CHIEF FINANCIAL OFFICER'S REPORT

David Cleasby

The group returned a very pleasing result for the year, growing revenue, gross profit, and headline earnings per share (HEPS) all by well in excess of 30%. In all respects this was a quality result, reflecting a solid on-the-ground performance across the board.

Operating context

In the first full year without any material COVID-impacts, high interest rates – which some had thought might dampen consumer demand – had little impact on overall spending habits. It became increasingly apparent this year that eating-out is becoming the norm for many consumers in many of our markets rather than being the discretionary, occasional indulgence of yesteryear.

In 2023, in most countries, a revival in global tourism offset any declines in domestic spending but, particularly towards the end of the year, we witnessed a return to much more normal trading conditions.

Group-wide food inflation (which is based on official figures but is not necessarily exactly representative of our actual basket of goods) remained stubbornly high for most of the year, rising from 13,6% in Q1 to 15,1% in Q3 before moderating in Q4.

Inflation certainly had a positive impact on our results, but I'm pleased to note that the increase in HEPS included real growth and an increase in market share across the group (although the latter is notoriously difficult to quantify).

Financial and operational performance

As much as external factors influenced our results – and those of all of our competitors – the reality is that in 2023 we reaped the benefits of two to three years of concerted effort to strengthen relationships with both customers and suppliers. At the same time, our teams focused on keeping things simple – maximising opportunities and managing costs.

At R196 billion, revenue for the year increased by 33,4% (23,5% in constant currency) with the cost base being very effectively leveraged to support this growth. The divisional breakdown was as follows:

UK	R51,4 billion	↑ 35,9% Local FX: ↑ 28,5%
Europe	R69,5 billion	↑ 38,9% Local FX: ↑ 27,0%
Australasia	R44,3 billion	↑ 33,0% Local FX: ↑ 23,7%
Emerging Markets	R31,1 billion	↑ 19,9% Local FX: ↑ 8,8%

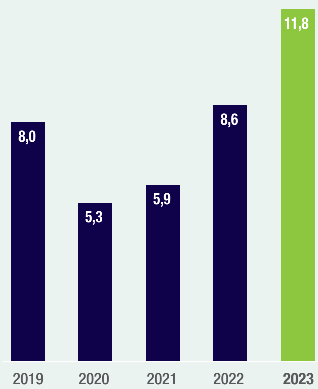
(For detail on the various divisions' performance, see from page 44).

Gross profit margins, at 23,8%, held up well considering the trading environment, which was impacted by rising employee costs, high energy and fuel prices, and ongoing inefficiencies from supply chain disruptions.

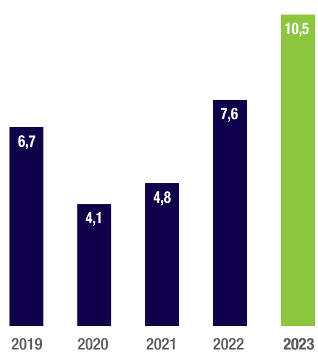
Non-IFRS 16 EBITDA (earnings before interest, tax, depreciation, and amortisation), was a strong 6,0% of revenue, higher than the 5,9% recorded in 2022.

HEPS from operations rose by 35,4% to 2 082,9 cents per share (cps) (2022: 1 538,3 cps). In constant currency, HEPS increased by 25,3%, the balance deriving from rand weakness.

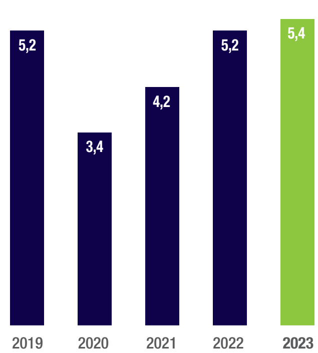
EBITDA *(R'billion)*



Trading profit *(R'billion)*



Trading profit margin *(%)*



Revenue growth again outstripped growth in costs with the result that operating costs as a percentage of net revenue decreased year-on-year and, for the most part, were well managed.

At 10% of revenue, staffing costs were similar to those of 2022 with a not insignificant portion of those costs relating to incentives paid in response to the group's exceptional financial performance. Notably, staffing levels had normalised by the end of the year – addressing the key risk of retaining qualified, talented people.

It was thanks to those qualified, talented people that full-year trading profit rose 38,4% to a record R10,5 billion. Europe contributed to this outcome with a 25,7% gross profit margin and Australasia with 26,1%.

The UK maintained its strong contribution, recording commendable organic growth while Emerging Markets delivered an overall solid sales performance despite the devastating earthquakes in Türkiye, and South Africa continuing to experience very low economic growth. Greater China improved its profitability but the robust post-COVID bounceback experienced elsewhere failed to materialise.

Group management maintains a watching brief over Chile and Spain. The former had a poor 2023 but, as was the case with Spain, appeared to be headed in the right direction in Q4 and post-yearend. Germany continued its slow but sustained turnaround.

Reading the results, it is instructive to note how the group's trading and revenue mixes have changed since unbundling in 2016. In 2023, the:

- biggest five businesses contributed 72% to trading profit (down from 82% pre-unbundling) and 66% of revenue (down from 75% pre-unbundling);
- next six to ten businesses contributed 23% (up from 17%) to trading profit and 25% of revenue (14%); and
- remaining businesses contributed 5% (2%) to trading profit and 9% of revenue (4%).

Bidcorp's concentration risk is lessening – and is likely to reduce further as our smaller businesses scale up and utilise their long runways for growth.

Our expected credit loss for trade receivables was little changed from that of 2022 (5,9% vs 5,8%) and remains elevated relative to 2019 but is reflective of prevailing economic uncertainty and heightened cash flow pressures on independent free trade customers.

In 2023 capital expenditure amounted to R4,3 billion – up from R2,9 billion. Expansionary capital investment rose to R1,8 billion (2022: R1,6 billion). This included new distribution centres, and plant and equipment, the overwhelming bulk of which was spent on creating further capacity closer to our customers – a key competitive advantage in all markets. The group continues to invest to reduce our carbon emissions. Our initiatives and investments in this regard are focused firmly on the areas within our control, that is in zero-emission, energy-efficient refrigeration and renewable energy generation. However, acquiring an environmentally friendly fleet of vehicles capable of meeting our operational requirements remains elusive.

Replacement capital expenditure for the year was R2,5 billion, ahead of depreciation as replacement values increased due to inflationary pressures, the timing of vehicle fleet replacement (given long lead times), and a backlog of supply constraints experienced in 2021 and 2022.

Acquisitions in 2023 consisted of nine bolt-on investments, at a combined cash cost of R1,3 billion. Since 2016, Bidcorp has spent R6,8 billion acquiring 68 businesses, in line with the group's strategic focus on what we call acquisitive-organic growth through bolt-on acquisitions.

Working capital days, calculated on a quarterly average basis, were higher at 7 days (2022: 5 days) but better by six days against pre-pandemic comparatives (2019: 13 days). This derived largely from higher inventories, which were needed to provide a buffer against supply chain disruptions. Yearend working capital percentage to revenue stood at an excellent 3% – well below our normalised target of 4% to 5%.

Debt and cash management

Cash generated from operations after working capital was R13,2 billion, up almost two-thirds on 2022, an exceptional result with 113% of EBITDA being generated into cash (2022: 92%). Non-cash items of R694 million comprised mostly share-based payment expenses of R227 million and increases in debtor and stock provisions of R442 million.

Free cash flow (excluding dividends but after operating cash flows, working capital, capital investments and lease payments) was an inflow of R3,4 billion (2022: R1,5 billion), an excellent result given capital investments (including acquisitions) of R5,8 billion.

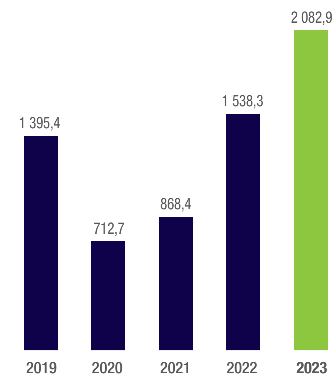
A key feature of our decentralised business model is to ensure that our on-the-ground businesses have enough liquidity to respond effectively to operational requirements, risks and opportunities. At the same time, we monitor returns on funds employed (ROFE) and so it is pleasing to note how our ROFE (excluding freehold property) grew from 49,4% in 2019 to 61,5% (although marginally down on the percentage achieved in 2022).

Excluding IFRS 16 charges, net finance charges were 37,5% higher at R463 million (2022: R336,6 million). Interest costs were higher largely on increased average working capital requirements – which stemmed from pressure on supply chains and the need for higher inventories, greater activity, and significantly firmer interest rates.

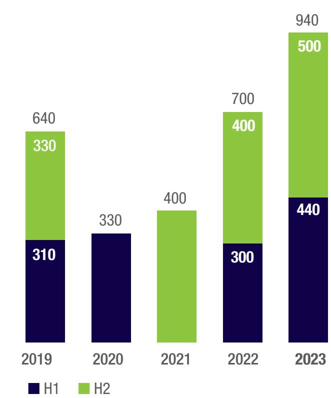
Of the R14,3 billion group gross borrowings at June 30 2023 (2022: R9,1 billion), 83% were at fixed interest rates. The group remains well capitalised and retains adequate headroom for further organic and acquisitive growth. At yearend, non-IFRS 16 EBITDA interest cover remained healthy at 23,2 times (2022: 25,2 times). Total headroom available including uncommitted facilities and cash and cash equivalents stood at R26,3 billion.

Net debt to EBITDA was 0,2x (2022: 0,2x), well within our debt covenants and further evidence that Bidcorp has substantial headroom with which to weather unanticipated disruption and fund expansion opportunities.

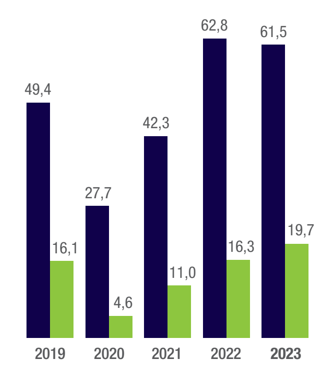
HEPS *(cps)*



Dividend per share *(cents)*



Annual returns *(%)*



ROFE excludes freehold property

In March, finance of €195 million was raised through the United States Private Placement market and despite the timing (coincidentally on the same day that witnessed the collapse of Silicon Valley Bank), we were very satisfied with this particular capital raise – which termed the debt out to five and seven years – and the market response. The proceeds of the latest placement were used for refinancings and expansion.

Capital management

Despite our higher borrowings in 2023, Bidcorp remains conservative on leverage as this has a relatively muted impact on returns which, whether measured on equity, invested capital, or funds employed, all remain extremely positive and best in our peer group. So, we continue to believe that the greatest driver of returns is reinvestment in the business and hold the position that share buy-backs, certainly in the current environment, are not accretive and therefore not in shareholders' best interests.

Appreciation

I need to congratulate our management teams across the world on another sterling performance and thank them for the extremely high standards of financial accountability and reporting.

Also, my thanks to the members of the group's audit and risk committee who add considerable value to our governance oversight.

Outlook

Most sectors of our industry have now approached normalised trading levels. Real growth is likely to be more normalised and gains hard won, but we are well-positioned to exploit opportunities as they arise.

We expect that interest rates will remain elevated for longer, in most countries. Food inflation is also expected to moderate but will likely remain "sticky". The impact of currency volatility is expected to continue to bolster HEPS in 2024.

We are conscious that economic activity can soften quickly – and may well do so in the new year. Such developments will require adjustments to our short-term trading efforts but I am confident that our various management teams will, as ever, be more than sufficiently nimble and responsive, without necessitating any change in overall group strategy.

David Cleasby
Chief financial officer

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Financial results highlights for 2023

Revenue

R196,3bn

(2022: R147,1bn)

↑ 33,4%

Constant currency ↑ 23,5%

Cash generated by operations (after working capital)

R13,2bn

(2022: R8,0bn)

↑ 66,0%

Total distribution per share

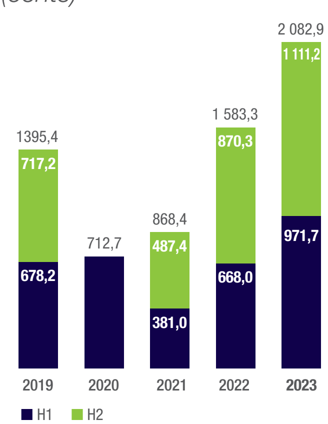
940,0 cents

(2022: 700,0 cents)

↑ 240,0 cents ↑ 34,3%

Headline earnings per share

(cents)



↑ 35,4%

Constant currency ↑ 25,3%

Summary consolidated statement of profit or loss

for the year ended June 30

R'000	2023 Audited	2022 Audited
Revenue	**196 341 239**	147 138 311
Cost of revenue	**(149 537 909)**	(111 495 826)
Gross profit	**46 803 330**	35 642 485
Operating expenses	**(36 294 726)**	(28 051 710)
Trading profit	**10 508 604**	7 590 775
Share-based payment expense	**(226 717)**	(161 258)
Acquisition costs	**(45 806)**	(16 320)
Capital items	**(77 724)**	(333 150)
Operating profit	**10 158 357**	7 080 047
Net finance charges	**(909 802)**	(689 754)
Share of profit from associates and jointly controlled entities	**89 242**	39 718
Monetary gain arising from hyperinflation in Türkiye	**7 426**	69 215
Profit before taxation	**9 345 223**	6 499 226
Taxation	**(2 393 482)**	(1 584 987)
Profit for the year	**6 951 741**	4 914 239
Attributable to:		
Shareholders of the company	**6 886 260**	4 824 720
Non-controlling interest	**65 481**	89 519
	6 951 741	4 914 239
Shares in issue		
Total ('000)	**335 404**	335 404
Weighted ('000)	**333 999**	334 062
Basic earnings per share (cents)	**2 061,8**	1 444,3
Headline earnings per share (cents)	**2 082,9**	1 538,3
Distributions per share (cents)	**940,0**	700,0

Income statement

Revenue of R196,3bn (2022: R147,1bn) is up 33,4% (constant currency improvement of 23,5%). There has been a strong recovery in the discretionary spend sectors, which has benefited our strategic focus on "the right customers" which has led to good revenue increases in the independent sector.

Gross profit % decreased to 23,8% (2022: 24,2%) reflecting that most businesses have been able to substantially pass through product and cost inflation increases. Gains were achieved from the inflationary environment but were offset to a small extent by strategic decisions to sacrifice margin to maintain volumes, some discounting of overstocked positions, and some pressure from the exposure to national customers where there has been a timing lag in repricing contracts.

Group trading profit increased by 38,4% to R10,5bn (2022: R7,6bn), 28,1% higher in constant currency. Trading profit margins improved to 5,4% (F2022: 5,2%) where the slight drop in gross margins has been made up by the improved cost-of-doing-business.

Final dividend of 500,0 cps (up 25% on 2022 final dividend) giving a total dividend of 940,0 cps for 2023 (up 34% on 2022 total dividend).

Summary consolidated statement of cash flows

for the year ended June 30

R'000	2023 Audited	2022 Audited Re-presented[1]
Cash flows from operating activities	**7 665 873**	3 483 490
Cash generated by operations before changes in working capital	**13 665 726**	9 940 211
Changes in working capital	**(453 756)**	(1 983 500)
Cash generated by operations	**13 211 970**	7 956 711
Finance income received	**154 398**	53 479
Finance charges paid	**(870 503)**	(599 620)
Taxation paid	**(2 012 597)**	(1 525 772)
Dividends paid	**(2 817 395)**	(2 347 829)
Cash flows from investment activities[1]	**(5 774 795)**	(3 379 734)
Cash flows from financing activities[1]	**1 735 055**	(869 350)
Movement in cash and cash equivalents	**3 626 133**	(765 594)
Cash and cash equivalents at the beginning of the year	**7 398 250**	8 120 639
Effects of exchange rate fluctuations on cash and cash equivalents	**1 187 723**	255 095
Hyperinflation effect on cash and cash equivalents	**12 527**	(211 890)
Cash and cash equivalents (including bank overdrafts) at end of the year	**12 224 633**	7 398 250

[1] *Refer to statement of cash flow re-presentation note.*
[2] *Payments made to vendors for acquisition were in line with their acquisition date fair values.*

Cash flow statement

Cash generated by operations for 2023 split R6,1bn in H1 and R7,6 bn in H2.

Working capital absorbed R0,5 bn vs. R2,0bn absorbed in 2022; delivering a net 3-month monthly average working capital cycle 7 days (2022: 5 days). Net working capital % of annualised revenue (WAR%) of 3,0% (2022: 3,4%) a pleasing outcome as the groups' normal WAR% is between 4% - 5%. As expected, there was some working capital absorption into 2023.

Cash effects of investing activities of R5,8bn (2022: R3,4bn) include investments in PPE reflecting maintenance capex (R2,4bn), investment into new capacity (R1,8bn) on modern distribution facilities with freezers and refrigeration necessary for anticipated organic growth. Our strategic intention remains to own our facilities (73% of property portfolio owned).

Net acquisitions and investments R1,4bn (2022: R0,9bn) include 9 bolt-ons at a cash cost of R1,3bn in the UK, Australasia, Emerging Markets, and Europe to expand geographic reach and product range. Contributions of 1,6% to revenue and 2,2% to trading profit.

Summary consolidated statement of financial position

as at June 30

R'000	2023 Audited	2022 Audited
ASSETS		
Non-current assets	**52 857 592**	40 493 131
Current assets	**53 782 660**	39 074 357
Total assets	**106 640 252**	79 567 488
EQUITY AND LIABILITIES		
Capital and reserves	**40 194 621**	31 103 472
Non-current liabilities	**24 773 239**	16 726 268
Current liabilities	**41 672 392**	31 737 748
Total equity and liabilities	**106 640 252**	79 567 488

Balance sheet

Balance sheet remains strong with reliable cash flows which allows flexibility to achieve strategic growth objectives, organic and acquisitive.

A refinancing exercise was undertaken through February and March 2023 to access additional liquidity ahead of further global interest rate increases. The United States Private Placement (USPP) market was accessed for €195 m, at differing tenures of five and seven years, and at an average fixed interest rate of 4,61%. Capital raises over the past 2 years have been concluded at a blended rated of 2,87%.

OUTLOOK

Group sales tracking well into July and August 2023, despite the poor Northern Hemisphere summer. Weekly sales into the first quarter of 2024 (15% ahead of Q1 2023) tracking at consistently above R4,1bn per week in constant currency.

Further inflationary impacts anticipated from product pricing and operating costs, but moderating. Currency volatility likely to remain a feature into 2024; ZAR is the reporting currency however non-ZAR trading profits make up 93% of the group. Forecasting risk remains high, as the ongoing uncertainty remains constant in the global environment – our provisioning remains conservative amid potentially more difficult economic conditions ahead (global recession).

Bidcorp is cash generative, and we are expecting to remain so into 2024. Further and continued capital investment (capin) planned across the group - businesses in Australasia, UK, Europe, and Emerging Markets all planning capital investment to cater for anticipated organic growth. Adequate headroom remains to fund our organic and acquisitive growth.

No material debt maturities in the year ahead, but more efficient treasury focus in 2024 to counter rising interest rate environment. Bidcorp core philosophy of naturally hedging assets and liabilities remains – businesses are managed and measured in their local currencies. The strength of Bidcorp's financial position remains a competitive advantage. 2024 has started off as expected – Bidcorp budgeting for real growth into 2024.