

Bidvest Europe



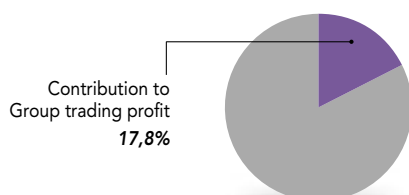
Bidvest Europe

Bidvest Europe is western Europe's leading foodservice company. Its British businesses have good claim to be UK market leaders. As a broadline distributor, Bidvest Europe supplies ingredients, finished products and equipment to the catering and hospitality industries.

- ▶ Acquisition of Deli XL foodservice business provides a solid platform for growth into continental Europe
- ▶ Bidvest's decentralisation philosophy embraced by Deli XL resulting in rapid integration into cohesive business units
- ▶ Trading profit across UK and Europe up 23,2% to £56,9 million
- ▶ Growth of 50,3% takes total Bidvest Europe revenue to £1,9 billion
- ▶ UK depot renewal and expansion programme continues
- ▶ Foothold obtained in high-growth Gulf region through a strategic stake in Horeca Trade
- ▶ Major contract success widens strategic penetration of market in non-food consumables



Fred Barnes
Chief executive



Introduction

The decentralised, entrepreneurial Bidvest model was put to work when consolidating the Deli XL operations into the European foodservice division. The local Dutch and Belgian management teams were freed to seek operational efficiencies and business growth while exploiting the synergies resulting from the greater scale of the augmented business.

The workforce has greeted the Bidvest model with enthusiasm. Deli XL's acquisition by South African owners with a successful trading record in the UK ended fears of a sale to a Benelux competitor, with the prospect of sizeable retrenchments.

Bidvest Europe achieved pleasing growth in its mature markets, driven largely by the full-year effect of earlier new business gains and its success in retaining large national accounts. Further contract successes have again been recorded, notably in the fast-food sector.

Revenue rose 50,3% to £1,9 billion while trading profit increased 23,2% to £56,9 million

The acquisition of management control at Horeca Trade in the United Arab Emirates creates a bridgehead into a national market that is transforming itself into one of the world's premier holiday and retailing destinations. Significant growth in the five-star hotel sector is being achieved at pace. This is putting pressure on existing foodservice infrastructure. Bidvest Europe, in tandem with its local partners, is well placed to optimise this strategic growth opportunity.

The only significant disappointment was the loss of the UK Ministry of Defence supply contract. Management took vigorous action to replace the lost business to ensure that lost volumes are largely restored.

Macro-economic factors

The UK and the Benelux countries have mature economies characterised by modest natural growth and modest gains in GDP. The business units have similar customer profiles (the catering trade, hospitality sector and corporate and institutional clients). The labour market is tight. This is a



3663 First for Foodservice
delivers quality ingredients, finished products and equipment to the catering industry



3663
First for Foodservice is made up of specialist teams designed to match the needs of the foodservice market and deliver the best personal service to every customer



Deli XL
supplies a wide range of fresh and frozen food items to hospitals and company canteens, as well as to contract caterers and restaurants



Horeca Trade
is a dedicated service company in the United Arab Emirates

product of social legislation and job protection in continental Europe and almost full employment in many regions of the UK.

Inflation in the UK is 2,2%, slightly above the Bank of England target. In the Benelux countries it is about 1,5%. Interest rates are stable in both regions.

GDP growth in the Benelux region has been running at 1,8%. In the UK the rate is 2,2%, though the rate of growth in the distribution, hotel and catering industries is more sluggish at just 1,5%.

Industry-related issues

All distribution businesses have been materially affected by ongoing fuel-price increases. These impacts are compounded in the UK by substantial rises in gas and utility charges.

Increasing public awareness of health issues and the growing problem of obesity continue to affect the food and catering industries. A trend to healthy eating is gathering momentum, creating special challenges in the institutional-feeding segment of the market.

Bidvest Europe

The trend is positive for Bidvest Europe as it has been given an industry lead in the creation of healthier eating choices through its UK campaign, “positive steps”, toward a healthier future. In the UK, the Smart Choice brand continues to grow market-share.

The market positioning of Bidvest Europe has benefited from management’s receptive and sympathetic response to media and political pressure for healthier foods. Executives have workshopped the policy issues in extensive sessions with representatives of various official departments. As a result, an assurance has been given that Bidvest will engage in a process of re-engineering some food brands to further reduce their salt and sugar content. This process is now under way.

Our UK business, 3663 First for Foodservice has given an industry lead in the realm of local sourcing. The initiative, launched two years ago, seeks social, economic and environmental benefits through support for local business. A key result from a logistics standpoint is a reduction in “food miles” and improved energy efficiency. A growing proportion of locally sourced products is represented in the 3663 brand. As a result, more than 100 small producers have gained access to local markets. The programme will be extended to cover the whole of the United Kingdom.

Business risks

Consumers are well informed by a media that is increasingly vigilant on health issues. Both the British and west European public are concerned about avian flu, though as yet this has had little impact on poultry consumption. Outbreaks of foot-and-mouth disease in Brazil, Botswana and Namibia and disruption of Argentinian supplies affected beef supplies. However, disruption was minimal thanks to a prompt management response and the division’s ability to rapidly arrange alternative sources of supply.

Terrorism remains a risk in view of the potential impact on catering business into the hospitality industry. The risk is more marked in the United Kingdom than in continental Europe – London’s transport system was targeted by suicide bombers in July 2005. In the UK market, however, international tourist arrivals rose 7% for the year, though there was only a 1% rise in US visitors.

Legislative risk is acknowledged. The United Kingdom and continental European businesses are subject to a welter of legislation from both national governments and European regulators. However, the process is well understood by all parties. Any planned initiatives are known well in advance, giving sufficient time to factor the anticipated changes into business planning.

The labour market is more rigid in continental Europe than in the United Kingdom. The challenge is to equip the workforce with the skills necessary to improve productivity. Motivation within the workplace is a key issue. Bidvest addresses this risk by preferring hands-on management by executives who are close to the shopfloor and know their workers.

This non-hierarchical approach is not imposed. Decentralised management has free rein to achieve its business objectives. However, this model is being rapidly embraced by Belgian and Dutch Deli XL business units that were eager to break with the multi-layered structures of the past.

United Kingdom and continental European demographics pose a challenge rather than a risk. There is no strong population growth to spur demand and mature economies are less influenced by volatile boom-and-bust cycles. Stability enables strategic planning and puts a premium on operational efficiency and product innovation to constantly freshen the offering.

Sensitivity analysis

Foodservice is a low-margin business. Any increase in expenses that cannot easily be passed on to customers, such as a large rise in the cost of fuel, results in a decline in profitability. As a major industry player, we hold a number of large accounts. Loss of major contracts creates a challenge to replace the volumes. Sales are also affected by changing levels of consumer confidence. This factor is not only beyond the control of management, but difficult to predict. Terrorist attack, or the threat of one, can have a material impact on tourism and the propensity to eat out of home. Transport can also be disrupted.

These challenges are addressed by high-quality service, a large portfolio of customers and a distributed facilities network.



3663 Catering Equipment
offers a comprehensive range of catering equipment

Structures and growth

The major structural change involved the consolidation of the Deli XL operations into the division. The Belgian and Dutch units are treated as separate businesses, though local management is expected to develop synergies within the European business and across the wider division.

In the United Kingdom, a joint-purchasing arrangement was established with a major customer. The arrangement will ensure pricing efficiency across a wide range of items.

Several contract successes have driven organic growth and a measure of jobs growth has been achieved. Bidvest Europe now employs 8 050 staff members.

Acquisition of the contract to supply non-food consumables to the Compass Group (one of the world's largest caterers) has created the basis for major expansion. This contract success, combined with the existing business, makes Bidvest the third largest non-food supplier in the UK market.

Bidvest's decentralised business model is being applied at Horeca Trade in Dubai. Our local partner has an established base of business. This is being aggressively expanded by seeking further penetration of the rapidly growing hotel sector.

New investments

Investment in training, technology and new capacity is ongoing.

In the United Kingdom, an investment was made in the continuing depot renewal programme. New depots were completed in Harlow (Essex), Birmingham and in Manchester for The Barton Meat Company. A new logistics facility was completed in Lichfield and a new depot in Edinburgh is fast nearing completion.

Design work has begun in the UK on a planned replacement of the current IT platform. An 18-month implementation programme is envisaged.

Review of operations

Bidvest Europe

Innovations

Brand innovation, especially among healthy eating lines, is constant.

New initiatives in the United Kingdom to ensure greater use of local products provide caterers with the opportunity to satisfy consumer demands for “locally sourced” food while still enjoying the reassurance of high standards of quality set by 3663.

A significant operational innovation is the introduction of “voice picking” by warehouse staff. Instead of simply working from handheld lists, staff members are fitted with headsets and given voice prompts as they select goods for delivery. The intention is to improve “right-first-time” efficiency levels and thereby boost productivity. It is also intended to deploy this technology in Belgium.

An extensive innovation programme is planned in the Gulf to ensure international service standards are met, particularly in the multi-temperature environment.

Challenges

The supply of skilled labour remains constricted in the United Kingdom. In continental Europe, unemployment levels are higher, but labour legislation keeps employment costs high. The challenge in both regions is to achieve higher productivity with a largely stable pool of workers while retaining skilled employees.

Bidvest Europe’s total training investment was £1.1 million while 39 376 training hours were logged.

In the United Kingdom, the company has long employed a people quality management programme to audit levels of motivation, service and performance. Consistent gains have been recorded. However, the latest audit indicated that some key readings are starting to plateau. This was to be expected after the improvements of recent years, but energetic steps will be taken to raise the bar.

Occupational safety and environmental management standards are rigorously controlled. Bidvest Europe has long given an industry lead in the provision of a safe, hygienic and congenial workplace.

The environmental management system adopted by UK operations complies with the ISO 14001 environmental standard. This certification covers all sites, a first for a UK company in the food distribution industry. In addition, a voluntary environmental performance improvement scheme has been launched in the United Kingdom covering own-brand suppliers. The aim is to encourage suppliers to improve their environmental performance and comply with 3663’s pollution and environmental standards.

Deli XL Belgium has implemented an environmental protection plan in partnership with local authorities. More than 90% of depot waste is recycled, sold or appropriately incinerated. Deli XL Netherlands is optimising inbound transport logistics to cut transport costs and fuel consumption.

Social investment at Bidvest Europe has a food or food industry focus.

3663 First for Foodservice is the leading contributor to Hospitality Action, the registered industry charity established to alleviate hardship among workers in the UK hospitality industry.

Deli XL Belgium provides about 20 tons of food a year to a programme to support the needy. Financial help is given to Doctors Without Borders in the Democratic Republic of Congo. Deli XL Netherlands supports a cooking, exercise and educational programme that assists children in deprived areas of Amsterdam.

The future

An economic slowdown was expected in the United Kingdom. However, little slackening in business activity has been evident. In the Benelux region, economic growth remains modest. However, significant growth potential exists in both regions. Opportunities for growth will be pursued, particularly in the fresh food and meat business. The full-year effect of contract gains in the fast-food and non-food areas will underpin the United Kingdom growth strategy.

Investment in depot renewal provides new capacity and a robust platform from which to achieve further gains in market-share and support our national customers.



Deli XL
is focusing on service quality

Both the Dutch and Belgian operations have initiated projects to unlock efficiency improvements and further synergies are being explored. Bidvest's decentralised, entrepreneurial model has been enthusiastically adopted by operations which had under-performed for several years. Negative trends have been reversed and new growth is expected.

In the United Arab Emirates, the Horeca Trade transaction gives Bidvest Europe a stake in a business at an embryonic stage of development. Exciting opportunities exist for developing the operation and achieving strong growth, especially among airline and hotel groups that demand international foodservice standards and quality assurance.

3663 FIRST FOR FOODSERVICE

The UK business achieved 12% sales growth to £1,5 billion while year-on-year trading profit rose 13% to £51,5 million. This highly satisfactory performance was driven by the full-year effect of major contracts secured in 2005 enhanced by continued new business growth.

New contracts were awarded by Pizza Hut, Nando's and De Vere. New business was also won from the Three Cooks bakery chain, while the contract to supply non-food consumables to the Compass Group gives the business critical mass in an area of strategic opportunity.

The multi-temperature business has opened new depots and is working to realise the efficiency improvements offered by these facilities. The frozen, fresh and chilled business has continued to integrate the fresh and meat operations. This entailed the opening of a southern depot for the fresh business. The logistics division has had the Lichfield depot and new contracts such as Pizza Hut to absorb.

DELI XL

Belgium

The Belgian economy has shown only 1,5% growth. A revitalised management team – with a new managing director and operations team in place – is expected to put the business back on the growth path by focusing on service quality and improved internal communications. New Ultra Fresh contracts have been won from the Compass Group.

Netherlands

The Dutch and neighbouring German economy have suffered four years of recession and steep price escalation after conversion to the euro. However, the economy has begun to show signs of a modest revival. There have been several management changes, but continuity has been achieved in key management positions and the organisational structure has been much strengthened. The business is moving from a negative to a positive position after years of decline. Cash flows have improved. Purchasing and logistics efficiencies are points of focus.

HORECA TRADE

A controlling stake in this foodservice business was acquired in October 2005. The operational base is relatively modest, but substantial potential exists in view of the exponential growth of Dubai's hospitality and leisure sector. Significant organic growth is forecast. Bidvest's international profile adds considerable value to local operations as multinational leisure and hotel groups are key players in the fast-growing economy of the United Arab Emirates and are eager to form relationships with foodservice companies that perform to world standards.