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

Summarised audited consolidated results for the year ended 30 June 2020, notice of Annual General Meeting and BBBEE compliance report

KEY FINANCIALS:
- 40th anniversary of group's establishment in 1980
- Revenue down 13.1% to R2 353m (2019: R2 706m)
- 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)
  - Basic Earnings per share (EPS) down 37.9% to 35.68 cents (2019: 58.20 cents)
  - Cash resources of R151.9m (2018: R180.9m)
- No dividend declared

FINANCIAL PERFORMANCE

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.
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 right-size their business.
The decrease in interest received was caused by the inclusion of the finance element of IFRS16 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, florescent 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.

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 on 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 Lord's 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.

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.
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.

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 the subsidiary companies as security for facilities granted to the subsidiary companies. 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 BBBEE COMPLIANCE

The group holding company does not trade and has no BBBEE score. In accordance with paragraph 16.20(g) and Appendix 1 to Section 11 of the JSE Listing 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.

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.

AUDIT OPINION AND RESPONSIBILITY

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 inforation 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.

This short-form announcement is the responsibility of the directors of ARB.
This short-form announcement is only a summary of the information in the full announcement and does not contain full or complete details. Any investment decision by investors and/or shareholders should be based on consideration of, inter alia, the full announcement. The full announcement has been released on SENS on 20 August 2020 and is available for viewing on ARB’s website document https://www.arbhold.co.za/documents/results/Final-results-June-2020.pdf and at https://senspdf.jse.co.za/documents/2020/jse/isse/ARH/ARHFY2020.pdf.

The full announcement is available for inspection at the offices of ARB (10 Mack Road, Prospecton, Durban, KwaZulu-Natal, 4133)
and the offices of the Sponsor, Grindrod Bank Limited (Grindrod Tower, 8A Protea Place, Sandton, 2196), at no charge during normal office hours on business days from 21 August 2020 or may be requested by emailing info@arbhold.co.za.

21 August 2020
Sponsor Grindrod Bank Limited