



Hudaco

RESULTS PRESENTATION

SIX MONTHS ENDED 31 MAY 2020

AGENDA



- Results summary
- General business environment and Covid-19
- Business model and operating segments
- Financial review
- Outlook

RESULTS SUMMARY H1 2020



Turnover	↓	17,0% to R2,6bn
Operating profit	↓	73,5% to R79m
Headline earnings per share	↓	63,4% to 195 cps
Comparable earnings per share	↓	86,8% to 69 cps
Basic earnings per share	↓	238,4% to (738) cps
Cash generated from operations	↓	44,5% to R168m
No interim dividend		

**GENERAL BUSINESS
ENVIRONMENT AND COVID-19**



GENERAL BUSINESS ENVIRONMENT

- December's stage 6 load shedding
- Covid-19 impacted China in January
- 23 March lockdown announcement, last 6 days trading slowed
- Moody's downgrade 27 March
- Level 5 lockdown for the month April
- Level 4 lockdown for the month May
- Extremely volatile exchange rate
- Actions taken were communicated on SENS 21 May

ACTIONS TAKEN TO MITIGATE IMPACT OF COVID-19

■ **Health and safety**

- Established Covid-19 committee
- Health and safety measures put in place
- Installed Hudaco secure video conferencing facility from MiRO
- Facilitation of work from home where possible

■ **Social responsibility**

- Promised no job cuts April to June
- Granted everyone who could not work 9 days' special leave

ACTIONS TAKEN TO MITIGATE IMPACT OF COVID-19 CONTINUED

■ **Austerity**

- Senior executives and non-executive directors took 33% pay cut for three months
- Other personnel pay cuts between 7% and 20% for three months
- Retirement fund contribution holiday
- Capex cancelled or postponed
- Non-critical and discretionary expenditure minimised, rental deferrals
- Requested extended payment terms from suppliers

■ **Sustainability**

- Extended committed portion of banking facilities
- Used the time well to strategize for the new environment

LIKELY IMPACT OF PREVAILING ECONOMIC CONDITIONS

- Rationalisation of branches and some businesses, especially back-office
- Retrenchments inevitable
- Increase in bad debts
- Net realisable value of certain inventory lines to decrease
- Goodwill to be impaired in some businesses

**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
- Our diversified portfolio of businesses limits our risk and makes us resilient, even in these unprecedented times

- 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

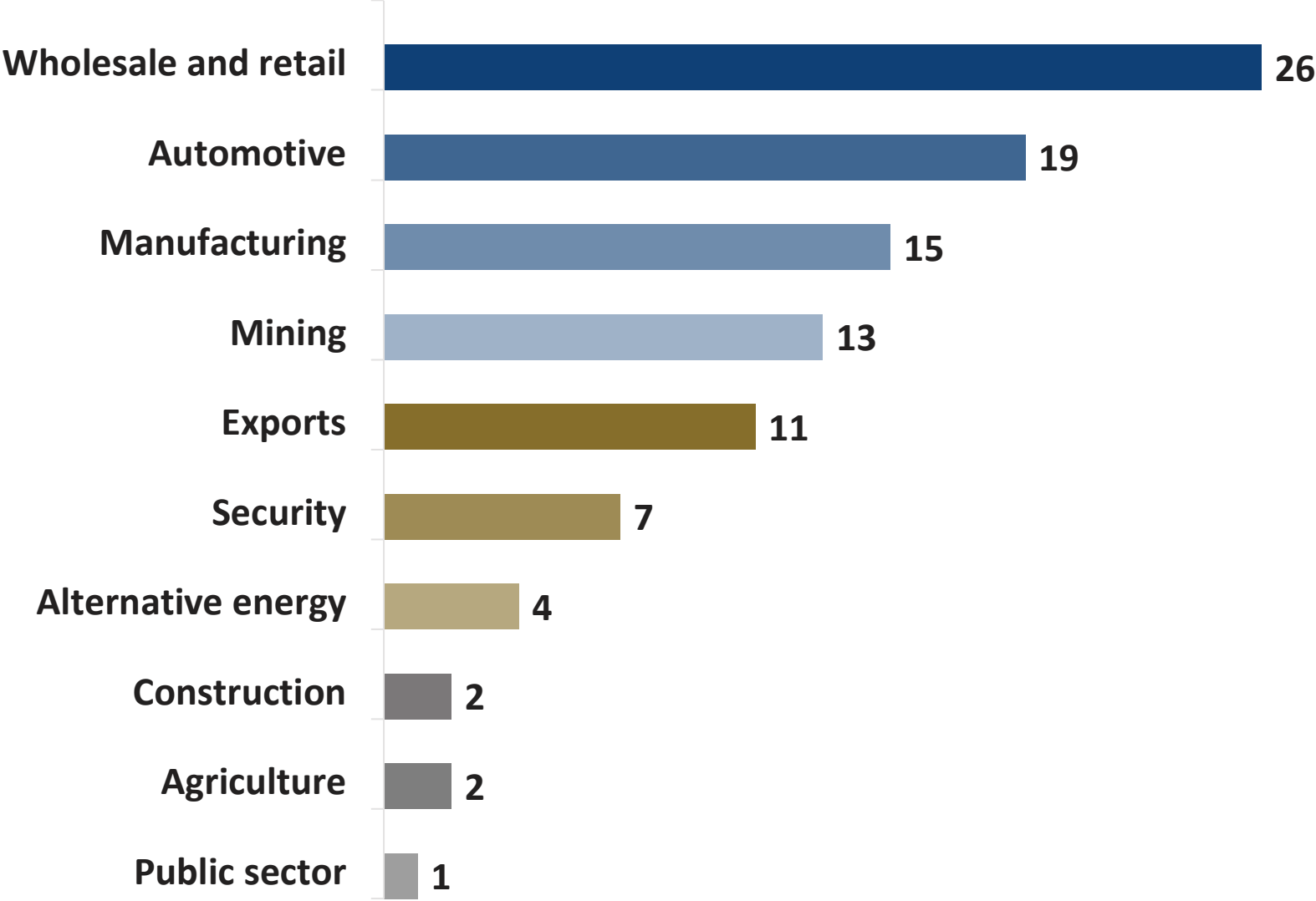
Consumer-related products (14 businesses)

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

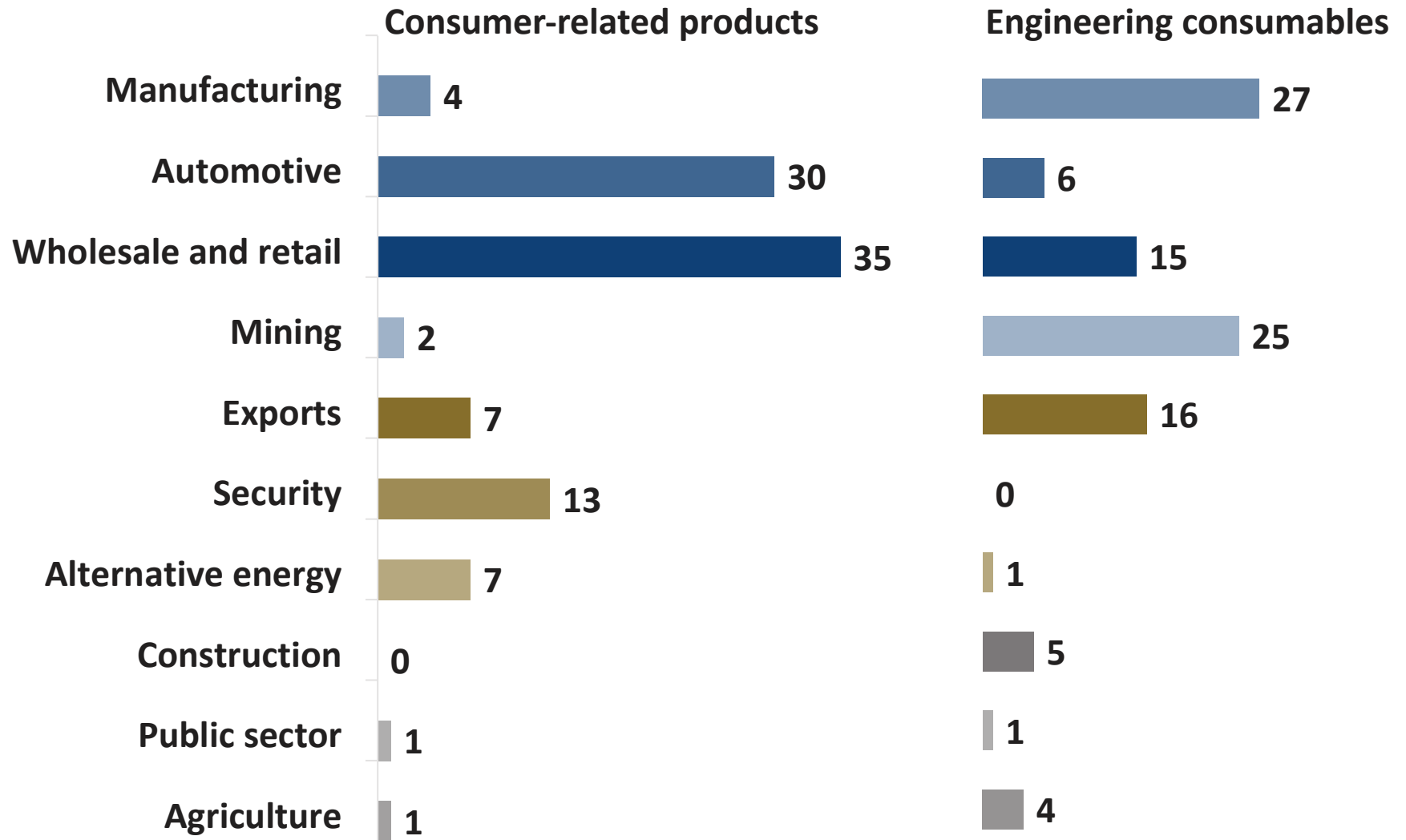
Engineering consumables (21 businesses)

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

2019 SALES BY MARKET SECTOR (%)



2019 SALES BY MARKET SECTOR (%)



SEGMENT RESULTS: CONSUMER-RELATED PRODUCTS

Rm	Turnover			Op Margin		Operating Profit		
	2020	% ch	2019	2020	2019	2020	% ch	2019
Ongoing operations	1 441	(16,1)	1 717	7,9%	12,0%	114	(44,4)	205
New businesses								
Segment total	1 441	(16,1)	1 717	7,9%	12,0%	114	(44,4)	205

- Miro, Elvey and Eternity open during lockdown level 5, albeit at reduced levels

SEGMENT RESULTS: ENGINEERING CONSUMABLES

Rm	Turnover			Op Margin		Operating Profit		
	2020	% ch	2019	2020	2019	2020	% ch	2019
Ongoing operations	1 196	(18,5)	1 467	(1,5%)	7,4%	(19)	(117,1)	109
New businesses								
Segment total	1 196	(18,5)	1 467	(1,5%)	7,4%	(19)	(117,1)	109

- Minimal turnover during lockdown level 5
- Branch network results in high expense base
- Manufacturing overhead recovery rate impacted by low volumes
- Inventory realisable value provision increased

SEGMENT RESULTS FOR H1 2020



Rm	Turnover			Op Margin		Operating Profit		
	2020	% ch	2019	2020	2019	2020	% ch	2019
Consumer-related products	1 441	(16,1)	1 717	7,9%	12,0%	114	(44,4)	205
Engineering consumables	1 196	(18,5)	1 467	(1,5%)	7,4%	(19)	(17,1)	109
Head office, shared services, and eliminations	(1)		(9)			(16)		(17)
Segment total	2 636	(17,0)	3 175	3,0%	9,3%	79	(73,5)	297

FINANCIAL REVIEW



- Impact of Covid-19 and consequential economic conditions
- Goodwill impairment
- IFRS financial statements
- Profit if ECL, Inventory impairment, goodwill etc had been frozen
- Impact of IFRS 16: Leases
- Summary

IMPACT OF COVID-19 AND CONSEQUENTIAL ECONOMIC CONDITIONS

- Turnover decimated during level 5 lockdown
- Expected credit loss increased R15m
- Inventory net realisable value allowance up 2,7% on gross inventory
- Goodwill impaired by R345m (22,8%)
- Intangible assets impaired by R3m
- Foreign deferred tax asset impaired by R6m
- Liability to vendors reduced by R47m

- Normally only assess annually
- Covid-19 warranted an assessment for interim reporting
- Risk premium for Covid-19 included in discount rate (WACC range 17,1% - 20,7%)
- Expected future cash flows adjusted downwards since November 2019
- Normally expect project business from time to time, although scarce in recent years
- Reduced these expectations as government will be stretched for funding and private sector faces surplus capacity
- Global Communications and security cluster (Pentagon) – R196m impairment
- Various engineering consumables businesses – R149m impairment

PROFIT FOR H1 2020



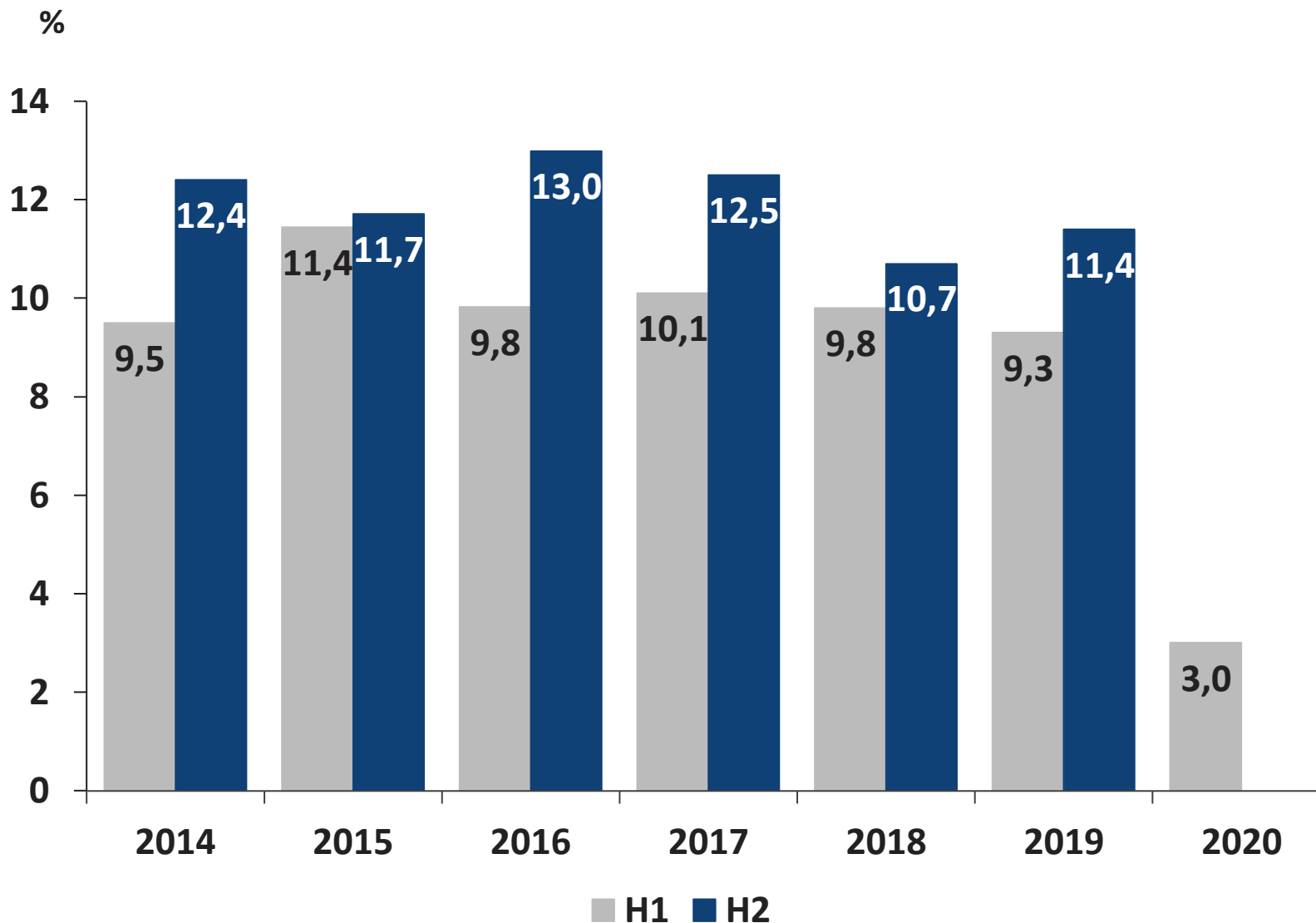
Rm	2020	% ch	2019
Turnover	2 636	(17,0)	3 175
Gross profit	854	(25,3)	1 144
Operating expenses	775	(8,4)	847
Operating profit	79	(73,5)	297

Margin (%)

Turnover	100,0	100,0
Gross profit	32,4	36,0
Operating expenses	29,4	26,7
Operating profit	3,0	9,3

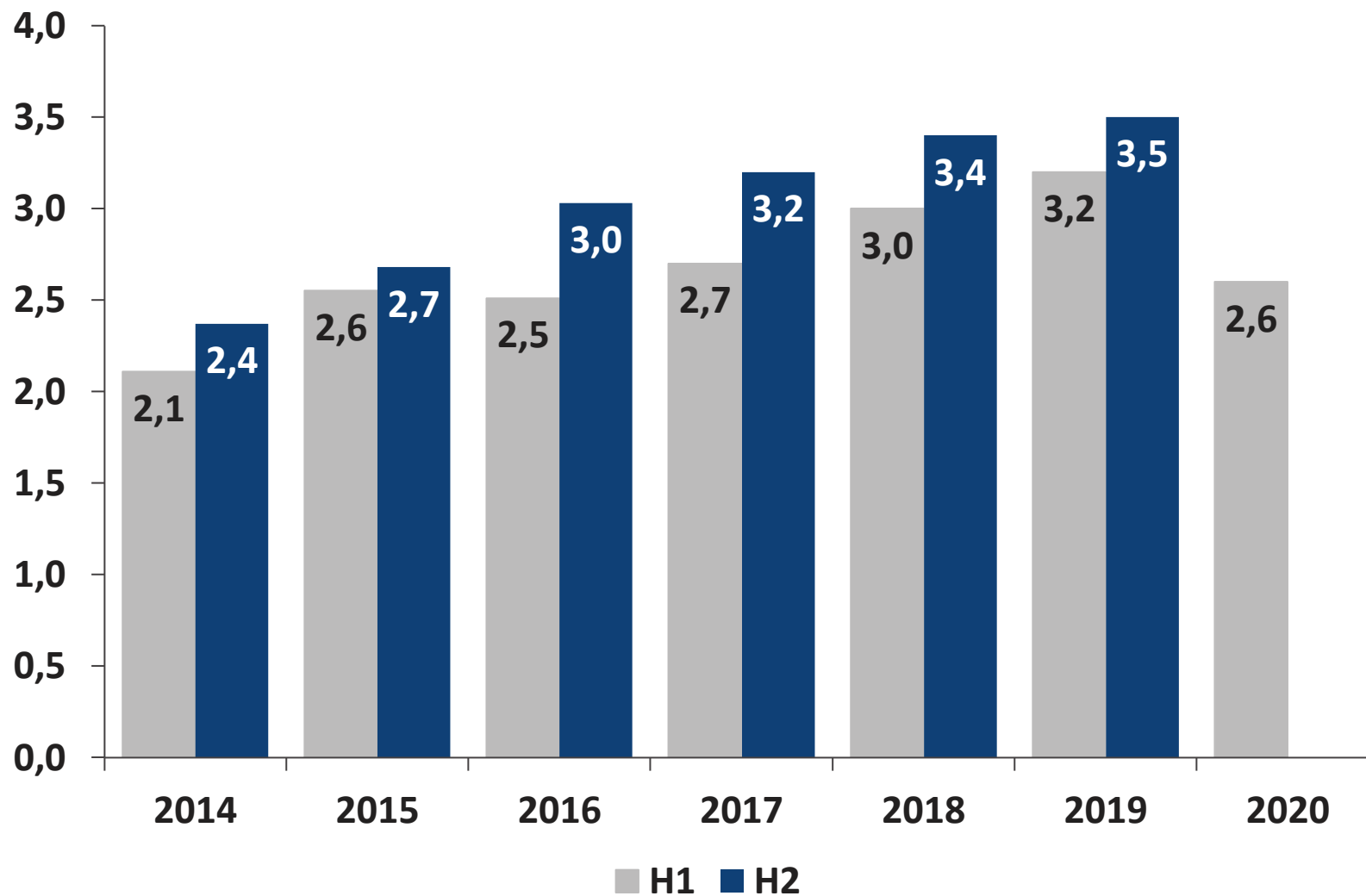
- Gross margin affected by inventory impairments and manufacturing overhead recovery rate variances on low volumes

OPERATING MARGIN FOR H1 2020



TURNOVER FOR H1 2020

R billion



PROFIT FOR H1 2020

Rm	2020	% ch	2019
Operating profit	79	(73,5)	297
Net interest on funding	(43)		(55)
Imputed interest on leases (IFRS 16)	(19)		
Fair value adjustment to amounts due to vendors	44		(3)
- Adjustment for time-value of money (imputed interest)	(3)		(8)
- Adjustment to estimated capital value	47		5
Impairment of goodwill and intangibles	(348)		
(Loss) profit before taxation	(287)	(220,0)	239
Taxation	(9)		(63)
(Loss) profit after tax	(296)	(268,2)	176
Income from joint venture			1
(Loss) profit for the period	(296)	(267,2)	177
Non-controlling interest	63		(8)
Attributable (loss) earnings	(233)	(238,4)	169

HEADLINE AND COMPARABLE EARNINGS

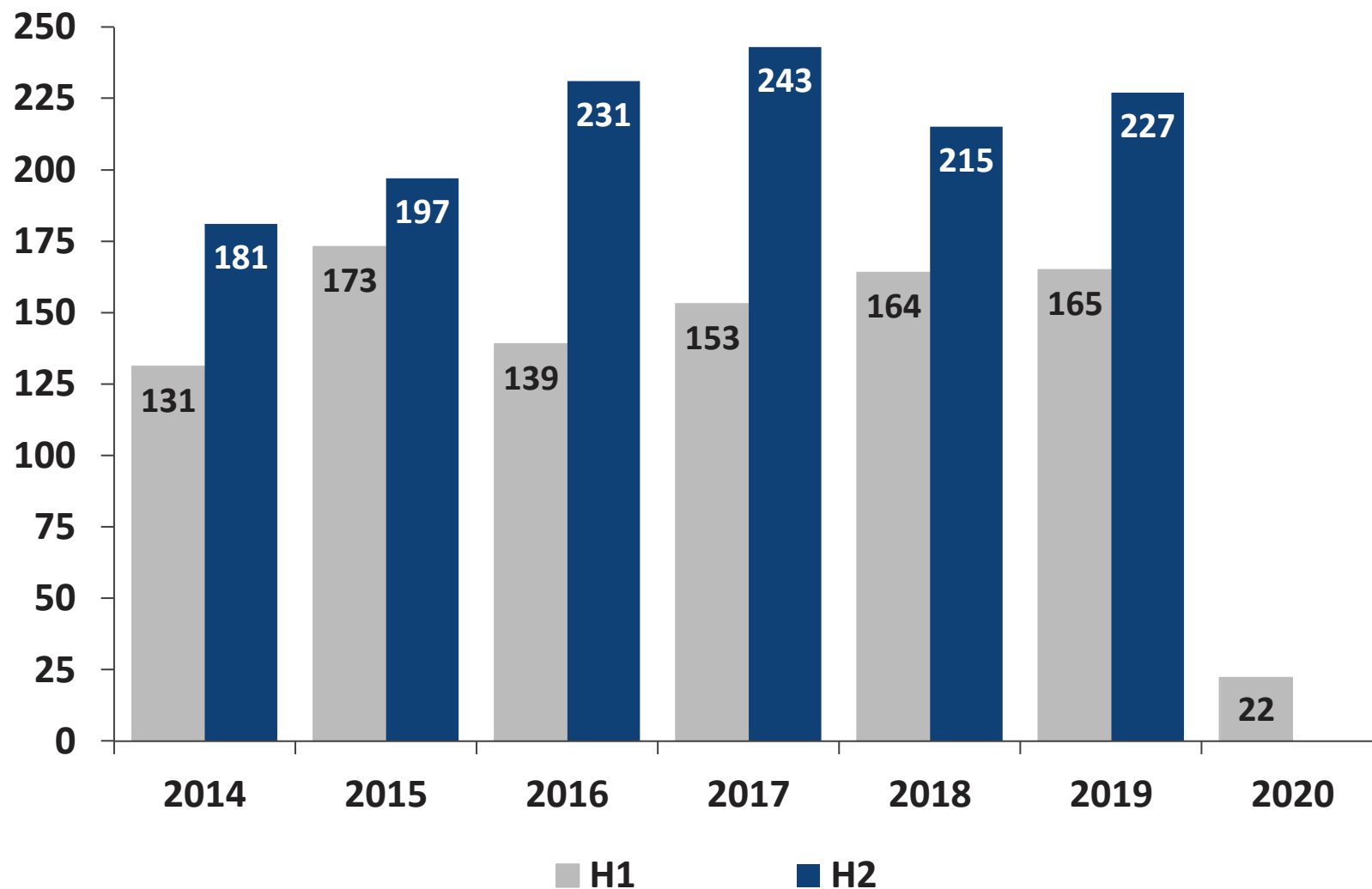


Rm	2020	% ch	2019
Attributable (loss) earnings	(233)	(238,4)	169
Impairment of goodwill and intangibles	348		
Non-controlling interest and tax	(53)		
Headline earnings	62	(63,4)	169
FV adjustment on vendor liabilities	(47)		(5)
Non-controlling interest	7		1
Comparable earnings	22	(86,8)	165

- 2019 not adjusted for IFRS 16: Leases

COMPARABLE EARNINGS FOR H1 2020

R million



EARNINGS PER SHARE



Cents	2020	% ch	2019
<hr/>			
Earnings per share			
Comparable	69	(86,8)	520
Basic	(738)	(238,4)	533
Headline	195	(63,4)	533
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- If 2019 had been adjusted for IFRS 16: Leases, its comparable earnings would have been 485 cents and the decrease 85,8%

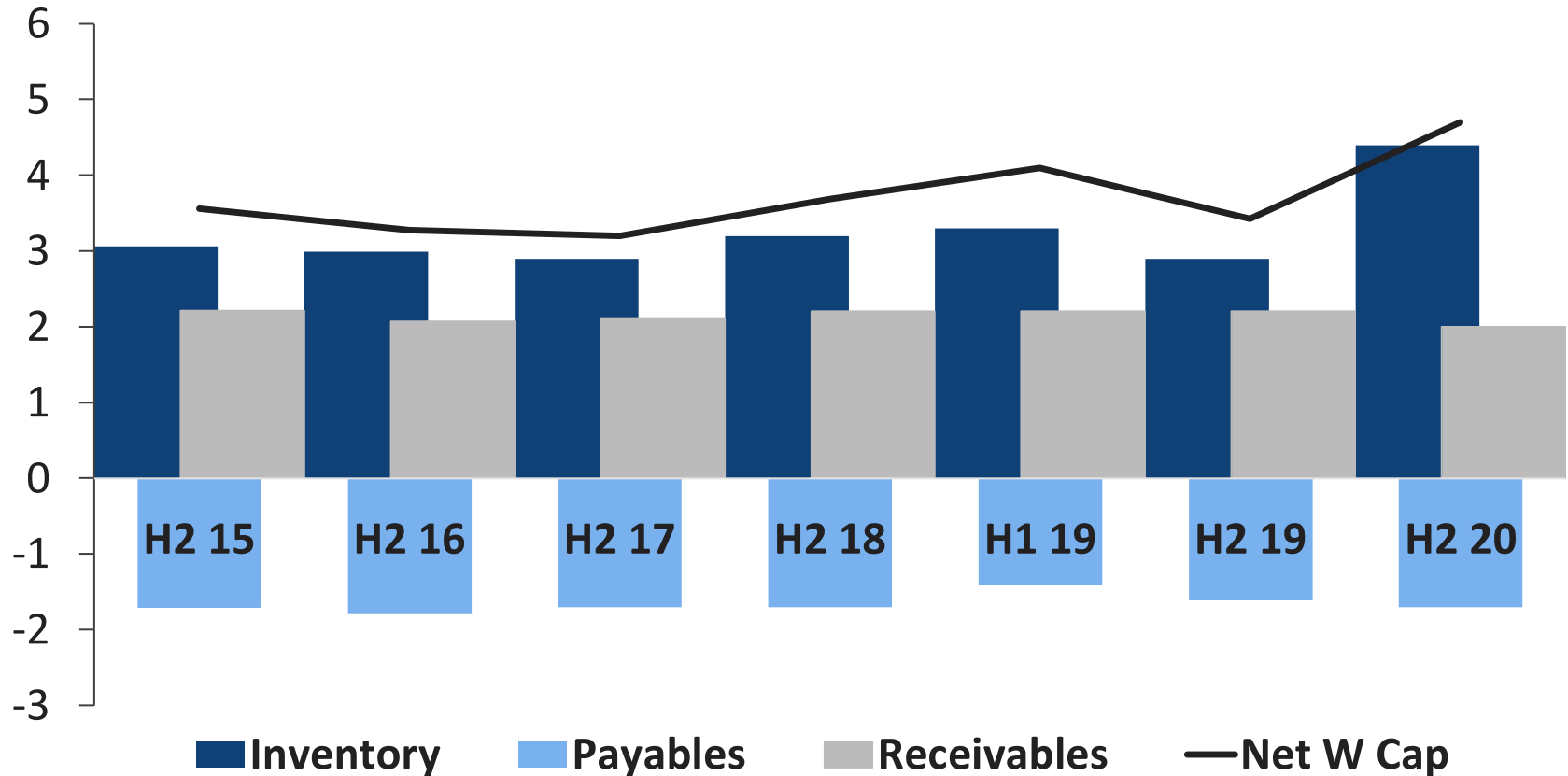
STATEMENT OF FINANCIAL POSITION



Rm	May 20	May 19
Working capital	2 052	2 164
Property, plant and equipment	295	297
Right-of-use asset – leased premises	395	
Goodwill and intangibles	1 178	1 548
Investment in joint venture	12	10
Tax	96	51
Net assets	4 028	4 070
Equity	2 424	2 637
Bank borrowings	1 166	1 177
Lease liabilities	422	
Due to vendors	16	221
Tax		35
Total equity and liabilities	4 028	4 070

WORKING CAPITAL ELEMENTS

In months of sales



One month of sales (in H2)

2015 = R447m

2017 = R539m

2019 = R559m

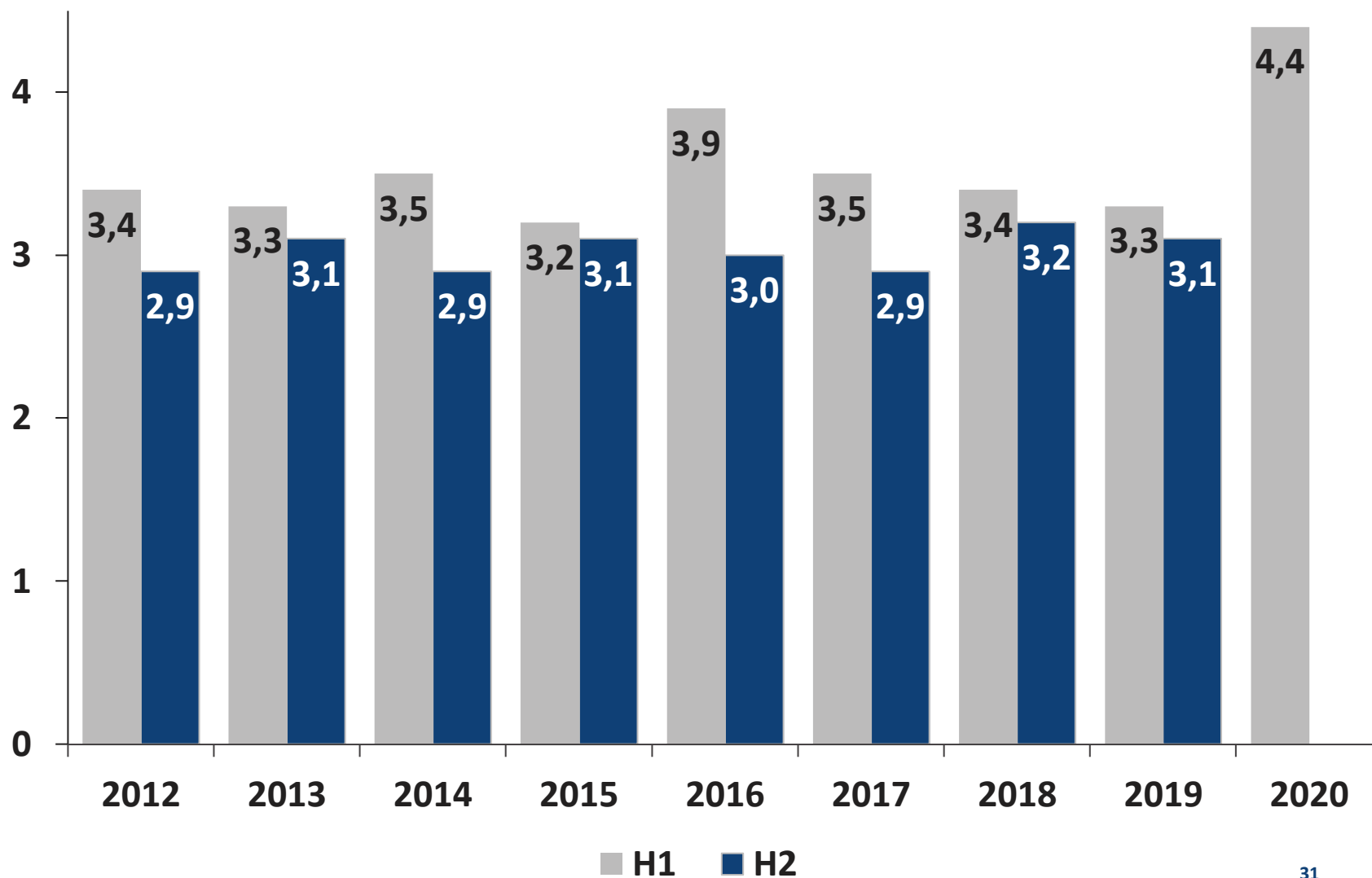
2016 = R505m

2018 = R571m

2020 (H1) = R439m

INVENTORY

In months of sales



CASH FLOW FOR H1 2020



Rm	2020	2019
Cash from trading	189	348
Increase in working capital	(21)	(47)
Cash from operations	168	301
Finance costs	(43)	(55)
Tax paid	(59)	(68)
Cash generated after tax	66	178
Share-based payments	(1)	(18)
Dividends paid	(139)	(123)
Invested in new businesses	(5)	(8)
Invested in property, plant and equipment	(18)	(44)
Lease liabilities settled	(63)	
Net movement	(160)	(15)
Foreign exchange translation gain	2	1
Opening borrowings	(1 008)	(1 163)
Closing borrowings	(1 166)	(1 177)

PROFIT IF ECL, INVENTORY IMPAIRMENT, GOODWILL AND VENDOR LIABILITY ALL FROZEN

Rm	2020	% ch	2019	2020 IFRS
Operating profit	171	(42,4)	297	79
Net interest on funding	(43)		(55)	(43)
Imputed interest on leases (IFRS 16)	(19)			(19)
Fair value adjustment to amounts due to vendors	(3)		(3)	44
- Adjustment for time-value of money (imputed interest)	(3)		(8)	(3)
- Adjustment to estimated capital value			5	47
Impairment of goodwill and intangibles				(348)
Profit before taxation	106	(55,6)	239	(287)
Taxation	(35)		(63)	(9)
Profit after tax	71	(59,7)	176	(296)
Income from joint venture			1	
Profit for the period	71	(59,9)	177	(296)
Non-controlling interest	8		(8)	63
Attributable earnings	79	(53,3)	169	(233)

- **Statement of financial position at 31 May 2020**
 - Lease liabilities R422m
 - Right-of-use assets R395m

- **Statement of comprehensive income**
 - Depreciation on right-of-use assets of R59m
 - Imputed interest R19m
 - Operating profit down R2m
 - Profit before tax down R21m

- Further information at the back of this presentation on website, including what financial statements would have looked like without IFRS 16

- Covid-19 and lockdown played havoc with turnover and gross profit
- Working capital down R112m from May 2019, up R31m from November 2019
- Borrowings slightly lower than May 2019 and, excluding February dividend, only R21m up since November 2019
- Exchange rate impacts working capital requirements
- Expenses and capex have been tightly managed
- We are within our banking covenants and committed facilities are available
- Focus is on cash management
- Only compelling acquisitions will be considered

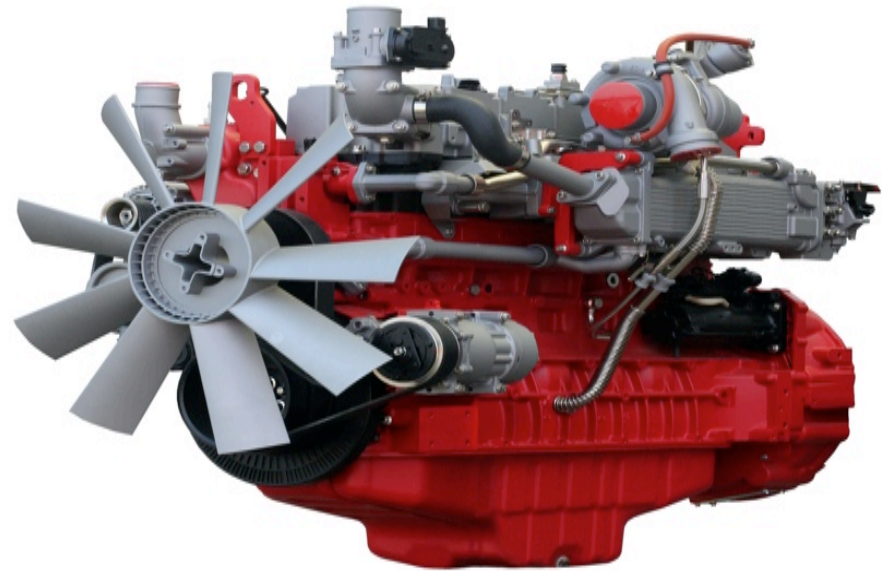
OUTLOOK



- 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

- Very difficult for us to accurately predict what second half trading will be
- Planning is based on no regression to level 4 or 5 lockdown
- Achieve long-term savings and synergies through rationalisation in security and communication cluster
- Consolidation and restructure of engineering consumables branch network
- Battery, automotive and data networking businesses to have good H2
- Trading in May and June has been encouraging
- Hudaco is resilient and agile and our businesses are well placed to take advantage of any improvement in the economy. In the meantime, we will manage the elements within our control and generate cash

IFRS 16: LEASES



IMPACT OF IFRS 16: LEASES

- Initial date of application – 1 December 2019
- At Hudaco, affects only property leases
- Incremental borrowing rate at initial date – 8,13%

- **At 1 December 2019**
 - Recognised lease liabilities of R466m and
 - Right-of-use assets R454m

- **For six months**
 - Repaid R63m on lease liabilities
 - capital of R44m
 - interest of R19m
 - Depreciation on right-of-use assets of R59m
 - Upfronts the lease expense and decreases earnings by 38cps
 - Interest expense portion to reduce over lease period (if leases static)

- **At 31 May 2020**
 - Lease liabilities R422m
 - Right-of-use assets R395m

PROFIT IF IFRS16: LEASES WAS NOT ADOPTED

Rm	IFRS16 2020	Effect of IFRS16	No IFRS16 2020	% ch	2019
Operating profit	79	(2)	81	(72,7)	297
Net interest on funding	(43)		(43)		(55)
Imputed interest on leases (IFRS 16)	(19)	(19)			
Fair value adjustment to amounts due to vendors	44		44		(3)
- Adjustment for time-value of money (imputed interest)	(3)		(3)		(8)
- Adjustment to estimated capital value	47		47		5
Impairment of goodwill and intangibles	(348)		(348)		
(Loss) profit before taxation	(287)	(21)	(266)	(211,3)	239
Taxation	(9)	(7)	(16)		(63)
(Loss) profit after tax	(296)	(14)	(282)	(260,2)	176
Income from joint venture					1
(Loss) profit for the period	(296)	(14)	(282)	(258,8)	177
Non-controlling interest	63	2	61		(8)
Attributable earnings	(233)	(12)	(221)	(230,8)	169

FINANCIAL POSITION IF IFRS16 WAS NOT ADOPTED *Hudaco*

Rm	IFRS16 May 20	Effect of IFRS16	No IFRS16 May 20	May 19
Working capital	2 052	6	2 046	2 164
Property, plant and equipment	295		295	297
Right-of-use asset – leased premises	395	395		
Goodwill and intangibles	1 178		1 178	1 548
Investment in joint venture	12		12	10
Tax	96	7	89	51
Net assets	4 028	408	3 620	4 070
Equity	2 424	(14)	2 438	2 637
Bank borrowings	1 166		1 166	1 177
Lease liabilities	422	422		
Due to vendors	16		16	221
Tax				35
Total equity and liabilities	4 028	408	3 620	4 070

CONTACT DETAILS



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