Financial review

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The preparation of these results has been supervised by Pamela Padayachee CA(SA) (acting chief financial officer) and Deepa Sita CA(SA), chief financial officer of Tiger Brands Limited.

+4% y-o-y

R29,8bn*

Revenue
2019: R28,6 billion

-18% y-o-y

R2,6bn**

Operating income
2019: R3,2 billion

* *From continuing operations.*
** *Before impairments and abnormal items.*

Tiger Brands' earnings for the year ended 30 September 2020 were impacted by the ongoing difficulty of maintaining margins in a tough trading environment compounded by the challenges of Covid-19.

Overview

In a year that has been catastrophic for many businesses in South Africa, Tiger Brands has been in the fortunate position of playing a pivotal role in ensuring food supply during the initial lockdown periods. This allowed the company to support the livelihoods of its employees even when sites were temporarily closed in line with lockdown regulations. This resulted in strong cash flow generation further supporting the company's healthy balance sheet and allowing management to focus on operational execution.

Notwithstanding this, the results for the year have been disappointing, reflecting the challenges faced by the company in maintaining margins in what was an already difficult consumer environment before the onset of the Covid-19 pandemic.

The second half of the year was affected by the closure of non-essential facilities in Home Care and Sorghum beverages, the cost of complying with the Consumer and Customer Protection and National Disaster Regulations (pricing regulations) as well as the cost of health and safety measures. Furthermore, supply chain efficiencies were adversely impacted by temporary disruptions from Covid-19 infections at site level and within the supply chain.

Lockdown measures created favourable tailwinds from a volume perspective in certain businesses including Wheat, Milling, Bread, oat-based breakfast offerings (Jungle), Pasta and Groceries. However, there were corresponding headwinds in terms of consumer demand in Snacks & Treats, Beverages, Out of Home and Baby. A dispute with a former distributor in Nigeria continued to adversely impact the performance of Exports. These developments had a negative effect on profitability from continuing operations in the second half. However, enhanced efficiencies, cost reduction measures as well as the revised operating model resulted in a significantly lower year-on-year decline compared with the year-on-year decline reported in the first half.

As previously reported, Deli Foods and VAMP have been treated as discontinued operations with the comparative information restated accordingly. The acquisition of the abattoir business at Olifantsfontein by Molare Proprietary Limited became effective on 28 September 2020, while the disposal of the VAMP processing facilities was successfully concluded post-year-end.

Revenue from continuing operations increased by 4%, underpinned by price inflation of 6% driven largely by currency weakness for most of the year, partially offset by an overall volume decrease of 2%. A decline in volumes in certain categories, coupled with the inability to fully recover significant raw material cost push, placed gross margins under pressure, resulting in group operating income declining by 18% to R2,6 billion (2019: R3,2 billion).

Income from associates decreased by 5% to R352 million. A strong underlying performance from Carozzi as well as a commendable performance from National Foods in a very difficult economic climate, which has been accounted for in line with IAS 29 *Financial Reporting in Hyperinflationary Economies*, was partly offset by weak results from UAC Foods. In addition, income from associates last year included three months' earnings from Oceana which was unbundled in April 2019.

Net financing costs for the year increased by R96 million. The reclassification of operating leases into short- and long-term lease liabilities in accordance with IFRS 16 accounted for R28 million of this increase, while higher average debt levels during the year had a further R31 million impact.

The effective tax rate before abnormal items, impairments and income from associates, increased from 29,5% to 31,0%, largely due to the lower pre-tax profit before abnormal items, impairments and income from associate companies, and a reduced benefit in respect of special investment allowances claimed on qualifying capital projects in the current year.

Earnings per share (EPS) from continuing operations decreased by 66% to 886 cents (2019: 2 617 cents). This was principally due to the fact that earnings in the previous financial year benefited from the capital surplus of R2 billion arising from the fair value gain relating to the unbundling of the company's interest in Oceana, including the capital profit realised on the disposal of the company's residual shareholding in Oceana. Headline earnings per share (HEPS) from continuing operations declined by 23% to 1 196 cents (2019: 1 556 cents). The lower rate of decrease in HEPS relative to the rate of decrease in EPS, is mainly due to the exclusion in the prior year of the aforesaid capital surplus as well as the cost of impairments in both 2019 (R213 million) and 2020 (R547 million) from the calculation of headline earnings.

EPS from total operations decreased by 74% to 612 cents (2019: 2 333 cents), while HEPS from total operations decreased by 29% to 940 cents (2019: 1 322 cents). The total after tax loss for the period from discontinued operations amounted to R453 million (2019: R470 million).

Segmental operating performance

Domestic revenue increased by 4% to R26,4 billion underpinned by price inflation of 6%, less the impact of an overall volume decline of 2%. The mixed topline performance, together with the impact of higher raw material input costs and additional Covid-19 related costs, led to a decline in operating income to R2,6 billion (2019: R3,0 billion).

Total revenue for the Exports and International businesses increased by 4% to R3,4 billion. This was driven by an improved second half performance from our business in Cameroon as well as a better second half in Exports. Operating income, however, reduced by 51% to R103 million.

Further details of the performance of our operations are provided in our operational review (see page 52).

Cash flow and capital expenditure

Cash generated from operations declined by 15% to R3,0 billion, in line with the decline in cash operating profit. With the FY20 interim dividend withheld and a special dividend paid in the prior year, net cash inflow from operating activities increased to R1,6 billion (2019: R617 million). Although overall capital expenditure levels declined 15% to R937 million, replacement capex increased 10% to R659 million. The group ended the year in a net cash position of R1,8 billion compared with a net cash position of R1,2 billion in the previous year.

Ordinary and special dividend

An ordinary final dividend of 537 cents per share has been declared for the year ended 30 September 2020. The total ordinary dividend for the year of 537 cents per share aligns the distribution with Tiger Brands' dividend policy of 1,75x cover based on full year headline earnings per share.

Given the company's healthy balance sheet and the fact that there are no imminent acquisitions or exceptional capex requirements, the company has also declared a special dividend of 133 cents per share as a result of the once-off proceeds received from the disposal of its VAMP business. The payment of the special dividend is subject to South African Reserve Bank approval.

The special dividend, together with the gross final cash dividend, brings the total distribution for the year to 670 cents per share (2019: 1 061 cents per share).

Shareholders are referred to the accompanying dividend announcement for further details (see page 91).

Outlook

Looking ahead, it is likely that the current significant economic downturn will persist over the near and medium term. The anticipated volatility of the rand and increasing levels of unemployment will negatively impact both the supply and demand dynamics of our business. The continuing pressure on consumer disposable income highlights the need for an enhanced focus on value offerings, as well as cost reduction initiatives and operating efficiencies.

Despite the challenging environment, the reconfiguration of our operating model, clear plans to compete effectively in a value economy as well as the successful execution of key strategic initiatives should position the group favourably to reverse the trend of declining profitability from continuing operations.

Appreciation

Thank you to our local and international shareholders for your continued investment in the company and to the broader investment community for your interest and engagement. We acknowledge our colleagues in the finance department who constantly strive towards best practice and improved disclosure and extend thanks to the audit committee for their guidance throughout the year.

Operational review

GRAINS

Strategic outlook

Our vision is to remain a leader in Milling and Baking. Our identified priorities over the medium term are to lead innovation, and continue to build on our brands' purpose to effect differentiation, while focusing on enhanced supply chain efficiencies. We will also be investing in maintaining superior route-to-market execution. In addition, we will seek to strengthen our brands visibility as tasty, quality nutrition, with strongholds developed and maintained in targeted geographies. In the ready-mix category, we aim to continue to lead the market, while driving value propositions through innovation. In other grains, we will maintain our market leadership through differentiated communication, purpose-driven campaigns and targeted pricing, while expanding into adjacent products and categories, and innovating to capitalise on growing trends. This will be supported by realising further manufacturing and supply chain efficiencies.

Revenue increased 5% to R13,9 billion, reflecting price inflation of 8%, while overall volumes declined by 3%. Price increases realised were insufficient to offset the impact of significantly higher raw material costs, resulting in operating income declining by 14% to R1,2 billion and the operating margin compressing to 8,9% from 10,9%.

After a challenging start to the year, Milling and Baking enjoyed a reasonable recovery in the second half, driven predominantly by Maize, Bakeries and Sorghum-based products. Revenue from Milling and Baking increased by 5%, reflecting an overall volume decline of 3%. Operating income declined by 10% to R1,1 billion.

Despite the second half recovery, adverse category dynamics as well as constrained pricing amid volatile underlying raw material prices, resulted in a sub-optimal operating profit performance from Maize for the year. Bakeries continued to experience year-on-year margin compression driven by marginal volume losses, while the current operating environment did not allow for the full recovery of cost increases. Sorghum-based products experienced a particularly difficult period, largely due to the impact of restrictions imposed during the lockdown period.

Following a tough start to the year, Other Grains experienced a meaningful recovery in the second half, driven primarily by Jungle and Pasta. The second half recovery resulted in year-on-year revenue for the overall segment increasing by 5% to R4,0 billion, comprising price inflation of 7% and an overall volume decline of 2%. Volume declines were largely driven by Rice due to above-inflationary price increases caused by significantly higher raw material costs. Pasta volumes, on the other hand, benefited in the second half from increased at-home consumption, supported by a marked improvement in factory performance. Similarly, increased demand in the breakfast category resulted in an improved overall performance from Jungle.

The increased promotional activity in the Rice category at the start of the year coupled with pricing regulation constraints, was the primary reason for operating income in Other Grains declining by 43% to R114 million.

Financial highlights

+5%

R13,9bn

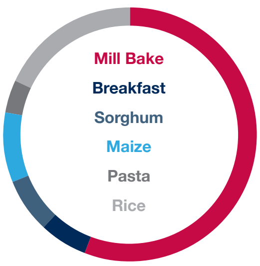
Revenue
2019: R13,2 billion

-14%

R1,2bn

Operating income
2019: R1,4 billion

Revenue by segment



- **56%** 2019: 56%
- **6%** 2019: 5%
- **7%** 2019: 8%
- **9%** 2019: 8%
- **4%** 2019: 4%
- **18%** 2019: 19%

Performance summary

✓ Maize, Bakeries and Sorghum-based products report a second half recovery
✓ Cost recovery in bread challenged offset by market share gains
✓ Promotional campaigns and packaging relaunch in Jungle well received
✓ Pasta benefits from increased at-home consumption in H2
✗ Adverse category dynamics persist in Maize
✗ Significant fluctuations in raw material costs difficult to pass through in Rice

Operating facilities

Mpumalanga
› Milling and Baking (Bakeries)

Gauteng
› Milling and Baking

North West
› Sorghum-based breakfast and beverages (Potchefstroom)

Free State
› Milling and Baking

KwaZulu-Natal
› Milling and Baking (Bakeries and milling)
› Other Grains (Rice)

Western Cape
› Milling and Baking
› Other Grains (Jungle)

Operational review continued

CONSUMER BRANDS – FOOD

Strategic outlook

Our strategic objective is to accelerate growth by strengthening our master-brand portfolio, while defending our leading positions through increased marketing investment and innovation. In addition, we will develop strong shopper propositions and seek to expand our current portfolio into category adjacencies and boost differentiation through enhanced labelling and packaging. We will be restoring competitiveness in our manufacturing activities by eliminating waste and improve overall equipment effectiveness aimed at unlocking savings to improve capacity and reduce conversion costs.

In Consumer Brands – Food, an improved top-line performance in Groceries was partially offset by the impact of reduced demand in Snacks & Treats, Beverages and Out of Home. Overall revenue grew by 3% in line with price inflation of 3%, while total volumes remained unchanged. The subdued revenue growth together with above-inflation cost increases, resulted in negative operating leverage with operating income declining by 20% to R829 million (2019: R1,0 billion).

Groceries' revenue increased by 9%, supported by volume growth of 4% and 5% price inflation. Despite pricing constraints and supply chain challenges in the first half, profitability improved with operating income increasing by 9% to R354 million. This performance was assisted by a favourable sales mix, optimal promotional activity and rigid cost control.

Despite a recovery in demand in the second half, revenue in the Snacks & Treats category decreased by 5% to R2,1 billion, largely driven by a volume decline of 6%. Demand was adversely impacted across all segments during the various lockdown stages as spending was diverted to essential items and the decline in shopping occasions reduced the opportunity for impulse purchases. Operating income declined by 46% to R170 million as a result of lower volumes, factory under-recoveries and higher expenses due to Covid-19 related costs.

Similarly, the Beverages business was impacted by Covid-19 restrictions in the second half, with year-on-year revenue marginally up following reasonable growth in the first half. Operating income fell by 20% to R238 million due to an unfavourable product mix as well as higher conversion and distribution costs.

Financial highlights

+3%

R9,7bn

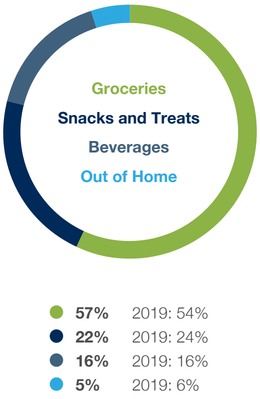
Revenue
2019: R9,4 billion

-20%

R829,6m

Operating income
2019: R1,0 billion

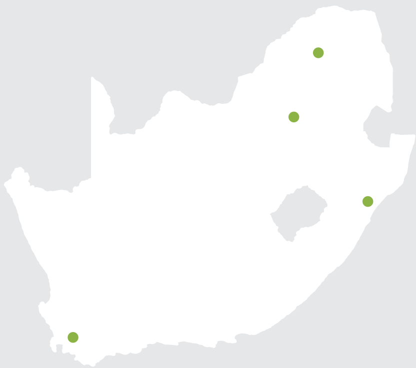
Revenue by segment



Performance summary

- ✓ Volume growth in Groceries driven by spreads and canned vegetables; profitability benefits from favourable product mix, optimal promotional activity and cost control
- ✓ In Beverages, Oros flavoured innovations drive category growth; channel specific innovation with Brookes Crush launch
- ✗ Snacks & Treats volumes decline due to lockdown stages impacting consumer spend
- ✗ Covid-19 restrictions in H2 offsets reasonable H1 growth in Beverages

Operating facilities



Limpopo
- Groceries (Musina)

Gauteng
- Groceries (spreads, condiments and ingredients)
- Beverages (Roodekop)

KwaZulu-Natal
- Snacks & Treats

Western Cape
- Groceries (Paarl)

Operational review continued

HOME, PERSONAL CARE AND BABY (HPCB)

Strategic outlook

We are looking to deliver growth in **Home Care**, off the back of existing brand strength supported by affordable product innovation. We will be launching several unique innovations as well as looking to drive geographic expansion of some of our leading brands into new markets in Africa.

In **Personal Care**, our picture of success is for Ingram's to be developed into a leading master brand with innovation-led growth, aided by improved profitability. Progress has been made in focusing the portfolio, with work underway to improve on-shelf availability and distribution of the retained portfolio.

Our strategic priorities in **Baby Care** are to consolidate our position as a consumer-centric, business, developing a Purity master-brand that delivers on its mission to help every South African child realise their full potential. We are focused on improving factory efficiencies and site logistics, and enhance the value proposition with improved labelling, as well as leveraging baby feeding expertise through our recently launched Purity Owned Parenting Platform and Journey Journal App.

Overall revenue in HPCB increased by 5% to R2,8 billion due to a sustained strong performance from Home Care.

The strong volume uplift in Home Care was attributable to increased demand and effective in-store execution. Revenue for the year increased by 12%. However, the business was adversely affected by trading restrictions which were introduced in the early stages of the lockdown, and depressed the overall growth in operating income to an increase of only 5% when compared to the prior year.

Personal Care enjoyed a strong overall recovery in the second half, driven by a well-executed Ingram's winter campaign. Revenue for the full year increased by 3% to R661 million on the back of 7% price inflation and a volume reduction of 4%. A weak first half together with Covid-19 related cost pressures in the second half, resulted in lower profitability with operating income declining by 11% to R79 million.

Volumes across the Baby Care segment were affected by adverse demand dynamics during the various lockdown stages, with revenue declining marginally to R975 million. Operating income fell sharply to R111 million (2019: R151 million) as a result of the lower sales volumes combined with overhead under-recoveries and additional Covid-19 related costs.

Financial highlights

+5%

R2,8bn

Revenue
2019: R2,7 billion

-6%

R510,4m

Operating income
2019: R545,6 million

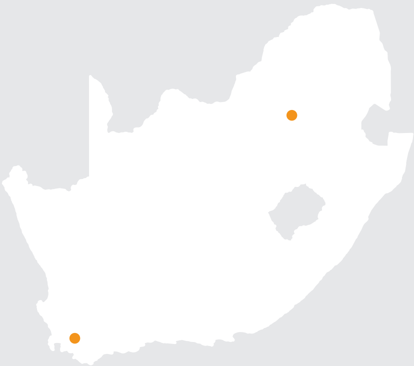
Revenue by segment

- **23%** 2019: 24%
- **35%** 2019: 37%
- **42%** 2019: 39%

Performance summary

- ✓ Strong volume uplift in Home Care due to increased demand and effective in-store execution
- ✓ Well-executed Ingram's winter campaign boosts revenue in Personal Care
- ✓ Progressed rationalisation of tail-end brands in Personal Care with the sale of eight brands
- ✗ Baby Care segment affected by adverse demand dynamics during the various lockdown stages; strong innovation launches to benefit FY21

Operating facilities



Gauteng
› HPCB (Isando)

Western Cape
› Baby

Operational review continued

EXPORTS AND INTERNATIONAL

Strategic outlook

Our ambition is to organically grow our Africa export business by building on our current established presence across the continent. Informed by a thorough understanding of the opportunities and risks across this market, we have classified the countries for potential growth into four categories – expand, develop, trade and explore (see page 39). To win in identified key markets, we will be prioritising product categories to drive volume growth, investing in targeted brands and where necessary developing new products. We have engaged selected partners to ensure an optimal route-to-market in priority countries, and we are investing in building key capabilities in each market with dedicated support functions that are tailored to local conditions. At Chococam in Central Africa, we will be driving further innovation within the core business, securing efficiencies through facility upgrades, and embedding a performance-driven customer-centric culture.

Total revenue for the Exports and International businesses increased by 4% to R3,4 billion. This was driven by an improved second half performance from our business in Cameroon as well as a better second half in Exports. Operating income, however, reduced by 51% to R104 million.

The performance of the Exports segment was negatively affected by the trademark dispute with a former distributor in Nigeria. The subsequent resolution of the dispute resulted in the resumption of sales into Nigeria, which has provided positive momentum going into the new financial year. In addition, a rebound of our export volumes into Mozambique is evident after several years of underperformance as the improved distributor model gains traction.

Revenue in the Deciduous Fruit business was largely unchanged due to an improved second half performance. Despite the recovery in revenue, the business recorded an operating loss of R78 million (2019: R8 million loss) due to the negative effects of lockdown restrictions in certain export markets as well as adverse foreign exchange movements relative to the previous year.

Chococam's performance during the year was muted. A 7% decline in revenue in local currency terms was a consequence of lower volumes in a challenging macro-economic environment, compounded by the effect of the Covid-19 pandemic. Revenue in rand terms increased by 4% to R942 million. Operating income decreased by 14% in rand terms to R149 million (23% reduction in local currency), due to significant raw material cost push, the effect of lower volume throughput on factory overhead recoveries and a 5% excise tax on gross sales introduced earlier in the year.

Financial highlights

+4%

R3,4bn

Revenue
2019: R3,2 billion

-51%

R103,3m

Operating income
2019: R212,1 million

Revenue by segment

- **42%** 2019: 42%
- **28%** 2019: 28%
- **30%** 2019: 30%

Performance summary

✓ Improved second half performance driven by better performance from Cameroon and Exports
✓ Positive momentum in Nigeria following trademark dispute resolution post-year-end
✓ Deciduous Fruit disposal progressed
✗ Chococam performance impacted by higher raw material input costs and 5% excise tax introduced earlier in the year

Operating facilities

Cameroon
› Chococam

South Africa

Gauteng
› Powdered soft drinks (Jolly Jus) and Benny seasoning for export markets

Western Cape
› Deciduous Fruit (LAF)

Operational review continued

ASSOCIATES

Financial highlights

-5%

R352m

Earnings
2019: R371 million

+3%

18%

Contribution to headline earnings from continuing operations
2019: 15%

Chile

Empresas Carozzí (24,4% held)

Empresas Carozzí S.A., a Chilean company with headquarters in Santiago, is one of the largest and most respected South American food producers. It has manufacturing operations in Chile, Peru and Argentina, and additional commercial branches in Ecuador and the United States. Carozzí has two main business areas: fast-moving consumer goods (and pet food), with its main markets in Chile and Peru, and agro-industrial products (business-to-business) that are sold worldwide.

The effects of the Covid-19 pandemic led to a shift in demand, with growth reported in Carozzí's basic product range (flour, rice and pasta), while indulgent categories such as chocolates, biscuits and snacks all experienced a decline in volumes. In addition, the effects of the pandemic coupled with the drought in Chile adversely impacted the agro-industrial division. This was offset in part, by solid cost control during the year.

Nigeria

UAC Foods (49% held)

UAC Foods is a leading manufacturer and marketer of convenience foods in Nigeria, with respected brands in snacks, dairy products and beverages. The snacks category comprises Gala sausage roll, Funtime cupcakes, Funtime coconut chips, and the new Funtime Groundnut chips. The dairy category includes the Supreme range of ice-cream and yoghurt products, while the beverage category includes Swan Natural Spring Water.

UAC Foods performance was adversely impacted by Covid-19 with lower volumes particularly in the snacks and dairy segments. Lower volumes as well as higher input and distribution costs and increased promotional activity further impacted profitability.

Zimbabwe

National Food Holdings Limited (37,4% held)

National Foods is a leading branded food manufacturer in Zimbabwe. In addition to maize and flour milling, the company produces a range of food products, including stockfeed, snacks and treats, rice, peanut butter and oil.

National Foods financial results were prepared in accordance with the requirements of IAS 29 *Reporting in Hyperinflationary Economies*.

Volumes for the period declined by 25% compared to the same period last year.

Revenue, however, increased reflecting higher selling prices following the progressive removal of most grain subsidies. Gross margin increased by 48%, below the increase in revenue as the group focused on being competitively priced. Profit after tax increased by 75%.