

# Hudaco

## UNAUDITED INTERIM RESULTS

for the six months ended  
31 May 2014

### ENGINEERING CONSUMABLES



Distributor of engineering steels, solid, round, square, hexagonal and hollow bar steel.



Distributor of specialised thermoplastic pipes, fittings and Keymak PVC hose.



Distributor of bearings, chain, seals, geared motors, electric motors, transmission products and alternators.



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.



Supply and repair of hydraulic gear pumps.



Manufacturer of hydraulic and pneumatic equipment.



Supplier of filtration solutions, kits and accessories.



Manufacturer of ferrous and non-ferrous castings.



Distributor of electrical cabling and accessories, 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 automotive clutch kits and ignition leads, rotary oil and hydraulic seals.



Distributor of maintenance free batteries.



Distributor of intruder detection, access control and related CCTV equipment.



Distributor of professional mobile radio communication equipment and radio systems integrator.



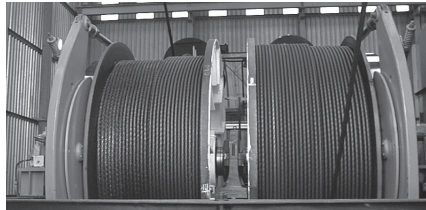
Distributor of CCTV equipment, including system design, integration into access control, intruder, fire detection systems and Video over IP.



Distributor of Makita power tools, Mercury marine engines and survey instrumentation.



Importers and distributors of standby and solar batteries.



- Sales up **16% to R2.1 billion**
- Operating profit up **3%**
- Headline earnings per share up **2%** to 456 cents
- Comparable earnings per share **down 5%** to 416 cents
- Interim dividend maintained at **155 cents** per share

Hudaco Industries is a South African group whose principal activity is the 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, communication equipment and automotive aftermarket businesses supply products into markets with a bias towards consumer spending. Adding value to the product sold by offering instant availability, advice and training etc. is a key part of Hudaco's business model.

#### Results

The group has delivered disappointing but resilient results for the first half of the year, in one of the most challenging trading environments we have experienced. In the first quarter of 2014 mining GDP contracted 25% whilst manufacturing GDP contracted 6%. There is no doubt that these depressed conditions continued into the second quarter of 2014. These two sectors of the economy account for about half of Hudaco's sales. As a result the engineering consumables segment faced very tough trading conditions particularly felt in those businesses serving the mines in the Rustenburg platinum belt. Although it looks like the strike has ended, its aftermath will continue to impact demand in the first months of our second half.

Activity in open cast mining was not as badly affected as in deep level mining by strikes so sales volumes held up reasonably well. There were also reasonable performances from businesses serving other markets; for example sales into neighbouring countries grew 33% in the first half.

Sales at R2,1 billion were up 16% of which only 3% was from ongoing operations and 13% was from acquisitions. Price increases implemented over the past year due to Rand weakness amount to about 20% which means that volume sales are down between 15% and 20% in ongoing businesses, a stark indication of the impact of the strikes. Operating profit increased 3% to R200 million but without the contribution from acquisitions it would have fallen 17%. The operating margin to sales is 9.5% – well down on last year's 10.8%. Comparable earnings held up well against last year until the end of March 2014 but in April and May they fell behind, which is an indication that conditions are still deteriorating.

Headline and basic earnings per share of 456 cents are up slightly on last year but comparable earnings per share are down 5%. Comparable earnings have been calculated as if the restructuring of the financing of the BEE transaction (which happened on 28 February 2013) had taken place before the start of the 2013 financial year and also excludes the gain (2013: charge) arising from adjustments to estimated earn-out payments on acquisitions.

The interim dividend has been maintained at 155 cents per share. Our dividend policy, to pay about 40% of CEPS annually, remains unchanged.

As would be expected given poorer than expected sales levels and long lead times from suppliers, the group is overstocked. As a result working capital (inventories, accounts receivable less accounts payable) is about R100 million higher than would be ideal given current activity levels. Steps have been taken to bring stock back into line and this goal should be realised over the next six to nine months. The group has net borrowings of R564 million at May 2014, higher than we would have liked but still within our self-imposed conservative guidelines.

#### Engineering Consumables Segment

This segment is the biggest profit contributor to the group with the South African mining and manufacturing sectors accounting for two thirds of its activity. It experienced tough trading conditions this half. December, January and April are traditionally difficult because of holidays but April and May were particularly hard hit by the strike activity in the platinum mining sector. Demand for diesel engines and spares, electrical equipment, bearings and power transmission equipment and chemical piping was well down on last year. Acquisitions over the past few years have significantly strengthened the sales base and market spread of this segment and businesses with less exposure to the platinum mining sector performed reasonably well under the circumstances. Businesses acquired in the last year are performing in line with expectations.

Segment sales of R1 293 million are up 14% on last year – all of the increase came from acquisitions. Operating profit was up 4% to R124 million.

#### Consumer-Related Products Segment

Sales of power tools, security equipment and automotive parts held steady in the first half. Sales of digital communication equipment were down on last year but this reflects contract timing and there should be a catch up in the second half.

Segment sales were up 20% to R819 million of which 14% was from acquisitions. Operating profit increased 1% to R86 million.

#### Tax challenge

The tax challenge is progressing slowly. As expected, SARS has rejected our objections to the assessments but we will appeal that decision in the Tax Court. It will take some time to get a court date.

#### Prospects

There has been a slew of bad news about the South African economy and its prospects. Strikes, ratings downgrades and policy vacillation have undermined business confidence. Hudaco's fortunes are closely tied to the local economy and therefore it must expect a difficult ride as these developments play themselves out.

We believe the main economic sectors served by Hudaco, the South African mining industry and the manufacturing and service sectors supporting that industry, will find a new lower level of activity over the next months. Once we have certainty about the size of the new playing field we will assess the appropriate steps required to right size those of our businesses serving those sectors.

The South African economy seems set for a period of no or low growth. As a response, increased emphasis will be placed on sales into markets outside South Africa – neighbouring territories for our complete basket of imported products and overseas markets for our own brand locally manufactured gear pumps and electrical plugs and sockets.

Fortunately Hudaco's business model – principally, the sale of replacement parts; and its financial characteristics – high margin and strong cash flows with limited investment in fixed assets; allows it to weather this economic storm and adapt reasonably quickly to changing circumstances.

#### Directorate

SJ Connelly is stepping down as chief executive effective 30 June 2014 but will remain on the board of Hudaco Industries as a non-executive director thereafter. GR Dunford takes over as chief executive with effect from 1 July 2014.

#### Declaration of interim dividend number 55

Interim dividend number 55 of 155 cents per share is declared payable on Monday, 18 August 2014 to ordinary shareholders recorded in the register at the close of business on Friday, 15 August 2014.

The timetable for the payment of the dividend is as follows:

Last day to trade *cum* dividend Friday, 8 August 2014  
Trading ex dividend commences Monday, 11 August 2014  
Record date Friday, 15 August 2014  
Payment date Monday, 18 August 2014

Share certificates may not be dematerialised or rematerialised between Monday, 11 August 2014 and Friday, 15 August 2014, both days inclusive. The certificated register will be closed for this period.

In terms of the Listings Requirements of the JSE Limited regarding Dividends Tax, the following additional information is disclosed:

- The dividend has been declared out of income reserves;
- The local dividend tax rate is 15%;
- Secondary Tax on Companies (STC) credits of 155 cents per share will be utilised;
- The gross local dividend amount is 155 cents per ordinary share for shareholders exempt from Dividends Tax;
- The net local dividend amount is 155 cents per ordinary share for shareholders liable to pay Dividends Tax;
- Hudaco Industries Limited has 34 153 531 shares in issue (which includes 2 507 828 treasury shares); and
- Hudaco Industries Limited's income tax reference number is 9400/159/71/2.

#### Results presentation

Hudaco will host presentations on the financial results in Johannesburg and Cape Town on Friday, 27 June 2014 and Monday, 30 June 2014, respectively. Anyone wishing to attend should contact Janine Yon at 011 657 5007.

The slides, which form part of the presentation will be available on the company's website from Tuesday, 1 July 2014.

For and on behalf of the board

#### RT Vice

Independent non-executive chairman  
26 June 2014

#### SJ Connelly

Chief executive

#### Nedbank Capital

Sponsor

These results are available on the internet: [www.hudaco.co.za](http://www.hudaco.co.za)

#### Group statement of financial position

R million	31 May 2014	31 May 2013	30 Nov* 2013
<strong>ASSETS</strong>			
<strong>Non-current assets</strong>	<strong>1 102</strong>	869	922
Property, plant and equipment	240	210	214
Goodwill	731	603	619
Intangible assets	46	40	39
Taxation	80		40
Deferred taxation	5	16	10
<strong>Current assets</strong>	<strong>1 910</strong>	1 742	1 902
Inventories	1 221	998	1 104
Trade and other receivables	675	744	780
Taxation	12		2
Bank deposits and balances	2		16
<strong>TOTAL ASSETS</strong>	<strong>3 012</strong>	2 611	2 824
<strong>EQUITY AND LIABILITIES</strong>			
<strong>Equity</strong>	<strong>1 883</strong>	1 739	1 835
Interest of shareholders of the group	1 863	1 722	1 816
Non-controlling interest	20	17	19
<strong>Non-current liabilities</strong>	<strong>301</strong>		30
Bank borrowings	300		
Amounts due to vendors of businesses acquired	1		30
<strong>Current liabilities</strong>	<strong>828</strong>	872	959
Trade and other payables	541	588	673
Bank overdraft	266	148	220
Amounts due to vendors of businesses acquired	21	91	61
Taxation		45	5
<strong>TOTAL EQUITY AND LIABILITIES</strong>	<strong>3 012</strong>	2 611	2 824

#### Group statement of comprehensive income

R million	Six months ended 31 May	% change	Six months ended 31 May	Year ended 30 Nov*
<strong>Turnover</strong>	<strong>2 111</strong>	16	1 813	3 942
– Ongoing operations	1 859	3	1 800	3 846
– Acquired in 2013 and 2014	252		13	96
Gross of sales	1 358		1 148	2 463
<strong>Gross profit</strong>	<strong>753</strong>	13	665	1 479
Operating expenses	553		470	1 010
<strong>Operating profit</strong>	<strong>200</strong>	3	195	469
– Ongoing operations	161	(17)	194	458
– Acquired in 2013 and 2014	39		1	11
Fair value adjustment to amounts due to vendors	15			(23)
<strong>Profit before interest</strong>	<strong>215</strong>	10	195	446
Dividends received on preference shares			50	50
Finance costs	(17)		(64)	(71)
<strong>Profit before taxation</strong>	<strong>198</strong>	9	181	425
Taxation	51		38	120
<strong>Profit for the period</strong>	<strong>147</strong>	3	143	305
<strong>Other comprehensive income to be recycled to profit and loss</strong>				
Movement on fair value of cash flow hedges	(2)		5	
<strong>Total comprehensive income for the period</strong>	<strong>145</strong>	(2)	148	305
Profit attributable to:				
– shareholders of the group	144		142	294
– non-controlling shareholders	3		1	11
	147		143	305

Total comprehensive income attributable to:				
– shareholders of the group	142		147	294
– non-controlling shareholders	3		1	11
	145		148	305
<strong>Basic earnings per share (cents)</strong>	<strong>456</strong>	2	448	930
<strong>Headline earnings per share (cents)</strong>	<strong>456</strong>	2	448	928
<strong>Comparable earnings per share (cents)</strong>	<strong>416</strong>	(5)	440	983
Diluted basic earnings per share (cents)	448		446	918
Diluted headline earnings per share (cents)	448		446	917
Diluted comparable earnings per share (cents)	408		436	970
<strong>Calculation of headline earnings</strong>				
Profit attributable to shareholders of the group	144	2	142	294
Adjusted for:				
Reversal of impairment and profit on disposal of property, plant and equipment				(1)
Tax effect				1
<strong>Headline earnings</strong>	<strong>144</strong>	2	142	294
<strong>Calculation of comparable earnings</strong>				
Headline earnings	144	2	142	294
Adjusted for:				
Preference dividend received			(50)	(50)
Interest on debenture			58	59
Tax effect			(16)	(16)
STT on redemption of preference shares			5	5
Fair value adjustment on amounts due to vendors	(15)			23
Non-controlling interest	2			(4)
<strong>Comparable earnings</strong>	<strong>131</strong>	(5)	139	311
<strong>Dividends</strong>				
– per share (cents)	155		155	465
– amount (Rm)	49		49	147
<strong>Shares in issue</strong>	<strong>31 646</strong>		31 646	31 646
– total (000)	34 154		34 154	34 154
– held by subsidiary (000)	(2 508)		(2 508)	(2 508)
<strong>Weighted average shares in issue</strong>				
– basic (000)	31 646		31 646	31 646
– diluted (000)	32 133		31 873	32 054

#### Segment information

	Turnover				Operating profit				Average net operating assets			
	Six months ended 31 May	% change	Six months ended 31 May	Year ended 30 Nov*	Six months ended 31 May	% change	Six months ended 31 May	Year ended 30 Nov*	Six months ended 31 May	% change	Six months ended 31 May	Year ended 30 Nov*
<strong>R million</strong>	<strong>2014</strong>		2013	2013	<strong>2014</strong>		2013	2013	<strong>2014</strong>		2013	2013
Engineering consumables	1 293	14	1 133	2 478	124	4	119	292	1 566	24	1 258	1 394
– Ongoing operations	1 132	1	1 120	2 412	99	(16)	118	286	1 405	12	1 251	1 374
– Acquired in 2013 and 2014	161		13	66	25		1	6	161		7	20
Consumer-related products	819	20	684	1 470	86	1	85	199	662	21	547	601
– Ongoing operations	728	6	684	1 440	72	(15)	85	194	601	10	547	596
– Acquired in 2013 and 2014	91		40	30	14		5	5	61			5
Total operating segments	2 112	16	1 817	3 948	210	3	204	491	2 228	23	1 805	1 995
Head office, shared services and eliminations	(1)		(4)	(6)	(10)		(9)	(22)	129		103	124
<strong>Total group</strong>	<strong>2 111</strong>	16	1 813	3 942	<strong>200</strong>	3	195	469	<strong>2 357</strong>	24	1 908	2 119

\* Audited

#### Company information

**HUDACO INDUSTRIES LIMITED**  
Incorporated in the Republic of South Africa  
Registration number: 1985/004617/06  
JSE code: HDC ISIN: ZAE000003273

#### Transfer secretaries

Computershare Investor Services Pty Ltd  
PO Box 61051  
Marshalltown, 2107

#### Registered office

Building 9, Greenstone Hill Office Park  
Emerald Boulevard, Greenstone Hill, Edenvale  
Tel +27 11 657 5000  
Email info@hudaco.co.za

#### Directors

RT Vice (Chairman)\*  
SJ Connelly (Chief executive)  
CV Amols (Financial director)  
PC Baloyi\*

GR Dunford

SG Morris\*

D Naidoo\*

\*Independent non-executive

#### Group secretary

R Wolmarans

#### Sponsor

Nedbank Capital

#### Group statement of cash flows

R million	Six months ended 31 May 2014	Six months ended 31 May 2013	Year ended 30 Nov* 2013
Cash generated from trading	231	221	513
Increase in working capital	(118)	(114)	(138)
<strong>Cash generated from operations</strong>	<strong>113</strong>	107	375
Taxation paid	(116)	(5)	(169)
<strong>Net cash from operating activities</strong>	<strong>(3)</strong>	102	206
Net investment in new operations	(217)	(98)	(181)
Net investment in plant and equipment	(25)	(16)	(32)
Disposal of preference shares		2 181	2 181
Dividends and interest received		50	50
<strong>Net cash from investing activities</strong>	<strong>(242)</strong>	2 117	2 018
Debenture repurchased		(2 181)	(2 181)
Non-current bank borrowings	300		
Finance costs paid	(15)	(61)	(66)
Dividends paid	(100)	(108)	(164)
<strong>Net cash from financing activities</strong>	<strong>185</strong>	(2 350)	(2 411)
<strong>Net decrease in cash and cash equivalents</strong>	<strong>(60)</strong>	(131)	(187)
Cash and cash equivalents at beginning of period	(204)	(17)	(17)
<strong>Cash and cash equivalents at end of period</strong>	<strong>(264)</strong>	(148)	(204)

#### Group statement of changes in equity

	Share capital and premium	Non-distributable reserves	Retained income	Interest of shareholders of the group	Non-controlling interest	Equity
<b>R million</b>						
Balance at 1 December 2013	55	70	1 710	1 835	19	1 854
Comprehensive income for the period			142	142	3	145
Movement in equity compensation reserve		3		3		3
Dividends			(98)	(98)	(2)	(100)
<b>Balance at 31 May 2014</b>	<b>55</b>	<b>73</b>	<b>1 754</b>	<b>1 882</b>	<b>20</b>	<b>1 902</b>
<i>Less: Shares held by subsidiary company</i>			(19)	(19)		(19)
<b>Net balance at 31 May 2014</b>	<b>55</b>	<b>73</b>	<b>1 735</b>	<b>1 863</b>	<b>20</b>	<b>1 883</b>
Balance at 1 December 2012	55	67	1 567	1 689	26	1 715
Comprehensive income for the period			147	147	1	148
Movement in equity compensation reserve		3		3		3
Dividends			(98)	(98)	(10)	(108)
<b>Balance at 31 May 2013</b>	<b>55</b>	<b>70</b>	<b>1 616</b>	<b>1 741</b>	<b>17</b>	<b>1 758</b>
<i>Less: Shares held by subsidiary company</i>			(19)	(19)		(19)
<b>Net balance at 31 May 2013</b>	<b>55</b>	<b>70</b>	<b>1 597</b>	<b>1 722</b>	<b>17</b>	<b>1 739</b>
Balance at 1 December 2012	55	67	1 567	1 689	26	1 715
Comprehensive income for the year			294	294	11	305
Movement in equity compensation reserve		3	(4)	(1)		(1)
Non-controlling interest acquired					(1)	(1)
Dividends			(147)	(147)	(17)	(164)
<b>Balance at 30 November 2013</b>	<b>55</b>	<b>70</b>	<b>1 710</b>	<b>1 835</b>	<b>19</b>	<b>1 854</b>
<i>Less: Shares held by subsidiary company</i>			(19)	(19)		(19)
<b>Net balance at 30 November 2013*</b>	<b>55</b>	<b>70</b>	<b>1 691</b>	<b>1 816</b>	<b>19</b>	<b>1 835</b>