KayDavGroup

SUMMARISED AUDITED CONSOLIDATED RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2019

- Revenue of **R1.03 billion** ↑ 3%
- Headline earnings per share of **12.7 cents** ↓ 16% from 15.1 cents the prior year

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

as at 31 December 2019

		Audited 31 December 2019 R	Audited 31 December 2018 R
ASSETS			
Non-current assets		**149 549 280**	106 938 011
Property, plant and equipment		**75 958 886**	80 381 282
Right-of-use assets		**47 229 050**	–
Goodwill		**26 361 344**	26 361 344
Deferred taxation		**–**	195 385
Current assets		**387 880 554**	360 533 061
Inventories		**174 657 451**	149 862 379
Trade and other receivables		**111 195 302**	105 321 395
Cash and cash equivalents		**101 978 439**	105 248 322
Taxation		**49 362**	100 965
Total assets		**537 429 834**	467 471 072
EQUITY AND LIABILITIES			
Capital and reserves		**241 000 886**	235 729 459
Share capital		**173**	173
Share premium		**115 386 161**	126 615 503
Retained earnings		**125 614 552**	109 113 783
Non-current liabilities		**69 702 519**	28 905 812
Instalment sale liabilities		**11 767 951**	17 659 164
Interest-bearing liabilities		**6 870 103**	8 506 036
Lease liabilities		**50 514 966**	–
Deferred taxation		**549 499**	2 740 612
Current liabilities		**226 726 429**	202 835 801
Trade and other payables		**146 144 527**	124 412 085
Short-term portion of instalment sale liabilities		**7 824 249**	8 651 997
Short-term portion of interest-bearing liabilities		**1 631 052**	4 662 214
Short-term portion of lease liabilities		**11 235 348**	–
Bank overdraft		**54 746 834**	59 640 418
Taxation		**66 468**	1 416 100
Provisions		**5 077 951**	4 052 987
Total equity and liabilities		**537 429 834**	467 471 072
Net asset value per share	(cents)	**139.5**	136.5
Net tangible asset value per share	(cents)	**124.2**	121.2

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Audited year ended 31 December 2019 R	Audited year ended 31 December 2018 R
Balance at the beginning of the period	**235 729 459**	209 270 522
Adoption of IFRS 16 adjustments		
– Recognition of right-of-use assets	**57 190 706**	–
– Deferred taxation on recognition of right-of-use assets	**(16 013 398)**	–
– Recognition of lease liabilities	**(68 891 079)**	–
– Deferred taxation on recognition of le.ase liabilities	**19 289 502**	–
– Derecognition of rental smoothing accrual	**4 277 867**	–
– Deferred taxation on derecognition of rental smoothing accrual	**(1 197 803)**	–
Balance at 1 January 2019	**230 385 254**	209 270 522
Distribution to shareholders	**(11 229 342)**	–
Total comprehensive income for the year	**21 844 974**	26 458 937
Balance at 31 December 2019	**241 000 886**	235 729 459

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019

		Audited year ended 31 December 2019 R	Audited year ended 31 December 2018 R
Revenue		**1 025 316 565**	999 202 265
Cost of sales		**(743 915 254)**	(726 556 577)
Gross profit		**281 401 311**	272 645 688
Other income		**1 614 934**	2 067 855
Net impairment loss on trade and other receivables		**(2 754 282)**	(949 386)
Other operating expenses		**(238 329 018)**	(231 119 400)
Operating profit		**41 932 945**	42 644 757
Interest received		**458 766**	213 394
Finance costs		**(11 502 877)**	(5 829 537)
Profit before taxation		**30 888 834**	37 028 614
Taxation		**(9 043 860)**	(10 569 677)
Profit for the year		**21 844 974**	26 458 937
Other comprehensive income		**–**	–
Total comprehensive income attributable to equity holders of the parent		**21 844 974**	26 458 937

RECONCILIATION BETWEEN EARNINGS AND HEADLINE EARNINGS

Earnings		**21 844 974**	26 458 937
Loss/(profit) on sale of plant and equipment		**69 053**	(402 435)
Taxation on loss/(profit) on sale of plant and equipment		**(19 335)**	112 682
Headline earnings		**21 894 692**	26 169 184
Weighted average number of shares in issue		**172 751 585**	172 751 585
Basic and diluted earnings per share*	(cents)	**12.6**	15.3
Headline and diluted headline earnings per share*	(cents)	**12.7**	15.1

**The company has no dilutive instruments in issue.*

REVENUE

Sale of goods		
Board Distribution and Adaptation	**916 012 248**	909 352 132
– Local	**861 642 930**	851 836 872
– Export		
• Zimbabwe	**26 154 117**	24 606 546
• Namibia	**14 929 250**	18 089 038
• Swaziland	**11 352 918**	12 177 588
• Other SADEC countries	**1 933 033**	2 642 088
Packaging	**109 304 317**	89 850 133
– Local (excluding sales to Board Distribution and Adaptation segment)	**105 692 436**	87 018 196
– Export		
• Zimbabwe	**175 896**	52 806
• Namibia	**2 831 886**	1 826 964
• Swaziland	**371 183**	950 278
• Other SADEC countries	**232 916**	1 889
	1 025 316 565	999 202 265

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the year ended 31 December 2019

	Audited year ended 31 December 2019 R	Audited year ended 31 December 2018 R
Cash flows from operating activities		
Operating cash before working capital movements	**65 257 577**	50 865 221
Working capital movements	**(5 873 226)**	25 442 253
Cash generated by operations	**59 384 351**	76 307 474
Investment income	**458 766**	213 394
Finance costs	**(11 502 877)**	(5 829 537)
Taxation paid	**(10 259 315)**	(6 152 019)
Net cash inflow from operating activities	**38 080 925**	64 539 312
Cash flow from investing activities		
Investment in property, plant and equipment	**(3 175 006)**	(4 632 229)
Proceeds on disposal of property, plant and equipment	**670 135**	2 251 636
Net cash outflow from investing activities	**(2 504 871)**	(2 380 593)
Cash flow from financing activities		
Distribution to shareholders	**(11 229 342)**	–
Repayment of instalment sale liabilities	**(9 204 692)**	(10 179 109)
Repayment of interest-bearing liabilities	**(4 667 095)**	(4 195 529)
Repayment of lease liabilities	**(8 851 224)**	–
Net cash outflow from financing activities	**(33 952 353)**	(14 374 638)
Net increase in cash and cash equivalents	**1 623 701**	47 784 081
Net cash and cash equivalents at the beginning of the year	**45 607 904**	(2 176 177)
Net cash and cash equivalents at the end of the year	**47 231 605**	45 607 904

SEGMENTAL ANALYSIS

	Audited year ended 31 December 2019 R	Audited year ended 31 December 2018 R
SEGMENTAL REVENUE		
Board Distribution and Adaptation	**916 012 248**	909 352 132
Packaging	**111 713 960**	92 573 803
Internal revenue	**(2 409 643)**	(2 723 670)
	1 025 316 565	999 202 265
Internal revenue relates to sales from the Packaging segment to the Board Distribution and Adaptation segment.		
SEGMENTAL RESULTS		
Board Distribution and Adaptation	**28 602 472**	34 352 323
Packaging	**9 070 895**	8 424 093
Other	**(104 727)**	(131 659)
Operating profit before interest	**37 568 640**	42 644 757
IFRS 16 effect on operating profit		
– Board Distribution and Adaptation	**3 690 955**	–
– Packaging	**673 350**	–
	41 932 945	42 644 757
Inter-segment transactions are entered into under normal commercial terms and conditions available to third parties. The effect of IFRS16 on operating profit was removed on the segment lines for comparative purposes.		
OPERATING ASSETS		
Board Distribution and Adaptation	**416 774 823**	403 408 770
Packaging	**51 434 268**	43 036 061
Other	**1 622 765**	935 762
Internal balances	**(6 041 776)**	(6 567 214)
	463 790 080	440 813 379
Segment assets consist of property, plant and equipment, inventory, trade receivables and operating cash and exclude taxation assets, investments and intangible assets and exclude intra-group loans.		
OPERATING LIABILITIES		
Board Distribution and Adaptation	**168 986 102**	164 391 280
Packaging	**13 046 285**	7 584 767
Other	**58 072 065**	62 176 075
Internal balances	**(6 041 776)**	(6 567 214)
	234 062 676	227 584 908

Segment liabilities include trade and other payables, bank overdraft, provisions, instalment sale liabilities and interest-bearing liabilities and exclude taxation liabilities and intra-group loans.

COMMENTARY

INTRODUCTION

KayDav comprises a group of businesses involved in the distribution of wood-based panels and packaging consumables and machinery. Wood-based panels are manufactured through the compression of wood waste into solid panels. These panels have a variety of applications in the construction, furniture manufacturing and shopfitting industries. Packaging consumables and machinery are products and machines which cater for a wide variety of packaging requirements in the industrial, agricultural and commercial sectors.

CHANGE IN ACCOUNTING POLICY

IFRS 16 replaced IAS 17 Leases and three related Interpretations. It completes the International Accounting Standards Board's long-running project to overhaul lease accounting. Leases are now recorded in the statement of financial position in the form of a right-of-use asset and a lease liability.

This change in accounting policy, which became effective on 1 January 2019, was disclosed in the interim report for the six months ended 30 June 2019 and is disclosed here again to indicate the full-year effect of the change.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group applied IFRS 16 as follows:

- The Group used the transitional provisions where the right-of-use asset is recognised as at the date of initial application as if IFRS 16 had always been applied (but calculated as if the prevailing incremental borrowing rate as at the date of initial application also applied at lease commencement). The lease liability was calculated as the present value of remaining lease payments using the incremental borrowing rate (10.25%) as the discount rate. The difference between the lease liability and the right-of-use asset was adjusted to retained earnings and comparative figures were not restated. Deferred taxation relating to the initial application was also recognised in retained earnings
- The rental smoothing accrual under the previous IAS 17 was reversed against retained earnings
- Short-term leases (one year or less) and low-value leases (where the right-of-use asset would be lower than R65 000) were not capitalised and were recognised as a term expense, and
- Leases with less than one year remaining on its contract at 1 January 2019 were not capitalised.

The effect of this change in accounting policy is set out in the tables below:

BALANCE SHEET (NEW POLICY)	1 January 2019 (initial recognition) R	1 January 2019 (derecognition) R	Depreciation/ interest R	Lease payments R	Additional leases R	**Effect on balances as at 31 December 2019 R**
Right-of-use asset	57 190 706	–	(11 672 114)	–	1 710 458	**47 229 050**
Lease liabilities	(68 891 079)	–	(6 635 189)	15 486 413	(1 710 458)	**(61 750 314)**
Deferred taxation (debit effect)	3 276 105	–	5 126 045	(4 336 196)	–	**4 065 954**
Retained earnings (decrease)	8 424 269	–	13 181 258	(11 150 217)	–	**10 455 310**
Rental smoothing derecognition						
Rental smoothing accrual	–	4 277 867	–	–	–	**4 277 867**
Deferred tax (credit effect)	–	(1 197 803)	–	–	–	**(1 197 803)**
Retained earnings (increase)	–	(3 080 064)	–	–	–	**(3 080 064)**

COMMENTARY (CONTINUED)

BALANCE SHEET (OLD POLICY)	Lease payments R	Rental smoothing R	**Effect on balances as at 31 December 2019** **R**
Taxation asset	4 336 196	–	**4 336 196**
Retained earnings (decrease)	11 150 217	–	**11 150 217**
Rental smoothing			
Rental smoothing accrual	–	(550 006)	**(550 006)**
Deferred tax (credit effect)	–	154 002	**154 002**
Retained earnings (decrease)	–	396 004	**396 004**

INCOME STATEMENT EFFECT

Charges against income for the year ended 31 December 2019

	New policy	Old policy	**Pre-tax difference**	Taxation	**Post-tax difference**
Rent paid	–	15 486 413	**(15 486 413)**	4 336 196	**(11 150 217)**
Rental smoothing expense	–	550 006	**(550 006)**	154 002	**(396 004)**
Depreciation on right-of-use assets	11 672 114	–	**11 672 114**	(3 268 192)	**8 403 922**
Interest on lease liabilities	6 635 189	–	**6 635 189**	(1 857 853)	**4 777 336**
	18 307 303	16 036 419	**2 270 884**	(635 847)	**1 635 037**

APPLICATION OF PROVISION MATRIX

In accordance with its accounting policy, trade receivables are impaired through the use of a provision matrix. During the reporting period the Group recalculated historical loss ratios by using the bad debt experience for 2016 and 2017 (2018: 2015 and 2016). These historical loss ratios are calculated per business unit and for several of these units, and overall, the new calculation resulted in reduced historical loss ratios. The improvement in historical loss ratios resulted from an improvement in credit management. The forward-looking adjustment remained unchanged at an adjustment factor of 40%. The forward-looking adjustment was calculated on a probability weighted basis using the RMB/BER Business Confidence Index as a lead indicator of the business cycle in order to assign weights to probable outcomes.

The combined loss ratios per aging bucket are disclosed in the tables below. Please note that the effect of the change in historical loss ratios cannot be calculated by applying the combined loss ratios from period to period to the outstanding balances at period end. This is so because different units have different weightings in each aging bucket from period to period.

The loss ratios set out in the provision matrix contained in the annual financial statements for the year ended 31 December 2018 included the effect of specific amounts, which was not separately disclosed. This makes comparison from period to period more difficult and readers will benefit from seeing the specific amounts separately. We therefore improved the disclosure by stripping out the specific amounts from the disclosed loss ratios and now show these amounts separately in the provision matrix below.

The movement in the impairment allowance from the prior year is reconciled as follows:

	R
Balance at 31 December 2018	11 667 504
Change in loss ratios	(1 056 648)
Weighting differences	(503 550)
Change in balances per aging bucket	1 742 907
Change in specific amounts	403 033
Balance at 31 December 2019	**12 253 246**

31 DECEMBER 2019

Application of provision matrix		**Aging bucket per age analyses (days)**						
	Total	**Current**	**30**	**60**	**90**	**120**	**150**	**180**
Gross receivables excluding VAT	**103 402 279**	**39 033 995**	**35 891 274**	**12 075 166**	**4 707 007**	**2 093 686**	**677 947**	**8 923 204**
Adjusted loss ratio (%)	**–**	**1.3**	**2.8**	**9.0**	**18.7**	**23.9**	**35.1**	**64.5**
Gross impairment allowance	**9 974 203**	**514 598**	**992 267**	**1 092 420**	**882 553**	**500 720**	**238 207**	**5 753 438**
Specific amounts (see below)	**2 279 043**	**–**	**86 459**	**78 418**	**95 323**	**41 854**	**74 662**	**1 902 327**
Total impairment allowance	**12 253 246**	**514 598**	**1 078 726**	**1 170 838**	**977 876**	**542 574**	**312 869**	**7 655 765**

	Aging bucket per age analyses (days)						
Adjusted historical loss ratio	**Current %**	**30 %**	**60 %**	**90 %**	**120 %**	**150 %**	**180 %**
Historical loss ratio**	**0.9**	**2.0**	**6.5**	**13.4**	**17.1**	**25.1**	**46.1**
Forward-looking adjustment***	**0.4**	**0.8**	**2.6**	**5.4**	**6.8**	**10.0**	**18.4**
	1.3	**2.8**	**9.0**	**18.7**	**23.9**	**35.1**	**64.5**

** *Historical loss ratios were calculated on 2016 and 2017 (2018: 2015 and 2016) sales on a per invoice level, and on collections through to the end of 2018 (2018: to end of 2017). Losses include any amounts written off to bad debts or not collected more than 360 days since date of invoice.*

*** *Forward-looking adjustment due to worsening macroeconomic environment.*

COMMENTARY (CONTINUED)

31 DECEMBER 2018

Application of provision matrix	Total	Current	Aging bucket per age analyses (days) 30	60	90	120	150	180
Gross receivables excluding VAT	100 285 676	36 619 240	38 660 205	12 120 400	3 800 381	1 233 216	817 174	7 035 060
Adjusted loss ratio (%)	–	1.4	3.0	10.1	18.5	23.1	40.6	78.8
Gross impairment allowance	9 791 494	528 077	1 175 548	1 228 879	701 413	285 142	331 669	5 540 767
Specific amounts (see below)	1 876 010	104 168	119 691	122 872	67 309	75 727	38 037	1 348 210
Total impairment allowance	11 667 504	632 245	1 295 239	1 351 751	768 722	360 869	369 706	6 888 977

	Current %	Aging bucket per age analyses (days) 30 %	60 %	90 %	120 %	150 %	180 %
Historical loss ratio	1.0	2.2	7.2	13.2	16.5	29.0	56.3
Forward-looking adjustment	0.4	0.9	2.9	5.3	6.6	11.6	22.5
Adjusted historical loss ratio	1.4	3.0	10.1	18.5	23.1	40.6	78.8

	2019 R	2018 R	Opening balance 1 January 2018 R
Specific amounts			
Pre-testing period amounts still in book	**1 479 043**	1 076 010	1 239 167
Amount against specific debtor	**800 000**	800 000	200 000
	2 279 043	1 876 010	1 439 167

FINANCIAL RESULTS

The prevailing tough trading conditions and the application of the new accounting standard on leases, IFRS 16 (which was applied for the first time during the year ended 31 December 2019), led to headline earnings for the year ended 31 December 2019 of 12.7 cents, being 16% below the 15.1 cents of the prior year.

Revenue increased below inflation at 3%, which put pressure on headline earnings due to costs increasing by 5% before the effect of the net impairment loss on trade and other receivables and the effect of IFRS 16. The effect of applying IFRS 16, which is discussed below, on headline earnings per share was a reduction of 7% (1.0 cent), while the increase in the net impairment loss on trade and other receivables of R1.8 million (R1.3 million after tax) reduced headline earnings by 5%.

The Group's balance sheet remains sound with the debt-to-equity ratio improving to 12% at 31 December 2019 (2018: 17%) while the current ratio remained at 1.8 (2018: 1.8). The Group's net cash balance at 31 December 2019 was R47.2 million compared to the R45.6 million of the prior year, after paying a distribution to shareholders of R11.2 million.

Board Distribution and Adaptation

The Board Distribution and Adaptation segment supplies material to the construction sector and to manufacturers who performs shopfitting and produces office and home furniture including built-in cupboards. It is widely known that these sectors are facing strong economic headwinds. Revenue in this segment increased by only 1%, well below inflation, to R916 million (2018: R909 million), resulting in operating profit of R28.6 million coming in 17% below the R34.4 million of the prior year.

The Board Distribution and Adaptation segment made up 89% of turnover during the year ended 31 December 2019. Constituting such a large portion of the Group's activities, it has the greatest effect on our results. For this segment to grow materially a substantial improvement in consumer confidence and macroeconomic conditions is required.

We are continually looking for opportunities to grow market share through the addition of new product lines and are continually striving to service the requirements of our client base. Cost control remains a key focus area.

Packaging

The Packaging segment performed relatively well with revenue growing by 21% while operating profit grew by 8% when compared to the prior financial year.

The Packaging segment makes up only 11% of the Group's revenue, yet it continues to make a substantial contribution to our earnings. Being a relatively small player in the packaging market in South Africa, we believe further opportunity for market share growth exists.

We continue to pursue growth by increasing our product offering and by increasing our market share in respect of existing product categories.

CHANGES TO CAPITAL STRUCTURE

There has been no change in KayDav's capital structure during the year ended 31 December 2019.

PROSPECTS

The COVID-19 pandemic's impact on the local and global economy, including the negative effect of the recently announced lockdown on business activity in South Africa, may be severe. The severity will largely depend on how long the situation persists and therefore the impact on the Group is unclear.

The Group therefore remains focused on factors within its control including responsible personnel management, strong capital management and containment of costs.

DISTRIBUTION TO SHAREHOLDERS

No distribution to shareholders will be made at this time.

CHANGES TO DIRECTORATE

There has been no change in the directorate during the year ended 31 December 2019.

SUBSEQUENT EVENTS

No material change has taken place in the affairs of the Group between the end of year and the date of this report that requires adjustment or disclosure.

However, we point out that the impact of the COVID-19 virus on the Group is uncertain.

COMMENTARY (CONTINUED)

BASIS OF PREPARATION

The summarised audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB"), the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council ("FRSC"), the requirements of IAS 34 Interim Financial Reporting, and the requirements of the South African Companies Act and the JSE Listings Requirements. The accounting policies applied in preparing these summarised audited consolidated financial statements are consistent with those presented in the annual financial statements for the year ended 31 December 2018 except for the adoption of IFRS 16. The annual financial statements were prepared under the supervision of the CFO, Martin Slier, CA (SA).

AUDIT REPORT

The external auditor, BDO South Africa Incorporated ("BDO"), has issued an opinion on the Group's consolidated financial statements for the year ended 31 December 2019. The audit was conducted in accordance with International Standards on Auditing. The auditor responsible for the audit is Stephan Cillié. An unmodified audit opinion has been issued on the consolidated financial statements. These summarised audited consolidated results for the year ended 31 December 2019 have been extracted from the audited annual financial statements but are not themselves audited. The audit report does not necessarily cover all the information included in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the company's registered office or on its website. The directors take full responsibility for the preparation of these summarised audited consolidated results and confirm that the financial information has been correctly extracted from the underlying audited results for the year ended 31 December 2019.

POSTING OF INTEGRATED ANNUAL REPORT AND NOTICE OF ANNUAL GENERAL MEETING

Shareholders are advised that the integrated annual report containing the annual financial statements will be posted on or before Friday, 24 April 2020. KayDav's annual general meeting will be held at 10:00 on Thursday, 23 July 2020 at the offices of BDO, 52 Corlett Drive, Wanderers Office Park, Illovo, 2196, Gauteng. The last day to trade in order to be eligible to participate in and vote at the annual general meeting is Tuesday, 14 July 2020 and the record date for voting purposes is Friday, 17 July 2020.

APPRECIATION

The board of directors extends its appreciation to our management and staff for their efforts during this reporting period. We also thank our customers and suppliers for their continued support.

On behalf of the board

S van Niekerk
Chairperson

GF Davidson
Chief Executive Officer

Cape Town

30 March 2020

CORPORATE INFORMATION

KAYDAV GROUP LIMITED

Incorporated in the Republic of South Africa
(Registration number 2006/038698/06)
JSE share code: KDV ISIN: ZAE000108940
("KayDav" or "the Group")

Executive Directors: GF Davidson (CEO), M Slier (CFO)

Non-executive Directors: S van Niekerk (Chairperson), B Tlhabanelo, F Davidson

Registration Number: 2006/038698/06

Income Tax Reference Number: 9154/477/16/1

Registered Address: 105 Bamboesvlei Road, Ottery, 7800

Postal Address: PO Box 272 Ottery 7808

Telephone: 021 704 7060

Facsimile: 086 519 2014

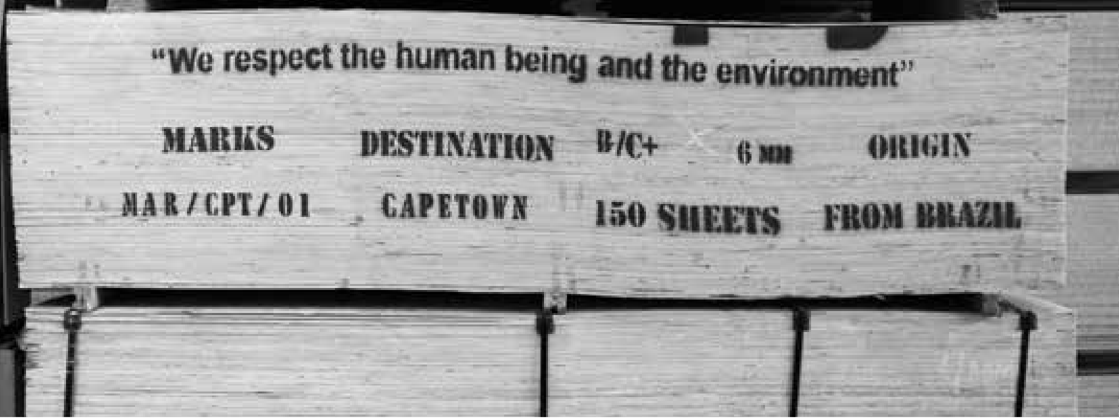
Company Secretary: CIS Company Secretaries (Pty) Ltd

Auditor: BDO South Africa Incorporated

Transfer Secretaries: Link Market Services South Africa (Pty) Ltd

Sponsor: Java Capital

Website: www.kaydav.co.za



KayDavGroup

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