

## ENGINEERING CONSUMABLES



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



Distributor of Deutz diesel engines and Deutz spare parts and the provision of service support.



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



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



Distributor of geared motors, helical gearboxes, frequency inverters and electric motors.



Distributor of conveyor belting, industrial hose, fluid sealing and process control products.



Importer and distributor of pneumatic and process components.



Manufacturer of conveyor drive pulleys, forgings and rollings.



Supply and repair of hydraulic gear pumps and motors.



Manufacturer of hydraulic and pneumatic equipment.



Supplier of filtration solutions, kits and accessories.



Manufacture and assembly of hydraulic gear pumps.



Manufacturer of ferrous and non-ferrous castings.



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



Distributor of electrical cabling, plugs, sockets, electric feeder systems and crane materials.



Manufacturer and distributor of mining connectors and lighting systems.



Distributor of electrical cable accessories.



Distributor of controllers, monitors and regulators of the speed of standard AC motors.

## CONSUMER-RELATED PRODUCTS



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



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



Value added distributor of integrated security and life safety solutions. Including CCTV, access control, fire detection, public address and perimeter detection products.



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



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



Importer and distributor of automotive spares and accessories.



Distributor of maintenance free batteries.



Importer and distributor of stand-by and solar batteries.

Turnover  
up 21% to R2,5 billion

Headline earnings  
per share  
up 20% to 548 cps

Operating profit  
up 46% to R292 million

Interim dividend  
increased  
16% to 180 cps

Comparable  
earnings per share  
up 32% to 548 cps

Cash from  
operations  
up 190% to R328 million

Hudaco Industries is a South African group whose principal activity is the distribution of high quality branded industrial and electronic products mainly 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 automotive aftermarket, power tool, security and communication equipment businesses supply products into markets with a bias towards consumer spending. Adding value by offering instant availability, advice and training etc is an integral part of Hudaco's business model.

### Results

The group has delivered commendable first half results under difficult economic circumstances. The group's acquisition strategy over the past few years to reduce dependence on the South African mining and manufacturing sectors and increase exposure to other sectors is paying off. The South African mining and manufacturing markets now account for only 30% of sales – down from 50% five years ago.

Group sales at R2,5 billion are up 21% on last year with over two thirds of the increase coming from acquisitions made in the last year. Sales from ongoing operations grew 6% overall. Volume sales of engineering consumables are down but of consumer-related products they are well up. Operating profit increased 46% to R292 million with an operating margin to sales of 11,5% - well up on last year's 9,5%.

Comparable earnings per share (CEPS) of 548 cents are up 32% on last year whilst headline and basic earnings per share (also 548 cents) are up 20% on last year. The interim dividend has been increased by 16% to 180 cents per share. Our dividend policy, to be covered about 2.5 times by CEPS annually, remains unchanged.

The financial position is sound. Bank borrowings normally peak at the half year as we stock up for what is usually a busier second half. Notwithstanding this, and the substantial outflows in the first half including R98 million for the final dividend, R440 million (net) for the Partquip acquisition and R192 million for the tax settlement, net borrowings increased only R552 million since November 2014, to R965 million. This is still well within our self-imposed conservative guidelines and our available banking facilities. Unless we make further acquisitions, our usual strong second half cash generation should reduce borrowings further by year end.

### Engineering consumables segment

The South African mining and manufacturing markets account for two thirds of the activity of this segment. These markets are weak as rising administered input costs, increased regulatory demands, weak international demand for mining commodities coupled with low prices, strikes and power outages weigh heavily on these sectors. In the first half of 2015 Hudaco's sales to the South African mining sector contracted 10% while to the manufacturing sector they increased 1% – this off an already depressed 2014 due to the prolonged strike in the platinum mines. However, there were good performances from businesses supplying alternative energy solutions (for example diesel engines for power generation applications) and exports continued to grow. Segment sales of R1 265 million are down 2% on last year. Operating profit was down 3% at R120 million.

### Consumer-related products segment

This segment's contribution to group sales has benefitted from acquisition activity over the past few years and in this half it accounted for 50% of group sales, compared with 39% last year. Fortunately consumer spending is holding up reasonably well and most businesses in the segment performed well. Sales of power tools held steady in the first half whilst sales of communication equipment were boosted by a large contract of the type that would typically have been secured in the second half of the year in the past and which did not materialise at all in 2014. Partquip, acquired with effect from 1 December 2014, has settled in well and is performing to expectations. Our security business was the only underperformer in this segment with lower sales in the projects side of the business.

Segment sales were up 57% to R1 285 million of which 38% was from acquisitions. Operating profit increased 126% to R194 million.

### Prospects

South Africa seems to be de-industrialising at an alarming rate with the mining industry also shrinking rapidly. Notwithstanding the substantial shift in Hudaco's exposure away from these markets over the past few years, they remain important sectors for Hudaco and their fortunes still have a significant impact on Hudaco's trading results. Businesses exposed to these markets will have to grind it out until economic conditions improve.

The consumer-related markets (wholesale and retail, automotive aftermarket, communication equipment and batteries), which now account for a much larger portion of our business are performing well and increased emphasis will continue to be placed on growing this segment.

Hudaco's business model, which is principally the sale of replacement parts with a high value added component; and its financial characteristics – high margin and strong cash flows with a limited requirement for investment in fixed assets; allow us to continue to deliver resilient results in this difficult economic environment. Full year 2015 earnings are expected to be well up on 2014 but, given that the first half includes a large communication equipment contract that will not be repeated in the second half, we will be hard pressed to match the level of increase achieved in these interim results.

### Declaration of interim dividend number 57

Interim dividend number 57 of 180 cents per share is declared payable on Monday, 17 August 2015 to ordinary shareholders recorded in the register at the close of business on Friday, 14 August 2015.

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

Last day to trade <i>cum</i> dividend	Thursday, 6 August 2015
Trading ex dividend commences	Friday, 7 August 2015
Record date	Friday, 14 August 2015
Payment date	Monday, 17 August 2015

Share certificates may not be dematerialised or rematerialised between Friday, 7 August 2015 and Friday, 14 August 2015, 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 dividend withholding tax rate is 15%;
- the net local dividend amount is 153 cents per share for shareholders liable to pay Dividends Tax and 180 cents per share for shareholders exempt from 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.

### Directorate

As reported on SENS, Mr Paul Baloyi resigned as a director on 19 March 2015 due to a conflict of interest and Ms Nyami Mandindi was appointed to the board with effect from 1 June 2015.

### Results presentation

Hudaco will host presentations on the financial results in Johannesburg and Cape Town on Friday, 26 June 2015 and Monday, 29 June 2015, 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, 30 June 2015.

For and on behalf of the board

<b>RT Vice</b> <i>Independent non-executive chairman</i>	<b>GR Dunford</b> <i>Chief executive</i>
25 June 2015	
<b>Nedbank</b> Sponsor	
These results are available on the internet: <a href="http://www.hudaco.co.za">www.hudaco.co.za</a>	

### COMPANY INFORMATION

<b>Hudaco Industries Limited</b> Incorporated in the Republic of South Africa Registration number: 1985/004617/06 JSE share code: HDC ISIN code: ZAE000003273	<b>Registered office</b> 1st Floor, Building 9 Greenstone Hill Office Park Emerald Boulevard, Greenstone Hill, Edenvale Tel +27 11 657 5000 Email: <a href="mailto:info@hudaco.co.za">info@hudaco.co.za</a>	<b>Directors</b> RT Vice ( <i>Chairman</i> )* GR Dunford ( <i>Chief executive</i> ) CV Amois ( <i>Financial director</i> ) SJ Connelly* N Mandindi* SG Morris* D Naidoo* * <i>Non-executive</i> <b>Group secretary</b> R Wolmarans
<b>Transfer secretaries</b> Computershare Investor Services Proprietary Limited PO Box 61051 Marshalltown, 2107		



## GROUP STATEMENT OF FINANCIAL POSITION

R million	31 May 2015	31 May 2014	30 Nov* 2014
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>1 341</b>	1 102	1 024
Property, plant and equipment	<b>264</b>	240	257
Investment in joint venture	<b>2</b>		
Goodwill	<b>996</b>	731	730
Intangible assets	<b>79</b>	46	36
Taxation		80	
Deferred taxation		5	1
<b>Current assets</b>	<b>2 240</b>	1 910	2 045
Inventories	<b>1 356</b>	1 221	1 141
Trade and other receivables	<b>834</b>	675	856
Taxation	<b>3</b>	12	6
Bank deposits and balances	<b>47</b>	2	42
<b>TOTAL ASSETS</b>	<b>3 581</b>	3 012	3 069
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>1 774</b>	1 883	1 682
Interest of shareholders of the group	<b>1 731</b>	1 863	1 649
Non-controlling interest	<b>43</b>	20	33
<b>Non-current liabilities</b>	<b>805</b>	301	209
Amounts due to bankers	<b>792</b>	300	197
Amounts due to vendors of businesses acquired	<b>13</b>	1	12
Deferred taxation			
<b>Current liabilities</b>	<b>1 002</b>	828	1 178
Trade and other payables	<b>761</b>	541	711
Bank overdraft	<b>220</b>	266	258
Amounts due to vendors of businesses acquired	<b>21</b>	21	17
Taxation			192
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3 581</b>	3 012	3 069

## GROUP STATEMENT OF COMPREHENSIVE INCOME

R million	Six months ended 31 May 2015	% change	Six months ended 31 May 2014	Year ended 30 Nov* 2014
<b>Turnover</b>	<b>2 549</b>	21	2 111	4 480
– Ongoing operations	<b>2 231</b>	6	2 111	4 480
– Operations acquired in 2015	<b>318</b>			
Cost of sales	<b>1 625</b>		1 358	2 845
<b>Gross profit</b>	<b>924</b>	23	753	1 635
Operating expenses	<b>632</b>		553	1 141
<b>Operating profit</b>	<b>292</b>	46	200	494
– Ongoing operations	<b>237</b>	19	200	494
– Operations acquired in 2015	<b>55</b>			
Adjustment to fair value of amounts due to vendors of businesses acquired			15	3
<b>Profit before interest</b>	<b>292</b>		215	497
Finance costs	<b>39</b>		17	39
<b>Profit before taxation</b>	<b>253</b>	28	198	458
Taxation excluding tax settlement	<b>71</b>		51	128
<b>Profit before tax settlement</b>	<b>182</b>		147	330
Settlement of tax dispute				312
<b>Profit after taxation</b>	<b>182</b>	24	147	18
Income from joint venture	<b>1</b>			
<b>Profit for the period</b>	<b>183</b>		147	18
<b>Other comprehensive income</b>				
Movement on fair value of cash flow hedges	<b>1</b>		(2)	(1)
<b>Total comprehensive income for the period</b>	<b>184</b>		145	17
Profit attributable to:				
– Shareholders of the group	<b>173</b>		144	3
– Non-controlling shareholders	<b>10</b>		3	15
	<b>183</b>		147	18

Total comprehensive income attributable to:			
– Shareholders of the group	<b>174</b>	142	2
– Non-controlling shareholders	<b>10</b>	3	15
	<b>184</b>	145	17

<b>Earnings per share (cents)</b>			
– Basic	<b>548</b>	20	456
– Headline	<b>548</b>	20	456
– Comparable	<b>548</b>	32	416
<b>Diluted earnings per share (cents)</b>			
– Basic	<b>537</b>	20	448
– Headline	<b>537</b>	20	448
– Comparable	<b>537</b>	32	408

<b>Calculation of headline earnings</b>			
Profit attributable to shareholders of the group	<b>173</b>	144	3
<i>Adjusted for:</i>			
Profit on disposal of property, plant and equipment			(1)

<b>Headline earnings</b>	<b>173</b>	144	2
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<b>Calculation of comparable earnings</b>			
Headline earnings	<b>173</b>	144	2
<i>Adjusted for:</i>			
Settlement of tax dispute			312
Adjustment to fair value of amounts due to vendors of businesses acquired		(15)	(3)
Non-controlling interest		2	1

<b>Comparable earnings</b>	<b>173</b>	131	312
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<b>Dividends</b>			
– Per share (cents)	<b>180</b>	16	155
– Amount (Rm)	<b>57</b>	49	147
<b>Shares in issue</b>	<b>31 646</b>	31 646	31 646
– Total (000)	<b>34 154</b>	34 154	34 154
– Held by subsidiary (000)	<b>(2 508)</b>	(2 508)	(2 508)

<b>Weighted average shares in issue</b>			
– Basic (000)	<b>31 646</b>	31 646	31 646
– Diluted (000)	<b>32 267</b>	32 133	31 691

## SEGMENT INFORMATION

	Turnover			Operating profit			Average net operating assets		
	Six months ended 31 May 2015	% change	Six months ended 31 May 2014	Six months ended 31 May 2015	% change	Six months ended 31 May 2014	Six months ended 31 May 2015	% change	Six months ended 31 May 2014
<b>R million</b>									
<b>Engineering consumables</b>	<b>1 265</b>	(2)	1 293	<b>120</b>	(3)	124	<b>1 625</b>	4	1 566
– Ongoing operations	<b>1 259</b>	(3)	1 293	<b>118</b>	(5)	124	<b>1 611</b>	3	1 566
– Operations acquired in 2015	<b>6</b>			<b>2</b>			<b>14</b>		
<b>Consumer-related products</b>	<b>1 285</b>	57	819	<b>194</b>	126	86	<b>1 087</b>	64	662
– Ongoing operations	<b>973</b>	19	819	<b>141</b>	64	86	<b>631</b>	(5)	662
– Operations acquired in 2015	<b>312</b>			<b>53</b>			<b>456</b>		
<b>Total operating segments</b>	<b>2 550</b>	21	2 112	<b>314</b>	50	210	<b>2 712</b>	22	2 228
Head office, shared services and eliminations	<b>(1)</b>		(1)	<b>(22)</b>		(10)	<b>(97)</b>		129
<b>Total group</b>	<b>2 549</b>	21	2 111	<b>292</b>	46	200	<b>2 615</b>	11	2 357

\* Audited

## GROUP STATEMENT OF CASH FLOWS

R million	Six months ended 31 May 2015	Six months ended 31 May 2014	Year ended 30 Nov* 2014
Cash generated from trading	331	231	525
Increase in working capital	(3)	(118)	(44)
<b>Cash generated from operations</b>	<b>328</b>	113	481
Settlement of tax dispute	(192)	(40)	(80)
Taxation paid	(73)	(76)	(142)
<b>Net cash from operating activities</b>	<b>63</b>	(3)	259
Net investment in new operations	(466)	(217)	(224)
Net investment in property, plant and equipment	(13)	(25)	(58)
<b>Net cash from investing activities</b>	<b>(479)</b>	(242)	(282)
Increase in non-current amounts due to bankers	595	300	197
Finance costs paid	(38)	(15)	(38)
Dividends paid	(98)	(100)	(148)
<b>Net cash from financing activities</b>	<b>459</b>	185	11
<b>Decrease (increase) in net short-term borrowings</b>	<b>43</b>	(60)	(12)
Net short-term borrowings at beginning of period	(216)	(204)	(204)
<b>Net short-term borrowings at end of period</b>	<b>(173)</b>	(264)	(216)