

# Datatec Group

Unaudited results for the six months ended  
31 August 2014

TECHNOLOGY INTEGRATION CONSULTING



Driving Technology

# Datatec Group

## Agenda

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Jens Montanana, Datatec Group CEO

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Jurgens Myburgh, Datatec Group CFO

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Jens Montanana, Datatec Group CEO

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Strategy & Outlook  
Jens Montanana, Datatec Group CEO

# Results summary & Market conditions

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## Results summary

### Revenue

↑ 8%

to US\$2.98bn

H1 FY14: US\$2.77bn

### EBITDA

↑ 1%

to US\$90.1m

H1 FY14: US\$89.2m

### Underlying\* EPS

↓ 5%

to 18,2 US¢

H1 FY14: 19,2 US¢

### Interim dividend

→ 0%

to 8 US¢

H1 FY14: 8 US¢

- Solid overall revenue growth
- Strong recovery in Westcon
- Modest decline in EPS due to group costs and Logicalis H1 Brazil FIFA World Cup delays
- Dividend maintained

*\* Excluding impairment 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 and the taxation effect on all of the aforementioned.*

# Datatec Group

## Market conditions

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- Macro picture remains very mixed
- Significant strengthening of US\$
- Asia Pacific weak with much uncertainty in Europe and Emerging Markets
- Technology sector adjusting to Cloud usage and data centre concentration

# Financial results

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# Datatec Group

## Financial performance

US\$m	H1 FY15	H1 FY14	Change %
Revenue	2,983.6	2,765.5	8%
Gross profit	446.2	413.5	8%
<i>Gross margin %</i>	15.0%	15.0%	
Operating costs	(356.1)	(324.3)	10%
<i>Operating cost margin %</i>	11.9%	11.7%	
EBITDA	90.1	89.2	1%
<i>EBITDA%</i>	3.0%	3.2%	
Depreciation & Amortisation	(24.4)	(22.2)	10%
Operating profit	65.7	67.0	(2%)
<i>Operating profit %</i>	2.2%	2.4%	

- Westcon revenues up 14% partially offset by Logicalis decline of 7%
- Stable gross margins
- Operating costs increase 10%
- EBITDA sequentially up from H2 FY14

# Datatec Group

## Financial performance - continued

US\$m	H1 FY15	H1 FY14	Change %
Operating profit	65.7	67.0	(2%)
Net finance costs	(8.9)	(10.4)	(14%)
Profit before tax	57.5	57.7	-
Underlying* EPS (US cents)	18,2	19,2	(5%)
HEPS (US cents)	16,0	18,2	(12%)

- Reduced net finance costs
- Effective tax rate of 33.5%

\* Excluding impairment 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 and the taxation effect on all of the aforementioned.



# Datatec Group

## Divisional financial performance H1 FY15

US\$m	Revenue	% change	Gross profit	% change	EBITDA	% change	Operating profit	% change
Westcon	2,241.4	14%	257.5	16%	55.7	22%	42.9	23%
Logicalis	714.4	(7%)	179.6	2%	41.6	(5%)	30.5	(7%)
Consulting*	27.8	(25%)	9.1	(37%)	1.4	(36%)	0.9	(47%)
Corporate	-	-	-	-	(8.6)		(8.6)	
<b>Total</b>	<b>2,983.6</b>	<b>8%</b>	<b>446.2</b>	<b>8%</b>	<b>90.1</b>	<b>1%</b>	<b>65.7</b>	<b>(2%)</b>

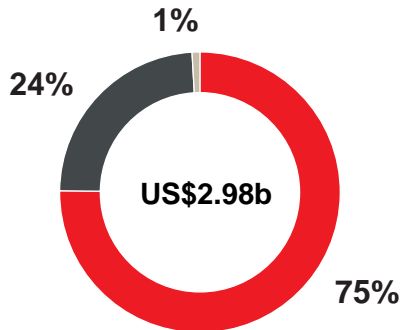
- Westcon showing revenue growth in all regions
- Operating leverage results in 22% EBITDA growth
- Logicalis \$50m revenue shortfall in Brazil
- Consulting now excludes Intact
- Corporate includes forex, headcount, acquisition & restructuring expenses

\* Comparative period H1 FY14 includes Intact results

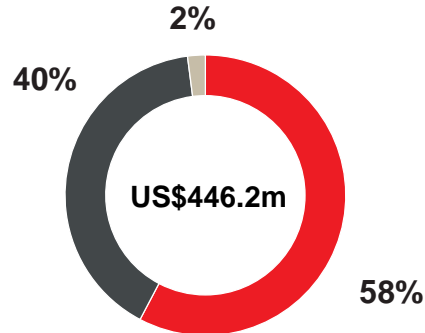
# Datatec Group

## Contribution per division

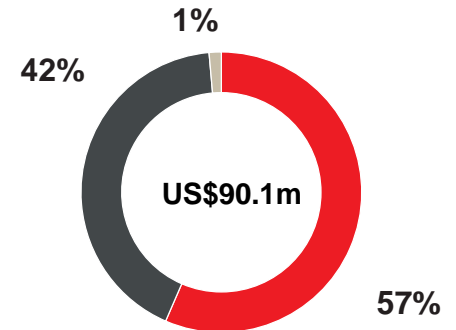
Revenue | H1 FY15



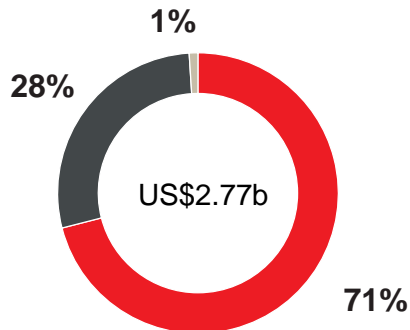
Gross profit | H1 FY15



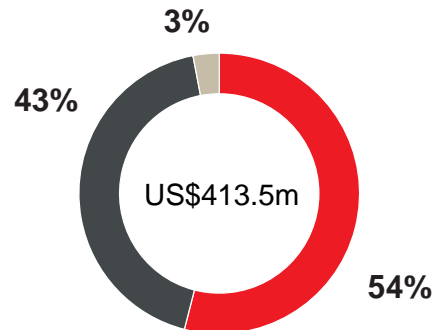
EBITDA | H1 FY15



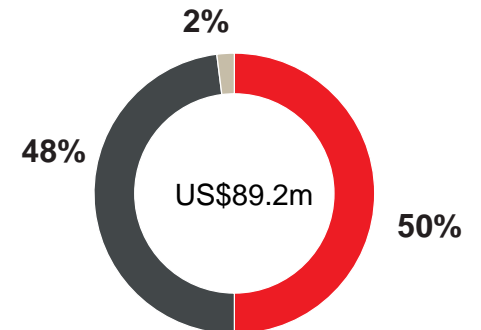
Revenue | H1 FY14



Gross profit | H1 FY14



EBITDA | H1 FY14

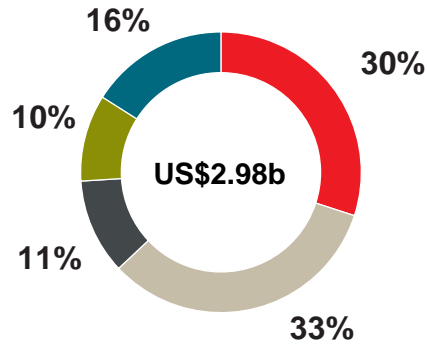


■ Westcon ■ Logicalis ■ Consulting

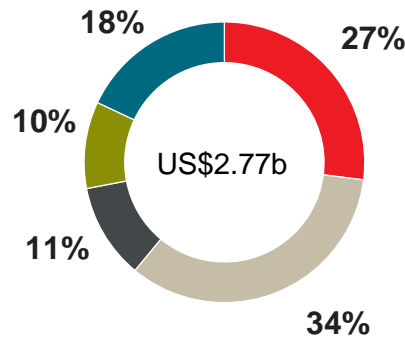
# Datatec Group

## Revenue and gross profit % contribution by geography

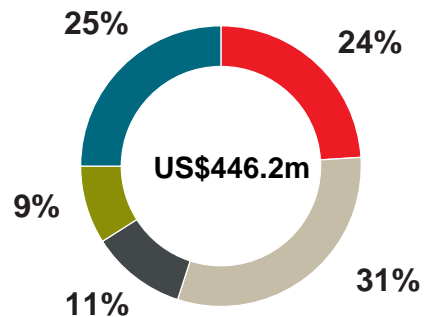
Revenue | H1 FY15



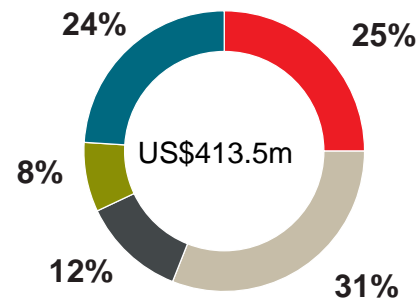
Revenue | H1 FY14



Gross profit | H1 FY15



Gross profit | H1 FY14



■ North America 
 ■ Europe 
 ■ Asia Pacific 
 ■ AME 
 ■ Latin America

- Westcon grew revenues by 27% in North America
- LATAM impacted by FIFA World Cup - remains robust

- Higher margin business in developing world
- Stable gross profit distribution

# Datatec Group

## Balance sheet summary

US\$m	H1 FY15	FY 2014	H1 FY14
<b>Assets</b>	<b>3,183.7</b>	<b>2,992.0</b>	<b>2,830.1</b>
Non current assets			
Goodwill	450.2	438.2	430.7
Acquired intangible assets & software	46.7	53.7	58.0
Other non-current assets	183.8	181.7	185.8
Current assets	2,503.0	2,318.4	2,155.6
<b>Equity and Liabilities</b>	<b>3,183.7</b>	<b>2,992.0</b>	<b>2,830.1</b>
Shareholders funds	907.0	871.6	859.9
Non-controlling interests	56.7	52.9	50.9
Non-current liabilities	118.3	91.7	94.0
Amounts owing to vendors	4.5	9.9	11.0
Current liabilities	2,097.2	1,965.9	1,814.3

- Current assets exceeding \$2.5 billion
- NAV of \$4,59 per share
- TNAV of \$1,85 per share
- ROIC at 11.0% sequentially amortised

# Datatec Group

## Cash flow

US\$m	H1 FY15	H1 FY14
<b>Operating profit before working capital changes</b>	<b>96.8</b>	<b>83.5</b>
Working capital changes	107.7	(102.6)
<b>Cash generated from (utilised by) operations</b>	<b>204.5</b>	<b>(19.1)</b>
Net finance costs paid	(8.9)	(10.4)
Taxation paid	(20.7)	(17.4)
<b>Net cash inflow (outflow) from operating activities</b>	<b>174.9</b>	<b>(46.9)</b>
Net cash outflow for acquisitions	-	(0.4)
Net cash outflow from other investing activities	(18.7)	(19.1)
Net cash inflow from financing activities	4.2	0.2
Net cash inflow from disposal of investments	-	*
Capital distribution to shareholders	(17.2)	(16.2)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>143.2</b>	<b>(82.4)</b>
Cash & cash equivalents at beginning of period	(41.8)	73.3
Translation difference on opening cash position	3.3	(8.2)
<b>Cash and cash equivalents at end of period</b>	<b>104.7</b>	<b>(17.3)</b>
<b>Net cash (debt)</b>	<b>48.9</b>	<b>(56.7)</b>

- Progressive working capital management
- Net cash positive at HY15

\* Less than \$100 000

# Operational Review

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# Westcon Group

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 **DATATEC**

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# Westcon Group

## Financial performance

US\$m	H1 FY15	H1 FY14	Change %
Revenue	2,241.4	1,961.1	14%
Gross profit	257.5	222.2	16%
<i>Gross margin %</i>	11.5%	11.3%	
Operating costs	(201.8)	(176.5)	14%
<i>Operating cost margin %</i>	9.0%	9.0%	
EBITDA	55.7	45.7	22%
<i>EBITDA%</i>	2.5%	2.3%	
Operating profit	42.9	35.0	23%
<i>Operating profit %</i>	1.9%	1.8%	

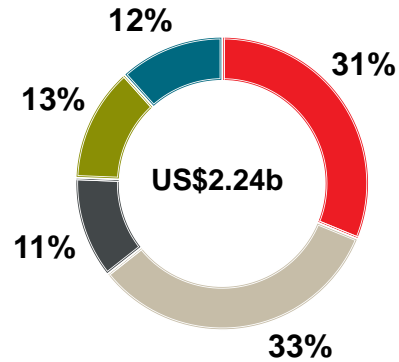
- Revenues growth across all regions highlighted by 27% increase in North America
- Overall gross margin improvement
- EBITDA growth across all operating regions



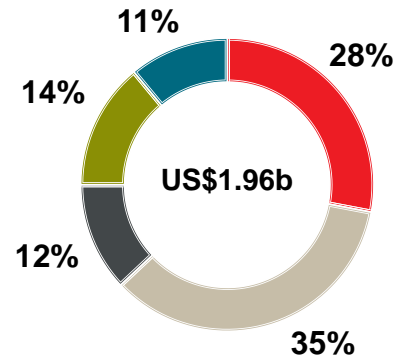
# Westcon Group

## Revenue and gross profit contribution % by geography

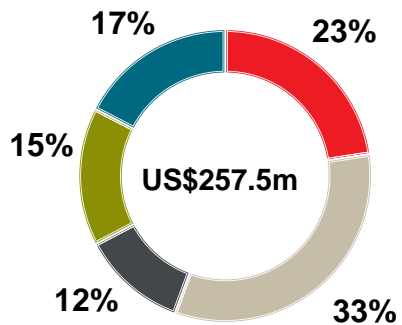
Revenue | H1 FY15



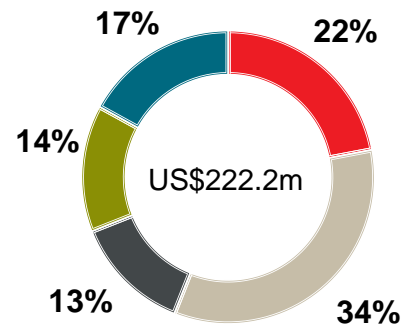
Revenue | H1 FY14



Gross profit | H1 FY15



Gross profit | H1 FY14



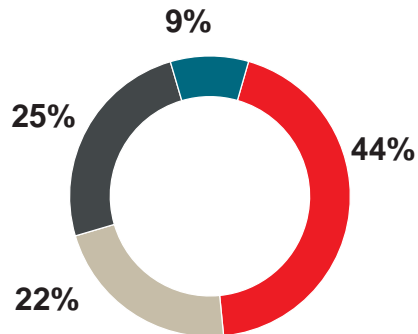
■ North America 
 ■ Europe 
 ■ Asia Pacific 
 ■ AME 
 ■ Latin America

- Revenues increase in all regions
- Big increase in North America sales contribution
- Slight reduction in North America margins
- Improved margins in Europe and AME

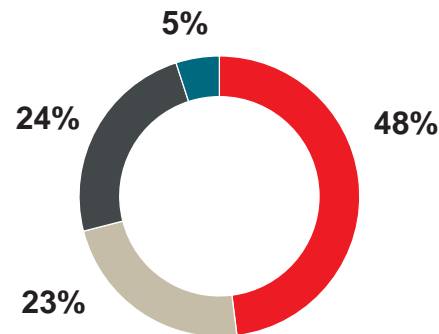
# Westcon Group

## Revenue % by product category and customer

Product category | H1 FY15

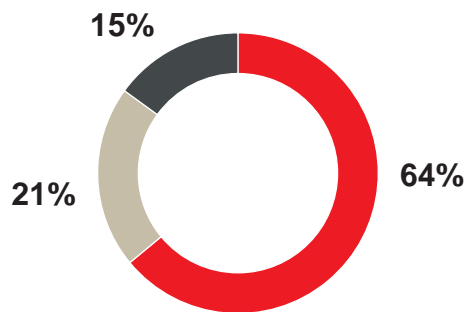


Product category | H1 FY14

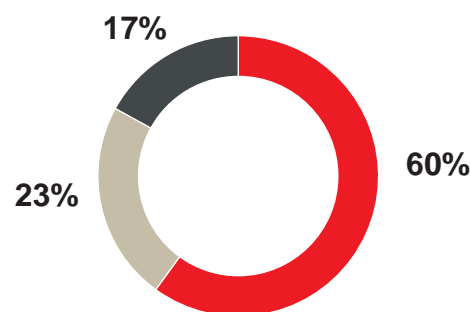


■ Cisco 
 ■ Unified Communications\* 
 ■ Security 
 ■ Data Centre & Other

Customer | H1 FY15



Customer | H1 FY14



■ Reseller 
 ■ System integrator 
 ■ Service provider

- Cisco product sales at 44%
- Significant growth in Data Centre & Other

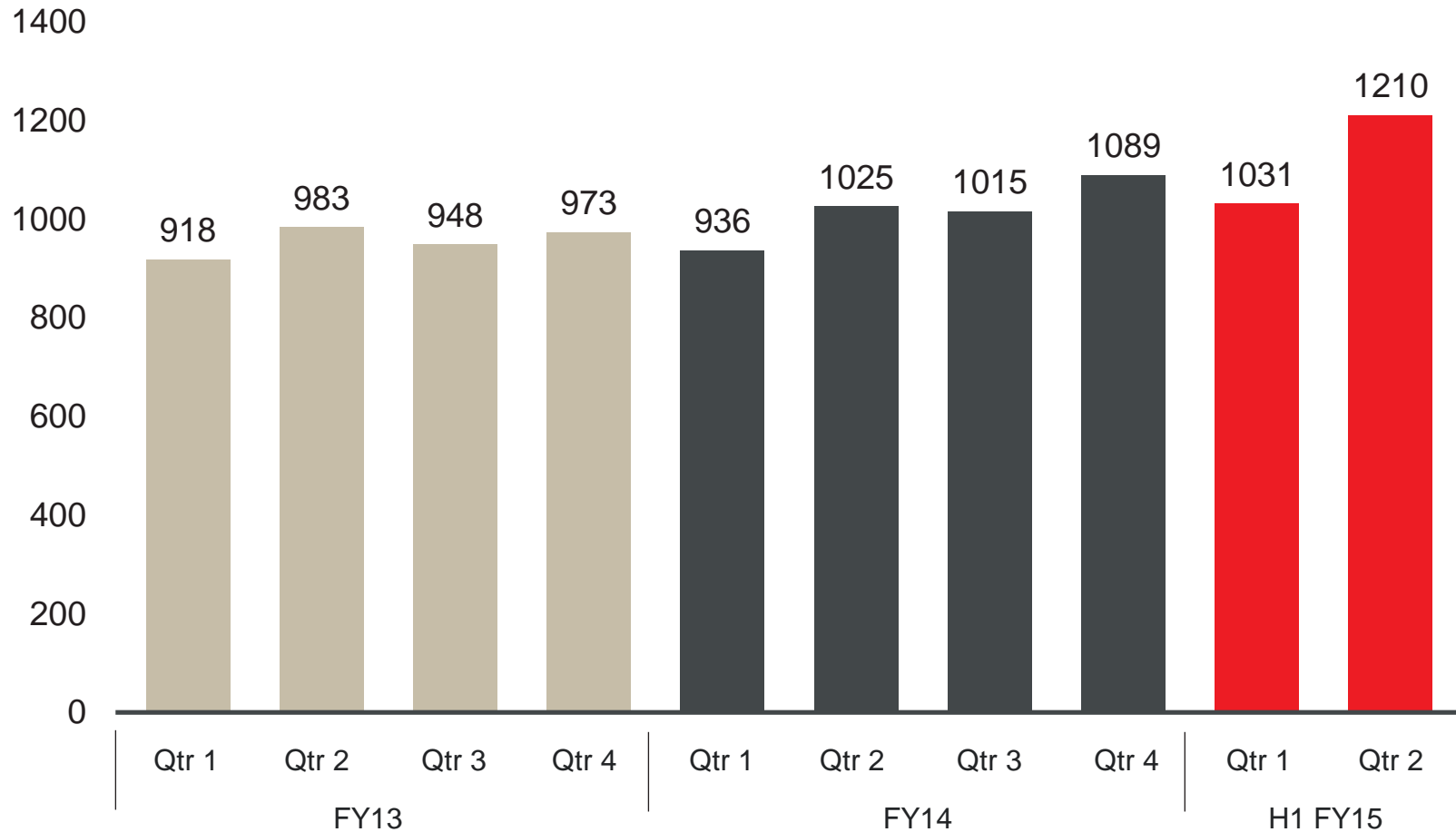
- Reseller segment increases to 64%

Note: Unified Communications includes: Avaya, Polycom and Smart Technologies

# Westcon Group

## Historical quarterly sales

US\$m



# Westcon Group

## Gross profit contribution

US\$m

300

250

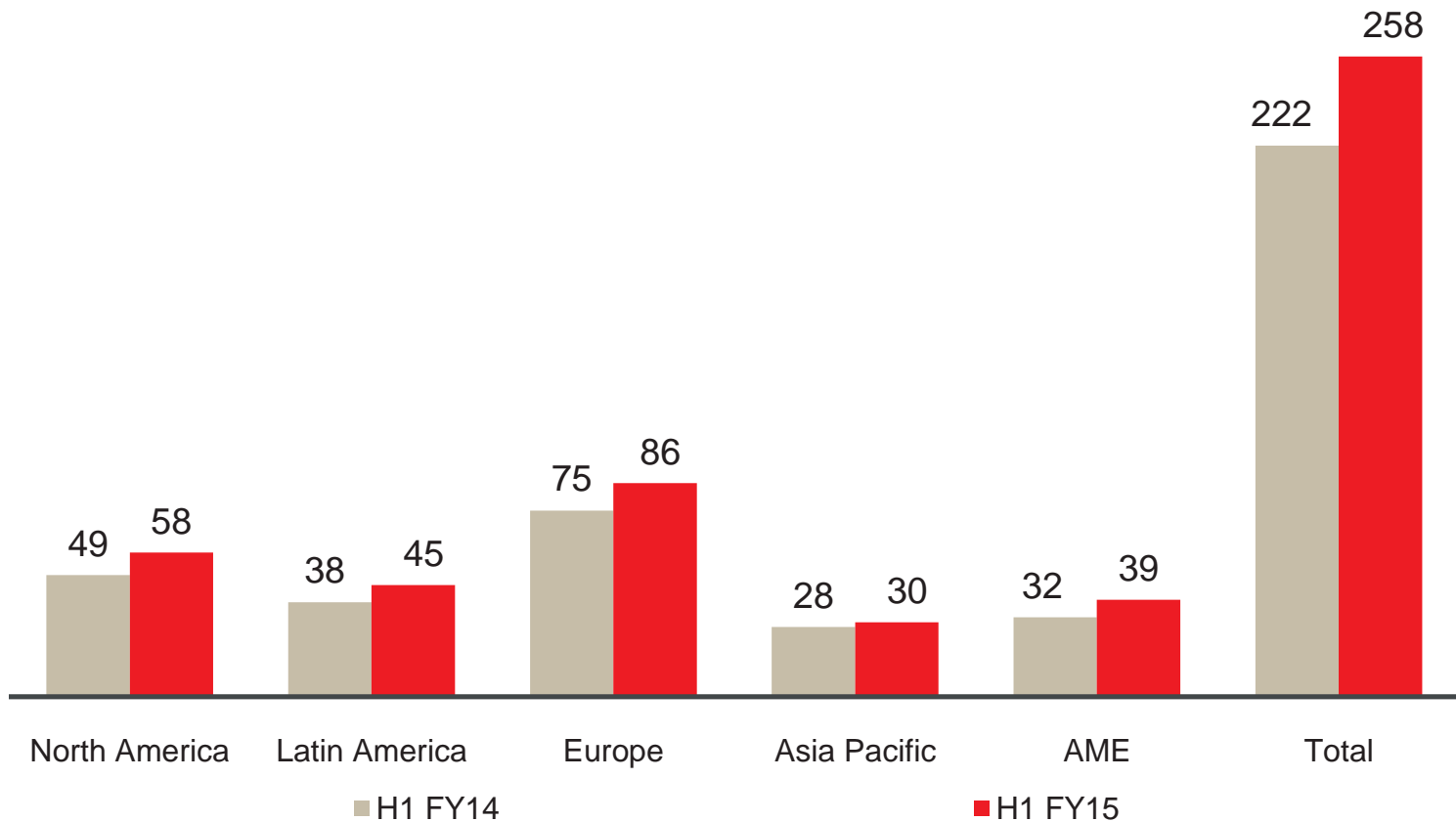
200

150

100

50

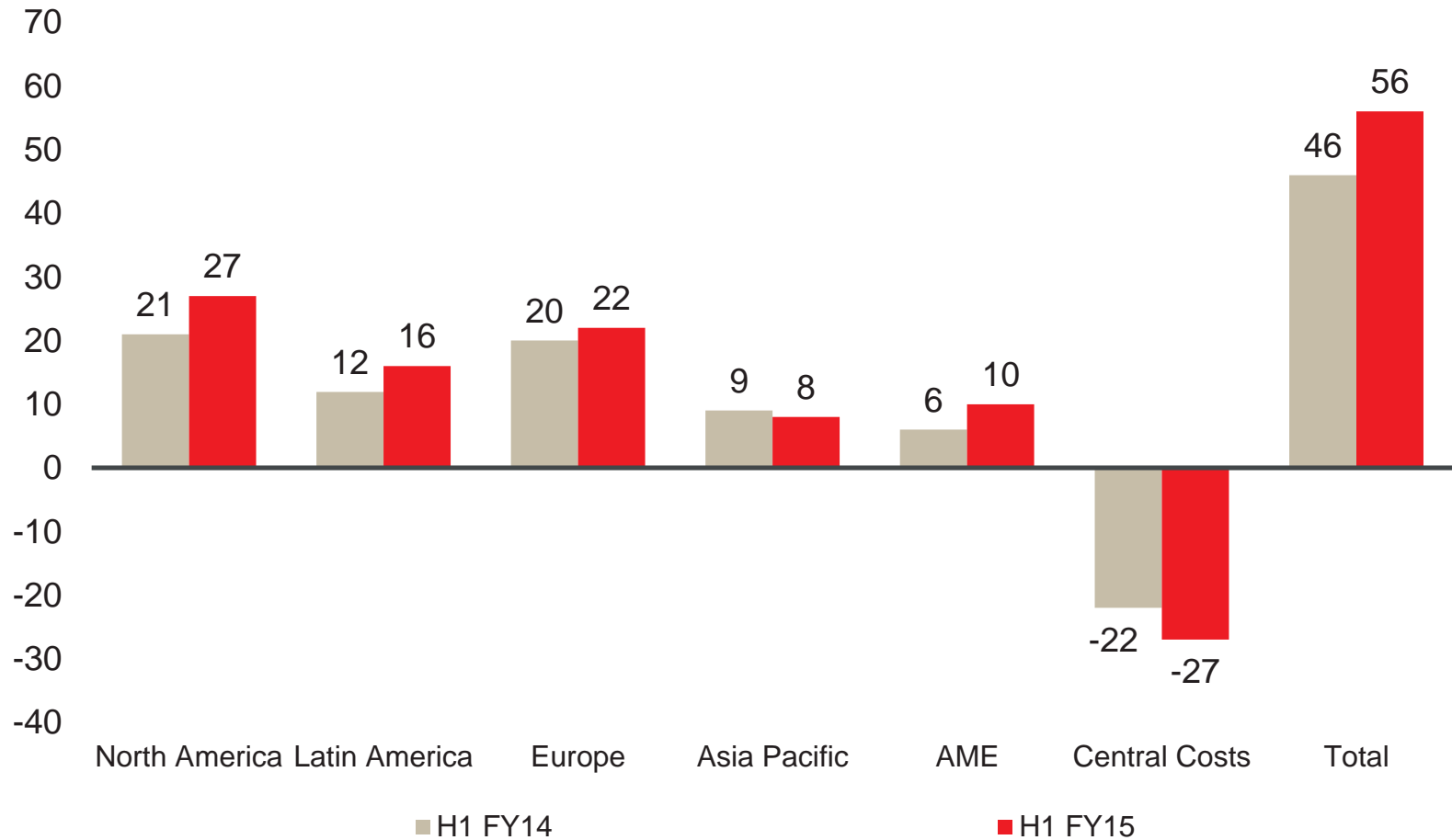
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# Westcon Group

## EBITDA

US\$m



# Westcon Group

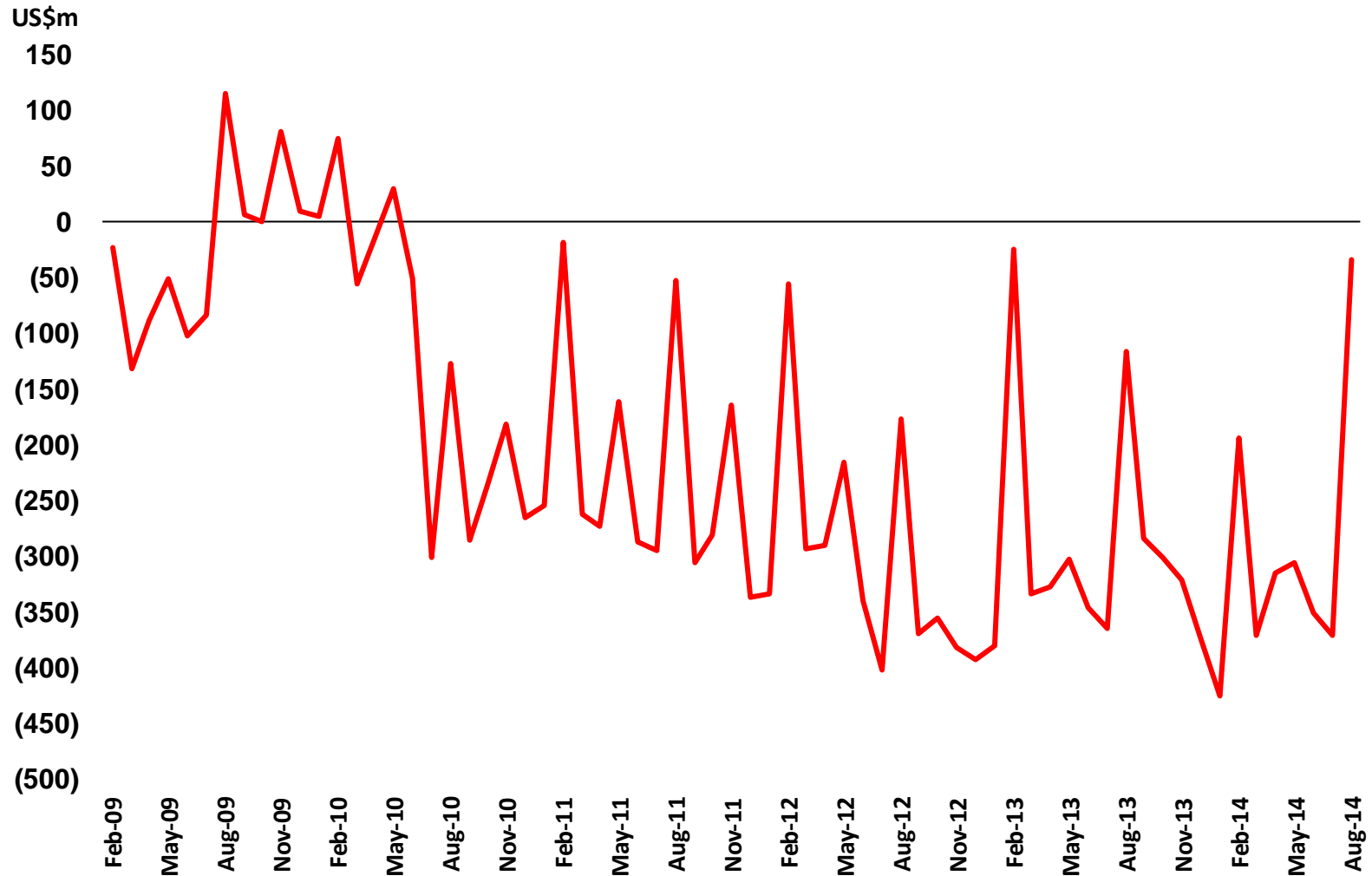
## Working capital

US\$m	H1 FY15	H1 FY14
Accounts receivable	1,101.3	885.8
DSO (days)	82	78
Inventory	421.4	335.2
Inventory turns	10.3x	11.0x
Accounts payable	(1,153.8)	(791.2)
DPO days	97	78
Net working capital	368.9	429.8
NWC (days)	21	32
Net (debt) / cash	(34.1)	(116.3)

- Balancing strong growth with inbound/outbound credit terms
- Net working capital decreases
- NWC days improves as DPO days increase
- Net debt improves \$82m

# Westcon Group

Net cash / (debt)



# Westcon Group

## Future outlook

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- Continued focus on operating leverage and EBITDA margin expansion
- Continued global vendor roll-out
- Investing for growth in services and cloud business
- Planned integration of Verecloud and Intact acquisitions
- Ongoing SAP implementation in Asia Pacific
- Preparing for EMEA Shared Services transformation and SAP roll-out in FY15
- Expect good year-on-year recovery



# Logicalis Group

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# Logicalis Group

## Financial performance

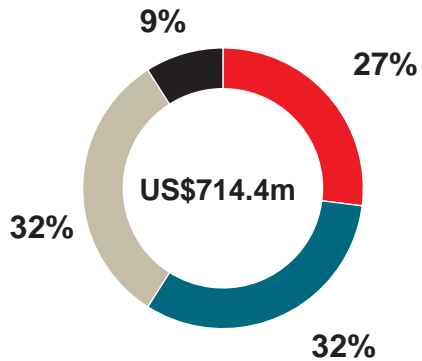
US\$m	H1 FY15	H1 FY14	Change %
Revenue	714.4	767.3	(7%)
Gross profit	179.6	176.9	2%
<i>Gross margin %</i>	25.1%	23.1%	
Operating costs	(138.0)	(133.2)	4%
<i>Operating cost margin %</i>	19.3%	17.4%	
EBITDA	41.6	43.7	(5%)
<i>EBITDA%</i>	5.8%	5.7%	
Operating profit	30.5	32.7	(7%)
<i>Operating profit %</i>	4.3%	4.3%	

- Total revenue down 7%
- Brazil delays due to World Cup
- Services revenues up 8%
- Gross margin % up due to product/services mix
- Investing to adapt to services led business model
- EBITDA down 5%

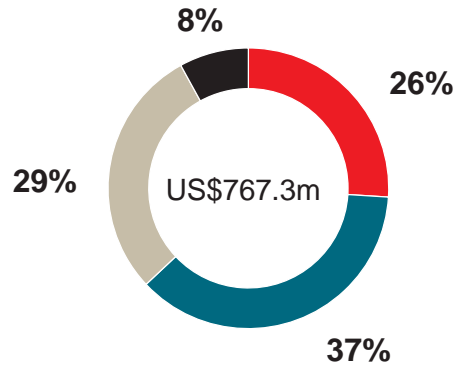
# Logicalis Group

## Revenue and gross profit contribution % by geography

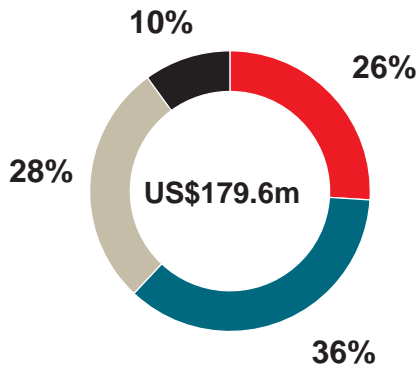
Revenue | H1 FY15



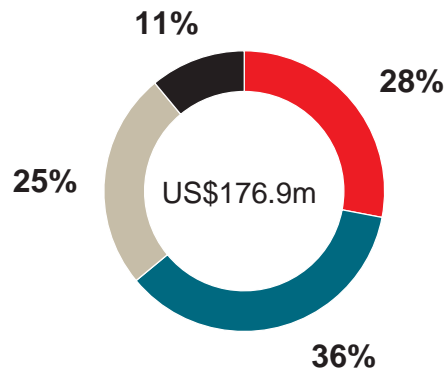
Revenue | H1 FY14



Gross profit | H1 FY15



Gross profit | H1 FY14



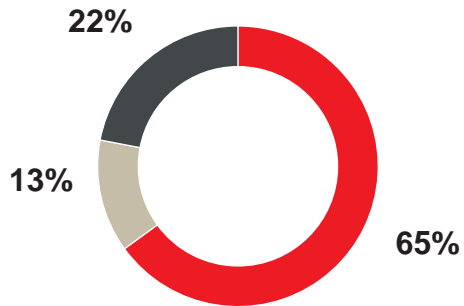
■ North America 
 ■ Latin America 
 ■ Europe 
 ■ Asia Pacific

- Latin America revenues down due to the FIFA World Cup
- Product revenues also impacted by weaker demand
- Stronger gross margins in Latin America through mix and higher margin product sales

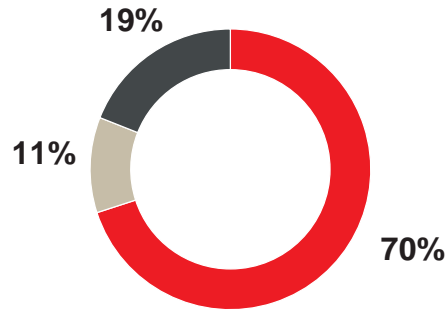
# Logicalis Group

## Revenue by segment and product by vendor

Segment | H1 FY15

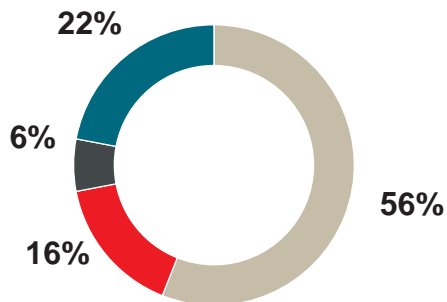


Segment | H1 FY14

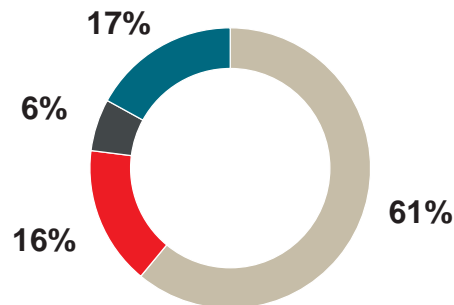


■ Product   ■ Professional services   ■ Maintenance and managed services

Vendor | H1 FY15



Vendor | H1 FY14



■ IBM   ■ Cisco   ■ HP   ■ Other

- Services revenues were 35%
- › Annuity up 9%
- › Professional Services up 5%
- Product revenues down 13%
- Strong EMC and Arbor growth
- Cisco decline reflects lower product revenues in Latin America

# Logicalis Group

## Gross profit contribution

US\$m

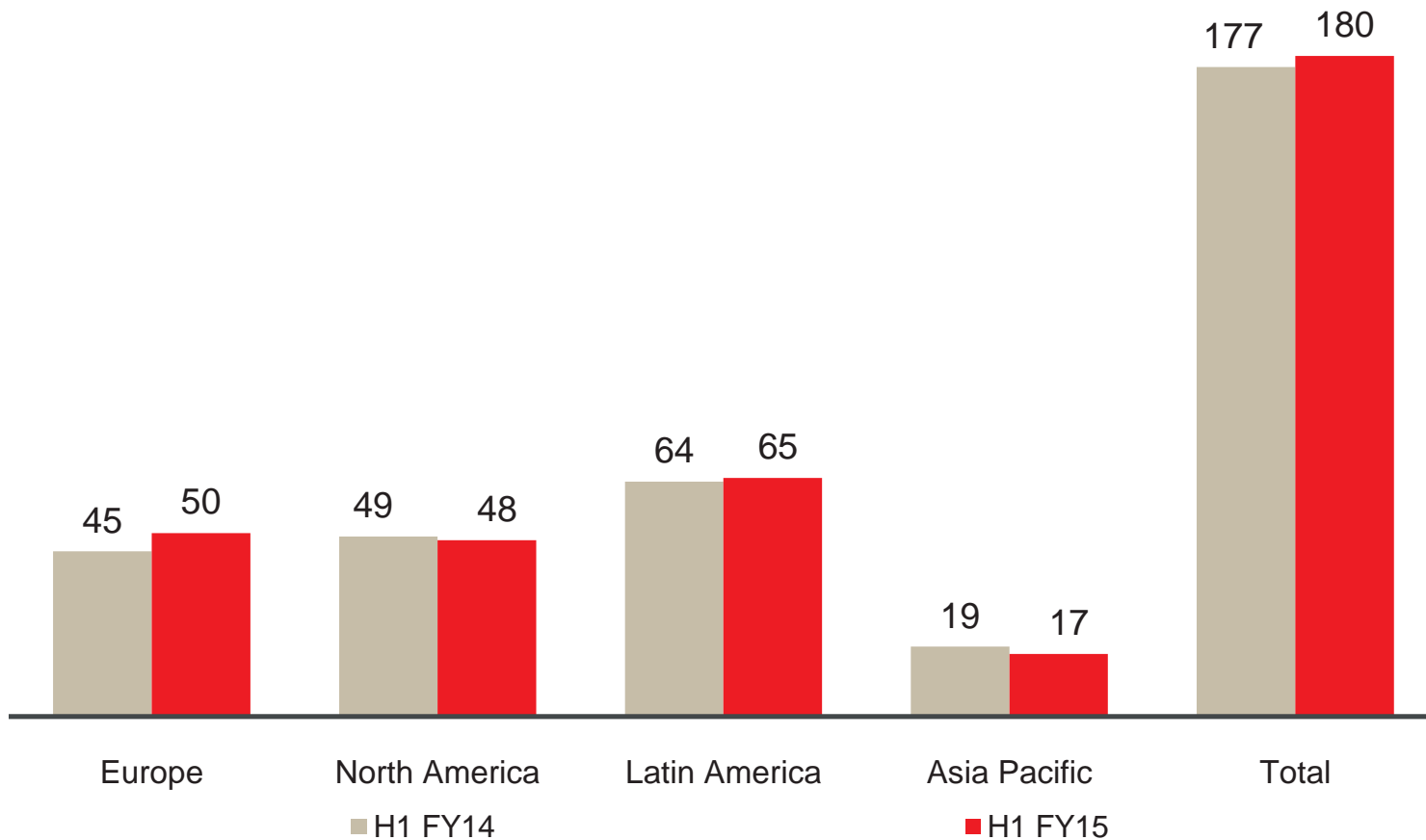
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# Logicalis Group

## EBITDA

US\$m

50

40

30

20

10

0

-10

Europe

North America

Latin America

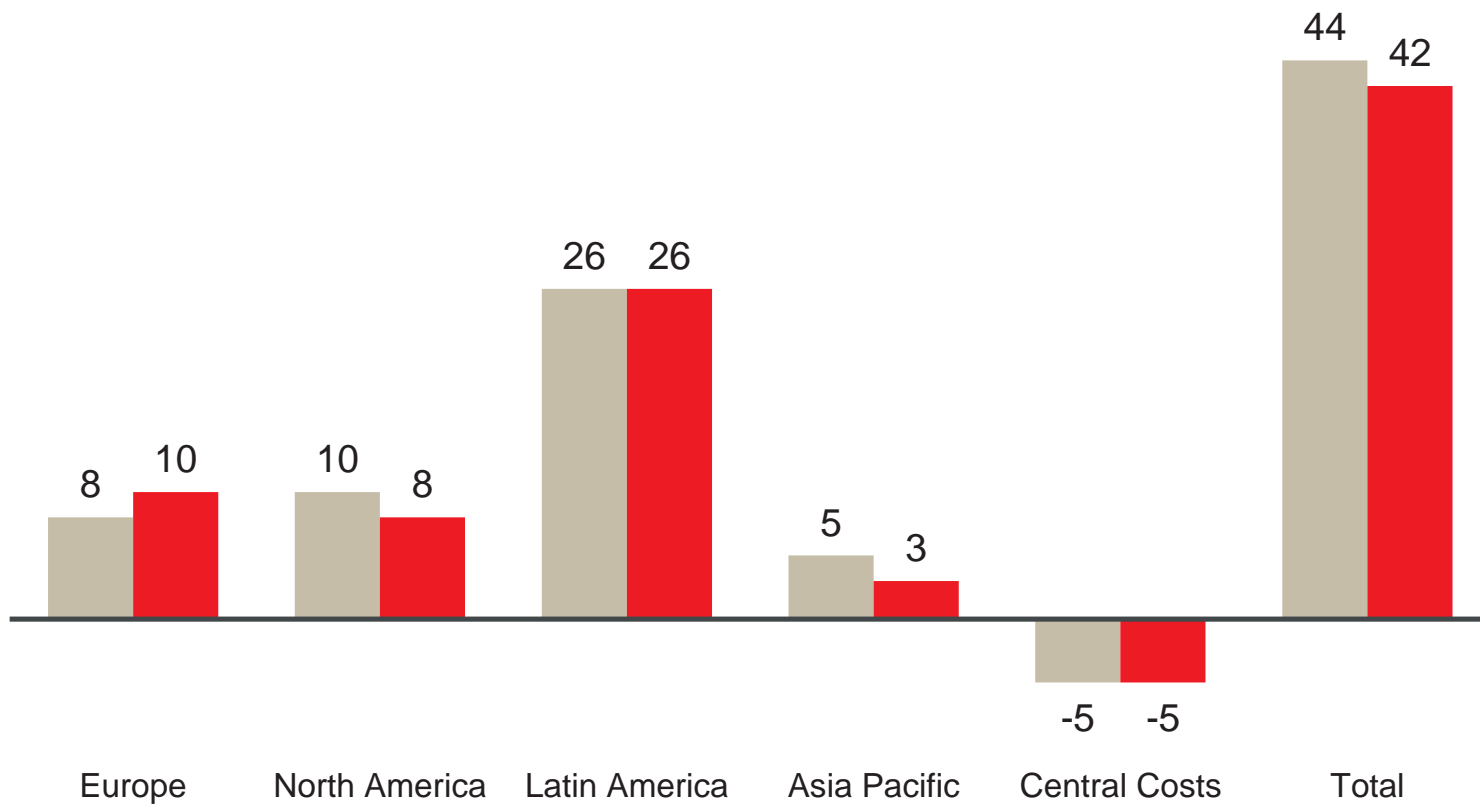
Asia Pacific

Central Costs

Total

■ H1 FY14

■ H1 FY15



# Logicalis Group

## Working Capital

US\$m	H1 FY15	H1 FY14
Deferred revenue	79.9	74.5
Inventory	64.6	67.5
Inventory days (excluding spares stock)	26	22
Accounts receivable	294.0	330.4
DSO (days)	50	54
Accounts payable	(246.8)	(275.4)
DPO (days)	98	91
Net working capital	111.8	122.5
Net cash *	74.8	59.6

- Overall good working capital management
- Lower AR and AP balances on lower activity
- Improvement in DSO reflected in net cash

\* Excluding lease liabilities and Datatec loans

# Logicalis Group

## Future outlook

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- General market for IT products and services is forecast to improve in 2014/15
- Trading conditions for certain categories of product sales remain challenging
- Strong growth in cloud infrastructure services
- Group well positioned to drive annuity services and improve operating margins
- Recovery in Southern Cone region within Latin America expected to continue in H2
- H2 performance expected to be better



# Consulting Services

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# Consulting Services

## Financial performance

US\$m	H1 FY15	H1 FY14	Change %
Revenue	27.8	37.1	(25%)
Gross profit	9.1	14.4	(37%)
<i>Gross margin %</i>	32.7%	38.8%	
Operating costs	(7.7)	(12.2)	(37%)
<i>Operating cost margin %</i>	27.7%	32.9%	
EBITDA	1.4	2.2	(36%)
<i>EBITDA%</i>	5.0%	5.9%	
Operating profit	0.9	1.7	(47%)
<i>Operating profit %</i>	3.2%	4.6%	

- Analysys Mason comprises the majority of this division
- Revenue shortfall reflects Intact disposal
- Expect improvement in second half

# Strategy & Outlook

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## Strategy

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- Tracking innovation, operational improvement and earnings leverage
- Adapting to services driven revenue streams with lower transactional capex component
- Exploring financing initiatives to meet evolving customer demands
- Continued global diversification

# Datatec Group

## Current trading and prospects

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- Strengthening US\$ should boost contribution from the US but headwind in some EMs
- Asia Pacific has slowed around lower China growth
- Networking, Security, Data Centre and infrastructure services are strong growth areas
- Our geographic diversification and business mix remains our strength
- No change to original full year forecast

# Thank you & Questions

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# Datatec Group

## Disclaimer

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This presentation 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, 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:

- 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;
- 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;
- the Group cannot guarantee that any forward-looking statement will materialize and, accordingly, readers are cautioned not to place undue reliance on these forward- looking statements; and
- 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.