Investor Day

3 June 2019

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Our path since unbundling

The strategic rationale for the unbundling was to achieve the following:

- Imperial Logistics would be a focussed business
- Deliver a clear, coherent strategy
- Effectively capitalised to deliver on a clearly defined growth path
- Unlock value for shareholders

Since the unbundling:

- Imperial Logistics' performance has been excellent in African Regions but unsatisfactory in South Africa and International
- Some businesses require further rationalisation and cost cutting to enhance competitiveness, and improve margins and performance
- The strategic-coherence and legitimacy of the existing portfolio requires enhancement
- Certain businesses have been exposed to increasing market pressures and operational challenges that required urgent action and management attention
- Business needs to be equipped with the correct resources (people, systems, practices) to execute on strategic objectives

Key management priorities in FY 2019 "Unlocking value"

- **Intensified efforts to further rationalise, reduce costs and restructure the business**
  - rationalisation of the Consumer Packaged Goods ('CPG') business in South Africa
  - rationalisation of South African (excluding CPG) and International divisions resulted in significant removal of costs from FY 2020 (c.R385 million p.a), with an associated once-off cost impact in FY 2019 (c. R140 million)
  - addressing operational underperformance in certain businesses (mainly in South Africa and International) in challenging economic conditions

- **Strategic alignment and direction of the portfolio**
  - strategic evaluation to simplify positioning and elevate key strategic priorities
  - Logistics International portfolio will be aligned to our strategic positioning and core competitive advantages; could result in further disposals (short-to-medium term)
  - simplify market disclosure and understanding of our business
  - urgent delivery of strategic priorities to unlock and deliver value

- **Consider only value-accretive acquisitions that:**
  - enhance our key competitive advantages and strategic positioning
  - meet our financial hurdle rates
  - have a strong organic growth and cash flow profile

- Significant focus on **improving people practices, systems** and accelerating **strategic innovation**

Portfolio restructuring, rationalisation and cost-cutting

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Significant fixed overhead cost reduction

- **International**: Significant restructuring and removing fixed overhead costs
  - extracted c. €15m (R245m) p.a of fixed overhead costs
  - required post recent disposals of Neska/Schirm
  - more competitive; gain contracts; improve margin and performance
  - once-off cost impact of c. €7m (R115m) in FY 2019

- **South Africa**: Restructured and rationalised operations through exiting unprofitable contracts, consolidating operations and properties, and reducing fleet and overheads
  - removed c.R140m (excluding CPG) of fixed overhead costs
  - once-off cost impact of c.R25m in FY 2019

- **Benefits** will be fully realised **in FY 2020**

Further rationalisation of CPG business in South Africa

- Despite numerous turnaround initiatives, the CPG business continues to be loss-making (currently 20% of SA revenue; 5% of Group revenue)

- The current multi-principal distribution capability has become unviable due to:
  - disintermediation (centralisation of distribution by retailers)
  - increased competition
  - growth in channels we don't play in
  - unsustainable revenue model
  - inability to pass through cost increases (electricity, labour etc.)
  - low-growth trading environment resulting in volatile and uncertain volumes

- Implementing further rationalisation:
  - by exiting and selling assets
  - aiming to retain key contracts and accommodate these in other business units under a different commercial model

- Grow in channels that leverage distributor capability eg. informal channels

Further rationalisation of CPG business in South Africa

- This decision **does not represent our exit from the consumer industry vertical** in South Africa
- The rationalisation of CPG will result in an impairment of between R1.0bn and R1.4bn post tax (including retrenchments and exit of leases)
- CPG will be classified as a discontinued operation for FY 2019
- In discussions with key stakeholders to find the most effective and appropriate solutions for existing staff, clients and contracts

Strategy update

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Simplifying our strategic positioning

Core strategic focus:

- Leveraging competitive advantages through growing and expanding African Regions
- Leveraging capabilities - mainly in healthcare, consumer, chemicals, industrial and automotive - in other emerging and selected developed markets
  - driven by capabilities, scale benefits and client relationships
- Positioning Imperial Logistics as the 'gateway to Africa' in the medium term through offering an integrated logistics and market access service offering in Africa
- Positioning Imperial Logistics as a distributor with associated logistics service offerings to provide cross-selling opportunities across targeted regions and capabilities

Key strategic priorities

1. Continue to grow in Africa, adding new capabilities, entering new industry verticals and serving more countries/regions

2. 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

3. Invest in capabilities in select new emerging and developed markets - that support the growth of target industry verticals in Africa mainly healthcare, consumer, chemicals, industrial and automotive

4. 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 trade flows in integrated logistics solutions

1. Continue to grow in Africa - adding new capabilities, entering new industry verticals, serving more countries/regions

- African Regions division has grown into a USD1bn revenue business in 9 years (23% operating profit 4 year CAGR and ROIC of c.18%)

- Key differentiators
  - ability and success in building this business in some of the most challenging markets in Africa (i.e. Nigeria)
  - developing leading positions as a route-to-market distributor in Africa (mainly healthcare, and growing and expanding in consumer) and other verticals

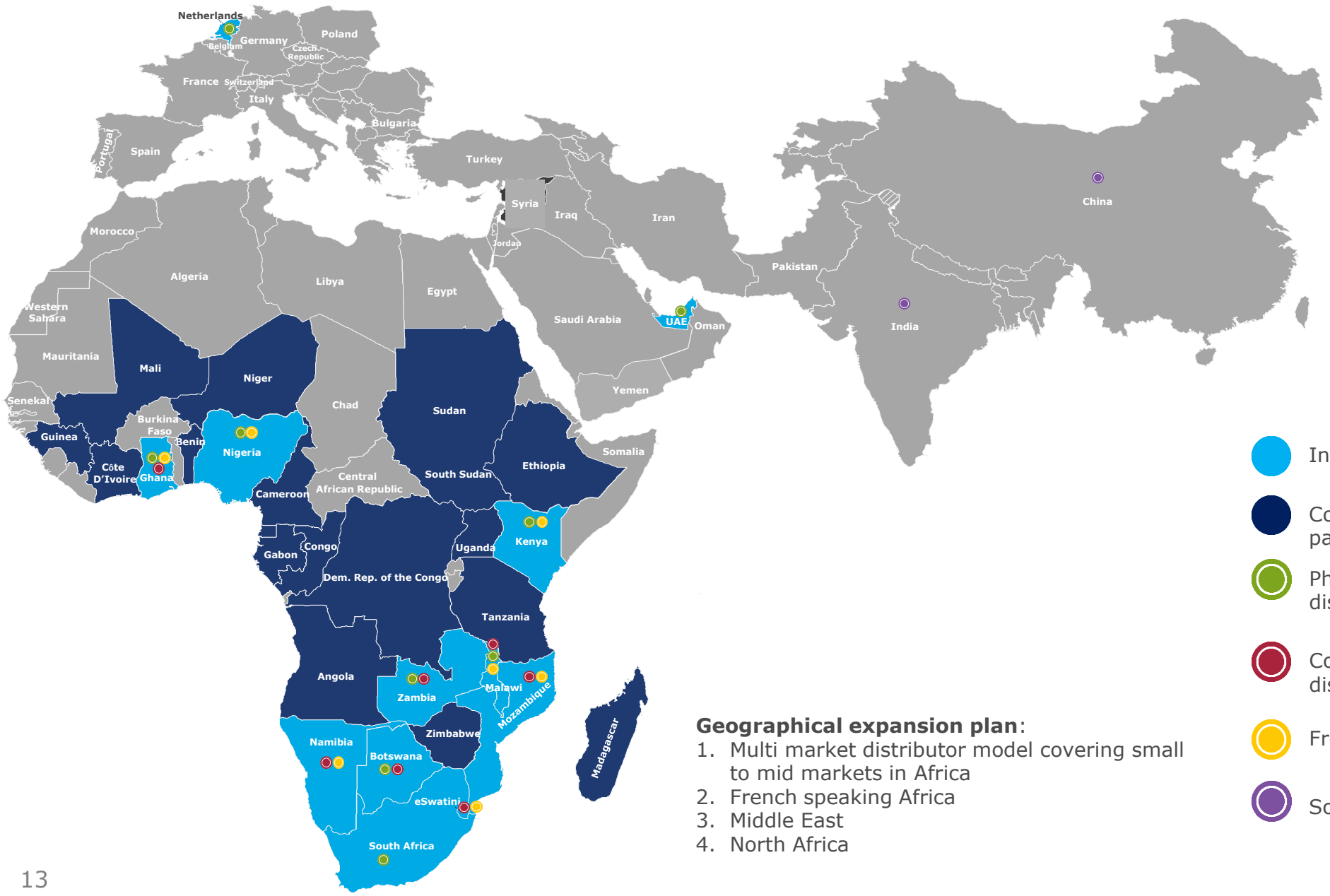
African Regions' strategy will focus on:

- building on existing capabilities and expansion of new **capabilities**
- focusing on specific **industries** that are relevant and strategically aligned
- continuous investment in existing and new **geographies** with an expansion plan that complements capabilities, industries and client base

1. Continue to grow in Africa - adding new capabilities, entering new industry verticals, serving more countries/regions

The strategic initiatives that will support our objectives to position Imperial Logistics as a strategic partner, providing a 'gateway to Africa' to companies seeking to access fast-growing African markets, will include:

- **Capability expansion:** demand generation, light contract manufacturing, expanding sourcing and procurement to other industries(currently only healthcare), brand partnership
- **Geographical expansion:** expand distributor capabilities in pharmaceuticals and consumer in existing and new markets
- **Multi-Market Aggregation (simplified solutions in healthcare):** providing multi-national clients with distributor solutions in healthcare for the small to mid-size markets of Sub-Saharan Africa through an aggregator model
- **Category optimisation:** expanding into new categories in both healthcare and consumer (generics, general merchandise etc.)
- **Evolving client engagement:** derisk from disintermediation threat by investing in the transition from a transactional relationship to a strategic partnership through technology enablement, investment in industry and capability experts



Geographical expansion plan:

1. Multi market distributor model covering small to mid markets in Africa
2. French speaking Africa
3. Middle East
4. North Africa

- In-country operations
- Countries serviced through partnership network
- Pharmaceutical & consumer health distributors
- Consumer packaged goods distributors
- Freight Management
- Sourcing & procurement

2. Expand our distributor capability geographically and add other existing and new capabilities to the distributor network over time which will create cross-selling and up-selling opportunities

- Obtain local experience, preference for acquisitions rather than greenfields or brownfields development; with adequate scale for return on effort (with multi market distributor model as an alternative approach)
- Focus on healthcare and consumer given resilient revenue, margins and proven expertise or differentiation
- Consider opportunities in new industries, e.g. automotive or industrial where current relationships can be leveraged
- Expansion could be driven by multi-national client requirements in emerging markets
- Add other existing and new capabilities to the distributor network over time which will create cross-selling and up-selling opportunities eg. Nigeria

3. Invest in capabilities in select new emerging and developed markets - support the growth of target industry verticals in Africa mainly healthcare, consumer, chemicals, industrial and automotive

- Develop specialised contract logistics and freight management capabilities that provide legitimacy within specific industry verticals (and the correct returns)
- Enable supply into Africa; leveraging African network
- Leverage our proven capabilities to expand into new emerging markets (Middle East, Eastern Europe, India, South East Asia, China)
- Leverage expansion opportunities with multi-national clients that recognise us as emerging market/industry specialists

3a. Industry vertical approach: our key differentiators

Our current positioning is focused on the following industry verticals to deliver client-centric solutions, build credibility among clients and prove industry expertise, which leverages our capabilities across regions

1. **Healthcare (c. 17% group revenue; end to end service offering)**
   - differentiated from major competitors through our agility, flexibility and courage to enter and manage smaller and/or hard to serve markets (mainly in Africa)
   - differentiated from smaller competitors through our superior governance, compliance, quality assurance and security
   - we have a more integrated offering, established networks and provide innovative offerings to our clients through leveraging partnerships and digitalisation

2. **Automotive (c. 10% group revenue; largely OEM focused currently)**
   - deep experience in training emerging market work forces to conform to strict process standards in the automotive vertical
   - enabling OEMs' and their suppliers to expand their specialised assembly and distribution operations into challenging / emerging markets
   - opportunity to service aftermarket parts clients (eg. Motus) and Tier 1/Tier 2 suppliers supplying to OEMs

Note: revenue contribution split excludes Palletways

3a. Industry vertical approach: our key differentiators

3. Chemicals (c.17% group revenue; multiple regions)

- differentiated by our specialised capabilities to handle, move and store hazardous products through integrated contract logistics and freight management
- enabling our clients to maximise conformance whilst minimising process duplication
- opportunity to leverage client relationships in South African and International divisions into other markets

4. Consumer (c.29% group revenue; strong in Africa)

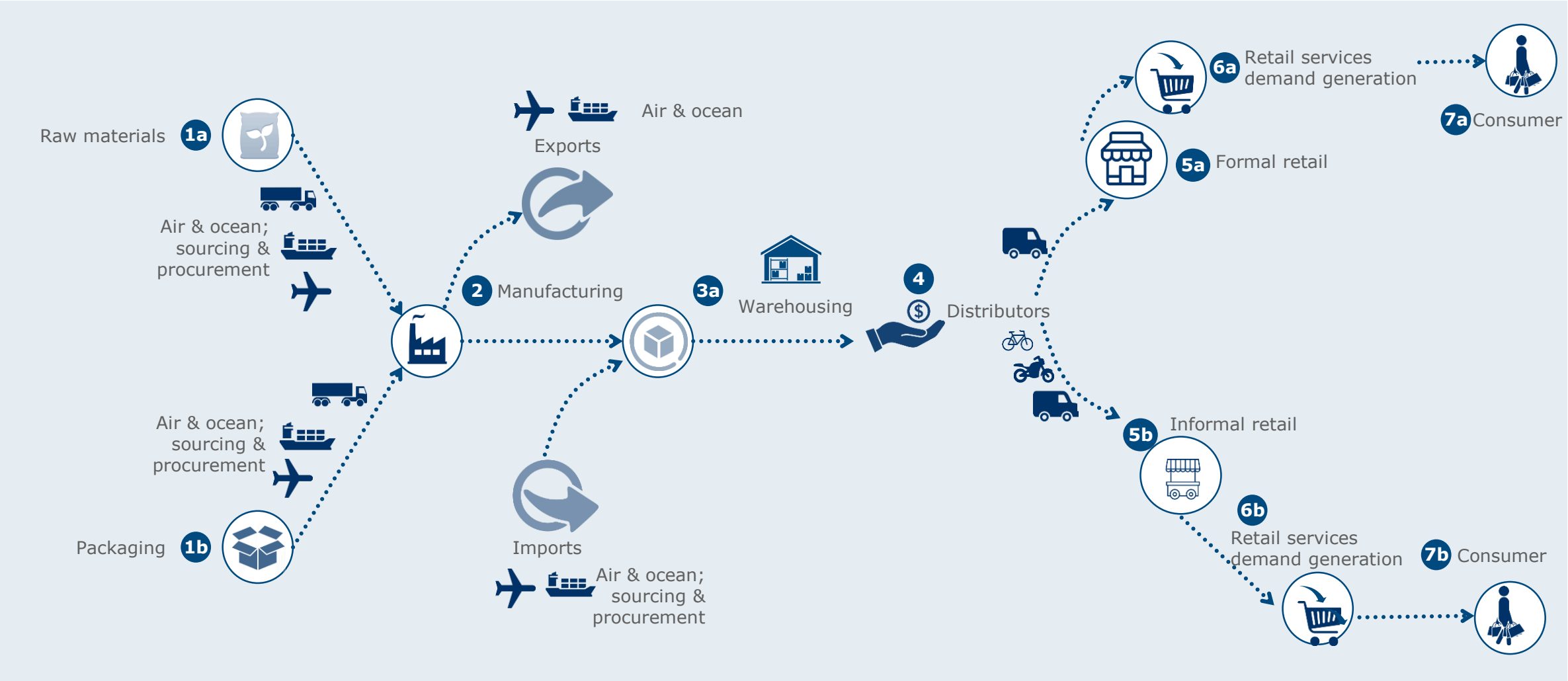
- provide clients with a low risk and enabling route to market solution into the African market leveraging strong corporate governance and compliance
- leverage vertical into other geographies in the International division

5. Industrial - specifically machinery and equipment **(c.20% group revenue; strong in International; multi-national clients)**

- differentiated by our ability to design and deliver customised solutions for complex supply chains
- results in long-standing partnerships with clients
- can be leveraged to assist these clients to expand into challenging / emerging markets

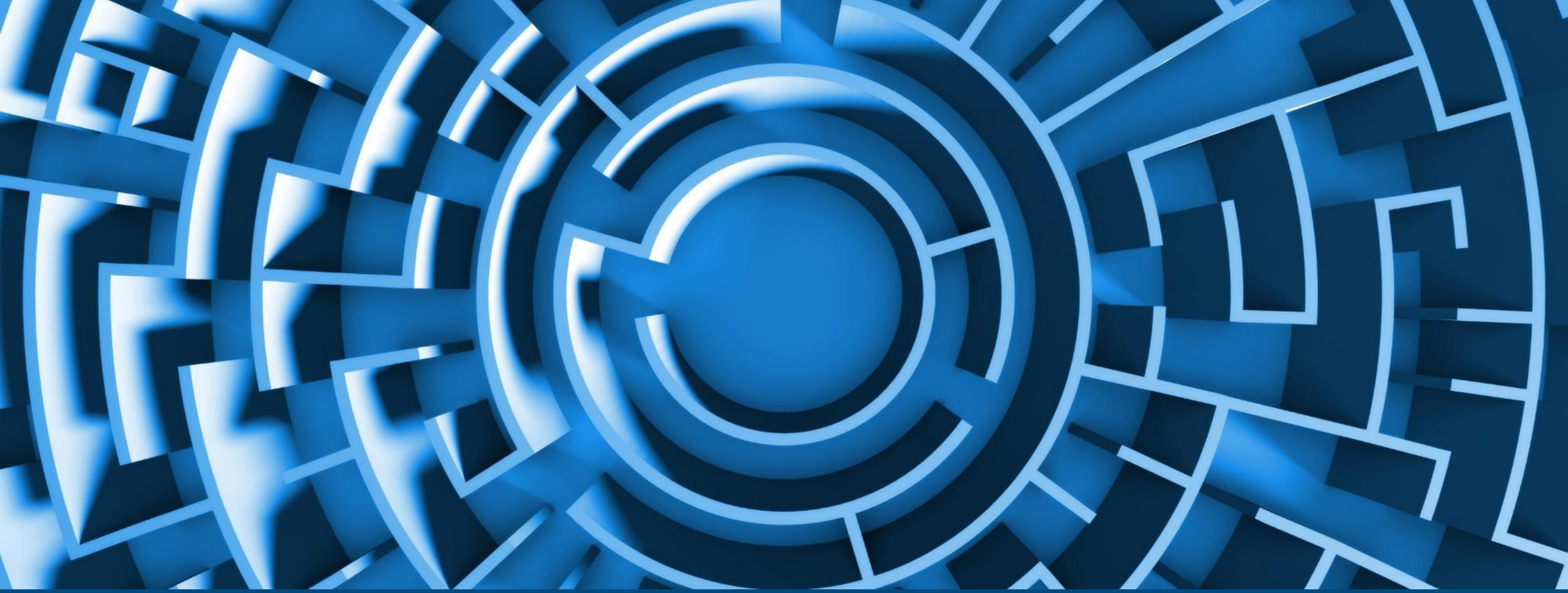
Note: revenue contribution split excludes Palletways

End-to-end value chain



4. Acquire, partner and/or build air and ocean IFM capability as a basis for global coverage to support in and out of Africa flows in air and ocean solutions

- Basis for global coverage to support in and out of Africa flows in air and ocean solutions
- Acquire existing global IFM network with presence in key markets including Asia, Europe and Americas
- Connect these through up and downstream selling (existing customers) to African Regions division
- Could be used for existing internal airfreight demands and could be an add on capability for existing clients (organic growth)
- Profiting from global food-growth (stable anticyclical) investments into perishable IFM needed



Simplifying disclosure

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Our capabilities

We will provide secondary segmental disclosure in FY 2019 results which will be categorised according to our capabilities below:

1. Freight management (c.49% group revenue)

- the movement of goods between specified sources and destinations
- using different transportation modes (road, river, rail, air and ocean)
- different transportation types

2. Contract logistics (c. 31% group revenue)

- encompassing warehousing, distribution and synchronisation management provided as dedicated or multi-principal services
- incorporating professional and managed services, integrated with transportation management

3. Distributors (c. 20% group revenue)

- 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
- provides a more robust, value-enhancing service offering which creates a 'stickiness' with our multi-national clients

Operational performance and context

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Group performance for the 9 months to 31 March 2019

- Imperial Logistics delivered an **unsatisfactory performance**, primarily in our South African and International divisions (excluding Motus and CPG)
  - Continuing **revenue increased**
  - Continuing **operating profit declined** (impacted negatively by once-off restructuring costs)

- Performance negatively impacted by:
  - **challenging economic conditions** and
  - **once-off costs** associated with **significant business restructuring and rationalisation**

- **Contract renewal rate** remains in **excess of 90%**

- **New business revenue** of approximately **R5.2 billion** was secured during the past 12 months
  - full benefit will be realised in FY 2020

Note: Continuing excludes businesses held for sale

South Africa

- South African division will generate approximately 30% of Group revenue in FY 2019

- High unemployment, low economic growth, tax rate increases, static household income and load shedding continue to weigh down on trading conditions

- Delivered an unsatisfactory performance
  - revenue and operating profit declined
  - exceptionally low volumes across all industries - particularly in the consumer, healthcare and construction businesses
  - margin pressure from clients
  - partly offset by stronger performances from the commodities, and fuel and gas businesses

- Renewed over 90% of contracts albeit at lower margins, despite challenging trading conditions

African Regions

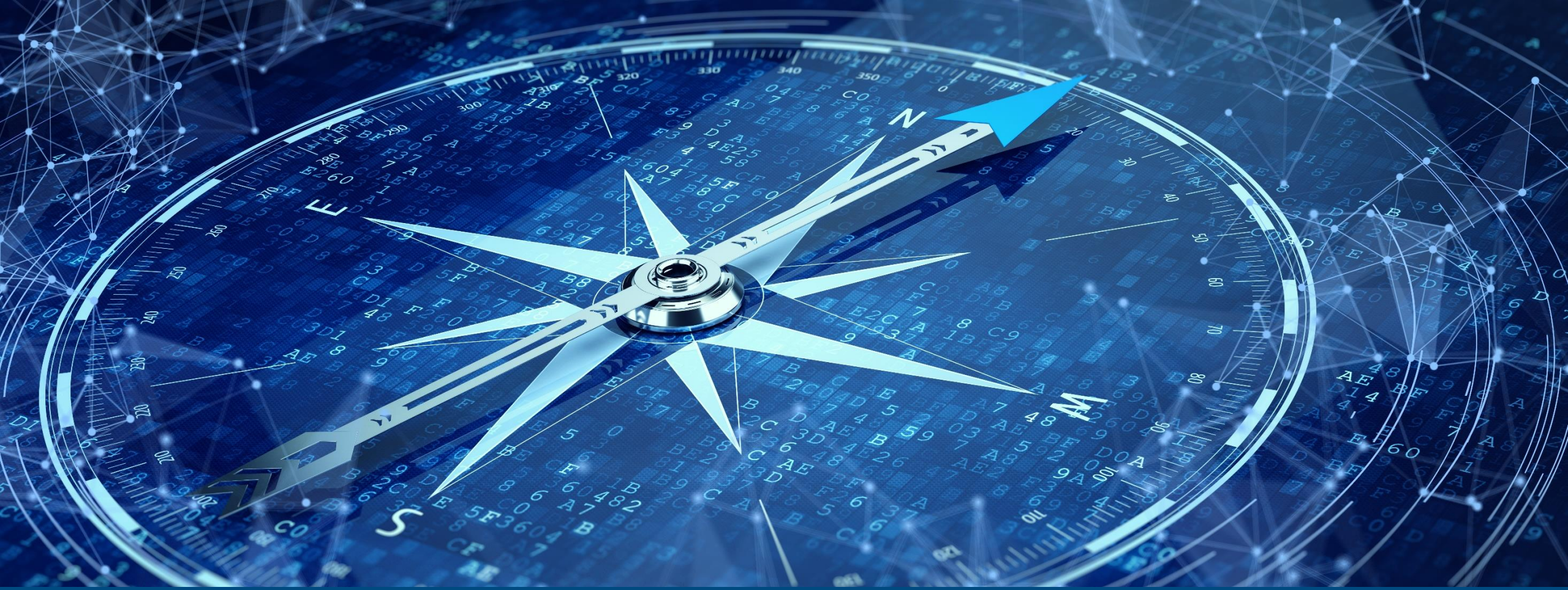
- African Regions division will generate approximately 23% of Group revenue in FY 2019

- Delivered an excellent performance, despite variation in macro-economic challenges across markets
  - revenue and operating profit increased
  - good results in the healthcare and consumer businesses

- Significant new contract gains contributed positively
  - first pharmaceutical client for our multi market distributor model (simplified solutions in healthcare) finalised

International

- Operations outside Africa will generate approximately 49% of Group revenue
- Economic activity in Europe and Germany continued to slow in the second half, with volumes in key sectors under pressure
- In the United Kingdom ongoing Brexit uncertainties are depressing consumer demand and activity, negatively impacting our member network in Palletways
- Delivered a disappointing performance hampered by:
  - reduced volumes in automotive, chemicals and steel
  - once-off costs associated with the material business restructuring (€7m)
  - once-off prolonged impact of the implementation of WLTP (operating profit impact of c. €4m)
  - depressed profitability in Palletways
- Palletways: Good progress in appointing additional members and changing pricing model to address increased costs caused by the network imbalances



Guidance and outlook

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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, negatively impacted by:
  - weaker operational performance in South Africa and International
  - 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
  - once-off costs associated with business rationalisation and restructure
- financial position remains strong, with sufficient headroom in terms of capacity and liquidity to facilitate our growth aspirations (R9.5bn unutilised facilities; 71% long-term debt; 45% fixed; 5.5% blended cost of debt)

Benefits of new contract gains, removing and reducing complexities and costs significantly in all businesses, and enhanced strategic focus will be realised in FY 2020

Thank you

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