HUDACO INDUSTRIES LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1985/004617/06)
Share code: HDC & ISIN: ZAE000003273
("**Hudaco**" or the "**Company**" or the "**Group**")

IMPACT OF THE COVID-19 EPIDEMIC ON HUDACO'S BUSINESSES, MITIGATING ACTIONS AND TRADING STATEMENT

Hudaco 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's businesses serve markets that fall into two primary categories. The automotive aftermarket, power tool, security and communication equipment businesses supply products into markets with a bias towards consumer spending and account for about 65% of sales. The mechanical and electrical power transmission, diesel engine, hydraulics and pneumatics, steel, thermoplastic and fittings and bearings businesses supply engineering consumables mainly to mining and manufacturing customers and account for about 35% of sales.

Impact of the Covid-19 epidemic on Hudaco's businesses

During the initial five weeks of the lockdown, which were at alert level 5 restrictions, a few of our consumer-related businesses (particularly those supplying batteries, data communication and security equipment) were classified as essential services in terms of government regulations. Many of our engineering consumables businesses, suppliers to essential service businesses such as power stations and coal mines, were also able to operate to a limited extent. However, the majority of Hudaco's customers were not classified as essential services so our businesses operated at a significantly lower level than usual during the alert level 5 period.

Now that the lockdown status has been eased somewhat to alert level 4, almost all Hudaco businesses are open for business, albeit with the requisite reduced staff complements and other health and safety requirements in terms of the regulations. At this early stage, it remains to be seen how many of our customers will be operating and what levels of activity will be achieved.

As news reached us of the virus spreading widely through the world, our first concern had been its potential impact on our supply chain, specifically on products sourced from China, Japan and Southeast Asia. Fortunately, many of our businesses had stocked up, as they normally do, in anticipation of the Chinese New Year, so with a few product exceptions, we had adequate inventories as South Africa went into lockdown. The uncertainty at that stage was whether adequate supply would be restored before our inventories were exhausted. International supply chains have, however, recovered remarkably quickly and this is no longer a significant concern. The biggest question now facing the Group is how quickly demand recovers from the lockdown.

Actions taken to mitigate the impact on our businesses and associated risks

The health and safety of our 4000 employees are of paramount importance. Prior to the lockdown our businesses arranged for as many employees as possible to work from home and installed our own Miro supplied IpVideo conferencing server for full safe, secure communication amongst all our businesses and implemented a number of virus-related safety measures for those who had to be on site. Those measures were enhanced during the initial lockdown period and have now been upgraded further to comply with the alert level 4 requirements set out in government regulations. The head of each Hudaco business has been required to sign an extensive declaration confirming that the business complies with all the prescribed requirements.

The Group has implemented several measures and has had to make difficult decisions in finding a balance between protecting jobs, preserving cash and sustaining liquidity whilst endeavouring to contain the impact on the more vulnerable employees. These include:

- reducing the remuneration of non-executive directors, executive directors and other senior executives in the group by 33%, in line with the example set by the President and his cabinet, for the three months April to June 2020;
- instituting a retirement fund contribution holiday for both employee and employer for the three months April to June 2020. While this was applied successfully to a large majority of employees, some are members of union retirement funds that did not permit a contribution holiday;
- reducing the remuneration of other employees by between 20% and 7% for the three months April to June 2020, on a remuneration level based scale. Except for the employees who are members of the union retirement funds referred to above, those who earn under R220 000 per annum and work a full month have no reduction in take-home pay because the retirement fund contribution holiday compensates for any decrease in the rate of pay;
- undertaking to employees that there would be no job cuts for the three months April to June 2020;
- granting employees who were unable to work during the initial three weeks of the lockdown an additional nine working days special paid leave in exchange for a requirement to take four days of annual leave. In the following two weeks of lockdown, those employees were required to take leave but have been given until November 2020 to work in or repay negative leave balances;
- providing administrative assistance to employees whose remuneration has been negatively affected and who qualify for government or UIF relief;
- seeking rental concessions or deferral of rentals on those leased premises with larger rentals. In most applicable cases, suitable deferral arrangements were concluded;
- postponing or cancelling any non-critical capital expenditure not already contracted;
- minimising all discretionary or non-critical operating expenditure;
- requesting extended payment terms from overseas suppliers, particularly those in low-interest rate environments;
- refocusing capital allocation priorities away from acquisitions and potential share-buybacks to working capital. However, any compelling potential acquisition opportunities that may arise will still be considered; and
- agreeing with our bankers that facilities that had been marked as uncommitted would be firmed up as available for use.

With the devastating effect the extended lockdown is having on the economy and our operations, it may take many months for sales levels to return to their pre-lockdown levels. In anticipation of this, we are in the process of identifying opportunities to achieve long-term savings and synergies through rationalisation of elements of certain businesses whose cost structures may be out of line with future sales levels.

Given the necessity to preserve cash, it is highly unlikely that an interim dividend will be paid this year.

Notwithstanding the financial damage being wrought throughout the economy, the Group remains in a sound financial position and continues to pay its creditors on terms negotiated. Business will be conducted to the maximum extent allowed by the regulations, limited only by the activity levels of our customers. As many of our employees as possible will continue to work from home.

A ramp up to the recovery of the economy is needed urgently, to avoid a scenario where the cure for Covid-19 is worse than the disease itself. In the interests of all South Africans, we urge the government to ease the regulations by permitting all businesses that can implement the necessary health and safety requirements to return to work immediately.

Trading statement

In terms of the Listings Requirements of the JSE Limited, companies are required to publish a trading statement as soon as they are satisfied that a reasonable degree of certainty exists that the financial results for the period to be reported on next will be more than 20% different from those of the previous corresponding period.

The Company's financial results for the six months ended 31 May 2020 have been severely impacted by Covid-19 as described above and particularly the fact that most of the Company's businesses were closed for five weeks in March and April 2020 and the fact that May 2020 trading is restricted, the effects of which are amplified when assessed in a half year period. Accordingly, the board is reasonably certain that the earnings, headline earnings and comparable earnings per share for the six months ending 31 May 2020 will be over 20% lower than for the equivalent period in the previous year. A further trading statement setting out the range for the expected earnings, headline earnings and comparable earnings per share will be provided as soon as the board has reasonable certainty of this information.

The above information has not been reviewed or reported on by the Company's auditors.

EDENVALE
21 May 2020
Sponsor
Nedbank Corporate and Investment Banking