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 FOR THE FINANCIAL YEAR ENDING 31 JULY 2022

Background

On 13 April 2022, EOH published its unaudited interim results for the six months ended 31 January 2022 (H1) which saw the Group return to profitability and showed that EOH delivered a significant improvement in gross profit, operating profit and EBITDA margins during the period. EOH continued the positive trend from the prior year with regards to cash generated from operations and significant progress had also been made in the deleveraging strategy as a result of the successful disposal of Sybrin – albeit an event that took place post the 31 January 2022 interim reporting period end. In the second half of the financial year (H2), execution of the deleveraging strategy saw further success with the closing of the disposal of the Information Services Group, announced to the market on 15 June 2022. The net disposal proceeds of R374 million were used to further reduce EOH's bridge facility that is repayable on 1 April 2023. Subsequent to the closing of this transaction, Group gross debt is R1.33 billion, comprising a R500 million bullet facility maturing 1 April 2025 and the remaining R832 million bridge facility.

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 2022 (FY2022).

Operating environment

The operating environment in South Africa remains challenging. The Ukraine conflict, stringent economic lockdowns in China, ongoing supply chain disruptions and the sharp rise in energy prices have pushed inflation higher. This has resulted in an aggressive tightening of monetary policy world-wide, placing the consumer and many corporates under pressure. In South Africa, the recent floods in Kwa-Zulu Natal and an increase in load shedding have added pressure to an already fragile economy.

The EOH Board and management team continue to monitor these developments and to proactively manage their effects on the Group's business, whilst maintaining focus on delivering their current financial targets and deleveraging strategy.

Financial performance

With the exception of Nextec Infrastructure Solutions, which has seen significant headwinds in H2, and which is discussed further under the Nextec update, the Group's strong H1 performance has continued into H2.

The Group continues to deliver gross profit margins similar to those of H1. The drive to remain agile at an operating expense level has been maintained and as a result Group EBITDA margins are also expected to be consistent with those delivered in H1.

Whilst the conclusion of the Common Terms Agreement with the lenders has brought more stability to our capital structure, the cost of debt and refinancing costs have increased the finance cost line. When combined with the increase in the repo rate we have seen our blended cost of debt increase by 230 basis points. The final phase of resolving the capital structure remains a business imperative particularly in the context of the current rising interest rate environment.

The Group continues to focus on closing out the last two remaining legacy issues. The first issue relates to settling out with the SIU on the Department of Water and Sanitation Investigation. The remaining issue relates to the uncertain tax dispute dating back to 2012 related to a PAYE dispute in one of its staff outsourcing businesses. The Group continues to engage in ongoing discussions with SARS, regarding the potential settlement of this matter, in line with the requirements of the Tax Administration Act.

NEXTEC performance

NEXTEC continues to make progress with the turnaround of its People Solutions Business and accordingly maintained its strong H1 performance into H2.

The Infrastructure Solutions Business had a tough H2 due to the effects of supply chain delays and interruptions from OEM providers. It has also felt the effects of a number of delays in large projects, principally in the Public Sector.

iOCO Performance

Normally we would expect H2 performance to be better than H1 but with the prevailing headwinds iOCO continued to perform in line with H1, maintaining gross profit and EBITDA margins and continuing to deliver from a top-line revenue perspective.

The strategic focus on the iOCO Infrastructure Services business has delivered strong results aided by the acquisition of new clients and key existing clients renewing multi-year managed services contracts. Specifically, the hardware business was somewhat impacted by global supply-chain disruptions, specifically in relation to global chip shortages, directly affecting the supply of data centre hardware.

As announced at our interim results, iOCO Technology (Software Reseller and Enterprise Applications) experienced a difficult H1. Due to continued margin pressure from OEM suppliers the situation has not improved in the second half of the year. The immediate strategic focus is to add more software brands to the portfolio in line with the key acquisitions of software vendors made by OEM partners. The Enterprise Applications business has also faced continued headwinds over this period, with slow sales cycles and delays in client decisions impacting revenue growth.

iOCO Digital, one of the fastest growing clusters in the Group, posted a strong performance in H2. The business has achieved strong growth across the cluster, but specifically in key areas such as cloud, application development, and automation. In addition, the advisory, design-thinking-led approach is yielding increased demand for Digital Squads focused on driving innovation and digital transformation across the Group’s client base.

iOCO Digital Industries, the Group’s flagship provider of operational technology solutions, came under pressure from a revenue growth perspective in the second half of the year largely on the back of constrained infrastructure investment from both the public and private sector in South Africa but continued to deliver good margins and EBITDA profit. The business continued to invest in its expansion strategy and was formally awarded the rights to the East and West African territories of its primary OEM partner, an accolade of which the Group is very proud.

Deleveraging plan and liquidity

The Group continues to closely manage its working capital and liquidity, with gross cash balances of c. R540 million as at 27 July 2022, including foreign and restricted cash, but excluding the undrawn R250 million overdraft facility which remains at EOH's disposal. The reduction of EOH's debt and finalisation of an overall sustainable capital structure remains a key priority for EOH's management team and Board. Following negotiation with lenders, EOH successfully refinanced the existing R1.9 billion debt into a R1.4 billion senior bridge facility repayable on or before 1 April 2023, a R500 million 3-year senior term loan, due 1 April 2025, a R250 million overdraft facility and R250 million in indirect facilities. Proceeds from the sale of Sybrin and the Information Services Group, have reduced the senior bridge facility to R832 million. The proceeds from the sale of Network Solutions and Hymax SA, a significant portion which is expected to be received during the third quarter of the year, will further reduce the outstanding bridge facility by approximately R100 million.

Update on Growth Strategy and Outlook

Looking forward, the Group is intensifying its focus on its GET strategy (as introduced in the half year presentation), which will see the business driving a three-pronged approach, focusing on growth, efficiency and talent:

Growth

The Group's businesses are at various stages of maturity which gives roundness and balance to the Group going forward. Our growth strategy can be summarized as follows:

- **Optimise and defend businesses:** Given its brand strength and longevity in the market, we have a sizeable market share in our iOCO Technology (Enterprise Applications and Software Reseller) businesses, which we expect to grow in line with GDP. We will continue to focus on operating efficiencies to ensure these businesses are lean and can deal with competition in an agile way.
- **Growth engines:** The significant growth engines are businesses in high growth markets: iOCO Digital taps into the 4IR market trends whilst Digital Industries is directly positioned in the rapid growth area of the OT/IT intersection. The Infrastructure Services business creates the ideal platform for clients to outsource their IT infrastructure. All of these businesses are currently significant contributors to revenue, are earnings accretive and are expected to remain so going forward.
- **Future foundations:** these comprise our IP companies (such as Impressions, a digital signature business) which are ready for geographic expansion and scaling. Whilst currently contributing <10% of Group revenue they present exciting opportunities for the Group to build out into untapped areas of the market. These businesses are expected to be significant drivers of margin expansion in the next 5-10 years. All these businesses are primed for investment to grow and expand.

Efficiency

EOH maintains that one of our core focus areas is to create an "anti-fragile" robust business that is able to adapt to the changing environment. To this end EOH has right-sized its cost base, including a simplification of the business and legal entity structure and the further digitization and automation of our shared services to improve efficiencies across the business. Management will continue to focus on this strategy to maintain its strategic competitiveness and position it to deliver sustained growth into the future.

Talent

We have made great progress towards creating a compelling and future-focused employee value proposition which includes a strong focus on employee attraction, retention and engagement. Our move is towards a future model of work that encompasses the social, technological and economic influences of the 21st century with a new-way-of-working model which is centered around establishing EOH as the best place to work by designing a networked talent ecosystem that is location agnostic. Our focus on fair and equitable remuneration continues and will ensure we drive a pay-for-performance philosophy.

Outlook

“Despite the difficult operating environment EOH continues to demonstrate resilience and affirm its profitability. The final step is now to optimise the capital structure and we are confident that we can deliver in this regard in order to pursue our growth strategy. We remain on track to deliver the R60m of cost savings highlighted in our first half presentation for FY2023” said Stephen van Coller

With the deleveraging strategy approaching completion, the Group has been actively assessing its strategic options with regards to achieving an optimal long term capital structure which will allow EOH to pursue its growth strategy, immediately improve earnings and ultimately lead to value unlock for shareholders.

The Board and management continue to assess the Group’s capital raising options and expect to announce its capital raising plans alongside the release of its year end results.

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

29 July 2022

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