



Hudaco

PRELIMINARY REPORT

For the year ended 30 November 2020

- ▶ Net borrowings down **R365 million** for the year to **R643 million**
- ▶ Cash generated from operations at **R908 million**
- ▶ Full year headline earnings per share down **23%**
- ▶ Full year comparable earnings per share down **35%**
- ▶ H2 headline earnings per share up **4%**
- ▶ H2 comparable earnings per share up **2%**
- ▶ H2 operating profit up **7%**
- ▶ Final dividend maintained at **410 cents** per share

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 and fasteners, data networking, security and communication equipment businesses supply products into markets with a bias towards consumer spending.
- The bearings and belting, electrical power transmission, diesel engine, hydraulics and pneumatics, specialised steel, thermoplastic fittings and filtration businesses supply engineering consumables mainly to mining and manufacturing customers.

Results

We are all fully aware that 2020 was a year of great trauma and hardship for people the world over and that the economic impact of measures to contain the spread of the Covid-19 coronavirus has been devastating. In South Africa we also suffered from the effect of level 6 load shedding and a ratings downgrade of government debt to junk status by Moodys, events which paled into insignificance compared to the lockdowns but should not be overlooked.

In our interim results announcement released at the end of June 2020, we detailed how events unfolded for Hudaco in the first half of the year, the extensive steps we took in response and how the financial results were affected. Operating profit to May 2020 was only R79 million, after increasing expected credit losses and writing down certain inventory in the expectation of write-offs due to the pandemic. Goodwill and other intangibles were impaired by R348 million, resulting in a loss for that period. These impairments, required in terms of IFRS, were based on judgement exercised while the country was in the midst of the first wave of Covid-19. As expected, the impact on the first half numbers was so overwhelming that it also dominates the results for the full year and so we believe that there is little to be gained from an analysis of the full-year income statement on its own. A much better understanding of the performance of the group, and the extent to which it has bounced back after the battering it took in the first half, can be derived from an assessment of the performance in the second six months, the commencement of which coincided with the downgrade of the lockdown status to level 3. The group's performance in this period was commendable.

We used the extended lockdown in the first half of our financial year to identify opportunities to achieve long-term savings and synergies through rationalisation of elements of certain businesses whose cost structures were expected to be out of line with future sales levels. Most of these opportunities were found in the security and communication, hydraulics and pneumatics and electrical power transmission businesses.

Throughout the second half of the year, all our businesses and the majority of our customers were able to operate, albeit initially at reduced capacity. The all-important work on planning and strategising, managing working capital, and cost containment done over the lockdown months in the first half enabled us to optimise performance from the outset. Despite the negative sentiment and lack of business confidence, both of our business segments very quickly got back up to 2019 turnover levels.

The increasing difficulty in getting goods through our ports had a significant impact on our supply chain, led to stock shortages and had a negative effect on turnover and operating profits. Although there was a general shortage of containers available on the world market, finding space on ships that would stop in South Africa's ports was a big challenge. Durban, in particular, is now regarded worldwide as notoriously inefficient, with ships sometimes having to wait for longer periods idle offshore before being granted a berth. There are then delays in offloading and transporting containers inland. All of this increases costs. It is of concern that if the inefficiencies at our ports remain unresolved, South Africa could be marked as an undesirable export destination for suppliers and result in our having to carry more inventory.

For the record, annual turnover was down 6.7% to R6.3 billion while operating profit decreased 27.2% to R510 million. Headline earnings were down 22.5% to 1 050 cents per share, and comparable earnings were down 35.5% to 800 cents per share. Importantly, R908 million cash was generated from operations, and borrowings declined by R365 million over the year. Our sales by market sector analysis reflected very little change in the various segments we serve from the prior year.

Hudaco is predominantly an importer of branded products, so currency levels and movement greatly impact our pricing. The best scenario for Hudaco is a gradually depreciating Rand, but in 2020 the Rand once again did not oblige, making pricing exceptionally difficult. The currency started the year at R14.66 to the US dollar, depreciated by 31.4% in April to R19.26, and gradually strengthened to close the financial year back at R15.40. 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.

Comparing the second half of 2020 results with those of 2019

- Turnover was up 2.5% to R3.6 billion.
- Operating profit increased by 6.9% to R431 million.
- Headline earnings were up 3.5% to R269 million, while headline earnings per share increased 4% to 855 cents.
- Comparable earnings were up 1% to R230 million, while comparable earnings per share increased 1.5% to 731 cents.
- Our operating expenses are down 0.4%, whilst our GP% was maintained.
- Closing net borrowings are R643 million, down R365 million from November 2019. This is after spending R82 million on repurchasing shares.
- Working capital is down R203 million since May 2020.
- Return on equity for the second half is 24.0%. If the May 2020 goodwill impairment were added back, then the ROE in the second half would have been 21.1%.

Consumer-related products

The consumer-related products segment now comprises eleven businesses. In 2020, it made up 54% of Hudaco's sales and 67% of operating profit. In 2019, this segment contributed 60% of group operating profit.

MiRO had a very good second half, with increased demand for wireless and fibre home connectivity, video conferencing, touchless access control and network upgrades for internet service providers and enterprises. Our battery businesses supplying products to the automotive wholesale and retail sectors, as well as in the energy storage market, stand-by battery systems for support infrastructure to the UPS market, telecommunication, security (alarm) and solar markets, project orders within the data centre sector, together with replacement batteries for load shedding stand-by applications, both did very well. Our automotive businesses managed their gross profit margins and expenses well to produce a good second half result. The consolidation of Global Communications, SS Telecoms, TPA and Pentagon projects into Elvey incurred extra once-off expenses through moving and retrenchments. We believe the work done now has set us up well for 2021 and beyond.

In the second half of the year, consumer-related products sales were up 2.5% with operating profit up 18.1%. Operating margin increased from 11.5% to 13.3%.

Engineering consumables

The 18 businesses that now constitute engineering consumables made up the other 46% of sales and 33% of operating profit. In 2019 this segment contributed 40% of operating profit. The expense base in engineering consumables is much higher because of its extensive branch network and the number of separate businesses in that segment, so the negative effect of reduced sales on its profitability was greater.

Demand in the second half has been surprisingly strong in this segment with all businesses very quickly getting up to 2019 levels. Ambro Steel and Bearings International in particular had a good second half. There were consolidations in our hydraulics cluster with Dosco, Ernest Lowe and HERS. Bauer, Powermite, Ampco, Three-D Agencies and Varispeed are to be consolidated into one electrical cluster in March 2021.

In the second half of the year, engineering consumables turnover was up 3.5% with operating profit up 12.6%. Operating margin increased from 10.6% to 11.5%.

Financial position

While always solid, the financial position has strengthened even further with R908 million cash generated by operations in 2020. The group had R643 million in net bank borrowings at year end, down R365 million from R1 008 million in 2019, after spending R82 million on repurchasing shares. More importantly, interest payments were covered more than seven times by operating profits, compared with our internal benchmark of at least five times. We still have significant additional bank borrowing facilities available, so if suitable acquisition opportunities are identified, we have the capacity to fund them.

At the beginning of 2019, we committed to reducing inventory levels and have done so by a further R122 million on top of R102 million achieved that year. Closing inventory was R1 598 million.

Accounting for leases: IFRS 16

The adoption of IFRS 16, with effect from 1 December 2019, in accounting for leases has resulted in a right-of-use asset and a lease liability being brought onto the statement of financial position for the first time. In the statement of comprehensive income, operating lease costs on fixed property are replaced with depreciation and finance costs.

Settlement of lawsuit

Hudaco was paid R35 million to settle the damages claim instituted by Hudaco against its advisers on its 2007 BEE transaction. Full details were set out in an announcement released on SENS on 31 August 2020.

Dividends and repurchase of shares

Hudaco normally pays an interim dividend but did not do so in 2020. Given the uncertainty prevailing at the time and the extent of the impact the Covid-19 virus was having and was expected to continue to have on our businesses, the board considered it prudent and in the company's and its stakeholders' best interests to preserve the company's financial liquidity. A strong performance in the second half of the year with very good cash generation means that we can pay a final dividend. The board has decided that 410 cents, which is the same as the 2019 final dividend is an appropriate level. This is 68% of the total dividends for 2019 of 600 cents. The dividend cover is 2.0 times comparable earnings, which is at the top end of our long-term dividend policy range of paying between 40% and 50% of comparable earnings.

Suitable acquisitions proved elusive, and as the Hudaco share price traded lower during 2020, buying back shares became an attractive option. After paying down some of the debt, late in the financial year the company utilised available cash resources, including the R35 million proceeds of the legal settlement, to repurchase 3% of the issued shares in the open market. In total, we repurchased 1 024 600 shares at a cost of R82 million, including transaction costs, which was withdrawn from the market on 8 December 2020.

Declaration of final dividend no 67

Final dividend number 67 of 410 cents per share (2019: 410 cents per share) is declared payable on Monday, 22 February 2021 to ordinary shareholders recorded in the register at the close of business on Friday, 19 February 2021.

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

Last day to trade <i>cum</i> dividend	Tuesday, 16 February 2021
Trading ex dividend commences	Wednesday, 17 February 2021
Record date	Friday, 19 February 2021
Payment date	Monday, 22 February 2021

Share certificates may not be dematerialised or rematerialised between Wednesday, 17 February 2021 and Friday, 19 February 2021, 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 33 128 931 (2019: 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

Due to the Covid-19 pandemic restrictions on assemblies, Hudaco will be presenting its results for the year ended 30 November 2020 via webinar at 11:00 on Friday, 29 January 2021. Should you wish to participate kindly contact Megan Cameron-Gunn at +27 11 657 5000 to register. The slides, which form part of the webinar presentation will be available on the company's website from Friday, 29 January 2021.

The company's 36th annual general meeting will be held at Hudaco's offices situated at Building 9, Greenstone Hill Office Park, Emerald Boulevard, Greenstone Hill, Edenvale at 11:00 on Thursday, 18 March 2021. The notice and proxy form for the company's annual general meeting will be posted to the shareholders during the last week of February 2021 and will be included in the integrated report that will be published on Hudaco's website during February 2021.

Auditor's review

The consolidated financial statements for the year ended 30 November 2020 have been reviewed by BDO South Africa Inc., who have expressed an unmodified review conclusion.

A copy of the auditor's report is available for inspection at the company's registered office together with the financial statements identified in the auditor's report. The auditor's report does not necessarily report on 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 auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

Prospects

Hudaco has managed well through the business interruption of the first Covid-19 wave and has again shown its resilience. The second half of 2020 operational and financial performance compared favourably against the comparable period in 2019. Therefore, we consider prospects for Hudaco to be positive for 2021, despite what is happening in the economy. While we appreciate there is much uncertainty ahead, our businesses are well placed and ready for 2021, subject to no further lockdown restrictions on businesses in the markets we serve. We should also see the benefit of the rightsizing and rationalisation within certain businesses coming through in 2021. We are confident that we will benefit immediately from any increase in business confidence and growth in GDP.

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 or make accretive acquisitions, potentially including of our own shares.

SJ Connelly

Chairman

28 January 2021

GR Dunford

Chief executive

Nedbank Corporate and Investment Banking

Sponsor

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

GROUP STATEMENT OF FINANCIAL POSITION

R million	30 Nov 2020 [#]	30 Nov 2019 [*]
ASSETS		
Non-current assets	1 924	1 887
Property, plant and equipment	265	302 [^]
Right-of-use assets	414	
Investment in joint venture		12
Goodwill	1 170	1 512
Intangible assets	33	23 [^]
Deferred taxation	42	38
Current assets	3 031	3 057
Inventories	1 598	1 720
Trade and other receivables	1 196	1 269
Taxation	3	10
Bank deposits and balances	234	58
TOTAL ASSETS	4 955	4 944
EQUITY AND LIABILITIES		
Equity	2 669	2 843
Equity holders of the parent	2 593	2 742
Non-controlling interest	76	101
Non-current liabilities	1 148	918
Amounts due to bankers	780	918
Lease liabilities	367	
Deferred taxation	1	
Current liabilities	1 138	1 183
Trade and other payables	937	968
Bank overdraft	97	148
Amounts due to vendors of businesses acquired		65
Lease liabilities	88	
Taxation	16	2
TOTAL EQUITY AND LIABILITIES	4 955	4 944

[^] Computer software has been reclassified from property, plant and equipment to intangible assets in 2019.

^{*} Audited

[#] Reviewed

GROUP STATEMENT OF COMPREHENSIVE INCOME

R million	Six months ended ^s			Year ended		
	30 Nov 2020	% change	30 Nov 2019	30 Nov 2020 ^a	% change	30 Nov 2019 ^a
Turnover	3 618	2.5	3 529	6 254	(6.7)	6 704
Cost of sales	2 297	2.9	2 232	4 079	(4.3)	4 263
Gross profit	1 321	1.8	1 297	2 175	(10.9)	2 441
Operating expenses	890	(0.4)	893	1 665	(4.3)	1 740
Operating profit	431	6.9	404	510	(27.2)	701
Other income – proceeds from damages claim	35			35		
Impairment of goodwill and intangible assets				(348)		
Fair value adjustments	4		33	48		30
– Adjustment to capital amounts due to and from vendors of businesses acquired	5		37	52		42
– Adjustment for time-value of money	(1)		(4)	(4)		(12)
Profit before interest	470	7.4	437	245	(66.5)	731
Interest on lease liabilities	16			35		
Finance costs	26		48	69		103
Profit before taxation	428	9.9	389	141	(77.5)	628
Taxation	124		97	133		160
Profit after taxation	304	4.0	292	8	(98.3)	468
Equity-accounted income from joint venture	1		2	1		3
Profit for the period	305	3.7	294	9	(98.1)	471
Other comprehensive (loss) income that will subsequently be reclassified to profit or loss	(1)		(4)	(2)		1
Movement on fair value of cash flow hedges	3		(3)			1
Exchange gain on translation of foreign operations	(4)		(1)	(2)		
Total comprehensive income for the period	304	4.8	290	7	(98.5)	472
Profit attributable to:						
– Equity holders of the parent	269	3.3	260	36	(91.7)	429
– Non-controlling shareholders	36		34	(27)		42
	305	3.7	294	9	(98.1)	471
Total comprehensive income attributable to:						
– Equity holders of the parent	269	4.7	257	35	(92.0)	430
– Non-controlling shareholders	35		33	(28)		42
	304	4.8	290	7	(98.5)	472
Earnings per share (cents)						
– Basic	851	3.5	822	113	(91.7)	1 355
– Headline	855	4.0	822	1 050	(22.5)	1 355
– Comparable	731	1.5	720	800	(35.5)	1 240
Diluted earnings per share (cents)						
– Basic	851	6.0	803	113	(91.5)	1 329
– Headline	855	6.5	803	1 050	(21.0)	1 329
– Comparable	731	3.8	704	800	(34.3)	1 217
Calculation of headline earnings						
Profit attributable to equity holders of the parent	269	3.3	260	36	(91.7)	429
Adjusted for:						
Impairment of goodwill and intangible assets				348		
Loss on disposal of plant and equipment and intangible assets	1			1		
Non-controlling interest and tax	(1)			(54)		
Headline earnings	269	3.5	260	331	(22.8)	429
Calculation of comparable earnings						
Headline earnings	269		260	331		429
Adjusted for:						
Other income – proceeds from damages claim	(35)			(35)		
Fair value adjustment on capital amounts due to and from vendors of businesses acquired	(5)		(37)	(52)		(42)
Non-controlling interest	1		4	8		5
Comparable earnings	230	1.0	227	252	(35.8)	392
Dividends						
– Per share (cents)	410		410	410		600
– Amount (Rm)	126		130	126		190
Shares in issue (000)	31 646		31 646	31 646		31 646
– Total (000)	34 154		34 154	34 154		34 154
– Held by subsidiary (000)	(2 508)		(2 508)	(2 508)		(2 508)
Weighted average shares in issue						
– Total (000)	31 516		31 646	31 527		31 646
– Diluted (000)	31 516		31 615	31 527		32 262

* Audited

\$ Reviewed

Neither audited nor reviewed

GROUP STATEMENT OF CASH FLOWS

R million	Six months ended ^{\$}		Year ended	
	30 Nov 2020	30 Nov 2019	30 Nov 2020 [#]	30 Nov 2019 [*]
Cash generated from trading	537	446	726	794
Decrease in working capital	203	106	182	59
Cash generated from operations	740	552	908	853
Other income – proceeds of damages claim	35		35	
Taxation paid	(54)	(128)	(113)	(196)
Net cash from operating activities	721	424	830	657
Net investment in new operations	(1)	(106)	(6)	(114)
Net investment in property, plant and equipment and intangible assets	(21)	(30)	(39)	(74)
Net cash from investing activities	(22)	(136)	(45)	(188)
Repayment of non-current amounts due to bankers	(250)	(46)	(138)	(96)
Share-based payments settled	(3)	(4)	(4)	(22)
Repurchase of shares	(82)		(82)	
Finance costs paid	(26)	(48)	(69)	(103)
Interest on lease liabilities	(16)		(35)	
Repayment of lease liabilities	(46)		(90)	
Dividends paid		(66)	(139)	(189)
Net cash from financing activities	(423)	(164)	(557)	(410)
Decrease in net bank balance	276	124	228	59
Foreign exchange translation gain	(4)	(1)	(2)	
Net bank overdraft at beginning of the year	(136)	(213)	(90)	(149)
Net bank balance (overdraft) at end of the year	136	(90)	136	(90)

* Audited

Reviewed

\$ Neither audited nor reviewed

GROUP STATEMENT OF CHANGES IN EQUITY

R million	Share capital and premium	Non-distributable reserves	Retained income	Equity holders of the parent	Non-controlling interest	Equity
Balance at 1 December 2018 – restated	55	99	2 362	2 516	68	2 584
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

R million	Share capital and premium	Non-distributable reserves	Retained income	Equity holders of the parent	Non-controlling interest	Equity
Balance at 1 December 2019	55	100	2 606	2 761	101	2 862
Repurchase of shares	(52)		(30)	(82)		(82)
Acquisitions					11	11
Comprehensive (loss) income for the year		(1)	36	35	(27)	8
Movement in equity compensation reserve		25	3	28		28
Dividends			(130)	(130)	(9)	(139)
Balance at 30 November 2020	3	124	2 485	2 612	76	2 688
Less: Shares held by subsidiary company			(19)	(19)		(19)
Net balance at 30 November 2020*	3	124	2 466	2 593	76	2 669

* Audited

Reviewed

SUPPLEMENTARY INFORMATION

The results for the year 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), SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the requirements of the South African Companies Act and the JSE Listings Requirements. Except for the adoption of IFRS 16: *Leases*, the same accounting policies, presentation and measurement principles have been followed in the preparation of the group's annual financial statements as were applied for the year ended 30 November 2019.

These results have been compiled under the supervision of the financial director, CV Amoils, CA (SA). The directors of Hudaco take full responsibility for the preparation of the preliminary report.

Impact of adopting IFRS 16: *Leases* at 1 December 2019

The group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration. At inception or on reassessment of a contract that contains a lease component, the group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative standalone prices.

As a lessee, the group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the group recognises right-of-use assets and lease liabilities for most leases – ie these leases are on-balance sheet. However, the group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the group's incremental borrowing rate of 8.13% as at 1 December 2019. Right-of-use assets are measured at the amount equal to the lease liability adjusted for lease straightlining balances (R12 million) as at 30 November 2019.

The group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Reconciliation between the operating lease commitments disclosed in the group's 30 November 2019 annual financial statements and the lease liabilities at 1 December 2019:

	R million
Operating lease commitments in respect of fixed property at 30 November 2019 as disclosed in the group's consolidated financial statements	303
Effect of renewal options reasonably certain to be exercised	309
Discounted using the incremental borrowing rate at 1 December 2019	(146)
Lease liabilities recognised as at 1 December 2019	466

The adoption of IFRS 16: *Leases* using the modified retrospective approach: As a result of initially applying IFRS 16 in respect of leases that were previously classified as operating leases, the group recognised right-of-use assets of R454 million and lease liabilities of R466 million at 1 December 2019, the initial date of application.

At the end of the reporting period the group recognised right-of-use assets of R414 million and lease liabilities of R455 million. During the year ended 30 November 2020, the group recognised R119 million of depreciation charges, R90 million of capital repayments and R35 million of interest costs from these leases, instead of operating lease expenses.

	Six months ended ^s		Year ended	
	30 Nov 2020	30 Nov 2019	30 Nov 2020 ^a	30 Nov 2019 ^a
Average net operating assets (NOA) (Rm)	3 920	3 981	4 095	3 992
Operating profit margin (%)	11.9	11.4	8.2	10.4
Average NOA turn (times)	1.8	1.8	1.5	1.7
Return on average NOA (%)	22.0	20.3	12.5	17.5
Average net tangible operating assets (NTOA) (Rm)	2 356	2 429	2 377	2 437
PBITA margin (%)	12.1	11.8	8.4	10.9
Average NTOA turn (times)	3.1	2.9	2.6	2.8
Return on average NTOA (%)	37.0	34.3	22.0	29.9
Net asset value per share (cents)	8 470	8 666	8 470	8 666
Return on average equity (%)	24.0	21.4	0.3	17.4
Turnover comprises of:				
<i>Revenue from contracts with customers</i>				
Sales of products	3 540	3 431	6 101	6 522
Rendering of services	78	98	153	182
	3 618	3 529	6 254	6 704
<i>Timing of revenue recognition</i>				
Goods and services transferred at a point in time	3 385	3 405	5 948	6 510
Goods and services transferred over time ⁽¹⁾	233	124	306	194
	3 618	3 529	6 254	6 704
<i>(1) The remaining transaction price allocated to unsatisfied performance obligations will be satisfied within one year.</i>				
<i>Geographical disaggregation</i>				
Goods and services sold in South Africa	3 469	3 227	5 737	6 060
Goods and services sold outside South Africa	149	302	517	644
	3 618	3 529	6 254	6 704
Operating profit has been determined after taking into account the following charges (Rm)				
– Depreciation of property, plant and equipment	19	22	45	43
– Depreciation of right-of-use assets	60		119	
– Amortisation of intangible assets	12	17	20	33
Capital expenditure (Rm)				
– Incurred during the period	27	32	45	79
– Authorised but not yet contracted for			63	70
Commitments				
– Operating lease commitments on properties (Rm)			30	303

* Audited

Reviewed

\$ Neither audited nor reviewed

SUPPLEMENTARY INFORMATION (CONTINUED)

Fair value disclosure

All financial instruments are carried at amounts that approximate their fair value. The fair value of forward exchange contracts is directly derived from prices in active markets for similar liabilities, which means it is classified as a level 2 fair value measurement. The carrying amount of forward exchange contract liabilities at 30 November 2020 is R23.8 million (2019: R10.0 million). The fair value for amounts due to vendors of businesses acquired is estimated by using a present value technique based on unobservable inputs regarding the future profitability of businesses acquired, which means it is classified as a level 3 fair value measurement.

Reconciliation of financial liability at fair value through profit or loss (level 3)

R million	2020	2019
Balance at beginning of year	65	213
Adjustments to fair value	(48)	(46)
Acquired during the year		4
Payments during the year	(17)	(106)
Balance at end of year		65

Acquisition of business

Effective 30 November 2020 the group gained voting control over Ironman 4x4 Africa RF (Pty) Ltd, previously jointly controlled, for no consideration.

Plant and equipment of R2.6 million, right-of-use assets of R6.2 million, inventories of R8.0 million, trade and other receivables of R2.4 million, trade and other payables of R2.1 million, cash of R10.4 million, lease liabilities of R6.7 million, goodwill of R3.4 million and a non-controlling interest of R12.3 million were recognised at the date of acquisition. These values approximate the fair values as determined under IFRS 3.

The fair value of the equity interest held by the group before gaining control was R12.3 million.

Had this acquisition of control been effected at the beginning of the year, additional turnover of R32.8 million and a profit after interest and tax of R1.3 million would have been included in the group results and the turnover and profit after interest and tax for the group would have been R6 286.5 million and R9.5 million respectively.

Impairment of goodwill

Goodwill was assessed for impairment in May 2020 as the impact of Covid-19 was considered to be a factor that might indicate impairment. It was assessed again at year end.

Discount rates applied to cash flow projections are based on a South African specific pre-tax weighted average cost of capital (WACC), which takes into account appropriate risk-free rates adjusted for market risk, company specific risk, cost of debt and the relevant weighting between debt and equity. The WACC applied to cash generating units at year end ranges from 18.9% to 25.8% and includes a risk premium for the impact of the Covid-19 pandemic.

The result of the assessment in May was an impairment of R345 million. No further impairment was required at 30 November 2020.

SEGMENT INFORMATION

R million	Year ended		
	Turnover		
	30 Nov 2020 [#]	% change	30 Nov 2019 [*]
Consumer-related products	3 360	(6.4)	3 589
Engineering consumables	2 907	(6.8)	3 120
Total operating segments	6 267	(6.6)	6 709
Head office, shared services and eliminations	(13)		(5)
Total group	6 254	(6.7)	6 704

R million	Year ended		
	Operating profit		
	30 Nov 2020 [#]	% change	30 Nov 2019 [*]
Consumer-related products	369	(12.3)	421
Engineering consumables	178	(37.5)	284
Total operating segments	547	(22.4)	705
Head office, shared services and eliminations	(37)		(4)
Total group	510	(27.2)	701

R million	Year ended		
	Average net operating assets		
	30 Nov 2020 [#]	% change	30 Nov 2019 [*]
Consumer-related products	2 184	2.7	2 126
Engineering consumables	1 936	3.5	1 869
Total operating segments	4 120	3.1	3 995
Head office, shared services and eliminations	(25)		(3)
Total group	4 095	2.6	3 992

* Audited
Reviewed

CONSUMER-RELATED PRODUCTS



Distributor of light and heavy duty clutch kits, ignition leads and rotary shaftseals to the automotive aftermarket and hydraulic and pneumatic seals to the industrial and construction equipment market.



An importer and distributor of alloy and steel wheels.



Distributor of Permaconn mobile radio communication equipment and systems as well as hosting and support of core IT infrastructure and communication networks.



Distributor of maintenance free batteries for automotive, trucking, mining, stand-by, solar utility and electric vehicle applications and a provider of custom designed energy solutions.



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



Supplier of batteries, high frequency chargers and related battery equipment to the traction battery market in Southern Africa. It also designs, builds and manages battery bays for warehouses and distribution centres.



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



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



Distributor of suspension and accessories to the 4x4 industry.



Distributor of wireless IP convergence solutions, including network infrastructure, switches and routers, Wi-Fi and hotspot, enterprise wireless, fixed wireless broadband, carrier class wireless, antennas and masts, voice over IP and IP surveillance products.



Importer and distributor of automotive spares and accessories.



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



Supplier of voice and data solutions, specialising in PBX communication management software and telephone management.



Importer and distributor of stand-by and solar batteries.

COMPANY INFORMATION

HUDACO INDUSTRIES LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 1985/004617/06)
JSE share code: HDC A2X share code: HDC
ISIN code: ZAE000003273

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AUDITORS

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SPONSOR

Nedbank Corporate and Investment Banking
135 Rivonia Road, Sandton, 2196
(PO Box 1144, Johannesburg, 2000)

ENGINEERING CONSUMABLES



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.



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



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



Supplier and repairer of geared and electric motors, industrial bevel helical transmissions and drive solutions.



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



Manufacturer of conveyor drive pulleys, forging and rollings.



Importer and distributor of plastic and stainless steel slat chains and modular belting and conveyor components. Manufacturer of plastic engineering parts for machines used in food, bottling and mining industries.



Supplier of hydraulic pumps and motors to the mining, industrial, mobile, marine and forestry industries.



Manufacturer of hydraulic and pneumatic equipment.



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



Manufacturer and assembler of hydraulic gear pumps.



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



Manufacturer of ferrous and non-ferrous castings.



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



Manufacturer and distributor of mining connectors and lighting systems.



Distributor of special steels and of heat treatment to the tool making and general engineering industries.



Manufacturer of end caps on pressure vessels and single pressed weld caps and the pressing and flanging of small conical sections.



Distributor of electrical cable accessories.



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

The logo for Hudaco, featuring the word "Hudaco" in a bold, italicized, blue sans-serif font.

Hudaco

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