

Company Limited

“We Foster Rich Customer Service”

Management Discussion & Analysis And Unaudited Financial Statements Nine Months Ended 30 September 2020

The Board of Directors is pleased to report the unaudited results of the Company for the nine months ended 30 September 2020 and to report on the performance of the Company.

Financial Highlights

Year-to-date

- Revenues - \$1,391.5 million, up \$205.0 million or 17% from \$1,186.4 million in the prior period
- Gross Profit - \$554.3 million, up \$39.5 million or 8% from \$514.8 million in the prior period
- Net Profit - \$75.2 million, up \$1.9 million or 3% compared to \$73.3 million in the prior period
- Earnings per stock unit was \$0.15 in the current and prior reporting period

Quarter 3

- Revenues - \$534.3 million, up \$94.3 million or 21% from \$440.0 million in the prior period
- Gross Profit - \$215.7 million, up \$16.1 million or 8% from \$199.6 million in the prior period
- Net Profit - \$52.9 million, up \$41.3 million or 354% from \$11.7 million in the prior period
- Earnings per stock unit \$0.11, up \$0.09 or 354% from \$0.02 in the prior period

All four of the above measures of this quarter's performance, represent the best quarter ever in our history.

Income Statement

Income

Year-to-date income was \$1,391.5 million compared to \$1,186.4 million in the prior reporting period. An increase of \$205.0 million. Gross Profit for the year-to-date is \$554.3 million compared to \$514.8 million for the prior reporting period. This represents an increase of \$39.5 million. These increases were attributed primarily to the greater availability of the products required by the market. The product lines that had significant increases were Industrial Electrical Products, which grew by 214% and PVC Products, which grew by 240%.

During the third quarter the company generated income of \$534.3 million compared to \$440.0 million for the prior reporting period, representing an increase of \$94.3 million. Gross profit for the quarter was \$215.7 million compared to \$199.6 million for the prior reporting period. Other income was positively impacted by foreign currency gains.

Administration Expenses

Administration expenses for the year-to-date was \$436.1 million, reflecting an increase of \$42 million or 11% over the prior reporting period amount of \$394.1 million. This was driven primarily, in Q1, by a combination of building out of our Human resources expertise as we build capacity for the future. We now have a new Sales Manager. Other cost increases were incurred due to staff benefits; increased legal and professional fees; increased selling and marketing costs; increased computer expenses; increased motor vehicle expenses; increased insurance costs; increased security cost and increased electricity cost. This increase is also being affected by the requirements of IFRS 16, which requires that all long-term leases be brought on the balance sheet as right-of-use assets with the financial obligation

being reflected as financing and with the appropriate financing cost calculated. We have opted to include this cost, which amounted to \$9.9 million as part of operating cash flows.

During Q2, in response to the challenges anticipated as a result of Covid-19, we effected certain cost containment measures, which we expect will be the new normal for the company.

Finance Cost

Finance cost for the year-to-date was \$75.8 million compared to \$67.2 million for the prior reporting period, an increase of \$8.6 million. This due to the increased financing being carried.

Taxation

The Taxpayer Audit & Assessment Department also conducted an audit of our 2016 Income Tax returns and are seeking to raise additional Income Tax. We have agreed most aspects of their findings, however, we are also now in the appeal stage of the process in respect of some adjustments. We have begun to make provisions to cover these additional taxes.

Profit After Tax

Profit-after-tax generated for the period was \$75.2 million, compared to the \$73.3 million reported for the prior reporting period. We continue to monitor the changes in the purchasing patterns of our customers resulting from the presence of Covid-19, and have adapted our purchasing patterns and reviewed our cost structure.

Earnings Per Stock Unit

Earnings per stock unit for the quarter was \$0.11, compared to \$0.02 in the prior period.

Balance Sheet

Inventories

The company continues to closely manage inventory balances and the supply-chain, with a view to ensuring that inventory balances being carried are optimised, relative to the pace of sales, the time between the orders being made and when goods become available for sale, to avoid both overstocking and stock-outs. Monitoring is done both at the individual product level and by product categories. Sales in most categories were less than anticipated, this due to the uncertainties which resulted from the Covid-19 pandemic, which affected our customers buying patterns.

Trade Receivables

We continue to closely manage trade receivables with an emphasis being placed on balances over 180 days. We have implemented strategies to collect these funds as well as to ensure that the other buckets are managed. As a result of the anticipated impact of Covid-19 on our customers, we have reviewed all credit arrangements. Where necessary credit limits have been reduced and credit periods shortened. For some items we have instituted seven (7) day credit or cash.

Non-current Liabilities

Non-current liabilities now reflect the lease liabilities associated with the new property leased from the Factories Corporation of Jamaica in a 25 year lease agreement.

Shareholders' Equity

Shareholders' equity now stands at \$868.9 million, up from the \$799.6 million at 31 December 2019. The net increase of \$69.3 million arose as a result of retained profits for the year-to-date amounting to \$75.2 million and Treasury Shares amounting to \$5.9 million.

Other Matters

Covid-19

As with most companies, we were adversely affected by Covid-19. We have seen reductions in anticipated revenues and have had to make some adjustments to our costs. Some team members living in quarantined areas were not able to come to work during lockdown periods, however, we have thus far been able to keep all our warehouse and shop facilities open.

We have re-evaluated all credit relationships and where necessary have reduced credit limits and term. Some items are now sold only for cash or on a seven (7) day credit basis.

We have adopted the policies promulgated by the Ministry of Health and Wellness and have allowed our team members to work from home where practical.

New Activities

In October 2018 FosRich commenced discussion with JPS with a view to taking over their pole-mount transformer repair activity. This discussion, after 20 months, has resulted in an agreement. We have begun the process of sourcing the necessary equipment and the factory buildout has started. We should be up and running by the end of December 2020.

Construction of our new distribution centre at 76 Molynes Road has started and should be completed by February 2021 and ready for occupation.

We have setup a new company, Blue Emerald Limited. We are seeking to have this company registered under The Special Economic Zone Authority, in order to take advantage of the significant long-term tax concessions that are available. Activities being undertaken at the new Hayes facility in Clarendon, will be done through this new entity acting exclusively for FosRich under a contract manufacturing arrangement.

We are cognizant that despite the challenges ahead within this operating space, that we have the right talents and leadership to deliver on our plans for the ensuing period. We will continue to execute on our plans to ensure that we remain competitive and deliver value solutions to our customers.

As we report on the performance of our Company, we thank our shareholders, employees, customers and other stakeholders for their support as we continue to expand our business and bring greater value to our various stakeholders.



Managing Director

Accounting Policies

Subject to the restatement of the audited balance sheet, the accounting policies used in the preparation of these financial statements have remained unchanged since the last audit and the account classifications have also remained the same.

STATEMENT OF COMPREHENSIVE INCOME

Period ended 30 September 2020

	3 Months to Sep-20 \$	3 Months to Sep-19 \$	9 Months to Sep-20 \$	9 Months to Sep-19 \$
Turnover	534,332,550	440,003,819	1,391,480,422	1,186,433,922
Cost of Sales	318,617,228	240,376,686	837,155,385	671,600,517
Gross Profit	215,715,322	199,627,133	554,325,037	514,833,405
Other Income	20,450,390	(2,787,400)	32,829,208	21,624,774
	236,165,712	196,839,733	587,154,246	536,458,179
Expenses				
Administrative and selling expenses	164,584,111	160,888,632	436,077,044	394,098,909
Finance cost	18,524,946	23,352,470	75,829,027	67,162,073
	183,109,057	184,241,102	511,906,072	461,260,982
Operating profit	53,056,655	12,598,631	75,248,174	75,197,197
Taxation	(73,472)	(930,366)	-	(1,860,731)
Comprehensive income	52,983,183	11,668,265	75,248,174	73,336,466
Earning per stock unit	0.11	0.02	0.15	0.15

STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

	Unaudited Sep-20 \$	Audited * Dec-19 \$
ASSETS		
Non-current assets:		
Property, plant and equipment	246,953,252	319,487,346
Right-of-use Assets	402,185,969	208,914,651
Due From Related Parties	282,611,824	282,611,824
Investment - Associated Company	239,889,948	-
Investments	17,715,066	21,315,067
	<u>1,189,356,059</u>	<u>832,328,888</u>
Current assets:		
Inventories	1,075,134,826	1,168,297,433
Accounts Receivables	445,350,148	312,942,974
Due From Related Parties	69,056,583	80,000,000
Cash, cash equivalents and short-term deposits	55,935,485	56,495,021
	<u>1,645,477,041</u>	<u>1,617,735,428</u>
Less Current liabilities:		
Trade Payables & Accruals	309,096,862	235,324,806
Taxation	(12,484)	2,786,023
Short Term Loans	30,332,040	33,548,325
Current Portion of Long-term Liability & Leases	112,509,964	110,269,774
	<u>451,926,382</u>	<u>381,928,928</u>
Net current assets	<u>1,193,550,659</u>	<u>1,235,806,500</u>
	<u>2,382,906,718</u>	<u>2,068,135,389</u>
EQUITY AND LIABILITIES		
Equity:		
Share capital	369,620,810	369,620,810
Treasury Shares	(5,907,424)	-
Capital reserves	67,386,695	67,386,695
Retained earnings	437,835,542	362,587,368
	<u>868,935,623</u>	<u>799,594,873</u>
Non-current liabilities:		
Long-term liabilities	1,114,820,830	1,051,913,999
Lease Obligations	347,166,702	163,925,835
Directors' loan	51,983,561	52,700,682
	<u>1,513,971,095</u>	<u>1,268,540,516</u>
	<u>2,382,906,718</u>	<u>2,068,135,389</u>

* Restated

Approved for issue by the Board of Directors on 27 October 2020 by:



Marion Foster
Chairman



Peter Knibb
Director

STATEMENT OF CHANGES IN EQUITY

Period ended 30 September 2020

	Share capital \$	Treasury Shares \$	Capital reserve \$	Retained earnings \$	Total \$
Balance at 1 January 2019	369,620,810	-	68,026,070	255,701,307	693,348,187
Net profit for period	-	-	-	73,336,467	73,336,467
Balance at 30 September 2019	<u>369,620,810</u>	<u>-</u>	<u>68,026,070</u>	<u>329,037,774</u>	<u>766,684,654</u>
Balance at 1 January 2020	369,620,810	-	67,386,695	362,587,368	799,594,873
Treasury Shares Acquired	-	(5,907,424)	-	-	(5,907,424)
Net profit for period	-	-	-	75,248,174	75,248,174
Balance at 30 September 2020	<u>369,620,810</u>	<u>(5,907,424)</u>	<u>67,386,695</u>	<u>437,835,542</u>	<u>868,935,623</u>

STATEMENT OF CASH FLOWS

Period ended 30 September 2020

	9 Months to Sep-20 £	9 Months to Sep-19 £
Cash flows from operating activities:		
Results for the period	75,248,174	73,336,467
Adjustments to:		
Taxation expense	-	1,860,731
Damaged Goods	47,610	185,689
Adjustment - Bad debt provision	18,000,000	(5,703,769)
Depreciation	21,511,820	17,092,240
Amortisation - Right Of Use Asset	22,213,653	-
	<u>137,021,257</u>	<u>86,771,358</u>
Right-of-use Assets	(215,484,971)	-
Lease Obligations - Right Of Use Asset	187,322,565	-
Changes in non-cash working capital components:		
Tax recoverable		
Inventories	93,114,997	(157,821,371)
Accounts receivable	(150,407,174)	(2,474,157)
Accounts payable	70,973,549	38,317,624
Short term loan	(3,216,285)	24,426,409
Net cash provided/(used) by operations	<u>119,323,938</u>	<u>(10,780,137)</u>
Cash flows from investing activities:		
Purchase of Investment	3,600,001	(436,675)
Related Party	10,943,417	36,628,250
Investment in Associated Company	(239,889,947)	-
Purchase of property plant & equipment	51,022,274	(86,302,100)
Cash (used) in investing activities	<u>(174,324,255)</u>	<u>(50,110,525)</u>
Cash flows from financing activities:		
Treasury Shares	(5,907,424)	-
Directors' loan (repayments)/proceeds	(717,121)	848,725
Finance Lease	(4,081,697)	1,255,471
Long-term Loan	65,147,022	33,088,743
Cash provided by financing activities	<u>54,440,780</u>	<u>35,192,939</u>
Net increase/ (decrease) in cash and cash equivalents	(559,536)	(25,697,723)
Cash and cash equivalents at beginning of period	<u>56,495,021</u>	<u>70,640,720</u>
Cash and cash equivalents at end of period	<u><u>55,935,485</u></u>	<u><u>44,942,997</u></u>
Cash at bank	55,935,485	44,942,997
Bank overdraft	-	-
Cash and cash equivalents at end of period	<u><u>55,935,485</u></u>	<u><u>44,942,997</u></u>

STOCKHOLDER INFORMATION

As at 30 September 2020

Top 10 Stockholders

Name	Shares Held	
	Number	Percentage
1 Cecil Foster	200,910,222	40.0%
2 Marion Foster	200,910,222	40.0%
3 Stocks & Securities Limited (Alpha)	26,243,704	5.2%
4 JCSD Trustee Services Ltd. - Barita Unit Trust Capital Growth Fund	12,681,543	2.5%
5 Peter Knibb & Elizabeth Knibb, Jenine Knibb, Brandon Knibb	11,150,000	2.2%
6 JCSD Trustee Services Ltd. - Sigma Global Ventures	4,704,269	0.9%
7 Sagicor Select Fund Limited - Class C - Manufacturing & Distribution	4,028,960	0.8%
8 Errol A. Lewin	3,473,083	0.7%
9 JMMB Securities Ltd - House Account #2	2,417,775	0.5%
10 Barita Unit Trust Mgmt. Co. Ltd.	2,170,000	0.4%
Total of Top Ten	468,689,778	93.3%
Others	33,585,777	6.7%
Total Shares Allotted	502,275,555	100%
Total Number Of Stockholders	1,386	

Stockholding of Directors, Board Committees Members & Connected Persons

Name	Shares Held
Directors	
1 Cecil Foster	200,910,222
2 Marion Foster	200,910,222
3 Peter Knibb & Elizabeth Knibb, Jenine Knibb, Brandon Knibb	11,150,000
4 Rosalyn Campbell	2,000,000
5 Steadman Fuller	Nil
6 Ian Kelly	Nil
Board Committee Members	
7 Marva Chang	Nil
8 Clive Nicholas	Nil

Stockholding of Senior Managers & Connected Persons

Name	Shares Held
1 Cecil Foster	200,910,222
2 Peter Knibb & Elizabeth Knibb, Jenine Knibb, Brandon Knibb	11,150,000
3 Tricia Edwards	500,000
4 Kerry-Ann Gray & Kyra-Belle Gray	500,000
5 Warren Riley & Cheryl Riley	224,867
6 Vincent Mitchell	7,484
7 Michelle Thame	Nil
8 Stephen Spencer	Nil
9 Hector Mendoza	Nil