KAP LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1978/000181/06)
Share code: KAP
ISIN: ZAE000171963
LEI code: 3789001F51BC0045FD42
('**KAP**' or '**the Company**' or '**the group**')

OPERATIONAL UPDATE AND TRADING STATEMENT

The following operational update provides guidance in respect of the Company's operational performance for the first ten months of the 2023 financial year up to 30 April 2023 ('the period') and should be read in conjunction with the results for the six months ended 31 December 2022, released on 21 February 2023.

OVERVIEW

During the past ten months, the South African operating environment was characterised by infrastructure disruptions, including loadshedding, rising interest rates and inflation, and subdued consumer confidence.

These factors affected the group as follows:

- lower domestic sales volumes, as the frequency of loadshedding beyond Stage 4 resulted in a reduction in downstream market demand;
- additional wear and tear and damage to equipment due to unplanned infrastructure disruptions;
- higher working capital due to increased raw material costs and selling prices, and lower sales volumes; and
- higher finance costs.

The group is managing this environment by:

- pursuing market share gains and expanding into export markets;
- increasing selling prices to offset the impact of increased raw material costs;
- reducing costs and improving operational efficiencies;
- protecting the balance sheet through curtailment of non-essential capital expenditure and normalisation of working capital; and
- accelerating business resilience efforts, which include incorporating own-generated renewable energy into the group's energy mix.

Against this demanding backdrop, the group delivered a performance which was below our expectations as both the detrimental impact of loadshedding on customers' operations and the softening of domestic consumer demand were greater than anticipated, particularly towards the end of the period.

DIVISIONAL OPERATIONAL PERFORMANCE

PG Bison delivered a good performance, supported by market share gains following the 14% increase in total production capacity in March 2022. Demand for its products was robust for most of the period. However, domestic market demand softened towards the end of the period and the division increased exports to supplement domestic sales and manage inventory levels. Total sales volumes were slightly up on the prior ten month period. The division was successful in achieving selling price increases to offset the impact of significant cost increases, but due to the timing of these increases, the operating profit margin for the period was below the prior period.

Restonic produced a softer performance compared to the prior period, primarily due to lower sales volumes and higher raw material and operating costs. Retail bedding sales volumes appear to have been negatively impacted by lower retail footfall due to loadshedding, especially in more rural stores. While Restonic achieved selling price increases to offset the impact of raw material cost increases, these only became effective towards the end of the period. The restructuring of the division, which is focused on more profitable products and market segments, improved efficiencies and an optimal cost structure, is progressing well.

Feltex produced a pleasing performance, following a recovery in new vehicle assembly volumes and light commercial and sports utility vehicle sales. This was supported by price adjustments on certain contracts to recover the effects of significant raw material cost escalations. Insurance income of R50 million, related to the prolonged effects of the KwaZulu-Natal floods in April 2022, was recorded in the first half of the financial year.

Safripol experienced a significant decline in performance compared to the prior period, largely due to lower rand-based raw material margins on polypropylene ('PP') as expected, weaker domestic demand for polymers with resultant lower domestic sales volumes, and the prolonged effect of the 38-day polyethylene terephthalate ('PET') plant breakdown in the first half of the financial year. The breakdown was the result of regular unscheduled stoppages from unexpected infrastructure disruptions, including inconsistent electricity supply and quality. Rand-based raw material margins on PET and high-density polyethylene ('HDPE') remained relatively stable for domestic sales. The division increased exports to supplement domestic sales and manage inventory levels, although at reduced margins. Total sales volumes were lower than in the prior period, while the operating profit margin was below the through-the-cycle guided range of 7% to 9% due to the factors noted above. The division is in the process of finalising insurance claims related to business interruptions.

Unitrans experienced a decline in performance due to the loss of a major contract in the prior period and lower fuel volumes and adverse weather conditions affecting its rest-of-Africa operations. This resulted in an operating profit margin below that of the prior period. The consolidation of the three Unitrans divisions into a single business with a dedicated sector focus is progressing well, with rationalisation of revenue and assets expected to yield operating cost and capital savings, efficiency benefits and margin improvement over time.

Optix (previously DriveRisk) was acquired effective 1 December 2021. While the business has compelling growth prospects, its performance for the period was negatively affected by the sudden weakening of the rand relative to the US dollar, with related pricing adjustments to customers only taking place during the latter part of the period. Investments in technology infrastructure and people were made during the period to facilitate future growth.

RENEWABLE ENERGY UPDATE

The group's energy consumption is *circa*. 90 MW, with PG Bison and Safripol being the biggest energy users in the group. The group has adopted an energy strategy to mitigate the impact of potential electricity interruptions, reduce consumption and generate electricity for its own consumption. During the period, the construction of a 10 MW photovoltaic ('PV') plant at the Safripol Sasolburg site was completed, the construction of a 5 MW PV plant at the PG Bison Boksburg site commenced, and the process started for the phased construction of a 11 MW PV plant at Mkhondo. Further potential renewable energy investments are being assessed across the group.

TRADING STATEMENT

In terms of the JSE Limited ('JSE') Listings Requirements, a listed company is required to publish a trading statement once it is satisfied that a reasonable degree of certainty exists that financial results for the next period to be reported on will differ by at least 20% from the financial results for the prior corresponding period.

While two months remain of the Company's financial year ending 30 June 2023, following the period covered by this operational update and trading statement, a reasonable degree of certainty exists that, if current trading conditions persist, the Company's headline earnings and earnings from continuing operations will decrease by at least 30% compared to the prior corresponding financial year.

Headline earnings per share ('HEPS') from continuing operations is expected to decrease by at least 22.3 cents to not more than 52.1 cents (FY22: 74.4 cents) and earnings per share ('EPS') from continuing operations is expected to decrease by at least 21.1 cents to not more than 49.2 cents (FY22: 70.3 cents).

The group's debt serviceability ratios are expected to remain within target levels of net debt/EBITDA of less than 2.5 times and interest cover of more than 3.5 times.

A further trading statement will be issued in terms of the JSE Listings Requirements when a reasonable degree of certainty exists about the likely range of the expected decrease in EPS and HEPS compared to the prior corresponding financial year.

Shareholders are advised that the financial information in this announcement and on which this trading statement is based has not been audited, reviewed or otherwise reported on by the Company's external auditors.

FY23 RESULTS

The FY23 results are expected to be released on or about Wednesday, 30 August 2023.

Stellenbosch
15 May 2023

Sponsor
PSG Capital