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**")

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022 AND CASH DIVIDEND DECLARATION

Introduction

Libstar's entrenched category-led and multi-channel operating model contributed to the achievement of positive sales growth in all categories for the year ended 31 December 2022. The Group delivered revenue growth of 10.7%.

Products sold into the food service and industrial and contract manufacturing channels delivered particularly strong increases in revenue despite the Group contending with ongoing global and local supply chain challenges, substantial input cost inflation, constrained consumer spending and unprecedented levels of load-shedding. In addition, shipment delays and weak demand in key markets contributed to the under-recovery of overhead costs in the main export-facing divisions. These factors diluted the Group's revenue growth to a gross profit growth of 3.7%.

Operating expense inflation before impairments was limited to 6.3%.

Normalised EBIT and Normalised EBITDA declined by 4.1%. The Group's Perishables and Household and Personal care categories achieved increases in normalized EBITDA, whilst the remaining three categories declined.

Classification of the Household and Personal Care (HPC) division as a continuing operation

The Group remains committed to the repositioning of its portfolio towards value-added food categories. The strategic intent to dispose of the HPC division, therefore, remains unchanged from prior reporting periods. However, Libstar is required to continue to consider the application of IFRS 5: Non-current Assets Held for Sale and Discontinued Operations (IFRS 5). Following an evaluation thereof, the IFRS 5 criteria to disclose the HPC division as a Held for Sale and Discontinued Operation was not met at 31 December 2022. Consequently, the HPC division has been reclassified as a continuing operation in the current period. The prior period's statement of comprehensive income has been re-presented to provide a like-for-like comparison.

Impairments

Following the annual impairment assessment, the Group recognised impairments of intangible assets attributable to four divisions in the total amount of R277 million (net of tax).

These impairments were driven by:

- the loss of production volume stemming from the fire that destroyed the Denny Mushrooms' Shongweni facility on 9 September 2022, resulting in a R98 million impairment of the Denny Mushrooms cash generating unit (CGU);
- sustained margin pressure at Retailer Brands arising from weak demand for higher-margin baking products, resulting in a R89 million impairment of the Retailer Brands CGU;
- the discontinuation of certain lemon juice and flammables product lines, sustained pressure on margins and increased operational challenges at Cecil Vinegar, resulting in a R70 million impairment of the Cecil Vinegar CGU;
- a review of the sustainable trading forecast of the HPC division, resulting in an impairment of R20 million of the HPC CGU; and
- the impact of rising interest rates on segmental business plans and discount rates.

The impairments decreased Total Diluted EPS and Normalised EPS but are added back for purposes of the calculation of Total Diluted HEPS and Normalised HEPS.

Other indicators

The Group's cash generation from operations remained strong, declining 2.0% from the prior year before changes in working capital. The Group invested R277 million in net working capital during the year to mitigate the impact of supply chain disruptions and maintain service levels to customers.

Cape Foods (Pty) Ltd (Cape Foods) was acquired on 10 November 2022 for a total cash consideration of R120 million.

Libstar's gearing ratio increased from 1.2x to 1.6x EBITDA, mainly as a result of the investment in working capital and the acquisition of Cape Foods, which was only consolidated in the financial records of the Group for two months of the financial year. The ratio remained well within the Group's stated optimal range of 1x-2x.

Results summary

The Group uses Normalised EBITDA, Normalised Earnings per Share (EPS) and Normalised Headline Earnings per Share (HEPS) from continuing operations, which exclude non-recurring, non-trading and non-cash items, as the key measures to indicate its true operating performance.

Libstar's full-year results are summarised in the table below:

(R'000)	2022	Change %	2021
Continuing operations			
Total Revenue	11 771 605	+10.7%	10 630 354
Gross profit margin	*20.7%*	*-1.5pp*	*22.2%*
Normalised operating profit	690 081	-4.1%	719 932
(margin)	*5.9%*		*6.8%*
Normalised EBITDA	1 032 332	-4.1%	1 077 014
(margin)	*8.8%*		*10.1%*
Diluted EPS (cents)	-0.6	-101.6%	38.0
Diluted HEPS (cents)	45.9	-12.9%	52.7
Normalised EPS (cents)	*18.8*	-68.2%	*59.1*
Normalised HEPS (cents)	*65.3*	-11.8%	*74.0*
All operations			
Diluted EPS (cents)	*-0.9*	-103.4%	*26.5*
Diluted HEPS (cents)	*45.0*	-12.1%	*51.2*
Balance sheet and cash flow indicators			
Net interest-bearing debt to Normalised EBITDA	*1.6x*		*1.2x*
Cash generated from operating activities (excluding net working capital)	*1 007 811*	-2.0%	*1 028 347*
Cash generated from operations (including net working capital)	*731 027*	-29.4%	*1 035 040*
Capital investment in property, plant and equipment	*384 404*		*300 697*
Cash conversion ratio	*68%*		*97%*

GROUP FINANCIAL PERFORMANCE

Revenue

The Group recorded revenue growth of 10.7%. Sales volumes were up 3.0%, whilst pricing and mix changes contributed 7.7% to sales growth. This result was achieved notwithstanding significantly lower volume sales in the export channel due to continued shipment delays and weak demand for dry condiments and tea in key markets.

Gross profit margins

Libstar's year-on-year gross profit margin declined from 22.2% to 20.7% due to the under-recovery of overhead costs in its main export-facing divisions and continued raw material, packaging and manufacturing cost inflation in the balance of the portfolio. Additionally, the unprecedented levels of loadshedding directly added R39 million in direct operating costs, of which 70% related to three divisions, namely Lancewood, Denny Mushrooms and Finlar Fine Foods. The Group's revenue growth of 10.7% was therefore diluted to a gross profit growth of 3.7%.

Other income and foreign exchange gains

Realised foreign currency translation gains decreased to R1.0 million compared to R11.4 million in the prior year.

Unrealised foreign currency translation losses increased by R33.7 million from a profit in the prior year of R20.4 million to a loss of R13.3 million in the current year.

Other income for the year under review increased from R20.3 million to R83.2 million mainly as a result of insurance proceeds of R37 million and the impact of IFRS 16 lease modifications of R25.6 million in the current year.

The net effect of the above increased operating profit before taxation by R23.5 million relative to the prior year.

Normalised operating profit and Normalised EBITDA

Group Normalised operating profit decreased by 4.1% at a margin of 5.9% (2021: 6.8%), impacted by the gross margin decline.

Group depreciation of property, plant and equipment and right-of-use assets, declined by 2.9%. During the period under review, the Group re-evaluated the estimated useful lives of assets with zero book value.

Group Normalised EBITDA decreased by 4.1% at a margin of 8.8% (2021: 10.1%).

Operating expenses

Operating expense inflation before impairments was limited to 6.3%, and the Group expense margin improved to 16.8% (2021: 17.5%) as cost-saving initiatives were implemented despite the high inflationary environment.

Selling and distribution costs increased by 14.3%. This was ahead of headline inflation and was affected by the significantly elevated cost of local and international logistics.

Operating expenses before impairments and selling and distribution costs increased by 0.5%.

Investment income and finance costs

The Group's net finance cost (including IFRS 16 lease liabilities) increased by 0.9% from R164.6 million to R166.1 million.

Group net finance costs (excluding IFRS 16 lease liabilities), increased by 7.6% from R102.9 million to R110.7 million, mainly due to the full period inclusion of the increase in the Johannesburg interbank average lending rate (JIBAR) in the current year.

Finance charges incurred on lease liabilities (IFRS 16) decreased by 10.2% from R61.7 million to R55.4 million.

Taxation

The Group's effective tax rate of 107.7% (2021: 18.1%), is mainly a result of the impact of impairments on intangible assets. The effective tax rate excluding the effect of impairments is 25.2%.

The lower effective tax rate was due to the downward revaluation of the Group's deferred tax liabilities and deferred tax recognised in other comprehensive income. The substantively enacted corporate taxation rate of 27% is applicable for the years of assessment ending on any date on or after 31 March 2023.

Earnings and headline earnings

Total Diluted earnings per share (EPS) decreased by 103.4% to a loss of 0.9 cps. This was due to the impairment of the above-mentioned intangible assets (2021: 26.5 cps).

As a result of the impairment of intangible assets with definite useful lives, the Group expects to record a lower annual amortisation charge of R6 million from 1 January 2023.

Total Diluted HEPS decreased by 12.1% to 45.0 cps (2021: 51.2 cps).

Continuing operations

Normalised EPS, which excludes unrealised foreign currency movements and other non-recurring, non-trading and non-cash items, decreased by 68.2% from 59.1 cps to 18.8 cps. Normalised HEPS, which also excludes the aforementioned items, decreased by 11.8% from 74.0 cps to 65.3 cps.

The weighted average number of shares in issue remained unchanged at 595.8 million and the diluted weighted average number of shares decreased by 0.2% to 596.1 million.

Cash flows and balance sheet

Cash generated from operating activities decreased by R304.0 million from R1 035.0 million to R731.0 million. This was mainly due to an increase in Group net working capital to 16.0% of Group revenue (2021: 15.4%) due to an R185 million investment in inventory and lower trade and other payable days compared to the prior reporting period. The increase in inventory partly mitigated the risk of supply chain disruptions in the import- and export-facing divisions. Lower orders placed in the last quarter due to sufficient inventory carried forward from H1 2022 resulted in a lower trade and other payables days. The Group net working capital target for 2023 is revised upwards to between 14.0% - 16.0% of revenue in response to the operating conditions in the short to medium term.

The Group continued to invest in capacity-enhancing projects in identified growth areas. Capital expenditure of R384 million (2021: R301 million), represents 3.3% of net revenue (2021: 2.2%). This is slightly above the Group's target range of 2.0% to 3.0%.

The Group's EBITDA to term debt gearing ratio increased to 1.6x (2021: 1.2x) normalised EBITDA but remains within the stated target of 1x to 2x. This ratio was impacted by the investment in working capital of R277 million, and the inclusion of the additional debt of R120 million to fund the Cape Foods acquisition on 10 November 2022, approximately two months before the close of the year end.

Net interest cover to EBITDA remains strong at 7.7x from 8.9x in the prior year and compares favourably to the Group's minimum stated target of 3.5x.

OUTLOOK

Elevated inflation and interest rates will further constrain consumer spending in the coming year. Libstar's category-led approach and diversified portfolio of own-branded, private label, dealer-own brand and principal branded products provides its trading partners with value-for-money offerings across various price points.

The Group subscribes to the principles of value-based management. As such, the Group will accelerate its growth efforts in its six largest operating divisions by economic profit ("The Top Six" comprising: Lancewood, Cape Herb & Spice, Finlar Fine Foods, Rialto, Amaro Foods and Ambassador Foods). Within these divisions, the Group will focus on delivering planned returns on recent capital projects and place an increasing emphasis on export channel development. Within the remainder of the portfolio, the Group will actively pursue opportunities for the further integration of divisions and critical functions in order to gain greater scale and efficiency from existing operations. The Group remains committed to the repositioning of its portfolio towards value-added food categories in the forthcoming year, placing an increasing emphasis on delivering value from the HPC division and other lower economic profit operations.

Libstar will prioritise its capital allocation to value and efficiency enhancing projects within The Top Six. This includes the commissioning of a new wrap line at Amaro Foods and the prioritisation of renewable energy and sustainable water supply solutions, to reduce the burden on Libstar's backup power generation plants and further lower its dependence on existing utility infrastructure. The Group's investment in capex projects over the last three years will support ROIC as production ramps up.

Gross profit margins are expected to remain under pressure in the first half of the financial year as manufacturing inflation remains elevated and the Group continues to incur additional operating costs directly and indirectly as a consequence of loadshedding. In these circumstances, margin management will form the Group's foremost financial priority.

Notwithstanding the clear headwinds facing the food producer industry, Libstar's multi-channel exposure provides a resilient platform for longer term stakeholder value creation.

Responsibility statement

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 information presented in the Results summary section above includes pro-forma financial information in terms of the JSE Listings Requirements. The pro forma financial information presented in this announcement, which is the responsibility of the Group's directors, has been prepared for illustrative purposes only, and may not fairly present the Group's financial position, changes in equity, cash flows or results of operations.

The full announcement can be found:
- On the JSE's website: https://senspdf.jse.co.za/documents/2023/jse/isse/lbre/FY_2022.pdf
- On the Company's website: https://www.libstar.co.za/investors/publications-and-presentations/

A copy of the full announcement is available for inspection and may also be requested at Libstar's registered office and offices of our sponsor, at no charge, during office hours.

Report of the independent auditors

The consolidated annual financial statements for the year ended 31 December 2022 have been audited by Moore Cape Town Inc., who expressed an unqualified opinion thereon. The auditor's report in terms of International Standards on Auditing, along with their key audit matters and the Annual Financial Statements, are available at the following link: https://www.libstar.co.za/investors/publications-and-presentations/.

DECLARATION OF CASH DIVIDEND

The board of Libstar has approved and declared a final cash dividend of 22 cents per ordinary share (gross) in respect of the year ended 31 December 2022 (2021: 25 cents).

In accordance with paragraphs 11.17 (a) (i) to (ix) and 11.17 (c) of the JSE Listings Requirements the following additional information is disclosed:

- The dividend has been declared from income reserves;
- The local Dividends Tax rate is 20% (twenty percent);
- The gross local dividend amount is 22 cents per ordinary share for shareholders exempt from the Dividends Tax;
- The net local dividend amount is 17.6 cents per ordinary share for shareholders liable to pay the Dividends Tax.

Libstar has 681 921 408 ordinary shares in issue.

Libstar's income tax reference number is 9526395174

The following salient dates will apply to the dividend payment:

- Declaration date — Thursday, 16 March 2023
- Last day to trade cum the dividend — Monday, 3 April 2023
- Shares commence trading ex the dividend — Tuesday, 4 April 2023
- Record date — Thursday, 6 April 2023
- Payment in respect of the dividend — Tuesday, 11 April 2023

Share certificates may not be dematerialised or re-materialised between Tuesday, 4 April 2023 and Thursday, 6 April 2023, both days inclusive.

CHANGES TO THE BOARD

The Group's Chief Executive Officer (CEO), Andries van Rensburg, retired with effect from 31 December 2022.

Charl de Villiers, who served as Chief Financial Officer (CFO) has been appointed as CEO with effect from 1 January 2023.

Cornél Lodewyks, who will continue to serve as managing executive of Lancewood, was appointed as an executive director of Libstar with effect from 1 January 2023.

Terri Ladbrooke, who served as Interim CFO has been appointed as CFO and executive director of Libstar with effect from 15 March 2023.

By order of the Board

Wendy Luhabe	CB de Villiers
CHAIRMAN	CEO

16 March 2023
Sponsor
The Standard Bank of South Africa Limited