**Bid Corporation Limited**
(Incorporated in the Republic of South Africa)
Registration number: 1995/008615/06
Share code: BID
ISIN: ZAE000216537
('Bidcorp' or 'the Company' or 'Group')

## Capital Markets Trading Update – November 18th 2019

Shareholders are advised that the Bidcorp executive management are meeting with members of the financial community (including shareholders, financial analysts and the press) today, Monday November 18th 2019, to update the market on the trading environment across its international operations.

The impact of the new IFRS 16 accounting standard is in line with guidance as provided to stakeholders in August 2019. Bidcorp's UK logistics activities remain classified as discontinued operations. The following update deals with the continuing and discontinued operations separately.

## Continuing operations:

Management comments as follows:

### Current trading performance and overall market conditions

- Trading for the 4 months to October in F2020 (on a like-for-like basis, excluding the impact of IFRS 16) continues to be positive (measured in home currencies). Performance achieved by the Group remains on trend, broadly in line with that achieved in constant currencies for F2019.
- Underlying sales have continued to show real growth in the independent segment with some further rebalancing of the customer mix evident in New Zealand and the United Kingdom. Gross margin percentage has increased. Operating costs (on a like-for-like basis excluding the impact of IFRS 16) have been reasonably well managed despite being impacted by increasing wage costs (due to full employment levels in numerous economies) and higher fuel and energy expenses. Overall trading margins (on a like-for-like basis, excluding the impact of IFRS 16) have improved slightly. Food inflation remains relatively benign across most markets.
- Generally, all our businesses have shown growth, albeit some at an anticipated slower rate. The problem businesses, namely Guzman in Spain, Pier7 in Germany & Bidfresh UK are making slow but steady progress.
- Political and social unrest in several geographies is having an impact on some of our businesses. In Hong Kong, ongoing protests have significantly decreased hotel occupancies, tourist arrivals and eating out-of-home activities. In Chile, major outbreaks of civil unrest have recently arisen. In Barcelona, the separatist movement and anti-independence groups have clashed resulting in civil unrest. In the UK, the Brexit debacle drags on and

economic growth is stuttering; although the imminent general election has signaled some potential positive news. Despite all the negatives, our management teams remain positive and motivated by opportunities.
- Currency volatility has negatively impacted Bidcorp's rand translated results to October in F2020. The rand translated results are approximately 1,0% lower than the constant currency results.

## Strategic initiatives

- Bidcorp's strategy remains focused on growth – organically in current markets through real sales growth in the correct customer segment; via in-territory bolt-on acquisitions to expand geographic reach and product ranges; and via opportunistic strategic acquisitions as the Group enters new markets.
- Foodservice fundamentals across all our operating geographies remain positive.
- Acquisition opportunities in the foodservice space remain limited, either due to unrealistic vendor expectations or vendor uncertainty at this stage of the economic cycle, a consequence of which is only one bolt-on acquisition has been concluded so far this year. Our focus has been on creating a sustainable platform from which to build on in Iberia and Germany, while extracting the benefits from the more recent acquisition in Australia.
- We continue to invest in organic growth through ongoing capex spend, with the focus on having smaller, modern and environmentally efficient depots closer to the customer base.
- Our ecommerce, CRM and data analytics platform deployment continues to provide competitive advantage to Group businesses. Our global procurement initiatives are expanding both in Asia and Europe, the benefits of which reflect in each individual business.

## Prospects

- Management's expectations for F2020 remain cautious but largely unchanged; however, political uncertainty, slowing global growth and recent socio-economic unrest heightens risk.

## Australasia

- **Australia's** trading performance remains solid, despite weak consumer confidence and low inflation. Overall revenue growth has been dampened by the prior year exit of a low-margin contract which still reflects in the comparative base (exited September 2018); however, free trade growth is good. Competitive pressures are being felt in the national account segment which is impacting pricing. The core foodservice businesses are doing well, with the focus on growing the penetration of the meat and liquor product lines through the network. Supply Solutions (Imports) continues to perform well off the back of further upstream integration. The Fresh business was exited in September 2019. Further capex has been invested in finalising the infrastructure upgrade programme. Bolt-on acquisition and greenfield opportunities remain.

- **New Zealand** continues its solid operational performance. Excellent progress has been achieved in replacing a large low-margin contract which exited with effect from July 2019. Overall revenue gains were limited; however, gross margin improvements are evident from the better customer mix. Higher costs are being driven by labour pressures (full employment and no migration) as well as increased capacity demands with the opening of our new, second depot in Auckland in October 2019. All segments of the business continue to develop profitably with ongoing innovation and value-add product development.

**United Kingdom ('UK')**

- **Bidfood UK** continues to perform well with the rate of growth in line with expectation. Brexit-fatigue is having a demonstrable impact on consumer confidence and consequently economic growth. Sales volumes continue to grow in the independent sector as our focus on customer mix and high-service levels continues. National account volumes and margins are under competitive pressure as customer volumes decline. New volumes are being carefully managed in favour of sustainable margins. Additional distribution capacity came on-stream with the new Liverpool depot going live late in Q1. Ongoing investment in infrastructure remains an imperative to cater for anticipated growth. Strategic initiatives in own brand development, value-add opportunities and ecommerce implementation continue to gain traction. An acquisition of a small niche independent wholesaler, Elite Fine Foods, was concluded in the first quarter.

- Trading in **Bidfresh** has been disappointing in Q1 driven principally by the performance in the Produce business. Seafood continues to perform well, and Meat continues to build scale against the backdrop of a weak casual dining sector and general low consumer confidence. In Produce, the infrastructure expansion into the new additional depot and upgrade of the ERP system have hampered operational progress and profitability. Management's focus is on correcting these operational challenges and rebuilding profitability.

**Europe**

- Overall results from our European businesses remains solid, despite challenges in both Spain and Germany. Improved like-for-like trading profit growth in constant FX has been achieved by the Netherlands, Belgium, Czech & Slovakia, Poland, Baltics and Italy. Cost pressures remain, particularly labour and fuel; however, they do appear to be moderating. Business improvement initiatives in Guzman (Spain) and

Pier7 (Germany) are starting to deliver improved operational benefits in both operations, although profitability has been negatively impacted.

- **Netherlands** has continued to make good progress despite a tight labour market. The horeca segment is showing good growth, while the decline in healthcare has stopped. The business simplification journey continues as management focus on developing the high-service customer offering. Product range rationalisation and IT infrastructure realignment projects are ongoing. Depot reconfiguration and investment into new distribution infrastructure is underway to accommodate future growth.

- **Belgium's** performance is positive, delivering incrementally higher profitability. A number of catering customers have renewed their contracts. Volume growth in the freetrade and institutional sectors is ongoing. Depot consolidation to achieve operational efficiencies continue. The implementation of the 'myBidfood' ecommerce platform is progressing well.

- **Czech & Slovakia** continues to deliver good trading results although the rate of growth has moderated as overall economic growth slows. Sales have continued to grow, gross margins have been maintained and overall overhead costs are being well managed. However, cost pressures remain in labour, energy and fuel. Recent infrastructure investment in production facilities is yet to deliver anticipated returns. Opportunities in neighbouring territories offer expansion potential.

- Further strong organic growth in **Poland** has continued, delivering an excellent trading performance. Focus remains on the freetrade sector. Gross margin improvements have delivered an improved trading margin. Anticipated future organic growth will require additional infrastructural investment.

- **Italy** has delivered an improved trading performance despite the weakest summer season experienced in Italy for several years. Good penetration of the independent sector continues. Integration of recent bolt-on acquisitions, being D&D and Quartiglia, into DAC Italy is ongoing. Despite the political turmoil in Italy, business and consumer confidence are holding up. Regional expansion opportunities continue to be explored.

- **Iberia** comprises our businesses in Spain and Portugal. Overall performance in Spain is well below expectation, attributed mostly to the Guzman activities. Political unrest in Barcelona had a significant impact on Guzman's performance in October; however, internal focus remains on margin improvement and overhead cost reduction. The new ERP system has settled down and operational improvements are evident; however, financial performance remains poor. Igartza (acquired July 2018), a multi-category distributor in northern Spain, is performing well. Our business in Portugal continues to perform well. Investment into infrastructure will be required to alleviate capacity constraints in Portugal. Management remain positive about the medium-term growth prospects in the Iberian market.

- **Germany** continues to underperform with progress slow. Completion of the new depot in Munich is imminent. Further management changes have been made and additional Group resource has been deployed to guide improvements. Germany still represents a very large foodservice opportunity; however, further acquisitive expansion remains on hold until the current base has been stabilised.

- The **Baltics**, being Bidfood in Lithuania and Latvia, is now sustainably profitable. Focus is on leveraging the benefits of the new depot in Kaunas to achieve higher returns.

- Further expansion, both in terms of in-country bolt-on acquisitions and strategic entry into new geographies in Europe, remains possible, as we are not represented or underrepresented in many countries.

**Emerging markets**

- **South Africa** overall is showing solid results despite a persistently weak economic environment. Bidfood has continued its growth trajectory and the Crown Food business has recovered post the Listeriosis crisis and is achieving growth in many areas of the business. Results from the Chipkins Puratos JV are flat as end-user customer preferences have shifted away from yeast products in plant bakeries to cheaper maize alternatives. Focus remains on shifting the product mix to further value-add products.

- **Greater China's** year-to-date financial performance is flat against F2019 with the anticipated improvements gained in mainland China offsetting the unexpected declines in Hong Kong, directly attributable to the fallout from the social crisis that has unfolded. In **mainland China**, trading continues to improve following the dairy crisis of the past. Dairy remains an important category; however, continuing product range diversification continues. Operations commenced at the new meat (value-add processing) factory in Q4 F2019; however, the production ramp-up has been slowed by outstanding regulatory approvals. Our geographic distribution network is now reasonably complete. **Hong Kong** continues to be significantly impacted by the fallout from the unrest of the past few months. Management and staff have embarked upon flexible working hours, have all agreed to unpaid leave and are working with suppliers and landlords to minimize operating costs. Safety measures to protect staff and assets have been introduced. Further supplier dislocation in dairy arose in July 2019; however, alternative suppliers have been sourced. The greater China working capital cycle remains under close scrutiny.

- **Singapore** has seen a positive uptick in activity levels and continues to deliver steady growth. Good traction is being achieved in the core foodservice market. **Malaysia** has performed well, and further nationwide growth opportunities are being explored. Our small joint venture in **Vietnam** is progressing, albeit slower than originally planned.

- In **South America**, our focus remains on building a strong platform in a region with significant growth potential. In **Brazil,** the economy continues to be challenged; in spite of this our business has maintained its performance. Refinement of the business model continues to enable sales volume growth and expansion of the broadline product range. Bolt-on opportunities continue to be pursued; however, vendor expectations remain unrealistic. **Chile** was performing very well to October; however, violent and unexpected political unrest has negatively impacted this trajectory. Local management have reacted quickly to the crisis but how long this unrest will continue for remains unknown. Integration and benefits of the acquisition made in October 2018 continue to be achieved. Our investment in the foodservice business **Blancaluna, Argentina** is performing in line with expectation.

- In the **Middle East**, our businesses have performed very well, particularly in Saudi Arabia. The **UAE** is showing some improvement; but tourism and hotel occupancies are still struggling. Our **Saudi** operation has again performed very well, buoyed by structural social and economic reforms which are translating into higher economic activity. All other businesses, albeit they are small, are profitable. New opportunities in adjacent geographies are being explored.

- **Turkey** continues to improve as the mix is shifted to local products supplying local customers. A new greenfield branch was opened in Antalya in October 2019.

**Acquisitive activity**

- Bidcorp remains alert to all acquisition opportunities that present themselves both in current markets and in new territories.
- In the 4 months to October 2019, the following bolt-on acquisition was made:
  - Bidfood UK acquired Elite Fine Foods, a niche independent wholesaler.

**<u>Discontinued operations – UK logistics activities:</u>**

**CD business**

- As announced on October 2nd 2019, a contract was entered into for the disposal of Best Food Logistics to the Booker Group, a wholly owned subsidiary of Tesco Plc. Several conditions precedent have been met and good progress has been made on the remaining few. We anticipate closure between late January and early March 2020.

- Trading performance in Best Food Logistics continues to improve off the back of better service levels and a more sustainable revenue platform.

**PCL**

- Post the sale and exit of the distribution activities earlier this year, management are working on an exit plan for the residual warehousing activities, which are small and now marginally profitable. No further material exit costs are expected.

The full presentation is being webcast, recorded and a playback recording will be available on the Group's website:
http://www.bidcorpgroup.com/presentations.php

This Capital Markets Trading Update has not been reviewed or reported on by the Company's independent auditors.

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Johannesburg

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