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 "**Group**")

VOLUNTARY TRADING UPDATE FOR THE ELEVEN MONTHS ENDED 31 AUGUST 2024

Overview

The Group has delivered resilient performance in the context of the complex and diverse trading environments in which it operates. The macro-economic conditions observed during the first half of the 2024 financial year continued throughout the remainder of the period under consideration. The impact of the challenging trading environment experienced by the southern African portfolio was somewhat countered by the expansionary environment in Mongolia which has continued to grow driven by the government-led expansion of transport infrastructure and external demand for its minerals and resources, primarily from China.

Our local mining customers have been under immense pressure to manage their cost of production, with limited scope to expand their fleets. Vostochnaya Technica ("VT"), our subsidiary in Russia, continues to face a decline in its revenue due to the prolonged sanctions environment and the contraction of its addressable market. Despite tough trading conditions, Ingrain is starting to realise the benefits of the turnaround plan, which was instituted in the second quarter of the 2024 financial year.

Group revenue declined by 7.4% from R40.4 billion to R37.4 billion when compared to the 11 months ended 31 August 2023 ("the prior period"). EBITDA declined by 14.3% from R4.9 billion in the prior period to R4.2 billion. The EBITDA margin declined to 11.1% (12.0% in the prior period) and the operating profit margin declined to 8.0% (9.4% in the prior period).

The reduction in net debt from R6.3 billion in the prior period to R3.5 billion is a reflection of the Group's focus on cash generation and gross debt reduction.

Operational review for the eleven months ended 31 August 2024

Industrial Equipment and Services

Equipment southern Africa

Equipment southern Africa's results for the 11 months ended 31 August 2024 ("the current period") reflect a resilient performance despite the subdued mining sector, particularly in South Africa. Revenue ended 13% behind the prior period at R22.7 billion (prior period: R26.0 billion), coming off the mining replacement cycle. The decrease in machine sales was bolstered by aftersales revenue, which was in line with the prior period.

Operating profit from core trading activities trailed 9% behind the previous period ending at R1.9 billion (prior period: R2.1 billion). EBITDA ended at R2.7 billion, which is in line with the prior period result and the resultant EBITDA margin improved to 11.8% (prior period: 10.6%). Bartrac's performance was relatively flat when compared to the prior period at R185 million.

The investment in working capital continues to reduce in line with trading activity. As such, the return on invested capital remained above the hurdle rate.

The firm order book ended lower at R2.4 billion (prior period R2.9 billion) in line with the mining cycle.

Equipment Eurasia

The acquisition of Barloworld Mongolia was concluded on 1 September 2020. The sale and purchase agreement included a potential additional payment not exceeding $30million that would be payable in the ensuing four years, should certain performance conditions be met. Barloworld Mongolia is likely to satisfy some of these performance conditions, thereby giving rise to an earnout provision of $10 million (“Mongolia earn out provision”). The earnout period will lapse on 30 September 2024 and thus no further payments can be claimed in the future in this regard.

VT’s revenue was impacted by the reduced product lines, supply chain constraints and the sanction regime. During the period under review, VT raised $30 million in provisions related to inventory obsolescence and restructuring costs (“the VT provision”).

Equipment Eurasia delivered revenue of $443.2 million which is 4.5% higher than the prior period of $424.0 million, primarily driven by a 61% growth in Barloworld Mongolia’s revenue to $236.2 million (prior period $146.8 million). This was partially offset by a 25% drop in VT’s revenue to $207.0 million (prior period $277.3 million).

Excluding the Mongolia earnout and the VT provisions, Eurasia’s operating profit from core trading activities amounted to $89.1 million (prior period $84.4 million). The operating profit from core trading activities declined to $49.1million after accounting for the Mongolia earnout and VT provisions.

The firm order book grew to $79.6 million (prior period $6.6 million), largely attributable to Barloworld Mongolia.

Barloworld Mongolia

Barloworld Mongolia maintained its growth trajectory supported by prime product sales and aftermarket demand. The prime product contribution to revenue increased to 46% compared to the prior period at 32%, while the aftermarket sales contribution declined to 45% (prior period: 55%) of the total revenue mix. The remaining revenue largely comprises of tyres, and other ancillary revenue streams.

The business generated EBITDA of $54.3 million ($35.5 million in the prior period) and operating profit from core trading activities of $49.2 million (prior period: $31.4 million). This resulted in EBITDA and operating profit margin from core trading activities of 23% and 20.8% respectively (prior period: 24.2% and 21.4%, respectively). On a consolidated basis and after having regard to the Mongolia earnout provision, Barloworld Mongolia generated EBITDA of $44.3 million and operating profit from core trading activities of $39.2 million. Resultant EBITDA and operating profit margin from core trading activities thus decreased to 18.8% and 16.6% respectively.

The higher levels of business activity, coupled with focussed working capital management, contributed to the positive cash generation and cash conversion rate for the current period. Barloworld Mongolia continued to generate high returns due to both improved trading and lower invested capital.

Vostochnaya Technica (“VT”)

VT generated revenue of $207.0 million (prior period $277.3 million). Excluding the VT provision, EBITDA declined from $56.6 million in the prior period to $43.1 million in the current period and operating profit from core trading activities declined from $53.1 million in the prior period to $39.9 million. This results in EBITDA and operating profit margin from core trading activities of 20.8% and 19.3% respectively, excluding the VT provision (prior period: 20.4% and 19.1%, respectively).

Having regard for the VT provision however, EBITDA declined further from $56.6 million in the prior period to $13.1 million in the current period and operating profit from core trading activities declined from $53.1 million in the prior period to $9.9 million; resulting in EBITDA and operating profit margin from core trading activities of 6.3% and 4.8%, respectively.

The business continues to trade above break-even and remains self-sufficient in terms of its funding requirements.

As indicated in the voluntary SENS announcement released on 13 September 2024, Barloworld has commissioned an investigation of potential export control violations at VT and has engaged the services of independent firms to conduct this investigation on its behalf. The U.S. Department of Commerce, Bureau of Industry and Security ("BIS") has been notified of this investigation on a voluntary basis and it has acknowledged receipt thereof. Barloworld has 180 days within which to finalise the investigation and to submit a full report to the BIS.

Consumer Industries

Ingrain

Ingrain generated revenue of R6.0 billion which is in line with the prior period.

Despite easing inflation, the South African consumer remained cash strapped as high unemployment rates prevailed. Overall sales volumes declined by 2.5% driven by lower domestic demand across various sectors. Notwithstanding this, the non-alcoholic beverage sector, including spray drying, showed pleasing growth.

Overall export volumes remained stable compared to the prior period. Regional exports into southern Africa showed pleasing growth, offset by lower volumes in the Deep Sea Markets due to supply chain constraints as a result of the ongoing Red Sea conflict. Local port challenges eased in the second half of the financial year. Agri product volumes were flat relative to the prior period.

The business has showed marked progress in performance in the latter half of this financial year following management turnaround efforts. EBITDA, at R704 million (prior period: R734 million) was down 4.1% when compared to the prior period. This was aided by a lower fixed cost base emanating from the trough plan implemented during the current period. Operating margin was 7.5%, compared to 8.2% in the prior period.

Turnaround efforts in the first half of the financial year are starting to bear fruit in the second half, with tangible benefits in the following key areas:

- Volume recovery: Sales volumes stabilised relative to the prior period. Despite subdued domestic demand, exports grew by 8.8% benefitting from a strategically reorganised sales force.
- Operational performance improvement: Significant recovery in operating efficiencies was achieved, with gains of R1.3 million reported over the five-month period to 31 August 2024 (six months to 31 March 2024: R62 million loss). This boosted gross margins over the current period.
- Fixed cost discipline: The organisational restructure, as well as improved discipline across the business, yielded a below inflation fixed cost escalation of 3.7% over the five-month period to 31 August 2024 compared to the same period in the prior financial year.

Funding and liquidity

The Group continues to be prudent in maintaining adequate headroom on committed facilities for both the local and offshore operations. Barloworld actively reviews and monitors all facilities on an ongoing basis, and we remain assured on our liquidity position.

During the current period, the Group continued to strengthen its balance sheet, reducing its gross debt by 29% when compared to the prior period. Furthermore, net debt reduced by 44% from R6.3 billion in the prior period to R3.5 billion in the current period. The Group settled a bond debt of R714 million, which matured in February 2024. The next bond maturity occurs in the second half of the 2025 financial year for a total of R 730 million. Included in short-term debt of R2.4 billion are general banking facilities of R973 million, uncommitted facilities amounting to R786 million and a short-term portion of long-term debt. Within our R15 billion Domestic Medium-Term Note ("DMTN") programme, the Group has a total of R4.1 billion in bonds outstanding included in gross debt.

The Group assessed the adequacy of its current facilities, committed facilities, non-committed facilities, as well as headroom on the existing DMTN programme and remains satisfied with the positive state of the headroom of R17.5 billion (which includes R6.5 billion of headroom on committed facilities for both the local and offshore operations). The Group remains well within its financial covenants.

Progress on our strategy

The Group confirms that its strategy based on the principles of *"Fix, Optimise and Grow"* remains unchanged.

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 2024. Barloworld expects to release its annual financial results for the twelve months ending 30 September 2024 on or about Monday, 25 November 2024.

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. Please use the following https://kris.co.za/rsvp-barloworld-pre-close-trading-update-august-2024-virtual/ to register.

Johannesburg

26 September 2024

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