Hudaco Industries Limited

https://www.hudaco.co.za/financials/Hudaco_IR_2025.pdf

Annual General Meeting
27 March 2025
Financial Year End: 30 September 2024

Proxies voted	No of shares
Vunani: The Labour Research Trust	5239
Vunani: Ditikeni Trust	580
Sanlam: Ditikeni Trust	5820

As a shareholder, a critical review of the integrated report reveals both positive aspects and areas of concern regarding Hudaco's performance and governance.

Shortcomings in performance include a decrease in turnover and operating profit. Turnover decreased from R8,897 million to R8,379 million, and operating profit dropped from R1,071 million to R1,007 million. There was also a decline of 6.3% in comparable earnings per share. The report mentions specific underperforming businesses such as Deltec Energy Solutions and CADAC, as well as Dosco and SBS. The impairment of goodwill at Eternity Technologies indicates potential overvaluation of this business in the past.

From a governance perspective, while the board asserts compliance with King IV and the JSE Listings Requirements, there are areas needing attention. For example, Stephen Connelly is not considered independent due to his share ownership.

Key risks include disruption in the supply chain, due to problems in SA ports and rail services and in shipping caused by global conflicts. A further significant risk is an inadequate supply of electricity, diesel or water. The company is feeling the burden of the extensive insurance programme which is becoming increasingly onerous and expensive due to degradation of municipal infrastructure and major loss events. This could point to operational environment risks that need mitigation.

While we sympathise with the board (and management) we do not believe their performance warrants the proposed remuneration increases.

	Resolution	Rationale	Vote	Outcome of AGM
	Presentation of audited Annual Financial Statements (AFSs) and reports	Active considers it best practice to allow shareholders the opportunity to adopt the AFSs. However, it is not a requirement to do so, and few companies do this. Hudaco does not. The auditors have expressed the opinion that the AFSs fairly present the results and financial position of the company. We have no issues with the AFS.		
	Presentation of reports on Environmental, Social and Governance issues	As required by the amendment (No 16 of 2024), s61 of the Companies Act Hudaco's Social and Ethics Committee reviews and reports on: • anti-corruption compliance; • human capital management; • transformation; • monitoring for gender or race-based pay gaps; • regulatory and compliance matters; • stakeholder relations; • socio-economic development; • health and safety; and • environmental impact. However, we believe that report should be presented and open for discussion and adoption at the AGM, as the report of the Remuneration Committee is. We regard the failure to do so with deep disappointment. The report does not offer insight into the effectiveness of efforts or specific metrics used to assess success in implementation of health and safety standards, environmental impact initiatives, or to meaningfully addressing the remuneration gap.		

	Resolution	Rationale	Vote	Outcome of AGM
Ordinary Resolutions				
OR 1	**To re-elect directors retiring by rotation**			
OR 1.1	SJ Connelly	Connelly is Non-Executive Chairman. In 1992 he was appointed Hudaco's chief executive and served in that capacity for 22 years until his retirement in 2014. He continued to serve on the board in a non-executive capacity and was appointed chairman in April 2018. He owns nearly 1% of the company. He has the necessary skills, qualifications and experience for the task and has been recommended for re-election by the Nominations Committee. However, he is explicitly "not considered independent" due to his significant shareholding and long tenure, which is a significant concern under King IV. In the light of these considerations, we do not support his re-election.	AGAINST	FOR: 90.55% AGAINST: 9.45%
OR 1.2	CV Amoils	Overall, Amoils' extensive financial experience and the nomination committee's recommendation support his suitability to continue as a director. The re-election recommendation of the nomination committee also supports Amoils's continuing service as a director.	FOR	FOR: 99.74% AGAINST: 0.26%
OR 1.3	B Bulo	Bulo has the necessary skills, qualifications and experience for the task and a perfect meeting attendance.	FOR	FOR: 99.95% AGAINST: 0.95%
OR 2	**To approve the re-appointment of external auditors**	Deloitte & Touche is a large international firm with a good track record and have been Hudaco's auditors for three years. The designated auditor remains the say as previously.	FOR	FOR: 98.7% AGAINST: 1.22%
OR 3	**Appointment of the members of the audit and risk management committee**			
OR 3.1	B Bulo (subject to the passing of Ordinary Resolution Number 1.3)	Bulo has the necessary skills, qualifications and experience for the task and a perfect meeting attendance.	FOR	FOR: 99.99% AGAINST: 0.01%
OR 3.2	N Mandindi	Mandindi has the necessary skills, qualifications and experience for the task and a perfect meeting attendance.	FOR	FOR: 70.62% AGAINST: 21.38%
OR 3.3	MR Thompson	Thompson has the necessary skills, qualifications and experience for the task and a perfect meeting attendance.	FOR	FOR: 99.99% AGAINST: 0.01%

	Resolution	Rationale	Vote	Outcome of AGM
OR 4	**Appointment of the members of the social and ethics committee**			
OR 4.1	N Mandindi	Mandindi has the necessary skills, qualifications and experience for the task and a perfect meeting attendance.	FOR	FOR: 99.35% AGAINST: 0.65%
OR 4.2	B Bulo (subject to the passing of Ordinary Resolution Number 1.3)	Bulo has the necessary skills, qualifications and experience for the task and a perfect meeting attendance.	FOR	FOR: 99.99% AGAINST: 0.01%
OR 4.3	EJ Smith	Smith has the skills and experience for the task.	FOR	FOR: 99.80% AGAINST: 0.02%
Special Resolutions				
SR 1	**Approval of non-executive directors' remuneration**	According to Hudaco's 2025/26 IAR, the base fee for the Chairman of the Board is R1,452,000. The median all-inclusive fee for JSE Top 200 companies' chairpersons is R1,549,000. The base fee for a Hudaco board member is R388,000, while the median all-inclusive fee for JSE Top 200 companies' board members is R428,000. We approve of the penalties imposed for non-attendance at meetings.	FOR	FOR: 99.99% AGAINST: 0.01%
Non-binding advisory votes				
NBR 1	Approval of Hudaco's Remuneration Policy	Hudaco comprises 31 businesses which seem to be administered in a "federal" manner and subsequently has a complex management structure grouped as follows. **Executive directors**: These are the top-level executives on the board. **Executive committee members**: This group includes the executive directors and other key executives. **Senior leadership cohort**: This level includes the executive committee members and the top 15 executives, generally responsible for the largest or multiple businesses. **Business level executives**: Approximately 75 divisional directors of Hudaco's individual businesses, excluding the senior leadership cohort, are in this group.	AGAINST	FOR: 73.67% AGAINST: 26.33%

	Resolution	Rationale	Vote	Outcome of AGM
		Senior managers: This category includes the business-level executives and the next level of management, comprising approximately 230 people across the group. **General body of staff**: This includes all personnel except the senior leadership cohort and the business level executives. Hudaco's remuneration policy aims to attract, motivate, and retain talent while aligning with strategic goals and ethical conduct. It balances fixed pay, short-term incentives (STI), and long-term incentives (LTI) based on responsibility and performance. Senior executives' pay links to group performance, emphasizing earnings growth and returns. STIs are tied to return on equity (ROE) and earnings per share. LTIs include share appreciation rights and a share-matching scheme, ostensibly to align executive and shareholder interests. **Short-Term Incentives (STI):** **Return on Net Tangible Assets (RONTA)**: For senior managers employed in business units, a significant portion of their STI is based on RONTA. Each business is measured against its own benchmark, balancing operating profit margin and net operating asset return. **Growth in Profits**: Another significant factor for senior managers is the growth in profits in the businesses under their control. **Return on Equity (ROE) Range**: Executive directors' STI is primarily based on a pre-determined ROE range, which is capped. No bonus is paid if ROE is below 14%, and the primary target is 17%, with a cap at 23%. Impairments of goodwill are excluded from ROE calculations. **Comparable Earnings Per Share (CEPS) Growth**: Executive directors' STI also depends on achieving CEPS growth. This is subject to partial clawback and increases more steeply once growth exceeds 15%.		

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		Intrinsic Shareholder Value-Added: A portion of the STI for executive directors is linked to adding intrinsic value of R20 per share to achieve the maximum capped bonus for that component. **Non-Financial Key Objectives**: A portion of the STI for the group chief executive and financial director is based on achieving non-financial key objectives, but the specific non-financial key objectives used are not detailed. **Long-Term Incentives (LTI):** **Return on Equity (ROE)**: A portion of the LTI for the senior leadership cohort depends on achieving a pre-determined average ROE from the date of the award to the vesting date (between 14% and 16% for the 2024 award). **Cumulative Increase in CEPS**: Another portion depends on the cumulative increase in CEPS of CPI between the date of the award and the vesting date4. For the first two years of the 2023 and 2024 grants, the requirement is to at least match the earnings per share of 2022 and 2023, respectively. **Share Price Appreciation**: Participants in the share appreciation bonus scheme benefit from share price appreciation over the vesting period5. **Performance-Based Conditions**: For the senior leadership cohort, performance criteria based on ROE and CEPS growth over three, four, and five years must be met before benefiting from share price appreciation. We have the following reservations about the Remuneration Report: • The report outlines average annual salary increases of 5.5% for those employees who earned above a threshold of R1.35 million per annum, 6.5% for those who earned below R240 000 per annum, and 6% for those whose earnings were		

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		between those two thresholds. In Rand terms this means that the lowest paid will receive a maximum increase of R15 600 pa, those between the thresholds a maximum increase of R81 000 pa while the CEO's fixed CTC rose by R420 000. These are unsupportable disparities. • We would like to see environmental targets incorporated in the STI and LTI determinants which are overly weighted toward financial performance. • Both the CEO and FD's remuneration are well above the PWC 2024 trends, and we regard them as excessive, especially when the operating profit increased from 2018 to 2023, but **decreased** in 2024. We urge the REMCO to address the pay disparities more aggressively; include clear environmental and social targets in the STIs and LTIs; and moderate the amounts paid to executive directors.		
NBR 2	Approval of Hudaco's remuneration implementation report	For all the reasons outlined above we do not support the Remuneration Implementation Report.	AGAINST	FOR: 73.64% AGAINST: 26.36%
Special Resolutions				
SR 2	General authority to repurchase up to 1 544 799 of the ordinary shares (5% of the shares in issue)	With a current PE ratio of 10.8 (3/3/25) [9.97 at year end] repurchase is a way to return value to shareholders. In general, we are of the opinion that companies should not be permitted to re-purchase shares in the market, except by way of a general offer to all shareholders. We would prefer to see some more detailed motivation than that provided.	AGAINST	FOR: 99.30% AGAINST: 0.70%

	Resolution	Rationale	Vote	Outcome of AGM
Ordinary Resolutions				
OR 5	General authority to directors to allot and issue up to 1 544 799 authorised but unissued ordinary shares (5% of the shares in issue)	The group policy is not to issue new shares to meet obligations under the employee share incentive scheme. There are currently 4,003,000 unissued shares that have been made available to the scheme which represents 7.7% of the issued capital (30 895 980). We support this resolution on the understanding that the 1 544 799 shares are drawn from the number already set aside.	FOR	FOR: 86.82% AGAINST: 13.18%
OR 6	Signature of documents	This is an administrative resolution giving any director or company secretary the authority to perform all the necessary actions to implement resolutions; we therefore support it.	FOR	FOR: 100.00% AGAINST: 0.00%

AGM OUTCOME

At the AGM 28 388 152 voteable shares (being 30 895 980 ordinary shares in issue as at the date of the AGM minus 2 507 828 treasury shares held by a subsidiary of Hudaco) being 78.60% of the votable shares were voted.

Based on the voting results, shown above all binding resolutions were passed by the requisite majority of Hudaco shareholders present in person or represented by proxy at the AGM.

However, due to the Non-binding Resolutions Numbers 1 and 2 relating to the approval of Hudaco's remuneration policy and remuneration implementation report respectively being voted against by more than 25% of Hudaco's shareholders present in person or by proxy at the AGM, the Company extended an invitation to dissenting shareholders to engage with them.