



# *Hudaco*

## Audited Group Results

For the year ended 30 November 2011



- Introduction to Hudaco
- The Hudaco business model
- Operating segments and recent acquisitions
- Financial statements
- Outlook

## 2011 Highlights

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- Sales up 29% to R3.2bn
- Operating profit up 42% to R426m
- HEPS up 28% to 1024c
- Dividends up 26% to R4.40
- ROE 23.8%, up from 18.9%
- Acquisitions add significantly to earnings
- Strong balance sheet
- Good prospects

Market capitalisation	<b>R 3bn @ R95</b>
Free Float	<b>100%, no control</b>
P:E ratio @ R95	<b>9.3x</b>

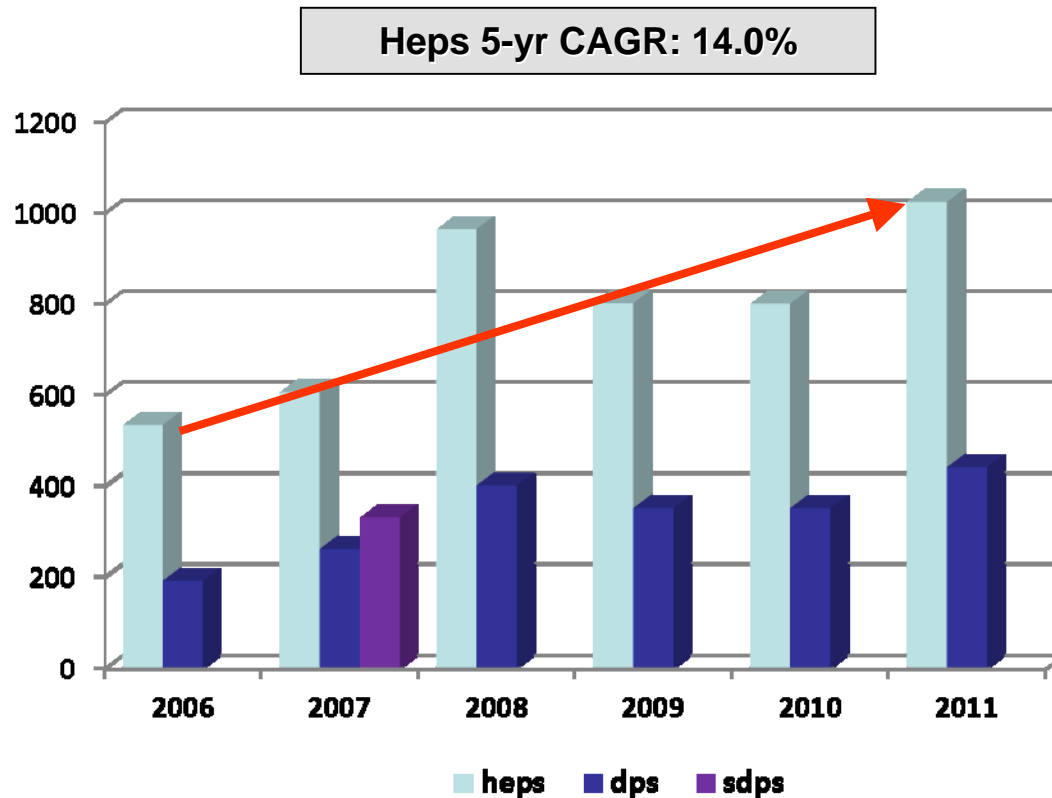
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Dividend yield @ R95	<b>4.6%</b>
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Annual Trade (to Nov)	<b>2008</b>	<b>R 974m</b>
	<b>2009</b>	<b>R 791m</b>
	<b>2010</b>	<b>R 822m</b>
	<b>2011</b>	<b>R 757m</b>

# Value added for shareholders



- 2011 Sunday Times Top 100  
No. 20 over 10 years  
No. 42 over 5 years
- IAS reporting award – market cap under R5bn
- 55<sup>th</sup> in 2011 Financial Mail Top 200
- Cash generative and attractive dividend yield
- Offers organic and acquisitive growth

# Major shareholders/ fund managers

At 25 November 2011

▪ Old Mutual	32%
▪ Foord	11
▪ Nedgroup Investments	9
▪ Investec	7
▪ Govt Employees Pension Fund	7
▪ Abax	7
▪ Sanlam	5
▪ Momentum	4
	<hr/>
	82%
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probably some double counting



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## The Hudaco business model

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## The Hudaco business model

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- Hudaco's business is the importation and distribution of branded industrial consumable products generally used in the repair and maintenance of machines
- The concept of “value added distribution” is core to our business model
- Agency agreements generally restricted to Africa south of the equator



# Features of value added distribution

## **Value add is:**

- Instant availability
- Application advice
- Technical specification
- Training
- Credit provision

## **Technically skilled sales & support staff:**

- in focused business units
- with technical product knowledge
- who build and retain customer and supplier loyalty

## **Inventory R813m in 21 warehouses:**

- 4 to 6 month supplier lead times
- 600 international suppliers
- 225 000 line items

## **Receivables R616m:**

- 20 000 active customers
- low value transactions
- rarely sell on tender or contract
- decentralised credit management
- low concentration of risk

## Progress on strategic objectives

Objective	Progress
More aggressive on acquisitions	4 businesses acquired in last 15 months
Increase exports into Africa	Up 48% in 2011
Increase black representation in management	2 black members on Exco 2 businesses headed by black people 2 new FDs are black women



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## Operating segments and acquisitions

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## Operating segments

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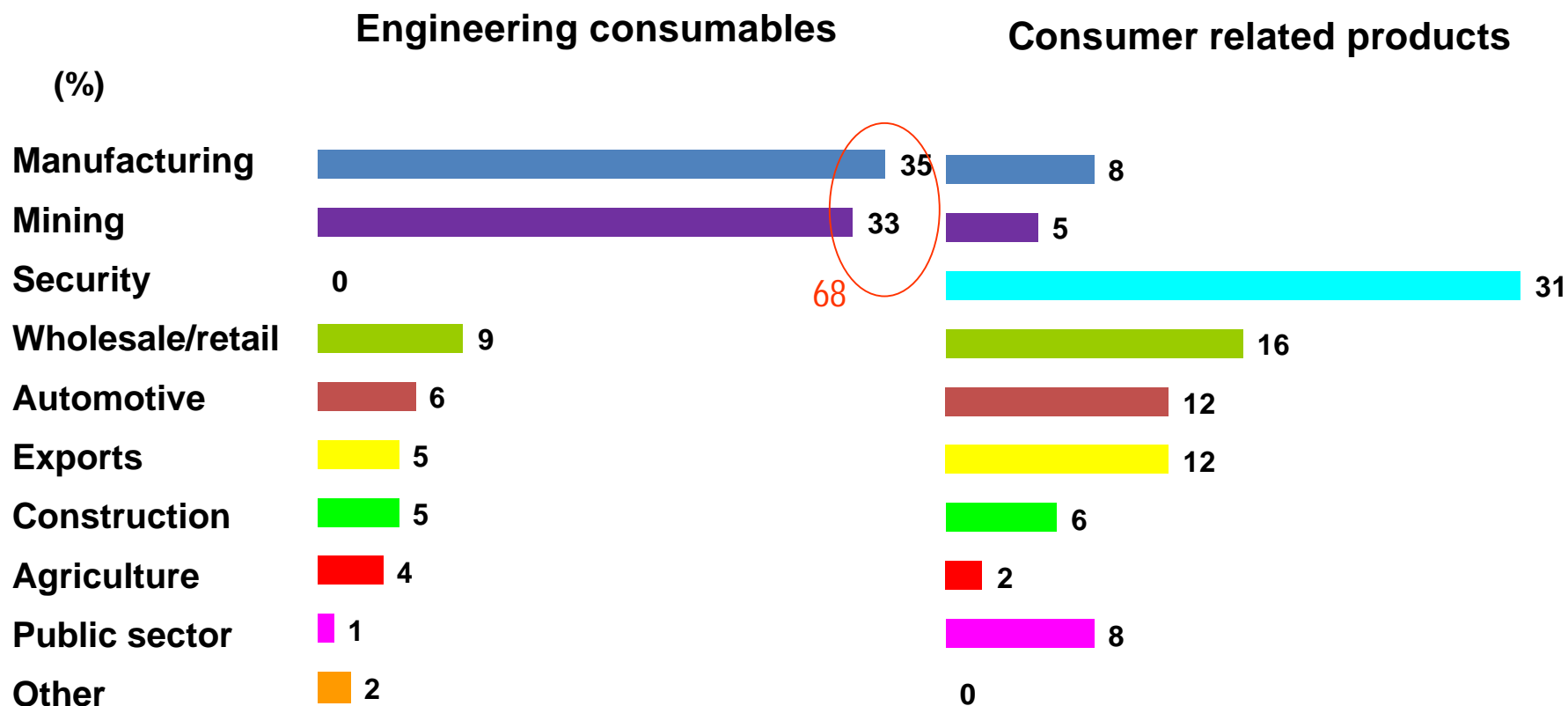
- Largest segment imports and distributes branded **engineering consumables** generally used in the repair and maintenance of machines
- About one third of our business is distribution of **consumer related products** generally sold to installers

## Operating segments

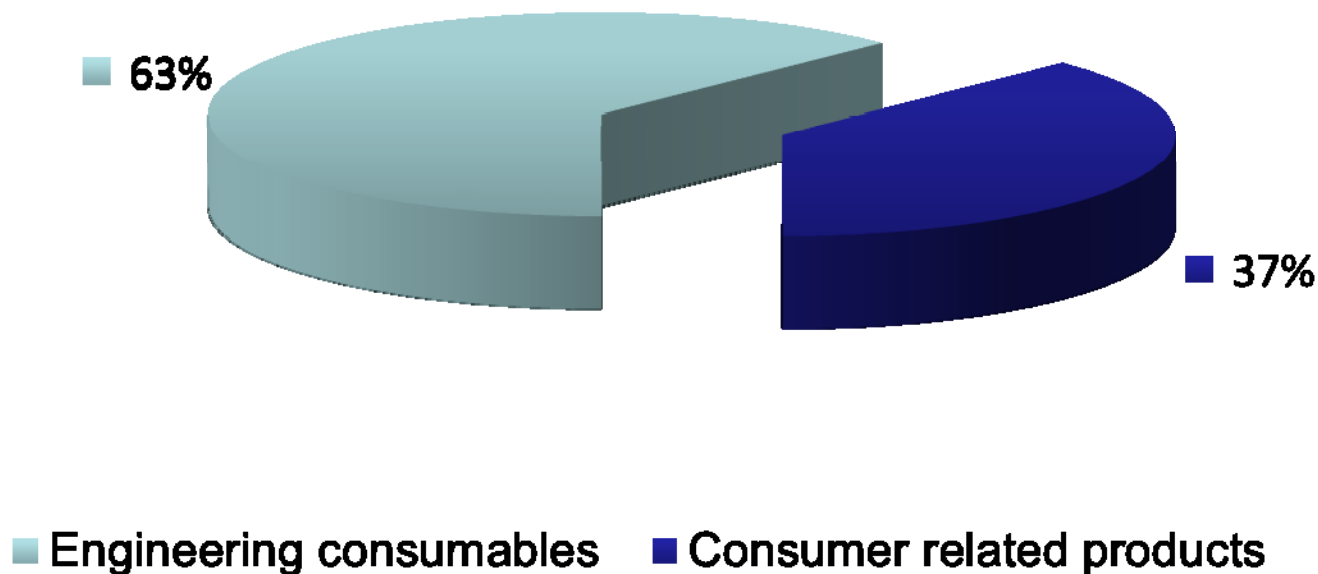
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- Engineering consumables
  - Bearings
  - Power transmission products
  - Diesel engines and spares
  
- Consumer related products
  - Power tools
  - Security equipment
  - Professional communication equipment
  - Automotive aftermarket products

# 2011 segment sales by market sector



## Contribution to 2011 operating profit (before shared services and head office)



## Principal Businesses



## Principal Brands



## Used for:

- Repairs
- Maintenance
- Expansion
- Resale
- New capex
- Underground equipment
- Gen sets

## Competitors:

- BMG
- SKF
- Altron
- Siemens
- Hytec
- Zest
- Caterpillar
- Cummins

## Main markets:

- Manufacturing
- Mining

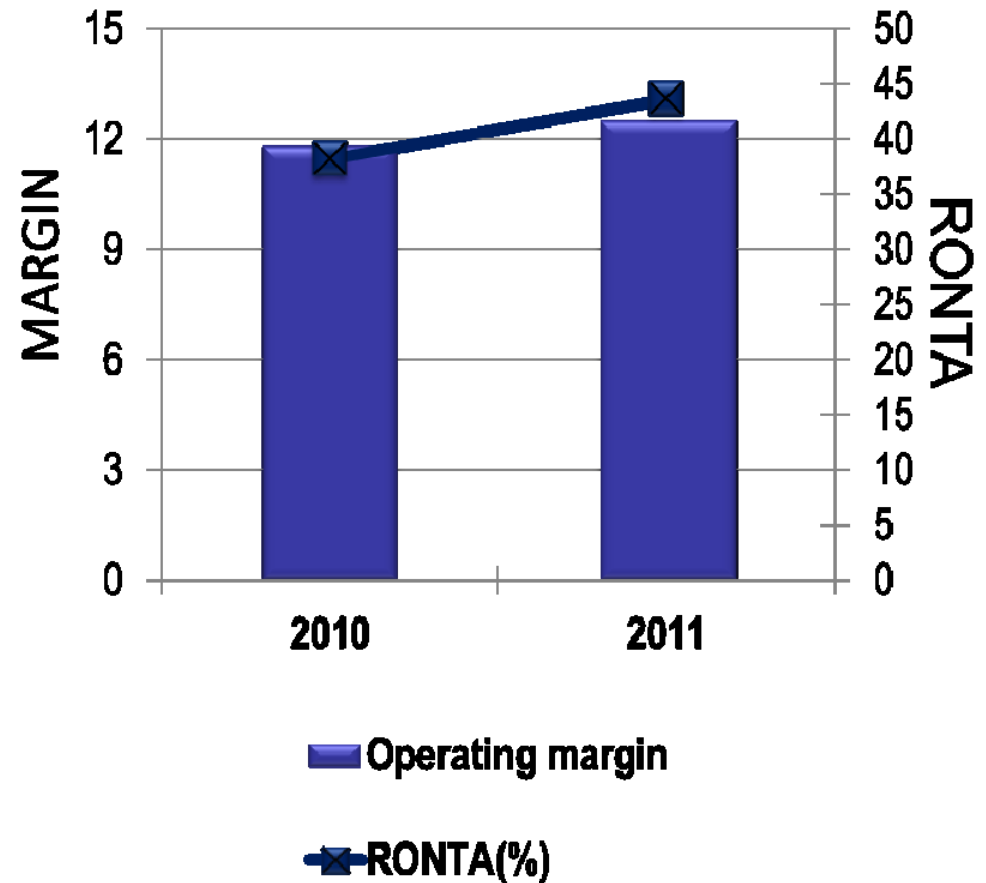


## Big customers:

- Sandvik
- Toyota
- Eskom
- Eqstra
- Impala Platinum
- Exxaro
- Fermel
- Cash sales



- BI and Bosworth both had strong H2
- Sales to neighbouring countries strong
- FHS and DDP performed particularly well



# Consumer related products

## Principal Businesses



## Principal Brands



## Used for:

- Woodworking
- Grinding
- Renovations
- Boating
- Intruder detection
- Access control
- Video monitoring
- Communication

## Competitors:

- Bosch
- Hitachi
- Metabo
- Yamaha
- ADI
- Inhep
- Texacom
- Luk
- Motorola

## Main markets:

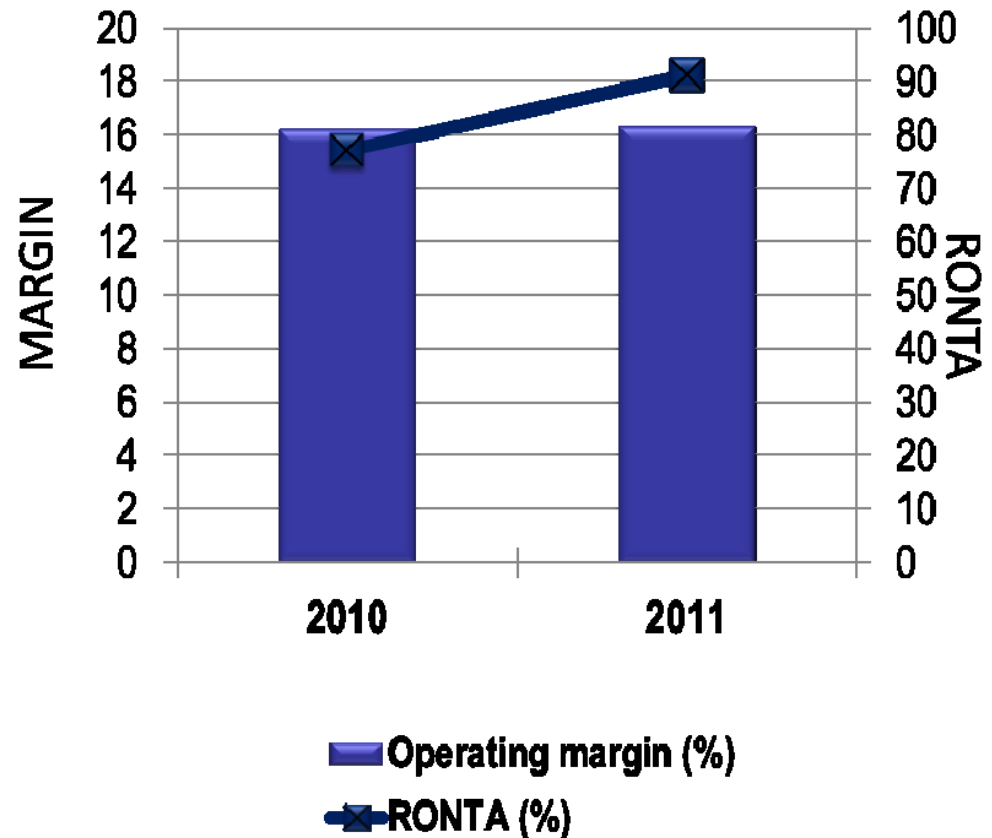
- Building finishing
- Building additions
- Leisure
- Residential and commercial security
- Armed response providers
- Automotive aftermarket
- Military and police



## Big customers:

- Massbuild
- Makro
- Iliad
- ADT
- Alert
- Armcor
- Midas
- SAPS

- Industrial power tool sales up strongly
- Analogue to digital migration drives profits at Global
- Sales of security products still muted
- Automotive aftermarket showing signs of life



# 2011 acquisitions

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## Global Communications

- Distributor of professional mobile radio communication equipment and radio systems integrator
- Brands: Kenwood, JVC



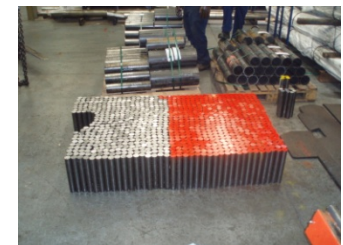
## Pentagon

- Distribution of electronic security products, specialising in video IP
- Brands: Bosch, Arecont, Dell



## Midrand Special Steels

- Distribution of special round and hexagonal steel



# Segment results – Engineering consumables

	Rm	Turnover			Op Margin(%)		Operating Profit		
		2011	% ch	2010	2011	2010	2011	% ch	2010
Ongoing operations		1 852	10%	1 685	11.3%	11.4%	210	9%	192
New businesses		335		65	19.1%	21.5%	64		14
Segment total		2 187	25%	1 750	12.5%	11.8%	274	33%	206

# Segment results – Consumer related products

	Rm	Turnover			Op Margin(%)		Operating Profit		
		2011	% ch	2010	2011	2010	2011	% ch	2010
Ongoing operations		760	6%	716	15.9%	16.3%	121	3%	117
New businesses		246			17.1%		42		
Segment total		1 006	41%	716	15%	16.3%	163	39%	117

# Segment results 2011

	Rm	Turnover			Op Margin(%)		Operating Profit		
		2011	% ch	2010	2011	2010	2011	% ch	2010
Engineering consumables		2 187	25%	1 750	12.5%	11.8%	274	33%	206
Consumer related products		1 006	41%	716	16.2%	16.3%	163	39%	117
Head office, shared services & eliminations		-11		-8			-11		-23
Total Group		3 182	29%	2 458	13.4%	12.2%	426	42%	300

# Results highlights

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- Weak H1 but stronger H2
- HEPS up 12% without acquisitions
- 2 under performers in H1 recovered well in H2
- Acquisitions add R1.28 to HEPS in 2011
- Positive impact of weaker rand felt from November 2011
- Operating profit to sales – 13.4%
- RONTA – 46%
- Cash on hand – R169m (after spending R164m on acquisitions)





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**Financial statements:**

**Income, financial position  
and cash flow**

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# Profit for the year

	<i>Rm</i>	2011	% Ch	2010
<b>Turnover</b>		<b>3 182</b>	29	<b>2 458</b>
- Ongoing operations		2 601	9	2 393
- New businesses		581		65
<b>Gross profit</b>		<b>1 272</b>	28	<b>994</b>
<b>Operating expenses</b>		<b>846</b>	22	<b>694</b>
<b>Operating profit</b>		<b>426</b>	42	<b>300</b>
- Ongoing operations		320	12	286
- New businesses		106		14

<b>Margin (%)</b>			
<b>Turnover</b>	<b>100.0</b>		<b>100.0</b>
<b>Gross profit</b>	<b>40.0</b>		<b>40.4</b>
<b>Operating expenses</b>	<b>26.6</b>		<b>28.2</b>
<b>Operating profit</b>	<b>13.4</b>		<b>12.2</b>

# Profit for the year

<i>Rm</i>	2011	% Ch	2010
<b>Operating profit</b>	<b>426</b>	42	<b>300</b>
Impairment of goodwill & intangibles			<b>(22)</b>
Net interest on working capital	<b>4</b>		<b>17</b>
Interest paid to vendors (imputed)	<b>(14)</b>		<b>(2)</b>
Interest paid on sub. debentures	<b>(233)</b>		<b>(233)</b>
Preference dividend received	<b>201</b>		<b>201</b>
<b>Profit before taxation</b>	<b>384</b>	47	<b>261</b>
Taxation (Rate 2011:12% 2010:9%)	<b>(46)</b>		<b>(24)</b>
<b>Profit after taxation</b>	<b>338</b>	43	<b>237</b>
Non-controlling interest	<b>13</b>		<b>3</b>
<b>Attributable and headline earnings</b>	<b>325</b>	39	<b>234</b>

# Earnings per share and dividends

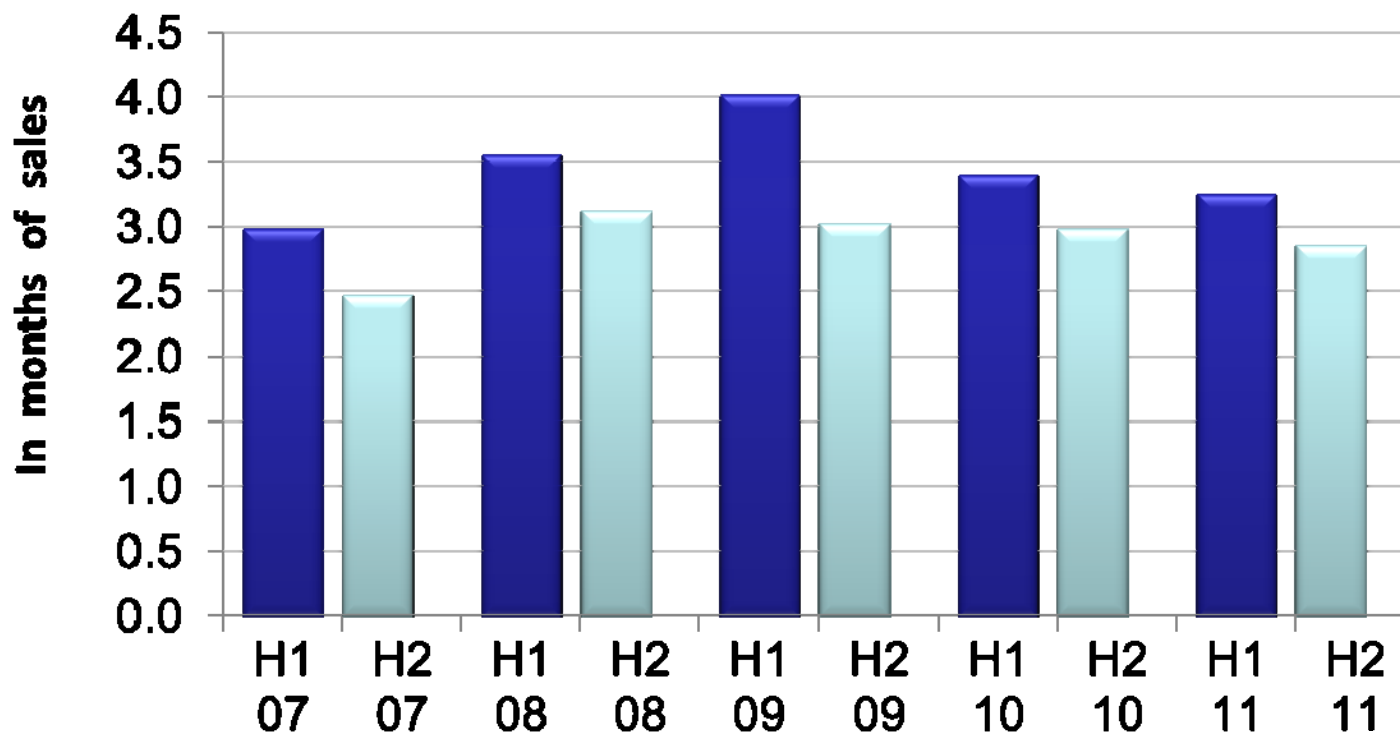
	2011	% Ch	2010
<b>Earnings per share</b>			
Basic eps	1 026c	38	745c
Headline earnings per share	1 024c	28	800c
<b>Dividends per share</b>			
Interim	130c		115c
Final	310c		235c
<b>Total</b>	<b>440c</b>	26	<b>350c</b>

**Dividend policy: annual dividends = approximately 40% of HEPS**

# Statement of financial position

<i>Rm</i>	Nov 11	Oper	Div	Acq	Nov 10
<b>Working capital</b>	<b>841</b>	127		48	<b>666</b>
Property plant equipment	<b>182</b>	41		10	<b>131</b>
Goodwill and intangibles	<b>565</b>	-11		211	<b>365</b>
Tax	<b>3</b>	-1		-13	<b>17</b>
<b>Net operating assets</b>	<b>1 591</b>	156		256	<b>1 179</b>
Cash	<b>169</b>	180	-125	-148	<b>262</b>
Investment in pref shares	<b>2 181</b>				<b>2 181</b>
<b>Net assets</b>	<b>3 941</b>	336	-125	108	<b>3 622</b>
Equity	<b>1 525</b>	336	-125		<b>1 314</b>
Subordinated debenture	<b>2 181</b>				<b>2 181</b>
Due to vendors	<b>235</b>			108	<b>127</b>
<b>Total capital employed</b>	<b>3 941</b>	336	-125	108	<b>3 622</b>

## Working capital – at normal levels

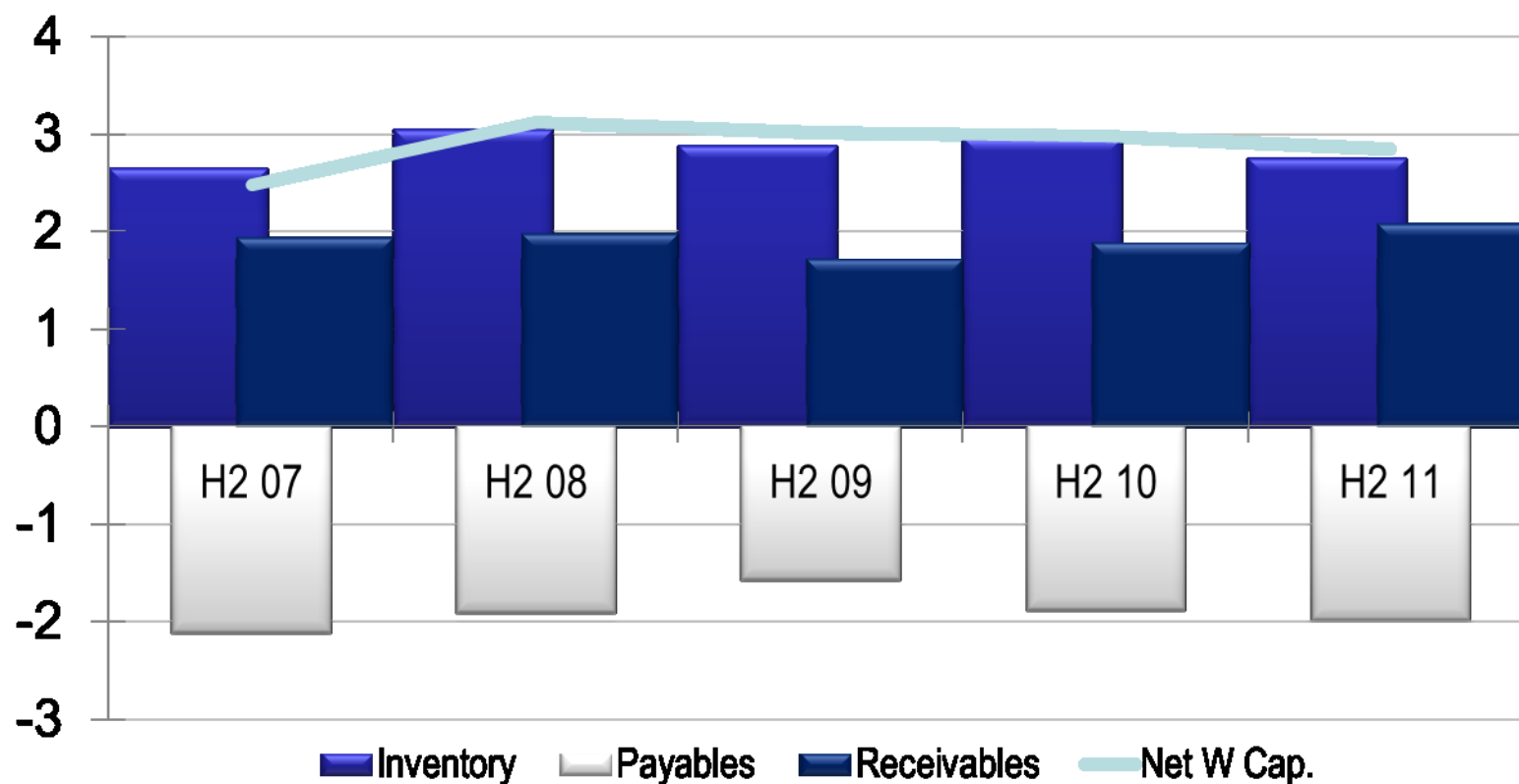


One month of sales: H2 2011 = R 296m; H2 2010 = R 224m

(assumes all acquisitions in for full 6 months)

- Working capital traditionally peaks end of H1 to cope with anticipated increased seasonal demand in H2 - sales are generally split 45:55 between H1 and H2 (2011 45:55)
- Target working capital at end H2 - range of 2.4 to 2.7 months of sales

## Working capital – elements in months sales

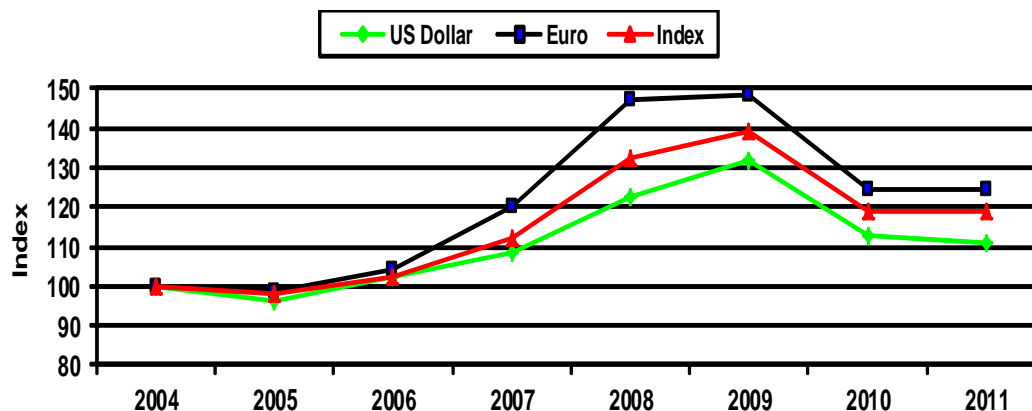


One month of sales in  
H2 '11= R296m      H2 '10= R224m

- Debt comfort levels:
  - 50% of equity
  - Net interest 5 times covered
- Capacity R500m – without issuing shares
- Cash of R169m
- Generate R100m -R150m cash per annum
- Earn-out payments over 3 years – R262m
- Acquisition pipeline includes some interesting prospects



# Exchange rate environment



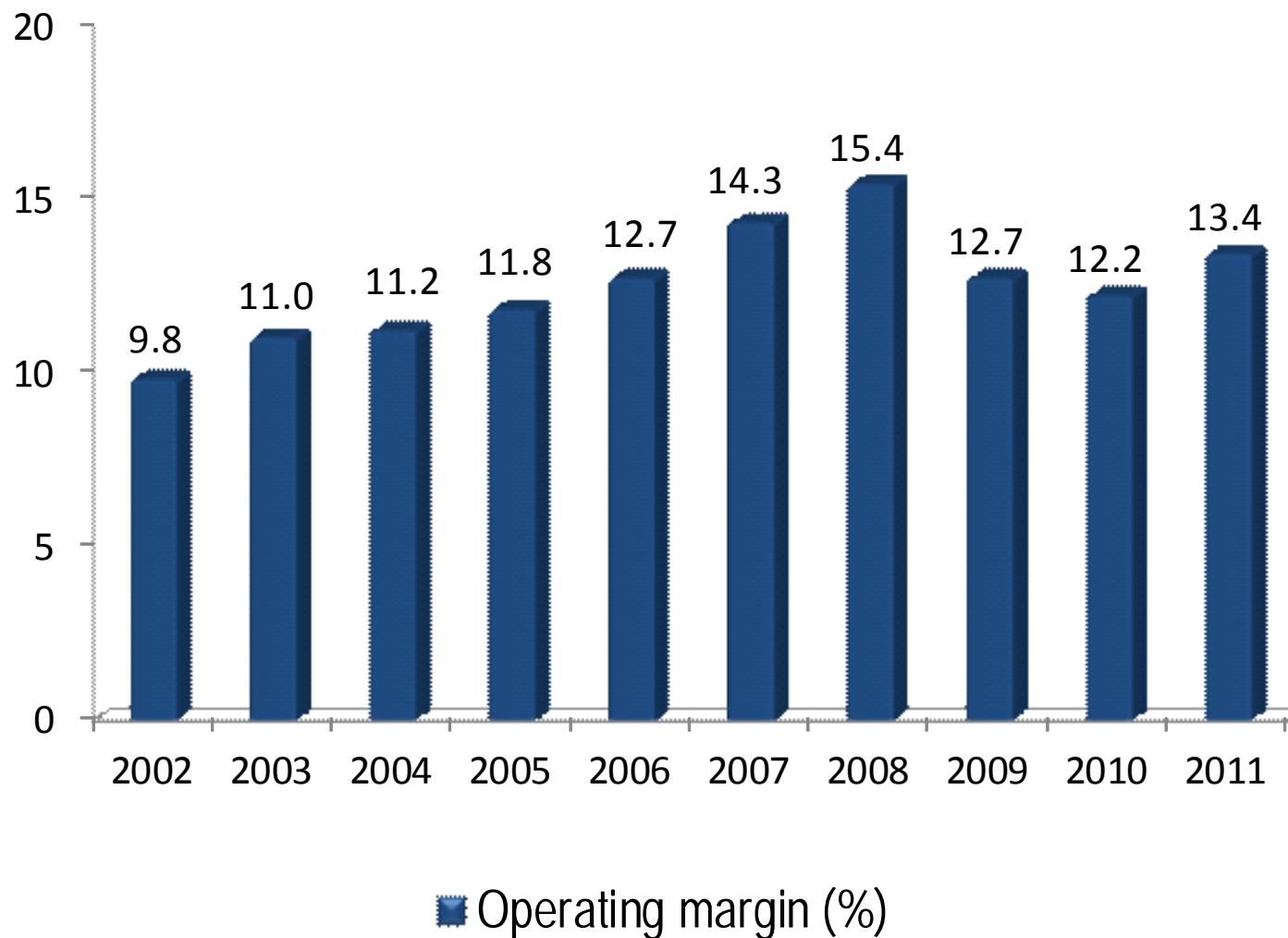
- Import currencies: USD\* 36% Euro 45% Yen 14% GBP 5%

\* Imports from China, Korea etc are priced in USD

- We import directly 75% of group cost of sales (as do our competitors)
- On average these cost 8% more in H2 2011 than H1 2011
- We do not take a house view on exchange rates
- We hedge all liabilities and 20 - 30% of orders
- Demand not price sensitive in short term.

Ave rate	2004	2005	2006	2007	2008	2009	2010	2011		
								H1	H2	Year
USD (35%)	6.5	6.3	6.7	7.1	8.0	8.6	7.4	6.9	7.4	7.2
Euro (45%)	8.0	7.9	8.4	9.6	11.8	11.9	9.9	9.6	10.3	9.9
Index (100%)	84	82	86	94	112	118	100	96	104	100

## 10 year operating margin performance



- Earnings are strong
- Working capital in line
- Healthy financial position
- Cash has been deployed successfully into new businesses
- Capacity remains for more acquisitions
- Rand weakness positive for Hudaco in 2012
  - earnings to increase
  - inventory to increase
- Taxation of preference dividends
  - complex issue
  - various options under consideration
  - impact likely to be small



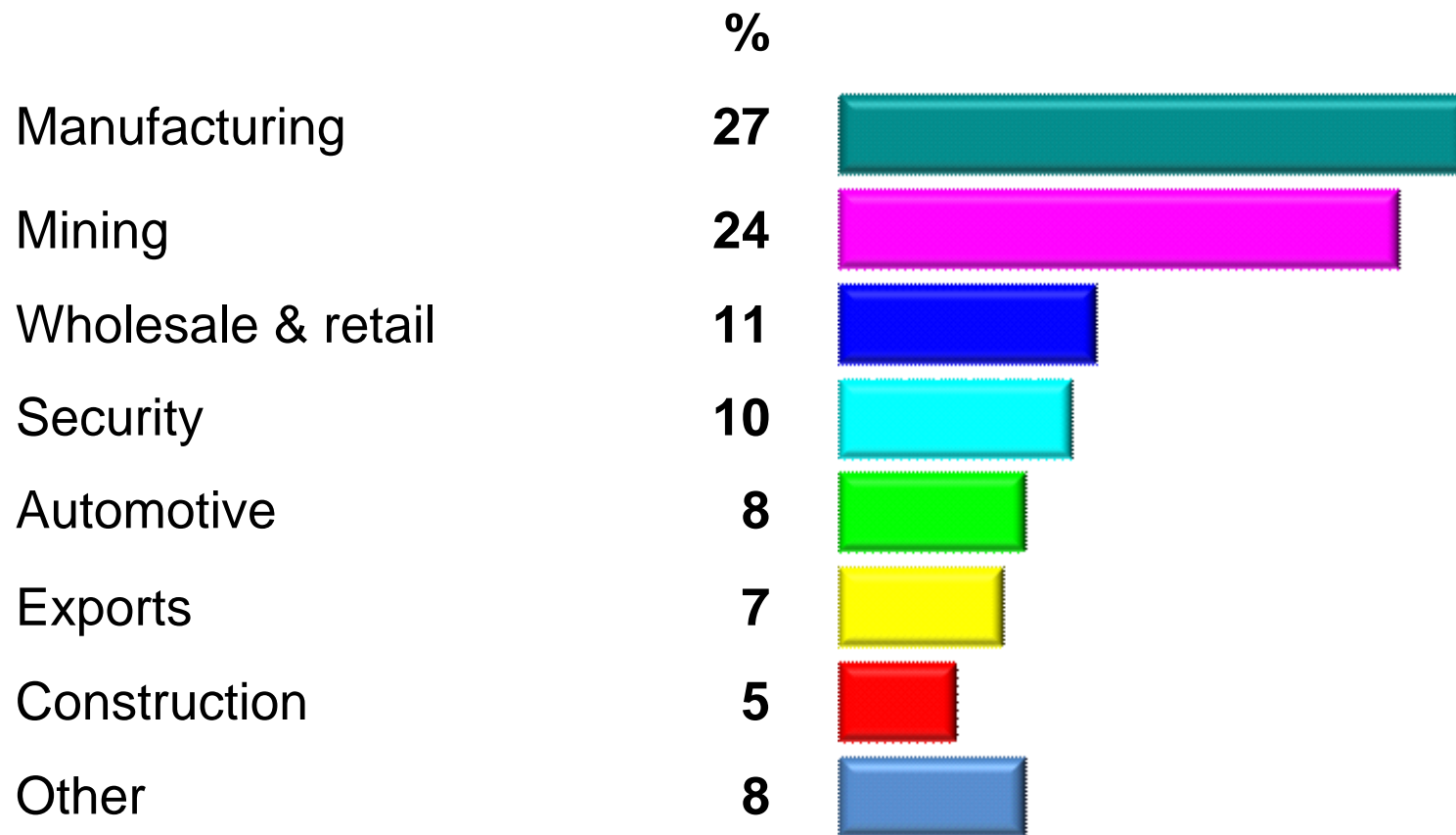
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## Outlook

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## 2011 sales by market sector



## Outlook - reminders

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- Hudaco sales are predominantly driven by GDP activity
- GDFI adds capacity for future GDP activity
- Rand exchange rate has a big impact on pricing
- Hudaco has immediate balance sheet investment capacity of about R500m

## Engineering consumables

- Shortage of electricity and rail capacity in South Africa still constrains expansion (nationalisation threats don't help either)
- Mining investment in neighbouring countries picking up in response to more friendly investment environment
- Manufacturing activity follows mining activity, particularly in the space in which Hudaco plays
- Construction activity to remain muted but power station building and resumption of public works programme point to a better 2012

## **Consumer related products**

- Market for industrial power tool market remains strong – Makita gaining market share
- Analogue to digital migration gathering pace
- Automotive parts aftermarket responding to recent rise in consumer spending
- Security equipment market to remain muted awaiting an increase in employment levels and spending on new (and upgrades to) houses & light industrial buildings



- Rand weakness typically leads to increased activity in mining and manufacturing markets
- Mining and manufacturing project work to pick up in anticipation of power and rail capacity improving
- Outlook in neighbouring countries currently more positive
- Sales of power tools and digital communication equipment to continue to grow

## Business outlook for 2012

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- Volume sales up
- Prices up
- Margins up
- Earnings up

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