DATATEC

Driving Technology

Condensed unaudited interim results for the **six months ended 31 August 2019 and change to the board**

DATATEC

LOGICALIS
Business and technology working as one

Integration and Managed Services

With over 6 500 employees across more than 25 countries worldwide, Logicalis is a leading provider of global IT solutions and managed services.

Westcon Comstor
Delivering Results Together

Technology Distribution

A value-added technology distributor of industry-leading solutions in cyber security, network infrastructure, unified communications products, data centre solutions and channel services.

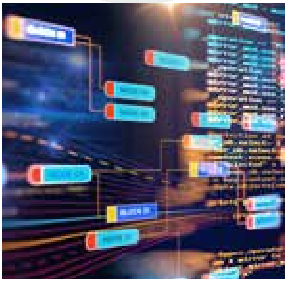
analysys mason

DATATEC FINANCIAL SERVICES

Consulting and Financial Services

Analysys Mason
Consulting and research specialists in telecoms, media and technology ("TMT").

Datatec Financial Services
Established to provide innovative financial solutions to Datatec Group customers.



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")
Registered office: Ground Floor, Sandown Chambers, Sandown Village, 16 Maude Street, Sandown

HIGHLIGHTS

For the year ended 31 August 2019

Solid operational execution in all divisions

Strong Logicalis performance in Latin America despite currency headwinds

Westcon International recovery progressing successfully – central cost reductions on track

Group revenue US$2.06 billion (H1 FY19: US$2.00 billion)

EBITDA US$70.0 million (H1 FY19: US$42.6 million)

Underlying* earnings per share 5.3 US cents (H1 FY19: 3.6 US cents)

Share repurchases of US$19.5 million and dividend of US$15.4 million during H1 FY20

Commentary

Jens Montanana, Chief Executive of Datatec, commented:

"All divisions delivered solid operational performances during the first half of the year in the context of continuing global macro-volatility.

"Logicalis Latin America performed very strongly despite currency translation effects; and Westcon International improved profitability across all regions in line with its turnaround objectives. Our consulting business delivered an excellent performance as the adoption of new technologies, including 5G, accelerates internationally.

"We continued to return cash to shareholders during the period through a special dividend and ongoing share buyback programmes.

"Looking ahead, despite growing uncertainties globally, we remain confident that the improvements in both the operational and financial performance of the Group will continue for the remainder of the year."

GROUP ACTIVITIES

Datatec is an international ICT solutions and services group operating in more than 50 countries across North America, Latin America, Europe, Africa, Middle East and Asia-Pacific. The Group's service offering spans the integration and managed services, technology distribution and consulting sectors of the ICT market.

DATATEC OPERATES TWO MAIN DIVISIONS

- **Integration and Managed Services – Logicalis:** ICT infrastructure solutions and digital enablement services
- **Technology Distribution – Westcon International:** distribution of security, collaboration, networking and data centre products and solutions

The specialist activities of Consulting and Datatec Financial Services are included with the corporate head office functions in the "Corporate, Consulting and Financial Services" segment of the Group.

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 contributor to the Group in terms of profitability. The division also continues to provide the widest geographical exposure and Datatec intends to continue to develop and grow Logicalis globally.

Logicalis delivered a strong performance supported by a significant multi-year project in Latin America in the six-month financial period ended 31 August 2019 ("the period" or "H1 FY20"). While revenue remained stable, gross profit and EBITDA grew by 12% and 45% respectively compared to the six-month financial period ended 31 August 2018 ("the comparable period” or “H1 FY19”). Logicalis’ gross profit and EBITDA include the positive effect of a favourable court ruling in Brazil with regards to certain overpaid indirect taxes. The ruling is not subject to appeal by the Brazilian tax authorities. Logicalis Brazil also recognised interest income on these multi-year overpaid taxes during H1 FY20.

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.

The improvement in Westcon International continued in H1 FY20, with revenue growth of 3.5% and improved profitability. Good progress continues to be made in terms of costs containment and the target reduction in central costs for FY20 is set to be achieved in accordance with management’s plan. Following multiple years of restructuring in Westcon International, the BPO reversal and SAP implementation are complete and no restructuring charges were incurred in H1 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 and 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 revenues were US$2.06 billion in H1 FY20, up 2.6% on the US$2.00 billion revenues recorded in H1 FY19. In constant currency** terms, Group revenues increased by 8.2%. EBITDA for H1 FY20 was US$70.0 million, representing a 64.5% increase on H1 FY19 (US$42.6 million). Excluding the adoption of IFRS 16, EBITDA would have been US$53.3 million.

Underlying* earnings per share (“UEPS”) were 5.3 US cents in H1 FY20 compared to UEPS of 3.6 US cents for H1 FY19. Excluding the adoption of IFRS 16, UEPS would have been 5.2 US cents.

IFRS 16 *Leases* has been adopted for FY20 which 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. Hence, the effect on key income statement metrics is an increase in EBITDA but only a negligible effect on earnings per share. On the balance sheet, 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. The detail of this accounting change is set out in the condensed financial statements following and reference is made to the effect on the key metrics in the text.

The Group balance sheet remains strong with net debt at 31 August 2019 of US$193.7 million compared to US$100.8 million at 28 February 2019. Excluding the IFRS 16 adoption, net debt was US$102.1 million.

During H1 FY20, the Company undertook general share repurchases under two separate shareholder mandates provided at general meetings on 15 January 2019 and 26 June 2019. These repurchases amounted to US$19.5 million and totalled 8.5 million shares which have been cancelled, reducing the Company’s shares in issue to 212 million at 31 August 2019. During September 2019, the Company repurchased a further 5.1 million shares at a cost of US$11.8 million.

CURRENT TRADING AND OUTLOOK

Despite ongoing uncertainties and complex geopolitical issues, the Board remains confident that the Group will deliver an improvement in its operational and financial performance compared to the prior financial year.

Logicalis’ financial performance is expected to be maintained throughout the rest of FY20, although currency translation weakness, especially in Latin America, may impact its results.

Westcon International has a solid base to support its growth following disruptions over the past few years. Management is optimistic about the opportunities for the business in its chosen markets based on the sound operational platform now in place.

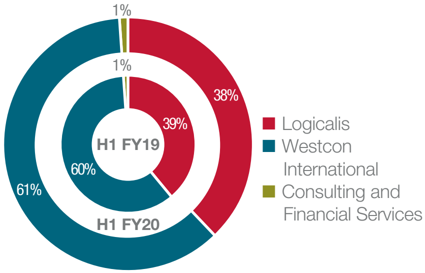
Commentary continued

GROUP RESULTS

Revenue

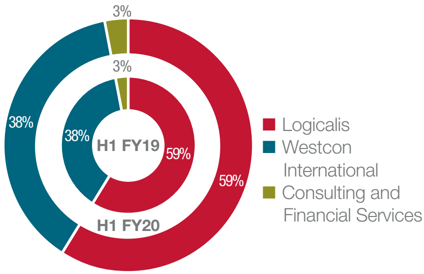
Group revenues for the period were US$2.06 billion (H1 FY19: US$2.00 billion) and are shown below.

Contribution to Group revenue

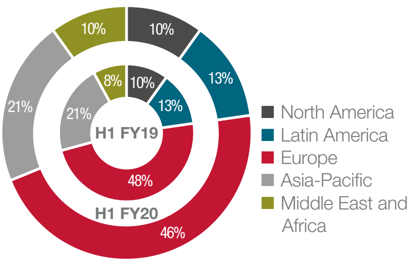


Group gross margins in H1 FY20 were 17.5% (H1 FY19: 15.9%). Gross profit was US$359.8 million (H1 FY19: US$319.4 million).

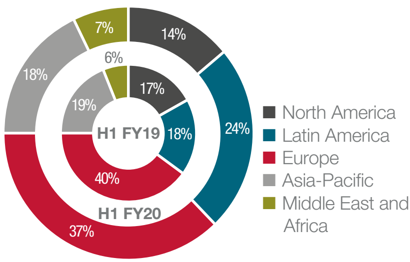
Contribution to Group gross profit



Revenue % contribution by geography



Gross profit % contribution by geography



Overall operating costs were US$289.8 million (H1 FY19: US$276.8 million). Included in the H1 FY19 operating costs were total restructuring costs of US$9.4 million. EBITDA was US$70.0 million (H1 FY19: US$42.6 million) and EBITDA margin was 3.4% (H1 FY19: 2.1%). H1 FY19 EBITDA benefited from US$15.0 million central costs accrued against the gain on disposal to SYNNEX in FY18, representing costs incurred to deliver transitional services to SYNNEX in H1 FY19.

Depreciation increased by US$16.0 million to US$28.5 million (H1 FY19: US$12.5 million) mainly as a result of the adoption of IFRS 16. Amortisation was US$7.5 million (H1 FY19: US$6.0 million).

Operating profit was US$34.0 million (H1 FY19: US$24.1 million).

The net interest charge decreased to US$8.0 million (H1 FY19: US$9.6 million) and profit before tax was US$26.2 million (H1 FY19: US$13.9 million). The main reason for the decrease in the net interest charge is interest income recognised by Logicalis Brazil pursuant to a favourable ruling regarding previously overpaid indirect taxes.

A tax charge of US$14.2 million has arisen on half-year profits of US$26.2 million. The effective tax rate of 54.0% continues to be adversely affected by losses arising in Westcon International's Asia operations for which no deferred tax assets have been recognised and UK losses, which give rise to a low rate of tax credits. As at 31 August 2019, there are estimated tax loss carry forwards of US$191.8 million with an estimated future tax benefit of US$40.1 million, of which only US$13.2 million has been recognised as a deferred tax asset.

UEPS were 5.3 US cents (H1 FY19: 3.6 US cents). Headline earnings per share were 2.3 US cents (H1 FY19: 0.7 US cents). Earnings per share (continuing and discontinued operations) were 2.9 US cents (H1 FY19: 0.7 US cents).

Cash

The Group generated US$77.8 million of cash from operations during H1 FY20 (H1 FY19: US$21.7 million cash utilised in operations) and ended the period with a net debt of US$193.7 million (FY19: US$100.8 million, H1 FY19: US$63.1 million). Excluding IFRS 16, net debt would have been US$102.1 million. The net debt has been calculated as: cash of US$37.5 million (FY19: US$40.4 million); short-term borrowings and current portion of long-term debt of US$127.9 million (FY19: US$109.8 million); and long-term debt of US$103.3 million (FY19: US$31.4 million). The adoption of IFRS 16 lease accounting has added US$91.6 million to net debt.

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 in 2017. Stelacon brings experience in areas including smart cities, regional development, digital services, policy and regulation, telecoms and digital communications.

Effective 30 June 2019, Logicalis SA (Pty) Ltd, acquired 100% of the issued share capital of Mars Technologies, a South African IT services business, with offices in Cape Town, Johannesburg, Port Elizabeth, Durban and East London for US$0.7 million (including a deferred purchase consideration of US$0.1 million). With this acquisition, the Logicalis South African operation strengthens and expands its managed services offering to better serve its corporate customers and deliver new services to existing customers from both companies.

As a result of these acquisitions, goodwill and other intangible assets increased by US$3.3 million. None of the goodwill recognised is expected to be deductible for income tax purposes. The revenue and EBITDA included from these acquisitions in H1 FY20 are US$1.6 million and US$0.1 million respectively. Profit after tax included from these acquisitions was US$0.1 million. The fair value assessment of assets and liabilities acquired and the amounts recognised as goodwill and intangible assets have only been determined provisionally due to the timing of the acquisitions.

Liquidity

The Group is expected to generate sufficient cash to settle liabilities as they fall due. Working capital remains well controlled. Trade receivables and inventory are of a sound quality and adequate provisions are held against both.

Net working capital days improved in both Logicalis and Westcon International as detailed in the divisional reviews following.

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. The level of underlying* earnings in H1 FY20

Divisional reviews

would only support a small dividend under this policy and as a result, no interim dividend for FY20 is declared. However, the Board currently expects to pay a full-year dividend.

In July 2019, the earn-out payment relating to the disposal of Westcon Americas to SYNNEX of US$14 million was returned to shareholders by way of a cash dividend with scrip distribution alternative. This resulted in a cash payment of US$12.2 million to shareholders and the issue of 1 250 718 new shares as the scrip alternative.

In the period ended 31 August 2019, 8 450 718 shares (being 3.9% of the Company's issued share capital) were repurchased under separate shareholder mandates provided at general meetings on 15 January 2019 and 26 June 2019. A further 5 086 565 shares (being 2.4% of the Company's issued share capital) were purchased in September 2019 under the shareholder mandate given at the Company's AGM on 29 August 2019. The Company has now completed the previously committed share repurchases, representing the scrip component of the January 2018 special dividend. The Board will consider further share repurchases as appropriate under the general authority granted by shareholders.

Repurchases effected during the Company's closed periods were undertaken in terms of a fixed mandate to the Company's broker in accordance with paragraph 5.72(h) of the JSE Listings Requirements and notified to the JSE prior to the commencement of the closed periods.

Foreign exchange translation

Losses of US$24.0 million (H1 FY19: US$68.8 million losses) arising on translation to presentation currency are included in total comprehensive loss of US$8.9 million (H1 FY19: loss US$59.4 million). The bulk of these losses arise from weakening in the Rand/US$ exchange rate from 13.94 as at FY19 to 15.17 at H1 FY20 and weakening in the Brazilian Real/US$ exchange rate from 3.73 at FY19 to 4.14 at H1 FY20. The losses on translation to presentation currency contributed towards a reduction in tangible net asset value to US$324.9 million (FY19: US$364.1 million).

DIVISIONAL REVIEWS

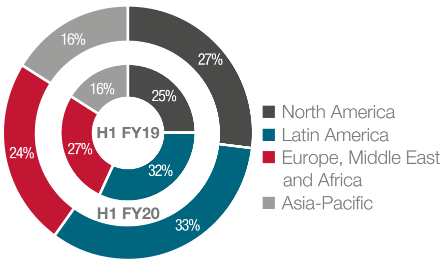
Logicalis

Logicalis accounted for 38% of the Group's revenues (H1 FY19: 39%).

Logicalis is an international multi-skilled solution provider providing digital enablement services to help customers harness digital technology and innovative services to deliver powerful business outcomes.

Revenue from operations increased by 1% to US$779.9 million (H1 FY19: US$775.5 million). In constant currency** terms, Logicalis' revenue increased by 8.7% in H1 FY20. Services revenues were up 4% with growth in annuity revenue. Revenue contribution by geography is shown below:

Logicalis revenue % contribution by geography

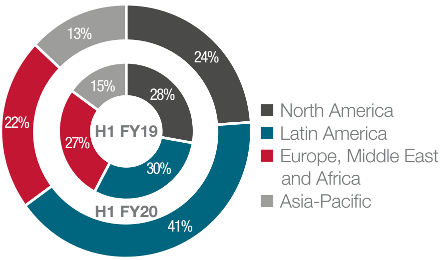


Logicalis' gross margins were 27.0% (H1 FY19: 24.3%). This improvement was driven in part by a tax credit received in Brazil. Logicalis' gross profit and EBITDA includes the positive effect of a Brazilian court ruling in its favour with regards to certain overpaid indirect taxes. The ruling is not subject to appeal by the Brazilian tax authorities. Logicalis Brazil also recognised interest income on these multi-year overpaid taxes during H1 FY20.

Gross profit was up 12% to US$210.8 million (H1 FY19: US$188.8 million). Gross margins are expected to revert to historical levels during the second half of the year, following the H1 FY20 contribution resulting from the ruling by the Brazilian authorities.

Logicalis' gross profit contribution by geography is shown below:

Logicalis gross profit % contribution by geography



EBITDA was US$56.0 million (H1 FY19: US$38.7 million), with a corresponding EBITDA margin of 7.2% (H1 FY19: 5.0%). Operating profit was US$31.8 million (H1 FY19: US$25.6 million).

The net interest charge decreased by US$5.8 million, as a result of interest receivable on the tax credit received in Brazil.

Net debt of US$182.7 million (FY19: US$109.2 million, H1 FY19: US$164.1 million) consisted of: net overdrafts of US$5.7 million (FY19: US$16.4 million net cash); short-term borrowings and current portion of long-term debt of US$106.1 million (FY19: US$94.4 million); and long-term debt of US$70.9 million (FY19: US$31.2 million). Excluding the impact of IFRS16, net debt would have been US$130.6 million. The increase in net debt over the prior year is mainly attributable to increases in the UK and Germany.

Logicalis continues to have a contingent liability in respect of a possible tax liability at its subsidiary in Brazil.

On 30 June 2019, Logicalis completed the acquisition of Mars Technologies, a South African IT services business, offering managed IT services ranging from the remote monitoring of networks and servers, managed desktop, anti-virus, cloud backup, and printers, to full outsourcing, with a strong offering to small and mid-market enterprises.

Logicalis will continue with its strategy of making smaller bolt-on acquisitions. These will be financed using its own balance sheet.

Digital innovation is accelerating; business technology is undergoing a major shift. Logicalis is transitioning itself into a digital enabler for its customers, driven by the expansion of data, the rise of mobile and the cloud. Many opportunities exist to tap into themes such as security to augment its strong networking heritage.

Logicalis is also investing in areas such as business intelligence and data analytics to grow its data centre infrastructure offerings for customers. Cloud continues to be a key feature in customers' business and IT strategies. Logicalis is well positioned to provide support regardless of their cloud strategy.

Robert Bailkoski, the current Chief Operating Officer ("COO") of Logicalis Group will succeed Mark Rogers as Chief Executive Officer ("CEO") on 1 March 2020. Mark will remain on the Logicalis Group Board.

Divisional reviews continued

Logicalis remains confident about the prospects for the industry and its positioning within it. Emerging market currencies are expected to remain volatile over the short term and concerns remain in Europe, including around Brexit.

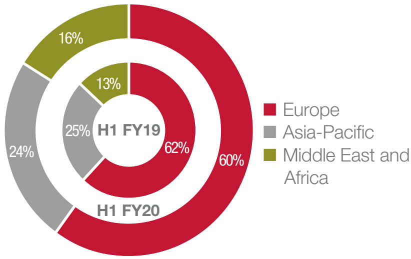
Westcon International
Westcon International accounted for 61% of the Group's revenues (H1 FY19: 60%).

Westcon International is a value-added specialty distributor of industry leading cyber security and network infrastructure, unified communications products, data centre solutions and channel services with a global network of service providers, systems integrators and speciality resellers. Westcon International has operations in 50-plus countries. The company goes to market under the Westcon and Comstor brands. Westcon International's portfolio of market-leading vendors includes: Cisco, Avaya, Juniper, Check Point, F5, Palo Alto and Symantec.

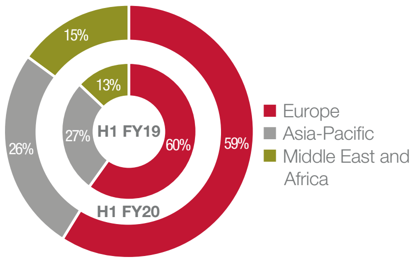
Westcon International's revenues increased by 3.5% to US$1 248.4 million (H1 FY19: US$1 206.6 million) with higher revenue across all regions. In constant currency** terms, Westcon International's revenue increased by 7.4% in H1 FY20.

Westcon International's gross profit increased by 12.6% to US$137.0 million (H1 FY19: US$121.7 million) with increases across all regions. Gross margins increased to 11.0% (H1 FY19: 10.1%) with higher margins across all regions. In H1 FY20, gross profit results benefited by US$1.1 million from the adoption of IFRS 16.

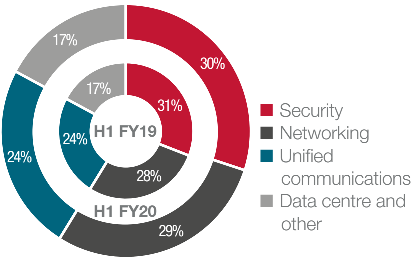
Westcon International revenue % contribution by geography



Westcon International gross profit % contribution by geography



Westcon International revenue % by technology category



Operating costs increased to US$117.9 million (H1 FY19: US$115.8 million). The 1.8% increase is largely driven by the H1 FY19 US$15.0 million SYNNEX transitional costs benefit realised in central costs not repeating in H1 FY20. Following several years of transformation, no restructuring costs were incurred in H1 FY20, as the BPO reversal is now complete and the SAP system stable. Central costs of US$14 million were incurred in H1 FY20 and management expects that the full year costs for FY20 will be below the previously published target of US$33 million.

EBITDA was US$19.1 million (H1 FY19: US$5.9 million) benefiting by US$6.1 million from the adoption of IFRS 16.

Net working capital days decreased to 23 days (FY19: 28 days) primarily due to higher DPO and increased inventory turns. Net debt was US$91.9 million (FY19: US$109.5 million, H1 FY19: US$75.8 million) reflecting the adoption of IFRS 16 in FY20 which increased debt by US$30.6 million. Excluding the effect of IFRS 16, net debt decreased to US$61.3 million.

The net debt consisted of: net overdrafts of US$47.3 million (FY19: US$94.4 million); short-term borrowings and current portion of long-term debt of US$19.8 million (FY19: US$15.0 million); and long-term debt of US$24.8 million (FY19: US$0.1 million).

Despite weak operating environments in a number of regions, continuing macro-volatility and uncertainty relating to trade and political issues, Westcon International expects to deliver a significantly improved operational and financial performance for FY20, over the prior year.

Corporate, Consulting and Financial Services

This segment accounted for 1% of Group's revenues (H1 FY19: 1%).

The Consulting unit comprises Analysys Mason, a provider of strategic, trusted advisory, modelling and market intelligence services to the telecoms, media and technology industries.

The Consulting unit delivered an excellent performance in H1 FY20. Consulting revenues were US$27.4 million (H1 FY19: US$22.4 million) and EBITDA was US$4.8 million (H1 FY19: US$2.2 million).

Effective 1 March 2019, Analysys Mason acquired Stelacon Holding AB which significantly strengthens Analysys Mason's position in the Scandinavian region, adding valuable skills and expertise to better serve its multinational clients.

Datatec Financial Services provides financing/leasing solutions for ICT customers. The business recorded revenues of US$0.6 million in H1 FY20 (H1 FY19: US$0.2 million) and an EBITDA loss of US$0.6 million (H1 FY19: US$1.0 million loss).

Corporate includes the net operating costs of the Datatec head office entities which were US$11.0 million (H1 FY19: US$8.1 million). These costs include the remuneration of the Board and head office staff, consulting and audit fees. In H1 FY20, foreign exchange gains were US$1.7 million (H1 FY19: US$4.9 million).

As at 31 August 2019, Datatec head office entities held cash of US$88.1 million of which US$17.3 million (the equivalent of R261.7 million) is held in South Africa and subject to the South African Reserve Bank regulations. These cash balances generate interest receivable in the Corporate segment which decreased by US$2.2 million from the comparable period as a result of cash being utilised for share repurchases.

Commentary continued

SUBSEQUENT EVENTS

Logicalis Group purchased a 70% interest in Cilnet in September 2019, a Cisco systems integrator and managed services business in Portugal, which 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.

In addition, Logicalis also acquired Orange Networks on 2 September 2019, a Microsoft services business focused on Microsoft cloud and managed services, with a Germany-wide presence including Hamburg, Munich, Offenbach and Dusseldorf. This acquisition advances Logicalis Germany to Microsoft Gold-Certified Partner status and enhances its hybrid cloud offering.

In September 2019, the Group announced a change in the black economic empowerment ("BEE") partner of its subsidiary Westcon Southern Africa Holdings (Pty) Ltd ("Westcon SA"). This followed the disposal by MIC Investment Holdings (Pty) Ltd of its 40% equity interest in Westcon SA to Ascension Capital Partners (Pty) Ltd, a South African private equity investor. Westcon SA has maintained its level 1 BEE rating pursuant to this transaction.

The Company repurchased 5 086 565 shares (being 2.4% of the Company's issued share capital) in September 2019 under the shareholder mandate given at the Company's AGM on 29 August 2019.

CHANGE TO THE BOARD

Datatec announces the appointment of Rick Medlock as an independent non-executive director and member of the Audit, Risk and Compliance Committee with effect on 1 January 2020.

Rick Medlock has been working in the technology, media and telecoms sector for more than thirty years, specialising in fast-growing globally focused technology companies, private equity-backed investments and IPOs.

Rick was the Chief Financial Officer ("CFO") of Synamedia after assisting with its buyout from Cisco in October 2018. Prior to that, Rick was the CFO of Worldpay from 2015 to 2018. During that period, Worldpay transitioned from the largest ever European private-equity IPO to a US$30 billion merger in January 2018 becoming the largest payments processor in the world listed on NYSE. Prior to Worldpay, Rick held a succession of CFO roles at Misys, Inmarsat plc and NDS Group plc.

Rick is an independent non-executive director of Sophos Group plc (LON:SOPH) and is a Fellow of the Institute of Chartered Accountants in England and Wales and has a BA degree in Economics from the University of Cambridge.

As previously announced, Maya Makanjee became 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.

REPORTING

This interim financial report was prepared in accordance with and containing the information required by IAS 34 *Interim Financial Reporting* and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting pronouncements as issued by the Financial Reporting Standards Council. This interim report complies with the Listings Requirements of the JSE Limited and the requirements of the Companies Act, No 71 of 2008, of South Africa. This report was compiled under the supervision of Ivan Dittrich CA (SA) (CFO).

The accounting policies applied in the preparation of these interim financial statements are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements except as stated below:

The Group has applied IFRS 16 *Leases* using the modified retrospective approach. The impact of the adoption of this standard and the amended accounting policies are disclosed in the condensed financial statements following. The other new or amended standards did not have an impact on the Group's accounting policies and did not require retrospective adjustments.

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.

On behalf of the Board

SJ Davidson
Chairman

JP Montanana
Chief Executive Officer

IP Dittrich
Chief Financial Officer

17 October 2019

DIRECTORS

SJ Davidson# (chairman), JP Montanana# (CEO), IP Dittrich (CFO), M Makanjee, JF McCartney°, MJN Njeke, E Singh-Bushell°

° American # British

* *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 pro forma constant currency 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. This information is for illustrative purposes only and because of its nature, may not fairly present the Group's revenues. This information has not been reviewed and reported on by the Group's external auditors.*

To determine the revenues in constant currency terms, the current financial reporting period's monthly revenues in local currency have been converted to US Dollar at the average monthly exchange rates prevailing over the same period in the prior year. The average exchange rates of the Group's material currencies are listed below:

Average US Dollar exchange rates (USD)	H1 FY20	H1 FY19
British Pound/US Dollar	1.26	1.34
Euro/US Dollar	1.12	1.18
US Dollar/Brazilian Real	3.94	3.69
Australian Dollar/US Dollar	0.69	0.75
Singapore Dollar/US Dollar	0.73	0.74
US Dollar/South African Rand	14.50	13.08

Condensed consolidated statement of comprehensive income

for the six months to 31 August 2019

US$'000	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018*	Audited Year ended 28 February 2019*
Discontinued operations			
Revenue	**2 056 307**	2 004 839	4 332 381
Continuing operations	**2 054 669**	2 004 662	4 277 186
Revenue from acquisitions	**1 638**	177	55 195
Cost of sales	**(1 696 525)**	(1 685 466)	(3 644 637)
Gross profit	**359 782**	319 373	687 744
Operating costs	**(278 323)**	(265 022)	(569 896)
Net impairment of contract assets and financial assets	**(6 952)**	–	(3 817)
Restructuring costs	**–**	(9 423)	(17 506)
Share-based payments	**(4 483)**	(2 356)	(9 764)
Operating profit before interest, tax, depreciation and amortisation ("EBITDA")	**70 024**	42 572	86 761
Depreciation of fixed assets	**(12 708)**	(12 499)	(25 889)
Depreciation of right of use assets	**(15 788)**	–	–
Amortisation of capitalised development expenditure	**(1 455)**	(355)	(972)
Amortisation of acquired intangible assets and software	**(6 092)**	(5 626)	(11 477)
Operating profit	**33 981**	24 092	48 423
Interest income	**10 939**	4 456	9 568
Finance costs	**(18 898)**	(14 061)	(32 145)
Share of equity-accounted investment losses	**(356)**	(620)	(1 403)
Acquisition-related fair value adjustments	**571**	36	(35)
Other income	**–**	24	62
Loss on disposal of investment	**–**	–	(255)
Profit before taxation	**26 237**	13 927	24 215
Taxation	**(14 168)**	(7 345)	(20 959)
Profit for the year from continuing operations	**12 069**	6 582	3 256
Discontinued operations			
Profit for the year from discontinued operations	**1 466**	–	11 694
Profit for the year	**13 535**	6 582	14 950

US$'000	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018*	Audited Year ended 28 February 2019*
Other comprehensive loss			
Items that may be reclassified subsequently to profit and loss			
Exchange differences arising on translation to presentation currency	**(23 957)**	(68 813)	(54 735)
Translation of equity loans net of tax effect	**425**	3 123	2 874
Translation reserve reclassified to profit on disposal of foreign operation	**–**	–	–
Transfers and other items	**1 119**	(247)	948
Total comprehensive loss for the year	**(8 878)**	(59 355)	(35 963)
Profit attributable to:			
Owners of the parent	**6 296**	1 726	13 134
Non-controlling interests	**7 239**	4 856	1 816
	13 535	6 582	14 950
Total comprehensive (loss)/profit attributable to:			
Owners of the parent	**(10 052)**	(53 359)	(30 734)
Non-controlling interests	**1 174**	(5 996)	(5 229)
	(8 878)	(59 355)	(35 963)
Earnings per share ("EPS") (US cents)			
Basic	**2.9**	0.7	5.5
Continuing operations	**2.2**	0.7	0.6
Discontinued operations	**0.7**	–	4.9
Diluted basic	**2.9**	0.7	5.5
Continuing operations	**2.2**	0.7	0.6
Discontinued operations	**0.7**	–	4.9

** The Group has initially applied IFRS 16 at 1 March 2019 using the cumulative effect method, under which the comparative information is not restated.*

Salient financial features

for the six months to 31 August 2019

US$'000	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018	Audited Year ended 28 February 2019
Headline earnings	**4 931**	1 752	1 658
Headline earnings per share (US cents)			
Headline	**2.3**	0.7	0.7
Diluted headline	**2.2**	0.7	0.7
Underlying* earnings	**11 396**	8 809	15 728
Underlying* earnings per share (US cents)			
Underlying*	**5.3**	3.6	6.6
Diluted underlying*	**5.2**	3.6	6.5
Net asset value per share (US cents)	**288.7**	276.8	297.5
Key ratios			
Gross margin (%)	**17.5**	15.9	15.9
EBITDA (%)	**3.4**	2.1	2.0
Effective tax rate (%)	**54.0**	52.7	86.6
Exchange rates			
Average Rand/US$ exchange rate	**14.5**	13.1	13.6
Closing Rand/US$ exchange rate	**15.2**	14.7	13.9
Number of shares issued (millions)			
Issued (excluding treasury shares)	**209**	239	218
Weighted average	**217**	243	238
Diluted weighted average	**219**	246	240

Headline and underlying* earnings from discontinued operations were US$nil.

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

* *Underlying earnings exclude 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.*

Determination of headline and underlying* earnings

for the six months to 31 August 2019

US$'000	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018	Audited Year ended 28 February 2019
Reconciliation of attributable profit to headline earnings	**6 296**	1 726	13 134
Profit attributable to the equity holders of the parent	**6 296**	1 726	13 134
Headline earnings adjustments	**(1 365)**	26	(11 375)
Profit on disposal of investment/discontinued operations	**(1 466)**	–	(11 439)
Loss on disposal of property, plant and equipment	**190**	26	93
Tax effect	**(89)**	–	(29)
Non-controlling interests	**–**	–	(101)
Headline earnings	**4 931**	1 752	1 658
Determination of underlying* earnings			
Underlying* earnings adjustments	**7 120**	8 461	15 587
Unrealised foreign exchange losses/(gains)	**4 212**	(4 033)	(7 467)
Acquisition-related fair value adjustments	**(571)**	(36)	35
Restructuring costs	**–**	9 423	17 506
Amortisation of acquired intangible assets	**5 324**	4 967	10 217
Tax effect	**(1 845)**	(1 860)	(4 704)
Non-controlling interests	**(655)**	(1 404)	(1 517)
Underlying* earnings	**11 396**	8 809	15 728

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

* *Underlying earnings exclude 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.*

Condensed consolidated statement of financial position

as at 31 August 2019

US$'000	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018*	Audited Year ended 28 February 2019*
Assets			
Non-current assets	**504 284**	404 607	437 786
Property, plant and equipment	**46 868**	57 109	60 306
Right-of-use assets	**91 783**	–	–
Goodwill	**230 652**	222 580	234 551
Capitalised development expenditure	**15 479**	6 612	12 711
Acquired intangible assets and software	**33 342**	34 696	37 615
Investments	**17 772**	25 799	22 382
Deferred tax assets	**42 000**	40 845	52 134
Finance lease receivables	**22 692**	10 143	13 363
Other receivables and contract costs	**3 696**	6 823	4 724
Current assets	**2 124 458**	2 170 519	2 284 521
Inventories	**297 931**	288 257	332 256
Trade receivables	**1 136 024**	1 134 276	1 258 853
Prepaid expenses and other receivables	**265 485**	241 450	232 965
Contract assets and contract costs	**103 681**	98 725	98 798
Current tax assets	**18 833**	8 197	11 442
Finance lease receivables	**7 364**	4 403	5 807
Cash and cash equivalents	**295 140**	395 211	344 400
Total assets	**2 628 742**	2 575 126	2 722 307

US$'000	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018*	Audited Year ended 28 February 2019*
Equity and liabilities			
Equity attributable to equity holders of the parent	**604 384**	660 808	648 927
Stated capital	**144 754**	200 499	172 998
Non-distributable reserves	**98 720**	96 023	85 614
Foreign currency translation reserve	**(119 500)**	(112 400)	(102 527)
Share-based payment reserve	**4 469**	3 822	7 828
Distributable reserves	**475 941**	472 864	485 014
Non-controlling interests	**63 545**	62 762	63 303
Total equity	**667 929**	723 570	712 230
Non-current liabilities	**175 223**	98 646	100 805
Long-term interest-bearing liabilities	**3 302**	28 191	9 450
Lease liabilities	**100 021**	15 367	21 933
Liability for share-based payments	**1 419**	705	1 888
Amounts owing to vendors	**839**	991	1 393
Deferred tax liabilities	**28 295**	25 203	28 616
Deferred revenue	**29 945**	22 593	26 506
Provisions	**11 402**	5 596	11 019
Current liabilities	**1 785 590**	1 752 910	1 909 272
Trade and other payables	**1 290 854**	1 222 361	1 358 928
Short-term interest-bearing liabilities	**95 080**	99 401	100 702
Lease liabilities	**32 828**	6 483	9 049
Contract liabilities	**3 417**	1 500	3 476
Deferred revenue	**82 452**	75 939	98 788
Provisions	**7 565**	18 073	17 548
Amounts owing to vendors	**2 082**	197	936
Current tax liabilities	**13 665**	20 090	15 826
Bank overdrafts	**257 647**	308 866	304 019
Total equity and liabilities	**2 628 742**	2 575 126	2 722 307

** The Group has initially applied IFRS 16 at 1 March 2019 using the cumulative effect method, under which the comparative information is not restated.*

Condensed consolidated statement of cash flows

for the six months to 31 August 2019

US$'000	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018*	Audited Year ended 28 February 2019*
Profit before taxation* **	**26 237**	13 927	35 909+
Non-cash items***	**45 473**	17 355	53 022
Operating profit before working capital changes	**71 710**	31 282	88 931
Working capital changes	**5 635**	(62 251)	(21 228)
Decrease/(increase) in inventories	**27 881**	(62 024)	(95 518)
Decrease/(increase) in receivables	**34 619**	(66 829)	(90 937)
(Decrease)/increase in payables	**(38 922)**	66 602	171 592
Increase in revenue-related assets	**(5 248)**	–	(17 234)
(Decrease)/increase in revenue-related liabilities	**(12 695)**	–	10 869
Other working capital changes	**469**	9 226	1 287
Cash generated from/(utilised in) operations	**77 814**	(21 743)	68 990
Net finance costs paid	**(13 637)**	(10 282)	(22 434)
Taxation paid	**(16 593)**	(10 479)	(38 531)
Net cash inflow/(outflow) from operating activities	**47 584**	(42 504)	8 025
Cash outflow for acquisitions	**(1 081)**	(2 011)	(25 450)
Decrease in investments	**5 859**	–	10 201
Increase in investments	**(1 576)**	–	(7 283)
Additions to property, plant and equipment	**(6 737)**	(12 978)	(23 769)
Additions to capitalised development expenditure	**(3 919)**	(5 315)	(11 264)
Additions to software	**(812)**	(539)	(1 853)
Proceeds on disposal of property, plant and equipment	**67**	–	132
Net cash outflow from investing activities	**(8 199)**	(20 843)	(59 286)
Repayment of lease liabilities	**(11 345)**	–	–
Dividend paid to shareholders	**(12 167)**	–	–
Treasury shares purchased	**(4 611)**	–	–
Share repurchases	**(19 459)**	(6 967)	(43 881)
Dividends paid to non-controlling interests	**(932)**	–	(53)
Net cash inflow from SYNNEX earn-out	**13 466**	–	–
Amounts paid to vendors	**–**	(886)	(927)
Proceeds from short-term liabilities	**17 893**	31 556	65 203
Repayment of short-term liabilities	**(6 383)**	(17 512)	(77 830)
Proceeds from long-term liabilities	**2 064**	6 439	13 366
Repayment of long-term liabilities	**(20 072)**	(8 950)	(10 462)
Net cash (outflow)/inflow from financing activities	**(41 546)**	3 680	(54 584)
Net decrease in cash and cash equivalents	**(2 161)**	(59 667)	(105 845)
Cash and cash equivalents at the beginning of the year	**40 381**	161 342	161 342
Translation differences on cash and cash equivalents	**(727)**	(15 330)	(15 116)
Cash and cash equivalents at the end of the period**	**37 493**	86 345	40 381
Cash flows from discontinued operations			
Net cash outflow from operating activities	**–**	–	(606)
Net cash inflow from financing activities	**13 466**	–	–
Net decrease in cash and cash equivalents	**13 466**	–	(606)

* *The Group has initially applied IFRS 16 at 1 March 2019 using the cumulative effect method, under which the comparative information is not restated. Repayment of lease liabilities have previously been included in cash generated from operations.*

** *Comprises cash resources, net of bank overdrafts.*

*** *Enhanced disclosure has been provided.*

\+ *Includes both continuing and discontinued operations.*

Condensed consolidated statement of change in total equity

for the six months to 31 August 2019

US$'000	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018	Audited Year ended 28 February 2019
Balance at the beginning of the period	**712 230**	790 820	790 820
Transactions with equity holders of the parent			
Comprehensive loss	**(10 052)**	(53 359)	(30 734)
Dividend – out of distributable reserves*	**(15 371)**	–	–
Dividend – scrip*	**3 204**	–	–
Share repurchases	**(19 459)**	(6 967)	(43 881)
Share-based payments	**(2 865)**	(301)	1 836
Other	**–**	(168)	103
Transactions with non-controlling interests			
Comprehensive income/(loss)	**1 174**	(5 996)	(5 229)
Acquisitions of subsidiaries	**–**	(459)	(459)
Other	**–**	–	(173)
Dividend to non-controlling interests	**(932)**	–	(53)
Balance at the end of the period	**667 929**	723 570	712 230

** Cash dividend of US$12.2 million paid.*

Condensed segmental analysis

for the six months to 31 August 2019

For management's internal purposes the Group is currently organised into three operating divisions which are the basis on which the Group reports its primary segmental information.

Principal activities are as follows:
– Westcon International – Distribution of security, collaboration, networking and data centre products;
– Logicalis – ICT infrastructure solutions and services; and
– Corporate, Consulting and Financial Services: Includes strategic and technical consulting, capital/leasing business, Group head office companies and Group consolidation adjustments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

	Westcon International		
US$'000	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018	Audited Year ended 28 February 2019
Revenue	**1 248 410**	1 206 631	2 544 774
Revenue from product sales	**1 171 594**	1 174 568	2 479 407
Revenue from sales of hardware/direct product sales	**832 374**	855 313	1 772 579
Revenue from sales of software/fulfilment product sales	**335 274**	312 507	688 036
Revenue from vendor resold services and product maintenance sales	**28 526**	26 320	57 819
Inter-segmental revenue	**(24 580)**	(19 572)	(39 027)
Revenue from services	**32 995**	32 063	65 367
Revenue from professional services	**32 995**	10 705	64 428
Revenue from other services	**–**	21 358	939
Inter-segmental revenue	**–**	–	–
Revenue from annuity services	**43 821**	–	–
Revenue from cloud services	**43 821**	–	–
Revenue from other annuity services	**–**	–	–
EBITDA	**19 130**	5 859	5 565
Reconciliation of operating profit/(loss) to profit/(loss) after taxation			
Operating profit/(loss)	**8 940**	1 037	(4 226)
Interest income	**570**	756	1 491
Finance costs	**(7 761)**	(6 176)	(13 683)
Share of equity-accounted investment (losses)/earnings	**(398)**	(823)	(2 143)
Acquisition-related fair value adjustments	**–**	–	–
Other (expenses)/income	**–**	(100)	(97)
Loss on disposal of investment	**–**	–	(255)
Profit/(loss) before taxation	**1 351**	(5 306)	(18 913)
Taxation	**(2 016)**	(2 650)	(3 271)
Profit/(loss) for the period from continuing operations	**(665)**	(7 956)	(22 184)
Profit for the period from discontinued operations	**–**	–	–
Profit/(loss) for the period	**(665)**	(7 956)	(22 184)
Total assets	**1 210 163**	1 124 828	1 226 057
Total liabilities	**(1 047 018)**	(951 201)	(1 046 305)

Sales and purchases between Group companies are concluded at arm's length in the ordinary course of business. The inter-group sales of goods and provision of services for the year ended 31 August 2019 amounted to US$24.8 million (H1 FY19: US$21.6 million).

Logicalis			Corporate, Consulting and Financial Services			Datatec Group Total		
Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018	Audited Year ended 28 February 2019	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018	Audited Year ended 28 February 2019	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018	Audited Year ended 28 February 2019
779 934	775 515	1 741 064	27 963	22 693	46 543	2 056 307	2 004 839	4 332 381
453 707	461 580	1 086 789	–	–	–	1 625 301	1 636 148	3 566 196
404 873	420 142	991 657	(18 374)	(16 572)	(30 231)	1 218 873	1 258 883	2 734 005
48 514	43 076	95 483	(6 391)	(5 055)	(10 147)	377 397	350 528	773 372
505	417	1 000	–	–	–	29 031	26 737	58 819
(185)	(2 055)	(1 351)	24 765	21 627	40 378	–	–	–
127 904	129 765	269 074	27 963	22 693	46 543	188 862	184 521	380 984
127 904	129 765	269 074	27 963	22 693	46 543	188 862	163 163	380 045
–	–	–	–	–	–	–	21 358	939
–	–	–	–	–	–	–	–	–
198 323	184 170	385 201	–	–	–	242 144	184 170	385 201
25 327	22 252	44 049	–	–	–	69 148	22 252	44 049
172 996	161 918	341 152	–	–	–	172 996	161 918	341 152
55 988	38 698	93 366	(5 094)	(1 985)	(12 170)	70 024	42 572	86 761
31 831	25 564	65 949	(6 790)	(2 509)	(13 300)	33 981	24 092	48 423
8 999	59	1 693	1 370	3 641	6 384	10 939	4 456	9 568
(10 989)	(7 882)	(18 455)	(148)	(3)	(7)	(18 898)	(14 061)	(32 145)
(105)	64	468	147	139	272	(356)	(620)	(1 403)
571	36	(35)	–	–	–	571	36	(35)
–	–	–	–	124	159	–	24	62
–	–	–	–	–	–	–	–	(255)
30 307	17 841	49 620	(5 421)	1 392	(6 492)	26 237	13 927	24 215
(11 729)	(411)	(12 317)	(423)	(4 284)	(5 371)	(14 168)	(7 345)	(20 959)
18 578	17 430	37 303	(5 844)	(2 892)	(11 863)	12 069	6 582	3 256
–	–	–	1 466	–	11 694	1 466	–	11 694
18 578	17 430	37 303	(4 378)	(2 892)	(169)	13 535	6 582	14 950
1 270 315	1 225 067	1 318 226	148 264	225 231	178 024	2 628 742	2 575 126	2 722 307
(891 863)	(879 154)	(943 441)	(21 932)	(21 201)	(20 331)	(1 960 813)	(1 851 556)	(2 010 077)

Financial instruments

as at 31 August 2019

The table below sets out the Group's classification of each class of financial instrument, at their fair values. The carrying amount of these financial instruments approximates their fair values. The different fair value levels are described below.

Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
Level 2 – inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
Level 3 – inputs are inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In estimating the fair value of an asset or liability, the Group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Group engages qualified third-party valuers to perform the valuation.

US$'000	Level	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018	Audited Year ended 28 February 2019
Financial assets				
Loans and receivables at amortised cost				
Gross trade accounts receivable		**1 170 853**	1 164 861	1 290 514
Less: Expected credit loss allowances		**(34 829)**	(30 585)	(31 661)
Bonds		**13 158**	21 661	18 960
Loans granted to third parties and other long-term assets due		**3 656**	6 823	4 638
Finance lease receivables		**30 056**	14 546	19 170
Other receivables		**53 933**	74 163	63 038
Cash and cash equivalents at financial institutions		**295 140**	395 211	344 400
Financial assets at fair value through profit or loss				
Earn-out receivable		**–**	–	11 694
Derivative financial assets	2	**–**	2 555	2 318
		1 531 967	1 649 235	1 723 071
Financial liabilities				
Financial liabilities at amortised cost				
Trade payables		**(1 000 270)**	(950 708)	(1 056 451)
Other payables and other financial liabilities		**(166 164)**	(156 805)	(174 234)
Long-term interest bearing liabilities and finance leases*		**(154 300)**	(65 789)	(76 388)
Short-term interest bearing liabilities and finance leases		**(76 931)**	(83 653)	(64 746)
Bank overdrafts		**(257 647)**	(308 866)	(304 019)
Financial liabilities at fair value through profit or loss				
Amounts owing to vendors	3	**(2 921)**	(1 188)	(2 329)
Derivative financial liabilities	2	**(307)**	(271)	(2 407)
		(1 658 540)	(1 567 280)	(1 680 574)

* *Includes current portion of long-term liabilities.*

Capital commitments

as at 31 August 2019

US$'000	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2018	Audited Year ended 28 February 2019
Capital expenditure incurred in the current period (including capitalised development expenditure)	**11 468**	18 832	36 886
Capital commitments at the end of the period	**23 194**	20 526	46 779

Acquisitions made during the period

as at 31 August 2019

The following table sets out the assessment of the fair value of assets and liabilities acquired in the acquisition made by the Group during the period. The fair value assessments of assets and liabilities acquired and the amounts recognised as goodwill and intangible assets have only been determined provisionally due to the timing of the acquisitions and future amendments may impact classification in these categories.

US$'000	Unaudited Six months to 31 August 2019
Acquisitions made in H1 FY20	
Assets acquired	
Non-current assets	61
Current assets	1 223
Non-current liabilities	(426)
Current liabilities	(800)
Net assets acquired	58
Intangible assets	1 150
Software	3
Goodwill	2 101
Fair value of acquisition	3 312
Purchase consideration	
Own company shares	695
Cash	1 297
Deferred purchase consideration	1 320
Total consideration	3 312
Cash outflow for acquisitions	
Cash and cash equivalents acquired	(216)
Cash consideration paid	1 297
Net cash outflow for acquisitions	1 081
Reconciliation of goodwill	
Opening balance#	234 551
Acquisitions	2 101
Translation	(6 000)
Closing balance#	230 652

The opening and closing balance of goodwill reflects the gross carrying amount of goodwill. There were no accumulated impairments carried forward.

On 1 March 2019, Analysys Mason Limited acquired 100% of the issued share capital 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 Technologies, a South African IT Services business, with offices in Cape Town, Johannesburg, Port Elizabeth, Durban and East London for US$0.7 million (including a deferred purchase consideration of US$0.1 million). With this acquisition, the Logicalis South African operation strengthens and expands its managed services offering to better serve its corporate customers and deliver new services to existing customers from both companies.

As a result of these acquisitions, goodwill and other intangible assets increased by US$3.3 million. None of the goodwill recognised is expected to be deductible for income tax purposes. The revenue and EBITDA included from these acquisitions in H1 FY20 are US$1.6 million and US$0.1 million respectively. Profit after tax included from these acquisitions was US$0.1 million. Had the acquisition date been 1 March 2019, the revenue would have been approximately US$2.4 million. It is not practical to establish EBITDA and profit after tax that would have been contributed to the Group if they had been included for the entire period. The fair value assessment of assets and liabilities acquired and the amounts recognised as goodwill and intangible assets have only been determined provisionally due to the timing of the acquisition.

Adoption of IFRS 16

for the six months to 31 August 2019

New and amended standards adopted by the Group

The Group was required to amend its accounting policies as a result of adopting IFRS 16 Leases. The impact of the adoption of this standard and the amended accounting policies are disclosed below.

Change in significant accounting policy

This standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee is required to recognise right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to former practice; i.e. lessors continue to classify leases as finance or operating leases.

The Group leases various property, plant and equipment. Rental contracts are typically entered for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Right-of-use assets presented within current assets capture right-of-use assets on leases with a term of 12 months or less. As the Group has elected to expense short-term leases, it does not present any such amounts.

The lease liability is measured initially at the present value of the lease payments that are not paid at commencement date, discounted at the incremental borrowing rate, unless the rate implicit in the lease is readily determinable. The lease liability is subsequently increased by interest costs and decreased by lease payments made. Incremental borrowing rates have been determined based on country-specific factors and vary across the Group.

The right-of-use asset is measured initially at cost and subsequently at cost less any accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Up to and including the FY19 financial year, leases for property, plant and equipment were accounted for under IAS 17 *Leases* and classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight line basis over the period of the lease.

The Group has elected to apply the practical expedient in IFRS 16 and accounts for lease and non-lease components as a single lease.

Critical accounting judgements and key sources of estimation uncertainty

The Group has applied judgement to determine the lease term for some of the lease contracts, in which it is a lessee, that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which affects the amount of lease liabilities and right-of-use assets recognised.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or to not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the lessee. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The Group has applied judgement in determining low value assets. Values differ between countries, however, the nature of low value items across the Group are similar.

Adjustments recognised on adoption of IFRS 16

The Group adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 March 2019.

Accordingly, the comparative information presented for FY19 has not been restated.

Adoption of IFRS 16 continued

for the six months to 31 August 2019

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard in the application of the initial accounting:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments in determining whether leases are onerous;
- not reassessing whether a contract is, or contains, a lease at the date of initial application;
- the use of hindsight in determining the lease term where contracts contain options to extend or terminate the lease;
- accounting for leases that, at 1 January 2019, had a remaining lease term of 12 months or less on a straight line basis over the remaining lease term;
- accounting for leases for which the underlying asset is of low value continue on a straight line basis over the lease term; and
- exclusion of initial direct costs from the measurement of the right-of-use asset at 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessees' incremental borrowing rates as at 1 March 2019.

Reconciliation between operating lease commitments and lease liabilities recognised at the date of initial application

	Unaudited 1 March 2019			
US$'000	Land and buildings	Office furniture, equipment and motor vehicles	Computer equipment	Total
Operating lease commitments disclosed as at 28 February 2019	**116 720**	**5 191**	**1 814**	**123 725**
Discounted using the lessees' incremental borrowing rates at the date of initial application	(12 246)	(353)	(50)	(12 649)
Less: low-value leases recognised on a straight line basis as expense	72	(167)	(123)	(218)
Less: short-term leases recognised on a straight line basis as expense	(286)	(76)	(325)	(687)
Less: adjustments as a result of a different treatment of extension and termination options	(1 407)	(3)	–	(1 410)
Less: translation and other	(8 149)	(450)	(535)	(9 134)
Lease liabilities recognised as at 1 March 2019	**94 704**	**4 142**	**781**	**99 627**

Lease liabilities at as 28 February 2019 amounted to US$30.982 million. Total lease liabilities as at 1 March 2019 amounted to US$130.609 million.

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 28 February 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets as at 1 March 2019.

Previous guidance issued by the Group estimated that lease liabilities of between US$110 million and US$125 million would be recognised. However, only US$95 million was recognised due to exchange rate fluctuations as well as an overestimation in Logicalis Europe.

Adoption of IFRS 16 continued

for the six months to 31 August 2019

The change in accounting policy affected the following items in the statement of financial position:

US$'000	Unaudited 1 March 2019 Increase/ (decrease)
Assets	
Right-of-use assets	94 570
Office furniture, equipment and motor vehicles	7 362
Computer equipment	298
Leasehold improvements	–
Land and buildings	86 910
Prepaid expenses	71
Equity and liabilities	
Finance lease liabilities	99 627
Operating lease smoothing liabilities	(4 986)
Distributable reserves	–

Impact on segmental reporting

EBITDA, operating profit, profit before taxation, segmental assets and liabilities increased for the period ended 31 August 2019, as a result of the change in accounting policy. The following segments were affected by the change:

	Westcon International	Logicalis	Corporate, Consulting and Financial Services	Datatec Group Total
US$'000	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2019	Unaudited Six months to 31 August 2019
EBITDA	6 093	9 582	1 092	16 767
Depreciation	5 387	7 847	968	14 202
Operating profit	706	1 735	125	2 566
Finance costs	(993)	(1 183)	(142)	(2 318)
(Loss)/profit before taxation	(286)	552	(18)	248
Total assets	30 298	48 471	8 473	87 242
Total liabilities	(30 584)	(47 919)	(8 482)	(86 985)

Adoption of IFRS 16 continued

for the six months to 31 August 2019

Impact on current period results

The following tables show the impact of IFRS 16 on the numbers disclosed on the statement of comprehensive income and statement of financial position as at 31 August 2019. The pro-forma numbers represent the results and balance sheet position showing the impact on H1 FY20 as if IFRS 16 had not been applied. This provides a like for like comparison to H1 FY19 and FY19 where IFRS 16 had not been applied.

US$'000	**Unaudited Six months to 31 August 2019 Pro-forma**	Unaudited Six months to 31 August 2019 Reported	Unaudited Six months to 31 August 2018 Reported	Audited Year ended 28 February 2019 Reported
Statement of comprehensive income				
Gross profit	**356 925**	359 782	319 373	687 744
Operating costs	**(292 233)**	(278 323)	(265 022)	(569 896)
EBITDA	**53 257**	70 024	42 572	86 761
Depreciation	**(14 294)**	(28 496)	(12 499)	(25 889)
Operating profit	**31 415**	33 981	24 092	48 423
Finance costs	**(16 580)**	(18 898)	(14 061)	(32 145)
Profit before taxation	**25 989**	26 237	13 927	24 215
Basic earnings per share from continuing operations	**2.1**	2.2	0.7	0.6
Statement of financial position				
Property, plant & equipment and right-of-use assets	**51 145**	138 651	57 109	60 306
Prepaid expenses and other receivables	**265 749**	265 485	241 450	232 965
Total equity	**(667 672)**	(667 929)	(723 570)	(712 230)
Long-term interest-bearing liabilities and leases	**(19 335)**	(103 323)	(43 558)	(31 383)
Trade and other payables	**(1 295 528)**	(1 290 854)	(1 222 361)	(1 358 928)
Short-term interest-bearing liabilities and leases	**(120 237)**	(127 908)	(105 884)	(109 751)
Salient financial features				
Underlying* earnings per share	**5.2**	5.3	3.6	6.6

There has been no negative impact on existing covenants.

Enquiries

Datatec Limited (www.datatec.com)

Jens Montanana – Chief Executive Officer	+27 (0) 11 233 3301
Ivan Dittrich – Chief Financial Officer	+27 (0) 11 233 3301
Wilna de Villiers – Investor Relations Manager	+27 (0) 11 233 1013

Instinctif Partners

Frederic Cornet	+27 (0) 11 447 3030

Sponsor

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