EDISON

# Datatec

FY23 results

## On a growth track for FY24

Software and comp services

**Datatec reported solid results for FY23 with revenue and adjusted EBITDA ahead of our forecasts. As supply chain issues eased in H2, all divisions accelerated revenue growth as they started to work down order backlogs, and working capital was tightly managed to reduce net debt by 18% at year-end. Further unwind of the backlog combined with sustained strong demand drives our revenue and adjusted EBITDA upgrades for FY24 and FY25. After factoring in higher interest rates, our underlying EPS reduces by 8% in FY24 and 4% in FY25.**

| Year end | Revenue ($m) | PBT* ($m) | Diluted EPS* (c) | DPS (c) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 02/22 | 4,546 | 69.1 | 14.2 | 39.3 | 13.8 | 20.1 |
| 02/23 | 5,143 | 86.7 | 24.1 | 77.7 | 8.1 | 39.7 |
| 02/24e | 5,499 | 89.6 | 21.5 | 7.0 | 9.1 | 3.6 |
| 02/25e | 5,761 | 113.0 | 27.6 | 8.9 | 7.1 | 4.6 |

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## FY23 revenue and adjusted EBITDA ahead

FY23 revenue grew 13% y-o-y (20% in constant currency) and was 3% ahead of our forecast. Adjusted EBITDA also grew 13% y-o-y and was 3% ahead. Exceptionally high share-based payments of $52.6m (vs our $32.1m) reduced underlying EPS below our forecast. Better-than-expected working capital management resulted in operating cash flow 64% higher than forecast and an 18% reduction in net debt y-o-y. Datatec announced a final dividend of 10c/195 ZARc.

## Revising up revenue and adjusted EBITDA

Based on FY23 results, we have revised up our group revenue forecasts by 4% for FY24 and FY25, resulting in adjusted EBITDA upgrades of 1% and 2%, respectively. We forecast adjusted EBITDA margin expansion from 3.5% in FY23 to 4.1% by FY26. Factoring in higher net finance costs, we reduce our underlying EPS forecasts by 8% in FY24 and 4% in FY25. We expect net debt to increase over FY24 as working capital requirements normalise before reducing again from FY25.

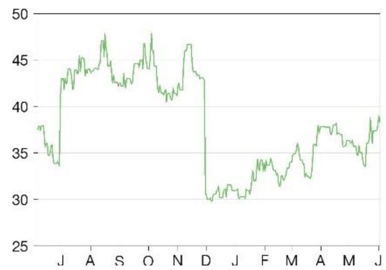
## Valuation: Significant value to unlock

Datatec currently trades on an EV/adjusted EBITDA multiple of 2.8x FY24e and 2.5x FY25e, well below its peer group (c 8x for both years). On a conservative sum-of-the-parts valuation using peer group averages, we estimate that Datatec could be worth 98% more than the current share price. A return to revenue growth in Logicalis Latin America and improving profitability across the group will be key to reducing the discount to peers. The ongoing strategic review continues to seek ways address this persistent gap, with the recent sale of Analysys Mason a key example of unlocking value and returning it to shareholders. Management is introducing new incentive schemes for divisional management focused on ownership at the divisional rather than group level to further drive performance.

**5 June 2023**

| | |
|---|---|
| **Price** | **ZAR38.27** |
| **Market cap** | **ZAR8,607m** |
| | ZAR19.56:$1 |
| Net debt ($m) at end FY23 | 106.6 |
| Shares in issue | 224.9m |
| Free float | 86% |
| Code | DTCJ |
| Primary exchange | JSE |
| Secondary exchange | N/A |

### Share price performance




| % | 1m | 3m | 12m |
|---|---|---|---|
| Abs | 6.2 | 10.1 | 4.5 |
| Rel (local) | 6.7 | 10.7 | (3.8) |
| 52-week high/low | | ZAR47.87 | ZAR29.81 |

### Business description

Datatec is a South Africa-listed multinational ICT business, serving clients globally, predominantly in the networking and telecoms sectors. The group operates through three main divisions: Westcon International (distribution); Logicalis International (IT services); and Logicalis LatAm (IT services in Latin America).

### Next events

| | |
|---|---|
| AGM | 27 July 2023 |

### Analyst


Katherine Thompson +44 (0)20 3077 5700

tech@edisongroup.com

Edison profile page


***Datatec is a research client of Edison Investment Research Limited***

## Review of FY23 results

**Exhibit 1: FY23 results highlights – continuing operations**

| $m | FY22 | FY23e | FY23a | y-o-y growth | Diff |
|---|---|---|---|---|---|
| Revenue | 4,546 | 5,017 | 5,143 | 13% | 3% |
| Gross Profit | 730 | 717 | 745 | 2% | 4% |
| Adj. EBITDA | 158.9 | 175.2 | 180.2 | 13% | 3% |
| EBITDA | 143.5 | 129.5 | 98.2 | (32)% | (24)% |
| Normalised operating profit | 100.5 | 111.4 | 123.9 | 23% | 11% |
| Profit before tax (normalised) | 69.1 | 74.3 | 86.7 | 26% | 17% |
| Net income (normalised) | 29.7 | 45.4 | 53.2 | 79% | 17% |
| EPS - diluted normalised (c) | 14.2 | 20.2 | 24.1 | 70% | 20% |
| EPS - company uEPS (c) | 16.0 | 6.8 | 6.1 | (62)% | (10)% |
| Dividend (c) | 39.3 | 69.9 | 77.7 | 98% | 11% |
| *Revenue growth (%)* | *10.6* | *10.4* | *13.1* | | |
| *Gross Margin (%)* | *16.1* | *14.3* | *14.5* | | |
| *Adj. EBITDA Margin (%)* | *3.5* | *3.5* | *3.5* | | |
| *Normalised Operating Margin* | *2.2* | *2.2* | *2.4* | | |
| Operating cash flow* | 70 | 91 | 149 | 112% | 64% |
| Net debt* | 130 | 155 | 107 | (18)% | (31)% |

Source: Datatec, Edison Investment Research. *Note: Includes discontinued operations.

**Exhibit 2: Earnings and EPS reconciliations**

| $m | FY22 | FY23 |
|---|---|---|
| Profit after tax | 34,567 | (33,424) |
| Profit from discontinued operations | 5,766 | 7,052 |
| Gain on disposal of discontinued operations | 0 | 109,915 |
| Minority interest | (6,431) | (3,209) |
| Net income for equity | 33,902 | 80,334 |
| Net income for equity - continuing operations | 29,109 | 74,804 |
| Net income for equity - discontinued operations | 4,793 | 5,530 |
| Adjustments to calculate headline earnings | | |
| Impairment of fixed assets | 0 | 11,620 |
| Profit on disposal of investments | 0 | (111,438) |
| Loss/(profit) on disposal of fixed assets | (82) | 422 |
| Realised FX gains on equity loans settled | (1,174) | 0 |
| Tax effect | 33 | (794) |
| Minority interests | 329 | (379) |
| Headline earnings | 33,008 | (20,235) |
| Continuing operations | 28,215 | (23,451) |
| Discontinued operations | 4,793 | 3,216 |
| Reconciliation from headline to underlying earnings | | |
| Unrealised FX losses/(gains) | (470) | 9,115 |
| Acquisition-related fair value adjustments | (567) | 38 |
| Restructuring costs | 0 | 15,157 |
| Amortisation of acquired intangible assets | 10,100 | 11,886 |
| One-off tax items impacting EBITDA | 0 | 11,863 |
| Acquisition, integration and corporate actions costs | 0 | 2,318 |
| Tax effect | (3,009) | (7,258) |
| Minority interests | (979) | (5,745) |
| Underlying earnings | 38,083 | 17,139 |
| Continuing operations | 32,471 | 13,311 |
| Discontinued operations | 5,612 | 3,828 |

| EPS (c) | FY22 | FY23 |
|---|---|---|
| Basic | 16.7 | 36.9 |
| Continuing operations | 14.3 | (16.1) |
| Discontinued operations | 2.4 | 53.0 |
| Diluted | 16.2 | 36.9 |
| Continuing operations | 13.9 | (16.1) |
| Discontinued operations | 2.3 | 53.0 |
| Headline | 16.2 | (9.3) |
| Continuing operations | 13.9 | (10.8) |
| Discontinued operations | 2.3 | 1.5 |
| Headline diluted | 15.8 | (9.3) |
| Continuing operations | 13.5 | (10.8) |
| Discontinued operations | 2.3 | 1.5 |
| Underlying | 18.7 | 7.9 |
| Continuing operations | 16.0 | 6.1 |
| Discontinued operations | 2.7 | 1.8 |
| Underlying diluted | 18.2 | 7.6 |
| Continuing operations | 15.5 | 5.9 |
| Discontinued operations | 2.7 | 1.7 |
| Underlying excluding SPB | 27.4 | 29.5 |

Source: Datatec

Exhibit 1 shows Datatec's FY23 results versus our forecasts for continuing operations. Revenue grew 13% y-o-y (20% in constant currency, cc) and was 3% ahead of our forecast. Adjusted EBITDA also grew 13% y-o-y and was also 3% ahead. As there were various one-off charges and adjustments that we had not forecast, EBITDA was below our estimate. Share-based payments totalling $52.6m were charged in the year compared to our $32.1m forecast – this was the main difference at the underlying EPS (uEPS) level. Better-than-expected working capital management resulted in operating cash flow 64% higher than our forecast and a reduction in net debt of 18% y-o-y (or 20% compared to net debt from continuing operations at the end of FY22).

Datatec discloses EPS based on three measures: reported, headline (per Johannesburg Stock Exchange rules) and underlying. In Exhibit 2 we summarise the adjustments to arrive at headline and underlying earnings. Although underlying EPS usually takes account of share-based payment (SBP) charges, as the amount charged in FY23 was exceptionally high, the company used uEPS before share-based payment charges (29.5c) as the basis for its final dividend calculation. Based on dividend cover of 3x, it declared a final dividend of 10c/195 ZARc. This is in addition to the special dividend paid out in H223 using the proceeds of the sale of Analysys Mason (67c/1,250 ZARc).

## Divisional performance

Exhibit 3 summarises performance by division down to adjusted EBITDA.

**Exhibit 3: Divisional performance**

| $m | FY22 | FY23 | y-o-y | FY22 | FY23 | |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Westcon | 2,890 | 3,421 | 18% | | | |
| Logicalis International | 1,133 | 1,232 | 9% | | | |
| Logicalis Latin America | 523 | 491 | -6% | | | |
| | 4,546 | 5,143 | 13% | | | |
| **Gross profit** | | | | **Gross margin** | | **y-o-y pp** |
| Westcon | 319 | 329 | 3% | 11.0% | 9.6% | -1.4 |
| Logicalis International | 304 | 306 | 1% | 26.9% | 24.9% | -2.0 |
| Logicalis Latin America | 107 | 110 | 3% | 20.4% | 22.3% | 1.9 |
| | 730 | 745 | 2% | 16.1% | 14.5% | -1.6 |
| **EBITDA** | | | | **EBITDA margin** | | |
| Westcon | 68 | 48 | -29% | 2.4% | 1.4% | -0.9 |
| Logicalis International | 64 | 50 | -21% | 5.7% | 4.1% | -1.6 |
| Logicalis Latin America | 28 | 21 | -26% | 5.4% | 4.3% | -1.1 |
| Central costs | (17) | (22) | 27% | | | |
| | 143 | 98 | -32% | 3.2% | 1.9% | -1.2 |
| **Adjusted EBITDA** | | | | **Adjusted EBITDA margin** | | |
| Westcon | 79 | 95 | 21% | 2.7% | 2.8% | 0.1 |
| Logicalis International | 65 | 66 | 2% | 5.7% | 5.4% | -0.4 |
| Logicalis Latin America | 28 | 25 | -11% | 5.3% | 5.1% | -0.3 |
| Central costs | (12) | (6) | -52% | | | |
| | 159 | 180 | 13% | 3.5% | 3.5% | 0.0 |

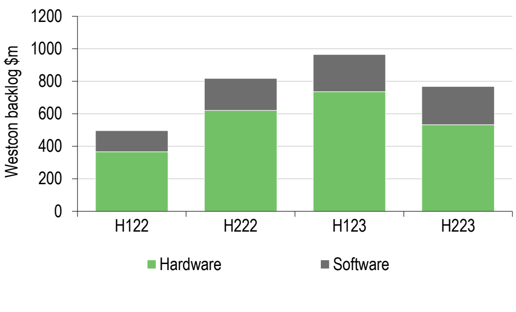
Source: Datatec

### Westcon International

Westcon grew revenue 18.3% y-o-y (25.4% cc), with growth accelerating from 16.1% in H123 to 20.4% in H223. As flagged at H123 results, supply chain issues started to ease, making it possible to ship from the order backlog. Exhibit 4 shows how the backlog has developed over the last two years, with management noting that it started to decline from Q423 due to improved hardware shipments. The overall backlog declined 6% y-o-y but was down a more significant 20% from its peak at the end of H123, while the software backlog increased due to strong order intake.

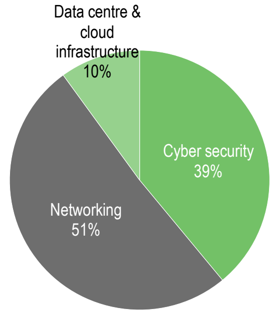
The division has combined revenue from unified communications with networking revenue and together they made up just over half of FY23 revenue. Recurring revenue grew 32% over the same period, making up 38% of FY23 revenue.

**Exhibit 4: Backlog on half-yearly basis**




Source: Datatec

**Exhibit 5: Revenue by technology**

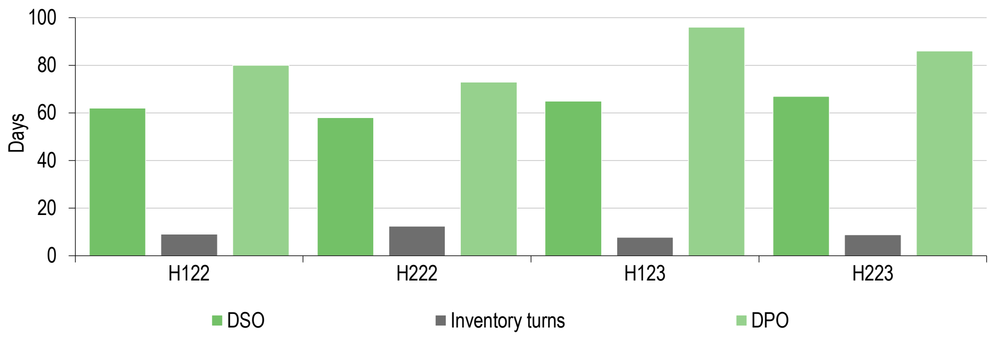



Source: Datatec

As was the case at the half-year, Westcon's gross margin was negatively affected by the strength of the US dollar – this was compensated for by hedging gains reported within operating costs. Most of these were recognised in H123, resulting in an adjusted EBITDA margin of 4.0% in H123, dropping to 1.7% in H223 and averaging out at 2.8% for the year compared to 2.7% in FY22.

The bulk of share-based payment charges were reported in Westcon ($36.3m out of $52.6m) resulting from the Westcon International Equity Appreciation Plan (WI EAP) that was put in place five years ago and has now finished, as has the Westcon SARS scheme. Based on a starting valuation of $125m, 10% of the value of WI above the starting valuation is to be paid to the EAP pool. As WI was not sold within five years of the start of the scheme (ie by 1 March 2023), it was valued by an independent valuer. At the end of FY23, the company noted that $61m of the $63.5m short-term liability for share-based payments related to the WI EAP and Share Appreciation Rights schemes (of which $11m relates to Datatec head office participants of the EAP) and will be paid out shortly. Based on the value of the EAP units for Datatec head office participants at the end of FY23 ($287.15/unit), the threshold that had to be reached ($125/unit base level grown at 10% pa over the five years = $201.31) and the number of units (one million), we estimate that WI was valued at c $488.5m at the end of FY23

**Exhibit 6: Westcon working capital metrics H122–H223**



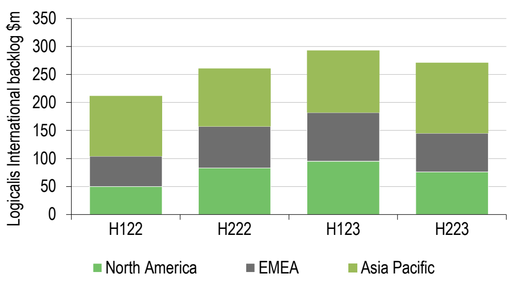

Source: Datatec. Note: DSO = days sales outstanding, DPO = days purchases outstanding.

The division reduced its net debt position from $85.0m at the end of FY22 to $68.4m at the end of FY23. Exhibit 6 shows the change in working capital metrics over the last two years. The main driver of reduced working capital requirements has been the extension of payment terms by suppliers, recognising the high level of part-finished inventory held by Datatec because of component shortages. As supply chain issues continue to recede and Westcon is able to ship more orders, we expect that any reduction in supplier payment terms will largely by offset by higher inventory turns and the ability to bill for completed projects.

## Logicalis International

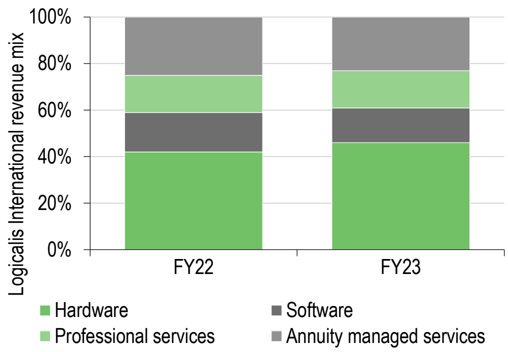
Logicalis International (LI) grew revenue 8.7% y-o-y in FY23 (16.0% cc), with growth of 5.6% in H123 and 11.5% in H223. Gross margin decreased by 2pp to 24.9% due to product mix and the strength of the US dollar. Adjusted EBITDA increased 2% y-o-y, resulting in a margin of 5.4%, down from 5.7% in FY22. The main driver of the margin decline was weaker performance in the UK and Germany. While the backlog increased y-o-y by 4%, it declined 8% from its peak at the end of H123. The company noted strength in orders from Asia and as these often relate to long-term infrastructure projects, this increased the backlog. As supply chain issues eased the division was able to ship more hardware, which made up 46% of FY3 revenue compared to 42% in FY22. Cloud revenue increased 54% y-o-y to make up 18% of revenue.

**Exhibit 7: Backlog on half-yearly basis**




Source: Datatec

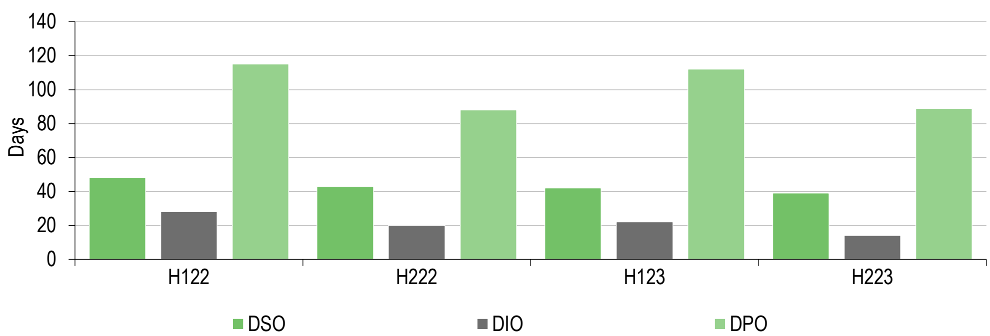
**Exhibit 8: Revenue by segment**




Source: Datatec

The division reduced its net debt position from $110.9m at the end of FY22 to $88.0m at the end of FY23. Inventory and receivables days reduced y-o-y and days payable were flat, resulting in a $14m decrease in net working capital.

**Exhibit 9: Logicalis International working capital metrics**




Source: Datatec. Note: DIO = days inventory outstanding.

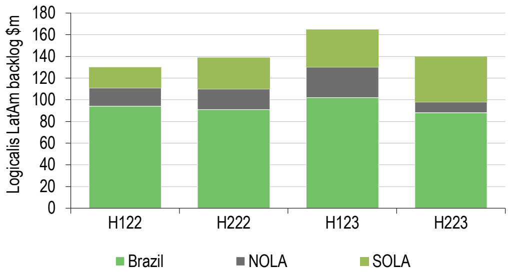
## Logicalis LatAm

The division saw a revenue decline of 6.3% for FY23 (growth of 1.2% cc), mainly due to weakness in Brazil where revenue was down 16% as it suffered most from supply chain disruption. Over the same period, recurring revenue increased 7% to make up 49% of revenue (FY22: 43%) due to growth in managed services. Despite the revenue decline, gross profit increased 3%, resulting in a 2pp increase in gross margin to 22.3%, helped by a higher proportion of managed services. The adjusted EBITDA margin decreased marginally from 5.3% to 5.1%.

The order backlog increased 1% from the end of FY22 but was down 15% from the peak at the end of H123 (Exhibit 10). The division reduced its net debt position from $40.4m at the end of FY22 to

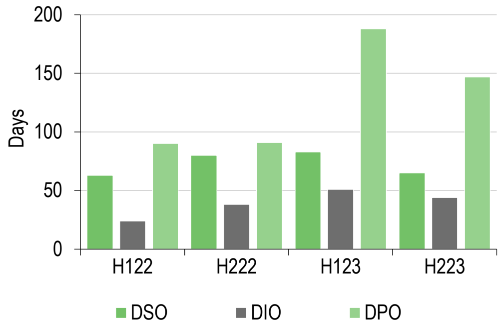
$25.2m at the end of FY23. While DIO were higher y-o-y, DSO reduced and DPO increased, resulting in a reduction in working capital.

**Exhibit 10: Backlog on half-yearly basis**




Source: Datatec

**Exhibit 11: Working capital metrics**




Source: Datatec

## Outlook and changes to forecasts

Supply chain issues continue to ease, although not yet normalised, and we expect each division to continue to reduce their order backlogs through the course of FY24.

### New incentive schemes announced

With the completion of the WI EAP, the company has decided to change the way it incentivises divisional management by offering them the chance to own stakes in their respective divisions rather than incentive schemes based on Datatec shares. A scheme was launched for Logicalis International in March with a holding company set up between Datatec PLC and the division. Datatec PLC owns 94.6% of the holding company and the remaining 5.4% is held by divisional management, who will be able to monetise their stakes if the division is sold. A further 0.9% will be available for purchase by management to allow for changes to the management team. A similar scheme is being set up for Westcon (expected in Q224) and is planned for Logicalis LatAm.

There are still some incentive schemes operating at the group level, thus we continue to expect Datatec to report share-based payment charges, albeit at a significantly lower level than in FY22 and FY23. The new divisional incentive schemes will not attract any IFRS2 share-based payment charges although they will increase the minority interest deduction at the group level.

### Changes to forecasts

We have revised our forecasts to reflect FY23 results and we introduce FY26 forecasts. We have revised up our revenue forecasts for FY24 and FY25 and our adjusted EBITDA increases marginally in both years. Higher net finance costs and slightly higher share-based payment forecasts reduce our uEPS forecast in FY24 and FY25. We assume that working capital requirements increase as supplier payment terms normalise through the course of the year, resulting in an increase in our net debt forecast. At the end of FY24, we estimate a net debt/EBITDA ratio of 1.0x, reducing to 0.7x by the end of FY25.

**Exhibit 12: Changes to forecasts**

| $m | FY24e Old | FY24e New | y-o-y | Change | FY25e Old | FY25e New | y-o-y | Change | FY26e New | y-o-y |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 5,282 | 5,499 | 7% | 4% | 5,534 | 5,761 | 5% | 4% | 6,036 | 5% |
| Gross Profit | 794 | 830 | 11% | 4% | 842 | 879 | 6% | 4% | 932 | 6% |
| Adj. EBITDA | 192 | 194 | 8% | 1% | 215 | 220 | 14% | 2% | 248 | 13% |
| EBITDA | 185 | 186 | 90% | 1% | 208 | 212 | 14% | 2% | 240 | 13% |
| Normalised operating profit | 137 | 135 | 9% | (2)% | 160 | 158 | 18% | (1)% | 184 | 16% |
| Profit before tax (normalised) | 96 | 90 | 3% | (6)% | 116 | 113 | 26% | (3)% | 138 | 23% |
| Net income (normalised) | 53 | 50 | (6)% | (6)% | 66 | 64 | 29% | (2)% | 80 | 24% |
| EPS - diluted normalised (c) | 23.3 | 21.5 | (9)% | (8)% | 28.7 | 27.6 | 29% | (4)% | 34.3 | 24% |
| EPS - Company underlying uEPS (c) | 22.6 | 20.9 | 242% | (8)% | 28.1 | 26.8 | 29% | (5)% | 33.6 | 25% |
| Dividend (c) | 7.5 | 7.0 | | | 9.4 | 8.9 | | | 11.2 | |
| Revenue growth (%) | 5.3 | 6.9 | | | 4.8 | 4.8 | | | 4.8 | |
| Gross Margin (%) | 15.0 | 15.1 | | | 15.2 | 15.3 | | | 15.4 | |
| Adj. EBITDA Margin (%) | 3.6 | 3.5 | | | 3.9 | 3.8 | | | 4.1 | |
| Normalised Operating Margin | 2.6 | 2.4 | | | 2.9 | 2.7 | | | 3.0 | |
| Operating cash flow | 98 | 53 | | | 145 | 158 | | | 158 | |
| Net debt | 168 | 187 | | | 140 | 159 | | | 136 | |
| Revenue | | | | | | | | | | |
| Westcon | 3,427 | 3,660 | 7% | 7% | 3,599 | 3,843 | 5% | 7% | 4,035 | 5% |
| Logicalis | 1,855 | 1,839 | 7% | -1% | 1,935 | 1,918 | 4% | -1% | 2,001 | 4% |
| Logicalis International | 1,278 | 1,299 | 5% | 2% | 1,329 | 1,351 | 4% | 2% | 1,405 | 4% |
| Logicalis LatAm | 577 | 540 | 10% | -6% | 606 | 567 | 5% | -6% | 596 | 5% |
| **Total** | **5,282** | **5,499** | **7%** | **4%** | **5,534** | **5,761** | **5%** | **4%** | **6,036** | **5%** |
| EBITDA | | | | | | | | | | |
| Westcon | 106.8 | 106.2 | 119% | -1% | 123.0 | 123.1 | 16% | 0% | 141.3 | 15% |
| Logicalis | 98.6 | 100.1 | 40% | 1% | 106.2 | 110.3 | 10% | 4% | 120.7 | 9% |
| Logicalis International | 70.6 | 71.5 | 42% | 1% | 75.7 | 77.4 | 8% | 2% | 83.4 | 8% |
| Logicalis LatAm | 28.1 | 28.6 | 35% | 2% | 30.5 | 32.8 | 15% | 8% | 37.3 | 14% |
| Central costs | (20.2) | (20.1) | -8% | 0% | (21.0) | (20.9) | 4% | 0% | (21.7) | 4% |
| **Total** | **185.3** | **186.3** | **90%** | **1%** | **208.2** | **212.5** | **14%** | **2%** | **240.3** | **13%** |
| Adjusted EBITDA | | | | | | | | | | |
| Westcon | 107.8 | 108.2 | 14% | 0% | 124.0 | 125.1 | 16% | 1% | 143.3 | 15% |
| Logicalis | 100.9 | 101.1 | 11% | 0% | 108.5 | 111.3 | 10% | 3% | 121.7 | 9% |
| Logicalis International | 72.4 | 72.0 | 9% | -1% | 77.5 | 77.9 | 8% | 0% | 83.9 | 8% |
| Logicalis LatAm | 28.6 | 29.1 | 17% | 2% | 31.0 | 33.4 | 15% | 8% | 37.8 | 13% |
| Central costs | (17.0) | (15.6) | 160% | -8% | (17.8) | (16.4) | 5% | -8% | (17.2) | 5% |
| **Total** | **191.8** | **193.8** | **7%** | **1%** | **214.7** | **220.0** | **14%** | **2%** | **247.8** | **13%** |

Source: Edison Investment Research

## Valuation

On a group basis, Datatec is valued on an EV/adjusted EBITDA of 2.8x FY24e and 2.5x FY25e and on a normalised P/E basis of 9.1x FY24e and 7.1x FY25. To more accurately reflect the dynamics of the different divisions, we continue to value Datatec on a sum-of-the-parts basis. Although Logicalis is now reported through two divisions (International and Latin America), we continue to combine them in the valuation as their business models are similar. Using the EV/EBITDA peer multiples in Exhibit 13, average net debt for FY23 (we add c $100m to the year-end figure as the group typically operates at this level of net debt across the year), and a 30% discount (South Africa sovereign risk and holding company discount), we arrive at a per-share valuation of ZAR75.74. This implies 98% upside from the current share price.

Through the ongoing strategic review, management has started to unlock some of this value with the recent sale of Analysys Mason and the subsequent return of cash to shareholders. We believe further transactions may take place in the medium term when market conditions start to improve. In the meantime, the company continues to work on operational improvements across the three divisions.

**Exhibit 13: Sum-of-the-parts valuation**

| | Revenues | | Adjusted EBITDA | | | |
|---|---|---|---|---|---|---|
| | 2024e | 2025e | 2024e | 2025e | | |
| Logicalis | 1,839 | 1,918 | 101 | 111 | | |
| Westcon | 3,660 | 3,843 | 108 | 125 | | |
| Central costs | | | (16) | (16) | | |
| | | | | | | |
| **Peer multiples** | Revenues | | EBITDA | | | |
| | 2024e | 2025e | 2024e | 2025e | | |
| Logicalis | 0.8 | 0.7 | 8.6 | 8.0 | | |
| Westcon | 0.3 | 0.3 | 8.2 | 7.6 | | |
| Central costs | | | 8.0 | 8.0 | | |
| | Implied EV based on | | | | | |
| **Enterprise value** | Revenues | | EBITDA | | Economic interest | Mean EV |
| (US$m) | 2024e | 2025e | 2024e | 2025e | | |
| Logicalis | 1,443 | 1,419 | 874 | 894 | 83% | 734 |
| Westcon | 1,168 | 1,320 | 888 | 946 | 92% | 845 |
| Central costs | | | (124) | (131) | 100% | (128) |
| | | | | | **Group EV** | **1,451** |
| Assumed average FY23 net debt | (207) | | | | | |
| **SOTP – Equity value** | **1,244** | | | | | |
| Discount for: RSA sovereign risk, holding company risk | 30% | | | | | |
| **Adjusted equity value** | **871** | | | | | |
| Shares in issue (m) | 224.9 | | | | | |
| SOTP value per share (US$) | 3.87 | | | | | |
| **SOTP value per share (ZAR)** | **75.74** | | | | | |
| Latest share price (ZAR) | 38.27 | | | | | |
| **Upside from latest share price** | **98%** | | | | | |

Source: Edison Investment Research, Refinitiv (as at 1 June)

**Exhibit 14: Financial summary**

| 28-February | $'k | 2020 | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e |
|---|---|---|---|---|---|---|---|---|
| Revenue | | 4,214,421 | 4,109,463 | 4,546,398 | 5,143,125 | 5,499,402 | 5,761,380 | 6,035,937 |
| Cost of Sales | | (3,472,843) | (3,418,939) | (3,816,630) | (4,398,618) | (4,669,839) | (4,882,057) | (5,103,920) |
| Gross Profit | | 741,578 | 690,524 | 729,768 | 744,507 | 829,564 | 879,323 | 932,016 |
| Adjusted EBITDA | | 166,280 | 152,490 | 158,922 | 180,182 | 193,767 | 219,982 | 247,819 |
| EBITDA | | 158,657 | 118,619 | 143,457 | 98,246 | 186,267 | 212,482 | 240,319 |
| Normalised operating profit | | 105,157 | 97,859 | 100,540 | 123,934 | 134,540 | 158,436 | 183,885 |
| Amortisation of acquired intangibles | | (11,297) | (8,635) | (10,100) | (11,886) | (4,894) | (2,186) | (977) |
| Exceptionals | | (3,700) | (27,771) | 0 | (40,915) | 0 | 0 | 0 |
| Share-based payments | | (7,623) | (11,493) | (15,465) | (52,641) | (7,500) | (7,500) | (7,500) |
| Reported operating profit | | 82,537 | 49,960 | 74,975 | 18,492 | 122,146 | 148,750 | 175,408 |
| Net Interest | | (25,874) | (25,692) | (31,051) | (38,090) | (44,973) | (45,389) | (45,389) |
| Joint ventures & associates (post tax) | | (204) | 908 | (427) | 882 | 0 | 0 | 0 |
| Exceptionals | | 2,029 | 59 | 540 | (1,333) | 0 | 0 | 0 |
| Profit Before Tax (norm) | | 79,079 | 73,075 | 69,062 | 86,726 | 89,567 | 113,047 | 138,496 |
| Profit Before Tax (reported) | | 58,488 | 25,235 | 44,037 | (20,049) | 77,173 | 103,361 | 130,020 |
| Reported tax | | (31,809) | (19,540) | (9,470) | (13,375) | (27,010) | (36,176) | (45,507) |
| Profit After Tax (norm) | | 34,615 | 30,034 | 36,179 | 56,372 | 58,218 | 73,481 | 90,023 |
| Profit After Tax (reported) | | 26,679 | 5,695 | 34,567 | (33,424) | 50,162 | 67,185 | 84,513 |
| Minority interests | | (13,772) | (3,103) | (6,431) | (3,209) | (8,258) | (9,028) | (9,827) |
| Discontinued operations | | 1,332 | 0 | 5,766 | 116,967 | 0 | 0 | 0 |
| Net income (normalised) | | 20,843 | 26,938 | 29,748 | 53,163 | 49,960 | 64,453 | 80,196 |
| Net income (reported) | | 14,239 | 2,592 | 33,902 | 80,334 | 41,904 | 58,156 | 74,686 |
| Average number of shares outstanding (m) | | 210.5 | 198.8 | 203.2 | 218.0 | 224.1 | 224.9 | 224.9 |
| EPS - diluted normalised (c) | | 9.7 | 13.2 | 14.2 | 23.5 | 21.5 | 27.6 | 34.3 |
| EPS - basic reported (c) | | 6.8 | 1.3 | 16.7 | 36.9 | 18.7 | 25.9 | 33.2 |
| EPS - Company underlying uEPS (c) | | 9.9 | 13.5 | 16.0 | 6.1 | 20.9 | 26.8 | 33.6 |
| Dividend (c) | | 7.0 | 6.6 | 39.3 | 77.7 | 7.0 | 8.9 | 11.2 |
| Revenue growth (%) | | (2.7) | (2.5) | 10.6 | 13.1 | 6.9 | 4.8 | 4.8 |
| Gross Margin (%) | | 17.6 | 16.8 | 16.1 | 14.5 | 15.1 | 15.3 | 15.4 |
| Adj. EBITDA Margin (%) | | 3.9 | 3.7 | 3.5 | 3.5 | 3.5 | 3.8 | 4.1 |
| Normalised Operating Margin | | 2.5 | 2.4 | 2.2 | 2.4 | 2.4 | 2.7 | 3.0 |
| **BALANCE SHEET** | | | | | | | | |
| Fixed Assets | | 512,598 | 554,690 | 613,155 | 610,565 | 613,057 | 617,376 | 622,019 |
| Intangible Assets | | 291,279 | 314,486 | 320,089 | 293,184 | 293,434 | 295,549 | 297,976 |
| Tangible Assets | | 43,300 | 39,987 | 32,517 | 33,054 | 35,296 | 37,501 | 39,715 |
| Right-of-use assets | | 83,953 | 94,837 | 80,639 | 56,248 | 56,248 | 56,248 | 56,248 |
| Investments & other | | 94,066 | 105,380 | 179,910 | 228,079 | 228,079 | 228,079 | 228,079 |
| Current Assets | | 2,083,928 | 2,242,568 | 2,399,078 | 3,015,700 | 2,981,993 | 3,104,375 | 3,225,430 |
| Stocks | | 253,271 | 242,005 | 309,227 | 411,059 | 410,817 | 429,486 | 449,004 |
| Debtors | | 1,110,510 | 1,108,105 | 1,223,824 | 1,508,470 | 1,554,899 | 1,628,971 | 1,706,599 |
| Cash & cash equivalents | | 347,189 | 488,632 | 453,926 | 584,683 | 503,959 | 532,687 | 555,591 |
| Other | | 372,958 | 403,826 | 412,101 | 511,488 | 512,318 | 513,231 | 514,235 |
| Current Liabilities | | (1,765,823) | (1,980,013) | (2,152,175) | (2,869,641) | (2,801,057) | (2,867,328) | (2,919,662) |
| Creditors | | (1,275,690) | (1,401,804) | (1,544,198) | (2,088,899) | (2,009,175) | (2,067,255) | (2,111,006) |
| Short term borrowings | | (338,945) | (392,877) | (433,176) | (577,224) | (577,224) | (577,224) | (577,224) |
| Lease liabilities | | (34,325) | (36,398) | (32,870) | (27,005) | (27,005) | (27,005) | (27,005) |
| Other | | (116,863) | (148,934) | (141,931) | (176,513) | (187,652) | (195,843) | (204,428) |
| Long Term Liabilities | | (187,610) | (176,624) | (229,112) | (224,284) | (226,183) | (227,580) | (229,043) |
| Long term borrowings | | (18,638) | (42,371) | (56,440) | (41,624) | (41,624) | (41,624) | (41,624) |
| Lease liabilities | | (95,148) | (77,847) | (61,523) | (45,412) | (45,412) | (45,412) | (45,412) |
| Other long term liabilities | | (73,824) | (56,406) | (111,149) | (137,248) | (139,147) | (140,544) | (142,007) |
| Net Assets | | 643,093 | 640,621 | 630,946 | 532,340 | 567,811 | 626,844 | 698,743 |
| Minority interests | | (70,778) | (57,465) | (67,516) | (60,331) | (68,589) | (77,617) | (87,444) |
| Shareholders equity | | 572,315 | 583,156 | 563,430 | 472,009 | 499,221 | 549,227 | 611,298 |
| **CASH FLOW** | | | | | | | | |
| Op Cash Flow before WC and tax | | 169,980 | 157,888 | 162,842 | 191,802 | 193,767 | 219,982 | 247,819 |
| Working capital | | 57,231 | 79,903 | (76,807) | (18,203) | (112,872) | (25,074) | (43,348) |
| Exceptional & other | | 19,330 | (3,453) | 10,677 | (193) | (830) | (913) | (1,004) |
| Tax | | (36,941) | (36,597) | (26,282) | (24,182) | (27,010) | (36,176) | (45,507) |
| Operating cash flow | | 209,600 | 197,741 | 70,430 | 149,224 | 53,054 | 157,819 | 157,960 |
| Capex | | (28,036) | (35,145) | (24,841) | (36,669) | (38,048) | (39,487) | (40,988) |
| Acquisitions/disposals | | (9,179) | (3,694) | (16,424) | 114,821 | 0 | 0 | 0 |
| Net interest | | (30,972) | (25,745) | (31,265) | (38,596) | (44,973) | (45,389) | (45,389) |
| Equity financing | | (51,683) | (2,808) | (6,150) | (7,725) | 0 | 0 | 0 |
| Dividends | | (15,137) | (4,905) | (43,136) | (154,399) | (22,192) | (15,651) | (20,114) |
| Other | | 20,019 | 1,880 | (2,034) | (2,914) | (28,565) | (28,565) | (28,565) |
| Net Cash Flow | | 94,612 | 127,324 | (53,420) | 23,742 | (80,724) | 28,728 | 22,904 |
| Opening net debt/(cash) | | 100,753 | 139,867 | 60,874 | 130,096 | 106,595 | 187,319 | 158,591 |
| FX and non-cash movements | | (133,726) | (48,331) | (15,802) | (241) | 0 | 0 | 0 |
| Closing net debt/(cash) | | 139,867 | 60,874 | 130,096 | 106,595 | 187,319 | 158,591 | 135,687 |

Source: Datatec, Edison Investment Research

London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom