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 2024

Introduction

The Group's results for the six-month period under review (H1 2024) reflect continued progress in executing its simplification, growth, and sustainability strategies implemented in 2023.

Amidst a challenging market landscape, intensified by adverse economic conditions, the Group achieved the following results:

- Revenue increased by 5.2%
- Gross profit margins increased to 21.5%
- Normalised EBITDA increased by 13.4%
- Basic headline earnings per share (HEPS) increased by 32.4%
- Normalised HEPS increased by 11.4%
- Gearing ratio improved to 1.6x
- Adjusted ROIC improved to 9.6%
- Portfolio simplified by post-period closure of beverage manufacturing plant and exit from Chet Chemicals HPC business.

GROUP FINANCIAL PERFORMANCE

Results summary

The Group uses Normalised EBITDA, Normalised Earnings per Share (EPS) and Normalised Headline Earnings per Share (HEPS), which exclude non-recurring, non-trading and non-cash items, which management believes is a valuable indication of operating performance.

Libstar's key measures of financial performance for the half-year results are summarised in the table below:

(R'000)	H1 2024	% change	H1 2023
Total Revenue	5 813 180	5.2%	5 523 605
Gross profit margin	*21.5%*	*0.3pp*	*21.2%*
Normalised operating profit	260 533	5.3%	247 385
(margin)	*4.5%*		*4.5%*
Normalised EBITDA	448 937	13.4%	396 056
(margin)	*7.7%*		*7.2%*
Diluted EPS (cents)	14.0	30.8%	10.7
Diluted HEPS (cents)	13.9	32.4%	10.5
Normalised EPS (cents)	*20.6*	11.4%	*18.5*
Normalised HEPS (cents)	*20.5*	11.4%	*18.4*
Balance sheet and cash flow indicators			
Net interest-bearing debt to Normalised EBITDA	*1.6*		*2.1*
Cash generated from operating activities (excluding net working capital)	*444 377*	10.4%	*402 611*

Cash generated from operations (including net working capital)	*281 379*	0.7%	*279 297*
Capital investment in plant and equipment	*80 400*	-35.7%	*125 115*
Cash conversion ratio	*54%*		*59%*

Revenue

Libstar recorded H1 2024 revenue growth of 5.2% driven by the strong performance of the Ambient Products category, which grew revenue by 9.1%. Selling price inflation and mix changes contributed 5.4% to sales growth. Sales volumes declined marginally by 0.2% as volumes in the industrial and export channels increased, whilst retail and food service channel volumes declined.

Gross profit margins

The Group's gross profit margin increased to 21.5% (H1 2023: 21.2%) due to effective price realisation, cost management, improved product basket mix and production efficiencies.

The cost of diesel to power generators during load shedding was reduced to R13 million (H1 2023: R45 million). The lower diesel cost was partly offset by an R14 million increase in electricity cost.

Other income and foreign exchange gains

Realised foreign currency translation gains increased to R3.4 million compared to a R13.5 million loss in H1 2023.

Unrealised foreign currency translation gains of R7.6 million compared to R13.1 million loss H1 2023.

Other income for the period under review decreased from R22.3 million to R7.3 million mainly as a result of insurance proceeds of R10.3 million in H1 2023 relating to inventory destroyed in the Denny Mushrooms Shongweni fire.

The net effect of the above increased operating profit by R24.5 million before taxation relative to the comparative period.

Normalised operating profit and Normalised EBITDA

Group normalised operating profit increased by 5.3% at a margin of 4.5% (H1 2023: 4.5%).

Group depreciation of property, plant and equipment increased by 37.2%, mainly due to a reduced depreciation charge during the prior period of R32.2 million resulting from revised estimated useful lives of assets with zero book value.

Group Normalised EBITDA increased by 13.4% at an improved margin of 7.7% (H1 2023: 7.2%).

Operating expenses

Operating expenses increased by 8.2%, driven by higher insurance costs due to the group expanding its riot wrap cover and adjusting industry risk rates. Consulting fees also rose, reflecting the costs associated with strategic initiatives such as operating model planning, the launch of the culture program, and fees for divestment advisors. Additionally, salaries and wages increased, in line with CPI adjustments and the filling of vacant positions compared to the previous period.

Investment income and finance costs

The Group's net finance cost (including IFRS 16 lease liabilities) decreased by 11.1% from R108.6 million to R96.5 million.

Group net finance costs (excluding IFRS 16 lease liabilities) decreased by 13.2% from R82.1 million to R70.9 million, reflecting lower average borrowings during the period under review.

Finance charges incurred on lease liabilities (IFRS 16) decreased by 3.2% from R26.4 million to R25.6 million.

Taxation

The Group's effective tax rate for the period was 25.1% (H1 2023: 16.6%). The prior period's effective tax rate was lower than the statutory rate of 27% due to the finalisation of prior years' tax assessments, resulting in a R13 million lower tax liability.

Earnings and headline earnings

Diluted EPS and HEPS increased by 30.8% and 32.4% respectively, aided by improved operating margins and lower finance costs relative to the comparative period.

Normalised headline earnings

Normalised HEPS, which excludes unrealised foreign currency movements and other non-recurring, non-trading and non-cash items, increased by 11.4% from 18.4 cps to 20.5 cps.

The difference between the growth in Diluted HEPS and Normalised HEPS is mainly attributable to after-tax unrealised foreign currency exchange gains of R5.5 million (H1 2023: R9.5 million loss) which are included in Diluted HEPS but excluded from Normalised HEPS.

The weighted average number of shares in issue remained unchanged at 595.8 million.

Cash flows and balance sheet

Cash generated from operating increased by R2.1 million from R279.3 million to R281.4 million. Group net working capital increased to 17.6% (H1 2023: 16.6%) of Group revenue following an investment of R114.1 million in inventory and lower creditor days compared to the prior reporting period. The increase in inventory was mainly driven by the increased stock holding of dairy products, export finished goods awaiting shipments as well as imported raw materials and finished goods in transit. Inventory subject to importation and exportation continued to be affected by shipment delays during the period under review. The Group target range is expected to increase to 15% -17% of revenue in the medium term given the continued shipment delays.

The Group continued its focused capital allocation strategy of investing in capacity-enhancing projects in identified growth areas, as well as in maintenance, quality, safety and efficiency-enhancing projects. Capital expenditure of R80.4 million (H1 2023: R125.1 million), represented 1.4% of net revenue (H1 2023: 2.3%). The Group's target range remains between 2.0% to 3.0% of net revenue for the full year.

The Group's EBITDA to term debt gearing ratio improved to 1.6x (H1 2023: 2.1x) normalised EBITDA. This is in line with the stated internal target of 1x to 2x, and below the lender covenant of 2.5x.

Net interest cover to EBITDA improved to 5.6x from 5.2x in H1 2023, remaining above the Group's minimum stated target of 3.5x

STRATEGY UPDATE

Libstar's strategic objective is to deliver sustainable, profitable growth and stakeholder value.

The Group is actively advancing its five key value-driving initiatives (KVIs) to enhance its cost-competitiveness, improve Libstar's earnings quality, and increase return on invested capital (Adjusted ROIC).

The five KVIs that were scoped and approved by the board as part of the Group's new strategic direction, include the following:

- Simplifying the Group's portfolio and operating model
- Optimising the Group's operating model and structure
- Growing profitably and investing in our people
- Reducing costs and improving operational efficiency to increase operating profit
- Improving capability and building capacity to identity, acquire and integrate value accretive categories in 2025 and beyond

The Group's strategy is underpinned by three key themes: Simplify, Grow and Sustain. Progress relating to each theme for the six-month period under review (H1 2024) can be outlined as follows:

1. Simplify the Group's portfolio and operating model

- The Group is on track to finalise the simplification of its operating structures within the newly established Perishables Products and Ambient Products super-categories by the end of 2024. The segmental information in this report reflects the new operating categories.
- Subsequent to the reporting period, the Group entered into a sale agreement to dispose of its Chet Chemicals business unit, marking tangible progress in the Group's efforts to reduce its exposure to non-food categories. Libstar will continue to explore strategic options related to its only remaining non-food business, Contactim.
- The Group resolved to exit its current beverage manufacturing operations by closing the Franschhoek-based Chamonix Spring Water plant effective 31 August 2024.
- The Group is progressing with value-unlocking initiatives in the Denny Mushrooms business.

2. Grow the Group's categories, channels and people

Categories and channels

Category growth initiatives introduced in 2023 remain a top priority.

Enhancing customer service levels and achieving cost efficiencies through targeted projects continues to be a central focus for driving sustainable improvements in operational performance and margins.

The following progress was made:

<u>Perishable Products category:</u>

- Additional contract manufacturing volumes were secured in the value-added meats sub-category;
- The Group invested in a natural cheese slicing line to grow its Lancewood brand share in the dairy category;

- The Group implemented a category-based operating structure, leveraging existing expertise within the Group to improve efficiencies in its value-added meat facilities.

Ambient Products category:

- The Cape Herb & Spice and Khoisan Gourmet divisions were integrated, yielding rationalisation benefits;
- Cape Foods assumed production of dry condiment products previously produced by the Retailer Brands business unit, leveraging its existing procurement and manufacturing capabilities to enhance category profitability.
- A new leadership structure was implemented for wet condiments, yielding rationalisation benefits and improved profitability of the baking aids business unit.
- A food service channel strategic review was completed, with an enhanced sale structure and portfolio offering to be implemented from H2 2024.

People

With the Group's human capital being the heart of the organisation, the One Libstar high-performance culture programme will remain a key initiative during H2 following its successful launch in H1 2024. The programme has set a strong foundation for the Group to work as one united team in achieving its strategic goals for 2027.

3. Sustain the Group's operations, profits, cash flows and returns

The following progress was made:

- Sustainable operations
  - A roof-top solar system and generator integration was completed at Amaro Foods with further projects underway to improve energy-efficiency;
  - Large common-spend items were identified for targeted cost-saving initiatives across the Group.

- Sustainable cash flows
  - The Group's focused capital allocation resulted in the reduction of Group gearing ratio from 2.1x to 1.6x, with Libstar on track to achieve its targeted ratio of lower than 1.5x by the end of the financial year.

- Sustainable business practices
  - Water- and electricity saving metrics were implemented in leadership scorecards across the Group.

OUTLOOK

Management is pleased with the Group's progress on its new strategic direction to date. The Group remains committed to delivering further tangible positive outcomes from its KVIs during the traditionally more profitable second half of the year.

Notwithstanding the recent moderation in food inflation, consumers remain financially constrained, evidenced by a moderation in retail and food service channel Group sales growth in the eight-week period after the reporting date. Libstar remains committed to the implementation of its portfolio and operating model simplification strategy to further enhance returns and create value for its stakeholders.

In the Ambient Products category, the Group will remain focused on executing on its strong pipeline of export orders and growing its food service product range both locally and internationally.

Enhancing customer service and achieving cost efficiencies through targeted initiatives will continue to be a key priority for driving sustainable improvements in operational performance and margins.

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

There were no changes to the composition of Libstar's board during the period under review.

REVIEW REPORT

The Group's independent external auditors, Ernst & Young Inc. (EY), were engaged to conduct a voluntary review of the condensed consolidated financial statements. A copy of the auditor's review report is available for inspection at the Company's registered office.

EY issued an unmodified review conclusion on the condensed consolidated financial statements.

The auditor's review 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.

Any forward-looking statements included in this announcement have not been reviewed or reported on by Libstar's external auditors.

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/2024/jse/isse/lbre/LBRH1_2024.pdf

- On the Company's website: https://www.libstar.co.za/investors/results-centre/

Copies of the full announcement are available for inspection and may also be requested from the Company Secretary at compsecretary@libstar.co.za and from the sponsor at jsesponsor@standardbank.co.za, at no charge, during office hours.

By order of the Board

Wendy Luhabe	Charl de Villiers
CHAIRMAN	CEO

10 September 2024

Sponsor

The Standard Bank of South Africa Limited