



# Dairibord

## Holdings

*More Than Just Milk*

## Financial Results 2016

March 29<sup>th</sup>, 2017

*Website: [www.dairibord.com](http://www.dairibord.com)*



# Presentation Outline



Operating Environment	A Mandiwanza
Performance Highlights	
Volumes and Revenue Review	
Financials	M Ndoro
Outlook and Strategy	A Mandiwanza
Discussion	

# Operating Environment

# Operating Environment



- Macro-economic performance continued on a downward trend. GDP growth for 2016 is estimated at 0.6% vs. 1.1% achieved in 2015.
- Liquidity challenges and a weak 2015/16 agriculture outturn impacted aggregate demand
- RBZ moved to avert liquidity challenges through introduction of bond notes and promotion of electronic payment platforms
- Foreign currency shortages affected supply of raw materials impacting product availability
- Statutory Instrument 64 of 2016 (SI 64) was introduced to restrict imports and reduce forex outflows. Manufacturing sector benefited with growth in capacity utilisation increasing from 34.3% in 2015 to 47.4% in 2016.
- Deflationary pressures continued. December 2016 year-on-year inflation closed at -0.93%. Food and non-alcoholic beverages inflation was at -0.95% and the milk, butter and cheese category inflation was at -6.41%
- Availability of municipal water worsened towards year end resulting in reduced output and increase in utility costs

# Dairy Industry Overview



Measure	2016 Performance
Annual raw milk produced	65 million litres, 14% up
Dairy herd	28 000
Estimated annual demand for milk and milk products	120 million litres, no change vs. 2015
Raw milk cost per litre	US60c {SA 34c, Zambia 25c, Kenya 32c, Malawi 24c}
Number of processors	13 vs. 12 in 2015

# Performance Summary

## Key Challenges for 2016



Mismatch between raw milk intake and demand worsened by delays in the commissioning of the UHT carton plant

Revenue decline mainly due to price reductions to address affordability and competitiveness

Erratic supply and high cost of water procured from third parties for Simon Mazorodze and Chitungwiza factories (bought in water at \$12 to \$17/cubic metre vs. \$1.40/cubic metre from local authorities)

Impairments of inventories, receivables, plant and equipment

High overhead costs which are not aligned to the level of revenue generated

# Performance Highlights 2016



Raw milk intake

31 million litres

18%



Sales volume

83 million

1%



Price per litre realised

\$1,13

9%



Revenue

\$93 million

10%



Operating Loss

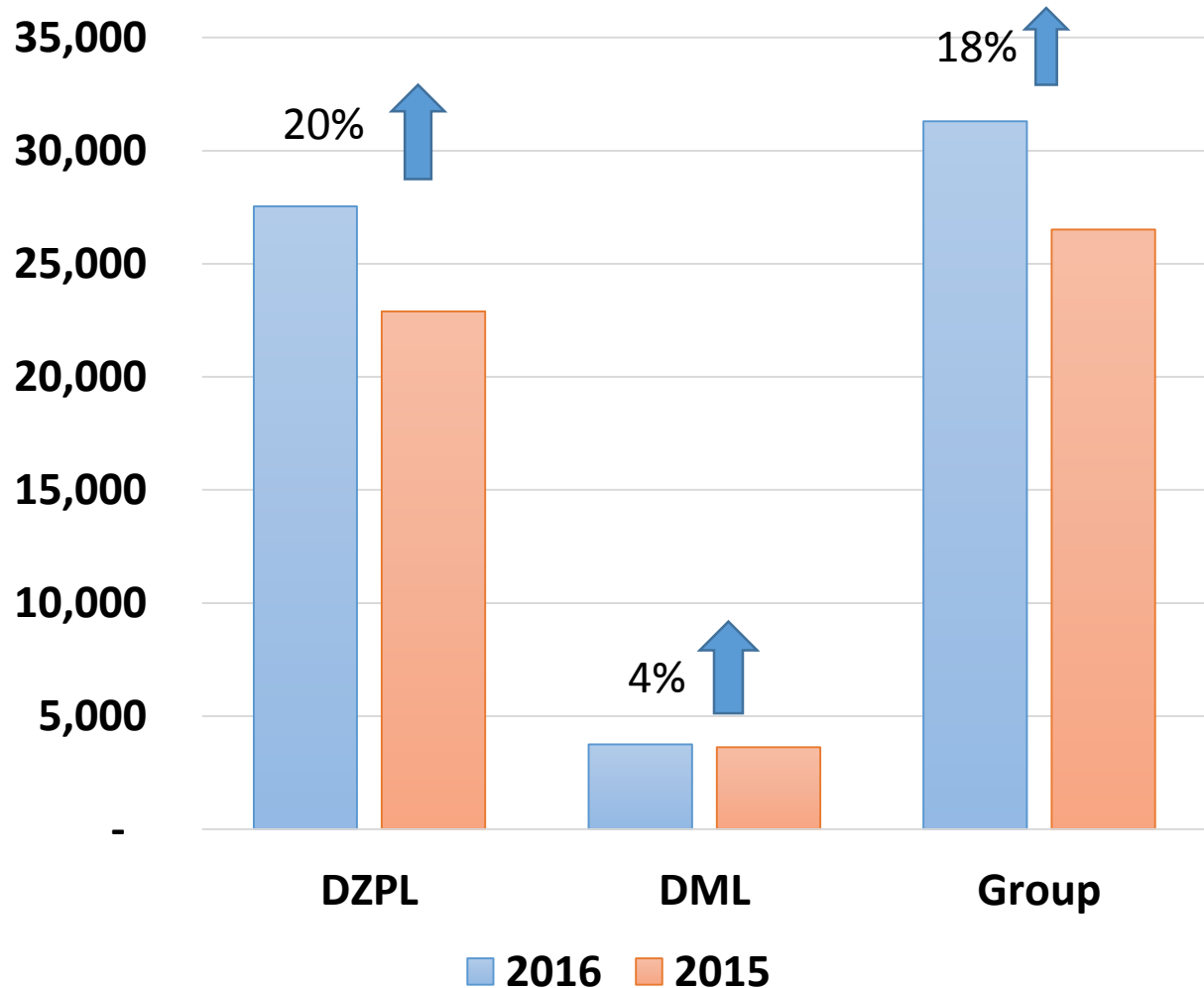
**\$3.898 million vs. an operating profit \$3.970 million for 2015**  
(Includes impairments of inventory, receivables and equipment - \$2.8 million)



## Volumes and Revenue Review

# Raw Milk Intake

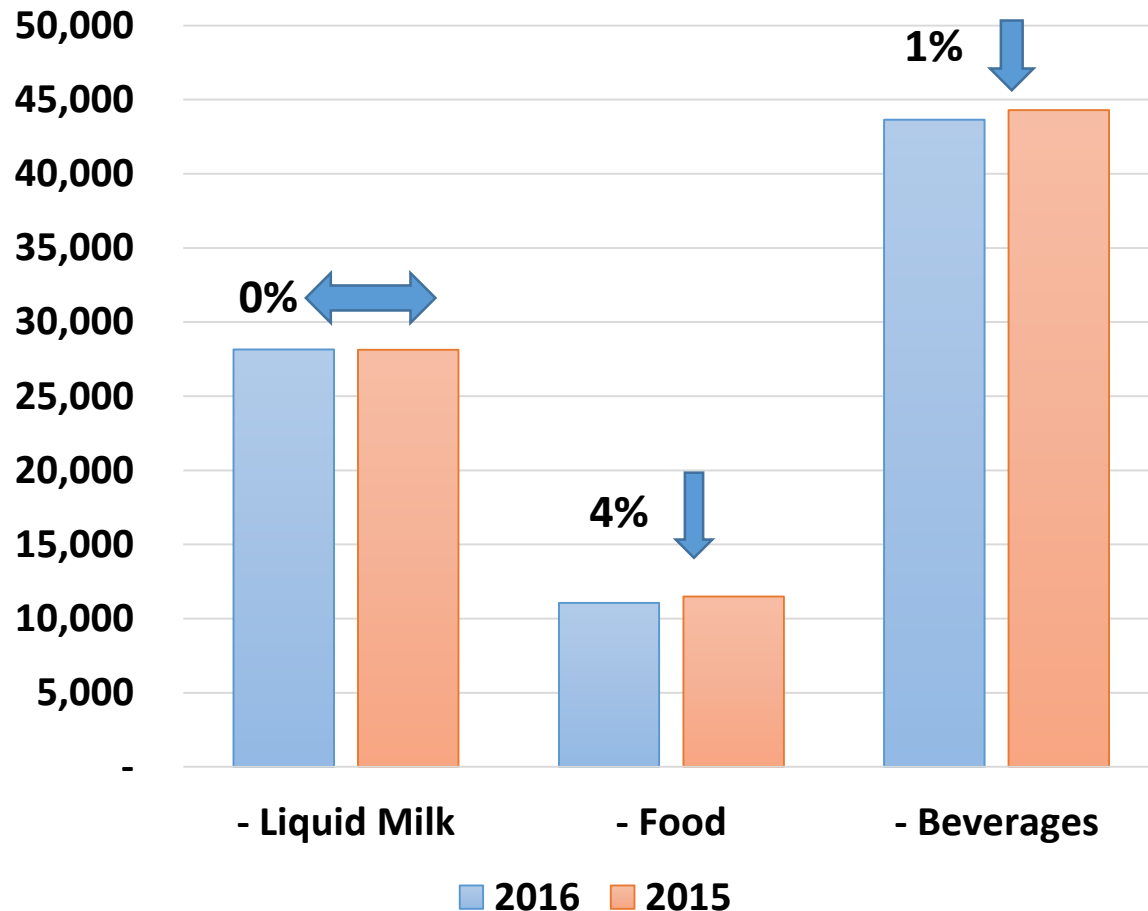
## Raw Milk Intake – 000 Litres



- National raw milk production in Zimbabwe increased 14% in 2016 vs. a 20% growth in intake for DZPL
- DZPL share of national raw milk collected by processors at 47%
- Heifer scheme performance
  - Volume produced: 11% of total intake for DZPL
  - Productivity: 15-28L/cow/day
- DML raw milk intake increased by 4%

# Portfolio Performance – Volumes

Volume Performance 2016 vs. 2015



- Pfuko volumes grew 18% benefiting from increased capacity and additional flavors
- Water outages in the second half of the year impacted the beverages portfolio
- Supply constraints on imported UHT and delays on commissioning the UHT carton machine impacted Liquid Milks. Lost sales of 2 million litres.
- Foreign currency shortages also contributed to supply challenges for key raw materials

# Selling Prices Per Litre



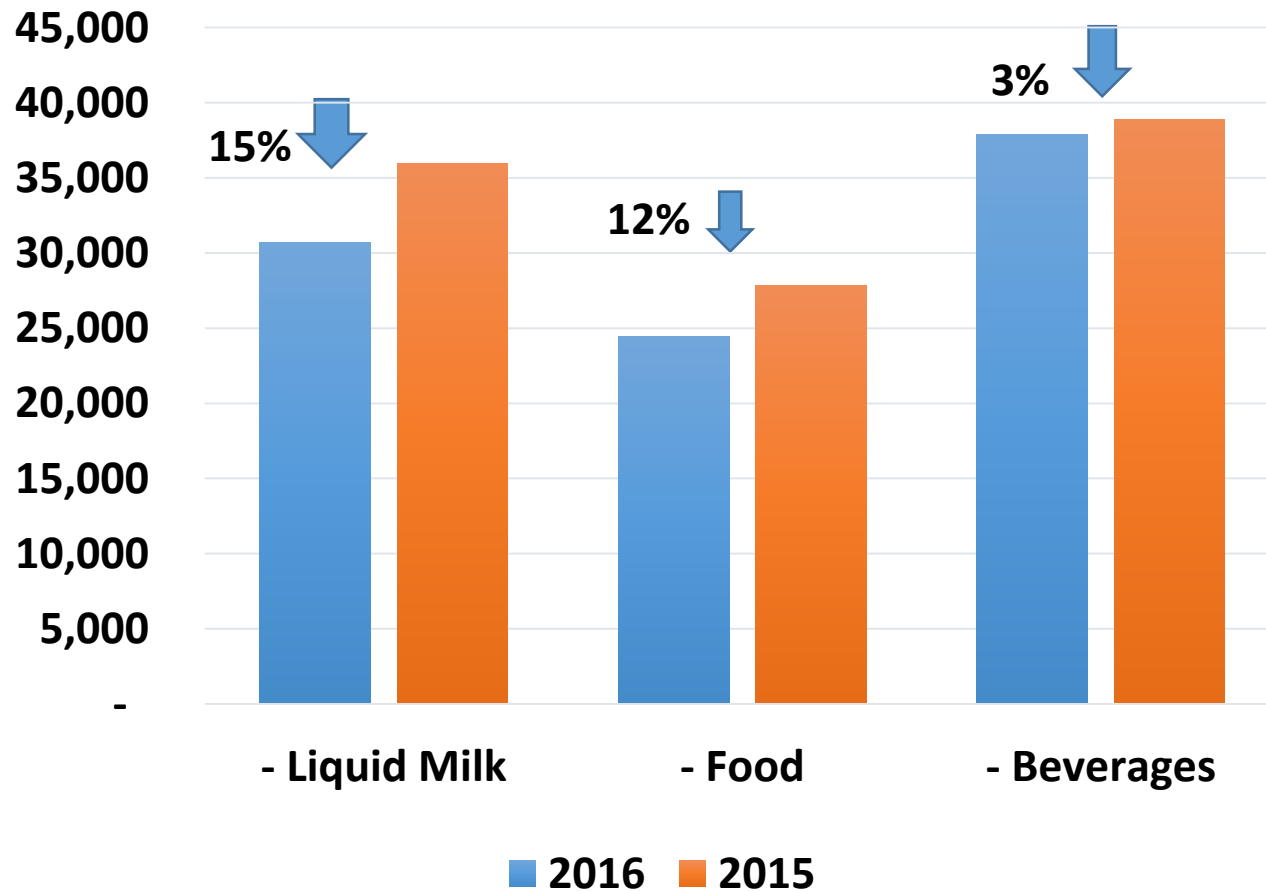
	2016	2015	2016 vs. 2015
- Liquid Milk	1.09	1.28	(15%)
- Food	2.21	2.42	(9%)
- Beverages	0.87	0.88	(1%)
<b>Consolidated Average</b>	<b>1.13</b>	<b>1.23</b>	<b>(9%)</b>

- Price adjustments were effected to address affordability and competitiveness
- The trend of price reduction for the entire portfolio is not expected to continue going forward given the positive shift in inflation from January 2017

# Portfolio Performance – Revenue



## Revenue by portfolio \$000

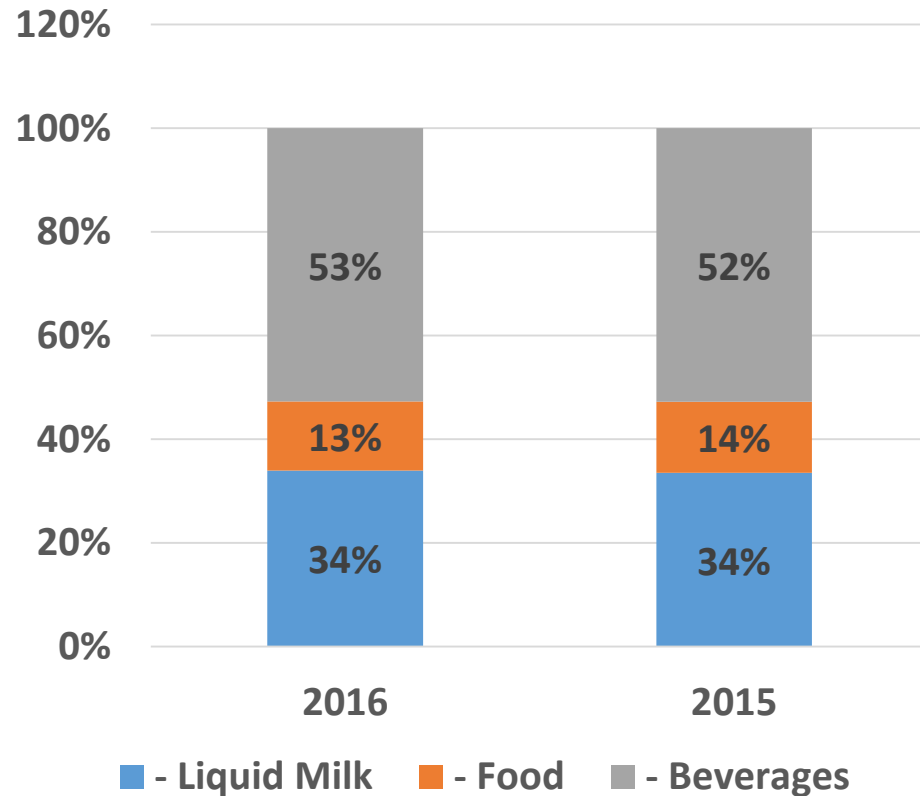


• Revenue performance reflects the impact of price adjustments and static volumes

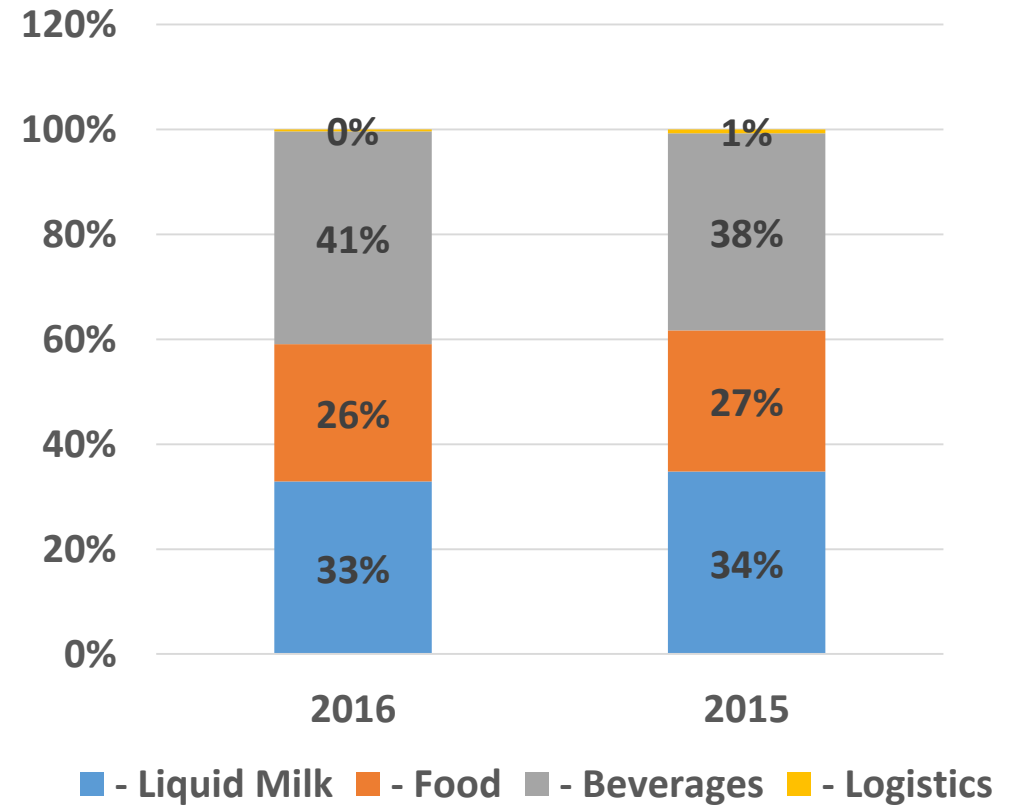
# Portfolio Contribution to Volumes and Revenue



Volume contribution by portfolio  
2016 vs. 2015



Revenue Contribution by Portfolio  
2016 vs. 2015



# Market Share By Key Brands



		2016	2015
<b>Liquid Milks</b>	Long-life milks	50%	42%
	Cultured milks	18%	25%
<b>Foods</b>	Yoghurt	60%	68%
	Ice creams	68%	73%
	Sauces and condiments	42%	34%
<b>Beverages</b>	Pfuko	48%	38%
	Cascade	63%	52%
	Quench	9%	9%
	Aqualite	8%	8%

*\*\*Source: Modern Trade*

## **2016 Financials**



# Income Statement



US\$'000	2016	2015	2016 vs. 2015
Revenue	93,423	103,441	-10%
<b>Cost of sales</b>	<b>(74,507)</b>	<b>(78,727)</b>	-5%
Materials	(53,573)	(57,731)	-7%
Production Costs	(20,934)	(20,996)	0%
<b>Gross Profit</b>	<b>18,916</b>	<b>24,714</b>	-23%
Overheads	(22,814)	(20,744)	10%
<b>Operating (loss)/profit</b>	<b>(3,898)</b>	<b>3,970</b>	<b>-198%</b>
Net finance costs	(983)	(958)	3%
(loss)/Profit before tax	(4,880)	3,012	-262%
Volume sold - 000L	82,859	83,893	-1%

- Materials costs declined by 7% on account of 1% decrease in volumes and cost reduction initiatives
- Impact of reduction initiatives on materials was mitigated by static costs of raw milk
- Overhead costs were driven by once off impairments of inventories (\$1.9 million), receivables (\$500k) and equipment (\$400k)
- Operating loss excluding once offs was \$1.1 million

# Statement of Financial Position



US\$'000	2016	2015
<b>Assets</b>		
Non-current assets	46,008	44,505
<b>Current assets</b>		
Inventories	13,004	18,097
Prepayments	855	637
Trade and other receivables	10,332	11,823
Cash and cash equivalents	3,467	2,810
	<b>27,958</b>	<b>33,367</b>
Assets classified as held for sale	569	828
	<b>28,527</b>	<b>34,195</b>
<b>Total assets</b>	<b>74,536</b>	<b>78,700</b>

# Statement of Financial Position Cont'



US\$'000	2016	2015
<b>Equity and liabilities</b>		
Total equity	44,064	48,102
<b>Non-current liabilities</b>		
Interest - bearing borrowings	6,651	4,562
Deferred tax liability	4,458	3,394
<b>Current liabilities</b>		
Trade and other payables	15,523	17,284
Interest - bearing borrowings	3,066	5,188
Bank overdraft	732	-
Income tax payable	42	170
	<b>19,363</b>	<b>22,642</b>
<b>Total liabilities</b>	<b>30,471</b>	<b>30,598</b>
<b>Total equity and liabilities</b>	<b>74,536</b>	<b>78,700</b>

# Performance Indicators



	31 Dec 2016	31 Dec 2015
Borrowings \$'000**	10,450	9,749
Gearing Ratio	19%	17%
Average "All in" Cost of borrowing	8.7%	10.5%
Current Ratio	1.5	1.5

*\*\*Includes overdraft of \$0.732 million for 2016*

# Cashflow Statement



US\$000	2016	2015
<b>Operating activities</b>		
(Loss)/profit from operations	(3,898)	3,970
Adjusted for:		
Depreciation and amortisation	5,155	4,701
Other non-cash items	2,543	854
Working capital movements	1,964	(2,106)
Interest paid	(1,063)	(1,086)
Income tax paid	(207)	(230)
<b>Net cashflows generated from operating activities</b>	<b>4,495</b>	<b>6,030</b>

## Cashflow Statement Cont' ....



US\$000	2016	2015
<b>Investing activities</b>		
Purchase of plant and equipment	(5,403)	(4,683)
Proceeds from sale of property, plant and equipment	543	1,244
Other investing activities	221	(90)
Finance income	80	127
<b>Net cashflows used in investing activities</b>	<b>(4,559)</b>	<b>(3,401)</b>
<b>Financing activities</b>		
Net decrease in borrowings	(25)	(1,275)
Net (decrease) increase in cash and cash equivalents	(89)	1,355
Net foreign exchange difference	10	41
<b>Cash and cash equivalents at beginning of the period</b>	<b>2,810</b>	<b>1,414</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>2,735</b>	<b>2,810</b>

# Investments



A total of \$5.403 million was invested during the year. Major items are:

- UHT carton processing and filling plant to localize production of cartonised UHT milk (import substitution)
  - Plant has capacity to process and pack cartonised Juices
- Maheu capacity expansion to support demand (Traditional Pfuko Maheu and new Pfuko flavors)
- Peanut butter processing to enhance capacity and product quality

The business has adequate production capacity to meet current and future demand

The business contributed 3% of Group revenue and posted an operating loss of \$200k

The performance of the subsidiary was impacted by subdued macroeconomic performance characterised by low disposable incomes, a depreciating currency and reduced donor support

A hold strategy is being pursued while other options to extract value from the business are being considered



# Dividend



Considering the need to invest in:

- inventories mainly imported milk powders, packaging materials and
- Capex to support distribution and merchandising equipment

The board resolved not to declare a dividend for 2016

## Outlook and Strategy

# Outlook



- The country is expected to produce sufficient maize from the 2016/17 agric season whilst tobacco and key metals are expected to perform better than prior year
- Maize imports will be reduced and consumer spending will improve
- Inflation will revert to positive territory increasing cost of key inputs
- Foreign currency constraints are likely to persist with negative impact on supply of materials
- Milk powder prices are projected to be lower than 2016
- Competition will increase as new entrants invest in processing capacity

# Business Model Realignment



We have consolidated DZPL, Lyons and NFB operations. Key outcomes are:

- Flatter and consolidated organisation structure that eliminates duplications across the value chain and roles and responsibilities
- A consolidated route to market to reduce distribution costs – depots, distribution channels, manning
- Rationalisation of factories and harnessing scale economies in manufacturing and procurement
- Review and rationalisation of product portfolio to eliminate duplications
- Minimum annual savings projected at \$2 million with a rationalisation cost of \$1 million (retrenchments, Head Office relocations and relocation of Plant and Equipment)
- Excess assets held for disposal or leasing

# Volume and Revenue Growth Drivers



- 2016 investments in new UHT plant and additional capacity for Pfuko will have full year impact in 2017
- Launch of cartonised juices – May 2017
- Benefits of SI 64 to be felt in Maheu, Tomato sauce, Salad cream and Mayonnaise
- Key brands will be prioritised in the deployment of foreign currency (\$1.2 million per month)
- Generate exports to contribute towards forex requirements using the marginal pricing approach
- Investment in 1.5 million litres water storage capacity with one week cover at Chitungwiza factory to minimise water supply disruptions
- Selling prices will hold or at best move in line with inflation

## Investments

- \$2.5 million forecast for the year towards water reservoirs, cold chain equipment and distribution vehicles
- The business has sufficient production capacity to support growth in demand in the near future

## Raw Milk Intake

- Heifer Procurement Scheme to support key producers and expand milk production
- Targeting 300 heifers for 2017
- Raw milk cost per litre is expected to remain constant

**Thank You**