Metair Investments Limited
(Incorporated in the Republic of South Africa)
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ISIN: ZAE000090692
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("**Metair**" or the "**Company**" or the "**Group**")

OPERATIONAL AND FULL YEAR VERTICAL GUIDANCE UPDATE

While the Metair COVID-19 recovery plan for the long term is progressing in line with expectations, and the stronger recovery in the Energy Vertical continues to follow a V-shaped path, the second half of the 2021 financial year ("**FY2021**") continues to be dominated by the effects of COVID-19 on the automotive and energy business verticals, the ongoing roll-out of major customer-driven capital projects, the severe effect of global supply chain disruptions and the impact of semi-conductor shortages globally. The height of the third wave of COVID-19 infections and the 10 days of civil unrest in South Africa in July resulted in a difficult start to the second half of FY2021. Encouragingly, vaccination programmes in Europe, Turkey and South Africa keep gaining momentum and Group vaccination rates continue to improve. Both verticals are performing well relative to the operating environment and key projects in both verticals are on track despite the impact of disruptive global shipping conditions on the supply chain.

Automotive Components vertical

Metair is currently supporting a number of new models and facelift launches and, for the remainder of the year and into next year, will continue to drive effective project management and focus on operating efficiencies. Metair subsidiaries are in a pre-production and prototype manufacturing phase for new model launches and will therefore continue to incur project costs ahead of these model launches. Raw material shortages (including semi-conductor chips), supply chain delays and more recently loss of production due to strike action within the steel and engineering sector, are having an increasingly negative impact on Original Equipment Manufacturer ("**OEM**") volumes. As a result, there is a degree of uncertainty around the short term volume outlook for the remainder of the year, however volume expectations over the model life remain unchanged. Metair therefore updates its full year 2021 industry OEM production volume guidance to a potential dip below 90% of 2019 volumes.

Increased supply chain costs (both sea and airfreight), manufacturing volatility and volume declines, production disruptions due to the July civil unrest experienced in South Africa and project costs related to the investment in future growth, could result in profit before interest and tax margins contracting to between 5% and 7% for the full year. Management interventions to curb the impact of these short term operational pressures are in place and ongoing investments are expected to deliver returns in line with Metair's targets over the life of the contracts. New model and facelift launches are expected to drive meaningful growth over the medium to long term, most notably the ongoing contract to support Ford's investment into the South African automotive industry.

Energy Storage vertical

The Energy Storage vertical continues to focus on expanding Metair's automotive battery product range in line with shifting market trends. Energy costs in Europe and Turkey are however rising significantly and may result in operating margin compression during the fourth quarter of FY2021, due to the lag in price recovery of these input costs. Market demand has remained resilient, in line with the recovery plan, and international demand for lead acid batteries in all sales channels remains high.

First National Battery continues to execute on its strategic shift to a trade focused model in its industrial manufacturing business to counter the effect of technology, market and demand shifts. Retention of customers will be the main focus, with a shift to sourcing traded product that is more competitive with a wider range of technology. This will likely result in R30 million to R40 million in manufacturing closure costs in the second half of FY2021 as anticipated.

Capital expenditure

Metair’s capital investment programme has been impacted by global supply chain shortages and shipping delays. A portion of planned capital expenditure for 2021 is therefore anticipated to be delayed into 2022. This affects timing of investment in new model launches in the Automotive Components vertical, but also investment in new technology for absorbent glass mat (AGM) battery capacity expansion in Turkey. New project launch dates are not anticipated to be delayed significantly, but some of the investment timing will most likely shift into 2022.

Financial position

The Group has secured and refinanced the required lending facilities to support operations as well as current and future expansion programmes. The consequences of supply chain disruptions and availability of raw materials has also necessitated a greater inventory holding strategy to mitigate shipping delays and airfreight costs. The Group expects to continue to comply with lenders’ covenants.

COVID-19 related business interruption insurance claims

South African business interruption insurance claims related to COVID-19 have been concluded. Although COVID-19 related business interruption was significantly higher than the claims, the insured value was capped at R50 million (before costs) and has now been settled.

Li-Ion strategy and transfer of production line to Turkey

In response to shifting market trends and to fulfil the future technology requirements from certain OEM and industrial partners, Metair has reassessed its Li-Ion strategy and taken the decision to move its Li-Ion production line (currently located in Romania) to its major subsidiary in Turkey, Mutlu Akü (“**Mutlu**”). This move aims to leverage off of Mutlu’s brand strength and operational expertise as well as its access and positioning within a growing market for Li-Ion products and will benefit from recently available incentives that will recover the initial investment. The Li-Ion line will be located within Mutlu’s existing production facilities, and the move is anticipated to be finalised by the second quarter of 2022.

Since 2018, Metair has been developing significant in-house Li-Ion expertise and capabilities to meet customer demands independently of Prime Batteries for traded, assembled and manufactured Li-Ion cells. Metair has therefore commenced the process of diluting its shareholding in Prime Batteries and securing required manufacturing, technology and chemistry intellectual property from Prime Batteries.

Metair’s Li-ion strategy will continue to be focused purely on 12V applications for the automotive and industrial segments in line with customer requirements. This approach ensures that Metair transitions to newer technologies without the need to invest in large scale capital expansion programs which are typically required for high voltage/EV battery applications.

The information contained in this announcement does not constitute an earnings forecast. The financial information provided is the responsibility of the directors of Metair, and such information has not been reviewed or reported on by the Group’s external auditors.

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