Joint report by the chairman and chief executive

Overview

Overall, 2022 was a pleasing year for the Bell Equipment Group characterised by our solid performance in the face of multifarious challenges. The way in which the team worked together and the resilience that was shown enabled us to end the year ahead of budget and substantially up on the previous year.

As reported in our interim statement, increased demand for commodities, country-specific post-COVID-19 stimulus packages, and increased infrastructure spending in several markets drove demand for ADTs. However, the conflict between Russia and the Ukraine since February 2022 caused ongoing supply chain constraints following on the lingering effects of COVID-19. This resulted in the group having to cut back on production and prevented us from fully capitalising on the market conditions.

To mitigate supply chain challenges high-risk suppliers were closely managed and supply continuity interventions were put in place. These included, among others, the interplant movement of parts to minimise line stoppages, production sequence changes to meet shipping plans and the implementation of alternate supply lines where feasible.

An improvement in the supply chain in the last quarter of the year meant that production could be caught up and product invoiced and delivered to customers by the end of 2022 to finish the year stronger than in the first half of the year.

In addition to supply chain constraints, 2022 saw soaring fuel prices, unprecedented levels of inflation and interest rates, record load shedding, and floods in KwaZulu-Natal in April that caused logistics challenges. In general, we experienced a reduced frequency of vessels, which increased the need to use significantly more expensive air freight.

Eskom's long-term implementation of extended load shedding during 2022 had far-reaching effects on the group, our local suppliers, and customers. Besides the disruptive impact on business, the mitigation action of running generators significantly increased the cost of doing business in South Africa. Power interruptions and changeovers also increase the risk of equipment being damaged, especially electrical switching and electronic equipment.

Expectations are that South Africa will experience between 200 and 250 days of load shedding in 2023, predominantly at stage 4. The group is therefore investigating increasing manufacturing in its German factory, sourcing of fabrications from outside of South Africa, as well as a grid-tied solar system for the Richards Bay factory.

Financial

The group improved significantly on the 2021 results with profit after tax increasing by 63% to R478,9 million (2021: R294,3 million). Strong market conditions resulted in all regions outperforming their sales volume budgets, except for Europe, which had an exceptionally high budget considering the actual volume sold into this market in the last five years. Group sales were up by 28% on 2021 largely due to an improvement in the supply chain in the last quarter that meant that production could be caught up and products invoiced and delivered to customers by year end.

Higher production volumes resulted in an increase in labour and overheads recovered, positively impacting the bottom line.

In addition to freight and load shedding expenses already mentioned, other notable expenses include increased electricity charges due to higher production and electricity tariff increases.

Group inventory increased by R1,1 billion (31%) from December 2021 to R4,8 billion at the end of 2022 and inventory days ended the year at 210 days compared with 204 days at the end of 2021. Considering the increase in sales in 2022 and the substantial further increase in volumes planned for 2023, this is an acceptable level. Likewise, borrowings remain stable and within acceptable levels.

Operations and product development

South Africa experienced a positive year with favourable commodity prices fuelling demand in the mining industry. Construction was flat, however the building industry rallied and the demand for backhoe loaders and smaller equipment increased as a result.

The JCB product line is proving to be extremely complementary to our South African offering by enabling BESSA to be more active in market segments where we struggled previously. The market has reacted positively to the group taking over the distribution and support for this great product range.

To overcome shortages of partner products, especially Finlay and Kobelco, the group implemented effective changes in point of source to alleviate long lead times and improve availability.

In our major international markets of the US and UK demand was strong despite high levels of inflation, increased interest rates and soaring energy costs. Australia and New Zealand also maintained a high demand for ADTs.

Our OEM business was restructured into three distinct divisions: Mining and Construction, Forestry and Agriculture, and Underground Mining to provide a more dedicated focus on product lines, distribution, and support going forward.

In South Africa, we started distributing JCB Agriculture alongside the Bell Forestry and Agriculture range in May. Over a dozen independent dealers have been appointed as part of our strategy to grow our exposure in these industries through increased products and improved service.

Underground mining has been identified as another opportunity for growth and the new OEM business division is pursuing this goal with a focus on expanding the product range, providing specialised customer support, and establishing new global markets.

The group's two underground articulated dump truck models and a rock scaler have been well accepted in existing African markets for their in-built levels of safety, use of the latest technology and economical productivity. This range will be expanded to include a 6t low profile Load Haul Dump (LHD) loader.

In a significant step to grow the group's South African IP, increase its manufactured product offering and expand global markets, Bell decided to enter the motor grader market.

Motor graders are complementary to the group's flagship ADT product as a core earthmoving product. There are a number of shared markets and dealer distribution channels. Significant design complexity as well as developing to the needs of the operator are key for this product line and the group has demonstrated ability to achieve these.

The first generation of this product range is undergoing final testing and refinement with production set to begin as early as Q4 2024.

Three base machines will initially be offered, each with the option of a four- or six-wheel drive configuration. The G140 will cater for maintenance and light construction tasks while the G160, with its increased power and performance, is designed to handle heavy construction applications. The G200 is positioned as an entry-level machine for the mining industry.

The Tracked Carrier was successfully shown at Bauma Munich in October 2022 and will be introduced to Europe once final homologations have been completed. Customers in other regions have also shown interest in this product.

Four years after commencing extensive testing, our autonomous technology is now at the adoption stage with customers in the United Kingdom, South America, and Australia set to introduce autonomous Bell ADTs on their worksites during 2023.

Bell currently has two approved service providers, xtonomy based in Europe and Pronto AI in the United States, both of which can work with Bell customers from anywhere in the world. A third supplier has recently been engaged and the group will begin testing this system during 2023.

Sustainability

Our future sustainability is dependent on our investment in IP to stay relevant and at the cutting edge of technology and market needs. Driven by our innate passion for innovation, we are investing in exciting new products as detailed.

To facilitate future growth and development of the group as a global manufacturer, Bell entered a 10-year property lease for a property adjoining its Richards Bay factory, which houses a new warehouse. A seven-year lease agreement was also concluded for a portion of the neighbouring property in Kindel, Germany.

Corporate Governance

Our commitment to being a good corporate citizen pervades our total approach to the business and we endeavour to act in a responsible, ethical, balanced and commercially sensible manner.

We are ever conscious of the impact on the environment and are pleased with our continued progress, as detailed in our stakeholder relations report, to measure and mitigate these risks.

Bell is committed to the highest standards of corporate governance. 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 this report.

Transformation

In line with our commitment to our transformation responsibilities, BECSA and BESSA are both 51% black-owned entities. At the same time, BESSA is 30% black women-owned. With their respective level 3 and level 1 B-BBEE scorecards, the group is competitively positioned in the local market.

Joint report by the chairman and chief executive *continued*

This has been beneficial in assisting emerging contractors in the mining industry and in time will assist with taking advantage of opportunities in the public sector presented by RT57 contracts. Importantly the score also secures access to government-backed initiatives. Bell has valued the support from the government in terms of the APDP, a production incentive scheme administered by DTIC. The APDP was replaced, effective 1 July 2021, by a revised programme, APDP II. Bell was successful in its application for access to this new scheme, which, like the APDP, is also a production incentive aimed at promoting employment and value add in the motor industry but has additional requirements, mainly in terms of B-BBEE. The programme will remain in place until 2035.

APDP II income in 2022 totalled R144 million, up from R91 million in 2021 due to higher production volumes and the more favourable APDP II.

We continue to engage with the government at various levels to encourage a better understanding of the assistance they can provide through implemented policy to help us grow and to support the local economy.

Outlook

From a production perspective, our volume outlook for 2023 is strong with the potential to be a record year for our E-series ADTs, especially since work in progress has normalised and supply chain issues should not be a major constraint, especially in the second half of 2023.

The order book is being maintained at record levels and the group is taking orders for 2024. Finished goods inventory levels are low for current demand and are expected to remain low due to the strong order book. Sales divisions report missed opportunities due to low stock levels.

In South Africa, we anticipate some improvement in the construction industry as the recent SANRAL awards have created optimism and are positive for the country.

We will continue to engage and work with the government, however, the cost and ability to do business in South Africa is a serious concern. The accumulative effect of the challenges that local businesses must grapple with needs to be weighed up when considering strategies for long-term sustainability. These include exchange rate volatility, fuel prices, rising inflation and interest rates, escalating electricity tariffs, a severely encumbered national electricity provider, growing structural challenges around water and sanitation, and road infrastructure and port inefficiencies that frustrate logistics.

At the same time, Europe and the US have started 2023 strong, but the group needs to exercise caution given the banking crisis in the US and macroeconomic indicators, most notably subdued economic activity and high inflation levels and interest rates, signalling possible recession.

Dividends

Recognising the improvement in the financial results the board has declared a gross final dividend of 90 cents per ordinary share.

Board Changes

To recap on changes effected on 16 February 2022, which were reported in last year's report, John Barton resigned from the board as a non-executive director, lead independent director, chairman and member of the nominations committee, and as member of the remuneration committee, audit committee and risk and sustainability committee.

In response, Hennie van der Merwe was appointed as the lead independent non-executive director and chairman of the nominations committee, Mamokete Ramathe was appointed as a member of the nominations committee, and Rajendran Naidu was appointed as a member of the remuneration committee.

Furthermore, the board appointed two independent non-executive directors, Usha Maharaj and Markus Geyer, with effect from 1 April 2022. They were subsequently elected as directors by the shareholders at the AGM in May 2022.

Appreciation

In closing, we are grateful to our executive management for their valuable role in leading and motivating our employees during a taxing year and give sincere thanks to the entire Bell team worldwide for their commendable resilience and commitment. We appreciate the effort and sacrifices that are made for the greater good of the group.

We continue to be impressed by the level of skills, knowledge, loyalty, and energy that we have in our operations worldwide. Guided by our strategies and 1-BELL values, this bodes well for the continued growth and sustainability of the business.

A special thank you to the board for their professional involvement in the group's affairs, generously giving of their time and expertise.

Last, but certainly not least, we are indebted to our customer base and network of dealers across the world. Thank you for putting your faith and loyalty into the Bell brand. You are the driving force behind everything we do.