adcorp

Connecting Potential

# Unaudited interim results for the six months ended 31 August 2020

# Contents



adcorp
Connecting Potential

# **Salient** features



**Revenue** from continuing operations decreased by **11%** to **R6,1 billion**

(2019: R6,9 billion restated*)

**Operating profit from continuing operations** increased by **30%** to **R71 million**

(2019: R54 million restated*)

**Profit after tax from continuing operations** increased to R17 million

(2019: R470 million loss after tax restated*)

**Cash generated by operations** increased to **R861 million**

(2019: R110 million)

**Days Sales Outstanding (DSO)** decreased to **46 days**

(2019: 51 days)

**Gearing ratio** decreased to **45%**

(2019: 53%)

**Earnings per share** increased to **40,8 cents** per share

(2019: 413,3 cents loss per share)

**Headline earnings per share** increased to **41,9 cents**

(2019: 5,1 cents earnings per share)

** Restated to classify Dare Holdings Proprietary Limited – Australia and Adcorp Support Services Proprietary Limited (Adcorp Financial Services segment) as assets held for sale.*
*Refer to note 4 (Discontinued operations).*

## Performance overview

Adcorp's financial results for the six months ended 31 August 2020 were significantly improved notwithstanding the impact of the economic slowdown and continued trading limitations related to COVID-19. The COVID-19 lockdown trading restrictions have had a severe effect on revenues across all industries with a concomitant effect on the global staffing industry.

South Africa's economy contracted by an annualised 51% in the second quarter. Although the official rate of unemployment fell to 23,3% in Q2 from 30,1% in Q1, increasing again to 30.8% for Q3, the real impact of COVID-19 on the local job market can be seen in the expanded unemployment rate which increased from 39,7% to 42% in Q2 and to 43.1% in Q3. The expanded unemployment rate includes people who are unemployed but not actively looking for work and the national lockdown made it impossible for some job seekers to search for employment. The Australian economy has also been heavily impacted by the pandemic, reporting an increase in unemployment rates to 7,5% in August 2020 from a steady circa 5% pre-COVID-19.

The preservation of revenue and margin under these abnormal circumstances has been challenging. Adcorp responded appropriately by curtailing costs, significantly increasing cash collections and extending credit terms. Resultantly, the Group's profits are higher than in the first half of the prior year largely due to rigorous management of operating costs to mitigate the impact of COVID-19. In addition, shareholders are reminded that the results for the FY2020 half year period were impacted by significant impairment of the goodwill in some of the Group's resourcing businesses. In the current financial year, none of the companies where goodwill exists have been found to be impaired in the first half of the year.

## Financial review

Total Group revenue declined by 10,5% largely due to the interruption of classroom-based training in South Africa, as well as a substantial reduction in commercial activity and consequently demand for labour in both operating geographies. Operating profits from continuing operations, however, yielded a pleasing outcome with South Africa increasing by 19,4% to R44 million and Australia by 53,6% to R27 million.

Revenue from South Africa decreased by 23,6%, largely impacted by the national lockdown imposed as a result of COVID-19 which led to a decrease in demand for temporary employment services, permanent placements and training. Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 8,6% consequent to cost containment across the value chain.

Non-recurring costs of approximately R65,7 million relating to initiatives aimed at building a lean operating model and increasing efficiencies, were incurred in the first half of the year. Severance costs comprised R21,6 million of these costs and R27,1 million was incurred on the technology refresh.

Australia showed resilience notwithstanding a sustained lockdown in certain regions. Revenue from continued operations declined by 8,8% in AUD (approximately 10% increase in ZAR) due to lower permanent recruitment fees, delayed project revenue and a decrease in client demand for labour as a result of COVID-19. However, EBITDA is higher than the same period in the previous financial year driven by a focused reduction in operating costs and the benefit of government relief income.

The effective tax rate of 18% on continuing operations is driven largely by the recognition of a deferred tax asset of Adfusion Contract Management Services Proprietary Limited, which previously was unrecognised due to uncertainties with respect to the probability of realising the deferred tax asset. The deferred tax asset has been recognised as at 31 August 2020 as there is a reasonable probability that the deferred tax asset will be recovered through continued operations.

The liquidity management measures and interventions introduced to mitigate the impact of COVID-19 continue to remain firmly in place. Particularly pleasing was the impact of improved collections on accounts receivable in South Africa, which resulted in cash generated from operations for the period of R861 million (R110 million for the six months to 31 August 2019), largely driven by a decrease in trade and other receivables of approximately R513 million. The improved collections and reduction in the accounts receivable book has also significantly reduced the credit risk for the remaining book. Australia net debt has improved in the last six months to a credit position of R5 million, raising the possibility of intercompany loan repayments to the South African operations going forward.

Adcorp has made tremendous progress in its initiatives aimed at strengthening the balance sheet. The Group has stabilised its liquidity position by successfully refinancing long term borrowings until May 2022. The divestiture of Dare Australia has been concluded – shareholders are referred to the detailed terms announcement released on SENS on 22 September 2020. The negotiations on the disposal of the Financial Services segment are at an advanced stage and further announcements will be released on SENS in due course. The net result of the above initiatives makes it unlikely that the Group will need to dispose of additional non-core assets other than those already in progress.

## SEGMENT REVIEW

| | Revenue | | | Gross Profit | | | EBITDA | | |
|---|---|---|---|---|---|---|---|---|---|
| | Unaudited six months to 31 August 2020 R'000 | Unaudited six months to 31 August 2019 R'000 | Variance % | Unaudited six months to 31 August 2020 R'000 | Unaudited six months to 31 August 2019 R'000 | Variance % | Unaudited six months to 31 August 2020 R'000 | Unaudited six months to 31 August 2019 R'000 | Variance % |
| **SOUTH AFRICA** | | | | | | | | | |
| Industrial Services | **2 235 946** | 2 907 221 | (23,1) | **198 686** | 259 364 | (23,4) | **127 167** | 134 050 | (5,1) |
| Professional Services | **1 097 329** | 1 439 681 | (23,8) | **146 659** | 261 023 | (43,8) | **88 610** | 85 705 | 3,4 |
| Training | **45 161** | 75 738 | (40,4) | **27 705** | 60 602 | (54,3) | **4 073** | 13 550 | (69,9) |
| Financial Services | **64 055** | 66 366 | (3,5) | **42 789** | 44 346 | (3,5) | **29 826** | 32 842 | (9,2) |
| **South Africa operations before central costs** | **3 442 491** | 4 489 006 | (23,3) | **415 839** | 625 335 | (33,5) | **249 676** | 266 147 | (6,2) |
| Central costs* | **–** | – | | **–** | – | | **(140 028)** | (160 698) | (12,9) |
| **Total South Africa** | **3 442 491** | 4 489 006 | (23,3) | **415 839** | 625 335 | (33,5) | **109 648** | 105 449 | 4,0 |
| **AUSTRALIA** | | | | | | | | | |
| Industrial Services | **670 351** | 626 495 | 7,0 | **39 322** | 56 376 | (30,3) | **26 488** | 6 968 | 280,1 |
| Professional Services | **2 322 798** | 2 072 750 | 12,1 | **170 320** | 168 267 | 1,2 | **57 740** | 49 740 | 16,1 |
| **Australia operations before central costs** | **2 993 149** | 2 699 245 | 10,9 | **209 642** | 224 643 | (6,7) | **84 228** | 56 708 | 48,5 |
| Central costs | **–** | – | | | | | **(18 075)** | (11 099) | (62,9) |
| **Total Australia** | **2 993 149** | 2 699 245 | 10,9 | **209 642** | 224 643 | (6,7) | **66 153** | 45 609 | 45,0 |
| **Total Group** | **6 435 640** | 7 188 251 | (10,5) | **625 481** | 849 978 | (26,4) | **175 801** | 151 058 | 16,4 |

***The above numbers are presented inclusive of discontinued operations.***

* *These are gross central costs before allocations to operating entities. They are currently tracked separately to ensure visibility over the rightsizing of this amount. Central costs comprise head office and certain shared functions.*

# Operational review

## South Africa

### Industrial Services

Industrial Services, which comprises temporary employment services (TES) and Functional Outsourcing, has remained operational throughout the national lockdown albeit at reduced headcount levels and hours worked. Revenue in the Industrial Services portfolio decreased by 23,1% compared to the same period in the previous financial year with gross profit decreasing by 23,4%. This decline was largely in TES as the hospitality, automotive and industrials sectors, which constitute a significant portion of this segment, were the worst affected during lockdown. In contrast, Functional Outsourcing reported an increase in revenue as it benefited from operating in sectors that were mostly deemed as essential services during lockdown levels 4 and 5. Industrial Services reported an increase in EBITDA before central cost recoveries largely attributed to the focus on cost savings coupled with a drive to ensure a profitable client mix.

### Professional Placements

Revenue in the Professional Placements portfolio decreased by 23,8% when compared to the first half of the previous financial year. The Professional Placements portfolio comprises what was previously the Support Services segment as well as the Professional Services segment, which includes the Kelly Quest, Charisma, Paracon, TalentCRU, AllaboutXpert (AAX) and DAV brands.

Kelly Quest reported a decline of 40,2% in comparison to the previous financial year largely due to clients reducing their temporary staff complements in the financial services and telecoms industries. Revenue in Charisma declined by 33,5% compared to the previous financial year driven by the lack of elective procedures during lockdown, which results in reduced demand for registered and specialist nursing staff. Paracon and AAX revenue declined by 10,6% primarily due to budgetary constraints at major clients in the financial services industry which resulted in reduced contractor hours. In addition, permanent placement requirements were minimal during the COVID-19 lockdown period and recovery in this area is proving to be slower than anticipated. Significant cost saving measures were introduced to counter the impact of the loss in revenue, resulting in an overall reduction of overheads and an increase in EBITDA.

### Training

The Training portfolio EBITDA reduced significantly due to revenue contraction of 40,4% compared to the same reporting period in the previous financial year, with gross profit decreasing 54,3%. Training recognised minimal revenue for the months of April, May and June due to the business being solely reliant on instructor led training pre-COVID-19. In addition, clients cut back investment in learning and development, and the adoption of the virtual platform offering has been slower than expected. Although the uptake of virtual training has been slow, it has allowed the Group to start providing training in geographies outside of South Africa.

### Australia

#### Industrial Services

Labour Solutions Australia's revenue declined by 14,2% and gross profit by 44,9% on prior year with several key clients forced to temporarily shut down operations as a result of COVID-19 outbreaks. Although this impact has been damaging, government relief income has provided some income protection during the pandemic contributing AUD2,6 million to EBITDA in turn allowing this sector to report profits 67% ahead of prior year.

#### Professional Services

In the resourcing sector, Paxus has shown relative resilience in the contracting levels supported by its strong client relationships and market presence in IT. Margin decreased by 0,8% on prior year due to the decline in permanent placement income. AllaboutXpert, the project management and consulting business, has also been heavily impacted by delayed project spend, thus reporting a revenue decline of 7,3% on prior year.

## Changes to the Board of Adcorp

The following changes to the directorate took place during the period under review:

- Appointment of Phil Roux as an Executive Director (Chief Executive Officer) with effect from 23 April 2020;
- Appointment of Melvyn Lubega as an Independent Non-Executive Director with effect from 1 July 2020; and
- Resignation of Cheryl-Jane Kujenga as an Executive Director (Chief Financial Officer) with effect from 15 May 2020.

Further to the above changes, the following directorate changes took place post 31 August 2020:

- Resignation of Gugulethu Dingaan as a Non-Executive Director with effect from 10 September 2020;
- Resignation of Sydney Mufamadi as a Non-Executive Director with effect from 10 September 2020;
- Appointment of Tshidi Mokgabudi as an Independent Non-Executive Director with effect from 15 October 2020 (Tshidi Mokgabudi will be replacing Sindi Mabaso-Koyana, who will be retiring from the Board and Audit and Risk Committee on 28 February 2021); and
- Appointment of Noel Prendergast as an Executive Director (Chief Financial Officer) with effect from 21 October 2020.

## Prospects

In the face of the uncertainty presented by COVID-19, the financial priorities for the first half of the current year were managing the business for cash and cost containment. The strategic focus will begin to shift to gaining market share given a contracting market and negative economic outlook. The process of establishing internal stabilisation will be sustained.

The operational outlook for Adcorp is promising notwithstanding the precarious market conditions. Certain parts of our business are ideally suited to a flexible staffing solution amidst market volatility. The global staffing industry expects to see reliance on project-based terms and short-term contracts creating market opportunities over the next few years.

The Adcorp Group remains a going concern with sufficient liquidity to continue with all operating activities for the foreseeable future.

These interim results have not been audited by the Group's auditors.

Signed on behalf of the Board

| | | |
|---|---|---|
| **GT Serobe** | **PM Roux** | **N Prendergast** |
| *Chairman* | *Chief Executive Officer* | *Chief Financial Officer* |

25 November 2020

# **Consolidated statement** of financial position

as at 31 August 2020



| | Notes | **Unaudited six months to 31 August 2020 R'000** | Unaudited six months to 31 August 2019 R'000 | Audited year to 29 February 2020 R'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | **1 540 300** | 1 717 188 | 1 532 497 |
| Property and equipment | | **67 796** | 88 808 | 72 212 |
| Right of use assets | | **385 020** | 451 484 | 414 917 |
| Intangible assets | | **225 462** | 212 164 | 210 968 |
| Goodwill | | **635 609** | 750 349 | 635 609 |
| Investment – fair value | | **18 444** | 16 907 | 17 620 |
| Deferred taxation | | **207 969** | 197 476 | 181 171 |
| **Current assets** | | **2 390 354** | 2 672 724 | 2 358 770 |
| Trade receivables | | **1 547 621** | 2 045 496 | 1 924 851 |
| Other receivables | | **139 970** | 167 727 | 91 849 |
| Investment – amortised cost | | **5 148** | 3 097 | 4 431 |
| Taxation prepaid | | **16 210** | 54 094 | 18 485 |
| Cash and cash equivalents | | **681 405** | 402 310 | 319 154 |
| Non-current assets held for sale | | **103 631** | – | 116 039 |
| **Total assets** | | **4 034 285** | 4 389 912 | 4 007 306 |
| **EQUITY AND LIABILITIES** | | | | |
| **Capital and reserves** | | **1 308 151** | 1 350 749 | 1 175 747 |
| Share capital and share premium | | **1 740 858** | 1 740 858 | 1 740 858 |
| Treasury shares | | **(68 083)** | (68 083) | (68 083) |
| Reserves | | **(364 624)** | (322 026) | (497 028) |
| **Interest-bearing liabilities** | | **1 077 239** | 1 540 189 | 1 499 344 |
| **Non-current liabilities** | | **381 066** | 1 219 516 | 404 021 |
| Long-term loans | 9 | **–** | 831 840 | – |
| Lease liabilities | 4 | **381 066** | 387 676 | 404 021 |
| **Current liabilities** | | **696 173** | 320 673 | 1 095 323 |
| Short-term loans | 9 | **629 238** | 237 611 | 1 001 684 |
| Lease liabilities | | **66 742** | 81 605 | 93 457 |
| Bank overdraft | | **193** | 1 457 | 182 |
| **Non-interest-bearing liabilities** | | **1 603 143** | 1 498 974 | 1 293 356 |
| **Non-current liabilities** | | **136 348** | 94 616 | 85 655 |
| Deferred taxation | 8 | **136 348** | 94 616 | 85 655 |
| **Current liabilities** | | **1 466 795** | 1 404 358 | 1 207 701 |
| Trade and other payables including IFRS 15 contract liabilities | | **1 252 711** | 1 097 235 | 1 010 646 |
| Provisions | | **191 794** | 275 916 | 162 429 |
| Taxation | | **22 290** | 31 207 | 34 626 |
| Liabilities held for sale | | **45 752** | – | 38 859 |
| **Total equity and liabilities** | | **4 034 285** | 4 389 912 | 4 007 306 |

# Consolidated statement
## of profit or loss

for the six months ended 31 August 2020



| | Unaudited six months to 31 August 2020 R'000 | Restated* Unaudited six months to 31 August 2019 R'000 | Restated** Unaudited year to 29 February 2020 R'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **Revenue** | **6 110 733** | 6 898 657 | 12 922 325 |
| Cost of sales | **(5 549 124)** | (6 110 748) | (11 452 501) |
| **Gross profit** | **561 609** | 787 909 | 1 469 824 |
| Other income | **56 663** | 12 527 | 26 711 |
| Operating expenses | **(483 363)** | (681 856) | (1 225 278) |
| **Earnings before depreciation and amortisation** | **134 909** | 118 580 | 271 257 |
| Depreciation and amortisation | **(64 294)** | (64 096) | (141 998) |
| **Operating profit** | **70 615** | 54 484 | 129 259 |
| Interest income | **9 692** | 13 709 | 21 943 |
| Interest expense | **(59 222)** | (60 943) | (127 457) |
| Impairment expense | **–** | (452 160) | (613 373) |
| Loss from the sale of entities | **–** | – | (715) |
| **Profit/(loss) before taxation** | **21 085** | (444 910) | (590 343) |
| Taxation expense | **(3 753)** | (25 328) | (71 104) |
| **Profit/(loss) for the year from continuing operations** | **17 332** | (470 238) | (661 447) |
| **DISCONTINUED OPERATIONS** | | | |
| Profit for the year from discontinued operations | **26 608** | 23 619 | 57 697 |
| **Profit/(loss) for the year** | **43 940** | (446 619) | (603 750) |
| **Profit/(loss) attributable to:** | | | |
| Owners of the parent from continuing operations | **17 332** | (470 238) | (661 761) |
| Owners of the parent discontinued operations | **26 608** | 23 619 | 57 697 |
| Non-controlling interest | **–** | – | 314 |

* *31 August 2019 restated on the classification of Dare Holdings Proprietary Limited-Australia and Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

** *29 February 2020 restated on the classification of Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

# Consolidated statement
## of other comprehensive income

for the six months ended 31 August 2020



| | **Unaudited six months to 31 August 2020 R'000** | Restated* Unaudited six months to 31 August 2019 R'000 | Restated** Unaudited year to 29 February 2020 R'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **Profit/(loss) for the year** | **43 940** | (446 619) | (603 750) |
| **Other comprehensive income** | | | |
| Exchange differences on translating foreign operations | **(11 699)** | 7 034 | (4 109) |
| Exchange differences arising on the net investment of a foreign operation | **81 544** | 4 556 | 6 582 |
| **DISCONTINUED OPERATIONS** | | | |
| Exchange differences on translating foreign operations | **16 553** | 6 215 | 1 282 |
| **Other comprehensive income for the year, net of tax** | **86 398** | 17 805 | 3 755 |
| Non-controlling interest | **158** | – | – |
| **Total comprehensive income/(loss) for the year** | **130 496** | (428 814) | (599 995) |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Owners of the parent continuing operations | **87 177** | (458 648) | (659 288) |
| Owners of the parent discontinued operations | **43 161** | 29 834 | 58 979 |
| Non-controlling interest | **158** | – | 314 |

* *31 August 2019 restated on the classification of Dare Holdings Proprietary Limited-Australia and Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

** *29 February 2020 restated on the classification of Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

# Consolidated statement of changes in equity

for the six months ended 31 August 2020



| | Share capital R'000 | Share premium R'000 | Treasury shares R'000 | Share-based payment reserve R'000 |
|---|---|---|---|---|
| **Balance as at 28 February 2019 (audited)** | 2 749 | 1 738 109 | (38 233) | 161 774 |
| Recognition of BBBEE and staff share-based payments | – | – | – | 9 605 |
| Treasury shares acquired | – | – | (29 850) | – |
| Dividend distributions | – | – | – | – |
| Loss for the year | – | – | – | – |
| Other comprehensive income | – | – | – | – |
| Equity due to change in control | – | – | – | – |
| Non-controlling interest | – | – | – | – |
| **Balance as at 31 August 2019 (unaudited)** | 2 749 | 1 738 109 | (68 083) | 171 379 |
| Recognition of BBBEE and staff share-based payments | – | – | – | (4 585) |
| Treasury shares acquired | – | – | – | – |
| Dividend distributions | – | – | – | – |
| Loss for the year | – | – | – | – |
| Other comprehensive income/(loss) | – | – | – | – |
| Equity due to change in control | – | – | – | – |
| Non-controlling interest | – | – | – | – |
| **Balance as at 29 February 2020 (audited)** | 2 749 | 1 738 109 | (68 083) | 166 794 |
| Recognition of BBBEE and staff share-based payments | **–** | **–** | **–** | **1 908** |
| Treasury shares acquired | **–** | **–** | **–** | **–** |
| Dividend distributions | **–** | **–** | **–** | **–** |
| Profit for the year | **–** | **–** | **–** | **–** |
| Other comprehensive income | **–** | **–** | **–** | **–** |
| Equity due to change in control | **–** | **–** | **–** | **–** |
| Non-controlling interest | **–** | **–** | **–** | **–** |
| **Balance as at 31 August 2020 (unaudited)** | **2 749** | **1 738 109** | **(68 083)** | **168 702** |

| | Foreign currency trans-lation reserve R'000 | Retained earnings R'000 | Attribu-table to equity holders of the parent R'000 | Non-controlling interest R'000 | Employee's share option scheme reserve R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| | (15 614) | 52 192 | 1 900 977 | 3 821 | 676 | 1 905 474 |
| | – | – | 9 605 | – | – | 9 605 |
| | – | – | (29 850) | – | – | (29 850) |
| | – | (105 666) | (105 666) | – | – | (105 666) |
| | | (446 619) | (446 619) | – | – | (446 619) |
| | 13 249 | 4 556 | 17 805 | – | – | 17 805 |
| | – | – | – | – | – | – |
| | – | – | – | – | – | – |
| | (2 365) | (495 537) | 1 346 252 | 3 821 | 676 | 1 350 749 |
| | – | – | (4 585) | – | – | (4 585) |
| | – | – | – | – | – | – |
| | – | – | – | – | – | – |
| | – | (157 445) | (157 445) | 314 | – | (157 131) |
| | (16 076) | 2 026 | (14 050) | – | – | (14 050) |
| | – | – | – | 764 | – | 764 |
| | – | – | – | – | – | – |
| | (18 441) | (650 956) | 1 170 172 | 4 899 | 676 | 1 175 747 |
| | **–** | **–** | **1 908** | **–** | **–** | **1 908** |
| | **–** | **–** | **–** | **–** | **–** | **–** |
| | **–** | **–** | **–** | **–** | **–** | **–** |
| | **–** | **43 940** | **43 940** | **–** | **–** | **43 940** |
| | **4 854** | **81 544** | **86 398** | **158** | **–** | **86 556** |
| | **–** | **–** | **–** | **–** | **–** | **–** |
| | **–** | **–** | **–** | **–** | **–** | **–** |
| | **(13 587)** | **(525 472)** | **1 302 418** | **5 057** | **676** | **1 308 151** |

# Consolidated statement of cash flows

for the six months ended 31 August 2020



| | Unaudited six months to 31 August 2020 R'000 | Restated* Unaudited six months to 31 August 2019 R'000 | Restated** Unaudited year to 29 February 2020 R'000 |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit/(loss) before taxation** | **57 464** | (412 503) | (517 864) |
| From continuing operations | **21 085** | (444 910) | (590 343) |
| From discontinued operations | **36 379** | 32 407 | 72 479 |
| **Adjusted for:** | | | |
| Depreciation and amortisation | **15 266** | 14 033 | 29 193 |
| Depreciation right-of-use assets | **35 505** | 26 184 | 62 777 |
| Impairment of financial asset | **6 523** | 5 508 | 16 589 |
| Amortisation of intangibles | **17 656** | 24 580 | 53 335 |
| Impairment of intangible assets and goodwill | **–** | 452 160 | 558 081 |
| Impairment of right-of-use assets | **–** | – | 38 703 |
| Gain on derecognition of lease liability | **(11 526)** | – | – |
| Loss/(profit) on the sale of property and equipment | **1 601** | – | (209) |
| Share-based payments | **2 024** | 9 605 | 5 020 |
| Unrealised foreign exchange gain | **(7 132)** | (6 306) | (14 559) |
| Non-cash portion of operating lease rentals | **–** | (2 013) | – |
| Loss on the sale of associate | **–** | | 715 |
| Fair value adjustment | **(825)** | (2 252) | (2 373) |
| Non-cash adjustments | **–** | – | 12 065 |
| Decrease in bad debt provision | **(24 111)** | 9 397 | (8 418) |
| Bad debt written off | **–** | 6 540 | – |
| Interest income | **(9 793)** | (14 339) | (22 586) |
| Interest expense | **59 703** | 60 943 | 128 091 |
| **Cash generated from operations before working capital changes** | **142 355** | 171 537 | 338 560 |
| Decrease/(increase) in trade and other receivables | **513 190** | (32 418) | 70 097 |
| Increase/(decrease) in trade and other payables | **179 738** | (13 998) | (62 862) |
| Increase/(decrease) in provisions | **25 573** | (17 407) | (130 894) |
| Other non cash items | **–** | 1 934 | (1 837) |
| **Cash generated by operations** | **860 856** | 109 648 | 213 064 |
| Interest income | **9 793** | 14 339 | 22 592 |
| Interest expense | **(35 954)** | (54 411) | (90 832) |
| Interest expense on finance lease liabilities | **(23 749)** | (6 532) | (37 259) |
| Taxation paid | **(30 597)** | (18 730) | (20 025) |
| Dividend paid | **–** | (105 666) | (105 666) |
| **Net cash generated/(utilised) by operating activities** | **780 349** | (61 352) | (18 126) |

| | Unaudited six months to 31 August 2020 R'000 | Restated* Unaudited six months to 31 August 2019 R'000 | Restated** Unaudited year to 29 February 2020 R'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Additions to property, equipment and intangible assets | **(37 405)** | (50 337) | (101 104) |
| Proceeds from sale of property and equipment | **4 124** | – | 26 014 |
| Proceeds from other financial assets | **–** | – | 2 378 |
| **Net cash utilised from investing activities** | **(33 281)** | (50 337) | (72 712) |
| **Financing activities** | | | |
| Payment from the issue of treasury shares | **–** | (29 850) | (29 850) |
| Repayment of borrowings | **(571 668)** | – | (1 122 930) |
| Proceeds from borrowings | **157 274** | 184 149 | 1 235 298 |
| Repayment of lease liabilities | **(46 669)** | (8 387) | (35 417) |
| Non cash item: Foreign currency exchange arising on net investment in foreign operations | **113 255** | – | – |
| **Net cash (utilised)/generated by financing activities** | **(347 808)** | 145 912 | 47 101 |
| Net increase in cash and cash equivalents | **399 260** | 34 223 | (43 737) |
| Cash and cash equivalents at the beginning of the year | **322 893** | 366 630 | 366 630 |
| Non cash item: Foreign currency exchange arising on cash and cash equivalents | **(21 294)** | – | – |
| **Cash and cash equivalents at the end of the period** | **700 859** | 400 853 | 322 893 |

* *31 August 2019 restated on the classification of Dare Holdings Proprietary Limited-Australia and Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

** *29 February 2020 restated on the classification of Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

# **Segment** report

for the six months ended 31 August 2020



| | Industrial services | | Professional services | | | | |
|---|---|---|---|---|---|---|---|
| | South Africa R'000 | Australia R'000 | South Africa R'000 | Australia R'000 | Training R'000 | Financial services R'000 | Subtotal R'000 |
| **Revenue** | | | | | | | |
| **– August 2020 (unaudited)** | **2 235 946** | **409 499** | **1 097 329** | **2 322 798** | **45 161** | **–** | **6 110 733** |
| – August 2019 (unaudited)* | 2 907 221 | 403 267 | 1 439 681 | 2 072 750 | 75 738 | – | 6 898 657 |
| – February 2020 (audited)** | 5 541 907 | 779 983 | 2 706 401 | 3 751 071 | 142 963 | – | 12 922 325 |
| **Internal revenue** | | | | | | | |
| **– August 2020 (unaudited)** | **73 284** | **–** | **5 415** | **–** | **780** | **–** | **79 479** |
| – August 2019 (unaudited)* | 19 110 | – | 6 310 | – | (362) | – | 25 058 |
| – February 2020 (audited)** | 217 959 | – | 11 454 | – | 6 534 | – | 235 947 |
| **Gross profit** | | | | | | | |
| **– August 2020 (unaudited)** | **198 686** | **18 239** | **146 659** | **170 320** | **27 705** | **–** | **561 609** |
| – August 2019 (unaudited)* | 259 364 | 38 653 | 261 023 | 168 267 | 60 602 | – | 787 909 |
| – February 2020 (audited)** | 524 337 | 73 428 | 440 289 | 313 859 | 113 896 | – | 1 465 809 |
| **Operating profit/(loss)*** ** | | | | | | | |
| **– August 2020 (unaudited)** | **60 510** | **14 389** | **6 695** | **44 658** | **(18 030)** | **–** | **108 222** |
| – August 2019 (unaudited)* | 30 258 | (1 780) | 15 905 | 46 441 | 1 981 | – | 92 805 |
| – February 2020 (audited)** | 146 458 | (5 851) | (19 540) | 87 227 | 7 849 | | 216 143 |
| **EBITDA** | | | | | | | |
| **– August 2020 (unaudited)** | **127 167** | **15 422** | **88 610** | **57 740** | **4 073** | **–** | **293 012** |
| – August 2019 (unaudited)* | 134 050 | 6 419 | 85 705 | 49 740 | 13 550 | 913 | 290 377 |
| – February 2020 (audited)** | 301 861 | (4 145) | 139 202 | 91 463 | 22 413 | (35) | 550 759 |
| **Asset carrying value from continuing operations** | | | | | | | |
| **– August 2020 (unaudited)** | **1 086 180** | **127 327** | **680 161** | **461 867** | **35 786** | **–** | **2 391 321** |
| – August 2019 (unaudited)* | 1 133 696 | 197 429 | 1 078 258 | 571 369 | 49 476 | 25 538 | 3 055 766 |
| – February 2020 (audited)** | 1 272 923 | 110 011 | 779 035 | 588 122 | 58 687 | 29 810 | 2 838 588 |
| **Liabilities carrying value** | | | | | | | |
| **– August 2020 (unaudited)** | **613 438** | **65 689** | **350 054** | **274 187** | **115 537** | **–** | **1 418 905** |
| – August 2019 (unaudited)* | 473 253 | 46 380 | 365 889 | 347 974 | 117 302 | 12 032 | 1 362 830 |
| – February 2020 (audited)** | 398 522 | 23 370 | 338 994 | 342 013 | 133 969 | 17 040 | 1 253 908 |

* *31 August 2019 restated on the classification of Dare Holdings Proprietary Limited-Australia and Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

** *29 February 2020 restated on the classification of Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

*** *Includes inter-group charges between continued and discontinued operations of R18 105 000 (31 August 2019: R4 050 000 and 29 February 2020: R12 612 000).*

| Central | | | | | | | |
|---|---|---|---|---|---|---|---|
| South Africa R'000 | Australia R'000 | Total R'000 | International R'000 | South Africa R'000 | Total Group continuing operations R'000 | Discontinued operations R'000 | Total Group R'000 |
| **–** | **–** | **6 110 733** | **2 732 297** | **3 378 436** | **6 110 733** | **324 907** | **6 435 640** |
| – | – | 6 898 657 | 2 476 017 | 4 422 640 | 6 898 657 | 289 594 | 7 188 251 |
| – | – | 12 922 325 | 4 531 054 | 8 391 271 | 12 922 325 | 616 574 | 13 538 899 |
| **259** | **–** | **79 738** | **–** | **79 738** | **79 738** | **–** | **79 738** |
| 3 393 | – | 28 451 | – | 28 451 | 28 451 | – | 28 451 |
| 16 523 | – | 252 470 | – | 252 470 | 252 470 | – | 252 470 |
| **–** | **–** | **561 609** | **188 559** | **373 050** | **561 609** | **63 872** | **625 481** |
| – | – | 787 909 | 206 920 | 580 989 | 787 909 | 62 069 | 849 978 |
| 4 015 | – | 1 469 824 | 387 287 | 1 082 537 | 1 469 824 | 132 558 | 1 602 382 |
| **(2 863)** | **(52 849)** | **52 510** | **6 198** | **46 312** | **52 510** | **54 863** | **107 373** |
| (7 064) | (27 207) | 58 534 | 17 454 | 41 080 | 58 534 | 27 727 | 86 261 |
| (23 581) | (50 691) | 141 871 | 30 685 | 111 186 | 141 871 | 59 846 | 201 717 |
| **(140 028)** | **(18 075)** | **134 909** | **55 087** | **79 822** | **134 909** | **40 892** | **175 801** |
| (160 698) | (11 099) | 118 580 | 45 060 | 73 520 | 118 580 | 32 478 | 151 058 |
| (264 712) | (14 790) | 271 257 | 72 528 | 198 729 | 271 257 | 75 766 | 347 023 |
| **956 038** | **583 295** | **3 930 654** | **1 172 489** | **2 758 165** | **3 930 654** | **103 631** | **4 034 285** |
| 651 096 | 683 050 | 4 389 912 | 1 451 848 | 2 938 064 | 4 389 912 | – | 4 389 912 |
| 601 049 | 451 630 | 3 891 267 | 1 149 763 | 2 741 504 | 3 891 267 | 116 039 | 4 007 306 |
| **1 068 934** | **192 543** | **2 680 382** | **532 419** | **2 147 963** | **2 680 382** | **45 752** | **2 726 134** |
| 1 367 233 | 309 100 | 3 039 163 | 703 454 | 2 335 709 | 3 039 163 | – | 3 039 163 |
| 1 286 176 | 252 616 | 2 792 700 | 617 999 | 2 174 701 | 2 792 700 | 38 859 | 2 831 559 |

## 1. BASIS OF PREPARATION

The unaudited and unreviewed consolidated financial statements are prepared in accordance with the JSE Listings Requirements for interim reports, the requirements of IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act, No 71 of 2008 of South Africa.

These interim financial statements do not include all the notes typically included in the annual financial statements and should therefore be read in conjunction with the Group audited consolidated financial statements for the year ended 29 February 2020.

The interim financial statements comprise the consolidated statement of financial position at 31 August 2020, consolidated income statement, consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated supplementary income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the six months ended 31 August 2020 and selected explanatory notes.

The accounting policies and method of computation applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards (IFRS) as issued by the IASB and are consistent with those applied in the preparation of the Group's 2020 consolidated financial statements.

These unaudited and unreviewed consolidated financial statements for the six months ended 31 August 2020 were prepared under the supervision of Mr Noel Prendegrast CA(SA), in his capacity as CFO.

### 1.1 Restatements

The consolidated statement of profit or loss, consolidated statement of comprehensive income and the consolidated statement of cash flows for the half year ended 31 August 2020 and the full year ended 29 February 2020 have been restated for the classification of operations presented as discontinued operations (refer to note 4).

Previously Support Services which consisted of Kelly, Quest and Charisma businesses was presented as a separate segment in the segmental report. The segmental report on page 14 and 15 has been restated to include Support Services within the Professional Services division as these business are now managed within the Professional Services division given the significant overlap in the client bases. The comparative information has accordingly been restated.

## 2. AUDITOR'S RESPONSIBILITY

These unaudited interim financial results have neither been audited nor reviewed by the Group's auditor.

## 3. GOING CONCERN

The directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, accounting policies supported by judgements, estimates and assumptions in compliance with IFRS are applied on the basis that the Group shall continue as a going concern.

## 4. DISCONTINUED OPERATIONS

During October 2020 the Board resolved to dispose of the Group's investment in its Financial Services Business, housed in Adcorp Support Services Proprietary Limited. Finalisation of the sale agreement is in progress and is expected to be concluded by the end of November 2020. The disposal is consistent with the Group's long-term policy to focus its activities on the Group's core businesses. The Group entered into a sale agreement to dispose of Adcorp Support Services Proprietary Limited, subject to regulatory conditions. All of these conditions are expected to be settled within 12 months and therefore the assets and liabilities have been classified as held for sale and presented separately in the statement of financial position together with the assets and liabilities of Dare Holdings Limited classified as held for sale.

The proceeds of disposal are expected to substantially exceed the carrying amount of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale.

The consolidated statement of profit or loss, consolidated statement of comprehensive income and the consolidated statement of cash flows for the six months ended 31 August 2019 have been restated on the classification of Dare Holdings Proprietary Limited – Australia and Adcorp Support Services Proprietary Limited, presented as discontinued operations. The consolidated statement of profit or loss, consolidated statement of comprehensive income and the consolidated statement of cash flows for the year ended 29 February 2020, have been restated on the classification of Adcorp Support Services Proprietary Limited as a discontinued operation.

## 4. DISCONTINUED OPERATIONS continued

The financial performance presented below relate to Dare Holdings Proprietary Limited and Adcorp Support Services Proprietary Limited.

| | Dare Holdings Proprietary Limited Unaudited six months to 31 August 2020 R'000 | Adcorp Support Services Proprietary Limited Unaudited six months to 31 August 2020 R'000 | Total Unaudited six months to 31 August 2020 R'000 | Dare Holdings Proprietary Limited Unaudited six months to 31 August 2019 R'000 | Adcorp Support Services Proprietary Limited Unaudited six months to 31 August 2019 R'000 | Total Unaudited six months to 31 August 2019 R'000 | Adcorp Support Services Proprietary Limited Unaudited year to 29 February 2020 R'000 | Total Unaudited year to 29 February 2020 R'000 |
|---|---|---|---|---|---|---|---|---|
| **Profit or loss** | | | | | | | | |
| **Revenue** | 260 852 | 64 055 | 324 907 | 223 228 | 66 366 | 289 594 | 136 022 | 136 022 |
| Cost of sales | (239 769) | (21 266) | (261 035) | (205 505) | (22 020) | (227 525) | (43 404) | (43 404) |
| **Gross profit** | 21 083 | 42 789 | 63 872 | 17 723 | 44 346 | 62 069 | 92 618 | 92 618 |
| Other income | 5 076 | 632 | 5 708 | – | 757 | 757 | 1 591 | 1 591 |
| Operating expenses | (15 093) | (13 595) | (28 688) | (17 174) | (13 174) | (30 348) | (24 878) | (24 878) |
| **Earnings before depreciation and amortisation** | 11 066 | 29 826 | 40 892 | 549 | 31 929 | 32 478 | 69 331 | 69 331 |
| Depreciation and amortisation | (2 360) | (1 773) | (4 133) | (134) | (567) | (701) | (3 308) | (3 308) |
| Operating profit | 8 706 | 28 053 | 36 759 | 415 | 31 362 | 31 777 | 66 023 | 66 023 |
| Interest income | 1 | 100 | 101 | 4 | 626 | 630 | 650 | 650 |
| Interest expense | (228) | (253) | (481) | – | – | – | (635) | (635) |
| **Profit before taxation** | 8 479 | 27 900 | 36 379 | 419 | 31 988 | 32 407 | 66 038 | 66 038 |
| Taxation expense | (1 959) | (7 812) | (9 771) | 168 | (8 956) | (8 788) | (13 122) | (13 122) |
| **Profit for the year from discontinued operations** | 6 520 | 20 088 | 26 608 | 587 | 23 032 | 23 619 | 52 916 | 52 916 |

## 4. DISCONTINUED OPERATIONS continued

| | Dare Holdings Proprietary Limited Unaudited 31 August 2020 R'000 | Adcorp Support Services Proprietary Limited Unaudited 31 August 2020 R'000 | Total Unaudited 31 August 2020 R'000 |
|---|---|---|---|
| **Non-current assets held for sale** | **2 202** | **10 139** | **12 341** |
| Property and equipment | 226 | 4 839 | 5 065 |
| Right of use assets | 1 976 | 4 199 | 6 175 |
| Deferred taxation | | 1 101 | 1 101 |
| **Current assets held for sale** | **71 860** | **19 430** | **91 290** |
| Trade receivables | 55 626 | 6 052 | 61 678 |
| Other receivables | 3 605 | 6 360 | 9 965 |
| Cash | 12 629 | 7 018 | 19 647 |
| **Total assets held for sale** | **74 062** | **29 569** | **103 631** |
| **Non-current assets held for sale** | **1 293** | **2 227** | **3 520** |
| Lease liabilities | 1 293 | 2 227 | 3 520 |
| **Current liabilities** | **31 329** | **10 903** | **42 232** |
| Trade and other payables | 27 590 | 3 585 | 31 175 |
| Lease liabilities | 750 | 2 524 | 3 274 |
| Provisions | 1 037 | 4 644 | 5 681 |
| Taxation | 1 952 | 150 | 2 102 |
| **Total liabilities held for sale** | **32 622** | **13 130** | **45 752** |

## 5. REVENUE

The Group is in the business of providing services to clients. Permanent placement and outsourced based solutions services are provided at a point in time. Temporary placement and Training services are provided over a period of time. Revenue is therefore recognised at the point of delivery for permanent placement and outsourced based solutions, and over a period of time for temporary placement and training services. In certain cases the Group makes use of output-based methods to determine when the revenue for performance obligations is recognised over time.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when the performance obligations are met.

## 5. REVENUE continued

| Performance obligation | Description | Timing | Unaudited six months to 31 August 2020 R'000 | Restated* Unaudited six months to 31 August 2019 R'000 | Restated** Unaudited year to 29 February 2020 R'000 |
|---|---|---|---|---|---|
| Permanent placement | Permanent placement involve placing candidates in full-time employment with prospective employers. Once candidates are placed, the Group has no further obligations to the customer. | Revenue is recognised when placed candidates begin employment. | **33 464** | 79 407 | 136 507 |
| Temporary placement | Adcorp provides temporary employment services to customers – the services are described as a "solution". The services contracted include procurement, screening, payroll administration, maintenance of records, management reporting, labour related matters etc. Additional services may be required on an ad hoc basis, the terms of which are to be agreed upon between the parties. | Revenue is recognised as the services are rendered | **4 957 661** | 6 416 647 | 10 475 460 |
| Training | The Group provides disability, technical, higher and technological training as well as other ancillary services. There are no contracts with variable consideration components as well as multiple performance obligations. | Revenue is recognised as the training is provided. | **88 083** | 143 760 | 310 466 |
| Outsourced-based solutions | This is focused on managing a wide range of business processes through qualified professionals who use automation and optimisation tools to help improve efficiency, reduce operational costs and increase productivity, while capitalising on process automation technologies. This could also include providing clients with contract management and vendor disbursements for client suppliers. | Revenue is recognised once the solution has been delivered to the customer. | **1 031 525** | 258 843 | 1 999 892 |
| Total | | | **6 110 733** | 6 898 657 | 12 922 325 |

* *31 August 2019 restated on the classification of Dare Holdings Proprietary Limited-Australia and Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

** *29 February 2020 restated on the classification of Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

## 6. EARNINGS PER SHARE

The calculation of earnings per share on continuing operations attributable to the ordinary equity holders of the parent is based on profits of R17 331 536 (FY2020: loss of R470 238 000), discontinued profit of R26 608 481 (FY2020: discontinued profit of R23 618 736), and ordinary shares of 107 732 131 (FY2020: 111 780 486), being the weighted number of shares relative to the above earnings.

| | **Unaudited six months to 31 August 2020 R'000** | Restated*** Unaudited six months to 31 August 2019 R'000 | Restated**** Unaudited year to 29 February 2020 R'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Basic earnings/(loss) per share (cents) | **16,1** | (435,2) | (614,3) |
| Diluted earnings/(loss) per share (cents) | **16,1** | (420,7) | (614,3) |
| **Discontinuing operations** | | | |
| Basic earnings/(loss) per share (cents) | **24,7** | 21,9 | 53,6 |
| Diluted earnings/(loss) per share (cents) | **24,7** | 21,1 | 53,6 |
| **Total basic loss per share** | | | |
| Basic earnings/(loss) per share (cents) | **40,8** | (413,3) | (560,7) |
| Diluted earnings/(loss) per share (cents) | **40,8** | (399,6) | (560,7) |
| 107 732 131 (2020: 111 780 486) weighted diluted number of shares are determined as follows: | | | |
| *Reconciliation of diluted number of shares* | | | |
| Ordinary shares | **107 732 131** | 108 060 599 | 107 732 131 |
| Adcorp employee share schemes – potential dilution | **–** | 3 719 887 | 1 957 659 |
| Adcorp employee share schemes – anti-dilutive* | **–** | – | (1 957 659) |
| Diluted number of shares | **107 732 131** | 111 780 486 | 107 732 131 |
| *Reconciliation of headline earnings/(loss) from continuing operations*** | | | |
| Profit/(loss) for the year | **17 332** | (470 238) | (661 761) |
| Loss/(profit) on sale of property and equipment | **1 601** | – | (209) |
| Taxation recovered on the sale of property and equipment | **(449)** | – | 58 |
| Impairment of goodwill and right-of-use assets | **–** | 452 160 | 596 784 |
| Loss/(profit) from the sale of entities | **–** | | 715 |
| Taxation charged on sale of associate | **–** | | – |
| Headline earnings/(loss) | **18 484** | (18 078) | (64 413) |
| Headline earnings/(loss) per share – cents | **17,2** | (16,7) | (59,8) |
| Diluted headline/(loss) earnings per share – cents | **17,2** | (16,2) | (59,8) |

## 6. EARNINGS PER SHARE continued

| | Unaudited six months to 31 August 2020 R'000 | Restated*** Unaudited six months to 31 August 2019 R'000 | Restated**** Unaudited year to 29 February 2020 R'000 |
|---|---|---|---|
| *Reconciliation of headline earnings from discontinued operations*** | | | |
| Profit for the year | **26 608** | 23 619 | 57 697 |
| Headline earnings | **26 608** | 23 619 | 57 697 |
| Headline earnings per share – cents | **24,7** | 21,9 | 53,6 |
| Diluted headline earnings per share – cents | **24,7** | 21,1 | 53,6 |
| *Reconciliation of headline earnings/(loss) from total operations*** | | | |
| Profit/(loss) for the year | **43 940** | (446 619) | (604 064) |
| Loss/(profit) on sale of property and equipment | **1 601** | – | (209) |
| Taxation recovered on the sale of property and equipment | **(449)** | – | 58 |
| Impairment of intangible assets, goodwill and bonds | **–** | 452 160 | 596 784 |
| Profits from the sale of businesses | **–** | – | 715 |
| Taxation charged on sale of associate | **–** | – | – |
| Headline earnings/(loss) | **45 092** | 5 541 | (6 716) |
| Headline earnings/(loss) per share – cents | **41,9** | 5,1 | (6,2) |
| Diluted headline/(loss) earnings per share – cents | **41,9** | 5,0 | (6,2) |

* *The dilution of shares results from the potential exercise of options in the employee share scheme.*

** *Headline earnings/(loss) per share is based on the earnings adjusted for (profit)/loss on sale of assets, impairment of investments, goodwill, bonds and the sale of associate.*

*** *31 August 2019 restated on the classification of Dare Holdings Proprietary Limited-Australia and Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

**** *29 February 2020 restated on the classification of Adcorp Support Services Proprietary Limited as discontinued operations. Refer to note 4 Discontinued operations.*

## 7. GOODWILL

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill and other indefinite useful-life intangible assets are assessed annually for impairment.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination.

A cash-generating unit (CGU) to which goodwill has been allocated is tested for impairment annually, or more frequently, when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata, based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The estimated future cash flows and discount rates used are pre-tax based on an assessment of the current risks applicable to the specific CGU.

The weighted average cost of capital rate is derived from taking into account market risks as well as the cost of debt.

The variables used in the model are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash-generating units.

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value-in-use calculation is based on a discounted cash flow (DCF) model. Impairment losses recognised in the previous year were based on the value in use of the relevant cash-generating units.

The cash flow inputs to the DCF were derived from the forecast financial performance of the CGUs for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. In certain instances the forecasts have been revised to take into account the business risks.

The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used in the terminal-value calculation.

**7. GOODWILL** continued

### Key estimates and assumptions

Key assumptions include the discount rate and cash flows used to determine the value in use. Future cash flows are estimated based on the most recent forecasts approved by management covering five years, inclusive of FY21 and are extrapolated over the useful life of the asset to reflect the long-term plans for the Group using the estimated growth rate for the specific business.

The Group performed an assessment for impairment of the Goodwill allocated to the CGUs, and no further impairments are required to those recorded as at 29 February 2020.

### Sensitivity analysis

The impairment calculations are most sensitive to the following assumptions:

► Anticipated earnings growth
► Discount rates
► Terminal growth rates

### Anticipated earnings

The directors recognise the ongoing uncertainty with regards to the COVID-19 pandemic. The directors are not able to accurately predict the impact of the COVID-19 pandemic on the earnings used to calculate the recoverable values.

### Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

## 7. **GOODWILL** continued

### Reconciliation of beginning and ending balance

| | **Unaudited six months to 31 August 2020 R'000** | Unaudited six months to 31 August 2019 R'000 | Audited year to 29 February 2020 R'000 |
|---|---|---|---|
| **Cost** | | | |
| Opening balance | **1 591 176** | 1 586 297 | 1 586 297 |
| Foreign currency adjustment | **–** | 13 698 | 4 879 |
| Closing balance | **1 591 176** | 1 599 995 | 1 591 176 |
| **Impairment** | | | |
| Opening balance | **(955 567)** | (397 486) | (397 486) |
| Impairment of goodwill | **–** | (452 160) | (558 081) |
| Closing balance | **(955 567)** | (849 646) | (955 567) |
| Carrying amount at the end of the period | **635 609** | 750 349 | 635 609 |
| After recognition of impairment losses, the carrying amount of goodwill is attributable to the following CGUs | | | |
| **Industrial Services** | **142 307** | 246 377 | 142 307 |
| **South Africa** | **83 109** | 83 109 | 83 109 |
| Adcorp BLU, a division of Adcorp Workforce Solutions Proprietary Limited | **83 109** | 83 109 | 83 109 |
| **Australia** | **59 198** | 163 268 | 59 198 |
| Labour Solutions Australia Group of Companies | **59 198** | 163 268 | 59 198 |
| **Financial Services** | **148 656** | 148 656 | 148 656 |
| FMS, a division of Adcorp Support Services Proprietary Limited | **148 656** | 148 656 | 148 656 |
| **Professional Services** | **344 646** | 355 316 | 344 646 |
| **South Africa** | **128 612** | 128 612 | 128 612 |
| Adcorp Workforce Management Solutions Proprietary Limited | **128 612** | 128 612 | 128 612 |
| **Australia** | **216 034** | 226 704 | 216 034 |
| Paxus Holdings Pte | **207 600** | 217 739 | 207 600 |
| TalentCRU Proprietary Limited | **8 434** | 8 965 | 8 434 |
| **Total** | **635 609** | 750 349 | 635 609 |

**7. GOODWILL** continued

**Industrial Services segment CGUs**

**South Africa**

*BLU*

The projected cash flows used in the value-in-use calculation is the latest forecast for the remainder of FY2021 and the next four years. The post-tax discount rate applied was 20,08% (FY2020: 20,08%) and a terminal growth rate of 0% (FY2020: 0%), which are consistent with those used in the FY2020 assessment. The value in use assessment yielded a value of R488 million for the CGU (FY2020: R451 million) which results in headroom of R58 million (FY2020: headroom – R24 million). A 10% decline in earnings would result in a reduction in the value in use to R439 million reducing headroom of R9 million.

**Australia**

*Labour Solutions Australia*

The projected cash flows used in the value-in-use calculation were based on the latest forecast for the remainder of FY2021 and the next four years. The post-tax discount rate applied was 14% (FY2020: 14%) and cash flows beyond five years were extrapolated based on a terminal growth rate of 2%. The assessment resulted in a value in use value of R183 million (FY2020: R132 million) with headroom of R70 million (FY2020: impairment loss – R106 million). A 10% decline in earnings would result in a reduction in the headroom of R18 million.

**Professional Services segment CGUs**

**South Africa**

*Adcorp Workforce Management Solutions Proprietary Limited*

The projected cash flows used in the value-in-use calculation were based on the latest forecast for the remainder of FY2021 and the next four years. The post-tax discount rate applied was 17,6% (FY2020: 18,6%) and cash flows beyond four years were extrapolated based on a terminal growth rate of 3%. The value in use calculated for the CGU amounted to R359 million (FY2020: R353 million), which results in headroom of R23 million (FY2020: R14 million). A decline in earnings of 10% would result in a valuation differential of R49 million, which would necessitate an impairment of R25 million.

**Australia**

*Paxus*

The projected cash flows used in the value-in-use calculation were based on the latest forecast for the remainder of FY2021 and the next four years. The post-tax discount rate applied was 12% (FY2020: 12%) and cash flows beyond four years were extrapolated based on a terminal growth rate of 2%. The value in use calculation yielded a value of R589 million (FY2020: R561 million), with headroom of R108 million (FY2019: R56 million). A decline in earnings of 10% would reduce the value in use to R530 million, also reducing headroom by R59 million.

**Financial Services**

In the period after 29 February 2020, the Group's management and Board of Directors approved the sale of Financial Services. The proceeds on disposal are expected to substantially exceed the carrying amount of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations held for sale.

## 8. DEFERRED TAX

Deferred tax is recognised on the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of the deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | **Unaudited six months to 31 August 2020 R'000** | Unaudited six months to 31 August 2019 R'000 | Audited year to 29 February 2020 R'000 |
|---|---|---|---|
| The aggregated deferred tax asset/(liability) position is based on a per legal entity basis within the Group. | | | |
| Consisting of: | | | |
| Aggregate net deferred tax assets | **207 969** | 197 476 | 181 171 |
| Aggregate net deferred tax liabilities | **(136 348)** | (94 616) | (85 655) |
| Net position | **71 621** | 102 860 | 95 516 |

## 8. DEFERRED TAX continued

### Key estimates and judgements

In evaluating our ability to recover our deferred tax assets in the jurisdiction from which they arise, we consider all available evidence, including projected future taxable income and results of recent operations.

In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and incorporate assumptions about the amount of future operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require the use of significant judgement and are consistent with the plans and estimates we are using to manage the underlying businesses. The assumptions take into account historical performance of the Group as well as future expected growth.

The Group is going through a strategic transformation that is aimed at:

- building a strong business that is focused on leveraging core business
- ensuring that the business is lean and agile
- strengthening the brand
- embedding a performance culture built on sound governance principles.

While the Group's transformation journey continues, significant progress has been made in the pursuit of the abovementioned strategic objectives. In projecting the future taxable income used for determining the recognition of deferred tax assets, management considered the impact of various optimisation programmes that are under way as well as the impact of COVID-19 on the overall South African economy. Management's budgets used to recognise deferred tax assets (pre-COVID-19 and lockdown) were reviewed to assess the effect of COVID-19 on future profits, under various scenarios. While the economic fallout resulting from the COVID-19 pandemic is likely to extend over the duration of realisation of the deferred tax asset, the Group remains confident of its ability to generate future taxable income and thus judgement is applied with regard to the timing of the utilisation of the deferred tax assets. The losses can be carried forward indefinitely and have no expiry date. As a result, the Group has recognised R355 million (FY2020: R342 million). The unrecognised tax losses amount to R744 million (FY2020: R682 million) at the end of the period.

## 9. INTEREST-BEARING LIABILITIES

### 9.1 Long-term portion

| | Interest rate | Maturity | **Unaudited six months to 31 August 2020 R'000** | Unaudited six months to 31 August 2019 R'000 | Audited year to 29 February 2020 R'000 |
|---|---|---|---|---|---|
| Long-term loans – non-current portion | | | **381 066** | 1 219 516 | 404 021 |
| Amortising term loan | JIBAR +340 | 30 November 2020 | **–** | 200 000 | – |
| Amortising revolving loan | JIBAR +340 | 30 November 2020 | **–** | 590 000 | – |
| Amortising revolving loan | Base rate[1] + margin (1,25% to 1,40%) | 30 April 2021 | **–** | 41 840 | – |
| Lease liability | IBR | | **381 066** | 387 676 | 404 021 |
| **9.2 Short-term portion** | | | | | |
| Long-term loans – current portion | | | **695 980** | 319 216 | 1 095 141 |
| Amortising term loan | JIBAR +340 | 30 November 2020 | **133 333** | – | 200 000 |
| Amortising revolving loan | JIBAR +340 | 30 November 2020 | **353 334** | 237 611 | 570 000 |
| Amortising revolving loan (AUD) | Base rate[1] + margin (1,25% to 1,40%) | 30 April 2021 | **142 571** | – | 231 684 |
| Lease liability | IBR | | **66 742** | 81 605 | 93 457 |
| Total | | | **1 077 046** | 1 538 732 | 1 499 162 |

*[1]The base rate is determined with reference to the Australian Reserve Bank rates at the time of draw down. The rate ranges between 1% and 1,5% on the Australian borrowing base facility.*

## 9. INTEREST-BEARING LIABILITIES continued

Trade receivables are used as security to secure funding relating to the Group loan facilities inclusive of South Africa and Australia.

As security for the South Africa loan facility granted to the Group, a shared security agreement was entered into that holds a cession over the trade receivables between the following operating subsidiaries of the Adcorp Group:

- All About Project Management Proprietary Limited
- Adcorp Staffing Solutions Proprietary Limited
- Adcorp Fulfilment Services Proprietary Limited
- Adcorp Management Services Proprietary Limited
- Adcorp Support Services Proprietary Limited
- Quest Staffing Solutions Proprietary Limited
- Paracon SA Proprietary Limited
- Mondial IT Solutions Proprietary Limited
- Production Management Institute of Southern Africa Proprietary Limited
- Adcorp Workforce Solutions Proprietary Limited
- Adcorp Workforce Management Solutions Proprietary Limited
- Comsel Eighteen Proprietary Limited
- TalentCru Proprietary Limited
- Tiger Tail Digital Proprietary Limited
- Torque Technical Computer Training Proprietary Limited
- Adcorp Contracting Proprietary Limited
- Adcorp Technical Training Proprietary Limited
- Adfusion Contract Management Services Proprietary Limited
- Adcorp Advantage Proprietary Limited
- M Squared Consulting MSP Proprietary Limited
- Zest Hospitality Proprietary Limited
- Fortress Administration Proprietary Limited
- Kelly Corporate Finance Proprietary Limited
- allaboutXpert Proprietary Limited
- Innstaff Proprietary Limited

The Group is in the process of negotiating a R850 million funding facility for the South African operations with the current lenders. Repayments of capital are R150 million on 28 February 2021, R300 million on 1 July 2021, and a final repayment of R400 million on 31 May 2022. The legal agreement is in the process of being signed and the loan will be reclassified accordingly.

The Adcorp Australia facility has been extended until February 2021, under more favourable conditions. A new three-year facility agreement with lenders is currently being negotiated.

As security for the Australia loan facility, a shared security agreement was entered that holds a cession over the trade receivables between the following operating subsidiaries of the Adcorp Group:

- Paxus Australia Proprietary Limited
- Adcorp Holdings Australia Proprietary Limited
- Labour Solutions Australia Proprietary Limited
- Labour Solutions Australia (Agri) Proprietary Limited
- Adcorp Holdings Singapore Private Limited
- Dare Holdings Proprietary Limited
- AllaboutXpert Australia Proprietary Limited
- Talentcru Proprietary Limited

## 10. FINANCIAL INSTRUMENTS

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 9, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

An Investment Committee was constituted during FY2018. This Committee has considered the cost of capital and the risks associated with each class of capital. The current gearing ratio is 45% (FY2020: 53%). The committee has worked on the determination of an appropriate capital framework and target gearing for the Group. The Group historically had a target gearing ratio of 37%. Going forward, the Committee believes that the appropriate leverage ratio for the nature of the business is the debt-to-EBITDA ratio and has a target of 1,5x. This will be reviewed on an ongoing basis as the strategic transformation progresses.

### 10.1 Categories for financial instruments

| | **Unaudited six months to 31 August 2020 R'000** | Unaudited six months to 31 August 2019 R'000 | Audited year to 29 February 2020 R'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Investments – fair value through profit and loss | **18 444** | 16 907 | 17 620 |
| Receivables (excluding cash resources) – amortised cost | **1 547 621** | 2 045 496 | 1 924 851 |
| Cash | **681 405** | 402 310 | 319 154 |
| Investment – amortised cost | **5 148** | 3 097 | 4 431 |
| **Financial liabilities** | | | |
| Amortised cost (excluding bank overdraft) | **1 369 915** | 1 697 405 | 1 743 386 |
| Lease liabilities | **447 808** | 469 281 | 497 479 |
| Bank overdraft | **193** | 1 457 | 182 |
| **The following table details the Group's remaining contractual maturity for its financial liabilities:** | | | |
| Within one year | **1 436 657** | 1 334 846 | 1 796 572 |
| More than one year and not later than five years | **381 066** | 831 840 | 444 293 |

## 10. FINANCIAL INSTRUMENTS continued

### 10.2 Financial assets/financial liabilities

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used):

| | Unaudited six months to 31 August 2020 R'000 | Unaudited six months to to 31 August 2019 R'000 | Audited year to 28 February 2020 R'000 | Valuation technique(s) and key inputs | Fair value hierarchy | Significant observable input(s) | Relationships of unobservable inputs to fair value |
|---|---|---|---|---|---|---|---|
| Investment | **18 444** | 16 907 | 17 620 | Fair value – market valuation | Level 2 | Aggregated publicly traded unit trusts at fair market value | A significant increase in the fair value of invested unit trusts would result in a significant increase in fair value |

## 11. CONTINGENT LIABILITIES

The bank has guaranteed R28,3 million (August 2019: R27,8 million) on behalf of the Group, to creditors.

## 12. EVENTS AFTER THE REPORTING PERIOD

In the period after 31 August 2020, the sale of Dare Holdings Proprietary Limited and Adcorp Holdings Singapore Private Limited incorporating Dare Energy Proprietary Limited as reported in the February 2020 Annual Report, was concluded. The disposal consideration together with the adjustments in respect of the business shut down costs and milestone payments is estimated to be AUD3,94 million (R47,44 million), capped at a maximum amount of AUD4,5 million (R54,18 million). The disposal is expected to be concluded by 16 December 2020, subject to the fulfilment or waiver of certain conditions.

## 13. DIVIDENDS PAID

No dividend was declared during the six-month period ending 31 August 2020 (2019: Nil).

## 14. RELATED PARTIES

No other related parties than those disclosed in the segment report were identified.

# **Corporate** information

## Adcorp Holdings Limited
Registration number 1974/001804/06
Listed 1987
Share code: ADR
ISIN: ZAE000000139
Website: www.adcorpgroup.com

## Registered office
Adcorp Holdings Limited
Adcorp Place
102 Western Service Road
Gallo Manor Ext 6
Johannesburg, South Africa, 2191
PO Box 70635, Bryanston
Johannesburg, South Africa, 2021
Tel: +27 (0) 10 800 0000
Email: info@adcorpgroup.com

## Company Secretary
Lisa Laporte
Adcorp Place
102 Western Service Road
Gallo Manor Ext 6
Johannesburg, South Africa, 2191
PO Box 70635, Bryanston
Johannesburg, South Africa, 2021
Tel: +27 (0) 10 800 0000
Direct: +27 (0) 10 800 0786
Email: lisa.laporte@adcorpgroup.com

## Investor relations
Nomonde Xulu
Adcorp Place
102 Western Service Road
Gallo Manor Ext 6
Johannesburg, South Africa, 2191
PO Box 70635, Bryanston
Johannesburg, South Africa, 2021
Tel: +27 (0) 10 800 0000
Direct: +27 (0) 10 800 0209
Email: nomonde.xulu@adcorpgroup.com

## Auditor
Deloitte & Touche
5 Magwa Crescent
Midrand
2066
South Africa
Tel: +27 (0) 11 806 5000

## Legal advisers
Eversheds Sutherland SA
3rd Floor, 54 Melrose Boulevard
Melrose Arch, Melrose North
Johannesburg, South Africa, 2196
PO Box 782244, Sandton City, 2146
Tel: +27 (0) 87 358 9857
Email: petervanniekerk@eversheds-sutherland.co.za

## Transfer secretaries
4 Africa Exchange Registry Proprietary Limited
Hill On Empire, 4th Floor, Building A,
16 Empire Road, Parktown, Johannesburg,
South Africa, 2193
Tel: +27 (0) 11 100 8352
Email: adcorp@4axregistry.co.za

## Sponsors
PSG Capital
1st Floor, Ou Kollege
35 Kerk Street, Stellenbosch, 7600
Tel: +27 (0) 21 887 9602
Email: info@psgcapital.com