Metrofile Group

2022

METROFILE HOLDINGS LIMITED

UNAUDITED SUMMARISED GROUP INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

SALIENT FEATURES

REVENUE **R474M** ↑ 4%	EBITDA **R157M** ↑ 1%	OPERATING PROFIT* **R112M** ↓ 2%
NET DEBT** REDUCED TO **R448M** ↓ 5%	EPS **14.9C** ↑ 1%	HEPS **14.9C** ↑ 1%
	DPS **9C** ↑ 29%	

* *Operating profit before acquisition related costs.*

** *Net debt excludes IFRS 16 lease liabilities.*

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Note	Unaudited six months ended 31 Dec 2021	Unaudited six months ended 31 Dec 2020	Audited 12 months ended 30 June 2021
Revenue		474 289	454 948	933 465
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)	5	157 327	155 074	322 651
Depreciation on property, plant and equipment		(20 113)	(17 916)	(36 173)
Depreciation on right-of-use asset		(21 255)	(18 314)	(35 805)
Amortisation		(3 603)	(4 665)	(9 872)
Operating profit before acquisition related costs		**112 356**	114 179	240 801
Acquisition related costs		(4 407)	–	–
Operating profit before net finance costs		**107 949**	114 179	240 801
Finance income		229	186	365
Finance costs		(23 449)	(26 184)	(49 812)
Profit before taxation		**84 729**	88 181	191 354
Taxation		(16 521)	(22 881)	(49 384)
Profit for the period		**68 208**	65 300	141 970
Attributable to				
Owners of the parent		64 683	64 191	138 306
Non-controlling interests		3 525	1 109	3 664

SUMMARISED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

R'000	Unaudited six months ended 31 Dec 2021	Unaudited six months ended 31 Dec 2020	Audited 12 months ended 30 June 2021
Profit for the period	**68 208**	65 300	141 970
Other comprehensive income/(loss) for the period			
Currency movement on translation of foreign subsidiaries	**3 856**	(17 325)	(17 385)
Total comprehensive income for the period	**72 064**	47 975	124 585
Attributable to			
Owners of the parent	**67 165**	48 467	122 321
Non-controlling interest	**4 899**	(492)	2 264

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	Note	Unaudited six months ended 31 Dec 2021	Unaudited six months ended 31 Dec 2020	Audited 12 months ended 30 June 2021
ASSETS				
Non-current assets		**1 185 157**	1 071 644	1 084 241
Property, plant and equipment		609 790	584 138	595 454
Goodwill		381 953	314 726	313 947
Intangible assets		39 933	47 203	43 867
Right-of-use asset		129 890	112 770	113 337
Long-term vendor consideration		3 500	–	3 500
Deferred taxation asset		20 091	12 807	14 136
Current assets		**291 661**	268 724	268 324
Inventories		16 312	15 358	13 776
Trade receivables		168 343	157 516	190 655
Vendor consideration		–	3 500	–
Other receivables		37 164	39 371	26 709
Cash and cash equivalents		69 842	52 979	37 184
Total assets		**1 476 818**	1 340 368	1 352 565
EQUITY AND LIABILITIES				
Equity		**541 745**	525 498	569 793
Equity attributable to owners of the parent		524 913	517 193	558 732
Non-controlling interest		16 832	8 305	11 061
Non-current liabilities		**699 983**	**618 426**	**573 925**
Interest-bearing liabilities		460 317	480 511	430 129
Lease liabilities		120 798	93 362	97 741
Acquisition related liabilities	7.3	71 028	–	–
Deferred taxation liabilities		47 840	44 553	46 055
Current liabilities		**235 090**	196 444	208 847
Trade and other payables		110 471	82 030	108 585
Provisions		7 322	14 548	22 366
Deferred revenue		14 169	20 802	11 154
Taxation		2 338	1 666	1 131
Bank overdraft		17 225	8 975	1 626
Interest-bearing liabilities		39 870	39 195	39 893
Acquisition related liabilities	7.3	15 697	–	–
Lease liabilities		27 998	29 228	24 092
Total equity and liabilities		**1 476 818**	1 340 368	1 352 565

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Share capital and share premium	Accumulated loss	Other reserves	Attributable to owners of the parent	Non-controlling interest	Total equity
Balance at 30 June 2020	**573 833**	**(79 765)**	**5 017**	**499 085**	**8 797**	**507 882**
IFRS 2 expense	–	–	481	481	–	481
Dividends declared	–	(63 155)	–	(63 155)	–	(63 155)
Total comprehensive income for the period ended 30 June 2021	–	138 306	(15 985)	122 321	2 264	124 585
Balance at 30 June 2021 (audited)	**573 833**	**(4 614)**	**(10 487)**	**558 732**	**11 061**	**569 793**
Dividends declared	–	(34 696)	–	(34 696)	–	(34 696)
Acquisition of business	–	–	–	–	872	872
Redemption liability recognised directly in equity (Refer to note 7)	–	(66 288)	–	(66 288)	–	(66 288)
Total comprehensive income for the period ended 31 December 2021	–	64 683	2 482	67 165	4 899	72 064
Balance at 31 December 2021 (unaudited)	**573 833**	**(40 915)**	**(8 005)**	**524 913**	**16 832**	**541 745**

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Note	Unaudited six months ended 31 Dec 2021	Unaudited six months ended 31 Dec 2020	Audited 12 months ended 30 June 2021
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operations before net working capital changes		153 053	155 134	319 577
Decrease in net working capital		3 058	9 543	11 785
Cash generated by operations		156 111	164 677	331 362
Net finance costs		(23 396)	(26 195)	(36 482)
Normal taxation paid		(22 734)	(26 790)	(49 018)
Net cash inflow from operating activities		**109 981**	111 692	245 862
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditure: expansion		(6 452)	(3 355)	(18 831)
Capital expenditure: replacement		(17 024)	(6 957)	(24 804)
Proceeds from sale of property, plant and equipment		–	–	818
Acquisition of subsidiary	7.2	(46 573)	–	–
Net cash outflow from investing activities		**(70 049)**	(10 312)	(42 817)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of interest-bearing liabilities		(19 897)	(39 548)	(89 583)
Dividends paid		(34 548)	(30 224)	(61 851)
Payment of lease liabilities		(13 954)	(14 058)	(44 150)
Interest-bearing liabilities raised		50 000	–	–
Net cash outflow from financing activities		**(18 399)**	(83 830)	(195 584)
Net increase in cash and cash equivalents		21 533	17 550	7 461
Cash and cash equivalents at the beginning of the period		35 558	32 199	32 199
Effects of exchange rate movement on cash balances		(4 474)	(5 745)	(4 102)
Cash and cash equivalents at the end of the period		**52 617**	44 004	35 558
Represented by				
Cash and cash equivalents		69 842	52 979	37 184
Bank overdraft		(17 225)	(8 975)	(1 626)

NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The directors take full responsibility for the preparation of these consolidated unaudited summarised Group interim results. The consolidated 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, and 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 2021 annual financial statements with an addition included in note 7.1.

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

2. SUMMARISED SEGMENTAL INFORMATION

Segmental disclosure consists of Metrofile Records Management ("MRM") South Africa, MRM Rest of Africa, MRM Middle East, Products and Services South Africa and Central and Eliminations. 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 2021	Unaudited six months ended 31 Dec 2020	Audited 12 months ended 30 June 2021	Unaudited six months ended 31 Dec 2021	Unaudited six months ended 31 Dec 2020	Audited 12 months ended 30 June 2021
MRM South Africa	**265 088**	267 494	549 210	**116 307**	123 293	253 518
MRM Rest of Africa	**44 918**	51 748	99 631	**21 325**	23 653	56 800
MRM Middle East	**46 623**	38 614	77 451	**14 667**	6 232	14 582
Products and Services South Africa	**117 660**	97 092	207 173	**21 519**	16 106	33 265
Central and Eliminations	**–**	–	–	**(16 491)**	(14 210)	(35 514)
Total	**474 289**	454 948	**933 465**	**157 327**	**155 074**	**322 651**
South African operations	**382 748**	364 586	756 383	**121 335**	125 188	251 269
Non-South African operations	**91 541**	90 362	177 082	**35 992**	29 885	71 382

	Operating profit*			Tangible assets		
R'000	Unaudited six months ended 31 Dec 2021	Unaudited six months ended 31 Dec 2020	Audited 12 months ended 30 June 2021	Unaudited six months ended 31 Dec 2021	Unaudited six months ended 31 Dec 2020	Audited 12 months ended 30 June 2021
MRM South Africa	**90 913**	98 983	213 566	**717 070**	689 358	706 087
MRM Rest of Africa	**9 953**	15 219	34 955	**130 792**	132 070	132 939
MRM Middle East	**13 865**	5 391	13 046	**74 294**	54 811	48 441
Products and Services South Africa	**13 335**	7 968	16 974	**142 511**	96 408	116 489
Central and Eliminations	**(15 710)**	(13 382)	(37 740)	**(29 826)**	(7 015)	(23 341)
Total	**112 356**	114 179	**240 801**	**1 034 841**	965 632	**980 615**
South African operations	**88 538**	93 569	192 800	**829 755**	778 751	799 235
Non-South African operations	**23 818**	20 610	48 001	**205 086**	186 881	181 380

** Operating profit before acquisition related costs.*

NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS (continued)

R'000	Revenue streams		
	Unaudited six months ended 31 Dec 2021	Unaudited six months ended 31 Dec 2020*	Audited 12 months ended 30 June 2021
Secure storage	**276 076**	289 150	576 212
Digital services	**95 225**	66 537	153 072
Products and solutions	**67 512**	72 976	146 610
Business support services	**35 476**	26 285	57 571
Total	**474 289**	454 948	933 465

**A correction allocation of R15.5 million was made between secure storage and digital services.*

3. RECONCILIATION OF HEADLINE EARNINGS

R'000	Unaudited six months ended 31 Dec 2021	Unaudited six months ended 31 Dec 2020	Audited 12 months ended 30 June 2021
RECONCILIATION OF HEADLINE EARNINGS			
Profit attributable to owners of the parent	64 683	64 191	138 306
Profit on disposal of plant and equipment	(132)	–	(320)
Tax effect of above items	37	–	90
Headline earnings	**64 588**	64 191	138 076
Headline earning per ordinary share (cents)	**14.9**	14.8	31.8
Weighted average number of shares in issue ('000)	433 700	433 700	433 700
Diluted weighted average number of shares in issue ('000)	445 251	439 102	443 962
Attributable earnings per share (cents)			
– Basic	14.9	14.8	31.9
– Diluted	14.5	14.6	31.2
Headline earnings per share (cents)			
– Basic	14.9	14.8	31.8
– Diluted	14.5	14.6	31.1
Dividend per share (cents)	9.0	7.0	15.0
– Interim dividend per share proposed/paid (cents)	9.0	7.0	7.0
– Final dividend per share proposed/paid (cents)	–	–	8.0

NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. FINANCIAL RISK

The Group is exposed to fixed and variable interest rates (3 month JIBAR interest rate benchmark plus interest rate scale) within its debt profile.

The interest rate exposure of the existing facilities is as follows:

	Total facilities	Unutilised as at 31 Dec 2021	Capital outstanding as at 31 Dec 2021	Variable interest rate	Fixed interest rate
RCF loan facility – variable	200 000 000	–	200 000 000	3 month JIBAR plus margin premium	–
Bullet loan facility – fixed	200 000 000	–	200 000 000	–	4.65% plus margin premium
Amortisation facility – fixed	75 000 000	–	75 000 000	–	4.16% plus margin premium
Amortisation facility – variable	26 708 337	–	26 708 337	3 month JIBAR plus margin premium	–
Working capital facility	108 000 000	90 775 000	17 225 000	Prime interest rate minus 1%	–
Total facilities	**609 708 337**	**90 775 000**	**518 933 337**		

Interest rate scale – margin premium

	Bullet/RCF loan (3 month JIBAR plus) %	Amortisation loan (3 month JIBAR plus) %
Gross debt/EBITDA		
Greater than 2.5 times	2.95	2.65
Greater than 2.0 times, less than 2.5 times	2.75	2.45
Less than 2.0 times	2.55	2.25

5. OPERATING PROFIT BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION (EBITDA)

Items included in EBITDA for the period are as follows	Unaudited six months ended 31 Dec 2021	Unaudited six months ended 31 Dec 2020	Audited 12 months ended 30 June 2021
Materials and consumables	(57 742)	(60 490)	(122 807)
Staff costs	(150 490)	(134 086)	(277 875)
Other operating expenses	(161 910)	(148 045)	(218 928)
Other operating income	8 209	1 852	8 796

NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. STATEMENT OF FINANCIAL POSITION MOVEMENTS

Goodwill has increased due to the acquisition of IronTree with a corresponding increase in interest-bearing liabilities as well as acquisition related liabilities that has been disclosed in note 7. Property, plant and equipment increased as a result of capital expenditure and trade and other receivables has reduced as a result of improved collections. Right-of-use assets and lease liabilities both increased as a result of lease renewals of existing facilities.

7. BUSINESS COMBINATIONS

The information disclosed below is provisional as the initial accounting of the business combination is currently being finalised. The purchase price allocation will be completed within 12 months of the acquisition.

Effective 1 December 2021, the Group acquired 70% of the issued share capital of IronTree Internet Services (Pty) Ltd ("IronTree"), a company incorporated and based in South Africa. IronTree is a leading provider of data management services including cloud backup, disaster recovery and specialised hosting in a private cloud. IronTree also offers cybercrime and ransomware prevention, ongoing privacy law compliance management and business continuity planning services. The objective of the acquisition is to further increase the Group's market share in providing digital solutions and services. IronTree will strengthen Metrofile's core capabilities in virtual storage and digital risk management. IronTree also provides access to products in high growth segments such as cybersecurity and digital compliance.

The acquisition will be settled on the following basis:

– An upfront cash amount of R48 918 295 for 70% of the shares in and claims against IronTree will be payable to the sellers on the effective date;
– A top-up payment (contingent consideration), maximum of R13 136 731, will be payable should IronTree achieve an adjusted EBITDA of R18 719 464 for the 12-month period ending 28 February 2022.
– The remaining 30% of the shares (redemption liability) will be purchased in 2024 and will be determined using a sliding scale based on the growth in revenue of the business up to the 12-month period ending 29 February 2024 ("Second Payment"). The Second Payment will be based on revenue, rather than EBITDA, in order to simplify the integration of IronTree into Metrofile as integration initiatives are likely to consolidate costs of both Metrofile and IronTree.

7.1 Significant accounting policy

Consolidated financial statements
The redemption liability relating to the obligation to pay in cash in the future to purchase minority shares must be recognised by the purchaser, even if the payment is conditional on the option being exercised by the holder.

The redemption liability is recognised as a financial liability at the present value of the redemption amount. On consolidation, the initial redemption liability is recognised as a reduction of the Group's equity, as the risk and rewards remain with the non-controlling interest.

On subsequent measurement, the adjustments to the redemption liability are recognised directly in equity as these are transactions with equity holders as there is no change in control.

Key estimates and judgements
Redemption liability recognised directly in equity
The redemption liability represents the remaining 30% to be purchased from the minority interest.

The amount was determined using a sliding scale based on the estimated growth in revenue of the business up to the 12-month period ending 29 February 2024. The maximum payment will be linked to a revenue target of R100 million for the 12 month period ending 29 February 2024. The redemption liability will be based on the total purchase price, capped at R140 million reduced by the first two payments, discounted using the current prime lending rate.

NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7.2 Details of the business combination

	01 Dec 2021
The details of the business combination is as follows:	
Fair value of consideration transferred – 70% acquisition	**69 310 050**
Amount settled in cash	48 918 295
Contingent consideration – top-up payment	13 136 731
Contingent consideration linked to earnings	7 255 024
Recognised amounts of identifiable net assets	
Property, plant and equipment	5 538 778
Right-of-use asset	1 076 362
Deferred tax asset	944 338
Total non-current assets	**7 559 478**
Trade and other receivables	3 166 590
Cash and cash equivalents	2 345 523
Total current assets	**5 512 113**
Lease liability	1 098 181
Total non-current liabilities	**1 098 181**
Trade and other payables	4 613 701
Income received in advance	3 422 194
Current tax payable	1 034 044
Total current liabilities	**9 069 938**
Identifiable net assets	**2 903 472**
Non-controlling interest	**871 042**
Estimated goodwill on acquisition	**67 277 620**
Consideration transferred settled in cash	48 918 295
Cash and cash equivalents acquired	(2 345 523)
Net cash outflow on acquisition	**46 572 772**
Acquisition costs charged to expenses	4 406 578
Net cash paid relating to the acquisition	**50 979 350**

Consideration transferred

Acquisition-related costs amounting to R4.4 million are not included as part of consideration transferred and have been recognised as an expense in the consolidated income statement.

Identifiable net assets

The fair values of the identifiable intangible assets have not yet been determined as at 31 December 2021 due to the acquisition being concluded in the latter part of 1HFY22. The Group is currently obtaining the information necessary to finalise its purchase price allocation.

The fair value of the trade and other receivables acquired as part of the business combination amounted to R3 166 590 being the gross contractual amount. As at acquisition date, the Group's best estimate of the contractual cash flows not expected to be collected amounted to Rnil.

Goodwill

The goodwill that arose on the combination can be attributed to the contribution expected to be derived from the business and the value of IronTree. Goodwill has been provisionally allocated to its own cash-generating unit at 31 December 2021, being the Products and Services South Africa segment. This is to be finalised once the valuation of the identifiable net assets has been finalised.

IronTree's contribution to Group results

From the date of the acquisition, 1 December 2021 to 31 December 2021, IronTree contributed R4.7 million in revenue and R0.8 million in net profit to the Group.

NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7.3 Acquisition related liabilities

Acquisiton related liabilities consists of the Group's remaining commitment to purchase the initial 70% as well as the additional 30% in IronTree and is represented by the below balances as at 31 December 2021.

	R
Contingent consideration – top-up payment	13 136 731
Contingent consideration linked to earnings	7 300 368
Redemption liability recognised in equity	66 287 995
	86 725 094

8. FAIR VALUE ESTIMATES

The carrying value of financial instruments estimate their fair value.

9. COMMITMENTS AND CONTINGENCIES

Metrofile owns or leases premises based on the prevailing economic realities in each country in which we operate. Capital investment plans for the full financial year are expected to be R90 million.

As at 31 December 2021 the Group holds performance bank guarantees to the value of R12 million.

10. SUBSEQUENT EVENTS

No subsequent events have occurred after the reporting date of 31 December 2021.

11. GOING CONCERN

Performance

Metrofile continues to seek growth in the digital market expanding its footprint in the market. The Group sees revenue and operating profit growing at a steady rate year on year. The consolidated results yielded a Group effective tax rate of 19% mainly resulting from the increased contribution from MRM Middle East. The effective tax rate excluding MRM Middle East for the period was 24%.

Cash flow from trading operations continues to generate positive results. The Group's cash reserves amounted to R53 million as at 31 December 2021.

Solvency and liquidity

As at 31 December 2021, the consolidated statement of financial position reflected total equity of R542 million.

The Group has externally imposed capital requirements in terms of debt covenants. The covenants, which are calculated on a basis pre IFRS 16 Leases, require the Group to maintain a gross debt to EBITDA of 2.5 times and an EBITDA to net interest expense ratio of no less than 3.5 times.

At 31 December 2021, the Group's covenants were gross debt to EBITDA of 1.76 times and EBITDA to net interest ratio of 8.65 times and the requirements are expected to continue to be met in the foreseeable future.

Capital expenditure has been focused on internal transformation projects in order to increase efficiencies within the Group. The Group continues to strictly monitor capital expenditure in order to ensure positive working capital management.

COVID-19

The fourth wave of COVID-19 is receding and every business has become more accustomed to navigating the crisis. While COVID-19 continues to present a risk to the general business environment, the impact on the Metrofile business is currently not heightened as a consequence of COVID-19. Our plans and strategies will continue to be evaluated and adapted in the event the directors believe the risk environment around the impact of COVID-19 increases.

COMMENTARY ON THE RESULTS

THE GROUP IN CONTEXT

Metrofile has an established reputation of being a leading records and information management specialist to organisations of all sizes and sectors across South Africa, Kenya, Botswana, Mozambique and the Middle East for almost four decades. We operate from 68 facilities at 36 locations covering 117 411 square meters of warehousing space.

Metrofile's services assist clients in structuring, managing, and accessing their information in any format, in any location, at any given time. Our clients are guided to ensure that adherence to all legislative requirements is met and that their most valuable asset, their information, is protected.

Whilst retaining our core offerings such as the physical management of records and information and our expertise in space optimisation with a vast range of products, we have deepened our digital offerings through the acquisition of IronTree, which is a leading provider of data management services including cloud backup, disaster recovery and specialised hosting in a private cloud. IronTree also offers cybercrime and ransomware prevention, ongoing privacy law compliance management and business continuity planning services.

By providing end-to-end services across all aspects of the information management life cycle, we are well placed to meet the evolving demands of our clients and to assist them with their digital transformation journey, which includes digitising processes from end-to-end.

Empowerment partner and strategic shareholder, Mineworkers Investment Company, owns 38.16% of Metrofile's equity.

RESULTS OVERVIEW

Results overview for the period:
– Revenue increased by 4% to R474 million.
– EBITDA increased by 1% to R157 million.
– Operating profit before acquisition related costs decreased by 2% to R112 million.
– Net debt reduced by 5% to R448 million since 31 December 2020 following the new acquisition.
– EPS increased by 1% to 14.9c.
– HEPS increased by 1% to 14.9c.
– Dividend per share increased by 29% to 9c for the interim period.

FINANCIAL REVIEW

Revenue

Revenue increased by 4% to R474 million (1HFY2021: R455 million).

Despite unforeseen events that affected two significant operating regions during the period, namely South Africa and Kenya, we have had a positive start to the year. In South Africa, social unrest during July 2021 impacted our first quarter results as two of our regions, Gauteng and KwaZulu Natal, were affected. Fortunately, our warehouses were not damaged in the unrest, however, several image processing projects were put on hold while we incurred the relative cost for most of the first quarter. Our box intake for the region was also impacted as collections were put on hold, particularly during July 2021. During the first quarter we experienced destructions of higher priced boxes from various sectors following the implementation of POPIA. In the second quarter there was an increase in box intake and a reduction in destructions, however local government elections impacted the timing of various government related projects, which we expect to conclude in the second half of the financial year.

MRM Middle East has demonstrated significant growth over the past 18 months and is now our largest region outside of South Africa for both revenue and operating profit contribution. The addition of IronTree to the Group will enhance our core capabilities in providing value-add services in virtual storage and information risk management.

Secure storage contributed 58% to Group revenue and was down 5% year-on-year due to a 5% reduction in paper services and paper storage being flat year-on-year. Closing box volumes for the Group as at 31 December 2021 were 11.3 million (30 June 2021: 11.1 million) as net box volume increased by 1% for the six-month period. New box volume intake for the six months increased 3% from new and existing clients and was offset following destructions and withdrawals. Net box volumes grew in all territories with South Africa growing by 0.3%, Rest of Africa growing by 3% and the Middle East growing by 2%.

Digital services contributed 20% to Group revenue and was up 43% year-on-year mainly as a result of an increase in digital projects in South Africa as well as an increase in digitisation activities in the Middle East. Digital services is now our second largest revenue stream contributor and growth over the past 18 months has demonstrated the effect of the Group's introduction of relevant digital service offerings. Currently digital services is more project orientated and we expect growth in the project pipeline to be reflective of global digitisation trends, however we are currently working towards building a strong digital annuity base.

Products and solutions decreased by 7% due to local challenges that impacted demand for archiving products, however business support services grew 35%, mainly as a result of increased demand in confidential destruction. Products and solutions and business support services contributed 14% and 8% respectively to Group revenue.

Operating profit and EBITDA

Operating profit before acquisition related cost decreased by 2% to R112 million (1HFY2021: R114 million) mainly as a result of a decline in higher margin paper services' activities, offset by increased digital services. EBITDA increased by 1% to R157 million (1HFY2021: R155 million).

COMMENTARY ON THE RESULTS (continued)

Cash and debt

Net finance costs decreased by 11% to R23 million (1HFY2021: R26 million). Excluding the impact of IFRS 16, net finance costs reduced by 15% as a result of lower debt levels. Net debt reduced by 5% to R448 million for the 12 month period since 31 December 2020 despite the new acquisition in 1HFY2022.

REVIEW OF OPERATIONS

MRM South Africa

Revenue from MRM South Africa decreased by 1% to R265 million (1HFY2021: R267 million) due to a continued decline in paper services, however this was partially offset by an increase in digital services, specifically image processing projects. Core storage remained in line with the prior year. The decline in higher yield paper services, as well as additional costs incurred during the period of social unrest in Gauteng and KwaZulu Natal, resulted in an overall decline in operating margin with operating profit decreasing by 8% to R91 million (1HFY2021: R99 million).

MRM Rest of Africa

MRM Rest of Africa consists of operations in Kenya, Botswana and Mozambique. During the period under review, Kenya experienced several headwinds, particularly in the financial services sector that contributes the majority to the operation's revenue. The financial services sector encountered regulatory moratoriums on lending repayments as well as premiums, which led to significant cost reduction measures within this sector. This in turn led to significant pressure on the services revenue within Metrofile Kenya for the period under review, specifically active filing and image processing. Revenue decreased by 13% to R45 million (1HFY2021: R52 million) despite an improvement in net box volume growth of 3%. Operating profit was similarly impacted, which resulted in a decrease of 35% to R10 million (1HFY2021: R15 million).

MRM Middle East

MRM Middle East consists of operations in the United Arab Emirates and Oman. This region continued to grow and expand its digital project pipeline despite continued challenges with lockdown measures during the period. Revenue increased by 21% to R47 million (1HFY2021: R39 million) with a respective increase in operating profit of 157% to R14 million (1HFY2021: R5 million).

Products and Services South Africa

Products and Services South Africa consists of Tidy Files, Cleardata, Global Continuity, Metrofile Vysion and the recently acquired IronTree. While operating in a challenging trading environment during 1HFY2022, this segment performed in line with expectation, with significant growth being achieved particularly through the digital offering of Metrofile Vysion, which provides business process automation, as well as increased confidential destruction through Cleardata. However, products such as Tidy Files experienced a difficult period resulting in a decline in revenue and margin for the period. Overall, revenue increased by 21% to R118 million (1HFY2021: R97 million). Operating profit increased by 67% to R13 million (1HFY2021: R8 million) as a result of the improved operational performance and digital projects.

IronTree was included effective 1 December 2021, for one month during the reporting period. IronTree revenue of R4.7 million and net profit of R0.8 million is included in the figures above. The performance is in line with expectations in relation to the growth targets set at acquisition and we further expect to settle the deferred purchase consideration in full.

DIVIDEND

The Board has reviewed the dividend policy in light of Metrofile's healthy cash generation and reduced net debt levels and has resolved to update the dividend cover policy to a range of between 1.5x and 2.0x.

The Board has declared an interim cash dividend of 9 cents per share.

Notice is hereby given that an interim gross cash dividend of 9 cents per share in respect of the period ended 31 December 2021 has been declared payable, from income reserves, to the holders of ordinary shares recorded in the books of the Company on Friday, 1 April 2022. The last day to trade cum-dividend will therefore be Tuesday, 29 March 2022 and Metrofile shares will trade ex-dividend from Wednesday, 30 March 2022. Payment of the dividend will be on Monday, 4 April 2022. Share certificates may not be dematerialised or rematerialised from Wednesday, 30 March 2022 (which is ex-date) to Friday, 1 April 2022, 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 7.2 cents per share.

The Company's issued share capital at the end of the period is 433 699 958 shares and the Company's tax number is 9375/066/71/0.

CHANGES TO THE BOARD OF DIRECTORS

The following changes were made to the Board effective 30 September 2021:

- Chris Seabrooke stepped down as independent non-executive Chairman of the Board and Phumzile Langeni was appointed as the new independent non-executive Chairman. Chris continues as an independent non-executive member of the Board.
- Graham Wackrill retired as non-executive director.
- Andile Khumalo and Thabo Seopa were appointed as independent non-executive directors.

COMMENTARY ON THE RESULTS (continued)

OUTLOOK

The contribution of digital services has now exceeded 20% of revenue. We anticipate we will achieve growth by extending and defending our market position in the information storage space, as well as scaling our position in information management through growing our digital services offerings. With our current gearing levels, we will continue to focus on appropriate levels of capital allocation, improving efficiencies and integrating our services to provide enhanced value to our clients. Predictable annuity-based revenue will continue to be the key characteristic in both information storage and information management service offerings. Since the acquisition of IronTree, we have experienced a positive response from our clients. Furthermore, we expect an increase in office activity due to less restrictive lockdown measures and an improvement in performance in the second half of the financial year.

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.

Phumzile Langeni
Chairman of the Board

Pfungwa Serima
Group Chief Executive Officer

Illovo
7 March 2022

CORPORATE INFORMATION

DIRECTORS

P Langeni (Chairman)^*, MS Bomela (Deputy Chairman)*, PG Serima (CEO), S Mansingh (CFO), SV Zilwa†*, MZ Abdulla*, A Khumalo^*, LE Mthimunye^*, CS Seabrooke^*, STM Seopa^*, L Rood (Alternate)^*, DL Storom (Alternate)*

*^Independent *Non-executive †Lead independent*

COMPANY SECRETARY

P Atkins

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Share code: MFL ISIN: ZAE000061727
("Metrofile" or "the Company" or "the Group")