IMPERIAL


# RESULTS PRESENTATION

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

# AGENDA

- KEY FEATURES
- CONTEXT
- OPERATIONAL REVIEW
- FINANCIAL REVIEW
- STRATEGY
- PROSPECTS

# KEY FEATURES

| | | |
|---|---|---|
| REVENUE | OPERATING PROFIT | CORE EPS[1] |
| +9%<br>**R56 234** million | -9%<br>**R2 872** million | -14%<br>**803 cps** |
| HEPS | INTERIM DIVIDEND PER SHARE[2] | CASH FLOW FROM OPERATING ACTIVITIES |
| -9%<br>**759 cps** | **350** cps | +73%<br>**R 1 billion** |

> ROIC 11.9% vs WACC of 9.1% (target of 4% above WACC through the cycle)

> Net debt:equity ratio of 83% (excl. prefs)

1. *Core EPS excludes once-off and non-operational items, mainly: amortisation of intangibles on acquisitions R205m (up R58m); re-measurement of put option liability R17m; foreign exchange gain on inter-group monetary items R104m*
2. *Historic dividend yield of 3.8% based on a share price of R201.90*

# IMPERIAL'S THREE LINES OF MOBILITY

| LOGISTICS | VEHICLES | FINANCIAL SERVICES |
|---|---|---|
|   |  |  |
| **REVENUE** | | |
| ↑ +14% **R22.9** billion **39%** contribution | ↑ +7% **R33.0** billion **57%** contribution | ↑ +6% **R2.2** billion **4%** contribution |
| **OPERATING PROFIT** | | |
| ↑ +12% **R1.2** billion **40%** contribution | ↓ -25% **R1.3** billion **43%** contribution | ↓ -6% **R0.5** billion **17%** contribution |

# DIVISIONAL STRUCTURE

**Manage & report on five divisions based on strategic drivers, management expertise, business models, intra-divisional value creation & geography in three major lines of mobility**

## LOGISTICS


### AFRICA (INC. RSA)

- Leading logistics provider across entire supply chain

- **23%** of group revenue
- **27%** of group operating profit

### INTERNATIONAL

- Leading positions in inland shipping, industrial contract logistics, chemical contract & bulk logistics, & terminal operations

- **16%** of group revenue
- **13%** of group operating profit

## VEHICLES

### VEHICLE IMPORT, DISTRIBUTION & DEALERSHIPS

- Exclusive importer of 16 automotive & industrial brands
- Covers virtually all aspects of the motor value chain, from import to after-sales servicing & parts

- **25%** of group revenue
- **16%** of group operating profit

### VEHICLE RETAIL, RENTAL & AFTERMARKET PARTS

- Represents most SA OEM passenger & commercial vehicle brands
- Vehicle rental
- Aftermarket parts
- Pre-owned retail outlets
- Commercial vehicles in UK

- **32%** of group revenue
- **27%** of group operating profit

## FINANCIAL SERVICES

### LEVERAGE IMPERIAL'S VEHICLE EXPERTISE & DISTRIBUTION

- Mainly motor related insurance & financial products & services
- Full maintenance leasing

- **4%** of group revenue
- **17%** of group operating profit

# SUMMARY PERFORMANCE

> Portfolio performed to expectation in deteriorating trading conditions
> Revenue growth attributable mainly to acquisitions
> Group operating profit decline (9% or R294m) comprised:

- Divisional operating profit increases:
  - **Logistics Africa:** 23% or R152m up to R802m
  - **Vehicle Retail, Rental & Aftermarket Parts:** 7% or R51m up to R798m
- Divisional operating profit decreases:
  - **Logistics International:** 13% or €4m down to €27m (6% or R26m down to R389m)
  - **Vehicle Import, Distribution & Dealerships:** 51% or R473m down to R461m
  - **Financial Services:** 6% or R32m down to R798m

> Operating profit decline attributable primarily to impact of Rand weakness on **Vehicle Import, Distribution & Dealerships** distributor margins & dealership competitiveness & unit volumes

# GROWTH TREND IN **FOREIGN** OPERATIONS

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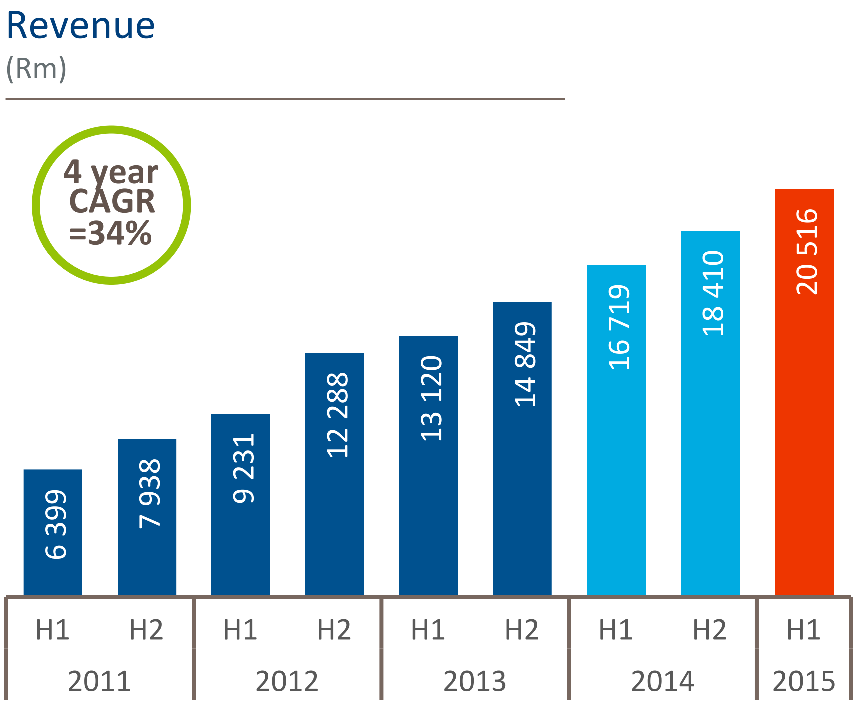


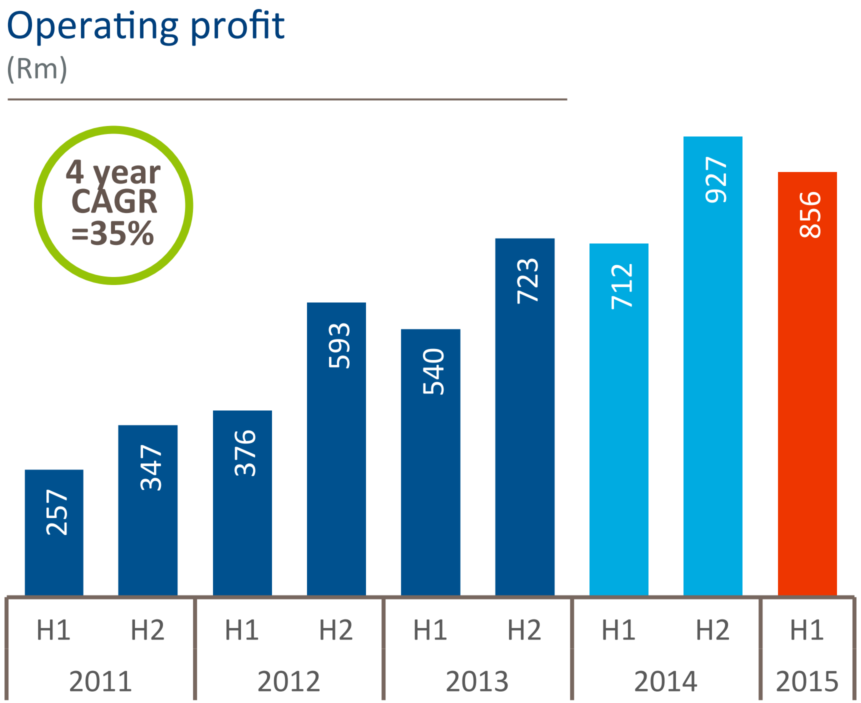


- Positive growth trend of revenue & operating profit outside South Africa
- **Foreign operating revenue** up 23% to R21 billion (now 36% of group)
- **Foreign operating profit** up 20% to R856 million (now 30% of group)
- Africa ex RSA operating profit up 60% to R383 million (now 13% of group)
- Strategy to grow further

# GROWTH TREND IN **NON VEHICLE** OPERATIONS

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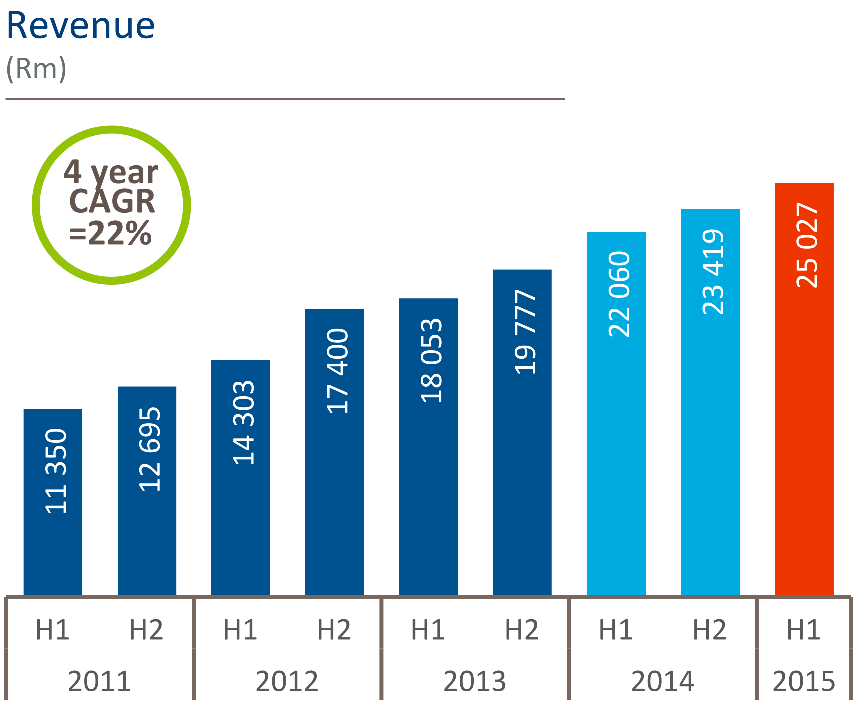


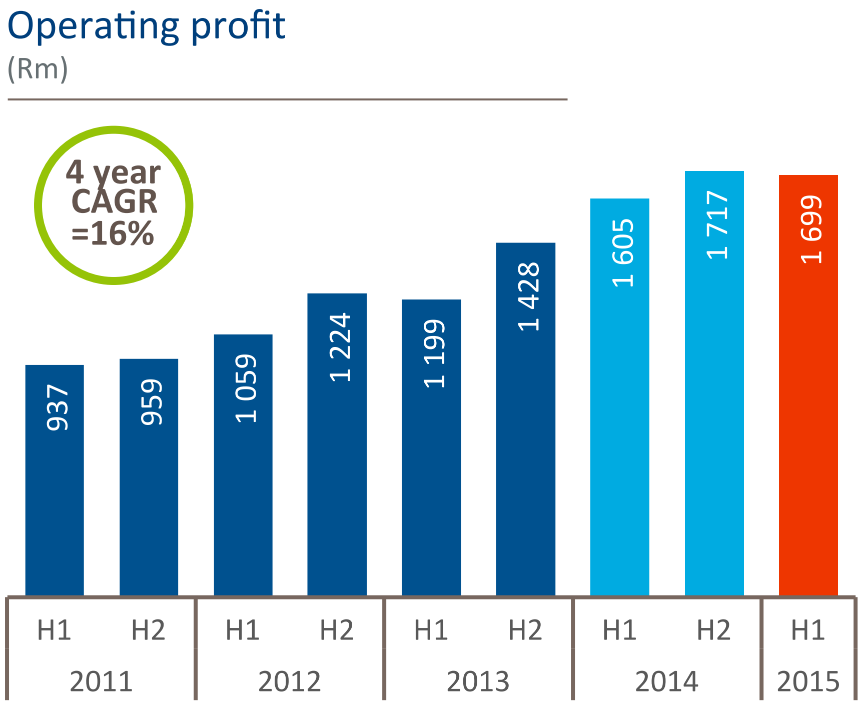


> Positive growth trend of revenue & operating profit in businesses not dependant on new vehicle sales

> **Non-vehicle revenue** increased 13% to R25 billion (now 45% of group)

> **Non-vehicle operating profit** increased 6% to R1.7 billion (now 57% of group)

> Strategy to grow further

# AGENDA

KEY FEATURES

CONTEXT

OPERATIONAL REVIEW

FINANCIAL REVIEW

STRATEGY

PROSPECTS

# CONTEXT – CHALLENGING ENVIRONMENT

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> VUCCA (volatile, uncertain, complex, chaotic, ambiguous) environment; various macro-economic, geo-political & social forces well publicised

> South Africa

- low economic growth; underperformance of major trading partners (Europe, China) & lower commodity prices & export growth; constant downward revisions of growth forecasts
- consumer & business confidence fragile; exacerbated by electricity shortages, labour tensions, further R/$ weakness
- conditions generally more challenging than first half of 2014

> Eurozone recovery tentative (Germany + 0.7% GDP growth in last quarter of 2014)

> UK slow but steady recovery (0.5% per quarter)

> Sub-Saharan Africa (ex RSA)

- generally higher growth off low base
- terrorism & lower oil price yet to impact our businesses

> Competitive pressures despite strong market positions in Imperial's 3 lines of mobility

# AGENDA

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# DIVISIONAL REVIEW

## LOGISTICS AFRICA


**REVENUE**
(including inter-segment revenue)

↑ +22%
**R13.3** billion

**OPERATING PROFIT**

↑ +23%
**R0.8** billion

Geographies: Three regional hubs – SADC, East Africa, West Africa

South Africa

> Market: Developed market & infrastructure

> Industry structure: Sophisticated supply chains & formal routes to market

> Strategy: Use scale, expertise & technology to provide high value logistics services across entire supply chain in selected industries
- access to 7 500 vehicles (own 5 500)
- ±1 million m² of warehousing
- leading edge consulting to market leading counterparties

> Value proposition: lower total costs & reliability for clients

# INTEGRATED SUPPLY CHAIN PARTNER IN RSA

| FREIGHT & TRANSPORT | WAREHOUSING & STORAGE | DISTRIBUTION & FULFILMENT | DEMAND MANAGEMENT | INTEGRATION SERVICES |
| --- | --- | --- | --- | --- |

**SUPPLY CHAIN OUTSOURCING PARTNER**

> **Ability to reduce client's costs** – consolidation of transport & distribution facilities; economies of scale

> **Ability to enhance client's competitiveness** – operational expertise & experience; consulting; integration

> **Specialised operations** – company & industry dedicated specialised transport fleets & warehousing

> **Extensive regional footprint** – ability to offer innovative solutions for principals (including SA manufacturers) to access point of sale in Africa

> **End-to-end service offering** – tangible value-add through a fully integrated supply chain

**LEADING LOGISTICS PROVIDER**

# OUR KEY CLIENTS

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- adcock ingram
- AECI good chemistry
- AfriSam
- AFROX A Member of The Linde Group
- Amka
- AngloAmerican
- ArcelorMittal
- ARM African Rainbow Minerals
- aspen
- ASTRAL
- bhpbilliton
- bp
- brandhouse
- British American Tobacco South Africa
- Colgate-Palmolive
- Consol
- DIAGEO
- DISTELL
- EASIGAS The power to do more
- ENGEN
- exxaro
- GLENCORE Xstrata
- gsk GlaxoSmithKline
- HUDSON & KNIGHT
- Johnson & Johnson
- LAFARGE bringing materials to life
- MASSMART Dedicated to Value
- McCain
- Mondelēz International
- Namibia Breweries Limited
- Nampak
- Nestlé
- OMNIA
- PG BISON
- PG GROUP
- P&G
- Pick n Pay
- PIONEER FOODS
- PPC
- RCL FOODS
- Reckitt Benckiser
- sappi
- sasol
- Senwes
- Shell
- Simba PEPSICO
- Sonae Novobord
- Tiger Brands
- Tongaat Hulett
- TOTAL
- W

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# LOGISTICS AFRICA


**REVENUE**
(including inter-segment revenue)

+22%
**R13.3** billion

**OPERATING PROFIT**

+23%
**R0.8** billion

Geographies: Three regional hubs – SADC, East Africa, West Africa

South Africa

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- ±1 million m² of warehousing
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> Value proposition: lower total costs & reliability for clients

Sub-Saharan Africa

> Market: 950 m emerging consumers

> Industry structure: Underdeveloped infrastructure & routes to market for principals

> Strategy: “Land Grab” for footprint & scale; Increase principals & throughput; Consolidate

> Value proposition: “Get me there; Sell my product; Establish my brand” focused distributorships for FMCG & pharma principals in 10 countries

# IMPERIAL LOGISTICS AFRICA

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## West Africa

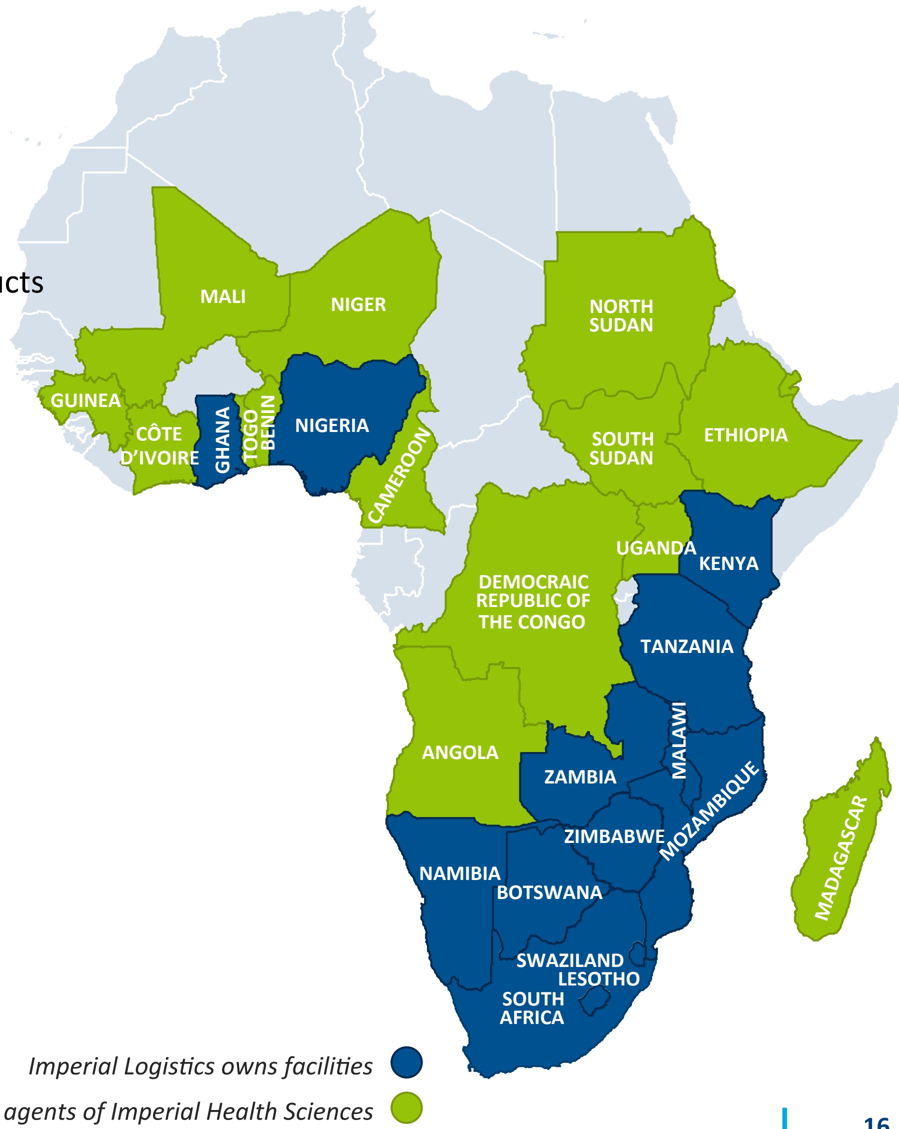
- > Imperial Health Sciences – pharma logistics, supply chain management, warehousing
- > MDS Logistics – transport, distribution, warehousing (FMCG, pharma, telecoms)
- > Eco Health – distribution, sales, marketing of pharma products
- > Imres – a wholesaler of pharmaceutical & medical supplies

## East Africa

- > Imperial Health Sciences – warehousing & distribution in health & pharma (facilities being expanded in Nairobi)
- > Tanzania & Malawi – FMCG distribution, sales & marketing
- > Imres – a wholesaler of pharmaceutical & medical supplies

## Southern Africa

- > FMCG distribution, sales & marketing
- > Further expansion of facilities
- > Transport operations – cross border, load consolidation, warehouse management, cross border documentation
- > Key corridors across SADC
- > Imres – a wholesaler of pharmaceutical & medical supplies



# ACQUISITIONS

## Acquisition criteria

> Preferably asset light logistics

> Earnings accretive

> Target ROIC = WACC in first year; WACC + 4% (risk adjusted) in medium to long term

## Acquisitions in H1 2015

> R797m invested to control two pharmaceutical wholesaling & distribution companies, consistent with Imperial's strategic & financial investment criteria

> Pharmed – 9 July 2014

> Imres – 1 September 2014

# PHARMED ACQUISITION

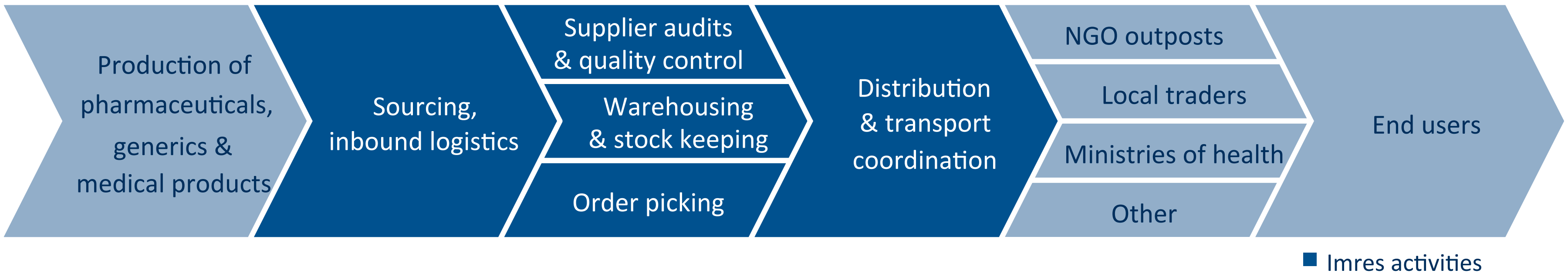

## OVERVIEW

- > Acquired on 9 July 2014
- > Purchase price – R148m for 62.5% shareholding
- > Durban & Johannesburg based wholesaler of pharmaceuticals
- > Warehouses, distributes & sells to hospitals, private pharmacies & dispensing doctors
- > Annual turnover ~R600m

## RATIONAL

- > Strategically consistent
- > Integrates pharmaceutical wholesaling & distribution into Imperial's logistics business offering
- > Mutually advantageous synergies between Pharmed & Imperial's existing network, capabilities and customer base in South Africa

# IMRES ACQUISITION




## OVERVIEW

> Acquired on 1 September 2014

> Purchase price – R649m (€46m) for 70% shareholding

> Netherlands based (Lelystad) wholesaler of broad range medical supplies (generic pharmaceuticals, medical kits, hospital equipment & related medical products)

> Diversified client base in international medical relief industry, targeting mainly African & emerging countries

> Annual turnover ~R700m (€50m)

## RATIONAL

> Strategically consistent

> Adds sourcing and procurement capabilities to Imperial's service offering

> Complements recent acquisitions of Imperial Health Sciences, Eco Health & MDS

> Potential to leverage off Imperial's existing network, capabilities & customer base on the African continent

# GROWTH TREND **LOGISTICS AFRICA EX RSA**

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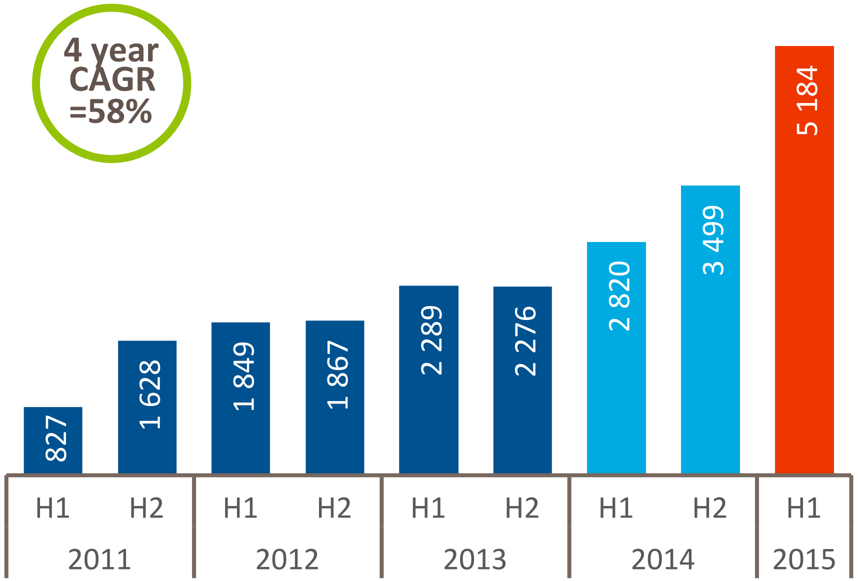
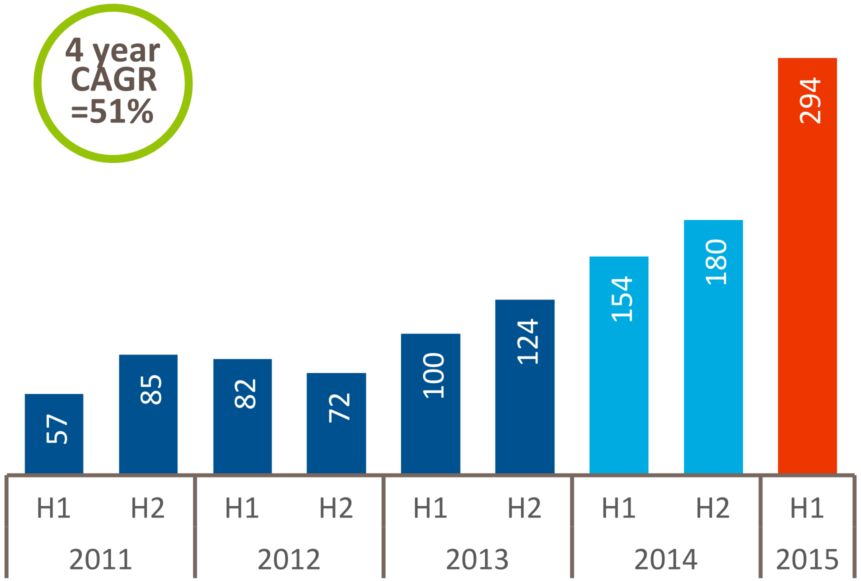
## Revenue
(Rm)



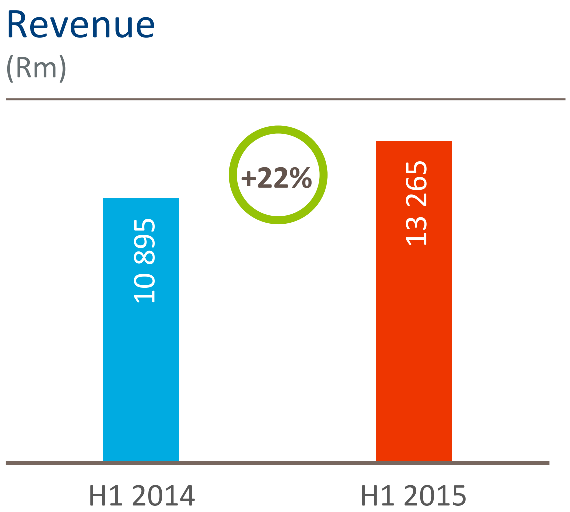

## Operating profit
(Rm)

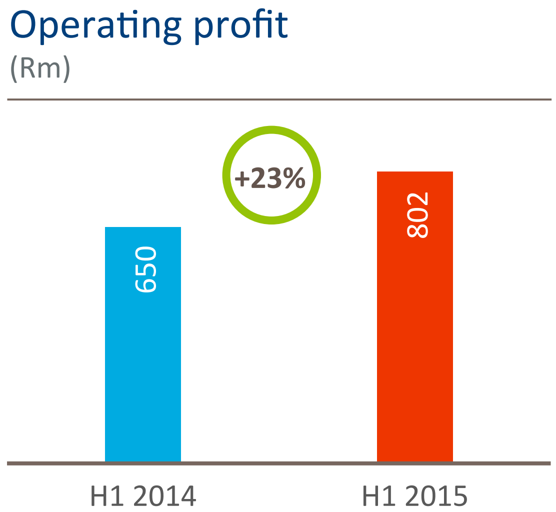


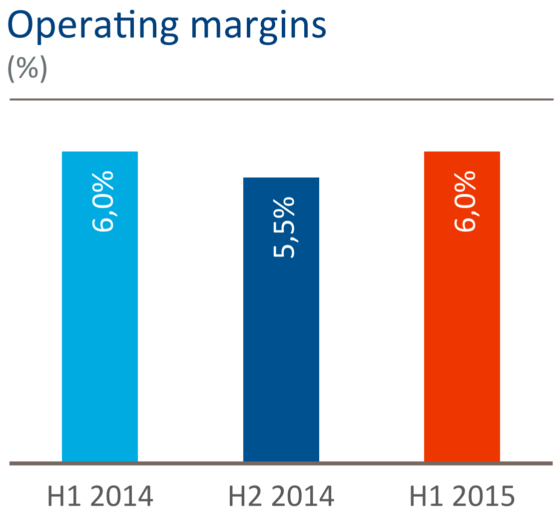

> Turnover & operating profit grew by 84% & 91% on H1 2014 respectively, mainly due to the acquisitions of Ecohealth & Imres (not included in H1 2014)

> Contributed 37% to Logistics Africa operating profit (10% of Group)

# 2015 **LOGISTICS AFRICA**



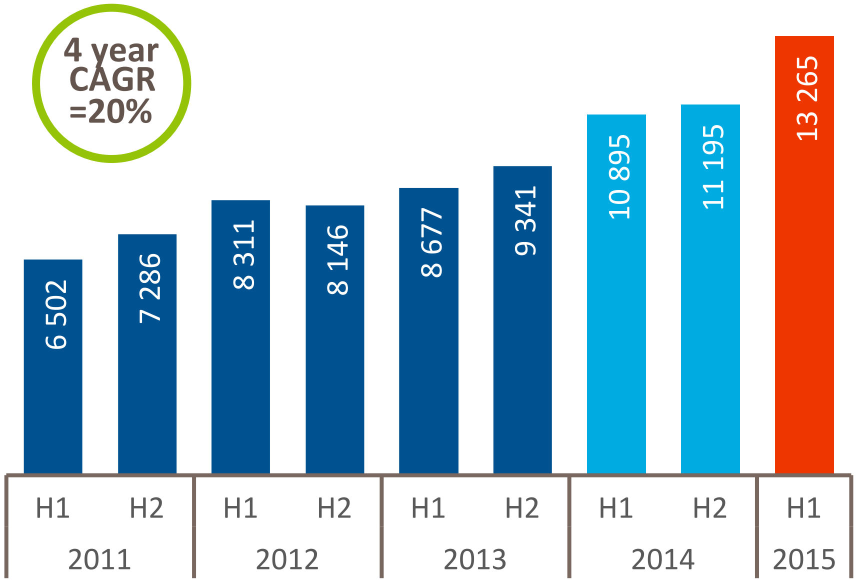



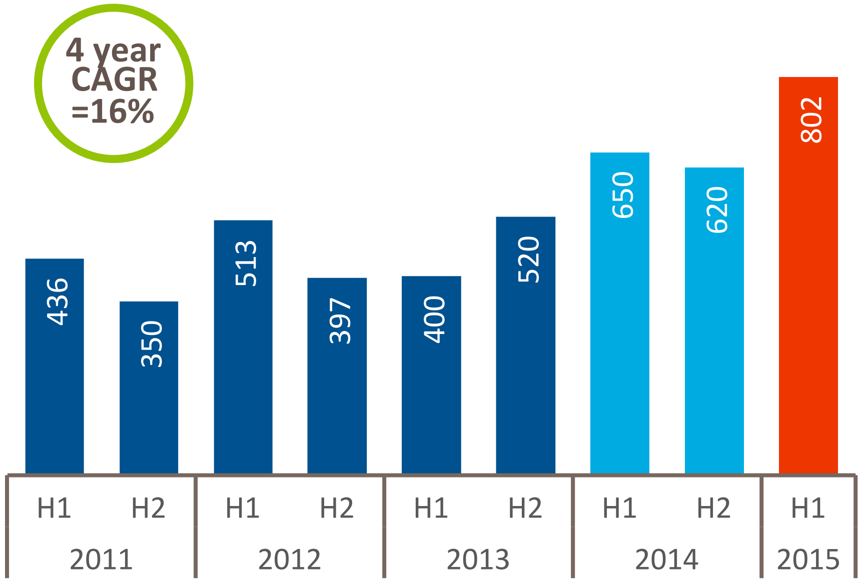

- Delivered strong revenue & operating profit growth in difficult environment
- Subdued & declining volumes in most sectors served in South Africa but more positive trends in the rest of Africa
- Recent acquisitions & contract gains contributed to revenue growth
- Tight expense & asset management & Imperial Cold Logistics turnaround contributed to operating profit growth
- Revenue & operating margins from industrial logistics businesses (mining & Eskom) under pressure
- **Guidance: real growth of revenues with operating profit growing at a higher rate for FY 2015**

# GROWTH TREND **LOGISTICS AFRICA**

Revenue
(Rm)




Operating profit
(Rm)




**Key organic & acquisitive growth vector for Imperial**
**– conscious of obligation to achieve risk adjusted returns**

## LOGISTICS INTERNATIONAL

Europe: (mainly Germany): Netherlands, Sweden, Luxemburg, Belgium, Poland, Austria, USA, significant contract in South America


| REVENUE (including inter-segment revenue) | OPERATING PROFIT |
| --- | --- |
| +5% **R9.6** billion | -6% **R0.4** billion |

> Market: €650bn in Imperial International sectors (IPL ranked 8th)

> Industry structure: Highly developed infrastructure; fragmented, process & technology driven clients & competition

> Strategy: Extend logistics expertise in automotive, steel, aluminium, paper & chemicals to other industries

> Value proposition: "One Face Logistics Solutions" for leading manufacturers through integrating current capabilities & following clients to new markets

> Assets:

- operate ~700 inland vessels (own 241 vessels)
- 2 million $m^2$ of storage capacity (including 20 hazardous goods warehouses)
- 100 million tonnes handled per year
- world class expertise in auto & chemical contract logistics
- established relationships with world leaders: Mercedes, BMW, Volkswagen, Bayer, BASF

# LOGISTICS INTERNATIONAL GEOGRAPHIES

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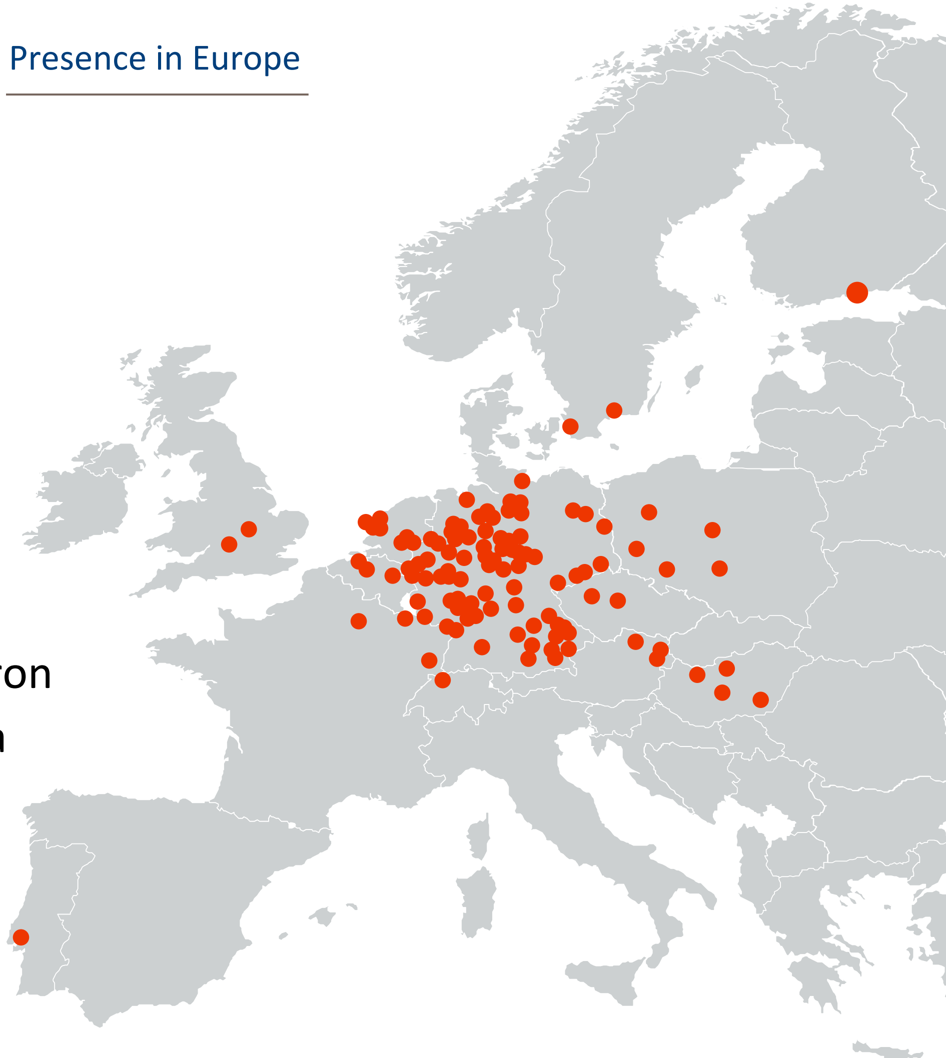
Presence in Europe



> Germany is the base

> Strategy to follow customers/products to new markets

> Recently entered the South American inland shipping market

- profitable 10 year contract
- 4 convoys (4 push boats and 48 barges) operating on Rio Parana, transporting iron ore from Brazil to steel mill in Argentina

# LOGISTICS INTERNATIONAL SUB-DIVISIONS

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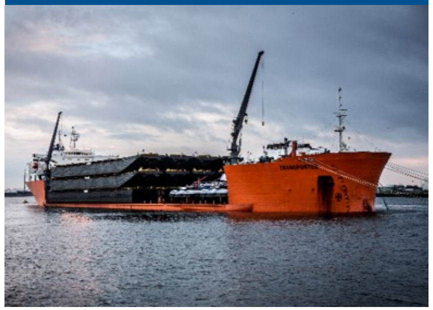
## INLAND SHIPPING



- > Leading inland shipping company in Europe
- > Transport iron ore, coal, gas, liquid bulk

## PANOPA

- > Contract Logistics
  - automotive
  - machinery & equipment
  - steel
  - logistics & services

## LEHNKERING


- > Logistics services & contract manufacturing (synthesis/ formulation) for the chemical industry

## NESKA

- > Leading player in inland terminal operations

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- > Ability to service complex niche areas of logistics, such as chemicals & automotive parts
- > Expertise & quality assets in inland shipping in Europe: platform to duplicate our offering in new markets in Eastern Europe & South America
- > Leading positions at critical chokepoints in German economic sectors (steel, chemicals, automotive, spare parts & paper)

# 2015 **LOGISTICS INTERNATIONAL** (EURO)

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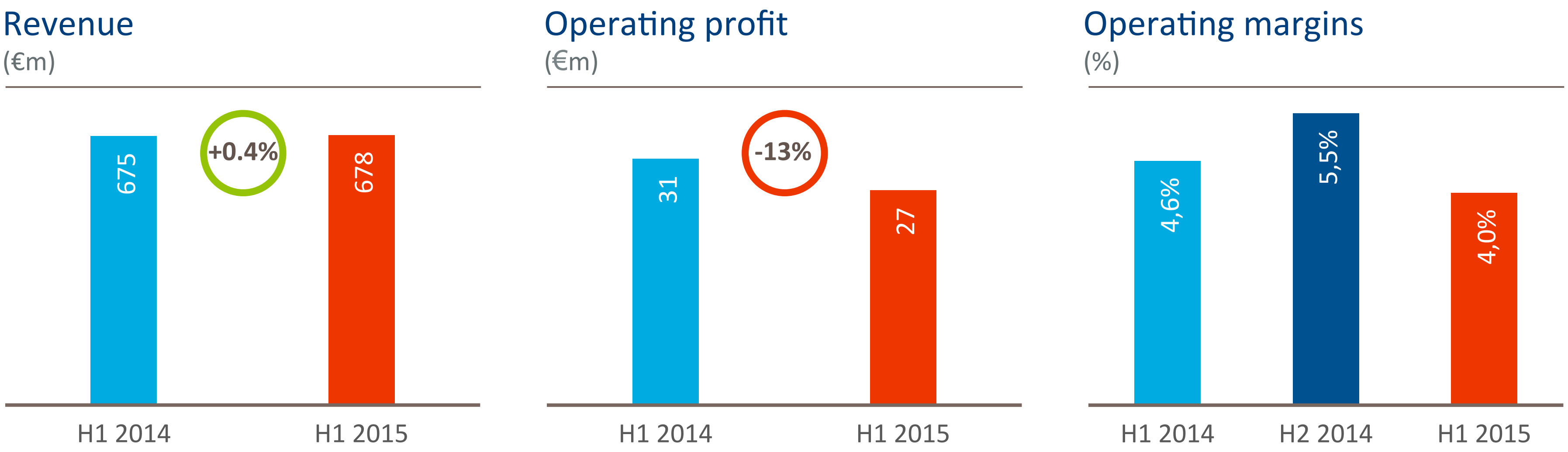


> Profitability declined with muted activity levels in most sectors of European logistics

> German inland shipping volumes declined & freight rates under pressure

> Imperial's shipping business performed satisfactorily

> Lehnkering's performance negatively impacted by adverse weather conditions & lower volumes

> Neska had a poor six months - volumes at terminals (paper & steel) declined; container terminal in Krefeld remained underutilised

> Panopa's margins declined due to high start up costs & operational inefficiencies on new project

> South American inland shipping business in line with expectations

# 2015 **LOGISTICS INTERNATIONAL** (ZAR)

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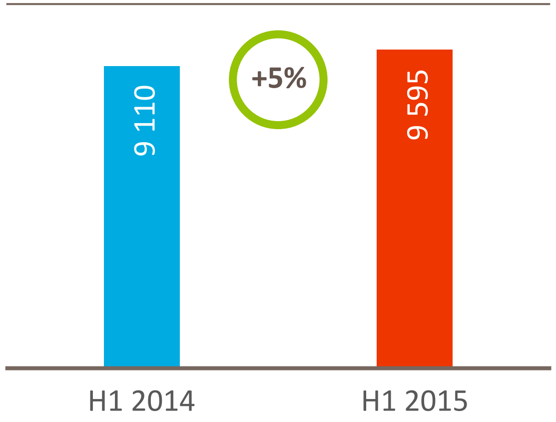
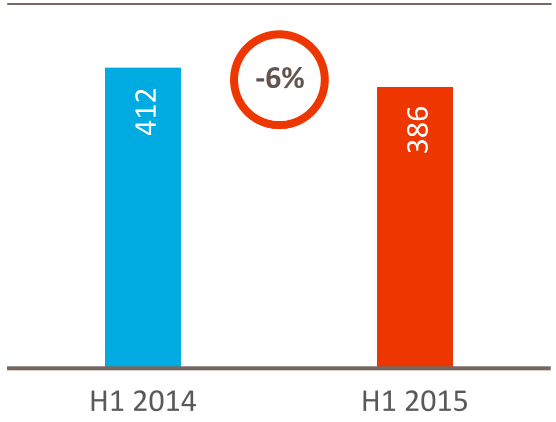
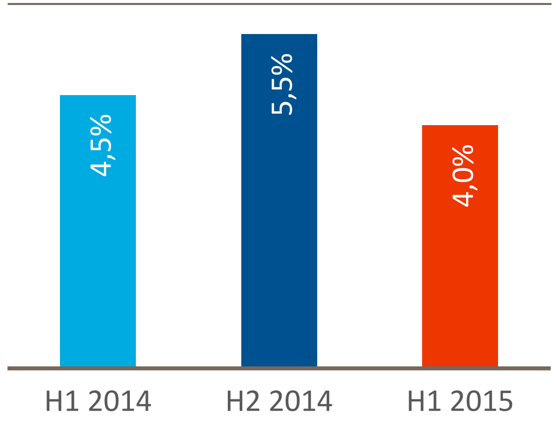
## Revenue
(Rm)




## Operating profit
(Rm)




## Operating margins
(%)




> Translation effect of average weaker Rand to Euro assisted growth in Rands

> 2015 six months average R/€: 14.15 vs 2014 six months average R/€: 13.50

> Effective currency & diversification hedge in group portfolio

> Capital expenditure of R614m (R309m for two further convoys in South America)

> Carsten Taucke appointed CEO on 1st January 2015

> **Guidance: we expect real growth of revenues for FY 2015, with operating profit in line with 2014**

# GROWTH TREND **LOGISTICS INTERNATIONAL**

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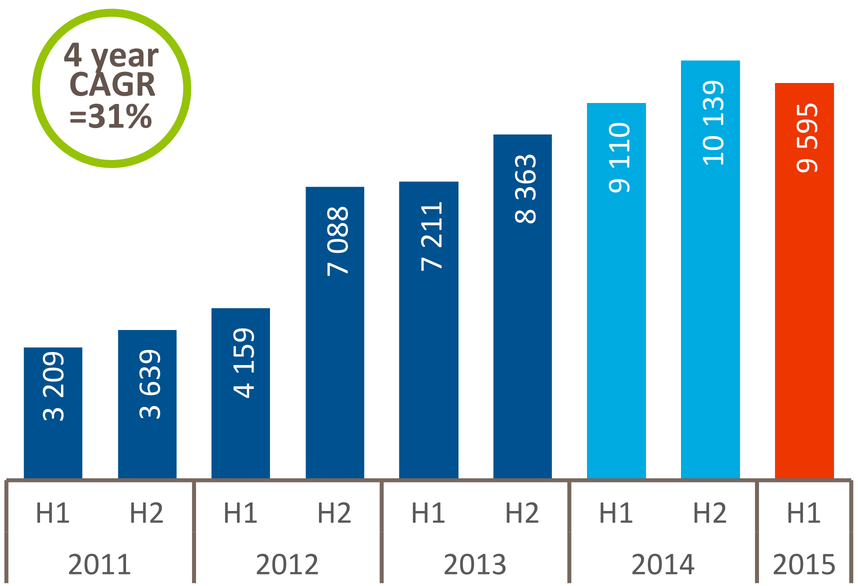
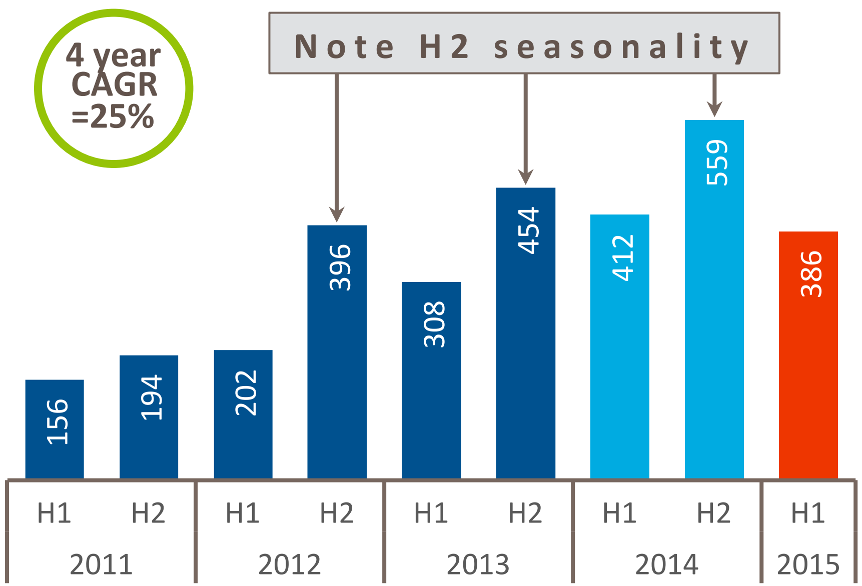
## Revenue
(Rm)




## Operating profit
(Rm)




> Strengthen position in current niches

> Follow customer in new markets

> Fund new areas of growth (industry diversification)

> Target selected acquisitions

# IMPERIAL LOGISTICS (AFRICA & INT.)

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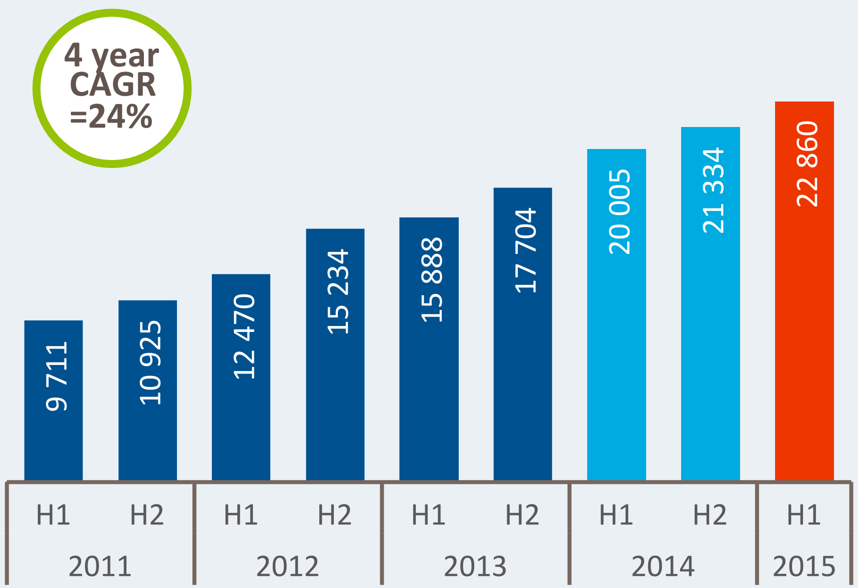
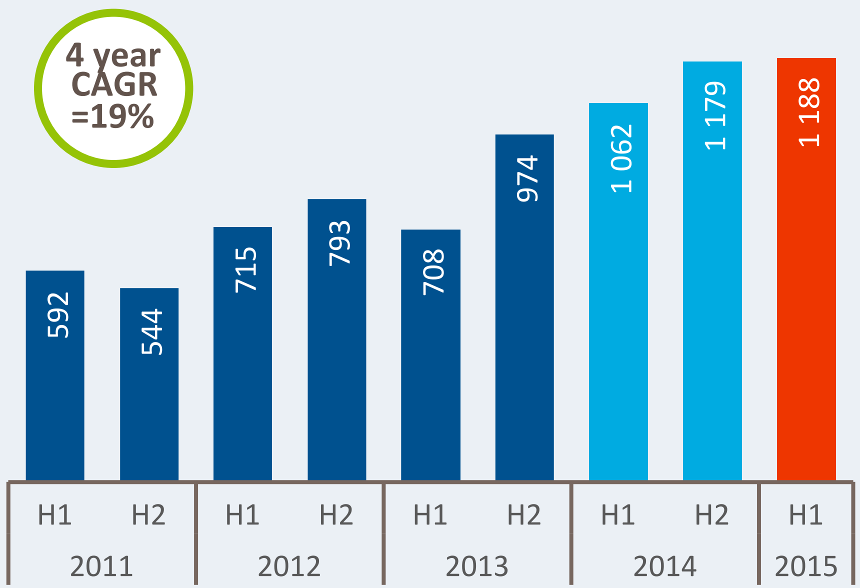
Revenue
(Rm)




Operating profit
(Rm)




> Solid revenue & operating profit growth trend

> Comprised R22.9bn (39%) of Group revenue for the period

> Comprised R1.2bn (40%) of Group operating profit for the period

> Increasingly focussed strategies for organic & acquisitive growth

> Main target for disciplined capital allocation

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# VEHICLE IMPORT, DISTRIBUTION & DEALERSHIPS




| REVENUE (including inter-segment revenue) | OPERATING PROFIT |
|---|---|
| +7% **R14.0** billion | -51% **R0.5** billion |

- Market: South African new passenger & commercial vehicles; tracks economic & consumption growth; 4% up in 2014; estimated ~600k vehicles in 2015
- Industry structure: dominated by multi national original equipment manufacturers & manufacturer controlled distributors who franchise dealership networks; direct imported brands represent ~15% of passenger vehicle market in SA
- Strategy: increase sustainable market share & car parc of major brands through dedicated and multi-franchise customer focussed dealerships; capture revenue & margin across entire motor value chain (import, after-sales service, parts & financial services)
- Value proposition: distribution capability for international manufacturers; alternative vehicle brands for South African market
- Assets: exclusive importer of 16 automotive & industrial vehicle brands (including Hyundai, Kia, Renault, Mitsubishi & Crown forklifts); distributes through 126 owned & 113 franchised dealerships

# VEHICLE IMPORT, DISTRIBUTION & DEALERSHIPS

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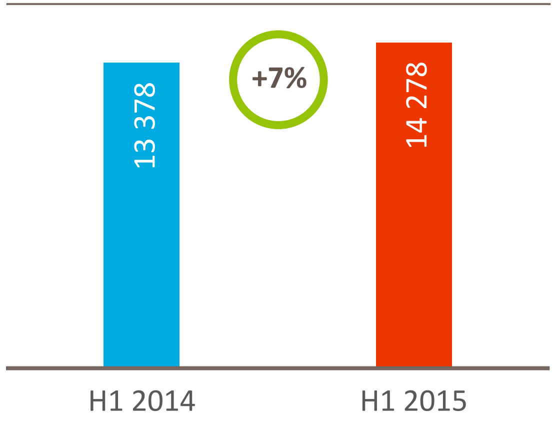
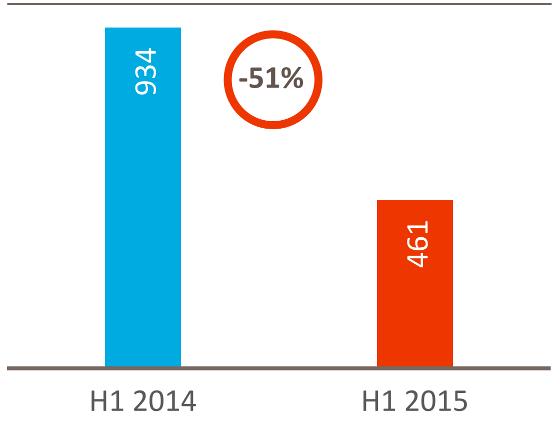
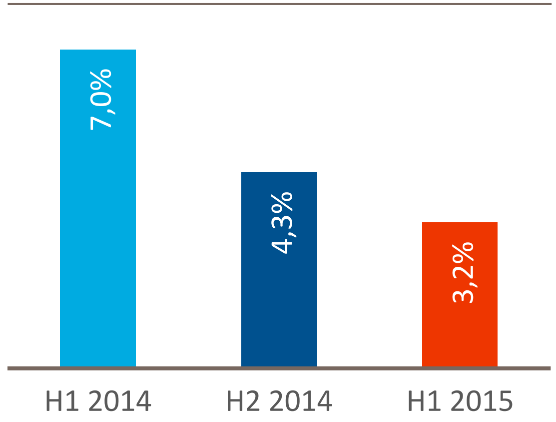
## Revenue
(Rm)




## Operating profit (excl. F/S)
(Rm)




## Operating margins (excl. F/S)
(%)



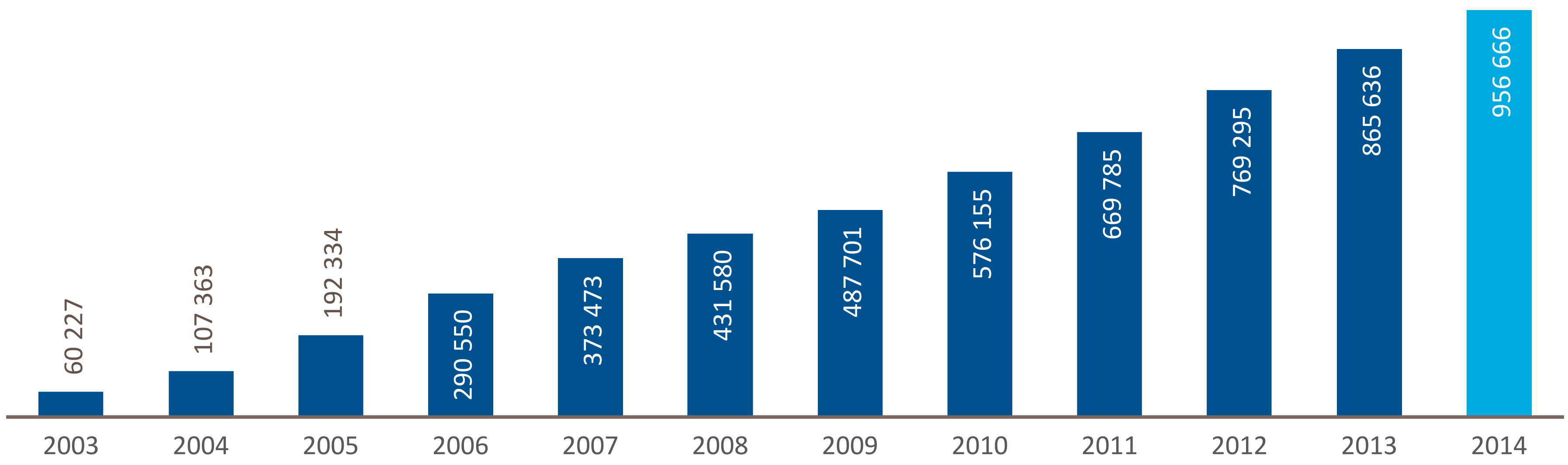

> Revenue growth mainly attributable to Renault (only included for 1 month in comparable period)

> Operating profit & margins halved by:

- declining new vehicle unit sales (down 9% excluding Renault); competitive position eroded by ↓ R/$ impact on new vehicle landed costs & robust competition from OEM's (APDP)
- pressure on distribution margins & retail gross margins from; ↓ R/$ impact on new vehicle landed costs & margin compression to prevent excessive price increases
- increased interest & net realisable provision costs on higher inventories

> **Guidance: real growth of revenues for FY 2015, with operating profit well below 2014**

# CAR PARC OF IMPERIAL IMPORTED BRANDS




> Car parc doubled over past 5 years

> Provides an underpin to earnings

> H1 2015 benefits of growing car parc – good growth in annuity revenue streams from after-sales parts & services

- Rendering of services revenue up 16%
- Parts revenue increased 12%

*Note: Includes Hyundai, Kia, Daihatsu, Chery, Foton, Mitsubishi, Renault and Tata – PC and LCV*

# IMPERIAL IMPORTS VS COMPETITORS

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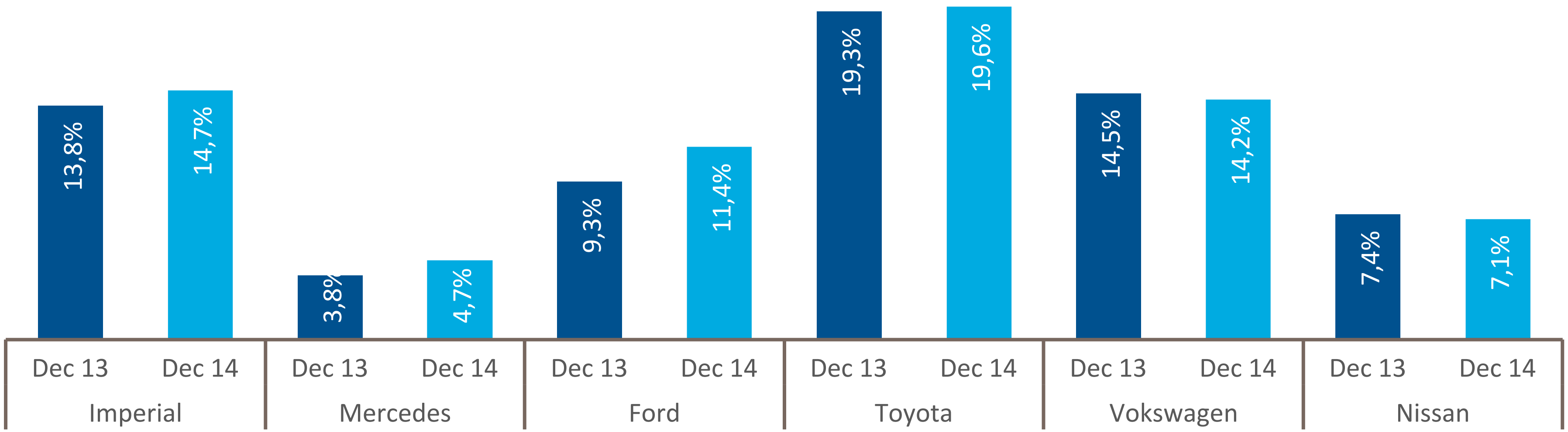
## Market share*
(%)



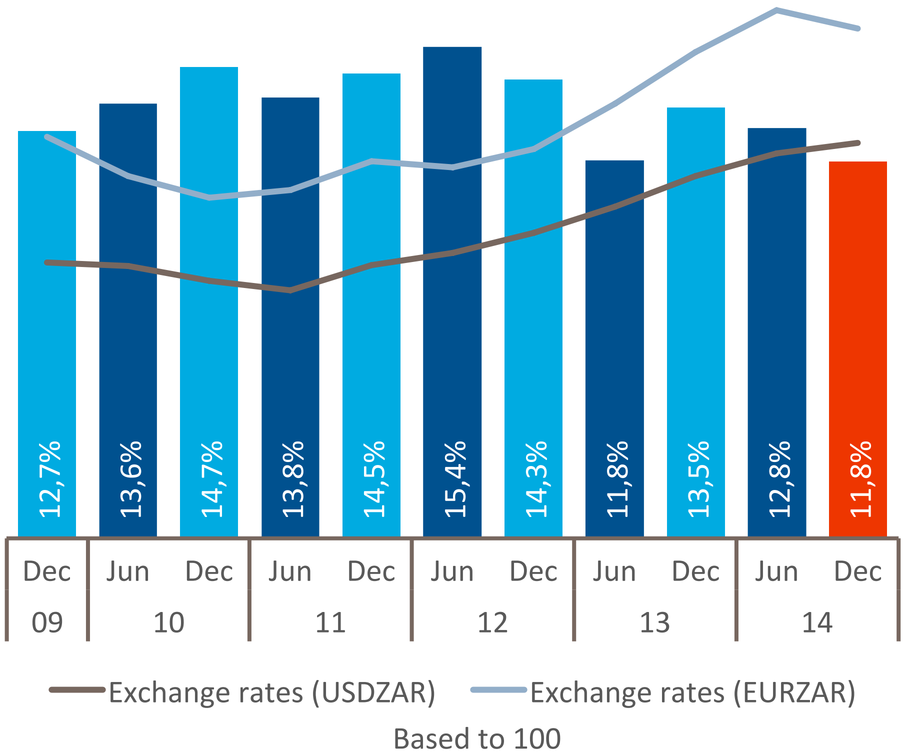

> Imperial's market share increased ~1% compared to the comparable period

> Imperial now holds the second largest market share

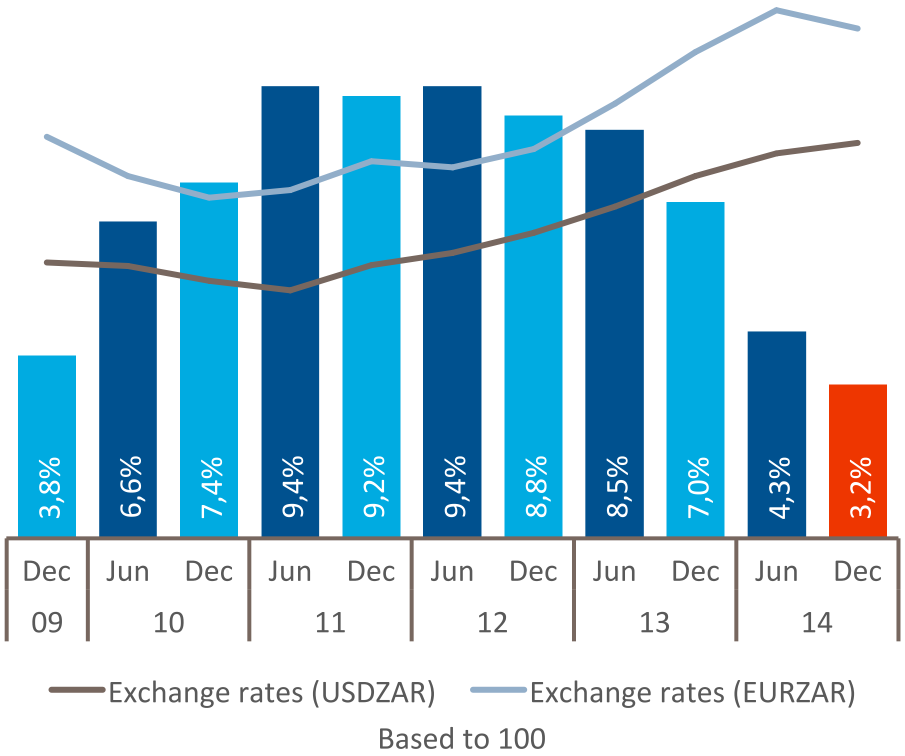
** Includes Renault*

# CURRENCY, MARKET SHARE & OPERATING MARGINS

## Market share*
(%)




## Operating margin**
(%)




> There has been significant currency depreciation since May 2012

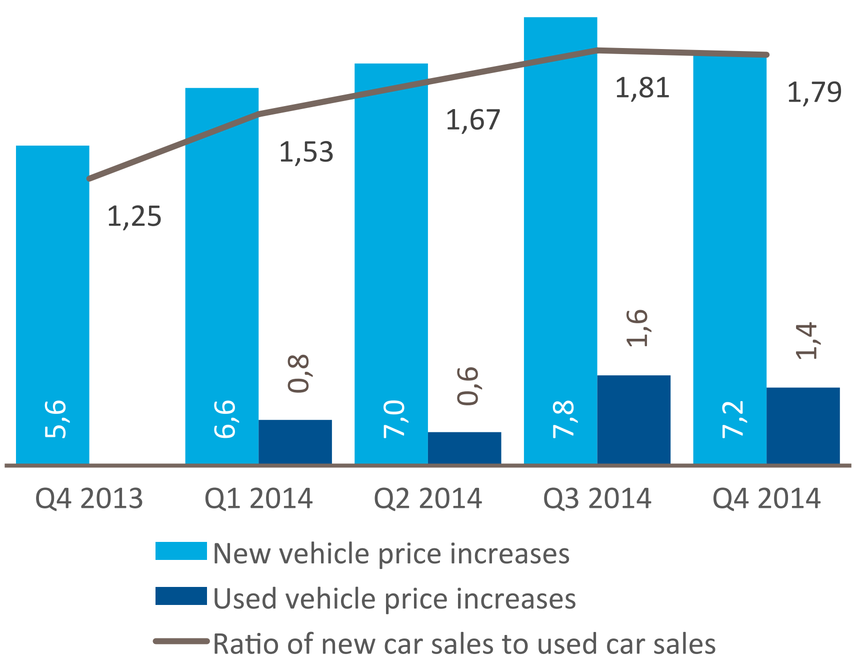
> Operating margin has been adversely impacted by currency depreciation since June 2012

> Market share has remained below the highs of June 2012

** Excludes Renault ** Excludes financial services*

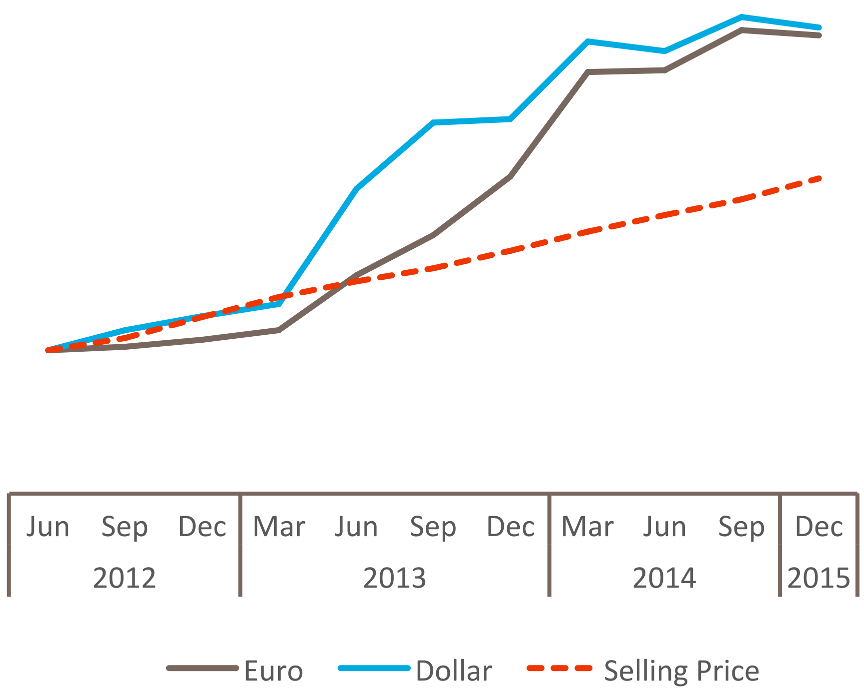
# SOUTH AFRICAN NEW VEHICLE PRICES

## Vehicle price increases (yoy growth) New & Pre owned
(%)




*Source: Econometrix*

## Exchange rate impact on imported brands
(%)



# CONTEXTUALISING DIVISION'S PERFORMANCE

IMPERIAL™

> Hyundai / Kia worldwide established on disruptive entry level pricing

> Hyundai / Kia grown off a low base in RSA

> Beneficiary of "democracy dividend": rapid growth of Black middle class; expansion of government employment; above inflation wage increases; NCA fuelled credit extension

> Beneficiary of relatively stable R/$ exchange rate & low forward cover costs

- For 9 years (March 2003 to May 2012) apart from a sharp spike from September 2008 to May 2009, the R/$ exchange rate was below R8.00
- For 2 years from May 2009 to June 2011 it strengthened from R8.00 to R6.76

> Korean product has consistently improved quality reducing relative price differentials

> Since May 2012 R/$ exchange rate has deteriorated 40%

> OEM's can mitigate currency movements with duty & manufacturing incentives (the Automotive Production and Development Programme (APDP) replaced the Motor Industry Development Programme (MIDP) on January 1st 2013) & "hard" foreign currency income via exports

> AMH has traded wisely & innovated continually (multi franchise dealerships; Liquid Capital; property ownership, SKD) building an impressive business & car parc

## Motor Vehicle Environment

> Slower global growth

> Recovering but subdued consumer confidence & expenditure in RSA

> National motor vehicle sales negative or very low growth for at least 2-3 years

> Consumers trading down

> Limited growth of dealerships

> Competitiveness & profitability of distributors of directly imported vehicles remains vulnerable to Rand weakness

## Conclusions

> Expected operating margins in future likely to be closer to those of the current financial year than to the average of the past five financial years

> Profits will decline in periods when the Rand depreciation rate relative to the currencies in which we import vehicles is higher than the rate of South African new vehicle inflation

# VEHICLE RETAIL, RENTAL & AFTERMARKET PARTS


| REVENUE (including inter-segment revenue) | OPERATING PROFIT |
|---|---|
| ↑ +7% **R19** billion | ↑ +7% **R0.8** billion |

- Markets: South African new passenger & commercial vehicles; tracks economic & consumption growth; 4% up in 2014; estimated ~600k vehicles in 2015 / Car rental mature, highly competitive & price sensitive / Aftermarket Parts industry mature but stable, based on ~11 million vehicles in the vehicle parc
- Industry structures: New vehicle industry dominated by multi national OEM & manufacturer controlled distributors who franchise dealership networks / Car rental dominated by local franchises of major international brands / Aftermarket parts franchise model evolving from 3 tier to 2 tier
- Strategy: Position vehicle businesses as "Dealers of Choice" for OEM's & providers of service excellence for clients / position all other businesses as market & value leaders
- Value proposition: Distribution capability for local OEM's & franchisors

# DIVISIONS MAJOR ASSETS

IMPERIAL

## VEHICLE RETAIL

> 86 passenger vehicle dealerships - 16 locally based OEMs
> Extensive dealer footprint owning 85% of properties
> 20 commercial vehicle dealerships & workshops - 12 brands in SA
> 55 truck & van dealerships & workshops in the United Kingdom
> Beekman canopies
> Jurgens caravans

## RENTAL

> Car Rental (Europcar & Tempest)
> 65 dedicated Pre-owned retail outlets (Auto Pedigree)
> Panelshops

## AFTERMARKET PARTS

> Distributor, wholesaler & retailer through approximately 450 owned & franchised stores
> Midas, Alert Engine Parts & Turbo Exchange
> Focus on parts & accessories for vehicles between five & ten years old

IMPERIAL

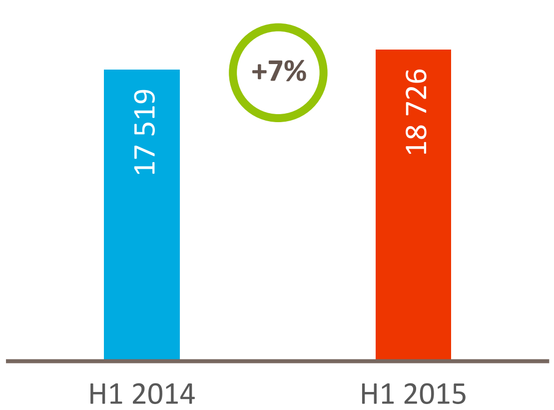
## S&B Commercials


- > Acquired 1 September 2014
- > Purchase price – R167m (£9m) for 100% shareholding
- > UK based commercial vehicle dealership
- > Specialises in Mercedes Benz (Commercial and Van) & Fuso
- > Further diversifies Imperial's brand representation & extends its geographic footprint in United Kingdom
- > Annual turnover of ~R2.1bn (£115m)

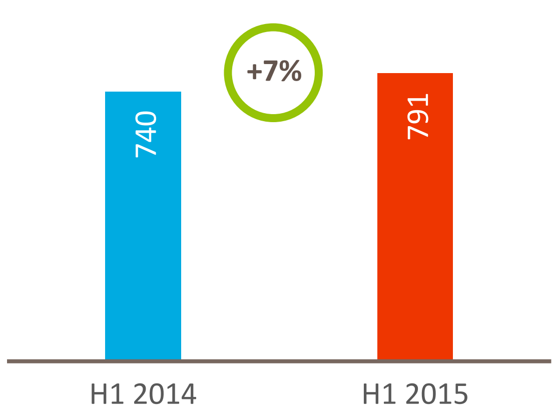
# VEHICLE RETAIL, RENTAL & AFTERMARKET PARTS

IMPERIAL

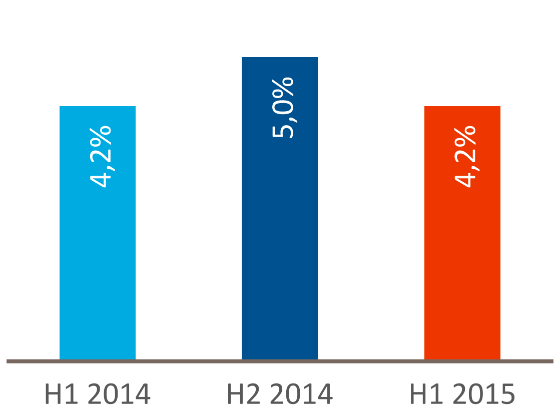
Revenue
(Rm)




Operating profit
(Rm)




Operating margins
(%)




- Good growth of revenue & operating margin despite subdued passenger vehicle volumes
- Commercial vehicles: RSA sales & operating profit declined; good growth continues in the UK, supported by the recent acquisition of S&B Commercials
- After sales parts & services revenue growth of 14% (9% ex UK)
- Pre-owned vehicle sales grew moderately
- Operating margins in car rental declined due to lower revenue, reduced fleet size & utilisation
- Aftermarket Parts performed in line with comparable period in competitive & mature market
- **Guidance: real growth of revenue and operating profit for FY 2015**

# IMPERIAL GROUP REVENUE CAPTURE

IMPERIAL

### 6. Pre Owned vehicle sales

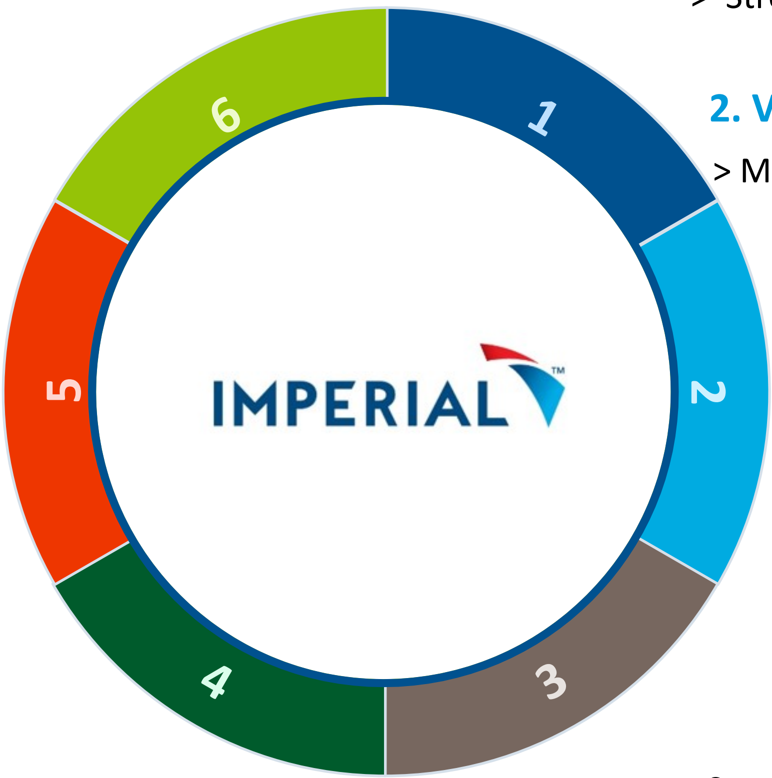
> ±70 000 units p.a.

### 5. Aftermarket Parts

> Parts, oils & accessories for vehicles outside maintenance & warranty plans

### 4. Car rental

> Purchase vehicles from the Group & local OEMs
> Rental of vehicles
> Dispose of vehicles through group outlets (65 Auto Pedigree outlets)




### 1. Vehicle import & distribution

> Represent 16 exclusive Automotive & Industrial brands
> Strong after sales & service capability

### 2. Vehicle retail

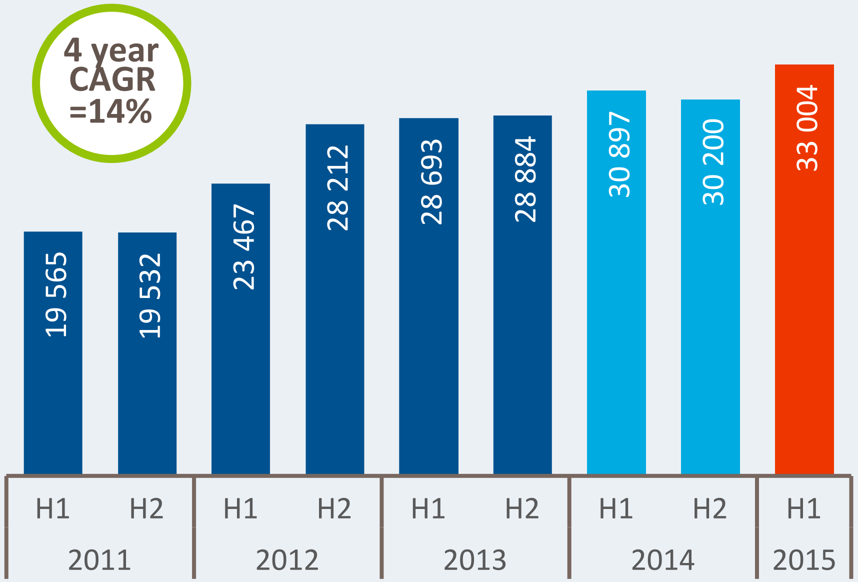
> Most major local & imported brands
> Extensive dealer network (239 new vehicle dealerships)
> Sell 1 in 5 new vehicles in SA
> Commercial dealerships
> POS for financial services

### 3. Vehicle maintenance

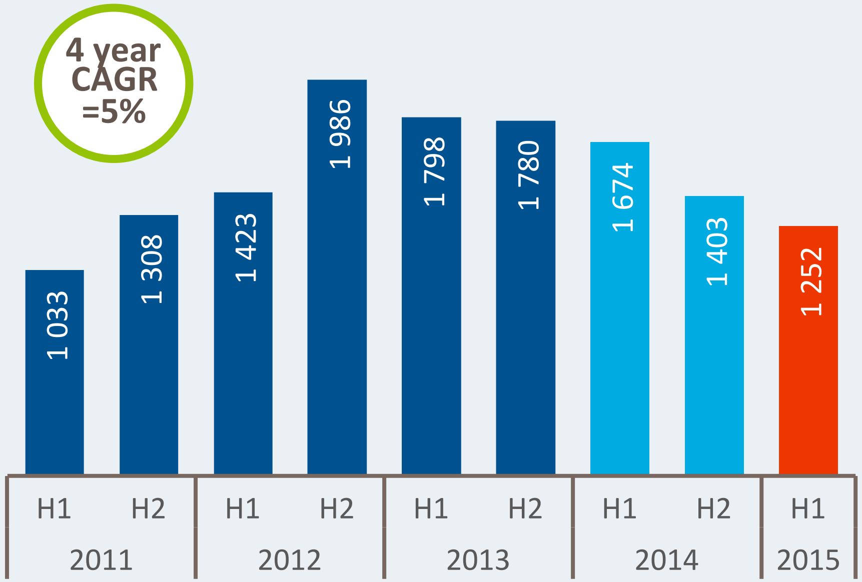
> Growth in car parc
> Annuity income
> Service & maintenance at dealerships
> Parts

# GROWTH **IMPERIAL GROUP** VEHICLES

## Revenue
(Rm)




## Operating profit
(Rm)




> Represents 43% of group operating profit

> Number of vehicles sold (benefitted by acquisitions)

- New
  - Passenger: 65 475 (+6%)
  - Commercial: 4 773 (+1%)
- Pre-owned
  - Passenger: 36 435 (+2%)
  - Commercial: 801 (+61%)

IMPERIAL™

## FINANCIAL SERVICES

REVENUE

↑ +6%

**R2.2** billion

OPERATING PROFIT

↓ -6%

**R0.5** billion

> Market: dominated by major banks & insurers

> Industry structure: highly regulated mainly very large participants

> Strategy: build on Imperial's capabilities in vehicle distribution & retail through Liquid Capital (unregulated products) & Regent (regulated products) providing specialised & cost-effective motor related financial services & products (insurance, finance & FML through banking alliances, service & maintenance plans & warranties)

> Value proposition: centred on responsive engagement at all stages of the vehicle lifecycle through Imperial & independent dealerships, banks, direct sales & niche intermediaries

> Assets: access to Imperial's distribution & vehicle expertise; joint ventures with leading banks & other motor groups; expertise in vehicle related finance, VAPS & insurance

## Regent

> Short term Insurance underwriting profit +20%
  - improved motor underwriting against the comparable period
  - focussing on core markets and distribution channels

> Regent Life performed as expected; underwriting up 7%

> Lower investment returns – equity markets less favourable

> Rest of Africa continues to contribute meaningfully

## Motor Related Financial Services

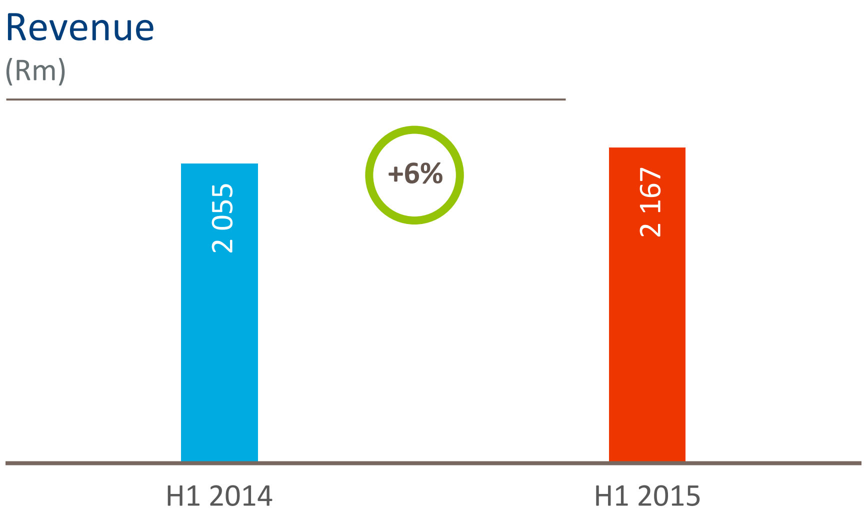
> Liquid Capital grew operating profit by 9%

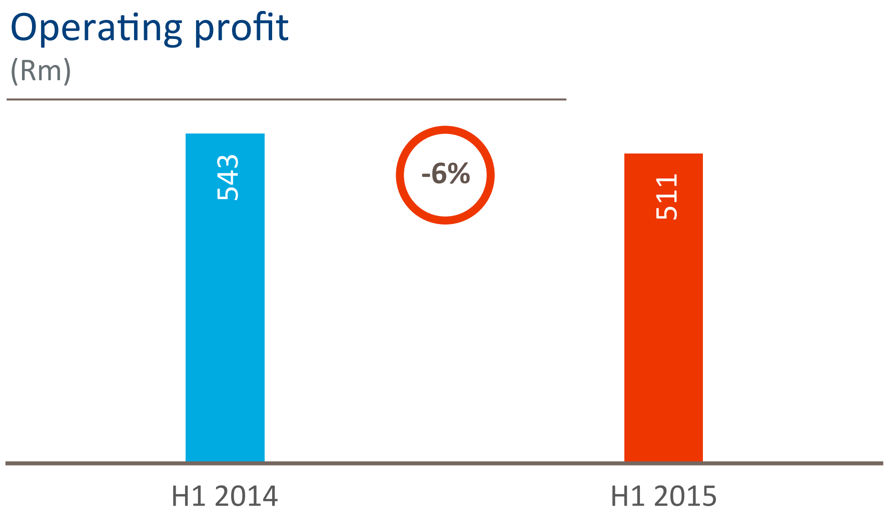
> Finance alliances continue to grow; more conservative impairment provisions

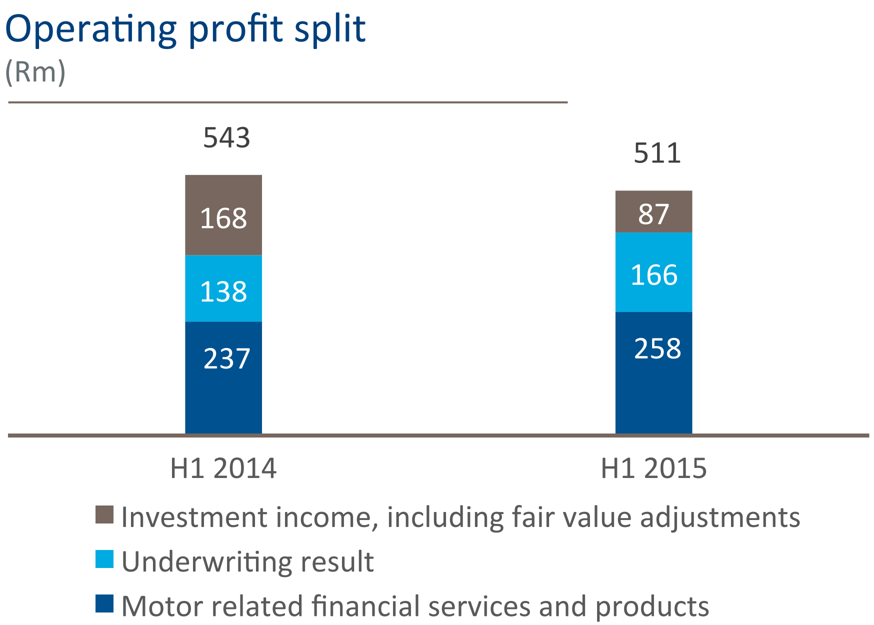
> Good growth in funds held under service, maintenance plans, warranties & roadside assistance

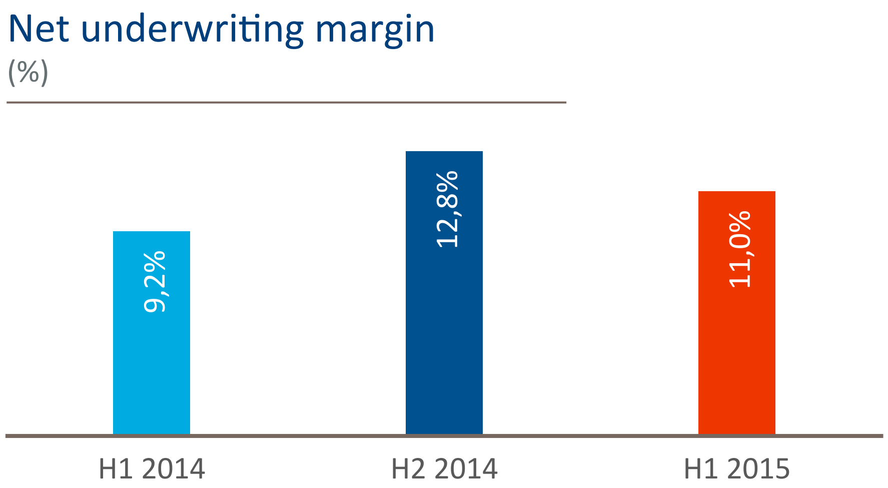
> Volumes in Imperial Fleet Management continue to grow with new contract gains (7 000 vehicles under management)

# FINANCIAL SERVICES



# IMPERIAL'S APPROACH TO MOTOR RELATED FINANCIAL SERVICES

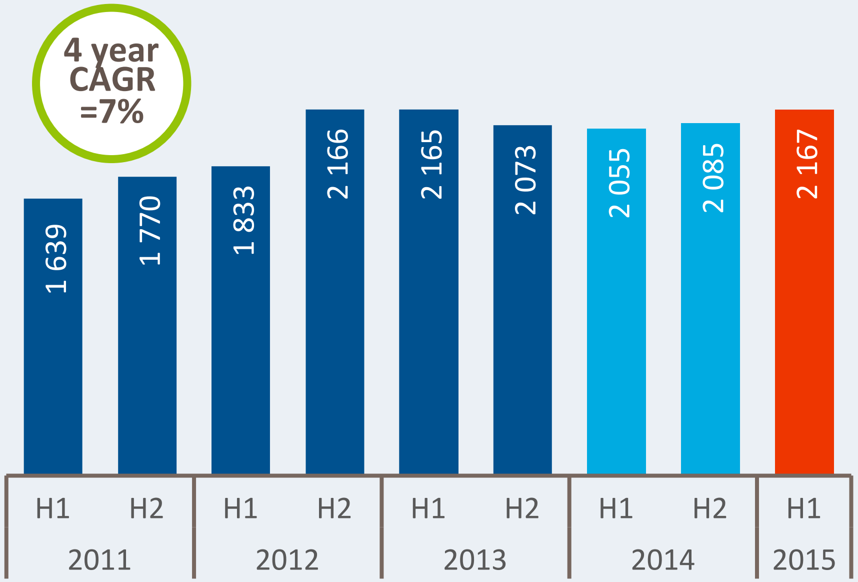

**Insurance & motor related financial products & services**

- Extensive retail network provides scale & points of sale for the group's financial services business
- Market intelligence & a basis from which to grow demand for existing products & services & develop new products

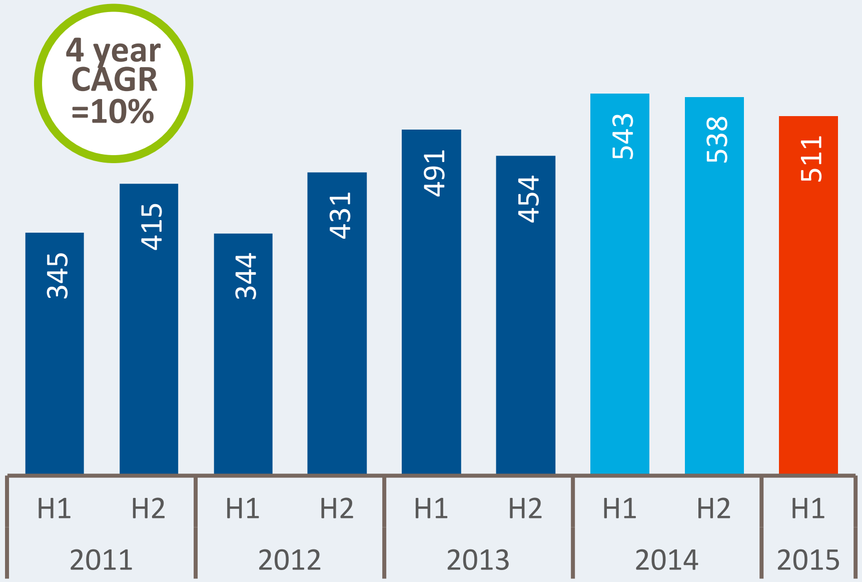
# GROWTH **IMPERIAL GROUP**
# FINANCIAL SERVICES

IMPERIAL

## Revenue
(Rm)




## Operating profit
(Rm)




> Positive growth trend in revenue & funds under management
> Annuity income
> Access to group's distribution platform
> Proven record of product & channel innovation & development
> **Guidance: single digit growth of revenue & operating profit for FY 2015**

# AGENDA

KEY FEATURES

CONTEXT

OPERATIONAL REVIEW

FINANCIAL REVIEW

STRATEGY

PROSPECTS

# INCOME STATEMENT

| | H1 2014 Rm | **H1 2015 Rm** | % change |
|---|---|---|---|
| Revenue | 51 357 | 56 234 | 9% |

## LOGISTICS +14%

new contract gains, strong growth in Rest of Africa, acquisitions & weak currency

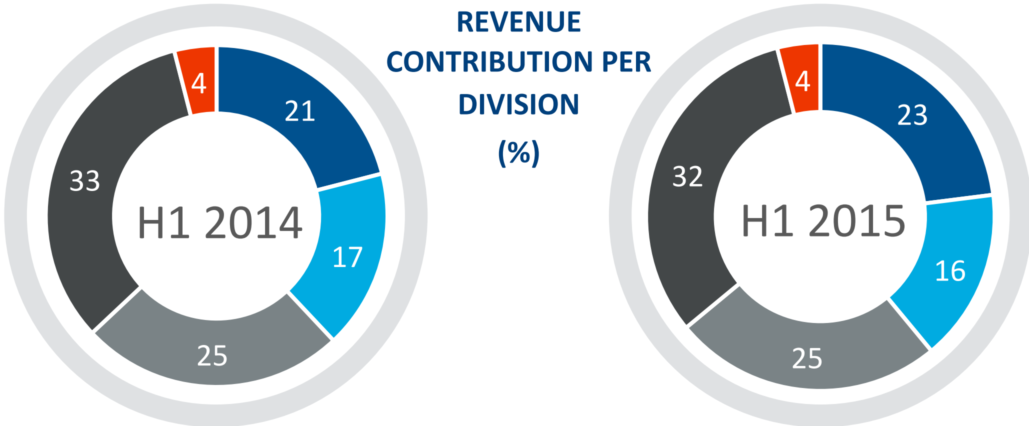
## VEHICLES +7%

price increases in new vehicles; growth in annuity revenues from parts & service activities & acquisitions

## FINANCIAL SERVICES +6%

flat vehicle sales & more conservative motor underwriting moderated growth

**REVENUE CONTRIBUTION PER DIVISION (%)**




| | H1 2014 % | **H1 2015 %** |
|---|---|---|
| LOGISTICS AFRICA | 21 | 23 |
| LOGISTICS INTERNATIONAL | 17 | 16 |
| VEHICLE IMPORT, DISTRIBUTION AND DEALERSHIPS | 25 | 25 |
| VEHICLE RETAIL, RENTAL AND AFTERMARKET PARTS | 33 | 32 |
| FINANCIAL SERVICES | 4 | 4 |

# INCOME STATEMENT

| | H1 2014 Rm | **H1 2015 Rm** | % change |
|---|---|---|---|
| Revenue | 51 357 | 56 234 | 9% |
| Operating profit | 3 166 | 2 872 | (9%) |
| Operating profit margin | 6.2% | 5.1% | |

## LOGISTICS +12%

contract gains, acquisitions & currency weakness

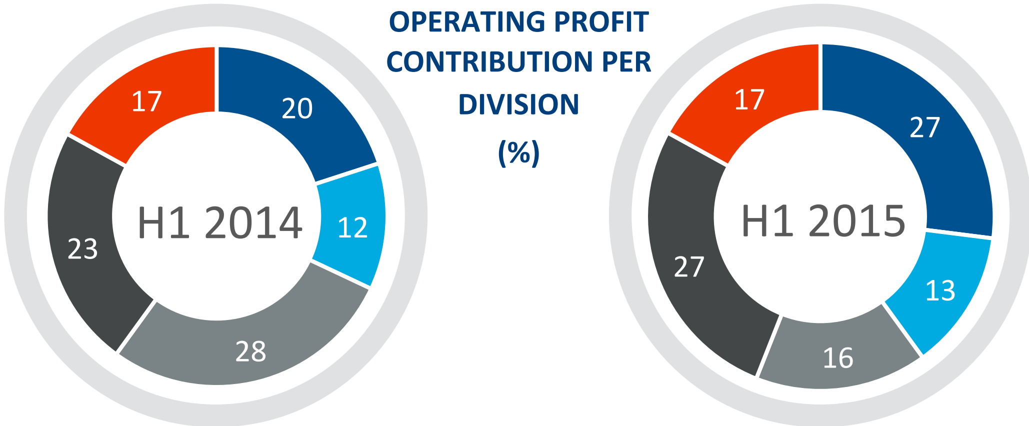
## VEHICLES -25%

impacted by currency in Vehicle Import, Distribution & Dealerships business, reduced volumes & margins

## FINANCIAL SERVICES -6%

weak investment performance caused by lower equity markets

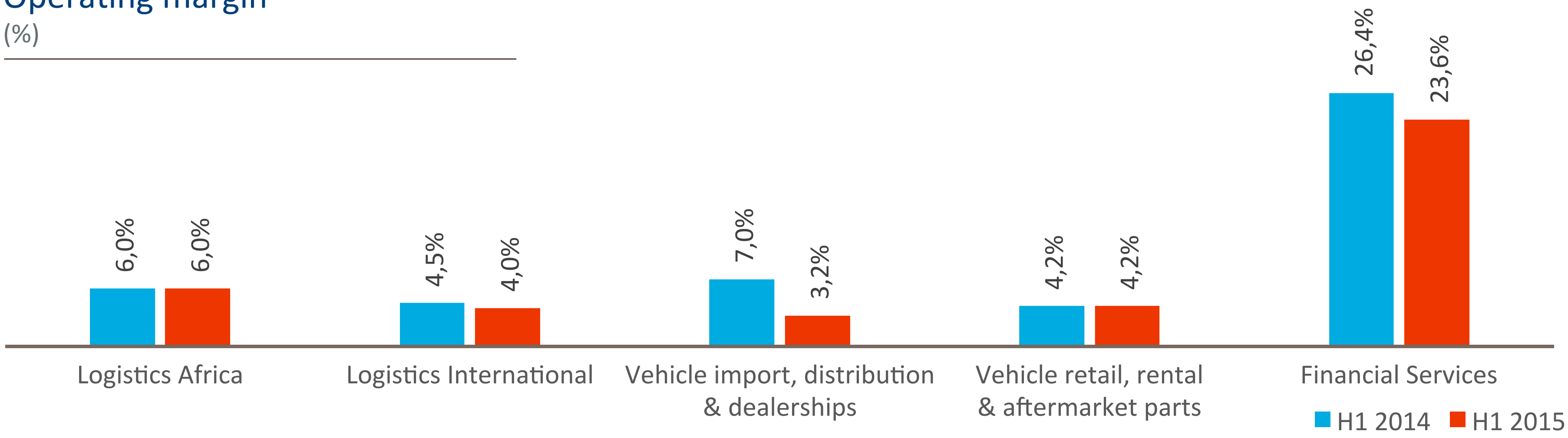
**OPERATING PROFIT CONTRIBUTION PER DIVISION (%)**



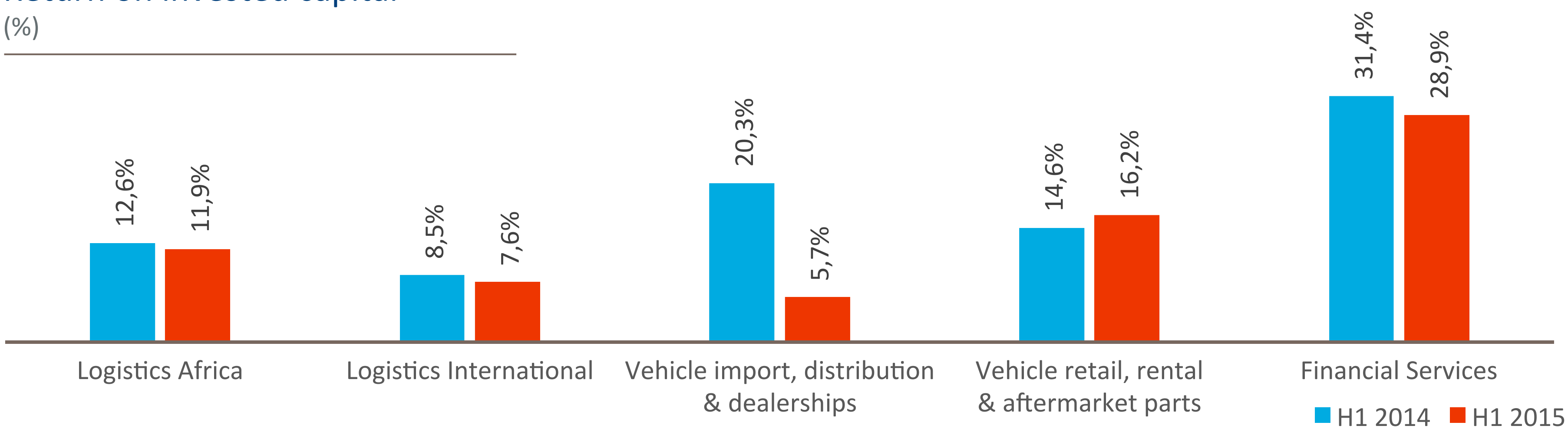

| | H1 2014 % | **H1 2015 %** |
|---|---|---|
| LOGISTICS AFRICA | 20 | 27 |
| LOGISTICS INTERNATIONAL | 12 | 13 |
| VEHICLE IMPORT, DISTRIBUTION AND DEALERSHIPS | 28 | 16 |
| VEHICLE RETAIL, RENTAL AND AFTERMARKET PARTS | 23 | 27 |
| FINANCIAL SERVICES | 17 | 17 |

# DIVISIONAL STATISTICS

## Operating margin
(%)




## Return on invested capital
(%)



# INCOME STATEMENT

| | H1 2014 Rm | **H1 2015 Rm** | % change |
|---|---|---|---|
| Revenue | 51 357 | 56 234 | 9% |
| Operating profit | 3 166 | 2 872 | (9%) |
| Recoupments from disposal of properties | 39 | 12 | |
| Amortisation of intangible assets | (147) | (205) | 39% |
| Foreign exchange (losses)/gains on foreign currency monetary items | (16) | 117 | |
| Loss on remeasurement of put option liability | - | (21) | |
| Charge for amending conversion profile of deferred ordinary shares | (70) | - | |
| Onerous contracts | (29) | - | |
| Exceptional items | 87 | (27) | |
| Other | (8) | (6) | |

- Amortisation of intangibles increased due to recent acquisitions and currency effects
- Foreign exchange (losses)/gains includes a once-off gain of R104m on Intergroup monetary items, converting Dollar loan to Euros
- Exceptional items - profit on sale of Tourism business (in prior year) and goodwill write-offs

# INCOME STATEMENT

| | H1 2014 Rm | **H1 2015 Rm** | % change |
|---|---|---|---|
| Net financing costs | (420) | (598) | 42% |
| Income from associates | 18 | 12 | (33%) |
| Tax | (689) | (562) | |
| Net profit for the period | 1 931 | 1 594 | (17%) |
| Attributable to Imperial shareholders | 1 734 | 1 426 | (18%) |
| Attributable to minorities | 197 | 168 | (15%) |

> Net finance costs increased as a result of higher debt due to:

- increased capital expenditure
- higher level of working capital
- acquisitions
- higher cost of funding from longer term debt

> Reduction in Income from associates due to

- Ukhamba increase in impairment versus comparable period
- increase in losses from Chery and Ariva

> Effective tax rate of 26.2% (2014: 26.5%)

> Minorities declined due to the reduced contribution from the Vehicle Import, Distribution & Dealerships division

# BALANCE SHEET

| | June 2014 Rm | **H1 2015 Rm** | % change |
|---|---|---|---|
| Property, plant and equipment | 10 469 | 10 746 | 3% |
| Transport fleet | 5 322 | 5 513 | 4% |
| Vehicles for hire | 2 303 | 2 793 | |
| Goodwill and intangible assets | 6 766 | 7 397 | 9% |
| Associates, investments and loans | 3 886 | 4 494 | 16% |
| Other assets | 1 516 | 1 848 | |
| Net working capital | 8 675 | 10 984 | 27% |
| Assets | 38 937 | 43 775 | |

> Goodwill and intangible assets rose due to the acquisitions of Eco Health, Imres and S&B Commercials

> Investments and loans increased due to Regent's investment in foreign equities and longer term investments

> Net working capital increased mainly due to:

- acquisitions
- higher inventory and accounts receivables, partly offset by higher accounts payable in the Vehicle businesses & the Logistics Africa division

# BALANCE SHEET

| | June 2014 Rm | **H1 2015 Rm** | % change |
|---|---|---|---|
| Total shareholders' interest | 18 109 | 18 262 | |
| Net interest bearing borrowings | 11 441 | 15 109 | 32% |
| Other liabilities | 9 387 | 10 404 | 11% |
| Equity and liabilities | 38 937 | 43 775 | |

> Shareholder interest impacted by:
- attributable earnings of R1 426m
- put option liability of R391m
- losses on foreign currency translation of R227m
- dividends paid of R917m
- remeasurement of defined benefit pension plans of R140m (European operations)

> Interest bearing borrowings increased due to:
- acquisitions
- higher capital expenditure
- higher levels of working capital

> Other liabilities increased due to additional business written on insurance, maintenance and warranty contracts - up 9%

# CASH FLOW – OPERATING ACTIVITIES

IMPERIAL

| | H1 2014 Rm | **H1 2015 Rm** | % change |
|---|---|---|---|
| Cash generated by operations | 4 328 | 4 257 | |
| Net working capital movements | (2 244) | (1 405) | |
| Cash generated by operations | 2 084 | 2 852 | 37% |
| Net finance costs and tax paid | (945) | (1 031) | |
| Cash flow from operating activities before rental assets capex | 1 139 | 1 821 | |
| Capex: rental assets | (552) | (808) | 46% |
| Expansion capex rental assets | (251) | (406) | |
| Net replacement capex rental assets | (301) | (402) | |
| Cash flow from operating activities | 587 | 1 013 | 73% |

- Cash generated by operations increased 37% due to lower investment in working capital
- Capex: rental assets up 46%, largely due to earlier de-fleeting in H2 2014, leading to lower proceeds on sale of vehicles in H1 2015 than in the comparable period
- Cash flow from operating activities increased 73% to R1bn

# CASH FLOW – INVESTING ACTIVITIES

| | H1 2014 Rm | **H1 2015 Rm** | % change |
|---|---|---|---|
| Net acquisition and disposals of subsidiaries and businesses | 148 | (905) | |
| Capital expenditure | (1 662) | (1 417) | (15%) |
| Expansion | (1 015) | (806) | |
| Replacement | (647) | (611) | |
| Net movement in associates and JVs | (75) | 25 | |
| Net movement in investments, loans and non-current financial instruments | (129) | (997) | |
| Total investing activities | (1 718) | (3 294) | 92% |

> Net acquisition of subsidiaries relates to the acquisitions of Imres, S&B Commercials and Pharmed

> Capital expenditure 15% lower because of lower investment in dealership properties – prior year included significant capex from International operations

> Movement in investments, loans & non-current financial instruments due to investments in foreign equities & longer term investments

# CASH FLOW – SUMMARY

IMPERIAL

| | H1 2014 Rm | **H1 2015 Rm** | % change |
|---|---|---|---|
| Cash flow from operating activities | 587 | 1 013 | 73% |
| Total investing activities | (1 718) | (3 294) | 87% |
| Financing activities | | | |
| Dividends paid | (1 050) | (917) | |
| Other financing activities | (201) | (206) | |
| Increase in net borrowings | (2 382) | (3 404) | |
| Free cash flow - total operations | 191 | 808 | |
| Free cash conversion ratio to core earnings | 11% | 52% | |

> Free cash flow equals: Cash generated by operations reduced by net replacement capex

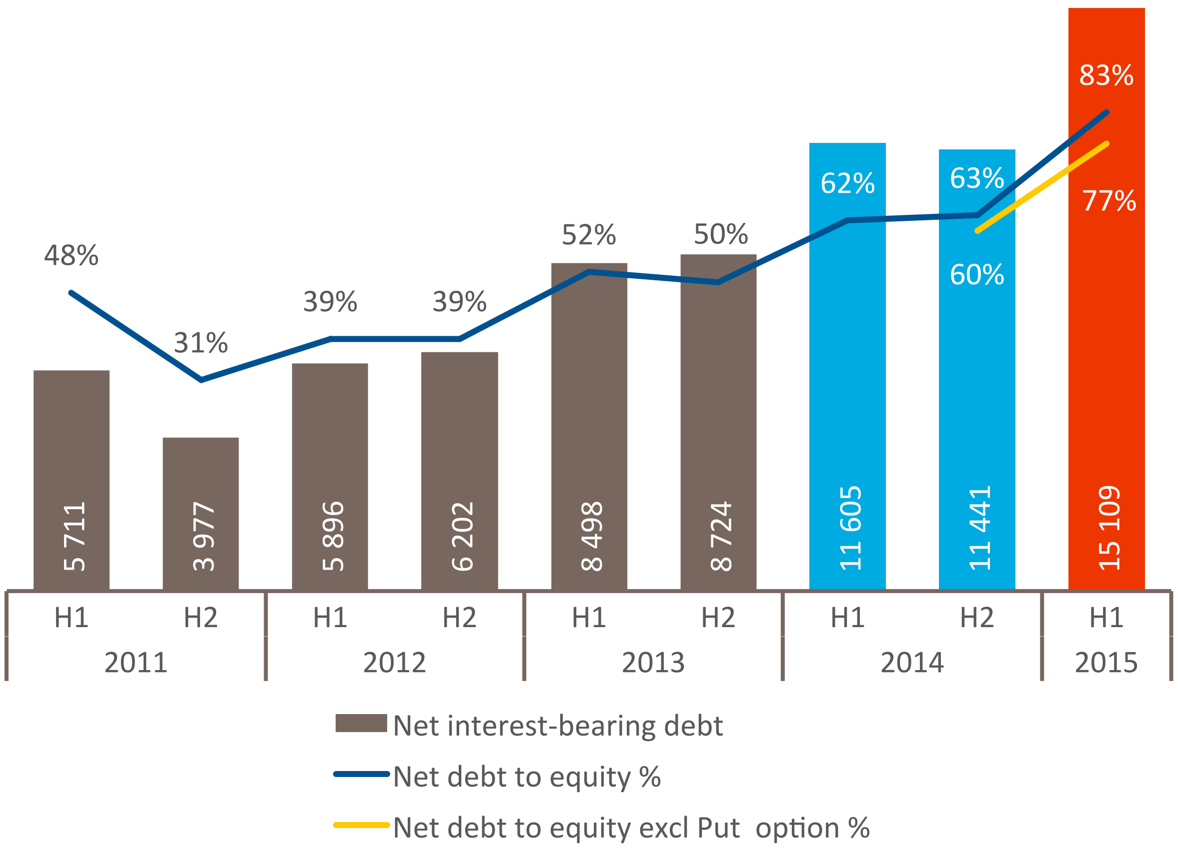
> Free cash flow improved mainly due to lower investment in working capital

# GEARING

IMPERIAL

## Net debt to equity

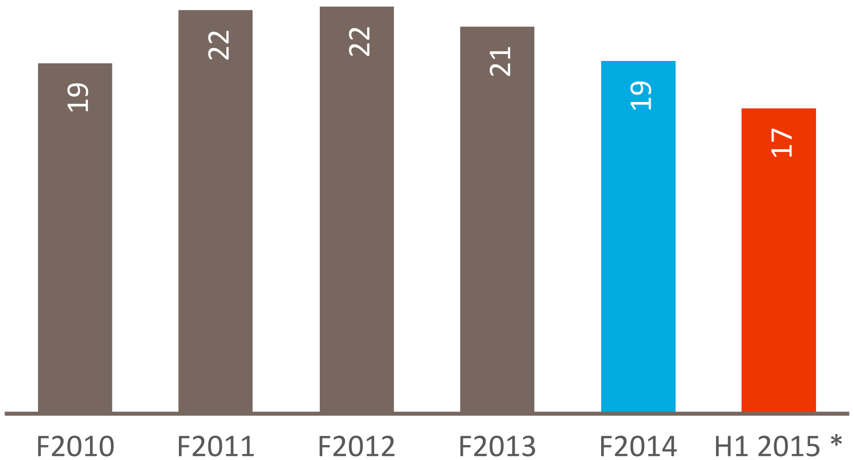
(%)




- Higher net debt to fund:
  - acquisitions
  - higher working capital
  - expansion capex
- Net debt:equity impacted by **R1.4bn reduction in equity due to a put option liability** - minority shareholdings in Eco Health and Imres
- Capacity for further acquisitions and organic growth
- Group has R6.3bn unutilised funding facilities
- Improved mix of fixed and floating debt (45% fixed)
- Extended debt maturity profile
- The group's credit rating by Moody's was unchanged at Baa3, with a stable outlook

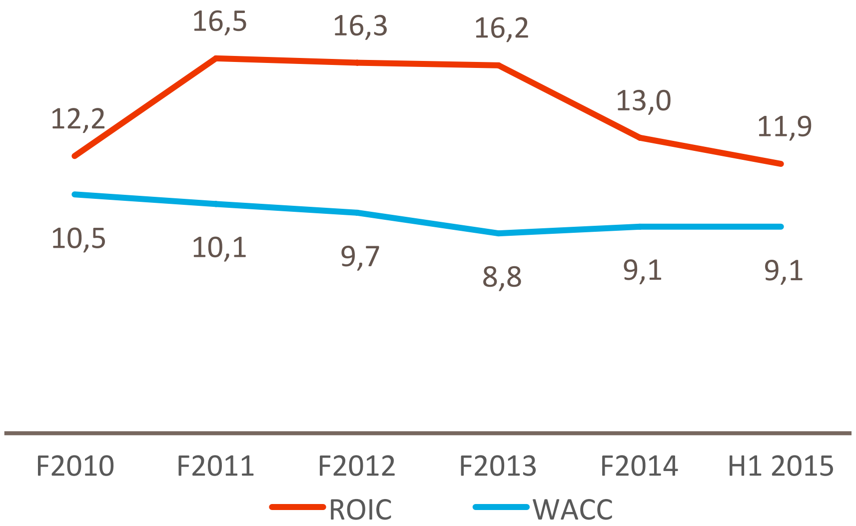
# RETURNS

ROE
(%)




** Based on a rolling twelve months*

ROIC vs WACC
(%)




## ROE is good

> Impacted by:
- significantly lower returns from Vehicle Import, Distribution & Dealerships division

## *Objective:* average ROIC > than WACC + 4% through the cycles

> ROIC affected by:
- lower returns in Vehicle Import, Distribution & Dealerships division
- recent expansion and acquisitions
- Investment in expansion capex and acquisitions

# AGENDA

- KEY FEATURES
- CONTEXT
- OPERATIONAL REVIEW
- FINANCIAL REVIEW
- STRATEGY
- PROSPECTS

# STRATEGY

IMPERIAL

> The environment & the size & complexity of Imperial demands strategic clarity at two levels:

- Corporate strategy as a <u>Group</u>
  - more expansive & precise as to the value added & the parenting advantage created by Imperial Holdings
  - clarify precisely how Holdings should influence & relate to the businesses it is associated with & whether its capabilities are aligned to Divisional requirements
- Business strategy at the <u>Divisional & Company</u> level
  - determine more precisely the bases for competitive advantage, clarifying how each client facing business competes & wins in its chosen market

> Sharpen executive attention & increase returns on capital & effort by: disposing of strategically misaligned, underperforming, sub-scale or low return on effort assets

> Improve productivity & reduce costs by eliminating complexity in organisation structures, reporting lines, legal structures, minorities, boards, accounting & reporting

# PARENTING ROLE – 4 STRATEGIC THRUSTS

IMPERIAL

- > **Develop the Group** – acquire, merge, integrate, drive the profitability of companies & assets involved in mobility, & dispose non-core, strategically misaligned assets
- > **Raise, Allocate & Control Capital for Sustainable Value Accretion** – **funding** the Group's debt & equity requirements at competitive rates; **allocating capital** to those sectors & jurisdictions where targeted risk adjusted returns & growth are achieved; & **controlling working capital** within planned limits*
- > **Clarify Operating Companies Strategies** – ensure that each client facing business in Imperial has a documented plan of how it intends to compete & win in its defined market over the medium to long term
- > **Develop Executive Capability** – as the major determinant of Imperial's progress & performance, identify select, develop & reward those exceptional executive leaders whose performance & potential positions them among the top quartile in their fields of expertise

**ROIC > WACC +4% imbedded as target to evaluate performance of all invested capital & allocation of new capital*

# AGENDA

- KEY FEATURES
- CONTEXT
- OPERATIONAL REVIEW
- FINANCIAL REVIEW & ACQUISITIONS
- STRATEGY
- PROSPECTS

# PROSPECTS

> The factors most relevant to the fortunes of Imperial are:
- the weakening of the Rand against the currencies in which we import new vehicles
- the poor state of the South African economy
- a much slower than expected recovery of the German economy
- the impact of political uncertainty and a sustained low oil price on the economy and currency of Nigeria

> The outlook for three divisions is unchanged (i.e. Logistics Africa; Vehicle Retail, Rental & Aftermarket Parts; & Financial Services)

> A slower recovery in Germany has caused us to reduce our full year expectations of the Logistics International division

> Most significantly, the unit volume decline in the Vehicle Import, Distribution & Dealerships division has necessitated a further reduction of expected profits

> **We therefore expect Imperial's second half operating performance to be positive, but with earnings for the year to June 2015 to be below 2014**


THANK YOU