BIDVEST'S HEADLINE EARNINGS INCREASE DESPITE CHALLENGING CONDITIONS

Bidvest successfully unbundled its food service operations and separately listed Bid Corporation Limited (Bidcorp) on the JSE Limited on 30 May 2016.

SALIENT FEATURES

- ***Successful unbundling and listing of Bidcorp on 30 May 2016 adds significant value to shareholders***
- ***Divisional restructuring positions the Group well for growth***
- ***Trading profit 3% higher at R5.8 billion***
- ***Four of the seven divisions record increases in trading profits in a difficult economic environment***
- ***Headline earnings per share (HEPS) from continuing operations increases by 2.5% to 1054.1 cents***
- ***Strong balance sheet maintained***
- ***Cash generated 17% higher on a like-for-like basis, at R7 billion***
- ***Final dividend declared of 232 cents per share***

Johannesburg, 29 August 2016: The Bidvest Group has delivered creditable trading results against the backdrop of challenging market conditions in the southern African region.

Headline earnings per share (HEPS) for continuing operations increased by 2.5% to 1 054.1 cents (2015: 1 028.9 cents). The mark-to-market alignment of listed associates and investments including the R595 million impairment of Adcock Ingram, reduced basic earnings per share (EPS) for continuing operations by 28.6% to 692.6 cents (2015: 969.9 cents).

Bidvest was restructured into seven divisions during the year: Automotive, Commercial Products, Electrical, Financial Services, Freight, Office & Print and Services. The Group continues to hold investments in Bidvest Namibia (52%), other assets and investments including Bidvest Properties, Adcock Ingram (38.4%), Comair (27.2%), Cullinan Holdings (19.5%), Ontime Automotive (100%) and the DH Mansfield Group (80%), in the United Kingdom, Mumbai Airport (6.75%) as well as other listed and unlisted investments.

The Commercial Products, Financial Services, Electrical and Services divisions delivered improved contributions, while the Freight division's trading profit was marginally lower than last year, largely as a result of declining commodity volumes due to the slow-down in the resources sector. Automotive has been negatively affected by the decline in vehicle sales, while Office and Print disposed of the Océ business and did not repeat a large export order in this financial year. Bidvest Namibia continues to be impacted by declining fish quotas.

The food services business has been treated as a discontinued operation and comparatives have been re-presented accordingly, and the details thereof have been disclosed in the financial statements. The commentary in this announcement will focus on Bidvest's continuing operations. The unbundling transaction resulted in an accounting profit of R76.3 billion, which was distributed to shareholders by way of a dividend in specie on 30 May 2016.

Bidvest Chief Executive, Lindsay Ralphs, commented, “The successful and value enhancing unbundling has allowed our management team to move forward with a refocused platform from which to pursue growth. Our stakeholders will benefit in future from a greater visibility of our continued operations, and their potential values”.

In line with the Group dividend policy, the directors have declared a final gross cash dividend of 232 cents per ordinary share for the year ended 30 June 2016. This brings the total dividend for the year to 714 cents per share (2015: 909 cents).

Mr Ralphs added, “On behalf of the board of directors and the management of Bidvest, we would like to pay tribute to Mr Brian Joffe, the founder of Bidvest, who now has the distinction of having created two exceptional groups in one generation. We are intent on striving to perpetuate the business heritage that he has built”.

Financial overview

Revenue increased 3.6% to R68.2 billion (2015: R65.9 billion). Gross profit margin increased to 21,7% (2015: 21,4%). This improvement is a consequence of portfolio mix benefits achieved by shedding low margin revenue through the disposal of the Cash-in-Transit business in 2015 and the acquisition of better margin businesses such as Novel and Plumblink in 2016.

Operating expenses increased by 6,3%, while the operating expense ratio at 21,4% (2015: 20,8%) edged up slightly.

Trading profit rose by 3,0% to R5,8 billion (2015: R5,6 billion) and the trading profit margin was stable at 8,4%. The main contributors to the increase were the Commercial Products, Financial Services, Electrical and Services divisions, as well as Bidvest Properties.

Net finance charges were 13,7% higher at R922 million (2015: R811 million), with the increase largely attributable to the various acquisitions, an increased prime interest rate, as well as finance raised to acquire additional Adcock Ingram shares.

Profits from associate earnings reflected a decline of 25,9% after the write off of non-headline items in associates. Prior to these non-headline items, the share of profit from associates increased by 5%.

Headline earnings increased by 3,6% to R3,5 billion.

Cash generated by operations at R7,0 billion was, on a like-for-like basis, 17% higher than the R6,0 billion generated in the prior year. The Group released R296 million of working capital in 2016 compared to an absorption of R725 million in 2015. This reflects an excellent working capital management result.

Net debt decreased from R7,8 billion to R5,0 billion in the main as a consequence of the unbundling.

Bidvest remains well capitalised in line with its conservative approach to gearing, with EBITDA interest cover at 8,0 times (2015: 8,7 times). This is comfortably above the Group's conservative self-imposed target, providing ample capacity for further expansion.

Acquisitions

In the first half of the year, Plumblink was acquired in South Africa; and Novel Ford in Namibia. In the second half of the year, Bidvest Insurance acquired Glassock & Associates.

After year-end, Bidvest announced the acquisition of 100% of Brandcorp, which will enable Bidvest to add various niche industrial and consumer products into its portfolio of existing services and offerings. The acquisition is very close to finalisation pending final Competition Tribunal approval. The Brandcorp portfolio will form part of the Bidvest's Commercial Products division.

At divisional level, we have continued to make a variety of bolt-on acquisitions such as Bidvest Insurance's purchase of FMI, a life insurance underwriting manager.

Prospects

Bidvest's internal divisional restructuring and the unbundling of the food services unit, has positioned the Group well for its next growth phase. Bidvest's management teams, which are unchanged following the restructuring initiatives, remain focused on moving their respective divisions further up the value curve.

The Group's financial position remains sound, cash generation is strong and it retains adequate headroom to accommodate expansion opportunities. At corporate and operational level, management is assessing and implementing plans for real growth and pursuing selective local and international opportunities to complement the existing product and service offering. Our Other Assets and Investments will also be very closely scrutinised and decisions will be taken on the best way forward for these assets.

As one of South Africa' s largest employers and a significant investor in the local economy, Bidvest shares the concerns that have been raised by business leadership relating to the ongoing disruption of some of our country's most important economic institutions. We appeal for a rapid resolution of this current state of affairs.

Divisional review

Services

This is a large and diverse division operating in numerous areas of service. The business has operated well and remains resilient to the volatility of economic cycles recording an increase in operating profit of 6,0%. The Cash-In-Transit business that was sold in 2015 has been included in the prior-year results for seven months. Excellent results were posted by BidAir, Security, Cleaning and Bidtrack.

Freight

Global freight trade remained depressed, and as a consequence, volumes declined. This division's focus in 2016 has therefore been on innovation and flexibility in an effort to contain costs and enhance efficiencies. The 3,8% decline in trading profit is considered satisfactory given the significant decline in the movement of commodities – particularly minerals – out of the country. Grain imports assisted marginally in the last quarter. The continued import of grain will be positive for this division in the new financial year.

Office and Print

Growth and spending within corporate South Africa remains constrained, which culminated in a 4,9% decline in trading profit for the year, after the delivery of pleasing results for the first half. The second half performance in the prior year included a significant once-off profit of an export contract and the inclusion of Océ, which was subsequently sold. Excellent results were reported in Konica Minolta, Silveray, Cecil Nurse, Kolok, and a number of the Paper and Print businesses, reflecting a double digit increase.

Automotive

The Motor Retail and Car Rental divisions performed in line with a depressed motor retail market. The market was impacted by a general decline in demand, particularly in the luxury vehicle sector, as well as high vehicle inflation and severe margin pressure in new vehicles. The net result was a 7,8% decline in trading profit. The second-hand vehicle market is beginning to show more activity. This division includes a number of brands that have performed poorly and which the Group is in the process of exiting.

Financial Services

Bidvest Bank and the Insurance division performed well. Bidvest Bank improved trading profit by 30%, and the insurance company performed satisfactorily, but was impacted by the decline in the mark-to-market profits of its equity portfolio. This division posted an overall increased trading profit of 10,4%.

Commercial Products

The division produced outstanding results across the board. Of the 10 business units in the division, eight achieved strong double-digit increases in profit and, together with the Plumblink acquisition which exceeded management's expectation, delivered a 41,8% increase in trading profit. At the end of the financial year, Bidvest announced its intention to acquire 100% of Brandcorp, which is now in the final stages of Competition Tribunal approval. Cash generation was strong, considering that volumes are under pressure as a result of the continued subdued market conditions.

Electrical

The division faced difficult trading conditions in its core industries – construction, mining and Government infrastructure spend. The increase in turnover of 2,3% improved margin, and an increase in trading profit of 4,1% is commendable. Management has been successful in diversifying its income streams into renewable energy (solar geysers) and retrofitting low power consumption lighting (LED technology), which has benefited the profit performance in the current year.

Bidvest Namibia (52% share)

Macro-economic factors contributed to a disappointing overall performance, with the trading profit declining 25,9%, as fishing quotas were once again reduced. The size of the vessel fleet is being reduced and cost-reduction programmes have been put in place. The Commercial Products, Freight and Distribution businesses continue to suffer from the weak economy, while the recently acquired Novel Motors has performed in line with management expectations. All other businesses in this division showed a double-digit increase in performance.

Bidvest Corporate and Investments

Bidvest Properties performed well and continues to be of key strategic importance to the Group. Ontime Automotive and the DH Mansfield Group, both in the UK, remained loss making and will be addressed in the 2017 financial year.

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