Adapt IT proves resilient despite tough trading environment

Diversification strategy provides resilience and synergistic opportunities

- Revenue from continuing operations increased by 14% to R1,438 billion
- EBITDA from continuing operations improved by 3% to R229 million
- Cash generated from operations was R179 million
- Earnings per share (EPS) from continuing operations down 15% to 51 cents
- Headline earnings per share (HEPS) from continuing operations down 6% to 57 cents
- Normalised HEPS from continuing operations down 6% to 76 cents

Johannesburg, 14 October 2019 – JSE-listed Adapt IT, which provides specialised software and digitally-led business solutions to the Education, Manufacturing, Financial Services, Energy, Communications and Hospitality sectors, with a more recent venture into the public sector, today announced results for the financial year ended 30 June 2019.

"While the results for the year under review showed moderate top-line growth, I am pleased to say that in a year of global macroeconomic challenges, Adapt IT made great strides in positioning itself for the next growth phase, with a strategic focus on geographic positioning, strengthening sales capabilities and ensuring that all the divisions are streamlined," said Adapt IT CEO, Sbu Shabalala.

Adapt IT's strategic intent is to provide specialised software and digitally-led business solutions that enable its clients to enhance the value created in their operations. This was the drive behind the 2019 focus on business efficiency, profitability, strengthened support structures and transformation.

The group further conducted a strategic review process to facilitate medium and long-term growth to further enhance divisional strategy alignment, financial sustainability, market share growth, good corporate citizenship and integration throughout the Adapt IT business.

Shabalala commented that given the difficult economic climate locally and abroad, the year was used as a period of consolidation, bedding down the operations at the new Johannesburg campus, fortifying the leadership team, and focusing on governance – a period of introspection, so to speak.

"This has realigned the teams, enhanced group culture, will facilitate better cross-selling and standardise processes that are critical for sustainability. Adapt IT has been consolidated in the Johannesburg campus for 16 months and is already experiencing an immensely positive employee engagement across the organisation."

Financial Performance

Revenue from continuing operations increased by 14% to R1,438 billion (2018: R1,264 billion*[restated]). Revenue growth comprised an improved 5% organic growth from continuing operations and 9% from acquisitions. In spite of the ongoing poor trading conditions the majority of segments delivered double-digit organic growth. Annuity revenue remains healthy and an improvement on the previous reporting period to 61% (2018: 58%).

Segment contributions to revenue were as follows:

- the Education division delivered an increase in revenue of 24%, contributing 15% to total revenue;
- the Manufacturing division achieved excellent revenue growth of 26% year-on-year, contributing 21% to total revenue;
- Financial Services grew 11% from continuing operations, post the disposal of CQS GRC, contributing 19% to total revenue;
- the Energy division experienced a 30% decrease in revenue from a decrease in project revenue after several years of strong project revenue, contributing 9% to total revenue;
- the Communications division grew 69% inclusive of the two acquisitions, contributing 16% to total revenue; and
- the Hospitality division remained flat in line with expectations and contributed 20% of total revenue.

Shabalala added that through strategic acquisitions made during the financial year, geographic diversification and attractive technologies assisted the group in achieving the 9% acquisitive growth mentioned above. The acquisitions included are the results of the LGR Telecommunication group for 11 months; Strive Software for 10 months; Conor Solutions for six months and Wisenet group for four months. Adapt IT strengthened its Pan African footprint, resulting in this region contributing 15% to revenue with a heightened presence in Kenya. Growth in Asia Pacific also more than doubled with the successful acquisition of the Australian-based Wisenet group and its integrated applications for training and education institutions, further cementing Adapt IT's presence in Australia and enhancing the group's offerings in the Education sector. As a result of this diversification strategy, international revenue for the 2019 financial year amounted to 24% (2018: 19%).

Earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations improved by 3% to R229 million (2018: R223 million*). The underperformance in the Energy segment had a significant impact on the results with its EBITDA reducing by R20 million. Shabalala said the group was extremely pleased with the EBITDA margin remaining steady at 16%, given the pressures experienced in the market.

Once-off impacts on earnings in the current year included an impairment of R8 million on a fixed property held for sale and a negative foreign exchange movement year on year of R11 million. A net increase in loss allowances (provision for doubtful debts) of R4 million pursuant to the adoption of IFRS 9 also impacted earnings. As a result, EPS and HEPS from continuing operations decreased by 15% and 6% to 51,32 cents and 57,27 cents, respectively. Normalised HEPS from continuing operations decreased by 6% to 76,20 cents.

Cash generated from operations was R179 million representing a cash conversion ratio of 1,08 times.

Having given consideration to the level of net gearing, which is unusually high at 65% and will be reduced in the forthcoming year to be closer to the preferred net gearing ratio of 50%, the Board took a decision that it is prudent to defer a dividend decision until after the interim period when cash flows of the group are generally stronger.

Prospects

The South African market has started to slowly pick up after a prolonged period of uncertainty and remains the largest market that Adapt IT services. “This presents a flicker of good news as the strong customer focus, sector specialisation, skills and software that the group has at its disposal will assist in ensuring the operations take advantage of these green shoots.”

The public sector also is an attractive space for Adapt IT as the sector becomes more accountable, and with an improved focus on governance; the group believes a careful approach will suffice in protecting it against the risks often associated with this sector.

“Adapt IT is poised to take advantage of its underlying diversification. This can be done by mining the current client base more effectively, focusing on sales in a cohesive manner, carefully expanding on the Pan Africa and Asia Pacific strategy and ensuring that all of this is done bearing good capital allocation in mind,” concluded Shabalala.

- ENDS –

Note to Editors

Adapt IT strategic priorities:

1. Generate above industry organic growth
2. Develop strategic consulting capability
3. Pursue geographic diversification
4. Enhance organisational culture
5. Strategic acquisitions
6. Improve operating structures

About Adapt IT

Adapt IT is a provider of leading specialised software and digitally-led business solutions that assist clients across the targeted industries to Achieve more by improving their Customer Experience, Core Business Operations, Business Administration, Enterprise Resource Planning and Public Service Delivery.

For more information, visit: www.adaptit.com

Media Contact

Mbali Mbhele

Brand Manager

T: +27 31 514 7300

E: mbali.mbhele@adaptit.co.za

Media Contact

Juliet Tshele

WE Communications

T: +27 11 550 5400

E: jtshele@we-worldwide.com