Distell Group Holdings Limited
Incorporated in the Republic of South Africa
Registration number: 2016/394974/06
JSE share code: DGH
ISIN: ZAE000248811
("Distell" or "the Group" or "the Company")

TRADING STATEMENT FOR THE YEAR ENDED 30 JUNE 2021 AND IMPACT OF CIVIL UNREST IN SOUTH AFRICA

In terms of paragraph 3.4(b) of the Listings Requirements of the JSE Limited, companies are required to publish a trading statement as soon as a reasonable degree of certainty exists that the financial results for the period to be reported on next will differ by at least 20% from those for the previous corresponding period.

Accordingly, a review by management of the financial results for the twelve months ended 30 June 2021 (FY21 or the current reporting period) has indicated the following:

	Expected Financial year ended 30 June 2021 (cents)	Reported Financial year ended 30 June 2020 (cents)	Change % FY21 v FY20	Reported Financial year ended 30 June 2019 (cents)	Change % FY21 v FY19 (cents)
Earnings per share (EPS)	838,1 – 866,5	142,2	489,4% - 509,4%	396,5	111.4% - 118,5%
Headline earnings per share (HEPS)	735,6 – 782,7	235,3	212,6% - 232,6%	652,9	12,7% - 19,9%

The announcement on Sunday, 27 June 2021 by the South African Government (Government) relating to the prohibition on the sale and distribution of alcohol in the current adjusted Level 4 lockdown, resulted in operating profit being negatively impacted by about R30,0 million (9,8 cents per share after tax).

The expected results are based on currently available information but could be further impacted by the following for the current reporting period:

- Potential credit loss provisions relating to customers, being unable or restricted to trade;
- Potential impairment of stock dependent on the effect of the above-mentioned restrictions and timings; and

- Valuation of minority holdings in specific African countries that may in turn be impacted by their own lockdown measures and challenging economic situations.

In comparing the expected results for FY21 to that of the reported results of financial year ended 30 June 2020 (FY20 or the prior period) and the reported results of financial year ended 30 June 2019 (FY19), consideration should be given to the following items, disclosed net of taxation, included in the reported results of the prior years:

	Impacting	30 June 2020 Cents per share	30 June 2019 Cents per share
Impairment of investments in associates and joint ventures	EPS	92,2	238,7
Credit loss provision on USD denominated savings bonds with the Zimbabwe Reserve Bank	EPS and HEPS	35,2	86,7

TRADING ENVIRONMENT

The Group is able to provide a provisional update on year-to-date trading performance for the period 1 July 2020 up to and including 30 June 2021 as follows:

- Despite disruptions due to various alcohol sales bans during the current reporting period, the strength of the route-to-market (RTM) in South Africa alongside improved customer execution, innovations and brand strength translated into further market share gains across all categories in the period. This has resulted in the South African business achieving revenue and volume growth of 29,4% and 28,7% respectively when compared to the prior period. This represents a 5,8% improvement in revenue and a 3,5% volume decline when compared to pre-COVID levels in FY19 despite a 20% reduction in trading days in the current reporting period.
- Operations in the BLNE (Botswana, Lesotho, Namibia & Eswatini) regions performed admirably notwithstanding being adversely affected by specific country bans on alcohol sales. Revenue and volumes improved by 23,6% and 22,2% respectively when compared to the prior period. This represents a 6,7% revenue improvement with near flat volumes when compared to FY19.

- The Group’s Africa business outside of BLNE has continued to perform resiliently during the current reporting period, led by Mozambique, Nigeria, Ghana and Zambia as a result of continued RTM investments. Comparative revenue and volumes are expected to be up by 22,4% and 38,6% respectively when compared to the prior period. Compared to FY19, revenue is expected to increase by 30,5% and volumes by 24,5%.
- Our international operations were negatively affected early in the onset of the global pandemic given the adverse effect on global travel retail sales, combined with Amarula and wine export challenges to markets outside of South Africa. The business has subsequently recovered well in its focus on key markets, premium spirits and increased digital channel execution. As a result, a 10,0% revenue increase is expected compared to the prior period, with a flat revenue but meaningful margin improvement compared to FY19 levels.
- Overall, as a result of the above, the Group is expecting a rise of 26,3% in revenue and 26,2% volume growth compared to the prior period. This represents a 7,7% revenue increase and a 2,1% volume decline when compared to FY19.
- Group earnings before interest and taxation (EBIT) has recovered considerably, and EBIT margin is expected to improve to near pre-COVID-19 levels.

The Group’s agility to respond in the face of major business disruption enabled by strategic investments in RTM, brand development, innovation, true supplier partnerships and supply chain optimization supports our confidence in our ability to fully recover and compete effectively in the long-term.

LIQUIDITY POSITION

Given the resilient performance demonstrated at the interim period, and further highlighted in the nine-month Performance Update published on 20 April 2021, Distell’s strong ability to generate cash across all geographies has had a positive effect on its liquidity and overall net debt position of the Group.

The Group has improved its net debt to a stronger position compared to pre-COVID-19 levels due to management’s proactive approach to prudently protect the balance sheet during the last 12 months. The Group’s net debt position at 30 June 2021 is expected to be less than R2,3 billion, compared to R5,9 billion at the end of the prior period, and R3,9 billion at end of FY2019. It is therefore well within its debt covenant levels relating to its South African medium-term debt.

IMPACT OF CIVIL UNREST IN SOUTH AFRICA

We have been deeply disturbed by the recent civil unrest and incidents of violence and looting affecting KwaZulu-Natal and parts of Gauteng.

The safety of our staff remains our priority. As a precaution, we temporarily closed several operations in the affected areas which have now gradually re-opened. We are relieved that no staff members were harmed but are extremely concerned at the loss of life and the devastating impact on livelihoods due to this unrest.

One of our Distribution Centres (DC) in KwaZulu-Natal was damaged and our operations disrupted. Initial assessments placed the damage at approximately R100 million. All other sites in South Africa are secure and without damage, and we have put additional security in place until the situation calms.

The affected DC is insured and we are in the process of lodging insurance claims to recover losses incurred.

We are deeply grateful to our supply chain and distribution teams, as well as our security personnel and partners at the South African National Taxi Association (Santaco), who have worked tirelessly to protect our business.

We will continue to assist all our customers, as we did throughout previous bans, who are now further affected by the unrest to help rebuild their businesses and support them as trade resumes. The Group currently has sufficient stock cover to support customers when sales resume.

LEADING AMIDST THE THIRD WAVE AND UNJUSTIFIABLE ALCOHOL BAN

The industry has repeatedly warned and demonstrated via research that bans fuel illegal activity, particularly amongst crime syndicates who are significantly strengthened during prohibition. It is becoming increasingly difficult to reverse this as syndicates become entrenched.

The recent unrest demonstrates the unfortunate effect syndicates have in an environment where poverty and unemployment have been exacerbated from the pandemic.

Recent research shows that bans on alcohol sales have increased and fueled the illicit trade. This has now reached an unacceptable 22% (nearly a quarter) of total market volumes in South Africa, worth R20,5 billion in sales value. This has cost the fiscus R11,3 billion in tax revenues, at a time when the country can least afford it.

We estimate that 332 of our direct and indirect customers have been adversely affected by looting during the recent unrest. This has added to the quantity in illicit hands, over and above robbing future sales from licensed Small-to-Medium-Enterprise (SME) business owners.

The fourth ban on alcohol sales was announced on 27 June 2021 with no warning, no consultation with the industry, and poor empirical justification. As an industry collective we are consistently and constructively in dialogue with decision makers to consider alternative solutions to prohibition. This is to ensure the continued health of an industry that positively affects more than 1,000,000 livelihoods in South Africa.

The alcohol industry reaches and supports vital sectors of the economy. These include agriculture, tourism, hospitality, manufacturing, and importantly, hundreds of thousands of SMEs. Cumulatively, these sectors would normally contribute approximately R1,3 billion in taxes per week – every rand of which is lost while the ban is in effect. Distell itself contributes 60 cents of every R1 it generates to Government in collective taxes. These taxes - and related employment - are vital to the country's recovery, not only from the pandemic but also the recent unrest. Recovery –and the role our industry must play - is now critical.

We will continue to engage with Government to find a more collaborative and transparent method to finding pragmatic and effective solutions, including a strong focus on promoting responsible consumption.

Our focus is also on implementing effective solutions to curb the spread of the virus and supporting those most impacted by the ban. One of our most important interventions is to support the taverner community and work with our partners in the taxi industry to invest in and encourage adherence to COVID-19 safety protocols and drive responsible alcohol consumption within our country.

Practical support for the country's vaccination drive to create population immunity and enable a return to full economic activity is also underway. We have started converting some of our sites into vaccination centres for employees and will make them available to the public should Government approve our application to do so.

INVESTOR CONFERENCE CALL

The Group's financial results for the twelve months ended 30 June 2021 will be released on the Stock Exchange News Service on or about Thursday, 26 August 2021. Management will be hosting a conference call post the release of the Group's year-end results.

Registration will be made available shortly via the Group's investor relations website www.distell.co.za/Investor-Centre.

Any forecast or estimate financial information contained herein has not been reviewed and reported on by the Group's external auditors.

Stellenbosch
23 July 2021

Sponsor and Corporate Broker
RAND MERCHANT BANK (A division of FirstRand Bank Limited)