# KAAP AGRI

## Interim Results Presentation

for the six months ended 31 March 2020

Presented by:

**Sean Walsh**
Chief Executive Officer

**Graeme Sim**
Financial Director

# Index


1. Purpose & Strategy
2. Group structure
3. Divisional structure - Trading brands
4. Geographical Representation
5. Footprint overview
6. Key milestones
7. Trading environment
8. Highlights for the year
9. Segmental report
10. Financial performance
11. Segmental review
12. Cash flow performance
13. Capital expenditure
14. Trade debtors
15. Conclusion

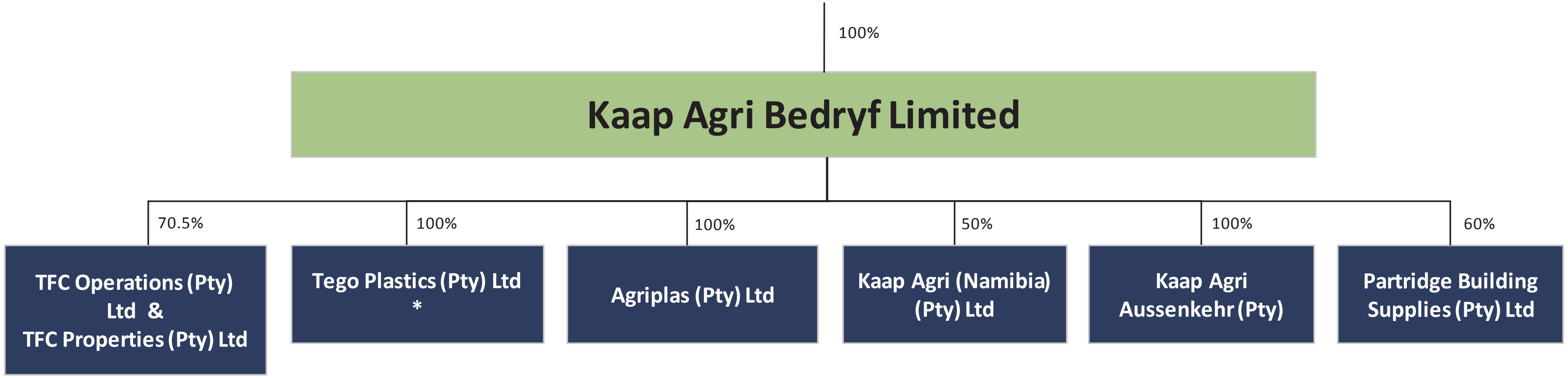
# PURPOSE & STRATEGY

## All stakeholders must be better off because we exist

| Strategic focus areas | Strategic initiative | Key Outcomes |
|---|---|---|
| • **Growth (G)** | • Upgrades & Expansions<br>• Footprint expansion<br>• Strategic alliances<br>• M & A | • Minimum CAGR 15% growth in RHE<br>- Adjust CPI & RHE growth targets annually |
| • **Optimisation (O)** | • Supply chain, Agri & Retail, TFC, Manufacturing, Support services<br>• Customer Relationship Management | • Group PBT target<br>- F25 R1 billion |
| • **Leveraging Culture & Diversity (L)** | • Leveraging PEOPLE<br>• Leveraging BEE | • Minimum 15% ROE |
| • **Digital transformation (D)** | • On line e-commerce solutions<br>• Account & payment solutions<br>• New concepts & technologies<br>• ERP roadmap | • Additional targets<br>- ROIC |

# GROUP STRUCTURE

KAAP AGRI




* Tego - commenced operations October 2019

| TFC BEE | Shareholding | % BEE | Weighted % BEE |
|---|---|---|---|
| Kaap Agri Bedryf Ltd | 70.5% | 27.4% | 19.3% |
| Plurispace (Pty) Ltd | | 20.0% | |
| ETI (Pty) Ltd | | 5.0% | |
| Other | | 2.4% | |
| C Max Investments (Pty) Ltd | 23.5% | 100.0% | 23.5% |
| ETI (Pty) Ltd | 6.0% | 100.0% | 6.0% |
| | | | 48.8% |

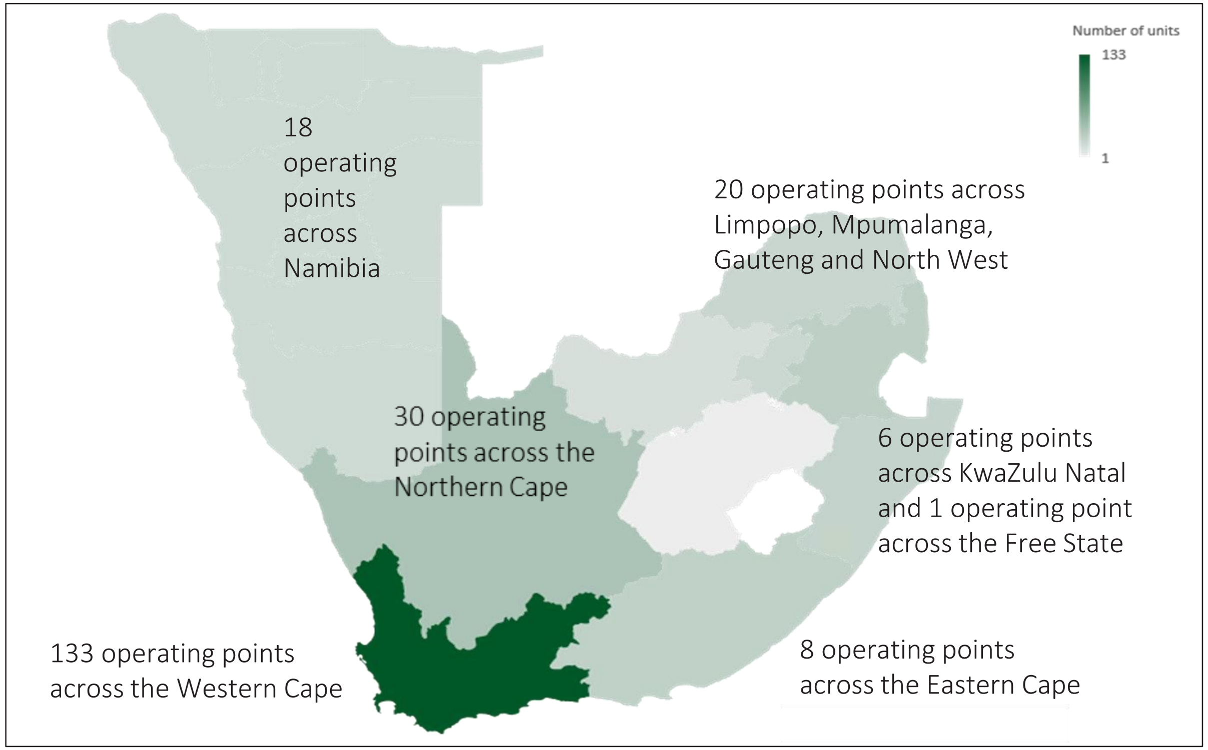
# DIVISIONAL STRUCTURE – TRADING BRANDS

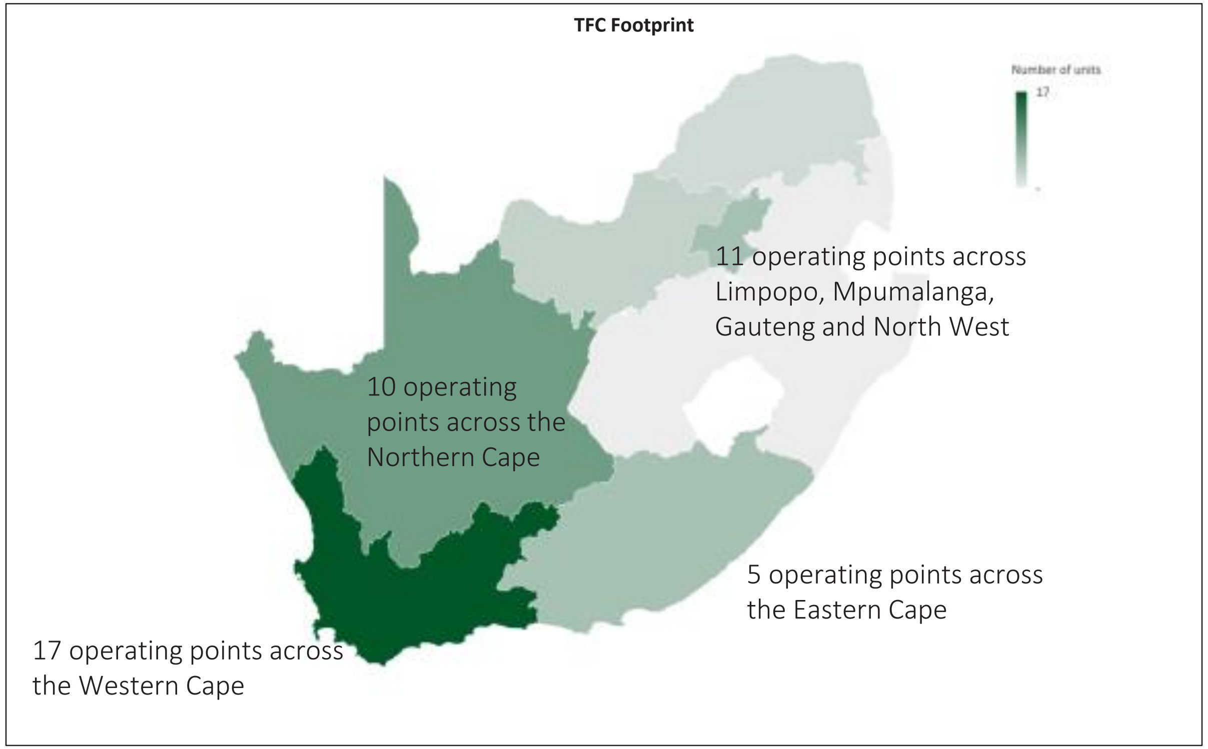
| TRADE | TFC | WESGRAAN | MANUFACTURING |
| --- | --- | --- | --- |
| AGRIMARK | the fuel company | WESGRAAN | agriplas PERFECT WATER MANAGEMENT SOLUTIONS |
| PAKMARK | EXPRESSMARK | NEW HOLLAND AGRICULTURE | TEGO PLASTICS |
| LIQUOR MARK | FEGO Caffé | | |
| FORGE AGRI 'Focused on Farming' | | | |
| FORGE BUILD 'Building Materials & Hardware' | | | |

AGRILOG — Support service for the acquisition, distribution and logistics of products for the Kaap Agri Group

Excludes Corporate Division

# GEOGRAPHIC REPRESENTATION



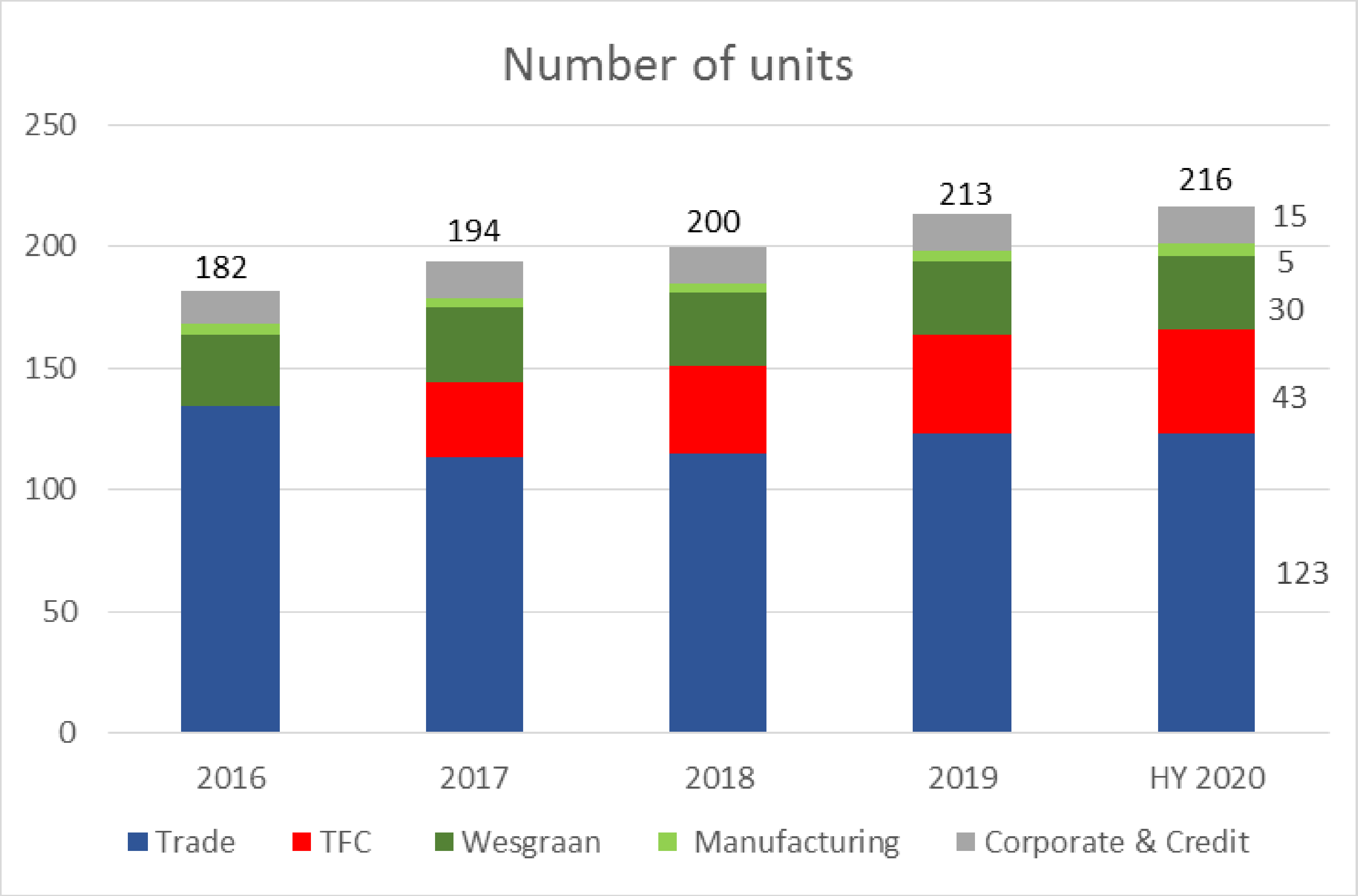

**216 Units**
**114 Places**

**SA & Namibia**
**9 Provinces**

**43 Units**
**33 Places**

**SA**
**7 Provinces**

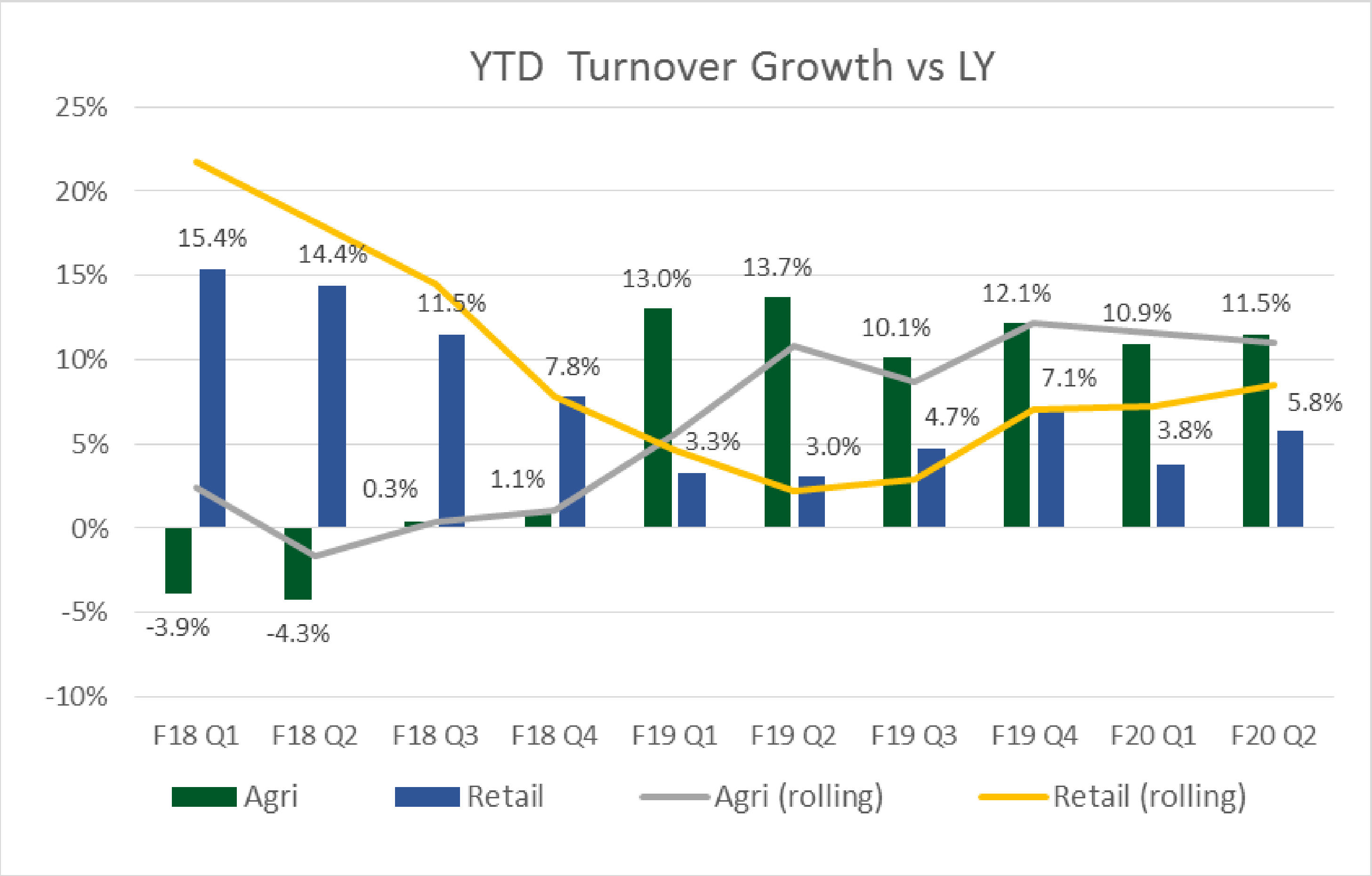
# FOOTPRINT OVERVIEW



# KEY MILESTONES

- 11.6% Group revenue growth in tough economy and inflation 0.3%
- 5.8% Group Retail turnover growth within suppressed building material sector
- Wesgraan PBT +R14.9m due to timing
- Continued Mechanisation Agency profitability (H1 FY20 +35%)
- Corporate cost growth 2.8% and < GP growth
- R110.7m capex & deposits in period < prior year
- Debtors not within terms reduced by 6%, book up 13%
- Trade Division : T/O +9.6%, GP +7.6%, Expenses +6.4%, PBT +9.9% .....NC, Pack, Forge
- COVID-19 impact on business minimal H1 FY20

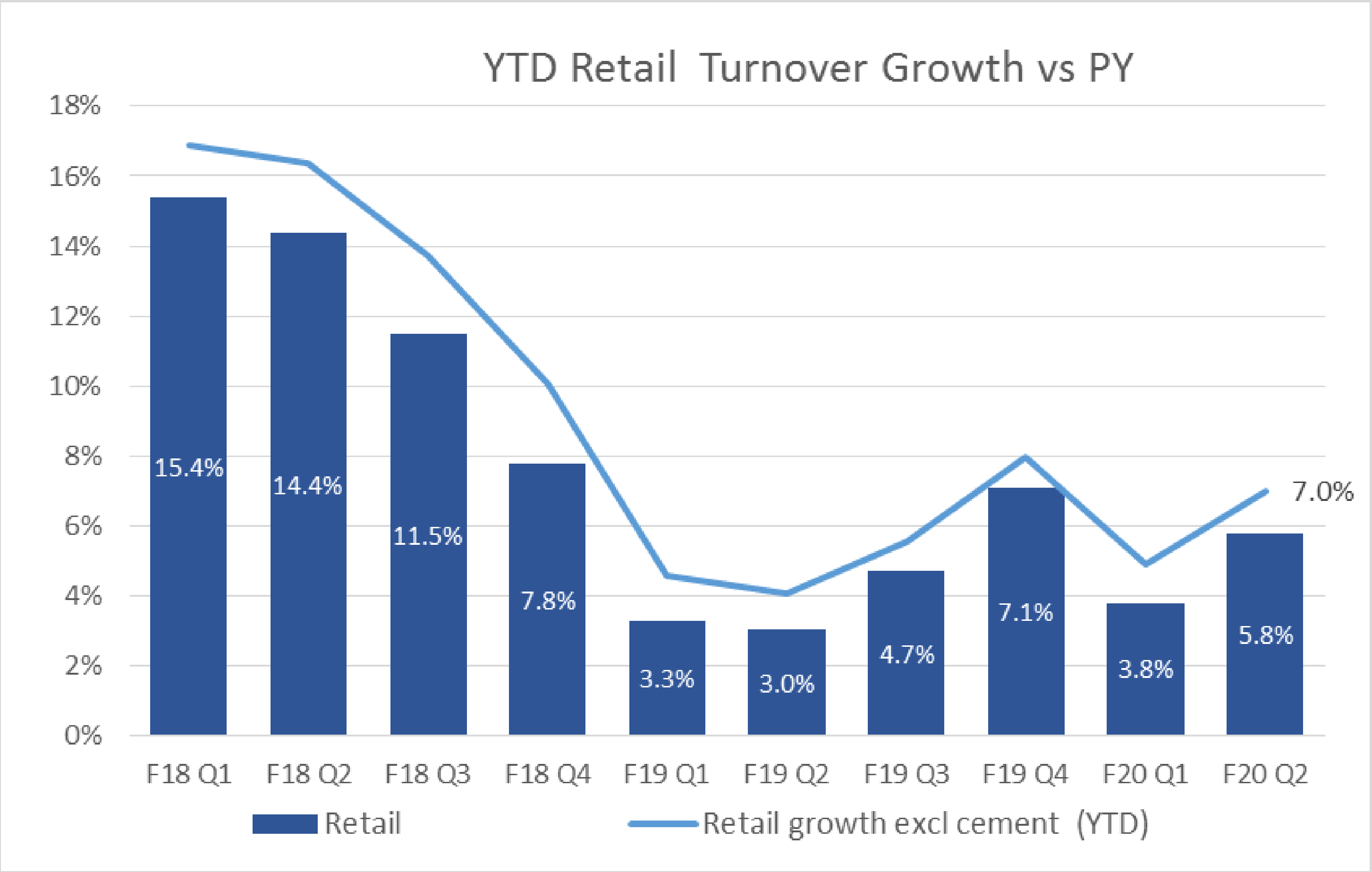
# TRADING ENVIRONMENT




## AGRI AND RETAIL GROWTH IMPACTED BY:

- Retail: Improved F19 & F20
- Agri: Post drought recovery
- Economic factors
  - ✓ 2 quarters negative GDP growth
  - ✓ Low business and consumer confidence
  - ✓ Low retail sales growth
  - ✓ Fuel price volatility
- Drought
  - ✓ Significant improvement
  - ✓ Erratic weather patterns
- Land reform (EWC) uncertainty remains

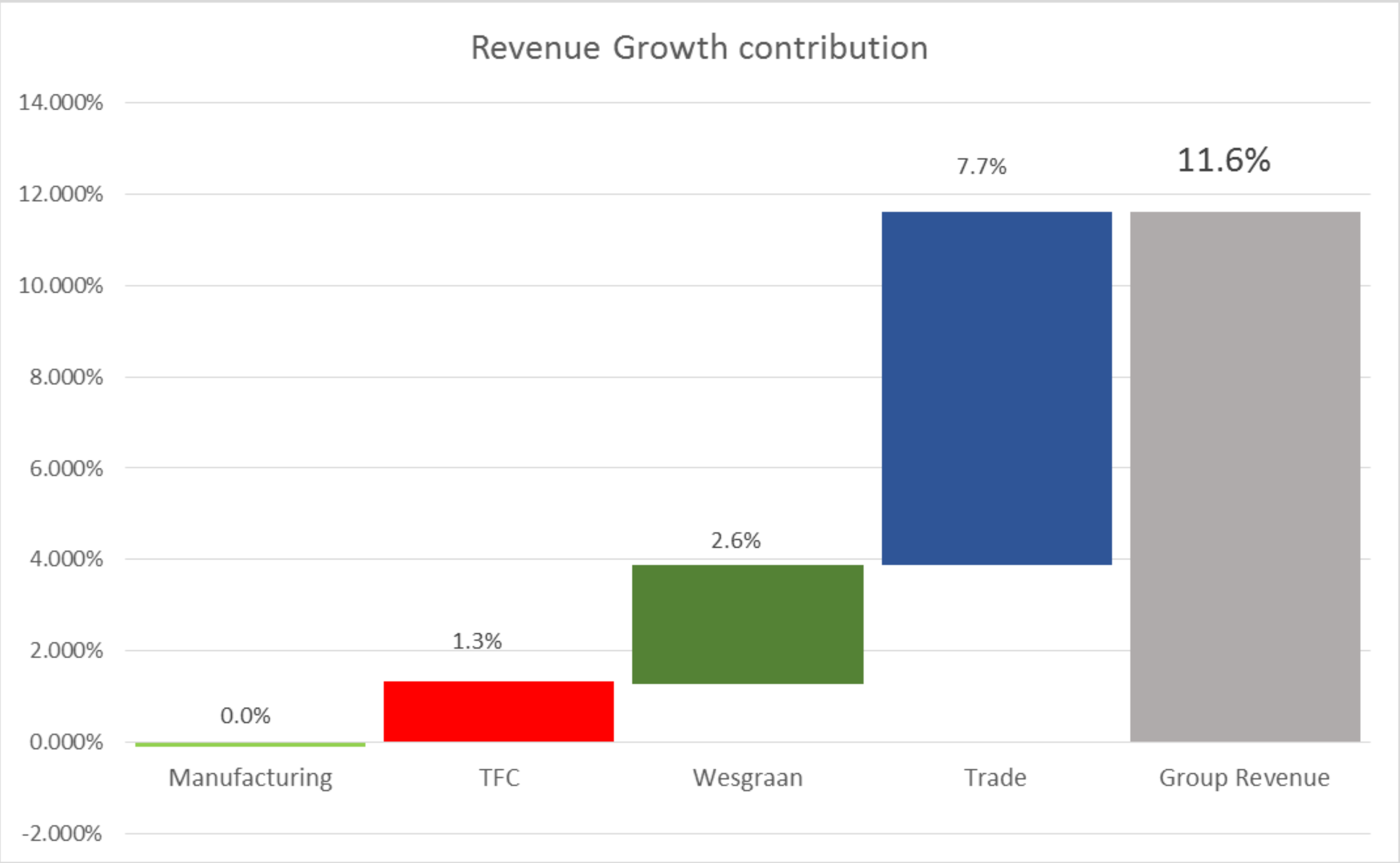
# TRADING ENVIRONMENT




## RETAIL GROWTH IMPACTED BY:

- Improved F19 and F20 retail performance
- F18 Retail sales supported by irrigation sales (Day zero)
- Negative impact of cement sales improving
  - ✓ HY 20 Retail sales growth +7.0% excluding cement sales
- Remaining retail categories performing well
  - ✓ Top 5 retail categories growth + 5.5%
  - ✓ FMCG double digit growth
  - ✓ Building materials excl. cement – good growth

# TRADING ENVIRONMENT




- Transactions +5.0%
- LFL revenue +4.8%
- Inflation 1.5% excl. fuel

**STRONG REVENUE GROWTH DRIVEN BY:**

- Trade
  - ✓ Agri & Retail 90% LFL
  - ✓ Forge growth +46% YOY
- Wesgraan H1 weighted
- TFC
  - ✓ Price deflation -1.0%
  - ✓ New sites H2 weighted
  - ✓ Strong convenience & QSR performance
- Manufacturing
  - ✓ Reduced infrastructural spend
  - ✓ Tego H1 product development & enhancement

# HIGHLIGHTS FOR THE INTERIM PERIOD

**Revenue**
**(R'000)**
**4,899,956**
+11.6%
LFL +4.8%

**Fuel liter growth**
**139.4m liters**
Group +6.7%
TFC +12.6%

**EBITDA**
**(R'000)**
**349,308**
+14.8% (+9.5%*)
* excl IFRS 16

**Recurring headline EPS (cents)**
**247.65**
+7.5%

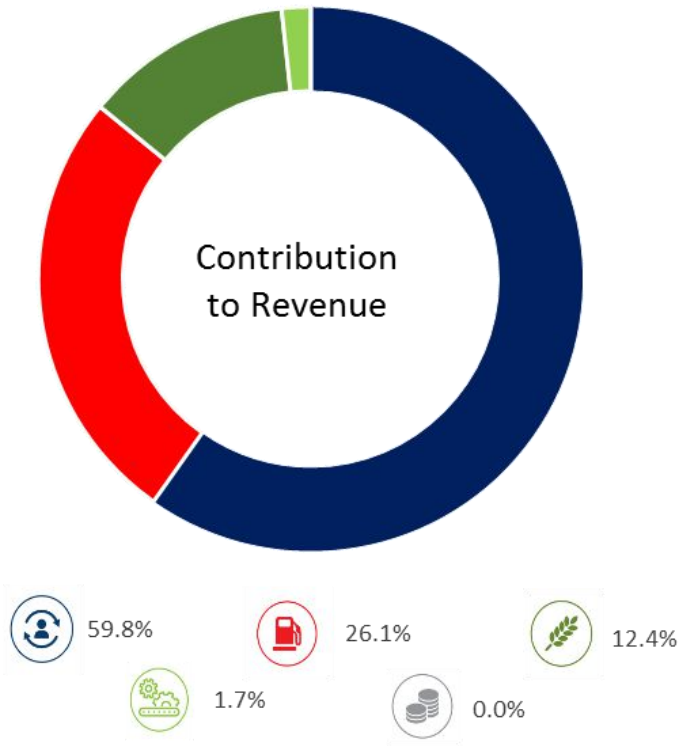
**Interim dividend per share (cents)**
**nil**
LY: 33.50

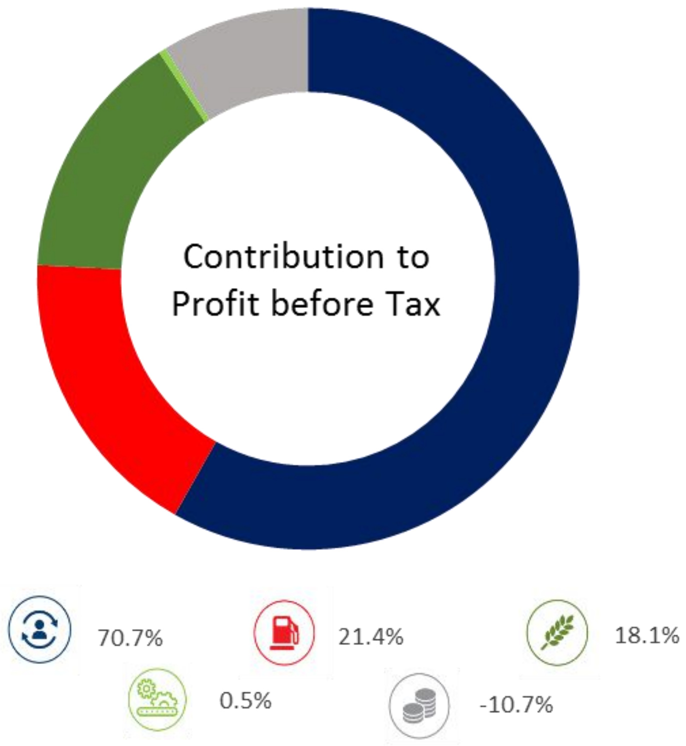
**Number of transactions**
**+5.0%**

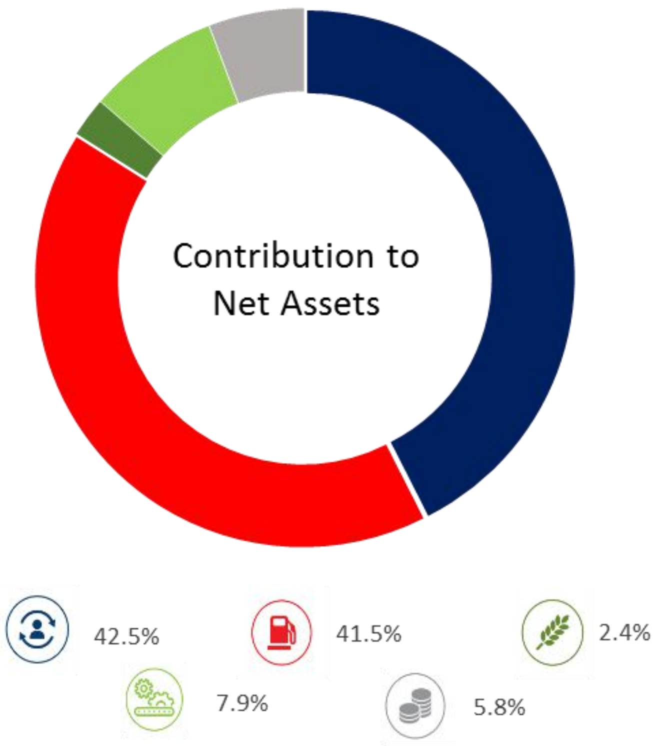
# SEGMENTAL REPORT

| | Trade | | TFC | | Wesgraan | | Manufacturing | | Corporate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | HY 2019 R'000 | HY 2020 R'000 | HY 2019 R'000 | HY 2020 R'000 | HY 2019 R'000 | HY 2020 R'000 | HY 2019 R'000 | HY 2020 R'000 | HY 2019 R'000 | HY 2020 R'000 |
| Income | 2,590,809 | 2,930,221 | 1,221,149 | 1,279,678 | 491,403 | 605,749 | 86,424 | 84,308 | - | - |
| Profit before tax | 152,413 | 170,320 | 53,796 | 51,593 | 28,885 | 43,737 | 9,315 | 1,231 | -21,259 | -25,835 |
| Gross assets | 1,401,769 | 1,553,449 | 679,124 | 1,010,502 | 126,651 | 95,838 | 74,695 | 288,802 | 1,913,237 | 2,023,027 |
| Net assets | 794,144 | 858,748 | 592,649 | 837,268 | 76,216 | 47,893 | 61,539 | 159,481 | 378,022 | 116,132 |

# SEGMENTAL REPORT (cont.)

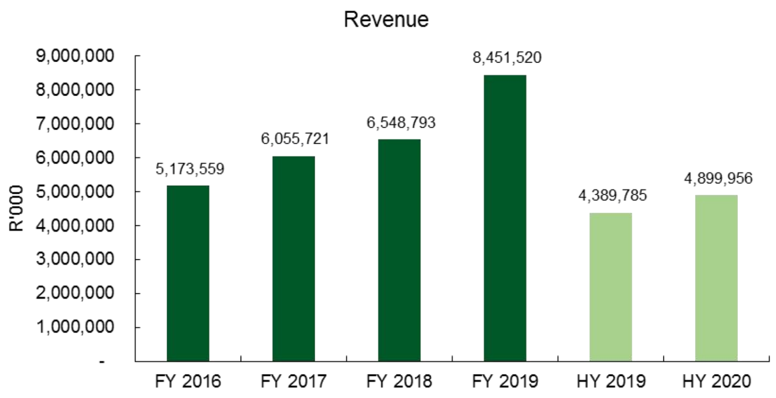


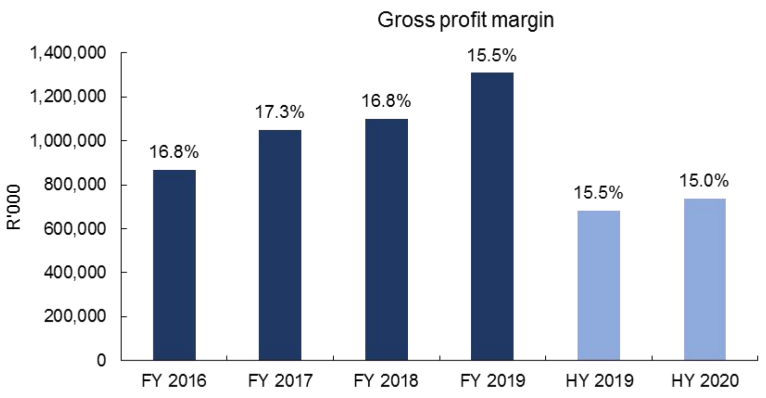



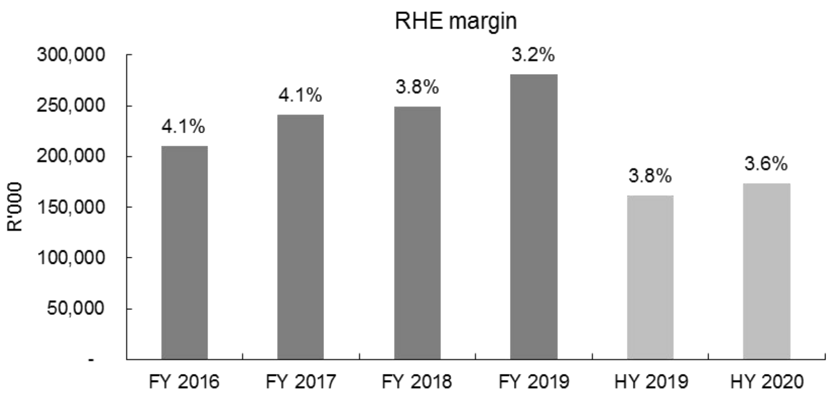




# FINANCIAL PERFORMANCE – INCOME STATEMENT

| R'000 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | HY 2019 | HY 2020 |
|---|---|---|---|---|---|---|
| Revenue | 5,173,559 | 6,055,721 | 6,548,793 | 8,451,520 | 4,389,785 | 4,899,956 |
| Gross profit | 868,777 | 1,050,243 | 1,102,313 | 1,309,239 | 681,835 | 736,038 |
| *Gross profit margin* | *16.8%* | *17.3%* | *16.8%* | *15.5%* | *15.5%* | *15.0%* |
| Profit after tax | 210,422 | 241,125 | 248,957 | 281,279 | 161,192 | 173,159 |
| Recurring headline earnings | 210,304 | 247,669 | 251,983 | 268,553 | 165,483 | 177,443 |
| Return on equity | 15.8% | 16.6% | 15.2% | 14.6% | 9.2% | 9.0% |
| Recurring headline earnings per share (cents) | 298.46 | 351.91 | 354.1 | 375.19 | 230.34 | 247.65 |
| Dividend per share (cents) | 94.50 | 112.00 | 116.70 | 123.50 | 33.50 | 0.00 |
| Dividend cover (times) | 3.0 | 3.0 | 2.9 | 2.9 | 6.5 | n/a |

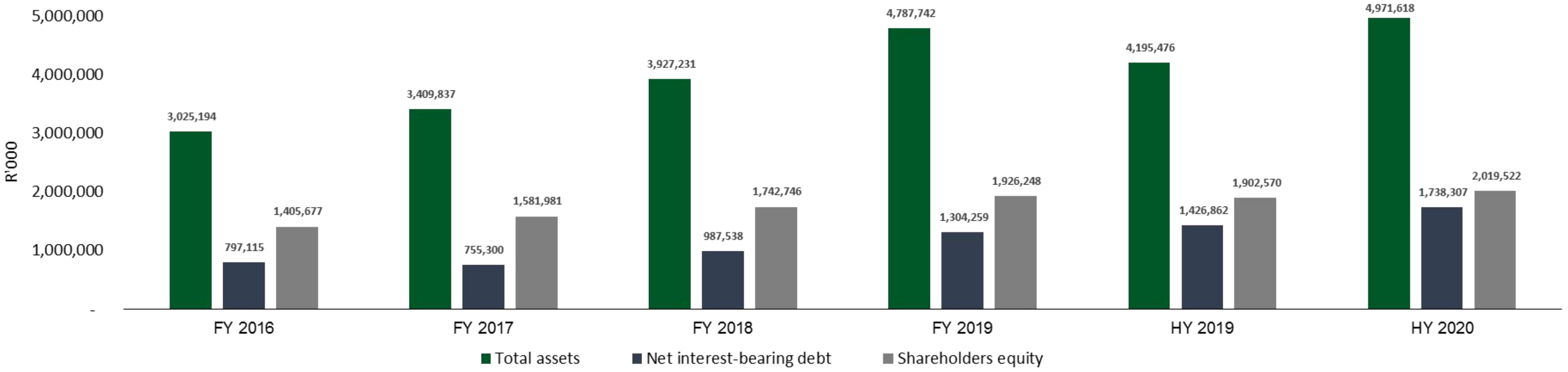


# FINANCIAL PERFORMANCE – BALANCE SHEET

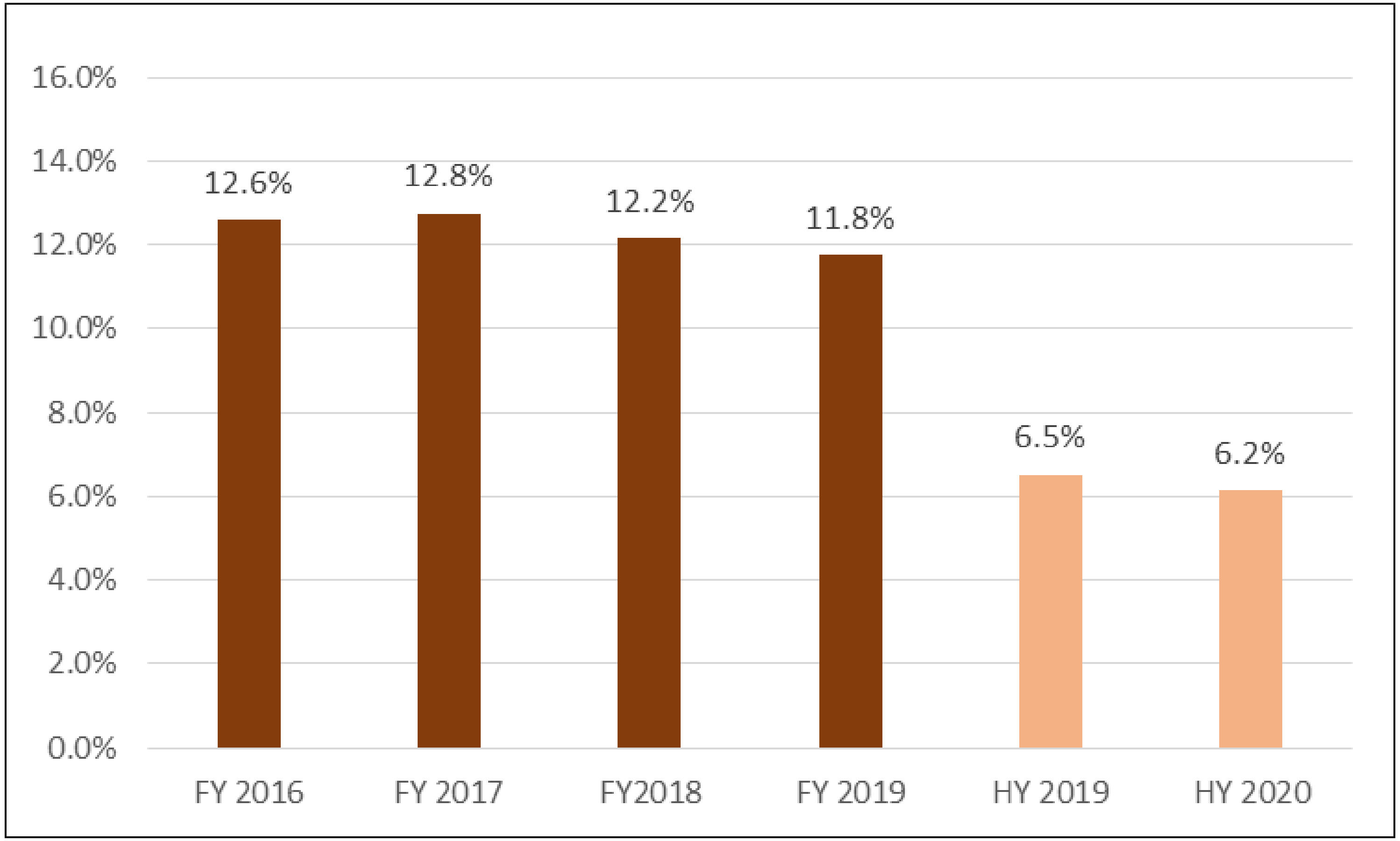
| R'000 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | HY 2019 | HY 2020 |
|---|---|---|---|---|---|---|
| **Total assets** | **3,025,194** | **3,409,837** | **3,927,231** | **4,787,742** | **4,195,476** | **4,971,618** |
| Non-current assets | 802,807 | 1,076,812 | 1,304,896 | 1,785,701 | 1,523,532 | 2,085,495 |
| Current assets | 2,222,387 | 2,333,025 | 2,622,335 | 3,002,041 | 2,671,944 | 2,886,123 |
| **Liabilities and loans** | **1,619,517** | **1,827,856** | **2,184,485** | **2,861,494** | **2,292,906** | **2,952,096** |
| Net interest-bearing debt | 797,115 | 755,300 | 987,538 | 1,304,259 | 1,426,862 | 1,738,307 |
| **Shareholders equity** | **1,405,677** | **1,581,981** | **1,742,746** | **1,926,248** | **1,902,570** | **2,019,522** |
| Net asset value (rand) | 20.0 | 22.5 | 24.8 | 27.4 | 27.1 | 28.7 |
| Debt to equity[1] | 53.7% | 52.0% | 52.4% | 62.5% | 66.2% | 77.1% |
| Interest cover (times) | 8.1 | 6.9 | 5.5 | 5.0 | 5.9 | 5.5 |






1) *Calculated as average debt/average equity*

# FINANCIAL PERFORMANCE – ROIC




## ROIC IMPACTED BY:

- Significant investment into upgrades, expansions, acquisitions
- “No return” capital (TFC site deposits R48.7m and Tego R144.8m)
- FY19 and HY20 performance

## ROIC OUTLOOK:

- H2 F20 weaker trading environment
- COVID-19 impact uncertain
- ROIC under pressure

# SEGMENTAL REVIEW – TRADE DIVISION (AGRI)

## HY2020 Review:

- ✓ Strategy unchanged: Organic, Selective Footprint, Sector consolidation
- ✓ Fruit sector Up, Packaging material Up
- ✓ Farm inputs* +11.0%, ***margin pressure***
- ✓ Drought areas limited, lower animal feed sales
- ✓ Forge improvement…Agri market share gains
- ✓ Namibian PBT improvement
- ✓ Fuel liters & gross profit down…..impacted by Mar & Apr decrease
- ✓ Inflation 0.1%

AGRIMARK

PAKMARK

FORGE AGRI 'Focused on Farming'

TEGO PLASTICS

## Outlook:

- ✓ Fruit sector & KZN market share gains
- ✓ Fruit sector H2 FY20 positive…2021 infrastructure spend
- ✓ Climate change, Political and regulatory uncertainty remains
- ✓ Agri TM Contribution < 50%
- ✓ Agri supply chain deep dives & key customer focus
- ✓ TEGO agency H2 FY20

*** Chemicals, fertilizer, packaging material, animal feeds, horticulture excluding Forge !!!**

# SEGMENTAL REVIEW – TRADE DIVISION (RETAIL)

## HY2020 Review:

- ✓ Strategy unchanged:  Building material, Retail Optimization, DC
- ✓ Centralization of replenishment, assortment, pricing
- ✓ Building material industry contraction (cement units -11.9%)
- ✓ Overall sales +5.8%, favorable to comparative sector players
- ✓ Categories up: hardware, homeware, pet, FMCG, gas
- ✓ DC throughput +8%, DC Cost to serve on par to PY
- ✓ TM contribution > Agri TM contribution + growing
- ✓ Inflation +3.7%

## Outlook:

- ✓ Continued focus on category winners
- ✓ DC throughput growth, capacity challenge extended
- ✓ Optimisation drive = retail margin, assortment, replenishment
- ✓ COVID-19 impact
- ✓ “Bargains”

AGRIMARK

LIQUOR MARK

FORGE BUILD
‘Building Materials & Hardware’

JONSSON WORKWEAR ZONE

AGRILOG

# SEGMENTAL REVIEW – TFC DIVISION

## HY2020 Review:

- ✓ Strategy unchanged: National Footprint, Oilco collaboration, centralized support, leveraging diversity
- ✓ Added 5 new fuel sites since H1 FY19
- ✓ Liter growth +12.6%, LFL -5.0% (@ only 3 sites out of 30)
- ✓ Convenience & QSR growth > liter growth
- ✓ PBT down -4.1%, price negative HY2020 vs price positive HY2019
- ✓ Inflation -1.0%
- ✓ Site tenure = 27.6 yrs (evergreen = 30 yrs)

## Outlook:

- ✓ Petrol mix % continues to improve - urban footprint
- ✓ 3 pipeline sites (existing m/a)
- ✓ Focus on expenses
- ✓ Liquid Fuel Charter pending
- ✓ H2 FY20 COVID-19 impact unclear
- ✓ Sept '20 forward looking liter growth 24%
- ✓ Forward looking site tenure = 26.9 yrs in F24

# SEGMENTAL REVIEW – WESGRAAN DIVISION

## HY2020 Review:

- ✓ Strategy: Market share, facility optimisation, agency profitability, regional player
- ✓ Wesgraan +R14.9m, but timing H1 > H2!
- ✓ Improved Mechanisation Agency profitability +35%
  - ✓ Harvester sales
  - ✓ Workshop capacity utilization improved
  - ✓ Agency Parts pricing issue continues

## Outlook:

- ✓ Wesgraan will not repeat prior year H2
- ✓ Mechanisation Agency pressure expected in H2

# SEGMENTAL REVIEW – MANUFACTURING DIVISION

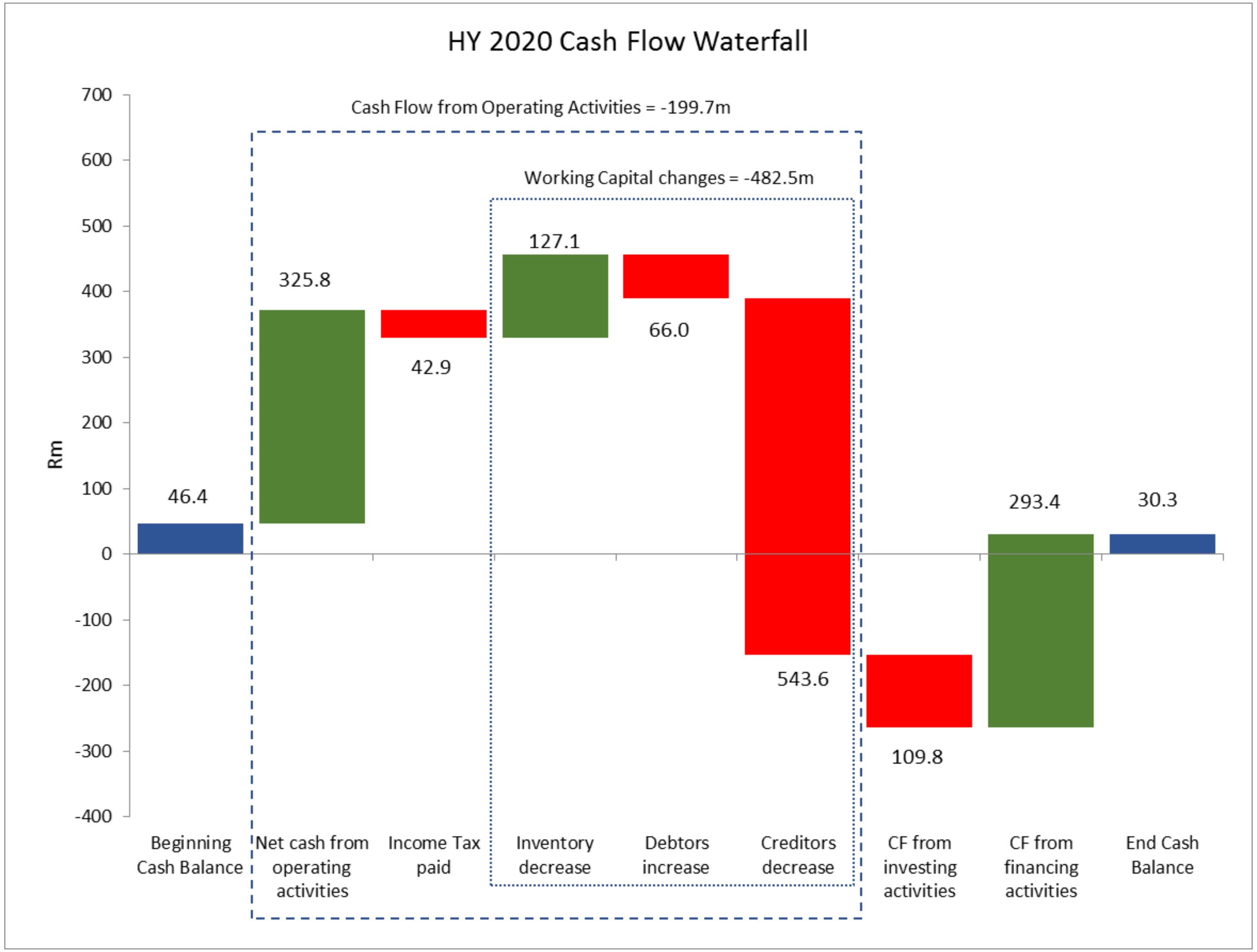
## HY2020 Review:

- ✓ Strategy: Markets, new products, optimization, no 1-way plastic
- ✓ Agriplas
  - ✓ Sales -2.4%,
  - ✓ Q2 very promising
- ✓ TEGO Plastics
  - ✓ Development phase complete

## Outlook:

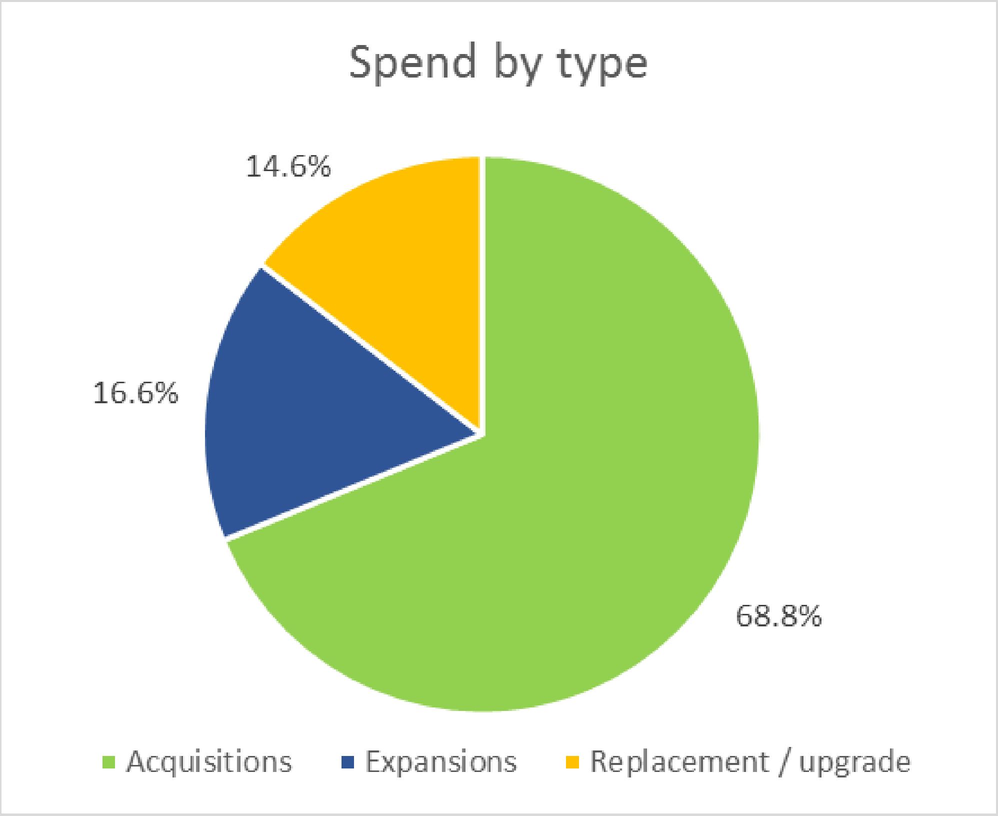
- ✓ Agriplas
  - ✓ Leadership change, new products
- ✓ Tego
  - ✓ Target market well defined
  - ✓ Full production F21

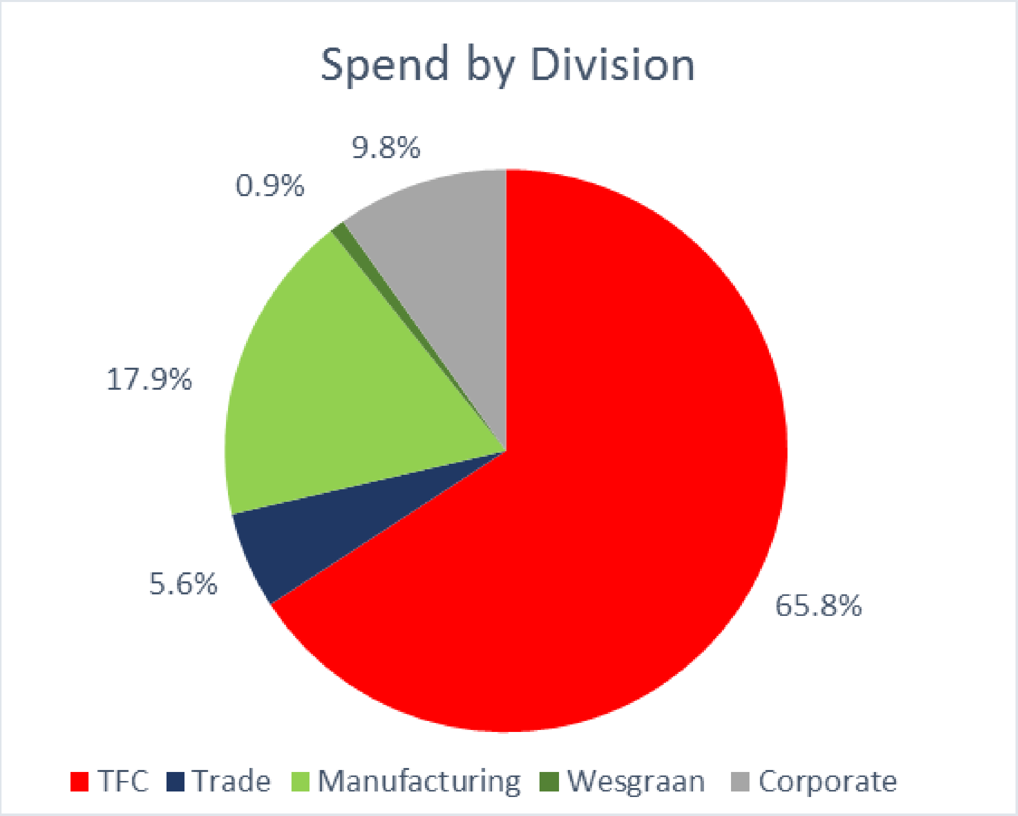
# CASH FLOW PERFORMANCE




- **Strong cash generation from operating activities**
- **Good working capital management**
- **Continued investment**

# CAPITAL EXPENDITURE

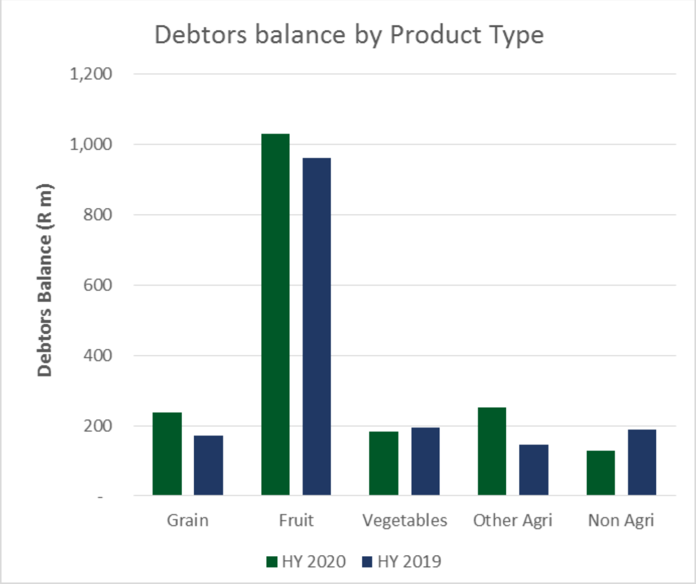


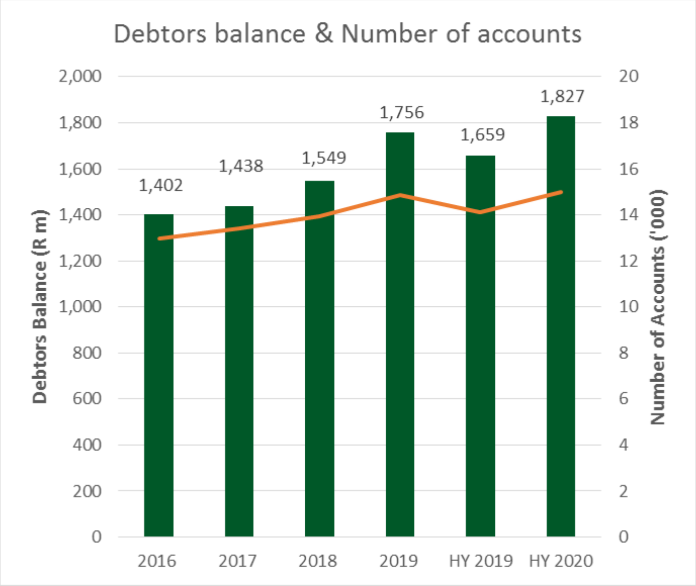



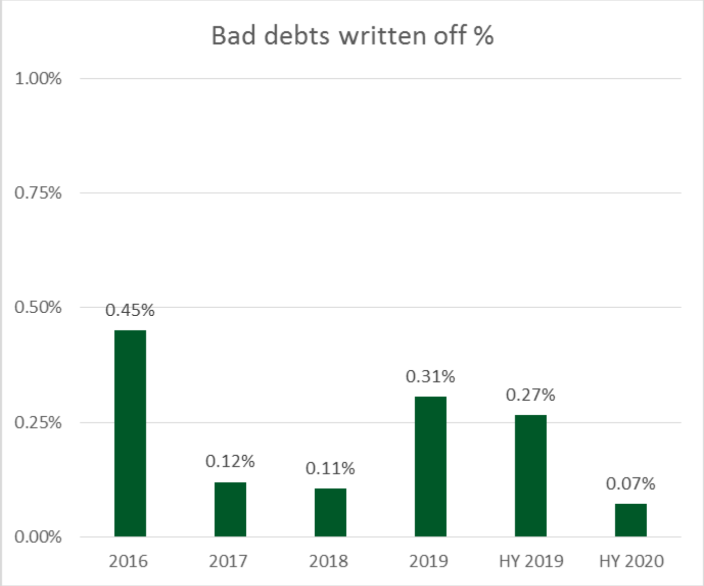

- Acquisitions – TFC & Manufacturing
- R110.7m capex incl. TFC deposits

- TFC & Manufacturing (Tego) largest share
- Trade – replacement capital
- Corporate – largely Supply Chain (digital investment)

# TRADE DEBTORS




- **Enabler to revenue growth (production input credit)**
- **Product and geographic diversity reduces risk & improves cash flow**
- **Other includes monthly accounts not assigned to a product type**
- **14,973 accounts (90% Seasonal accounts by value)**
- **Debtors book turns 3.8 times per year**

- **Bad debts written off = 0.07% of total debtors**
  - ✓ 5 yr average: 0.23%
  - ✓ 10 yr average: 0.36%
- **Out of terms down 0.7% of total debtors**
- **Debtors book**
  - ✓ Healthy diversified book
  - ✓ Well secured by various categories
  - ✓ Income spread approx. 2.1%

# CONCLUSION

## HY2020 Review:

- ✓ Agri very good growth of 11.0%, sterling Mechanization, solid Wesgraan
- ✓ TFC liters +12.6%, pressure on LFL
- ✓ Retail TP contribution > agri TP contribution
- ✓ Retail revenue growth +5.8%
- ✓ Reduced debtors not within terms
- ✓ RHEPS growth 7.5%, EBITDA growth +14.8%
- ✓ TEGO Plastics ready to Go!

## Outlook:

- ✓ Wesgraan won't repeat H2 of prior year
- ✓ Fruit sector positive for H2….Trade division
- ✓ TFC pipeline = 3, but cautious on COVID-19
- ✓ Agriplas and TEGO improved performance
- ✓ COVID-19 impact unclear….will issue SENS if necessary
- ✓ Growth: Optimisation, Leveraging culture and diversity, Digital transformation
- ✓ Reduced Capex, unless M&A opportunity

# THANK YOU

KAAP AGRI