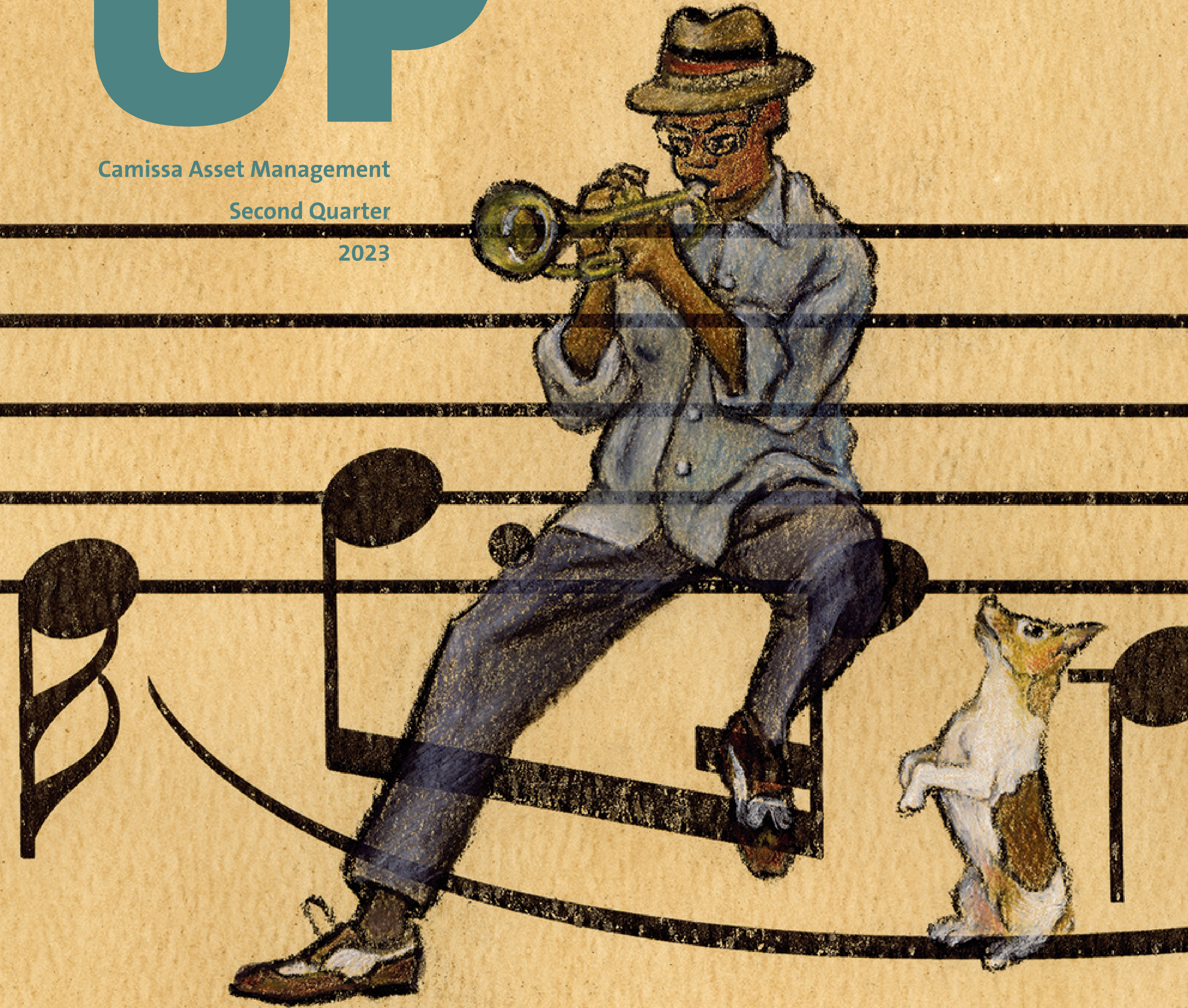
UP

Camissa Asset Management

Second Quarter

2023



www.camissa-am.com


15

Technical advantage on the JSE market

Abdul Basit Oldey - Head of Trading

"The South African stock market is large, liquid and operationally on a par with developed market exchanges. We contextualise the South African stock market within the global landscape, exploring index concentration and investability. We also show the particular breadth advantage for medium-sized equity portfolios, given the heavy market concentration in large capitalisation companies."

Technical advantage on the JSE market

The JSE Securities Exchange (JSE) was established by Benjamin Wollan in 1887, with the goal of providing a platform for gold mining companies to raise capital to make the most of South Africa's first gold rush. Following the introduction of the first South African legislation covering financial markets in 1947, it joined the World Federation of Exchanges in 1963 and upgraded to an electronic trading system in the early 1990s.

The JSE has more recently transitioned from an organisation owned and operated by stockbroker members to a company owned broadly by public investors and listed on its own exchange. Today, the JSE operates five financial markets: Equities, Equity Derivatives, Currency Derivatives, Interest Rates and Commodity Derivatives.

Local stocks in a global context

The South African stock market (equities) contains many companies with global revenue streams. A breakdown of the revenues of the companies within the FTSE/JSE Top 40 Index[1], reveals that less than half of our market's revenue was from outside of the country in the early 2000s. Since 2014, this has averaged about 70%, with the increase due to a depreciating currency, a slow local economy, inward listings, and local companies seeking diversification and making offshore investments. *Charted below (left)* is a breakdown of company revenues, with those in the Top 40 Index earning around 30% from South Africa, 8% from across the rest of Africa and the Middle East, and the balance from further afield *(right)*.

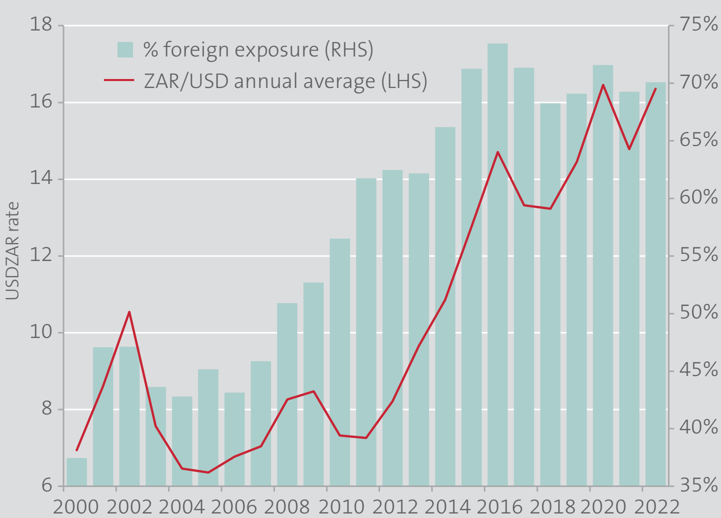
[1] Typically consists of the 40 largest companies ranked by investable market value in the FTSE/JSE All-Share Index.

As Africa's most developed economy with the most sophisticated financial markets, South Africa is sometimes considered an investment entry point to the continent. The South African companies included in the MSCI Emerging Markets Index command an index weight of 3.1% (as at 31 May 2023) and their constituents extend to companies just outside of our Top 40 Index. Its tail would typically be the point below which South African companies fall outside of the investable universe for foreign investors. Currently, this tail is made up of OUTsurance and Pepkor, which are among the top 50 companies in the FTSE/JSE All-Share Index.

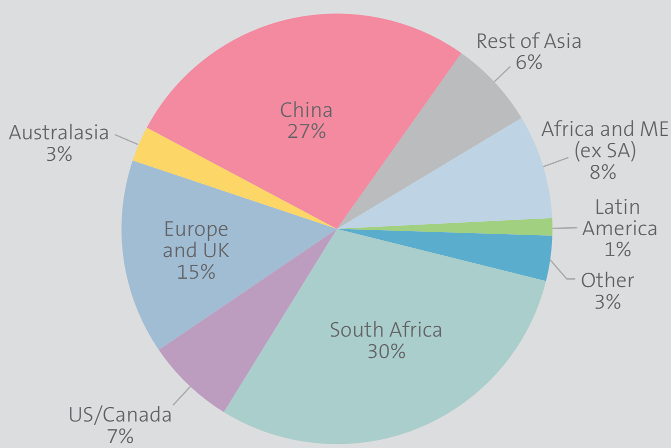
Market index dynamics

The JSE uses a market capitalisation-weighted methodology to determine individual stock weights within the FTSE/JSE indices. Additionally, weights are adjusted to reflect the respective company's "free float", ie shares that are available to be traded by the general public. Free float calculations attempt to exclude shares that are owned directly by the state, company officers, employee share schemes and those held as "strategic investments".

Company revenues outside SA



Revenue by region (February 2023)



Source: RMB Morgan Stanley, Camissa Asset Management

The two major indices used most by investors are the FTSE/JSE All-Share Index (ALSI) and the FTSE/JSE Shareholder-Weighted All-Share Index (SWIX). The primary difference between the ALSI and the SWIX is their treatment of shares that are not accounted for on the South African share register, due to companies being listed on more than one exchange. For calculating the SWIX weights, any company that listed post October 2011 is subject to an exclusionary rule on non-South African shareholdings. This results in the ALSI being more heavily weighted to dual-listed stocks and consequently more concentrated in the very large stocks. The SWIX has higher weightings in locally registered shares and is therefore somewhat more diversified.

The overlap of the ALSI and the SWIX is indicated in the *chart below (left)*. Following recent updates in company share structures at BHP Group (March 2022) and Richemont (June 2023), the more material index weight differences are now concentrated in Anglo American, Mondi and Investec. The overlap between the two is at the highest level it's been in recent years.

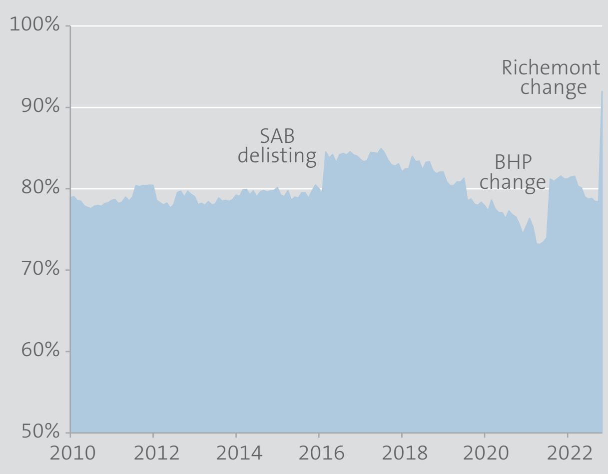
Multiple listings - multiple trading opportunities

Having multiple listings enables a company to raise capital in more than one capital market and to diversify their investor base. With dual listings on the JSE, South African investors benefit from a wider choice of companies and, in some cases, have access to foreign company shares without using up offshore holdings permitted by prudential limits. Additionally, investors can access liquidity on more than one trading platform as shares can be traded on a foreign market, then transferred between the relevant stock exchange registers.

According to data from independent analytics firm, 'big xyt', approximately 15% of the volume traded in Prosus occurs on the JSE, more than a third is traded in Amsterdam (the location of its primary listing) and the balance is traded across other trading venues. A South African investor looking to trade a large quantity of Prosus shares is therefore able to access far greater volume outside South Africa and transfer those shares to the local register for their locally-domiciled portfolios.

The ability to transfer shares across borders ensures that price discrepancies are quickly eliminated, with enduring premiums and discounts limited to the costs of cross-border transfers. Time-zone differences also allow South African investors to effectively lengthen their trading day, given the later market closing times in Europe and elsewhere.

Overlap of the ALSI and SWIX indices



Source: JSE, Camissa Asset Management estimates

Concentrated South African market

*FTSE/JSE Capped SWIX Index

Source: Bloomberg, Camissa Asset Management estimates

Technical advantage on the JSE market

Market concentration reduces breadth of opportunity for some

As indicated on the *previous page (right)*, the South African market is highly concentrated, with the top 10 shares accounting for over 40% of both the index weight and daily value traded. The next 30 shares account for approximately a further 40% of each measure. The remaining 100 or so shares account for as little as 17% of the index and value traded.

Due to this market concentration, the size of an asset manager's firm-wide equity assets under management (equity AUM) radically affects the available investible universe. This should be assessed by calculating the percentage ownership of a company's shares in issue that would need to be held by a large manager to equate to a meaningful portfolio position.

For example, an asset management company that manages R60 billion in equity assets has 49 different listed companies that could make up at least 5% of their equity portfolios, without owning more than 10% of any one of those companies. A manager with R300 billion in equity assets will find that the comparable investible universe (5% portfolio weight without exceeding 10% of company value) shrinks to just 15 shares. If the large manager opted to own up to 25% of any one company (which would radically limit their ability to change positioning), they would still only have 35 shares from which to choose.

Size matters

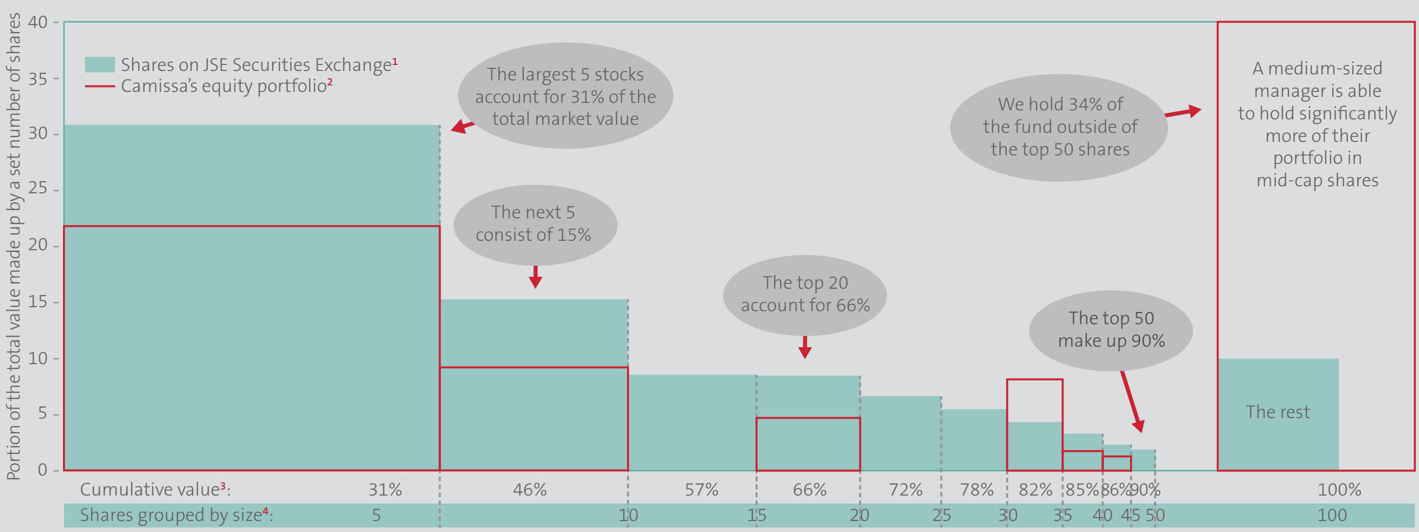
As a medium-sized asset management company, Camissa Asset Management consequently has a significantly broader choice of shares listed on the JSE that can make up material positions in our client portfolios - compared to larger competitor managers. Given this lack of scalability in smaller companies for portfolio positioning by larger managers, their investment universe is meaningfully smaller.

Additionally, many very large managers - especially those in the global emerging market space - have liquidity restrictions that limit their investment universe to the most heavily traded companies.

These reduced universe considerations for the managers responsible for the bulk of assets invested in our market, can lead to less intensive research coverage of smaller shares with potentially more asset mispricings. This is amplified by the fact that smaller shares are also not profitable subjects for stockbroker (sell side) research.

Currently, we are finding significant excess expected return opportunities outside of the top 50 JSE-listed shares, as shown in the *chart below*. Our performance is therefore likely to deviate materially from larger managers who are mostly restricted to meaningful positions in the top 20 or so shares. UP

Differentiated positioning



[1] Using FTSE/JSE Capped SWIX Index weights
[2] Camissa SA Equity Fund (at 30 June 2023)
[3] Cumulative portion of the total value made up by a set numbers of shares (accumulating with decreasing share size)
[4] Shares in groups of 5 by descending size and a group of shares 51 to 100 in size
Source: Camissa Asset Management

Sonos, the sound maestros

Jihad Jhaveri - Head of Process

> Sonos are renowned for providing “the ultimate home wireless sound system”. We explore the unique differentiators underpinning their rapid rise and assess their growth prospects.

Sonos, the sound maestros

Category creators

In the audio hardware industry, sound systems have traditionally been built around playback devices - from LP turntables to cassette and CD players. Since Sonos's inception in 2002, it was clear that the prevailing playback format of the day, CDs, had a limited lifespan due to the advent of internet-delivered alternatives. This insight was the foundation for their strategy to design sound systems, comprising high-quality smart speakers that connect directly to the internet for content. Additionally, Sonos used rapidly improving home network technologies to introduce consumers to a wireless listening experience simultaneously in multiple rooms. Given that they effectively created this category, for a long period of time Sonos had no comparable competition (*charted below*).

Technology underpins their market lead

Sonos has propelled itself into a leading position in the premium home audio market through their pioneering technological innovation and through striving for superior quality and exceptional user experience. Consequently, enhanced software and networking capabilities should set them apart from competitors in the future.

Their unique differentiators include:

Superior acoustics: Premium sound equipment typically optimises its performance within specific locations to perfect the user experience. Sonos's differentiated engineering strategy aims to "fill rooms with brilliant sound" by compromising slightly on specific location sound quality (which traditionally appeals to extremely discerning audiophiles) in favour of above-average sound quality throughout the room (that is more widely appreciated) - enhancing the social experience of the sound.

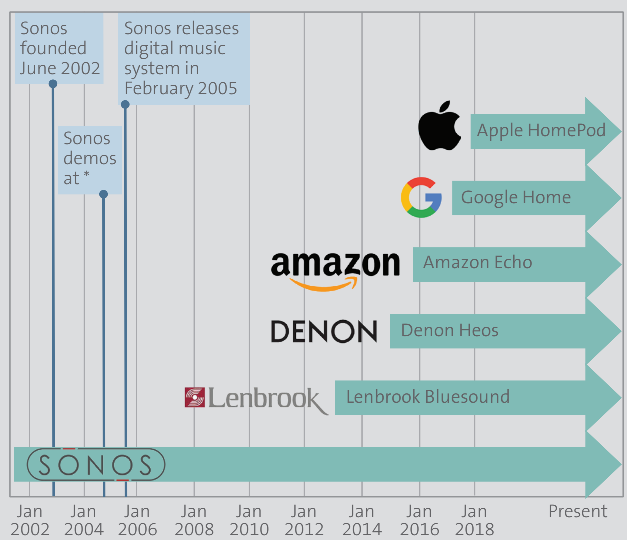
Designed longevity: 90% of all Sonos speakers ever manufactured are reputedly still in use, often functioning efficiently within more modern Sonos sound systems. In a consumer electronics market acclimatised to designed obsolescence, the robust build of Sonos products, together with continuous spend on software updates, has helped the brand establish a reputation for enduring quality and uphold this advantageous modular expansion functionality through time.

Increasingly large amounts of development spend are however needed to keep the old technology in the system, particularly as the gap widens between older speakers and rapidly advancing new generation speakers. Sonos recently addressed this by gradually moving to a common architecture platform and carefully, through incentives, retiring very old technology.

Pioneering multi-room sound technology: Sonos users can engage with audio content across multiple rooms in their homes without compromising on sound quality. This involves sophisticated technology that enables the sound to "follow you" with no notable detection of delay between spaces, such as:

- *Tight synchronisation* - content played simultaneously in different rooms runs the risk of sound "bleeding over" between spaces due to synchronisation delays. Although human hearing can only consciously detect delays of a few milliseconds, we subconsciously experience audio irritation (mild jarring) at slight synchronisation delays. Sonos's hardware and algorithms provide the tightest audio synchronicity.
- *Shifting functionality* - Sonos sound devices for television (sound bars) seamlessly shift from home theatre functionality to becoming part of a multi-room sound system when needed.
- *Seamless volume control* - allows users to toggle volume across a set of speakers in the house in ways that preserve room preferences. Patented hysteresis algorithms ensure no sudden sound spikes in a baby's nursery, for example.
- *TruePlay* - patented tuning software that analyses acoustic factors impacting an individual speaker's sound quality in

Multi-room audio market



*2004 D: All Things Digital Conference
Source: Sonos

order to recommend optimal tuning settings for each component of the sound system.

Widest range of content and multi-platform assist: Unlike competing systems, the Sonos ecosystem allows multiple music and podcast providers to offer content on their single platform. This is achieved through long-standing partnerships and software enabling. Even though most music content is consumed via two providers, Apple Music and Spotify, this wider platform allows consumers to also engage with boutique audio content providers.

Voice control functionality: Uniquely functioning as an open platform, Sonos software allows users to choose from a wide range of embedded competing voice assistants such as Google Voice Assist, Apple Siri, Amazon Alexa or their own in-house Voice Assist. Sonos sound systems are also equipped to filter out noise to better pick up user voice prompts (can be distorted in a multi-room setting with different audio content streaming).

Extensive patent portfolio offers buffering

Sonos's research and development efforts follow an "innovation pull" process, where customer needs are identified first and then followed by the development of the requisite technology solution. This contrasts with the traditional approach of basing innovation on utilising existing technological developments. It has led to the development of a disparate and extensive (close to 2 000) patent portfolio, which aims to protect Sonos's key product attributes from competition. Moreover, solutions to customer-informed challenges, achieved using a multi-disciplinary approach, results in better product features and stronger patents.

US International Trade Commissioner findings have forced Google to remove certain multi-room volume control features from its smart speakers that infringed Sonos patents. US courts have also recently ordered Google to pay damages ($32.5 million) to Sonos for infringing speaker grouping patents. The company is actively seeking to defend numerous other patents with a view to potentially earning meaningful royalties from competitors in the future.

The Lego effect

Sonos has an unusually high level of repeat sales as the multi-room functionality of their sound systems dramatically improves as speakers are added. In particular, the repeat sale opportunity takes root once single product customers are enticed to add a second piece of equipment - thus beginning an arguably addictive multi-room connected sound experience.

The existing potential for growth in households using Sonos products is vast, but enticing consumers to add to their Sonos product portfolio for an enhanced sound experience presents an even more expansive growth opportunity. If all single product households upgraded to the average products per capita of multi-product households, the total number of Sonos products in use would increase substantially (43% higher than 2022 levels - *illustrated below and on next page*).

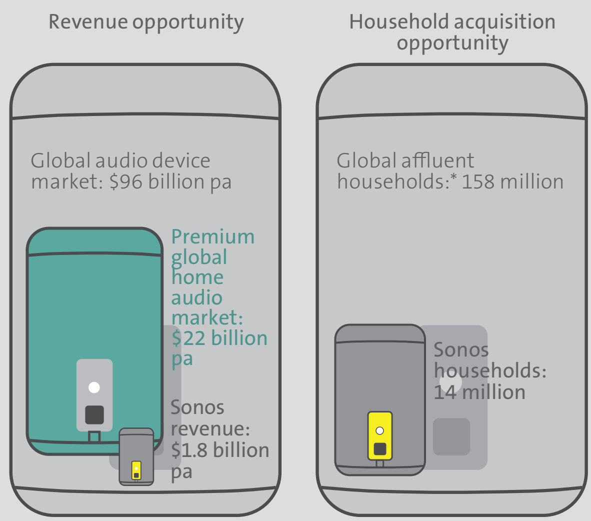
Valuable information gathered from initial device registration and ongoing engagement with the software, aids in assessing current user habits, including the location of existing devices in the home in relation to one another, audio and music content preferences, and the level of engagement with embedded voice assistance microphones. This enables Sonos to encourage repeat sales through targeted promotions and associated incentivisation.

Calling all culture seekers

Sonos aims to target and cultivate relationships with a specific high-income segment of the market, referred to as the "culture seekers", by addressing their specific needs through:

- Providing excellently functioning, aesthetically appealing,

Sonos's growth potential



*Affluent households with $75 000+ in annual disposable income
Source: Sonos company presentations, Futuresource, Euromonitor, Camissa Asset Management

well designed and easy to use premium products.

- Enabling ease of consumption of high levels and varied forms of audio content (music, movies, podcasts, audiobooks) with above average acoustic quality, often in a shared social setting.

Such "culture seekers" are societal influencers that frequently share their experiences (good and bad) with their social networks. This word-of-mouth advertising method has been very effective in building brand awareness for Sonos.

Sonos Radio[1] also targets this market through the inclusion of a variety of Sonos-owned stations that typically feature content curated by renowned artists and industry experts.

Differentiated distribution and products

In its early years, Sonos relied heavily on the distribution capabilities of certain large retail chains. As brand awareness grew, particularly through existing customer recommendations, the distribution strategy has evolved towards:

- Selective partnerships with retailers more closely aligned to their target market. For example, Sonos and Ikea have developed dual functioning, aesthetically attractive products like bookshelf speakers, kitchen speaker hooks and speaker lampshades.

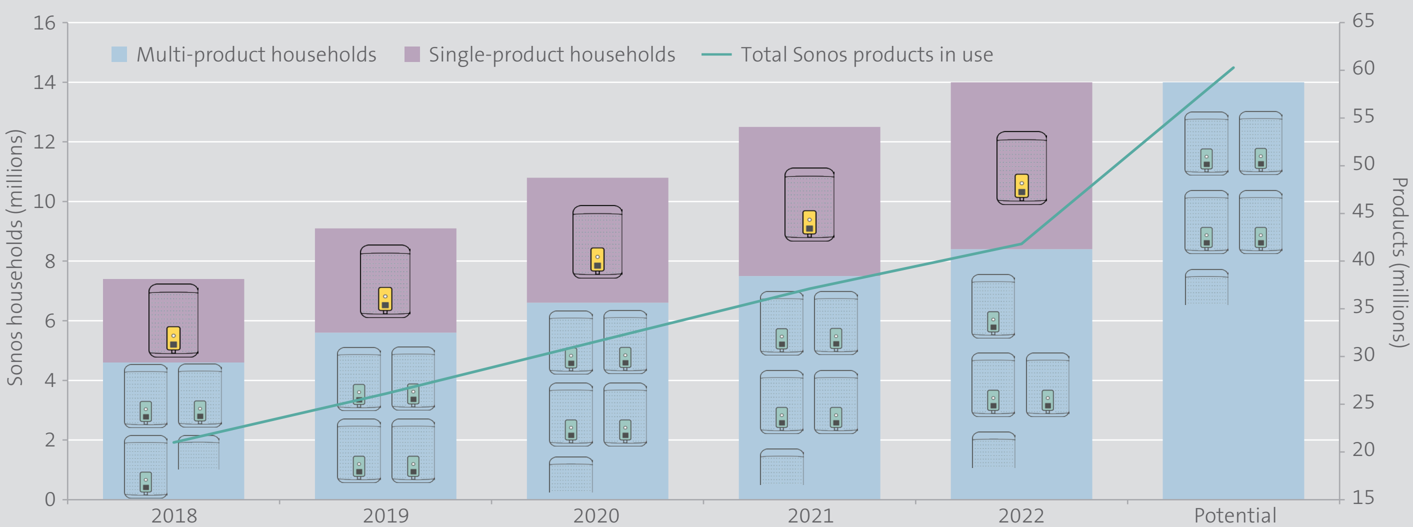
[1] Free internet radio service available exclusively to Sonos customers, featuring 60 000 stations from around the world.

- Increasingly encouraging direct e-commerce purchases through its own website. This fast growing (highest margin) distribution channel is best able to monetise valuable data-driven leads generated from customer engagements and observed behaviour.
- A large proportion of Sonos group revenue (25%) derives from professional sound system installations. Historically, professional installers were trusted consumer advisors who selected the equipment for a small high-end segment of the home audio market and managed the installation thereof (often involving building and lots of cabling). Since inception, Sonos has captured a share of this lucrative market (highest lifetime revenue, high net promoter scores and high margins) through simpler installations (wireless systems), aesthetically pleasing products and legendary product reliability. Additionally, the nature of their products reduces the need for clients to bear installer call-out costs for subsequent maintenance.

A sound strategy for growth

Strongly growing online audio consumption (across video, music, podcasts and audiobooks) and increasing demand to experience high quality sound (often in a social setting) presents Sonos - still a relatively small player - with the opportunity to steadily grow new users. Furthermore, increased product adoption per household will mean that Sonos should continue to grow profitably, well into the future. UP

Opportunity to increase products in use



Source: company reports, Camissa Asset Management

The Foschini Group's ambitious evolution

Mohamed Mitha - Investment Analyst

Over the past decade, The Foschini Group (Foschini) has evolved remarkably from a primarily credit-focused, South African retailer into a diversified player with significant presence in the UK and Australia. In addition to expanding geographical reach, it has also shifted to focus more on cash-based sales and developed an ambitious platform for growth. We delve into Foschini's key strategic characteristics and unique merchandising approach, that underpins their ability to effectively adapt to the changing retail landscape.

The Foschini Group's ambitious evolution

Customer focus

To thrive in the fiercely competitive retail environment, retailers must continuously adapt to capture and retain their customers attention and cater to new trends. Foschini has effectively embraced new trends and generally ensured that its offerings remain relevant and appealing. It is presently the only listed apparel retailer in South Africa to be selling more units on a like-for-like basis. To date, it has established the broadest exposure in the local market, boasting a diverse portfolio of 26 brands[1] covering most consumer segments (*shown below*).

Two of Foschini's notable successes, Sportscene and Totalsports, have tapped into the growing demand for athleisurewear. Sportscene is a leading authority in sneaker culture and streetwear, who's reputation and brand strength has enabled it to secure exclusive supply deals with renowned brands like Nike. Furthermore, flagship Sportscene stores now have tattoo and body-piercing parlours, bubble tea outlets and even DJ booths - a dynamic approach to in-store experiences.

Similarly, the group has positioned Markham to succeed in the rapidly expanding menswear market and leading Markham stores have also incorporated experiential offerings such as in-house tailoring and barber services.

[1] Tapestry alone consists of The Bed Store, Coricraft, Volpes and Dial-a-Bed.

Agile management

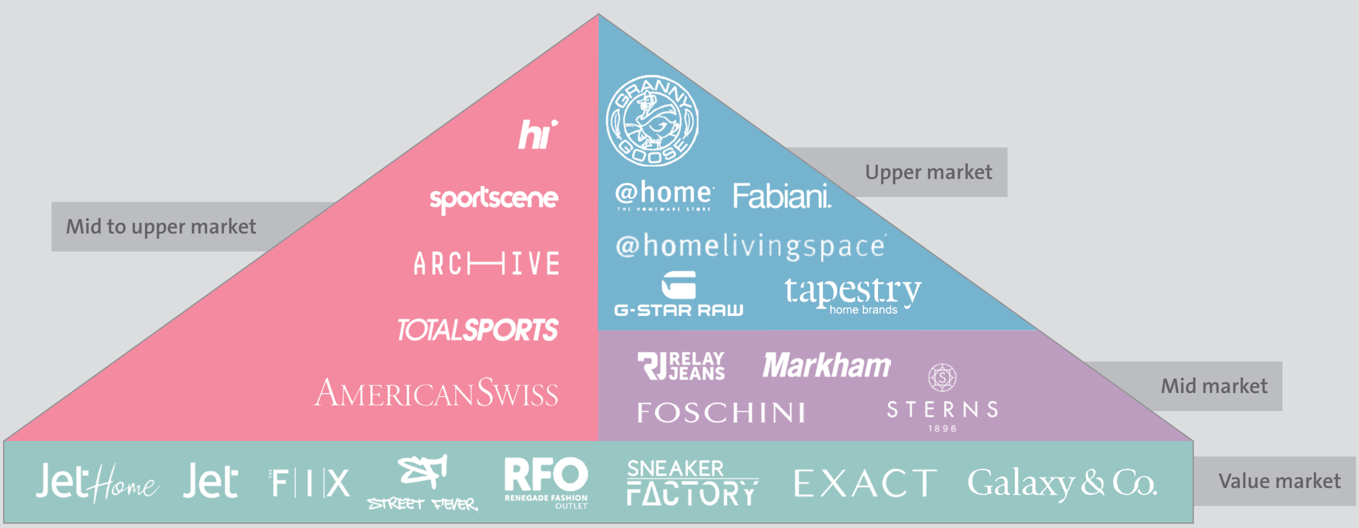
Foschini operates according to a decentralised model, whereby each division is empowered with its own management team that is responsible for performance. While this type of structure incurs additional costs, the resulting levels of accountability have been instrumental in achieving strong sales growth. Merchandise selection and store management are key areas of divisional focus.

Additionally, Foschini has been quick to proactively adjust price points for key product lines given the current strained consumer climate, further demonstrating adaptability.

Integrated manufacturing

In South Africa, Foschini has focused on the vertical integration of their supply chain more so than competitors. Approximately 16% of apparel sold is produced by their seven factories, with plans to expand production capacity. The aim is to shorten lead times between design and delivery through the ownership and management of production facilities strategically located near end market points. This allows Foschini to test product demand and adjust production volumes accordingly, which enables better matching of products in stores with consumer preferences. The result is materially more full-price sales,

TFG's SA brands split by market segments



Source: company data, Camissa Asset Management limited excess stock and consequently reduced markdowns. This is very positive for profitability.

In theory, this approach presents clear advantages compared to the traditional sourcing model of procurement from Asian factories, where huge volumes are ordered upfront, often up to six months in advance. In assessing this with Foschini's results to date, it is inconclusive as to the degree of competitive advantage that vertical integration provides over alternative local sourcing strategies. Other South African retailers (Mr Price, Woolworths and Truworths in particular) successfully outsource some production to local independent CMT[2] operators. Mr Price, for example, can supply most of their lines to stores within a three- to six-week period, comparing favourably to Foschini's six-week lead time using their own factories.

Managing factories adds management complexity, capital requirements and additional costs and there has not been a noticeable improvement in Foschini's stock turnover rate or overall gross margin.

Too early for omni-channel?

Foschini has invested heavily in creating a comprehensive omni-channel retail platform that is building online distribution capabilities to augment its store base, in order to house their South African brands. The group employed the founders of Superbalist, a prominent online clothing retailer, to spearhead the project. This has culminated in the recent launch of their "Bash" app, which boasts the country's largest product catalogue.

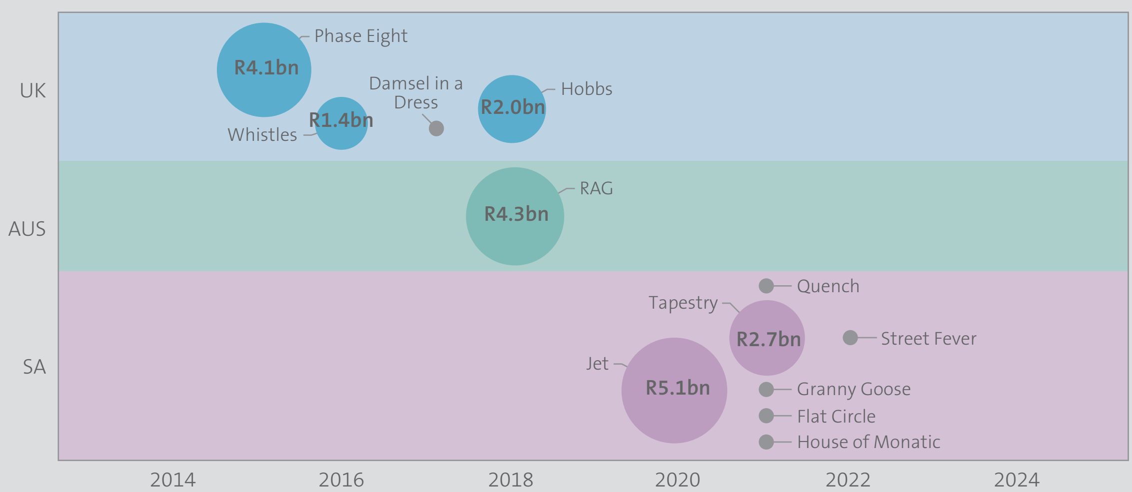
Through early investment into a sophisticated inventory management system, Foschini is able to utilise each of its more than 3 000 stores as distribution centres for online sales. Such an extensive store network means that many products are within 5 km of the end market. This presents a notable advantage, particularly as customers become more demanding of same-day (or even 60-minute) deliveries. Acquisitions such as Quench, a technology firm specialising in end-to-end delivery fulfilment, have also bolstered Foschini's capabilities in this area.

As of March 2022, Foschini had already spent R1 billion on digitalisation since 2018, with plans for an additional R500 million in the next three to five years. The launch of Bash is a proactive step against competitors like Shein and Amazon (who is set to launch in South Africa this year).

Considering that online retail is still nascent in South Africa (accounting for less than 5% of total sales compared to 26% in

[2] Factories that 'cut, make and trim' a customer's designs into finished products.

Notable TFG* acquisitions since 2015 by region



*The Foschini Group
Note: Bubble size represents revenue contribution. Grey circles indicate manufacturing/technology businesses or non-disclosure of revenue contribution
Source: company data, Camissa Asset Management

developed markets like the UK), Foschini's investment is well ahead of the market need. Several structural challenges may hinder widespread online adoption by South African consumers, including:

- low credit card penetration (only 10% of those over the age of 15 have credit cards);
- a lack of formal street addresses for many people;
- poor delivery infrastructure; and
- a prevailing distrust of online shopping.

The success of a viable online retail platform hinges on achieving very large scale and the above factors may impede the delivery of a satisfactory return on investment. Online retail is, however, growing rapidly from a small base and the entry of Amazon to South Africa may accelerate this trend faster than we expect.

Mixed acquisition success to date

Foschini has grown through organic and acquisitive means. Some of its most successful store brands (Markham, Sportscene and Totalsports) were acquired many years ago, while newer stores (Archive and @Home) have been developed in-house.

Foschini's dealmaking frequency has ramped up significantly since 2015 (*charted on previous page*), including offshore acquisitions in the UK and Australia. This presents a host of risks such as potentially overpaying (sellers have more information than buyers) and over-estimating management's ability to add value to the businesses Foschini acquires.

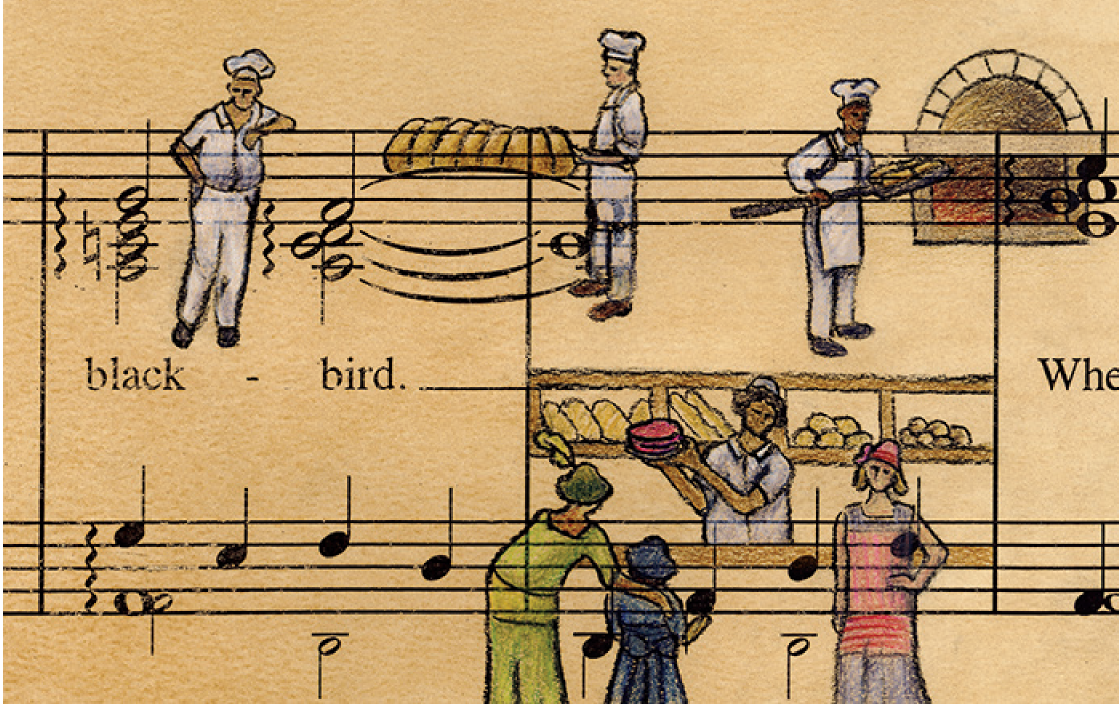
Foschini's acquisition track record is mixed. Its venture into the UK, initiated through the purchase of upmarket womenswear retailer Phase Eight, has proven disappointing. Fierce competition from online retailers, an ailing economy, the closure of partnered department stores and elevated operating expenses are some of the factors that have contributed to underperformance. We estimate the return Foschini has achieved has been well below the cost of capital.

In stark contrast, Foschini's 2018 acquisition of Retail Apparel Group (RAG) in Australia has delivered phenomenal growth. Despite the Australian clothing market being fiercely competitive, RAG has successfully established itself as a predominantly menswear business. We estimate that this acquisition has provided Foschini with an impressive return of 20% per annum to date on its investment.

On the domestic front, Foschini opportunistically acquired Jet in 2020 from the ailing Edcon group, out of business rescue. They paid a low price of R333 million, which was a very low (0.1x) multiple of Jet sales revenue. Jet had long been the outperformer within Edcon but lacked the capital for growth. It boasts a loyal customer base and a reputation for quality and affordability in the value-end of the market - a segment where Foschini was previously under-represented. Upon acquisition, Foschini could cherry pick 382 commercially viable stores. With improved buying practices, enhanced stock planning systems, a more efficient distribution centre and new store formats like Jet Home, we see opportunities in abundance for Jet within Foschini.

A unique platform for growth

Foschini has been very active in building vertical integration into manufacturing, an impressive omni-channel platform, a broad offering across most target markets in South Africa and operations in the UK and Australia. Success with this strategy is not particularly evident as yet and execution in the tough consumer environment will be challenging. We, however, consider the company's shares to be undervalued relative to even our modest base case expectations. UP



More loaves from Premier Foods

Nicholas Brown - Associate Analyst

Premier Foods (Premier), one of South Africa's oldest food and consumer packaged goods businesses, started as a small bakery in 1824 and has grown to be a leading branded and private label food manufacturer operating in South Africa, Eswatini, Mozambique, Lesotho and the UK. Products are distributed through an established network of over 24 distribution centres, servicing both formal and informal markets.

More loaves from Premier Foods

Premier Group returned to the JSE on the 24 March 2023 after 18 years as an unlisted company. Their long-term strategic partner, Brait, maintains a 47% shareholding.

We evaluate the dynamics of the fast-moving consumer goods (FMCG) industry in which Premier operates and the opportunities for it to deliver value to shareholders.

An extensive brand portfolio

Through strategic acquisitions and investment into their facilities over the past decade, Premier has focused on capacity and portfolio expansion. In addition to their substantially upgraded traditional milling and baking operations, they now also produce sugar confectionery, and home and personal care products. Premier now boasts an annual turnover of R14.5 billion and employs over 8 100 people across its various operations - comprising 13 bakeries, seven wheat mills, three maize mills and various other manufacturing plants across its regions. Flagship brands include Snowflake, Blue Ribbon, Impala, Iwisa, Manhattan Sweets, Super C, Crown Select, Dove and Lil-Lets.

Deep milling and baking roots underpin growth

Premier's bakery division is its largest contributor to group revenue (*below*), delivering 1.8 million loaves of bread daily to 42 000 outlets through its *Blue Ribbon* and other bread brands, with more than 60% of sales made through the informal retail channel. To minimise transport costs, Premier's wheat mills are strategically located close to its bakeries. Vertical integration within production has brought about a more consistent supply of bread ingredients. Flour that is not used for internal baking purposes is sold under the *Snowflake* brand, which currently contributes approximately 18% to group revenue.

Notably, Premier is the third largest producer of maize in South Africa, with *Iwisa* and other maize brands produced at its three maize-milling facilities, reaping a 17% market share locally.

Acquired product diversification

In March 2015, Premier acquired Companhia Industrial da Matola SA (CIM), a leading manufacturer of biscuits, pastas, rice and animal feed products in Mozambique. CIM currently generates 8% of Premier's revenue, servicing the Mozambican market and exporting into other SADC countries. Operations are located on a single integrated site, which achieves economies of scale as volumes grow and harnesses their centralised distribution strengths.

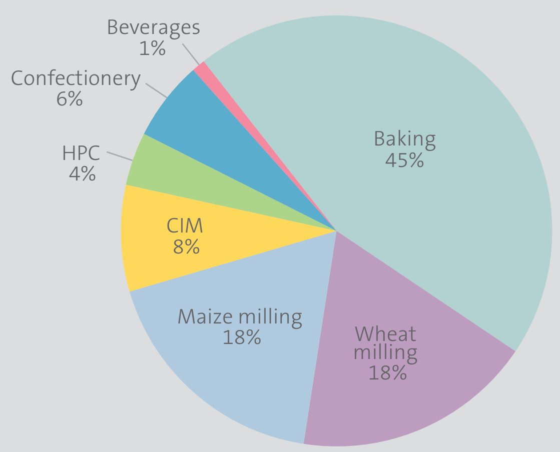
Premier entered the sugar confectionary category through its acquisitions of Manhattan and Super C. The 2021 acquisition of Mister Sweet resulted in Premier becoming the second largest sugar confectioner in South Africa, with a 16% market share. The integration of the Mister Sweet business has resulted in R50 million in cost synergies in the first half of 2023. This business segment is specifically growing in Namibia and Angola and management has sought to double its operating margins through volume growth.

Feminine hygiene brand, Lil-Lets, contributes around 5% of Premier's revenue with operations in South Africa and the UK. Personal care products are also supplied to Sainsbury's in the UK at good margins and are exported to the Middle East, Ireland, the USA (through a partnership with Amazon) and other EU markets, where there are clear opportunities for expansion.

Bread industry dynamics

Together with other daily staples (maize meal, pasta and rice), bread is a convenient, versatile and relatively healthy food that is affordable for millions of consumers. We estimate that the South African bread market comprised revenues of R42 billion

Premier revenue (2022)



Source: Brait financial reports

in 2022 and bread volumes have grown at 3% per annum over the past 15 years. We expect volume growth to average 2% per annum for the next five years as population growth, continued urbanisation and gradually rising income levels result in continued demand growth.

Following the deregulation of the South African baking industry in 1991, the bread market remains concentrated, with three main bread manufacturers: Premier, Tiger Brands and PepsiCo (through Pioneer Foods). As *tabled below (left)*, Tiger brands is the national leader with 24% market share through its *Albany* brand, followed by PepsiCo (19%) and Premier (16%).

Premier's bread production is particularly dominant in coastal provinces - presently led by the Western Cape and followed jointly by KwaZulu-Natal (KZN) and the Eastern Cape. Tiger Brands' *Albany* bread brand was the original favourite, having historically dominated market share in KZN and the inland regions. Recently, however, it has ceded market share to Premier and PepsiCo.

Within the formal retail channel, South Africa's major food retailers offer private-label bread products or store-baked loaves that are cheaper than branded offerings (although have a shorter shelf-life). These are often used as loss-leaders by supermarkets, attracting customers into the store and accounting for around 10% of local bread sales. This is low by international standards, where private label typically accounts for 20-30% of developed economy bread markets.

Each of South Africa's three main bread producers sell more than 50% of their bread into the informal retail channel (eg spaza stores). Here they have strong pricing power, although distribution costs per unit tend to be higher than for the formal retail channel given the greater dispersion of stores. An efficient intra-regional supply chain results in a key cost and quality competitive advantage.

Investment delivers rising returns

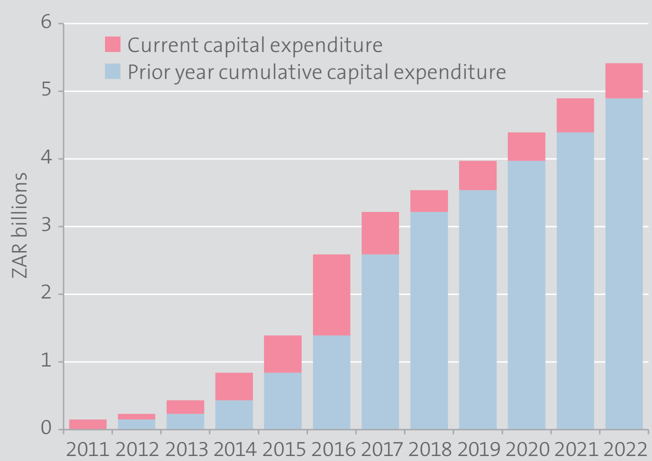
Premier has invested over R5 billion in its milling and baking division since 2011 (*below right*). Consequent efficiency enhancements have led to Premier becoming the lowest cost bread producer in South Africa. They are currently operating at approximately 90% capacity, which is higher than their two main competitors, with further capital expenditure planned to increase capacity. This will include machinery upgrades in coastal bakeries aimed at improving quality, thereby justifying higher bread prices and boosting operating efficiency. Recently, *Blue Ribbon* has traded at a premium to its main competitor, *Albany*, up from a 10-15% discount a decade ago.

Key competitor metrics

Company and bread brand	Bread market share (volume)	Total production capacity (million loaves)	% informal sales	Daily outlet reach	Use of flour production internal
Tiger Brands	24%	700	65%	40 000	50%
PepsiCo	19%	900	65%	40 000	45%
Premier	16%	721	60%	42 000	60%

Source: Premier investor presentation

Premier capital expenditure (2011-2022)



Source: Brait financial reports

More loaves from Premier Foods

Expansionary capital was also deployed to add additional lines at existing bakeries, resulting in a per-unit reduction in the cost of bread. Business profitability has therefore improved with the combination of lower production costs and higher price points. Furthermore, bakery acquisitions have increased Premier's footprint in coastal provinces, cementing its dominance in these regions.

Recently however, Premier has focused its capex endeavours inland where market share is lower relative to competitors. Gauteng is the most populous province in the country and accounts for almost 35% of total national bread sales. North-West, Mpumalanga and Limpopo are the most under-indexed provinces based on per-capita sales, presenting an opportunity for Premier to win market share as consumption is most likely to grow there.

Premier plans to replicate the success of their coastal bakery strategy, with significant investment into a new Pretoria-based bakery, that can produce 16 000 loaves of bread an hour and deliver approximately 128 million loaves of bread per annum. This improved facility will enable the closure of several older, less efficient inland bakeries, shifting production to a single low-cost, high-efficiency bakery positioned adjacent to its flour mill. Additionally, over the next 18-24 months, Premier will seek to expand the capacity of its Aeroton bakery in Gauteng by another 9 500 loaves of bread per hour. Machinery upgrades at these two bakeries should enhance product quality and increase volumes. As a result, the profitability of inland operations should improve, aligning them more with the profitable coastal regions.

Strong prospects from astute investment

In a concentrated South African baking industry, Premier has actively grown its market share and profitability through focused investment. This continues to improve efficiency, operational integration and product quality - positioning them as a top quality, low-cost, growing bread producer. This bread baking strength and growth is augmented by the prospects of geographic expansion and volume growth from its broader, diversified product range. Premier offers investment value directly or via investment in Brait. UP

Camissa Asset Management Funds

Performance to 30 June 2023	1 year	3 years[1]	5 years[1]	10 years[1]	15 years[1]	Since launch[1]	Launch	TER[2]	TC[3]
Unit trust funds[4]									
Equity Alpha Fund	9.7%	17.8%	11.2%	9.8%	10.4%	15.2%	Apr-04	1.78%	0.36%
SA Equity General funds mean	12.5%	14.5%	7.1%	7.5%	7.9%	11.7%			
Outperformance	-2.8%	3.3%	4.1%	2.3%	2.5%	3.5%			
Global Equity Feeder Fund	35.6%	11.0%	-	-	-	8.7%	Nov-19	1.95%	0.20%
FTSE World Index	37.2%	15.7%				16.5%			
Outperformance	-1.6%	-4.7%				-7.8%			
Balanced Fund	16.2%	14.1%	9.5%	8.8%	-	9.2%	May-11	1.51%	0.28%
SA Multi Asset High Equity funds mean	14.6%	11.3%	7.4%	7.7%		8.4%			
Outperformance	1.6%	2.8%	2.1%	1.1%		0.8%			
Protector Fund	11.9%	12.9%	9.0%	8.2%	7.0%	9.6%	Dec-02	1.58%	0.28%
CPI + 4%	9.6%	9.9%	8.8%	9.6%	9.9%	10.2%			
Outperformance	2.3%	3.0%	0.2%	-1.4%	-2.9%	-0.6%			
Stable Fund	8.5%	13.5%	8.9%	8.2%	-	8.2%	May-11	1.48%	0.34%
CPI + 2%	7.6%	7.9%	6.8%	6.4%		6.2%			
Outperformance	0.9%	5.6%	2.1%	1.8%		2.0%			
Institutional funds[5]									
Managed Equity Fund	7.4%	18.0%	11.3%	9.3%	10.2%	11.2%	Sep-06		
FTSE/JSE Capped SWIX Index	13.5%	15.7%	6.9%	9.0%	9.7%	10.8%			
Outperformance	-6.1%	2.3%	4.4%	0.3%	0.5%	0.4%			
Domestic Balanced Fund	7.9%	16.1%	11.1%	8.8%	9.5%	8.9%	May-07		
Peer median[6]	11.0%	13.8%	7.1%	8.2%	9.6%	8.9%			
Outperformance	-3.1%	2.3%	4.0%	0.6%	-0.1%	0.0%			
Global Balanced Fund	17.8%	15.7%	11.1%	-	-	10.2%	Jul-13		
Peer median[7]	16.2%	12.9%	8.5%			9.4%			
Outperformance	1.6%	2.8%	2.6%			0.8%			
Bond Fund	7.3%	8.8%	7.9%	7.8%	8.7%	8.2%	May-07		
BESA All Bond Index	8.2%	7.6%	7.4%	7.4%	8.9%	7.9%			
Outperformance	-0.9%	1.2%	0.5%	0.4%	-0.2%	0.3%			
Money Market Fund	8.6%	6.7%	7.3%	7.5%	7.4%	7.7%	Jan-04		
Alexander Forbes STeFI Composite Index	6.8%	5.0%	5.8%	6.3%	6.6%	7.0%			
Outperformance	1.8%	1.7%	1.5%	1.2%	0.8%	0.7%			
Shariah unit trust funds[4]									
Islamic Equity Fund	5.2%	15.7%	8.8%	9.0%	-	10.7%	Jul-09	1.49%	0.19%
SA Equity General funds mean	12.5%	14.5%	7.1%	7.5%		9.9%			
Outperformance	-7.3%	1.2%	1.7%	1.5%		0.8%			
Islamic Global Equity Feeder Fund	25.4%	9.1%	-	-	-	10.8%	Jan-19	1.84%	0.12%
Global Equity General funds mean	29.0%	10.5%				15.4%			
Outperformance	-3.6%	-1.4%				-4.6%			
Islamic Balanced Fund	7.5%	13.4%	8.8%	8.4%	-	7.8%	May-11	1.50%	0.13%
SA Multi Asset High Equity funds mean	14.6%	11.3%	7.4%	7.7%		8.4%			
Outperformance	-7.1%	2.1%	1.4%	0.7%		-0.6%			
Islamic High Yield Fund	6.3%	7.6%	-	-	-	6.8%	Mar-19	0.59%	0.04%
Short-term Fixed Interest Index (STeFI)	6.8%	5.0%				5.6%			
Outperformance	-0.5%	2.6%				1.2%			

Highest and lowest monthly fund performance	High	Low	High	Low	High	Low	High	Low		High	Low
Equity Alpha Fund	11.7%	-3.8%	12.6%	-3.8%	12.6%	-21.6%	12.6%	-21.6%		12.6%	-21.6%
Global Equity Feeder Fund	14.5%	-8.2%	14.5%	-8.2%	-	-	-	-		18.1%	-15.6%
Balanced Fund	7.5%	-4.5%	9.1%	-4.5%	9.1%	-15.7%	9.1%	-15.7%		9.1%	-15.7%
Protector Fund	5.1%	-3.7%	7.4%	-3.7%	7.4%	-13.9%	7.4%	-13.9%		9.5%	-13.9%
Stable Fund	4.9%	-4.4%	6.1%	-4.4%	6.1%	-11.4%	6.1%	-11.4%		6.1%	-11.4%
Islamic Equity Fund	5.3%	-8.9%	9.6%	-8.9%	9.6%	-14.3%	9.6%	-14.3%		9.6%	-14.3%
Islamic Global Equity Feeder Fund	10.6%	-7.3%	10.6%	-7.4%	-	-	-	-		14.6%	-8.4%
Islamic Balanced Fund	4.5%	-6.2%	8.0%	-6.2%	8.0%	-9.3%	8.0%	-9.3%		8.2%	-9.3%
Islamic High Yield Fund	1.4%	-1.2%	1.4%	-1.2%	-	-	-	-		2.7%	-2.4%

Footnotes and disclaimer follow overleaf.

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Footnote: [1]Annualised (ie the average annual return over the given time period). [2]TER (total expense ratio) = % of average NAV of portfolio incurred as charges, levies and fees in the management of the portfolio for the rolling three-year period to 30 June 2023. [3]Transaction costs (TC) are unavoidable costs incurred in administering the financial products offered by Camissa Collective Investments and impact financial product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. This is also calculated on the rolling three-year period to 30 June 2023. [4]Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [5]Source: Camissa Asset Management; gross of management fees. [6]Median return of Alexander Forbes SA Manager Watch: BIV Survey. [7]Median return of Alexander Forbes Global Large Manager Watch.