



MEDIA RELEASE

RCL FOODS DELIVERS PLEASING INTERIM RESULTS IN A CHALLENGING ENVIRONMENT

KEY HEADLINES

- Muted demand persists in a challenging economic environment
- Rainbow turnaround yields positive result
- Continued good Sugar performance
- Service levels restored in Pet Food and Pies
- Load-shedding direct costs continue to impact earnings
- Receipt of Vector Logistics sale proceeds improves cash position

FINANCIAL HIGHLIGHTS – CONTINUING OPERATIONS*

	December 2023	% change
Revenue	R20,1 billion	up 8.4%
EBITDA	R1 506,8 million	up 48.6%
Underlying** EBITDA	R1 436,0 million	up 32.4%
Headline earnings	R723,0 million	up 52.6%
Headline earnings per share (HEPS)	81.2 cents	up 52.6%
Underlying** headline earnings	R722,5 million	up 37.5%
Underlying** HEPS	81.1 cents	up 37.5%

* The Vector Logistics segment was classified as a discontinued operation during the second half of the previous financial year and was subsequently sold in August 2023. Continuing operations refer to the total Group excluding the Vector Logistics segment

** To enable a meaningful comparison between the current and prior period on a like-for-like basis, the underlying view of the results excludes material once-offs and accounting adjustments related to IFRS 9 Financial Instruments (IFRS 9) in the current and prior period, as well as insurance proceeds receivable in respect of fire damage at the Sugar Komatipoort warehouse which occurred during the 2022 financial year.

Westville, 4 March 2024: RCL FOODS delivered a pleasing performance for the six months to December 2023. Earnings Before Interest, Taxes, Depreciation, Amortisation and Impairments (EBITDA) increased by 48.6% to R1 506,8 million (December 2022: R1 014,1 million), largely driven by Rainbow (up R276,7 million) and Sugar (up R242,5 million).



This was achieved in a tough trading environment where high input costs, load-shedding and a weak Rand/Dollar exchange rate all continued to exert pressure on prices and consumer demand. Group earnings were impacted by direct load-shedding costs of R76,1 million during the period.

RCL FOODS' response to the challenging operating environment has been to focus on factors within its control: restoring service levels and thus market shares, improving operational efficiencies, and cash preservation. These measures have started to yield improvements in volumes and profitability, albeit not yet at the desired level.

"We remain committed to our overarching business strategy as previously communicated, which includes improving shareholder returns as we seek to GROW WHAT MATTERS for all our stakeholders. I am pleased to say that we are on track with our strategy delivery plan for the 2024 financial year, supported by the rollout of our Purpose across our Value-Added Business," said RCL FOODS' Chief Executive Officer, Paul Cruickshank.

STRATEGIC PORTFOLIO REVIEW

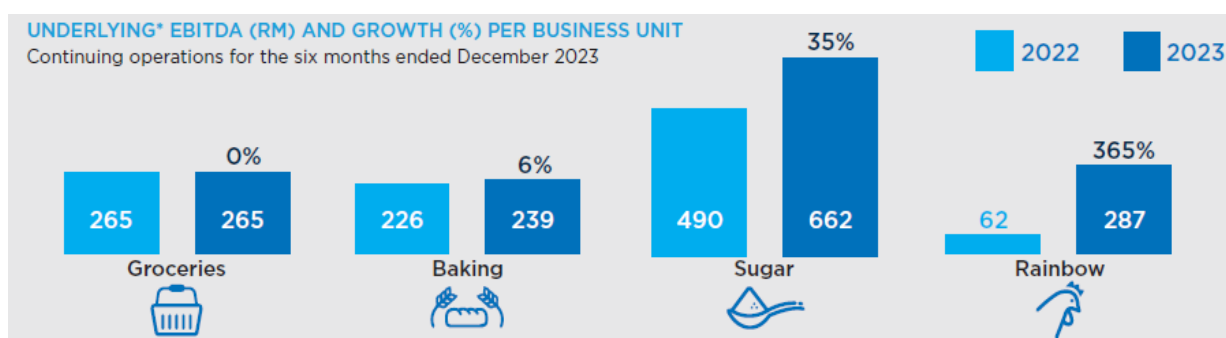
Separation of Rainbow from RCL FOODS

Following the strategic review of RCL FOODS, the board provided its preliminary approval on 1 March 2024 to pursue the formal separation of Rainbow via an unbundling to shareholders and a concurrent listing on the JSE. The board is of the view that the unbundling of Rainbow will enable both businesses to pursue their respective growth ambitions and investment theses in a focused manner and with improved alignment on capital allocation priorities.

Update on Vector Logistics

With the disposal of Vector Logistics having been finalised on 28 August 2023, RCL FOODS is currently in a 12-month transitional arrangement to enable its seamless operational separation from the Group.

OPERATIONAL REVIEW – CONTINUING OPERATIONS



RCL FOODS' Value-Added Business (Groceries, Baking and Sugar) revenue increased by 6.5% to R12 992,9 million (December 2022: R12 201,7 million) while underlying EBITDA increased by 18.9% to R1 166,2 million (December 2022: R980,9 million), largely driven by a strong performance in Sugar.

Despite ahead-of-market growth in Peanut Butter and Porridge, volumes and profitability remained challenged across most categories due to soft consumer demand. Price increases have helped to partially offset some of the cost push and Best-in-Class efficiency initiatives are gaining traction.

Within the **Groceries business unit**, the Grocery operating unit had a flat performance driven by volume challenges in the Culinary category. These were partially offset by a volume recovery in the Pet Food category, with the full product range now back on shelves after being impacted by stage 6 load-shedding in the prior period. Yum Yum, Nola, Canine Cuisine and Feline Cuisine all achieved market share gains. Despite volume pressure, the Beverages operating unit delivered an improved result mainly due to strong cost control.

The **Baking business unit** had a resilient performance led by stronger results in the Milling, Pies and Speciality operating units, which all benefited from improved efficiencies. Service level restoration aided Pies' long-term market share growth. The Bread, Buns & Rolls operating unit had a challenged performance in an extremely competitive environment, with higher input costs and promotional activity leading to further margin pressure. Sunshine Bakery, a key part of the Baking growth strategy, has been successfully integrated into the business.

Despite lower crop yields, the **Sugar business unit** had a strong performance largely due to higher local and export prices and savings generated by Best-in-Class initiatives. In the Sugar operating unit, the higher price of local sugar and strong export pricing more than offset the impact of lower local sales, reduced raw sugar exports and lower production throughput. The Molatek operating unit delivered a strong result aided by higher revenue on the back of an improved sales mix and operational efficiencies.

Rainbow's revenue increased by 10.8% to R7 287,1 million (December 2022: R6 578,8 million) while its underlying EBITDA increased by 364.8% to R286,8 million (December 2022: R61,7 million) due to a better agricultural performance, improved volumes and margins and sound cost control. Its performance was nevertheless compromised by load-shedding and the impact of the Avian Influenza (AI) outbreak. The expansion of the Hammarsdale Processing plant was implemented successfully, which resulted in increased volumes and the creation of 346 direct and 143 indirect incremental job opportunities. Full capacity utilisation is expected in July 2024.

Rainbow's Animal Feed business benefited from improved external margins, although volumes were affected by AI and strong market competition. The 50%-owned Waste-to-Value operation, Matzonox, reported an improved performance due to the successful trade of renewable energy certificates and better production.

SUGAR INDUSTRY UPDATE

Progress has been made in addressing the uncertainty surrounding the future of the local sugar industry which arose from Tongaat Hulett Sugar (Tongaath) and Gledhow Sugar (Gledhow) defaulting on their payments to the South African Sugar Association (SASA), which the rest of the industry had to fund on their behalf. The Durban High Court confirmed in December 2023 that SASA levies and redistribution payments are a cost of doing business and cannot therefore be suspended. Tongaat's Business Rescue Practitioners have filed a leave to appeal the judgement. Tongaat's Creditors voted in favour of the plan



put forward by the Vision consortium in January 2024, having accepted and approved all the changes requested by SASA and RCL FOODS to ensure the rest of the industry is not further disadvantaged.

"While there remains risk during the implementation phase of the plan, an important milestone has been reached. SASA is expected to be paid in full once the appeals process has been finalised, enabling growers and millers to be made whole," the Group said. It noted that the Gledhow business rescue process is progressing, with several possible suitors requesting additional time to prepare and finalise their bids.

POULTRY INDUSTRY UPDATE

The Poultry Sector Master Plan is progressing slowly, despite significant capacity investment by the industry. Rainbow and its growers invested more than R600,0 million at Hammarsdale to double processing and grow capacity to return the jobs lost in 2017. Greater and more urgent Government support is required to access new markets in line with the Plan.

Trade measures to support the local industry are another key pillar of the Plan. Anti-dumping duties on chicken imports from Brazil and four European Union countries were reimposed in August 2023 after a year-long delay in implementation. On 26 January 2024 the International Trade Administration Commission (ITAC) recommended that certain rebates of duties on frozen poultry imports be implemented as a temporary measure to mitigate potential impacts of the AI outbreak.

"The imposition of a rebate on tariffs is concerning to the local poultry industry as it has taken various costly steps to ensure supply. As a result, there was no poultry meat shortage over the festive season and the supply chain is well stocked. The industry is engaging with the Department of Trade Industry and Competition regarding this matter," the Group said.

On 6 February 2024 the Competition Commission of South Africa announced that it is launching an investigation into the broiler and layer industries over concerns that their concentrated structure might lead to anti-competitive behaviour and increased prices.

"The scope of the Competition Commission investigation is wide and is likely to take an extended time to complete, with comments to be submitted by the public during March 2024. We remain of the view that in order to produce the cheapest possible chicken, scale and an integrated value chain are required. The poultry industry of South Africa is already internationally competitive; is the biggest segment of South African agriculture; and is a significant contributor to rural development, job creation and food security. We intend to participate in the enquiry and will table our comments for consideration by the Competition Commission," the Group said.

PROSPECTS

Consumer demand is likely to remain soft in the coming months, with cost pressures persisting despite moderating from recent highs. Key contributors to the downside risk are continued high levels of load-shedding and a weaker Rand. With commodity input prices remaining elevated, bread volumes and margins are expected to remain under pressure in an oversupplied local market with limited capacity to absorb higher prices. Against this



backdrop, and in line with its strategy, the Value-Added Business will continue to focus on balancing volumes and profitability across the portfolio, aided by Best-in-Class and Net Revenue Management initiatives.

The Sugar business is expected to benefit further from ongoing efficiency improvements and higher local and export market prices in the coming months. Implementation of the Sugar agriculture turnaround strategy should result in improved yields in the next season, although the impact of load-shedding on irrigation still remains a risk.

Rainbow has made considerable progress with its turnaround. The final phase of ramp-up of production in Hammarsdale and the continued benefits of the breed change are expected to impact positively going forward.

"As a Group we remain committed to progressing our strategic intent, which includes asking ourselves how we can GROW WHAT MATTERS into the future," concluded Cruickshank.

Ends.

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ABOUT RCL FOODS

RCL FOODS is a deeply-rooted South African consumer goods business that produces some of the country's most-loved brands: 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 Canine Cuisine dog food, Catmor and Feline Cuisine cat food, and Molatek and Epol animal feed, to name a few. It also produces a wide range of speciality and private label products.

Headquartered in Westville, Durban, the business employs over 16 000 people across 8 provinces in its Value-Added and Rainbow operations. At the heart of its culture and strategy is its Purpose – **WE GROW WHAT MATTERS** – which encapsulates its belief in collectively doing *that little more* to create a positive impact that matters.

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