Business REVIEW


CLICKS Stay Safe, Stay Strong
CLICKS

CHAIRMAN'S Report

The year was marked by a series of **unprecedented challenges** which severely tested the group's resolve and capability.

During the course of the year, the group experienced protest action in the aftermath of the social media haircare advertisement incident; continued levels of Covid-19 restrictions imposed by government for lengthy periods; and the civil unrest in KwaZulu-Natal and parts of Gauteng. Against this background, it is pleasing to report that the resilience of the business and the competence of the executive team again came to the fore to ensure a highly competitive financial and operating performance for the year.

Group turnover increased by 10.2%, diluted headline earnings per share (HEPS), adjusted for the impact of the civil unrest, grew by 8.8% and a dividend of 490 cents per share was declared to shareholders.

The market capitalisation on the JSE increased by R17.1 billion to R74.3 billion, ensuring our continued inclusion in the FTSE/JSE Top 40 Index.

The performance should also be seen in the context of the group's sustained shareholder value creation over the past decade. Excellent growth rates have translated into strong cash returns which have not only been reinvested in the business but have allowed the board to progressively increase the dividend payout ratio from 50% in 2011 to the current targeted payout ratio of 60% to 65%.

Over this time the group has generated a compound annual total shareholder return of 24.5% per annum with diluted HEPS growing by a compound rate of 12.0% and the dividend per share by 14.6% per annum.

Supporting this growth is the group's commitment to reinvesting in the business, with capital expenditure of R4.8 billion over the past 10 years and over R9.7 billion being returned to shareholders in dividends and share buy-backs, underpinning the quality of the Clicks Group share.

APPOINTMENT OF NEW CEO

Our CEO, Vikesh Ramsunder, has resigned from the group with effect from 31 December 2021 to take up a career opportunity as the head of a listed healthcare company in Australia.

Over the past three years Vikesh has led the business through a number of challenges including, in particular, those outlined above. Under his leadership Clicks and UPD have entrenched their market-leading positions, the group has expanded its retail store presence to over 800 stores and 600 pharmacies, and is recognised as the most transformed and empowered retailer in the country. The group's share price has increased by 60% over this period, despite markets being severely impacted by Covid-19.

Over many years, the group has built a strong executive leadership team and we are confident in their ability to maintain the current momentum in the business. We are sorry to say goodbye to Vikesh and wish him and his family well. He will continue to act as a strategic adviser to the group until 31 August 2022.

Flowing from our succession planning process, we were pleased to appoint an internal successor in Bertina Engelbrecht as our new CEO from 1 January 2022. Bertina is our group corporate affairs director and will be the first black female to lead a listed retail group in South Africa. She has been part of the executive leadership team for the past 15 years and been integrally involved in the development of the group's strategy and growth of the business over this time. Bertina has served on the board as an executive director since 2008.

The group is on a sustained growth trajectory thanks largely to the quality of our highly experienced executive team and we extend our congratulations to Bertina as she prepares to assume her new role in January next year.

GOVERNANCE AND BOARD SUCCESSION

Governance is a crucial constituent of the group's overarching environmental, social and governance (ESG) framework that contributes to sustainability and long-term value creation. Our governance practices continue to be reviewed and enhanced on a regular basis.

Historically, the board has conducted a self-evaluation of its effectiveness. In the past year an independent assessment of board effectiveness was conducted by Deloitte. This evaluation rated the board, its committees, the chairman and each of the directors as being highly effective. All suggestions for improvement have been implemented.

This year, the board pursued its succession plan by appointing a new director, Dr Penny Moumakwa, as an independent non-executive director, in April. Penny is a medical doctor with extensive senior executive experience in both the private and public sectors and her healthcare experience is proving highly relevant to our board.

In September, after the end of the reporting period, we appointed Sango Ntsaluba as an independent non-executive director. Sango is a highly accomplished businessman with over 30 years' experience in the auditing profession and in corporate leadership positions and is a seasoned non-executive director.

Both Penny and Sango will be proposed for election at the annual general meeting to be held in January 2022 and Sango will also be recommended for election to the audit and risk committee.

In implementing the succession plan, the board has also addressed the issue of long-tenured directors. While we consider that the group has derived substantial benefits from having a stable board of directors with deep knowledge of the group's affairs (which has been particularly relevant during the challenges of the past year), we are also cognisant of the benefits of bringing new skills and inputs into our board deliberations, hence the new appointments we have made in the recent past.

We have determined that all directors who have served at least three terms of three years each will retire when their current term comes to an end unless the board otherwise determines. This policy will result in the long-tenured board members retiring over a three-year period, allowing the group to continue to derive the benefit of a stable and knowledgeable core of directors whilst the new directors are integrated into our processes.

Fatima Daniels, who has served as a non-executive director for 13 years, will retire from the board in January 2022. Fatima has made an outstanding contribution to both the board and the audit and risk committee and we will miss her robust debate, rigorous oversight and extensive board experience.

While I have served as a non-executive director for many years, the remaining members of the board believe that it will be in the best interests of the group that I stand for an additional period to provide stability to the board during this transitional phase and to support the new CEO. I have therefore accepted the board's nomination for re-election as a director and, if elected by shareholders, will serve as much of my three-year term as required to identify a suitable candidate to assume the leadership of the board.

BOARD DIVERSITY POLICY

The group has adopted a policy to ensure diversity on the board, specifically relating to race and gender but also in respect of broader diversity attributes such as skills, qualifications and experience, age and culture. The appointments of Penny Moumakwa and Sango Ntsaluba were both made in line with this policy.

The board exceeds its voluntary targets in respect of race and gender representation, with 64% black (target 50%) and 36% women representation (target 25%).

We believe that the diversity of our directors ensures that the board considers the needs of all our stakeholders and interest groups.

ACKNOWLEDGEMENTS

Thank you to our CEO and the group executive committee for their leadership of the business during a particularly challenging and disrupted trading year. Our 15 900 employees at head office, stores and distribution centres across the country continued to show how teamwork, discipline and passion for our customers enabled the group to deliver another strong financial and operational performance.

The collective insight and wisdom of my fellow non-executive directors proved invaluable during these uncertain times and I thank them for their continuing support.

Thank you to our external stakeholders, including our customers, shareholders, suppliers and regulators, for their continued support and engagement.

David Nurek
Independent non-executive chairman

Message from the LEADERSHIP – EXECUTIVE REPORT

The Covid-19 pandemic has elevated the **strategic importance of the environmental, social and governance (ESG) agenda for all stakeholders**, including our local and international shareholders. It is also encouraging that the pandemic has reinforced the commitment of corporates globally to focus on long-term sustainability at the expense of shorter-term profits.

At Clicks Group, ESG is integral to our value system and the way in which we operate. While sustainability is the foundation of our group strategy, two of our six strategic objectives focus specifically on ESG themes. These are "to ensure the sustainability of the business through robust environmental, social and governance practices" and "to create an inclusive and transformed organisation with a strong talent pipeline to support growth".

Delivery against these two strategic objectives is confirmed by the group's inclusion in the FTSE4Good Index for the fifth consecutive year and being independently recognised as a top employer in the retail sector for the last five years.

As a proudly South African company with a diverse workforce and a customer base that is predominantly female, inclusive transformation has always been integrated into our strategic plans. The group's sustained rating as the top BBBEE and gender-empowered company in the health, pharmaceutical and retail sector bears testimony to our commitment to transformation.

In the past year, we have worked closely with external stakeholders to advance inclusive economic transformation. We continue to support the national health agenda through our Clicks Helping Hand Trust, our vaccination programme and investment in our pharmacy bursary scheme.

Clicks Group has maintained its growth momentum over the past year despite several headwinds in the trading environment and delivered another resilient performance for the 2021 financial year. Our unwavering focus on sustainability has been core to growing our business in what has been one of the most difficult years in the group's 53-year history.

Our organisation is anchored on the principle of being a responsible business and this is evident in our commitment to the communities in which we operate and the customers we serve. We continued to invest in new stores and pharmacies, increasing our store footprint and access to medicines, with 50% of South African households now living within 5.5 kilometres of a Clicks pharmacy. We are determined to further grow opportunities within our value chain as we pledge to support female, black-owned businesses.

On the governance front, the board has progressed its succession plan and the transition of the board is currently in progress, with two new independent non-executive directors having been appointed in recent months. Board diversity remains a priority, with 64% of the directors being black and 36% female.

We are committed to addressing investors' concerns in aligning with climate change risks and opportunities through the adoption of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and setting science-based targets.

The group understands that sustainability risks translate into business risks and opportunities and we are aware of the potential impacts on our operations. Clicks is well versed in managing and mitigating ESG risks. Our priority is to ensure that we identify, understand and address our stakeholders' concerns and interests.

Vikesh Ramsunder
Chief executive officer

Bertina Engelbrecht
Group corporate affairs director

Strategy OVERVIEW

2021 Highlights

MAINTAINING VALUE

- Price competitive with all national retailers
- Promotional sales grew 11.7% to 41.5% of turnover
- In pharmacy, sales of generics grew 10.5% and represents 69% of medicine volume

DIFFERENTIATING OUR PRODUCT OFFER

- Private label contribution 24.5% of sales (front shop 30.1%, pharmacy 9.7%)
- Focused on tiering of private label
- Expanding Clicks Expert to more categories

ENGAGING CUSTOMERS THROUGH PERSONALISATION

- Clicks app downloaded by 2.3 million customers
- Personalised deals and digital engagement
- Launched personalised landing page

ENABLING EFFICIENT HEALTHCARE ACCESS

- Repeat prescription service
- Submit scripts via Clicks app for collection
- Free delivery of chronic medicines from pharmacies since November 2020
- Telemedicine service in 85 clinics

EXTENDING CONVENIENCE

- 782 Clicks stores with 621 pharmacies
  – 581 Convenience stores
  – 201 Destination stores
- Convenience locations continue to outperform destination malls
- 50% of households live within 5.5 kilometres of a Clicks pharmacy
- 73 SA stores still to get a dispensary
- Online sales grew 46.9% to 1.4% of front shop sales
- 41 Clicks stores refurbished
- Launching on Vodacom "super app"

MEMBERSHIP OF ASSOCIATIONS

Consumer Goods Council of South Africa

Consumer Goods and Services Ombud

Cosmetic Toiletry and Fragrance Association

Self-Medication Manufacturers Association of South Africa

Health Products Association of South Africa

Value-adding BUSINESS MODEL

Clicks Group's strategy is realised through a **value-adding retail-led business model** which appeals to the group's predominantly female, middle to upper-income customer base.

RESOURCES

- Store network and distribution centres
- Technology infrastructure
- Administration and other properties

- Experienced staff and expertise in retail and healthcare
- Partnerships with suppliers that support innovation and differentiation

- Employees throughout the value chain, stores, offices and distribution centres

- Relationship and investments with communities
- Relations with customers, press, NGOs, government and social partners

- Use of natural resources like water and electricity
- Resources used through the value chain and waste generated

CLICKS GROUP LIMITED

Customer care

Value

Convenience

Differentiation

Personalisation

OUTCOMES

- Largest retail pharmacy chain in South Africa
- Key infrastructure in the vaccine programme, providing 531 vaccination sites
- Centralised supply chain and company-owned distribution centres

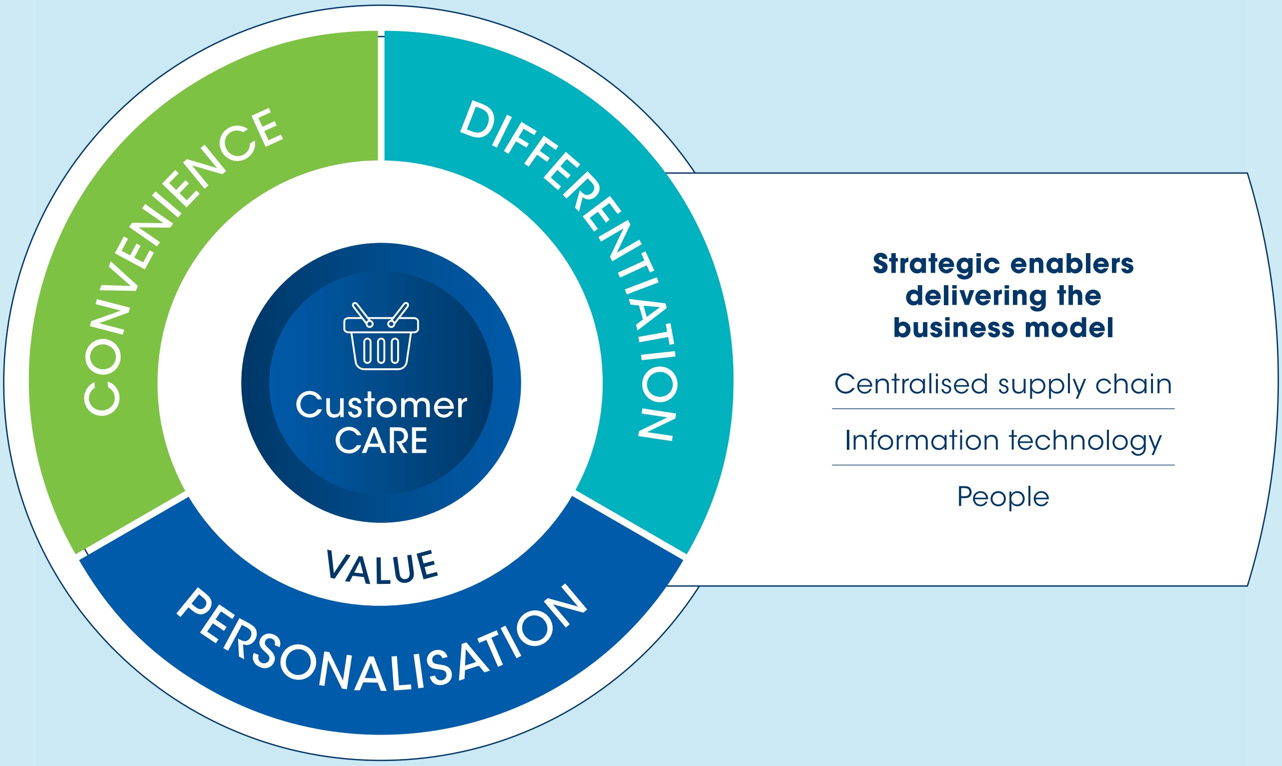
- Private label scheduled medicine and products offer choice at lower prices
- Engaging and knowledgeable staff in the front shop and pharmacy
- Staff now also trained in Covid-19 immunisation

- R675 million invested in training and development for staff over past five years
- Company-funded healthcare cover available to all employees

- Personalised engagement with customers through Clicks ClubCard
- R23 million invested in socio-economic development projects
- 100 bursaries awarded to pharmacy students in 2021
- Support for public health with our pick-up points for medication in over 450 pharmacies, decongesting public clinics and improving access

- Science-based targets for the reduction of carbon emissions
- Inclusion in the FTSE4Good Index for our ESG practices
- Action plan for the implementation of the TCFD recommendations in our reporting

HOW WE CREATE VALUE



Convenience
An extensive store footprint and pharmacy network in convenient locations allows for easy access to customers. The convenience of the retail footprint is complemented by an online shop offering in-store collection or home delivery, and a national pharmacy delivery service.

Differentiation
The product offering is differentiated through a wide range of private label and exclusive brands. Exclusive health and beauty franchise brands further differentiate the offering. Private label scheduled medicine ranges offer customers choice for quality generic medicines at a lower price.

Personalisation
ClubCard enables Clicks to personalise its engagement and communication with customers, particularly in an increasingly digital and technology-driven retail environment, supporting the aim of the loyalty programme to increase basket size and value, and frequency of shopping.

Great customer care from engaging and knowledgeable staff in the front shop and pharmacy.

Consistently good **value-for-money** products delivered through competitive prices and effective promotions.

Sustainability Reporting RELATED TO TAX

The Clicks Group acknowledges that **taxes are the key contributor and source of revenue for governments around the world**. The Clicks Group's tax contribution is therefore key to the jurisdictions and economies in which we operate. The Clicks group is committed to be fully compliant with all tax legislation and regulatory requirements in all jurisdictions in which it operates.

THE CLICKS GROUP'S APPROACH TO TAX

The tax philosophy and approach are contained in the Clicks Group's tax policy. The audit and risk committee ensures that the Clicks Group has a responsible and transparent tax policy that is compliant with applicable laws; congruent with responsible corporate citizenship; and that takes account of reputational repercussions. The board holds the group tax manager accountable for ensuring compliance with the Clicks Group tax policy.

The policy applies to all taxes and tax reporting obligations to relevant tax authorities in all jurisdictions in which the group carries on business.

The group tax manager reports regularly to the audit and risk committee and provides updates on material changes to the tax landscape that will impact the group as well as the status and outcome of queries and information requests from tax authorities within the jurisdictions in which the group operates.

TAX GOVERNANCE AND RISK MANAGEMENT

Tax risk is managed by the prevention of unnecessary tax disputes. The group seeks to achieve a balance between enhancing shareholder value through being tax efficient and the avoidance of tax disputes. The financial and commercial implications and/or the potential financial and reputational risks are considered in making decisions. Where tax laws do not provide clear guidance, prudence and transparency are applied. In instances of differing legal interpretation between the group and fiscal authorities the group will engage proactively with external professional tax advisers to resolve any disputes as soon as possible.

STAKEHOLDER ENGAGEMENT AND MANAGEMENT OF CONCERNS RELATING TO TAX

The group is committed to maintain open, professional and transparent working relationships with the tax authorities in all jurisdictions where it carries on business. The group seeks to maintain a high level of responsiveness to revenue authorities' queries by dealing with such in a timely and efficient manner. The group remains abreast of all key changes in the tax landscape of application to the group's operations and actively participates in forums and public commentary processes where it can influence the outcome of legislative changes, taxpayers' rights and revenue authority behaviour.

COUNTRY-BY-COUNTRY REPORTING

The Organisation for Economic Co-operation and Development (OECD) Country-by-Country Reporting requires that multinational enterprises report on their operations in every country that they operate in. These reports will enable revenue authorities to assess transfer pricing risks and other based erosion and profit-shifting (BEPS)-related risks with respect to the multinational enterprise groups operating in their countries. The OECD does not require this information to be published and recommends that tax authorities limit their use of it to high-level risk assessments only.

The Clicks Group annually files its requisite transfer pricing documentation as required by the respective jurisdictions it operates in.