CAXTON & CTP publishers & printers LIMITED

REVIEWED RESULTS FOR THE YEAR ENDED 30 JUNE 2021

PROVISIONAL CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

R'000	% change	Reviewed for the year ended 30 June 2021	Audited for the year ended 30 June 2020
Revenue	(6,3)	5 220 415	5 572 359
Other operating income		138 811	137 363
Total operating income		5 359 226	5 709 722
Changes in inventories of finished goods and work in progress		(81 194)	(43 531)
Raw materials and consumables used		(2 627 287)	(2 564 013)
Staff costs		(1 163 495)	(1 412 207)
Other operating expenses		(923 390)	(1 339 670)
Total operating expenses	(10,5)	(4 795 366)	(5 359 421)
Profit from operating activities before depreciation and amortisation	61,0	563 860	350 301
Depreciation and amortisation		(253 424)	(298 399)
Profit from operating activities after depreciation and amortisation		310 436	51 902
Impairment of goodwill		(9 720)	(47 686)
Profit on disposal of associate		399 692	–
Loss on deemed disposal of associate on gain of control		(10 461)	(5 293)
Profit on disposal of investment		10 455	–
Impairment of investments		(3 159)	(29 011)
Impairment of loans		(17 315)	(70 074)
Impairment of plant		(64 746)	(84 033)
Profit/(loss) from operating activities		615 182	(184 195)
Net finance income		86 465	147 092
– dividends		45 181	63 902
– interest income		42 633	62 962
– interest expense		(4 977)	(3 116)
– deemed interest on loans to directors		–	25 391
– income/(loss) on foreign exchange		3 628	(2 047)
Income/(loss) from associates		37 676	(9 696)
Profit/(loss) before taxation		739 323	(46 799)
Taxation		(173 399)	(17 268)
Profit/(loss) for the year		565 924	(64 067)
Other comprehensive income:			
Items that will be not be reclassified subsequently to profit or loss			
Fair value adjustment – investments and preference shares		636 647	(96 495)
Total comprehensive income/(loss) for the year		1 202 571	(160 562)
Total comprehensive income/(loss) attributable to			
Non-controlling interests		15 170	(7 379)
Equity holders of the parent		1 187 401	(153 183)
		1 202 571	(160 562)
Profit/(loss) attributable to			
Non-controlling interests		15 170	(7 379)
Equity holders of the parent		550 755	(56 688)
		565 925	(64 067)
Earnings/(loss) and diluted earnings/(loss) per ordinary share (cents)		148,1	(14,8)
Headline earnings and diluted headline earnings per ordinary share (cents)	255.7	75,4	21,2
Ordinary dividend paid per share in respect of the previous year (cents)		–	60
Preference dividend paid per share in respect of the previous year (cents)		–	490
Weighted average number of shares in issue		371 786 576	382 888 967
Reconciliation between earnings and headline earnings			
Earnings/(loss) attributable to equity holders of the parent		550 755	(56 688)
Adjustments		(270 376)	138 012
Impairment of goodwill		9 720	47 686
Profit on disposal of associate		(399 692)	–
Profit on disposal of investment		(10 455)	–
Loss on deemed disposal of associate on gain of control		10 461	5 293
Impairment of investments		3 159	29 011
Impairment of plant		64 746	84 033
Profit on disposal of property, plant and equipment		(34 153)	(4 578)
Tax effect on above adjustments		85 838	(23 433)
Headline earnings		280 379	81 324

PROVISIONAL CONDENSED SEGMENTAL ANALYSIS

	Reviewed for the year ended 30 June 2021	%	Audited for the year ended 30 June 2020	%
Revenue				
Publishing, printing and distribution	2 924 044	56	3 350 063	60
Packaging and stationery	2 296 371	44	2 194 582	39
Other	–		27 714	1
	5 220 415	100	5 572 359	100
Profit from operating activities before depreciation and amortisation				
Publishing, printing and distribution	336 227	60	110 704	32
Packaging and stationery	275 286	49	246 778	70
Other	(47 653)	(9)	(7 181)	(2)
	563 860	100	350 301	100
Profit from operating activities after depreciation and amortisation				
Publishing, printing and distribution	197 607	63	(56 060)	(108)
Packaging and stationery	176 041	57	138 504	267
Other	(63 212)	(20)	(30 542)	(59)
	310 436	100	51 902	100
Total assets				
Printing, Publishing and distribution	2 131 371	26	2 092 653	32
Packaging and stationery	1 542 240	19	1 489 617	23
Other	4 485 605	55	2 926 922	45
	8 159 216	100	6 509 192	100
Total liabilities				
Printing, Publishing and distribution	711 511	41	571 948	46
Packaging	501 938	29	413 724	33
Other	508 585	30	256 943	21
	1 722 034	100	1 242 615	100

PROVISIONAL CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	Reviewed as at 30 June 2021	Audited as at 30 June 2020
ASSETS		
Non-current assets		
Property, plant and equipment	2 365 541	2 253 612
Right-of-use assets	20 647	13 908
Intangible assets	34 172	37 454
Goodwill	85 067	85 067
Interest in associates	142 278	284 037
Investments	1 417 347	149 476
– Listed ordinary shares	1 300 187	44 208
– Unlisted ordinary shares	68 543	58 088
– Listed preference shares	48 617	47 180
Deferred taxation	43 858	66 062
	4 108 910	2 889 616
Current assets		
Inventories	984 793	1 009 668
Trade and other receivables	999 982	849 591
Taxation	75 885	17 037
Cash	1 089 646	843 280
Cash equivalents – unlisted preference shares	900 000	900 000
	4 050 306	3 619 576
Total assets	8 159 216	6 509 192
EQUITY AND LIABILITIES		
Equity		
Equity attributable to owners of the parent	6 359 892	5 228 802
Preference share capital	100	100
Non-controlling interest	77 190	37 675
Total equity	6 437 182	5 266 577
Non-current liabilities		
Lease liabilities	12 373	10 621
Deferred taxation	453 487	330 589
	465 860	341 210
Current liabilities		
Trade and other payables	839 742	661 854
Lease liabilities	9 133	4 495
Provisions	305 774	207 924
Taxation	101 525	27 132
	1 256 174	901 405
Total equity and liabilities	8 159 216	6 509 192
Net asset value per share (cents)	1 717	1 384
Capital expenditure	(182 745)	(151 308)
Capital expenditure committed	130 000	70 000

PROVISIONAL CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Reviewed as at 30 June 2021	Audited as at 30 June 2020
Balance at beginning of year	5 266 577	5 844 125
Total comprehensive income for the year	1 202 571	(160 562)
Own shares acquired	(56 310)	(126 148)
Non-controlling interest acquired	31 013	(47 155)
Dividends paid – ordinary and preference shareholders	-	(243 683)
Dividends paid – non-controlling interest	(6 669)	–
Balance at end of year	6 437 182	5 266 577

Notes:

Acquisition of subsidiary

To extract synergies in the educational book printing market, the group acquired an additional investment in Shumani Mills Proprietary Limited with effect from 1 November 2020, which together with the interest already held resulted in control being gained in the subsidiary. This transaction was accounted for as a business combination with effect from this date. The acquired business contributed revenue of R84.0 million and a net loss after tax of R16.7 million. The acquired business would have contributed revenue of R122.2 million and a net loss after tax of R12.2 million had the group acquired this business for the full year. As at the reporting date, the group holds 63.1% interest.

The excess of the consideration over the net assets acquired has been allocated to goodwill.

Details of the assets and liabilities acquired are:	
Non-current assets	58 904
Current assets	34 040
Non-current liabilities	(23 912)
Current liabilities	(22 880)
Cash and cash equivalents	12 832
Total net assets	58 984
Attributable to non-controlling interest	(30 930)
Net assets acquired	28 054
Fair value of previously held interest	(35 774)
Goodwill arising on acquisition	9 720
Purchase Price	2 000

Goodwill of R9.7 million was impaired at year-end after applying the required test for impairment.

Investments are classified as at fair value through other comprehensive income

Equity price risk refers to the risk that the fair value of the future cash flows of the listed investments will fluctuate because of changes in market prices.

The group's at fair value through other comprehensive income financial assets are valued using fair market values at 30 June 2021.

Fair value estimation

The investments are valued at fair value at the reporting date using the following hierarchy.

Level 1 – Quoted prices available in active markets for identical assets or liabilities.

Level 3 – Fair value determined by valuation that uses inputs that are not based on observable market data.

The level of each investment is determined as follows:
– The listed investments are Level 1
– The unlisted investment is Level 3

For the Level 3 valuation of the investment a discounted cash flow model was applied using cash flow forecasts for five years and an extrapolation of expected cash flows using a long-term growth rate, with the following key assumptions applied by management. Long-term growth rate of 3.9% (2020: 1%) and a discount rate of 17.76% (2020: 20.6%).

PROVISIONAL CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Reviewed for the year ended 30 June 2021	Audited for the year ended 30 June 2020
CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated by operations	619 078	329 255
Changes in working capital	53 618	161 183
Cash generated by operating activities	672 696	490 438
Taxation paid	(104 441)	(78 044)
Cash inflow from operating activities	568 255	412 394
CASH FLOW FROM INVESTING ACTIVITES		
Property, plant, equipment and intangibles		
– additions to maintain operations	(98 866)	(90 987)
– additions to expand operations	(83 879)	(60 321)
– proceeds from disposals	81 285	18 652
	(101 460)	(132 656)
Investments		
Associate investments	4 536	(34 331)
	347 836	–
Proceeds on disposal of associate investment	442 240	–
Capital gains tax on disposal of associate investment	(94 404)	–
Associate loans repaid	67 560	(326)
Listed investments	(659 095)	(13 661)
Subsidiary acquired net of cash	10 832	–
Interest received	42 633	62 962
Loans to directors repaid	–	114 000
Dividends received	45 181	63 902
	(140 517)	192 546
Cash flow from investing activities	(241 977)	59 890
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid	(6 669)	(243 683)
Acquisition of non-controlling interest	–	(47 155)
Interest paid	(4 977)	(3 116)
Principal paid on lease liabilities	(11 956)	(6 552)
Own shares acquired	(56 310)	(126 148)
Cash flow from financing activities	(79 912)	(426 654)
Net increase in cash and cash equivalents	246 366	45 630
Cash and cash equivalents at beginning of year	1 743 280	1 697 650
Cash and cash equivalents at end of year	1 989 646	1 743 280

COMMENTARY

Basis of Preparation

The provisional condensed consolidated financial statements for the year ended 30 June 2021 have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the Financial Reporting Pronouncement as issued by the Financial Reporting Standards Council (FRSC), the requirements of IAS 34 (Interim Financial Reporting), the requirements of the South African Companies Act and the Listings Requirements of the Johannesburg Stock Exchange.

Significant accounting policies

The significant accounting policies applied in preparing these provisional condensed consolidated financial statements are consistent with those applied in the consolidated financial statements in the prior year.

FINANCIAL PERFORMANCE

The Caxton group has proved its resilience with a largely restored full year performance notwithstanding the effects of the pandemic that are still being felt across all sectors of the business. Financial discipline, excellent cost management, huge efforts by our staff, commitment to our customers and well-timed strategic decisions have all contributed to this recovery.

Earnings

The group has delivered an excellent recovery in profit from operating activities as follows:

- Profit before depreciation and amotisation increased by **R213.6 million (61.0%)** to **R563.9 million** compared to R350.3 million in the prior year.
- Depreciation and amortisation absorbed R253.4 million compared to R298.4 million in the prior year; and
- Profit after depreciation and amotisation increased fivefold by **R258.5 million** to **R310.4 million** compared to R51.9 million in the prior year.

Although this growth is off the depressed 30 June 2020 results, which were severely impacted by the pandemic, the encouraging feature is that operating profit has recovered to near pre-pandemic levels. Notwithstanding that the pandemic has continued to constrain operations for the whole reporting period. The effect of the COVID-19 pandemic and the consequential lock-downs cannot be overestimated, but the health protocols implemented in our factories and offices have meant that from an operational perspective, the group was able to conduct business activities with minimal interruption. Having said this, the year was affected by massive disruptions to national economic activity and customer/consumer demand as a result of the lockdown regulations which had a profound effect in our local newspaper business, commercial printing operations and to a lesser extent, in our packaging businesses.

The improved demand during the second half of the financial year, as restrictions on economic activity were partially eased, and much-reduced cost structure in many of our operations, had a positive impact on profitability. In addition, the closure of loss-making divisions, particularly the magazine publishing and distribution have been earnings enhancing.

It is encouraging to note that operating profit in the group's commercial printing and packaging operations exceeded the levels of the pre-pandemic years and this was achieved on reduced revenues, which bodes well for the future when revenues normalise. The newspaper operations experienced a tougher environment in which to recover and these operations are still trading significantly below pre-pandemic levels but above the prior year. The management in these divisions have taken action to reduce the cost base, in the face of a more difficult return to normal revenues.

Revenue

Revenues declined by only R351.9 million (6.3%), in spite of the closure of operations which contributed R460.0 million of revenue in the prior year. The continuing operations saw a reversal of the half year trend to December 2020 (a decline of R387.7 million or 12.5%) and ended the year R108.1 million (2.1%) up on the prior year, as the second half of the financial year reflected improving demand. However, these operations are still not generating the same levels of revenue as before the pandemic. This is attributable mainly to our newspaper business where local advertising revenues continue to be depressed. Whilst national advertising showed a much stronger trend, but is also still trading below pre-pandemic levels. The group's commercial printing and packaging revenues have fortunately seen a robust recovery and they are likely to soon return to normalised pre-pandemic levels.

Costs

Raw material input prices were a tale of two halves – in the second half of the year global supply tightened significantly and this was further exacerbated by constrained container supply and increased shipping costs. This manifested itself in large price increases of commercial grades of paper and packaging materials. Although excellent work was done, towards the end of 2020, in finalising contractual supplies of paper at competitive pricing, the current constrained global supply and increased shipping costs has meant these prices have started to escalate in the last six months. It is obvious that the industry is faced with unprecedented input cost increases that are expected to continue for the immediate future and will necessitate a need to pass these increases on to customers in the next pricing review window.

The group continues to manage its cost base well with staff costs and other operating expenses respectively ending the year R248.7 million (17.6%) and R416.3 million (31.1%) below the prior year. Obviously, the closure of operations played an important role, but excluding these businesses, staff costs and operating expenses respectively ended R91 million (7.3%) and R19.3 million (2.1%) below the prior year.

Where necessary staff costs in the continuing operations were aligned to reduced demand and in a number of businesses a more flexible shift pattern was implemented with significant savings in overtime. The group has been faced with large increases in energy costs but those were more than offset by other cost saving initiatives.

Other

As reported at December 2020 the group disposed of its investment in Octotel (Pty) Ltd, our fibre to the home operation, and RSA Web (Pty) Ltd, our internet service provider, resulting in a profit on disposal of R399.7 million (R304.9 million after Capital Gains Tax).

The group exchanged its 16% investment in Ince (Pty) Ltd for a 38% investment in Coax Partners (Pty) Ltd resulting in a profit of R10.5 million.

On 1 November 2020 the group acquired a controlling stake in its associate Shumani Mills (Pty) Ltd and on assessment of the carrying values of the investment and resulting goodwill the decision was made to impair the investment of R3.2 million and the goodwill of R9.7 million. This transaction also resulted in a loss on disposal of an associate of R10.5 million as the business is now accounted for as a subsidiary.

Impairments of loans to associates amounted to R17.3 million as the group came to the end of its commitments to fund certain digital assets whose future sustainability is uncertain.

As reported at half year, the trading environment in the newspaper and magazine printing market has experienced a permanent decline and certain equipment that is excess to the ongoing requirements, required an impairment of R64.7 million.

Operating Profits

Profit from operating activities increased from a loss of R184.2 million to a profit of R615.2 million. This was partly offset by the decline in net finance income by R60.6 million (41.2%) to R86.5 million as both dividends received and interest income were R18.7 million and R20.3 million below last year respectively. In addition, the prior year had a non-recurring deemed interest income on loans to directors of R25.4 million. Although cash resources were on average similar to the prior year the declining interest rates impacted interest earned and the same was true for the interest earned on loans to associates. Dividends received from our unlisted preference share investment were similarly impacted and curtailed dividend flow from other investments contributed to the decline.

Net income from associates increased from a loss of R9.7 million to a profit of R37.6 million as these businesses also recovered from the pandemic and the profits from our fibre to the home associate, Octotel (Pty) Ltd, was recognised for the first time, up to the date of disposal.

Net Profit before and after Taxation

The group's profit before taxation is R739.3 million and the taxation charge was R173.4 million (including Capital Gains Tax of R98.8 million). This resulted in profit after taxation of R565.9 million – representing earnings per share of 148.1 cents (prior year a loss of 14.8 cents) and headline earnings per share of 75.4 cents (prior year 21.2 cents – 255.7% growth).

The net asset value per share has grown from R13.84 per share to R17.17 per share (an increase of 24.1%) primarily driven by the return to more normalised profitability, profit generated from the disposal of our investment in associates Octotel (Pty) Ltd and RSA Web (Pty) Ltd and the successful reinvestment of these proceeds into a strategic shareholding in Mpact Limited whose market value has grown significantly.

Cash Flow

Cash and cash equivalents at the year-end were R1 989.6 million, an increase of R246.3 million over the prior year and an increase of R200.7 million over the half year reporting period. Cash generated by operations recovered to R619.1 million, an increase of R289.8 million over the prior year, as the impact of the pandemic eased and the remedial actions of management took effect. It is interesting to note that the current levels of operational cash flow are representative of the pre-pandemic levels which is a commendable achievement.

Working capital generated R53.6 million which is expected to reverse in the medium term as the group has made a decision to increase stockholdings due to the tightening of global supply. After paying taxation of R104.4 million the cash inflow from operating activities is R568.3 million – a substantial increase over the prior year of R155.9 million or 37.8%.

The net investment in property, plant and equipment amounted to R101.5 million net of the proceeds from disposals of unused property of R81.2 million as a result of the discontinued operations. The major capital investments included replacement of some key packaging equipment that was at end of life and also the expansion into paper cup manufacture to enable growth within our current customer base. With the ever-increasing energy costs and unreliable supply, the group has completed the pilot solar energy project that includes a battery system. In addition, the group purchased solar panels for another two installations which will be rolled out in the near future.

The group disposed of its investment in Octotel (Pty) Ltd and RSA Web (Pty) Ltd for a gross consideration of R442.2 million (R347.8 million after Capital Gains Tax). Associates repaid loans by R67.6 million.

Investments of R659.1 million were made during the period and included the following:

- A further strategic investment in JSE listed Mpact Limited of R656.1 million, which now represents a total shareholding of 31.6 %. At the time of writing, the price at which the Mpact shares trade on the JSE has increased such that at the current price of around R29, this investment is now worth in the region of R1.4 billion.
- A small additional investment of R3 million in Novus Limited bringing our shareholding to 8.4%.

During the reporting period the group did not pay a dividend due to the pandemic and its impact on trading as well as the costs associated with the closure of certain operations. With this behind us, dividends resume with the current declaration of 50 cents per ordinary share. During the period the group returned R56.3 million to shareholders by repurchasing 7 372 339 Caxton shares at an average price of R7.64 per share.

PERFORMANCE REVIEW

PUBLISHING, PRINTING AND DISTRIBUTION

Newspaper publishing and printing

During the reporting period the newspaper publishing industry has had to deal with the compounding effects of reduced consumer spending, due to the pandemic, and sluggish recovery of the economy on an already constrained and difficult newspaper industry. This ultimately manifests itself in reduced advertising spend and this continues to remain a challenge that will take some time to recover.

Having said this the group's local newspapers are still considered a strong platform by national retailers to reach their target markets with their greater readership and wider reach into hyper-local households.

National advertising revenues ended 2% below the prior year, which was impacted by the first pandemic lockdown, and remains behind the pre-COVID level of national spend. The trend over the reporting year showed a recovery in the second half over the more depressed first six months. It is interesting to note that the market that recovered the strongest was food retailers and actually ended marginally higher than the previous year, while general merchandise and DIY spend is taking longer to recover.

Local advertising from the traditional "mom and pop stores" have been particularly badly affected by the COVID lockdowns and restricted trading environment. Those stores that have not been forced to close down, often lack the necessary cash resources to run adequate advertising campaigns and thus this spend is significantly down year-on-year.

In response to the above environment management has taken various measures and is continually looking at other alternatives to realign the cost structures. This can be summarised as follows;

- Building innovative advertising options for local advertisers that will assist in rebuilding the local businesses.
- Consolidating a number of newspapers branches with the resulting cost savings
- Restructuring the critical metropolitan area of Johannesburg, including a centralised administration function as well as addressing the cost of distribution.

These actions will create a more aligned cost base that will stand the operations in good stead when the advertising spend recovers to pre-COVID levels.

The daily and weekend newspaper market continued to decline with publishers implementing print order and pagination reductions. This has meant that the tonnage throughputs in our newspaper printing facilities have reduced and revenue has been similarly impacted. The encouraging trend that materialised over the reporting year is the increased commercial work that these factories have managed to gain as some retailers have looked to cheaper newsprint options to reduce costs as well as significant strides made in increasing our market share as competitors have been faced with paper shortages.

The overall decline in throughput necessitated addressing the cost structures of the operations and this was achieved through innovative shift structures and creating an outsourced insertion department at the large printing facility in Gauteng. The impact of the restructuring has meant that what was previously a fixed cost irrespective of turnover has moved to a more variable cost that is flexible to throughput. The actions of management have resulted in a reverse of the half year trend with profitability ending above the prior year but on a much-reduced turnover. The full positive impact of these changes will only be felt in the new financial year.

The group's daily newspaper, The Citizen, delivered an impressive performance by improving profitability over the prior year and also exceeding pre-COVID profits. This was driven by a recovery in print circulation and gain in Gauteng market share as well as disciplined cost control. The publication is still faced with an overall decline in advertising income but has shown growth in certain areas such as legal and auctions, which is encouraging. The Citizen's stand-alone website continues to feature in the top ten South African digital offerings that has lately led to improved digital revenues.

Digital assets

The group's major digital asset is Private Property held through our subsidiary Cognition Holdings. Private Property's performance was up to expectations. Although revenues were constrained, this was more than offset through cost saving initiatives.

Cognition Holdings core operations (excluding its subsidiary Private Property) experienced an extremely difficult year, further compounded by the impact of ongoing lockdowns and as the controlling shareholder, we are reassessing the way forward for this business.

Our travel investments (Safari.com and Afristay.com) worked very hard at reducing costs while attracting local travellers in an effort to drive revenues. This has had some success but it was overtaken by the intermittent lockdown regulations that curtailed movement of travellers.

The group has come to the end of the funding commitments for these businesses and should further funding be required we are likely to resort to third party participation and possible dilution.

Web and gravure printing

The group's large commercial printing operations have had a watershed year in which the management restructured the businesses in line with the significant drop in various retail catalogue demands and still improve profitability above the pre-pandemic years and significantly above the prior year. This has been achieved through a flexible shift structure that allows the operations to align employee costs to the variable demand.

The other crucial factor has been the attention to raw material sourcing and contractual relationships with a number of overseas suppliers. As a result, we have managed to ensure adequate supply at competitive prices. The global supply of paper has tightened significantly and without contractual arrangements it is proving difficult to secure tonnage at a reasonable price point. This is not expected to change for the foreseeable future and thus the group's decision, coming into the second half of the financial year, to stock up on raw materials will stand it in good stead to meet customer demands and also to gain market share where competitors are unable to supply due to those constraints.

In the second half of the financial year, we have seen an improvement in demand and throughput mainly driven by the food retailers but still below pre-pandemic levels. In addition, the operations have also managed to secure a number of new customers who have entered into print contracts because we have been able to supply their requirements on short notice due to the availability of paper.

Book and magazine printing

This operation delivered an extremely pleasing set of results, exceeding the prior year, especially when taken against the background of reduced revenues following the closure of a significant number of magazine titles. This achievement was as a result of the actions undertaken by management to realign the cost base and this focus will continue for the foreseeable future.

The operation managed to offset some of the decline in magazine printing by gaining market share in the education and commercial markets. This was helped by ensuring that there was raw material paper available for customers as import supply chains became difficult to predict, which vindicated the group's decision to increase imported stock levels at mid-year.

PACKAGING AND STATIONERY

Packaging

The various packaging operations have had an excellent year, with profits exceeding the prior year and pre-COVID levels. The heartening aspect of this performance is that this was achieved on a reduced turnover base, taken against pre pandemic turnover levels, as a result of reduced cigarette packaging volumes.

The resilience of the markets we serve has stood us in good stead where the alcohol, quick service restaurant (QSR) and frozen food markets benefitted from a change in consumer buying patterns. We remain uncertain of the sustainability of these trends as consumers revert back to a more normal way of life, especially the tremendous growth in the wine-in-a-box category which has exceeded all expectations. The group has managed to diversify its offering in the QSR markets and has started to supply cold paper cups as an additional line, an area of growth for the future.

Our label operations had an excellent year, driven mainly by increased volumes in the wine and spirits market and even though we lost volume in the beer market, we managed to improve profitability on a lower restructured cost base. It is also encouraging that we are gaining back market share in beer labels as competitors have been unable to supply due to the lack of availability of paper, whereas we took the decision to build stocks on the back of the global supply chain constraints. We are expecting this scenario to continue in the medium term.

Our cigarette packaging operation remains a critical and key focus for the group and continues to be affected by the illicit trade which impacts our major customer. The operation has managed to secure additional work outside of the South African market which has helped to offset this decline.

Over the reporting period most operations were also faced with import supply constraints as global suppliers placed limits on tons supplied as well as increasing prices to recover the cost of container supply. This situation intensified in the second half of the reporting year and again the foresight to build stocks has limited the interruption of supply. This is unlikely to change for the foreseeable future and the shortage of supply has manifested itself in further price increases from local and import suppliers that is unprecedented in recent history. The focus has to be on recovering these large increases from customers as there is no opportunity to absorb the scale of increases.

Stationery

Our stationery business was affected by the destocking actions that our major customer implemented in the face of reduced demand during the critical back to school season. This was compensated by cost saving measures which helped the operation deliver reasonable profits on a much-reduced turnover base. With schools hopefully returning to a more normal attendance there is an expectation that demand should start improving.

Prospects

The past year has re-established the group's operations on a stable base and, as turnovers recover on the scaled down cost base, this should improve profitability. The uncertain issue is the time period for the turnovers of our different operations to fully recover to pre-pandemic levels, with the continued threat of further regulations in the face of fourth and fifth waves of COVID-19 it is impossible to predict the future. The group will continue to take the necessary actions to protect profitability and to look for further growth prospects.

The focus is on proactive management of all the different and diverse aspects of our business, attention to detail and meeting the expectations of our customers.

We have stable businesses, loyal, committed and resourceful management and staff, significant cash resources, creative investment strategies, and above all, excellent facilities that can capitalise on growth opportunities. Our group represents a value enhancing portfolio of assets that we are confident we can grow and expand.

Review of the Independent Auditors

The company's auditors, BDO South Africa Incorporated, have reviewed these results. Their unmodified review conclusion is available for inspection at the registered office of the company. The auditor's report does not necessarily report on all of the information contained in this announcement/financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

Statement of responsibility

The preparation of the group's consolidated results was supervised by the Financial Director, Mr TJW Holden, BCom, CA (SA).

Dividends

The board has declared a dividend of 50.00 cents (2020: nil cents) per ordinary share (gross) and a preference dividend of 410.00 cents (2020: nil cents) per preference share (gross) for the year ended 30 June 2021.

The dividends are subject to the Dividend Withholding Tax. In accordance with the provisions of the JSE Listings Requirements, the following additional information is disclosed:

- the Dividend has been declared out of current profits available for distribution
- the Dividend Withholding Tax rate is 20%
- the gross dividend amount is 50.00 cents per ordinary share and 410.00 cents per preference share for shareholders exempt from Dividend Withholding Tax
- the nett dividend amount is 40.00 cents per ordinary share and 328.00 cents per preference share for shareholders liable for Dividend Withholding Tax
- the company has 370 488 772 ordinary shares in issue
- the company has 50 000 preference shares in issue
- the company's income tax reference number is: 9175/167/71/8

The following dates are applicable to the dividends.

The last date to trade in order to be eligible for the dividend will be Tuesday, 26 October 2021.

Shares will trade ex-dividend from Wednesday, 27 October 2021.

The record date will be Friday, 29 October 2021 and payment will be made on Monday, 1 November 2021.

Share Certificates may not be dematerialised or materialised between Wednesday 27 and Friday 29 October 2021, both days inclusive.

Executive Directors: TD Moolman, TJW Holden, LR Witbooi
Independent Non-Executive Directors: PM Jenkins, ACG Molusi, NA Nemukula, J Phalane, T Slabbert
Transfer Secretaries: Computershare Investor Services Proprietary Limited
Registered office: 28 Wright Street, Industria West, Johannesburg

Incorporated in the Republic of South Africa
Registration number 1947/026616/06
Share code: CAT ISIN: ZAE000043345
Preference share code: CATP ISIN: ZAE000043352

Sponsor AcaciaCap ADVISORS