Verimark profits plunge on weak Rand

By Zeenat Moorad

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Verimark on Monday (27 May) reported a sharp decline in full-year profit as the rand's continued depreciation affected sales and margins.

For the year ended February, diluted headline earnings per share were just 8.2c down from 25.4c in the previous year, Verimark said.

"From May two years ago to May this year, the rand has depreciated 42%. You have two options, you either absorb the lower value and take a knock on your margin, or you increase prices. If the rand keeps on moving the way it has, it will be a challenge for Verimark and anybody else in the import business," chief executive Mike Van Straaten said.

Other retailers have also felt the pain of the weaker rand.

According to the latest Ernst & Young/Bureau for Economic Research survey, import prices of clothing, footwear, toys and CDs soared, as a result of the the sharp depreciation in the rand over the last year. This put pressure on the profit margins of semi-durable goods retailers in the first quarter of the year.

Verimark's profitability was also affected by the group's relocation to its centralised warehouse after more than two years of disruptions.

"We were operating out of three different warehouses at one stage and that brought about a lot of duplication in costs and definitely distracted management focus. The cost of the move has been (about) R3m," Van Straaten said.

Retail outlets

The company's head office and warehousing facilities are now situated at a single site in Randburg, Johannesburg.

Revenue was up 0.7% to R454.1m and pretax profit declined from R41.9m to R15.3m. Selling and operating expenses increased by 6.3% for the year.

Verimark supplies up to 2,000 retailers with its products and has 80 stores across the country.

"Most of our retail partners are planning expansion, which obviously benefits us. We are currently working on about five Verimark stores that will open in the first part of the financial year," Van Straaten said.

The company said all indications are that consumer spending was unlikely to show any significant growth during the year but given Verimark's "different-to-typical-retailers" business model, it would be less affected by macroeconomic trends.

Trading conditions remain tough as retailers battle each other and consumers feel the pinch of escalating utility costs and rising debts.

Verimark said it was assessing potential regions in which its model could be replicated across Africa and in other international markets.

"Seven years ago we used to export product and television commercials and licence companies in Argentina, Australia, Egypt, and Russia. We want to move back to that business. We haven't done any of that because we've been focusing on the local situation," Van Straaten said.