# Brands

Terra Brands Ltd, the holding Company of the Grays cluster, is one of the pioneers in the Mauritian distillation sector, the leading Mauritian producer of premium alcoholic drinks derived from sugar cane, and a top importer and distributer 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 bring pleasure to life.

## Brands business model

| Value drivers | Context and outlook |
| --- | --- |

### Revenue driver (price)

**Creating Brand Equity**

- Managing our own brands
- Adding value to third-party brands
- Distribution services

- 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, beer, personal and homecare, pharmaceuticals and food.
- We market our brands through all retailers and hotels and premium wines and spirits through our *20/Vin* outlets across Mauritius. We are also expanding our franchised luxury cosmetics stores.

### Cost driver (price)

**Material Cost Efficiency**

- Integrated and sustainable production
- Supply chain

- We bring synergy to the Group's sugar operations by transforming by-products of the sugar production process into value-added spirits; the sugar crop is declining, amplified by climatic conditions, which proportionately reduces molasses supply and impacts distillery profitability.
- We invest in energy-saving equipment to optimise production.
- Distillation effluents are evaporated and turned into renewable bio fertiliser used in Terra's and third-party cane fields.
- As a vertically integrated cluster, we manage all stages of production onsite, from refining to ageing and bottling and packaging, ensuring guaranteed quality for the finished product; we export our expertise through premium rums and bulk spirits to deliver additional value from this vertical integration.
- Activity-based costing enables us to derive more profits from our key brands rather than losing focus by being too diversified.
- We emphasise nurturing strong relationships with our employees, unlocking talent and 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 digitalising our operations and services to move us towards a leaner company.
- Expanding our portfolio with third-party brands and managing an import supply chain provides Grays with scope, expertise and volume.
- Availability of shipping lines, port efficiency (in-bound and out-bound), duties and weak valuation of the MUR remain cost drivers. Supply chain disruptions impact costs in three ways: import of raw materials, import of finished goods, and export of finished products.

# Brands (Cont'd)

## Brands business model (Cont'd)

The main residual risks for the Brands cluster as at 31 December 2022 are summarised below.

| | Risk | Contributing factors | Risk mitigating activities | Year on year trend |
|---|---|---|---|---|
| R1 | Economic impact due to the pandemic, resulting in loss of revenue from tourism and related activities. | • Acute erosion of purchasing power of local consumers.<br>• Lack of visibility over timing and speed of recovery from pandemic.<br>• Disruption in the supply of imported items.<br>• Loss of sales from the recovering tourism sector. | • Improved online offering including the launch of an App.<br>• Widening and specialised offering to the recovering tourism industry.<br>• Alternative sourcing to restore supply chain. | Unchanged |
| 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 sharing of molasses produced among the distilling companies on the island. | Unchanged |
| R3 | The representation of brands is lost due to mergers and/or acquisitions. | • None. | • Of the 20 best performing brands, eight are developed in-house.<br>• Grays is constantly looking for new product opportunities. | Unchanged |

## Brands business model (Cont'd)

| Capital | Material inputs[1] | Activities to sustain value | Material outcomes |
|---|---|---|---|
| People | **Employees**<br>594<br>**Outside Mauritius (included in above)**<br>44 | • We continued to roll out refresher training and conduct more frequent visible onsite inspections to address and prevent minor injuries.<br>• We re-established our monthly Health and Safety committee.<br>• Fire safety was maintained as we reinforced onsite fire safety and ensured that all fire certificates were up to date.<br>• Covid-19 safety measures and procedures remain in place.<br>• Executive and leadership development coaching programmes are ongoing.<br>• We are implementing a learning culture. | **Total recordable inicident rate (TRIR)**<br>34 (↑6%)<br>**Lost time incident rate (LTIR)**<br>34 (↓80%)<br>**Severity rate[2]**<br>36.4 (↑12%) |
| Manufactured | **Distillery**<br>1<br>**Bottling plant**<br>1<br>**Existing retail stores (*20/VIN*)**<br>10<br>**Warehouse space**<br>8,500 $m^3$<br>**Dedicated ageing cellars**<br>2,150 $m^3$ | • Our fermentation plant has automated multiple processes.<br>• Modernised our bottling plant and made it more versatile by investing in a new labeller and installing an automated 'bag in a box' line. | |
| Natural | **Molasses**<br>15,506 T (↓13%)<br>**Alcohol (100%)**<br>522 $m^3$ (↑24%)<br>**Water**<br>57,288 $m^3$ (↑6%) | • Continued with efforts to optimise water-use efficiency and installed rainwater harvesting infrastructure, which supplied 30% of Grays Inc.'s water needs.<br>• Installed photovoltaic solar panels that generated 50% of Grays Inc.'s energy requirements.<br>• Continued focus on reducing our carbon footprint significantly.<br>• Extended the range of bottles for recycling. | **Alcohol produced**<br>4.4 million litres<br>**Glass bottles recovered and reused**<br>1.5 million units (↑15%)<br>**Plastic waste recycled**<br>7 T (↑27%) |

[1] *Data as at 31 December 2022.*

[2] *Calculation methodology was updated in 2021*

# Brands (Cont'd)

## Brands business model (Cont'd)

| Capital | Material inputs[1] | Activities to sustain value | Material outcomes |
|---|---|---|---|
| Social and relationship | Our business model depends on quality relationships, particularly with employees, MRA, Government, brand owners, suppliers and customers. | • Dedicated teams working from home and regular engagement with the workforce. | **Employee turnover rate**<br>**21% (2021: 18.6%)**<br>Recognised as employer of choice.<br>**Payment in taxes (Mauritius)**<br>**MUR 740 million (excluding VAT)**<br>**CSR contribution**<br>**MUR 0.6 million** |
| Intellectual | **Own brands**<br>**24**<br>Integrated management system underway (ISO 9001, ISO 14001 and ISO 45001) | • Further digitalised our services.<br>• Further consolidated our brand offerings while actively seeking new opportunities to sustain revenue growth, with a particular emphasis on locally produced products. | Progress in securing QSE certification; Fairtrade and Kosher capability |
| Financial | **Terra Brands total equity (Jan 2022)**<br>**MUR 811.8 million**<br>**Total borrowings**<br>**MUR 888.7 million**<br>**Capital expenditure (subsidiaries)**<br>**MUR 118.7 million** | • Actively managed financial performance through weekly executive meetings, monthly management meetings and regular Board meetings. | **Turnover**<br>**MUR 2,656.5 million (^22%)**<br>**Profit**<br>**MUR 199.9 million (^46%)**<br>**Terra Brands total equity (Dec 2022)**<br>**MUR 807.5 million** |

[1] *Data as at 31 December 2022.*

## The operating context

| Material issue impacting value creation | Our response |
|---|---|
| **Covid-19** – The pandemic significantly impacted performance in 2021 due to the loss of sales from tourism, supply chain disruptions, increased duty costs and challenges around the availability of raw materials. Fortunately, borders reopened in the last three months of 2021, and the cluster's commercial activities benefitted significantly from an improved contribution from the hospitality sector in 2022. | We remain focused on developing strategies to strengthen our supply chain. We continue to emphasise locally manufactured products and encourage consumers to buy 'made in Mauritius'. We remain confident in the hospitality sector's growth potential and see significant opportunities in premium wines and spirits. |
| **Changing regulations and excise taxes** – Off an already high base, excise duty on alcoholic drinks increased by a further 10% in 2022. This increase put additional pressure on the purchasing power of local consumers, which is already constrained by high inflation and rising interest rates. Stricter regulations on the consumption and advertising of alcohol can also impact demand of premium brands. | These risks impact the Mauritian market for alcoholic beverages. To mitigate these risks, we have diversified our product offerings to include luxury and more affordable alcoholic beverages. We have also expanded 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 risks and opportunities for our business. The latest Public Health Act Regulations, promulgated on 6 July 2021, are overwhelmingly restrictive. While the regulations will not impact overall market volumes, they will downgrade consumption to cheaper products where we do not compete. We are awaiting feedback from authorities, delayed due to Covid-19, for clarification on corporate and B2B communication | We continually monitor changing consumer tastes and behaviour and strive to refine our product portfolio accordingly. Through our diversification strategy, we have identified new revenue growth opportunities, 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 emphasising organic and biodynamic wines. We have invested in advertisements on social media that encourage people not to drink and drive and to raise awareness of domestic violence. |
| **Global mergers and acquisitions** – Mergers and acquisitions among global brand owners can potentially impact the availability of our existing offerings. We are confident that the acquisition of Distell by Heineken N.V. will bring us opportunities in the short term. On the other hand, PepsiCo consolidating their business with PepsiCo distributors led to us losing Lays, Doritos and Quaker as of September 2021. We felt the full effect of this in 2022, with 10% of sales impacted. | We have complemented our offering with our own brands, which comprise eight of our 20 best-performing brands, building long-term equity. Our strategy remains to emphasise 'made in Mauritius' and local products. |

# Brands (Cont'd)

## Our 2022 performance

The operating environment remained tough due to the destabilising impact of the Ukraine war; ongoing supply chain disruptions and global shortages of certain critical input materials like glass; the socio-economic effects of high inflation and rising interest rates; and the slowdown of global and regional economies. Despite this, the performance of our Brands cluster continued to improve this year, primarily due to our borders being open for the full year and the strong contribution made by the tourism and hospitality sectors. The cluster's revenue for the year ended at MUR 2,656.5 million, up 22% on MUR 2,182.8 million in 2021. Profit after tax was MUR 199.9 million, up from MUR 136.5 million in 2021.

### Production: the distillery's performance was impacted by reduced molasses

Our distillery's performance was again impacted by the shorter sugar cane crop cycle in 2022 and the diminishing molasses supply, with the later primarily due to reduced cultivation and poor climatic conditions. Our distillery produced 4.4 million litres of rum and spirit, down 2% year-on-year. Our main concern remains a much-needed improvement in sugar cane volumes. This challenge is being mitigated to a degree by the improved global sugar price and a slight revival in the interest of existing and prospective independent cane planters. We also continue to focus on fully automating our distilling and fermentation processes to drive efficiency at all levels of our operations, and we reaped the benefits of our new fermentation plant that became operational in the second half of 2021. We achieved yields of 249 litres of alcohol per tonne of molasses, up 5% on our 2021 yields.

As we had spare capacity because of the reduced molasses supply, we initiated a project in 2022 to produce organic rum and rum made from cane juice *(rhum agricole)*. This will enable us to increase our supply available to the market and gain a presence in specialised, higher-value rum products. We also complemented the shortfall in production through trading of alcohol to supply our long-standing customers.

As reported last year, we acquired the minority stake in Grays Distilling in 2022 to become the sole owner, which created synergy in our premium brand business, simplified processes and maximised benefits.

We continue to work on securing QSE certification for our distillery and have taken measures to improve employee wellbeing. We saw a slight increase in minor injuries from lacerations due to broken bottles and moderate injuries from lifting heavy items with improper lifting techniques. We are addressing this through refresher training and more frequent and visible on-site inspections.

### Brands: sales improved due to open borders and a strong contribution from the hospitality and tourism sectors

All our brands performed well year-on-year, and we saw a strong performance relative to 2019 (our last pre-pandemic base year). This demonstrates a pleasing recovery from the impact that Covid-19 had on our commercial operations.

We extended and rejuvenated our Seven Seas series of cane-based spirits with the launch of a coconut-flavoured liqueur, Seven Seas Mokoko. This product is locally produced and brings a taste of Mauritius to the world with a label design that speaks to the island's heritage, culture, and natural beauty. Seven Seas Mokoko is also contemporary and opens up Seven Seas to new consumer segments while premiumising the brand.

Our whisky brands performed well across all segments, including all premium and mainstream brands. Underpinned by the opening of borders and the strong performance of four- and five-star hotels, wine sales increased. Pleasingly, our wine category is showing sustained growth and is gaining market share beyond pre-pandemic levels. Our beverage category performed satisfactorily.

The performance of our food and snack categories was impacted by erratic supply arising from logistics issues, which hindered growth. Following PepsiCo's decision not to renew our Distribution Agreement, we introduced substitute products in 2022 to replace Lays, Doritos and Quaker. While these products performed satisfactorily, we felt the full effect of PepsiCo's decision in 2022, with 10% of sales impacted. Our coffee brands performed well, capturing market share and continuing to solidify their market position.

Our personal and home care segment delivered a pleasing performance, with healthy growth in most of our luxury and mainstream brands except for those impacted by supply chain issues.

We continue to see significant growth potential in the tourism and hospitality sectors, as well as good opportunities to increase revenue through the sale of premium wines and spirits, which we market through our *20/Vin* outlets across Mauritius. We are focused on significantly enhancing the customer experience of these outlets and are also investigating opportunities to reduce the associated operating costs.

In 2022 we signed with Beauty Success – a franchise store for luxury perfumes and cosmetics. We opened two new stores in 2022 as part of our expansion into franchised luxury cosmetics stores and are pleased with the momentum we are gaining.

## Our 2022 performance (Cont'd)

We also signed a deal to open four new stores in Tribeca Central – a landmark, mixed-use development positioned adjacent to Ebene Cybercity that opened in December 2022. We believe that Tribeca Central will serve as a premier business, commercial and residential hub in Mauritius. We opened three of these stores in 2022, while the last one opened in March 2023.

During the year, we invested significant time and resources into growing the export of our rum brands into focused markets, particularly New Grove and Lazy Dodo. To support this, we reviewed our business model and initiated a project to appoint dedicated brand ambassadors who will work in our targeted markets to promote our brands and manage key accounts. We further modernised our bottling plant during the year and made it more versatile by investing in a new labeller and installing a 'bag in a box' line. We will use this new automated line to box high-quality wines imported from South Africa that can be sold regionally.

Distell Group is a minority shareholder (26%) of Grays Inc. Ltd, and we are monitoring the transaction between Heineken N.V., Distell Group and Namibia Breweries Limited. The South African Competition Tribunal gave final regulatory approval for the transaction in March 2023, and the transaction was implemented as from April 2023. We continue to engage with Heineken N.V. and all relevant stakeholders to assess the impact of the transaction and are confident it will bring new commercial opportunities and benefit our commercial operations.

The latest Public Health Act Regulations, promulgated on 6 July 2021, are overwhelmingly restrictive. We are seeking clarifications from authorities regarding corporate and B2B communication, which are seemingly banned. While the new regulations will not affect overall market volumes, they will hamper competition and lead to the consumption of cheaper products (a category we do not compete in).

Investing in our employees and instilling a learning culture remains a key area of focus. We are also developing talent attraction and retention strategies to offset labour shortages in Mauritius. We continued our efforts to optimise water-use efficiency and installed rainwater harvesting infrastructure, which supplied 30% of our water needs in 2022. We also installed photovoltaic solar panels that generated 50% of our energy requirements. We continue to implement a more structured approach to waste management.

### International operations: improved performance and a profitable year in Seychelles

Our subsidiary company in Seychelles, which focuses on wines and spirits, performed well in 2022. Profit after tax stood at SCR 8.9 million (MUR 27 million) compared to SCR 5.7 million in 2021 (MUR 17.6 million). During the year, our subsidiary company acquired a small bottling operation to support volume growth and ensure the company can satisfy consumer demand. Tourist arrivals in Seychelles reached pre-Covid-19 levels, which benefitted the economy and supported strong trade.

## Our strategic outlook

One of our biggest priorities for 2023 is restoring our supply chain and strengthening our route-to-market capabilities. We began this process in 2022 but will need to increase our efforts and investments in this regard to consolidate and improve supply chain efficiencies. Activity-based costing remains important to ensure we can derive more profits across our business units and from our key brands.

Digitalisation remains key, and we will continue to find opportunities to digitalise our commercial and distilling operations, underpinned by the full digitalisation of our warehouse.

Our strategy on 'made in Mauritius' and the importance of buying locally manufactured products remains in place.

We will continue to invest in our employees through training and development opportunities. We remain focused on fostering a safe and positive working environment. Developing appropriate talent attraction and retention strategies will be critical in the year ahead.

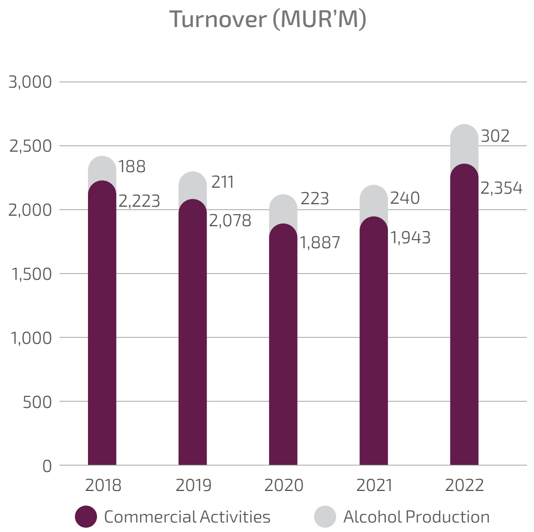
# Brands (Cont'd)

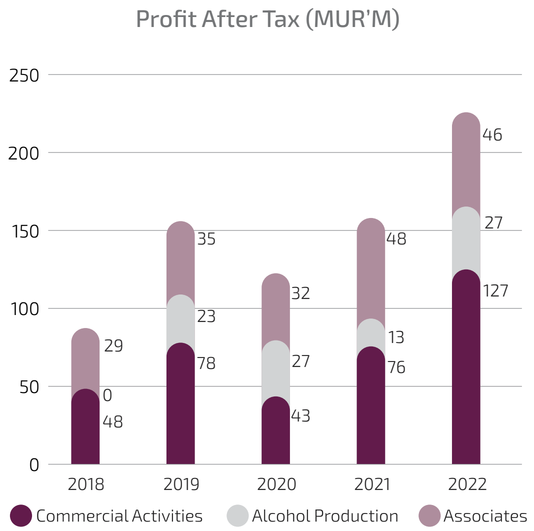
## Our strategic outlook (Cont'd)

We made good progress on our sustainability journey this year, and this remains a focus for 2023. A key area of investment will be introducing a low-carbon, low-waste distribution technology for our premium spirits, and we have partnered with ecoSPIRITS, a circular economy technology company. We are the only ecoSPIRITS partner in Mauritius and are excited about the possibilities this technology presents, which include eliminating packaging waste in our supply chain and reducing carbon emissions associated with transport. The technology also assists with bottle shortages and alleviates cost-push pressure.

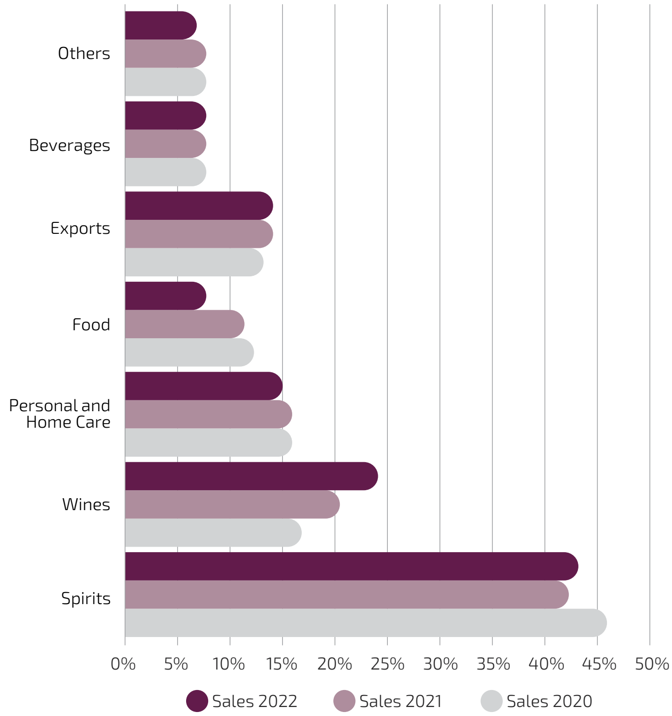
We remain optimistic about the performance prospects of our subsidiary company in Seychelles. This company has a large portfolio of brands, some of which are competing. Previously, this was not significant for the business. However, as per capita consumption has increased and volumes have grown, it has become necessary to split the brand portfolio into two separate companies. This will be executed in 2023 and will ensure that all brands can compete more healthily in the market.

We anticipate that we will continue to see high inflation and interest rates in the year ahead, which will continue to put pressure on disposable income, and it remains challenging to pass increased costs onto consumers. Despite these challenges, we are optimistic for the year ahead and are confident that we can continue to build on the momentum gained in 2022.

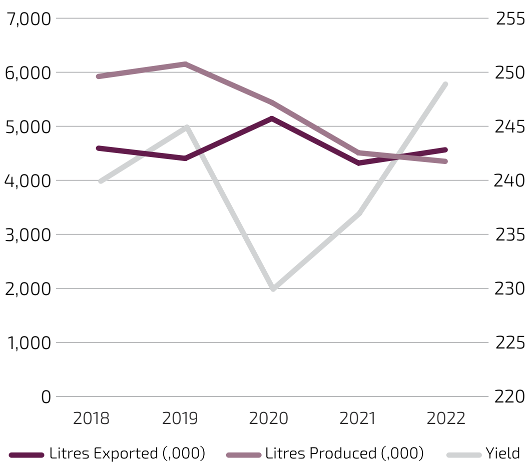


Sales by Business Unit




Distilling - Yields, Production and Exports (Litres)




Use of Funds by Category