ADvTECH GROUP

ADvTECH Limited ("ADvTECH" or "the group") (Incorporated in the Republic of South Africa) Registration number: 1990/001119/06 | JSE code: ADH | ISIN number: ZAE 0000 31035 | Income taxation number: 9550/190/71/5

PRELIMINARY *audited results* | FOR THE YEAR ENDED 31 DECEMBER 2018

REVENUE ▲11%

OPERATING PROFIT ▲14%

NORMALISED EARNINGS PER SHARE ▲8%

DIVIDENDS PER SHARE FOR THE YEAR 30.0 cents

Summarised consolidated statement of profit or loss

for the year ended 31 December 2018

R'm	Note	Percentage increase	Audited 31 December 2018	Restated# Audited 31 December 2017
Revenue		11%	**4 389.0**	3 937.7
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)		14%	**942.1**	823.3
Operating profit before interest and non-trading items		14%	**762.7**	668.0
Non-trading items	2		**(37.5)**	(31.1)
Net finance costs			**(132.7)**	(99.1)
Interest earned			**3.7**	3.9
Finance costs incurred			**(136.4)**	(103.0)
Profit before taxation		10%	**592.5**	537.8
Taxation			**(185.0)**	(160.1)
Profit for the year		8%	**407.5**	377.7
Profit for the year attributable to:				
Owners of the parent		8%	**397.4**	367.0
Non-controlling interests			**10.1**	10.7
			407.5	377.7
Earnings per share (cents)				
Basic		8%	**74.2**	68.7
Diluted		8%	**74.1**	68.6

 # The restatement relates to the adoption of IFRS 15. Refer to note 1.4.

Headline and normalised earnings

for the year ended 31 December 2018

R'm	Percentage increase	Audited 31 December 2018	Restated# Audited 31 December 2017
Determination of headline earnings			
Profit for the year attributable to owners of the parent		**397.4**	367.0
Items excluded from headline earnings per share		**(3.1)**	0.5
(Profit)/loss on sale of property, plant and equipment		**(0.7)**	0.7
Profit on sale of subsidiary		**(0.9)**	–
Gain on bargain purchase of acquisition		**(4.2)**	–
Impairment of intangible assets		**3.2**	–
Taxation effects of adjustments		**(0.5)**	(0.2)
Headline earnings	7%	**394.3**	367.5
Headline earnings per share (cents)			
Basic	7%	**73.6**	68.8
Diluted	7%	**73.5**	68.7
Determination of normalised earnings			
Headline earnings		**394.3**	367.5
Items excluded from normalised earnings per share		**40.5**	35.0
Corporate action costs		**2.0**	12.3
Net loss on financial asset at fair value through profit and loss		**4.2**	–
Settlement of contingent consideration		**34.3**	–
Fraud adjustments			
– Adjustments relating to 2016		**–**	24.4
– Adjustments relating to 2015		**–**	6.7
Taxation effects of adjustments		**–**	(8.4)
Normalised earnings	8%	**434.8**	402.5
Normalised earnings per share (cents)			
Basic	8%	**81.1**	75.3
Diluted	8%	**81.1**	75.2

Normalised earnings is a non-IFRS measure and excludes the impact of certain non-operational income and expense items from reported headline earnings. It is included to provide an additional basis on which to measure the group's normalised earnings performance.

Summarised consolidated statement of other comprehensive income

for the year ended 31 December 2018

R'm	Audited 31 December 2018	Restated# Audited 31 December 2017
Profit for the year	**407.5**	377.7
Other comprehensive income, net of income taxation		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	**52.6**	(6.4)
Total comprehensive income for the year	**460.1**	371.3
Total comprehensive income for the year attributable to:		
Owners of the parent	**443.5**	361.3
Non-controlling interests	**16.6**	10.0
	460.1	371.3

Summarised consolidated statement of financial position

as at 31 December 2018

R'm	Audited 31 December 2018	Restated# Audited 31 December 2017	Restated# Audited 31 December 2016
Assets			
Non-current assets	**5 711.8**	5 115.0	4 232.5
Property, plant and equipment	**3 943.1**	3 512.6	2 788.7
Proprietary technology systems	**73.3**	63.3	45.3
Goodwill	**1 465.6**	1 305.3	1 170.1
Intangible assets	**211.0**	208.3	206.6
Deferred taxation assets@	**12.6**	13.5	9.8
Investment in joint arrangement	**6.2**	–	–
Investment	**–**	12.0	12.0
Current assets	**571.4**	438.6	402.6
Trade and other receivables*	**261.8**	288.4	215.5
Taxation	**16.6**	–	–
Other current assets	**64.1**	40.3	58.9
Bank balances and cash	**228.9**	109.9	128.2
Total assets	**6 283.2**	5 553.6	4 635.1
Equity and liabilities			
Equity	**3 171.9**	2 866.1	2 665.6
Non-current liabilities	**1 698.2**	908.6	857.3
Long-term bank loans	**1 500.0**	751.5	758.0
Deferred taxation liabilities@	**125.3**	108.1	99.3
Acquisition liabilities	**72.9**	49.0	–
Current liabilities	**1 413.1**	1 778.9	1 112.2
Current portion of long-term bank loans	**5.7**	12.2	31.1
Short-term bank loan	**590.0**	750.0	425.0
Trade and other payables*	**406.5**	365.8	319.8
Taxation	**–**	6.3	8.3
Fees received in advance and deposits	**362.5**	431.3	303.8
Bank overdraft	**48.4**	213.3	24.2
Total liabilities	**3 111.3**	2 687.5	1 969.5
Total equity and liabilities	**6 283.2**	5 553.6	4 635.1

** Unallocated receipts previously classified as trade and other payables have been classified as trade and other receivables. Comparative figures have been restated (2017: R18.7 million and 2016: R20.1 million).*

@ Deferred taxation assets disclosed separately from deferred taxation liabilities. Comparative figures have been restated.

Summarised consolidated segmental report

for the year ended 31 December 2018

R'm	Percentage increase/ (decrease)	Audited 31 December 2018	Restated# Audited 31 December 2017
Revenue	11%	**4 389.0**	3 937.7
Schools	15%	**2 008.8**	1 742.1
– South Africa	11%	**1 877.4**	1 685.1
– Rest of Africa	131%	**131.4**	57.0
Tertiary	10%	**1 718.5**	1 555.7
Resourcing	4%	**669.5**	643.8
Intra group revenue		**(7.8)**	(3.9)
Operating profit before interest and non-trading items	14%	**762.7**	668.0
Schools	1%	**331.1**	326.8
– South Africa	5%	**329.8**	315.2
– Rest of Africa	(89%)	**1.3**	11.6
Tertiary	23%	**394.5**	321.4
Resourcing	22%	**39.1**	32.1
Corporate action costs		**(2.0)**	(12.3)
Property, plant and equipment and proprietary technology systems	12%	**4 016.4**	3 575.9
Schools	14%	**3 097.8**	2 727.3
– South Africa	7%	**2 779.8**	2 608.5
– Rest of Africa	168%	**318.0**	118.8
Tertiary	8%	**911.0**	841.0
Resourcing	0%	**7.6**	7.6

The schools division has been split into two categories of disclosure in line with the categories utilised by the chief operating decision maker.

Summarised consolidated statement of changes in equity

for the year ended 31 December 2018

R'm	Audited 31 December 2018	Restated# Audited 31 December 2017
Balance at beginning of the year before restatement	**2 880.1**	2 677.3
Opening balance adjustment (IFRS 15)	**(14.0)**	(11.7)
Restated opening balance	**2 866.1**	2 665.6
Total comprehensive income for the year	**460.1**	371.3
Dividends declared to shareholders	**(190.5)**	(186.7)
Share-based payment expense	**4.4**	6.3
Share award expense under the management share incentive scheme (MSI)	**2.8**	2.0
Taxation effect of shares awarded under the management share incentive scheme (MSI)	**(4.4)**	(4.6)
Shares issued to settle contingent consideration	**32.1**	–
Share options exercised	**8.3**	13.1
Non-controlling interest on disposal of subsidiary	**(1.0)**	–
Non-controlling interests arising on acquisitions	**(6.0)**	(0.9)
Balance at end of the year	**3 171.9**	2 866.1

Summarised consolidated statement of cash flows

for the year ended 31 December 2018

R'm	Note	Percentage increase	**Audited 31 December 2018**	Restated[#] Audited 31 December 2017
Cash generated from operations	3	17%	**945.8**	805.7
Movement in working capital			**(66.8)**	39.9
Cash generated by operating activities		4%	**879.0**	845.6
Net finance costs paid (inclusive of capitalised borrowing costs)[&]			**(138.5)**	(90.8)
Taxation paid			**(202.1)**	(174.6)
Dividends paid			**(190.8)**	(186.1)
Net cash inflow from operating activities			**347.6**	394.1
Net cash outflow from investing activities			**(657.5)**	(913.8)
Additions to property, plant and equipment[&]			**(533.2)**	(684.2)
Additions to proprietary technology systems[&]			**(22.3)**	(28.4)
Business combinations cash flows			**(114.9)**	(215.6)
Proceeds on disposal of property, plant and equipment			**2.9**	14.4
Disposal of subsidiary			**4.0**	–
Change in ownership of joint arrangement			**6.0**	–
Net cash inflow from financing activities			**590.4**	312.7
Increase/(decrease) in non-current bank loans			**748.5**	(6.5)
(Decrease)/increase in current bank loans			**(166.5)**	306.1
Cash movement in shares held by Share Incentive Trust			**8.4**	13.1
Net increase/(decrease) in cash and cash equivalents			**280.5**	(207.0)
Cash and cash equivalents (net of bank overdraft) at beginning of the year			**(103.4)**	104.0
Net foreign exchange differences on cash and cash equivalents			**3.4**	(0.4)
Cash and cash equivalents (net of bank overdraft) at end of the year			**180.5**	(103.4)

& Borrowing costs capitalised previously included in additions to property, plant and equipment and proprietary technology systems was reclassified to net finance costs paid. Capital expenditure as disclosed in the supplementary information below was also affected.

Free operating cash flow before capex per share

for the year ended 31 December 2018

R'm	Percentage increase/ (decrease)	**Audited 31 December 2018**	Restated[#] Audited 31 December 2017
Profit for the year		**407.5**	377.7
Adjusted for non-cash IFRS and lease adjustments (after taxation)		**6.9**	12.9
Net operating profit after taxation – adjusted for non-cash IFRS and lease adjustments		**414.4**	390.6
Depreciation, amortisation and impairment		**182.6**	155.3
Settlement of contingent consideration		**34.3**	–
Other non-cash flow items (after taxation)		**(1.2)**	0.5
Operating cash flow after taxation	15%	**630.1**	546.4
Movement in working capital		**(66.8)**	39.9
Free operating cash flow before capex	(4%)	**563.3**	586.3
Weighted average number of shares for purposes of basic earnings per share (million)		**535.9**	534.2
Free operating cash flow before capex per share (cents)	(4%)	**105.1**	109.8

Supplementary information

for the year ended 31 December 2018

R'm	**Audited 31 December 2018**	Restated[#] Audited 31 December 2017
Capital expenditure – current year[&]	**555.5**	712.6
Capital commitments	**1 901.1**	1 911.0
Authorised by directors and contracted for	**819.3**	357.5
Authorised by directors and not yet contracted for	**1 081.8**	1 553.5
Anticipated timing of spend	**1 901.1**	1 911.0
0 – 2 years	**1 170.6**	627.3
3 – 5 years	**360.7**	572.1
more than 5 years	**369.8**	711.6
Operating lease commitments in cash – future years	**453.2**	296.2

Notes to the summarised consolidated financial statements

for the year ended 31 December 2018

1.1 Statement of compliance

The summarised consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, and the requirements of the Companies Act of South Africa applicable to summarised financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34, Interim Financial Reporting. The accounting policies and methods of computations applied in the preparation of the consolidated financial statements, from which the summarised consolidated financial statements were derived, are in terms of IFRS and except as noted below in paragraph 1.4 are consistent with the accounting policies applied in the preparation of the previous consolidated financial statements.

The preparation of the group's summarised consolidated financial statements and the full consolidated financial statements for the year ended 31 December 2018 was supervised by Didier Oesch CA(SA), the group's financial director.

Independent auditor's opinion

These summarised consolidated financial statements for the year ended 31 December 2018 have been audited by Deloitte & Touche, who expressed an unmodified opinion thereon (the auditor also expressed an unmodified opinion on the consolidated financial statements from which these summarised consolidated financial statements were derived). A copy of the auditor's report on the summarised consolidated financial statements and of the auditor's report on the consolidated financial statements are available for inspection at the company's registered office, together with the financial statements identified in the respective auditor's reports. The auditor's report does not necessarily cover all the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's work, they should obtain a copy of the report together with the accompanying financial information from the company's registered office.

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

1.2 Events after the reporting period

The acquisition of Monash South Africa which was concluded during 2018 and is subject to conditions precedent will be implemented subsequent to year-end once these conditions are fulfilled. The transaction consideration will entail an amount of R343 million, plus cash on hand and working capital adjustments at the effective date.

The directors are not aware of any other matter or circumstance occurring between the date of the statement of financial position and the date of this report that materially affects the results of the group for the year ended 31 December 2018 or the financial position at that date.

1.3 Financial Instruments

The directors consider that the carrying amount of the financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. All of the group's financial instruments, except for investments, are carried at amortised cost and therefore not classified in terms of the fair value hierarchy. In terms of the investment, in the prior year this was classified as a level 3 instrument under the fair value hierarchy, however, the ownership structure of this investment changed (refer to note 4.3).

1.4 Adoption of new standards

IFRS 9: Financial Instruments (IFRS 9) was adopted in the current year. The standard sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The adoption of IFRS 9 resulted in the change of classification of financial assets and financial liabilities. These are now classified and measured as financial instruments at amortised cost. The only exception is the investment, previously classified as available for sale financial asset, which was changed to a financial asset at fair value through profit or loss. However, there was a change in ownership during the year, refer to note 4.3.

The other significant change to the group's accounting policies with the adoption of IFRS 9 is the measurement of impairment of financial assets, specifically trade receivables, which is now measured using an expected credit loss model instead of an incurred loss model. The group uses a provision matrix to calculate expected credit losses. This change did not result in a movement in the loss allowance compared to the previous impairment model.

The adoption of IFRS 9 had no impact on the comparative numbers in the consolidated statement of profit or loss, consolidated statement of financial position, consolidated statement of changes in equity or the consolidated statement of cash flows.

IFRS 15: Revenue from Contracts with Customers (IFRS 15) was applied with an effective date of 1 January 2018. The group has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15.C5 (d), but using the expedient in IFRS 15.C5 (a) and (b).

The amount of the adjustments for each financial statement line item affected by the application of IFRS 15 for the current and prior years are illustrated below.

R'm	Restated[#] Audited 31 December 2017
Impact on profit or loss	
Revenue	(149.2)
Bursaries[1]	(146.0)
Change in timing of recognition of enrolment fees[2]	(3.2)
Other operating expenses[1]	146.0
Taxation[3]	0.9
Decrease in profit for the year	(2.3)
Decrease in earnings per share	
Basic (cents)	(0.4)
Diluted (cents)	(0.4)

	As previously reported	IFRS 15 adjustments	As restated
Impact on assets, liabilities and equity as at 1 January 2017			
Deferred taxation[3]	94.1	(4.6)	89.5
Fees received in advance and deposits[2]	287.5	16.3	303.8
Retained earnings	1 196.3	(11.7)	1 184.6
Impact on assets, liabilities and equity as at 31 December 2017			
Deferred taxation[3]	100.1	(5.5)	94.6
Fees received in advance and deposits[2]	411.8	19.5	431.3
Retained earnings	1 383.3	(14.0)	1 369.3

1 The contract consideration for educational services vary due to bursaries and discounts awarded to students. These amounts are set off against revenue as these are price concessions and therefore variable considerations. The amounts have been determined based on actual bursaries and discounts awarded.

2 The enrolment fee income for student registrations was previously recognised when received in compliance with the previous accounting standard. As this is an administrative task and the promised service is the delivery of education, the enrolment fees have now been deferred to the period over which the education services are performed.

3 Recognition of the impact on deferred taxation due to the deferral of enrolment fees.

R'm	**Audited 31 December 2018**	Restated[#] Audited 31 December 2017
2. Non-trading items		
Impairment of intangible assets	**(3.2)**	–
Settlement of contingent consideration	**(34.3)**	–
Fraud adjustments	**–**	(31.1)
Non-trading items	**(37.5)**	(31.1)

Intangible assets with a carrying value of R3.2 million relating to the brand values of Summit College and Kathstan College (in the schools division) were impaired during the year. The reason for the impairment was the re-branding of these schools as Pinnacle College Kyalami and Pinnacle College Rynfield.

In terms of the sale of business agreement entered into between ADvTECH Limited and the previous owners of Maramedia Proprietary Limited ("the vendors"), the purchase consideration was to be determined based on the earnings for the year ended 31 December 2015. Initially the fair value of the contingent consideration was determined to be nil but was nevertheless disclosed as a contingent liability.

Based on an arbitration award in favour of the vendors, 2.2 million ADvTECH Limited shares and related dividends to the value of R34.3 million was awarded in settlement of the contingent liability. As this adjustment falls outside the measurement period as defined by IFRS 3, it is recognised in the current year in the summarised consolidated statement of profit and loss.

The previously reported fraud event was accounted for in the second half of 2017 and impacts the comparative results. Normalised earnings for the comparative results were adjusted by re-allocating the impact of this event to the accounting periods to which it relates. The normalised profit for the year ending 31 December 2017 has been adjusted upwards to remove the effect of the 2015 and 2016 charges recognised in the prior year to correct the effects of the event.

R'm	**Audited 31 December 2018**	Restated[#] Audited 31 December 2017
3. Note to the summarised statement of cash flows		
Reconciliation of profit before taxation to cash generated from operations		
Profit before taxation	**592.5**	537.8
Adjusted for non-cash IFRS and other adjustments (before taxation)	**7.5**	12.8
	600.0	550.6
Adjustments:	**345.8**	255.1
Depreciation, amortisation and impairment	**182.6**	155.3
Shares issued on settlement of contingent consideration	**32.1**	–
Net finance costs	**132.7**	99.1
Net loss on financial asset at fair value through profit and loss	**4.2**	–
Gain on bargain purchase of acquisition	**(4.2)**	–
(Profit)/loss on disposal of property, plant and equipment	**(0.7)**	0.7
Profit on disposal of subsidiary	**(0.9)**	–
Cash generated from operations	**945.8**	805.7

4. Business combinations

4.1 Makini Schools Limited

A 71% interest resulting in control of Makini Schools Limited (via Schole Mauritius Limited) was acquired on 1 May 2018 for a consideration of R111.5 million.

R'm	Audited 31 December 2018
Fair value assets and liabilities acquired	
Intangible assets	**15.6**
Goodwill[1]	**129.6**
Property, plant and equipment	**11.1**
Current assets[2]	**38.0**
Cash and cash equivalents	**(2.9)**
Non-current liabilities	**(4.4)**
Current liabilities	**(82.4)**
Non-controlling interest[3]	**6.9**
	111.5

Revenue of R66.5 million and loss after taxation of R2.9 million have been recognised in the summarised consolidated statement of profit or loss since acquisition date.

Revenue of R93.9 million and loss after taxation of R7.9 million would have been recognised in the summarised consolidated statement of profit or loss if the acquisition was done at the beginning of the annual reporting period.

This acquisition was made as an addition to our schools division in line with our expansion strategy and provides access to an African market.

The accounting for this business combination is still within the measurement period.

1 *The consideration paid for the business combination includes amounts which have been recognised as goodwill in relation to the benefit of expected synergies and expansion opportunities.*

2 *Included in current assets are trade receivables with a fair value of R31.6 million. This equals the gross amount of contractual amounts receivable. There were no contractual cash flows at acquisition date that are not expected to be collected.*

3 *Measured at proportionate share of net asset value.*

4.2 Credo Business College Proprietary Limited

The shareholding in Credo Business College Proprietary Limited was disposed of as at 1 January 2018 for a consideration of R4.0 million, resulting in a R0.9 million profit on disposal.

4.3 Investment in joint arrangement

The group had an option, which was exercised in the current year, to acquire the balance of 85% in the share capital of Star Schools Proprietary Limited. The purchase price was determined at the time in accordance with the agreement, based on the average annual profit after taxation for the preceding 24 months.

Subsequent to the transaction, the 50% interest held was classified as a joint arrangement and a gain on bargain purchase of R4.2 million was realised.

5. Share information

R'm	Percentage increase/ (decrease)	Audited 31 December 2018	Restated# Audited 31 December 2017
Number of shares in issue (million)		**546.6**	544.4
Number of shares in issue net of treasury shares (million)		**538.9**	535.6
Weighted average number of shares for purposes of basic earnings per share (million)		**535.9**	534.2
Weighted average number of shares for purposes of diluted earnings per share (million)		**536.1**	535.2
Net asset value per share including treasury shares (cents)	10%	**580.3**	526.5
Net asset value per share net of treasury shares (cents)	10%	**588.6**	535.1
Free operating cash flow before capex per share (cents)	(4%)	**105.1**	109.8
Gross dividends per share (cents)	(12%)	**30.0**	34.0

Commentary

Overview: positive momentum continues

The directors are pleased to announce ongoing good operational results for the year ending 31 December 2018, with the group continuing its positive trajectory. The tertiary and resourcing divisions once again performed exceptionally well and the schools division increased its scale significantly, mainly through acquisitions, despite external pressures.

The resilience of the group is evidenced by the 11% increase in revenue to R4.4 billion (2017: R3.9 billion) and operating profit by 14% to R763 million (2017: R668 million). Operating margins improved from 17.0% to 17.4%. While our investments in Kenya increased our revenue in the rest of Africa to 12% (2017: 11%) of total revenue, they negatively impacted our margins in the current year.

Non-trading items includes the settlement of the contingent consideration relating to the Maramedia acquisition. As reported in the interim results, the audited financial statements used to determine the additional consideration payable, indicated that the profit target was not achieved and therefore the fair value of the contingent consideration was determined to be nil. However, this was successfully disputed by the vendors. The consideration has now been settled and as the adjustment to the contingent consideration falls outside the measurement period as defined by IFRS 3, it is required to be recognised in the summarised consolidated statement of profit and loss.

The higher average net borrowings, resulting from the significant capital expenditure incurred together with the acquisition of the Makini Schools group (Makini), led to an increase in financing costs. The taxation rate increased due to the non-deductibility of the non-trading items. Profit for the year increased by 8% with normalised earnings per share also increasing by 8% to 81.1 cents (2017: 75.3 cents).

Cash generated by operating activities increased by 4% to R879 million. This, together with financing inflows of R590 million, enabled investments and capex of R658 million and payment of financing costs of R139 million, taxation of R202 million and dividends of R191 million. The debtors' book continues to be well managed with a strong emphasis on collections.

The decrease in fees received in advance and deposits was due to a greater proportion of parents selecting the monthly payment terms as opposed to the upfront payment option as well as parents delaying payment until after year-end, but still within the agreed payment terms. Receipts after year-end have been significantly higher than in the previous year as would be expected with the change in the payment options chosen and payment patterns.

The table below illustrates the enrolment growth in the last three years and highlights the continued growth in 2019.

Group enrolments end February:

Enrolments:	Feb 2016	Feb 2017	Feb 2018	% Increase	**Feb 2019**	% Increase
Schools	24 199	26 713	27 408	3%	**30 827**	12%
Tertiary: Full qualifications	29 138	33 463	36 136	8%	**39 629**	10%
Total	**53 337**	**60 176**	**63 544**	**6%**	**70 456**	**11%**

ADvTECH operates 132 education sites comprising 103 schools and 29 tertiary campuses.

Schools division: revenue up 15%, strong growth in demand for mid-fee options

The schools divisional revenue increased by 15% to R2 009 million (2017: R1 742 million), representing 46% of group revenue. Operating profit for South African schools increased by 5% to R330 million (2017: R315 million) while the operating profit from schools in the rest of Africa declined due to the costs incurred ahead of the opening of Crawford International School in Nairobi, Kenya, and as it moves through the j-curve.

The strong growth in revenue was achieved mainly as a result of acquisitions and good growth in the mid-fee sector. The challenging South African economic climate and unsettled socio-political environment continue to impact organic growth with increased levels of withdrawals owing to emigration and financial pressures, a trend that has continued into 2019. The growth in student enrolments for 2019 is largely off the back of our expansion strategy to enter faster growing economies outside of South Africa.

Our first greenfield development outside South Africa, Crawford International School, opened in September 2018. Focused marketing and advertising, together with Crawford's established reputation and unique offering, helped to successfully launch the Crawford brand resulting in strong and ongoing interest with 189 students enrolled to date.

The acquisition of Makini, also in Kenya, added seven schools, three campuses and boarding facilities in Nairobi and Kisumu to our portfolio, boosting student numbers by 3 197. These investments, together with Gaborone International School in Botswana, have contributed significantly to our expansion strategy into the rest of the continent.

Our focus on academic excellence, which is at the core of our strategy, is our key differentiating factor compared to other private school groups. During 2018 our students delivered excellent academic results. Overall, 1 644 matric candidates achieved 2 754 distinctions with a 99% pass rate while 87% of our students achieved a bachelor pass. The Independent Examination Board (IEB) National Senior Certificate (NSC) students achieved a 100% matric pass rate and averaged two distinctions per student. Our Department of Basic Education (DBE) NSC matric students achieved a 97% pass rate compared to the national pass rate of 78% and averaged one distinction per student.

Seven new schools were opened in 2018; Crawford International School, (pre-primary, primary and college); The Bridge Assisted Learning School (pre-primary and primary); and in the mid-fee sector, Maragon Mooikloof High School and Pinnacle College Copperleaf.

The Bridge Assisted Learning School opened in January 2018 with enrolments exceeding expectations. This new product offering addresses a gap in the market by offering specialised education for students from Grade 0 – 7 who have a range of academic challenges that require specific learning assistance.

The past year has been a time of integration and consolidation following a four-year period of acquisitions in which we acquired 49 schools, increasing our total number to 103 schools. This significant growth has doubled the division's size. We have used the opportunity to rationalise and restructure the divisional systems and processes that are better suited to the increased scale of the business and which included the reorganisation of the schools division's management structure and support functions. The consolidation into the group shared services function is also leading to improved efficiencies, effectiveness and controls. Numerous legacy and inherited systems are being consolidated into a unified system. Further changes are being implemented in the division to drive operational efficiencies and sharpen market focus, in order to consistently deliver high levels of performance across the board.

Encouraging signs related to these changes are starting to take effect, particularly in the improved academic results, with marked improvements in the average distinction rate per matric candidate at Maragon and Centurus schools. During the brand re-evaluation process both Summit College and Kathstan College have been incorporated into the mid-fee model and are now known as Pinnacle College Kyalami and Pinnacle College Rynfield respectively. A similar analysis led to the relocation of Abbotts College Centurion. With these changes we have seen an increase in enquiries and enrolments for 2019. Trinityhouse Palm Lakes High School in KwaZulu-Natal was closed since it was not performing to expectation.

Overall, we remain confident that our school division's strategy is appropriate and, together with the plans in place, the division is expecting continued improvement in performance in the coming years.

University & tertiary: operating profit up by 23%

The Independent Institute of Education (The IIE), ADvTECH's higher education division, continued its notable performance in the "private university"/private higher education sector and remains optimally positioned for future growth building on its 14-year legacy of student success. The IIE has continued to meet the stipulated standards to take its rightful place beside public universities and aligns to international best practice. Although private higher education institutions may not yet call themselves private universities, a recent court judgment in favour of the IIE's Varsity College confirmed that registered and accredited institutions and qualifications are equivalent to public university offerings, a landmark development for the country's higher education sector as a whole.

The IIE is the largest, and has the most comprehensive investment in curricular development and academic leadership, of any private higher education provider in South Africa. The IIE is central to our commitment to academic excellence and is responsible for ensuring that our qualifications remain relevant and bridge the gap between the curriculum and the constantly evolving workplace.

The tertiary division continued to show excellent growth with revenue increasing by 10% to R1 719 million (2017: R1 556 million), contributing 39% of group revenue. The operating margin increased from 21% to 23% on the back of operational leverage from strong volume growth, resulting in operating profit increasing by 23% to R395 million (2017: R321 million).

The tertiary division now offers 201 accredited courses, with a diverse range of offerings including vocational skills training, national certificates and diplomas (N1-N6), higher certificates, diplomas, advanced diplomas, degrees, honours degrees and masters degrees.

Three new campuses opened during 2018, including two digitally enabled, Rosebank College Connected sites in Pietermaritzburg and Bloemfontein. A new combined campus in Johannesburg for Capsicum Culinary Studio and The Private Hotel School includes state-of-the-art facilities such as conference facilities and a restaurant serviced by our students.

The Rosebank College portfolio now consists of mega campuses in Johannesburg, Pretoria and Durban with a mega campus in the pipeline for Cape Town (2020). In provincial nodes, the successful blended learning digitally enabled Rosebank College Connected campuses, which are producing outstanding academic results, are being rolled out. They now boast three successful campuses and additional campuses are planned in the near future.

Subject to the completion of the necessary regulatory approvals, the acquisition of Monash South Africa (MSA) is expected to be effective from April 2019. This will bring the tertiary qualification suite to 233 accredited courses and the higher education student complement to more than 40 000 students, cementing ADvTECH's leadership position as SA's largest "private university"/private higher education provider.

Resourcing: alternative markets pay off

The resourcing division's outstanding performance is mainly due to the success of the strategy to enter alternative markets outside of South Africa, where we have experienced significant growth. Notwithstanding the tough market conditions in South Africa, we have increased our market share and successfully placed 4 608 candidates (2017: 3 755). The increase in revenue of 4% to R670 million (2017: R644 million) was impacted by the mix of a greater number of lower value but higher margin placements which resulted in operating profit increasing by 22% to R39 million (2017: R32 million). The division continues to be highly cash-generative.

Declaration of final dividend no 19

The significant investment opportunities available to the group and the associated capital expenditure requires that the company considers additional cash preserving measures. This has previously been signalled by the board with a steady increase in dividend cover in recent reporting periods. Capital commitments amount to R1.9 billion, inclusive of the purchase consideration for the acquisition of Monash South Africa, and will largely be funded by way of additional debt. Taking these commitments into account, together with the continuing challenging economic environment, the board has decided it would be prudent and responsible to further preserve cash and have therefore reduced the dividend pay-out during this high capital investment period.

The board is pleased to announce the declaration of a final gross dividend of 15.0 cents (2017: 19.0 cents) per ordinary share in respect of the year ended 31 December 2018. This brings the full year dividend to 30.0 cents (2017: 34.0 cents) per share.

This is a dividend as defined in the Income Tax Act, 1962, and is payable from income reserves. The South African dividend taxation (DT) rate is 20%. The net amount per share payable to shareholders who are not exempt from DT is 12.0 cents per share, while it is 15.0 cents per share to those shareholders who are exempt from DT.

There are 546 612 919 million ordinary shares in issue; the total dividend amount payable is R82 million. The salient dates applicable to the dividend referred to above are as follows:

	2019
Declaration of dividend	Thursday, 14 March
Last day to trade in order to participate in the dividend	Tuesday, 9 April
Trading commences ex-dividend	Wednesday, 10 April
Record date	Friday, 12 April
Payment date	Monday, 15 April
AGM	Thursday, 30 May

Share certificates may not be dematerialised and rematerialised between Wednesday, 10 April 2019, and Friday, 12 April 2019, both days inclusive.

Prospects

We continue to see numerous opportunities, both in South Africa and the rest of the continent, and the group remains in a uniquely strong position to pursue its growth strategy.

Our tertiary and resourcing divisions are well positioned and continue to perform strongly. Having significantly increased the scale of our schools division over the past four years, we have now entered the integration, consolidation and rationalisation phase, which we are confident will drive operational efficiencies and sharpen market focus.

On behalf of the board

Chris Boulle
Chairman

Roy Douglas
Chief executive officer

Didier Oesch
Group financial director

18 March 2019

Directors: CH Boulle* (Chairman), RJ Douglas (CEO), JDR Oesch (Financial), JS Chimhanzi*, BM Gourley*, JM Hofmeyr*, JD Jansen*, SC Masie*, KDM Warburton*, J Zimmermann*, SA Zinn* (*Non-executive)
Group company secretary: DM Dickson **Registered office:** ADvTECH House, Inanda Greens, 54 Wierda Road West, Wierda Valley, Sandton 2196.
Transfer secretaries: Link Market Services South Africa (Pty) Ltd, Rennie House, 19 Ameshoff Street, Braamfontein 2017. **Sponsor and corporate advisors:** Bridge Capital Advisors (Pty) Ltd, 50 Smits Road, Dunkeld, Randburg, 2196.