BridgeFort Capital Limited
(Incorporated in Zimbabwe on 10 February 1997, Registration number 897/97)

TRADING UPDATE FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2023

Introduction

The Company continues to pursue transactions to broaden its investment portfolio, and shareholders will be updated on any further developments in due course.

Operating environment

An overview of the third quarter operating environment is included below:

- Monetary policy interest rates were at 150% throughout the quarter and have since decreased to 130% in line with reduced inflation. Liquidity in the market remained tight during the quarter with bank facilities being difficult to access.
- Interbank exchange rates moved from 5,740 on 30 June to 5,467 at the end September – a reduction of 4.8%. The same period saw the parallel market move from about 7,600 to 6,900, a reduction of 9.2%. The reduction in the parallel market premium was a welcome development as this makes formal businesses more competitive against informal market participants.
- With the significant devaluation experienced during the second quarter, tight ZWL liquidity and low confidence in the local currency, the USD is increasingly the currency of choice.
- The interbank market and the auction appears to have worked reasonably well during the quarter although more recently the availability and timely settlement of foreign currency through these markets has become more problematic. Unpaid auction bids dating back as far as April were transferred from RBZ to the Ministry of Finance and remain unpaid in the MedTech businesses.

The operating environment was substantially more stable than in the second quarter but remains unpredictable and distorted between the formal and informal/less formal sectors.

CLASS A PORTFOLIO – CONSUMER GOODS (MEDTECH BUSINESSES)

This portfolio primarily includes 50.1% of Zvemvura Trading (Private) Limited, trading as MedTech Distribution, and Chicago Cosmetics (Private) Limited, a 51% subsidiary of MedTech Distribution.

Performance commentary

Third quarter sales volumes increased by 45% over Q3 2022 (469,000 units grew to 680,000), although on a Q3 year to date basis, volumes are down by 17% (2,337,000 units dropped to 1,944,000). On a year to date basis volumes increased from in 2022 to this year. Total revenue for management reporting in USD increased from 3.3 million to 3.7 million – an increase of about 14% on a Q3 year to date basis. The difference between volume and USD turnover performance is attributable to a significant change in product mix with increased Satiskin sales and reduced petroleum jelly sales.

The MedTech Businesses are significantly exposed to the devaluation of the Zimbabwe dollar due to the bulk of sales being to supermarkets, in local currency, which take extended periods to pay. Borrowings are typically secured to mitigate this risk but with the tight liquidity in the market the level of borrowings has been inadequate to hedge the ZWL exposure. When borrowings are secured, the interest cost is factored into the selling price. Where borrowing can't be secured, the value of the ZWL when the supermarket is expected to pay has to be estimated and factored in. Either of these approaches result in product which is expensive and therefore sales volumes in supermarkets decline. Supermarkets are also hampered by the official exchange rates – this has been well covered in the press. A supermarket model which uses an approach similar to consignment stock and allowing the supplier to reprice goods as required would go a long way in addressing the distortions emanating from their credit periods. This however requires a change in the business models of supermarkets to suit local economic conditions.

CLASS B PORTFOLIO

Whilst a transaction is pursued, the Class B portfolio comprises an effective 50.1% of a stand registered in the name of MedTech Distribution. A REIT is being worked on to house this and other properties. This property was last valued at USD200,000 in 2021 giving the BridgeFort Class B Preferred shares an underlying asset value of USD102,000 or USD0.08 per share.

OUTLOOK

Minimum wages for civil servants and other sectors of the economy are increasing at a rapid pace with the civil service increases setting the tone for other industries. The civil servants benchmark usually quoted is to match the USD540 minimum wage from October 2018 although it is common knowledge what was called the Nostro USD in 2018 had already been debased and was no longer actual USD. In fact the parallel market ranged from about 2.25 to 3.70 Nostro USD to the actual USD during October 2018 with an average of about 3.24 for the month. Pay scales in some sectors, and in particular in the civil service, are too flat resulting in lower level staff being well paid whilst skilled staff are underpaid. The pressure from wages is likely to continue, resulting in local businesses becoming uncompetitive with countries in the region. The largely untaxed informal sector is growing which is having a negative effect on much of the formal sector and, one assumes, also on Government revenues. The result of the above is likely to see an increasing percentage of Government revenue being spent on the civil service wage bill with less available for capital expenditure and debt servicing. The risk emanating from this scenario is possibly an increase in money supply – in ZWL or Nostro USD or both.

We remain focused on our objectives and will continue to pursue acquisition targets whilst being mindful of the potential for increasing economic instability.

Vernon Lapham
Chief Executive Officer
15 November 2023