

## **Bid Corporation Limited**

(Incorporated in the Republic of South Africa)

Registration number: 1995/008615/06

Share code: BID

ISIN: ZAE000216537

("Bidcorp" or "group" or the "company")

### **CAPITAL MARKETS TRADING UPDATE Q1 F2021**

Shareholders are advised Bidcorp today, Tuesday November 17<sup>th</sup>, wishes to update the market on the trading environment across its operations. This is in terms of Bidcorp's requirement of continuous disclosure in terms of the JSE Listings Requirements.

#### **Management comments as follows:**

##### **Employees**

Our employees continue to be our top priority in terms of securing their health, well-being and where possible, maintaining their incomes in the face of the fallout from the global COVID-19 pandemic (COVID). We have seen limited cases of infections within our various businesses around the world, which are managed within strict business best practices and local government requirements. None of these infections have materially impacted on our ability to operate.

We are conscious this is a stressful and difficult time for all our people and are offering help where we are able. We continue to work with our customers and suppliers in navigating the crisis and plotting the way forward.

##### **Overall market conditions**

Where lockdown restrictions have been eased, we have seen demand in the discretionary spend sectors recover, however any businesses associated with 'large crowds', such as entertainment, sports events, business travel, conventions and conferences, aviation and the cruise line industry remain largely shuttered. The requirement of major institutions, many of whom are in large inner capital cities, for employees to work from home has reduced activity levels of our national customers. Some of this activity has shifted into suburban areas and more rural locations as people continue to seek out eating-away-from-home opportunities.

Most independent customers have reopened and have been able to adapt to the varying economic conditions relatively well. The recovery of our larger national customers has been much slower and activity levels remain subdued. Our diversification into the home delivery new channel in a few businesses has reduced as activity has returned in our traditional channels, however we have continued to supply some products into independent retail related channels.

The overall contribution of these initiatives is small and remains generally non-core.

Non-discretionary demand from our institutional customers, including serving hospitals, aged care, prisons, the military, and government departments has continued and is relatively stable.

Our governmental support programs in several countries to provide food and care packages to the most vulnerable members of society via home delivery, have ceased in most jurisdictions.

### Current trading performance

The financial year started relatively well, with most geographies seemingly coming out of the worst of the COVID crisis, with July showing a strong financial performance, particularly in Europe and UK. Unfortunately, this started deteriorating in August and has worsened with Europe and UK now firmly in the grip of a harsh second wave that is showing little sign of easing. This is having a significant impact on us once again. Fortunately, we are a diversified business, with Australia, New Zealand and Asia doing well, and our other Emerging Market constituents continuing to improve on a month-to-month basis.

Group sales (in constant currency) for the financial year to date peaked in the week ended August 2<sup>nd</sup> at 87% versus the corresponding week in F2020 but had eased to 71% of the corresponding weekly sales for the week ended November 8<sup>th</sup>.

All our businesses continue to fully operate in each geography however each country is at a different stage of the COVID crisis. Sales progression by division and for the group as a whole, between the period July 1<sup>st</sup> and November 8<sup>th</sup> as shown in the table below, reflects the different stages of the COVID impact on our markets.

**TABLE: Constant currency sales progression by division for the 19-week period from week-ended July 5<sup>th</sup> to November 8<sup>th</sup>:**

Week-ended:	AUS	UK	EUR	EM	GROUP
<b>05-July</b>	88%	63%	75%	78%	<b>75%</b>
<b>12-July</b>	94%	65%	77%	74%	<b>77%</b>
<b>19-July</b>	91%	69%	83%	75%	<b>80%</b>
<b>26-July</b>	91%	78%	84%	76%	<b>83%</b>
<b>02-Aug</b>	92%	83%	90%	82%	<b>87%</b>
<b>09-Aug</b>	91%	74%	86%	75%	<b>82%</b>
<b>16-Aug</b>	86%	78%	92%	85%	<b>86%</b>
<b>23-Aug</b>	84%	71%	86%	83%	<b>81%</b>
<b>30-Aug</b>	84%	84%	78%	78%	<b>81%</b>
<b>06-Sep</b>	92%	72%	83%	93%	<b>84%</b>

Week-ended:	AUS	UK	EUR	EM	GROUP
13-Sep	90%	72%	83%	83%	82%
20-Sep	91%	72%	84%	93%	84%
27-Sep	91%	73%	80%	98%	84%
04-Oct	93%	69%	76%	88%	80%
11-Oct	96%	67%	75%	94%	81%
18-Oct	93%	67%	68%	84%	77%
25-Oct	94%	67%	58%	89%	75%
01-Nov	89%	61%	54%	95%	72%
08-Nov	95%	60%	48%	95%	71%

\* Please note that weekly comparatives to last year should be viewed as a trend as the timing of public holidays, school holidays and other events can have an impact on any one week in isolation.

- **Australasia (AUS)** - Sales have fluctuated between 84% and 96% of F2020 demand despite localised lockdowns in both Auckland (New Zealand) and Victoria (Australia) over the period.
- **United Kingdom (UK)** - Bidfood UK sales improved through the summer period assisted by the Shield Pack business in July, the “Eat out to Help Out” scheme in August and the return of the education sector in September. Fresh UK sales in September were 57% of last year, down from 61% in August. However as reported COVID cases increased, sales in our UK operations decreased in October and November as local and national restrictions began to bite.
- **Europe (EUR)** - Sales reached a low of 48% of the F2020 activity levels in the week of November 8<sup>th</sup> as the second wave of lockdowns limited activity across EUR from mid-October onwards, and this looks likely to continue through the winter.
- **Emerging Markets (EM)** - Other than in Greater China where the recovery was quick, the COVID pandemic has had a much longer and deeper impact in our EM region. However, through the quarter, sales in EM have continued to improve, particularly in South Africa and Turkey. Angliss Greater China has tracked at or better than the comparative Q1 F2020.

Currency volatility has positively impacted our rand-translated results and will remain a significant factor for the remainder of F2021. Currency movements for Q1 F2021 are shown below:

	Q1 F2021 Average FX rate	Q1 F2020 Average FX rate	% change
AUD:ZAR	12,09	10,27	17,7
EUR:ZAR	19,76	16,30	21,2
GBP:ZAR	21,84	18,07	20,8

Our group gross profit percentage for the Q1 F2021 has been maintained at similar levels to the comparative quarter in F2020, benefitting from the mix of smaller independent customers, however under a little pressure in certain businesses who are driving market share gains.

Throughout the crisis, our focus has been on making sure that our businesses retain as much human capital capacity and internal IP as we are able, in order to scale-up as activity levels return, as we have seen quickly happen across many regions in which we operate. To enable us to 'retain the muscle' of the businesses, we have continued to access various government wage assistance schemes in jurisdictions where we are eligible to do so, in order to protect as many of our staff as possible. Unfortunately, this hasn't negated the need to furlough some employees and permanently reduce headcount where restructuring was required.

With lower levels of activity, operating costs as a percentage of net revenue increased from 18,8% to 19,5%. In the quarter, constant currency operating expenditure (opex) declined by 14,2% compared to a constant currency revenue decline of 17,1%. We estimate that 35% to 40% of the cost base is relatively fixed so we will not see a linear reduction in opex as revenues decline, particularly where the onset of the resurgent spread of the virus as in the UK and Europe results in rapid and sudden lockdowns imposed by governments.

For Q1 F2021, the group made a pleasing EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) equivalent to 5,2% of monthly net revenue compared to 5,9% in Q1 F2020.

Non-IFRS 16 finance charges were 12,7% higher in Q1 F2021 driven up by the forex translation impact and imputed interest on the DAC put option. Excluding these impacts, real net finance charges were lower by 20% arising out of the benefits of lower capex and better working capital management.

Working capital days are better by 8 days in Q1 F2021, a great result achieved by our operations despite a few areas of anticipated absorption. Our inventories are in good shape, customers are generally paying well, and our payable terms are normalised.

We completed a sale & leaseback of a Hong Kong property for HK\$325 million and will conclude on two other properties in the next few months. These asset sales are part of our property maximisation strategy in terms of end-of-useful-life properties, where we are taking advantage of very low yields currently being achieved in many markets on industrial property.

Free cash flow (excluding dividends but after operating cashflows, working capital and capex) for Q1 F2021 amounted to an inflow of R1,2 billion, some R2,6 billion better than the comparative Q1 F2020. This has been achieved by improved cash generated from operations (after working capital), capex in line with depreciation and proceeds received on the sale of the Hong Kong property in August.

## **Cashflow evolution since March 2020**

As at March 31<sup>st</sup> 2020 the group's net debt was £338 million. Through April and May during the initial strict government lockdown's, cashflow was aggressively managed which resulted in net debt levels being maintained. As markets reopened from June onwards, group sales improved from week-to-week which resulted in excellent cash generation through to August. Net debt levels during October and November are stable at levels around £175 million to £185 million, but approximately £200 million better when compared to the prior year.

## **Liquidity**

Our priority remains to ensure that our operations have sufficient liquidity for their respective requirements. We believe that the group has sufficient liquidity for the foreseeable future. The group and its subsidiaries have as at September 30<sup>th</sup>, cash and cash equivalents of R7,2 billion (£336,1 million), gross borrowings of R11,7 billion (£540,9 million) of which R6,7 billion is short term. Total headroom available, including uncommitted facilities and cash and cash equivalents, is R21,6 billion (£998,9 million).

## **Debt covenants**

The group's debt covenants sit at 2,5x net debt to EBITDA and interest cover ratio of EBITDA to net consolidated finance costs (excluding the effects of IFRS 16) of not less than 5x. As at September 30<sup>th</sup> 2020, the group was well within these covenant ranges and does not believe there will be any breach thereof for the year ending June 2021.

## **Update on under-performing businesses**

Going into the COVID crisis we had problems in our Spain, Germany and Fresh UK activities. We have taken remedial action with these businesses, and although the financial numbers don't yet show it, we are well on the track to recovery with all of them. Spain remains the largest challenge, the senior management team has been changed, we bought out the minorities, the business has been significantly downscaled and now we just need sales to return. Fresh UK has also been significantly streamlined and excess costs and capacity taken out, without diminishing its position as a specialist supplier of seafood, meat and produce. Germany is operating effectively and once sales return, so too will profits.

## **Strategic future**

Bidcorp's current focus is to operate at the 'new normal' which is being dictated by the unpredictability we are seeing in many markets arising out of the 'second waves' prevalent in the northern hemisphere now. It is not possible at this time to confidently predict activity levels until we see consistent levelling off and decline in the spread of COVID. Our businesses in UK and Europe are well prepared to ride out the next phase of the COVID pandemic, likely to persist

through the winter months. The Group has taken steps to ensure that management are incentivised to guide our businesses through the short-term effects of COVID whilst seeking longer-term growth opportunities to return the group to pre-COVID activity levels.

We continue to believe that there will not be any long-term fundamental shift in consumer behavior of eating-away-from-home and evidence suggests that not much has changed in those markets where normality and confidence has returned. If anything, we are seeing growth particularly in our “sweet spot” target market, namely the smaller to mid-size independent customer.

Large supply disruptions haven’t materialised as predicted, however for our products imported into China the supply chain has been strained for products sourced in Europe, USA, and South America. In most of our businesses, the majority of product is procured locally. There is an element of disruption currently being experienced in global shipping and container availability, and we continue to adapt our procurement as necessary.

No significant acquisitions in the foodservice space have become evident yet, however we believe economic conditions will result in opportunities coming to market. The ability to explore opportunities in new markets remains hindered by the general prohibition on international travel into and from many parts of the world. In existing markets, we are confident we are gaining market share against competitors, many of whom do not have the financial strength of Bidcorp. We have concluded a small in-country acquisition in the Middle East and are looking at some potential targets in Chile, Brazil, Australia, New Zealand, Malaysia, and Germany. We do however need to understand that acquisitions made now are riskier than before due to the uncertainty and disruption of the past nine months.

We have scaled back much discretionary spend in capex and other business expenses. We are considering future investments in those jurisdictions where activity levels have returned as the time delay between conceptualisation and conclusion can be up to three years.

Our ecommerce platform remains a source of competitive advantage and continues to evolve primarily to cater for our wholesale customers. Our digital transformation journey has accelerated through this crisis, and we are seeing some great benefits, particularly with regards to insights through data analytics, of which we have the benefit of a multi-jurisdictional view. For retail customers, who can either collect or elect home-delivery, this remains a fringe activity catering to the current environment.

## **Comment**

Bernard Berson, CE, commented as follows:

“Although our financial results are down, our motivation and confidence are up, and we are very fortunate to have the team that we do around the world running our businesses. Our competitive position is good even though our industry has been particularly hard hit. We believe hospitality

will bounce back strongly and we will be ready to take advantage of these opportunities. In the meantime, it's about a focus on long-term sustainability, strength, and resilience. I believe we are doing better than most. This is helped by our (deliberate) geographic diversity, our (deliberate) de-emphasising of large volume, low-margin business in favour of smaller to mid-size independent customers, and our (deliberate) decentralised and entrepreneurial approach to how we manage our business across 35 geographies.”

The information contained in this announcement has not been reviewed or reported on by the group's external auditors.

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Date: November 17<sup>th</sup> 2020  
Johannesburg

Sponsor: The Standard Bank of South Africa Limited