



➤ Turnover up 5% to R6.7 billion

➤ Operating profit up 7% to R701 million

➤ Headline earnings per share up 5% to 1 355 cents

CONSUMER-RELATED PRODUCTS

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

Alloy Wheels
Distributor of alloy and steel wheels

Batteries
Distributor of maintenance free batteries and provider of custom designed energy solutions

ELVEY
Distributor of electronic security equipment, including intruder detection, access control, CCTV, fire detection and electric fencing, as well as related consumables

Eternity
Supplier of batteries, high frequency chargers and related battery equipment to the traction battery market. Designs, builds and manages battery bays for warehouses and distribution centres

ITC
Distributor of a comprehensive range of quality fasteners, including blind rivets, self-drilling screws, hexagonal bolts, nuts and washers

global communications
Distributor of professional mobile radio communication equipment and integrator of radio systems

IRONMAN
Distributor of suspension and accessories to the 4X4 industry

MiRO
Distributor of wireless networking, VoIP and video products and provider of after-sales service and technical support

PARTSQUIP
Distributor of automotive spares and accessories

PENTAGON
Distributor of integrated security and life safety solutions, including CCTV, access control, fire detection, public address and perimeter detection products

Rutherford
Distributor of Makita power tools, Mercury marine engines, survey instrumentation, rivets and fasteners

SPECIALISED BATTERY SYSTEMS
Distributor of batteries, solar systems and battery backup solutions

TPA
Distributor of electronic security equipment, including the Texecom range of intruder detection solutions, as well as related consumables

ENGINEERING CONSUMABLES

BEARINGS INTERNATIONAL
Distributor of bearings, chains, seals, electric motors, transmission and allied products

DEUTZ DIESELPPOWER
Distributor of DEUTZ diesel engines, DEUTZ spare parts, HJS exhaust gas aftertreatment systems and provider of service support

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

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

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

BELTING SUPPLY SERVICES
Distributor of conveyor belting, industrial hose, fluid sealing and process control products

BERNTEL
Distributor of pneumatic, vacuum and process automation components

Bosworth
Manufacturer of conveyor pulleys, idlers, steel fabrication, plate rollings and distributor of sheet rubber

BREWTECH ENGINEERING
Distributor of plastic and stainless steel slat chains, modular belting and conveyor components and manufacturer of plastic engineering parts

DOSCO PRECISION HYDRAULICS
Supplier and repairer of hydraulic pumps and motors

Ernest Lowe
Manufacturer of hydraulic and pneumatic equipment and supplier of water valves and sewage processing systems

FHS
Supplier of filtration solutions, customised exhaust systems, kits and accessories

GPM GEAR PUMP MANUFACTURING
Manufacturer and assembler of cast iron hydraulic gear pumps

HERS
Manufacturer and repairer of hydraulic cylinders and repairer of drivetrain components

JOSEPH GRIEVESON
Manufacturer of ferrous and non-ferrous castings

POWERMITE
Distributor of electric cabling, industrial plugs, sockets, electric feeder systems and crane components

PROOF ENGINEERING
Manufacturer of flame-proof connectors and lighting systems

SSS
Distributor of special steels and provider of heat treatment

The Dished End
Manufacturer of dished and flanged ends, pressing & flanging of small conical sections, push thru's and weld caps

THREED
Distributor of electrical cable accessories and electrical instruments

VARISPEED
Distributor and repairer of commercial and industrial automation and electronic motor control equipment

Hudaco Industries is a South African group specialising in the importation and distribution of high-quality branded automotive, industrial and electronic consumable products, mainly in the southern African region. Hudaco businesses serve markets that fall into two primary categories:

- The automotive aftermarket, power tool, battery, security and communication equipment businesses supply products into markets with a bias towards consumer spending.
- The mechanical and electrical power transmission, diesel engine, hydraulics and pneumatics, steel, thermoplastic fittings and bearings businesses supply engineering consumables mainly to mining and manufacturing customers.

Value added includes product specification, technical advice, application and installation training and troubleshooting, combined with availability at a fair price.

Results

Considering that two of the key drivers of Hudaco's business are South Africa's GDP growth rate and the Rand exchange rate, 2019 proved to be yet another year in which the business environment was extremely difficult. With business confidence dropping to its lowest since 1985, we consider it an achievement that we were able to grow headline earnings by 5.1% to 1 355 cents and comparable earnings by 3.5% to 1 240 cents. Once again, the government did very little that it promised it would do to help grow our economy and we add our voices to those calling for urgent growth-inducing structural economic reform as a last-ditch attempt to stave off a rating downgrade.

GDP declined by 3.2% in the first quarter, rebounded by 3.2% in the second and then declined by 0.6% in the third. The fourth quarter seemed no better from our perspective. With Eskom's inability to supply adequate energy to our customers, the delays caused by inefficiency related congestion at the Durban Port and the continued lack of capital investment by both the public and private sectors, to describe 2019 as challenging would be an understatement.

Insofar as the currency is concerned, the best scenario for Hudaco is a gradually depreciating Rand but in 2019 the Rand was once again very volatile, which makes pricing exceptionally difficult. The currency started the year at R13.74 to the US dollar, strengthened in February to R13.30, declined as far as R15.41 in August and then closed the financial year back at R14.70. We adhere to our hedging policy to protect the downside but the volatility means we are sometimes locked in with expensive cover when the Rand strengthens.

Annual turnover was up 5.1% to R6.7 billion, whilst operating profit increased 6.9% to R701 million. Turnover from ongoing operations in the consumer-related products segment was down 0.1% while operating profit decreased 13.3% whereas engineering consumables' turnover from ongoing operations increased 6.4% and its operating profit increased 14.6%. Our sales by market sector analysis reflected percentage declines in the wholesale and retail, mining and manufacturing sectors, which mirrored what seemed to be occurring in the economy.

The return on equity increased from 16.3% to 17.4% and the cash generative nature of Hudaco's businesses was clearly evident in the cash generated from operations which, at R853 million was well up from R468 million in 2018.

The final dividend has been increased to 410 cents, giving us a total dividend for 2019 of 600 cents, 5.3% up on 2018. Comparable earnings cover the full dividend 2.1 times, which falls within our long-term dividend policy range of paying between 40% and 50% of comparable earnings.

Financial position

The financial position has strengthened further with cash generation in 2019 exceeding accounting profits. The group had R1 008 million in net bank borrowings at year end, down R155 million from R1 163 million in 2018, after R114 million was spent on paying vendors of recent acquisitions. More importantly, interest payments were covered almost seven times by operating profits, compared with our internal benchmark of at least five times. We have significant additional bank borrowing facilities available so there is still capacity for acquisitions.

Last year we committed to reducing the level of inventories, which at year end were R102 million down to R1.7 billion. The return on net operating assets including goodwill (RONA) in 2019 was 17.5%, against 17.3% in 2018.

Consumer-related products

The consumer-related products segment comprises 14 businesses. In 2019, it made up 53% of Hudaco's sales and 60% of operating profit. In 2018, this segment contributed 65% of group operating profit.

Consumer spending has clearly been under pressure with the depressed economy and an increasing unemployment rate. Discretionary spending was reduced and in some cases the consumer was moved to buy down. In spite of these challenges and increased competition the segment managed to increase sales by 2.8% to R3.6 billion, albeit on the back of acquisitions made during 2018. Unfortunately, pricing pressure meant that some business had to be done at lower margins to protect market share, which meant operating profit declined by 9.0% to R421 million. Operating profit margin was still a very healthy 11.7%.

Engineering consumables

The 21 businesses that constitute engineering consumables made up the other 47% of sales and 40% of operating profit. In 2018 this segment contributed 35% of operating profit.

Despite the decline in the mining and manufacturing and the wholesale and retail market sectors, the segment managed to grow sales by 7.2% to R3.1 billion. The businesses in this segment have been correctly sized in recent years for the depressed market conditions. An increase in export sales and the increase in turnover with minimal additional operating expenditure together with the improved efficiencies and synergies that we have been working towards resulted in a 15.5% increase in operating profit to R284 million. The operating profit margin increased to 9.1% from 8.4%. The businesses in this segment remain well poised to leverage benefits off any economic upturn that may transpire.

Lawsuit against Bravura and certain associates

Our action against Bravura, Cadiz and certain of their associates has been moved to the Commercial Court. Although this means a further delay, we welcome the move as this court is much better equipped to manage processes around complex corporate matters. Hudaco has brought the action to recover, *inter alia*, secret profits made on the financing arrangements around the Hudaco BEE transaction that ran from August 2007 to February 2013.

Prospects

Prospects for Hudaco will depend largely on how the economy performs in 2020. Load shedding and recent announcements of downsizing by large businesses, lead us to believe that the economy is not yet at the bottom of its current downturn. We urge the President to lead the meaningful action needed from the government on the economic front to kickstart the economy, which will hopefully translate into investment in those sectors that are traditional Hudaco markets. Our businesses are well placed as we have seen from our 2019 results to benefit immediately from such a scenario.

We continue to seek opportunities to improve efficiencies and synergies in our businesses where it makes sense, manage the elements within our control and use the cash generated to either pay down debt, make accretive acquisitions or repurchase our own shares.

Declaration of final dividend no 66

Final dividend number 66 of 410 cents per share (2018: 380 cents per share) is declared payable on Monday, 24 February 2020 to ordinary shareholders recorded in the register at the close of business on Friday, 21 February 2020.

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

Last day to trade cum dividend	Tuesday, 18 February 2020
Trading ex dividend commences	Wednesday, 19 February 2020
Record date	Friday, 21 February 2020
Payment date	Monday, 24 February 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 19 February 2020 and Friday, 21 February 2020, both days inclusive. The certificated register will be closed for this period. In terms of the Listings Requirements of the JSE Limited regarding the Dividends Tax the following additional information is disclosed:

- The dividend has been declared from income reserves;
- The dividend withholding tax rate is 20%;
- The net local dividend amount is 328 cents per share for shareholders liable to pay the Dividend Tax and 410 cents per share for shareholders exempt from the Dividend 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 and annual general meeting

Hudaco will host presentations on the financial results in Johannesburg and Cape Town on Friday, 31 January 2020 and Monday, 3 February 2020, respectively. Anyone wishing to attend should contact Sebolla Masekwameng at +27 11 657 5000.

The slides which form part of the presentation will be available on the company's website from Friday 31 January 2020.

The company's 35th annual general meeting will be held at Hudaco's corporate office situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale at 11.00 on Thursday 19 March 2020. The notice and proxy form for the company's annual general meeting will be posted to the shareholders during the last week of February 2020 and will be included in the integrated report that will be published on Hudaco's website during February 2020.

Approval of financial statements

The financial statements have been approved by the board and abridged for purposes of this report. BDO has expressed an unqualified audit opinion on the annual financial statements. The signed auditors' report is available for viewing at Hudaco's website (www.hudaco.co.za). The financial statements are available for inspection at the company's registered address.

This abridged report is extracted from audited information, but is not itself audited.

The auditors' report does not necessarily cover all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditors' work they should view the report together with the accompanying financial information.

For and on behalf of the board

SJ Connelly

Non-executive chairman

30 January 2020

Nedbank Corporate and Investment Banking

Sponsor

These results are available on the internet: www.hudaco.co.za

COMPANY INFORMATION

Hudaco Industries Limited
Incorporated in the Republic of South Africa
Registration number: 1985/004617/06
JSE share code: HDC
ISIN code: ZAE000003273

Transfer secretaries

Computershare Investor Services
Proprietary Limited
PO Box 61051
Marshalltown, 2107

Directors
SJ Connelly (Chairman)
GR Dunford (Chief executive)
N Mandindla
CV Amols (Financial director)
LFI Meiring
D Naidoo*
MR Thompson*
* Non-executive

Group secretary
R van Zyl

Sponsor
Nedbank Corporate and Investment Banking

GROUP STATEMENT OF FINANCIAL POSITION

R million	30 Nov 2019	30 Nov 2018
ASSETS		
Non-current assets	1 887	1 875
Property, plant and equipment	302	277
Investment in joint venture	12	9
Goodwill	1 512	1 505
Intangible assets	23	49
Deferred taxation	38	35
Current assets	3 057	3 167
Inventories	1 720	1 822
Trade and other receivables	1 269	1 278
Taxation	10	4
Bank deposits and balances	58	63
TOTAL ASSETS	4 944	5 042
EQUITY AND LIABILITIES		
Equity	2 843	2 579
Equity holders of the parent	2 742	2 509
Non-controlling interest	101	70
Non-current liabilities	918	1 014
Amounts due to bankers	918	1 014
Amounts due to vendors of businesses acquired		109
Deferred taxation		1
Current liabilities	1 183	1 339
Trade and other payables	968	989
Bank overdraft	148	212
Amounts due to vendors of businesses acquired	65	105
Taxation	2	33
TOTAL EQUITY AND LIABILITIES	4 944	5 042

GROUP STATEMENT OF COMPREHENSIVE INCOME

R million	30 Nov 2019	% change	30 Nov 2018
Turnover	6 704	5.1	6 381
– Ongoing operations	6 481	3.2	6 282
– Operations acquired after December 2017	223		99
Cost of sales	4 263	5.0	4 060
Gross profit	2 441	5.1	2 321
Operating expenses	1 740	4.4	1 666
– Ongoing operations	1 659	1.3	1 638
– Operations acquired after December 2017	81		28
Operating profit	701	6.9	655
– Ongoing operations	669	3.8	644
– Operations acquired after December 2017	32		11
Impairment of goodwill and intangible assets			(34)
Fair value adjustments	30		11
– Adjustment to capital amounts due to and from vendors of businesses acquired	42		34
– Adjustment for time-value of money	(12)		(23)
Profit before interest	731	15.5	632
Finance costs	103		91
Profit before taxation	628	16.0	541
Taxation	160		144
Profit after taxation	468	17.8	397
Equity-accounted income from joint venture	3		3
Profit for the year	471	17.6	400
Other comprehensive income that will subsequently be reclassified to profit or loss	1		3
Movement on fair value of cash flow hedges	1		
Exchange gain on translation of foreign operations			3
Total comprehensive income for the year	472	17.2	403
Profit attributable to:			
– Equity holders of the parent	429	12.7	381
– Non-controlling shareholders	42		19
	471	17.6	400

Total comprehensive income attributable to:			
– Equity holders of the parent	430	12.4	383
– Non-controlling shareholders	42		20
	472	17.2	403

Earnings per share (cents)			
– Basic	1 355	12.7	1 202
– Headline	1 355	5.1	1 289
– Comparable	1 240	3.5	1 198
Diluted earnings per share (cents)			
– Basic	1 329	13.3	1 173
– Headline	1 329	5.6	1 258
– Comparable	1 217	4.2	1 168

Calculation of headline earnings			
Profit attributable to equity holders of the parent	429	12.7	381
Adjusted for:			
Impairment of goodwill and intangible assets			34

Profit on disposal of plant and equipment			(2)
Non-controlling interest and tax			(5)
Headline earnings	429	5.1	408

Calculation of comparable earnings			
Headline earnings	429	5.1	408
Adjusted for:			
Fair value adjustment on capital amounts due to and from vendors of businesses acquired	(42)		(34)

Non-controlling interest	5		5
Comparable earnings	392	3.5	379

Dividends			
– Per share (cents)	600		570
– Amount (Rm)	190		180

Shares in issue (000)	31 646		31 646
– Total (000)	34 154		34 154
– Held by subsidiary (000)	(2 508)		(2 508)

Weighted average shares in issue			
– Total (000)	31 646		31 646
– Diluted (000)	32 262		32 435

SEGMENT INFORMATION

R million	30 Nov 2019	% change	30 Nov 2018	30 Nov 2019	% change	30 Nov 2018
Consumer-related products	3 589	2.8	3 491	421	(9.0)	462
– Ongoing operations	3 389	(0.1)	3 392	391	(13.3)	451
– Operations acquired after December 2017	200		99	30		11
Engineering consumables	3 120	7.2	2 910	284	15.5	246
– Ongoing operations	3 097	6.4	2 910	282	14.6	246
– Operations acquired after December 2017	23			2		
Total operating segments	6 709	4.8	6 401	705	(0.5)	708
Head office, shared services and eliminations	(5)		(20)	(4)		(53)
Total group	6 704	5.1	6 381	701	6.9	655

GROUP STATEMENT OF CASH FLOWS

R million	30 Nov 2019	30 Nov 2018
Cash generated from trading	794	760
Decrease (increase) in working capital	59	(292)
Cash generated from operations	853	468
Taxation paid	(196)	(164)
Net cash from operating activities	657	304
Net investment in new operations	(114)	(242)
Net investment in property, plant and equipment	(74)	(51)
Dividend received		4
Net cash from investing activities	(188)	(289)
(Decrease) increase in non-current amounts due to bankers	(96)	339
Share-based payments settled	(22)	(18)
Finance costs paid	(103)	(91)
Dividends paid	(189)	(211)
Net cash from financing activities	(410)	19
Decrease in net bank overdraft	59	34
Foreign exchange translation gain		2
Net bank overdraft at beginning of the year	(149)	(185)
Net bank overdraft at end of the year	(90)	(149)

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital and premium	Non-distributable reserves	Retained income	Equity holders of the parent	Non-controlling interest	Equity
R million						
Balance at 1 December 2017	55	78	2 181	2 314	81	2 395
Comprehensive income for the year		3	380	383	20	403
Movement in equity compensation reserve		18	(7)	11		11
Dividends			(180)	(180)	(31)	(211)
Balance at 30 November 2018	55	99	2 374	2 528	70	2 598
Less: Shares held by subsidiary company			(19)	(19)		(19)
Net balance at 30 November 2018	55	99	2 355	2 509	70	2 579
Balance at 1 December 2018	55	99	2 374	2 528	70	2 598
Effect of adoption of IFRS 9			(12)	(12)	(2)	(14)
Comprehensive income for the year		1	429	430	42	472
Movement in equity compensation reserve			(5)	(5)		(5)
Dividends			(180)	(180)	(9)	(189)
Balance at 30 November 2019	55	100	2 606	2 761	101	2 862
Less: Shares held by subsidiary company			(19)	(19)		(19)
Net balance at 30 November 2019	55	100	2 587	2 742	101	2 843