



MEDIA RELEASE

RCL FOODS NAVIGATES TOUGH CONDITIONS BY FOCUSING ON CONTROLLABLES

KEY HEADLINES

- Volumes and margins under pressure in a challenging trading environment
- Earnings materially impacted by sugar industry special levy
- Load-shedding impacts all operations
- Key Grocery brands continue to grow despite the market declining
- Strong underlying Sugar performance
- Rainbow turnaround hampered by high feed input costs
- Sale of Vector Logistics completed on 28 August 2023

FINANCIAL HIGHLIGHTS – CONTINUING OPERATIONS*

| | June 2023 | % change |
|--|------------------|------------|
| Revenue | R37,8 billion | up 17.3% |
| EBITDA | R1 711,5 million | down 24.5% |
| Underlying** EBITDA | R1 973,6 million | down 11.0% |
| Headline earnings | R539,6 million | down 45.6% |
| Headline earnings per share (HEPS) | 60.6 cents | down 45.7% |
| Underlying headline earnings | R752,8 million | down 20.0% |
| Underlying headline earnings per share | 84.5 cents | down 20.2% |

*Vector Logistics has been classified as a discontinued operation at financial year-end. Continuing operations refer to the remaining operations excluding Vector Logistics.

** The underlying view of the results excludes material once-offs and accounting adjustments related to: negative fair value adjustments on the Group's commodity raw material procurement positions in the current year; the impact of the sugar industry special levy raised by SASA in the current year; insurance proceeds in the current year, in respect of the fire damage at our Komatipoort sugar warehouse during the 2022 financial year; and the reversal in the prior period of a previously-recognised impairment loss. For more information please refer to the full results announcement at www.rclfoods.com.

Durban, 4 September 2023: RCL FOODS has weathered a tremendously difficult 12 months, delivering a solid underlying performance in its core Value-Added Business while negatively impacted by continued unrecovered cost pressure in Rainbow. Group revenue from continuing operations of R37,8 billion was 17.3% higher than the prior year (2022: R32,2 billion), mainly due to higher pricing necessitated by rising input costs. Earnings



before interest, taxes, depreciation, amortisation and impairments (EBITDA) from continuing operations declined by 24.5% to R1 711,5 million (2022: R2 265,4 million), mainly driven by a decline in Rainbow and the fair value revaluation of RCL FOODS' minority shareholding in The LIVEKINDLY Collective International business.

The Sugar business unit delivered a strong result with EBITDA growth of R62,4 million (7.6%) even after the impact of the sugar industry special levy of R234,4 million. This arose in the context of Tongaat Hulett Limited and Gledhow Sugar Company's commencement of business rescue proceedings, the decision of Tongaat's appointed business rescue practitioners to suspend payment of their statutory pre-commencement levies and redistribution payments to the South African Sugar Association (SASA), and the subsequent default of both Tongaat and Gledhow. This placed the burden on the remaining industry participants to cover the shortfall by means of a special SASA levy.

In an extremely challenging operating environment, agricultural commodity input costs remained the biggest contributor to margin pressure for RCL FOODS, followed by load-shedding which added R158,3 million in direct costs to continuing operations in respect of diesel, generator hire and additional labour requirements. Consumer demand came under increased pressure amidst high unemployment levels (32.6% at the end of June 2023) and double-digit food price inflation during the period, as reflected in Statistics South Africa's Quarterly Labour Force Survey and monthly Consumer Price Index (CPI) respectively.

"Understanding the key role that our business plays in maintaining both food security and employment in South Africa, we have remained focused on 'controlling the controllables' in order to deliver a stable profit while supporting cash-strapped consumers. We have done so through the careful management of price increases, innovation in the 'value' tier and a focus on operational efficiencies. As a Group we are committed to being part of the solution for a more stable and prosperous future for all South Africans," said RCL FOODS' Chief Executive Officer Paul Cruickshank.

The directors resolved not to declare a final dividend due to the ongoing separation processes and external pressures impacting the Group.

STRATEGIC REVIEW

Strategic portfolio transformation

In order to generate a more consistent return and sustainable value for its stakeholders, RCL FOODS has been on a journey since 2020 to reshape its portfolio with a focus on growing its Value-Added Business, whilst separating out its Rainbow and Vector Logistics businesses.

As announced on 29 August 2023, the sale of Vector Logistics to A.P. Moller Capital has now been finalised and proceeds received. Vector Logistics has been disclosed as held-for-



sale in accordance with IFRS 5 and is presented as a discontinued operation in RCL FOODS' results. The profit/loss on sale of the Vector Logistics segment will be recognised in the 2024 financial year.

"Vector Logistics has been an integral part of RCL FOODS since 2004 and we will continue to maintain a relationship with it through the logistics services that it provides to parts of our Group, as well as through our provision of transitional services to Vector Logistics for a 12-month period post sale to allow for an effective dis-integration from the Group. We would like to thank the entire Vector team for their commitment to RCL FOODS over the years," said Cruickshank.

RCL FOODS remains fully committed to its plans for a full separation of the Rainbow business and has taken significant steps to prepare it for independent operation when ready. Rainbow continues to focus on its turnaround strategy which includes improving agricultural performance, driving cost efficiencies and economies of scale.

In January 2023, the Pies operating unit was moved from the Groceries business unit to the Baking business unit. Its results are reported on this basis in the current announcement, with the results of both business units in the comparative periods being restated to reflect this change.

RCL FOODS' Value-Added Business launches its newly articulated Purpose

After a year of extensive stakeholder engagement and self-reflection, RCL FOODS' Value-Added Business launched its newly articulated Purpose in June 2023: **"We Grow What Matters"**. This collaborative commitment to meaningful change underpins its Vision – to be a "purpose-led business that delivers value for all and creates the fuel to fund enduring positive impact". In parallel, its Sustainability Strategy has been revised and is closely integrated with its overall Business Strategy.

"Our newly articulated Purpose and Vision act as a compass directing the business, while our sustainability strategy is embedded in our business strategy to provide a roadmap for stakeholder value creation and positive impact," Cruickshank said.

Progress against RCL FOODS' Value-Added Business strategy

Putting "People First", the RCL FOODS Value-Added Business has continued to focus on building a diverse and inclusive culture, developing employees and building capabilities in key strategic areas. Following the floods in Nkomazi in February 2023, RCL FOODS provided a R25 million grant which enabled the repair of damaged small-scale grower irrigation infrastructure, ensuring their crop and livelihoods were protected. The DO MORE FOUNDATION also supported flood relief efforts, while doubling its community-based programmes to 8 of RCL FOODS' local communities.

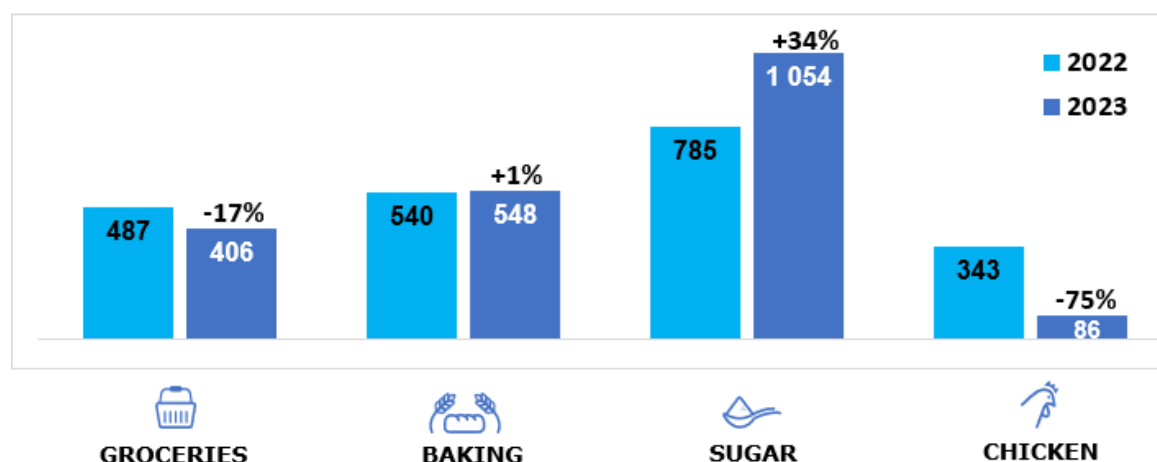


The business has continued to drive progress in its “Right Growth” pillar, notably through its acquisition of Sunshine Bakery Holdings Proprietary Limited (Sunshine Bakery) in KwaZulu-Natal in March 2023, and a strong focus on value-focused innovation, aided by its newly developed consumer marketing insight capability. Exports and e-commerce continued to show strong growth. Strong customer partnerships remain a key priority.

In parallel, RCL FOODS has made strides in laying the foundations for becoming “Future Fit”. Net revenue management and best-in-class efficiency initiatives are being embedded across the business to create fuel for growth, while credible long-term commitments are being developed to support delivery of the Sustainability Strategy, whose overarching goal is to “take credible action and do our part to deliver consumer goods that support the wellbeing of employees, consumers, communities and the planet”.

OPERATIONAL REVIEW OF CONTINUING OPERATIONS

UNDERLYING EBITDA (Rm) & GROWTH (%) PER BUSINESS UNIT FOR THE 12 MONTHS ENDED JUNE 2023 – CONTINUING OPERATIONS



RCL FOODS’ Value-Added Business (comprising the Groceries, Baking and Sugar business units) delivered a solid set of underlying results, despite high agricultural commodity input costs, record levels of load-shedding, and flood damage to agricultural infrastructure in February 2023. Revenue increased by 17.3% to R24,5 billion (2022: R20,9 billion) and underlying EBITDA increased by 10.8% to R2 007,5 million (2022: R1 811,9 million), driven by a strong Sugar performance that was partially offset by the impact of load-shedding on Pet Food service levels and lower volumes and margins in Grocery and Baking. EBITDA declined to R1 796,6 million (2022: R1 855,0 million) due to the significant impact of the sugar industry special levy.

RCL FOODS made some pleasing market share gains in the Peanut Butter, Mayonnaise, Rusks, Pies, and premium Pet Food categories, although certain Pet Food shares were impacted by production cutbacks due to load-shedding. While price increases were implemented where feasible, these were insufficient to offset the cost-push in the Groceries and Baking business units. These were partially offset by internal best-in-class cost-savings amounting to R112 million during the period.

In the **Groceries business unit** (comprising the Grocery and Beverages operating units), revenue increased by 6.4% to R5 034,2 million (2022: R4 731,9 million). Underlying EBITDA declined by 16.6% to R405,8 million (2022: R486,5 million), mainly driven by load-shedding impacts. The installation of 9MW of emergency generator capacity at the Randfontein Grocery facility enabled an improvement in stock levels, albeit at a significant extra cost and temporarily increasing environmental impacts.

The Grocery operating unit had a strong performance in its Culinary brands, with value innovations in Nola and Yum Yum showing exceptional growth. In Pet Food, Bobtail introduced a Specialised Diets range, a first for the mainstream dog food segment, while Optimizor tiered its range to meet diverse consumer needs in the non-grocer segment. The Beverages operating unit remained challenged by lower volumes in a declining category, and opportunities are being explored which will make it more 'future fit'.

In the **Baking business unit** (comprising the Bread, Buns & Rolls, Milling, Pies and Speciality operating units) revenue increased by 16.2% to R8 625,4 million (2022: R7 422,6 million) while underlying EBITDA improved by 1.4% to R547,9 million, despite lower overall volumes and compressed margins in the Bread, Buns & Rolls operating unit. Sunbake Bread experienced good volume and market share growth in retail, albeit at reduced margins, and expanded into the adjacent confectionery category with Sunbake Chelsea Buns and Snowballs. The integration of Sunshine Bakery is progressing well.

Despite lower volumes in the Milling operating unit, margins remained intact due to efficiency enhancements arising from best-in-class programmes executed during the year. In the Pies operating unit, Pieman's continued to show strong market share growth and service levels are almost back to normal after supply disruptions earlier in the year. In the Speciality operating unit, good cost control initiatives and production efficiencies helped to restore margins and offset volume challenges.

In the **Sugar business unit** (consisting of the Sugar and Molasses-based Animal Feed operating units), revenue increased by 23.3% to R11 101,4 million (2022: R9 001,3 million) and underlying EBITDA increased by 34.3% to R1 053,8 million (2022: R785,0 million). This exceptionally strong underlying performance was driven by a combination of higher production volumes; increased local sales; and continued favourable export pricing. Statutory EBITDA was reduced by R234,4 million due to the sugar industry special levy during the 2022/2023 season. Legal process is currently under way in relation to Tongaat's non-compliance with its statutory obligations owed to SASA under the Sugar Industry Agreement.

The mills were able to crush the entire crop and the season was extended to process all available cane. Load shedding affected irrigation scheduling in the sugar agricultural operations, necessitating increased operation at peak-hour tariffs which significantly impacted energy costs. The molasses-based Molatek Animal Feed business performed in line with overall expectations.

In the **Rainbow business** (consisting of Rainbow and Grain-based Animal Feed), revenue grew by 18.3% to R13 463,9 million (2022: R11 384,8 million), aided by strong demand,



increased market share and price increases in the Quick Service Restaurant (QSR) sector. Underlying EBITDA declined by 74.9% to R86,0 million (2022: R342,9 million), with revenue increases proving insufficient to offset the severe impacts of high feed costs, failing municipal infrastructure and load-shedding. The Epol and Driehoek Animal Feed businesses were also challenged by load-shedding and margin pressure arising from high commodity input costs and overcapacity in the industry.

Despite these financial setbacks, Rainbow continues to make progress with its turnaround. Agricultural performance has improved to satisfactory levels and the Hammarsdale plant and hatchery have been upgraded in preparation for a second processing shift to be brought online by March 2024. Simply Chicken is growing ahead of the market in the Chilled Processed Meats and Freezer-to-fryer categories, and Farmer Brown recently launched its premium Farmer Brown Nourish range – the first freezer-to-fryer product to be endorsed by the Heart & Stroke Foundation.

INDUSTRY CONTEXT

Phase 1 of the Sugar Master Plan came to an end on 31 March 2023 but the Master Plan continues to provide the foundation for collaboration between the Sugar Industry, Government, customers and other stakeholders. Progress has been made with important initiatives such as the support to small-scale growers and strategies for alternative markets and uses for sugarcane, but much work remains to be done to realise the objectives of the Master Plan and safeguard the industry.

Commencement of business rescue proceedings in respect of Tongaat and Gledhow presented a more imminent threat to the viability of the Sugar Industry and the entire regulatory regime within which it operates, and it required urgent intervention. Tongaat's resumption of payment of levies and redistribution obligations for the 2023/2024 season has meant that cane growers and sugar millers have so far not been asked to absorb further losses in respect of the 2023/2024 season. The hearing of the application brought before the court by the business rescue practitioners is scheduled to take place in September 2023. Judgement in this case, along with the publication of Tongaat's business rescue plan, will bring more certainty regarding any further impact on cane growers and sugar millers. RCL FOODS continues to engage with the business rescue practitioners, Government and SASA to ensure an outcome that is best for the industry at large.

The Poultry Sector Master Plan is progressing slowly. Expanding the market and supporting exports is an important pillar of the Master Plan, and the industry is looking to Government for greater support to access new markets. Reducing dumping is another key element of the Master Plan, and the recent reintroduction of anti-dumping duties is a step forward in protecting the local poultry industry, and the jobs it creates, from unfair competition.

DISCONTINUED OPERATION: VECTOR LOGISTICS

Vector Logistics' profit after tax increased by 19.7% to R76,3 million (June 2022: R63,8 million). This was mainly due to being classified as held for sale in accordance with IFRS 5, which resulted in depreciation being stopped with effect from 31 March 2023 (a R43,4 million benefit, post-tax). Vector Logistics has continued its turnaround journey, driven by



the completion of its supply chain network consolidation. Despite good revenue growth, profitability was negatively affected by the direct cost of load-shedding, the impact of this on brands supplying into the network, and higher fuel and insurance costs.

PROSPECTS

Challenges persist in both trading and operational conditions, with commodity prices still at elevated levels, the Rand remaining vulnerable, and load-shedding continuing. With plans in place to mitigate load-shedding in most areas of the RCL FOODS Value-Added Business, a key priority in the coming year will be to recover lost volumes and deliver on growth plans. Alongside this, the business will continue to focus on what is within its control such as maximising efficiencies, driving further value innovation and portfolio tiering to improve margins, whilst embedding its Purpose as its North Star.

The local sugar price increase of 14% in June 2023 will assist in relieving some of the pressure on local millers and growers; however, the future of the local sugar industry remains a grave concern. RCL FOODS is hopeful of a just and timeous resolution that protects the industry's sustainability and the thousands of jobs it supports.

Rainbow expects the benefits of the new breed rollout and the doubling of the Hammarsdale shift to flow through in the coming year, with some commodity input cost relief also anticipated. Rainbow has had one recent case of Avian Influenza, and the strictest biosecurity measures are in place to protect flocks.

"RCL FOODS has continued to move forward against significant headwinds by resolutely focusing on what is in its control. Guided by our Purpose, we enter the 2024 year focused on making an impact that counts as we Grow What Matters, together," concluded Cruickshank.

Ends.

For further enquiries contact:

Virginia Horsley (virginia.horsley@rclfoods.com)

Michelle Copans: Aprio Strategic Communications, (+27 (0) 82 743 9962;
michelle@aprio.co.za)

ABOUT RCL FOODS:

RCL FOODS is a South African food manufacturer with nearly 16 500 employees producing 30 much-loved brands. These include Yum Yum peanut butter, Nola mayonnaise, Ouma rusks, Pieman's pies, Number 1 mageu, Sunbake and Sunshine bread, Supreme flour, Selati sugar, Simply Chicken, Rainbow chicken, Bobtail and Catmor pet food, and Epol and Molatek animal feed.

Visit our website at: www.rclfoods.com

