Accéntuate Limited
(Incorporated in the Republic of South Africa)
(Registration Number: 2004/029691/06)
Share code: ACE   ISIN code: ZAE000115986
www.accentuateltd.co.za
("Accéntuate" or "the group" or "the company")

Unaudited results

for the six months ended 31 December 2018

Commentary

Introduction to the results

Accéntuate Limited has underlying investments that are involved in infrastructure supplies, with a focus on flooring, water treatment and the chemical sectors.

Background to the reader

During 2017, Accéntuate purchased access flooring specialist Pentafloor with the intention of diversifying the offering in the flooring infrastructure segment to include access flooring. On 21 February 2019, Accéntuate announced via the Stock Exchange News Services ("SENS") the disposal of the Pentafloor business.

When reading this announcement and the review of financial performance, please be aware that these results carry the following impacts from Pentafloor:

- R5,8 million goodwill impairment; and
- a loss of R2,7 million (2017: R3,3 million profit) translating into a profit swing of R6 million.

The cumulative effect on profit from Pentafloor is an R11,8 million negative impact on this year's results when compared to the results for 31 December 2017.

The overall business performed to expectations, despite the challenging operating environment if one excludes the effect of the Pentafloor performance and sale. The major cost restructuring programme is delivering the expected positive results, other than certain imposed costs that cannot be further reduced.

Government spending remained sluggish during the period under review, with very little spend taking place in the crucial areas of education and healthcare. The redress of state capture under the Ramaphosa administration is encouraging, but the overhang from the Zuma era can still be felt. The state of the South African construction sector remains under pressure, with major players facing either business rescue or structural challenges.

Management has countered the aforementioned impact by focusing on cost reduction in areas within its control, undertaking strategic reviews and putting in place an enhanced sales drive.

Sale of Pentafloor

In August 2017 Accéntuate entered into a sale agreement ("2017 Sale Agreement") with Bianca and Larry Shakinovsky ("the Purchasers") in terms of which the Purchasers sold their entire shareholding in Pentafloor to Accéntuate for a consideration of R19,19 million. In the sale agreement, 5 317 431 Accéntuate ordinary shares were issued to the Purchasers as part payment of the purchase consideration ("the Accéntuate Shares").

However, the transaction has not delivered on the expectations of the parties involved and given that Accéntuate is focused on reducing debt, the group has opted to sell Pentafloor back to the Purchasers, and will continue to focus on its core businesses and further cost cutting.

The cash component of the transaction amounting to R13 million will be used by the company to settle the outstanding balance on the term loan that was obtained to purchase part of the shares of Pentafloor.

In terms of the Sale of Shares, Claims and Cancellation Agreement, Accéntuate is required to get shareholder approval to buy back the Accéntuate Shares from Pentafloor within 180 days with effect from 28 February 2019 (at no cost to Accéntuate) as part payment of the purchase consideration. Failing shareholder approval, Accéntuate will be paid the market value of such shares. A circular detailing the specific repurchase will be issued to Accéntuate shareholders in due course.

Review of financial performance

Revenue for the six months was R154,4 million (2017: R153,3 million), which is marginally higher than the previous period end. Gross profit margin for the group reduced marginally to around 42%.

Operating expenses increased by 16,6% to R84 million (2017: R72,0 million). This increase was due to the acquisition of Pentafloor and the associated goodwill impairment of R5,8 million. As a result of the losses incurred in Pentafloor, an impairment review was performed in accordance with International Financial Reporting Standards ("IFRS"). Considering the certainty that the entity's shares will be sold back to the original owners, the impairment was limited to the loss on the sale of Pentafloor, namely R5,8 million. This resulted in an operating loss of R17,9 million for the group.

Finance costs increased from R0,6 million in 2017 to R2,2 million in the current period, predominantly due to the financing of the Pentafloor transaction with a loan from financiers and the increased utilisation of overdraft facilities.

The group decided not to recognise certain deferred tax assets as a result of the uncertainty in the South African market and this resulted in an additional loss of R2,2 million.

Earnings per share came in at a negative 12,05 cents per share in the current year, compared to negative 3,43 cents in 2017, mainly attributable to the impairment and losses in Pentafloor.

Cash and cash equivalents at the end of the period amount to negative R7,0 million (2017: (R3,1 million)).

Flooring business (100% owned)

The flooring business operations contributed 78% of group sales.

FloorworX is still operating in a severely restrained environment. In the build up to the interim period, the business purposefully ran low inventory levels and when manufacturing resumed in November and December, this impacted positively on margins. The plastics industry strike had a negative impact on the performance of the East London plant. Across the interim period, demand was particularly low due to the absence of government infrastructure spend, as well as a lack of consumer confidence and general uncertainty in the lead up to the national elections in May 2019.

During the last two weeks of November, FloorworX ran both production lines and even though this was only for half a month, significant margin improvement was achieved during this time. This trend continued into December and bodes well for the coming six months. Product rationalisation continues to ensure the range is more focused on customer needs.

Rightsizing of the operation continues and includes interrogation at all levels. On a daily basis, every cost is analysed, evaluated and ultimately considered in terms of the cost restricting agenda.

Although the outlook is cautiously optimistic, FloorworX still faces short-term profitability issues and much of the production and rationalisation gains might well be compromised by the current round of load shedding taking place.

In order to increase throughput in the East London factory and to reduce costs, FloorworX is in advanced discussions regarding the launch of a potential project at the facility. Once all details are agreed, Accéntuate will update shareholders.

Environmental solutions business (100% owned)

This comprises the chemical blending business operations of Safic, which contributed 22% to group sales.

Safic experienced an increase in traditional production volumes for the period under review. Unfortunately, volumes in the metal treatment sector were affected by slow payment from state owned enterprises. The comprehensive development plan that is in place to increase volumes has been diligently executed and the appointment of a commercial director and additional sales staff has ensured that despite the current economic climate, sales continue to be driven, albeit it at a slower pace than expected. The cost-cutting initiative continues to advance with meaningful results as costs are decreasing. A renegotiation at group level of a lease on premises has benefited Safic. However, the benefit will only flow in the second half of the financial year.

The high crude oil price during the period under review impacted both distribution and raw material input pricing.

Water treatment business (40% owned)

This comprises the Ion Exchange Safic water treatment business, a partnership between Accéntuate and Ion Exchange India. The business is equity accounted by the group as an associate.

Total revenue increased by 24% and, from an organisational perspective, the business is well capitalised, ensuring a far more sustainable company is emerging where revenue generated out of chemical and consumable sales is more predictable. A strong and capable team is in place, ready to execute on projects which underlie a robust pipeline.

Outlook

Discussions with the landlord were successful and the group is benefiting from reduced rentals, increased flexibility and a reduction in the actual area leased. The full impact of this reduction will be felt in the next six months as the reduced rentals only came into effect in October 2018.

Although Accéntuate is seeing small pockets of demand, the group recognises that historically in election years optimism should be tempered with a potential slowdown in the awarding of projects. The prospect that elections will be held in early May bodes well for Accéntuate's second half performance, provided demand picks up sufficiently. It is hoped that the establishment of an infrastructure fund comes to fruition, as this will assist Accéntuate tremendously. The group believes that the current administration has a much clearer infrastructure implementation plan.

Accéntuate has identified the need to drastically reduce costs in current trading conditions. The group has embarked on a strategy of identifying viable structures for the business to operate more effectively and will discuss these with shareholders and the market as progress is made. Management remains committed to closely managing working capital.

Restatement

The opening balances of the comparative results, being 31 December 2017, have been restated to reflect a misstatement of a provision for cartage shipment in the FloorworX division amounting to R2,87 million. The restatement was recorded in the integrated annual report for the year ended 30 June 2018 and full disclosure of the restatement has been made in note 35.1 to the annual financial statements.

Subsequent events

Subsequent to the financial year end, the Accéntuate businesses have been separated from Pentafloor (please refer to the Sale of Pentafloor paragraph above) and Accéntuate has no further involvement in the Pentafloor business. A circular pertaining to the specific repurchase of the shares will be issued to Accéntuate shareholders in due course.

No other significant events have occurred in the period between the reporting date and the date of this announcement.

Going concern

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the group and company can continue in operational existence for the foreseeable future.

The adverse trading conditions in the South African construction industry weigh on the operating results of the Accéntuate Group.

Despite incurring major operational losses, the group's current assets of R130,5 million exceed current liabilities of R108,5 million and therefore the group's solvency ratio remains sufficient. As a result of a breach in covenants all long-term liabilities have been reclassified to current liabilities.

A number of turnaround initiatives were launched within the group during the course of the current financial period including:

- several restructuring initiatives in order to reduce cost;
- the sale of Pentafloor (Pty) Limited; and
- funding of R5 million raised from shareholders.

The group currently makes extensive use of its main overdraft facilities of R23 million, which was granted on condition that shareholders inject an amount of R5 million in capital into the business by the end of March 2019. An agreement has been reached with shareholders to fund the amount of R5 million. The details of the funding will be released in a separate announcement in due course. The overdraft facilities from Accéntuate's financiers will be re-evaluated by the end of March 2019. Furthermore, post the reporting period the group engaged an independent company to review the robustness of the cash flow forecasting. The subsequent report has provided the board with the necessary confidence that the information on which decisions are being taken can be relied upon.

Our financiers are assessing market conditions on a continuous basis and are committed to work closely with management to ensure that the facilities are maintained. The going concern status of the group is dependent on these facilities being available.

The cash-generating ability of the group remains under close scrutiny and a 12-month cash flow forecast based on the budget for the group indicated that, if realised, Accéntuate will be able to generate sufficient cash to sustain its operations and service its financing obligations.

Given the results and conditions mentioned above, management is aware of the fact that the implementation of the initiatives mentioned is critical to maintain and grow operations. Accéntuate is therefore dependent on management generating the additional cash flow from the initiatives mentioned, as well as our financiers continuing to provide overdraft facilities.

The board considers the group to be liquid but will monitor actual cash flows on a monthly basis against those forecast, to ensure that timeous and appropriate action is implemented, should a material deviation occur.

Board changes

In November 2018 Accéntuate advised shareholders of the retirement of Thys du Preez as a non-executive director of the company with effect from 18 January 2019. Accéntuate indicated via a SENS announcement on 4 March 2019, that Andile Mjamekwana (alternate non-executive director and head of the audit committee) would, with effect from 1 March 2019, join the board as a non-executive director.

On 26 March 2019, Ockert Goosen tendered his resignation as an alternate non-executive director. The board of Accéntuate would like to thank Ockert for his contribution to the company.

Dividend

The board deems it prudent not to declare a dividend.

Contingent liability

There are no contingent liabilities in the group.

Basis of preparation

The accounting policies and methods of computation applied in the preparation of these condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous annual consolidated financial statements, except for the adoption of new accounting standards.

The group adopted all of the new accounting standards relevant to its operations and effective for annual reporting periods beginning 1 January 2018, including IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The adoption of these new accounting standards has not had any significant impact on the results in the condensed consolidated financial statements or the disclosures herein, but resulted merely in the reclassification of certain transactions in previously published results.

The condensed consolidated interim financial statements are prepared in accordance with the requirements of the JSE Limited's Listings Requirements for interim reports and the requirements of the Companies Act in South Africa. The Listings Requirements require interim reports to be prepared in accordance with and containing the information required by IAS 34 *Interim Financial Reporting*, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council.

The preparation of this interim report was supervised by the chief financial officer, Maarten Coetzee CA(SA).

The directors take full responsibility for the preparation of the preliminary report and that the financial information has been correctly extracted from the underlying annual financial statements.

29 March 2019

Condensed consolidated statement of comprehensive income

	Unaudited 6 months to 31 December 2018 R'000	Audited 12 months to 30 June 2018 R'000	Unaudited restated 6 months to 31 December 2017 R'000
Revenue	154 429	294 893	153 331
Cost of sales	(88 774)	(176 012)	(86 206)
Gross profit	65 655	118 881	67 125
Other income	405	1 795	423
Other operating expenses	(83 977)	(144 126)	(72 020)
Operating (loss)/profit before finance costs	(17 916)	(23 450)	(4 472)
Investment income	–	486	–
Finance costs	(2 219)	(3 520)	(618)
Profit before tax	(20 136)	(26 484)	(5 090)
Taxation	4 007	4 300	441
(Loss)/profit for the period	(16 129)	(22 184)	(4 649)
Earnings/(loss) per share (cents)	(12,05)	(16,58)	(3,43)
Diluted earnings/loss per share (cents)	(11,80)	(16,58)	(3,43)
Net asset value per share (cents)	68	79	95
Notes to the statement of comprehensive income:			
Headline earnings/(loss) per share (cents)	(7,75)	(16,57)	(3,43)
Diluted headline earnings/(loss) per share (cents)	(7,58)	(16,22)	(3,43)
Number of shares:			
– Weighted average number of shares	133 827 505	134 221 594	135 471 498
– Diluted weighted number of shares	136 724 476	137 118 565	135 368 469
– Number of shares in issue	139 366 188	139 366 188	139 366 188
Reconciliation of headline and normalised earnings (R'000)			
(Loss)/profit for the year attributable to ordinary shareholders	(16 129)	(22 184)	(4 649)
(Profit)/loss on disposal of property, plant and equipment – net of taxation	(6)	9	–
Pentafloor Goodwill write off	5 766	–	–
Headline earnings attributable to ordinary shareholders	(10 369)	(22 175)	(4 649)

Unaudited summarised consolidated statement of financial position

	Unaudited 6 months to 31 December 2018 R'000	Audited 12 months to 30 June 2018 R'000	Unaudited restated 6 months to 31 December 2017 R'000
ASSETS			
Non-current assets	**73 866**	**80 014**	84 114
Property, plant and equipment	58 688	61 427	63 074
Goodwill	3 985	9 751	9 751
Intangible asset	6 782	7 141	7 505
Deferred taxation	4 412	1 695	3 784
Current assets	**130 541**	**144 025**	137 968
Inventories	87 907	80 234	82 272
Trade and other receivables	31 767	47 003	47 840
Other financial assets	–	8 231	302
Taxation receivables	2 173	2 027	2 035
Cash and cash equivalents	8 695	6 530	5 519
Total assets	**204 407**	**224 039**	222 082
EQUITY AND LIABILITIES			
Total equity	**94 091**	**110 341**	131 952
Stated capital	150 557	150 557	150 803
Retained earnings	(83 670)	(67 541)	(47 530)
Reserves	27 094	27 216	27 394
Share-based payment reserve	109	109	1 285
Non-current liabilities	**1 810**	**3 645**	23 171
Deferred taxation	1 810	3 645	9 137
Long-term liabilities	–	–	14 034
Current liabilities	**108 507**	**110 053**	66 959
Trade and other payables	76 127	72 732	47 923
Operating lease liability	655	1 271	1 475
Short-term portion of long-term liabilities	–	–	4 098
Borrowings	12 232	15 197	–
Finance lease liability	1 579	360	–
Current tax payable	2 194	2 703	4 792
Bank overdraft	15 721	17 790	8 671
Total equity and liabilities	**204 407**	**224 039**	222 082

Condensed consolidated statement of cash flows

	Unaudited 6 months to 31 December 2018 R'000	Audited 12 months to 30 June 2018 R'000	Unaudited restated 6 months to 31 December 2017 R'000
Cash flows from operating activities	(4 225)	6 043	7 104
Cash flows from investing activities	9 549	(23 815)	(17 092)
Net cash used in financing activities	(1 090)	15 098	15 421
Net increase/(decrease) in cash and cash equivalents	4 234	(2 674)	5 433
Cash and cash equivalents at beginning of period	(11 260)	(8 586)	(8 585)
Cash and cash equivalents at end of period	(7 026)	(11 260)	(3 152)

Condensed consolidated statement of changes in equity

	Unaudited 6 months to 31 December 2018 R'000	Audited 12 months to 30 June 2018 R'000	Unaudited restated 6 months to 31 December 2017 R'000
Capital and reserves – restated opening balance	110 341	130 487	132 556
Correction of error in equity	–		(2 069)
Profit/(loss) for the year	(16 129)	(22 184)	(1 775)
Shares acquired by subsidiary	–	(247)	–
Shares issued for cash	–	–	–
Shares issued as consideration for business combination	–	3 190	3 190
Asset revaluation surplus	(122)	–	(220)
Share-based payment expense	–	(905)	270
Capital and reserves closing balance	94 091	110 341	131 952

Condensed consolidated segment information

	Flooring R'000	Environmental Solutions R'000	Corporate and eliminations R'000	Group R'000
Unaudited 31 December 2018				
Total sales	**121 011**	**34 361**	**–**	**155 371**
Less: Inter-segmental sales	**(582)**	**(361)**	**–**	**(943)**
Revenue	**120 429**	**34 000**	**–**	**154 429**
Gross profit	**48 536**	**20 529**	**(3 411)**	**65 655**
Operating profit/(loss)	**(9 932)**	**(1 712)**	**(6 272)**	**(17 916)**
Finance costs	**(47)**	**(1 045)**	**(1 128)**	**(2 219)**
Profit/(loss) before tax	**(9 979)**	**(2 757)**	**(7 400)**	**(20 136)**
Share of profit/(loss) from associate	**–**	**–**	**–**	**–**
Other information				
Capital expenditure	**179**	**71**	**21**	**271**
Depreciation and amortisation	**1 894**	**462**	**432**	**2 788**
Segment assets	**178 573**	**27 598**	**(1 763)**	**204 407**
Segment liabilities	**63 820**	**27 033**	**19 464**	**110 317**
Unaudited 31 December 2017				
Total sales	121 301	34 993	2 204	158 498
Less: Inter-segmental sales	–	(2 963)	(2 204)	(5 167)
Revenue	121 301	32 030	–	153 331
Gross profit	52 433	20 756	(6 064)	67 125
Operating profit/(loss)	(1 493)	(2 054)	(926)	(4 472)
Finance costs	(107)	(629)	118	(618)
Profit/(loss) before tax	(1 600)	(2 683)	(808)	(5 090)
Share of profit/(loss) from associate	–	–	–	–
Other information				
Capital expenditure	658	35	230	923
Depreciation and amortisation	2 855	511	272	3 638
Segment assets	184 515	25 589	11 978	222 082
Segment liabilities	50 497	20 322	19 301	90 130

Corporate information

Non-executive directors
RB Patmore (*chairman*), NE Ratshikhopha, PS Kriel,
MM du Preez, (retired 18 January 2019) A Mjamekwana,
OJ Goosen (resigned 26 March 2019)

Executive directors
FC Platt (*chief executive officer*)
MJ Coetzee (*chief financial officer*), DE Platt

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