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 2020

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Unaudited for the six months ended 31 Aug 20 R'000	Unaudited for the six months ended 31 Aug 19 R'000	Audited for the year ended 29 Feb 20 R'000
Project derived turnover	4 766	15 443	27 775
Subscription derived turnover	24 789	37 692	73 444
Turnover	29 555	53 135	101 219
Cost of sales	(10 564)	(27 785)	(54 971)
Profit before other income and expenses	18 991	25 350	46 248
Other income	2 694	1 889	3 293
Selling and marketing costs	(6 742)	(6 423)	(12 477)
Administrative expenses	(4 953)	(4 811)	(9 062)
Finance income	387	3 276	3 925
Share of profit/(loss) of equity-accounted investment	287	(266)	259
Profit before taxation	10 664	19 015	32 186
Taxation	(2 927)	(5 286)	(8 761)
Profit attributable to equity shareholders for the period	7 737	13 729	23 425
Total comprehensive income attributable to equity shareholders for the period	7 737	13 729	23 425
Earnings per share (cents)	5.0	8.8	15.0
Diluted earnings per share (cents)	5.0	8.8	15.0

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

	Unaudited for the six months ended 31 Aug 20 R'000	Unaudited for the six months ended 31 Aug 19 R'000	Audited for the year ended 29 Feb 20 R'000
Cash flows from operating activities	4 780	5 792	18 784
Cash receipts from customers	34 654	48 706	106 724
Cash paid to suppliers and employees	(28 436)	(38 343)	(78 305)
Cash generated from operations	6 218	10 363	28 419
Finance income	387	2 484	2 325
Taxation paid	(1 825)	(7 055)	(11 960)
Cash flows from investing activities	513	22 783	22 730
Purchase of property, plant and equipment	(112)	(93)	(144)
Dividends received	500	500	500
Proceeds on loans receivable	125	22 376	22 374
Cash flows from financing activities	-	(61 151)	(61 151)
Dividends paid to ordinary shareholders	-	(61 151)	(61 151)
Net increase in cash and cash equivalents	5 293	(32 576)	(19 647)
Revaluation of foreign cash balances	2 055	1 257	2 529
Cash and cash equivalents at beginning of the period	45 929	63 047	63 047
Cash and cash equivalents at end of the period	53 277	31 727	45 929

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited As at 31 Aug 20 R'000	Unaudited As at 31 Aug 19 R'000	Audited As at 29 Feb 20 R'000
ASSETS			
Non-current assets	16 794	17 209	17 385
Property, plant and equipment	9 802	9 864	9 874
Loans receivable	2 392	2 516	2 518
Equity accounted investment	2 217	1 401	1 930
Deferred tax	2 383	3 428	3 064
Current assets	65 089	59 102	63 224
Cash and cash equivalents	53 277	31 727	45 929
Inventories	1 469	1 773	2 036
Trade and other receivables	7 835	24 130	14 044
Current tax receivable	2 508	1 472	1 215
Total assets	81 883	76 311	80 610
EQUITY AND LIABILITIES			
Equity capital and reserves	65 363	47 925	57 627
Share capital and share premium	1 560	1 560	1 560
Reserves	63 803	46 365	56 067
LIABILITIES			
Current liabilities	16 520	28 386	22 983
Trade and other payables	14 623	26 154	22 802
Current tax payable	1 897	2 232	181
Total liabilities	16 520	28 386	22 983
Total equity and liabilities	81 883	76 311	80 610

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Unaudited for the six months ended 31 Aug 20 R'000	Unaudited for the six months ended 31 Aug 19 R'000	Audited for the year ended 29 Feb 20 R'000
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	56 067	93 794	93 794
Total comprehensive income - profit	7 737	13 729	23 425
Dividends paid during the period	-	(61 151)	(61 151)
Balance at end of the period	63 803	46 365	56 067
Total equity capital and reserves	65 363	47 925	57 627

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	41.9	30.7	36.9
Net tangible asset value per share at end of period	41.9	30.7	36.9
Headline earnings per share*	5.0	8.8	15.0
Diluted headline earnings per share*	5.0	8.8	15.0

* 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 Adviser:
Merchantec capital

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OPERATIONAL REVIEW

I am pleased to present our results for the six months ended 31 August 2020 ("the current reporting period"), which continue to be underpinned by a high portion of recurring revenue, a robust balance sheet and strong cash flows. Despite having to navigate the business through one of the most difficult six months in our history, I am particularly pleased with our performance, immeasurably proud of our team's resolve and humbled by the tremendous support that we have received through this challenging time from our customers, suppliers and vendor partners.

Due largely to the fallout that we had with one of our key vendor partners towards the end of 2019, turnover decreased by 44% during the current reporting period to R29.6 million compared to the previous corresponding reporting period ("the prior reporting period"), as we had to abandon most of our sales pipeline derived from our historic Check Point Software Technologies Limited ("Check Point") customer base, which accounted for as much as 90% of our turnover in the financial year prior to the vendor relationship failure. Despite the COVID-19 lockdown that followed shortly thereafter, as well as the economic meltdown that ensued, we remain encouraged by the support that we have received from our customers for the 'next generation' security technologies that we have recently onboarded to help protect them from the sophisticated and ever-changing IT security threat landscape.

Profit before other income and expenses during the current reporting period declined by 25% to R18.9 million representing a gross margin of 64% compared to the prior reporting period's gross margin of 48%. This seemingly dramatic increase is due to the strong concentration of and continued growth in our higher margin Managed Security Service and Managed Security Solution offerings, which feature our internally developed security infrastructure management and monitoring framework platform, MSS Pulse.

Foreign exchange fluctuation and volatility continues to be a major factor in our business for two main reasons. Firstly, when the Rand price of imported goods increases rapidly due to exchange rate fluctuation or volatility, customer budgets are negatively affected and seldom have the flexibility needed to absorb the impact of the change, which then adds pressure on anticipated deal-flows and margin. Secondly, as 66% of the R53.3 million cash reserves is held in Dollars and Pounds, the revaluation of this foreign currency through the statement of comprehensive income can have a material effect on our results. During the current reporting period the profit from the revaluation of our foreign cash balances amounted to R2.1 million compared to R1.3 million during the prior reporting period.

Finance income reduced to R387 000 during the current reporting period compared to R3.3 million during the prior reporting period. This decline is largely a result of our business partner no longer having to pay interest on the loan that they settled during the prior reporting period. Total comprehensive income decreased to R7.7 million during the current reporting period, from R13.7 million, which represents a decline of 44% in headline and earnings per share to 5.0 cents from 8.8 cents achieved in the prior reporting period.

DISTRIBUTION

Despite it being somewhat untraditional for us to distribute surplus cash reserves midway through our financial year, I am pleased to announce that the board has decided to declare an interim dividend to shareholders for the six months ended 31 August 2020 of 5.0 cents per share, which will be subject to the dividend tax legislation. The main reason for deciding to declare this interim dividend is due to the realisation of a healthy profit during the current reporting period and the resultant unnecessarily high level of surplus cash, notwithstanding our continued focus on preserving the strength of our balance sheet through these uncertain times and commitment to give management the headroom needed to focus on building a robust and sustainable revenue structure around the recently onboarded security brands and technologies.

The salient dates will be as follows:

- Declaration date	Friday, 13 November 2020
- Last day to trade	Tuesday, 1 December 2020
- Shares trade ex-dividend	Wednesday, 2 December 2020
- Record date	Friday, 4 December 2020
- Payment date	Monday, 7 December 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 2 December 2020 and Friday, 4 December 2020, both days inclusive.

In terms of the dividend tax legislation, effective 1 April 2012, the following additional information is disclosed:

- This is a dividend as defined in the Income Tax Act, 1962, and is payable from income reserves.
- The South African dividend tax ("DT") rate is 20%.
- The DT to be withheld by the Company in respect of the ordinary dividend amounts to 1.0 cents per share.
- The net ordinary dividend payable to shareholders who are not exempt from DT is therefore 4.0 cents per share, while a gross ordinary dividend of 5.0 cents per share is payable to those shareholders who are exempt from DT.
- The issued share capital of the Company at the declaration date comprises 170 592 593 ordinary shares.
- The Company's income tax reference number is 9340/150/71/4.

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MARKET AND PROSPECTS

In the short- to medium-term, I anticipate a continuation of the lower levels of revenue due to the aforementioned fallout with Check Point, as well as due to the severe economic damage and business disruption caused by the COVID-19 lockdown legislation which was imposed by our government in an effort to manage the coronavirus pandemic. While an early reflection of our sales pipeline is encouraging, especially noting those loyal customers and new prospects that are excited at the prospect of moving over to the more robust, effective and scalable security technologies that we now have to offer, the journey to reaching and exceeding our former turnover and profitability is likely to be somewhat tougher and longer than initially anticipated.

In the longer term however, I continue to be optimistic about our 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 IT resources, together with the increased regulatory and legislative compliance requirements, stakeholders continue to elevate the importance of IT security within their organisations. By leveraging this positive sentiment towards the information and infrastructure security market, as well as our positioning as a thought leader in this niche 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 2020 ("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 SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and 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.

CHANGES IN SIGNFICANT ACCOUNTING POLICIES

There have been no changes to the accounting policies in the preparation of these Interim Results, and the methods of computation are consistent with those followed in the preparation of the annual financial statements for the year ended 29 February 2020.

CHANGES TO THE BOARD AND SUBSEQUENT EVENTS

There have been no changes to the board and no 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
13 November 2020