EOH HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1998/014669/06)
JSE share code: EOH
ISIN: ZAE000071072
("**EOH**" or the "**Group**")

PRE-CLOSING STAKEHOLDER UPDATE

"The EOH of today has emerged out of exceptional times characterized by massive uncertainty. We have built a sustainable business with clear alignment and focus allowing us to better serve more than 5000 enterprise customers, the government and the citizens of South Africa with technology and digital enablement that is critical to our country's future success. Notwithstanding our commitment to South Africa over this time, we are now positioned to grow our international footprint in the UK, Europe and the Middle East. Our turnaround plan remains on track and is underpinned by stable revenue and quality earnings. I truly feel that at EOH whether we are providing end-to-end technology solutions, infrastructure solutions or people solutions, we are indeed living our stated brand promise, which is to SOLVE for our clients at every turn. On a personal note, I need to add how very proud I am of all of those at EOH who have gone the extra mile, over this challenging period in South Africa, to demonstrate that we stand in solidarity with those in our society who most need our help."

Stephen Van Coller, CEO

At EOH's interim results released on the 14th of April 2021 for the period ended 31 January 2021, EOH reported a more sustainable business with a significant reduction in one-off costs and improved quality of earnings resulting in a positive operating profit of R59 million compared to a R915 million operating loss in the prior six-month period. In addition, the Group benefited from an increased digital uptake across its client base, which positively impacted its digital industries, automation and cloud businesses. EOH is now providing its stakeholders with an update on trading conditions and events during the second six-month period of its financial year ended 31 July 2021 (FY2021).

Operating environment

The general operating environment in South Africa continues to remain extremely challenging. The third wave of COVID-19, the ongoing load shedding and the significant impact of the looting and violence that followed the arrest of former President Jacob Zuma have all taken their toll on the country's already fragile prospects of economic recovery and investor confidence. The EOH Board and management team have dealt with the individual challenges as they have arisen over the last six months by activating a clear vision through consistent communication and being proactive with rapid and considered decision-making. Building resilience throughout the organisation has been an ongoing imperative.

Financial performance

Although total Group revenue in the second half of FY2021 was negatively impacted by the prevailing economic conditions as referenced above, the Group remains focused on quality of earnings and expects to post gross profit margin improvement of between 4 to 6 percentage points from the prior full year (FY2020: 22%). EOH has continued to prioritise an appropriate cost structure for the business that is agile and responsive to changing market conditions. As a result, the Group expects to post a positive operating profit and reported EBITDA for the full year. The gap between normalised EBITDA and reported EBITDA continues to narrow as the business has stabilised with reduced normalisation adjustments.

The total revenue generated by the iOCO business in the second half of FY2021 saw a drop off as a result of hardware sales continuing to be under pressure due to the impact of COVID-19 and as customers migrate to cloud alternatives. The iOCO segment continues to post an operating profit and positive EBITDA for the second half largely driven by the iOCO Services cluster, specifically Digital Industries which has seen significant growth in its IOT capability.

The iOCO business has seen positive momentum with strong traction in customer renewals and the recently mobilised public sector re-entry strategy is yielding value with a solid pipeline. The signing of new multi-year annuity deals across both private and public sector clients is evidence of iOCO's position as the country's leading end-to-end technology solutions provider.

The NEXTEC business continues to execute upon its turnaround strategy with revenue remaining resilient in the second half despite the challenging economic conditions. The NEXTEC People solutions business has generated strong operating profit and EBITDA in the second half with margins improving due to further efficiency gains and stringent cost control. The NEXTEC Infrastructure solutions business, however, remains under pressure characterised by contract delays in the consulting services predominantly across municipalities, the construction, water and energy sectors.

The NEXTEC businesses that remain core to EOH are self-sufficient from a liquidity perspective.

Deleverage plan and liquidity

The Group continues to manage working capital and cash tightly. Cash generation from business as usual (before finance costs and once off legacy costs) for the full year continues to be positive with a significant reduction in one-off legacy costs in H2 2021 compared to H1 2021. Net cash balances at 28 July 2021 were R605 million.

Following the disposal of Syntell in November 2020 for a consideration of R211 million, EOH concluded the disposal of Sybrin in June 2021 for a base cash consideration of R334 million. The deal is currently awaiting competition approvals in various African countries. Once these are concluded, the cash from the sale is expected to flow in the latter part of the 2021 calendar year.

Delays from the sale of the IP businesses, largely due to COVID, has resulted in the Group's current debt balances remaining at similar levels to those reported at H1 2021 at c.R2 billion. As repeatedly communicated, the Group's heavy interest burden significantly weighs on the Group's cash resources. EOH's new Board and management team deem the reduction of the core legacy debt and finalisation of the overall capital structure to be an urgent business imperative.

Outlook

The near-term priorities for the 2021 financial year have been a continued focus on quality earnings, cost reduction and solving for the Group's substantial legacy debt and inefficient capital structure. EOH has also been keenly focused on enhancing its end-to-end technology solutions with future generation offerings such as application development, security, automation, robotics, and data analytics which all further enhance the Group's role as a key technology solutions partner for leading companies.

EOH's international operations in the Middle East, UK and Europe remain exciting platforms from which to pursue exponential growth across its application development, security and cloud solutions. In addition, these geographies provide opportunities for EOH's IP platforms and potential strategic in-country partnerships.

The Group's turnaround strategy, which has been focused on restoring credibility, increasing transparency and improving liquidity, remains on track despite the ongoing challenges in the local and global environment. By focusing on these priorities, the new EOH Board and management team have made a distinct break from the past and have successfully rebuilt a sustainable organisation with clear alignment and focus.

Importantly, the events of the last few weeks have evidenced, more than ever, that business, civil society, and government need to urgently come together to find a sustainable way forward for South Africa. It is in this spirit that the Group delivered 6 000 cooked meals and 24 tonnes of groceries to EOH staff in areas affected by looting and violence and provided 500 employees with trauma counselling. Our purpose at EOH is to SOLVE and with this as our overarching priority, we will not only continue to be the technology partner of choice for our clients but we will also ensure that we play a leading role in being a force for good in South Africa.

The financial information contained in this pre-closing stakeholder update has not been reviewed nor reported on by PricewaterhouseCoopers Inc., the Group's independent external auditors.

30 July 2021

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