

Hudaco

Interim results

For the six months ended 31 May 2013

Agenda

■ General business environment

■ Results summary and operating segments

■ Financial review and taxation

■ Outlook

General business environment

- Global economic environment still weak but there are signs that it is starting on road to normality
- SA economy has weakened in the last year
- Turmoil in the mining industry has particularly affected Hudaco
- Rand volatility makes pricing challenging
- Taking tax issue seriously but are confident of our position
- These results indicate that the business is in good shape



Results summary and operating segments

Results summary

Turnover	↑ 14% to R 1 813m
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Operating profit	↑ 8% to R 195m
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Headline earnings	↑ 1.5% to R 142m
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Comparable earnings per share	↑ 13% to 440 cps
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HEPS	↑ 1.5% to 448 cps
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Dividends per share	→ maintained at 155 cps
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Net borrowings	↑ to R148m
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Operating background to the results

- Mining industry under pressure – commodity prices, strikes, infrastructure
- Up to 50% of Hudaco's sales are directly or indirectly into the mining industry
- Underground mining (gold and platinum) particularly affected
- Opencast mining (mainly iron ore and coal) not affected to same extent
- Consumer spending weakening
- Niche areas performed well eg digital communication and high-end security integration
- Exports into Africa growing steadily
- Volatile Rand creates pricing challenges which impacts margins
- BEE financing arrangements were restructured

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
- Concept of “value added distribution” is core to our business model

Operating segments

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

2013 and 2012 acquisitions

2013 Three-D Agencies

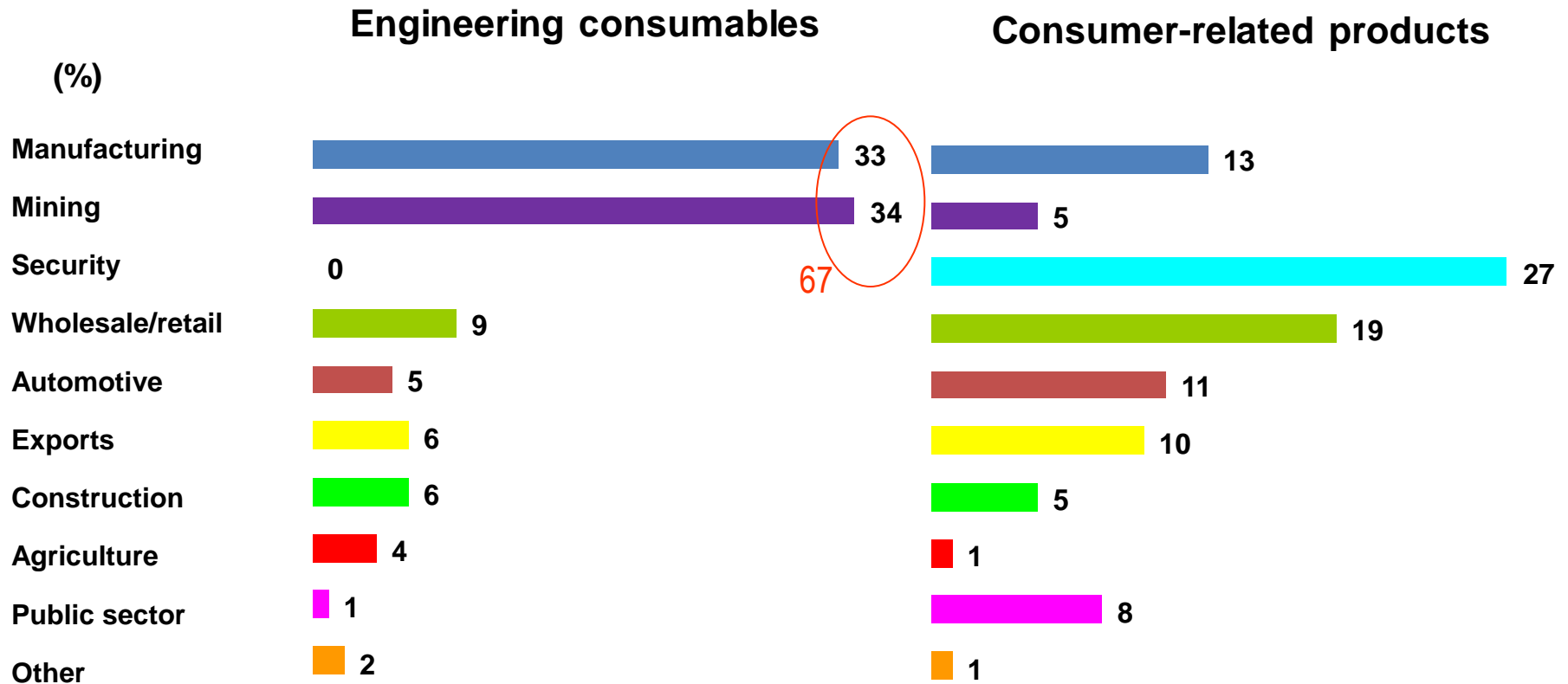
- Distributor of specialised cable accessories, test equipment and tools
- Brands: Betaflex, Uni-T, Stanley
- Part of strategy to expand electrical transmission range
- A fit with Powermite's cabling business
- Effective date 1 May 2013
- Initial payment R21.5m
- 3 year earn-out
- Maximum price R28.5m



2012

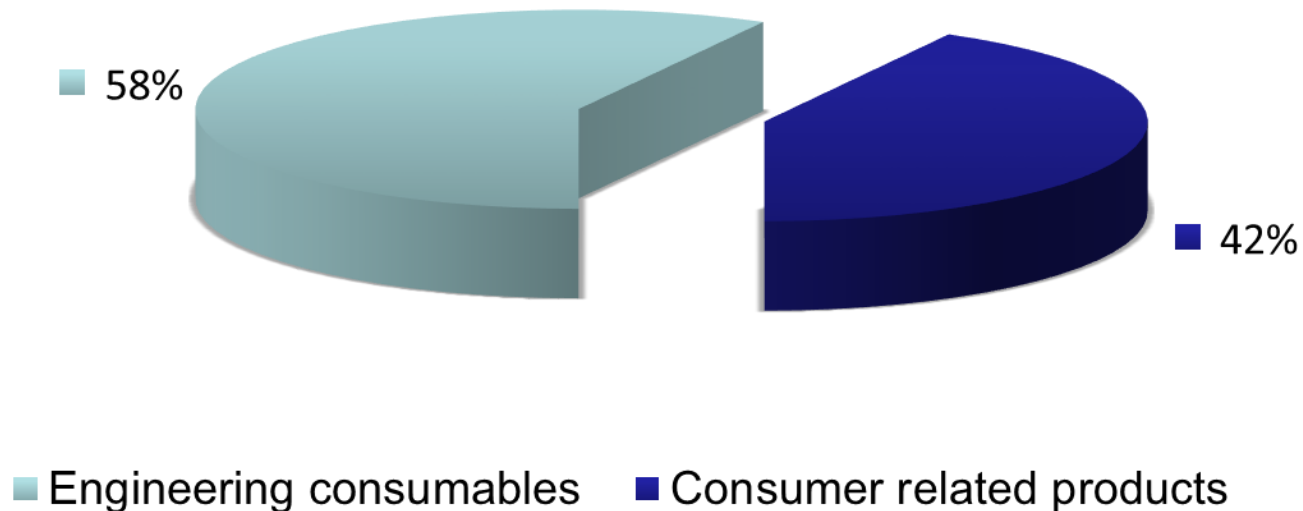
Deltec (R42m)
Keymak (R64m)
Proof Engineering (R25m)

2012 segment sales by market sector



Segment contributions

Contribution to Operating Profit – 6 months to May 2013 (before shared services and head office)



Segment results

	Rm	Turnover			Op Margin(%)		Operating Profit		
		2013	% ch	2012	2013	2012	2013	% ch	2012
Engineering consumables		1 133	6%	1 064	10.5%	11.5%	119	-2%	122
Consumer related products		684	28%	533	12.4%	12.9%	85	23%	69
Head office, shared services & eliminations		-4		-4			-9		-10
Total Group		1 813	14%	1 593	10.8%	11.3%	195	8%	181

Profit for the period

	Rm	2013	% Ch	2012
Turnover		1 813	14	1 593
- Ongoing businesses		1 664	5	1 586
- Acquisitions in 2012 and 2013		149		7
Gross profit		665	8	613
Operating expenses		(470)	9	(432)
Operating profit		195	8	181
- Ongoing businesses		180	-	179
- Acquisitions in 2012 and 2013		15		2

Margin (%)			
Turnover	100.0		100.0
Gross profit	36.7		38.5
Operating expenses	25.9		27.1
Operating profit	10.8		11.3



Financial review and taxation

Restructure of BEE financing arrangements

- In response to the BEE imperative, Hudaco restructured in 2007
- Tax law changes meant preference dividend would become fully taxable but had a solution
- Notice from SARS in Nov 2012 outlined a structure behind our BEE transaction – complete surprise to Hudaco
- In light of the new information we decided not to implement solution
- Exercised right to ask Cadiz to gross up dividend
- Cadiz redeemed preference shares instead
- Morgan Stanley put the Hudaco Trading debenture to Hudaco
- BEE structure financed internally since 28 February 2013
- Net effect on profit after tax is R33m pa
- BEE shareholders and credentials remain in place

Tax challenge

- SARS have uncovered complex arrangements connected to our 2007 structure and believe Hudaco was party to them
- Hudaco had no knowledge or suspicion of these and is confident of refuting the assessments
- Assessments 2007- 2011 total R1.9bn, including interest and penalties
- Contingent liability R1.6bn, without double counting and brought up to date
- “Pay now, argue later” – agreed to pay R20m per quarter until legal process concluded
- Estimate 2 to 3 years

Profit for the period

	Rm	2013	% Ch	2012
Operating profit		195	8%	181
Net interest on working capital		(3)		(2)
Interest paid to vendors (imputed)		(3)		(5)
Interest paid on sub. debentures		(58)		(117)
Preference dividend received		50		101
Profit before taxation		181	15%	158
Taxation (Rate 2013:21% 2012:10%)		(38)		(16)
Profit after taxation		143	-	142
Non-controlling interest		(1)		(2)
Attributable and headline earnings		142	-	140

Comparable earnings for the period

Rm	2013	% Ch	2012
Operating profit	195	8%	181
Net interest on working capital	(3)		(2)
Interest paid to vendors (imputed)	(3)		(5)
Interest paid on sub. debentures	-		-
Preference dividend received	-		-
Profit before taxation	189	9%	174
Taxation (Rate 2013:26% 2012:28%)	(49)		(49)
Profit after taxation	140	12%	125
Non-controlling interest	(1)		(2)
Attributable and headline earnings	139	13%	123

Earnings per share and dividends

	2013	% Ch	2012
Earnings per share			
Basic EPS	448c	1.5%	441c
Headline earnings per share	448c	1.5%	441c
Comparable earnings per share	440c	13%	390c

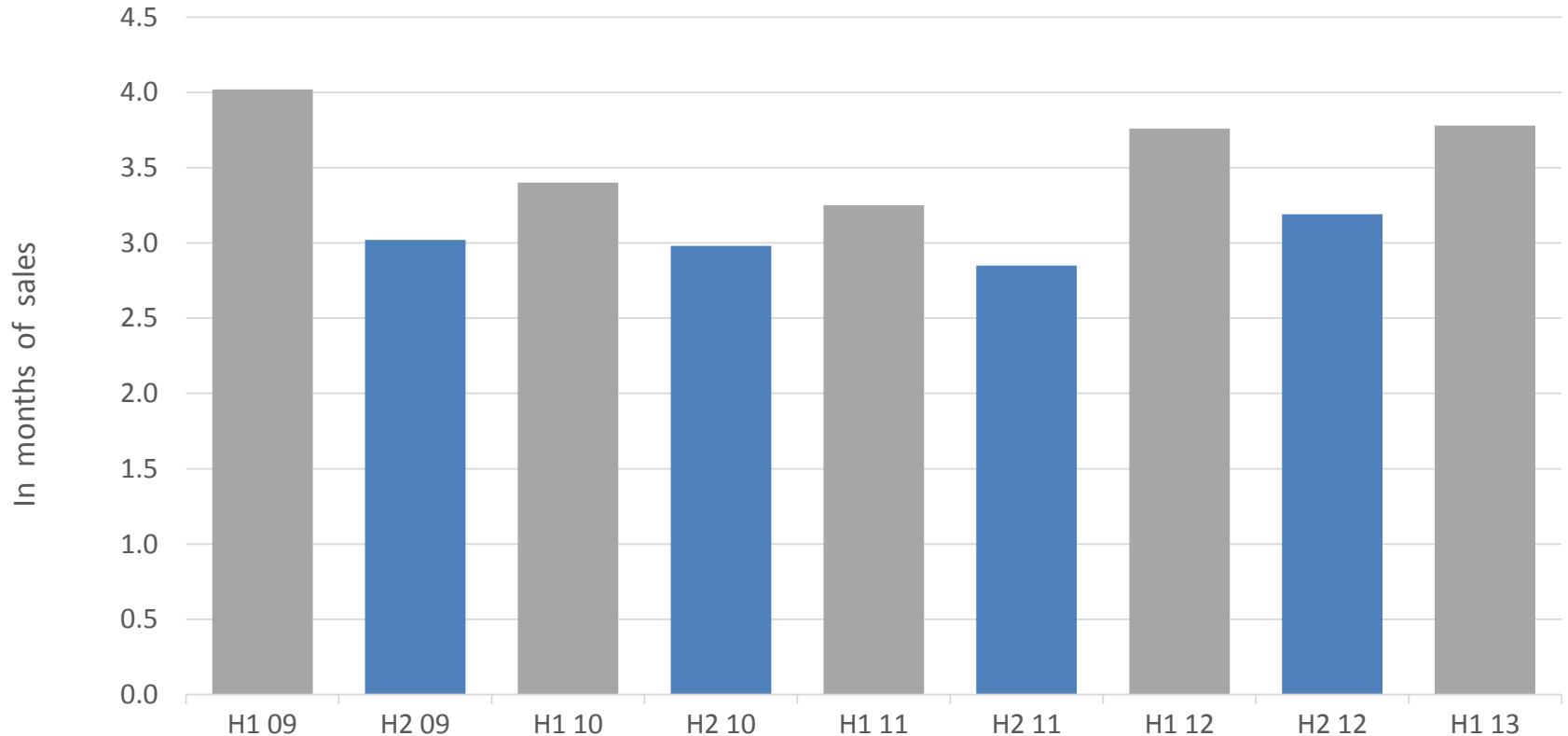
Dividends per share			
Interim	155c	-	155c
Final			310c
Total			465c

Dividend policy: annual dividends = approximately 40% of heps

Statement of financial position

Rm	May 13	Oper	Restru	Div	Acq	Nov 12
Working capital	1 154	125			18	1 011
Property, plant equipment	210	4			1	205
Goodwill and intangibles	643	(9)			9	643
Tax	(29)	(34)				5
Net operating assets	1 978	86			28	1 864
Cash	(148)	(23)		(108)		(17)
Investment in pref shares	-		(2 181)			2 181
Net assets	1 830	63	(2 181)	(108)	28	4 028
Equity	1 739	151		(108)		1 696
Subordinated debenture	-		(2 181)			2 181
Due to vendors	91	(88)			28	151
Total capital employed	1 830	63	(2 181)	(108)	28	4 028

Working capital



One month of sales: H1 2013 = R 305m; H1 2012 = R 269m

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 (2012: 47:53 if acquisitions in for full year)

Cash flow – for the six months

	Rm	May 13		May 12
Cash from trading		221		203
Increase in working capital		(114)		(162)
Cash from operating activities		107		41
Net finance costs		(12)		(23)
Tax paid		(5)		(25)
Cash flow from operations		90		(7)
Dividends paid		(108)		(114)
Invested in new businesses and property, plant and equipment		(114)		(62)
Net movement		(132)		(183)
Opening (borrowings) cash		(16)		166
Closing borrowings		(148)		(17)



Outlook

Outlook - reminders

- Hudaco sales are predominantly driven by GDP activity
- GDFI adds cream (and adds capacity for future GDP activity)
- Rand exchange rate has a big impact on pricing

Outlook by segment

Engineering consumables

- Low commodity prices have led to contraction of gold and platinum mining in South Africa
- Shortage of electricity and rail capacity constrains expansion of coal and iron ore mining
- Lack of common objectives for the mining industry by government, capital and labour also constrains investment
- Prospects for mining investment in neighbouring countries still good

Outlook by segment

Consumer-related products

- Growth in consumer spending slowing as employment stagnates and social grants reach saturation
- Industrial power tool sales remains strong but rapid growth is probably behind us
- Analogue to digital migration gathering pace
- Security equipment sales up as competitors struggle and spending on new housing and light industrial buildings grows

General outlook

- Tax challenge will take time to resolve but operational management are firmly focused on growing the business
- Rand weakness is typically good for Hudaco and our customers
- A pickup in mining and manufacturing activity in response is unlikely in current climate
- A sustained pickup in commodity prices depends on a turn-around in the world economy
- Acquisitions and the Africa initiative are strengthening and diversifying the earnings base
- Hudaco earnings performance in the medium term from existing businesses to be steady to moderately up, complemented by acquisitions

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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