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**")

REVIEWED INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022

RESULTS

The strength of Libstar's category-led and multi-channel operating model was highlighted during the first half of 2022 (H1) as the Group delivered a resilient performance.

The Group's largest category, Perishables, delivered revenue growth of 14.6% and an increase in Normalised EBITDA of 27.8%, supported by strong volume sales of pre-packed hard cheese by Lancewood and efficiencies in the Group's value-added meat processing division, Finlar.

The Group's second largest category, Groceries, recorded revenue growth of 2.2% and a decline in Normalised EBITDA of 17.7% due to supply chain disruptions and increased logistics costs experienced in the Group's Cape Herb & Spice export division.

The table below summarises the key features of the financial performance for the six-month period ended 30 June 2022.

(R'000)	H1 2022	Change %	H1 2021
Continuing operations			
Total Revenue	5 197 738	+9.6%	4 741 216
Gross profit margin	*22.9%*	*-0.1pp*	*23.0%*
Normalised operating profit	346 865	+10.1%	315 115
(margin)	*6.7%*		*6.6%*
Normalised EBITDA	493 195	+4.6%	471 412
(margin)	*9.5%*		*9.9%*
Diluted EPS (cents)	25.1	+21.8%	20.6
Diluted HEPS (cents)	25.1	+24.3%	20.2
Normalised EPS (cents)	*35.5*	+12.3%	31.6
Normalised HEPS (cents)	*35.6*	+14.1%	*31.2*
Balance sheet and cash flow indicators			
Net interest-bearing debt to Normalised EBITDA*	*1.5x*		*1.4x*
Cash generated from operating activities (excluding net working capital)	*476 341*	+5.4%	*451 889*
Cash generated from operations (including net working capital)	*139 917*	-69.9%	*464 489*
Capital investment in property, plant and equipment	*143 472*		*134 468*
Cash conversion ratio	*15%*		*102%*

* Lender covenant: 2.5x

Discontinued operations

The Household and Personal Care (HPC) divisions of Chet Chemicals and Contactim remain classified as held for sale from the previous full-year reporting period.

The Glenmor Soap subsidiary has also been classified as held for sale as the Group completed the exit from this investment shortly after the close of H1.

Summary of Results

- Group revenue increased by 9.6%, with volume sales up 6.9% for the six-month period ended 30 June 2022. Volume sales improved in all categories. Price increases and changes in sales mix contributed 2.7% to Group sales growth.
- Libstar's period-on-period gross profit margin remained protected at 22.9% (H1 2021: 23.0%). Rising manufacturing cost inflation was largely offset by increased capacity utilisation and efficiencies.
- Operating expense inflation was limited to 4.8% from R879 million to R922 million, and the Group expense margin improved to 17.7% (H1 2021: 18.5%) as cost-saving initiatives implemented in the prior year contributed to the result.
- Group Normalised operating profit increased by 10.1% at a margin of 6.7% (H1 2021: 6.6%), supported by strong revenue growth as well as margin and cost controls.
- Group Normalised EBITDA increased by 4.6% at a margin of 9.5% (H1 2021: 9.9%).

Group balance sheet and cash flow indicators

- The Group continued to experience supply chain disruptions, particularly in the delay of import and export shipments. This has necessitated a pro-active approach towards inventory management. As such, the Group's investment in working capital increased to 17.4% of revenue at the close of H1 (H1 2021: 14.5%), above Libstar's working capital target range of 13.0% to 15.0%. As a result, cash generated from operating activities (after net working capital changes) decreased by R325 million from R465 million to R140 million. The Group remains committed to the target range of 13.0% to 15.0%.
- During the reporting period, the Group continued to invest in capacity-enhancing projects in identified growth areas. Capital expenditure of R143 million was incurred (H1 2021: R134 million), representing 2.8% of net revenue (H1 2021: 2.8%). This is in line with the Group's target range of 2.0% to 3.0%. The Group's EBITDA to term debt gearing ratio increased to 1.5x normalised EBITDA but remains within the stated target of 1x to 2x and below the lender covenant of 2.5x. Net interest cover to EBITDA remains strong at 9.2x from 9.5x in the comparative period and compares favourably to the Group's minimum stated target of 3.5x.
- The Group latest 12-month (LTM) return on invested capital remained at 12.5% delivered during the year ended 31 December 2021.

LIBSTAR'S KEY PRIORITIES DURING THE PERIOD UNDER REVIEW

Prior to 2017, the Group operated as a private label and brand aggregator built by merger and acquisition activity. Since then, the Group's strategy was refocused to the growth of Libstar's low-cost manufacturing capabilities and the establishment of category management expertise in its non-commoditised food portfolio. The Group remains focused on the objectives of (i) growing its categories, (ii) expanding its capabilities and (iii) executing on strategic acquisitions.

To deliver on this mandate, the Group has continued to execute on the key priorities below during H1.

1. ACTIVELY REPOSITIONING THE PORTFOLIO

The disposal of Libstar's interest in Glenmor Soap Proprietary Limited shortly after the close of H1 serves as an important milestone for the Group as it repositions its portfolio towards value-added food products.

Whilst the Group is pleased with the improved operating results of its remaining HPC divisions, Chet Chemicals and Contactim, the Board continues to evaluate the strategic positioning of the HPC business to optimise the Group's portfolio composition and returns.

2. EXECUTING ON STRATEGIC ACQUISITIONS AND INCUBATION PROJECTS

Libstar has concluded an agreement to acquire Cape Foods Proprietary Limited. The transaction is aligned with Libstar's strategy to grow its basket of non-commoditised food products in existing categories and provides access to new markets and value-added products in the dry condiment category. The transaction is subject to the fulfilment of regulatory suspensive conditions by no later than 30 November 2022.

Furthermore, the integration of Umatie Proprietary Limited, the maiden acquisition concluded by the Group in its Libstar Nova incubation vehicle, was successfully concluded during H1. Umatie is value added frozen baby food business that has grown its footprint in retail from 72 stores to 100 stores during the period under review with further store footprint and range-development initiatives underway.

3. DELIVERING SUPERIOR SERVICE LEVELS

The Group continued to invest in and leverage the functionality of its ERP-systems and business intelligence tools, with sales and operational planning modules successfully implemented within Cecil Vinegar, Finlar Fine Foods and HPC. Further implementations at, amongst others, Cape Herb & Spice and Rialto Foods, are due to be concluded before the end of the year. These initiatives will enhance its inventory planning and sales forecasting capabilities.

4. PRESERVING THE GROUP'S FINANCIAL STABILITY AND IMPROVING ROIC

The Group mitigated the adverse impact of global supply chain disruptions and input cost inflation by protecting gross profit margins at 22.9% (H1 2021: 23.0%) and limiting the increase in operating expenses to 4.8% from the comparative period.

OUTLOOK

The Group continues to experience significant inflationary pressures relating to raw materials, packaging, labour and energy. These are not expected to subside in H2. Within this context, the Group continues to leverage its systems, procurement expertise and trade relationships to balance cost-push inflation and selling prices.

Libstar's category-led approach has strongly assisted in the improved performance of the Group's wet-condiment divisions during the period under review. Functional clustering of sales and marketing expertise will continue within these divisions during H2 as the Group continues to seek ways in which to optimise its go-to-market strategy.

The Group continues to explore high-growth food categories to complement its existing food category offerings as part of its Libstar Nova incubation vehicle. Simultaneously, the Board continues to evaluate strategic options pertaining to the HPC cluster.

Libstar remains committed to the achievement of its longer term capital return objectives. The Group expects to commission a new wrap line at Amaro Foods in Q1 2023. This is strategically important to the expansion of Libstar's retail and food service channel footprints despite global supply chain disruptions.

The Group’s inventory planning and cash generation remains a core priority as the Group enters the final, and seasonally most active fourth trading quarter.

The continued intermittent availability of shipment containers remains a risk to the short-term outlook of Libstar’s export facing divisions. However, the Group’s export offering and markets remain sound and able to provide new offerings and price-competitive advantages within key markets, expedited by the acquisition of Cape Foods.

In conclusion, Libstar’s customer-centric approach and increased focus on margin maintenance, the repositioning of its food portfolio and diversified channel exposure are expected to continue to facilitate the delivery of a resilient H2 performance.

Dividend

In line with the Group’s policy, of one dividend per annum declared at year-end, no interim dividend has been declared.

Changes to the Board

Shareholders are referred to the SENS announcement on 12 September 2022 announcing the retirement of Andries van Rensburg as CEO with effect from 31 December 2022 and the appointment of Charl de Villiers as CEO, effective 1 January 2023.

Cornél Lodewyks, the current managing executive of Lancewood, has been appointed as an executive director of Libstar and a member of the Board with effect from the same day. Cornél will continue in his role as managing executive of Lancewood, whilst supporting the Group management team in the implementation of its strategic initiatives

The Board has commenced the process of appointing a new CFO and will ensure a seamless transition.

The interim results presented have been reviewed by the Group’s independent external auditors, Moore Cape Town Inc, who expressed an unqualified review conclusion. A copy of the auditor’s review report is available for inspection at the Company’s registered office.

The auditor’s report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain full understanding of the nature of the auditor’s engagement they should obtain a copy of that report together with the accompanying financial information from the Company’s registered office.

This short-form announcement is the responsibility of the directors and is only a summary of the information in the full announcement. Any investment decision should be based on the full announcement.

The full announcement can be found:
- On the JSE's website: https://senspdf.jse.co.za/documents/2022/jse/isse/lbre/LBRH1_2022.pdf
- On the Company's website: https://www.libstar.co.za/investors/publications-and-presentations/

Copies of the full announcement is available for inspection and may also be requested at Libstar’s registered office and from our sponsor at jsesponsor@standardbank.co.za, at no charge, during office hours.

By order of the Board

Wendy Luhabe	Andries van Rensburg
CHAIRMAN	CEO

13 September 2022

Sponsor
The Standard Bank of South Africa Limited