

Brands

Terra Brands Ltd, the holding company of the Grays cluster, is one of the pioneers in the Mauritian distillation sector.

Terra Brands Ltd is the leading Mauritian producer of premium alcoholic drinks derived from sugar cane, and a top importer and distributor of quality spirits and wines. Established in 1931, we have diversified our activities to include the distribution and sale of personal and homecare products, pharmaceuticals, snacks and non-alcoholic beverages.

Our purpose is to be the most trusted and sustainable Brand Builder.

BRANDS BUSINESS MODEL

VALUE DRIVERS

REVENUE DRIVER (PRICE)

Creating brand equity

Managing our own brands

Adding value to third party brands

Distribution services

COST DRIVER (PRICE)

Material cost efficiencies

Integrated and sustainable production

Supply chain

CONTEXT AND OUTLOOK

- Our value proposition focuses on our strong brands and our ability to drive efficiencies through a structured route to market, with an emphasis on local products.
- Our core competencies lie in brand building, spirit production, distribution and premium retail.
- In addition to our well-recognised brand offering in dark spirits (aged, spiced and flavoured rums and Scotch whisky) and white spirits (cane spirit, white rum, vodka, gin and others), we offer global third-party brands in wine, whisky, personal and homecare, pharmaceuticals and food.
- We market our brands through all retailers and hotels, and premium wines and spirits through our own 20/Vin outlets, across Mauritius.
- We bring synergy to the Group's sugar operations by transforming by-products of the sugar production process into value-added spirits; we invest in energy- saving equipment to optimise production.
- Distillation effluents are evaporated and turned into renewable bio fertiliser used on Terra's and third-party cane fields.
- As a vertically integrated cluster we manage all stages of production onsite, from refining to bottling and packaging, ensuring guaranteed quality for the finished product; we export our expertise through premium rums and bulk spirits to deliver further value from this vertical integration.
- Activity based costing enables us to derive more profits from our key brands rather than losing focus in being too diversified.
- We place particular emphasis on nurturing strong relationships with our employees, and on maintaining our position as a recognised employer of choice in the north of Mauritius.
- Given the labour-intensive nature of our production and distribution activities, we are currently reviewing internal processes to become a leaner cluster. Digitalisation is at every step of our operations and services.
- Expanding our portfolio with third-party brands and management of an import supply chain provides Grays with scope, expertise and volume.

Brands (cont'd)

RESIDUAL RISKS

The main residual risks for the Power cluster as at 31 December 2020 are summarised in the list below.

RISK	CONTRIBUTING FACTORS	RISK MITIGATING ACTIVITIES	YEAR ON YEAR TREND	
R1	Borders remain closed due to the pandemic, resulting in loss of revenue from tourism and related activities.	<ul style="list-style-type: none"> Erosion of purchasing power of local buyers. Lack of visibility over timing and speed of recovery from pandemic. Disruption in the supply of imported items. Loss of sales from the depressed tourism sector. 	Offering online customer and home delivery services.	New
R2	The scarcity of molasses disrupts the distillery operations leading to loss of profit and failure to meet client needs.	The supply of molasses will follow the downward trend in the overall supply of cane.	The Mauritius Cane Industry Authority ensures an equitable sharing of molasses produced amongst the distilling companies on the island.	Unchanged
R3	The representation of brands is lost due to mergers and/or acquisitions.	None	<ul style="list-style-type: none"> Of the 20 best performing brands, eight are developed in-house. Grays is constantly looking for new product opportunities. 	Unchanged

CAPITAL

PEOPLE



EMPLOYEES
573

OUTSIDE MAURITIUS (INCLUDED IN ABOVE)
40

ACTIVITIES TO SUSTAIN VALUE

- Training sessions on first aid, emergency procedures, boiler operation, firefighting protocols, manual handling, chemical safety, food handling, road safety, and hearing protection.
- A system for proper maintenance of First-Aid kits established.
- Fire safety maintained through the renewal of fire certificates, maintenance of firefighting equipment and installation of new signage.
- Safety measures and procedures in place in response to Covid-19.
- Executive and leadership development coaching programmes ongoing.

MATERIAL OUTCOMES (2020)

TOTAL RECORDABLE INJURY RATE (TRIR)
21.8 (-16%)

LOST TIME INCIDENT RATE (LTIR)
29 (-8%)

SEVERITY RATE
22.2 (-23%)

MANUFACTURED



DISTILLERY
1

EXISTING RETAIL STORES (20/VIN)
10

BOTTLING PLANT
1

WAREHOUSE SPACE
8,500 m³

DEDICATED AGEING CELLARS
1,600 m³

- Energy saving equipment and new, more efficient boiler.
- Molasses storage tank.

NATURAL



MOLASSES
24,412 T (+1%)

WATER
6,730 m³ (-10%)

ALCOHOL (100%)
61m³ (-90%)



- 75% of distilling effluents transformed into renewable fertiliser.
- Converted burner in bottling plant to run on non-potable alcohol (a by-product of the distillation process).
- Extending the range of spirits bottles for recycling.

ALCOHOL
5.4 ML

GLASS BOTTLES RECOVERED AND REUSED
1.6 M units (-5%)

PLASTIC WASTE RECYCLED
5.7 T (+21%)

Brands (cont'd)

CAPITAL	MATERIAL INPUTS (2020)	ACTIVITIES TO SUSTAIN VALUE	MATERIAL OUTCOMES (2020)
SOCIAL AND RELATIONSHIP 	Our business model depends on quality relationships in particular with employees, MRA, Government, brand owners, suppliers and customers.	<ul style="list-style-type: none"> Dedicated teams working from home and regular engagement with the workforce. 	EMPLOYEE TURNOVER RATE 18% (2019: 21%) Recognised as employer of choice. PAYMENT IN TAXES (MAURITIUS) MUR 659 M CSR CONTRIBUTION MUR 1.1 M
INTELLECTUAL 	OWN BRANDS 24 Integrated management system underway (ISO 9001, ISO 14001 and ISO 45001)	<ul style="list-style-type: none"> Transitioned ERP to the cloud and further digitalised our services. Further consolidated brand offerings, while actively seeking new opportunities to sustain growth in revenue, with a particular emphasis on locally produced products. 	Progress in securing QSE certification; Fairtrade and Kosher capability.
FINANCIAL 	TERRA BRANDS TOTAL EQUITY (JAN 2020) MUR 726.1 M TOTAL BORROWINGS MUR 352.8 M CAPITAL EXPENDITURE (SUBSIDIARIES) MUR 52.8 M	<ul style="list-style-type: none"> Actively managed the financial performance through weekly executive meetings, monthly management meetings and regular Board meetings. 	TURNOVER MUR 2,109 M (-8%) PROFIT MUR 102.2 M (-25%) TERRA BRANDS TOTAL EQUITY (DEC 2020) MUR 712.1 M

THE OPERATING CONTEXT

MATERIAL ISSUE IMPACTING VALUE CREATION

OUR RESPONSE

Covid-19 – Our wines category was the main sector hampered by the closed borders and the resulting drop in tourism, as we were unable to sell to the hotel industry for nine months of the year. We also faced significant supply chain issues in our ports, causing our service level to drop to 94%. The depreciation of the MUR against main currencies also led to increases in supply chain costs.

With the lockdown and limited mobility, we focused on the largest orders, cash sales and traditional trade in our Brands sector, which paid off, given cane spirit volumes sold. This helped to compensate partially for lost revenues in wine and cosmetics. Within a period of one week, we started a limited portfolio online delivery service for 20/Vin club and VIP members, while we re-developed our ecommerce website: www.grayshomedeliveries.com. We are placing more emphasis on locally manufactured products and encouraging consumers to buy 'made in Mauritius'. Having moved to a cloud-based ERP system in early 2019, our processes are fully digitalised, which proved essential during the lockdown. Our teams worked exceptionally hard to maintain smooth supplies. In our distillery operations, 80% of alcohol produced is exported, and with the depreciation of the MUR this bodes well for pricing.

Changing regulations and excise taxes – Increases in the already significant excise duty on alcoholic drinks reduce the affordability of products locally. Although there was no increase in excise duty in 2020, this remains a material issue. Stricter regulations on the consumption and advertising of alcohol can also impact demand.

To mitigate these risks, which affect the Mauritian market for alcoholic beverages, we have diversified our product offerings to include both luxurious and more affordable alcoholic beverages, as well as expanding into non-alcoholic wines, ciders and beers, foods and personal care products.

Increasing health consciousness and regulations – The growing awareness of health-related issues among consumers and regulators, presents both risks and opportunities for our business.

We continually monitor changing consumer tastes and behaviour and strive to refine our product portfolio accordingly. Through our diversification strategy we have identified new opportunities for revenue growth, including specifically in the healthy foods, non-alcoholic drinks and personal care products sectors. We have increased our non-alcoholic offering including non-alcoholic cider and extended our range of alcohol-free wines. We are also placing more emphasis on organic and biodynamic wines.

Global mergers and acquisitions – Mergers and acquisitions among global brand owners can potentially impact the availability of our existing offerings.

We have complemented our offering with our own brands, which make up eight of our 20 best performing brands, building long term equity. Our strategy going forward is to place more emphasis on 'made in Mauritius' and local products.

OUR 2020 PERFORMANCE

Performance in our Brands sector was substantially impacted this year by the closure of borders, resulting in reduced local consumption.

The distillery however continued to show good performance, and the Brands' revenue for the year ended at MUR 2,109.6 million, down 7.8% on MUR 2,288.5 million in 2019. Profit after tax was MUR 102.2 million, down on MUR 135.7 million in 2019. The drop in profit reflects the reduced sales to hotels, as well as the indirect impacts of a reduced tourism industry in Mauritius.

produce being exported, the depreciation of the MUR bodes well for pricing. Unfortunately, the lower alcohol yields from molasses and bacterial contamination meant we had some fall back from the previous year. We achieved yields of 230 litres of alcohol per tonne of molasses, down 4% on 2019, but overall performance has been good. Our distillery produced 5.4 million litres of rum and spirit, down by 9% year-on-year. While investments in new equipment in our fermentation section of the distillery were delayed by six months, this should be fully operational by June 2021. This new section will be automated to improve efficiency and work safety, completing the upscaling work of the distillery over the past three years.

Production: The distillery continued to have a normal year

We saw excellent performance in the distilling operation this year, boosted by the strong demand for alcohol; with 80% of what we

Brands (cont'd)

OUR 2020 PERFORMANCE (CONT'D)

We continue to sell alcohol from Fairtrade raw material sources and await confirmed orders from customers to get the certification processes started. We achieved Kosher certification in 2020 and have seen uptake. We are continuing to work on securing QSE certification of our distillery and brand activities. Water scarcity and potable water supply remain key concerns for Mauritius and we implemented measures to optimise the use of water in processes and reduce the volume of wastewater discharged. We managed to dispose 75% of our distilling effluents in 2020, which were converted into 17,000 tonnes of renewable fertiliser for use on Terragri (Agriculture) and third-party cane fields.

The Competition Commission has instructed New Goodwill Investment, our partner in Grays Distilling, to disinvest following their intention to acquire a majority stake in Medine Distillery. We intend to become the sole shareholder of Grays Distilling and the timing of the transaction will depend on the actual date of the acquisition.

Brands: Sales hampered by closed borders and associated economic contraction

Despite fairly poor performance given the Covid-19 challenges in 2020, we were still able to generate profit, which was comforting. With the closure of the tourism industry in Mauritius from March 2020, we redeployed a number of employees into traditional trade (corner stores), alongside the appointment of four new (self-employed) staff to work exclusively in this trade, improving route to market. We also took bold steps in our cane spirits business and these new strategies, complemented by the great commitment from our team, paid off. We had a 9% growth in sales in our cane spirit brands (Seven Seas and De Luxe) and 6% growth in our snacking business (Lays and Doritos). Following a few years of declined volumes in cane spirits, this was very encouraging. This growth in volumes compensated partially for lost revenues in wine and cosmetics, hampered by closed borders and associated economic contraction. We confronted a 25% loss in sales revenue from tourism, comprising mainly of sales to hotels, as well as from perfumes and cosmetics stores targeting primarily Chinese tourists, and sales of products in supermarkets geared for tourism and duty free. This resulted in a drop of profitability from MUR 59 million to MUR 15 million, with only a 9% drop in turnover, which, given the circumstances, was quite encouraging.

We saw significant volume growth in our whisky brands, Cambridge and Grants, as well as with all of our health-related brands, such as Dettol. We launched two coffee brands in 2020, L'OR (which is very popular in Europe) and Jacobs. We also started packaging 4th Street wine, the fastest growing sweet wine brand in the world, for export into Africa, and we launched a sweet wine brand for the local market, Big 5, which was well received and shows potential. We withdrew from the typical price wars and volume promotions, which tend to erode brand value in the long term, and this was one of the reasons for our growth in volumes in 2020.

Our rum brand, New Grove, recently won the best rum in the world award 'Canne d'or', the highest distinction at the International Sugarcane Spirits (ISS) Awards, with its New Grove Emotion 1969. Given that this is an international competition amongst traditional producers, this achievement puts the island, the category and Grays on the world map as being a premium producer and we will use this award to boost our sales globally.

Having moved to a cloud-based Enterprise Resource Planning (ERP) system in early 2019, our processes are fully digitalised, which proved to be essential during the lockdown. All operations that did not need physical human intervention were managed remotely. In terms of reducing our environmental impact, further investments in the boiler in our bottling plant enabled a shift away from heavy fuel oil to using non-potable alcohol obtained as a by-product of the distillation process. We continue to address the full lifecycle of the spirit bottle and recycle all plastic crates, cardboard boxes and aluminium caps.

International operations: Fair performance and a profitable year in Seychelles

Our subsidiary company in the Seychelles, which focuses on wines and spirits, showed fair performance, with products mostly aimed at the local Seychelles market, and we had a profitable year. We also received some financial assistance from the Government to cover part of salaries. With the appointment of a new CEO in March 2021 and a Financial Controller late in 2020, we believe that there is valuable growth potential in the retail business and luxury hospitality sector, but prospects for 2021 will be dependent on the impact of Covid-19.

OUR STRATEGIC OUTLOOK

We would not have achieved such good performance in 2020, had it not been for the hard work of the team. Our employees worked long hours with a high level of collaboration between departments, showing great resilience and a strong sense of belonging in what was a really tough year. They remained extremely supportive and engaged and we are grateful to every single one of them.

Long-term growth has been hindered by the step back in 2020 and markets will likely not reach 2019-levels again until 2025. Looking to the year ahead, visibility remains a problem as we do not know precisely when the borders will open. The actual scenario suggests October 2021. As a country, we will need to vaccinate at least 60% of the population before borders are reopened and we do not foresee significant growth coming back before then. We had a significant Excise Duty increase (10%) on alcoholic drinks in 2021, which, coupled with erosion of disposable income, will put heavy strain on consumption in general.

The latest Public Health Act Regulations, promulgated on 06 July 2021, are overwhelmingly restrictive, and we are seeking clarifications from authorities with regards to corporate and BtoB communication, which are seemingly banned. The new regulations will hamper competition and lead to consumption of cheaper products, categories in which we do not compete, and will not affect overall market volumes.

Our long-term plans, however, remain valid and we are working on achieving them. We have merged three departments (accounts, sales and stores) to offer a better service to our clientele, and with this improvement team in place, we aim to reach a 95% service level in 2021. We are also aiming to make our distribution more efficient, serving more clients with less people.

Margin erosion due to the decline of the MUR will need close monitoring and we foresee significant increases in supply chain costs for consumers in 2021, resulting in lost sales. We will continue devoting energies to build efficiencies at all levels of the business. We are putting emphasis on 'made in Mauritius' and the importance of buying locally manufactured products, almost a duty in such challenging times. Our best rum in the world award helps illustrate that we are a premium producer and we will work through organisations, such as Made in Moris (Mauritius), to encourage this.

The key today is digitalisation. We were fairly well digitalised prior to Covid-19, but we identified a number of gaps in processes and we are in the process of improving on this. Covid-19 has served to demystify conference calls; having more of these with our suppliers in Mauritius has enhanced our efficiency, and we strongly encourage staff to continue to work from home.

Following a strategic business decision, PepsiCo has decided to consolidate all its business with one distributor in Mauritius. As a result, they have signified their intention not to renew our Distribution Agreement, namely for Lays, Doritos and Quaker, with no sales post 15 October 2021. Snacks was one of the few business units which grew during Covid and accounts for 12% of our sales in the first semester 2021. The real impact of this decision will be felt in 2022 and we have substitute products already lined up for replacement.

The challenge in 2021 will be to reach 2019 performance in the Brands sector, while the distillery will face extended shortages of molasses directly impacting its profitability. Our investments in 2020 in the total automation of the fermentation section should bring savings and we will continue running tests on continuous fermentation, with a view for improving performance. Given the very short sugar cane crop in 2020 because of the drought, with 25% less sugar and 25% less molasses, this will constrain the distillery from producing at full capacity and affect 2021 performance. We are investigating alternative sources, but we have yet to identify a feasible solution. Our outlook for 2021 remains very cautious.

The crux in the year ahead will be to stay agile. The health and safety of our staff remains a priority and we have appointed a dedicated manager to support us on this going forward.

Brands (cont'd)

IMPACT OF COVID-19

- Being a distributor of pharmaceuticals, we received a first batch of work access permits (WAPs) on 23 March 2020. Our permits for food distribution came on 02 April and slowly we built back distribution. On 04 May we received another batch of WAPs, enabling 50% of our employees onsite and operations resumed almost back to normal. Alcohol was declared "essential" late April, which helped us start our production units for hydro-alcoholic gels.
- Our major challenge was to have security measures in place and adhered to by workers. One "in-house" contamination would have led to two weeks of total shut down, a situation which we avoided, putting safety first.
- All our health-related brands did well because of the prevailing circumstances, and we produced hand sanitizers that were mostly given to institutions and people in the area. We continued to provide an acceptable level of services to our clients, delivering only pharmaceuticals, detergents and food during the lockdown.
- We had heavy disruptions in our supply chain with ships skipping Mauritius and issues at source, but our team worked hard to maintain smooth supplies.
- Investments in new equipment in our fermentation section of the distillery were delayed by six months, but are now operational.
- Our subsidiary company in the Seychelles was disrupted by two Covid-19 cases, but this did not impact our performance and we are working on getting all staff vaccinated.

