



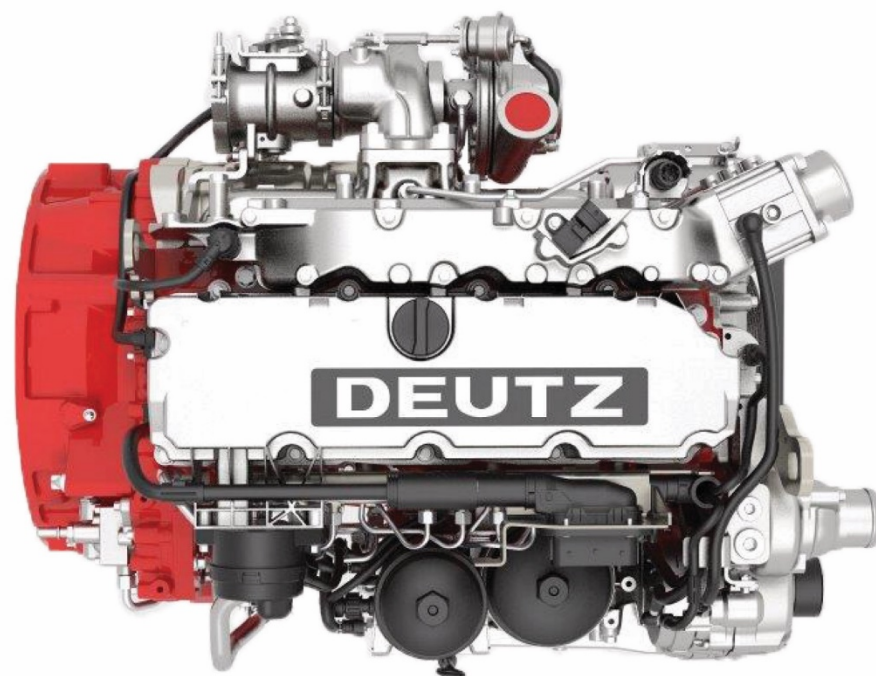
***Hudaco***

**RESULTS PRESENTATION**

FOR THE YEAR ENDED 30 NOVEMBER 2019

- A poorly performing economy has become the “new norm” for South Africa
- Difficult trading conditions in 2019
  - Load shedding, delays at the ports, policy uncertainty, inaction from the government, rising government debt and rising unemployment
  - Rand volatility throughout the year
  - In two quarters the economy declined
- Notwithstanding the above
  - Reduced working capital by 11 days’ sales
  - Cash generation exceeded profits
  - Final dividend increased to 410 cents so total dividend up 5,3% to 600 cents
- Hudaco is resilient and this is a good result in a bad economy

***Hudaco***



- Results summary and market information
- General business environment
- Business model and operating segments
- Financial review
- Outlook

# RESULTS SUMMARY 2019

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Turnover	<b>↑ 5,1% to R6,7bn</b>
Operating profit	<b>↑ 6,9% to R701m</b>
Basic earnings	<b>↑ 12,7% to 1 355 cps</b>
Headline earnings	<b>↑ 5,1% to 1 355 cps</b>
Comparable earnings	<b>↑ 3,5% to 1 240 cps</b>
Final dividend per share	<b>↑ 7,9% to 410cps</b>
Cash generated from operations	<b>↑ 82% to R853m</b>

## MARKET INFORMATION

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Market capitalisation @ R100 per share	<b>R 3,2 bn</b>	
Free Float	<b>100% - no control</b>	
P:E ratio @ R100 (ceps)	<b>8 x</b>	
Dividend yield @ R100	<b>6,0%</b>	
Annual trade (to Nov)	<b>2015</b>	<b>54%</b>
(% of shares on market)	<b>2016</b>	<b>41%</b>
	<b>2017</b>	<b>31%</b>
	<b>2018</b>	<b>27%</b>
	<b>2019</b>	<b>22%</b>

# MAJOR SHAREHOLDERS / FUND MANAGERS

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■ PSG Asset Management	15%
■ Public Investment Corporation	10%
■ Old Mutual Investment Group	8%
■ Investec Asset Management	4%
■ Prudential Portfolio Managers	3%
■ Bateleur Capital	3%
■ Dimensional Fund Advisors	3%
■ Foord Asset Management	3%
■ Dunford Group	3%
■ Vanguard Group	3%
	<hr/>
	<b>55%</b>
	<hr/>

## **GENERAL BUSINESS ENVIRONMENT**





- South Africa is an extremely challenging place to do business
- Business confidence at an all time low
- This tough environment resulted in lower demand and created aggressive pricing pressure
- Consumer spending under pressure
- Encouraging growth in exports, mainly projects driven
- Exchange rate volatility is disruptive

# EXCHANGE RATE VOLATILITY ZAR TO US \$

*Hudaco*



## **BUSINESS MODEL AND OPERATING SEGMENTS**



- Hudaco's main business is the importation and distribution of high-quality branded automotive, industrial and electronic consumable products
- The concept of “value added distribution” is core to our business model
- Agency agreements generally restrict our activities to Africa south of the equator
- Hudaco is heavily dependent on two important factors
  - South Africa's GDP growth rate
  - Rand exchange rate

- Consumer-related products segment imports and distributes branded products driven by consumer spending and generally sold to installers
- Engineering consumables segment imports and distributes branded products generally used in the repair and maintenance of machines

## 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 720m in 36 warehouses:

- 4 to 6-month supplier lead times
- 800 international suppliers
- over 230 000 line items
- over 140 branches

## Receivables R1 269m:

- 30 000 active customers
- low value transactions
- low level of tender or contract business
- decentralised credit management
- generally low concentration of risk

## **Consumer-related products (14 businesses)**

- Automotive aftermarket products
- Power tools and fasteners
- Data and communication equipment
- Batteries
- Security equipment

## **Engineering consumables (21 businesses)**

- Bearings and belting
- Diesel engines and spares
- Electrical power transmission
- Filtration
- Hydraulics and pneumatics
- Specialised steel
- Thermoplastic pipes and fittings

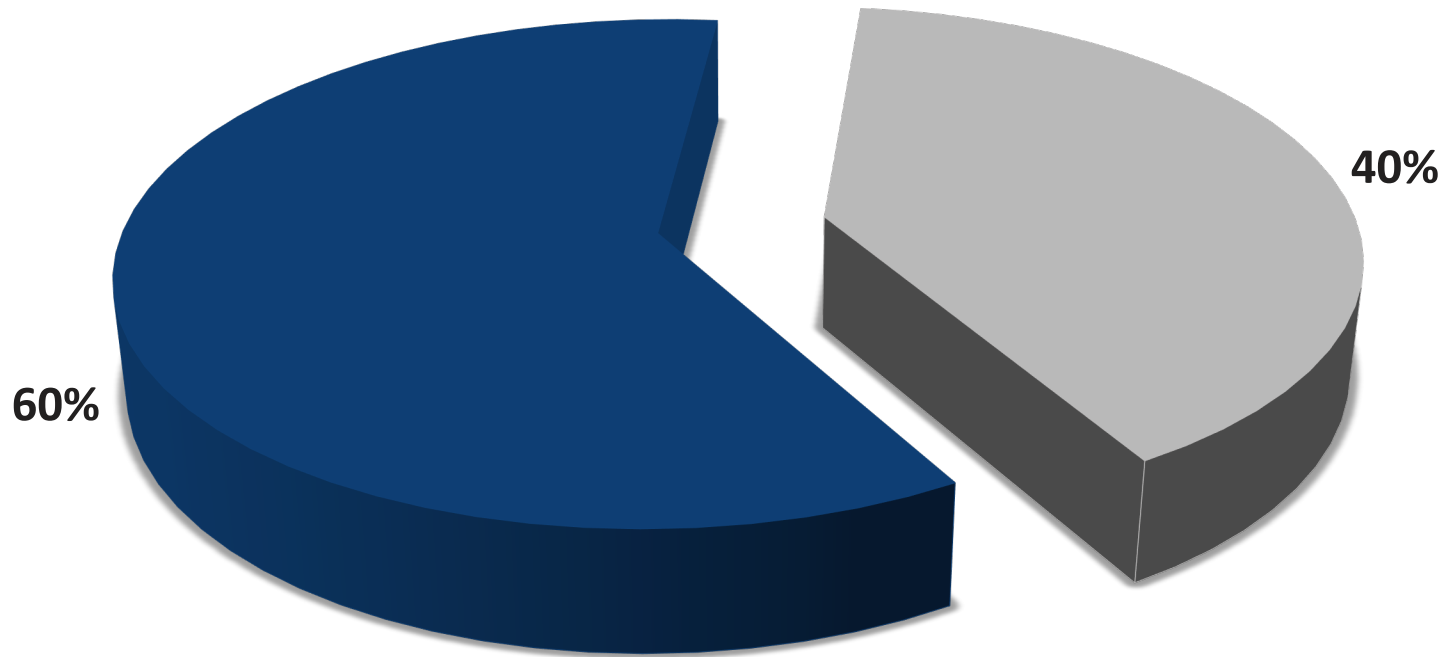
- Many businesses across many sectors
- Many products in many industries
- Diversification reduces risk
- Decentralised focused management - specialists
- Quick decision making, control and accountability



# CONTRIBUTION BY SEGMENT

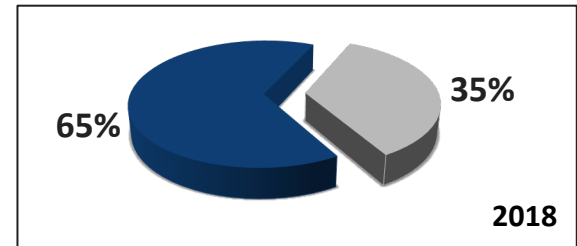
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**Contribution 2019 operating profit**  
(before shared services and head office)



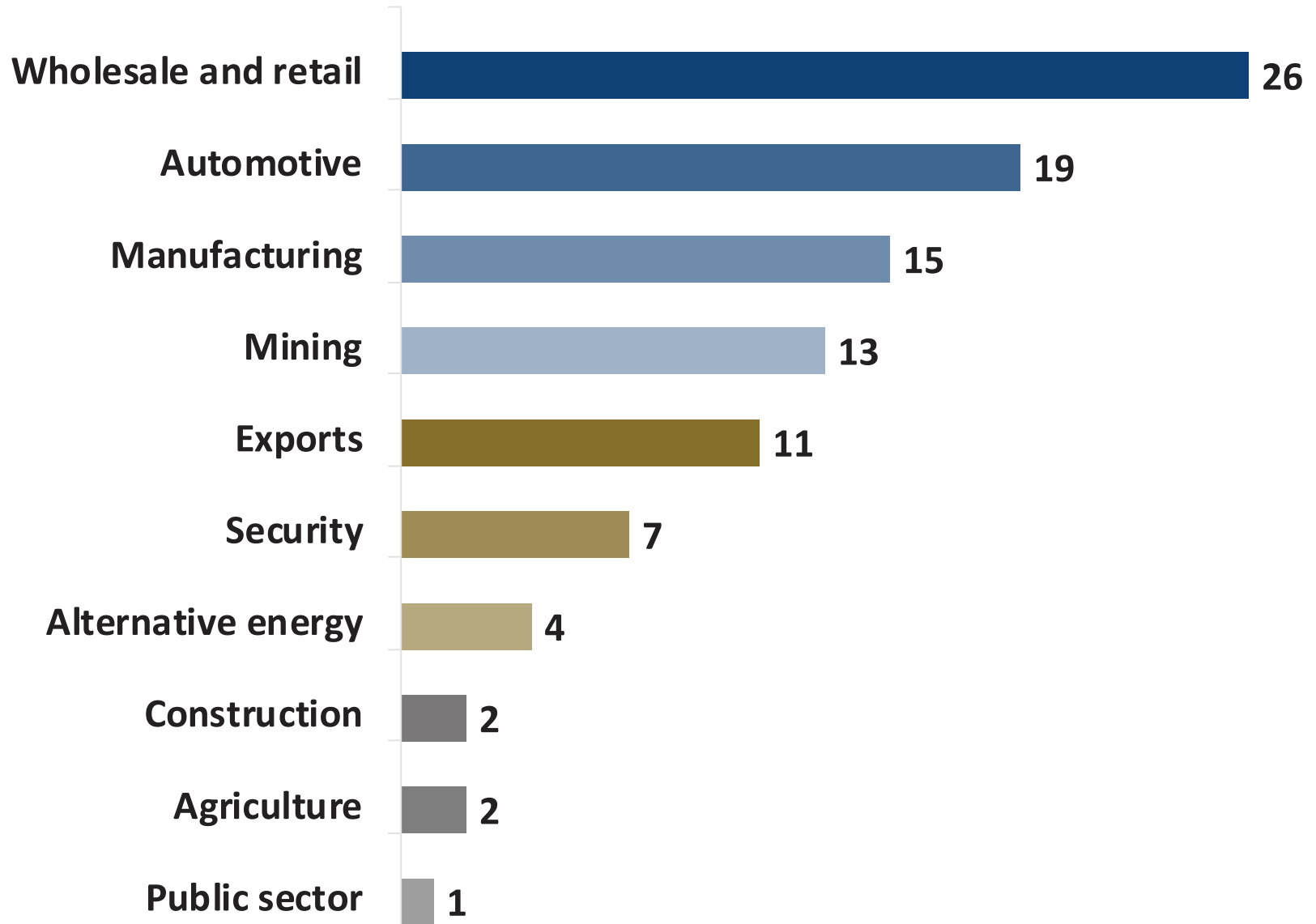
■ Consumer-related products

■ Engineering consumables



## 2019 SALES BY MARKET SECTOR (%)

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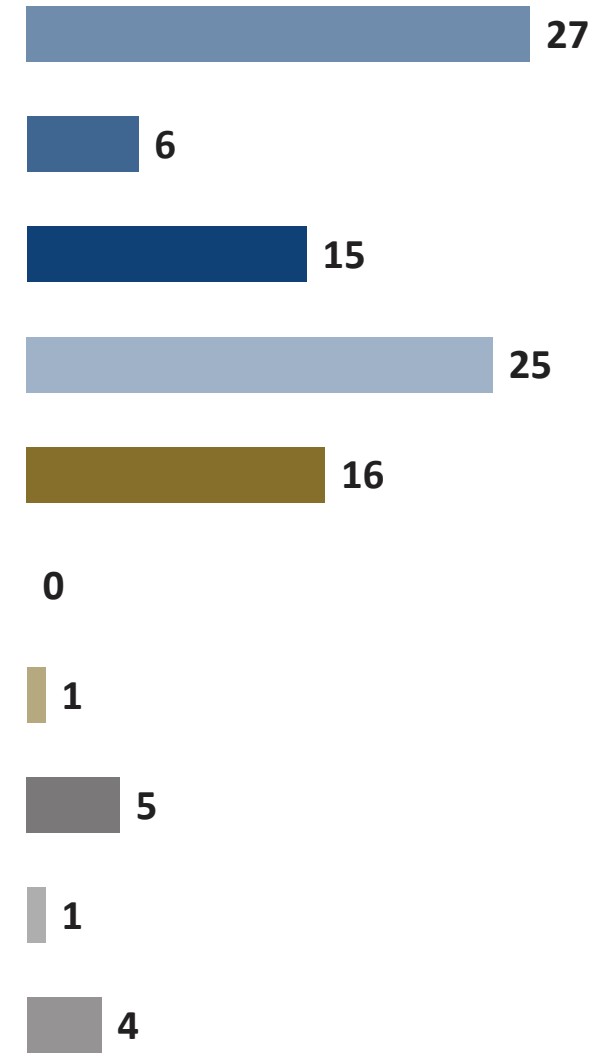
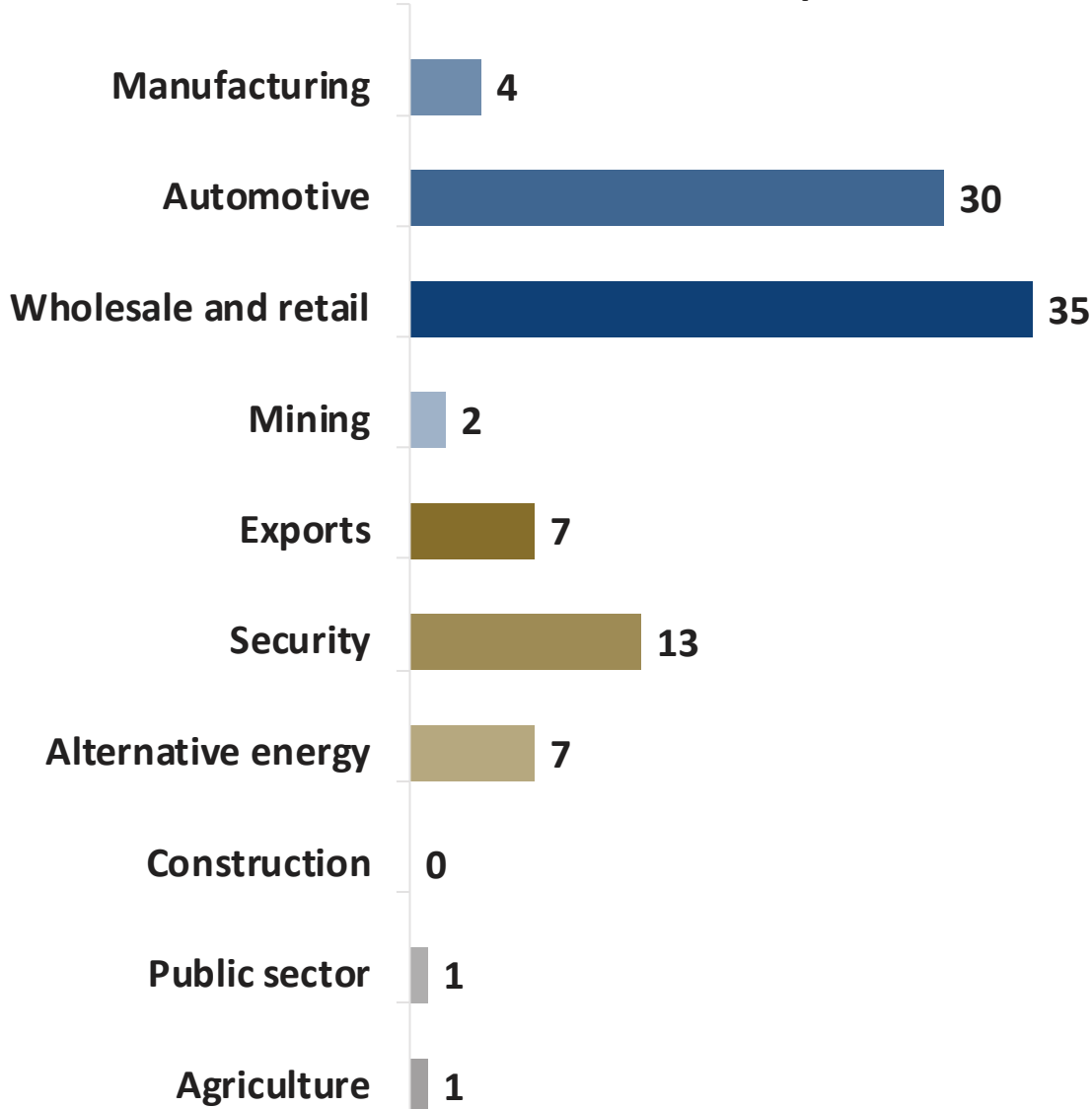


# 2019 SALES BY MARKET SECTOR (%)

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## Consumer-related products












## Engineering consumables



# CONSUMER-RELATED PRODUCTS

## AUTOMOTIVE AFTERMARKET











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Principal Businesses	Principal Brands
    	     
Main markets	Used for
<ul style="list-style-type: none"> <li>Automotive aftermarket</li> <li>Automotive parts and accessories</li> <li>Construction machinery</li> <li>Spares shops</li> <li>Wheel and tyre fitment centres</li> <li>4x4 recreation</li> </ul>	<ul style="list-style-type: none"> <li>Light duty clutch kits</li> <li>Ignition leads</li> <li>Truck clutch components</li> <li>Automotive oil seals</li> <li>Underbody spares replacement</li> <li>4x4 suspension and accessories</li> </ul>

# CONSUMER-RELATED PRODUCTS

## POWER TOOLS AND FASTENERS











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Principal Businesses	Principal Brands
   	     
Main markets	Used for
<ul style="list-style-type: none"> <li>Construction</li> <li>Mining</li> <li>D.I.Y</li> <li>Agriculture</li> <li>Recreational boating</li> <li>Commercial marine</li> <li>Manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>Building</li> <li>Installations</li> <li>D.I.Y.</li> <li>Propulsion of boats</li> <li>Fastening in all industries</li> <li>Surveying</li> </ul>

# CONSUMER-RELATED PRODUCTS

## DATA AND COMMUNICATION EQUIPMENT












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Principal Businesses	Principal Brands
   <p>telecoms our solutions. <b>your success</b></p>	 <p>Listen to the <u>Future</u></p>  <p>GRANDSTREAM CONNECTING THE WORLD</p>    <p>UBIQUITI NETWORKS</p>   <p>Cambium Networks</p>
Main markets	Used for
<ul style="list-style-type: none"> <li>▪ Military and police</li> <li>▪ Mining</li> <li>▪ Municipal</li> <li>▪ Security</li> <li>▪ Transport</li> <li>▪ Telecommunications operators</li> <li>▪ Technology resellers</li> <li>▪ Wireless, internet, fibre service providers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mobile communication</li> <li>▪ Control centres</li> <li>▪ Personal communication</li> <li>▪ Residential/commercial telephony</li> <li>▪ Data solutions</li> <li>▪ Network infrastructure</li> <li>▪ Outdoor wireless network</li> <li>▪ Wi-Fi access networks</li> <li>▪ Fibre optic networks</li> </ul>

# CONSUMER-RELATED PRODUCTS

## BATTERIES















*Hudaco*

Principal Businesses	Principal Brands
  	       
Main markets	Used for
<ul style="list-style-type: none"> <li>■ UPS / standby batteries</li> <li>■ Solar system</li> <li>■ Security</li> <li>■ Motor industry</li> <li>■ Mining</li> <li>■ Alternative energy</li> <li>■ Surface motive power</li> <li>■ Battery bays</li> </ul>	<ul style="list-style-type: none"> <li>■ Back-up power (UPS, inverters, alarms)</li> <li>■ Solar systems</li> <li>■ Generator starting</li> <li>■ Motor vehicles</li> <li>■ Underground locomotive traction</li> <li>■ Energy load shifting</li> <li>■ Materials handling</li> <li>■ Distribution centres</li> </ul>

# CONSUMER-RELATED PRODUCTS

## SECURITY EQUIPMENT

*Hudaco*

Principal Businesses	Principal Brands
   	         
Main markets	Used for
<ul style="list-style-type: none"> <li>Residential security</li> <li>Commercial security</li> <li>Project consultants</li> <li>Systems integrators</li> </ul>	<ul style="list-style-type: none"> <li>Intrusion detection</li> <li>Video surveillance</li> <li>Access control</li> <li>Perimeter detection</li> <li>Fire detection</li> <li>Data storage</li> <li>Building management systems</li> <li>Intelligent video analysis</li> </ul>



# SEGMENT RESULTS – CONSUMER-RELATED PRODUCTS *Hudaco*















Rm	Turnover			Op Margin		Operating Profit		
	2019	% ch	2018	2019	2018	2019	% ch	2018
Ongoing operations	3 389	(0,1)	3 392	11,5%	13,3%	391	(13,3)	451
New businesses	200		99	14,7%	11,1%	30		11
<b>Segment total</b>	<b>3 589</b>	<b>2,8</b>	<b>3 491</b>	<b>11,7%</b>	<b>13,2%</b>	<b>421</b>	<b>(9,0)</b>	<b>462</b>

- The back-up power and automotive battery businesses had a good year
- Integration of Boltworld into Rutherford's new DC was problematic, now settled
- Power tool volumes declined, in line with the consumer market
- Disappointing results from Pentagon and Global due to no projects being awarded

# ENGINEERING CONSUMABLES

## BEARINGS AND BELTING













*Hudaco*

Principal Businesses	Principal Brands
   	         
Main markets	Used for
<ul style="list-style-type: none"> <li>▪ Mining</li> <li>▪ Construction</li> <li>▪ Power generation</li> <li>▪ General industry</li> <li>▪ Automotive OEM's</li> <li>▪ Manufacturing</li> <li>▪ Sugar industry</li> <li>▪ Food processing</li> <li>▪ Tobacco industry</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mining equipment</li> <li>▪ Process control and measurement</li> <li>▪ General machinery and equipment</li> <li>▪ Maintenance</li> <li>▪ Automotive OE supply</li> <li>▪ Conveyor systems</li> </ul>

# ENGINEERING CONSUMABLES

## ELECTRICAL POWER TRANSMISSION


*Hudaco*

Principal Businesses	Principal Brands
 <p>THE CABLE ACCESSORY COMPANY</p>   	       
Main markets	Used for
<ul style="list-style-type: none"> <li>▪ Mining</li> <li>▪ Wholesale and retail</li> <li>▪ Materials handling</li> <li>▪ Ports</li> <li>▪ Manufacturing</li> <li>▪ Automation</li> <li>▪ Power generation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Electrification of mobile machinery</li> <li>▪ Connection of electrical power in industry</li> <li>▪ Maintenance and repairs</li> <li>▪ Electrical panel building</li> <li>▪ Power stations</li> <li>▪ Automation and control of electric motors</li> </ul>

# ENGINEERING CONSUMABLES



## HYDRAULICS AND PNEUMATICS

*Hudaco*

Principal Businesses	Principal Brands
    	     
Main markets	Used for
<ul style="list-style-type: none"> <li>Industrial</li> <li>Manufacturing</li> <li>Food processing plants</li> <li>Mining</li> </ul>	<ul style="list-style-type: none"> <li>Industrial automation</li> <li>Process automation</li> <li>Breweries</li> <li>Mining equipment</li> <li>Fluid conveyance &amp; control</li> </ul>

# ENGINEERING CONSUMABLES SPECIALISED STEEL










*Hudaco*

Principal Businesses	Principal Brands
 <p><b>JOSEPH GRIEVESON</b> EST 1915 SUPPLIERS OF FERROUS AND NON-FERROUS CASTINGS</p>	 <p><b>JOSEPH GRIEVESON</b> EST 1915 SUPPLIERS OF FERROUS AND NON-FERROUS CASTINGS</p>
Main markets	Used for
<ul style="list-style-type: none"> <li>▪ Mining</li> <li>▪ Manufacturing</li> <li>▪ Pressure vessels</li> <li>▪ Road tankers</li> <li>▪ Sugar industry</li> <li>▪ General industry</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mining equipment</li> <li>▪ Sugar processing</li> <li>▪ General steel applications</li> <li>▪ Pressure vessel ends</li> <li>▪ Petro-chemical plants</li> <li>▪ Aerators and mixing</li> <li>▪ Fabrication</li> <li>▪ Conveyor systems</li> <li>▪ Aerators and mixing</li> </ul>

# ENGINEERING CONSUMABLES

## OTHER

*Hudaco*

Principal Businesses	Principal Brands
  	     
Main markets	Used for
<ul style="list-style-type: none"> <li>▪ Mining</li> <li>▪ Earthmoving equipment</li> <li>▪ Opencast mining</li> <li>▪ Construction</li> <li>▪ On and off-road trucks</li> <li>▪ Agri equipment</li> <li>▪ Irrigation</li> <li>▪ Sewage reticulation</li> <li>▪ Plastic moulding</li> </ul>	<ul style="list-style-type: none"> <li>▪ Materials handling</li> <li>▪ Oil, air, fuel and hydraulic filtration</li> <li>▪ Industrial air filtration</li> <li>▪ Condensate drain management</li> <li>▪ Plastic moulds</li> <li>▪ Mining equipment</li> <li>▪ OEM supply</li> <li>▪ Generator sets</li> </ul>

## SEGMENT RESULTS – ENGINEERING CONSUMABLES

*Hudaco*

Rm	Turnover			Op Margin		Operating Profit		
	2019	% ch	2018	2019	2018	2019	% ch	2018
Ongoing operations	3 097	6,4	2 910	9,1%	8,4%	282	14,6	246
New businesses	23			9,8%		2		
<b>Segment total</b>	<b>3 120</b>	<b>7,2</b>	<b>2 910</b>	<b>9,1%</b>	<b>8,4%</b>	<b>284</b>	<b>15,5</b>	<b>246</b>

- Deutz Dieselpower and Bosworth had a very good year
- Most other businesses in this segment had a much-improved year
- Benefits from the strengthening and restructuring of this segment are starting to come through
- Few to no projects in our thermoplastic pipes and fittings business
- Disappointing results from Ambro Steel
- This result demonstrates the leverage a small increase in turnover has on the bottom line

# SEGMENT RESULTS 2019

*Hudaco*

Rm	Turnover			Op Margin		Operating Profit		
	2019	% ch	2018	2019	2018	2019	% ch	2018
Consumer-related products	3 589	2,8	3 491	11,7%	13,2%	421	(9,0)	462
Engineering consumables	3 120	7,2	2 910	9,1%	8,4%	284	15,5	246
Head office, shared services & eliminations	(5)		(20)			(4)		(53)
<b>Total Group</b>	<b>6 704</b>	<b>5,1</b>	<b>6 381</b>	<b>10,4%</b>	<b>10,3%</b>	<b>701</b>	<b>6,9</b>	<b>655</b>



## FINANCIAL REVIEW



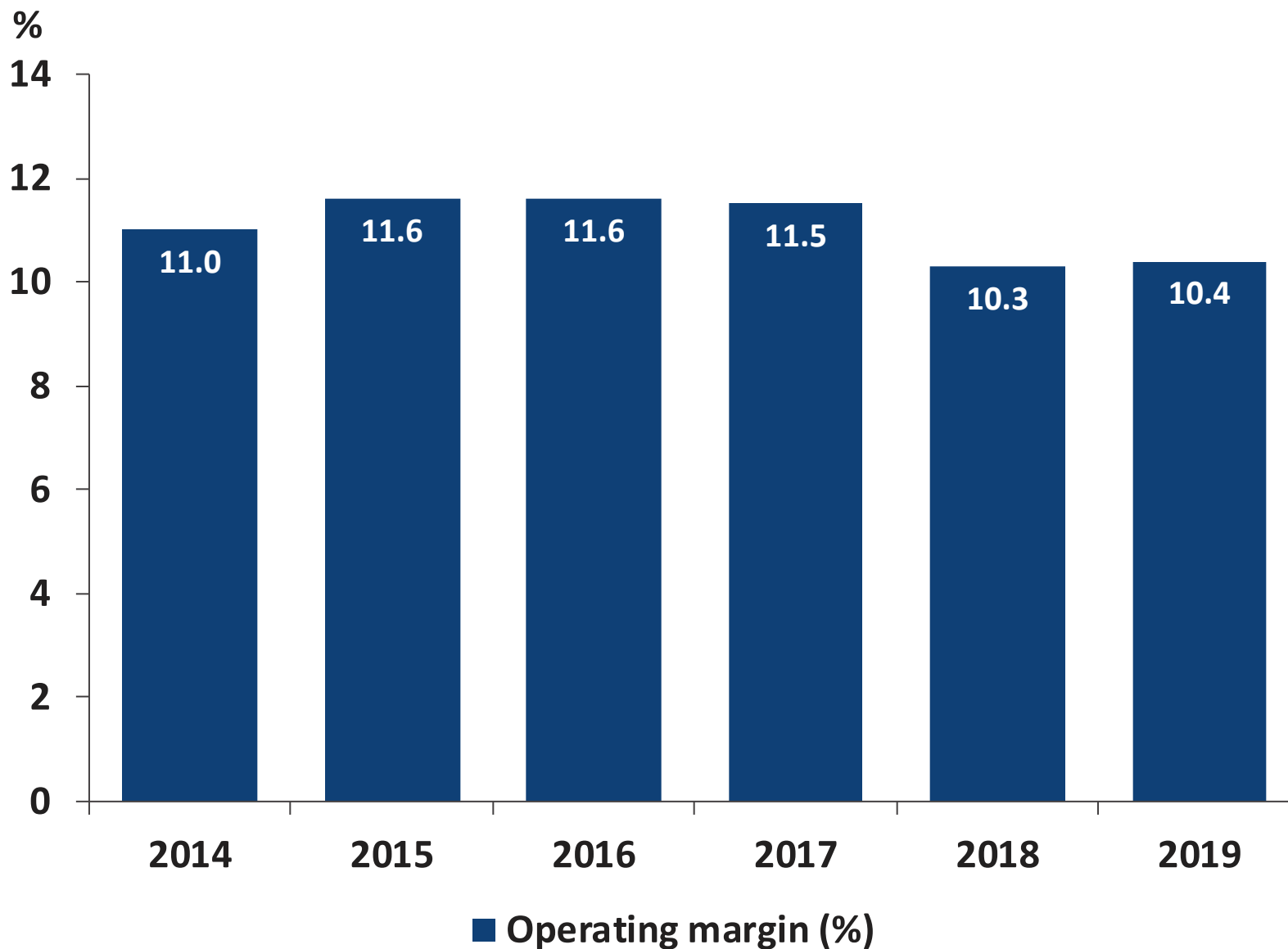
## PROFIT FOR THE YEAR

*Hudaco*

Rm	2019	% ch	2018
<b>Turnover</b>	<b>6 704</b>	<b>5,1</b>	<b>6 381</b>
- Ongoing operations	<b>6 481</b>	<b>3,2</b>	<b>6 282</b>
- New businesses	<b>223</b>		<b>99</b>
<b>Gross profit</b>	<b>2 441</b>	<b>5,1</b>	<b>2 321</b>
Operating expenses	<b>1 740</b>	<b>4,4</b>	<b>1 666</b>
- Ongoing operations	<b>1 659</b>	<b>1,3</b>	<b>1 638</b>
- New businesses	<b>81</b>		<b>28</b>
<b>Operating profit</b>	<b>701</b>	<b>6,9</b>	<b>655</b>
- Ongoing operations	<b>669</b>	<b>3,8</b>	<b>644</b>
- New businesses	<b>32</b>		<b>11</b>
<b>Margin (%)</b>			
<b>Turnover</b>	<b>100,0</b>		<b>100,0</b>
<b>Gross profit</b>	<b>36,4</b>		<b>36,4</b>
<b>Operating expenses</b>	<b>26,0</b>		<b>26,1</b>
<b>Operating profit</b>	<b>10,4</b>		<b>10,3</b>

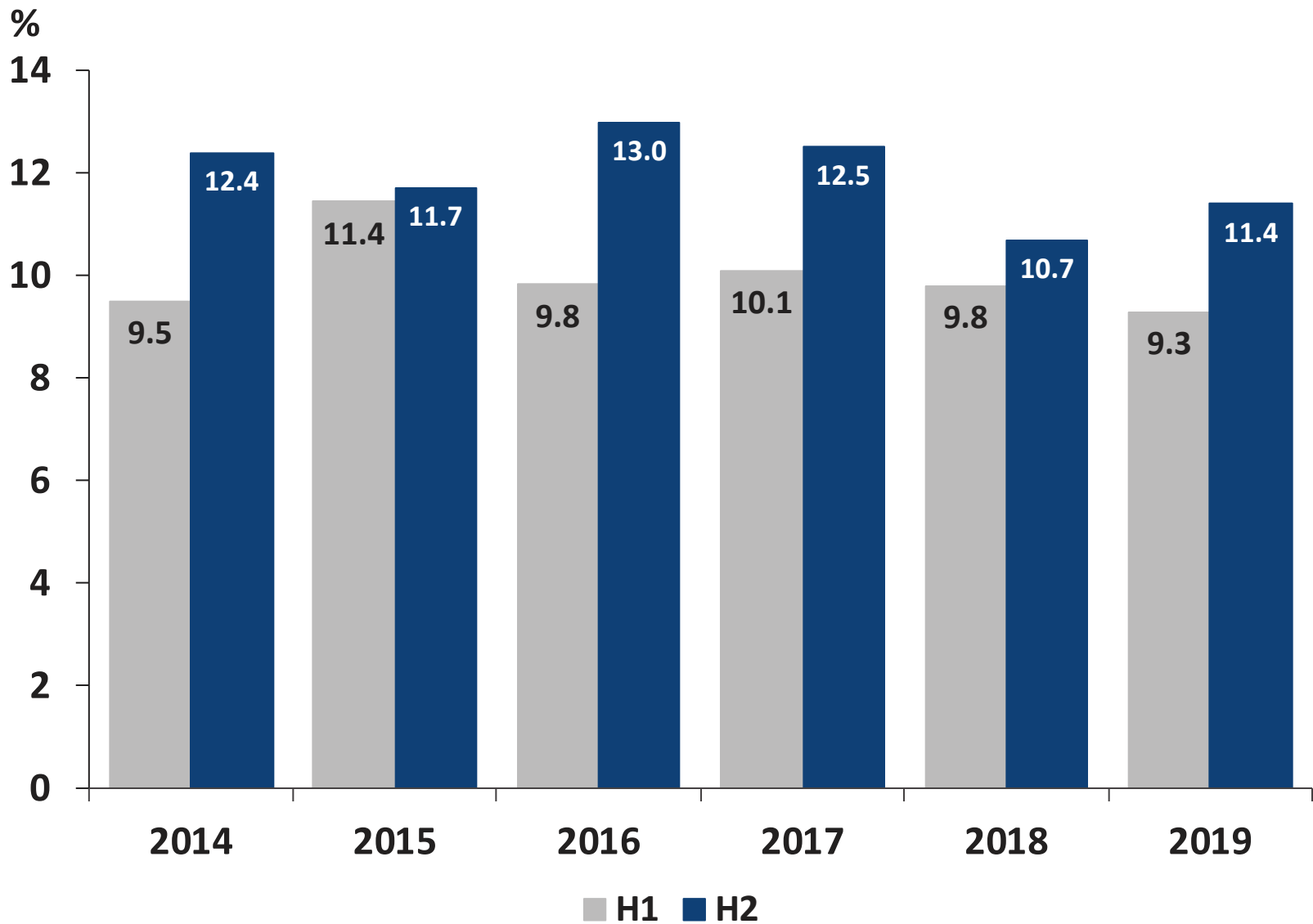
# LONG-TERM OPERATING MARGIN PERFORMANCE

*Hudaco*



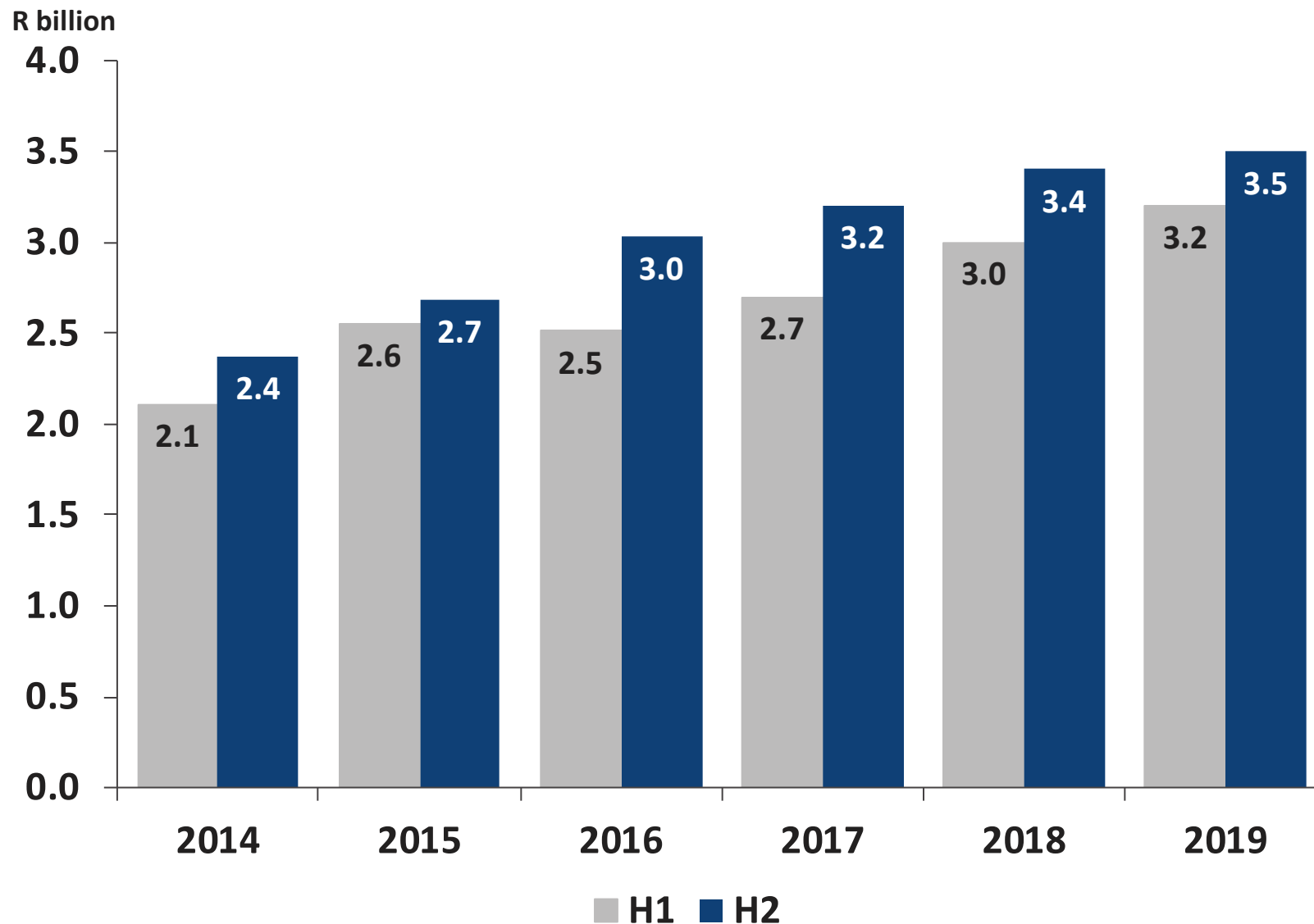
# OPERATING MARGIN FOR THE YEAR

*Hudaco*



# TURNOVER FOR THE YEAR

*Hudaco*



## PROFIT FOR THE YEAR

*Hudaco*

Rm	2019	% ch	2018
<b>Operating profit</b>	<b>701</b>	<b>6,9</b>	<b>655</b>
Net interest on funding	(103)		(91)
Fair value adjustment to amounts due to vendors	30		11
-Adjustment for time-value of money (imputed interest)	(12)		(23)
-Adjustment to estimated capital value	42		34
Impairment of goodwill and intangibles			(34)
<b>Profit before taxation</b>	<b>628</b>	<b>16,0</b>	<b>541</b>
Taxation (Rate 2019: 25,5% 2018:26,7%)	(160)		(144)
<b>Profit after tax</b>	<b>468</b>	<b>17,8</b>	<b>397</b>
Income from joint venture	3		3
<b>Profit for the year</b>	<b>471</b>	<b>17,6</b>	<b>400</b>
Non-controlling interest	(42)		(19)
<b>Attributable earnings</b>	<b>429</b>	<b>12,7</b>	<b>381</b>

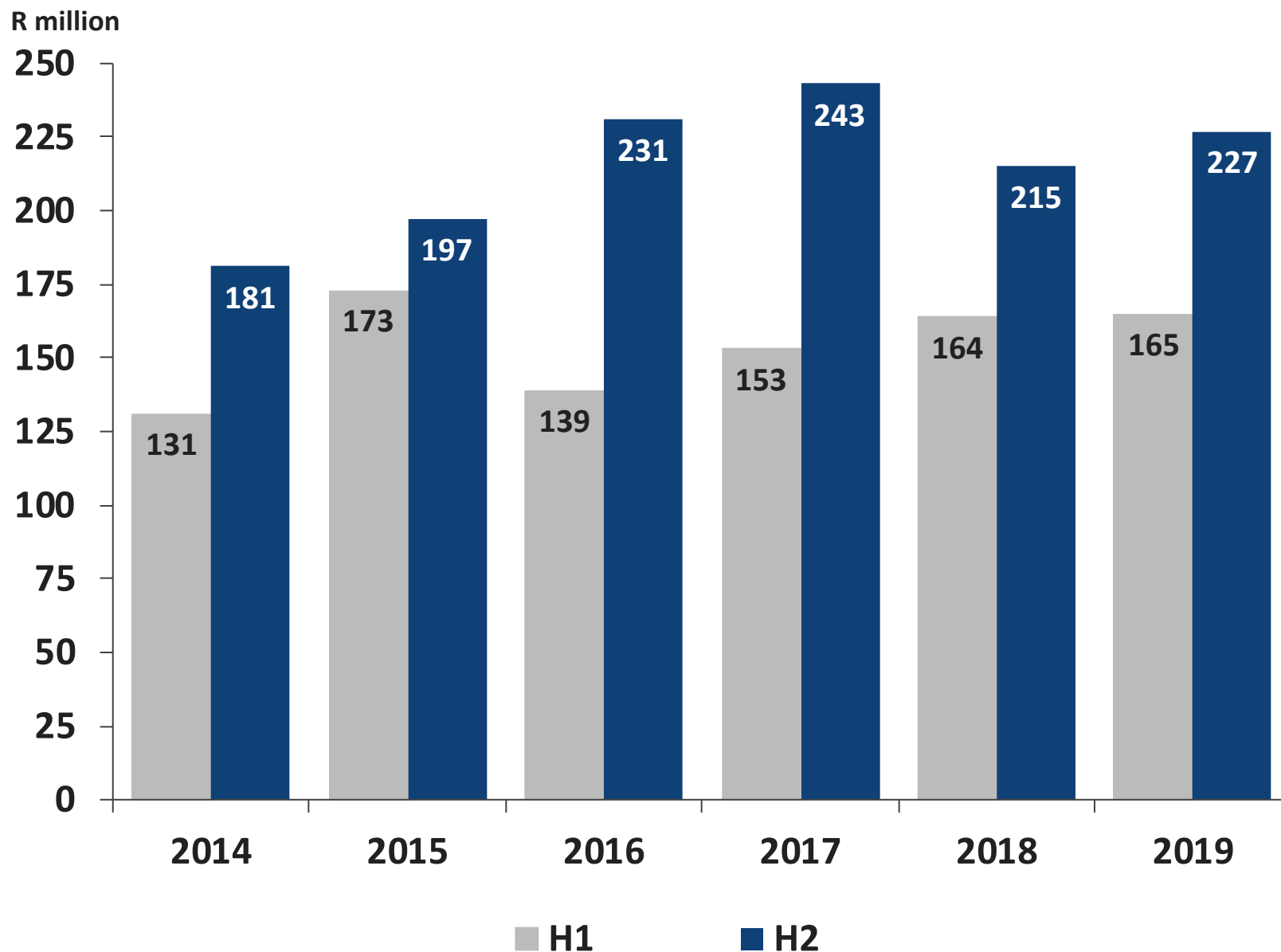
## COMPARABLE EARNINGS FOR THE YEAR

*Hudaco*

Rm	2019	% ch	2018
<b>Attributable earnings</b>	<b>429</b>	12,7	<b>381</b>
Impairment of goodwill and intangibles			<b>34</b>
Non-controlling interest			<b>(5)</b>
Profit on disposal of PPE			<b>(2)</b>
<b>Headline earnings</b>	<b>429</b>	5,1	<b>408</b>
Fair value adjustment to estimated capital value of vendor liabilities	<b>(42)</b>		<b>(34)</b>
Non-controlling interest	<b>5</b>		<b>5</b>
<b>Comparable earnings</b>	<b>392</b>	<b>3,5</b>	<b>379</b>

# COMPARABLE EARNINGS FOR THE YEAR

*Hudaco*





## EARNINGS PER SHARE AND DIVIDENDS

*Hudaco*

Cents	2019	% ch	2018
<b>Earnings per share</b>			
Comparable	1 240	3,5	1 198
Basic	1 355	12,7	1 202
Headline	1 355	5,1	1 289
<b>Dividends per share</b>			
- Interim	190		190
- Final	410	7,9	380
<b>Total</b>	<b>600</b>	<b>5,3</b>	<b>570</b>
<b>Dividend cover (times)</b>			
	2,1		2,1

# STATEMENT OF FINANCIAL POSITION

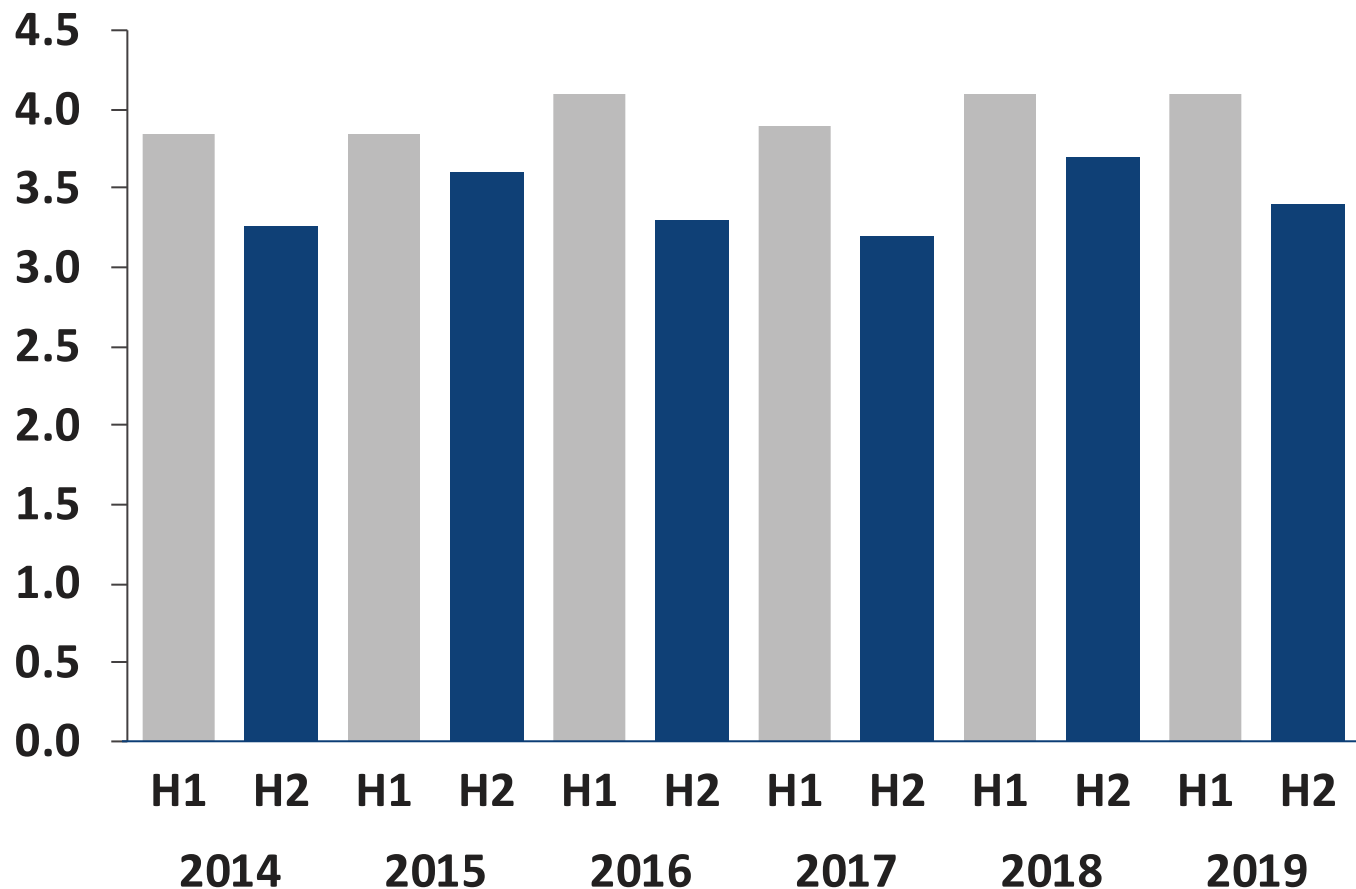
*Hudaco*

Rm	Nov 19	Nov 18
<b>Working capital</b>	<b>2 021</b>	<b>2 111</b>
Property, plant and equipment	302	277
Goodwill and intangibles	1 535	1 554
Investment in joint venture	12	9
Tax	48	39
<b>Net assets</b>	<b>3 918</b>	<b>3 990</b>
Equity	2 843	2 579
Bank borrowings	1 008	1 163
Due to vendors	65	214
Tax	2	34
<b>Total equity and liabilities</b>	<b>3 918</b>	<b>3 990</b>

# WORKING CAPITAL

*Hudaco*

In months of sales



One month of sales:

2019 = R559m    2018 = R532m

- Working capital traditionally peaks end of H1 to cope with anticipated increased seasonal demand in H2
- Sales generally split 45/55 between H1 and H2 (2019: 47/53)

## CASH FLOW FOR THE YEAR

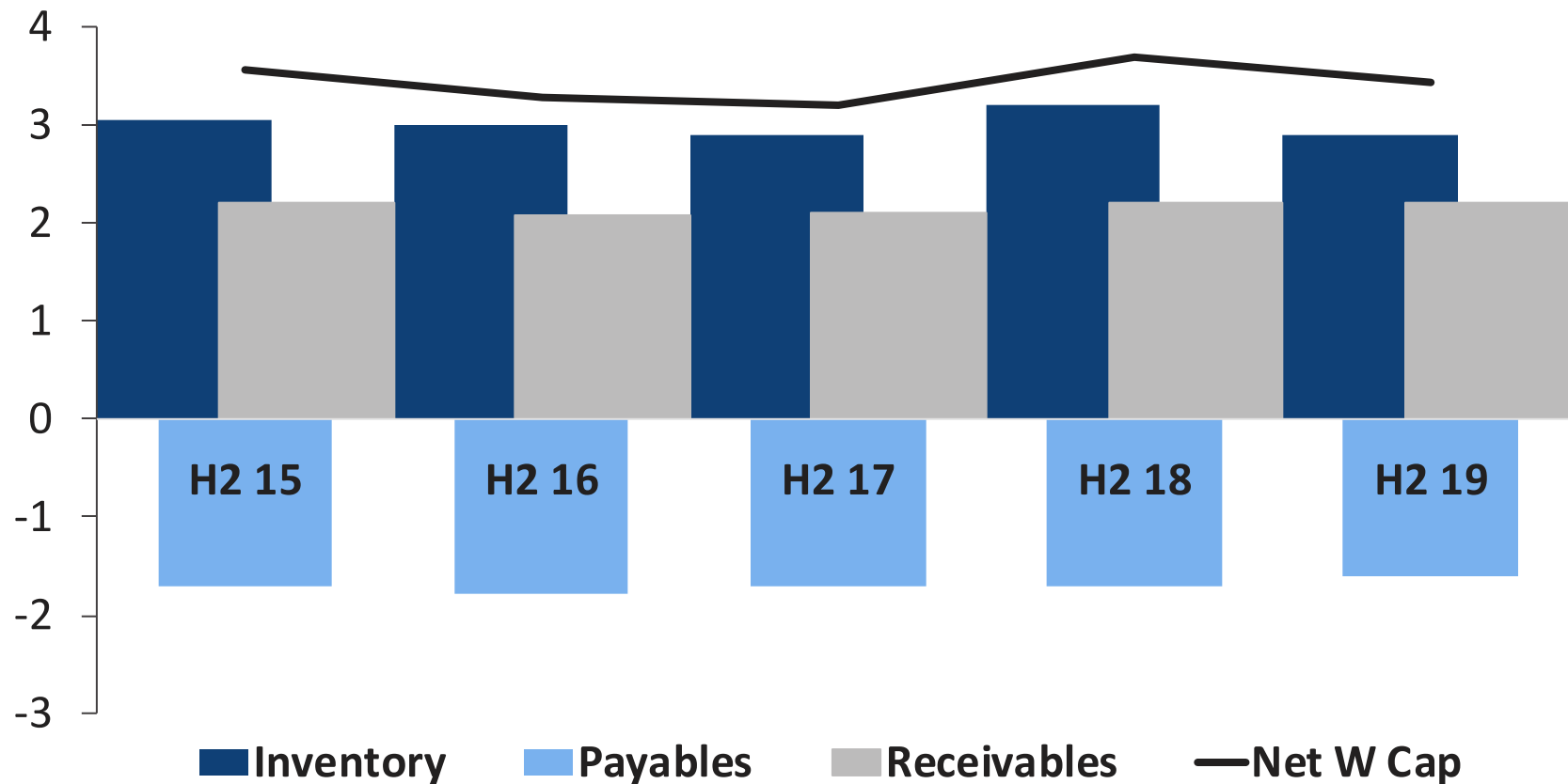
*Hudaco*

Rm	2019	2018
Cash from trading	794	760
Decrease (increase) in working capital	59	(292)
<b>Cash from operations</b>	<b>853</b>	<b>468</b>
Finance costs	(103)	(91)
Tax paid	(196)	(164)
<b>Cash generated after tax</b>	<b>554</b>	<b>213</b>
Share-based payments	(22)	(18)
Dividends paid	(189)	(211)
Dividends received		4
Invested in new businesses	(114)	(242)
Invested in property, plant and equipment	(74)	(51)
<b>Net movement</b>	<b>155</b>	<b>(305)</b>
Foreign exchange translation gain		2
Opening borrowings	(1 163)	(860)
<b>Closing borrowings</b>	<b>(1 008)</b>	<b>(1 163)</b>

# WORKING CAPITAL ELEMENTS

*Hudaco*

In months of sales



One month of sales (in H2)

2015 = R447m

2017 = R539m

2019 = R588m

2016 = R505m

2018 = R571m

# EXCHANGE RATE ENVIRONMENT

**Hudaco**

- We import directly 65% of group cost of sales
- On average these cost 4% more in H2 2019 than H2 2018
- The average cost for the full year was 8% up on 2018
- We do not take a house view on exchange rates
- We hedge all liabilities and on average 30% of orders

## Import currencies:

- USD\* 68%
- Euro 25%
- Yen 6%
- GBP 1%

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

Ave rate	2011	2012	2013	2014	2015	2016	2017	2018	2019		
									H1	H2	Year
USD	7,2	8,2	9,5	10,8	12,5	14,8	13,4	13,1	14,1	14,7	14,4
Euro	9,9	10,6	12,6	14,4	14,0	16,4	15,0	15,5	16,0	16,4	16,2
Index	59	66	74	86	93	100	100	100	106	111	108

- Inventories are down R102m
- Working capital has normalised as targeted
- Focus on working capital management will be sustained
- Exchange rate impacts working capital requirements
- Currency volatility makes gross margin difficult to manage
- Expenses have been tightly managed
- Debt (bank and vendors) is down R304m
- We are well within our banking covenants and facilities are available
- Capital allocation is always an important consideration
- First prize remains quality acquisitions

## OUTLOOK





- Hudaco sales are predominantly driven by GDP activity
- Any GDFI adds capacity for future GDP activity
- Rand exchange rate has a big impact on pricing and profitability
- Hudaco is a diversified group that is made up of 35 separate decentralised businesses
  - 21 in engineering consumables
  - 14 in consumer-related products
- Strong experienced management team – managing what we can control
- Hudaco is resilient and our businesses are well placed to benefit immediately from any improvement in the economy

- We don't see much change in the economy in the year ahead
- We urge the President to lead the meaningful action needed from the government on the economic front to kick-start the economy
- Consumer-related products face another tough year
- Improvement in our fastener business
- Battery businesses to have another good year
- Growth in the data connectivity sector is expected to continue
- In engineering consumables we will continue to focus on extracting synergies and efficiencies (value proposition)
- We will manage the elements within our control and generate cash

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