

Hudaco








PRESENTATION TO THE

INVESTMENT ANALYST SOCIETY

- Expected economic turnaround following the appointment of President Ramaphosa has not yet materialised
- The “expropriation without compensation” decision has had a negative effect on investor confidence
- Zuma era hangover contributed to the worst quarter for GDP in 9 years:
 - mining down 9,9%
 - manufacturing down 6,9%
 - agriculture down 24%
- Results commendable in prevailing conditions
- Capacity for more acquisitions
- Dividend 190 cents up 6%

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

Turnover	 11% to R3bn
Operating profit	 8% to R290m
Basic and headline earnings	 9% to 528 cps
Comparable earnings	 7% to 517 cps
Dividends per share	 6% to 190 cps

GENERAL BUSINESS ENVIRONMENT AND RESULTS DRIVERS



- South Africa is an extremely challenging place to do business
- The optimism around Ramaphoria is being strangled by Zuma hangover
- This tough environment in some sectors resulted in lower demand and created aggressive pricing pressure
- Exchange rate volatility is disruptive
- Consumer spending under pressure

- Consumer-related segment performed well
- Engineering consumables segment under pressure
- Africa business remains moribund
- The recent acquisitions targeting markets with stronger growth potential performed well
- This diversification strategy continues to pay off

OPERATING SEGMENTS AND ACQUISITIONS UPDATE



- 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 has two main economic drivers
 - South Africa's GDP growth rate (disappointing)
 - Rand exchange rate (volatile)
- The decentralised structure provides agility to respond to market conditions
- Each business is led by an experienced management team

- Consumer-related products segment imports and distributes 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 (11 businesses)

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

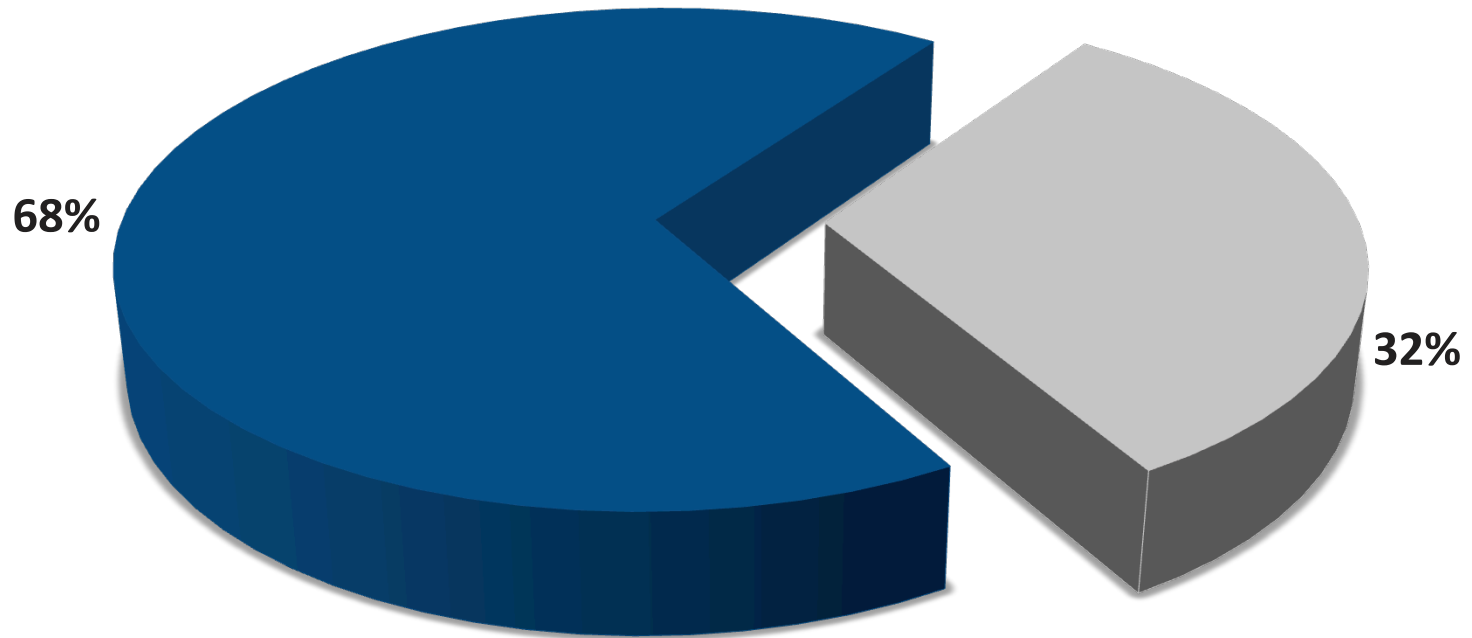
Engineering consumables (21 businesses)

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

CONTRIBUTION BY SEGMENT

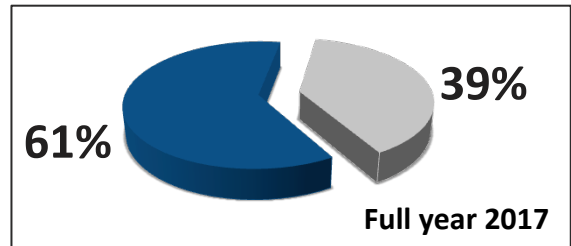
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Contribution to H1 2018 operating profit
(before shared services and head office)



■ Consumer-related products

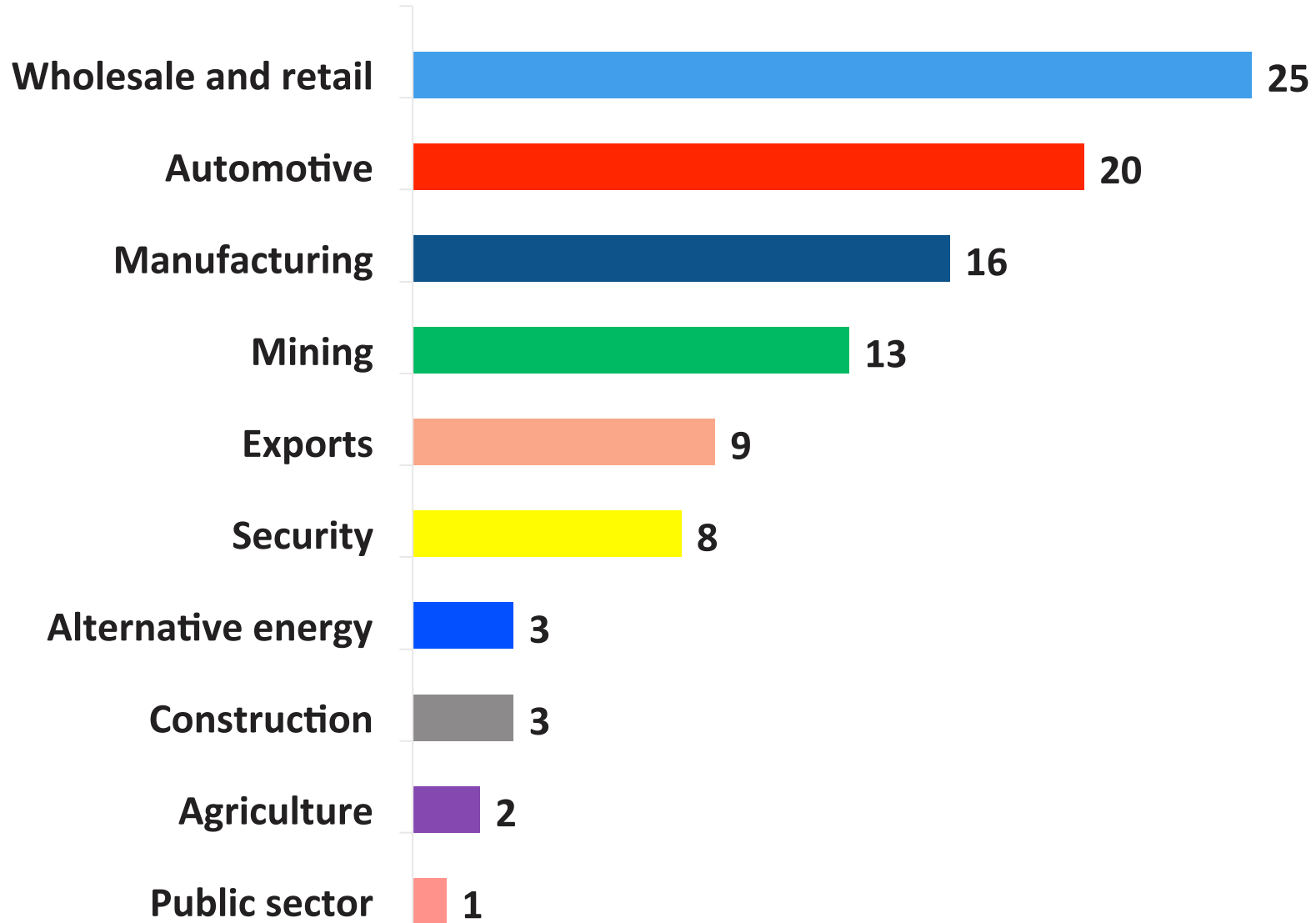
■ Engineering consumables



Full year 2017

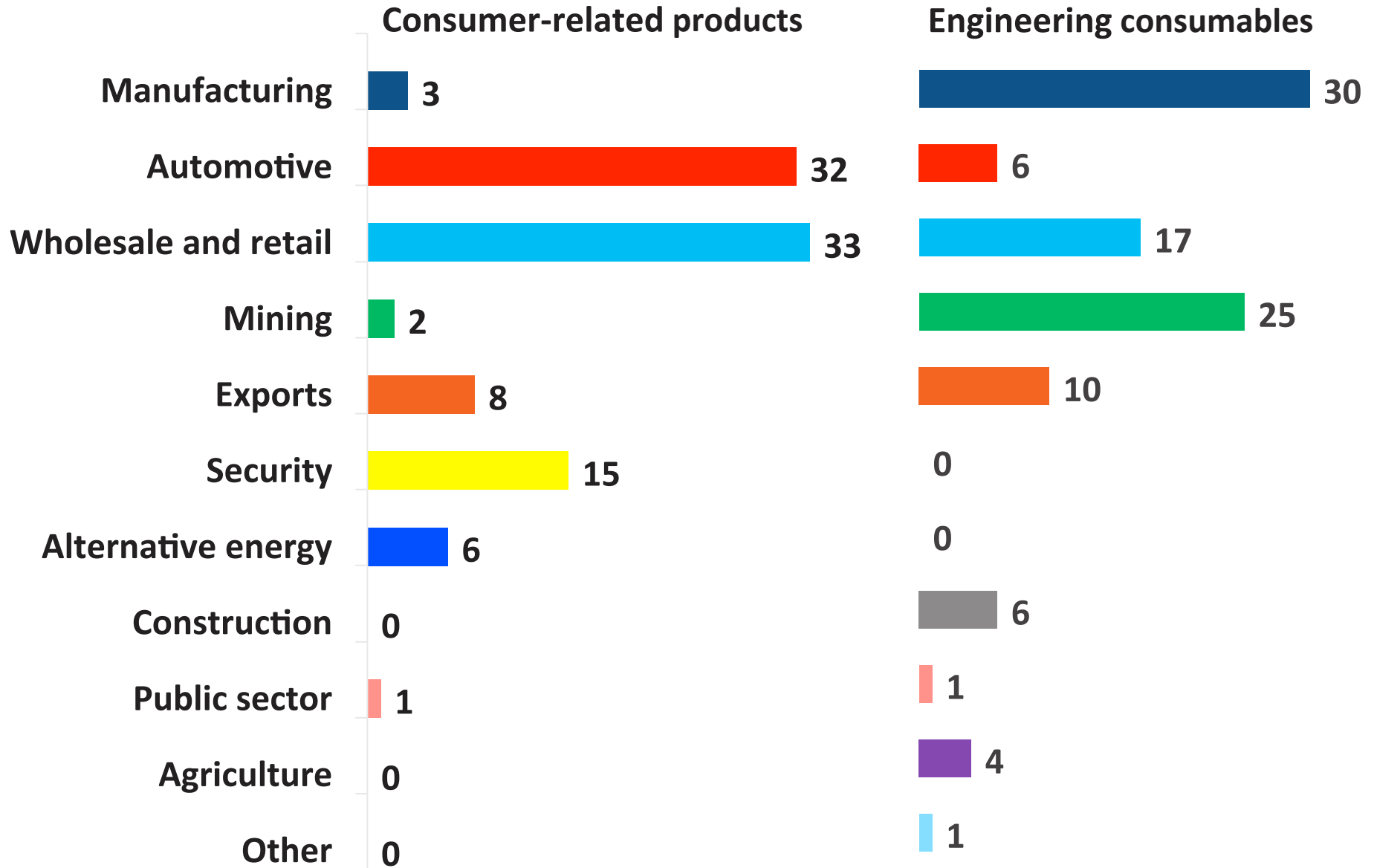
2017 SALES BY MARKET SECTOR (%)

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2017 SALES BY MARKET SECTOR (%)

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Successful bolt-ons and acquisitions in stronger economic sectors continue to diversify our revenue base

2018

- Boltworld – H2 only

2017 (after Dec 2016)

- Eternity Technologies
- The Dished End Company
- Gear Pump Distributors – UK

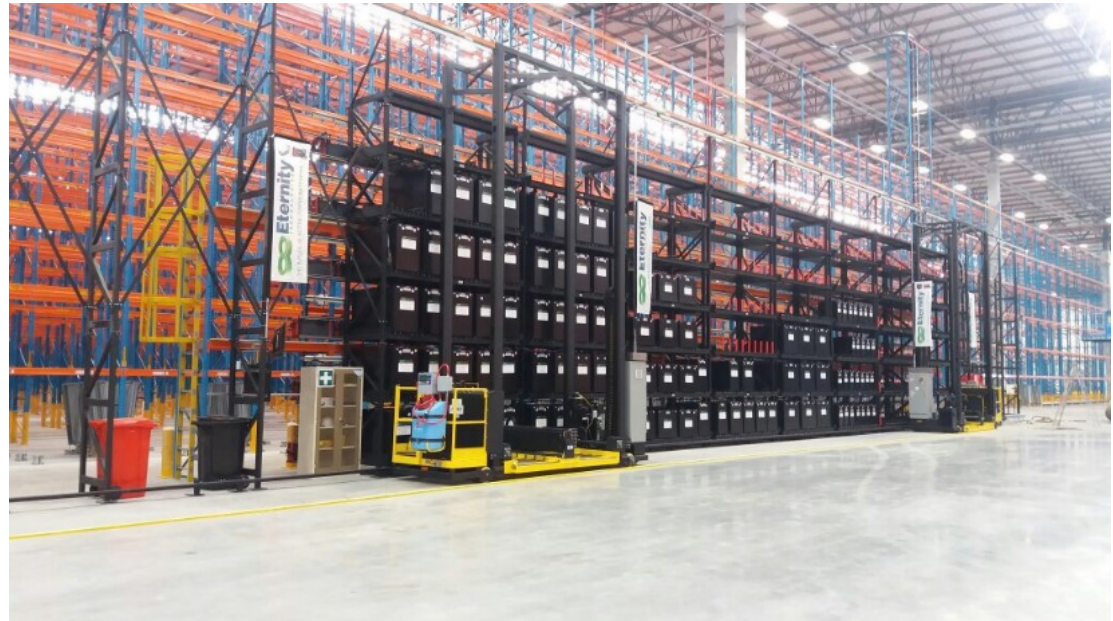
Boltworld

- One of the largest stockists of a wide and comprehensive range of high-quality industrial fasteners
- Merging into FTS division of Rutherford
- Maximum price R111m, including R24m excess inventory
- Effective date 1 June 2018



Eternity Technologies

- Supplier of batteries, high frequency chargers and related battery equipment to the traction battery market
- They also design, build and manage battery bays for warehouse and distribution centres
- Estimated price R200m
- 3 year earn-out



SEGMENT RESULTS – CONSUMER-RELATED PRODUCTS *Hudaco*

Rm	Turnover			Op Margin		Operating Profit		
	2018	% ch	2017	2018	2017	2018	% ch	2017
Ongoing operations	1 476	9,9	1 343	13,4%	13,2%	197	11,8	177
New businesses	127			11,0%		14		
Segment total	1 603	19,3	1 343	13,2%	13,2%	211	19,6	177

- The automotive, power tool, data networking, communication and battery businesses all had a good start to the year
- Whilst our projects side of our security businesses had a good first half, the distribution side was well down
- Eternity has integrated well and had a great first six months

SEGMENT RESULTS – ENGINEERING CONSUMABLES

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Rm	Turnover			Op Margin		Operating Profit		
	2018	% ch	2017	2018	2017	2018	% ch	2017
Ongoing operations	1 334	0,5	1 327	7,0%	8,0%	93	(13,1)	106
New businesses	21		3	28,6%	27,7%	6		1
Segment total	1 355	1,8	1 330	7,3%	8,0%	99	(7,8)	107

- Our electrical, hydraulics & pneumatics and thermoplastic pipe and fittings businesses mainly dependant on mining, manufacturing and agriculture really struggled in the first half
- They were resolute in defending margins and holding market share
- Dished Ends business integrated and performing to expectations

SEGMENT RESULTS FOR THE SIX MONTHS

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Rm	Turnover			Op Margin		Operating Profit		
	2018	% ch	2017	2018	2017	2018	% ch	2017
Consumer-related products	1 603	19,3	1 343	13,2%	13,2%	211	19,6	177
Engineering consumables	1 355	1,8	1 330	7,3%	8,0%	99	(7,8)	107
Head office, shared services & eliminations	(3)		(2)			(20)		(15)
Total Group	2 955	10,6	2 671	9,8%	10,1%	290	7,7	269

FINANCIAL REVIEW



PROFIT FOR THE SIX MONTHS

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Rm	2018	% ch	2017
Turnover	2 955	10,6	2 671
- Ongoing operations	2 807	5,2	2 668
- New businesses	148		3
Gross profit	1 076	9,0	987
Operating expenses	786	9,4	718
- Ongoing operations	749	4,3	717
- New businesses	34		1
- Learnership programme (Maharishi)	3		
Operating profit	290	7,7	269
- Ongoing operations	270	0,5	268
- New businesses	20		1
Margin (%)			
Turnover	100,0		100,0
Gross profit	36,4		37,0
Operating expenses	26,6		26,9
Operating profit	9,8		10,1

PROFIT FOR THE SIX MONTHS

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Rm	2018	% ch	2017
Operating profit	290	7,7	269
Fair value adjustment to amounts due to vendors (realised)	4		
Net interest on funding	(43)		(42)
Interest paid to vendors (imputed)	(13)		(10)
Profit before taxation	238	9,7	217
Taxation (Rate 2018:26,9% 2017:28,4%)	64		62
Profit after tax	174	12,0	155
Income from joint venture	1		2
Profit for the period	175	11,6	157
Non-controlling interest	(8)		(4)
Attributable earnings	167	9,3	153

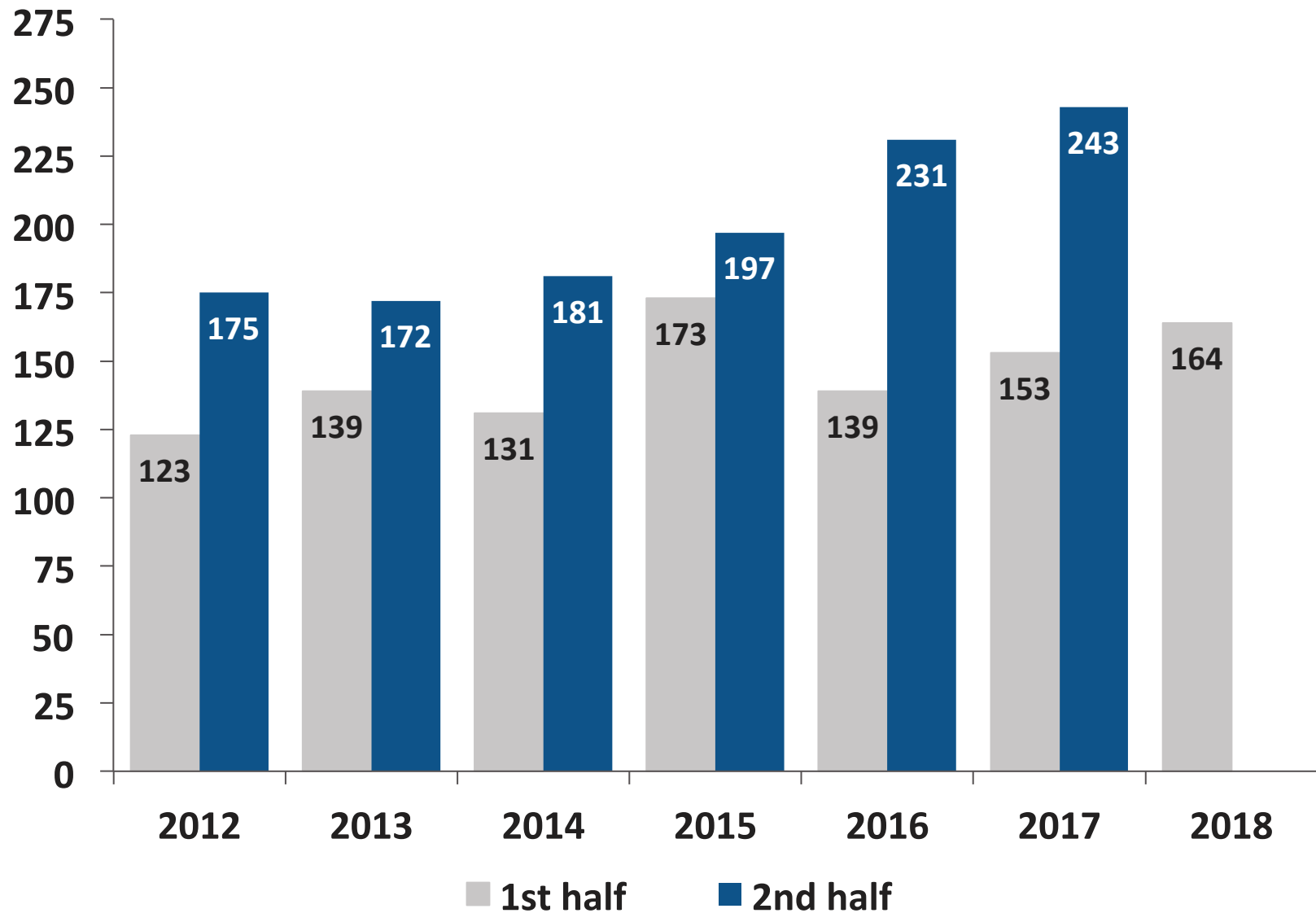
COMPARABLE EARNINGS FOR THE SIX MONTHS

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Rm	2018	% ch	2017
Attributable and headline earnings	167	9,3	153
Fair value adjustment of vendor liability	(4)		
Non-controlling interest	1		
Comparable earnings	164	7,0	153

COMPARABLE EARNINGS FOR THE SIX MONTHS

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EARNINGS PER SHARE AND DIVIDENDS

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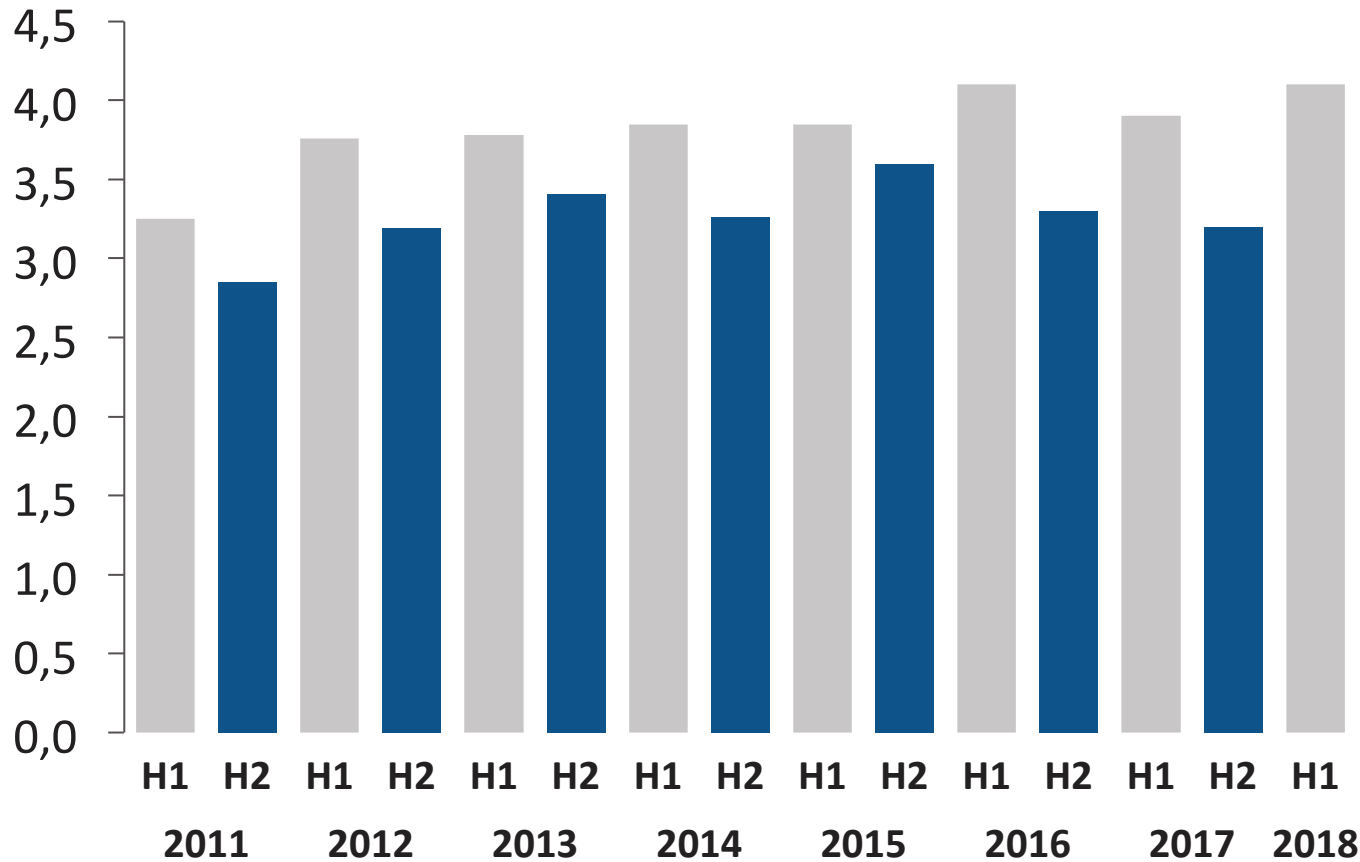
Cents	2018	% ch	2017
Earnings per share			
Comparable	517	7,0	483
Basic	528	9,3	483
Headline	528	9,3	483
Dividends per share			
- Interim	190		180
- Final			380
Total			560
Dividend cover (times) at mid-year			
	2,72		2,68

STATEMENT OF FINANCIAL POSITION

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Rm	May 18	May 17
Working capital	2 008	1 735
Property, plant and equipment	277	260
Goodwill and intangibles	1 536	1 413
Investment in joint venture	11	8
Tax		12
Net assets	3 832	3 428
Equity	2 422	2 186
Bank borrowings	1 045	973
Due to vendors	319	269
Tax	46	
Total equity and liabilities	3 832	3 428

In months of sales



One month of sales:

H1 2018 = R493m **H1 2017** = R445m

- 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 (2017: 45/55)

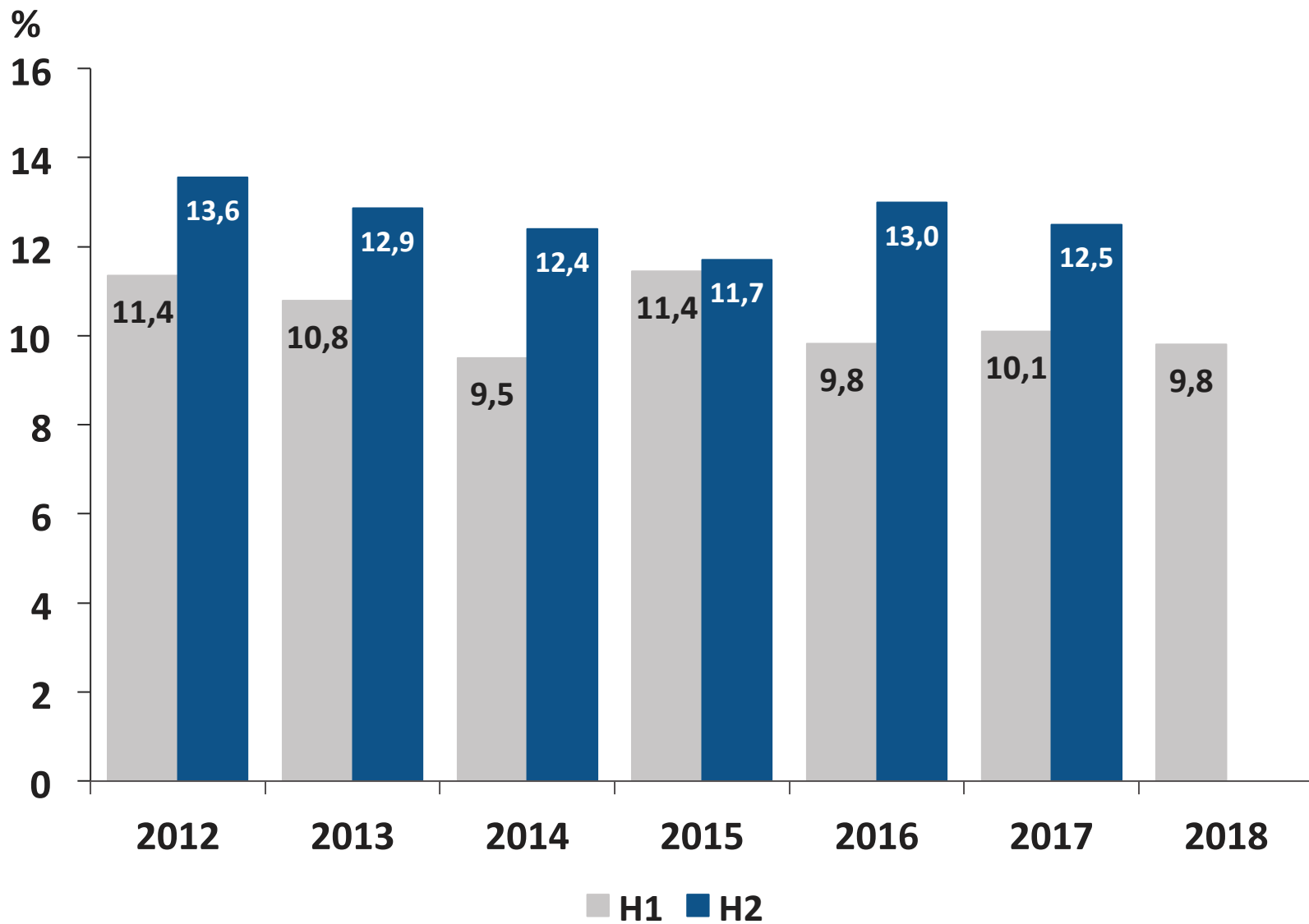
CASH FLOW FOR THE SIX MONTHS

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Rm	2018	2017
Cash from trading	338	329
Increase in working capital	(238)	(67)
Cash from operations	100	262
Finance costs	(43)	(42)
Tax paid	(30)	(52)
Cash generated after tax	27	168
Share-based payments	(17)	(12)
Dividends paid	(144)	(116)
Invested in new businesses and property, plant and equipment	(51)	(108)
Net movement	(185)	(68)
Opening borrowings	(860)	(905)
Closing borrowings	(1 045)	(973)

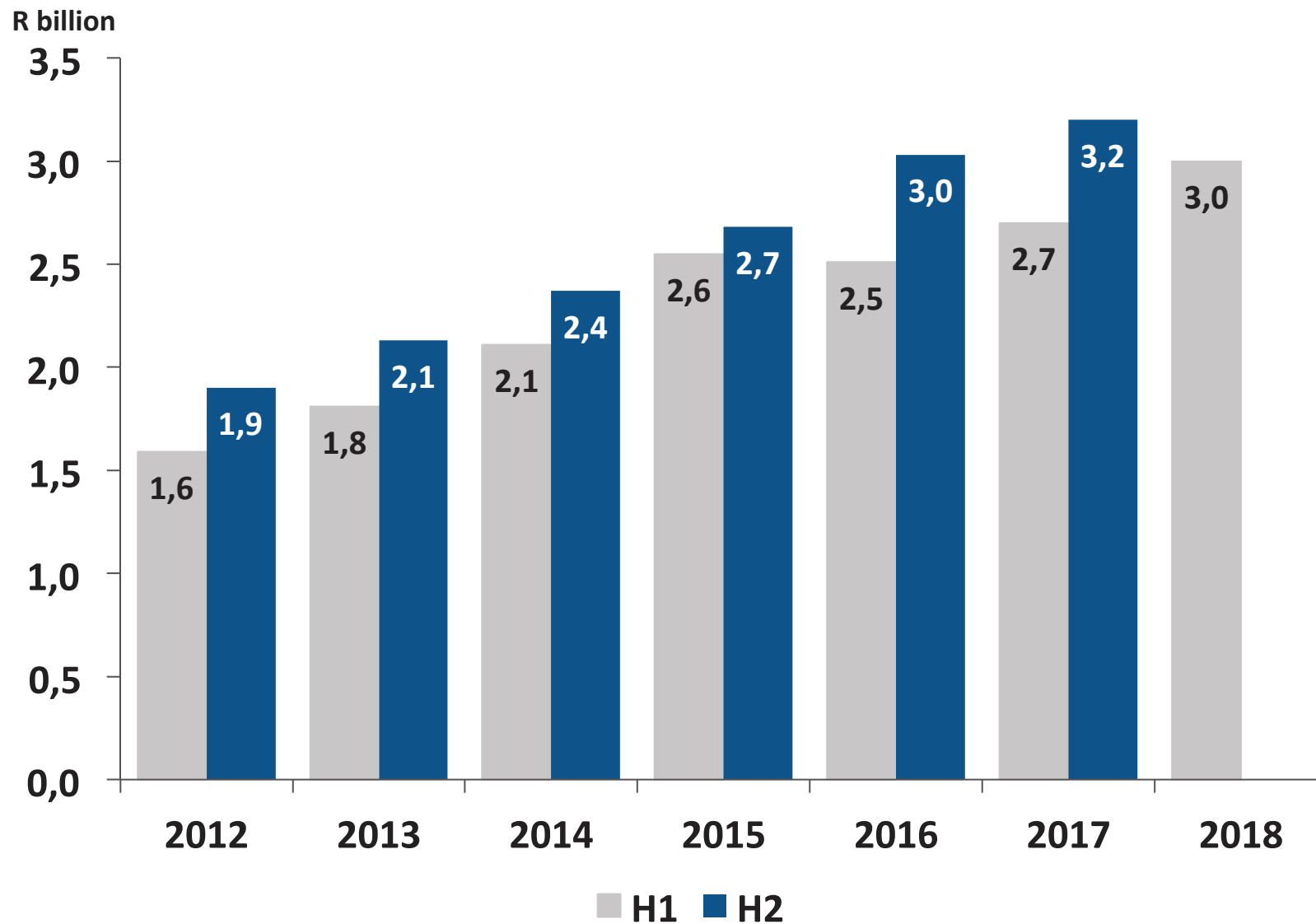
OPERATING MARGIN FOR THE SIX MONTHS

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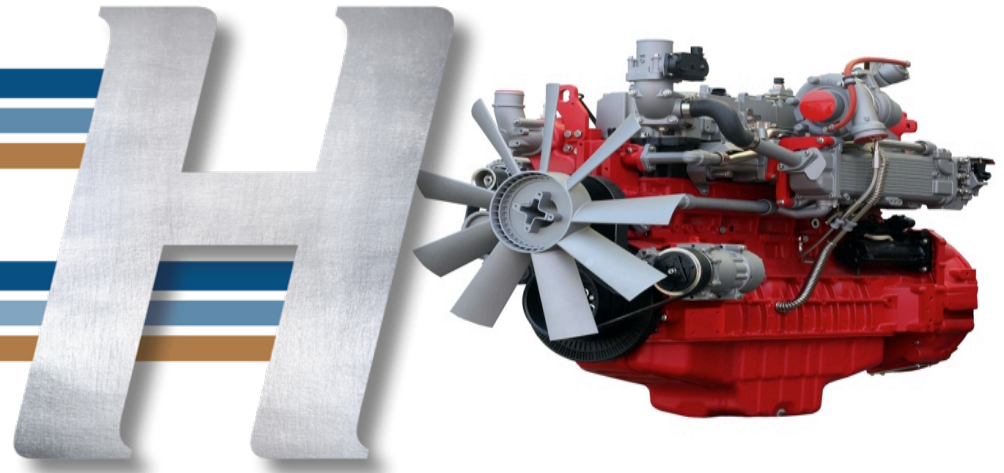
TURNOVER FOR THE SIX MONTHS

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- Inventories are up in anticipation of busy second half
- Existing businesses should generate strong cash flows in H2
- Exchange rate impacts working capital requirements
- We are well within our banking covenants
- Bank facilities are available
- Capacity remains for 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 decentralised group that is made up of 32 separate businesses
 - 21 in engineering consumables
 - 11 in consumer-related products

- The economic turnaround has been slower than expected
- Hudaco is resilient in tough times
 - Decentralised structure provides agility
 - Focus on balance between margin, expenses and stock
- We still expect the positive impact of President Ramaphosa's growth initiatives to come through
- Our businesses are sized optimally for current market conditions and are well placed to benefit immediately from any improvement in the economy
- We expect consumer-related products businesses to continue to do well
- Engineering consumables will probably have to grind it out but the second half is generally stronger than the first half

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