

Sanitizing and eating – the story of Bidvest and BidCorp

The benefit of sanitizing was, and is not, only for personal hygiene. Bidvest Services through divisions such as Steiner, Noonan, and PHS created some new opportunities and profit. The habit of washing hands before a meal is also not in vain. Ask Bidcorp, a global food-services company, that saw renewed demand for food after the initial Covid scares.



**Willie
Pelsner**

Many years ago there was a company called Bidvest. The company was a cornerstone in the South African economy. On another day many years ago, a man (Brian Joffe) came to a board meeting and convinced the decision-makers around the table to split the company into two. Born the next day were Bidvest and Bidcorp, two independent companies. These shares are widely held throughout portfolios.

On another day (actually in 2019) came COVID-19 and disrupted the world. Unsurprisingly, both these companies, with combined operations spanning virtually all four corners of the globe, did not escape the impact of this virus (like so many other companies both locally and globally). But in their respective results presentations recently something stood out that is worth sharing.

Bidvest – the service sector (cleansing and sanitizing) stood out

Bidvest's operations are classified into 6 segments or divisions, namely Services, Freight, Commercial Products, Branded Products, Financial Services, and Automotive. Over the first half of their 2021 financial year (June year end), trading profit increased by 3.5% to R4 billion and cash generated from operations rose by 86% - after a very difficult 2nd half in 2020 (which incorporated the severe lockdown at the height of the pandemic.) The Automotive and Freight divisions performed well, with some difficulty in Branded Products. Financial Services fell short of expectations. What stood out for us was the services division with revenue and profit growth of 27% and 38% respectively, resulting in margin expansion to margins that were even higher than those achieved before the pandemic. The result was achieved despite the global market for industrial and institutional chemical cleaning products

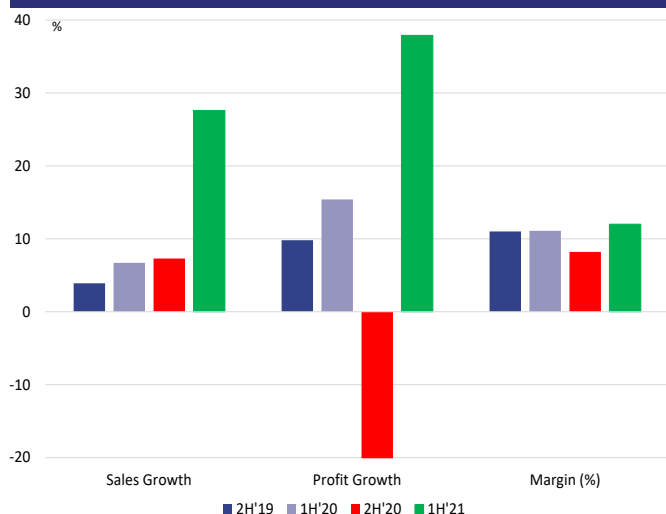
SPEED READ

- **Diversified companies have the luxury of defending the impact of Covid through their various business segments. We look at two of these companies, Bidvest and Bidcorp.**
- **Bidvest reported a good set of results with the Services segment being a star performer in delivering hygiene services, especially through their recently acquired UK operations (PHS and Noonan).**
- **Bidcorp, the food-services conglomerate, drew some valuable lessons from the strong recovery in Australasia and other Emerging Market operations that will benefit operations in developed countries where Covid is still having a negative impact.**

declining by 4% year on year over 2020.

The recently acquired PHS in the UK made a significant contribution. PHS is the leading hygiene services provider in the UK, Spain, and Ireland, with over 300 000 locations supporting everything from restaurants to offices. Healthcare, washrooms and floorcare hygiene is its specialty. The hygiene pool continued to grow, emphasizing the structural growth impetus in this sector. Noonan is a recognized expert in first-generation outsourcing and provision of cleaning and security services to quality-critical environments and sectors with unique challenges such as Life Sciences, Retail, Healthcare, Education, and Police & Justice. Both PHS and Noonan secured COVID-19-related work, which includes amongst other services, the setup and management of testing and vaccine centers in the UK and specialist cleaning. Although one can argue that the way we sanitize and clean could reduce once Covid eases, the new normal around hygiene from a personal and premises perspective could persist as a new way of life.

BIDVEST: SALES, PROFIT & MARGIN TRENDS



The Services segment accounts for almost 40% of total sales and profit and was largely responsible for the improved performance over the past 6 months.

BidCorp – despite a virus and lockdown, man has to eat

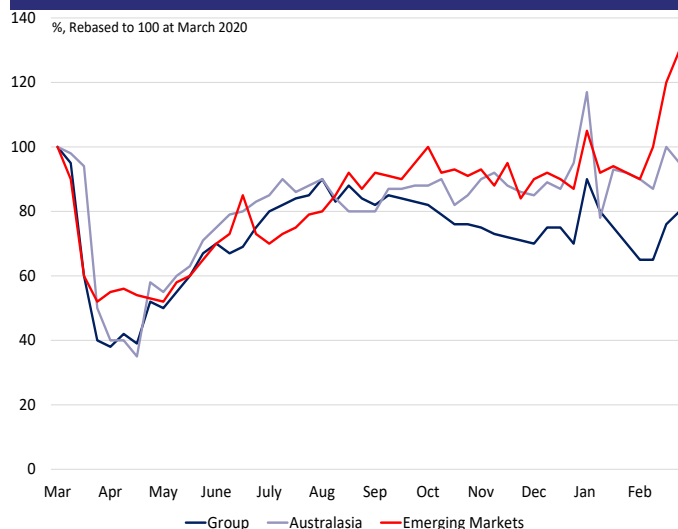
Bidcorp's slogan reads: "It is all about food, service, and technology". Bidcorp's food offering has a global presence, and the company segments its reporting into various geographic regions, namely Australasia, Europe, United Kingdom and Emerging Markets.

Overall, the latest results (first 6 months of their financial year to June 2021) do appear wanting. Net revenue was R60.8 billion, a decline of 10% relative to R68.2 billion for the same period last year. Unlike Bidvest, trading profit declined by 37% implying a fall in their profit margin to 3.7% (vs 5.2% in H1 2020). However, the company's exceptional pandemic-era free cash flow generation has been driven by scrupulous working capital management, operational expenditure control, and reduced capital expenditure. Balance sheet analysis now shows that the company is more than likely to exit the covid pandemic with an even healthier balance sheet than what it had before the crisis. Net debt now stands at just R2.6 billion (vs almost R5 billion previously), negligible for a company with a market capitalization of almost R100 billion. Disappointingly, no interim dividend was declared but this paragraph (and the sales trend chart) in the latest results report drew our attention:

"Fortunately, Australia, New Zealand, and Asia have performed very well, and our other Emerging Market

constituents continued to improve on a month-to-month basis as the period progressed. This gives us continued confidence that we will see a quick rebound in market conditions in all geographies as social restrictions and containment measures start easing."

SALES TRENDS MARCH 2020 TO FEBRUARY 2021



Australasia and Emerging Markets regions are outperforming the UK and Europe, which are still at levels 40% weaker relative to pre-Covid.

Sales trends for the group and the geographical regions show how sales activity in Australasia is back to pre-Covid levels. The pre-Covid level is expressed as 100%; so reading the graph implies that Group sales are at about 80% relative to pre-Covid. The chart also highlights how Australasia is back at almost 100% and Emerging Markets are accelerating well beyond Covid levels. The performance in this market segment came from buoyant sales activity predominately in China, Brazil, Argentina, and Chile. South Africa remains under pressure.

We believe the competitive environment is favoring Bidcorp. Competitors who have until now proved resilient could exit the industry as government support wanes and working capital intensity builds, resulting in market share gains by Bidcorp. Furthermore, the company's largely ungeared balance sheet provides optionality to possibly acquire earnings (and valuation) accretive distressed assets. Having weathered the storm well, Bidcorp looks set to emerge from the crisis stronger than ever.



We are excited to announce the resumption of our seminar program in April. Our first seminar will remind investors of what we have endured over the past 12 months, and what lies ahead for the rest of 2021. Please save the date below. Please note that due to Covid protocols, numbers are strictly limited to 100 per session, and only drinks (no food) will be served. Booking is therefore essential. Please RSVP to Clare Mitchell on 033 3302164 or clarem@hhgroup.co.za.



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Topic:

Exiting the Recession: what lies ahead?

Natal Midlands

Date:	Wed 21st April
Venue:	Fernhill Hotel Midmar / Tweedie Road Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	06 May 2021
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

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