



ABRIDGED AUDITED RESULTS
FOR THE YEAR ENDED 30 NOVEMBER
2018
AND CHANGE IN AUDIT FIRM

- Turnover up 8% to R6,4 billion
- Operating profit down 3% to R655 million
- Headline earnings per share up 3% to 1 289 cents
- Comparable earnings per share down 4% to 1 198 cents
- Final dividend maintained at 380 cents per share
- Cash generated from operations R468 million

CONSUMER-RELATED PRODUCTS

Distributor of automotive clutch kits, ignition leads and rotary oil and hydraulic seals

An importer and distributor of alloy and steel wheels

Distributor of maintenance free batteries and provider of custom designed energy solutions

Distributor of electronic security equipment, including intruder detection, access control, CCTV, fire detection and electric fencing, as well as related consumables

Supplier of batteries, high frequency chargers and related battery equipment to the traction battery market. Designs, builds and manages battery bays for warehouses and distribution centres

Distributor of a comprehensive range of quality fasteners, including blind rivets, self-drilling screws, hexagonal bolts, nuts and washers

Distributor of professional mobile radio communication equipment and integrator of radio systems

Distributor of wireless networking, VoIP and video products and the provision of after-sales service and technical support

Distributor of automotive spares and accessories

Distributor of integrated security and life safety solutions, including CCTV, access control, fire detection, public address and perimeter detection products

Distributor of Makita power tools, Mercury marine engines, survey instrumentation, rivets and fasteners

Distributor of stand-by and solar batteries

Distributor of electronic security equipment, including the Texecom range of intruder detection solutions, as well as related consumables

Distributor of bearings, chains, seals, electric motors, transmission and allied products

Distributor of DEUTZ diesel engines, DEUTZ spare parts, HJS exhaust gas aftertreatment systems and provider of service support

Distributor of solid, round, square, hexagonal and hollow bar engineering steels

Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose

Distributor of geared motors, helical gearboxes, frequency inverters and electric motors

Distributor of conveyor belting, industrial hose, fluid sealing and process control products

Distributor of pneumatic and process components

Manufacturer of conveyor pulleys, steel fabrication, plate rollings and distributor of sheet rubber

Distributor of plastic and stainless steel slat chains, modular belting and conveyor components and manufacturer of plastic engineering parts

Supplier and repairer of hydraulic pumps and motors

Manufacturer of hydraulic and pneumatic equipment and supplier of water valves and sewage processing systems

Supplier of filtration solutions, customised exhaust systems, kits and accessories

Manufacturer and assembler of cast iron hydraulic gear pumps

Manufacturer and repairer of hydraulic cylinders and repairer of drivetrain components

Manufacturer of ferrous and non-ferrous castings

Distributor of electric cabling, industrial plugs, sockets, electric feeder systems and crane components

Manufacturer of mining connectors and lighting systems

Distributor of special steels and provider of heat treatment

Manufacturer of dished and flanged ends, pressing & flanging of small conical sections, push thru's and weld caps

Distributor of electrical cable accessories and electrical instruments

Distributor and repairer of commercial and industrial automation and electronic motor control equipment

Hudaco Industries is a South African group specialising in the importation and distribution of high-quality branded automotive, industrial and electronic consumable products, mainly in the southern African region. Hudaco businesses serve markets that fall into two primary categories:

- The automotive aftermarket, power tool, battery, security and communication equipment businesses supply products into markets with a bias towards consumer spending.
- The mechanical and electrical power transmission, diesel engine, hydraulics and pneumatics, steel, thermoplastic fittings and bearings businesses supply engineering consumables mainly to mining and manufacturing customers.

Value added includes product specification, technical advice, application and installation training and troubleshooting, combined with availability at a fair price.

Results

2018 began with much optimism but by year end hopes were frustrated, for the time being at least, by a combination of economic inertia and political rhetoric. We started the year with a new president and a new hope for our country and its economy. In his maiden State of the Nation Address, the president outlined a recovery plan for South Africa, much of which we felt was likely to translate into investment in those sectors of the economy that were traditional Hudaco markets. This would have enabled those of our businesses that have been in austerity mode for the past few years to thrive once again. Notwithstanding the positive steps that have been taken to restore good governance, tackle corruption and boost the economy, specifically mining and manufacturing, it is clear that past mismanagement means it is going to take longer than anticipated for us to see the benefits. Unfortunately this delay had a negative effect on the economy, with the first two quarters showing negative growth pushing South Africa into a technical recession, the first since 2009.

The extreme volatility of the Rand in 2018 made pricing exceptionally challenging. The currency strengthened in the first four months and subsequently declined in the remaining eight months. In the period March to September, the Rand weakened 33% against the US\$ from R11,67 to R15,54. The last quarter of our year is generally our strongest but this year, although we managed to grow sales marginally, the gross margin suffered as the decline in the currency was too sharp for us to be able to put through the corresponding increases in selling prices. The more the economy came under pressure from the likes of increases in VAT, petrol, currency and drought the more pressure was put on prices.

There were two notable changes in turnover from the market sectors we serve. Sales to the wholesale and retail sector grew 17% (acquisitions and MIRO) and to the security sector shrank 7%.

Annual sales were up 8% to R6,4 billion, whilst operating profit decreased 3% to R655 million. Ongoing operations' sales for the group increased 3% to R6 billion, whilst operating profit declined 11%, with both segments battling with pricing in a difficult economy and extremely volatile exchange rates. Sales from ongoing operations in the consumer-related products segment were up 6% while operating profit decreased 1%, whereas engineering consumables' sales from ongoing operations increased 1% and its operating profit declined 14%.

Headline earnings per share were up 3% to 1 289 cents, while comparable earnings per share fell 4% to 1 198 cents because a positive fair value adjustment on the vendor liability (required to be reflected in headline earnings but, in our view, not an item that should be in comparable earnings) was deducted. The return on equity was 16%.

The final dividend has been maintained at 380 cents, giving us a total dividend for 2018 up 1,8% at 570 cents. Comparable earnings cover the full dividend 2,1 times, which falls within our long-standing dividend policy range of paying between 40% and 50% of comparable earnings.

Financial position

The financial position remains healthy but the cash generation was not as good as usual, mainly because of an investment in readily saleable inventories that was higher than planned. The group had R1 163 million in net bank borrowings at year end, up from R860 million in 2017, after R242 million was spent on acquisitions. More importantly, interest payments were paid seven times by operating profits, compared with our internal benchmark of at least five times. We have significant additional bank borrowing facilities available so there is still capacity for acquisitions, and we continue to look for businesses in growth areas to further diversify and strengthen our portfolio.

Inventories at year end of R1 822 million are higher than we anticipated because some of our businesses turned out to be over ambitious in stocking up for the last quarter. Rutherford, Partquip and MIRO have a total of R140 million more stock than last year. It is all run-rate stock which will turn into cash in 2019. Inventories in the rest of the group are up 8,5%, excluding take-on inventory of acquisitions of R66 million. The return on net operating assets including goodwill (RONA) in 2018 is 17,3%.

Consumer-related products

The consumer-related products segment comprises 14 businesses. In 2018, it made up 55% of Hudaco's sales and 65% of operating profit.

The segment increased sales by 14% to R3,5 billion and operating profit by 8% to R462 million. Operating profit margin was 13,2%.

MIRO, our distributor of wireless connectivity products, achieved another year of strong growth as it continued to add to its impressive basket of wireless technology products. The automotive spares and accessories businesses, Partquip, A-Line and Abes, all achieved good growth. The security sector, which includes battery businesses of SBS, Deltac and Eternity. This mainly in the alternative energy and wholesale and retail sectors.

Rutherford, the second largest business in this segment and the main activity of which is the distribution of Makita power tools and garden equipment, had a tough year, as sales to the big box stores declined. The move at the beginning of the year to a larger, more effective distribution centre at City Deep has already started paying dividends, including through the very smooth physical integration of Boltworld, which was acquired to bolster FTS, the fastener division of Rutherford. The combined business now trades under the name FTS Boltworld.

Unfortunately, we had disappointing results from our security businesses, Eley and Pentagon, and our communications business, SS Telecoms. These businesses have dampened what would otherwise have been a good result for the consumer-related products segment.

Engineering consumables

The 21 businesses that constitute engineering consumables made up the other 45% of sales and 35% of operating profit.

The segment sales were up 1,7% to R2,9 billion whilst operating profit decreased by 9,7% to R246 million. Operating profit margin decreased to 8,4%.

The majority of businesses in this segment distribute mature industrial products to mature economic segments (mainly mining and manufacturing). These market sectors have been in decline for the last approximately ten years partly due to natural boom and bust cycles and partly due to the fact that resources are not being replaced. The engineering consumables businesses in this segment are now sized correctly for current market conditions, profits are not growing. We are modifying the structures of some of these businesses to extract synergies where it makes sense. It is important to note however that the returns in most of these businesses are acceptable and they generate the cash we use to diversify and expand our portfolio of businesses.

Deutz Dieselpower and our steel businesses of Ambro, Bosworth and The Dished End Company performed well. HERS, supplying automotive drive shafts to the platinum mining sector, also had a much improved year. Disappointing results came from Astore Keymak (thermoplastic pipes and fittings), Powermite (electrical), Ernest Lowe, Berntel and GPM (hydraulic and pneumatic businesses) and Joseph Grieveson.

Lawsuit against Bravura and certain associates

We are pleased to report that a court date has now been set for our claim against Bravura, Cadiz and certain of their associates for up to R490 million. The matter is to be heard in the last quarter of 2019. Hudaco has brought the action to recover, *inter alia*, secret profits made on the financing arrangements around the Hudaco BEE transaction that ran from August 2007 to February 2013. We note with interest the announcement by another listed company that was also advised by Bravura on its BEE structure that it too has settled with SARS.

Prospects

Prospects for Hudaco will depend largely on how the economy performs and, in 2019, that is bound to be influenced by the lead-up to and outcome of the national elections in May. We expect that in the first half we will experience more of the same inertia as business adopts a wait and see approach. We are hoping for a positive electoral outcome coupled with some meaningful action and implementation from the government on the economic front. This should kick-start the economy and hopefully translate into investment in those sectors that are traditional Hudaco markets. Our businesses are well placed to benefit immediately from such a scenario. We expect a stronger year in cash generation as the excess stock in our mainly growth industry businesses is sold. We look forward to the contribution from the new senior management we have brought on board to strengthen our team, as well as the synergies to be gained from the planned restructure of the engineering consumables portfolio and the bolt-on acquisitions in the consumer-related products segment.

Declaration of final dividend no 64

Final dividend number 64 of 380 cents per share (2017: 380 cents per share) is declared payable on Monday, 4 March 2019 to ordinary shareholders recorded in the register at the close of business on Friday, 1 March 2019.

The timetable for the payment of the dividend is as follows:

Last day to trade cum dividend	Tuesday, 26 February 2019
Trading ex dividend commences	Wednesday, 27 February 2019
Record date	Friday, 1 March 2019
Payment date	Monday, 4 March 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 27 February 2019 and Friday, 1 March 2019, both days inclusive. The certificated register will be closed for this period.

In terms of the Listings Requirements of the JSE Limited regarding Dividends Tax, the following additional information is disclosed:

- The dividend has been declared from income reserves;
- The dividend withholding tax rate is 20%;
- The net local dividend amount is 304 cents per share for shareholders liable to pay Dividends Tax and 380 cents per share for shareholders exempt from Dividends Tax;
- Hudaco Industries Limited has 34 153 531 shares in issue (which includes 2 507 828 treasury shares); and
- Hudaco Industries Limited's income tax reference number is 9400/159/71/2.

Directorate

Royden Vice, who was an independent non-executive director from June 2007 and served as chairman of the board from March 2008, retired from the board on 5 April 2018 after the annual general meeting. He was a great asset to the group and his contribution will be missed both personally and professionally. We wish him well in his retirement. On Royden's retirement, Stephen Connolly assumed the role of non-executive chairman and Daisy Naidoo was appointed lead independent non-executive director.

We welcome Louis Meiring as an executive director with effect from 14 January 2019. Louis, an electrical engineer, was with the Zest WEG Group for the past 27 years and served as its Group CEO from 2012. His extensive experience of the engineering consumables industry will significantly enhance the skills, capacity and leadership capability of the Hudaco executive team.

Results presentation and annual general meeting

Hudaco will host presentations on the financial results to Johannesburg and Cape Town on Friday, 1 February 2019 and Monday, 4 February 2019, respectively. Anyone wishing to attend should contact Sebilla Masekwameng at +27 11 657 5000.

The slides which form part of the presentation will be available on the company's website from Friday, 1 February 2019.

The company's 34th annual general meeting will be held at Hudaco's corporate office situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale at 11:00 on Tuesday, 19 March 2019. The notice and proxy form for the company's annual general meeting will be posted to shareholders during the last week of February 2019 and will be included in the integrated report that will be published on Hudaco's website during February 2019.

Approval of financial statements

The financial statements have been approved by the board and abridged for purposes of this report. Grant Thornton has signed an unqualified audit opinion on the annual financial statements. Both the financial statements and the auditor's report are available for inspection at the company's registered office.

This abridged report is extracted from audited information, but is not itself audited.

The auditors' report does not necessarily cover all of the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditors' work, they should obtain a copy of the report together with the accompanying financial information from the registered office of the company.

Announcement regarding change in audit firm due to merger

Shareholders are advised in terms of paragraph 3.75 of the JSE Listings Requirements that the Johannesburg office of Hudaco's audit firm, Grant Thornton, merged with BDO South Africa Inc. (BDO) during the conduct of the Hudaco audit. Because the audit commenced before the merger, it was completed on 31 January 2019 under the auspices of Grant Thornton and BDO became Hudaco's auditors immediately thereafter.

The Audit and Risk Management Committee of Hudaco has followed the process detailed in paragraph 3.84(g)(iii) of the JSE Listings Requirements and has recommended to the Hudaco board that the appointment by shareholders of BDO as auditors be submitted for approval at the next annual general meeting of the company on 19 March 2019. The designated audit partner, Vanessa de Villiers, will remain unchanged.

For and on behalf of the board

SI Connolly Non-executive chairman 31 January 2019	GR Dunford Chief executive Nedbank Corporate and Investment Banking Sponsor These results are available on the internet: www.hudaco.co.za
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COMPANY INFORMATION

Hudaco Industries Limited Incorporated in the Republic of South Africa Registration number: 1985/004617/06 JSE share code: HDC ISIN code: ZAE000003273	Registered office 1st Floor, Building 9 Greenstone Hill Office Park Emerald Boulevard, Greenstone Hill, Edenvale Tel: +27 11 657 5000 Email: info@hudaco.co.za	Group secretary R van Zyl Sponsor Nedbank Corporate and Investment Banking
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Transfer secretaries Computershare Investor Services Proprietary Limited PO box 61051 Marshalltown, 2107	Directors SI Connolly (Chairman)* GR Dunford (Chief executive) CV Amols (Financial director) N Mandindi* LJ Meiring D Naidoo* MR Thompson* * Non-executive
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GROUP STATEMENT OF FINANCIAL POSITION

R million	30 Nov 2018	30 Nov 2017
ASSETS		
Non-current assets	1 875	1 843
Property, plant and equipment	277	270
Investment in joint venture	9	9
Goodwill	1 505	1 480
Intangible assets	49	70
Deferred taxation	35	14
Current assets	3 167	2 777
Inventories	1 822	1 538
Trade and other receivables	1 278	1 156
Taxation	4	2
Bank deposits and balances	63	81
TOTAL ASSETS	5 042	4 620
EQUITY AND LIABILITIES		
Equity	2 579	2 376
Equity holders of the parent	2 509	2 295
Non-controlling interest	70	81
Non-current liabilities	1 124	891
Amounts due to bankers	1 014	675
Amounts due to vendors of businesses acquired	109	215
Deferred taxation	1	1
Current liabilities	1 339	1 353
Trade and other payables	989	943
Bank overdraft	212	266
Amounts due to vendors of businesses acquired	105	116
Taxation	33	28
TOTAL EQUITY AND LIABILITIES	5 042	4 620

GROUP STATEMENT OF COMPREHENSIVE INCOME

R million	30 Nov 2018	% change	30 Nov 2017
Turnover	6 381	8,1	5 902
– Ongoing operations	5 967	3,2	5 784
– Operations acquired after December 2016	414		118
Cost of sales	4 060		3 704
Gross profit	2 321	5,6	2 198
Operating expenses	1 666	9,5	1 522
– Ongoing operations	1 576	5,1	1 499
– Operations acquired after December 2016	90		23
Operating profit	655	(3,0)	676
– Ongoing operations	589	(10,7)	660
– Operations acquired after December 2016	66		16
Impairment of goodwill and intangible assets	(34)		
Adjustment to fair value of amounts due to vendors of businesses acquired	11		(20)
– Adjustment to estimated capital amounts due	34		2
– Adjustment for time-value of money	(23)		(22)
Profit before interest	632	(3,5)	656
Finance costs	91		81
Profit before taxation	541	(5,7)	575
Taxation	144		156
Profit after taxation	397	(5,2)	419
Income from joint venture	3		3
Profit for the year	400	(5,2)	422
Other comprehensive income (loss)	3		(2)
Movement on fair value of cash flow hedges			2
Exchange gain (loss) on translation of foreign operations	3		(4)
Total comprehensive income for the year	403	(3,9)	420
Profit attributable to:			
– Equity holders of the parent	381	(4,1)	397
– Non-controlling shareholders	19		25
	400	(5,2)	422

Total comprehensive income attributable to:			
– Equity holders of the parent	383	(3,0)	396
– Non-controlling shareholders	20		24
	403	(3,9)	420

Earnings per share (cents)			
– Basic	1 202	(4,1)	1 254
– Headline	1 289	2,6	1 256
– Comparable	1 198	(4,2)	1 251
Diluted earnings per share (cents)			
– Basic	1 173	(5,5)	1 241
– Headline	1 258	1,2	1 243
– Comparable	1 168	(5,6)	1 237

Calculation of headline earnings			
Profit attributable to equity holders of the parent	381	(4,1)	397
<i>Adjusted for:</i>			
Impairment of goodwill and intangible assets	34		
(Profit) loss on disposal of plant and equipment	(2)		1
Non-controlling interest and tax	(5)		
Headline earnings	408	2,6	398

Calculation of comparable earnings			
Headline earnings	408	2,6	398
<i>Adjusted for:</i>			
Fair value adjustment on capital amounts due to vendors of businesses acquired	(34)		(2)
Non-controlling interest	5		
Comparable earnings	379	(4,2)	396
Dividends			
– Per share (cents)	570		560
– Amount (Rm)	180		177
Shares in issue (000)	31 646		31 646
– Total (000)	34 154		34 154
– Held by subsidiary (000)	(2 508)		(2 508)
Weighted average shares in issue			
– Total (000)	31 646		31 646
– Diluted (000)	32 435		31 981

SEGMENT INFORMATION

R million	Turnover		Operating profit		Average net operating assets	
	30 Nov 2018	% change	30 Nov 2017	30 Nov 2018	% change	30 Nov 2017
Consumer-related products	3 491	14,4	3 051	462	7,9	428
– Ongoing operations	3 128	5,7	2 958	414	(1,3)	419
– Operations acquired after December 2016	363		93	48		9
Engineering consumables	2 910	1,7	2 861	246	(9,7)	272
– Ongoing operations	2 859	0,8	2 836	228	(14,1)	265
– Operations acquired after December 2016	51		25	18		7
Total operating segments	6 401	8,3	5 912	708	1,0	700
Head office, shared services and eliminations	(20)		(10)	(53)		(24)
Total group	6 381	8,1	5 902	655	(3,0)	676

GROUP STATEMENT OF CASH FLOWS

R million	30 Nov 2018	30 Nov 2017
Cash generated from trading	760	772
Increase in working capital	(292)	(61)
Cash generated from operations	468	711
Taxation paid	(164)	(131)
Net cash from operating activities	304	580
Net investment in new operations	(242)	(210)
Net investment in property, plant and equipment	(51)	(47)
Dividend received	4	
Net cash from investing activities	(289)	(257)
Increase (decrease) in non-current amounts due to bankers	339	(35)
Share-based payments	(18)	(16)
Finance costs paid	(91)	(81)
Dividends paid	(211)	(177)
Net cash from financing activities	19	(309)
Decrease in net bank overdraft	34	14
Foreign exchange translation gain (loss)	2	(4)
Net bank overdraft at beginning of the year	(185)	(195)
Net bank overdraft at end of the year	(149)	(185)

GROUP STATEMENT OF CHANGES IN EQUITY

R million	Share capital and premium	Non-distributable reserves	Retained income	Equity holders of the parent	Non-controlling interest	Equity
Balance at 1 December 2016	55	64	1 965	2 084	65	2 149
Comprehensive income for the year		(2)	398	396	24	420
Movement in equity compensation reserve		16	(13)	3		3
Dividends			(169)	(169)	(8)	(177)
Balance at 30 November 2017	55	78	2 181	2 314	81	2 395
Less: Shares held by subsidiary company			(19)	(19)		(19)
Net balance at 30 November 2017	55	78	2 162	2 295	81	2 376
Balance at 1 December 2017	55	78	2 181	2 314	81	2 395
Comprehensive income for the year		3	380	383	20	403
Movement in equity compensation reserve		18	(7)	11		11
Dividends			(180)	(180)	(31)	(211)
Balance at 30 November 2018	55	99	2 374	2 528	70	2 598
Less: Shares held by subsidiary company			(19)	(19)		(19)
Net balance at 30 November 2018	55	99	2 355	2 509	70	2 579

SUPPLEMENTARY INFORMATION

The consolidated financial statements have been prepared in accordance with IAS 34: *Interim Financial Reporting, International Financial Reporting Standards (IFRS)* as issued by the International Accounting Standards Board (IASB), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the requirements of the South African Companies Act and the JSE Listings Requirements. Except for the adoption of the amendments to IAS 7: *Statement of Cash Flows*, IAS 12: *Income Tax* and IFRS 12: *Disclosure of Interest in Other Entities*, the same accounting policies, presentation and measurement principles have been followed in the preparation of this abridged report as were applied in the preparation of the group's annual financial statements for the year ended 30 November 2017. In addition, interest imputed on amounts due to vendors in 2017 has been reclassified from finance costs to adjustment to fair value of amounts due to vendors of businesses acquired. These results have been compiled under the supervision of the financial director, CV Amols, CA (SA). The directors of Hudaco take full responsibility for the preparation of the abridged report and ensuring that the financial information has been correctly extracted from the underlying financial statements.

	30 Nov 2018	30 Nov 2017
Average net operating assets (NOA) (Rm)	3 781	3 411
Operating profit margin (%)	10,3	11,5
Average NOA turn (times)	1,7	1,7
Return on average NOA (%)	17,3	19,8
Average net tangible operating assets (NTOA) (Rm)	2 211	1 970
PBITA margin (%)	10,7	11,9
Average NTOA turn (times)	2,9	3,0
Return on average NTOA (%)	31,0	35,7
Net asset value per share (cents)	7 927	7 252
Return on average equity (%)	16,3	18,7
Operating profit has been determined after taking into account the following charges (Rm)		
– Depreciation	49	46
– Amortisation	30	28
Capital expenditure (Rm)		
– Incurred during the period	56	52
– Authorised but not yet contracted for	76	66
Commitments		
– Operating lease commitments on properties (Rm)	300	301