ISA HOLDINGS LIMITED

ISA Holdings Limited, incorporated in the Republic of South Africa ("ISA" or "Group")
Registration number 1998/009608/06 Share code: ISA ISIN: ZAE000067344
Block 9, Pinewood Office Park, 33 Riley Road, Woodmead, Sandton, South Africa
PO Box 781667, Sandton, 2146, South Africa
Telephone: +27 (0) 11 032 7799
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Directors: PJG Green, CS Katz, P Mogoboya, #AJ Naidoo, #C Pillay, *N Maphothi, *DC Seaton, *O Seku
Non-executive * Independent non-executive

UNAUDITED CONDENSED RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2019

	Unaudited for the six months ended 31 Aug 19 R'000	Unaudited for the six months ended 31 Aug 18 R'000	Audited for the year ended 28 Feb 19 R'000
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME			
Project derived turnover	15 443	19 804	34 777
Subscription derived turnover	37 692	33 043	85 296
Turnover	53 135	52 847	120 073
Cost of sales	(27 785)	(28 046)	(67 980)
Profit before other income and expenses	25 350	24 801	52 093
Other income	1 889	6 026	8 188
Selling and marketing costs	(6 423)	(6 597)	(12 885)
Administrative expenses	(4 811)	(6 345)	(10 998)
Finance income	3 276	2 075	4 352
Finance costs	-	(71)	(157)
Share of (loss)/profit of equity-accounted investment	(266)	1 015	905
Profit before taxation	19 015	20 905	41 498
Taxation	(5 286)	(5 633)	(11 541)
Profit attributable to equity shareholders for the period	13 729	15 272	29 957
Total comprehensive income attributable to equity shareholders for the period	13 729	15 272	29 957
Earnings per share (cents)	8.8	9.8	19.2
Diluted earnings per share (cents)	8.8	9.8	19.2

	Unaudited As at 31 Aug 19 R'000	Unaudited As at 31 Aug 18 R'000	Audited As at 28 Feb 19 R'000
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION			
ASSETS			
Non-current assets	17 209	36 308	37 847
Property, plant and equipment	9 864	10 031	9 980
Intangible assets	-	35	-
Loans receivable	2 516	22 022	24 101
Equity accounted investment	1 401	1 781	1 671
Deferred tax	3 428	2 439	2 096
Current assets	59 102	69 029	83 863
Cash and cash equivalents	31 727	47 994	63 047
Inventories	1 773	6 079	35
Trade and other receivables	24 130	14 945	19 490
Current tax receivable	1 472	11	1 291
Total assets	76 311	105 337	121 711
EQUITY AND LIABILITIES			
Equity capital and reserves	47 925	80 666	95 354
Share capital and share premium	1 560	1 560	1 560
Reserves	46 365	79 106	93 794
LIABILITIES			
Current liabilities	28 386	24 671	26 357
Trade and other payables	26 154	22 272	23 868
Current tax payable	2 232	2 399	2 489
Total liabilities	28 386	24 671	26 357
Total equity and liabilities	76 311	105 337	121 711

	Unaudited for the six months ended 31 Aug 19 R'000	Unaudited for the six months ended 31 Aug 18 R'000	Audited for the year ended 28 Feb 19 R'000
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW			
Cash flows from operating activities	5 792	16 277	30 330
Cash receipts from customers	48 706	64 887	126 584
Cash paid to suppliers and employees	(38 343)	(47 494)	(86 553)
Cash generated from operations	10 363	17 393	40 031
Finance income	2 484	837	2 056
Finance costs	-	(71)	(157)
Taxation paid	(7 055)	(1 882)	(11 600)
Cash flows from investing activities	22 783	5 389	4 844
Purchase of property, plant and equipment	(93)	(125)	(149)
Dividends received	500	-	500
Proceeds on loans receivable	22 376	5 514	4 493
Cash flows from financing activities	(61 151)	(21 216)	(21 213)
Dividends paid to ordinary shareholders	(61 151)	(21 216)	(21 213)
Net increase in cash and cash equivalents	(32 576)	450	13 961
Revaluation of foreign cash balances	1 257	5 831	7 373
Cash and cash equivalents at beginning of the period	63 047	41 713	41 713
Cash and cash equivalents at end of the period	31 727	47 994	63 047

	Unaudited for the six months ended 31 Aug 19 R'000	Unaudited for the six months ended 31 Aug 18 R'000	Audited for the year ended 28 Feb 19 R'000
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY			
Share capital - ordinary shares			
Balance at beginning of the period	1 560	1 560	1 560
Balance at end of the period	1 560	1 560	1 560
Reserves - retained earnings			
Balance at beginning of the period	93 794	85 050	85 050
Total comprehensive income - profit	13 729	15 272	29 957
Dividends paid during the period	(61 151)	(21 216)	(21 213)
Balance at end of the period	46 365	79 106	93 794
Total equity capital and reserves	47 925	80 666	95 354

Notes to the statements:

ORDINARY SHARES	'000s	'000s	'000s
Number of shares in issue at end of period	155 996	155 996	155 996
Weighted average number of shares in issue	155 996	155 996	155 996
Treasury shares held at end of period	14 596	14 596	14 596
	Cents	Cents	Cents
Net asset value per share at end of period	30.7	51.7	61.1
Net tangible asset value per share at end of period	30.7	51.7	61.1
Headline earnings per share*	8.8	9.8	19.2
Diluted headline earnings per share*	8.8	9.8	19.2

* There have been no reconciling items that would result in a change to the headline earnings per share and diluted headline earnings per share.

Designated Advisor:
Merchantec capital

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OPERATIONAL REVIEW

I am pleased to present our results for the six months ended 31 August 2019, which continue to be underpinned by a high portion of recurring revenues, a robust balance sheet and strong cash flows. Despite the increasingly challenging trading conditions in which we operate, together with the immense pressure on the local economy, overall performance remains satisfactory.

Turnover increased marginally by 1% to R53.1 million (2018: R52.8 million) and includes a continued healthy shift in revenue composition towards our higher margin Managed Security Service and Managed Security Solution offerings, which are supported by our internally developed security infrastructure management and monitoring platform, MSS Pulse. This revenue composition perfectly offset the effect of systemic erosion of gross margin from the sale of products and technologies, enabling us to achieve an increase in profits before other income and expenses of 2% to R25.4 million (2018: R24.8 million) over the previous corresponding reporting period. This revenue composition, together with the increase of 14% in subscription derived turnover to R37.7 million (2018: R33.0 million), now contributing 71% (2018: 63%) of overall turnover, is well in line with our longer-term revenue composition objectives.

Geographically, revenue was generated from the following major regions:

- South Africa: 80% (2018: 76% of revenue)
- Rest of Africa: 15% (2018: 22% of revenue) : including all countries in Africa, excluding South Africa
- Rest of World: 5% (2018: 2% of revenue) : including all countries globally, excluding those in Africa

On a less positive note, project derived turnover continued to be under pressure, decreasing during the period under review by 22% to R15.4 million (2018: R19.8 million) compared to the previous corresponding reporting period. Management attributes part of this decline to the tough trading environment in which the Group operates, as well as to its overly cautious approach to onboarding emerging 'next generation' technologies and brands that are required by their customers to address the rapidly evolving information security threat landscape. Corrective steps have already been taken with the successful onboarding of several new technologies and brands, but the results of these measures have yet to return the desired results.

Operating costs during the period under review reduced by a pleasing 13% to R11.2 million (2018: R12.9 million) and is an illustration of management's continued effort to contain costs and drive efficiencies throughout the business. Share of profits from our equity-accounted investment, DataProof, unfortunately reduced to a loss of R266 000 during the period under review, from a profit of R1 million in the prior corresponding reporting period. However, the overall effect on our results remained positive when viewed together with the R500 000 dividend that was received from DataProof during the current reporting period. Management understands that the poor performance from DataProof during this reporting period is largely a factor of deal timing, which should stabilise when there are greater transactional volumes.

Profits from the revaluation of foreign cash reserves reduced substantially by 78% during the period under review to R1.3 million (2018: R5.8 million), which had a significant effect on our results. Earnings and headline earnings reduced by 10% to R13.7 million (2018: R15.3 million), representing earnings per share of 8.8 cents (2018: 9.8 cents). However, if the effect of this reduction were to be excluded in both this and the previous corresponding reporting periods, bottom line profit would have increased by a healthy 16% to R12.8 million (2018: R11.1 million).

During the period under review, our business partner settled their loan, resulting in a reduction of loan receivables by 89% to R2.5 million (2018: R22.0 million). This substantial cash inflow was distributed to shareholders, as referred to below, and cash and cash equivalents decreased by the end of the reporting period by 34% to R31.7 million (2108: R48.0 million).

DISTRIBUTION

A final ordinary and special dividend totalling R61.1 million was declared and paid to shareholders during the period under review, representing a gross distribution of 39.2 cents per share, comprising 19.2 cents per share ordinary dividend and 20.0 cents per share special dividend. The board has not declared an interim dividend.

PROSPECTS

I continue to be optimistic about our long-term prospects, as the key drivers of the information security market remain robust. With the continued evolution and persistence of threats and attack vectors against corporate information and online computing resources, together with the increased regulatory and legislative compliance requirements, stakeholders continue to elevate the importance of security within their organisations. By leveraging this positive sentiment towards the information security market, as well as our positioning as a thought leader in this market segment, we are likely to continue delivering above average tangible returns over time.

BASIS OF PREPARATION

The accounting policies applied in the preparation of these unaudited condensed results for the six months ended 31 August 2019 ("Interim Results"), which are based on reasonable judgements and estimates, are in accordance with International Financial Reporting Standards ("IFRS").

These Interim Results, as set out in this report, have been prepared in terms of IAS 34 – Interim Financial Reporting, the Companies Act, 2008 (Act 71 of 2008), as amended, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the Listings Requirements of the JSE Limited. These Interim Results have not been reviewed or audited by the group's auditors, and have been prepared by Priscilla Mogoboya, the Financial Director of the Group.

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CHANGES IN SIGNFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these Interim Results, as well as the methods of computation are consistent with those followed in the preparation of the annual financial statements for the year ended 28 February 2019, except for the adoption of new standard, IFRS 16 "Leases", effective 1 January 2019.

IFRS 16 – Leases

The Group adopted IFRS 16 "Leases" for the first time for its financial reporting year ending 29 February 2020 however, IFRS 16 does not apply to the Group as the Company does not have leases and therefore no restatement of the financial statements is required.

CHANGES TO THE BOARD AND SUBSEQUENT EVENTS

As announced on 30 May 2019 and 20 September 2019 respectively, the board notified shareholders that:

- with effect from 30 May 2019, Denzil Perreira had resigned as an independent non-executive director, Chairperson of the board and member of the Audit and Risk Committee; and
- with effect from 19 September 2019, Onica Seku has been appointed as an independent non-executive director and a member of the Audit and Risk Committee; and Clarissa Pillay has been appointed as a non-executive director.

Other than the abovementioned, there have been no material subsequent events up to and including the date of this report.

SPECIAL THANKS

On behalf of the board, I would like to take this opportunity to thank the ISA team for their continued dedication and hard work. My appreciation is also extended to my colleagues on the board for their wise counsel and valuable input, as well as to all stakeholders, customers and vendors for their support.

For and on behalf of the board,

Clifford Katz
Chief Executive Officer
15 November 2019