METAIR INVESTMENTS LIMITED
(Incorporated in the Republic of South Africa)
Registration number: 1948/031013/06
ISIN: ZAE000090692
JSE and A2X share code: MTA
("**Metair**" or the "**Company**" or the "**Group**")

TRADING AND OPERATIONAL UPDATE AND TRADING STATEMENT

TRADING UPDATE

Trading environment

Conditions remained challenging as high interest and inflation rates impacted financial results in the geographies where the Group operates.

In South Africa, supply chain disruptions, exacerbated by the deterioration in rail and port infrastructure, created delays and drove increased costs due to the resulting need to use emergency airfreight. To mitigate this, the Group maintained higher levels of safety stock to support Original Equipment Manufacturers (OEMs) that often-varied production volumes. Added to this, geo-political tensions and adverse economic policies in Türkiye and Europe impacted the Group's international battery businesses.

Management's efforts were largely focused on the two key businesses that most significantly impact liquidity, operations and results. These include recovery of the wiring business at the Group's managed associate, Hesto Harnesses ("**Hesto**"), following the significant losses incurred in the first half of the 2023 financial year as well as stabilising Mutlu Akü in Türkiye.

Group update

South African OEM production volumes grew 20% from 2022, improving top line growth in the Group's automotive components business. Automotive battery volumes sold in the Energy Storage Vertical declined 17% from 8.7 million to 7.3 million units, mainly due to the loss of export volumes primarily in Mutlu Akü, as further described below.

The Group expects double-digit revenue growth compared to the prior year and earnings before interest and taxation (EBIT, calculated as operating profit before interest and taxation) margin of approximately 3.0% (2022: 3.3%). Excluding the impact of hyperinflation and impairments, the EBIT margin is expected to be between 6.8% to 7.8% (2022: 7.6%).

Borrowing costs increased due to higher net debt levels to support customer expansion, higher working capital investments and the effect of hyperinflation in Türkiye. Net finance costs increased by more than 90% from R377 million in the prior year.

OPERATIONAL UPDATE

Hesto Ford Project

As previously communicated, Ford volumes have progressed in line with expectations. Close collaboration between Ford and Metair's technology partner led to an agreement for a commercial price adjustment, providing significant support to revenue and operating profit over the remaining model life of nine years. As a result, Hesto generated an operating profit before interest and taxation in the second half of the 2023 financial year. Due to the significant losses in the first half, Hesto will still be in a loss-making position as at the end of the 2023 financial year. Hesto's revenue increased by approximately 200% from the R1.8 billion in the prior financial year.

As per IFRS associate accounting requirements and previously reported in the interim results for the six months ended 30 June 2023 ("**H1 F2023**"), the losses of Hesto are not included in the financial results for the 2023 financial year but are included in the segment reporting and debt covenant calculations.

Mutlu Akü

As previously mentioned in H1 F2023, Mutlu Akü imposed self-sanction protocols to terminate export sales to Russia in line with European Union sanctions regulations imposed on Russia. This, combined with cancellations from a key customer in the United States, decreased export volumes by 69% from 1.7 million units in the prior year to 0.5 million units. At the same time, a difficult labour environment in Türkiye also resulted in a shortage of contract workers. Following strong intervention and management changes, the situation was resolved, and normal production resumed in November 2023. Total Mutlu Akü automotive sales volumes decreased to 3.3 million batteries (2022: 4.9 million batteries), of which local aftermarket sales decreased to 1.0 million units (2022: 1.6 million units). New labour union wage rate negotiations were successfully concluded in February 2024 without disruptions.

Despite the above loss in volumes, Mutlu Akü's pre-hyperinflation EBIT is expected to be approximately 90% of the comparative R530 million when translated into South African Rand ("**ZAR**") earnings (the Turkish Lira devalued on average 20% against the ZAR).

Over the financial year, Türkiye interest rates increased to 42.5% and annual inflation peaked at 65%, contributing to a significant rise in interest costs for the Group. To further mitigate against the increased financial volatility, the Group continues to pursue de-risking options for this business.

Automotive Components Vertical (excluding Hesto which is accounted for as an associate)

The core subsidiary businesses - lighting (Lumotech), suspension (Supreme Springs) and H-VAC (Smiths Manufacturing) - performed well, although short-term margin dilution was experienced due to customer volume variability, loadshedding and supply disruptions.

The Automotive Components Vertical business experienced strong revenue growth of around 45% compared to the prior financial year and EBIT margins of between 7.0% and 7.5% (2022: 7.4%).

Energy Storage Vertical

In light of the challenges experienced in Türkiye, the Energy Storage Vertical's revenue is expected to be flat against the prior financial year, with pre-hyperinflation EBIT margin (before impairments) expected to be between 8.5% and 9.5% (2022: 9.0%), supported by the South African battery business. On a post-hyperinflationary basis, EBIT margins approximate 3.0% (2022: 2.3%).

Liquidity and debt

The debt-to-equity ratio is higher than historic levels due to increased working capital, start-up funding for new projects and the impact of hyperinflation on Mutlu Akü. However, the Group is still operating within agreed bank covenant levels.

The Group's revolving credit facility (RCF) 2 funding of R525 million, due in April 2024, has been successfully extended for an additional year. Management is closely monitoring debt levels and liquidity, with a priority to reduce these in a responsible manner. In addition, the Group is implementing a range of strategies to reduce and restructure debt levels, including effective cash management and cost control, delaying non-critical capital expenditures and engaging customers for flexible support on capital investments for new models.

The Group's lenders remain supportive of the Group's short term cash management initiatives and have committed to engaging with the Management team on a debt restructure and refinance programme that will ensure a sustainable capital structure in the medium term. An update on the progress of this process will be provided during the first half of the current financial year ending 31 December 2024.

European Commission's Statement of Objections

Shareholders are referred to the announcement published on SENS on 6 December 2023, wherein it was advised that Metair and its subsidiary in Romania, Rombat S.A. ("**Rombat**"), received an advance copy of a Statement of Objections ("**Statement**") from the European Commission ("**Commission**") expressing concerns that battery manufacturers, including Rombat, may have potentially violated EU anti-trust rules in the field of automotive lead-acid starter batteries between 2004 and 2017.

Rombat is currently conducting an in-depth analysis of the Statement for purposes of preparing an initial response to the Commission ("**Response**"), to be made during April 2024. In line with the strict confidentiality obligations, Rombat is still prohibited from disclosing any further information at this stage.

For the avoidance of doubt, the Statement does not constitute a definitive ruling by the Commission and a final determination will only be made following receipt and assessment by the Commission of the Response. Further updates will be provided upon receipt of the final ruling or determination by the Commission.

At this stage, a reliable estimate of any potential fine cannot be made.

TRADING STATEMENT

In terms of paragraph 3.4(b) of the JSE Limited Listings Requirements, companies are required to publish a trading statement as soon as they are satisfied that a reasonable degree of certainty exists that the financial results for the period to be reported upon next, will differ by at least 20% from the financial results for the previous corresponding period ("**FY2022**").

Metair is in the process of finalising its results for the year ended 31 December 2023 ("**Results**") and shareholders are accordingly advised that Metair expects to report:

- earnings per share of between 44 cents and 53 cents (FY2022: loss per share of 21 cents); and
- headline earnings per share of between 128 cents and 140 cents (FY2022: headline loss per share of 17 cents).

Notable non-cash adjustments (before taxation) for the year ended 31 December 2023 include the impairment of the Lithium-Ion line in Rombat and the impact of applying hyperinflation accounting on earnings of Mutlu Akü and the Energy Storage Vertical.

The Results are expected to be published on or about Wednesday, 27 March 2024.

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

11 March 2024
Johannesburg

Sponsor
One Capital