Bidvest plc
Results for the half-year ended December 31 2002

Conference call – February 18 2003

Welcome to the Bidvest plc interim results conference call. I would like to hand the conference over to Brian Joffe.

Brian Joffe

Good morning, thank you to the people in the UK for getting up early and the people in Australia that are ready to go to bed. Welcome to what we consider to be very good results. I'm not going to deal with each location myself; I will let Fred and Bernard deal with those.

Overall I think these results are beyond our expectations, in difficult and uncertain times. I think the management has done a very, very good job.

One comment about the total in the cash flow. There may be a question mark on the working capital, as the cash generated number is a little lower than it was in the previous year. That is mainly as a result of us having accelerated our creditors' payments a little. This is an area that has been rectified a month after, so it is really just a timing difference.

So other than that, both results-wise and asset management-wise, we are happy. Another feature, you will notice, is that in Australia, the business decision to contract business and rid themselves of unprofitable contracts is paying some dividends, but Bernard can discuss that more fully.

As I said, and I'm repeating myself, I think from our perspective we, as shareholders, are very happy with the results.

A general comment as to the next six months. I think the next six months is very uncertain - not relative only to our particular business - but I think that with the uncertain times with the Iraq war, etc - the impact that may have on business is uncertain. Not withstanding that, I'm confident that we will deliver above average results. Maybe the percentage increases in the second half may not be as big as the first half but I think that we will deliver a very good result.

I hand over to, A for Australia first, Bernard –

Bernard Berson

Thanks Brian, from an Australian/New Zealand point of view we're pretty satisfied with the results.

Just covering Australia first, as Brian said, we went through an exercise of reviewing the business we acquired with John Lewis and exiting out of unprofitable business. As a result, turnover in Australia only grew by 4,5% in the six months, but if we exclude the impact of the business that we walked away from, basically there has been a 10% increase in the business, which we are happy with.

We are now starting to see the benefits of the John Lewis acquisition and we're operating at the percentage EBIT levels that we were before we did the acquisition. We should hopefully start leveraging some of the true synergies out of the deal that we anticipated when we went into it. Going into it we did say it would take eighteen months to two years and I think we've been spot-on with those numbers. We also said turnover growth wouldn't be our objective and we've been pretty spot-on with that too. So to achieve a 3% EBIT out of that on a 4, 5% increase in sales, we are certainly heading the right way.

As the accounts show we acquired a small business in Western Australia. It only turns over 12 million dollars a year and we only acquired it in October, so it really didn't contribute to any significant degree in the period under review. At the moment it's a small business but we've got high hopes for that and we're sure in a small period of time it will be a relatively large business.

From a New Zealand point of view, that business continues to perform very well. There have been no acquisitions there in the last year. We've had turnover increasing by 10%, operating profit increasing by 43% and in New Zealand dollars by about 33%. That's progressing well, and as the only real national player in New Zealand, we have consolidated the industry there and look forward to more of the same and generating high levels of return as we go along.

Our problem area in Australia remains Melbourne, which for us is unprofitable. It is a John Lewis business, and we've bought a new property for that to relocate to, which will save us a substantial amount of money on occupancy cost. We're hoping that will be the major catalyst in fixing that business and hopefully when we talk in six months time, I'll be able to report we've turned the corner there and are seeing some major improvements.

Generally, the market here is relatively flat, there is no great excitement coming out of it. There's a lot of nervousness and a lot of caution around, and we are performing adequately in that environment. That is an overall summary.

Brian Joffe

Okay, Fred do you want to pick up?

Fred Barnes

Thank you. Speaking from a UK point of view, 3663 has had another very good period, and I'm very pleased with the result, I think the team has done a cracking job. Total sales are up 7% and profit is up 22%, even though we've had to swallow some exceptional costs, particularly where insurance premiums are concerned.

We've had improved performances across all of the divisions, which is particularly pleasing. There has been good sales growth across all the divisions, with the exception perhaps of the MoD, where we are up against the same period last year where we were doing a major exercise in Oman.

So profit improvement has been driven very much by margin growth and that comes from both buying activity and targeted sales price increases, so we are very pleased with that.

In the UK the evidence points towards the market continuing to be pretty flat. We're not served at the moment with particularly credible market statistics. But we do have a fair amount of customer performances all the way across the range from independent to national, as well as supplier feedback and what data there is, so things are still pretty flat, which indicates that we're taking our benefit from our competitors.

An element of our sales focus is certainly due to the year-on-year impact of the business won in the second half of the year last year. In the trading division we won *Avenonce* and *Green King,* which were significant. And then in Logistics we won Six Continents and Laurel Pubs so the full year effect of that fed through to some degree. All in all a pretty good performance.

If I take the trading division first, sales are up 9% and profit growth has come from both Multi-Temperature and from Frozen. First Multi-Temp, sales are up 7% with good gains on independent and national. This business is pretty close to capacity, so we've been looking to improve margins, wherever possible, as opposed to going for big sales increases, both through the additional buying benefit out and the pricing out.

This success has more than offset the pressure on overheads, but we still have a fair amount of pressure on labour costs and, as I said, some of these other costs, like insurance.

We have in Multi-Temperature finished our first depot extension, so we're progressively dealing with our capacity issue and the efficiency issue. The Salisbury depot is complete and we've started to build on a replacement depot in Nottingham, which will take the best part of the year.

In the Frozen division, sales are up 12%. Again the sales growth came from both independent and national. On the national side most of the wins are coming from smaller, national accounts and we are concentrating our efforts on that. We took a company called Stanley Leisure and some local authorities, because on the major national account front, competition is still fierce with a three-way fight between ourselves, Brakes and Woodwards. So we are concentrating on those middle account areas.

As with Multi-Temp, buying benefits pushed up by gross margins in the year. We still have some cost pressures within that business, and actually we were probably a little slow towards the end of the year at reacting to the market conditions. We should probably have taken costs out a couple of months earlier but we've certainly seen in the first two terms of this year that we've taken the right cost actions in that business.

On Logistics, sales are up 5%, as I said earlier all of that in CD none of it in MoD. The new contracts won in March 2002 account for most of the growth, the Six Continents, as I mentioned, and Laurel Pubs. One or two of our larger customers are experiencing some problems and they are trading down, I don't think I should really go into who they are, but we've seen some below targeted performance. We've not been affected by that, the open book contracts have helped us on that, that is why the sales number is less. It bears out, I think, that our trading divisions are out-performing the market. If you strip out the new wins, you can see that selections of larger customers are struggling to achieve last years' numbers. There is, however, evidence of some growth in that market in January, so its looks quite good.

MoD division's sales are flat year-on-year and as I said the income is slightly down because of Oman operation last year and, of course, the activity in Afghanistan has scaled down.

I will just mention mymarket at this stage. We are quite pleased with how we are progressing. We think it is a real asset for the business over here, we launched it about six months ago and we now have several large customers who are somewhere between pilot and roll out. We're doing business already with Burger King, Holiday Inn Express and Bornes Leisure. They are pretty significant national accounts and we have got many more prospects, to the point where really we have to be quite careful about resources for on-boarding the accounts. We don't want to make a mess of it and we don't want to reflect badly on the core business. Our strategy is to get the business volume going through by getting some big nationals on, then concentrating on the independents. We are quite pleased with how that activity is going.

Looking forward, January sales growth very similar to the first half. We are quite optimistic and February is going well as well. Provided that we don't have any major world disasters, we are very confident in how we are progressing. We've had a great first half and the second half is promising, the outlook is pretty good.

Brian Joffe

We would like to thank everyone for taking the time out to join us.

That concludes the Bidvest plc conference call.