Datatec Limited
Incorporated in the Republic of South Africa
Registration number: 1994/005004/06
Share code JSE: DTC ISIN: ZAE000017745
("Datatec", the "Company" or the "Group")

Provisional results for the year ended 29 February 2020, withdrawal of cautionary announcement and changes to Board Committees

Datatec Limited ("Datatec", the "Company" or the "Group", JSE DTC), the international information and communications technology (ICT) group, is today publishing its audited provisional results for the year ended 29 February 2020 ("the Period" or "FY20") on the Stock Exchange News Service ("SENS") which are available on www.datatec.com and via the JSE link: https://senspdf.jse.co.za/documents/2020/JSE/ISSE/DTC/FY20.pdf.

Highlights
- Solid operational execution in all divisions
- Strong Logicalis performance, especially in Latin America
- Significant improvement in Westcon International profitability
- Group revenue US$4.30 billion (FY19: US$4.33 billion)
- EBITDA US$158.7 million (FY19: US$86.8 million)
- Underlying* earnings per share 9.9 US cents (FY19: 6.6 US cents)
- Excellent cash generation - US$215.6 million cash from operations (FY19: US$69.0 million)
- US$60 million returned to shareholders through a special dividend and share repurchases
- Effective response to COVID-19 impact post year-end

Datatec Limited (www.datatec.com)

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Jens Montanana, Chief Executive of Datatec, commented:
"The Group delivered strong results in the past year, supported by good operational execution in all divisions in the face of growing global economic uncertainty.

"Westcon International returned to profitability and Logicalis Latin America produced an exceptional performance, as did Analysys Mason, our Management Consulting division, which continued to benefit from demand for 5G expertise.

"The Group generated significantly improved cash flows whilst we returned $60 million to shareholders through a special dividend and on-going share repurchases during the year.

"Since the start of the new financial year, the COVID-19 pandemic has taken its toll on economies, communities and business everywhere. We were able to adjust and move rapidly to a remote working environment across the Group and all divisions. We have seen increased demand for technologies and services required to enhance remote working in areas such as security and network access solutions, cloud migration and infrastructure virtualisation, as well as unified communications.

"I would like to thank all of our employees, customers and suppliers for their continued support during these unprecedented times.

"Datatec is well positioned to navigate the current environment in spite of the extremely uncertain macro-economic outlook. Good demand for our solutions and services is expected to continue, while we focus on costs, balance sheet and liquidity management."

STRATEGIC OVERVIEW
Datatec's strategy is to improve shareholder returns over the medium term through a combination of corporate and business development actions aimed at enhancing the competitiveness and profitability of its subsidiaries and operating divisions.

Logicalis is the largest profit contributor to the Group. The division also has the widest geographical exposure and Datatec intends to continue to develop and grow Logicalis globally, both organically and through acquisitions.

Datatec issued a cautionary announcement on 2 March 2020, informing shareholders that it is exploring the possibility of a listing (the "Potential Listing") of Logicalis' Latin American business (the "Latin American Business") on the B3 S.A. - Brasil, Bolsa, Balcao (www.b3.com.br - Brazilian stock exchange). This would result in the Latin American Business and its shareholders potentially carrying out a primary and secondary offering of the shares of the Latin American Business, subject to satisfactory market conditions. A further cautionary announcement in this regard was issued on 15 April 2020.

Whilst the Potential Listing remains of high interest, current market conditions are making the timing of the Potential Listing increasingly undeterminable. As a result, the Board has decided to withdraw the cautionary announcement.

Westcon International is 90% owned by Datatec following the sale of Westcon Americas to SYNNEX Corporation ("SYNNEX") together with 10% of Westcon International in FY18. The Group's strategy is to reshape the Westcon International business in order to improve profitability and reduce the central cost base which was retained after the SYNNEX transaction.

Westcon International returned to profitability in FY20 supported by excellent costs containment with the previously published target reduction in central costs for FY20 successfully exceeded. Following multiple years of restructuring, as well as system and process changes in Westcon International, no restructuring charges were incurred in FY20.

Following an arbitration process by an independent accountant, the earn-out payment relating to the disposal of Westcon Americas to SYNNEX was determined to be US$14 million on 29 May 2019. This was returned to shareholders by way of a special dividend of R1.00 per share on 29 July 2019 which totalled US$15.4 million.

GROUP RESULTS
Group revenues were US$4.30 billion in FY20, down 0.7% on the US$4.33 billion revenues recorded in FY19.

Group gross margins in FY20 were 17.2% (FY19: 15.9%). Gross profit increased by 7.8% to US$741.6 million (FY19: US$687.7 million).

Overall operating costs were US$582.9 million (FY19: US$600.9 million). There are no fundamental restructuring costs within operating costs in FY20 (FY19: US$17.5 million restructuring costs).

IFRS 16 (Leases) has been adopted for FY20 which has had a significant effect on the Group's financial reporting in several areas. Operating expenses have reduced as the majority of rental costs of leased assets are no longer included and depreciation and interest expense have both increased by an approximately commensurate amount. On the statement of financial position, fixed assets have increased with the inclusion of right-of-use assets and borrowings have increased with the equivalent lease liabilities affecting the net debt metric.

EBITDA was US$158.7million (FY19: US$86.8 million) and EBITDA margin was 3.7% (FY19: 2.0%). Excluding the adoption of IFRS 16**, EBITDA would have been US$123.5 million and EBITDA margin would have been 2.9%.

Operating profit increased by 70.7% to US$82.6 million, a notable increase on the US$48.4 million operating profit in FY19.

The net interest charge increased to US$25.9 million (FY19: US$22.6 million), mainly as a result of the adoption of IFRS 16 which added US$4.6 million to the net interest charge during the year. Profit before tax was US$58.5 million (FY19: US$24.2 million).

A tax charge of US$31.8 million has arisen on pre-tax profits from continuing operations for the year of US$58.5 million. The effective tax rate of 54.4% continues to be adversely affected by losses arising in Westcon International's UK and Asia operations for which no deferred tax assets have been recognised. As at 29 February 2020, there are estimated tax loss carry forwards of US$215.6 million with an estimated future tax benefit of US$46.2 million, of which only US$17.8 million has been recognised as a deferred tax asset.

The Group's net asset value per share decreased by 3.1% to 288.3 US cents per share (FY19: 297.5 US cents per share).

Underlying* earnings per share ("UEPS") were 9.9 US cents in FY20 compared to underlying* earnings per share of 6.6 US cents for FY19.

	FY20 US cents	FY19 US cents	Increase/(decrease) in US cents
Earnings per share	6.8	5.5	1.3
- Continuing operations	6.2	0.6	5.6
- Discontinued operations	0.6	4.9	(4.3)
Headline earnings per share	5.9	0.7	5.2
Underlying* earnings per share	9.9	6.6	3.3

Cash and net debt

The Group generated US$215.6 million of cash from operations during FY20 (FY19: US$69.0 million) and ended the year with a net debt of US$139.9 million (FY19: US$100.8 million and H1 FY20: $193.7 million). The net debt has been calculated as: cash of US$83.4 million (FY19: US$40.4 million); short-term borrowings and current portion of long-term debt of US$109.5 million (FY19: US$109.8 million); and long-term debt of US$113.8 million (FY19: US$31.4 million).

The adoption of IFRS 16 lease accounting has added US$84.8 million to net debt. For comparative purposes, excluding IFRS 16**, net debt would have reduced to US$55.1 million. The net debt excluding IFRS16** has been calculated as: cash of US$83.4 million (FY19: US$40.4 million); short-term borrowings and current portion of long-term debt of US$88.1 million (FY19: US$109.8 million); and long-term debt of US$50.4 million (FY19: US$31.4 million).

Foreign exchange translation

Losses of US$38.2 million (FY19: losses of US$54.7 million) arising on translation to presentation currency are included in total comprehensive loss of US$8.1 million (FY19: US$36.0 million). The majority of these losses arise from weakening in the Rand/US$ exchange rate from 13.94 at 28 February 2019 to 15.61 at 29 February 2020 and weakening in the Brazilian Real/US$ exchange rate from 3.73 at 28 February 2019 to 4.47 at 29 February 2020.

Current trading and outlook

The declaration of COVID-19 as a pandemic by the World Health Organisation ("WHO") on 11 March 2020, at the start of the Group's new financial year, heralded an unprecedented global economic and humanitarian crisis.

The Group's immediate response was to keep employees safe in accordance with government guidelines in all geographies of operation which typically involved maximising working from home, social distancing and all advised measures to limit the spread of COVID-19.

The multi-year investments in Westcon International's advanced systems and business automation enabled business continuity plans to be deployed effectively with almost the entire workforce switching to remote working. Most of Logicalis' global workforce is also working from home, limiting operational disruptions during lockdown periods.

Trading has remained steady since the beginning of the FY21 financial year, although some delays and supply disruptions were experienced especially in countries with highly restrictive lockdowns. Initial indications are that Westcon International revenues and order intake for the first quarter of FY21 ("Q1 FY21") are similar to the same period last year. For Logicalis, order intake for Q1 FY21 is similar to the corresponding period last year, with revenues for Q1 FY21 slightly lower than Q1 FY20.

The foreign currency exchange effects have been exacerbated so far in Q1 FY21 with the Rand and the Brazilian Real in particular depreciating dramatically against the US Dollar. Sustained emerging markets currency weakness is expected for the near term.

Collections from customers during the first few months of FY21 have remained in line with historic norms. As intermediaries in the supply chain, both Logicalis and Westcon International are working with vendors to provide support to customers experiencing adverse effects from the pandemic.

Increased demand for the Group's technology solutions is being experienced to support remote working during the lockdowns enforced throughout the world. In particular, demand for cloud computing, remote access solutions, virtualisation, security and unified communications remains strong. The positioning of the Group's divisions remains strategically sound with good demand for their solutions and services expected to continue as the world emerges from the current crisis and investments towards digital transformation accelerate.

The COVID-19 pandemic has created a lot of uncertainty over the macro-economic outlook, both in the short and medium term. As a result, the Group will not be issuing any forward-looking guidance. Our focus will remain on optimising our business for the current environment which will include cost and liquidity management.

Liquidity and borrowing facilities
In light of the COVID-19 crisis, particular attention has been given to assessing the outlook for liquidity across the Group and ensuring that sufficient cash will continue to be generated to settle liabilities as they fall due. Each division has carried out scenario planning and stress testing for the twelve months following the date of this report and has contingency plans in place to adapt to the more severe scenarios.

In January 2020, Logicalis completed a new three-year US$155 million banking facility for its subsidiaries. This new senior facility covers Logicalis' operations throughout the world, excluding Latin America, which has its own separate credit facilities. The facility is used to fund working capital requirements and also includes a new acquisition credit line. In addition, the Latin American credit facilities are considered adequate in the current environment.

On 14 May 2020 Westcon International extended its expiring European Invoice Financing facility of US$280 million for a further twelve months till 4 June 2021. The facility has been reduced with effect from 4 June 2020 to US$224 million with an accordion provision to increase the facility to US$280 million during the period from November 2020 to February 2021 when working capital utilisation is typically at its highest. This extended facility is considered adequate for Westcon International's working capital requirements, based on historical utilisation as well as projected headroom requirements as per the scenario modelling and stress testing.

The Group performed covenant projections for the next twelve months to confirm that banking covenants will continue to be met.

The Group's liquidity is dependent upon customers continuing to pay their invoices on a timely basis. To date in FY21, customers have continued to pay largely in line with historic norms. Suppliers have also provided extended payment terms where required.

Working capital was very well controlled across the Group in FY20 and net working capital days continued to improve in Westcon International. Trade receivables and inventory are of a sound quality and adequate provisions are held against both.

Acquisitions
On 1 March 2019, Analysys Mason Limited acquired 100% of the issued share capital of Stelacon Holding AB ("Stelacon"), a Swedish consulting company for US$2.6 million (including a deferred purchase consideration of US$1.2 million). This was an important further step in building a pan-Scandinavian presence, after Analysys Mason's successful expansion into Norway. Stelacon brings experience in areas including smart cities, regional development, digital services, policy and regulation, and telecoms and digital communications.

Effective 30 June 2019, Logicalis SA (Pty) Ltd, acquired 100% of the issued share capital of Mars Investment Holdings (Pty) Ltd ("Mars Technologies"), a South African IT services business, with offices in Cape Town, Johannesburg, Port Elizabeth, Durban and East London for US$0.4 million (including a deferred purchase consideration of US$0.1 million). This acquisition strengthens and expands Logicalis' South African managed services offering.

Logicalis Group purchased a 70% interest in Cilnet - Communicacos e Projectos Especiais S.A. ("Cilnet") on 2 September 2019. Cilnet is a Cisco systems integrator and managed services business in Portugal. The purchase consideration was US$8.8 million (including a deferred purchase consideration of US$2.3 million and $0.7 million non-controlling interest that was raised at acquisition). The acquisition increases Logicalis' Cisco technical expertise in the Iberian region and complements the existing Spanish operation with data centre, collaboration, networking, infrastructure and managed services capabilities, expanding the offering to the region.

Logicalis Group also acquired 100% of Orange Networks GmbH ("Orange Networks") on 2 September 2019. Orange Networks is a Microsoft services business focused on Microsoft cloud and managed services, with Germany-wide presence. The purchase price was US$2.9 million (including a deferred purchase consideration of US$0.6 million). This acquisition advances Logicalis Germany to Microsoft Gold-Certified Partner status and enhances its hybrid cloud offering.

Shareholder distributions: dividend policy and share repurchases
The Group's policy is to maintain a fixed three times cover relative to underlying* earnings when declaring dividends. However, as a result of the current COVID-19 pandemic and stated focus on preserving cash, the Board has decided not to declare a dividend for FY20 (FY19: nil).

Following an arbitration process by an independent accountant, the earn-out payment relating to the disposal of Westcon Americas to SYNNEX was determined to be US$14 million and was returned to shareholders by way of a cash dividend of R1.00 per share with scrip distribution alternative on 29 July 2019 which totalled US$15.4 million. The special dividend resulted in US$12.2 million of cash being distributed to shareholders who did not elect the scrip distribution alternative and 1.25 million shares were issued to shareholders who elected the scrip distribution alternative.

The Board had previously instituted a structured programme of general share repurchases in order to return cash to shareholders. During FY20 the Company undertook general share repurchases under three separate shareholder mandates:
- General meeting on 15 January 2019 - 4.40 million shares
- General meeting on 26 June 2019 - 4.05 million shares
- AGM on 29 August 2019 - 10.55 million shares

These repurchases amounted to US$44.3 million and totalled 19.0 million shares which have been cancelled, reducing the Company's shares in issue to 201.45 million at 29 February 2020.

The Company has undertaken all its share repurchases in accordance with the JSE Limited Listings Requirements.

Datatec has completed its share repurchase program.

SUBSEQUENT EVENTS
COVID-19
On 11 March 2020, the World Health Organization ("WHO") declared COVID-19 a global pandemic. This was followed by most countries in which the Group operates instituting lockdown restrictions to slow the spread of the disease. The Group responded by ensuring the safety and wellbeing of its employees and enabling working from home to maintain social distancing. Travel and face-to-face meetings were quickly reduced and eliminated completely in accordance with prevailing regulations. Most of the Group's business activities are able to continue under lockdown conditions and the provision of IT and communications equipment and services is often an essential component of the global response to the pandemic. The effect on the Group's business at the date of this report has been considered in detail by the board in approving the annual financial statements for FY20.

The countries in which the Group operates are all in different stages of lockdown, including travel and trade restrictions as well as social distancing measures. Outcomes range from successful virus containment with a short-term economic impact, to a prolonged global contagion resulting in a potential global recession or recessions in countries in which the Group operates. At the same time, there are a number of policy and fiscal responses emerging across the globe intended to mitigate potential negative economic impacts. Datatec is monitoring the developments closely and continuously adjusting across all its operations. The Group follows guidelines from the WHO and abides by the requirements as activated by local governments. Contingency plans have been implemented as far as possible to mitigate the potential adverse impact on the Group's employees and operations.

As the WHO declared COVID-19 a global pandemic on 11 March 2020 after the reporting date of the Group, the Group considers this to be a non-adjusting event after the reporting date as the Directors are of the view that the impact of the pandemic on the global markets and economy could not have sufficiently been anticipated at 29 February 2020. As a result, the financial effects resulting from the impact of COVID-19 have not been reflected in the Group's financial statements as at 29 February 2020.

As the situation remains fluid and rapidly evolving (due to continuing changes in government policy and evolving business and customer reactions thereto) as at the date the Group's consolidated annual financial statements for FY20 are authorised for issue, the directors of the Company considered that the financial effects of COVID-19 on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the economic effects arising from the COVID-19 pandemic may materially affect the consolidated results of the Group for the first half and full year of its FY21 financial year.

Westcon International facility
Westcon International extended its Europe Financing facility on 14 May 2020 (refer above).

Acquisition
Effective 1 April 2020, Analysys Mason acquired 100% of the shares in Allolio&Konrad for €7 million cash, a consultancy based in Bonn, Germany with an extensive track record in the telecommunications industry and long-term client relationships with Europe's leading telecom operators. Due to the timing of this acquisition, the at acquisition accounting has not been finalised and the fair value assessments of assets and liabilities acquired is still in progress, thus the goodwill and intangible asset values related to this acquisition has not been determined. Acquisition related costs of €0.2 million have been incurred on this acquisition.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the entity at the reporting date.

CHANGES TO THE BOARD AND COMMITTEES
As previously announced:
- Rick Medlock joined the Board as an independent non-executive director and member of the Audit, Risk and Compliance Committee ("ARCC") with effect 1 January 2020;
- Maya Makanjee was appointed as the Chairman of the Social and Ethics Committee on 1 June 2019 and also became the Chairman of the Remuneration Committee on 1 September 2019; and
- Johnson Njeke and Ekta Singh-Bushell stepped down from the Social and Ethics Committee on 30 November 2019.

In addition, Stephen Davidson, the Group Chairman, and John McCartney will step down from their committee roles on the ARCC and Remuneration Committee on 31 May 2020.

Ekta Singh-Bushell will be appointed to the Remuneration Committee effective 31 May 2020.

DISCLAIMER
This announcement may contain statements regarding the future financial performance of the Group which may be considered to be forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty, and although the Group has taken reasonable care to ensure the accuracy of the information presented, no assurance can be given that such expectations will prove to have been correct.

The Group has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements and there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. It is important to note, that:
(i) unless otherwise indicated, forward-looking statements indicate the Group's expectations and have not been reviewed or reported on by the Group's external auditors;
(ii) actual results may differ materially from the Group's expectations if known and unknown risks or uncertainties affect its business, or if estimates or assumptions prove inaccurate;
(iii) the Group cannot guarantee that any forward-looking statement will materialise and, accordingly, readers are

cautioned not to place undue reliance on these forward-looking statements; and

(iv) 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 required by the JSE Limited Listings Requirements.

Any reference to future financial performance included in this announcement, has not been audited or reported on by the Company's auditors.

On behalf of the Board

SJ Davidson
Chairman

JP Montanana
Chief Executive Officer

IP Dittrich
Chief Financial Officer

27 May 2020

DIRECTORS
#SJ Davidson (Chairman), #JP Montanana (CEO), IP Dittrich (CFO), M Makanjee, ^JF McCartney, #CRK Medlock, MJN Njeke, ^E Singh-Bushell
^American #British

Short form announcement
The contents of this short form announcement are the responsibility of the Board of Directors of the Company("the Board"). Shareholders are advised that this short form announcement represents a summary of the information contained in the full announcement (which has been independently audited by the Group's auditors, Deloitte & Touche), published on SENS via the JSE link and on Datatec's website http://www.datatec.com/investors-results-presentations.php on 27 May 2020, and does not contain full or complete details of the financial results.

While the short-form announcement itself is not audited but extracted from audited results, the full set of audited consolidated financial statements and unmodified audit opinion with the key audit matters from Deloitte & Touche is available for inspection at the registered offices of the Company and at https://www.datatec-reports.co.za/annual-2020/pdf/afs-2020.pdf

Any investment decisions by investors and/or shareholders should be based on consideration of the full announcement as a whole and shareholders are encouraged to review the full announcement, which is available as set out above. The full announcement is also available for inspection at the registered office of the Company at no charge during normal business hours from 27 May 2020 to 26 June 2020 and at the offices of Datatec's sponsor, Rand Merchant Bank (a division of FirstRand Bank Limited). Copies of the full announcement may be requested from info@datatec.com.

The JSE link is as follows: https://senspdf.jse.co.za/documents/2020/JSE/ISSE/DTC/FY20.pdf

* Excluding impairments of goodwill and intangible assets, profit or loss on sale of investments and assets, amortisation of acquired intangible assets, unrealised foreign exchange movements, acquisition-related adjustments, fair value movements on acquisition-related financial instruments, restructuring costs relating to fundamental reorganisations and the taxation effect on all of the aforementioned.

The underlying earnings measure is specific to Datatec and is not required in terms of International Financial Reporting Standards or the JSE Listings Requirements.

**Certain information presented in these results constitutes pro forma financial information. The responsibility for preparing and presenting the pro forma financial information and for the completeness and accuracy of the pro forma financial information is that of the Datatec directors. This is presented for illustrative purposes only. Because of its nature, the pro forma financial information may not fairly present the Group's financial position, changes in equity, and results of operations or cash flows. The Group has included pro forma IFRS 16: leases financial information that represent the results and statement of financial position showing the impact on FY20 as if IFRS 16 had not been applied.

The pro forma IFRS 16 contained in this announcement has been reported on by the group's external auditors. The Group's auditors Deloitte & Touche, have issued an unmodified reasonable assurance report (in terms of ISAE 3420: Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus) on the pro-forma financial information presented, a copy of which is available for inspection at the Company's registered office on weekdays from 09:00 to 16:00.

Registered office: Third Floor, Sandown Chambers, Sandown Village Office Park, 81 Maude Street, Sandown

Sponsor: Rand Merchant Bank (a division of FirstRand Bank Limited), 1 Merchant Place,

Transfer secretaries: Computershare Investor Services (Pty) Ltd