Imperial Logistics Limited
(Incorporated in the Republic of South Africa)
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Share code: IPL
("Imperial Logistics" or "Company" or "Group")

Pre Closed Period Briefing to Annual Investor Day and Trading Update

Introduction

As published on 28 February 2019, Imperial Logistics' half year revenue from continuing operations (excluding businesses held for sale) grew by 6% to R26.6 billion and operating profit of R1.3 billion was in line with the 6 months to 31 December 2017.

Imperial Logistics' management team will today host members of the investment community at its Annual Investor Day in Johannesburg. The following update will be provided during the event and the presentation in support of the event will be available on the company's website www.imperiallogistics.com. The event will also be screened live via a webcast (http://themediaframe.eu/links/imperial190603.html).

Operational performance and context

Imperial Logistics delivered an unsatisfactory performance for the 9 months to 31 March 2019, primarily in our South African and International divisions, impacted negatively by challenging economic conditions and costs associated with significant business restructuring and rationalisation. Revenue from continuing operations (excluding businesses held for sale) for the 9 months increased and operating profit declined compared to the prior comparative period.

Despite mixed trading conditions across regions, Imperial Logistics' renewal rate across its divisions on existing contracts remains in excess of 90%, with an encouraging pipeline of new opportunities and supported by an excellent new contract gain rate. New business revenue of approximately R5.2 billion was secured during the past 12 months, the full benefit of which should be realised in the 2020 financial year as contracts were concluded at various times during the period.

a. South Africa

Persistently poor economic conditions and ongoing economic uncertainty negatively impacted Imperial Logistics' performance in South Africa which will generate approximately 30% of Group revenue in the current financial year.

Alongside margin pressures from customers and principals, high unemployment, low economic growth, tax rate increases, static household income and load shedding continue to weigh down on trading conditions and sentiment. While the South African elections were concluded smoothly and Mr Cyril Ramaphosa has been officially inaugurated as president, and despite the improvement in business sentiment, we are of the view that it will take some time before the economy benefits from any fundamental policy reforms or shows real GDP growth.

In this context, the South African division delivered an unsatisfactory performance, reducing revenue and operating profit during the period. Performance was negatively impacted by exceptionally low volumes across all industries, particularly in the consumer, healthcare and construction businesses. This was partly offset by stronger performances from the commodities, and fuel and gas businesses. Despite the challenging trading environment, this division renewed over 90% of its contracts albeit at lower margins.

b. African Regions

Firming commodity prices, strengthening currencies, gradually improving domestic demand and some policy reforms improved economic prospects in most countries in sub-Saharan Africa. Our primary positioning as a healthcare and consumer distributor has therefore stood us in good stead in the rest of Africa where approximately 23% of Group revenue will be generated in the 12 months to June 2019.

Factors negatively impacting performance during the period include subdued growth and increased parallel imports of pharmaceuticals in Kenya, the economic recession in Namibia and the ongoing economic crisis in Zimbabwe where inbound consumer goods volumes and outbound commodities volumes are significantly lower than the prior period.

Notwithstanding this, African Regions delivered an excellent performance, increasing revenue and operating profit, supported by good results in its healthcare and consumer businesses. Significant new contract gains, including signing our first pharmaceutical client for our multi market distributor model (simplified solutions in healthcare), contributed positively.

c. International

Imperial Logistics' operations outside the African continent will generate approximately 47% of Group revenue. Economic activity in Europe, specifically Germany, continued to slow in the second half of FY 2019 with volumes in our key sectors (automotive, chemicals, steel) under pressure. The low unemployment rate has compounded the difficulty of finding and retaining skilled people, which has increased our cost base and impacted margins.

In the United Kingdom (UK), the ongoing Brexit uncertainties are depressing consumer demand and activity, impacting our member network in Palletways negatively. We are however making good progress in appointing additional members and changing our pricing model to address the increased costs caused by the network imbalances reported in H1 F2019.

The International division delivered a disappointing performance hampered by reduced volumes, once-off costs associated with the material business restructuring (c.€7 million), the once-off impact of the implementation of WLTP (operating profit impact of c.€4 million) that resulted in significantly lower vehicle production volumes in the automotive business, and depressed profitability in Palletways.

Portfolio restructuring and rationalisation

As previously communicated, each division remains focussed on the rationalisation of their portfolios and improving efficiencies, significantly removing costs to date, and the benefits of which will be fully realised in the 2020 financial year. The extent of these efforts have been significant in the South African and International divisions, the progress of which is outlined below:

a. South Africa

Given the increasingly competitive and challenging economic conditions in South Africa, we intensified our efforts to restructure and rationalise our operations in FY2019 through exiting unprofitable contracts, consolidating operations and properties, and reducing fleet and overheads.

As part of this process and after numerous turnaround and cost cutting initiatives that have been implemented, the Consumer Packaged Goods ("CPG") business (c. 20% of South African revenue) continues to be loss-making. We have therefore decided to further rationalise this business by exiting and selling assets while aiming to retain key contracts and accommodate these in other business units under a different commercial model.

This significant step does not represent our exit from the consumer industry vertical in South Africa, but only the rationalisation of the multi-principal distribution capability that has become unviable.

The rationalisation of CPG will result in an impairment of between R1.0 billion and R1.4 billion post-tax (including retrenchments and exit of leases) and CPG will consequently be classified as a discontinued operation for the financial year ending 30 June 2019. We are currently in discussions with key stakeholders to find the most effective and appropriate solutions for existing staff, clients and contracts - during which we will make every effort to minimise the impact on our staff and clients. A further update will be provided to the market in our financial year 2019 annual results.

Excluding the CPG business, the South African division has grown operating profit by 5% over the last 3 years, achieving an ROIC of 16% despite a low-growth environment. Furthermore, the South African business removed c.R140 million (excluding CPG) of fixed overhead costs which results in a once-off cost impact of c.R25 million in this financial year.

b. International

Through a significant rationalisation and cost reduction process, our International division extracted c.€15 million (per annum) of fixed overhead costs, which results in a once-off cost impact of c.€7 million in this financial year.

Strategy update

a. Simplifying our strategic positioning

As we continued our efforts to further rationalise and strategically align our portfolio post the unbundling of Motus Holdings Limited ("Motus"), we also undertook a strategic evaluation process with the aim of simplifying our strategic positioning.

As such, the core strategic focus of Imperial Logistics is to leverage our competitive advantages through growing and expanding our African Regions business and leveraging our capabilities mainly in the healthcare, consumer, chemicals, industrial and automotive industry verticals in other emerging and selected developed markets (driven by capabilities, scale benefits and client relationships), and positioning Imperial Logistics as the 'gateway to Africa' in the medium term through offering an integrated logistics and market access service offering in Africa to our clients.

Furthermore, positioning Imperial Logistics as a distributor with associated logistics service offerings will provide cross-selling opportunities across targeted regions and capabilities. This also makes Imperial Logistics an attractive partner, especially given our unique African Regions network.

In this context, our key strategic priorities are simplified below:

- Continue to grow in Africa, adding new capabilities, entering new industry verticals and serving more countries/regions.
- Invest in capabilities outside Africa that support the growth of target industry verticals in Africa mainly healthcare, consumer, chemicals, industrial and automotive.

- Acquire, partner and/or build air and ocean (international) freight management capability as a basis for global coverage to support in and out of Africa flows in integrated logistics solutions.
- Enter select new emerging and developed markets with our differentiated capabilities and industry verticals.
- Expand our distributor capability geographically and add other existing and new capabilities to that market over time which will create cross-selling and up-selling opportunities.
- The Logistics International portfolio will be aligned to our strategic positioning and core competitive advantages. This could result in further disposals in this division in the short-to-medium term of non-core and low-return on effort businesses.
- Only acquisitions that enhance our key competitive advantages and strategic positioning, meet our financial hurdle rates and have a strong organic growth and cash flow profile will be considered.
- People, systems and strategic innovation remain core enablers to our strategy

b. Simplifying our capability definition

To improve the understanding of our service offerings, our capabilities have been redefined in terms industry-recognised terminology. Going forward Imperial Logistics' service offerings will be classified into the following categories:

- **Freight management** which entails the movement of goods on behalf of clients between specified sources and destinations; using different transportation modes (road, river, rail, air and ocean) and different transportation types
- **Contract logistics** encompassing warehousing, distribution and synchronisation management provided as dedicated or multi-principal services; often incorporating professional and managed services and integrated with transportation management to evolve to achieving Lead-Logistics Provider status
- **Distributors** where we take ownership of product inventory to provide our clients with unparalleled access to their end-consumers through an integrated logistics and sales service; leveraging sourcing, warehousing, distribution, synchronisation and transportation management as enablers. The distributor capability provides a more robust, value-enhancing service offering which creates a 'stickiness' with our multi-national clients through adding associated logistics.

While Imperial Logistics' primary market disclosure will remain regional i.e. South Africa, African Regions and International, we will provide secondary segmental disclosure which will be categorised according to the above-mentioned capabilities in our 2019 annual results.

c. **Industry verticals approach**

Our current positioning is also focused on industry verticals to deliver client-centric solutions, build credibility among clients and prove industry expertise, which leverages our capabilities across regions. We have identified healthcare, automotive, chemical, industrial and consumer as our priority industry verticals given that the specialised focus in each of these verticals are key differentiators for Imperial Logistics.

Guidance and outlook

For the financial year to 30 June 2019, subject to stable currencies in the economies in which we operate, we expect Imperial Logistics continuing operations (excluding Motus and CPG as discontinued), to deliver:

- Higher revenue than the prior year
- Lower operating profit than the prior year, by weaker operational performance (in South Africa and International) and once-off costs associated with business rationalisation and restructure
- Lower Headline Earnings per Share than the prior year, negatively impacted by weaker operational performance (in South Africa and International) and once-off costs associated with business rationalisation and restructure

Imperial Logistics' liquidity position is strong with R9.5 billion of unutilised banking facilities. 71% of the Group debt is long-term in nature and 45% of the debt is at fixed rates. The Group's blended cost of debt is 5.5% (pre-tax).

The far-reaching benefits of the portfolio rationalisation and organisational restructure that we undertook more than four years ago and continue in FY 2019, new contract gains, removing and reducing complexities and costs significantly in all businesses, and enhanced strategic focus will be realised in the 2020 financial year.

Finally, we thank our shareholders for their ongoing support and patience as we continue to execute on our urgent strategic deliverables to unlock and deliver value for all our stakeholders.

The forecast financial information herein has not been reviewed or reported on by Imperial Logistics' auditors. The forward looking information contained in this announcement contains the views and forecasts of management at the time of publication.

3 June 2019

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Sponsor: Merrill Lynch South Africa (Pty) Limited