Chief financial officer's report

Overview

More than at any other time in its relatively short history, Bidcorp's financial performance in 2021 proved the intrinsic strength of its structures and controls. Most importantly, our performance this year confirmed the resilience of our business model and our people.

In the previous year, severe COVID impacts affected our operations for three months; in 2021 we bore the brunt of such negative effects for the full 12 months.

Inevitably, our ability to trade again suffered under lockdowns and the restrictions on movement and eating away from home which our customers were forced to endure. In the face of lower activity, Bidcorp's performance on generating cash and managing its asset base was outstanding. And while we grappled with extreme volatility and uncertainty, the group moved to being, by year end, essentially ungeared, a salutary achievement which will stand us in great good stead as our markets begin to normalise and grow.

A particular disappointment was uncovering, in June 2021, a significant and sophisticated fraud that was being perpetrated in the Miumi division of our Angliss Greater China business. This fraud had been going on since about 2016 and involved the manipulation of accounts receivables and prepayments and the misappropriation of inventories. The result was that these balances had been progressively overstated over the past six years. Notwithstanding the ongoing forensic investigation, the group has taken a prudent view by impairing the full overstated amounts – although we remain confident of some future recoveries from insurance, the perpetrators and other third parties involved – none of which has been accounted for. Unearthing this fraud led us to restate previous years' results.

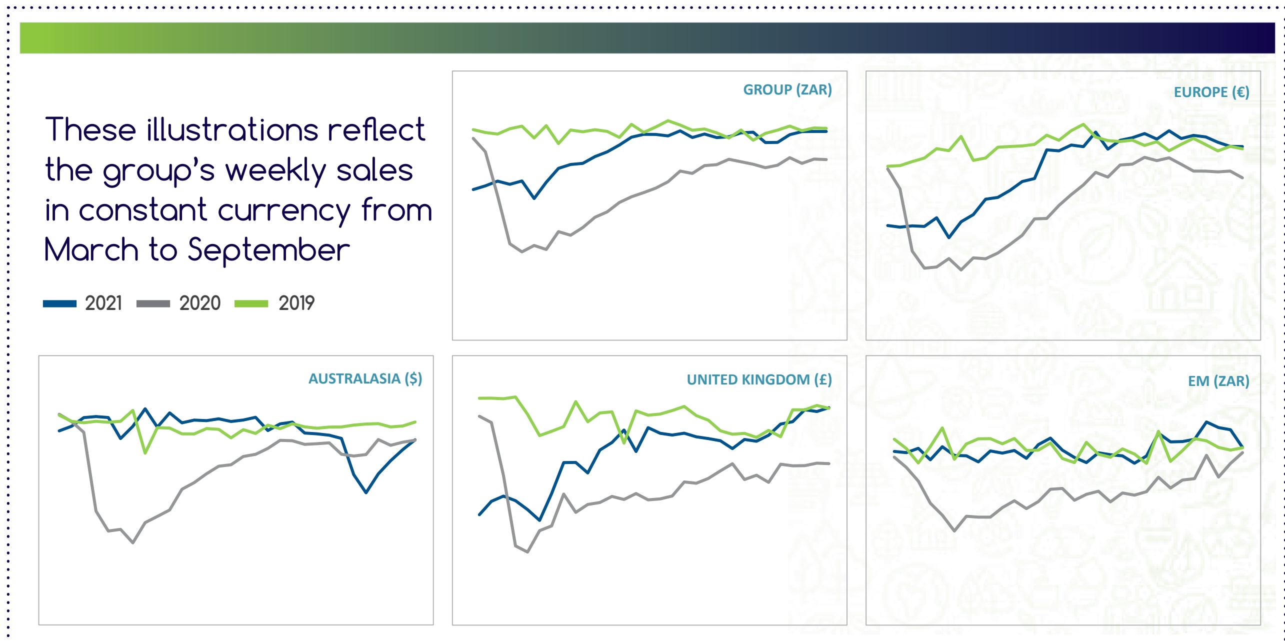
Financial and operational performance

Net revenue of R114,8 billion (2020 restated: R120,6 billion) declined by 4,8% (9,2% in constant currency terms). Our financial strength during this period was key to us faring well and, in fact, gaining market share in most markets (although these gains are difficult to quantify accurately).

For most of the year our Australasian and Asian markets were less affected by the worst of the pandemic. In Europe and the UK, earlier optimism evaporated shortly after the 2020 northern-hemisphere summer, those markets only recovering in Q2 of calendar 2021.

On the back of lower revenue, headline earnings per share (HEPS) nevertheless increased by 21,8% to 868,4 cents per share (2020 restated: 712,7 cents), with basic earnings per share (EPS) from continuing operations growing by 112,6% to 924,6 cents per share (2020 restated: 434,9 cents). Currency volatility positively impacted the rand-translated HEPS by 8,2%.

Gross profit margins held up well throughout the year, benefiting from our greater mix of mostly higher-margin independent customers but diminished by heightened liquidation of stock – necessitated by sudden lockdowns – and a measure of margin being sacrificed to win new business.



These illustrations reflect the group's weekly sales in constant currency from March to September

Across our worldwide footprint, performance on managing costs under trying circumstances was encouraging. The group achieved some cost efficiencies, registering a 13,4% decline in constant currency operating costs against a decline in constant currency revenues of 9,2%. The overall cost of doing business decreased to 19,8% (2020 restated: 20,8%). No further significant COVID-related costs were incurred in the year.

Group EBITDA (earnings before interest, tax, depreciation and amortisation excluding IFRS 16) was R5,9 billion, a 11,6% improvement over restated 2020.

A key measure of the health of our underlying businesses, EBITDA, was positively impacted this year by the fact that we incurred minimal abnormal costs (in the previous years these amounted to some R1,5 billion). As a percentage of revenue, at 5,1% the EBITDA margin for the year was higher than that of 4,4% of restated 2020 but lower than the 6,1% of 2019.

In respect of the aforementioned Miumi fraud, the quantum of the impairments effected as a result of this six-year fraud were HK$374 million (R694 million) with losses attributable to the 2021 financial year of HK$60,9 million (R121 million) and HK$47,5 million (R95 million) to 2020, the balance being attributed to the financial years prior to this. Accordingly, the 2020 financial results have been restated.

Standout achievements in a difficult year were our businesses' performance on generating cash and managing working capital.

Free cash flow from continuing operations was once again admirable, at R4,7 billion (2020: R2,7 billion – in itself nearly double that of the previous year). Cash generated from operations was R7,0 billion, similar to that generated in 2020.

For the full year, average working capital days decreased from 14 to 7 days through excellent management of inventories, receivables and payables. The reduction in working capital days was achieved despite the considerable difficulties many customers experienced in 2021.

In 2021 gross investment in property, plant and equipment was R1,8 billion, down 33 % on 2020's R2,7 billion, the bulk of which had been committed before the scale of the pandemic became apparent. Capital expenditure this year was mostly stay-in-business maintenance capex.

Bidcorp's balance sheet strength positions us to exploit multiple (mostly unforeseen) opportunities arising from COVID, to build our customer offerings and grow our market reach.

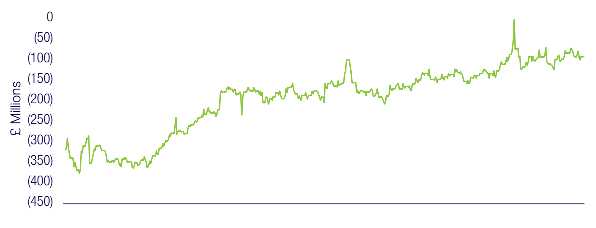
Chief financial officer's report continued

Solid working capital management, coupled with the benefits of lower capital expenditure, supported a 2,4% drop in finance charges to R693,4 million. Pleasingly, non-IFRS 16 interest charges dropped by 12,1% demonstrating the real effects of our good cash flow management.

Debt and cash management

By June 30 2021 group non-IFRS 16 net debt had declined from R5,6 billion to R0,5 billion. In hard currencies, the movement was from £262 million to £25 million. This was achieved through concerted management actions.

Group cash flow evolution:
March 2020 – September 2021



At year end the weighted average interest rate on foreign borrowings stood at 2,1%, the same as 2020 but below the 2,6% of 2019. This improvement buttressed our financial performance in the year and augurs well for our future ability to raise capital at competitive rates. While Bidcorp is not formally rated from a credit perspective, our internal assessment shows us to be well within the investment grade bucket, driven by our geographically diverse revenue streams and conservative leverage. Notably, our policy of borrowing in currencies denominated against the underlying assets in each jurisdiction continues to derisk our currency exposure, further strengthening our balance sheet.

As is by now well known, Bidcorp has traditionally maintained conservative leverage levels of between 0,5 and one times net debt to EBITDA. We are by no means opposed to gearing but strongly believe that our conservative approach towards borrowing will underpin our ability to generate value for shareholders and to keep investing in our assets – manufactured, human and intellectual as well as in acquisitions, both organic and new territories – at a consistently sustainable and value-enhancing rate and quantum.

We applied appropriate financial discipline to all business units and aspects of our operations throughout the year. This included managing the liquidity headroom that various managers were given – which enabled them to respond quickly to often unpredictable developments on the ground. The consequences of the COVID pandemic have made financial risk management within Bidcorp (and almost all companies) increasingly challenging. However, the robustness of our systems and financial management structures mitigated the heightened risk created by "being together yet apart" over the past 18 months. This situation may have contributed to the delayed detection of the Miumi fraud, albeit that deliberate collusive behaviour and management override in any environment make detection inherently difficult despite effective internal controls.

Our extremely positive cash performance was also derived from a number of sale-and-leaseback transactions executed in the year. While the once-off positive headline capital profit booked in the year amounted to R740,5 million, these transactions were essentially about maximising our exit from end of useful life properties at a time of extremely low industrial property yields.

At year end, cash and cash equivalents amounted to R8,1 billion (June 2020: R7,0 billion). Bidcorp's balance sheet strength positions us to exploit multiple (mostly unforeseen) opportunities arising from COVID, to build our customer offerings and grow our market reach.

Governance, audit and regulatory

The group and divisional audit and risk committees, chaired by independent non-executive director Mrs Helen Wiseman, perform an invaluable role in independently scrutinising our operations and their activities.

When faced with issues of fraud, as was the case in the Miumi case, the instinctive reaction is often to overburden the business with additional governance requirements. We are engaged in a process of introspection over our internal controls and governance frameworks. However, an appropriate balance needs to be maintained between our entrepreneurial and decentralised model – and central control. For the most part, we believe that our balance is correct and the governance framework appropriate. The lack of face-to-face interaction due to difficulties of international travel requires heightened vigilance.

Our year-end audit was again largely conducted remotely, a difficult but workable solution driven by the consequences of the COVID pandemic and a solution which might provide a glimpse of how future audits will be conducted. Unfortunately, as a result of the Miumi fraud and the ongoing forensic work which had not been completed by the due date for reporting, we released our results a month later than usual and our external auditor, PwC issued a qualified audit opinion on the group due to their inability to obtain sufficient and appropriate evidence on both the quantity of the recorded Miumi loss and the allocation of this loss to the correct periods. While the basis for the opinion reached is understood, the reality is that the Miumi business is a small part of our Angliss Greater China activities and very small in the context of Bidcorp. More importantly, the vast majority of the group were subject to audits for the past financial year and recorded clean financial bills of health.

Appreciation

I salute the men and women of Bidcorp in all our teams across the world who once again, individually and collectively, delivered remarkable results. It is thanks to all these exceptional people, plus many other stakeholders including customers, suppliers, investors and lenders, that we ended a fraught year in a financially enviable position.

Outlook

We are by no means out of the COVID woods and our fortunes will continue to be tied to this terrible virus and its variants for some time to come. However, it is worth noting that trading volumes in most of our key markets showed encouraging signs of returning to more normal, pre-pandemic levels in the last weeks of our reporting period and into our first quarter of 2022. Inflation is reappearing in many of our markets, driven not only through the cost push of wage and utility cost increases, but also from food price inflation caused by supply chain dislocations. We are confident in our ability to manage our margins as we deal with the current environment.

We are enthusiastic about the growing international momentum towards decarbonising our planet. In our sector and our market segments, we are in a uniquely strong position to invest meaningfully in modern and technologically advanced infrastructure, equipment and processes that will not only let us create social and environmental value but also lower our costs and enhance shareholder value.

Across the world, unprecedented emergency government support and stimulus measures will soon begin to unwind – although the timing remains unclear. For a financially robust group such as ours, the opportunities to benefit in a post-COVID world are substantial.

We embarked on our new financial year with headroom in uncommitted facilities and cash and cash equivalents of R15,5 billion. In addition, we raised a further revolving credit facility of €300 million in September. This "war chest" will allow us to act decisively to exploit new opportunities, in new markets, new products and solutions and to serve new customers.

David Cleasby
Chief financial officer

Bidfood truck delivers to hotel in Queenstown, New Zealand.