Tiger Brands

Year-end results call transcript
20 November 2020

Nikki Catrakilis-Wagner – Investor Relations

Good morning Ladies and Gentlemen and welcome to Tiger Brands' year-end results presentation for the 12 months ended September 2020. The agenda for today is the same as every other results cycle, we will begin with Noel Doyle, CEO, who will provide an overview of the results. We will then move to CFO, Deepa Sita, who was appointed to the executive and the board on the 1st of October, so pretty new to the role and Deepa will provide a financial and operational review. She, will then hand over to Noel who will end the presentation with a strategic update and outlook, after which we will move to Q&A.

Before we begin, I draw your attention to the forward-looking statement and with that I hand over to Noel Doyle. Thanks Noel.

Noel Doyle – Chief Executive Officer

Good morning everybody and thank you very much for taking the time to listen to us take you through our results and some perspective perhaps on the go forward. I would just like to welcome Deepa as my right-hand woman as the CFO. Deepa's reward for being an extremely difficult person when she was on the other side of the table is that we went and fetched her to take the CFO role and I am sure she is going to be incredibly successful in that role and already in the short time that she has been here, she is making a great impact.

So, I am just going to cover a couple of points before Deepa takes you through the detail of the results. I guess first of all, in the context of what remains an extremely poor and disappointing set of results overall when we look at the full year, maybe to talk a little to what we have done over the last six months and to try and give you some sense in terms of what we have promised we are at least starting to hit some of those delivery metrics.

Slide 5 – Progress on key H2 deliverables

We spoke the last time about changing our operating model and getting structural realignment and despite the challenges of doing a major exercise like that virtually, or mostly virtually, we've managed to change our operating model to be more focused on category profitability, giving the MDs of the categories much more control of those profitability levers. And taking out some of the confusion around accountability that existed in the previous model.

We have also done a significant refresh if you like in terms of key category leadership. Since we last spoke, we have made some key appointments at MD-level. So, we have a new MD running our Groceries business, new MD running Snacks, Treats & Beverages; Rice and Pasta and Baby. And for me what is particularly pleasing is that all those appointments were internal appointments.

Therefore, I believe, with the model and with the changes we have made in terms of the people in the seats, that we are well positioned to execute against the things that we commit to.

Also, in the past six months we have managed to successfully and I suppose for many of you that is a relative term, but from our perspective to be able to bring that transaction to a conclusion and ensure that we preserved all of the jobs at those processing sites presents a measure of success. And that transaction, as you are aware, reached all the regulatory approvals and those sites are now firmly in the control of the purchaser.

We have also initiated a sale process for our Deciduous Fruit business and at the moment we are in the process of reviewing some non-binding offers that we have received. I think to set the expectations we are still a long way from concluding a transaction, but the process is well under way. Subsequent to year end we have managed to conclude a sale process of some of those tail-end brands in Personal Care and that transaction has been concluded and will be effective early in the new calendar year, probably the middle of February.

Slide 6 – Disappointing full year result while H2 performance shows signs of stabilisation despite Covid-19

So, if you look at our results from a full year perspective, certainly extremely disappointing for a set of results. There is no way of describing it as anything other than that. The environment I am not going to dwell on, we have covered that in previous communication. But certainly the second half, an already challenging environment was exacerbated by the Covid challenges and the direct costs that came with Covid, either in terms of absolute cash outlays or restraint or constraints on pricing as a consequence of the regulations. However, I think if you look at the second half and you take into account the challenges of Covid, whilst it is still disappointing that we weren't able to match or exceed last year's second half performance, we have put in a better relative performance in terms of the decline in profitability in the second half.

When you look at the impact of Covid, it is almost a tale of two businesses. You can see the higher margin businesses like Snacks, Treats & Beverages and Baby have certainly felt the significant impact of the lockdown and the changes in consumer behaviour. We did see particularly in the third quarter some good growth coming out of, I suppose what you would call, essential foods business and grains. But disappointingly despite, for example in rice, taking 20% price increase over the period as a consequence of commodity and currency moves, we still posted a significant loss in that period.

Overall, in terms of our response to Covid, we reasonably happy that we played our role from a much broader perspective in terms of being able to ensure continuity of supply. And ensure that there were no panic responses in respect of product availability and a lot of work has gone into ensuring that we could look after our employees in the depth of the crisis. Our employees on all levels came to the party in that initial lockdown period where the level of fear and uncertainty was at its highest, we managed to get 100% attendance at our essential plants. And I think that played a big role that was much broader than Tiger Brands. Of course, as the largest food company in the country, as you'd expect we significantly increased our food support to vulnerable communities during the crisis.

So, with that as introductory comments I will hand over to Deepa to take you through the detail of the numbers and some of the segmental operating performance.

Deepa Sita – Chief Financial Officer

Thank you very much for that Noel and thank you very much for that welcome. I am looking very forward to working with you, the exco and the board on what is an exciting strategy and turnaround plan for Tiger Brands.

Good morning everyone. In the interests of time this morning I will be focusing our attention on key items within each of the slides and Noel, obviously me being new to the busines, feel free to jump in if I do miss any of the key items.

Slide 8 – A disappointing full year results with continued margin compression

So, without further delay ladies and gentlemen, as Noel mentioned it is certainly a disappointing full year result with continued margin compression. The overall performance of the business was impacted by tough trading conditions, driven by reduced consumer spending, rising input costs as well as Covid-19 related costs which were manifested both in pricing regulation restrictions as well as safety protocol-related operating expenditure.

Revenue ended up 4% and that was largely driven by 6% price inflation. The total volume for the Group ended 2% down excluding VAMP, with nearly all categories reflecting negative volume growth. The price increases realised were insufficient to recover the cost push pressures we were seeing, which is reflective in both the gross margin and the operating income performance.

Supply chain efficiencies were also impacted by the implementation of various lockdown measures. While production was temporarily halted in four of our sites where several employees tested positive for Covid-19, as well as some disruption in the broader supply chain.

In terms of earnings per share from continuing operations, this decreased by 66% to 886 cents in comparison to last year's 2 617 cents. This was principally due to the fact that earnings in the previous financial year benefitted from the capital surplus of R2 billion relating to the fair value gain in relation to the unbundling of the company's interests in Oceana, including the capital profit realised on the disposal of the company's residual values in the Oceana business.

Headline earnings per share from continuing operations declined by 23% to 1 196 cents and the lower rate of decline in HEPS relative to the decrease in earnings per share is mainly due to the exclusion in the prior year of the aforementioned R 2 billion capital surplus as well as the cost of impairments after tax in both 2019 which amounted to R213 million and 2020 amounting to R547 million. Overall EPS from total operations decreased by 74% to 612 cents, while HEPS from total operations decreased by 29% to 940 cents.

Slide 9 – Deleverage at operating income level despite tight operating cost control

So moving onto the next slide, as we noted in the previous slide, while the business benefitted from being an essential service and from the increase in at-home consumption in some categories, a combination of regulatory and market pressures constrained our ability to recover costs thereby impacting on gross margin performance. Despite tight operating cost management there was still some deleverage at the operating income level. And this was mainly driven by a swing in the forex impact in the LAF business, in essence where we had a gain recognised in the prior year of R39 million in comparison to the R43 million total loss that we accounted for in the current year related to that business. We also had an impact in terms of the excise duty introduced in relation to Chococam earlier on in year. Furthermore, we were required to be prudent, in our provisioning for some of our rest of Africa exposure and this was particularly in light of the withdrawal of the CGIC

cover in Nigeria in particular. The reclassification of operating leases into short- and long-term lease liabilities in accordance with IFRS16 resulted in an increase of R28 million in net interest paid. While average debt levels during the year, predominantly in H1, had a further R31 million impact. This increase was partially offset by favourable movement of R31 million in foreign exchange gains compared to last year, as well as marginal increase in investment income which I will talk to later. In terms of income from associates I will talk to that in upcoming slides.

Moving on to the effective tax rate for the business, before abnormal items, impairment and the income from associates, this increased from 29,5% to 31% in the current year. This was largely due to lower pre-tax profits as well as reduced benefits we recognised in terms of special investment allowances from SARS.

Lastly just by way of information, Deli Foods and VAMP have been treated as discontinuing operations with the comparative information also being restated accordingly.

Slide 10 – Abnormal items adversely impacted profitability

So, the next slide we look at is pretty much self-explanatory where you will note that the abnormal items adversely impacted profitability in comparison to the prior year. The year-on-year movement is distorted by the fair value gain and unbundling of the investment in Oceana as mentioned previously as well as the sale of some residual shares.

Slide 11- Impairments recognised in Export businesses, UAC and Personal Care

Moving onto the next slide where we talk to the impairment, so most of you will recall that the impairments in respect of Personal Care and Davita business were reported at the half year. A decision was taken to further impair the investment in UAC by an amount of R43 million in comparison to the amount already recognised at half year amounting to R74,7 million in this regard. This was largely driven by the poor market outlook and the recent social unrest and protests in Nigeria in particular exacerbated by the adverse impact of Covid. This combined with the decline in earnings of UAC over the last two years prompted management to further impair the investment at year end.

Slide 12 – Income from associates supported by Carozzi and a reasonable trading performance from NFL

As mentioned, the income from associates declined by 5%. We saw a strong underlying performance from Carozzi, and a reasonable performance from NFL given the macro-economic headwinds experienced. It is important to note that the NFL results were boosted by the impact of inflation which was reported in line with IAS 29. And that would be the impact of hyper-inflation in particular.

UAC was impacted by Covid-19 related headwinds in Nigeria overlaid onto an already weakened economy. Important to note, the previous year includes three months of earnings from Oceana which was unbundled in April 2020.

Slide 13 – Covid-19 lockdown measure led to a mixed segmental result

Looking at the next slide where we will talk specifically to the Covid lockdown. Here we have a high-level performance overview overall performance segments. You will note there were definite winners in the portfolio as a consequence of the lockdown environment. However, these were largely in our low margin categories which were impacted by significantly higher raw material costs coming through.

As Noel mentioned in his intro, one such example was rice, where despite taking significant price increases, we unfortunately still incurred a significant amount of losses in the year. Higher margin categories were negatively affected by a change in consumer behaviour with reduced shopping occasions and the impact of lockdown on Out of Home consumption in particular.

Slide 14 – Revenue recovery in H2 supported by improved demand & operational performance

Moving onto the next slide, you will note that the first half recorded marginal revenue growth with all categories recording selling price inflation. H2 again saw results being driven by price with some recovery in volumes driven by increased at home consumption. So broadly speaking the level of price inflation reflects constrained consumer demand and the impact of pricing regulations across the basket. One obvious anomaly to note is in grains, where we had the impact of both the currency and commodity pricing on wheat and in rice, in particular. And as noted in the previous slide, even with 20% inflation in rice we still found ourselves incurring significant losses in the business.

Slide 15 – Profitability impacted across most of the portfolio

Onto the next slide we will discuss the profitability impacted in terms of most of the portfolio. So, profitability was impacted across most of this portfolio with cost push ahead of inflation in the domestic businesses as well as export challenges further resulting in reduced profits. As noted previously, Milling and other Grains benefitted from increased volumes, however this was offset by the inability to sufficiently recover pricing in terms of the cost push pressures we were experiencing. Sorghum was impacted by the closure of facilities in the early stages of lockdown, thereby impacting the recovery of our overheads. Categories such as Baby, Beverages and Snacks & Treats were impacted by reduced demand. Similarly, categories such as Personal Care saw reduced demand with consumers diverting spend to essential foods. The poor performance in our Out of Home category is certainly self-explanatory with most of this channel being closed for the major part of the year. Deciduous fruit was impacted in the latter part of H1 with the closure of export markets followed by the subsequent restrictions we experienced in the South African ports further impacting the H2 results.

Groceries and Home Care sustained their performance and realised Covid benefits and I'll cover that in more detail in the upcoming slides. Export was impacted by the issues in Nigeria, which are well known and mentioned previously.

Slide 16 – Headwinds as a result of Covid-19 impacting margin and operating profit

So as previously indicated the impact of indirect costs of Covid were significant to the business. With said costs shaving approximately 100 basis points off the operating margin. This was linked to pricing that was forfeited as a result of lockdown pricing regulations as well as costs associated with additional precautionary measures introduced to ensure the safety of our people and facilities overall. The impact of foregone price increases is estimated at R175 million for the three months ended June and a further R68 million for the three months ended September. This is significant when compared to the operating profit from continuing operations in the corresponding six months which in the previous year amounted to R1,4 billion.

Slide 17 - Grains

So, I would like to now spend a little bit of time in the categories and we will go through some of that in further detail. Starting off with Grains, the revenue of Grains increased by 5%, reflecting price inflation of 8% and an overall volume decline of 3%. The price realisation achieved however, was

insufficient to offset the impact of significantly higher raw material costs resulting in operating income declining by 14% and operating margin compressing by 200 basis points.

Revenue from Milling and Baking increased by 5%, with 8% price inflation across the segment and an overall volume decline of 3%. Operating income declined by 10%. The stabilisation of baking contributed towards a reasonable recovery in H2. Sorghum, however, as mentioned was impacted by Covid-19 while adverse competition dynamics persisted in Maize. The challenged cost recovery in Bread was offset by the market share gains experienced in that particular area.

In terms of other gains, this experienced meaningful recovery in the second half driven primarily by Jungle and Pasta. This recovery resulted in a year-on-year revenue for the overall segment increasing by 5% comprising price inflation of 7%, which was then partly offset by a volume decline of 2%. Volume declines were largely driven by Rice, which due to above-inflationary price increases caused by significantly higher raw material costs as previously mentioned. Pasta volumes on the other hand benefitted in the second half from increased at-home consumption supported by a marked improvement in our factory performance. Similarly, increased demand in the breakfast category resulted in an improved performance from Jungle.

Slide 18 - Groceries

Moving onto the next category in Groceries. Groceries revenue increased by 9% supported by volume growth of 4% and price inflation of 5%. Despite pricing constraints and supply chain challenges in the first half as well as packaging supply constraints in H2, profitability improved with operating profit increasing by 9% to R 354 million. This performance was assisted by a favourable product mix, optimal promotional activity as well as rigid control of the costs coming through. Just in terms of looking ahead in this category, the plant is being prioritised in terms of operational efficiency improvement and this will in turn be supported by planned capex projects of approximately R350 million in FY21.

Slide 19 – Snacks & Treats

The Snacks & Treats category, despite marginal recovery in the second half, revenue decreased by 5% largely driven by volume decline of 6%. Demand was adversely impacted across all segments due to the various lockdown stages and consumer spending diverted to essential items as noted previously. Reduced shopping occasions also adversely impacted the impulse purchases overall. The fulfilment of demand spike in quarter 4 however, was negatively impacted by our lack of sprint capacity in the chocolate category in particular. Operating income declined by 46% to R171 million as a result of lower volumes, factory under recoveries and higher expenses due to Covid-19 related costs. This business will also be supported through capex projects of approximately R110 million in FY21.

Slide 20 - Beverages

So, moving onto Beverages. The business was impacted by Covid-19 restrictions in the second half, with year-on-year revenue ending marginally up following reasonable growth in the first half. Operating income was adversely impacted by unprofitable product mix. The business saw a significant volume decline in Energade during lockdown while volume growth from margin dilutive concentrate was strong during the same period. Operating income was further impacted by higher conversion and distribution costs overall.

From a value perspective, the launch of the Brookes Crush brand into the general trade, opened a price point for us with traders that allow us to better access the value customer going forward. The

performance of this has delivered ahead of expectations and we are certainly excited about the offering that we have brought into the market.

In terms of Oros, the Oros flavour innovation also drove category growth and we hope that it will continue to do so in future. As in the case with Groceries, the plant is being prioritised in terms of operational efficiencies improvement and will also be supported by planned capex projects amounting to approximately R200 million in the FY21 year.

Slide 21 – Home, Personal & Baby Care (HPCB)

So, in terms of overall revenue in Home, Personal and Baby Care (HPCB), this increased by 5% due to sustained strong performance from the Home Care category. The strong volume uplift in Home Care was attributable to increase demand as well as effective in-store execution. While revenue for the year increased by 12%, the business was adversely affected by trading restrictions introduced in the early stages of lockdown, resulting on overall growth in operating income being depressed to an increase of only 5%. Personal Care enjoyed a strong overall recovery in the second half driven by a well-executed Ingram's winter campaign. Revenue for the full year increased by 3% on the back of 7% price inflation and a volume reduction of 4%. A weak first half together with Covid-19 related cost pressures in the second half resulted in lower profitability with operating income declining by 11%. Volumes across the Baby Care segment were affected by adverse demand dynamics during the various lockdown stages with revenue declining marginally by 1%. Operating income however fell sharply by 26% as a result of lower sales volume combined with overhead under recoveries as well as additional Covid-19 related costs. Strong innovation launches linked to brands such as Purity and Ingrams, amongst others, are expected to benefit this category in FY21.

Slide 22 – Exports and International

Lastly in terms of the detailed analysis we move into the Exports and International section. Total revenue for the Exports and International businesses increased by 4%. This was driven by an improved second half from our Cameroon business as well as better second half performance from Exports. Operating income however declined by 51%. The performance of the Exports segment was negatively affected by the ongoing trademark dispute with a former distributor in Nigeria. The subsequent resolution of this has resulted in the resumption of sales into Nigeria which has provided positive momentum growing into the new financial year. In addition, a rebound of our exports volume into Mozambique is evident after several years of underperformance as the new distribution model also gains traction. Chococam's performance during the year was muted in relation to its historically strong performances. A 7% decline in revenue in local currency was a consequence of lower volumes in a challenging macroenvironment, compounded by the effect of the Covid-19 pandemic. Revenue in rand terms increased by 4%, while operating income decreased by 14% again due to significant raw material cost pressure. The effect of lower volume throughput through the factory resulted in under recovery of overheads and a 5% excise duty as mentioned earlier in terms of gross sales which was introduced earlier on in the year.

Revenue in Deciduous Fruit business was largely unchanged due to an improved second half performance. Despite the recovery in revenue the business recorded an operating loss of R78 million in comparison to the R8 million recognised in the prior year. This was due to the negative effects of lockdown restrictions on certain export markets and Asia in particular as well as adverse foreign exchange movements in the current year.

Slide 23 – Solid working capital management in tough trading conditions

So, moving our focus now to the balance sheet and in particular our working capital. Despite the tough trading conditions, the business delivered a strong working capital performance with improvements coming through in debtors' days, through focus of strong collections. Creditors days also benefitted as a result of reduced raw material and packaging purchases which were linked to lower demands in selected categories. The reduction in inventory days further contributed towards the strong working capital performance albeit not necessarily by design. In effect we exited the year a little lower than we would have liked as a consequence of some of the Covid challenges experienced by both ourselves as well as some of our vendors.

Slide 24 – Full year dividend resumed plus special dividend

In terms of the dividend, despite overarching challenges that we faced in terms of profit, the balance sheet remains resilient and cash generation was relatively sound. To this end, the dividend was resumed with an ordinary final dividend of 537 cents per share being declared for the year ended 30 September 2020. This is in line with the group's dividend policy of 1.75 cover based on HEPS. In addition to this, given the company's healthy balance sheet and there being no imminent acquisition opportunities or exceptional capex requirements, the company has also declared a special dividend of 133 cents per share as a result of the once-off proceeds received from the disposal of its VAMP business.

Slide 25 – Disbursement ~R1 billion focused on replacement

On the capital expenditure side, while Covid-19 has certainly affected the capex execution in some areas, disbursement still amounted to approximately R1 billion with a material portion of this relating to replacement capex.

Slide 26 – Key focus areas

So, in conclusion as the incoming CFO, my key focus areas and priorities will certainly be centred around the medium to long term drivers of growth and efficiencies. Given the operating environment as well as our ability to compete, basically our ability to compete will be determined by our cost profile. To this end, a systemic and continued focus on costs while managing our working capital will best position us to achieve price points that are competitive as well as compelling to the consumer. To this end, I will therefore be looking to transition the systemic focus from short term to more sustainable cost management going forward. While our net working capital is well managed, I will seek to drive continued working capital optimisation over the medium term. As previously mentioned by Noel in prior announcements there are certainly opportunities in creditors all be, they are more difficult to achieve. As well as further reduction opportunities in raw material and packaging stock levels as our demand management process improves going forward.

While Tiger's exposure to foreign exchange is significant, our hedging policy is very simple wherein we secure cover as soon as the liability is incurred. To this end, I have noticed an opportunity to introduce more flexibility to forex exposure management through the use of items such as options etc. within the ambit of clearly defined risk parameters. As is well known, capex disbursement always comes in lower than guided and in this light, we have already initiated an improved capex approval process as well as execution process with the aim of expediting approvals and improving overall project delivery.

Finally, I will work closely with my exco colleagues to drive the assessment of category portfolio fit in the business. So, on that note I will hand over back to Noel to talk to the way forward. Thank you, Noel.

Noel Doyle

Slide 28 – The challenging environment & our new normal

Thanks very much Deepa. I will spend a few minutes focusing less on what's happened over the last year and the last six months and more on how we see the future. I am not going to go into a huge amount of detail around the challenging environment and the new normal, except again to re-emphasize in an economy where the consumer is under more pressure than ever before, we see that reflected in retailer strategies as well as consumer behaviours. And in order for us to perform in this environment we require ruthless attention to detail around our efficiency metrics. And those efficiency metrics don't just relate to supply chain metrics but also to effectiveness with which we use promotional money to drive both the top-line and bottom-line of the business.

Slide 29 – Tiger Brands at a critical inflection point

I know that shareholders and observers are incredibly sceptical and with fair reason of our ability to turn the business around. We recognise as a management team that Tiger Brands is at a critical inflection point. We know and the message is very clear to us that a much-improved performance in the current financial year (FY21) is non-negotiable. By performing in this period we hope we will restore some investor confidence in our ability to grow the business beyond a bounce back from a pretty dismal set of results and that we would receive the support required for a further, longer-term investment, creating a sustainable future for the business.

I believe what we have put in place over the last six months in terms of both the change in focus in terms of the operating structure as well as the people we have put into key positions, together with our recent appointment of a Growth Officer, dedicated to growing our business outside of South Africa. A guy called Anthony Mulinga, who has great experience in FMCG in East and West Africa, who will be based in Nairobi to drive that business. Internally from a management perspective we put in place almost all of the key building blocks that we require going forward and I also think if you look at the changes we have made to the board, in terms of the board refresh we have brought some hard-core FMCG experience onto the board.

We are very focused on managing this tightrope between short- and long-term performance. And so, we are going to resist the temptation over this period to just cut, cut, cut, deliver one and half years' worth of good results and then find that we run out of the growth trajectories. So, the business is going to continue in the next 12 months to invest in IT. We are going to put more money behind our brands, we are working on site optimisation projects, and in the recent reorganisation and restructuring we've been very focused on ensuring that we haven't cut our research and development innovation spend.

Slide 30 – Balancing short-term impact with long-term growth

So we have a dual-pronged approach for the next 12 months to stabilise the operational performance and we believe that if you take into account the impact of Covid, there were signs that we have been successful in stabilising the performance albeit off a low base in the second half of the year, by making sure we respond to the consumer and that we enhance our supply chain. We have identified five or six key sites that we have been very focused on for the last six months and we've

made significant progress on that. Going forward, within the supply chain, the next big piece of work on our agenda will be to review our logistics model.

At the same time, as I've said, we aren't going to save ourselves to growth in the long term and therefore, we are going to be very focused on trying to take the focus of the organisation as we get traction in the short term delivery, to looking outwards at growth opportunities, both organic and inorganic, following a clear line of sight of the emerging consumer trends.

Slide 31 – Immediate focus is to drive an improved performance of the current portfolio

The improved performance in the short term is really only built on our need to communicate more effectively the benefits of our current brands so that our consumers can understand the rationale behind paying a premium. We will continue with the innovation and renovation of those brands. We are pursuing, as we said previously, some private label opportunities. I don't think those are going to step change the profile of the organisation if we look at what we are currently pursuing, it probably amounts to an annualised R300 million worth of turnover, but it can still make a significant contribution if we can land those opportunities to the efficiencies in the business. And as I said, we will continue to work on investing behind our brands and looking at other channel opportunities particularly in the e-commerce space and enhancing our presence in general trade where we've run some pilots over the last few months and we now refining the model in that space.

Out of the supply chain we expect to deliver efficiencies, both from procurement and operational efficiencies, amounting to R500 million in the next 12 months. We have been deliberate in terms of the capital expenditure and whilst there were some Covid-related delays in rolling out some capex this year we are quite confident with the processes we put in place of spending significantly more next year. And as part of that we are making sure we enhance the use of digital technologies in our factories for real-time decision making.

Slide 32 – Respond to the consumer

In terms of responding to the consumer, we have spoken a lot over the last couple of years about some of these issues. And I hope that as we have more detailed interactions with you, we can go through some of the detail and give some sense that we are getting some of these issues done. In our Personal Care business we are seeing strong growth from Ingrams as we have expanded the range and going after value-orientated consumer we have launched the Brooke's Crush brand playing in the dairy fruit blend in the general trade and that has had a very successful launch. We are very clear and deliberate now around our strategy with the major e-tailers. Still some work to do on how we can find the best economic model to allow us break bulk in terms on that channel.

Slide 33 – Enhance the supply chain

Within the supply chain we have been very clear and deliberate around which plants are going to get the most level of attention. There's a lot more intense short-term interval management over a relatively short period, notwithstanding the challenges of Covid. In those sites we have identified we have managed to push our OEEs up 5% and we are ahead of the internal targets we have set ourselves. We work with better OEEs. OEEs are a function, amongst other things of lower breakdowns and breakdowns cost you a lot in terms of material usage variances, so we expect to have significant savings in material usages. In fact, we made some significant savings this year relative to the performance in the prior year. And our capex investment is not just going to be in our factories but, as I say, it is going to be in our IT platforms that will help us both with our interactions

with our customers through our customer-services logistics centre as well as real-time monitoring of our OEEs in our factories.

Slide 34 – Growth beyond turnaround

So, beyond the short term, we are working hard. The past year, I would say that, the focus within the categories has very much been on the short term, which wouldn't surprise you, given the scale of the challenge that are the results Deepa has taken you through. We have already started asking the MD's of the categories to lift their heads beyond the short term as we are developing a much higher level of confidence that we are driving those efficiencies and the performance that one would expect in the short term. We will be focused both on organic and inorganic growth. As I say on the inorganic growth side of things we recognise that our performance next year is going to be a performance that will hopefully give us a licence to look beyond the current portfolio and beyond the current geographies in terms of growth opportunities. And whilst we get our house in order, we are going to make sure we don't reach a point where we are ruthlessly efficient with what we've got, and we have run out of growth. So, we are going to start to build a pipeline in the inorganic growth space where we are prepared to look at models around joint ventures, a venture capital model, where we take smaller stakes in exciting high-growth opportunities. We will also look at the potential to add revenue streams from licencing our brands. All of those inorganic growth factors are underpinned by the need for value, a response to health and nutrition, the snacking occasion that we see growing, the growth in niche brands as well as a broader channel through which our products are sold.

Slide 35 – Immediate priority is to address commercial pressures

The immediate priority is quite clearly to deliver a better result in 2021. Again, the long term is very much the focus of this management team. We are about to go into our second century as a company and we hope to lead the company well into the second century in terms of a growth agenda.

Within the ESG pillar of our business we remain focused on health and nutrition. We have updated all of our nutritional standards and we are introducing clear and simple health claims. In terms of looking at livelihoods all the way in our value chain we have been working hard on our supplier and farmer development programmes, aggressively driving our preferential procurement agenda and to date we have invested against a target of R100 million by 2025. We have invested over R40 million in our Dipuno Enterprise and Supplier Development Fund. With some of the expertise we have brought on board in terms of driving environmental stewardship, both from the perspective of doing what's right but it is quite clear to us, doing what's right is also good for business and you'll expect to see us to continue to report progress in this space. There is a lot of work being done to make sure that we set ourselves targets that are both achievable and represents a real stretch for an organisation of our size.

Slide 36 – Drivers of an improved performance in FY21

I hope that in the discussions that we've had now and from the discussions going forward that you will get some sense at least of positive momentum. Perhaps not enough and you'll be waiting for the evidence when we talk to you again on a set of results next year, but from the perspective of the Tiger Brands board and exco team, we believe in the last few months we completed a lot of the groundwork. We have reorganised the business. We have put, we believe, most of the right people in place. There are still one or two key vacancies outstanding, the Grains growth officer for example. There is a focus on cost and efficiency in short-term interval management to make sure that doesn't run away with us. And what we have also done, we have been very careful and deliberate in terms of

the projects we have taken on board to ensure that those are prioritised, with the right balance between long and short term. But for now, the focus is very much a 70% short term delivery, 30% long term.

Hopefully as we evolve over the next three years, from an executive perspective, we can change that ratio to the inverse but for now we really need to be in a position where we've got the credibility to be believed when we talk about growth and sustainable growth going forward.

So, in the very short term if we look at the year ahead, we are only seven weeks into the new financial year, and so far, so good. We are showing positive momentum, although it really is very early days, and we have the peak of Black Friday and what happens post the Festive Season to come. But the signs are positive so far. There are some signs of a recovery in Rice and Pasta in particular, where they were quite challenged. Maize remains a challenge but not likely to remain a loss-maker in the portfolio. We are working really hard in the Groceries, Snacks, Treats and Beverages, and those are areas where we focus really hard on the back-end of the business and those are areas where we really need to get our brand premium to sustainable levels to drive volume growth. We did see a very good performance from Groceries in the second half. There is good momentum now in Exports and the Rest of Africa after the hiccup with the dispute with the distributor in Nigeria and the short-term shutdown of continental trade that came with the initial Covid lockdowns. We have made progress, although I would caution you, that there is a long road to go in terms of concluding any transaction in the Deciduous Fruit business. As I say I hope, as we progress through the year, and the team gets confidence to deliver in the short term, that we will start to see the organisation from the top all the way through to MD level start to lift their heads and focus beyond the short term horizons of the business.

So ladies and gentlemen, that is my perspective on where we are, and I look forward with Deepa and some of my other executive colleagues who are on the call to taking any specific questions you might like me to address.

Nikki Catrakilis-Wagner

Thanks Noel, Thanks Deepa. We will now move to any questions on the call.

Moderator

At this stage we have no questions on the line.

Nikki Catrakilis-Wagner

Q: Then I will move to the questions that were posted. Rowan Williams of Nitrogen Fund Managers, Will there be any stranded Head Office costs as a result of the sale of VAMP that will need to be absorbed by the rest of the business?

Noel Doyle

So, there are two parts to that question. Two parts to the answer. Losing VAMP has definitely resulted in the loss of a contribution towards the overhead costs. However, in anticipation of that, in looking at our centre costs, we have removed in the region of R130 million worth of costs in the centre. And that has resulted in us being able to budget on a zero-cost increase in the centre cost allocations to the other businesses.

Nikki Catrakilis-Wagner

Q: Carl Ganetsky from the Business Day. Good morning. Two questions. First for clarity. Inability to pass on cost due to price regulations is estimated at R243 million. If so, is this included within the R450 million, direct and indirect cost? Yes, it is. In addition, in the constrained environment, even as regulations ease, can you provide any general comment on your ability to pass on these costs given the constrained environment in the current year.

Noel Doyle

Thank you and first of all just to say we are not necessarily anticipating any short-term easing of the regulations, but we have had a lot of clarity in our discussions with both the regulators around that. We do anticipate the state of the consumer will mean that we are going to have to become more efficient, that's why looking at that R500 million cost-saving target it represents 1,5% of our turnover for next year and that is going to be invested mostly back into price to ensure we remain relevant with the consumer. I think your comment is valid, I think the greater constraint around passing through pricing will come from the consumer environment and not from the regulatory environment.

Nikki Catrakilis-Wagner

Q: Thank you. Paul Steegers, Bank of America Merrill Lynch. Please can you talk to the outlook for your Grains margin. Do you see improvement in operating margin for FY21 or will raw material headwinds remain a drag?

Noel Doyle

At this stage it is difficult to provide any specific guidance. What I would say in terms of the Grains business, there certainly is pressure in the raw material costs but we do anticipate that we will make a recovery in our Rice business and we would also hope that our Sorghum beverage business which was negatively impacted by actual forced shutdowns of the sites that those will be positive and there are good indications at this stage that the bread margins have bottomed out so overall we would be hopeful that we can move the Grains margins upwards over the next 12months.

Nikki Catrakilis-Wagner

Q: Thank you. Danesh Ranchod, Franklin Templeton. Hi. Do you have any update on the Private Label potential you mentioned some time ago? I think we provided an update in the presentation in terms of the categories that we are targeting. Any progress on the Africa portfolio review?

Noel Doyle

So, in terms of the portfolio review for Rest of Africa, we have managed to exit Deli Foods and we are on the verge of selling the site and assets of that business. Hopefully we'll close off that transaction before Christmas. That really leaves us with Chococam which has performed successfully over the years and UAC Foods in Nigeria. UAC Foods has some big decisions to make. The next time we talk to you we will probably be in a position to provide clarity around the future of UAC Foods. I think if you look at what our Africa strategy has been, and we are going to continue pursuing it. We have spent the last couple of years consolidating, working off an export-based model, trying to build a better network of distributors which we think we have done successfully, in terms of route to market, very good recovery in the last year in Mozambique, we expect a good set of results out of Nigeria next year. Having now appointed that dedicated resource based in Nairobi, sitting on the Tiger exco and reporting to myself, we expect to make further good progress in terms of our existing

model and potentially, cautiously, identifying other opportunities for growth and other opportunities for sourcing in the various free trade agreement areas that exist on the continent.

Nikki Catrakilis-Wagner

Q: Thank you. Shaun Bruyns, Mazi Asset Management. Please can you elaborate on the logistics model review. Does this mean you are looking at in-sourcing all or part?

Noel Doyle

It is highly unlikely Shaun that we will in-source, but we are looking at whether or not we can do it more effectively with a different model, with either one or a collection of players in that space. And we expect that we would have a pretty good picture of that before we speak to you at the interim stage.

Nikki Catrakilis-Wagner

Q: Jatin Bechoo, Avior. Can you add colour to the nature of IT investments?

Noel Doyle

The IT investments that we are making are predominantly in support of operational efficiency. A central customer services logistics centre that can automatically track and match all incoming orders at a group level as we've moved to a consolidated distribution, regional centralised networks. That is a key for us. We are also focusing on operational efficiency, and the measurement of operational efficiency automatically at plant level. The other big, long overdue area an overhaul of our financial consolidation model, which again will help us with faster, real-time information. Most of that spend is really going into supporting the operations. There is a new time and attendance model and one Tiger payroll. Currently we work off three payroll systems. We are now going to work off one payroll system with enhanced reporting around areas such as overtime.

Nikki Catrakilis-Wagner

Q: Shaun Chauke, HSBC. Given the increase to online penetration, will Tiger Brands consider selling directly to consumers. In terms of cost-saving initiatives what is the target for FY21. That was included in the presentation at R 0,5 billion. But Noel, maybe you can elaborate on the online.

Noel Doyle

In respect of online, we certainly are focusing on that beyond our conventional retailers. It's still a small fraction of our turnover but is growing quite quickly. Where there is data available, we can see that we are getting more than our fair share through the traditional retailers e-tailing channels. Going direct to consumer, there are two challenges. There is a very real operational challenge of getting down efficiently, one to the pack consideration that a consumer wants particularly if its single items and the expense of going that last few hundred metres to the consumers' home. That is the first issue that we are coming to terms with. And I think we are going to deal much more through that with people who already have some competency in that space. Going direct to the consumer also involves the challenge of competing potentially with your own customers. That is something one needs to consider carefully. What I can say without giving you the detail of the category we are in the process of putting a pilot together. When I say putting a pilot together, we are doing a pilot direct to consumer on one of our categories and again, we should be in a position to report back on the success or otherwise of that and the learnings which may then drive us into an expansion of that model (or not) depending on how it works out.

Nikki Catrakilis-Wagner

Q: A follow up from Jatin. Can you explain how you will improve demand management and how this relates to input cost optimisation?

Noel Doyle

In terms of the demand management side, there are two elements. In terms of the cost optimisation, one is the quality of the forecasting, another area where we have invested from an IT perspective. So obviously the quality of forecasting optimises your production runs, minimises, if you get it right, your working capital investment and that obviously is quite positive. But our understanding has been significantly enhanced. We spent a lot of money some years ago putting in place a tool to measure promotional effectiveness and we have been making consistent progress in terms of our promotional effectiveness and our understanding of what promotions, with which customers, on which products, in which times of the month work for us. We are still far from the optimal, but we are starting to use that data to make investment decisions. Whilst it may not result in a cost reduction in terms of promotional spend it should result in us being more efficient in that regard.

Nikki Catrakilis-Wagner

Q: Thank you. A follow up from Shaun at Mazi. In terms of the capex in Beverages, is it targeting DFBs and what gives you confidence that you can win in that segment given your costs of distribution and your supply chain?

Noel Doyle

The capex we are putting in place is mostly geared towards being able to supply anticipated growth in the balance of our concentrates business. Our ability to compete in the DFB market, we believe we have a very good brand proposition and a very good product at a good price point. So, it's got a good consumer proposition and we have been very happy with its results in the initial launch phase.

Nikki Catrakilis-Wagner

Q: This is a follow up from Shaun. An update on the Maize business which you indicated was earmarked for exit.

Noel Doyle

We didn't specifically say 'exit'. We said we were going to engage with some interested parties. I can confirm that the Maize business remains under review. We do have engagement ongoing with one particular party. It's a very complex business because of the supply chain linkage to the Randfontein wheat mill that we need to unbolt. So, again no significant progress yet to report on that business. But what is positive is that the Maize team have responded well to the challenge of reversing some of the misfortunes in terms of the financial results of that business. I think we are quite confident that we will keep that business above break even for the next 12 months.

Nikki Catrakilis-Wagner

Q: There are no further questions on the call and a lot of the questions posed on the chat have been answered and I will get back to analysts who had very specific questions in terms of some of the costs. If you would like to make some closing remarks Noel.

Closing remarks

Noel Doyle

It is really just to say thank you for the time and to re-iterate the fact that we understand the scepticism and that the team is geared and the business is geared to reverse the trend of declining profitability. “There is many a slip ‘twixt the cup and the lip” and there are a lot of variables between now and next September but the internal and external momentum for the business so far is positive although it is very early days in the new financial year. Thank you.

Nikki Catrakilis-Wagner

Thank you all for your participation.

[Ends]