

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")

Third quarter trading update**Introduction**

During the third quarter of the 2020 financial year, the Group continued to prioritise the following:

- the protection, safety, health and well-being of Libstar's people;
- the preservation of cash and maintenance of the Group's financial stability; and
- the delivery of superior service levels and product availability to customers.

As anticipated, Libstar has incurred further extraordinary Covid-19 expenditure of R16 million since the release of its interim financial results. The Group has therefore incurred R60 million direct Covid-19 expenses during the nine months ended 2 October 2020. Libstar expects additional Covid-19-related expenses of c. R5 million for the last three months to 31 December 2020 as the rate of expenditure normalises in line with reduced new Covid-19 infection rates nationally.

Balance sheet and cash flows

Cash preservation remains a key strategic priority. Following the successful payment in September of the Group's dividend in relation to the year ended 31 December 2019, cash generation has remained stable in the third quarter.

Although the Group's investment in net working capital remains higher than last year (2019: 14.4% of revenue), it is not expected to exceed the upper limit target of 15% of revenue. The current working capital levels are mainly attributable to increased inventory levels as the Group enters the festive season. Inventory holdings are expected to reduce towards the end of the financial year. However, the total investment in net working capital is still expected to exceed that of the prior year.

Trading update

Performance by sales channel

As reported previously, the effect of Covid-19 has been most apparent in the Group's sales channels. The impact on Libstar's four sales channels is reflected below. The Group's standard reporting disclosures pertaining to category performance are provided later in this announcement.

Group

Year-on-year revenue growth for the third quarter accelerated to 14.4%, mainly due to strong retail channel performance across multiple categories, increased food service sales and improved export shipment completion rates. This follows a revenue increase of 9.7% in the first quarter and a 4.9% decline in the second quarter, resulting in a 6.2% year-on-year increase for the nine months ended 2 October 2020.

Whilst the Group has been able to protect gross profit margins, general and administrative expenses for the year ended 31 December 2020 are likely to remain significantly higher relative to the prior year. This is predominantly due to:

- The Covid-19 related expenses mentioned above; and
- A lower comparative base in Q4 2019 when the Group achieved c. R52 million cost recoveries relating to the restructuring of the Group's logistics arrangements.

Several cost-rationalisation projects are underway throughout the Group, most notably within the Dickon Hall Foods, Lancewood and Libstar HPC divisions. These projects are expected to start yielding meaningful benefits from H1 2021.

Libstar's gross revenue performance by sales channel (before allowances and rebates) and Group total net revenue (after allowances and rebates) for the nine-month period ended 2 October 2020 are summarised as follows:

	Group revenue growth / (decline)					Contribution to Group revenue	
	Q1 2020	Q2 2020	Six months ended 30 June 2020	Q3 2020	Nine months ended 2 October 2020	Nine months ended 2 October 2020	Nine months ended 27 September 2019
GROSS REVENUE BY CHANNEL							
Retail and wholesale	7.3%	14.2%	10.7%	26.6%	15.5%	65.8%	59.8%
Food service	-3.6%	-63.2%	-34.5%	-13.6%	-27.9%	12.1%	17.6%
Exports	12.3%	-26.3%	-8.0%	13.1%	2.6%	11.4%	11.6%
Industrial and contract manufacturing	5.4%	-10.4%	-2.8%	10.0%	1.8%	10.7%	11.0%
TOTAL GROUP NET REVENUE	9.7%	-4.9%	1.9%	14.4%	6.2%	100.0%	100.0%

Retail and wholesale

The Group supplies products in its five categories to the retail and wholesale channel. Total revenue from this channel increased by 26.6% during the third quarter and by 15.5% for the nine months ended 2 October 2020. The third quarter revenue growth was mainly attributable to continued robust retail demand, driven by increased at-home consumption. In addition, channel revenue benefited from a timing impact, as orders for imported value-added meal ingredients were completed in July after significant port delays in June.

Food service

The food service channel includes a range of meat and cheese products, tortilla wraps and condiments, as well as food packaging.

Food service channel revenue reflected the easing of lockdown conditions, ending the third quarter 13.6% lower than the comparative period of the 2019 financial year. This was a significant improvement compared to the 63.2% year-on-year decline in the second quarter, and in line with the guidance previously provided to the market. The Group expects trading at 80% to 85% of prior year levels

for the remainder of the financial year, as the quick-service restaurant and other hospitality industries slowly recover from the impact of Covid-19 lockdown restrictions.

Exports

Cape Herb & Spice continues to lead Group export volumes, with solid growth in the retail sector. As expected, the export channel recovered strongly from the start of H2, recording revenue growth of 13.1% during the third quarter. The improved performance was mainly attributable to ongoing strong demand for exported private label dry condiments, as well as significantly improved shipment fulfillment rates from July onwards. As a result, export channel revenue grew by 2.6% for the nine months ended 2 October 2020.

Industrial and contract manufacturing

The Group manufactures wet condiments for various brand owners in the retail and food service markets.

As guided previously, orders increased from the start of H2, following subdued demand for retail wet condiments during most of H1 2020, particularly in the food service market. As a result, revenue from this channel grew by 10.0% during the third quarter and by 1.8% for the nine months ended 2 October 2020.

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	
	Q1 2020	Q2 2020	Six months ended 30 June 2020	Q3 2020	Nine months ended 2 October 2020	Nine months ended 2 October 2020	Nine months ended 27 September 2019
NET REVENUE BY CATEGORY							
Perishables	14.0%	-15.2%	-1.7%	6.6%	1.0%	45.1%	47.4%
Groceries	3.9%	-7.6%	-2.1%	22.4%	6.6%	33.2%	33.0%
Snacks and Confectionery	27.3%	10.2%	18.1%	16.3%	17.5%	5.9%	5.4%
Baking and Baking Aids	17.7%	27.1%	22.9%	18.7%	21.5%	7.6%	6.6%
Household and Personal Care	-8.6%	30.0%	11.5%	22.7%	14.8%	8.2%	7.6%
TOTAL GROUP NET REVENUE	9.7%	-4.9%	1.9%	14.4%	6.2%	100.0%	100.0%

Perishables

Revenue growth from dairy and meat products bolstered the Perishables category performance during the third quarter, with retail demand remaining strong and food service recovering to 80% to 85% of the prior year. Category revenue increased by 6.6% during the third quarter following a 1.7% decline in H1 2020, resulting in 1.0% year-on-year revenue growth for the nine months ended 2 October 2020.

Groceries

This category continued to benefit from increased sales of pasta, meal ingredients, vinegar, honey, private label and branded sauces and soups in the retail channel in the third quarter. As shipment fulfilment rates improved from July onwards, the export channel was able to deliver exceptional revenue growth. Revenue from Groceries thus increased by 22.4% in the third quarter following a 2.1% decline in H1 2020, resulting in 6.6% year-on-year revenue growth for the nine months ended 2 October 2020.

Snacks and Confectionery

Category revenue increased by 16.3% in the third quarter following an 18.1% increase in H1 2020. The third quarter performance was mainly attributable to stronger revenue growth of assorted nuts and nut mixes within the retail channel. As a result, year-to-date revenue was 17.5% higher than the comparative period.

Baking and Baking Aids

Category revenue increased by 22.9% in H1 2020 due to increased in-home baking during lockdown levels 5 and 4. Demand in the retail and wholesale channels for baked goods, rusks and baking aids has remained strong and, as a result, an 18.7% increase in revenue was achieved in the third quarter, resulting in year-to-date revenue growth of 21.5%.

Household and Personal Care (HPC)

This category continued to benefit from significant cost rationalisation brought about by the integration of Libstar's HPC divisions into a single market-facing business during H2 2019, as well as the launch of a number of innovative sanitation and environmentally friendly household and personal care product ranges in the retail channel. Revenue grew by 22.7% in the third quarter following a 11.5% increase in H1 2020, resulting in year-to-date revenue growth of 14.8%.

Outlook

The fourth quarter traditionally contributes significantly to Libstar's full-year profitability. In this regard, the Group remains cautious as the full impact of Covid-19, particularly in relation to consumer spending trends, remains unquantifiable. However, Libstar continues to execute its key strategic priorities listed above and remains well placed to meet customer needs in the rapidly changing consumer environment.

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

21 October 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.