



Joint report by the chairman and chief executive

Overview

Against the backdrop of unprecedented global demand for equipment, the Bell Equipment group achieved record sales and production in 2023, which resulted in a rewarding outcome for the second consecutive year. We made great progress during 2023 on a number of exciting new strategic initiatives, including new product developments, the launch of our contract manufacturing division in Richards Bay and the growth of our independent forestry and agriculture product dealer network across South Africa.

We are exceptionally proud of the Bell team as they continued to demonstrate resilience and adaptability through the year and we commend them for the way in which they overcame considerable obstacles, most notably continued supply chain challenges, as well as port congestion in South Africa and labour shortages in Europe.

Port delays, affecting both incoming supplier orders and outgoing customer shipments, coupled with higher logistics costs and inventory buffers have impacted margins, inventory, debt levels, and return on invested capital (ROIC). Inventory levels remain high due in part to the remote location of our Richards Bay factory in relation to a majority of our component suppliers and customer base for our articulated dump truck (ADT) product line. The group also owns certain sales and distribution operations, such as in South Africa (BESSA) and the UK, which results in a longer working capital cycle and greater investment in inventory. We are implementing strategies that will, over several years, reduce our investment in inventory and increase the flexibility and resilience of the business.

We place great value on our reputation of offering strong reliable support to our customers, and during 2023 we made a significant investment in setting up our new American Logistics Centre (ALC), located in Charleston, South Carolina. This state of the art 55000 square feet facility has been established to back up our North American growth ambitions and is testament to our belief that if our customers succeed, then so will we.

Eskom electricity supply in South Africa remained a challenge through 2023, with the number of days where load shedding was experienced increasing to around double that during 2022. Our South African based suppliers have contingency plans in place for load shedding, such as alternative power sources, carrying more inventory, and flexible working hours to work around periods of load shedding. However, these measures drive up costs and the overall impact on the local economy is a huge concern.

We invested in solar power installations at both our Richards Bay factory and our Johannesburg sales and distribution facility. Although this is a long term cost saving project, it offers significant operational advantages by reducing the generator running costs and associated emissions that result from load shedding and municipality infrastructure failure.

We are pleased with the growth in revenue and profitability of 32% and 66% respectively, compared with the 2022 financial year. Inventory and receivables were higher than planned at year end and this impacted on debt levels. Reducing the level of investment in working capital is a priority as are our plans to reposition more ADT manufacturing closer to suppliers and key markets, in time.



Operations and product development

During 2023 the geographic breakdown of revenue across all products sold by the group was 48% into Africa (including South Africa), 28% North America, 16% Europe and the UK, and 8% Australasia.

The global demand for commodities translated into good ADT demand in general from Africa, South East Asia and Australia in mining. Further growth came from the USA, and parts of Europe driven largely by the construction sector, as infrastructure projects continued. The USA is the world's largest ADT market and remains the greatest market opportunity for growth for our ADT business.

Demand for machines exceeded our ability to supply due to constraints and logistical challenges in our supply chain, which negatively impacted our market share in certain markets. With market demand and supply chain pressure normalising, we expect to recover some of our 2023 market share losses going forward.

Infrastructure projects in the UK were either scaled back or put on hold during 2023, which resulted in large fleets of equipment being under utilised and unforeseen pressure in this market.

Our small Russian operation has been on pause since the outbreak of the Ukraine war. Although sales in Russia previously only contributed approximately 5% of group sales, our challenge is recovering restricted cash that we hold on deposit in that country.

The aftermarket segment remains a critical aspect of our business. The group's ability to provide parts and service support throughout the life of a Bell machine largely determines repeat purchases by customers and provides the group with a revenue stream for the life of the machine. In 2023, the group launched Bell BETA (Bell Equipment trusted alternative parts) in South Africa, a mid range offering to bridge the gap between premium Bell parts and remanufactured Bell components (ReMan). This gives customers a wider range of options to suit their needs and the assurance that comes from dealing with our dealer network. Plans are in place to roll out BETA parts to Bell UK and the dealer network in 2024.

Our aftermarket contribution to total revenue amounted to 24.7% and we have strategies to grow this contribution going forward.

As part of our existing growth and investment strategy, and our commitment to all our stakeholders, we are looking forward to launching several exciting new products. Foremost is our Bell motor grader that will be manufactured in Richards Bay as from early 2025. We envisage greater demand for the product initially in the southern hemisphere, but with significant northern hemisphere market opportunity as well. Our motor grader has been in development for several years and this is the time that it takes to design and test a new world class product before releasing it to market. We believe that we've designed a class leading product in respect of innovation, performance and reliability, which will take its place alongside our reputable Bell ADT line in the local and global market.

Our ADT continues to perform well across all markets, supported by ongoing technology innovations to ensure we maintain our position as a global leader. Autonomous controlled ADTs remains a focal point, particularly in the northern hemisphere, with fully autonomous driverless Bell ADTs operating on customer sites in Europe and North America. Our ADT product has incorporated technology to accommodate the interface of autonomous control systems for several years, which reinforces our position as a technology leader. The adoption of our autonomous ADT technology by the market will cement our 'lowest cost per tonne' promise to our customers.

Our engineering team also continues to explore different technologies and avenues towards finding suitable alternative fuel and propulsion solutions for a zero carbon future.

The implementation of new mining safety regulations in South Africa has driven demand for our pedestrian detection system (PDS) solutions on new and existing equipment. This validates the forward thinking design of our 'PDS ready' ADTs, which allows for seamless and cost effective integration with any preferred detection system. As the market adjusts to the new regulatory landscape, we believe our PDS solutions establish Bell as a partner of choice for mines across the country.

To grow our presence in underground mining we are working on a six ton load haul dumper (LHD) and we expect the first two units to be commissioned during the second quarter of 2024, for testing. Having invested significantly in research and development of the Bell tracked carrier, we are exploring the market potential of this range outside of its initially intended market of North America, where subdued demand has challenged the entry and growth of this product.

The tracked carrier has also generated some interest from the African drilling industry where its versatility makes it entirely suitable for carrier applications.

To complement our forestry and agriculture product range we have developed a Bell timber processing head for timber harvesting operations, which we expect to put into production during early 2025. This product has performed well through testing and is potentially a technology step change for our forestry product line up. Added to this, a skidder prototype (whole tree extraction tool) for the forestry industry has been built, which will now undergo infield testing.

Our strategy to develop a strong dealer network in South Africa to provide better coverage and dedicated service and support directly to our agriculture and forestry customers has found real traction. In the past 18 months, our network has grown to 24 dealers and 49 outlets throughout the country, including several BESSA branches.

The JCB agriculture range is proving to be a good fit for the business; particularly pleasing is local farmers' acceptance of the JCB loadall (telehandler) concept, a versatile and capable multi tool that can handle almost any on farm task.

Towards the end of 2023 we announced our new Bell Heavy Industries (BHI) division to the market, which takes our manufacturing solutions beyond 'yellow metal'. We have initiated discussions with potential customers and aim to help stimulate the South African manufacturing sector via contract manufacturing and project engineering to support local demand. We envisage providing services to the construction, energy, mining, and transport sectors.

Sustainability and strategic positioning

The group understands the importance of being a sustainable business and the risks associated with not continuously pursuing this objective. We therefore continue to evaluate ways in which to strengthen sustainability and believe that continuous improvement across all aspects of the business is key.

Our strategy is to grow the business organically by focusing on investing in the ongoing development and enhancement of our Bell OEM products, increasing our market share in key markets, and growing our BHI contract manufacturing business in Richards Bay. This supports the South African economy and, importantly, keeps people and skills employed.

Part of this sustainability strategy includes pursuing a greater level of manufacturing of our ADTs at our German factory due to growth in our northern hemisphere market share and penetration. Our expanding European supplier base has amplified the negative impact of 'round tripping' materials and components from Europe to South Africa and reinforced our decision to manufacture our northern hemisphere ADTs closer to both suppliers and markets.

Our legacy factory in Richards Bay has a broad spectrum of capabilities that we do not intend replicating in the northern hemisphere. Our manufacturing philosophy in Europe is to have a greater level of outsourcing, which will require the establishment of certain new suppliers for significant components. These suppliers and components must be thoroughly tested to meet the Bell quality and reliability standard before changes can be implemented, which will take several years to achieve sustainably. We aim to align the repositioning of our ADT manufacturing with the growth of our BHI division as far as possible.

The largest capital expenditure allocations in recent years have been for IT and the replacement of ageing equipment in the Richards Bay factory. Investment is also required for factory equipment in Germany to support plans to manufacture more of our ADTs closer to suppliers and the northern hemisphere markets.

Corporate governance and ESG

Our commitment to being a good corporate citizen pervades our total approach to the business and we endeavour to act in a responsible, ethical, and commercially sensible manner. Being a JSE listed company is advantageous in terms of operating globally, by providing a high standard of assurance that governance, finances, and sustainability are all equally adhered to and monitored.

We are ever conscious of our impact on the environment and are pleased with our continued progress in measuring and mitigating these risks, as detailed in our sustainability report. This report further carries information on our approach to the environment and corporate social investment.

Bell is committed to the highest standards of corporate governance. We have selected directors who possess the qualities that make them suitable to lead the group, including global experience and knowledge across a variety of fields, excellent character, and broad experience and knowledge of business management. We strive to establish a highly transparent and independent corporate governance structure and to introduce an executive compensation system that is linked to the enhancement of corporate value.

Details of governance structures and the extent to which we apply relevant principles of corporate governance, including King IV™ and regulatory requirements, are provided in our corporate governance report.

Transformation

BECSA and BESSA are both 51% black owned entities, and BESSA is additionally 30% black women owned. With their respective level 3 and level 1 BBEE scorecards, the group is competitively positioned in the local market. BECSA and BESSA's BBBEE certificates are available on the group's website at www.bellequipment.com.

Outlook

Bell operates in a cyclical business environment. For the past few years we have benefited from unprecedented strong global market demand post COVID, however, there are signs of global markets cooling off from record high levels.

The easing of demand in major markets gives the group scope to vigorously pursue growth opportunities in new and existing markets for our current products and the innovations we are pioneering (autonomous drive vehicles and PDS's), both in the mining and construction, and the forestry and agriculture sectors. With the supply chain constraints of the last two years also easing up, we anticipate a smoother year for production during 2024.

The order book for 2024 remains at a reasonable level and total market demand volumes are expected to normalise, following the unprecedented record high experienced through 2023. Over 60 countries in the world are holding elections in 2024, including South Africa in May 2024, which we anticipate could have significant macroeconomic impacts.

Ongoing energy problems, port delays, the general poor performance of state owned enterprises, the risk of potential disruptions from social unrest such as those experienced in 2021, are expected to continue to challenge doing business in South Africa.

The construction sector in South Africa remains volatile with the promised large infrastructure spend not materialising as quickly as hoped. Although coal exports are a concern, Eskom's demand for coal is still high and at this stage we expect demand from other mining sectors to remain fairly consistent with the levels seen during 2023.

The advancing of our innovative new product and technology developments through this next year gives us reason to be excited about what the future holds for Bell.

Our customer focus, world class products and continuous innovation, coupled with our strategy to better balance the business globally, will ensure resilience and sustainability.

Dividends

Over the last two financial years we gained pleasing traction in realising our planned growth, and we will continue along this path. By its nature, growth in our business requires significant working capital investments in inventory and receivables. With this in mind, coupled with a reflection on current volatile global political and economic uncertainties, the board has resolved to preserve cash resources rather than paying a dividend at this time. This will be reviewed at the interim results stage.

Board changes

Following Leon Goosen's resignation as chief executive officer (CEO), effective 31 December 2023, Ashley Bell, previously a non executive director, was appointed as CEO from 1 January 2024 and transitioned to an executive director.

Ashley, having served on the board since 2015, brings a deep understanding of the yellow metal industry, which is integral to our business. His tenure on the board and capital equipment business experience has provided him with comprehensive insights into operational practices and allows him to guide the group's future strategic initiatives.

Prior to his appointment as CEO, Ashley served as a member of the risk and sustainability committee in his capacity as a non executive director. In light of Ashley's new role as an executive director, Ushadevi Maharaj, an independent non executive director, was appointed to this committee effective 1 January 2024. Ashley continues to serve on the risk and sustainability committee, as well as the social, ethics, and transformation committee, now in his capacity as chief executive officer and prescribed officer.

Avishkar Goordeen, previously the alternate director to Leon Goosen, was appointed as the alternate director to Ashley Bell effective 1 January 2024.

The board extends its appreciation to Leon for his leadership and valuable contribution to the group during his tenure as CEO. Under his stewardship, our group not only navigated the complexities of global market fluctuations but also achieved significant growth and innovation. We wish him well in his future endeavours.

Appreciation

With the transition in leadership, we are humbled and encouraged by the positivity and support received from all stakeholders. Our commitment is to go above and beyond for the group, our team members, and our extended Bell family, and we thank you all for standing behind us.

The adaptability and collaborative nature of the executive management team, with its extensive industry and institutional experience, has continued to fuel strategic thinking and enables the group to pursue exciting growth opportunities.

Our Bell team is likewise commended for their unwavering passion, motivation, and loyalty demonstrated for the group. Their pride in their work and strong customer focus in all that they do continues to foster strong relationships that set Bell apart in the market.

We are grateful to our board for their important oversight role, assuring good corporate governance, and always generously giving of their time and expertise for the betterment of the group.

In closing, we extend our heartfelt appreciation to our customers and dealers around the world. As we embark on our 70th year in business, you can be assured that your satisfaction and success is just as important as it was when Irvine Bell, our father and grandfather, started this incredible journey.



Gary Bell
Chairman

28 March 2024



Ashley Bell
Chief executive