



Howden Africa

2017 Full Year Results Presentation

4 May 2018

- Safety Pause
- In case of an emergency
 - Do not run
 - Proceed to the nearest exit
 - Wait for instructions at assembly points



- We expect the presentation to last for approximately 30mins. Please hold your questions for the end of the presentation.
- We ask that you please turn off your mobile telephones.



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The term "Howden" in reference to the activities described in these slides may mean one or more of Howden's South African operating subsidiaries and/or their internal business divisions.



2017 Full Year Results Highlights

William Thomson - CEO

The Company **focus is on** :

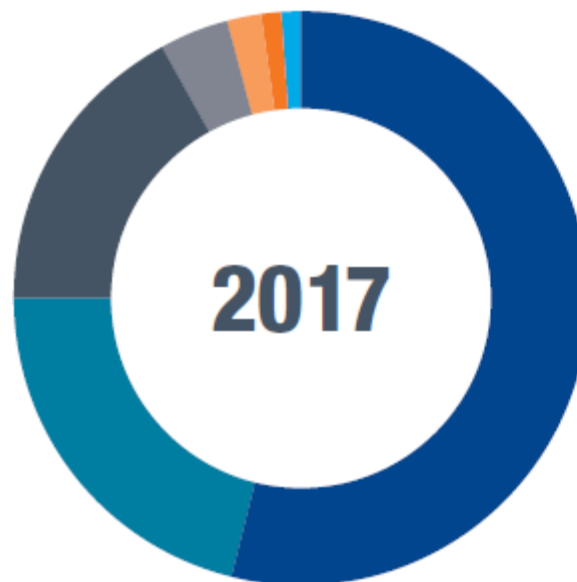
- **Maintaining an high level of customer service across industries**
- Identifying opportunities to **grow our aftermarket** both organically and through acquisition with less reliance on the Coal Fired Power market
- **Expanding export sales**
- **Investing in our people**
- **Develop and maintaining flexibility** of technical skills across the business

Revenue

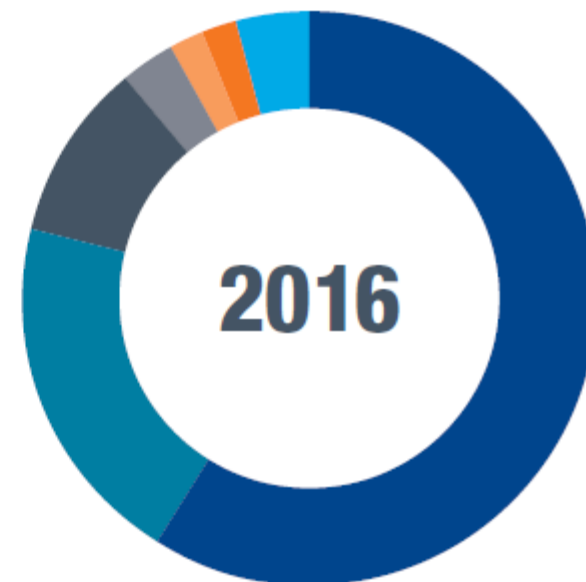
R1 743.0m

+8.6% (2016: R1 604.5m)

Revenue by market segment (%)



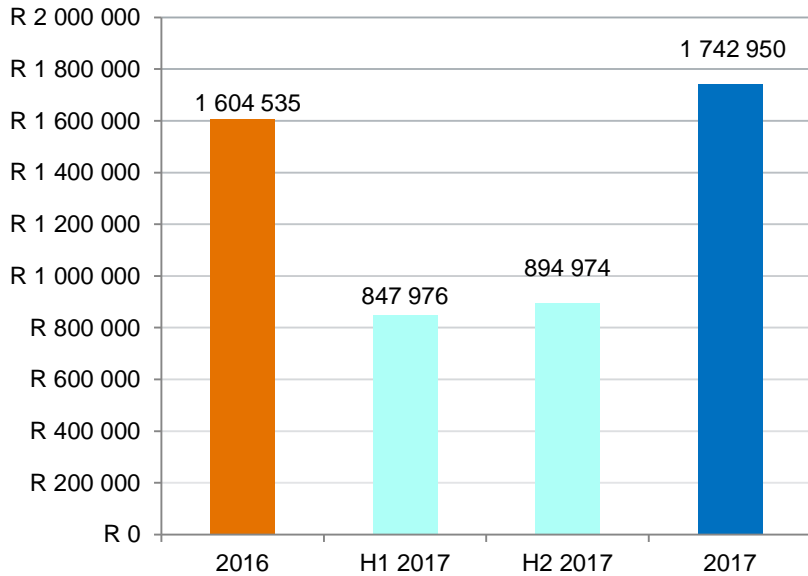
- 54 ● Power generation
- 21 ● Mining and minerals
- 17 ● Other industrial
- 4 ● Petrochemicals
- 2 ● HVAC
- 1 ● Steel and cement
- 1 ● Transport



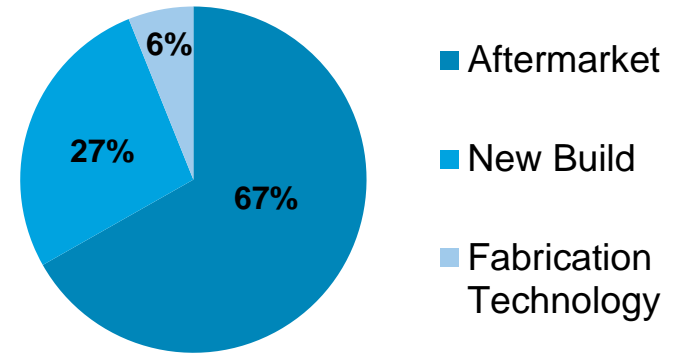
- 59 ● Power generation
- 20 ● Mining and minerals
- 10 ● Other industrial
- 3 ● Petrochemicals
- 2 ● HVAC
- 2 ● Steel and cement
- 4 ● Transport

Howden Africa 2017 Financial Performance

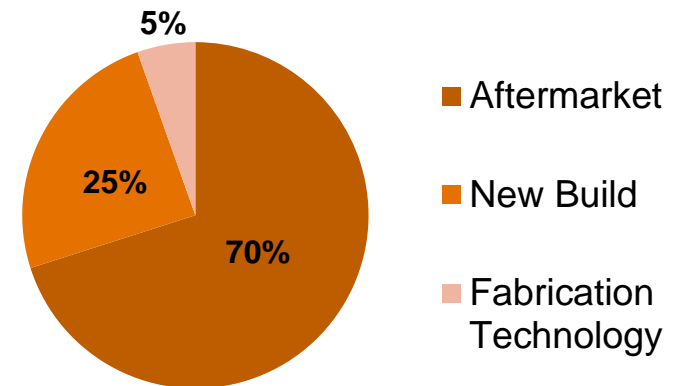
Revenue



Revenue 2017



Revenue 2016



Revenue of R 1743 million for 2017 is 8.6 % up on 2016. (R1604.5m)

Aftermarket to New Build ratio has not changed significantly from prior year with slight increase on New Build a result of a few major projects executed in 2017.

Local customers' appetite across all industries on new capital investment remained subdued.

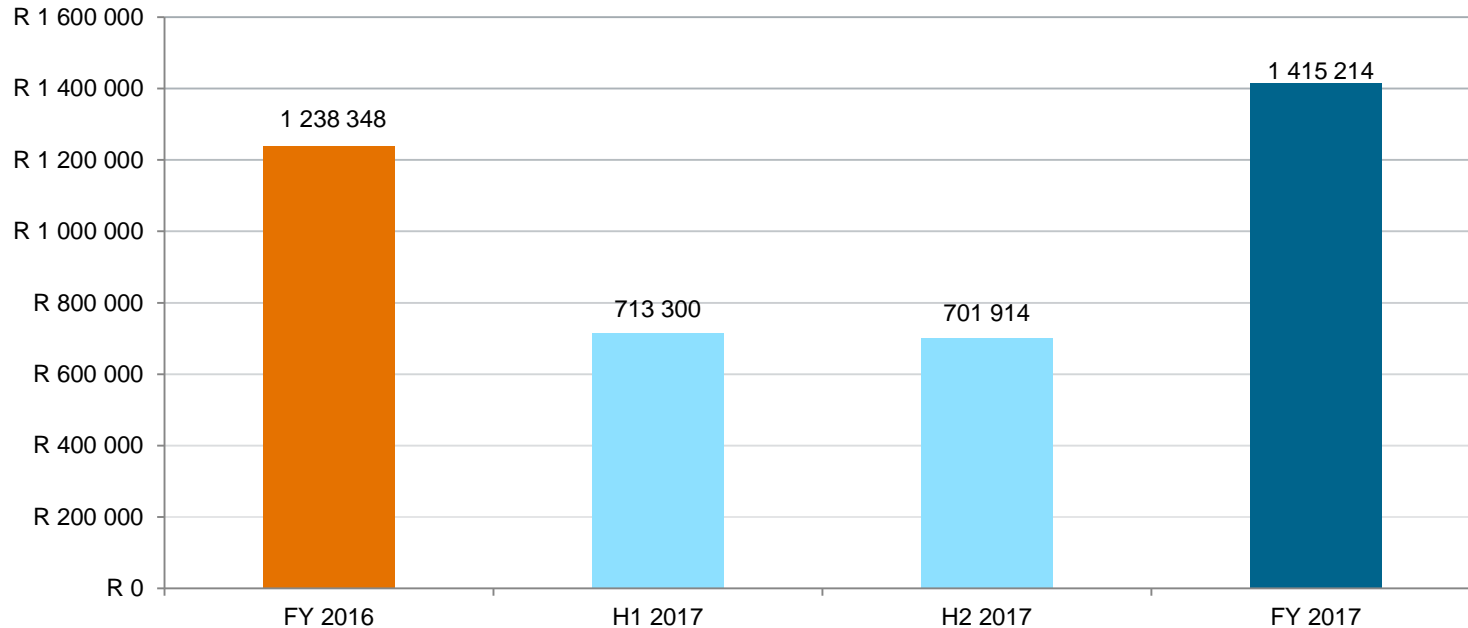
The orders on hand dropped by 7.6% from prior year.

However we continue to support feasibility studies to improve our position when customer funding is available.



Segment Order Intake

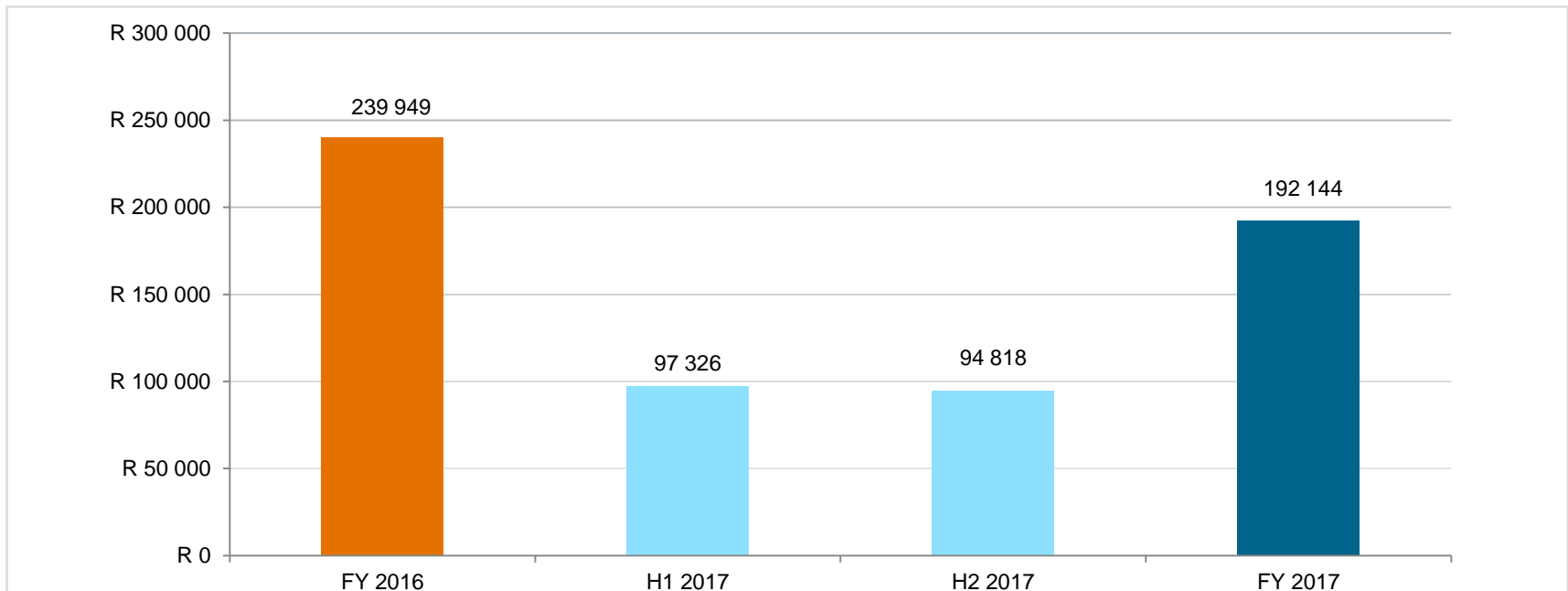
ORDERS RECEIVED



Fans and Heat Exchangers division **orders received during the second half of 2017 decreased by 1.6%** to R701.9 million compared to the R713.3million in H1.

Total **order intake** in the period **increased 14.3%** resulting from New Build activity for export and a one-off retrofit project order awarded in the latter part of the year.

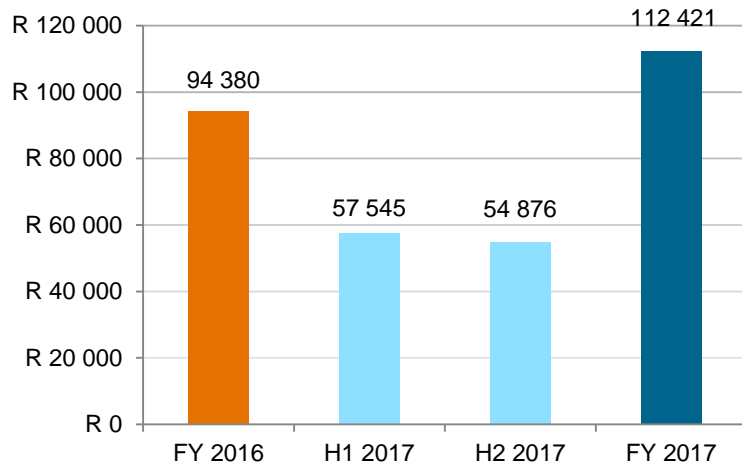
ORDERS



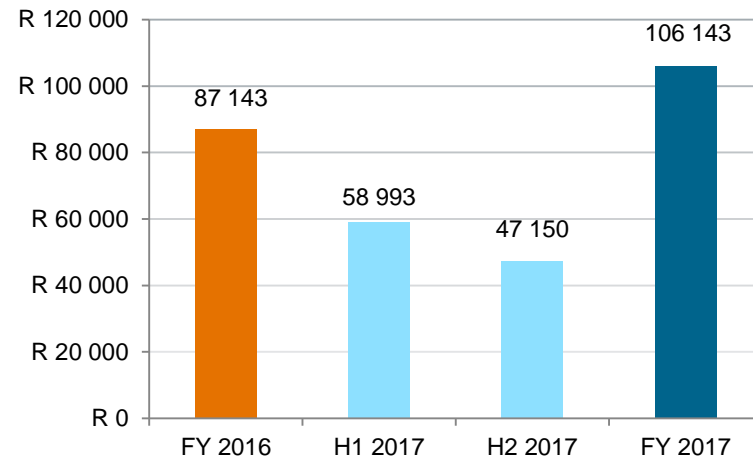
Environmental Control division **order intake decline to R192.1 million compared to R239.9 million in 2016.**

This division continues to have a **large opportunity list, but no order conversions.**

ORDERS



SALES



The new Fabrication Technology Division has grown in 2017 but lower than expected. With a relatively small market share within Africa, we remain confident the ESAB brand provides Howden with a solid growth opportunity.

HEADWINDS & CHALLENGES

- Rate of capital expenditure
- Environmental legislation
- Spending constraints on traditional customers

- Impact of the Mining Charter
- Application of customer Procurement Policies (e.g. PPPFA)
- Ongoing drive for increased localisation

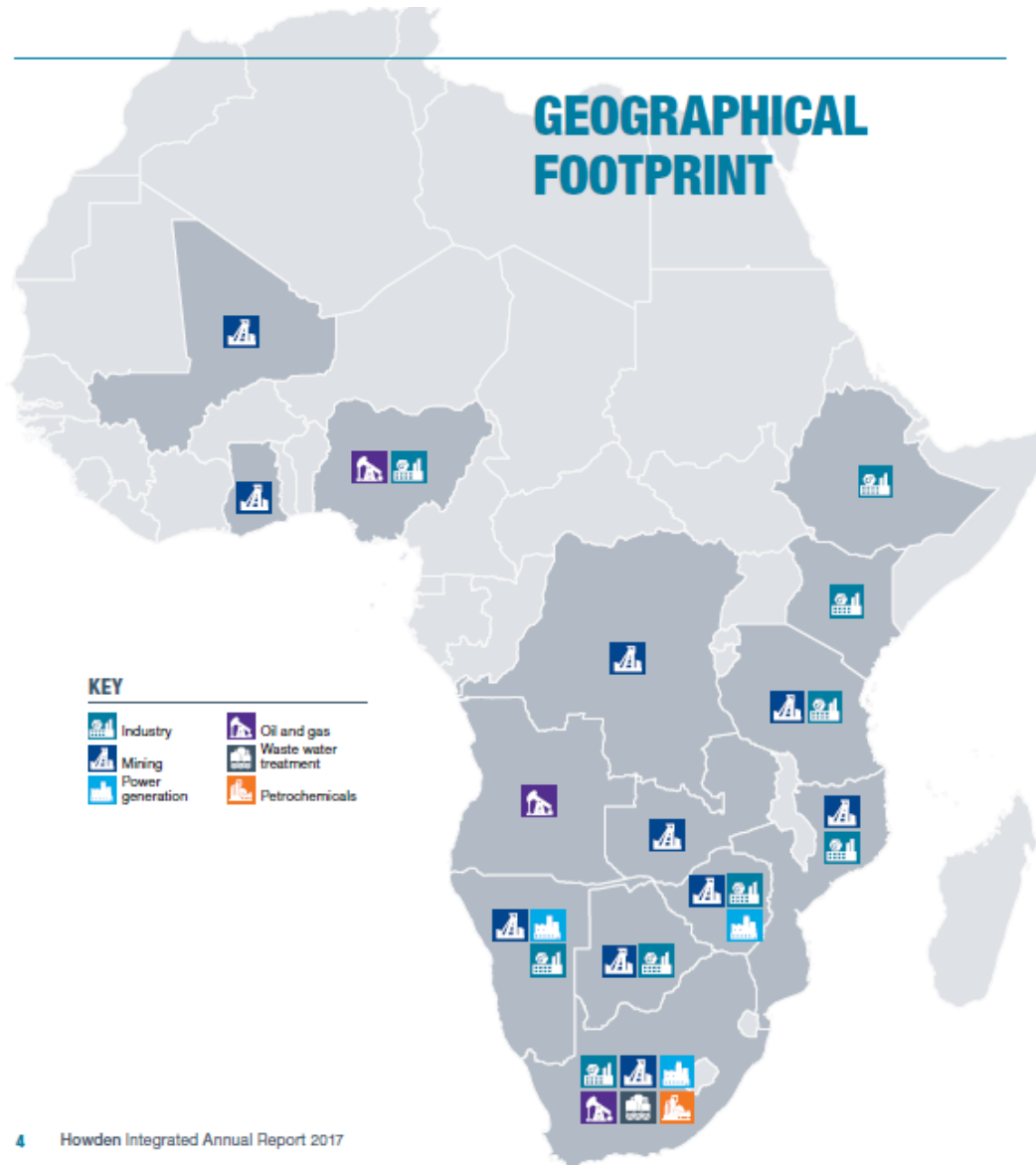
- Introduction of new products and services
- Operating beyond traditional local markets
- Nurturing talent and innovation

Capital project spend within power generation, mining and general industry remains subdued in local markets but there is positive movement within the wider mining industry.

Fans and Heat Exchangers division continues to focus on aftermarket growth to key industries.

Market conditions within the Environmental Control division are expected to remain challenging with no legislative driver.

Fabrication Technology Division is expected to grow.



- **Strengthen the Foundation**
 - **B-BBEE Level improvement**
 - **Community engagement**
 - **Continuous improvement (Apply CBS with Impact)**
 - **Relentless focus on Talent**

- **Organic Growth**
 - **Grow market Share in Fabrication Technology division**
 - **Expand Revenue growth in AFM activity, changing the mix of industries served**
 - **Leverage Global acquired products and services for Mining and Waste Water Treatment**

- **Innovate and Acquire**
 - **Engage local talent on innovation projects**
 - **Drive Innovation via Data Driven Advantage**
 - **Seek out acquisition targets**



Financial Overview

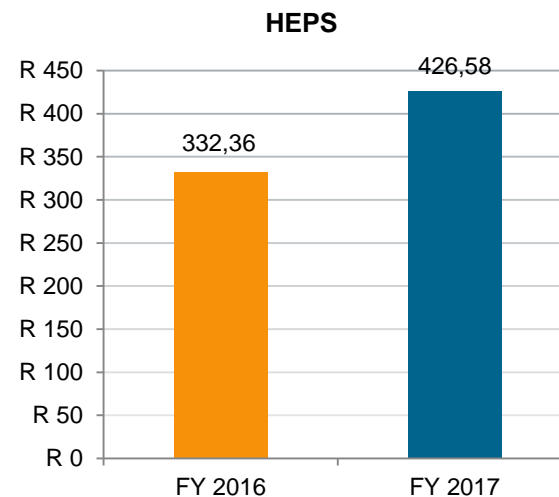
Marinella Vigouroux - CFO

HEPS and Income Statement

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

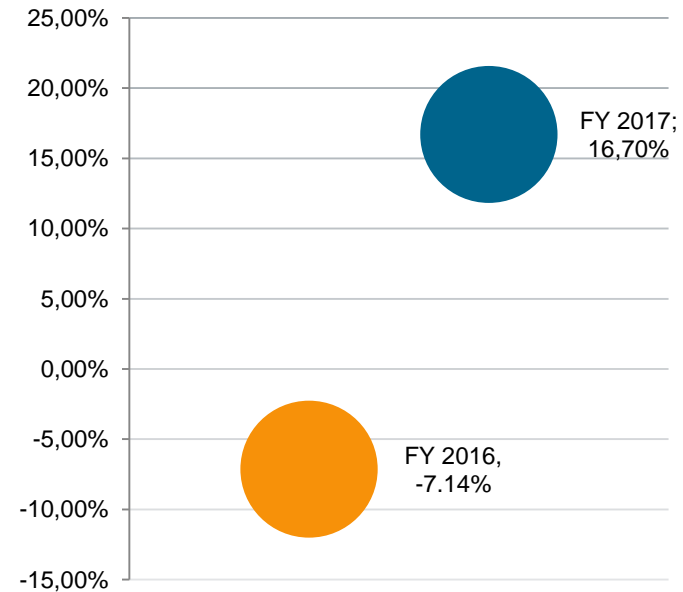
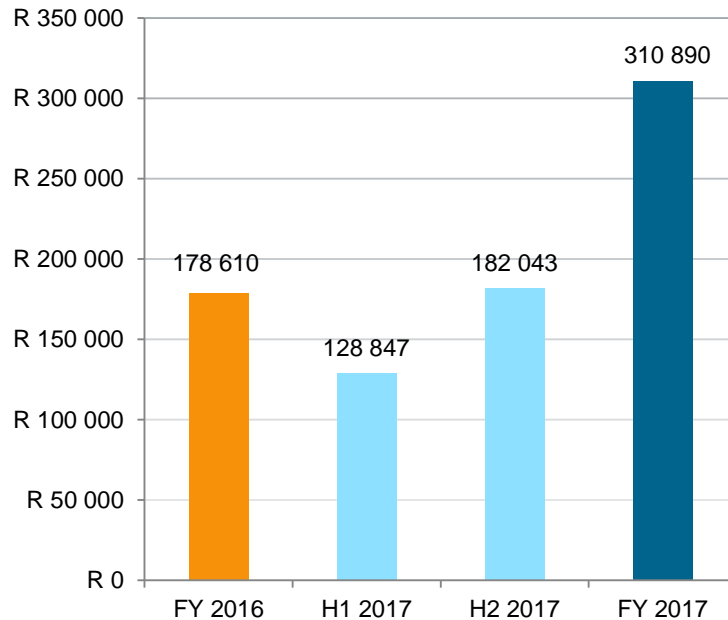
R'000	Notes	2017	2016	Change %
Revenue		1 742 950	1 604 535	8.6
Cost of sales		(1 239 623)	(1 176 761)	5.3
Gross profit		503 327	427 774	17.7
Distribution costs		(60 459)	(58 546)	3.3
Administrative expenses		(127 177)	(123 827)	2.7
Other income		468	2 210	(78.8)
Operating profit	5	316 159	247 611	27.7
Investment income		77 494	55 566	39.5
Finance costs		(145)	(72)	101.4
Profit before income tax		393 508	303 105	29.8
Income tax expense		(113 252)	(84 684)	33.7
Profit for the year		280 256	218 421	28.3



The business overall has performed well in 2017, given external headwinds experienced in the period.

HEPS increased by 28.3% attributable to the improved operating profit margin impacted by improved gross profit margin, lower than inflationary cost movement and additional investment income.

SALES AND OP%

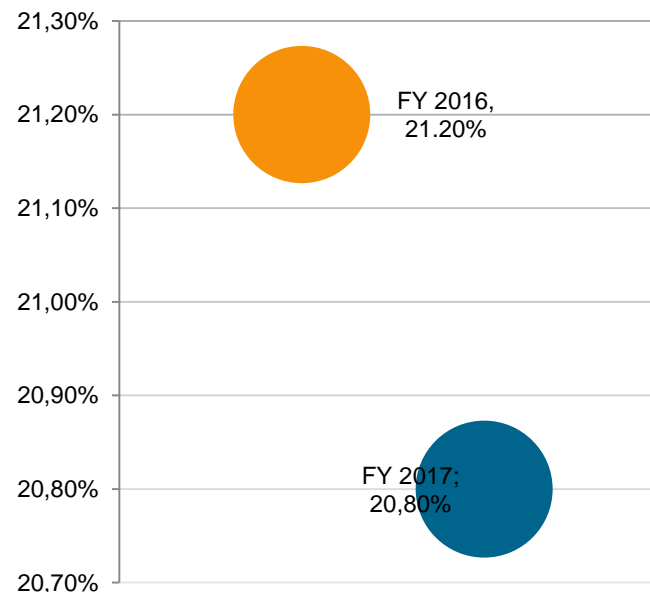
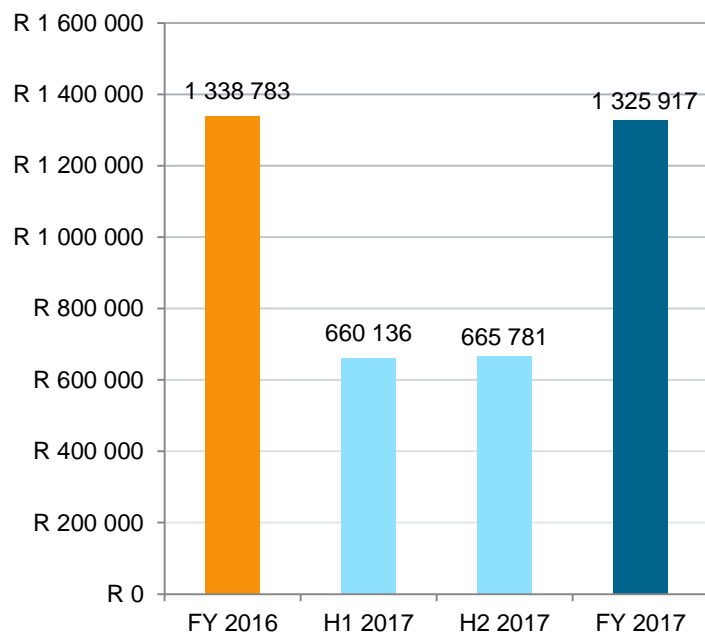


The Environmental Control Division revenue was driven by the **completion of large projects** in the period.

Improved project execution has mitigated margin leakage experienced in 2016 with the division returning to profits.

This division **still faces headwinds** with no strong legislative drive for wider environmental control measures and lower backlog entering into 2018.

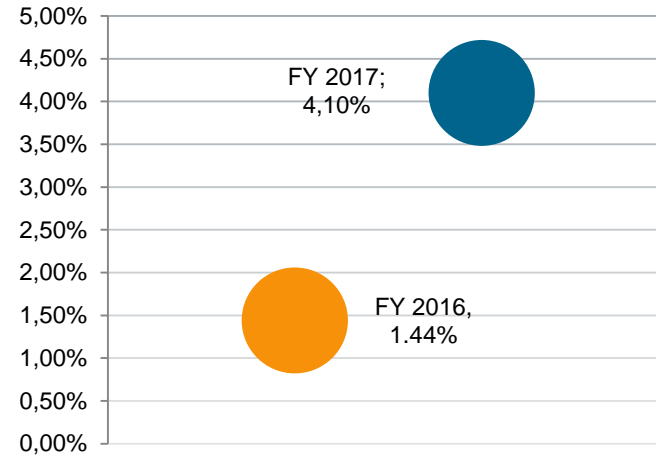
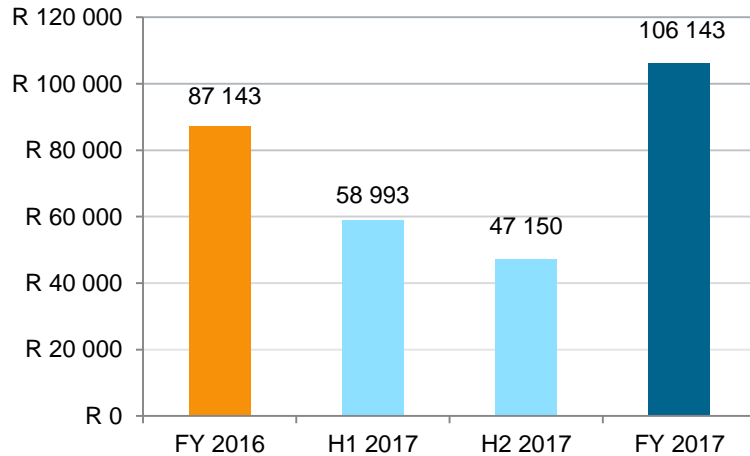
SALES AND OP %



The Fans and Heat Exchangers division saw a slight decline **in revenue as customer spending was subdued within South Africa** with some additional New Build activity in other regions .

Operating profit margin percentage for this division continues to be under **customer pricing pressure which was** partly mitigated by project liability release of R28million in the period.

SALES AND OP %



The new Fabrication Technology Division has grown in 2017 but not at the rates expected.

The volume expectation for the business is not per original envisioned volume which is currently impacting the overall op% delivered of the division.

We believe the ESAB brand provides Howden with a great growth opportunity.

Financial Overview

Financial Position 2017

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

R'000	2017	2016
ASSETS		
Non-current assets	178 403	185 931
Property, plant and equipment and intangible assets	133 105	136 708
Pension fund plan surplus	17 071	17 485
Deferred tax assets	21 069	18 132
Trade, construction contracts and other receivables	7 158	13 606
Current assets	1 952 121	1 675 109
Inventories	337 065	332 166
Trade, construction contracts and other receivables	389 751	386 010
Loans receivable	25 625	16 050
Current income tax asset	23 259	31 542
Cash and cash equivalents	1 176 421	909 341
TOTAL ASSETS	2 130 524	1 861 040
EQUITY		
Share capital and reserves		
Share capital and reserves	1 533 160	1 254 912
TOTAL EQUITY	1 533 160	1 254 912
LIABILITIES		
Non-current liabilities	78 463	102 066
Deferred tax liabilities	5 738	3 069
Payables and construction contracts	59 769	87 355
Provisions	12 956	11 642
Current liabilities	518 901	504 062
Payables and construction contracts	507 346	472 639
Current income tax liabilities	562	13 123
Provisions	10 993	18 300
TOTAL LIABILITIES	597 364	606 128
TOTAL EQUITY AND LIABILITIES	2 130 524	1 861 040

- **Assets increased to R2 1 billion.** The major changes during 2017 have been a further increase in the business's cash and cash equivalents balance which has increased to R1.2billion.
- **All other movements in Assets and Liabilities moved inline with business activity and contract funding levels.**

The 2017 Year has returned a solid performance for the Howden Africa business especially in the Environmental Control division with the improved execution of projects.

The business has experienced some external headwinds in 2017 with additional challenges in the 2018 period.

The Board and the executive team continue to consider options for capital allocations that align to the Group Strategy and provide the appropriate return.

The Company remains **focused on its strategies** of

- **expanding export sales** into the Rest of Africa
- **investing in our people**
- identifying opportunities to **grow our aftermarket** both organically and through acquisition
- **maintaining flexibility**
- **Growing the new Fabrication Division**

The Company **remains well placed to take advantage of any opportunities** that present themselves in the future.



Questions?

Q1. Is Howden experiencing any reductions in Eskom spend?

The business retains good visibility of the outage schedule and have seen some postponements in non-critical spend items, with a reduction in enquiries in respect of some of the older coal fired power stations.

Q2. What is the revenue profile in respect of the environmental business and prospective aftermarket work in respect of environmental related projects?

The revenue profile of the environmental business is typically in line with major capital equipment projects tending to be larger in value and longer in duration. Aftermarket in this division is not to same extent as the fans and heat exchangers division.

Q3. In light of waste water treatment being one of your top 6 industries, does Howden foresee growing opportunities in this industry going forward?

The business is active in waste water treatment and recent acquisitions by the wider Howden business has expanded our product offering in respect of this industry. It is also a market that has potential for growth outside of South Africa.

Q4. Are there any plans for the payment of a dividend?

There are no immediate plans to make payment of a dividend. The business will continue to look for other opportunities to utilise the cash. The Board considers the payment of a dividend on a regular basis.

Q5. What is the business' plans to do with the cash?

The Board is actively investigating options to utilise the cash. Board continues to consider share buy-backs, acquisitions or investment in a transformation arrangement. Consideration is also being made to the utilisation of the cash in supporting new project financing models on certain products lines.

Q6. Have we lost any business as a result of our current ownership?

The business understands that ownership is not the only element to be considered. Howden continues to address all elements of the amended codes. We have on some occasions not reached procurement discussions due to different interpretations of procurement legislation and customers restricting tenders to level 1 and 2 contributors.

Q7. What is the position with the existing Eskom national contract?

At this time Howden is having ongoing talks with the Eskom procurement team.

Q8. Provided that share-buy backs are an option for the utilisation of the cash is there a price point that would trigger a decision?

There currently is not defined price point for the company exercise a share-buy back.

Q9. The fabrication technology division has not grown in line with the business expectations to date, what gives the business confidence of future growth?

Initially there was a combination of Howden and ESAB management personnel responsible for the growth of this fabrication technology division. Towards the end of 2017 the business recruited key individuals with specific experience in relation to the ESAB products.

**At the heart
of your
operations**

Thank You

