Novus Holdings Limited
(Incorporated in the Republic of South Africa)
JSE share code: NVS
ISIN: ZAE000202149
("Novus Holdings", "the Company" or "the Group")

STRATEGIC INITIATIVES AND BUSINESS UPDATE

Introduction

Following the recent appointment of Mr. Neil Birch as chief executive officer, the Board wishes to share details of the Group's revised short-term strategy in relation to operational focus and capital allocation.

With the revised Media24 Print Agreements coming into effect from 01 April 2018, the Company is now in a position to provide more specific guidance to shareholders on the anticipated impact on Novus Holdings and its subsidiaries' ("Group") normal future headline earnings. A previous SENS announcement dated 26 March 2018 provided the quantum of potential revenue and margin reduction but was unable to quantify the extent to which mitigating actions would offset such reductions. With five months history of trading under the new contractual conditions and other market influences, Management considers it prudent to now provide the market with more reliable estimates of the potential resultant full year's impact.

Strategic initiatives

Given the mature nature of many of the segments in which the Group operates, real meaningful growth can only be achieved through diversification. Until recently the Group had embarked on a diversification strategy, resulting in only limited additions to the Group's revenue and profit. Under the circumstances it has been decided in the short term to curtail the acquisition drive, focus internally to consolidate and stabilise existing businesses and to maximise sustainability and cash generating ability.

Whilst the tissue manufacture investment may have been appropriate in principle at the time of the acquisition, implementation of the acquisition strategy was less than optimal and subsequent further investment in the facility was not effective. Management is now singularly focussed on minimising trading losses in this business with the view of exiting the business with an optimum capital recovery.

In October 2017 the Group acquired the ITB Plastics flexible packaging business. The business has been successfully integrated into the Group, but the opportunity to ensure anticipated further profit contribution and growth needs to be supported by further Group Management involvement. The generally difficult South African economic market conditions are placing pressure on this consumption linked business volumes but the ITB Plastics Management is responding well in managing these current pressures.

The print segment continues to adjust to the new operating environment post the Media24 Agreement changes and will continue to pursue opportunities for enhanced efficiencies and capacity utilisation going forward.

When considering the Group balance sheet strength and anticipated sustainable earnings it must be conceded that the return on capital invested is suboptimal at present. The internal focus is being shifted to a more aggressive asset management philosophy, improving returns and disciplined growth.

With the sustained cash generation, curtailed acquisition process, and general approach to better utilising assets the Board will strive to return "lazy capital" to shareholders in the short term. The process already initiated following the 2018 AGM is that of a buyback of shares in addition to a successful repurchase of odd-lot shares, these processes have to date yielded a total of 3.9% of Novus Holdings shares being bought by the Group. Subject to any cash flow constraints, asset liquidations, and limited gearing the Board will continue to assess the possibility of further Novus Holdings share repurchases.

Novus Holdings has maintained a Level 4 B-BBEE rating which is a minimum requirement of a number of its key customers but if Novus Holdings is to lead transformation in this segment and to stand above its competitors in pursuit of sustained volumes, further decisive action will be required in this regard. The Novus Holdings Board has endorsed a non-dilutive suite of actions to improve the company's B-BBEE rating meaningfully in the short term and thereby provide a compelling argument for increased customer support.

In summary, Novus Holdings will during the next 12 months at least;

- Focus priorities for capital allocation towards increased shareholder returns and portfolio optimisation, curtailing the acquisition-led diversification programme.
- Focus internally on operational efficiency gains and disciplined capital spending.
- Stabilise the management structure to suit current requirements.
- Enhance balance sheet utilisation.
- Pursue transformation and an improved B-BBEE rating.

Business update

Following the finalisation of the Media24 Print Agreements the Group engaged immediately in the restructuring of operational facilities and capacity to match the contractual loads and to extract operational costs where possible.

Due to the dynamic product mix between Print, Labels, Tissue and Flexible Packaging, it is difficult to predict margins and to identify the impact directly attributable to the Media24 Print Agreement changes. The below table is designed to assist in understanding the historic and future margin ranges for the Group and its various sub divisions.

<u>Historic and projected gross margin by segment</u>

Segment	Gross margin for 12 months ended 31 March 2018	Forecast gross margin ranges for 12 months ending 31 March 2019
	%	%
Print	28,7	25 - 27
Labels	24,7	23 - 25
Flexible Packaging*	14,0	13 - 15
Tissue	(10,9)	(5) - 0
Group	26,2	22 - 24

Based on the actual trading experience for the five months to 31 August 2018 and segmental forecasts to 31 March 2019 the Group is anticipating the following range of revenue in the operating segments.

Historic and projected revenue by segment

Segment	Revenue for 12 months ended 31 March 2018	Forecast revenue ranges for 12 months ending 31 March 2019
	R'm	R'm
Print	3 634	3 010 - 3 330
Labels	210	240 - 270
Flexible Packaging*	265	490 - 550
Tissue	175	200 - 220
Other	24	-
Group	4 308	3 940 - 4 370

*ITB Plastics acquired from 01 October 2017, therefore results are included for the six month period in 2018 year and projected for a 12 month period in the 2019 year.

Historic and projected range of headline earnings per share in cents

Year ended 31 March 2018	Forecast year ending 31 March 2019
102 c	between 50 c and 60 c

The abovementioned forecasts are based on the undermentioned key assumptions, namely;

- Reduced demand from consumers and competitive pricing from competitors in response to general economic conditions.
- Retention of existing print contracts in the normal course of business.

Already factored into the above projections are the following;

- An estimate of the impact of the recent weakening in the Rand and the extent to which such resultant material cost increases can be recovered from the market for the remainder of the financial year. Should the Rand weaken still further than currently anticipated there could be additional negative impact on earnings.
- ITB Plastics experienced industrial action in the month of August 2018 with a 27 day plant closure, the issue has now been amicably resolved but gross margin and trading profit were negatively impacted and such impact has been factored into forecast revenue and earnings.
- Tissue profitability has improved but unfortunately continues to contribute negatively to Group profits.

- Revenue forecasts for the balance of the year are based on operational managements' views on likely sales success in the various segments taking into account current market sentiment, but should market sentiment deteriorate substantially, such forecasts may require revision.

The earnings forecast range is in terms of Headline earnings per share as this is seen as a realistic comparative for sustainable earnings and cash generation. The Group has a policy of a dividend cover that is based on Headline earnings. Dividends are proposed after assessing the liquidity needs and cash resource requirements for the Group. Whilst the Group does employ a policy to protect against general currency volatility the impact of sustained Rand weakness at current levels over an extended period may have negative influences on Group revenues and profits.

Whilst further asset impairments are not specifically contemplated at this time, Management will continuously assess any assets that may be impaired from the strategic initiatives. Management will continue to be critical of balance sheet values if any non-performing assets that are identified to be sold or abandoned. The Board and Management did take a view on impairment values in relation to the Tissue business as at 31 March 2018 and further clarity on that value should become apparent by the end of the current financial year.

This content has not been reviewed or reported on by Novus Holdings' external auditor.

By order of the Board

Cape Town
28 September 2018
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