









Hudaco

PRESENTATION TO THE
INVESTMENT ANALYST SOCIETY
MAY 2019

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

Turnover	 7,5% to R3,2bn
Operating profit	 2,4% to R297m
Basic and headline earnings	 0,9% to 533 cps
Comparable earnings	 0,5% to 520 cps
Interim dividend per share	 190 cps
Cash generated from operations	 200% to R301m



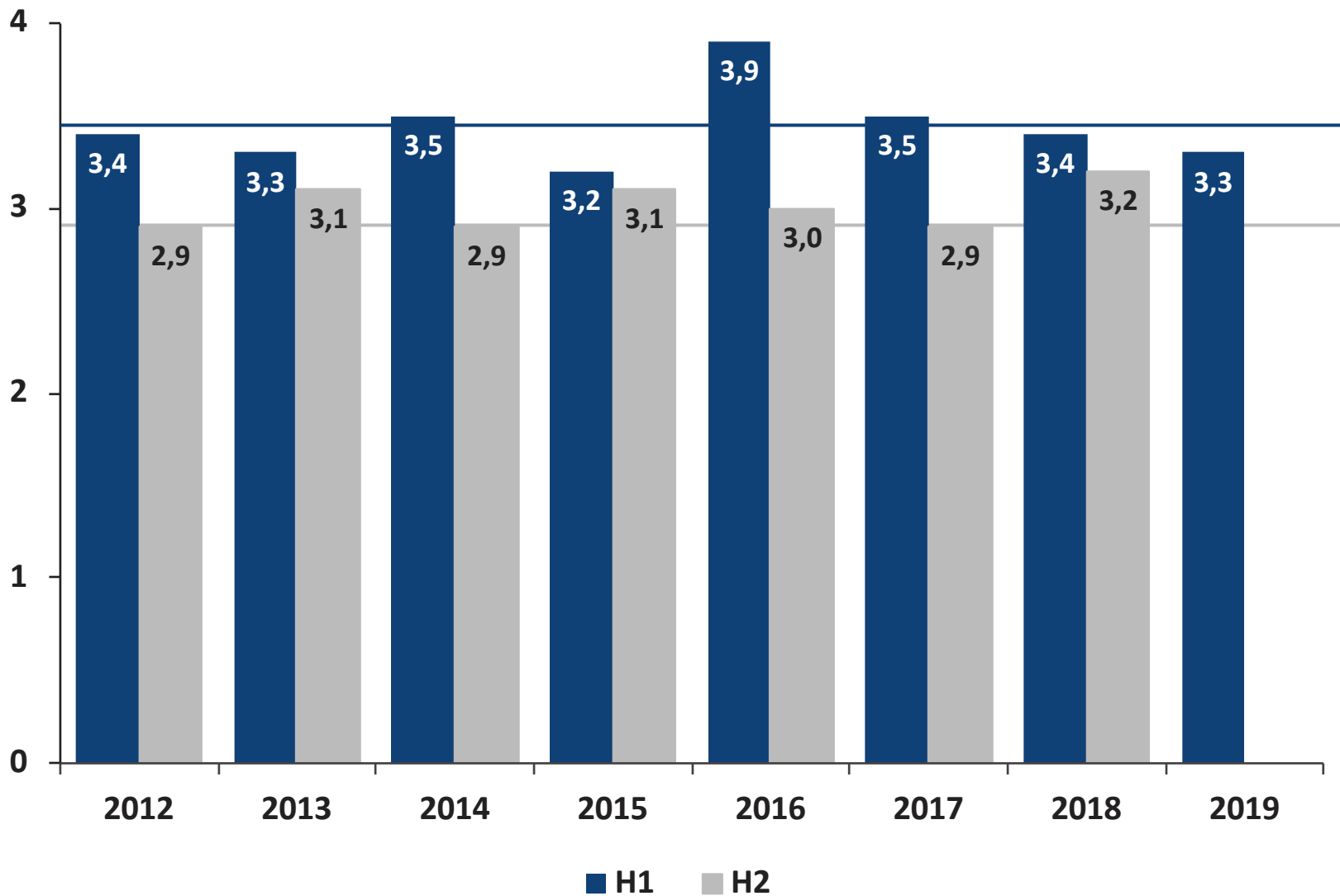
GENERAL BUSINESS ENVIRONMENT AND OVERVIEW



- South Africa is an extremely challenging place to do business
 - Difficult economic conditions in H1 2019
 - First quarter - economy contracted 3,2%
 - Manufacturing down 8,8%
 - Mining down 10,8%
 - Agriculture down 13,2%
 - Load shedding
- This tough environment created lower demand and aggressive pricing pressure
- Consumer spending was clearly under pressure
- Minimal project work available
- Exchange rate volatility has been disruptive again

- Against this backdrop the group performed well
 - Engineering consumables ongoing operations increased turnover while holding operating margin
 - Consumer-related products gave up margin in order to hold turnover
- Engineering consumables segment performed well
- Africa business remains a challenge
- The recent acquisitions continue to diversify our revenue stream
- Working capital coming back in line

In months of sales





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 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
- Batteries
- Professional communication equipment
- Security equipment
- Data networking equipment

Engineering consumables (21 businesses)

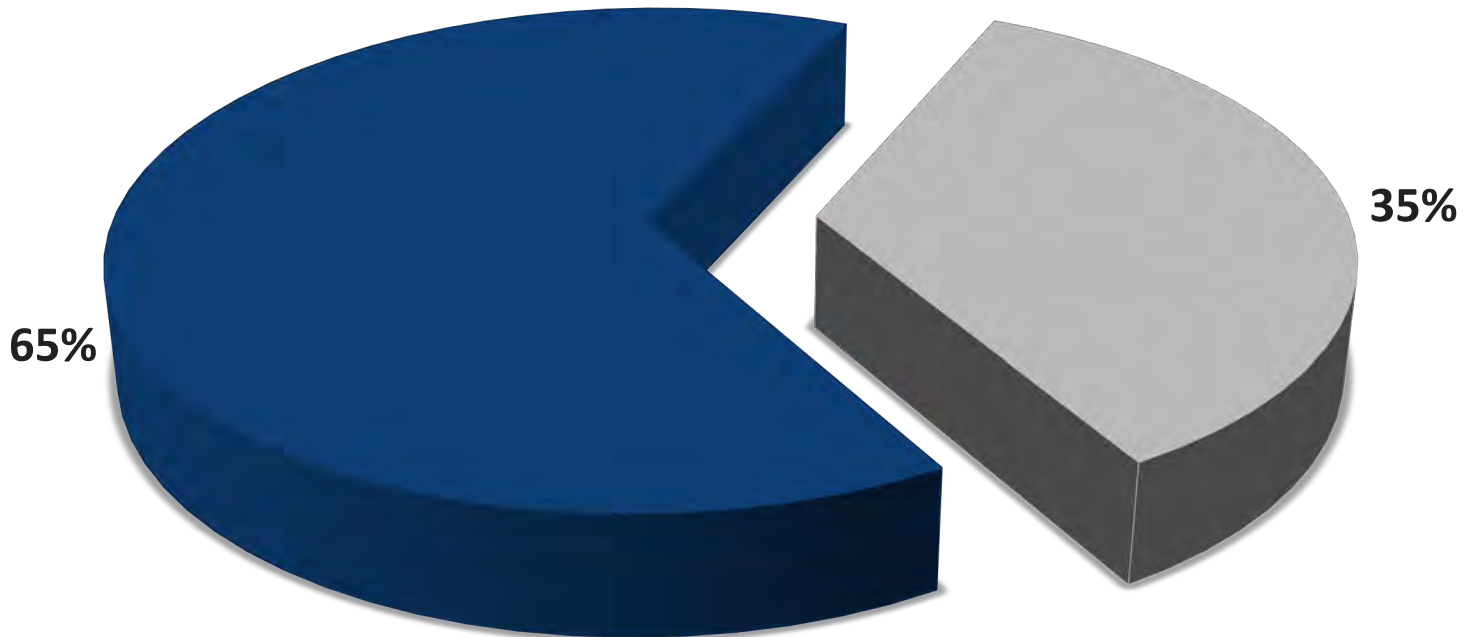
- Mechanical power transmission
- Electrical power transmission
- Diesel engines and spares
- Hydraulics and pneumatics
- Thermoplastic pipes and fittings
- Bearings
- Specialised steel

- Many businesses across many sectors
- Many products in many industries
- Diversification reduces risk
- Decentralised focused management - specialists
- Quick decision making, control and accountability
- Different KPI's for each business

CONTRIBUTION BY SEGMENT

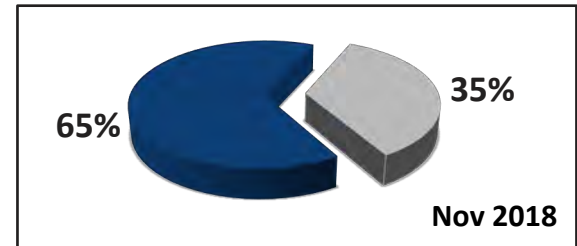
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Contribution to H1 2019 operating profit
(before shared services and head office)



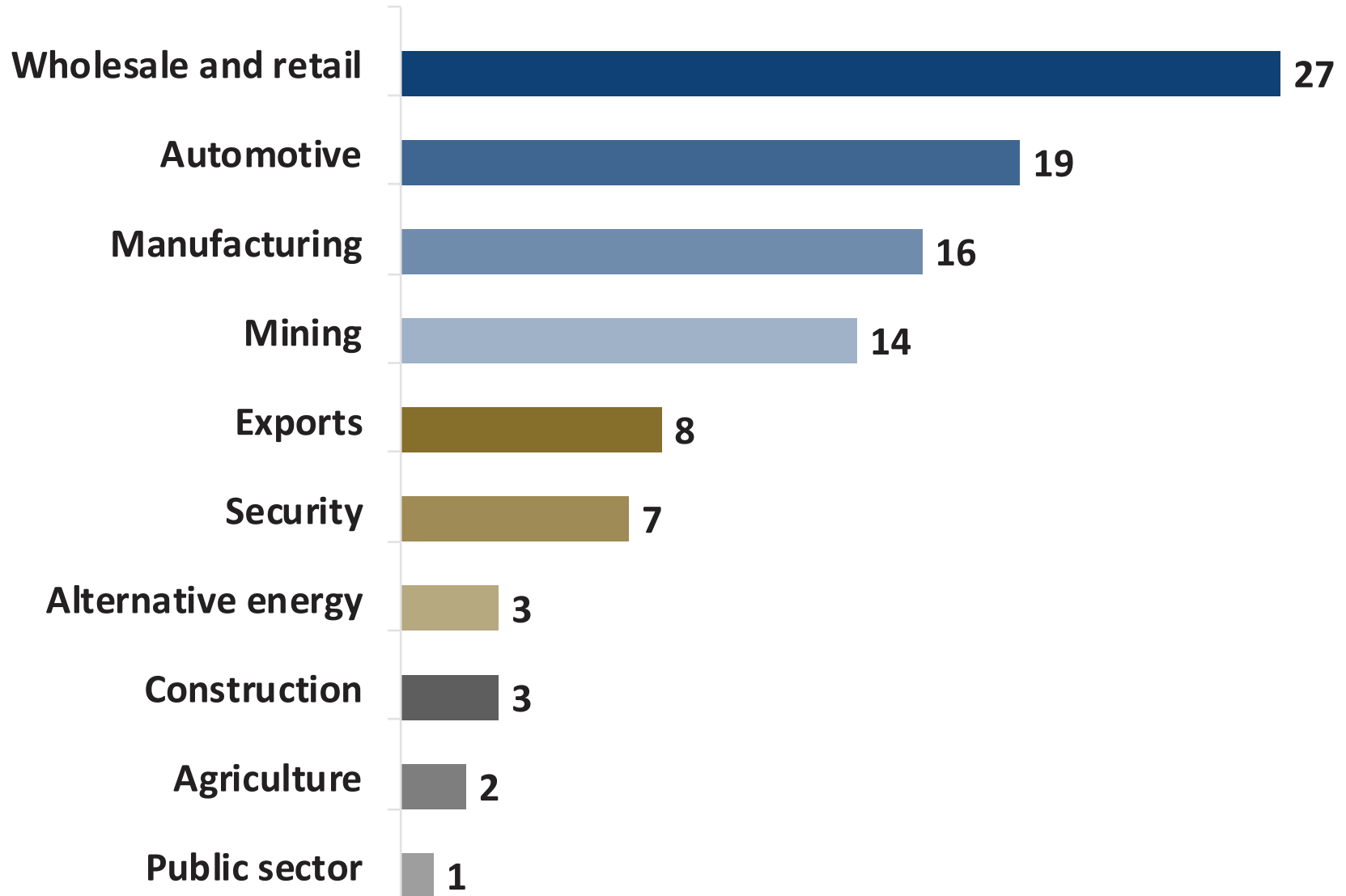
■ Consumer-related products

■ Engineering consumables



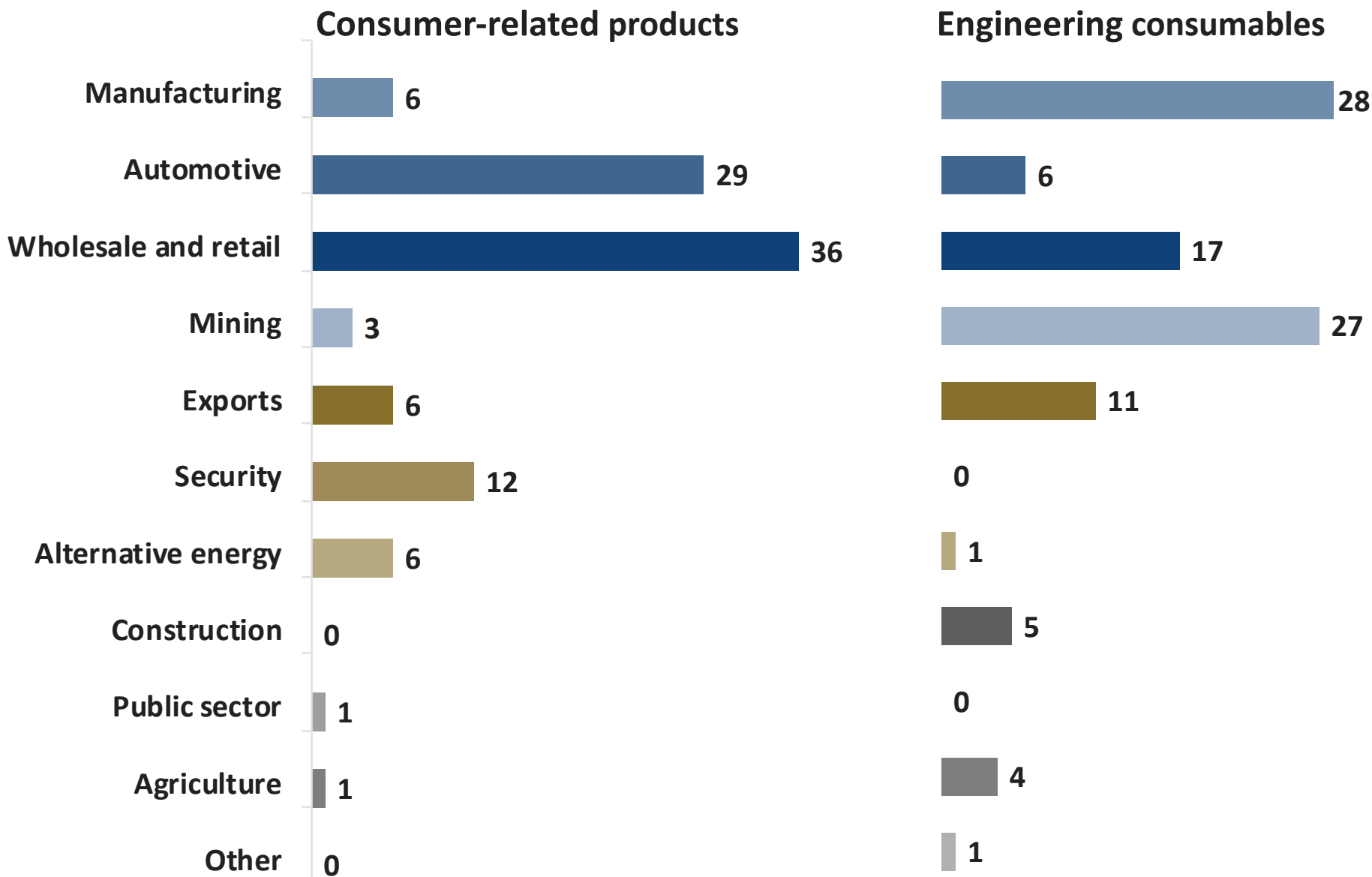
2018 SALES BY MARKET SECTOR (%)

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2018 SALES BY MARKET SECTOR (%)

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

H2 2018

- Boltworld
- TPA Security Distributors

Boltworld

- One of the largest stockists of a wide and comprehensive range of high-quality industrial fasteners
- Merged with FTS division of Rutherford
- Price R105m, including R24m excess inventory
- Effective date 1 June 2018



TPA Security Distributors

- Distributors of electronic security equipment, including the Texecom range of intruder detection solutions as well as related consumables
- Synergies and efficiencies with security division
- Price R31m
- Effective date 1 September 2018



SEGMENT RESULTS – CONSUMER-RELATED PRODUCTS

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Rm	Turnover			Op Margin		Operating Profit		
	2019	% ch	2018	2019	2018	2019	% ch	2018
Ongoing operations	1 609	0,4	1 603	11,8	13,2	190	(10,1)	211
New businesses	108			14,1		15		
Segment total	1 717	7,2	1 603	12,0	13,2	205	(2,9)	211

- The three battery businesses all had a good start to the year
- Profits from all the other businesses in this segment declined

SEGMENT RESULTS – ENGINEERING CONSUMABLES

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Rm	Turnover			Op Margin		Operating Profit		
	2019	% ch	2018	2019	2018	2019	% ch	2018
Ongoing operations	1 467	8,2	1 355	7,4	7,3	109	10,0	99
New businesses								
Segment total	1 467	8,2	1 355	7,4	7,3	109	10,0	99

- Benefits from strengthening and restructuring of this segment are starting to come through
- Thermoplastic pipes and fittings struggled with little or no project work and low margin competitors
- Diesel engine business performed well

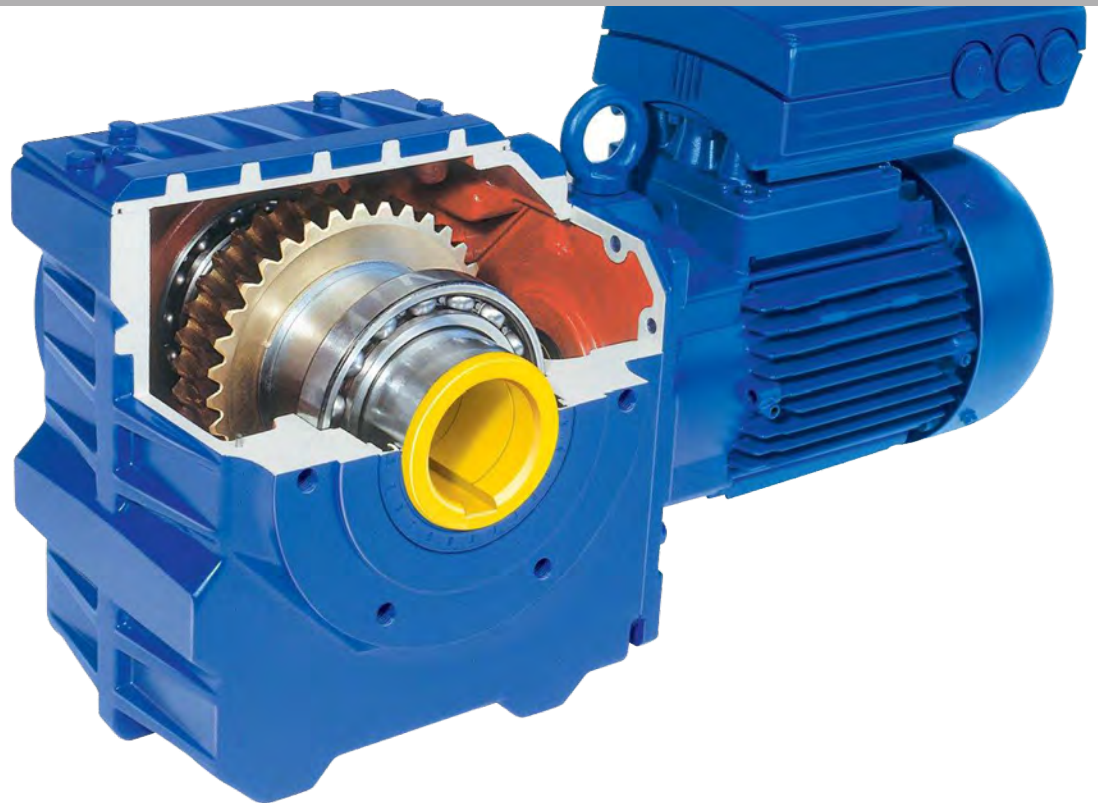
SEGMENT RESULTS FOR THE SIX MONTHS

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Rm	Turnover			Op Margin		Operating Profit		
	2019	% ch	2018	2019	2018	2019	% ch	2018
Consumer-related products	1 717	7,2	1 603	12,0	13,2	205	(2,9)	211
Engineering consumables	1 467	8,2	1 355	7,4	7,3	109	10,0	99
Head office, shared services & eliminations	(9)		(3)			(17)		(20)
Total group	3 175	7,5	2 955	9,3	9,8	297	2,4	290



FINANCIAL REVIEW



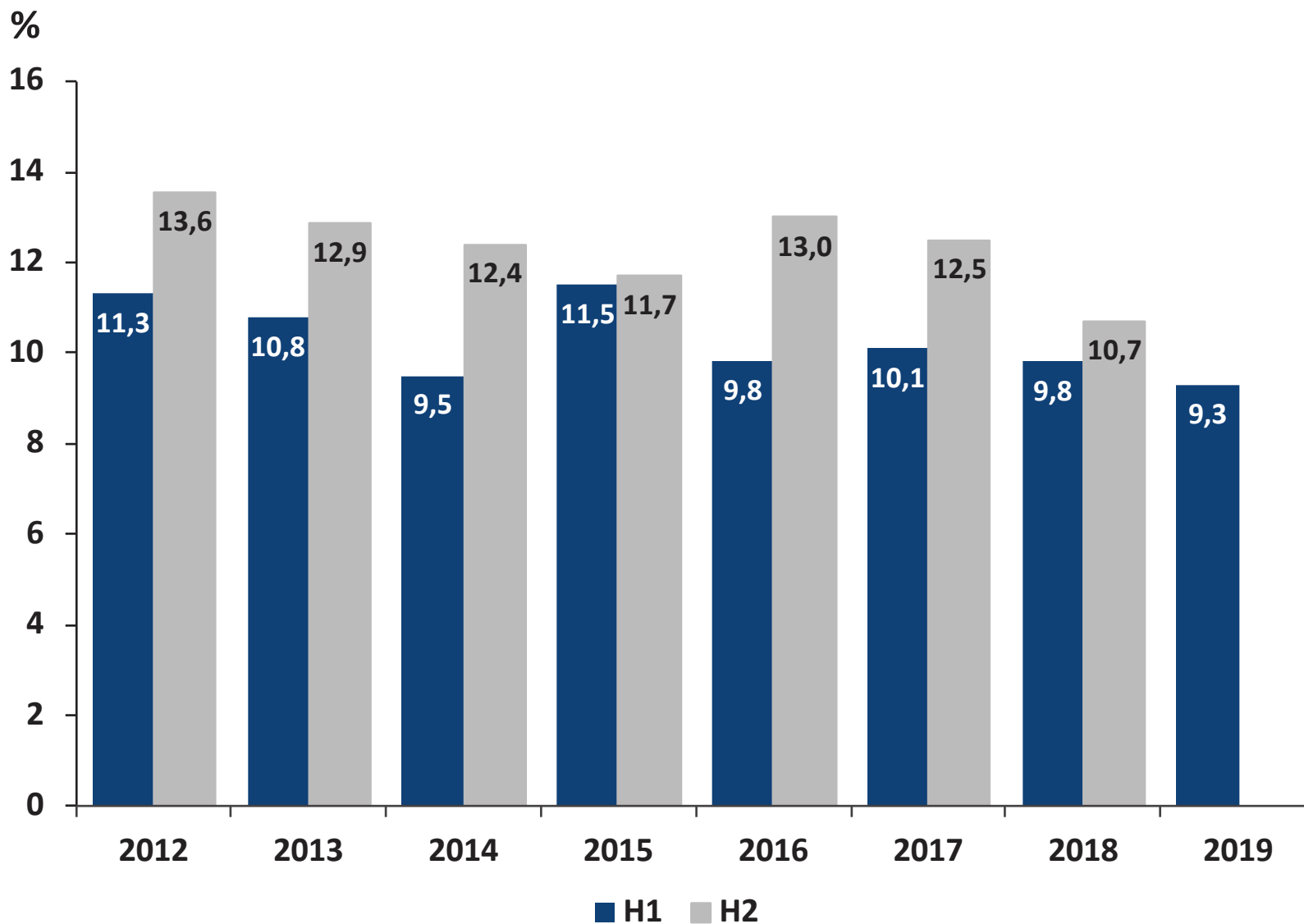
PROFIT FOR THE SIX MONTHS

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Rm	2019	% ch	2018
Turnover	3 175	7,5	2 955
- Ongoing operations	3 067	3,8	2 955
- New businesses	108		
Gross profit	1 144	6,3	1 076
Operating expenses	847	7,7	786
- Ongoing operations	815	3,6	786
- New businesses	32		
Operating profit	297	2,4	290
- Ongoing operations	282	(2,9)	290
- New businesses	15		
Margin (%)			
Turnover	100,0		100,0
Gross profit	36,0		36,4
Operating expenses	26,7		26,6
Operating profit	9,3		9,8

OPERATING MARGIN FOR THE SIX MONTHS

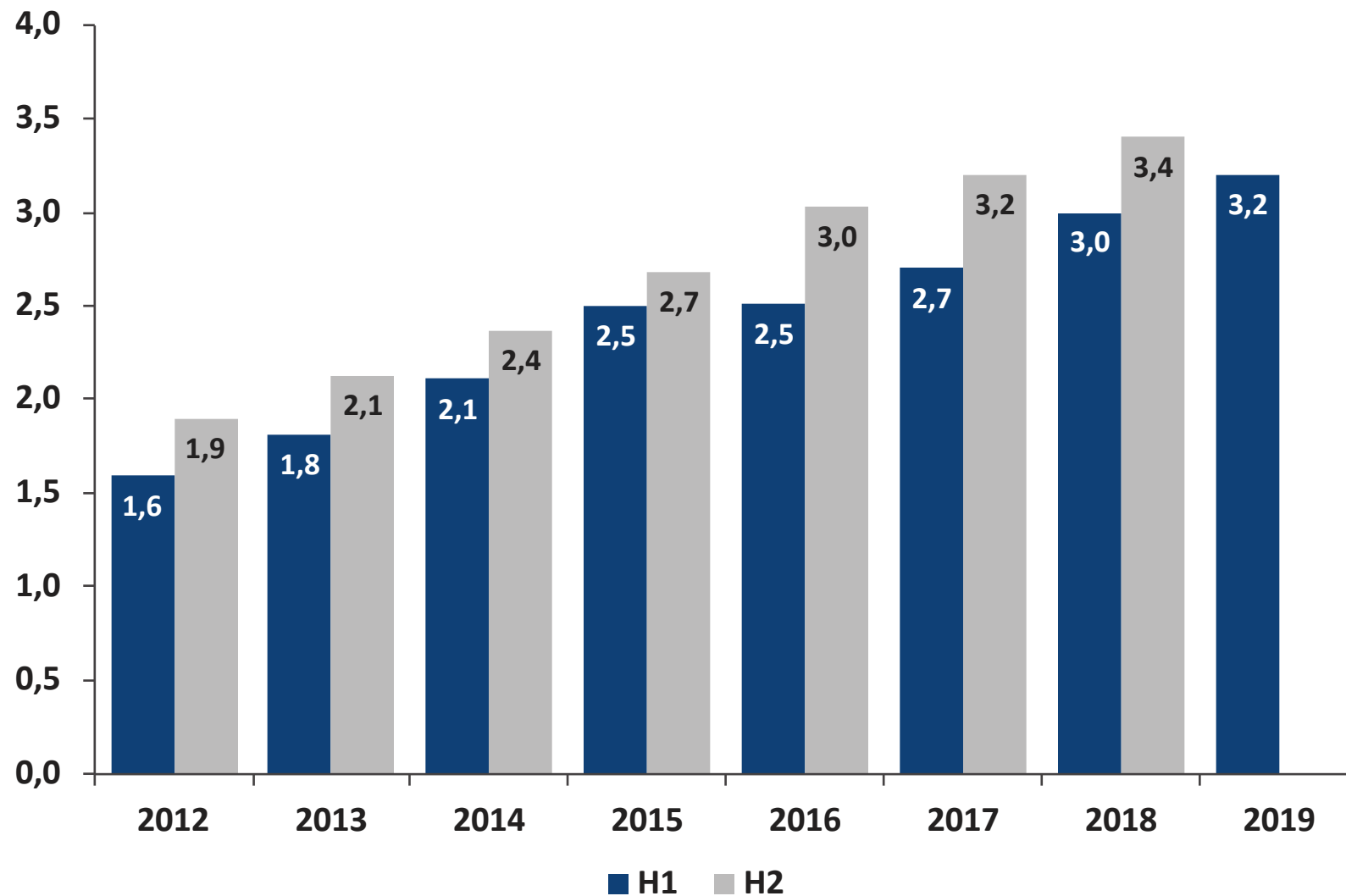
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TURNOVER FOR THE SIX MONTHS

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R billion



PROFIT FOR THE SIX MONTHS

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Rm	2019	% ch	2018
Operating profit	297	2,4	290
Net interest on funding	(55)		(43)
Fair value adjustment to amounts due to vendors	(3)		(9)
- Adjustment for time-value of money (imputed interest)	(8)		(13)
- Adjustment to estimated capital value	5		4
Profit before taxation	239	0,3	238
Taxation (Rate 2019: 26,5%; 2018: 26,9%)	63		64
Profit after taxation	176	0,8	174
Income from joint venture	1		1
Profit for the period	177	0,6	175
Non-controlling interest	8		8
Attributable earnings	169	0,9	167

COMPARABLE EARNINGS FOR THE SIX MONTHS

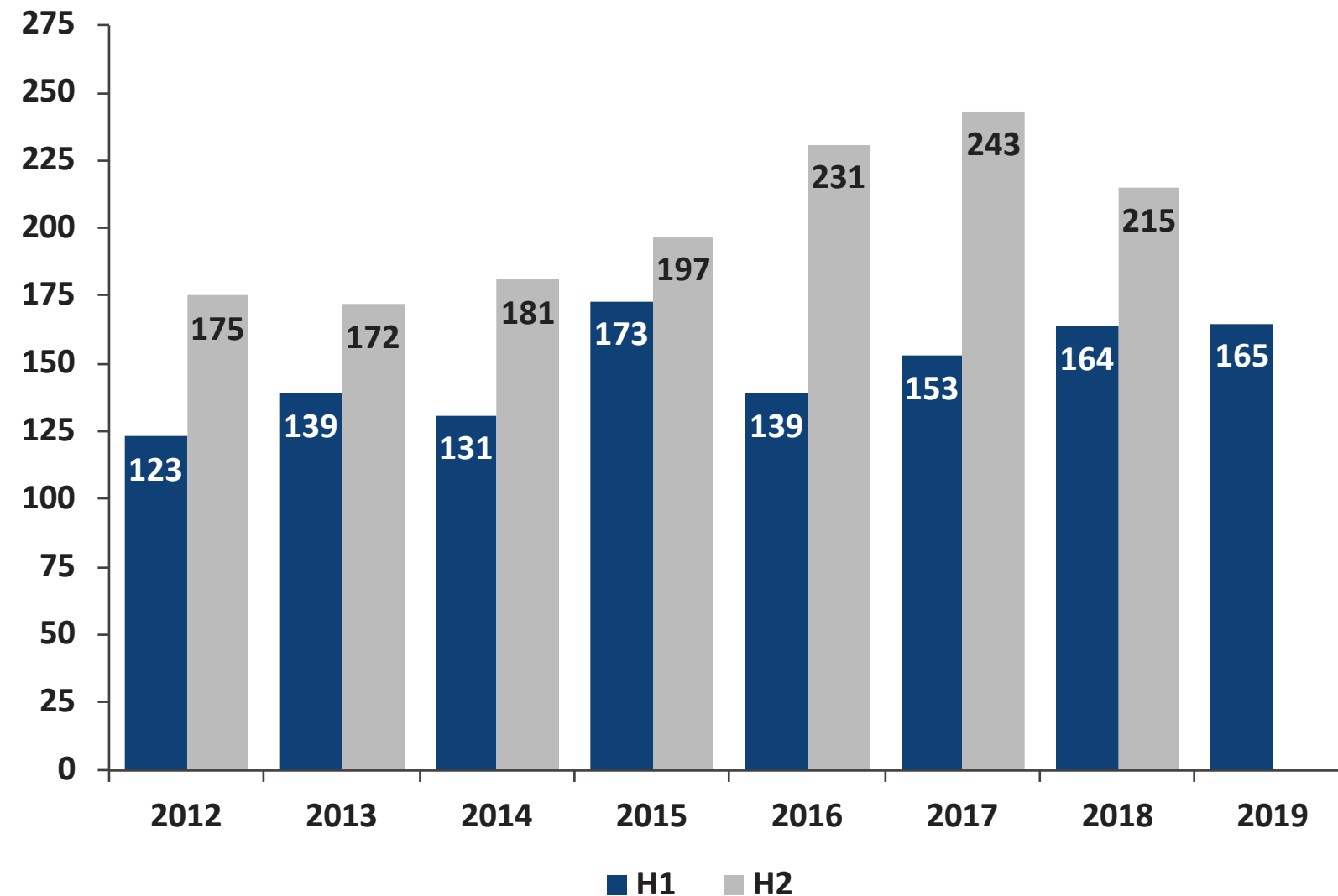
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Attributable and headline earnings	169	0,9	167
Fair value adjustment to estimated capital value of vendor liabilities	(5)		(4)
Non-controlling interest	1		1
Comparable earnings	165	0,5	164

COMPARABLE EARNINGS FOR THE SIX MONTHS

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R million



EARNINGS PER SHARE AND DIVIDENDS

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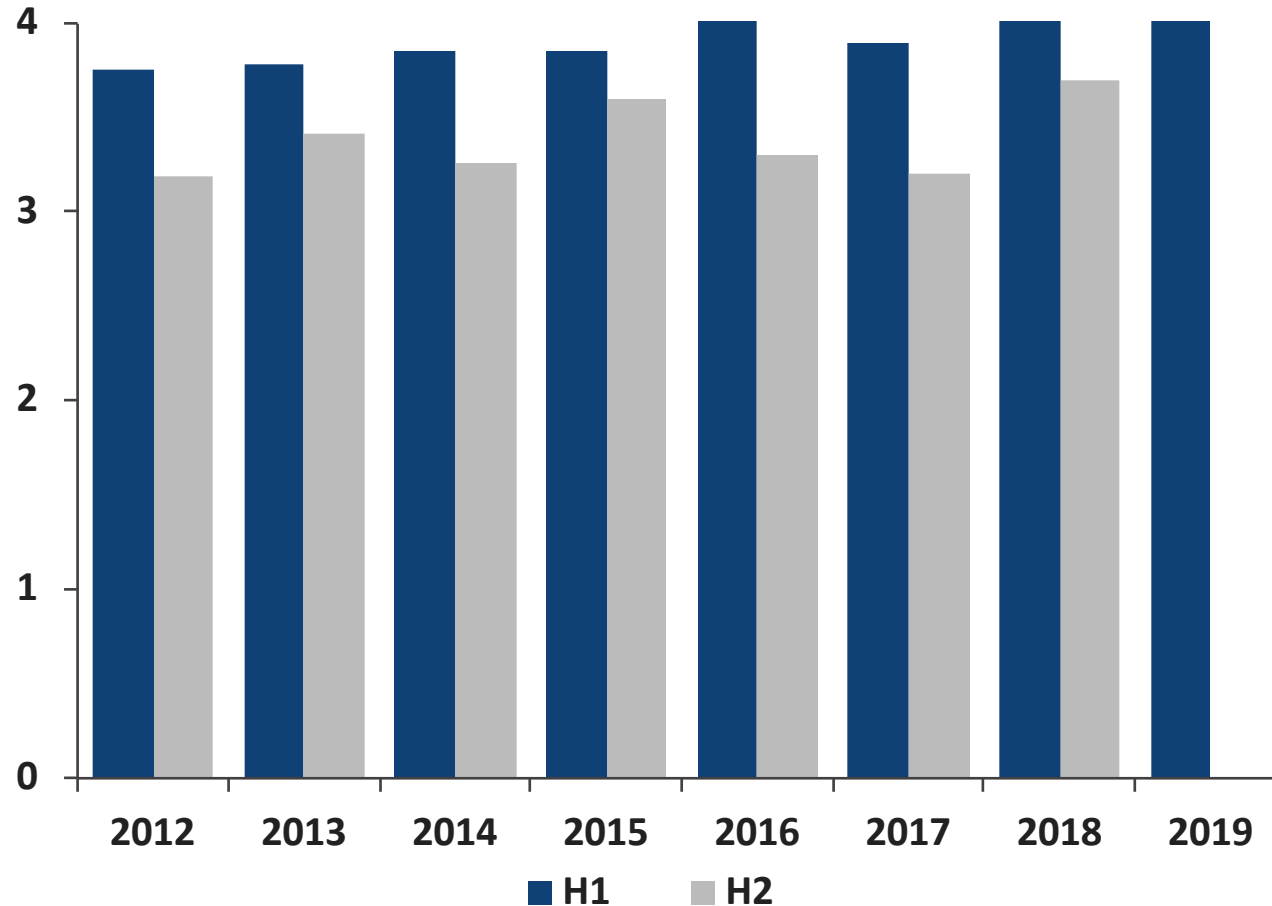
Cents	2019	% ch	2018
Earnings per share			
Comparable	520	0,5	517
Basic	533	0,9	528
Headline	533	0,9	528
Dividends per share			
- Interim	190		190
- Final			380
Total			570
Dividend cover (times)			
	2,7x		2,7x

STATEMENT OF FINANCIAL POSITION

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Rm	May 19	May 18
Working capital	2 164	2 008
Property, plant and equipment	297	277
Goodwill and intangibles	1 548	1 536
Investment in joint venture	10	11
Tax	51	25
Net assets	4 070	3 857
Equity	2 637	2 422
Bank borrowings	1 177	1 045
Due to vendors	221	319
Tax	35	71
Total equity and liabilities	4 070	3 857

In months of sales



One month of sales:

H1 2018 = R493

H1 2019 = R529

- 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 (2018: 46/54)

CASH FLOW FOR THE SIX MONTHS

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Rm	2019	2018
Cash from trading	348	338
Increase in working capital	(47)	(238)
Cash from operations	301	100
Finance costs paid	(55)	(43)
Tax paid	(68)	(30)
Cash generated after tax	178	27
Share-based payments	(18)	(17)
Dividends paid	(123)	(144)
Invested in new businesses and property, plant and equipment	(52)	(51)
Net movement	(15)	(185)
Foreign exchange translation gain	1	
Opening borrowings	(1 163)	(860)
Closing borrowings	(1 177)	(1 045)

- Working capital is normalising as promised
- Cash generation has been strong
- Exchange rate impacts working capital requirements
- Currency volatility makes gross margin difficult to manage
- We are well within our banking covenants
- Bank facilities are available
- We continue to look for acquisitions
- IAS reporting awards
 - Industrial: Basic Industry 2018 and 2019
 - 5 Squirrels since 2009





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 35 separate businesses
 - 21 in engineering consumables
 - 14 in consumer-related products

- We don't see much change in the economy for the rest of 2019
- We expect consumer-related products businesses to continue having a tough year
- We expect continued growth in engineering consumables
 - strengthening of senior team
 - focus on extracting synergies and efficiencies (value proposition)
- Strong cash generation as we bring working capital in line
- Hudaco remains resilient and our businesses are still well placed to benefit immediately from any improvement in the economy
- In the meantime we will continue to manage the elements within our control

Graham Dunford

Chief executive

Tel +27 11 657 5004

grahamd@hudaco.co.za

Clifford Amoils

Financial director

Tel +27 11 657 5002

camoils@hudaco.co.za

www.hudaco.co.za

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