



eabl

CELEBRATING LIFE,  
EVERY DAY, EVERYWHERE



## HALF YEAR RESULTS FY2018



# HALF YEAR RESULTS BRIEFING

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## F18 H1 Commercial Review

Andrew Cowan

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## F18 H1 Financial Performance

Gyuri Geiszl

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## F18 H2 Priorities

Andrew Cowan

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## Q&A





# F18 HALF YEAR REVIEW

**Andrew Cowan**  
**Group Managing Director**

## We are clear on our ambition



Since 1922...

To create the **best performing, most trusted and respected consumer products company in Africa**

- Strengthen and accelerate our premium core brands
- Win in reserve in every market
- Innovate at scale to meet new consumer needs
- Build and then constantly extend our advantage in route to consumer
- Drive out cost to constantly invest in growth
- Guarantee our plans with the right people and capabilities

# EABL STRATEGY



Purpose

**East African Breweries**  
Celebrating Life, Every Day, Everywhere

Ambition

**To create the best performing, most trusted and respected consumer products company in Africa**

Strategic imperatives

**Vibrant Mainstream Beer**

Return Guinness and our local power brands to sustainable long term growth

**Explode Mainstream Spirits**

Unlock and serve consumer needs through aspirational and affordable portfolio

**Win in Premium**

Transform penetration and share by disrupting and shaping the future of premium segment

**TBA Value Recruitment**

Grow TBA and extend our share through differentiated, accessible and viable offering

Key enablers

**Aspirational and Accessible Innovations**

**Route to Consumer**

Competitive coverage that drives market share gains across the 4 imperatives

**Stakeholder Relationships**

Respected partner in community shaping industry tax and regulation to drive full portfolio growth

**Supply Footprint**

Guarantee supply through an advantaged but fit for purpose value chain

**Productivity**

Culture of ruthless M&E and investment allocation to drive out cost and make every shilling worth more

**Guaranteed through Our People**

- Strategic imperatives & enablers are swiftly and fully resourced
- Simple, agile and externally-oriented organisation
- Employer of choice with leading diversity & local talent agenda
- Significantly up-weighted commercial capabilities

# Volume growth driven by bottled beer recovery, Innovation and mainstream spirits growth














|                                  | vs LY                 |
|----------------------------------|-----------------------|
| <b>Volume</b>                    | <b>+4%</b>            |
| <b>Net Sales</b>                 | <b>-0.3%</b>          |
| <b>Gross Profit</b>              | <b>-4%</b>            |
| <b>Operating Profit</b>          | <b>-3%</b>            |
| <b>Operating Cash Conversion</b> | <b>126%</b>           |
| <b>Interim Dividend</b>          | <b>KES 2.00/Share</b> |









# Softness in Kenya drives flat net sales despite turnaround in Tanzania



|                   | Contribution to overall EABL | Net Sales growth (KES) | Net Sales growth (local currency) | Key Brands                                                                                                                                                                                                                                                                                                                                          |
|-------------------|------------------------------|------------------------|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>KENYA</b>      | <b>72%</b>                   | <b>-4%</b>             | <b>-4%</b>                        |         |
| <b>UGANDA</b>     | <b>17%</b>                   | <b>-0.3%</b>           | <b>+4%</b>                        |                                                                                            |
| <b>TANZANIA</b>   | <b>11%</b>                   | <b>+28%</b>            | <b>+28%</b>                       |     |
| <b>Total EABL</b> | <b>100%</b>                  | <b>-0.3%</b>           | <b>n/a</b>                        |                                                                                                                                                                                                                                                                                                                                                     |

# Recovery of mainstream beer and strong growth in mainstream spirits offset by decline of Senator keg

|      | Premium                                                                           | Mainstream                                                                        | Value                                                                              | RTD's                                                                               | Total Beer   |
|------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|--------------|
|      | <b>+3%</b>                                                                        | <b>+8%</b>                                                                        | <b>-10%</b>                                                                        | <b>-18%</b>                                                                         | <b>-0.4%</b> |
| Beer |  |  |  |  |              |

|                 | Reserve                                                                             | Premium                                                                             | Mainstream                                                                           | Value                                                                                 | Total Spirits |
|-----------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------|
|                 | <b>-21%</b>                                                                         | <b>-11%</b>                                                                         | <b>+14%</b>                                                                          | <b>+4%</b>                                                                            | <b>+0.1%</b>  |
| Spirits & RTD's |  |  |  |  |               |



# Increased innovations bringing vibrancy to the market and recruiting new customers



|                  | KENYA         | UGANDA        | TANZANIA      |
|------------------|---------------|---------------|---------------|
| NSV Contribution | 18% Kes 5.4bn | 16% Kes 0.9bn | 33% Kes 1.3bn |
| BEER             |               |               |               |
| SPIRITS          |               |               |               |



**Kenya**  
-4%

# Bottled beer recovery and spirits does not fully offset Senator decline



❑ **Bottled beer** grew by +5% driven by Tusker Cider, Tusker Lite, Guinness, White Cap and Balozzi

❑ **South Sudan** up +39% but still very small

❑ **Mainstream spirits** in double digit growth

❑ **Reserve and premium spirits** decline

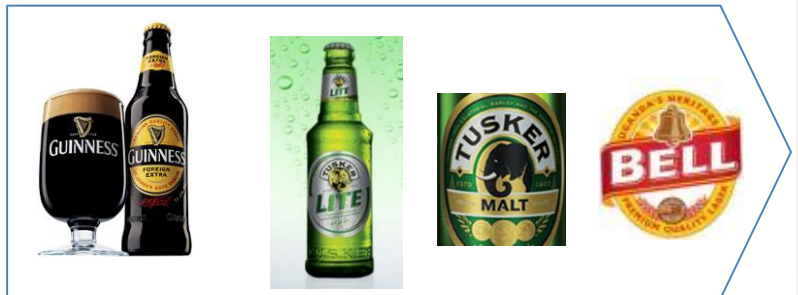
❑ **Senator keg** down by -22%:

- partial shutdown in July-August to increase capacity
- uncertain political and economic environment impacting consumers

❑ Continued **Innovation** at scale: Pilsner 7, Zinga, Captain Morgan Gold, Black&White, Kenya Cane Citrus



# Uganda Volume growth offset by excise -0.3% increase on imports and down-trading



❑ -3% decline in **beer** is driven by Mainstream, while Premium and Value segment are in growth



❑ **Drivers** of beer growth are Tusker Lite, Pilsner and Senator, Bell is still in decline



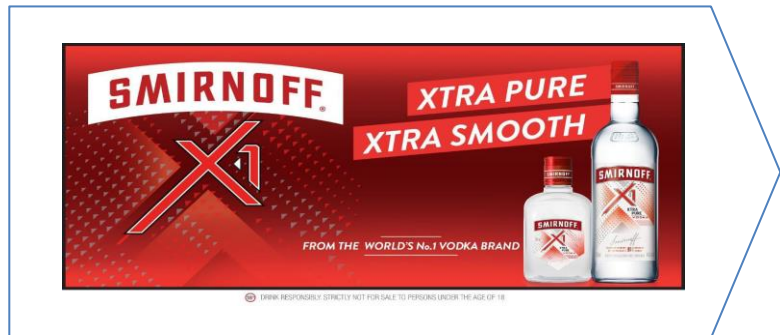
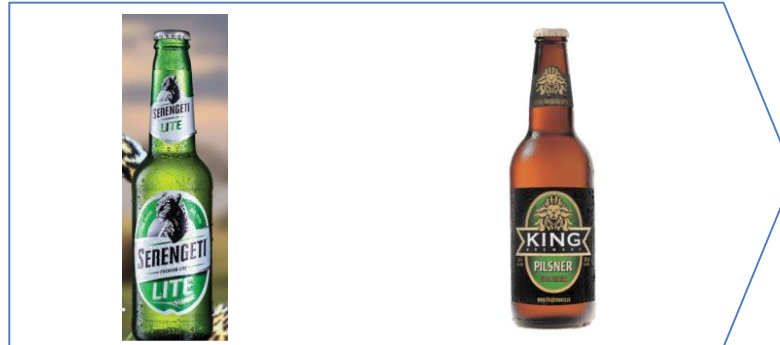
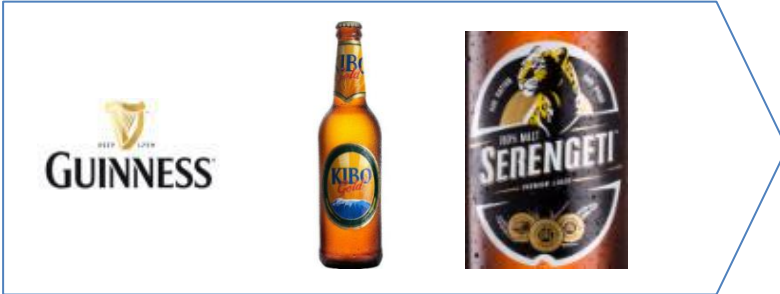
❑ **Spirits** grew +6% driven by Uganda Waragi and Bond 7 sachets but Reserve also performed well

❑ Continued strong **Innovation** contribution – Ngule, Uganda Waragi Coconut, Gabana sachet



**Tanzania**  
**+28%**

# Strong performance driven by Serengeti Lite



❑ Successful **Serengeti Lite** launch and recovery of Serengeti Premium Lager delivers +130% net sales growth of Serengeti family despite price reduction in F17

❑ Sachet ban and modest excise increase drives overall recovery of **beer market**

❑ Better capacity utilisation drives improvement in **profitability**

❑ **Innovation**: launch of Smirnoff X1 and Pilsner King

# People

- ❑ **Robust Talent Assurance approach** focus on planning and forecasting talent moves
- ❑ Improved **succession plan coverage** for critical senior roles with short and medium term focus
- ❑ Continued with our **Organizational effectiveness** agenda leading to removal of one leadership layer at EABL and broadening of spans of controls to an average of 7 and layers of 5
- ❑ Embedding of **New Leadership standards**
- ❑ **Line Manager capability** building on coaching and leadership
- ❑ Focus on **Commercial capability** through our **License to Sell and License to coach** where accreditation is >90%



# Social Responsibility

- ❑ **KRA Summit:** Working closely with stakeholders to drive conversations on how domestic revenue can be harnessed for sustainable county development
- ❑ **Kijani Programme:** Ongoing staff driven initiative launched to restore 250 acres of Mt. Kenya Forest in partnership with Nature Kenya & 5 Community forest associations
- ❑ **Responsible Drinking:** New initiative dubbed #UTADO? launched in Dec 2017 targeted to millennial with simple message educating consumers on how to enjoy our products in a responsible manner
- ❑ **Mtama ni Mali Project:** Working closely with farmers to rally them to plant sorghum within arid and semi-arid areas for KBL's market
- ❑ **Heshima Project:** A vocational training project targeted to youth and women to support the reduction of production and consumption of illicit brews



# Thank You

Please hold the questions to the end





# F18 H1 FINANCIAL PERFORMANCE

Gyuri Geiszl

Group Finance and Strategy Director



# Financial Highlights



|                                  | H1 F18               | vs LY         |
|----------------------------------|----------------------|---------------|
| <b>Volume</b>                    |                      | <b>+4%</b>    |
| <b>Net sales (like for like)</b> | <b>KES 36.8bn</b>    | <b>-0.3%</b>  |
| <b>Operating profit</b>          | <b>KES 9.2bn</b>     | <b>-3%</b>    |
| <b>Profit after tax</b>          | <b>KES 5.0bn</b>     | <b>-11%</b>   |
| <b>Operating cash conversion</b> | <b>126%</b>          | <b>+32ppt</b> |
| <b>Net debt</b>                  | <b>KES 25.9bn</b>    | <b>+4%</b>    |
| <b>Interim dividend</b>          | <b>KES 2.0/Share</b> |               |



# Volume growth diluted by higher excise

❑ **Volume** growth driven by bottled beer recovery in Kenya, Innovation across the markets and growth in mainstream spirits

❑ Excise increase in **Uganda** on **imported beer** – no price increase, localisation of production

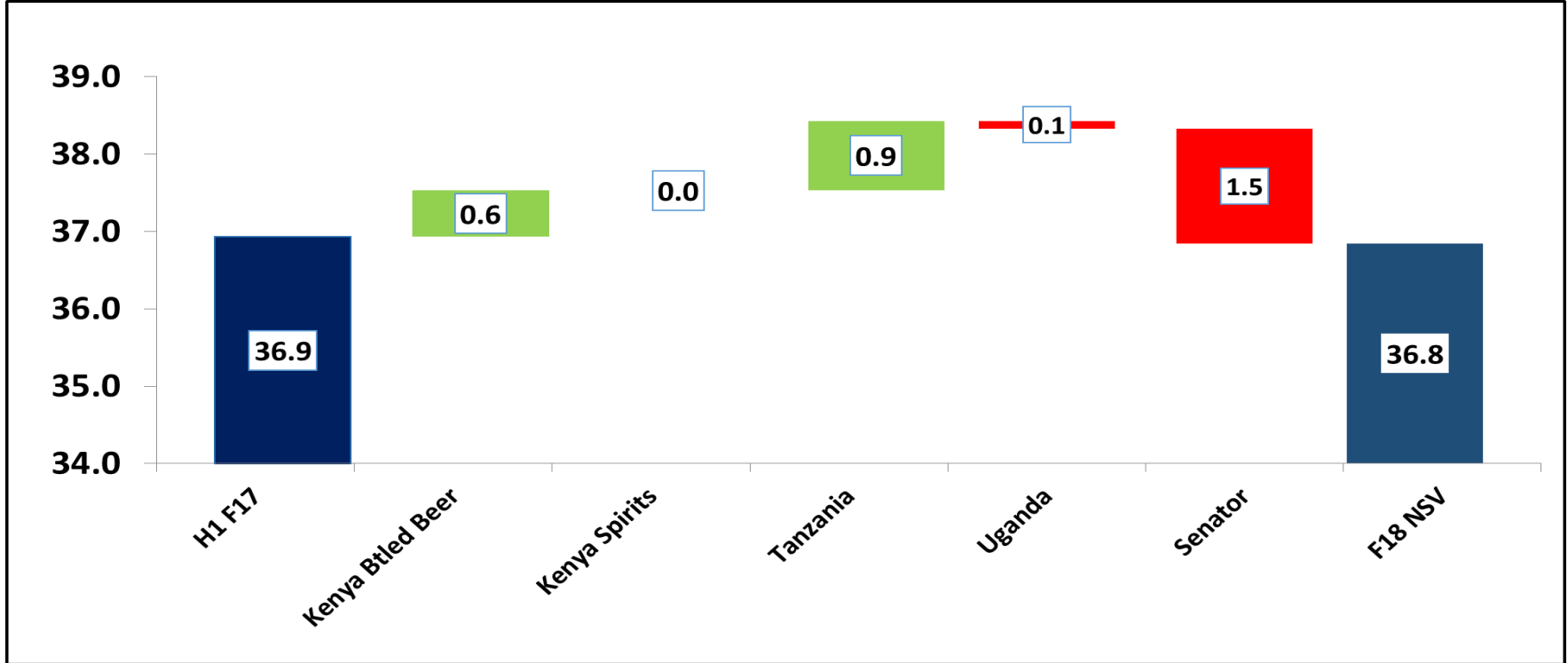
❑ **Price increase** for Senator keg to offset reduction in excise remission

❑ **Net sales** flat due to negative mix

|               | H1 F18<br>KES bn | H1 F17<br>KES bn | vs LY        |
|---------------|------------------|------------------|--------------|
| Volume (mEU)  | 6.3              | 6.1              | +4%          |
| Gross sales   | <b>68.3</b>      | <b>65.7</b>      | <b>+4%</b>   |
| Excise duties | <u>(31.5)</u>    | <u>(28.8)</u>    | +9%          |
| Net sales     | <b>36.8</b>      | <b>36.9</b>      | <b>-0.3%</b> |



# Movements in net sales (KES bn)



- Recovery of **bottled beer in Kenya** in a stable excise environment
- Tanzania recovery driven by **Serengeti** brand family
- Shut down and elections pulling **Senator keg** performance down



# CoGS savings only partially offset mix impact



❑ **Cost of sales** increase +2% behind volume growth +4%

❑ **Negative mix**: decline in Senator keg, our cheapest brand to produce

❑ **Additional savings** of KES 900m from

- local sourcing
- operational efficiencies
- warehousing and logistics

|               | H1 F18<br>KES bn | H1 F17<br>KES bn | vs LY        |
|---------------|------------------|------------------|--------------|
| Volume (mEU)  | 6.3              | 6.1              | +4%          |
| Gross sales   | 68.3             | 65.7             | +4%          |
| Excise duties | <u>(31.5)</u>    | <u>(28.8)</u>    | +9%          |
| Net sales     | <b>36.8</b>      | <b>36.9</b>      | <b>-0.3%</b> |
| Cost of sales | <u>(20.8)</u>    | <u>(20.3)</u>    | +2%          |
| Gross profit  | <b>16.0</b>      | <b>16.6</b>      | <b>-4%</b>   |



# Productivity savings reinvested in advertising, promotions and sales force



❑ **Selling and distribution** grew by +18% from investing behind our brands in line with strategy

❑ **Administrative costs** reduced by -21% over 2 years through zero based budgeting and organisational effectiveness

❑ Stable currencies in the region

❑ Disposal of non-strategic property in Mombasa

|                         | H1 F18<br>KES bn    | H1 F17<br>KES bn    | vs LY       |
|-------------------------|---------------------|---------------------|-------------|
| <b>Gross profit</b>     | <b>16.0</b>         | <b>16.6</b>         | <b>-4%</b>  |
| Selling & distribution  | <b>(3.1)</b>        | <b>(2.7)</b>        | <b>+18%</b> |
| Staff costs             | (2.9)               | (3.0)               | -3%         |
| Other costs             | <u>(1.1)</u>        | <u>(1.6)</u>        | -31%        |
| Administrative expenses | <b><u>(4.0)</u></b> | <b><u>(4.6)</u></b> | <b>-13%</b> |
|                         | <b>8.8</b>          | <b>9.3</b>          | <b>-6%</b>  |
| FX (losses) /gains net  | -                   | 0.6                 |             |
| Gain on sale of land    | 0.7                 | -                   |             |
| Other charges, net      | <u>(0.3)</u>        | <u>(0.4)</u>        |             |
| <b>Operating profit</b> | <b>9.2</b>          | <b>9.5</b>          | <b>-3%</b>  |

# Net borrowings and interest costs up due to spend on new brewery

❑ Strong cash delivery reduces impact of higher capex – **net borrowings** up only +4%

❑ Net **finance charges** increased by +29%, new funding secured at competitive rates

❑ Funding of KES 15bn **new brewery** from KES 12.5bn **debt**: 60% EUR and 40% KES denominated

❑ Positive **net current assets**

❑ **Capital restructuring of SBL** completed, net impact reported in EABL reserves / NCI

|                    | H1 F18<br>KES bn | FY F17<br>KES bn | vs LY |
|--------------------|------------------|------------------|-------|
| Net borrowings     | (25.9)           | (25.1)           | +4%   |
| Finance costs, net | (2.0)            | (1.5)            | +29%  |

# Profit after tax down on softness in Kenya



❑ **Profit before tax**

declined due to lower operating profit and higher interest charge

❑ Effective tax rate largely unchanged

❑ **EPS** in -17% decline due to higher share of non-controlling interests (SBL's return to profitability)

❑ **Interim dividend** unchanged vs last year

|                                        | H1 F18<br>KES bn | H1 F17<br>KES bn | vs LY       |
|----------------------------------------|------------------|------------------|-------------|
| <b>Operating profit</b>                | <b>9.2</b>       | <b>9.5</b>       | <b>-3%</b>  |
| Finance costs, net                     | <u>(1.9)</u>     | <u>(1.5)</u>     | <b>+29%</b> |
| <b>Profit before tax</b>               | <b>7.3</b>       | <b>8.0</b>       | <b>-9%</b>  |
| Income tax expense                     | <u>(2.3)</u>     | <u>(2.4)</u>     | <b>-5%</b>  |
| <b>Profit after tax</b>                | <b>5.0</b>       | <b>5.6</b>       | <b>-11%</b> |
| <b>EPS</b>                             | <b>5.21</b>      | <b>6.28</b>      | <b>-17%</b> |
| <b>Interim dividend</b><br>(KES/share) | <b>2.00</b>      | <b>2.00</b>      | <b>-</b>    |

# Consistently strong cash performance



□ **Seasonality** of business cycle same as last year – increase in Inventory and Debtors due to peak

□ Higher inventory purchases, accruals and increase in customer deposits (returnables) drive movement in **Creditors**

□ **Operating Cash Conversion at 126%**, above target of 104%

|                                       | H1 F18<br>KES bn | H1 F17<br>KES bn | vs LY      |
|---------------------------------------|------------------|------------------|------------|
| Operating profit                      | 9.2              | 9.5              | (0.3)      |
| Depreciation and amortization         | 1.8              | 1.7              | 0.1        |
| Gain on land sale                     | (0.7)            | -                | (0.7)      |
| Working capital movements             | 2.7              | (0.7)            | 3.3        |
| Inventory                             | (1.1)            | (0.4)            | (0.7)      |
| Debtors                               | (3.7)            | (3.4)            | (0.3)      |
| Creditors                             | 7.6              | 3.2              | 4.4        |
| <b>Cash generated from operations</b> | <b>13.0</b>      | <b>10.6</b>      | <b>2.4</b> |
| Net interest paid                     | (2.0)            | (1.5)            | (0.5)      |
| Income tax paid                       | (3.9)            | (3.0)            | (0.9)      |
| <b>Net cash from operations</b>       | <b>7.2</b>       | <b>6.0</b>       | <b>1.2</b> |
| <b>Operating cash conversion</b>      | <b>126%</b>      | <b>94%</b>       |            |



# Significant increase in capital expenditure

***F18 H1 investment of KES 5.0bn (F17 H1 KES 1.8bn)***



- ❑ Construction of **new brewery in Kisumu** started – KES 2.0bn
- ❑ New **spirits line** with capacity of 2.5m Eus in Kenya – KES 243m
- ❑ 4 new **keg rackers** and additional barrels in Kenya to boost Senator keg packaging capacity in Kenya – KES 436m
- ❑ New Dual-Purpose-Vessels (**DPVs**) in Kenya to increase brewing capacity and improve quality – KES 179m
- ❑ New **spirits line and warehouse** in Uganda
- ❑ **Efficiency and quality improvements**
  - Efficiency improvements, Kenya and Uganda in water and energy usage
  - East Africa leading globally in overall equipment efficiency
- ❑ **Health and Safety**
  - Strengthened perimeter wall and security in Tusker brewery
  - Vehicle/pedestrian segregation and EBI side wall inspection in SBL
- ❑ **Environment**
  - Ultramodern water treatment plant in Kenya
  - CIP system automation and ETP laboratory equipment in SBL

# New Senator keg brewery in Kisumu



- ❑ 15bn to be spent on new 1mHL brewery to produce Senator keg
- ❑ Building 100,000 livelihoods directly and indirectly, including 15,000 new farmers
- ❑ Construction started, project underway



# New spirits line in Tusker brewery



- ❑ New KES 900m Spirits line expansion went live in November 2017
- ❑ To create capacity headroom and supporting new format capability to allow local manufacturing of formerly imported brands



# New Senator keg rackers and Dual Purpose Vessels (DPVs)



## Senator keg rackers – KES 800m

- ❑ Increased keg capacity: 4 rackers and 30k keg barrels to meet Senator keg demand
- ❑ Project completed in August 2017



## Dual Purpose Vessels (DPVs) – KES 1,400m

- ❑ KBL brewing and cooling expansion with quality improvements
- ❑ Project completed in December 2017

# Significant increase in capital expenditure

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  - Ultramodern water treatment plant in Kenya
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# Thank You

Please hold the questions to the end





# F18 H2 PRIORITIES

Andrew Cowan  
Group Managing Director

# Priorities going forward



## Opportunities for further growth

- Senator** volume ramp up
- Continued bottled beer** momentum
- Win in premium leading with **Scotch**
- Deliver **productivity** initiatives
- Accelerate **mainstream spirits**
- Establish key **innovation** projects
- Deliver **Talent** goals





# Q & A Session



## **Cautionary Statement concerning forward-looking statements:**

This document contains 'forward-looking' statements. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook, objectives and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of changes in interest or exchange rates, the availability or cost of financing to EABL, anticipated cost savings or synergies, expected investments, the completion of EABL's strategic transactions and restructuring programmes, anticipated tax rates, changes in the international tax environment, expected cash payments, outcomes of litigation, anticipated changes in the value of assets and liabilities related to pension schemes and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside EABL's control.

These factors include, but are not limited to:

Economic, political, social or other developments in countries and markets in which EABL and its Subsidiaries operate, which may contribute to reduced demand for EABL's products, decreased consumer spending, adverse impact on EABL's customers, suppliers and/or financial counterparties or the imposition of import, investment or currency restrictions; Changes in consumer preferences and tastes, including as a result of changes in demographics, evolving social trends (including potential shifts in consumer tastes towards locally produced small-batch products), changes in travel, vacation or leisure activity patterns, weather conditions, public health regulations and/or a downturn in economic conditions;

Any litigation or other similar proceedings (including with tax, customs, competition, environmental, anti-corruption or other regulatory authorities), including litigation directed at the drinks and spirits industry generally or at EABL in particular;

The effects of climate change, legal or related regulatory or market measures intended to address climate change, including any resulting impact on the cost and supply of water;

Changes in the cost of production, including as a result of increases in the cost of commodities, labour and/or energy or as a result of inflation;

Legal and regulatory developments, including changes in regulations relating to production, distribution, importation, marketing, advertising, sales, pricing, packaging and labelling, product liability, labour, compliance and control systems, environmental issues and/or data privacy;

The consequences of any failure by EABL or its associates to comply with anti-corruption, sanctions, trade restrictions or similar laws and regulations or any failure of EABL's related internal policies and procedures to comply with applicable law or regulation;

The consequences of any failure of internal controls, including those affecting compliance with new accounting and/or disclosure requirements;

EABL's ability to maintain its brand image and corporate reputation or to adapt to a changing media environment;

Increased competitive product and pricing pressures, including as a result of actions by increasingly consolidated competitors, that could negatively impact EABL's market share, distribution network, costs or pricing;

EABL's ability to derive the expected benefits from its business strategies, including in relation to expansion in emerging markets, acquisitions and/or disposals, cost savings and productivity initiatives or inventory forecasting;

Contamination, counterfeiting or other circumstances which could harm the level of customer support for EABL's brands and adversely impact its sales;

Increased costs for, or shortage of talent as well as labour strikes or disputes;

Disruption to production facilities or business service centres or information systems including as a result of cyber-attacks;

Fluctuations in exchange rates and/or interest rates, which may impact the value of transactions and assets denominated in other currencies, increase EABL's cost of financing or otherwise affect EABL's financial results;

Movements in the value of the assets and liabilities related to EABL's pension funds;

EABL's ability to renew supply, distribution, manufacturing or licence agreements (or related rights) and licences on favourable terms or at all when they expire; and

Failure by EABL to protect its intellectual property rights.