

Dis-Chem Pharmacies Ltd. financial results for the six months to 31 August 2023

Trade Intelligence Comment

Dis-Chem is satisfied with its performance over the first six months of the current financial year, recording revenue of R17.9bn (+9.4% vs H1 of 2023), particularly in view of the constrained economic environment, high interest rates and load shedding costs. Dis-Chem acknowledged the profit performance was weaker than in H1 2023, which was inflated by the acquisition of warehouse properties (R72m once-off gain) and COVID-19 vaccine administration and testing, which has now ended.

The CEO and CFO mentioned carry over of the effects of 'negative publicity' impacting turnover and earnings. Softer sales growth over that period required a determined focus on cost control, ensuring payroll cost increases did not exceed turnover growth at store level. The Group anticipates a stronger H2 2024 in line with the historical trend, whereby it traditionally accounts for more than 50% of the year's profits.

Looking ahead, Dis-Chem plans to drive growth by increasing its property footprint by +137,000m² over the next three years, aiming to align all regions' market share with that of Gauteng (35.9%). Other strategic focus areas include expanding its wholesale market share, cost control through an effective staffing framework, reducing stock covers by 10% (enabled by the new automated F&R system), innovating in health-centric financial services, and leveraging data for enhanced shopper engagement.

Dis-Chem aims to continue to build its integrated healthcare ecosystem, to provide more and more South Africans with affordable healthcare while generating increased footfall and maintaining margins.

Key Highlights

- **Turnover** +10.3% to R17.9bn (excl. vaccines), the Group is "satisfied" with this performance in the tough trading environment
- **Gross profit** +3.9% to R4.0bn, **margin** 22.3% (HY2023: 23.5%) attributed to growth in private brand offset by price investment (personal care, beauty & Wholesale) and shift in sales mix (growth in lower-margin oncology products & Wholesale)
- **Total income**¹ +6.6% to R5.4bn with **margin** 30.5% (HY2023: 31.3%). Gains from increased trading terms (+13% growth) offset by lower gross profit margin – still ahead of the Group's 30% target. **Retail** margin 29.8% (HY2023: 30.2%) and **Wholesale** margin 7.9% (HY2023: 8.3%)
- **Operating profit**² -5.9% to R878m (HY2023: R933m), **margin** at 4.9% (HY2023: 5.7%), **expense** growth +9.4% to R4.6bn
 - **Retail** margin 4.4% (HY2023: 5.6%) as expenses: +11.3% to R4.0bn incl. R22m spent on diesel to run generators
 - **Wholesale** margin: 1.3% (HY2023: 1.2%), expense growth contained at +5.5% to R905m
- **Earnings per share** -16.7% to 58.3 cents per share (excl. property gains: -8.9%). Interim **dividend** -17.3% to 23.2 cps
- By the end of FY2024 the Group plans to have 272 Dis-Chem stores (+14 over the 12 months) and 54 Baby City stores

Dis-Chem Pharmacies Ltd. HY2024 Financial Results Summary Table

	Turnover (R'bn)	Turnover Growth %	Turnover Growth (excl. vaccines)	Comparable ³ Growth	New Store Growth
Group	R17.9bn	+9.4%	+10.3%	-	-
Retail	R15.6bn	+8.1%	+9.2%	+5.9%	3.3%
Wholesale	R13.7bn	+13.5%	-	-	-
Intergroup ⁴	-R11.4bn	-	-	-	-

Note: – Data not reported for the period | 1. Total income margin = Gross profit + other income. Excl. property gains from the acquisition on property last year | 2. Operating profit – profit earned before interest income, financing costs and taxes. Excl. property gains | 3. Comparable growth removes the impact of new and closed stores | 4. Intergroup negates the double counting as Wholesale sells to Retail (internal wholesale sales)

Retail Highlights a

- **Turnover** +9.2% to R15.6bn, excl. COVID vaccines and testing services (HY2024: R0.05m | HY2023: R143m)
 - **Loyalty** increased to 8.6 million benefit members (HY2023: 7.8 million) accounting for 76% of turnover
 - **Online** +32.2% turnover growth from the "profit-enhancing" model using 85 delivery hubs
- **Dispensary** +6.1% to R5.7bn (36.3% of the Group's Retail turnover). Market share: unchanged at 24.4%
- **Personal care and beauty** +13.1% to R4.2bn. Market share 19.0% (HY2023: 19.2%) in a competitive market
- **Healthcare and medical** +4.4% to R3.4bn. Market share remains significant at 46.7% (HY2023: 46.8%)
- **Baby care** (incl. 54 Baby City stores) +15.1% to R1.4bn. Market share gains to 17.7% (HY2023: 16.7%)

Wholesale Highlights

- **Turnover** +13.5% to R13.7bn – internal sales to Dis-Chem remains the biggest contributor. **External** wholesale increased +19.1% to R2.3bn – Independent pharmacies +18.0% and TLC franchise +20.4% with 180 stores (HY2023: 153 stores)
- Dual strategy of supporting internal retail growth while continuing to gain market share from independent pharmacy

Dis-Chem Group Comment

"Retail cost control progress has been my personal highlight for the financial results, coming off a compromised sales line, certainly from the negative publicity in H2 of FY23 and filtering into Q1 of FY24... I think we have made huge strides through initiatives to ensure effective cost control, resulting in positive operating leverage in Q2 of FY24." – Rui Morais, Dis-Chem CEO