

TIGER BRANDS



ANNUAL RESULTS COMMENTARY **2023**

for the year ended 30 September 2023



NOURISH AND NURTURE
MORE LIVES EVERY DAY

Salient features

Tiger Brands delivers a mixed set of operational results for the year ended 30 September 2023 while group earnings benefit from higher income from associates

SALIENT FEATURES

Revenue
R37,4 billion
10%
↑

HEPS
1 735cps
2%
↑

Group operating
income*
R3,1 billion
9%
↓

Final dividend
671cps
3%
↑

Income from associates
R697 million
46%
↑

Total dividend
991cps

EPS
1 725cps**
2%
↓

* Before impairments, fair value losses and non-operational items

** cps = cents per share

Commentary

Overview

Tiger Brands' results for the 12 months ended 30 September 2023 are reflective of the challenging trading environment marked by high food inflation, cost-conscious consumers continuing to trade out of premium products, rand depreciation and unreliable electricity supply.

Despite double-digit inflation across the portfolio, the impact on group volumes was minimal. Total revenue increased by 10% to R37,4 billion, driven by price inflation of 11%, favourable foreign exchange gains of 1% and marginal overall volume declines of 2%. Volume growth in Exports was offset by volume declines in the Domestic Business, primarily attributable to Milling and Baking, Groceries, and Baby as well as the Deciduous Fruit business due to the timing of shipments. These volume declines were partially offset by good volume growth in Rice, Beverages, Home and Personal Care, Tiger Brands Food Service Solutions (previously Out of Home) as well as Chococam.

Cost containment initiatives and supply chain efficiencies continued to make a positive contribution to the results at R525 million; R65 million higher than the R460 million previously guided. Despite this, the ongoing challenges of fully recovering higher input costs persisted in the second half resulting in the overall gross margin declining to 27,7%, from the 30,3% reported in the prior year. Group operating income was impacted by non-recurring items related to insurance proceeds of R137 million (2022: R190 million) and retrenchment costs in the current year of R95 million (2022: reversal of R8 million), resulting in a decline of 9% to R3,1 billion.

Income from associates increased by 46% to R697 million, driven by a good underlying performance from Carozzi. Earnings from National Foods were favourably impacted by R120 million due to a change in functional currency from Zimbabwean Dollars (ZWD) to United States Dollars (USD) as a consequence of listing on the Victoria Falls Stock Exchange (VFEX) in January 2022.

Net financing costs for the year amounted to R238 million compared to R75 million last year. The increase was due to higher interest rates, the impact on opening cash balances of the R1,5 billion share buyback, which commenced in June 2022 and concluded in August 2022, and higher average levels of working capital investment despite progress being made in managing these levels down in the second half of the financial year.

The group's effective tax rate before fair value losses, non-operational items and income from associates declined slightly to 29,0% from 29,4% last year.

EPS decreased by 2% to 1 725 cents (2022: 1 762 cents). HEPS increased marginally by 2% to 1 735 cents (2022: 1 702 cents). The variation in EPS when compared to HEPS is due to the non-recurrence of certain capital profit items accounted for in EPS in FY22, which were excluded from HEPS.

Segmental operating performance

Domestic revenue increased by 9% to R32,5 billion, underpinned by price inflation of 10%, less the impact of an overall volume decline of 1%. Revenue growth in Grains of 10% was driven by cost-led price increases across all segments as well as volume growth in Rice and Bread. Consumer Brands recorded an increase in revenue of 7%, driven by a solid performance in Snacks & Treats, Beverages, and Tiger Brands Food Services Solutions. Home Care's second-half performance relative to the prior year was pleasing, driven by increased demand and strong in-store execution. Domestic operating income declined 16% to R2,5 billion as significant improvements in second-half performances from Beverages, Home and Personal Care, Tiger Brands Food Services Solutions and Baby were insufficient to offset declines from Grains, Groceries and Snacks & Treats.

Grains

Revenue increased by 10% to R17,0 billion, reflecting average price inflation of 13%, offset by overall volume declines of 3%. Operating income recorded a decline in the second half relative to the same period last year, driven by all segments except Maize, and Oat-based breakfast (Jungle) as most segments experienced higher conversion costs, compounded by adverse product mix. As a result, operating income for the year ended 34% lower at R838 million.

Revenue in Milling & Baking increased by 8% to R11,5 billion, as price inflation of 13% was offset by a 5% volume decline. While bread volumes and market shares increased in line with the intended strategy, realisations and margins were negatively impacted by adverse channel mix with volumes in the general trade declining. The bakery business was also impacted by the significant incremental cost of load shedding versus the prior year (R69 million in FY23 versus R18 million in FY22) and higher conversion costs due to higher wages and utilities.

Commentary continued

Lower wholesale and retail wheat volumes were partially offset by higher inter-company volumes while operating income within this segment was adversely impacted by unfavourable customer mix and higher costs of distribution.

Maize's performance was adversely impacted by continued volume pressure driven by overall category declines and aggressive competitor pricing, particularly in private labels. This was partially offset by lower conversion costs driven by lower generator utilisation and resultant diesel cost savings in the second half. The sorghum-based breakfast and beverages business delivered a muted performance, impacted by supply challenges and lower demand as a result of multiple price increases to offset the exponential increase in sorghum. Overall, Milling & Baking's operating income declined by 25% to R602 million.

Revenue in Other Grains grew by 14% to R5,5 billion, as all categories benefited from improved pricing, with Rice reporting improved volumes year-on-year. While the Oat-based breakfast (Jungle) segment reported pleasing operating profit growth, adverse product mix, higher raw material and distribution costs, and sub-optimal factory performances in the Rice and Pasta segments adversely impacted overall profitability. Operating income declined 50% to R235 million.

Following poor price/volume management in Rice in the first half, pleasing progress was made, particularly in the last quarter, in restoring underlying profitability. Overall, a solid volume performance was sustained despite high levels of price increases required in the second half to restore margins.

Consumer Brands

Within Consumer Brands, all segments delivered top-line growth with a particularly strong performance from Snacks & Treats, Beverages and Tiger Brands Food Service Solutions. Overall revenue in Consumer Brands increased by 7% to R13,3 billion. Operating income, however, declined by 18% to R1,2 billion driven primarily by Groceries while Snacks & Treats as well as Baby also had a negative impact. Lower profitability is reflective of the ongoing challenges of fully recovering higher input costs, particularly from agricultural inputs, as well as the fact that certain categories reflected the difficult consumer environment with absolute category volume contraction.

Groceries' revenue was largely unchanged at R6,4 billion, with price inflation of 8% offset by lower volumes of 7%. The muted top-line performance is reflective of lower category demand that was evident in the first half, continuing into the

second half with market volumes contracting by 5% over the year. In addition to the adverse category dynamics, raw material shortages in the first half, exacerbated by the low supply of eggs in the second half, due to avian influenza resulted in factory under-recoveries. Operating income declined by 49% to R308 million. Improving profitability is a primary focus area for FY24, with cost reduction being a critical area of focus. Good progress has been made in this regard, with the factory restructuring completed and initiatives underway to reduce warehousing and distribution costs. Moreover, the relocation of the peanut butter plant has progressed well with the start-up of the new site on track for the first quarter of FY24.

The Snacks & Treats division recorded revenue growth of 16% to R2,8 billion, supported by price inflation of 6% and overall volume growth of 10% achieved primarily by the sugar segment. The category remains in volume decline as consumers limit basket spend to necessities. Despite this, Snacks & Treats achieved value and volume growth ahead of the market over the 12-month period. Operating income, however, was adversely impacted by the reconfiguration of the plant to improve safety protocols and raw material shortages. This resulted in significant under-recoveries and lost sales. Operating income declined by 13% to R229 million.

Beverages' revenue increased by 17% to R2,2 billion, supported by volume growth of 12% and price inflation of 5%. Volume growth was achieved across all dilutable brands benefiting from optimal pricing and effective promotional activity. This was offset in part by a less than favourable volume performance from sports drinks (Energade) which faces strong competitor activity and new listings. Despite significant increases in the cost of key ingredients and packaging items, operating income for the full year increased 27% to R340 million. This was due to the successful execution of the pricing strategy in the dilutable segment, focused continuous improvement initiatives, price pack architecture and revenue growth management.

The Baby segment's performance is reflective of the continued affordability challenges across the category as consumers opt out of baby-specific offerings and into general meal and wellbeing solutions for the whole family. Revenue was marginally up at R1,1 billion driven by price inflation of 5%, offset by volume declines of 4%. Volumes are reflective of lower demand across key segments particularly jars while pouches continue to gain share in a declining market. Operating income declined by 9% to R134 million, with the benefit of improved factory efficiencies being more than offset by lower volumes and an unfavourable product mix.

Commentary continued

Tiger Brands Food Services Solutions delivered a strong set of full-year results. Revenue grew by 25% to R835 million with volumes increasing by 15% and price inflation of 10%. Operating income increased 12% to R152 million, benefiting from improved efficiencies in distribution. The business successfully executed on accelerating growth in key channels, while improving the product and margin mix supported by strong customer relationships, cross-category collaboration, and agile solutions.

Home and Personal Care (HPC)

Overall revenue in HPC grew by 17% to R2,2 billion, while operating income increased by 50% to R461 million, driven by a strong recovery from both segments.

Personal Care's revenue increased by 24% to R836 million with price inflation of 12%, and an equal increase in volumes driven by skin care brands, Ingram's and Skin Clinic. The improved profitability was a consequence of strong volume growth, price increases and lower inflation on key ingredients. As a result, operating income increased from R16 million last year to R118 million in the current period.

Home Care's performance was supported by a better pest season relative to the prior year. Revenue increased by 12% to R1,3 billion, due to 3% volume growth and price inflation of 9%. Volume growth, together with improved factory efficiencies, cost containment initiatives and a favourable mix, resulted in operating income improving by 18% to R343 million.

Exports and International

Total revenue for Exports and International increased by 14% to R4,9 billion, driven by price inflation of 12% and favourable foreign exchange translation gains of 7%, offset by volume declines of 5%. Total operating income increased by 71% to R601 million benefiting from improved profitability across all segments especially Exports and Deciduous Fruit as well as an improvement in the quality of the debtor's book.

There has been a step change in trajectory for the Rest of Africa business, with Exports reporting a marked improvement across all key metrics namely, volumes, revenue and profitability. This has been driven by the rejuvenation and remodelling of our key distributor model, allowing for improved in-country visibility and availability of our brands. As a result, the improved sales momentum achieved in the first half in the Exports business was sustained in the second half resulting in full-year revenue growth of 23% to R2,5 billion. Higher volumes, improved realisations as well as better factory efficiencies resulted in operating income increasing significantly to R286 million (2022: R143 million).

Chococam's operating environment was characterised by high input costs, unreliable electricity supply, and increased regulation pertaining to imports. Nevertheless, revenue increased by 30% to R1,4 billion (15% in local currency), comprising 9% volume growth and 8% price inflation, supported by a favourable foreign currency translation movement of 13%. Volumes were driven by a robust performance from the spreads segment while pricing stability and optimal packaging solutions resulted in market share gains. Operating income in rand terms increased by 22% to R222 million (8% in local currency) driven by sound cost containment initiatives and the benefit of rand weakness on translation.

Update on Deciduous Fruit

The sale process for Deciduous Fruit (Langeberg & Ashton Foods) was reopened earlier in the year with the final stage of a due diligence process currently underway. The business will continue in its current form to allow the process to be completed.

Cash flow and capital expenditure

Cash operating profit was unchanged at R4.3 billion relative to the prior year. The benefit of lower inventory outflows on working capital was offset by a decline in trade and other payables, which is in line with the Company's strategy of securing raw materials, packaging, and ingredients in response to a volatile and unreliable global and local inbound supply chain. This resulted in cash generated from operations increasing marginally to R 2.7 billion. Capital expenditure for the period amounted to R1.2 billion (2022: R1.0 billion). The group ended the period in a net debt position of R923 million (2022: net cash R143 million).

Change in directorate

Noel Doyle, after joint agreement with the board, stepped down as chief executive officer (CEO) of the company and as executive director and member of the social, ethics and transformation committee effective 31 October 2023. The board extends its appreciation to Noel for his unwavering commitment and contributions over 20 years of service with Tiger Brands and wishes him well in his future activities.

Tjaart Kruger joined Tiger Brands as the new CEO, effective 1 November 2023. The board looks forward to Tjaart's future contributions.

 Commentary continued

Deepa Sita resigned as chief financial officer and executive director of the company with effect from 31 December 2023. Cora Fernandez stepped down as independent non-executive director with effect from 10 October 2023. The board extends its gratitude to Deepa and Cora for their service and wishes them well in their future endeavours.

Class Action update

As previously reported, pre-trial preparations by the parties to get the matter ready for trial are ongoing. As part of the overall endeavour to expedite resolution of the matter, Tiger Brands' legal team and the plaintiffs' attorneys jointly approached the National Institute of Communicable Diseases (NICD) for access to their records, which are vital to a determination of the action. Tiger Brands is yet to receive a response from the NICD.

Outlook

The immediate market outlook remains challenging. Consumer confidence is likely to remain under pressure given elevated interest rates and high food inflation. While there has been a recent softening in global food prices, this has been offset by a weakening rand as well as loadshedding that has disrupted food production and distribution and significantly increased costs for manufacturers and food retailers. Although some projections suggest food inflation in the country will abate, this assumes a further slowdown in global food inflation, an easing in electricity outages, an improvement in our summer crop production, and a stable rand, none of which is guaranteed.

Given the anticipated low to no growth environment, and in response to the recent shifts in consumer and shopper behaviour, we have prioritised the below key focus areas aimed at regaining lost momentum and delivering a step change in trajectory.

- › **Operating model:** There is opportunity for Tiger Brands to establish a cost structure and operating model that enables sustainable growth. To this end, the most appropriate organisational design will be implemented with renewed intensity and urgency
- › **Reshaping to a desired portfolio of the future:** We are looking to deliver some changes to our current portfolio, by exploring identified opportunities for entry

in adjacent categories – where we see valuable synergies, a growing market, and/or higher margin potential – as well as exiting certain categories and product ranges that are no longer deemed future-fit

- › **Restoring cost leadership:** We will continue our rigorous approach to cost savings, having identified additional opportunities informed by an extensive external and internal benchmarking exercise, which will deliver on specific targets by expense type and category
- › **Rejuvenating our brands:** We will be further simplifying, rationalising and stretching our brands with a thorough analysis of marketing investment to ensure that our brands talk to the relevant consumer and demand spaces, with progress measured both in terms of brand profitability and brand equity
- › **Turbo-charging our growth in general trade:** To capture the growth opportunities evident in the informal sector we are expanding our presence in this segment of the market by implementing robust route-to-market support and solutions for our general trade customers
- › **Executing our identified key growth platforms in three priority areas:** We have prioritised three growth platforms aimed at driving broader consumer and shopper relevance and increasing market success: driving affordability, democratising health and nutrition, and over-indexing on snackification

Any forward-looking information has not been reviewed or reported on by the group's auditors.

By order of the board

GJ Fraser-Moleketi
Chairman

TN Kruger
CEO

Bryanston
30 November 2023
Date of release: 1 December 2023

Commentary continued

Declaration of final dividend

The company declared a final ordinary dividend of 671 cents per share for the year ended 30 September 2023, in line with the company's dividend policy of 1,75x cover based on HEPS. Together with the interim dividend of 320 cents per share, this brings the total dividend for the year to 991 cents per share.

In accordance with paragraphs 11.17 (a) (i) to (x) and 11.17 (c) of the JSE Listings Requirements, the following additional information is disclosed:

- › The ordinary dividend has been declared out of income reserves
- › The local dividends tax rate is 20% (twenty percent) effective 22 February 2017
- › The gross final dividend amount of 671,00000 cents per ordinary share will be paid to shareholders who are exempt from the dividends tax
- › The net final dividend amount of 536,80000 cents per ordinary share will be paid to shareholders who are liable for the dividends tax
- › Tiger Brands has 180 327 980 ordinary shares in issue (which includes 10 326 758 treasury shares)
- › Tiger Brands Limited's income tax reference number is 9325/110/71/7

Shareholders are advised of the following dates in respect of the final ordinary dividend:

Declaration date	Friday, 1 December 2023
Last day to trade cum the ordinary dividend	Tuesday, 16 January 2024
Shares commence trading ex the ordinary dividend	Wednesday, 17 January 2024
Record date to determine those shareholders entitled to the ordinary dividend	Friday, 19 January 2024
Payment date in respect of the ordinary dividend	Monday, 22 January 2024

Share certificates may not be dematerialised or re-materialised between Wednesday, 17 January 2024 and Friday, 19 January 2024, both days inclusive.

By order of the board

JK Monaisa

Company secretary

Bryanston

30 November 2023

Company information

Tiger Brands Limited

(Tiger Brands or the company)
(Incorporated in the Republic of South Africa)
Share code: TBS
ISIN: ZAE000071080

INDEPENDENT NON-EXECUTIVE DIRECTORS

GJ Fraser-Moleketi (chairman), MO Ajukwu,
FNJ Braeken, GA Klintworth, TE Mashilwane,
M Sello, LA Swartz, OM Weber, DG Wilson

NON-EXECUTIVE DIRECTOR

S Sithole

EXECUTIVE DIRECTORS

TN Kruger (chief executive officer)
DS Sita (chief financial officer)

COMPANY SECRETARY

JK Monaisa

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Deloitte & Touche

PRINCIPAL BANKER

Rand Merchant Bank

SPONSOR

JP Morgan Equities South Africa (Pty) Limited

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Forward-looking information

This report contains forward-looking statements that, unless otherwise indicated, reflect the company's expectations at the time of finalising the report. Actual results may differ materially from these expectations if known and unknown risks or uncertainties affect the business, or if estimates or assumptions prove inaccurate. Tiger Brands cannot guarantee that any forward-looking statement will materialise and, accordingly, readers are cautioned not to place undue reliance on these statements. The company assumes no obligation to update or revise any forward-looking statements, even if new information becomes available as a result of future events or for any other reason, save as required by legislation or regulation.

