

# INTRODUCING THE REPORT

The Clicks Group 2018 sustainability report is a key component of our annual integrated reporting process.

The report focuses on the group's performance and how value has been created for stakeholders. The report also provides information on environmental, social and governance (ESG) material impacts and mitigation measures on the long-term success of the business. The reporting scope covers the group's entire operations unless otherwise stated. Performance data relates to the financial year from 1 September 2017 to 31 August 2018.

The report is aimed at our primary stakeholders who have a vested interest in the group's sustainability performance, mainly our people, customers, the communities in which we trade, shareholders, suppliers and industry regulators.

Our reporting process has been guided by the King IV Report on Corporate Governance for South Africa 2016 (King IV), the JSE Listings Requirements, the Global Reporting Initiative (GRI) standards and the requirements of the Companies Act as it relates to the role and responsibilities of the social and ethics committees.

The group's sustainability reporting process has continued to improve, with the group again being included in the FTSE/JSE

Responsible investment Top 30 Index. Inclusion in the index is based on an independent review by the global index provider, FTSE Russell, of our environmental, social and governance performance. The group achieved the maximum score in the governance pillar.

Clicks Group was again included in the FTSE4Good Index which recognises the performance of companies demonstrating strong ESG practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds.



**David Nurek**  
Independent  
non-executive chairman

7 November 2018



**Bertina Engelbrecht**  
Group human resources  
director



## CAPITALS OF VALUE CREATION

The Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) recommends reporting to stakeholders on the six main capital resources that are applied in the creation of value. This report has been structured according to these capitals. Management has chosen to adapt the IIRC capitals and apply terminology which is more commonly used in managing the business.

IIRC capitals	Financial	Manufactured	Intellectual	Human	Social and relationship	Natural
Clicks Group capitals	<b>Financial</b>	<b>Infrastructure</b>	<b>Intellectual</b>	<b>People</b>	<b>Stakeholders</b>	<b>Environment</b>

## OUR GUIDING SUSTAINABILITY PRINCIPLES

We are truly passionate about our customers and believe in integrity, honesty and openness. We cultivate understanding through respect and dialogue. We are disciplined in our approach and deliver on our goals.

We recognise that, for our business to be sustainable in accordance with our values, our vision must be to grow our business in a way that delivers positive social impact with reduced demands on the environment.

- **Integrity and governance:** We conduct business with integrity.

Through effective governance and controls, including our code of conduct, we seek to ensure that our group is accountable and remains responsive to evolving norms governing the conduct of businesses in the countries in which we operate.

- **Healthcare:** We are committed to building a trusted, accessible healthcare network, aiding in providing cost-effective, quality primary healthcare to all sectors of our society through our footprint and by promoting the use of generic medicines.
- **Environment:** We endeavour, even as we grow, to lighten our footprint through reducing consumption, deployment of resources and waste.

- **Stakeholders:** We acknowledge and consider our stakeholders in our decision-making, seek to engage with our stakeholders, and to understand their interests and imperatives as part and parcel of ensuring that our business is sustainable.

- *Our people:* We strive to empower motivated, passionate people, who can act as catalysts for positive change in our society, and who live the Clicks values.
- *Customers:* We monitor and are responsive to customer feedback and requirements, as customer feedback is an indicator of our performance throughout our value chain.
- *Suppliers:* We source products that uphold the integrity of our brand. To this end we will develop and progressively implement systems to assess product quality, safety and supplier conformance to our standards, specifications and commitments.
- *Investors:* We acknowledge that our investors place trust in our ability to deliver value.
- *Communities:* We make a lasting, positive impact on the communities in which we operate.
- *Government and regulators:* We support government and industry policies through regulatory compliance and implementation.

## INTRODUCING THE CLICKS GROUP

Clicks Group is a retail-led healthcare company which is listed in the Food and Drug Retailers sector on the JSE. Clicks celebrated the 50th anniversary of its founding during the reporting period and was also included in the FTSE/JSE Top 40 Index.

The group has a total retail footprint of 837 stores, including 46 in the neighbouring countries of Namibia, Botswana, Swaziland and Lesotho and employs 15 067 permanent employees.

The anchor brand, Clicks, is South Africa's leading health and beauty retailer, offering value for money in convenient and appealing locations. Clicks targets customers in the growing middle to upper-income markets.

Franchise brands were introduced through exclusive agreements to provide differentiation to the Clicks offering:

- The Body Shop sells natural, ethically-produced beauty products.
- GNC is the largest global speciality health and wellness retailer.
- Claire's is a leading retailer of fashionable jewellery and accessories for young women and girls.

Musica is the country's leading entertainment retail brand and was acquired in 1992.

Clicks is also South Africa's largest retail pharmacy chain, with 510 in-store pharmacies. It is renowned for its ClubCard, which is one of the largest loyalty programmes in South Africa, with over 7.8 million active members who account for 77.2% of the brand's sales.

The group operates a centralised distribution model where most retail products are distributed through three major distribution centres that receive stock from national and international suppliers.

United Pharmaceutical Distributors (UPD) is South Africa's leading full-range pharmaceutical wholesaler and the only one with a national presence. UPD provides pharmaceutical supply services to Clicks, major private hospital groups and over 1 200 independent pharmacies. In addition, UPD also provides bulk distribution services to pharmaceutical manufacturers.

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510  
pharmacies

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837  
total number of  
retail stores

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9  
distribution centres

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## OUR APPROACH TO SUSTAINABILITY

The group's strategic focus is on enhancing sustainability and creating long-term value for stakeholders through a retail-led health, beauty and wellness offering.

Clicks recognises that its business is intimately connected to the health of society and the state of the environment. Sustainable business practices have been adopted and the group has set sustainability targets to ensure that natural resources are used responsibly.

Clicks' sustainability and monitoring processes are aligned with the principles of the United Nations (UN) Global Compact and follow the guidance of the International Labour Organisation as well as the Organisation for Economic Co-operation and Development on policies in support of global economic and social well-being. The frameworks are also aligned to the UN's Sustainable Development Goals (SDGs).

Representatives of the group engage with industry bodies to discuss new developments in the health, beauty and food sectors, including the South African Pharmacy Council (SAPC), the South African Health Products Regulatory Agency (SAHPRA) (formerly the Medicines Control Council) and the national and provincial health departments.

Clicks Group's sustainability strategy is driven by four focus areas:

- building a trusted, accessible healthcare network;
- empowering motivated, passionate people;
- sourcing products that uphold the integrity of our brand; and
- lightening our footprint.

### Building a trusted, accessible healthcare network

The provision of health products and services is our business, and our biggest social contribution. Better healthcare as well as access to reliable and affordable healthcare plays a vital role in fostering national development goals.

We have played a leading role in the South African health and wellness retail sector through the provision of generic medication, expanding the footprint of our pharmacies and clinics, and creating innovative ways to deliver a service to our clients, which has led to major positive impacts on individuals and communities.

Clicks Helping Hand Trust has continued to sponsor free clinic services every week at our 203 clinics across the country, with 102 783 visits during the financial year.

Our integrated healthcare retail and supply model gives the Clicks Group a unique competitive positioning in South Africa.

Clicks was once again independently rated by customers as South Africa's leading health and beauty retailer.

Clicks has increased its retail pharmacy market share to 23.3%.

Two important trends in the pharmaceutical environment continue to influence trading patterns. The first is the increasing use of generic medicines, which now account for 69% of pharmacy medicine volumes sold in Clicks, with sales growing by 13.2% in the past year. The second is the increasing shift to over-the-counter (OTC) medicines, with sales growing 15.1%.

Clicks is actively switching patients to lower-cost generic medication and promoting OTC medicines.

The growth in the sales of vitamins and supplements confirms the move to increased self-medication, as customers become more health and lifestyle conscious, opting for preventative rather than curative medicine.

The Clicks store footprint expanded to 663 and continues to grow, with a target to reach 900 stores in South Africa.

### Empowering motivated, passionate people

The group has implemented a total rewards strategy for our permanent employees. It is designed to encourage a healthy work-life balance, as is our employer value proposition, which focuses on people, passion and opportunities.

We have opted to concentrate on five key areas to promote a favourable work environment that creates a motivated workforce: compensation, benefits, work-life integration, performance and recognition, and development and career opportunities.

This has contributed to Clicks Group being independently rated among the top employers in the country for 2018 by the Top Employers Institute, and as the number one employer in the retail industry.

The first 50% payout under the employee share ownership programme (ESOP) was made in 2018 and the remaining 50% will be paid in 2019. The scheme has 5 830 employee shareholders, and 86% of beneficiaries are black, while 65% are female. Total dividends of R35.4 million have been paid to participants in the scheme since 2012.

In the past year R124.7 million was invested in learning and skills development. A total of 6 078 of our people participated in learning and development interventions, which included on-the-job training, skills programmes, learnership programmes, short courses and academic qualifications.

A high percentage – 99.4% – of our employees are covered by retirement benefits and 18.2% belong to a medical aid scheme.

The group achieved a level 6 BBBEE rating, with a score of 74.2 points.

## INTRODUCING THE REPORT (CONTINUED)

We invested R18.4 million in social development through financial and product donations to non-profit organisations and initiatives aligned to the group's focus on health and well-being.

Clicks Group hosts an annual healthcare conference at which our pharmacists are exposed to new trends and knowledge sharing in the industry. This ensures that staff are informed of the latest healthcare developments and trends.

### Sourcing products that uphold the integrity of our brand

Clicks offers an extensive range of private label and exclusive brands to delight customers with innovative products at competitive prices. These products now account for 22% of total Clicks sales, with one out of every three front shop products sold being available only at Clicks.

The three exclusive franchise brands, The Body Shop, GNC and Claire's, further differentiate the offering in Clicks, as does the partnership with Sorbet.

The group has a 25% shareholding in Sorbet Brands which holds the trademarks to the Sorbet brand in southern Africa. The Sorbet product range continues to grow and is available in southern Africa only in Clicks stores and in the Sorbet franchised beauty salons.

### Lightening our footprint

Clicks is committed to reducing and mitigating the impact of the business on the environment. Clicks has made a strategic decision to set annual reduction targets for our carbon emissions and report to the Carbon Disclosure Project (CDP), achieving a result of -A performance band.

*"We are committed to implement sustainable business practices within a culture of responsible environmental stewardship"*

As a response to the expanding store footprint which has consequently resulted in increased energy usage, we have invested in initiatives such as online energy metering to continuously track, monitor and manage our consumption. Our 400 kWp solar photovoltaic (PV) system, comprising 1 298 modules installed over a rooftop area of 2 519 m<sup>2</sup> at

our head office building, has continued to yield positive results towards energy savings.

Clicks commissioned a water risk assessment in 2017. The report provided insights into our water-scarce operational areas within the country. The report was used to provide information to devise a drought response plan during the 2018 water crisis in the Western Cape. The group adopted several initiatives and saved 181.6 kilolitres of water at our head office during the financial year.

Various waste recycling initiatives are in place and 37% of our recyclable waste is recycled.

### Outlook

The group's commitment to sustainable business practices and a culture of responsible environmental, social and governance stewardship is ongoing.

Despite the tough economic outlook for consumers in most of our markets, we will make significant investments required to meet this commitment and continue to deliver value for all our stakeholder groups.

We expect to reach more people by expanding our network of pharmacies and clinics in stores and help previously disadvantaged South Africans through the free clinic services of the Helping Hand Trust.

We plan to invest 1% of our after-tax profit into socio-economic development in the next financial year. In the medium term we plan to achieve a level 4 BBBEE rating and remain a Top Employer in South Africa.

The New Clicks Foundation will receive R100 million from the Employee Share Ownership Trust over a two-year period which will be used to grant 100 bursaries each year to ensure a sustainable pipeline of pharmacists entering the profession.

Projects including route optimisation, better energy efficiency, eliminating the risk of water scarcity and disposing of waste appropriately will be a continuous drive for the business.

Our board remains confident in the group's ability to deliver great value to our customers, innovative product development, strong organic growth and investment in infrastructure to deliver sustainable growth.

## CREATING VALUE THROUGH GOOD GOVERNANCE

Clicks Group recognises the value of corporate governance in ensuring the sustainability of the business and in enhancing long-term equity performance. While compliance with applicable regulation and voluntary codes is a good baseline from which to measure governance, and a non-negotiable demand by the board, the group's commitment to good governance goes beyond compliance.

The group's governance and compliance framework is founded on the principles of accountability, transparency, ethical management and fairness. Sound governance is entrenched across the entire business. Governance processes are regularly reviewed to align with regulatory changes and to reflect best practice.

The board believes that effective governance is also contributing to value creation in at least the following respects:

- providing a clearer view of the business through a greater degree of integration between financial and non-financial reporting;
- improving the quality of reporting by management to the board;
- promoting greater transparency and disclosure to stakeholders, including shareholders;
- building consumer confidence in the brands;
- enhancing accountability to shareholders;
- providing equitable performance management and reward structures for employees;
- providing effective leadership and decision-making throughout the business; and
- managing and mitigating risk more effectively.

Strong compliance structures and processes to support the effective functioning of these structures are essential to help avoid sanctions for non-compliance with regulation and to contribute to the sustainability of the business. The board accordingly maintains a focus on supporting and, where necessary, enhancing these structures and processes.

The contribution of talent management and succession planning to the sustainability of the business is embraced in the group.

The group's corporate governance report is published on the website.

## Role of the board

Elected by the shareholders, the directors are responsible for the sustainability of the business within the triple context of the economy, society and the environment. The board's composition, authority, responsibilities and functioning are detailed in the board charter.

The board fulfils a range of legal duties, while being the primary source of effective, ethical leadership for the group. In executing its mandate the board is required to approve strategic plans; monitor operational performance; ensure that risk management and internal controls are effective; monitor regulatory compliance; and promote good governance. It must also approve significant accounting policies and the annual financial statements; monitor transformation and empowerment; manage the process of selection and appointment of directors; and ensure that the group's remuneration policies and practices are effective and fair. Certain of these functions are delegated to board committees.

## Key issues addressed in 2018

The board addressed the following key issues during the year:

- approval of the business's three-year strategic plans and budgets, including capital investment;
- review of talent and succession plans for the business, including for the role of CEO. Vikesh Ramsunder will succeed David Kneale as CEO from 1 January 2019. David Kneale will remain as a strategic adviser to the group until his retirement on 31 August 2019;
- monitoring of the first vesting of shares to beneficiaries in terms of the employee share ownership programme, and the preparation for the second vesting of shares in terms of this programme;
- rotation of the Ernst & Young (EY) audit partner for the group, with Anthony Cadman taking over from Malcolm Rapson as designated audit partner for the 2018 financial year audit. EY has been the group's external auditor for six years and will again be proposed for re-election at the annual general meeting in January 2019;
- approval of a plan to extend employer-funded primary care health insurance to lower-income earning employees from January 2019;
- approval of the investment in information technology for operating divisions in the group; and
- support for management's expansion of the group's retailing activities in digital channels.

### Board composition

The board consists of nine directors, with three salaried executive directors and six independent non-executive directors. The age, tenure, experience and expertise of each director is briefly set out in the board of directors' report on pages 28 and 29 in the 2018 integrated annual report.

### Independence of directors

All the directors, both executive and non-executive, understand their legal duty to act with independence of mind in the best interests of the company.

While the tenure of non-executive directors is not a determinant of independence in terms of King IV, David Nurek has served as a non-executive director for 22 years, Martin Rosen for 12 years and Fatima Abrahams, John Bester and Fatima Daniels have each served for 10 years. The company derives extensive benefit from the depth of knowledge of the business and the consistent approach to the strategy that long-serving directors bring, particularly with the appointment of a new CEO who will be able to rely on their in-depth knowledge, experience and expertise during the transition period. Strong, suitably qualified new independent non-executive directors will be appointed from time to time to ensure that fresh and critical thinking is maintained at board level.

The remuneration and nominations committee conducted an evaluation of the independence of the chairman and non-executive directors during the year. Factors which could impact on their independence and performance were considered, in particular the factors contained in King IV and the JSE Listings Requirements. In the opinion of the remuneration and nominations committee there are no factors which prevent the directors from exercising objective, unfettered judgement or acting in an independent manner. All of the non-executive directors, including the chairman, are therefore appropriately classified as being independent.

The company has no controlling shareholder or group of shareholders and there is no shareholder representation on the board.

### Board diversity

The directors are diverse in terms of gender, race and professional backgrounds, contributing to strong decision-making and ensuring that a range of perspectives are brought to bear on matters under consideration by the board. The directors

have extensive experience and specialist skills across a range of sectors, including retail, commercial, governance, human resources remuneration, accounting and finance, legal, healthcare and marketing. The board race and gender diversity policy sets voluntary targets of 25% black and 25% female representation at board level. During the year under review 44% of the directors were female and 44% were black, which exceeds these targets.

### Director election

A third of non-executive directors are required to resign at each AGM, and executive directors are required to resign on the third anniversary of their appointment or most recent re-election to the board. This provides shareholders with the ability to hold directors to account and to appoint directors to the board whom shareholders believe will add value to the business.

### Annual performance evaluation

Each director is required annually to assess the performance of the board, its committees, the chairman and the chief executive officer. This year's assessment indicated that, in the opinion of the directors the board, its committees and the company's most senior executives have discharged their responsibilities effectively. The directors believe that the board is well balanced in terms of skills, qualifications and experience, and makes a meaningful contribution to the group.

### Board and executive relationship

The roles of the chairman and the chief executive officer are formalised, separate and clearly defined. This division of responsibilities at the helm of the company ensures a balance of authority and power, with no individual having unrestricted decision-making powers. The chairman leads the board and the chief executive officer is responsible for the executive management of the group.

While the board and executive management collectively determine the strategic objectives of the group, the board is responsible for approving the group's strategy, and the executive is responsible for executing this strategy and for the ongoing management of the business. Regular reporting by the executive on progress made in executing its mandate allows the board to monitor implementation of strategy and to assess the effectiveness thereof. Non-executive directors have direct access to management and may meet with management independently of the executive directors.

## INTRODUCING THE REPORT (CONTINUED)

### Board and committee meeting attendance

	Board	Audit and risk	Remuneration and nominations	Social and ethics
Number of meetings	4	4	3	2
David Nurek	4 <sup>•</sup>	(4)	3 <sup>^</sup>	2
Fatima Abrahams	4		3 <sup>^^</sup>	2 <sup>+</sup>
John Bester	4	4 <sup>+</sup>	3	
Fatima Daniels	4	4		
Bertina Engelbrecht	4	(4)	(3)	(2)
Michael Fleming	4	(4)		
Nonkululeko Gobodo	4	4		
David Kneale	4	(4)	(3)	2
Martin Rosen	4		2	
Meeting attendance 2018 (%)	100	100	92	100
Meeting attendance 2017 (%)	97	100	100	100

(•) Indicates number of meetings attended as an invitee

<sup>+</sup> Chair

<sup>^</sup> Chairs nominations agenda items

<sup>^^</sup> Chairs remuneration agenda items

### Board oversight

The board discharges its oversight function both directly and through its three committees. The board and its committees are each chaired by independent non-executive directors. The composition of the committees conformed to regulatory requirements and King IV for the reporting period. Detailed disclosure on the roles, functions and composition of the committees is contained in the corporate governance report available on the website.

### King IV application

The group has applied King IV for the 2018 financial year. Certain elements of King IV were already adopted by the group in the preceding year.

### Ethics and values

The group subscribes to high ethical standards of business practice. A set of values and a behavioural code of conduct require staff to display integrity, mutual respect and openness. Members of staff have an obligation to challenge others who are not adhering to these values. The social and ethics committee is responsible for monitoring ethical practices. The group has various documented policies which require all employees to adhere to ethical business practices in their relationships

with one another, suppliers, intermediaries, shareholders and investors. These policies also set stringent standards relating to the acceptance of gifts from third parties and declarations of potential conflicts of interests. A fraud prevention policy ensures that a firm stance is taken against fraud and the prosecution of offenders.

### Anti-competitive conduct

Oversight, governance and risk management processes are in place to promote compliance with statutory prescripts relating to competition, and the effectiveness of these processes is borne out by the fact that the group has not been sanctioned for anti-competitive conduct. The group has market-leading positions in healthcare retailing and supply. This emphasises the need for the group to remain vigilant in guarding against engaging in anti-competitive practices.

### Governance focus areas in 2019

With the changes required by King IV now implemented, the group will continue to seek out and apply relevant best practices in governance. Initiatives to further strengthen governance that the group will consider for the ensuing year are likely to include training for directors and prescribed officers, and the refreshing and refinement of core governance policies and documents.

### CAPITALS OF VALUE CREATION

Our group sustainability framework stems from the company's commitment to create value and drive the group's strategy in a sustainable manner. The group uses the various capital resources to optimise value creation for shareholders. The group's adopted six capitals are centred on:

FINANCIAL	INFRASTRUCTURE	INTELLECTUAL	PEOPLE	STAKEHOLDERS	ENVIRONMENT
The financial resources raised and deployed by the company	The infrastructure network used in selling merchandise, including the retail store network, distribution facilities, online store and information technology systems	The collective knowledge and expertise across the business as well as the intellectual property of the group, including trademarks, the development and design of private label brands, customer segmentation and loyalty management	The competency, capability and experience of the board, management and employees	The relationships with stakeholders influencing the business, primarily customers, suppliers, employees and shareholders	The group's operational strategy which focus on low environmental impact

## CREATING VALUE IN 2018

### FINANCIAL

First-time inclusion in  
**FTSE/JSE Top 40 Index**

Operating profit exceeds **R2 billion** for the first time

**R2.5 billion** cash generated by operations

Diluted HEPS up **15.1%** to 578 cents

Dividend up **18%** to 380 cents per share

Return on equity of **38.2%**

Total shareholder return **32.5%** (10-year CAGR)

### INFRASTRUCTURE

Opened  
**41 Clicks stores**  
and expanded footprint to 663 stores

**R671 million** capital investment in stores, supply chain and IT



Online store offering in-store or home delivery nationally

**37** new Clicks pharmacies; total now 510

**9** distribution centres across Clicks and UPD

## INTELLECTUAL



# 7.8 million

active Clicks ClubCard loyalty members

Clicks increased market share in all key product categories

Private label and exclusive brands **22%** of health and beauty sales

**Over 700** new private label products launched, reflecting investment in innovation

Clicks remains price competitive with national retailers

Clicks independently rated as leading health and beauty retailer in SA

UPD gained share of the wholesale and distribution markets

## PEOPLE

# R1.3 billion

paid to beneficiaries of employee share ownership programme

**15 067** permanent employees; **394** new jobs created

Recognised as Top Employer in retail sector in South Africa

**R125 million** invested in employee training and development

Pharmacy staff turnover reduced to **15%**

## STAKEHOLDERS

# R812 million

paid to shareholders in dividends

Turnover of **R29.2 billion** generated from customers

**R442 million** cashback paid to ClubCard members

**R3.2 billion** paid to employees

**R25.2 billion** paid to suppliers of goods and services

## ENVIRONMENT

Included in

# FTSE4Good Index



FTSE4Good

**64%** reduction in municipal water usage at head office

**37%** of waste recycled

**1 980 tons** of recycling in the supply chain

Energy and water reduction targets set to reduce carbon footprint