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

On 29 January 2021, the Group published a trading update in relation to its fourth quarter of the financial year ended 31 December 2020 ("Q4 update").

As committed, Libstar provides a further trading update and trading statement ahead of the publication of the Group's audited annual financial statements on 17 March 2021.

Further trading update

Amidst the significant supply chain disruptions and rapidly changing market conditions experienced during the COVID-19 pandemic, Libstar remained agile in responding to customer needs by maintaining product availability and delivering superior service levels. During the year under review, Libstar's Groceries, Baking & Baking Aids and Household & Personal Care categories benefited from strong retail and wholesale channel demand. The Perishables category delivered muted revenue growth due to significantly lower year-on-year sales of beef, cheese and mushroom products within the food service channel. Libstar remains well positioned to serve its customers through its focused category approach and multi-brand strategy.

Despite the effects of the pandemic on Libstar's sales channels, which impacted some business units more adversely than others, the Group continued to preserve its financial stability, with strong cash flows and a sound balance sheet.

Group revenue

Group revenue grew by 4.0% for the year ended 31 December 2020. As detailed in the table below, following year-on-year revenue growth of 1.9% in the first half (H1), revenue grew by 5.8% during the second half of the financial year (H2). The Group achieved organic revenue growth of 3.5% for the year, comprising a decline in volume of 4.6%, mainly due to the effects of COVID-19 on the Group's food service channel. The impact of price inflation and mix changes to Libstar's product basket was +8.1%.

This change in the full-year and H2 revenue growth figures compared to the Q4 update, stating revenue growth of 2.8% for the full year and 3.6% for H2, was due to allocations between rebates, allowances and other income statement items during the finalisation of the year-end results. Gross revenue by channel, as disclosed in the Q4 trading update, remains unchanged.

Revenue performance by product category

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

	Year-on-year net revenue growth/decline			Contribution to Group revenue	
	H1 2020	H2 2020	Year ended 31 December 2020	Year ended 31 December 2020	Year ended 31 December 2019
NET REVENUE BY CATEGORY					
Perishables	-1.7%	2.0%	**0.2%**	45.7%	47.4%
Groceries	-2.1%	11.7%	**5.3%**	32.5%	32.1%
Snacks & Confectionery	18.1%	-2.4%	**6.7%**	5.6%	5.4%
Baking & Baking Aids	22.9%	11.4%	**16.5%**	7.9%	7.1%
Household & Personal Care	11.5%	4.8%	**7.9%**	8.3%	8.0%
TOTAL GROUP NET REVENUE	**1.9%**	**5.8%**	**4.0%**	**100.0%**	**100.0%**

Perishables

After the initial slight reduction in H1 revenue due to COVID-19, the Perishables category revenue grew by 2.0% in H2 and increased by 0.2% for the year.

During H2, value-added meat and cheese products from this category continued to trade at 80% to 85% of prior year levels within the food service channel due to COVID-19 lockdown restrictions. The slow food-service recovery was largely offset by strong retail channel demand for value-added chicken and dairy products, albeit at lower overall gross profit margins.

Groceries

The Groceries category revenue grew by 11.7% in H2 and by 5.3% for the year.

H2 revenue from the export of private label dry condiments was bolstered by significantly improved shipment completion rates from July onwards following port delays in June. The category benefited during Q3 from the timing effects of the sale of imported value-added meal ingredients in July, after the major port delays in June. These timing benefits were not repeated during Q4 as peak retailer demand during the festive season was largely satisfied by Libstar's Q3 deliveries. Retail demand for these products, however, remained strong throughout H2.

Snacks & Confectionery

Snacks and Confectionery revenue declined by 2.4% in H2, but still grew by 6.7% for the year.

Demand for higher-value nuts and confectionery sold in the retail sales channel weakened substantially during Q4. The category benefited from the full-year inclusion of service revenue from the contract manufacturing of Pringles snacks.

Baking & Baking Aids

Baking and Baking Aids revenue grew by 11.4% in H2 and by 16.5% for the year.

The category continued to experience strong H2 retail channel demand for rolls, wraps, artisanal breads and rusks. Year-on-year H1 revenue benefited from exceptional demand for baking aids in the retail channel brought about by increased at-home consumption during level 5 lockdown. H2 sales of baking aids were largely in line with the comparative prior period.

Household & Personal Care (HPC)

HPC revenue grew by 4.8% in H2 and by 7.9% for the year.

The HPC category continued its pleasing recovery in H1 by focusing its efforts on a shift to value-added cleaning and sanitation products within the retail sales channel. Efforts continued to consolidate four manufacturing and distribution sites. However, as a result of delays experienced due to COVID-19, the project is now expected to be concluded early in H2 2021.

Group gross profit margin

Due to the continued impact of COVID-19 on the Group's sales channels, production utilisation and operating costs, Libstar's year-on-year gross profit margins declined from 24.8% to 24.2% in H2. Full year gross profit declined marginally to 23.8% from 24.0% the previous year.

Normalised EBITDA

The Group's operating costs have increased significantly as a result of direct extraordinary COVID-19 related expenses in the amount of R65 million incurred for the year. This included donations in the amount of R5 million, personnel-related benefits of R29 million and R31 million in direct operating expenses. Personnel-related expenses mainly comprised staff transport benefits. Direct operating expenses were mainly related to the cost of personal protective equipment (PPE).

Normalised Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) for the year ended 31 December 2020 has been affected by these extraordinary expenses and is expected to be reported within the following ranges:

	Percentage change	Expected for the year ended 31 December 2020	Reported for the year ended 31 December 2019
		R'000	**R'000**
Normalised EBITDA	-3.3% to -6.3%	R1,099,316 to R1,134,526	R1,173,676

Normalised EBIT

The Group's total depreciation charge in relation to property, plant and equipment, right-of-use assets and amortisation of software increased by 20.4% to R341 million from R283 million the previous year, mainly due to the completion of capital expenditure projects during 2019 and 2020.

Normalised Earnings Before Interest and Taxation (EBIT) for the full year ended 31 December 2020 is expected to be reported within the following ranges, following a 16.4% year-on-year decline reported in H1 2020:

	Percentage change	Expected for the year ended 31 December 2020	Reported for the year ended 31 December 2019
		R'000	R'000
Normalised EBIT	-10.4% to -15.4%	R753,501 to R798,018	R890,337

Cash flows

Cash preservation remained a key strategic priority throughout the year under review. The Group's cash generation was stable with Libstar's Net Debt to Normalised EBITDA ratio remaining at 1.3 times at year-end. This is within the stated optimal range.

Impairment of goodwill attributable to the Group's investment in Denny

As reported previously, the effect of COVID-19 has been most apparent in the Group's sales channels. In particular, the food service channel was most adversely affected by the closure of hospitality venues and restaurants due to the Q2 level 5 lockdown restrictions and subsequent lower restaurant occupancy rates during H2.

The food service channel slowdown had a particularly pronounced impact on the total mushroom market, resulting in mushroom production needing to be shifted to other sales channels.

Whilst some, but not all, mushroom production could be utilised within the retail sales channel as well as the launch of value-added meat-alternative products, Denny's profitability was significantly affected. This was due to the combination of a 3% decline in annual Denny sales volumes, an average Rand-per-kilogram price realisation of 2%, which was well below internal cost inflation and the innately high fixed-cost nature of Denny's farming operations.

Corrective actions taken by the Group since 2019 include the containment of costs and the significant recovery of its retail channel market share from previous lows. Despite these efforts, lower production yields at the division's Phesantekraal and Deodar facilities, the prevailing competitive market conditions, high operating cost structure, declining sales volumes and limited 2020 price realisation impacted Denny's recovery.

Considering these factors and the slow recovery of Denny's food service channel due to COVID-19, the Group has applied a downward revision to Denny's five-year growth forecasts. In following this conservative approach, an impairment loss of R198 million has been recognised in relation to goodwill attributable to Denny.

A significant additional restructuring is underway to preserve the longer-term sustainability and drive the profitability of the division.

Trading Statement

In terms of the Listings Requirements of the JSE Limited, companies are required to publish a trading statement as soon as there is a reasonable degree of certainty that the financial results for the period to be reported upon next will differ by at least 20% from the financial results for the previous corresponding period.

Due to the impairment of goodwill attributable to Libstar's investment in Denny, shareholders are advised that the Group expects to report Earnings Per Share (EPS), Headline Earnings Per Share (HEPS), Normalised EPS and Normalised HEPS, within the ranges reflected in the table below. The impairment of goodwill attributable to Libstar's investment in Denny is included in Total EPS and Normalised EPS and excluded from Total HEPS and Normalised HEPS:

		Expected year ended 31 December 2020	Reported year ended 31 December 2019
	Percentage change	(cents)	(cents)
Total EPS	-67.9% to -77.9%	10.3 to 14.9	46.5
Total HEPS	-10.3% to -20.3%	44.3 to 49.9	55.6
Normalised EPS^	-49.9% to -59.9%	33.0 to 41.2	82.3
Normalised HEPS^	-8.4% to -18.4%	67.5 to 75.7	82.7

^ from continuing operations

The diluted weighted average number of shares in issue at the end of the reporting period was 596,932,180 (2019: 598,481,000).

Next reporting

The Group expects to publish its 2020 audited annual financial results on 17 March 2021.

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

22 February 2021

Sponsor