

INNSCOR AFRICA LIMITED

TRADING UPDATE

Third Quarter ended 31 March 2024



Our passion for value creation

Innscor Africa Limited hereby issues the following trading update for the Third Quarter of 2024, which ended 31 March 2024.

TRADING ENVIRONMENT AND GROUP SUMMARY

The Group operated under challenging and turbulent economic conditions during the quarter under review, with the period being characterised by significant local currency devaluation and material fiscal policy changes. These policy changes resulted in the Value Added Tax ("VAT") status of most basic commodities being changed from zero-rated to exempt. This change had the effect of increasing the costs of production of many of the Group's key lines such as bread, milk, maize meal, salt and stockfeeds among others; with the input VAT incurred in the production of these items no longer ranking for deduction in the respective VAT returns. Within the protein segment, most products moved from exempt status to standard-rated, resulting in increased pricing in these products from producers in the formal sector, and providing further pricing advantage to informal, unregistered producers.

The authorities also sought to broaden the tax base via a newly instituted sugar excise tax levied on added sugar in manufactured beverages, this has had a pervasive impact on production costs across the formal beverage sector. Further measures were also introduced to control sales to the informal market via route-to-market trading restrictions, resulting in a complex cocktail of added regulatory measures for the Group to navigate during the quarter under review, and in the period ahead.

The outlook for the summer row-cropping season is largely negative, due mainly to the devastating El Nino drought conditions currently prevailing; this will result in lower maize and soya production across the region, and a greater reliance on imports for these commodities. From a winter wheat perspective, the drought conditions are also expected to negatively impact plantings, which could have some effect on the mill-bake value chain toward the latter part of the current calendar year.

Notwithstanding the challenging economic and regulatory environment, overall Group volume performance, on a cumulative nine-month basis, continued to track ahead of the comparative period, enhanced by the significant investment undertaken to extend manufacturing capacities and capabilities across all core manufacturing operations over the past three years. Volume performance was underpinned by a firm recovery in the mill-bake value chain, complemented by strong volume growth in the stockfeed and protein businesses, as well as the beverage and light-manufacturing segment.

The prevailing macroeconomic conditions, coupled with the bold policy measures taken by the authorities, have necessitated a sharp focus by management on re-basing the Group's underlying business models in an effort to maintain relevant, and convenient pricing to the Zimbabwean consumer, and to ensure that critical volume levels are always maintained.

Efforts continue to also be directed toward ensuring new investments achieve targeted returns, whilst overall free cash generation remains a vital performance metric for the Group, in support of future financing and investing activities.

BAKERIES

Loaf volumes within the Bakeries division closed 16% ahead of the comparative nine-month period, enhanced by a consistent flour price, and the maintenance of a convenient exit price point to the consumer, notwithstanding the change in the VAT status of the product during the quarter under review.

From a manufacturing perspective, the recently commissioned Bulawayo bakery operation is now operating at full capacity and has yielded significantly improved loaf quality and consistency. Innovative route-to-market initiatives continued to gain traction during the quarter through the growing nationwide network of Baker's Inn express shops, coupled with further investment made in upgrading the operation's distribution fleet.

NATIONAL FOODS

At National Foods, volume performance for the cumulative nine-month period was 4% ahead of the comparative period.

- The Flour division continued to record positive volume momentum, closing marginally ahead of the comparative period, on the back of firm demand in the bakers' flour category, and consistent wheat pricing across the supply chain.
- Volume within the Stockfeeds division, on a cumulative nine-month basis, closed 10% ahead of the comparative period. Demand remained robust across both the poultry and beef categories, although momentum slowed in the current quarter following the recent VAT changes.
- The Maize division recorded strong volume recovery in Quarter Three, and, on a cumulative nine-month basis, closed 11% ahead of the comparative period.
- Volumes within the Downpacked division have contracted 23% on a cumulative nine-month basis, driven primarily by reduced rice trade on account of the export ban imposed by India, and, more recently, the imposition of VAT on locally traded rice, which impacted on pricing to the local consumer.
- The Snacks division continued to post very pleasing results and delivered volumes 38% ahead of the comparative period. Additional production capacity is currently being added to both the hard ("Zap Nax") and soft ("King Curls") snack categories.
- In the Cereals division, overall consumer demand improved during the period, resulting in volume growth of 9% over the comparative period, and driven mainly by the growing "Nutri Active" portfolio of cereals. Efforts will continue to be directed to marketing and route-to-market initiatives in the period ahead.
- The business commissioned its world-class, short-cut Pasta manufacturing plant in February 2024. This is the first large-scale pasta plant to have been built in the Country, and deliveries of pasta to the market have recently commenced. The significant investment undertaken in the construction of the new Biscuit plant has also progressed, and the commissioning of this plant is scheduled for June 2024.

COLCOM

The Colcom division, comprising Triple C Pigs and Colcom Foods, continued to deliver solid results during the period under review. Overall pork volumes closed 3% ahead of the comparative period, driven by the sustained demand for fresh pork coupled with a recovery of processed lines, including polonies, bacon and hams, all of which have benefitted from improved trade dynamics within the retail segment. The Coventry Road factory operations continue to receive significant investment, targeted at further modernising product manufacturing, and increasing capabilities and capacities.

At Triple C Pigs, nine-month cumulative volumes closed at the same level as the comparative period, and ongoing investment to expand piggery operations and dedicated breeder sites is well underway to meet the growing consumer demand for pork in Zimbabwe.

IRVINE'S

At Irvine's, cumulative nine-month volumes for Frozen Poultry and Day-Old Chicks closed 5% and 4%, respectively, ahead of the comparative nine-month period, whilst the Table Egg category operated near capacity for the duration of the period, and volumes closed in line with the comparative period. Investment initiatives directed toward capacity extensions within the frozen chicken category remain a strategic priority for the business.

ASSOCIATED MEAT PACKERS ("AMP")

At AMP, overall protein volumes closed 12% ahead of the comparative nine-month period. The beef category, in particular, registered a recovery of 24% against the comparative period, which saw constrained supply owing to foot and mouth disease restrictions. Initiatives continue to be focused on the optimisation of the "Texas" retail network to ensure a world-class, all-encompassing protein retail experience for the Zimbabwean consumer.

NATPAK

Natpak delivered a 21% overall volume increase over the comparative period, driven by the performance of the Rigids division, which grew volumes by 36% in the current nine-month period, as a result of demand from the beverage sector. The Sacks division continued to recover volumes in Quarter Three on the back of increased maize milling activity, and on a cumulative nine-month basis, volumes were tracking 9% ahead of the comparative period. Volumes within the Flexibles division continue to lag the comparative period on account of subdued demand in the local sugar and rice down-packing value chains, whilst the Corrugated division recorded volume growth of 16% over the comparative nine-month period.

The business is currently commissioning additional capacity within the Flexibles and Sacks divisions, as well as additional injection-moulding capacity within the Rigids business. These initiatives are expected to become operational early in the new financial year.

PRODAIRY

Current nine-month volumes at Pro dairy closed 33% ahead of the comparative period and were mainly concentrated in the "Revive" dairy blend category, which delivered 36% volume growth. The milk category, operating under the "Life" brand, continued to benefit from increased raw milk supply, and on a cumulative nine-month basis, volumes closed 17% ahead of the comparative period; similar growth was recorded in the steri-milk, butter, and cream categories.

The operation's maheu offering, under the "Revive" brand, continues to grow in popularity and will benefit from the addition of further production capacity in the quarter ahead.

From a raw milk production perspective, Mafuro Farming delivered significant volume growth over the comparative period, boosted by the commissioning of the new East Range dairy facility in the Midlands.

PROBOTTLERS

At Probottlers, an overall volume growth of 13% was recorded for the current nine-month period over the comparative period. Consumer demand remained buoyant in the cordials category, driven by the popular "Bally House" range, whilst the CSD range of products, operating under the "Fizzi" brand, also showed encouraging growth.

Recent investments undertaken into product extensions, including the "Mammoth" energy drink, "Activ8" sports drink, "H2go" bottled water, and "Bally House" dairy blend cordial, all continue to gain popularity with the consumer, and are contributing positively toward overall volume performance and capacity utilisation for the business.

THE BUFFALO BREWING COMPANY ("TBBC")

TBBC's sorghum beer offering under the "Nyathi" brand continues to gain in popularity, and posted good volume performance in the period under review, driven by ongoing improvements in route-to-market initiatives.

NUTRIMASTER

Current nine-month volumes at the Group's fertiliser unit, Nutrimaster, closed 58% ahead of the comparative period, driven by a growing order book in the lead-up to the commercial summer row-cropping and tobacco seasons, and supported by strong sales to the small-scale farming sector through the retail channel. The operation's agrochemical offering, operating under the "OptiChem" brand has been an extremely positive addition to the overall product portfolio.

PROFEEDS (ASSOCIATE)

As previously reported, Profeeds experienced a material silo collapse at its Harare factory operations in October 2023, which rendered one of its two production lines inoperable. Despite this, core stockfeed sales volumes closed marginally ahead of the comparative nine-month period as the business worked to recover volume through third-party toll manufacture arrangements.

During the quarter under review, focus has been maintained on the Harare factory rebuild, complemented by solid progress in the construction of a dedicated plant in Bulawayo, which is expected to be commissioned early in the new financial year.

The "Pro Farmer" retail platform, comprising 57 retail outlets country-wide, continued to deliver pleasing volume growth across all product categories.

PROBRANDS (ASSOCIATE)

Probrands volumes continue to lag the comparative period due to a deliberate realignment of the business strategy away from commoditised product categories. Despite the overall volume contraction, current period volumes within the specialised FMCG and condiments categories saw growth of 54% and 10%, respectively, over the comparative period.

By order of the Board

INNSCOR AFRICA LIMITED

AD Lorimer
Company Secretary
Harare
15 May 2024