



TRADING UPDATE FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2021

Introduction

The Group hereby issues a trading update for the third quarter ended 30 September 2021.

Operating Environment

The trading, operating and economic environment was challenging during the period under review. The foreign exchange auction system limited the exchange rate movement during the period under review opening at USD1: ZWL 85.42 (01 July 2021) and closing at USD1: ZWL 87.66 (30 September 2021), a movement for the quarter of 2.6% as compared to inflation for the quarter of 11.9%. On a year to September basis, the auction rate increased by 7.2% whilst inflation was 35.1%. This huge disparity is unsustainable. The relative stability this year and for the third quarter, along with increased incomes in certain sectors of the economy, saw an improvement in consumer demand for our products. The positive factors largely outweighed the negatives which affect business such as interrupted power supply, increased distribution cost due to fuel price increases, increased city council rates, increasing currency distortions, auction delays and increased salaries.

Group Volume Performance

Third quarter sales volumes increased by 129% compared to the comparative prior period because of;

- A reduction in competition from grey imports and smuggled goods due to movement restrictions,
- Improved working capital management to reduce the impact of any currency depreciation and thereby allow for more aggressive sales, and
- Constant supply of replacement stock and less stockouts. This had enabled the Group to constantly supply products at competitive prices resulting in increased shelf space and market share.
- Price stability and increased incomes resulting in improved demand.

Segment Volume Performance

The causes of changes in sales volume performance is the same as those elaborated on in the Group Volume Performance section.

FMCG Segment

Third quarter FMCG segment sales volumes have increased by 237% compared to the comparative prior period whilst the year-to-date sales volumes are up by 175%.

Manufacturing Segment

Third quarter manufacturing segment sales volumes have increased by 38% compared to the comparative prior period whilst the year-to-date sales volumes are up by 42%.

Medical Segment and associate company

There has been no activity in the medical segment nor the associate as these did not trade during the current or comparative prior year period.

Legacy debt

The Group applied for the registration of legacy debts amounting to ZAR25,5 million to foreign creditors. Of the ZAR25,5million, ZAR23,4million had been validated while appeals have been lodged for ZAR2,1million. Of the validated debts an amount of ZAR5,9million has been paid to foreign creditors. At this stage, the Group is unsure when the remaining payments will be made for the debts validated which are owing and when a response will be received for appeals lodged. Delays in the payment of legacy debts limits the Groups ability to renegotiate foreign credit.

Reminder on abridged circular

Shareholders are reminded of the abridged circular published in the press on 22 October 2021 and the EGM scheduled for 9.00am on 15 November at the MedTech Ruwa offices.

Outlook

In the final quarter of year 2021, we are most likely to see a reduction in the pace of sales volume growth due to time lags in payment of foreign suppliers after having bid allocations on the foreign exchange auction system. Though the Reserve Bank of Zimbabwe has ring fenced past allocations, lack of communication by the Reserve Bank of Zimbabwe on definitive payments dates will affect restocking. Most of our foreign suppliers are still on a prepayment basis and these payment time lags will result in interrupted supply and restocking. The delays in auction bid allocations are causing a severe strain on working capital funding and negatively affecting business. The recently announced monetary policy wherein interest rates were increased will further increase finance costs linked to funding delays in the payment of auction bids and hedging of debtors.

Uncertainty related to payment of legacy debt affects our foreign credit and with no definitive position this may result in serious challenges. The Group is hopeful that market driven and business friendly policies will be implemented to prevent a deterioration in the economic environment which may undo the significant gains made over the past. We urge the Reserve Bank of Zimbabwe to disclose the amount of foreign currency available for sale at each auction with immediate release of this currency to successful bidders instead of the apparent limitless foreign currency under the current auction approach. We applaud the authorities for maintaining reasonable fiscal discipline and hope that this continues which will be the single biggest determinant of inflation going forward.

BY ORDER OF THE BOARD

M Y Patel
Company Secretary

Stand 619
Corner Shumba / Hacha Road
Ruwa
12 November 2021

HOLDINGS

LIMITED