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 “**Group**”)

OPERATIONAL UPDATE FOR THE SIX MONTHS ENDED 30 JUNE 2024

Trading environment

Metair’s business verticals performed resiliently relative to their challenging operating and trading conditions and maintained a constant supply to customers. Despite well documented challenges within the economies and markets in which Metair operates, which include high interest and inflation rates as well as continued supply chain and port disruptions, management continues to effectively address the immediate priorities set out earlier in the current financial year ending 31 December 2024 (“**F2024**”), namely:

- maintaining stability, operational profitability, and recovery at Hesto Harnesses (“**Hesto**”) following the significant losses incurred in the first half of the 2023 financial year (“**F2023**”), (“**H1 2023**” or “**Prior Period**”);
- improving the operating performance of Mutlu Akü in Türkiye, following production disruptions experienced in the second half of F2023;
- formulating a debt restructuring plan to address high debt levels, including Hesto’s obligations, and obtaining approval in respect thereof from the board of directors of Metair (“**Board**”);
- negotiating a Mutlu Akü de-risking option to pay down South African debt and reduce the interest cost burden; and
- ensuring leadership stability and the appointment of a Human Resources executive to drive a human capital strategy.

The ability to remain agile within the markets in which we operate in as well as to mitigate negative impacts of lower South African Original Equipment Manufacturers’ (“**OEMs**”) customer demand and volume variability, was also successfully navigated.

Group update

From a volume perspective, total automotive battery units sold in the Energy Storage business improved by 10%, up 358 000 units from 3.6 million in the Prior Period to 3.9 million units in the first half of F2024 (“**H1 2024**” or “**Current Period**”), supported by stronger aftermarket and export sale volumes. A temporary drop in demand from a major local automotive components’ customer of the Group impacted the overall South African OEM vehicle production as volumes were 8% softer, declining from c. 292 000 vehicles in H1 2023 to c. 270 000 vehicles produced in the Current Period. Normal production at the customer is expected to resume early in the fourth quarter of F2024 (“**Q4 2024**”).

As indicated previously, borrowing costs increased significantly due to higher net debt levels to support customer expansion, higher working capital investments and the extreme interest rates in Türkiye.

Automotive Components Vertical

Core automotive subsidiary businesses, namely, lighting (Lumotech), suspension (Supreme Springs) and H-VAC (Smiths Manufacturing), effectively managed the impact of temporary lower customer demand.

At Hesto, Ford volumes progressed in line with expectations and close collaboration between Hesto’s customer and technology partner supported revenue and operating profit positively over the remaining revised business case model life of 8 years. Management continues to focus on production efficiencies and cost reductions as well as preparations for new facelifts and model introductions.

Energy Storage Vertical

Türkiye's interest rates increased to 50% and inflation peaked at 71.60%. To further mitigate against the increased financial volatility, the Group continues to progress de-risking options for this business.

Mutlu Akü continues to recover from the challenges of F2023, including the shortage of contract workers and the loss of material export volumes. Automotive sales volumes increased to 1.8 million batteries (H1 2023: 1.76 million batteries), stemming from a 28% increase in export sales together with the implementation of appropriate interventions. Sales mix continues to be weighted in OEM at c. 50% and due to slightly softer local demand in the second quarter of F2024, aftermarket sales declined to 0.5 million units (H1 2023: 0.6 million units).

At Rombat S.A in Romania ("**Rombat**"), automotive volumes improved by 41% to 1.3 million batteries (H1 2023: 0.957 million batteries) supported by strong market gains in exports and aftermarket sales. Although automotive sales volumes for First Battery ("**FB**") in South Africa is anticipated to be 9% softer at c. 0.8 million batteries, due to reduced demand from local OEMs and a price sensitive local retail environment, FB has improved manufacturing efficiencies and product mix.

Liquidity and debt

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

A debt restructure plan was formulated by management and approved by the Board. The salient features of the plan include, *inter alia*, the:

- proposed refinance of South African operations on a ring-fenced basis i.e. South Africa only, at current levels;
- rebalancing and recapitalisation of Hesto debt, including the shareholder funding;
- restructuring of the Hesto balance sheet on a project finance basis and introduction of longer-term external funding from lenders; and
- optimisation and deleverage gearing which includes the proposed de-risking from Türkiye (Mutlu Akü).

The Group's lenders remain supportive and are engaging with the Board on the debt restructure and refinance programme that will ensure a sustainable capital structure in the medium term. The debt restructure programme is anticipated to launch in Q4 2024. Post 30 June 2024, the Group raised the ZAR equivalent of USD38.2m in the form of a bridge loan as a first step to rebalance the shareholder loan funding in Hesto and consequently advanced c. R685 million as a subordinated loan to Hesto.

European Commission's Statement of Objections

Shareholders are referred to the announcements published on SENS on 6 December 2023 and 11 March 2024, respectively, wherein shareholders were advised that Metair and its subsidiary, Rombat, had 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 and that Rombat was in the process of conducting an in-depth analysis of the Statement for purposes of preparing an initial response to the Commission.

A reply to the Statement was submitted in April 2024 and the Commission conducted oral hearings during July 2024, at which Rombat and Metair presented opening arguments regarding the Statement, as well as supporting evidence. At this stage, no ruling or final determination has been made or communicated by the Commission and a reliable estimate of any potential fine cannot be made.

Outlook

Metair operates best in a stable and high-volume production environment and full year performance is dependent upon original equipment volumes at major customers and geo-economic conditions in our international markets. We will continue to drive effective project management and operating efficiencies to improve our current base and return on invested capital.

Historically, the energy storage business has performed better in the second half of the financial year, as we enter the European and other export markets winter demand cycle for batteries. We expect this trend to continue and aim to build on our current momentum in capturing growth opportunities in the export markets. In South Africa, we expect continued local market competition as we aim to increase market share and profitability.

A key challenge continues to be the operating environment in Türkiye - devaluation of the Turkish Lira and high interest and inflation rates - as it affects the Rand translated results, and therefore management continues to prioritise the potential derisking and value unlock of Mutlu Akü.

Despite the short-term impacts of a decrease in volumes and elevated levels of debt, management has made considerable progress on the previously communicated stabilisation and turnaround strategy which will be concluded in the second half of F2024. The Group has stabilised major new projects undertaken in F2023 with Hesto demonstrating a strong operational recovery. Ongoing profitability improvement initiatives are expected to improve future earnings and support reduced debt gearing.

Customer model changes planned for the next two to three years will offer further opportunities for new business in the automotive components vertical. The Group continues to investigate effective positioning for the future, including technology changes required over the next few years and relationships with OEMs, technology partners and customers remain key.

Due to the debt restructuring process and the activities currently being undertaken, the interim results for the six months ended 30 June 2024 are expected to be published on SENS on or about Thursday, 26 September 2024.

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

5 September 2024
Johannesburg

Sponsor
One Capital