

#### Value Group Limited

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(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 Mcobothi\* \*Non-executive director Sponsor: Investec Bank Limited

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### HIGHLIGHTS

REVENUE **R2,780bn** UP 11%

NORMALISED HEADLINE EARNINGS PER SHARE <u>89,2</u> CENTS UP 25%

HEADLINE EARNINGS PER SHARE **89,2 Cents** UP 52%

EARNINGS PER SHARE
86,8 CENTS UP 58%

NET ASSET VALUE PER SHARE 624,8 cents UP 10%

CASH GENERATED BY OPERATIONS AFTER CHANGES IN WORKING CAPITAL **R322m** UP 11%

> FINAL DIVIDEND PER SHARE 27 Cents UP 23%

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R000's	%	Reviewed	Audited
	change	2019	2018
Revenue	11%	2 779 675	2 513 241
Cost of sales		(1 945 020)	(1 726 216)
Gross profit		834 655	787 025
Other income		30 191	28 364
Operating expenses		(672 830)	(659 951)
Operating profit before once-off BBBEE equity transaction costs Once-off BBBEE equity transaction costs	24%	<b>192 016</b> -	155 438 (19 003)
<b>Operating profit</b>		192 016	136 435
Share of profit of equity-accounted investees		(13)	23
Fair value adjustment		(2 625)	331
Finance income		4 293	3 386
Finance costs		(18 508)	(17 553)
Net profit before taxation		175 163	122 622
Taxation		(45 722)	(40 648)
Net profit for the year Other comprehensive income to be reclassified to profit and loss in subsequent periods Foreign currency translation differences	58%	129 441 (104)	81 974 (75)
Total comprehensive income for the year		129 337	81 899
Owners:		126 007	83 331
Net profit for the year		126 111	83 406
Other comprehensive income		(104)	(75)
Non-controlling interest:		3 330	(1 432)
Net profit/(loss) for the year		3 330	(1 432)
Other comprehensive income		-	-
		129 337	81 899
Earnings per ordinary share (cents) (note 2)			
Basic	58%	86.8	54.8
Headline	52%	89.2	58.7
Normalised headline	25%	89.2	71.1
Diluted basic	53%	83.7	54.8
Diluted headline	47%	86.0	58.7
Normalised diluted headline	21%	86.0	71.1

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R000's	% change	Reviewed 2019	Audited 2018
Assets			
Non-current assets		1 039 216	1 039 072
Property, vehicles, plant and equipment Intangible assets Goodwill Loan receivable Equity-accounted investees Deferred tax asset		1 003 231 10 981 16 561 3 001 77 5 365	1 004 903 10 603 16 561 1 575 380 5 050
Current assets		599 564	553 514
Inventories Trade and other receivables Other financial asset Current tax receivable Cash and cash equivalents		103 457 313 110 6 140 913 175 944	66 424 335 532 8 765 3 176 139 617
Non-current assets held for sale		797	116
Total assets		1 639 577	1 592 702
Equity and liabilities Equity Non-current liabilities Interest-bearing borrowings Deferred tax liability		895 798 304 905 125 475 179 430	848 634 290 670 108 601 182 069
Current liabilities		438 874	453 398
Trade and other payables Current portion of interest-bearing borrowings Current portion of non interest-bearing borrowings Other financial liability Current tax payable Shareholders for dividend		380 205 57 219 - 757 693	3338 379 803 69 227 3 268 31 464 605
Total equity and liabilities		1 639 577	1 592 702
Net asset value per share (cents)	10%	624.8	566.8

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R000's	Reviewed 2019	Audited 2018
Ordinary share capital and premium	10 816	10 829
Balance at beginning of year Shares cancelled	10 829 (13)	10 829 -
A ordinary shares	10	10
Treasury shares	(91 433)	(113 408)
Balance at beginning of year Treasury shares acquired Treasury shares sold Treasury shares cancelled	(113 408) (34 314) 882 55 407	(97 817) (16 481) 890 -
Share-based payment reserve	22 108	20 146
Balance at beginning of year Share-based payment expense Transfer to retained income	20 146 1 962 -	30 792 21 591 (32 237)
Foreign currency translation reserve	-	104
Balance at beginning of year Foreign currency translation differences	104 (104)	179 (75)
Retained income	954 297	934 283
Balance at beginning of year Dividends paid Shares cancelled Profit on disposal of treasury shares Transfer from share-based payment reserve Net profit for the year Non-controlling interest acquired by owners	934 283 (50 934) (55 394) 231 - 126 111 -	861 345 (39 573) - 710 32 237 83 406 (3 842)
Total capital and reserves attributable to owners Non-controlling interest	895 798 -	851 964 (3 330)
Balance at beginning of year Net profit/(loss) for the year Non-controlling interest acquired by owners	(3 330) 3 330 -	(5 740) (1 432) 3 842
Equity	895 798	848 634

## CONSOLIDATED STATEMENT OF CASH FLOWS

R000's	% change	Reviewed 2019	Audited 2018
Cash flows from operating activities		211 257	194 694
Cash generated by operations after changes in working capital Finance Income Finance costs Taxation paid	11%	322 438 4 293 (18 508) (46 120)	291 323 3 386 (17 553) (42 972)
Cash available from operating activities Dividends paid	11%	262 103 (50 846)	234 184 (39 490)
Cash flows from investing activities		(56 990)	(88 928)
Purchase of property, vehicles, plant and equipment Purchase of intangible assets Proceeds on disposal of property, vehicles, plant and e Proceeds on disposal of non-current assets held for sa Payment of vendor - Key Distributors acquisition Dividend received from equity accounted investees (Increase) / decrease in Ioan receivable		(51 247) (5 072) 2 091 1 834 (3 268) 290 (1 618)	(88 854) (4 851) 2 883 11 498 (9 804) - 200
Cash flows from financing activities		(117 940)	(92 438)
Repayment of loans Treasury shares acquired Proceeds on disposal of treasury shares		(84 739) (34 314) 1 113	(77 557) (16 481) 1 600
Net change in cash and cash equivalents Translation difference Cash and cash equivalents at beginning of year		36 327 - 139 617	13 328 (164) 126 453
Cash and cash equivalents at end of year		175 944	139 617

# **SEGMENT INFORMATION**

R000's	Reviewed 2019	Audited 2018
Total segment revenue	2 937 535	2 663 570
General distribution Truck rental and other Retail Logistics Head office and other	1 740 618 419 992 660 245 116 680	1 555 912 414 943 583 077 109 638
Less: Inter-segment revenue	157 860	150 329
General distribution Truck rental and other Retail Logistics Head office and other	3 683 45 512 - 108 665	5 342 37 747 - 107 240
External segment revenue	2 779 675	2 513 241
General distribution Truck rental and other Retail Logistics Head office and other	1 736 935 374 480 660 245 8 015	1 550 570 377 196 583 077 2 398
Business segment results General distribution	128 256	98 172
- Trading profit - Goodwill impairment	128 256 -	101 763 (3 591)
Truck rental and other Retail Logistics Head office and other	56 817 12 706 (5 763)	55 498 8 011 (6 243)
Operating segment results Once-off BBBEE equity transaction costs Share of profit of equity-accounted investees Fair value adjustment Finance income Finance costs	192 016 - (13) (2 625) 4 293 (18 508)	155 438 (19 003) 23 331 3 386 (17 553)
Net profit before taxation	175 163	122 622
<b>Total segment assets</b> General distribution Truck rental and other Retail Logistics Head office and other	748 097 567 052 111 539 197 393	754 677 578 252 80 934 159 893
Segment assets Loan receivable Equity-accounted investees Deferred tax asset Other financial assets	1 624 081 3 001 77 5 365 6 140	1 573 756 1 575 380 5 050 8 765
Current tax receivable	913	3 176
Total assets	1 639 577	1 592 702

#### Revenue on an IFRS 15 basis is further disaggregated by timing and nature below:

R000's	General Distribution	Truck Rental & other	Retail logistics	Head office and other	Reviewed 2019
Recognised over time	1 726 015	249 495	-	-	1 975 510
Services rendered	1 726 015	249 495	=	-	1 975 510
Recognised at a point in time	10 920	45 625	660 245	8 015	724 805
Services rendered Sale of goods	-	20 519 9 596	- 660 245	- 5 224	20 519 675 065
Sale of assets held for rental	10 920	15 510	-	738	27 168 2 053
Full maintenance leases*	-	79 360	-	-	79 360
Services rendered	-	79 360	-	-	79 360
Revenue	1 736 935	374 480	660 245	8 015	2 779 675

R000's	General Distribution	Truck Rental & other	Retail logistics	Head office and other	Audited 2018
Recognised over time	1 538 070	247 976	-	-	1 786 046
Services rendered	1 538 070	247 976	=	-	1 786 046
Recognised at a point in time	12 500	47 981	583 077	2 398	645 956
Services rendered	-	21 572	-	-	21 572
Sale of goods	2 712	9 269	583 077	-	595 058
Sale of assets held for rental	9 788	17 140	-	442	27 370
Insurance commissions	-	-	-	1 956	1 956
Full maintenance leases *	-	81 239	-	-	81 239
Services rendered	-	81 239	-	-	81 239
Revenue	1 550 570	377 196	583 077	2 398	2 513 241

\* Lease contracts within the scope of IAS17: Leases

# NOTES

#### 1. Basis of preparation

The reviewed condensed consolidated financial results are prepared in accordance with the framework concepts, IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these reviewed condensed consolidated financial results are in terms of International Financial Reporting Standards. Other than the adoption of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customer detailed in note 6 below, the accounting standards applied are consistent with those applied in the previous consolidated financial statements. These results have been prepared under the supervision of the Group Financial Director, CL Sack.

The Group's auditor, SVG has reviewed these results. A copy of their unmodified review report is available for inspection at the Company's registered office.

	Reviewed	Audited
R000's	2019	2018
Headline earnings		
. Reconciliation between basic and headline earnings		
Basic earnings attributable to owners	126 111	83 406
Loss on disposal of property, vehicles, plant and equipment	4 809	3 063
Less: tax effect of loss on disposal of property, vehicles, plant and equipment	(1 339)	(787)
Goodwill impairment	-	3 591
Headline earnings	129 581	89 273
Once-off BEE equity transaction costs	-	19 003
Normalised headline earnings	129 581	108 276
Number of ordinary shares of R 0.001 each in issue		
Shares in issue	172 635 000	186 427 478
Shares in issue excluding treasury shares	143 364 180	150 302 979
Weighted average shares in issue	145 284 191	152 191 958
Diluted shares in issue	150 670 275	152 191 958
<ol><li>Number of A ordinary shares of R 0.001 each in issue</li></ol>		
Shares in issue	10 429 010	10 429 010
Supplementary information		
Depreciation	96 538	96 148
Amortisation of intangible assets	4 685	6 976
Depreciation and amortisation	101 223	103 124

# NOTES

	R000's	Reviewed 2019	Audited 2018
4. 4.1.	Fair value measurement of financial instruments Financial assets/(liabilities) Investment in insurance cell captive (Level 2) 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.	6 140	8 765
	Foreign currency forward contracts (Level 2) 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.	-	(31)
5.	Related party transactions Significant transactions with related parties comprise of market related rentals paid to companies controlled by SD Gottschalk, CEO of Value Group Limited.	199 619	190 050

#### 6. Changes in significant accounting policies

The Group has adopted IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments from 1 March 2018.

The adoption of these standards had no material impact on the amounts previously reported hence no restatement of comparative information is required.

#### IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining how and when revenue is recognised. Under IFRS 15, the Group recognises revenue upon satisfaction of performance obligations i.e. when a customer obtains control of the goods or services, either at a point in time or over a period of time.

#### IFRS 9: Financial Instruments

IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy non-financial items.

IFRS 9 replaced the 'incurred loss' model in IAS 39 with a forward looking 'expected credit loss' (ECL) model. Trade receivables ECLs were measured on the simplified approach.

# NOTES

#### 7. Standards issued but not yet effective: IFRS 16: Leases

IFRS 16 introduces a single, on-balance sheet lease accounting methodology for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments, with certain exemptions for short-term leases or leases of low-value assets.

The Group is required to adopt IFRS 16 from 1 March 2019. The Group has performed an initial assessment of the estimated impact that the application of IFRS 16 will have on its consolidated financial results. The actual impact of adopting this standard on 1 March 2019 may change as the Group has not finalised its assessment of the lease calculations. The full impact of this standard however, will be disclosed in more detail in the 2019 integrated annual report.

#### Leases in which the Group is a lessee

The Group will recognise right-of-use assets and associated liabilities for its operating leases of premises. The nature of expenses related to those leases will change as the Group will recognise a depreciation charge for the right-of-use assets and interest expense on the lease liabilities. Previously, the Group recognised operating lease expenses on a straight-line basis over the term of the leases.

# 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 report that the Group produced an improved set of results for the year ended 28 February 2019.

Although the trading environment continues to be very challenging, the strategic focus to grow the top line has resulted in revenue increasing by 11% from R2,51 billion to R2,78 billion. This increase arose from organic growth in the customer base and volume increases.

Even though fuel price changes are fully recovered, the significant increase in this cost was partially offset by other variable cost savings which has resulted in the gross profit percentage reducing slightly from 31,3 % to 30%. Nevertheless, gross profit increased by 6% to R834,7 million.

The previous years' initiatives to reduce operating costs and ongoing stringent cost controls have resulted in the containment of operating expenses which escalated by only 2% to R672,8 million. This change, together with improved gross profits, contributed to operating profit margins improving from 6,2% to 6,9% and operating profit (before the corresponding period's once-off BBBEE transaction costs) increasing by 24% to R192 million.

During the course of the year, interest earned on higher positive cash balances offset increased funding costs resulting in net finance costs remaining static at R14,2 million.

The Group increased its expenditure on unemployed learnerships resulting in increased learnership allowances which had the effect of reducing the effective tax rate to 26,1%.

The combined effects of the above has contributed to net profit and earnings per share increasing by 58% to R129,4 million and 86,8 cents per share respectively. Excluding the corresponding period's R19 million once-off BBBEE transaction costs, normalised headline earnings increased by 25% from 71,1 cents to 89,2 cents per share.

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 after working capital changes improving by 11% from R291,3 million to R322,4 million. Increased inventory levels pertaining to procurement of product prior to supplier price escalations and transfer of vehicles earmarked for disposal was partially funded by the significant improvement in collections of receivables. In addition, working capital requirements increased due to the accelerated payment cycle arising from the conversion of a portion of labour broker staff to permanent employees. The associated additional net outflow combined with increased taxation and dividend payments resulted in cash flows from operating activities improving by 9% to R211,3 million.

Capital expenditure incurred during the year amounted to R146 million and comprised R120,3 million for vehicles, R6,7 million for materials handling equipment, R9,7 million for plant and equipment and accessories and R9,3 million for IT hardware and software. This expenditure, in addition to the settlement of the final instalment pertaining to the acquisition of Key Distributors (Pty) Ltd, was funded by internally generated cash flows and R4,9 million in interest bearing debt. Although positive cash balances were utilised to fund the R34,3 million expenditure on share repurchases, cash resources on hand at year end increased by R36,3 million to R175,9 million.

The Group's debt:equity ratio (net of intangibles) remains very low at 21% in comparison to the Group's 40% to 60% maximum acceptable debt:equity level.

# COMMENTARY

#### **OPERATIONAL REVIEW**

#### General distribution segment

The poor economic climate continues to impact a large portion of the customer base and volumes. This is exacerbated by competitor and customer rate pressures. However, management's focus on restructuring costs in the freightpak and logistics divisions, improving operational efficiencies and procuring new customers in the warehousing, dedicated distribution and logistics divisions has yielded positive benefits with volumes increasing. Consequently, revenue increased by 12% from R1,55 billion to R1,74 billion. Excluding goodwill impairments in the prior year, operational savings and improved efficiencies contributed to operating profit increasing by 26% from R101,8 million to R128,3 million and operating margins improving from 6,6% to 7,4%.

#### Truck rental and other segments

Tough trading conditions impacted by a very competitive environment hampered revenue growth which reduced marginally from R377,2 million to R374,5 million. Strategic changes in various divisions reduced costs and contributed to a small improvement in the segment's performance. Accordingly, operating margins improved from 14,7% to 15,2% with operating profit increasing to R56,8 million.

#### **Retail logistics segment**

Although trading conditions remain challenging with protest actions having an effect on revenue, management's strategic initiatives in growing the customer base and areas serviced has resulted in revenue increasing by 13% from R583,1 million to R660,2 million. Increased revenue and the resultant economics of scale offset product pricing pressures resulting in an improvement in operating margins to 1,9% with operating profit increasing by 59% to R12,7 million.

#### SHARE REPURCHASES

During the current period 7 319 867 shares were acquired at a cost of R34,3 million. Subsequent to 28 February 2019, 330 708 shares were repurchased at a cost of R1,98 million. The effective average acquisition cost per share amounts to R4,74 per share. On 8 May 2018, a total of 9 618 378 treasury shares were cancelled against reserves and delisted. On 17 January 2019, a total of 4 174 100 treasury shares were cancelled against reserves and delisted. Pursuant to these cancellations, the number of ordinary shares currently in issue amounts to 172 635 000 ordinary shares. The Group's subsidiary currently holds 7 350 304 ordinary shares in treasury which represents 4,26% of ordinary shares in issue. The Group will continue to repurchase shares as opportunities arise.

#### FUTURE CAPITAL EXPENDITURE

Budgeted capital expenditure for the 2020 financial year is anticipated to amount to approximately R170,6 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.

# COMMENTARY

#### PROSPECTS

It is expected that poor growth and high unemployment rates coupled with the recent hikes in fuel prices will continue to constrain consumer disposable income and associated demand in the period ahead. Despite these economic difficulties, it is anticipated that the customer base and the service offerings in all three segments should continue to expand in the new financial year. In addition, ongoing focus on cost controls remains a priority particularly in view of ongoing rate and margin pressures. These initiatives should mitigate the current economic challenges and provide a platform for ongoing sustainable growth. Accordingly, the Board anticipates that on a comparable accounting basis, earnings will at least be maintained in the 2020 financial year. Any reference to future financial performance included in this announcement has not been reviewed nor reported on by the Group's auditors.

In addition, the Group's solid balance sheet characterised by low debt levels provides funding capacity for further organic and acquisitive growth.

#### **DECLARATION OF DIVIDEND (NUMBER 25)**

The Board resolved to declare a gross final dividend for the six months ended 28 February 2019, of 27 cents per ordinary share which will be paid out of distributable reserves. The dividend is covered 2,1 times by second half headline earnings. The number of ordinary shares in issue at the date of this declaration is 172 635 000. The dividend will be subject to dividend withholding tax of 20% which amounts to 5,4 cents per share. This will result in a net dividend of 21,6 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	Friday, 10 May 2019
Last day to trade cum dividend	Tuesday, 25 June 2019
Trading ex-dividend commences	Wednesday, 26 June 2019
Record date	Friday, 28 June 2019
Payment date	Monday, 1 July 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 26 June 2019 and Friday, 28 June 2019, both days inclusive.

For and on behalf of the Board

**C D Stein** Chairman Johannesburg 10 May 2019 S D Gottschalk Chief Executive Officer

