

Bidvest Conference Call Transcript

28 November 2017

FOUR MONTHS TO 31 OCTOBER 2017 BUSINESS UPDATE

Operator

Good morning ladies and gentlemen and welcome to Bidvest's four months to 31 October 2017 business update. All participants are currently in listen-only mode. There will be an opportunity to ask questions at the end of today's presentation. If you should need assistance during the conference please signal for an operator by pressing star and then zero. Please note that this conference is being recorded. I would now like to hand the conference over to the Chief Executive Officer of Bidvest, Mr Lindsay Ralphs. Please go ahead sir.

Lindsay Ralphs

Thank you very much and good morning everybody. Just for clarity we're going to give you a bit of an update on the four months to the end of October because we're already at the end of November so we are aware of how we've performed in the period. As we said in the press release that we put out this morning – I'm sure you've all had a chance to have a look – our results are extremely pleasing, probably far better than we would originally have anticipated. Though the economy still remains very difficult, very tight, I think the resilience of Bidvest and the fact that we touch each and every part of the economy is really starting to show dividends for our group.

And on my right is Mpumi Madisa, and she is going to give you a little bit of insight into our business development issues. And across from me is Peter Meijer, our Chief Financial Officer. He will give you some colour on our financial balance sheet type performance. We can't give you any income statement numbers obviously. And then obviously Ilze Roux is with us as well and she's available if you want any questions about corporate affairs.

So overall the first quarter was extremely good. And then we went into October and we had another very good month. We don't yet have a feel for November, but we are still quietly confident that we will continue to do relatively well in what is a very tight economy. I will take you through our various operations. Just to give you a bit more colour on possibly why we are doing as well as we are doing. The Brandcorp acquisition in the first quarter wasn't in last year, and that's a fairly significant acquisition as you are aware of. Noonan came in for the month of September and then obviously October as well. And that contributed very significantly. We are very comfortable with Noonan, and I will touch on it a little bit more. And if you think about some of the areas in which we operate such as the agricultural sector I'm sure a lot of you will have noticed that tractor sales are up. We had very good rains last year, not in the Western Cape unfortunately but in the rest of South Africa. So the farmers are doing particularly well. You will see that reflected in our freight operations since we are moving a huge amount of maize out of the country on an export basis.

I think what is probably very important for you to all understand is the farming industry is doing well Bidvest is touching it somehow. And Mpumi is going to talk a bit more about that in a bit more colour. The mining sector, I think all of you guys being analysts would have seen that the commodity prices are up. A lot of the mining guys have done particularly well. We touch the mining industry extensively within this. Mpumi is going to give you some colour on the number of companies that are actually trading within this sector and the type of stuff that we do. But you can rest assured that any part of the South African economy that slowly starts to see some green shoots Bidvest will be there somewhere, whether it is at the airport, whether it is travel, whether it is

agriculture, mining etc. And that is really the resilience and the benefit of the business that Brian Joffe built over what is now nearly 30 years. And it is really starting to reflect in a very difficult economic climate. So we are not for a minute suggesting that SA Inc. has turned around, is thriving. That is not what we're saying. We're just saying that the resilience of Bidvest touches so many parts of South Africa, and there are parts of South Africa that have improved.

So if you go down to our port operations the ports are full. The ships are lining up. There is a lot going on. On the consumer facing side things are still very tough. As you saw in our announcement today we did say that our consumer facing businesses are tough. But we don't have a huge amount of exposure to the consumer market. We've got Yamaha which is a very high-level branded product, and we've got Home of Living Brands which is the old Amalgamated Appliances. But even there we sell toasters and kettles, so very basic consumer facing products. So even though they are having quite a difficult time we don't have a big exposure to these. Companies like Cellini which is a big upmarket luggage brand have also been going through a tough time.

A huge amount of our business is annuity based. We employ about 135,000 people and a lot of those people operate on a contractual basis. Some of the industries that we operate in such as our hygiene services or plumbing supplies, electrical supplies are resilient because they are needed commodities or needed services. Washroom services by way of example. So we're very comfortable that we are in a good space with regards to the seven divisions that we operate in. I will take you through each of them very briefly. At the end I just want to touch on some of our non-core assets like Adcock and Comair, and then I will just talk a little bit about some of the potential possible other acquisitive opportunities that we may have.

So if I can move on to our actual business operations, as I said our freight business is definitely benefitting very significantly from movement of maize out of the country, benefitting significantly from the movement of commodities such as chrome, iron ore, manganese. All those specialised commodities have risen quite dramatically. A year ago our bulk connection terminal was pretty empty. If you go there today you will find it completely full, just to give you an example. On the consumer facing side, the air freight specialised imports and our air freight operations in Bidvest Panalpina Logistics are down. But our freight division we have gone on record to say that they would have a very good year and that is proving to be the case.

Our services business I think we did report last year at our results it makes about R2 billion EBITDA. That is our annuity contractual based business. We continue to do exceptionally well. Mpumi is going to talk a fair bit about our facilities management services. Some of our businesses such as Steiner Hygiene is an exceptionally good annuity type income business. People don't often cancel given the fact that you need to wash your hands in the washroom, and that business continues to gain traction as we go every single month.

Commercial products, I think I have already mentioned that the Brandcorp acquisition is in for an additional three month period. They had a good four months. And I've already mentioned the consumer facing side of it has been a little difficult. But as I said because we touch so much of South Africa, companies like Academy Brushware, Afcom that supplies the agriculture industry, Burncrete which supplies the mining industry, our materials handling business, even Vulcan which is the kitchen equipment business had a very good, solid result.

Financial services, we have had a roll-off of some of our fleet business. We had a large contract in Lesotho which was a short-term contract. That has rolled off. We haven't yet been able to replace that. But the mix of what we have now in our financial services sector has been improved. We have done a number of small bolt-on acquisitions. To give you an example we bought a small acquiring business. We bought a trade finance business. And we are starting to develop that business into a much more comprehensive financial services business. The

main business is fleet management. There is no doubt it is the largest fleet management business in South Africa now. And we are a very big player in FX as well. We do have a short-term license and a long-term license and we have beefed those up quite significantly. So the overall financial services piece has produced a nice set of results.

Automotive. New car volumes have grown. Unfortunately the margins there are still extremely tight. There is a huge amount of pressure and competition between the OEMs and in fact the dealers. Used vehicle volumes are up quite nicely. The margins there are a lot better. But overall our automotive business is marginally down on last year, which is to be expected in this type of economy.

A very pleasing result from our electrical division. You will remember last year our electrical division showed quite a nice improvement in profitability. We have had a lot of innovation within our electrical division, gone into a lot of alternative energy products, and that has supported the results for our electrical division.

Office and print, that is obviously quite a tough industry. Traditional print continues to decline. But as we have said before we have moved quite successfully into digital print. We have an exceptionally good CEO who is now running that division, Kevin Wakeford, and he has done a lot of restructuring and reorganising. Pete might touch on some of our good expense control and margin management. So even there we have seen quite a nice uptick in the results.

Our Namibian business, which is really our problem child, we have gone public to say that we are going to sell the fishing business. It really is just a matter that the Namibian Minister of Fisheries has attested that the resource remains in the hands of Namibians. So we have gone public with a cautionary. We are in negotiations to dispose of the fishing business. They are very good hard assets because these vessels are all Dollar based assets. We will get our NAV back.

From our point of view we will obviously report our six months results at the end of February. We are very encouraged with them and we're quite optimistic about the future of the country to be honest. If I can just touch on that for a moment, obviously no one knows what is really going to happen in December but we still have a large level of optimism about the fact that change is coming. I think the exposure of KPMG, Bell Pottinger, the exposure of all the things that have happened in the country are positive because at least it has brought it to the fore. Whatever happens in the December election at the ANC conference it will bring change. There will be a difference. And I think it can only be positive. So we do have plans to invest very significantly. Earlier in 2017 we announced that we approved a R1 billion LPG project in Richard's Bay. That groundwork is already completed. That will give us a very significant return. It will also assist the country in creating jobs and creating a much better provision of LPG for the community which doesn't exist in the country.

There are a couple of fairly good acquisitions that we are potentially going to look at. Grindrod has announced that they are going to unbundle. They are going to list off their shipping business. We are not interested in ships. We are not interested in banks, but freight is an attractive business for us. So when that process kicks off we will be part of it. The Portuguese government has announced that Mercantile Bank will be sold off in South Africa. That is public knowledge. And we are going to be part of that process. So those acquisitions amount to the tune of about R6 billion roughly, if we were successful. There is no guarantee that we will be successful. But we would take a very hard and serious look at those two. I think that would be a great fit for Bidvest and we will engage when the process commences.

I mentioned the LPG gas project. And we are also busy with another R200 million multipurpose tank project in Richard's Bay. The returns that we get out of some of those infrastructure investments are in the 20% after tax, so very good returns. Part of the reason that the freight operation is doing so well is that we built fuel tanks for Puma in FY17. Those have now come on stream. They are ten year contracts, 100% paid for, and we made 20% odd returns on those investments.

Just with regards to our non-core assets we are quite far advanced in certain negotiations for Adcock, for Comair, for Mumbai Airport. And we still own quite a significant portion of Bidcorp shares. There aren't too much else left. We disposed of that in FY17. There is another R5 billion or R6 billion worth of assets that we will dispose of. There is no guarantee of when that will come. The Adcock sale would need to be to South Africans. We won't sell it internationally as it is viewed as a strategic South Africa asset. We have excellent relations with the PIC. And it would be sold to a local South African partner.

Comair would also be sold to a South African partner because there is a restriction on ownership of airlines in South Africa. But we have entered into certain negotiations and seem to have quite strong proof of funding for that particular asset. So those are all work in progress. If I could give you any more colour on them and how far they are I would. Clearly no cautionaries have been put out, so that is probably as much as I can really say about that. Do you have any questions for me? Otherwise I can hand over to Mpumi or Peter.

Ilze Roux

Shall we do Mpumi and Peter and then open the floor for questions?

Mpumi Madisa

To give you a sense of what the business environment is at the moment or what we found over the last couple of months, I think as Lindsay has alluded to SA Inc. is obviously not out of the dip that we're in at the moment. So the construction sector remains quite tough. Infrastructure spend by government still hasn't come back. So our businesses that are exposed in those areas definitely feel it. But having said that we are also seeing quite a lot of activity and we're seeing it from a business development perspective so whether it is minerals or commodities that are back, the farming industry that is back. Just to give you another example, whilst we've got drought which is a big problem in the Western Cape we are building desalination plants. And once we start building those desalination plants there is an opportunity for us to start supplying electrical products.

Just to give you some idea of some of the big contracts that have come through over the last quarter, on the Konica Minolta side one of its largest contracts with eThekweni municipality started and they continue to have the treasury contract, so that has done quite nicely. Nedbank, we have recently been awarded the entire Nedbank both the corporate side and all their branches for hygiene. And as Lindsay said earlier our Steiner business is really one of the big businesses that we have in the group. Clover, we have been awarded the entire Clover nationally. Cleaning, pest control, hygiene and gardens. From a business development perspective we continue to be very aggressive in terms of our facilities management strategy. We continue to hunt for new opportunities in the market. We have had a couple of successes with that.

I think what's exciting in terms of the future of our SA is what we can do locally by sharing some best practice between us and Noonan, as well as the recent acquisition that we made of the UK security business. And just to give you a sense, the Noonan team have already visited and were very impressed with our IT systems. So from a technology perspective it seems like we're ahead and they have already taken some ideas back to Ireland. I'm taking a team early January so that we can have a look at their systems, but more importantly understand a little bit better where they're potentially better than us, particularly in their go-to-market strategy. A lot of their

contracts are first generation contracts. Whereas here we wait for contracts to come out on tender, respond and then find ourselves generally successful. The Noonan guys tend to do is go to in-house clients, spend time to convince them, show the models and then gain the contract. And they tend to keep the contract for about eight years. So we will talk to that team and see how we can bring share some of that IP. I think next year our local business is really going to have quite a bit of an edge.

One of the things that I also generally talk about is innovation, how that is assisting us in the market. From an electrical perspective alternative energy products and services continues to grow. We have just been awarded another contract with a municipality to roll-out smart electrical meters. And just to give you another practical example of how the innovation is really giving us a bit of an edge, on the car rental side we launched Snappdrive about a year ago which is basically keyless technology from a car rental perspective. where we would register someone on the system, the person would get an SMS saying your car is in bay E7 and they would go to the bay without going to the kiosk. The ACSA tender has been issued and we are submitting our bids for car rental kiosk allocation and location. And what Snappdrive is going to do for us is that whilst historically it has always been important for your position, so how close are you to the terminal in terms of your kiosk, with Snappdrive it doesn't matter where our kiosk is, even if it is right at the end, as long as we have bays that are closer because you don't have to come to the kiosk anymore. So that type of technology is really giving us an edge in the broader market.

Just to give you some other interesting stats which also talk to growth and expansion, the total number of branches that we've got is in excess of 1,000. So we've got 1,015 branches across the group. And that just talks to the footprint that we have across the group. IT systems, we've got about 205 IT systems across the group. So from a cyber security perspective you can also see how de-risked we are. You can't take down one IT system and bring down the whole of Bidvest. It's not possible. We've got 289 payroll systems. You can imagine 135,000 people on those kinds of systems that we have. So those are some interesting facts that we have that talk to the decentralisation. And then again we continue to strengthen the team. Because we are seeing increased activity across the market so that we've got more feet on the ground chasing those. There are definite opportunities.

Lindsay Ralphs

I said I would come back to Noonan. The Noonan acquisition has been exceptionally successful, better than our expectations. Peter will probably touch on some of the financial metrics of Noonan. Subsequent to the acquisition we have made another £21 million bolt-on acquisition for Noonan which is a very specialised niche security business in London with some very profile clients. So we now own a business there that employs about 15,000 people. So we are still very keen on expanding our international operations probably into two or three specialised niche areas that we're very comfortable in that we can play in the world market. One has to be very careful about international expansion.

But we do believe that in niche specialised facilities management we can operate. We believe we could operate in the hygiene service business because we've competed against Rentokil and Cannon in this country for the last 20 years. Those are two of the largest hygiene businesses. And then specialised businesses like Plumblink. We do believe we have a really good niche model that we've developed in South Africa. We are opening something like ten to 12 branches every single year and their growth has been outstanding. We do think that we have developed a model there that is quite unique that we could play in that marketplace as well. So those are really the three areas that we're going to target for international expansion in the short term.

Just before I hand over to Mr Meijer we did announce this morning that Peter Meijer will be retiring at the end of February next year. So you will see him again once or twice. But the reason for announcing it with this

announcement is the CSP awards that were given to the executive directors. And that was the reason that we made the announcement now as opposed to waiting for his actual retirement. Peter might touch on it a little bit at the end of his little presentation.

Peter Meijer

Perhaps I will touch on it now. This decision of mine to retire isn't something that was made recently. I had the misfortune if you like of both my wife and I having a bit of a health scare about a year ago. So we decided about a year ago that we wanted to enjoy life. So this has been coming for quite some time. So it has been well planned if you like with Lindsay and Bidvest. So I look forward to spending the rest of the couple of months left to add value and I will watch from the outside with fond memories. I'm going to miss you guys.

Thanks Linds. I think just some context. You guys know that we've just come through our first quarter of results, audit committees in particular. It does happen every quarter. We do give our balance sheet and income statements a good shake. So I was really pleasantly surprised when the sum of all the parts ended up in a result that our funds employed management was considerably better this year than it was last year at the same time. The natural consequence of that is with our profitability growth our return on funds employed is also far better. And you will know that stat is something that we refer to a lot in our stats when we discuss it at our analyst presentation. It's a key metric that we use to measure the performance of our CEOs. And obviously with that if you manage the funds employed so much better you get a much better result in cash flow. So our cash flow for the first quarter has really been strong. And when I look into our October results that trend has still continued into the fourth month of this financial year. And then as well you get a tweak down on what we expected our interest charge to be. So I think those were all positive in the right direction.

And then when I looked at some of the superstars, Kevin and his team in the Office & Print side have really been under a lot of pressure in the last 18 months or so and I think they have done an outstanding job in trimming their funds employed down. Obviously the Namibian bunch have been downsizing as well, so they are also in that space. And then there are a few others that have kept their funds employed pretty much flat. I think it's an outstanding achievement in the current circumstances. And when you unpack it to the individual categories inventory is in great shape and very well provided for. I know there are pockets where we've got too much stock for example in the luxury brands on the automotive side, but Steve and his team are doing a great job in reducing that stock.

Then if I just look at the debtors also in good shape. A couple of the blue chips and governments are stretching their terms a bit in this last quarter. I don't think there is anything to worry about, but I'm sure that our management teams will pull that back in line within the next couple of weeks. And then there are some pockets in various debtors' books that need some attention, but nothing alarming. If I look at our statistic of bad debt in the books that we manage there is no trend in there that I'm concerned about. A large part of our book is also covered by credit guarantees. Those are much bigger customers.

Despite volatile times our guys are doing reasonably well at the moment. Our accounting remains quite conservative. And that permeates right throughout the group. And if I then extend that into other items like expenses that is still very well controlled. It includes our acquisitions. I'm still very proud of what our guys have done. Again it's a continuation of the trend that we had in the previous financial year.

And then looking at our debt capacity, let me just mention the little bolt-on in Noonan as well. When you say £20 million that's another R400 million. If you just add the two big ones of Brandcorp and Noonan and this recent bolt-on we've spent R5.1 billion in the last 12 months in acquisitions. When I unpack that on our EBITDA

multiples etc. I'm sure that we've got up to another R9 billion or so capacity, before you bring on board the EBITDA impact of those acquisitions on debt capacity.

And then I think lastly on our debt structure if you like I just thought I would mention this as well. If you look at our non-financial-services side of our debt structure the total debt structure is we've got about two-thirds of it on fixed term and one-third on short term. And when you unpack that down to local debt structure in South Africa it's roughly 50/50. So we took a decision. And we did quite a detailed paper on this recently. I'm sure we're going to get questions perhaps on why we haven't come to market to take on more long term debt. There was quite a big chunk that expired recently. But remember that we went to market in June. But we reflected on our cash generation and also the much more advanced status of where we are on the non-core assets. And I really don't want to land up in a situation where I'm putting long-term debt in when there's a good possibility in the next nine to 12 months to be banking all this money from our non-core assets. And then of course there is our own cash generation that is happening at the same time. So we will look at this again. So for the moment we have held back on going for long-term debt, and we will revisit that in the financial year when we get a closer look at where we are on the non-core assets. It's quite a volatile environment at the moment. Interest rates are better now than they were six months ago. So anyway. I think that's about me.

Lindsay Ralphs

Thanks very much Pete. As I say Peter will be retiring but we will have one more opportunity at our final presentation to give him a proper farewell and announce properly. It's just a technical issue. Can we now take any questions from the room?

Male speaker

There is clearly no pressure on funding going forward. You are looking to sell the non-core assets and you continue with the expansion programme. From a timing point of view, you are holding out for reasonable prices on the non-core assets. If you don't see those in the short term, will you postpone that disposal until you see the right sort of offer come in. Would that hold back your growth plans?

Lindsay Ralphs

I think not. We are fairly cautious and conservative. We will look aggressively at certain acquisitions that we really like. To give you an idea, the bolt-on which we did this last week, we paid about a 7 PE. So that will give you an indication of what we can do. I think once you enter the market, which we did with Noonan, once you then start with bolt-ons... And it wasn't that small. 2,000 securities people involved in that acquisition. But you can get them at about 6-7x PE in Europe. So the South African acquisitions we would look at we would also be conservative. We don't overpay. I think Mr Joffe taught us that. The philosophy of Bidvest remains exactly the same as when Brian was here. The decentralised approach, the conservative approach. But we look aggressively at acquisitions. We've grown Bidvest over 30 years by being acquisitive. So I think what you said is correct.

Male speaker

Some time ago you highlighted that the global hygiene market is fragmented. Do you still think that and has your searches thrown up some potential targets?

Lindsay Ralphs

Very much so. We really like the hygiene industry. We really do think that we can play in the hygiene industry. It is quite fragmented. Rentokil are a big player worldwide. But they seem to have a strategy more recently of moving into pest control. They made a very large pest control acquisition. They did a bit of a strange deal where they merged their hygiene business in Europe with another company called CWS. The pest control industry is

also a fantastic industry. And we do play in it quite hard here. And we kind of link the two together, hygiene services and pest control. So when I said we would look at hygiene you can include pests in that. It's a very large industry. Pest is not as fragmented, I don't think, as hygiene.

Male speaker

So that would be your preferred areas for international expansion and particularly in the UK, Europe?

Lindsay Ralphs

Correct. There are a couple in the UK. There is a company called PHS in the UK which is actually the largest hygiene service business. It is owned by private equity. I'm sure it will come to market in the next year or two or three. I'm not sure. We would have a good look at that. But interestingly – I know I've often said this before – we're not just targeting the UK or whatever. We really are targeting industries. If something came up in Italy by way of example in the hygiene business we would have a good look at that. If something came up in Australia, New Zealand, and not only English speaking countries. We've learned lessons from our food operations, we've ended up in 39 countries around the world. It was the industry that we were after, the food service industry that Brian was targeting for all those years. And we ended up in 39 countries and pretty successfully. So it will be much more industry specific as opposed to the geography.

Male speaker

To clarify, Bidvest's debt capacity is about R9 billion. That is much lower than my estimates

Ilze Roux

Peter did say it was without the acquired EBITDA.

Lindsay Ralphs

USD1 billion that's what we've put on record. We can take 2.5x EBITDA comfortably. And then if we do dispose of all our non-core assets we've got another R500 million. And then we've got a property portfolio of about another R7 billion which we don't intend to list off. We could but we could borrow against that as well, borrow against the property portfolio. So when we've been on our roadtrip we have talked about USD2 billion in debt capacity including properties, the non-core assets etc. And we have also told our shareholders that roughly half of it would be allocated in South Africa and the other half internationally. And that is obviously over the next two or three years because after that we would generate more cash.

Ilze Roux

Just before we take another question from the room, can we prepare the people on the line with questions to be ready to ask them.

Operator

Thank you very much. For the benefit of the participants online, ladies and gentlemen, if you would like to ask a question you're welcome to press star then one on your touchtone phone and that will place you in the questions queue. If you however decide to withdraw your question you're welcome to press star and then two on your touchtone phone to remove yourself from the question queue. Just a reminder, if you would like to ask a question you're welcome to press star then one. Thank you.

Male speaker

Two questions. Your UK operations Mansfields and OnTime are they profitable? We have been told that they are not going to be a negative number this year. How is that going?

Lindsay Ralphs

OnTime is now profitable. Mansfield is still slightly negative. There has been a big drive to turn these around. I don't see them as long-term assets though either. You can almost say they are non-core assets. They just weren't in a really saleable position. Anthony Dawe from our freight operation is looking after them. He is in fact going there next week for another week. So they are much improved. They are really logistics business. They are not core to what we normally do elsewhere in the world. I think what Anthony's intention to do is really just to get it into a position where we can dispose of it.

Male speaker

And then on government contracts, how is that going? It was pretty stagnant. Is there any change on that, additional pressures?

Mpumi Madisa

I think you're correct and I think it will remain until the uncertainty is clear. Our experience at the moment whether it is employees or government departments or even local municipalities there seems to be a bit of a lull. So people aren't making any material decisions at the moment. Just to give you an example, our Transnet fleet has been out on tender. It has not been adjudicated in how long. We've got another contract with the National Gambling Board that was also not adjudicated for years. So no material decisions are being made probably because of the uncertainty. And that's the challenge that you have. It's problematic when you've got CEOs, CFOs and DGs who are acting and you don't have permanent people. People who are acting generally also assume that they don't have full mandate to make material decisions.

Ilze Roux

Operator, can we take Catherine's question that we have on the line?

Operator

Thank you. The question comes from Catherine Robinson of Visio Capital.

Catherine Robinson

Hi Ilze. Apologies if you've covered this already. The quality of the line is very poor. We're hearing from quite a few people the storm in Durban impacted operations and of the delays in the freight in specifically Durban harbour. Has this impacted the freight business at all?

Lindsay Ralphs

We were impacted, particularly our bulk connections terminal. We were out for about a week. SACB the entire roof was destroyed. Anthony and his team did an outstanding job of getting back up and running in about a week to full capacity, which resulted in a very good October month for them. Obviously we did incur a lot of damage. So we had significant damage but it is all comprehensively insured. All the operations are back up to 100% capacity.

Catherine Robinson

Okay. Excellent. Thank you.

Operator

There are no further questions on the lines at this stage.

Ilze Roux

Then we will go back to the room.

Male speaker

Thank you. Just in terms of the government contracts, any significant change that could happen from here, are you happy with your black empowerment credentials in potential new contracts with the government? And then a second question is you said the Noonan acquisition is better than your expectations. Can you give us some sort of perspective on how and why those expectations were exceeded?

Lindsay Ralphs

Just to answer the first question, pre-bundling we were 60% black owned according to Empowerdex. Post unbundling we have reduced now to 39%. Our new scorecard has been published. That has created quite a bit of pressure in that there is a general requirement for certain sectors to have a 51% shareholding. So it is work in progress. We are not going to do another empowerment deal at the top. It would be too big. We have done four of those already. We may have to look at certain sectors of our business and potentially to bring in some form of BEE shareholding into certain sectors. And that would only be in the sectors that would really require it.

Mpumi Madisa

We have also said that in general we respond to government tenders on a daily basis. And whilst there is pressure generally our current credentials are sufficient. We responded to ACSA. ACSA is an SOE. We complied. At Transnet we complied etc. I suppose the difference between the 39% and being over 51% is that being over 51% just gives you a greater edge. But I mean the minimum requirement for ownership is 25%. And at 39% we exceed that. Unfortunately we had an extra edge when we were above 51% and we have slightly lost it. So it is really about trying to get back that edge. But generally we respond on a daily basis and we comply.

Male speaker

Have you got competitors who are more empowered?

Mpumi Madisa

Always. For example, we've got lots of cleaning businesses competitors that are 100% black owned, some even 100% black women owned.

Male speaker

But Bidvest has greater scale and reach?

Mpumi Madisa

That's the difference. Our big advantage is our scale and our ability to take on national scale contract. So if we've got a client who operates across all nine provinces and has got a footprint where you need capacity across South Africa then it would reduce the number of competitors significantly.

Lindsay Ralphs

We have been dealing with the challenges of BEE for the last 15 years. So we are used to it. We have worked on it numerous in the past, and we will deal with it again. We make sure that each and every single one of our 280 companies get their own scorecard. Every single one of them is individually rated. We put pressure on them to make sure that they transform adequately. We've got numerous of them that are level twos, level threes on the new codes. So we're in a very good position.

Mpumi Madisa

And level one.

Lindsay Ralphs

So we're in a very good position. 51% is becoming a bit of an issue and we are just going to have to see how we deal with it.

Ilze Roux

And then Noonan.

Lindsay Ralphs

So Noonan. I think we are very fortunate on Noonan that we acquired an exceptionally good management team. They have subsequent to us acquiring it made the bolt-on acquisition and delivered very strong cash flow. They had promised us this. They had a whole lot of new contracts that they wanted to conclude which they did. There was a huge amount of additional cash generation. Peter didn't really mention it. It was outstanding cash generation that they made. But it's an exceptionally good management team. We are very fortunate I think. If you go international you have to be very cautious. One of the biggest issues is to make sure that the business is well managed. Because we don't send South Africans across to Ireland or the UK or Italy or wherever else. We want to acquire a good, strong management team.

Male speaker

Do you have preference on whether it is the UK or into other parts of Europe, the opportunities?

Lindsay Ralphs

No. They did have a wish list of acquisitions that they have advised us, some of them in due diligence. And this £21 million acquisition was one of them. It was already work in progress. I don't think their private equity owners wanted to allocate more capital so they were very comfortable, very happy with the change to a trade buyer as opposed to private equity. And they have got a wish list.

Ilze Roux

Any other questions from the room?

Male speaker

On the freight business with volumes doing well and supposedly operating leverage coming through, can you give us an indication of what kind of drop through rates are on that business in terms of what this could mean for margins within freight.

Lindsay Ralphs

No, we don't give that level of detail. As I said the bulk connection terminal was relatively empty this time last year and it is relatively full this year. So it has significant leverage. And the maize exports I think are public knowledge. They were quite significant. They are coming to an end now, and we should have wheat imports coming in the next half.

Male speaker

So should we expect a similar situation in the second half compared to the first half?

Lindsay Ralphs

On the agricultural side it's a bit more unpredictable. I think on the bulk commodity side it is a bit more predictable.

Ilze Roux

And remember with the investment that we made in the tanks and continue to do in the LPG the whole objective is also to introduce more annuity income streams into that business to reduce the volatility. Those are take or pay type of agreements.

Lindsay Ralphs

The LPG is a ten year take or pay agreement with the largest LPG trader in the world. So we are very comfortable. Puma is a very large fuel trader. That is who we built fuel tanks for. And as I said before we do get in excess of 20% return on those investments. Just on LPG, that is a two year build. We have broken ground. All the ex-works are completed. But it is an 18 month build.

Ilze Roux

And we will only be fully operational in FY21. We have got a question from Brent Madel on the line.

Brent Madel

Good morning. Thanks for taking my call. I've just got two questions if I can. Just specifically with regard to financial services Bidvest is making quite a few investments and acquisitions particularly over the last year to two years. I suppose the big question is how you guys see yourselves competing against the major insurance companies and major banking institutions. Specifically what is the strategy to compete in that market? And my second question if I can, just on Namibia and specifically the industrial business, I wonder if you could give a bit of an update as to whether the industrial side of that business is recovering, whether we are seeing some of the cost benefit initiatives starting to come through, and just in terms of the trading activities in that market. Thanks.

Lindsay Ralphs

On the banking side we really don't intend to compete with the big retail banks. We don't intend to target big corporates in South Africa. And on the insurance side we really have developed a very niche insurance model. So I mentioned Mercantile. I think their tagline is, the bank for the entrepreneur. And I think that is what we are really looking to try and build, to almost be a private banker to the small SMME type business which the big retail banks ignore. Investec really look after big private clients. I think there is a gap in the market for the small SMME type operators. That is really what our targets are. Namibia's economy is really not in good shape. It is worse than South Africa. The industrial side of the business is better than it was last year, but it is still not doing very well to be quite frank. But it's a very small part of our business. The total market cap I think of the whole of the Namibian operation is R1.6 billion or R1.8 billion. Then we own 50% of it. So it's a very small part of our operation. I think if you go back in history the fishing business used to make a huge amount of money and that was quite significant. But you would have seen it reduce down to very insignificant amounts over the last two years. So unfortunately the industrial part of Namibia is still very weak.

Ilze Roux

I think they are now five quarters into recession. Last chance for questions on the line.

Operator

There are no further questions at this stage, ma'am.

Ilze Roux

Any last questions here?

Male speaker

Just on the Adcock disposal, are you looking to do a deal with another trade buyer as opposed to placing the shares on the market?

Lindsay Ralphs

We definitely won't just place the shares on the market because that would come at a discount. We do have control. So it is probably going to be a BEE type transaction. And there could be an element of a trade buyer but it is probably going to be a BEE type transaction. I think that is always what was envisaged. It is seen as quite a strategic asset for the country, making ARVs, critical care stuff. And I think it was always the intention behind the blocking of the CFR deal to make sure it stays in South Africa and probably in black industrialists' hands. But there is no guarantee. That's the thinking.

Female speaker

How much of Bidvest Services' business is generated from government and SOEs?

Lindsay Ralphs

We don't have the numbers. Maybe we need to get it. But I wouldn't say it more than 20%. If you go the airport example you always think we are supplying services to ACSA but the actual client there is the airlines. Emirates is our biggest customer. But SAA is also quite a big customer. So we can do that exercise at some stage for you.

Female speaker

You said that the Travel business improved its operating result. Is that just volumes improving or something else?

Lindsay Ralphs

There has been a bit of an increase in volumes. People are taking a lot more care on controlling travel and what a big corporate travel entity like ours does is control travel spend for corporates. So we have seen a move into that direction. Plus we have rationalised the business quite significantly because clearly online engines are now much more significant. We have developed a very good technology for our own online booking engines which will start to compete with Travelstart and other online booking engines. So there has been quite a nice turnaround there. We've got about four or five brands. They all now operate under one facility with one back office. We have done that type of restructuring in that industry. We are always right-sizing our businesses wherever we can. So they all have very nice facilities in Parktown whereas before they were in five or six operations.

Ilze Roux

Thank you everyone for participating on the line and here in the room. We appreciate your time and interest. And we will speak to you again on the 26th of February.

Lindsay Ralphs

Thank you.

END OF TRANSCRIPT