Santova

INNOVATIVE SOLUTIONS • ENDLESS POSSIBILITIES

International, Technology-Based Trade Solutions Specialist

2022 Analyst Presentation

15th June 2022

Introduction

- Whilst 2020 was a turbulent introduction to a new decade, 2021 witnessed the prolonged impact of the pandemic. This resulted in a year of **relentless global trade disruptions** in the workforce, technological application, global economies, and international supply chains.

- However, the **Group remained effective** through intellectual capital and technology, together with the international resources and capabilities of specialized third parties, in designing, developing and executing international trade solutions for its clients internationally.

- The year-on-year growth in earnings was **organic.** In Africa alone, year-on-year growth in earnings after tax was 445,5%, whilst Europe grew by 221,5%, the United Kingdom by 69,8%, and the Asia Pacific region by 49,8%. Offshore profits constituted 82.6% of total earnings.

- Group profile

Number of countries number	10
Number of offices number	20
Total staff number	245 (down from 259)

Key differentiators remain in tact

Culture & People

- A formidable **entrepreneurial culture**, effective hands-on leadership
- Global diversified **talent** pool
- Defined by a powerful **'stakeholder' mentality**, underpinned by sound values and philosophies
- Proven track record of strategic and highly accretive **M&A transactions**

Business Risk

- **Strategic diversification,** vertical and horizontal integration, currency, geographical, multiple industries, and client spread
- Multiple **revenue streams**
- Complementary, **diverse business** activities
- Quality **client base** with limited exposure to bad debts or write-off's

Global Clients

- **Globalisation**, unlimited growth in opportunities and target markets
- **Client-centricity**, relationship driven focus on medium sized enterprises
- **End-to-end supply chain** management and control for clients
- Diversity, no over **concentration** on any one industry

Cloud Technologies

- Growth and intellectual differentiation driven by **next generation technology**
- **Integration of IT.** Operational Technology (OT), Artificial Intelligence (AI) and the Internet of Things (IoT).
- **Asset-light** business model. Easy, and quick to adjust to meet unexpected challenges

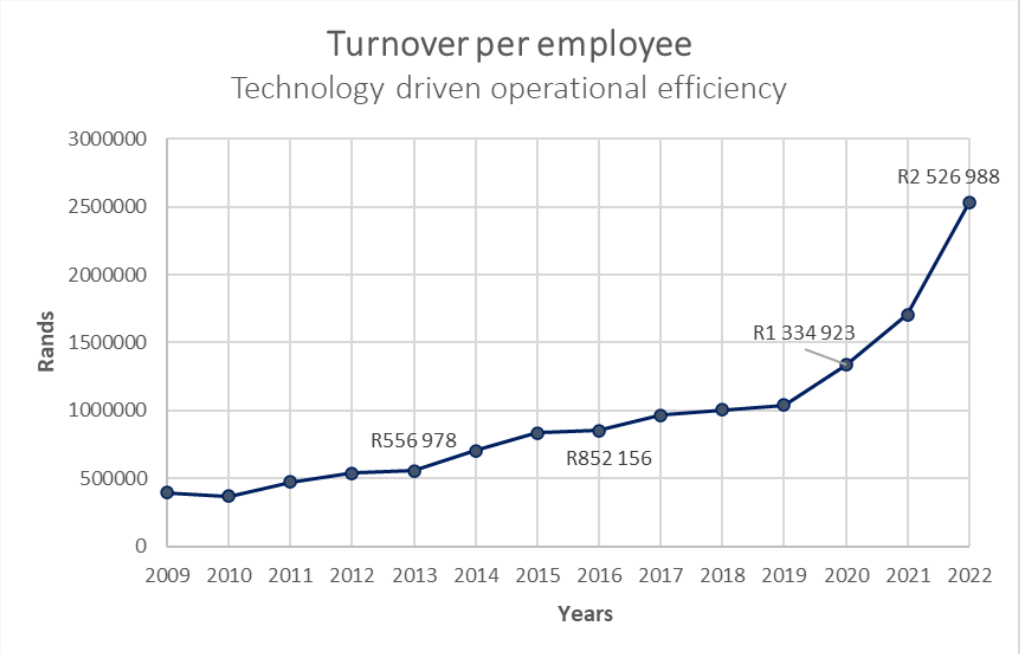
Key performance indicators

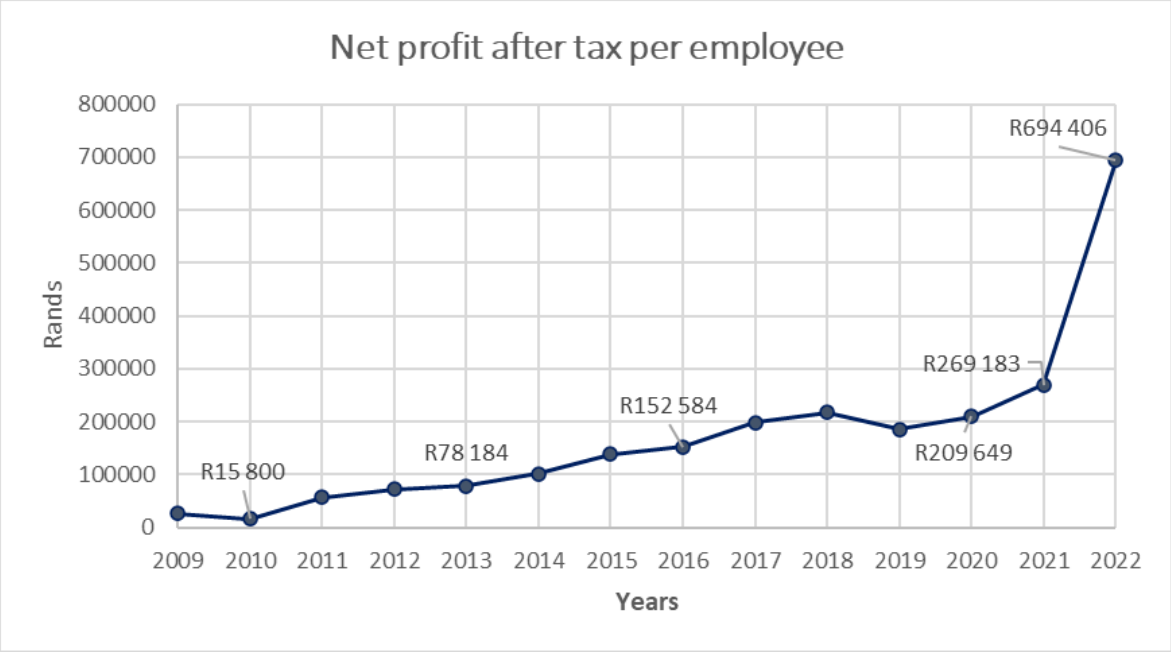
" Whilst most businesses retreat, consolidate, conserve cash, and become internally focused during challenging periods, the Santova Group focused on preserving what works whist at the same time building on new opportunities."

Revenue up 40%
Headline earnings per share up 169 %
Return on equity up 25%

GEOGRAPHICAL DIVERSIFICATION	Africa R'000	Asia Pacific R'000	United Kingdom R'000	Europe R'000	TOTAL R'000
Profit as a % of total	20%	16%	22%	42%	100%

Relentless navigation to operational efficiency





Drivers of operating leverage

- Culture
- Technology
- Workflow processes and systems

2022 Volume and client spread

		Africa			Asia Pacific			Europe			United Kingdom			TOTAL		
		2022	2021	%	2022	2021	%	2022	2021	%	2022	2021	%	2022	2021	%
AIRFREIGHT	KG	2 983 176	1 756 648	70%	1 347 663	1 099 140	23%	3 754 161	3 112 575	21%	1 126 805	1 057 176	7%	9 211 805	7 025 539	31%
	Files	7 486	6 222	20%	2 428	2 432	0%	3 654	3 615	1%	1 774	1 949	-9%	15 342	14 218	8%
SEAFREIGHT	TEU	18 643	20 355	-8%	17 811	14 237	25%	15 227	14 001	9%	37 072	29 397	26%	88 753	77 990	14%
	Files	11 990	12 298	-3%	12 990	11 042	18%	7 554	7 039	7%	18 784	14 919	26%	51 318	45 298	13%

Top 10 clients by industry and region

Rank	Region	Industry	% Group Revenue
1	Germany	Personal Protective Equipment	2.3%
2	UK	Ceramics	1.3%
3	UK	Garments and fabrics	1.3%
4	Netherlands	Furniture & Décor	1.3%
5	SA	Retail	1.1%
6	SA	Automotive components	1.0%
7	SA	Industrial electric supply	0.9%
8	SA	Security technology	0.9%
9	SA	Medical Equipment	0.9%
10	SA	Armoured vehicles	0.8%
		Top 10 clients contribtion to consolidated revenue	11.7%

Turbulent global trading environment

- **Demand for goods surged** in the second half of 2020 and into 2021, as consumers spent their money on goods rather than services during pandemic lockdowns and restrictions.

- **Pent-up demand increased** due to accumulated cash reserves and growing stock replenishment requirements.

- Freight rates, and the **cost to move goods globally have soared** on the higher demand for goods and shrinking capacity.

- The **shortage of empty containers** in Asia, and the **congested ports** in the United States complicated matters even further.

- **Labour shortages** in both warehousing and transportation, particularly in United Kingdom, Europe and the United States contributed to shortages and congestion at ports.

*"Surging global supply chain logistics costs have resulted in **retail price pressures and inflation risks**. This will continue into 2022 until supply chain disruptions are unblocked and port constraints and terminal inefficiencies are resolved."*

Industry challenges

- **Innovation, technology**, and a **skilled workforce**, now come at a significant additional cost.

- **Employees move into focus**. Shortages of skilled workers, staff turnover and digitization make it necessary to rethink the world of work.

- Dramatic escalation in shipping rates translates into the need for **working capital** to be up to fifteen times higher.

- Increase in working capital requirements limits capacity to **'take-on' larger new clients** that generate **scalability** and most importantly, **buying power.**

- **Limited international 'know-how' restricts** innovation and earnings growth, having it enables new advances in the face of adversity. It leads to new innovations and improvements in operational and business development initiatives.

- Challenge to **increase productivity** by minimizing time, cost and errors through innovative internal operational structures and/or business processes **-** automation systems / data driven software solutions.

- Need to be financially stable, flexible and open to investing in **new initiatives** (innovation) and taking reasonable risks for long term gains.

Groups response to a turbulent trading environment

- Remained **vigilant** in strategic decision-making, direction, and operational activity.

- **Invested** in the continued integration, automation, and scaling of operations, such as internal workflow processes, systems and effective global ongoing support.

- Our **international presence** and **unique intellectual property** enabled us to source favourable buy rates and capacity. This together with heightened levels of operational efficiency, has collectively generated quality headline earnings which is well depicted by the high operating margins (37%) of the Group.

- Focus was on **preserving the core**, ‘sweating’ the assets, breaking new ground, and generating new opportunities.

- The above resulted in the ‘take-on’ of a considerable number of **new clients**, particularly in South Africa, the Netherlands, and the United Kingdom.

*“Technological advancements, changes in consumer behaviour and the way in which businesses now operate, represents, and necessitates a significant **paradigm shift** and innovative leadership at all levels.”*

Future potential ‘stumbling blocks’

- The **war in Ukraine**, which has resulted in global tensions, particularly between the United States and China, all of which will continue to reshape the global economies.

- The financial shock from the war in Ukraine may also lead to a ‘faster-than-planned’ tightening of global monetary policies in the face of **inflationary pressures**.

- **Employees do not live to make a living**. The desire for novelty trumps security. Post-pandemic, security and stability are no longer enough to keep employee’s content, they simply want a change.

Africa

- The South African **economy bounced back** to growth of 4,9% in 2021 after a -6,4% contraction in 2020. However, during 2021, levels of economic activity continued to lag as headwinds to future growth remain.

- The impact of the **pandemic and the civil unrest in July 2021**, culminated in tough trading conditions for businesses in general and the logistics sector specifically, where consolidations, cost-cutting measures, and many business closures, were clear indicators of a very difficult trading environment.

- The offshore presence of the Group and the transferability of intellectual property across geographies, enabled Santova to **hold its own and even capitalize on the situation**.

- By securing scarce capacity on vessels and airlines at highly competitive rates, the Group was able to attain an **impressive number of new clients** during this period.

- The Group’s global technological expertise and its innovative application in the reduction of landed costs for complex global supply chains, resulted in these clients being significantly **higher quality clients**.

- The Group’s **strong cash reserves** provided sufficient working capital to meet the requirements of the abnormally high freight rates.

Europe

- The **Eurozone growth rate** of approximately 5% in 2021 was a turnaround on the collapse of -6,4% in 2020. This growth was off the back of increased private consumption in the second and third quarters of 2021.

- Supply chain disruptions caused industrial production to decrease, yet **new orders recorded all-time highs**.

- Retailers and e-commerce operators continued to drive the market. However, the Group’s operations in the EU region benefited from what one might term, ‘the perfect storm’ in that **demand exceeded supply**.

- The ability of the Group to procure capacity at highly competitive rates improved operating margins, whilst at the same time the Group **secured large clients** moving significant volumes globally.

- The continued impressive year-on-year earnings growth of our operations in the Netherlands is fostered by its strategically significant geographical location that has earned it the name, “the **Gateway to Europe**.”

Asia Pacific

- The Asia Pacific region remains the **fastest growing region** in the world. Although current growth is below historical averages of 7%, expansion in this region is still more than 5%. However, the revival has been uneven across countries and sectors. Whilst China, Indonesia, and Vietnam have already surpassed pre-pandemic levels of output, other countries in the region are expected to only do so in 2022.

- Fortunately, our global offices situated at **strategic locations** in the European Union, the United Kingdom and Africa, experienced buoyant and growing consumer demand, which has had a positive impact on volumes shipped from our offices in the Asia Pacific region. This has naturally translated into strong earnings for these offices and the Group as a whole.

- While this region remains a priority in our quest to drive the '**economic engine**' of the Group going forward, our strategic initiatives in this region were placed on hold until the restriction on travel was recently lifted.

Observations

- The **logistics industry** remains an exciting market to be participating in.

- Whereas the **global logistics market** was worth US$10 billion in 2021, it is expected to be valued at US$13 billion by 2027, which represents a compound annual growth rate of 5,7% over five years.
  (Allied Market Research: Global Logistics Market, Opportunities and Forecast 2020 – 2027).

- Reasons for this **predicted growth** are an increase in global trade activities in developing economies, a rise in trade-related agreements, and advancements in IT and transportation.

- Trade is becoming more **inter-regional** and less long-haul – Asia is an important economic zone in this regard.

- As our **modern supply chains** continue to grow in complexity and interdependencies, so too is the need for our sophisticated, future-based service offerings.

- These **technological applications** will also fast track and facilitate the Group's ability to leverage off the growing e-commerce market, and the movement of smaller parcels or shipments (cross-border trade channels).

Going forward

- Whilst currently the ‘wind is at our back,’ it remains critical for us to recognise the **shipping lines’** strategy of vertical integration, which may pose a threat to a component of our industry's earnings.

- To **hedge** ourselves against this evolving competition, we need to continue our current strategy of diversification – geographies, currency, service offerings, multiple industries, and client spread.

- We have always ensured that the **integration of IT** and **Operational Technology** (OT) is at the heart of our future success, alongside Artificial Intelligence (AI) and the Internet of Things (IoT). This allows us to scale up and continually reinvent our proposition to the changing market. Being at the forefront of the application of **advanced technological initiatives**, the possibilities for the Group are encouraging.

- The fact that the Group has significant **working capital** available has enabled the onboarding of larger clients, facilitated scalability, and increased vessel capacity at favourable buy rates.

- We will continue to **build value per share** - strong operating margins, cash flow, and profitability. Should cash flows allow, we will continue balancing buying back own shares when the share price is low versus making strategic acquisitions.

Financial Review
2022

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2022 In Perspective

Key highlights:

- Revenue and interest income increased 40.0% to R619.1mil
- Offshore earnings of 82.6%
- Net profit after tax increased 144,0% to R170.1mil
- Debt to Equity decreased from 14.0% to 6.3%
- HEPS increased 169.4% to 126.81 cps
- NAV increased 27.3% to R5.59 per share

2022 Statement of Profit or Loss: Analysis

	2022 R'000	2021 R'000	Move %	
BILLINGS	6 418 867	4 463 487	43.8%	Increase in freight rates and file volumes across all regions.
REVENUE	611 022	434 612	40.6%	Growth in logistics revenue across all regions (Africa +26%, AP +27%, UK +44%, EU +51%)
Net interest	8 090	7 582	6.7%	Marginal increase in ID facility utilisation.
Other income	26 158	21 385	22.3%	Rental income, insurance binder fees & foreign exchange. Increase primarily relates to foreign exchange gains.
Depreciation, amortisation and impairment loss on non-financial assets	(29 181)	(27 124)	7.6%	R7.9mil relating to impairment loss on intangible asset. Partially offset by lower depreciation on right-of-use asset.
Administrative expenses	(381 427)	(333 057)	14.5%	Inflationary increases, appointment of various senior strategic employees.
Impairment loss on trade receivables	(6 216)	(6 182)	0.5%	
Operating profit	228 446	97 216	135.0%	
Finance income	28	110	(74.5)%	
Finance costs	(4 268)	(5 520)	(22.7)%	Ongoing settlement of Term Loans with new loans advanced close to year end.
Profit before tax	224 206	91 806	144.2%	
Share of associate companies' profit after tax	250	96	160.4%	49% share of ASM (Logistics) Thailand
Income tax expense	(54 326)	(22 184)	144.9%	Increase in line with increase in profit before tax with effective tax rate remaining consistent.
Profit for the year	170 130	69 718	144.0%	

2022 Operating context : FOREX

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	2022 R'000	2021 R'000	Movement %	Currency exposure	Weighted average Mvmt	
AVERAGE EXCHANGE RATES						
Primary Operating Currencies						
- GBP --> ZAR	20.36	21.31	(4.5)%	38.7%	(1.7)%	Strengthening Rand against major operating currencies
- EUR --> ZAR	17.35	19.08	(9.1)%	37.2%	(3.4)%	
- AUD --> ZAR	11.00	11.60	(5.1)%	8.7%	(0.4)%	
- HKD --> ZAR	1.91	2.13	(10.3)%	8.2%	(0.9)%	
- SGD --> ZAR	11.01	12.00	(8.3)%	5.4%	(0.4)%	
Other Transactional Currencies						
- USD --> ZAR	15.39	16.50	(6.7)%	1.8%	(0.1)%	Indirect impact on South African revenues
WEIGHTED AVERAGE CURENCY MOVEMENT					(7.0)%	
CLOSING EXCHANGE RATES						
Primary Investment Currencies						
- GBP --> ZAR	20.61	21.00	(1.9)%	38.7%	(0.7)%	Direct impact on Other Comprehensive Income ("OCI"), Assets, Liabilities and Equity
- EUR --> ZAR	17.23	18.21	(5.4)%	37.2%	(2.0)%	
- AUD --> ZAR	11.11	11.62	(4.3)%	8.7%	(0.4)%	
- HKD --> ZAR	1.97	1.94	1.3%	8.2%	0.1%	
- SGD --> ZAR	11.34	11.31	0.2%	5.4%	0.0%	
CURRENCY EFFECT ON CLOSING BALANCES					(3.0)%	

2022 Statement of Financial Position analysis : Analysis

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		2022 R'000	2021 R'000	Move %	
TOTAL ASSETS	Cash and cash equivalents	270 805	190 031	43%	Strong cash position with 95.1% of cash held offshore.
	Current tax assets	724	179	304%	
	Deferred tax assets	15 155	14 197	7%	Increase primarily due to Deferred Tax on allowance for credit losses.
	Financial assets at FV through P/L	8 352	7 558	11%	Primarily fair value of insurance cell captive and FEC's, increase due to increase in fair value of FEC.
	Intangible assets	298 052	312 177	(5)%	Primarily comprised of goodwill on offshore subsidiaries, no new acquisitions in the current year with decrease due to impairment of software (R7.9m) and strengthening ZAR on closing.
	Investment in associate	1 592	1 342	19%	CY equity accounted profits.
	Property, plant and equipment	25 766	27 752	(7)%	
	Right-of-use assets	36 330	39 989	(9)%	Relates to IFRS16 lease capitalisation. General unwinding of leases with no new material leases entered into in the current year.
	Trade and other receivables	981 988	725 102	35%	Increase due to general revenue growth, increased freight rates with debtor days reducing from 48,4 days in 2021, to 41,7 days in 2022 as a result of continued focus on credit risk management.
		1 638 764	**1 318 327**	**24%**	
EQUITY AND LIABILITIES	**Capital and reserves**	765 847	619 040	24%	
	Liabilities				
	Total Interest-bearing borrowings	54 191	32 591	66%	Increase due to advance of R30.m medium term loan. Remaining material loans include R41.1mil in medium term loans to Nedbank, and €740k to the sellers of Maritime.
	Employee benefit obligations	758	984	(23)%	
	Financial liabilities at FV through P/L	2 078	20 339	(90)%	Decrease relates to payment of "warranty payments" to the sellers of SAI (UK) and Maritime (Germany) totalling R18.3mil.
	Lease liabilities	38 691	42 478	(9)%	Relates to IFRS16 lease capitalisation. General unwinding of leases with no new material leases entered into in the current year.
	Deferred tax liabilities	11	733	(98)%	
	Trade and other payables	518 492	391 354	32%	Increase due to general revenue growth, increased freight rates and file volumes.
	Provisions	11 334	-	100%	
	Current tax liabilities	21 171	9 447	124%	Increase in line with the increase in profitability.
	Amounts owing to related parties	288	285	1%	
	Overdrafts and bank facilities	225 903	201 524	(5)%	
		1 638 764	**1 318 775**	**24%**	

2022 Ratios

	2022 R'000	2021 R'000	Move %	
- Billings/revenue margin	**9.6%**	**9.9%**	(0.3)%	Recovery of SA region where customs duty and VAT incurred on behalf of clients.
- Operating margin	**36.9%**	**22.0%**	14.9%	With the substantial growth in revenue, the Group's continued focus on technology has allowed scalability, with operating margins as a percentage of revenue improving.
- Effective tax rate	**24.2%**	**24.2%**	0.1%	Consistent YoY.
- Headline earnings per share (cents)	**126.81**	**47.08**	169.4%	Earnings growth + impact of share buy back and reduction in WANOS from 149.8mil (2021) to 138.7mil (2022)
- Percentage offshore earnings	**82.6%**	91.0%	(8.4)%	Key influencing factors: - Impact of strengthening ZAR - Recovery by the SA operations
- Debtor days	41.7	48.4	(6.7)	Overall, debtors days improved resulting from the continued focus on credit risk and working capital preservation.
- Creditor days	27.7	30.7	(3.0)	As with debtors days, trade payables increased at year end due to a spike in shipping rates with the creditor days being based on annual average cost of billings.
- Debt to equity ratio	6.3%	14.0%	(7.7)%	While additional loans were advance during the period, this was more than offset by the increase in equity through profits generated.
- NAV per share	5.59	4.39	27.3%	
- Tangible NAV per share	3.41	2.18	56.4%	Tangible NAV excludes Goodwill

2022 Trade Receivables : Credit Quality Analysis

	2022 R'000	2021 R'000	Movement %	
Trade receivables	733 212	591 768	23.9%	
- South Africa	392 182	385 117	1.8%	Increase in SA debtors aligned to higher levels of trading and partially offset by credit insurance received on long outstanding debtor (R35m).
- Offshore	341 030	206 651	65.0%	Increase due to general revenue growth owing to increased freight rates and file volumes.
Key ratios				
Debtor days	41.7	48.4	(6.7)	
Impairment provisions				
- Total amount	45 038	40 199	12.0%	Continued cautious and conservative approach in provision for credit losses although the increase in loss allowance is proportionally less than the increase in trade receivables, owing to rigorous credit risk management procedures.
- Percentage of Trade receivables	6.14%	6.79%	(0.7)%	
Impairments written off				
- Total amount (net of recoveries)	6 216	6 182	0.5%	
- Percentage of Trade receivables	0.85%	1.04%	(0.2)%	
Ageing of Trade Receivables				
Not past due	458 769	462 377	(0.8)%	
Past due but not impaired:				
- 0 to 30 days	221 968	81 800	171.4%	
- 31 to 60 days	61 125	15 321	299.0%	
- over 60 days	11 852	52 387	(77.4)%	Significant reduction in debtors over 60 days due to settlement from credit insurers for a client who entered business rescue (ZAR35m)
- impaired	24 536	20 082	22.2%	Increase attributable to additional loss allowance for a client in the UK.
Gross Trade receivables	778 250	631 967	23.1%	
Loss allowance	- 45 038	- 40 199	12.0%	
Net Trade receivables	733 212	591 768	23.9%	

2022 Cashflow Analysis

	2022 R'mil	
CASH ON HAND	**80.8**	
- 2022	270.8	
- 2021	190.0	
ANALYSIS OF MAJOR CASH FLOW MOVEMENTS	**85.5**	
Net cash generated from operations	114.6	Positive cash generation continues, cash generated from operations declined 23.4% due to the reinvestment of working capital into new clients and rapid escalation in freight rates;
Repurchase of treasury shares	(15.1)	4.0mil shares repurchased in the current year, total of 20.6mil shares cancelled on 19 May 2021
Settlement of contingent consideration	(18.3)	Warranty payments to the sellers of ASM (Singapore), SAI (UK) and Maritime (Germany)
Advance of medium term loans	30.0	Two additional medium term loans advanced by Nedbank during the period
Settlement of medium term loans	(7.7)	Ongoing quarterly repayment of the three medium term Nedbank loans
Capital expenditure - Intangibles	(3.6)	Computer software acquired and developed
Payment of lease liabilities	(14.4)	IFRS 16 lease liability payments recorded outside of cash generated from operations
UNUTILISED AVAILABLE BANKING FACILITIES	**(17.5)**	Decrease in available funding due to additional draw-down of R30m on the medium term facility + increase in the utilisation of the SA invoice discounting ("ID") facility, offset by additional facilities advanced in the UK and Netherlands.
- 2022	219.3	
- 2021	236.8	

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