CAXTON&CTP LIMITED publishers & printers

RESULTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

R'000	% change	Unaudited six months to 31 December 2022	Unaudited six months to 31 December 2021	Audited for the year ended 30 June 2022
Revenue	25,8	**3 817 393**	3 035 684	5 979 339
Other operating income		**51 316**	42 247	145 269
Total operating income		**3 868 709**	3 077 931	6 124 608
Changes in inventories of finished goods and work in progress		**(28 486)**	37 668	(150 915)
Raw materials and consumables used		**(2 036 956)**	(1 578 852)	(2 864 233)
Staff costs		**(662 727)**	(614 253)	(1 223 121)
Other operating expenses		**(634 844)**	(529 805)	(1 058 332)
Total operating expenses	25,2	**(3 363 013)**	(2 685 242)	(5 296 601)
Profit from operating activities before depreciation and amortisation	28,8	**505 696**	392 689	828 007
Depreciation and amortisation		**(123 645)**	(119 319)	(237 709)
Profit from operating activities after depreciation and amortisation	39,8	**382 051**	273 370	590 298
Impairment of goodwill		**(1 217)**	–	(3 865)
Profit/(Loss) on disposal of subsidiary		**78 978**	(3 273)	–
Loss on deemed disposal of associate on gain of control		**(2 748)**	–	(3 394)
Impairment on interest in associates		**–**	–	(5 354)
Impairment of loans		**–**	–	(11 386)
Impairment of intangible assets		**–**	(8 194)	(8 222)
Impairment of plant		**–**	(2 195)	(2 167)
Profit from operating activities		**457 064**	259 707	555 910
Net finance income		**63 657**	54 197	118 490
– dividends		**54 929**	40 342	100 358
– interest income		**10 004**	14 556	41 781
– interest expense		**(1 276)**	(701)	(3 949)
– loss on foreign exchange		**–**	–	(19 700)
Income from associates		**6 789**	8 132	11 807
Profit before taxation		**527 510**	322 036	686 207
Taxation		**(122 689)**	(81 651)	(142 406)
Profit for the period	68,4	**404 821**	240 385	543 801
Other comprehensive income:		**(37 530)**	329 198	185 619
Items that will be not be reclassified subsequently to profit or loss				
Fair value adjustment – investments		**(37 530)**	329 198	187 042
Fair value adjustment – properties		**–**	–	(1 423)
Total comprehensive income for the period		**367 291**	569 583	729 420
Total comprehensive income attributable to				
Non-controlling interests		**21 523**	4 508	(7 952)
Equity holders of the parent		**345 767**	565 075	737 372
		367 291	569 583	729 420
Profit attributable to				
Non-controlling interests		**21 523**	4 508	(7 952)
Equity holders of the parent		**383 298**	235 877	551 753
		404 821	240 385	543 801

Condensed segmental analysis	Unaudited six months to 31 December 2022	%	Unaudited six months to 31 December 2021	%	Audited for the year ended 30 June 2022	%
Revenue						
Publishing, printing and distribution	**1 974 404**	52	1 656 798	55	3 207 304	54
Packaging and stationery	**1 842 989**	48	1 378 886	45	2 772 035	46
Other	**–**	–	–	–	–	
	3 817 393	100	3 035 684	100	5 979 339	100
Profit from operating activities before depreciation						
Publishing, printing and distribution	**267 202**	53	250 067	64	469 639	57
Packaging and stationery	**291 465**	57	197 534	50	422 555	51
Other	**(52 972)**	(10)	(54 912)	(14)	(64 187)	(8)
	505 696	100	392 689	100	828 007	100
Profit from operating activities after depreciation						
Publishing, printing and distribution	**204 009**	53	190 696	70	352 040	60
Packaging and stationery	**232 273**	63	146 957	54	321 365	54
Other	**(61 231)**	(16)	(64 283)	(24)	(83 107)	(14)
	382 051	100	273 370	100	590 298	100
Total assets						
Publishing, printing and distribution	**2 844 021**	31	2 147 026	25	2 492 416	29
Packaging and stationery	**2 509 867**	28	1 923 069	22	2 066 766	23
Other	**3 702 675**	41	4 528 416	53	4 266 609	48
	9 056 563	100	8 598 511	100	8 825 791	100
Total liabilities						
Publishing, printing and distribution	**737 644**	37	573 289	32	744 925	39
Packaging and stationery	**544 156**	27	514 108	28	514 600	27
Other	**734 734**	36	731 087	40	650 877	34
	2 016 534	100	1 818 484	100	1 910 402	100

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Unaudited six months to 31 December 2022	Unaudited six months to 31 December 2021	Audited for the year ended 30 June 2022
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated by operations	**494 456**	385 035	730 340
Changes in working capital	**(754 762)**	(377 575)	(481 228)
Cash (utilised)/generated by operating activities	**(260 306)**	7 460	249 112
Taxation paid	**(98 360)**	(58 575)	(155 957)
Cash (outflow)/inflow from operating activities	**(358 666)**	(51 115)	93 155
CASH FLOW FROM INVESTING ACTIVITIES			
Property, plant, equipment and intangibles			
– additions to maintain operations	**(89 174)**	(74 109)	(142 384)
– additions to expand operations	**–**	(31 123)	(63 774)
– proceeds from disposals	**9 842**	3 346	12 186
	(79 332)	(101 886)	(193 972)
Investments			
Associate loans and investments	**23 081**	5 284	1 187
Listed investments	**62 635**	(8 072)	(103 427)
Acquisition of businesses net of cash	**(111 528)**	–	–
Disposal of subsidiary net of cash	**96 638**	–	–
Interest received	**10 004**	14 556	41 781
Dividends received	**54 929**	40 342	100 358
	135 760	52 110	39 899
Cash inflow/(outflow) from investing activities	**56 428**	(49 776)	(154 073)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid	**(193 615)**	(183 637)	(188 128)
Rights offer	**–**	9 999	9 999
Interest paid	**(1 276)**	(701)	(3 949)
Principal paid on lease liabilities	**(3 878)**	(1 329)	(8 808)
Own shares acquired	**(25 039)**	(53 103)	(73 098)
Cash outflow from financing activities	**(223 808)**	(228 771)	(263 984)
Net decrease in cash and cash equivalents	**(526 046)**	(329 662)	(324 902)
Cash and cash equivalents at beginning of year	**1 664 743**	1 989 645	1 989 645
Cash and cash equivalents at end of period	**1 138 697**	1 659 983	1 664 743

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	Unaudited as at 31 December 2022	Unaudited as at 31 December 2021	Audited as at 30 June 2022
ASSETS			
Non-current assets			
Property, plant and equipment	**2 356 057**	2 342 689	2 327 381
Right-of-use assets	**12 116**	19 343	16 016
Intangible assets	**8 314**	25 795	25 242
Goodwill	**68 286**	85 067	81 202
Interest in associates	**98 242**	145 127	142 979
Investments	**1 650 132**	1 850 236	1 761 805
– Listed ordinary shares	**1 581 589**	1 719 322	1 633 699
– Unlisted ordinary shares	**68 543**	68 543	68 543
– Listed preference shares	**–**	62 371	59 563
Deferred taxation	**35 388**	19 845	31 363
	4 228 535	4 488 102	4 385 988
Current assets			
Inventories	**1 850 350**	1 144 102	1 530 694
Trade and other receivables	**1 837 574**	1 298 528	1 240 919
Taxation	**1 407**	7 796	3 447
Cash	**538 697**	759 983	764 743
Cash equivalents	**600 000**	900 000	900 000
	4 828 028	4 110 409	4 439 803
TOTAL ASSETS	**9 056 563**	8 598 511	8 825 791
EQUITY AND LIABILITIES			
Equity			
Equity attributable to owners of the parent	**6 968 439**	6 688 422	6 841 325
Preference share capital	**100**	100	100
Non-controlling interest	**71 490**	91 504	73 953
Total equity	**7 040 029**	6 780 026	6 915 378
Non-current liabilities			
Lease liabilities	**9 928**	11 438	10 830
Deferred taxation	**457 330**	520 705	459 464
	467 258	532 143	470 294
Current liabilities			
Trade and other payables	**1 258 308**	919 636	1 150 095
Lease liabilities	**4 150**	8 739	7 125
Provisions	**212 885**	296 194	226 840
Taxation	**73 933**	61 772	56 059
	1 549 276	1 286 341	1 440 119
TOTAL EQUITY AND LIABILITIES	**9 056 563**	8 598 511	8 825 791
Net asset value per share (cents)	**1 922**	1 837	1 887
Capital expenditure	**89 174**	105 232	206 158
Capital expenditure committed	**188 734**	60 000	167 000

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Unaudited as at 31 December 2022	Unaudited as at 31 December 2021	Audited as at 30 June 2022
Balance at beginning of year	**6 915 378**	6 437 185	6 437 185
Total comprehensive income for the period	**367 291**	569 583	729 420
Own shares acquired	**(25 039)**	(53 102)	(73 098)
Non-controlling interest	**(23 986)**	–	–
Rights offer	**–**	9 999	9 999
Dividends paid – ordinary and preference shareholders	**(193 615)**	(183 637)	(188 128)
Balance at end of period	**7 040 029**	6 780 026	6 915 378

R'000	Unaudited as at 31 December 2022	% change	Unaudited as at 31 December 2021	Audited as at 30 June 2022
Earnings and diluted earnings per ordinary share (cents)	**106,3**	**66,4**	**63,9**	**151,2**
Headline earnings and diluted headline earnings per ordinary share (cents)	**90,7**	**36,4**	**66,5**	**157,0**
Weighted average shares in issue	**360 511 674**		**369 253 865**	**364 869 864**
Reconciliation between earnings and headline earnings				
Earnings attributable to equity holders of the parent	**383 298**		**235 877**	**551 753**
Adjusted for excluded remeasurements	**(56 318)**		**9 700**	**20 966**
Impairment of goodwill	**1 217**		–	3 865
(Profit)/loss on disposal of subsidiary	**(78 978)**		3 273	3 394
Loss on deemed disposal of associate on gain of control	**2 748**		–	–
Impairment of intangibles	**–**		–	8 222
Impairment of investments	**–**		8 194	5 354
Impairment of plant	**–**		2 195	2 167
Loss on disposal of property, plant and equipment	**2 242**		1 135	1 212
Non-controlling interest share of adjustments	**–**		(3 798)	–
Tax effect on above adjustments	**16 453**		(1 299)	(3 249)
Headline earnings	**326 980**		**245 578**	**572 719**

Notes:

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 31 December 2022.

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 is made using a discounted cash flow model will be 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% and a discount rate of 20.42%.

Acquisition of subsidiaries

The group acquired the remaining thirty three percent investment in Capital Media Proprietary Limited with effect from 1 August 2022 and the remaining fifty percent in Mooi Vaal Media Proprietary Limited with effect from 1 September 2022. These transactions were accounted for as business combinations with effect from these dates. The acquired businesses contributed revenue of R28.6 million and net profits after tax of R2.6 million.

The group also acquired the flexible business operation of Amcor which was also accounted for as a business combination. This business contributed revenue of R88.1 million and a net profit after tax of R1.1 million.

Provisional details of the assets and liabilities acquired are:

R'000	Unaudited as at 31 December 2022
Non-current assets	**68 553**
Current assets	**77 027**
Current liabilities	**(25 517)**
Cash and cash equivalents	**12 942**
Previously held interest	**(37 156)**
	95 849
Goodwill	**28 621**
Purchase price	**124 470**

COMMENTARY

Basis of Preparation

The condensed consolidated financial statements for the six months ended 31 December 2022 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 condensed consolidated financial statements are consistent with those applied in the consolidated financial statements in the prior year.

FINANCIAL PERFORMANCE

Earnings

The group has posted a record set of interim results for the period ended 31 December 2022:

SALIENT FEATURES:

- Profit from operating activities before depreciation and amortization (EBITDA) grew by R113 million (28.8%) from R392.7 million to R505.7 million.
- Profit from operating activities after depreciation and amortization grew by R108.7 million (39.8%) from R273.4 million to R382.1 million.
- Earnings per share increased by 66.4% from 63.9 cents to 106.3 cents.
- Headline Earnings per share increased by 36.4% from 66.5 cents to 90.7 cents.

Revenues grew strongly by R781.7 million (25.8%) from R3 035.7 million to R3 817.4 million on the back of price increases to recover the unprecedented cost increases of raw materials and operating expenses while the volume growth in our major packaging market segments continued to surprise on the upside. The newly acquired Amcor flexible business in the Western Cape (effective 1 August 2022) also contributed positively to the growth in packaging turnover.

As explained at the previous reporting period, the group was faced with an unprecedented increase in raw material input prices. This continued unabated in the period under review, as local and international paper and board mills were oversubscribed and access to supply was limited, combined with increased freight rates. To further compound the rising cost of raw materials, the international mills were faced with significant energy cost increases as the fallout from the Russia/Ukraine conflict took hold, which meant most European mills applied energy surcharges to all tonnages supplied. This abnormal set of circumstances had to be carefully managed with customers and was the prime focus of management to ensure that margins were maintained. The group's access to a wide supplier base, as well as holding abnormally large stock levels, meant that we were able to meet all customer requirements and, in some instances, grow market share.

The predicted rising inflationary environment is very evident in our results as operating expenses increased by R105 million from R529.8 million to R634.8 million (19.8%). This includes the abnormal cost of R23.8 million spent on the repair of our large commercial printing plant in Durban that was subjected to extensive flood damage reported on at the prior year end. Excluding this abnormal cost, operating expenses would have increased by 15.3%, of which a portion is in support of the increased volumes through our operations. However, across all operations, the period was characterised by increased prices from most of our suppliers, as they were faced with the same inflationary pressures. These increases were particularly felt in transport, maintenance, insurance and power costs.

The reporting period faced ever increasing levels of loadshedding which has added to the group's cost burden and is estimated to have cost R5.9 million in diesel costs. In addition, the impact of an unreliable power supply has resulted in an increased level of electronic failure on plant and the concomitant increase in maintenance costs. The group has the following mitigating plans in place:

- Generating capacity at major operating sites
- Solar rollout is underway with a planned 10 MW installed capacity to be in place by the end of the calendar year
- Power curtailment agreements at two operations in the Western Cape

The group has received an interim insurance payment of R64.2 million which has not been recognised in the review period, pending settlement of the full insurance claim with insurers. We anticipate this can be achieved by the financial year end.

Staff costs were well controlled and grew by R48.5 million (7.9%), which includes acquisitions made as well as increased shifts and overtime to manage the volume growth over the peak season.

After depreciation of R123.6 million, profit from operating activities grew by R108.7 million (39.8%) to R382.1 million.

The group's subsidiary, Cognition Holdings Limited, sold its 51% share in Private Property South Africa (Proprietary) Limited for a gross consideration of R150 million (R147.8 million net of transaction cost) which resulted in a profit on disposal of R79 million.

During the reporting period, the group bought the remaining outstanding shares in associates Mooivaal Media and Capital Media from Media 24, resulting in a deemed loss on disposal of an associate of R2.7 million.

Net finance income grew by R9.5 million (17.5%) as increased dividends were partially offset by reduced interest income. The increased dividends were from our investments in Mpact Limited, Thebe Investments and Nedbank preference shares, whilst there was no dividend declaration from Novus Holdings Limited. Although the period was characterised by an increasing interest rate cycle, this was negated by the reduced cash holdings as further investments were made into working capital.

Income from associates of R6.8 million approximates the prior period.

Profit before taxation was R527.5 million and the taxation charge was R122.7 million, resulting in profit after taxation of R404.8 million – representing earnings per share of 106.3 cents (prior year 63.9 cents) - an increase of 66.4% and headline earnings per share of 90.7 cents (prior year 66.5 cents) - an increase of 36.4%.

Net asset value per share has grown from R18.87 at 30 June 2022 to R19.22 at 31 December 2022.

Cash Flow

Cash and cash equivalents at the end of the reporting period were R1 138.7 million, a decrease of R521.3 million over the corresponding prior period (R1 660 million) and a decrease of R526 million over the year end reporting period (R1 664.7 million). The decrease in cash is a consequence of abnormal investment in stockholdings and accounts receivable to fund the peak season and volume growth, as well as to mitigate the supply chain risks that were evident over the last 12 months.

Cash generated by operations of R494.5 million approximates the profit from operating activities before depreciation and amortization of R505.7 million – an increase of 28.4% over the corresponding prior period.

Working capital has absorbed R754.7 million since the year end – including extra stockholdings of R319.7 million and accounts receivable of R596.7 million. Stockholdings have peaked and with some semblance of normality returning to supply chains as well as softening demand on local and international mills, there is room to normalise stock levels which will be done in the run up to the year end. With the peak season over, the accounts receivable levels will decline by year end as the second half of the financial year traditionally has a lower demand profile.

After paying taxation of R98.3 million there was a net cash outflow from operations of R358.6 million compared to the corresponding prior period outflow of R51.1 million - predominantly driven by the increased working capital requirements explained above.

Capital expenditure net of disposals amounted to R79.3 million as further investments in capacity and new technology in the packaging operations were made to support the growth as follows:

- a new laminator for our flexible operation to support the wine-in-a-box bladder operation purchased from Amcor
- a printing press to support the volume growth and improve efficiencies in our folding carton operation in the Western Cape.
- new equipment for our long run label operation to assist with the volume growth and improve efficiencies.
- further investments in cold and hot cup equipment for the quick service restaurant market.

Our associate Universal Labels (Pty) Ltd repaid its loan account (R23.1 million) while our listed preference shares were redeemed by the banking institution concerned (R62.6 million).

During the period our subsidiary Cognition Holdings Limited disposed of its 51% share in Private Property (Pty) Ltd for R96.6 million net of cash (R150 million gross).

The group made acquisitions of R111.5 net of cash (R124.4 million gross) as follows:

- the Amcor bag in the box bladder and tyre liner business for R102 million- effective date 1 August 2022.
- The remaining 50 % shares in our associate Mooi Vaal Media (Pty) Ltd for R7.8 million – effective date 1 September 2022
- The remaining outstanding interest in our associate Capital Media for R14.7 million – effective date 1 August 2022.

During the period the group returned a total of R218.7 million to shareholders through a dividend of R193.6 million and share repurchases of R25 million (2 601 550 shares at an average price of R9.62).

PUBLISHING, PRINTING AND DISTRIBUTION

Newspaper publishing and printing

The group's local newspaper business has had a difficult first half to the financial year with profitability below that of the prior year. Encouragingly, the division managed to grow advertising revenues as a result of strong national inserts driven largely by the food and liquor retailers, but this was tempered by the decline in advertising revenues at a local level. However, this revenue growth was more than offset by increased printing costs as the price of newsprint reached unprecedented levels.

The major national retailers continue to value the distribution channel that provides weekly access to the decision makers in three million households, and this has been borne out by our ROOTS research which has validated the readership of local newspapers and the propensity of households to consume the advertising material.

Local advertisers have had a difficult time over the last few years, firstly with Covid and now with rolling load shedding. Local businesses are finding it difficult to survive and with the current high levels of load shedding, are either closing their operations or incurring more costs to keep the doors open, which means they have less to invest in sustained advertising campaigns.

The focus of this operation is on ensuring we can continue to grow revenues while we consider ways of further streamlining the business to reduce costs.

The group's daily newspaper, The Citizen has delivered reduced results on the back of circulation, digital and retail advertising declines and cost increases in printing and distribution. The paper continues to grow in certain advertising markets, mainly cash and carry and legal classifieds, but the focus is now to win back market share where we have lost ground.

Despite the continued decline in daily and weekly newspapers, albeit at a lower rate, our group's newspaper printing facilities increased profitability on the back of increased market share amongst commercial customers and we were successful in securing a large print contract that was executed in our regional factories in order to reduce our customer's transport costs and improve delivery deadlines.

With the increased demand for newsprint, the sourcing was well managed, which is testament to the ongoing relationship with our local supplier, Sappi. In the period under review, a further interim price increase was implemented which necessitated a concomitant increase passed on to our customer base. Due to a limited local supply of newsprint and the group's growing market share, a certain amount of newsprint had to be sourced from overseas, where we have managed to open up a number of alternative sources of supply.

Digital assets

Over the last few years, the group has managed to stem the losses from the various digital initiatives that it had undertaken and the remaining assets do not require further funding.

Our investment in Cognition Holdings Limited has also undergone a number of changes to re-focus it on its core products. With the sale of Private Property, the restructuring is now complete. The streamlined and more focussed business has borne fruit with profitability increasing over the prior year. Further business investments by Cognition are not being contemplated.

Web and gravure printing

The group's commercial printing operations produced stellar results, growing profitability as tonnages increased by 5.4% on the back of new customers as well as increased allocations from existing customers. Access to paper played a large part in the success and, although customers were faced with large price increases, due to the unprecedented increases from the local and overseas mills, this did not reduce their demand for printed advertising material, which is testament to the success of this medium in the retailers' advertising mix. This demand was largely driven by the food and liquor retailers as they competed for each other's markets.

Whilst paper prices remain high, this has seen some customers reduce paper grammages or migrate to cheaper paper grades in order to mitigate against the increases. This has resulted in a further demand for newsprint which has placed pressure on sourcing to supplement local supply. Having said this, the global supply chains have normalised to a certain extent and our current overstocked position will be managed over the second half of the financial year in order to reduce stockholdings, where possible, without placing unnecessary risk on the operations.

The group's operation in Durban which was severely affected by the floods in April 2022, is back in full production and in the period under review, abnormal costs of R23.8 million to restore the facility were expensed. This cost will form part of the insurance claim that is in the process of being finalised.

Book and magazine printing

This operation in the Western Cape delivered similar results to the prior year supported by the weekly magazine titles of Media 24 and The Foschini Group, which offset the decline in educational textbook demand especially from the large publisher, Pearsons. With the acquisition of Pearsons having been completed by our competitor, Novus, we expect further declines in the immediate future.

The input prices of paper escalating to unprecedented levels has put further strain on the consumer magazine market. This sector has sought to mitigate these increases by either closing titles, reducing print orders or changing formats.

The above scenarios are likely to reduce demand on our operation and the impact will be closely monitored for the remainder of the financial year. This notwithstanding, the operation has performed well in supplying the diary and commercial markets.

PACKAGING AND STATIONERY

Packaging

The group's varied packaging operations delivered exceptional results and built on the results reported at the previous financial year end. This growth can be attributed to continued volume growth, market share gains and new products and markets being developed. It is our stated intent to continue growing our packaging presence both organically, capitalising on the move to more sustainable packaging, as well as by acquisitions.

The group's long run label operation, serving the major beer brewers, continues to benefit from the withdrawal of a competitor and has managed to meet all peak demand requirements locally and in the neighbouring African countries, which is testament to the dedicated management and staff of this unit. The further investment in equipment that has been finalised will contribute to improve efficiencies to meet this demand. Future forecasts remain positive with a move from pressure sensitive labels to paper labels being implemented by a customer.

The short to medium run label operation in the Western Cape managed to maintain margins in the face of significant raw material and overhead cost increases which when combined with volume growth in the spirit, wine and fish label markets, led to an improved performance. This unit has managed to secure a two-year increased allocation of paper labels from Coca Cola Beverages which is a new market segment that has grown from inception a few years ago.

The flexible packaging operation delivered an impressive turnaround in results as it benefitted from the acquisition of the Amcor bladder in the box business (acquired on 1 August 2022) and from new local customers as a result of global import sourcing challenges. This acquisition has proved to be successful as local management has managed to achieve increased bladder sales on a reduced cost structure. Further growth is expected as we have concluded a five-year contract to supply bladders and also the cartons (from our sister operation) to a major South African producer.

The group's folding carton operations also performed admirably as the bag in the box market continued its impressive growth, along with the quick service restaurant sector (QSR). The new printing press that will be installed by the end of May 2023 will bring significant operational efficiencies to our Western Cape operation and create the capacity to build upon our success in the agricultural market. This is a new segment for us, where there appears to be a healthy demand for high graphic packaging for the export market. The QSR market remains key to the group and we have managed to renew our contracts with our major customers and also look to growing our bucket and hot and cold cup market shares. This growth requires further investment in equipment which will be in place by the end of the third quarter. These operational units have managed the inflationary cost increases well and have maintained margins in the face of double digit increases.

The decision previously reported upon to hold increased amounts of raw materials across all our packaging operations positioned the group to ensure uninterrupted supply to its customer base and in certain instances contributed to market share gains. The easing of the global supply chain amidst softening global demand and declining logistics costs will give us the opportunity to trim our stock levels, thereby releasing cash, in the run up to the financial year end.

Stationery

Our stationery division reported an increase in profitability but this can be attributed to a timing difference in the offtake from our major customer. This should adjust to a more comparable basis for the full year results. Having said this, the back-to-school season has proved to be successful, mainly driven by the demand for our Flip File product.

Prospects

Although consumer demand has held up well in the first six months there is a distinct possibility that with the high levels of inflation (especially in relation to groceries) and continued loadshedding, a lacklustre growth outlook will exist in a recessionary environment. This environment will no doubt impact the group's performance especially in light of the excellent results posted in the second half of the prior year. The group will be focused on releasing cash from its working capital, managing costs as tightly as possible and ensuring that we can capitalise on acquisition opportunities as and when they arise.

The group's investment in Mpact remains a focus and although Mpact reported good growth in the year end to December 2022, the levels of debt in the company are of concern. Caxton is in the process of challenging a number of aspects of Mpact's corporate governance, which are similarly worrisome.

Subsequent events

The directors are not aware of any material event which has occurred after the reporting date.

Related party transactions

There were no related party transactions during the six months ended 31 December 2022 save for various inter-company transactions in the ordinary course of business.

Statement of responsibility

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

16 March 2023

Sponsor
AcaciaCap Advisors Proprietary Limited