

Management Review – period ending 30th September 2022

Tuesday 08th November 2022: Cargills (Ceylon) PLC announced its consolidated financial results for the six months ended 30th September 2022. The Group was able to deliver a steady performance in a challenging environment, particularly considering rising interest and raw material cost as well as increasing cost of operations. The Group recorded a cumulative revenue of Rs 97,181 Mn (66% YoY) for the 1st half of the year while revenue increased to Rs. 49,206 Mn (70% YoY) during the quarter under review. Group EBITDA for the 1st half of the year was Rs. 9,410 Mn (65% YoY) and Rs. 4,969 Mn (74% YoY) for the quarter under review. The Group recorded an operating profit of Rs. 6,527 Mn (102% YoY) during the 1st half of the year while operating profits grew to Rs. 3,521 Mn (116% YoY) during the quarter under review. Profit after tax was Rs. 2,737 Mn (127% YoY) for the 1st half of the year and reached Rs. 1,186 Mn (69% YoY) for the quarter under review. The Group's performance was driven by all three major business segments of the Group – Retail, Food Manufacturing, Restaurants.

In the Retail sector, higher revenue and transactions were driven by offering availability in addition to the best prices and quality, which enabled the company to expand its market position. We see encouraging same-store sales growth as the sector is poised to achieve its highest recorded sales in its 39-year history over the coming months. Though price increases impacted volume growth during the first few months of the year, we have been able to curtail price increases below the national food inflation, which has reduced the impact to customers and supported a pickup in volumes of certain essential food categories. Cargills Retail added 19 new stores during the 1st half of the year under review, with the landmark 500th Cargills Retail store being opened in October.

The food manufacturing business recorded another strong quarter, despite challenges with raw material availability, fuel shortages, rising input costs, and rising cost of factory operations. All categories recorded strong volume growth except the confectionery business where the price component led sales growth. We have seen an increase in demand for our brands, although supply challenges have limited the ability to meet customer demand from time to time. Our team is currently working on building local production in order to ensure the Group continues to serve the nutritional needs of our customers. At a time when customers have been burdened with significant price increases, we have curtailed passing of costs to the consumer. Selective price revisions have been made to minimize the impact to profitability, with careful consideration on affordability and nutrition. The Group's focus on local sourcing and established networks with the agricultural community for many decades have helped the business expand its market position during this challenging period. The Restaurant business also recorded a remarkable performance, driven by its offering and careful price revisions to ensure affordability.

The Group's operations have grown despite the turbulent macroeconomic environment. The Management is focused on driving topline while investing in building its key resources such as talent. Strategic investments will be made to increase capacity and touchpoints across the country while the Group works towards improving its cashflow position and managing debt amidst the high interest rate environment. These strategic investments will be made to support the country's objective of achieving food security while ensuring the investments yield the required returns, both in the near-term and long-term. As a large local food company, the Group is committed to utilizing its resources to ensure the nutritional needs of consumers across the country are met. We believe that local production can meet the basic food needs of Sri Lanka in the long-term with the appropriate policies to encourage investment in food production. The Group declared an Interim Dividend of Rs. 3.50 per share for the reporting period, which is higher than the Rs. 2.00 per share declared during the previous financial year.