BIDVEST GROUP LIMITED

RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

FIVE OF BIDVEST'S SEVEN DIVISIONS DELIVER DOUBLE DIGIT GROWTH

"Bidvest has delivered a pleasing result with five of our seven divisions reporting double digit profit growth. This interim result reflects our businesses' ability to rise above structural headwinds and deliver value to all stakeholders,"
Mpumi Madisa, Chief executive.

Salient features for the six months ended 31 December 2023:

- R62.2 billion revenue, +8.8%
- R6.5 billion trading profit, +11.8%
- Improved trading profit margin of 10.5%
- Cash generated by operations almost doubled to R3.7 billion, after R4.5 billion investment in working capital
- ROFE 38.3.%
- HEPS 987.9 cents, +5.3%
- Normalised HEPS 1 051.3 cents, +6.9%
- Interim dividend of 467 cents, +6.9%

Johannesburg, 4 March 2024: Bidvest has delivered a good interim result against a pedestrian trading backdrop, characterised by stubbornly high inflation, peak interest rates and minimal underlying economic growth. Top-line growth, together with active gross margin management and strong expense control, culminated in trading profit increasing by 11.8% to R6.5 billion, over the six months ended 31 December 2023.

HEPS and Normalised HEPS[1], a measurement used by management to assess the underlying business performance, grew by 5.3% and 6.9%, respectively.

Note 1: Normalised HEPS excludes acquisition costs and amortisation of acquired customer contracts

The Group declared an interim dividend of 467 cents per share, up 6.9%.

Five of the Group's seven divisions reported double digit trading profit growth, which is commendable especially in the current very competitive and price conscious market, with close to double digit wage inflation.

- The **Freight** terminal operations benefitted from positive price mix, robust demand for bulk commodities as well as strong oil and gas activity in Namibia.

- Healthy travel and tourism-related activity continued, and new business wins culminated in exceptional profit growth reported by **Services South Africa**.
- Capitalising on pockets of niche demand, whilst keeping a tight rein on costs, boosted **Branded Products'** trading profit.
- **Services International's** pleasing organic growth on continued hygiene pool demand and new business wins was boosted by acquisitions and foreign exchange movements.
- A much improved cost-to-income ratio in Bidvest Bank was the primary driver of the core profit growth in **Financial Services**.
- **Commercial Products** navigated significant competition and an overstocked renewables supply chain to deliver a satisfactory result.
- The cyclical downturn in the automotive market coincided with high levels of excess stock which compressed **Automotive's** margin.
- **Adcock Ingram** (Adcock) delivered a flat result.

Bidvest CEO, Mpumi Madisa commented, "We have successfully executed on our growth pipeline, with numerous acquisitions concluded in South Africa, Australia, the United Kingdom and Singapore. This has added to our geographic footprint in hygiene services, enhanced geographic scale in facilities management and augmented our product and service offering.

Pursuing our strategy of building a sustainable business for the long-term, enables us to increase levels of employment, improve livelihoods, invest in skills and technology while reducing our environmental footprint and contributing to building South Africa".

Highlights

Cash generated by operations of R3.7 billion was almost double that generated in the prior interim period.

Bidvest spent R3.2 billion on acquisitions, invested in maintaining and growing the asset base, as well as awarding shareholders with a higher dividend. Despite this, gearing increased only modestly year-on-year, and the coveted cash generative nature of the Group remains firmly intact.

Return on Funds Employed (ROFE) remained stable at 38.3% since year end, a very good outcome given the growth in working capital. Return on Invested Capital (ROIC) of 15.8% compares to 16.3% in the prior year. Despite higher interest rates, this remains well above the Group's weighted cost of capital.

Financial overview

Group revenue grew 8.8% to R62.2 billion (1HFY 2023: R57.1 billion), with acquisitions boosting the growth rate by 2.8%. In largely stagnant markets, price inflation, a weaker rand against major currencies as well as new business gains were the key growth drivers.

Expenses were again well managed and increased by only 3.6%. Reduced overtime, the streamlining of businesses as well as the reduced costs associated with loadshedding mitigated the inflationary pressures.

Acquisition costs were incurred in the purchase of Consolidated Property Services Pty Limited (Consolidated) in Australia, Rental Hygiene Services (RHS) in Singapore and several bolt-on transactions, both locally and abroad.

Basic earnings per share (EPS) increased from 918.2 cents to 960.8 cents, or 4.6%, mainly due to a strong operational performance diluted by significantly higher net finance and acquisition charges as well as increased amortisation on customer contracts in the current period.

Bidvest's net debt increased by R6.8 billion since 30 June 2023 to R25.9 billion. 68.3% of net debt is offshore. Available debt funding, mainly from the multicurrency syndicated revolving credit facility, was utilised for acquisitions concluded during the period. The Group successfully refinanced maturing local bonds and preference shares, totalling R1.6 billion at more attractive interest rate spreads than previously. Robust cash generated by the operations was invested in working capital, increased capital investment and paying dividends to shareholders.

The covenant net debt to adjusted EBITDA of 2.0x compared to 1.9x as at 31 December 2022 and 1.7x as at 30 June 2023. Interest cover was 7.3x (1HFY2023: 9.4x). Group cash conversion was 26.7%, compared to 7.6% in the comparative period.

Corporate action

Acquisitions remain an integral part of the Group's growth strategy. Bidvest is participating in processes, both locally and offshore, which are in varying phases of completion. Engagement with regards to possible private sector participation in South Africa continues. As was reported in September 2023, Bidvest acquired 100% of Consolidated from its private shareholders. This acquisition doubles Bidvest's facilities management operations in Australia. RHS, a leading hygiene services business in Singapore, was also acquired. This is a small business in an attractive growth market.

Bolt-on acquisitions of Interloc, a complementary road and air freight consolidator, Brandability, a corporate promotional gift sales channel, Roan and Green Home, which have complementary products to the existing data, print and packaging portfolio offering, and a few small hygiene and facilities management services business in existing territories, became effective during the period under review.

Prospects

Madisa added, "Our scale, range of product and service offering, agility as well as sector-leading innovation, ensure that our businesses remain in a strong position to offer solutions and value-added propositions to customers, existing and new, in a competitive global market".

Traditional seasonal trading trends appear to be re-establishing in bulk commodity freight movement. This, together with the non-repeat of frenetic renewable product purchases as well as ongoing weak vehicle demand, will result in continued market pressures in the second half of the financial year.

Madisa concluded, "We remain optimistic about the Group's ongoing growth trajectory as we pursue pockets of opportunity in certain sectors such as travel and tourism. Recent strong business wins will contribute fully, and management will also remain vigilant with regards to margin and expense management. We will continue to advance our strategy and maintain our financial discipline, while collaborating with all stakeholders to build and support a brighter future".

Bidvest is actively pursuing a number of acquisition opportunities.

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NOTE TO EDITORS

The Group

Bidvest encourages a performance-driven, decentralised business model that continually seeks scale and growth. We fully empower the leadership across our diverse areas of operation – Services International, Services South Africa, Branded Products, Freight, Commercial Products, Financial Services, Automotive and Adcock Ingram – which acts as a remarkable catalyst for enduring value creation.

Divisional review

Services International

Trading profit, which rose 16.5% to R1.9 billion, grew strongly and is equally split between hygiene and facilities management services. Acquisitions, of which Consolidated is the only sizeable one, contributed to pleasing organic growth. The performance of the hygiene operations in the United Kingdom was the highlight over the past six-month period, with strong growth across our comprehensive hygiene services portfolio. Locally, the hygiene pool also grew and new business wins were encouraging. RHS, the newly acquired leading hygiene services business in Singapore, marked our entry into the ASEAN market. In South Africa, cleaning contract wins, and strategic optimisation initiatives are starting to deliver, while the integrated facilities management business fared better than expected post a material contract rescope in the prior year. New business wins continued their strong momentum in both Ireland and Australia, albeit at reduced margin. The geographic scale added by Consolidated, together with planned synergies, will add value to the operations in Australia. Trading remained challenging in the UK, particularly in securing new business and margin management, while restructuring continued. Innovation and best practice are shared across regions to differentiate businesses in home-markets. ROFE was 131.4%, which remains an acceptable return for the division.

Freight

Bidvest Freight delivered an outstanding result with trading profit increasing 16.0% to R1.3 billion. The terminal operations, which represent most of the division's profit, delivered good contributions off high bases. Modest growth in net bulk volumes handled through SA ports was the consequence of notable product mix changes with greater gas, fuel, wheat, sorghum and chrome volumes more than offsetting lower chemical, maize, manganese and coal volumes. Port operations outside of South Africa continued to benefit from a redirection of mineral volumes. In addition, operations in Namibia benefitted from strong oil and gas industry activity in the region. Operational stoppages due to inclement weather and poor Transnet marine services were experienced in the South African terminal operations during the period under review. The repurposed butane tanks in Richards Bay were commissioned in October 2023. The other capital investment projects are progressing well for commissioning during 2025. Clearing and forwarding profit grew on the back of higher air volumes and new business secured. The growth in air volumes is attributable to the ongoing port issues in South Africa. Trading was challenging for bulk packing into containers. ROFE rose to 60.1%.

Commercial Products

Trading profit increased 2.2% to R741.3 million, which is satisfactory considering the very competitive, stagnant market. Renewable energy sales, which provided exceptional growth last year, have been fairly steady year-on-year, but margins are under pressure. Restructuring and repositioning efforts, gross margin focus and tight operational expense management all contributed to a broadly flat divisional trading margin. Standout growth was delivered by the niche electrical businesses, capitalising on industrial project activity. Packaging and adhesive tape operations were driven by automotive export volume growth, as well as market share gains in materials handling, PPE, lifting and rigging, workwear, and catering equipment distribution activities. Constrained spend resulted in product substitution and reduced demand that manifested in muted performances from the balance of the businesses. Order books of the niche electrical businesses are healthy at the end of the interim period. Elevated inventory, particularly in renewable energy products, compressed ROFE from 31.0% to 27.0%.

Services South Africa

Trading profit increased 12.3% to R621.7 million, with all clusters delivering double digit growth. This is a superb result given the current economic environment in South Africa. The Travel cluster continues to benefit from healthy travel volume growth, driven by all sectors. This was echoed in the results delivered by the airport lounges within the Hospitality and Catering cluster. The biggest cluster, Security Services, achieved excellent new business growth in traditional services and through product diversification, while growth resumed in peak air cargo volumes. A bolt-on acquisition broadened the business' participation in efficient cargo movement across the country. Contract pricing pressure poses headwinds. Supply into continued robust demand for water, coffee, laundered garments supported healthy annuity income growth in the Allied cluster albeit with the added investment into rental assets. ROFE declined to 101.4% but remains within the expected target range.

Branded Products

Branded Products delivered a stellar result with trading profit growing by 23.1% to R647.4 million. Excluding acquisitions trading profit grew 18.8%. Price reduction pressure have become a common theme as consumers face inflationary inputs. Alternative power solutions and reduced loadshedding culminated in improved factory recoveries while delays at the ports during the months leading up to calendar year end, negatively impacted inventory and sales. The Office Products cluster produced exceptional trading profit growth on strong sales momentum as well as an acquisition. The Data, Print and Packaging cluster benefited from the recent acquisitions of Roan and Green Home Products while delivering a pleasing organic performance as operations pivot in response to changing demands. Despite lower consumer demand the Consumer Products cluster also delivered double digit trading profit growth, enabled by lower operating costs, enhanced efficiencies and product innovation. ROFE improved to 37.8%.

Automotive

Trading profit declined 11.4% to R365.1 million, as South Africa's automotive trading environment remains extremely difficult. Consumers are experiencing considerable strain on disposable income, negatively impacting demand. At the same time, there is an oversupply of vehicles from the Original Equipment Manufacturers and aggressive discounting which compresses gross margin. This causes a negative knock-on effect in the used vehicle market. The division's lower sales volumes mirror the nearly 5.0% contraction in South Africa's new vehicle dealer market. McCarthy's brand mix is skewed to the traditional brands, many of which are losing share to new brand entrants. The strategy to broaden the divisions' exposure to select new brands and the older segment of the used car market gained traction through the award of new dealer representation and the launch of Cubbi. Diversification remains critical to reduce cyclicality and bolt-on acquisitions are being pursued. There is emphasis on expense control and inventory management. ROFE contracted materially to 29.7%.

Financial Services

The turnaround to an improved performance is continuing with a 24.2% increase in core trading profit to R215.0 million, primarily driven by standout performances of Bidvest Bank and FinGlobal. Notably, Bidvest Bank delivered net interest income growth given higher rates, an improved cost-to-income ratio and net positive capital deployment. Additional impetus is needed in the Fleet vertical to grow the full maintenance leasing book and non-interest income. All regulatory ratios and the deposit base are healthy. FinGlobal reported significant growth, benefiting from expanded business areas. Bidvest Insurance and Compendium both experienced market pressures, and top-line growth was lower than expected. Lower claim costs and good expense control supported profit growth. Bidvest Life, reporting under a new accounting standard (IFRS17), delivered a pleasing profit turnaround, despite sales disruptions. Investment income rebounded strongly in the second quarter, but still yielded less contribution compared to the prior period. ROFE improved to 15.3% but remains below acceptable levels.

Adcock Ingram

Bidvest owns an effective 63.0% in Adcock. Revenue grew in the Consumer and Hospital divisions but was flat in the Prescription and Over-The-Counter divisions. Organic volumes declined by 5.0%, impacted by the difficult trading environment, certain inventory supply challenges caused by port delays in South Africa and lower ARV tender sales. Price realisation of 4.0% and a mix benefit of 2.0% were mitigating factors. Gross margin declined mainly due to an increase in forward exchange contract rates for products imported. Operating expenditure was well controlled yielding a largely unchanged trading profit. For more detail on the Adcock results, please refer to www.adcock.co.za.

Bidvest Properties and Corporate

The Group owns a significant property portfolio, which is mainly Bidvest occupied, and spans South Africa, Namibia and the United Kingdom. Bidvest Properties delivered a good result with trading profit up by 7.9% to R341.3 million, driven by rental escalations and declining vacancies.

Corporate costs are incurred in the governance, financial and strategic support provided from the corporate office as well as the Group socio-economic initiatives that include the Bidvest Supplier Development Programme, executive development, the SASCOC/Team SA sponsorship, etc.