

INTERIM CONDENSED CONSOLIDATED RESULTS
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2018



CLICKS GROUP
LIMITED

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Group turnover up

10.0%

Health and beauty turnover up

14.3%

Cash from operations

R1.1 billion

Diluted HEPS up

14.8%

Interim dividend up

16.5%

COMMENTARY

Overview

Clicks Group reported another strong health and beauty sales performance in the six months to February 2018 and produced improved margins, strong cash flows and attractive returns to shareholders.

Retail health and beauty sales grew by 14.3%, with good volume growth in same stores and market share gains in all product categories.

UPD, the group's pharmaceutical distributor, also performed well in maintaining its operating margin and gaining market share.

The group's performance for the half-year resulted in diluted headline earnings per share (HEPS) increasing by 14.8% to 266.3 cents. The interim dividend was increased by 16.5% to 102.5 cents per share.

Financial performance

Group turnover increased by 10.0% to R14.4 billion. Retail sales grew by 13.2% and by 7.2% in comparable stores, with selling price inflation of only 2.6%. Distribution turnover increased by 8.0%, with selling price inflation averaging 5.7% for the six months.

Total income grew by 11.7% to R3.9 billion. The group's total income margin improved by 40 basis points to 27.1% owing to the favourable mix impact from the faster growth of the retail business.

Retail expenses increased by 12.4% as the group has invested in 46 new stores, 34 pharmacies and space extensions in 24 stores over the past 12 months. Comparable retail costs were up by 6.0%. UPD costs were again well contained to an increase of only 5.3%.

Operating profit grew by 12.2% to R942 million, with the group operating margin expanding by 10 basis points to 6.5%.

Working capital continues to be efficiently managed and the group's net working capital improved from 43 to 41 days. Retail stock days were maintained at 81 days and UPD increased from 42 to 43 days.

Cash generated by operations totalled R1.1 billion for the six months. The group returned R559 million to shareholders in dividends.

Capital expenditure of R269 million was invested in new stores, pharmacies, store refurbishments and the enabling supply chain and information technology capabilities. A further R435 million capital investment is planned for the second half.

Trading performance

Retail health and beauty sales, including Clicks and the franchise brands of The Body Shop, GNC and Claire's, increased by 14.3%, driven by buoyant Christmas trading, appealing promotional offers and competitive pricing. Comparable stores sales grew by 8.0%.

Clicks expanded its store footprint to 646 with the opening of a net 24 stores in the past six months. A net 20 new pharmacies were opened to extend the pharmacy network to 493. Clicks ClubCard increased active membership to 7.5 million as the loyalty programme attracted close to 950 000 new customers in the past year.

UPD increased wholesale turnover by 10.9%, with market share growing from 24.6% to 25.9%. UPD's total managed turnover increased by 6.0% to R8.4 billion.

Outlook

Consumer confidence appears to be improving but it is too early for this to translate into increased disposable income. Consumer spending is therefore expected to remain constrained for the balance of the group's financial year.

However, Clicks is anticipated to continue its growth momentum and will be opening 40 new stores this year, well ahead of the target of 25 to 30 stores.

UPD aims to mitigate the impact of the lower single exit price (SEP) increase through continued tight cost control and the benefit of four new distribution contracts starting in the second half.

The core health and beauty markets in which the business operates are resilient and the group's market-leading brands are well positioned to increase market share in the current environment.

Full-year earnings forecast

The directors forecast that diluted HEPS for the financial year ending 31 August 2018 will increase by between 12% and 17% over the 2017 financial year.

The forecast is based on the following key assumptions:

- the trading environment will remain relatively constrained in the second half of the financial year; and
- retail selling price inflation is anticipated to average between 2% and 3% for the financial year.

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 gross ordinary dividend for the period ended 28 February 2018 of 102.5 cents per share (2017: 88.0 cents per share). The source of the dividend will be from distributable reserves and it will be paid in cash.

Additional information

Dividends Tax (DT) of 20% amounting to 20.5 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 82.0 cents net of DT.

The company has 253 948 352 ordinary shares and 14 576 648 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 interim dividend:

Last day to trade "cum" the dividend	Tuesday, 26 June 2018
Shares trade "ex" the dividend	Wednesday, 27 June 2018
Record date	Friday, 29 June 2018
Payment to shareholders	Monday, 2 July 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 27 June 2018 and Friday, 29 June 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, 26 June 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

19 April 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Six months to 28 February 2018 (unaudited)	Six months to 28 February 2017 (unaudited)	% change	Year to 31 August 2017 (audited)
Revenue	15 241 637	13 800 328	10.4	28 342 607
Turnover	14 432 648	13 125 101	10.0	26 809 101
Cost of merchandise sold	(11 320 882)	(10 297 945)	9.9	(21 185 124)
Gross profit	3 111 766	2 827 156	10.1	5 623 977
Other income	796 650	671 772	18.6	1 523 005
Total income	3 908 416	3 498 928	11.7	7 146 982
Expenses	(2 966 136)	(2 658 735)	11.6	(5 333 405)
Depreciation and amortisation	(160 500)	(137 089)	17.1	(283 227)
Occupancy costs	(458 358)	(375 846)	22.0	(794 796)
Employment costs	(1 545 231)	(1 396 524)	10.6	(2 845 838)
Other costs	(802 047)	(749 276)	7.0	(1 409 544)
Operating profit	942 280	840 193	12.2	1 813 577
Loss on disposal of property, plant and equipment	(112)	(2 109)	(94.7)	(4 868)
Profit before financing costs	942 168	838 084	12.4	1 808 709
Net financing costs	(1 129)	(27 864)	(95.9)	(37 337)
Financial income	12 339	3 455	257.1	10 501
Financial expense	(13 468)	(31 319)	(57.0)	(47 838)
Profit before earnings from associate	941 039	810 220	16.1	1 771 372
Share of profit of an associate	1 345	1 417	(5.1)	2 900
Profit before taxation	942 384	811 637	16.1	1 774 272
Income tax expense	(263 788)	(228 886)	15.2	(496 630)
Profit for the period	678 596	582 751	16.4	1 277 642
Other comprehensive loss:				
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	(405)	(2 853)		(6 561)
Cash flow hedges	(13 440)	(18 653)		(13 234)
Change in fair value of effective portion	(18 667)	(25 907)		(17 892)
Deferred tax on movement of effective portion	5 227	7 254		4 658
Other comprehensive loss for the period, net of tax	(13 845)	(21 506)		(16 559)
Total comprehensive income for the period	664 751	561 245		1 261 083
Earnings per share (cents)	285.5	246.4	15.9	540.2
Diluted earnings per share (cents)	266.3	231.4	15.1	505.7

HEADLINE EARNINGS RECONCILIATION

R'000	Six months to 28 February 2018 (unaudited)	Six months to 28 February 2017 (unaudited)	% change	Year to 31 August 2017 (audited)
Total profit for the period	678 596	582 751		1 277 642
Adjusted for:				
Loss net of tax on disposal of property, plant and equipment	81	1 518		3 506
Gain on consolidation of the New Clicks Foundation Trust				(12 596)
Headline earnings	678 677	584 269	16.2	1 268 552
Headline earnings per share (cents)	285.5	247.0	15.6	536.3
Diluted headline earnings per share (cents)	266.3	232.0	14.8	502.1

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	As at 28 February 2018 (unaudited)	As at 28 February 2017 (unaudited)	As at 31 August 2017 (audited)
Non-current assets	2 953 653	2 642 084	2 854 281
Property, plant and equipment	1 640 482	1 442 171	1 533 935
Intangible assets	451 356	439 915	457 603
Goodwill	103 510	103 510	103 510
Deferred tax assets	609 422	506 822	572 223
Investment in associate	20 665	20 375	20 039
Loans receivable	8 572	9 521	4 500
Financial assets at fair value through profit or loss	25 265	22 030	27 580
Derivative financial assets	94 381	97 740	134 891
Current assets	7 833 303	6 419 638	6 866 834
Inventories	4 522 197	3 990 146	3 753 794
Trade and other receivables	2 244 047	2 153 476	2 212 719
Loans receivable	9 000	8 733	9 000
Cash and cash equivalents	886 543	115 598	700 473
Derivative financial assets	171 516	151 685	190 848
Total assets	10 786 956	9 061 722	9 721 115
Equity and liabilities			
Total equity	3 707 255	2 732 426	3 300 350
Non-current liabilities	357 086	315 142	402 257
Employee benefits	158 396	131 060	209 231
Operating lease liability	198 690	184 082	193 026
Current liabilities	6 722 615	6 014 154	6 018 508
Trade and other payables	6 356 382	5 623 569	5 475 182
Employee benefits	280 950	276 503	394 460
Provisions	4 993	6 733	6 733
Income tax payable	53 624	90 033	132 991
Derivative financial liabilities	26 666	14 914	9 142
Financial liability at fair value through profit or loss	–	2 402	–
Total equity and liabilities	10 786 956	9 061 722	9 721 115

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Six months to 28 February 2018 (unaudited)	Six months to 28 February 2017 (unaudited)	Year to 31 August 2017 (audited)
Operating profit before working capital changes	1 114 426	972 264	2 040 098
Working capital changes	(56 857)	(242 456)	(5 790)
Net interest paid	6 093	(22 452)	(31 090)
Taxation paid	(173 973)	(225 375)	(472 023)
Cash inflow from operating activities before dividends paid	889 689	481 981	1 531 195
Dividends paid to shareholders	(559 324)	(469 309)	(677 399)
Net cash effects from operating activities	330 365	12 672	853 796
Net cash effects from investing activities	(272 871)	(248 826)	(512 368)
Capital expenditure	(269 405)	(249 424)	(517 850)
Other investing activities	(3 466)	598	5 482
Net cash effects from financing activities	128 576	(18 048)	(10 755)
Acquisition of derivative financial asset	(62 272)	(39 064)	(39 064)
Settlement of derivative financial asset	190 848	21 016	28 309
Net increase/(decrease) in cash and cash equivalents	186 070	(254 202)	330 673
Cash and cash equivalents at the beginning of the period	700 473	369 800	369 800
Cash and cash equivalents at the end of the period	886 543	115 598	700 473

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Six months to 28 February 2018 (unaudited)	Six months to 28 February 2017 (unaudited)	Year to 31 August 2017 (audited)
Opening balance	3 300 350	2 452 241	2 452 241
Dividends paid to shareholders	(559 324)	(469 309)	(677 399)
Total comprehensive income for the period	664 751	561 245	1 261 083
Transaction cost on share issue	(283)	–	–
Share-based payment reserve movement	251 906	188 249	264 425
Net treasury share movement	49 855	–	–
Total	3 707 255	2 732 426	3 300 350
Dividend per share (cents)			
Interim declared/paid	102.5	88.0	88.0
Final paid	–	–	234.0
	102.5	88.0	322.0

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
Six months to 28 February 2018 (unaudited)					
Retail	10 522 228	793 139	5 335 767	215 787	3 441 718
Distribution	6 327 735	152 729	6 014 863	41 689	4 291 257
Inter-segmental	(2 417 315)	(3 588)	(2 879 516)	–	(2 839 112)
Total reportable segmental balance	14 432 648	942 280	8 471 114	257 476	4 893 863
Non-reportable segmental balance	–	104	2 315 842	11 929	2 185 838
Total group balance	14 432 648	942 384	10 786 956	269 405	7 079 701
Six months to 28 February 2017 (restated)*					
Retail	9 292 748	700 082	4 239 925	214 485	2 746 307
Distribution	5 861 216	139 577	5 427 312	15 971	4 044 639
Inter-segmental	(2 028 863)	534	(2 375 145)	–	(2 340 263)
Total reportable segmental balance	13 125 101	840 193	7 292 092	230 456	4 450 683
Non-reportable segmental balance	–	(28 556)	1 769 630	18 968	1 878 613
Total group balance	13 125 101	811 637	9 061 722	249 424	6 329 296
Twelve months to 31 August 2017 (restated)*					
Retail	19 015 139	1 486 266	4 392 678	436 715	2 889 500
Distribution	12 334 386	328 712	5 556 531	30 529	4 009 777
Inter-segmental	(4 540 424)	(1 401)	(2 610 723)	–	(2 573 907)
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
Total group balance	26 809 101	1 774 272	9 721 115	517 850	6 420 765

* Refer to note 1.2

R'000	As at 28 February 2018 (unaudited)	As at 28 February 2017 (unaudited)	As at 31 August 2017 (audited)
Non-reportable segmental profit before taxation consists of:			
Loss on disposal of property, plant and equipment	(112)	(2 109)	(4 868)
Financial income	12 339	3 455	10 501
Financial expense	(13 468)	(31 319)	(47 838)
Share of profit of an associate	1 345	1 417	2 900
	104	(28 556)	(39 305)

SUPPLEMENTARY INFORMATION

		As at 28 February 2018 (unaudited)	As at 28 February 2017 (unaudited)	As at 31 August 2017 (audited)
Number of ordinary shares in issue (gross)	('000)	253 948	245 969	245 969
Number of ordinary shares in issue including "A" shares issued in terms of employee share ownership programme (gross)	('000)	268 525	275 122	275 122
Number of ordinary shares in issue (net of treasury shares)	('000)	244 505	236 526	236 526
Weighted average number of shares in issue (net of treasury shares)	('000)	237 678	236 526	236 526
Weighted average diluted number of shares in issue (net of treasury shares)	('000)	254 833	251 821	252 641
Net asset value per share	(cents)	1 516	1 155	1 395
Net tangible asset value per share	(cents)	1 289	925	1 158
Depreciation and amortisation	(R'000)	167 959	143 481	297 066
Capital expenditure	(R'000)	269 405	249 424	517 850
Capital commitments	(R'000)	434 447	327 976	680 513

ACCOUNTING POLICIES AND NOTES

1.1 These condensed consolidated financial statements for the six months ended 28 February 2018 have been prepared in accordance with the requirements of the JSE Limited Listings Requirements for interim reports and the requirements of the Companies Act of South Africa. The Listings Requirements require interim 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 Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 – Interim Financial Reporting.

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

The accounting policies used in the preparation of the financial results for the six months ended 28 February 2018 are in terms of IFRS and are consistent with those applied in the Audited Annual Financial Statements for the year ended 31 August 2017.

- 1.2 The segmental analysis for the period ended 28 February 2017 and the year ended 31 August 2017 has been restated due to a change in the composition of reporting segments. Clicks Direct Medicines is now included in Retail due to a change in management reporting lines. This has resulted in an increase in turnover of R54.3 million and R121.6 million, an increase of R17.5 million and R24.0 million in total assets and an increase of R16.1 million and R15.4 million in total liabilities for the retail segment for the period ended 28 February 2017 and 31 August 2017 respectively. Within the distribution segment, turnover was increased by R15.6 million and R13.8 million, total assets was increased by R2.9 million and decreased by R3.6 million and total liabilities was increased by R4.3 million and R4.9 million for the period ended 28 February 2017 and the year ended 31 August 2017 respectively.
- 1.3 Related party transactions for the current period are similar to those disclosed in the group's annual financial statements for the year ended 31 August 2017. During the period Clicks Group Limited issued 284 155 ordinary shares to the New Clicks Foundation Trust arising from the unwind of 50% of the employee share ownership scheme. No other significant related party transactions arose during the current period.
- 1.4 In terms of the unwind of 50% of the Clicks Group Employee Share Ownership Scheme, 7 979 384 ordinary shares were issued to beneficiaries of the scheme and 14 576 647 ordinary "A" shares were repurchased by Clicks Group Limited from the Employee Share Ownership Trust. The New Clicks Foundation Trust sold 284 155 Clicks Group Limited ordinary shares subsequent to acquiring them through the unwind of the scheme. No other equity share transactions occurred during the period.
- 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, investments in equity and other similar instruments and a contingent consideration liability which arose from the investment in associate in the prior period 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. All financial instruments accounted for at fair value through profit or loss are considered to be level 2 instruments except for investments in equity and other similar instruments which are considered to be level 1 instruments and the contingent consideration liability which arose from the investment in associate in the prior period is considered to be a level 3 liability. There have been no transfers between levels 1, 2 and 3 during the period.
- 1.6 The majority of the current and non-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