Barloworld Limited
(Incorporated in the Republic of South Africa)
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(Share code: BAWP)
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(JSE ISIN: ZAE000026647)
(Namibian Stock Exchange share code: BWL)
("**Barloworld**" or the "**company**" or the "**group**")

VOLUNTARY PRE-CLOSE TRADING UPDATE FOR THE 11 MONTHS TO 31 AUGUST 2021

Overview

The group has achieved a resilient performance in what remains a tough operating environment, with the challenges including the ongoing effects of Covid-19 and other socio-economic impacts. This achievement is driven by the robust performance from industrial equipment, together with the substantial contribution of new acquisitions during the current financial year. This was further supported by solid, sustainable cost management and strong free cash flow generation by the group's core operations.

Operational Review for the eleven months to 31 August 2021

Industrial Equipment and Services

Equipment southern Africa

Equipment southern Africa continues to deliver strong results despite the impact of Covid-19 across our territories. Mining activity levels improved and were supported by strong commodity prices, while construction is also showing some signs of recovery.

Total revenue increased by 1.9% for the eleven months to August 2021 compared to the previous year. Total machine sales and engines were down, while aftermarket revenue was up mainly driven by a double-digit growth in parts sales. The machine order book remains strong, despite the global supply chain challenges and the goods clearing backlog at the ports of entry across our operating regions, which had a negative impact on machine stock availability. The strengthening of the rand against the US dollar (USD) resulted in a 7.5% decrease in revenue for the operations in rest of Africa reporting in USD functional currency.

Operating profit was up 66.6% on the back of a continued focus on growing aftersales contribution and operational efficiencies. As a result, the operating margin at 10.3% was well ahead of FY2020 by 400 basis points. The Bartrac joint venture in the Democratic Republic of Congo remains under pressure. The reduced trading activity, the once-off restructuring costs and impairment of non-operating capital items resulted in a share of loss from the associate.

The division's relentless efforts to optimise invested capital continues to deliver strong free cash, and the outlook for the division remains positive with a 57% increase in the total firm back order book amounting to R3.6 billion at the end of August 2021 (September 2020: R2.3 billion).

Equipment Eurasia

For the period ended August 2021, Equipment Eurasia maintained the strong start as reported for the half year to March 2021 and continued to deliver results above expectations against the backdrop of the Covid-19 pandemic and a challenging geopolitical environment. Strong mining sales together with good margin realisation and cost containment, continue to drive this performance. Activity in the coal sector is recovering strongly in Russia, and Mongolia continues to benefit from increased levels of coal exports to China. The gold and diamond sectors remain important contributors to the increased mining demand in Russia and the addition of Mongolia expanded our existing exposure to a diversified portfolio of commodity sectors.

Although the inclusion of Mongolia's revenue contributed to Eurasia's revenue to August 2021 exceeding the prior year by 48.1%, Russia also contributed positively through a 13.9% increase in revenue year-on-year in USD terms. Operating profit remains well above the previous year with Russia exceeding the prior year by 18.2% in USD terms and Mongolia continuing to perform above expectations.

The division generated a strong operating margin, partly due to Covid-19 restrictions related cost savings, as well as other cost containment measures and strong doubtful debt recoveries. The firm order book for Equipment Eurasia at 31 August 2021 reached record levels at USD248 million well above March 2021 (USD177 million) and September 2020 (USD105 million), driven by a diversified mining order book, with coal the strongest contributor followed by gold, copper, nickel and diamonds. Russia contributed USD219 million to the current order book.

Consumer Industries

Ingrain

Ingrain's results for the ten months from the 1 November 2020 acquisition date reflect revenue and EBITDA well ahead of the comparative preceding period, with good margins and a strong EBITDA to operating cash conversion ratio.

Sales volumes growth during the second half of the year, although significantly ahead of the previous year, were curtailed by the impact the four-week alcohol sales ban from late-June to July affecting offtake from the alcoholic beverages sector. Notwithstanding this, the sector continues to prove its resilience, with sales significantly ahead of the comparative period. This, and the performance of the coffee creamer and paper converting sectors, partially offset reduced sales to the paper making and prepared food sectors, demonstrating the benefit that Ingrain derives from its diverse customer base.

Gross margins for the period, which are 260 basis points higher than the preceding period, continued to benefit from a combination of higher international agricultural commodity prices, the large maize crop harvested in South Africa in 2020 and expectations of a new season maize crop that is estimated to be 7% higher than the previous season's crop and is the second largest crop on record. Operating margins remain above the prior year levels but are expected to be below those reported in the interim results due to the impact of seasonal electricity rates and certain once off costs.

Automotive

Car Rental

The car rental industry continues to be adversely impacted by local and international travel restrictions constraining travel by individuals, corporate and government. The safety of employees and customers has been of paramount importance to the business during this period, with a number of initiatives having been implemented.

While the trading environment was challenging, the industry has seen some positive developments with an upward shift in the rental rates. The strategy to reposition the business towards off-airport activities that Avis Budget embarked on since the onset of the pandemic has yielded positive results. This is particularly evident in the growth of the subscription products, with longer length rentals and revenue up 3.6%. The increment should be seen in the context of 11 months of Covid-19, while the first six months of the prior year did not include any Covid-19 impact.

The business has recovered beyond global expectations for the car rental industry, benefiting from the restructuring efforts taken by management in the second half of the 2020 financial year with the operating profit increasing by 290% ahead of the prior year. Fleet utilisation at 77% is more than 16% ahead of the preceding year, aided by the agility in resizing the fleet in response to the change in demand and customer segment mix.

The business has further benefited from a bullish used vehicle market, with results exceeding FY2020 performance. The global fleet shortage, caused by the semi-conductor deficit and resultant slow new vehicle production, remains a constraint for the car rental industry at large. The impact of lockdowns is pronounced in this industry particularly when South Africa moves to Level 4 or higher, or when there are restrictions in inter-provincial travel. The drive for increasing the number of Covid-19 vaccinations remains critical for the recovery of the car rental industry.

Avis Fleet

The leasing industry has shown resilience during the pandemic, though some strain was seen in the corporate sector. Avis Fleet has performed in line with expectations, with revenue declining by 13.2% compared to the prior year, mainly as a result of the natural attrition of public sector contracts, which were expected in the current year.

While the trading environment for the corporate customer base was tough, the business has been able to hold its own in this segment despite the pandemic. Green shoots of growth can be seen in the firm order book and the number of renewed facility approvals that are in the system, however, the global vehicle shortage has also been an impediment to delivery. The operating profit is 12.8% ahead of previous year, attributable to the cost savings from the restructuring efforts of management in the prior financial year, and the bullish used vehicle market. The diversification of revenues into heavy commercial vehicle leasing is off to a good start, with exceptional performance in the current financial year.

Other

Salvage Management Disposal (SMD)

SMD performed ahead of the prior year due to the recovery in trading volumes and margin improvement. The business has shown resilience with earnings that outperformed and strong recovery ratios, despite the impact of an uncertain trading environment in South Africa.

Discontinued operations

Logistics

Logistics remains under pressure, impacted by depressed volumes which were further exacerbated by the disruptive impact of civil unrest on the industry. Operating activity has since resumed to normal levels, however, operating performance was affected by transaction costs and increased fleet running costs.

The supply chain management business has held up well and demonstrated strong earnings stability. The business has seen a recovery in operating margins, supported by cost containment measures and the renewal of key customer contracts.

The formal disposal process to exit the Logistics business is under way. The group, which is now negotiating the piecemeal disposal of various sections of Logistics in response to high levels of interest in smaller business units, is assessing various offers. Focus remains on transactions that continue to support our customer requirements and protect value for the group.

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

Funding and cash preservation

We approach liquidity management prudently with a clear focus on cash preservation, supported by a prudent and agile funding strategy. At 31 August 2021, our liquidity headroom for both the local and offshore operations remain strong at R11.7 billion (R15.6 billion at September 2020) comprising R9.7 billion in committed and R2 billion in uncommitted credit facilities. On 31 August 2021, the group maintained a solid cash balance of R9 billion (R 6.7 billion at September 2020).

The group's net debt position (excluding IFRS 16) has increased to R3.7 billion (R2.6 billion at September 2020) after acquiring Ingrain and remains well within our target net debt to equity ratio. When taking into consideration that Ingrain was acquired with R5.3 billion of debt, the group's cash generation was exceptional, resulting in only R1.1 billion net debt position difference year-on-year.

The group's gearing levels remain well within our covenants, with net debt to EBITDA well below 1.0 times (group target is < 3.0 times), whilst EBITDA interest cover exceeds 8 times (group target is > 3.0 times). 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.

Progress on our strategy

The group's priorities in the short term remain on the integration and extracting value from our recent acquisitions of Equipment Mongolia and Ingrain, as well as maintaining focus on implementing the various disposals 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 resumed dividend payments at interims with the group's stated pay-out ratio of 2.5 to 3.5 times headline earnings.

Conclusion

Our board will release a trading statement once a reasonable degree of certainty exists concerning the group's results for the year ended 30 September 2021. We expect to release our annual financial results on or about Monday, 22 November 2021.

Shareholders are advised that the information related to our 11 month's performance to 31 August 2021, has not been audited, reviewed or reported on by the group's external auditors. This update does not constitute a forecast.

Management will host a conference call at 15:00 today to address any questions from investors. Shareholders and analysts are to please use the following link to register: https://www.diamondpass.net/4947283.

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