



PHARMACISTS ASSISTANT

CLICKS
DARSHI MALHOTRA

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CLICKS GROUP LIMITED

INTERIM GROUP RESULTS
for the six months ended 28 February 2013

COMMENTARY

Overview and trading environment

Trading conditions have remained challenging in the first half of the 2013 financial year, particularly for the Clicks chain, where its middle income customers are facing increasing financial pressures.

Constrained consumer spending has resulted in slower revenue growth, compounded by relatively low selling price inflation.

Despite these headwinds, Clicks has strengthened its competitive position and gained share in all of its core health and beauty markets. The group's other retail brands, Musica and The Body Shop, both performed well.

UPD's integrated pharmaceutical wholesale and distribution strategy continues to gain traction. The business showed strong turnover growth in the period and recorded market share gains in both wholesale and distribution.

The group's return on equity is at a sector leading 58.2%.

Financial performance

Group turnover increased by 11.4% to R8.5 billion, with selling price inflation of 2.0% for the period. Retail sales increased by 6.3% and UPD lifted turnover by 20.3%. All the group's businesses recorded real volume growth in these tough trading conditions.

Total income increased by 7.9% and the total income margin reduced from 28.0% to 27.1% as a result of UPD growing faster than the retail business. The retail total income margin improved by 20 basis points to 33.0%.

Operating expenses were 7.6% higher. Retail costs increased by 6.7% despite the continuing investment in pharmacy, stores and IT systems. On a comparable basis, retail cost growth was contained to 5.1%. UPD's cost growth of 15.3% includes further investment in distribution capacity, with comparable costs increasing by 6.0%.

Operating profit increased by 8.7% and the group operating margin was 20 basis points lower at 6.2% as a result of the faster growth rate in the lower margin UPD business.

Headline earnings increased by 10.0% to R366 million. Diluted headline earnings per share grew by 8.5% to 142.7 cents, reflecting the dilutionary impact of the group's broad-based employee share ownership scheme.

The interim dividend was increased by 10.0% to 48.5 cents per share.

Inventory days in stock moved from 66 to 71 days. Inventory levels were 21.8% higher as UPD bought in stock ahead of the increase in the single exit price of medicines and Clicks invested in stock to improve availability.

The group remains strongly cash generative with cash inflow from operations increasing 14% to R244 million. During the period R451 million was returned to shareholders through distribution payments and share buy-backs as part of the group's ongoing commitment to return excess cash to shareholders. Capital expenditure of R145 million was incurred in the first half and the group plans to invest R335 million for the full financial year.

Trading performance

Turnover growth of 7.0% in Clicks was driven by increased promotional activity. Comparable store sales grew by 4.3%. The Clicks store footprint was extended to 430, with 324 having in-store pharmacies. Membership of the Clicks ClubCard loyalty programme reached the four million mark during the period. The Clicks operating profit increased by 6.0% while the operating margin was maintained at 6.9%.

Musica increased operating profit by 27.3% through tight cost management. The brand continued to gain market share in CDs and DVDs, despite the net closure of eight stores. The Body Shop increased turnover by 10.1% and operating profit by 10.9%.

UPD increased turnover by 20.3% and grew its share of the private pharmaceutical market from 23.2% to 25.7%. UPD now services 20 distribution agency contracts. The operating margin declined to 2.4%, in line with the targeted guidance. Operating profit for the period increased by 13.1%.

Prospects

The group aims to further strengthen its position in health and beauty retail and supply.

The retail environment will remain tough for the Clicks chain and selling price inflation is expected to average 4% - 5% for the second half of the year. In these conditions the focus will be on driving revenue growth, maintaining margin and containing costs.

UPD will also continue to drive turnover growth while optimising costs and driving efficiencies.

Full-year earnings forecast

The group anticipates that diluted headline earnings per share for the year to 31 August 2013 will increase by between 5% and 10% over the previous financial year.

This forecast is based on the following assumptions: Retail trading conditions are expected to remain challenging as consumer spending remains subdued; selling price inflation will be relatively low for the year; and cost pressures will remain as the group continues to invest in pharmacies, stores and distribution capacity to ensure sustainable growth.

Shareholders are advised that this forecast has not been reviewed or reported on by the group's independent auditor.

Interim dividend

The board of directors has approved an interim ordinary dividend of 48.5 cents per share (2012: 44.1 cents per share). The source of the dividend will be from distributable reserves and paid in cash.

Additional information

No Secondary Tax on Companies ("STC") credits have been utilised as part of this declaration.

Dividends Tax ("DT") amounting to 7.275 cents per ordinary 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 41.225 cents net of DT.

The company has 268 323 498 ordinary 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 interim dividend:

Last day to trade "cum" the dividend	Friday, 21 June 2013
Shares trade "ex" the dividend	Monday, 24 June 2013
Record date	Friday, 28 June 2013
Payment to shareholders	Monday, 1 July 2013

Share certificates may not be dematerialised or re-materialised between Monday, 24 June 2013 and Friday, 28 June 2013, both days inclusive.

The directors of the company have 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 Friday, 21 June 2013, 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

David Janks
Company secretary
25 April 2013

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Consolidated statement of comprehensive income

R'000	Six months to 28 February 2013 (unaudited)	Six months to 29 February 2012 (unaudited)	% change	Year to 31 August 2012 (audited)
Revenue	8 942 617	8 022 039	11.5	16 243 377
Turnover	8 529 084	7 657 499	11.4	15 436 947
Cost of merchandise sold	(6 626 166)	(5 873 924)	12.8	(11 961 536)
Gross profit	1 902 918	1 783 575	6.7	3 475 411
Other income	410 714	361 200	13.7	800 554
Total income	2 313 632	2 144 775	7.9	4 275 965
Expenses	(1 782 244)	(1 655 839)	7.6	(3 264 637)
Depreciation and amortisation	(97 702)	(83 309)	17.3	(171 535)
Occupancy costs	(247 185)	(229 697)	7.6	(471 897)
Employment costs	(888 089)	(817 255)	8.7	(1 582 459)
Other costs	(549 268)	(525 578)	4.5	(1 038 746)
Operating profit	531 388	488 936	8.7	1 011 328
Loss on disposal of property, plant and equipment	(3 632)	(2 579)	40.8	(6 578)
Profit before financing costs	527 756	486 357	8.5	1 004 750
Net financing costs	(19 582)	(25 108)	(22.0)	(46 396)
Financial income	2 819	3 340	(15.6)	5 876
Financial expense	(22 401)	(28 448)	(21.3)	(52 272)
Profit before taxation	508 174	461 249	10.2	958 354
Income tax expense	(144 336)	(130 078)	11.0	(269 974)
Profit for the period	363 838	331 171	9.9	688 380
Other comprehensive (loss)/income:				
Exchange differences on translation of foreign subsidiaries	(685)	(93)		1 615
Items that may be subsequently reclassified to profit or loss				
Cash flow hedges	(2 902)	(3 003)		1 485
Change in fair value of effective portion	(4 031)	(4 171)		2 063
Deferred tax on movement of effective portion	1 129	1 168		(578)
Other comprehensive (loss)/income for the period, net of tax	(3 587)	(3 096)		3 100
Total comprehensive income for the period	360 251	328 075		691 480
Profit attributable to:				
Equity holders of the parent	363 560	331 085		688 687
Non-controlling interest	278	86		(307)
	363 838	331 171		688 380
Total comprehensive income attributable to:				
Equity holders of the parent	359 973	327 989		691 787
Non-controlling interest	278	86		(307)
	360 251	328 075		691 480
Earnings per share (cents)	144.3	130.8	10.3	272.0
Diluted earnings per share (cents)	141.7	130.8	8.3	271.9

Headline earnings reconciliation

R'000	Six months to 28 February 2013 (unaudited)	Six months to 29 February 2012 (unaudited)	% change	Year to 31 August 2012 (audited)
Total profit for the period attributable to equity holders of the parent	363 560	331 085		688 687
Adjusted for:				
Loss on disposal of property, plant and equipment	2 615	1 857		4 736
Insurance recovery income	–	–		(1 018)
Headline earnings	366 175	332 942	10.0	692 405
Headline earnings per share (cents)	145.4	131.6	10.5	273.5
Diluted headline earnings per share (cents)	142.7	131.5	8.5	273.4

Condensed consolidated statement of financial position

R'000	As at 28 February 2013 (unaudited)	As at 29 February 2012 (unaudited)	As at 31 August 2012 (audited)
Non-current assets	1 537 467	1 413 884	1 490 348
Property, plant and equipment	1 036 047	959 216	1 010 657
Intangible assets	319 911	301 510	306 286
Goodwill	103 510	103 510	103 510
Deferred tax assets	66 298	43 870	57 401
Loans receivable	11 701	5 778	12 494
Current assets	3 996 523	3 216 643	3 286 064
Inventories	2 509 186	2 060 097	2 080 375
Trade and other receivables	1 430 093	1 053 883	1 171 541
Loans receivable	–	9 181	3 710
Cash and cash equivalents	56 284	88 401	25 451
Derivative financial assets	960	5 081	4 987
Total assets	5 533 990	4 630 527	4 776 412
Equity and liabilities			
Total equity	1 268 919	1 082 755	1 348 904
Non-current liabilities	270 002	254 031	286 601
Employee benefits	87 032	83 675	105 989
Deferred tax liabilities	36 962	38 254	39 555
Operating lease liability	146 008	132 102	141 057
Current liabilities	3 995 069	3 293 741	3 140 907
Trade and other payables	3 247 165	2 567 899	2 768 759
Employee benefits	109 902	124 637	109 861
Provisions	8 828	2 167	8 828
Interest-bearing borrowings	592 962	545 603	214 566
Income tax payable	35 811	47 718	37 536
Derivative financial liabilities	401	5 717	1 357
Total equity and liabilities	5 533 990	4 630 527	4 776 412

Condensed consolidated statement of cash flows

R'000	Six months to 28 February 2013 (unaudited)	Six months to 29 February 2012 (unaudited)	Year to 31 August 2012 (audited)
Operating profit before working capital changes	651 562	591 237	1 235 114
Working capital changes	(233 887)	(235 462)	(161 586)
Net interest paid	(14 218)	(17 307)	(33 465)
Taxation paid	(159 923)	(124 043)	(276 458)
Cash inflow from operating activities before distributions	243 534	214 425	763 605
Distributions paid to shareholders	(273 225)	(225 616)	(337 285)
Net cash effects of operating activities	(29 691)	(11 191)	426 320
Net cash effects of investing activities	(140 265)	(90 457)	(247 949)
Capital expenditure	(145 460)	(99 672)	(255 789)
Other investing activities	5 195	9 215	7 840
Net cash effects of financing activities	200 789	172 259	(170 710)
Purchase of treasury shares	(177 607)	–	(12 013)
Other financing activities	378 396	172 259	(158 697)
Net increase in cash and cash equivalents	30 833	70 611	7 661

Condensed consolidated statement of changes in equity

R'000	Six months to 28 February 2013 (unaudited)	Six months to 29 February 2012 (unaudited)	Year to 31 August 2012 (audited)
Opening balance	1 348 904	965 187	965 187
Purchase of treasury shares	(177 607)	–	(12 013)
Disposal of treasury shares	–	1 973	1 973
Distributions to shareholders	(273 225)	(225 616)	(337 285)
Withholding tax on prior period interim dividend*	(11 234)	–	–
Total comprehensive income for the period	360 251	328 075	691 480
Share-based payment reserve movement	21 830	13 136	39 562
Total	1 268 919	1 082 755	1 348 904
Dividend per share (cents)			
Interim declared/paid	48.5	44.1	44.1
Final paid	–	–	107.9
	48.5	44.1	152.0

* Refer to note 1.3.

Segmental analysis

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

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

R'000	Turnover	Profit before taxation	Total assets	Capital expenditure	Total liabilities
Six months to 28 February 2013 (unaudited)					
Clicks	5 600 637	384 284	2 527 256	85 686	1 503 226
Musica	501 631	46 896	207 372	8 457	154 894
The Body Shop	74 221	17 061	36 552	2 584	12 014
UPD	3 480 118	84 702	2 931 759	24 585	2 411 777
Inter-segmental	(1 127 523)	(1 555)	(881 366)	–	(870 673)
Total reportable segmental balance	8 529 084	531 388	4 821 573	121 312	3 211 238
Non-reportable segmental balance	–	(23 214)	712 417	24 148	1 053 833
Total group balance	8 529 084	508 174	5 533 990	145 460	4 265 071

Six months to 29 February 2012

(restated)*

Clicks	5 236 580	362 656	2 365 950	71 917	1 322 409
Musica	504 913	36 843	226 262	2 193	184 155
The Body Shop	67 415	15 384	26 958	1 239	13 939
UPD	2 893 111	74 879	2 145 526	5 096	1 750 325
Inter-segmental	(1 044 520)	(826)	(856 438)	–	(844 711)
Total reportable segmental balance	7 657 499	488 936	3 908 258	80 445	2 426 117
Non-reportable segmental balance	–	(27 687)	722 269	19 227	1 121 655
Total group balance	7 657 499	461 249	4 630 527	99 672	3 547 772

Twelve months to 31 August 2012

(restated)*

Clicks	10 401 136	785 999	2 431 343	177 175	1 437 554
Musica	871 515	42 810	177 761	9 410	131 624
The Body Shop	122 972	23 837	31 978	3 770	12 794
UPD	6 277 104	156 919	2 452 249	33 427	1 979 544
Inter-segmental	(2 235 780)	1 763	(1 011 695)	–	(1 002 557)
Total reportable segmental balance	15 436 947	1 011 328	4 081 636	223 782	2 558 959
Non-reportable segmental balance	–	(52 974)	694 776	32 007	868 549
Total group balance	15 436 947	958 354	4 776 412	255 789	3 427 508

	Six months to 28 February 2013 (unaudited)	Six months to 29 February 2012 (unaudited)	Year to 31 August 2012 (audited)
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Non-reportable segmental profit before taxation consists of:

Loss on disposal of property, plant and equipment	(3 632)	(2 579)	(6 578)
Financial income	2 819	3 340	5 876
Financial expense	(22 401)	(28 448)	(52 272)
	(23 214)	(27 687)	(52 974)

* Refer to note 1.2.

Group turnover up

11.4%

Diluted headline EPS up

8.5%

Interim dividend up

10.0%

Return on equity at

58.2%**Supplementary information**

	As at 28 February 2013 (unaudited)	As at 29 February 2012 (unaudited)	As at 31 August 2012 (audited)
Number of ordinary shares in issue (gross) ('000)	268 323	276 123	276 123
Number of ordinary shares in issue including "A" shares issued in terms of employee share ownership programme (gross) ('000)	297 477	305 277	305 277
Number of ordinary shares in issue (net of treasury shares) ('000)	249 984	253 259	253 042
Weighted average number of shares in issue (net of treasury shares) ('000)	251 918	253 063	253 154
Weighted average diluted number of shares in issue (net of treasury shares) ('000)	256 652	253 191	253 258
Net asset value per share (cents)	508	428	533
Net tangible asset value per share (cents)	338	268	371
Depreciation and amortisation (R'000)	102 121	87 354	181 102
Capital expenditure (R'000)	145 460	99 672	255 789
Capital commitments (R'000)	189 540	182 826	355 700

Notes**Accounting policies**

1.1 These interim financial results for the six months ended 28 February 2013 have been prepared in compliance with International Financial Reporting Standards ("IFRS"), the AC 500 Standards as issued by SAICA, the disclosure requirements of IAS 34 and the South African Companies Act (71 of 2008, as amended).

The accounting policies used in the preparation of the interim financial results for the six months ended 28 February 2013, are in terms of IFRS and are consistent with those applied in the Audited Financial Statements for the year ended 31 August 2012, except for the standards and amendments to standards that became effective on 1 January 2012 and 1 July 2012 together with the change in segmental disclosure due to the change in reporting lines as detailed in note 1.2 below: Amendment to IAS 12 – Deferred Tax: Recovery of Underlying Assets; Amendment to IAS 1 – Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income. These amendments have been applied for the first time in the group's financial year commencing 1 September 2012. The amendments did not result in any material change to the financial results.

The information contained in the interim report has neither been audited nor reviewed by the group's external auditors. These condensed financial statements have been prepared under the supervision of M Fleming CA(SA), the Chief Financial Officer of the group.

1.2 The Segmental Analysis for the six months to 29 February 2012 and 12 months to 31 August 2012 have been restated due to the group's decision to change the composition of its reportable segments. This was required due to a change in management reporting lines. In the current financial year Clicks Direct Medicines has been restated to be included within the UPD business as it now reports through to UPD. In the prior year, the business was reported as part of Clicks. This has resulted in a decrease in total assets in Clicks of R52.7 million (29 February 2012) and R47.4 million (31 August 2012), a decrease in total liabilities of R36.1 million (29 February 2012) and R35.8 million (31 August 2012) and a decrease in operating profit of R0.2 million (29 February 2012) and R1.9 million (31 August 2012). Within UPD total assets increased by R22.2 million (29 February 2012) and R21.2 million (31 August 2012), total liabilities increased by R5.6 million (29 February 2012) and R9.6 million (31 August 2012) and operating profit increased by R0.2 million (29 February 2012) and R1.9 million (31 August 2012).

1.3 Dividend withholding tax relating to a retrospective change in tax legislation affecting the 2012 interim dividend.

Registered address:

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Directors:

F Abrahams*, JA Bester*, BD Engelbrecht, M Fleming (Chief Financial Officer), F Jakoet*, DA Kneale* (Chief Executive Officer), N Matlala*, DM Nurek* (Chairman), M Rosen*

* independent 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

CUSIP: 18682W205