Barloworld Limited
(Incorporated in the Republic of South Africa)
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(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 FIVE MONTHS TO 28 FEBRUARY 2023

Overview

The group has delivered pleasing results in the first five months of the 2023 financial year ("the current period"), benefitting from improved performances from all its businesses. Revenue, at R16.5 billion, increased by 14.9% compared to the five months ending 28 February 2022 ("the prior period"). This, together with other measures, drove an 11% higher EBITDA to R1.9 billion and an 18% uplift in operating profit from core trading activities to R1.5 billion. Total EBITDA and operating profit margins achieved were 11.5% and 8.9% respectively and in line with the prior period. Average net-debt increased in the current period mainly due to higher working capital.

Operational Review for the five months to 28 February 2023

Industrial Equipment and Services

Equipment southern Africa

Equipment southern Africa delivered strong growth regionally and across its revenue segments. This was underpinned by activity in the mining sector and fleet replacements. Revenue for the current period was exceptional at R10.2 billion (prior period: R7.2 billion) representing an increase of 41.8% when compared to prior period. Overall revenue growth was mainly driven by an increase in machine sales of 64.2% and parts sales of 30.1% when compared to the prior period.

Operating profit from core trading activities before foreign exchange gain and losses increased by 35.9% on the back of stronger trading activity and ended at R878 million (prior period: R646 million). Operating expenditure was up 18.6% due to trade related expenses and digital transformation costs. As a result of the strong machine sales mix, operating margin for the period was 8.6% (prior period: 9%) while EBITDA at R1.0 billion was 25.4% higher than prior period.

Our Bartrac JV delivered a positive performance and contributed a share of profit of R53 million, representing a 23% increase compared to the prior period.

Working capital increased during the current period to support growth and manage lead times. This is expected to unwind in the second half of the financial year. Returns held firm, with a rolling 12 months return on invested capital ("ROIC") at 17.7% (prior period:16.5%).

The firm order book remains strong at R5.7 billion (28 February 2023), increasing by 21% from R4.7 billion reported in September 2022.

Equipment Eurasia

Equipment Eurasia had a strong start in FY2023, supported by better-than-expected results in Russia, albeit lower than the prior period, and a good performance in Mongolia. The division generated $179 million revenue, down 39% compared to the prior period. Strong trading margins were generated by good margin realisation, high after market contribution and cost controls. The division reported $28.6 million operating profit from core trading activities (prior period $34.7 million). Rolling 12-month ROIC returns at a divisional level remain above 20%, with the division achieving 26.4% (if the impairment booked in 2022 was to be reversed, ROIC would be 23.1%).

Russia

The war in Ukraine continues to affect the business in Russia. Due to reduced product lines and a constrained supply chain, results were down from the prior period's record results but better than expected. This performance was enabled by sales from available prime product inventories at the start of FY2023 as well as a reasonable aftermarket parts supply. Linked to this, customers still have a high demand for available products realising good margins.

Revenue decreased from the prior period's $249.5 million to $116.2 million, down 53%. Due to a higher aftermarket revenue mix, operating profit from core trading activities was down only 37%. In addition, the business continues to make good progress in restructuring its cost base in line with existing trading levels. The combination of the change in revenue mix and cost adjustments positively contributed to the business, producing an excellent operating margin of 16.9%, compared to 12.0% in the prior period. EBITDA also benefited from these factors and as a result the EBITDA margin improved from 13.6% to 18.2%.

Working capital started increasing slowly from September 2022, as the supply of products complying with various sanction regimes stabilised to a large extent. This, combined with the settlement of creditor payments in October 2022, contributed to an increase in Russia's working capital. As demand for parts remain strong, we expect an improved cash generation position over the remainder of the 2023 financial year. The local Russian business continues to be self-sufficient in terms of its funding requirements.

With a reduced product line-up, the firm order book will remain at low levels with potential sales now linked to the smaller construction products.

The Russian business continues to generate strong returns and, at the end of February 2023, the business unit generated a 35.3% ROIC. If the impairment processed during March 2022 was to be reversed, ROIC would have been 28.5%.

We continue to manage our risks and exposures while remaining agile and adaptable to ensure compliance with an ever-changing regulatory environment.

Mongolia

Mongolia experienced a positive start to the financial year with good prime product sales compared to the prior period as the opening of the Chinese borders improved the free flow of products and commodities in the region. Aftermarket demand remained solid and, as a result, the business recorded good trading results during the current period.

Revenue for the current period increased from $43.3 million to $62.6 million mainly due to prime product sales. Despite increased machine sales, aftermarket contribution remained solid at over 50% of the total revenue mix. Better margin conversion, in addition to good cost control, resulted in an excellent operating margin of 14.3% compared to 10.8% in the prior period. EBITDA also benefited from these factors and, as a result, the EBITDA margin improved from 16.8% in the prior period to 18.0% at February 2023.

Higher levels of business activity following the opening of Chinese borders, coupled with focussed working capital management, resulted in a marked reduction in working capital levels. This improved cash-to-cash cycle period resulted in the business achieving a 247% FCF/EBITDA conversion rate for the current period.

At 28 February 2023 the business also generated substantially better returns at 13.5% ROIC on a rolling 12-month basis (September 2022: 8.9%).

Consumer Industries

Ingrain

Ingrain's trading for the current period showed pleasing revenue of R2.8 billion (prior period: R2.3 billion), a 23.2% uplift against the prior period. This was supported by higher commodity prices and growth in export volumes, which offset the flat domestic sales volumes.

Despite demand challenges in various domestic sectors owing to economic pressures on the South African consumer, overall domestic sales volumes held up, in line with the prior period. Volumes in the alcoholic beverages sector were flat year-on-year, whilst the confectionary sector continued to show robust volume growth. The latter was offset by reduced volumes in the coffee creamer sector attributable to the effect of power outages and demand constraints.

EBITDA was at R353 million (prior period: R403 million), impacted by operating efficiency losses, increased fixed costs from investments in asset care and critical skills in the business as well as increased maintenance costs following unplanned plant breakdowns. This also resulted in a lower operating margin, down 3.6%.

The business has invested in initiatives to recover volumes, which are expected to bear results in the second half of the 2023 financial year. Several measures are in place to grow sales volumes in both the domestic and export markets and to take advantage of opportunities in targeted export markets. Further focus areas for the business include improving operating efficiencies across mills, through preventative maintenance, targeted deployment of capital and de-bottlenecking investments.

The business achieved a rolling 12 months ROIC of 9.7% (prior period: 8.5%) and remains resilient in the current economic climate.

Funding and cash preservation

We have exited our Car Rental and Leasing business, Zeda Limited, during the current period and the effect to the debt relating to this business will be reflected in September 2023 as we reset our maximum debt levels and repay maturing debt. A normal and special dividend was paid to shareholders in January 2023 for a total sum of R1.6 billion. The exit from Zeda Limited allowed us to release cash, paid as a special dividend of 550 cents per share. The group assessed the adequacy of its current facilities, committed facilities, non-committed facilities, as well as headroom on the existing domestic medium-term note programme and remains satisfied with the positive state of the headroom of R16 billion.

We remain satisfied with our gearing and liquidity as further demonstrated through meeting and remaining within the target debt and gearing levels as well as our covenants, with net debt to EBITDA at 1 times (group target is < 3.0 times), whilst EBITDA interest cover is at 5.6 times (group target is > 3.0 times).

Progress on our strategy

The group confirms that its strategy, based on the principles of Fix, Optimise and Grow, is now firmly poised on the growth agenda. The key exits out of non-core businesses have been completed to simplify our portfolio, and our acquisitive growth strategy remains focused on programmatic M&A within our core verticals of Industrial Equipment and Services and Consumer Industries.

Conclusion

The board will release a trading statement once a reasonable degree of certainty exists concerning the group's results for the six months ending 31 March 2023. We expect to release our interim financial results on or about Monday, 22 May 2023.

Shareholders are advised that the information related to our five months' performance to 28 February 2023, 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 CAT today to answer any questions from investors. Shareholders and analysts are to please use the following link to register:
https://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=8451222&linkSecurityString=14db8f62f0

Johannesburg

29 March 2023

Equity and Debt Sponsor:

Nedbank Corporate and Investment Banking, a division of Nedbank Limited

Enquiries:

Nwabisa Piki | Group Investor Relations

Tel: +27 64 880 6872 | E-mail: nwabisap@barloworld.com