Simbisa Brands
LIMITED

Simbisa Brands Limited Trading Update

for the Third Quarter ended 31 March 2020

Simbisa Brands Limited issues the following trading update for the third quarter ended 31 March 2020

GROUP PERFORMANCE UPDATE FOR THE QUARTER

- The Group recorded a 958% (historical) and 87% (inflation adjusted) increase in Revenue in Q3 FY2020 versus the prior year comparable period. Cumulative Revenue growth for 9 months is 735% (historical) and 82% (inflation adjusted).
- The Zimbabwe operation's revenue grew 732% (historical) and 28% (inflation adjusted) year-on-year. Customer counts (excluding bread sales) increased by 1% despite reduced customer traffic in the closing days of the quarter due to the impact of the COVID-19 pandemic. The improvement in customer counts, from a 32% drop reported in H1, was driven by successful uptake of value offerings and promotions. Bread sales were lower by 35% due to the impact of supply shortages in the early periods of the quarter. Overall customer counts, including bread sales, were 6% lower than last year; a significant improvement from the 33% volume decline reported in H1 FY20. These volume improvements are remarkable given an inflation-driven rise in average spend of 792%.
- The Regional operations' Revenue was flat in USD on a year-on-year basis despite COVID-19 induced business interruptions across our markets beginning in March. Furthermore, the business achieved a 4% increase in US Dollar average spend in Q3 FY2020 against depreciating local currencies. On conversion to Zimbabwe Dollars, Revenue growth translated to a 1767% year-on-year increase in regional turnover in Q3 FY2020 versus Q3 FY2019.
- In Q3 FY2020, 4 counters were opened in Zimbabwe. DRC, Ghana and Kenya opened 3, 2 and 1 new counters respectively in Q3. No counters were closed during this quarter. Simbisa closed the Quarter with 455 counters in operation.
- Profit margins remained firm as the business continued to maintain optimal pricing and cost management strategies.

IMPACT OF CORONAVIRUS (COVID-19)

The Group is actively monitoring COVID-19 developments across the markets it operates. Meanwhile, the Group has put in place measures to navigate the pursuant business disruptions and to safeguard the health and well-being of employees, customers, suppliers, as well as other stakeholders. These measures include:

- The establishment of a Resiliency team consisting of the Group Executive Committee, to provide guidance and direction to the management teams as they navigate disruptions in their respective locations.
- Improving and monitoring already existing hygiene standards, promoting social distancing, reducing domestic and international travel and implementing work-from-home policies where possible.
- Implementing a robust testing program which includes a combination of rapid-test screening and PCR testing for staff.
- Boosting softening revenues by aggressively expanding delivery channel sales and extending value offerings.
- Revising cost management with a focus on reducing fixed rental costs, staff costs and non-essential expenditure.
- Conserving cash resources while supporting critical suppliers. This includes the rescheduling of planned new store openings.

The Group expects a negative impact on revenue and profit in the short-term. For the year ending 30 June 2020, it is not possible to accurately quantify the impact of Covid-19 on the Group's financial performance, as trading conditions are rapidly changing and varying according to respective markets.

BUSINESS IMPACT

Zimbabwe
The Group continued to trade as an essential service provider during the lock-down period which began on 30 March 2020 and is due to end on 17 May 2020 after a 2-week extension with relaxed conditions for formal businesses. In view of the expected customer traffic decline, the Group made a strategic decision to operate only its high-volume stores for limited trading hours. Business volumes significantly improved at the beginning of May following relaxation of lock-down restrictions.

The Group proactively introduced cost-containment measures such as the optimisation of staff costs, agreeing to rental cuts with respective property owners and reducing non-essential expenditures in line with business volumes. The Group is experiencing an increase in demand for food delivery and is scaling up its delivery business and extending value offers to stimulate demand. In light of the current situation the business is holding up relatively well.

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Region
Kenya, our major market outside Zimbabwe, contributes 80% of the Region's Revenue, and has had all stores operational on single shifts per day in line with local restrictions since the middle of March 2020. Likewise, other markets experienced broadly similar trading conditions with the exception of Mauritius which was under a full lock-down from 20 March to 4 May 2020 during which no trading happened.

Management's response is focused on reviewing all cost lines to ensure that we significantly rebase operating expenses to minimize losses. The Group is simultaneously driving delivery sales and curb-side order sales. The Group has also utilised government employee assistance initiatives to cushion its staff in markets in which it was available such as Mauritius. A significant saving is also expected on travel and accommodation costs due to the adopted travel policy and travel restrictions.

LIQUIDITY AND SOLVENCY

Zimbabwe
The lock-down came at a time when the business in Zimbabwe was holding up well despite macro-economic challenges in the country. The Group's Zimbabwe operations thus entered a challenging period from a relatively strong financial position. Cash held as on 31 March 2020 was Z$91m and borrowings were Z$79m.

The Group's earliest maturity on short term debt amounts to Z$20m due for repayment in July 2020 which the Group intends on settling from available cash resources. The Group's Creditor's book remains largely current and we are in constant contact with creditors to ensure mutual beneficial payment arrangements continue.

Region
As of 30 March 2020, the Region segment held $US1.2m in cash balances and had borrowings of US$8.6m, with the earliest maturity being in September 2020. The Group also has undrawn facilities of US$8.6m in the Region which are available for utilisation on demand.

In our major-market, Kenya, the Group entered the challenging period with sufficient cash resources and no debt obligations and is operating within available cash resources despite reduced business volumes. In the Group's other markets, Zambia, Ghana and Mauritius, the Group successfully paid off bank debt obligations in operating subsidiaries and injected capital, prior to the onset of trading restrictions.

This has relieved individual businesses of debt-related cashflow pressures ahead of the onset of COVID-19 induced business interruptions. The strategy in each market is to continue to operate within the available cash resources.

OUTLOOK

The Board believes the Group has competent staff, skills, resources and experience to navigate the ensuing challenges successfully.

In the short-term, Simbisa anticipates untimely business disruptions in our various markets. In response the Group will continue to be agile, driving multiple sale channels including take-away, curb-side collection, contact-less delivery and sit-in sales.

As the COVID-19 pandemic curve gradually flattens and lock-down measures are eased, consumer discretionary spending is likely to remain under pressure and the Group will tailor its value offers as economies in the markets we operate in improve.

The Group also expects accelerated adoption of food delivery and online ordering across its markets. This bodes well for the Group as we have invested in developing this channel over the past three years. Our delivery channel and application have been fully operational in Zimbabwe and Kenya, as well as in other smaller markets, as Mauritius. The Group will continue to improve the efficiency and effectiveness of this model and promote its online delivery application while also driving third party delivery channels.

The Group will also continue to actively monitor the situation, taking appropriate market specific action as may be required.

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Group Chief Executive Officer
15 May 2020