

PERFORMANCE UPDATE

For the first quarter ended 31 March 2020

Nutritious Foods and Beverages for the Sustenance of Good Health



Dairibord
Holdings
More Than Just Milk

Operating Environment

Macroeconomic fundamentals remained on a negative trend during the quarter under review.

Foreign currency shortages and currency depreciation increased the cost of key inputs including raw and packaging materials. The cost and erratic supply of electricity, fuel and water weighed in on the cost of production. Month on month inflation maintained an upward spiral, negatively impacting consumer purchasing power resulting in declining aggregate demand.

Following the declaration of COVID-19 as a pandemic by the World Health Organisation (WHO) in March 2020, Dairibord implemented a raft of health and safety measures in line with WHO guidelines and other recommended best practices.

Towards the end of the quarter, the impact of the pandemic began to be felt across the whole value chain on both the global and local markets, negatively affecting the performance of the business.

Performance

While Dairibord remained the largest milk processor in the country, raw milk production on the farms was affected by cost and availability of feed. The company's intake for the period was 5% lower than prior year.

Sales volumes for the period were 19% below the same period in 2019, with liquid milks, foods and beverages declining by 11%, 20% and 23% respectively. The decline was a result of the combined impact of shortages of inputs and depressed demand on some lines.

Revenue for the period, in inflation adjusted terms, grew 5% above prior year due to product mix and price adjustments in line with inflation. Operating margins remained under pressure due to persistent cost increases. These were mitigated by cost reduction and efficiency measures deployed, resulting in an operating profit margin of 7% compared to 4% recorded in the same period in 2019.

Foreign currency revenue grew 68% to US\$1.018 million during the period under review thereby contributing to cost reduction.

Outlook

The President of Zimbabwe declared COVID 19 a national disaster and announced a 21-day lockdown (to 19 April 2020) for all non-essential services with subsequent extensions to 17 May 2020. The Dairy Industry, including Dairibord was declared an essential service and therefore continued in operation throughout the lockdown periods, albeit for limited hours.

Q2 volumes are expected to be lower than Q1 as the company's routes to market have been constrained during the lockdown due to the restricted opening hours of modern trade and the closure of the vending channel, CBD shops, institutions and the informal general trade sector. To mitigate the impact, the business has opened new distribution channels such as dial a delivery service, high density van sales and online selling.

The anticipated global recession and the volatility of currencies in the regional markets will affect exports and the country's ability to generate foreign currency which will impact the procurement of raw and packaging materials. However, the introduction of SI 85 of 2020 allowing the use of free funds for the payment of local goods and services will mitigate the expected drop in regional export revenues.

Costs are expected to be higher than Q1 due to the continued depreciation of the local currency as well as expenditure incurred as part of the company's response to the COVID 19 pandemic. The increased costs coupled with reduced volumes will put a strain on working capital and margins.

While the lockdown order significantly impacted the business, the company remains solvent with assets exceeding liabilities as at 31 March 2020. The company has adequate strategies in place to sustain business continuity in the foreseeable future and protect value despite operating in an environment that is challenging and volatile.

By Order of the Board

M.R. Ngoro
Company Secretary
11 May 2020

Directors: J. Sachikonye (Chairman), S. Chindove, C. Mahembe, *A. Mandiwanza (Group Chief Executive), *M. Ngoro (Group Finance Director), R.P Kupara, N. Chiromo, C.R.J Hawgood, K. K. Naik * **Executive.**