Media release

24 November 2010

Tiger Brands copes efficiently with food price deflation, rand strength and a weak trading environment

Consumer spending “to remain under pressure”

African acquisitions unveiled

Tiger Brands, South Africa’s largest JSE listed branded food and consumer goods group, has announced results for the year to September that were more or less in line with the previous year’s figures.

“Given the difficult environment in which we operated during the 12 months in question, we regard the results as satisfactory,” said Peter Matlare, the CEO.

Headline earnings declined by 1% to 1393c a share on turnover that was 2% lower at 19,3 billion.

Tiger’s BEE Phase II October 2009 transaction gave rise to a once-off after tax charge of R152,7 million, without which headline earnings would have gained 6%. The transaction helped Tiger to achieve a level 3 BEE rating.

Matlare ascribed the muted results to “significant” price deflation in food commodities and a weak trading environment.

He expressed caution on the outlook for the 12 months to September 2011, particularly in the first half of the new financial year. “Consumer spending is likely to remain under pressure in 2011 despite low food inflation and a stronger rand exchange rate.”

Shareholders are to benefit from a final distribution of 476c a share comprising a capital reduction out of share premium of 235c and an ordinary dividend of 241c. The distribution raises the year’s total payout to 746c a share – 6% higher than last year’s distribution.

During the course of the 2009 financial year, Tiger ceased to proportionately consolidate fishing group Oceana’s results, which are accordingly included as an associate company for the year to September 2010.

Matlare reported that operating income for the year had declined by 1%, with operating margin from continuing operations having improved from 15,5% to 15,6%, thanks to lower soft commodity prices.

He highlighted Milling & Baking, Other Grains, Beverages, Out of Home and Value Added Meat Products as having produced “good” operating performances. Groceries, Snacks & Treats and Personal Care suffered “disappointing” declines in operating income.

On the Exports & International front, Matlare said that the rand’s sustained strength had negatively impacted the performance of the Deciduous Fruit business, along with the translation of the results of foreign African subsidiaries Haco (Kenya) and Chococam (Cameroon) into rands. He highlighted the continued positive momentum of Tiger Brands’ Export division, which had achieved a “pleasing performance”.

Matlare emphasised expansion into Africa as one of Tiger’s key strategic thrusts. Good progress had been made, with the recent acquisition of two businesses affording added focus to the continental strategy:

- A51% stake in an Ethiopian personal care and food company. Matlare said that Ethiopia (population 85 million) had been experiencing high GDP growth rates; and

- The entire issued share capital of Deli Foods Nigeria, a manufacturer and marketer of biscuits – an acquisition seen as a first step in entering this “important market”.

Tiger Brands expected the two acquisitions, scheduled for completion early in calendar 2011, to generate a combined annual turnover of some R500 million in the first year. The acquisitions would have no material impact on Tiger’s headline earnings or net asset value per share in the short term.

In addition to the two concluded acquisitions, Tiger Brands has reached an agreement in principle, subject to various approvals, with UAC of Nigeria Plc (UAC) in terms of which Tiger Brands would acquire a 49% interest in the Nigerian food and beverage interests of UAC. The acquisition specifically excludes the franchised quick service restaurants of UAC.

According to Matlare: "UAC is a well-respected company, which is listed on the Nigerian Stock Exchange. The company has been a leading private enterprise champion in the economic advancement of Nigeria and holds food interests primarily in the branded savoury, snacks, dairy and beverage categories.

"Tiger Brands believes that the proposed transaction with UAC will provide the two partners with a sound strategic platform in Nigeria, which will benefit from the respective parties' experience, skill and expertise in the manufacture, marketing and distribution of branded food and beverage products in emerging markets.

"The affected UAC businesses reported a combined turnover for the financial year to December 2009 of some R477 million, based on the current exchange rate."

Matlare said Tiger Brands was currently pursuing other opportunities on the continent. “If successful, they will further increase our manufacturing and distribution footprint outside South Africa.”

Matlare drew attention to the group's enhanced balance sheet structure, noting that net financing costs of R82,2 million had fallen steeply from the prior year's R256,5 million. "The vast improvement reflects the benefits of a lower interest rate environment combined with reduced debt levels."

He said that the strong cash flows generated during the second half of the year had reversed net debt of R888,6 million into net cash of R41,5 million at the end of September.

Income from associates grew strongly owing largely to Oceana's changed status. A strong trading performance by Empresas Carozzi was partially offset by the effect of the strengthening of the rand against the Chilean peso.

The average tax rate, before abnormal items, was lower at 29,7% (32,3%), primarily as a result of a reduced STC charge arising from the distributions to shareholders during the year having been paid by way of capital reductions out of share premium.

Highlights to emerge from Matlare's overview of group operations include:

- Domestic Food had grown operating income by 11% on a 1% turnover decline;
- Albany's new R187 million Pietermaritzburg bakery was commissioned in September 2010, with a R109 million upgrade at the Durban bakery scheduled for completion in 2011;
- Tastic and Aunt Caroline Rice volumes responded positively to lower selling prices;
- The Jungle Oats, Morvite and Ace Instant brands performed well;
- The newly-acquired Crosse & Blackwell mayonnaise business was successfully integrated into the groceries division and produced "excellent" results for the year;
- The core groceries business saw some recovery in volumes during the second half of the year, though the high cost of cans and glass packaging containers pressured margins.
- Snacks and Treats suffered a 17% decline in operating income;
- Beverages achieved volume growth in its core product offerings. Operating income was 25% up at R112,3 million;
- Value Added Meat Products benefited from increased marketing support and lower raw material prices;
- Out of Home's operating income improved, helped by Crosse & Blackwell and the closure of its loss-making pre prepared meals business in the prior year;
- Home and Personal Care's turnover and operating income declined by 5%. Apart from the effects of the weaker trading environment, difficulties were encountered in integrating the Designer Group into Tiger Brands' personal care business. The rationalisation benefits have subsequently started to materialise, with the full benefits expected in 2010/11;

- Operating income at Exports & International suffered an 88% decline, with the 67%-held Langeberg & Ashton deciduous fruit business having incurred an R84,6 million operating loss on the back of the strong rand exchange rate and steep price increases on cans; and
- Associate company Oceana, 45%-held, grew per share headline earnings by 13%. Equity accounted earnings totaled R132 million after tax.

Ends

For media queries contact:

Charlene Hawkes

Meropa Communications

(011) 506-7300

082 569 7872