ARB
Holdings Limited

Summarised audited consolidated results

for the year ended 30 June 2019, dividend announcement and notice of Annual General Meeting

www.arbhold.co.za

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

SALIENT POINTS

Revenue **up 4.5%** to R2 706m
(2018: R2 590m)

Headline earnings ("HEPS") per share
down 18.8% to 58.20 cents

Dividend per share maintained at
25.00 cents

Cash on hand of **R180,9m**
(2018: R259,4m)

Cash on hand is after paying dividends, capital expenditure and acquisitions of **R317,0m**

COMMENTARY

NATURE OF BUSINESS

ARB is an investment and property holding company which owns investments in related trading and distribution businesses. Major investment holdings include 74% of ARB Electrical Wholesalers, a level 2 BEE company which operates 26 electrical wholesale branches (2018: 22) throughout South Africa, and 60% of Eurolux, which imports and distributes light fittings, lamps and related accessories.

FINANCIAL REVIEW

This was another tough year for the South African economy, from which the Group generates most of its revenue. Group revenue grew 4.5% during the year to R2,7bn, helped by the inclusion of the CraigCor acquisition for a full year, and Radiant for six months.

Gross margins improved slightly, mainly attributable to the change in product sales mix, with the introduction of Radiant for six months. The electrical wholesale operation's margin declined as a result of competitive pressures from the reduced trading opportunities.

Overheads continue to be closely managed and are constantly being reviewed. The 19.3% increase in overheads is predominantly attributable to the inclusion of the Radiant overheads for six months, and of the full year for CraigCor.

Operating profit decreased 24.0% to R155,4m (2018: R204,3m), with operating margin declining to 5.7% (2018: 7.9%). This decline was largely caused by the poor performance from the electrical wholesale business.

The decrease in interest received was impacted by the cash utilised to finance the Radiant acquisition, together with the cost of the Lords View property development.

Headline earnings per share declined by 18.8% to 58.20 cents per share, compared to 71.70 cents in the prior period. Shareholders are reminded of the effect which the change in the Eurolux and CraigCor put option liabilities has on the earnings of the Group. In the current year there was a reduction in these liabilities of R21,24 million, compared to a R26,0 million reduction in the prior year. These liabilities are sensitive to the average earnings of the subsidiaries, Eurolux and CraigCor, and to the price earnings ratio of the Group.

DIVISIONAL REVIEWS

Electrical division *(revenue down 1.1% and operating profit down 33.7%)*

This division comprises ARB Electrical Wholesalers, GMC Powerlines, ARB Global, CraigCor and CED. Revenue continues to be hampered by the lack of any real economic growth or infrastructure expenditure in South Africa. The challenges which have occurred with the major companies in the construction sector have also negatively impacted the electrical wholesale operation during the year under review.

This division has benefited from a strong performance by CraigCor, which was acquired in February 2018, and which showed significant growth, and countered the poor performance of the electrical wholesale operation.

Another challenge during the year has been the difficulty experienced by the cable manufacturers with the lack of copper supplies, particularly in the first half of our financial year, which resulted in short supplies of certain products. Furthermore, the change in strategy by a major supplier to supply directly to our customers, together with the decline in the number of projects available, has put pressure on margins.

Indirect supply of overhead line products to Eskom via contractors, has declined substantially, mainly as a result of the decline in electrification projects awarded during the year. We believe that this sector will show growth as the need to electrify rural areas remains a priority of national government. Consequentially, this division acquired GMC Powerlines effective 1 March 2019. GMC is an importer of overhead line products, a number of which are included on the Eskom LAP list, and are also promoted for sale to other African countries.

Despite the poor performance, management of working capital has ensured that this division remains cash generative.

Lighting division *(revenue up 29.3% and operating profit down 22.9%)*

This division comprises Eurolux, Radiant and Cathay lighting. Revenue was positively impacted by the inclusion of Radiant's turnover for the six months to June 2019, partially offset by the volatile exchange rate and the lack in consumer confidence.

This division's decline in gross margin during the period, was affected by the effect of the volatile exchange rate on the nature and timing of the products imported. Radiant sales were disappointing in the first six months as part of the lighting division, due to the internally focused drive to restructure the organisation and re-motivate the staff. Energy is now being focused on growing market share, with a motivated sales force and an extended product range. The division continues to manage the challenges which exist in ensuring compliance in the issuance of letters of authority by the National Regulator of Compliance Specifications for the enlarged product range.

Overheads still approximate 29% of revenue of the enlarged division, notwithstanding that there are certain once-off costs associated with the restructuring and integration of Radiant into this division. Further restructuring costs are expected in the next six months as the Johannesburg operations are combined; thereafter benefits are expected from the reduction in the combined, group-owned buildings.

The reduction in margin and the restructuring costs have resulted in an operating margin decline to 5.4% (2018: 9.2%) of turnover.

Corporate division *(Revenue up 21.0 % and operating profit up 33.5 %)*

This division comprises the property portfolio and Xact ERP Solutions business. The increase in operating profit has resulted mainly from the additional rental in respect of the Lords View development from January 2019.

Given the fixed nature of the property rental income, the results are in line with expectations. During the year, the development of the 42 000m² site purchased in Lords View in April 2017, to house the ARB electrical distribution centre was completed. Beneficial occupation occurred in late December 2018, despite the many work stoppages on site due to demands by local residents for non-existent jobs. The facility has cost R145m, of which R70m was incurred in the current financial year. The entire project has been funded out of internal resources. The Alrode site has now been let externally on a short-term basis, with the intention to dispose of this property to fund future operations and expansion.

Xact ERP Solutions continues to develop a stand-alone identity relevant to its target market. This division has continued to show customer gains, but remains a small revenue and profit generator for the division.

CORPORATE ACTIVITY AND EXPANSION

Acquisitions remain an integral part of the Group's growth and expansion strategy. The Board has decided to continue to explore acquisition opportunities which present themselves. However, the immediate focus is to fully integrate the Radiant acquisition with Eurolux, and manage the Lords View distribution centre into an effective operating facility.

PROSPECTS

The Group remains profitable and cash generative, ensuring that it is adequately positioned to take advantage of any significant upturn in the South African economy.

Given that the Group's prospects are driven by the performance of the general economy, and that our outlook for the South African economy in the short to medium term is "more of the same", we will need to remain cautious and look at rightsizing the operational structures, particularly in the electrical division. A period of consolidation makes sense in the current trading environment.

SUMMARISED GROUP STATEMENT OF COMPREHENSIVE INCOME

	% change	Audited year to 30 June 2019 (R000)	Audited year to 30 June 2018 (R000)
Revenue	4.5	**2 706 186**	2 590 150
Cost of sales	4.1	**2 055 831**	1 974 964
Gross profit	5.7	**650 355**	615 186
Other income	(62.7)	**2 236**	5 987
Selling, administration and distribution expenses	19.3	**(497 224)**	(416 847)
Operating profit	(24.0)	**155 367**	204 326
Impairment of goodwill		**(18 410)**	–
Gain on bargain purchase price		**18 779**	–
Change in put option valuation	(18.3)	**21 248**	26 000
Profit before interest and taxation	(23.2)	**176 984**	230 326
Net interest received	(29.2)	**17 370**	24 541
Profit before taxation	(23.7)	**194 354**	254 867
Taxation	(22.2)	**49 189**	63 220
Profit for the year	(24.3)	**145 165**	191 647
Items that will not be recycled into profit or loss			
– Revaluation of property, plant and equipment (net of taxation)		**2 269**	2 429
Total comprehensive income for the year	(24.0)	**147 434**	194 076
Profit for the period attributable to:		**145 165**	191 647
– Non-controlling interests	(56.0)	**10 188**	23 151
– Ordinary shareholders	(19.9)	**134 977**	168 496
Total comprehensive income attributable to:		**147 434**	194 076
– Non-controlling interests	(56.0)	**10 188**	23 151
– Ordinary shareholders	(19.7)	**137 246**	170 925

RECONCILIATION BETWEEN EARNINGS AND HEADLINE EARNINGS

	% change	**Audited year to 30 June 2019 (R000)**	Audited year to 30 June 2018 (R000)
Profit for the period attributable to ordinary shareholders		**134 977**	168 496
Impairment of goodwill		**18 410**	–
Gain on bargain purchase price		**(18 779)**	–
Impairment of land (net of tax)		**1 800**	–
Loss on disposal of property, plant and equipment (net of tax and NCI)		**370**	3
Headline earnings		**136 778**	168 499
Number of ordinary shares in issue (000s)		**235 000**	235 000
Weighted average number of ordinary shares in issue (000s)		**235 000**	235 000
Diluted number of ordinary shares (000s)*		**235 000**	235 000
Basic earnings per share (cents)*	(19.9)	**57.44**	71.70
Headline earnings per share (cents)*	(18.8)	**58.20**	71.70

* *There are no dilutive instruments in issue.*

SUMMARISED GROUP STATEMENT OF FINANCIAL POSITION

	% change	Audited at 30 June 2019 (R000)	Audited at 30 June 2018 (R000)
ASSETS			
Property, plant and equipment	24.6	**412 882**	331 323
Intangible assets	(20.1)	**76 447**	95 638
Deferred taxation		**7 037**	8 218
Total non-current assets		**496 366**	435 179
Current assets		**1 201 062**	1 161 501
Inventory	19.5	**607 370**	508 174
Trade and other receivables	4.8	**412 802**	393 907
Cash resources	(30.3)	**180 890**	259 420
Total assets		**1 697 428**	1 596 680
EQUITY AND LIABILITIES			
Share capital and premium		**116 174**	116 174
Revaluation reserve		**75 178**	72 909
Accumulated profits		**831 120**	778 393
Attributable to ordinary shareholders		**1 022 472**	967 476
Non-controlling interests ("NCI")		**133 691**	150 543
Total shareholders' funds		**1 156 163**	1 118 019
Non-current liabilities		**63 535**	76 028
Put option liability		**19 000**	33 475
Deferred lease liability		**1 598**	631
Deferred taxation	2.4	**42 937**	41 922
Current liabilities	18.7	**477 730**	402 633
Trade and other payables	12.8	**374 571**	332 011
Short-term loans		**38 851**	–
Put option liability	(7.7)	**60 000**	65 007
Taxation payable	(23.3)	**4 308**	5 615
Total equity and liabilities		**1 697 428**	1 596 680

	Audited at 30 June 2019 (R000)	Audited at 30 June 2018 (R000)
Net asset value per share (cents)	**435.09**	411.69
Net tangible asset value per share (cents)	**408.53**	374.47
Property, plant and equipment		
Capital expenditure for the year	**93 890**	106 299
Capital commitments – contracted for	**102 167**	44 526
Capital commitments – not contracted for	**6 460**	27 106
Depreciation and amortisation	**17 648**	13 695

SUMMARISED GROUP STATEMENT OF CASH FLOWS

	Audited at 30 June 2019 (R000)	Audited at 30 June 2018 (R000)
Cash generated by trading activities	**167 676**	217 053
Increase in net working capital	**58 125**	8 286
Cash generated by operating activities	**225 801**	225 339
Net interest received	**19 136**	26 099
Dividends paid	**(109 290)**	(118 650)
Taxation paid	**(48 770)**	(65 039)
Cash flows from operating activities	**86 877**	67 749
Cash flows from investing activities	**(204 258)**	(114 971)
Cash flows from financing activities	**38 851**	–
Increase in cash resources	**(78 530)**	(47 222)
Cash resources at the beginning of the year	**259 420**	306 642
Cash resources at the end of the year	**180 890**	259 420

SUMMARISED GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital and premium (R000)	Revaluation reserve (R000)	Accumulated profit (R000)	Non-controlling interests (R000)	Total (R000)
Balance at 30 June 2017	116 174	70 480	712 286	170 868	1 069 808
Total comprehensive income	–	2 429	168 496	23 151	194 076
Shortfall on derecognition of NCI	–	–	(20 139)	(7 076)	(27 215)
Dividends paid	–	–	(82 250)	(36 400)	(118 650)
Balance at 30 June 2018	116 174	72 909	778 393	150 543	1 118 019
Total comprehensive income	–	2 269	134 977	10 188	147 434
Dividends paid	–	–	(82 250)	(27 040)	(109 290)
Balance at 30 June 2019	**116 174**	**75 178**	**831 120**	**133 691**	**1 156 163**

SUMMARISED GROUP SEGMENT REPORT

	Electrical (R000)	Lighting (R000)	Corporate (R000)	Inter-Co (R000)	Total (R000)
Audited year to 30 June 2019					
– Segment revenue	**2 096 776**	**648 689**	**55 510**	**(94 789)**	**2 706 186**
– Operating profit	**85 555**	**35 374**	**44 972**	**(10 534)**	**155 367**
– Profit before interest and tax	**70 562**	**54 153**	**35 473**	**16 796**	**176 984**
– Profit before tax	**85 748**	**39 690**	**157 480**	**(88 564)**	**194 354**
– Segment assets	**888 237**	**461 307**	**713 141**	**(365 257)**	**1 697 428**
– Segment liabilities	**347 889**	**251 434**	**202 673**	**(260 731)**	**541 265**
– Net segment assets	**540 348**	**209 873**	**510 468**	**(104 526)**	**1 156 163**
Audited year to 30 June 2018					
– Segment revenue	2 119 913	501 876	45 882	(77 521)	2 590 150
– Operating profit	129 036	45 891	33 698	(4 299)	204 326
– Profit before interest and tax	134 036	45 891	59 288	(8 889)	230 326
– Profit before tax	149 841	37 153	193 472	(125 599)	254 867
– Segment assets	948 957	346 540	707 199	(406 016)	1 596 680
– Segment liabilities	341 195	161 238	252 883	(276 655)	478 661
– Net segment assets	607 762	185 302	454 316	(129 361)	1 118 019

BASIS OF PREPARATION

The summarised audited consolidated annual financial statements for the year ended 30 June 2019 have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and its interpretations issued by the International Accounting Standards Board ("IASB"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act, and the JSE Listings Requirements. These summarised financial results do not include all the disclosures required by IFRS, but contain the minimum information required by IAS 34 *Interim Financial Reporting*.

Other than the implementation of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers*, the accounting policies used in the preparation of these results are in accordance with IFRS and are consistent, in all material respects, with those applied in the prior year.

These summarised financial statements have been extracted from the consolidated financial statements for the year ended 30 June 2019 which have been audited by PKF Durban, whose unqualified audit opinion on these consolidated financial statements is available for inspection at the Company's registered office, together with the financial statements which will be utilised in preparation of the integrated report for circulation to the shareholders together with the Notice of the Annual General Meeting. This summarised report is extracted from audited information, but is not itself audited.

The auditor's report does not necessarily cover all the information included in this announcement. The Board of Directors of ARB takes full responsibility for the preparation of these summarised audited consolidated financial results for the year ended 30 June 2019 and for ensuring that the summarised financial information has been correctly extracted from the underlying audited annual financial statements. Statements contained in this announcement, regarding the prospects of the Group, have not been reviewed or audited by the Group's external auditors.

This report and the audited summarised consolidated financial statements have been prepared and compiled under the supervision of Grant Scrutton CA(SA) (Chief Financial Officer).

ACQUISITION OF SUBSIDIARIES

With effect from 1 January 2019 the Group acquired an effective 100% controlling interest in Radiant via its 60% investment in Eurolux to gain access to a lighting distributor supplying imported luminaires and fittings primarily through the wholesale distribution channel into the South African market. The purchase consideration was a fixed amount and was settled in cash in February 2019. The gain on bargain purchase price of R18,8m arose as the business was incurring losses and this discount was negotiated to compensate the Group for the costs and losses required to rationalise the business and integrate it into the existing Eurolux group.

The Group also purchased the business of GMC Powerlines as a going concern with effect from 1 March 2019, to access a well-established range of Eskom approved products, imported from China. The purchase price was partly paid in cash at the closing of the transaction with the balance payable monthly in instalments of R0,8m with an adjustment for any designated slow-moving stock sold by the final 28 February 2020 closing date, subject to a maximum purchase price of R50,0m. It is estimated that the final purchase price will be R36,0m.

IMPAIRMENT OF GOODWILL

The Eurolux goodwill of R18,4m has been impaired as it was determined from the discounted cash flow valuation of the forecast future cash flows of the cash-generating unit ("GCU") that the carrying amount of the CGU including the goodwill was greater that the recoverable amount of the CGU to the extent of the goodwill. This impairment loss was recognised due to the recoverable amount being adversely impacted by pressure on the projected future gross margins resulting from the anticipated tougher retail market conditions ahead.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial liabilities measured at fair value in the statement of financial position are categorised, in IFRS, into the three levels of the "fair value hierarchy" based on the basis of the lowest level input that is significant to the fair value measurement in its entirety. ARB's Level 3 liabilities are the put option liabilities:

	Level	**2019 (R000)**	2018 (R000)
CraigCor – non-current	3	**19 000**	33 475
Eurolux – current	3	**60 000**	65 007
		79 000	98 482

There have been no transfers between levels. The fair value of the put option financial liabilities disclosed under Level 3 has been determined in accordance with the predetermined contractual valuation method. In the contractual valuation formula, the only input which is unobservable from market data is the subsidiaries' profits.

COMMITMENTS AND CONTINGENCIES

The Group has contracted capital commitments of R102,1m, and uncontracted commitments of R6,4m (2018: R44,5m and R27,1m respectively). The bulk of these relate to the acquisition of the Radiant properties and their improvement together with assets required for the Lords View distribution centre in Midrand.

The Group has lease commitments of R116,9m (2018: R62,7m), R23,0m due in the next 12 months, R47,0m in years two to five and R46,9m thereafter. The most significant increase has been the extension of the period of the Eurolux Cape Town lease from the NCI shareholders from 2021 to 2028, but Eurolux has the right at any time after June 2021 to terminate the lease by giving six months' notice, in the event that the property no longer meets the operational requirements of the lessee in its reasonable discretion.

DIVIDENDS

In view of the Group's continued strong operating cash generation and its substantially ungeared balance sheet, the Board has resolved to declare a dividend of 25.0 cents per share (2018: 25.0 cents per share) for the year ended 30 June 2019.

The relevant dates for the dividends are as follows:

Event	Date
Declaration date	**Wednesday, 14 August 2019**
Last day to trade *cum* dividend	**Tuesday, 3 September 2019**
Shares commence trading ex-dividend	**Wednesday, 4 September 2019**
Record date	**Friday, 6 September 2019**
Payment date	**Monday, 9 September 2019**

Share certificates may not be dematerialised or rematerialised between Wednesday, 4 September 2019 and Friday, 6 September 2019, both days inclusive.

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

1. the dividend has been declared out of income reserves;
2. the local dividend withholding tax rate is 20%;
3. the gross local dividend amount is 25.00 cents per share for shareholders exempt from paying dividend withholding tax;
4. the net local dividend amount is 20.00 cents per share for shareholders liable to pay dividend withholding tax;
5. the issued share capital of ARB is 235 000 000 ordinary shares of 0.01 cent each; and
6. ARB's income tax reference number is 9010/138/20/5.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of shareholders of ARB will be held at 10:00 on Tuesday, 5 November 2019, at the Company's registered office located at 10 Mack Road, Prospecton, Durban. The notice of Annual General Meeting will be contained in the integrated report which will be posted to shareholders by no later than Monday, 30 September 2019.

The record date, for purposes of determining which shareholders are entitled to receive the notice of Annual General Meeting, will be Friday 20 September 2019.

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, will be Tuesday, 22 October 2019 and Friday, 25 October 2019, respectively.

EVENTS SUBSEQUENT TO THE YEAR-END

Other than the conclusion of the previously announced purchase of the Radiant properties for R88,0m, which is anticipated to be completed in the next six months, the Directors are not aware of any other material event or circumstance arising since the end of the reporting period and up until the date of this report, not otherwise disclosed in these annual financial statements which significantly affects the financial position, results or cash flows of the Group.

FINANCIAL ASSISTANCE TO RELATED OR INTER-RELATED COMPANIES AND CORPORATIONS (S45)

The holding company has provided financial guarantees and cessions of loan accounts to the Group's bankers on behalf of the subsidiary companies as security for facilities granted to the subsidiary companies.

NOTIFICATION OF PUBLICATION OF ANNUAL B-BBEE COMPLIANCE

The Group holding company does not trade and has no B-BBEE score. In accordance with paragraph 16.20(g) and appendix 1 to section 11 of the JSE Listings Requirements, notice is hereby given that the annual compliance report relevant to the ARB operational group, in terms of section 13G(2) of the Broad-Based Black Economic Empowerment Act is available on the Company's website.

CHANGES TO THE BOARD

Mr Alan R Burke, our founding Chairman of the Group retired on 30 April 2019. There have been no other changes in the directorship of the Company.

APPRECIATION

We wish to express our sincere thanks to Mr Alan R Burke, the founder and Chairman of the Group who retired on 30 April 2019 after almost 40 years of passionate and active service. Alan established the core culture of the Group and we continue to live his values of "stay humble; stay driven; make a plan and put people first". We wish him well in his retirement.

We would like to acknowledge and thank our customers, suppliers, business partners, advisors, shareholders, management and staff for their continued support in another tough trading year.

Ralph Patmore	**William Neasham**
Chairman	*Chief Executive Officer*

15 August 2019

CORPORATE INFORMATION

Directors

RB Patmore (Chairman)#*
JS Dixon#*
ST Downes#*
WR Neasham (CEO)
GM Scrutton (CFO)

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