



CLICKS GROUP

LIMITED

ANNUAL RESULTS FOR THE YEAR
ENDED 31 AUGUST 2013

PRESENTATION OUTLINE

- Review of the year
- Financial results
- Trading performance
- Outlook
- Questions





REVIEW OF THE YEAR

DAVID KNEALE

REVIEW OF THE YEAR

- Middle income consumers remain under pressure
- Minimal real growth in private healthcare market
- Health and beauty markets continue to be promotionally driven
- Selling price inflation constrained
- Better second half performance in Clicks
- UPD total turnover managed up 43.9% to R11.5 billion
- Diluted headline earnings per share up 9.2%



FINANCIAL RESULTS

MICHAEL FLEMING

FINANCIAL HIGHLIGHTS

- Group turnover up **13.6%**
 - Clicks turnover up **8.6%**
 - UPD turnover up **22.8%**
 - Selling price inflation of **2.6%**
- Operating margin down from 6.6% to **6.3%**
- Diluted headline EPS up **9.2%** to 298.6 cps
- Cash generated by operations **R1.4 billion**
- Total dividend of 168.0 cps, up **10.5%**
- Return on equity of **55.6%**

TURNOVER

R' m	2013	2012	% change	% same store growth	% inflation
Clicks	11 293	10 401	8.6	5.8	3.1
Musica	862	872	(1.0)	5.9	2.6
The Body Shop	137	123	11.3	6.3	2.2
Total retail	12 292	11 396	7.9	5.8	3.1
UPD	7 710	6 277	22.8		1.8
Intragroup turnover	(2 459)	(2 236)	10.0		
Total group	17 543	15 437	13.6		2.6

- Volume growth in all businesses
- UPD benefited from new preferred supplier contracts

TOTAL INCOME

	2013 R' m	2012 R' m	% change	2013 % margin	2012 % margin
Retail	4 097	3 764	8.9	33.3	33.0
Distribution	655	559	17.1	8.5	8.9
Intragroup	(56)	(47)			
Total group	4 696	4 276	9.8	26.8	27.7

- Private label margin growth and well managed promotional activity in Clicks
- UPD margin impacted by supplier mix
- Group margin impacted by stronger growth in UPD

OPERATING EXPENDITURE - RETAIL

R' m	2013	2012	% change
Depreciation and amortisation	181	155	16.9
Occupancy costs	495	468	5.8
Employment costs	1 605	1 425	12.6
Other operating costs	910	863	5.5
Total retail costs	3 191	2 911	9.6

- Continuing investment in stores and IT
- Pharmacy professional costs up 25.8%
- Comparable retail costs up 7.8%

OPERATING EXPENDITURE - DISTRIBUTION

R' m	2013	2012	% change
Depreciation and amortisation	19	17	16.3
Occupancy costs	7	5	36.2
Employment costs	185	157	17.7
Other operating costs	249	224	11.2
Total distribution costs	460	403	14.3

- Additional variable bulk distribution costs
- Temporary warehouse costs
- Comparable costs up 6.1%

OPERATING PROFIT

	2013 R' m	2012 R' m	% change	2013 % margin	2012 % margin
Retail	907	852	6.3	7.4	7.5
Distribution	195	157	24.2	2.5	2.5
Intragroup	2	2			
Total group	1 104	1 011	9.1	6.3	6.6

- Margins within target ranges, despite investment in pharmacy and UPD distribution
- Group margin impacted by mix

INVENTORY

	<u>Days in stock*</u>		<u>Inventory (R' m)</u>		
	2013	2012	2013	2012	% change
Retail	68	69	1 613	1 522	6.0
Distribution	30	34	619	567	9.0
Intragroup inventory			(7)	(9)	
Total group	59	63	2 225	2 080	7.0

- UPD inventory normalised with annualisation of preferred supply contract
- Inventory growth contained below turnover growth

* At cost price

CASH GENERATION

R' m	2013	2012
Profit before tax	1 051	958
Non-cash adjustments	300	277
Operating profit before working capital changes	1 351	1 235
Working capital changes	26	(161)
Net interest and tax paid	(364)	(310)
Cash inflow from operations	1 013	764

- 32.6% increase in cash from operations

CASH UTILISATION

R' m	2013	2012
Cash inflow from operations	1 013	764
Capital expenditure	(310)	(256)
Dividends paid	(394)	(337)
Share buy-backs	(354)	(12)
Other investing activities	5	8
Other financing activities	130	(159)
Net cash generated	90	8

CAPITAL MANAGEMENT

- Group will remain cash generative
- Investing in the business – R338m capex planned in FY2014
 - R182m stores
 - R88m IT systems
 - R38m UPD
 - R30m other
- Return balance of cash to shareholders
 - Dividend cover 1.8 times
 - Continued share buy-backs

MEDIUM-TERM FINANCIAL TARGETS

	2013 – 2015 target	Achieved in 2013	2014 – 2016 target
ROE (%)	55 – 65	55.6	50 – 60
ROA (%)	14 – 18	14.8	14 – 18
Inventory days	55 – 60	59	55 – 60
Group operating margin (%)	6.0 – 7.0	6.3	6.0 – 7.0
Retail	7.0 – 8.0	7.4	7.0 – 8.0
UPD	2.2 – 2.7	2.5	2.2 – 2.7



TRADING PERFORMANCE

DAVID KNEALE

	% change	% contribution
Pharmacy	10.8	25.9
Front shop health	15.9	21.7
Beauty and personal care	6.1	32.4
General merchandise	2.7	20.0
Total turnover	8.6	100.0

- Improved performance in second half – up 10%
- Promotional activity – increased from 23% to 26% of sales, with no margin impact

- Continued switch to generics +16.1%
 - 40.3% of sales
- Trend to self-medication
 - OTC medicines +14.1%
 - 223 000 Discovery MedSaver/HealthyCare members
- Total volume growth +10.8%
- Pharmacy staff turnover down from 37% to 28%
- Market share



%	2013	2012
Retail pharmacy*	17.6	16.2

* Per IMS

- Good growth in key categories
 - Front shop medicines +12.1%
 - Vitamins and supplements +11.4%
 - Baby +27.6%
- Broadening product ranges
- Space increased by 9.6%
- Market share



%	2013	2012
Front shop health**	39.6	38.5
Baby**	9.9	8.4

** Per AC Nielsen (restated)

- Highly competitive markets
- Promotions key to driving sales
 - Fragrance +13.0%
 - Colour cosmetics +6.5%
 - Skincare +6.4%
- Slower growth in haircare +1.5%
 - Lack of product innovation in Caucasian haircare
- Market share



%	2013	2012
Skincare**	34.4	34.1
Haircare**	30.5	30.2

** Per AC Nielsen (restated)

- Improvement in homeware +1.5%
 - Up 3.9% in second half
 - Ranges being refreshed
- Good performance in convenience categories
 - Confectionery +9.6%
 - Domestics +16.4%
- Electrical -1.2% impacted by warm winter and focus on margin
- Market share



%	2013	2012
Small household appliances***	16.6	19.4

*** Per GfK (restated)

- ClubCard membership now 4.1m
 - 76.1% of sales
 - 225 000 members of Baby Club
- Private label maintained at 18.4% of sales
 - Front shop at 24.1%
 - 54 private label medicines on shelf
- 331 dispensaries in 442 stores at year end
 - 25 new stores in FY2014
 - 20 – 25 new pharmacies in FY2014
- Rated 1st in health and beauty*



* Per TNS Brand Tracker



MUSICA
A WORLD AWAITS



PERFORMANCE



	% change	% contribution	Market share*	
			2013	2012
CDs	(6.5)	44.3	46.2%	43.7%
DVDs	2.6	27.3	29.5%	27.7%
Gaming	(14.7)	14.5	7.3%	9.8%
Technology	38.5	13.9		

- Continued market share gains in CDs and DVDs
- Reduced focus on lower margin gaming category
- Good growth in technology
- Net closure of 14 stores – 3 more closures planned in FY2014
- Opportunity to gain further share and grow technology

* Per Aquidneck/GfK

- Higher income customers proving more resilient
- Good sales performance
 - New skincare and make-up launches
 - Good gifting ranges
- “Love Your Body” sales up 16.9%
 - Now 58% of sales
- Capsules in 54 Clicks stores and 9 store-in-store concepts
- 4 new stores in FY2013, and a further 2 planned in FY2014





TURNOVER



	% change	% contribution
Clicks	9.8	32.0
Hospitals	14.1	25.9
Independent pharmacy	(5.6)	18.1
Other channels	334.3	24.0
Total turnover	22.8	100.0

- Volume growth of 23.5%
- Generics +26.7%

- UPD manages total turnover of R11.5 billion
 - 154 million units
- Significant player in the bulk distribution market
 - Portfolio of 20 distribution clients
 - R3.8bn notional turnover in FY2013
- Margin pressure from growth in generics
 - Generics now 36.9% of wholesale medicines
- Wholesale market share increased from 24.3% to 26.7%*

* MAT per IMS



OUTLOOK

DAVID KNEALE

OUTLOOK

- Muted consumer spending growth to continue
- Selling price inflation expected to be 4% - 5%
- Clicks
 - Leverage investment in pharmacy
 - Optimise the ClubCard programme
 - Increase private label penetration
 - Continue to expand store footprint
- UPD
 - Leverage efficiencies from investment in wholesale automation
 - Increase distribution capacity to enable further growth from 2015



prescriptions

pharmacy



self-medication

THANK YOU

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