

FINANCIAL

Turnover

R29.2 billion

2017: **R26.8 billion**
2016: **R24.2 billion**

Health and beauty turnover growth

11.7%

2017: **14.7%**
2016: **13.5%**

Operating profit margin

7.0%

2017: **6.8%**
2016: **6.5%**

Headline earnings

R1.5 billion

2017: **R1.3 billion**
2016: **R1.1 billion**

Dividends

380 cents per share

2017: **322 cents per share**
2016: **272 cents per share**



great value every day

great value every day

FINANCIAL

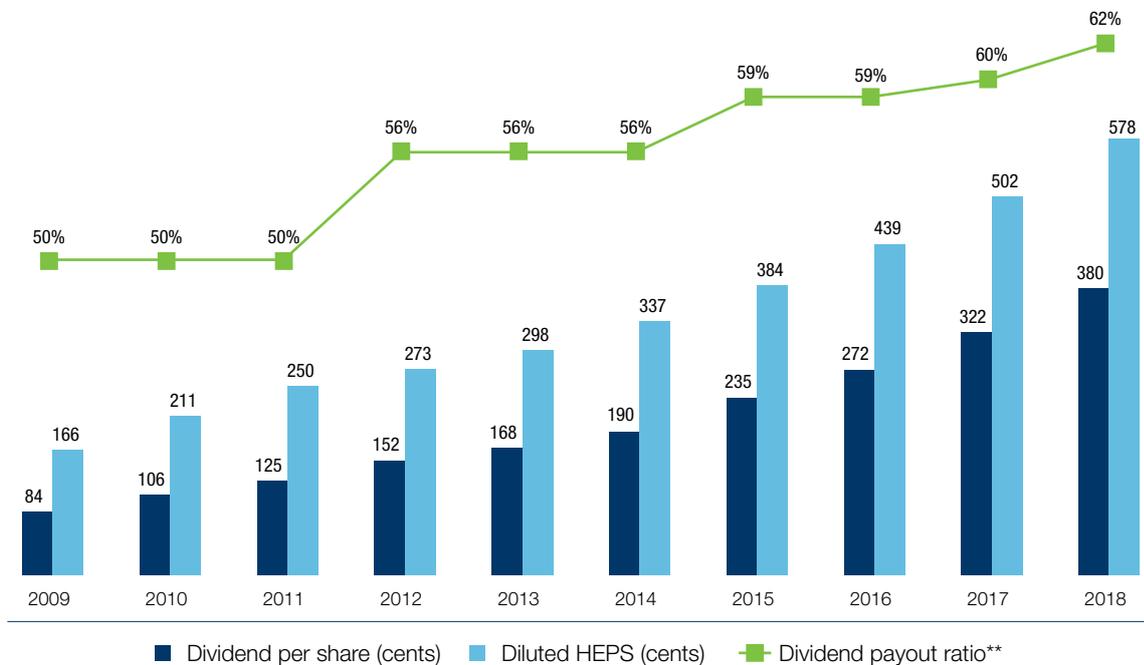
The financial resources raised and deployed by the company.

SUSTAINED FINANCIAL PERFORMANCE

16.0%
diluted HEPS
10-year CAGR

32.5%
total shareholder
return 10-year
CAGR*

20.1%
dividend
per share
10-year CAGR



* Based on reinvestment of dividends paid and the closing share price

** Based on HEPS

50 YEARS OF VALUE

2018 marked the 50th birthday of the founding of Clicks by visionary retailer, Jack Goldin, who opened the first store in August 1968 in the Cape Town city centre.

Clicks' unwavering commitment to offering consumers affordable, everyday value over the past five decades has seen Clicks becoming increasingly relevant in South Africa's retail landscape. Today Clicks is the country's leading health and beauty retailer and leading pharmacy chain, as voted by shoppers in the annual Sunday Times/The Sowetan survey for the past 10 years.

Clicks was conceived as a drugstore but owing to restrictive legislation preventing corporate ownership of pharmacies, it took 36 years before Jack Goldin's founding vision was realised. After opening the country's first-ever corporate retail pharmacy in 2004, Clicks opened its 500th pharmacy in April this year.

We celebrated our anniversary by supporting 50 charitable causes in local communities across the country. During our birthday month 16 schools received reusable sanitary pads to the value of R1 million as part of the group's Girls on the Go programme to reduce absenteeism among schoolgirls. We also supported 34 charitable projects with toiletries and basic essentials, and upgraded facilities at a community primary school which adjoins our head office in Woodstock, Cape Town.

Our birthday year coincided with the vesting of the first 50% of the group's broad-based employee share ownership plan (ESOP) when over 5 800 employees shared in a payout of R1.3 billion. 86% of the beneficiaries of the scheme are black employees and 65% female. The second and final payout under this scheme will be made in 2019.

“Over 5 800 employees shared in a payout of R1.3 billion from our broad-based share ownership plan”

In our 50th year the group's operating profit exceeded R2 billion for the first time. It has also been a record year for cash generation and capital investment. Consistent financial performance and growth in shareholder value over several years culminated in Clicks Group being elevated to the FTSE/JSE Top 40 Index in June this year.

STRONG AND RESILIENT PERFORMANCE IN 2018

The group continued its strong growth momentum and delivered another resilient financial and operational performance for the year, despite facing increasing headwinds across multiple fronts in the second half of the year.

Consumer spending came under further pressure as the increase in the value-added tax rate from 14% to 15% and significant increases in fuel costs reduced disposable income and negatively impacted consumer sentiment. In addition, selling price inflation declined to almost zero in the second half which meant that turnover growth was dependent on achieving volume growth. Finally, the lower incidence of colds and flu compared to the winter of 2017 depressed medicine sales.

Overall group turnover for the year increased by 9.1% to R29.2 billion.

Retail health and beauty sales, including Clicks and the franchise brands of The Body Shop, GNC and Claire's, increased by 11.7%. Sales in comparable stores grew by 6.2%, with selling price inflation of only 1.1%, as volume growth accelerated to 5.1%.

Our founding customer promise of value continues to underpin the Clicks performance through competitive pricing and value promotions. Front shop sales growth was driven by promotions in the current constrained consumer economy, with promotional sales in Clicks increasing by 14.7% and accounting for 35% of the turnover in Clicks.

Strong sales growth, together with the expansion of the store and pharmacy network, contributed to Clicks gaining market share in all merchandise categories. Front shop health market share increased to 30.8% and retail pharmacy market share to 23.3%. In the beauty category, skincare market share grew to 36.1% and haircare to 28.2%.

Our pharmaceutical distributor UPD also performed well. Turnover increased by 8.4%, market share grew from 25.6% to 26.0% and the business gained three new distribution contracts. UPD maintained its operating margin at 2.7% despite the low increase of 1.26% granted in the single exit price (SEP) of medicine in 2018 compared to 7.5% in the previous year.



SUSTAINABLE DEVELOPMENT GOAL

The Clicks Group supports the goals set in the UN's 16th SDG, namely peace, justice and strong institutions, through the above-mentioned governance practices. These are woven into the operations of the business at all levels. The group has a governance report available for further reference, if needed.



MANAGING MATERIAL ISSUES

Material issues have been identified which could significantly impact positively or negatively on the group’s ability to create and sustain value.

- 1 TRADING ENVIRONMENT
- 2 COMPETITION
- 3 REGULATION
- 4 PEOPLE
- 5 INFORMATION TECHNOLOGY

The material issues are reviewed annually by the board and management where all relevant internal, industry and macroeconomic factors are evaluated. The needs, expectations and concerns of the stakeholder groups that are most likely to influence the group’s ability to create sustainable value, notably customers, suppliers, regulators, staff, shareholders and providers of financial capital are central to determining the material issues.

Following the review for the 2019 financial year, the directors confirm that the current material issues remain relevant and are unchanged from the previous year.

RISKS relating to each material issue are based on the major risks on the group’s register. The risk heat map below indicates the levels of risk before (inherent risk) and after (residual risk) mitigation plans have been implemented.

OPPORTUNITIES are presented for each material issue to indicate how the group is using its competitive advantage to manage the impacts of the material issues on value creation.

MATERIAL RISKS





TRADING ENVIRONMENT

Low economic growth, deteriorating economic conditions and the resultant poor consumer sentiment are impacting South Africa's already constrained retail trading environment. Consumer disposable income has been further eroded by the increase in VAT, rising fuel and utility prices, higher health insurance costs and increasing general living costs.

RISKS

- Further deterioration in the economic environment will depress consumer spending which is already under severe pressure.
- Criminal activity, including syndicated crime, escalates during times of economic hardship.

OPPORTUNITIES

- Clicks will continue to pursue a strategy to improve price competitiveness, grow sales volumes and entrench the perception of Clicks as a value retailer.
- Focus on differentiators, including extensive and convenient store and pharmacy network; private label and exclusive ranges; Clicks ClubCard loyalty and consistently high levels of customer care.

COMPETITION

Clicks faces competition on several fronts, including national food retailers and general merchandise chains, and other pharmacy businesses.

RISKS

- Expansion by corporate pharmacy and retail chains impacting on market share growth in Clicks.
- Increasing price competitiveness of retailers could negatively affect sales and profitability in Clicks.

OPPORTUNITIES

- Clicks has an extensive store network and plans to open 25 to 30 new stores each year, expanding to 900 stores in the long term.
- Continued expansion of the pharmacy network with the long-term plan to open pharmacies in all Clicks stores in South Africa.
- Continued recruitment of new members to the Clicks ClubCard.
- Ongoing improvements in pricing, product offer and customer service.

REGULATION

Healthcare markets are highly regulated across the world and approximately 50% of the group's turnover is in regulated pharmaceutical products. The group supports regulation that advances the government's healthcare agenda of making medicines more affordable and more accessible but opposes regulation which inhibits access to affordable healthcare and limits customer choice.

RISKS

- Legislative and regulatory changes introduced by the Department of Health (DoH), SA Pharmacy Council (SAPC) and SA Health Products Regulatory Authority (SAHPRA) could impact on Clicks' and UPD's turnover and margins.
- Impacts include the ability to obtain pharmacy licences and to launch private label and exclusive scheduled and complementary medicines.
- Introduction of National Health Insurance (NHI) could impact on the private and public healthcare markets.

OPPORTUNITIES

- Ensure Clicks and UPD are operating efficiently to maintain margins and profitability.
- Continue management engagement with the DoH, SAPC and SAHPRA on legislation and regulation.
- As the market leaders in retail pharmacy and pharmaceutical wholesaling, position Clicks and UPD to benefit from market consolidation arising from changes in legislation and regulation.
- Partner with government to be a preferred service provider to the NHI scheme.

PEOPLE

Retail and healthcare skills are scarce and in high demand locally and internationally. Attracting and retaining talent is therefore critical to the group's continued success. As the largest employer of pharmacy staff in the private sector in South Africa the group is actively building capacity to address the critical shortage of pharmacists.

RISK

- Inability to recruit, attract and retain talent for core business needs, including merchandise and planning, store management and pharmacy.

OPPORTUNITIES

- Salaries and incentives are externally benchmarked to ensure the group remains competitive.
- Group resourcing function established, including specialist pharmacy team.
- Bursary and internship programmes to attract pharmacy graduates.
- Retail graduate programme offered.
- Accredited training programmes for store management, key store roles and merchandise and planning rolled out.
- Senior leadership development programme strengthens pool of management talent and provides succession plan.

INFORMATION TECHNOLOGY

Real-time, uninterrupted IT systems are essential in today's technology-driven business environment while robust IT security and governance processes are required to limit breaches of customer privacy and loss of data to avoid legal liability and reputational damage.

RISKS

- Confidential customer or sensitive internal data compromised as a result of undetected data security breach or cyberattack.
- IT systems and architecture no longer appropriate in an environment of ever-increasing scale and requirement for real-time IT systems.
- Inability to restore business operations and IT systems in the event of a disaster.

OPPORTUNITIES

- Improved information security practices and compliance as a result of increased online presence.
- Planned implementation roadmap for new IT systems with improved system efficiencies and cost savings that support the organic growth strategy.