INNSCOR AFRICA LIMITED

TRADING UPDATE- FIRST QUARTER (F2018)

NATIONAL FOODS

- Quarterly volumes were subdued and were lower than the comparative period by around 14,000mt.

- The major contributors to this decline were:

    - Stockfeeds, down 9,200mt on account of the Avian influenza (“AI”) outbreak which reduced day old chick availability.
    - Maize, down 7,300mt following the excellent local harvest.
    - Third party products, down 6,900mt (mainly sugar and cooking oil) which were traded through the former National Foods depots which have now migrated to Gain Cash & Carry.
    - Excluding these third party products, the volume reduction was 5.4%.
    - The Flour unit performed strongly with volumes growing by 18% compared to the same period last year.

- Profitability for the quarter largely met expectation as the products traded last year through the Depot network did not contribute significant margin. In addition, costs were well controlled, as the on-going work on the cost base continues to take effect.

- The business continued to invest in extending its pipeline of key raw materials. To this end, working capital increased by $9.3m during the quarter to $88.3m and we have a good pipeline of raw materials in most of our key categories at this point.

BAKERIES

- Revenue continued to show good growth on the back of a 13% increase in average loaves per day sold versus the comparative quarter.

- This performance was however negated by an increase in raw material costs compressing the gross margin dollars as the selling price to the consumer remained unchanged.

- The introduction of the new “family” loaf was very well received by the market and accounted for 47% of total loaves sold in the quarter.

- During the quarter, the transfer and re-commissioning of an 80,000 loaf per day line from Harare to Bulawayo was completed, a month ahead of schedule, and has allowed for increased capacity for the Southern region of the country.

- We will look to start an upgrade of our lines in early 2018, resulting in better conversion efficiencies and increased capacities.

COLCOM

- Total volumes were 7% behind the comparative period, with this decline emanating from the fresh pork lines. Pleasing volume growth was however recorded in the processed lines, driven in particular by a successful, targeted focus on the bacon category.

- Margins were maintained, and whilst operating expenditure was slightly above the comparative period, a favourable fair value adjustment ensured positive growth at the PBT line.

- At AMP, the operation's beef processing and down-packing unit, results followed a similar trend with marginal profit growth being recorded.

- Demand for product into quarter two has firmed, and will be met through our additional pig producing unit, which is scheduled to come on line in the middle of 2018 adding a further 30% to current pig production.

- AMP continues with the roll-out of its Texas branded stores, with additional sites planned for Harare, Bulawayo, Karoi, Kadoma, Kwe Kwe and Mutare in the remainder of the financial year.

IRVINE'S

- Irvine's remains in a recovery phase following the AI outbreak in the middle of the year.

- There have been no further outbreaks of the virus since we last reported, and we expect the sites to exit the quarantine phase this month, at which point re-stocking can commence.

- The business incurred a final impairment charge of $2.042m during the quarter under review, and this was mainly in respect of feed on the infected sites that was destroyed post the year-end.

- Further bio-security measures have been added to the already stringent procedures in place in order to mitigate against further AI outbreaks in the future.

- Whilst volumes of processed chicken have now been restored, the business is not receiving the full foreign currency support to ensure that the necessary volumes of day old chicks can be imported to satisfy normal demand for chicken producers whilst the breeding stock is rebuilt. This is adversely affecting the small-scale sector which relies on day old chicks for production.

- Table egg production remains at around 43% of normal capacity.

- With production and breeding sites set to open shortly, focus and available foreign currency will be directed toward achieving a balance between re-building the various broiler and layer breeding flocks to ensure that production is quickly localised, and augmenting current production levels.

- In the meantime, various cost-cutting measures and strategies have been initiated within the operation.

NATPAK

- Another set of strong results was recorded at Natpak during the first quarter.

- Demand in both the major products (sacks and flexibles) continued to be very firm, and volume growth was around 35% over the comparative period.

- The second flexible packaging line, which was commissioned during the course of F2017 is now operating at close to full capacity. We estimate that the localisation of manufacturing flexible packaging through our plants, critical to many key players in the manufacturing space in Zimbabwe, is now saving the country an estimated $12m in foreign currency per annum.

- The business will look to diversify its capabilities via an investment into the corrugated packaging space in the coming period.

CAPRI

- Capri continued with its strong recovery that commenced in Q4 of F17.

- Total units sold grew by 12% over the comparative period, on the back of increased exports to a number of regional countries where the brand continues to grow.

- The increased volumes resulted in improved factory efficiencies and consequently good profit growth was recorded during the period under review.

PROFEEDS (ASSOCIATE)

- Feed volumes for the quarter declined 16% against the comparative quarter, and this was mainly due to the reduction in the supply of day old chicks following the AI outbreak.

- Notwithstanding the reduction in chick volumes, profitability in the business continued to improve as a result of a well-priced pipeline of raw materials and much improved cost control.

PROBRANDS (ASSOCIATE)

- Probrands posted a disappointing set of results for quarter 1, hampered by the inability to source its full currency requirements for some of its key lines.

- The UHT line has had a successful, albeit slow, start and its initial production teething issues have largely been resolved. The country remains short of raw milk supply, and it is vital that we move away from imported raw material; accordingly we will look at backward integration opportunities for this business in the coming period.

- Probottlers continued to operate to plan, and we are hopeful that the project to double production capacity can be completed in the second half of the financial year.

GROUP SUMMARY

- Overall revenue growth for the Group in quarter one was marginally lower than the comparative quarter, but a slight increase in the gross margin percentage ensured that margin dollars showed positive growth.

- Cost control generally remained good, with further savings being achieved, and as a result headline earnings showed positive growth against the comparative period.

- Notwithstanding the currency challenges being experienced by our business units, we remain extremely positive as regards the country's economic recovery prospects, and will continue with our strategic agenda which focuses on improved operating efficiencies, growing our existing categories and searching for new, and complimentary growth opportunities.