Libstar Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number 2014/032444/06)
(JSE share code: LBR)
(ISIN: ZAE000250239)
("**Libstar**" or the "**Group**")

Further trading update and trading statement

Introduction

Since the publication of the last market update on 9 June 2020, the Group has continued to work in pursuit of the protection, safety, health and well-being of Libstar's people, to preserve cash and maintain the Group's financial stability and to deliver superior service levels and product availability to customers.

During the six-month reporting period ended 30 June 2020 ("reporting period"), Libstar incurred extraordinary Covid-19 expenditure in the amount of R44 million to maintain a safe working environment for its employees. These expenses included special transport benefits for employees, incentives, food and sanitisation packs, donations and personal protective equipment.

As an Essential Service provider, Libstar was able to operate for the entire duration of the national lockdown. The Group implemented strict control procedures and worked closely with the Departments of Labour and Health to respond swiftly to identified cases of Covid-19. These procedures included on-site screening, employee track-and-trace protocols and rigorous sanitisation programs designed to protect the Group's people.

Despite the challenges faced and intermittent downtime caused by the adherence to best practices, the Group managed to maintain high levels of staff attendance and production output.

Trading update

Performance by sales channel

While the Group continues to report its results by product category, the impact of Covid-19 is more immediately apparent in the Group's sales channels. This is particularly true of Q2 2020, being the first full quarter in which the Group traded predominantly under levels 5 and 4 of lockdown restrictions. The impact on the Group's four sales channels is therefore reflected below before providing the breakdown of revenue by category later in this announcement.

Group

As a result of an increased revenue weighting to retail customers and the resilient performance within this channel, Libstar delivered revenue growth of 1.9% during the reporting period. The Group's gross profit margin improved by 0.2 percentage points, bolstered by increased service revenue in relation to the outsourced manufacturing by Libstar of Pringles snacks and Kellogg's noodles.

Libstar's gross revenue performance by Sales Channel (before allowances and rebates) and Group Total Net Revenue (after allowances and rebates) for the reporting period can be summarised as follows:

	Group revenue growth / (decline)			Contribution to Group revenue	
	Quarter ended Friday, 4 April 2020 vs Quarter ended Friday, 29 March 2019	**Quarter ended 30 June 2020**	**Six months ended 30 June 2020**	**Six months ended 30 June 2020**	**Six months ended 30 June 2019**
GROSS REVENUE BY CHANNEL					
Retail and wholesale	7.3%	14.2%	**10.7%**	68%	61%
Food service	-3.6%	-63.2%	**-34.5%**	12%	17%
Exports	12.3%	-26.3%	**-8.0%**	10%	11%
Industrial and contract manufacturing	5.4%	-10.4%	**-2.8%**	10%	11%
TOTAL GROUP NET REVENUE	**9.7%**	**-4.9%**	**1.9%**	**100%**	**100%**

Retail and wholesale

The Group supplies products across its five product categories into the retail and wholesale channel. Total revenue from this channel, the largest contributor to Group revenue, increased by 10.7% during the reporting period. The revenue growth was mainly attributable to robust retail demand, which has continued since the publication of the Group's previous market update.

Food service

The food service channel includes, amongst others, beef, chicken and related meat products, as well as soft and hard cheeses and tortilla wraps to the quick-service restaurant sector. It also includes food packaging, table sauces and other wet condiments.

The resumption of operations by the quick-service restaurant industry during lockdown level 3 since the last market update has resulted in an improved performance from the Group's largest food service channel-facing division, Finlar Fine Foods. The impact of reduced out-of-home dining is still being experienced by the Group's other food service-facing units, notably Lancewood, Multi-Cup and Denny. Revenue from the food service channel decreased by 34.5% during the reporting period.

Exports

The business unit responsible for the majority of the Group's export revenue continues to be Cape Herb & Spice. Demand for this division's exported private label dry condiments remained strong during the entire reporting period. However, operational delays at the Cape Town port adversely impacted the Group's ability to effect shipments during the month of June. These operational delays erased the gains of Q1 2020 and resulted in a revenue decline of 8% in this channel during the reporting period. Additional port crew resourcing has improved shipment completion rates post the end of this reporting period.

Industrial and contract manufacturing

The Group manufactures wet condiments for various brand owners in the retail and food service markets. During the lockdown period, orders for food service wet condiments reduced significantly. Orders for these products improved somewhat since the commencement of level 3 lockdown restrictions and the revenue decline was limited to 2.8%.

Whilst demand for retail wet condiments remained subdued for most of H1 2020, orders increased from the start of H2 2020. The H1 2020 underperformance of wet condiments manufactured for this channel is expected to be ameliorated in H2 by cost-saving restructuring and the introduction of new products as well as contract manufacturing for new customers.

The industrial and contract manufacturing channel benefited from the full period inclusion of service revenue from the manufacturing of Pringles snacks.

Performance by product category

The Group's net revenue (after allowances and rebates) by category is summarised as follows:

	Group revenue growth / (decline)			Contribution to Group revenue	
	Quarter ended Friday 4 April 2020 vs Quarter ended Friday 29 March 2019	**Quarter ended 30 June 2020**	**Six months ended 30 June 2020**	**Six months ended 30 June 2020**	**Six months ended 30 June 2019**
NET REVENUE BY CATEGORY					
Perishables	14.0%	-15.2%	**-1.7%**	46%	48%
Groceries	3.9%	-7.6%	**-2.1%**	31%	32%
Snacks and Confectionery	27.3%	10.2%	**18.1%**	6%	5%
Baking and Baking Aids	17.7%	27.1%	**22.9%**	8%	7%
Household and Personal Care	-8.6%	30.0%	**11.5%**	9%	8%
TOTAL GROUP NET REVENUE	**9.7%**	**-4.9%**	**1.9%**	**100%**	**100%**

Perishables

Revenue from the sale of dairy products increased relative to the comparative period as a result of strong retail channel demand growth. However, the closure of quick-service restaurants due to lockdown restrictions weighed on the performance of meat products sold in the food service channel, resulting in a category revenue decline of 1.7%.

Groceries

This category benefited from increased sales of pasta, meal ingredients, vinegar, honey, private label and branded sauces and soups in the retail channel. As mentioned above, order completion delays in the shipment of exported dry condiments erased strong Q1 2020 gains. However, shipment fulfillment rates have improved post the end of this reporting period.

As mentioned above, the demand for wet condiments manufactured for brand owners remained subdued.

As the Group's specialised packaging products, supplied by the Multi-Cup division, are mainly sold in the hospitality and restaurant industries, sales of these products were significantly lower than the comparative 2019 period.

As a result of the above, revenue from Groceries declined by 2.1%.

Snacks and Confectionery

Category revenue increased by 18.1%, mainly as a result of the full period inclusion of revenue from the contract manufacturing of Pringles snacks by Libstar. This plant commenced production in June 2019.

Baking and Baking Aids

Category revenue increased 22.9%, mainly due to the strong retail and wholesale channel demand for baked goods, rusks and baking aids.

Household and Personal Care (HPC)

This category benefited from significant cost rationalisation brought about by the integration of Libstar's HPC divisions into one market-facing business during H2 2019 as well as the launch of a number of innovative sanitisation and environmentally-friendly household and personal care product ranges within the retail channel.

Normalised EBITDA

The Group's cost of operation has increased significantly as a result of direct extraordinary Covid-19 related expenses in the amount of R44 million. This included donations in the amount of R3.5 million to needy communities, personnel-related benefits of R18.5 million and R22.0 million in direct operating expenses. Personnel-related expenses mainly comprised staff transport benefits. Direct operating expenses were attributed mainly to the cost of personal protective equipment.

Normalised Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) for the six-month period ended 30 June 2020 has been affected by these extraordinary expenses and is expected to be reported within the following ranges:

	Percentage change	Expected for the six months ended 30 June 2020	Reported for the six months ended 30 June 2019
		'000	'000
Normalised EBITDA*	-3.9% to -6.9%	R449,704 to R464,190	R482,857

* Normalised EBITDA shown after the effect of IFRS 16 (leases) in H1 2020 and H1 2019

If the extraordinary expenses of R44 million are excluded from the ranges above, Normalised EBITDA would have increased by between 2.2% and 5.2%.

Balance sheet and cash flows

The Group's investment in working capital increased to 14.8% of revenue (H1 2019: 13.8%). This is mainly as a result of holding higher inventory of imported meal ingredients to ensure product availability during Covid-19. A higher inventory holding of nuts used in the production of snacks and confectionery also contributed to the increase in Group net working capital.

Despite the increased investment in net working capital, the Group has remained highly liquid, improving its cash flow conversion ratio from 62% in the comparative period to 64% during the reporting period, mainly as a result of reduced capital expenditure relative to the comparative period. Libstar also remains fully compliant with lender financial covenants. The Group's net interest-bearing debt on term loans to EBITDA ratio improved from 1.4 times to 1.3 times due to the improved cash flow conversion.

The Group's interest charge on banking facilities reduced by 13.0% from R78.4 million to R68.2 million, mainly due to a reduction in the Johannesburg interbank average lending rate (JIBAR).

Trading statement

Shareholders are advised that the Group expects to report Earnings Per Share (EPS), Headline Earnings Per Share (HEPS), Normalised EPS and Normalised HEPS, all after the effects of IFRS 16 (leases), within the ranges reflected in the table below:

		Expected six months ended 30 June 2020	**Reported six months ended 30 June 2019**
	Percentage change	**(cents)**	**(cents)**
Diluted EPS (from all operations)	+87.1% to +92.2%	16.3 to 16.7	8.7
Diluted HEPS (from all operations)	-6.7% to -11.8%	16.4 to 17.4	18.6
Diluted EPS (from continuing operations)	-13.8% to -18.7%	16.0 to 17.0	19.7
Diluted HEPS (from continuing operations)	-11.7% to -16.7%	16.4 to 17.4	19.7
Normalised EPS (from continuing operations)	-16.5% to -21.5%	23.1 to 24.5	29.4
Normalised HEPS (from continuing operations)	-15.2% to -20.2%	23.5 to 24.9	29.4

The diluted weighted average number of shares in issue at the end of the reporting period was 599,538,009 (H1 2019: 599,254,689).

The following significant items (relative to the 2019 comparative period) were considered in arriving at:

- **Diluted EPS (from all operations)**
    - The comparative period EPS was reduced by:
        - an after-taxation loss of R65.8 million in relation to the discontinued dairy and fruit concentrate business that was subsequently disposed of during H2 2019. The loss did not recur in 2020.
    - The current reporting period EPS was decreased by:
        - a pre-taxation increase in depreciation of property, plant and equipment and amortisation of software relative to the comparative period in the amount of R31.6 million (24% increase). The increased expense comprises a R14.1 million pre-taxation charge in relation to the application of IFRS 16 (leases) and a R17.5 million charge mainly in relation to depreciation incurred as a result of capital expenditure incurred in 2019;
        - after-taxation extraordinary and direct Covid-19 related expenses in the amount of R31.7 million; and
        - a R6.6 million after-taxation provision for long-term incentives awarded during the reporting period, (H1 2019: Rnil).
    - The current reporting period EPS was increased by:
        - a R22.1 million after-taxation unrealised foreign currency translation gain on the revaluation of inventory, foreign currency denominated debtors, creditors and cash balances at 30 June 2020 (H1 2019: R0.6 million loss); and
        - a R19.7 million after-taxation gain on the write-back of a minority shareholder loan.

- **Diluted HEPS (from all operations)**, in addition to the aforementioned:
    - The comparative period HEPS was increased by the add-back of an after-taxation impairment loss of R59.4 million in relation to the discontinued dairy and fruit concentrate business which was subsequently disposed of during H2 2019.

- **Normalised EPS (from continuing operations)**, in addition to the aforementioned:
    - Normalised for the unrealised foreign currency translation gain described above in the after-taxation amount of R22.1 million; and
    - Normalised for the after-taxation R6.6 million expense mentioned above in relation to long-term incentives awarded during the reporting period.

- **Normalised HEPS (from continuing operations)**, in addition to the aforementioned:
    - Normalised for a R2.2 million loss on disposal of property, plant and equipment (H1 2019: R0.2 million gain).

Concluding remarks

During July 2020 trading (the first month of H2 2020), retail and export channel demand was strong with a marked improvement in export shipment completion rates. The demand for food service and industrial/contract manufacturing channel products strengthened relative to H1 2020, although the recovery to pre-Covid levels of performance is expected to materialise over a longer period.

Next reporting

The Group expects to publish its detailed interim financial results on or around 2 September 2020.

The financial information in this announcement has not been reviewed or reported on by Libstar's external auditors.

17 August 2020

Sponsor
The Standard Bank of South Africa Limited

Forward-looking statements

This announcement contains certain forward-looking statements. These include statements regarding our intentions, beliefs or current expectations concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the economic and business circumstances occurring from time to time in the markets in which Libstar operates, including the projected future financial and operating impacts of the Covid-19 pandemic.

All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors that could cause actual future financial condition, performance and results to differ materially from the plans, goals, expectations and results expressed in the forward-looking statements and other financial and/or statistical data within this announcement.

It is believed that the expectations reflected in this announcement are reasonable, but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. The forward-looking statements reflect knowledge and information available at the date of preparation of this announcement and the Group undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on such forward-looking statements. No statement in this communication is intended to be a profit forecast.