Barloworld Limited
(Incorporated in the Republic of South Africa)
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(Namibian Stock Exchange share code: BWL)
("Barloworld" or the "Company" or the "Group")

PRE-CLOSE TRADING UPDATE FOR THE PERIOD UP TO 28 FEBRUARY 2021

The Group's trading results are pleasing when compared to the same trading period in the prior year, with the austerity measures taken in 2020 starting to yield good results and the recent acquisitions delivering better than expected performance. Whilst trading conditions remain affected by COVID-19, Barloworld's businesses have adjusted to the new operating conditions.

The Group's focus during the first five months of the 2021 financial year has been on running the business efficiently, ensuring the smooth integration of acquisitions, and executing on the sale of Barloworld motor retail operations announced in January 2021.

Macro-economic environment

The economy remains under pressure with some pockets of recovery; as South Africa saw GDP expand by 6.3% in the fourth quarter of 2020, underpinned by the manufacturing and the trade sectors. Commodity prices have remained buoyant on the back of a global economic recovery and favourable supply and demand trends. While the rand strengthened during the period under review, currency volatility continues to have a positive translation effect on our revenues, particularly in our Equipment businesses as detailed below.

Operational Review for the five months to 28 February 2021

Industrial Equipment and Services

Equipment southern Africa

Despite operating under restricted COVID-19 safety measures, mining activity was resilient on the back of strong commodity prices while the construction sector remains subdued. Equipment southern Africa's total revenue was down 4.9% for the five months to 28 February 2021 compared to the prior year.

Total machine sales were flat, whilst aftermarket revenue was slightly lower due to reduced parts and service activity in Angola, Mozambique, and Zambia. The weakening of the ZAR against the USD had a 0.8% positive impact on revenue due to exchange rates translations of operations in rest of Africa which report in USD functional currency. Gross margins were in line with the prior year while the trading profit excluding the effects of currency movement on cost of goods sold increased by 29.8% reflecting the positive effect of cost containment actions. Excluding IFRS 16 impact and Khula Sizwe BEE charges, the operating margin was up by 220 basis points, to 9.3%.

The operations at one of our key customers' site is still under care and maintenance in the DRC, and as a result our associate Bartrac remains under pressure. Bartrac also wrote-off certain non-operating capital items. This, together with the low sales activity, contributed to a loss in the share of associate.

The division has continued with efforts to optimise invested capital resulting in strong cash generation.

The total Equipment firm back order remains strong and amounted to R2.2 billion at the end of February 2021 (September 2020: R2.3 billion).

Equipment Eurasia

For the period ending February 2021, Equipment Eurasia continued to deliver results above expectations against the backdrop of the COVID-19 pandemic and a challenging geopolitical environment. This performance was driven mainly by strong mining sales and good margin realisation. Whilst the coal sector remained weak in Russia, Mongolia has seen increased levels of coal exports to China over recent months. The gold sector buoyed demand in Russia and the addition of Mongolia enhanced our resilience due to exposure to a diversified portfolio of other commodities.

Demonstrating the benefit of the acquisition, the inclusion of Mongolia's revenue saw Eurasia exceed the prior year by 23.4% and operating profit (in both USD and ZAR terms) is well above prior year. For the first five months revenue in Russia is down by 9.3% compared to prior year. At the operating profit level, Russia operations exceeded prior year by 7%, driven by solid revenue contribution and cost controls.

The operating margin was higher than the prior year driven by margin improvements across selected product lines. The firm order book for Equipment Eurasia to February 2021 remains strong at USD169 million (September 2020: USD105 million) and well above prior year levels, supported by the region's mining sector.

Consumer Industries

Ingrain

The results for Ingrain are recorded for the four months from the 1 November 2020 acquisition date. The business has exceeded revenue and EBITDA forecasts and is performing ahead of expectations, with good margins and a strong EBITDA to operating cash conversion ratio. This has resulted in strong cash flows from the business over the last four months. Overall, Ingrain is expected to contribute positively to the Group's EBITDA margins and overall cash conversion rates.

Ingrain continues to benefit from its diverse customer base supported by increased demand in the coffee creamer, paper converting, canning and prepared foods sectors. The alcoholic beverage sector has proven its resilience, with demand recovering quickly following the resumption of trade after each successive alcohol sales ban.

Higher international agricultural commodity prices, the large maize crop harvested in South Africa in 2020 and improved co-product realisations have been supportive of margins during the period which have improved by 4.6% compared to the prior year period. An increase in South African maize plantings due to the higher international maize prices combined with a good summer rainfall season, are expected to lead to another large maize crop. This second successive large domestic crop and the improved regional crop forecasts are expected to result in more competitive local maize prices that will continue to support margins going forward.

Automotive and Logistics

<u>Continuing operations</u>

Car Rental

The car rental continues to be impacted by local and international lockdowns constraining both domestic and international travel from Individuals, corporates and government. Operating profit is down by 61.5% from the prior period. Despite the declined performance, the business has seen recovery and is benefiting from branch rationalisation, restructurings and other austerity measures taken since the second half of 2020 as well as the agility in the management of the fleet. The business has further benefited from the resilient used vehicle market, with results exceeding prior year performance as the market continues to demand affordable and reliable one-year-old used vehicles. Fleet utilisation at 76% is in line with the prior year as management continues to respond to change in demand and customer segment mix.

Avis Fleet

Avis Fleet is performing in line with expectations. Operating profit is down by 5.7% from the prior year due to large contracts lead out. Operating results were positively impacted by improved used vehicle contributions and lower operating expenses; however, these gains were offset by increased provisions for expected credit losses. Used vehicle margins benefited from the integration with car rental, leveraging infrastructure and systems. The business continues to grow by responding to both private and public sector tenders.

<u>Discontinued operations</u>

Motor Retail

Motor Retail revenue is down by 9.8% on the prior year, impacted by lower volumes in particular new vehicle sales, reflective of the slow recovery in the new vehicle market. The market contracted by 9.7% and represented brands by 11.6%. The strong used vehicle market, higher margins and reduction in costs contributed positively to the performance of the business.

As announced on 21 January 2021, the board approved the sale of the Group's wholly owned motor retail business to NMI Durban South Motors Proprietary Limited (NMI-DSM), a joint venture with the Akoo family in which Barloworld holds a 50% interest. The transaction excludes Digital Disposal Solutions, which includes Salvage Management and Disposal ("SMD") and the TradersOnline platform, and the used vehicles operations of Avis Budget Rental and Fleet. The sale of the motor retail business to NMI-DSM is progressing well and we expect to conclude on 1 June 2021 as planned.

The motor retail business is classified as held for sale from 1 February 2021 and will be disclosed as a discontinued operation in the Group's interim results.

Logistics

Logistics has continued to perform below expectations, impacted by depressed local demand and interest rate pressures which were further exacerbated by the disruptive impact of community and civil unrest in the transport industry. Operating performance was affected by a higher fixed costs base and increased fleet running costs due to delayed contract renewals. The supply chain management business continued to yield results in line with expectations.

The Board has also approved a formal disposal process to exit the Logistics business after receiving several expressions of interest. The business will therefore be classified as held for sale as from 1 February 2021 and the formal process will commence in April 2021. The logistics business will be disclosed as a discontinued operation in the Group's interim results.

Funding and cash preservation

As at 28 February 2021, the Group maintains a robust balance sheet. Our liquidity position remains strong, supported by a prudent and agile funding strategy. The Group's gearing levels remain well within our covenants, with a healthy headroom on unutilised facilities after the acquisitions of Equipment Mongolia and Ingrain. Net Debt to EBITDA is well below 2.0 times (Group target is < 3.0 times), whilst EBITDA interest cover exceeds 4 times (Group target is > 3.0 times).

Ingrain was acquired utilising a R5.375 billion, 12-month available bridging facility of which R5.186 billion was utilised and an amount of R 1.286 billion was repaid on this loan in cash in December 2020. A portion of the balance has been successfully refinanced by a R1 billion bond which was exceptionally priced in February 2021. The remaining balance of R3 billion has been financed using a debt syndication, expected to close on 31 March 2021. We have reviewed our current facilities, including committed and non-committed facilities, as well as headroom on the existing medium-term note programme and remain satisfied with the positive state of our headroom, gearing and liquidity.

On 28 February 2021, the Group maintained a solid cash balance of R7.5 billion (R 6.7 billion at September 2020). The Group's Net Debt position (excluding IFRS 16) has increased to R6.8 billion (R2.6 billion at September 2020) after acquiring Ingrain and remains well-within our target net debt to equity ratio. Our headroom on committed facilities for both the local and offshore operations remain strong at R10.8 billion (R15.6 billion at September 2020).

Progress on our strategy

The Group has made good progress in all the areas of the strategy to sustainably double its intrinsic value every four years.

The Group's short-term priorities will be on the integration and extracting value from our recent acquisitions of Equipment Mongolia and Ingrain, as well as maintaining focus on implementing the various disposal and corporate actions announced to simplify the Group's portfolio.

The Group is mindful of capital allocation as part of its overall strategic objectives. Given the strong balance sheet, various disposals currently underway and resilient trading results; the board will be considering the resumption of the dividend and capital reduction at the May board meeting.

Conclusion

The Group expects to release the interim financial results for the six months ended 31 March 2021 on or about Monday, 24 May 2021.

Shareholders are advised that the information related to our five month's performance to 28 February 2021, has not been audited, reviewed or reported on by the Group's external auditors. This update does not constitute a forecast.

Sandton
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