Chief financial officer's report

David Cleasby

The group's balance-sheet strength as well as the strength of our human, intellectual, and manufactured capital bode well to successfully navigating a positive future.

Operating context

Whereas the previous two years were dominated by the impacts of COVID and attendant lockdowns, 2022's challenges included rising global inflation and the fallout from the Russian invasion of Ukraine. This further exacerbated supply chain disruptions and the costs of food and other inputs including energy. Pandemic-related lockdowns affected our operations in Europe (over the northern hemisphere winter), Greater China (repeatedly from January 2022) as well as New Zealand (for much of the year) and, Australia.

Financial and operational performance

Net revenue of R147,1 billion was 28,2% higher than the R114,8 billion of the previous year – in constant currency an improvement of 33,1%. Driving this increase were the group's focus on smaller independent customers (which saw revenue in the hotels, restaurants, and cafés segment rise from 35% of total income to 41%) and overall strong growth in discretionary-spend sectors. Demand from institutional customers, including education, hospitals, aged care, prisons, the military, and government departments, was stable overall.

In terms of IAS 29, our results from Türkiye have been adjusted for hyper-inflationary impacts. This resulted in a net profit gain of R81,9 million.

On higher revenue and effective cost control, headline earnings per share (HEPS) rose by 77% to a record 1 538,3 cents per share (868,4 cents). Expressed in constant currency, HEPS increased 82%.

Gross profit margins were marginally stronger than those of both 2021 and 2019 (the last pre-COVID comparative period), benefiting from higher sales to independent customers. In Q2 the onset of the Omicron variant and soaring food inflation put some pressure on gross margins, but these recovered strongly in Q3 and Q4 to end the year at levels which we are satisfied with. In the last quarter, increased stock purchases were made in anticipation of a buoyant northern hemisphere summer as well as price increases.

Group EBITDA, (earnings before interest, tax, depreciation, and amortisation, excluding IFRS 16) was R8,6 billion, up 46,4% on that of 2021. 2022 EBITDA represented 5,9% of revenue, a pleasing increase over the 5,1% of 2021 and trending towards the levels recorded in 2019. Trading profit was particularly buoyant, margins returning to 2019 levels.

A standout achievement – almost across the board – was performance on managing operating costs. As a percentage of net revenue, operating expenses declined to 19,1% (2021: 19,8%; 2020: 20,8%). Constant currency cost increases were below constant currency revenue growth. Informing this outcome was economic normalisation which offered some operating leverage – although by yearend this was unwinding due to cost-push inflation.

Cost pressures included employment, particularly for semi-skilled workers. In the context of labour shortages, recruitment, and training expenses rose but, despite these pressures, staff costs as a percentage of revenue remained in check at 11,9%. Fuel costs increased 32% and electricity 41%. Most of these abnormally large increases had a neutral impact on trading margins. This was because our reputation for reliably supplying a broad range of products at competitive prices made it possible to push cost increases through. Our performance on margins speaks to the strength of our competent and autonomous management teams on the ground.

Despite the higher working capital requirement, cash flow from operations was a robust R9,9 billion, 41% up year-on-year and higher than that of both 2020 and 2019 (R8,0 billion) comparatives.

The expected credit loss (ECL) percentage for trade receivables increased from 4,5% in 2019 to 11,5% in 2020 due to the onset of COVID. In 2021, the ECL percentage reduced to 9,8% given better-than-expected collections and improvements in forward-looking information following vaccine rollouts. In 2022 the ECL provision fell further, to 5,8% on improved economic activity. We expect the ECL percentage to continue improving off the back of further economic stability.

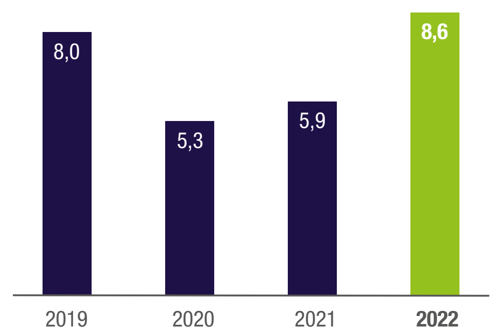
Free cash flow of R1,5 billion (2021: R4,7 billion) was impacted by working-capital absorption, increased capital expenditure, and a limited but higher number of bolt-on acquisitions. (2021 included significant cash receipts from sale-and-leaseback transactions in Australia and Greater China.)

In 2021, as we scaled back business, considerable working capital was released while, in 2022, there was an absorption as the foodservice markets rebounded. At 6,8 days, average working capital days were similar to the previous year's 6,7 days. This was a commendable outcome given heightened current and anticipated activity, mounting supply chain constraints and the investment into inventory made ahead of expected food price increases.

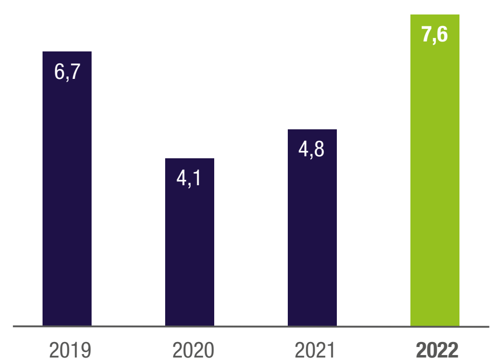
Unlike 2021, when stay-in-business outlays represented the bulk of expenditure on plant, property and equipment, this year we resumed significant expansionary capital expenditure, in growing our footprint and capabilities. In 2022 investment in growth represented 55% of gross capital expenditure of R2,9 billion, reflecting the considerable upside we believe still exists in our markets. (Such is our balance sheet strength and credit rating that we can borrow to build and equip what are mostly bespoke premises at interest rates lower than those that can be obtained by landlords.)

The total cost of acquisitions of R818 million included the Zegro property in the Netherlands, which was acquired and then sold and leased back for two years to a third-party investor. In Belgium, R94 million was spent on acquiring Foster Fast Food BV.

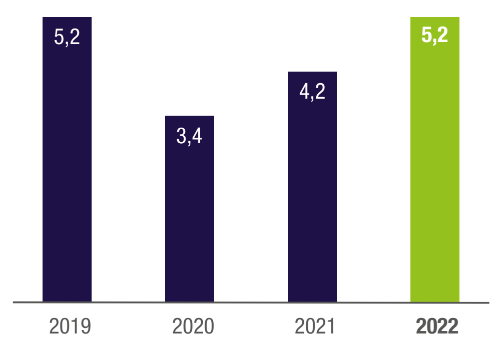
EBITDA (R'billion)



Trading profit (R'billion)



Trading profit margin (%)



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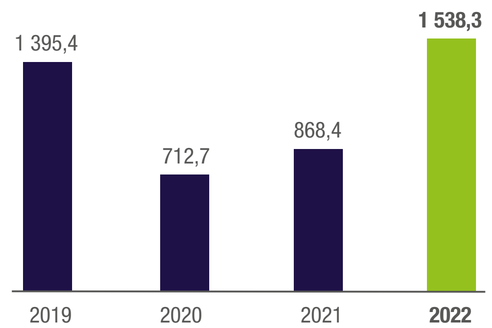
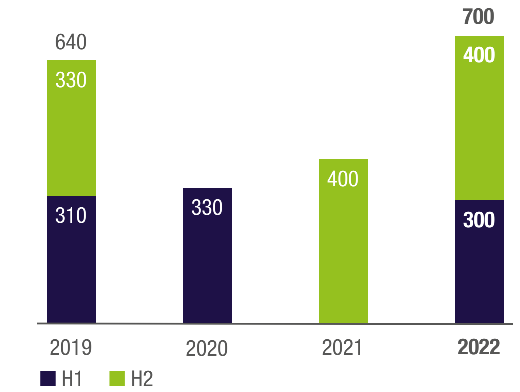
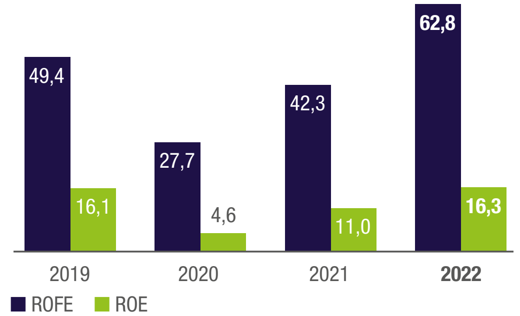
HEPS (cps)



Dividend per share (cents)



Annual returns (%)



ROFE excludes freehold property

Debt and cash management

Constant currency net finance charges (excluding IFRS 16 charges) were 14,8% higher at R350,9 million (2021: R305,8 million). Since October 2021 interest costs ticked higher, internally due to increased working capital requirements and externally because of a significant rise in global interest rates.

In February and March 2022, a substantial exercise was undertaken to roll-over and refinance maturing term debt, reducing the group's liquidity and interest rate risks. The United States Private Placement market was accessed for €225 million and bank debt of €75 million was rolled. This enabled a significant portion of group debt to be termed out to differing maturity dates of three, five, and seven years at an average fixed interest rate of 1,74%. (At the 2022 yearend the weighted average interest rate on non-South African borrowings stood at 3,1%, up from 2,1% in 2021.)

Of the R9,5 billion group borrowings at June 30 2022, 71% were at fixed interest rates. Floating interest rate exposures mainly related to Greater China (R1,3 billion) and South Africa (R724 million). At R1,7 billion, net non-IFRS 16 debt at yearend was up on the R0,5 billion a year earlier. Net debt increased from June 30 2021, primarily because of a R2,0 billion absorption of working capital, dividend payments of R2,3 billion and net investment in property, plant, equipment, and intangibles of R3,1 billion.

Capital management

Bidcorp has traditionally maintained conservative leverage and the past two years have vindicated this stance and contributed to the group's ability to exit the COVID pandemic stronger than before. Many overleveraged competitors haven't had this luxury and found navigating the crises far harder, and as we exit one situation, the next one appears.

We remain unapologetic about our conservatism in this regard as leverage has a relatively small impact on returns, which ultimately is the true indicator of a business's performance. Bidcorp's returns (on equity, invested capital and funds employed) have been maintained and improved on our pre COVID position, a fairer indicator of performance than whether the business has leverage of 0,5 times or 2 times net debt to EBITDA. We are continually focused on the need to balance gearing and shareholder returns but strongly believe that our ability to generate value for shareholders will be primarily driven by investing in our assets to pursue growth opportunities, both organic and inorganic. Our overall financial position is strong and will maintain our good foundation in the current volatile global economic environment.

Governance, audit and regulatory

Further to the fraud uncovered in the Miumi division of our Angliss Greater China business in June 2021, considerable additional forensic work was concluded but no further issues came to light to affect the group's treatment of the fraud losses in the previous year. Criminal and civil proceedings have begun, and we remain confident of future recoveries, none of which had been accounted for as at June 30 2022.

In 2021 our external auditor, PwC, issued a qualified opinion on the group's 2021 annual financial statements which were issued a month later than is our practice due to PwC's inability to obtain sufficient and appropriate evidence regarding the quantum of the Miumi loss and the allocation of this loss to the appropriate reporting periods. Pleasingly, and as expected, we received an unqualified audit opinion in 2022.

Bidcorp is committed to tax transparency and to executing against our obligations towards taxation authorities. This year the group paid R6,2 billion in taxes, including R2,5 billion in import and customs duties, and corporate taxes of R1,5 billion. Another R9,6 billion was collected on behalf of authorities, this included employees', VAT, and sales taxes, as well as excise duties.

Appreciation

I congratulate our global team, especially the respective management teams around the world for the many astute, proactive ways in which they have succeeded in delivering very pleasing results. I also thank them for their unfailingly diligent financial stewardship.

In addition, I thank the members of our audit and risk committee who consistently contributed above and beyond their mandate and our expectation.

Outlook

Our decentralised environment aims to ensure that our operations have sufficient liquidity for their requirements but that we also manage the returns achieved on this capital employed. In 2022 the average group returns on funds employed (excluding freehold property) improved to 63% from 42% in 2021 and 49% in 2019. We anticipate that this performance will be maintained in the new year.

On June 30 2022, the group had cash and cash equivalents of R7,4 billion and gross borrowings of R9,1 billion, of which R3,1 billion was short term. Total headroom including uncommitted facilities and cash and cash equivalents stood at R19,3 billion (£977 million). We expect to retain our low levels of gearing – which we consider to be prudent in the context of uncertain but rising interest rates.

Group leadership remains alive to opportunities to grow our footprint, raise service levels, and continue gaining market share. As readers will appreciate, we are well positioned to exploit any such opportunities as they arise. Capital expenditure will likely follow a similar growth trajectory as that witnessed in 2022, cementing gains and positioning us for growth, while further mitigating our negative environmental impacts.

The group's balance-sheet strength as well as the strength of our human, intellectual, and manufactured capital bode well for our ability to continue successfully navigating a volatile but positive future.

David Cleasby
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