Media release

13 March 2019

Libstar posts strong operating results in tough markets

- ***Toughest market since the group was created 14 years ago***
- ***Revenue up by 12.5%, organic revenue by 5.1%***
- ***Normalised EBITDA up 4.6%***
- ***Normalised EPS affected by R30 million post-tax impairment of dairy-blend and fruit concentrate operations in the Niche Beverages category***

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

"Against the backdrop of the toughest market conditions since our inception 14 years ago, we are pleased with the trend of our key measures of revenue and EBITDA. As committed, we managed to make up for our weaker trading performance in the first half of the year, which shows our resilience. Organic revenue was up 5.1% and normalised EBITDA was up 4.6%.

"We achieved these results by continuing to focus on our strategy of supplying innovative and value-added products to our customers and consumers. We focus on the low-cost manufacture of quality, innovative and value-added products for discerning consumers. These consumers have proven to be more resilient in the ever-weakening economy. We also continued to leverage our long-standing relationships with customers in the retail, wholesale, industrial and export channels to produce innovative products in partnership with them.

"Although these results prove our operational ability, we continue to critically evaluate the performance of our business units. In doing so, we took a conservative approach which resulted in an impairment of the dairy-blend and fruit concentrate operations in the Niche Beverages category that impacted normalised earnings per share."

Looking forward, van Rensburg added:

"The economy is expected to remain sluggish for the foreseeable future, with a particularly difficult first half expected. However, the group has a very clear growth strategy in the anticipated operating environment, focusing on efficiencies, low-cost manufacture and organic growth. Our main focus will remain on expanding our existing businesses and leveraging off the base to increase our product offering."

Financial summary

- **Revenue** grew by 12.5% to R9 892 million from R8 796 million.
  - **Organic revenue** increased by 5.1%, comprising organic volume growth of 3.8% and organic price growth of 1.3%.
  - The successful launch of new dairy products, such as the new branded, taste-differentiated yoghurt products in Q3 F2018 especially bolstered H2 organic revenue growth.
  - The acquisition of Sonnendal Dairies in F2017 provided the additional capacity required for Lancewood to launch this new product range.
- **Normalised earnings before interest, tax, depreciation and amortisation (EBITDA)** increased 4.6% to R984 million. This was in line with Libstar's historic seasonal trend of an approximate 40:60 ratio between H1 and H2.
- **Normalised operating profit** increased 1.4% to R819 million from R807 million.
- As guided to the market previously, Libstar has adopted new financial performance measures, namely **normalised earnings per share (EPS) and headline earnings per share (HEPS).**

> Certain after-tax once-off and non-operating items should be taken into account when calculating normalised earnings and headline earnings for the group. These impacts are outlined below:
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> - Impairment of intangible assets and goodwill of R30 million (F2017: R50 million) in the Niche Beverages category
> - Unrealised foreign exchange translation losses of R33 million (F2017: gain of R29 million)
> - Amortisation of customer relationships of R101 million (F2017: R95 million)
> - A reversal of the Share Appreciation Rights provision of R10 million (F2017: expense of R19 million)

- On this basis:
  - **Normalised basic and diluted EPS** decreased 11.8% from 76 cents to 67 cents
  - **Normalised basic and diluted HEPS** decreased 16.1% from 87 cents to 73 cents
- The group generated R505.0 million **cash from operating activities** (F2017: R572.6 million)

STRATEGY OVERVIEW

Libstar focused on the following initiatives in F2018 to counter the impact of the tough retail and consumer environments:

- **Category and channel development**
  The detailed analysis of product categories, in-depth relationships with customers and knowledge of the market continued to highlight growth opportunities which, in turn, drive new product innovation to grow the group's market share and the overall size of certain markets.
- **Investment**
  The group continued to invest capital in new technologies, efficiency improvements and capacity expansion in key categories to remain competitive.
- **Systems**
  Business unit information technology systems and processes are being standardised across the group. Significant upgrades to the group's information technology systems and processes were implemented in F2018.
- **Exploiting trends**
  The growth of new trends in the market provides diverse opportunities to innovate products. The current, fast-growing trends in Libstar's markets include:
  - On-the-go and convenience eating. The group is meeting the consumer requirement to dine out of home through a range of products to quick service restaurants, such as McDonald's, KFC and Nando's and to family restaurant chains, such as Panarotti's, Mugg & Bean and Spur Steak Ranches.

- Health and wellness preferences. The group has introduced a range of healthy nut snacks in the Snacks and Confectionery category, as well as a range of yoghurts under the Lancewood brand within the Perishables category.
- Private Label and Dealer-Own Brand (DOB) products. The fast-growing, value-for-money private label and DOB markets constitute c.44% of group revenue.

This strategy, with a strong emphasis on innovation, allowed the group to achieve market share growth in a number of key businesses. In F2018 the group launched 387 new stock-keeping units (SKUs) and renovated 336 SKUs.

OPERATIONAL OVERVIEW

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

Perishables – 46% of group revenue, 43% of group normalised EBITDA

Lancewood and Finlar Fine Foods contribute 73% of Perishables' revenue and 88% of the category's normalised EBITDA.

- Perishables **revenue** increased by 22.5% to R4 570 million (F2017: R3 730 million).
  - This was driven by a very strong performance in the dairy sub-category which was bolstered by new product launches and the acquisition of Sonnendal Dairies.
- **Normalised EBITDA** for Perishables increased by 1.9% to R455 million (F2017: R446 million).
- **Normalised operating profit** decreased by 4.0% to R395 million (F2017: R412 million).

Ambient Groceries – 25% of group revenue, 32% of group normalised EBITDA

Cape Herb and Spice, Rialto Foods and Dickon Hall Foods contribute 75% of revenue and 86% of normalised EBITDA in this category.

- Ambient Groceries **revenue** decreased 5.5% to R2 472 million (F2017: R2 615 million).

  - This was impacted by weak international demand for dry condiments, as well as integration delays and industrial action experienced within the wet condiment sub-category during the first half of the year.
  - The gross profit margin exceeded that of the prior year, mainly due to lower input costs of dry condiments. **Normalised EBITDA** decreased by 3.4% to R338 million (F2017: R350 million) and **normalised operating profit** by 6.5% to R292 million (F2017: R312 million).

Snacks and Confectionery – 5% of group revenue, 7% of group normalised EBITDA

Ambassador Foods contributes 100% of revenue and normalised EBITDA in this category.

- **Revenue** increased 11.4% to R477 million (F2017: R429 million).
  - This was mainly driven by the introduction of new products, as well as significant bulk volume sales of peanuts and raisins.
- Gross profit margins were held constant in the face of slower than expected Q3 2018 sales in some grocery products and significant promotional activity in granolas.
- **Normalised EBITDA** increased by 2.1% to R73 million (F2017: R72 million) and **normalised operating profit** by 2.0% to R63 million (F2017: R62 million).

Baking and Baking Aids – 6% of group revenue, 9% of group normalised EBITDA

Amaro Foods and Retailer Brands contribute 92% of revenue and 93% of normalised EBITDA in this category.

- **Revenue** increased 21.8% to R628 million (F2017: R515 million).
  - This was driven by the incorporation of NCP Yeast and Cook ‘n Bake into the Retailer Brands business unit from April 2018, as well as growth in the baking aids sub-category. Rolls and speciality breads performed strongly.
  - **Normalised EBITDA** and **normalised operating profit** increased by 20.1% and 23.9% to R93 million (F2017: R77 million) and R74 million (F2017: R60 million) respectively.

Niche Beverages – 7% of group revenue, 5% of group normalised EBITDA

Elvin and Khoisan contribute 88% of category revenue and 94% of normalised EBITDA in this category.

- Niche Beverages **revenue** increased 51.9% to R650 million (F2017: R428 million), driven by a strong full-year performance from the newly-acquired Khoisan Gourmet range. Whilst dairy blends and related products remain under pricing pressure, this sub-category showed an improved full-year performance.
- **Normalised EBITDA** and **normalised operating profit** increased more than 17-fold to R55 million (F2017: R3 million) and R46 million (F2017: -R3 million).
- **Impairment:**
  The dairy blend and fruit concentrate beverage operations of the group remained under significant competitive pressure during F2018, which is likely to persist for some time to come. To address this, a restructuring exercise was undertaken during H2 F2018, resulting in the decision to relocate the marketing and sales functions of non-beverage products into certain of the group's wet condiments facilities. This will yield future cost rationalisation benefits for the group. An impairment loss in the amount of R42 million (pre-tax) and R30 million (post tax) was recorded in respect of the residual dairy blend and fruit concentrate beverage operations, as the group deliberates its strategic options regarding this component of the business.

Household and Personal Care – 9% of group revenue, 3% of group normalised EBITDA

Contactim and Chet Chemicals contribute 91% of category revenue and 82% of normalised EBITDA in F2018.

- **Revenue** increased 2.3% to R846 million (F2017: R827 million).
- **Normalised EBITDA** decreased by 16.9% to R36 million (F2017: R44 million) and **normalised operating profit** by 3.4% to R21 million (F2017: R22 million).
  - This was a disappointing performance due to competitive pressures and an adverse change in product mix towards lower-margin products.

Specialised Food Packaging – 2% of group revenue, 1% of group normalised EBITDA

Multicup contributes 100% of revenue and normalised EBITDA in this category.

- **Revenue** decreased 1.6% to R249 million (F2017: R253 million).
- **Normalised operating profit** decreased 20.9% to R13 million (F2017: R16 million).

- **Normalised EBITDA** decreased 19.2% to R14 million (F2017: R17 million). The margin pressure from unfavourable exchange rates had a negative effect on performance in F2018.

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Issued by:

Heidi Geldenhuys

HG Strategic Communications

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