

**AVI LIMITED**  
presentation to  
analysts

for the  
**SIX MONTHS**  
ended  
31 December 2008



**AVI**





- Key features
- Group financial results
- Operating environment
- Projects and New Product Development
- Prospects
- Questions and Answers

# KEY FEATURES



- Revenue from continuing operations up 18%
- Gross margin down from 42,5% to 40,3% due to input cost pressures
- Operating profit from continuing operations up 16%
- HEPS from continuing operations up 12%
- Cash from operations up 17% to R650 million
- Interim dividend up 9% to 36 cents per share
- Consumers under pressure from high interest rates and reduced credit

Group  
**FINANCIAL**  
results

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# GROUP FINANCIAL RESULTS

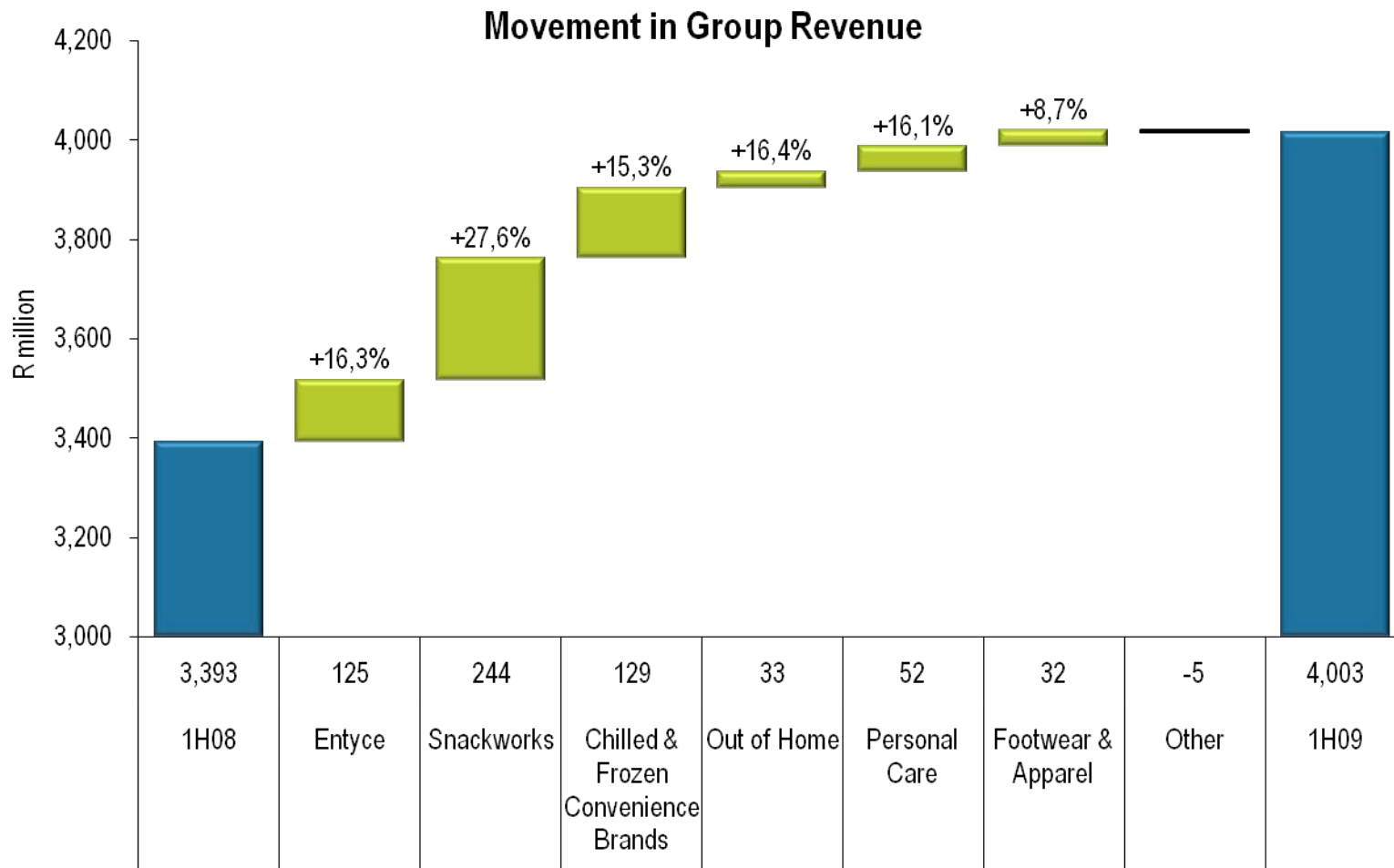
## CONTINUING OPERATIONS



<b>Income statement</b>	<b>1H09 Rm</b>	<b>1H08 Rm</b>	<b>%Δ</b>
Revenue	4 002,8	3 392,8	18,0
Gross profit	1 611,5	1 443,6	11,6
Gross margin %	40,3	42,5	(5,2)
Operating profit	534,6	461,5	15,8
Operating margin %	13,4	13,6	(1,5)
Net financing cost	69,3	21,1	228,4
HEPS (cps)	103,2	92,3	11,8
Interim dividend (cps)	36	33	9,1
Capital items	54,1	21,6	

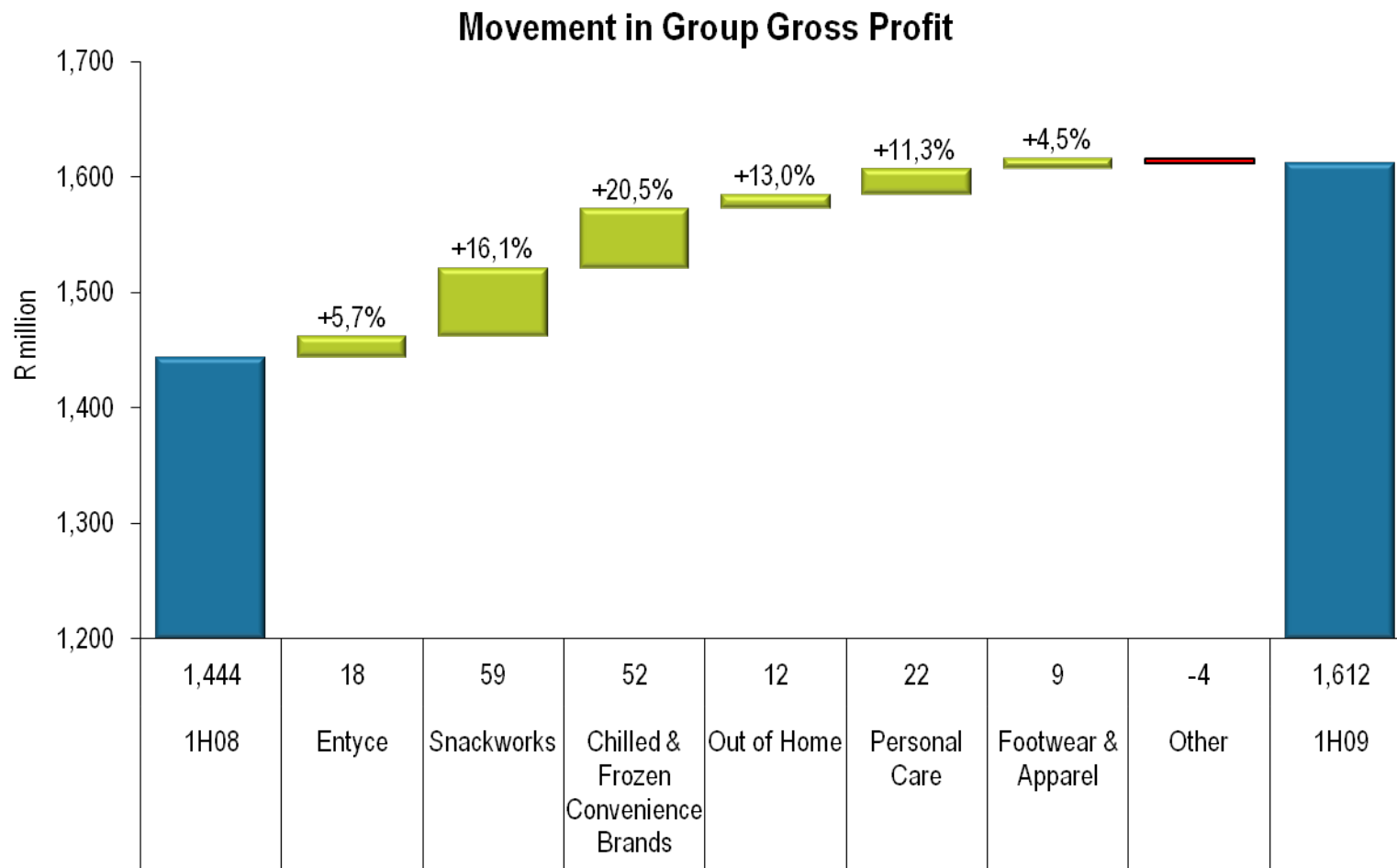
# GROUP FINANCIAL RESULTS

## CONTINUING OPERATIONS - REVENUE 18% UP



# GROUP FINANCIAL RESULTS

## CONTINUING OPERATIONS - GROSS PROFIT 12% UP

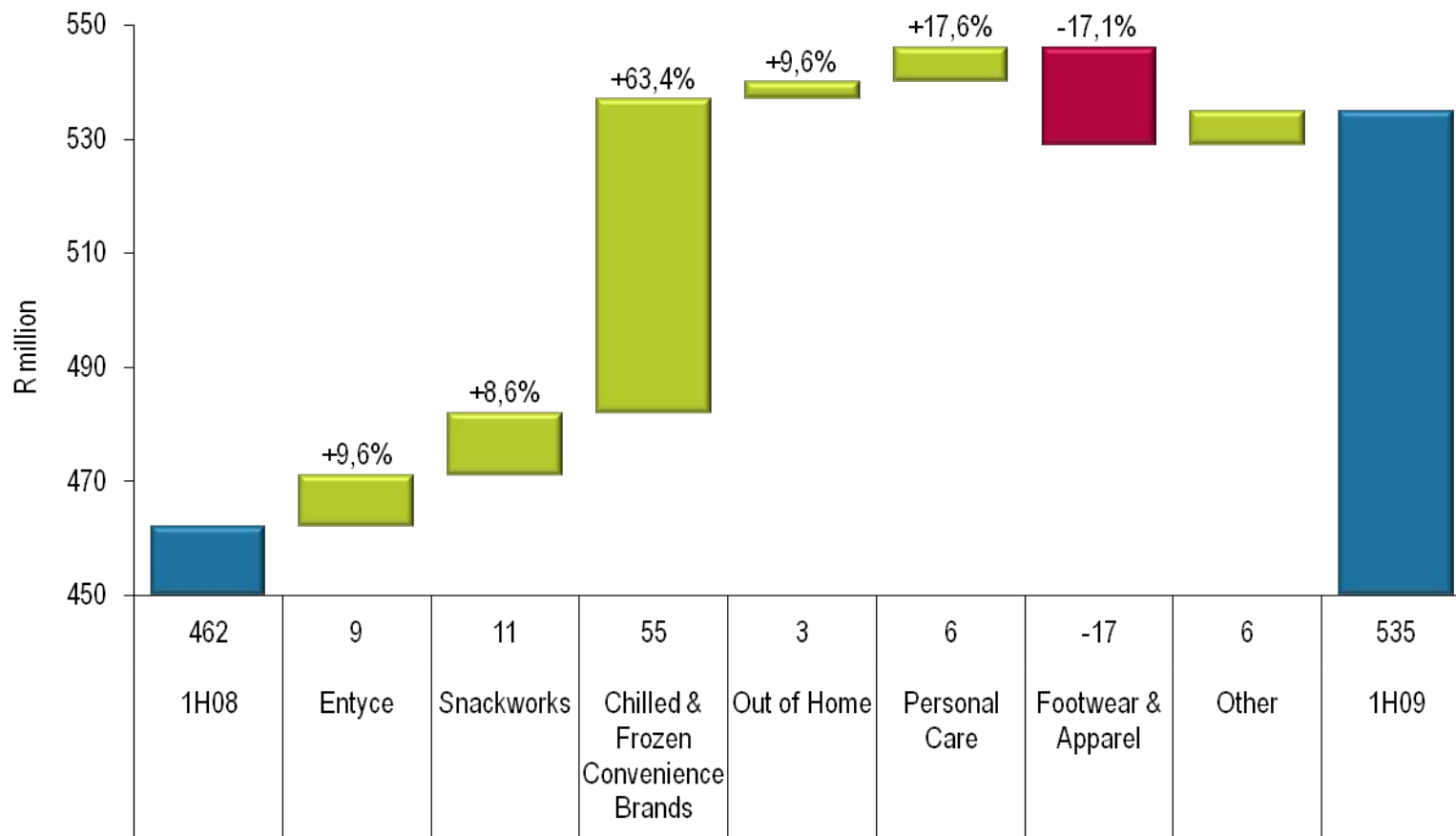


# GROUP FINANCIAL RESULTS

CONTINUING OPERATIONS - OPERATING PROFIT 16% UP



### Movement in Group Operating Profit





# GROUP FINANCIAL RESULTS

## CONTINUING OPERATIONS



	<b>1H09 Rm</b>	<b>1H08 Rm</b>	<b>%Δ</b>
Cash generated by operations	649,5	554,1	17,2
Working capital to revenue %	16,9	18,8	
Capital expenditure	165,8	115,8	43,2
Depreciation and amortisation	87,0	80,1	8,6
Net debt	568,3	635,5	(10,6)

# GROUP FINANCIAL RESULTS

## CONTINUING OPERATIONS



- Gross margin pressure largely attributable to unrecovered raw material input costs
- Demand pressure and down trading in some categories
- Lower operating leverage with less volume growth
- Selling and admin cost increases in line with inflation
- Net finance costs increased due to higher average debt levels and interest rates
- Effective tax rate lower due to capital items
- No shares repurchased during the period

# GROUP FINANCIAL RESULTS

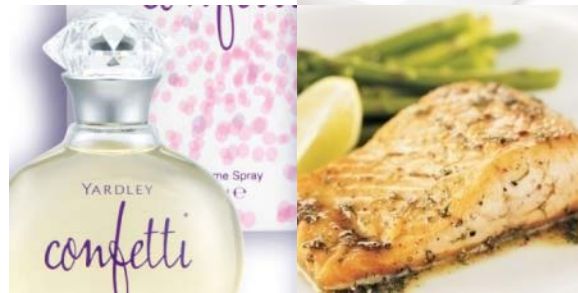
## DISCONTINUED OPERATION – ALPESCA

- Ongoing process of disinvestment
- Operating profit of R20,8 million compared to loss of R2,7 million in prior period
  - Improved shrimp prices
  - Benefit of good Euro / USD forward cover on export sales
- Results remain highly dependant on exogenous factors
  - Labour volatility
  - Hake and shrimp resource performance
  - Shrimp prices
  - Foreign exchange rates



**Operating  
environment**

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**AVI**

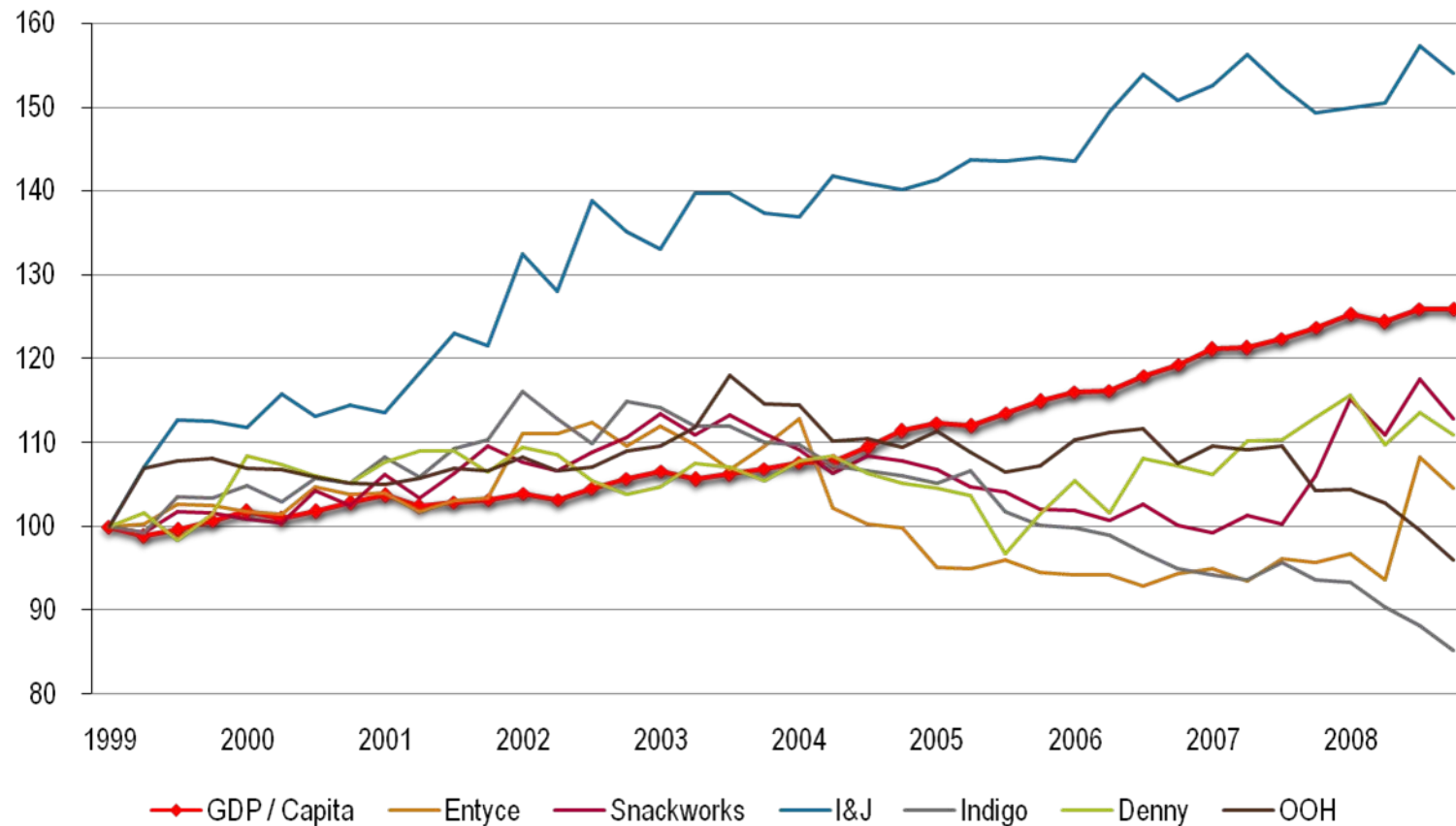


# OPERATING ENVIRONMENT

## CONSUMER DEMAND



### Change in GDP / Capita Compared to Real Increase in Prices



# OPERATING ENVIRONMENT

## CONSUMER DEMAND

- Biscuit demand impacted by price increases over 18 months and slowing consumer spending
- Snacks volumes boosted by strong promotional activity
- I&J reduction due to timing of sales and lower quota
- Personal care growth in deodorant spray market share
- Spitz reduction due to supply chain delays, SAP implementation and slowing consumer spending

Sales volume growth	% Δ vs 2007
Tea	0,6
Biscuits	(0,1)
Snacks	10,9
Creamer	3,9
Coffee	4,3
Denny	1,1
I&J South Africa	(6,7)
Personal Care	11,3
Spitz footwear	(11,9)

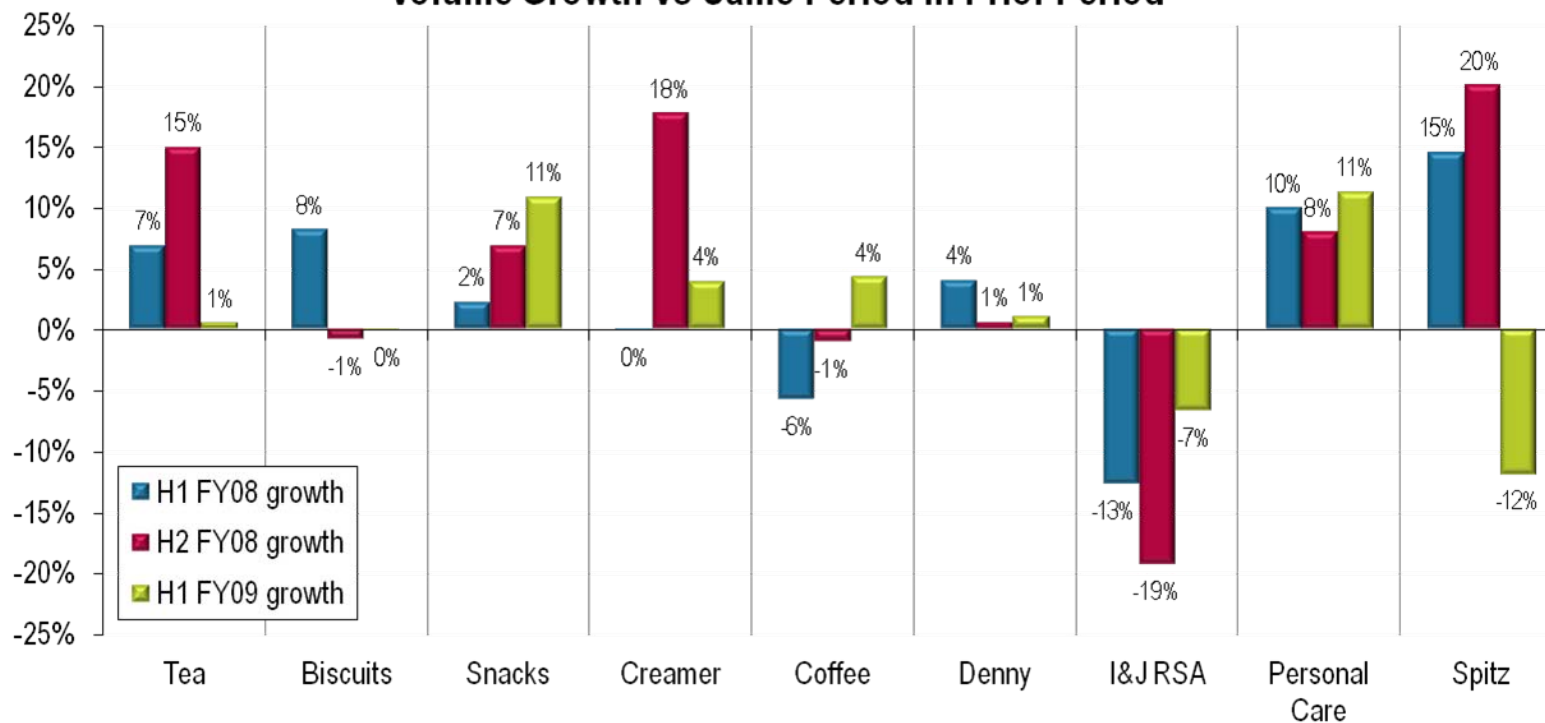


# OPERATING ENVIRONMENT

## CONSUMER DEMAND



### Volume Growth vs Same Period in Prior Period

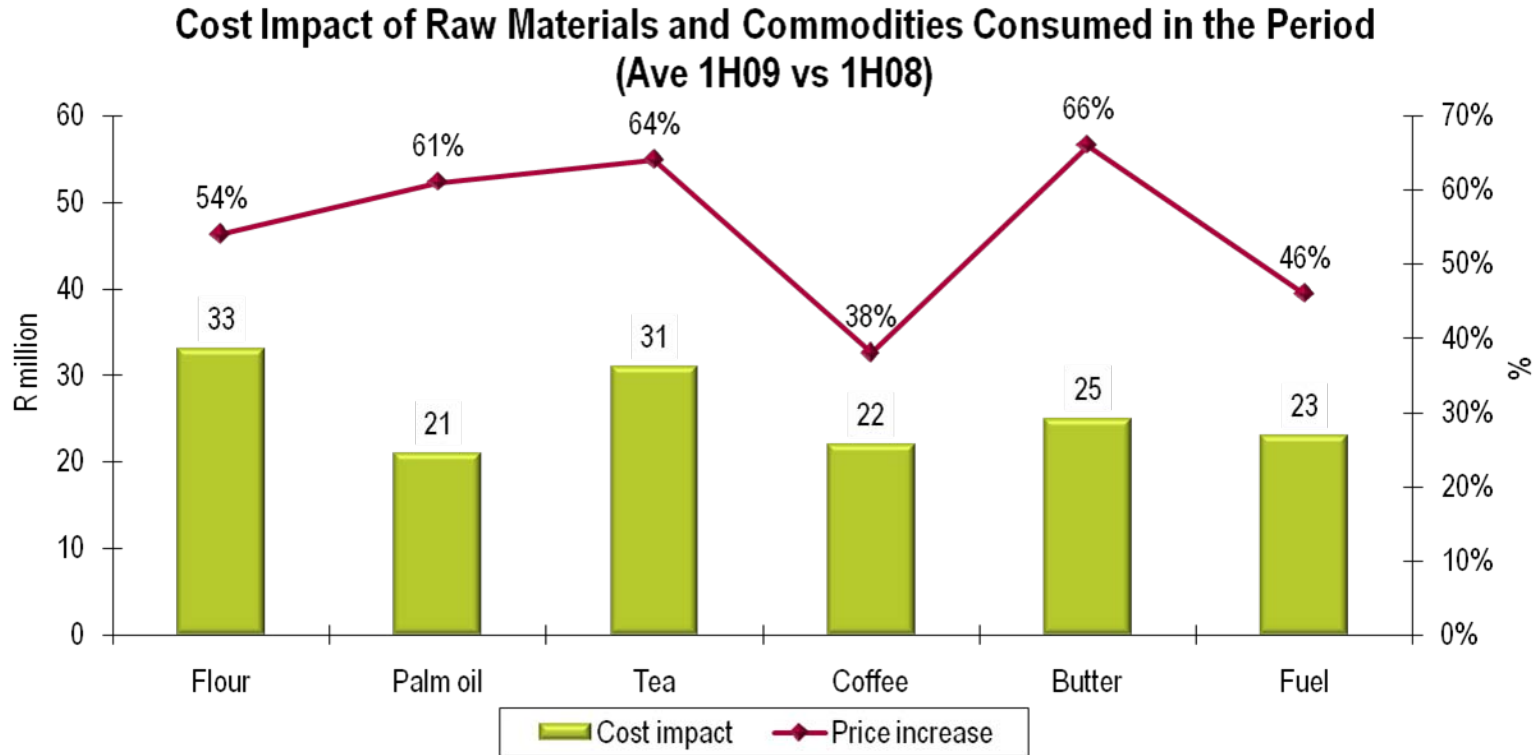


# OPERATING ENVIRONMENT

## COST PRESSURES



- Commodity input costs



- Impact of above increases = R155 million (R120 million > CPI)
- Packaging input cost increases average 17%
- Labour cost increases 10% - 11%



# OPERATING ENVIRONMENT

## SELLING PRICES

- Change in average realised selling prices

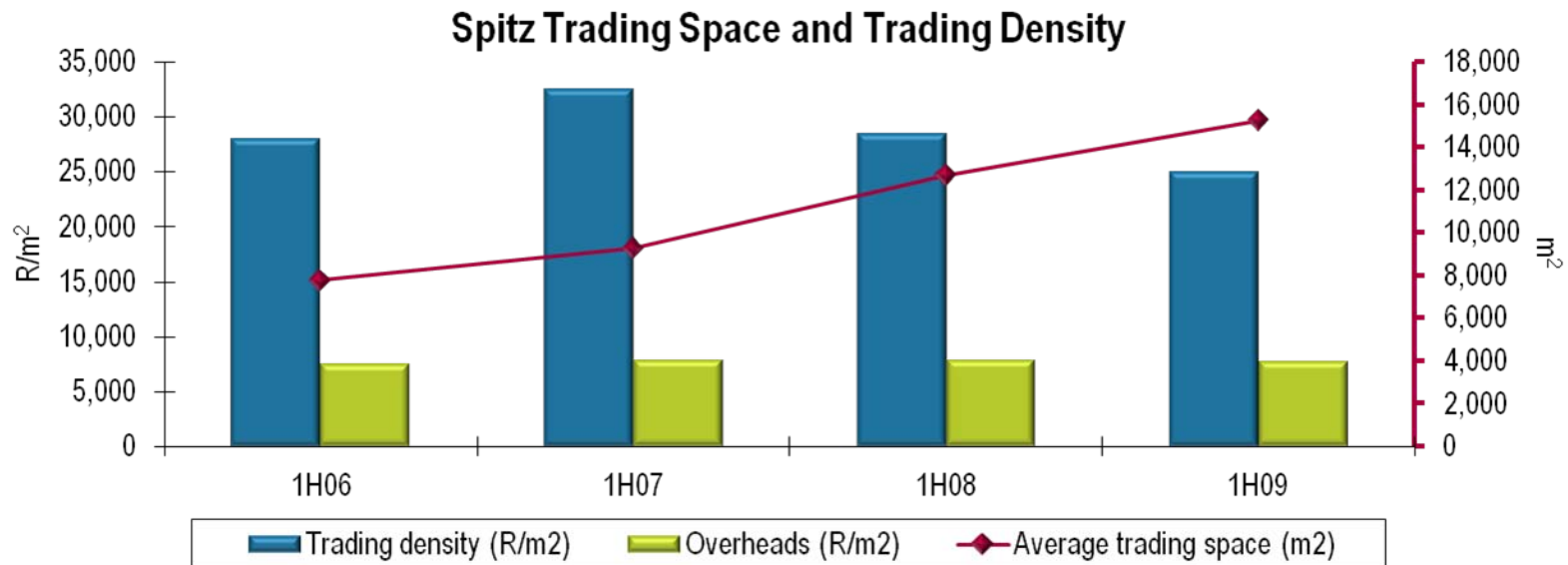
Average realised selling prices by category & primary drivers	% Δ vs 2007	CPIX	Category Inflation
Tea ( <i>raw material, Rand</i> )	15,4	12,4	17,5
Biscuits ( <i>raw material, Rand</i> )	27,3	12,4	17,5
Snacks ( <i>raw material, Rand</i> )	16,5	12,4	17,5
Creamer ( <i>raw material, Rand</i> )	22,3	12,4	17,5
Coffee ( <i>raw material, Rand</i> )	25,1	12,4	17,5
Denny ( <i>raw material, Rand</i> )	12,3	12,4	17,5
I&J South Africa ( <i>CPIX</i> )	11,0	12,4	17,5
Personal Care ( <i>Rand</i> )	4,3	12,4	8,2
Footwear ( <i>Rand</i> )	19,7	12,4	17,6

*Shows cumulative impact of price increases taken during 1H08, 2H08 and 1H09*

# OPERATING ENVIRONMENT

## A & D SPITZ

- Core brands retain strong appeal
- 6 new stores opened in 1H09, bringing total doors to 63
- Average trading space 15 253 m<sup>2</sup> (1H08 12 686 m<sup>2</sup>)
- Investment in people and systems complete
- Lower trading density in both established and new stores
- Supply chain delays and SAP implementation
- Operating profit margin 22,3% (1H07 28,2%)



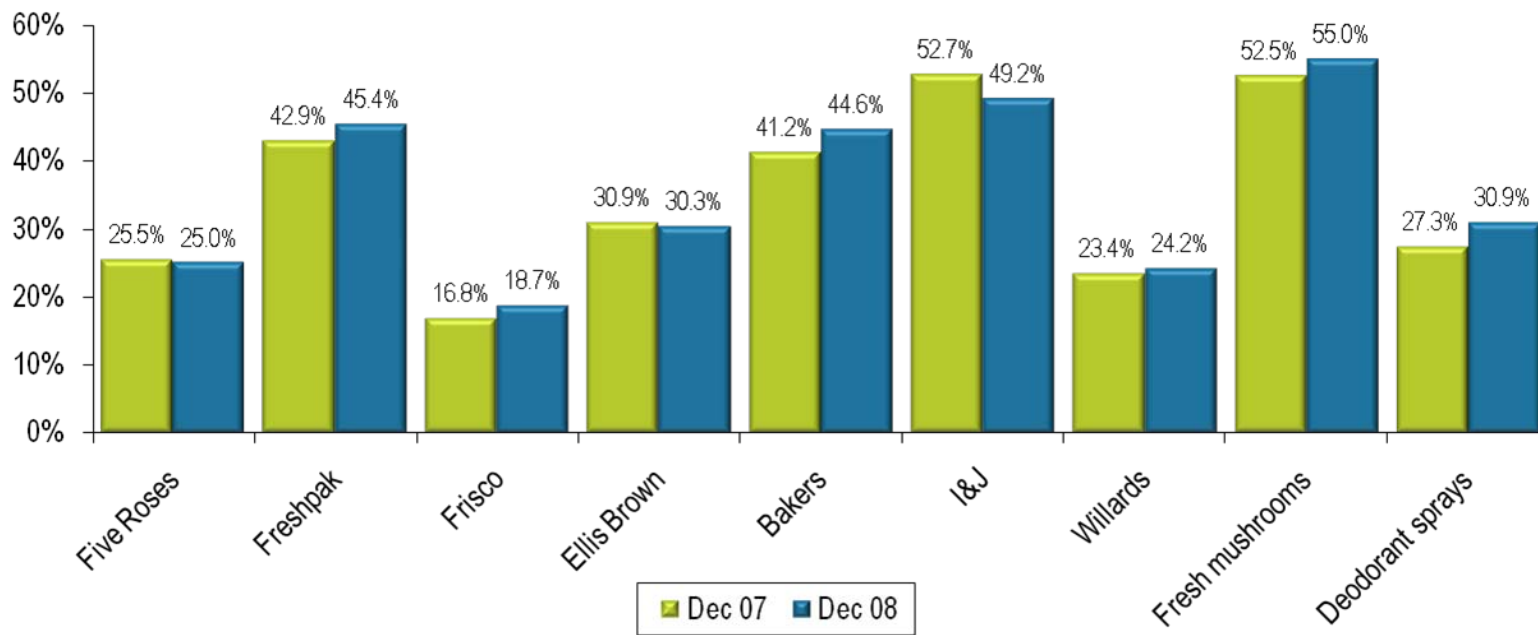
# OPERATING ENVIRONMENT

## MARKET SHARE

- Mix change in some brands to lower priced / lower margin products
- I&J reduction due to price discipline to protect margins
- Toppers biscuit range moved from Baumann's to Bakers

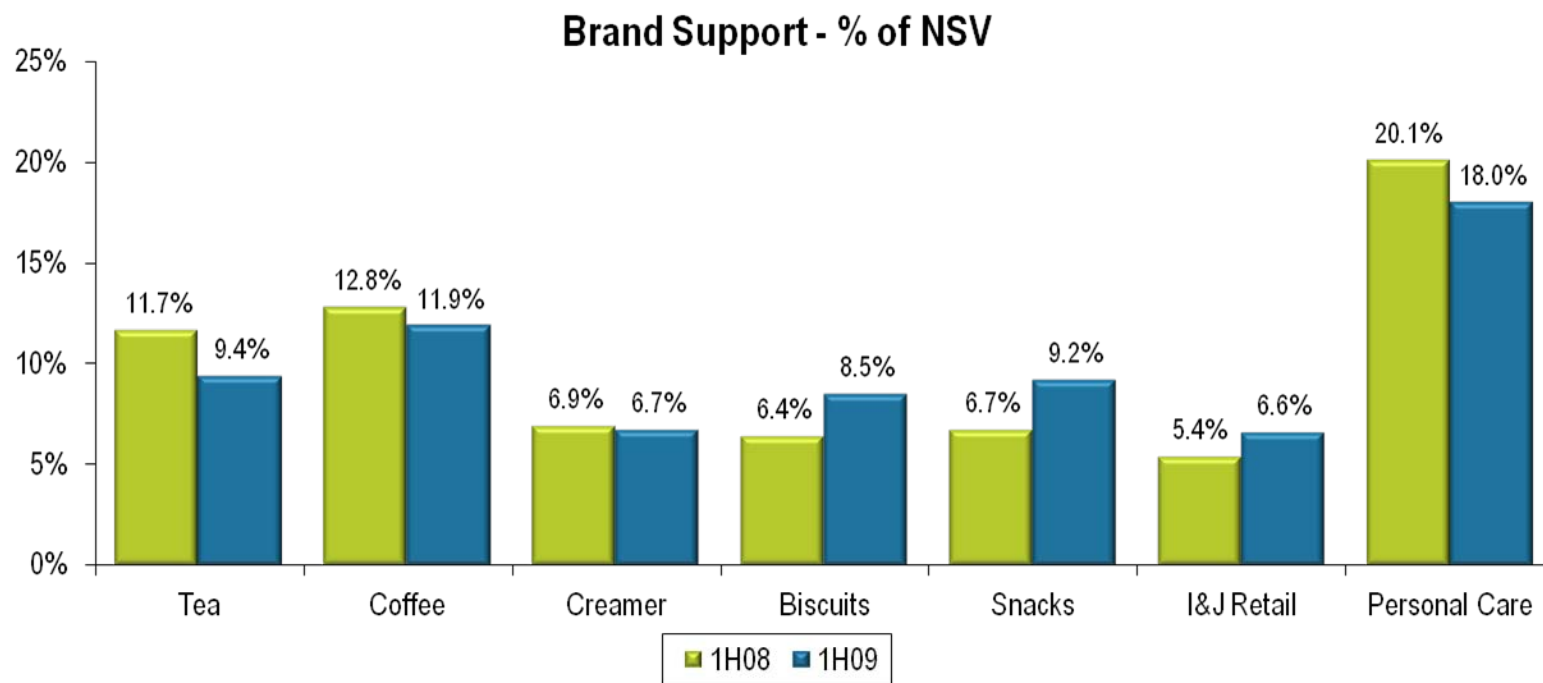


Market Shares 1H09 vs 1H08



# OPERATING ENVIRONMENT

## SALES AND MARKETING EXPENDITURE

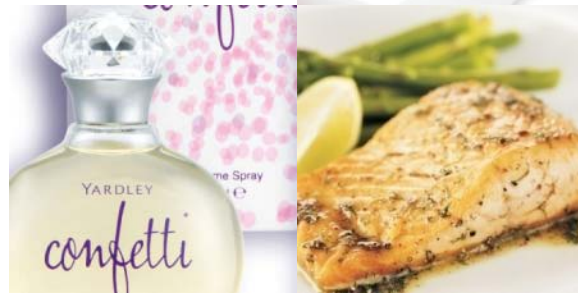


*includes advertising and promotions, co-operative expenditure with customers and marketing department costs*

- Total expenditure for 1H09 was R293m compared to R250m 1H08

**Unsolicited**  
approach from  
Tiger Brands

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# UNSOLICITED APPROACH FROM TIGER BRANDS



- Terms of non-binding expression of interest to acquire entire issued share capital of AVI announced 17/11/08
- Revised proposal with conditional funding made to AVI 22/01/09
- Interest withdrawn 04/03/09
- No formal offer made
- Inherently difficult transaction – extended timelines without certainty of outcome
- Compensation for execution risk / transaction failure and price underpin for equity settled portion of price unresolved at time of withdrawal

**Projects**  
and  
NPD

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## **AVI FIELD MARKETING**

- Improved execution in store – increased sales
- Costs similar to outsourcing
- Will cover Entyce, Snackworks and Indigo
- Implement 1H09

## **I&J**

- Overseas marketing department restructured – annual savings R8m
- Mossel Bay processing moved to Cape Town – annual savings R6m
- Distribution contract re-negotiated – annual savings R8m
- Inshore fleet upgraded – improved catch rates
- Fleet improvement – modern wet vessel acquired for R42,5m
- Improved centralised procurement process



# PROJECTS

(continued)

## OTHER

- Successful rationalization of Real Beverage to Western and Eastern Cape
- Profitable disposal of The Tea Blenders – non-core private label tea and coffee packer
- New Coffee extraction technology successfully commissioned – improved quality and consistency
- SAP Retail implemented at Spitz
- Ongoing progress towards BBBEE targets
- Improved production planning and service levels in Snackworks
- Employee wellness programme
- SAP HR improved employee and payroll management



# NEW PRODUCT DEVELOPMENT

## LAUNCHES

- Bakers new Romany range – Balls, Tartes, Cookies, Vanilla and Double Choc
- Pyotts Mini Cheddars 150g
- Willards
  - Original Cut – new packaging
  - Crinkle Cut – now curvy cut, in new packaging and with new flavours: Pickled Onion and Cheese & Sweet Chilli
  - Kettle Chips – new livery and new 30gm range
- Frisco and HoC stickpacks launched in Sept 08
- Quali – new 350ml pack launched, with 350ml sports pack on Nectar and Lite



# NEW PRODUCT DEVELOPMENT

## LAUNCHES (continued)

- I&J

- New products – Omega 3 Plus Fish Fingers, Chicken with Veg Fingers, Chicken and Veg Burgers, and I&J Meal Box, as well as limited edition Entertain Range



- Denny mushrooms reusable and recyclable pack with new labeling



- Lenthéric

- Hoity Toity Mademoiselle la Pussycat



# NEW PRODUCT DEVELOPMENT

DEVELOPED FOR H2

- Bakers

- Flavoured Marie Biscuits: Cappuccino and Caramel
- Mini Marie Biscuits
- 3 banded packs on Eet Sum Mor, Tennis and Red Label Lemon Creams



- Willards

- Big Korn Bites mixed 30g baler
- Pilot multipack tube of mixed 30g flavours



- Ellis Brown alternate pack sizes and formats under investigation



# NEW PRODUCT DEVELOPMENT

## DEVELOPED FOR H2 (continued)

- I&J

- Migration to electronic Customer Club
- Expansion of the Homestyle Beef Burger Range with the launch of Homestyle Lamb Burger and Homestyle Sandwich Burger
- Improved consumer value for Steam Fresh Fish portion range and Flame Grills Fish Range



- Denny

- Denny Pasta mushrooms – mix of sliced white button, Portobellini and Brown mushrooms
- Two new curry Sauce variants: Rogan Josh and Butter Chicken



PROSPECTS



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- Demand
  - Jan and Feb softer than budgeted
  - Disposable income likely to remain constrained
  - Consumers looking for best value
  - Softer European markets for I&J exports
- Cost pressures
  - Lagged effect of decreases in some commodities
  - Rand prices of some commodities remain at high levels
  - Risk to margins from further rand weakness
  - Focus on fixed costs, production yields and procurement costs

# PROSPECTS

(continued)

- Opportunities
  - AVI Field Marketing
  - Ongoing review of brand portfolio
  - Product innovation and top line growth

“AVI is fortunate to have a portfolio of market-leading brands that has demonstrated defensive attributes over many decades, which together with planned efficiency and product initiatives will allow us to effectively compete for market share and sustain growth in these leaner times.”





**QUESTIONS**  
and  
answers

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THANK YOU

[www.avi.co.za](http://www.avi.co.za)



AVI



Business  
**UNIT**  
information

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# BUSINESS UNIT FINANCIAL RESULTS



	Segmental Revenue			Segmental Operating Profit			Operating Margin	
	1H09 Rm	1H08 Rm	Δ %	1H09 Rm	1H08 Rm	Δ %	1H09 %	1H08 %
<b>Food &amp; Beverage Brands</b>	3 219,5	2 688,9	19,7	413,7	336,4	23,0	12,8	12,5
Entyce	887,4	762,9	16,3	103,9	94,8	9,6	11,7	12,4
Snackworks	1 127,9	883,7	27,6	139,7	128,6	8,6	12,4	14,6
Chilled & Frozen Convenience Brands	969,6	840,7	15,3	140,5	86,0	63,4	14,5	10,2
Out of Home	234,6	201,6	16,4	29,6	27,0	9,6	12,6	13,4
<b>Fashion Brands</b>	777,9	693,3	12,2	124,1	134,7	(7,9)	16,0	19,4
Personal Care	377,8	325,3	16,1	42,1	35,8	17,6	11,1	11,0
Footwear & Apparel	400,1	368,0	8,7	82,0	98,9	(17,1)	20,5	26,9
Corporate	5,4	10,7		(3,2)	(9,6)			
<b>Group</b>	4 002,8	3 392,9	18,0	534,6	461,5	15,8	13,4	13,6

# CHILLED & FROZEN CONVENIENCE BRANDS

## ANALYSIS OF FINANCIAL RESULTS – SEAFOOD PRODUCTS



Fishing resource	Revenue		Operating profit	
	1H09 Rm	1H08 Rm	1H09 Rm	1H08 Rm
South Africa	773,4	646,3	120,9	68,8
Other	34,7	51,6	4,8	5,7
<b>Continuing</b>	<b>808,1</b>	<b>697,9</b>	<b>125,7</b>	<b>74,5</b>
Argentina	275,7	219,7	20,8	(2,7)
<b>Total</b>	<b>1 083,8</b>	<b>917,6</b>	<b>146,5</b>	<b>71,8</b>

# CHILLED AND FROZEN CONVENIENCE BRANDS

## QUOTA – SEAFOOD PRODUCTS



<b>Hake quota (tons)</b>	<b>CY09</b>	<b>CY08</b>
South Africa Total Allowable Catch (TAC)	118 578	130 532
<b>I&amp;J</b>	<b>33 199</b>	<b>36 530</b>
%	28,0	28,0
Argentina TAC	266 000	270 000
<b>Alpesca</b>	<b>19 875</b>	<b>20 270</b>
%	7,5	7,5