CAXTON&CTP publishers & printers LIMITED

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

R'000	% change	Unaudited Six months to 31 December 2015	Unaudited Six months to 31 December 2014	Audited for the year to 30 June 2015
Revenue	0,9	3 300 927	3 272 788	6 261 388
Other operating income		48 437	44 163	111 906
		3 349 364	3 316 951	6 373 294
Changes in inventories of finished goods and work in progress		(74 618)	(83 327)	83 038
Raw materials and consumables used		1 493 875	1 498 962	2 614 891
Staff costs		713 069	700 679	1 407 389
IFRS 2 share-based payment expense equity settled		–	–	43 188
Other operating expenses		809 929	772 260	1 466 873
Total operating expenses		2 942 255	2 888 574	5 615 379
PROFIT FROM OPERATING ACTIVITIES	(5,0)	407 109	428 377	757 915
Depreciation		140 396	136 688	280 727
PROFIT FROM OPERATING ACTIVITIES AFTER DEPRECIATION	(8,6)	266 713	291 689	477 188
Impairment of plant		–	–	22 174
NET PROFIT FROM OPERATING ACTIVITIES		266 713	291 689	455 014
Net finance income		61 534	55 304	111 510
– dividends		37 637	30 924	63 773
– interest		22 112	24 380	50 981
– IFRS 2 deemed interest receivable on unwinding of transaction		1 785	–	2 200
– (loss) on currency hedges		–	–	(5 444)
Income from associates		10 267	14 220	30 168
PROFIT BEFORE TAXATION		338 514	361 213	596 692
Income tax expense		88 729	97 158	162 810
PROFIT FOR THE PERIOD	(5,4)	249 785	264 055	433 882
Other comprehensive income: Items that will be reclassified subsequently to profit or loss		(4 729)	(4 876)	(3 984)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		245 056	259 179	429 898
PROFIT ATTRIBUTABLE TO:				
Non-controlling interests		5 709	7 111	10 608
Owners of the parent		244 076	256 944	423 274
		249 785	264 055	433 882
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Non-controlling interests		5 709	7 111	10 608
Owners of the parent		239 347	252 068	419 290
		245 056	259 179	429 898
Earnings per share (cents)	(6,6)	61,3	65,6	106,8
Adjusted earnings per share (cents)		61,3	65,6	117,1
Headline earnings per share (cents)	(6,5)	61,2	65,4	108,8
Adjusted headline earnings per share (cents)		61,2	65,4	119,1
Shares in issue/weighted average number of shares in issue		398 030 651	391 827 651	396 462 817
Weighted average number of treasury shares		(4 007)	(310 000)	–
Earnings per share based on		398 026 644	391 517 651	396 462 817
Reconciliation of adjusted earnings:				
Total comprehensive income attributable to owners of the parent		244 076	256 944	423 274
Net IFRS 2 share-based payment expense – equity settled		–	–	40 988
		244 076	256 944	464 262
Reconciliation of headline earnings:				
Earnings attributable to owners of company		244 076	256 944	423 274
Adjusted for non-trading items		(528)	(779)	8 014
Net impairment in value of property and plant		–	–	22 175
Net (profit)/loss on disposal of assets		(733)	(1 082)	(11 045)
Tax effect on above adjustments		205	303	(3 116)
Headline earnings		243 548	256 165	431 288
Net IFRS 2 share based payment expense – equity settled		–	–	40 988
Reconciliation of adjusted headline earnings		243 548	256 165	472 276

Segmental analysis	2015	%	2014	%	June 2015	%
Revenue:						
Publishing, printing and distribution	2 101 299	64	2 137 371	65	4 090 679	65
Packaging	1 018 347	31	920 236	28	1 871 910	30
Other	181 281	5	215 181	7	298 799	5
	3 300 927	100	3 272 788	100	6 261 388	100
Profit from operating activities after depreciation						
Publishing, printing and distribution	192 782	72	204 484	70	348 622	73
Packaging	84 666	32	75 006	26	165 589	35
Other	(10 735)	(4)	12 199	4	(37 023)	(8)
	266 713	100	291 689	100	477 188	100

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

R'000	Unaudited 31 December 2015	Unaudited 31 December 2014	Audited 30 June 2015
Balance at beginning of the year	5 296 760	5 028 876	5 028 876
Total comprehensive profit for the period	245 056	259 179	429 898
Shares allocated not issued IFRS 2	–	–	112 404
Treasury shares and share buy backs	(1 087)	(4 660)	(32 825)
Dividends paid – ordinary and preference shareholders	(262 765)	(238 655)	(241 593)
Balance at end of the year	5 277 964	5 044 740	5 296 760

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

R'000	Unaudited Six months to 31 December 2015	Unaudited Six months to 31 December 2014	Audited for the year to 30 June 2015
CASH FLOW FROM OPERATING ACTIVITIES	(118 361)	(125 947)	515 149
Cash generated by operations	410 774	453 261	766 688
Changes in working capital	(260 475)	(296 862)	50 847
Cash generated by operating activities	150 299	156 398	817 535
Less: Taxation paid	(65 644)	(98 994)	(175 547)
Net interest received	22 112	24 380	50 981
Dividends received	37 637	30 924	63 773
Net cash generated from operating activities	144 404	112 708	756 742
Dividends paid	(262 765)	(238 655)	(241 593)
CASH FLOW FROM INVESTING ACTIVITIES	(166 970)	(525 427)	(710 567)
Property, plant and equipment			
– additions to maintain and expand operations	(176 921)	(207 101)	(453 624)
– proceeds from disposals	6 348	10 808	69 573
	(170 573)	(196 293)	(384 051)
Investments			
– subsidiary businesses acquired (net of cash)	–	(328 447)	(337 342)
– Associates, other investments and loans (net of taxation)	3 603	(687)	10 826
	3 603	(329 134)	(326 516)
CASH FLOWS FROM FINANCING ACTIVITIES	(1 087)	(4 660)	(32 825)
Own shares acquired	(1 087)	(4 660)	(32 825)
Net decrease in cash and cash equivalents	(286 418)	(656 034)	(228 243)
Cash and cash equivalents at the beginning of the year	2 000 412	2 228 655	2 228 655
Cash and cash equivalents at the end of the period	1 713 994	1 572 621	2 000 412
Fair value adjustment of preference shares and other investments	(17 297)	(12 578)	(11 480)
Fair value of cash and cash equivalents at the end of the period	1 696 697	1 560 043	1 988 932

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

R'000	Unaudited 31 December 2015	Unaudited 31 December 2014	Audited 30 June 2015
ASSETS			
Non-current assets			
Property, plant and equipment	2 515 827	2 445 044	2 484 914
Interest in associates	251 109	236 259	240 030
Other investments	24 611	28 363	29 026
– listed	34	31	34
– unlisted	24 577	28 332	28 992
Deferred taxation	–	–	2 142
Loans to directors	67 201	–	71 416
Total non-current assets	2 858 748	2 709 666	2 827 528
Current assets			
Inventories	795 886	814 006	811 659
Accounts receivable	1 307 129	1 425 112	1 052 058
Taxation	13 722	–	10 226
Cash	591 829	650 455	878 247
Listed bank preference shares	54 868	59 588	60 685
Unlisted bank preference shares	1 050 000	850 000	1 050 000
Total current assets	3 813 434	3 799 161	3 862 875
Total assets	6 672 182	6 508 827	6 690 403
EQUITY AND LIABILITIES			
Equity	5 277 964	5 044 740	5 296 760
Equity attributable to owners of the parent	5 215 156	4 988 198	5 239 661
Preference shareholders	100	100	100
Non-controlling interest	62 708	56 442	56 999
Non-current liabilities			
Deferred taxation	306 784	270 456	283 431
Current liabilities			
Trade and other payables	858 870	909 492	885 312
Provisions	228 564	272 837	224 900
Taxation	–	11 302	–
Total current liabilities	1 087 434	1 193 632	1 110 212
Total equity and liabilities	6 672 182	6 508 827	6 690 403
Net asset value per share (cents)	1 326	1 289	1 336
Directors' valuation of unlisted investments and associated companies	275 686	264 591	269 022
Capital expenditure	176 921	207 101	453 624
Capital expenditure committed	180 000	182 000	144 000

COMMENTARY

Highlights

Basis of Preparation

The accounting policies adopted in the preparation of the financial statement for the six months under review are in accordance with the requirements of International Financial Reporting Standards ("IFRS") and are consistent with the prior year and IAS 34 on interim reporting, the JSE Listings Requirements, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Companies Act of South Africa 2008.

Earnings

The period under review has been characterised by reduced growth, slowing consumer spending and recent volatility in the exchange rate. These conditions contributed to difficult trading conditions that intensified towards the end of the year resulting in a decline in earnings.

Revenue showed marginal growth of 1% to R3,301 billion reflecting the limited growth environment. Encouraging sales growth was achieved in the newspaper division but this was offset by a further decline in the book printing division as government spending on text books continues to be uncertain as well as the continued decline in advertising revenue in the magazine division.

Raw material input costs have been well controlled but the sudden volatility of the exchange rate towards the end of the year will have an impact going forward.

Staff costs and other operating expenses have remained an area of focus and increased by a marginal 3,4% over the corresponding period as the benefits of the prior year restructuring initiatives are being felt.

Profit from operating activities has declined from R428,4 million to R407,1 million. Depreciation increased from R136,7 million to R140,4 million resulting in a decline of 8,6% in net profit from operating activities to R266,7 million. This decline was offset to a certain extent by an increase in net finance income by 11,3% to R61,5 million as a result of the increasing interest rate environment and increased dividend flow.

Income from associates declined to R10,3 million from R14,2 million.

Profit before taxation declined from R361,2 million to R338,5 million. Taxation at a rate of 26,2% absorbed R88,7 million which resulted in a profit after tax for the period of R249,8 million a decrease of 5,4% over the corresponding period .

The weighted number of shares in issue compared to the corresponding period increased to 398 026 645 as a result of the share allocation to executive directors. The resultant earnings per share for the period are 61,3 cents per share and the headline earnings per share are 61,2 cents per share, reflecting a decrease of 6,6% and 6,5% respectively.

Cash Flow

Fair value of cash and cash equivalents at 31 December 2015 amounted to R1,697 billion. Net cash generated from operating activities increased to R144,4 million, up 28,1% from the previous year due to a reduction in capital gains and provisional taxation paid. This was offset by the increased dividend paid to shareholders which resulted in cash from operating activities declining by 6% over the corresponding period.

DIVISIONAL PERFORMANCE

PUBLISHING, PRINTING AND DISTRIBUTION

Newspaper Publishing and Printing

Although the daily and weekly newspaper industry continues to experience declining circulations and advertising revenues our group is fortunate that the local newspapers have bucked this trend and managed to show a slight growth in turnover. This has meant that the newspaper publishing division has managed to maintain profitability.

We are encouraged that the previously reported weakness in the metropolitan local newspapers has abated with growth in turnover and profitability being achieved especially in the core Gauteng areas. This is in contrast to the regional newspapers where the slump in commodity prices has led to mine and steel industry closures which has impacted our businesses in those areas.

Significant investment is still being made in our digital strategy and in the near future a number of exciting digital offerings will be launched on the local platforms. We are convinced that our strategy of focusing on local communities, where we currently have large audiences through our print offerings, will prove beneficial in driving digital revenues. This is in contrast to many national digital platforms that have found it difficult to monetise their platforms.

The newspaper printing division continues to be faced with declining turnover from the traditional newspaper customers although to varying degrees. This decline has however been partially off-set by securing print from other non-traditional markets. This was however not sufficient to prevent a substantial decline in profitability.

Magazine Publishing and Distribution

The magazine industry continues the journey to grow digital assets, while still leveraging the traditional print business. Caxton's ongoing development and investment in digital platforms and distribution channels will ensure that the magazine brands deliver meaningful growth across all platforms and formats. A substantial increase in our digital audiences has been a very positive development and will remain a focus. Although there has been some transition of consumer magazine advertising from print to digital, the digital revenue is still relatively small. For now print is a very important part of any campaign and delivers the best results when included. Magazines continue to play a crucial, but often undervalued, role in brand building, driving sales and effective consumer reach.

The effects of a weak economy and low consumer confidence have impacted revenues from both advertising and copy sales in the last quarter. It is difficult to predict when the outlook for magazine publishers will improve and until this happens our focus will remain on developing and implementing sustainable structures, curtailing costs and finding vital multi-media revenue opportunities.

The group's magazine distribution business (RNA) declined in profitability but this was offset to some extent by the growth in the distribution of entertainment products (CDs and DVDs) by servicing an increased customer base through the same infrastructure. This division faces continuing challenges as it adjusts to declining distribution volumes and the impact of the exchange rate volatility on margins in the imported product portfolio.

COMMERCIAL PRINTING

Web and Gravure

As reported at year end, the expected growth in profitability in the first six months has materialised. This has been achieved through a combination of improved volumes and the continued benefits of the rationalisation initiatives. However, the business is facing the challenges of a declining economy and our limited ability to pass on raw material input cost increases due to the depreciating rand.

Book Printing

The division produced a satisfactory financial result given the constraints imposed by the major markets in which the division operates, namely education text books and magazines.

Print revenue continues to be severely affected by the significant decline in spend by education book publishers, directly attributed to the decreasing spend by Government on text books.

The magazine market is similarly negatively impacted by reduced consumer spend and competition for advertising which has resulted in declining paginations and print runs, again affecting print revenues.

The division has made improvements in efficiency and productivity during the period by the implementation of a formal continuous improvement programme. The initiatives identified by this programme, together with commissioning of a new web offset press in January 2016 will ensure that the division is able to meet the challenges of our highly competitive markets during these difficult economic conditions.

Packaging

The packaging divisions performed reasonably in the face of increasingly difficult trading conditions led by competitor activity and pressure on margins. The period under review was positively impacted by some major customers pulling orders forward for operational reasons and in some cases demand increased as alternative suppliers could not meet customer requirements.

The second half of the financial year is expected to be increasingly difficult as the full impact of the weakened exchange rate and also lost business is felt. In the face of this environment the focus is to complete the restructure of the Gauteng operations which will further reduce the cost base and improve efficiencies.

Other

The stationery business continues to benefit from the closure of the Ladysmith operation.

Prospects

The current difficult trading conditions are expected to worsen in South Africa and become increasingly difficult, impacted by the economy's declining growth prospects and a volatile exchange rate. Against this background it will be difficult to maintain earnings in the medium term, although the group is in an enviable position relative to the market, with a strong balance sheet which will enable it to take advantage of any opportunities that may arise in our sectors, as conditions continue to deteriorate.

Statement of responsibility

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

23 February 2016

Executive Directors: TD Moolman, PG Greyling, TJW Holden

Non-executive Directors: PM Jenkins, ACG Molusi, NA Nemukula, J Phalane, T Slabbert, GM Utian

Transfer Secretaries: Computershare Investor Services (Pty) Limited

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