portfolio of leases across its retail stores and the new accounting standard will have a material impact on the group's financial statements. The group expects to create a right-of-use asset and lease liability of approximately R2.0 billion and R2.3 billion respectively as at 1 September 2019.

Kindly refer to note 36 in the annual financial statements for detail on the expected impact of IFRS 16.

MEDIUM-TERM FINANCIAL TARGETS

Financial targets are disclosed to provide guidance to shareholders on the group's medium-term performance expectations. The targets are reviewed annually to take account of the group's current performance and the medium-term outlook for trading.

The group's medium-term financial targets have been revised to reflect the impact of the group's adoption of IFRS 16.

Medium-term targets	2019 performance*	Medium-term target
Return on equity (%)	**36.9**	50 – 60
Return on assets (%)	**11.8**	11 – 15
Net working capital days	**34**	30 – 35
Group operating margin (%)	**8.0**	7.5 – 8.5
Retail	**8.9**	8.5 – 9.5
Distribution	**3.3**	2.5 – 3.0
Dividend payout ratio (%)	**65.9**	60 – 65

* Restated comparative for the adoption of IFRS 16 in the 2020 financial year

The return on equity (ROE) at 36.9% is below the targeted performance range owing to the impact in the short term of the group's broad-based employee share ownership scheme. The scheme matured in 2019 and the ROE is expected to improve in the medium term.

While the distribution operating margin increased to 3.3% in 2019, management has maintained the medium-term target as distribution clients are contracted and the total UPD business, including wholesale and bulk distribution, is expected to deliver a sustainable operating margin of between 2.5% – 3.0%.

The group's medium-term financial targets rank in the upper quartile relative to comparable global health and beauty retailers such as Walgreens Boots Alliance (USA), CVS (USA), Raia Drogasil (Brazil) and Celesio (Germany).

APPRECIATION

Thank you to our shareholders for their continued investment in the group over the past year and to the broader investor community locally and internationally for their interest and engagement. The finance teams across the business are committed to delivering a high standard of financial reporting and I thank them for a job well done.

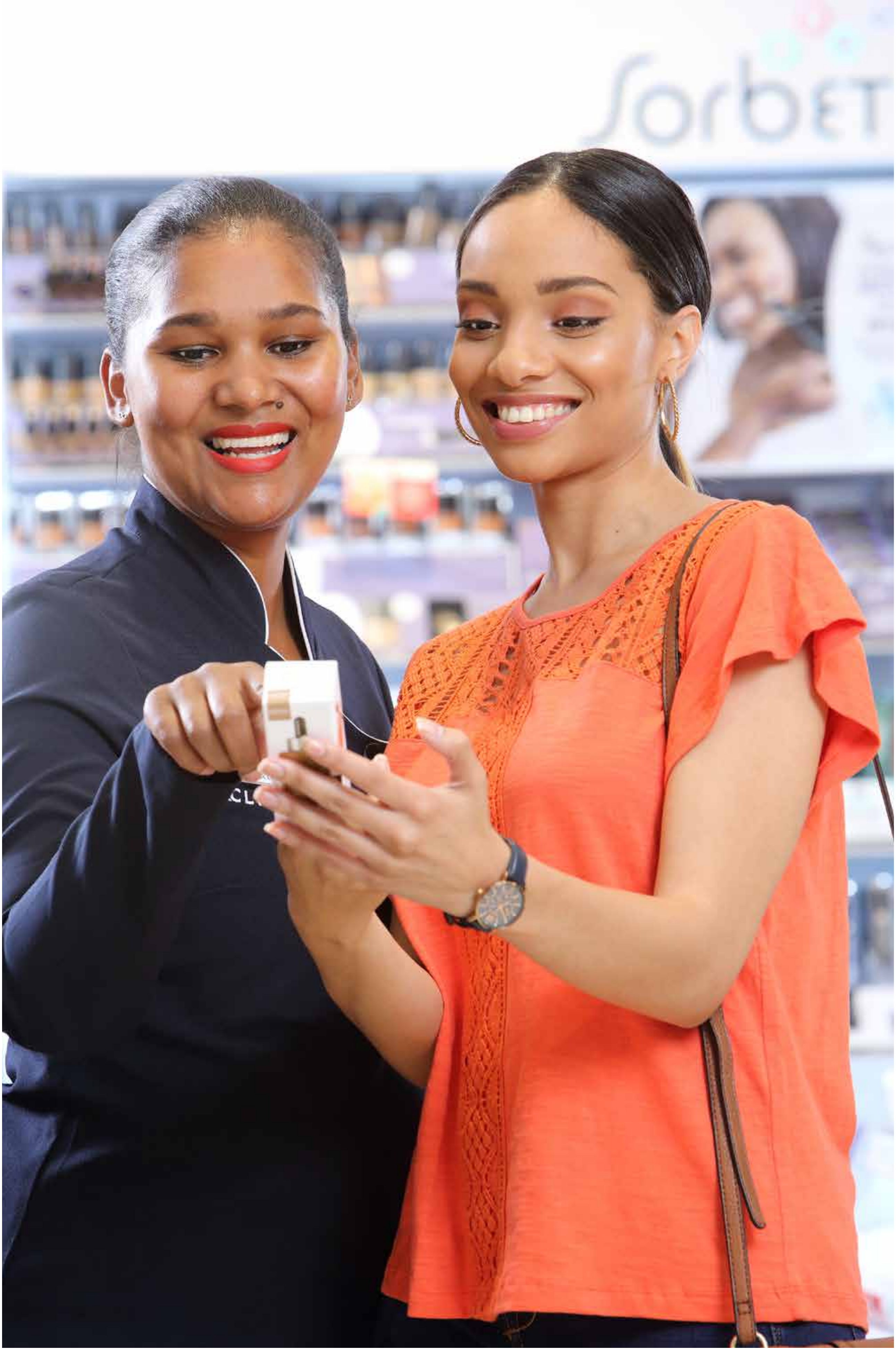
Michael Fleming
Chief financial officer

FIVE-YEAR PERFORMANCE REVIEW

FOR THE YEAR ENDED 31 AUGUST

		5-year compound growth (%)	2019	2018	2017	2016	2015
Statements of comprehensive income							
Turnover	(Rm)	10.4%	**31 352**	29 239	26 809	24 171	22 070
Operating expenses	(Rm)	9.9%	**(6 329)**	(5 853)	(5 333)	(4 796)	(4 339)
Operating profit	(Rm)	13.8%	**2 321**	2 032	1 814	1 572	1 396
Profit before tax	(Rm)	14.4%	**2 364**	2 036	1 775	1 515	1 330
Headline earnings	(Rm)	15.3%	**1 704**	1 469	1 269	1 099	960
Statements of financial position							
Non-current assets	(Rm)	10.7%	**2 951**	3 234	2 857	2 507	2 009
Trade and other receivables	(Rm)	10.5%	**2 647**	2 331	2 212	2 013	1 871
Inventories	(Rm)	12.5%	**4 710**	4 251	3 777	3 479	3 250
Other current assets	(Rm)	102.8%	**133**	249	200	8	25
Cash and cash equivalents	(Rm)	68.1%	**2 614**	1 524	700	370	401
Total assets	(Rm)	16.1%	**13 055**	11 589	9 746	8 377	7 556
Total equity	(Rm)	25.7%	**4 913**	4 424	3 296	2 452	2 013
Non-current liabilities	(Rm)	6.5%	**392**	447	402	406	308
Current liabilities	(Rm)	12.3%	**7 750**	6 718	6 048	5 519	5 235
Total equity and liabilities	(Rm)	16.1%	**13 055**	11 589	9 746	8 377	7 556
Statements of cash flows							
Cash inflow from operating activities before dividends paid	(Rm)	14.4%	**2 866**	2 313	1 520	1 300	1 242
Dividends paid	(Rm)	18.0%	**981**	812	677	586	491
Capital expenditure	(Rm)	13.9%	**647**	671	518	433	370
Returns and margin performance		5-year average					
Total income margin	(%)	26.7	**27.6**	27.0	26.7	26.3	26.0
Operating margin	(%)	6.8	**7.4**	7.0	6.8	6.5	6.3
Return on assets	(%)	13.9	**13.8**	13.8	14.0	13.8	14.0
Return on shareholders’ interest	(%)	44.3	**36.5**	38.0	44.1	49.2	53.7
Inventory days		67	**70**	67	65	66	68
Asset turnover	(times)	2.7	**2.4**	2.5	2.8	2.9	2.9
Return on net assets	(%)	97.7	**97.6**	102.2	98.6	93.5	96.7
Shareholders’ interest to total assets	(%)	33.1	**37.6**	38.2	34.0	29.3	26.6
Share performance		5-year compound growth (%)					
Headline earnings per share – basic	(cents per share)	14.9%	**683.9**	609.5	536.3	462.4	399.2
Headline earnings per share – diluted	(cents per share)	14.8%	**672.2**	575.3	502.1	438.5	383.9
Cash equivalent earnings	(cents per share)	18.6%	**1 017.9**	858.1	630.0	576.5	527.2
Net asset value	(cents per share)	24.7%	**1 953**	1 809	1 395	1 037	839
Dividends declared	(cents per share)	18.6%	**445.0**	380.0	322.0	272.0	235.0
Weighted average number of shares in issue (net of treasury shares)	(’000)		**249 125**	241 073	236 526	237 565	240 603
Weighted average diluted number of shares in issue (net of treasury shares)	(’000)		**253 471**	255 385	252 641	250 501	250 204
Shares repurchased	(Rm)		**211**	–	–	290	176
Shares repurchased	(’000)		**1 115**	–	–	3 360	2 376

A comprehensive five-year review and the annual financial statements are available on the website at www.clicksgroup.co.za.


Sorbet

MANAGING MATERIAL ISSUES

MATERIAL ISSUES have been identified which could significantly impact positively or negatively on the group's ability to create and sustain value.

1. TRADING ENVIRONMENT
2. COMPETITION
3. REGULATION
4. PEOPLE
5. INFORMATION TECHNOLOGY

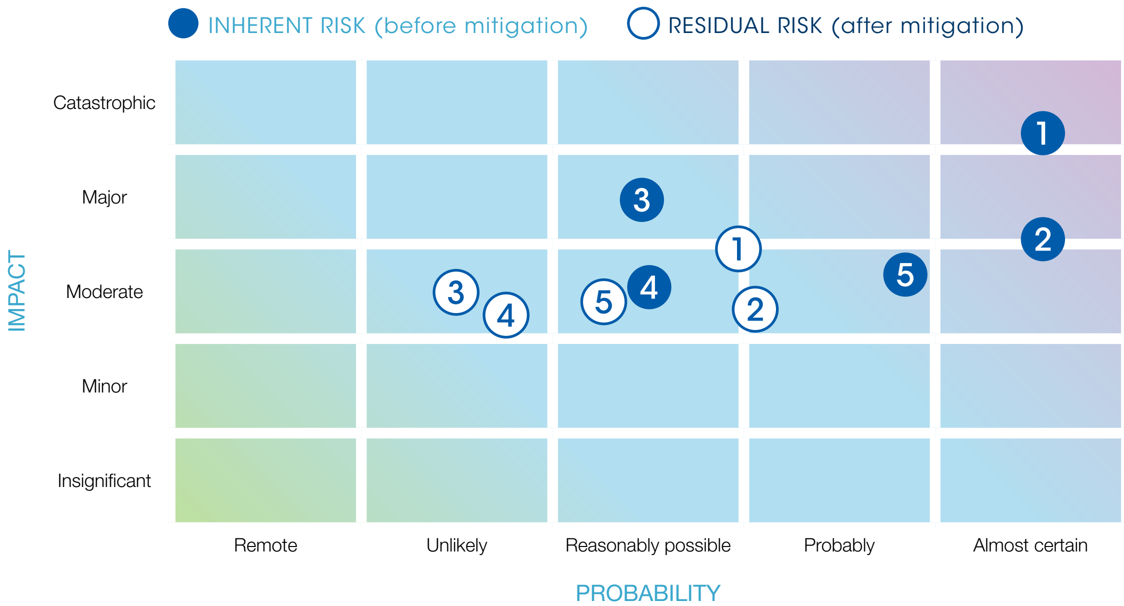
The material issues are reviewed annually by the board and management where all relevant internal, industry and macroeconomic factors are evaluated. The needs, expectations and concerns of the stakeholder groups that are most likely to influence the group's ability to create sustainable value, notably customers, suppliers, regulators, staff, shareholders and providers of financial capital are central to determining the material issues.

Following the review for the 2020 financial year, the directors confirm that the current material issues remain relevant and are unchanged from the previous year.

RISKS relating to each material issue are based on the major risks on the group's register. The accompanying risk heat map indicates the levels of risk before (inherent risk) and after (residual risk) mitigation plans have been implemented.

OPPORTUNITIES are presented for each material issue to indicate how the group is using its competitive advantage to manage the impacts of the material issues on value creation.

MATERIAL RISKS



Trading environment

Low economic growth, poor economic conditions and the resultant weak consumer sentiment are impacting South Africa's already constrained retail trading environment. Consumer disposable income has been further eroded by rising fuel and utility prices, higher health insurance costs and increasing general living costs.

RISKS

- Economic environment remains challenging which is constraining consumer spending.
- Criminal activity, including syndicated crime, escalates during times of economic hardship.
- Currency volatility could impact on the cost of direct and indirect imports, and results in price increases which cannot be passed on to consumers.
- Increasing use of generic medicines and the added pressure of low single exit price (SEP) increases will continue to impact on UPD's operating margin.

OPPORTUNITIES

- Clicks will continue to pursue a strategy to improve price competitiveness, grow sales volumes and entrench the perception of Clicks as a value retailer.
- Focus on differentiators, including a convenient store and pharmacy network; private label and exclusive ranges; personalised engagement, leveraging the Clicks ClubCard loyalty programme and consistently high levels of customer care.
- UPD will continue to drive efficiencies to mitigate the impact of genericisation on the operating margin.

Competition

Clicks faces competition on several fronts, including national food retailers and general merchandise chains, and other pharmacy businesses.

RISKS

- Expansion by corporate pharmacy and retail chains impacting on market share growth in Clicks
- Increasing price competitiveness and promotional activity of retailers, including competing loyalty schemes, could negatively affect sales and profitability in Clicks.

OPPORTUNITIES

- Clicks has an extensive store network and plans to open 25 to 30 new stores each year, expanding to 900 stores in South Africa in the long term.
- Continued expansion of the pharmacy network with the long-term plan to open pharmacies in all Clicks stores in South Africa.
- Continued recruitment of new members to the Clicks ClubCard.
- Ongoing improvements in pricing, product offer and customer service.

People

Retail and healthcare skills are scarce and in high demand locally and internationally. Attracting and retaining talent is therefore critical to the group's continued success. As the largest employer of pharmacy staff in the private sector in South Africa the group is actively building capacity to address the critical shortage of pharmacists.

RISKS

- Inability to recruit, attract and retain talent for core business needs, including merchandise and planning, store management, information technology and pharmacy.
- Strike action causing disruption to operations, damage to property and financial loss.

OPPORTUNITIES

- Salaries and incentives are externally benchmarked to ensure the group remains competitive.
- Bursary and internship programmes to attract pharmacy graduates.
- Retail graduate programme offered.
- Accredited training programmes for store management, key store roles, and merchandise and planning roles.
- Senior leadership development programme strengthens pool of management talent and provides candidates for succession planning.
- Group resourcing function established, including specialist pharmacy team.

Regulation

Healthcare markets are highly regulated across the world and approximately 50% of the group's turnover is in regulated pharmaceutical products. The group supports regulation that advances the government's healthcare agenda of making medicines more affordable and more accessible but opposes regulation which inhibits access to affordable healthcare and limits customer choice.

RISKS

- Healthcare legislative and regulatory changes introduced by the Department of Health (DoH), SA Pharmacy Council (SAPC) and SA Health Products Regulatory Authority (SAHPRA) could impact on Clicks' and UPD's turnover and margins.
- Impacts include the ability to obtain pharmacy licences and to launch private label and exclusive scheduled and complementary medicines.
- Introduction of National Health Insurance (NHI) would impact on the private and public healthcare markets.
- Non-compliance with current and emerging legislation including the Companies Act, Consumer Protection Act, Protection of Personal Information Act, labour law and copyright legislation could result in monetary sanctions.

OPPORTUNITIES

- Ensure Clicks and UPD are operating efficiently to maintain margins and profitability.
- Continue management engagement with the DoH, SAPC and SAHPRA on legislation and regulation.
- As the market leaders in retail pharmacy and pharmaceutical wholesaling, position Clicks and UPD to benefit from market consolidation arising from changes in legislation and regulation.
- Partner with government to be a preferred service provider to the NHI scheme.

Information technology

Real-time, uninterrupted IT systems are essential in today's technology-driven business environment while robust IT security and governance processes are required to limit breaches of customer privacy and loss of data to avoid legal liability and reputational damage.

RISKS

- Confidential customer or sensitive internal data compromised as a result of undetected data security breach or cyberattack.
- IT systems and architecture no longer appropriate in an environment of ever-increasing scale and requirement for real-time information.
- Inability to restore business operations and IT systems, including UPD automated picking system, in the event of a disaster.
- Power outages impacting the ability to trade and resulting in loss of sales.

OPPORTUNITIES

- Improved information security practices and compliance as a result of increased online presence.
- Planned implementation roadmap for new IT systems with improved system efficiencies and cost savings that support the organic growth strategy.