Bidvests Posts Pleasing 21.8 Percent Headline Earnings per Share at Interim Stage

Monday, 27 February 2006

HIGHLIGHTS

- 21,8% increase in headline earnings per share
- Cash flows remain strong
- Good operational performances across most Group businesses
- Acquisition of Deli XL expands foodservice footprint into continental Europe
- Rand exchange rate had a neutral effect on translation of foreign businesses
- Full benefits of good top line growth limited by costs of increasing capacity and fuel price increases
- Distribution increased by 21,1% to 162,0 cents

OVERVIEW

Bidvest today (Monday, February 27) posted a 21,8% increase in headline earning per share and an 18,7% increase in trading income for the six months to 31 December 2005.

Strong operational performances were recorded by most of the group's businesses. Revenue growth of 21.6% to R38.2 billion included R2.2 billion from Deli XL, which was consolidated with effect September 12 2005. Trading margin decreased slightly from 4,5% to 4,4% reflecting the impact of Deli XL and a change in the profit contribution mix of the various businesses. Exchange rates were relatively stable and had a neutral effect on the translation of the Group's foreign businesses.

The rand traded at an average R11,56 against sterling, compared to R11,43 the previous period.

Chief Executive Brian Joffe says the trading results were further lifted by a lower statutory tax rate and the share buy-backs concluded last year. "These results are pleasing in that good revenue growth was achieved in the current low inflationary environment but many businesses experienced cost increases in excess of inflation, due to start up costs of increasing capacities and fuel price rises. This in turn impacted margins."

Cash generation from the underlying businesses remains strong, but seasonal working capital requirements, increased capital expenditure and acquisitive activity resulted in a net utilisation of funds. The Group's balance sheet is extremely strong with interest cover being approximately 11 times.

The financial results have been presented in conformity with IFRS accounting standards, the effect of which has been a 5,2% restatement (16,8 cents per share) of the comparative period's headline earnings per share. Most of this is due to the cost of share-based payments as well as the amortisation of reinstated intangible assets previously written off.

ACQUSITIONS AND DISPOSALS

Bidvest acquired 100% of Deli XL B.V. from Koninklijke Ahold N.V., for approximately R1.1 billion, effective September 2005. Good progress has been made in bedding down the acquisition and certain management changes have been effected.

This acquisition strengthens our foothold in the European foodservice market and management is confident Deli XL will deliver on our expectations. In September 2005, 3663 First for Foodservice acquired a controlling stake in Horeca Trade, a small Dubai-based foodservice distributor which has the potential to develop into one of the largest foodservice distributors in the Middle East.

Subsequent to the half yearend, Bidvest concluded the sale of its cross-channel ferry business, Dartline Shipping, including the ferry terminal at Dartford, Kent, for â‚¤58,9 million (R650 million), resulting in a significant premium to book value. The sale is consistent with the Group's philosophy of exiting businesses which fail to meet acceptable rates of return.

DIRECTORATE

As advised in the 2005 annual report, the Group intends to restructure its statutory board with as little disruption as possible to the Bidvest culture of decentralised and participative management styles. The intention behind this restructuring is to include the executives of the major business activities on the board. Attention is also being given to reconstituting the non-executive component.

PROSPECTS

The trading environments for many businesses in the Group are favourable. Capacity expansion has taken place across the Group to cater for current and future growth, and management has proven itself up to the task of seizing opportunities when they arise. In addition, the impact of the Deli XL acquisition will be more significant in the second half of the financial year as the full six months earnings are brought to account. The Divisional reporting and management structures have been realigned to better take advantage of the many synergies which exist in the Group.

The Group's general approach to acquisitions is to seek 100% control. This policy is being relaxed in so far as new larger scale activities where Bidvest can acquire a significant shareholding with management control. This will enable the group to take advantage of larger acquisition opportunities and where it can utilise its skills in extracting value.

Looking forward to the second half of the year, Joffe says "the Group is optimistic of continuing to achieve above average returns and growth and we will continue to look for acquisitions where we believe we can add value."

DISTRIBUTION

The distribution to shareholders out of share premium, in lieu of a dividend, increased 21,1% to 162,0 cents a share (2004: 133,8 cents a share).

DIVISIONAL REVIEW

Bidvest's businesses are grouped into four divisions: Services, Foodservice Products, Commercial Products and Automotive Products.

Services

It was a positive trading period for Bidfreight southern Africa. Trading income grew by 17,8% to R260,2 million on a 16,8% increase in revenue to R7,7 billion. Terminals' results were good. Trading at both Bulk Connections (previously BMA) and Bulk Terminals improved. IVS improved its tank capacity utilisation, although trading income was slightly behind expectation.

SACD produced a strong result, boosted by volume increases through the new warehouse in Durban and the Intermodal business. Safcor Panalpina, South Africa 's largest freight forwarder, performed well despite a slight decline in margins. Marine benefited from increased port calls in its Liner business.

Bidcorp's Ontime Automotive results were again impacted by a continued weak performance from the Volume Distribution business, particularly in France.

Bidserv delivered an acceptable performance in a challenging trading environment, characterised by margin pressure in certain businesses. Revenue grew 5,2% to R1,5 billion, though trading income was up 11,3% to R144,3 million due to management's strong focus on cost containment. Strong performances from the Laundries business and specialised cleaning group TMS were offset by weaker performances in Magnum Shield and BidAir. The Cleaning division reported a 21% improvement in trading income, while Laundries achieved a creditable 27% increase in trading income. Magnum Shield, in common with the rest of the security industry, had a difficult trading period during which cost increases - primarily wages - exceeded the inflation rate.

Rennies Financial Services revenue was 8,9% higher at R367,9 million and trading income increased by 15,4% to R74,9 million. Notwithstanding the introduction of fee-based income in 2005, the Travel businesses have experienced static volumes, however profitability improved by 55,6%. Average ticket prices have remained flat over the period and as all suppliers move to zero commission, the ability to leverage competitive advantage will improve. Rennies Bank delivered a poor performance with trading income down 21,1% impacted by the lower retail margins and higher sales of lower value products. The strong and stable rand constrained dealing margins.

Foodservice Products

Europe

In the UK , 3663 First for Foodservice increased trading income in sterling by a modest 4%. Overall performance was adversely affected by sluggish economic conditions and the adverse impact of the 7 July 2005 bombings in the London area. Sales in Multi Temperature, Frozen, Fresh and Chilled were in line with prior year. Margin growth has been strong and reflects continued management focus on this area. The Barton Meat Company reported sales below expectations due to a shortfall in new business. Contract Distribution traded well, benefiting from new contracts. The Ministry of Defence contract revenue was down as a result of reduced military activity in Kuwait and Afghanistan . Joint purchasing opportunities are being pursued with Deli XL to lower purchasing costs and improve margins, and a new customers will come on stream during the second half of the year. Deli XL's results were in line with expectations, notwithstanding management changes following the acquisition. There are encouraging signs of sustained growth in the European hospitality industry, and Deli XL is well positioned to benefit from this. Opportunities for consolidation and market share gains are being explored.

Australasia

Bidvest Australia had a good trading period, growing revenue and trading income in Australian dollars by 10% and 20% respectively. Even more pleasing was the 16,3% organic growth in trading income and the improvement in trading margin to 3,1% (2005: 2,8%). Crean First for Foodservice New Zealand traded strongly with trading income up 21,3%, achieved despite a slowing economy and deflationary pressures.

Southern Africa

Caterplus achieved a modest 5,1% growth in trading income despite good top-line growth. The trading environment was challenging, as volume growth necessitated capacity expansion. Catering Supplies and Frozen's revenue gains were offset by increases in overheads. Speciality traded very well, buoyed by niche foodstuffs for home entertaining. Vulcan's trading income was slightly down due to falling export volumes. Hotel Amenities and Lufil both traded well.

Combined Foods results were disappointing, with trading income flat at R70,7 million. Bidbake was particularly affected by yeast imports, which impacted its ability to pass on cost increases to customers. Crown National traded reasonably well despite uncompetitive import prices and the effects of Newcastle disease on the poultry industry. The move to new facilities should present opportunities for efficiency improvements.

Commercial Products

Office Products

Revenue was up 9,7% to R1,83 billion, though trading income increased by 7,7% to R115,9 million. Stationery traded under difficult conditions, where competitive pressures and rand strength constrained margins, negating revenue gains. Waltons grew trading income 22,6% despite a poor result from the Southern Gauteng region. Kolok was impacted by the strong rand and capacity constraints in Gauteng and Durban , although these bottlenecks have been addressed by the opening of new distribution facilities. Furniture posted a 6,9% increase in trading income in the face of strong import competition from China and Eastern Europe. Automation traded well with Minolta growing trading income by 18,6%, the result of tight control over expenses and growing margins.

BidPaper Plus

Revenue grew 10,3% to R1,07 billion and trading income was up 4,3% to R79,8 million despite tough trading conditions. Management's unrelenting focus on expenses, which fell 5,7%, assisted profitability. Lithotech SA experienced good growth in its Mail and Laser businesses, although this was offset by the ongoing decline in volumes in its traditional business forms. Silveray managed to increase volumes, but at lower prices due to competitive pressures. Lithotech France continued to show losses despite a major restructuring of the business.

Bid Industrial Products

Revenue increased 18,4% to R1,8 billion while trading income was up 26,3% to R120,2 million. Electrical Wholesaling traded successfully on the back of a buoyant construction sector with a 16,9% increase in revenue and a 57,2% growth in trading income, despite a more than 38% increase in the price of copper over the past 6 months. Revenue was flat for Afcom GE Hudson, whilst trading income was down 19,5%, forcing Afcom to switch certain products from local manufacture to imports. Buffalo Executape reported a 5,8% drop in trading income, but is focussing on margin management and new business ventures into the DIY industry.

Automotive Products

McCarthy Limited

McCarthy achieved a 19,9% growth in revenue to R8,3 billion and a 28,6% rise in trading income to R290,2 million. Notwithstanding the ongoing surge in new vehicle sales, buttressed by low interest rates and strong consumer confidence, new and used vehicle margins remained under pressure, and this impacted the franchise's trading performance. Budget Rent A Car achieved better asset utilisation and volume growth. Yamaha Distributors performed well in an increasingly competitive market, impacted by parallel and grey imports. Financial Services delivered an outstanding performance, achieving greater market penetration with insurance products. GAZ SA, the taxi distributorship, continues to make steady progress.

Corporate Services

Namsov, Bidvest's 31% owned Namibian fishing business, had an excellent year, reversing the previous R4 million loss to report a R42 million profit where reasonable catches and improved selling prices helped lift the bottom line. This was achieved in the teeth of a struggling Namibian fishing sector. Mymarket.com continues to grow its customer base.