Media release

4 September 2019

LIBSTAR DELIVERS SOLID OPERATING RESULTS IN TOUGH MARKETS

- ***Challenging markets continued***
- ***Results indicate resilience***
    - ***Normalised EBITDA increased by 5.9%***
    - ***Normalised EPS increased by 13.2%***
    - ***Normalised HEPS increased by 12.4%***

Commenting on the results, Libstar CEO Andries van Rensburg, said:

"Our results indicate an ongoing resilience in our operations, with the main contributors being the food-related categories of Perishables, Ambient Groceries, Snacks and Confectionery and Baking and Baking Aids. Very pleasingly, our food category volumes were up and we improved our sales mix and gross profit margins. Our key measures of normalised EBITDA, EPS and HEPS that outline true operating performance were all robust.

"Innovation, as a means of growth, remains a core pillar of our organic growth, with more than 350 new or renovated products launched during the six months to June 2019. The strategy of supplying innovative, value-added products to customers and consumers and the low-cost manufacture of these products for discerning consumers continued to serve us well during the period.

"Importantly, revenue from dealer-own brands and private label now contribute 46% of our gross revenue, up from 45% in the comparative period due to revenue from private label products within the broader South African market continuing to outstrip the growth of named brands. We are well positioned in this market through our ability to innovate and differentiate products and our ability to develop category plans with retail customers. We therefore expect to continue to grow our share of the relevant markets through our dealer-own brand and private label offerings."

Looking forward, van Rensburg added:

"In the coming six months, we will continue to focus on category and channel development initiatives, improve manufacturing efficiencies, reduce operating costs through improved productivity and invest in new technologies and capacity-expanding projects. We plan to spend a further R57 million at Lancewood, R26 million at Millennium Foods and R15 million at Ambassador Foods.

"The second half is expected to reflect the benefits from the commissioning of the par-bake frozen plant in late May and the Pringles manufacturing plant in June. The local production of Kiri and Laughing Cow soft cheese is also expected to commence in the fourth quarter of this year.

"Libstar has a historic seasonal trend of an approximate 40:60 ratio of normalised EBITDA between the first half and the second half. We expect this ratio to remain largely intact, although aggressive competitor discounting and constrained demand within the markets in which the Group operates, is expected to continue during the second half."

Financial summary

- Group **revenue** was 4.6% higher than the previous year
    - Organic revenue growth from our core categories, which constitute 88% of the Group's revenue base, was 5.3%
        - This was mainly as a result of increased volume sales of baked goods, as well as a significant increase in dry condiment exports.
    - Revenue from non-core categories, which represent 12% of revenue, declined by 1.5%
        - Despite the improvement in sales mix, significant volume declines in the outsourced and export markets impacted the results
- Group **gross profit margins** improved from 20.9% to 23.2%
    - This was mainly due to favourable changes in the sales mix of value-added dairy products, lower input costs of dry condiments, continued focus on procurement practices and production efficiencies
- **Normalised operating profit** increased by 5.0%, with margins remaining constant at 7.3%
- Group **normalised EBITDA** increased by 5.9% and normalised EBITDA margins remained constant (9.1% in H1 2018 vs 9.2% in H1 2019)

    - Normalised EBITDA from core categories increased by 8.5%, contributing 95.5% of Group EBITDA
    - The remaining 4.5% of normalised EBITDA was contributed by the non-core categories and showed a decline of 17.6% on the comparative period
- **Normalised earnings** increased by 29.8% to R185.4 million (30.9 cents per share), mainly as a result of a significant reduction in the group's net interest expense
- **Normalised headline earnings** increased by 28.7% to R185.2 million
- **Cash generated from operating activities** increased by 49.3% to R120 million, largely as a result of the reduced net interest expense.
- **Net working capital** as a percentage of revenue (13.8%) remains within the group's target of 13-15%

OPERATIONAL OVERVIEW

Please refer to the group's SENS announcement for additional detail

As indicated at year-end, the Group has structured its businesses around core categories and non-core categories. The core categories include Perishables, Ambient Groceries, Snacks and Confectionery and Baking and Baking Aids whilst the non-core categories are Household and Personal Care, Niche Beverages and Specialised Food Packaging. The dairy blend and fruit concentrate business of Elvin, in the non-core category, is currently held for sale and the comparative period has been restated to reflect this.

CORE CATEGORIES *(88% of revenue; 95% of normalised EBITDA)*

Perishables (48% of group revenue and 42% of group normalised EBITDA)

- **Revenue** from Perishables, the group's single largest contributor to revenue and profit, increased 1.5%
- A significant improvement in the sales mix of dairy products following the launch of a range of eating yoghurts in Q3 2018 was the main contributor to the improvement in category **gross profit margins** from 17.9% to 20.9% and also contributed to the increase in

normalised operating profit and **normalised EBITDA** which grew by 2.4% and 6.0% respectively

- The **normalised EBITDA margin** for the category improved from 8.7% to 9.1%.

Ambient Groceries (28% of group revenue and 37% of group normalised EBITDA)

- **Revenue** from Ambient Groceries, the group's second largest contributor to revenue and profit, grew by 7.6%
- The Ambient Groceries category **gross profit margin** improved from 25.7% to 28.6%, mainly as a result of lower dry condiment input prices
- **Normalised operating profit** and **normalised EBITDA** increased by 16.9% and 13.5% to R156 million and R179 million respectively
- **Normalised EBITDA** margins improved from 12.9% to 13.6%

Snacks and Confectionery (5% of group revenue and 7% of group normalised EBITDA)

- **Revenue** from the Snacks and Confectionery category grew 12.6% to R239 million
- **Gross profit margins** in the category declined from 26.1% to 24.8%, largely due to increased promotional activity in nut tubs and peanut snacks
- **Normalised operating profit** declined by 2.9% to R29 million, while **normalised EBITDA** increased 2.7% to R36 million.
    - The planned snack bar launch in September 2019 is expected to bolster H2 normalised EBITDA performance

Baking and Baking Aids (7% of group revenue and 9% of group normalised EBITDA)

- **Revenue** from Baking and Baking Aids increased by 22.7% to R314 million
- An adverse change in the baked goods sales mix resulted in a decline of the category **gross profit margin** from 27.6% to 24.2%
- **Normalised operating profit** and **normalised EBITDA** increased by 0.9% and 5.3% to R31 million and R42 million respectively

NON-CORE CATEGORIES *(12% of revenue; 5% of normalised EBITDA)*

The performance from the group's non-core categories was disappointing. Normalised operating profit declined by 19.5% to R12 million, mainly due to a weaker performance in Niche Beverages (off a high H1 2018 base). Normalised EBITDA declined by 17.6% to R22 million.

Niche Beverages (1% of group revenue and 0% of group normalised EBITDA)

During the period, the group entered into a binding sales agreement to exit the non-core dairy-blend and fruit concentrate beverage operations. This agreement is subject to customary conditions precedent, including approval by The Competition Commission of South Africa. The transaction is not categorised in terms of the JSE Listings Requirements. On classification of this operation as held-for-sale, a pre-tax impairment loss of R73 million (R59 million post-tax) was recognised mainly in respect of the brands and goodwill attributable to the asset to align the carrying value of the assets held for sale to the purchase consideration in accordance with the transaction.

- **Revenue** from the remaining Niche Beverages businesses, which comprise Chamonix Springwater and the non-beverage Elvin operations (which will in future be reported under the Ambient Groceries category following the operational integration with the group's wet condiment facilities) declined by 24.8%
    - This was mainly due to a decline in water sales compared to the high base set in the prior period as a result of the drought experienced in the Western Cape
- **Normalised operating profit** and **normalised EBITDA** for the period were breakeven and R1 million respectively compared to respective profits of R5 million and R6 million

Household and Personal Care (8% of group revenue and 4% of group normalised EBITDA)

- **Revenue** from Household and Personal Care products decreased by 1.2% to R373 million
- **Gross profit margins** improved from 15.9% to 18.1% due to an improved sales mix
- **Normalised operating profit** increased by 38.6% to R10 million
- **Normalised EBITDA** increased by 5.5% to R17 million

An operational amalgamation of the businesses within the HPC cluster will be implemented during H2 2019. This is expected to yield further cost rationalisation benefits and improve the group's sales, marketing, distribution and logistics capabilities within the category.

Specialised Food Packaging (3% of group revenue and 1% of group normalised EBITDA)

- **Revenue** from Specialised Food Packaging increased 12.7% to R120 million
- **Gross profit margins** were maintained at 22.9% compared to 23.0%
- **Normalised operating profit** and **normalised EBITDA** decreased R0.9 million and R0.7 million respectively due to increased operating costs

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