

Bidvest Industrial and Commercial

A leading manufacturer and distributor of electrical products, appliances and services, office stationery, office furniture, packaging closures and catering equipment in southern Africa with a small presence in the United Kingdom.



Bidvest
Industrial and Commercial

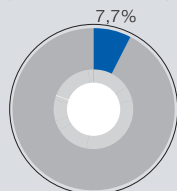
R8,6 billion

Revenue 7,0% decrease

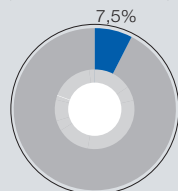
R421,3 million

Trading profit 29,4% decrease

Revenue
(Divisional contribution %)



Trading profit
(Divisional contribution %)



Environment

Represented by ACTIVE chair range. South Africa is experiencing a shortage of pine timber that is affecting the cost of all wood-related production industries. Seating, for example, consumes 220m³ of veneer each month, extrapolating to 18 000 trees felled annually. By introducing the new ACTIVE range of chairs, made from injection moulded foam around a polyurethane frame, the company has been able to save 40m³ of veneer per month, or 3 000 trees annually.

Highlights

- ▶ Significant cash generated from operations of R434 million
- ▶ Improved working capital management
- ▶ Expense savings across the business
- ▶ ERP solutions being implemented
- ▶ Businesses refocused to take advantage of new market realities
- ▶ Bidvest Materials Handling integrated into our business
- ▶ Injury rate as measured by LTIFR reduced by half
- ▶ 22 micro-business owners reselling computer consumables supported by Kolok

Financial indicators

(for the year ended June 30)

	2010 R'm	2009 R'm
Revenue	8 643,6	9 290,9
Trading profit	421,3	596,9
Operating assets	3 136,6	3 179,2
Operating liabilities	1 336,7	1 324,5
Depreciation	72,2	71,3
Amortisation and impairments of intangible assets	8,2	24,5
Goodwill and intangible assets	104,5	88,6

Sustainable development indicator overview

Employees	6 849	7 428
Total training spend (R'000)	54 720	38 673 ⁽¹⁾
Training spend per employee (R)	7 989	5 206 ⁽¹⁾
Employees attending HIV/Aids training (%)	15,1	20,6
Lost-time injury frequency rate	4,6	9,2 ⁽²⁾
Work-related fatalities (number)	–	–
BEE procurement (R'000)	3 756 119	6 535 413
CSI spend (R'000)	2 448	3 008
Enterprise development spend (R'000)	3 171	1 483
Total water usage (litres '000)	174 949	145 730 ⁽²⁾
Total electricity usage (kWh '000)	29 476	28 874
Petrol (litres)	4 207 856	4 794 263
Diesel (litres)	3 231 010	3 673 228 ⁽²⁾
Total carbon emissions (tonnes)	49 103	50 907 ⁽²⁾
Carbon emissions per employee (tonnes)	7,2	6,9 ⁽²⁾

⁽¹⁾ Restated to include learnerships

⁽²⁾ Restated



QUICK LINK: Historic divisional sustainable development data

http://www.bidvest.com/bidvest_ar2010/021.html

Bidvest Industrial and Commercial



Myron Berzack, *chief executive*

Positioning and reputation

An extensive national footprint and investment in quality facilities and people enable Bidvest Industrial and Commercial to supply products that match specific needs. Customers in the manufacturing, wholesaling and retailing sectors appreciate the ready availability of the division's products. Quality products are backed by quality service.

Macro- and trading environment

Recession affected every business in the division. The business is exposed to both the retail and business-to-business environments and was impacted by consumer belt-tightening and aggressive expense management by business. Many companies imposed a freeze on new capital expenditure.

There was little evidence of a beneficial FIFA World Cup 2010™ effect in the second half. Major contracts, some relating to the World Cup, wound down and were not replaced by further additions to national infrastructure. The knock-on effects for businesses serving the construction and civil engineering sectors were severe. World Cup disruptions impacted some businesses.

The strong rand was negative for imports and falling inflation impacted trading activities. Deflation was experienced in some parts of the business.

The business also felt the effects of falling copper prices and intermittent periods of volatility in the metals market.

Performance

Financial results were disappointing and reflected extremely depressed business conditions. Revenue fell 7,0% to R8,6 billion (2009: R9,3 billion). Trading profit dropped 29,4% to R421,3 million (2009: R596,9 million). Cash flow improved. Capital expenditure was deferred, inventories cut and funds employed were reduced. Expenses were aggressively managed. ERP rollouts continued.

The second half saw some improvement in revenue. However, the return on funds employed fell year on year from 24,8% to 19,6%.

Non-financial performance was often encouraging as teams prepared the business for the promised upturn. Highlights included the implementation of employment equity plans, increased focus

on skills development and training, and new systems implementation.

Strategic and industry dynamics

By year-end the construction sector had endured 18 months of falling demand for both commercial and residential projects. Continued decline in the number of building plans passed suggests that depressed business conditions will continue. Our electrical wholesale division has been particularly hard hit.

South African business reacted consistently to the recession. Every business cut back; some stopped all spending. Some mining companies appeared to put a brake on new investment as the debate revived about nationalisation.

Our furniture and stationery businesses bore the brunt of the clampdown on corporate buying. The corporate furniture project market was the worst affected. Few new offices are being built and almost no corporate office suites are being fully refurbished.

Though the overall trend was toward a strong rand, currency volatility day by day was considerable and had a negative

impact on companies such as Kolok where margins are thin.

In the final quarter, the impact of the Transnet strike was felt. Shipments arrived late and backlogs built up. Some business that should have been written this year will be pushed out to 2011 and some turnover was lost.

In June, the World Cup effect proved to be negative for some of our businesses. Orders being processed by some of our businesses fell dramatically as World Cup excitement mounted. Some customers simply stopped placing orders. Extended school holidays created further difficulties.

Competition intensified in every sector. As margin squeeze increased, some competitors abandoned their focus on core competence and looked to new lines of business. Some manufacturers became opportunistic importers. New entrants to sectors tended to take a short-term approach to prices. The net effect was even more pressure on margins.

As the year progressed it became evident that some of our competitors were fighting for business at any price. In some cases this will undoubtedly endanger the long-term sustainability of these businesses. But there have not been any major business casualties yet.

Efficiencies

As recession tightened, a concerted effort was made to rightsize all businesses for a new commercial environment. Costs were cut and expenses rigorously managed. Some staff members were redeployed and retrained. Regrettably, some jobs were lost.

The effects were severe in the furniture and stationery businesses where retrenchment

costs totalled R9 million. As a result of retrenchment and staff attrition, the division's staff numbers came down from 7 428 to 6 849.

Debtors management improved and cash generation remained strong. Inventory levels were cut as businesses conducted an overall review of slow-moving stock. However, business volumes were so depressed that improved working capital management failed to lift the return on funds employed.

Though non-essential capital expenditure was curtailed, spending to reinforce business sustainability was maintained. Investment on new ERP solutions continued in the Electrical Wholesale and packaging businesses.

Within the Electrical Wholesale division, Voltex Durban was the first site to implement the new system. The roll-out will continue into calendar 2011. Up-to-the-minute management information will ensure continued improvements in efficiency.

Investment was also maintained in quality. Seating, our furniture-maker, became one of the first manufacturers in South Africa to achieve ISO 9001, 140001 and 180001 compliance.

Benchmarks

A supposedly temporary slowdown in the economy lasted much longer than anticipated. Most teams failed to achieve their revenue and profit targets.

Benchmarks are set in consultation with every business and branch. They are not imposed in line with macro-economic forecasts. Though our businesses are close to their industries and customers, they grossly underestimated the impact of recession (a mistake made by many

economists). As depressed conditions continued, it became apparent that many businesses would fall considerably short of expectation.

The best performers against budget were the teams focused on debtors and inventory management. A net improvement in the debtors position was achieved while the effort to reduce stockholdings to free up cash realised the anticipated benefit.

Brand and operational dynamics

Businesses were restructured and infrastructure rationalised. Management focused on maintaining staff motivation across leaner teams.

At Voltex Electrical Distribution, three branches were closed. CN Business Furniture closed three branches (Nelspruit, Witbank and Office Furniture Clearance House in Johannesburg).

Seating closed down assembly operations at its Queenstown factory and integrated this function into the company's Johannesburg factory. Unfortunately, this led to job losses at the Queenstown premises. At year-end, Waltons began the downsizing of its bulk distribution facility in Johannesburg to eliminate the double handling of product. Waltons Promotional Gifts was scaled down.

A change of leadership at Voltex is bedding in well. The business has been restructured into two divisions, one devoted to the development and commercialisation of new technologies and products (Voltex Solutions) and the other focused on product supply and efficiencies across the 80-strong branch network. Each operation is headed by a managing director.

Bidvest Industrial and Commercial

Though volumes fell, our brands improved their relative positions in their respective industries. The full benefit may not be seen until 2011. By that stage, recession and short-term decision-making by some players may result in insolvencies and industry consolidation.

Voltex remains the leader in the supply of electrical cable and electrical equipment. Waltons is the country's leading stationer. Kolok is South Africa's largest distributor of computer printer supplies. CN Business Furniture and Seating are the leading distributors and manufacturers of furniture in their respective fields. In niche markets, our name for top quality is indisputable.

Afcom acquired the South African rights to the Sellotape brand and plans appropriate marketing support in the new period.

Our determination to maintain a leadership position extends to operational health and safety within each business. Active health and safety management is a feature of all operations. Safety officers have been appointed at each site in the division; more than 200 officers in all.

New initiatives

Waltons' Optiplan acquisition bedded down well. A specialised filing systems offering has now been integrated into all branches and across the Waltons regional structure. Waltons' commercial warehouse at Modderfontein has moved to larger premises. Disruption was minimal as the new warehouse is nearby.

Bidvest Materials Handling was successfully integrated into Packaging and Catering. The business supplies forklifts and was previously part of McCarthy Heavy Equipment. It has acquired exclusive South African distribution rights to the Nissan forklift range.

Voltex, in conjunction with partner IntelliDB, began development of energy-monitoring software. Voltex is also exploring the market potential of solar heating for domestic and commercial water supplies.

A management development programme in collaboration with Henley Business College was successfully implemented at Voltex and was ready for roll-out across Bidvest Industrial and Commercial by year-end. Course content is shaped by the job description of each participant as the intention is to improve on-the-job performance by every supervisor and manager.

Business risks

Risks to the business did not change, though volatility sharpened currency risk and trading risks. The prices of commodities such as steel and copper are influenced by international as well as local factors. Management has long experience of dealing with these fluctuations.

Technology risk in the electrical and energy fields will continue to grow. The ever-increasing price of electricity will drive constant innovation. New energy-saving solutions will be developed. It will be a challenge to identify the most appropriate solution or technology-set. Further challenges apply to the timing of buying

decisions and the estimation of the appropriate stock-holding.

The risks were showcased during the year. A few years ago, continual load-shedding by Eskom, contributed to higher demand for energy-efficient solutions and back-up systems. Eskom's long-term challenges have not changed, but a year of relatively few outages led to a decline in demand for smart energy systems.

Objections to big increases in electricity prices also meant that Eskom's new tariffs only took effect in July 2010. As a result, it will be mid-winter before customer demand for these solutions is likely to resurface. A focus area for management is therefore getting both the timing and the technology right.

Technology risk is managed to some extent by our international partnerships and ability to scan the global horizon for developments with most potential. South Africa is rarely the first adopter of new technologies. We can observe what works best internationally and canvass our global associates for new ideas.

The South African market is unique as it is influenced by a mix of first and third world factors. Managers are deeply rooted in their respective sectors and have long experience of identifying appropriate solutions for their markets.

As stockists with relatively large inventories we remain at risk from syndicated theft. We are constantly on our guard and employ sophisticated security systems. It is

pleasing to report that no major losses from theft were reported.

Credit risk was well managed.

People risk and talent retention are under constant review; as are the most appropriate remuneration and incentivisation structures. We train, but we don't always retain. Most South African businesses face this challenge.

A special risk this year is that of a World Cup hangover. Some of our businesses benefited when major infrastructure projects began and reached a peak. If government spending on infrastructure should be curtailed as priorities change in the post-World Cup period, many businesses will feel the effects. Diversification across multiple sectors helps us manage risks like this.

Sustainable development

Pride is a key feature of our culture. Our businesses tend to be industry leaders and strong brands. Our people take pride in this status and perform accordingly. We're highly decentralised and entrepreneurial. This tends to attract self-starters and goal-setters.

Economic performance – All businesses have now improved to at least a level 3 or level 4 contribution against the DTI Codes. We use an electronic procurement tool to help our suppliers improve their empowerment credentials. We partner with new entrants to the subcontracting sector, helping them build a track record while instituting basic business disciplines. Kolok has established a township

business hub that comprises 22 previously disadvantaged micro-business owners in Bophelong who resell computer consumables.

Environment – Petrol and diesel consumption has reduced by 12%, partly by increasing the proportion of direct deliveries (as opposed to handling through a warehouse). This has reduced double-handling of product, stock-holding, obsolescence, lead times and transport costs, but came at the cost of retrenching 40 people. Waltons and Kolok are promoting direct deliveries. Sustainable office furniture manufacturing is gaining momentum at our furniture operations.

Human resources – Operational restructuring led to the retrenchment of 318 employees. This was a last resort after other avenues, such as redeployment, were pursued. Investment in training has risen, taking us to the required 3% target for the first time. Companies are looking to develop high potential managers in the under-40 age bracket. A total of 19 Voltex candidates graduated from Henley Management College while 367 black employees participated in learnership (or equivalent) programmes.

Health and safety – The division's LTIFR injury rate has reduced by half following improved housekeeping and attention to health and safety matters.

Labour disputes – CCMA cases brought against the business dropped 28% to 72, with 42 findings in favour of the division. No Department of Labour fines were incurred for non-compliance.

Society – Internal audit manages various aspects of ethical business conduct, and we engaged a leading law firm to conduct awareness training on the Competitions Act and the Competition Commission.

Corporate social investment – We concentrate our CSI activities in the education and training sectors. Each company selects its own flagship projects, often involving the supply of stationery to schools. The total value of our CSI was R2,5 million.

 **QUICK LINK: Divisional sustainability report**
http://www.bidvest.com/bidvest_ar2010/022.html

Future

Strong recovery may not yet be apparent, but the business cycle appears to have bottomed out. Our businesses are leaner and our people well motivated. We have maintained a strong position in every industry in which we are represented.

VOLTEX ELECTRICAL DISTRIBUTION

Volumes were down significantly, but showed some improvement late in the year, despite the disappointing impact of the World Cup. Gross margins held steady and expenses were well managed. Branch structure was rationalised. Hillcrest and Uitenhage branches were closed, while Springfield became a depot.

The new structure means we continue to draw on the experience of former chief executive Myron Berzack (now chairman) while joint managing directors drive the two operational arms of the business.

Bidvest Industrial and Commercial

Voltex Solutions began work to develop the market for dual geyser elements, intelligent distribution boards, sensors and other smart products designed to optimise energy usage. Sales take-off was slow. Much-improved response is anticipated in the year ahead as power costs move higher.

The full benefit of the new ERP system will not be seen until the new period, but early indications are that we will realise major benefits in areas like market intelligence, anticipation of customer needs and rightsizing the inventory.

Results in export markets were disappointing.

BERZACKS

Expense control remained rigorous, but trading profit experienced a further decline. Labour unrest, port strikes and short-time working in the industry aggravated an already difficult situation. The business has been severely affected by falling demand for its core products – industrial sewing and embroidery machines. Demand is expected to remain subdued.

EASTMAN STAPLES

Our UK-based sewing machine supplier continues to aggressively manage the cost base. A restructure is planned early in the new period.

CATERING EQUIPMENT

Vulcan Catering Equipment

Vulcan maximised its trading opportunities as the hospitality industry expanded and upgraded catering facilities ahead of the

World Cup. The year began hesitantly, but performance steadily improved. Both revenue and trading profit exceeded expectation. Cash flow improved despite an increase in working capital. Margins were well managed.

Sales were strong to both the institutional eating and leisure segments of the market. The export business achieved pleasing growth, as did operations in KwaZulu-Natal.

STATIONERY

Waltons Stationery Company

Revenue was flat, but trading profit was significantly below budget in a disappointing year. The back-to-school peak provided a temporary respite and strong cash generation was achieved in the fourth quarter, though extended school holidays disrupted the usual trading pattern. Volumes overall were depressed as both cash-strapped consumers and companies reduced their office furniture spend. Changes in the sales mix away from higher margin items reflected continued pressure on consumers.

Management has undertaken urgent action to extract costs from the business, but benefits will not be felt until next year.

A purpose-built KwaZulu-Natal regional distribution facility is planned that will replace the current distribution centre and three retail outlets. Land has been acquired, but project completion and resultant efficiencies are not expected until 2012.

KOLOK

A stronger rand, especially in the first half, was negative for the business and made it difficult for Kolok to maintain the strong financial momentum of the previous period. In unit terms, volumes were up throughout the year. The business was impacted by dislocation caused by the World Cup. However, improvements were achieved in working capital management and cash generation.

OFFICE FURNITURE

CN Business Furniture

Revenue was well down as demand continued to fall in both the corporate and project markets, resulting in an operating loss. Margins came under mounting pressure in a declining market. The business was restructured in line with the new trading environment and improvements achieved in debtors management. Three branches were closed and overhead costs reduced following job cuts. Retrenchment costs totalled R2,9 million.

The business continued to innovate and give an industry lead in key areas, despite the recession. We import a board that complies with strict environmental standards. The German board manufacturer ensures that two trees are planted for every tree that is cut down to meet its production requirements.

Dauphin

Results were extremely disappointing, though expenses were well managed. Volumes were almost entirely restricted to replacement of office furniture items as the

corporate project market went into limbo. Delays caused by the transport strike compounded difficulties in the fourth quarter, though the order book showed pleasing improvement as the year came to a close.

A new management team will continue to implement savings while pursuing growth opportunities.

Seating

Low demand and falling sales resulted in an operating loss. Management closed assembly operations within the Queenstown factory, resulting in a loss of jobs and retrenchment costs of R1,9 million.

Working capital management improved and margins recovered somewhat following remedial action.

The business is being repositioned to move the focus away from the lower end of the market where margins are under increasing pressure. Seating concentrates increasingly on injection-moulded backs and seats. The effect is to reduce the number of production processes.

PACKAGING CLOSURES

Afcom

Trading conditions were challenging and revenue came under pressure. Even so, a marginal increase in trading profit was achieved, a pleasing result in a difficult year. Margins and expenses were well managed and cash generation remained strong.

Market-share gains were achieved in the polypropylene and staples segments.

Buffalo Executape

A strong fourth quarter was the platform for modest, but pleasing growth in revenue and trading profit. Margins were well managed and cash flow was strong. The return on funds employed showed pleasing growth.

Materials Handling

The newly acquired unit was integrated into the Packaging and Catering component of our business with effect from March.