ARB Holdings Limited

Abridged audited results

for the year ended 30 June 2013, dividend announcement and notice of Annual General Meeting

Highlights

- **Revenue** +24% **to R1,94 billion**
- **Ungeared** with **R203 million** cash resources
- **Operating profit** +26% **to R160 million**
- **Annual dividend** +18% **to 16,2 cents** per share plus a **special dividend of 10,0 cents** per share
- **Headline earnings per share** +15% **to 39,55 cents**
- **Acquisition** of **Industrial Cable Suppliers** and **Elektro Vroomen**

(Registration number: 1986/002975/06) Share code: ARH ISIN: ZAE000109435 ("ARB" or "the Company" or "the Group")

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Abridged Group statement of comprehensive income

	% Change	**Audited year to 30 June 2013 R000's**	Audited year to 30 June 2012 R000's
Revenue	24	**1 944 541**	1 565 294
Cost of sales		**1 519 421**	1 258 142
Gross profit	38	**425 120**	307 152
Other income		**5 807**	6 282
Operating expenses		**(270 452)**	(185 930)
Profit before interest and taxation	26	**160 475**	127 504
Interest received		**10 418**	17 985
Interest paid		**(971)**	(710)
Profit before taxation		**169 922**	144 779
Taxation		**46 242**	43 799
Profit for the year	22	**123 680**	100 980
Revaluation of property, plant and equipment (net of taxation)		**10 928**	3 240
Total comprehensive income for the year	29	**134 608**	104 220
Profit for the year attributable to:	22	**123 680**	100 980
Minority interests	40	**28 550**	20 391
Ordinary shareholders	18	**95 130**	80 589
Total comprehensive income attributable to:	29	**134 608**	104 220
Minority interests	40	**28 550**	20 391
Ordinary shareholders	27	**106 058**	83 829

Reconciliation of headline earnings

	% Change	**Audited year to 30 June 2013 R000's**	Audited year to 30 June 2012 R000's
Profit for the year attributable to ordinary shareholders	18	**95 130**	80 589
Bargain purchase price (net of minorities)		**(2 171)**	–
Surplus on disposal of property, plant and equipment (net of taxation)		**(23)**	(109)
Headline earnings	15	**92 936**	80 480
Ordinary number of shares in issue (000's)		**235 000**	235 000
Weighted average number of shares (000's)		**235 000**	235 000
Diluted number of shares (000's)		**235 340**	235 460
Basic earnings per share (cents)	18	**40,48**	34,29
Diluted earnings per share (cents)	18	**40,42**	34,23
Headline earnings per share (cents)	15	**39,55**	34,25

Abridged Group statement of changes in equity

	Share capital R000's	Share premium R000's	Revaluation reserve R000's	Accumulated profit R000's	Minority interests 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 year	–	–	3 240	80 589	20 391	104 220
Dividends paid	–	–	–	(28 788)	(5 538)	(34 326)
Pre-acquisition reserves arising from significant business combination effected during the year	–	–	–	–	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 year	**–**	**–**	**10 928**	**95 130**	**28 550**	**134 608**
Dividends paid	**–**	**–**	**–**	**(32 195)**	**(6 500)**	**(38 695)**
Balance at 30 June 2013 (audited)	**24**	**116 150**	**60 557**	**479 501**	**172 855**	**829 087**

Abridged Group segment report

	Electrical R000's	**Lighting R000's**	**Corporate R000's**	**Inter-company eliminations R000's**	**Total R000's**
Audited for the year ended 30 June 2013					
Segment revenue	**1 678 576**	**281 177**	**38 698**	**(53 910)**	**1 944 541**
Profit before interest and taxation	**101 301**	**30 498**	**30 052**	**(1 376)**	**160 475**
Segment assets	**733 653**	**153 527**	**352 781**	**(93 566)**	**1 146 395**
Segment liabilities	**253 044**	**72 467**	**40 566**	**(48 769)**	**317 308**

	Electrical R000's	Lighting* R000's	Corporate R000's	Inter-company eliminations R000's	Total R000's
Audited for the year ended 30 June 2012					
Segment revenue	1 449 098	119 800	33 951	(37 555)	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 abridged audited consolidated annual financial statements for the year ended 30 June 2013 ("the year") have been prepared in compliance with International Financial Reporting Standards ("IFRS"), IAS 34, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the South African Companies Act and the Listings Requirements of the JSE Limited. The accounting policies applied are consistent with those applied in the prior year. The annual financial statements have been audited by PKF Durban, whose unqualified audit opinion is available for inspection at the Company's registered office.

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

Commentary

The Board of ARB ("the Board") is pleased to present the Group's audited results for the year ended 30 June 2013.

A strong trading performance by the Lighting division coupled with two further strategic acquisitions by the Electrical division ensured that the Group once again delivered top and bottom line growth.

Financial review

The Group continues to evaluate several acquisition opportunities although these will only be concluded if the Board is convinced of the strategic fit and merits of such acquisitions and provided that the terms and structure of such acquisitions are value accretive to ARB shareholders.

Prospects

Electrical

Given the prevailing low levels of construction activity, the dual challenges of labour unrest and declining commodity prices impacting the mining sector and lethargic public sector spend,

	% Change	2013	2012
Diluted earnings per share (cents)	18	**40,42**	34,23
Headline earnings per share (cents)	15	**39,55**	34,25
Diluted headline earnings per share (cents)	16	**39,49**	34,18

Abridged Group statement of financial position

	% Change	**Audited 30 June 2013 R000's**	Audited 30 June 2012 R000's
ASSETS			
Non-current assets			
Property, plant and equipment		**193 621**	162 871
Intangible assets		**84 411**	78 471
Deferred taxation		**11 859**	6 454
Current assets			
Inventory		**341 664**	251 088
Trade and other receivables		**311 679**	300 073
Taxation overpaid		**371**	319
Cash resources		**202 790**	185 283
Total assets		**1 146 395**	984 559
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital		**24**	24
Share premium		**116 150**	116 150
Revaluation reserve		**60 557**	49 629
Accumulated profit		**479 501**	416 566
Attributable to ordinary shareholders	13	**656 232**	582 369
Minority interests		**172 855**	150 805
Total shareholders' funds	13	**829 087**	733 174
Non-current liabilities			
Deferred lease payments		**–**	395
Deferred taxation		**37 893**	40 655
Current liabilities			
Interest-bearing debt		**2 259**	–
Trade and other payables		**275 045**	200 539
Deferred lease payments		**836**	109
Taxation payable		**1 238**	3 774
Bank overdraft		**37**	5 913
Total equity and liabilities		**1 146 395**	984 559
Number of ordinary shares in issue (000's)		**235 000**	235 000
Net asset value per share (cents)	13	**279,25**	247,82
Net tangible asset value per share (cents)	12	**252,42**	225,82

Abridged Group statement of cash flow

	% Change	**Audited year to 30 June 2013 R000's**	Audited year to 30 June 2012 R000's
Cash generated by operating activities		**197 156**	95 191
Interest received		**10 418**	17 985
Interest paid		**(971)**	(710)
Dividends paid		**(38 695)**	(34 326)
Taxation paid		**(49 328)**	(41 306)
Secondary Tax on Companies paid		**–**	(3 433)
Cash flows from operating activities		**118 580**	33 401
Cash flows from investing activities		**(79 344)**	(112 347)
Cash flows from financing activities		**(15 853)**	(7 218)
Increase in cash resources		**23 383**	(86 164)
Cash resources at beginning of year		**179 370**	265 534
Cash resources at the end of the year	13	**202 753**	179 370

Financial review

The Group achieved revenue of R1,94 billion, an increase of 24% over the prior year. Despite the competitive marketplace, the Group's overall gross profit margin improved from 19,6% to 21,9% in the current year reflecting the inclusion of the higher margin Lighting division for the full year compared to only six months in the prior year.

Similarly the disproportionate increase in overheads relative to revenue was due to the inclusion for the full year of the Lighting division, which has a higher overhead to revenue operating model than the Electrical division.

The improvement in gross profit more than offset the increase in overheads resulting in the Group's operating margin improving to 8,3% (2012: 8,1%).

Net interest received decreased due to the cash funded acquisitions of Industrial Cable Suppliers (Pty) Limited ("ICS") and Elektro Vroomen as well as the payment of dividends during the year.

The Group's effective tax rate was lower than in the prior year due to the introduction of Dividend Withholding Tax resulting in no Secondary Tax on Companies charge in the current year.

Earnings per share grew by 18% to 40,48 cents (2012: 34,29 cents). Headline earnings per share, after eliminating the bargain purchase price in respect of ICS, grew by 15% to 39,55 cents (2012: 34,25 cents).

Working capital continues to be well-managed across all operating divisions with the Group's net investment in working capital expressed as a percentage of annualised revenue improving to 19,5% from 20,8% in the prior year.

Net capital expenditure for the year amounted to R19,3 million, the majority of which represented the replacement of a significant portion of the Electrical division's vehicle fleet.

The increase in intangible assets during the year was primarily as a result of the Elektro Vroomen acquisition.

The strongly cash generative nature of the Group's operations resulted in ARB remaining ungeared with net cash of approximately R200 million at year-end.

The Group's after-tax return on average equity improved to 15,4% in the current year from 14,5% in the prior year.

Divisional review

Electrical

The largest contributor to revenue and profits, the Electrical division, delivered a disappointing performance for the full year. Divisional revenue increased by 16% to R1,68 billion, boosted by the acquisitions of ICS and Elektro Vroomen, while operating profit increased by 5% to R101 million. Significant progress was made in integrating ICS' and Elektro Vroomen's operations since their respective acquisitions, but neither are as yet operating at their true potential and improved performances are expected from both in the coming year.

Lighting

In reporting revenue of R281 million and operating profit of R30,5 million, the Lighting division produced an excellent set of results in its first full year of inclusion. These results reflect the combination of strong market share gains, a focus on margin improvement and tight cost control. The range of electrical accessories launched during the year continues to be expanded and good progress was made by Eurolux in the commercial and project lighting market.

Corporate

The Corporate division houses the Group's property portfolio, in-house IT department and centralised treasury function. Revenue for the year was boosted by the once-off fees charged within the Group in respect of the successful deployment of the redeveloped Xact II ERP solution.

During the year, the Group acquired three new properties, increasing its property portfolio to 15 properties with a fair market value of R155 million.

Corporate activity and expansion

During the year, the Group made the following acquisitions:

- 100% of ICS with effect from 2 July 2012 for a total purchase consideration of R35.991 million; and
- 100% of Elektro Vroomen with effect from 1 January 2013 for a total purchase consideration of R1,00.

The aggregated fair value of the net assets acquired was determined as follows:

	R000's
Total assets	**136 542**
Total liabilities	**(103 123)**
Net assets	**33 419**
Net goodwill	**2 572***
Total consideration transferred in cash	**35 991**

** The acquisition of ICS resulted in a bargain purchase price of R2.928 million while the acquisition of Elektro Vroomen resulted in goodwill of R5.500 million.*

In aggregate, these acquisitions contributed the following to the Electrical division's revenue and profit before interest and tax in the Abridged Group segment report:

	R000's
Revenue	**197 882**
Profit before interest and tax	**4 498**

Given the prevailing low levels of construction activity, the dual challenges of labour unrest and declining commodity prices impacting the mining sector and lethargic public sector spend, trading conditions are expected to remain tough for the foreseeable future. The Electrical division however is well-placed to benefit from a recovery in any of the above sectors.

Lighting

The recent key customer gains and successful expansion of the product offering to include electrical accessories as well as commercial and project lighting should contribute to the continued top and bottom line growth of the Lighting division in the year ahead despite consumer spending continuing to be under pressure.

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

Dividends

In view of the Group's continued strong cash generation and its ungeared balance sheet, the Board has resolved to declare a dividend of 16,2 cents per share (2012: 13,7 cents per share) for the year ended 30 June 2013, representing the maximum payout in terms of the Company's dividend policy. In addition, the Board has resolved to declare a further special dividend of 10,0 cents per share in order to address the Company's capital structure.

The relevant dates for the dividends are as follows:

Event	Date
Last day to trade *cum* dividend	Friday, 30 August 2013
Shares commence trading *ex* dividend	Monday, 2 September 2013
Record date	Friday, 6 September 2013
Payment date	Monday, 9 September 2013

Share certificates may not be dematerialised or rematerialised between Monday, 2 September 2013 and Friday, 6 September 2013, both days inclusive.

In compliance with the JSE Listings Requirements, the following additional information is disclosed:

1. the dividend and special dividend have been declared out of income reserves;
2. the local dividend tax rate is 15%;
3. there are no Secondary Tax on Companies credits utilised against the dividends;
4. the gross local dividend amount is 16,2 cents per share for shareholders exempt from paying Dividends Tax;
5. the gross local special dividend amount is 10,0 cents per share for shareholders exempt from paying Dividends Tax;
6. the net local dividend amount is 13,770 cents per share for shareholders liable to pay Dividends Tax;
7. the net local special dividend amount is 8,500 cents per share for shareholders liable to pay Dividends Tax;
8. the issued share capital of ARB is 235 000 000 ordinary shares of 0,01 cent each; and
9. ARB's income tax reference number is 9010/138/20/5.

Subsequent events

No significant events have occurred during the period between the reporting date and the date of this announcement.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of shareholders of ARB as at Friday, 6 September 2013, being the record date set by the Board for purposes of determining which shareholders are entitled to receive the notice of Annual General Meeting, will be held at 11:00 on Wednesday, 23 October 2013, at the Company's registered office located at 10 Mack Road, Prospecton, Durban. The notice of Annual General Meeting is contained in the integrated annual report which will be posted to shareholders by no later than 17 September 2013.

The last day to trade and the record date, in order for shareholders to be eligible to participate in and vote at the Annual General Meeting, is 11 October 2013 and 18 October 2013, respectively.

Appreciation

We thank our management teams and staff for their hard work in a trying economic environment. We also express our gratitude to our fellow Directors for their valued contribution and wise counsel. Last but certainly not least, we extend our thanks to our valued customers, suppliers, business partners, advisers and shareholders for their ongoing support.

For and on behalf of the Board

Alan R Burke
Chairman

Byron Nichles
Chief Executive Officer

15 August 2013

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

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