

REF: IDC/GCEO/ZDML/130421

13th April 2021

Mr. Geoffrey Simukoko
Board Chairperson
Zambia Daily Mail Limited
LUSAKA

REVIEW OF Q1-21 PERFORMANCE OF ZAMBIA DAILY MAIL LIMITED

Reference is made to your Q1-2021 submission dated 12th April 2021, electronically.

We have reviewed your Q1-21 performance report and below are our observations:

i) Financial Targets

- a) **Revenue:** It was observed that the actual revenue for Q1 -21 recorded was K19.14mn against a budgeted revenue of K21.5mn. this is underachievement by 6% over the budgeted run rate. Our further analysis shows that the company failed to meet the quarterly targets for advertising and newspaper circulations. We still demand that the board and management should robustly and aggressively sell the papers and adverts by a higher margin in Q2 to cover the lost potential for Q1. Shareholder demands that focus be placed immediately on the Commercial Directorate and the strategies being employed so that there is an understanding of the challenges that they department could be facing in hitting their targets.
- b) **COS:** unfortunately, Q1 also saw an increase in Cost of Sales by 6% to K12.65mn against a budget of K11.95mn. This is a worrisome trend, and the company must employ strategies to curb this trend before it erodes profitability completely. With a drop in sales, shareholder would have expected a drop in COS, instead it went up. Would you explain the rise in the COS.
- c) **Staff Costs:** We are glad that the company managed the staff costs in the quarter to within the targeted margins and we urge management and the board not to drop the ball on the staff costs and cause a surge in operating costs, adding further strain on the financial performance of the company that is already weighed by the high COS.

- d) **Net Profit After Tax:** Off course with the drop in revenue and rise in COS, we do expect a poor bottom line and thus the net loss of K1mn in Q1. Like we have said above, we expect ZDML to double its efforts to also ensure that the Q1 loss is covered in Q2 and the subsequent quarters.
- e) **Liquidity:** We note the increase in your current ratio from 0.2 at close of December 2020 to 0.62 at end of Q1-21. This is a commendable achievement, and we definitely urge the management and board to continue managing the production cycle and ensure that the short-term liabilities are well covered by the liquidation of the short-term assets.
- f) Unfortunately, further analysis of the current assets indicates the following:
 - Out of total current assets of K54.6mn, K44.5mn are trade receivables i.e. 82% and yet cash is only 4% of the total current assets. So, despite the growth in current assets, we opine are of the view that the company needs to double the efforts to liquidate the trade receivables and increase the cash position to cushion your liquidity challenges. In your written response explain what the company will do to collect the K44mn receivables.

Shareholder Equity:

We remain concerned at the insolvency of the company and the slow effort by the management and board to redress the situation. This has resulted in the perennial problem of ZDML always writing to IDC to provide the comfort letter to confirm the ongoing status support for ZDML by IDC. Shareholder wants this to come to an end and management and the board must apply themselves harder to resolve the profitability that would positively impact the solvency position.

ii) Corporate Governance Perspective

- a) **Compliance on statutory obligation:** The legacy debt in form of statutory liabilities as at 31.03.21 was K158mn. This implies that the board and management have worsened this liability position to K161mn i.e., by 3.29mn. It appears there is no compliance of statutory obligations on new dues that accrue. Is there any time to pay agreements with both NAPSA and GRZ and what is the level of compliance with the same?

b) Timely preparation of Annual report and holding of AGM:

We remind that the 90 days post end of the financial year is past due, and we have not received the audited financial statements that would also inform Shareholder when the AGM would also be held for Shareholder to be able to transact various business. Kindly advise status of audited financials for year ended 31.12.2020 and when the AGM will be held.

iii. Improved Internal Processes:

we do not the efforts to synergise with the Times printpak when it comes to distribution systems which we hope will drastically cut revenues.

v. Learning and Growth:

We are glad that the company continues to implement various restructuring measures and notable the VSS program and that 10 employees are earmarked for separation in 2021. We hope this will cut the numbers to a level close to the 138 as established in the organogram from the current level of 178.

vi. Innovations:

We still await the strategy to innovate creatively so that your existence is assured. It is a known fact that the new trends in technology have posed a challenge in terms of news delivery like social and electronic media which has seen some companies go under due to competition. We have also seen huge media houses in other jurisdictions that have been employed to whether the risk. We still impress upon management and the board to find a strategy to navigate through this new phenomenon and continue in existence.

vii. Intra-group business:

We note that you budgeted to spend K1.6mn from intra-group business and your actual was K0.96mn which is a commendable level. We do hope that you will grow the levels even further in the course of the year.

viii. **Merger between ZDML and Times PrintPak Limited:**

We request that a written update be provided to Shareholder on the steps taken so far and what the next steps being pursued are.

We look forward to your written feedback on the observations made and feel free to make suggestions on how we can improve the interactions between IDC and ZDML.

Yours Sincerely,
INDUSTRIAL DEVELOPMENT CORPORATION



Henry Sakala
Chief Portfolio Officer
for/GROUP CHIEF EXECUTIVE OFFICER

cc: Managing Director
Zambia Daily Mail Limited
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