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")

Condensed unaudited interim results for the six months ended 31 August 2022

Datatec Limited, an international information and communications technology (ICT) group, today publishes its condensed unaudited interim results for the six months ended 31 August 2022 ("the Period" or "H1 FY23") 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/2022/JSE/ISSE/DTC/H1FY23.pdf

Highlights

	Unaudited Six months to 31 August 2022 "H1 FY23"	Unaudited Six months to 31 August 2021 "H1 FY22"	% Movement
Combined^ revenue (US$ million)	2 452.9	2 257.0	8.7%
Combined^ gross profit (US$ million)	356.6	374.4	(4.8%)
Combined^ adjusted** EBITDA (US$ million)	95.6	84.4	13.3%
Combined^ underlying* earnings per share (US cents)	3.6	8.3	(56.6%)
Combined^ earnings per share (US cents)	5.0	6.3	(20.6%)
Combined^ headline Earnings per share (US cents)	4.7	6.3	(25.4%)
Combined^ net asset value per share (US cents)	250.2	290.5	(13.9%)
Combined^ net debt (US$ million)	(114.7)	(152.5)	(24.8%)

^ Including Analysys Mason disposal group

Excellent Westcon International performance
Logicalis to be managed and reported as two operating units to align with Group strategy
Steady results from Logicalis International
Continued weakness in Logicalis Latin America as previously communicated
Strong working capital management
Continued impact of US Dollar strength
Special dividend of GBP135 million (ZAR2.7 billion)
Increases in share-based payment charges due to improved Westcon performance
Alignment of EBITDA and underlying earnings per share definitions to international peers

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Commentary

Jens Montanana, Chief Executive of Datatec, commented:
"Westcon International achieved an excellent performance with expanding profitability despite the prevailing supply chain issues affecting our industry.

"Logicalis is now managed in two segments, Logicalis International and Logicalis Latin America, to better align with the Group's strategy and provide operational flexibility. Logicalis International had a steady performance while Latin America, as expected, continued to be negatively impacted by weak regional economic conditions compounded by supply chain constraints.

"In line with our continuing Strategic Review process, the sale of Analysys Mason finalised in September unlocked significant value for shareholders and GBP135 million will be distributed in a special dividend this December.

"Our operations are well-positioned to take full advantage of the robustness in networking and cyber security demand across the world, however the persisting US Dollar strength continues to present headwinds to growth."

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.

The Group's Strategic Review continues to address the persistent gap between Datatec's valuation and the inherent value of its underlying assets while also ensuring that the Group is positioned to take full advantage of the positive market dynamics for its technology solutions and services.

On 27 September 2022, Datatec completed the sale of its Analysys Mason (AM) division with the disposal of its 71.2% shareholding in AM in accordance with the terms announced on 30 June 2022, representing another significant liquidity event.

For H1 FY23 reporting, the IFRS 5 criteria have been met and the board has classified AM as a disposal group held for sale.

During H1 FY23, Datatec split its investment in Logicalis Group into two divisions: Logicalis International (all markets outside of Latin America) and Logicalis Latin America. This new organisational structure is reflected in the H1 FY23 results with Logicalis International and Logicalis Latin America reported as separate segments.

From an operational perspective, the Group remained resilient during H1 FY23 in the face of headwinds including the war in Ukraine, Covid-19 lockdowns in China and global inflationary pressures, all compounding the continuing semiconductor shortages. The disruption to global supply chains affected Datatec's businesses to differing degrees with operations in Latin America impacted the most, but in line with expectations as communicated to shareholders in the FY22 results announcement on 24 May 2022. Logicalis International achieved steady results while Westcon International delivered an excellent performance.

Demand for networking, cyber security products and solutions using cloud infrastructure remained strong while software and services contributions continued to grow as part of the overall mix.

Dividends
Effective 27 September 2022, Datatec sold its 71.2% shareholding in Analysys Mason which had been held by its 100% subsidiary Datatec PLC and received its portion of the initial consideration on completion, comprising approximately GBP128 million in cash and GBP7.1 million in Deferred Loan Notes, payable three years after completion. On 11 October 2022, the Board declared a GBP135.1 million dividend to shareholders by way of a special cash dividend with scrip alternative of 1 250 ZAR cents per Datatec ordinary share. All transaction related costs will be absorbed by the Company in order to maximise the distribution to Shareholders.

On 24 May 2022, the Board declared a final dividend for FY22 of 111 ZAR cents per share equivalent to 7 US cents per share or in total US$15 million with the customary form of a cash dividend with a scrip distribution alternative.

DIVISIONAL SUMMARY

Segment changes

Logicalis will now be presented as two divisions namely, Logicalis International and Logicalis Latin America (of which the Group owns 65%).

Westcon International

Westcon International's revenue increased by 16.1% to US$1.6 billion (H1 FY22: US$1.4 billion) due to strong demand for network infrastructure, remote access solutions with enhanced cyber security for flexible working and virtual office environments and unified collaboration. In constant currency***, revenue improved by 22.9%. EBITDA increased by 66.1% to US$51.5 million (H1 FY22: US$31.0 million). On an adjusted** EBITDA basis, H1 FY23 increased by 84.3% to US$64.5 million (H1 FY22: US$35.0 million).

Westcon International remains focused on revenue growth and margin expansion supported by continued investment in process automation, digital tools to support the channel and cost controls. While several macroeconomic risks persisted, the H1 FY23 results highlight Westcon International's continued improvement in its financial performance over the last four years.

Logicalis International

Logicalis International's revenue increased by 5.6% to US$575.6 million compared to US$544.9 million revenue for H1 FY22. EBITDA decreased by 35.6% to US$18.3 million (H1 FY22: US$28.4 million). On an adjusted** EBITDA basis H1 FY23 decreased by 9.2% to US$26.5 million (H1 FY22: US$29.2 million).

Logicalis Latin America

Logicalis Latin America's revenue decreased by 21.3% to US$218.8 million compared to US$278.0 million revenue for H1 FY22. EBITDA decreased to a US$1.0 million loss (H1 FY22: EBITDA profit US$18.1 million). On an adjusted** EBITDA basis, H1 FY23 decreased by 78.1% to US$4.0 million (H1 FY22: US$18.1 million).

Alignment of underlying earnings* per share with peer reporting

The definition of underlying earnings* per share has been changed prospectively from H1 FY23 to better align with international peer reporting. The calculation now excludes normalisation adjustments relating to one-off tax items impacting EBITDA, and costs relating to acquisitions, integrations and corporate actions.

CURRENT TRADING AND OUTLOOK

Datatec's operations are experiencing sustained strong demand for software and services in networking, cybersecurity and cloud infrastructure and are receiving significant international recognition with key vendor awards. Order intake remains strong which is a positive forward-looking indicator.

Whilw the global supply chain constraints continue to impact deliveries, resulting in further increases in backlog, there are early signs of improvement coming through.

The Group has been able to mitigate rising interest rates through excellent working capital management and by reducing debt levels. The increases in share-based payment charges linked to Westcon International's valuation uplift in line with its improved performance will continue to impact underlying earnings* per share in the second half.

Looking ahead, secular technology trends for networking and cybersecurity remain strong, despite weakening macroeconomic conditions (especially in Europe), inflation, and the persistent strength of the US Dollar. The board remains focussed on driving shareholder value in the context of its Strategic Review.

GROUP RESULTS

Revenue

Group combined^ revenue for the period was US$2.45 billion in H1 FY23, up by 8.7% on the US$2.26 billion revenue recorded in H1 FY22. In constant currency***, Group combined^ revenue increased by 14.7%.

Group continuing revenue for the period was US$2.41 billion in H1 FY23 compared to the US$2.21 billion revenue recorded in H1 FY22 (on a continuing basis).

Supply chain delays had a marked effect on slowing the sales process from order to delivery, causing a notable increase in the quantum of open, unfulfilled sales orders, termed "backlog" at the recent period end. Open product orders at the end of H1 FY23 were approximately US$1.4 billion compared with US$838 million for H1 FY22 and US$1.2 billion for FY22.

Product backlog

(US$ million)	H1 FY23	H1 FY22	FY22
Westcon International	965	496	818
Logicalis International	293	212	261
Logicalis Latin America	165	130	139
Datatec Group	1 423	838	1 218

The Group's combined^ gross margin in H1 FY23 was 14.5% compared to 16.6% in H1 FY22 and continuing gross margin in H1 FY23 was 14.0% (H1 FY22: 16.0%). Combined^ gross profit was US$356.6 million (H1 FY22: US$374.4 million) including US$337.9 million (H1 FY22: 354.3 million) gross profit from continuing operations. The significant strengthening of the US Dollar compared to the Pound and Euro during H1 FY23 had a significant negative impact on gross margins in Westcon Europe, largely offset by realised and unrealised foreign exchange gains on hedging contracts.

Overall combined^ operating costs were US$293.2 million (H1 FY22: US$299.4 million). Restructuring costs of US$7.8 million were included in H1 FY23 relating to fundamental reorganisations in Logicalis International and Logicalis Latin America. There were no restructuring costs in H1 FY22.

Combined^ operating costs included US$29.6 million of foreign exchange gains (H1 FY22: losses of US$5.1 million). Foreign exchange gains consisted of unrealised foreign exchange gains of US$18.5 million (H1 FY22 losses: US$2.2 million) and realised foreign exchange gains of US$11.1 million (H1 FY22: losses US$2.9 million). Unrealised foreign exchange differences are excluded from underlying* earnings per share. The unrealised foreign exchange gains arose mainly in Westcon Europe on open positions of forward exchange contracts ("FEC's"). The FEC's hedge the net open working capital position of the business, as well as the open order backlog, which constituted the majority of the unrealised gains. If exchange rates remain where they are, this could result in further depressed gross margins as the backorder unwinds.

Combined^ EBITDA was US$63.4 million (H1 FY22: US$75.0 million) and combined^ EBITDA margin was 2.6% (H1 FY22: 3.3%).

The combined^ share-based payment charge under IFRS 2 included in operating expenses was US$18.4 million, almost double the equivalent charge in H1 FY22 of US$9.4 million which reflects the increasing valuations of the divisions' cash-settled share-based payment plans, particularly Westcon International and Analysys Mason.

To be more in line with international peers, the Group is now presenting the adjusted** figure for EBITDA excluding share-based payments, restructuring costs, one-off tax items impacting EBITDA, and acquisition, integration and corporate actions costs. On this basis, adjusted** EBITDA in H1 FY23 was US$95.6 million (H1 FY22: US$84.4 million) and adjusted** EBITDA margin was 3.9% (H1 FY22: 3.7%).

Combined^ depreciation and amortisation decreased to US$32.0 million (H1 FY22: US$35.9 million) and combined^ operating profit was US$29.3 million (H1 FY22: US$39.1 million).

The combined^ net interest charge increased to US$16.0 million (H1 FY22: US$14.2 million) mainly due to increased interest rates, resulting in profit before tax of US$16.8 million (H1 FY22: US$25.4 million). Operating profit includes US$2.1 million of impairment of right-of-use assets from Logicalis International which is directly related to property restructuring initiatives.

A combined^ tax charge of US$5.5 million (H1 FY22: US$8.6 million) has arisen on the combined^ pre-tax profits. The effective tax rate of 32.6% has again benefited from an increase in UK tax losses recognised as deferred tax assets as a result of improving profit forecasts. Excluding the discontinued business, the effective tax rate was 46.7%. As at 31 August 2022, there are estimated tax loss carry forwards relating to the continuing businesses of US$232.5 million with an estimated future tax benefit of US$59.0 million, of which US$41.5 million has been recognised as a deferred tax asset.

Combined^ underlying* earnings per share were 3.6 US cents (H1 FY22: 8.3 US cents). Combined^ headline earnings per share were 4.7 US cents (H1 FY22: 6.3 US cents). Combined^ earnings per share were 5.0 US cents (H1 FY22: 6.3 US cents).

Cash and net debt

On a combined^ basis the Group generated US$78.9 million of cash from operations during H1 FY23 (H1 FY22: cash utilised of US$4.6 million) and ended the period with a combined^ net debt of US$114.7 million (H1 FY22: US$152.5 million). Excluding lease liabilities, net debt would have been US$26.4 million on a combined^ basis (H1 FY22: net cash of US$49.8 million).

Strong working capital management resulted in positive working capital cash flows in H1 FY23, compared to negative cash flows in H1 FY22.

Liquidity and borrowing facilities

The Group continues to closely monitor the outlook for liquidity in its divisions to ensure that sufficient cash is generated to settle liabilities as they fall due.

Westcon International has an invoice assignment facility of EUR390.6 million for its European subsidiaries, as well as an extended payables facility of US$86.0 million. Westcon International has a securitisation facility of US$100.0 million for its Asia-Pacific facilities. In addition, Westcon International utilises accounts receivable facilities in the Middle East (US$15.0 million) and Indonesia (US$11.0 million) as well as overdraft facilities in Europe (EUR4.0 million) and Africa (US$1.0 million), a securitisation facility in South Africa (ZAR250.0 million) and a line of credit in Singapore (US$1.2 million) to finance the business.

Logicalis International is supported by a corporate facility of US$155 million, covering all its operations, comprising an acquisition facility and a rolling credit facility to fund working capital requirements.

The Latin America division is supported separately via a number of uncommitted overdraft facilities and short-term lending arrangements and is predominantly sourced via Tier 1 banks in Brazil as it is the largest territory in the region.

The Group continues to monitor the funding needs of its individual operations and works closely with various financial institutions to ensure adequate liquidity.

The Group has performed covenant projections for the next 12 months to confirm that banking covenants are expected to be met.

Acquisitions

Effective 1 March 2022 Logicalis International Limited a wholly owned subsidiary of Logicalis Group Limited increased its shareholding in Logicalis Portugal S.A by 30%, resulting in Logicalis Portugal S.A. being a wholly owned subsidiary. The acquisition was for a deferred consideration payment of US$4.4 million based on the EBITDA for the two financial years ended 28 February 2022. The purchase price was paid on 1 September 2022.

On 30 April 2022, Access Markets International (AMI) Partners, Inc. a 100% owned subsidiary of Analysys Mason Limited acquired 100% of the membership interests in Northern Sky Research, LLC ("NSR"). NSR is based in the US and specialises in research and consulting services to the space and satellite sector.

On 4 August 2022, Logicalis UK Limited acquired Q Associates Ltd, a leading provider of IT consultancy and advisory services around data management, data protection, compliance and information security.

SUBSEQUENT EVENTS

Acquisitions
On 27 October 2022, the Datatec Group increased its stake in Cirrus Participacoes S.A. ("Kumulus") from 32.56% effective shareholding to 48.87% for BRL17 million.

Disposals
Effective 27 September 2022, Datatec sold its 71.2% shareholding in Analysys Mason which had been held by its 100%-owned subsidiary Datatec PLC. Datatec PLC received its portion of the consideration on completion, comprising approximately GBP128 million in cash. A further amount of GBP7.1 million comprising deferred loan notes will be payable after three years after completion of the transaction. There is an earn-out payment of up to GBP7.1 million (Datatec's portion), which may become payable with reference to an EBITDA target of the Analysys Mason Group for the financial year ending 28 February 2023. The aggregate earn-out payment is due for payment on 28 February 2025.

There were no other material subsequent events.

BOARD CHANGES (ALL PREVIOUSLY ANNOUNCED)

The following changes to the Board and to the roles of directors have taken place as previously announced on SENS:
Board changes:
• Ms D S Sita joined the Board as an independent non-executive director on 1 March 2022.
• Ms E Singh-Bushell resigned from the Board as an independent non-executive director of the Company with effect from 27 July 2022.
• Mr L C Rapparini joined the Board as an independent non-executive director of the Company with effect from 1 September 2022.

Changes to the functions of directors:

With effect from 1 March 2022:
• Ms M Makanjee, independent non-executive director of the Company, became Chair of the Board in succession to Mr S J Davidson;
• Ms M Makanjee stepped down as Chair of the Remuneration and Social and Ethics Committees and remained a member of both committees;
• Ms M Makanjee became Chair of the Nominations Committee in succession to Mr S J Davidson who remained a member of the committee;
• Ms D S Sita, who joined the Board as an independent non-executive director on 1 March 2022 as announced on 3 February 2022 was also appointed as a member of the Remuneration Committee at that date; and
• Mr S J Davidson Chairs the Remuneration Committee from 1 March 2022 on an interim basis and has become Chair of the Social and Ethics Committee.

With effect from 1 July 2022 Ms D Sita became a member of the Audit, Risk and Compliance Committee.

With effect from 1 December 2022 Mr L C Rapparini will join the Remuneration Committee.

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 condensed consolidated interim results have not been reviewed or audited by the Company's external auditor, PwC.

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.

On behalf of the Board

M Makanjee
Chair

JP Montanana
Chief Executive Officer

IP Dittrich
Chief Financial Officer

3 November 2022

DIRECTORS
M Makanjee (Chair), # JP Montanana (CEO), IP Dittrich (CFO), # SJ Davidson, o JF McCartney, # CRK Medlock, MJN Njeke, ^ LC Rapparini, DS Sita

o American # British ^ Brazilian

Short form announcement
The contents of this short form announcement are the responsibility of the Board of Directors of the Company. Shareholders are advised that this short form announcement represents a summary of the information contained in the full announcement, published on SENS via the JSE link and on Datatec's website

https://www.datatec-reports.co.za/interim-2022/index.php on 3 November 2022, and does not contain full or complete details of the financial results.

The condensed consolidated interim results have not been reviewed or audited by the Company's external auditor, PwC.

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 3 November 2022 to 2 December 2022 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 ir@datatec.com.

* Underlying earnings exclude normalisation adjustments: 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, one-off tax items impacting EBITDA, costs relating to acquisitions, integration and corporate actions, and the taxation effect on all of the aforementioned.

** Adjusted EBITDA excludes restructuring costs, share-based payments, one-off tax items impacting EBITDA and acquisition, integration and corporate actions costs.

*** The pro forma constant currency, adjusted EBITDA and underlying earnings information, which is the responsibility of the Datatec directors, presents the Group's revenue for the current reporting period had it been translated at the average foreign currency exchange rates of the prior reporting period as well as EBITDA had restructuring costs, share-based payments, one-off tax items impacting EBITDA and acquisition, integration and corporate actions costs not been incurred. Underlying earnings include the adjustments indicated above. This information is for illustrative purposes only and because of its nature, may not fairly present the Group's results. To determine the revenue in constant currency terms, the current financial reporting period's monthly revenues in local currency have been converted to US dollars at the average monthly exchange rates prevailing over the same period in the prior period.

Registered office:	Third Floor, Sandown Chambers, Sandown Village Office Park, 81 Maude Street, Sandown
Sponsor:	Rand Merchant Bank (a division of FirstRand Bank Limited)
Transfer secretaries:	Computershare Investor Services (Pty) Ltd