Simbisa Brands Limited

# TRADING UPDATE

For The First Quarter Ended 30 September 2023

Simbisa Brands LIMITED

***Simbisa Brands Limited ('Simbisa' or the 'Group') issues the following trading update for the first quarter ended 30 September 2023.***

## TRADING **ENVIRONMENT**

Persistent high inflation rates and currency devaluation remained the most significant operational challenges during the quarter under review. Global and regional supply chain disruptions threatened product availability, consistency and cost due to the need to find alternative suppliers sporadically.

The Group has employed various strategies to mitigate the associated risks; in countries with weakening local currencies, borrowings will be restricted to local currency facilities, and as far as possible, Simbisa will enter into forward foreign contracts with the banks, where practicable and local suppliers will be used to substitute imported raw materials to limit the impact of exchange rate movements. Management constantly engages with suppliers and service providers to structure funding deals, negotiate and lock in prices and ensure product availability. Local currency menu price increments will be made to keep pace with inflation whilst remaining sensitive to price elasticity of demand given the environmental pressures on consumer income levels and affordability.

## GROUP PERFORMANCE UPDATE **FOR THE QUARTER**

The total customer count for the Group increased by 6% from 14.6 million in Q1 FY 2023 to 15.6 million in Q1 FY 2024, primarily driven by new store growth. Group real Average Spend increased 1% year-on-year, driven by higher spend in the Zimbabwe operations. Resultantly, Group revenue increased by 8% to US$74.3 million in Q1 FY 2024 versus US$68.7 million in prior year.

The store count for the Group increased from 611 on 30 September 2022 to 656 on 30 September 2023, of which 608 are company-operated counters and 48 are in franchised markets. Between 30 June 2023 and 30 September 2023, there was 1 new counter opened in Zimbabwe and 9 new counters opened in Kenya.

## ZIMBABWE

The ZWL exchange rate remained relatively stable in Q1 FY 2024 in the lead-up to the August 2023 elections, as local currency liquidity was reduced and the auction system was refined. Resultantly, year-on-year inflation remained in check, albeit still high, at 100.95% in September 2023. Exchange rate distortions between official and parallel market rates continue to create pricing arbitrage opportunities and distortions, making planning challenging and eroding Profit Margins.

On the upside, a high agricultural outturn in the 2022/23 summer cropping season buoyed consumer spending; an increase in mining output and diaspora remittances supported this.

The Zimbabwe operations opened 19 counters between 30 September 2022 and 30 September 2023, with 1 new counter opened in the quarter under review to close the period with 283 counters.

On the back of new store openings, customer counts grew by 5% from 10.3 million in Q1 FY 2023 to 10.8 million in Q1 FY 2024. Real Average Spend grew 6% year-on-year, with the Zimbabwe operations successfully keeping pace with inflation without negatively impacting sales volumes. Turnover increased 11% from US$45.7 million in Q1 FY 2023 to U$50.9 million in Q1 FY 2024, predominantly on the back of organic store growth.

The delivery segment remained a key focus area in Q1 FY 2024, and delivery volumes increased by 29% to 75,600 in Q1 FY 2024 from 58,629 in Q1 FY 20.

## REGION

Local currency devaluation continues to create headwinds in our regional markets, particularly the Ghanaian Cedi, which devalued 11% between 30 September 2022 and 30 September 2023 and the Kenyan Shilling, which devalued 23% over the same period. Between 1 July 2022 and 30 June 2023 the Cedi devalued 43% against the US Dollar and since the beginning of 2020, the Kenya shilling has lost approximately 40% of its value against the US dollar.

Our largest regional market, Kenya, was impacted by continued political protests in Q1 FY 2024, which disrupted trade and operating hours. The Finance Bill 2023, which became effective from the 1st of July 2023, effects a raft of tax measures that will negatively impact businesses and consumer disposable incomes. This will exacerbate the inflationary pressures from currency weakness and global inflation and put operating margins under more pressure.

Customer counts in the regional business increased by 5% to 4.7 million in Q1 FY 2023, whilst Real Average Spend fell 7% year-on-year, on the back of local currency devaluation. Turnover from the regional operations increased by 2% from US$23 million in Q1 FY 2023 to US$23.4 million in Q1 FY 2024.

Between 30 September 2022 and 30 September 2023, there were 40 new store openings in the region, of which 34 were opened in Kenya. The region closed 14 under-performing counters over the same period.

Effective 1st July 2023, the Group acquired its second-largest franchised market in Eswatini, which subsequently became company-owned and operated following the previous franchisee's decision to exit the business. Consolidating the 17 counters in Eswatini, the Regional operations closed 30 September 2023 with 325 company-operated counters and 375 counters, including franchised operations.

In-house deliveries in Kenya increased by 39% in Q1 FY 2024 versus prior year. Kutuma Kenya Limited has successfully clawed back the deliveries lost from third-party aggregators, following the strategic decision to exclusively deliver Pizza Inn through the in-house delivery platforms, resulting in overall deliveries (in-house and through third-party aggregators) remaining flat in Q1 FY 2024 versus prior year.

## OUTLOOK

The distressed regional markets, in which re-organisation and right-sizing efforts have been focused and previously communicated to Stakeholders, namely Zambia, Ghana and Mauritius, have required considerable time and attention from the Board and Management but remain minimal contributors to overall Group performance. In FY 2023, these three markets contributed 6% to Group revenue and were negative contributors to Group operating profit. The latter is largely due to these markets' significant head office overheads, in line with Simbisa's corporate structure and processes. As such, a strategic decision was reached to convert these markets from company-owned and operated subsidiaries to third-party franchised businesses effective 1st October 2023. The franchisees for these markets are existing executive operators in the Group who are very familiar with the brands and operations and in whom the Board have complete confidence to optimise the management, performance and profitability of these operations. The Group has fully disposed of its shareholding in these businesses to the respective franchisees. Still, it retains its claim on outstanding shareholder loans and has the right of first refusal to repurchase the companies if the new owners decide to exit. These transactions will have no material day-one impact on the Group's consolidated financial statements. This decision's strategic intent is to allow Simbisa's Executive Management to focus time and financial resources on growing and optimising the largest contributing businesses to maximise shareholder returns.

As previously communicated to Stakeholders, Simbisa will be launching brand-specific mobile Applications for key brands to complement the existing Dial-a-Delivery Application. This follows extensive market research and is expected to increase delivery volumes, improve brand visibility, customer retention, reachability and enhance the user experience. As at 30 September 2023, the Pizza Inn delivery Application has been launched in Kenya, Zambia, Ghana and Mauritius. Chicken Inn, Galito's, and Grilll Shack Applications have also been successfully launched in Kenya. Brand-specific Applications will be rolled out across all of Simbisa's markets throughout the remainder of the financial year.

A substantial investment pipeline, with (revised) 90 capex projects for FY 2024 in Zimbabwe and Kenya, will drive growth and unlock shareholder value. As mentioned, the Group will focus on risk-mitigating strategies to hedge against inflationary pressures and currency devaluation, with careful cost containment measures to preserve operating margins.

**B Dionisio**
**Group Chief Executive Officer**
**15 November 2023**