



MEDIA RELEASE

RCL FOODS DELIVERS RESILIENT RESULTS DESPITE A CHALLENGING ENVIRONMENT

KEY HEADLINES

- Strategic focus supports delivery despite headwinds
- Pleasing revenue and EBITDA growth of 10.2% and 7.7% respectively
- Strong cash generation
- Volumes remained resilient in most categories, with several value-add brands increasing their market share
- “Value tier” innovation addresses consumer affordability
- Continued strong Sugar performance
- Improved Chicken results as turnaround progresses
- Vector Logistics delivers another improved result

FINANCIAL HIGHLIGHTS

	June 2022	% change
Revenue	R34,9 billion	up 10.2%
EBITDA	R2 595,7 million	up 7.7%
Underlying* EBITDA	R2 580,3 million	up 2.0%
Headline earnings	R1 054,0 million	up 10.0%
Headline earnings per share (HEPS)	118.6 cents	up 9.9%
Cash generated from operations	R3 427,9 million	Up 110.6%
Total dividend per share	45 cents	

* The underlying view of the results excludes material once-offs and accounting adjustments related to the net direct cost impact of COVID-19, a gain recognised on the reversal of a previously recognised impairment loss relating to a subsidiary acquired with a view to resale, and losses incurred in respect of the fire at the Sugar warehouse in Komatipoort, net of insurance accruals for claims instituted.

Durban, 5 September 2022: RCL FOODS’ resilient portfolio and focused strategic execution supported delivery of a pleasing set of results for the 12 months to June 2022, amidst significant headwinds. Revenue increased by 10.2% to R34,9 billion (2021: R31,7 billion) and EBITDA improved by 7.7% to R2 595,7 million (2021: R2 409,1 million). EBITDA growth was driven by continued momentum in Sugar, a return to profitability in the Chicken business (Rainbow) and a solid performance in Vector Logistics. Volumes have



remained relatively stable across most categories and several value-added brands grew their market share.

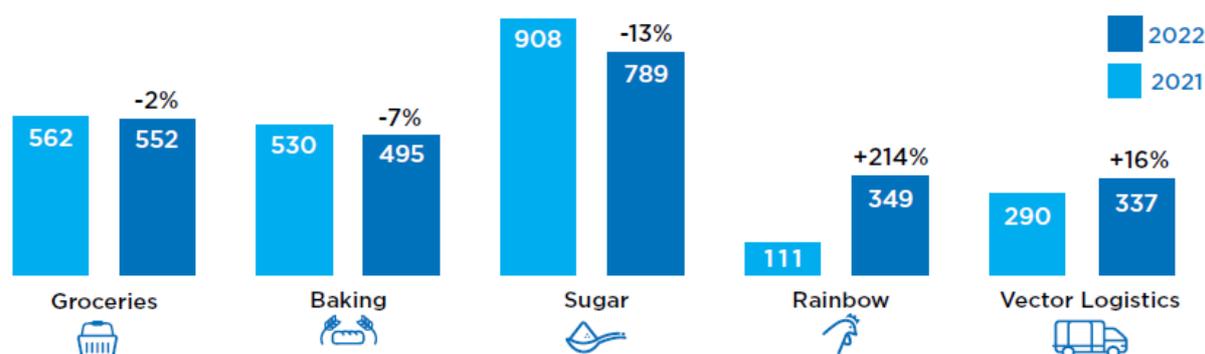
The Group’s strong focus on both strategic and operational execution has assisted in maintaining its forward momentum, despite the impact of continued commodity input cost increases as well as the economic and social fallout of COVID-19, the social unrest which broke out in KwaZulu-Natal and Gauteng in July 2021, and the KwaZulu-Natal floods in April 2022.

Against this backdrop, Rainbow has done well to return to profitability as part of its turnaround plan, and Vector Logistics has delivered another improved set of results, aided by higher revenue and efficiencies.

"As a major food producer we are acutely aware of the significant pressure on South Africans at this time and have sought to limit price increases as far as possible. We have driven efficiency and prioritised innovation in the value tier to provide cash-strapped consumers with affordable options in key categories. Beyond this, we are actively supporting our employees and their communities in the ongoing recovery from the COVID-19 lockdowns, unrest and flooding. Our DO MORE FOUNDATION, which we established five years ago, is key to this and is making a significant and commendable impact in many vulnerable communities," Chief Executive Officer Paul Cruickshank said.

The company has approved a final dividend of 45 cents per share.

UNDERLYING* EBITDA (Rm) & GROWTH (%) PER BUSINESS UNIT FOR THE 12 MONTHS ENDED JUNE 2022



STRATEGIC REVIEW

Group strategic transformation: Progress on the journey

RCL FOODS is on a journey to create a profitable, sustainable value-added branded business of scale. A year ago it announced its dual intention to separate its value-added branded business from its poultry, sugar and logistics businesses to position the latter for optimal growth as independent entities; and to scale its value-added component through sharper strategic focus and active investment. The business has pursued both initiatives in parallel in the 2022 financial year.

Over the last 12 months an extensive process has been followed to establish Rainbow (Chicken and grain-based animal feed) as a stand-alone entity. This included creating a



separate legal entity for Rainbow; exiting the RCL FOODS shared services platform as dedicated Rainbow teams are progressively established; and devising an execution plan for the final separation phase at an appropriate future date. While Rainbow continues to share certain Group platform services, the business is now operating as a largely autonomous subsidiary of RCL FOODS, led by an independent management team driving its own focused strategy. Although there is still some way to go before it will be ready for a full separation, Rainbow is making good headway as it continues to focus on its turnaround strategy.

In parallel, the Group initiated a market-sounding process in respect of Vector Logistics, to test if there was credible interest from prospective acquirors that could further accelerate its growth as an independent temperature-controlled logistics player, for the benefit of all stakeholders including customers and staff.

"This process elicited notable interest and while there can be no certainty that a transaction will be concluded, engagements are developing constructively and we will update the market as and when appropriate," the Group said.

Sugar remains part of RCL FOODS, with its separation plan being de-prioritised.

"We are committed to ensuring a responsible transition for each of these businesses, compromising neither shareholder value nor the welfare of our people. We are taking the same well-considered approach in growing our value-added component," the Group said.

As a foundation for a focused RCL FOODS value-added business, the previous Group and Food Division executive teams have been consolidated into a single, more operationally connected executive structure. The remit of the new team spans RCL FOODS' Groceries, Baking and Sugar business units, as well as the LIVEKINDLY Collective Africa joint venture, and Siqualo Foods Proprietary Limited (managed on behalf of Remgro Limited).

Alongside this, RCL FOODS has also revised its strategy with the vision of creating "a business of the right scale which has been built to last, with a diverse and high-performance culture that delivers category growth ahead of the market and enhanced stakeholder value". Its three pillars – "Diverse, High-performance Culture", "Business of Right Scale" and "Built to Last" – are bringing enhanced focus and clarity to the journey.

RCL FOODS' Value-added Business targets culture, scale and sustainability

RCL FOODS has invested strongly in people, culture and capabilities during the year, with the intention of creating a diverse business environment that feels like home for all and leverages its strategic capability advantage. Increasing diversity and inclusivity has been a key focus area that is yielding results, alongside the development of key strategic capabilities in areas such as Research and Development (R&D) and Consumer Insights.

A significant step towards scaling the business has been the creation of a cross-functional Growth Leadership Team, led by the Group's recently-appointed Chief Growth Officer. Growth ahead of the market is being targeted through a combination of brand and product innovation, digital transformation, consumer insights, ecosystem partnerships and customer-centricity.



Both organic and inorganic expansion in key growth categories are vital for building scale and enhancing resilience. Several relevant innovations have been delivered in the Groceries space, ranging from value-tier offerings in Nola mayonnaise and Yum Yum peanut butter to specialised diets in its premium Canine Cuisine and Feline Cuisine pet food brands. In line with its Baking growth strategy, the Group has just completed a capacity expansion project at its Polokwane bread plant and recently announced its acquisition of the Sunshine Bakery business in KwaZulu-Natal, which will provide additional scale and enable entry into new geographies.

The Group remains fully committed to growing the plant-based foods category through its investment in the LIVEKINDLY Collective Africa joint venture. The business is currently in a development phase, focusing on educating consumers, attracting new users and building the category. It launched another two global brands – Oumph! and LikeMeat – in the local market in the last year.

Ensuring the business is “built to last”, RCL FOODS is pursuing initiatives to improve operational efficiency, invest responsibly in assets and manage its stakeholder impacts with a view to becoming ‘net positive’ (giving back more than it takes). A Best In Class initiative is being driven by the business units with the aim of generating significant savings to enable accelerated growth. In parallel, RCL FOODS is in the process of identifying its core purpose and crafting a new, focused Environmental, Social and Governance (ESG) sustainability strategy.

“Our intention is to embed sustainability and purpose in our overall business strategy to create long-term value for all the systems we impact,” said Cruickshank.

Rainbow

Rainbow’s strategic intent is to deliver a sustainable operating profit margin and be the number one integrated chicken company in South Africa for both its customers and consumers. Despite the impact of commodity input cost increases, Avian Influenza (AI) and unrest and flooding in KwaZulu-Natal, the business has made good progress to date with its turnaround strategy. A new decentralised operating model has been put in place and a number of interventions have been implemented to drive cost savings and improved focus across the supply chain. Realigned focus in poultry farming has yielded significantly improved agricultural results with the current breed, and the full benefit of the introduction of a new breed is expected to flow through in the next 12 months.

“While much work remains to be done, Rainbow has halted loss-making trends and is starting to consolidate in preparation for growth. The recent decision to reinstate the second shift at the Hammarsdale P2 processing facility is a positive signal from a regional demand perspective and has the potential to create significant opportunities for the surrounding communities,” said Cruickshank.

The business has so far committed R220 million towards upgrading and installing new technology at the P2 plant and hatchery, and reinstating one of its KwaZulu-Natal broiler farms. Additional broiler volumes will largely be procured from emerging black contract growers.

Vector Logistics



Vector Logistics is making solid progress with its strategy to deliver acceptable returns and ensure a sustainable business into the future. Capacity builds in Durban, Gqeberha, Polokwane and Bloemfontein are now complete, concluding the consolidation of the Vector Logistics and Imperial Cold Logistics (ICL) networks into a single, optimised, customer-focused network. ICL was acquired from Imperial Logistics South Africa Proprietary Limited in 2019. Another key focus has been the optimisation of warehouse and transport networks through various initiatives to improve efficiencies and deliver on key customer requirements.

Seeking to transform the logistics sector through greater innovation, transparency and sustainability, Vector Logistics launched its Empty Trips digital logistics platform in the external market in March 2022. The platform is gaining traction as awareness grows amongst carriers and shippers.

OPERATIONAL REVIEW

RCL FOODS' value-added business (Groceries, Baking, Sugar) had a resilient performance in exceptionally difficult market conditions, exacerbated by a number of challenges during the year. Revenue increased 7.4% to R21 221,7 million (2021: R19 768,6 million), supported by steady volumes and responsibly applied price increases that largely offset higher input costs. EBITDA declined by 6.3% to R1 854,9 million (2021: R1 978,8 million), with the extra trading week in the prior year adding to the downside. Sugar nevertheless reported its second highest profit ever and Groceries held firm, aided by its tiered portfolio that caters for both premium and value options in key categories.

In the Groceries business unit (comprising the Grocery, Pies and Beverages operating units), revenue increased by 8.8% to R6 005,9 million (2021: R5 522,0 million). Underlying EBITDA declined 1.9% to R551,7 million (2021: R562,4 million), with a strong Grocery result being offset by service level challenges and margin pressure in Pies and Beverages. Grocery grew its market-leading positions in several Culinary and Pet Food categories and new innovations have been well received. The Pet Food brands continued to outperform the market, with particularly strong growth in the non-grocer channel from Optimizor and the Ultra Cat and Ultra Dog duo.

Pies, the category most affected by the COVID-19 lockdowns in the prior period, delivered good volume growth supported by Pieman's entry into the retail freezer segment. However, Pies margins remain under significant pressure due to raw material price increases and operational challenges. In Beverages, a new vitamin C-rich offering in the core Number 1 mageu range has exceeded business case; however volumes continue to be softer post the lockdown, offsetting the benefits of a reduced cost base.

In the Baking business unit, revenue was 6.2% higher at R6 214,5 million (2021: R5 849,0 million); however underlying EBITDA declined by 6.7% to R494,5 million (2021: R529,9 million) as margins came under pressure from elevated wheat and fuel costs. Sunbake had a strong performance in the Bread, Buns & Rolls operating unit, and capital investments to grow capacity and meet demand in the segment are expected to yield future benefits. While the Milling operating unit delivered an improved operating performance, this was offset by profitability challenges driven by lower volumes and input



cost recovery challenges. The Speciality operating unit delivered a better performance aided by a more favourable product mix, improved margins and plant efficiencies.

The Sugar business unit produced another excellent result. Revenue increased by 7.2% to R9 001,3 million (2021: R8 397,7 million) and underlying EBITDA of R789,5 million was second only to the previous year's record result of R907,5 million. This strong performance was due to a combination of improved mill recoveries and efficiencies, continued local demand and reduced industry supply. While the fire at the Komatipoort mill in October 2021 caused significant damage to the raw sugar warehouse, there was minimal disruption to the supply chain. Insurance proceeds will fully cover rebuilding costs in the 2023 financial year. The Molatek molasses-based animal feed business delivered a pleasing revenue performance while managing reduced volumes through a focus on pricing and efficiencies.

Rainbow's revenue increased by 10.0% to R11 384,8 million (2021: R10 335,9 million). Pleasingly, its underlying EBITDA grew by 214.0% to R348,6 million, albeit off a low base of R111,0 million in the prior period. Improvements in pricing and agricultural results, procurement gains and buoyant Quick Service Restaurant (QSR) sales helped to offset the cost impacts of commodity price increases and AI mitigation measures. The Simply Chicken value-added brand introduced several freezer-to-fryer innovations during the year, and Simply Chicken viennas continued to outperform the market with double-digit growth.

In Rainbow's animal feed business, external Epol and Driehoek volumes were subdued in an over-capacitated local industry. High commodity prices also created significant margin pressure.

While poultry imports were lower during the period, due to import tariffs and anti-dumping duties combined with higher international demand and freight charges, they remain a significant ongoing challenge to the South African poultry industry.

"The decision by the Department of Trade, Industry and Competition to suspend the implementation of definitive anti-dumping duties against Brazil, Denmark, Ireland, Poland and Spain for a period of 12 months is disappointing and will not assist the country's efforts towards localisation, job creation, transformation plans, investment or developing the rural economy. The Minister attributes the suspension of the implementation of the anti-dumping duties to rising food costs, and the potential impact on poultry prices. However, the impact that the delay will have on poultry remains questionable as importers merely use the opportunity to profit on dumped imports. No evidence exists that dumped chicken is sold by the importers at a low price to the consumer," the Group said.

Vector Logistics has continued its turnaround with a 17.1% revenue improvement to R3 691,9 million (2021: R3 153,6 million) and a 16.4% increase in underlying EBITDA to R337,0 million (2021: R289,6 million). Key drivers were the completion of the ICL network integration and a recovery in the food service industry, with volumes returning to almost pre-COVID-19 levels. This was in spite of revenue losses stemming from the July 2021 civil unrest in KwaZulu-Natal and Gauteng, the flooding in KwaZulu-Natal in April 2022, foreign exchange impacts in Zambia, and higher fuel costs.



L&A Logistics Limited (L&A) in Zambia was consolidated as a subsidiary for a full 12 months in the current financial year, compared to 4 months in the prior year. Despite exchange rate volatility and lower than expected sales, L&A contributed to Vector Logistics' overall revenue and earnings growth.

PROSPECTS

Acknowledging that volumes could be impacted by further price increases amidst continued high commodity input costs, RCL FOODS will continue to leverage its tiered portfolio and drive value innovation to support cash-strapped consumers.

The Groceries business unit will focus on delivering on its strong innovation pipeline, including new value offerings, while managing margins and operating efficiencies. In the Baking business unit, the emphasis will be on building volumes in the northern region through the expanded Polokwane plant and extending into KwaZulu-Natal through the Sunshine Bakery business. Sugar demand remains robust, and improved rainfall during the growing season bodes well for better cane yields and increased raw sugar production.

In Rainbow, continued delivery of the turnaround plan is expected to yield further performance improvements. High commodity prices and delayed implementation of definitive anti-dumping duties against Brazil, Denmark, Ireland, Poland and Spain remain challenges for the 2023 financial year.

Vector Logistics' outlook for the next year is positive, although higher fuel costs remain a significant risk. The integrated network will further facilitate transport and warehousing efficiencies, and the business will leverage Empty Trips' potential to create a more innovative, sustainable logistics industry.

"Our resilient portfolio and focused strategic execution have enabled us to deliver robust results despite turbulent market conditions in the last 12 months. We have also made strides in integrating a value-added mindset across the RCL FOODS business, and will build on this in the coming year. Underpinning this will be our newly crafted Purpose and Sustainability Strategy, which together will act as our 'north star' in building a relevant, responsible and sustainable business," Cruickshank concluded.

Ends.

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About RCL FOODS:

RCL FOODS produces over thirty of South Africa's much-loved brands including Yum peanut butter, Nola mayonnaise, Ouma rusks, Pieman's pies, Number 1 mageu, Sunbake bread, Supreme flour, Selati sugar, Simply Chicken, Rainbow chicken, Bobtail and Catmor



pet food, and Epol and Molatek animal feed. Through our more than 20 000 employees and our diverse brand portfolio, we strive to do "that little MORE" to make a meaningful difference every day.

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