PERFORMANCE UPDATE

For the third quarter and nine months to 30 September 2019

Nutritious Foods and Beverages for the Sustenance of Good Health

Dairibord Holdings
More Than Just Milk

The Group performance update for the third quarter and nine months to 30 September 2019 excludes detailed financial indicators which are yet to be completed pending finalisation of hyperinflation reporting guidelines by the Public Accountants and Auditors Board (PAAB) of Zimbabwe.

OPERATING ENVIRONMENT

Macroeconomic fundamentals continued to deteriorate during the quarter under review.

Foreign currency supply shortages persisted, negatively impacting ability to meet demand. Depreciation of the local currency resulted in increased costs of materials and other key inputs.

Production output and operating costs were adversely impacted by the worsening erratic supply of water and electricity. The significant adjustments in the prices of fuel and electricity resulted in increased cost structures across the economy. The use of diesel powered generators and alternative sources of water added to the already unsustainable level of utility costs.

The added dimension of both local and foreign suppliers demanding prepayments put significant pressure on working capital.

Aggregate demand has reduced due to the erosion of salaries and wages. Month on month inflation during the quarter averaged 19%. The last reported year on year (YoY) inflation in June was 176%.

PERFORMANCE

Milk Intake

Raw milk intake increased by 2% during the quarter whilst the growth to September was 14%. The Group's cumulative growth was higher than the national growth of 9%.

The growth in raw milk supply mitigated constraints in supply of imported milk powders. The Group's initiatives to grow and sustain local milk production assisted dairy farmers navigate difficulties experienced in obtaining key inputs.

Volume

The business recorded depressed volumes largely due to supply side constraints and to a lesser extent depressed consumer disposable incomes.

Volume sold during the quarter declined 40% compared to same period in 2018. Liquid milks declined by 22% for the quarter and 1% for the nine months to September. Volumes were largely impacted by constrained supply of milk powders which was mitigated by growth in raw milk intake.

Volumes for the Foods category were 58% below the 2018 quarter and 38% down on a cumulative basis. The category was affected by a shift in consumer spending patterns. Beverages, were constrained by supply of both imported and local materials, resulting in a 47% volume decline for the quarter and 17% on a cumulative basis.

Whilst third quarter volumes were subdued, cumulative volumes for all categories to September declined by 14%.

Foreign currency generation

To contribute towards the company's foreign currency requirements, export revenue for the quarter increased by 109% above prior year and 118% for the cumulative period. The growth is anticipated to continue going forward.

Profitability

The Group's profit margins for both periods were ahead of prior year. Cost containment and reduction measures resulted in fixed costs growing at a rate lower than revenue.

Disposal of Dairibord Malawi

The disposal of Dairibord Malawi was concluded during the quarter under review. At the time, liabilities of the subsidiary exceeded assets and the Group realised a gain.

Foreign liabilities

The Group made a strategic decision to mitigate the negative impact of foreign currency risk by reducing foreign liabilities. To that end, foreign liabilities at the end of September were US$0.822 million (including a long term loan of $0.539 million) from US$1.85 million as at 30 June 2019 and the December 2018 balance of US$3.96 million.

OUTLOOK

The business environment is not likely to change significantly in the last quarter of the year. However, inflation is anticipated to slow down while exchange rates stabilise. A normal to below normal rainfall season is anticipated with a likely negative impact on the agriculture sector.

Given this outlook, the business will continue to focus on investment in inventories, cost reduction, cost containment and improvement in operational efficiencies to sustain margins.

By Order of the Board

M. R. Ndoro
Company Secretary
12 November 2019