NAMPAK LIMITED
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("Nampak" or "the group")

TRADING UPDATE FOR THE FIVE MONTHS TO 28 FEBRUARY 2023

Introduction

This announcement serves to update the market on the group's performance and trading conditions for the first 5 months ("current period") of the financial year ending 30 September 2023 ("FY23"). In addition, it provides an update on the progress on turnaround initiatives and divestitures, provides feedback on the work performed by the debt advisors and to update the market on the refinancing and proposed rights issue processes.

Overview of group results for the five months ended 28 February 2023

Revenue growth of 5% was achieved for the current period relative to the first five months of the prior financial year ended 28 February 2022 ("prior period"), primarily due to a 9% increase in Metals, partially offset by declines of 6% in Plastic and Paper. Pleasing revenue growth was reported in Bevcan Angola, while revenue in Bevcan South Africa grew by 6%. Revenue in Bevcan Nigeria increased despite a reduction in volumes due to the recovery of higher foreign currency related costs from customers. DivFood experienced a marginal decline in revenue.

Reported results for both Plastic and Paper operations in Zimbabwe were affected by a significantly weaker closing exchange rate at the end of the current period and the requirement to translate all trading results at the closing rate. Operating profit is significantly below trading profit due to a material increase in net foreign currency losses, up from R69 million to R436 million. This was primarily due to comparably higher secondary market spot rates related to cash transfers from Nigeria in the current period and the impact of the weaker exchange rates on the translation of monetary items.

Consequently, operating profit before net impairments decreased compared to the prior period. Comparatively higher debt levels throughout the current period, coupled with increased interest rates, have resulted in a 45% increase in net interest paid compared to the prior period. This contributed to a small loss after tax for the current period compared to a profit after tax in the prior period.

There has been a significant increase in the US dollar weighted average cost of capital (WACC) in Angola and Nigeria to 17.5% and to 17.2% respectively, compared to 14.9% and 12.5% respectively at 30 September 2022, primarily due to higher country risk premia. Impairment tests are being conducted for the half year with material asset and goodwill impairments anticipated at 31 March 2023 in both Angola and Nigeria. Whilst impairments will largely be as a result of the significantly higher WACC rates, a further contributing factor is the lower anticipated volumes in Nigeria resulting from the lower consumer spending power caused by the higher cost of imported goods.

Trading environment and operational performance

Metals

Bevcan

The South African beverage can market showed modest growth on the back of stronger demand for large can sizes. Bevcan South African volumes showed marginal growth but was constrained as a result of the production of larger can sizes already running at full capacity. The continued focus on improving our operational efficiencies is delivering positive results which further improved the South African performance.

In Angola, beverage can demand increased compared to the prior period, albeit at a slower rate than the latter part of the previous financial year. An improved trading performance was negatively impacted by a weaker exchange rate relative to the prior period.

In Nigeria, sales volumes continued to decline during the current period. The weaker overall Nigerian economic environment was further exacerbated by a shortage of physical banknotes in general circulation, which negatively affected consumers' ability to purchase consumable goods.

DivFood

Notwithstanding strong demand for fish cans, flat year on year demand for deciduous fruit volumes coupled with lower consumer spending on vegetable, meat and pet food products adversely impacted performance. Disappointing demand for diversified products was experienced due to a slow start to the insecticide season and constrained consumer spending. Lower volumes negatively impacted overall profitability, but manufacturing efficiencies are improving.

Plastic

The weak South African economy continued to hamper demand with lower than expected volumes for bottles, drums and conical cartons, while demand for PurePak cartons and closures remained stable. Good volume growth on tubes was achieved. Demand in Zimbabwe remained strong although sales were lower due to raw material and electricity supply constraints. Demand for crates in Zambia remained strong.

Paper

Demand for corrugated cartons in Zimbabwe continued to surpass expectations, with tobacco crops estimated to reach record highs for FY23. Hunyani performed well despite raw material and electricity constraints. Demand in Malawi remained strong, however sales were negatively impacted by limited foreign exchange availability. Zambian conical carton volumes came under pressure due to increased sales of traditional beer in bulk containers.

Cash transfers and foreign exchange losses

In Angola, the Kwanza devalued from 443.55 to the US Dollar at 30 September 2022 to 515.96 at 28 February 2023, representing a devaluation of 16.3%, resulting in a foreign exchange loss of R34 million compared to a foreign exchange gain of R48 million in the prior period.

In Nigeria, the official closing Naira rate devalued by 5% since 30 September 2022, adversely impacting the translation of Naira monetary items. Year to date foreign exchange losses of R437 million have been recognised compared to R104 million in the prior period, primarily due to significantly higher cash transfers and a higher secondary market exchange rate.

The group remains constrained in its ability to secure foreign exchange hedges in Angola, Nigeria and Zimbabwe as no effective hedging instruments are available in these countries. Contractual terms with customers are being renegotiated in order to mitigate the effect of these factors as far as practically possible.

Progress on turnaround initiatives & divestitures

The group is assessing the returns for each cash generating unit and remains committed to implement processes to improve the returns where current profitability is not achieving the group’s cost of capital.

The group has engaged with key customers and suppliers to agree on improved trade terms in support of a sustainable industry. The anticipated benefits flowing from these negotiations have been included in the group’s restructuring plan submitted to lenders and will assist in securing the short and long-term sustainability of the group.

Bevcan Nigeria

Negotiations are in progress to improve customer payment terms and to implement true up payment mechanisms for the forex exchange differential movement from the time of invoicing to receipt of payment in order to reduce the risk of under-recovered foreign exchange losses.

DivFood

Successful negotiations were concluded with major customers that will assist the business towards achieving sustainable profitability. Good progress has also been made to improve raw material and other operational costs with benefits expected to further enhance profitability towards achieving a targeted EBITDA margin of 6% to 8% in the next two years.

Plastic SA

Overhead cost savings were achieved through site closures together with voluntary severance packages offered across the overall Plastic SA business. Employment costs have been reduced by R35 million through a headcount reduction. The exit from the loss-making Crates business is expected to be finalised by the end of April 2023. As per the SENS announcement published on 22 March 2023, the affected equipment was sold for R40 million with a resulting profit on disposal of R35.5 million. In parallel to our PET strategy, additional site consolidations are being assessed in order to further reduce fixed overheads and improve profitability.

Rest of Africa divestitures

Plans to exit from our current businesses in Ethiopia, Kenya, Tanzania and General Metals in Nigeria are progressing well.

Opportunities are being explored to sell some of these businesses as going concerns, but in many instances the value will be realised through the sale of assets and immoveable properties. The group is evaluating and actively pursuing several non-binding offers. These divestitures have the potential to release up to R250 million in cash benefits to the group.

Capital Restructuring Process

Metis Strategic Advisors have been appointed to assist the group with the development and implementation of a detailed debt restructuring and turnaround programme (the "Restructuring Plan"), including the securing of a long-term debt funding package from the group's revolving credit facility and term loan lenders as well as the US Private Placement Noteholders ("Lenders"). The purpose of the Restructuring Plan is to reposition the group to focus on its core business and to put in place a robust and sustainable capital structure. The Restructuring Plan envisages the following outcomes:

1. The refinancing and restructuring of the existing debt package;
2. An overall assessment of costs within the group;
3. The winding down of unprofitable operations outside of South Africa where no opportunities exist for disposals as going concerns;
4. The sale of non-core assets, divisions and/or subsidiaries; and
5. The completion of a successful rights offer (“Rights Offer”).

The Restructuring Plan has been submitted to the Lenders for consideration in support of various debt extension requests for the half year ended 31 March 2023 and the subsequent refinancing of the debt package ahead of the intended Rights Offer. An update on the debt extension requests will be communicated to the market as soon as agreement has been reached with the Lenders.

The Rights Offer remains an essential element of the Restructuring Plan and a condition for the refinancing. Debt extension requests related to short-term debt obligations are being considered by the Lenders, with related debt extensions expected to be provided on or before 31 March 2023. Negotiations to conclude credit approved term sheets for the refinancing package will continue over the next two months with the outcome expected to be announced at, or shortly after the release of the group’s half year results in May 2023. These negotiations, together with the group’s progress in terms of the implementation of the Restructuring Plan will determine the size of the required Rights Offer, which will be announced in due course as part of Nampak’s ongoing shareholder updates.

Appointment of a Chief Restructuring Officer and constitution of a Restructuring Committee

The group has appointed Mr. Michael Dorn as Chief Restructuring Offer (“CRO”) after obtaining support from the group’s Lenders. His primary responsibility is the implementation of the Restructuring Plan. The CRO will report directly to the Chairman of the board of directors (the “Board”).
In order to demonstrate the Board’s commitment to the execution of the Restructuring Plan the Board has constituted a Restructuring Committee (the “Committee”) to provide support and oversight of the progress made on the Restructuring Plan. The charter of the Committee will include facilitation of the interaction, communication and feedback between the CRO and the Board. The Committee will also provide oversight and support to other cost saving and operational initiatives instituted by the Chief Executive Officer that are aimed at improving the group’s overall profitability and return on capital.

The past 3 years have been unprecedented in terms of reduced investor appetite and access to funding, resulting in substantially reduced deal flow and transaction values. The group remains confident that conditions to seek divestitures of certain divisions are improving. The CRO, the group’s corporate finance team and advisors will implement a focused program to realise value from asset disposals.

Pre-close period conference call with management

Nampak management will hold a pre-close period conference call on Thursday, 30 March 2023 at 15:00 Central Africa Time (UTC+2) to discuss this trading update and address questions from the investment community. Dial-in details are available on Nampak’s website.

The financial information contained in this trading update is based on unaudited management accounts. The information has not been reviewed or reported on by Nampak's external auditors.

Nampak will release its interim results for the six months ending 31 March 2023 on the Stock Exchange News Service on or about 24 May 2023. Nampak will be in closed period from 31 March 2023 until the release of its interim results.

Bryanston
30 March 2023

Sponsor: Nedbank Corporate and Investment Banking, a division of Nedbank Limited

Forward-looking statements

This announcement contains statements about Nampak that are or may be forward-looking statements. All statements, other than statements of historical fact, are, or may be deemed to be, forward-looking statements, including, without limitation, those concerning: strategy; the economic outlook for the packaging industry; cash costs and other operating results; growth prospects and outlook for operations, individually or in the aggregate; liquidity and capital resources and expenditure and the outcome and consequences of any pending litigation proceedings and specifically including the proposed rights offer. These forward-looking statements are not based on historical facts, but rather reflect current expectations concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as “believe”, “aim”, “expect”, “anticipate”, “intend”, “foresee”, “forecast”, “likely”, “should”, “planned”, “may”, “estimated”, “potential” or similar words and phrases.

Examples of forward-looking statements include statements regarding a future financial position or future profits, cash flows, corporate strategy, estimates of capital expenditures, acquisition strategy, or future capital expenditure levels.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Nampak cautions that forward-looking statements are not guarantees of future performance. Actual results, financial and operating conditions, liquidity and the developments including within the industry in which Nampak operates may differ materially from those made in, or suggested by, the forward-looking statements contained in this announcement.

All these forward-looking statements are based on estimates and assumptions, which estimates and assumptions, although Nampak may consider them to be reasonable, are inherently uncertain and as such may not eventuate. Many factors (including factors not yet known to Nampak, or not currently considered material), could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied in those estimates, statements or assumptions.

These factors include, but are not limited to: changes in economic or political conditions and changes to the associated legal; regulatory and tax environments; lower than expected performance of existing or new products and the impact thereof on the group’s future revenue; cost structure and capital expenditure; the group’s ability to expand its portfolio; skills shortage; changes in foreign exchange rates and related foreign exchange gains or losses; a lack of market liquidity which holds up the repatriation of funds; changes in commodity prices and working capital cycles; increased competition; higher inflation; increased interest rates; slower than expected customer growth and reduced customer retention; acquisitions and divestments of group businesses and assets and the pursuit of new, unexpected strategic opportunities; the extent of any future write-downs or impairment charges on the group’s assets; changes in taxation rates; the impact of legal or other proceedings against the group; uncontrollable increases to legacy defined benefit liabilities and higher than expected costs or capital expenditures.

Nampak shareholders should keep in mind that any forward-looking statement made in this announcement or elsewhere is applicable only at the date on which such forward-looking statement is made. New factors may emerge from time to time that could cause the business of Nampak or other matters to which such forward-looking statements relate, not to develop as expected and it is not possible to predict all of them. Further, the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statement are not known. Nampak has no duty to, and does not intend to, update or revise the forward-looking statements contained in this announcement after the date of this announcement, except as may be required by law.