Tiger Brands Interim Results Presentation for the six months ended 31 March 2022

Webcast Transcript

Speaker Key:

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NCW	Nikki Catrakilis-Wagner – Investor Relations Director
ND	Noel Doyle – Chief Executive Officer
TG	Thushen Govender– Chief Growth Officer: Consumer Brands
YM	Yokesh Maharaj – Chief Growth Officer: Grains
US	Unidentified speaker

NCW Morning, everybody, and welcome to Tiger Brand's interim results presentation for the six months ended 31 March 2022. I'm Nikki Catrakilis-Wagner, responsible for Investor Relations at Tiger Brands.

The agenda this morning is similar to what we've always done, there's just a slight change in speakers. Noel Doyle, the CEO, will provide an executive summary of the results, as well as an update on strategic progress. Deepa Sita, CFO, will then provide a financial review.

The operational reviews will be presented by Yokesh Maharaj, Chief Growth Officer for Grains, as well as Thushen Govender, the Chief Growth Officer for Consumer Brands. We'll then hand back to Noel who will give us a strategic update and outlook after which we'll move to Q&A.

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

ND Good morning, everybody, and thank you for joining the team this morning. I'm going to have a fairly brief speaking role in this morning's presentation, and you'll get the meat of the results from my three colleagues.

Slide 5 – First half performance is a tale of two quarters and two businesses, Snacks & Treats and Bakeries

When we look at this set of results, after three successive interim periods where we managed to show growth period on period, it's a bit disappointing for us that in this particular period we appear to be showing some signs of regression. However, it's important that I give you some context to the first half performance really being a tale of two businesses and two quarters.

The two businesses where we were particularly challenged was the Snacks & Treats business where we suffered significantly in terms of stock shortages due to the lengthy industrial action in the first quarter that concluded right at the end of the year. In that business we're expecting to see a recovery of our service levels as we progress through the rest of the financial year.

In our Bakery business we had significant deterioration in profitability, driven by volume declines as we saw the market competitiveness from a pricing perspective increase significantly. We attempted to recover cost-push at the beginning of the quarter, and we found ourselves with an overexpanded premium and suffered volume losses. Yokesh will take you through a little bit more of that detail.

We're looking at a good recovery in the Snacks & Treats business going forward, but still some challenges in the Bakery business.

When I talk about it being a tale of two quarters, in the first quarter it's fair to say that the level of cost-push that we had seen was significantly higher than what we would have anticipated when we fixed our pricing and promotional calendar for the first quarter. Therefore, we found it very difficult to catch up with the level of cost escalations that we had seen in that quarter.

We made significant strides in that respect in the second quarter. And so, notwithstanding the challenges in those two businesses, in the second quarter we saw, if you look at the portfolio overall, some growth year on year. But, obviously, from the results, not sufficient to offset the challenges that we had in respect of the first quarter.

Slide 6 – Momentum sustained on strategic priorities aimed at improving long-term performance What is important, though, is that as we go through the presentation you get a sense that whilst we dealt with those challenges in the past six months, we've stayed quite firmly focused on driving those key strategic pillars that we believe contributed to the performance that we've had over the preceding three interim reporting periods, and which we think will deliver growth for us for the remainder of the year and create the sustainable platform for growth going forward.

In terms of meeting the needs of the consumer, it's the first time in many years that we've started to over-index our rate of innovation across the portfolio relative to the category, and you'll see some examples of that as we go through the presentation.

Our project of focusing on general trade is meeting our targets and our expectations. We're getting deeper and wider penetration, particularly in the Groceries, HPC and Baby businesses. Despite the challenges that we've seen, our brand health measures, when you look at them holistically, have been holding up very well over this period.

When it comes to people, this is one of the issues that I previously highlighted as a challenge, and we've continued to make progress in this regard. We're starting to see the people in the company emerge with a little bit more confidence, and a little less of the risk aversion that I spoke about previously. So, the cultural transformation is underway, but it's not one that happens over one or two or even three interim reporting periods, but we are making progress in that regard.

When it comes to building the growth pipeline, I think one of the key things that we've moved very quickly on is around our revenue management capabilities. We've made great progress, which Deepa will cover a bit later, in getting the right people on board and generating real rands out of the initiatives in that space.

In addition, we've been very internally focused on the businesses currently in the portfolio for the past number of years, and we've started to build a pipeline of potential activities, both locally and in the rest of Africa. We've been working very hard on building our networks and attempting to identify opportunities for growth. Of course, these are not short-term in nature, but the pipeline is certainly a lot fuller than it was this time last year.

In terms of putting some actions to the good intent, you will have seen the announcement in terms of the VC fund, which we initiated last year, making its first investment and we anticipate more to come in that space as we go forward.

Our supply chain continues to be one of the highlights where we have made progress on top of the prior year. Some really good progress in terms of managing material usage variances, significant progress in the sites that we targeted for OEE improvement, and in this inflationary environment, the fact that we're already gaining traction and momentum in the space, where productivity and efficiency is going to be key, is a positive for us.

The focus on consumer quality is paying off. We saw a dramatic reduction in consumer complaints in the previous reporting period and for this period consumer complaints are down 12%. We're quite pleased with that.

The obsession around cost savings is critical in this environment where we are managing almost unprecedented levels of inflation, which we'll take you through in a little bit more detail later.

We're happy that across the logistics and supply chain side of our business, we've hit the targets that we've set for ourselves. We acknowledge that we need more and to that end we've got the Every Tiger Counts programme, which is headed up by Deepa, which kicked off in this period and we believe this will augment some of the programmes that we had put in place prior to the beginning of this period.

In terms of sustainability, we're obviously working very hard around the health and nutrition driver, and for us Herbivore Earthfoods represents one of the steps in that area. We're also working on our recycling initiatives. We're working on alternative energy initiatives and we're about to do our first solar projects in four of our sites with the intention of rolling this out progressively across our group. We were also very pleased that we hit the target of getting to Level 2 from a triple BBBEE scorecard last year, ahead of the targets that we had committed to at board level.

With that I'm going to hand over to Deepa, Yokesh and Thushen to take you through the detail of the presentation. Thank you.

DS **Slide 8 - Improved Q2 performance falls short of negating poor start**

Thank you very much, Noel. Good morning, everybody. Before we kick off into the actual numbers for the day, I'd like to take a moment to just talk a little bit around the highlights and headwinds that we've experienced in our H1, some of which Noel has already spoken to and I'll certainly cover a lot more of that in the presentation to follow.

In terms of the general highlights that we've experienced in our first half, we did see the successful rollout of our Revenue Management programme across most segments in Tiger Brands. As Noel indicated, that programme continues to gain traction, with some delivery in terms of actual tangible rands to our bottom line, and I'll cover a lot of that in the rest of the presentation.

Our productivity and efficiency initiatives continue to gain traction. You would have recalled we spoke about this in our FY21 results. That continues to gain momentum in terms of improved factory performances. But FY22 certainly sees more focus in the logistics space where we were able to deliver savings of R55 million to date in that particular space.

On the OEEs and effective cost control side of things, we delivered a R187 million year to date, and that's tracking ahead of plan at an aggregate level. Also new to the presentation today is the capital structure optimisation that we've embarked on. That programme is still in progress, and we'll talk to the share repurchase programme that we commenced during H1.

In terms of the headwinds, as Noel mentioned, we continue to see the pressures come through in terms of global supply and logistics constraints, as most organisations are feeling in South Africa. This has impacted both the cost as well as availability of both raw material and packaging. The unanticipated cost-push pressures as well as the timing of our price increases did result in gross margin compression and that's something that we continue to focus on in the second half.

Working capital investment did increase in H1 compared to the prior year. This was largely due to our inventory balances going up, as we took a conscious decision to increase volume of raw materials, where those stocks were available, and also reflects the impact of inflation in terms of the values of raw materials and packaging alike.

The category headwinds, you'd note that we'll talk around the volume that we're seeing in Bakeries, as well as the impact of the labour unrest that we saw in the Snacks & Treats business in Quarter 1.

Coming back to global supply constraints and the impact that it's having on the ports, these bottlenecks are certainly impacting our imports of raw materials and packaging, as well as our Exports business, and in particular the LAF business.

Slide 9 - Top line performance impacted by supply disruption at S&T while operating income includes insurance proceeds

If we just move on to some key highlights in terms of the actual numbers, we did see a slow start to the year following the industrial action that we saw in the Snacks & Treats division, as well as the significant volume decline that we saw in Bakeries, and this saw the business delivering a subdued performance in the first half of the financial year.

This was exacerbated by the supply chain constraints in certain key ingredients, raw materials as well as packaging, as well as our inability to fully recover those cost-push pressures and as a result having an impact on our gross margin.

Although the cost saving initiatives as well as the supply chain efficiencies have been accelerated and are delivering ahead of targets, as I indicated previously, they were not enough, unfortunately, to counter the impact of the cost inflation that we've seen, and this did result in gross margin compression to 29.2% in terms of our reported H1.

The group's effective tax rate decreased to 29.6% from 30% and that was largely due to the adjustments in the current period in respect of special investment allowances that we had previously claimed on capital projects.

In terms of the income from associates, these increased by 3% to R182 million with Carozzi and National Foods delivering improved revenue performances, which were certainly assisted by rigid cost control. We saw Carozzi do particularly well in local currency. However, unfortunately, some of this impact was offset by the local currency translation into rand. National Foods performed exceptionally well and ahead of target, and this was driven by a better sales mix, as well as the impact of price inflation.

In terms of EPS, EPS from continuing operations decreased by 3% to 733 cents, while HEPS from continuing operations decreased by 2% to 729 cents. With that being said, we are pleased to advise that the board has declared an interim ordinary dividend of 320 cents, which is flat on the prior year.

Slide 10 - Volume declines show sequential signs of slowing as revenue management initiatives gain traction

In terms of our price-volume mix, the total revenue from continuing operations increased by 2% to R16.8 billion. This was driven by price inflation of 3%, which was partially offset by volume declines of 1% relative to the prior year.

The Exports revenue was driven primarily by improved performance from the LAF business, which benefited from elevated prices of fruit, as well as improved volumes in terms of international supply.

The volume growth in Exports and International was, however, offset by volume declines that we saw come through in the domestic business, and this was primarily attributable to Milling and Baking, the impact of the Snacks &Treats unrest, as well as the performance in our Home and Personal Care businesses.

The volume declines in domestic were, however, offset by some strong performances coming through in Out of Home, as well as good performances in Rice, Beverages and Groceries, and my colleagues will certainly talk more to that shortly.

In terms of the domestic business, domestic revenue increased by 2% to R14.8 billion and this was underpinned by price inflation of 3% less the impact of the overall volume decline of 1%.

Slide 11 - Excluding the adverse impact of Bakeries & Snacks & Treats, balance of portfolio shows promising signs of growth

It is important to call out that the domestic business, as I said previously, was impacted by the Grains business, with the primary driver being Bakeries, which experienced significant volume losses following the implementation of price increases to recover the category cost-push that we had experienced.

The Consumer Brands business recorded an increased revenue of 6%, notwithstanding the 12% decline that they saw in the Snacks & Treats business. If we excluded the impact of Bakeries and Snacks & Treats, our total revenue from continuing operations actually increased by 5% and this was driven by price inflation of 2% and volume growth of 3%.

Slide 12 - Revenue management goals aligned with our corporate strategy to stabilise and grow

As Noel spoke about earlier, we're pleased to advise that the Revenue Management project, continues to gain some good traction in the FY22 period. The focus remains on building a sustainable capability in terms of revenue management and this will be underpinned by three key enablers.

The first one is the introduction of tools, such as the profit waterfall tool, as well as other commercial decision-making tools, which allow timely analysis and analytics in terms of decision making where we can base these decisions on actual facts.

The second enabler will be the implementation of defined revenue management activities across the business in key categories and really embedding this in the way we operate. The last enabler, as Noel indicated previously, is the appointment of appropriately skilled individuals in the revenue management space to act as effective business partners to the category leaders across Tiger Brands.

In terms of the focus areas and objectives, we continue to focus on various items, such as consumer price, Pack-Price Architecture (PPA), as well as items such as commercial policies where we will see benefits being derived from reducing the selling discount dispersions within consumer groups and on specific SKUs.

The rollout of trading terms is predominantly completed. We have seen the shift from previous trading terms, which were based on unconditional rebates to new trading terms focusing on a pay for performance model.

In terms of promo optimisation, this comprises promotion planning as well as post-promotional evaluation with the intent of making sure that we're able to optimise the return on investment on all promotions.

The benefits yielded to date amount to R100 million banked in FY21. It is important to note that the FY21 numbers are purely based on a pilot and those were coming through in selected categories only. The FY22 numbers have delivered an additional R22 million year to date as we focus on the rollout in terms of all categories within Tiger Brands.

We're also pleased to advise that this rollout is on track, and we anticipate that we will be completed by the end of the fiscal year, where all categories will have the programme embedded.

Slide 13 - Gross profit impacted by higher input costs and timing of price increases

If we shift into the actual income statement, as I mentioned previously, the group's improved top-line performance, as well as profitability in the second quarter were, unfortunately, insufficient to negate the poor start to the financial year. The group operating income before impairments and non-operational items decreased by 5% to R1.5 billion.

It is important to call out that included in the sundry income for the current period we have insurance proceeds amounting to R17 million relating to the insured portion of the cans recall that we reported in the prior year, as well as an amount of R144 million relating to SASRIA claims in respect of the KZN civil unrest, which occurred in July 2021. Both these payments represent tranche payments and we do anticipate further payments to come through in H2.

The financing cost for the period amounted to R34 million, compared to R29 million in the prior year. Included in the net financing cost line on the income statement in front of you is a net foreign exchange gain of R5 million, which resulted from the translation of foreign currency cash balances. Important to note, the prior year reflected a net foreign exchange loss of R56 million as a result of the strengthening of the rand against major currencies in the prior year.

Slide 14 - Solid Consumer Brands performance muted by Grains and Exports and International

If we just have a look at a very top level in terms of the performances by each of our categories, and the detail will be covered by my colleagues shortly. The solid Consumer Brands performance was certainly muted by the Grains and Export and International performance. We saw Grains revenue decrease by 1.5% to R7.4 billion, reflecting average inflation of 1.5%. This was offset by overall volume declines of 3%.

Our efforts to recover the input cost inflation across Milling and Baking were negated by the price deflation that we saw come through in the Rice category. The Grains portfolio recorded a 32% reduction in operating income to an amount of R423 million.

The Consumer business, while all segments except Snacks & Treats delivered strong top-line growth, with a particularly strong performance in the Out of Home category, which recovered in line with post-lockdown demand. Snacks & Treats, like I said, was impacted by the supply chain challenges due to the eight-week labour unrest, as well as some lag processes coming through following the civil unrest experienced in KZN in July 2021.

Overall revenue in this segment increased by 6%, comprising price inflation of 4% and 2% volume growth. The operating income increased by a muted 2% to R654 million.

HPC, revenue was marginally up relative to prior year, despite the lower volumes that we saw come through in Home Care, which was driven by the poor pesticide season that we experienced. This together with the significant cost-push that was experienced in this category in particular, the operating income declined by 16% to R212 million.

The Export and International business increased by 5% to R1.9 billion in revenue and this was, as I said previously, largely driven by the strong performance that we saw come through in the LAF business with operating income declining by 25%.

Slide 15 - Consistent cost management discipline delivers in line with guidance while trading reflects impact of industrial action at S&T and adverse category dynamics in others

Just having a look at the group operating income, consistent with the cost management that we delivered in line with guidance, the year-on-year group operating income benefited from areas such as the continued improvements of factory performances, the logistics initiatives which I spoke to earlier, as well as the insurance proceeds that we saw come through in H1.

The trading was, however, impacted, amongst others, by the impact of the Snacks & Treats labour unrest, ongoing volume challenges as a result of the price inflation, raw material challenges coming through, as well as the significant increases coming through in diesel cost overall.

Slide 16 - Net cash reflects deliberate investment in raw materials, input cost inflation & commencement of share buy-back programme

Having a look at our cash flow performance, cash generated from operations declined significantly to R517 million, compared to the R1.2 billion that we reported in the prior year. This was driven by the significant investment in working capital, as I indicated previously, through the increase in inventory balances driven by both inflation as well as volume.

It is important to note, though, that the volume increase is in line with our strategy to carry higher stock levels where possible in light of the global supply chain constraints that we are experiencing.

The cash outflow in respect of dividends paid amounted to R859 million and this was partially offset by dividends received from the associated companies. Tax paid amounted to R477 million for the period under review, with capital expenditure amounting to R419 million in comparison to the R381 million for the same period last year.

The cash position was impacted significantly following the initiation of our general share buyback programme. In terms of our H1 purchases, we repurchased 4.1 million shares, amounting to R676 million. This was at an average price of R161.76 per share. I'll also call out that these shares have been cancelled from the issued share capital and have reverted to the authorised share status. The group ended the net cash position at R318 million compared to the R1.2 billion in the prior year.

Slide 17 - Capex increases by 10% to R419 million focused on automation, efficiency & brand development; full year capex guidance slightly lower at R1,2 billion

As I previously indicated, the total capex for the year is expected to end in the region of about R1.2 billion, with emphasis remaining on replacement capex, automation, as well as efficiency related items. The larger projects that we will look at for H1 are the potential relocation of the peanut butter plant, as well as improvements on the aerosol line in HPC.

In terms of the IT and automation projects, of the 50 projects that we initiated, 14 have already been completed, with seven in the testing and deployment phase. A further 15 projects are expected to be initiated and completed during H2, with the balance being multi-year projects, and those will see us run into FY23.

Slide 18 - Full impact of supply disruptions on commodities buffered by procurement positions; inflationary impact goes beyond raw materials to other ingredients, packaging and distribution

We've been speaking quite extensively around the cost-push pressures that we've seen. Like most companies, Tiger Brands is also impacted by the global supply chain squeeze. We've experienced challenges in managing availability, timeous supply, as well as the significant cost increases coming through.

The full impact of the supply chain constraints on commodities is, however, being buffered by the procurement positions that we currently hold in Tiger Brands. These positions are, however, being exhausted and I expect it to result in even greater cost-push pressures coming through in the second half. The recent weakening of the rand is also expected to further impact the cost-push pressures.

We expect the challenging economic conditions to continue into H2 and this is likely to have a significant impact on the consumer during the second half. While we will increase our efforts to reduce cost and drive further efficiencies where possible, we do call out that we expect significant price increases to come through and those will be inevitable in H2 with inflation in the second half expected to run into double digits.

Mitigating strategies in the space will focus on securing supply, broadening sources of supply where possible, increase the frequency of price increases, close engagements with customers, as well as enhanced measures to contain the conversion costs and operational efficiencies overall.

Slide 19 - Looking ahead: Fine balancing act between volumes and margins

Just in terms of looking ahead, it is certainly going to be a fine balancing act between maintaining the appropriate margins while protecting the volumes as best as possible. The current headwinds are likely to continue. Input cost pressures are expected to remain elevated for longer. Availability and supply are certainly a concern as the global supply chain squeeze continues, and the Bakery profitability is expected to be sustained at current levels as volume recovery takes hold overall.

In terms of our focus and mitigating factors to offset some of these challenges, the Revenue Management programme will further be accelerated, and we will continue to achieve momentum in that space. We will focus on category-specific initiatives to recover the cost-push, with a recovery in Snacks & Treats expected to bolster the second half.

Also, important to call out, our innovation rate continues to get focus and our current rate is running ahead of competitors, progressive improvements in Exports as well as focus on the resolution of the Deciduous Fruit business overall.

Slide 20 - Trading update – on track for an improved H2

Focusing on where we are in terms of the trading update on H2, we're pleased to advise that April and May profitability ended ahead, or anticipate to end ahead, of prior year. The price increases have been successfully landed to date.

In most segments during the start of our H2 we've seen solid volumes come through in Beverages, Out of Home, Exports and International. We are seeing signs of improved profitability in selected segments, and like I said previously, cost saving and Revenue Management initiatives remain on track and will continue to be a key organisational focus area.

On that note, I'm going to hand over to Yokesh to cover the details around the Grains category in particular. Yokesh.

YM **Slide 22 - Grains adversely impacted by Bakeries while Other Grains deliver profit growth**

Overall, the Grains business was impacted by our Bakery and Wheat Milling business, with the segmentals under Other Grains showing profitable growth. The revenue was driven as a result of price inflation, which was offset by overall volume declines. This was in an attempt to recover some of the cost-push that we saw particularly in our Milling and Baking business.

Operating income, which I'll show you in a bit more detail later on, was offset with significant volume losses in our Wheat Milling and our Bakeries business in particular. Value shares remained relatively stable for the overall Grains business. However, we did see an impact in our Bread business as we lost volumes when we attempted to recover the cost-push we saw from the commodities.

Slide 23 - Bread category has seen limited growth over last three years & consumption has declined by 5% across regions and consumers

Just looking at the Bread category in totality, what we have seen over the last three years is muted growth with a deceleration of at least 5% in the last fiscal year across multiple LSM levels. From a year-to-date perspective, in January we saw 1% decline in the category in totality.

Slide 24 – Milling and Baking

Looking at a bit more detail in terms of our Milling and Baking business, what we've seen is a revenue drop of 2% mainly driven by an offset of volumes as we tried to recover the cost-push with operating margin down 390 basis points.

Overall, the adverse dynamics within the overall category do persist. The total market pricing strategies are not reflective of the environment that we've seen in relation to the soft commodity push that has occurred. Significantly, we have had strike actions and a few cost impacts in the Bakery business.

However, in Quarter 2 we did see volume recovery, particularly in the top end as we started to improve our in-store promotions and activations. Our revenue in Maize was impacted by an unfavourable product mix. Our Sorghum business was impacted by poor factory performance, which has been subsequently remedied.

Looking ahead, we're going to be focusing on increasing support in our Maize business by focusing on secondary lines, increased consumer activity to drive demand and increasing in-store activity. We'll also be looking at our Wheat business by driving our value-added packs.

Slide 25 - Albany remains most loved bread brand in SA with leading brand power score

A bit more detail in terms of Albany, in terms of the highlights and the headwinds that we are facing. In terms of the highlights particularly in Quarter 2, we did see market share gains driven by our White Bread segment as we increased activations and in-story activity, particularly in the modern trade.

Our cost saving initiatives are on track and I'm pleased to say that we have filled key Bakery vacancies. There are opportunities internally, in the medium-term, to improve profitability despite the category dynamics.

Some of the headwinds that we are facing, we are seeing our quality advantage reduced as competitors catch up and introduce technology into their own facilities. We are seeing accelerated market share declines in the Brown Bread category where the price dynamics are particularly challenging.

The cost-push over the coming months will be significant and passing this onto the consumer will be particularly challenging as our commodity positions do run out. We expect the profitability to remain at the current lower levels in the near- or short-term.

Slide 26 - Arrest volume declines and accelerate cost efficiencies

In terms of our immediate priorities for our Bakery business, we are going to continue to focus on quality, particularly in terms of our Brown Bread. We're going to be focusing on recovery in the general trade where we look to capitalise on white spaces where we're not very dominant; defend and grow our strongholds, particularly in KZN and Gauteng and grow share in regions that we weren't active in previously.

We look to leverage our brand strength. We know that Albany is the most loved brand in the category, and we are looking at reducing some of the poor performing SKUs. We're also looking at our efficiencies through our depots and the routes that we service and optimising our fleet and hoping to bring these cost improvements to the bottom line.

The Bakery leadership is now in place, as I mentioned, and we hope to embed and get traction at a local and regional level where the dynamics are very different.

Slide 27 – Other Grains

In terms of our Other Grains' performance, as I mentioned, operating profit up 6% and margin up 40 basis points. This was driven predominantly in the Rice category where we did see an overall deflation in the category, but a 16% volume growth for ourselves. We benefited from tighter cost control, efficiencies and revenue growth management activities.

We also had a pleasing performance in our Jungle category where we had a favourable product mix as consumers switched to ready to eat. But this was impacted by high raw material costs and distribution costs.

We also saw a strong revenue growth in Pasta driven through better volumes and improved realisations. However, our Pasta business was impacted by higher maintenance costs in our factories, which resulted in under-recoveries.

Looking forward, we're going to be continually focusing on our cost savings and efficiencies and our promotional activity, particularly within Rice and our Jungle categories. We've launched various shopper campaigns for H2 to drive the volume in these categories and the refurbishment of our pasta factory is currently underway.

Thank you very much. I'll hand over to Thushen.

TG **Slide 29 - Pleasing performances from most segments negated by industrial action at Snacks & Treats**

Thank you, Yokesh. Good morning, everyone. We're quite pleased with the Consumer division's performance despite some of the macro challenges that my colleagues referred to, as well as the more specific divisional challenges. Within Snacks & Treats we've had the industrial action, which I'll talk to a little later. Then within our Home and Personal Care business we were impacted by a very poor pest season.

What's pleasing to note, however, is that the Groceries business and the Baby business delivered a stellar set of results, and I'll cover that in more detail a little later. Our value shares held up and in Beverages and Home Care, despite the tough category dynamics, we managed to grow share, and I'll cover that as well in the coming slides.

Slide 30 - Groceries

Moving on to the Groceries business. As you can see, it was a notable top-line performance where we had a good balance of inflation as well as volume. That volume leverage benefited our Canned Veg category and our Chutney category where we saw some good improvement in the profit.

However, on Mayonnaise and Tomato Sauce, some of the cost-push that Deepa referred to earlier when we saw global logistics costs running, imports out of China slowing down, as well as general inflation across raw materials and packaging, resulted in some profit regression in some of our other categories. However, all in all it was an excellent set of results with good leverage being generated.

The Mrs. Balls business delivered some good results based on last year's innovation. You would see on the screen we've introduced some new pack-price architecture strategies by increasing the number of SKUs in PET. This allowed us to offer our consumers a more affordable proposition, as well as potentially recruit new consumers to the category.

If one looks at the category as defined by iRI, in the last three months you saw some recovery from the historic volume regression with Tiger leading on that. However, we anticipate that to be short-lived considering the significant cost-push our consumers are going to experience.

The other point I'd like to talk about is Revenue Management. Deepa touched on that earlier, but, at a category level, we're managing to bed down these principles and best practice.

We're investing in deep analytics across some of our KVIs, trying to understand our relative elasticities versus our competitors on shelf, and at the same time making sure we optimise promotional activity. The length of promotional activity, the depth of discounting, all of that has deep analytics supporting it so that we can maximise on our initiatives.

The other critical aspect of the business is making sure the supply chain is optimised, and in this particular environment we want to drive as much efficiencies as possible through the facilities and pass that on to our consumer, so we remain competitive.

We have stringent KPIs in place: waste management, ensuring we reduce consumption of electricity and water, labour productivity, and we're also looking for opportunities where we can strategically reduce our manufacturing footprint, and in some cases outsource if it makes more sense and allows us to reduce our overheads and our labour cost. More recently we've shut down one of our Musina facilities and are looking at outsourcing this to local as well as international suppliers.

I'd like to also call out that this business in particular did not have a managing director for the first half of the year, and I was pleased that the balance of the leadership team in the category managed to step up to the mark and deliver this stellar set of results.

Slide 31 - Renewed focus on innovation aimed at consumer value propositions

I thought it may be worthwhile spending some time on innovation and how we as a leadership team are thinking about this and bringing focus to innovation, as well as ensuring we commercialise our innovation timeously. We're investing deeper into consumer insights and trying to leverage these insights to increase consumption opportunities across all meal occasions in the culinary business.

There are two critical themes that we are driving here. Product tiering or sub-brands where we can offer a value proposition to our consumer. On screen you'll see an example of a reduced-oil mayonnaise that we are going to introduce under our Kasi Magic, which is a sub-brand to our Crosse & Blackwell product.

At the end of the day, it's important for us to have a multi-tiered product offering so as the premium producer in this market, we're still able to capture the middle to lower LSMs in the category.

The other key theme is product engineering where we're looking at opportunities to reduce our recipe cost while making sure that the product intrinsics and the tastes are not impacted in any way. All the way at the top level of leadership, innovation has become a critical focus to us to ensure that in this value economy we're making sure we're offering relevant products to our consumers.

Slide 32 – Snacks & Treats

Moving on to the Snacks & Treats division. As mentioned, the performance was significantly impacted by the industrial action, and it came at the worst possible time. We had just recovered from the civil unrest in Kwa-Zulu Natal, we were starting to build our stock for Christmas and Easter, and we were impacted by this industrial action.

It did point out some key things to us as a leadership team. We need to improve employee engagements on site, and we've embarked on a strategy on that count. And more importantly, we need to also have those tough discussions around labour productivity, making sure shift patterns are optimised and relevant to the demand patterns that we see in the marketplace.

Looking ahead, there are two or three key items we're going to focus on as a leadership team. Restore the core, improve our service levels, and our production-run strategies are reflective of that where we're first focusing on our KVIs and building our buffer stocks in that regard.

Then, as part of stabilising the core, we do have a very old facility, we've brought in the original equipment manufacturers to help us go through all the lines end-to-end to ensure we have the right maintenance programmes, as well as the right critical spares on hand to reduce downtime.

The other discussions we've embarked upon in parallel is reaching out to global strategic partners to help us with product innovation, as well as product quality. Some of these discussions are well under way.

Slide 33 - Beverages

In the Beverage business, in the first half we invested quite a bit behind promotional activity and pricing to hold shares, and in the dilutables category we managed to actually grow share. We were impacted as well by significant inflation cost-push as well as supply challenges on some of our closures for the Energade and Oros ready-to-drink product. With that being said, it impacted our mix, as well as the cost-push faced, resulting in us experiencing flat year-on-year profit growth.

Looking ahead on this particular category, we want to continue to increase our contribution from the ready-to-drink portfolio, at the same time, invest in cold availability to enable that portfolio and we're in the process of rolling out fridges to some key retail points.

The other areas we are looking at here, again, is innovation and spending more time and effort on trying to commercialise our projects by moving our brands into adjacent categories, be it energy, water or ready-to-drink propositions. Innovation is going to be critical in this particular category.

Slide 34 - Baby

The Baby category delivered an excellent set of results, driven by nutrition inflation. We saw some good bottom line benefit. However, the Toiletries category does remain constrained and is facing significant cost inflation. We've seen our consumers limit purchases and focus on more basic products and items.

In the first half we did experience some supply challenges on our pouch business and as a consequence we refocused our investment behind the jars format, and it was pleasing to note that that format delivered some good performance. What it does tell us is that this format still remains relevant for our shoppers.

As one of the leaders in this nutrition category, we're the only player that can offer both a pouch and a jar format. In our marketing strategy and communications, we are now communicating the benefit of these two formats and that complementary nature thereof. Jars offer more solid main meal proposition, whereas pouches offer an interim snacking solution. No other player in the category can offer that product set.

Slide 35 – Home and Personal Care

As mentioned, the Home and Personal Care business was impacted significantly by heavy rainfall during the summer season, so the Pesticide business felt that pressure and there was lower demand, as well as significant inflation that this category experienced - 20% plus on raw materials and packaging.

On Personal Care, despite the significant cost-push, we've managed to hold our position, but the category does remain challenging given what our consumers are facing in terms of inflation.

What is clear to us in this category, is that we need to fast track our innovation and reduce our dependency via organic and inorganic means on the Aerosol Pesticide business.

I'll hand over to Noel at this point.

ND **Slide 36 – Exports and International**

When it comes to the Exports and International business, despite better top line from the Deciduous Fruit business, we're really seeing a stagnant and ongoing lossmaking performance relative to the prior year. We are seeing better pricing into the second half and provided that we're able to overcome the logistical challenges around shipping, we expect to see an improvement in this segment.

In terms of our Other Exports business, a very slow start to the first quarter in Nigeria, had an impact which is now reversing, and we expect to see some solid growth in that business going forward. Our Chococam business continues to demonstrate its ability to manage for the long term, whilst generating very good short-term results considering the complexity and the challenges of operating in Cameroon at the moment.

Slide 38 - Core portfolio turnaround gaining traction and focus on strategic objectives allows for long-term sustainable performance

I'm going to switch now to the concluding slide and the strategic update. I think the point that I would really like to bring out is that with the management team that we now have in place, I think we are starting to demonstrate the capability of managing both for the long and the shorter term.

I think it is quite easy to understate and underestimate the complexity of dealing with the current short-term challenges in terms of significant "take-it or leave-it" price increases and the real challenges around physical availability of raw material, the extent to which operational management are involved on a daily basis in making sure that we're able to streamline the supply chain.

As an example, we have a significant number of people tied up every day currently in meetings where we are getting into quite a lot of detail on the allocation of available sugar due to the challenges in supply that we're experiencing out of the local sugar industry.

Whilst the team is managing all of those challenges, I think that what you're seeing in some of the results that we're presenting are the results of initiatives that have a long-term benefit and that were initiated some time before.

You will see that Bakeries has been a real drag on our earnings for a number of years now, but we do see signs of stabilisation and we're expecting recovery in the future. We're going to continue our focus and our investment around the things that will drive sustainable growth, while focusing very aggressively on costs in this environment.

When we look at the outlook, the level of inflation that Deepa spoke about for the first six months in the low single digits is likely to represent a very significant challenge to managing demand in the second six months, which we are confident of the plans we've got plans in place.

But we are going to see inflation in our basket move into double digits as the full impact of what we're seeing globally starts to flow through to our supply chain, particularly as some positions that we had begun to unwind.

Our focus on our own operations is not allowing us to dilute some increased focus that we're making on growing both domestically and internationally through potential M&A activity.

Again, a much healthier pipeline than we've had before, although there are no particular transactions that are eminent. We're starting to gather the level of intelligence and build the relationships that will be important in developing our business, particularly in the rest of Africa in the medium term.

As that pipeline is not likely to soak up a lot of the cash that the company has on its balance sheet and has typically been able to generate from its continuing operations, we have responded by addressing the issue of gearing with the commencement of a share buyback programme that Deepa has recognised.

I hope that the presentation leaves you with some sense that despite a really challenging first quarter, that the team has got to grips with those challenges whilst focusing on the long-term. It is our intention, despite that high level of inflation that I spoke to, and it is our expectation that we will, second half on second half, deliver growth on the prior year.

With that I thank you for your attention to us and I think Nikki will moderate the questions. Thank you.

NCW **Slide 39 – Q&A**

Thank you, everybody. I'll start with some divisional questions and then move to group questions.

Thushen, this is for you related to Snacks and Treats. Snacks & Treats has been a perineal problem. Actions being taken just sound like more of the same. Maybe you can elaborate on that.

TG Thank you for that, Nikki. I think it's fair to say we have had challenges for some time at the site and within the category. A big part of that is the leadership changes that we've had. We've now managed to bed down the leadership structure. At the same time, we're going deeper into the issues, be it from a consumer facing perspective or from a supply chain perspective.

I did mention that the service levels have been an issue for a long time. We've invited our original equipment manufacturers into the site. We've gone through those lines thoroughly with our engineers and made sure we had the appropriate maintenance programmes in place to ensure that we reduce downtime.

At the same time, what's different is we're reaching out to global partners with a little bit more intensity where we want to focus on improving our product quality and our rate of innovation.

With the new leadership we're also looking at this category with a fresh pair of eyes, investing in consumer research, understanding the role of Beacon as the mother brand where historically we haven't leveraged that sufficiently and we're starting to find those opportunities and gaps and address it.

I'd like to think there's renewed focus all the way from the supply chain through to product innovation and consumer understanding and we're committed to turning it around. We believe we're on top of the issues. Thank you, Nikki.

NCW Thanks, Thushen. Could you please quantify the impact of the labour unrest on Snacks & Treats business, which I can take. It was R100 million at the EBIT level.

Then moving on to Bread, Yokesh. What is the volume outlook for Bread? Any volume stabilisation being seen yet as you invest in price? Then more specifically on the challenges witnessed, what are some of the key reasons behind the challenges witnessed in general trade for Bakeries?

YM Thanks, Nikki. What we've done over the last quarter effectively is look at improving our volume performance. We've seen a good stabilisation in terms of our White Bread volumes. We're still picking up some challenges in terms of our Brown Bread. Brown Bread is an area that we look to address in the forthcoming months.

I expect an improvement in our volume performance, but there will be some deleveraging of our inflation as we try and recover some of the volumes, particularly in Brown Bread given the price differential that we are seeing, which is not reflective of the commodity cost push that we're seeing in totality.

NCW What are some of the key reasons behind the challenges witnessed in the general trade?

YM As we took price particularly into Quarter 1, it is very difficult to deal and get promotional activity on a wide scale in the general trade. It's much easier to get it done on a modern trade basis, given that it's centrally controlled, and you deal with a set of three or four group accounts.

Given the dispersed nature of our delivery and the number of outlets that we do track in the general trade, it makes it very difficult to bring those promotional mechanics to bear. As a result, if the competitors do not take pricing at the level you take or take much later, you start to see a swing in volumes, which makes the general trade particularly difficult to navigate when you see the hyperinflationary cost-push come through.

NCW Thanks, Yokesh. Just some questions around procurement. Can you please elaborate on current inventory positions relative to last year? Have you bought raw materials already for the next six to 12 months?

DS In terms of our inventory balances, as I said, we are holding higher inventory balances on our balance sheet, and that's as a result of two-fold. The impact of the inflation on the cost inflation coming through, as well as increased inventory holdings in specific areas.

I think what's important to note is that there is a global shortage of selected material, so we're not necessarily able to hold high levels of stock, even if our days cover would require it. What we are doing is where stock is available, we are trying to secure those in advance.

What we're looking at is on a category-by-category basis, we're reviewing the inventory days holdings both in finished goods, as well as raw materials and we are ordering stock in advance to take into account the longer lead times for shipping, as well as just general availability.

In terms of H2, we don't have full cover for the full period of H2, but it is also dependent on category-by-category and ingredients in particular. Also, in terms of our hedging it's not necessarily something that we cover in detail in this forum.

ND If I could just add to that. Consistent with past practices, you're not likely to see us take any massive bets in terms of particularly long positions. Philosophically we've historically, preferred, to be slightly shorter in a rising market than very long in a falling market. So, no extreme bets being placed, but obviously watching and reacting on a very regular basis to what we see happen in the market.

NCW Thanks, Noel. Deepa, there is a question on insurance proceeds. Are insurance proceeds taxable? Yes, they are. How much are you still anticipating to receive in terms of SASRIA insurance payments in H2?

DS Thanks for that, Nikki. Basically, we've received two tranches on the SASRIA payments, and they equate to between 75 to 80% of the claim. We're just waiting for the remaining 20% odd.

Also, I spoke about the R17 million received in respect of the cans insurance recall. That amount we anticipate, the claim that we've put in for the insurable portion amounts to about R16 million, so we're waiting for the balance of that payment to also come through in H2.

NCW Then some general questions on performance going forward. What gives you confidence that you can grow operating income year-on-year pre-abnormal recall costs last year in H2?

ND I think what gives us that confidence is the fact that after the shaky first quarter, we've navigated quite a few operational procurement related pricing challenges and successfully grew operating income in Quarter 2. As well as Deepa has highlighted, so far April and May are ahead of the prior year. On that basis and the momentum that we're seeing in the business, we believe it will be possible to grow operating profit for the second six months.

NCW Which divisions are behind the profit improvements seen in April and May? Naturally Snacks & Treats recovery post the industrial action and a better performance from some of the Export divisions drove that. I'm not sure if management wants to add to that answer.

With regard to the double digit inflation you referred to in H2, which categories are likely to see more increases? Are your customers likely to be receptive to these increases?

TG I'll kick off with that. HPC in particular as a category is experiencing significant cost-push, both across raw materials and packaging. Across all of our categories generally there's high inflation, whether it's tin can, whether it's oil which is impacting culinary. It's an abnormal inflation that we have not experienced previously.

We are taking price increases across the range going into H2 and, yes, we have had some tough discussions with our retailers. However, I think there's an understanding that this is not a specific issue to Tiger, this is an industry and a global issue.

At the end of the day, it is unfortunate that we have to push this through to our consumers. We are, however, as we said, looking for those opportunities where we can reduce recipe cost, introduce value propositions, and for us that will be critical because this we believe is going to be a protracted period where we're in a value-based economy.

YM I think in terms of the Grains business, as Noel said, we're typically shorter than longer in this type of period, and as our commodity positions run out, we are going to see prices come through which we'll have to pass on to the trade and our customers.

We've just announced a Bread increase at the beginning of this month, together with a Wheat increase. If the price continues to climb in soft commodity prices as it has been over the last three or four months, we will unfortunately have to pass on pricing across a number of our categories.

The only category that we are seeing some level of stabilisation, certainly not growth in terms of inflation, was the Rice category where we expect that to be slightly muted.

NCW What areas of food or other would M&A focus on?

ND Our M&A is focused on condiments, sauces, ingredients, the seasoning space, beverages space, baked goods, particularly outside of South Africa, and insecticides and home care, but specifically on insecticides. We're also exploring, without wishing to go into the detail now, some potential category expansions outside of the existing portfolio.

NCW Deepa, back to you in terms of cost savings. Do you still expect the R480 million in cost savings for FY22 as guided? An additional question is, has it become harder to execute these cost savings?

DS Thanks for that, Nikki. We remain on track in terms of delivery of that commitment. However, with that being said, the shift in terms of how we'll achieve that target has certainly been moderated. We continue to see benefits come through in terms of efficiencies in terms of the factory performance. As I alluded to in the presentation, a big component of the savings is going to come through in supply chain efficiencies, logistics efficiencies in particular.

As Noel indicated, we launched the "Every Tiger Counts" campaign this year. We're pleased to advise that we have a pipeline of identified savings opportunities that we'll also kick off into H2, but a number of those will also run into a sustainable platform into FY23.

Yes, it is becoming more challenging, particularly with the cost-push pressures that we see. Some of the target was actually related to procurement related savings and, obviously, those are coming under pressure with the double-digit price increases, cost-push pressures that we're seeing. But we're focusing what is within our control in terms of operating expenses, factory performances, efficiencies, etc.

The other impact that is affecting the business is the increase in diesel costs, the shift in exchange rates. Those all do contribute to the overall performance. But we're comfortable that we will certainly deliver, albeit in a different mix for the year.

NCW Thanks. In what areas are you seeing challenges in availability in terms of procurement?

DS Just as an example, there are products that we are importing. The Snacks & Treats business was particularly impacted in Quarter 2 by a gelatine shortage. There are other items that we are experiencing shortages on. In our Davita business, as an example, MSG is another product that we're finding challenging in terms of securing stock on a timely basis.

Some of this has resulted in us having to air freight material as soon as they become available, but as you can imagine, that does come with a cost implication to the business. But we remain vigilant, particularly with lockdowns in places like China. They have an impact in terms of supply as well. But we continue to look for alternative sourcing arrangements.

Noel also mentioned the current situation in South Africa in terms of sugar shortage given the KZN flooding that took place a couple of weeks ago. We were certainly impacted by that as well. Those are just some of the examples of the shortages that we're experiencing.

NCW Yokesh, back to you. You mentioned competitors closing the gap on bread technology. How do you then justify your price premium to competitors?

YM As I mentioned earlier on, the brand health score showed that Albany is the most loved brand and therefore we believe that our consumers are prepared to pay a premium for this brand. Having said that, I don't think the premiums will be at historic highs, but we do believe that we will be able to command a premium in the market.

NCW I think it's also important to underscore that, in terms of bread, competitors also peg their prices to Tiger Brands, so the expectation is that Tiger Brands will be the premium offering.

Next question: H2 in 2021 was a weak base for comparative purposes. How do you think you will perform to H2 of prior years?

DS We have looked at our most recent forecasts and we're confident that we'll deliver over and above the H2 performance of the prior year, and that's on an adjusted basis, so adding back the impact of the cans recall, as well as the KZN unrest. At this point in time, we're forecasted to end ahead of the H2.

NC Are you looking to dispose of any businesses? There are a few questions around Deciduous Fruit in terms of what is next given that the disposal process has been terminated. We did give an update in the earnings announcement that we will update shareholders once we've had engagement with stakeholders. Noel, I don't know if you want to add anything

ND No, there's nothing further to add to that, Nikki. Thank you.

NCW I think most of the questions posed on the platform have been answered. I'll follow up with analysts who had very specific questions. Are there any questions on the conference call?

US Hi, there are no questions on the telephone lines at this stage.

NCW Would you like to make some closing remarks, Noel?

ND No, thank you.

NCW Thank you everybody for attending. I will be available if you have any follow-up questions. Thanks very much. Bye-bye.