Barloworld Limited
(Incorporated in the Republic of South Africa)
(Registration number 1918/000095/06)
(Income Tax Registration number 9000/051/71/5)
(Share code: BAW)
(JSE ISIN: ZAE000026639)
(Share code: BAWP)
(Bond issuer code: BIBAW)
(JSE ISIN: ZAE000026647)
("**Barloworld**" or the "**company**" or the "**group**")

VOLUNTARY TRADING UPDATE FOR THE ELEVEN MONTHS TO 31 AUGUST 2022

Overview

The group has delivered improved results for the eleven months to 31 August 2022 ("**period**") with both revenue from continuing operations and operating profit increasing by double digits when compared to the prior eleven-month period ended 31 August 2021 ("**comparative period**"). This achievement is driven by the robust performance from the group's Equipment businesses, together with the good growth of Ingrain during the period.

As the group's order book and delivery capacity increased in 2022, there was a natural increase in the working capital of the business. This necessitated increased funding requirements and therefore an increase in related net debt for the period and will be witnessed through the growth of fleet over the period, as well as increased inventory levels. To achieve a more appropriate capital structure during the current financial year, Barloworld de-risked its defined benefit pension fund obligation in the United Kingdom (UK) and delivered value to shareholders through special and ordinary dividends, as well as share buybacks.

Operational Review for the period

Industrial Equipment and Services

Equipment southern Africa

Equipment southern Africa has been able to favourably navigate the global supply chain challenges to deliver on our commitment to customers, since reporting the interim results for March 2022. Strong growth in machine sales coupled with strong performance in aftersales and rental contributed to a 19.6% increase in revenue for the period compared to the comparative period.

Operating profit was up 17.6% compared to the comparative period which demonstrates that cost efficiencies and lean principles are now embedded within the business. The operating margin maintained its position at 10.2% compared to the comparative period, despite the strong machine sales contribution.

Bartrac, the joint venture in the Democratic Republic of Congo, is set to deliver a positive share of associate income compared to a loss in August 2021.

The firm order book increased to R5.3 billion (H1 FY22: R4.5 billion) on the back of strong mining demand.

Equipment Eurasia

Barloworld Equipment Eurasia revenue decreased by 2.6% in USD terms for the period compared to the comparative period due to the lower revenue generated by Mongolia.

Trading in Mongolia over the first nine months of the financial year was negatively impacted by border closures and bottlenecks at Chinese ports due to strict Covid-19 measures implemented by the Chinese government. These measures not only restricted products entering the country for supply to operational mining customers, but also resulted in many mines suspending operations due to inability to export commodities through the Chinese border. These restrictions have recently been lifted and products have started flowing through the borders at a more normalised rate. This had an immediate positive impact on trading in the region for August 2022, which continued in September 2022. Most mines in Mongolia have recommenced operations as demand for commodities is strong.

The Equipment Eurasia operating profit ended 5.3% lower in USD terms than the comparative period despite the 6.3% increase from Russia, which was offset by the decreased operating profit in Mongolia.

Russia

Revenue and operating profit from the group's Russia business was 6.3% ahead of the comparative period in USD terms. Despite increased cost pressures, Russia delivered an operating margin of 11.4% in line with the comparative period. The business benefitted from a stronger rouble in the second half of the year.

The firm order book for Russia at 31 August 2022 reduced to $30 million compared to $94 million at 31 March 2022. This reduction was due to the impact of sanctions implemented by various countries. In addition, during the second half of the financial year the business successfully cancelled contracts with customers valued at more than US$175 million without negative consequences and has diverted most of these units to other dealers.

The group continues to manage its risks and exposures in Russia, including a strong focus on addressing the needs of its employees through a very uncertain and challenging period while remaining agile and adaptable to ensure compliance with an ever-changing regulatory environment. Measures have commenced to reduce costs and right-size working capital in line with expected revenue reductions, at the same time maintaining customer service.

Consumer Industries

Ingrain

Ingrain's results for the period reflect revenue and EBITDA well ahead of the preceding 11-month period, on the back of increased sales volumes, improved co-product realisations and higher international soft commodity prices. Revenue is up 36.4% from the preceding 11-month period, with an operating margin of 12.2% that is 60 basis points higher than the comparative period. Operating profit is up 40% on the comparative period. The division continues to invest in resources to support the growth of the Consumer Industries division in line with group strategy.

Gross margins for the period are 120 basis points lower than the comparative period mainly due to a normalisation of sales mix, which partially offset the benefit from higher international agricultural commodity prices.

In the domestic market, the alcoholic beverages sector saw continued strong performance, while recovery in the confectionery and prepared foods sectors provided further support to domestic volume growth and offset the impact of softening demand from the coffee creamer sector. A focus on export sales saw increased volumes made possible by increased production from Ingrain's operations.

Local maize prices have been trading higher than the comparative period for most of the period, on the back of increased international corn prices and a weaker exchange rate. This is notwithstanding an anticipated 2022 crop harvest of 15,004 million tons, which will be sufficient to meet domestic demand.

Discontinued operations

Car Rental

There are a number of tailwinds which have benefited the car rental industry across our operating markets as the easing of pandemic-imposed restrictions has positively impacted activity levels and rental demand. Whilst demand has improved, global supply chain constraints continue to impact our ability to procure vehicles and demand remains below pre-pandemic levels.

The group's strategy of diversifying our offering and increased efforts to drive subscription products continues to pay off. Year-on-year revenue grew by 7.3% due to sustained demand for subscription offerings, a solid base of insurance business (replacement) and the recovery in domestic and corporate travel.

Operating profit increased by more than 110% ahead of the comparative period and expanded its EBITDA margin by 8.2ppt to 26.0%. Fleet utilisation averaged 80% (3ppt above the prior comparative period) due to process efficiencies and stringent out of service vehicle management. The used car business continued to maximise profit margins driven by the constraints in new vehicle supply.

Leasing

Whilst trading conditions remain challenging, there are areas of growing demand, particularly in the corporate and SMME segments. This signals improved business confidence for the medium-term economic outlook. The performance was underpinned by market share gains in the corporate sector and the diversifying strategy into heavy commercial fleet. The group has driven a strong top line turnaround in the second half of 2022, swinging the reported H1 2022 decline of 6.7% to a year-to-date total revenue of a positive 1% movement year on year.

Operating profit increased by more than 10% compared to the comparative period, attributable to strong contract management and a focus on the health of the fleet. This led to EBITDA margin expanding by 2.1ppt to 49.6%. Used vehicle margins continued to benefit from leveraging common infrastructure, strategic disposal channels and systems.

Logistics

The group successfully concluded its exit from all of the businesses related to the Transport division, as previously communicated. Further to this the group took a decision to close the non-profitable Global Solutions business (which was a division within the Supply Chain Solutions business) with the process on track for completion by 30 September 2022.

Following the intended closure of the Global Solutions division, the Supply Chain Solutions business will only comprise of Warehousing and Distribution. The group is pleased to inform shareholders that it is in the process of obtaining regulatory approvals to complete for the sale of the Warehousing and Distribution business to a strategic player in the supply chain sector. The completion of the sale is subject to regulatory and other approvals that are customary for a transaction of this nature. Following the completion of the sale of the Warehousing and Distribution business the group will have completed its exit from all its investments in the Logistics business.

Funding and cash preservation

The group has been successful in its strategy of allocating capital by investing cash in projects that yield returns that are higher than its cost of capital, cash distributions to shareholders and paying down debt as part of ongoing efforts to maximise shareholder value. A special dividend to the sum of R2.3 billion was paid to shareholders in January 2022. In addition, the group managed to de-risk the group from the UK defined benefit obligation paying an amount of R1.97 billion. The group reviewed its current facilities, including committed and non-committed facilities, as well as headroom on the existing medium-term note programme and remains satisfied with the positive state of the headroom, gearing and liquidity.

The group remains within its target debt; and gearing levels remain well within our covenants, with net debt to EBITDA at 1.0 times (group target is < 3.0 times), whilst EBITDA interest cover is at 7.9 times (group target is > 3.0 times).

Progress on our strategy

Preparatory work to structurally separate the group's investment in its car rental and leasing business, Avis Budget Southern Africa ("Avis"), is now far advanced. As previously announced, the group has been evaluating the exit of Avis through either a sale or an unbundling and separate listing. To date, none of the proposals received from third parties interested in acquiring Avis have been sufficiently accretive to shareholder value to be progressed. Accordingly, the group continues to progress preparatory work for an unbundling and separate listing of Avis in parallel. The group remains committed to its stated intention of separating the Avis business this calendar year.

A further update regarding the intended path to exit Avis will be made at or around the time of the release of Barloworld's year-end results in November 2022.

Conclusion

The board will release a trading statement once a reasonable degree of certainty exists concerning the group's results for the twelve months ended 30 September 2022. Barloworld expects to release its annual financial results on or about Monday, 21 November 2022. 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://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=8694988&linkSecurityString=126aa05d2c

Shareholders are advised that the information related to our eleven months' performance to 31 August 2022, has not been audited, reviewed, or reported on by the group's external auditors. This update does not constitute a forecast.

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28 September 2022

Equity and Debt Sponsor:

Nedbank Corporate and Investment Banking, a division of Nedbank Limited

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