

TRADING UPDATE

THIRD QUARTER F2020

Trading Environment

1. The trading environment remained highly fluid during the quarter under review and was characterised by ongoing hyperinflation, constrained liquidity, and inconsistent supply of fuel and electricity. In addition to this, the effects of the drought conditions experienced during the 2019/2020 agricultural season have resulted in a reduction in production of key local commodities.
2. The National Foods Group ("the Group") continues to prioritise the maintenance of key raw material pipelines in order to ensure consistent supply of goods to the market.
3. Given the inflationary environment, the Group has focused on maintaining pricing competitiveness to ensure continued relevance of our products to the consumer. Focus has also been deployed on cost and operational efficiencies where savings have largely been passed onto the consumer to optimise product affordability.
4. The Group continues to work with its financial institution partners to attain the necessary funding to support the significantly increased values of working capital now required.
5. The Group has taken a proactive response to the ongoing COVID-19 pandemic, with extensive staff education programs being held prior to the on-set of the disease locally, combined with the early implementation of all necessary precautionary and control measures at its facilities. The Group remains committed to ensuring the safety and health of its employees and customers.

Business Performance

1. On a nine-month cumulative basis, volumes at 345,000MT were 26% behind the comparative period, whilst for the third quarter volumes were 14% below the comparative quarter. These quarterly volumes, were however, 21% above the volumes recorded in the second quarter of the current financial year, which was a pleasing improvement.
2. Salient features across the categories include:
 - The Maize division has performed well with nine-month volumes marginally ahead of the comparative period, whilst from a quarterly perspective, third quarter volumes have grown 49% over the second quarter of the current financial year.
 - Both the Mutare and Masvingo maize mills were operational during the quarter, with the resuscitation of the Masvingo mill especially noteworthy since this mill was last operated in 1998.
 - National Foods has played a key role in Government's subsidised maize meal program, with 48,000mt having been milled up to the end of March 2020. The Company has utilised raw materials supplied by the GMB as well as its own imports in support of the programme.
 - Pearlenta Nutri-Active, a maize based breakfast cereal, was launched late in 2019 and has been very well accepted by the market.
 - The Flour division recorded a volume decline of 42% in the nine-month period under review as measured against the comparative period, this was largely a result of the progressive removal of subsidies in this particular value-chain, leading to reduced demand for bread and flour-based products in general. Volumes have now stabilised, and a 10% increase in volumes was recorded between quarter two and quarter three of the current financial year.
 - Nine-month volumes in the Stockfeeds division for the year to date were down 20% compared to last year, largely in line with the overall market performance; whilst volumes in the Groceries and Snacks and Treats divisions declined by 34% and 27%, respectively, over the same period.
3. The Company is holding a solid pipeline of raw materials, although subdued local liquidity and continued devaluation mean that replacement of this pipeline remains a critical management focus area in the short to medium term.

Impact of COVID-19 on the Business, Business Continuity and Statement of Solvency

1. The Government of Zimbabwe declared a State of Disaster in the country on the 23rd March 2020, as a consequence of the global COVID-19 pandemic, and imposed a national lockdown in Zimbabwe for the period from 30th March 2020 to 17th May 2020.
2. As noted in the earlier part of this report, the Group has adopted a proactive and comprehensive approach in its response to the pandemic; this has included:
 - Staff education programs to help improve awareness about the disease.
 - Distribution to staff members of appropriate sanitizing products for home use.
 - Implementation of temperature checks and sanitisation measures for all employees entering factory plants.
 - Provision of appropriate personal protective equipment (PPE) to staff.
 - Implementation of hygiene and social distancing protocols at all sites for the benefit of staff and customers.
 - Appropriate capacitation of administrative staff in order to facilitate our "work from home" initiative.
 - Creation of "COVID Champions" in each operating unit, responsible for implementing all Group COVID-19 initiatives.
 - Creation of internal communication platforms to update management and staff of all COVID-related matters.
 - More recently the Group has commenced its COVID-19 rapid screening program, for all staff, in line with the recent order of the Minister of Health and Child Care.
3. Whilst the Group's operations have been classified as essential services during the COVID-19 lockdown, and have therefore been allowed to operate under certain conditions, the restrictions on people movement and business trading hours have resulted in a moderate decline in sales volumes during April 2020, where volumes were 8% below the monthly average for the previous quarter.
4. Business units in the Group typically operate with lengthy raw material pipelines and at this point management does not anticipate any major risks of disruption in raw material supplies as a result of COVID-19 control measures instituted in other parts of the world.
5. As part of the Group's business continuity plan, Management continues to review financing, capital investment, and working capital levels.
6. Given the ongoing uncertainty around the impact and conclusion of COVID-19, it is not possible to assess, with absolute certainty, the full impact it will have on the Group's financial performance for the year ending 30 June 2020. At the present time the financial status of the Group remains healthy and the COVID-19 pandemic has not created any issues from a solvency or liquidity perspective.

By order of the Board

NATIONAL FOODS HOLDINGS LIMITED



LC Howes
Company Secretary
Harare
14 May 2020

