Datatec

Westcon update

IT services

Westcon is key to unlocking upside potential

Westcon is Datatec's technology distribution business, representing 62% of H122 group revenues and 37% of EBITDA. With global demand currently outstripping the market's ability to supply hardware and solutions, Westcon is transitioning from being a specialist value added distributor to becoming a higher-growth, higher-margin technology provider. This transition unlocks the potential for double-digit y-o-y revenue growth, with our estimated gross profit margins of c 11% and EBITDA margins expected to continue to rise towards 3.0% (H122: 2.2%) in the medium term. We value Westcon at c US$630m on a standalone basis (versus Datatec's EV of US$685m). In August 2021, Datatec management initiated a strategic review to address this persistent undervaluation. In this note, we focus on Westcon to better explain the business and its market positioning.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
02/20	4,214	79.1	9.9	7.0	24.8	2.9
02/21	4,109	73.1	13.6	6.6	18.1	2.7
02/22e	4,514	84.6	17.0	37.9	14.4	15.5
02/23e	4,757	107.6	24.3	8.1	10.1	3.3

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

Westcon International's strategy

Westcon International's CEO David Grant and CFO Callum McGregor assumed responsibility for Westcon in 2017. Their ambition is steadily to reposition Westcon as a specialist technology provider, offering an increasing proportion of value-added services and bespoke packaged solutions for networking, cybersecurity and collaboration vendors across EMEA and Asia-Pacific. This is intended to drive Westcon's EBITDA margins higher (H122: 2.2%), expected to rise to 3.0% in the medium term (towards the peer group average) as management continues to establish Westcon as a leading technology provider in its markets.

Growth supported by continuing strong demand

In H122, Westcon saw strong growth globally, with elevated demand for networking, cybersecurity and cloud infrastructure. We expect these established technology trends to persist, with continued high demand, leading to a positive outlook for FY23 despite ongoing semiconductor shortages and supply chain issues. Against this backdrop, given Westcon's focus on high-growth specialist market segments, we expect low double-digit revenue growth for Westcon in FY23/24, with Westcon to continuing to outgrow the market and gain market share.

Datatec appears significantly undervalued

We value Westcon at c US$630m on a standalone basis, and we have previously valued Logicalis and Analysys Mason together at more than US$1bn (see Strategic review to unlock embedded value). This compares to Datatec's current enterprise value of c US$685m. Management initiated a strategic review in August 2021 to try and unlock this embedded value. Based on the positive industry outlook, the opportunity for continued growth and margin improvement at both Datatec and Westcon, as well as the potential for upside from management's value realisation initiatives, there are currently many good reasons to invest in Datatec shares.

24 February 2022

Price	**ZAR37.03**
Market cap	**ZAR8bn**
	ZAR15.10/US$
Net debt (US$m) at 31 August 2021	152.5
Shares in issue	217.0m
Free float	62%
Code	DTCJ
Primary exchange	Johannesburg
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(0.3)	(1.0)	56.2
Rel (local)	(0.5)	(6.3)	37.3
52-week high/low		ZAR39.61	ZAR20.72

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 (IT services); and Analysys Mason (consulting).

Next events

FY22 results	24 May 2022
AGM	July 2022

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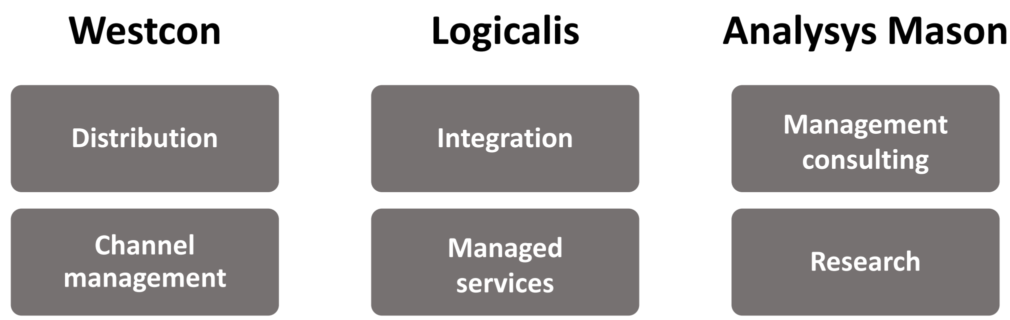
Edison profile page

Datatec is a research client of Edison Investment Research Limited

A detailed look at Westcon International

Datatec operates through three divisions: Westcon International (Westcon), providing specialist technology distribution through two principal brands, Westcon and Comstor; Logicalis, providing IT services; and Analysys Mason, which provides management consultancy and research.

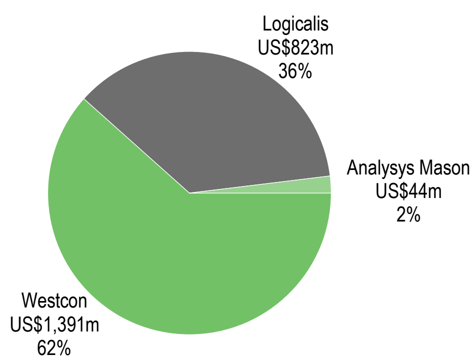
Exhibit 1: Datatec's core divisions



Source: Edison Investment Research

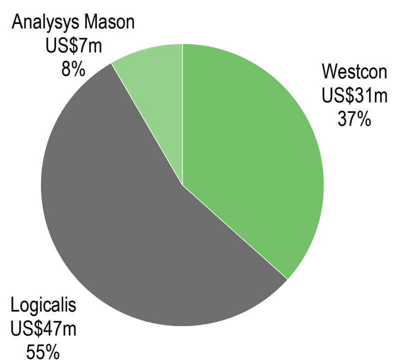
We do not believe that Datatec's group value fully captures the sum of its parts. Reflecting this same belief, in August 2021, management announced that Lazard & Co had been engaged as part of a strategic review to address the persistent gap between Datatec's valuation and the perceived value of its underlying assets. Under the strategic review, the board has been considering options including private equity participation, joint ventures, international listings, divisional asset unbundling and other value-creating structures. We quantified the size of the opportunity in our note, Strategic review to unlock embedded value, published on 31 August 2021,

Exhibit 2: H122 revenue breakdown



Source: Datatec

Exhibit 3: H122 EBITDA breakdown



Source: Datatec

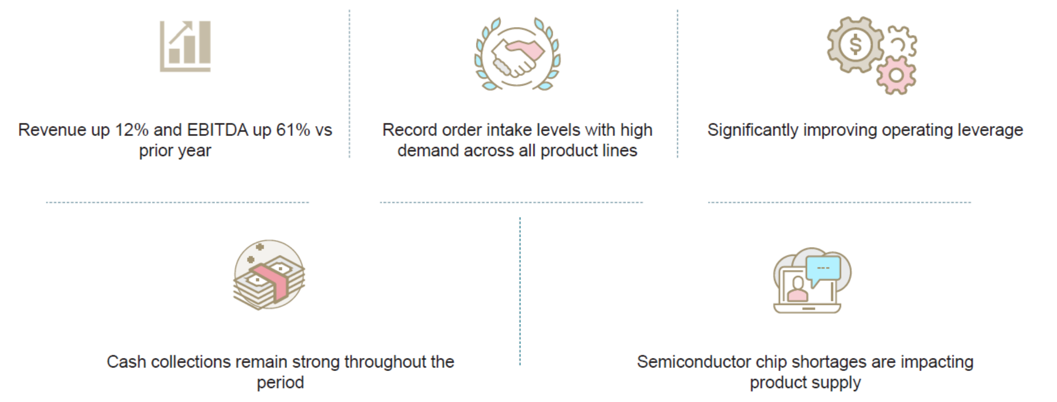
In H122, Westcon delivered 62% of group gross revenues and 37% of group EBITDA, with EBITDA margins of 2.2% at Westcon versus 5.7% for Logicalis and 16.3% at Analysys Mason.

Following its restructuring in 2017/18, Westcon has delivered consistent annual rises in gross profit and EBITDA (Exhibit 9) but is only now starting to deliver on its full potential. We have therefore decided to focus this pre-close update on Westcon International, to record the progress the business has made over the last few years and outline its potential for continued recovery.

Westcon: Transitioning to become a technology provider

Management's ambition is for Westcon to be the leading technology provider, delivering channel enablement and services for software subscription and cloud delivered value-added solutions for networking and cybersecurity vendors across Europe, the Middle East, Africa and Asia-Pacific.

Exhibit 4: Westcon H122 highlights

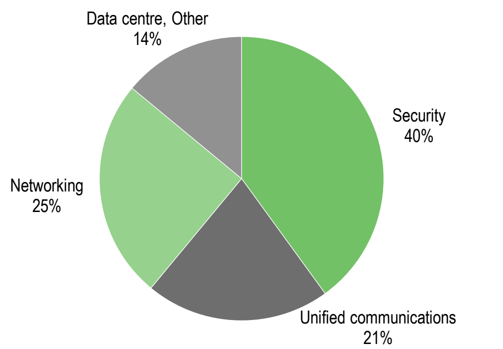


Source: Datatec

Westcon is Datatec's specialist technology distributor with over 3,000 employees, spread across 50 countries worldwide, with 18 logistics and staging facilities globally. The division works with more than 11,000 channel partners, including a portfolio of market-leading vendors, such as Cisco, Palo Alto Networks, Check Point, F5, Broadcom, Zscaler, Crowdstrike, Avaya, Extreme Networks, Juniper and AWS. The business distributes technology solutions across cybersecurity, network infrastructure, unified communications, data centre solutions and channel support services.

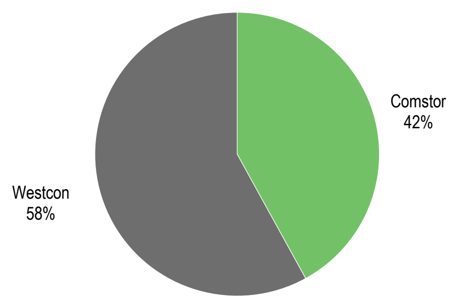
The division markets itself under two brands, Comstor (for Cisco solutions) and Westcon (for other vendors).

Exhibit 5: H122 revenue by category



Source: Datatec

Exhibit 6: H122 revenue by brand



Source: Datatec

Westcon's position in the market value chain

The global IT market is large (Gartner estimates IT spending at US$4.5tn in 2022) and complex, with roles defined by positioning in the value chain, as well as by territory, region and end-user client type. In terms of Westcon's position in this market, it can best be described as an IT channel management organisation and distributor, a business that acts as an intermediary between vendors and resellers, service providers or system integrators in the provision of software, subscription, cloud and hardware solutions.

Exhibit 7: Simplified channel overview

Source: Datatec

As a specialist technology provider, Westcon supports the largest enterprise channel clients, as well as regional and national partners, systems integrators, service providers and resellers. However, Westcon does not directly serve the end-user of the technology, but almost exclusively serves another intermediary in the value chain (Exhibit 8).

Exhibit 8: Westcon partner segmentation

Source: Datatec

The current management team (David Grant, CEO and Callum McGregor, CFO) assumed operational responsibility for Westcon in 2017, with the business positioned as an information and communications technology (ICT) distributor. Management's strategy is steadily to reposition Westcon as a specialist technology provider, offering an increasing proportion of value-added services, subscription and cloud capability in complex solutions for networking and cybersecurity vendors across Europe, the Middle East, Africa and Asia-Pacific. This is intended to drive Westcon's EBITDA margins higher (H122: 2.2%) and expected to rise to 3.0% in the medium term as management attempts to establish Westcon as a leading technology provider in its markets.

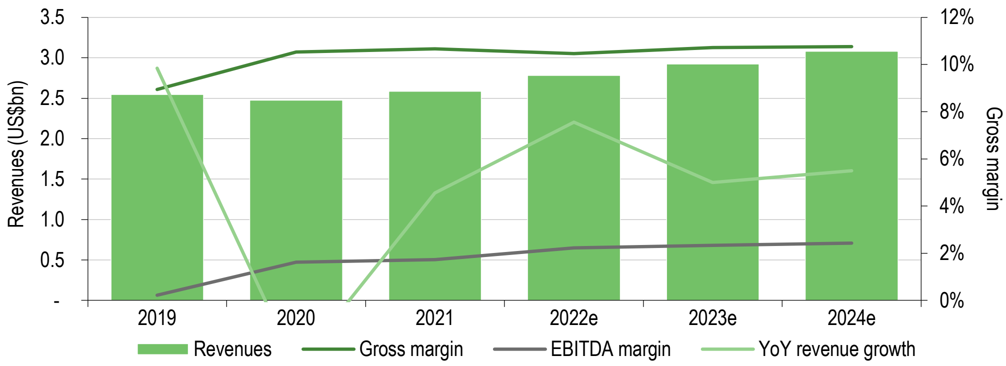
From turnaround to consistent performer with rising margins

Datatec's H122 group revenue rose 15% (against a weak comparator) to US$2.26bn, with EBITDA up 24% to US$75m and underlying EPS surging 113% to 8.3 US cents. Group net debt rose to US$152.5m since the business absorbs cash as it grows, and with elevated inventory levels.

Despite supply chain constraints, in H122 Westcon's revenue increased by 12% to US$1.4bn (H121: US$1.2bn), reflecting strong demand for networked cloud computing, remote access solutions for virtual office environments, unified collaboration and enhanced network cybersecurity. Gross margins increased to 11.1% (H121: 10.8%) driving gross profit up 16% to US$155m (H121: US$134m). EBITDA increased by 61% to US$31.0m (H121: US$19.2m), as margins rose to 2.2% in H122 versus 1.9% in H121 with improving operating leverage.

Following its restructuring in 2017/18, including the disposal of Westcon Americas to SYNNEX in September 2017, management has focused consistently on improving Westcon International's profitability through revenue growth and margin expansion, coupled with a restructuring to reduce costs and transforming the business model, as well as tight cost control.

Exhibit 9: Westcon's track record of revenue growth and margin improvement



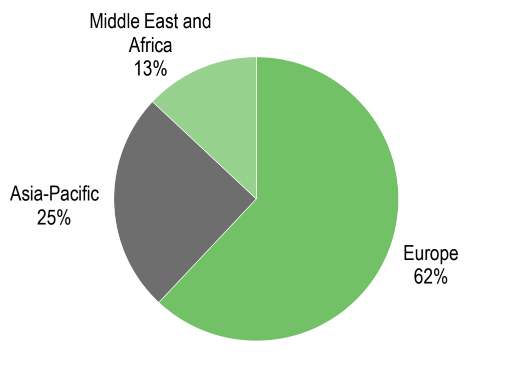
Source: Datatec

Westcon's backlog rose significantly in H122 as semiconductor shortages and supply chain constraints meant that Westcon was unable to satisfy digitisation-driven demand for new technologies to enable increased cloud usage. Given these issues remain ongoing, the backlog is expected to increase in H222. We expect to see further progress from Westcon in FY23, with continued organic growth supported by the unwinding of the backlog and margin expansion by effective cost management, as well as the continuing growth of software and SaaS revenues.

Europe represents almost two-thirds of divisional revenues

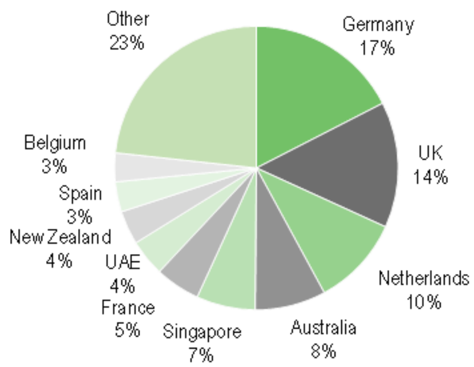
Although it is listed in Johannesburg, the Datatec group has negligible exposure to the South African market, with the equity story being a dollar-denominated global ICT play. This can be seen in the geographic breakdown of Westcon revenues. With good geographic diversification, Westcon has sizeable exposure to Asia-Pacific (25% of H122 revenues) and the Middle East and Africa (notably South Africa) at 13% of H122 revenues. However, the weight of both revenues and gross profit lies in Europe (62% of H122 revenues), with its principal territories including Germany, the UK and the Netherlands.

Exhibit 10: Westcon's H122 regional revenue split



Source: Datatec

Exhibit 11: Westcon's H122 revenue split by country



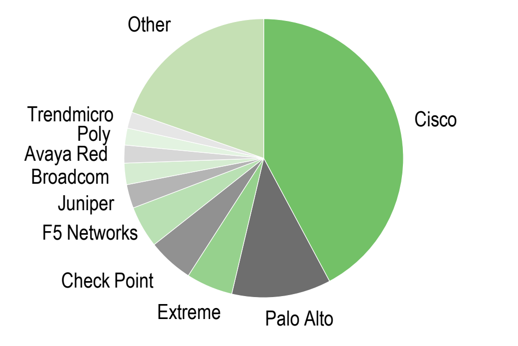
Source: Datatec

Rising exposure to emerging vendors

Although Westcon is an independent supplier serving a range of vendors, its key relationships remain concentrated. Cisco, with a relationship going back more than 20 years, accounted for c 42% of H122 group revenues (Exhibit 12).

Westcon International's business unit Comstor is solely focused on Cisco, distributing the full suite of Cisco solutions to more than 100 countries globally. These include Cisco security, collaboration, data centre, enterprise networking and services (customer support for over 180 countries in 17 languages). Comstor consistently delivers higher growth rates than Cisco's general distribution, due to its technical expertise and investments in systemic integration with Cisco, as well as commercial process automation with channel partners.

Exhibit 12: Westcon H122 vendor profile



Source: Datatec

Exhibit 13: Westcon software/SaaS revenues

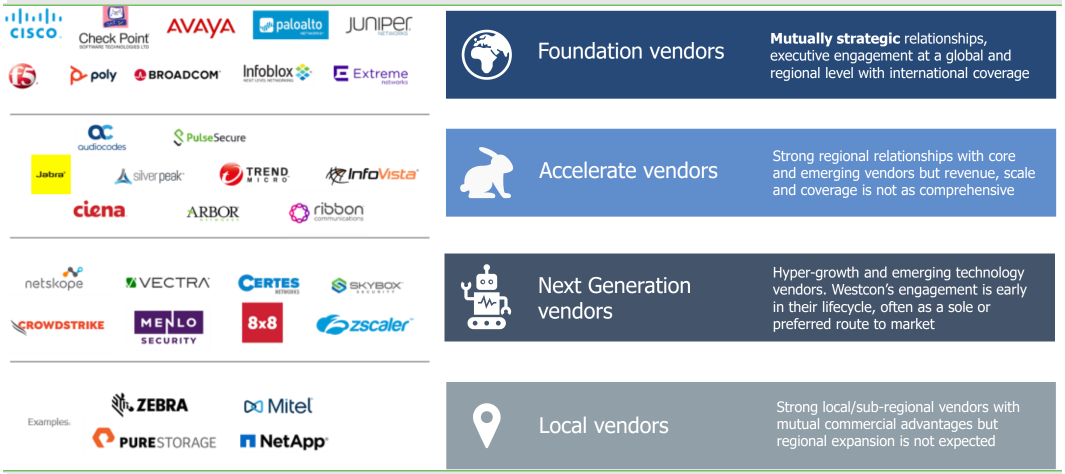
Source: Datatec

Other vendors' products are distributed under the Westcon brand, which offers dedicated or focused vendor teams for the market's top tier technology vendors in cybersecurity, advanced networking and collaboration. Through its focus on the vendors' core solutions and emerging subscription and cloud technologies, H122 sales growth rates within Westcon for Palo Alto Networks, Check Point, F5, Extreme Networks, & Juniper Networks actually exceeded those achieved by the vendors themselves. As a result, these vendors recognise Westcon as "Best Distributor" in a number of operating markets.

In H122, Westcon concluded contracts with a number of the fastest growing and most highly acclaimed cyber security vendors (Gartner Magic Quadrant reviews), including Crowdstrike, Zscaler, Menlo and Splunk.

Overall, based on the division's focus and capability for delivering emerging technologies, subscription, cloud and re-occurring solutions, both Comstor and Westcon were nominated for more than 30 awards in CY21.

Exhibit 14: Westcon vendor profiles



Source: Datatec

Management acknowledges the division's concentration on Cisco and is actively looking to expand its non-Cisco business faster than its Cisco sales. This will be achieved by further developing relationships with Westcon's strategic vendors such as Palo Alto, F5 Networks and Check Point as well as more 'born-in-the-cloud' vendors, such as Crowdstrike and Zscaler.

Re-occurring revenues growing, but from a low base

Re-occurring revenues reflect the increasing penetration of software & services and SaaS revenues (H122: 43% of Westcon revenues versus 40% in H121). Management expects the proportion of software-related revenues and subscriptions to continue to increase significantly in the coming years with the digital transition.

We estimate double-digit growth for Westcon in FY23/24

The IT trends that became apparent in FY21 (digitalisation trends driving networking, cybersecurity and cloud infrastructure), delivering strong growth globally, look set to continue through FY22 and into FY23.

Gartner forecasts the continued growth of cloud software, with cloud spending to be double that of on-premise IT spending by 2025. This trend is expected to drive 11% growth in the enterprise software segment in 2022 and 12% in 2023, as businesses focus on upgrading their software stack to deploy SaaS solutions more widely. Gartner forecasts that global IT services will be the second fastest-growing segment, with 7.9% growth in 2022 and 8.8% in 2023.

Worldwide IT spending is projected to total US$4.5tn in 2022, an increase of 5.1% from 2021. (Gartner, 18 January 2022), with companies finally in a position to move beyond the critical, short-term projects that have characterised the past two years, to focus on longer-term strategic investment. However, beneficially for Westcon, staff skills gaps and the battle for talent are likely to lead to companies having to rely on distributors and technology providers to deliver many of these projects. As a result, spending on the IT services segment is expected to grow 8% y-o-y in 2022, with spending on business and technology consulting expected to grow by 10% in 2022.

Westcon expects to see higher growth from its focus on networking, cybersecurity and cloud infrastructure. Market research shows that cybersecurity segments are expected to deliver strong growth over the medium-term: firewall, 15% CAGR to 2026 (Research and Markets); end-point defence, 25% CAGR to 2028 (Fortune Business Insights); and Secure Access Service Edge (SASE), 36% CAGR to 2028 (Research and Markets). Meanwhile, management estimates that unified communications as a service (UCaaS) is growing at 13-30% depending on the market and segment, with cloud managed networking growing by c 18%.

As a proxy for Westcon's market growth, Cisco, Palo Alto and Check Point together account for over half of Westcon revenues. Check Point points towards c 6% revenue growth (below), with Cisco seeing double-digit revenue growth outside the Americas and Palo Alto continuing its phenomenal growth of around 30%. Taken together with the fact that Westcon is outgrowing the market and gaining market share, we estimate low double-digit growth for Westcon in FY23 and FY24.

- **Cisco** (July year-end) reported strong Q222 revenue growth in February 2022, up 6% y-o-y to US$12.7bn, following 8% growth y-o-y for Q122 (US$12.9bn), with Q222 adjusted (GAAP) net income rising 17% y-o-y to US$3bn. Cisco has previously indicated that it intends to pass on price rises in H222. Managament guidance is now for 5.5-6.5% revenue growth for FY22. Product orders increased 33% y-o-y in Q222, marking the third straight quarter of 30%-plus order growth. Growth came primarily from strong customer demand, despite ongoing supply chain constraints limiting manufacturing capacity, with APAC Q222 revenue growth up 13% y-o-y and EMEA up 11% y-o-y, but the Americas (where Westcon International has no exposure) growing just 3%.
- **Palo Alto Networks** (July year-end) reported Q122 revenue (in November 2021) growth of 32% y-o-y, rising to US$1.2bn, reflecting particular strength in its next-generation security

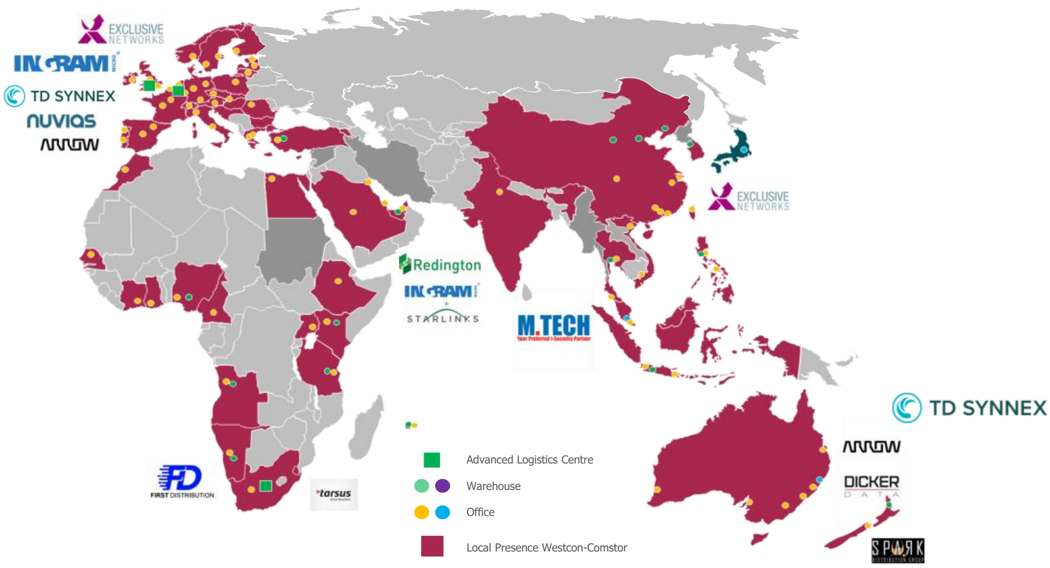
business, driven by strong customer demand. Q122 billings grew 28% y-o-y to US$1.4bn. For FY22, the company expects y-o-y revenue growth of 26-27%.

- **Check Point Software** (December year-end) reported FY21 revenues of US$2.2bn, up 5% y-o-y, with Q421 revenues rising 6% y-o-y. Q421 was the sixth consecutive quarter of increased billings (reported and deferred revenues), with 14% growth y-o-y.

International market with fragmented competition by region

As mentioned earlier, the ICT market is complex and highly fragmented, with companies fulfilling subtly different roles in the value chain by geography, product segment and client base. As a result, it can be difficult to identify competitors and directly comparable companies to Westcon International. However, in Exhibit 15, we identify a number of companies which Westcon's management team consider to be direct competitors in specific local or regional markets. A number of these are public companies (eg Arrow, Exclusive Networks, TD SYNNEX) and included in our valuation analysis, but many more are private companies, with many private equity owned (, Infinigate owned by Bridgepoint, Nuvias owned by Rigby, Ingram owned by Platinum, Redington owned by Phoenix, Tarsus owned by Charterhouse and Spark owned by KKR).

Exhibit 15: International positioning with key regional competitors



Source: Datatec

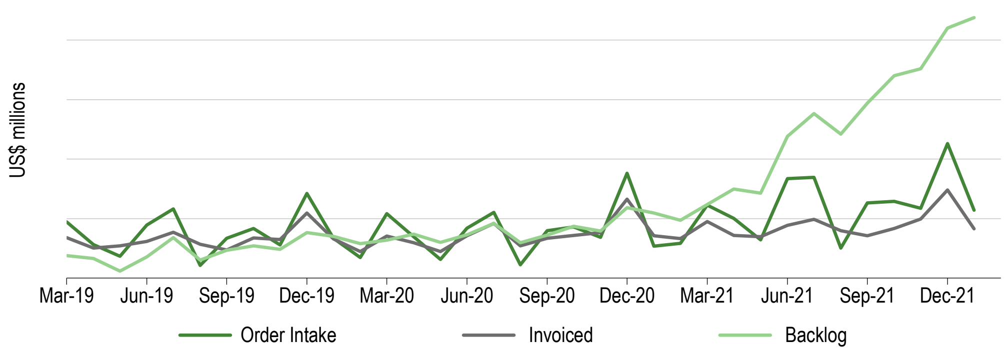
IT themes driving Westcon forward

- **Growth for FY23 to be led by networking, cybersecurity and cloud infrastructure.** With IT trends set to continue, Westcon's focus on networking, cybersecurity and cloud infrastructure looks set to support growth for some time to come. Specialist cybersecurity segments are expected to deliver strong growth between 15-36% in the medium-term, whilst management estimates that unified communications as a service (UCaaS) is growing at 13-30% and cloud managed networking growing by c 18%. By referencing growth forecasts at Check Point, Palo Alto and Cisco (collectively accounting for more than 50% of Westcon's revenues), together with the fact that Westcon is outgrowing the market and gaining market share, we estimate low double-digit growth for Westcon is realistic in FY23 and FY24.
- **Westcon growth focused on emerging 'born-in-the-cloud' vendors.** Westcon has benefited from its multi-year investment in the modernisation of its operating platforms, business automation and organisational changes, enabling the business to record double-digit revenue growth despite product supply constraints. As management has positioned the division for

growth, Westcon is delivering an increasing proportion of services from next-generation vendors, including Palo Alto Networks, Check Point, F5, Extreme Networks, Avaya, Broadcom, RingCentral, 8x8 and Juniper. In particular, Westcon is continuing to build its portfolio of category-leading security vendors and UCaaS, enabling it to offer full market coverage in this high-growth area.

- **Backlog: a further increase anticipated in H222.** In H122, Datatec benefited from pent-up demand around the world, with semiconductor shortages and the resulting supply chain issues acting as a brake on growth, leading to significant growth in Westcon's backlog in H122 (Exhibit 16). With shortages persisting, we only expect the backlog to grow further in H222. For clarity, the backlog represents postponed revenues rather than lost sales, where projects may only have been part-fulfilled pending the requisite hardware deliveries. These back orders will be delivered and recognised as sales as the semiconductor shortages reduce and global supply chain constraints normalise, which we expect in FY23.

Exhibit 16: Growth of Westcon's backlog in FY22



Source: Datatec

- **Continuing expansion of software-related revenues.** Westcon has seen an increasing proportion of software & services and SaaS revenues (H122: 43%, H121: 40%) across the business. Management expects that the proportion of software-related revenues will continue to increase in the coming years, representing the majority of revenues in the medium term as Westcon leverages its systems capabilities to deliver subscription, cloud and hybrid solutions for all its vendors.
- **Westcon transitioning to become a technology provider not just a distributor.** Driven by management's focus on cloud-enabling hardware, software & services and SaaS solutions, with increasing re-occurring revenues, it is becoming apparent that management is transitioning Westcon from being a specialist distributor to becoming a higher-growth, higher-margin technology and solutions provider. Management's strategy is to steadily reposition Westcon as a specialist technology provider, offering increasingly higher value-added services and channel management for networking and cybersecurity vendors across Europe, the Middle East, Africa and Asia-Pacific. This transition unlocks the capacity for double-digit y-o-y revenue growth, with our estimated gross profit margins of c 11% and EBITDA margins expected to continue to rise towards 3.0% (H122: 2.2%) in the medium term.

Outlook: Strong growth supported by unwinding of backlog

In H122, supply chain issues led to inventory build-up and significant backlog growth across Westcon. We expect to see similar dynamics in H222 and into FY23, implying a continued strong performance across both Comstor and Westcon operations. This will be driven by ongoing demand for software and services in networking, security and cloud infrastructure, held back, at least initially, by supply chain constraints limiting Westcon's capacity to satisfy this demand.

We envisage that the semiconductor supply chain issues will persist throughout 2022, with inventory build-up and backlog growth only starting to unwind in late CY22 and early CY23. This picture should then support Westcon in the medium term, with the backlog reducing steadily in FY23 and FY24.

Valuation: Westcon EV c US$630m

Although listed in Johannesburg, the Datatec group has negligible exposure to the South African market, with the equity story being a dollar-denominated global ICT play. Management is clearly positioning Datatec as an international investment story.

As a valuation snapshot, we have principally drawn Westcon's peer group from North America and Europe. Westcon's peers have average gross margins of 10.2%, with EBITDA margins of 4.2%, compared to our estimates for Westcon of 11.3% and 2.2% respectively. The peer group trades on average multiples of 0.4x FY1/FY2 sales and 9.5x FY1 and 8.9x FY2 EV/EBITDA. Applying these multiples to Westcon, factoring in Datatec's 92% economic interest (8% is held by SYNNEX), indicates a valuation for Datatec's interest of c US$1bn based on sales, or US$630m based on average EBITDA, our preferred multiple. The valuation has risen fractionally since our valuation note in August 2021, due to a rise in sector multiples.

Exhibit 17: IT distribution companies and resellers

	Share price	Quoted ccy	EV ($m)	Gross margin FY1 (%)	EBITDA margin FY1 (%)	EBIT margin FY1 (%)	EV/ sales FY1 (x)	EV/ sales FY2 (x)	EV/ EBITDA FY1 (x)	EV/ EBITDA FY2 (x)	P/E FY1 (x)	P/E FY2 (x)	Yield FY2 (%)
Datatec	37.03	ZAR	685	17.0	3.7	2.5	0.2	0.1	4.0	3.6	6.1	5.0	14.4
Westcon International	-	-	720	11.3	2.2	-	0.4	0.4	7.3	6.2	-	-	-
Also Holding	242.5	CHF	3,459	6.1	2.1	1.8	0.2	0.2	10.8	10.0	17.4	16.0	1.8
Arrow Electronics	121.84	USD	10,711	12.6	5.7	5.1	0.3	0.3	5.2	5.5	6.4	6.6	0.0
Avnet	40.83	USD	5,367	12.2	4.1	3.6	0.2	0.2	5.8	5.7	7.2	7.2	2.3
Esprinet	11.18	EUR	885	5.1	1.8	1.4	0.2	0.2	9.3	8.2	12.8	10.5	2.8
Exclusive Networks	14.18	EUR	2,132	13.3	5.3	3.0	0.8	0.7	14.4	12.8	16.6	14.1	1.5
Scansource	30.57	USD	945	11.8	4.4	3.6	0.3	0.3	6.4	6.1	8.7	8.2	NM
Sesa	134.8	EUR	2,242	NM	7.0	5.0	0.9	0.8	12.1	10.5	26.5	22.7	0.9
TD Synnex	102.32	USD	13,006	5.5	2.6	2.5	0.2	0.2	8.2	7.0	9.3	8.4	NM
Wesco International	123.03	USD	10,694	20.9	6.8	5.8	0.5	0.5	8.0	7.5	10.6	9.2	NM
WPG Holdings	56.2	TWD	8,144	3.9	2.0	1.8	0.3	0.3	14.9	16.1	8.6	10.2	7.4
Mean				10.2	4.2	3.4	0.4	0.4	9.5	8.9	12.4	11.3	2.4
Median				11.8	4.2	3.3	0.3	0.3	8.7	7.8	9.9	9.7	1.8

Source: Refinitiv (priced at 23 February 2022).
Note: Westcon multiples are based on an enterprise value before adjusting for the SYNNEX minority.

To put this valuation in context, Datatec's enterprise value (based on the H122 net cash figure) is US$685m, comparable to the valuation for Westcon International, even before considering the worth of Logicalis and Analysys Mason, collectively worth an incremental US$1bn+, as set out in Strategic review to unlock embedded value.

Westcon's management has delivered a strongly improving operational performance at Westcon since 2018, despite the impact of the COVID-19 pandemic in FY21/22. Assuming that operating performance improvements continue, with EBITDA margins rising towards 3.0% in the medium term, Westcon represents an increasingly valuable asset within Datatec, whose value is not fully recognised by shareholders.

We expect Datatec's peer group discount to narrow materially over time, but recognise that full closure of the discount to fair value may require further simplification of the group's corporate structure.

Management remains committed to unlocking this underlying value.

Exhibit 18: Financial summary – Datatec G

US$'000	2020	2021	2022e	2023e	2024e
Year end 28 February	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	4,214,421	4,109,463	4,514,000	4,757,030	5,028,776
Cost of Sales	(3,472,843)	(3,418,926)	(3,748,700)	(3,941,430)	(4,157,507)
Gross Profit	741,578	690,537	765,300	815,601	871,269
EBITDA	158,657	118,632	169,200	192,607	215,235
Normalised operating profit	105,157	97,868	111,742	137,503	162,239
Amortisation of acquired intangibles	(11,297)	(8,635)	(8,586)	(8,046)	(7,279)
Exceptionals	(3,700)	(27,771)	(6)	(6)	0
Share-based payments	(7,623)	(11,493)	0	0	0
Reported operating profit	82,537	49,969	103,150	129,451	154,960
Net Interest	(25,874)	(25,692)	(27,098)	(29,902)	(31,730)
Joint ventures & associates (post tax)	(204)	908	0	0	0
Exceptionals	2,029	55	0	0	0
Profit Before Tax (norm)	79,079	73,084	84,645	107,601	130,509
Profit Before Tax (reported)	58,488	25,240	76,053	99,550	123,230
Reported tax	(31,809)	(19,540)	(34,224)	(39,820)	(43,130)
Profit After Tax (norm)	34,615	30,035	46,555	64,561	84,831
Profit After Tax (reported)	26,679	5,700	41,829	59,730	80,099
Minority interests	(13,772)	(3,103)	(10,989)	(11,899)	(14,119)
Discontinued operations	1,332	0	0	0	0
Net income (normalised)	20,843	26,932	35,565	52,662	70,712
Net income (reported)	14,239	2,597	30,840	47,831	65,981
Average number of shares outstanding (m)	210.5	198.6	208.7	217.0	217.0
EPS - normalised (c)	9.90	13.56	17.04	24.27	32.59
EPS - diluted normalised (c)	9.74	13.20	16.61	23.68	31.80
EPS - basic reported (c)	6.77	1.31	14.78	22.05	30.41
EPS - Company underlying uEPS (c)	9.90	13.56	17.04	24.27	32.59
Dividend (c)	7.00	6.57	37.94	8.09	10.86
Revenue growth (%)	(2.7)	(2.5)	9.8	5.4	5.7
Gross Margin (%)	17.6	16.8	17.0	17.1	17.3
EBITDA Margin (%)	3.8	2.9	3.7	4.0	4.3
Normalised Operating Margin	2.5	2.4	2.5	2.9	3.2
BALANCE SHEET					
Fixed Assets	512,598	554,690	586,356	620,633	657,790
Intangible Assets	291,279	314,486	333,525	349,507	363,128
Tangible Assets	43,300	39,987	39,469	41,600	46,255
Right-of-use assets	83,953	94,837	107,983	124,147	143,027
Investments & other	94,066	105,380	105,380	105,380	105,380
Current Assets	2,083,928	2,242,568	2,354,775	2,487,878	2,643,763
Stocks	253,271	242,005	292,707	307,755	294,285
Debtors	1,110,510	1,108,105	1,245,944	1,329,991	1,425,243
Cash & cash equivalents	347,189	488,632	411,219	444,039	516,837
Other	372,958	403,826	404,905	406,093	407,399
Current Liabilities	(1,765,823)	(1,980,013)	(2,174,777)	(2,285,960)	(2,411,522)
Creditors	(1,259,013)	(1,385,208)	(1,523,053)	(1,600,041)	(1,687,368)
Tax and social security	(16,677)	(16,596)	(16,596)	(16,596)	(16,596)
Short term borrowings	(338,945)	(392,877)	(431,552)	(454,786)	(480,766)
Lease liabilities	(34,325)	(36,398)	(39,981)	(42,134)	(44,540)
Other	(116,863)	(148,934)	(163,595)	(172,403)	(182,251)
Long Term Liabilities	(187,610)	(176,624)	(192,883)	(202,650)	(213,572)
Long term borrowings	(18,638)	(42,371)	(46,542)	(49,048)	(51,850)
Lease liabilities	(95,148)	(77,847)	(85,510)	(90,114)	(95,262)
Other long-term liabilities	(73,824)	(56,406)	(60,830)	(63,488)	(66,460)
Net Assets	643,093	640,621	573,472	619,901	676,459
Minority interests	(70,778)	(57,465)	(68,454)	(80,353)	(94,472)
Shareholders' equity	572,315	583,156	505,018	539,548	581,988
CASH FLOW					
Op Cash Flow before WC and tax	169,980	157,896	169,206	192,613	215,235
Working capital	57,231	79,903	(50,696)	(22,107)	5,546
Exceptional & other	(11,642)	(28,293)	(6)	(6)	0
Tax	(36,941)	(36,597)	(34,224)	(39,820)	(43,130)
Operating cash flow	178,628	172,909	84,280	130,679	177,651
Capex	(28,036)	(35,145)	(36,036)	(36,971)	(37,953)
Acquisitions/disposals	(9,179)	(3,694)	0	0	0
Net interest	(25,874)	(25,692)	(27,098)	(29,902)	(31,730)
Equity financing	(51,683)	(2,808)	0	0	0
Dividends	(15,137)	(4,905)	(82,323)	(17,553)	(23,571)
Other	20,019	1,880	(44,459)	(45,830)	(43,329)
Net Cash Flow	68,738	102,545	(105,635)	424	41,067
Opening net debt/(cash)	100,753	139,867	60,861	166,496	166,072
FX	(9,270)	(11,312)	0	0	0
Other non-cash movements	(98,582)	(12,227)	0	0	0
Closing net debt/(cash)	139,867	60,861	166,496	166,072	125,004

Source: Datatec accounts, Edison Investment Research

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