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

OPERATIONAL UPDATE AND PRE-CLOSE MEETING

The following update provides guidance on the company's operational performance for the first five months of the 2025 financial year up to 30 November 2024 ('the period'), compared with the five months of the 2024 financial year up to 30 November 2023 ('the prior period').

OVERVIEW

The group continued to experience a generally subdued operating environment during the period. While the positive sentiment following the formation of the government of national unity and the anticipated benefits pertaining to the two-pot retirement system, reduced levels of loadshedding, lower inflation and easing of interest rates is encouraging, it is yet to filter through to the group's trading.

In this context, the group grew revenue over the period, mainly through increased production capacity and market share gains. However, performance was negatively affected by the following items, which we mostly anticipated:

- increased operating costs related to the start-up and ramp-up of PG Bison's new medium-density fibreboard ('MDF') line;
- increased finance costs, which were capitalised during the construction phase of our major capital projects, including the MDF line; and
- lower vehicle production by two major original equipment manufacturers ('OEMs'), which resulted in a weaker performance by Feltex.

We expect the impact of the above items to ease from the second half of the financial year as utilisation of the MDF line improves and vehicle production recovers.

DIVISIONAL OPERATIONAL PERFORMANCE

PG Bison successfully started and ramped up its new R2 billion MDF line in Mkhondo to test its full rated capacity, effectively completing the project. Due to the stop-start nature of the ramp-up, utilisation of the line was only c. 60% over the period. While the line can be operated at its rated capacity, we anticipate that it will take approximately four years to sell the full capacity through a combination of domestic and export sales. The division is making progress in this regard and the prospects for the line and division remain positive.

Revenue improved due to a c. 50% combined increase in MDF domestic and export sales volumes, primarily attributable to the higher MDF production. The increased revenue resulted in higher net working capital. Operating profit declined as the depreciation and running costs of the new line were absorbed during the period, with utilisation not yet optimal due to the ramp-up, and the increased MDF exports were at lower margins.

Safripol delivered an increase in revenue and operating profit, largely because of higher production and sales volumes, with prior period volumes affected by production constraints at the Sasolburg plants, including a transformer failure and electricity supply disruptions, and a five-week commercial shutdown at the Durban plant. Indexed polymer raw material margins were stable but remained low due to global industry overcapacity and subdued global demand.

Unitrans showed an improvement in operating profit and returns, off lower revenue and a smaller fleet size. The division completed an organisational redesign during November 2024, which we expect will enhance the improvements and cost savings delivered during its restructuring in FY23/24. While these major processes have been completed, the division continues to focus on improving efficiencies to further increase performance and returns.

Feltex encountered a challenging trading period primarily due to meaningfully lower vehicle production by two major OEM customers, which we believe are temporary in nature. One OEM went through a key model changeover, and another faced technical-related production disruptions. The division's revenue was therefore lower and, as a result, operating profit notably declined.

Restonic improved revenue and operating profit in a subdued bedding and furniture market, primarily attributable to growth in sales of bedding units as the division continues to gain market share, improved production efficiencies and good cost control.

Optix remained focused on growing its subscriber base and product and infrastructure development to scale the business, which contributed to higher revenue but lower operating profit.

FOCUS AREAS AND OUTLOOK

The group remains focused on the following material items, which we believe will underpin performance over the medium term:

- Value realisation from investments: We have invested significantly for future growth, and we are committed to realising the value thereof. PG Bison's new MDF line is the largest of our most recently completed major capital projects and, with a c. 33% increase in the division's total production capacity, offers compelling growth opportunities for the group.

- Addressing underperformance: We made good progress in addressing areas of underperformance in the group, of which the most material related to Unitrans. With the conclusion of the restructuring and organisational redesign, we are targeting a c. R300 million improvement in operating profit for the division, relative to FY23, over the medium term.

- Reducing net debt: Following the completion of our major capital projects, we are focused on reducing net debt, enabled by cash flow contribution from these projects, lower capital expenditure in our manufacturing divisions, and an expected improvement in Unitrans' performance. We believe that the reduction in net debt, combined with an expected cycle of interest rate reduction, will increase balance sheet flexibility and enhance earnings. We expect net interest-bearing debt to decrease from the second half of FY25.

Shareholders are advised that the information and guidance set out above, and the financial information on which this operational update is based, have not been audited, reviewed or otherwise reported on by the company's external auditors.

PRE-CLOSE MEETING

Management invites interested stakeholders to a virtual meeting for a discussion and question and answer session on the operational update today, 12 December 2024, at 10h00 (SAST). Please join the meeting via this link or email christina.steyn@kap.co.za for further details.

1H25 INTERIM RESULTS

The results for the six months ending 31 December 2024 are expected to be released on or about 27 February 2025.

Stellenbosch
12 December 2024

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