38 ACQUISITIONS

38.1 Effective 1 September 2020, Barloworld Mongolia Limited, an indirect wholly-owned subsidiary of Barloworld Limited, was awarded the Caterpillar distribution rights for Mongolia and acquired 100% of Wagner Asia Equipment LLC and a 49% share in SGMS LLC.

Our Caterpillar business in Mongolia is engaged in the business of selling and distributing construction and mining equipment, aftermarket and technology solutions as well as rental solutions under the Caterpillar brand. This will enhance the expansion of the Barloworld Group in the mineral rich Eurasia region.

The goodwill, intangible and tangible asset values represented are provisional, as this acquisition was completed close to the Group's reporting date.

	1 September 2020 Rm	$m
Initial provisional settlement	**2 822**	**168.1**
Premium of US$45 million	**755**	**45.0**
Estimated fair value of net assets (NAV)	**428**	**25.5**
Trade payables owed to Sellers	**1 136**	**67.8**
Escrow account – covering balance of trade payables owed to sellers	**502**	**29.8**
Contingent deferred consideration	**151**	**9.0**
Fair value of true-up payment amount*	**67**	**4.0**
Fair value of the earn-out payment^	**84**	**5.0**
Cash flow hedge reserve#	**65**	**3.9**
	3 039	**181.0**

The transaction is subject to the acquisition of 49% of ordinary shares in SGMS LLC as well as 80% of preference share in SGMS, which together effectively gives Barloworld 90% economic interest in and control of SGMS because the preference share in SGMS have the same rights as the ordinary shares, resulting in a non-controlling interest (NCI) to the extent of 10%. The purchase of SGMS is negligible/immaterial to the whole transaction and therefore they are not split for business combination accounting purposes. NCI is measured by applying the percentage holding of the NCI to the net asset value acquired.

* The consideration transferred (the "Price" per sales purchase agreement) is made up of upfront payment of R2.8 billion ($168.1 million) as set out above, which per the sales purchase agreement (SPA), was paid on 1 September 2020, the effective date of the transaction. This settlement was paid from excess cash resources. A contingent consideration of R151.1 million ($9 million) was raised, arising from an earn-out per clause 2.1 in a third SPA amendment as well as further provisional true-up adjustments to the initial net asset value.

^ The earn-out per schedule 21 clause 11(c) is considered to be an upward adjustment of the amount of the price for all purposes under the SPA, therefore, a liability is created and included in the consideration transferred as a contingent deferred consideration. The contingent deferred consideration was measured at fair value on 1 September 2020 and is subsequently remeasured based on revenue targets from 1 October 2020 to 30 September 2024 with changes to be recognised in profit or loss and included in headline earnings.

The minimum and maximum amount payable for the settlement of the contingent deferred earn-out consideration are US$nil and US$30 million respectively.

\# The purchase consideration is settled in USD whereas the functional and presentation currency of the acquirer is Pound Sterling (GBP). This exposed the acquirer to foreign exchange risk that was hedged using existing USD denominated cash deposit (hedging instrument) designated from 17 March 2020 to 30 June 2020 as a cash flow hedge where the cash flow reserve is applied to the cost of the investment (hedged item) per the Group policy as a basis adjustment. The hedge was fully effective as the same amount of USD was used to hedge the same amount of the purchase consideration. Therefore, the cash flow reserve of R65 million up to 30 June 2020 was added to the purchase consideration.

Acquisition-related costs to the value of R44 million (£2.2 million) were incurred, excluded from consideration transferred and recognised as an expense in profit or loss.

There is no specific provision in the tax law regarding the deductibility of goodwill.

Identifiable assets and liabilities acquired on 1 September 2020

	Rm
Non-current assets	**1 324**
Property plant and equipment	543
Supplier relationship^	773
Intangible assets	8
Current assets	**1 857**
Trade and other receivables**	377
Inventory	1 318
Cash and cash equivalents	162
Total assets	**3 181**
Non-current liabilities	**204**
Provisions	11
Deferred tax	193
Current liabilities	**259**
Trade and other payables	259
Total liabilities	**463**
Net asset	**2 718**
Property, plant and equipment is made up as follows:	
Land and buildings	249
Plant and equipment	95
Rental assets	174
Vehicles and aircraft	25
	543

Supplier relationships^

Intangible asset comprise of the Supplier relationship with Caterpillar representing the distribution rights for Mongolia. This will be amortised over the remaining useful life of 20 years. This is the only intangible asset which meets the IFRS recognition criteria.

Trade and other receivables**

The receivables acquired (which primarily comprised trade receivables) in this transaction with a fair value of R377 million had a gross contractual amounts of R673 million. The best estimate at acquisition date of the contractual cash flows not expected to be collected are R296 million.

	Rm
Excess of consideration transferred over net asset acquired	
Consideration transferred	3 038
Non-controlling interest	8
Less: Value of identifiable assets and liabilities	(2 718)
Goodwill	**328**
Net cash flows on acquisition of Wagner	
Consideration paid in cash	2 822
Less: cash and cash equivalents acquired	(162)
	2 660

Goodwill represents synergies whereby Barloworld expects to leverage core competencies within its existing businesses in Russia which will create additional value.

The goodwill will be accounted for in terms of the Group policy where it will be tested for impairment annually with impairment losses recognised in profit or loss but excluded from headline earnings.

38. ACQUISITIONS continued

	Rm
Impact of acquisition on the results of the Group post acquisition, 1 September 2020	
Revenue	**190**
Operating profit	**4**
Impact of acquisition on the results of the Group since 1 October 2019	
Revenue	**2 088**
Operating profit	**150**

38.2 Barloworld Limited ("Barloworld") entered into a Sale and Purchase Agreement ("SPA") with Tongaat Hulett Limited ("THS") on 28 February 2020 to acquire 100% ownership interest in Tongaat Hulett Starch Proprietary Limited ("Ingrain"). The transaction was completed on 31 October 2020, being the transaction effective date. This purchase is done through Barloworld's wholly owned subsidiary, KLL Group (Proprietary) Limited, which will hold the shares in Ingrain.

Ingrain is Africa's largest producer of Starch, Glucose and related products, and produces a wide range of high quality products for customers across Africa and around the World using maize as raw material.

Barloworld acquired Ingrain, being a different business to its existing business portfolio, to balance out the seasonality of its existing business to deliver a consistent return to shareholder.

	30 September 2020 Rm
Consideration transferred[1]	
Initial price	**4 536**
Cash price	**4 536**
Contingent consideration[2]	**450**
	4 986

1 The consideration transferred (the "Purchase Consideration" per SPA) is made up of the initial amount of R4.536 billion, payable at the effective date in cash, and the adjustment payment payable when the closing stock take has been completed after the closing date. The adjustment payment is a contingent consideration in nature as it adjusts the purchase consideration up or down and is dealt with below.

Acquisition-related costs to the value of R53 million were incurred, excluded from consideration transferred and recognised as an expense in profit or loss.

2 The contingent consideration of R450 million arises from the adjustment payment which will adjust the purchase consideration when finalised based on stock valuations. This has been added as one of the pre-closing activities, being a closing stock take as well as valuation thereof, and is not completed at closing date. This may result in either party having to pay another the difference between the initial amount paid on the closing/effective date of the transaction and the confirmed purchase consideration due to finalised stock take. It is expected that the stock take should be completed just after the closing date, within 15 business days after the closing date. The R450 million was arrived at using an estimate of the September 2020 working capital carrying values.

The contingent consideration was measured at fair value on 31 October 2020 based on the current stock values and will be subsequently remeasured at fair value based on the finalised stock values. Due to the short turnaround of the valuation since the closing date to finalisation of the stock count and valuation, the fair value of the contingent consideration approximate the amount of the purchase consideration agreed if the value of the stock is confirmed if their current recorded values. This is a measurement period adjustment, the business combination accounting is incomplete, and the amounts reported on 31 October 2020 being provisional.

When the stock values are finalised, the business accounting combination accounting on 31 October 2020 will be adjusted retrospectively to reflect the new information obtained about the facts and circumstances that existed as of 31 October 2020. The adjustments to the purchase consideration as a result of changes in the value of the contingent consideration, will be accounted for against goodwill. The range of possible outcomes is not expected to be materially different from the R450 million.

There is no minimum and maximum for the adjustment payment amount.

Assets acquired and liabilities assumed on 30 September 2020

	30 September 2020 Rm
Non-current assets	**2 205**
Carrying amount of property plant and equipment[3]	709
Fair value of land and buildings[4]	366
Fair value carrying amounts of right-of-use assets	21
Carrying amount of other intangible assets	38
Fair value of intangible assets[5]	1 071
Current assets	**1 616**
Carrying amount of trade and other receivables[6]	709
Derivative financial instruments	15
Carrying amount of inventory	878
Current tax	14
Total assets	**3 821**
Non-current liabilities	**191**
Carrying amount of provisions	8
Carrying amount of right-of-use liability	17
Deferred tax	166
Current liabilities	**1 180**
Carrying amount of trade and other payables	455
Carrying amount of right-of-use liability	6
Carrying amount of borrowings	715
Current tax	4
Total liabilities	**1 371**
Net asset	**2 450**

38. ACQUISITIONS continued

	30 September 2020 Rm
[3] Property, plant and equipment is made up as follows:	
Transport and vehicles	1
Plant and machinery	632
Office equipment	1
Other fixed assets	36
Capital work in progress	39
	709
[4] Land and buildings comprises the following properties hosting the Mills:	
Bellville Mill	88
Germiston Mill	72
Kliprivier Mill	64
Meyerton Mill	142
	366
[5] Intangible assets	
Intangible asset comprises customer relationships may arise from non-contractual customer relationships, which represent loyal customers that will continue their relationship after the acquisition by a market participant. This is the only intangible asset, which meets the IFRS recognition criteria.	
[6] The receivables acquired (which primarily comprised trade receivables) in this transaction with a carrying value of R709 million had a gross contractual amounts of R713 million. The best estimate at acquisition date of the contractual cash flows not expected to be collected are R4 million. The fair value of the receivables is still to be determined and finalised during the measurement period.	
Excess of consideration transferred over net asset acquired	
Consideration transferred	4 986
Less: Fair value of identifiable assets and liabilities	(2 450)
Goodwill[7]	2 536
Net cash flows on acquisition	4 986
Consideration paid in cash	4 986

[7] Goodwill represents synergies/improvements whereby Barloworld expects that through product development and specialisation (into modified starches) it will be able to create immediate margin uplift and optimise the product mix, whilst the ability to leverage Barloworld's core competencies in distribution within its existing businesses will create additional value. Goodwill will be accounted for in terms of the Group policy where it will be tested for impairment annually with impairment losses recognised in profit or loss but excluded from headline earnings. Goodwill is not tax deductible.

It should be noted that the values used for the business combination accounting above are as at 30 September 2020 because the purchase price allocation is not yet completed as at 31 October 2020 as some assets and liabilities still need to be fair valued.
This has not been completed because the acquisition date is very close to the date the Group financial statements are issued. When the business combination accounting is completed, which should be done by 30 October 2021 per IFRS 3 measurement period, the values allocated to assets and liabilities would be updated with any resulting adjustments accounted for against goodwill.