

Bidvest Paperplus

A leading manufacturer, supplier and distributor of commercial office products, printer products, services and stationery and packaging products, through a wide network of outlets in southern Africa.



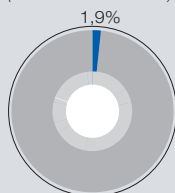
R2,1 billion

Revenue 8,2% increase

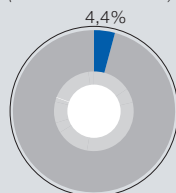
R248,3 million

Trading profit 10,8% increase

Revenue
(Divisional contribution %)



Trading profit
(Divisional contribution %)



Carbon footprint and the environment

In our ongoing campaign to conserve electricity, Silveray Manufacturing won the eThekweni (Durban) energy-saving competition for installing a 6 000-litre solar water-heating system for its workers at its labour intensive Mobeni facility.

Highlights

- ▶ Businesses perform well in a challenging market
- ▶ Acquired distribution agency for international brands Parker, Papermate and Waterman
- ▶ Croxley range being expanded
- ▶ BEE rating up from level 4 to level 3
- ▶ Lithotech export office opens in Denmark
- ▶ Consolidation under way of PWS and Silveray Statmark
- ▶ More than half domestic procurement spend now with BEE suppliers
- ▶ Training spend and training spend per employee increases
- ▶ Entered market for on-demand digital printing solutions
- ▶ Silveray Manufacturing won eThekweni energy-saving competition by installing a solar heating system for workers

Financial indicators

(for the year ended June 30)

	2010 R'm	2009 R'm
Revenue	2 091,9	1 933,4
Trading profit	248,3	224,2
Operating assets	935,4	994,3
Operating liabilities	351,0	358,7
Depreciation	49,5	43,3
Amortisation and impairments of intangible assets	3,5	2,8
Goodwill and intangible assets	140,3	124,7

Sustainable development indicator overview

Employees	4 368	4 261
Total training spend (R'000)	5 248	3 674 ⁽¹⁾
Training spend per employee (R)	1 202	862 ⁽¹⁾
Employees attending HIV/Aids training (%)	35,3	22,8
Lost-time injury frequency rate	6,8	5,6
Work-related fatalities (number)	—	—
BEE procurement (R'000)	856 856	601 781
CSI spend (R'000)	1 061	881
Enterprise development spend (R'000)	3 314	2 800
Total water usage (litres '000)	115 006	120 886
Total electricity usage (kWh '000)	32 721	35 448
Petrol (litres)	460 876	424 325
Diesel (litres)	284 574	328 745
Total carbon emissions (tonnes)	34 234	37 685
Carbon emissions per employee (tonnes)	7,8	8,8

⁽¹⁾ Restated

 **QUICK LINK: Historic divisional sustainable development data**
http://www.bidvest.com/bidvest_ar2010/Q23.html

Bidvest Paperplus



Neil Birch, *chief executive*

Positioning and reputation

The repositioning strategy of recent years reached critical mass as laser printing and mail personalisation emerged as the biggest single profit-earner. Bidvest Paperplus is increasingly seen as a network of specialists capable of transitioning across formats. Skills developed in an ink-on-paper environment are applied to various substrates.

Diverse printing, imaging and communication formats are accessible at one customer touchpoint – a vital factor for customers looking for a single supplier capable of meeting multiple requirements.

Bidvest Paperplus is now industry leader in full-colour digital printing, another indication that the strategy of rebalancing the business has proved successful.

Macro- and trading environment

It was a watershed year. Recession forced businesses to seek economies and re-examine past practice. One effect was the further erosion of conventional printing and conversion volumes. Customers with a traditional attachment to ink-on-paper solutions moved to e-mail statements or other digital formats. Others cut back on quantities or redesigned their forms. A three-page solution became a two-page solution and so on.

As the economy moved out of recession, customers preferred to stick with new solutions – confirmation that policy decisions had been taken on expense items and cost control rigour would be maintained.

Performance

Bidvest Paperplus performed well in a challenging market. All teams put in a creditable performance, including those who faced a severe decline in sales as a result of new buying patterns. Inventories were cut and debtors strictly controlled, resulting in improved cash flow and a better average return on funds employed.

Revenue rose 8,2% to R2,1 billion (2009: R1,9 billion) while trading profit moved 10,8% higher to R248,3 million (2009: R224,2 million). World Cup-related business offset the absence of big export contracts.

Changes in demand patterns resulted in the rationalisation of capacity in some areas, but staff numbers remained stable.

Strict cost control resulted in a war on waste while the growing appeal of digital formats reduced paper usage. Improved measurement confirms that good sustainability practice is good business. Business sustainability considerations underpin the entire business.

Strategic and industry dynamics

Over-capacity in some parts of the printing industry led to intense competition, squeezing some margins.

Marketing budgets were slashed and business cut the printing and stationery spend. It appears that all spending on office consumables by customers is scrutinised before sign-off.

Government is adopting decentralised tendering for some print work and scholastic supplies. Local rather than national contracts reduce print runs. Bidvest Paperplus is not dependent on government contracts, but several large printers are geared up for this type of job and may now find it necessary to seek replacement business.

The potential for cut-priced competition – especially in stationery – was apparent by year-end.

In challenging conditions, we derived relative advantage as volumes traditionally channelled to one specialisation were redirected to others.

The export cycle, favourable last year, proved less so this year. We specialise in print and fulfilment work for election and voter registration contracts. With few major elections in sub-Saharan Africa, demand fell.

Revenue was assisted in May and June by work on VIP ticket packaging and personalisation, our biggest single FIFA World Cup 2010™ contract.

The rand remained stable as did most input costs, though pulp prices went up. Electricity costs rose significantly and pressure rose on the wage bill. Whenever possible, higher pay awards were made to the lowest paid workers.

Efficiencies

Long-run print demand plummeted and the Cape Town business forms plant was scaled down. Two Johannesburg label operations were consolidated into one.

The acquisition of Pretoria Wholesale Stationers was completed at the end of last year on the run-in to the peak back-to-school period. This delayed the integration of the stationery operations of PWS and Silveray Statmark. Consolidation began in the fourth quarter. Areas of duplication are being removed in Johannesburg and Durban. Considerable efficiencies are expected.

To achieve sustained efficiency and quality improvements, performance champions were appointed. They apply a six-sigma methodology that imposes constant measurement and rigorous self-assessment. The initial champions have been deployed at the Lufil Packaging operation in Isethebe, KwaZulu-Natal, the Silveray manufacturing site in northern KwaZulu-Natal and Lithotech Manufacturing Pinetown.

Effects will not be evident until next year.

A preventive approach was taken to debtors management. Creditworthiness of customers was reassessed before cases of one year late payment occurred. Strict credit controls were applied.

Benchmarks

Annual financial and other performance targets, such as waste reduction, are set

for each operation. There are no overall divisional targets as some segments of our industry are in decline while others show robust growth from a relatively low base.

Margin management is complicated by varying levels of on-selling in each operation. When a business controlled all production, service, storage and delivery functions for all products, margins could be compared with the previous period as the same level of control had been maintained for years. Now some outputs are internally controlled while others are bought in to be on-sold as part of a total package. On-selling elements vary from company to company. The net effect is more margin pressure.

Workplace safety is a key area for measurement and improvement.

Empowerment and transformation are measured continually. Independent assessment is carried out by Empowerdex.

Our manufacturing businesses are heavy users of electricity and water, while distribution operations are big users of petrol and diesel. These are increasingly expensive inputs. Measurement and reduction are critical.

Brand and operational dynamics

Lithotech's brand strength was leveraged during an attack on related markets as our fulfilment service operates under the Lithotech banner. The Lithotech name was promoted internationally as part of our drive to secure more export work.

We acquired the South African distribution rights to the strong international brands, Parker, Papermate and Waterman. They are being marketed as part of a wider Silveray Statmark offering.

We bought the Croxley brand rights in southern Africa and have begun to expand the range by launching non-paper-based Croxley-branded general stationery items.

New initiatives

We launched an aggressive attack on allied markets and differentiated ourselves strongly as one-stop solution providers.

Procurement proved to be a big growth area. Fulfilment services, covering print and non-print items, became a strategic contributor to the business and for the first time we used BEE accreditation as a sales tool.

We opened a Lithotech export office in Denmark in collaboration with a Danish associate company. The premises are near the Nordic Office of the UN Development Programme. The main focus area is printing, fulfilment and project coordination in support of elections and voter registration programmes. Lithotech is one of the main sponsors of an upcoming international conference on election challenges, vote counting and new election-related technology.

We have entered the market for on-demand digital printing solutions, focusing on course notes, training manuals, technical and specialist publications and short-run book production.

No new acquisitions took place. Investment in new property, plant and equipment totalled R44 million.

Facilities at the recently launched Bidvest Paperplus training academy were made available to students on the block release courses offered by the Printing Industry Federation. The collapse of the media, advertising, publishing, printing and packaging sector education and training authority appears irrevocable. A lead had to be given or risk continuing limbo in industry training.

Business risks

Changing technology remains a key risk. Our widespread of activities and refusal to become dependent on one technology help us manage the risk. We constantly

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scan the technology horizon for new developments.

Techno development is also an area of opportunity as we are well resourced and in the past have shown that we are capable to adopting new technology and making new investment at a faster rate than some competitors.

We depend on skilled people. Training is one form of people risk management; so is our position as industry leader. Ambitious people can build a strong career with the company and take pride in their length of service.

Currency risk is managed by the taking of forward cover.

For local paper supplies we remain dependent on a duopoly. This is a continuing risk factor, but we retain the capacity to bring in overseas supplies should local prices move to unacceptable levels.

Sustainable development

Pride in resilience is increasingly evident. Our business is constantly evolving and teams take pride in the fact that many pressures on the industry were anticipated and that new growth areas were identified in good time.

Craft and company pride was always strong. Group pride is now coming to the fore.

Economic performance – We have improved our BEE rating for the DTI Codes from level 4 to level 3. As a value-adding

enterprise, our customers can now claim 137,5% of their procurement spend with us for their own BEE rating purposes. In turn, we have applied our web-based tool to help register BEE suppliers. These now represent more than 50% of our domestic procurement spend.

Environment – As clients convert from paper to electronic processes, we have increased our offering of one-stop solutions to administrative needs and entered the market for on-demand digital printing solutions. Silveray Manufacturing won the eThekweni (Durban) energy-saving competition for installing a 6 000-litre solar water-heating system for its workers.

Human resources – Half our employee-base is unionised and we enter into wage negotiations at 16 businesses annually. We deadlocked in eight and referred these for conciliation and mediation. Seven were resolved amicably, but one resulted in a 13-day strike at our Lufil plant, affecting 5% of employees, but with significant impact on the operation. Total training spend (and training spend per employee) more than doubled as we continued to take more responsibility for industry training following the collapse of the industry SETA. We increased learnerships by 57%, and are aiming for the DTI's target of 5% of employees in learnership positions. Gender equality is a challenge in our factory environments where jobs focus on physical labour and shift work. We assessed 400 employees for adult basic education and training and 260 signed up nationally for this learning initiative; 91% passed, enabling participation in further career development.

Health and safety – LTIFR increased despite improved housekeeping and attention to health and safety matters.

Labour disputes – CCMA cases brought against the business remain low with only eight findings against the division.

Society – We embarked on an awareness campaign to ensure ethical business practices, including an externally managed survey, followed by a debate with staff around anti-competitive behaviour and corrupt practices in the work environment. The audit committee plays an oversight role, recording no significant incidents of fraud, corruption or anti-competitive behaviour.

Corporate social investment – Each operation adopts a disadvantaged school in its area and supports learners and staff with donations of scholastic stationery and books. CSI spend has increased by 21%.

 **QUICK LINK: Divisional sustainability report**
http://www.bidvest.com/bidvest_ar2010/024.html

Future

We will aim for double-digit growth in trading profit, but performance depends on continued economic recovery and a revival of consumer spending. The diversification strategy has proved sound and will be continued. Greater consistency will be sought in the volume of export business and efforts will be stepped up to widen our product and service offering. Growth will be sought in paper-based packaging manufacture and distribution. Cost efficiencies and working capital management remain focus areas.

PRINTING AND RELATED

Personalisation and mail

Teams achieved sustained growth and Lithotech Africa Mail put in another strong performance as the leading provider of high-volume mailing solutions. It was a breakthrough year for our full-colour digital printing business.

Printing and conversion

The business suffered a significant fall in revenue and trading profit as corporate customers cut back on printing work. Big cuts in marketing budgets worsened the situation. Teams did well to cut their own costs while seeking replacement volumes.

Sales and distribution

Teams benefited from a pragmatic approach. As volumes fell in conventional print work, they pursued new opportunities in procurement and fulfilment services.

ALTERNATIVE PRODUCTS

Strong growth was achieved, though the base remains relatively small. Many new accounts were gained as the market witnessed a strong trend to e-mail billing. International business is being sought in collaboration with value-added resellers in Australia. A proof-of-concept site has been set up. E-mail billing, on the server-to-server model, offers considerable saving to Australian corporates, though initial reticence is a challenge.

PACKAGING AND LABEL PRODUCTS

The expanding subdivision achieved strong sales and profit growth. Rotolabel performed strongly. At the beginning of the period, the business was severely affected by the retail downturn, but grew volumes by expanding into new markets. A rebound by the retail sector ensured a good end to the year. The Cape-based label factory had a good year.

STATIONERY DISTRIBUTION

The stationery market was subdued, but Silveray Stationers replaced trade volumes with retail chain business. Penetration of the retail market will be assisted by acquisition of the Parker pen agency. Strong sales and profit growth was achieved, but changes in government buying patterns in the scholastic products market threaten to squeeze paper stationery margins.