ARB Holdings Limited

Unaudited Interim Results

For the six months ended 31 December 2012

(Registration number: 1986/002975/06) | Share code: ARH | ISIN: ZAE000109435 | ("ARB" or "the company" or "the group")

www.arbhold.co.za

Highlights

- Revenue up 39% to R965 million
- Operating profit up 27% to R76,5 million
- Headline earnings per share up 17% to 18,43 cents
- Ungeared with R153 million cash on hand
- Acquisitions of Industrial Cable Suppliers and Elektro Vroomen

Condensed group statement of comprehensive income

	Unaudited 6 months to 31 December 2012 R000's	Unaudited 6 months to 31 December 2011 R000's	Audited year to 30 June 2012 R000's
Revenue	**964 656**	693 497	1 565 294
Cost of sales	**768 665**	562 939	1 258 142
Gross profit	**195 991**	130 558	307 152
Other income	**5 394**	2 812	6 282
Operating expenses	**(124 909)**	(73 362)	(185 930)
Profit before interest and taxation	**76 476**	60 008	127 504
Interest received	**4 665**	9 238	17 985
Interest paid	**(846)**	(194)	(710)
Profit before taxation	**80 295**	69 052	144 779
Taxation	**21 810**	22 812	43 799
Profit for the period	**58 485**	46 240	100 980
Revaluation of property, plant and equipment (net of taxation)	**–**	–	3 240
Total comprehensive income for the period	**58 485**	46 240	104 220
Profit for the period attributable to:	**58 485**	46 240	100 980
Non-controlling interest	**13 016**	9 354	20 391
Ordinary shareholders	**45 469**	36 886	80 589
Total comprehensive income attributable to:	**58 485**	46 240	104 220
Non-controlling interest	**13 016**	9 354	20 391
Ordinary shareholders	**45 469**	36 886	83 829
Reconciliation of headline earnings			
Profit for the period attributable to ordinary shareholders	**45 469**	36 886	80 589
Surplus on disposal of property, plant and equipment (net of taxation)	**(2)**	(24)	(109)
Bargain purchase price (net of minorities)	**(2 167)**	–	–
Headline earnings	**43 300**	36 862	80 480
Number of shares in issue (000's)	**235 000**	235 000	235 000
Weighted average number of shares (000's)	**235 000**	235 000	235 000
Diluted number of shares (000's)	**235 360**	235 480	235 460
Earnings per share (cents)	**19,35**	15,70	34,29
Diluted earnings per share (cents)	**19,32**	15,66	34,23
Headline earnings per share (cents)	**18,43**	15,69	34,25

Condensed group statement of changes in equity

	Share capital R000's	Share premium R000's	Revaluation reserve R000's	Accumulated profit R000's	Non-controlling interest R000's	Total R000's
Balance at 30 June 2011 (audited)	24	116 150	46 389	364 765	96 225	623 553
Total comprehensive income for the period	–	–	–	36 886	9 354	46 240
Dividends paid	–	–	–	(28 788)	(5 538)	(34 326)
Balance at 31 December 2011 (unaudited)	24	116 150	46 389	372 863	100 041	635 467
Total comprehensive income for the period	–	–	3 240	43 703	11 037	57 980
Pre-acquisition reserves arising from significant business combination effected during the period	–	–	–	–	39 727	39 727
Balance at 30 June 2012 (audited)	**24**	**116 150**	**49 629**	**416 566**	**150 805**	**733 174**
Total comprehensive income for the period	**–**	**–**	**–**	**45 469**	**13 016**	**58 485**
Dividends paid	**–**	**–**	**–**	**(32 195)**	**(6 500)**	**(38 695)**
Balance at 31 December 2012 (unaudited)	**24**	**116 150**	**49 629**	**429 840**	**157 321**	**752 964**

Condensed group segment report

	Electrical Wholesaling R000's	**Lighting R000's**	**Corporate R000's**	**Inter-company eliminations and re-allocations R000's**	**Total R000's**
Unaudited for the 6 months ended 31 December 2012					
Segment revenue	**829 035**	**139 670**	**42 869**	**(46 918)**	**964 656**
Profit before interest and taxation	**46 419**	**14 420**	**34 137**	**(18 500)**	**76 476**
Segment assets	**585 402**	**139 872**	**312 513**	**(65 650)**	**972 137**
Segment liabilities	**148 219**	**70 486**	**25 695**	**(25 227)**	**219 173**
Unaudited for the 6 months ended 31 December 2011					
Segment revenue	693 766	–	36 125	(36 394)	693 497
Profit before interest and taxation	47 899	–	27 871	(15 762)	60 008
Segment assets	491 494	–	343 612	(76 160)	758 946
Segment liabilities	105 347	–	71 156	(53 024)	123 479
Audited for the year ended 30 June 2012					
Segment revenue	1 449 098	119 800*	33 951	(33 555)	1 565 294
Profit before interest and taxation	96 345	5 073*	30 307	(4 221)	127 504
Segment assets	625 030	115 203*	416 911	(172 585)	984 559
Segment liabilities	198 658	55 416*	129 474	(132 163)	251 385

** for the six months ended 30 June 2012*

Basis of preparation

The condensed unaudited consolidated interim financial statements for the six months ended 31 December 2012 have been prepared in compliance with International Financial Reporting Standards ("IFRS"), IAS 34 – Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the South African Companies Act and the Listings Requirements of the JSE Limited. The accounting policies applied are consistent with those applied in the annual financial statements for the year ended 30 June 2012 and the six months ended 31 December 2011. The condensed consolidated interim financial statements have not been audited or reviewed by the group's auditors.

The unaudited interim financial statements have been prepared under the supervision of the Financial Director, WR Neasham, CA(SA).

Diluted headline earnings per share (cents)	**18,40**	15,65	34,18

Condensed group statement of financial position

	Unaudited 31 December 2012 R000's	Unaudited 31 December 2011 R000's	Audited 30 June 2012 R000's
ASSETS			
Non-current assets			
Property, plant and equipment	**173 315**	153 939	162 871
Intangible assets	**78 471**	756	78 471
Deferred taxation	**6 366**	2 489	6 454
Current assets			
Inventory	**304 372**	189 325	251 088
Trade and other receivables	**255 224**	171 994	300 073
Taxation	**1 145**	95	319
Cash resources	**153 244**	240 348	185 283
Total assets	**972 137**	758 946	984 559
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	**24**	24	24
Share premium	**116 150**	116 150	116 150
Revaluation reserve	**49 629**	46 389	49 629
Accumulated profit	**429 840**	372 863	416 566
Attributable to ordinary shareholders	**595 643**	535 426	582 369
Non-controlling interest	**157 321**	100 041	150 805
Total shareholders' funds	**752 964**	635 467	733 174
Non-current liabilities			
Deferred lease payments	**771**	296	395
Deferred taxation	**38 843**	20 517	40 655
Current liabilities			
Trade and other payables	**178 142**	101 801	200 539
Deferred lease payments	**69**	18	109
Taxation payable	**715**	847	3 774
Bank overdraft	**633**	–	5 913
Total equity and liabilities	**972 137**	758 946	984 559
Number of shares in issue (000's)	**235 000**	235 000	235 000
Net asset value per share (cents)	**253,47**	227,84	247,82
Net tangible asset value per share (cents)	**231,50**	226,46	225,82

Condensed group statement of cash flows

	Unaudited 6 months to 31 December 2012 R000's	Unaudited 6 months to 31 December 2011 R000's	Audited year to 30 June 2012 R000's
Cash generated by operating activities	**110 711**	25 223	95 191
Interest received	**4 665**	9 238	17 985
Interest paid	**(846)**	(194)	(710)
Dividends paid	**(38 695)**	(34 326)	(34 326)
Taxation paid	**(26 839)**	(18 807)	(41 306)
Secondary tax on companies paid	**–**	(3 432)	(3 433)
Cash flows from operating activities	**48 996**	(22 298)	33 401
Cash flows from investing activities	**(40 377)**	(2 888)	(112 347)
Cash flows from financing activities	**(35 378)**	–	(7 218)
Net decrease in cash resources	**(26 759)**	(25 186)	(86 164)
Cash resources at beginning of period	**179 370**	265 534	265 534
Cash resources at end of period	**152 611**	240 348	179 370

Commentary

The board of ARB ("the board") is pleased to present the group's interim results for the six months ended 31 December 2012 ("the period").

The group's strategy of achieving a level of revenue and profit diversification through acquiring strategically aligned, related businesses delivered top and bottom line growth.

Financial review

The group achieved revenue of R965 million representing growth of 39%, the majority of which was contributed by the recent acquisitions of Eurolux (Pty) Limited ("Eurolux") and Industrial Cable Suppliers (Pty) Limited ("ICS"). The group's overall gross margin improved from 18,8% to 20,3% due to the inclusion of the higher margin Eurolux results. The increase in overheads reflects the inclusion of Eurolux and ICS' overheads for the full period under review. Operating profit increased by 27% to R76,5 million.

Net interest received decreased due to the cash-settled acquisitions of Eurolux and ICS. These acquisitions proved to be earnings enhancing as their contribution to operating profit substantially exceeded the reduction in interest received.

The group's effective tax rate was lower than in the prior period due to the introduction of dividend withholding tax resulting in no STC charge in the current period.

Headline earnings per share grew by 17,5% to 18,43 cents (2011: 15,69 cents).

The group's statement of financial position remains robust reflecting a net asset value per share of 253,47 cents (2011: 227,84 cents) and a net ungeared cash position of R153 million.

Net working capital as a percentage of annualised revenue was maintained at below 20% reflecting management's disciplined approach to cash management. Inventory days increased, as anticipated, due to increased stock orders ahead of the Chinese New Year factory shutdowns. Despite the major retail chains taking extended payment terms over the peak festive season, trade receivable days (net of VAT) increased only marginally to 42 days.

Net capital expenditure for the period amounted to approximately R4,4 million. The ICS purchase consideration amounted to R36 million, while a further amount of R35 million was used to settle ICS' external interest-bearing debt.

Segmental review

Electrical Wholesaling

The Electrical Wholesaling segment produced disappointing results for the period as revenue growth, boosted by the acquisition of ICS, was offset by a decline in gross margins during the period. The segment's results were further impacted by the costs associated with the implementation of its new ERP software as well as the ICS integration costs, the full benefits of which will only be realised in the second half of the financial year.

Lighting

The Lighting segment produced very pleasing results for the period. Strong revenue growth reflects market share gains and the combination of improved margins and tight cost control produced an excellent trading result for the period.

Corporate

The Corporate segment represents the group's ungeared property portfolio, comprising 17 properties valued at R140 million, the centralised treasury function and ARB IT Solutions (Pty) Limited. Results for the period were in line with expectations and better than the prior period due to the non-recurrence of the Eurolux transaction costs incurred in the prior period.

Corporate activity and expansion

The acquisition of 100% of both ICS, effective from 2 July 2012, and Elektro Vroomen (Pty) Limited ("Elektro Vroomen"), effective from 1 January 2013, ensured that the period was a busy one from a corporate activity perspective.

Through these acquisitions, ARB continued to expand its geographic reach by adding four new branches across four provinces increasing ARB's national branch network to 19 branches across all nine provinces.

Acquisition of 100% of ICS

With effect from 2 July 2012, ARB acquired 100% of ICS. The fair value of ICS' net assets as at the effective date of the acquisition was determined as follows:

	R000's
Total assets	**124 794**
Total liabilities	**(85 875)**
Net assets	**38 919**
Bargain purchase price	**(2 928)**
Total consideration settled in cash	**35 991**

For the period, ICS reported the following revenue and profit after tax:

	R000's
Revenue	**103 970**
Profit after tax	**1 187**

ICS' revenue and profit included in the group statement of comprehensive income form part of the "Electrical Wholesaling" segment in the condensed group segment report.

Acquisition of 100% of Elektro Vroomen

The acquisition of 100% of Elektro Vroomen was announced on SENS on 11 December 2012 and became effective on 1 January 2013.

Established in 1959, Elektro Vroomen is an electrical wholesaling operation with branches in Bloemfontein and Kathu. The acquisition provides ARB Electrical with an established presence and customer base in the Free State as well as in the fast-growing mining node of Kathu, Northern Cape. Furthermore, the acquisition provides ARB with an opportunity to expand Elektro Vroomen's product offering to include a full range of cable and overhead line products to complement its current range of low voltage electrical products.

Although still subject to finalisation, the fair value of Elektro Vroomen's net assets as at the effective date of the acquisition was determined as follows:

	R000's
Total assets	**11 426**
Total liabilities	**(16 926)**
Net liabilities	**(5 500)**
Goodwill	**5 500**
Total consideration settled in cash	**R1,00**

Exclusive international distribution agreements

Consistent with its strategy to secure higher margin, proprietary products, the group secured the exclusive distribution rights to several international electrical products including ACCC® (a technologically advanced, high performance transmission conductor), Copperweld (a range of bimetallic wire products with significant anti-theft properties) and the full range of Zhejiang Chint Electrics Co. Limited's (the largest manufacturer of electrical products in China) low voltage products. The contribution from these agencies will only be evident in future periods.

With an ungeared balance sheet and significant cash resources, management continues to explore acquisition opportunities aligned to its long-term strategy of offering a diversified range of electrical and related industrial products to a broad spectrum of industries and market segments.

Prospects

While the group remains well positioned to benefit from any improvement in public sector infrastructure spending, all indications point to a continuation of the tough market conditions experienced over the past few years. The recent corporate activity and more diversified revenue and profit base should positively influence the group's results for the remainder of the financial year.

The above prospects statements have not been reviewed or reported on by the company's auditors.

Changes to the board

As previously announced, Craig Robertson resigned as an executive director of the company on 1 July 2012 and as chief executive officer of ARB Electrical on 31 December 2012 following the successful handover of his duties to Blayne Burke.

Subsequent events

Save for the Elektro Vroomen acquisition becoming effective on 1 January 2013, no significant events have occurred in the period between the reporting date and the date of this announcement.

Dividends

ARB's policy is to distribute a single, annual dividend for the full year of up to a maximum of 40% of net profit after taxation. In line with this policy, no interim dividend has been declared.

Appreciation

We would like to acknowledge our management and staff, our fellow directors as well as our valued customers, suppliers, business partners, advisors and shareholders for their continued support.

For and on behalf of the board

Alan R Burke
Chairman

Byron Nichles
Chief Executive Officer

13 February 2013

Directors
AR Burke (Chairman)*; ST Downes*^; JR Modise*; WR Neasham (Financial Director); B Nichles (Chief Executive Officer); RB Patmore*^#; G Pretorius*^
** non-executive ^ independent # lead independent director*

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