Finance director's report

'A year of consolidation and adapting plans to align with the global slowdown in demand, with the highlight in the financial results being the reduction in debt levels'

An overview of 2024

The group delivered an acceptable financial result for 2024 considering the tough market conditions. As expected at the time of release of the group's half year end results for 2024, the second half of the year was more challenging than the first half with markets slowing down further. The impact of a 17% reduction in revenue and lower production volumes in the second half of the year are evident in the full year financial results. In response to the challenging environment, the group increased its focus on working capital management, cost containment and cash preservation and this will continue into 2025.

As the high levels of demand experienced in 2023 in mining and construction in the group's major markets slowed down in 2024, the group right sized its sales projections and reduced production volumes to the new levels of demand. The slowdown was especially evident in the group's northern hemisphere markets, in North America and in the UK and Europe, where infrastructure spending diminished.

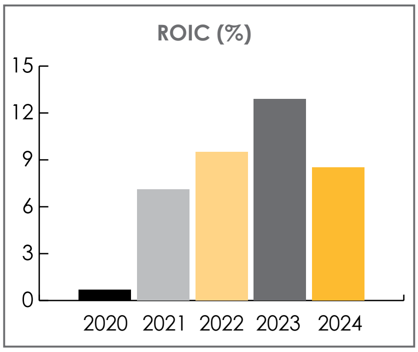
The market downturn meant that the requirement for working capital funding reduced. Through the year as the inventory levels reduced, so did the level of debt.

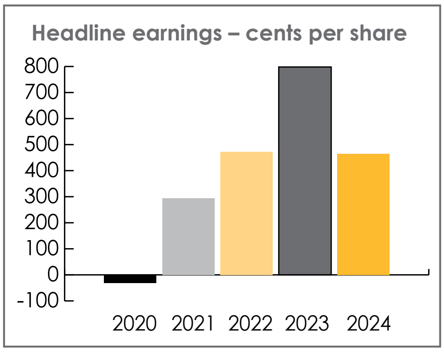
The group earned profit after tax of R471,1 million for the year, 41% down on R793,6 million earned for 2023, which was a record year. Earnings per share and headline earnings per share were 461 cents and 465 cents respectively (2023: earnings per share of 799 cents and headline earnings per share of 798 cents per share) for the year.

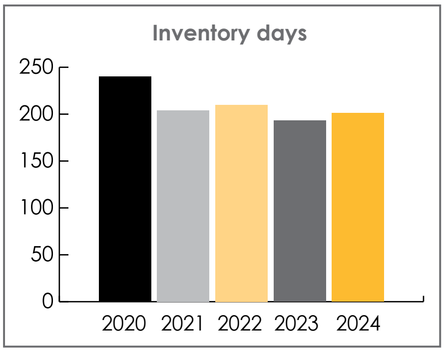
Strategic delivery	
ROIC growth	✗
Reposition ADT manufacturing in northern hemisphere and grow contract manufacturing in SA	•
Ongoing development of our existing and new world class products	✓
Machine sales volume growth	✗
LTRS growth	-
Dealer network growth	✓

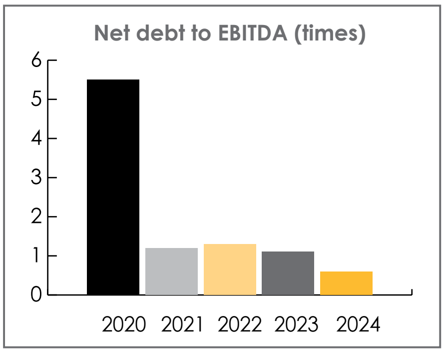
Operating environment	
Global market conditions and demand	✗
Supply chain constraints	✓
Port inefficiencies and delays	-
Labour shortages in Eisenach	✓
Currency impacts	-
Inflation	-
Interest rates	-
ADT manufacturing location	✗
Electricity supply	✓

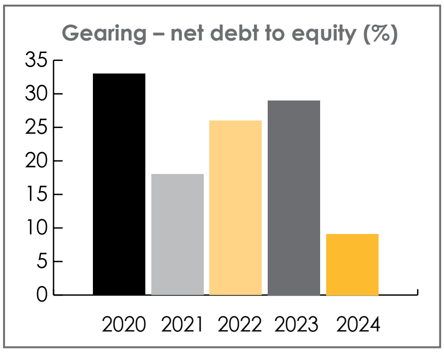
✓ Positive ✗ Negative
- No material impact • In progress











Our most material financial matters

ROIC this key metric, a performance hurdle for the zero strike incentive awards, deteriorated in 2024 and an ROIC of 8,5% was achieved (2023: 12,9%). The group is not within the targeted ROIC range of 15% to 24% and must execute on its long term strategy to relocate more of the ADT manufacturing closer to suppliers and customers in the northern hemisphere, and to grow BHI, which is aimed at reducing the working capital cycle and delivering the required step change in ROIC and sustainability.

Sales growth sales volume growth is a strategic imperative for the business because the factories require throughput to support a large, fixed cost base and volume drives a higher ROIC. Sales growth deteriorated in 2024 due to the slowdown, particularly in the northern hemisphere markets.

HEPS this key metric, also a performance hurdle for the zero strike incentive awards, reduced to 465 cents per share in 2024 from 798 cents per share in 2023.

Inventory days optimising inventory days is important because this is a key driver of the group's ROIC and liquidity. The location of the group's main factory in Richards Bay, together with long lead times with certain suppliers, means that the working cycle is challengingly long. Inventory management, ongoing matching of production and sales plans with market conditions, and logistics planning are critical functions for the business.

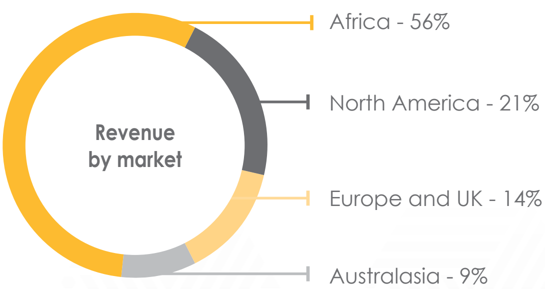
Liquidity the group targets a net debt to equity ratio range of no more than 30% to 40%, and the group ended the year well below that with gearing of 9,5%. The low gearing is directly related to where we are in the business cycle and the current levels of worldwide demand for the equipment that the group manufactures. Debt levels are monitored on an ongoing basis and when the maximum of the target range for gearing is reached, the group will make adjustments to the sales and production plans to bring the business back to within the targeted range.

Annual Financial Statements key points

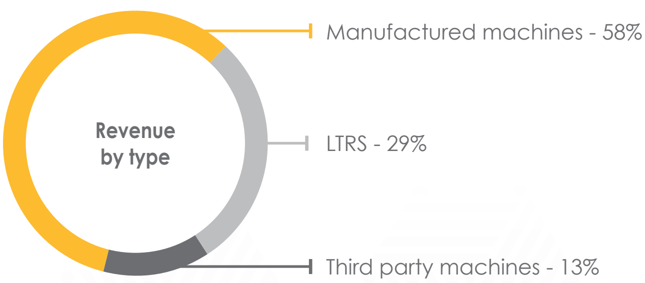
Operating profit reduced by 37% and headline earnings reduced by 42%, mainly driven by:

- revenue that decreased by 13% to R11,7 billion from R13,5 billion in 2023.
- expenses that increased by 10%, driven up by the lower production volumes which meant less recovery of the group's mainly fixed factory labour expenses and overheads for the year, and by inflation.

1. **Revenue by market**



2. **Revenue by type**



Segmental performance

The group conducts OEM operations in South Africa and Europe, comprising manufacturing, assembly and sales of equipment and aftermarket products to independent and group owned distributors and dealers. Owned distribution operations in South Africa and Rest of Africa are engaged in direct sales of own manufactured products, other third party products and the supply of aftermarket support and products to the market. The South Africa direct sales business comprises customer service centres in South Africa and Eswatini. Rest of Africa comprises customer service centres in Zambia and until 2024, in Zimbabwe. The group's operation in Zimbabwe was closed during 2024.

OEM, manufacturing, assembly and dealer sales operations in SA

The most notable decrease in profitability in 2024 was in the OEM operation in South Africa, within the South Africa manufacturing segment, and this is mainly due to lower production and sales volumes of complete machines and kits from the Richards Bay and Eisenach Kindel facilities, and the lower level of recovery of labour costs and overheads, compared with the prior year. This South Africa manufacturing segment reported a significantly reduced operating profit of R477,2 million in 2024, down from R834,0 million in 2023. Total external sales of manufactured machines by this segment were flat in 2024 compared with 2023, but in 2024 contributed a greater proportion of group external revenue at 22,1% of group sales in 2024 compared with 19,1% in 2023.

OEM, manufacturing, assembly and dealer sales operations in Europe

External sales by the OEM business in Europe decreased by a very significant 31,7% in 2024 for the reasons provided earlier in this report, with the contribution to total group sales decreasing to 33,1% from 41,9% in 2023. The softening of these markets was especially evident in the second half of 2024. Sales to North America are reflected in this segment. Operating profit remained similar at R159,4 million for 2024 compared with R158,3 million in 2023. This is because the Eisenach Kindel factory is a limited risk contract manufacturer which manufactures under licence from the SA OEM. The Russian business remains on pause due to the war in Ukraine and the group's positive bank balance of R67 million in Russia is still trapped in that country.

Direct sales – South Africa

External revenue from direct sales operations in South Africa increased by 2% compared with 2023 but despite this modest increase, the contribution to group sales increased to 38,2% in 2024, compared with 32,5% in 2023. While more machines were available for this market in 2024 as a result of the softening of the northern hemisphere markets, and market share gains were made, demand in South Africa was not as strong as had been anticipated and this operation ended the year with high inventory levels which must be normalised in the first half of 2025. The segment reported operating profit of R247,8 million, up from R220,4 million in 2023.

Direct sales – Rest of Africa

The Zambian customer service centre in the group's Rest of Africa operations continued to experience strong demand in 2024, but the performance of this segment was impacted by low activity and a trading loss in Zimbabwe, once off costs relating to the closure of the Zimbabwe operation, a provision for the possible non recovery of long outstanding refunds from the Zambian tax authorities and a review of the Richards Bay factory's pricing on manufactured machine sales to this segment. Revenue for the segment decreased by 12,9% on 2023 and contributed 6,6% to group sales in 2024.

Gross margin

The gross margin is dependent on the product and geographic mix of sales, market conditions and exchange rates. There was a substantial change in the geographic mix of sales in 2024, with proportionately more machines sold in the southern hemisphere than in 2023, and despite a very competitive sales environment with all competitors over stocked, the group earned an improved average gross margin for the year of 21,1% compared with 20,0% in 2023.

Other operating income

Other operating income relates mainly to production incentives in the form of import duty rebates earned on the South African government's Automotive Production Development Programme. This benefit decreased by 11,6% to R211,3 million in 2024 from R239,0 million in 2023, due to the increase in production volumes of qualifying products at Richards Bay in 2024.

Expenses

Expenses increased by 10% on 2023, impacted by both the reduced production volumes and lower recovery of labour and overhead costs as well as upward inflationary pressure on the cost base, especially on salary costs. Contract worker manning levels at the two production facilities were right sized to match the lower production levels, but this did not fully compensate for the impact of reduced volumes and inflation.

The group has continued its investment in research and development and development costs totalling R55,5 million, primarily relating to the development of the new motor grader, were capitalised during 2024. These costs are amortised over the life of new products once projects have been completed. The total cumulative carrying value of capitalised development costs at year end amounted to R262,7 million and the total amortisation of development costs for the year amounted to R26,3 million.

Balance sheet

During 2024, total assets decreased by 14% to R9,1 billion, driven by the reduced investment in working capital that was required to support the current market conditions and related sales and production plans.

Inventory

Although inventory decreased in value by 11% in 2024, the 201 days inventory at year end was a long way from the budgeted 180 days.

Finished manufactured machine inventory at year end was far higher than planned at R1,2 billion. We have seen this reduce after year end, but there is considerable opportunity to reduce this further and we will continue to work on this in 2025.

The decrease in components and raw materials at the factories reflects the lower production levels going into 2025. Congestion and delays at the SA ports have reduced and the supply chain was more stable in 2024 which has meant that inventory buffers at the factories could be reduced, contributing positively to cash flow.

Inventory of R597,5 million in the group's operation in Germany was provided as security for that operation's borrowings base facility.

Receivables

Trade and other receivables normalised at 42 days at the end of 2024 compared with the high level of 54 days at the end of 2023. The main reason for the unusually high increase in receivables days at the end of 2023 related to an extension of credit to the North American distributor for a large volume of ADT's which were invoiced and shipped to North America later in 2023 than planned, in the winter season in North America. This was fully recovered during 2024.

The general health of trade receivables is good. The group has experienced low bad debts in the past and even if certain customer accounts take time to collect, they are generally recovered in full.

Trade receivables of R189,7 million in the group's operation in Germany was provided as security for that operation's borrowings base facility.

Debt and liquidity
As a result of the lower working capital, net debt at year end is down to R542 million from R1,5 billion at the end of 2023. Net debt includes bank overdrafts, overnight call loans, trade loans, supply chain finance and cash and bank balances.

Interest cover reduced due to the reduced earnings, but net debt to EBITDA improved due to the significantly lower debt levels at the end of 2024.

All covenants in funding arrangements were met in 2024.

Cash flow
When the group ramps up for stronger market conditions this requires a cash investment in inventory and the opposite happens when there is a softening in market conditions, as experienced in 2024. Gearing improved to 9,5% from 29,1% at the end of 2023.

The reduced investment in working capital, in both inventory and receivables, were the most substantial cash inflows during the year.

Interest payments reduced due to lower average borrowings during the year.

Tax payments also decreased due to the reduction in profitability in many of the operations compared with 2023.

Exchange rates
The group has for many years had a strong natural Rand hedge and foreign currency sales proceeds, mainly US Dollars, are utilised to settle import payment commitments for components, raw materials and other OEM equipment purchases which are in Euros, US Dollars, British Pounds and Japanese Yen. However, the timing of cash flows, different payment terms on supplier and customer accounts and the impact of the manner in which the accounting standards require transactions to be accounted for, results in substantial foreign currency gains and losses in the reported numbers. In 2024, the Rand was not as volatile as in some years in history and net foreign currency losses of just R200 000 were incurred. The group's approach to managing foreign currency exposures remains the same as in past years. We aim to match currency inflows and outflows as far as possible, with the group's strong natural currency hedge, and forward cover contracts are used to assist in managing the residual currency exposures.

Share price
There was a significant increase in the company's share price during 2024, from R23,00 at the end of 2023 to R40,63 at the end of 2024. Although the share is still trading at a discount to the net asset value per share of R59,36 at the end of 2024, this gap is not nearly as substantial as in the past. Nevertheless, this is an indicator of possible impairment in terms of *IAS 36 Impairment of Assets*, and valuations and assessments were performed to determine the recoverable amount of the group's main cash generating unit and certain other key assets in the group. No impairments resulted from these valuations. Refer to note 5 in the annual financial statements for further details of this assessment. The share price is determined by the market and we will continue to strive to deliver stronger ROIC results and on growing a more resilient business which should result in time in the share price increasing and the gap to net asset value further reducing.

Dividends
The board has declared a gross final dividend of 160 cents per ordinary share. This is in recognition of the solid performance in challenging conditions in 2024 and the decision taken last year, following the record financial result for 2023, to preserve cash resources at that time rather than pay a dividend.

CEO and CFO financial controls attestation
Bell Equipment continues to strive to maintain a strong financial controls environment to support the integrity and reliability of the financial statements. We have implemented adequate and effective internal financial controls, and a comprehensive controls framework and self assessment tool which we continue to develop and enhance. Ashley Bell and I were therefore able to make the attestation required by the JSE.

Change in external auditors
PWC was appointed as the group's external audit firm with effect from 1 January 2024 and has signed off on the group's results for 2024. This was a significant change considering the number of Bell operations that were affected. I am pleased to report that the transition has gone well.

Looking ahead
We are already well into what is almost certain to be an eventful year in 2025. Although the group is planning for similar machine sales volumes as in 2024, the launch of the motor grader and the planned SAP go live at the group's largest operations in Richards Bay in the second half of the year will make 2025 a significant and exciting year for the group. The global political landscape is likely to remain challenging, especially relating to the Trump administration and we will continue to monitor this volatile situation, especially as it relates to the imposition of tariffs, and understand the possible impact on the business.

KJ van Haght CA(SA)
Group finance director
26 March 2025