Proof 6 / 08-24-2020

Summarised audited consolidated results

for the year ended 30 June 2020, dividend announcement and notice of annual general meeting

ARB Holdings Limited

MAKING THE RIGHT CONNECTION

www.arbhold.co.za

ARB Holdings Ltd ("ARB" or "the company" or "the group")
Registration number: 1986/002975/06 | Share code: ARH | ISIN: ZAE000109435

SALIENT POINTS

40th anniversary of group's establishment in 1980

Revenue down 13.1% to R2 353m (2019: R2 706m)

No dividend declared

DESPITE THE DEVASTATION OF COVID-19:

Operating profit only down 6.1% to R145.9m (2019: R155.4m)

Headline earnings ("HEPS") per share up 3.0% to 59.96 cents (2019: 58.20 cents)

Cash resources of R151.9m (2019: R180.9m)

COMMENTARY

NATURE OF BUSINESS

ARB is an investment and property holding company which owns investments in related trading and distribution businesses. Major investment holdings include 74% of ARB Electrical Wholesalers, a level 2 BEE company which operates 21 electrical wholesale branches (2019: 22) throughout South Africa, and 60% of Eurolux, which imports and distributes light fittings, lamps and related accessories.

FINANCIAL REVIEW

This 2020 financial year will certainly be remembered but probably for the wrong reasons. In the nine months to March 2020 the South African economy on which the group is largely dependent, failed to show any growth and continued to be hamstrung by the collapse of business confidence and the construction industry, the lack of any meaningful infrastructure development by any of government, Eskom or the private sector and the damaging effects of Eskom's load shedding. These challenges subsequently became of secondary concern with the imposition of the national lockdown on 27 March 2020 to assist in managing the health concerns for individuals given the rapid international spread of Covid-19.

The group took the necessary immediate action to protect staff, preserve cash, defend its balance sheet and minimise its operating costs by:

- allowing staff members to work from home where possible in terms of a work from home policy;
- placing staff who were unable to work from home on paid leave, allowing them to take up to 10 days of negative leave to soften the impact;
- subjecting all managers and directors who continued to work to a salary reduction of at least 25% for two months;
- creating shifts for staff returning to work;
- curtailing capital and operating expenditure;
- limiting stock purchases under strict central control; and
- embarking on a review of all operations in order to reorganise the business in anticipation of the new normal.

The group honoured all of its supplier payments on time during this period, which did initially negatively impact cash resources by approximately R100m, as customers delayed their payments. Our efforts in collecting these amounts due from the customers after the hard lockdown, quickly recovered the initial cash outflow.

Our trading activities in all divisions were severely impacted in April as we were only permitted to trade for the supply of emergency spares for essential services and at best achieved 10% of our budgeted turnover for that month. The amendments to the regulations from May enabled all our businesses to operate under strict health and safety protocols which enabled us to achieve revenue of 60% and 80% of budget in May and June, respectively.

The fourth quarter has understandably been significantly lower than prior periods, but our mitigation strategies have ensured that we suffered minimal losses and have retained a strong balance sheet which is substantially unencumbered.

COMMENTARY *continued*

Revenue declined 13.1%, mainly as a result of the revenue lost in the fourth quarter with the lockdown of the South African economy. This decline in revenue occurred despite the fact that Radiant revenue is included for a full year, as compared to only six months in the previous financial year.

Gross margins improved slightly, from 24.0% to 25.0%, attributable mainly to a change in product sales mix, with the inclusion of Radiant sales for 12 months resulting in higher margin lighting sales now a larger proportion of the group's revenue. Likewise, while the cable and overhead line product margins remain under pressure, as they are predominantly project-related, the shift in the product mix to higher margin low voltage products has helped to maintain margins in the electrical division.

Overheads continue to be closely managed and are constantly being reviewed. These declined by 9.0% during the year, even though the operating costs for Radiant for the full 12 months were included. The overhead costs were affected by:

- the introduction of IFRS 16 lease capitalisation, where lease finance charges of R8.9m are now included in interest paid;
- the non-reoccurrence of certain rationalisation costs in the prior year from the integration of Radiant and Eurolux, despite additional costs being incurred in the last six months with the final consolidation of the Johannesburg facilities in the lighting division; and
- the staff cost savings implemented during the lockdown, including a minimum salary reduction of 25% for all executives and senior management during the months of May and June.

Operating profit decreased by 6.1% to R145.9m (2019: R155.4m), while operating margin improved to 6.3% (2019: 5.7%). This improvement is largely as a result of the focus on controlling cost increases in all divisions during the lockdown and more particularly by the efforts of the electrical wholesale management to rightsize their business.

The decrease in interest received was caused by the inclusion of the finance element of IFRS 16 lease capitalisation, and the lower cash balances throughout the period.

Taking cognisance of the views expressed by economists, the board believes that it will take at least two to three years to revert to the level of activity prior to the lockdown necessitated by the Covid-19 pandemic. On this basis, evaluation of the future cash flows has necessitated a write down of the Eurolux trademark and CraigCor goodwill, and an impairment in the value of certain properties. This has negatively impacted the earnings of the group, while the decline in profitability of the Eurolux and CraigCor entities, together with a decrease in our price earnings ratio, have resulted in additional income to the group as the values of the put option liabilities continue to decrease. We again caution that these liabilities are sensitive to the average earnings of the subsidiaries, Eurolux and CraigCor, and to the price earnings ratio of the group.

Headline earnings per share increased by 3.0% to 59.96 cents per share, compared to 58.20 cents in the prior period.

DIVISIONAL REVIEWS

The group is currently organised into three operating divisions which are the basis on which the group reports its primary segmental information. Principal activities are as follows:

- Electrical: distributors of electrical products across three main categories: power and instrumentation cable; overhead line equipment; and low voltage products;
- Lighting: distributors of halogen, fluorescent and energy saving LED lamps; light fittings and electrical accessories, and
- Corporate: property investment; specialist IT services; strategic and technical consulting; and group head office companies.

Electrical division *(revenue down 16.7% and operating profit down 14.3%)*

This division comprises ARB Electrical Wholesalers, GMC Powerlines, ARB Global, CraigCor and CED. Revenue continues to be hampered by the lack of any real economic growth or infrastructure expenditure in South Africa. The effects of the Covid-19 lockdown negatively impacted the revenue generation of this division in the fourth quarter of the financial year. Steps were taken to reduce overhead costs with a "no work no pay" policy being applied across all levels of staff, and from securing some rental relief from external landlords.

Revenue decline during the year has been attributable to:

- the loss of significant trading opportunities during the initial lockdown period;
- the declining cable sales in a fragmented market as a result of the lack of any significant infrastructure projects in the declining SA economy, even before Covid-19; and
- the limited spend by Eskom and municipalities on electrification projects.

Gross margin improved 0.2% as a result of the change in product mix with the lower volume of cable sales and increase in proportionate revenue of the higher margin low voltage products.

Prior to Covid-19, this division had commenced a review of its operating structure, which was noticeable in the December 2019 interim results. Although these efforts were continued in the last six months, the savings during Covid-19 were insufficient and this division made losses during April 2020.

However, despite significant reduction in revenue, the savings made in operating costs ensured that the operating margin improved marginally to 4.2%. This division is currently in the process of further staff rationalisation to restructure the business in anticipation of reduced demand in an ailing SA economy.

This division's management of working capital is commendable and this division remains cash generative.

COMMENTARY *continued*

Lighting division *(revenue up 4.0% and operating profit down 19.4%)*

This division comprises Eurolux, Radiant and Cathay lighting. Revenue was higher because of the inclusion of Radiant's turnover for the full 12-month period as compared to only six months to June 2019. The disappointing revenue increase is predominantly attributable to the delivery challenges experienced by the division during the third quarter as the consolidation of the Johannesburg warehouses resulted in unnecessary congestion in the operations which did impact service delivery. After these issues were resolved, the Covid-19 economic lockdown was put in place, which resulted in a loss of approximately six full weeks of trading. Once the lockdown was reduced to level 4, the cost and effect of operating protocols to ensure compliance with health and safety protocols which were implemented to mitigate the contamination risks of Covid-19, continued to constrain operations in the fourth quarter.

The division was overstocked at December 2019, which enabled customer requirements to be fulfilled when the supply chain from China was severely interrupted during January to March and the ZAR exchange rate deterioration had made it significantly more expensive for importers of these products.

As previously reported, revenue from lamps has been negatively affected by the changes in technology, with the newer LED products being more durable and less expensive. The lack of minimum prescribed technical specifications has resulted in an unregulated market, which has allowed lower quality lamps to compete in the consumer market where price is the major purchasing consideration.

Operating overheads increased by 8.9% from last year due to the inclusion of a full 12 months of Radiant's trading, and the Covid-19 induced inability to extract operational cost savings from the consolidation move from Linbro Park to Radiant's Wynberg warehouse. The restructuring of the division is now largely finalised, and the rightsizing of the business for the anticipated new normal, should result in a significant reduction in the cost base. The decline in revenue and the inability to complete the facilities rationalisation process until June 2020 has resulted in a further reduction in operating margin to 4.2% (2019: 5.5%) of turnover.

This division remains overstocked and management's focus for the next six months is to complete the rightsizing of the operation while actively focusing on cash generation by the reduction in the stock levels.

Corporate division *(revenue up 10.9%, operating profit up 20.4%)*

This division comprises the property portfolio and Xact ERP Solutions business. The increase in operating profit has resulted mainly from the additional rental in respect of the Lords View distribution centre development which commenced in January 2019.

Given the fixed nature of the property rental income, the results are in line with expectations. The inclusion of the rental for the new Lords View facility for a complete year is the main reason for the increase in revenue and in operating profit.

Xact ERP Solutions is actively involved with the warehouse management system project being undertaken by the electrical division, but still continues to develop a stand-alone identity relevant to its target market. This operation has continued to show customer gains, but remains a small revenue and profit generator for the division.

CORPORATE ACTIVITY AND EXPANSION

Acquisitions remain an integral part of the group's growth and expansion strategy and the board is cognisant of the opportunities which currently present themselves. The immediate focus, however, is to ensure that the full benefits are now finally realised from the integrated Eurolux and Radiant operation, and to guide the warehouse management system project implementation at the Lords View distribution centre to optimise the opportunities that this facility offers the electrical division.

PROSPECTS

The Covid-19 pandemic has exacerbated the pre-existing weakness in the Eskom, building and construction sectors where business and consumer confidence was already at historic low levels. It appears unlikely that even the turgid pre-pandemic levels of confidence, economic growth in our business sector and normality in markets and many aspects of daily life will return before the end of 2020.

While it is difficult to forecast the group's performance with the current state of the pandemic, we anticipate that ARB's trading is likely to remain constrained in the coming months while lockdown restrictions are slowly lifted. This has necessitated both trading divisions resorting to staff rationalisation. The group foresees difficulty in obtaining credit insurance for its customers in future, which will increase the risk of credit loss to the group and could hamper revenue generation as we limit our credit risk exposure. However, the group remains committed to ensuring that the it maintains sustainable operations capable of taking advantage of any short- or medium-term improvements in the South African economy.

Notwithstanding the expected muted trading conditions, the group has significant financial resources, geographical footprint, distribution capability and a well-established solid management team that can manage the effects of Covid-19 on the business and lead it out of the recession profitably.

A number of the rentals for property owned by the corporate division have been renewed with effect from 1 July 2020 and rental rates have declined in line with the rerating of market rentals in the wake of the economic effects of Covid-19. While this will negatively impact the corporate division, it will benefit the electrical division and should be earnings neutral to the group.

SUMMARISED GROUP STATEMENT OF COMPREHENSIVE INCOME

	% change	Audited year to 30 June 2020 (R000's)	Audited year to 30 June 2019 (R000's)
Revenue	(13.1)	**2 352 995**	2 706 186
Cost of sales	(14.1)	**(1 765 391)**	(2 055 831)
Gross profit	(9.6)	**587 604**	650 355
Other income	388.0	**10 912**	2 236
Selling, administration and distribution expenses	(9.0)	**(452 620)**	(497 224)
Operating profit	(6.1)	**145 896**	155 367
Impairment of trademarks		**(58 500)**	–
Impairment of goodwill		**(7 947)**	(18 410)
Gain on bargain purchase price		**–**	18 779
Impairment of other assets		**(9 559)**	–
Change in put option valuation		**33 003**	21 248
Profit before interest and taxation	(41.9)	**102 893**	176 984
Net interest received	(78.3)	**3 774**	17 370
Profit before taxation	(45.1)	**106 667**	194 354
Taxation	(72.9)	**(13 352)**	(49 189)
Profit for the year	(35.7)	**93 315**	145 165
Items that will not be recycled into profit or loss			
– Revaluation of property, plant and equipment (net of taxation)		**(4 449)**	2 269
Total comprehensive income for the year	(39.7)	**88 866**	147 434
Profit for the period attributable to:		**93 315**	145 165
– Non-controlling interests	(7.0)	**9 472**	10 188
– Ordinary shareholders	(37.9)	**83 843**	134 977
Total comprehensive income attributable to		**88 866**	147 434
– Non-controlling interests	(7.0)	**9 472**	10 188
– Ordinary shareholders	(42.2)	**79 394**	137 246

RECONCILIATION BETWEEN EARNINGS AND HEADLINE EARNINGS

	% change	Audited year to 30 June 2020 (R000's)	Audited year to 30 June 2019 (R000's)
Profit for the period attributable to ordinary shareholders		**83 843**	134 977
Impairment of trademarks and goodwill		**66 447**	18 410
Gain on bargain purchase price		**–**	(18 779)
Impairment of buildings and ROU assets		**9 310**	2 500
Loss on disposal of property, plant and equipment		**326**	502
(Less) adjustment for tax		**(16 652)**	(841)
(Less) adjustment for NCIs		**(2 359)**	9
Headline earnings		**140 915**	136 778
Number of ordinary shares in issue (000's)		**235 000**	235 000
Weighted average number of ordinary shares in issue (000's)		**235 000**	235 000
Diluted number of ordinary shares (000's)*		**235 000**	235 000
Basic earnings per share (cents)*	(37.9)	**35.68**	57.44
Headline earnings per share (cents)*	3.0	**59.96**	58.20

** There are no dilutive instruments in issue.*

SUMMARISED GROUP STATEMENT OF FINANCIAL POSITION

	% change	Audited at 30 June 2020 (R000's)	Audited at 30 June 2019 (R000's)
ASSETS			
Property, plant and equipment	4.0	**429 587**	412 882
Right-of-use assets		**69 817**	–
Intangible assets	(86.9)	**10 000**	76 447
Deferred taxation		**19 480**	7 037
Total non-current assets		**528 884**	496 366
Current assets		**1 105 047**	1 201 062
Inventory	(1.3)	**599 412**	607 370
Trade and other receivables	(14.3)	**353 679**	412 802
Cash resources	(16.0)	**151 956**	180 890
Total assets		**1 633 931**	1 697 428
EQUITY AND LIABILITIES			
Share capital and premium		**116 174**	116 174
Revaluation reserve		**70 729**	75 178
Accumulated profits		**856 119**	831 120
Attributable to ordinary shareholders		**1 043 022**	1 022 472
Non-controlling interests ("NCI")		**137 394**	133 691
Total shareholders' funds		**1 180 416**	1 156 163
Non-current liabilities		**96 517**	63 535
Put option liability		**4 000**	19 000
IFRS 16: *Lease obligations*		**64 513**	–
Operating lease straight-line liability		**–**	1 598
Deferred taxation	(34.8)	**28 004**	42 937
Current liabilities	(25.3)	**356 998**	477 730
Trade and other payables	(30.6)	**260 009**	374 571
Short-term loans and lease obligations		**54 651**	38 851
Put option liability	(33.3)	**40 000**	60 000
Taxation payable	(45.7)	**2 338**	4 308
Total equity and liabilities		**1 633 931**	1 697 428

	Audited at 30 June 2020 (R000's)	Audited at 30 June 2019 (R000's)
Net asset value per share (cents)	**443.84**	435.09
Net tangible asset value per share (cents)	**435.55**	408.53
Property, plant and equipment		
Capital expenditure for the year	**51 917**	93 890
Capital commitments – contracted for	**88 089**	102 167
Capital commitments – not contracted for	**6 359**	6 460
Depreciation and amortisation	**20 846**	17 648

SUMMARISED GROUP STATEMENT OF CASH FLOWS

	Audited at 30 June 2020 (R000's)	Audited at 30 June 2019 (R000's)
Cash generated by trading activities	**192 272**	167 676
Increase in net working capital	**(56 881)**	58 121
Cash generated by operating activities	**135 391**	225 800
Net interest received	**12 848**	19 136
Dividends paid	**(62 000)**	(109 290)
Taxation paid	**(40 363)**	(48 770)
Cash flows from operating activities	**45 876**	86 876
Cash flows from investing activities	**(46 239)**	(204 258)
Cash flows from financing activities	**(28 571)**	38 851
Increase in cash resources	**(28 934)**	(78 530)
Cash resources at the beginning of the year	**180 890**	259 420
Cash resources at the end of the year	**151 956**	180 890

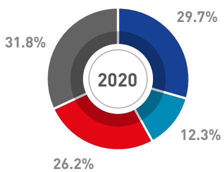
SUMMARISED GROUP STATEMENT OF CHANGES IN EQUITY

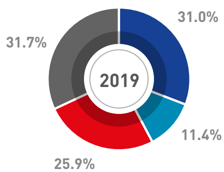
	Share capital and premium (R000's)	Revaluation reserve (R000's)	Accumulated profit (R000's)	Non-controlling interests (R000's)	Total (R000's)
Balance at 30 June 2018	116 174	72 909	778 393	150 543	1 118 019
Total comprehensive income	–	2 269	134 977	10 188	147 434
Dividends paid	–	–	(82 250)	(27 040)	(109 290)
Balance at 30 June 2019 as previously reported	116 174	75 178	831 120	133 691	1 156 163
Adjustment due to initial application of IFRS 16	–	–	(94)	(2 519)	(2 613)
Balance at 30 June 2019 as restated	116 174	75 178	831 026	131 172	1 153 550
Total comprehensive income	–	(4 449)	83 843	9 472	88 866
Dividends paid	–	–	(58 750)	(3 250)	(62 000)
Balance at 30 June 2020	**116 174**	**70 729**	**856 119**	**137 394**	**1 180 416**

DISAGGREGATION OF REVENUE

	% change	% of total	2020 (R000's)	% of total	2019 (R000's)
Revenue by product type					
– Cable	(16.6)	29.7	**698 943**	31.0	838 521
– Overhead line	(6.3)	12.3	**288 584**	11.4	307 917
– Lighting	(11.9)	26.2	**616 983**	25.9	700 704
– General products	(12.9)	31.8	**748 485**	31.7	859 044
	(13.1)	100.0	**2 352 995**	100.0	2 706 186
Revenue by customer type					
– Wholesale	(32.6)	11.8	**278 561**	15.3	413 173
– Retail	(1.5)	13.8	**325 147**	12.2	329 999
– Cash	(11.6)	18.4	**433 852**	18.1	490 909
– Mining and industry	(8.2)	39.5	**928 350**	37.4	1 011 648
– Exports	(15.5)	6.2	**145 868**	6.4	172 614
– Other	(16.2)	10.3	**241 217**	10.6	287 843
	(13.1)	100.0	**2 352 995**	100.0	2 706 186

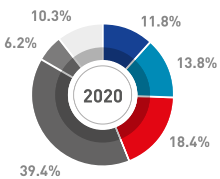
Revenue by product type

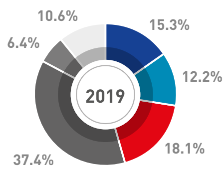




■ Cable ■ Overhead line ■ Lighting ■ General products

Revenue by customer type





■ Wholesale ■ Retail ■ Cash ■ Mining and industry ■ Exports ■ Other

SUMMARISED GROUP SEGMENT REPORT

	Electrical (R000's)	Lighting (R000's)	Corporate (R000's)	Inter-Co (R000's)	Total (R000's)
Audited year to 30 June 2020					
Segment revenue	1 746 458	674 871	61 545	(129 879)	2 352 995
Inter-segment revenue	(3 325)	(33 590)	(58 583)	95 498	–
Sales to external customers	1 743 133	641 281	2 962	(34 381)	2 352 995
Depreciation and amortisation	56 391	17 804	1 243	(54 592)	20 846
Operating profit	73 317	28 521	54 138	(10 080)	145 896
Impairment of goodwill and trademarks	(8 841)	–	(19 324)	(47 841)	(76 006)
Change in put option liability	13 003	–	–	20 000	33 003
Net profit before interest and tax	77 479	28 521	34 814	(37 921)	102 893
Investment income	–	–	39 250	(39 250)	–
Net interest (paid)/received	(11 035)	(27 525)	17 159	25 175	3 774
Profit before tax	66 444	996	91 223	(51 996)	106 667
Segment assets	1 091 309	607 770	780 318	(845 466)	1 633 931
Segment liabilities	544 440	394 459	265 861	(613 850)	590 910
Net segment assets	546 869	213 311	514 458	(231 616)	1 043 022
Enterprise-wide disclosure (geographical)					
Exports (mainly sub-Saharan Africa)	103 586	42 282	–	–	145 868

SUMMARISED GROUP SEGMENT REPORT *continued*

	Electrical (R000's)	Lighting (R000's)	Corporate (R000's)	Inter-Co (R000's)	Total (R000's)
Audited year to 30 June 2019					
Segment revenue	2 096 776	648 689	55 510	(94 789)	2 706 186
Inter-segment revenue	(111)	(43 431)	(52 064)	95 606	–
Sales to external customers	2 096 665	605 258	3 446	817	2 706 186
Depreciation and amortisation	11 332	2 924	3 527	(135)	17 648
Operating profit	85 555	35 374	44 972	(10 535)	155 367
Impairment of goodwill and trademarks	(26 234)	–	–	7 824	(18 410)
Put option derivative	(5 000)	–	(9 500)	14 500	–
Gain on bargain purchase price	–	18 779	–	–	18 779
Change in put option liability	16 241	–	–	5 007	21 248
Profit before interest and tax	70 562	54 153	35 473	16 796	176 984
Investment income	–	–	105 360	(105 360)	–
Net interest received	15 186	(14 463)	16 647	–	17 370
Profit before tax	85 748	39 690	157 480	(88 564)	194 354
Segment assets	888 237	461 307	713 141	(365 257)	1 697 428
Segment liabilities	347 889	251 434	202 673	(260 731)	541 265
Net segment assets	540 348	209 873	510 468	(104 526)	1 156 163
Enterprise-wide disclosure (geographical)					
Exports (mainly sub-Saharan Africa)	132 422	40 192	–	–	172 614

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. This group officer, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer who acts in terms of levels of authority formally delegated by a unitary board, comprising a majority of non-executive directors.

NOTES TO THE FINANCIAL STATEMENTS

BASIS OF PREPARATION

The summarised consolidated financial statements for the year ended 30 June 2020 have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and its interpretations issued by the International Accounting Standards Board; the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee; Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council; the requirements of the South African Companies Act; and the JSE Listings Requirements. These summarised consolidated financial statements do not include all the disclosures required by IFRS, but contain the minimum information required by IAS 34: *Interim Financial Reporting*.

Except for the adoption of IFRS 16: *Leases*, which was adopted for the first time this year, all accounting policies applied by the group in the preparation of these summarised consolidated financial statements are consistent with those applied by the group in its previous consolidated financial statements for the year ended 30 June 2019 and for the interim results for the six months ended 31 December 2019. For more information on the annual fair value adjustments, please refer to the consolidated financial statements for the year ended 30 June 2020.

These summarised consolidated financial statements have been extracted from the audited consolidated financial statements for the year ended 30 June 2020, but are not themselves audited. The consolidated financial statements have been audited by the group's external auditors, PKF Durban, whose unqualified audit report, including key audit matters, is included in the consolidated financial statements available for inspection at the company's registered office and on the company's website at https://www.arbhold.co.za/documents/reports/'Group-consolidated-AFS-30-June-2020.pdf. The group's external auditor's report does not necessarily cover all the information included in this announcement and therefore it is advised that in order to obtain a full understanding of the nature of the external auditor's engagement, the external auditor's report referred to above is inspected.

The summarised consolidated financial statements have been prepared and compiled under the supervision of Grant Scrutton CA(SA) (Chief Financial Officer).

THE IMPACT OF THE COVID-19 PANDEMIC

The group has assessed the impact of Covid-19 on the assumptions and significant judgements used in preparing these results, particularly in the valuation of property, plant and equipment; goodwill; inventories; accounts receivable; and the put option liabilities. As noted above, the group has implemented robust Covid-19 risk plans to mitigate the effect on its business, staff, customers and suppliers.

The area most affected by Covid-19-related valuation adjustments has been the determination of the put option liabilities where the effect of a reduced share price and underlying business profits had the result of significantly reducing the valuation of these options. The Covid-19 induced reduction in the underlying subsidiary results and the slow expected recovery also resulted in the impairment of the Eurolux trademarks and a significant portion of the CraigCor goodwill.

NOTES TO THE FINANCIAL STATEMENTS *continued*

The appraisal of the group's properties, undertaken after the national Covid-19 lockdown commenced, has impacted the rental income used in the calculations, resulting in a decrease in the valuations of the properties.

The forward-looking adjustments for the accounts receivable estimated credit loss ("ECLs") resulted in an increase in the expected credit loss rates but the resultant ECL, given the nature of the accounts receivable and the use of credit insurance, was, as in prior years, not material. The net realisable value of inventory was also carefully assessed, but given the nature of our inventory with its long shelf life and the expected positive medium-term demand for our products, the effect was not considered material.

OTHER SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The group has also applied judgement to determine the term for some of the lease contracts, in which it is a lessee, that include renewal options. The assessment of whether the group is reasonably certain to exercise such options impacts the lease term, which in turn affects the amount of lease liabilities and right-of-use assets recognised. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or to not exercise a termination option. The exercising of a renewal option is dependent on the importance of a particular branch's leased property to the group's operations and includes factors such as:

- the location of the property (which influences the profit likely to be generated by the branch);
- the proximity to existing customers;
- the strength of competitors;
- the building and development in the area; and
- the availability of suitable alternative properties.

Extension options (or periods after termination options) are included in the lease term if the lease is reasonably certain not to be terminated. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the lessee. The majority of extension and termination options held are exercisable by the group in conjunction with the respective lessor, based on the fair market rental at that time.

CHANGE IN ACCOUNTING POLICY ARISING FROM THE ADOPTION OF IFRS 16: *LEASES*

The adoption of IFRS 16: *Leases*, with effect from 1 July 2019, has necessitated a change in accounting policy in respect of operating lease contracts. The group has transitioned to IFRS 16 using the modified retrospective approach by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balances of equity at 30 June 2019. Accordingly, the comparative information presented for 2019 year has not been restated.

Prior to the adoption of IFRS 16, the group classified as operating leases, those leases where substantially all the risks and rewards of ownership are retained by the lessor, and accounted for them in line with IAS 17: *Leases*. The leased assets were not recorded as assets in the group's statement of financial position. The difference between actual lease payments and the amount expensed which included a straight-line adjustment, was recorded as a lease liability in the statement of financial position, and a deferred tax asset was raised thereon.

From 1 July 2019, the group recognised right-of-use assets and lease liabilities for each of these leases. The lease liability is initially measured at the present value of the contractual lease payments, discounted using the lessee's incremental borrowing rate as at the lease commencement date. The lease liability is subsequently increased by the interest charge on the lease liability and decreased by repayments made, such that the remaining liability at the end of each reporting period is the present value of the remaining lease payments.

The right-of-use asset is initially measured at cost, comprising the amount of the initial measurement of the lease liability adjusted for any initial direct costs. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment. Depreciation is provided using the straight-line method over the shorter of the asset's useful life and the lease term. Where negative indicators exist, these right-of-use assets are impaired.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17: *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate. The related right-of-use assets were recognised at their carrying amounts as if IFRS 16 had been applied since the commencement of the lease but discounted using the group's incremental borrowing rate at the date of transition.

The group has elected to use the practical expedience not to reassess the definition of a lease on transition to IFRS 16. The group also applied the recognition exemption to short-term and low-value leases of property, plant and equipment. The lease payments associated with these leases are recognised as an expense as and when they are paid.

The adoption of IFRS 16 resulted in the calculation of right-of-use assets with a value of R89.2m and lease liabilities of R94.9m. This, together with the derecognition of the lease straight-line adjustment of R2.5m and adjustments of R0.7m for deferred tax, resulted in a R0.9m decrease in accumulated profits and a decrease of R2.5m in non-controlling interests.

ACQUISITION OF SUBSIDIARIES

No acquisitions were made during the year under review but the purchase consideration for CraigCor was finalised at R22.9m and the final instalment of R2.2m was paid out. The GMC purchase consideration for the acquisition of its assets was finalised at R37.1m with the remaining amount due of R4.7m reflected in trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Furthermore, one of the management shareholders in CraigCor resigned and emigrated during March 2020 and the group chose to exercise the call option on his shares for a consideration of R2.3m in February 2020.

IMPAIRMENT OF INTANGIBLES

As noted above, the Eurolux trademark value of R58.5m and a significant portion of the CraigCor goodwill amounting to R7.9m have been impaired. From the discounted cash flow valuation of the forecast future cash flows of the cash-generating units ("CGUs"), it was determined that the carrying amount of the CGUs, including the trademark or goodwill, was greater than the recoverable amount of the CGUs to the extent of these intangibles. These impairment losses were recognised due to the recoverable amount being adversely impacted by management's expectation of the pressure on the projected earnings ravaged by the Covid-19 pandemic economic lockdown.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities that are sensitive to re-measurement are limited to the put option liabilities, the fair values of which are calculated in terms of a contractual formula. Eurolux options are currently exercisable and are valued at the average of Eurolux's past three years' results multiplied by 60% of the company's price earnings multiple, calculated by the 120 days volume weighted average share price on the JSE (subject to a cap of 7.5 and a floor of 4.0). The CraigCor options are calculated on the same basis as Eurolux except that, because the options can only be put after 1 March 2023, the calculation uses the average of CraigCor's projected last three years' results prior to the first date the option can be put determined using DCF methods. These calculations are most sensitive to changes in the company's price earnings multiple.

Financial liabilities measured at fair value in the statement of financial position are categorised, in IFRS, into the three levels of the "fair value hierarchy" on the basis of the lowest level input that is significant to the fair value measurement in its entirety. ARB's level 3 liabilities are the put option liabilities:

R000's	Level	**2020**	2019
CraigCor – non-current	3	**4 000**	19 000
Eurolux – current	3	**40 000**	60 000
		44 000	79 000
Put option liability roll forward			
Balance at the beginning of the year		**79 000**	98 482
Put options exercised during the year		**(2 277)**	–
Realised gain on early settlement of put option		**(4 848)**	–
Unwinding of put option discounting		**280**	1 766
Unrealised revaluation of put option liability		**(28 155)**	(21 348)
Balance at the end of the year		**44 000**	79 000

There have been no transfers between levels. The fair value of the put option financial liabilities disclosed under level 3 has been calculated in accordance with the predetermined contractual valuation method. In this valuation, the significant inputs which are unobservable from market data is Eurolux's average past three years' results amounting to R23.0m (2019: R30.1m) and for CraigCor it is its average projected last three years' results prior to the first date the option can be put amounting to R4.5m (2019: R10.2m), its projected average growth rate of 8% (2019: 12%) and the discount rate of 7.25% (2019: 10.25%).

COMMITMENTS AND CONTINGENCIES

The group has contracted capital commitments of R88.2m, and uncontracted commitments of R6.4m (2019: R102.1m and R6.4m, respectively). The bulk of these commitments relate to the acquisition of the Radiant properties and their improvement, which will be funded via a bank loan, as well as various assets required for the Lords View distribution centre in Midrand, which will be funded out of internal funds.

EVENTS SUBSEQUENT TO THE YEAR-END

The duration and impact of the Covid-19 pandemic on our customer base, as well as the effectiveness of government and central bank responses, remain unclear at this time. While it is expected that trading operations and results will continue to be negatively impacted in the future, it is not possible to reliably estimate the duration and severity of these consequences, as well as the impact on the financial position and results of the group for future periods.

The transfer of the Radiant properties previously announced, has been significantly delayed by the staff rotation and operations at both the municipalities and the deeds office. Three of the five properties have been transferred since the year-end and we anticipate that the remaining two properties will be finally transferred within the next two months. The R88.0m cost for these properties has been financed using property mortgage finance from Nedbank.

The directors are not aware of any other material event or circumstance arising since the end of the reporting period and up until the date of this report, not otherwise disclosed in these consolidated financial statements which significantly affects the financial position, results or cash flows of the group.

DIVIDENDS

Given the economic uncertainties which continue to prevail, the board is of the view that cash preservation in the short term is essential, and consequently has taken the decision not to declare a dividend at this time.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of shareholders of ARB will be held at 10:00 on Wednesday, 4 November 2020, at the company's registered office located at 10 Mack Road, Prospecton, Durban. The notice of annual general meeting will be contained in the integrated report which will be posted to shareholders by no later than Wednesday, 30 September 2020.

NOTES TO THE FINANCIAL STATEMENTS *continued*

The record date, for purposes of determining which shareholders are entitled to receive the notice of annual general meeting, will be Friday, 25 September 2020.

The last day to trade and the record date, in order for shareholders to be eligible to participate in and vote at the annual general meeting, will be Tuesday, 20 October 2020 and Friday, 23 October 2020, respectively.

FINANCIAL ASSISTANCE TO RELATED OR INTER-RELATED COMPANIES AND CORPORATIONS (S45)

The holding company has provided financial guarantees and cessions of loan accounts to the group's bankers on behalf of its subsidiary companies as security for facilities granted to them. During the year, the Eurolux banking facility was restructured and updated. Full details are set out in the 2020 consolidated financial statements. Shareholders will again be asked to approve the company's authority to provide S45 security, other than for loans to directors.

NOTIFICATION OF PUBLICATION OF ANNUAL B-BBEE COMPLIANCE

The group holding company does not trade and has no B-BBEE score. In accordance with paragraph 16.20(g) and appendix 1 to section 11 of the JSE Listings Requirements, notice is hereby given that the annual compliance report relevant to the ARB operational group, in terms of section 13G(2) of the Broad-Based Black Economic Empowerment Act, is available on the company's website at https://www.arbhold.co.za/documents/Certificate-ARB-Electrical-Wholesalers.pdf.

CHANGES TO THE BOARD

There have been no changes in the directorship of the company during the year under review.

APPRECIATION

We would like to acknowledge and thank our customers, suppliers, business partners, advisors, shareholders, management and staff for their continued support in another tough trading year.

Ralph Patmore
Chairman

20 August 2020

William Neasham
Chief executive officer

20 August 2020

CORPORATE INFORMATION

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ST Downes#*
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20 August 2020

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