Chief executive's report

Brian Joffe
Chief executive

Highlights

- The Angliss acquisition gives us direct exposure to the high-growth markets of east Asia and China
- Our international foodservice business is a world leader
- The acquisition of the Viamax fleet management business is complete, implementation effective September 2007
- The Bidvest growth model proves its value for the 18th successive year
- Revenue up 23,8% to R95,7 billion
- Trading profit rises by 24,3% to R4,5 billion
- Headline earnings rise by 20,7% to R2,9 billion
- New investment of R2,0 billion in capital expansion reflects our confidence
- Organisational changes highlight the strength of Bidvest's succession generation

Introduction

Our results are pleasing, driven by organic growth and operational excellence. We have maintained our record of uninterrupted success, with compound growth in headline earnings per share above 25,0% for 18 successive years. Return on funds employed and sustained, long-term growth remain the key yardsticks of our own performance. ROFE remained vigorous at 50,2% while the trading margin was largely stable at 4,8%.

Revenue of R95,7 billion was 23,8% up on 2006 while trading profit increased by 24,3% to R4,5 billion (2006: R3,7 billion). Headline earnings were R2,9 billion (2006: R2,4 billion).

International perspective

Trading profit from our foodservice businesses in the United Kingdom was disappointing. However, operations in continental Europe continue to improve. Higher interest rates, stronger inflation and changes to the business mix created some challenges for the United Kingdom operation, but higher growth in Belgium and the Netherlands contributed to improved performance by their revitalised management teams. The acquisition of the largest foodservice business in Flanders will further strengthen our Belgian business. We are now the number one player in the Belgian foodservice market. Substantial growth is, albeit relatively small in the Bidvest context, continuing in the hospitality industry in the United Arab Emirates.

The Australian economy continues to benefit from the global commodities boom and Bidvest Australia has again registered strong growth. The acquisition of the Angliss foodservice businesses in Singapore, Hong Kong and the People's Republic of China creates an exciting platform in these high growth markets in Asia. The New Zealand economy remains flat, but solid growth is being achieved by our operations.

Bidvest's foodservice business remains the largest player in its industry outside of North America.

African perspective

Within the South African market, strong growth is being maintained and new jobs are being created. The national outlook remains positive, giving grounds for hope that our political "miracle" may yet be followed by an economic one.

However, inflation has increased and we witnessed a succession of interest rate rises as the authorities became increasingly concerned by the record level of household debt.

Within the South African market, inflation increased while we witnessed a succession of interest rate rises as the authorities became increasingly concerned by the record level of household debt.

The cumulative impact was first felt in November and December 2000, and by year end businesses with direct consumer exposure were under some pressure.

The implementation of the National Credit Act also contributed to a slowdown in new vehicle sales. A decline in the number of hire purchase agreements may be attributable to the bedding-in of unfamiliar procedures, but I suspect that we may be seeing the first stages of a fundamental shift in credit-based trading volumes within the consumer sector.

Though consumer markets came under pressure, South Africa's gross domestic product continued to grow at a healthy rate as the national strategy of encouraging greater fixed investment gained momentum. Business confidence remained high. South African imports continued at a high level, partly as a result of higher fixed investment, putting pressure on the rand. The overall effects for Bidvest were positive as exchange rate trends helped to swell profits from international operations.

Many jurisdictions within southern and central Africa – with the notable exception of Zimbabwe – are engaged in a process of long-term economic reform. Foreign investment has picked up, economic growth is being sustained and trade volumes are beginning to increase. Afro pessimism has been replaced by optimism, even in some international investment centres.

We increased our stake in Namsov Fishing Enterprises in Namibia and strengthened the business through the complete acquisition of Namsea. Poor catches limited earnings growth.

In South Africa, low agricultural volumes affected the financial performance of Bidfreight. At our food ingredients businesses, corrective action and a back-to-basics approach are expected to lead to an improvement in results in the forthcoming year. Bidvest Industrial and Commercial Products optimised a supportive macro-economic environment and achieved strong growth. Contract delays early in the year affected the overall performance of Bidpaper Plus despite new business successes later in the year. Intense competition and the impact of interest rate increases affected trading income from our automotive business while volumes at year end were also impacted by the NCA implementation. Vehicle recall and impairment costs at GAZ SA were also negative for the business.

Bidvest structures

Our two most significant structural changes involved Bidvest Australasia and Bidfood.

Strategic growth into Asia and the alignment of these operations within Bidvest Australasia promoted a name change to Bidvest Asia Pacific.

During the Angliss consolidation, Bidvest Asia Pacific will remain on a growth footing in all markets – Australia, New Zealand and Asia. Our decentralised business model empowers local management while encouraging a search for synergies and operational efficiency. The approach will now be extended to Asia.

Bidfood operations have been refocused, and reshaped management teams have taken the helm. Bidfood now comprises three focused divisions: Caterplus, Bidfood

Ingredients and Speciality. The ingredients division became operational in April following a reorganisation that houses all food ingredient businesses within a single structure. A unified management structure has been adopted at Caterplus, integrating the management of our dry food and frozen food services. Lufil, the paper products business, has been incorporated into Bidpaper Plus, Hotel Amenities and Accessories is now part of Bidserv and Vulcan Catering Equipment part of Bid Industrial and Commercial Products.

Succession success

The structural changes reflect the strength of Bidvest's managerial resources. Energetic leadership teams have taken responsibility without recourse to external recruitment. There is a knock-on effect down the reporting lines as younger people move into positions of responsibility. Bidvest's "founder-generation" of owner-managers is being replaced by entrepreneurial executives who have been developed internally. This "changing of the guard" is evident across all our businesses and brings further impetus to our transformation strategy.

Acquisitions

The Angliss acquisition was followed by the purchase of the Viamax fleet management and leasing business from Transnet, South Africa's government-owned transport and logistics group. The purchase adds further momentum to the strategic diversification process at Bid Auto and became effective in September.

The success of Bidvest down the years has been driven by a blend of both organic and acquisitive growth. We will maintain this proven model. Bidvest will continue buying the right business, at the right price, when the right strategic fit is evident and where Bidvest can add value through the application of its entrepreneurial model. These considerations underpinned both the Angliss and Viamax transactions.

Private equity

Bidvest is an international company and operates in a global environment that has been fundamentally affected by the activities of the major private equity funds. These activities have inflated the pricing of acquisitions and sharpen the challenge of finding and unlocking value.

South Africa has only been exposed to the private equity phenomenon for a relatively short time and it is doubtful whether all the dynamics of the new environment are as yet fully appreciated.

Value under scrutiny

Traditionally, boardroom discussions focus on earnings. In a business climate increasingly influenced by private equity activities, cash flows and valuations will become equally important.

Large questions are raised. The valuation methodologies adopted by private equity investors are sometimes at odds with traditional benchmarks. Do stock markets accurately value the assets of a listed business?

Jobs under fire

Costs and jobs are also crucial issues as the private equity model is frequently driven by cash flows and the need for short-term cash returns. Every business has to be efficiently run, but is instant cash generation an efficient model in a growth-minded business or a growth-focused economy? Job losses to facilitate a highly profitable exit will certainly be a "hard sell" in a jurisdiction such as ours. Radical reductions in training investment would also cause controversy.

International private equity investors are rarely sensitive to domestic market issues such as these as the main driver of these developments is global liquidity – creating a conundrum for national policymakers who may want to attract foreign investment, but not at the cost of local jobs.

Bidvest is in a fortunate position. We don't have to chase acquisitions to grow. Continued momentum is assured by an organic focus and businesses that remain strongly cash generative even while investing in future growth.

Privatisation

The question of local versus international priorities is also relevant in a policy domain such as privatisation.

In smaller economies, policymakers tend to view privatisation as the sale of state assets to foreigners. This lopsided perspective should be challenged; especially in the South African context.

Our corporate sector has benefited from strong earnings growth. Many local companies have the resources to engage in substantial transactions. We should not underestimate the business skills found within our private sector. Local business is close to local issues and knows what it takes to unlock local potential – key considerations when engaging in any turnaround strategy.

Selling to foreigners is second prize. Local privatisation transactions to businesses that understand South Africa's policy dynamics are much preferred.

Hopefully, our strategic situation will encourage government to give privatisation much greater priority. If sustained economic growth is the cornerstone of official policy then locally focused privatisation is a tool that cannot be ignored.

Policy direction

Clear policy direction is called for when considering ways of maximising the private sector's contribution to national prosperity, improving South Africa's global competitiveness and assisting government with service delivery.

State monopolies often compete against private enterprise. If government aims to facilitate job growth, then companies with high-growth potential cannot be hobbled by unfair competition such as this. Government and business should be partners, not competitors.

Government has a key role in the economy. Where investment is needed in the national interest, government can provide it. In high-risk areas where returns are doubtful, business may be hesitant to become involved. Government can lead by making the initial investment and laying the groundwork. But why would government want to remain in industries where private sector companies have long demonstrated their ability to achieve efficiencies and offer improved services?

Policy issues

At some stage, all policymakers have to strike a balance between the strategic quest for economic growth and the need to combat inflation. Experience shows that high growth in a developing economy is rarely accompanied by low inflation and when a choice has to be made, developing nations usually opt for growth.

In South Africa, the policy imperative is job creation, which may induce the authorities to allow the occasional breach of the 6% inflation "ceiling". Bidvest has no major concerns over this long-term policy risk in view of government's record for sound management and our Group's history of solid returns in a mildly inflationary environment.

Strategic information

As a large employer and major corporate group we are subject to strategic planning risks. Our businesses invested R2,0 billion in capital expansion in 2007. Given less regulated environments such as ports, investment would have been substantially higher. Budgetary decisions of this magnitude are not only based on the experience and judgement of the board and senior managers, but on the data available to the decision makers.

Strategic constraints

The ability of some of our businesses to grow is being constrained by pressure on national infrastructure. The rate of infrastructure delivery and improvement in South Africa is therefore a critical issue. This capacity constraint is usually put into the context of the transport network, but the issue is wider than this. Major implications for national growth will result if such delivery is not addressed.

Bidvest is not an IT company, but we make increasing use of IT platforms, e-procurement and sophisticated management information systems. Limited bandwidth in the South African regulatory environment has not been a constraint for us in the past, but could be in future.

Every industry is becoming a segment of the e-economy. Future earnings at every business in South Africa could soon be sensitive to bandwidth availability.

Official statements on the need to bridge the digital divide indicate that government is alive to the challenge. Hopefully, the issue will receive increasing priority; especially as greater bandwidth availability is a prerequisite if South Africa wishes to position itself as the economic hub of Africa and the preferred Africa base for international business.

National DNA

South Africans are becoming accomplished change managers, but when reinvention involves the entire country, the leadership task can be increasingly challenging. However, precedents such as the Malaysian turnaround suggest that huge benefits are possible when the right choices are made.

Business risks

Organisational culture is a risk factor; especially if hubris threatens to set in. Bidvest needs to maintain a culture of humility notwithstanding our continued success. The single common characteristic of successful Bidvest managers is their practical, no-nonsense attitude to the job. Don't dictate to your workers, relate to them. Thankfully, our senior people ensure this lesson is absorbed by the up-and-coming generation of leaders.

A risk factor for any large employer is the industrial relations climate. In South Africa we have recently seen a wave of strikes and industrial unrest, often motivated by political considerations not industrial. Despite rising inflation, our companies have been passing on positive wage increases for some time. Furthermore, the workplace conditions at our businesses are often the envy of the industries concerned. Better conditions have proved to be no defence against strike action and more industrial action cannot be ruled out.

Our mitigation strategy is to maintain and strengthen our record as a good employer. The investment in our people and their working conditions continues, as does the effort at all business units to maintain continual two-way communication with our workers and trade unions.

Social responsibility

Bidvest has been acknowledged by members of the trade union movement as a responsible employer with a strong record as a job saver and job creator.

Recognition of our positive role came at the inaugural Unity Awards, where we were one of only 11 companies to win recognition. The benchmark is not only profit but job creation, skills transfer, economic and social contributions, employment conditions, affirmative action, environmental practice, health and safety standards and corporate governance.

Accolades for socially responsible investment are new in South Africa and we were proud to feature among the first winners.

Challenges

Building and retaining a national skills-base is a challenge for every developing economy. South Africa is no exception. It is one of the ironies of the new millennium that supposedly "backward" Africa has emerged as a major incubator of talent for developed Europe and North America.

Top performers are desperately needed at home. Highly skilled people build high performance economies. With prosperity and security in place you keep talent in place. The process takes time, a commodity that's in short supply as talented people also tend to be mobile and impatient. This delay brings added urgency to the task of every government in Africa to not only set the policy framework but accelerate policy implementation. If you don't start moving as a nation many of your most talented people will start moving as individuals.

Business also faces the talent retention challenge. Growth-minded businesses are learning that you can't simply train; you must also retain.

Educational investment

The starting point on the skills path is the education system and South Africa's education investment is at one of the highest levels in the world. Delivery remains a challenge particularly in the fields of Maths and the Sciences.

We are confident that sustained investment in education will pay dividends and at least some of our skills shortages will ultimately ease as our young people grasp the opportunities that are now available to them. It is up to business to complement official policy through sustained social investment in education, the focus of Bidvest's social investment for some time.

Black economic empowerment

Our empowerment partners in the Dinatla consortium have successfully refinanced their investment in Bidvest, ensuring the continuation of a highly successful partnership.

Since this relationship began, our market capitalisation has grown from R13,0 billion to R48,4 billion, – substantially increasing the value of Dinatla's investment while confirming that BEE represents a major opportunity for those with a proactive approach.

Empowerment is a strategic business imperative and the financial aspects of BEE at Group level are important, but over time the impact at subsidiary level becomes the key element. New entrepreneurs and joint venture partners, ambitious executives and diligent workers have to see day-by-day transformation of their prospects.

Broad-based transformation is entrenched at Bidvest and we are determined to maintain momentum as reflected in our total spend on enterprise development, BEE procurement and training.

Appreciation

The Bidvest team continues to grow. We employ 104 184 people locally and around the world; a mixture of seasoned Bidvest performers and new faces, all making diverse contributions in decentralised operations on four continents. The common thread is "Proudly Bidvest" as our people take pride in their work, their businesses' performance and their own ability to make a difference within their communities.

Bidvest people are a remarkable team. Give them a chance and they invariably make the most of it. Many were once employees of underperforming companies. Today they are industry leaders. I salute every one of them and their infinite capacity for transforming the ordinary into the extraordinary. I thank them for another year of sustained growth.

I also extend my thanks to management for a year of unstinting effort.

I say farewell to long-standing colleagues and members of the senior executive team, Colin Kretzmann and Dave Rosevear. I welcome David Cleasby, who succeeds Peter Nyman as financial director; part of a wave of younger managers in the Group.

I thank the members of our board for their contribution and support. Sustained growth through two decades would not be possible without astute strategic direction from our directors.

The future

The environment is generally favourable in the markets in which Bidvest is represented.

South Africa is enjoying the longest run of sustained GDP growth in managerial memory, a situation we believe will continue up to and beyond the 2010 Soccer World Cup. We therefore see opportunities for sustained growth.

Tackling crime has to be South Africa's top priority. We also have to free the bottlenecks to sustained growth wherever they occur, be they skills shortages, pressure on transport infrastructure or power generation capacity. Action will enable growth industries to keep on growing. The private sector has a role to play with government in alleviating those bottlenecks. With tightening credit conditions and rising local inflation, management's focus at Bidvest will be on rigorous cost containment and absolute attention to asset management.

A new, positive mood is evident in many parts of Africa. We believe business has a responsibility to contribute to positive change in our home continent by encouraging the development of local capital markets and showcasing the benefits of the entrepreneurial business model.

Specifically, we see strong potential in Namibia and have consolidated our Namibian assets in preparation for a Windhoek listing. We are confident our Namibian operations are well positioned to benefit from an increasingly supportive policy environment.

In Europe we are confident our growth objectives will be achieved. The United Kingdom operation has adjusted its business mix and secured major account gains while we see encouraging progress in both the Netherlands and Belgium.

Bidvest Asia Pacific has made huge strides. We are the national leaders in foodservice distribution in Australia and New Zealand and are poised to unlock considerable opportunities in Asia.

Management is committed to ensuring that Bidvest will be in a position to deliver superior results for the year ending June 2008. Our 2005 strategic objective of doubling the size of Bidvest in five years remains on track.