



From our **Fund Manager's Desk**

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AVI | The power of operating leverage

As a core holding in Melville Douglas portfolios, AVI has delivered positive returns over the past two years, reinforcing its role as a defensive, high-quality name in the South African consumer staples space.

While the start of the 2025 calendar year proved challenging, marked by muted revenue growth and volume pressure, group earnings remained resilient. This performance was underpinned by AVI's diverse portfolio of leading brands, ongoing factory automation initiatives, and strong operating leverage. In the latter part of the year, management executed a series of strategic actions to mitigate the impact of weak volumes on top-line growth. These measures included both portfolio and supply chain optimisation.



A legacy spanning decades in consumer brands

The major historical turning point for AVI was back in 1999, when Anglovaal unbundled its assets and AVI became a standalone consumer brands company, publicly listed on the JSE. Since then, AVI's strategy has centred on building and growing leading South African brands in the fast-moving consumer goods (FMCG) market. While known as a food producer, the company's scope is more diverse, encompassing well-known industry leading food, beverages, fashion apparel, footwear, and cosmetics through its various subsidiaries.

Diverse portfolio of consumer brands

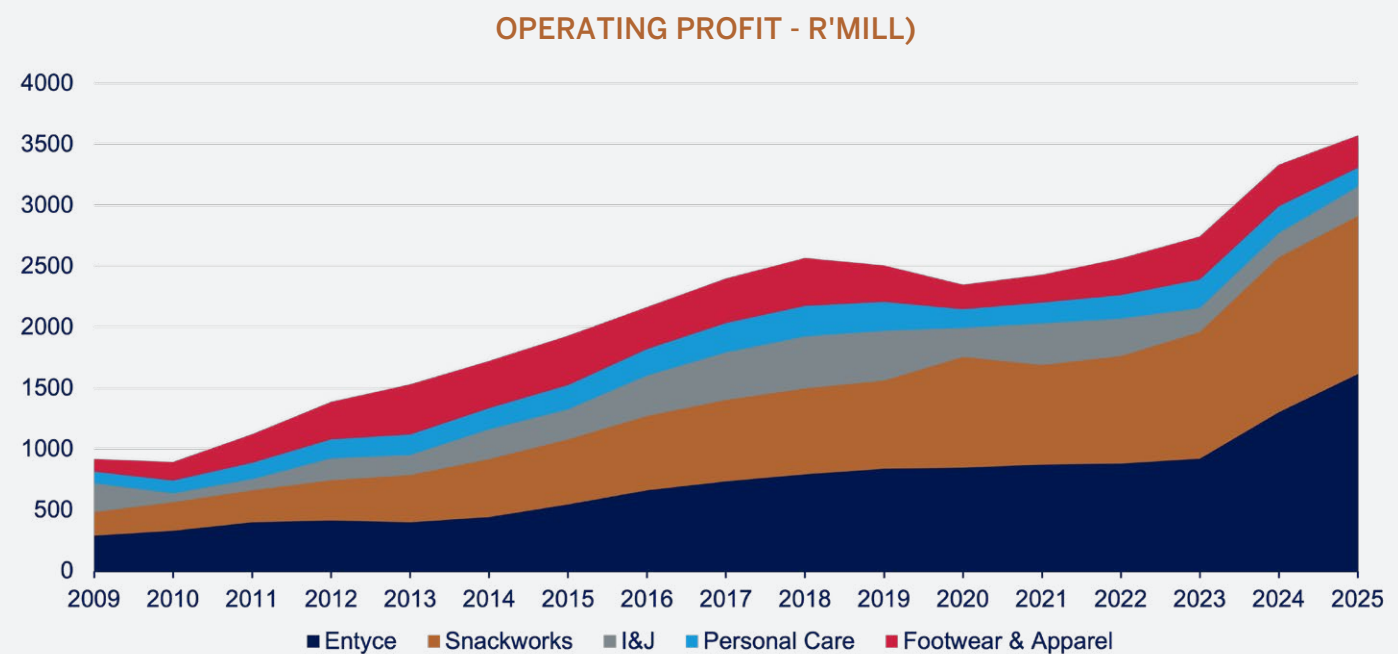


Source: Company reports



AVI's competitive strength is anchored in its portfolio of iconic brands, many of which have been household names for decades and enjoy deep-rooted consumer loyalty. Brands such as Five Roses, Freshpak, Bakers, I&J, and Yardley are synonymous with quality and tradition, forming part of South Africa's cultural fabric. This enduring brand equity provides AVI with significant pricing power and the ability to offset volume pressures, enabling the group to maintain industry-leading margins even during periods of economic strain. The ability to command premium positioning across categories, from beverages and snacks to seafood and personal care, creates a robust platform for consistent cash generation and return on capital. In a market where consumer confidence is volatile, AVI's brand strength acts as a defensive moat, underpinning resilient earnings and supporting its long-term investment appeal.

Over the years, the group has focused on innovation and operational improvements within its subsidiaries, growing its operating profits consistently.



Source: Company reports

As a core holding, AVI presents a compelling investment proposition across economic cycles.

AVI – Core investment tenets

/ Iconic consumer brands in staples markets

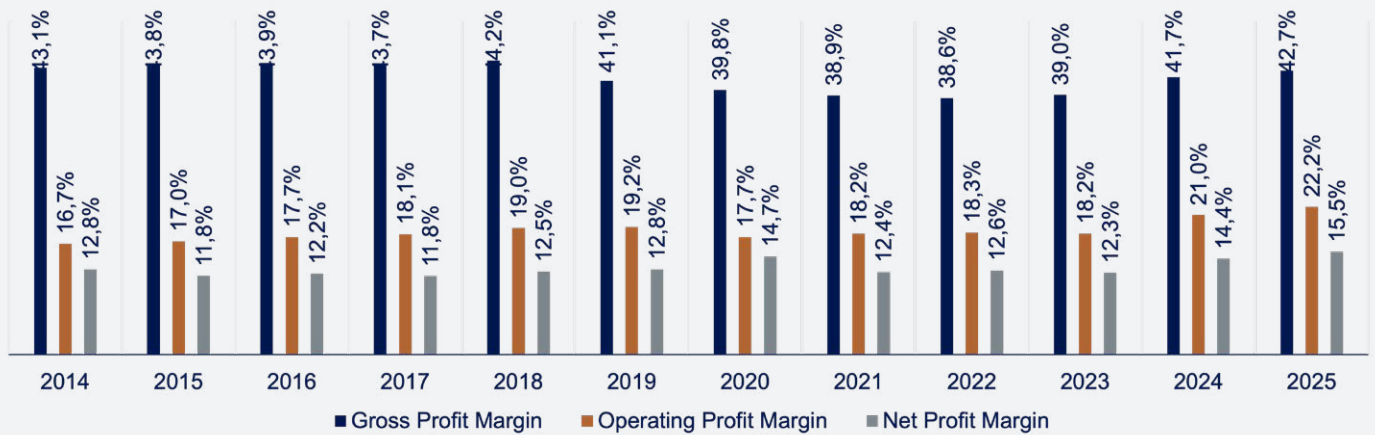
A portfolio of trusted household names—such as Five Roses, Freshpak, Bakers, I&J, and Yardley—anchored in essential product categories and appealing across income segments. This brand heritage provides AVI with enduring consumer loyalty and pricing power.

/ Margin resilience

Through disciplined macro-hedging strategies and operational scale, AVI effectively navigates input cost volatility and currency fluctuations, sustaining industry-leading margins even in challenging environments.



GROUP MARGINS

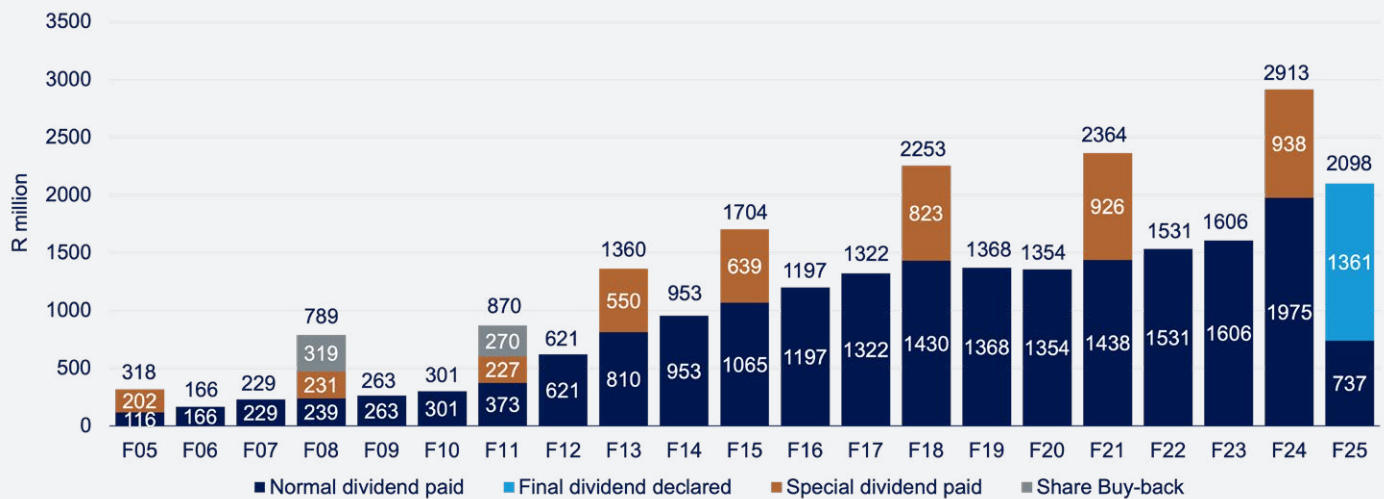


Source: Company reports

/ Disciplined capital allocation

Consistent free cash flow generation enables reinvestment in growth initiatives while returning capital to shareholders via regular dividends and periodic special distributions, underscoring AVI's commitment to shareholder value.

RETURNS TO SHAREHOLDERS



Source: Company reports

/ Focus on strong ROIC and ROCE

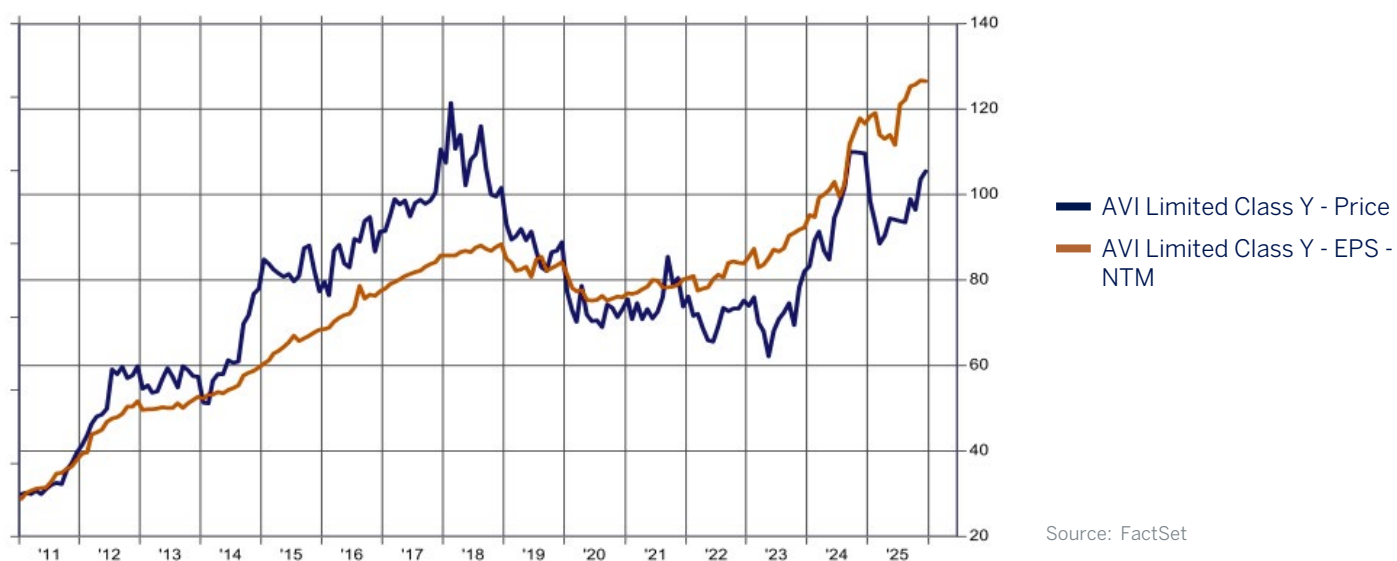
High returns on invested capital are a hallmark of AVI's strategy, evidenced by sector-leading ROE $\geq 35\%$, supported by prudent investment and operational efficiency.

/ Balanced, conservative financial structure

Debt levels are maintained at conservative thresholds across interest rate cycles, ensuring financial flexibility and mitigating exposure to excessive leverage risk.



AVI is positioned as a high-quality defensive play, offering near-term earnings resilience and long-term value creation. Management's decisive actions, streamlining underperforming operations and optimising procurement to ensure uninterrupted supply for its Footwear and Apparel division, are expected to drive a profitable festive season and support margin improvement. Coupled with AVI's portfolio of iconic brands and disciplined cost management, these measures reinforce its ability to navigate volume pressures while sustaining industry-leading returns.



In an environment where defensive quality and cash generation are paramount, AVI presents a compelling opportunity at an attractive valuation. With enduring brand equity, robust free cash flow, and a conservative balance sheet, the group remains a core holding for investors seeking stability and upside potential as market conditions normalise. Furthermore, AVI is well-positioned to benefit from any macroeconomic recovery, leveraging its operational agility and strong brand franchise to capture incremental growth.



Melville Douglas

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