



PRELIMINARY
REVIEWED
CONDENSED
CONSOLIDATED
RESULTS

FOR THE YEAR ENDED
31 AUGUST 2018

CLICKS GROUP
LIMITED

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Group turnover up

9.1%

Health and beauty sales up

11.7%

Cash generated by operations

R2.5 billion

Diluted HEPS up

15.1%

Total dividend up

18.0%

Included in

FTSE/JSE Top 40 Index

COMMENTARY

Overview

Clicks Group continued its strong growth momentum despite increasingly challenging trading conditions in the second half of the financial year. The group encountered several headwinds as consumer spending came under further pressure, selling price inflation declined to almost zero and the lower incidence of colds and flu compared to last winter depressed medicine sales.

Retail health and beauty sales increased by 11.7% as volume growth accelerated over the last year and Clicks gained market share in all product categories.

UPD, the group's pharmaceutical distributor, also performed well as it gained market share and maintained its operating margin despite the low increase granted in the single exit price (SEP) of medicines in 2018.

Diluted headline earnings per share (HEPS) increased by 15.1% to 578 cents. The total dividend grew by 18.0% to 380 cents per share, with the dividend payout ratio being increased from 60% to 62%. The group continues to deliver a high return on equity of 38.2%.

Over the past 10 years the group has returned more than R6.7 billion to shareholders and generated a compound annual total shareholder return of 32.5%. Diluted HEPS has grown by a compound rate of 16.0% per annum and dividend per share by 20.1% per annum.

Financial performance

Group turnover increased by 9.1% to R29.2 billion, with retail sales growing by 10.8% and distribution turnover by 8.4%. Selling price inflation for the group averaged only 1.9% for the year compared to 5.3% in the previous year.

Total income grew by 10.5% to R7.9 billion. The group's total income margin strengthened by 30 basis points to 27.0% owing to the faster growth of the retail business.

Retail expense growth of 10.3% was contained below sales growth despite the extensive investment in new stores and pharmacies. Comparable retail costs increased by 5.1%. UPD continued to demonstrate good cost control with expenses up 6.5% on last year.

The group's operating profit increased by 12.6% to reach the R2.0 billion mark for the first time, with the group's operating margin expanding by 20 basis points to 7.0%.

Working capital continues to be well managed and the group's net working capital improved from 37 to 36 days through good trade debtor management and improved creditor days.

Cash generated by operations increased by 20.7% to R2.5 billion. The group returned R812 million to shareholders in dividends. Capital expenditure of R671 million (2017: R518 million) was invested mainly in new stores and pharmacies, store refurbishments, supply chain and information technology. Cash resources increased by R823 million over the previous year and the group ended the year with cash of R1.5 billion.

Trading performance

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

Clicks opened a record 41 new stores and expanded the store footprint to 663. The pharmacy network was increased to 510 as a net 37 pharmacies were opened. Clicks ClubCard increased active membership by over 800 000 to 7.8 million, with the loyalty programme accounting for 77.2% of sales.

UPD grew turnover by 8.4% and increased market share from 25.6% to 26.0%. The business increased its bulk distribution portfolio to 23 clients by gaining three new contracts.

UPD's total managed turnover, combining wholesale and bulk distribution, increased by 8.9% to R17.9 billion.

Outlook for 2019

The current pressures on consumer spending are unlikely to abate in the months ahead and the retail trading environment will therefore remain challenging.

Selling price inflation is expected to remain low in the first half of the new financial year and the SEP increase for 2019 is likely to be only marginally higher than 2018. The group will therefore continue to operate in a constrained environment.

The group's core health and beauty markets and business model are resilient. The business continues to trade well in these challenging economic conditions and management is confident of maintaining sales momentum and sustaining volume growth in the year ahead.

Capital investment of R700 million is planned for the 2019 financial year as the group continues to invest for long-term growth. This includes the opening of 25 to 30 new Clicks stores and 30 to 35 new pharmacies, and 60 store refurbishments. A significant investment will also be made in the retail and pharmaceutical supply chain as well as in IT systems to support the increased scale of the group.

Final dividend

The board of directors has approved a final gross ordinary dividend of 277.5 cents per share (2017: 234.0 cents per share) and a 38.0 cents per ordinary "A" share (2017: 32.2 cents per share). The source of the dividend will be from distributable reserves and paid in cash.

Additional information

Dividends Tax (DT) of 20% amounting to 55.5 cents per ordinary share and 7.6 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 222.0 cents net of DT and ordinary "A" shareholders will receive a dividend of 30.4 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 final dividend:

Last day to trade "cum" the dividend	Tuesday, 22 January 2019
Shares trade "ex" the dividend	Wednesday, 23 January 2019
Record date	Friday, 25 January 2019
Payment to shareholders	Monday, 28 January 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 23 January 2019 and Friday, 25 January 2019, 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, 22 January 2019, 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

25 October 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Year to 31 August 2018	Year to 31 August 2017	% change
Revenue	30 982 592	28 342 607	9.3
Turnover	29 239 688	26 809 101	9.1
Cost of merchandise sold	(23 062 579)	(21 185 124)	8.9
Gross profit	6 177 109	5 623 977	9.8
Other income	1 717 147	1 523 005	12.7
Total income	7 894 256	7 146 982	10.5
Expenses	(5 852 575)	(5 333 405)	9.7
Depreciation and amortisation	(319 976)	(283 227)	13.0
Occupancy costs	(927 661)	(794 796)	16.7
Employment costs	(3 094 845)	(2 845 838)	8.7
Other costs	(1 510 093)	(1 409 544)	7.1
Operating profit	2 041 681	1 813 577	12.6
Loss on disposal of property, plant and equipment	(1 287)	(4 868)	
Profit before financing costs	2 040 394	1 808 709	12.8
Net financing income/(costs)	2 065	(37 337)	
Financial income	25 757	10 501	145.3
Financial expense	(23 692)	(47 838)	(50.5)
Profit before earnings from associate	2 042 459	1 771 372	15.3
Share of profit of an associate	2 541	2 900	(12.4)
Profit before taxation	2 045 000	1 774 272	15.3
Income tax expense	(569 790)	(496 630)	14.7
Profit for the year	1 475 210	1 277 642	15.5
Other comprehensive income/(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	9 242	(6 561)	
Cash flow hedges	58 154	(13 234)	
Change in fair value of effective portion	80 770	(17 892)	
Deferred tax on movement of effective portion	(22 616)	4 658	
Other comprehensive income/(loss) for the year, net of tax	67 396	(16 559)	
Total comprehensive income for the year	1 542 606	1 261 083	
Earnings per share (cents)	611.9	540.2	13.3
Diluted earnings per share (cents)	577.6	505.7	14.2

HEADLINE EARNINGS RECONCILIATION

R'000	Year to 31 August 2018	Year to 31 August 2017	% change
Total profit for the year	1 475 210	1 277 642	
Adjusted for:			
Loss net of tax on disposal of property, plant and equipment	927	3 506	
Gain on consolidation of the New Clicks Foundation Trust	–	(12 596)	
Headline earnings	1 476 137	1 268 552	16.4
Headline earnings per share (cents)	612.3	536.3	14.2
Diluted headline earnings per share (cents)	578.0	502.1	15.1

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	As at 31 August 2018	As at 31 August 2017
Non-current assets	3 232 664	2 854 281
Property, plant and equipment	1 843 402	1 533 935
Intangible assets	476 761	457 603
Goodwill	103 510	103 510
Deferred tax assets	477 352	572 223
Investment in associate	20 044	20 039
Loans receivable	15 003	4 500
Financial assets at fair value through profit or loss	82 482	27 580
Derivative financial assets	214 110	134 891
Current assets	8 331 413	6 866 834
Inventories	4 227 336	3 753 794
Trade and other receivables	2 331 531	2 212 719
Loans receivable	9 675	9 000
Cash and cash equivalents	1 523 815	700 473
Derivative financial assets	239 056	190 848
Total assets	11 564 077	9 721 115
Equity and liabilities		
Total equity	4 427 868	3 300 350
Non-current liabilities	447 546	402 257
Employee benefits	245 407	209 231
Operating lease liability	202 139	193 026
Current liabilities	6 688 663	6 018 508
Trade and other payables	6 198 435	5 475 182
Employee benefits	418 216	394 460
Provisions	4 993	6 733
Income tax payable	67 019	132 991
Derivative financial liabilities	-	9 142
Total equity and liabilities	11 564 077	9 721 115

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Year to 31 August 2018	Year to 31 August 2017
Operating profit before working capital changes	2 273 606	2 040 098
Working capital changes	181 949	(5 790)
Cash generated by operations	2 455 555	2 034 308
Net interest received/(paid)	16 301	(31 090)
Taxation paid	(267 341)	(472 023)
Cash inflow from operating activities before dividends paid	2 204 515	1 531 195
Dividends paid to shareholders	(811 578)	(677 399)
Net cash effects from operating activities	1 392 937	853 796
Net cash effects from investing activities	(726 900)	(512 368)
Capital expenditure	(671 233)	(517 850)
Other investing activities	(55 667)	5 482
Net cash effects from financing activities	157 305	(10 755)
Proceeds from sale of treasury shares	49 855	-
Acquisition of derivative financial assets	(83 115)	(39 064)
Transaction cost on the issue of shares	(283)	-
Settlement of derivative financial asset	190 848	28 309
Net increase in cash and cash equivalents	823 342	330 673
Cash and cash equivalents at the beginning of the year	700 473	369 800
Cash and cash equivalents at the end of the year	1 523 815	700 473

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Year to 31 August 2018	Year to 31 August 2017
Opening balance	3 300 350	2 452 241
Dividends paid to shareholders	(811 578)	(677 399)
Total comprehensive income for the year	1 542 606	1 261 083
Transaction cost on share issue	(283)	–
Share-based payment reserve movement	341 284	264 425
Net treasury share movement	49 855	–
Withholding tax on distribution to shareholders*	5 634	–
Total	4 427 868	3 300 350
Dividend per share (cents)		
Interim paid	102.5	88.0
Final declared/paid	277.5	234.0
	380.0	322.0

* Release of withholding tax overprovision related to the 2012 interim dividend

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
Twelve months to 31 August 2018					
Retail	21 062 952	1 704 561	5 186 195	539 775	3 244 674
Distribution	13 376 110	362 314	6 301 347	74 512	4 391 389
Inter-segmental	(5 199 374)	(25 194)	(3 227 746)	–	(3 165 735)
Total reportable segmental balance	29 239 688	2 041 681	8 259 796	614 287	4 470 328
Non-reportable segmental balance	–	3 319	3 304 281	56 946	2 665 881
Total group balance	29 239 688	2 045 000	11 564 077	671 233	7 136 209
Twelve months to 31 August 2017 (restated)*					
Retail	19 015 139	1 486 266	4 392 678	436 715	2 889 499
Distribution	12 334 386	328 712	5 556 532	30 529	4 009 778
Inter-segmental	(4 540 424)	(1 401)	(2 610 724)	–	(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	Year to 31 August 2018	Year to 31 August 2017
Non-reportable segmental profit before taxation consists of:		
Loss on disposal of property, plant and equipment	(1 287)	(4 868)
Financial income	25 757	10 501
Financial expense	(23 692)	(47 838)
Share of profit of an associate	2 541	2 900
	3 319	(39 305)

SUPPLEMENTARY INFORMATION

		As at 31 August 2018	As at 31 August 2017
Number of ordinary shares in issue (gross)	('000)	253 948	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
Number of ordinary shares in issue (net of treasury shares)	('000)	244 505	236 526
Weighted average number of shares in issue (net of treasury shares)	('000)	241 073	236 526
Weighted average diluted number of shares in issue (net of treasury shares)	('000)	255 385	252 641
Net asset value per share	(cents)	1 811	1 395
Net tangible asset value per share	(cents)	1 574	1 158
Depreciation and amortisation	(R'000)	339 142	297 066
Capital expenditure	(R'000)	671 233	517 850
Capital commitments	(R'000)	698 949	680 513

ACCOUNTING POLICIES AND NOTES

- 1.1 These condensed consolidated financial statements for the year ended 31 August 2018 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 2018 are in terms of IFRS and are consistent with those applied in the Audited Financial Statements for the year ended 31 August 2017.

- 1.2 The segmental analysis for the year ended 31 August 2017 has been restated due to a change in the composition of reporting segments. Clicks Direct Medicines was previously included in Distribution and is now included in Retail due to a change in management reporting. This has resulted in an increase of turnover of R121.6 million, R24.0 million in total assets and R15.4 million in total liabilities for the Retail segment whilst turnover was increased by R13.8 million, total assets was decreased by R3.6 million and total liabilities was increased by R4.9 million for the Distribution segment. The intragroup elimination for turnover was increased by R135.4 million and the elimination relating to total assets and total liabilities was increased by R20.3 million.
- 1.3 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 2017. During the year 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 year.
- 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 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, the investment in Guardrisk Insurance Company Limited and investments held by the New Clicks Foundation Trust which 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, with the exception of investments held by the New Clicks Foundation Trust which are considered to be level 1 instruments. There have been no transfers between levels 1, 2 and 3 during the year.

The majority of the non-current and 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*, F Daniels*, BD Engelbrecht, M Fleming (Chief Financial Officer), NN Gobodo*, 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

CLICKS GROUP
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