

RESULTS PRESENTATION

SIX MONTHS ENDED 31 MAY 2016



Hudaco

OVERVIEW

- Initiatives over the past few years to reduce dependence on the mining and manufacturing sectors have proved successful
- Revenues and earnings from sectors of the economy that have better prospects continue to grow
- Portfolio of businesses still delivering very respectable returns under exceedingly difficult conditions
- Basic and headline earnings down 13.9%
- Comparable earnings down 19.7%
- Net cash generated from activities R172 million
- Dividend 170 cents per share, down 5.6%

AGENDA

- General business environment and results drivers
- Results summary and operating segments
- Financial review
- Outlook



GENERAL BUSINESS ENVIRONMENT AND RESULTS DRIVERS

GENERAL BUSINESS ENVIRONMENT

- South Africa, right now, is a difficult place to do business
- Trading conditions were extremely tough with the drought, anaemic economy and low commodity prices
- Rand volatility and weakness have made pricing extremely challenging
- This tough environment resulted in lower demand and created aggressive pricing pressure which reduced the return on sales
- The effect of this is being felt particularly in our engineering consumables sector
- Consumer spending slowing
- Acquisition strategy has been to favour diversification by buying businesses that are focused on markets with stronger growth potential
- Last year's first half results were boosted by approximately R50m profits from two sources that have not been repeated this period







RESULTS DRIVERS – H1 2016

- Engineering consumables segment continues to struggle
- Automotive businesses performing well
- Security businesses performed well – mainly projects
- Exports into Africa under pressure
- Remain strongly cash generative notwithstanding Rand weakness, tough conditions, payment of dividend and traditional stocking up for the busier second half



RESULTS SUMMARY AND OPERATING SEGMENTS

RESULTS SUMMARY

Turnover	 1.6% to R 2.5bn
Operating profit	 15.8% to R 246m
Basic and headline earnings per share	 13.9% to 472 cps
Comparable earnings per share	 19.7% to 440 cps
Dividends per share	 5.6% to 170 cps
Net borrowings	 R 137m to R 1 153m

THE HUDACO BUSINESS MODEL

- Hudaco's main business is the importation and distribution of high quality branded automotive, industrial and electrical 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

OPERATING SEGMENTS

Consumer-related products (9 businesses)

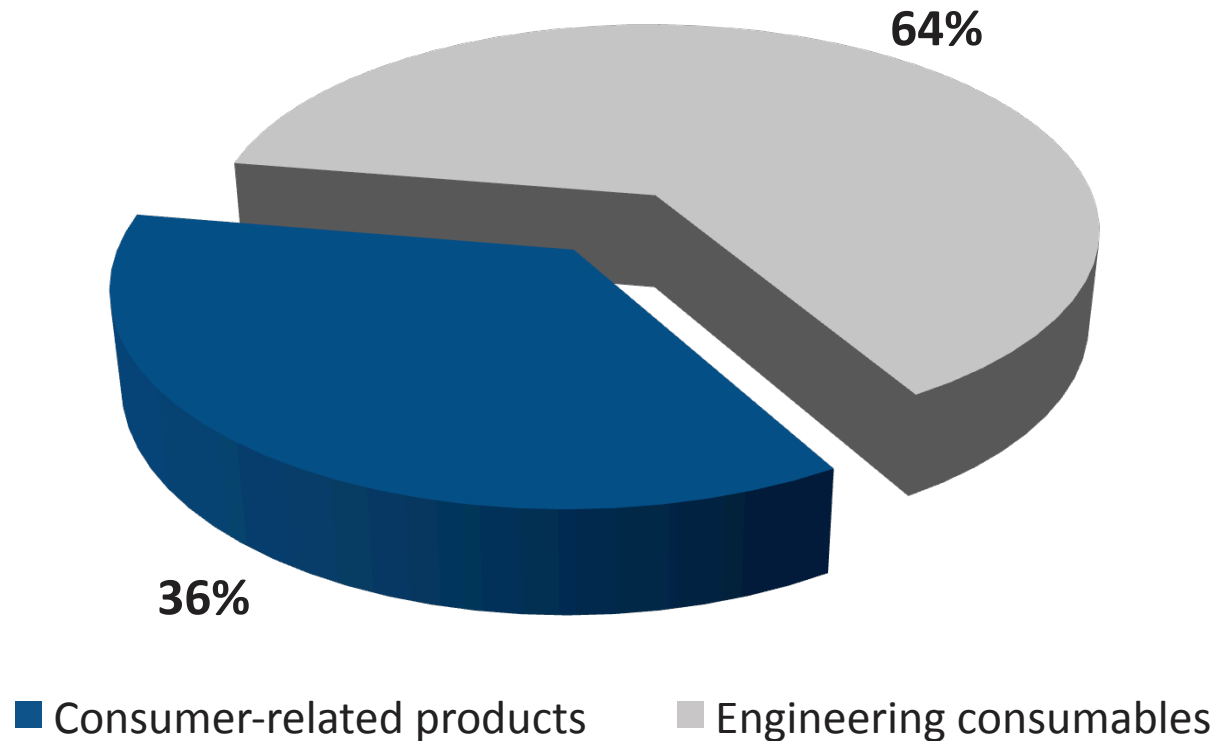
- Automotive aftermarket products
- Power tools
- Batteries
- Professional communication equipment
- Security equipment
- Data networking equipment

Engineering consumables (20 businesses)

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

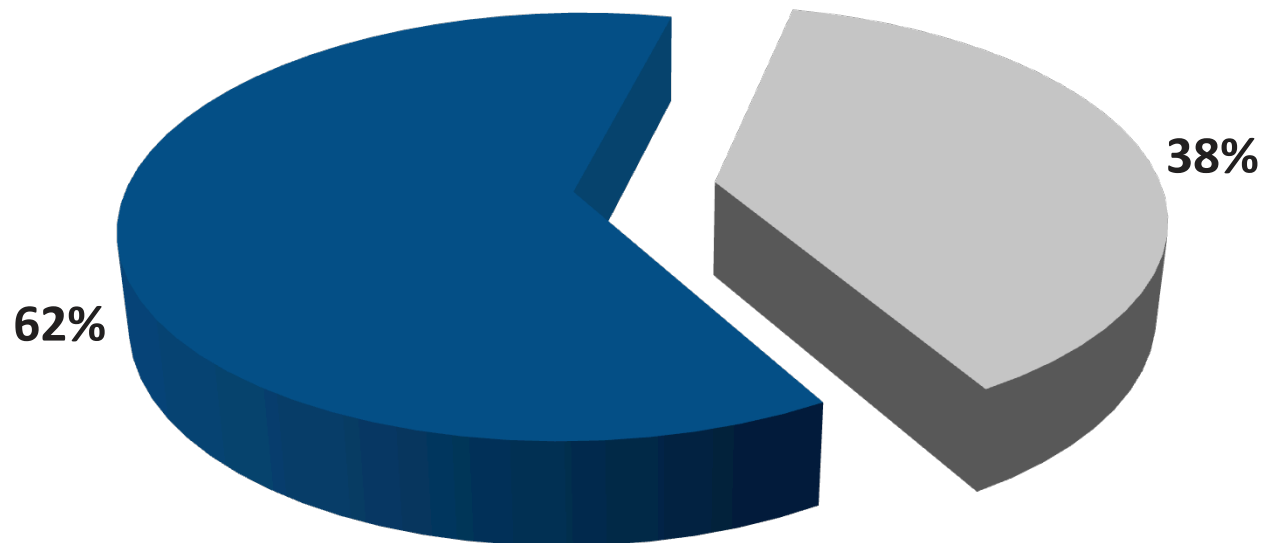
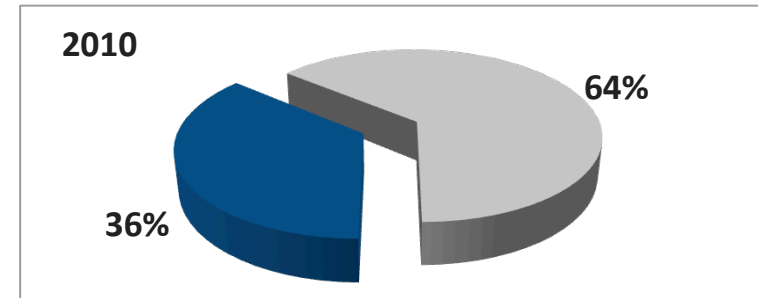
SEGMENT CONTRIBUTIONS

Contribution to 2010 operating profit
(before shared services and head office)



SEGMENT CONTRIBUTIONS

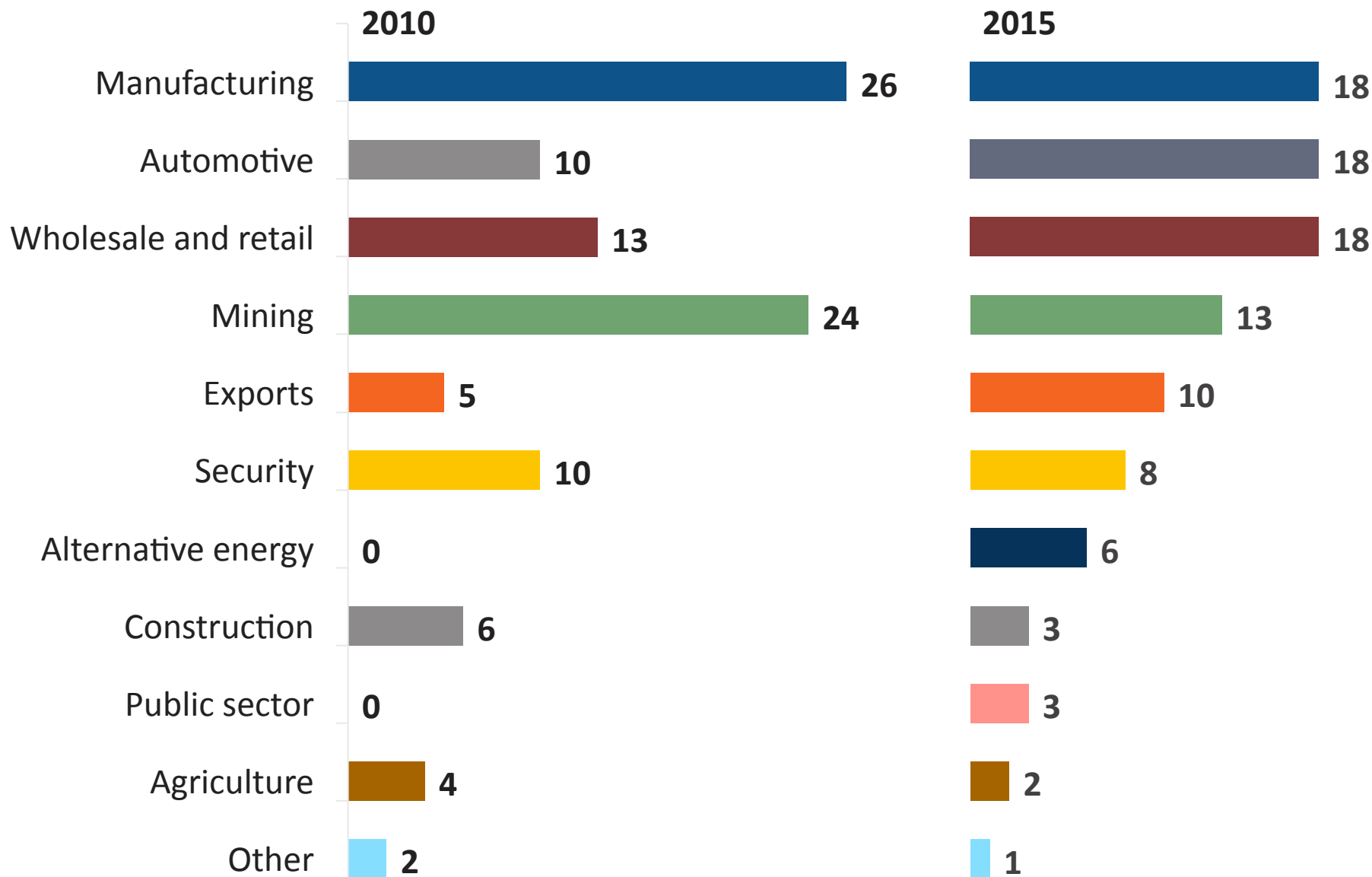
Contribution to 2016 operating profit
(before shared services and head office)



■ Consumer-related products

■ Engineering consumables

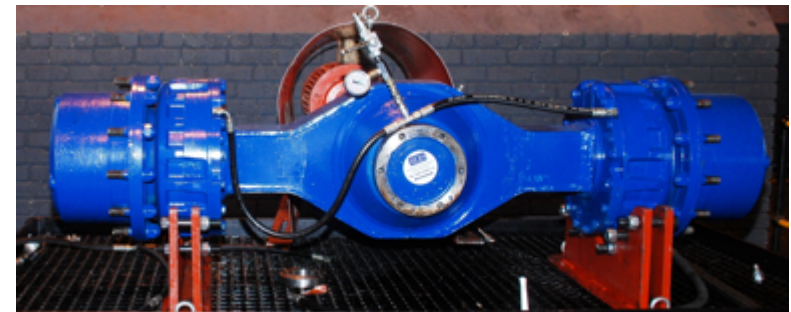
% SALES BY MARKET SECTOR - DIVERSIFIED



2016 ACQUISITIONS

Hydraulic Engineering Repair Services

- Distributor of:
 - Hydraulic cylinder repairs
 - Drivetrain repairs
- Estimated price R64m
- 2 year earn-out



All-Trade Distributors

- Distributor of:
 - Industrial fasteners
 - Rivets
 - Bolts and nuts
 - Springs and clips
 - Machined parts
- Estimated price R24m
- 2 year earn-out



2016 ACQUISITIONS

MiRO

MiRO

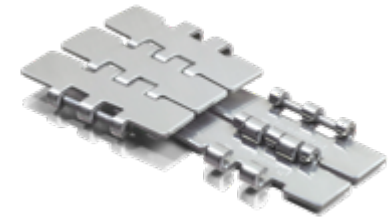
- Distributor of data networking equipment including:
 - Broadband wireless products
 - Surveillance products
 - Wi-Fi and Hotspot equipment
- Estimated price R254m
- 3 year earn-out



2016 ACQUISITIONS

Brewtech Engineering

- Distributor of:
 - Plastic and steel products for conveyors
 - Customer base is in the food and beverage market, especially bottling industry
- Estimated price R47m
- 3 year earn-out



SEGMENT RESULTS – CONSUMER-RELATED PRODUCTS

Turnover

Rm	2016	% ch	2015
Ongoing operations	1 200	(6.6)	1 285
New businesses	38	-	-
Segment total	1 238	(3.7)	1 285

Operating Margin

2016	2015
13.0%	15.1%
10.5%	-
12.9%	15.1%

Operating Profit

2016	% ch	2015
156	(19.6)	194
4	-	-
160	(17.5)	194

- Partquip/Abes - automotive businesses had a good first half
- Elvey/Pentagon - security equipment volumes up together with projects
- Rutherford - power tool and marine sales under pressure
- Deltec/SBS - battery sales for alternative energy well down
- Global - communication equipment well down (large contract in H1- 2015)
- Miro – lower margin, faster inventory turn

SEGMENT RESULTS – ENGINEERING CONSUMABLES

Turnover

Rm	2016	% ch	2015
Ongoing operations	1 187	(6.2)	1 265
New businesses	84	-	-
Segment total	1 271	0.5	1 265

Operating Margin

2016	2015
7.2%	9.5%
15.5%	-
7.7%	9.5%

Operating Profit

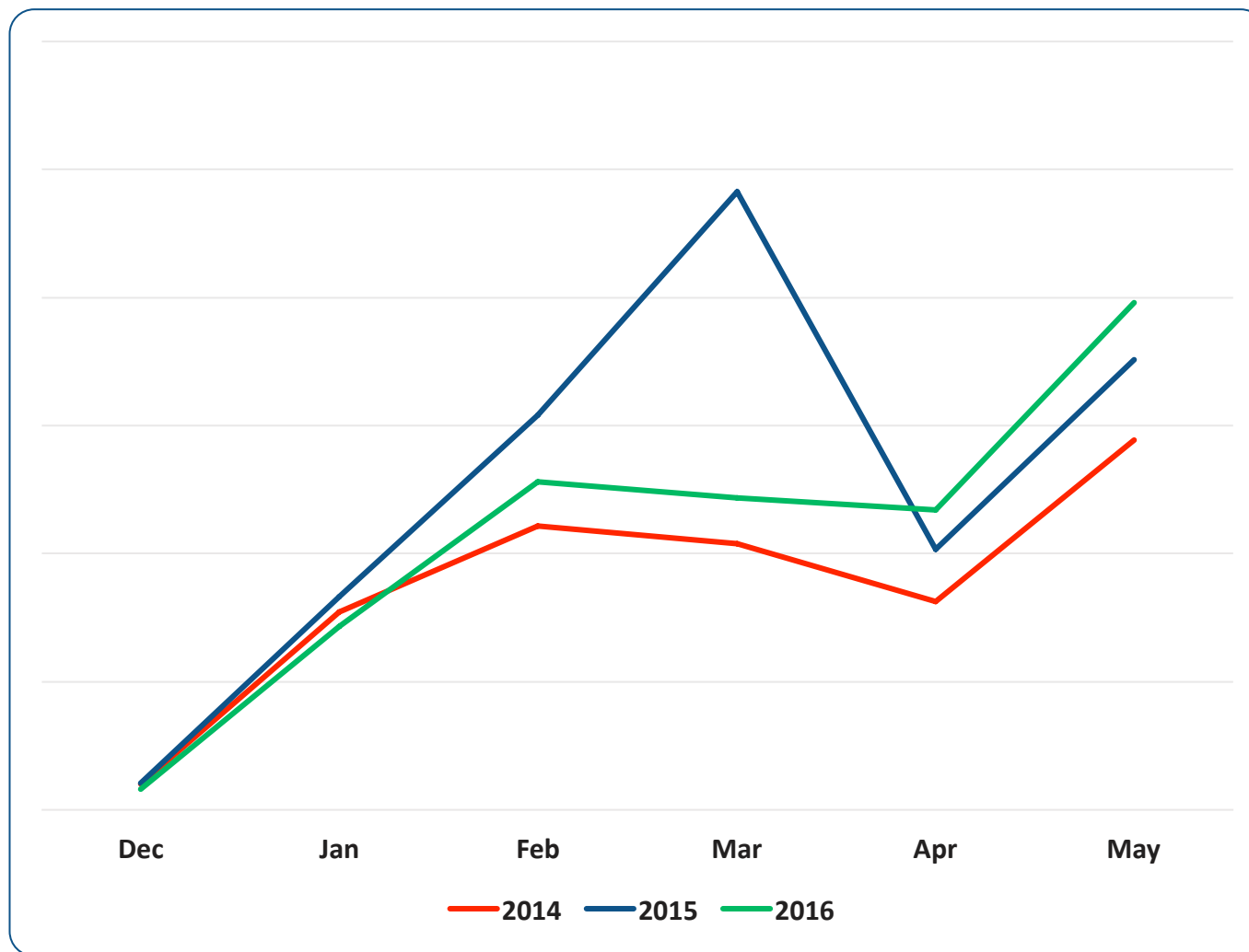
2016	% ch	2015
85	(29.2)	120
13	-	-
98	(18.3)	120

- The majority of the businesses in this segment are exposed to mining, manufacturing and agriculture and consequently had declining sales and gross margin pressure
- When volumes are down, the impact on margins in manufacturing businesses is even greater

SEGMENT RESULTS FOR THE SIX MONTHS

Rm	Turnover				Operating Margin			Operating Profit			
	2016	% ch	2015	2014	2016	2015	2014	2016	% ch	2015	2014
Consumer-related products	1 238	(3.7)	1 285	819	12.9%	15.1%	10.5%	160	(17.5)	194	86
Engineering consumables	1 271	0.5	1 265	1 293	7.7%	9.5%	9.6%	98	(18.3)	120	124
Head office, shared services & eliminations	(2)	-	(1)	(1)	-	-		(12)	-	(22)	(10)
Total Group	2 507	(1.6)	2 549	2 111	9.8%	11.5%	9.5%	246	(15.8)	292	200

MONTHLY PBITA





FINANCIAL REVIEW

PROFIT FOR THE SIX MONTHS

Rm	2016	% ch	2015	2014
Turnover	2 507	(1.6)	2 549	2 111
- Ongoing operations	2 385	(6.4)	2 549	2 111
- New businesses	122			
Gross profit	902	(2.3)	924	753
Operating expenses	656	3.8	632	553
Operating profit	246	(15.8)	292	200
- Ongoing operations	229	(21.6)	292	200
- New businesses	17			

Margin (%)

Turnover	100.0		100.0	100.0
Gross Profit	36.0		36.2	35.7
Operating expenses	26.2		24.7	26.2
Operating profit	9.8		11.5	9.5

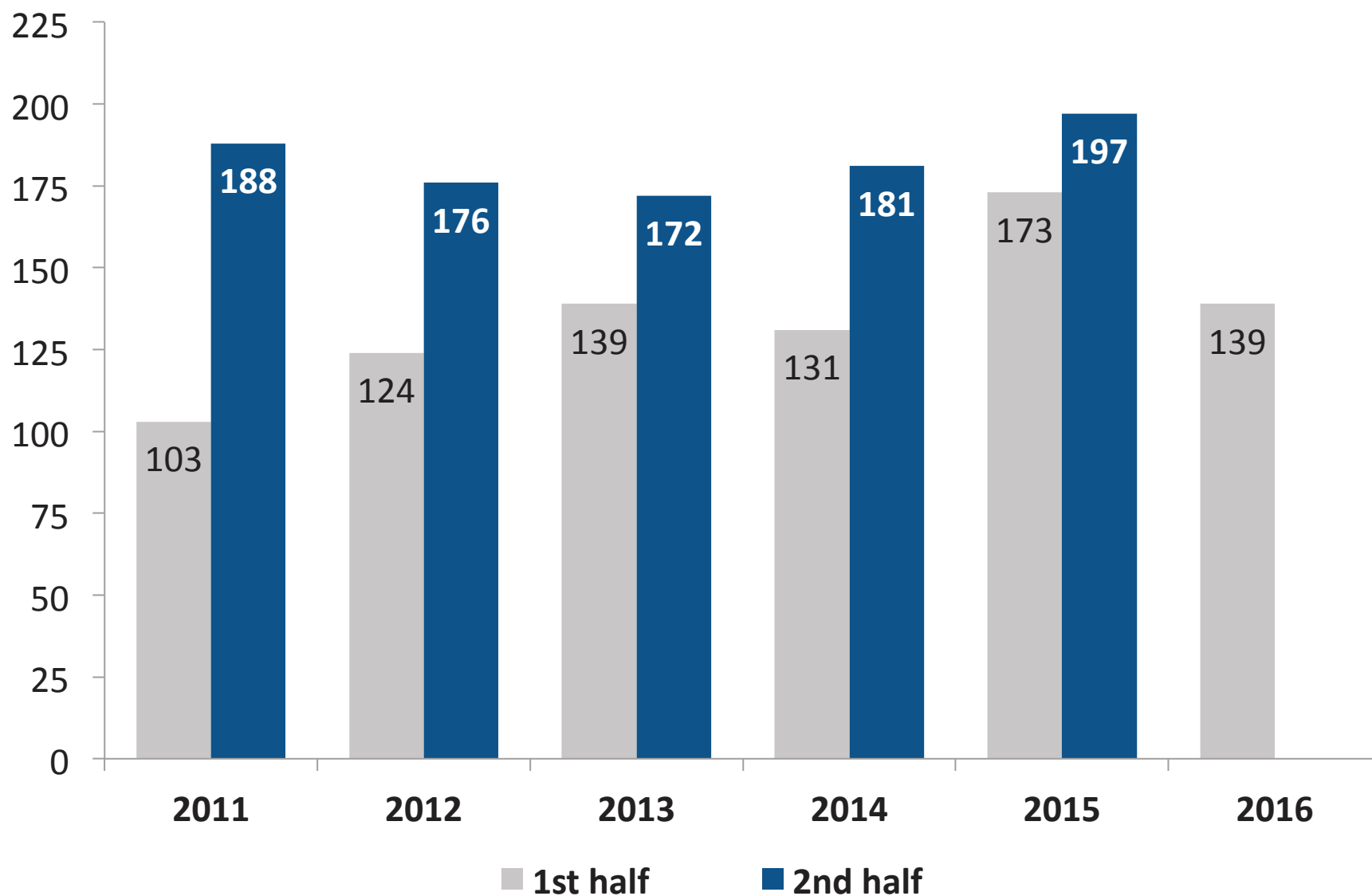
PROFIT FOR THE SIX MONTHS

Rm	2016	% ch	2015	2014
Operating profit	246	(15.8)	292	200
Fair value adj to amounts due to vendors	12			15
Net interest on funding	(44)		(38)	(15)
Interest paid to vendors (imputed)	(4)		(1)	(2)
Profit before taxation	210	(17.0)	253	198
Taxation (Rate 2016 : 27% 2015 : 28%)	57		71	51
Profit after tax	153	(15.9)	182	147
Income from joint venture	1		1	
Profit for the year	154		183	147
Non-controlling interest	(5)		(10)	(3)
Attributable and headline earnings	149	(13.9)	173	144

COMPARABLE EARNINGS FOR THE SIX MONTHS

Rm	2016	% ch	2015	2014
Headline earnings	149	(13.9%)	173	144
FV adjustment of vendor liability	(12)			(15)
Non-controlling interest	2			2
Comparable earnings	139	(19.7%)	173	131

COMPARABLE EARNINGS FOR THE SIX MONTHS



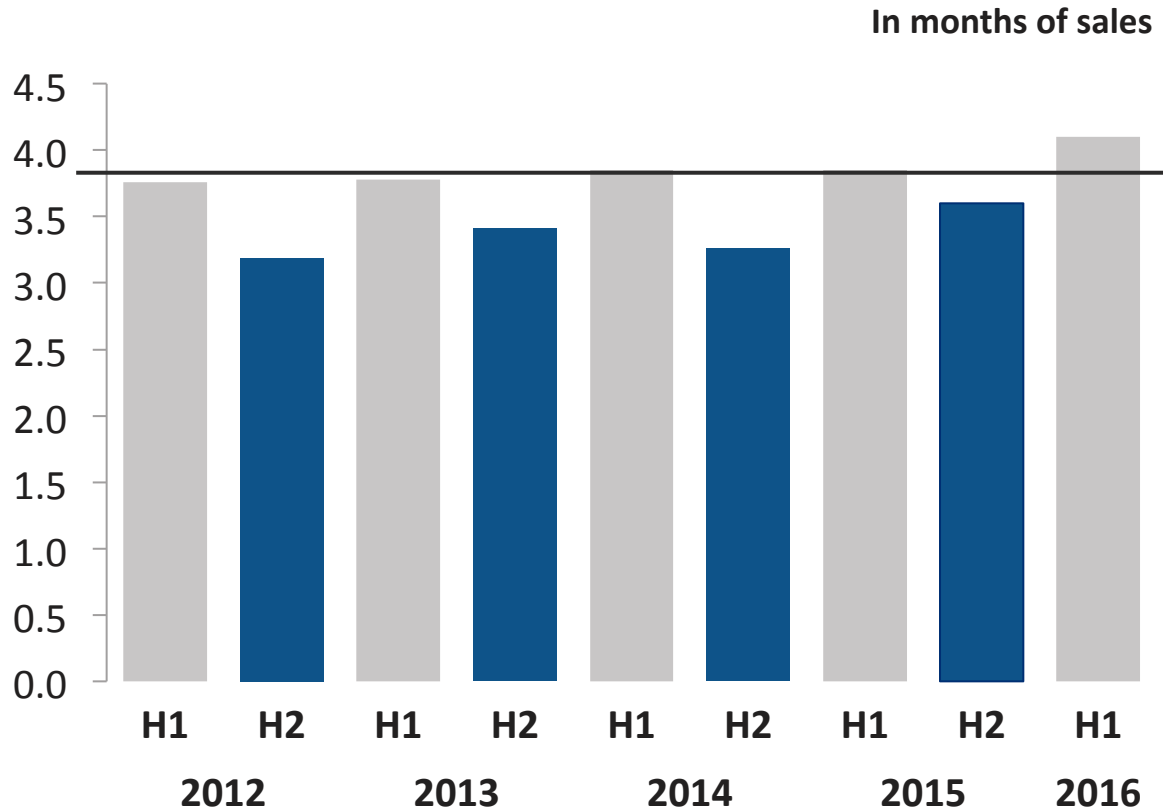
EARNINGS PER SHARE AND DIVIDENDS

Cents	2016	% ch	2015
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Earnings per share			
Basic	472	(13.9)	548
Headline	472	(13.9)	548
Comparable	440	(19.7)	548
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Dividends per share			
- Interim	170		180
- Final			345
Total			525
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Dividend cover (times)	2.59		2.23
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STATEMENT OF FINANCIAL POSITION

Rm	May 16	May 15
Working capital	1 710	1 429
Property, plant equipment	262	264
Goodwill and intangibles	1 315	1 075
Investment in Joint Venture	5	2
Taxation	33	
Net assets	3 325	2 770
Equity	1 941	1 774
Bank borrowings	1 153	965
Taxation		10
Due to vendors	231	21
Total equity and liabilities	3 325	2 770

WORKING CAPITAL



One month of sales:

H1 2016 = R418m; H1 2015 = R425m

- Working capital traditionally peaks end of H1 to cope with anticipated increased seasonal demand in H2
- Sales were generally split 45/55 between H1 and H2 (2015: 49/51)

CASH FLOW FOR THE YEAR

Rm	2016	2015
Cash from trading	287	331
Increase in working capital	(31)	(3)
Cash from operating activities	256	328
Tax paid (excluding tax settlement)	(83)	(73)
Cash from operations before tax settlement	173	255
Tax settlement		(192)
Cash flow from operations	173	63
Dividends paid	(115)	(98)
Net finance costs	(44)	(38)
Invested in new businesses and property, plant and equipment	(151)	(479)
Net movement	(137)	(552)
Opening borrowings	(1 016)	(413)
Closing borrowings	(1 153)	(965)

SUMMARY

- Although the market is tough our businesses are resilient
- We are cash generative
- Expenses are being tightly controlled
- There is capacity in our borrowing facilities
- We are well within our banking covenants
- The financial position of the group is strong and there is no significant concentration of financial risk



OUTLOOK

OUTLOOK REMINDERS

- Hudaco sales are predominantly GDP driven
- GDFI adds capacity for future GDP activity
- Repositioning and diversification are increasing revenues and earnings from sectors that have better prospects
- Rand volatility has a big impact on pricing and profitability

OUTLOOK FOR H2 2016

- South Africa and neighbouring countries' economic recovery may be delayed given global macro conditions
- Consumer-related products segment to continue to perform well
- Engineering consumables segment should have a stronger second half
- Acquisitions to add to earnings
- Effect of load shedding and communication contract to be diluted
 - R50m on R292m = 17%
 - R50m on R603m = 8%

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