Notes to the financial statements continued

for the year ended 30 JUNE 2021

2. Critical accounting estimates and assumptions continued

2(g) Estimation of ECL allowance

The Group has historically had high-quality debtors and an impeccable repayment history. As a result there isn't a general provision model applicable to the Group.

The ECL for trade receivable for segments with a history of provisions of credit losses has been calculated using a Provision Matrix approach and Time Value of Money loss approach for segments with no history of credit losses.

Provision matrix

Provision matrix calculates the cash flows and then discounts those cash flows to calculate the real outstanding debtors (the outstanding debtors taking into account time value of money by subtracting the discounted cash flows from the initial outstanding debtors).

The roll rates, loss rates and ultimate loss rate are calculated which will be the percentage of trade receivables as at year-end that are written off.

Time value of money

The debtors whose expected credit losses are calculated using the time value of money are those that have not been previously or historically written off due to the fact that they are slow payers. The expected credit losses are therefore limited to the effects of the time value of money due to slow paying (the opportunity cost of delayed payments).

Therefore, this is based on the premise that all debtors will be collected, the time value of money loss is the ultimate IFRS 9 impairment, and there is no credit loss.

Time value of money loss is calculated as (cash flows less discounted cash flows)÷cash flows.

2(h) Impairment of internally generated software

The carrying amount of internally generated software is tested annually for impairment. The recoverable amount of the cash-generating units ("CGU") has been determined based on the value-in-use calculation, being the net present value of the discounted cash flows of the CGU. The main assumptions applied in determining the net present value are:

- the estimated revenues to be earned from the use of the assets and the period over which those revenues are projected;
- the weighted average cost of capital; and
- risk adjustment factors used in deriving an appropriate discount rate applied to future estimated cash flows.

2(i) Principal versus agent considerations

Activo Health Proprietary Limited, Pharmacy Direct Proprietary Limited and Curasana Wholesaler Proprietary Limited individually controls its respective inventory before it is sold to a customer.

2(j) IBNR and seasonality reserve

The main assumptions used in determining the reserve are:

- The run-off of claims is determined by using the same period in the prior year as a basis for calculating the run-off percentage.
- Utilising the same period in the prior year as a basis of calculation is deemed appropriate as the prior year would already be fully run-off.
- At year-end, management investigates the claims trend and re-performs the forecast. The amended forecast is used to compare to the actuals to determine a more accurate seasonality reserve.

3. Financial risk management

General

Risk management is a priority issue because it affects every part of the business. It is a pre-emptive process that allows the Group and Company to assess and analyse risk in an integrated fashion, identifying potential areas in advance and then to proactively create processes and measures for compliance.

Fundamentally, the Board's responsibility in managing risk is to protect the Group's employees, stakeholders and the Group in every facet. It fully accepts overall responsibility for risk management and internal control and in so doing the Board has deployed effective control mechanisms to prevent and mitigate the impact of risk.

Primary responsibility for risk management at an operational level rests with the Executive Committee. Management and various specialist committees are tasked with integrating the management of risk into the day-to-day activities of the Group and Company.

Notes to the financial statements continued

for the year ended 30 JUNE 2021

3. Financial risk management continued

General continued

The Retail, Healthcare and Administration business activities are exposed to a variety of financial risks:

» Market risk;
» Credit risk; and
» Liquidity risk

The Group's and Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Refer to note 9 for classes of financial assets and liabilities.

(i) Currency risk

Currency risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The Group is not exposed to any foreign exchange risk in relation to its foreign operations in Namibia and Eswatini as the currencies of these countries are fixed to the South African Rand.

Cash flows from the Group's other foreign investments (Botswana, Mauritius, Kenya and Zimbabwe) bear foreign exchange risk. The most significant exposure is to the Mauritian Rupee, the Botswana Pula, the Zimbabwean Real Time Gross Settlement (RTGS) dollar and the United States Dollar (US Dollar). The impact of foreign exchange risk on profit and loss amounted to R4 379 000 loss in the 2021 financial year (2020: R380 000 loss). The Group exited the Zimbabwean operation during the current financial year. Refer to Note 15 for the details of the disposal.

The Group manages its currency risk by minimising foreign exposure.

The table below presents the average and spot rates of the foreign currencies to which the Group has significant exposure:

	Group			
	2021		2020	
	Spot rate	Average rate	Spot rate	Average rate
Mauritian Rupee	**0.333**	**0.385**	0.422	0.417
Botswana Pula	**1.319**	**1.383**	1.484	1.401
RTGS	**0.180**	**0.206**	0.303	0.707
US Dollar	**14.310**	**15.315**	17.129	15.678

(ii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk from external borrowings.

The Group's and Company's interest income arises from interest-bearing instruments and fixed deposits. The Group's Treasury manages excess funds on a daily basis into call/deposit accounts to ensure that the best yield is obtained for the Group.

The Group's interest expense arises from the Nedbank borrowings facilities.

The financial condition to the Nedbank facility is for the Group to ensure that net debt to EBITDA in respect of any relevant period shall not exceed 2.5:1 times and Interest cover in respect of any relevant period shall not be less than 4:1. This helps management to manage the interest rate risk.

The Group further manages the risk through negotiating low interest rates, meeting debt obligations as they fall due, maintaining a good credit record, opting for fixed interest rate instruments where available and also through opting for sourcing funds within the Group rather than incurring external loans.

The Financial Stability Board has initiated a fundamental review and reform of the major interest rate benchmarks used globally by financial market participants. This review seeks to replace existing interbank offered rates (IBORs) with alternative risk-free rates (ARRs) to improve market efficiency and mitigate systemic risk across financial markets. The South African Reserve Bank (SARB) has indicated their intention to move away from Johannesburg Interbank Average Rate (JIBAR) and to create an alternative reference rate for South Africa. This reform is at various stages globally, a suitable alternative for South Africa is only expected to be announced in a few years' time. Accordingly, there is uncertainty surrounding the timing and manner in which the transition would occur and how this would affect various financial instruments held by the Group.

Notes to the financial statements continued

for the year ended 30 JUNE 2021

3. Financial risk management continued

General continued

(ii) Cash flow and fair value interest rate risk continued

The Group and Company have used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income and equity of an instantaneous increase of 2% (200 basis points) in the market interest rates for each class of financial instrument with all other variables remaining constant. The sensitivity analysis excludes the impact of market risks on net post-employment benefit obligations.

The interest rate sensitivity analysis is based on the following assumptions:

» Changes in market interest rates affect the interest income or expense of variable interest financial instruments; and
» Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at their fair value.

	Group		Company	
	Increase in 2% on statement of comprehensive income R'000		Increase in 2% on statement of comprehensive income R'000	
Instruments exposed	**2021**	**2020**	**2021**	**2020**
Bank balances and short-term investments	**6 429**	6 486	**48**	144
Borrowings	**(11 279)**	(10 739)	**–**	–
Total	**(4 850)**	(4 253)	**48**	144

	Group		Company	
	Decrease in 2% on statement of comprehensive income R'000		Decrease in 2% on statement of comprehensive income R'000	
Instruments exposed	**2021**	**2020**	**2021**	**2020**
Bank balances and short-term investments	**(6 429)**	(6 486)	**(48)**	(144)
Borrowings	**11 279**	10 739	**–**	–
Total	**4 850**	4 253	**(48)**	(144)

Under these assumptions, a 2% increase in market interest rates at 30 June 2021 would decrease Group profit before tax by approximately R4 850 000 (June 2020: R4 253 000) and company profit before tax would increase by approximately R48 000 in June 2021 (June 2020: R144 000).

A decrease of 2% in market interest rates at 30 June 2021 would increase Group profit before tax by approximately R4 850 000 (June 2020: R4 253 000) and Company profit before tax would decrease by approximately R48 000 in June 2021 (June 2020: R144 000).

(iii) Credit risk

Credit risk arises from borrowings, cash and cash equivalents and other investments, that is, deposits with banks and financial institutions, as well as credit exposures to clients, including outstanding receivables and committed transactions. For banks and financial institutions only independently rated parties are accepted (refer to Note 9.3). If clients do not have an independent rating, risk control assesses the credit quality of the client, taking into account its financial position, past experience and other factors. Credit risk is managed at both the Group and Company level.

A significant portion of the Group's and Company's client base comprises high credit quality financial institutions. Refer to Note 9 for the rating table.

No credit limits were exceeded during the reporting period. Individual limits are set for each client based on the factors above as assessed by management. These limits are monitored by management and ensured that they are not exceeded.

Expected credit losses (ECL) assessment for individual customers as at 30 June 2021 and 30 June 2020

The Group uses a simplified approach to measure and recognise ECL on a lifetime basis for trade receivables from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through successive stages of delinquency to write off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, age of customer relationship and type of product purchased.

The loss rate incorporates the impact of forward-looking information. The following macro-economic factors were considered:

» Gross Domestic Product annual growth rate;
» Prime lending interest rate;
» Inflation rate; and
» Unemployment rate

Notes to the financial statements continued

for the year ended 30 JUNE 2021

3. Financial risk management continued

General continued

(iii) Credit risk continued

Expected credit losses (ECL) assessment for individual customers as at 30 June 2021 and 30 June 2020 continued

A regression analysis was performed to identify reasonable and supportable forward-looking information using the above macro-economic factors. The conditions for such an adjustment are statistical and economic significance, and the adjustment will only be made when both conditions are met.

Results from the regression analysis indicated that the relationship between the macro-economic factors considered and historical loss rates was not statistically significant, hence no forward-looking information adjustment was applied to the determination of the ECL making the ECL before a forward-looking adjustment equal to the final ECL.

A debtor is considered to be credit impaired if the following events are present:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
  - adverse changes in the payment status of issuers or debtors in the Group; or
  - national or local economic conditions that correlate with defaults on the assets in the Group.

Trade receivables are written off after all collection steps have been exhausted, including the issue of letters of demand, and there is no reasonable expectation of recovery.

The following table provides information about the exposure to credit risk and ECL for trade receivables from individual customers as at 30 June 2021. Trade receivables' expected credit loss is calculated by using a combination of the weighted average loss rate and the time value money loss.

30 June 2021	Weighted average loss rate %	Gross carrying amount R'000	Loss allowance R'000	Credit impaired
Current (not past due)	0.31	272 971	840	No
30 days past due*	3.66	78 484	2 869	No
60 days past due*	23.67	15 859	3 754	No
90+ days past due	29.41	38 603	11 355	No
Total		405 917	18 818	

* *The increase was largely due to the expected credit loss for amounts receivable from government. The estimated loss rate increased from 1.4% in the prior year to 24% of the total amount receivable as at reporting date. The increase was as a result of the delayed payments which occurred during the financial year.*

30 June 2020	Weighted average loss rate %	Gross carrying amount R'000	Loss allowance R'000	Credit impaired
Current (not past due)	0.89	285 942	2 556	No
30 days past due	0.33	70 606	230	No
60 days past due	3.22	15 436	497	No
90+ days past due	41.59	76 890	31 979	No
Total		448 874	35 262	

The Group used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income of an instantaneous change of 1% in the loss rates with all other variables remaining constant.

Under these assumptions a 1% increase in loss rate will result in a decrease in Group profit before tax of R594 383 and a 1% decrease will result in an increase in group profit before tax of R458 040.

Expected credit losses (ECL) assessment for borrowings to related parties

There are no fixed terms of repayment of the intercompany loans. The loans are either paid when the lender calls on the payment or when a review has been undertaken of the outstanding balances.

On a monthly basis, the intercompany loans are reviewed to determine the quantum of what is owed and on a quarterly basis, the intercompany loans are settled where practical.

Notes to the financial statements continued

for the year ended 30 JUNE 2021

3. Financial risk management continued

General continued

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities to meet debt repayment and operating requirements. Management monitors the cash position on a daily basis from a Group and Company level. Due to the dynamic nature of the underlying businesses, management ensures flexibility in funding by keeping committed credit facilities available.

Management monitors rolling forecasts of the liquidity reserve on the basis of expected cash flow.

The table below analyses all cash flows from the financial liabilities into the time buckets in which they are contractually due to be paid:

	Group							
	Less than 3 months or on demand R'000	More than 3 months but not exceeding 6 months R'000	More than 6 months but not exceeding 9 months R'000	More than 9 months but not exceeding 1 year R'000	More than 1 year but not exceeding 2 years R'000	More than 2 year but not exceeding 5 years R'000	Exceeding 5 years R'000	Total R'000
Year ended 30 June 2021								
Trade and other payables (Note 9.4)	(404 844)	(11 884)	–	–	–	–	–	(416 728)
Lease liability (Note 9.6)	(14 610)	(15 137)	(16 637)	(17 380)	(49 185)	(107 168)	–	(220 117)
– Contractual undiscounted payments	(20 276)	(20 178)	(21 044)	(21 142)	(61 316)	(119 828)	–	
– Interest	5 666	5 041	4 407	3 762	12 131	12 660	–	
Borrowings (Note 9.5)	(30 000)	(30 000)	(30 000)	(30 000)	(120 000)	(535 785)	–	(775 785)
– Contractual undiscounted payments	(41 327)	(41 141)	(40 975)	(41 232)	(163 814)	(571 939)	–	
– Interest	11 327	11 141	10 975	11 232	43 814	36 154	–	
Year ended 30 June 2020								
Trade and other payables (Note 9.4)	(342 454)	(19 032)	–	–	–			(361 486)
Lease liability (Note 9.6)*	(26 849)	(23 710)	(23 471)	(22 825)	(41 381)	(49 184)	(90 862)	(278 282)
– Contractual undiscounted payments	(34 603)	(30 743)	(29 966)	(29 091)	(60 256)	(61 316)	(103 458)	
– Interest	7 754	7 033	6 495	6 266	18 875	12 132	12 596	
Borrowings (Note 9.5)*	(30 000)	(30 000)	(30 000)	(30 000)	(90 000)	(176 311)	–	(386 311)
– Contractual undiscounted payments	(35 699)	(35 695)	(35 640)	(38 599)	(111 608)	(216 161)	–	
– Interest	5 699	5 695	5 640	8 599	21 608	39 850	–	

* *The line item has been disaggregated to present the contractual cash flows and the discounting impact. The cash flows have also been further disaggregated into 1 – 2 years, 2 – 5 years and 5 years+.*

Notes to the financial statements continued

for the year ended 30 JUNE 2021

3. Financial risk management continued

General continued

(iv) Liquidity risk continued

	Company							
	Less than 3 months or on demand R'000	More than 3 months but not exceeding 6 months R'000	More than 6 months but not exceeding 9 months R'000	More than 9 months but not exceeding 1 year R'000	More than 1 year but not exceeding 2 years R'000	More than 2 year but not exceeding 5 years R'000	Exceeding 5 years R'000	Total R'000
Year ended 30 June 2021								
Trade and other payables (Note 9.4)	(7 457)	–	–	–	–	–	–	(7 457)
Loan from group company	–	–	–	–	–	–	(14 327)	(14 327)
Year ended 30 June 2020								
Trade and other payables (Note 9.9)	(6 766)	–	–	–	–	–	–	(6 766)
Loan from group company	(9 767)	–	–	–	–	–	–	(9 767)

(v) Capital risk management

The objective of the Group and Company when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group and Company monitor cash flow on the basis of the gearing ratio. This ratio is calculated as long-term debt divided by total capital employed. Total capital employed is calculated as equity as shown in the statement of financial position plus long-term debt.

During 2021, the Group's and Company's strategy, which was unchanged from 2020, was to maintain the gearing ratio within 0% to 15%.

It is further noted that the Group breached this range due to key investment made in the current financial period, namely DENIS Group in October (R170 million) and the Exeltis (Forrester) acquisition effective 1 August 2021 which entailed a R150 million loan advance in May 2021 to the sellers of Forrester, that was subsequently applied against the purchase price for the Forrester acquisition once the conditions for the acquisition were fulfilled. Refer to note 14 and note 34 for further information. The overall financial position of the Group is sound and debt covenants to Nedbank have not been breached, with sufficient headroom. The Group will continue to use available cash resources to reduce the loan balances, with R120 million capital repayments expected in the 2022 financial period. The capital repayments and equity growth the acquisitions are expected to bring to Group will contribute to restoring the gearing ratio to within target in the medium term.

The financial condition to the Nedbank facility is for the Group to ensure that net debt to EBITDA in respect of any relevant period shall not exceed 2.5:1 times and interest cover in respect of any relevant period shall not be less than 4:1.

	2021 R'000	2020 R'000
Net debt	576 845	208 631
Total equity	3 255 724	3 119 095
EBITDA	1 009 897	869 268
Interest expense	57 093	71 727
Net debt to equity ratio	18%	7%
Net debt to EBITDA	0.57:1	0.24:1
Interest cover	17.69:1	12.12:1