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DIVERSIFIED SECTOR REPORT 2021

LRS Labour
Research
Service



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Introduction

This small group of companies fall within the 'general industrials' sector on the JSE. Our sample includes four companies, namely:

Barloworld Limited
Bidvest
Hosken Consolidated Investments
Remgro

The rich data extracted from the LRS's [MNC Database](#) further enables a retrospective view of company performance over the course of the last seven years. Following this, we analyse the remuneration packages received by directors in this sector.

The Sector

Over the course of the last year and a half, COVID-19 has caused a significant slowdown in world trade and disrupted global supply chains. In addition to these disruptions, South Africa's national lockdowns over the course of 2020 and 2021 have severely impacted businesses. No sector has been untouched by the global COVID-19 pandemic.

As this group of companies operates in various sectors, we can take a look at some of the companies' individual struggles as well as gains during the last financial year. Barloworld Limited, a global industrial company, has recovered from a loss in 2020 during the worst of the pandemic with what has been deemed a 'phenomenal run'.¹ The loss was mainly attributed to the global hits to the transport sector. The company has since exited vehicle Diversified Holdings by selling its stake motor Diversified Holdings business. The company said that along with austerity measures, its equipment business in Southern Africa and globally has improved its performance.²

¹ <https://www.businesslive.co.za/fm/money-and-investing/2021-11-25-barloworlds-phenomenal-run/>

² <https://www.news24.com/fin24/companies/barloworld-anticipates-massive-jump-in-earnings-for-the-year-20211110>

The negative impact of COVID-19 on travel and services to hotels and offices on Bidvest was offset partially by new business opportunities (like decontamination and cleansing services).³ Bidvest's healthcare company, Adcock Ingram, suffered from supply chain challenges and fluctuating currencies, but the company said that through 'expense control' it managed to keep the part of the business profitable. In its automotive division, the company lost some market share but are focused on growing its used car division.⁴ The company's many other divisions suffered to varying degrees, very much disrupted by global supply chains.

Hosken Consolidated Investments, with stakes in both Tsogo Sun Hotels and Tsogo Sun Gaming, was hit hard by the restrictions put in place to curb the spread of the pandemic. The company already had a lot of debt going in to the difficult 2020 financial year.⁵

Remgro, the investment holding company, with interests in banking, financial services, packaging, glass products, medical services, mining, petroleum, beverage, food and personal care products. Many of these sectors were severely impacted by global supply shortages, lockdowns and trading restrictions over the course of 2020 and into 2021. By September 2021, the company's share price had yet to recover from these effects.⁶ However, the company had seen some recovery in businesses Distell, RCL Food and TotalEnergies.⁷

Financials

Revenue

From 2018 to 2019, this group of companies reported an average increase in revenue of just over 10%. However, from 2019 to 2020, reported revenue decreased by 4,5%, in line with general

³ <https://www.moneyweb.co.za/news/companies-and-deals/bidvest-shrugs-off-covid-woes-with-record-profit/>

⁴ <https://www.moneyweb.co.za/news/companies-and-deals/bidvest-shrugs-off-covid-woes-with-record-profit/>

⁵ <https://www.businesslive.co.za/bd/companies/financial-services/2021-05-28-hosken-holds-on-to-dividend-as-covid-19-hits-hotels-and-gaming/>

⁶ <https://www.moneyweb.co.za/news/companies-and-deals/remgro-still-trading-at-a-significant-discount-durand/>

⁷ <https://www.news24.com/fin24/companies/industrial/johann-rupert-chaired-remgro-swings-into-covid-19-recovery-20210922>

trends for 2020. Some companies' 2020 financial year end did come before the worst of the pandemic could be felt, and these effects will be more easily seen in 2021 financials.



Figure 1 Diversified Sector Revenue 2020

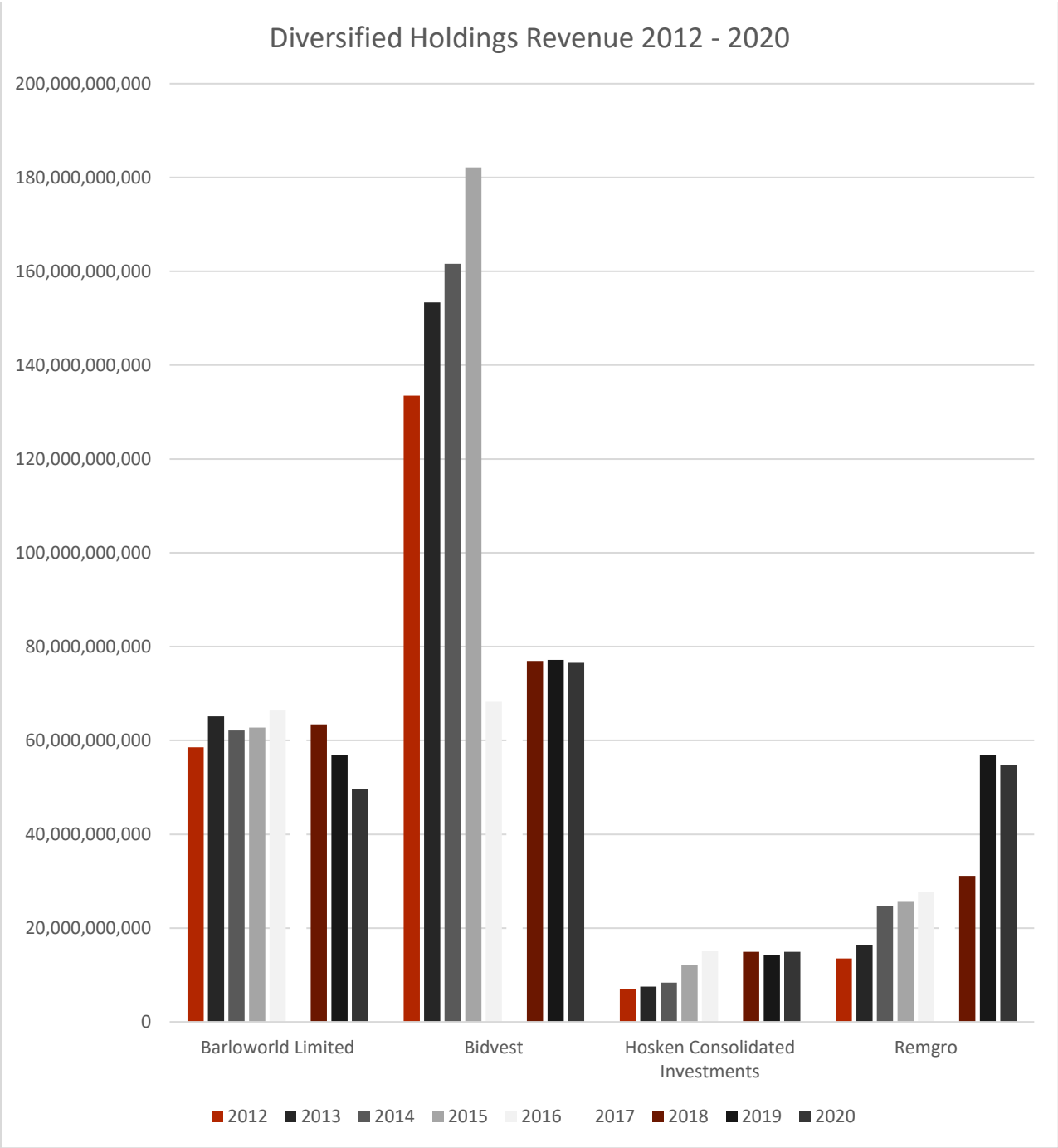


Figure 2 Diversified Holdings Sector Revenue 2012 to 2020

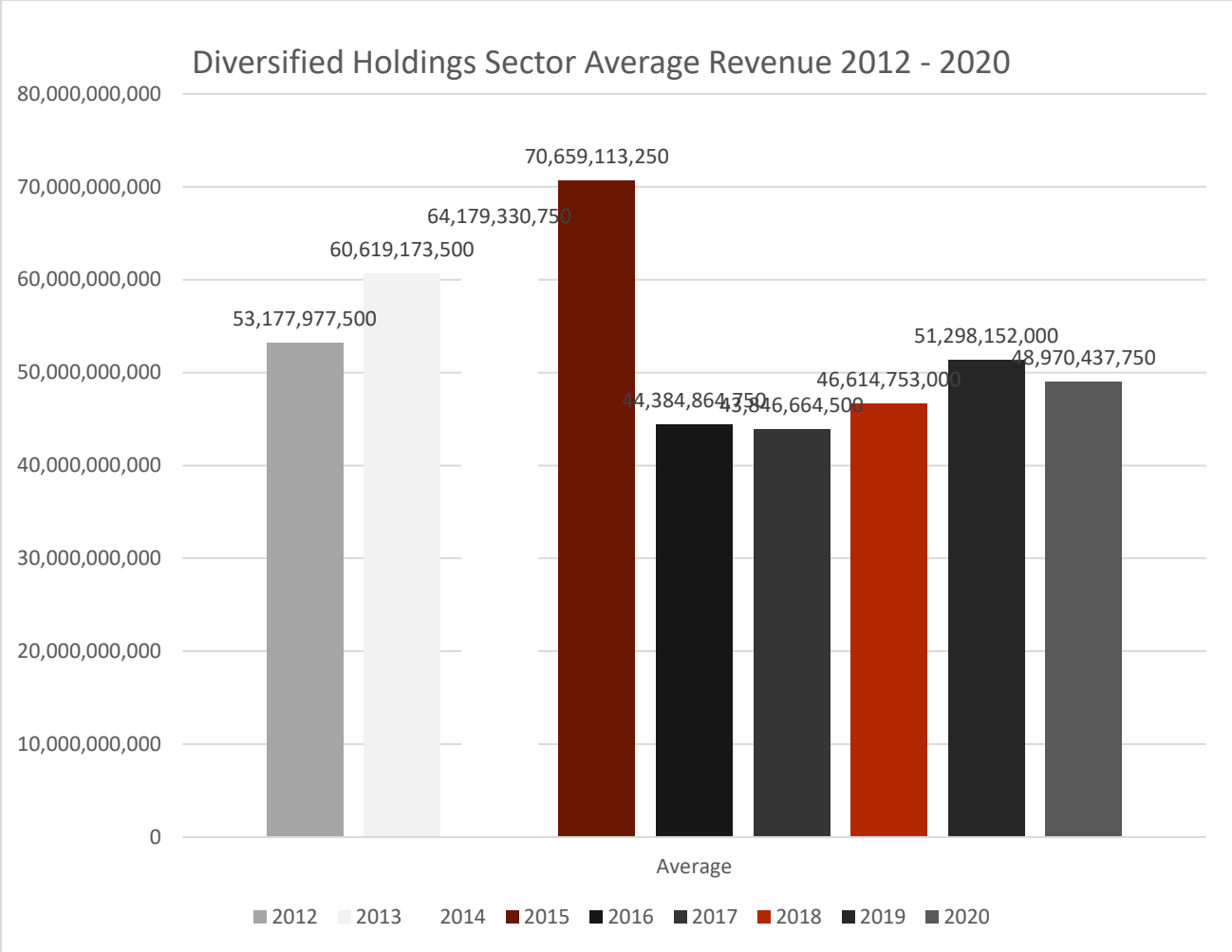


Figure 3 Diversified Holdings Sector Average Revenue 2012 to 2020

Profit before Tax

In 2019, Profit before Tax in this sector took a big hit. On average, reported PBT went down by over 70% (mainly due to significant losses reported by Remgro). From 2019 to 2020, PBT went down a further 92% with companies reporting losses. Hosken Consolidated Investments reported the biggest loss at over ZAR 8 billion, followed by Barloworld limited which reported a loss of ZAR 1,5 billion. Bidvest reported a 75% drop in PBT from ZAR 5 billion in 2019 to ZAR 1,2 billion in 2020. Remgro reported a small profit of ZAR 550 million after reporting a loss in 2019, a significant improvement.

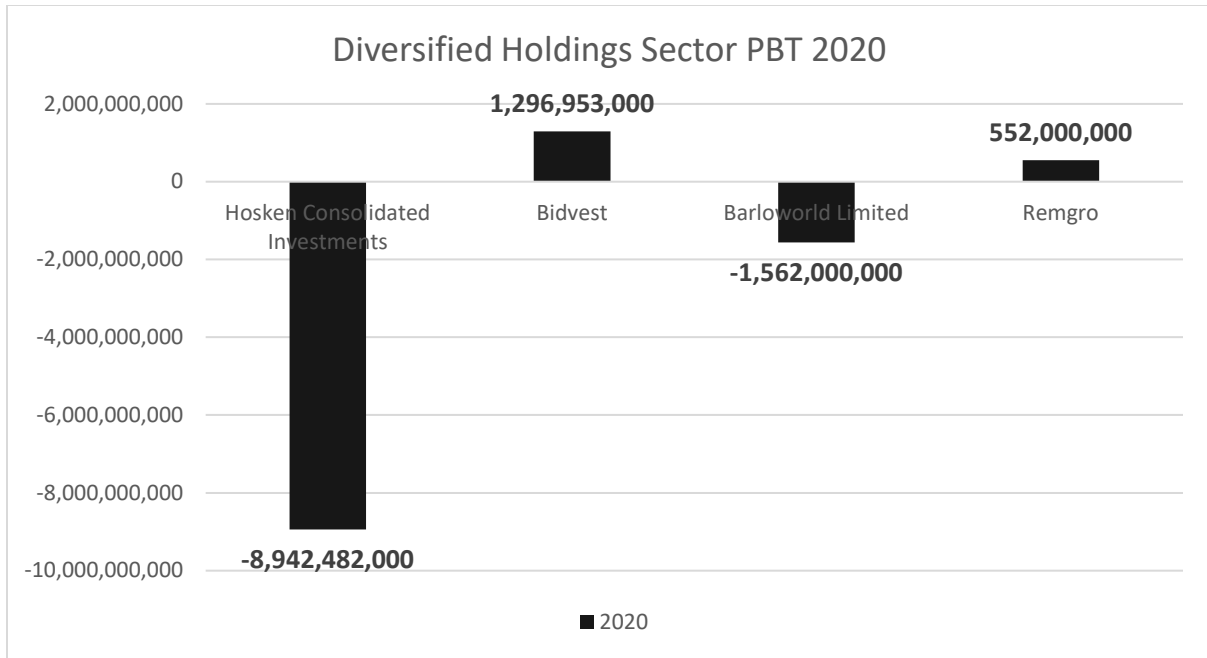


Figure 4 Diversified Holdings Sector Profit before Tax 2020

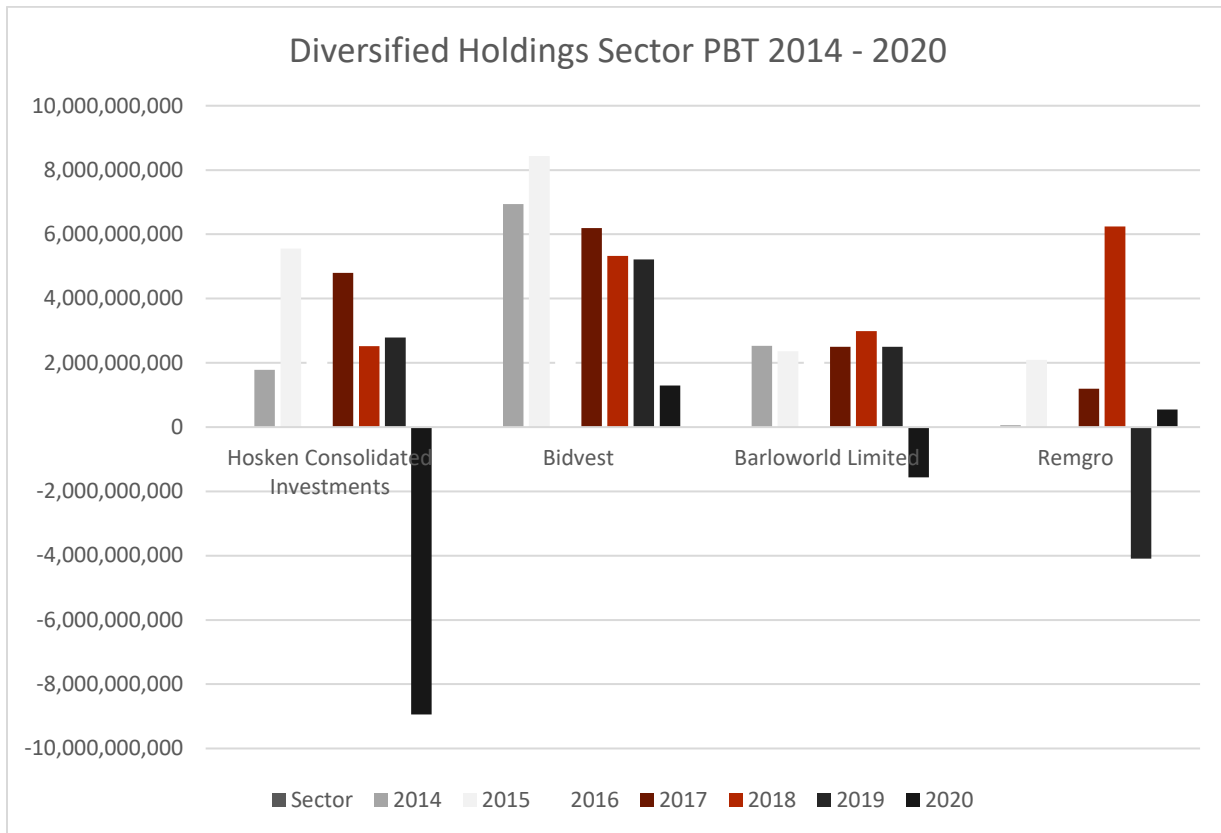


Figure 5 Diversified Holdings Sector Profit before Tax 2014 to 2020

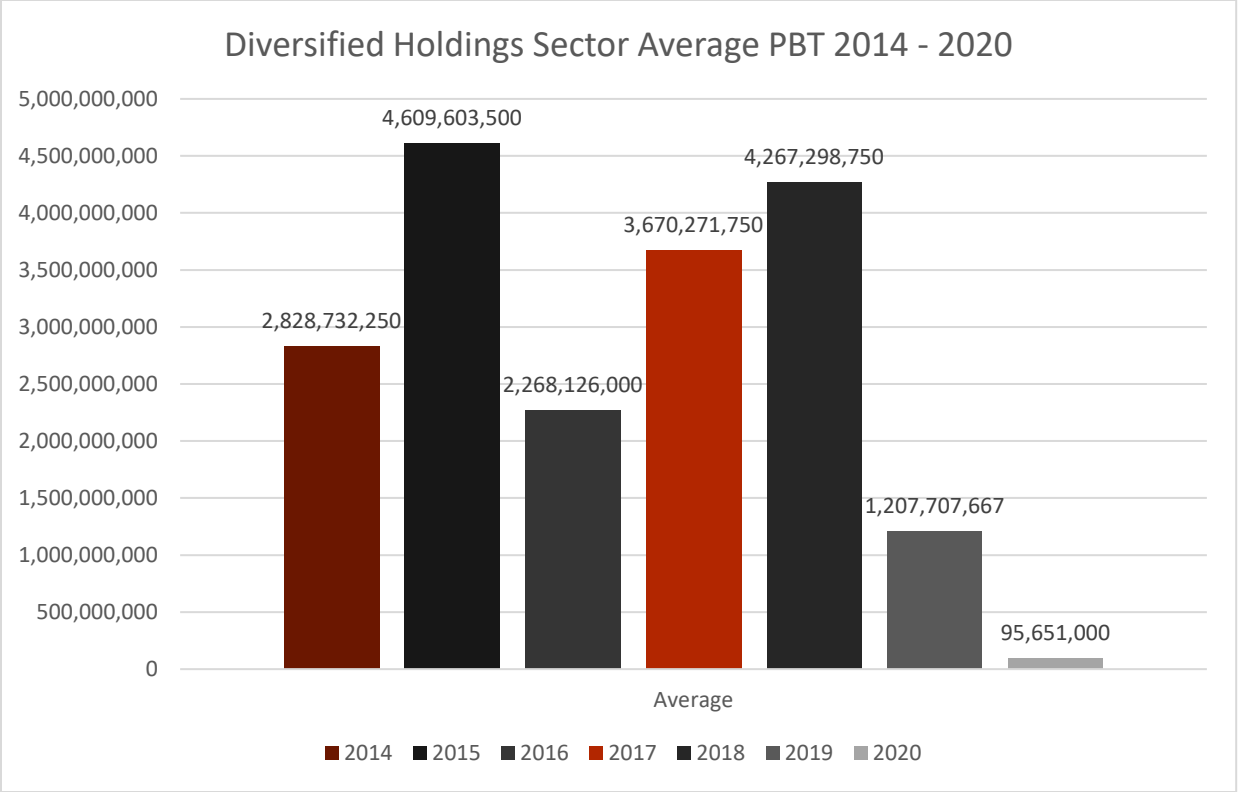


Figure 6 Diversified Holdings Sector Average PBT 2014 - 2020

Directors’ Remuneration: a ten year retrospective

The LRS MNC database allows us to look at CEO remuneration over the course of the last ten years. In the Diversified Holdings sector, and our sample specifically, we see the general trend over time being flat, with a large spike in 2015 and 2016 when the CEOs of both Bidvest and Steinhoff International (which was then included in our sample) received large LTIs (ZAR 26 million and ZAR 69 million respectively).

When looking at *Figure 7*, we see that in 2015, 2016, and 2017 we can see a large gap between the average total remuneration without LTI and total remuneration including LTI.

This shows that large LTIs were paid in these three years. This gap closes in 2018. From 2019 to 2020, average total remuneration (including LTI) went up by 31%. From 2019 to 2020, this number decreased by 31%, back to similar numbers as 2018. Given the losses reported by the companies in 2020, this is not surprising.

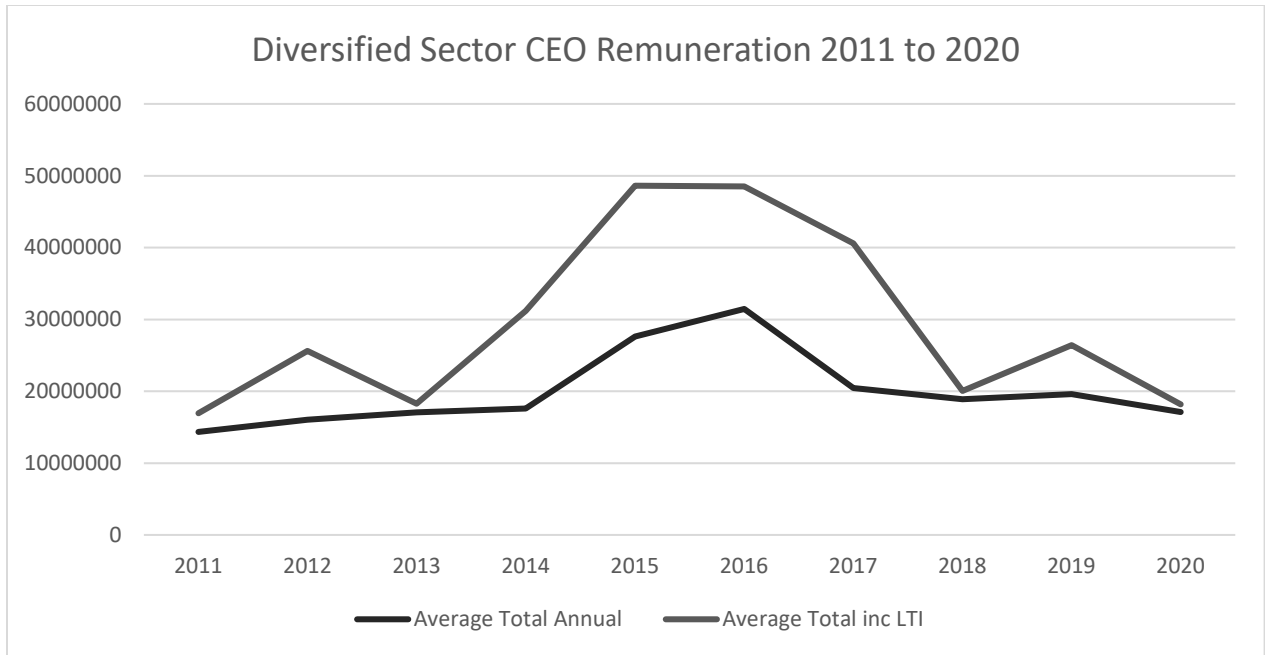


Figure 7 Diversified Sector CEO Remuneration 2011 to 2020

CEO Remuneration 2020

In October 2020, Bidvest CEO Lindsey Ralphs stepped down and was replaced by new CEO, Mpumi Madisa.⁸ In the financial year, Ralphs received total remuneration of over ZAR 36 million, which will likely be supplemented in the 2021 financial year.

The average CEO remuneration went down during this time. The only LTI paid in our sample was to Hosken Consolidated Investments CEO, Copelyn, of just over ZAR 5 million. This brings his total remuneration for the year to ZAR 13 million. In general, CEOs in the sector were not paid extremely large remuneration packages considering the operating environment. On average, executive remuneration in this sample went by over 25% in 2020 (from 2018 to 2019 this number went down by approximately 0,4%). In the same time period, non-executive remuneration went down by about 4% (it had increased by 11% from 2018 to 2019).

⁸ <https://www.news24.com/fin24/companies/interview-ceo-mpumi-madisa-plans-for-a-little-more-speed-in-bidvests-acquisition-drive-20210302>

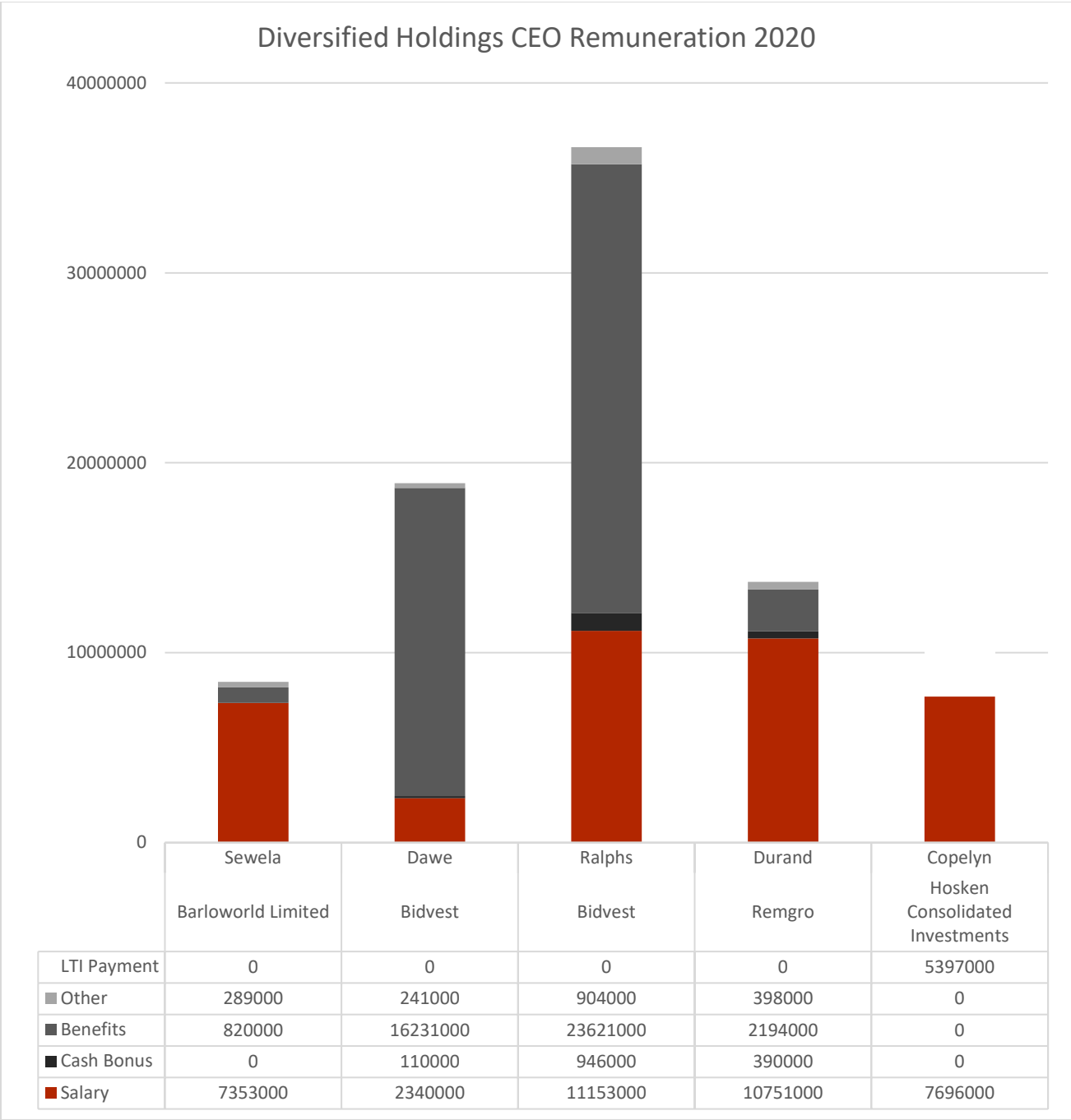


Figure 8 Diversified Holdings Sector CEO Remuneration 2020

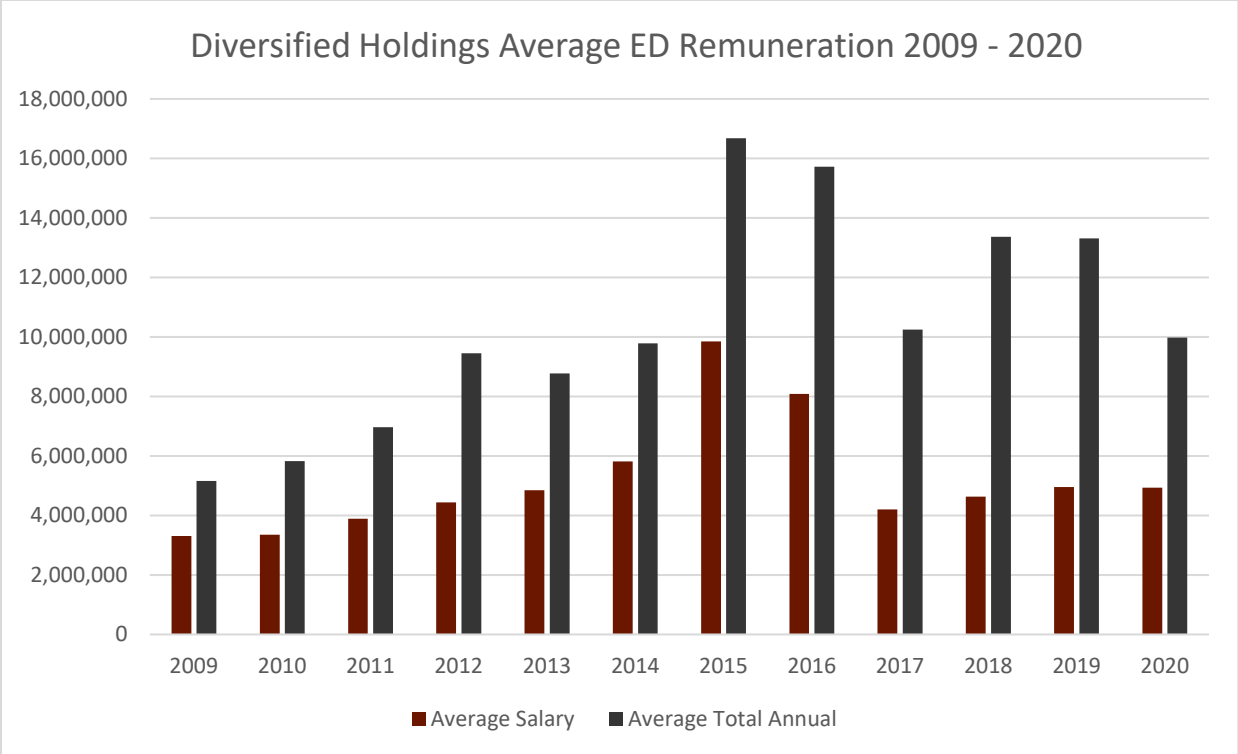


Figure 9 Diversified Holdings Sector Average Executive Director Remuneration 2007 to 2020

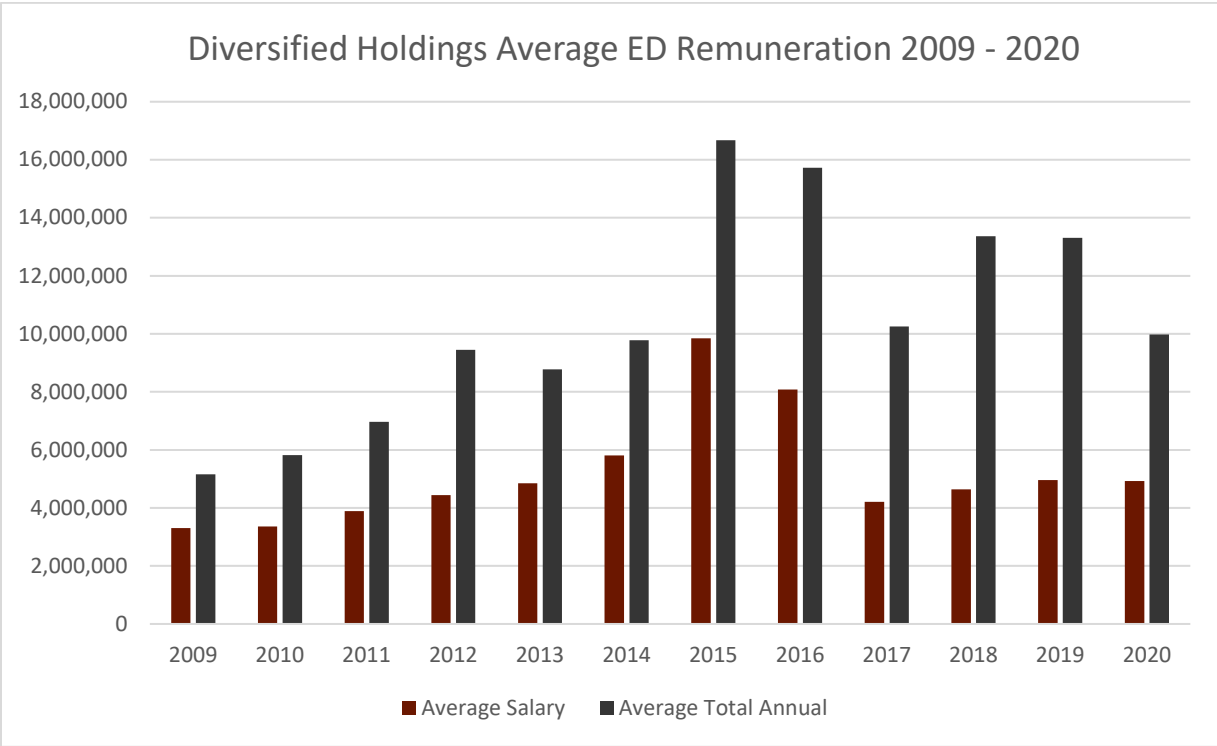


Figure 10 Diversified Holdings Sector NED Average Total Annual Remuneration 2011 to 2020