Directors' **report**

for the year ended 29 February 2020

PROFILE AND GROUP STRUCTURE

Datatec is an international ICT solutions and services group operating in more than 50 countries across North America, Latin America, Europe, Africa, Middle East and Asia-Pacific. The Group's service offering spans the technology, integration and consulting sectors of the ICT market.

Datatec operates two main divisions:
- **Technology** – Westcon International: distribution of security, collaboration, networking and data centre products and solutions; and
- **Integration and managed services** – Logicalis: ICT infrastructure solutions and services.

The specialist activities of Consulting and Datatec Financial Services are included with the corporate head office functions in the "Corporate, Management Consulting and Financial Services" segment of the Group.

Datatec Limited (the "Company"), a South African company with registration number 1994/005004/06, is the parent company of the Group. The Company's shares are listed on the JSE Limited with share code DTC and ISIN ZAE000017745.

SPECIAL DIVIDEND WITH SCRIP DISTRIBUTION ALTERNATIVE

Following an arbitration process by an independent accountant, the earn-out payment relating to the disposal of Westcon Americas to SYNNEX was determined to be US$14 million and was returned to shareholders by way of a special dividend of R1.00 per share on 29 July 2019 which totalled US$15.4 million. The special dividend resulted in US$11.9 million of cash being distributed to shareholders who did not elect the scrip distribution alternative and 1.25 million shares were issued to shareholders who elected the scrip distribution alternative.

STATED SHARE CAPITAL

Authorised stated share capital

The authorised stated capital of the Company as at 29 February 2020 and 28 February 2019 is R4 000 000 made up of 400 000 000 ordinary shares.

Issued stated capital

As at 29 February 2020, the issued stated capital amounted to R2 014 500, divided into 201 450 000 ordinary shares (FY19: R2 192 000 divided into 219 200 000 ordinary shares).

STATED CAPITAL CHANGES DURING THE YEAR

Share repurchases

In total, the Company repurchased 19 000 718 shares for cancellation during FY20 at a total cost of US$44.3 million:

Shareholder authority	Number of shares repurchased	Average price per share paid ZAR	Cost of shares repurchased ZAR'000	Cost of shares repurchased including share repurchase expenses US$'000	Date of cancellation of shares
Annual General Meeting held on 29 August 2019	5 463 435	34.30	187 383	12 819	27 February 2020
	5 086 565	34.27	174 312	11 788	21 October 2019
General meeting held on 26 June 2019	2 353 558	33.31	78 388	5 330	2 September 2019
	1 697 160	34.97	59 349	4 224	19 July 2019
General meeting held on 15 January 2019	4 400 000	33.22	146 148	10 184	25 June 2019
Total shares repurchased	**19 000 718**	**33.98**	**645 580**	**44 345**	

Share cancellation expenses relating to the shares repurchased for the year amounted to US$0.2 million. These were accounted for in equity.

Scrip distribution

As a result of the scrip distribution referred to above, the Company issued 1 250 718 shares.

Financial details of the movement in share capital have been reflected in the Group statement of changes in equity and in Note 17 in the consolidated annual financial statements.

DIRECTORS

Brief *curricula vitae* of directors are included on pages 22 and 23 of the Integrated Report. Directors' interests in the shares of the Company are provided in the remuneration report in Investor Information. Directors' remuneration and their interests in share-based remuneration schemes are provided in Note 26 to these consolidated annual financial statements.

All directors are subject to election by shareholders at the first AGM after their appointment. Subsequently, the terms of the Company's Memorandum of Incorporation require one-third of all directors to retire annually (ensuring each director retires at least once every three years) when they may offer themselves for re-election by shareholders.

GOING CONCERN

The Board has undertaken a rigorous assessment of whether the Group is a going concern in light of the current economic conditions and available information about future risks and uncertainties.

Directors' **report** continued

for the year ended 29 February 2020

The projections of the Group have been prepared on a sum-of-the-parts basis to determine the ability of each of its core segments to continue as a going concern. These projections covered future financial performance, solvency and liquidity for a period of 12 months from the date of approval of these financial statements, including performing sensitivity analyses and stress testing of various possible scenarios, varying in severity, related to COVID-19, which had been declared a global pandemic by the World Health Organization on 11 March 2020. These scenarios included contingency planning for restructuring actions to be taken in response to the more severe scenarios. It is, however, difficult to predict the overall outcome and impact of COVID-19.

The Group currently has no need to undertake a capital restructuring and key executive management is in place. The Board is not aware of any material non-compliance with statutory or regulatory requirements and there are no pending legal proceedings other than in the normal course of business.

Solvency

The Board has determined that the Group is solvent with net assets at 29 February 2020 of US$572.3 million (FY19: US$648.9 million) and tangible net assets of US$281.0 million (FY19: US$364.1 million). The Group is expected to remain solvent over the next 12 months.

Liquidity

In February 2020 Logicalis completed a new three-year US$155 million banking facility for its subsidiaries. This new senior facility covers Logicalis' operations throughout the world, excluding Latin America, which has its own separate credit facilities. It is used to fund working capital requirements and also includes a new acquisition credit line. In addition, the Latin American credit facilities are considered adequate in the current environment.

On 14 May Westcon extended its expiring European Invoice Financing facility of US$280 million for a further 12 months until 4 June 2021. The facility has been reduced to US$224 million with effect from 4 June 2020, with an accordion facility to go up to US$280 million during the period November 2020 to February 2021 when working capital utilisation is typically at its highest. This extended facility is considered adequate for Westcon International's working capital requirements, based on prior year utilisation of the facility, as well as projected headroom as per the scenario modelling and stress testing.

The Group performed covenant projections to confirm that banking covenants are unlikely to be breached for the next 12 months.

The Group's liquidity is dependent on customers continuing to pay their invoices. Between the reporting date and the authorisation date of these annual financial statements, customers have continued to pay largely in line with historic norms. Suppliers have also provided extended payment terms where required.

Trade receivables and inventory are of a sound quality and adequate provisions have been recorded.

The Group's forecasts and projections of its current and expected financial performance show that the Group is expected to operate within the levels of its banking facilities for at least 12 months from the authorisation date of these annual financial statements.

Trading from 1 March 2020 to the date of this report

Trading has remained steady since the beginning of FY21, although some delays and supply disruptions were experienced especially in countries with highly restrictive lockdowns. Initial indications are that Westcon International revenues and order intake for the first quarter of FY21 ("Q1 FY21") are similar to the same period last year. For Logicalis, order intake for Q1 FY21 is similar to the corresponding period last year, with revenues for Q1 FY21 slightly lower than Q1 FY20.

Increased demand for the Group's technology solutions is being experienced to support remote working during the lockdowns enforced throughout the world. In particular, demand for cloud computing, remote access solutions, virtualisation, security and unified communications remains strong. The positioning of the Group's divisions remains strategically sound with good demand for their solutions and services expected to continue as the world emerges from the current crisis and investments towards digital transformation accelerate.

Furthermore, the multi-year investment in systems and processes in Westcon was a key enabler to move all its employees to working remotely, with the exception of warehouse staff, who continue to work in the warehouses subject to increased safety protocols. Most of the Logicalis global workforce also successfully works from home in the current environment.

Conclusion

The Group's projections and sensitivity analyses shows that the Group has sufficient capital and liquidity to continue to meet its short-term obligations and as a result it is appropriate to prepare these annual financial statements on a going concern basis. This is further supported by trading after the financial year-end, as outlined above.

INVESTMENTS AND SUBSIDIARIES

Financial information relating to the Group's investments and interests in subsidiaries is contained in Annexure 1 to the consolidated annual financial statements and in Note 11.

ACQUISITIONS

The Group made the following acquisitions during the financial year ended 29 February 2020:

On 1 March 2019, Analysys Mason Limited acquired 100% of the issued share capital Stelacon Holding AB ("Stelacon"), a Swedish consulting company, for US$2.6 million (including a deferred purchase consideration of US$1.2 million). This was an important further step in building a pan-Scandinavian presence after Analysys Mason's successful expansion into Norway. Stelacon brings experience in areas including smart cities, regional development, digital services, policy and regulation, and telecoms and digital communications.

Effective 30 June 2019, Logicalis SA (Pty) Ltd, acquired 100% of the issued share capital of Mars Investment Holdings (Pty) Ltd ("Mars Technologies"), a South African IT services business, for US$0.4 million (including a deferred purchase consideration of US$0.1 million). With this acquisition, the Logicalis South African operation strengthens and expands its managed services offering to better serve its corporate customers and deliver new services to existing customers from both companies.

On 2 September 2019, Logicalis Group purchased a 70% interest in Cilnet – Comunicações e Projectos Especiais S.A. ("Cilnet"), a Cisco systems integrator and managed services business in Portugal, for US$8.8 million (including US$2.3 million deferred purchase consideration). The acquisition increases Logicalis' Cisco technical expertise in the Iberian region and complements the existing Spanish operation with data centre, collaboration, networking, infrastructure and managed services capabilities, expanding the offering to the region.

Also, on 2 September 2019, Logicalis acquired 100% of Orange Networks GmbH ("Orange Networks"), a Microsoft services business in Germany focused on Microsoft cloud and managed services. The purchase price was US$2.9 million (including US$0.6 million deferred purchase consideration). This acquisition advances Logicalis Germany to Microsoft Gold-Certified Partner status and enhances its hybrid cloud offering.

SHARE-BASED PAYMENTS AND LONG-TERM INCENTIVE SCHEMES

Details of the Group's share-based payment schemes and long-term incentive schemes are set out in the remuneration report in Investor Information and Note 2 of the consolidated annual financial statements.

EVENTS OCCURRING SUBSEQUENT TO THE YEAR-END

COVID-19

On 11 March 2020 the World Health Organization declared the coronavirus outbreak causing the disease COVID-19 to be a global pandemic. This was followed by most countries in which the Group operates instituting "lockdown" restrictions to slow the spread of the disease. The Datatec Group responded by ensuring the safety and wellbeing of its employees and enabling working from home to maintain social distancing. Travel and face-to-face meetings were quickly reduced and eliminated completely in accordance with prevailing regulations. Most of the Group's business activities are able to continue under lockdown conditions and the provision of IT and communications equipment and services is often an essential component of the global response to the pandemic. The effect on the Group's business at the date of this report has been considered in detail by the Board in approving the annual financial statements for FY20. Please refer to Note 39 for detailed consideration of the ability of the Group to continue as a going concern.

The countries in which the Group operates are all in different stages of "lockdown", including travel, trade restrictions and social distancing measures. Outcomes range from successful virus containment with a short-term economic impact, to a prolonged global contagion resulting in a potential global recession or recessions in countries in which the Group operates. At the same time, there are a number of policy and fiscal responses emerging across the globe intended to mitigate potential negative economic impacts. Datatec is monitoring the developments closely and continuously adjusting across all its operations. The Group follows guidelines from the World Health Organization and abides by the requirements as activated by local governments. Contingency plans have been implemented as far as possible to mitigate the potential adverse impact on the Group's employees and operations.

As the WHO declared COVID-19 a global pandemic on 11 March 2020 after the reporting date of the Group, the Group considers this to be a non-adjusting event after the reporting date as the directors are of the view that the impact of the pandemic on the global markets and economy could not have sufficiently been anticipated at 29 February 2020. As a result the financial effects resulting from the impact of COVID-19 have not been reflected in the Group's financial statements as at 29 February 2020.

As the situation remains fluid and rapidly evolving (due to continuing changes in government policy and evolving business and customer reactions thereto) as at the date these financial statements are authorised for issue, the directors of the Company considered that the financial effects of COVID-19 on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the economic effects arising from the COVID-19 outbreak may materially affect the consolidated results of the Group for the first half and full year of its FY21 financial year.

Westcon International extended its European Financing facility on 14 May 2020 (refer to Note 39).

Acquisitions

Effective 1 April 2020, Analysys Mason acquired 100% of the shares in Allolio&Konrad for €7 million cash, a consultancy based in Bonn, Germany with an extensive track record in the telecommunications industry and long-term client relationships with Europe's leading telecom operators. Allolio&Konrad's services include the design, management and assurance of major business support systems and operational support systems transformation programmes and large-scale, multi-year IT strategy initiatives, alongside other solutions focused on performance and operations management. Due to the timing of this acquisition, the at acquisition accounting has not been finalised and the fair value assessments of assets and liabilities acquired is still in progress, thus the goodwill and intangible asset values related to this acquisition has not been determined. Acquisition-related costs of €0.2 million have been incurred on this acquisition.

There are no other material subsequent events to report.

DIVIDEND POLICY

The Group's policy is to maintain a fixed three times cover relative to underlying earnings when declaring dividends. However, as a result of the current COVID-19 pandemic and stated focus on preserving cash, the Board has decided not to declare a dividend for FY20.

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders of Datatec will be held as a virtual meeting at 14:00 South African time on Thursday, 29 July 2020.