

A small dark blue square is located in the top left corner. A larger, semi-transparent white square is positioned behind the main text area, and a dark blue square is partially visible behind it on the left side.

# ***Hudaco***

## **Audited group results**

for the year ended 30 November 2013

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# Overview

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- Benefit of Rand weakness counteracted by volatility and strikes in mining and automotive sectors
- Finish to year not as strong as we expected
- Tax rate higher because of BEE financing restructure
- Dividend maintained despite higher tax rate
- Tax challenge progressing slowly
- Hudaco has weathered economic conditions well
- Acquisitions have grown our portfolio of businesses and reduced the group's dependence on underground mining

# Agenda

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- Introduction
- Business highlights 2013
- Shareholder information
- Business model
- Operating segments and acquisitions update
- Financial review and tax issue update
- Outlook

# Business highlights and shareholder information



# Results summary

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Turnover	↑ 13% to R 3.9bn
Operating profit	↑ 7% to R 469m
Comparable earnings	↑ 4% to R 311m
Headline earnings	↓ 13% to R 294m
HEPS	↓ 13% to 928 cps
Dividends per share	→ unchanged at 465 cps
Net borrowings	↑ R187m to R204m

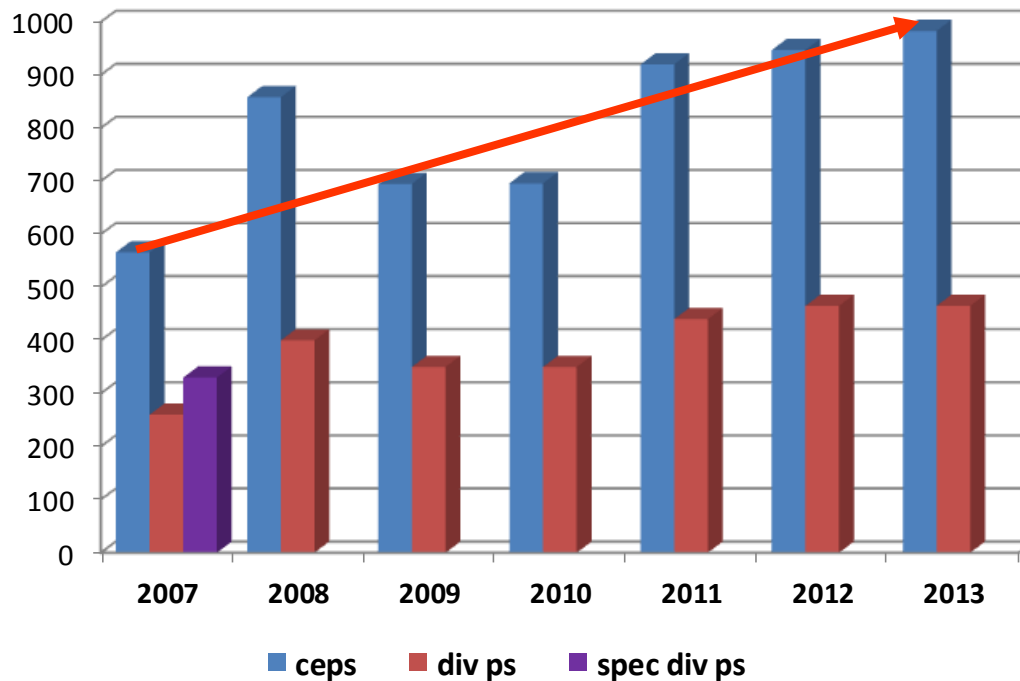
# Business highlights

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- Nearly R200m spent on acquisitions in 2013
- Sales to neighbouring countries up 40%
- Finish to year not as strong as usual
- Weak performances from Deutz Dieselpower and Bearings International
- Hudaco's traditional strong second half severely impacted by strikes for the second year in a row
- Rand declined 15% against US\$
- But volatility made pricing to replacement difficult

# Value added for shareholders

ceps 6-yr CAGR: 10%



- CAGR is above inflation notwithstanding that the six year period includes the sharp decline in earnings in 2009/10 and the slow recovery years of 2011-13

# Market information

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Market capitalisation	<b>R 3.5bn @ R110</b>
Free Float	<b>100%, no control</b>
P:E ratio @ R110 (ceps)	<b>11.2x</b>
Dividend yield @ R110	<b>4.2%</b>
Annual Trade (to Nov)	<b>2010 R 822m</b>
	<b>2011 R 757m</b>
	<b>2012 R 1 062m</b>
	<b>2013 R 1 496m</b>



# Major shareholders/fund managers

At 30 November 2013

■ Old Mutual	23%
■ Foord	12%
■ Govt Employees Pension Fund	9%
■ Prudential	8%
■ Nedgroup Investments	5%
■ Sanlam Investment Management	5%
■ Peregrine	4%
■ 36One	4%
	<u>70%</u>

Possibly some double counting

# The Hudaco business model



# The Hudaco business model

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- Hudaco's main business is the importation and distribution of branded industrial and electronic 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 restrict our activities to Africa south of the equator
- Over the last 5 years Hudaco has gained confidence (and skills) in niche local manufacture – eg. pulleys, electrical plugs & sockets and more recently gear pumps
- These products can be sold internationally

# Features of value added distribution

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## **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 R1 014m in 29 warehouses:**

- 4 to 6 month supplier lead times
- 700 international suppliers
- over 200 000 line items

## **Receivables R780m:**

- 22 000 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

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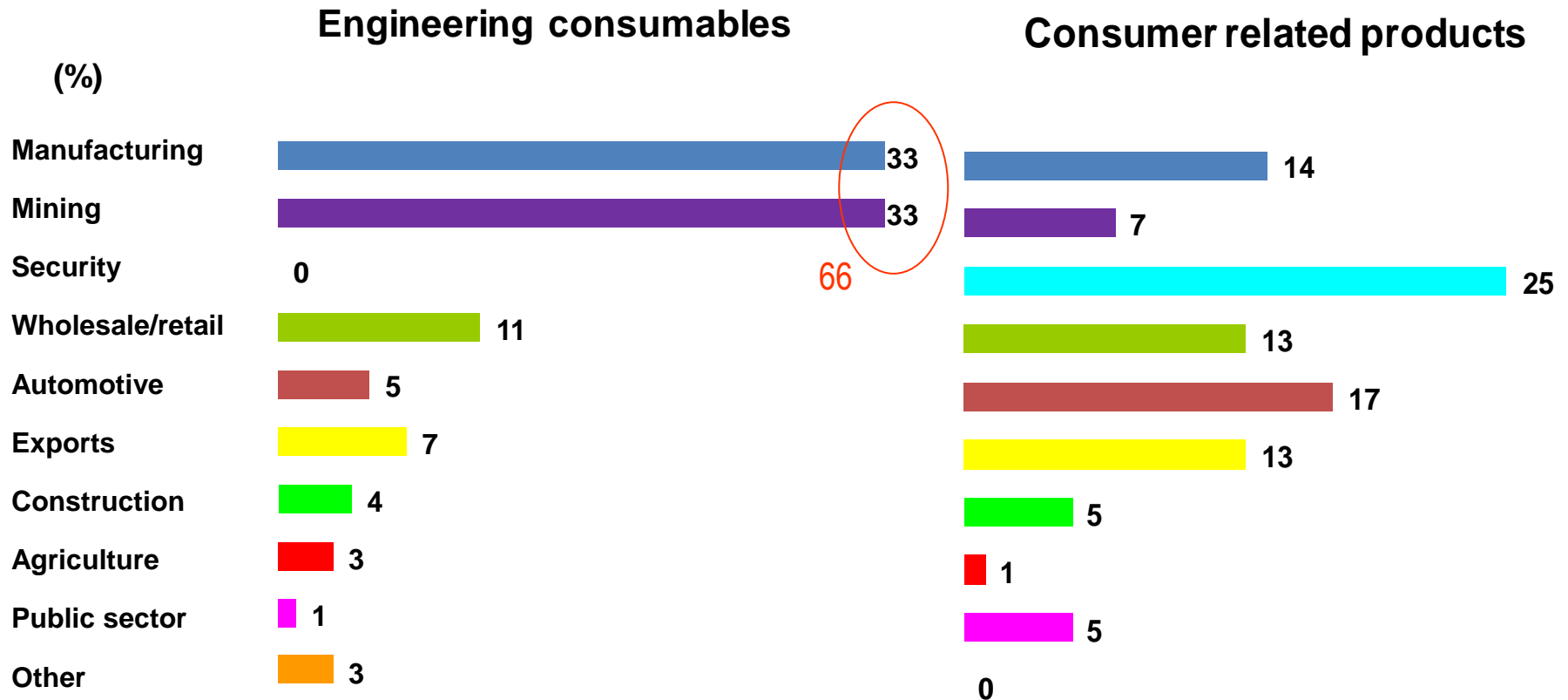
- Largest segment imports and distributes branded engineering consumables generally used in the repair and maintenance of machines
- About one third of our business is distribution of consumer related products generally sold to installers

# Operating segments

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

# 2013 segment sales by market sector

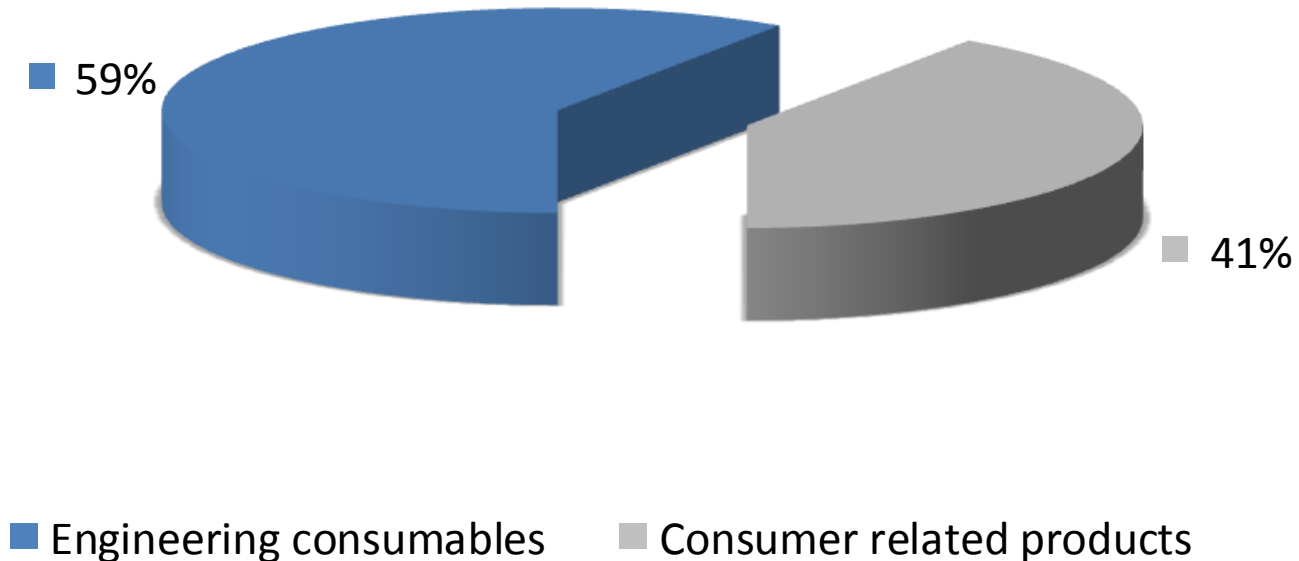




# Segment contributions

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## Contribution to 2013 operating profit (before shared services and head office)



# Engineering consumables

## Principal Businesses



## Principal Brands



## Used for:

- Repairs
- Maintenance
- Expansion
- Resale
- Underground mining
- Gen sets

## Competitors:

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

## Main markets:

- Manufacturing
- Mining

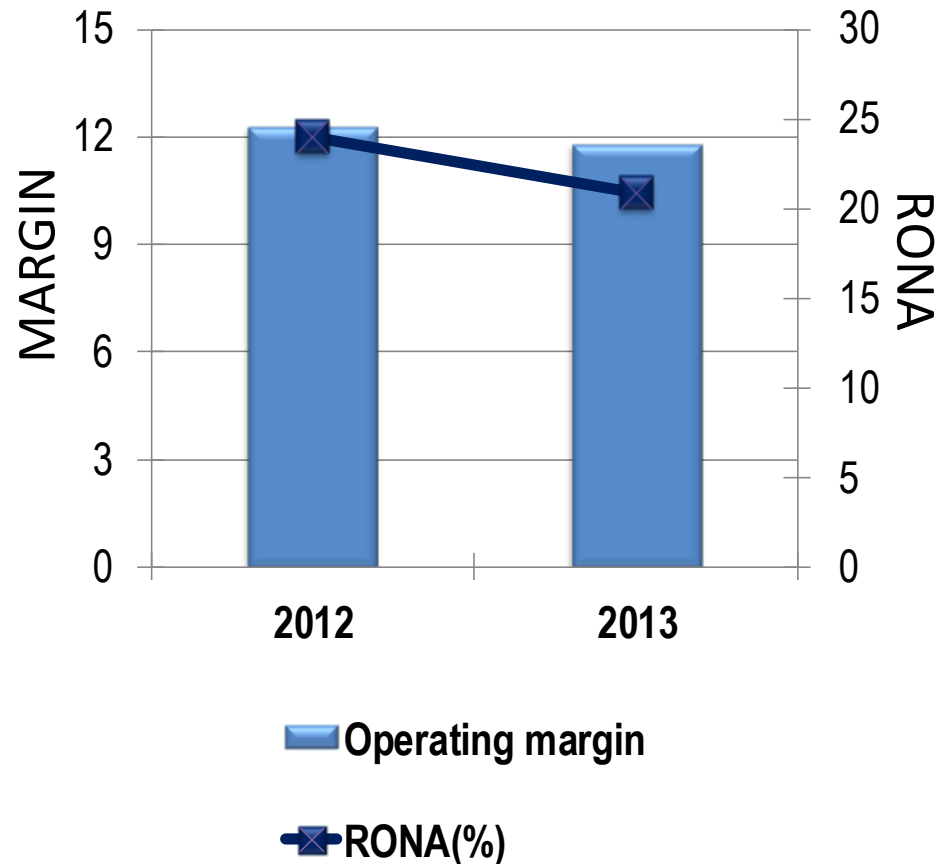


## Big customers:

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

# Engineering consumables

- DDP - diesel engine sales still feeling effects of reduced underground mining activity
- BI - bearings and power transmission sales and profits disappointed – mines are big customers
- Bosworth – pulley sales recovered well from disappointing 2012
- FHS - filter sales maintained 2012 strong performance



# 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
- Regal
- Luk
- Motorola

## Main markets:

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

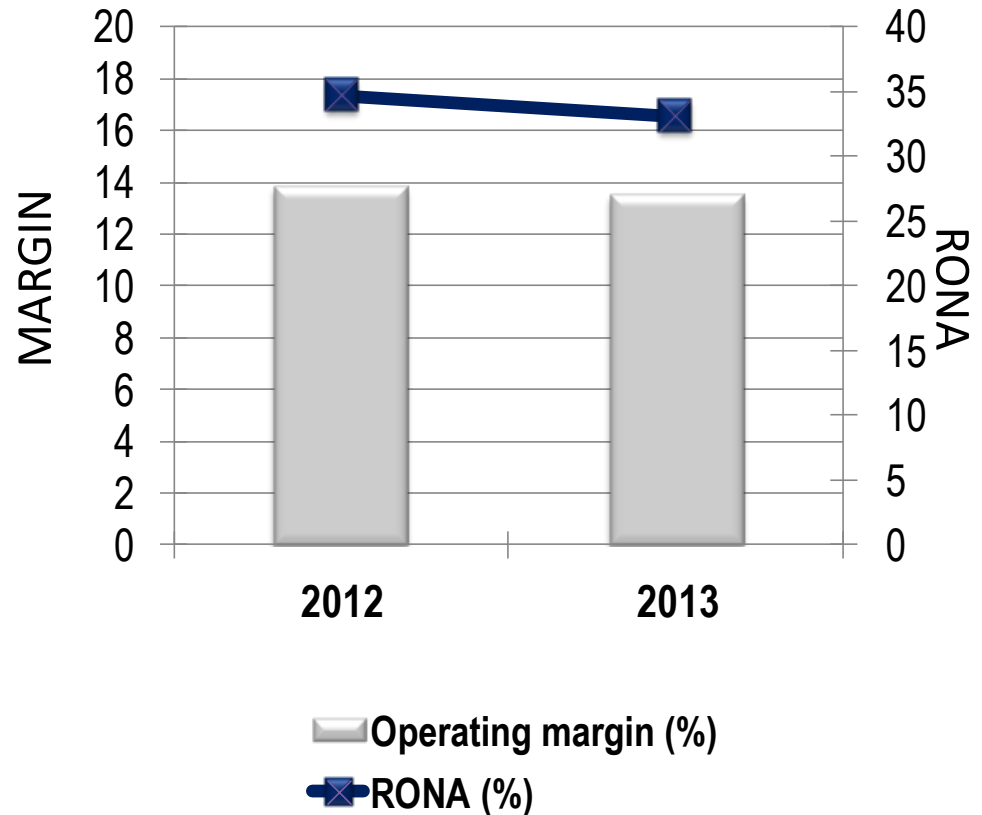


## Big customers:

- Massbuild
- Makro
- Buco
- ADT
- Alert
- SANDF
- Midas
- SAPS

# Consumer related products

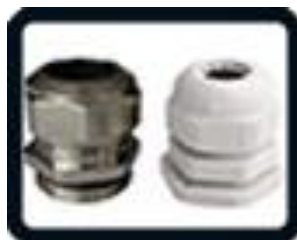
- Rutherford – power tool sales up but margin declines, problems pricing to replacement
- Global – communication equipment sales and profits up, strong demand continues
- Elvey – security equipment sales and profits up as competitors struggle
- Abes - automotive parts sales down on strikes



# 2013 acquisitions

## 3D Agencies – R30m

- Distributor of electrical accessories
- Bolt-on to Powermite



# 2013 acquisitions

## SBS Batteries – R40m

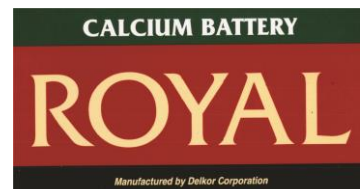
- Distributor of maintenance free batteries
- Used in stand-by & solar applications



**SPECIALISED  
BATTERY SYSTEMS**



**SBS SOLAR**



**BATTERY  
CS3**



# 2013 acquisitions

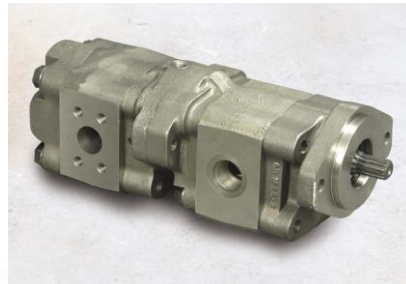
## Dosco, GPM & Joseph Grievesson – R154m

- Manufacturer and distributor of specialised castings & own brand gear pumps
- Customers: sugar mills, mines & general industry. Large export component

**JOSEPH GRIEVESON**

EST 1915

SUPPLIERS OF FERROUS AND NON-FERROUS CASTINGS





# Segment results – Engineering consumables

	Rm	Turnover			Op Margin		Operating Profit		
		2013	% ch	2012	2013	2012	2013	% ch	2012
Ongoing operations		2 273	3	2 216	12.0%	12.1%	272	1	268
New businesses		205		64	9.8%	18.8%	20		12
Segment total		2 478	9	2 280	11.8%	12.3%	292	4	280

# Segment results – Consumer related products

	Rm	Turnover			Op Margin		Operating Profit		
		2013	% ch	2012	2013	2012	2013	% ch	2012
Ongoing operations		1 291	12	1 155	13.9%	14.0%	179	10	162
New businesses		179		68	11.2%	10.3%	20		7
Segment total		1 470	20	1 223	13.5%	13.8%	199	18	169

# Segment results 2013

	Turnover			Op Margin		Operating Profit		
	2013	% ch	2012	2013	2012	2013	% ch	2012
Rm								
Engineering consumables	2 478	9	2 280	11.8%	12.3%	292	4	280
Consumer related products	1 470	20	1 223	13.5%	13.8%	199	18	169
Head office, shared services & eliminations	(6)		(11)			(22)		(12)
Total Group	3 942	13	3 492	11.9%	12.5%	469	7	437

# Financial review and tax update



# Restructure of BEE financing arrangements

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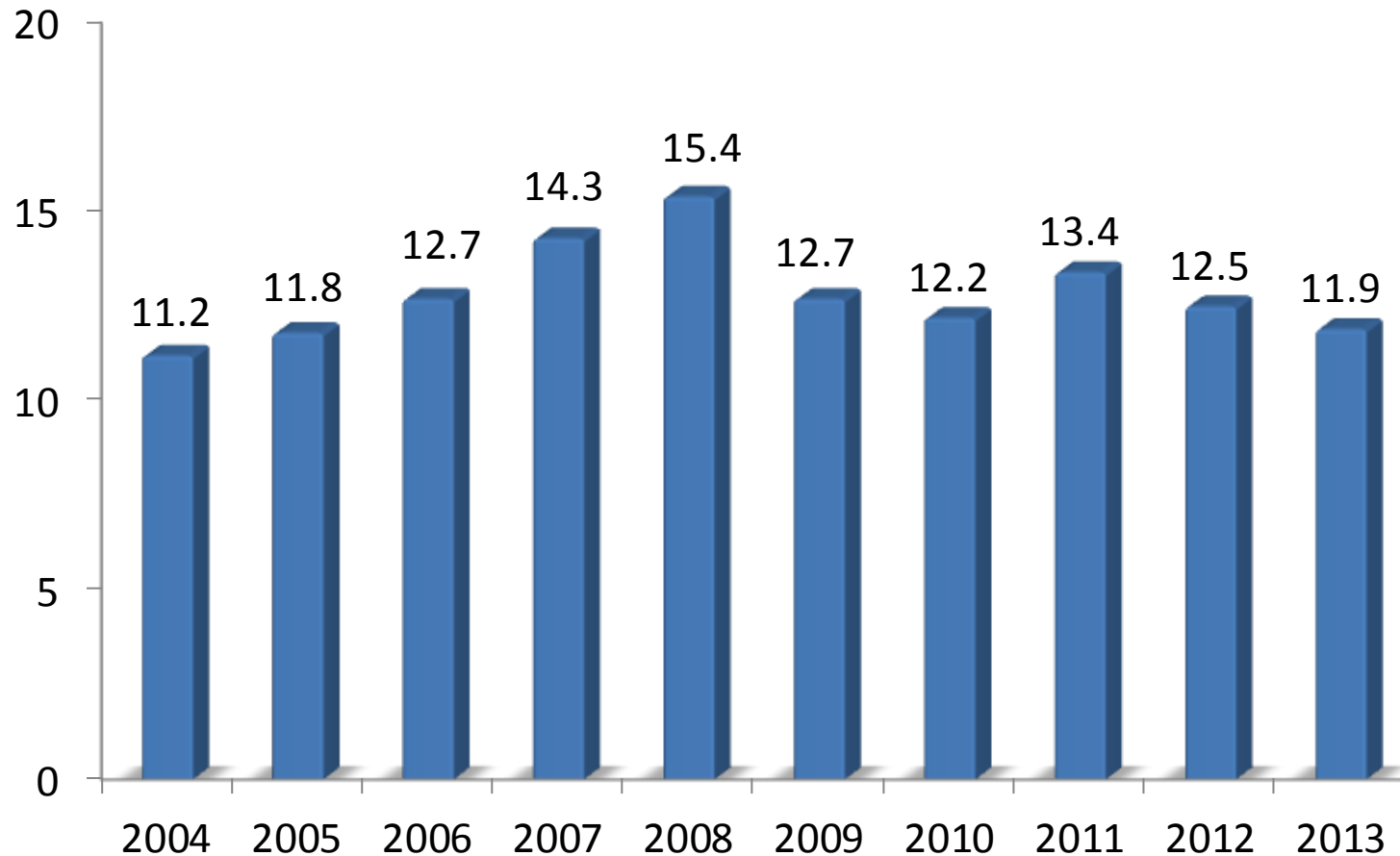
- BEE structure financed internally since 28 February 2013
- Net effect on profit after tax is R33m pa – 103 cents per share
- BEE shareholders and credentials remain in place

# Profit for the year

	Rm	2013	% Ch	2012
<b>Turnover</b>		<b>3 942</b>	13	<b>3 492</b>
- Ongoing operations		3 558	6	3 360
- New businesses		384		132
<b>Gross profit</b>		<b>1 479</b>	9	<b>1 355</b>
<b>Operating expenses</b>		<b>1 010</b>	10	<b>918</b>
<b>Operating profit</b>		<b>469</b>	7	<b>437</b>
- Ongoing operations		429	2	418
- New businesses		40		19

Margin (%)			
Turnover	100.0		100.0
Gross profit	37.5		38.8
Operating expenses	25.6		26.3
Operating profit	11.9		12.5

# 10 year operating margin performance



■ Operating margin (%)

# Profit for the year

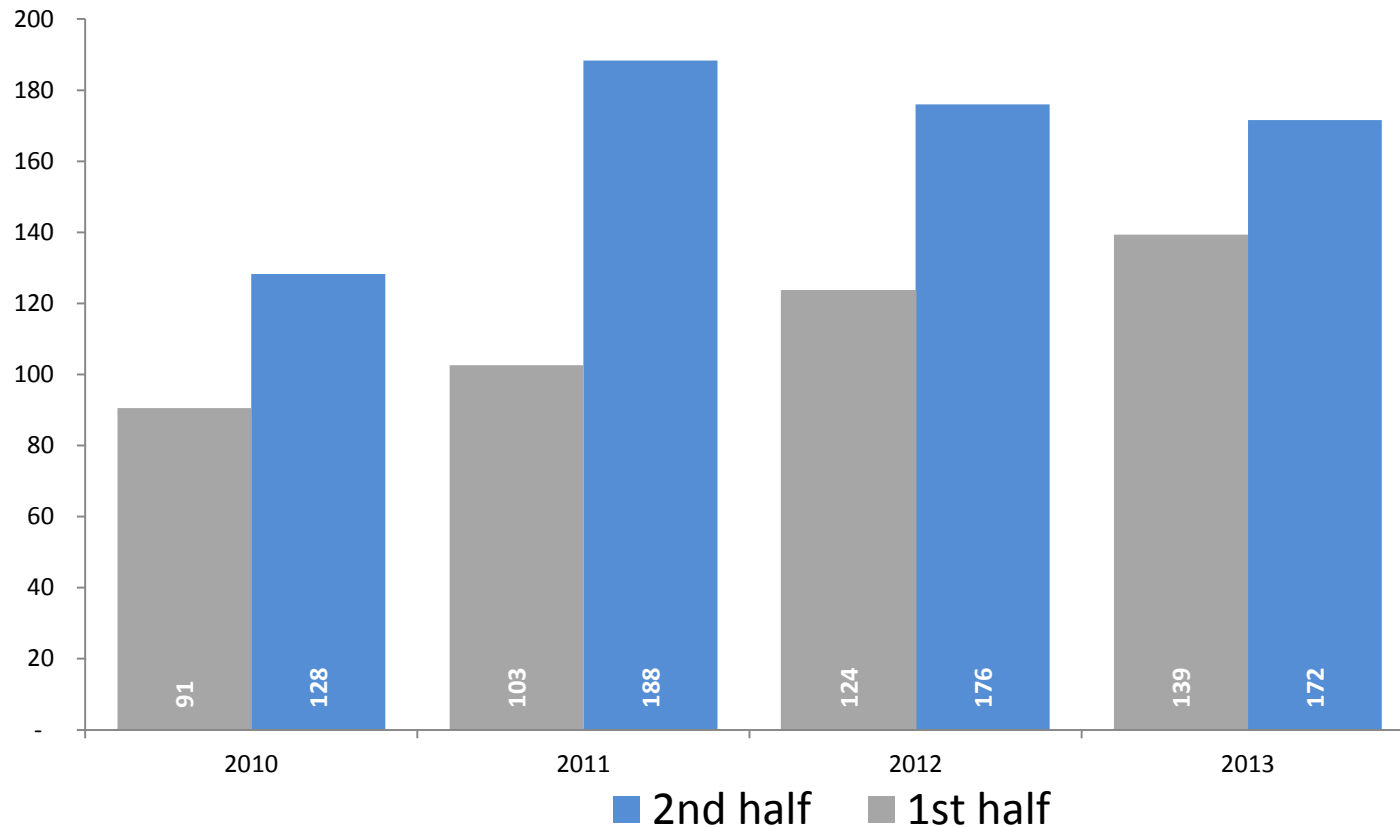
	Rm	2013	% Ch	2012
<b>Operating profit</b>		<b>469</b>	<b>7</b>	<b>437</b>
Fair value adj to amounts due to vendors		(23)		8
Net interest on working capital		(8)		(5)
Interest paid to vendors (imputed)		(5)		(11)
Interest paid on sub. debentures		(58)		(234)
Preference dividend received		50		202
<b>Profit before taxation</b>		<b>425</b>	<b>7</b>	<b>397</b>
Taxation (Rate 2013:28% 2012:12%)		120	155	47
<b>Profit after taxation</b>		<b>305</b>	<b>(13)</b>	<b>351</b>
Non-controlling interest		11		11
<b>Attributable earnings</b>		<b>294</b>	<b>(14)</b>	<b>340</b>



# Comparable earnings for the year

	Rm	2013	% Ch	2012
<b>Operating profit</b>		<b>469</b>	<b>7</b>	<b>437</b>
Net interest on working capital		<b>(8)</b>		<b>(4)</b>
Interest paid to vendors (imputed)		<b>(5)</b>		<b>(11)</b>
Interest paid on sub. debentures		-		-
Preference dividend received		-		-
FV adjustment of vendor liability		-		-
<b>Profit before taxation</b>		<b>456</b>	<b>8</b>	<b>422</b>
Taxation (Rate 2013:28% 2012:26%)		<b>(131)</b>		<b>(112)</b>
<b>Profit after taxation</b>		<b>325</b>	<b>5</b>	<b>310</b>
Non-controlling interest		<b>(14)</b>		<b>(10)</b>
<b>Attributable and headline earnings</b>		<b>311</b>	<b>4</b>	<b>300</b>

# Comparable earnings by half year



# Earnings per share and dividends

	2013	% Ch	2012
<b>Earnings per share</b>			
Comparable eps	983c	4	947c
Basic eps	930c	(13)	1 074c
Headline eps	928c	(13)	1 071c

<b>Dividends per share</b>			
Interim	155c		155c
Final	310c		310c
<b>Total</b>	<b>465c</b>	-	<b>465c</b>

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

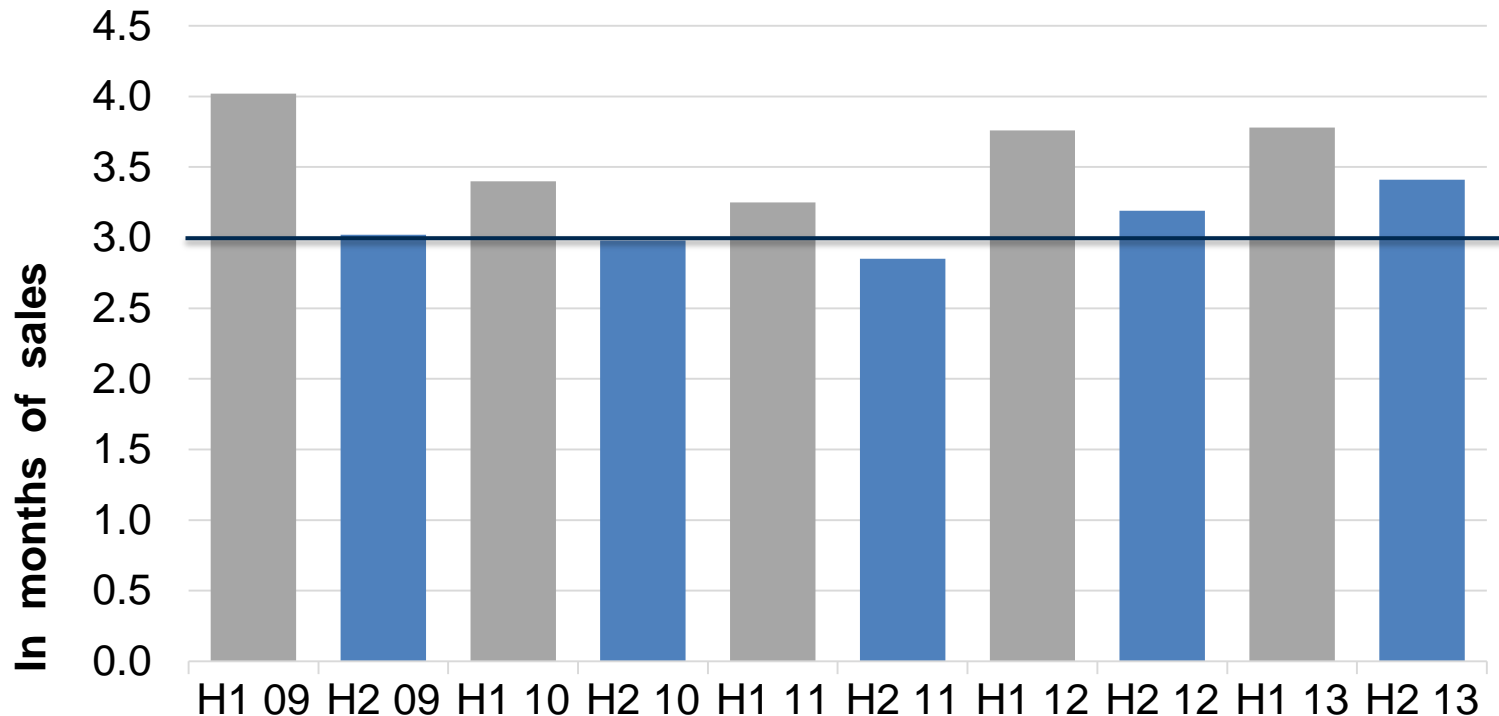
# Cash flow – for the year

	Rm	Nov 13		Nov 12
Cash from trading		513		458
Increase in working capital		(138)		(121)
Cash from operating activities		375		337
Net finance costs		(16)		(37)
Tax paid		(169)		(54)
Cash flow from operations		190		246
Dividends paid		(164)		(163)
Invested in new businesses and property, plant and equipment		(213)		(268)
Net movement		(187)		(185)
Opening (borrowings) cash		(17)		168
Closing borrowings		(204)		(17)

# Statement of financial position

	Rm	Nov 13	Oper	Restru	Div	Acq	Nov 12
<b>Working capital</b>		<b>1 211</b>	137			63	<b>1 011</b>
Property, plant equipment		<b>214</b>	4			5	<b>205</b>
Goodwill and intangibles		<b>658</b>	(16)			31	<b>643</b>
Tax in advance		<b>40</b>		40			
Tax normal		<b>7</b>	8			(6)	<b>5</b>
<b>Net operating assets</b>		<b>2 130</b>	133	40		93	<b>1 864</b>
Investment in pref shares		<b>-</b>		(2 181)			<b>2 181</b>
<b>Net assets</b>		<b>2 130</b>	133	(2 141)		93	<b>4 045</b>
Equity		<b>1 835</b>	303		(164)		<b>1 696</b>
Subordinated debenture		<b>-</b>		(2 181)			<b>2 181</b>
Bank account		<b>204</b>	(59)	40	164	42	<b>17</b>
Due to vendors		<b>91</b>	(111)			51	<b>151</b>
<b>Total equity&amp; liabilities</b>		<b>2 130</b>	133	(2 141)		93	<b>4 045</b>

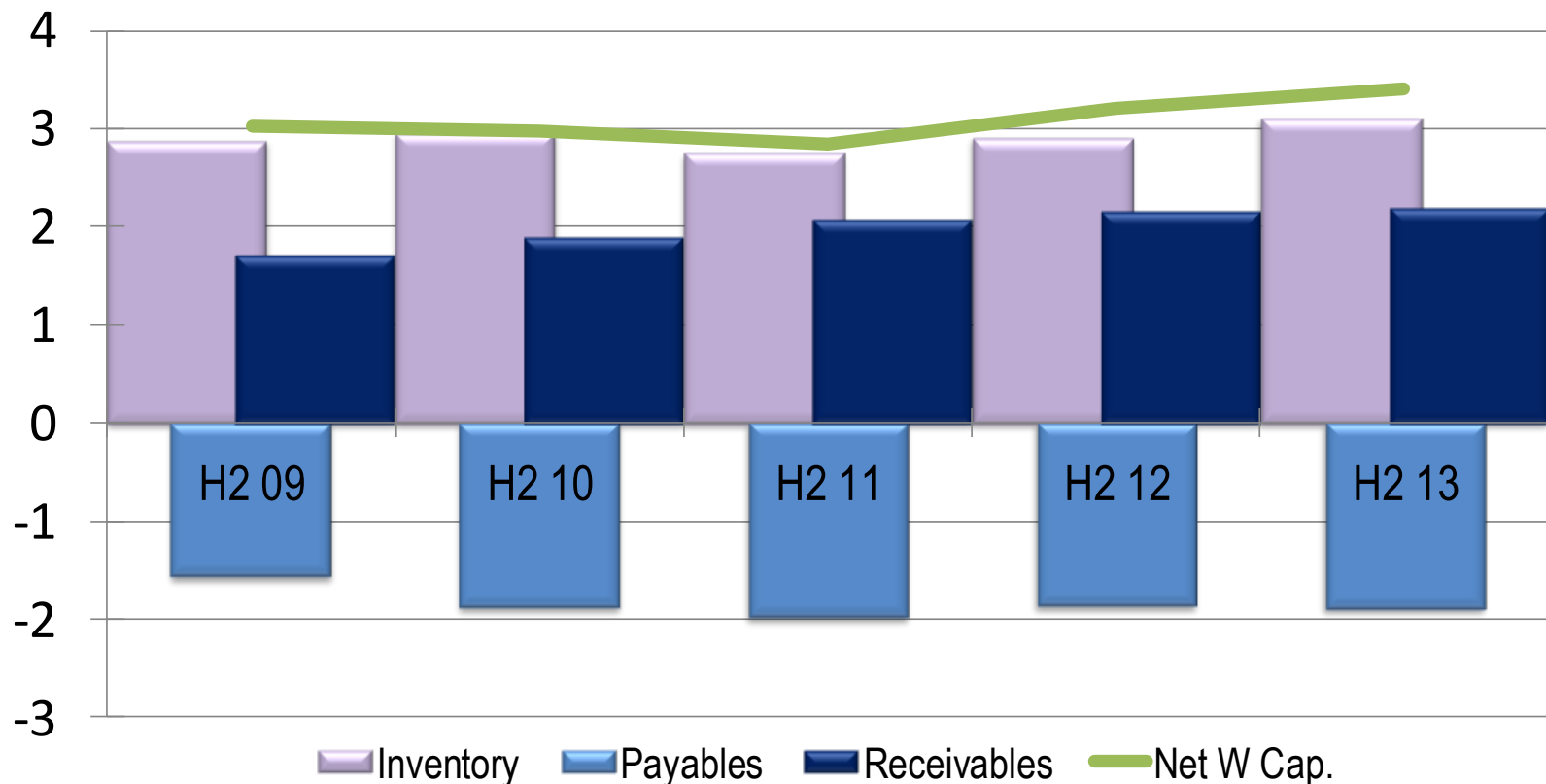
# Working capital



**One month of sales: H2 2013 = R 355m; H2 2012 = R 316m**

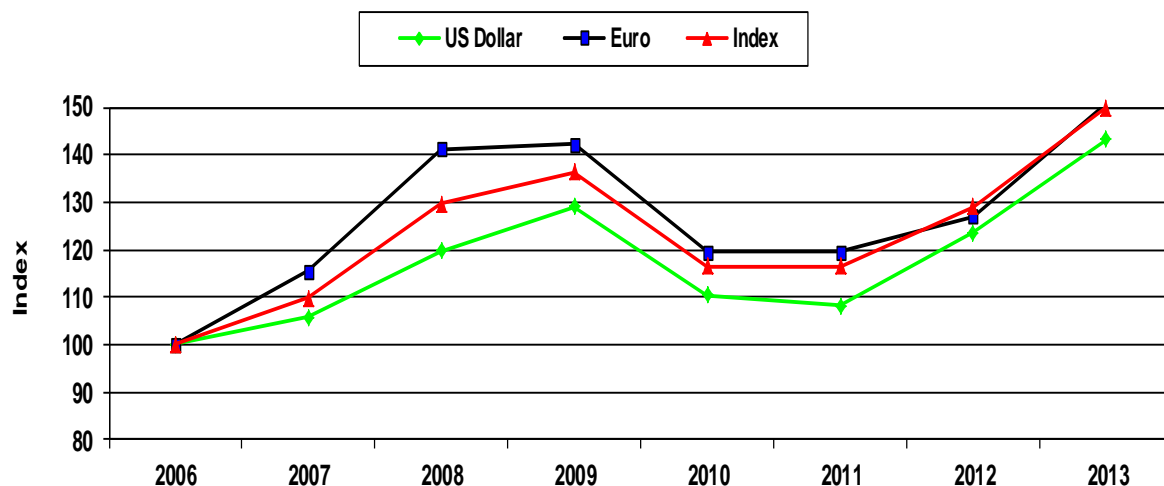
- Working capital traditionally peaks end of H1 to cope with anticipated increased seasonal demand in H2
- Sales are generally split 45:55 between H1 and H2 (2013: 46:54) but strike activity is disrupting this pattern

# Working capital – elements in months sales



**One month of sales in**  
**H2 13= R355m      H2 12= R316m**

# Exchange rate environment



- Import currencies: USD\* 48% Euro 40% Yen 9% GBP 3%

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

- We import directly 60% of group cost of sales
- On average these cost 16% more in 2013 than 2012
- 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.

Ave rate	2006	2007	2008	2009	2010	2011	2012	2013		
								H1	H2	Year
USD (48%)	6.7	7.1	8.0	8.6	7.4	7.2	8.2	9.0	10.0	9.5
Euro (40%)	8.4	9.6	11.8	11.9	9.9	9.9	10.6	11.8	13.4	12.6
Index (100%)	86	94	112	118	100	100	111	121	136	129



# Tax challenge

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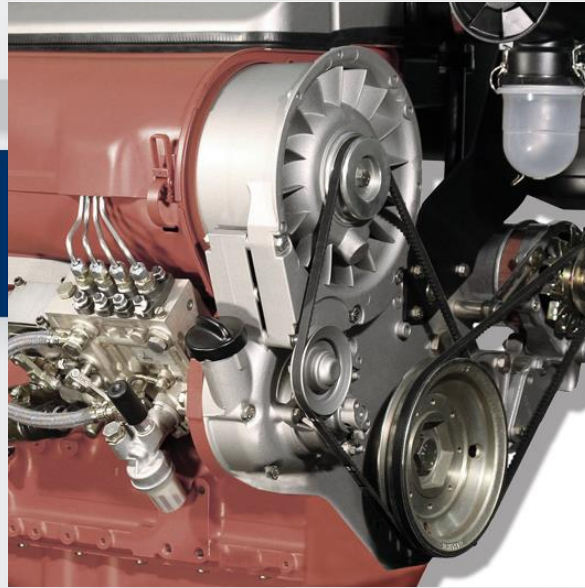
- Objections lodged – await response
- High Court action to have assessments set aside
- “Pay now, argue later” – agreed to pay R20m per quarter until legal process concluded – had no practical alternative
- We remain very confident of our position
- Will take time to run its course
- Contingent liability R1.7bn, without double counting and brought up to date

# Summary

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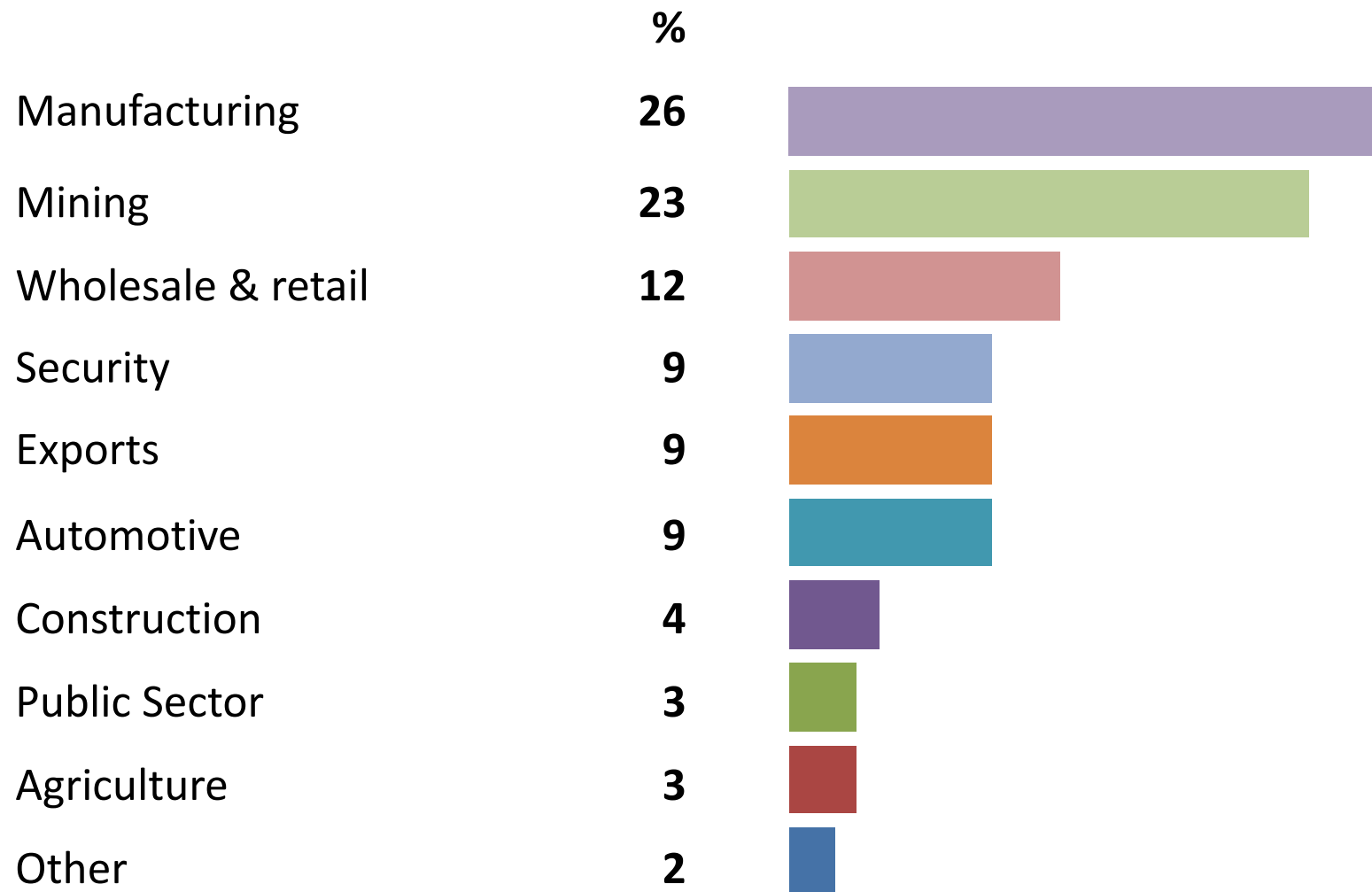
- Healthy financial position
- Working capital (inventories) a little high
- Continue to invest successfully in new businesses
- R300m revolving credit facility raised
- Capacity remains for more acquisitions
- Tax issue will take time to resolve
- Rand weakness should be positive for Hudaco in 2014
  - inventory to increase
  - gross profit to increase

# Outlook



# 2013 sales by market sector

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# Outlook - reminders

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- Hudaco sales are predominantly driven by GDP activity
- Exposure to South African mining and manufacturing still high at 50%
- GDFI adds capacity for future GDP activity
- Rand exchange rate has a big impact on pricing and profitability

# Outlook

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## **Factors impacting positively on 2014**

- R25m pa cost reductions in BI and DDP
- Benefit from weaker Rand
- Growth in mining activity in neighboring countries
- 2013 acquisitions to add 70cps in 2014

## **Beyond 2014**

- Nascent global recovery underway – commodity prices to rise
- New electricity coming on stream
- Growth in open cast mining good for filter sales
- Sales of digital communication equipment continue to grow
- Promoting own brands internationally opens up larger markets
- Acquisitions still on agenda

# Contact details

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