Metrofile
Group

METROFILE HOLDINGS LIMITED

UNAUDITED SUMMARISED GROUP INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

SALIENT FEATURES

REVENUE UP TO R473M
↑ 8%

OPERATING PROFIT UP TO R108M
↑ 12%

HEPS UP TO 12.9C
↑ 26%

EPS UP TO 12.1C
↑ 19%

DPS UP TO 6c
↑ 20%

NET DEBT IMPROVED TO R572M
↓ 3%

EFFECTIVE TAX RATE IMPROVED TO 28.4%

SUMMARISED CONSOLIDATED INCOME STATEMENT

R '000	Note	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019
Continuing operations				
Revenue		**472 772**	**437 680**	**913 415**
Earnings before interest, taxation, depreciation and amortisation		**150 855**	**118 534**	**271 173**
Depreciation on property, plant and equipment		**(20 797)**	(19 914)	(40 242)
Depreciation on right of use asset		**(19 031)**	–	–
Amortisation		**(3 085)**	(2 056)	(7 197)
Operating profit		**107 942**	**96 564**	**223 734**
Loss on sale of business	7	**(4 024)**	–	–
Restructuring and retrenchment costs		**–**	–	(17 480)
Impairment of goodwill		**–**	–	(18 332)
Impairment of investment in joint venture and associate		**–**	–	(8 362)
Impairment of plant and equipment		**–**	–	(29 099)
Profit before finance costs		**103 918**	**96 564**	**150 460**
Net finance costs		**(34 580)**	**(33 554)**	**(69 375)**
Finance income		**1 808**	850	1 798
Finance costs		**(36 388)**	(34 404)	(71 173)
Profit before taxation		**69 338**	**63 010**	**81 085**
Taxation		**(19 677)**	(25 573)	(55 342)
Profit for the period from continuing operations		**49 661**	**37 437**	**25 743**
Discontinued operations				
Profit/(loss) for the period from discontinued operations	4	**–**	3 296	(30 301)
Profit/(loss) for the period		**49 661**	**40 733**	**(4 558)**
Attributable to				
Owners of the parent		**51 770**	42 343	7 559
- Continuing operations		**51 770**	39 047	37 860
- Discontinued operations		**–**	3 296	(30 301)
Non-controlling interest		**(2 109)**	(1 610)	(12 117)

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R '000	Note	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019
Profit/(loss) for the period		**49 661**	**40 733**	**(4 558)**
Other comprehensive income/(loss) for the period				
Currency movement on translation of foreign subsidiaries		**2 239**	2 402	(3 370)
Total comprehensive income/(loss) for the period		**51 900**	**43 135**	**(7 928)**
Attributable to				
Owners of the parent		**55 115**	43 681	3 171
Non-controlling interest		**(3 215)**	(546)	(11 099)

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	Note	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019
ASSETS				
Non-current assets		**1 172 395**	**1 165 874**	**1 085 923**
Property, plant and equipment		**592 796**	599 277	581 113
Right of use asset		**74 595**	–	–
Goodwill		**438 702**	488 052	438 702
Intangible assets		**54 616**	60 298	57 480
Investments		**–**	9 331	–
Long-term vendor consideration		**3 500**	–	3 500
Long-term receivable		**–**	1 977	–
Deferred taxation asset		**8 186**	6 939	5 128
Current assets		**272 704**	**327 072**	**289 595**
Inventories		**18 412**	32 948	17 494
Trade receivables		**178 944**	185 954	191 257
Vendor consideration		**–**	–	10 532
Other receivables		**41 369**	50 180	35 329
Cash and cash equivalents		**33 979**	57 990	34 983
Total assets		**1 445 099**	**1 492 946**	**1 375 518**
EQUITY AND LIABILITIES				
Equity		**603 420**	**631 128**	**561 830**
Equity attributable to owners of the parent		**595 312**	623 732	564 987
Non-controlling interest		**8 108**	7 396	(3 157)
Non-current liabilities		**625 446**	**660 549**	**603 898**
Interest-bearing liabilities		**542 231**	613 107	560 053
Lease liabilities		**43 060**	–	–
Deferred taxation liabilities		**40 155**	47 442	43 845
Current liabilities		**216 233**	**201 269**	**209 790**
Trade and other payables		**87 230**	99 356	109 750
Provisions		**7 591**	1 015	9 233
Deferred revenue		**13 930**	18 058	11 103
Taxation		**3 655**	1 985	2 606
Bank overdraft		**27 792**	10 405	36 717
Interest-bearing liabilities		**39 336**	70 450	40 381
Lease liabilities		**36 698**	–	–
Total equity and liabilities		**1 445 099**	**1 492 946**	**1 375 518**

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Share premium	Accumulated profit (loss)	Other reserves	Attributable to owners of the parent	Non–controlling interest	Total equity
Balance at 30 June 2018 (audited)	**542 549**	**50 184**	**15 950**	**608 683**	**13 170**	**621 853**
IFRS 2 equity reserve relating to share schemes	–	–	(8 784)	(8 784)	–	(8 784)
Minority contribution on disposal of subsidiary	–	5 976	–	5 976	(5 228)	748
Dividends declared	–	(44 059)	–	(44 059)	–	(44 059)
Script dividends declared	12 510	(12 510)		–	–	–
Total comprehensive income for the period	–	7 559	(4 388)	3 171	(11 099)	(7 928)
Balance at 30 June 2019 (audited)	**555 059**	**7 150**	**2 778**	**564 987**	**(3 157)**	**561 830**
Share scheme settlement	–		1 367	1 367	–	1 367
Transactions with NCI	–	(22 738)	–	(22 738)	14 480	(8 258)
Dividends declared	–	(3 419)	–	(3 419)	–	(3 419)
Scrip dividend declared	18 774	(18 774)	–	–	–	–
Total comprehensive income for the period	–	51 770	3 345	55 115	(3 215)	51 900
Balance at 31 December 2019 (unaudited)	**573 833**	**13 989**	**7 490**	**595 312**	**8 108**	**603 420**

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Note	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash generated from operations before net working capital changes		**150 855**	112 860	250 614
(Increase)/decrease in net working capital		**(15 980)**	(4 908)	2 910
Cash generated by operations		**134 875**	107 952	253 524
Net finance costs		**(34 580)**	(33 559)	(65 428)
Normal taxation paid		**(17 037)**	(28 175)	(57 332)
Net cash inflow from operating activities		**83 258**	**46 218**	**130 764**
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditure: expansion		**(25 110)**	(16 954)	(49 540)
Capital expenditure: replacement		**(9 591)**	(12 874)	(21 825)
Proceeds from sale of property, plant and equipment		**–**	583	–
Vendor loan proceeds received		**10 532**	–	–
Proceeds on disposal of subsidiary		**–**	–	(1 442)
Acquisition of subsidiaries		**–**	(3 616)	(3 673)
Net cash outflow from investing activities		**(24 169)**	**(32 861)**	**(76 480)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of borrowings		**(19 429)**	(128)	(63 322)
Dividends paid		**(3 419)**	(34 522)	(43 769)
Acquisition of non-controlling interests	7	**(8 258)**	–	–
Payment of lease liabilities		**(17 286)**	–	–
Long-term liabilities raised		**–**	19 835	–
Net cash outflow from financing activities		**(48 392)**	**(14 815)**	**(107 091)**
Net increase/(decrease) in cash and cash equivalents		**10 697**	(1 458)	(52 807)
Cash and cash equivalents at the beginning of the year		**(1 734)**	49 043	49 043
Effects of exchange rate movement on cash balances		**(2 776)**	–	2 030
Net cash and cash equivalents/(overdraft) at the end of the period		**6 187**	**47 585**	**(1 734)**
Represented by				
Cash and cash equivalents		**33 979**	57 990	34 983
Bank overdraft		**(27 792)**	(10 405)	(36 717)

NOTES TO THE SUMMARISED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited summarised group interim results have been prepared in accordance with the framework concepts, measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, as a minimum contain the information as required by IAS 34: Interim Financial Reporting, the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The accounting policies and basis of preparation for the financial statements are in all material respects consistent with those applied in the 2019 annual financial statements apart from the adoption of IFRS 16 Leases ("IFRS 16") that became effective for reporting periods beginning on or after 1 January 2019. The adoption of this standard and the amended accounting policies are disclosed in note 2.

The unaudited summarised group interim results do not contain all accounting policies and should be read in conjunction with the accounting policies included in the annual financial statement for the year ended 30 June 2019.

The unaudited summarised group interim results have been prepared under the supervision of the Chief Financial Officer, Mr S Mansingh CA(SA) MBA. The unaudited summarised group interim results have not been audited or reviewed by the Company's auditor, Deloitte & Touche.

2. ADOPTION OF IFRS 16

CHANGE IN ACCOUNTING POLICY

IFRS 16 Leases introduces a single, on–balance sheet lease accounting model for lessees. A lessee is required to recognise right–of–use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to former practice; i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 introduces additional disclosures for both lessees and lessors. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases — Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

This note explains the impact of the adoption of IFRS 16 Leases on the unaudited summarised group interim results. The new accounting policy was applied from 1 July 2019 and is disclosed in note 2c.

2.a) Adjustments recognised on adoption of IFRS 16

The Group adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated.

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard in the application of the initial accounting:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments in determining whether leases are onerous;
- leases that, at 1 July 2019, had a remaining lease term of 12 months or less continue to be accounted for on a straight–line basis over the remaining lease term;
- leases for which the underlying asset is of low value continue to be accounted for on a straight–line basis over the lease term;
- initial direct costs were excluded from the measurement of the right–of–use asset at 1 July 2019; and
- where contracts contain options to extend or terminate the lease, the benefit of hindsight was used to determine the lease term.

The Group has also elected to not reassess whether a contract is, or contains, a lease as at 1 July 2019. Instead, for contracts entered into before the transition date the Group relied on assessments made through the application of IAS 17 and IFRIC 4.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the related incremental borrowing rates as at 1 July 2019.

R'000	1 July 2019
Operating lease commitments disclosed as at 30 June 2019	98 113
Discounted using the lessees' incremental borrowing rates at the date of initial application	89 081
Less: short-term leases recognised on a straight line basis as an expense	(4 839)
Lease liabilities recognised as at 1 July 2019	84 242

The Group did not have any low value leases of less than R100 000 and therefore no further adjustments were required to the lease liabilities.

Right–of–use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right–of–use assets as at 1 July 2019.

The recognised right–of–use assets relate to property.

NOTES TO THE SUMMARISED INTERIM FINANCIAL STATEMENTS (continued)

The change in accounting policy affected the following items in the statement of financial position:

R'000	1 July 2019
	Increase/ (decrease)
ASSETS	
Right of use asset	80 371
Property	80 371
	(Increased)/ decrease
EQUITY and LIABILITIES	
Lease liabilities	84 242
Operating lease smoothing liability	(3 871)
Retained earnings	–

2.b) Impact on segmental disclosures, statement of comprehensive income and earnings per share
Adjusted profit after tax decreased, whilst segmental tangible assets as at 31 December 2019 increased, as a result of the change in accounting policy. The following segments were affected by the change:

R'000	EBITDA	Operating profit (EBIT)	Tangible assets
MRM South Africa	9 809	1 124	31 135
MRM Rest of Africa	6 448	(23)	29 085
MRM Middle East	–	–	–
Products and Services South Africa	2 284	(528)	10 656
Central and Eliminations	1 194	132	3 719
	19 735	**705**	**74 595**

The following line items were affected by the change:

R'000	Unaudited six months ended 31 Dec 2019
EBIT	705
EBITDA	19 735
Finance cost	(4 040)
Profit after tax	(2 401)

Earnings per share decreased by 0.6c per share for the 6 months to 31 December 2019 as a result of the adoption of IFRS 16.

2.c) Change in significant accounting policy
The Group leases various properties. Rental contracts are typically entered into for fixed periods. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. Although the lease agreements do not impose any covenants, leased assets may not be used as security for borrowing purposes.

Up to and including the 2019 financial year, leases for property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight line basis over the period of the lease.

From 1 July 2019, the Group recognises a right–of–use asset and a corresponding lease liability at the lease commencement date, being the date at which the leased asset is available for use by the Group. The right–of–use asset is measured initially at cost and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements in the lease liability.

The lease liability is measured initially at the present value of the lease payments that are not paid at commencement date, discounted using the implicit rate in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, the Group uses the lessee's incremental borrowing rate as the discount rate.

NOTES TO THE SUMMARISED INTERIM FINANCIAL STATEMENTS (continued)

The lease liability is subsequently increased by interest costs and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Payments associated with short–term leases are recognised on a straight–line basis as an expense in profit or loss. Short–term leases are leases with a lease term of 12 months or less.

The Group has elected to apply the practical expedient in IFRS 16 and accounts for lease and non–lease components as a single lease.

3. SUMMARISED SEGMENTAL INFORMATION

Segmental disclosure was revised during the 2019 financial year and now consists of Metrofile Records Management ("MRM") South Africa, MRM Rest of Africa, MRM Middle East, Products and Services South Africa and Central and Eliminations. Comparative information has been restated. The segmental information is based on information provided to the chief operation decision makers and operating profit is the key measure of segmental performance.

	REVENUE			EBITDA		
R '000	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019
MRM South Africa	283 138	264 997	555 885	121 091	105 673	233 652
MRM Rest of Africa	53 517	51 713	104 612	25 196	18 610	39 249
MRM Middle East	23 465	21 166	41 869	328	(2 501)	(5 602)
Products and Services South Africa	112 653	99 804	211 049	16 095	12 336	29 707
Central and Eliminations	–	–	–	(11 855)	(15 584)	(25 833)
Total	**472 772**	**437 680**	**913 415**	**150 855**	**118 534**	**271 173**
South African operations	395 791	364 800	766 934	125 331	102 425	237 526
Non–South African operations	76 981	72 880	146 481	25 524	16 109	33 647

	OPERATING PROFIT			TANGIBLE ASSETS		
R '000	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019
MRM South Africa	98 978	92 011	204 165	696 645	643 913	669 190
MRM Rest of Africa	18 401	17 108	34 539	110 069	90 741	81 136
MRM Middle East	(1 488)	(3 809)	(8 286)	40 191	48 225	37 290
Products and Services South Africa	7 430	6 742	19 338	103 406	125 966	87 532
Central and Eliminations	(15 378)	(15 488)	(26 022)	(6 716)	11 474	(941)
Total	**107 942**	**96 564**	**223 734**	**943 596**	**920 319**	**874 207**
South African operations	91 030	83 265	197 481	793 335	781 353	755 781
Non-South African operations	16 913	13 299	26 253	150 261	138 966	118 426

	REVENUE STREAMS		
R '000	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019
Secure storage	301 267	284 993	566 684
Digital services	62 494	55 588	135 351
Products and solutions	79 987	70 463	53 853
Business support services	29 024	26 636	157 527
Total	**472 772**	**437 680**	**913 415**

NOTES TO THE SUMMARISED INTERIM FINANCIAL STATEMENTS (continued)

4. DISCONTINUED OPERATIONS

Metrofile disposed of the shares in CSX Customer Services (Pty) Ltd ("CSX") for a total purchase consideration of R14 million effective 30 June 2019. This disposal met the recognition criteria to be classified as a discontinued operation at 30 June 2019. The first cash payment of R0.5 million was paid on 1 July 2019 and the second cash payment of R10 million was paid by 31 December 2019. The third payment of R3.5 million is due on 30 June 2021, this is interest-bearing compounded monthly in arrears at a rate of prime from the effective date of sale.

Financial information relating to the discontinued operations for the unaudited period ended 31 December 2019 is set out below. The comparative unaudited profit and cash flows from discontinued operations have been restated to include those operations classified as discontinued in the prior period.

R'000	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019
Statement of profit and loss			
Revenue	–	**52 517**	**93 246**
EBITDA	–	**5 213**	**5 393**
Depreciation and amortisation	–	(605)	(1 182)
Operating profit	–	**4 608**	**4 211**
Disposal of goodwill	–	–	(30 076)
Loss on sale of business	–	–	(3 210)
Profit/(loss) before taxation	–	**4 608**	**(29 075)**
Taxation expense	–	1 312	1 226
Profit/(loss) for the period from discontinued operations	–	**3 296**	**(30 301)**
Statement of cash flows			
Cash flows attributable to operating activities	–	5 727	6 448
Cash flows attributable to investing activities	–	(1 008)	(191)
Cash flows attributable to financing activities	–	(4 323)	(5 605)
Cash flow for the period from discontinued operations	–	**396**	**652**

NOTES TO THE SUMMARISED INTERIM FINANCIAL STATEMENTS (continued)

5. RECONCILIATION OF HEADLINE EARNINGS

R'000	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019
RECONCILIATION OF HEADLINE EARNINGS			
Profit attributable to owners of the parent	**51 770**	42 343	7 559
Loss on disposal of business	**4 024**	–	3 210
Disposal of goodwill relating to the disposal of subsidiary	–	–	30 076
Impairment of goodwill	–	–	18 332
Impairment of investment in joint venture and associate	–	–	8 362
Impairment of plant and equipment	–	–	29 099
Loss on disposal of plant and equipment	–	139	–
Non–controlling interest effect on the above items	**(805)**	–	(5 881)
Tax effect of above items	–	21	(5 213)
Headline earnings	**54 989**	**42 503**	**85 544**
– Continuing operations	**54 989**	39 207	82 560
– Discontinued operations	–	3 296	2 985
Headline earning per share (cents)	**12.9**	**10.2**	**20.5**
– Continuing operations	**12.9**	9.4	19.8
– Discontinued operations	–	0.8	0.7
RECONCILIATION OF NORMALISED HEADLINE EARNINGS			
Headline earnings	**54 989**	42 503	85 544
Restructuring and retrenchment costs	–	–	17 480
Debt restructuring costs	–	–	3 460
Tax effect on the above items	–	–	(2 721)
Tax effect on non–deductible interest expense	–	–	14 001
Non–controlling interest effect on the above items	–	–	(4 264)
Normalised headline earnings	**54 989**	**42 503**	**113 500**
– Continuing operations	**54 989**	39 207	110 515
– Discontinued operations	–	3 296	2 985

NOTES TO THE SUMMARISED INTERIM FINANCIAL STATEMENTS (continued)

R'000	Unaudited six months ended 31 Dec 2019	Unaudited six months ended 31 Dec 2018	Audited 12 months ended 30 Jun 2019
Weighted average number of shares in issue ('000)	**426 785**	416 173	417 764
Diluted weighted average number of shares in issue ('000)	**432 831**	416 173	424 087
Attributable earnings / (losses) per share: (cents)			
Aggregate			
– Basic	**12.1**	10.2	1.8
– Diluted	**12.0**	10.2	1.8
Continuing operations			
– Basic	**12.1**	9.4	9.1
– Diluted	**12.0**	9.4	8.9
Discontinued operations			
– Basic	**–**	0.8	(7.3)
– Diluted	**–**	0.8	(7.1)
Headline earnings per share (cents)			
Aggregate			
– Basic	**12.9**	10.2	20.5
– Diluted	**12.7**	10.2	20.2
Continuing operations			
– Basic	**12.9**	9.4	19.8
– Diluted	**12.7**	9.4	19.5
Discontinued operations			
– Basic	**–**	0.8	0.7
– Diluted	**–**	0.8	0.7
Normalised headline earnings per share (cents)			
Aggregate			
– Basic	**12.9**	10.2	27.2
– Diluted	**12.7**	10.2	26.8
Continuing operations			
– Basic	**12.9**	9.4	26.5
– Diluted	**12.7**	9.4	26.1
Discontinued operations			
– Basic	**–**	0.8	0.7
– Diluted	**–**	0.8	0.7
Dividend per share (cents)	**6.0**	5.0	10.0
– Interim dividend per share declared/paid	**6.0**	5.0	5.0
– Final dividend per share paid	**–**	–	5.0

6. COMMITMENTS

Metrofile owns or leases premises based on the prevailing economic realities in each country in which we operate. Lease commitments amount to R79.8 million for the next five years. Capital investment plans for the full financial year is expected to be R83 million.

7. TRANSACTIONS WITH NCI AND LOSS ON DISPOSAL OF BUSINESS

During the period the Group acquired an additional 20% in E-file Masters (UAE) and the remaining 38% of Metrofile Nigeria for R8 million. The acquisition of the remaining 38% of Nigeria was part of the closure process whereby Metrofile has now ceased operations in this territory. The acquisition of the additional 20% of E-file Masters (UAE) was done in conjunction with the disposal of the Egypt business whereby a loss of R4 million was realised on sale of business. Following the disposal of the Egypt business, E-file Masters (UAE) has returned to profitability.

8. SUBSEQUENT EVENTS

No subsequent events have occurred after the reporting date of 31 December 2019.

COMMENTARY

THE GROUP IN CONTEXT

Metrofile Group is a leading global records and information management specialist, providing clients with end–to–end solutions for the complete data management lifecycle, while ensuring they extract maximum value from their information assets. The business was formed in 1983 and 36 years later, the operations service clients of all sizes and sectors across South Africa, Kenya, Zambia, Botswana, Mozambique and the Middle East. Group companies operate from 68 facilities, at 38 locations, covering 118 747 square metres of warehousing space.

Metrofile's traditional and digital services and products enable businesses to manage their greatest risk, the security of information. It has an acclaimed track record in organising, backing up, managing and protecting large volumes of active and inactive documents, images and data, in physical or electronic format. The Group offers the infrastructure, technology and services to securely manage each phase of the document's lifecycle until its ultimate destruction and recycling.

While the physical management of records and information remains core and continues to grow in volume and revenue, the provision of digital services is expanding and is integral to the strategy. Our solutions based end–to–end service offering covers both aspects as we work with clients on the digital transformation of records across the full paper–to–digitalisation spectrum.

Empowerment partner and strategic shareholder, Mineworkers Investment Company, owns 36.56% of Metrofile's equity.

RESULTS OVERVIEW

Results overview for the period:

- Revenue from continuing operations increased by 8% to R473 million.
- Operating profit from continuing operations increased 12% to R108 million following the improved trading performance as well as tighter cost control.
- Group HEPS increased 26% to 12.9c mainly as a result of improved trading performance and tax rate (28.4%) which was partially offset by the increase in the number of shares in issue as well as the adoption of IFRS 16 Leases which had a negative 0.6c impact on HEPS.
- Net debt improved by 3% to R572 million since 30 June 2019 following the improved focus on cash generation.

FINANCIAL REVIEW

Revenue

Revenue from continuing operations increased by 8% to R473 million (1H2019: R438 million).

Secure storage contributed 64% to group revenue and was up 6% year–on–year mainly as a result of increased box volumes. Closing box volumes for the Group as at 31 December 2019 was 11.3 million (30 June 2019: 11.1 million) as net box volume growth of 1% was achieved for the six–month period. New box volume intake for the six months increased 5% from new and existing customers and was partially offset following destructions and withdrawals. Geographical performance in terms of box volume growth resulted in net box volume growth in South Africa of 1%, Rest of Africa of 5% and the Middle East of 2%.

Digital services contributed 13% to group revenue and was up 12% year–on–year mainly as a result of an increase in the number of images processed. Products and solutions and business support services contributed 17% and 6% respectively to group revenue. These revenue streams increased 14% and 9% respectively as an overall improvement in volumes was realised despite the impact of the challenging economic conditions.

Operating profit and EBITDA

Operating profit from continuing operations increased by 12% to R108 million (1H2019: R97 million) mainly as a result of the improved revenue performance as well as tighter cost control. EBITDA from continuing operations increased by 27% to R151 million (1H2019: R119 million) as a result of improved operational performance as well as the adoption of IFRS 16 Leases.

Cash and debt

Net finance costs increased by 3% to R35 million (1H2019: R34 million) following the adoption of IFRS 16 Leases. Excluding the impact of the new accounting standard (IFRS 16), net finance costs improved by 9% as a result of lower debt levels. Net debt reduced by 3% to R572 million for the six–month period since 30 June 2019 following improved cash generation and free cash flow ("FCF"). FCF improved 32% to R66 million (1H2019: R50 million) mainly as a result of an improvement in cash from operating activities.

REVIEW OF OPERATIONS

MRM South Africa

Revenue from MRM South Africa increased by 7% to R283 million (1H2019: R265 million) following the 1% improvement in net box volume growth as well as a strong performance in digital services, specifically image processing. Operating profit increased by 8% to R99 million (1H2019: R92 million) following the improvement in revenue performance. New box volume intake is expected to increase, whilst we seek to improve efficiencies in our warehouses. The continued operationalisation of the digital services pipeline will be a key focus for the second half of the financial year.

COMMENTARY (continued)

MRM Rest of Africa

MRM Rest of Africa consists of operations in Kenya, Botswana, Mozambique and Zambia. The overall trading environment was positive, and revenue increased by 3% to R54 million (1H2019: R52 million) as a result of an improvement in net box volume growth of 5%. Operating profit was also positively impact by improved trading conditions as an increase of 8% to R18 million (FY2018: R17 million) was achieved. Net box volume growth is expected to continue going forward, particularly in the greater East African region.

MRM Middle East

MRM Middle East consists of operations in the United Arab Emirates. Egypt was partially included for the six–month period to 31 December 2019 before the Group' exit from this operation, which largely contributed to the operational loss for the period. Trading conditions have been positive in UAE as this segment is expected to return to profitability in the second half of the year.

Products and Services South Africa

Products and Services South Africa consists of Tidy Files, Cleardata and Global Continuity. Trading conditions in South Africa and the operational market of Product and Services have realised an improvement with revenue increasing by 13% to R113 million (1H2019: R100 million). Operating profit increased by 10% to R7.4 million (1H2019: R6.7 million) as a result of the improved operational performance. Through the existing pipeline, performance is expected to continue to improve in the second half of the financial year.

DIVIDEND

Shareholders are informed that the Board has resolved to declare an interim cash dividend of 6 cents per share.

Notice is hereby given that an interim gross cash dividend of 6 cents per share in respect of the period ended 31 December 2019 has been declared payable, from income reserves, to the holders of ordinary shares recorded in the books of the Company on Friday, 3 April 2020. The last day to trade cum–dividend will therefore be Tuesday, 31 March 2020 and Metrofile shares will trade ex–dividend from Wednesday, 1 April 2020. Payment of the dividend will be on Monday, 6 April 2020. Share certificates may not be dematerialised or rematerialised from Wednesday, 1 April 2020 (which is ex–date) to Friday, 3 April 2020, both days inclusive. Withholding tax on dividends will be deducted for all shareholders who are not exempt in terms of the legislation at a rate of 20% which will result in a final net cash dividend of 4.8 cents per share. The Company's issued share capital at the period end is 452 649 116 shares and the Company's tax number is 9375/066/71/0.

CHANGES TO THE BOARD OF DIRECTORS

There were no changes to the Board for the six months ended 31 December 2019 or up to date of this report.

UPDATE RELATING TO THE PROPOSED TRANSACTION

Metrofile shareholders are referred to the cautionary announcement dated 4 March 2020 relating to the ongoing discussions between the Company and the Housatonic Consortium regarding the potential acquisition of the entire issued share capital of Metrofile. The Housatonic Consortium has advised Metrofile that its funding arrangements are near-final, however, arrangements with a BEE partner are taking longer than expected to finalise. The Housatonic Consortium expects to finalise arrangements with a BEE partner by 31 March 2020.

Shareholders are advised to continue to exercise caution when dealing in the Company's securities until a further announcement is made in this regard.

OUTLOOK

The positive effects of the strategic review and restructuring concluded in the 2019 financial year continued to yield benefits in the first half of the 2020 financial year. Despite the tough macro-economic conditions, the Group remains cautiously optimistic that the improved performance will continue in the second half of the financial year. Secure storage remains core to the business and will continue to be a key focus area along with enhancing the Group's digital services.

FORWARD–LOOKING STATEMENT

Statements on future financial performance have not been reviewed or audited by the Group's external auditors. The Group cannot guarantee that any forward–looking statement will materialise and, accordingly, readers are cautioned not to place undue reliance on these. The Group disclaims any intention and assumes no obligation to update or revise any forward–looking statement even if new information becomes available as a result of future events or for any other reason, other than as stipulated by the JSE Listings Requirements.

Christopher Seabrooke
Chairman of the Board

Pfungwa Serima
Group Chief Executive Officer

Illovo
9 March 2020

CORPORATE INFORMATION

DIRECTORS

CS Seabrooke (Chairman)^*, MS Bomela (Deputy Chairman)*, PG Serima (CEO), S Mansingh (CFO), MZ Abdulla*, P Langeni†*, LE Mthimunye^*, GD Wackrill*, SV Zilwa ^*, L Rood (Alternate)^*

*^Independent *Non–executive †Lead independent*

COMPANY SECRETARY

P Atkins

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METROFILE HOLDINGS LIMITED:
Incorporated in the Republic of South Africa
(Registration number 1983/012697/06)
Share code: MFL ISIN: ZAE000061727
("Metrofile" or "the Company" or "the Group")