Directors' report

The directors present their report which forms part of the Annual Financial Statements of the company and of the Group for the year ended 30 June 2018.

Nature of business

Super Group Limited (Registration number 1943/016107/06), the holding company of the Group, is a company listed on the Main Board of the JSE in the "Industrial Transportation" sector, incorporated and domiciled in the Republic of South Africa. Super Group is a broad-based supply chain management business, operating predominantly in South Africa, with operations across sub-Saharan Africa and businesses in Australia, Europe, New Zealand and the United Kingdom. Its principal operating activities include supply chain management, dealerships and fleet management activities.

Financial results

The results for the year are set out in the Annual Financial Statements presented on pages 12 to 101. The Annual Financial Statements are published on the Group's website www.supergroup.co.za.

Year under review

Overview of results

The Group reported a record set of results for the year ended 30 June 2018 mainly attributable to the excellent performance by the commodities businesses within Supply Chain Africa, good contributions from the acquired businesses, and solid results from SG Fleet. The Dealerships SA and UK operations outperformed their respective markets, while the South African consumer business operated in an environment characterised by poor consumer demand and competitive trading conditions.

The mining commodity industry in Africa experienced an excellent year with good volume growth. However, the consumer-facing and industrial operations in South Africa faced serious headwinds such as the increase in Value-Added Tax (VAT), fuel price increases, high price inflation and increasing unemployment levels. The European and UK economies also faced a myriad of challenges and uncertainties given the protracted Brexit negotiations. The Australian economic climate improved towards the end of the first half of the financial year with conditions remaining above average for the rest of the period.

Super Group, continuing its strategy of geographically diversifying its revenue stream, reported revenue and operating profit from its non-South African businesses of 47% (June 2017: 40%) and 60% (June 2017: 61%), respectively. The average Rand exchange rate for the year strengthened against the Australian Dollar (AUD) and US Dollar (USD) but weakened against the Pound Sterling (GBP) and Euro (EUR).

In October 2017, the Group raised an amount of R500 million through an Accelerated Bookbuild placement of 12 422 360 shares at a price of R40.25 per share mainly to fund the increased shareholding in SG Fleet. The price represented a 4.1% discount to the 30-day volume weighted average price on 12 October 2017. The book was significantly oversubscribed.

During the financial year ended 30 June 2018, the Group acquired an additional 14 186 914 shares in SG Fleet for an amount of R551.7 million, increasing its effective shareholding to 57% (30 June 2017: 52.4%). The Group also purchased the remaining 45% of Digistics for R102.7 million and an additional 15% in Legend for R99.7 million.

The other transactions concluded during the year are explained in more detail in the Financial Performance and the Divisional Review sections of this report.

Financial performance

Group revenue increased by 19.4% to R35.7 billion (June 2017: R29.9 billion) primarily due to the significant volume increase in Supply Chain Africa's commodities businesses, the acquisitions of the Slough Motor Corporation (SMC) dealerships in the United Kingdom and SG IN tIME Holdings GmbH and its subsidiaries' (in Time) net acquisition of an 88% interest in the Spanish courier company, Ader. Revenue also increased as a result of the inclusion of Essex Auto Group and the Western Cape dealerships for the full year. The acquired businesses contributed 10.8% to revenue growth.

Operating profit before capital items of R38.5 million (June 2017: R17.5 million), increased by 16.0% to R2 474.0 million from R2 133.5 million in the comparable prior year. The capital items mainly relate to the impairment of certain properties in Dealerships UK and the impairment of goodwill in Phola Coaches. The UK properties were revalued during the year resulting in a net value increase of R36.4 million. In terms of IFRS, R54.8 million positively impacted equity and R18.4 million was impaired against profits. The impairment of a portion of the Phola Coaches' goodwill relates to the termination of a staff transportation scheme by a major mining client.

Operating profit increased by 15.1% to R2 435.5 million (June 2017: R2 116.1 million). The main reasons for the softening of the margin is due to the acquisition of lower margin businesses, namely SMC and Ader. The acquired businesses contributed 3.5% to operating profit growth.

The increase in net finance costs of 18.0% to R330.5 million (June 2017: R280.0 million) is attributable to the funding of the various acquisitions, as well as the funding of the working capital and the properties acquired with SMC. The average interest rate paid on borrowings was 5.8% (June 2017: 6.2%) and the average interest rate earned on cash was 3.1% (June 2017: 3.7%).

Profit before tax increased by 14.7% to R2 105.0 million (June 2017: R1 836.1 million). The effective tax rate increased to 29.1% (June 2017: 27.4%). Excluding the capital items and other once-off items, the effective tax rate was 27.7% (June 2017: 27.9%).

Directors' report (continued)

Earnings per share (EPS) and headline earnings per share (HEPS) increased by 12.7% to 320.8 cents (June 2017: 284.7 cents) and 15.3% to 332.2 cents (June 2017: 288.2 cents), respectively.

The increase in total assets of 14.8% to R28.5 billion (June 2017: R24.9 billion) is mainly due to the newly acquired assets in SMC and Ader, together with an increase in the vehicle fleet in the commodity businesses. The Group's return on net operating assets (RNOA), after tax, is 12.3% (June 2017: 12.2%) with the Group's weighted average cost of capital being 8.6% (June 2017: 8.2%).

The Group's net debt position at 30 June 2018 is R2 853.9 million, a decrease of R251.8 million, resulting in the net debt to equity ratio improving to 25.1% from 31.5% at 30 June 2017. The net asset value per share increased by 13.0% to R27.05 at 30 June 2018 from R23.94 at 30 June 2017.

Operating cash flow increased by 21.4% for the year to R3 776.7 million (June 2017: R3 111.4 million) mainly because of the strong cash generation from the Supply Chain Africa businesses, a combination of the acquisition of SMC, the inclusion of the Western Cape dealerships and Motiva for the full year compared to the prior year. Super Group invested R2 517 million (June 2017: R2 976 million) in net additions and acquisitions to ensure future growth for the Group.

Significant events

inTime acquisition of an interest in Ader Group
inTime acquired Ader effective 4 July 2017 for a purchase consideration of R173.8 million. The statement of financial position as at 30 June 2018 has been impacted by increases in intangible assets of R135.4 million, goodwill of R67.3 million, trade and other receivables of R263.4 million, interest-bearing borrowings of R119.1 million and trade and other payables of R318.9 million as a result of this acquisition. Trading relating to the 12 months ended 30 June 2018 has been included in the statement of comprehensive income.

SG International Holdings Limited acquisition of SMC
SG International Holdings Limited acquired SMC effective 4 July 2017 for a purchase consideration of R414.3 million. The statement of financial position as at 30 June 2018 has been impacted by increases in goodwill of R152.2 million, inventories of R557.0 million and trade and other payables of R701.7 million as a result of this acquisition. Trading relating to the 12 months ended 30 June 2018 has been included in the statement of comprehensive income.

Acquisition of an additional interest in SG Fleet
During the financial year ended 30 June 2018, Super Group acquired an additional 14 186 914 shares in SG Fleet for an amount of R551.7 million, increasing its effective shareholding to 57% (30 June 2017: 52.4%).

Acquisition of minority interest in Digistics
Effective 18 September 2017, Super Group Holdings Proprietary Limited acquired the remaining 45.0% minority interest in Digistics Proprietary Limited for R102.7 million, increasing the Group's holding to 100%.

Acquisition of an interest in MDS Group
Supply Chain Africa acquired a 90% interest in MDS Group effective 1 October 2017 for R59.0 million. MDS Group is a web-based express domestic courier company, servicing both individuals and corporates.

Acquisition of a 15% interest in Legend
During the year Super Group Holdings Proprietary Limited acquired an additional 15.0% interest in Legend Proprietary Limited for R99.7 million, increasing the Group's holding to 90%.

Disposal of a 15% interest in SG Coal
Effective 1 April 2018, SG Coal disposed of 15.0% of its business to the Group's Black Women Empowerment Scheme for R105.0 million.

Share capital

The authorised and issued share capital is detailed in note 13 of the Annual Financial Statements.

Directors and Group Company Secretary

The names of the directors and Group Company Secretary who currently hold office are as follows:

- Phillip Vallet: Independent Non-Executive Director and Chairman of the company
- John Newbury: Independent Non-Executive Director
- David Rose: Independent Non-Executive Director
- Mariam Cassim: Independent Non-Executive Director
- Dr Enos Banda: Independent Non-Executive Director
- Valentine Chitalu: Independent Non-Executive Director
- Oyama Andrew Mabandla: Independent Non-Executive Director
- Peter Mountford: Group CEO
- Colin Brown: Group CFO
- Nigel Redford: Group Company Secretary

The only change to the Board to the date of posting of these Annual Financial Statements was the appointment of Oyama Andrew Mabandla effective 1 September 2018.

Details of directors' remuneration, share appreciation rights and options appear on pages 85 to 87.

Dividends

The Board has resolved not to declare a dividend for the current year. The dividend policy will be reviewed in the year ahead.

Resolutions

During the year, other than the resolutions passed at the Annual General Meeting on 28 November 2017, the shareholders of the company passed no other resolutions. No special resolutions, the nature of which might be significant to members in the appreciation of the affairs of the Group, were passed by any subsidiary companies during the year covered by these Annual Financial Statements.

Subsidiary companies

Details of the principal subsidiary companies appear on pages 100 and 101.

Share option schemes

Refer to note 37 for information relating to option schemes, share-based payments and the B-BBEE Staff Empowerment Scheme.

Events subsequent to 30 June 2018

Listing of DMTN on 27 September 2018

The JSE listed Super Group's SPG004 senior unsecured notes, in terms of its DMTN Programme dated 22 October 2013 on 27 September 2018. The value of the SPG004 was R450 million with the interest of three-month Johannesburg Interbank Agreed Rate (JIBAR) plus 200 basis points, coupon rate payable quarterly on 27 March, 27 June, 27 September and 27 December of each year. The majority date of this issue is 27 September 2023.

Litigation statement

Super Group is not involved in any material legal or arbitration proceedings or legal actions, nor are the directors aware of any proceedings that are pending or threatened, that may have, or have had, in the 12-month period preceding the date of these Annual Financial Statements, a material adverse effect on the Group's financial position.

Material changes

There have been no material changes in the financial or trading position of the company and its subsidiaries between 30 June 2018 and the date of these Annual Financial Statements.

Going concern

The directors consider that the Group and company have adequate resources to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the company's financial statements. The directors have satisfied themselves that the Group and company are in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements.