

An Update on Rolfes Holdings

This article is excerpted from a letter to partners of [Boyles Asset Management](#).

Rolfes Holdings was a significant negative contributor to the quarterly performance.

In September, the company first reported a trading update that revealed a somewhat weak H2 and, more alarmingly, an accounting restatement for fiscal 2016 and H1 2017. Approximately 10 days later, the company reported the full amended results. After peaking briefly at R5.09 per share in July, the shares were soft throughout the quarter, and following the accounting restatement, closed Q3 at R3.08, down 39.4%.

Obviously, we are disappointed in the earnings restatement, which we would classify as material, especially as it relates to H1 2017. To put the restatement in perspective, full-year adjusted earnings, which were also pressured by ongoing soft business conditions, came in approximately 27% below where we envisioned.

In mid-October the CEO resigned, and a number of directly responsible parties have left the company. The company's interim CFO and new auditor, KPMG, discovered the issues; and the interim CFO was recently named full-time CEO.

The most egregious accounting issues were in one of the company's majority-owned foreign subsidiaries, where local management fabricated results. Importantly, there were no accounting issues at the company's two most critical units: agriculture and food.

While we continue to evaluate the restatement and current performance, we believe the margin of safety we originally demanded of the shares will protect our ultimate downside. The current episode may very well provide a remarkable opportunity to acquire shares, as they trade at approximately 5.5x the restated figures. The company has announced a share repurchase program, and we are comforted by the fact that three large board member shareholders are actively working to restore shareholder value. In recent days, multiple large shareholders have purchased sizable numbers of shares in the open market.