CAXTON&CTP publishers & printers LIMITED

UNAUDITED RESULTS
FOR THE PERIOD ENDED 31 DECEMBER 2018

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

R'000	% change	Unaudited 6 months to 31 December 2018	Unaudited 6 months to 31 December 2017	Audited for the year to 30 June 2018
Revenue	1.5%	3 404 591	3 353 930	6 333 921
Other operating income		49 786	59 423	120 288
		3 454 377	3 413 353	6 454 209
Changes in inventories of finished goods and work in progress		(43 383)	(48 600)	74 293
Raw materials and consumables used		1 638 877	1 540 169	2 676 178
Staff costs		760 637	758 728	1 541 741
Other operating expenses		756 013	766 415	1 402 522
Total operating expenses		3 112 144	3 016 712	5 694 734
PROFIT FROM OPERATING ACTIVITIES BEFORE DEPRECIATION	(13.7%)	342 233	396 641	759 475
Depreciation		146 809	147 827	293 669
PROFIT FROM OPERATING ACTIVITIES AFTER DEPRECIATION	(21.5%)	195 425	248 814	465 806
Impairment of investments		–	–	36 711
Impairment of loans		–	3 300	22 682
Loss/(profit) on disposal of subsidiary		1 274	6 619	(7 835)
Impairment of plant and goodwill		–	–	18 701
NET PROFIT FROM OPERATING ACTIVITIES	(18.7%)	194 151	238 895	395 547
Net finance income		71 680	58 039	114 657
– dividends		44 229	36 974	69 647
– interest		27 451	19 097	45 095
– Deemed interest in interest-free loan in terms of the Share Purchase Scheme		–	1 968	3 936
– net loss on foreign exchange		–	–	(4 021)
Net income from associates		17 803	12 569	31 111
PROFIT BEFORE TAXATION	(8.4%)	283 633	309 503	541 315
Income tax expense		69 385	79 584	135 565
PROFIT FOR THE PERIOD	(6.8%)	214 248	229 919	405 750
Other comprehensive income: Items that will not be reclassified subsequently to profit or loss		18 906	(16 295)	(18 935)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		233 154	213 624	386 815
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Non-controlling interests		12 494	10 668	19 303
Owners of the parent		220 660	202 956	367 512
		233 154	213 624	386 815
PROFIT ATTRIBUTABLE TO:				
Non-controlling interests		12 494	10 668	19 303
Owners of the parent		201 754	219 251	386 447
		214 248	229 919	405 750
Earnings per share (cents)	(7.0%)	51.8	55.7	98.5
Headline earnings per share (cents)	(9.6%)	51.8	57.3	109.0
Preference dividend paid per share in respect of the previous year (cents)		490	570	570
Ordinary dividend paid per share in respect of the previous year (cents)		60	70	70
WANOS in issue		389 859 292	393 590 937	392 426 737
Reconciliation of headline earnings:				
Earnings attributable to owners of company		201 754	219 251	386 447
		38	6 399	41 356
Impairment of plant		–	–	18 701
Net profit on disposal of assets		(1 716)	(306)	(3 805)
Loss/(profit) on disposal of subsidiary		1 274	6 619	(7 835)
Impairment of investments and goodwill		–	–	36 711
Tax effect on above adjustments		480	86	(2 416)
Headline earnings		201 792	225 650	427 803

Condensed segmental analysis	Unaudited 6 months to 31 December 2018	%	Unaudited 6 months to 31 December 2017	%	Audited for the year to 30 June 2018	%
Revenue						
Publishing, printing and distribution	2 066 867	61	2 072 893	62	4 005 143	63
Packaging & stationery	1 306 182	38	1 225 967	37	2 243 823	35
Other	31 542	1	55 070	2	84 955	2
	3 404 591	100	3 353 930	100	6 333 921	100
Profit from operating activities before depreciation						
Publishing, printing and distribution	213 864	62	265 312	67	453 241	60
Packaging & stationery	163 628	48	159 763	40	275 527	36
Other	(35 260)	(10)	(28 434)	(7)	30 707	4
	342 232	100	396 641	100	759 475	100
Profit from operating activities after depreciation						
Publishing, printing and distribution	130 357	67	176 351	71	276 968	59
Packaging & stationery	109 481	56	110 909	45	176 131	38
Other	(44 413)	(23)	(38 446)	(15)	12 707	3
	195 425	100	248 814	100	465 806	100

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Unaudited 6 months to 31 December 2018	Unaudited 6 months to 31 December 2017	Audited for the year to 30 June 2018
NET CASH FLOW FROM OPERATING ACTIVITIES	135 358	(44 421)	498 530
Cash generated by operating activities	216 256	27 844	626 959
Cash generated by operations	312 243	363 228	740 064
Changes in working capital	(95 987)	(335 384)	(113 105)
Less: Taxation paid	(80 898)	(72 265)	(128 429)
CASH FLOW FROM INVESTING ACTIVITIES	(28 007)	(409 104)	(463 559)
Property, plant and equipment	(73 130)	(118 611)	(224 941)
– additions to maintain and expand operations	(87 712)	(122 172)	(257 695)
– proceeds from disposals	14 582	3 561	32 754
Investments	45 123	(290 493)	(238 618)
Businesses acquired net of cash	–	(134 032)	(122 939)
Associates, other investments and loans	(26 557)	(212 532)	(228 363)
Disposal of subsidiary	–	–	(2 057)
Net interest received	27 451	19 097	45 095
Dividends received	44 229	36 974	69 647
CASH FLOW FROM FINANCING ACTIVITIES	(245 334)	(347 593)	(378 821)
Own shares acquired	(2 335)	(67 221)	(79 643)
Dividends paid	(242 999)	(280 372)	(299 178)
Net decrease in cash and cash equivalents	(137 983)	(801 118)	(343 849)
Cash acquired	–	36 290	–
Cash and cash equivalents at the beginning of the year	1 616 099	1 959 948	1 959 948
Cash and cash equivalents at the end of the period	1 478 116	1 159 777	1 616 099
Fair value adjustment of preference shares	(14 903)	(20 154)	(16 905)
Fair value of cash and cash equivalents at the end of the period	1 463 213	1 139 623	1 599 194

Executive Directors: TD Moolman, PG Greyling, TJW Holden
Independent Non-Executive Directors: PM Jenkins, ACG Molusi, NA Nemukula, J Phalane, T Slabbert
Transfer Secretaries: Computershare Investor Services Proprietary Limited
Registered office: 28 Wright Street, Industria West, Johannesburg

Incorporated in the Republic of South Africa
Registration number 1947/026616/06
Share code: CAT ISIN: ZAE000043345
Preference share code: CATP ISIN: ZAE000043352

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	Unaudited 31 December 2018	Unaudited 31 December 2017	Audited 30 June 2018
ASSETS			
Non-current assets			
Property, plant and equipment	2 582 125	2 681 102	2 650 717
Goodwill	174 463	186 345	174 463
Interest in associates	464 744	437 188	427 052
Other investments	254 583	219 629	231 517
– Listed	109 230	119 698	91 517
– Unlisted	145 353	99 931	140 000
Deferred taxation	–	–	17 112
Loans to directors	84 269	82 300	84 269
Total non-current assets	3 560 184	3 606 564	3 585 130
Current assets			
Inventories	857 890	817 758	951 140
Accounts receivable	1 332 105	1 526 827	1 089 852
Taxation	17 295	–	1 989
Bank and cash resources	605 951	287 612	743 933
Listed bank preference shares	57 262	52 011	55 261
Unlisted bank preference shares	800 000	800 000	800 000
Total current assets	3 670 503	3 484 208	3 642 175
Total assets	7 230 687	7 090 772	7 227 305
EQUITY AND LIABILITIES			
Equity	5 732 795	5 602 116	5 744 972
Equity attributable to owners of the parent	5 681 120	5 537 122	5 696 312
Preference shareholders	100	100	100
Non-controlling interest	51 575	64 894	48 560
Non-current liabilities			
Deferred taxation	384 263	375 486	381 994
Current liabilities			
Accounts payable	916 210	907 281	863 861
Provisions	182 173	187 804	209 781
Taxation	15 246	18 085	26 697
Total current liabilities	1 113 629	1 113 170	1 100 339
Total equity and liabilities	7 230 687	7 090 772	7 227 305
Net asset value per share (cents)	1 460	1 418	1 462
Capital expenditure	87 712	122 172	257 695
Capital expenditure committed	60 000	98 000	50 000

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Unaudited 31 December 2018	Unaudited 31 December 2017	Audited 30 June 2018
Balance at beginning of the year	5 744 972	5 729 123	5 729 123
Total comprehensive income for the period	233 154	213 625	386 815
Non-controlling interest acquired	–	18 135	18 812
Loss on sale of subsidiary	–	15 418	–
Non-controlling interest disposed of	–	(11 250)	(10 956)
Own shares acquired	(2 335)	(67 221)	(79 643)
Dividends paid – ordinary and preference shareholders	(242 999)	(295 715)	(299 179)
Balance at end of the year	5 732 792	5 602 116	5 744 972

Note: Business combinations

An agreement was reached with Cognition Holdings Limited to purchase the investment in Private Property (Pty) Ltd from the group for a consideration of R127 million with effect from 1 February 2019. The purchase price will be settled by way of 105 833 333 Cognition shares at an issue price of 120 cents per share. At the time of writing, all suspensive conditions have been met and the transaction has been implemented, increasing the group's shareholding in Cognition from 34.7% to 63.0%. Due to the proximity of the effective date and the release of the interim results, the initial accounting for the transaction is incomplete and therefore the information is not yet available.

Goodwill

Goodwill relates to expected synergies, the bulking up of service offerings and an expansion of product offerings in the Caxton Group.

Note: Investments listed – available for sale

Equity price risk refers to the risk that the fair value of the future cash flows of the listed investments will fluctuate because of changes in the market prices. The Group's available for sale financial assets are valued using the fair market value at 31 December 2018.

Fair value estimation

IFRS 13 requires disclosures of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices available in active markets for identical assets or liabilities.

Level 3 – Fair value determined by valuation that uses inputs that are not based on observable market data.

The level of each investment is determined as follows:

– Mpact, AME and Novus are Level 1

– Thebe Convergent Technology is Level 3

For the level 3 valuation of the investment in Thebe Convergent Technology, a discounted cash flow model was applied using cash flows for five years and the following key assumptions were applied by management :

– Average growth rate of 8%

– Discount rate of 14.5%

– Terminal growth rate of 6%

Commentary

Basis of preparation

The unaudited interim financial statements for the six months ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncement as issued by the Financial Reporting Standards Council (FRSC), the requirements of IAS 34 (Interim Financial Reporting) and the requirements of the South African Companies Act and the JSE Listings Requirements.

The accounting policies applied in preparing these interim financial statements are consistent with those presented in the annual financial statements for the year ended 30 June 2018. These interim financial statements have not been reviewed or reported on by the Caxton Group auditors, BDO South Africa Inc.

Earnings

The group's performance in the six months from July to December 2018 has been remarkably resilient, bearing in mind the circumstances prevailing in our sectors and the economy overall. The group faced continuing stagnant trading conditions with ever-increasing pressure on consumer spending resulting in muted volumes in many of the group's businesses .These factors, when combined with competitor activity that severely pressurised margins, made an ultimate decline in earnings inevitable. That the overall profit after taxation decline was limited to 6.8%, is testament to the strength and stability of the group's operations.

The difficult conditions mentioned above were manifest to varying degrees in our operations with the bulk of the earnings decline being pinpointed to three operations in the group which either faced significant revenue loss or margin declines due to changing mix of work and competitive pressures. On the positive front, the group's local newspapers and the Gauteng newspaper printing plant performed admirably, as did the group's packaging divisions.

Against a backdrop of a low growth economic environment, overall revenues were up by 1.5% to R3 405 million. The group experienced an increase in turnover at the Gauteng newspaper plant, on the back of the Media 24 tender award, and the packaging divisions due to acquisitions and marginal growth in some market segments. These were offset by continuing declines in revenue in the magazine divisions and a flat performance in certain other operations.

Unfortunately, raw material input costs increased year on year by approximately 7% on the back of increasing base prices as well as higher exchange rates that affected local and imported supplies . Staff costs and all other operational costs were well controlled, reflecting no increase, but when combined with no real revenue growth and increasing material costs that in many instances could not be recovered from customers, the net result is a decline of 13.7% in profit from operating activities before depreciation, to R342.2 million. Depreciation remained fairly constant at R146.8 million resulting in net profit from operations declining by R44.7 million, year on year, to R194.2 million.

This was compensated to a certain extent by an increase in net finance income from R58.0 million in the prior year to R71.7 million. This increase can be attributed to increased dividends from our investments and increased interest due to higher average cash balances over the period. Net income from associates grew to R17.8 million which resulted in the decline in profit before taxation being contained to 8.4 % to R283.6 million. Income tax absorbed R69.4 million and profit after taxation declined by 6.8%, to R214.2 million.

The weighted average number of shares in issue reduced to 389 859 292 resulting in earnings per share of 51.8 cents and headline earnings per share of 51.8 cents, a decline of 7.0% and 9.6% respectively.

Cash flow

The cash and cash equivalents at fair value increased by R323.9 million over the corresponding previous period, ending at R1 463.2 million. This increase was mainly due to improved working capital and a reduction of investments, loans to associates and capital expenditure. At the time of writing the equivalent balance has increased to R1 547.9 million.

Operating cash flow before working capital movements declined by R50.9 million (14.0%) which reflects the decline in profit from operating activities before depreciation. However, working capital requirements only absorbed R95.9 million which is a significant improvement over the corresponding prior year (R335.4 million) and can be attributed mainly to reduced accounts receivables. After taxation paid of R80.8 million, the result is a pleasing improvement in net cash inflow from operating activities of R135.4 million as opposed to an outflow in the prior period of R44.4 million.

There has been a significant reduction in net capital expenditure to R73.1 million and this is expected to decline further in the medium term, until a clearer picture of the trading environment warrants further investments.

Limited investments and loans have been made in the period with the one larger investment being our 50% stake in Safari.com.

The group has shown it has the ability to remain cash generative, even in difficult times. The group has recently made an odd lot offer and a specific offer to shareholders to buy back shares, which will have a small effect on our growing cash reserves. Once this corporate action has been completed the group will review its stance on buying back shares on a targeted basis. Having said this, the group views its significant cash reserves as being strategic and enables it to respond to investment opportunities with speed, as and when these may arise.

DIVISIONAL PERFORMANCE

Publishing, printing and distribution

Newspaper Publishing and Printing

The group's local newspapers managed to arrest the decline in advertising revenues, and with operational costs being well controlled, there was a slight improvement in profitability over the previous year. This is pleasing as it has reversed a declining trend in the continuing difficult trading conditions.

Local advertising revenues remain under pressure , although there are signs of improvement in certain metropolitan areas where sales teams successfully implemented creative advertising solutions aligned to customer's needs. National advertising revenues reversed the previous declining trend and managed to compensate for the decline at local level.

The group is confident that our local news content is still being well received in the communities we serve and thus we are well placed to benefit from any improvement in the current economic environment. The group continues to develop its digital local news network and over the reporting period, has managed to grow revenues.

The group's daily newspaper, The Citizen delivered a slightly improved result on the back of stable print circulations, increased digital advertising revenues and cost control measures which more than offset the decline in print advertising revenues.

As part of a strategy to separate the group's investments in digital technology platforms from the legacy print business, an agreement was reached with Cognition Holdings Limited to purchase the investment in Private Property (Pty) Ltd from the group for a consideration of R127 million with effect from 1 February 2019. The purchase price will be settled by way of the issue of 105 833 333 new Cognition shares at an issue price of 120 cents per share. At the time of writing, all suspensive conditions for this transaction have been met and the transaction has been implemented, increasing our shareholding in Cognition from the current 34.7% to 63.0%. It is the intention for Cognition to further exploit opportunities in the digital economy and acquire other digital assets to maximise shareholder value.

Private Property continues to show growth in revenues with longer customer engagements and increased leads being recorded. During this reporting period, the business made significant additional investments in marketing, staff training and the appointment of key positions for the future, which led to increased operating expenses and a decline in profitability over the prior year.

During the period, a further digital investment was made into Afritrip Group (Pty) Ltd which owns and runs the Safari.com website focused on arranging and booking wildlife safaris in Africa, mainly for overseas visitors. In line with the abovementioned future strategy consideration will be given to offer this as well as other digital investments to Cognition for its consideration to acquire from the group.

The large newspaper printing operation in Gauteng posted an increase in revenue and profitability as the group-owned local weekly newspapers maintained print orders. The recently acquired Media 24 contract as well as an increase in commercial pamphlet printing for retail customers assisted in offsetting the printing volume declines, in daily and weekly national newspapers. The growth in the commercial leaflet market has been assisted by the fact that the group owns ten newspaper printing facilities strategically located around the country, which meet our customers' needs as we are able to offer split print runs in multiple locations, thereby saving time and distribution costs.

As previously mentioned, the Western Cape newspaper printing operation has been restructured and downsized to mitigate the loss of the Independent Media print contract. This, however, could not prevent a large decline in the performance of the plant. Further restructuring and the integration of this facility into our book and magazine operation will be taking place.

Magazine Publishing and Distribution

These operations have managed to maintain performance levels in the face of continuing declines in revenues. The declines have largely come from lower copy sales as opposed to advertising revenues which were stable during the period under review. The decline in revenues was offset by ongoing general cost containment measures, by introducing operating synergies amongst titles and by reducing employee numbers in support activities.

In this environment, management continues to seek and implement new cost saving measures and is looking at a more centralised approach to the creation of content and the production of titles.

The group's distribution network continues to face declining magazine circulations and distribution revenues from CD and DVD but has managed to mitigate these declines through cost savings. This division successfully tendered for the distribution contract, in the Eastern Cape, from On the Dot (the magazine distribution business of Media 24), and based on this successful pilot, other areas are being tendered for.

Commercial Printing

Web and Gravure

The tepid retail environment has impacted these divisions as retailers felt the pressure of subdued consumer spending. This translated into only marginal turnover growth and reduced profitability at our operations. Raw material input costs increased on the back of higher base prices and volatile exchange rates. The nature of the market was such that, in order to maintain market share, these costs pressures could not be fully passed onto customers. On a positive note the divisions managed other cost pressures well and have also restructured both the Johannesburg and Durban operation to reflect the current retail market, which could take some time to recover in any meaningful way.

Book and Magazine Printing

This division has had a difficult first half to the financial year, where reduced margins and increased costs of production resulted in a decline in profitability. Margins were impacted by large increases from local paper manufacturers and a volatile exchange rate for imported raw materials that could not be passed onto the customer base. Although turnover was by and large maintained, the mix of the markets changed substantially from the prior year. The key education textbook market continues to be hampered by lower demand from government departments. It is our understanding that government diverted this spend to upgrade education facilities. Growth was experienced in the magazine printing market with the recently acquired Media 24 titles being printed for the full reporting period. The outlook remains uncertain especially in the education market and regarding other government spending on print. Thus, cost containment remains a high priority but always retaining the capability to ramp up capacity should the market demand it. At the time of writing, the Constitutional Court has dismissed with costs, the appeal by Lebone Litho Printers and Novus Holdings, against last year's decision of the Supreme Court of Appeals to set aside the contested workbook tender. It is anticipated that Caxton will have an opportunity to re-tender for this contract, subject to the Department of Basic Education continuing the project.

Packaging and Stationery

Packaging

The packaging divisions have performed well in difficult trading conditions and have managed to grow turnover and profitability over the corresponding prior period. The markets in which we operate are fiercely competitive and at times, pricing levels offered by competitors are unsustainable. The group's capital investments, and rationalisation of operations over the prior years, have proved to be successful and have enabled us to compete, even with competitors approaching the market with seemingly predatory intent.

The label manufacturing operations saw an improved performance as the benefits of the two acquisitions, both in the Western Cape, started to bear fruit. The beer label operation benefited from a customer's move away from foils and self-adhesive labels to paper labels.

The folding carton market benefitted from growth in the fast food sector whilst the fast moving consumer goods sector remained subdued .The cigarette carton market continues to decline but at a lower rate than in the past. There is likely to be little change to these markets in the short term but there appears to be renewed effort around curbing illicit cigarettes which hopefully can benefit that operation in the medium term.

During the period, the acquisition of another small corrugated box plant in the Western Cape was completed for a nominal purchase price. It is the intention to incorporate this operation into a new site along with the other acquisition that was made in the previous financial year.

Stationery

The group's stationery division performed to expectations and maintained market share and turnover. Profitability was slightly below the previous year as the division invested in increasing its marketing exposure to increase the profile in major retailers over the key back to school season. The success of these activities will be evaluated post the season.

Other

The group's replication business faced a significant decline in turnover and profitability as this market enters the sunset phase at an ever-quickening pace. This has necessitated a review of the prices charged and a significant price increase to ensure that the division can continue to supply. We continue to explore the future options for this business.

Prospects

It is unlikely that there will be significant improvement in the markets we serve in the near future and thus the approach will continue to be one of austerity, until the operating environment improves. The group continues to maintain its strong debt-free balance sheet with the fair value of our properties and cash on hand approximating our current market capitalisation. The group is well positioned to invest in any strategic acquisition opportunities that might arise.

Statement of responsibility

The preparation of the group's consolidated results was supervised by the Financial Director Mr TJW Holden, BCom, CA(SA).

28 February 2019

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