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 2023

ABOUT LIBSTAR

Libstar is a world-class manufacturer, distributor and marketer of leading branded and private label consumer packaged goods. 94% of Group revenue is generated from value-added food products which include dairy and meat, convenience food, groceries, baking and baking aids, snacks and confectionery. The Group's branded food solutions serve customers in the retail and wholesale, food service, export and industrial channels.

Introduction

Market conditions remained challenging during the period under review as persistent high levels of input cost and selling price inflation, interest rate increases and load-shedding increasingly constrained consumer demand.

In these conditions, the Group delivered revenue growth of 4.0% and achieved positive sales growth in its two largest categories, Perishables and Groceries. Pricing and mix changes, contributing 11.0% to Group revenue, could only partly mitigate the impact of significant raw material, packaging material and production cost inflation. These inflationary pressures were exacerbated by lower volume production, resulting in weaker gross profit and operating margins. Volume sales declined by 7.0%, attributable to weaker consumer and customer demand in the Group's retail, export and industrial channels, as well as the discontinuation of unprofitable lines in the HPC portfolio.

The Group's operating expenses were contained to a 1.4% increase from the comparative period, well below inflation.

The Group's interest-bearing debt to Normalised EBITDA gearing ratio increased from 1.5x in the comparative prior period to 2.1x, mainly due to an 18.3% decline in Normalised EBITDA. Whilst this ratio temporarily exceeded the Group's stated maximum level of 2.0x, it remained within the Group's lender covenant of 2.5x. It also excluded the post-period-end receipt of R109.7 million in insurance proceeds relating to the Denny Mushrooms Shongweni facility fire in H2 2022. Including this cash, the gearing ratio would be within the Group's stated maximum level at 1.9x. Net interest cover to EBITDA was lower at 5.2x compared to 9.2x in H1 2022. This was impacted by higher interest rates compared to the comparative period, but still compares favourably to the Group's minimum stated target of 3.5x.

Notwithstanding this, the Group's cash conversion ratio showed a significant improvement from 15% in H1 2022 to 58% in H1 2023 (FY2022: 68%). This was due to a substantial improvement in net working capital investment.

Results summary

The results of the HPC division, previously held for sale, are disclosed in the Group's continuing operations for the six months ended 30 June 2023. The comparative prior period statement of comprehensive income has been re-presented to provide a like-for-like comparison.

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 key measures of financial performance with regards to the half-year results are summarised in the table below:

(R'000)	H1 2023	Change %	H1 2022
Continuing operations			
Total revenue	5 774 596	4.0%	5 551 581
Gross profit margin	*20.0%*	*-2.1pp*	*22.1%*
Normalised operating profit	257 617	-26.6%	350 915
(margin)	*4.5%*		*6.3%*
Normalised EBITDA	406 288	-18.3%	497 245
(margin)	*7.0%*		*9.0%*
Diluted EPS (cents)	10.7	-57.4%	25.1
Diluted HEPS (cents)	10.5	-58.2%	25.1
Normalised EPS (cents)	*19.8*	-44.4%	*35.6*
Normalised HEPS (cents)	*19.6*	-44.9%	*35.6*
Balance sheet and cash flow indicators			
Net interest-bearing debt to Normalised EBITDA (excl. IFRS 16)	2.1*		1.5
Cash generated from operating activities (excl. net working capital)	402 611	-15.5%	476 341
Cash generated from operations (incl. net working capital)	268 943	92.2%	139 917
Capital investment in plant and equipment	125 115	-12.8%	143 472
Cash conversion ratio	58%		15%

***** Reduced to 1.9x inclusive of post reporting date receipt of insurance proceeds

STRATEGY UPDATE

The Group's strategic objective is to deliver accelerated, profitable growth and stakeholder returns.

The Board has undertaken a comprehensive review of Libstar's portfolio composition and operating model, as well as its category and channel participation.

Based on the review undertaken, the Board has identified the following strategic priorities:

1. **Simplification of the Group's portfolio composition:**
    - The Group will actively seek to:
        - Reduce exposure to underperforming business units, either through the formalisation of divestment mandates or consideration of other strategic alternatives, including the exit or closure of non-profitable product lines and divisions; and
        - Pursue functional and/or operational consolidation of appropriate product lines and divisions.

2. **Simplification of the Group's operating model:**
    - The Group will actively seek to:
        - Align the organisational design, accountability structures and reporting to a simplified, category-led and brand-driven approach which encompasses the Group's own-branded and private label capabilities; and
        - Leverage shared business services where appropriate, such as sales and marketing consolidation and back-office consolidation.

3. **Growth of the Group's categories and channels:**
    - The Group will actively seek to:
        - Accelerate the growth of retail channel offerings; and
        - Implement dedicated structures to develop under-indexed export, food service and wholesale channels.

4. **Sustainability:**
    - The Group will actively seek to:
        - Scope and implement these strategic initiatives in a responsible manner, ensuring the maintenance of:
            - Sustainable operations;
            - Sustainable cash flows; and
            - Sustainable business practices.

The Group's progress in execution of these strategic initiatives is summarised below:

1. Simplification of the Group's portfolio composition

The Group is committed to actively reduce its exposure to unprofitable product lines, non-food categories and marginal return businesses.

1.1. HPC

The strategic intent to dispose of the HPC division remains unchanged and the Group is in the process of formalising the appropriate advisor mandates. However, the Group recognises that market conditions may not be conducive to a short-term exit of the business. As such, the Group has focused its efforts on the operational turnaround of the business.

The successful execution of value-accretive initiatives, including the discontinuation of unprofitable product lines, improved procurement practices as well as relentless focus on production efficiencies, have contributed to a significantly improved operating result.

The HPC division achieved an H1 Normalised EBITDA result of R21 million, well ahead of its full prior year performance of R12 million.

1.2. Denny Mushrooms

The Group is progressing with value-unlocking initiatives in the Denny Mushrooms business. This includes, but is not limited to, the closure of the business' unprofitable Eastern Cape distribution channel from H2 2023. This will reduce operating costs by approximately R9.6 million per annum.

The Group has also finalised its SASRIA insurance claim arising from the fire damage to the Shongweni facility in KwaZulu-Natal in September 2022. After the interim reporting date of 30 June 2023, the Group received insurance proceeds in the total amount of R109.7 million. The receipt of these proceeds was treated as a non-adjusting subsequent event. The interim results therefore do not reflect the financial and cash flow benefits arising therefrom. The total insurance proceeds received in relation to the claim amounts to R154.5 million (R34.5 million received in the prior year, R10.3 million received in H1 2023, and R109.7 million received after the reporting date).

Current market and operating conditions, most notably the dependency of farming operations on stable electricity supply, are not conducive to the reinstatement of the Shongweni facility. As such, the Group will retain the proceeds from the insurance claim for application to value-accretive opportunities.

2. Simplification of the Group's operating model:

Libstar's portfolio currently comprises five product categories, eighteen business units, twelve separate sales, marketing and operational teams and seventeen separate back-office teams. The Top Six divisions of the Group, based on economic profit, contribute more than 80% of the Group's intrinsic value.

Management, together with the Board, are actively scoping and quantifying initiatives designed to reduce reporting and operating complexity in a manner that leverages existing Group resources. These structural changes are intended to improve Libstar's category and channel strategy execution through the establishment of dedicated category and channel leadership teams.

To illustrate the benefit of these initiatives, the increased focus on front-end execution arising from the creation of an integrated Ambient Groceries sales team delivered revenue growth of 11.5% during the reporting period.

In addition, the successful integration of the Group's Multicup and Rialto food service businesses has been instrumental to the growth of the Group's food service channel in the current period.

The Group's three largest export-facing businesses, Cape Herb & Spice, Khoisan and Cape Foods, will similarly be integrated early in the 2024 financial year through the sharing of front- and back-office resourcing, with the consolidation of manufacturing facilities to follow in due course as commercial factors allow.

3. Growth of the Group's categories and channels

The Group conducted a review of its retail, export, food service and wholesale channels, aiming to optimise them for growth.

Progress to date includes:

- **Retail channel:**
  - The Group has continued to exit unprofitable HPC product lines; and
  - The Group has successfully commissioned a new wrap manufacturing line at Amaro Foods. In addition to the ability to service increasing demand for wraps within Libstar's existing customer base, the increased capacity will enable the targeting of new customers in the coming months.

- **Export channel:**
  - The Group has leveraged the Export channel sales and marketing capability of Cape Herb & Spice, which now provides a service to the remainder of the Group. The integration of the Cape Herb & Spice, Khoisan and Cape Foods businesses from early 2024 will further serve to create a focused category management capability for export customers, serviced with the entire Libstar basket offering.

- **Food service channel:**
  - The Group is currently reviewing further integration opportunities, including but not limited to, the creation of an integrated Food Service channel sales team within the Groceries category.

- **Wholesale channel:**
  - The Group has successfully launched a range of own-brand products. Although from a small base, this contributed to Libstar's wholesale channel revenue growth exceeding that of the market since its launch in June 2023.

As communicated in the 2022 year-end results, the Group subscribes to the principles of value-based management. Libstar's strategy remains to accelerate its growth efforts in the six largest operating divisions by economic profit. Within these divisions, the focus is on delivering planned returns on recent capital projects in addition to these divisions serving as the cornerstone for the execution of the category and channel development initiatives.

4. Sustainability

4.1. Sustainable operations:

The technical scope, implementation timeframe and cost of alternative energy generation has historically made solar PV and battery storage installations unfeasible for most of the Group's complex production facilities. Improvements in technology and pricing have, however, provided more viable and accessible solutions. As such, the Group has accelerated its strategy to investigate alternative energy sources and is nearing the completion of technical and financial viability studies pertaining to solar PV installations at two Cape Town manufacturing sites of Amaro Foods.

Whilst the nature of Libstar's production requirements will preclude the Group from operating entirely off the grid, various solar and non-solar options have been and continue to be investigated. Additional sites have been earmarked for alternative energy viability studies by the end of the financial year.

The Group is scoping an off-grid water purification solution at our Lancewood George facility, with an aim to be 90% water neutral. The project is expected to be completed within a timeframe of 12 to 18 months following approval.

4.2. Sustainable cash flows:

Cash preservation remained a key priority during the period under review. Key initiatives were implemented and are evident in the improvement of the below metrics:

- Increased cash conversion ratio of 58% (H1 2022: 15%)
- Reduced capital expenditure to R125.1 million (H1 2022: R143.5 million)
- Lowered net working capital ratio of revenue to 16.0% (H1 2022: 16.8%)

4.3. Sustainable business practices:

The Group is pleased to have achieved an improvement of two levels during its 2022 year-end broad-based black economic empowerment (B-BBEE) verification, improving from a level 7 contributor status to a level 5. The Group continues to make progress in the execution of its B-BBEE and ESG strategic imperatives.

Management's immediate priority remains the protection of the Group's cash flows by reducing net working capital and capital expenditure, relative to the prior period, whilst continuing to execute the above-mentioned strategic initiatives. The Group's ambition is to implement divestment and structural change mandates by the close of the 2024 financial year.

The Group, also recognises the potential role of share repurchases in driving sustainable value creation for Libstar's stakeholders. Considering the Group's increased interest-bearing debt to Normalised EBITDA gearing ratio at the interim reporting date, Libstar will focus its efforts on the reduction of the gearing ratio to 1.5x as a prerequisite to the consideration of future repurchase programmes.

OUTLOOK

Challenging market conditions are expected to continue to impact consumer behaviour in H2, placing strain on particularly retail channel volumes. While food selling price inflation continues to normalise from recent highs, the cost of manufacturing is expected to remain elevated relative to prior periods.

In these circumstances, and bearing in mind the Group's traditional seasonality of generating most of its profits and cash flows in H2, Libstar's operational objectives will remain focused on:

1. Innovating to provide shoppers and consumers with branded solutions across different price points and pack sizes;
2. Discontinuing unprofitable product lines;
3. Developing the Group's non-retail channels, in particular its export, food service and wholesale channels;
4. Maintaining increases in controllable manufacturing costs below inflationary levels;
5. Protecting the Group's balance sheet and cash flows by continuing the H1 trend of reducing net working capital and containing capital allocation to maintenance, quality, safety, value and efficiency-enhancing projects within The Top Six operating divisions. These comprise Lancewood, Cape Herb & Spice, Finlar Fine Foods, Rialto, Amaro Foods and Ambassador Foods.

Strategically, the Group will continue to explore all options to improve returns and unlock value for Libstar's stakeholders by, *inter alia*, simplifying the Group's portfolio and operational structures and growing existing and new categories.

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

Charl de Villiers, who served as Chief Financial Officer (CFO), was 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, was appointed as CFO and executive director of Libstar with effect from 15 March 2023.

The financial 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/2023/jse/isse/lbre/LBRH1_2023.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	Charl de Villiers
CHAIRMAN	CEO

12 September 2023

Sponsor
The Standard Bank of South Africa Limited