KAP INDUSTRIAL HOLDINGS LIMITED

AUDITED RESULTS FOR THE YEAR ENDED 30 JUNE 2018

WELCOME

JAAP DU TOIT

CHAIRMAN

AGENDA

WELCOME	JAAP DU TOIT
CORPORATE ENVIRONMENT	JO GROVÉ
STRATEGY IMPLEMENTATION	GARY CHAPLIN
DIVISIONAL HIGHLIGHTS	GARY CHAPLIN
FINANCIAL ANALYSIS	FRANS OLIVIER
OUTLOOK	GARY CHAPLIN

CORPORATE ENVIRONMENT

JO GROVÉ
DEPUTY CHAIRMAN

INTEGRATED INTO EVERY DAY

F2018 UNEXPECTED MAJOR EVENTS

- Steinhoff events (Funders/Shareholders/Analysts/Press/Suppliers/Customers/Suitors)
- Establishing a full Corporate Services function
- East London explosion significantly affecting Automotive Components division
- Durban storms affecting Chemical and Automotive Components divisions
- Primary equipment supplier to Hosaf project files for bankruptcy
- Project Bonsai (medium-sized, integration-related, bolt-on acquisition)
- Passenger strike (six-week impact)
- F2018 Q1 and Q2 – economy potentially entering technical recession

F2018 BUDGET OBJECTIVES

KAP

PROJECT EXECUTION AND ACQUISITION INTEGRATION

- Extract value from PG Bison Piet Retief expansion (commissioned May 2017)
- Recovery operations in relation to 4 456 ha of plantations burnt in June 2017 fires
- Automotive replacement model introductions (VW Polo and BMW X3)
- Completion of new Integrated Bedding facility (move completed June 2017)
- Execute and integrate Support-a-Paedic acquisition
- Complete Safripol integration
- Complete Hosaf expansion
- Complete Lucerne integration
- Execute and integrate Southern Star (Swaziland) acquisition
- Conclude Unitrans B-BBEE transaction and create the Sakhumzi Foundation Empowerment Trust
- Conclude Unitrans Pick n Pay contract renewal and property transaction
- Dispose of Glodina

STRATEGY IMPLEMENTATION

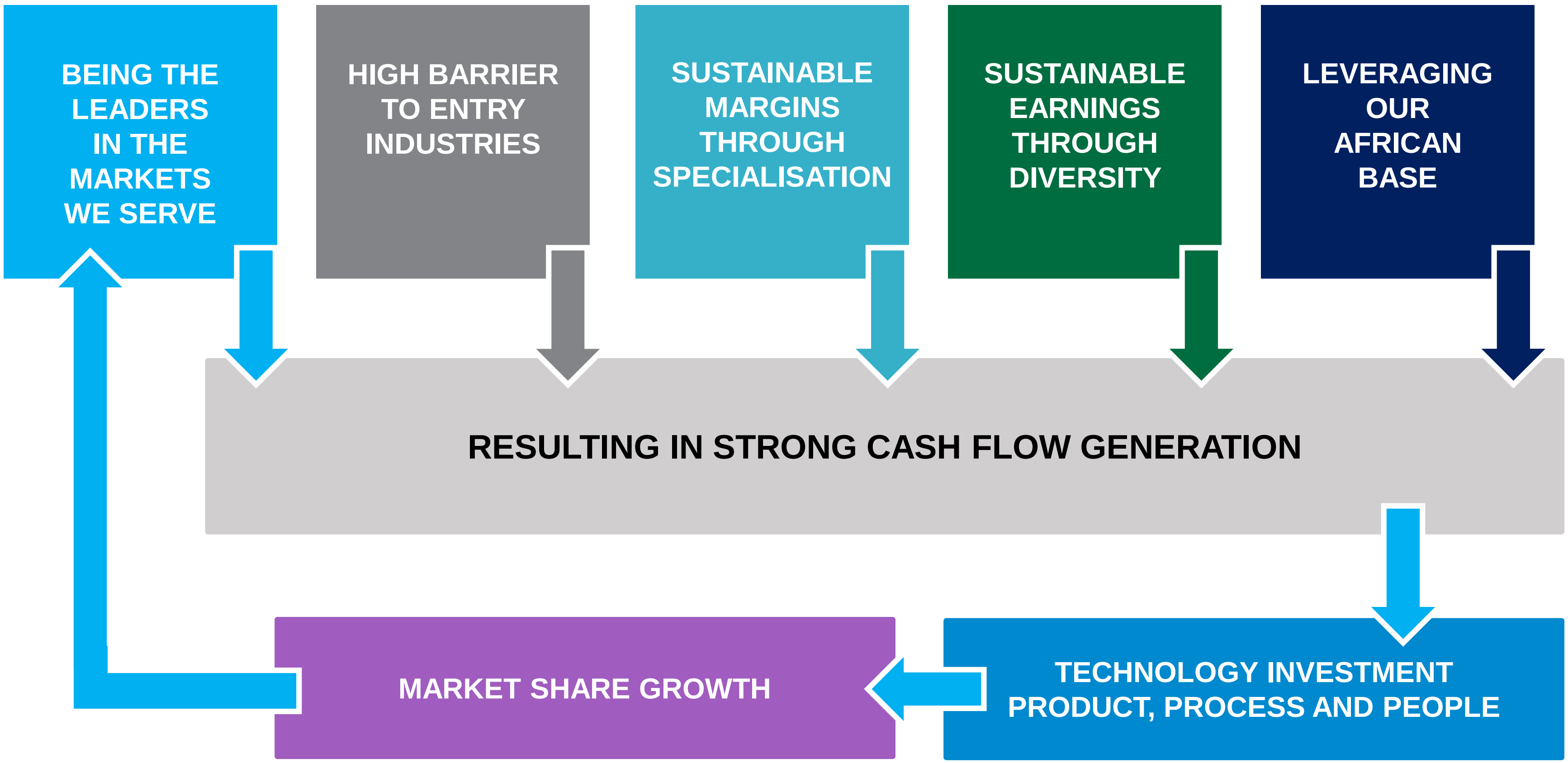
GARY CHAPLIN

CHIEF EXECUTIVE OFFICER

INTEGRATED INTO EVERY DAY

STRATEGY IMPLEMENTATION

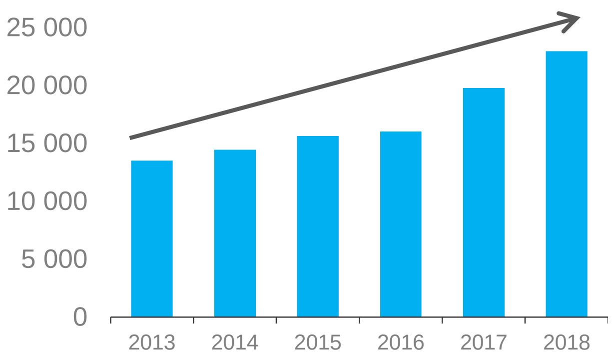
STRATEGIC DRIVERS



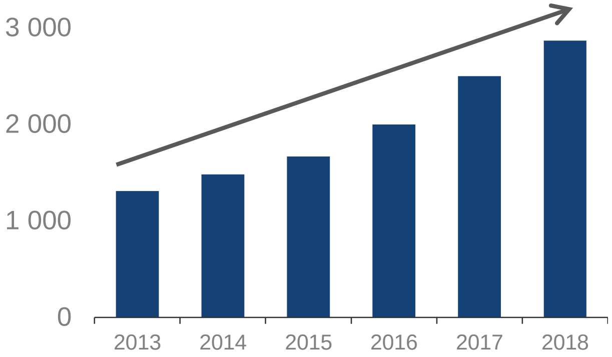
STRATEGY IMPLEMENTATION

FIVE-YEAR COMPOUND ANNUAL GROWTH AS A RESULT OF ORGANIC EXPANSION AND ACQUISITION OF COMPLEMENTARY BUSINESSES

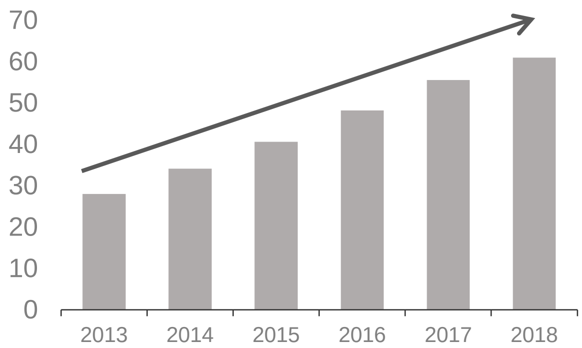
REVENUE (Rm) – CAGR* 11%



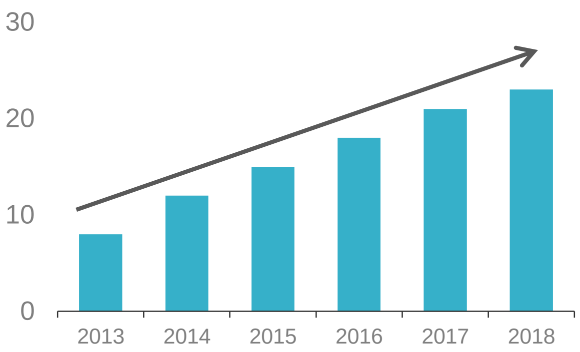
OPERATING PROFIT (Rm) – CAGR* 17%



HEPS (cents) – CAGR* 17%



DPS (cents) – CAGR* 24%



* Compound annual growth rate of continuing operations

STRATEGY IMPLEMENTATION

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GROUP OPERATIONAL STRUCTURE

DIVERSIFIED INDUSTRIAL	DIVERSIFIED CHEMICAL	DIVERSIFIED LOGISTICS
PG BISON FELTEX RESTONIC	SAFRIPOL preferred polymer partner	UNITRANS
INTEGRATED TIMBER Integrated forestry and timber manufacturing operations with primary and upgrading processes **AUTOMOTIVE COMPONENTS** Manufacture of vehicle retail accessories and components used in new vehicle assembly **INTEGRATED BEDDING** Manufacture of foam, fabrics, springs, bases and branded mattresses	**POLYMERS** Manufacture of polyethylene terephthalate (PET), high-density polyethylene (HDPE) and polypropylene (PP) **RESINS** Manufacture of formaldehyde and urea formaldehyde (UF) resins	**CONTRACTUAL LOGISTICS** Provision of specialised contractual supply chain and logistics services **PASSENGER TRANSPORT** Provision of personnel, commuter, intercity and tourism transport services

STRATEGY IMPLEMENTATION

GROUP SEGMENTAL ANALYSIS

REVENUE

DIVERSIFIED INDUSTRIAL	29%
DIVERSIFIED CHEMICAL	34%
DIVERSIFIED LOGISTICS	37%

OPERATING PROFIT

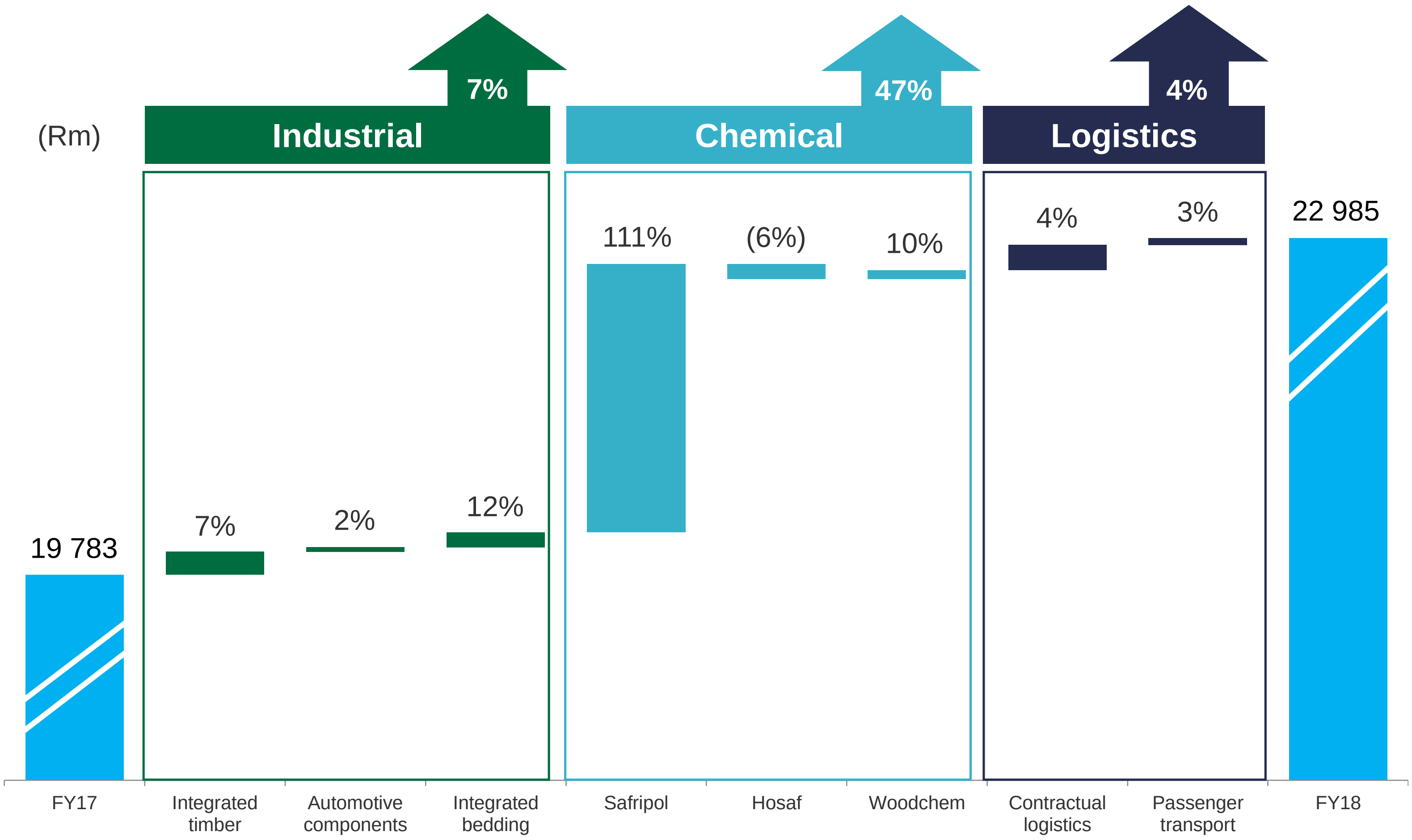
DIVERSIFIED INDUSTRIAL	38%
DIVERSIFIED CHEMICAL	32%
DIVERSIFIED LOGISTICS	30%

TOTAL ASSETS

DIVERSIFIED INDUSTRIAL	36%
DIVERSIFIED CHEMICAL	36%
DIVERSIFIED LOGISTICS	28%

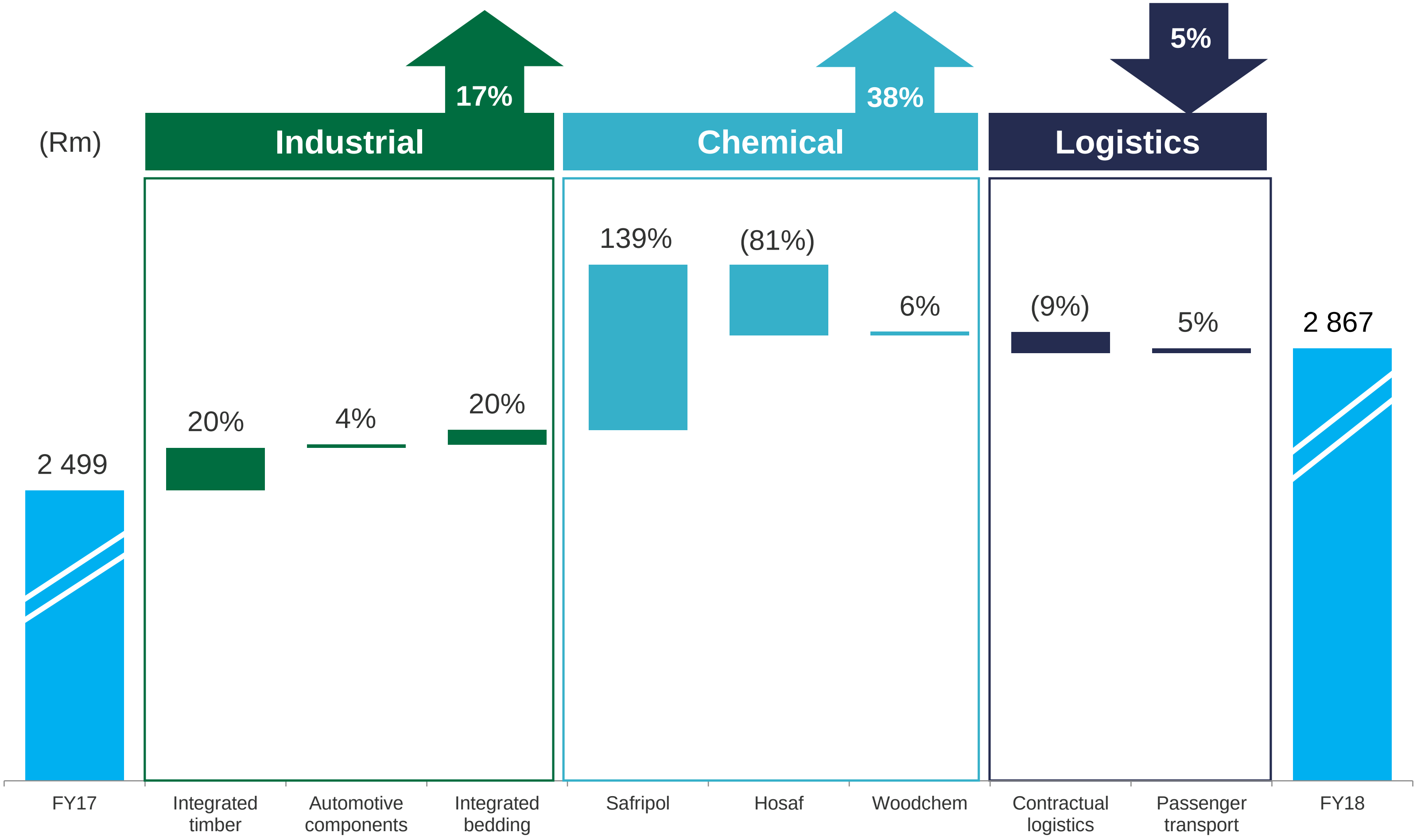
STRATEGY IMPLEMENTATION

REVENUE ANALYSIS



STRATEGY IMPLEMENTATION

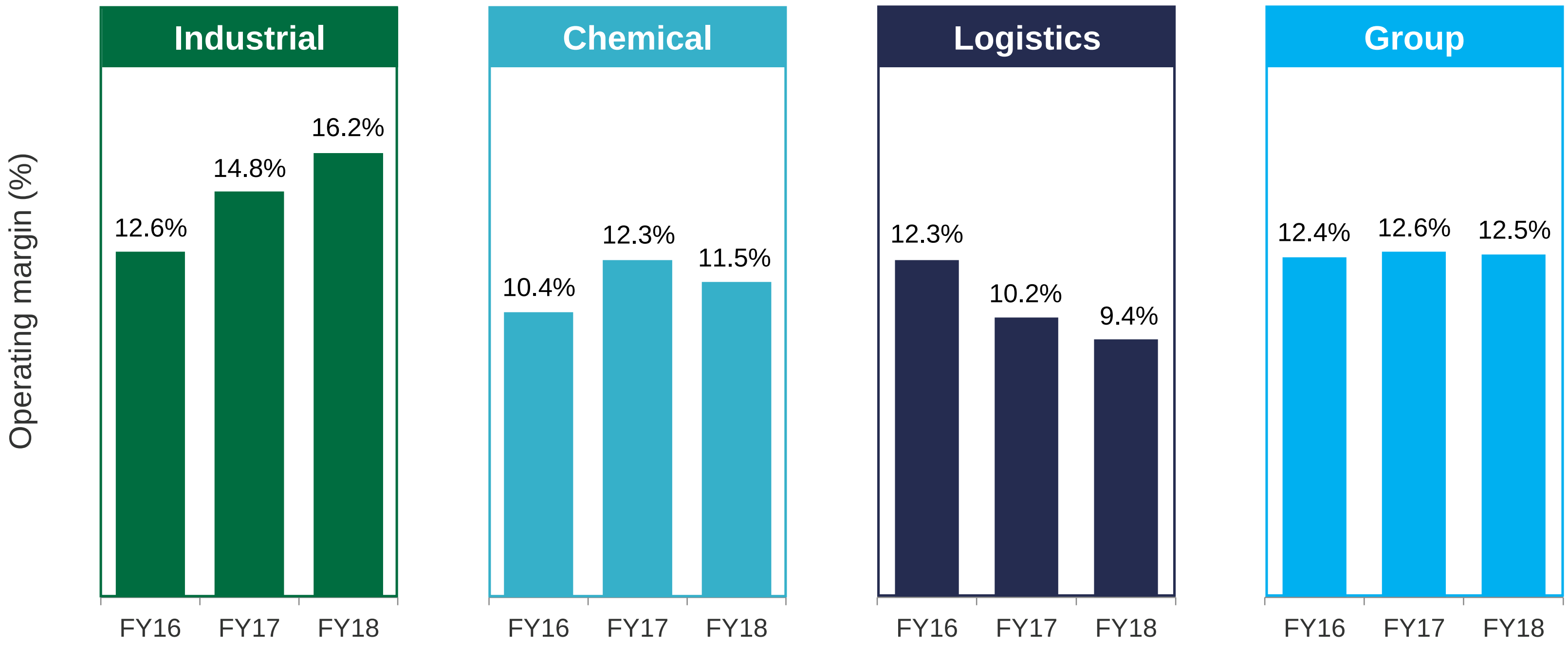
OPERATING PROFIT ANALYSIS



STRATEGY IMPLEMENTATION

MARGIN ANALYSIS

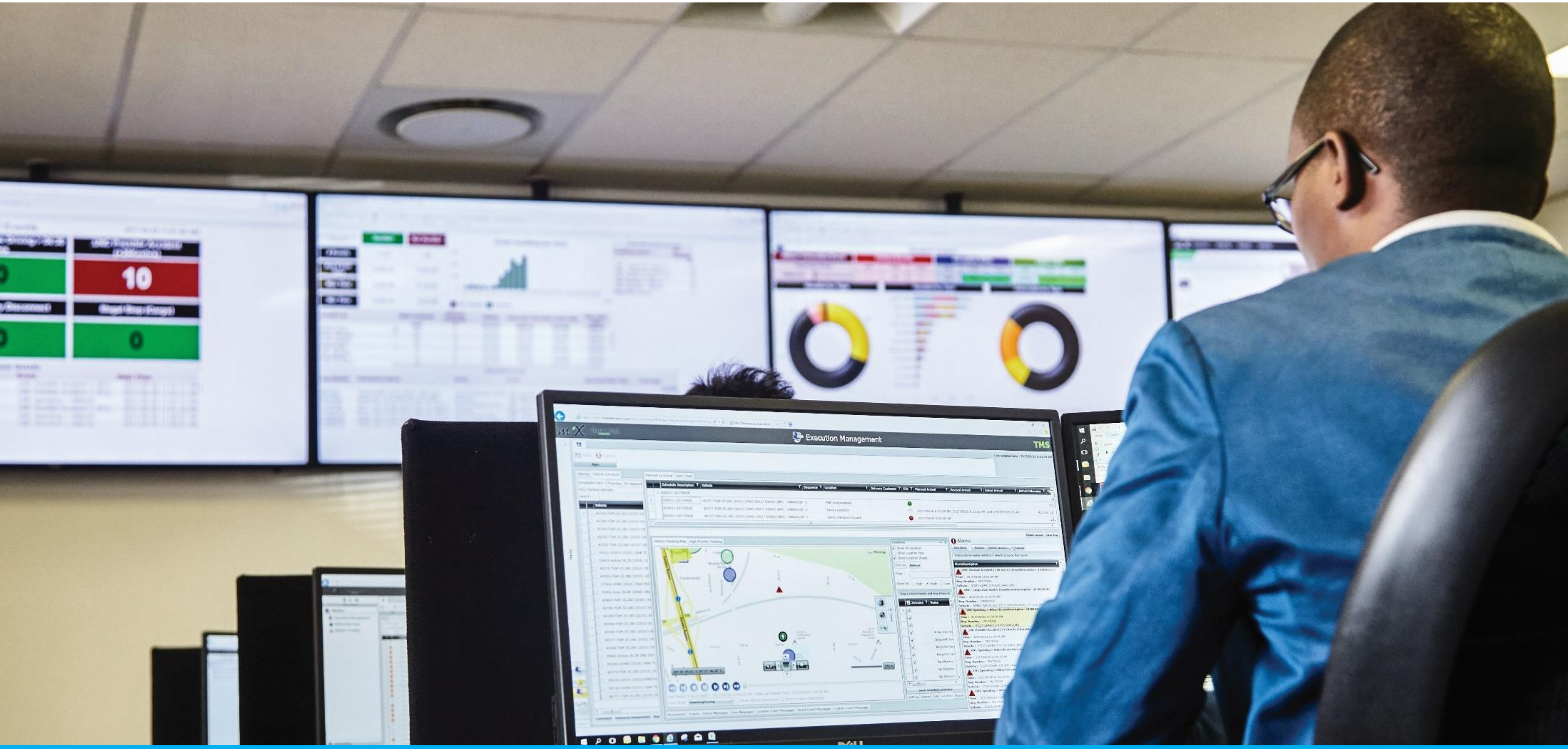
KAP operating profit margin remained stable at 12.5%



DIVISIONAL HIGHLIGHTS

GARY CHAPLIN

CHIEF EXECUTIVE OFFICER



INTEGRATED INTO EVERY DAY

DIVERSIFIED INDUSTRIAL

REVENUE INCREASED BY 7%

R6 801m
(FY17: R6 385m)

OPERATING PROFIT INCREASED BY 17%

R1 100m
(FY17: R944m)

TOTAL ASSETS INCREASED BY 3%

R9 458m
(FY17: R9 149m)

INTEGRATED TIMBER

- May 2017 Piet Retief expansion operated at above capacity for F2018
- Boksburg expansion completed in January 2018 and operating above capacity
- Increased export sales to facilitate increased production
- Value-add ratio increased to 56%, thereby enhancing rand/m^3 profit
- Strong progress in recovery operations in relation to June 2017 plantation fires
- Insurance settlement in relation to plantation fires protects balance sheet
- Pole operations negatively impacted by Western Cape drought

REVENUE

7% ↑

OPERATING PROFIT

20% ↑

AUTOMOTIVE COMPONENTS

- Industry new vehicle assembly volumes remained flat
- VW Polo replacement model successfully introduced in September 2017
- BMW X3 replacement model successfully introduced in April 2018
- Sales of existing models remained buoyant
- Impact of East London explosion and Durban storm damage
- Autovest challenged by subdued new vehicle sales
- Maxe operations continued to exceed expectation

REVENUE

2% ↑

OPERATING PROFIT

4% ↑

INTEGRATED BEDDING

- Continued furniture retail focus on bedding category drives volume growth
- Integrated business model benefits directly from continued volume growth
- Increased intra-divisional integration compensates for lower bedding selling prices
- Technology and machinery upgrades continued, with positive results
- Support-a-Paedic (SAP) acquisition successful and integration well advanced
- SAP acquisition provides access to new markets and well recognised brands

REVENUE

12% ↑

OPERATING PROFIT

20% ↑

DIVERSIFIED CHEMICAL

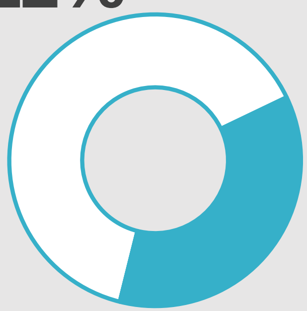
REVENUE INCREASED BY 47%

R8 018m
(FY17: R5 467m)

OPERATING PROFIT INCREASED BY 38%

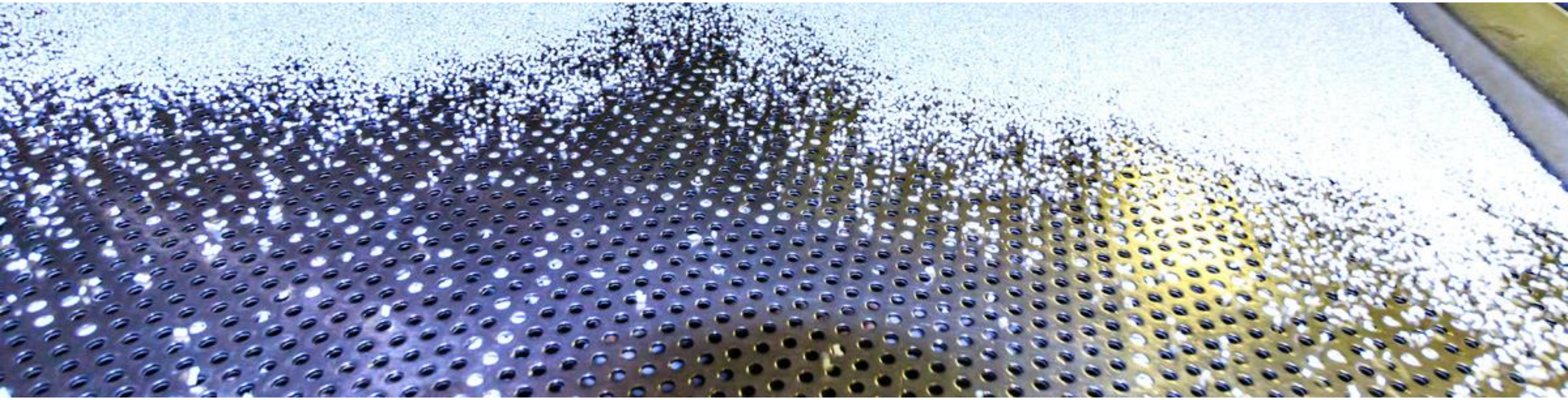
R925m
(FY17: R672m)

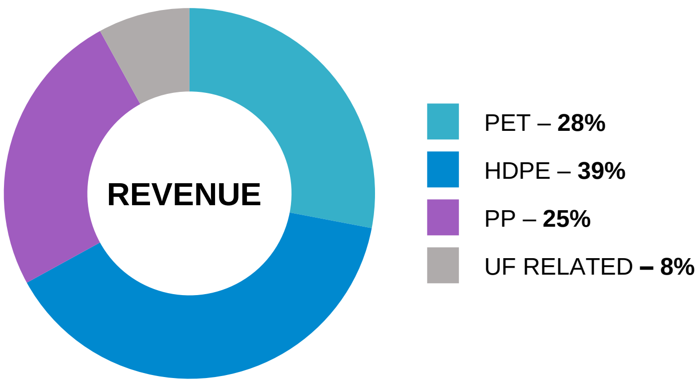
TOTAL ASSETS INCREASED BY 11%

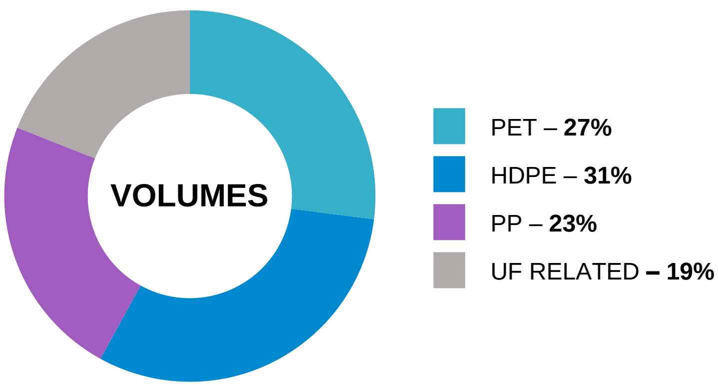


R9 292m
(FY17: R8 354m)

CHEMICAL




REVENUE
PET – **28%**
HDPE – **39%**
PP – **25%**
UF RELATED **– 8%**


VOLUMES
PET – **27%**
HDPE – **31%**
PP – **23%**
UF RELATED **– 19%**

CHEMICAL

SAFRIPOL
preferred polymer partner

- **Safripol** performs ahead of acquisition parameters – EBITDA R814 million
- HDPE (high-density polyethylene) sales volumes up 108% on prior six months
- HDPE US dollar margins up 28% on prior
- PP (polypropylene) sales volumes up 94% on prior six months
- PP US dollar margins down 1% on prior
- Average rand/US dollar exchange of R12.84 (F2017 six months: R13.22)
- Cost-saving initiatives well advanced
- Integration into single polymers business under Safripol brand complete

REVENUE

111% ↑

OPERATING PROFIT

139% ↑

CHEMICAL

- **Hosaf** project finally complete with a minor post commissioning shutdown in July 2018
- Plant operating efficiently at 650 tonnes per day
- Final capital cost of R1 308 million, including capitalised interest
- Target IRR of 17% remains in place off higher capital base
- PET (polyethylene terephthalate) US dollar margins up 11% on prior
- Average rand/US dollar exchange of R12.84 (F2017: R13.60)
- Sales volumes stable with 1% increase on prior year
- Sales include high proportion of ‘off-spec’ material and imports for resale at low margins
- Strong export volumes executed in fourth quarter

REVENUE

6% ↓

OPERATING PROFIT

81% ↓

CHEMICAL

- **Woodchem** operated near full capacity
- Sales volumes stable, with 1% reduction on prior year
- Rand margins increased by 9%, assisted by improved mix
- Paper impregnation plant sold to PG Bison effective 1 July 2018

REVENUE

10% ↑

OPERATING PROFIT

6% ↑

DIVERSIFIED LOGISTICS

REVENUE INCREASED BY 4%

R8 971m
(FY17: R8 656m)

OPERATING PROFIT DECREASED BY 5%

R842m
(FY17: R883m)

TOTAL ASSETS INCREASED BY 3%

R7 280m
(FY17: R7 070m)

CONTRACTUAL LOGISTICS

DIVERSE REVENUE BASE

FUEL – **28%**
FOOD – **23%**
GENERAL FREIGHT – **13%**
MINING & CEMENT – **13%**
AGRICULTURE – **11%**
SPECIALISED WAREHOUSING – **6%**
CHEMICALS – **6%**

SOUTH AFRICA – **73%**
REST OF AFRICA – **27%**

- Continued focus on non-discretionary goods and services
- Customer base largely represents blue chip companies and multinationals
- Contractual nature of the business continues to provide support through economic cycles

CONTRACTUAL LOGISTICS

- Trading environment extremely challenging in H2
- Fuel industry evolution materially affected performance
  - Pipeline efficiency reduced ad hoc bridging work
  - Changes in regional product flow reduced kilometres travelled
  - Client management of supplier concentration reduced volumes
  - Introduction of B-BBEE SMEs reduced volumes
- Food business performance stable following renewal of major contracts
- General freight (Xinergistix) business performed ahead of expectation
- Cement and mining business performed well in a challenging environment
- Agriculture business (non-South African) remained stable
- Chemicals business (Lucerne) showed strong growth
- Acquisition integration successfully completed
- B-BBEE deal concluded, subject to competition authority's approval

REVENUE

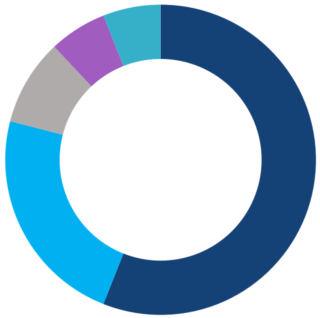
4% ↑

OPERATING PROFIT

9% ↓

PASSENGER TRANSPORT

- Core commuter, personnel and tourism operations performed well
- Mozambique personnel operations continue to exceed expectations and present expansion opportunities
- Intercity operations remained subdued but stable
- Strategic review of Intercity operations in progress
- 28-day industry strike impacted operations for six weeks



- COMMUTER AND PERSONNEL – **56%**
- INTERCITY – **23%**
- GAUTRAIN – **9%**
- TOURISM – **6%**
- AFRICA – **6%**

REVENUE

3%

OPERATING PROFIT

5%

FINANCIAL ANALYSIS

FRANS OLIVIER

CHIEF FINANCIAL OFFICER

INTEGRATED INTO EVERY DAY

FINANCIAL HIGHLIGHTS

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STRATEGY IMPLEMENTATION PRODUCES SUSTAINABLE EARNINGS WITH STRONG CASH CONVERSION AND RESULTANT DIVIDEND GROWTH

Results from continuing operations	FY18	FY17		Variance
Revenue (Rm)	**22 985**	19 783	↑	16%
Operating profit before capital items (Rm)	**2 867**	2 499	↑	15%
Operating margin	**12.5%**	12.6%	↓	10 bps
Headline earnings per share (cents)	**60.5**	55.6	↑	9%
Cash generated from operations (Rm)	**3 308**	2 958	↑	12%
Dividend per share (cents)	**23**	21	↑	10%
Net asset value per share (cents)[1]	**454**	415	↑	9%

[1] Includes assets held for sale

FINANCIAL HIGHLIGHTS

KAP

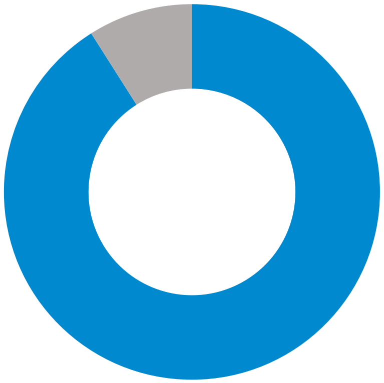
INCOME STATEMENT

Continued operations	FY18 Rm	FY17 Rm	Variance
Revenue	**22 985**	19 783	16%
Operating profit before capital items	**2 867**	2 499	15%
Capital items	**(66)**	(34)	
Net finance costs	**(706)**	(515)	37%
Finance costs	**(741)**	(633)	
Investment income	**35**	118	
Associate companies and joint ventures	**23**	15	
Taxation	**(508)**	(510)	
Minorities	**(51)**	(50)	
Profit attributable to owners of the parent	**1 559**	1 405	11%
Add back capital items net of taxation	**56**	26	
Headline earnings	**1 615**	1 431	13%
Weighted average number of ordinary shares (m)	**2 671**	2 574	4%
Headline earnings per share (cents)	**60.5**	55.6	9%

FINANCIAL ANALYSIS

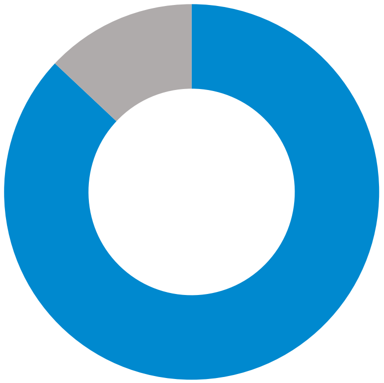
GEOGRAPHIC MARKETS – REVENUE AND OPERATING PROFIT ANALYSIS

Revenue



SOUTH AFRICA – **91%**
NON-SOUTH AFRICA – **9%**

Operating profit[1]



SOUTH AFRICA – **87%**
NON-SOUTH AFRICA – **13%**

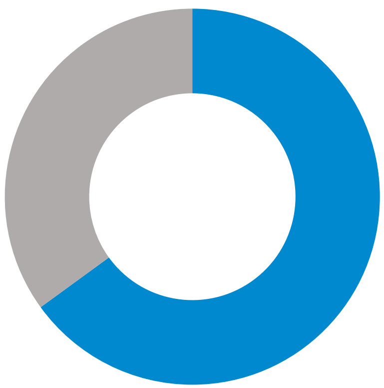
- Provides diversity in markets and broader growth opportunities
- Provides improved margins to compensate for sovereign risk where relevant
- Spread across various businesses

[1] Before capital items

FINANCIAL ANALYSIS

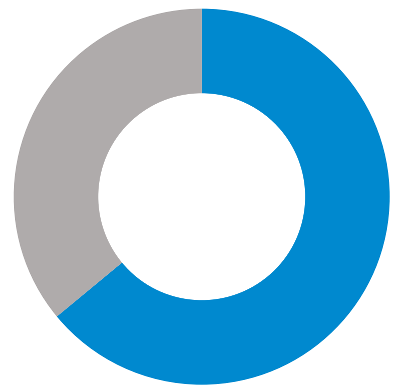
CURRENCY DRIVERS OF REVENUE AND OPERATING PROFIT

Revenue



RAND driven activities – **65%**
US DOLLAR driven activities – **35%**

Operating profit[1]



RAND driven activities – **64%**
US DOLLAR driven activities – **36%**

- Dollar-driven activities impact revenue and raw material prices, therefore representing ‘dollar margin’ business
- Provides currency diversity without the complexity of doing business in foreign jurisdictions

[1] Before capital items

FINANCIAL ANALYSIS

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BALANCE SHEET

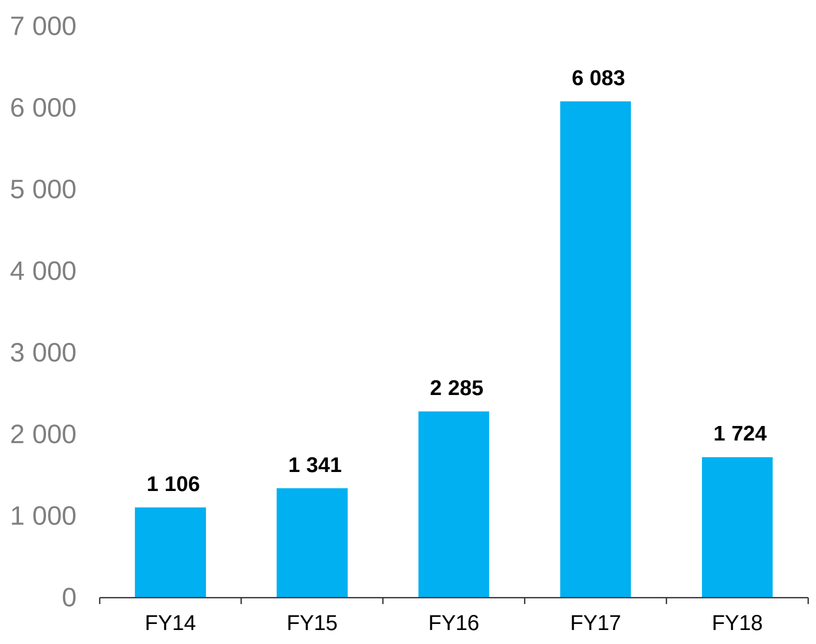
Balance sheet remains stable with quality assets

	FY18 Rm	FY17 Rm
Property, plant, equipment and investment properties	**12 513**	11 832
Intangible assets	**4 109**	4 082
Goodwill	**1 283**	1 251
Biological assets	**1 919**	1 978
Net working capital	**1 330**	623
Other assets	**331**	407
Assets	**21 485**	20 173
Total equity	**12 477**	11 348
Net interest bearing liabilities	**5 727**	5 777
Other liabilities	**3 281**	3 048
Equity and liabilities	**21 485**	20 173
Net asset value per share (cents)	**454**	415

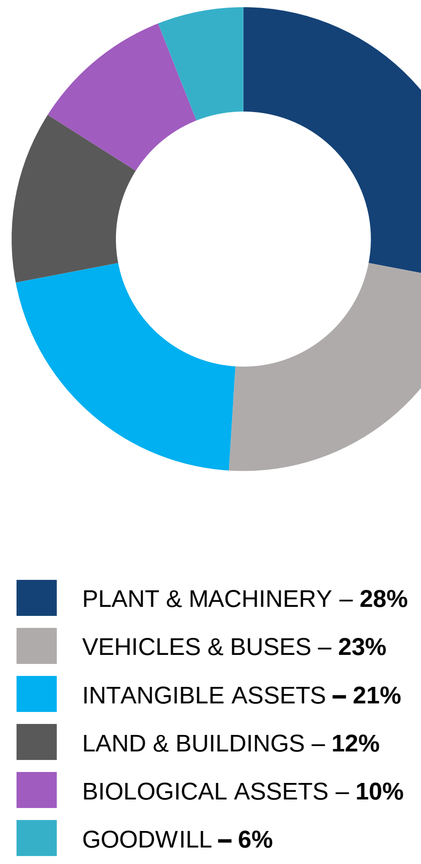
FINANCIAL ANALYSIS

CONTINUED INVESTMENTS RESULT IN STRONG ASSET BASE OF NEW TECHNOLOGY ASSETS

Capex and acquisition investments (Rm)

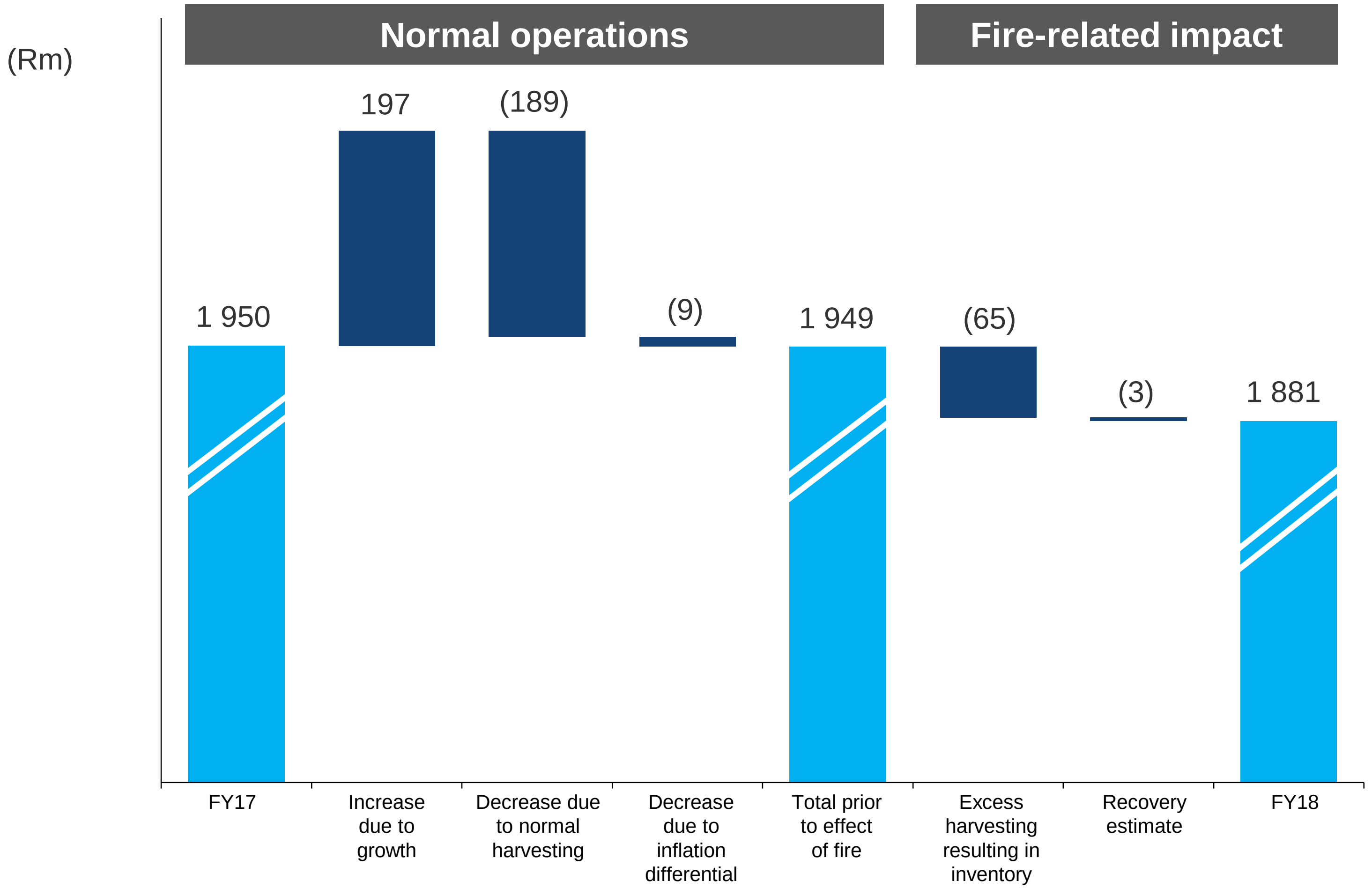


Asset base at 30 June 2018



FINANCIAL ANALYSIS

PLANTATION REVALUATION



- Fire damages 4 456 ha (10% of planted area)
- Inventory increase of R65 million
- Insurance claim finalised

FINANCIAL ANALYSIS

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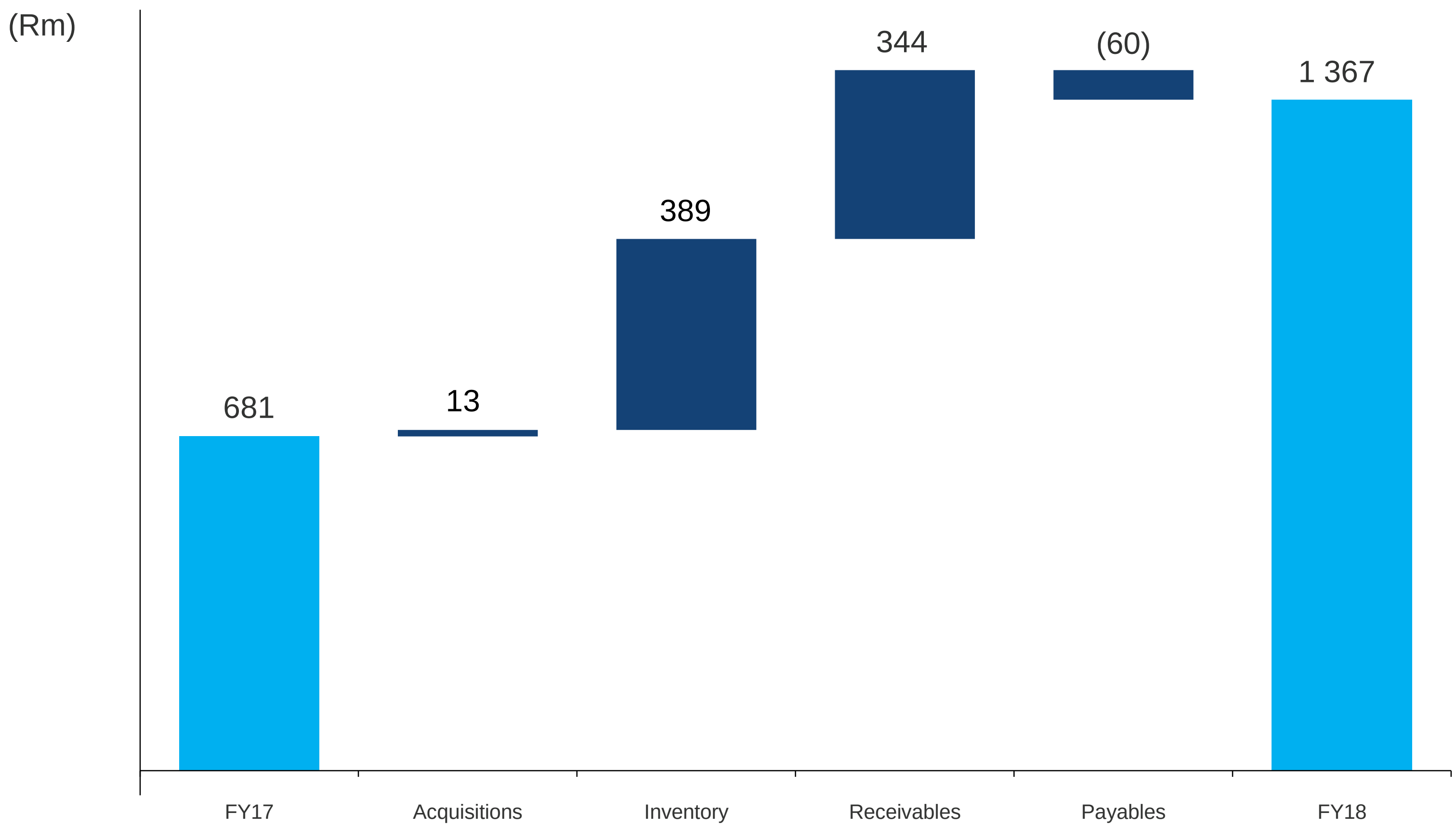
WORKING CAPITAL BREAKDOWN*



* Including assets classified as held for sale

- Inventory affected by PET expansion (R199m) and southern Cape sawlogs (R92m) including harvesting and extraction costs
- Receivables affected by PET export debtors (R291m)

CASH FLOW

	FY18 Rm	FY17 Rm
Operating profit from continuing operations	**2 867**	2 499
Depreciation and amortisation	**1 045**	862
EBITDA	**3 912**	3 361
Net revaluation of biological assets	**64**	(4)
Discontinued operations	**(25)**	(44)
Other non-cash adjustments	**38**	28
Cash generated before working capital changes	**3 989**	3 341
Working capital changes	**(681)**	(383)
Inventory	**(389)**	(41)
Receivables	**(352)**	(334)
Payables	**60**	(8)
Cash generated from operations	**3 308**	2 958
Net finance charges	**(764)**	(596)
Taxation	**(237)**	(295)
Net dividends	**(620)**	(469)
Cash flow from operating activities	**1 687**	1 598
Cash conversion ratio	**116%**	120%

FINANCIAL ANALYSIS

CASH FLOW – CONTINUED

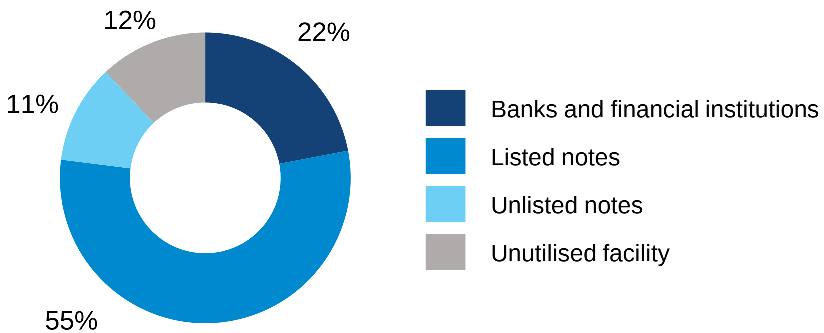
	FY18 Rm	FY17 Rm
Cash flow from operating activities	**1 687**	1 598
Investing activities	**(1 723)**	(6 083)
Expansion capex	**(811)**	(1 050)
Replacement capex	**(837)**	(1 190)
Acquisition of investments	**(29)**	(3 781)
Other investing activities	**(46)**	(62)
Cash flow after investing activities	**(36)**	(4 485)
Financing activities	**178**	3 911
Movement in cash and cash equivalents	**142**	(574)

DEBT STRUCTURE AND CAPACITY RATIOS

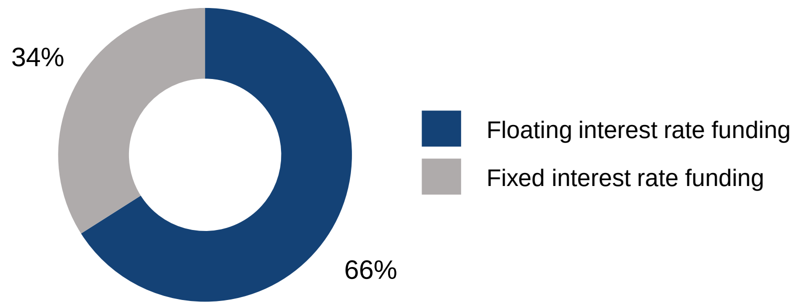
DEBT SERVICEABILITY RATIOS REFLECTIVE OF STRONG CASH GENERATION

	30 Jun 18	30 Jun 17
Net interest-bearing debt (Rm)	**5 727**	5 777
Equity excluding non-controlling interest (Rm)	**12 155**	11 035
Gearing: net debt:equity	**47%**	52%
Net debt to EBITDA (times) < 3.2	**1.5**	1.7
EBITDA interest cover (times) > 4.5	**5.5**	6.5

FUNDING STRUCTURE

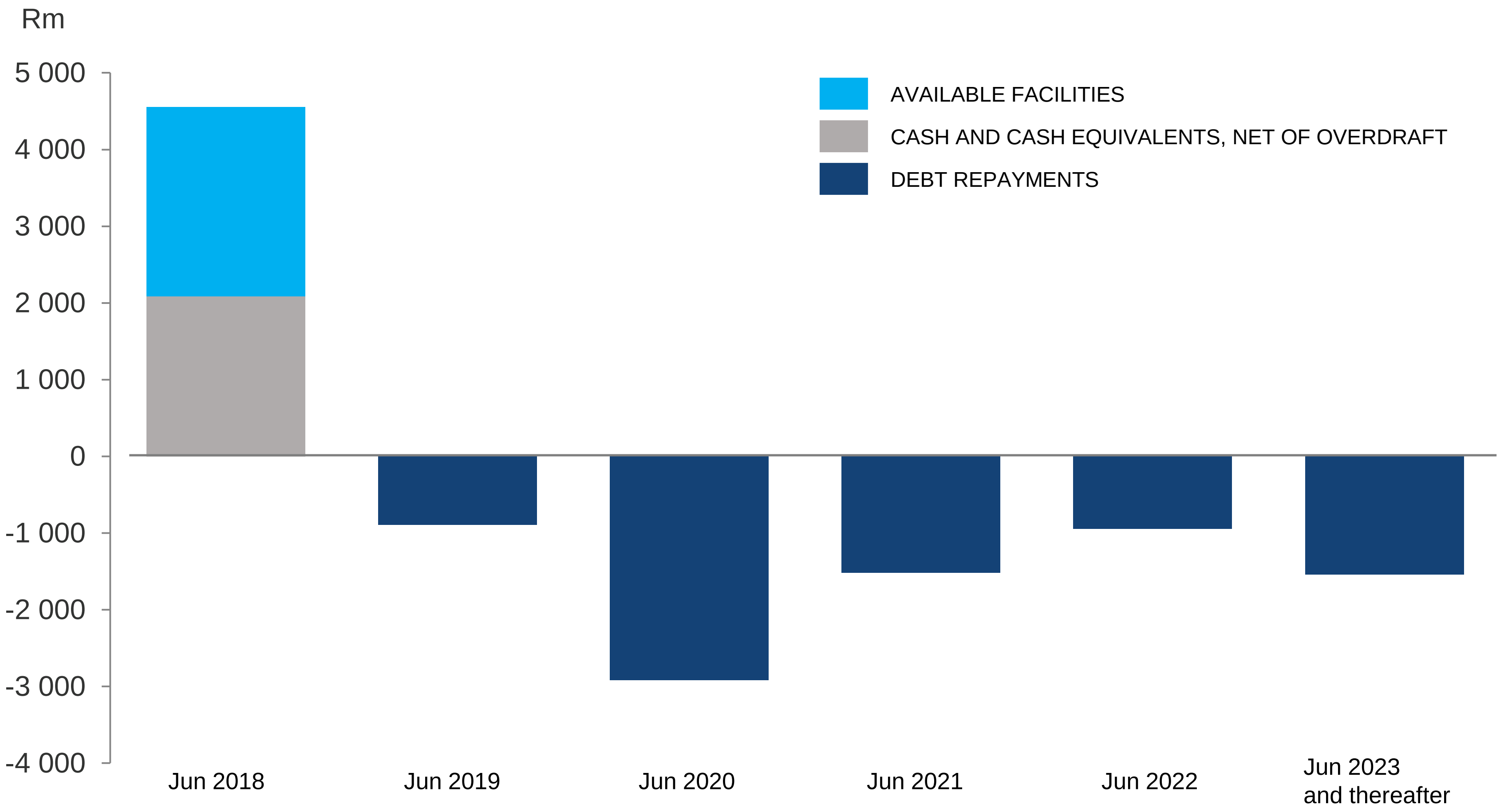


FIXED VS FLOATING INTEREST RATE FUNDING



TREASURY ACTIVITY

NET INTEREST-BEARING DEBT MATURITY AS AT 30 JUNE 2018



CORPORATE FEEDBACK

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GOVERNANCE AND CONTROL ENVIRONMENT

- Primary control environment (two-year process)
  – Completion of primary ERP systems integration projects
  – Completion of ‘financial close’ project
  – Centralised treasury and cash management

- Independent review of internal audit

- Governance structures reviewed
  – Board and subcommittees
  – Terms of reference
  – Policies

- Full Corporate Services functionality installed
  – Competent, well-qualified people

OUTLOOK

GARY CHAPLIN

CHIEF EXECUTIVE OFFICER

DIVERSIFIED INDUSTRIAL

Integrated timber

- PG Bison well positioned in terms of product mix, market position and manufacturing capacity/efficiency
- Strategy remains intact and focused

Automotive components

- Replacement model introductions and traditional models operating well
- No replacement model introductions in F2019
- Positive sentiment toward finalisation of APDP programme
- Canopies operations to be sold or closed in H1:F2019

Integrated bedding

- Final installation of major technology investments to be completed in F2019
- Increased focus on product and brand development
- Market share growth and continued integration to be pursued

DIVERSIFIED CHEMICAL

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- Global polymer demand and margins remain buoyant
- Resin demand and margins remain buoyant
- Focus on Hosaf sales volumes and margins remains a priority
  - – Major customers regained before peak period trading
  - – Strong export interest at sustainable margins
- Focus on single polymers product offering and logistics solution
- Consumer sentiment toward ‘single-use plastics’ to be addressed through coordinated industry initiatives

DIVERSIFIED LOGISTICS

Contractual logistics

- B-BBEE transaction to be implemented
- Contract renewal pipeline improving
- Continued focus on technology (Control Tower) to improve efficiencies and customer service
- Rest of Africa growth continues to be a focus area

Passenger transport

- Continued focus on operational improvements
- Strategic review of Intercity operations

A very challenging year with some major shocks

- Shareholder of reference sterilised in terms of support
- Immediate loss of corporate service functionality
- R569 million project overspend and 81% profit reduction in a major business
- 10% of forest holdings burnt

All in a tepid economy, which provided no support

Outcome

- Strong growth in earnings and cash
- Balance sheet remains strong
- Funding structure remains conservative
- Strategy remains intact
- Management remains engaged and excited about our business and its future

THANK YOU

INTEGRATED INTO EVERY DAY