Your Best Interest At Heart. Full Stop.

Atlantic Hardware and Plumbing Company Limited

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Executive Summary

Incorporated in October 1994, Atlantic Hardware and Plumbing company Limited (Atlantic) is a wholesale distributor of hardware and plumbing supplies, seeking to list on the Junior Market of the Jamaican Stock Exchange. The Company is inviting applications for up to 499,999,800 ordinary shares in the Company at a price of $1.00 per share. Atlantic has reserved 399,999,800 shares for employees, key partners and the broker, with the remaining 100,000,000 shares available for subscription for the general public. The Company intends to use the funds raised to reduce debt owed.

Issuer	Atlantic Hardware & Plumbing Company Limited
Arranger	JMMB Securities Limited
Securities	Up to 499,999,800 issued ordinary shares: • 399,999,800 – Reserved Shares • 100,000,000 – Non-reserved Shares
Share Price	Reserved Pool: J$1.00 General Public: J$1.00
Minimum Subscription	1,000 shares; amounts above this must be made in multiples of 100.
Use of Proceeds	To repay a portion of the existing indebtedness
Dividend Policy	The Board intend to pursue an annual dividend policy providing for an dividend of up 40% net profits available for distribution, subject to Board approval, available liquidity and the needs of the Company.
Timetable of Key Dates	Opening Date: February 27, 2025 Closing Date[1]: March 13, 2025

[1] Subject to the right of the Company to close the subscription list at any time after it opens on 9:00 a.m. on the Opening Date once the issue is fully subscribed

Atlantic Hardware and Plumbing Company Limited

Company Overview

Atlantic Hardware & Plumbing Company Limited is a wholesale distributor of over 2,400 inventory items, including home improvement supplies, plumbing, tools, building materials, doors, flooring, lawn and garden supplies, paint and adhesives. The company has been in operation since 1994 and has over one thousand repeat customers across Jamaica, including hardware stores, contractors, developers, and retail consumers.

Details of Shareholdings

The shareholdings of ordinary shares in the Company before and after the invitation, assuming all the shares are fully subscribed and the holdings of the existing shareholders do not change, is outlined below:

Shareholders before Invitation	Issued Shares	Percentage Ownership
Construct Group Limited	975,000,000	50.0%
Lumber Depot Limited	682,500,000	35.0%
General Accident Insurance Company Jamaica Limit	292,500,000	15.0%
Total	**1,950,000,000**	**100.0%**
Shareholders after Invitation	**Issued Shares**	**Percentage Ownership**
Construct Group Limited	975,000,000	39.8%
Lumber Depot Limited	682,500,000	27.9%
General Accident Insurance Company Jamaica Limit	292,500,000	11.9%
Lead Broker Reserve Pool	300,000,000	12.2%
Key Partners and Employees Reserved Pool	99,999,800	4.1%
General Public	100,000,000	4.1%
Total	**2,449,999,800**	**100.0%**

Corporate Governance

Atlantic's Board of Directors comprises individuals with varied backgrounds in distribution, construction, finance, and other critical areas, providing strategic oversight. At the time of listing on the Junior Market, Atlantic has stated its intention to comply with the JSE's corporate governance requirements. These include maintaining properly constituted board committees and adopting a framework of accountability to all shareholders.

The company is led by CEO, Deanall Barnes. Mr. Barnes served as Managing Director of Arc Manufacturing Limited from 2019- 2022. He is a former Director of the Factories Corporation of

Jamaica, Students Loans Bureau and Agroinvest Corporation of Jamaica. Provided below is the membership of the Board of Directors:

- Paul B. Scott (Chairman)
- Jeffrey Hall
- Deanall Barnes (CEO)
- Major (Ret'd) Noel Dawes
- Donald Fung (Former CEO, Consultant)
- Lisa Kong
- Sharon Donaldson
- Alexander Marston
- Sekou Crawford

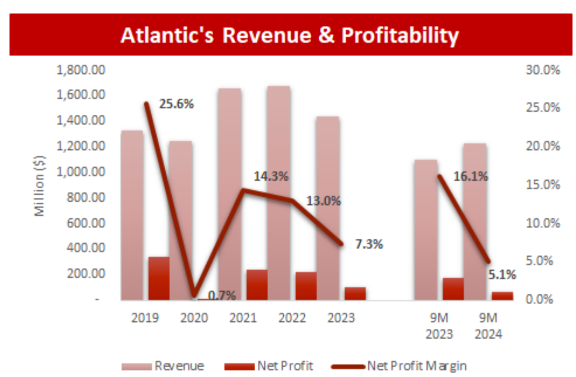
Use of Proceeds

After paying the expenses of the offer (estimated at up to $30 million), the Company expects to net approximately $470 million. These net proceeds will be used primarily to repay a portion of existing indebtedness. The largest, totalling J$300 million, is to be repaid in full, with the remainder distributed among other liabilities.

Financial Performance

Profitability

Over the period (2019-2023), revenue increased from $1.33B to $1.44B, at a compound annual growth rate (CAGR) of 2.0%. Atlantic Hardware and Plumbing Company posted revenue of $1.44B for the year ended December 31, 2023, a 14.1% decrease year-over-year. The company highlighted that this downturn was as a result of management's focus being diverted somewhat from sale activities to activities related to the transition of ownership of the business.



Atlantic Hardware and Plumbing Company Limited

Atlantic experienced a downturn of 27.0% in gross profit for the 2023FY, reaching $431.12M. Though there was a 7.1% year over year downturn in cost of sales recorded for the 2023FY, gross profit margin fell to 30.0% from 35.3% a year ago. This is due to the increase in the cost of sales margin to 70.0% from 64.7%. Furthermore, Atlantic highlighted that the decline in gross profit margin is due to the normalization of inventories post pandemic. Nevertheless, over the five years (2019-2023), Atlantics's gross profit margin has been fairly stable over the past five years, at an average of 29.8%.

Total operating expenses grew at a CAGR of 7.7% during the period. For the 2023FY, operating expenses rose by 1.5% year over year, reported at $309.12M. Moreover, the increase in expenses were mainly driven by increase in amortization right use of asset, commission, insurance premiums, motor vehicle expenses, repair and maintenance and salaries and related expenses. Nonetheless, operating expenses ratio increased to 21.5% from 18.2% the 2021FY, indicating a deterioration in the company's operational efficiency.

As such, operating profit was $121.99M, down 57.4% from the prior year. Furthermore, Atlantics's operating profit margin deteriorated to 12.1% from 21.7% a year ago, below the five-year average operating profit margin of 14.3%. Earnings before interest tax depreciation and amortization (EBITDA) followed a similar trend, reported at $194.38M down 48.9% year over year for the 2023FY. EBITDA margin was 13.5% from 22.7% a year ago.

Pre-tax profits amounted to $147.10M, down 49.2% from the $289.76M reported the previous year. Notably, the surge in interest income amounting to $25.10M, contributed positively to the company's bottom line. For the 2023FY, net profits amounted to $105.35M, down 51.7% year-over-year. Net Profit decreased from $340.0M in 2019 to $105.35M in 2023. However, net profit in 2019 was bolstered by $265.22M due to an extraordinary item, which is insurance claim on assets from a fire the company suffered. The net profit margin has been on a declining trend since the 2021FY, from 14.3% to 7.3% for the 2023FY. The return on average equity stood at 6.5% for the 2023FY, down from 14.9% in 2022. The return on average assets was 4.9% for the 2023FY, in comparison to 11.7% in the previous year.

Liquidity & Solvency

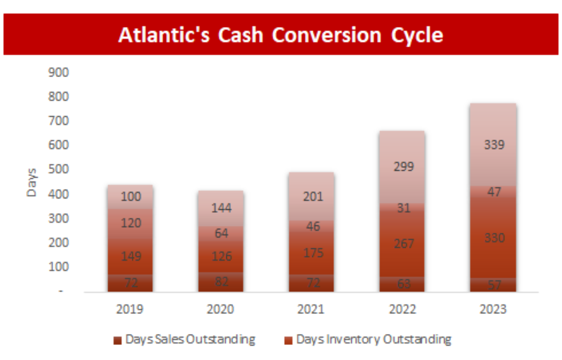
Total assets as at December 31, 2023 amounted to $2.19B, up 5.7% year-over-year, and has grown at CAGR of 8.40% over between 2019 and 2023. The major contributors of total assets at the end of the 2023FY were inventory, cash resources and fixed assets. The largest asset class was inventory, which amounted to $821.08M, down 17.9% year over year, and represented

37.5% of total assets. Atlantic highlighted that $43M of inventories was written off for the 2023FY. Cash and cash equivalents was booked at $426.46B for the 2023FY, up 33.3% year-over-year and the highest reported since the 2019FY, from $272.47M. Fixed Assets-Property Plant & Equipment (PP&E) surged from $70.40M reported in 2019 to $359.51M for the 2023FY but was down 17.1% relative to the 2022FY. Accounts receivable was booked at $208.51M for the 2023FY, down from $238.53M the previous year. Moreover, other receivables surged to $235.37M at the end of the 2023FY, from $52.18M the previous year. Atlantic highlighted that these receivables included staff loans and director's loans, which were repaid in full March 2024.

For the 2023FY, total liabilities amounted to $458.04M, up 41.4% year-over-year. Current liabilities was booked at $339.27M, up 4.7% year-over-year. This increase in current liabilities was mainly driven by the surge in loans payable booked at $177.23M, up from $73.76M a year ago. Since the 2019FY, there has been a consistent decline in payables from $243.35M to $94.0M in the 2023FY. Furthermore, lease liability reported at $118.77M contributed to the growth in total liabilities for the 2023FY.

Atlantic's total equity has grown at CAGR of 13.5% for the period under review. For the 2023FY, the company's total equity amounted to $1.73B, down just 0.9% from the prior year. This downturn was driven by the decline in capital reserve and shareholders' loan to $215.0M and $106.52M respectively. However, retained earnings rose by 8.1%, booked at $1.41B as at December 2023.

Throughout the review period, Atlantic's balance sheet has presented a robust level of liquidity, as demonstrated by the average current and quick ratios of 5.2x and 3.2x respectively. These figures suggest that the Company is able to meet its short-term obligations. For the 2023FY, the company's current ratio was relatively stable at 5.0x, while quick ratio rose to 2.6x from 1.9x a year ago.



The Company's cash conversion cycle has exhibited an upward trend since FY2019. The average cash conversion cycle deteriorated, increasing from 299 days to 339 days for the 2023FY. This was driven by an increase in average inventory days outstanding, which extended from 267 days to 330 days. The average sales days outstanding decreased from

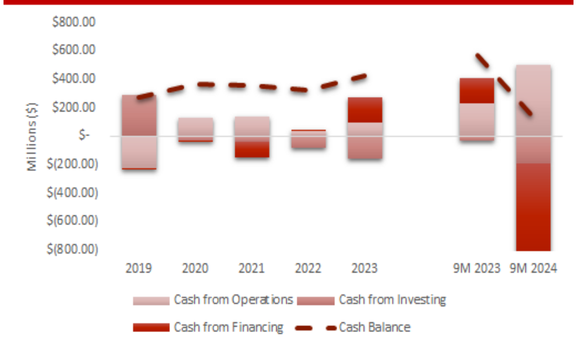
63 days to 57 days, while the average payable days outstanding increased from 31 days to 47 days.

As at December 2023, the company's total debt amounted to $177.23M, up from 75.64M a year earlier. As such, debt to equity rose to 0.11x from 0.05x the previous 2022FY. Furthermore, Atlantic's interest coverage ratio using EBITDA lowered to 2.47x from 5.61x.

Cash Flow Statement Overview

Operating cash flow, prior to accounting for changes in working capital, experienced a downturn of 41.0% in FY2023, reported at $158.50M. This downturn was propelled by lower profitability in comparison with the previous financial year. However, total cash flow from operating activities surged to $97.81M from $32.18M reported in the 2022FY. This improvement was primarily attributed to improvement in changes in working capital, which reported an outflow of $60.69M relative to an outflow of $236.41M the prior year.

Atlantic's Cash Flow & Cash Balance



The cash flow utilized in investing activities increased to $162.16M in FY2023, which represents a rise from the previous year's figure of $86.11M. This increase can be attributed to the increase in funds used in the right use of lease, reported at $145.85M from $53.61M a year ago.

Cash flows from financing activities demonstrated an inflow of $172.68M for FY2023, up from $14.13M in FY2022. This increase was mainly due to loans payable and lease liability during the period at $103.46M and $118.77M respectively. Notably, shareholders' loan was paid the amount of $49.56M during the 2023FY.

As a result of these cash flow movements, Atlantic experienced a net increase of $108.32M in its cash balance by the end of FY2023. This improvement in cash reserves demonstrates the company's strong operating cash generation capability, even as it undertook significant investment activities.

Atlantic Hardware and Plumbing Company Limited

Nine Months Results for period ended September 30, 2024

Atlantic company reported an increase in revenue for the nine-month period ending September 2024 to $1.23B, a 12.4% increase over the $1.10B achieved in comparable period in the 2023FY. The company highlighted that this improvement in revenue was due to introduction of new products, price adjustments on selected items, establish of product listings, marketing and sales campaigns and hiring of a contractor sales representative and sales administrator.

Notably, cost of sales outpaced the growth in revenue, reported at $884.30M from $725.21M a year ago. As such, gross profit fell 6.4% to $347.19M resulting in a gross profit margin of 28.2%, down from 33.8% the prior year. The operating profit amounted to $156.83M, down 16.8% year-over-year, as administrative expenses rose by 6.0%, at $177.60M. Atlantic highlighted increase in staff costs of $30M resulted from increased headcount including the hiring of a CEO, CFO and Sales Administrator. Therefore, operating margin fell to 12.7% from 17.2% a year ago.

Profit before tax for the nine months to September 30, 2024, was $83.8M, representing a 64.4% decline compared to the $235.68M reported for the prior period. The increase in the company's finance cost to $100.76M contributed to the further downturn in its bottom line. Atlantic highlighted that an increase of $68M in loan interest resulting from additional loan facilities taken in March 2024. The company noted loan interest is expected to be significantly reduced going forward as loans will be paid down from the proceeds of this IPO and the sale of their Ashenheim Road property. Net profits amounted to $62.87M, down from $176.76M reported for the nine months of the 2023FY. The net profit margin deteriorated to 5.1% from 16.1% a year ago.

Total assets amounted to $1.55B, down 27.7% from $2.14B. This is attributable to the 37.5% downturn in current assets to $1.06B. The main driver to the downturn in current assets is cash and cash equivalents booked at $140.63M from $583.56M the prior year. Furthermore, inventory decreased by 34.0%, to $563.53M. The company highlighted that inventory declined due to a strategic decision made upon acquisition in March 2024, to align stock levels with industry standards. Trade receivable increased to $276.69M from $163.42M the corresponding period in the 2023FY. Non-current assets rose by 9.4%, booked at $487.32M, due to right use of asset booked at $198.45.

As at September 2024FY, total liabilities surged to $1.61B from $410.22M a year ago. This growth was mainly driven borrowings booked at $932.50M due to additional loan facilities taken in March 2024. Atlantic highlighted their plans to repay borrowings using the net proceeds from the sale of their Ashenheim Road property and the Initial Public Offering (IPO). Furthermore, current liabilities rose by 32.1% year over year booked at $541.92M, driven by current portion of borrowings reported at $410.0M.

Atlantic reported accumulated deficit for the third quarter of FY2024, amounted to $68.16M. This is due to negative treasury shares amounting $1.58B, as a result of a share buyback that was completed in March 2024. As a part of the acquisition in March 2024, Atlantic repurchased 140 of the 200 issued and outstanding ordinary shares from its then shareholders. As such, the 140 ordinary shares repurchased became treasury shares, resulting in a balance in the treasury shares account.

For the nine-month 2024 period, Atlantic generated positive cash flow from operating activities, reporting net operating cash flows of $392.03M, up from $22.26M. Net cash used in investing activities amounted to an outflow of $193.99M following an $198.45M cash outlay related to right use of asset. Cash flow from financing activities reported an outflow of $743.51M, driven by funds used for share buy back in the amount of $1.58B. Consequently, Atlantic experienced a net decrease of $440.18M in its cash balance by the end of September 2024.

Investment Positives and Negatives

Positives	Negatives
Atlantic Hardware has established a prominent position in Jamaica's hardware and plumbing market. This is underpinned by decades of operational experience, a robust distribution network, and a diverse product offering that caters to a wide customer base.	The financial year 2023 and the first nine months of 2024 highlighted significant challenges, with a marked decline in profitability metrics. This recent financial performance may raise concerns about the company's short-term financial health and operational efficiency. Despite plans to use IPO proceeds for debt reduction, Atlantic's increasing debt levels and negative equity have heightened its financial risk.
The recent move to a larger warehouse next to the Port of Kingston optimizes logistical operations, improving service delivery. The implementation of a state-of-the-art ERP system enhances inventory management and customer interaction, streamlining operations and potentially boosting customer satisfaction and retention.	The company's operations are highly sensitive to local economic conditions, particularly the health of the construction sector, which is influenced by interest rates and overall economic stability. The cyclical nature of this industry means that downturns can significantly impact Atlantic's revenues and profitability.

Atlantic Hardware and Plumbing Company Limited

The sale of its property and the planned use of IPO proceeds to reduce debt, is expected to lower the company's annual interest. This reduction in debt service costs is likely to improve net income and cash flow, providing more resources for strategic initiatives and operational investments.	Atlantic operates within a highly competitive market. The hardware and construction supply market in Jamaica is highly competitive, with several well-established players. The barrier to entry is relatively low.
Listing on the JSE's Junior Market potentially qualifies Atlantic for tax reliefs and other incentives, which could improve profitability and provide additional capital for reinvestment.	The ongoing transition in ownership and management could lead to operational disruptions. Moreover, the implementation of new systems and relocation to a new facility, while potentially beneficial, also introduce operational risks.
Experienced management team with decades of industry expertise and proven ability to execute.	The substantial downturn in inventory value and the need to write off $43M in 2023 indicate potential issues in inventory management. Excessive inventory levels can tie up capital, whereas insufficient inventory can lead to lost sales, both of which could affect profitability.

Atlantic Hardware and Plumbing Company Limited

	YE 2019	YE 2020	YE 2021	YE 2022	YE 2023	CAGR	Q3 2023	Q3 2024	% ▲
Abridged Income Statement (in $M)									
Revenue	1,328.0	1,243.7	1,660.2	1,675.2	1,439.1	2.03%	1,096.1	1,231.5	12.35%
Gross Profit	353.3	270.0	585.3	590.7	431.1	5.10%	370.9	347.2	-6.39%
EBITDA	163.3	40.4	393.5	380.3	194.4	4.45%	203.3	169.6	-16.59%
EBIT	154.2	36.1	380.8	364.0	174.7	3.17%	188.6	156.8	-16.82%
Net Profit	340.0	8.1	237.3	218.0	105.4	-25.39%	176.8	62.9	-64.43%
Abridged Balance (in $M)									
Current Assets	1,514.0	1,388.8	1,385.2	1,610.6	1,691.4	2.81%	1,694.0	1,059.3	-37.47%
Current Liabilities	320.4	210.0	285.9	324.0	339.3	1.44%	410.2	541.9	32.11%
Total Assets	1,584.4	1,486.3	1,643.8	2,069.0	2,187.8	8.40%	2,139.6	1,546.6	-27.71%
Debt	294.1	287.2	66.2	75.6	177.2	-11.89%	15.4	1,355.1	8709.49%
Equity	1,014.0	1,026.3	1,357.9	1,575.9	1,681.3	13.48%	1,729.4	(68.2)	-103.94%
Abridged Cash Flow Statement (in $M)									
CFO before WC Changes	78.0	10.1	95.1	268.6	158.5	19.40%	270.1	292.8	8.41%
CFO	(226.9)	125.8	138.9	32.2	97.8	N/A	229.7	497.3	116.53%
CFF	(0.9)	(4.2)	(105.7)	14.1	172.7	N/A	180.5	(743.5)	-512.02%
CFI	289.5	(29.1)	(40.1)	(86.1)	(162.2)	N/A	(31.4)	(194.0)	517.13%
Ratios						**Average**			
Current Ratio	4.7	6.6	4.8	5.0	5.0	5.2	4.1	2.0	-52.67%
Quick Ratio	4.0	4.5	2.8	1.9	2.6	3.2	2.0	0.9	-55.30%
Debt-to-Equity	0.3	0.3	0.0	0.0	0.1	0.2	0.0	(19.9)	-223609.15%
Total Debt Ratio	0.2	0.2	0.0	0.0	0.1	0.1	0.0	0.9	12087.07%
Financial Leverage	1.6	1.4	1.2	1.3	1.3	1.4	1.2	(22.7)	-1933.99%
Interest Coverage Ratio (EBITDA)	5.3	1.3	5.8	5.6	2.5	4.1	6.2	1.7	-72.71%
Days of Sales Outstanding	72	82	72	63	57	69	58.9	51.0	-13.32%
Day of Inventory on hand	149	126	175	267	330	209	447.3	292.6	-34.58%
Number of days of payables	120	64	46	31	47	62	47.3	113.5	139.84%
Cash Conversion Cycle	100	144	201	299	339	217	458.8	230.1	-49.85%
Gross Profit Margin	26.6%	21.7%	35.26%	35.26%	30.0%	29.8%	33.8%	28.2%	-16.68%
EBITDA Margin	12.3%	3.2%	23.7%	22.7%	13.5%	15.1%	18.6%	13.8%	-25.76%
Operating Profit Margin	11.6%	2.9%	22.9%	21.7%	12.1%	14.3%	17.2%	12.7%	-25.97%
Net Profit Margin	25.6%	0.7%	14.3%	13.0%	7.3%	12.2%	16.1%	5.1%	-68.34%
ROE	38.4%	0.8%	19.9%	14.9%	6.5%	16.1%	5.0%	-1.0%	-120.37%
ROA	23.8%	0.5%	15.2%	11.7%	4.9%	11.2%	4.6%	-0.5%	-110.08%

Sources: http://www.Jamstockex.com, JMMB Investment & Research, Company Financials, Company Prospectus, Bank of Jamaica (BOJ), Planning Institute of Jamaica (PIOJ), World Bank

Atlantic Hardware and Plumbing Company Limited

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY, THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

MARKETPERFORM/HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

UNDERPERFORM/UNDERWEIGHT— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM/UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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