Barloworld
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Conference call transcript

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ANALYST PRESENTATION

Nwabisa Piki

Good morning, everyone. And thank you for joining Barloworld's 2022 annual results. With you today speaking in front of you is Nwabisa Piki. I'm the Head of Investor Relations. Today you will hear from our CEO, Mr. Dominic Sewela, and his team. Dominic will open with an overview and do a closing as well. We will then move to Nopasika Lila, who will take us through the financial performance. And she'll come back later on actually to take you also through some pro forma slides that we've prepared for you. Nopasika will be followed by divisional heads starting with Equipment Southern Africa, Mr. Emmy Leeka, followed by Quinton McGeer to take you through the Eurasia division. Chris will follow quinton to take us through Ingrain's performance. And thereafter, we will close and go into a Q&A session. Please post your questions online and we shall get to that. Without any further ado, I'd like to introduce Mr. Dominic Sewela. Thank you.

Dominic Sewela

Thank you Nwabisa. Good morning, ladies and gentlemen. It is indeed a great pleasure to welcome you all at this significant moment. I think this year we're celebrating 120 years of Barloworld's existence. Similarly, we are celebrating a relationship of 95 years with Caterpillar. And I think oftentimes when we talk our results every year, I give you numbers in terms of ESG. But I thought let me just talk about it very differently because I don't think too many of you understand how we approach ESG as Barloworld. Before I even re-joined Barloworld, Barloworld was leading in this area of ESG. But I guess the way we weave the story sometimes doesn't come across as one, because fundamentally, we're saying for the business to survive 120 years, how does it ensure that it survives another 120 years? First and foremost, it has got to operate in an environment where it respects its people, ensures that its people when they come to work, they come to work in a safe environment. Therefore, that's one of the things that we look at.

Another one is employee engagement, because employees that are disengaged are very difficult to please the customers. But these very same employees are coming from communities that are distressed, that are challenged. Therefore, we as a company need to think about what impact do we make in those communities where we operate in and where our employees are coming from. But we also live in a planet. There is only one planet that at least I know. There are other planets out there, but this planet is the one that we as Barloworld operate in. And it is our responsibility as the executives and the board to ensure that we are responsible in reducing the negative impact to the planet. You know that we've given you stats around water withdrawals, electricity consumptions and the emissions reductions.

But more importantly, we thought it's important that as we continue taking the steps, we also engage other stakeholders, like funders, to say we as Barloworld have embarked on these things. We would like you to start linking our funding to some of these, but it must be funding that makes sense for us. It must be cheaper because we've done the work and we intend to do the work. And I'm glad that we were able to negotiate a sustainability bond of over R1.1 billion and linking that bond with targets that spoke to solar energy, because by the time we engage we had already rolled out 1300 megawatt hours of photovoltaic solar plants across our businesses. We said we commit that by 2024 we will increase that by 55%. But also of importance, we say we link that a funding to the safety of our employees, that we want to see a reduction in lost time injury. We're currently sitting at 0.34, which is very low by the way. It is very low because our journey is to move to zero harm to our employees. I'm glad to say this year, we've reduced that by 19%.

But of importance, we said, when you look at South Africa, and we look at countries like Siberia where we operate, women are a major component of our business. So, in our drive to diversity and inclusion, we felt it's important that we represent women not just in lower levels, but in boards and senior executives. And when we put up this bond, we were already far ahead in terms of our targets. But we said we don't want to drop those standards. We want to maintain and increase them. That gender linked bond has got metrics that seek to ensure that we can only do better in terms of what we've done thus far. But we didn't end there. We said is important to also increase the number of women that we do business with. Through our Siyakhula bond, we've on-boarded 28 women enterprises, bringing up the number of people in that Siyakhula business to 87 and creating 2,500 jobs. It makes a difference in the society that we live in, in a country like South Africa.

But I don't want to make it sound like governance is not important for us. Governance is very important. Most of as shareholders do engage with our chairman, Dr Lulu Gwagwa, and some of the directors in governance road shows. The objectives of those are to ensure there is an alignment in understanding the strategy from the perspective of a shareholder, making sure that shareholders can raise issues in the absence of management so that we are aligned in what it is we're doing to impact shareholder as a key stakeholder. But what you see in front of you here, I'm very proud to say the work that we do didn't go unnoticed. The SARA Awards gave us an award to say we came first in terms of our remuneration report. That speaks to the transparency of how we reward our employees for work done and the way we set targets is very transparent. Anybody can go and read those reports, because sometimes you can write very complicated reports. But we've been able to do that.

I think it was important that I start with this slide because as we now look at how we cascade our strategy to execute to our lowest level employee, it is important that we spoke in that context. This year for me is a year of consolidation. I've been in this job now for five years, and probably about eight months. But notwithstanding, it was very clear that we wanted to make sure that our strategy of fix, optimise and grow, executes and delivers. And we also spoke about the cash generative nature of our business. And every year we mentioned those. And I'll talk about it later on. But it's pleasing also to see the acquisition that people doubted, who probably didn't understand the rationale, delivering significant results. 27.5% up on EBITDA, and Chris will talk more about it.

But one of my biggest bugbears was this logistics business, because I did at some stage believe that we can turn it around. But I must say I was humbled by how tough this business was. And sometimes the reputation of the business is stronger than the reputation of the leader, and I had to exit the business. I'm glad that we finally exited. The other one that you would have seen announced this morning was the unbundling of Avis. I know some of you asked the question, should we unbundle it? Should we sell it? But we said no. Let's rather fix it first and foremost, because 2020 really hurt this business. We brought a new management team to that company. That management team through a very short space of time, they turned the business around. They have built a track record that no buyer could give me a price that will satisfy that I would be able to distribute value to the shareholders. And hence we believe that with their track record, they will be able to actually stand on their own and demonstrate to the market that they can deliver value directly to the shareholders.

So, all these actions lead to numbers, and I don't want to spend too much on numbers because numbers speak for themselves. But just to highlight that 17.71 HEPS growth. This is achieved, ladies and gentlemen, in an environment that we just came out of COVID not too long ago. We are currently experiencing a war in Ukraine. There are headwinds geopolitically and there are headwinds around inflation. And some people talk about recession. But notwithstanding, we've delivered these results. And I'm really proud of the team that has helped me deliver these results. And to that extent, the board has approved not only just a final dividend of 295, but they felt when they looked at the balance sheet, when they looked at the cash generative capability of what is core, they also declared an additional 550 cents a share. I'm going to hand over to Miss Lila to take you through the results for continuing operations. Thank you.

Nopasika Lila

Thank you, Dominic, and welcome to all to the financial year-end presentation 2022. Indeed, it has been a phenomenal year, Dominic. The numbers speak for itself. And we have been consolidating this financial year from a strategy point of view. And we will see a lot of focus into our core operations going forward. So, the results that the business has delivered have been stellar results in an environment that is very challenging. So, I'll start with the construct of the numbers so that it's easier to understand our financial statements. And so, the first point to consider is that similar to the interim numbers that we did present, we spoke about discontinued operations. So that remains. Also, what you'll see as an adjustment is our EBITDA and core operating profit now includes the adjustments of fair value as well as BEE charges. Ingrain, of course, we reported 11 months in 2021, and compared to 12 months in 2022. So, with that in mind, I will pivot straight into then the performance of continuing operations.

So, our continuing operation has performed phenomenal results. And we see there with that revenue, that performance of 15%. That is up 15% in the current year. Also, when you look at our EBITDA, it's up 9% in this current financial year. I move forward to operating profit, 13%, and headline earnings at 16%. Now, those results speak for themselves from a highlight perspective. But just in terms of revenue from absolute numbers, so you get a sense of the percentages that I've spoken about, revenue is at R39.4 billion for the year. And this is an increase from R34.1 billion in the previous financial year. Operating profit also at R3.7 billion. And our adjusted effective tax rate is at 25.5%.

So, when I cover the segmental numbers, I will not be specific because specific heads will follow and talk in more detail about their performance and also how they have managed to achieve those results in these difficult times. But having said that though, from a revenue point of view, we saw resilience from trading activities from all operations of Barloworld. On the EBITDA side, again R4.7 billion of EBITDA recognise. And here I must emphasise again this is continuing operation that we are talking about. Operating profit from core trading activities, here again, that R3.7 billion coming through with a 13% improvement in the current financial year.

During interim, we spoke about Russia. We spoke about its impact from an impairment point of view. So, we took a R1 billion at interim. So, it is pleasing to mention that we have not taken or recognised any additional impairments in the latter half for the Russia business. So, what remains in our Russia business at the moment from an asset point of view is the land and buildings as well as working capital in order to continue to run and manage the business, as the team has done phenomenally well, from the results that we are seeing today.

Moving on to the tax adjustments, our effective tax adjustment this year lands us at 25.5%, which is very much in line with what we presented last year. This is now if we take out the impairments as well as the withholding taxes from dividends, obviously, from our businesses, whether we're talking about the greater Africa and Eurasia. This is a very exciting story for me. So, when I look at the performance of our investments in our JVs and associates, you may recall last year, we reported R36 million in terms of profits. But this year, we are reporting a magnificent R309 million, which is the performance coming from the investments. And this is really driven by the Bartrac. You'll see Bartrac last year had a loss. And this year, we're reporting R143 million. What a remarkable recovery from the business. Thank you very much to the team managing Bartrac. On the NMI side, also a great recovery. That is a 50% improvement in terms of our share of the NMI business. And once again, phenomenal performance from the joint ventures and our associates, and keep it up teams.

Now moving on to our HEPS. So here we are seeing the sustainable earnings coming through when we report our continuing operating HEPS at 1093. And this is also an improvement from that 945 that we had reported in the previous financial year. Now, from a group perspective, this is when we add our discontinued operations back, we include them. And we're talking here Avis, this is car rental and leasing, as well as logistics. Our group HEPS increases to 1771. Again, a great improvement from that 1195 that we had reported in the previous period. On the balance sheet, we look here at how our assets have remained strong at R54.4 billion. And to note on the balance sheet is really that reclassification of our assets and liabilities. And here this is now again as a result of the discontinued business that we had mentioned earlier.

On the equity line we have utilised funds to pay back money to our shareholders. In this year alone we’ve paid back to the tune of R4 billion back to the shareholders. And this has been in a form of both dividends as well as share buybacks. On the free cash flow side, we are reporting R3.7 billion free cash flow generated from the businesses. And this is obviously before considering our de-risking of the UK pension fund. And we've heard and received queries in terms of what does this then mean, de-risking of the pension fund? And for us, it means that we are currently protected from future volatility in the pension fund in the UK. And congratulations to the team for actually closing on that deal as well.

On the group net debt, so here we close off the year with R4.6 billion of net debt. And yes, it is an increase from last year of R2.3 billion. But we are doing this or increasing because we want to be aligned with our own debt equity ratios that we are managing very closely. And at these levels, it is very low, but we are going to be increasing going forward. And also, to mention on this slide is we close the year with a cash of R9.5 billion. We are geared for growth and ready for future opportunities. We remain very comfortable on the covenant side and with our group covenants from a net debt EBITDA which is measured at 3x, and we're sitting at 0.6x. Very comfortable in terms of that covenant. On the EBITDA gross interest, again very comfortable on that measure. Here, the threshold is 3x and we are reporting 7.5. A very good performance.

On the metrics, we measure ROE, and we measure ROIC and many others. But focusing on these two today. On the ROE we are reporting a 17.7%, which compared to our target of 15%. We have exceeded that target. On the ROIC side, 16.9%. Again, we are exceeding our target of 13%. Now, extracting from reports from investors, I understand that these are levels that Barloworld has not achieved in the last 20 years. So, this is really a good performance coming from Barloworld. And team, let's continue achieving and delivering at those levels.

As Dominic has said, the board has declared a final dividend of 295. And this is in total 460 if you consider the 165 that we had declared during interim. Now, this dividend that we are talking about and declared is in line with our dividend policy of 2.5x to 3x. Also, with the cash that the board has seen and also aligned with our capital allocation principles, the board has seen it necessary and reasonable to declare an additional special dividend of 555 cent per share. What a pleasing performance for the business. And I think having looked at numbers that look like this, it is pleasing and exciting to deliver on such results. Well done team. And at this point, I'd like to hand over to Mr. Emmy Leeka, who will take us through the performance of Barloworld Equipment Southern Africa.

Emmy Leeka
Thank you, Miss Lila. Good morning, ladies and gentlemen. It really gives me pleasure to announce Equipment Southern Africa results for the year ending September 2022. Exceptional results indeed with revenue up 20% at R21.8 billion, mainly driven by a 34.4% growth in total machine sales. The operating profit from core trading activities before the impact of financial instrument was up at 21.7% with a margin at 10.8%. Our joint venture in the Democratic Republic of Congo continued to deliver positive share of associates, a very strong cash conversion with free cash at R1.9 billion. We have delivered a record return on invested capital of 22.8%.

Now turning to new equipment sales by segment. The new equipment sales are up at 46% mainly driven by the mining customers and particularly the contract mining with contribution prior at 30% and in this reporting period contribution at 43%. But again, when we look at which commodities drove that improved new machine sales, when we look at coal and platinum, although overall we've seen an improvement, however, we've seen significant improvement coming from copper, zinc, manganese, and as well as iron ore. Aftermarket or product support remained resilient. Given the fact that we've seen a significant growth in machine sales, we managed to maintain the aftermarket contribution of 53% compared to prior year at 57%.

And when we look at all the efforts that we've put in, in sustaining cost discipline, cost efficiencies, that assisted us to maintain the op margin, as we have promised, of 10.8%. That is before the impact of financial instruments. But I've included at the bottom a graph in blue that shows the impact in terms of fair value adjustment when we include the financial instruments. And we will continue going forward reporting based on the financial instrument included as part of our operating profit.

Now, turning to the performance of Bartrac. As indicated by Miss Lila, we've seen significant improvement in terms of activity, overall revenue up 72% in US Dollar terms, mainly driven by increased copper, and the execution of our diversification strategy. But I just wanted to take you back to 2015 when we had concentration risk in terms of customers, only three customers who contributed more than 85% of our top line, which is KCC, Mumi, and Tenke Fungurume. That year, 2015, the share of our income was R265 million. And we know what happened with Kamoto mine in the pit, challenges that they had. They had to stop production and hence we had a significant decline in terms of profitability from Bartrac over a period of two years. And then in 2017, we started seeing the contribution coming to the fore, and then also at about R93 million.

As you can see, in 2018 to 2019, contribution in terms of the ramp up went from R251 million to R268 million. I must say 2019 was a record contribution based on the Rand number. However, we know what happened with COVID in 2020. Over and above, we had Mumi going on care and maintenance. And then that's when we started seeing the losses in 2020. And we embarked on a journey in terms of cost efficiencies, turnaround strategy in terms of diversification that yielded the numbers that we're seeing as reported of R143 million. In the near term, the copper prices have started to retract, and we are seeing going forward. But in the long term, we believe that they will bounce back and be sustainable based on the demand for copper. And hence we have a positive outlook for 2023 with activity levels expected to steadily improve.

Now, turning to our divisional strategy. It’s really pleasing to see that we are delivering on our promise from fix, optimise. But now we're saying we need to grow and drive our growth agenda. We will continue, ladies and gentlemen, to focus on double digit growth in terms of services, but also deliver solutions to cater for our various customers in growing the population. Focusing on improving the turnaround times as well as enhancing technical skills and retaining our technical skills will help us to improve customer experience.

We have made great strides in terms of e-commerce, particularly around our retail customers, by definition, customers that have one to three machines. And then we'll continue to focus on making sure that we improve the e-commerce penetration. We need to grow the market share, particularly in the regions that are delivering below average. And through the Barloworld Business Systems, we will continue to embed that culture of managing for daily improvement, cost efficiencies, process efficiencies, to make sure that all our brand champions are problem solvers.

Now, turning to the outlook. We remain cautiously optimistic, as indicated by the group CEO regarding the headwinds. But if you look at the order book sitting at R4.8 billion, and post balance sheet I must say it was sitting more than R5 billion. We've gone through the restructuring. We've gone through optimisation. We've been on this journey, and we are well positioned to achieve profitable growth. Our aftermarket opportunities remain very attractive. As we're going to expand our omni-channel coverage in order to drive positive customer experience, we will continue to deliver in terms of our ESG commitments. As Dominic said, zero harm is possible. And we have seen in the reporting period, we managed to reduce our lost time injuries by close to 40%. We are focusing in terms of the environmental side, looking at the rebuilds, linking it back to aftermarket, particularly around machine rebuilds and component rebuilds to make sure that we deliver when it comes to the circular economy. Ladies and gentlemen, I would like to thank you and I'd like to pass on to Quinton. Thank you.

Quinton McGeer
Thank you, Emmy. Good morning, ladies and gentlemen. I'm pleased to announce a set of strong results for the Eurasia division despite a very difficult trading environment in which we operated during 2022. In Rand terms, the division reflected no growth on the revenue line. The division also came under pressure in the second half

from a cost perspective with a very strong Rouble. And that impacted our operating profit and operating margin, marginally down. The fact that the margins were still good, this was driven largely by a good aftermarket performance and margin realisation in both countries. The division continues to generate strong cash flows on the back of a good trading result, as well as working capital management.

If we turn our attention to the ROIC, Russia generated an excellent ROIC of 39% versus 21.4% in the previous year. If we were to reverse the impairment that was booked at the half year, the Russian business would still have generated a ROIC of 31%. Mongolia had a very difficult year driven by sporadic border closures due to the COVID lockdowns in China and generated an 8.9% ROIC for the financial year. From a prime product perspective, it's pleasing to see that all the segments made a significant contribution to the top line with mining still dominating at 60% of the total prime product sales. Aftermarket in Russia reflected a real growth of 9% in Dollar terms with a record result generated in 2022. Despite the negative growth in Mongolia, the division still reflected an overall growth of 3.8% in this segment, contributing to the overall profitability of the division.

If we look at this slide, it reflects a well-balanced portfolio, reflecting a diversified mining customer base. And we still have access to most of our mining customers. I would also like to just maybe mention that most of the commodities produced in Russia and Mongolia are now being exported to China and India as an offtake. In terms of the outlook, I think it's clear to see the impact of the sanctions with our firm order book down from $224 million to $26 million at the end of the 2022 financial year. Our target for Russia in 2023 will be to get at least to a break even. And we will be focusing on also the recovery of our Mongolian business. And it's pleasing to see that the October numbers already indicated a strong recovery with $5 million worth of firm orders signed.

In terms of the specific focus areas, obviously our employees will be first and foremost. So, we've talked a lot about safety. But another very important one will be compliance, specifically with what's happening in the Eurasia division. We will also align and structure our business according to the opportunities that are available to us as and when the year unfolds. We will focus on cost containment. We will focus on cash preservation and working capital. And then obviously the Mongolian recovery specifically, also linking it to the Oyu Tolgoi big copper mine that is ready to start with their underground phase. And with that, I would like to hand over to Chris. Thank you very much, ladies and gentlemen.

Chris Wierenga
Good morning, ladies and gentlemen. It's really good to be standing here and presenting the first full 12-month results for Ingrain in the Barloworld stable. We've had a very good year this year. And I think the business has benefited from some tailwinds, and we've also been able to take advantage of those tailwinds in delivering a very good set of results. These results show comparatives for the 11 months in the prior year. But if I have a look at the revenue growth, EBITDA growth and operating profit growth for a 12 month on 12-month period, you would still see strong double-digit growth in all of those sectors.

Just focusing on the highlights for this business, revenues up 34%, really supported by good underlying volumes, and also higher starch and glucose prices. That's come through as a strong driver on the EBITDA line. Pleasingly operating profit is up by more than 31% in the period under review. We've also benefited from very strong cash generation. And if you look at the ratio of free cash to EBITDA are at around 65%, it's a very good result. And that's after including R170 million of cash capex during this 12-month period. Going forward, around this, we'll continue to focus on that investment in capital, the skills we need to drive the growth and also trying to optimise that sales mix as we go forward.

If we look at the segmental breakdown of revenue into our key segments, we've had a very good growth in overall revenue, the domestic market having grown participation. And I'm also pleased to announce that we've grown export volumes as well. We've seen the domestic sales really impacted by a strong recovery across the major sectors. And I'll unpack that on the next slide. And then we've also benefited from very strong demand in the pet food and animal feed sector where our products remain highly desirable within certain customer groups. Our exports have been a story of success this year. We've been able to grind more, and that has allowed us to capitalise on those export opportunities that have availed themselves during the last 12-month period.

If we just have a quick look at the domestic sales, you'll see good growth across the segment. I'm particularly pleased about the strong recovery we've seen in the confectionery sector. And we've had a targeted strategy to go after the import replacement programme of glucose in the sector. And we've seen good volume recovery come through in a 12-month scenario. But also, if I look at this from a 12 on 12, we've seen strong double-digit growth in the sector as well. We've also benefited this year from a recovery in the paper sector after the major disruptions our customers saw last year as a result of the floods and unrest in that province. I think just looking at the overall market, export sales volume was up by 26.5%. It's a very good result. We've seen good, strong demand and obviously the ability to fill some longstanding back orders in the system. We've also seen an uptick in demand in southern Africa as well.

Looking at operating performance in the business, and this is the success story of Barloworld Business Systems for me. We've seen strong grind across the mills. I just want to draw to your attention that here we're looking at 12-month 12 month, because we're looking at production volumes out of the plants. We had some challenges at Bellville. We had a dryer go down, and that was replaced in September. We were running at reduced capacity for probably nine or 10 months this year. That was replaced in September, and we should see Bellville settle on a full shift system going forward and increasing volumes down in the Western Cape. But the real success story here for me is Kliprivier mill. We've increased grind at Kliprivier by 31,000 tonnes, which is an equivalent of one month’s grind. And this is not in the back of expansionary capex as that has been put in. It is purely aligning operating efficiencies in the mill and making sure that BBS delivers on what we're looking for. So, one month, no capex, and we've only invested in maintenance spend on this particular plant. I think it's a great result that has been achieved.

Right, looking at our focus areas in this business, safety remains a critical focus for us. We haven't done well this year. And in line with the group's overall commitment to safety, we've got some work to do in this particular space. We'll continue managing cash and price commodity exposure. Our investment in plant and infrastructure and driving efficiencies will unlock results for us. The focus on customer and improving supply chain efficiencies has also taken quite a lot of time and investment this year. We've opened up a new DC on the 1st of November in Johannesburg. That should improve product availability and on time in full delivery to smaller customers who take packed product from us. Our investment in people will continue, and as we drive our culture change in this business, you should see positive improvements come through as people become part and parcel of the Barloworld family and we entrench our values and systems across the business further.

And last but not least, I'd like to speak about sustainable development. We've made some good strides this year on energy efficiency in the business. But we've got a lot of work to do in terms of water and water recycling and energy efficiency across this business to really go out and address some of the longer-term structural headwinds that we will face from an energy security and water security in this business. Just looking at the outlook for the business, the macro environment still looks like we should see strong commodity prices which will support our margins. Energy security concerns we've addressed, and we'll address those through a capex programme going forward as well as we invest in solar plants and battery backup systems to remove some of the challenges, we face in core manufacturing.

From a market growth perspective, the domestic market still looks attractive to us. And we also continue to see a strong growth in the export markets. We will continue to make the investments we need in our business to grow the core. And that will be supported with the operational excellence programme, and that we expect to see BBS unlock additional yield through our businesses into 2023. And we will also debottleneck our plants which should give us additional grind capacity into 2024, really supporting the next 18 to 24 months growth in this business.

From an input cost point of view, we are seeing some headwinds there. Utility costs are higher than inflation. But on the flip side to that, we've secured sufficient maize supply for 2023. Those prices are locked in, contracts secured. And with the good rains we're having, we're expecting to get good yields this year coming through which should secure maize availability for us in this growing season. And that means that we'll have our maize suppliers covered right up until the middle of 2024. So currently, the runway looks quite positive for us from that perspective.

And then lastly, turning to growth, we think we're well positioned in this business for organic growth opportunities that present. The markets are attractive and we're trying to take every opportunity we can and focusing on margin enhancement and growing the top line. And then we also believe in line with the group's growth ambitions that Ingrain provides a very strong platform for growing into the food ingredient and ingredients sector going forward. So, with that, I'd like to thank everyone and then hand over to Nopasika. Thank you.

Nopasika Lila

Thank you, Chris. And thank you to the heads of divisions for those presentations. Now, you may have heard from Dominic earlier, as well as seen from our SENS announcement earlier that we have and are unbundling Avis Rent a Car and fleet. So, what we have done and what we feel is very important is to demonstrate how Barloworld would have looked like had we unbundled on the 30th of September 2022, because that is what the business is going to be going forward. So, the only adjustment that we are going to be making or you will be seeing is really that R355 million of interest. Now, how that arises is because Barloworld has a centralised treasury. So, we have some of these finance costs sitting in the group's accounts. So, that is the amount or item that you will see being adjusted.

So, if we adjust that amount, we would have reported a profit for the period of R1.5 billion as opposed to the R1.2 billion that we are reporting before the pro forma. On the balance sheet side, Avis has been an asset heavy business. So, Barloworld pivoting to being an asset light business, we notice and see that our net debt will reduce to R1.3 billion from what I had reported earlier of R1.6 billion. So, our group debt itself is going to reduce tremendously. So, what does this mean? It really means that Barloworld is ready for its growth in terms of strategy because we have sufficient capacity from an asset point of view to optimise. And also, from a gearing point of view, if you note that 9%, we are sitting very low if we are to take out Avis. Therefore, that is the headroom that we have for growth.

On the covenants, again we remain very comfortable with covenants. In 2021, as reflected in the numbers, we had a cash position or would have sat at a cash position had we not had Avis into account. Moving into the current year, as I've indicated, we are sitting at R1.3 billion from a net debt point of view. So, when you look at our net debt EBITDA, again we're sitting at 0.3x, which is way above our threshold of 3x. And also, EBITDA gross interest at 7.8x, which is well above our threshold of 3x. So, a great business positioned for growth. And also, if I should mention, it is demonstrating that Barloworld is a cash flush business. At this point, I'd like to hand back to the group CEO.

Dominic Sewela
Thank you, Nopasika. As we wrap up, I guess it's important to look at the group in review. When we started out, we said our stated objective is that of doubling intrinsic value. And this will be realised by us fixing the business, optimising it and growing it both organically and in organically. You can actually see when you look at this group in 2016, we had a revenue of R66 billion, and now we're down to R26 billion if you look at the comparative of those. I think one of the things I remember saying to my Remco chair at the time, was that my intention is not just to run a big business with higher revenue and a lot of people. Because as a CEO, you get paid quite well when you have a lot of people reporting under you, and you have high revenue, but whether you make money or not was another story.

And we sold Spain during that period. And what we also did, we also exited what Nopasika is talking about, logistics and Avis. You can actually see that the group is down 41%. So, when you look at it, it’s like why are you shrinking the base? The issue is for you to be able to move forward, you've got to establish a strong, solid foundation from which you can grow from. So, when you look at the core business, in spite of the decline in revenue, you look the combination of acquisitive growth as well as organic growth delivering 58%.

I think what is more important is the next slide. If you look at the quality of earnings of this business, it is improving from about 6.5 in operating profit, to around 10. Even if you take out in the latter part IFRS16, the effect is minimal. And you can actually see that in the core of what's left behind the Barloworld – you've heard Quinton, you've heard Emmy, you’ve heard Chris – we're talking about businesses that have got operating margin in the double digits. Therefore, that is the platform upon which we would like to grow this business.

And when you look at what we've done in terms of capital allocation, one of the key issues if you are an executive and you're running a business that's generating returns below cost of funds, in fairness, you are saying you're not worthy of keeping shareholders money. You are best returning that money to shareholders. And during the timeframe when we're still fixing this business, to try and ensure that we can earn our right to grow, we have returned money to shareholders. During 2017 and 2022, we returned R11.2 billion. That's a lot of money. If you look at how that was returned, R8.6 billion of that was in ordinary and special dividends. And we also returned another R2.6 billion through share buyback because we believe that we shouldn't be keeping shareholders' money when we're generating the returns that you saw.

Now, when you now look at what Nopasika spoke about, and I chose to represent the slide this way so that you can get a feel, and I'm going to take you through a series so that you can actually see that we understand what it is we're doing in terms of the journey that we're embarking on. Because sometimes the accounting effects… I say to my FD, I don't understand IFRS 5, IFRS 16. I'm just a commercial guy. But now, let's just take you through those numbers. If you look through the journey, right up until 2021, we were below our cost of funds, whether you looked at it in terms of ROIC, whether it looked at it in terms of ROE. In 2022, with all the headwinds that we have, you can see the benefit.

But obviously, there's a combination of effects. When you buy back shares, when you return money to shareholders, you're reducing your equity. But you are actually taking actions that are accretive in nature, as opposed to buying huge businesses and paying a premium. You can begin to see the effects of it in those numbers of 17.7% and 16.9%. But if you now say, okay, let's just exclude Avis and logistics out of this number, as Miss Lila was trying to do in the pro forma slide. In 2018, if we didn't have Avis as part of our group, we would have generated a return of 15.6%. So, when people were asking me, why do you want to sell or why do you want to unbundle this business, I had figured it out that as great a business as it is, we as Barloworld were not the right parent for that business. Obviously, we all know what happened to 2020. And you can actually see the differential between the two numbers. If you restate for IFRS 15, you are comparing 15.8% and 15% in terms of ROIC.

And if you look at it further, you say let's exclude Russia. And the reason why I'm saying exclude Russia is because I saw in the beginning of the year when the war broke out, some shareholders ran to the mountain. They dropped the share price. From a value point of view, we said if you looked at the value of this business, it was still far more valued than that what the market was pricing it at. And when you look at those, you're saying the ROIC would be about 12.9%. That's assuming Russia is with zero in our books. And you know it's not worth zero, even after unbundling it. But a 12.9% return is decent, considering that we've had Ingrain for two years. And I'm looking at Chris as I say here. And Chris, I said you have three years to make sure that not only do you wash your face on this business, but you actually generate a return above your cost of funds. And I'm sure he will get there.

So, this for me is a story, ladies and gentlemen, that says when you look at the actions that we've taken over the years, because fixing a business the size of Barloworld, with the history that Barloworld has, takes a while. I'm not saying one swallow makes a summer. I'm quite aware that it is going to take us a while to ensure that we continue to retain and grow at those levels, failing which, we will continue to allocate capital in the best way we know how. If the share price continued to be trading below intrinsic value, we are going to continue to buy shares. And if you don't get the volume necessary, we will give dividends back to the shareholders. But by the same token, when business opportunities that fit our profile within the confines of the current metrics, we will look at acquiring those businesses as well to ensure that we allocate capital in a way that will be accretive.

So, I just want to close by an interaction I once had in Cape Town in 2016 as I was ascending to the role of CEO. I was still CEO designate. I used to go to Prudential with Clive and Don every year. But Craig consistently without fail… They had a boardroom called the Benjamin Graham Boardroom, for those of you who know who Benjamin Graham is. And Craig would bring this piece of paper and give one to me, one to Clive, and one to Don. And says, tell me guys, what am I missing? What's happening to your return on equity? I must say, Craig, wherever you are, I did get you. And we were serious when we said we've got to do something in addressing our returns. But it's not enough to address returns. It's important that you generate cash because it is through cash that you can fund growth. It is through cash that you can pay down debt.

So, ladies and gentlemen, we will open up for questions. We did a survey and I know that some of you feel that we sometimes don't give you enough time. And it's best to answer some of the questions in this forum. And I know some of you would be meeting one on one with the management team, but let's open it up to questions. Nwabisa.

Nwabisa Piki
Thank you, Dominic. Our first question comes from Sean Brent [?]. He wants to know about Bartrac. How many months in the financial year did Bartrac post positive results, and what is the outlook for the JV in 2023?

Dominic Sewela
Emmy is taking that one.

Emmy Leeka
All rights. Thank you for the for the question. At interims, we reported a contribution from Bartrac of about R51 million. And for the second half, then we reported a contribution of R92 million, which is a ramp up. So, throughout the period, Bartrac showed a steady improvement in terms of the contribution for the reporting period. Now, to the second question with regards to the outlook for 2023. As we indicated, should everything remain the same, we're saying in terms of activity improvement between 10% and 20%, given some of the headwinds. We know that there will be elections in the DRC. But however, in terms of positioning ourselves, going out and making sure that we focus on additional customers, that will help us to realise that activity improvement.

Nwabisa Piki
Thank you. Imtiaz would like to know, Chris, how Ingrain is managing with load shedding, especially when we move to stage four and higher.

Chris Wierenga
Thank you. From a load shedding point of view, our Germiston and Kliprivier mills do not get load shed at all. They're part of the large user group in the country. And then at Meyerton we are also not subject to load shedding in discussions with the local municipality. At Bellville in Cape Town, we do deal with the municipality

on load curtailment. So, we're not subject to outright load shedding. And there's a three-day schedule where we look at historic or the last three days average usage, and that will then determine the factor going forward. So, currently load shedding is not a major impact on our operations. The bigger issue that we do have are spikes, where we do have some interruptions in production. But I think the team has learned to work within those schedules and to work around those. And then going forward, we will be addressing this through a capital programme in 2023 to look at alternative energy sources for the business where possible. Thank you.

Nwabisa Piki
Thanks, Chris. Let's stay with you. Mark Ter Mors wants to know how the maize price differential, the global versus the local, impacted your margin. And what maybe is the outlook given that the local crops will likely be lower?

Chris Wierenga
Thank you for the question, Mark. We've already secured maize for 2023. So that maize was purchased last year between October and March of this year. So those volumes have been locked in and as prices have been effectively hedged. I think from the international higher prices, it affects local prices at the export parity level. And you're seeing local maize prices rise in sympathy with global prices. But currently, because there's an excess in the local market, we're trading closer to export parity. So, we're benefiting from that differential between export and import parity pricing largely. There are a lot of our customers, though, that do price on a cost-plus basis. And so, we are in a certain extent shielded against that volatility across about half of our domestic customer base.

Nwabisa Piki
Thanks, Chris. Moving to finance, perhaps for Dominic or Nopasika. Is the ROIC of 16% sustainable? And what is the medium-term target that can be achieved?

Dominic Sewela
Yeah, I think it's a very good question. And in our view, it is sustainable. I think what's going to be critical is looking at Ingrain, because currently Ingrain achieved a ROIC of about 11.5%. That's why I gave an indication that Mongolia is going to pick up. So, I think for me I'll be much happier when I can see a ROIC of about 16% by the end of the financial year.

Nwabisa Piki
Staying with you, Dominic. Roy Campbell wants to know what the strategy is with regards to Barloworld's interest in NMI.

Dominic Sewela
Our view is that we're not long-term holders of that holding. And I did say at the time because it was not most opportune to be selling a business 100% during COVID, my view was that it will allow NMI to basically recover. And as it recovers, as you can see the contribution from NMI. We had agreed at least that we should review the position in about next year this time to see where we are valuation-wise, because I felt that selling a 50% was

not as accretive as I would have liked. And we'll then dispose. But definitely, it is an exit. But I'm glad at the moment they're making money.

Nwabisa Piki
Thank you. Let me move on. I've got quite a few Zeda questions. Tinashe [?] actually wants to know… Congrats first on the results from him. And he wants to speak about the performance of Zeda operations for the period after year end to date and the outlook. Because we've also got another question from Mark Ter Mors, where he is actually also looking for the level of net debt for the Zeda business.

Dominic Sewela
Yep. I think if you look at what Nopasika was trying to highlight, because we didn't want to make this meeting a Zeda meeting. Not that Ramasela can't answer the question. You could. But I think we are saying we'll be releasing on the 28th a pre-listing statement. Following that pre-listing statement there will be a proper presentation in terms of full sets of results for that business. And I think the reason why Miss Lila came here just to pro forma and just demonstrate what this business looks like, I would like to really be fair to Ramasela to have an opportunity to talk about the business in full so that you will see. I think it's important, one of the key issues, because often when you unbundle the business or you sell the business is why do you do it. Because if you look at this performance, and you will see it when you get the full set of results, this business has done exceptionally well in all the metrics.

But fundamentally, when you look at this cost of funds on a WACC basis, it's anything between 10% to 11%. For it to be part of Barloworld, we are not doing justice for its growth. But if you look at this business as well, Zeda is really a return on equity business, because when they grow their fleet, and they're able to leverage far higher than we could, they're able to deliver value. To an extent that they are de-fleeting, then they're able to release cash. And so, I think if we could all hang ten, we are going through the process, and we will definitely get a full discussion. Because I think we are restricted, because if we were to meet with Ramasela today and let her talk, she could only talk about the six months that has already been presented. But you know, the 28th is around the corner. A whole pre-listing statement will be released, and financials thereof. And there will be a day for Ramasela to actually present her results prior to listing on the 13th of December.

Nwabisa Piki
Perfect, thanks. Mark Ter Mors has another question. He wants to know, supply chain hindrances. How are they easing for both equipment and parts? And what has been the underlying demand for construction equipment? I suppose Emmy.

Emmy Leeka
Thank you for the question. We've seen a global easing in terms of the seaborne trade. But also, the constraints are still there from a supply side, but also to ensuring that delivery to our customers is seamless. We are not where we are supposed to be in terms of both the machines but also the part side. However, it's better compared to when we reported last year. Now to the second question regarding the construction. We have seen an uptick, particularly here in South Africa around construction demand, maybe in preparation for the 2024 elections. But we are seeing quite an improvement in terms of the uptake. And if I look at last year, when there

were tenders going out, and none actually in terms of commitments, now we're seeing guys actually committing. And we're hoping to see that coming through into 2023.

Nwabisa Piki
Thanks, Emmy. Moving to Quinton. Just a question from James Twyman. He wants you to talk around the improvement in Mongolia, Quinton, and if borders are fully open. And what are the prospects for new equipment sales in Russia in 2023?

Quinton McGeer
Okay, I'll start maybe off with Russia. From new equipment sales, we've still got our inventory in country of prime products, as well as a small pipeline that's coming predominantly from China, the SEM product. So, business is still continuing, and we are still offloading the last bits of our machine inventory. So, from that perspective, we're not allowed to order any further Caterpillar machines. So, there will be limited ability to sell Caterpillar product.

From a Mongolian perspective, yes, the borders are fully open. And there's been a lot of progress in Mongolia over the last few years. I mean, the underground project as an example with Oyu Tolgoi was supposed to be operational or started already two or three years ago. Then there was that big dispute in terms of the cost overruns. All those issues have been resolved now between Rio and the Mongolian government. So that project will start to pick up pace. They're also making progress with the railroad where once that's completed, it will increase their ability fourfold from a coal perspective in terms of exporting. So, all that will bring opportunity. Borders are opening, are currently opening, and we've seen the impact already in the last two or three months. And we are hoping that China will continue with a more moderate approach towards COVID lockdowns in 2023.

Nwabisa Piki
Thank you. Dominic, I don't want to ignore the people on LinkedIn. Tapelo [?] just wants to know how these results will actually affect Khula Sizwe shares.

Dominic Sewela
These results basically are not linked to Khula Sizwe shares. Khula Sizwe is a separate entity run by a private trust. And I guess some of those questions could be redirected to the trustees and the management of Khula Sizwe.

Nwabisa Piki
Thank you. I see no further questions on the webcast.

Dominic Sewela
Okay, I presume we were able to cover all the questions that are necessary. We were trying to extend time to ensure we can accommodate everybody. But ladies and gentlemen, thank you for your indulgence. And for those that are going to have one-on-ones, I wish you all the best. Thank you, and let's have a great day.

END OF TRANSCRIPT