

PRELIMINARY REVIEWED CONDENSED CONSOLIDATED RESULTS  
FOR THE YEAR ENDED 31 AUGUST 2016



CLICKS GROUP  
LIMITED

# CONTENTS

- 1 Commentary
- 2 Consolidated statement of comprehensive income
- 3 Consolidated statement of financial position
- 3 Consolidated statement of cash flows
- 4 Consolidated statement of changes in equity
- 4 Segmental analysis
- 5 Supplementary information
- 5 Accounting policies and notes
- BC Corporate information

Retail turnover up  
**12.8%**

Diluted headline EPS up  
**14.2%**

Total dividend up  
**15.7%**

Return on equity of  
**49.2%**

## COMMENTARY

### Overview

The group's retail businesses, in particular Clicks, delivered another strong trading performance in 2016 as all brands strengthened their competitive positions and reported market share gains.

The performance for the year translated into a 14.2% increase in diluted headline earnings per share to 438.5 cents while the group again delivered a high return on equity of 49.2%.

The total dividend was increased by 15.7% to 272.0 cents per share and together with the growth in the Clicks Group share price over the past year represents a total shareholder return of 35.3%.

### Financial performance

Group turnover increased by 9.5% to R24.2 billion. Retail sales rose by 12.8%, with same store sales increasing 9.8%. Distribution turnover increased by 6.1%. Selling price inflation for the group was contained to 4.9%.

Total income increased by 11.0% and the group's total income margin improved by 30 basis points to 26.3% owing to the favourable mix impact with the faster growth in retail.

The increase in retail operating expenses of 11.2% was contained below sales growth despite the investment in new stores, pharmacies and customer service. Comparable retail costs increased by 6.4%. UPD demonstrated excellent cost control in a difficult market and restricted expense growth to 7.4%.

Operating profit grew by 12.6% to R1.6 billion as both retail and distribution maintained margin in the challenging trading conditions. The group's operating margin increased by 20 basis points to 6.5%, benefiting from the stronger retail growth.

Inventory days in stock improved from 68 to 66 days.

Cash inflow from operations before working capital changes increased by 8.7% to R1.85 billion. As part of the board's commitment to return surplus cash to shareholders, the group returned R876 million to shareholders through dividend payments of R586 million and share buy-backs of R290 million.

Capital expenditure of R433 million was invested in new stores and pharmacies, refurbishments, IT systems and UPD infrastructure and warehousing.

### Trading performance

Retail health and beauty sales, including Clicks and the franchise brands of The Body Shop, GNC and Claire's, increased by 13.5%, with strong growth across all product categories.

The Clicks store footprint was expanded to 511 following the opening of a net 25 new stores and the pharmacy network reached 400 as 39 in-store pharmacies were opened during the year. Clicks launched an online sales platform which offers a "click and collect" facility in all stores across South Africa.

Clicks ClubCard membership increased by over one million to reach 6.2 million after the successful relaunch of the loyalty programme.

The group has made a considerable investment in improving the quality of customer service in store and created over 1 200 new jobs in the past year.

UPD experienced a tough year and grew turnover by 6.1% in a pharmaceutical market which has shown minimal volume growth. In addition, the regulated single exit price (SEP) increase in 2016 was lower than the previous year. Despite these pressures UPD maintained its operating profit margin by driving efficiencies and through good cost management.

### Outlook

The weak consumer spending environment is expected to continue into 2017 as low economic growth, together with ongoing political and social uncertainty, will place further financial pressure on consumers.

The core health and beauty markets, as well as the group's business model, are resilient and the business will trade through this tough environment by focusing on providing value to customers and managing costs efficiently.

Clicks has strong organic growth prospects for the medium to long term, with extensive opportunities to expand its store footprint in South Africa.

Record levels of capital expenditure of R577 million will be invested in stores, IT and supply chain to support the growth in the business.

Management is confident of the group's ability to sustain performance and deliver on its medium-term financial and operating targets.

### Final dividend

The board of directors has approved a final gross ordinary dividend of 196.0 cents per share (2015: 169.5 cents per share) and a 27.2 cents per ordinary "A" share (2015: 23.5 cents per share). The source of the dividend will be from distributable reserves and paid in cash.

### Additional information

Dividends Tax (DT) amounting to 29.40 cents per ordinary share and 4.08 cents per ordinary "A" 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 166.60 cents net of DT and ordinary "A" shareholders will receive a dividend of 23.12 cents net of DT.

The company has 246 137 763 ordinary shares and 29 153 295 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 final dividend:

Last day to trade "cum" the dividend	Tuesday, 24 January 2017
Shares trade "ex" the dividend	Wednesday, 25 January 2017
Record date	Friday, 27 January 2017
Payment to shareholders	Monday, 30 January 2017

Share certificates may not be dematerialised or rematerialised between Wednesday, 25 January 2017 and Friday, 27 January 2017, both days inclusive.

The board of directors 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 Tuesday, 24 January 2017, 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

### Annalize Barnard

Acting company secretary

27 October 2016

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Year to 31 August 2016	Year to 31 August 2015	% change
Revenue	25 530 967	23 285 096	9.6
<b>Turnover</b>	<b>24 170 879</b>	22 070 092	9.5
Cost of merchandise sold	(19 156 612)	(17 545 318)	9.2
<b>Gross profit</b>	<b>5 014 267</b>	4 524 774	10.8
Other income	1 353 833	1 210 082	11.9
<b>Total income</b>	<b>6 368 100</b>	5 734 856	11.0
Expenses	(4 796 464)	(4 338 817)	10.5
Depreciation and amortisation	(252 662)	(237 670)	6.3
Occupancy costs	(682 827)	(619 023)	10.3
Employment costs	(2 550 731)	(2 255 417)	13.1
Other costs	(1 310 244)	(1 226 707)	6.8
<b>Operating profit</b>	<b>1 571 636</b>	1 396 039	12.6
Loss on disposal of property, plant and equipment	(6 388)	(9 446)	
<b>Profit before financing costs</b>	<b>1 565 248</b>	1 386 593	12.9
Net financing costs	(52 851)	(57 309)	(7.8)
Financial income	6 255	4 922	27.1
Financial expense	(59 106)	(62 231)	(5.0)
Share of profit of an associate	2 254	–	100.0
<b>Profit before taxation</b>	<b>1 514 651</b>	1 329 284	13.9
Income tax expense	(420 779)	(374 709)	12.3
<b>Profit for the year</b>	<b>1 093 872</b>	954 575	14.6
<b>Other comprehensive (loss)/income:</b>			
Items that will not be subsequently reclassified to profit or loss	–	765	
Remeasurement of post-employment benefit obligations	–	1 063	
Deferred tax on remeasurement	–	(298)	
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign subsidiaries	(526)	4 777	
Cash flow hedges	(6 580)	33 238	
Change in fair value of effective portion	(9 139)	46 164	
Deferred tax on movement of effective portion	2 559	(12 926)	
<b>Other comprehensive (loss)/income for the year, net of tax</b>	<b>(7 106)</b>	38 780	
<b>Total comprehensive income for the year</b>	<b>1 086 766</b>	993 355	
Earnings per share (cents)	460.5	396.7	16.1
Diluted earnings per share (cents)	436.7	381.5	14.5

## HEADLINE EARNINGS RECONCILIATION

R'000	Year to 31 August 2016	Year to 31 August 2015	% change
Total profit for the year	1 093 872	954 575	
Adjusted for:			
Loss net of tax on disposal of property, plant and equipment	4 599	6 801	
Insurance recovery income net of tax on property, plant and equipment	–	(921)	
<b>Headline earnings</b>	<b>1 098 471</b>	960 455	14.4
Headline earnings per share (cents)	462.4	399.2	15.8
Diluted headline earnings per share (cents)	438.5	383.9	14.2

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	As at 31 August 2016	As at 31 August 2015
<b>Non-current assets</b>	<b>2 507 207</b>	2 009 163
Property, plant and equipment	1 345 024	1 221 658
Intangible assets	434 083	395 625
Goodwill	103 510	103 510
Deferred tax assets	347 400	177 037
Investment in associate	20 282	–
Loans receivable	9 521	13 003
Financial assets at fair value through profit or loss	16 145	16 668
Derivative financial assets	231 242	81 662
<b>Current assets</b>	<b>5 869 689</b>	5 546 775
Inventories	3 478 717	3 249 914
Trade and other receivables	2 012 696	1 871 616
Loans receivable	8 476	–
Cash and cash equivalents	369 800	400 738
Derivative financial assets	–	24 507
<b>Total assets</b>	<b>8 376 896</b>	7 555 938
<b>Equity and liabilities</b>		
<b>Total equity</b>	<b>2 452 241</b>	2 012 807
<b>Non-current liabilities</b>	<b>405 541</b>	308 503
Employee benefits	215 132	128 035
Operating lease liability	190 409	180 468
<b>Current liabilities</b>	<b>5 519 114</b>	5 234 628
Trade and other payables	5 148 411	4 898 114
Employee benefits	241 986	214 943
Provisions	6 939	5 745
Income tax payable	92 476	115 826
Derivative financial liabilities	26 971	–
Financial liability at fair value through profit or loss	2 331	–
<b>Total equity and liabilities</b>	<b>8 376 896</b>	7 555 938

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Year to 31 August 2016	Year to 31 August 2015
Operating profit before working capital changes	1 846 993	1 699 743
Working capital changes	(19 467)	(15 451)
Net interest paid	(38 831)	(39 025)
Taxation paid	(443 793)	(355 520)
Cash inflow from operating activities before dividends paid	1 344 902	1 289 747
Dividends paid to shareholders	(585 757)	(490 758)
Net cash effects from operating activities	759 145	798 989
Net cash effects from investing activities	(454 765)	(369 381)
Capital expenditure	(432 959)	(369 547)
Other investing activities	(21 806)	166
Net cash effects from financing activities	(335 318)	(224 501)
Purchase of treasury shares	(290 171)	(176 264)
Acquisition of derivative financial assets	(45 147)	(48 237)
Net (decrease)/increase in cash and cash equivalents	(30 938)	205 107
Cash and cash equivalents at the beginning of the year	400 738	195 631
Cash and cash equivalents at the end of the year	369 800	400 738

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Year to 31 August 2016	Year to 31 August 2015
Opening balance	2 012 807	1 566 973
Purchase of treasury shares	(290 171)	(176 264)
Dividends paid to shareholders	(585 757)	(490 758)
Total comprehensive income for the year	1 086 766	993 355
Share-based payment reserve movement	228 596	119 501
<b>Total</b>	<b>2 452 241</b>	<b>2 012 807</b>
Dividend per share (cents)		
Interim paid	76.0	65.5
Final declared/paid	196.0	169.5
	<b>272.0</b>	<b>235.0</b>

## 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
<b>Twelve months to 31 August 2016</b>					
Retail	16 640 227	1 305 687	3 937 799	323 243	2 605 804
Distribution	11 054 959	276 005	5 177 762	34 286	3 900 597
Inter-segmental	(3 524 307)	(10 056)	(2 425 935)	–	(2 390 519)
Total reportable segmental balance	24 170 879	1 571 636	6 689 626	357 529	4 115 882
Non-reportable segmental balance	–	(56 985)	1 687 270	75 430	1 808 773
<b>Total group balance</b>	<b>24 170 879</b>	<b>1 514 651</b>	<b>8 376 896</b>	<b>432 959</b>	<b>5 924 655</b>

### Twelve months to 31 August 2015

Retail	14 757 724	1 150 684	3 475 535	280 322	2 386 819
Distribution	10 415 301	258 578	4 698 119	27 758	3 635 137
Inter-segmental	(3 102 933)	(13 223)	(1 973 273)	–	(1 947 914)
Total reportable segmental balance	22 070 092	1 396 039	6 200 381	308 080	4 074 042
Non-reportable segmental balance	–	(66 755)	1 355 557	61 467	1 469 089
<b>Total group balance</b>	<b>22 070 092</b>	<b>1 329 284</b>	<b>7 555 938</b>	<b>369 547</b>	<b>5 543 131</b>

R'000	Year to 31 August 2016	Year to 31 August 2015
<b>Non-reportable segmental profit before taxation consists of:</b>		
Loss on disposal of property, plant and equipment	(6 388)	(9 446)
Financial income	6 255	4 922
Financial expense	(59 106)	(62 231)
Share of profit of an associate	2 254	–
	<b>(56 985)</b>	<b>(66 755)</b>

## SUPPLEMENTARY INFORMATION

		As at 31 August 2016	As at 31 August 2015
Number of ordinary shares in issue (gross)	('000)	246 138	246 138
Number of ordinary shares in issue including "A" shares issued in terms of employee share ownership programme (gross)	('000)	275 291	275 291
Number of ordinary shares in issue (net of treasury shares)	('000)	236 524	239 884
Weighted average number of shares in issue (net of treasury shares)	('000)	237 565	240 603
Weighted average diluted number of shares in issue (net of treasury shares)	('000)	250 501	250 204
Number of ordinary shares repurchased	('000)	3 360	2 376
Net asset value per share	(cents)	1 037	839
Net tangible asset value per share	(cents)	809	631
Depreciation and amortisation	(R'000)	264 144	248 054
Capital expenditure	(R'000)	432 959	369 547
Capital commitments	(R'000)	577 400	432 300

## ACCOUNTING POLICIES AND NOTES

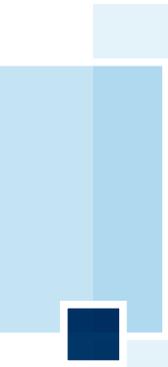
1.1 These condensed consolidated financial statements for the year ended 31 August 2016 have been prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary 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 the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 – Interim Financial Reporting.

Ernst & Young Inc., the group's independent auditor, has reviewed the preliminary condensed consolidated financial statements contained on pages 2 to 5 of this preliminary report and has expressed an unmodified review conclusion on the preliminary condensed consolidated financial statements. Their review report is available for inspection at the company's registered office together with the preliminary condensed consolidated financial statements identified in the auditor's report. These condensed financial statements have been prepared under the supervision of Mr M Fleming CA(SA), the Chief Financial Officer of the group.

The accounting policies used in the preparation of the financial results for the year ended 31 August 2016 are in terms of IFRS and are consistent with those applied in the Audited Financial Statements for the year ended 31 August 2015.

- 1.2 Related party transactions for the current year are similar to those disclosed in the group's annual financial statements for the year ended 31 August 2015. No significant related party transactions arose during the current year.
- 1.3 There were no material business combinations during the period under review. The only acquisition was a 25% interest in an associate, Sorbet Brands Proprietary Limited. The contribution of this acquisition to profit for the year has been presented in the consolidated statement of comprehensive income.
- 1.4 Under the general authorities granted by shareholders, 3 360 470 shares were repurchased during the current year.
- 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 that 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 and if the significant inputs required to fair value an instrument are unobservable, the instrument is included in level 3. The derivative instruments comprise equity derivative hedges which are calculated using a Monte Carlo option pricing model with reference to the closing share price, 250-day historical volatility, the 12-month trailing dividend yield and the risk-free rate; and forward exchange contracts which are calculated using standard market calculation conventions with reference to the relevant closing market spot rates, forward foreign exchange rates and interest rates. All financial instruments accounted for at fair value through profit or loss are considered to be level 2 investments except for the financial liability relating to the contingent consideration on the acquisition of an associate which is considered to be a level 3 liability, and amounts to R2.3 million. There have been no transfers between levels 1, 2 and 3 during the year.

The majority of the 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), F Jakoet\*, DA Kneale\* (Chief Executive Officer), NS Matlala\*, M Rosen\*

\* Independent non-executive # British

**Acting company secretary:** A Barnard

**Registration number:** 1996/000645/06

**Share code:** CLS    **ISIN:** ZAE000134854    **CUSIP:** 18682W205

**Transfer secretaries:** Computershare Investor Services Proprietary Limited, 70 Marshall Street, Johannesburg 2001.  
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](http://www.clicksgroup.co.za)