

## *“Stay on the Bid” – we like Bidcorp and Bidvest*

*Our Insight presentation and last week’s Intuition dealt with market volatility and the market mechanism of BID and ASK prices. Furthermore, if you would like to own part of a company you need to go and put your bid in. Often, we talk about staying on the bid if we want exposure for clients in various companies. Two companies who are well represented in clients’ portfolios do align to this dynamic of staying on the bid. We don’t buy them just because “bid” forms part of their respective names but thorough analysis thereof keeps us comfortable with the exposure we have.*



**Willie  
Pelsner**

Over the last couple of weeks we have hosted our Insight presentations. Robin Gibson highlighted the intricacies of volatility when it comes to the daily movement of share prices. There are always buyers and sellers, but not always at exactly the same price. Some prefer to only buy at a much lower price than the current ruling price. The same applies from a seller’s perspective - some only want to sell at a much higher price than the last price traded.

At the end of the day everybody (refer to last week’s Intuition to see who the various market participants are) does their homework to justify the price at which they are prepared to settle - buy or sell. A term frequently used by investors when they really want to own shares in a company is to “Stay on the Bid.” This simply translates into the fact that the investor has done his homework on the company, and now he wants to buy the share and earn the dividend. By now the heading of this article is probably starting to make some sense. Fortunately for me, there is a bit of a pun intended in the heading as both companies have “BID” in their respective names. We have in the past used Bidvest and Bidcorp as examples to describe our investment philosophy so I will not repeat that, however, both released results which made for good bedtime reading.

Bidvest released results for the first six months of the 2023 financial year. In an internally distributed document, I wrote, “Bid (to in) vest for a 14% increase in revenue, a 14% increase in profit and growth of 15% in the dividend.” The numbers highlight the benefit of the Company’s federated business model as it allows the executives of its more the

### SPEED READ

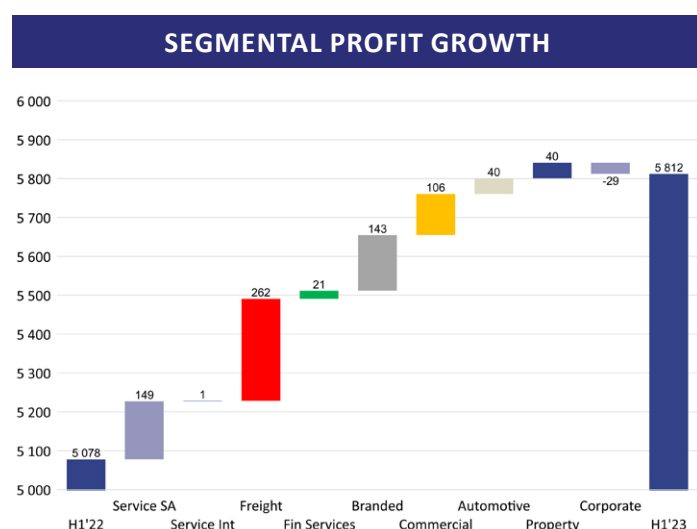
- **Don’t view market volatility as only negative. Sometimes the benefit is to stay on the bid and buy that well-researched and “loved” listed company. Just know where to settle on the price.**
- **Bidvest: Superb allocation of capital and well-defined targets to its more than 250 subsidiaries has once again delivered an incredible set of results. The profit gain speaks volumes.**
- **Bidcorp: All over the world we love eating and Bidcorp loves to sell and deliver it – be it frozen, chilled, or at ambient temperature. Whether you are in a hotel, on a cruise liner, in a hospital or restaurant you have helped them to generate superior profits.**

250 subsidiaries operational independence. Individual business managers are expected to be entrepreneurial and responsible for their business metrics such as profit and loss. On top of this sits Bidvest’s own element of professional corporate structures setting stringent return on capital KPIs for the various entities. Seven broader business segments encapsulate the vast number of subsidiaries for ease of reference reporting lines. (The names of the 8 segments are shown in the chart.)

Head Office’s time then focuses on reallocating capital away from underperformers to identified growth areas efficiently and timeously to deliver organic growth and market share gains. Examples are the acquisition of a UK-

based hygiene company PHS in FY'20, which benefited from the high margin (15-20%) Covid-19-related cleaning work. Bolt-on acquisitions of Axis, Cordant and Maber were made in FY'21 resulting in further market share gain. In FY'21 Bidvest exited the underperforming aviation sector businesses of Mumbai International Airport and Bidair Services given an uncertain outlook for the aviation sector post pandemic. In the first half of 2023 they announced a complementary service to the already well-run McCarthy car group. We are awaiting the announcement of a new used car business brand which in management's view will target the remaining 75% market share by dealing in cars older than 5 years.

We believe the chart showing the breakdown of the profit contribution from the first half of 2022 to the current reporting period is a true reflection of the hands-on management right from the individuals at the operation level to senior management.



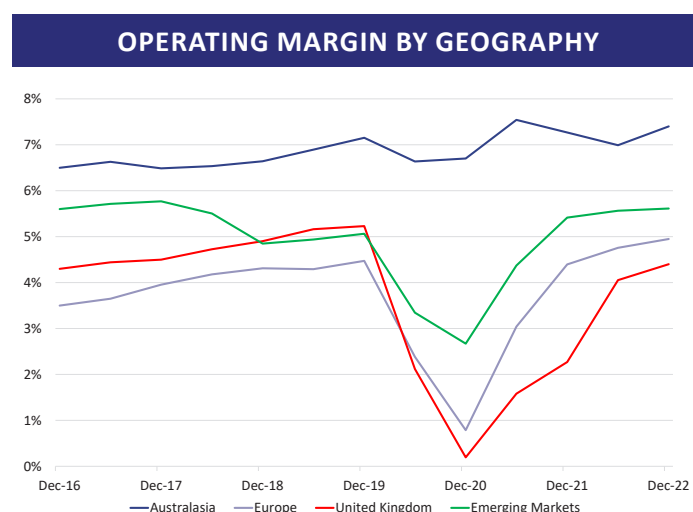
*The past six months proved to be an exceptional year for Bidvest as each of its broader segments contributed positively to the growth in profits, despite SA's economic woes.*

In contrast to Bidvest, Bidcorp operates almost all over the world, the exception being North America. But say Chile and they're there; say Cacao (sorry Macau) and they're there too! Selling and distributing frozen, chilled and ambient food is their game, to a wide range of customers in the restaurant and hospitality industry, healthcare groups, educational institutions and travel (air and cruise liners) and many more customers. It's a wonderful business model, and despite all the ingredients for a disaster, ranging from consumer pressure through to high energy costs causing margin compression for restaurants, Bidcorp has delivered the food.

Two critical events helped Bidcorp over the past 6 months. Firstly, Europe has experienced a far milder winter than anyone expected. Remember that these fears were

heightened because of the invasion of Ukraine, and the fear that Europe would run short of energy. The second was the lifting of lockdowns in China – not only did they start travelling again, but they ate before leaving and bought some luxury items as well. (The luxury industry, through companies such as Richemont, has seen the benefit of an open China as well.)

Bidcorp's revenue, profit and earnings have exceeded the first-half results in 2020, the last period before the Pandemic set in. Management highlighted that this was a record interim result, growing by 20% in real terms since before the onset of the Pandemic. Whilst recent inflation has had a short-term positive impact, these results are a function of real volume growth and market share gains. Shining areas are Australasia, Europe and Emerging Markets, which today are earning a higher margin (see chart below) than in H1'20. Unfortunately the UK is still lagging, but that is the benefit of a globally diversified business. Areas of strength will compensate for the occasional laggards.



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The share price is now at its highest level since being unbundled from Bidvest. Although on some valuation metrics the company is not overpriced, the absolute level of where it is trading right now might see us withholding some of our bids - or expressing this differently, we will be patient and refrain from buying in portfolios right now.

By no means do we chase the share price on any day or buy at any price. Therefore, don't use this article as a reason to buy either of these companies today. Into which "market participant" bracket do you fit? Nonetheless, we will continue to monitor both Bidvest and Bidcorp, along with market forces and their company-specific metrics to look for the right timing and opportunity to add these stalwarts to portfolios.



Our next Insight seminar will take place in June and provide an update on what has driven markets over the first six months of the year, and what might lie ahead for the balance of the year. We are very excited to be expanding our seminar program to Cape Town.



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## Topic: **Mid Year Market Update**

### **Natal Midlands**

Date: Thursday, 22nd June 2023

Venue: Oasis Conference Centre,  
72 Main Road, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

### **Johannesburg**

Date: Tuesday, 13th of June

Venue: Rosebank Union Church, Cnr  
William Nichol and St Andrews  
Road, Hurlingham

Time: 7am for 7.30am

### **Cape Town**

Date: Wednesday, 14th of June

Venue: To Be Confirmed

Time: To Be Confirmed

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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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