



Hudaco

Audited Group Results

For the year ended 30 November 2012

Agenda

Introduction to Hudaco

Results summary

Business model

Operating segments and acquisitions update

Financial review and tax status of BEE structure

Outlook

The 2012 financial year

- Trading conditions were good in H1 but slowed in H2
- Mining strikes had a significant impact
- Volatile exchange rates made pricing difficult
- Global political and economic landscape keeps prospects uncertain but increasingly there are positive signs
- SARS is challenging the BEE structure



Introduction to Hudaco

Results summary

Turnover	↑	10% to R 3.5bn
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Operating profit	↑	3% to R 437m
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Headline earnings	↑	5% to R 339m
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HEPS	↑	5% to 1071 cps
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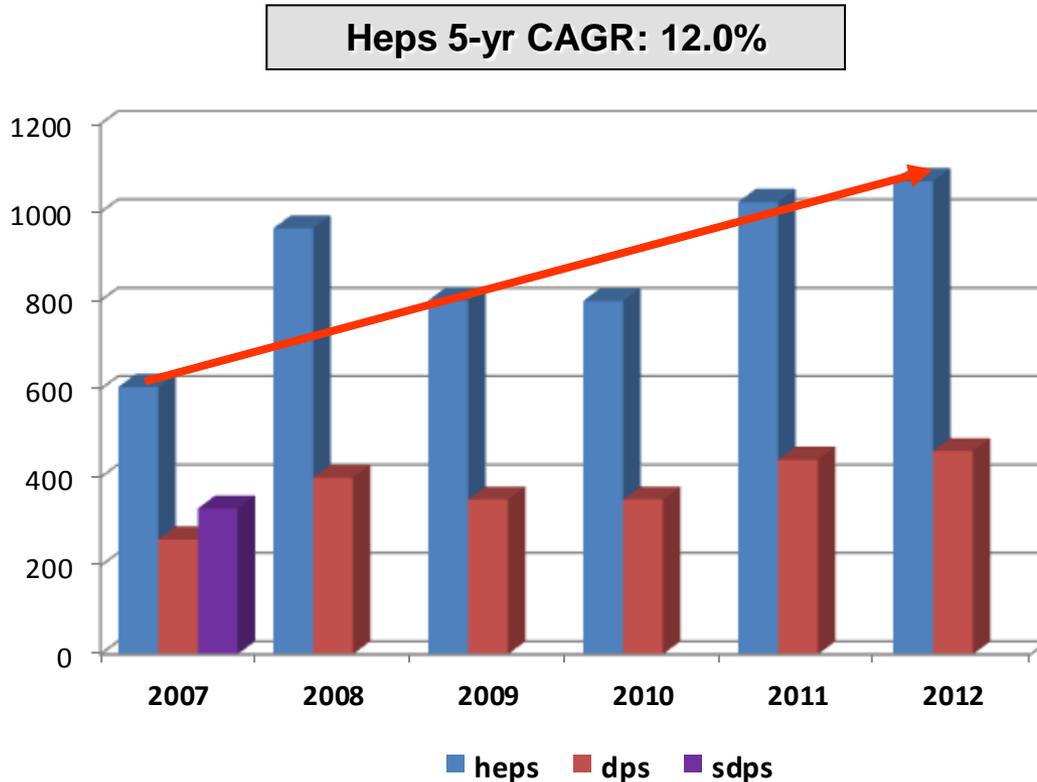
Dividends per share	↑	6% to 465 cps
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Net cash	↓	borrowings R17m
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Market information

Market capitalisation	R 3.6bn @ R116
Free Float	100%, no control
P:E ratio @ R116	10.8x
Dividend yield @ R116	4.0%
Annual Trade (to Nov)	2009 R 791m
	2010 R 822m
	2011 R 757m
	2012 R 1 062m

Value added for shareholders



- 2012 Sunday Times Top 100
 - No. 38 over 10 years
 - No. 58 over 5 years
- 2012 IAS reporting award – General Industry
- 2012 Chartered Secretaries merit award
- Cash generative and attractive dividend yield
- Offers organic and acquisitive growth

Major shareholders/fund managers

At 30 November 2012

▪ Old Mutual	21%
▪ Foord	15%
▪ Govt Employees Pension Fund	8%
▪ Investec	6%
▪ Nedgroup Investments	5%
▪ Abax	4%
▪ Sanlam	<u>4%</u>
	63%

Possibly some double counting



The Hudaco business model

The Hudaco business model

- 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 our activities 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 R919m in 24 warehouses:

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

Receivables R684m:

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



Operating segments and acquisitions update

Operating segments

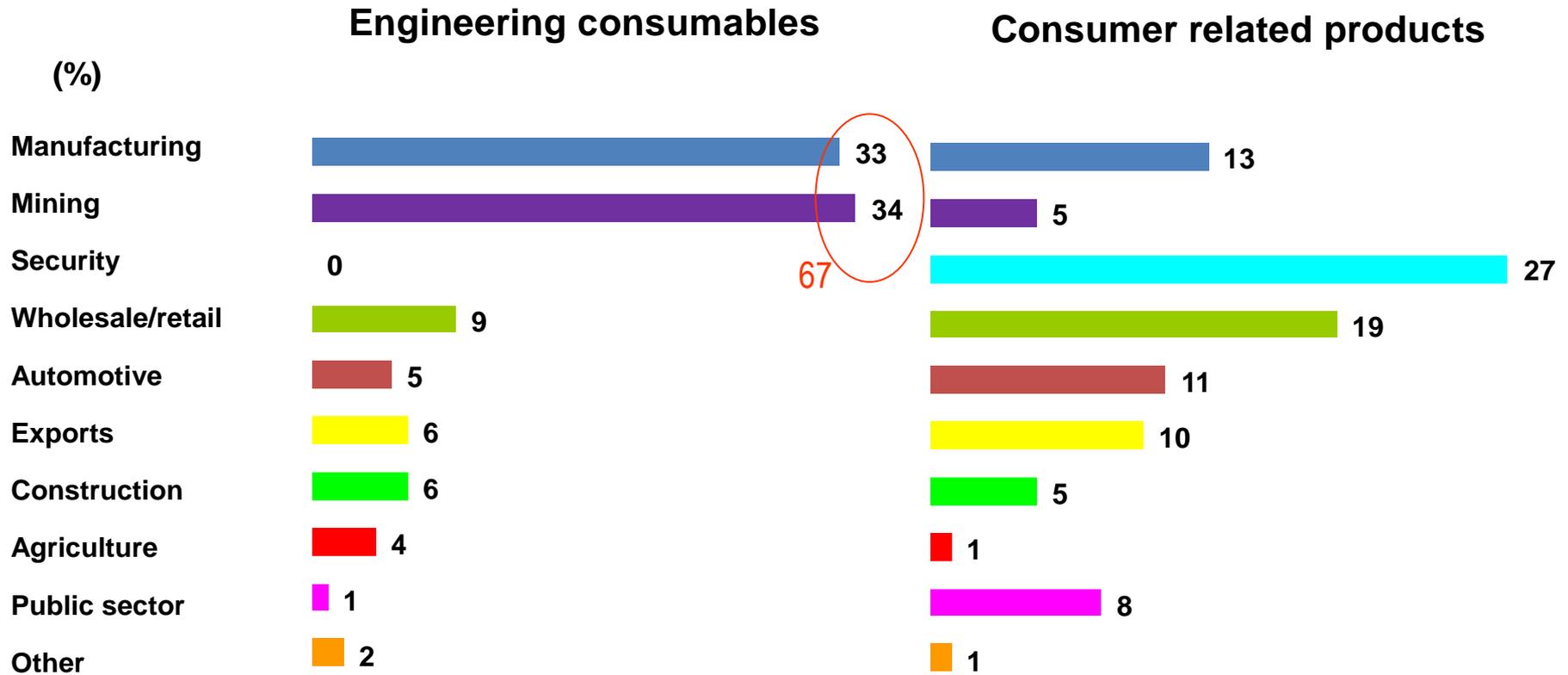
- Largest segment imports and distributes branded **engineering consumables** generally used in the repair and maintenance of machines
- About one third of our business is distribution of **consumer related products** generally sold to installers

Operating segments

- Engineering consumables
 - Bearings
 - Power transmission products
 - Diesel engines and spares

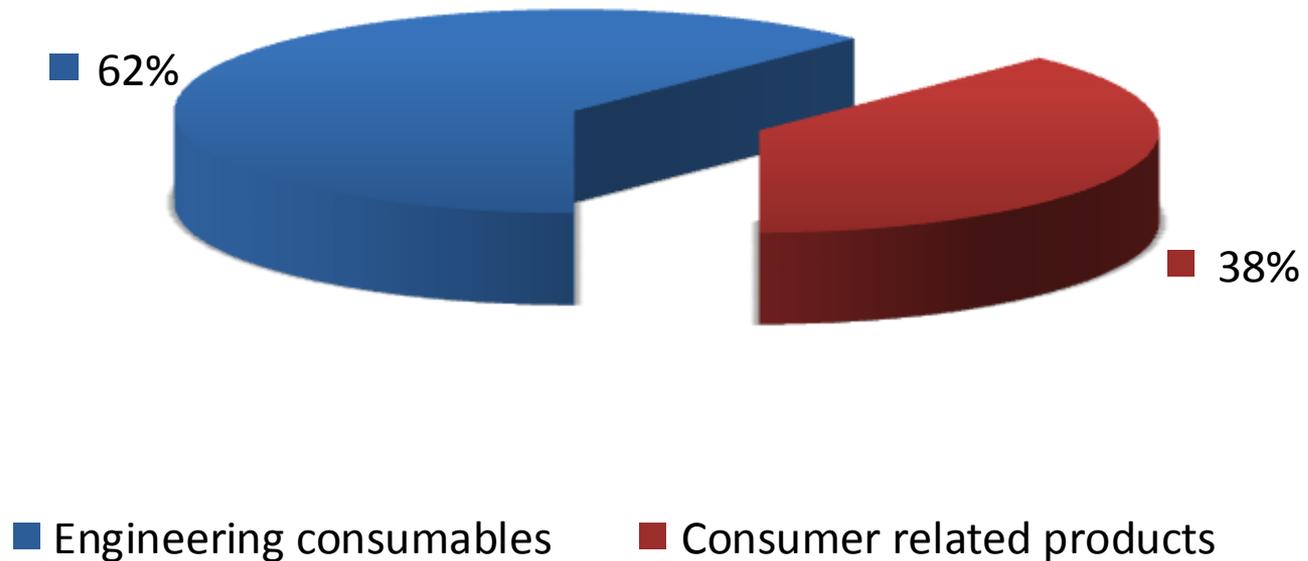
- Consumer related products
 - Power tools
 - Security equipment
 - Professional communication equipment
 - Automotive aftermarket products

2012 segment sales by market sector



Segment contributions

Contribution to 2012 operating profit (before shared services and head office)



Engineering consumables

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

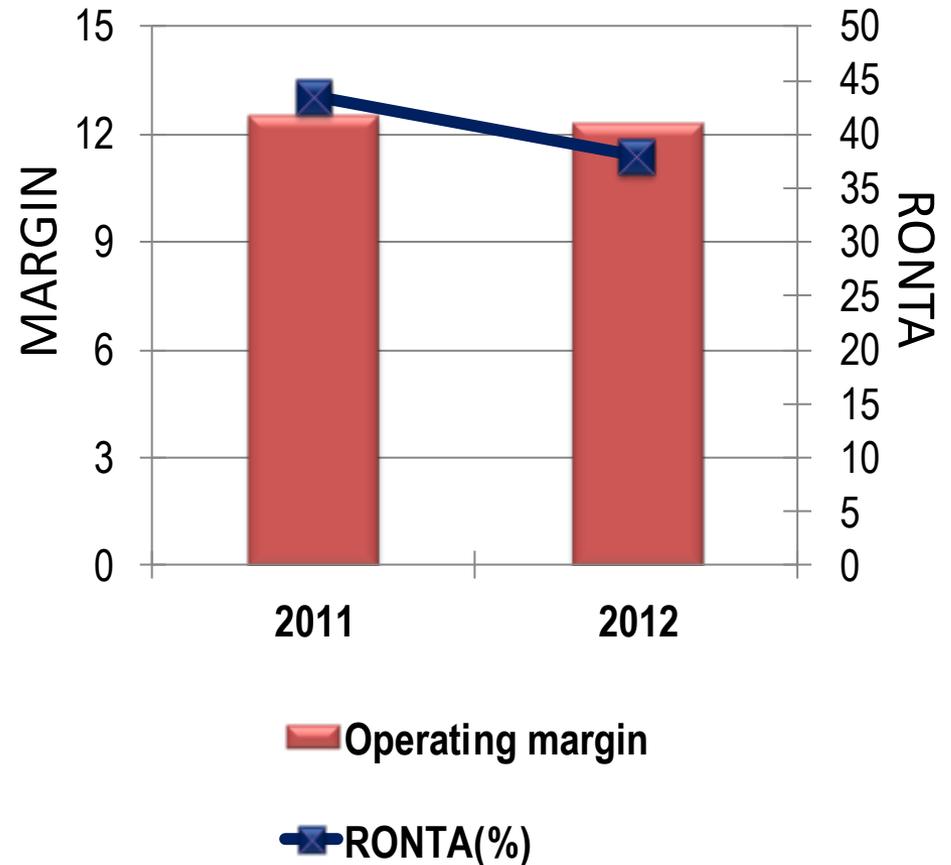


Big customers:

- Sandvik
- Toyota
- Sasol
- Eqstra group
- Impala Platinum
- Exxaro
- VME Engineering
- Cash sales

Engineering consumables

- Impact of mining strike, especially at DDP
- Performance restored at Bearings International but Bosworth disappointed
- FHS performed well
- Sales to neighbouring countries strong



Consumer related products

Principal Businesses	Principal Brands
     	     
	     

Used for:

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

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
- SANDF
- Midas
- SAPS

Consumer related products

- Industrial power tool sales up but growth is slowing
- Analogue to digital migration drives profits at Global
- Sales of security products still muted
- Automotive aftermarket steady



2012 acquisitions

Deltec

- Distributor of maintenance free batteries
- Brands: Varta, US Battery



Keymak

- Manufacturer of PVC hose
- Brand: Keymak



Proof Engineering

- Manufacturer of flameproof connectors and lighting
- Brands: Proof, Azolite



Segment results – Engineering consumables

	Rm	Turnover			Op Margin		Operating Profit		
		2012	% ch	2011	2012	2011	2012	% ch	2011
Ongoing operations		2 157	2	2 112	12.3%	12.6%	266		267
New businesses		123		75	11.4%	9%	14		7
Segment total		2 280	4	2 187	12.3%	12.5%	280	2	274

Segment results – Consumer related products

	Rm	Turnover			Op Margin		Operating Profit		
		2012	% ch	2011	2012	2011	2012	% ch	2011
Ongoing operations		835	10	759	14.3%	15.9%	119	-2	121
New businesses		388		247	12.9%	17%	50		42
Segment total		1 223	22	1 006	13.8%	16.2%	169	4	163

Segment results 2012

	Turnover			Op Margin		Operating Profit			
	Rm	2012	% ch	2011	2012	2011	2012	% ch	2011
Engineering consumables		2 280	4	2 187	12.3%	12.5%	280	2	274
Consumer related products		1 223	22	1 006	13.8%	16.2%	169	4	163
Head office, shared services & eliminations		-11		-11			-12		-11
Total Group		3 492	10	3 182	12.5%	13.4%	437	3	426



Financial review

Profit for the year

	Rm	2012	% Ch	2011
Turnover		3 492	10	3 182
- Ongoing operations		2 981	4	2 860
- New businesses		511		322
Gross profit		1 355	7	1 272
Operating expenses		918	9	846
Operating profit		437	3	426
- Ongoing operations		373		377
- New businesses		64		49

Margin (%)				
Turnover		100.0		100.0
Gross profit		38.8		40.0
Operating expenses		26.3		26.6
Operating profit		12.5		13.4

Profit for the year

	Rm	2012	% Ch	2011
Operating profit		437	3	426
Fair value adj to amounts due to vendors and reversal of impairment		9		
Net interest on working capital		(5)		4
Interest paid to vendors (imputed)		(11)		(14)
Interest paid on sub. debentures		(234)		(233)
Preference dividend received		202		201
Profit before taxation		398	4	384
Taxation (Rate 2012:12% 2011:12%)		(47)		(46)
Profit after taxation		351	4	338
Non-controlling interest		11		13
Attributable earnings		340	5	325

Earnings per share and dividends

	2012	% Ch	2011
Earnings per share			
Basic eps	1 074c	5	1 026c
Headline earnings per share	1 071c	5	1 024c

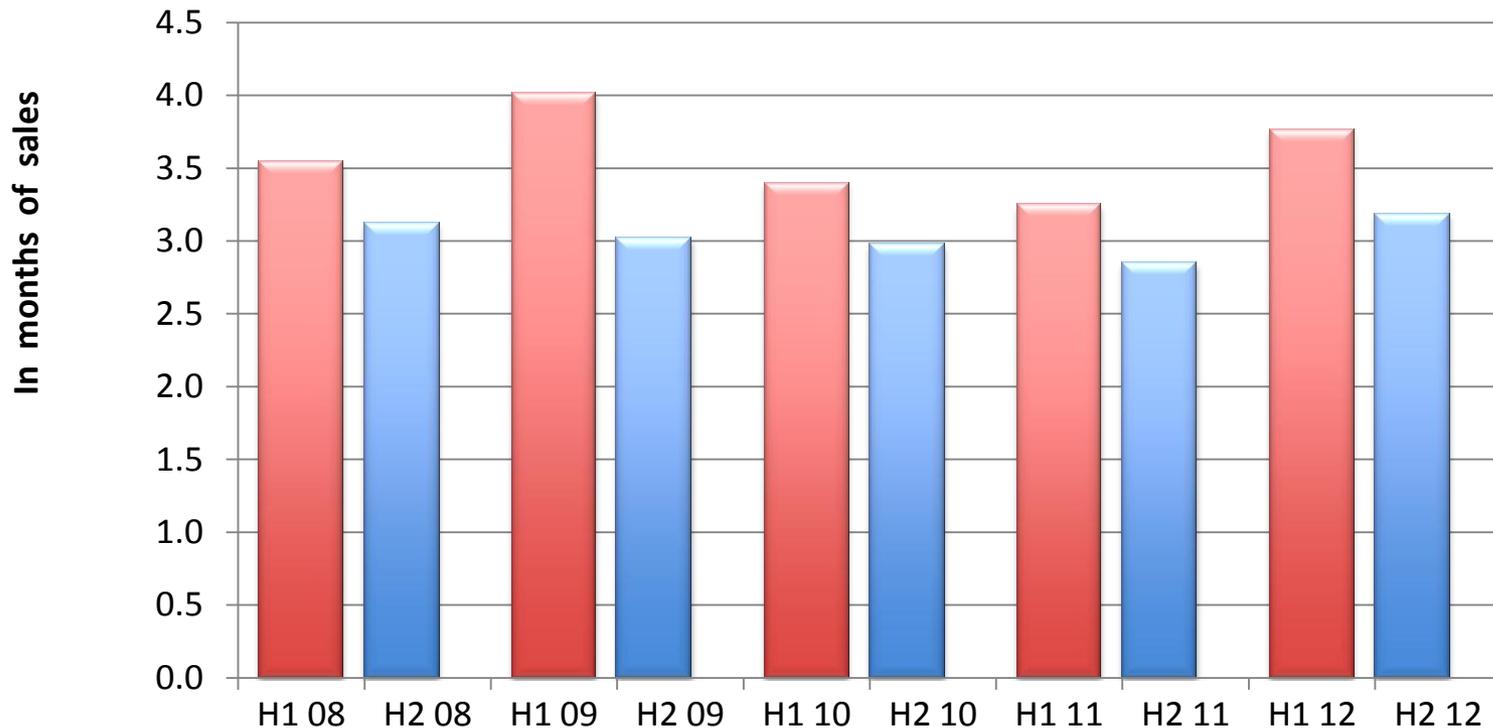
Dividends per share			
Interim	155c		130c
Final	310c		310c
Total	465c	6	440c

Dividend policy: annual dividends = approximately 40% of HEPS

Statement of financial position

<i>Rm</i>	Nov 12	Oper	Div	Acq	Nov 11
Working capital	1 011	124		46	841
Property plant equipment	205	15		8	182
Goodwill and intangibles	643	-15		93	565
Tax	5	8		-6	3
Net operating assets	1864	132		141	1 591
Net borrowings	(17)	81	-163	-104	169
Investment in pref shares	2 181				2 181
Net assets	4 028	213	-163	37	3 941
Equity	1 696	334	-163		1 525
Subordinated debenture	2 181				2 181
Due to vendors	151	-121		37	235
Total capital employed	4 028	213	-163	37	3 941

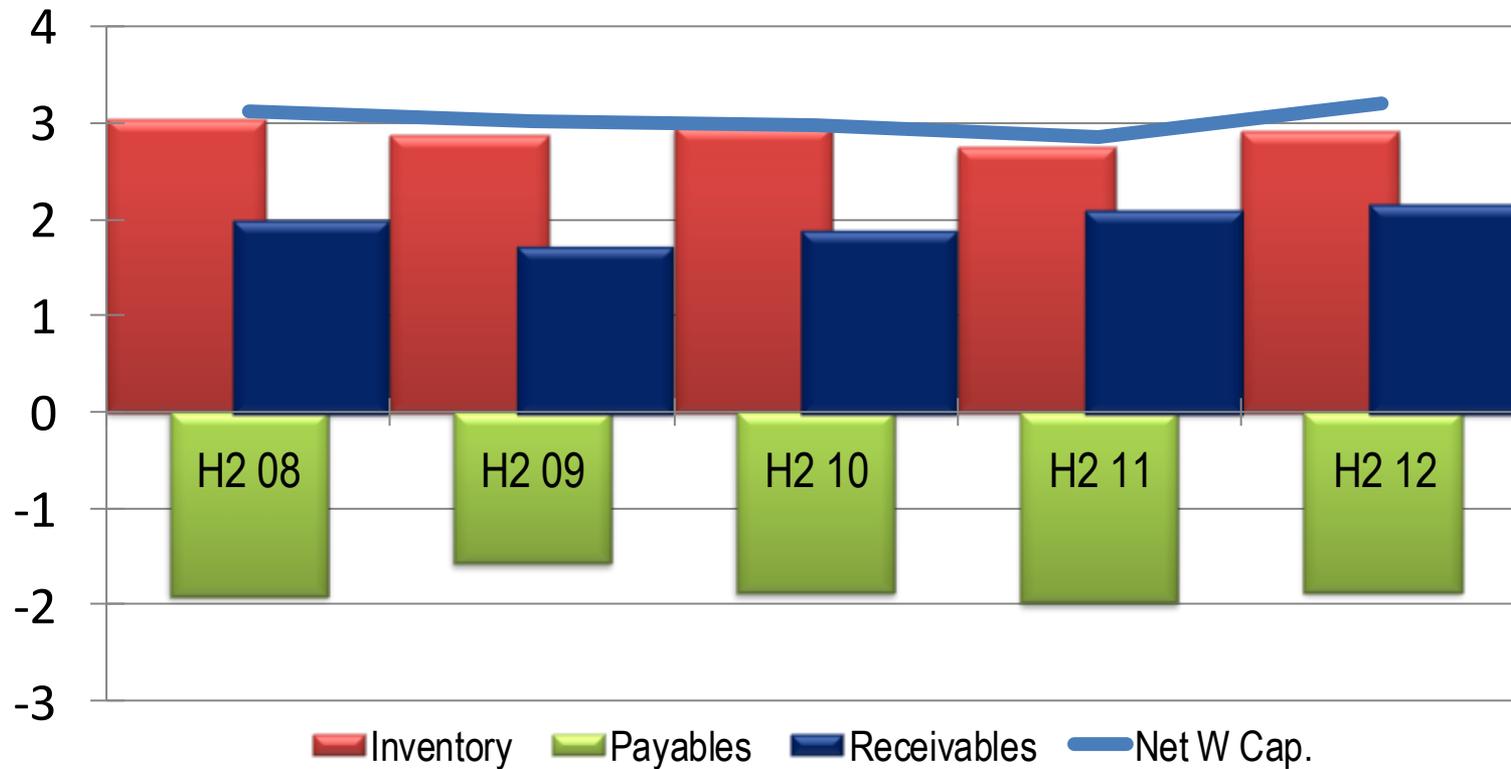
Working capital – a little high



One month of sales: H2 2012 = R 316m; H2 2011 = R 296m

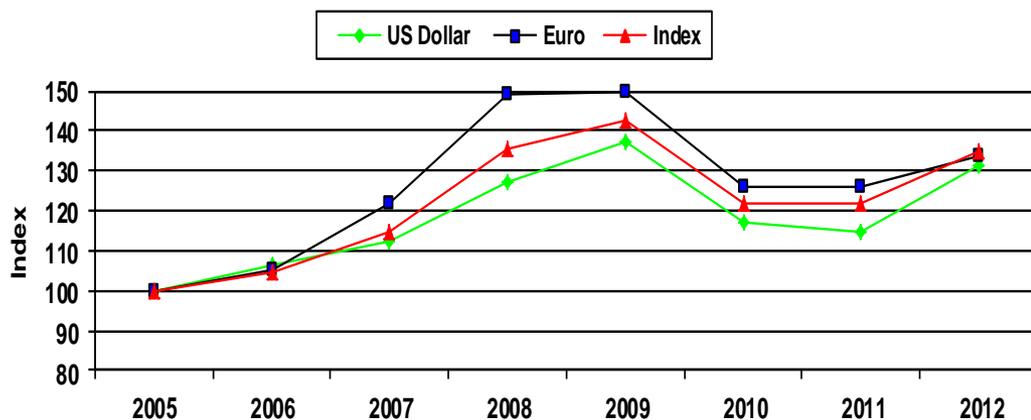
- Working capital traditionally peaks end of H1 to cope with anticipated increased seasonal demand in H2 - sales are generally split 45:55 between H1 and H2 (2012 47:53 if acquisitions in for full year)
- Target working capital at end H2 - range of 2.4 to 2.7 months of sales

Working capital – elements in months sales



One month of sales in
H2 '12= R316m H2 '11= R296m

Exchange rate environment



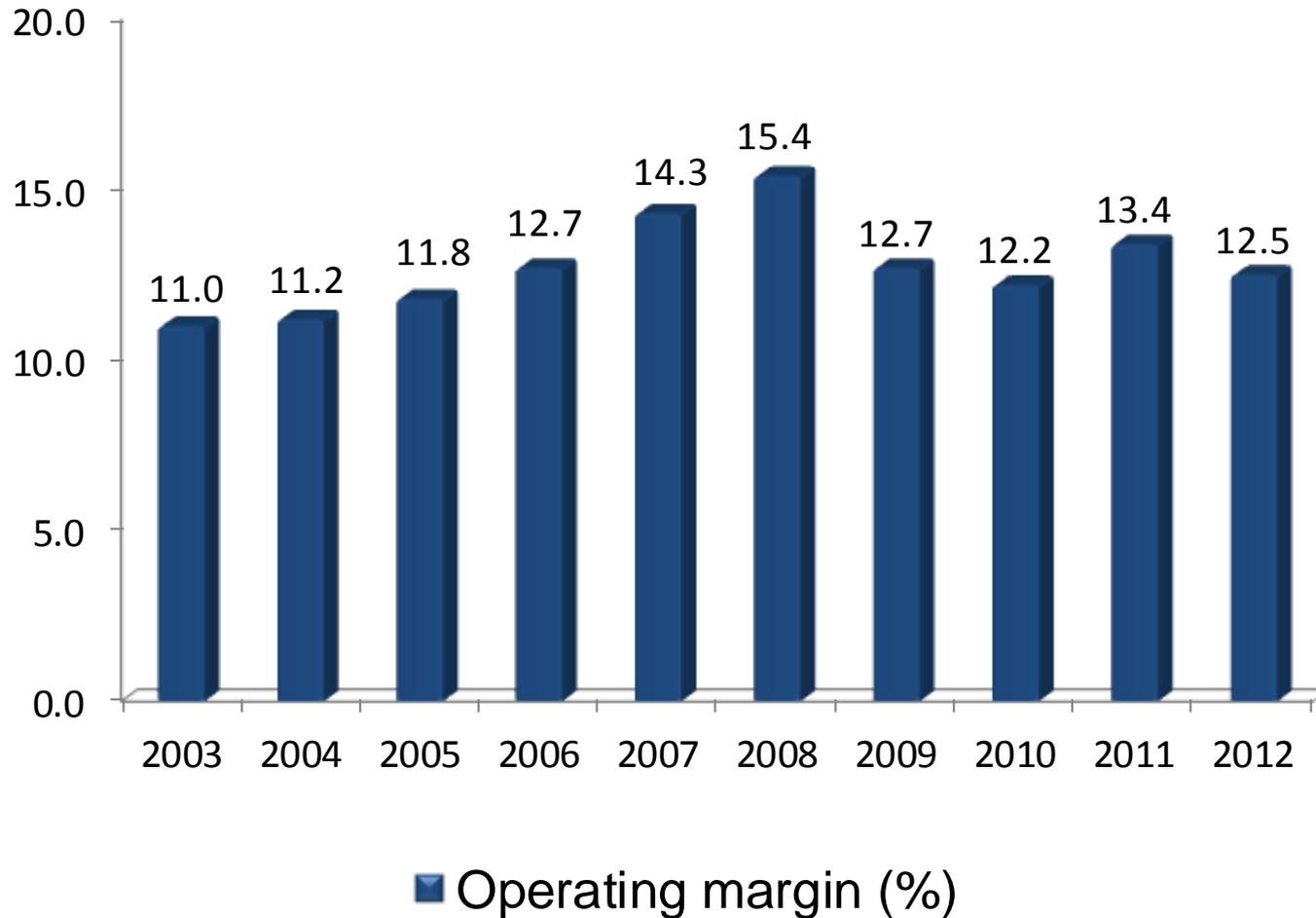
- We import directly 60% of group cost of sales (as do our competitors)
- On average these cost 11% more in 2012 than 2011
- We do not take a house view on exchange rates
- We hedge all liabilities and 20% - 30% of orders
- Demand generally not price sensitive in short term.

- Import currencies: USD* 41% Euro 42% Yen 12% GBP 5%

* Imports from China, Korea etc are priced in USD

Ave rate	2005	2006	2007	2008	2009	2010	2011	2012		
								H1	H2	Year
USD (41%)	6.3	6.7	7.1	8.0	8.6	7.4	7.2	7.9	8.4	8.2
Euro (42%)	7.9	8.4	9.6	11.8	11.9	9.9	9.9	10.3	10.8	10.6
Index (100%)	82	86	94	112	118	100	100	108	114	111

10 year operating margin performance



BEE structure

- In response to the BEE imperative, Hudaco restructured in 2007
- Through a fully geared structure, introduced BEE shareholders at negligible cost to the BEE partners
- Hudaco Trading (held 15% by BEE partners) borrowed R2.2bn from Morgan Stanley – pay debenture interest of R234m pa
- Money was used to purchase the businesses from old Hudaco
- Old Hudaco (through BRI) invested the proceeds in Cadiz preference shares – receive preference dividends of R202m pa

BEE structure (continued)

- Ownership score key in achieving level 4 BEE scorecard rating
- Ownership is main criterion in mining industry BEE charter
- BEE credentials have been instrumental in:
 - retaining business
 - drawing new customers
 - Attracting acquisitions that needed better BEE credentials
- Economic empowerment of new entrant black shareholders
- Bursary programme running for 4 years for black staff and their families
- “Old” shareholders gave up 15% in perpetuity
- Initial IFRS charge in income statement of R43m
- Pref dividends less after tax cost of debenture interest is R33m pa

S8E and S8EA: Cadiz preference dividend becomes taxable

On a “tax event”:

- Hudaco can:
 - Do nothing
 - Ask Cadiz to gross up dividend
- Then Cadiz can:
 - Gross up as requested (ideal but probably out of reach)
 - Redeem the preference share
- If Cadiz redeem, Morgan Stanley lose security so can:
 - Do nothing ie keep the debentures in place (Hudaco will need a new investment)
 - Put the debentures to Hudaco (Hudaco could seek a new funder or finance internally)
- If this goes to debentures being put to Hudaco, effect on profit after tax is R33m pa
- Whatever happens, BEE shareholders remain in place

BEE structure and taxation

- SARS have issued a notice under S80J indicating that they believe the purpose was a scheme to avoid tax
- They intend assessing BRI on the interest paid by Hudaco Trading to Morgan Stanley and disallowing STC credits on the preference dividends
- Potential exposure 2007-2012:
 - On interest – R345m
 - STC credit effect – R92m
 - Estimated interest – R65m
 - SARS also likely to seek penalties
- Totally disproportionate to the tax portion of the benefits of the BEE structure

BEE structure and taxation (continued)

- The notice was issued over the holiday season which gave us no time to consult counsel and respond adequately by deadline and an adequate extension of time to do so was not granted
- Last week, counsel reviewed all the documentation and reconfirmed that we have a very strong case
- SARS have not yet seen our case and supporting evidence
- SARS has prescription deadline so assessments will probably follow soon
- We plan to contest vigorously any assessment issued.

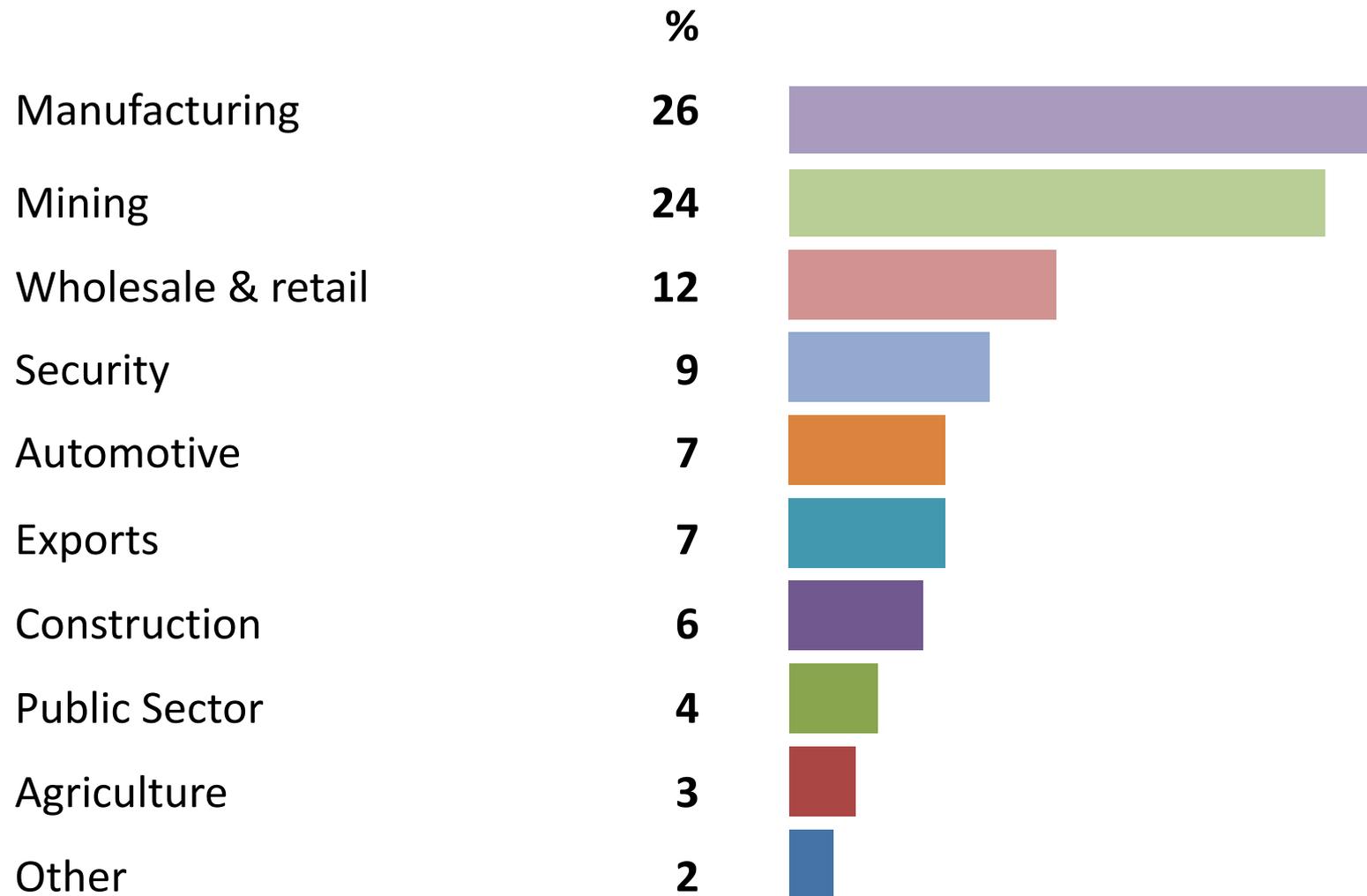
Summary

- Earnings are solid
- Working capital (inventories) a little high
- Healthy financial position
- Cash continues to be deployed successfully into new businesses
- Capacity remains for more acquisitions
- Rand weakness positive for Hudaco in 2013
 - inventory to increase
 - Gross profit to increase
- Tax changes likely to normalise tax rate



Outlook

2012 sales by market sector



Outlook - reminders

- 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 balance sheet investment capacity of about R500m

Outlook by segment

Engineering consumables

- South African mining industry has troubles
 - Commodity prices
 - Labour
 - Regulatory
 - Infrastructure
- Mining in neighbouring countries growing but problems emerging in Mozambique
- Manufacturing activity follows mining activity, particularly in the space in which Hudaco plays
- Construction activity may have started to turn the corner

Outlook by segment

Consumer related products

- Industrial power tool market slowing
- Analogue to digital migration continues
- Automotive parts aftermarket steady
- Security equipment market may pick up later this year

General outlook for 2013

- Exports to neighboring countries up 25% in 2012 and up 85% over two years
- Growth in open cast mining good for FHS
- Sales of digital communication equipment to continue to grow
- Pricing depends largely on the Rand exchange rate
- Promising signs in global economy - probably through the bottom
- Confident of our position on the tax challenge

Disclaimer

The preceding presentation contains forward looking statements about the Hudaco Group's operations and financial position. They are prepared in good faith and are based on Hudaco's best estimates and information at the time of preparing the presentation. They are nonetheless subject to significant uncertainties and contingencies many of which are understandably beyond Hudaco's control. Unanticipated events will occur and actual future events may differ materially from current expectations for many reasons including new business opportunities, as well as many other internal and external factors. Any of these factors may materially affect Hudaco's future business activities and financial results. None of the forward looking statements has been reported on by Hudaco's auditors.

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