Conference Call Transcript

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INVESTOR TRIP

Lindsay Ralphs

Good morning everybody. A very warm welcome to Bidvest and more particularly to the wonderful world of Yamaha. I hope you have all got a chance at tea breaks or maybe a bit later to take a good walk around here and see what we do. I think the whole intention of the next few days is to show you exactly what Bidvest does. We can't take you to all of our operations. We're going to take you to some of our strategic operations. We'll take you to some of our innovative operations. And hopefully you will get a really good feel for and understanding of the Bidvest group. I know that we have done a few road shows in the past, but mainly to Durban to our terminals. A lot of you haven't really had the opportunity before to actually get a hands-on feel for what we do.

So I would like to thank Ilse for putting it together and I would like to thank you all very much for coming all the way up from Cape Town some of you, and the rest of you guys I think are mostly from Jo'burg. So thank you and welcome. On my right I have my executive team. Peter Meijer, I think most of you have met, seen or heard of him. He's my Finance Director. And our two Executive Directors, Mpumi Madisa and Gillian McMahon. They will all be presenting today their relative sections of responsibility to the Bidvest group. At the end of this session we will have a Q&A. please feel free to ask us as many questions as you would like, any questions. You can ask us all the difficult ones.

I think we can get going. I think what is very important to realise about Bidvest is that we like to operate in the trading distribution and service industries. What we have been very anxious to do is to keep the businesses very simple. So when you go to our site visits today and tomorrow you're going to see that we operate in very straightforward industries. And when we target acquisitions we look for simple, straightforward, annuity-based businesses. And if they are trading businesses we don't get involved in complicated manufacturing. We don't get involved in complicated products. So I think you're going to be very impressed to see that when we go to places like Plumblink you will see plumbing supplies. When we go to places like Solid State you will see some innovative stuff that we're doing. When we go to G. Fox you will see a trading and distribution business in its simplistic form. And that really is what we do.

I think all of you are aware of the different activities we have. We're obviously in automotive. I'm not going to go into all the detail today about all of the divisions because over the next two days each of our CEOs will present their division to you in a lot more detail. But we have an automotive division, we've got a commercial products division, we've got a large electrical division, we've got a niche financial services business, a very large freight operation, an office and print business, and the final one is services. And those are the seven core activities. Those are the activities that we are very comfortable to operate in.

Just looking at our strategy because I think that's really where you guys are interested to hear what we're all about, we want to focus on growth in those seven core areas of activity that we've just mentioned. We are very keen on innovation because we do understand that businesses are changing. And I know I'm repeating myself but you're going to see a bit of that over the next two days. We are looking at local bolt-on acquisitions. We continue to believe in South Africa notwithstanding what's happening in the economy. We will invest in local bolt-ons and we will invest in local infrastructure particularly in our freight operation. We do intend to internationalise in niche areas of expertise. There are one or two areas that we've identified, mainly services and commercial products. And I will touch on that a little later. Peter Meijer is going to talk to you about cash generation and asset management. And that remains an extremely important focus of our business model and strategy.

Just looking at the actual business model itself it really is a very nice plan. We represent SA Inc. in many ways. It is a very nice blend of defensive, cyclical and growth assets. And we are very comfortable to operate in all of those. Some people say to us why are you comfortable in cyclical assets? Because when the cycle turns up, and automotive is a classic example of that, we do extremely well out of automotive. At the moment the cycle is down as you all know, but it only dips and we have no doubt that it will recover. So we're comfortable with the areas of activity we're in. we would like to be diversified. We are very asset light and very cash generative. Those are really the core issues of how we look at things.

Without being arrogant we like to be dominant in the markets in which we operate. We don't like to be small players. We like to be big. And when we bought Brandcorp we bought the biggest tool wholesaler in the country. And it's not a matter of arrogance. It's just a hell of a lot easier to play in markets if you're a serious player in a market. I think that makes obvious sense. Even in our financial services business although we're very small relative to the big financial markets in the areas in which we play – and Japie will touch on that in his presentation – we're a large player in those niche areas of activity.

The entrepreneurial and decentralised approach which we've had, you're going to pick that up in your tour for the next two days. The guys where we go and visit will present themselves, and you will see that they are owner manager type people. Many of them were acquired through acquisition. And even though we own 100% of these businesses they remain with the concept that they actually are the owners of the business. And I hope that will come through to you quite clearly over the next two days. I think we have got a very strong record of capital allocation. I think we have bought well. I can think of very few assets other than our non-core assets, which I will touch on, where the capital allocation has not been very good. So that remains a very key element of our business. Some of the core values that we have are respect, honesty, integrity and accountability. In Bidvest we don't have manuals. We don't have human resource manuals or leave manuals, we really believe that good ethics come from the heart and that's how we drive our business forward.

The next slide shows a track record of our growth, our consistency, resilience etc. I'm not going to go through it in detail. If you've got any questions you can please just ask them. You can see on the bottom left side that the total returns of our business are not as good as the South African core returns, and that will lead us on to what we're going to do with our non-core assets. Just to give you a strategic update, the expected upturn when I spoke last to you after our interim results did materialise. And our Q3 was actually quite a good quarter for us. That's January through March. But since then we have seen quite a dramatic drop-off. April was a shocker. The 28th March was when Pravin was fired. April itself had many public holidays etc. And subsequent events in the political arena which I think Mpumi might touch on have clearly not been good for us. So this last quarter is going to be a tough one, not just for us but for the country. I think you need to understand that and expect that.

We are however very fortunate to have a lot of contractual and annuity-based businesses and we continue to focus on adding additional annuity-based businesses to our model. The government and parastatal industries are unfortunately in flux. Again I think Mpumi might touch on it. Many of them have acting CEOs. Many tenders are just being extended and extended, and decisions are not being made in government circles. With regard to local bolt-ons the Brandcorp acquisition effective 1 October 2016 has bedded down very well. We're very happy with that acquisition. The business focus in that business has been sharpened. And Howard Greenstein will talk to you over the next day or so.

International expansion, we have identified several opportunities on the international front in the specific areas in which we're comfortable, services and commercial products. And we are active. Nothing has happened as such yet, otherwise we would have put out cautionaries, but we are active in pursuing certain opportunities that have come our way. With regard to our non-core portfolio the monetisation of these is work in progress. We've got to be very, very cautious about how we tackle this. You know that we own a big slug of Adcock and a big slug of Comair. We own some of Cullinan, we own Cargo Carriers etc.

Many of those businesses we have fairly intimate knowledge of them because we sit on the board. We are a big shareholder. We are active in pursuing a solution, but it needs to be the right time and the right price. Some have made some good progress and some are a little bit further behind. To give you an example we own a lot of Bidcorp and we have sold more than 50% of that. And we are in the process. We have got some offers over the last week for some of the other non-core assets. Our property portfolio is worth about R6 billion. It has been reorganised in a tax efficient manner so that we can deal with it appropriately should we need to. I will take any questions at the end of the thing on that.

Just a very quick update on services. I'm going to be very brief because as I've said before each of the CEOs is going to talk over the next few days. Our services, the core annuity-type businesses, are still doing very well. We've had some very good contract wins. Travel related services are down. That entire market has changed. We are having to remodel that entire business of ours. We are reliant on SAA. So that particular business model within services is under some stress. Our industrial cleaning service business which relies on project work is also under some pressure. And that really is Eskom in limbo, Sasol under a little bit of pressure with oil price, those types of clients, so project work has slowed down, but the rest of the annuity-based businesses are doing well.

Our freight operations, interestingly enough our agricultural volumes in the country disappointed. There were talks at times of 4 million to 5 million tonnes coming into the country because of the drought etc. But the total volume that came into the country was about 1.8 million. Anthony will deal with it in a lot more detail, but that did disappoint. But other bulk commodity volumes improved. Liquid volumes are good and air cargo volumes unfortunately have declined. But overall the freight operation is still doing fine. We have made some significant investments, circa R500 million, into liquid tank terminals. Some have been announced. We did a deal with Puma for fuel. That has commenced and we are busy with some further multi-purpose tanks which will be commissioned in the new year.

Automotive division. New vehicle demand is a little slow. Steve is talking to us from this facility today. He will give you a lot more update on that. Used vehicle volumes are a little bit up. So our overall performance of our automotive division I think is up to market expectation. In the car rental industry we have had higher car rental demand and slightly higher prices being achieved. But there is a lot of capital invested in that industry, and as I've mentioned there we do need to quite significantly de-fleet the Bidvest car rental business. And that is a little bit difficult. When the motor industry is in decline it's a more difficult issue than it would be when the market is good.

Commercial products. The consumer-related products have actually held up quite well, which has surprised us because they sell to retail. And I think it really is just a matter of some of the brands we have. Russell Hobbs is an example. A very resilient brand. But the high luxury items such as Yamaha – I hope you will all buy maybe a grand piano or a formula one bike today and push up our demand –

there we are seeing a depressed demand for our goods. The industrial-related products are delivering good results and obviously they benefit from the Brandcorp acquisition.

Just briefly on office and print, we are making some significant structural changes in this industry. We've had a deflationary environment as the Rand has reduced downwards and most of our products are imported. The businesses are being repositioned and restructured and we have moved into new innovative industries. Instead of traditional print we are getting much more involved in packaging print which is a product which is on upward demand. And I think we are going there tomorrow. You will see what we're involved with there now. Furniture demand has been depressed. That's a capital item, and capital spend has not been very good. But the niche industries in packaging and print have delivered very good results.

Our financial services business, we've made a few bolt-on acquisitions and continued to grow into niche areas. And Japie will go into a lot more detail on that. Our fleet finance business, we've secured a lot of new contracts. We are probably the largest fleet management company in the country at the moment. And that's why I say we like to be big, dominant players in the areas in which we operate. FX and the market volatility of the Rand does affect the results there, so we either do very well on certain days and we do very badly on other days. But we do close out and hedge that position on a daily basis.

Electrical, a very strong result for them considering the lack of construction and infrastructure. We've expanded into new areas of activity, alternative energy etc. And we will be showing you that over the next two days. We made a note there that the ownership change of Aberdare. Altech sold Aberdare to a Chinese organisation and they are our biggest supplier by far in that industry. And they are in the process of possibly changing their distribution model. We have got alternative options to Aberdare, so it's not really a high risk. It is a risk, but it is not a high risk because there are alternatives.

Namibia is a big problem area for us, and unfortunately being listed we do have to report on it separately. We have literally got no fishing quota left. And the quota that we got for the year would be enough for one vessel. We had about six or seven. So we have had to embark on a process of de-fleeting and selling the vessels. There is very good demand for the vessels. We just sold one last month I think for about $5 million which was a good profit for us. But the operating conditions in Namibia remain very tough. We haven't quite decided on what the end game will be. It is a listed company so we have to be very careful what we say. But we are going to have to address the fact that quota will not be forthcoming in future so an exit strategy does need to be developed, and we will report on that as we go forward. And that's really the end of my presentation. We will take questions at the end if you don't mind. I'm going to hand over to Peter Meijer just to take you through some financial issues.

Peter Meijer
Morning everybody. It's hard to do this presentation without being able to talk to some numbers, but I will keep it as broad as possible. In the various slides that we've given you in the past every six months or so we've explained our working capital expansion and contraction. And I can safely say that so far what I've seen – we've just finished our third quarter's results – our working capital is behaving exactly as expected. The expansion and contraction is predictably working the way we expected. And particularly if I look at inventory and debtors both categories are very well managed. In fact when I looked at the aging spread of our debtors book at the end of March it was in fact slightly better than it was last year. So all looking very positive for our mad rush towards the end. Inventory has also been very well controlled.

If I look at cash flow by its very nature if you control your debtors' book and your inventory very well and capex – you might recall when we presented at the last analyst presentation end of February I mentioned that our capex was less this year than last year. Our cash flow is looking much better as we predicted in the February presentation – it is still looking better and ahead of last year's performance. There are obviously key capex spends as we have mentioned here in freight and automotive and finical services, but at a lighter rate than last year overall. As a consequence the cash flow does come out better when you've got tight funds employed control.

Just looking at debt and funding, you might recall that at the February analyst presentation we said we would go off on a bondholders road show, which we did. That occurred over four days at the end of March. Some of you I met there. It was really a non-deal road show just to touch base with you guys. Unfortunately on day two Pravin was fired so it wasn't a particularly good day. But otherwise I think the road show was well received. It was good to meet with you guys. The good news is that we've now had the document refreshed and it has been approve by the JSE and we look forward to coming to the market sometime soon. There is about R1.4 billion of that long-term debt that is up for renewal in November this year and we hope to turn that out sooner rather than later.

We are just to remind you still investment grade despite the firing of Pravin, although we are under review by Moody's. We are still up there in the upper levels of being an investment grade business. We are still on a conservative net debt to EBITDA and our interest cover also still remains very conservative. Looking at our returns they also remain very stable at just around 20%. You might recall from years gone by that our businesses normally operate more around 30% and that still exists today. But obviously we are diluted by our non-core assets which when we monetise as we will be doing will bring our returns back up to around 30%.

We did mention that our average cost of debt is sitting at about 8.5%. That is more to do with the variable debt. We do have obviously fixed interest number. But the 8.5% is really on our variable interest rate debt. I think I might just add as well from an operational point of view I've noted that our expenses have been very well controlled and I look forward to keeping that in line in this last quarter. I think that covers it. Thank you.

Mpumi Madisa
Good morning. If I can talk a little bit about business development just in terms of market conditions the market continues to be tight. So I suppose what we have been feeling over the last 12 to 18 months is continuing. Margins are under pressure. Competition is high. We are still not seeing any huge volumes. If you think about construction besides the skyscrapers which we see in Sandton which is private sector driven there really isn't anything else from a volume perspective. So it remains quite competitive. And I suppose to compensate for the margin pressure that we're feeling from a services perspective we are negotiating far longer contracts with our clients so that over the period we could recover that margin that we lose upfront.

So where the service contracts are generally about three years we are negotiating five, and if the clients upfront aren't happy with the five we will negotiate a three plus an automatic two-year renewal should there be no material breaches from an SLA perspective. In terms of our trading businesses from their perspective they would obviously look at their buying patterns and their procurement patterns to be able to compensate for the margins from that perspective. So whilst it is tight there are strategies that we look at to compensate for that pressure.

In general we still see market share gains, so that's great. We are taking business away from the competition. And just to give you a sense across the group our facilities management model continues to grow. We're really excited about what we've been able to build over the last two to three years in terms of strengthening our capacity in that space. And we are seeing it in a number of contract wins whether it is 250 Vodacom buildings or Amazon or BCX the guys are doing exceptionally well.

Financial services, Lindsay spoke about our fleet leasing business. That business has always focussed on state-owned enterprises and the fleets that sit in that space, so local municipalities, because that's where the big numbers are. And that's how that business has really grown to be a market leader within that space. In the last year our focus has been on private sector and we've had a couple of breakthroughs which is great. Vodacom is just one that I've referred to, which is a fleet of just under 300 vehicles. We've got a lot of focus in that space of diversifying the scope of that business way from just being too concentrated from a government perspective but also moving into the private sector space.

Our trading businesses continue to look at alternatives and complementary services or products that they can look at. And we're seeing the growth coming from that space. So whether it is smart meters in the electrical division or alternative energy in the space of solar geysers or whether it's large-scale generators that we're taking to market etc. there is a big focus in terms of complementary services that sit outside of what is core. And then lastly I think from a new business perspective we've also got a lot of innovation-led business. So I don't want to take the thunder from my colleagues who are coming through, but things like virtual dealerships, snap drive that they will talk about, which is a first in this country in terms of car rental, those kinds of innovations are driving a lot of business. Dry ice in the services business which is basically a waterless high pressure cleaning system which is a first in the country that we're looking at, we are rolling that out in the mining and petrochemical industry. So we've got a lot of innovation-led type growth that we're also looking at.

In terms of SA Inc. I suppose it's tough. I think we all know the space we're dealing in at the moment. I think the level of unpredictability is what is making doing business in SA really challenging at the moment. With the changes that have taken place from a BLSA and CEO initiative perspective we have committed to continue working with government. And I suppose it just comes from the perspective that we've said, look, this is our country. So we need to continue investing in South Africa if we're going to help rebuild. We haven't met with the new Minister of Finance yet but we do have a meeting set up to meet with him.

We will continue working with treasury on the projects that we started with Pravin, but we've made it very clear that as we move forward into the second phase business will hold government to fiscal discipline. We will hold it to no change in the economic policy, and we have been very vocal about the things that we think should be done. So we are going to be very active citizens going forward and I hope that the partnership will be able to get us back to where we need to be. And of course going forward the thing that we need is stability and predictability. I think it is still going to be rocky until the end of the year, and after that we then have to wait for 2019 elections. So I think we have still got about 12 to 18 months of the status quo. But other than that, that's me.

Gillian McMahon

Morning everybody. I'm going to refer to the slide because I actually cannot see anything on my piece of paper. I'm obviously the most blind out of the lot. My little bit is just talking about transformation because it really does play a bit part in our lives. It always has, but I think in the last 12 months it has been elevated even more so and has become more prominent. Following on to a little bit of what Lindsay alluded to in public sector engagement as well as what Mpumi is talking about we've seen new dynamics and trends coming through our various businesses. And it's all different because our businesses operate in different sectors. They deal with different public and state departments. And there are new requirements and pressures coming through to private sector businesses from government in particular. But it's not only relevant in our public sector space. It is also in our private sector space. And as a South Africa corporation it is important for us to be positioned correctly.

So for us it is important to always continue to approach transformation on a very inclusive basis. It has to make business sense and therefore obviously be sustainable, otherwise we won't do it. We see it as quite a strategic opportunity and we do this by continually trying to forge strong relationships with our stakeholders, be it government, be it our private sector customers or the communities within which we operate. We see it as a strategic platform to actually access new markets. But the only way we can do this is by forming stronger alliances with these particularly stakeholders.

Obviously building investor confidence is important, and the only way we can do that is become more attractive as a supplier to our customers and attractive as the leading competitor in the marketplace. There is a huge compliance factor that we have to adhere to and we cannot ignore. And we have to deal with different forms of legislation. We've got the BEE Act and the codes of good practise which have recently changed in 2013. With that brought new challenges and new pressures. And we really had to turn our businesses around very quickly and efficiently to make sure that we meet the more onerous requirements. We have labour legislation, the Employment Equity Act, the Skills Development Act, and all the related legislation that goes with that.

You've got the new PPPFA which our president gazetted in 2017. That also brought with it new challenges in how we deal with government and what government expects from business in procuring services from private sector. And then we have also the new ESG requirements from an investment point of view which is your environmental, social and governance factors. We have to make sure that we are compliant and we make sure that we're actually addressing all three factors to become more attractive as an investment.

The reality is, without being depressive about it, we do have the realities that we have to deal with and it does affect our ability to implement certain things as maybe efficiently as effectively as we would like to. The current economic climate and the subsequent impact that it has on business is something that is real to us. Down-trading in our various businesses has an impact on our ability to invest as much as we would like to. Instability of the political environment, I need not say too much about that. The capacity, the funding, finances, but also not only inconsistencies but the approach as to how government are issuing tenders and how they are awarding contracts is not necessarily consistent, and that's something that we have to deal with on a fairly regular basis.

We have complex and conflicting legislations. So whilst one legislation says this thing you will generally find something else in a different sector or a public sector space that actually contradicts that. So you have to deal with it on a case by case basis. And then we also have a very limited macroeconomic framework that supports our ability to do business. So the drive for localisation to try and create more business and procure more business locally in South Africa we don't have a framework that supports that. So if you look at the manufacturing sector the labour legislation is quite onerous there, and the cost of manufacturing in this country sometimes makes it non-competitive.

From a ratings point of view I think you're all aware that we're a very de-centralised grouping of companies. So while as a group we consolidate and we do show a group rating all our business also require their own verification and BEE ratings in their own rights. I think the success story is if you look at the new codes, the new onerous codes, up to 80% of our businesses now are actually between a level one and a level four, which I think is actually quite significant considering a survey that was done on the industry, particularly private sector, where most companies have dropped to about a level seven.

So we're quite good as far as that is concerned and we will continue to try and improve that, because obviously the requirements get more and more stringent. As the time goes on our clients want more and more from us, so we have to also remain on the forefront of that.

Just from a group perspective each business is different, but when we look across the group and the discussions that we've had there are two strategic focus areas that we think are something we can attack in a more meaningful way because of our scale. And the one is obviously in our investment in training and development in both employed and unemployed. We are starting to increase the number of learnerships that we are employing across the group. A lot of this is done through training academies that have been set up in our services division, our facilities management and our security. Our automotive division also have some technical training facilities that have been set up. And they don't only train for their business. They do train for the industry as well, and we've become known as quite popular for becoming the training ground for the industry.

The investment in training if you look at the last financial year has increased year on year quite substantially. You can see there is the target of 6% of your payroll that you should be spending on different types of training. We are sitting as a group on 4.5% which is quite significant. Absorption rate, I refer to that because that addresses the challenges around youth unemployment. So whilst you are not going to solve the world's problems we are trying our level best, and that comes through the unemployed learnerships and programmes that we run. So our absorption rate, that means we are actually able to employ either within our businesses or within the industry be able to place these learners, is as high as 33% of the total learnerships that we actually employ.

And then just the SMME development and support, that is also big on our agenda. Not only is it good for our own purposes as an organisation to help small businesses develop, and we do that through increasing our procurement from SMME black-owned and black women owned businesses, but it also helps us to form stronger relationships with our customers where they are focussed on including more SMMEs in their supply chain. And they do look towards Bidvest to assist them in achieving that because the small businesses generally don't have the capacity necessary to fulfil the clients' requirements. So the conversations are becoming more and more popular as to how Bidvest can partner with them to develop an SMME as part of their supply chain. So those are the conversations that we have. We will always remain cognisant it has to make business sense for us, but it is becoming more popular.

And like I mentioned earlier this PPPFA which was recently gazetted in the beginning of 2017. Government has brought about a new rule that says with specific commodities or specific items and services that they've identified 30% has to be set aside for SMMEs. So they either do it through a partnership with a big corporate or they will actually exclude big corporates and tender the business directly to SMMEs. And that also comes about with closer engagement with government. So that's about it. But I suppose just to assure you it is a big part of our lives. For Bidvest there is no one size fits all. We are learning as we go along as well and as these new requirements come about we try and deal with it on a case by case basis. But we always try our level best to do what's right for our businesses. Thanks.

Lindsay Ralphs
Thanks everybody. I would like to take questions, the Q&A session. I will just take the mic over to the table and you can ask questions from any of the guys.

Nick Webster

Morning. It's Nick Webster at HSBC. The first question is just really on the acquisition side. I know you can't talk specifics. I'm just thinking you've talked about having say $1 billion to spend roughly, that sort of number. Is that the sort of deal you are still pursuing? Or are you also looking at smaller size acquisitions to gain a footprint? That's the first part. And I guess secondary to that, what are your criteria around the multiples you're prepared to pay and looking at returns given significant differences in cost of funding and obviously the high prices that a lot of service based companies if we use the UK as an example typically trade at?

Lindsay Ralphs
Thank you very much. To answer the first part of the question we really look at all the opportunities that come our way. There are a couple of very large ones, there are some medium-sized ones and some smaller ones. A lot of them are run through private equity type disposal processes. So as long as we're comfortable that we have adequate funding for it we will enter that process. In some cases we've got more than adequate funding. So it really depends on what is available in the market from quarter to quarter. So I think we would look at different sized acquisitions. We have gone on record to say that we don't really want to be a small fish in a big pond. So we would tend to be looking at fairly sizeable acquisitions if that answers that question.

The type of multiples you're having to pay around the world for service businesses are approximately 8 to 10 times EBITDA. That's the type of multiples that we're seeing in the market at the moment. What was the last part? The returns. Obviously with the tax rates in many parts of the world being at very low interest rates of 2.5% or 3% we would be able to fund it overseas with non-secured funding. We do our accretive exercises extensively to ensure that they will be earnings-enhancing.

Male speaker
Hi Lindsay. In a couple of the comments you mentioned that you do business with government and there is a bit of a slowdown in activity or ineffectiveness or incapacity by government to properly do business and award tenders. Can you give an indication across the group what your exposure to government is?

Lindsay Ralphs
There are numerous tenders that we have that have just been extended and extended and extended year after year after year. We have a particular tender with the Gaming Board as an example, but there is no Gaming Board. It was dissolved three years ago and it hasn't been reconstituted. I mean that gives you an example. There is no National Gaming Board. So we've had other contracts similarly just through inefficiencies come to the end of its cycle and two years later we're still doing the work. So there are pros and cons. The extent of how much business we do with government varies from division to division. If you take Steve's automotive division all government and municipalities etc. buy their vehicles direct from the OEM. So we do zero business with government there other than some service and some parts that they might use us for. In other cases it might be as high as 20% in some of our divisions. And the circa number is probably between 8% and 10% for our total group. So it's big because our turnover is nearly R100 billion, but it is not critical. And a lot of those contracts we do have in place and are in for a three-year term as an example. I don't know if Gill wants to add.

Gillian McMahon
I've got nothing else to add to that, but Lindsay's right. So whilst our exposure at this point is not excessive it is within that range. Lindsay is right. And it does vary from division to division. But it's still something we can't really ignore at the end of it.

Lindsay Ralphs

We also have quite a lot of business that we do indirectly to government. In our fleet management business as an example we have a lot of work with municipalities. But it is through a third party. So it is not our direct contract with the municipality. It would be through a subcontracting party.

Female speaker
Thank you very much. Just two questions. The first one is on the property. And I'm assuming when you say a tax efficient structure you mean a REIT. Will you maintain 100% ownership after you have engaged in the structure or would there be some cash flow that would actually come to the centre of the group? And the second question is just following up on the international acquisition. In South Africa you have a dominant stake in businesses and you own them 100%, your core businesses. Would you target something similar overseas or would you prefer a majority shareholding in a bigger business rather than a 100% shareholding in smaller business?

Lindsay Ralphs
With regards to the properties we haven't made a final decision on whether we will list a REIT or not. I think if we did we would simply make sure that we had a strategic influence on it because the properties themselves are strategic Bidvest owned rented properties for self-use. But we definitely have not decided that we're going to list a REIT. We are putting it all into a nice, organised structure. We could simply just borrow against our properties. That's a much more simple way of looking at it if ever we need funding for the acquisitions. With regards to your second question we would still much prefer our traditional stance of owning 100% of foreign businesses. And most of the opportunities we've seen so far to date the business is up for sale for 100%.

Male speaker
Lindsay, could I perhaps ask when you take a business out of private equity what do you do differently to add value? What makes you comfortable to buy these businesses? Maybe run us through when it comes out of Brandcorp what changes when Bidvest takes it over and why you're happy to pay a private equity multiple on those businesses. Thank you.

Lindsay Ralphs
Firstly the multiple that I was referring to of 8 to 10 times EBITDA, that's really for overseas assets in the service sector. We wouldn't pay that for Brandcorp as an example. I think it's really just giving them the freedom of being able to run the businesses the way they deem fit, a much more entrepreneurial approach. Capital allocation to them. Very often in private equity they hold back from a lot of their plans that they had because of the requirement for cash through those private equity models. So we really give them strategic support. We give them a lot more capital allocation and I think that frees them up quite significantly. And that's what we've really seen in the past.

Male speaker
Lindsay, just a question on Namibia. If you were to reduce your presence a lot or exit is there any cost that would come through? Presumably there is cash from selling ships. You will probably continue to own the various businesses in Namibia similar to your South African businesses. Is there is any cost that could come through if you were to do some sort of slimming down exercise as you talk about?

Lindsay Ralphs
The market capitalisation of Bidvest Namibia is about R2 billion. We only own 50% of it. The net asset value of that business is represented in hard assets by the vessels. In fact the vessels are worth more than the NAV. So we don't anticipate significant costs. We would as you correctly said retain all of the rest of the businesses because they all fall into those seven categories that we discussed earlier today with the exception of food. And I'm sure we could speak to our food friends. It was difficult to have sold

food into Bidcorp at the time because of the listing and other shareholders etc. So uniquely we have a food service business in Bidvest Namibia and that we would probably dispose of. But the rest of them fall into our seven categories.

END OF TRANSCRIPT