ARB Holdings Limited
Registration number 1986/002975/06
Share code: ARH
ISIN: ZAE000109435
("ARB" or "the Company" or "the Group")

ARB Holdings Limited

Unaudited interim results

for the six months ended
31 December 2021

MAKING THE RIGHT CONNECTION

#beyond40

FINANCIAL REVIEW

- Revenue **up 7.5%** to R1 605m
- Profit after tax **down 3.2%** to R106m
- EPS **down 4.9%** to 39.00 cents
- HEPS **down 5.0%** to 39.06 cents
- Operating profit **up 1.9%** to R172m
- TNAV per share **down 1.0%** to 507.28 cents
- Cash on hand of **R337m** (2020: R305m)
- No interim dividend declared

COMMENTARY

OVERVIEW

The six-month period under review will be remembered for the riots experienced in July 2021, when significant violence and looting took place, impacting businesses in both KwaZulu-Natal and Gauteng. This challenging period was exacerbated by the continued impact of measures implemented to control the Covid-19 pandemic, despite the fourth wave of the pandemic and the Omicron variant being relatively mild in South Africa.

ARB's major divisions were directly affected by the riots, with all of the electrical division's KwaZulu-Natal branches being closed for the week, and 200 of the lighting division's customers' stores affected, some to the extent that they are unlikely to ever reopen.

The record performance of the lighting division for the year to 30 June 2021 was not something the group was able to repeat in the first six months of the current financial year. While the electrical division continued to perform well, with an increase in both revenue and operating profit, the lighting division experienced a slowdown as the well-documented discretionary spending with major retailers after the initial lockdowns in 2020 subsided.

DIVISIONAL REVIEW

Electrical division (revenue increased by 16.0% and operating profit improved by 16.4%)

This division comprises ARB Electrical Wholesalers, GMC Powerlines, ARB Global, CraigCor and Consolidated Electrical Distributors ("CED").

Gross margin in Rands improved by 16.4%, predominantly due to the increase in revenue during the period. With the increase in overheads operating margin remained consistent at 8.7%.

The electrical division's CED operation has secured an alternative range of switchgear, following the termination of the previous supplier agreement in 2021. The new product, TosunLux, was launched recently and is expected to be as much of a contributor to results going forward within a short space of time.

The division acquired the remaining 25% of the CraigCor subsidiary in August 2021 and the put option relating to this investment was settled during the period. This had no major effect on the results as the put option was adequately accounted for in the prior period.

Lighting division (revenue decreased by 15.3% and operating profit decreased by 26.4%)

This division comprises Eurolux, Radiant and Cathay Lighting.

The drop of 15.3% in revenue was partially offset by an improved gross margin. Overhead costs were static but the net effect was a drop in operating margin to 11.2% (2020: 12.9%).

COMMENTARY (continued)

The decrease in revenue is predominantly attributable to the impact of the July riots on the division's customers, the slowdown in discretionary spending experienced by our retail customers and the continuation of the supply chain challenges over the past 12 months.

The working capital management improvement achieved in the previous financial year could not be maintained, largely due to ongoing supply chain issues, where delays of up to seven months have been experienced as a result of pandemic-driven shipping issues container shortages and local port inefficiencies.

Whilst the division has secured enough stock to ensure uninterrupted supply to its customers, this in turn has put pressure on in-house logistics, particularly in terms of storage space, creating pressure on cash flow. The start of the Chinese New Year early in January is expected to further negatively impact this situation.

Corporate division (revenue increased by 6.9%, operating profit was up by 13.0%)

This division comprises the group's property portfolio and the Xact ERP Solutions business. For the financial period under review, the performance of both has been in line with expectations, given the fixed nature of both the income and costs.

SUBSEQUENT EVENTS

On 27 January 2022 the group issued a SENS notification of the receipt of a firm intention offer ("FIA") from Masimong. This SENS can be obtained from our website at https://arbhold.co.za/index.php/2013-06-04-06-33-35/sens or by sending an e-mail to mariol@arbhold.co.za. The details of this offer are set out in full in the SENS and are not repeated here.

OUTLOOK

The focus for both the electrical and the lighting divisions for the foreseeable future will remain on managing both working capital and supply chain challenges. Unfortunately, the expected increase in infrastructure development from which the electrical division should benefit, has not yet materialised, although the proposed restructuring of South Africa's energy utility Eskom into three separate divisions holds potential opportunities, particularly for the overhead line ("OHL") business.

The challenges in the local market in terms of the subdued economy and the lingering effects of the pandemic are also expected to continue for the foreseeable future.

These interim statements, including these prospects have neither been audited nor reviewed by the company's auditors.

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	% change	Six months to 31 December 2021 (R000's)	Six months to 31 December 2020 (R000's)	Audited year to 30 Ju ne 2021 (R000's)
Revenue	7.5	**1 605 852**	1 493 804	2 922 919
Cost of sales	8.3	**(1 188 252)**	(1 097 681)	(2 171 570)
Gross profit	5.4	**417 600**	396 123	751 349
Other income	(53.0)	**1 025**	2 180	16 805
Selling, administration and distribution expenses	7.5	**(246 146)**	(229 069)	(473 331)
Operating profit	1.9	**172 479**	169 234	294 823
Write-off trademarks, goodwill and asset impairments		**–**	–	(10 540)
Change in put option valuation		**(27 000)**	(20 859)	(13 700)
Profit before interest and taxation	(2.0)	**145 479**	148 375	270 583
Net interest received	94.6	**5 331**	2 740	5 373
Profit before taxation	(0.2)	**150 810**	151 115	275 956
Taxation	7.6	**(45 257)**	(42 072)	(64 551)
Profit for the period	(3.2)	**105 553**	109 043	211 405
Items that will not be recycled into profit or loss				
– Revaluation of property, plant and equipment (net of taxation)		**–**	–	1 216
Total comprehensive income for the period	(3.2)	**105 553**	109 043	212 621
Profit for the period attributable to:		**105 553**	109 043	211 405
– Non-controlling interests ("NCI")	10.2	**13 929**	12 639	20 001
– Ordinary shareholders	(5.0)	**91 624**	96 404	191 404
Total comprehensive income attributable to:		**105 553**	109 043	212 621
– NCIs	10.2	**13 929**	12 639	20 001
– Ordinary shareholders	(5.0)	**91 624**	96 404	192 620

RECONCILIATION BETWEEN EARNINGS AND HEADLINE EARNINGS

	% change	Six months to 31 December 2021 (R000's)	Six months to 31 December 2020 (R000's)	Audited year to 30 June 2021 (R000's)
Profit for the period attributable to ordinary shareholders		**91 624**	96 404	191 404
Impairment of buildings and RoU assets		**-**	–	10 540
Profit on disposal of property, plant and equipment		**311**	421	(3 432)
Total tax effects of adjustments		**(87)**	(118)	(4 503)
Total NCI effects of adjustments		**(54)**	(75)	(162)
Headline earnings		**91 794**	96 632	193 847
Number of ordinary shares in issue (000's)		**235 000**	235 000	235 000
Weighted average number of ordinary shares in issue (000's)		**235 000**	235 000	235 000
Basic earnings per share (cents)*	(5.0)	**38.99**	41.02	81.45
Headline earnings per share (cents)*	(5.0)	**39.06**	41.12	82.49

** There are no dilutive instruments in issue.*

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

	% change	Six months to 31 December 2021 (R000's)	Six months to 31 December 2020 (R000's)	Audited year to 30 June 2021 (R000's)
ASSETS				
Property, plant and equipment	(4)	**511 273**	530 700	508 752
Right-of-use assets		**53 911**	63 793	60 867
Intangible assets	1	**10 050**	10 000	10 000
Deferred taxation		**27 832**	18 771	24 069
Total non-current assets		**603 066**	623 264	603 688
Current assets		**1 428 348**	1 180 953	1 429 242
Inventory	23	**645 981**	525 436	588 129
Trade and other receivables	27	**445 199**	350 857	495 871
Cash resources	11	**337 168**	304 660	345 242
Non-current assets held-for-sale		**–**	–	20 000
Total assets		**2 031 414**	1 804 217	2 052 930
EQUITY AND LIABILITIES				
Share capital and premium		**116 174**	116 174	116 174
Revaluation reserve		**71 945**	70 729	71 945
Accumulated profits		**1 039 272**	952 523	1 047 522
Attributable to ordinary shareholders		**1 227 391**	1 139 426	1 235 641
Non-controlling interests		**111 524**	150 033	128 795
Total shareholders' funds		**1 338 915**	1 289 459	1 364 436
Non-current liabilities		**158 059**	183 212	163 657
Put option liability		**–**	5 000	6 200
Right-of-use lease obligations		**52 180**	59 372	61 017
Long-term loans		**80 967**	91 912	80 386
Deferred taxation	(7)	**24 912**	26 928	16 054
Current liabilities	61	**534 440**	331 546	524 837
Trade and other payables	90	**417 215**	219 191	429 670
Right-of-use lease obligations		**14 453**	14 526	11 522
Put option liability	32	**79 000**	60 000	52 000
Short-term loans		**2 210**	19 208	24 671
Taxation payable	16	**21 562**	18 621	6 974
Total equity and liabilities		**2 031 414**	1 804 217	2 052 930

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION (continued)

	Six months to 31 December 2021 (R000's)	Six months to 31 December 2020 (R000's)	Audited year to 30 June 2021 (R000's)
Net asset value per share (cents)	**522.29**	484.86	525.80
Net tangible asset value per share (cents)	**507.28**	482.36	512.41
Property, plant and equipment			
Capital expenditure for the period	**9 781**	104 093	120 745
Right-of-use assets acquired in the period	**–**	4 329	8 127
Capital commitments – contracted for	**4 424**	3 600	5 642
Capital commitments – not contracted for	**15 259**	3 600	6 974
Depreciation and amortisation	**(13 684)**	(12 722)	(29 032)

CONDENSED GROUP STATEMENT OF CASH FLOWS

	% change	Six months to 31 December 2021 (R000's)	Six months to 31 December 2020 (R000's)	Audited year to 30 June 2021 (R000's)
Cash generated by trading activities	2	**186 475**	182 377	321 272
Change in net working capital	(155)	**(19 636)**	35 981	35 013
Cash generated by operating activities	(24)	**166 839**	218 358	356 285
Net interest received	28	**8 722**	6 810	13 236
Dividends paid		**(131 075)**	–	(28 600)
Taxation paid	(2)	**(25 574)**	(26 154)	(78 818)
Cash flows from operating activities	(90)	**18 912**	199 014	262 103
Cash flows from investing activities	(156)	**10 310**	(18 363)	(26 106)
Cash flows from financing activities		**(37 296)**	(27 947)	(42 711)
(Decrease)/increase in cash resources	105	**(8 074)**	152 704	193 286
Cash resources at the beginning of the period	127	**345 242**	151 956	151 956
Cash resources at the end of the period	11	**337 168**	304 660	345 242

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital and premium	Revaluation reserve (R000's)	Accu-mulated profit (R000's)	Non-controlling interests (R000's)	Total (R000's)
Balance at 30 June 2020 (audited)	116 174	70 729	856 119	137 394	1 180 416
Total comprehensive income	–	–	96 404	12 639	109 043
Balance at 31 December 2020 (unaudited)	116 174	70 729	952 523	150 033	1 289 459
Total comprehensive income	–	1 216	95 000	7 362	103 578
Dividends paid	–	–	–	(28 600)	(28 600)
Balance at 30 June 2021 (audited)	**116 174**	**71 945**	**1 047 523**	**128 795**	**1 364 437**
Total comprehensive income	**–**	**–**	**91 624**	**13 929**	**105 553**
Dividends paid	**–**	**–**	**(99 875)**	**(31 200)**	**(131 075)**
Balance at 31 December 2021 (unaudited)	**116 174**	**71 945**	**1 039 272**	**11 524**	**1 338 915**

SUMMARISED GROUP SEGMENT REPORT

	Electrical (R000's)	Lighting (R000's)	Corporate (R000's)	Inter-Co (R000's)	Total (R000's)
Six months to 31 December 2021					
Segment revenue	1 264 547	355 041	41 960	(55 696)	1 605 852
Depreciation and amortisation	26 081	5 835	53	(18 285)	13 684
Operating profit/adjustment	110 086	39 894	30 807	(8 308)	172 479
Change in put option liability	–	–	–	(27 000)	(27 000)
Profit before interest and tax	110 086	39 894	30 807	(35 308)	145 479
Investment income	–	–	41 960	(41 960)	–
Net interest (paid)/received	(3 598)	(10 771)	9 881	9 819	5 331
Profit before tax	106 488	29 123	82 648	(67 449)	150 810
Segment assets	1 095 628	652 330	712 178	(428 722)	2 031 414
Segment liabilities	(630 618)	(341 331)	(27 708)	307 157	(692 500)
Net segment assets	465 010	310 999	684 470	(121 565)	1 338 915
Enterprise wide disclosure (geographical)					
Exports (mainly sub-Saharan Africa)	129 366	26 678	–	–	156 044

SUMMARISED GROUP SEGMENT REPORT (continued)

	Electrical (R000's)	Lighting (R000's)	Corporate (R000's)	Inter-Co (R000's)	Total (R000's)
Six months to 31 December 2020					
Segment revenue	1 090 259	419 006	39 245	(54 706)	1 493 804
Depreciation and amortisation	25 343	5 338	803	(18 762)	12 722
Operating profit/ (adjustment)	94 676	54 213	27 271	(6 926)	169 234
Change in put option liability	–	–	(859)	(20 000)	(20 859)
Profit before interest and tax	94 676	54 213	26 412	(26 926)	148 375
Investment income	–	–	39 250	(39 250)	–
Net interest (paid)/received	(4 369)	(12 608)	8 617	11 100	2 740
Profit before tax	90 307	41 605	74 279	(55 076)	151 115
Segment assets	1 085 353	634 326	639 098	(554 560)	1 804 217
Segment liabilities	(473 040)	(385 384)	(100 942)	444 608	(514 758)
Net segment assets	612 313	248 942	538 156	(109 952)	1 289 459
Enterprise-wide (geographical)					
Exports (mainly sub-Saharan Africa)	75 104	27 643	–	–	102 747

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer.

NOTES TO THE FINANCIAL STATEMENTS

BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 31 December 2021 have been prepared in accordance with, IAS 34: *Interim Financial Reporting*, financial pronouncements issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act, and the JSE Listings Requirements. These condensed interim financial statements do not include all the information required in annual financial statements and should be read in conjunction with the 30 June 2021 group annual financial statements. This report was compiled under the supervision of Grant Scrutton CA(SA) (group chief financial officer). The full board takes responsibility for the preparation of these financial results.

All accounting policies applied by the group in the preparation of these interim financial statements are consistent with those applied by the group in its audited consolidated financial statements as at and for the year ended 30 June 2021 and for the unaudited results for the six months ended 31 December 2020. The group measures its properties at fair value which is determined annually and accordingly no fair value adjustment was made for the interim period. For more information on the annual fair value adjustments, please refer to the annual financial statements for the year ended 30 June 2021.

No new or amended standards were adopted or applicable to the group.

The judgments and estimates are consistent with those disclosed in the annual financial statements for the year ended 30 June 2021.

REVENUE SEGMENTAL ANALYSIS

	December 2021 R000's	December 2020 R000's	June 2021 R000's
Revenue by customer type			
Wholesale	**227 676**	259 676	420 561
Retail	**164 326**	206 665	407 685
Cash	**268 442**	255 756	488 808
Mining and industry	**733 908**	602 193	1 202 166
Exports	**156 044**	102 747	196 453
Other	**55 456**	66 767	207 246
	1 605 852	1 493 804	2 922 919

NOTES TO THE FINANCIAL STATEMENTS (continued)

	December 2021 R000's	December 2020 R000's	June 2021 R000's
Revenue by product type			
Power cable and wire	**666 247**	517 756	1 076 687
OHL cable and products	**168 535**	155 247	234 867
Lighting	**312 483**	356 591	696 730
Low voltage and general products	**458 587**	464 210	914 635
	1 605 852	1 493 804	2 922 919

Revenue by business segment is disclosed in the segmental report above.

RIGHT-OF-USE ("RoU") LEASE LIABILITIES

	December 2021 R000's	December 2020 R000's	June 2021 R000's
Balance at 1 July	**72 539**	80 411	80 411
Additions	**–**	4 329	8 127
Finance costs	**3 391**	3 929	7 547
Lease payments	**(9 217)**	(11 651)	(20 440)
Derecognition and other adjustments	**(80)**	(3 120)	(3 106)
Total RoU liability	**66 633**	73 898	72 539
– Short-term liability	**(14 453)**	(14 526)	(11 522)
Long-term liability	**52 180**	59 372	61 017
Lease gross lease commitments			
Greater than five years	**23 676**	22 071	28 433
13 months to 59 months	**50 093**	63 711	40 397
12 months and less	**16 707**	18 360	24 671
Gross value of the lease	**90 476**	104 142	93 501
Net present value adjustment	**(23 843)**	(30 245)	(20 962)
Total RoU liability	**66 633**	73 898	72 539

These lease agreements are in respect of third party right-of-use leases used for warehousing, offices and branch trading activities. These leases are generally for three to five-year lease terms with options to renew at market-related rentals. Annual escalations of 6% to 8% are common to these leases and no leases have contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS

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” based 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:

	Level	December 2021 R000’s	December 2020 R000’s	June 2021 R000’s
CraigCor – non-current	3	**–**	5 000	6 200
Eurolux – current	3	**79 000**	60 000	52 000
		79 000	65 000	58 200
Put option liability reconciliation				
Balance at the beginning of the year		**58 200**	44 000	44 000
Put options exercised during the year		**(6 200)**	–	–
Realised gain on early settlement of put option		**–**	–	–
Unwinding of put option discounting		**–**	141	500
Unrealised revaluation of put option liability		**27 000**	20 859	13 700
Balance at the end of the year		**79 000**	65 000	58 200

There have been no transfers between levels. The fair value of the put option financial liabilities disclosed under level 3 has been determined in accordance with the predetermined contractual valuation method.

Financial assets and liabilities that are sensitive to re-measurement are limited to the put option liabilities, the fair value of which are calculated in terms of a contractual formula. Eurolux options are currently exercisable and use the average of Eurolux’s past three years results (*unobservable data*) multiplied by 60% of the company’s price earnings multiple as determined by the 120 days volume weighted average share price on the JSE (subject to a cap of 7.5x and a floor of 4.0x) (*observable data*). These calculations are most sensitive to changes in the company’s share price. The CraigCor options were settled during the period.

In this valuation, the significant inputs which are unobservable from market data is Eurolux’s average past three years’ results amounting to R38.9 million (30 June 2021: R29.3 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

CHANGES TO THE BOARD

On 1 July 2021 Blayne Burke was appointed to board and Billy Neasham retired as executive CEO and became a non-executive director on 1 January 2022, at which date Mr Burke was appointed executive CEO.

FINANCIAL ASSISTANCE TO RELATED OR INTER-RELATED COMPANIES (s45)

The holding company has continued to provide 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.

SUBSEQUENT EVENTS

On 27 January 2022 the group issued a SENS notification of the receipt of a firm intention offer ("FIA") from Masimong. This SENS can be obtained from our website at https://arbhold.co.za/index.php/2013-06-04-06-33-35/sens or by sending an e-mail to mariol@arbhold.co.za. The details of this offer are set out in full in this SENS and are not repeated here.

The Covid-19 pandemic continues to have an influence on our economy (albeit reducing continuously) with the last remnants of the fourth wave currently being experienced at the moment. While it is possible that trading operations and results may 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 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

ARB's policy is to distribute a single annual dividend for the full year up to a maximum of 40% of net profit after taxation attributable to ordinary shareholders. In line with this policy, no interim dividend has been declared.

APPRECIATION

The directors and management once again would like to acknowledge and thank our customers, suppliers, business partners, advisors, shareholders and staff for their continued support.

For and on behalf of the board

Ralph Patmore
Chairman

Blayne Burke
CEO

11 February 2022

CORPORATE INFORMATION

Directors
RB Patmore#* (Chairman)
JS Dixon#*
ST Downes#*
TJB Botha*
WR Neasham*
BG Burke (CEO)
GM Scrutton (CFO)
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# *Independent*

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