

The “Rewards Programme” Battle: Don’t Discount Clicks Just Yet

Clicks has come under notable pressure following a period of intensified competition from Dis-Chem, particularly driven by Dis-Chem’s aggressive “Better Rewards” programme. While this has weighed on sentiment and near-term performance, we believe the market reaction has been excessive. Beneath the noise of promotional competition and short-term disruptions, Clicks retains a high-quality business model with strong cash generation, resilient margins, and a disciplined strategic response, supporting our continued bullish stance.

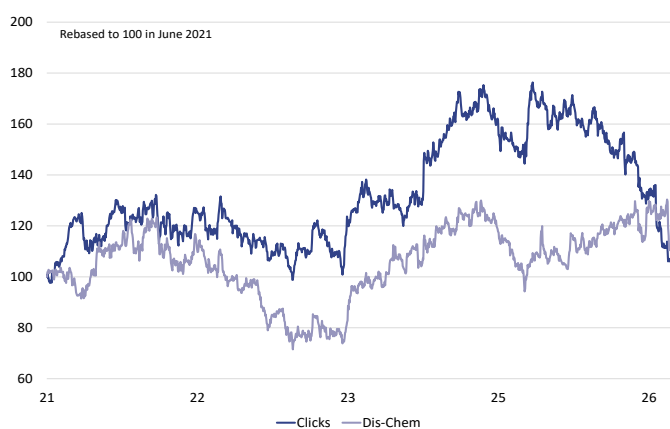


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Who doesn’t enjoy a good rewards programme? From “buy 3, pay for 2” deals to cashback offers, consumers have become accustomed to getting something extra in return for their spend. With an abundance of options available, the competition between retailers has intensified, largely to the benefit of shoppers. However, for some companies, including Clicks, this competitive dynamic has come at a cost, weighing on festive season footfall and, in turn, the share price.

In this article, we unpack the evolving rewards battle and explain why we remain bullish on Clicks. In our view, the recent share price weakness, particularly for a stock that has historically traded at a significant premium, presents an attractive opportunity to build positions in portfolios.

CLS VS DCP: RELATIVE PERFORMANCE



The chart above illustrates how CLS has fallen out of favour over the past year, while DCP experienced a sharp sell-off following the release of its latest results.

SPEED READ

- **Dis-Chem’s discount-led push disrupted the market, but at a cost:** Aggressive promotions drove footfall gains for DisChem but are now placing pressure on margins and raising questions around long-term sustainability.
- **Regulatory and structural risks may narrow the gap:** Increased scrutiny of pharmacy-linked incentives and rising supplier costs could force DisChem to scale back discounts, bringing pricing closer to Clicks.
- **Clicks remains fundamentally strong:** Despite short-term challenges, CLS continues to deliver earnings growth above inflation, supported by strong cash generation and industry-leading returns on equity.
- **Valuation opportunity emerging:** Recent share price weakness has created an attractive entry point into a high-quality retailer offering a superior dividend yield and a more shareholder-friendly payout profile.

Dis-Chem’s Discount Strategy Disrupts Clicks

Before Clicks’ (“CLS”) interim results for the period ending 28 February 2026 were released, investors had already been cautioned about mounting pressure from Dis-Chem’s (“DCP”) new “Better Rewards” programme. Unlike the traditional points-based cashback model most consumers are familiar with, DCP retired its legacy green Benefit Card and introduced an instant-discount model in partnership with Capitec, launched in late October last year.

The programme not only impacted CLS’s festive trading, but also ran for longer than expected, extending through to the end of February. It offered discounts of up to 20%, made up of an approximate 10% base discount (half of which was funded by DCP), a 5% pharmacy boost (also DCP-funded), and an additional 5% Capitec benefit.

Compared to CLS’s average discounting of around 14%, it

is clear why footfall shifted away from CLS towards DCP. CLS was further disadvantaged by inventory availability issues at its Western Cape distribution centre, stemming from the rollout of a new warehouse management system. When CLS released its interim results, the market reacted sharply. In my view, this was an overreaction. Firstly, both the impact of DCP’s rewards programme and the warehouse challenges had been well flagged ahead of the results. Secondly, the warehouse disruption accounted for only 0.6% of Group sales. Thirdly, aggressive promotional activity inevitably comes at the expense of margins, something that became evident when DCP reported its own results, prompting analysts to subsequently downgrade DCP to a Sell rating.

Maintaining Conviction in Clicks

There was significant market reaction following Clicks’s results, as investors recognised the extent to which Dis-Chem’s rewards programme had encroached on its pharmacy and front-of-store health segment.

However, there are two important considerations:

- **Regulatory risk:** South Africa’s pharmacy sector is tightly regulated to ensure pharmacists remain impartial and do not influence consumer behaviour through incentives. Increasing scrutiny is now being placed on loyalty programmes, particularly those linked to prescription fulfilment. Government has raised concerns that offerings such as the “Pharmacy Boost” may be non-compliant, as they could unduly influence where customers fill their prescriptions. At the same time, potential regulatory changes could limit medicine delivery and constrain online pharmacy models. Rising supplier costs are also placing pressure on the funding of these discounts. Should regulators intervene, these promotions are likely to be scaled back - potentially reducing DCP’s maximum discount from 20% to around 15%, narrowing the gap with CLS’s 14%.
- **Margin pressure and sustainability:** Sustained discounting at levels of 10% - 20% is beginning to erode profitability in what has historically been a stable and resilient sector. Suppliers are becoming increasingly reluctant to fund these promotions as input costs - such as packaging and fuel - continue to rise. There is also a structural risk: once consumers become accustomed to ongoing discounts, it becomes difficult to reverse them. If this trend persists, the industry risks entering a “race to the bottom,” where shrinking margins could ultimately impact service quality.

The key question is whether DCP’s instant rewards model is sustainable? CLS has intentionally refrained from aggressively responding to preserve its strong profitability, with returns on equity exceeding 45%. As DCP’s margins begin to come under pressure, CLS now sees an opportunity to reposition and regain momentum.

Clicks has begun a measured counter-offensive built on three strategic pillars:

- **Supplier-supported discounting:** CLS is engaging suppliers to co-fund its “up to 14%” discount offering, reducing the burden on its own margins while ensuring parity with supplier support extended to DCP.
- **Resolving distribution inefficiencies:** Following challenges during the festive season, Clicks is prioritising stabilisation of its Cape Town distribution centre. Upgrades to the Durban facility have been deferred to mid-2026, while the larger Centurion distribution centre, responsible for the bulk of inventory, will only be upgraded by early 2027.
- **Accelerating pharmacy expansion:** Clicks estimates it is approximately a year behind in rolling out in-store pharmacies and plans to add 40 - 45 additional locations. This is a proven growth lever, with store sales typically increasing by 25% - 40% following the introduction of a pharmacy.

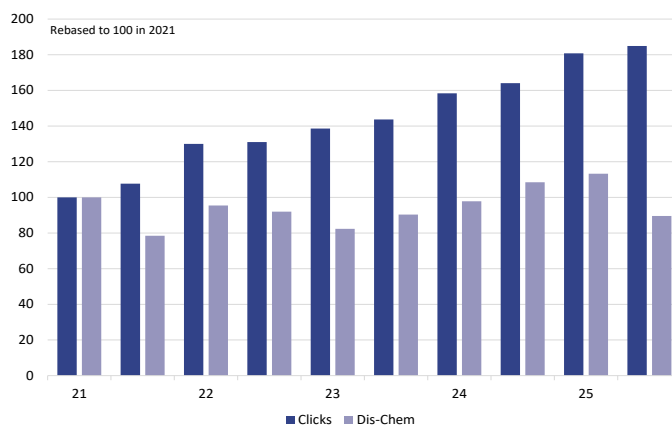
Conclusion

CLS provided a conservative forward outlook, in contrast to DCP’s more aggressive earnings growth target of 20%. Even on these cautious assumptions, CLS is still expected to grow earnings well ahead of inflation.

Its strong cash generation underpins a robust balance sheet, enabling continued investment in growth while maintaining an attractive return to shareholders. CLS currently offers a forward dividend yield of 4.4%, with a payout ratio of 64% of headline earnings. By comparison, DCP distributes only 40% of earnings, with a dividend yield of just 1.3%.

From our perspective at Harvard House, Clicks aligns more closely with our investment philosophy: delivering higher returns and a more meaningful cash yield to shareholders. The recent share price weakness, particularly given Clicks’ historical premium valuation, has presented an attractive opportunity to accumulate the stock in portfolios.

RELATIVE DIVIDEND GROWTH: CLS LEADS DCP



Rebased to 2021, the relative dividend per share growth of CLS versus DCP highlights CLS’s outperformance in delivering shareholder returns.



The next seminar will delve into the various aspects of AI and how we have positioned portfolios to benefit from this new technology.



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Topic: **Positioning your portfolio for AI**

Natal Midlands

Date: 10th of September, 2026

Venue: Christ Church Howick, 23 Mare Street, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: 8th of September, 2026

Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham

Time: 7am for 7.30am

Cape Town

Date: N/A

Venue: Kelvin Grove Club, 144 Camp-ground Rd, Newlands, 7700

Time: 7.30am

Venue: Helderberg Village Lifestyle Estate, 63 Bakkerskloof Rd, Helderberg Village, Cape Town

Time: 5.30pm for 6pm



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