Barloworld Limited
(Incorporated in the Republic of South Africa)
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(Bond issuer code: BIBAW)
(JSE ISIN: ZAE000026647)
("**Barloworld**" or the "**company**" or the "**group**")

VOLUNTARY TRADING UPDATE FOR THE ELEVEN MONTHS TO 31 AUGUST 2023

Overview

The group's core businesses continued to perform resiliently, despite the headwinds presented by the operating environment. Equipment southern Africa and Equipment Mongolia recorded excellent results in the period for the eleven months to 31 August 2023 ("**the current period**") and Ingrian achieved growing revenues despite a slowdown in domestic sales volumes. Equipment Russia continued to perform better than break-even as sanctions continue to affect the revenues in the region.

Revenue from continuing operations increased by 15% compared to the prior period for the eleven months to 31 August 2022 ("**the prior period**") as a result of better trading performance across all our businesses. This revenue increase, together with other measures, resulted in growth of 13% in EBITDA to R4.9 billion and 18% in operating profit from core trading activities to R3.8 billion, compared to the prior period. Net debt at 31 August 2023 was R6.3 billion, compared to R7.5 billion in the prior period.

Operational Review for the eleven months to 31 August 2023

Industrial Equipment and Services

Equipment southern Africa

Equipment southern Africa continued to deliver strong results while navigating challenging macro factors, holding firm on double-digit growth in trading activity for the current period. Machine, aftersales and rental held the same growth momentum since the interim period and contributed to R26 billion (Aug 2022: R19.5 billion) in revenue, representing a 34% increase compared to the prior period.

Despite the headwinds of high inflation and volatility in the Rand, the operating profit was 17.3% ahead of the prior period at R2.1 billion. The operating margin at 8.0% (Mar 2023: 8.6%) was primarily impacted by the change in product mix (in favour of machine sales), while EBITDA at R2.7 billion was 13% higher than the prior period.

The resultant impact of managing long lead-order-to-delivery cycles while supporting growth in trading activity was higher working capital levels. However, the working capital remains on a downward trajectory and is expected to further improve by financial year end. The rolling 12-month return on invested capital ("**ROIC**") remains higher than the group's hurdle rate of 14%.

Our Bartrac joint venture continues to deliver exceptional results, contributing R183 million (prior period: R117 million) to profit after tax, representing a 56% rise in profitability when compared to the prior period.

The firm order book ended lower than March 2023 (R5.7 billion) at R3.7 billion, with the decrease attributable to the conversion of stronger machine sales as orders.

Equipment Eurasia

Equipment Eurasia had a strong performance for the current period, supported by better-than-expected results in Russia, albeit lower than the prior period, combined with a good performance in Mongolia, good margin realisation, high after market contribution and cost controls.

<u>Russia</u>

Equipment Russia remains affected by the war in Ukraine resulting in reduced product lines and a constrained supply chain. The financial results for the current period were down from the prior period's record financial results, but better than expected. This performance was enabled by sales from available prime product inventories at the start of the current financial year, as well as a reasonable aftermarket parts supply.

Revenue was down 46% to $277.3 million (prior period: $515.8 million) and following a higher aftermarket revenue mix, operating profit from core trading activities was down only 8.7%. 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 19.2%, compared to 11.3% in the prior period. EBITDA also benefited from these factors and as a result the EBITDA margin improved from 12.6% to 20.4%.

Working capital remains high, driven by lower accounts payable and higher inventories. The expected improvement in cash generation has been realised in recent months. 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 business continues to generate strong returns with ROIC well ahead of the hurdle rate and the prior period.

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

Mongolia

Equipment Mongolia had a strong eleven months, with good prime product sales growth 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 stellar trading results during the current period.

Revenue uplift of 48.1% from $99.1 million in the prior period to $146.8 million in the current period, was mainly driven by prime product and parts sales. The aftermarket contribution remained solid at over 55% of the total revenue mix. Improved margin conversion, in addition to good cost control, resulted in both operating margin and EBITDA margin better that the prior period.

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 an exceptional conversion rate for the current period.

Mongolia generated substantially better returns compared to the prior period due to both improved trading and lower invested capital.

Consumer Industries

Ingrain

Ingrain's trading for the current period showed pleasing revenue of R6 billion (prior period: R5,4 billion), a 12,1% uplift compared to the prior period. This was supported by higher commodity prices and growth in export volumes, which offset the flat domestic sales volumes.

Challenges in various domestic sectors have persisted as a result of economic pressures on the South African consumer, manufacturing customers affected by water challenges and high levels of load shedding, resulted in overall domestic sales volumes being flat compared to the prior period. Volumes in the alcoholic beverages sector were flat period-on-period, whilst the confectionary sector continued to grow. The latter was offset by a continued decline of volumes in the coffee creamer sector, offsetting the growth in the remaining domestic sectors. Agri volumes have declined in line with the lower maize processed during the current period.

EBITDA at R734 million (prior period: R908 million), was impacted by operating efficiency losses, increased maintenance costs following unplanned plant breakdowns, and investments in critical skills in the business. This resulted in an operating margin of 8.2%, compared to the prior period of 12.4%.

Funding and liquidity

The group is still comfortable with the headroom on committed facilities for both the local and offshore operations, which remains adequate at R5.8 billion excluding the listed bond headroom and an all-inclusive headroom of R16.2 billion. Some UK facilities are being migrated to the Middle East (UAE). The group actively reviews and monitors all facilities on an ongoing basis, and we remain confident with our good liquidity.

Our South African short-term debt includes bonds maturing in the next 12 months amounting to R1.5 billion, term debt of R572 million and other uncommitted facilities amounting to R500 million. As part of the ongoing process to reduce finance costs through the renegotiation of the current facilities, Barloworld repaid R400 million of the short-term bank debt in July 2023. This will be replaced with much lower priced debt during September 2023. We expect to maintain our participation in the bond market to the extent that we can achieve funding rates that are competitive.

Within our R15 billion domestic medium term note programme, a total of R4.6 billion is held in bonds. Barloworld repaid bonds to the value of R252 million in December 2022, R400 million in February 2023 and R700 million in May 2023, in line with our capital allocation policy. Due to the increased demand in funding, the May 2023 bond was refinanced in June 2023.

Covenants

The group has a target gearing ratio of 60% / 40% in the proportion of debt to equity. During the current period, the focus has been to optimise our debt and equity balances, maximising the returns to shareholders, while maintaining our strict capital discipline. Our current compliance with our covenants is reflected below:

Group Covenants excl. IFRS16:

Ratio	Covenant	Aug '23	Mar '23	Outcome
Net Debt / EBITDA	<3 times	1.0	1.0	Comply
EBITDA / Interest paid	>3 times	3.9	5.2	Comply

Progress on our strategy

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. The group's strategy, based on the principles of Fix, Optimise and Grow, is now firmly poised on the growth agenda.

Conclusion

The board will release a trading statement once a reasonable degree of certainty exists concerning the group's financial results for the twelve months ending 30 September 2023. Barloworld expects to release its annual financial results for the twelve months ending 30 September 2023 on or about Monday, 20 November 2023.

Shareholders are advised that the information in this voluntary trading update 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=6753202&linkSecurityString=117a6fd518

Johannesburg

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Equity and Debt Sponsor: Nedbank Corporate and Investment Banking, a division of Nedbank Limited

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