



Hudaco

**AUDITED
PRELIMINARY
REPORT**

for the year ended 30 November 2011



Profile

Hudaco Industries is a South African group specialising in the importation and distribution of high quality branded industrial products in the southern African region. Hudaco businesses serve markets that fall into two primary categories. The bearings, power transmission and diesel engine businesses supply engineering consumables mainly to mining and manufacturing customers whilst the security, power tool and automotive aftermarket businesses supply products into markets reliant on consumer spending.

Hudaco sources branded products, mainly on an exclusive basis, directly from leading international manufacturers and to a lesser extent from local manufacturers. Hudaco seeks out niche areas in markets where customers need, and are prepared to pay for the value Hudaco adds to the products it distributes. The value added includes product specification, technical advice, application and installation training and troubleshooting, combined with ready availability at a fair price. The group has a network of specialised branches and independent distributors throughout southern Africa to ensure product availability to its customers.

With the exception of Deutz Dieselpower, in which Deutz AG has a 30% share, all Hudaco businesses are 15% owned directly by BEE shareholders.

Highlights



Headline earnings up **29%**



Heps up **28%**



Operating profit up **42%**



Dividends up **26%**



Turnover up **29%**



Eps up **38%**



**Acquisitions
contribute 17%**

to heps growth

**Organic
growth –**

turnover 9%,
operating profit 12%

**Exports up
48%**

**Cash balance
R169m**



Bearings International **moves** into
new distribution centre

Makita power tools **listed**
in **Makro** stores

Building leadership team for
succession

Rated 20th over 10 years
in **Sunday Times Top 100**
companies

Won IAS reporting award
for companies with market cap
under R5bn

Group statement of

financial position

	30 Nov	30 Nov
R million	2011	2010
ASSETS		
Non-current assets	2 939	2 700
Property, plant and equipment	182	131
Investment in preference shares	2 181	2 181
Goodwill	516	331
Intangible assets	49	34
Deferred taxation	11	23
Current assets	1 598	1 348
Inventories	813	663
Trade and other receivables	616	423
Cash and cash equivalents	169	262
TOTAL ASSETS	4 537	4 048
EQUITY AND LIABILITIES		
Equity	1 525	1 314
Interest of shareholders of the group	1 494	1 287
Non-controlling interest	31	27
Non-current liabilities	2 306	2 280
Subordinated debenture	2 181	2 181
Finance leases	2	
Amounts due to vendors of businesses acquired	123	99
Current liabilities	706	454
Trade and other payables	586	420
Finance leases	1	
Amounts due to vendors of businesses acquired	111	28
Taxation	8	6
TOTAL EQUITY AND LIABILITIES	4 537	4 048

Group statement of

comprehensive income

	Year ended 30 Nov	% change	Year ended 30 Nov
R million	2011		2010
Turnover	3 182	29	2 458
– Ongoing operations	2 601	9	2 393
– Acquired in 2010 and 2011	581		65
Cost of sales	1 910		1 464
Gross profit	1 272	28	994
Operating expenses	846		694
Operating profit	426	42	300
– Ongoing operations	320	12	286
– Acquired in 2010 and 2011	106		14
Impairment of goodwill and intangible assets			22
Profit before dividends received, interest received and finance costs	426		278
Dividends received on preference shares	201		201
Interest received	4		17
Finance costs	(247)		(235)
Profit before taxation	384		261
Taxation	46		24
PROFIT FOR THE YEAR	338		237
Other comprehensive income			
Movement on fair value of cash flow hedges	(1)		
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	337	42	237
Profit attributable to:			
Shareholders of the group	325		234
Non-controlling shareholders	13		3
	338		237
Total comprehensive income attributable to:			
Shareholders of the group	324		234
Non-controlling shareholders	13		3
	337		237
Headline earnings per share (cents)	1 024	28	800
Basic earnings per share (cents)	1 026	38	745
Diluted headline earnings per share (cents)	1 010		784
Diluted basic earnings per share (cents)	1 012		730
Reconciliation to headline earnings			
Profit attributable to shareholders of the group	325		234
Adjusted for:			
– Impairment of goodwill and intangible assets			22
– Tax effect			(2)
– Non-controlling interest			(2)
– Profit on disposal of property, plant and equipment	(1)		
Headline earnings	324	29	252
Dividends			
– Per share (cents)	440	26	350
– Amount (Rm)	139		110
Shares in issue	31 646		31 540
– Total (000)	34 154		34 048
– Held by subsidiary (000)	(2 508)		(2 508)
Weighted average shares in issue			
– Basic (000)	31 617		31 466
– Diluted (000)	32 058		32 109

Group statement of

cash flows

	Year ended 30 Nov	Year ended 30 Nov
R million	2011	2010
Cash generated from trading	458	327
(Increase) decrease in working capital	(129)	12
Cash generated from operations	329	339
Taxation paid	(46)	(49)
Net cash from operating activities	283	290
Net investment in new operations	(164)	(184)
Net investment in property, plant and equipment	(64)	(50)
Dividends and interest received	205	218
Net cash from investing activities	(23)	(16)
Proceeds from issue of shares	2	7
Increase in finance leases	3	
Finance costs	(234)	(234)
Dividends paid	(124)	(120)
Net cash from financing activities	(353)	(347)
Net decrease in cash and cash equivalents	(93)	(73)

Group statement of

changes in equity

	Year ended 30 Nov	Year ended 30 Nov
R million	2011	2010
Equity at beginning of the year	1 314	1 184
Comprehensive income for the year	337	237
(Decrease) increase in equity compensation reserve	(3)	5
Issue of shares	2	7
Dividends	(125)	(119)
Equity at end of the year	1 525	1 314

The consolidated financial statements have been prepared in accordance with IAS 34: *Interim Financial Reporting*, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the AC 500 Standards as issued by the Accounting Practices Board, the requirements of the South African Companies Act and the JSE Listings Requirements. IFRS 9 and IAS 24 have been adopted for the first time during the current year. The principal accounting policies set out in the group's 2010 annual report have been consistently applied throughout the current year. These results have been compiled under the supervision of the financial director, CV Amoils CA(SA).

	30 Nov	30 Nov
	2011	2010
Average net operating assets (NOA) (Rm)	1 469	948
Operating profit margin (%)	13,4	12,2
Average NOA turn (times)	2,2	2,6
Return on average NOA (%)	29,0	31,6
Average net tangible operating assets (NTOA) (Rm)	951	758
PBITA margin (%)	13,8	12,4
Average NTOA turn (times)	3,3	3,2
Return on average NTOA (%)	46,1	40,1
Net asset value per share	4 721	4 080
Return on average equity (%)	23,8	18,9
Operating profit has been determined after taking into account the following charges (Rm):		
– Depreciation	24	18
– Amortisation	13	4
Capital expenditure (Rm)		
– Incurred during the year	69	52
– Authorised but not contracted for	38	31
Commitments and contingencies (Rm)		
– Operating lease commitments on properties	123	116
Acquisition of new businesses		
The group acquired 100% of the businesses of Midrand Special Streels, Global Communications and Pentagon for a total consideration based on future profits and which is estimated to be R251 million. The results since acquisition date included in consolidated results for the year are as follows:		
– Turnover (Rm)	322	
– Profit after tax (Rm)	29	
If the acquisitions had been concluded at the beginning of the financial year, consolidated results for the group would have been as follows:		
– Turnover (Rm)	3 224	
– Profit after tax (Rm)	344	

Turnover			
	Year ended 30 Nov	% change	Year ended 30 Nov
R million	2011		2010
Engineering consumables	2 187	25	1 750
– Ongoing operations	1 852	10	1 685
– Acquired in 2010 and 2011	335		65
Consumer-related products	1 006	41	716
– Ongoing operations	760	6	716
– Acquired in 2010 and 2011	246		
Total operating segments	3 193	29	2 466
Head office, shared services and eliminations	(11)		(8)
Total group	3 182	29	2 458

Operating profit			
	Year ended 30 Nov	% change	Year ended 30 Nov
R million	2011		2010
Engineering consumables	274	33	206
– Ongoing operations	210	9	192
– Acquired in 2010 and 2011	64		14
Consumer-related products	163	39	117
– Ongoing operations	121	3	117
– Acquired in 2010 and 2011	42		
Total operating segments	437	35	323
Head office, shared services and eliminations	(11)		(23)
Total group	426	42	300

Average net operating assets			
	Year ended 30 Nov	% change	Year ended 30 Nov
R million	2011		2010
Engineering consumables	1 093	50	728
– Ongoing operations	773	17	660
– Acquired in 2010 and 2011	320		68
Consumer-related products	366	101	182
– Ongoing operations	201	10	182
– Acquired in 2010 and 2011	165		
Total operating segments	1 459	60	910
Head office, shared services and eliminations	10		38
Total group	1 469	55	948



Results

Hudaco is a South African group that imports and distributes branded engineering consumables, power tools and security, automotive and professional mobile radio communication products. Its customer base is mainly within the southern African manufacturing, mining, construction, automotive aftermarket and security industries. Adding value to the product sold by offering technical advice, prompt availability and training is a key part of Hudaco's business model.

Sales of R3,2 billion for the year are up 29% on 2010, whilst operating profit is up 42% to R426 million.

Hudaco has delivered a good set of results this year. Demand for our product offering was reasonable throughout the year, but picked up noticeably in the second half of 2011. The renewed focus on acquisitions also made a material contribution to profits this year. All acquisitions made over the past two years are performing to or ahead of plan. Rand weakness from September 2011 had little impact on the 2011 results, but if it persists, it could have a significant positive impact on next year's earnings.

The Engineering Consumables segment continues to be the core driver of profits for the Hudaco group, delivering 63% of operating profit this year – up 33% on last year on sales of R2,2 billion. Demand from the two key markets for this segment, South African-based mining and manufacturing was hindered by infrastructure constraints and managed only moderate growth in 2011. However, demand from mining customers in neighbouring countries was noticeably higher. The Consumer-related Products segment also performed well, increasing operating profit by 39% from sales of R1 billion. This segment experienced strong demand for power tools and professional digital radio communication equipment.

The group gross margin of 40% is much the same as last year, but expenses declined to 27% of sales from 28%. The net result was that the operating profit margin increased to 13,4% from 12,2% last year.

Headline earnings per share of 1024 cents are up 28% on last year. The group's dividend policy is to pay about 40% of headline earnings annually. The final dividend of 310 cents per share brings total dividends declared in respect of the 2011 financial year to 440 cents, which is a little higher than 40% of earnings and up 26% on last year.

The financial position is healthy. Working capital (inventories, receivables and payables) increased as new businesses were brought on board, but activity levels are within our normal parameters. In the past year Hudaco has acquired three businesses at a cost of R251 million, of which R108 million has already been paid. R143 million is still to be paid over the next three years and is dependent on earn-out performances. The group has R169 million (last year: R262 million) cash on hand at year end.

Prospects

Trading conditions for the group have improved over the past year. Rand weakness, such as occurred in the last quarter of 2011, has traditionally led to increased activity by mines and local manufacturers and this bodes well for Hudaco's Engineering Consumables segment's prospects in 2012. Demand from mining customers in neighbouring countries is expected to remain strong. Demand for power tools and digital communication equipment, products in our Consumer-related Products segment, is expected to continue to be strong, but the outlook for the security products

business remains weak. The strong financial position also gives plenty of ammunition for Hudaco to continue to pursue its successful acquisition strategy.

Notwithstanding the economic uncertainties created by the financial crises in Europe and the USA, the board is confident that the group is well positioned to continue to grow earnings in the years ahead.

Directorship

As reported on SENS, Mr Graham Gardiner retired with effect from 31 July 2011 and Mrs Nene Molefi resigned with effect from 27 October 2011.

Declaration of final dividend No. 50

Ordinary dividend number 50 of 310 cents per share is declared payable on Monday, 12 March 2012 to ordinary shareholders recorded in the register at the close of business on Friday, 9 March 2012. The timetable for the payment of the dividend is as follows:

Last day to trade cum dividend	Friday, 2 March 2012
Trading ex dividend commences	Monday, 5 March 2012
Record date	Friday, 9 March 2012
Payment date	Monday, 12 March 2012

Share certificates may not be dematerialised or rematerialised between Monday, 5 March 2012 and Friday, 9 March 2012, both days inclusive. The certificated register will be closed for this period.

Results presentation and annual general meeting

Hudaco will host presentations on the financial results in Johannesburg and Cape Town on Friday, 27 January and Monday, 30 January 2012 respectively. Anyone wishing to attend should contact Robin Benson at 011 657 5007.

The slides that form part of the presentation will be available on the company's website from Tuesday, 31 January 2012.

The company's 27th annual general meeting will be held in the boardroom, at Hudaco's corporate offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale at 11:00 on Thursday, 22 March 2012. Further details on the company's annual general meeting will be included in the integrated report that will be published on www.hudaco.co.za during the second week of February 2012 and will be posted to shareholders on or about 20 February 2012.

Approval of financial statements

The financial statements have been approved by the board and abridged for purposes of this report. Grant Thornton has signed an unqualified audit opinion on the annual financial statements. Both the financial statements and the auditor's opinion are available for inspection at the company's registered office.

For and on behalf of the board

RT Vice

Independent non-executive chairman

26 January 2012

SJ Connelly

Chief executive

ENGINEERING CONSUMABLES

Distributor of special solid and hollow round steel.	
Distributor of specialised thermoplastic pipes and fittings.	
Distributor of geared motors, frequency inverters and electric motors.	
Distributor of bearings, seals and transmission products.	
Distributor of conveyer belting, industrial hose, fluid sealing and process control products.	
Manufacturer of conveyor drive pulleys, forgings and rollings.	
Distributor of Deutz diesel engines and Deutz spare parts and the provision of service support.	
Distributor of hydraulic and pneumatic equipment.	
Distributor of filters for earthmoving equipment and industrial hose.	
Distributor of special round and hexagonal steel.	
Distributor of electrical cabling, plugs, sockets, electric feeder systems and crane materials.	
Distributor of controllers, monitors and regulators of the speed of standard AC motors.	

CONSUMER-RELATED PRODUCTS

Distributor of clutch kits, automotive ignition leads and oil and hydraulic seals.	
Distributor of intruder detection, access control and related CCTV equipment and fibre-optics.	
Distributor of professional mobile radio communication equipment and radio systems integrator.	
Distributor of electronic security products, specialising in video IP.	
Distributor of power tools and marine engines.	

HUDACO INDUSTRIES LIMITED

Incorporated in the Republic of South Africa
Registration number 1985/004617/06
JSE Code: HDC ISIN: ZAE000003273

Transfer secretaries:

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Registered office:

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Directors:

RT Vice (*Chairman*), SJ Connelly (*Chief executive*)
CV Amoils (*Financial director*), GR Dunford
DD Mokgatle*, D Naidoo*, SG Morris*
* Independent non-executive

Group secretary:

R Wolmarans

Sponsor:

Nedbank Capital

A detailed, close-up photograph of a ball bearing, showing the polished steel balls and the surrounding raceways. The image is oriented diagonally, with the bearing's outer ring at the top right and the inner ring at the bottom left. The lighting creates bright highlights on the metallic surfaces, emphasizing its smooth texture and circular geometry.

Hudaco

www.hudaco.co.za