

VALUE GROUP LIMITED



**CONDENSED CONSOLIDATED UNAUDITED
INTERIM FINANCIAL RESULTS**
for the six months ended 31 August 2018

Value Group Limited

(Incorporated in the Republic of South Africa)

Registration number 1997/002203/06

ISIN number: ZAE000016507 Share code: VLE

Directors: C D Stein* (Chairman), S D Gottschalk (CEO), C L Sack, I M Groves*, N M Phosa*, M Padiyachy, V W Mcbothi*

*Non-executive director

Sponsor: Investec Bank Limited

HIGHLIGHTS

REVENUE

R1,359bn UP 11%

NORMALISED HEADLINE EARNINGS PER SHARE

31,6 cents UP 78%

HEADLINE EARNINGS PER SHARE

31,6 cents UP 485%

EARNINGS PER SHARE

30,3 cents UP 531%

NET ASSET VALUE PER SHARE

581,1 cents UP 11%

CASH GENERATED BY OPERATIONS

R138m UP 35%

INTERIM DIVIDEND PER SHARE

13 cents UP 63%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| R000's | % change | Unaudited August 2018 | Unaudited August 2017 | Audited February 2018 |
|--|----------|-----------------------|-----------------------|-----------------------|
| Revenue | 11% | 1 358 781 | 1 228 301 | 2 513 241 |
| Cost of sales | | (949 654) | (851 471) | (1 726 216) |
| Gross profit | | 409 127 | 376 830 | 787 025 |
| Other income | | 13 772 | 10 853 | 28 364 |
| Operating expenses | | (351 645) | (346 143) | (659 951) |
| Operating profit before once-off BBBEE equity transaction costs | 72% | 71 254 | 41 540 | 155 438 |
| Once-off BBBEE equity transaction costs | | - | (19 003) | (19 003) |
| Operating profit | | 71 254 | 22 537 | 136 435 |
| Share of profit of equity-accounted investees | | - | 17 | 23 |
| Fair value adjustment | | (1 429) | 813 | 331 |
| Finance income | | 1 796 | 3 083 | 3 386 |
| Finance costs | | (8 666) | (9 613) | (17 553) |
| Net profit before taxation | | 62 955 | 16 837 | 122 622 |
| Taxation | | (18 345) | (10 976) | (40 648) |
| Net profit for the period | 661% | 44 610 | 5 861 | 81 974 |
| Other comprehensive income | | | | |
| Foreign currency translation differences | | (2) | 170 | (75) |
| Total comprehensive income for the period | | 44 608 | 6 031 | 81 899 |
| Owners: | | 44 611 | 7 546 | 83 331 |
| Net profit for the period | | 44 613 | 7 376 | 83 406 |
| Other comprehensive income | | (2) | 170 | (75) |
| Non-controlling interest: | | (3) | (1 515) | (1 432) |
| Net loss for the period | | (3) | (1 515) | (1 432) |
| Other comprehensive income | | - | - | - |
| | | 44 608 | 6 031 | 81 899 |
| Earnings per share (cents) (note 2) | | | | |
| Basic | 531% | 30,3 | 4,8 | 54,8 |
| Headline | 485% | 31,6 | 5,4 | 58,7 |
| Normalised headline | 78% | 31,6 | 17,8 | 71,1 |
| Diluted basic | 517% | 29,6 | 4,8 | 54,8 |
| Diluted headline | 472% | 30,9 | 5,4 | 58,7 |
| Normalised diluted headline | 74% | 30,9 | 17,8 | 71,1 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| R000's | % change | Unaudited August 2018 | Unaudited August 2017 | Audited February 2018 |
|--|----------|-----------------------|-----------------------|-----------------------|
| Assets | | | | |
| Non-current assets | | 1 056 503 | 1 036 346 | 1 039 072 |
| Property, vehicles, plant and equipment | | 1 021 851 | 997 482 | 1 004 903 |
| Intangible assets | | 10 369 | 10 977 | 10 603 |
| Goodwill | | 16 561 | 20 152 | 16 561 |
| Loan receivable | | 1 338 | 1 472 | 1 575 |
| Equity-accounted investees | | 380 | 374 | 380 |
| Deferred tax asset | | 6 004 | 5 889 | 5 050 |
| Current assets | | 584 694 | 521 993 | 553 514 |
| Inventories | | 80 787 | 77 320 | 66 424 |
| Trade and other receivables | | 354 091 | 330 046 | 335 532 |
| Other financial assets | | 7 335 | 9 247 | 8 765 |
| Current tax receivable | | 5 434 | 2 873 | 3 176 |
| Cash and cash equivalents | | 137 047 | 102 507 | 139 617 |
| Non-current assets held for sale | | 1 335 | 10 753 | 116 |
| Total assets | | 1 642 532 | 1 569 092 | 1 592 702 |
| Equity and liabilities | | | | |
| Equity | | 836 870 | 792 084 | 848 634 |
| Non-current liabilities | | 317 035 | 296 465 | 290 670 |
| Interest-bearing borrowings | | 138 347 | 116 380 | 108 601 |
| Deferred tax liability | | 178 688 | 180 085 | 182 069 |
| Current liabilities | | 488 627 | 480 543 | 453 398 |
| Trade and other payables | | 415 793 | 400 135 | 379 803 |
| Current portion of interest-bearing borrowings | | 70 709 | 76 061 | 69 227 |
| Current portion of non interest-bearing borrowings | | - | 3 268 | 3 268 |
| Other financial liability | | 80 | 96 | 31 |
| Current tax payable | | 1 391 | 401 | 464 |
| Shareholders for dividend | | 654 | 582 | 605 |
| Total equity and liabilities | | 1 642 532 | 1 569 092 | 1 592 702 |
| Net asset value per share (cents) | 11% | 581,1 | 524,5 | 566,8 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| R000's | Unaudited August 2018 | Unaudited August 2017 | Audited February 2018 |
|--|-----------------------------|-----------------------------|-----------------------------|
| Ordinary share capital and premium | 10 820 | 10 829 | 10 829 |
| Balance at beginning of period | 10 829 | 10 829 | 10 829 |
| Shares cancelled | (9) | - | - |
| A ordinary shares | 10 | 10 | 10 |
| Treasury shares | (103 619) | (104 142) | (113 408) |
| Balance at beginning of period | (113 408) | (97 817) | (97 817) |
| Treasury shares acquired | (25 614) | (6 597) | (16 481) |
| Treasury shares sold | 35 403 | 272 | 890 |
| Share-based payment reserve | 21 677 | 50 897 | 20 146 |
| Balance at beginning of period | 20 146 | 30 792 | 30 792 |
| Share-based payment expense | 1 531 | 20 105 | 21 591 |
| Transfer to retained income | - | - | (32 237) |
| Foreign currency translation reserve | 102 | 349 | 104 |
| Balance at beginning of period | 104 | 179 | 179 |
| Foreign currency translation differences | (2) | 170 | (75) |
| Retained income | 911 213 | 841 396 | 934 283 |
| Balance at beginning of period | 934 283 | 861 345 | 861 345 |
| Dividends paid | (32 289) | (27 432) | (39 573) |
| Profit on disposal of treasury shares | - | 107 | 710 |
| Transfer from share-based payment reserve | - | - | 32 237 |
| Net profit for the period | 44 613 | 7 376 | 83 406 |
| Shares cancelled | (35 394) | - | - |
| Non-controlling interest acquired by owners | - | - | (3 842) |
| Total capital and reserves attributable to owners | 840 203 | 799 339 | 851 964 |
| Non-controlling interest | (3 333) | (7 255) | (3 330) |
| Balance at beginning of period | (3 330) | (5 740) | (5 740) |
| Net loss for the period | (3) | (1 515) | (1 432) |
| Non-controlling interest acquired by owners | - | - | 3 842 |
| Equity | 836 870 | 792 084 | 848 634 |

CONSOLIDATED STATEMENT OF CASH FLOWS

| R000's | % change | Unaudited August 2018 | Unaudited August 2017 | Audited February 2018 |
|--|-------------|-----------------------------|-----------------------------|-----------------------------|
| Cash flows from operating activities | | 79 711 | 66 400 | 194 694 |
| Cash generated by operations before movements in working capital and proceeds on disposal of rental assets | | 127 240 | 91 096 | 268 848 |
| Proceeds on disposal of rental assets | | 11 213 | 11 706 | 27 370 |
| Cash generated by operations | 35% | 138 453 | 102 802 | 296 218 |
| Changes in working capital | | 4 389 | 13 418 | (4 895) |
| Net finance costs | | (6 870) | (6 530) | (14 167) |
| Taxation paid | | (24 021) | (15 918) | (42 972) |
| Cash available from operating activities | 19% | 111 951 | 93 772 | 234 184 |
| Dividends paid | | (32 240) | (27 372) | (39 490) |
| Cash flows from investing activities | | (23 243) | (77 591) | (88 928) |
| Purchase of property, vehicles, plant and equipment | | (23 139) | (68 656) | (88 854) |
| Purchase of intangible assets | | (2 110) | (1 893) | (4 851) |
| Proceeds on disposal of property, vehicles, plant and equipment | | 533 | 2 306 | 2 883 |
| Proceeds on disposal of non-current assets held for sale | | 1 123 | 256 | 11 498 |
| Payment of vendor - Key Distributors acquisition | | - | (9 804) | (9 804) |
| Decrease in loan receivable | | 350 | 200 | 200 |
| Cash flows from financing activities | | (59 056) | (12 821) | (92 438) |
| Repayment of loans | | (33 442) | (6 603) | (77 557) |
| Treasury shares acquired | | (25 614) | (6 597) | (16 481) |
| Proceeds on disposal of treasury shares | | - | 379 | 1 600 |
| Net change in cash and cash equivalents | | (2 588) | (24 012) | 13 328 |
| Translation difference | | 18 | 66 | (164) |
| Cash and cash equivalents at beginning of period | | 139 617 | 126 453 | 126 453 |
| Cash and cash equivalents at end of period | | 137 047 | 102 507 | 139 617 |

SEGMENT INFORMATION

| | Unaudited August 2018 | Unaudited August 2017 | Audited February 2018 |
|---|-----------------------------|-----------------------------|-----------------------------|
| R000's | | | |
| Total segment revenue | 1 439 184 | 1 301 086 | 2 663 570 |
| General distribution | 839 693 | 750 357 | 1 555 912 |
| Truck rental and other | 208 025 | 198 759 | 414 943 |
| Retail Logistics | 334 034 | 295 977 | 583 077 |
| Head office and other | 57 432 | 55 993 | 109 638 |
| Less: Inter-segment revenue | 80 403 | 72 785 | 150 329 |
| General distribution | 2 081 | 2 228 | 5 342 |
| Truck rental and other | 24 247 | 15 556 | 37 747 |
| Retail Logistics | - | - | - |
| Head office and other | 54 075 | 55 001 | 107 240 |
| External segment revenue | 1 358 781 | 1 228 301 | 2 513 241 |
| General distribution | 837 612 | 748 129 | 1 550 570 |
| Truck rental and other | 183 778 | 183 203 | 377 196 |
| Retail Logistics | 334 034 | 295 977 | 583 077 |
| Head office and other | 3 357 | 992 | 2 398 |
| Business segment results | | | |
| General distribution | 44 722 | 25 258 | 98 172 |
| - Trading profit | 44 722 | 25 258 | 101 763 |
| - Goodwill impairment | - | - | (3 591) |
| Truck rental and other | 30 025 | 19 768 | 55 498 |
| Retail Logistics | 3 038 | 3 571 | 8 011 |
| Head office and other | (6 531) | (7 057) | (6 243) |
| Operating segment results | 71 254 | 41 540 | 155 438 |
| Once-off BBBEE equity transaction costs | - | (19 003) | (19 003) |
| Share of profit of equity-accounted investees | - | 17 | 23 |
| Fair value adjustment | (1 429) | 813 | 331 |
| Finance income | 1 796 | 3 083 | 3 386 |
| Finance costs | (8 666) | (9 613) | (17 553) |
| Net profit before taxation | 62 955 | 16 837 | 122 622 |
| Total segment assets | | | |
| General distribution | 771 665 | 726 442 | 754 677 |
| Truck rental and other | 560 877 | 578 074 | 578 252 |
| Retail Logistics | 89 008 | 103 929 | 80 934 |
| Head office and other | 200 491 | 140 792 | 159 893 |
| Segment assets | 1 622 041 | 1 549 237 | 1 573 756 |
| Loan receivable | 1 338 | 1 472 | 1 575 |
| Equity-accounted investees | 380 | 374 | 380 |
| Deferred tax asset | 6 004 | 5 889 | 5 050 |
| Other financial assets | 7 335 | 9 247 | 8 765 |
| Current tax receivable | 5 434 | 2 873 | 3 176 |
| Total assets | 1 642 532 | 1 569 092 | 1 592 702 |

NOTES

1. Basis of preparation

The condensed consolidated interim financial results are prepared in accordance with IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these condensed consolidated interim financial results are in terms of International Financial Reporting Standards. The Group adopted the following standards in the current year: IFRS 9: Financial Instruments and IFRS 15: Revenue from contracts with customers, neither of which had a material impact on figures previously reported. Accordingly, no restatement of previously reported results was required. Other than the adoption of IFRS 9 and IFRS 15, the accounting standards applied are consistent with those applied in the previous consolidated annual financial statements. The condensed consolidated interim financial results have been prepared under the supervision of the Group Financial Director, Mr CL Sack. These condensed consolidated interim financial results have not been audited nor reviewed by the Group's auditor.

| R000's | Unaudited August 2018 | Unaudited August 2017 | Audited February 2018 |
|--|-----------------------------|-----------------------------|-----------------------------|
| 2. Headline earnings | | | |
| 2.1. Reconciliation between basic and headline earnings | | | |
| Basic earnings attributable to owners | 44 613 | 7 376 | 83 406 |
| Loss on disposal of property, vehicles, plant and equipment | 2 585 | 1 189 | 3 063 |
| Less: tax effect of loss on disposal of property, vehicles plant and equipment | (675) | (321) | (787) |
| Goodwill impairment | - | - | 3 591 |
| Headline earnings | 46 523 | 8 244 | 89 273 |
| Once-off BBBEE equity transaction costs | - | 19 003 | 19 003 |
| Normalised headline earnings | 46 523 | 27 247 | 108 276 |
| 2.2. Number of ordinary shares of R 0.001 each in issue | | | |
| Shares in issue | 176 809 100 | 186 427 478 | 186 427 478 |
| Shares in issue excluding treasury shares | 144 598 341 | 152 398 639 | 150 302 979 |
| Weighted average shares in issue | 147 093 770 | 152 752 260 | 152 191 958 |
| Diluted shares in issue | 150 486 222 | 152 916 834 | 152 191 958 |
| 2.3. Number of A ordinary shares of R 0.001 each in issue | | | |
| Shares in issue | 10 429 010 | 10 429 010 | 10 429 010 |

NOTES

| | Unaudited August 2018 | Unaudited August 2017 | Audited February 2018 |
|---|-----------------------------|-----------------------------|-----------------------------|
| R000's | | | |
| 3. Supplementary information | | | |
| Depreciation | 48 170 | 49 200 | 96 148 |
| Amortisation of intangible assets | 2 350 | 3 571 | 6 976 |
| Depreciation and amortisation | 50 520 | 52 771 | 103 124 |
| 4. Fair value measurement of financial instruments | | | |
| 4.1. Financial assets/(liabilities) | | | |
| Cash and cash equivalents (Level 1) | 137 047 | 102 507 | 139 617 |
| Due to the short-term nature of cash and cash equivalents, and the fact that the Group only deposits cash with reputable banks with high credit ratings, the face value of the balances is considered to reflect its fair value. | | | |
| Investment in insurance cell captive (Level 2) | 7 335 | 9 247 | 8 765 |
| The net asset value is used as a valuation technique where the underlying assets and liabilities have been assessed to represent the fair value of the investment. Due to the nature of the investment, specifically the significant composition of the liquid assets and liabilities, the net asset value is seen to be the most appropriate representation of fair value. | | | |
| Foreign currency forward contracts (Level 2) | (80) | (96) | (31) |
| Forward exchange contracts are marked to market at period end. The inputs used in the calculation are the foreign currency amounts stated in the contract, the equivalent Rand amount at the start of the contract and the Rand revaluation rate at period end. | | | |
| 5. Related party transactions | | | |
| Significant transactions with related parties comprise of market related rentals paid to companies controlled by Mr. SD Gottschalk, CEO of Value Group Limited. | 98 290 | 93 878 | 190 050 |

COMMENTARY

INTRODUCTION

Value Group Limited (“the Group”) and its subsidiaries provide a comprehensive range of tailored logistical solutions throughout southern Africa. The operating divisions specialise in providing a diversified range of supply chain services, which encompass distribution, transport, clearing and forwarding, warehousing, fleet management, materials handling and commercial vehicle rental and full maintenance leasing. The Group’s retail segment supplies FMCG products into the convenience, formal and informal market.

FINANCIAL REVIEW

The Board is pleased to announce that the Group reported a record set of interim results. Although the trading environment is tough, annual increases and growth of the Group’s customer base has resulted in revenue increasing by 11% from R1,228 billion to R1,359 billion.

Although fully recovered, the significant increase in the cost of fuel and pricing pressure within the retail logistics segment has offset certain variable costs savings resulting in gross margins reducing slightly from 30,7% to 30,1%. Nevertheless, gross profit increased by 9% to R409,1 million.

The previous years’ initiatives to reduce operating costs and ongoing stringent cost controls has resulted in operating costs increasing by only 1,6% to R351,6 million. This minor change has contributed to operating profit margins improving from 3,4% to 5,2% and operating profit before the corresponding period’s once-off BBBEE transaction costs, increasing by 72% to R71,3 million.

Net finance costs have remained relatively static at R6,9 million. The effective tax rate has reduced to 29,1% due to the corresponding periods BBBEE transaction costs which were not tax deductible.

Excluding the corresponding period’s BBBEE costs, normalised headline earnings per share increased by 78% from 17,8 cents to 31,6 cents per share.

Capital expenditure incurred during the period reduced by R57,6 million to R89,9 million. This expenditure comprised R76,6 million for vehicles, R2,6 million for materials handling equipment, R5,8 million for plant, equipment and accessories and R4,9 million for IT hardware and software. This expenditure, in addition to the settlement of the final instalment of R3,2 million pertaining to the acquisition of Key Distributors (Pty) Ltd, was funded by internally generated cash flows and R64,4 million in interest bearing debt. R33,4 million of this interest bearing debt was repaid in the interim period. Positive cash balances were utilised to fund R26,1 million spent on share repurchases. The Group’s debt:equity ratio (net of intangibles) remains low at 25,8%.

Management’s ongoing focus on conversion of profits into sustainable cash flows remains a priority and has yielded positive results with cash generated by operations improving by 35% from R102,8 million to R138,5 million. Notwithstanding increased tax and dividend cash outflows, an improvement in working capital management resulted in cash flows from operating activities increasing by 20% to R79,7 million.

OPERATIONAL REVIEW

General distribution segment

Poor economic growth continues to impact a large portion of the customer base which places pressure on rates and volumes. Management’s focus, however, on improving the operations and procuring new customers in the warehousing and breakbulk operations has yielded positive benefits with volumes increasing. As a result, revenue increased by 12% from R748,1 million to R837,6 million. In addition, operational savings and improved efficiencies contributed to operating profit increasing by 77% from R25,3 million to R44,7 million. The remaining operations comprising a significant portion of this segment, being dedicated distribution and express, performed to expectation.

Truck rental and other segments

Tough trading conditions hampered revenue growth which remained static at R183,8 million. Clearing and forwarding as well as linehaul performed to expectation. Strategic changes in the materials handling division contributed to a significant improvement in this segment’s performance. Accordingly, operating margins improved from 10,8% to 16,3% with operating profit increasing by 52% from R19,8 million to R30 million.

COMMENTARY

Retail logistics segment

Trading conditions remain challenging with protest actions on delivery routes having an effect on revenue. Nevertheless, management's focus on growing the revenue base and areas serviced has resulted in revenue increasing by 13% to R334 million. Margins, however, have been negatively affected by the competitive environment and supplier changes in rebate and incentive structures. Consequently, operating profit reduced from R3,6 million to R3 million.

SHARE REPURCHASES

During the current period 5,7 million shares were acquired at a cost of R26,1 million. Subsequent to 31 August 2018, 1,4 million shares were repurchased at a cost of R6,8 million. The effective average acquisition cost per share amounts to R4,63 per share. On 8 May 2018, 9 618 378 treasury shares were cancelled and delisted. Pursuant to this cancellation, the number of ordinary shares currently in issue is 176 809 100. The Group's subsidiaries currently hold 12,7 million ordinary shares in treasury which represents 7,2% of ordinary shares in issue. The Group will continue to repurchase shares as the opportunities arise.

FUTURE CAPITAL EXPENDITURE

Capital expenditure for the remainder of the financial year is anticipated to amount to approximately R76,1 million and consists primarily of vehicle and forklift additions and replacements. This capital expenditure will be funded by internally generated cash flows and interest bearing debt.

PROSPECTS

It is expected that poor growth and high unemployment rates coupled with the recent hikes in fuel prices will constrain consumer disposable income and associated demand over the festive season. Despite these economic difficulties, management has implemented a range of initiatives to mitigate these challenges. In addition, these challenges should be offset by the growth in the customer base. Accordingly, the Board anticipates that second half earnings will at least be maintained resulting in an improvement in earnings for the 2019 financial year. Any reference to future financial performance included in this announcement has not been reviewed nor reported on by the Group's auditors.

The Group continues to pursue acquisition opportunities that will complement and improve revenue streams in the existing divisions.

DECLARATION OF DIVIDEND (NUMBER 24)

The Board resolved to declare a gross interim dividend for the six months ended 31 August 2018, of 13 cents per ordinary share which will be paid out of distributable reserves. The dividend is covered 2,4 times by headline earnings. The number of ordinary shares in issue at the date of this declaration is 176 809 100. The dividend will be subject to dividend withholding tax of 20% which amounts to 2,6 cents per share. This will result in a net dividend of 10,4 cents per share payable to those shareholders who are not exempt from paying dividend withholding tax. The tax reference number of Value Group Limited is 9319054715. The dividend is payable to shareholders as follows:

| | |
|--------------------------------|----------------------------|
| Declaration date | Wednesday, 24 October 2018 |
| Last day to trade cum dividend | Tuesday, 15 January 2019 |
| Trading ex-dividend commences | Wednesday, 16 January 2019 |
| Record date | Friday, 18 January 2019 |
| Payment date | Monday, 21 January 2019 |

Share certificates may not be dematerialised or rematerialised between Wednesday, 16 January 2019 and Friday, 18 January 2019, both days inclusive.

For and on behalf of the Board

C D Stein
Chairman

Johannesburg
24 October 2018

S D Gottschalk
Chief Executive Officer





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