Tiger Brands FY21 Results Presentation Transcript

Speaker Key:

ND	Noel Doyle (CEO)
DS	Deepa Sita (CFO)
NCW	Nikki Catrakilis-Wagner (IR Director)

NCW Good morning, ladies and gentlemen, and welcome to Tiger Brands' results presentation for the year ended 30th September 2021. I am Nikki Catrakilis-Wagner.

In terms of the agenda this morning, Noel Doyle, CEO, will kick off the presentation with an executive summary, an overview of the year under review, as well as our progress against strategic objectives. CFO, Deepa Sita, will provide us with a financial and an operational review and Noel will conclude the presentation with a strategic update and outlook. We will then open it up to Q&A.

We ask that you please keep the questions pointed without long preambles so that we can get through as many questions as possible. Before we begin, I draw your attention to the forward-looking statement.

With that, I hand over to CEO, Noel Doyle. Thanks, Noel.

ND Thanks very much and thanks to all of you for taking the time to join us and listen to Deepa and I this morning.

Slide five – Current trading environment requires a consumer-focused approach, optimal supply chain and relentless cost containment

ND We're presenting in an environment where there have been plenty of challenges over the last 12 months, and I'm not going to dwell on those challenges, but I'll just call them out.

We saw, particularly in the first half of the year, significant compression in terms of consumer demand. As the lockdown has been released and the level of social interaction has improved, we've seen an improvement in the levels of consumer demand, particularly over the last three months in terms of the market overall.

We didn't see any great upsurge in demand with the renewal of the SRD grant. Of course, what's very topical at the moment is the challenges around the post-COVID-19 global supply chain squeeze, both in terms of the inflation that it's pumping into the system, as well as the challenges in terms of absolute supply and logistics.

Slide 6 – Well-known headwinds required management focus

If I move on to the other specific headwinds that Tiger Brands has had, quite clearly an event as significant as the product recall that we had in July was something that took quite a lot of management focus in terms of the lead up to the decision to do that recall and managing the logistics that came from it.

We also had to deal with both the specific incident over a couple of days in July of the civil unrest, as well as the challenges of getting back to operating. Particularly challenging for us was our Snacks & Treats and rice plants. In terms of rice, we were completely and utterly cleaned out of stock for a period of time. That obviously would have had an impact that isn't specifically captured in the numbers that we excluded, or that we showed as being specific to those challenges.

I think the other area that we would call out is the rest of Africa. Whilst the rest of Africa did perform better than last year, it performed significantly below our expectations. That wasn't helped by industrial action that we had in March/April at our Davita manufacturing plant, but it does talk to the longer, slower growth curve without any acquisitions in building a business on the continent.

Slide 7 – Despite challenges, steady progress achieved against strategic priorities aimed at improving performance & capitalising on growth

If I look at the big strategic drivers that we've spoken about in the past, I've colour coded these in terms of our own internal performance, and I think we're fairly hard in marking ourselves against these.

Meet the needs of the consumer. We still think there's lots of work to do there. But in the last six months we've been pleased that we've actually started to execute against value, specifically value-orientated innovations, and we've made some good progress there in our bakery business and our grocery business. If you look at our brand health, all of those metrics have been maintained, with the exception of one of our businesses, which was in Rice, where there's a little bit of a glitch in volume and we'll talk about that going forward.

In terms of our focus on delivering quality to the consumer, we're really pleased that our external consumer complaints numbers are down 25%. I think one of the things that we did get right this year was getting that price-volume mix a little bit more calibrated towards the middle of the scale.

We managed for the first time in a number of years, to grow our volume share. It did come at the expense of value share, but in terms of our own performance, it didn't come at the expense of our gross margins, where you see that we managed to move our gross margins up marginally at the same as we grew share.

Growth in share was despite some very specific challenges, particularly in the grains business, some of which is directly attributable to our own conscious decisions in the marketplace, and I'm talking there about rice, and some of it related to the challenges of the specific categories.

In terms of igniting our people, I think the processes that you'd expect in a company of our scale, and with our aspirations are very much in place. We were pretty comfortable with how we managed through the second and third waves from a looking after our people perspective.

I think the area where we still have work to do, and I'll talk about it a little bit later, is in terms of developing that can-do culture, a growth focus. Again, we'll talk a little bit about encouraging a little bit more risk taking and a little bit more bravery in setting out our stall on a growth agenda.

But in terms of building that growth pipeline, we've successfully embedded

revenue growth management in our Grocery businesses last year and expanded that into Snacks & Treats and Beverages this year, showing good progress and we're going to be rolling that out across the business. That takes us close to our customers, takes us closer to our shoppers and maximises value both for ourselves and for consumers in the long run.

We have made some very good momentum in our initiatives in the general trade where across a pretty large universe of stores we've managed to expand our SKU presence very significantly.

The disposal of UAC Foods in Nigeria was an important transaction for us in terms of our long-term aspirations. What that really does now is free up our unhindered participation in the Nigerian market and allows us to control our destiny entirely within our own hands. We're now not obliged to go through any specific vehicle in terms of going to market there.

We've done well, in terms of the venture capital fund that we launched in May, filtering through a massive array of opportunities that have been presented to us. We've made our first offer, still negotiating around that and hopefully by the time I come back to talk to you in May of next year, we'll have a lot more tangible things to talk about. Of course, we stay focused on the key consumer trends that will drive growth.

Where we think we've done well and I suppose this is part of Tiger's DNA, our obsession with cost savings and efficiencies and the work we've been doing in our supply chain in particular in the past year has paid off for us and it's allowed us to be a little bit more generous in terms of our pricing. Because you have seen our naked margins actually decline slightly, and it was the efficiencies that we were able to take out of conversion that allowed us to hold up the gross margin over that period of time.

Our OEEs, up 7% and we're going to look for a similar improvement next year. We've done that with a lot of on quality and safety and actually embedding our processes so that it's not a once-off impact. That's why we're quite confident in setting out our stall for next year that we will see some savings.

The work that we've done in the latter part of last year and of this year on logistics, resulted in us having a very clear road map ahead of us for the next two to three years. We are executing against the plans that we had put in place during the course of the F21 financial year, both in terms of customer service and in terms of cost savings and efficiencies.

We've also hit all of our targets in respect of overall cost savings and specifically savings in our MUVs. Those, as I've said, are quite critical in us being able to recognise our premium position, and to get price points that are more appealing to our consumers.

Slide 8 – Our Billion Rand Brands continue to rank highly on all metrics; making them relevant and resilient

As I said, when you look across our billion-rand brands, in terms of the metrics relative to where we were six months ago, we've had a couple of brands which have improved some of their rankings. The only brand where we've seen slight

movement was in Tastic, where our volume rank has slipped in the short-term from number one to number two.

Then what you'll really see is one of the things that we really worked hard on and struggled over the years, is to get closer to that sweet spot where we can get volume growth without significant degradation of margin across our categories, however it is a challenge and a category-by-category story.

Slide 9 – Volume share gains in the long-term supported by optimal pricing and more effective promotional activity achieved without margin sacrifice in aggregate

If you look here across the longer term (12 months), and the last quarter in more recent months, you'll see that in our basket we've been managing to grow share. Not necessarily at the same rate as all of our competitors, but having said that, we have not degraded the value-to-volume equation at the same rate as some of those competitors that have been growing volume.

The savings that we've been pulling out of the businesses have allowed us to grow market share without our gross margin going backwards. In fact, I'm sure Deepa will show you that we managed to marginally improve our gross margin despite very significant competitive pressures and pricing pressures, particularly in the grains and soft commodity businesses.

Slide 10 – Value share loss despite volume share gains represents attempts to price more effectively for market conditions while efficiency gains make it possible

You'll see that in terms of the value share loss, marginal value share loss against the volume share gain. Relative to the competitors that we've highlighted there, our value-to-volume index has not deteriorated at the same rate as theirs. We've been able to get that calibration closer to a sweet spot than in the past.

Slide 11 – Accelerating strategic execution while some initiatives are of a long-term nature

in terms of our scorecard against our key long-term strategic initiatives and we look at Meeting the needs of the Consumer, what we can see in terms of global best practice is a significant amount of benefit and differentiation being leveraged in that digital and direct marketing space.

This is probably the most significant area this year in terms of our level of disappointment in terms of our progress. We've got very specific plans to catch up in that space. It's not just about buying and tapping into tech, it's also about ensuring that you can find the right skill set and we've been making some progress in that.

In terms of the Health and Nutrition, I think we have launched and have in the pipeline products that tap into that narrative. We've made, some progress in respect of DOB opportunities, however not as much as we might have thought a year ago. I think that's a combination of some hesitancy on the part of the retailers, as well as in some ways being counterculture within the organisation.

But we expect to make some smaller, more incremental progress in this space. It

was never going to be a massive growth driver for us, but not as much progress as we originally anticipated.

I think I've covered what's happened in the Supply Chain. The real challenge now is to inculcate the progress that we've had over the last couple of years and make sure that it's not a once-off. But we're certainly getting a very good sense as we move into this year that we are being successful in terms of that.

We've amber carded ourselves in terms of the Customer Services and Logistics and that's really because we're still on the journey. I think we are where we would have expected to be at this stage and delivering against the targets that we achieved, but still some progress to go. The same thing in terms of just getting that focus on execution. There's still some work to do in parts of our portfolio.

In terms of Cost Savings, we have made very good progress this year, but there's still legs in that space, and we need that as we go into the super inflation, that we've been experiencing in this post-COVID supply chain scenario.

SKU rationalisation has played a role in the optimisation of our OEEs. It's got to play a more significant role going forward, but we have made good progress in the last year. Some of our growth has come out of the value solutions and executing against that.

From a customer perspective, I think the real call-out here is in terms of our Rest of Africa strategy. We are a little bit disappointed with our progress in terms of the precision with which we work with our distributors, and with which we ensure that we have all the right distributors in place. This is much more about us and less about the choice of distributors. However, we have invested heavily in terms of people in that space, and we expect further progress going forward.

Then the Igniting our People, we have all of the processes in place. We were quite pleased with the results that came out of our Voice of Tiger internal climate survey, given the backdrop against which the survey was conducted. But we've got more work to do to make people really believe in that mindset shift that drives growth and that understands that you can't grow without taking some risk.

In capex we're seeing very good delivery against replacement efficiency-based capex. Where we need more people to be a little bit more confident and more risk taking is in putting their names behind the growth opportunities that require significant capex. With that brief summary, I'll hand over to Deepa.

Slide 12 – Financial and operational review

DS Thank you, Noel. Good morning, ladies and gentlemen. Thanks for joining us this morning. I'll spend some time talking to you about the FY21 financial results and then we'll talk a little bit around where we are trading to date in terms of FY22.

Slide 13 – Despite slower revenue growth in H2; momentum maintained in cost saving initiatives and efficiencies

Let's start with the executive summary in terms of the highlights as well as the headwinds that we experienced in FY21. Despite the significant cost push, the business did see solid naked margin performance in H2 in most of the categories. As Noel indicated, this was largely driven by the procurement as well as the MUV

savings that we saw.

The business delivered on its cost savings target, as previously communicated, and this was driven through multiple continuous improvement initiatives. Also very favourable was the cash generated from operations. That increased by 34% to R3.9 billion while the group closed on a strong net cash position of R2.2 billion. This was largely driven by improved working capital management, particularly in terms of debtors collection which was improved on a year-on-year basis.

In terms of the headwinds that we experienced, as Noel indicated, we did see limited volume growth driven off price increases, that we've taken, as well as the competitive environment in which we're operating in.

The supply chain challenges that we experienced certainly were headwinds for the organisation. Some examples of those would be culinary following the recall, S&T and rice following the civil unrest that we experienced in July this year. Bakery saw adverse category dynamics with deep discounting in the market remaining very prevalent.

As Noel indicated, the exports performance was negatively impacted by muted demand, as well as margin compression with the LAF business in particular being impacted by the strengthening of the rand during the year.

Slide 14 – Improved top-line performance driven by inflation across the portfolio

In terms of our underlying performance, you'll note that the core business has certainly improved year on year. However, this was offset by once-off costs related to the canned vegetable recall, as well as the civil unrest that we saw in July.

The top-line performance is primarily driven by price increases with price inflation at 7%, which was partially offset by volume decline at 2%. The majority of the categories reflect price inflation to cover cost pushes, which resulted in volume decline, as Noel indicated earlier. This varied depending on competitor pricing, as well as just overall product elasticity.

Despite the revenue challenges though, our focus on cost savings as well improving production efficiencies resulted in positive operating leverage for the full year, and that was before the impact of the product recall and the civil unrest.

The effective tax rate before impairments, non-operational items and income from associates declined from 32% to 29.1%. This was largely driven by an increased benefit in respect of the special investment allowance claimed on qualifying capital projects during the current year, as well as lower non tax-deductible expenditure in the year.

In terms of the associate performance, while Carozzi performed well in terms of local currency, they were negatively impacted by the foreign exchange conversion. Also, just to point out, the equity accounting for UAC ceased on 1 September, as previously reported, following the disposal earlier on in the year.

In terms of earnings per share from continuing operations, that ended 21% ahead of prior year with headline earnings from continuing operations ending 6% behind the prior year as a consequence of the product recall, as well as the cost

associated with the civil unrest remaining in the HEPS calculation.

The relatively higher rates of increase in EPS compared to the year-on-year percentage changes in HEPS is primarily due to the significant impairment charges of R600 million recognised in the prior year. These impairment charges were excluded in the calculation of HEPS last year.

The increase in HEPS from total operations were primarily due to the losses recorded in the VAMP business in FY20 compared to a small profit recognised in the FY21 year. Just for information purposes, VAMP has been treated as discontinued operation in the current year.

In terms of the dividend, we are pleased to advise that the board has declared a final ordinary dividend of 506 cents per share, and this brings the total dividend for the year to 826 cents, which is 32% up from the prior year.

Slide 15 – Price inflation across all segments boosts revenue growth, despite slower H2

This slide reflects the H1, H2 performance in terms of price volume. You'll note that the financial year can be characterised as a year of two halves. The business delivered a solid first half performance, which was driven by a very strong first quarter. This was offset in part by the slower top-line growth that we noted in the second half.

The volume decline in the second half was largely driven by bread, groceries and snacks and treats, which will be covered in greater detail in the upcoming slides. Despite the slower revenue growth in H2, momentum was maintained in cost saving initiatives and efficiencies, in turn contributing to improved margin performance in the second half.

Slide 16 – Civil unrest & product recall impact revenue, cost of sales & expenses

As noted previously, Tiger Brands' results reflect steady progress against our strategic priorities with an improved underlying performance from the core business. This was, however, negated by the cost incurred as a result of the product recall, as well as the civil unrest. These costs in total amounted to R732 million pre-tax and have been accounted for as follows.

The customer refunds related to the product recall have been accounted for as a reduction in revenue. The write-off of stock related to the product recall which amounted to R308 million, as well as the civil unrest related to stock write-offs amounting to R85 million have been accounted for through cost of sales and these have been disclosed separately on the face of the income statement.

Other costs related to both the unrest as well as the product recall have been accounted for through the relevant expense functions in the income statement in the respective lines. In addition to these, the impairment charge in the current year amounting to R154 million relates primarily to the impairment of property, plant and equipment in the deciduous fruit business.

Slide 17 – Performance impacted by costs relating to civil unrest & product recall

This slide is aimed at reflecting the true trading performance, excluding the impact of the stock write-off related to the recall as well as the unrest. It's important to note that the civil unrest adjustment included in this slide relates only to the stock-related costs. Increased repairs, maintenance and security related costs as well as lost sale are estimated to be approximately R100 million.

What you'll note in this particular slide is that the operating income adjusted for the recall as well as the unrest moves from R2.2 billion to an amount of R3 billion, with the operating margin percentage moving from 7.2% up to 9.5% and both showing significant improvement on the prior year.

Slide 18 – Clear accountability matrix drives consistent cost management in line with guidance

In terms of the operating margin, this was enhanced by R498 million and that was specifically driven through OEE factory efficiencies, favourable MUVs, as well as procurement savings. This, unfortunately, was negatively impacted by the cost related to the civil unrest and product recall amounting to R732 million, as noted previously.

What's also pleasing to note, is that the savings that we've achieved during the year are in line with the target that was previously communicated and we're very confident that we'll see the same sort of delivery in the new financial year.

Slide 19 – Recovery across the portfolio while Milling & Baking and Exports face headwinds

While the recovery was noted across a number of the categories, milling and baking as well as exports did face some headwinds. The grains revenue increased by 5% to R14.6 billion, reflecting price inflation of 10%, while overall volume declined by 5%. Our ability to pass through some input cost inflation combined with cost savings resulted in operating income increasing by 11% to R1.4 billion.

As was the case in the first half, the Baby category results are disclosed under the Consumer Brands segments. The results were previously reflected under Home, Personal Care and Baby and the prior historical data has been restated for comparative purposes. The Consumer Brands portfolio delivered overall revenue growth of 4%, comprising price inflation of 7% and a reduction in volume of 3%.

The flat revenue performance in groceries was offset by year-on-year top-line growth in Snacks and Treats, Beverages, Baby, as well as Out-of-Home. The price inflation and significantly improved manufacturing efficiencies that we've spoken about previously, were the primary drivers for the operating income increasing 20% to R1.1 billion.

Overall, in HPC, an increase by 6% to R1.9 billion, and this was driven by sustained category leadership in the pesticides category, offset by a disappointing performance in the personal care category, which was reflective of the adverse consumer dynamics being faced in this particular category.

Total revenue for the Exports and International business increased by 7% to R3.6 billion and this was primarily driven by the strong start attributable to the resumed trade in Nigeria. Operating income for the year reduced by 7% to R96 million mainly as a result of the increased losses in deciduous fruit in this

particular category.

Slide 20 - Grains

If we move specifically into the Grains slide, in terms of the Grains performance overall, Milling and Baking experienced a challenging second half, driven predominantly by Bakeries and Sorghum-based products. Maize enjoyed a strong recovery in the second half. Despite the year-on-year volume decline primarily due to the increased in-home consumption in the prior year, margins did improve in the second half.

The wheat-to-bread value chain continues to experience margin compression because of adverse category dynamics, with deep discounting in the market remaining very prevalent. Higher selling prices were more than offset by the volume decline in this particular category.

The Sorghum-based products experienced a particularly difficult year as a result of higher conversion and distribution costs, which was compounded by lower sales volume as competition intensified.

Despite the impact of the civil unrest on the Rice business, its timely return to normal operations helped to ensure the category sustained its strong first half performance. As a result, the rice business delivered a strong year-on-year improvement, underpinned by higher selling prices, as well as sound cost management.

Following muted revenue growth in the first half, Pasta volumes benefited as consumers favoured the category in the second half. Improved demand coupled with strong in-store execution resulted in Fatti's & Moni's gaining market share during the year.

Although growth in the core oats offering was sustained in the second half due to a successful winter campaign, an adverse mix impacted Jungle's overall second half performance. However, despite this, Jungle did achieve a pleasing result for the full year performance. Looking ahead, the focus will be on delivering innovation, as well as further manufacturing and supply chain efficiencies in this particular category.

Slide 21 - Groceries

Moving on to the Groceries slide. Grocery sales were negatively impacted by a competitive trading environment, lower seasonal demand in the first half and unusually quiet trade over Easter. The supply chain challenges following the recall further impacted the performance during the financial year.

The full year revenue remains flat at R5.5 billion and this was underpinned by price inflation of 8% with a similar volume decline seen during the year. Consistent factory performances as well as expense management discipline resulted in operating income excluding the impact of the recall increasing by 12% to R397 million despite experiencing significant increases in raw material as well as packaging costs.

The All Gold tomato sauce kid-friendly bottle, as well as the Mrs Balls value bottle are examples of some of the successful renovations we've seen in this particular

division. In terms of the product recall, as previously reported, Tiger Brands' claim under the contract with the third-party supplier is still being assessed.

Looking forward, the focus will be on defending our market leading positions through marketing as well as innovation and continuing to drive manufacturing and supply chain efficiencies. The improvement of service levels also remains a key priority following the impact that we saw of the product recall.

Slide 22 – Snacks & Treats

Moving on to Snacks & Treats, production volumes within Snacks & Treats were adversely impacted by the COVID-19 related absenteeism that we saw in the beginning of the calendar year, as well as the civil unrest experienced in the second half of the year. These factors resulted in supply chain constraints as a result of both lost productions, as well as raw and packaging material shortages as we saw a number of our suppliers also impacted by the same civil unrest in July.

The adjusted lockdown measures implemented in July 2021 resulted in lower demand in respect of impulse purchases. Subdued shopper engagement relating to seasonal events, such as Easter, also further lead to slower revenue growth in the second half.

Despite these challenges, revenue for the year increased by 7% to R22.3 billion, underpinned by price inflation of 8% and an overall volume decline of 1%. Operating income saw a significant increase of 37% to R234 million, driven by higher realisations, together with the impact of ongoing cost improvement initiatives.

As in the case of Groceries, the focus of this category will be on improving service levels and to focus on continuous improvement aided by investment and a review in terms of supply chain solutions.

Slide 23 - Beverages

The Beverages category's revenue increased by 6% to R1.7 billion. This was supported by strong second half performance from ready-to-drink category as well as concentrates in the form of Oros. The operating income for this category increased by 9% to R261 million, benefiting from favourable product mix as well as improved factory efficiencies and sound cost management.

Also looking ahead, beverages has been identified as a high-growth category for the business. Our key focus will therefore be to expand our presence through strong innovation. In addition, as in the case with previous categories, there'll be continued focus on cost savings, as well as in OEE improvements overall.

Slide 24 - Baby The baby category delivered a very strong performance driven by recovery in volumes across most of the segments. Revenue increased by 12% to R1.1 billion, with equal price and volume growth. Operating income increased by 29% to R143 million, benefiting from a favourable product mix, waste reduction, as well as lower distribution costs.

Looking ahead in this particular category, the focus will be, amongst others, the consolidation of the Purity brand as the master brand, sustaining favourable

product mix supported by clear strategies per segment, as well as driving toddler snacking as a growth opportunity.

Slide 25 – Home and Personal Care

In terms of Home and Personal Care, certainly a mixed bag performance. Home Care saw a solid volume uplift which was underpinned by a strong summer campaign at the start of the year, which included benefits of effective in-store execution as well as innovation.

The performance was sustained in the second half with revenue growth ending 11% up. The operating income increased by 20%, driven by improved efficiencies, better material usage variances, as well as tight operating cost controls.

Personal care, however, although enjoying a recovery in operating income in the second half, it was not enough to offset the weak start to the year. The volatile category demand, together with the retailers prioritising essential categories during the civil unrest and thereafter, resulted in a volume reduction of 6% for the year.

Despite selling price inflation of 3%, the lower volumes resulted in revenue declining by 3% to R643 million. Operating income declined to R47 million from R79 million in the previous year. Looking ahead, the category will look to invest in capex to achieve continuous improvement in this particular site, as well as successfully drive various innovations during the year.

Slide 26 – Exports and International

In terms of our Export and International performance, the second half performance was negatively impacted for exports in particular by low levels of demand, compounded by pack size and price misalignment to market expectations. The border congestions which impacted the sales to Mozambique also affected the results.

The revenue in the Deciduous Fruit business declined by 6% due to a challenging second half performance, as demanding key export markets remained subdued. The business recorded an increased operating loss of R147 million, primarily due to the strengthening of the rand as noted previously, as well as higher global shipping costs.

Despite significant external headwinds, Chococam recorded an exceptional milestone this year with revenue exceeding R1 billion. That was primarily driven by strong volume growth across all segments, underpinned by a successful innovation, optimal pricing and improved distribution to neighbouring countries.

The operating income increased by 16% in rand terms to R172 million, which was an increase of 10% in local currency. This was assisted by improved efficiencies, as well as lower conversion costs. The focus for Exports and International will be to optimise product and country mix going forward, as well as to continue delivering on innovation opportunities in this particular space.

Slide 27 – Improved working capital dynamics and higher earnings resulted in strong cash generation

Moving on to the Balance Sheet metrics. In terms of our working capital dynamics, cash generated from operations, as I indicated, increased by 34% to R3.9 billion, thereby allowing the group to close on a strong net cash position of R2.2 billion.

In terms of Working Capital, while management continue to focus on managing Inventory days, total Stock did end R580 million higher than the prior year. It is, however, important to note that the inventory balances in FY20 did end particularly low due to the COVID-related factors that we experienced.

The business also took a very conscious decision in FY21 to increase inventory levels across the portfolio in anticipation of COVID as well as wage negotiation related supply chain disruptions. The debtors collection remained well controlled, and creditors continue to remain a focus area in terms of optimising supplier payments.

In terms of the return metrics, the improved ROIC and ROE was driven by the increase in earnings in the current year compared to the past. The ROIC excluding the recall and unrest is 15.3% for FY21. Despite improvements in the earnings year-on-year, RONA did see a dilution as a result of the increased capital expenditure noted in the current year.

Slide 28 – Total capex spend in line with guidance; focus on replacement and automation

As Noel indicated, in terms of total capital expenditure, this increased by 8% to an amount of R1 billion in FY21, with the focus being replacement capex amounting to R762 million in comparison to the R659 million in the prior year and the balance relating to multiple expansionary projects.

As previously noted, the business took a conscious decision to increase spend on IT as well as automation projects in the year. Of the 46 projects initiated, 20 have been completed and 15 of the remaining 26 are already in test or deployment phase.

Examples of some of these projects have been the Oracle EBS upgrade, improvement in terms of cybersecurity, financial consolidation tools, profit waterfall tools for the revenue management initiative that Noel mentioned earlier, as well as a mobile solution in terms of our Albany bread business.

The emphasis for FY21 capex remains on replacement, as well as automation. The larger projects include the relocation of the peanut butter plant, as well as improvements on the aerosol line in our HPC business.

Slide 29 – Sector challenges impacting FY22 start

That brings me to a close in terms of our FY21 results. I thought I'll take a minute to just maybe talk a little bit about what we're seeing in FY22 to date. In terms of FY22, at a macro level we've continued to see many challenges impacting consumer behaviour and demand. The competition has intensified, with PPI running ahead of food CPI.

The current environment is certainly here to stay and that has been something that we've noted in quarter one's performance to date. This will require us to remain consumer focused, continue to optimise our supply chain and be relentless on our

cost.

The first quarter of FY22 has been challenging with the business experiencing significant cost-push pressures, post-COVID supply chain squeeze impacting areas such as shipping and packaging costs, as well as general shipping delays being experienced overall. We've also seen the impact of the labour unrest and ultimately the bread market also continues to remain challenging overall in a very competitive environment.

Slide 30 – Drivers for FY22 improvement

With that being said, our drivers for the FY22 improvement will be hinged on reasonable revenue growth expectations at the core. This will be driven by volume growth underpinned by multiple planned innovations, as well as the export market improvement in terms of product and country mix.

We will also continue to focus on our cost saving initiatives, as well as factory performances and we've now put down another target of R480 million for the year in terms of driving these particular initiatives through strong, continuous improvement measures.

We would also seek to conclude the way forward in terms of the LAF business and that will also set us up in terms of success for the primary drivers for FY22. On that note, I'll hand over back to Noel to do the conclusion. Thank you, Noel.

Slide 31 – Strategic update and outlook

ND Thank you, Deepa. In looking at the numbers and a portfolio as broad as Tiger's, there'll often be areas where we need significant improvement. I would like to draw your attention to the performance of our grocery business, where not only did we show some growth this year on the prior year, but there's also significant growth if you go back to 2019. This is an indication of the work that's been done both in terms of supply chain within that business and also the work that's been done on the front-facing consumer and shopper perspective with innovations and real execution against price point architecture.

Whilst we can't wish away the very significant impact of the Koo cans recall, the performance of this business, notwithstanding that event, talks to the power of the brands that we are custodians of.

If I look forward, for us it's been pleasing that we managed to grow profitability by almost double digits in the second half. Even if you go back to 2019, the current year reflects growth on the second half of 2019, notwithstanding some of the specific category challenges that Deepa has called out that intensified in the second half of the year.

Slide 32 – Our strategic priorities remain; progress achieved this year will be the platform for short-term improvement & long-term growth

We're going to continue with our focus on the strategic themes. We know that we have to up our game in the areas that really talk about the growth in the top-line of the business. But I think in the higher inflationary environment that we're getting into and an environment where precise management of supply chain, precise management on inbound logistics is going to be quite important. The heavy lifting

that's been done over a number of years is going to pay off for us in terms of our ability to perform in a very challenging market.

You will see lots more focus from us in terms of accelerating innovation, and in driving revenue management so that we can have a win-win for the customer, consumer and shopper in terms of the effectiveness of our promotional spend. In terms of the supply chain, the team that have delivered that performance over the last couple of years are very committed to continuing the momentum in that space.

But in a business as large as Tiger's, we've got 41 manufacturing sites, there are always a few that need extra special attention. We're calling out very specifically our Snacks & Treats facility where we are putting in a significant amount of capex of some almost criminal supply chain issues. When I say supply chain issues, to have poor service levels is criminal in an environment like this with the pressurised consumers. We know there's demand for our brands and demand for our products in that space, we just have to get our act together to deliver against those.

When it comes to our sorghum-based products plant, it is really about management discipline and efficiency in that plant. And at Davita we've made good progress, we just need to carry it forward into the new year. We will continue to drive the cost savings and efficiencies.

We will need every cent to repeat the kind of performance that we've had this year and holding onto our gross margins because we can expect to see some naked margin compression. You can expect to see pricing pressure. The wave of inflation has come at a time when it's not always easy to pass on to customers, particularly in the run up to Christmas when pricing and promotion activity has been fixed for a period of time.

We're going to look at growth, both organic and inorganic. The performance of our Chococam business is a real call-out that it is possible to operate in a really challenging environment. Chococam, as Deepa said, had lots of challenges both in the domestic market and in the key export markets and I think with the right brands and the right management team it is possible to build a business and hitting the R1 billion was a major milestone for us.

I guess the key thing is to keep working on the DNA of the organisation such that we have people who really are hungry for top-line growth, hungry for success and who are prepared to put themselves and their own reputations on the line in stretching out of their safety zones so that we can actually build off a reasonably solid set of results, the abnormal items notwithstanding, and get on a serious growth trajectory going forward. With that I'll hand over to Nikki to take any questions.

Q&A

NCW **Thanks, Noel. Thanks, Deepa. Let's kick off with some margin questions, Deepa. Please can you talk to your outlook for margins and profitability in the coming year? Are you confident of sustaining gross and operating margin improvement at the group level on the FY21 base, excluding the impact of the product recall and social unrest? Which divisions will drive improvement, if any?**

DS Thanks for that, Nikki. As I indicated previously, the quarter one FY22 performance to date is certainly proving to be challenging. We are seeing significant pressure coming through from increased cost pushes, both in raw material as well as packaging.

With that being said, though, as indicated both in my section as well as Noel's, we continue to focus on cost saving and efficiency opportunities and initiatives in order to try and mitigate the impact of these increased cost pushes. Also, what we believe is that these benefits will allow us to be optimally priced, which in turn will certainly drive the volume delivery of each of the categories.

Another thing I'd like to call out is we also are at the mercy of the foreign exchange fluctuation, particularly in the deciduous fruit business. To give the market an indication, a 10% change in the USD in respect of that business results in a R5.3 million fluctuation in operating profit overall.

Also, some of the areas that we'll be focusing on is the roll out of the revenue management project throughout the organisation. We've completed the roll out in both the culinary (groceries) as well as the Snacks &Treats and Beverages business. Our focus during FY22 will be to run that out through the remainder of the categories, which we also believe will contribute towards our margin performance, as well as our overall profitability.

Areas that we'll be focusing on from a strategic point of view will certainly be our innovation pipeline. That will also allow us to drive the appropriate consumer needs or meeting the consumer needs at the appropriate price points, and we believe that will also contribute to our overall performance.

In terms of categories that we remain concerned on, as Noel indicated, the bread industry, the bread market certainly remains challenging in a very competitive discounting pricing market. That is one that we'll keep a close eye on, and we anticipate remaining challenging in the current year.

Focus areas in addition to the items that I've already spoken to, will certainly be exports and the rest of Africa. We'll be focusing on our product mix, we'll be focusing on our country mix and ensuring that we are meeting the needs of the consumer and are appropriately priced at the market level, as well as making sure from an innovation point of view, appropriate pack sizes.

We believe that overall, all of those items will certainly help in terms of margin management, as well as overall profitability. In terms of the focus, it will be throughout all categories, but like I said, we remain concerned in terms of the bread one particularly. I'm going to look to Noel to see if there's anything he'd like to maybe add on that.

ND No, I think you've covered it very well. Thanks, Deepa.

NCW **There were actually quite a few pointed questions around the wheat-to-bread value chain, which I think you've covered off, Deepa. But just to be sure, do you foresee deep discounting in the mill-bake value chain given industry capacity utilisation? What is TBS's view of Premier's spend of R400 million on its Gauteng bakery? Could it be said that wheat-to-bread value chain will remain pressured for a while?**

ND I think I can take that. I think undoubtedly the most challenged part of our business, and it has been for a number of years, is the wheat-to-bread value chain and I think that challenge in the short term is certainly accentuated by the massive increase in wheat prices.

Bringing new capacity on stream and looking aggressively to fill it is definitely coming at the cost of margin. We're seeing an intensification. I think we saw elements of or a degree of stability in the marketplace during the first three or four months of the past financial year but, now we're seeing very aggressive price competition is intensifying.

We've been quite cautious in terms of not overreacting to that, but the volume losses that Deepa referred to at the beginning of her presentation are not sustainable. And so, it's the business with the greatest risk for us in terms of profitability and margin going forward, no doubt about it.

NCW **Thank you. On the SKU rationalisation, how many are there currently and what target are you working towards? Apart from lowering prices to drive volumes, what are the main growth initiatives and specific product innovations for FY22? And what do you see as a sustainable margin in bread assuming current market dynamics? I think that was answered.**

Do you expect all of the cost savings to be absorbed into prices and have you identified further opportunities beyond FY22? Deepa, maybe you can talk to the cost saving.

DS Yes, I'll take the last one. Noel, do you want to take the first few?

ND Yes, you can go.

DS Let me maybe start with the last one. In terms of our cost saving initiatives beyond FY22, we're pleased to advise that we commenced an intensive programme towards the backend of FY21 which allows us to ensure that we have a continuous pipeline full of ideas that come through in terms of cost saving initiatives.

We're launching a programme called Every Tiger Counts throughout the organisation which really embeds a culture of cost sensitivity and really trying to drive from the top down a cost-conscious culture where we're able to come up with different ideas and continuously build this pipeline of ideas in terms of cost saving in a very systematic way in order to ensure that we have this done on a sustainable basis going forward.

While we've set the target to R480 million for FY22, we'll certainly be looking to increase those numbers going forward, not only from direct spend, but certainly from an indirect perspective as well. We think holistically if the entire organisation gets behind this, rallies behind this from a cultural point of view, cost culture point of view, we believe that we'll be in a good space to deliver.

NCW Apart from lowering prices to drive volumes, what are the main growth initiatives and specific product innovations for FY22?

ND Without wanting to telegraph some of what we're planning to do in the marketplace to our competitors, we can launch prospects. I think if you look across our portfolio, we've launched some nice innovations in the bread space this year. We expect to

see some good growth coming out of our Snacks & Treats business once we get our service levels to the level that we want to.

Good innovation coming out of our Personal Care business, our home care business and our beverage business. I think those will be big drivers for us in terms of new things coming to market. Also, we're expecting some recovery. We really had a very poor internal performance in our sorghum-based products business, so we're expecting a better performance out of there.

I think as we get towards the second half of the coming fiscal year, we should start to see some momentum in our exports business, particularly in Nigeria. We're very happy with the performance in Mozambique and think we can build on our offering in Mozambique. But Nigeria, we're still doing a lot of the legwork. But I think by the time we get to the second half we'll see growth in that space.

NCW **Can you please elaborate on some of the labour challenges? It seems the frequency of strikes are increasing, given the most recent strikes at your Snacks and Albany factories. Is this a higher risk than in previous years? And a similar question, how damaging will the current wage protests in KZN be on the business performance?**

ND You've got to keep in mind that we operate with 40 odd individual sites and we don't deal with one, two or three trade unions. I think we deal with a number of trade unions that's probably closer to 13 or 14 across our business. So, the annual round of wage negotiations is quite complex and quite challenging. We had one specific wage related strike in the past year, which was at Davita. So far we have one at the Snack & Treats business.

It's really coming from very excessive expectations from our perspective in terms of double-digit price increases, not the 7% that I saw reported in the press at Snacks & Treats and our desire to balance up our labour cost in terms of output and productivity. And it is a tough environment. You can see that inflation differs in each individual's basket, but with the kind of pressure that we're seeing on the CPI and particularly in the food space, we can understand that we're having some challenges.

The strike in KZN has been going on now for just over a week. We do have a meeting scheduled for Monday. The impact of it if it goes on much longer could be quite significant. But there, unfortunately, is no way that we can either at that site, it's one of the businesses that has performed poorly relative to the 2019 year, nor in terms of setting the precedent that we can even have a constructive conversation around a wage settlement that's double digit.

I don't think the environment is radically different from what we dealt with over the years. What has been disappointing is the illegal work stoppages that we've had at two of our bakeries and we must recognise that those are a reflection on management broadly when something like that happens, and also a reflection on a trade union movement that doesn't necessarily have complete control over its membership.

What was pleasing is that we've reached a very amicable settlement in terms of the annual negotiations well within the parameters and the guidelines that we've set for that at our facility in Pietermaritzburg, I anticipate, we still have some sites

where we haven't settled wages, there will be some tough bargaining and it probably is a little bit tougher than in previous years, but not radically so.

NCW **Thank you. Just maybe a little bit of colour on the Venture Capital Fund. Please could you provide colour on the business you're acquiring and the nine new businesses you are pursuing within the venture capital fund? Are these within South Africa or in Africa? Will the founders of these firms join the Tiger family?**

ND I'm going to ask Deepa to take that, but I just want to make the point that from a VC fund, it's not businesses that we would acquire, it's businesses that we would co-invest in to grow. I think that's an important differentiator of a VC fund.

DS Thanks for that, Noel. Thanks, Nikki. The VC fund has certainly been well received. We've received thousands of applications in terms of interested parties wanting to engage with Tiger Brands. Certainly, we're really pleased to see how well it's been received in the market.

I'm sure you can appreciate it takes quite a bit of time to work through each of the proposals and submissions that have come through. In terms of our commitment, we've just recently appointed a head, to head up the VC fund initiatives, etc., within our organisation and we look forward to her contribution going forward.

In terms of the investment that we're currently looking at, it is in the food industry. It is a product that we are not necessarily currently trading in and I'm sure you'll appreciate that at this point in time we'd prefer to rather keep that confidential in terms of the exact entity that we're engaging in.

But in essence we were quite excited about the discussions. It allows us to enter into a space that Tiger Brands is not currently playing in, but it certainly provides great opportunities for us to work with the entity going forward in order to really grow something sustainability.

NCW **Thanks, Deepa. Also, the opportunities that we are pursuing in the venture capital fund are strongly aligned to emerging trends, such as snacking, health and nutrition and value, so they will be strongly aligned with the consumer trends that are coming out of our insights.**

Are you considering a special dividend? Net cash is growing as cash generation is strong, and also maybe some guidance on leverage.

ND I'll take that one. I think you'll see that the dividend declaration is based on an adjusted HEPS. We've moved outside of the normal dividend cover calculation and that in itself is an indication of a recognition of the gearing or lack of gearing. I think that you will see further progress as we progress through the year in terms of balance sheet optimisation. That's really as much as we could say at this stage.

NCW Thanks. Can you comment on how the sale of LAF is progressing?

ND It's quite a difficult transaction, as you can imagine. You've seen the level of reported losses and the significant amount of working capital that's required by any acquirer. Whilst we're still in negotiations, I would say that progress has been less than what we would have hoped.

But we do understand that it is an entity that has challenges from a commercial perspective. And so, we will be continuing to make our best efforts to conclude a transaction in that respect and if we're not able to conclude one, then we'll be back at the board to talk about the future of that business.

NCW **Private label and brand interplay expectations in current tough environment, is this potentially an additional challenge for Tiger?**

ND It is a challenge that you'll see in certain categories, but it is quite interesting when one looks at the market. I think as we've seen, the branded manufacturers react to the constrained consumer environment. One of the losers in terms of the share data that we shared earlier is the private label space. I do think that that, however, is just a hiccup. In terms of our scenario planning, we see that as an ongoing incremental challenge and that's why we have to focus, if you like, in two directions.

We have to try and bring products that cannot be commoditised or copied, that present some barrier to entry that provide differentiation. At the same time, we're still a mass market portfolio by and large and we need to make sure that we can make our brands within reach of our consumers as opposed to having them take DOBs (private label). So, it remains a serious threat to all branded offerings in the market and we hopefully have got plans to respond to that.

I think this year is not the beginning of a trend. Two or three years ago we also saw a fairly static, in fact, slightly declining private label market and I think this year is an anomaly and the trend will continue going forward.

NCW **A couple of last questions. What mitigating initiatives is Tiger undertaking re energy disruptions and input costs? Please explain what steps Tiger is undertaking to procure cans from more reliable sources.**

ND As far as energy is concerned, virtually all of our sites have the ability to operate through the kind of disruption that we've been seeing from Eskom. We've invested in the region of R300 million, over this period since we started to experience loadshedding some years ago. And so, our sites are in a good position.

It's very difficult to mitigate the cost. Running our own generators comes at a massive on-cost and it's not something that we can move away from. We're also doing a large pilot solar project. We're going to see how that works for us in terms of operational effectiveness, not just from a savings perspective going forward.

Right now, we're not calling out Eskom for a significant disruption to our business, but it is a fairly heavy burden in terms of on-cost and in terms of managing the infrastructure that means that we're able to cater for power surges and that we don't end up with a disrupted production process if for some reason the switch over doesn't occur as seamlessly.

In terms of our cans procurement, we have a contract that's in place with our existing supplier which it's both of our intentions to honour. That whole space is something that is under constant review.

NCW I think in terms of that question it's important to underscore that there are not many can suppliers in the country and, also, given our volumes, it's a specific consideration. There are no specific questions for management, but just to close

the loop on a few other questions for everybody's benefit.

Would TBS consider divestitures of poor performing product lines? As we indicated in the prestation, SKU rationalisation is a strategic objective and although a number of SKUs will be discontinued in order to improve efficiencies in the factories, those are sometimes offset by innovations that are introduced.

ND We are certainly prepared to review our portfolio and not just in terms of SKU rationalisations, but we have indicated in the past, certain segments where we don't see high growth potential or where the returns on capital are not at the levels that we'd like. But it's not as if there's a long queue of prospective buyers coming to assess those assets.

There's nothing in the portfolio that we're bound to forever and we've spoken before about our maize business, for example. It's operationally intricately linked with the entire mill-bake business, but maize certainly remains a category where we will drive that business very hard, but if we had a good commercial proposition to exit, we would. So, I think it goes beyond the SKU rationalisation.

NCW **Thanks, Noel. Then just quickly, any feedback on the hedging pilot programme in the grains business?**

I think the active management of exposures through stop-losses has proved beneficial and we did improve our rate relative to the benchmark. But in terms of accessing derivative products such as options, those proved a little bit expensive as a result of the volatility. But certainly, the active management through stop-losses has proved beneficial. I don't know if you want to add to that.

DS Yes, that's it, Nikki.

ND Yes, and we have used some options in the course of this past financial year.

NCW Thank you everybody for your attendance. I think we covered off most of the questions, but I remain available to you should you want to update your model or need a little more detail.

NCW Thank you so much. Go well everybody. Bye.