Webcast Transcript

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INTERIM RESULTS PRESENTATION

Stephen Koseff
Welcome everybody. I believe we've got quite a lot of people on the webcast and some people in Standard Bank in Jo'burg. It's very nice in Cape Town today. You guys should have all got on the plane on SAA and arrived here. You would have come on an empty flight and it would have been very comfortable. I think getting back to Bidcorp looking from a Chairman perspective this is a very well-run company. The executives are very focussed. It runs a decentralised operation. We are in quite a difficult global world at the moment with lots of funny things happening, and they all can have an impact on a particular region. But overall the diversification of this business, the focus of the executives who run each business like it's their own really helps make a difference. I would briefly like to thank Bernard, Dave, Ashley, the Company Secretary, and the management team for the kind of effort that you put in to making Bidcorp into the company it is. And it is one of the stars on the South African stock exchange, but it is a very globally diversified company.

There are also a number of board members that are not physically here today that I'd like to thank for their contribution. Firstly Doug Band retired as senior independent director, so I would like to thank him for his contribution over many years. We are still very fortunate to have Brian Joffe on our board who was the founder of Bidcorp. As I mentioned in prior years I was there with him when he made his first acquisition which is today still an associate of Bidcorp. And that was back in 1988, and I think this company has grown from strength to strength. And when you combine the market cap of Bidcorp and Bidvest you get a market cap of R180 billion from a company that was acquired for R25 million in 1988.

I would also like to thank other board members, in particularly the Chairman of the Audit Committee, Helen Wiseman, who does a significant amount of work to make sure that there's appropriate governance around the organisation. And we have also made two new appointments in the past six months, Tasneem Abdool-Samad and Cliff Rosenberg. They both bring different skills to our board and I'd like to welcome them to the board. So overall I think a difficult environment but very credible results. And I think it is a decentralisation entrepreneurial culture and the overall diversification of the business model that enables us to produce decent results in what could be a very tough economic environment. So I'm now going to call on Bernard to give you all the facts and take us through the results. Thank you all for attending. And for those of you in Jo'burg, thank you for attending. For those of you on the webcast, thank you as well. And I'll hand over to Bernard. Thanks very much.

Bernard Berson
Good morning everyone from Cape Town to those in Johannesburg, those on the webcast, those on the phone. It is a new world out there and technology does change the way we do things. Although I'm talking to a relatively small audience here, primarily Bidcorp people – and those of you who aren't Bidcorp people, you are welcome anyway – [Break in audio]. Firstly thank you, Stephen, to our Chairman, to my fellow directors, certainly to Brian for his continued wisdom and input. It is always good having somebody with that amount of

experience particularly when times are tough and conditions are tough. And to the rest of our directors including the new directors I thank all of you for your input.

Most importantly welcome to our management team from around the world who are here with us at the moment. We've got a management conference the next few days in Cape Town. We will stimulate the economy, so the results coming out of South Africa should continue to be positive for the next six months. So thank you to all of you for spending your money. And to all of you who are attending thank you for your interest in our company and our story. Hopefully we can add some colour to what has happened and what is going to happen. We certainly live in interesting times, challenging times. There are a lot of things going on. You can get overawed by the negative, but we try not to because out of every negative situation comes a positive, and we like to focus on the positive. Yes, there are a lot of things that aren't great out there. But as the biblical wisdom says: this too shall pass. And once it does there will be good times, and we have to make sure that we're at the front of that and ready to ride the wave when it comes in.

Just talking to that, we believe the strength of our balance sheet is one of the greatest strengths we have, which we don't really talk a lot about. Over the years we've had lots of pressure from various different shareholder groups to increase our level of gearing and gear the thing up. We're very happy with where we are and the strength, because that will absolutely give us the firepower and ammunition to do whatever has to be done and take advantage of opportunities which will no doubt arise as a result of what's going on in the world at the moment and probably will carry on for a while. So that's just a bit of background about who we are. It's pretty much the same as before. As I've always said, we are boring. Boring is good, as long as we can consistently deliver upon our strategy and our message. That's what we will continue to do. That's what the team is tasked to do.

We have added another level to it which I guess recognises our place in the world and the importance that we should all be placing on sustainability, on the environment etc. And we talk about ourselves being environmentally conscious, and I think it's incumbent upon all of us to try and play our part in making the world a better place, and doing what we can to make sure that we do have a sustainable world for generations to come, and not just have a short-term focus. This is what's going to happen. I see I'm up twice, and then David, and then we'll have a Q&A session which includes those on the web who can send their questions in, and then we will read them out and answer them.

I guess there are two ways you can look at the results. You can look at them in a positive or you can look at them in a negative. The accountants, god bless them, certainly make life very complicated with IFRS 16 and all these other wonderful creations that they invent. It makes comparability quite difficult. So I'm not going to talk about it because I used to be a chartered accountant but I no longer am, and I don't really understand most of it. I'm just a simple baked bean salesman. So we will talk about the business on a like for like basis excluding the impacts of IFRS 16. David will go into more detail about all that technical stuff. But we like to just look at the core fundamentals of the business, and in a very difficult environment we believe the business has grown by over 4% at HEPS level, which we believe is a very credible result. And we put that down to the resilience of our business model, of our geographic diversification.

As I said in the opening, these are interesting times. And if you look at the challenges we've been through – and I don't want to dwell on them too much, but I think we need to put them in prospective – over the past six months we've had the civil unrest in Hong Kong which basically started at the beginning of July and had a massive impact in Hong Kong. Following on the same theme we had civil unrest in Chile which started in

October. It hasn't really settled down and is probably expected to bounce back again. We've had the Brexit uncertainty in the UK. And let's not forget Johnson only got elected in the middle of December. Up until that point there was chaos in the UK with regards to Brexit, and there was uncertainty, and there was fatigue, and there was poor consumer sentiment. I think quite rightly everybody has forgotten about that and is looking forward to the positive, but we've had to ride out the negative. When you look at the retail statistics that came out of the UK, Christmas was an awful Christmas. Retail was hit really hard, and January hasn't been a bundle of joy either. We are still absolutely confident that the UK will bounce back and will be a very strong economy, but we are going through that very difficult transitionary phase.

We've had the bush fire crisis in Australia which didn't just happen around about Christmas. Those fires started in August. So from August all the way through to the end of December in that reporting period our Australia had to contend with the impact of the bush fires and the impact that that has had on tourism and the local economy as well. And that will obviously continue to have an impact. In South Africa we've had the impact of a very sluggish economy, of load shedding and of all those other wonderful things that South Africa has had to contend with. And now of course going forward – and we will talk about it more a little bit later – we've got coronavirus which adds onto the woes of whatever else we have.

These are all short-term blips and once again notwithstanding all of these issues we've managed to deliver growth. Our management teams have done what they do. They've focussed on their businesses. They have kept the strategy, they have stuck to the knitting and they have done exceptionally well. And I thank them all for that and I think they've done a fantastic job overall. It's not without our problem areas, and I think we're pretty open about sharing with you where the problems are because actually a problem is only a problem when you don't recognise it as a problem. Once you've recognised the problem it becomes a challenge, and out of that challenge arises an opportunity. So although we acknowledge we have a few problem areas or challenges, those are future opportunities.

And when you have a portfolio as large as we do it's very seldom that you get the thing firing on every single cylinder. I think what we have managed to prove over many years is our ability to implement our strategy and grow in a market. Yes, it takes a bit of time. Sometimes the expectation is we can sprinkle a little bit of fairy dust on it and fix it in three months. It unfortunately doesn't work like that. It's a little bit tougher in the real world. It does take a reasonable amount of time. It certainly takes a year or two or three. But once you do get it right you establish the base, and it is onwards and upwards from there, as our business model has shown time after time after time.

If we run very quickly through the geographies, Australia – being Australia and New Zealand – is still the biggest segment. I know there is a little bit of competition between Australasia and the UK and it depends on exchange rates and things like that. I think they are pretty similar overall in size. An absolutely sterling performance up there with the trading margin now at 6.4%, which I think includes an impact of IFRS as well. But excluding IFRS the trading margin still increased. There was revenue growth. And both businesses have continued to perform exceptionally well again, which is a wonderful story because for the last 20 years I've been telling the same story and hopefully for the next 20 years you will hear the same story carrying on. They are both coming off relatively large bases now. They are big businesses. They are mature businesses. So that growth obviously does become more difficult, more challenging.

But we are still absolutely confident about those businesses. They have both gone through the phase of changing the customer mix. New Zealand exited their largest customer in the beginning of July. Bearing in mind they exited their largest customer. That was a choice by us to exit that customer. As I've said before, if a contract isn't mutually beneficial what's the point of doing it? It's not just about the volume. We need to actually be able to make a return out of it. Australia is quite a long way through that process, but it is a continual process because your customer mix does change and you continually need to adjust your business model accordingly. So both those businesses are performing exceptionally well, very focussed, and long may it continue.

The UK was probably the most… I don't want to say disappointing because it is a very challenging environment. We did score an own goal there in our fresh business, which hasn't been going great for the last two or three years. We have made some management changes there. We believe that there is nothing wrong with the business. We believe there is nothing wrong with the market. We purely executed on certain issues relatively poorly and we're in the process of fixing that and making some changes. A new CEO started from within the business at the beginning of January, and we are confident of getting that business back on track in the medium term. We need to define what the medium term is, but it's not next week.

Overall the business in the UK, the food business, they increased their position from the previous year – which was a record year – and you will bear in mind that we have doubled the profits in that business over the last few years. We're also in a bit of a timing issue because when you readjust your customer portfolio you lose a little bit of business. You gain some business, but sometimes the gains don't come on at the same time as the losses and there is a little bit of imbalance there. We are a little bit in that process at the moment. We are very confident about the future trajectory of that business. I think we have navigated the tough part of the Brexit uncertainty very well. Hopefully it's a relatively smooth process from here and not disruptive, consumer confidence returns, business sentiment improves.

We're in a fantastic position in the UK to take advantage of it and we are very bullish and optimistic about the future of the UK. We only made one bolt-on acquisition this year which was in the UK. It was a smallish local food service wholesaler. The reason we only made one is that was the only thing that actually excited us around the world in terms of presenting a value opportunity. There are a few in the pipeline that we are looking at at the moment around the world. Vendor expectations have until recently been relatively elevated. Maybe some more sanity will prevail. But also I do think the tough times and impacts of various global challenges will change the dynamics and the value equation.

Europe had another very strong performance and we can see the margins improving up to 4.6%, so we are heading towards the 5% where we think we can get to in the medium term. Most of the businesses in Europe performed very well. And put in context, Europe is not in a great economic space. Germany they talk about being in recession and Germany is obviously the big driver of the European economy. The rest of Europe has got very anaemic growth. And it is tough in Europe. It's not a pleasure park. Notwithstanding that our guys have done a great job. And all the businesses except for two performed at record levels, so I think that's incredible. The two are Spain and Germany, which are both reasonably new for us. We've spoken about them before as being challenges. We absolutely acknowledge they are challenges.

We remain very committed and optimistic about the market and the opportunity they present, but these things do take a little bit of time. And sometimes it takes a little bit more time and a little bit more money than you anticipate, but we are there for the long haul. We are very confident with the approach we are taking, and we do understand we have to persevere and we will get there as we have in every other geography around the world. When you look back in history we've had similar situations and they look impossible to overcome the hurdles. But we have managed, and if you look at the base that gets established and the momentum that comes from that, that's the success of how we've built the business and will continue to. A lot of this detail in in the pack and in the detail that we provide.

Emerging markets is always an interesting selection of businesses. I think it's remarkable that we have grown profitability in the emerging market segment when we look at what the components are. Firstly you've got greater China, which is China and Hong Kong. And Hong Kong went through an awful six months with the civil unrest. And in China we actually had a very good six months, cycling off a previous year where we went through some challenges in the dairy segment which we've explained before. So overall we saw some small growth coming out of the greater China business. Our Singapore cluster did very well and continues to perform nicely, Singapore, Malaysia and Vietnam.

South America notwithstanding the challenges we performed adequately well and have great positions there to scale that business up substantially. We are very comfortable and confident about South America, even if it does come with some challenges. We made an investment in Argentina in May or June. And it is certainly very interesting when you are accounting for something with inflation of 50% or 60%. It's a very interesting dynamic. But notwithstanding that there is a fantastic local business there catering to a local economy that performs very well.

Then we have South Africa. Don't ask me how, but the guys have delivered 6% growth in South Africa again. And I've said that for a few years in a row. So from a South African biased point of view here, Klaas sends me the stock exchange announcements of food companies in South Africa. I think he only sends me the poor ones. He says he sends them all to me, and they're all poor. So they've done a fantastic job across all three businesses and continue to grow, so I think that's absolutely fantastic and a testament not only to the team but to the business model that we have set up.

The Middle East has gone through a very good patch and we've seen phenomenal growth coming out of the Middle East, predominantly driven by Saudi Arabia where you have the liberalisation of the economy which has given our business a huge impetus because 50% of the population are now more actively involved in the economy and that's having a hugely positive impact on the out of home market and out of home consumption.

The last component of emerging markets is Turkey where we're still in a loss situation which is made up of two parts. Our core business, the historical business is absolutely now profitable and sustainable profitable, but we started a greenfields operation in an area called Anatolia which is a tourist destination. And greenfields operations are costly. When you make a normal acquisition you put a little bit of goodwill on the balance sheet and then you don't have to worry about that. When you're a greenfields operation all your costs go through the P&L and you take the loss and then get the benefits as the thing starts coming on line. We're pretty hopeful that that will be breakeven by the time the tourism season kicks off in the northern hemisphere summer. So we remain very optimistic about Turkey in the medium term as well. It's a very strong market.

That was then. That was the six months that we've just finished. History is history. It is no good looking in the rear view mirror. We don't manage our business in the rear view mirror. We look forward. What is the trajectory and where are we sitting? I need to be careful what I say here because I get told I'm too negative, but I think it's good to be realistic as well. We are going through a tough time. And coronavirus is going to have an impact. Don't ask me how much impact it's going to have. If anybody has that question the answer is I don't know. I don't have the foggiest clue. And whoever does say they have a clue he's lying or he's much cleverer than all of us. It is going to have an impact and we don't know how long this is going to go on for.

The impact isn't only in China. The impact is biggest in China, but the waves ripple out from there. And the impact in Hong Kong is pretty severe. The impact in Asia through Singapore, Malaysia and Vietnam is pretty severe. The impact in Australasia is not severe, but it is there. The tourism numbers are down significantly. China is the largest trading partner, the largest tourism partner for both Australia and New Zealand, and that has just stopped. It hasn't slowed down. It has stopped. And as you get further away the impact becomes less and less. Hopefully they find a solution to this, or it sorts itself out, or whatever happens happens. But there will be a short-term impact and we just have to be conscious of that.

Out of that will arise opportunity, there is no doubt. Out of China we're already hearing that some of our competitors maybe aren't going to survive. We are certainly hearing in Hong Kong that through the civil unrest and now with the corona impact there are going to be some casualties in the market. And that for us is an opportunity. We are absolutely confident the market will bounce back. We saw that with SARS. Fortunately people have very short memories. People have cabin fever, particularly those stuck on the Diamond Princess. But generally there is an element of cabin fever. People are very well disciplined at the moment, but as soon as they can life is going to return back to normal again. It absolutely will bounce back. And we need to be conscious that in greater China, in Asia in particular, our business is very focussed on the tourism/leisure/hospitality market, on restaurants, hotels etc. As we get through to other markets we have less dependence on that. It's obviously an important sector, but we have a greater proportion of hospitals, healthcare, military, age care, education etc. in our portfolio. That gives you some type of resilience and balance against it as well, but it still does have an impact.

So notwithstanding that if we could put that aside and talk about all things being equal, we know we've got continual challenges. The UK will bounce out of its Brexit slumber. Australia has still got to work through the impact of the bush fires. South America has got a few issues to get over. South Africa is still in a tough place. I'm glad to see the lights are still on. Maybe Standard Bank have a generator. Europe, if things just carry on in Europe the way they are we're okay with that. We can see our way through that environment and we're pretty confident about it. The business is in good shape. We are very satisfied with where we're at. I'm exceptionally proud of what the team have delivered. I'm exceptionally proud of how they've focussed on what's important in transforming the businesses over many years, into making them resilient, into looking at cash generation, into looking at issues of working capital management and focussing on the detail while not forgetting what our overall mission is.

Obviously we are a food service player. We are all about the food, we're all about the service and we're all about the technology. It's part of the DNA. We don't need to talk too much about it because it's what we do. We're making progress and we're significantly down the path and we continue to improve on what we do in all those areas. I think that's reflected in the margins. Even through the tough times we still manage to increase the overall margin. Yes, it's only a few basis points, but had we decreased it a few basis points I think you'd all have a lot more questions about it. We can still see the opportunity to squeeze a little bit more margin. There is the upstreaming of the margin opportunities. There is the customer base stratification, and getting the correct mix in the customer base.

There is a continual look at the expense base and the disruption of the cost base to make sure it remains relevant. We need to always be the lowest cost operator for what we do. It doesn't mean we're the lowest cost operator. It means we're the lowest cost operator for what we do, for the service offering that we give. Sometimes our customers just want the lowest cost, and they can have the lowest cost but they can have the lowest service as well. It's important that our cost base is reflective of the offering that we do give the customer. We are part of the customers' journey and I think that's an important responsibility for us through this crisis as well. We do have customers who need to be nurtured through these tougher times.

We have 27,000 employees and their welfare is obviously important to us, particularly in areas that are greatly affected by coronavirus. That's probably the first and foremost responsibility that we do have, to ensure the welfare of our staff, that they do have jobs to come back to once this passes, that we do have a business, and that we are there for the long haul, which we certainly are. So I'm going to hand over to David who is going to bore you to death with all this IFRS 16 nonsense which nobody will understand. All just please nod your heads in agreement with what he says, and then I will take some Q&A afterwards. Thank you.

David Cleasby
Thanks Bernard. Morning everyone. I won't bore you hopefully too much because sometimes we even don't understand what's going on. I think obviously the big accounting change in this period is the IFRS 16 leases, and we will take you through that. Because it does make a mess of parts of the P&L we have tried to show everything in the presentation on a like for like basis, so at least you understand it. And also we just need to note that we do have two discontinued operations which hopefully we will be exiting in the next month. And we talk really mainly about the continuing operations. I think just to acknowledge the operators around the world. They generate the Pounds, the Dollars – Aussie and New Zealand – and also the accountants around the world and the finance teams who put it all together.

This is really running through some of the highlights, once again on a continuing basis. There are minimal translational impacts in the period, so we're not going to give you too much constant currency information. Revenue was up 3.2%. Gross margins are up. As the customer mix changes so we see that improve on an ongoing basis. And that was up to 23.8%. EBITDA margins at 6% are slightly up from the 5.9% in the previous period. Headline earnings per share are up 4.3%, once again on a like for like basis. I think just to mention in the context of the results to put them in perspective, we have as Bernard mentioned three businesses that haven't performed in the period. If they have just done what they did in the previous period they would have added about 4% to the results. So some of our own goals have cost us a little bit.

An interim dividend of 330 cents per share is similar to what we've done over the last period of time. The growth is in excess of what the earnings are, and that's our confidence in the business reflected. Return of funds at 30%, which is a little bit lower than where we would like, but a lot of the capex that we've put into the businesses over the years still will generate returns going forward. So we still hope to see that tick up over time. I think one real highlight of the business is the free cash flow that we've seen in the period. There was a big focus on working capital towards the end of the period and we've seen that reflected in the working capital absorption which I will talk ab out a little bit afterwards.

On IFRS 16 it was adopted from the 1st July 2019. The impact on the balance sheet is R4.2 billion of assets that came on, liabilities of R5.2 billion, and if you look at the P&L impact which we show you in the pro forma that we have given only about R6 million. So a negligible impact from an earnings perspective but obviously a big impact from the balance sheet perspective. But notwithstanding adding that to the debt levels that we've got in the group our net debt to EBITDA coverage is still only 1.1x, so we are reasonably lowly geared and it is obviously a strength in the market as we see it.

I think one thing about IFRS 16 is obviously it has now given people the ability to compare businesses. We have through Bernard over many years purchased properties and we own about 70% of our property portfolio. And effectively what we're doing is benefitting from our own credit. We're not allowing other people to build stuff for us and take the benefit. All of that is inherent value that still sits within the group.

Just on the P&L, organic revenue growth of 2.2% reflects, as Bernard said, some good underlying independent growth but also this transition out of low-margin contracts. So although on the face of it, it looks low there is absolutely a transition that we are seeing in the business. GP is up to 23.8% as I spoke about. Operating expenses are up a little bit, but as one transitions to more independent customers the cost to serve that customer base does tick up, and that would be expected. We have seen – and we've spoken about – seeing wages, fuel and energy tick up over a number of periods now. I think what we are seeing is the rate of growth is moderating and we're not getting those extreme jumps that we have seen in past periods. I think also to put it in context we have invested heavily in the property portfolio across the group and obviously that impacts your cost base as well.

Trading margins are up. Emerging markets is slightly down, and that is principally what we have seen in greater China, or more specifically in Hong Kong. And the UK is down slightly, and that is driven by the fresh performance. Just carrying on a little bit further down the P&L, interest charges are up a little bit. As I said, asset management got better as the period progressed, so we didn't do a perfect job in the early parts of the period. We have seen higher rates in greater China, particularly Hong Kong, Singapore and the like, and that has impacted the charge that we've seen. And obviously higher absolute funding of working capital which has cost us a little bit on the interest side. The tax rate is 24.3% which is absolutely in line with guidance, so as we sit here today we don't really anticipate that changing. There is some debate whether the tax changes in the UK, the rate coming down, is going to happen but we will have to wait and see.

Associates are up a little bit. That to a large extent has been some impact in the Chipkins Puratos JV going backwards a little bit, but the benefit of having Blancaluna in the results for the first time. Capital items are very small in the context of the continuing operations. As I said, the discontinued operations to a large extent we have provided for what we can in terms of the exit. We don't anticipate any material exit costs going forward. And hopefully those will be something of the past after March.

In terms of cash generation generally the working capital typically you would know that we speak about absorption in the first half and generation in the second half. We have seen very small absorption, and as I said that was a function of a large focus on working capital in the period. That is despite larger inventory in a bigger estate. We are seeing as businesses import more their supply lines get longer, and obviously some activity levels. You've got to grow your absolute inventory or working capital in order to fund that.

In terms of investing activities a little bit elevated. I think we will see that moderate I guess in the next 18 months to two years. We have guided through the cycle of being somewhere between 1.5% and 2% of revenue and we still stick with that, so hopefully we will see that come down a little bit. Cash and cash equivalents of R5.3 billion is very similar to a year ago as well as the end of June. The net debt of R4.9 billion from an EBITDA cover perspective is only 0.6x. As I said we are reasonably comfortable and it gives us the financial capacity to do what we need to do in terms of organic and acquisitive growth.

In terms of the balance sheet there is not really anything to add here. There have been some changes in the equity, some of it dividends, some of it earnings, some of it the take-on of IFRS 16 and some PUT option liabilities that we renegotiated. Liquidity management, the fact that the group is long term we have less short-term debt than cash, so we have ultimately positioned ourselves in the long-term part of the market. Risk management, we haven't changed anything. It still means we match our assets and liabilities in the currencies that we operate in. Solvency, all those ratios from our perspective are healthy and no real changes there.

So really just to end off, as we said our financial base is strong. It is very supportive of the opportunities that certainly will arise as we go forward. We are cash generative. We will continue to focus on asset management as we have always done. Sometimes you can't always predict these things. The businesses are decentralised. The traders do take positions sometimes where they see the opportunity, and obviously we allow them the freedom to do so. But overall we are happy with the levels of working capital. I think as I said the philosophy of hedging assets and liabilities remains and that's won't change. We measure everything from a returns perspective in their local currencies, so what you get in Rands is what you get in Rands, and obviously currency volatility as we've seen will continue to play a part.

Our shareholder base hasn't really changed very much certainly over the last six months. We are still about 50% internationally held and 50% local. And I think really just to add, the business is economically and geographically diversified and we certainly believe we have the management, wherewithal and talent to take advantage of what opportunities present themselves as and when. So that's all from me. I hand over back to Bernard to take Q&A.

Bernard Berson
I suppose we will open first in the room if there are any questions. Obviously Nick couldn't resist the invitation. Thanks Nick. We are limiting you to five questions.

Nick
[Inaudible] warehousing and distribution side. We see it referenced again here and in Australia previously. Where do you believe you are in this journey? I know it is a strategic focus but those are relatively small countries in a way. So just to get a sense of the level of investment. It is obviously there for the future growth, which is great. I'm just wondering where you think you are positioned.

Bernard Berson
I think we are substantially down the path. It doesn't mean it ends, but I certainly think we're over the hump of what we did. If our growth continues in the UK for example at the rate that it's continuing in the independent free trade direct national type of business, we estimate we need a new depo every 18 months to two years. And each new depot comes at a cost of £15 million. So we're not talking a huge amount of money overall, but it's that constant investment that you need to put in to enable the future growth. And you have to do this five years ahead of the curve, three or five years ahead of the curve. In Australia we are substantially through that programme, and that will drop off relatively quickly.

New Zealand have still got a way to go because of the growth that they've had over many years, when you're growing your top line at 10% over a ten or 15 year period It has been 20 years on the 1st April by the way in New Zealand. And just to put that in perspective, we have taken the business from R15 million revenue to R1.3 billion this year over 20 years in a stable currency. You need to put some infrastructure in. And when you look at the quantum we've put in it's actually not all that significant, which obviously generates the profit growth. Overall we're comfortable at that 2% level. We're going to be slightly above it this year I believe, but then we should trend down to 1.5% until we see the necessity to reinvest as well, because if you don't reinvest you are going to starve yourself for growth in years to come.

Nick
Secondly, you've been struggling in fresh in the UK for an extended period of time for various reasons. Obviously you're closing it down now in Australia. I'm wondering what you see is the opportunity to assist in that smaller wholesale market in the UK or other jurisdictions.

Bernard Berson
I don't think you can make the connection and say the two are the same. And you need to look at the circumstances of each individually. In Australia it was a profitable business. It wasn't core. Strategically we were competing against smaller operators. We are a corporate with lots of structure and governance and procedures etc. which made it a little bit more difficult. And when the opportunity arose to sell it we took advantage of that. In New Zealand their fresh business is a very strong contributor and continues to be a strong contributor, bearing in mind though that fresh type businesses are far more cyclical than baked bean businesses. The price of your product on fresh – and it could be produce, meat, seafood, whatever it is – is very volatile. It can be day to day volatile, whereas on our food service business there is far less volatility.

In the UK in our fresh business there, yes, it has gone on for a few years. Three years. But what's interesting is that when you split that up the seafood business has performed exceptionally well in a tough market. In the casual dining market which has been very tough in the UK they have maintained their position and their profitability. The issues that we've had there have absolutely been own goals. First in the meat business we managed to shoot ourselves in the left foot. And in the produce business a year later we managed to shoot ourselves in the right foot. We just have to take those issues on the chin. We're only human. Our team are only human. We do make a few mistakes once in a while. We don't believe it's all a structural issue. I know I sound maybe a little bit harsh, but it was down to a management issue. It was some poorly executed decisions which we're now paying the price for. We will rectify them. With both the meat business and the produce business in the UK they are both fundamentally good businesses which have performed very strongly in the past, and we believe we can get them back to that type of position.

Nick
Finally just on Australia, we are obviously still getting this exiting of contracts still going on so the top line hasn't done much from what we see. There was major investment going into the new warehouse and distribution around the major cities. Is it possible to give us any colour on what you've seen as a result of that, whether it is from a volume or new customer wins perspective? We know it's a mature market. There is obviously a focus around that.

Bernard
What you can see is the margins out of Australasia have gone up. And that's both Australia and New Zealand. So they have both contributed to it. It's not like Australia went down and New Zealand went up more and on average it went up. Both businesses showed an increase. So in Australia the revenue is in fact flat and that's because you've got the exiting of fresh. You've got the exiting of the residual logistics type customer, and you've still got some cycling out of some other business. But you've got a whole lot of new business. And I don't want to call it independent business because it's not. It's correct business. And correct business is quite a large basket of customers. It is coming on at the rate of 5% to 6% in Australia at the moment, bearing in mind Australia is not

in a great place. The economy is tough there. You've got the impact of the fires, now the floods and whatever else. So they are getting real growth.

If you look at what they did in splitting the metro distribution, in Melbourne, which is the one we've been at the longest, we have still seen phenomenal growth. I don't know what the number is, but I don't think I'm far wrong with saying our profitability is up 20% or 30%. And this is now the second year in a row. Brisbane, south-east Queensland and Sydney are a little bit slower, but we are absolutely seeing the benefit of that. Very focussed businesses, absolutely picking up customers in the right space. The one issue that you have to contend with at the same time is a little bit of margin pressure. Because the economy is not so great everybody is out there chasing a little bit of business, which does put a little bit of pressure on margin, but we will fight for our patch. And that goes for most markets. The margin pressures are a little bit there, and that goes with the cycle. Are there any others on the floor here? No. Okay, I think we're going to go to the web. You're going to read the questions out?

Webcast
[Inaudible question].

Bernard Berson
We are seeing it. There is some pressure on margin on protein, biggest in the pork category where we have the impact of the African swine fever. But it is only one part of our portfolio. Once again you've got this diversification that our product range isn't necessarily protein focussed or vegetable focussed or processed or poultry or whatever else. It's a broad product range that we have. And by and large we have been able to pass on a significant amount of the price increase through to the customer because that's the nature of the business and the customer base that we do have. But we're not taking a long-term view in our pricing with customers. We're not fixing pricing for a year or two or three years precisely for those reasons. So there has been some upward pressure on protein prices. Those are actually expected to come off quite quickly. You've got demand that has fallen off the edge of a cliff in China now. Consumption is down quite dramatically. As I understand the impact of the African swine fever is diminishing relatively quickly and the herd is getting back up to speed again. Apparently beef prices are on the way down because there is more supply out there as conditions have changed in various markets. So we absolutely did feel some of it, but through our resilient business model we're able to navigate that without too significant an impact on the overall profitability.

Webcast
Another question from [inaudible segment]. You have a positive outlook for the UK and you [inaudible segment] but you have announced [inaudible segment] a non-core asset. So how are these two acquisitions different? Is there still a definite market for [unclear] and has your strategic direction for the UK changed [inaudible segment].

Bernard Berson
Let me try answer the question as best I can. Best Food is a logistics operator whose customers are the chain restaurants, KFC, Burger King, Pret a Manger etc. and not a broad line food service wholesaler. And we determined about three years ago that that wasn't our core focus. We would rather focus on the broad line food service market. And we earmarked the Best Food business for disposal, and that disposal will complete the first week in March. Our strategy hasn't changed at all. We are very focussed on the food service market, not the logistics market, where we have a role to play in both the buying and selling element of what we do as opposed

to just being a mover of cartons. We see ourselves as a value-add participant, not just a function of moving stuff from A to B. So we haven't changed at all.

The acquisitions which I think you are referring to in the UK firstly is Elite, which is a local food service wholesaler selling to local restaurants, hotels, pubs etc. in some fancy area in the UK. I'm looking at Andrew to tell me where this area is. Brighton of all places. And I think the previous one was Punjab Kitchen, which is now Simply Food Solutions, which is part of our vertical integration/production/manufacturing value-add strategy. That acquisition has been very beneficial for us and there are a lot of learnings out of that that can be applied to the rest of the group. I think you mentioned own goals. We put three into the own goal category, which is fresh UK, Spain and Germany, which are our challenges and our opportunities for the future. I think it would be a more upsetting story for all of you guys if we said there are no opportunities, no upside in what we do. Of course there is upside. There are still things to fix. There is still upside in all our businesses. And even from the problem children obviously we are expecting big things in the next short while.

Webcast
[Inaudible segment].

Bernard Berson
Look, I think it's a bit premature to say what's going to happen in China because nobody knows. At this point in time as you saw with Apple yesterday saying that their supply chains are severely disrupted, China is basically closed for business at the moment. They are attempting to reopen it very slowly, but time will tell how that transpires. We have a very well-established presence in China. We have been there for the last 14 years. We are in 26 cities. We employ about 1,500 or 2,000 people. So we are very well established and we are very focused on what the opportunities might bring. And I don't know whether it's going to be organic growth or acquisition, or you organically grow because your opposition can't carry on doing what they were doing before and a few might fall by the wayside. So we just have to wait and see, see what opportunities arise out of that. But like I say, I think our business model, our agility and our financial strength give us the ability to react very quickly, nimbly and proactively as market conditions change. Are there any more?

Webcast
No.

Bernard Berson
Telephone lines. I don't know how that's coming in.

Operator
We have no questions on the audio line.

Bernard Berson
Thank you everybody. I think we've got some food outside there for you. Thank you all for attending. I'm not sure we'll see you in Cape Town in August. We will be back in Johannesburg. So those of you who are in Jo'burg, don't move. We will see you in August. Thank you everybody.

END OF TRANSCRIPT