ALLIED ELECTRONICS CORPORATION LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1947/024583/06)
Share code: AEL   ISIN: ZAE000191342

ANNUAL RESULTS
for the year ended 29 February 2020 and final dividend announcement

HIGHLIGHTS - continuing operations

- Gross invoiced income up 23%* to R23 billion
- Earnings before interest tax and depreciation (EBITDA) grew 14% (2%**) to R1.84 billion
- Bytes UK delivered strong performance with EBITDA of R611m up 66% (65%**)
- HEPS increased by 2% (6%**) to 182 cents

R millions	February 2020	February 2019	Change %*	Change %**
Gross Invoiced Income	23 333	19 041	23	
Revenue	16 713	15 723	6	
EBITDA	1 835	1 607	14	2
Operating profit before capital items	1 090	1 041	5	4
Net profit after tax	672	680	(1)	4
Cash generated from operations	1 695	1 345	26	
Earnings per share	184	177	4	9
Headline earnings per share	182	179	2	6
Dividend per share	55	72	(24)	

* Gross invoiced income represents the total invoiced revenue to customers including from cloud-based sales (and related licenses). This differs from statutory reported revenue, because in terms of IFRS 15, the group acts as an agent on these transactions and therefore recognises margin only as revenue.
** Normalised for the adoption of IFRS 16.

Mteto Nyati, Altron Group Chief Executive commented:

Three years ago, we created a five-year roadmap called the One Altron strategy, prioritising revenue growth, improving profitability, transforming the customer experience and employee excellence, with collaboration at its core.

Over this three-year period, we have strengthened the group through the disposal of non-core assets, the rationalisation of operations and the execution of targeted acquisitions in high-growth areas. Over the same period, we delivered gross invoiced income CAGR of 25.8%, Revenue CAGR of 6.5% and EBITDA CAGR of 21.9%.

The One Altron strategy allowed us to better service our customers through delivering the full breadth of our expertise, solutions and product offerings. This has led to sizeable contract awards from Bet 365, Prudential, many local and National Government organisations in the UK, Standard Bank, Capitec, Coca-Cola Beverages Africa and Barloworld. Group customer Net Promoter Score ("NPS") improved to 46% up 10ppt.

At Altron, we believe that an engaged, highly committed and motivated workforce is a vital ingredient of outstanding customer service. The scarce skills shortage, not only in South Africa, but across the world, impacts the ICT sector tremendously, resulting in an increased focus on being a great place to work for all current and potential employees. As a testament to the success of our culture, Bytes UK was awarded a place on The UK Sunday Times Best 100 Companies to work for list. Our Annual employee engagement index increased 2ppt to 61%.

An integral part of the One Altron Strategy is doing good, while doing good business. To this end, we have focused on reducing our impact on the environment, through our anticipated move to our new, certified green offices in Johannesburg. This is expected to reduce our carbon footprint by 25% in 2021. Furthermore, Altron has adopted a sustainability framework which is aligned to the group's strategic value drivers. In order to embed our ethical values, an increased focus on governance has been achieved through the adoption of a formalised corporate governance framework and realignment of the group's strategic risk efforts.

Despite the low economic growth environment in South Africa and Brexit concerns in the UK, our operations continued to achieve positive growth.

Bytes UK outperformed and took advantage of strong market conditions during 2019, achieving growth in gross invoiced income of 43% and EBITDA of 66%, with the largest contributor, Bytes Software Services, generating organic growth of 80%.

Netstar delivered strong customer growth of 16.5%. An increased focus to reduce churn and improve the customer experience, resulted in an improvement of 29ppt in customer NPS to 52%. Netstar reported the launch of its global connected-car partnership with Toyota and Vodacom, rolling-out connectivity features and in-car Wi-Fi on all new Toyota and Lexus models. This partnership positions the business optimally to grow further in the Smart IoT space.

As previously communicated, Altron Nexus ("Nexus") was negatively impacted by the City of Tshwane Municipal Broadband Network judgement handed down against Thobela Telecoms (RF) Proprietary Limited. The new Nexus management team, with an increased focus on customer service and the application of Altron's strong ethical values, managed to implement a turnaround in Nexus, achieving an EBITDA of R24m from a R25m first-half loss.

The poor performance of Nexus masked an otherwise solid performance from the rest of the group, which delivered strong double-digit operational EBITDA growth of 12% (excluding Nexus). Digital transformation (excluding Bytes UK and Nexus) grew statutory EBITDA by 24%, Managed Services grew EBITDA by 14% and our Healthtech and Fintech business delivered EBITDA growth of 13%.

Looking forward, with the impact of COVID-19 affecting businesses across the globe, the need for a fully digitised remote work-place is becoming more important. We have seen our customers investing heavily in digital transformation, increased security requirements and hybrid datacentres. This is expected to further accelerate the expansion of our remaining growth areas, Cloud, Data Analytics and Security, as we tailor products to meet the needs of our customers. Post year-end, Altron acquired Ubusha Technologies ("Ubusha"), the largest identity security company in Africa. This acquisition will position Altron to further capitalise on opportunities in the security space.

In March 2020, following the Board's FY21 annual strategy review, we announced a potential demerger of Bytes UK. As part of its strategic review, the Board assessed each of the business units within Altron, to identify opportunities which have the potential to unlock further value for shareholders. The Board concluded that the true value of Bytes UK is not reflected in the company´s share price. This business has increasingly developed a growth trajectory and strategic levers that are different from the rest of the group and operates in a different geographical capital market with a highly rated peer group. We believe the potential demerger will allow Bytes UK to pursue its own focused growth strategy and will ultimately unlock further value for shareholders.

FINANCIAL OVERVIEW

Continuing operations

Revenue increased by 6% to R16.7bn on a statutory basis. However, the impact of IFRS 15 on cloud-based sales in our UK operations is material, given that these transactions are treated as agency revenue, and therefore only the margin is recognised as revenue. Taking gross cloud-based transactions with UK customers into account, group revenue grew by 23% on a like-for-like basis.

EBITDA increased by 14% to R1.8bn, with the adoption of the new IFRS 16 accounting standard positively contributing R203m of this growth. Normalised for the impact of IFRS 16, operational EBITDA grew 2%. However, this growth was negatively impacted by Nexus, which reduced operational EBITDA by R157m. The reduction is largely attributable to slower recognition of milestone related project revenue. The performance of Nexus masked an otherwise solid performance from the rest of the group, which delivered strong double-digit operational EBITDA growth of 12%.

The group's EBITDA margin on statutory revenue increased to 10.9% compared to 10.2% in the prior year. Within a South African context, the group generates 84% of its revenue from the private sector and 16% from the public sector. The EBITDA growth for the year was largely attributable to organic growth.

The depreciation charge for the group increased from R566m to R745m and net finance expense increased from R176m to R234m in FY20, both inclusive of the impact of the IFRS 16 adjustments.

Discontinued operations

As previously reported, the successful disposal of the last controlled non-core assets has been concluded. EBITDA from discontinued operations resulted in a R6m loss for the period under review, against R54m profit for the comparative period.

CASH MANAGEMENT

The group's overall net debt reduced to R1.1bn (including deferred disposal receipts), against R1.3bn as at the end of FY19. Cash generated from operations before working capital movements totalled R1.9bn for the year. Net interest paid was R231m (including right of use interest) while tax and net dividends paid were R169m and R272m respectively for the year under review.

The group utilised a net amount of R270m on investment activities for the financial year. Included in this amount was R207m, largely relating to hardware in Netstar, which reflects the continued growth in its subscriber base. R208m related to investment predominantly in capital expenditure, and R50m in intangible assets. This was offset by R164m relating to the deferred proceeds from the disposal of non-core assets.

Net outflow from financing activities of R21m predominantly relates to net long term borrowings contributing to R433m positive cashflow. This was offset by R168m outflow relating to the right of use lease assets and R286m on finance leases relating to document processing equipment.

DIVIDEND

The Board remains committed to maintaining Altron's dividend cover of 2.5 times. However, in light of the current economic upheaval from the COVID-19 pandemic and uncertainty thereof going forward, the Board has decided that it would be prudent to preserve cash at this time and to declare a dividend that is 40% less than would otherwise have been declared.

As such, a final cash dividend of 26 cents per share (20.8 cents net of 20% dividend withholding tax) has been declared for the financial year ended 29 February 2020, payable to shareholders recorded in the register of the company at the close of business on the record date appearing below.

The Board has confirmed by resolution that the solvency and liquidity test as contemplated by the Companies Act, No. 71 of 2008, as amended, has been duly considered, applied and satisfied. This is a dividend as defined in the Income Tax Act, No. 58 of 1962 and is payable from income reserves. The income tax number of the company is 9725149711. The number of ordinary shares in issue at the date of this declaration is 400 477 483, including 26 497 055 treasury shares.

The salient dates applicable to the dividend are as follows:

Dividend dates

Last day to trade cum dividend	Tuesday, 2 June 2020
Commence trading ex dividend	Wednesday, 3 June 2020
Record date	Friday, 5 June 2020
Payment date	Monday, 8 June 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 3 June 2020 and Friday, 5 June 2020.

DIRECTORATE

During the financial year, our Board continued to provide valuable input to the group in realising Altron's vision and mission through the steadfast implementation of the One Altron strategy.

Save for the appointment of Mr Cedric Miller as Altron's Chief Financial Officer and executive director with effect from 1 May 2019, as previously communicated, there were no changes to the composition of the Altron board during the past financial year.

OUTLOOK

With the onset of the COVID-19 pandemic impacting businesses across the globe, our focus has been on ensuring the well-being of our employees and protecting the sustainability of Altron. 80% of Altron's business operates in the cloud environment. Currently 100% of our staff are fully productive, with 44% of our workforce supporting essential services.

We have seen an increase in interest from customers for more resilience in their remote information technology capabilities. As a key supplier of software solutions into a market that needs greater security, resilient remote home working capabilities and hybrid cloud, together with a revenue base that is 62% annuity income, this will provide a defensive platform to weather the COVID-19 storm.

Despite the resilience of our base, COVID-19 is expected to have a negative impact for the year ahead. Calculated as a percentage of FY2020 revenue, we expect a mid single-digit reduction in revenue. To limit the impact on our profitability, we have implemented a number of cost savings initiatives for the 2021 financial year, which includes reversing all 2020 salary increases for South African employees. Combined, our cost savings initiatives are estimated to save in the region of R500m.

Notwithstanding the uncertainties surrounding operating in the COVID-19 environment, we continue to make good progress on our key strategic pillars and accelerating the implementation of our One Altron strategy of offering end-to-end solutions to our extensive customer base.

For the 2021 year ahead we will focus in particular on:

- Assessing prevailing market conditions in order to forge ahead with the potential UK demerger at a more opportune time;
- Converting the cloud computing pipeline projects of Altron Karabina into revenue in SA;
- Improving the profitability of Nexus;
- Integrating the Ubusha acquisition into the group; and
- Capitalising on the digital transformation agenda to meet customer needs through offering a One Altron solution.

Our medium-term guidance to double 5 year EBITDA by 2022 remains unchanged.

FURTHER INFORMATION

This short form announcement is the responsibility of the directors and is only a summary of the information contained in the full announcement and does not contain full or complete details. Any investment decision should be based on the full announcement accessible from Thursday, 14 May 2020 on the Company's website at: https://www.altron.com/app/uploads/2020/10/altronresults14may2020.pdf and on SENS on the JSE's website at: https://senspdf.jse.co.za/documents/2020/jse/isse/AELE/FY2020.pdf

The full announcement is also available at our registered office for inspection, at no charge, during office hours. Copies of the full announcement may be requested by contacting WK Groenewald on telephone +27 11 645 3672, or email: wkgroenewald@altron.com.

Any forecast financial information contained in this announcement is the responsibility of the directors and has not been reviewed or reported on by the external auditors.

The independent auditor's audit reports by PricewaterhouseCoopers Inc. do not report on all of the information contained in this announcement/financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the independent auditor's' engagement they should obtain a copy of the unqualified independent auditor's audit reports on the summary group financial statements and the group annual financial statements together with the accompanying financial information from Altron's registered office or can be downloaded from the company's website: www.altron.com

The directors of Altron take full responsibility for the preparation of this preliminary report and the financial information has been correctly extracted from the underlying audited financial statements.

Any investment decisions made by investors and/or shareholders should be based on consideration of the full annual financial results as a whole and investors and/or shareholders are encouraged to review the full annual financial results at www.altron.com

The key audit matters (pursuant to IAS 701) can be viewed via the full independent auditor's audit report and the annual financial statements at www.altron.com

For and on behalf of the Board.

MJ Leeming	M Nyati	C Miller
Chairman	Chief Executive	Chief Financial Officer

Registered office:
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Directors:
MJ Leeming (Chairman), M Nyati (Chief Executive)*, C Miller (Chief Financial Officer)*, AC Ball, BW Dawson, BJ Francis, GG Gelink, P Mnganga, S Sithole (Zimbabwean), SW van Graan, RE Venter
* Executive

Group Company Secretary:
WK Groenewald

13 May 2020