CAXTON AND CTP PUBLISHERS AND PRINTERS LIMITED
Incorporated in the Republic of South Africa
Registration number 1947/026616/06
Share code: CAT   ISIN code: ZAE000043345
Preference share code:CATP   ISIN code:ZAE000043352

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED
31 DECEMBER 2016

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT AND LOSS
AND OTHER COMPREHENSIVE INCOME

R'000	% change	Unaudited six months to 31 December 2016	Unaudited six months to 31 December 2015	Audited for the year to 30 June 2016
Revenue	5.8	3 493 161	3 300 927	6 404 995
Other operating income		51 009	48 437	136 430
		3 544 170	3 349 364	6 541 425
Changes in inventories of finished goods and work in progress		(48 217)	(74 618)	44 276
Raw materials and consumables used		1 611 340	1 493 875	2 814 092
Staff costs		730 966	713 069	1 434 239
Other operating expenses		827 643	809 929	1 486 481
Total operating expenses		3 121 732	2 942 255	5 779 088
PROFIT FROM OPERATING ACTIVITIES	3.8	422 438	407 109	762 337
Depreciation		142 287	140 396	289 150
PROFIT FROM OPERATING ACTIVITIES AFTER DEPRECIATION	5.0	280 151	266 713	473 187
Impairment of plant		-	-	27 583
NET PROFIT FROM OPERATING ACTIVITIES		280 151	266 713	445 604
Net finance income		73 099	61 534	126 899
- dividends		44 023	37 637	79 265
- interest		27 201	22 112	48 428
- IFRS 2 deemed interest receivable on unwinding of transaction		1 875	1 785	3 571
- (loss) on currency hedges		-	-	(4 365)
Net income from associates		12 252	10 267	17 636
PROFIT BEFORE TAXATION		365 502	338 514	590 139
Income tax expense		96 175	88 729	134 085
PROFIT FOR THE PERIOD	7.8	269 327	249 785	456 054
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss		-	-	44 954
Items that will be reclassified subsequently to profit or loss		(292)	(4 729)	48 332
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		269 035	245 056	549 340
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Non-controlling interests		4 365	5 709	8 445
Owners of the parent		264 670	239 347	540 895
		269 035	245 056	549 340
PROFIT ATTRIBUTABLE TO:				
Non-controlling interests		4 365	5 709	8 445
Owners of the parent		264 962	244 076	447 609
		269 327	249 785	456 054
Earnings per share (cents)	8.8	66.7	61.3	112.5
Headline earnings per share (cents)	8.8	66.6	61.2	116.4
Preference dividend paid per share in respect of the previous year (cents)		570	530	530
Ordinary dividend paid per share in respect of the previous year (cents)		70	65	65
Shares in issue/weighted average number of shares in issue		397 702 340	398 030 651	397 982 185
Weighted average number of treasury shares		(711 773)	(4 007)	-
Earnings per share based on		396 990 567	398 026 644	397 982 185
Reconciliation of headline earnings:				
Earnings attributable to owners of company		264 962	244 076	447 609
Adjusted for non-trading items		(661)	(528)	15 618
Impairment of plant and goodwill		-	-	27 583
Net profit on disposal of assets		(918)	(733)	(5 892)
Tax effect on above adjustments		257	205	(6 073)
Headline earnings		264 301	243 548	463 227

Condensed segmental analysis	Unaudited six months to 31 December 2016	%	Unaudited six months to 31 December 2015	%	Audited for the year to 30 June 2016	%
Revenue:						
Publishing, printing and distribution	2 200 087	63	2 101 299	64	4 190 122	66
Packaging and stationery	1 215 007	35	1 152 073	35	2 125 923	33
Other	78 067	2	47 555	1	88 950	1
	3 493 161	100	3 300 927	100	6 404 995	100
Profit from operating activities after depreciation						
Publishing, printing and distribution	171 704	61	192 782	72	307 956	65
Packaging and stationery	111 711	40	94 697	36	154 165	33
Other	(3 264)	(1)	(20 766)	(8)	11 066	2
	280 151	100	266 713	100	473 187	100

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

R'000	Unaudited six months to 31 December 2016	Unaudited six months to 31 December 2015	Audited for the year to 30 June 2016
CASH FLOW FROM OPERATING ACTIVITIES	(203 189)	(118 361)	399 291
Cash generated by operations	386 737	410 774	758 050
Changes in working capital	(338 023)	(260 475)	(111 053)
Cash generated by operating activities	48 714	150 299	646 997
Less: Taxation paid	(42 755)	(65 644)	(109 445)
Net interest received	27 201	22 112	48 428
Dividends received	44 023	37 637	79 265
Net cash inflow from from operating activities	77 183	144 404	665 245
Dividends paid	(280 372)	(262 765)	(265 954)
CASH FLOW FROM INVESTING ACTIVITIES	(271 390)	(166 970)	(368 764)
Property, plant and equipment			
- additions to maintain and expand operations	(161 221)	(176 921)	(353 043)
- proceeds from disposals	8 148	6 348	12 334
	(153 073)	(170 573)	(340 709)
Investments			
- subsidiary and business acquired (net of cash acquired)	(104 047)	-	(19 198)
- Associates, other investments and loans (net of taxation)	(14 270)	3 603	(8 857)
	(118 317)	3 603	(28 055)
CASH FLOWS FROM FINANCING ACTIVITIES	(13 724)	(1 087)	(753)
Minority interest acquired	-	-	(1 867)
Shares issued	-	-	6 000
Own shares acquired	(13 724)	(1 087)	(4 886)
Net (decrease)/increase in cash and cash equivalents	(488 303)	(286 418)	29 774
Cash acquired	(380)	-	-
Cash and cash equivalents at the beginning of the year	2 030 186	2 000 412	2 000 412
Cash and cash equivalents at the end of the period	1 541 503	1 713 994	2 030 186
Fair value adjustment of preference shares and other investments	(12 237)	(17 297)	(11 861)
Fair value of cash and cash equivalents at the end of the period	1 529 266	1 696 697	2 018 325

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

R'000	Unaudited 31 December 2016	Unaudited 31 December 2015	Audited 30 June 2016
ASSETS			
Non-current assets	3 155 723	2 858 748	3 046 987
Property, plant and equipment	2 634 749	2 515 827	2 594 389
Goodwill	64 700	-	-
Interest in associates	286 558	251 109	272 157
Other investments	92 854	24 611	86 155
- Listed	8 128	34	34
- Unlisted	84 726	24 577	86 121
Deferred taxation	-	-	19 299
Loans to directors	76 862	67 201	74 987
Current assets	3 964 288	3 813 434	4 002 578
Inventories	881 456	795 886	806 229
Accounts receivable	1 553 566	1 307 129	1 160 063

Taxation	-	13 722	17 961
Bank and cash resources	419 337	591 829	908 020
Listed bank preference shares	59 929	54 868	60 305
Unlisted bank preference shares	1 050 000	1 050 000	1 050 000
Total assets	7 120 011	6 672 182	7 049 565
EQUITY AND LIABILITIES			
Equity	5 554 332	5 277 964	5 579 393
Equity attributable to owners of the parent	5 493 257	5 215 156	5 522 685
Preference shareholders	100	100	100
Non-controlling interest	60 975	62 708	56 608
Non-current liabilities			
Deferred taxation	353 097	306 784	354 636
Current liabilities	1 212 582	1 087 434	1 115 536
Accounts payable	1 005 152	858 870	883 677
Provisions	187 529	228 564	226 505
Taxation	19 901	-	5 354
Total equity and liabilities	7 120 011	6 672 182	7 049 565
Net tangible asset value per share (cents)	1 399	1 326	1 406
Directors' valuation of unlisted investments and associated companies	371 284	275 686	358 278
Capital expenditure	161 221	176 921	353 043
Capital expenditure committed	112 500	180 000	90 000

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

R'000	Unaudited 31 December 2016	Unaudited 31 December 2015	Audited 30 June 2016
Balance at beginning of the year	5 579 393	5 296 760	5 296 760
Total comprehensive profit for the period	269 035	245 056	549 340
Shares issued	-	-	6 000
Own shares acquired	(13 724)	(1 087)	(4 886)
Dividends paid - ordinary and preference shareholders	(280 372)	(262 765)	(265 954)
Minority interest acquired	-	-	(1 867)
Balance at end of the year	5 554 332	5 277 964	5 579 393

Note:

Business combinations

The group acquired the following businesses, which have been accounted for as business combinations during the year as follows:

Flip File (Pty) Ltd was acquired with an effective date of 1 September 2016 and the net assets of Boland Printers were acquired with an effective date of 30 September 2016.

The acquired businesses contributed revenue of R68.7 million and a net profit after tax of R7.8 million. Had these businesses been acquired for the full reporting period the revenue would have been R75.2 million and the net profit after tax would be R9.9 million

Details of the assets and liabilities from the acquisitions are as follows:

R'000	Acquirees fair value
Goodwill	64 700
Property, plant and equipment	28 679
Inventory	16 764
Accounts receivable	23 650
Accounts payable	(29 366)
Cash acquired	(380)
Fair value of net assets acquired	104 047
Total cash purchase consideration	104 047
	-

These business combinations are accounted for in these results.

Commentary

Basis of preparation

The unaudited interim financial statements for the six months ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncement as issued by the Financial Reporting Standards Council (FRSC), the requirements of IAS 34 (Interim Financial Reporting) and the requirements of the South African Companies Act and the JSE Listings Requirements.

The accounting policies applied in preparing these interim financial statements are consistent with those presented in the annual financial statements for the year ended 30 June 2016. These interim financial statements have not been reviewed or reported on by the Caxton Group auditors, Grant Thornton.

Earnings

A hallmark of the Caxton group is that it is able to generate consistent earnings, notwithstanding the very difficult conditions. This is a reflection of its no-frills management approach, its conservative budgeting and disciplined containment of costs. In the last few years, the group has also diversified its operations and product ranges, with a significant focus on its packaging operations. Thus, whilst Caxton is rooted in the media and publishing business, it has grown into a diversified and multi-faceted organisation.

The group has produced a solid set of results. This is testament to the group's resilience as well as the benefits of the diversification of its business through acquisitions that have taken place over the last few years.

The group will continue its diversification by growing its packaging business through acquisitions, leveraging its distribution business to service non-media products and supporting the growth of its fibre to the home (FTTH) and internet service provider (ISP) investments, in partnership with Pembani Remgro Infrastructure Fund.

Revenue grew 5.8% to R3,493 billion, helped by acquisitions, increased demand from government for educational text books and a significant turnover increase from our flexible packaging operation. This was partially offset by reduced turnover in the newspaper and magazine divisions, where subdued local advertising demand and continued decline in magazine circulation and advertising revenues were evident.

Raw material input costs benefited from a more stable exchange rate environment that allowed divisions to stabilise pricing and margins, although in some markets this was mitigated by continued competitor pressures. Staff costs and other operating costs continued to be well managed, increasing by 2.5% and 2.2% respectively.

Profit from operating activities after depreciation increased by 5.0% to R280.2 million from R266.7 million in the prior period. Profits were further enhanced by an 18.8% increase in net finance income from R61.5 million to R73.1 million as a result of interest rates being comparatively higher in the period under review.

Net income from associates increased to R12.2 million as a result of an improvement in profits from the group's printing associates. This was partially offset by losses incurred by our investment in the fibre to the home operator, during the development phase as the roll-out gathers momentum.

Profit before taxation has grown 8% to R365.5 million and taxation at an effective rate similar to last year absorbed R96.2 million, resulting in profit after taxation of R269.3 million - a growth of 7.8%.

The weighted average number of shares in issue declined by a further 991 618 shares to 396 990 567 shares as the group undertook a share buyback programme. This contributed marginally to enhanced earnings per share of 66.7 cents and headline earnings per share of 66.6 cents - an increase of 8.8% over the prior period.

Cash flow

The fair value of cash and cash equivalents amounted to R1.5 billion, a decrease of R167.4 million over the corresponding prior period. Cash generated by operations of R386.7 million was impacted by cash outflows associated with the restructure of the Gauteng packaging operations, which will have a further impact in the second half of the year while the process is completed. Working capital absorbed R338.0 million and was affected by the way public holidays fell, with large debtor receipts only being received early in January 2017. At the time of preparing this report, cash and cash equivalents have increased to R1.8 billion.

Capital expenditure amounted to R161.2 million, resulting from the reinvestment in new equipment and infrastructure for the packaging divisions, which is now being completed.

The group made two acquisitions during the period:

- The purchase of a stationery business (Flip File (Pty) Limited) which will add bulk to our existing stationery business and can fully utilise the group's current operations to supply raw material, distribution and merchandising services.

- The purchase of the net assets of a label manufacturer (Boland Printers) in the Western Cape which complements our current label business. The process is under way to re-equip this operation to increase its capacity to supply other packaging products in addition to labels.

In the period, a loan was made to the group's fibre to the home associate (Octotel), being our share of the capital required to roll out the network. There is a commitment to further fund this business, based on certain milestones being achieved, over the next three years. Octotel is currently the largest open serve fibre to the home business in the Western Cape and has further municipal permissions to increase its coverage. Currently all the benchmarks on which the business model was premised are being exceeded.

DIVISIONAL PERFORMANCE

Publishing, printing and distribution

Newspaper Publishing and Printing

The daily and weekly newspapers continue to face difficult trading conditions with circulations continuing to decline, although the rate of decline has levelled off in comparison to prior periods. Advertising revenues in this market also remain under pressure and although audiences on digital news platforms continue to increase, the digital revenue generated does not replace the reduction in print advertising revenues.

Notwithstanding these circumstances, The Citizen has managed to post marginally improved results on the back of a cover price increase, stable advertising revenue and strict control over costs.

In contrast to the above trend, national advertising revenues in our local newspapers continue to show consistent year-on-year growth, thanks to their unique positioning and ability to fulfil the retailers' requirements. The same cannot be said for local advertising revenues which experienced a significant year-on-year decline. Numerous factors have led to this decline - notably the general state of the microeconomic environment in the various towns that our publications serve. There has been a considerable drop in consumer spending and this has had a concomitant effect on local businesses and their ability to spend on advertising. This together with continued expenditure on the group's digital platforms has meant a decline in this division's profitability.

The group's newspaper printing division profitability continues to be under pressure due to declining paginations and circulations of the daily and weekly publications. The rate of decline has levelled off but due to the high fixed-cost nature of this operation any decline has a bottom line impact. The management has done well to mitigate some of this decline through strict control of variable costs and growing the semi-commercial work.

Magazine Publishing and Distribution

The magazine division continues to contend with declines in circulations and advertising revenues. Notwithstanding the difficult environment, our titles have managed to maintain market share. The division continues to focus on expanding its digital offering, which has seen the revamp of most of the title websites and has been successful in growing digital audiences. This has provided new opportunities for advertisers to run campaigns across both a print and digital platform. This having been said, print is still the dominant portion of such campaigns and the digital revenue cannot compensate for the reduced revenues from the print offering.

The reduced magazine circulations have meant that there is continued focus on improving operational efficiencies through optimising print orders and reviewing allocations in order to maximise sales wherever possible. These measures have had some success in mitigating the overall revenue decline.

The group's distribution business (RNA) has a unique and extensive network that has the capability of servicing approximately 12 000 retail outlets on a weekly cycle. It is this network that provides the opportunity to deliver merchandise cost-effectively and consistently. There is a renewed focus on using this network to deliver non-traditional merchandise and in the period under review, some progress has been made in this regard. The division has undertaken pilot projects in using its network to deliver stationery products, diaries and books. These initiatives have proved to be successful and the intention is to roll them out on a larger scale over the next year. RNA also provides customers with an end-to-end solution involving retailer management, warehousing, and distribution and merchandising services.

In the period under review RNA's core media products continued to decline but strict cost management limited the impact on profitability. The roll-out of new product lines is critical to the growth of this division into the future.

Commercial Printing

Web and Gravure

Despite subdued trading conditions and declining magazine print orders, this division maintained profitability, which is a commendable achievement as the prior period included major once-off rationalisation benefits. Although volumes declined slightly, this was offset by a more stable raw material environment resulting in a slight improvement in margins.

Book Printing

The unexpected increase in government spending on text books for the Eastern Cape was the main driving force for an excellent first six months. This resulted in a much needed boost to the industry but this lack of predictability and planning created enormous challenges in managing raw material requirements, capacity constraints and labour requirements. Despite these constraints, this division has managed to fulfil and exceed its customer requirements and endorses the benefits of investing in the new web press capability, run by a highly competent team.

This division has also managed to grow market share in the periodical publication and diary markets, where our reputation for quality and service combined with a competitive pricing strategy has been successful.

The division has established a digital print department and is now able to provide customers with a full service offering for short, medium and long run book printing under one management team.

Packaging and Stationery

Packaging

The packaging divisions have performed well and increased profitability. This was assisted by a more stable exchange rate environment, although continued competitor activity mitigated this to some extent.

The gravure divisions continue to perform well with increased efficiencies from these excellently managed units. These operations are key to the restructure of the Gauteng packaging operations and the move of specific work from litho operations to gravure has been successful. Good progress has been made with the restructuring project and the target of closing our Denver litho operation is on track for the end of the financial year. The benefits of this project are being felt progressively, with operational costs being reduced as we near completion.

Another pleasing feature has been the turnaround in performance of our well-equipped Flexibles operation in the Western Cape. This operation has shown tremendous improvement in operational efficiencies which has meant that we have been able to service our customers with greater reliability. This has, in turn, contributed to a significant increase in turnover. There are still further operational improvements that can be achieved and this will be the focus in the coming months.

The group is on the constant lookout for acquisition opportunities that complement our current operations. During the period under review, the group acquired the net assets of a label printer, Boland Printers in the Wellington area. It is the intention to further equip this business to enable it to pursue growth in other packaging markets that it did not serve in the past.

Stationery

The group's existing stationery division performed well, growing sales and profitability on the back of an excellent diary season. In the period, the group concluded the acquisition of Flip File which also impacted positively on the overall divisional profits. This acquisition complements the group well in that all the raw materials can be sourced from existing operations and in addition the distribution and merchandising can be supplied by RNA.

Our stationery operations have managed to extend their retail footprint by utilising the RNA distribution network to access retailers that were not previously serviced. This approach will be expanded over the coming months.

Other

During the period under review, we have made substantial strides in integrating the CD and DVD replication business which we acquired last year, with our existing operation. This impacted positively on throughput and profitability. The last step is the move of the merged operation to self-owned premises, that will be complete by year-end.

Prospects

The low growth economic environment which currently besets South Africa is expected to continue and this will hamper meaningful growth in our traditional markets. This having been said, the group remains in a strong position to take advantage of opportunities that usually arise in difficult times. We will continue to derive benefits from our diversification strategies, as new markets present themselves.

Statement of responsibility

The preparation of the group's consolidated results was supervised by the Acting Financial Director, Mr.TJW Holden, BCom, CA(SA).

22 February 2017

Executive Directors: TD Moolman, PG Greyling, TJW Holden
Non-Executive Directors: PM Jenkins, ACG Molusi, NA Nemukula, J Phalane, T Slabbert
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