Adapt IT delivers robust performance

Diversification, strong cash generation and a reduction in debt provide resilience

- Cash generated from operations* improved by 27% to R227 million
- Net gearing ratio* down to 43% from 66%
- Revenue increased by 3% to R1,5 billion
- EBITDA* improved by 9% to R250 million
- Earnings per share (EPS)* up 13% to 57 cents
- Headline earnings per share (HEPS)* up 29% to 73 cents
- Normalised HEPS* up 7% to 83 cents
- Level 1 B-BBEE attained

*Stated before the application of IFRS16 Leases to express performance on a like for like basis with the prior year

Johannesburg, 26 October 2020 – JSE-listed Adapt IT, which provides specialised software and digitally-led business solutions to over 10,000 customers in 53 countries in the Education, Manufacturing, Financial Services, Energy, Communications and Hospitality sectors, today announced results for the financial year ended 30 June 2020.

"I am pleased to report that in a year dominated by global macroeconomic challenges and the Covid-19 pandemic, Adapt IT proved to be highly resilient, through its sound underlying business model of providing mission critical software to its clients on a long term basis," said Adapt IT CEO, Sbu Shabalala.

The key focus of managing the impact of the Covid-19 pandemic on the business was ensuring employee safety, providing continuous service to customers, supporting clients who were hardest hit by the pandemic, and managing cash flow stringently to ensure no liquidity squeeze.

The tough trading conditions in South Africa were a catalyst for Adapt IT to drive operational improvements through significant cost reduction and containment measures in segments most impacted by Covid-19. Most operational efficiency projects have been completed, which will result in cost savings in future financial periods. The business cost structures where the market landscape has changed have been right sized for the current market.

"The response of our people to these circumstances has been outstanding, with the business virtualising pro-actively ahead of the legislated lockdown minimising impact on service delivery to our customers. Additional remote work digital technologies were adopted instantaneously and sustainability. The already advanced state of our migration to Cloud platforms was a significant enabler of our success and contributed to the improvement in employee engagement."

Financial performance

Revenue increased by 3% to R1,483 billion (2019: R1,438 billion), comprising muted organic growth of -2% and growth from acquisitions of 5%.

Shabalala added that sector and geographic diversification had served the company well as some divisions had outperformed while others had been hard hit in the circumstances. Segment contributions to revenue were as follows:

- The Education division delivered increased revenue of 8% inclusive of acquisitions, and although it experienced project delays, there was an increasing demand for eLearning solutions. This division contributed 16% to total revenue and delivered EBITDA margin of 16% (2019: 16%).
- The Manufacturing division experienced an 18% decrease in revenue due to project volume declines and delays, achieving an EBITDA margin of 13% (2019: 15%). The Manufacturing division contributed 17% to total revenue.
- Financial Services achieved excellent revenue growth of 12%, contributing 20% to total revenue and delivering a 21% EBITDA margin (2019: 19%).
- The Energy division experienced a 5% decrease in revenue as a result of the drop in project revenue, contributing 8% to total revenue. EBITDA margin improved considerably from 5% to 10% due to the implementation of a revised strategy and the efficiency measures taken. The results support the planned recovery of this division.
- The Communications division grew by an encouraging 33% inclusive of acquisitive revenue, achieving an EBITDA margin of 30% (2019: 32%) and contributing 21% to total revenue.
- The Hospitality division was significantly impacted by the measures implemented by government in this industry to respond to Covid-19. Consequently, revenue declined by 7%, resulting in 4% EBITDA margin (2019: 9%). This division experienced non-recurring costs during the reporting period mainly due to inventory write-offs of R7 million and retrenchment costs of R2 million with the acceleration of the planned operational efficiency projects to respond to Covid-19. The Hospitality division contributed 18% of total revenue.

Geographic diversification of revenue has improved from the strengthened Pan African footprint, with a heightened presence in Kenya. This resulted in the region contributing 16% (2019: 15%) to revenue from 32 other African countries. Asia Pacific, Europe and the Americas contributed 11% (2019: 9%) to revenue, resulting in an overall improvement in international revenue contribution to 27% (2019: 24%). Annuity revenue remains healthy and an improvement on the previous reporting period to 62% (2019: 61%).

Earnings before interest, tax, depreciation and amortisation (EBITDA)* improved by 9% to R250 million (2019: R230 million). The underperformance in the Hospitality and Manufacturing segments, where trading conditions were impacted by Covid-19, had a negative impact on the EBITDA, while positive contributions were made by the remaining four divisions. Shabalala said the group had been highly defensive on cost and liquidity management and was pleased with the EBITDA margin remaining steady at 17% (2019: 16%), given the pressures experienced.

EPS* grew by 13% to 57 cents, HEPS* grew 29% to 73 cents and normalised HEPS* grew 7% to 83 cents.

Cash generated from operations* was R227 million (2019: R179 million) representing a cash conversion ratio* of 1,28 times. Stringent focus was placed on working capital management and cost control and this focus will remain going forward.

Debt reduction

Net gearing was reduced to 43% from 66%. The board cited the strong cash generation and ability of the business to service and reduce its debt with operating cash flows as a very pleasing result. All debt covenants were met at 30 June 2020. The board has prioritised the reduction of borrowings and has remained prudent in preserving cash during these unprecedented times. Accordingly, no dividend was declared.

Transformation milestone

Through sustained and persistent efforts, Adapt IT reached a significant milestone, with Level 1 B-BBEE contributor status being achieved for the first time.

"Adapt IT has long been committed to transformation as a social and a strategic imperative, and continues to transform sustainably," said Shabalala.

Prospects

"The South African economy has been hard hit by the Covid-19 pandemic and the associated regulations, but the impact on our segments is mixed, with some presenting new opportunities, like increased eLearning and telecommunications use."

"Adapt IT continues to take advantage of its underlying diversification. This is done by assisting the current client base more effectively, focusing on sales in a cohesive manner and carefully expanding on the Pan Africa and Asia Pacific strategy. Furthermore, by remaining focused on cost containment, capital allocation and working capital, Adapt IT aligns itself with stakeholder expectations," concluded Shabalala.

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NOTE TO EDITORS

About Adapt IT

The Adapt IT Holdings Limited group is Johannesburg Stock Exchange (JSE) listed and a Level 1 Broad-Based Black Economic Empowerment (B-BBEE) contributor that provides 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.

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