

# ABOUT CLICKS GROUP





# CHIEF EXECUTIVE'S REPORT

Clicks Group delivered a strong and resilient performance in 2020 against the background of the global Covid-19 humanitarian crisis and deteriorating economic conditions locally.

Covid-19 has had a devastating impact on our country and its people, and we extend our condolences to those who have lost loved ones, and our thoughts are with everyone who has suffered personal or financial hardship during this difficult time.

Our employees have shown tremendous dedication, commitment and courage through these turbulent times and I thank them for their unwavering support.



## TRADING IMPACT OF COVID-19

Covid-19 caused significant disruption to our business in the second half of the year, particularly when restrictions were imposed on the sale of certain product categories in the early stages of the lockdown. Clicks remained committed to fair pricing throughout and ensured that prices on essential hygiene products and personal protective equipment were not increased.

The pandemic has transformed the way in which consumers engage and behave, reflected in the changing customer shopping patterns we have experienced in response to lockdown restrictions. Consumers chose to shop closer to home and shop less frequently. Many stayed home and shopped online to reduce the risk of contracting Covid-19, opting for the convenience of home delivery. This contributed to the Clicks online store showing growth of 361% for the second half, making it our largest and fastest-growing store.

The convenience of the Clicks store network was also a distinct advantage during the crisis. As 74% of our stores are located in convenience and neighbourhood shopping centres, this largely negated the significant slowdown in foot traffic at destination malls across the country.

We have also seen a structural shift in shopping preferences, with vitamins and supplements in high demand as customers focused on preventative healthcare to boost immunity levels. The large number of South Africans working from home during this time created an increased demand for household appliances and electrical beauty products. Conversely, the lack of social interaction, restricted travel and the requirement to wear face masks led to lower pharmacy and beauty sales.

Clicks stores were restricted to shorter trading hours and limited to selling only essential products in the first five weeks of lockdown. The other retail brand stores all closed from the start of the lockdown and reopened as restrictions were gradually lifted.

UPD's business to the private hospital and independent pharmacy channels grew strongly due to increased demand for medicines and healthcare products during the pandemic.

## RESILIENT TRADING PERFORMANCE

The performance of the past year, and particularly in the second half during the Covid-19 crisis, has again demonstrated the defensive nature of the group's core health and beauty markets. In this environment group turnover for the year increased by 9.6% to R34.4 billion.

Retail health and beauty sales, including Clicks and the international franchise brands GNC, The Body Shop and Claire's, increased by 8.4%, driven by competitive everyday pricing, differentiated product ranges, the Clicks ClubCard, new stores and online sales.

Healthcare, comprising pharmacy and front shop health, is a defensive category and accounts for 55% of total sales. Front shop health sales increased by 19.7% while pharmacy growth of only 3.2% was impacted by the low prevalence of colds and flu during the winter season due to the restrictive nature of the lockdown.

***“Covid-19 has been a catalyst for online retail sales growth globally, with online sales in Clicks increasing by 191% for the year.”***

Promotional sales continue to account for an increasing proportion of customer spend, growing by 14.7% and comprising 40.2% of turnover in Clicks.

The strong health and beauty sales performance translated into market share gains across most core categories. Front shop health market share increased to 32.2% (2019: 31.4%) and the baby category grew to 19.7% (2019: 17.0%). Pharmacy market share declined marginally to 23.8% (2019: 24.1%) as consumers chose home deliveries from independent pharmacies to avoid shopping malls. In the beauty category, skincare market share increased to 39.2% (2019: 37.6%) and haircare to 30.3% (2019: 29.6%).

Clicks was voted as the coolest health and beauty brand in the Sunday Times Generation Next Awards for 2020 while the Clicks ClubCard was rated as the best loyalty programme in the South African Loyalty Awards for 2020.

UPD grew wholesale turnover by 17.0%, gaining new private hospital and buying group contracts. Business to the private hospital and independent pharmacy channels grew strongly and this contributed to UPD increasing its market share from 27.0% to 29.4% at August 2020.

## DELIVERING ON OUR STRATEGY

The group's strategy was consistently applied over the past year and was not impacted by the Covid-19 challenges. Our strategy continues to be supported by favourable market dynamics which should ensure sustained organic growth. The group's strategic objectives and the drivers of longer-term growth are outlined in the group strategy report in the integrated report.

The retail strategy is focused on the three pillars of convenience, differentiation and personalisation, supported by our value offering, and pleasing progress has been made across all these areas in the past year.

Clicks opened 39 stores to expand its retail footprint to 743 stores. The store opening programme was again accelerated beyond the targeted 25 to 30 stores owing to opportunities for new space becoming available in existing shopping centres. As the Clicks brand already has a presence in 97% of destination malls across the country, our strategy in recent years has been to expand into convenience shopping centres.

Covid-19 has been a catalyst for online retail sales growth globally. Clicks' online sales increased by 191% for the year off a relatively low base. The investment made in our online and digital capability over the past four years enabled Clicks to manage the increased demand, and ensure an efficient and convenient service to customers. While online accounts for only 1% of front shop sales, we expect this to grow to between 5% to 10% of the brand's sales within the next 10 years.

Clicks is the country's largest retail pharmacy chain and expanded the network to 585 following the opening of 40 pharmacies. The expanding footprint supports our convenience strategy and makes the healthcare offer even more accessible, with 50% of the country's population now living within six kilometres of a Clicks pharmacy.

Through private label and exclusive brands Clicks offers an extensive range of trusted quality, great value products which are a significant alternative to a branded product.

***“2020 marked the 25th anniversary of the launch of the iconic Clicks ClubCard, which is one of the most popular loyalty programmes in the country.”***

Sales grew by 12.3% and the contribution from private label and exclusive products increased from 22% to 23% of total sales, with the goal to increase this to 25% of total sales.

2020 marked the 25th anniversary of the launch of the iconic Clicks ClubCard, which is one of the most popular loyalty

programmes in the country. Over the past five years more than R2 billion has been paid out to loyalty members in cashback rewards. ClubCard's active membership increased by over 500 000 to 8.6 million in the past year and accounted for 78.2% of the brand's sales. The Clicks mobile app, which incorporates the digital ClubCard, has been downloaded by 1.1 million customers.

UPD is the country's leading pharmaceutical wholesaler and is a significant service provider in the distribution agency business, with a portfolio of 30 clients. UPD's total managed turnover, which combines wholesale and bulk distribution, increased by 11.7% to R23.6 billion as the business gained two distribution contracts. Clicks and the private hospital groups account for 83% of UPD's wholesale turnover, supporting the long-term sustainability of the business.

Our extensive store network and integrated supply chain provide competitive advantages which we aim to maintain through the continued investment of over R2 billion in the next three years.

## COMMITMENT TO ESG AND TRANSFORMATION

The group has continued to adopt environmental, social and governance (ESG) practices to contribute to sustainable transformation and societal change.

The group was again included in the FTSE4Good Index Series, recognising companies with strong ESG practices measured against global standards. In the index ratings the group far outperformed the sector and industry averages which include major international healthcare companies.

On the environmental front, Clicks was one of the founding signatories of the SA Plastics Pact in 2020 and we are unwavering in our focus on reducing the negative impact of plastic on the environment. As customers are becoming increasingly aware of the environmental impact of the products they consume, Clicks introduced the My Earth range of eco-friendly products, aligning to the group's sustainability strategy.

As a proudly South African company we are committed to supporting local suppliers, with only 7% of our products being imported directly. Currently over R1.5 billion of products are procured from black-owned businesses and R1 billion from female-owned enterprises. We plan to increase sales of local supplier haircare products by 130% over the next three years.

***“As a proudly South African company we are committed to supporting local suppliers, with over R1.5 billion of products procured from black-owned businesses.”***

Our workforce is highly diverse, with 93% black staff and 64% female employees. The group invested R140 million in the training and development of employees, even in a year where training was challenging owing to the need for social distancing. The company funds 100% of the cost of primary health insurance for over 9 000 employees not covered by a medical aid, at an annual cost of R34.3 million. These factors have contributed to the group again being recognised as the top employer in the retail sector in South Africa for the fourth consecutive year by the Top Employer Institute.

The group also committed to supporting those most vulnerable during the pandemic. Clicks donated 10 000 flu vaccines to the Western Cape Department of Health and Department of Social Development in support of frontline public healthcare workers. Community support included extending the free primary care clinic services offered to Clicks customers with no medical cover to five days a week from the normal one day.

In the past year bursaries were awarded to 112 pharmacy students as part of Clicks' role in building the skills base for the industry.

## OUTLOOK

As we face the reality of living with Covid-19 restrictions until a vaccine is developed and widely available, the country remains at risk of a second wave of infections. This could result in renewed lockdown restrictions as are currently being experienced in certain countries.

The consumer environment in South Africa is expected to be constrained in the year ahead. The continuing impact of Covid-19 and the socio-economic challenges arising from the lockdown, particularly the expected widespread job losses, will make the months ahead extremely challenging.

The start of the new financial year was disrupted by protest action across the Clicks store network during the second week of September. This was in response to an offensive TRESemmé haircare advertisement featured on the Clicks digital platform. While it is too early to quantify any reputational damage from the incident, customer trading patterns returned to normal during the month of October.

Our business has traded well in weak consumer markets over an extended period and adapted to the new market dynamics arising out of the Covid-19 crisis. The group has a robust balance sheet and generates strong cash flows, and we are confident of continued value creation for our shareholders.



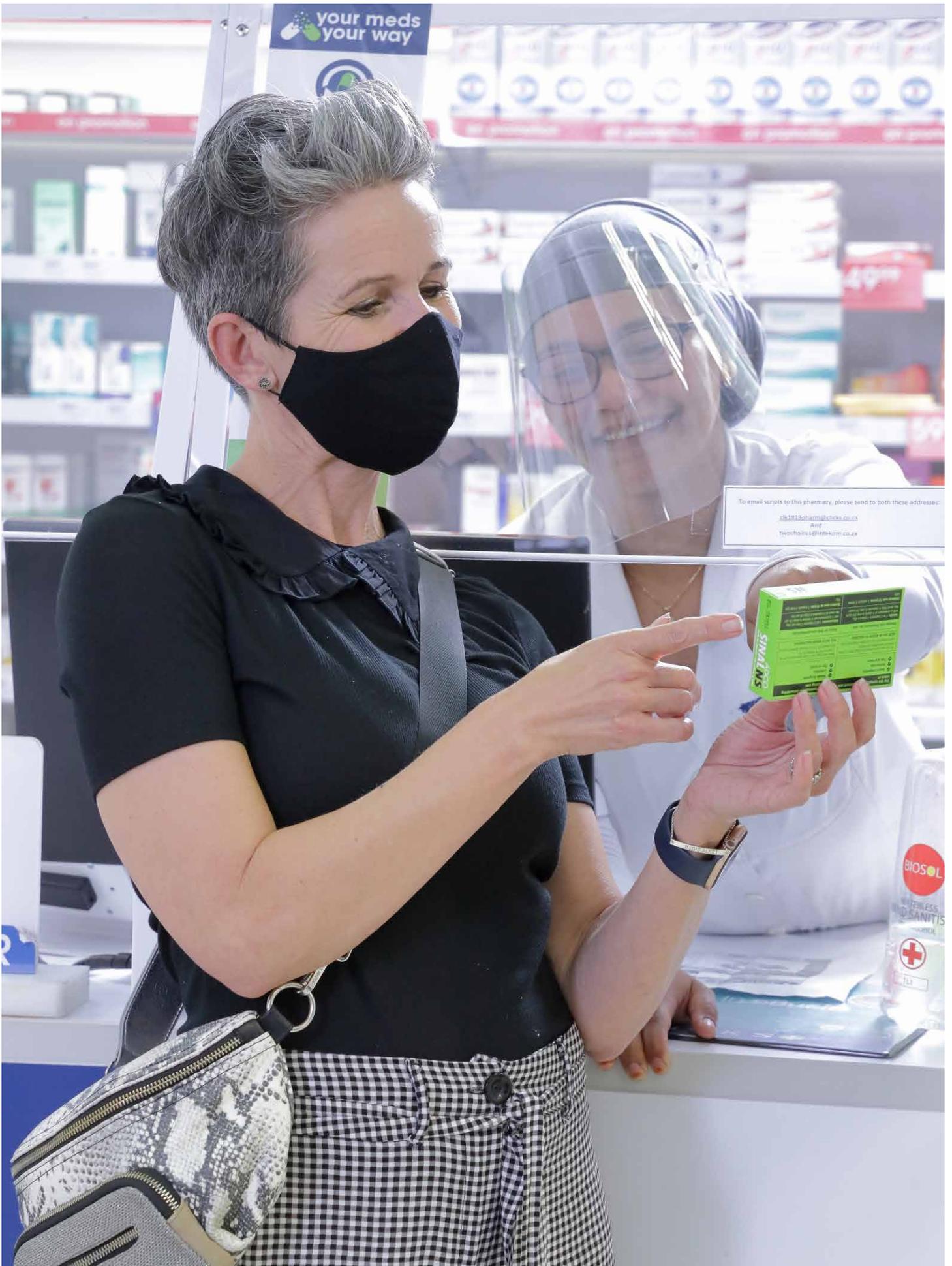
### APPRECIATION

Thank you to our chairman, David Nurek, and our non-executive directors for their support and counsel in dealing with the challenges over the past year.

My fellow executive directors Michael Fleming and Bertina Engelbrecht, together with the executive committees in Clicks and UPD, have shown outstanding leadership in managing the business through these difficult times.

Our people at our office, stores and distribution centres have demonstrated incredible resilience and I thank them once again for their support through the most difficult trading conditions we have ever experienced.

**Vikesh Ramsunder**  
Chief executive officer



To email scripts to this pharmacy, please send to both these addresses:  
618181@pharm@clicks.co.za  
And  
tw@hales@intekom.co.za

# MANAGING MATERIAL ISSUES

**MATERIAL ISSUES** are identified each year which could significantly impact positively or negatively on the group's ability to create and sustain value.

- 1 COVID-19
- 2 BRAND REPUTATION
- 3 TRADING ENVIRONMENT
- 4 COMPETITION
- 5 REGULATION
- 6 PEOPLE
- 7 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 2021 financial year, the directors confirm that the current material issues remain relevant and additional material issues relating to Covid-19 and brand reputation have been included.

**RISKS** relating to each material issue are based on the major risks on the group's register. The accompanying risk heat map 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





## Covid-19

**Why material?** The impact of the Covid-19 pandemic and the related lockdown restrictions negatively impact the group's trading environment, stock availability, supply chain, employee and customer health and safety as well as increase legislative compliance requirements.

### RISKS

- Temporary closure of stores to safeguard employees and customers.
- Potential supply chain disruption owing to possible factory closures impacting product availability.
- Delays in stock from foreign suppliers owing to lockdown constraints.
- South Africa reverting to stricter lockdown levels should a second wave of infections break out.

### OPPORTUNITIES

- Group-wide health and safety protocols implemented, including personal protective equipment and cleaning materials.
- Inventory levels increased in community and neighbourhood stores.
- Supply chain adapted to source alternative suppliers and secure stock.
- Capacity of Clicks online distribution increased to accommodate greater demand for online ordering and delivery.
- Cost base rapidly reduced to off-set the impact of slower sales during lockdown.
- To preserve cash and ensure greater balance sheet strength during lockdown, no interim dividend was declared.
- Rental relief negotiated with landlords where retail stores were unable to trade and accessed government assistance benefits on behalf of employees who were unable to work.
- UPD actively sourced new product lines required by hospital groups in the treatment of Covid-19.

## Brand reputation

**Why material?** Reputational damage to the group, its operating brands and products could result in a loss of brand equity having an adverse financial impact on the business.

### RISKS

- Breakdown in financial and governance controls and reporting could cause serious reputational damage and impact the company's rating on the JSE, as well as incurring fines and censure from regulators.
- Poor product quality, product recalls or customer claims could negatively impact trust in the brand.
- Harmful content or imagery being displayed on online platforms or printed marketing material could impact on brand equity.
- Exponential growth in social media usage with its immediacy and reach can seriously damage the image of brands, regardless of the accuracy of the content.
- Increasing consumer activism and potential brand or product boycotts.
- Inability to attract and retain quality employees if the company has suffered reputational damage.

### OPPORTUNITIES

- Robust governance framework and financial controls implemented across the group, with oversight from the board, executive management and internal audit
- Protocols established to ensure content on group's social media and online platforms is authorised by the responsible executive to limit the impact of potentially viral comments, images or videos
- Resources to monitor online and social media to respond rapidly
- Consultants retained by the group to advise on reputational management
- Strict quality assurance processes to limit risk of product failure
- Insurance and indemnity cover for product recalls, customer claims and malicious damage to property

## Trading environment

**Why material?** Low economic growth, poor economic conditions and the resultant weak consumer sentiment are impacting South Africa's retail trading environment, and this has been compounded by Covid-19. Consumer disposable income has been further eroded by rising utility prices, higher health insurance costs and increasing general living costs.

### RISKS

- The economic environment remains challenging which has been exacerbated by the Covid-19 pandemic constraining consumer spending.
- Criminal activity, including syndicated crime, escalates during times of economic hardship.
- Currency volatility could impact on the cost of direct and indirect imports and result in price increases which cannot be passed on to consumers.
- Increasing use of generic medicines and the added pressure of low single exit price (SEP) increases will continue to impact on UPD's operating margin.

### OPPORTUNITIES

- Clicks will continue to pursue a strategy to improve price competitiveness, grow sales volumes and entrench the perception of the brand as a value retailer.
- Focus on differentiators, including an extensive convenient store and pharmacy network, private label and exclusive ranges, personalised engagement leveraging the Clicks ClubCard loyalty programme and consistently high levels of customer care.
- Grow Clicks online sales and extend online-only product ranges.
- Hedge foreign exchange exposure by purchasing forward cover.
- UPD will continue to drive efficiencies to mitigate the impact of genericisation on the operating margin.

## Competition

**Why material?** Clicks faces competition on several fronts, including national food retailers and general merchandise chains, online retailers and other pharmacy businesses.

### RISKS

- Expansion by corporate pharmacy and retail chains impacting on market share growth in Clicks.
- Increasing price competitiveness and promotional activity of retailers, including competing loyalty schemes, could negatively affect sales and profitability in Clicks.
- Customers migrating to alternate online retailers.

### OPPORTUNITIES

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

## Regulation

**Why material?** 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

- Healthcare 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) would impact on the private and public healthcare markets.
- Non-compliance with current and emerging legislation including the Companies Act, Consumer Protection Act, Protection of Personal Information Act, labour law and copyright legislation could result in monetary sanctions.

### 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, and to accelerate the granting of pharmacy licences and approval of generic medicines to broaden access to affordable healthcare.
- 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

**Why material?** 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.

### RISKS

- Inability to recruit, attract and retain talent for core business needs, including merchandise and planning, store management, information technology and pharmacy.
- Strike action causing disruption to operations, damage to property and financial loss.

### OPPORTUNITIES

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

## Information technology

**Why material?** 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 information.
- Inability to restore business operations and IT systems, including UPD automated picking system, in the event of a disaster.
- Power outages impacting the ability to trade and resulting in loss of sales.

### 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.
- Migration to cloud-based business continuity plan.
- Ensure continued trading during power outages by connecting to mall generators where available and backup power through uninterrupted power solutions.

## MANAGING MATERIAL ISSUES (CONTINUED)

### Sustainability risks

Sustainability underpins our approach to potential risks and informs the way we manage material issues. The process of risk identification and opportunities is driven through a strategic and systematic method which enables continuous improvement of risk management and open communication of threats within the group.

### Carbon emissions - greenhouse gas (GHG)

Managing carbon emissions is part of our response to the Paris Agreement which sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C through climate change-related action. Our target is to ensure that reporting boundaries based on operational controls are identified and the group's annual GHG emissions and energy usage is tracked to ensure that we remain within the predetermined threshold. The Department of Environmental Affairs currently requires companies to register and annually report total GHG emissions. Clicks has also adopted measures to ensure that the group complies with the requirements of the National Greenhouse Gas Emission Reporting Regulations as well reporting annual carbon emissions and setting reduction targets.

### Energy

Energy security is vital for our operations. Electricity supply in the stores, distribution centres, head office and regional office is core to the sustainability of the business and load shedding poses a substantial risk. Our aim is to ensure uninterrupted supply by ensuring that uninterruptible power sources (UPSs) are in working order to cover load shedding. The group is also exploring the use of alternative energy sources to ensure business continuity.

### Water

Access to water and water availability are major concerns in the region and have the potential to disrupt businesses. Fresh water quality is vital for Clicks' pharmacies as it is a regulatory requirement for pharmacists and nurses to have access to warm, clean water to wash hands and equipment for mixing of medication. Clicks has adopted measures to improve water availability and has gone further and identified areas where water scarcity presents a risk. Contingency plans have been developed for facilities located in water-scarce areas and measures have been put in place that allow us to understand the impacts of water risks in the supply chain.



MANAGING MATERIAL ISSUES (CONTINUED)

Waste

Medical waste that is not disposed of correctly can present a significant health risk and a reputational risk for the company. We ensure that our waste streams are correctly classified and that medical waste is disposed of by reputable companies that have the required licensing and transportation controls in place.

The issue of plastic waste reduction is currently one of the imperative sustainability conversations being raised by various stakeholders including investors.

The impact of plastics on the environment as well as the emissions associated with the production of plastics has been raised as a major concern globally. We are aware that the solution to plastics and plastic waste must be a joint effort across all sectors. South Africa has adopted regulations pertaining to the use of single-use plastics and we are cognisant of the ongoing legislative process which seeks to adopt a levy chargeable on the use of plastics in packaging.

Supply chain

We are committed to ensuring good governance regarding environmental and social practices within our supply chain. Our focus is on ensuring compliance with laws and regulations as well as adhering to international principles for sustainable business conduct.

Data security and privacy

We are committed to ensuring the confidentiality of our customers' personal information and the security of sensitive internal company data. Processes and controls are in place to identify and address data security risks and governance to protect against data being compromised as a result of unauthorised access through the Clicks websites or an information security breach. Our focus is on ensuring compliance with the Protection of Personal Information Act. Key security and compliance risks have been assessed and largely remediated through continuous security testing required under the payment card industry (PCI) compliance certification process.

Business continuity

Business continuity is a priority and the discipline is viewed as an holistic approach that involves the entire business. We continue to reference and adhere to the Business Continuity Good Practice Guidelines 2018. Key risks were identified through the business impact analysis process and at the business continuity management committee within the group. The programme methodology uses the six-pillar approach to identify the potential loss of premises, skill sets, equipment, documentation, suppliers, IT systems and data. Once identified, mitigating controls and/or solutions are evaluated and implemented if required.

