CAXTON&CTP publishers & printers LIMITED

UNAUDITED INTERIM GROUP RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

PROVISIONAL CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

R'000	% change	Unaudited 6 months to 31 December 2013	Unaudited 6 months to 31 December 2012	Audited for the year to 30 June 2013
Turnover	7.0	2 913 009	2 721 903	5 156 911
Other operating income		50 975	43 471	95 561
		2 963 984	2 765 374	5 252 472
Changes in inventories of finished goods and work in progress		(2 975)	21 416	73 448
Raw materials and consumables used		1 270 148	1 043 580	1 881 946
Staff costs		566 836	526 953	1 120 841
Other operating expenses		711 239	739 373	1 338 780
Total operating expenses	9.2	2 545 248	2 331 322	4 415 015
PROFIT FROM OPERATING ACTIVITIES	(3.5)	418 736	434 052	837 457
Depreciation		125 780	118 678	241 592
PROFIT FROM OPERATING ACTIVITIES AFTER DEPRECIATION	(7.1)	292 956	315 374	595 865
Impairment of plant		400 476	–	37 003
NET (LOSS)/PROFIT FROM OPERATING ACTIVITIES		(107 520)	315 374	558 862
Net finance income		437 908	53 013	104 579
– dividends		23 651	26 891	59 445
– interest		23 011	26 122	44 110
– loss on currency hedges		–	–	1 024
		46 662	53 013	104 579
– net profit on realisation of investment		391 246	–	–
Income from associates		22 501	16 300	22 410
PROFIT BEFORE TAXATION		352 889	384 687	685 851
Income tax expense		98 836	113 482	183 043
PROFIT FOR THE PERIOD	(6.3)	254 053	271 205	502 808
Other comprehensive income:		111 417	17 853	122 734
Items that will be reclassified subsequently to profit or loss				
Fair value adjustment – investments and preference shares		91 489	17 853	122 734
Fair value adjustment – recycled to profit on realisation of investment		19 928	–	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		365 470	289 058	625 542
PROFIT ATTRIBUTABLE TO:				
Non-controlling interests		5 049	5 457	11 836
Owners of the company		249 004	265 748	490 972
		254 053	271 205	502 808
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Non-controlling interests		5 049	5 457	11 836
Owners of the company		360 421	283 601	613 706
		365 470	289 058	625 542
Earnings per share (cents)	(6.2)	58,9	62,9	116,2
Headline earnings per share (cents)	(5.4)	59,1	62,5	122,6
Preference dividend paid per share (cents)		450	410	410
Ordinary dividend paid per share (cents)		55	50	50
Shares in issue		467 052 949	467 127 949	467 052 949
Treasury shares		(44 604 726)	(44 405 861)	(44 395 861)
Earnings per share based on		422 448 223	422 722 088	422 657 088
Reconciliation of headline earnings:				
Earnings attributable to owners of company		249 004	265 748	490 972
Adjusted for non-trading items		626	(1 710)	27 111
(Profit)/loss on realisation of investment		(391 246)	–	666
Impairment in value of property and plant		400 476	–	15 416
Goodwill written off		–	–	21 587
Profit on disposal of assets		(7 314)	(2 375)	(8 498)
Tax effect on above adjustments		(1 290)	665	(2 060)
Headline earnings		249 630	264 038	518 083

Abridged segmental analysis		%		%		%
Revenue:						
Publishing, printing and distribution	2 682 485	92	2 502 037	92	4 952 963	96
Other	705 196	24	702 768	26	1 031 207	20
Inter-group sales	(474 672)	(16)	(482 902)	(18)	(827 259)	(16)
	2 913 009	100	2 721 903	100	5 156 911	100
Operating income:						
Publishing, printing and distribution	226 870	77	261 300	83	494 582	83
Other	66 086	23	54 074	17	101 283	17
	292 956	100	315 374	100	595 865	100

PROVISIONAL CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

R'000	Unaudited 31 December 2013	Unaudited 31 December 2012	Audited 30 June 2013
ASSETS			
NON-CURRENT ASSETS			
PROPERTY, PLANT AND EQUIPMENT	2 108 760	2 426 916	2 485 993
ASSOCIATED COMPANIES	265 496	149 574	267 961
OTHER INVESTMENTS AT FAIR VALUE	755 352	703 016	1 033 836
– LISTED	192 784	39 861	280 690
– UNLISTED	562 568	663 155	753 146
TOTAL NON-CURRENT ASSETS	3 129 608	3 279 506	3 787 790
CURRENT ASSETS			
INVENTORIES	665 731	656 388	648 777
ACCOUNTS RECEIVABLE	1 247 610	1 130 345	809 696
TAXATION	–	–	11 692
CASH	847 652	610 650	750 230
LISTED BANK PREFERENCE SHARES AT FAIR VALUE	69 969	70 656	67 574
UNLISTED BANK PREFERENCE SHARES	850 000	600 000	600 000
TOTAL CURRENT ASSETS	3 680 962	3 068 039	2 888 149
TOTAL ASSETS	6 810 570	6 347 545	6 675 939
EQUITY AND LIABILITIES			
EQUITY	5 522 513	5 064 351	5 396 969
EQUITY ATTRIBUTABLE TO OWNERS OF COMPANY	5 471 347	5 013 187	5 347 330
PREFERENCE SHAREHOLDERS	100	100	100
NON-CONTROLLING INTEREST	51 066	51 064	49 539
NON-CURRENT LIABILITIES			
DEFERRED TAXATION	307 446	439 051	465 378
CURRENT LIABILITIES			
TRADE AND OTHER PAYABLES	733 350	684 832	636 193
PROVISIONS	187 768	142 986	177 399
TAXATION	59 493	16 325	–
CURRENT LIABILITIES	980 611	844 143	813 592
TOTAL EQUITY AND LIABILITIES	6 810 570	6 347 545	6 675 939
Net asset value per share (cents)	1 307	1 198	1 277
Directors' valuation of unlisted investments and associated companies	828 064	812 729	1 021 107
Capital expenditure	154 006	166 921	356 572
Capital expenditure committed	250 000	150 000	320 000

ABRIDGED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

R'000	Unaudited 31 December 2013	Unaudited 31 December 2012	Audited 30 June 2013
Balance at beginning of the year	5 396 969	4 899 040	4 899 040
Total comprehensive profit for the period	360 421	283 601	613 706
Minority interest	5 049	5 457	6 222
Shares issued	–	101 760	101 760
Treasury shares	(3 716)	(11 050)	(12 186)
Dividends paid – ordinary and preference shareholders	(236 210)	(214 457)	(217 187)
Balance at end of the year	5 522 513	5 064 351	5 396 969

PROVISIONAL CONSOLIDATED STATEMENTS OF CASH FLOWS

R'000	Unaudited 6 months to 31 December 2013	Unaudited 6 months to 31 December 2012	Audited for the year to 30 June 2013
CASH FLOW FROM OPERATING ACTIVITIES	(239 064)	(224 094)	448 522
Cash generated by operations	392 114	416 598	846 762
Changes in working capital	(356 568)	(406 602)	(122 636)
Cash generated by operating activities	35 546	9 996	724 126
Less: Taxation paid	(85 062)	(72 646)	(162 640)
Net interest received	23 011	26 122	44 778
Dividends received	23 651	26 891	59 445
Net cash (utilised)/generated from operating activities	(2 854)	(9 637)	665 709
Dividends paid	(236 210)	(214 457)	(217 187)
CASH FLOW FROM INVESTING ACTIVITIES	590 108	(294 667)	(826 609)
Property, plant and equipment			
– additions to expand operations	(154 006)	(166 921)	(356 572)
– proceeds from disposals	12 274	9 040	16 769
	(141 732)	(157 881)	(339 803)
Investments			
– subsidiary businesses (net of cash acquired)	–	(136 786)	(34 599)
– associates, other investments and loans (net of taxation)	731 840	–	(452 207)
	731 840	(136 786)	(486 806)
CASH FLOWS FROM FINANCING ACTIVITIES	(3 710)	(11 050)	(12 186)
Own shares acquired	(3 710)	(11 050)	12 186)
Net increase/(decrease) in cash and cash equivalents	347 334	(529 811)	(390 273)
Cash and cash equivalents at the beginning of the year	1 424 983	1 815 256	1 815 256
Cash and cash equivalents at the end of the period	1 772 317	1 285 445	1 424 983
Fair value adjustment of preference shares and other investments	(4 695)	(4 139)	(6 999)
Fair value of cash and cash equivalents at the end of the period	1 767 622	1 281 306	1 417 984

FINANCIAL INSTRUMENTS

The information below analyses financial assets and financial liabilities, which are carried at fair value at each reporting period, by level of hierachy as required by IFRS 7 & IFRS 13.

FAIR VALUE MEASUREMENTS AT 31 DECEMBER 2013 USING:

R'm	Quoted prices in active markets for identical assets or liabilities (Level 1)	Significant other oberservable inputs (Level 2)
Assets		
Listed investments	192 784	
Unlisted investments		535 171
Bank preference shares	69 969	

There have been no transfers between level one and two during the period, nor were there any significant changes to the valuation techniques used to determine fair values.

COMMENTARY

Basis of preparation

The accounting policies adopted in the preparation of the financial statements 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.

Comments

The economies of major international countries, with the exception of China, are reflecting a resumption of growth. The United States of America has shown that low interest rates and Quantitative Easing have been the major drivers of this change. Little is known about what the consequences of these actions will be in the future, particularly insofar as inflation is concerned. Now that the monetary authorities believe that they have achieved their objective, the resultant easing back in the creation of new money is playing havoc with emerging market currencies. Whilst major economies are benefiting from this changed environment, South Africa, as an emerging market, has seen its currency decimated over the period. In addition, the political turbulence leading up to the elections to be held later in the year and the ongoing strikes in the mines are not helping. International Investors are becoming increasingly concerned with what they believe is an unfriendly environment and are withdrawing their investments and this is putting further pressure on the trade and current account deficits, which ballooned during the period.

This has resulted in the Rand falling to its lowest level in many years and the Reserve Bank recently increasing its lending rate by half percent. A number of economists are predicting that this increase is the first of many that could occur during the year in an endeavour to halt the fall in the currency and the concomitant possibility of inflation increasing at a rapid rate.

Advertising spend on printed products continues to fall but not at the same pace as has been evident in recent times. Conversely, digital products and publications have increased in popularity, which trend is expected to gather pace as more tablets and sophisticated mobile phones become available to consumers.

Earnings

The company has disposed of its investment in educational publishing of 15% of the issued share capital of Pearson Holdings Southern Africa (Pty) Limited to Pearsons International for R703.3 million.

The company has acquired, subject to approval by the Competition Commission, from Nampak Products Ltd, their Cartons and Label division which is a producer of lithographic and gravure printing folded cartons and labels. The effective date will be the first business day of the month following the date of the fulfillment of the last of the suspensive conditions, approval by the Competition Commission being the most important. The purchase price, subject to adjustment, depending on the Net Asset Value of the business, is expected to amount to approximately R330 million. This acquisition will allow the packaging division to substantially increase its footprint in an exciting area of its operations which caters for the growing requirements of consumers of fast moving consumer goods.

Recent events and trends have once again necessitated the detailed examination of the value of the company's plant and equipment. It has been deemed prudent to impair the value of such items by R400.5 million.

Through a variety of factors, the most important of which has been the large and unanticipated drop in the value of the Rand, and which resulted in raw materials and consumables increasing substantially by 21.7% during the period covered by this report, trading conditions have been unusually problematic. Whilst turnover grew by 7% to R2,913 billion the company was unable to show a growth in ordinary earnings per share. Operating expenses and staff costs have, however, been well controlled, as is evidenced by the increase of only 7.6% in staff costs and a pleasing decrease in other operating costs of 3.8%.

Operating profit was marginally lower at R418.7 million, a drop of only 3.5%. Depreciation increased from R118.7 million to R125.8 million. Impairment of plant amounted to R400.5 million. Profit on the sale of the shares in Pearson Southern Africa was R391.2 million, and net finance income was slightly lower. Income from Associates rose to R22.5 million from R16.3 million predominantly as a result of the recent investment in a number of new associates.

Profit before taxation decreased from R384.7 million to R352.9 million. Taxation, at a rate of 28% absorbed R98.8 million, which resulted in profit after taxation amounting to R254.0 million – a decrease of 6.3%.

The number of shares in issue remained virtually unchanged at 422,448,223 ordinary shares. Earnings per share were 58.9 cents, down by 6.2% and headline earnings were 59.1 cents per share.

Capital Expenditure and Investments

A Gravure Printing Press and ancillary equipment, presently being installed in Durban is in the process of being commissioned and will be in production during March 2014. Another new gravure press has been acquired and is expected to be in production towards the end of the calendar year.

Together with Shumani Printers (Pty) Ltd, 51% of the equity of Mega Digital (Pty) Ltd, a short run digital printer based in the Cape, was acquired subsequent to the interim period.

A highly successful digital sales agency, Habari Media (Pty) Ltd was purchased subsequent to the interim period. This agency will now be responsible for the sales for all the company's digital publications in addition to its existing important client base.

As a result of an offer being made by a BidCo consortium, together with Mr T D Moolman, the company's founder and chief executive, the company's shares in Element One Limited are to be exchanged for shares in the company and cash. The conversion ratio is presently unknown as Element One shareholders can, within limits, choose to receive a varying combination of shares and cash for their shares. Accordingly, in the period being covered by this report, no changes have been made to the figures under review to record the transaction.

In addition, the company has, subject to approval by the Competition Authorities, acquired the remaining 70% of the shares in Ramsay Media (Pty) Ltd, a pre-eminent magazine publisher in which 30% of the shares in issue were already held by the company.

DIVISIONAL PERFORMANCE
PUBLISHING, PRINTING AND DISTRIBUTION

Newspaper Publishing and Printing

Notwithstanding a difficult trading and economic environment, the company's newspaper division continued to grow and increased its market share. The relentless pressure on daily and Sunday broadsheet newspapers has continued and further falls in circulation and particularly in advertising has occurred.

This is fortunately not a market within which the company operates except for the company's regional daily newspaper, The Citizen, which despite the difficulties mentioned above, is holding its own and increasing its market share under difficult conditions.

Digital publishing products continue to grow and the digital strategy which the company had embarked upon last year is underway, with a number of new sites being rolled out with good success.

Good profits were achieved by all components of this important division of the company, including the Johannesburg newspaper factory, which has benefited from the extensive capital expenditure over the past few years and is a model of production efficiency.

Magazine Publishing and Distribution

There is sufficient evidence emerging worldwide to show that there is a clear divergence between the future outlook for magazines and newspapers. Whilst at this point in time, it appears as though newspapers, especially those that rely on a cover price, could over a number of years continue declining, the same cannot be said for the fate of magazines in a printed form. Whilst digital applications are becoming the preferred source of news, magazine readers fortunately still demand a printed product even though a digital equivalent is in many instances available.

In a number of overseas markets printed magazines have stopped losing circulation and certain titles are again showing growth, albeit off a reduced base.

However, one of the biggest challenges facing publishers of magazines in South Africa has been the substantial increase in printing costs which have risen alarmingly and will rise further consequent to the large fall in the value of the Rand. Consumers are already hard pressed to survive on their budgets and with discretionary expenditure under enormous pressure, magazine sales are decreasing.

This has resulted in the magazine division not making its budget even though advertising sales achieved budget.

Similarly, the company's efficient magazine distribution RNA also did not achieve budgeted expectations due to the decline in volumes. Transport costs are up due to the cost of fuel and the large number of new outlets which have opened. Additional customers have been secured to whom DVDs and CDs are distributed to, which is helping in the absorption of rising costs.

COMMERCIAL PRINTING

Web, Gravure Printing and Book Printing

The fall in the value of the Rand has had a significant negative impact on the profitability of this division. The raw materials for Commercial Printing are all sourced off-shore and in the main from Europe. Over the period under review the value of the Rand in relation to the Euro fell precipitously and has continued to fall even further during 2014. This is necessitating price increases having to be passed on to customers, who are mainly retailers and magazine publishers, and placing a strain on volumes, which, up until present times, have not been materially affected. Margins have unfortunately decreased as it has not been possible to recover the full extent of the increase in the cost of raw materials from customers.

A Gravure press is currently being installed in the Durban Gravure printing factory and will be commissioned shortly and another press has been acquired and will be in production by the end of the calendar year. These presses, together with sophisticated Post Press equipment, will vastly enhance production capacity and efficiency and bodes well for the future.

The six months under review were again a busy time for the production of textbooks as the provinces completed the introduction of the new curriculum and the Cape Town book factory produced good results. Now that the new curriculum has been introduced to schools, it is uncertain what quantities of printing will be required during the current calendar year.

OTHER

Packaging and Stationery

Satisfactory results have been produced by the Packaging division which has benefited from the acquisitions made during 2012 and the installation of new and more efficient equipment. This has become a growing area of the company's activities where opportunities have arisen for increased business. As mentioned earlier, the unusual opportunity to acquire the folding cartons and label division of Nampak Products arose and an agreement was concluded, which is currently being considered by the Competition Authorities. The company believes strategically in the future contribution to overall results by packaging products and considers that there are benefits to be obtained by expanding its operations, whilst still remaining a niche participant.

Here too, the fall in the Rand has meant that raw material prices have increased and margins have been adversely affected. Nevertheless, increased volumes resulted in an improvement in profitability, particularly at SA Litho in Cape Town.

A new press was installed at CTP Flexibles in Cape Town and has resulted in a major improvement in the quality and production efficiency of its products. This operation experienced an improvement in profitability driven by the added volume from new customers.

The manufacturing of stationery products remains a difficult and unprofitable operation for the company and a decision will shortly be taken on the future of stationery production.

PROSPECTS

The new year has started on an unhappy note. As is well documented, consumers are reeling under the strain of the cost of living which in reality is going to worsen. Inflation is expected to increase as a result of the huge fall in the value of the Rand and increased fuel costs and other costs are adding to the their burden. Interest rates have increased for the first time in many years and further increases can be expected. The company remains financially sound with cash and cash equivalents at R1.768 billion and will weather the present difficult trading conditions. In these circumstances it is not possible to plan for or anticipate any growth in earnings.

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

19 February 2014

Executive Directors: TD Moolman, GM Utian, PG Greyling, TJW Holden

Non-Executive Directors: PM Jenkins, ACG Molusi, NA Nemukula, T Slabbert, P Vallet

Transfer Secretaries: Computershare Investor Services (Pty) Limited

Registered office: 28 Wright Street, Industria West, Johannesburg

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Preference share code: CATP ISIN: ZAE000043352

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