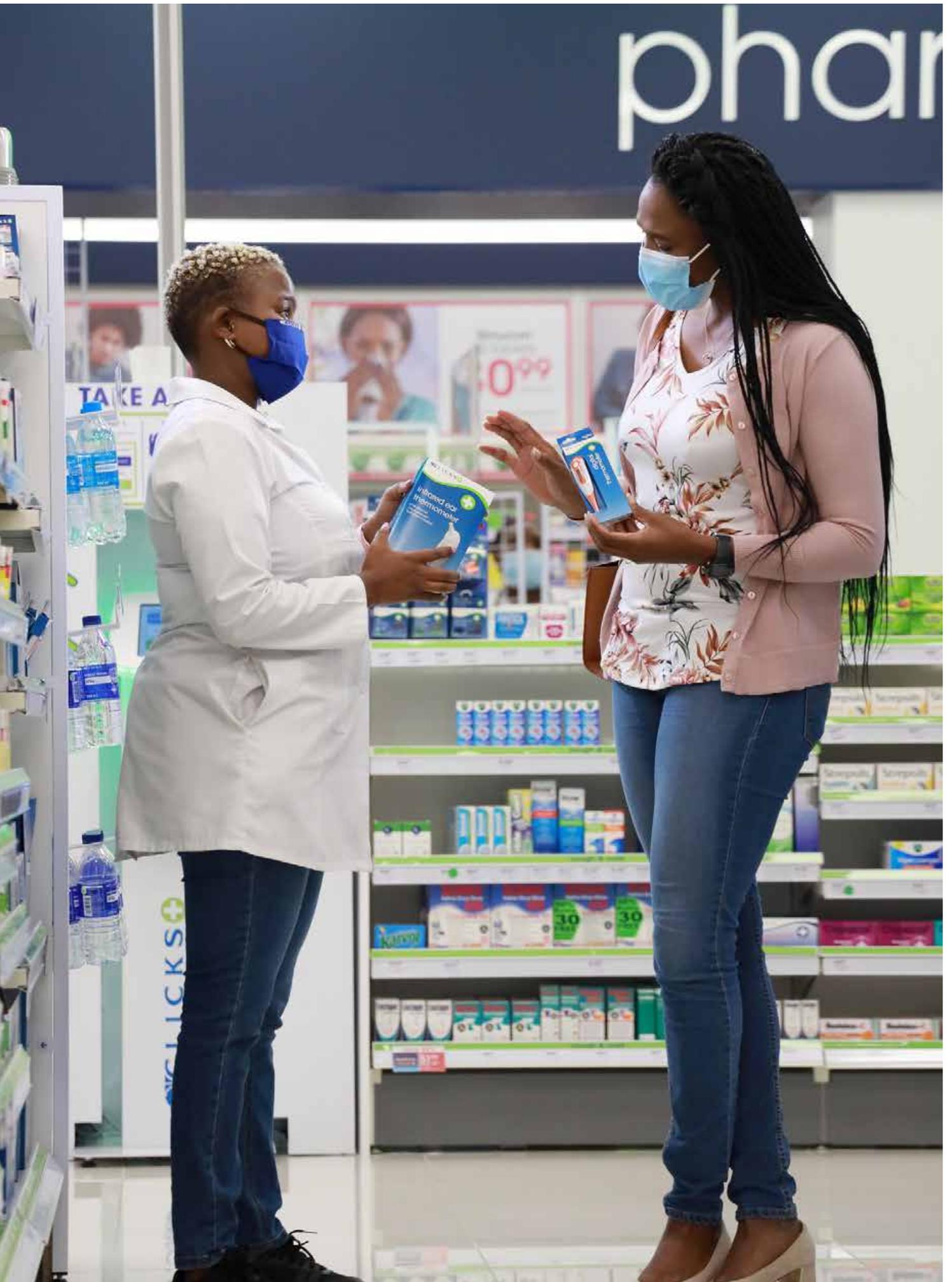


# Stakeholder REVIEW

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# Creating stakeholder VALUE IN 2021

The group demonstrated its resilience throughout the Covid-19 pandemic. The challenging trading conditions were compounded by the outbreak of civil unrest across KwaZulu-Natal and Gauteng in July 2021. However, despite these severe headwinds, **the group continued to create value for stakeholders**, including shareholders, customers, employees, suppliers and communities.



## SHAREHOLDERS

Shareholders are the group's principal providers of financial capital.

Diluted headline earnings per share up **2.6%** to **774 cents**

Diluted headline earnings per share adjusted for impact of civil unrest up **8.8%** to **837 cents**

**R2.2 billion** returned to shareholders in dividends and share buy-backs

Dividend per share **490 cents**

Reinvested **R690 million** in capital expenditure

### GROWTH IN EARNINGS AND DIVIDENDS



#### 10-YEAR CAGRs

Total shareholder return<sup>^</sup>: **24.5%**

Diluted HEPS: **12.0%**

Dividend per share: **14.6%**

\* Pre-IFRS 16

\*\* Based on HEPS

<sup>^</sup> Based on reinvestment of dividends paid and the closing share price

 **CUSTOMERS** Retail and wholesale customers are the group's primary source of revenue.

Opened **39 Clicks stores** and expanded footprint to **782** stores

**36 new Clicks pharmacies**, increased network to **621** pharmacies

50% of customers now live within 5.5 km of a Clicks pharmacy

**596 180** vaccinations administered across 300 Clicks stores

**R545 million** cashback paid to ClubCard members

 **EMPLOYEES** All permanent and part-time employees across the group.

**R3.8 billion** paid to employees

**R217 million** invested in **employee training** and development

Company-funded healthcare cover available to all employees

 **SUPPLIERS** Local and international suppliers of products and services, including landlords.

**R33 billion** paid to suppliers of goods and services, including landlords

**74% weighted BEE procurement expenditure**, with continued transformation of the supplier base

Launched **SMME supplier listing portal** and purchased more than **R1.2 billion** from small and medium-sized businesses

**R73 million** invested in **enterprise and supplier development** programmes

**R44 million** paid to **65 small enterprise owner-drivers** contracted to UPD

 **COMMUNITIES** Beneficiaries of social investment in the communities in which the group operates.

**R23 million** invested in **socio-economic development** projects aligned to the group's focus on health and well-being

**100 bursaries** awarded to pharmacy students in 2021

**Free clinic services** for customers with no medical cover extended to five days a week at the start of the Covid-19 lockdown



# 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 CIVIL UNREST
- 2 COVID-19
- 3 BRAND REPUTATION
- 4 TRADING ENVIRONMENT
- 5 COMPETITION
- 6 REGULATION
- 7 PEOPLE
- 8 INFORMATION TECHNOLOGY

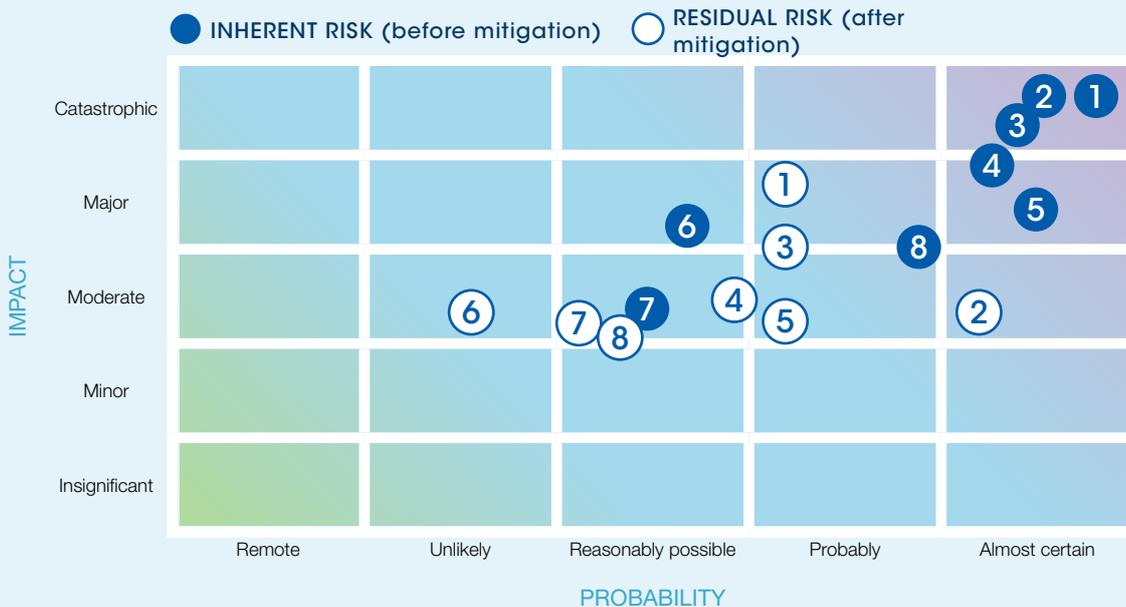
The material issues are reviewed annually by the board and management where all relevant internal, industry and macroeconomic factors are evaluated. The needs, expectations and concerns of the stakeholder groups that are most likely to influence the group’s ability to create sustainable value, notably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

Following the review for the 2022 financial year, the directors advise that civil unrest has been included as an additional material issue.

**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



1

## Civil unrest

**Why material?** Incidents of civil unrest causing physical damage, business interruption or loss of revenues are becoming an increasingly significant risk in the current environment.

### RISKS

- Increase in the number of riots, demonstrations and vandalism as a means of civil unrest becomes the main political risk exposure for companies, resulting in significant losses and insurance claims.
- Impact of civil and political violence can cause business disruption beyond physical property damage, which along with the Covid-19 pandemic is likely to fuel further disturbances.
- Disruption to the South African economy, transport networks, companies, distribution centres, malls and stores resulting in possible loss of life, and increased hardship.
- Increased cost of doing business as a result of higher insurance premiums and security requirements to safeguard against and recover from incidents of civil unrest.

### OPPORTUNITIES

- Improved business continuity planning that explicitly addresses civil unrest across the distribution centres, transport and stores network.
- Insurance cover requirements to meet specialist civil and political violence risks.
- Increased co-operation with government, civil society groups and the industry to mitigate and manage threats of civil unrest.
- Implementation of improved, tested and co-ordinated national supply chain capabilities to respond to incidents of civil unrest.
- Enhanced financial cash flow and liquidity facilities to mitigate short-term working capital dislocations in the event of disruption.
- Leverage online capability to meet customer needs.

2

## 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 in the event of further waves of infection.

### 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.
- UPD actively sourced new product lines required by hospital groups in the treatment of Covid-19.
- Covid-19 vaccine service provided by Clicks pharmacies and clinics, with cold chain storage and delivery to Clicks by UPD.

### 3 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.

### 4 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

- 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.

5

## Competition

**Why material?** 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 and promotional activity of retailers, including competing loyalty schemes, could negatively affect sales and margin in Clicks.
- Customers migrating to alternate online retailers with fast home delivery service.

### 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.
- Acquisition of Pick n Pay retail pharmacies, subject to competition and regulatory approval.
- Clicks has opened its first baby store-in-store and first standalone baby store with further standalone baby stores to follow, expanding the range of baby products offered.
- 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.

6

## 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.

7

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.
- Inability to secure business as a result of not achieving required transformation targets.

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.

8

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 back-up power through uninterrupted power solutions.

# Our SUPPLY CHAIN

As a proudly South African company we are committed to supporting local suppliers and have continued to transform our supply base. Only 8% of our retail products are imported directly. As part of our support of the local economy, we launched a small, medium and micro enterprise (SMME) supplier listing portal to develop small and medium-sized suppliers. Our commitment to this strategy is reflected in the 69% growth in purchases from small and medium-sized businesses to R1.2 billion.

The group invested R73 million in enterprise and supplier development programmes while R44 million was paid to 65 small enterprise owner-drivers contracted to UPD.

We are targeting purchases of over R7 billion through black-owned businesses in the next three years, including R4.5 billion through black women-owned suppliers.

The group views its suppliers as business partners and undertakes to ensure that a good working relationship is maintained based on ethical and fair values. Clicks Group is committed to conducting business honestly, openly and with integrity, and in accordance with the highest ethical standards. Our supplier code of ethics has been developed to ensure that the group's values and ethical standards are clearly articulated to and supported by its suppliers and other stakeholders.

Working with our suppliers we have also developed a sustainable supply chain management strategy. Our aim is to ensure that the group has an industry framework for sustainable supply chain management addressing the following issues:

- **Occupational health and safety:** Ensure that suppliers provide a safe and healthy workplace for their employees and contractors, and are compliant with local and national laws and regulations on occupational health and safety.
- **Working conditions:** Suppliers must uphold fair and decent working conditions by ensuring that workers are paid at least the minimum wage as stipulated by national law and that they benefit from social security schemes according to national legal standards.

- **Freedom of association:** It is imperative that suppliers do not interfere with workers' freedom of association. Their employees should not be subjected to discrimination or termination of contract in retaliation for exercising employee rights, submitting grievances, participating in union activities, or reporting suspected legal violations.
- **Forced labour:** Ensure that suppliers do not use any work that is performed under threat of penalty, including forced overtime, human trafficking, debt bondage, forced prison labour, slavery or servitude. Suppliers shall not withhold migrant workers' identification documents.
- **Child labour:** No children under the age of 18 or below the legal minimum age, if higher, should be employed.
- **Non-discrimination:** Ensure that suppliers do not discriminate on grounds including, but not limited to, age, disability, gender, sexual orientation, political or other opinion, ethnic or social origin, or religion.
- **Bribery and corruption – anti-money laundering:** Suppliers need to comply with all applicable anti-corruption laws and regulations, and shall not pay bribes or make any other inducement (including kickbacks, facilitation payments, excessive gifts and hospitality, grants or donations) in relation to their business dealings with customers and public officials.
- **Transparency and integrity:** Ensure that our suppliers provide relevant information and documentation on the above issues upon request, safeguarding integrity as well as a relationship of mutual trust.

The Clicks Group spent over R1.2 billion with SMME suppliers annually.

The Clicks Group is targeting over R4.5 billion sourced through black women-owned suppliers over the next three years.

The Clicks Group is targeting over R7 billion sourced through black-owned suppliers over the next three years.



*“The group views its suppliers as business partners and undertakes to ensure that a good working relationship is maintained based on ethical and fair values.”*