BIDVEST PLC
AUDITED RESULTS FOR THE YEAR ENDED
JUNE 30 2002

CONFERENCE CALL: AUGUST 15 2002

Introduction

Good morning. Welcome to the Bidvest plc conference call. All participants are in listen only mode. There will be an opportunity for you to ask questions at the end of the presentation. The conference is being recorded. I will now hand you over to Mr Brian Joffe.

Brian Joffe:

Morning. I don't know which countries we've got over here, but I believe there is quite a big audience. This is one of those occasions where the chairman of the company has got an easy job and doesn't really have to persuade anybody on the quality of the results. The results basically speak for themselves, and this is a tribute to both those management teams in the UK under Fred Barnes, and Australasia under Bernard Berson, both of whom are on this call. There isn't much that I am going to say about results, I'll allow them each to talk about their own set of numbers, other than to say that we, as Bidvest, are extremely happy with these results.

Just one issue on accounting, you will notice an asterisk at the bottom of the numbers where, in this particular period, and this is true for Bidvest results as well, there is the depreciation charge against land and buildings for this year of £354,000 and £302,000 for last year and we have also provided for leave pay in terms of the new South African accounting standards. These accounts are pretty much in line with international accounting standards and conform to international GAAP.

I will hand over to Fred, first. Fred, maybe you want to take the listeners through your particular year.

Fred Barnes:

Thank you. We are very pleased with the results in the UK. We have built a very strong management team and the team has delivered an exceptional performance, even though the UK market was reasonably flat. We have had very strong sales that were up 17% with profit up 25%. A major feature for me was that all three of the divisions, four components if you count Logistics as being both Contract Distribution and MoD, have performed well, which is very gratifying. Good sales and growth have been seen across all of the operating divisions and the market generally was, as I said, pretty flat. I think we can improve our share of the UK market by around 1%. Growth has come from both existing customers and national competition and we've been very effective out there against the regional and local competitors, which is very important as it maintains and in some cases improves our business.

In the Trading divisions (Frozen and Multi-temperature) sales were up 19%, with contributions from both Multi-temperature and Frozen. We made quite a noise about winning a lot of Compass business. Compass contributed about £32m to the sales increase. If we took them out all together, we would still have had about a 12% sales increase. Multi-temperature was our most significant contributor with sales up by 18%. Good gains in that division were both from independent and national accounts. We had some good wins in the last quarter, not quite the same scale as Compass, but big wins nonetheless. Avenance being one, the industrial caterer, headquartered in France, at about £9m. Greene King, which is a now a national pub operation, at about £6 million. Our frozen division made good progress; we've invested a lot of money in prior years in boosting the sales force. That strategy has worked for us as our sales are up 22%.

The strongest part of performance came from our independent sector. It is a little more difficult for our Frozen division on the national front, because all of the national contracts are a three-way fight between Brakes, Woodward's and us. But the independent business is making huge headway. We are repositioning that business to give a more flexible service offering, so we really pitch it to compete with the local guys and make sure we do not rely on winning national contracts. On the national sales, on Frozen again, we won some extra business with Greene King, £80 million or so, and Avenance, £3 million. So you can see how much of it came from independent business.

At the beginning of the year, we recognised that one of the issues that we were facing was competition for the labour in the UK. That turned out to be the case and in fact still is the case, for both drivers, warehouse people and even telesales to some degree. We have also picked up more costs in insurance and packaging levies imposed by the government. So we knew we had to fund these extra costs to the business and we pushed hard to improve our gross margins and we successfully achieved that, and there is still more room for us to go on that.

Our return in a year of growth improved, return on sales improved by 0,1% up to 3,3% in the Trading division which is right on plan that we set ourselves 2 to 3 years ago.

In the Logistics division, again a pretty good success story. In Contract Distribution, sales were up 14%. Compass again contributed some extra business there. And we have also been very good on improving our efficiencies and lowering our cost of sales and generally controlling both the operations and the charging mechanism for the contract. We took out some new business there, from six continent hotels and from local pubs, which came in the second half of the year. Both important pieces of business helping to fill the capacity we have there.

The Mod Division has performed very well again. It benefited in the year from some overseas activities. Particularly the large overseas operation – the British Army has for many years been involved in Oman and the activity we have been involved in in Afghanistan, where Britain was the lead food nation. So we've had a good one there.

In the year coming we have got to take a slightly different attitude. It is a year where we need to settle the business down and improve the margins and sell a little bit extra to the customers we've already got. We are not looking for the same sort of sales growth and we've got the ability to improve the margin and to basically maximise the sales into the customers we've already got.

We are still enjoying wins, but they are in the middle and small national accounts rather than the great big contracts that we were able to report on this year.

That's a summary of where we are. As I say, we have built a very strong team in the business and the business is performing well. We are very pleased with it.

Brian Joffe:

Thanks Fred. Bernard?

Bernard Berson:

From an Australasian point of view, I will split it into two segments - Australia and New Zealand.

Starting with Australia, it's been a reasonably difficult year for us. The result is very pleasing. We have had a 57% increase in operating profitability, which came about through organic growth and the John Lewis acquisition, which happened just over 12 months ago. I think it needs to be borne in mind that the John Lewis business lost substantial amounts of money under Metcash ownership. We had some very drastic action in integrating that business, and have definitely felt the pain of it this year from an operational and an HR people point of view. We put a lot of demands on our people in integrating the business, shutting down businesses, merging businesses and reviewing the business. So the result that came out of it is indeed pleasing and, I think, we have established a very solid base there, from which we will grow the business and get the margin profitability back to where it needs to be, and back to where it was before we did the John Lewis acquisition. So it was a year of bedding down the acquisition and I think we are basically through that process and should start getting the benefits out of that.

From a sales point of view, we have seen a small growth in sales, but I think that it is to some degree set off by the fact that we have given up some business that we inherited with the John Lewis business. The most major piece of that was a contract to distribute the Burger King Hungry Jack product in Victoria. That was worth A$20m a year, we have given up that contract. We were making a 4.7% gross margin. So I am not quite sure how you get a 3% net margin when you are only working off grosses of about 4%. There is another chunk of business worth A$9m that we exited as well, which was also at very low margins. But we have been through a major review of our customers to increase margins, and most of that has been accepted. There are one or two who haven't accepted it and have found alternative suppliers, but generally I think suppliers understand the service they get with us and the fact that they are dealing with the only real national player in the market and the benefits that that brings.

We are working on a proposition that we might not be the cheapest supplier, but certainly the most effective supplier and we have seen some major wins on national business as well as on local business. We are very confident that we got the base correct. We are very excited about the current year. All the fundamentals are in place and we should be able to build on what we have got. We are clearly the largest foodservice distributor in Australia now. There are some geographic gaps in our coverage, which we need to address, and hopefully we can get to some of them this year. We will continue to consolidate that position and get the benefits out of it.

In New Zealand, I think it was a very nice year for them again. We have had a good performance from that business since we acquired it in 2000. It was also a year of consolidation to a degree for them, whereby we consolidated the acquisitions of the previous year. We are now truly a national, integrated supplier that can offer, across New Zealand, distribution, informational reporting, logistics - whatever customers need - and that business showed an increase in profitability of 64%. There is still a lot of growth in the New Zealand market. It's very new in its foodservice development. There are a lot of very small, unsophisticated players in the market and it is basically prime for rationalisation, we have kick started that process and we should see another good year this year out of them.

That sums up Australia and New Zealand.

Brian Joffe:

All that I think that I need to add just to round it off is obviously a little bit of perspective on where we are going and maybe just to talk a little about Brake Bros, because I am sure that is something that everyone is wanting to know about. I will start with that.

Brake Bros was obviously a bit of a disappointment in that we didn't manage to consummate that transaction. Unfortunately, the odds where stacked against us.

The competition authority in the UK basically dragged its heels in the initial stages of application by three to four weeks against the original timetable that we thought it would be. The pricing from our perspective was on the high side. I am not for a moment saying that we wouldn't maybe in the final analysis consider meeting that price, but you know that is how life is - sometimes you win, sometimes you lose.

From my perspective, life goes on and I think that our position in the UK is particularly good. Having had a look at Brake Bros in a reasonable amount of depth, it has its own problems to deal with and I think that they will find that 3663 is going to be a formidable competitor for them.

We have continued to seek opportunities in continental Europe in order to expand our footprint in Europe and to expand our potential opportunities, certainly in buying from the UK, and we will continue to work on that as time goes by. From a Bidvest perspective, most analysts and investors are aware that we don't like to rush acquisitions and to make bad ones, and we will continue to have that as a philosophy, to try and buy something that can add to the Group at the right price, and not to do transactions just for the sake of doing transactions.

In Australia, our objective would be to increase our footprint into western Australia. We have got some things that we are dealing with currently and that will make the Australian business truly national and we will continue to seek opportunities outside these geographies.

The United States has been, as everybody is aware, an area that we have looked at and, whilst we have not been able to find the right acquisition at the right price yet, I have no doubt that, given the right time frame, I am sure that we will get that under our belt. And, I am sure that, in time, Bidvest plc will be the leading foodservice distribution business in the world. That is an objective of ours and I am sure that we will be able to deliver that in time.

It may be interesting to note that there are some statistics on sizes of foodservice companies in the US, and if you take Bidvest plc in that context, we are certainly in the top 5 or 6 largest foodservice distribution companies, if you use the US as a benchmark.

From our point of view, we are very optimistic about this particular business, but I don't think that one can expect that we will see in the next year in the current format, that we will grow 27%, but I am sure that we will be able to deliver an above average growth rate in the next period. What people should bear in mind is that these are, of course, in hard currency in markets that are quite sophisticated and developed. Against this backdrop, I think that we have done particularly well.

If anyone wants to ask any questions, feel free to do so.

Gavin Vorweg, Deutsche Bank:

Well done on a good set of results. Just following on, Brian, from your comments about Brake and the new owners of Brake, are you not concerned that they are going to be more aggressive in the market or less responsible on pricing and related to that? How is the general pricing environment in the UK market at the moment?

Brian Joffe:

Well, maybe Fred can deal with the second part, but if I can deal with the first component please.

What is required of Brake in the short-term is to fix the problems. If one goes back and has a look at Brake's performance over the last couple of years you will find, from publicly available information, that Brake was pretty much stretched in order to make the kind of numbers that they were making then. They've got some real intrinsic problems in that group, especially in France. They have huge infrastructure investment that they have made in the last year or so, where they are going to find it extremely difficult to be able to recoup some of the fixed costs. I also think that they have a miss match between the fixed cost investment that they made in their chilled facility and their ability to be able to deliver that concept without putting in significant amounts of money in their branch network set-up. They also have problems with their IT.

I don't want to underestimate and say it is going to be a walk in the park, the reality is that they have to, they have paid a big price for this for a private equity fund, and they are going to have to do their best in order to maximise their returns. I don't think that there is a great likelihood that they are going to be searching for a huge amount of market position and, in fact, Fred may be able to confirm - there are not huge amounts of contracts that are coming up for tender in this particular year.

I think that what we will see from Brake Bros in the short-term is a consolidation period. I think that they have management issues that they have to deal with. We have always had Brake Bros as a competitor. Frank Brake himself was an astute businessman and I don't want to underestimate the quality of what we will be up against, but I think that you will find that we will be okay.

On the pricing pressures issues in the UK, Fred maybe you want talk about that.

Fred Barnes:

We have not seen anything in the market that has pushed the margins down in order to obtain market share. There are not many significant contracts up for grabs this year – there are always one or two, but we are not at the high point of the cycle. We are a reasonable, low cost operation in comparison. Brakes has always been a high margin business and in a high cost business it would be very difficult for them to sacrifice margin and go for volume against us. So, we are not complacent, but I echo Brian's view that they have other things that they have got to fix and I don't think they are going to fix them by being aggressive for volume in the marketplace. Early stages look as though, like us, they are facing up against labour costs, etc and probably more problems than we have got, and they appear to be very responsible by pushing their margins up.

Gavin Vorweg, Deutsche Bank:

Fred, one of the things that Brake did say in its recent annual report was that they made heavy investments into distribution infrastructure and information technology and I think they mentioned that this is unequalled in the industry, and will be their main competitive advantage in the years to come. Now, I see your capex was about £16 million this year. Is that a sustainable level or is that an abnormally high level? Where do you expect that to go the next couple of years?

Fred Barnes:

Over the next couple of years we've got a certain amount of investments backing our infrastructure. We've had huge sales growth this year, by anybody's yardstick. We need to strengthen our infrastructure and do a certain amount of modernisation and we are capable of growing the market in future years, enabled by investments. So, I think that we will be spending a little more, but I think that we can bear to fund that from our performance.

Andy Bowley, CSFB:

Hi guys, I have a couple of questions. I have two questions for Fred. In terms of the national account contract gains that you have achieved in the past year, how much top line isn't shown in the results because of the timing of the commencement of those contracts, as you have referred to a number of contracts that came through the second part of the year? And the second question leads on from that, can you give us an idea of the level of organic growth possible within 3663 over the next three years or so, including the potential to gain market share in national contracts that may come up for renewal, taking into consideration the capacities of some strains.

Fred Barnes:

Compass was in for pretty much all of the year, but of the major accounts that came in, I think, the Avenance piece of business. There were £9 million in Multi-temp and £3 million in Frozen, which was in for about five months. Greene King was in for about four months. I think there is still quite a lot of capacity / ability for us to grow this business. I mean, we did a heck of a lot of work on the Brakes acquisition in terms of understanding our market share and which pieces of business laid outside of Brakes and us. So there is plenty for us to go for still.

We have increased our market share from 9% to 10% or 10% to 11%, depending on personal points here. So there are lots more to go. We are working with our customers a lot more, trying to measure their profitability and trying to help them generate sales. We are trying to change what we do, as opposed to being just a low cost wholesaler to actually being an important part of the value chain and improving the performance of our customers and getting more and more product to them. So I think we have plenty to do yet, we are far from the top of our opportunity.

Brian Joffe:

Can I maybe just add to that? One of the factors, it is not a big factor this coming year, but will be a bigger factor over the medium-term, is that mymarket.com activities are now up and running in the UK. 3663 is already up and running with its customers on the system, and I think we will have a competitive advantage against our competitors as the system rolls out. Just want to make one point about that; I think it was Gavin who raised the question about all the investments that Brake Bros has made in IT. My forecast to you is that a lot of that investment is going to be turfed out the window once these other guys get involved in the business. I think that there is a big write-off in IT investment in Brake Bros that is going to happen.

Henry Munzara, Investec:

Congratulations on the results. A very good and strong performance. I have one question for Fred, mainly in the Frozen area. I know how you had targeted to get to sort of break even at the operating profit level. I just wanted to get a sense of how close you are to that and how you see things going forward?

Fred Barnes:

We exceeded our plans for the year and made good progress for the year before. This is very much about central cost allocation and the way we have chosen to allocate central cost and we still show it as not having broken even this year, but it has made enormous progress and we will make a profit this year. Even with the current central cost allocation formula. We are winning, but the better way really, we are adding in business from free trade, which has higher margin business, which ultimately will make the operation stronger. We could do it with a mighty bound, and if a good national account comes along we will take it. But, it has been a more forced approach this year. But we are very happy with what has been achieved and it is on target to become profitable this current year.

Mark Ingham, SG Securities

Thank you, well done gentlemen. I dare say that it calls for a toast with “Moet” rather than Springbourne. I have had all questions answered, I think, except one, possibly Brian, if you could elucidate as to whether you have formally moved away from quarterly reporting

Brian Joffe:

Mark, the answer is yes, I don't think that we are going to do reporting quarterly. There are two reasons. One is that I have a personal philosophy about one of the problems in the corporate world and that's the question of the expectation of performance in a quarterly or a daily or whatever. The short-term performance criteria - that's the first.

Secondly, I think that the shareholder spread in Bidvest plc at the moment is safe that, other than the Bidvest shareholders, there is very little real interest in the performance of Bidvest plc. So on that basis we have basically decided that until we move our or change the profile of Bidvest plc, that we will be reporting half yearly.

John Thompson, ING Financial Markets:

With regard to 4th quarter trade, I wonder if you could address the convergence in margins in your UK businesses? It seems as though UK operations recorded very good margins in the 4th quarter, whereas Australasian margins were at a relative low at 1.5%, if I'm not mistaken. Further, and perhaps associated, is your tax expense in the 4th quarter, which has typically been 27% to 28%, but dropped down to 21% or 22%. That's the first question. The second question I am just wondering if you could answer is depreciation charges in the period? And third question is your cover, and dividend policy going forward. Thank you.

Brian Joffe:

Lots of questions, I hope that we can remember them all.

You are absolutely right about this issue. It is not so much about the UK margin that has gone up, because I think that is anticipated against the volumes and I think if you had to check the previous year I think you would see the same kind of thing. We did have a hiccup in Australasia in the 4th quarter with regard to margins. All of that has been rectified. We had some system problems where we converted some of the John Lewis operations. I think that the 1.5% in Australasia is too low. If we had to take the July as a benchmark that figure is now over the 2,6% so I think that's the answer to that.

(Correction to the transcript: With reference to a question from John Thompson, ING regarding margins in the 4th quarter of Bidvest plc's results, the UK business margins moved up to 2,9% as opposed to 2,35% for the 9 months to March 2002 and the Australasian businesses' margin moved up to 2,4% in the 4th quarter, as opposed to 2,32% for the 9 months to March 2002. The reference to 1,5% is incorrect.)

John Thompson, ING Financial Markets:

Taxation was relatively low, is that associated with the Australasia situation?

Brian Joffe:

Not really, this is one of the issues about yearly accounting vs. quarterly accounting. Obviously we reported on a quarterly basis. We obviously hadn't taken into account certain benefits we would have got over the years. It is a bit of an anomaly. It didn't really drop over the last quarter; it really is benefits we would have had over the rest of the year, which we didn't account for in the first three quarters. There are some tax benefits that arose due to the fact that Bidvest plc is an Isle of Man company, so we do have some benefits arising from that. I am not too sure what the reference was to depreciation.

John Thompson, ING Financial Markets:

Just the absolute quantum level of depreciation charge for the period, for the Group.

Brian Joffe:

£14.2 million. The dividend policy is that we are looking somewhere around two and a half times and three and a half times cover.

John Thompson, ING Financial Markets:

Just one further question, I wonder if you can address working capital changes for the period? The question really stems from free cash flow – it didn't necessarily follow earnings in term of growth. Earnings were obviously 27% and cash flow was up by 14%. Could you address working capital please?

Stephen Bender:

I think it is a reflection of Australia, because at the end of last year, we had John Lewis trading for one month or less than one month. That was clearly a build up on debtors and creditors relating to that business, whereas this year, of course, it has been in full time so we now have full working capital now that John Lewis has taken that business. I think that is probably the main impact on cash flow that I am aware of. They were focusing on cash generation during the period and certainly got a lot of criticism about the free cash flow in quarter one in the UK and I think that we explained that at the time that it was just timing issues. There have been some UK issues around the Ministry of Defence, which was a few days late, and whether that falls into one period or another I don't think there is any particular issue there, but I think the cash flow is very controlled.

John Thompson, ING Financial Markets:

It seems as though your depreciation charges were cut quite significantly in the fourth quarter according to my calculations.

Brian Joffe:

It shouldn't be. It should be higher.

John Rivers-Moore, HSBC:

Congratulations gentleman. The question that I have really concerns the direction of the group growth, which, I think, had centred on the foodservice area as the primary area. That would now have been revisited following the failure of the Brake Bros acquisition. What is the group focus, does it still remain in foodservice primarily in terms of growth and, one of the things that, Brian, you referred to – Bidvest plc's position as a leading player within a time frame. Has that now been revised and can you quantify what your expectation is in terms of that future growth?

Brian Joffe:

When we originally bought 3663 from Booker, it wasn't on the rise and other than the expectation that Frank Brake was getting on in years, that we had the possibility of buying Brake Bros. I think not everything in the world has changed, just because we didn't get this business. We still have our same position as we had, in fact even better, and we have a competitor who might certainly in the short-term be weaker. I don't think we should put up our hands in despair and say just because we did not get Brake Bros that's the end of our potential, I don't think that's quite right.

I think the issue for us in the United Kingdom is - certainly we will continue to look for acquisitions, maybe not necessarily in exactly the field and activities that we are in at the moment, we obviously have different products, different temperatures, in other words, we could be involved in chilled, we could be involved in fresh and we obviously could have some geographic expansion. So the United Kingdom is not dead by any manner of means just because Brake Bros is gone and, in fact, even if we had acquired Brake Bros there were a lot of challenges in areas where the market is moving. For example, in chilled, and from our perspective, having done Brake Bros wouldn't have added really much aside from bringing a huge amount of infrastructure and cost to our potential to be successful in that particular market. So, please don't be despaired. The Brake Bros transaction would have come with a lot of problems and I know that while a lot of analysts had a high degree of expectation for us doing this deal, I have no doubt that after two weeks when the fun had worn off every one of you would have been criticising us for doing a bad deal. From our point of view, we are not unhappy, we will make our business grow and we will be successful.

With regard to us being a participant in the world, I think we are already a major participant. I don't want to put a time frame on these things. Any acquisition is opportunistic. They come when they come and they go when they go and sometimes we will go through a flat period where we don't do a good deal for a year or two or whatever, it will come.

Peter Steyn, Merrill Lynch:

Thank you. Hi Brian, John asked most of the questions I was after, but could I just ask one other thing? The depreciation charge in 2001, can you tell us what that was, compared to the £14.2 million?

Brian Joffe:

Just under £13 million.

Kaya Gobodo, Investec Securities:

Good day, gentleman. I would like to congratulate you on a good set of results. My question relates to the story in Australia. It looks like there is a very strong argument for a consolidation story and I wanted to get a sense as to how far down the road do you think you are in terms of positioning yourself as consolidating the Australian market from a foodservice point of view.

Brian Joffe:

Maybe I can have a bash at it and Bernard can add to what I have to say. We are, at a round number, about A$800 million of sales. The next biggest player in Australia, leaving aside New Zealand, is probably around A$350 million of sales. So that is quite a big step down. I think that there are a lot of businesses that are coming up for sale, but one of the things that we have got to be careful of is consolidating or taking on board right at this moment, having done the John Lewis business, a lot of small activities, which is going to divert our attention away from making and getting our margins and getting the great benefits that we believe we are going to get from the John Lewis business. We are looking seriously to expand our activities into western Australia and I am sure that within the next couple of months we will be able to report something there, but I am sure it won't be significant as there aren't too many big players there. The process is under way in Australia and we are very active in that. Bernard?

Bernard Berson:

I think that it is fair to say we have been consolidating the markets since 1996 here and we will continue to do that. Obviously this year has been pretty difficult in integrating the John Lewis business into our business, but now that that is done, we can focus on extracting primarily the margin benefits from that acquisition. Having said that, Australia is a highly competitive market and is probably quite a bit less sophisticated than the UK market, because of the geography. So, although you might be a national player there are still local markets which operate as local markets, because of the wide distances between major population centres, and we are still faced with less sophisticated competition in every single area. The only really advantage they can have, is pricing because of their low cost base being mom-and-pop type operated businesses. But that is not sustainable in the medium-term. No doubt we will see consolidation and we will see the margins trending to a more reasonable level.

Kaya Gobodo, Investec Securities:

Just another question relating to strategy as well. As I understand, there is a relative focus on building the chilled and frozen side of the business in the UK and I wanted to get a sense as to what the trade off is in terms of improving margins by growing that business and the infrastructure costs and the returns one can generate from growing that business.

Brian Joffe:

There may well be a requirement of a hub of sorts. We are intending in 3663 in the UK, to make an investment of some tens of millions of pounds budgeted in this year, in order to create the opportunity for us to grow the business. The capex will have very little impact on our potential to show above average growth

Thank you to all for listening to us. I am sure that most of you are also analysts and investors in Bidvest, so I would like to re-remind you, after seeing our new revised numbers coming out, take account of the new accounting policies when you do your numbers. Not saying any other comments, other than that, but please bear that in mind. As positive or negative as that might be. Have a good day.