adcorp
Connecting Potential

Financial results presentation

For the six months ended 31 August 2020

DATE

25 November 2020

Forward looking statements

The statements contained herein may contain certain forward-looking statements relating to the Group that are based on the beliefs of the Group's management as well as assumptions made by and information currently available to the Group's management. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements, include without limitation, statements relating to the Group's business prospects, future developments, trends and conditions in the industry and geographical markets in which the Group operates, its strategies, plans, objectives and goals, its ability to control costs, statements relating to operations, margins, overall market trends, risk management and exchange rates. Forward-looking statements are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment.

Although forward-looking statements contained in this presentation are based upon what management of the Company believes are reasonable assumptions, there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements apply only as of the date on which they are made, and Adcorp undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

25 November 2020

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Business context

Phil Roux

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Noel Prendergast

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Operational review

Bruce Toerien

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Outlook

Phil Roux

Introduction

Period under review marked by Covid-19 impact

- Bumpy ride – extreme volatility/ supply chain disruption
- Global industry contraction
- Local industry performance mirrors global counterparts
- Steep contraction in key sectors
- Adcorp tracks industry performance
- Permanent placements and training division most impacted
- Australia proved more resilient with government subsidies
- Strong focus on cost reduction and cash preservation increased profitability

Working hour losses, world and by region and income group, first, second and third quarters of 2020 (percentage)

	1st Quarter 2020	2nd Quarter 2020	3rd Quarter 2020
World	5.6%	17.3%	12.1%
Low-income countries	2.1%	13.9%	11.0%
Lower-middle-income countries	3.2%	23.3%	15.6%
Upper-middle-income countries	9.3%	13.3%	10.4%
High-income countries	3.2%	15.5%	9.4%
Africa	1.9%	15.6%	11.5%
Americas	3.0%	28.0%	19.8%
Arab states	2.3%	16.9%	12.4%
Asia and the pacific	7.3%	15.2%	10.7%
Europe and Central Asia	4.1%	17.5%	11.6%

Source: ILO nowcasting model

Progress on value drivers

Cost management

Strategic customer management

Implementation of enterprise system

Divestitures

BEE enhancement

Margin upliftment

Leadership/culture development

Corporate/brand development strategy

Delivered targets/milestones

On track for full delivery by year end

Not delivered / behind schedule

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FY2020 half-year financial results

Noel Prendergast
Chief Financial Officer

Financial snapshot

Revenue from continuing operations decreased by 11% to R6,1 billion (2019: R6,9 billion *restated**)

Operating profit from continuing operations increased by 30% to R71 million (2019: R54 million *restated**)

Profit after tax from continuing operations of R17 million (2019: R470 million loss after tax *restated**)

Cash generated by operations increased to R861 million (2019: R110 million)

Days Sales Outstanding (DSO) decreased to 46 days (2019: 51 days)

Gearing ratio decreased to 45% reduction (2019: 53%)

Earnings per share increased to 40,8 cents per share (2019: 413,3 cents loss per share)

Headline earnings per share increased to 41,9 cents (2019: 5,1 cents earnings per share)

***Restated to classify Dare Holdings Proprietary Limited – Australia and Adcorp Support Services Proprietary Limited (Adcorp Financial Services segment) as assets held for sale.*

Summarised consolidated statement of profit and loss

Key notes:

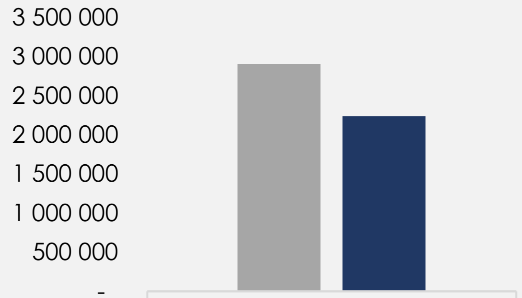
- Revenue decline of 11.4% coupled with gross margin compression of 2.2%
- Other income increased due to JobKeeper in Australia
- Reduction in operating expenses of R198m via numerous cost initiatives
- Net loan funding cost decrease of 37% offset by 264% increase in lease liability interest
- No further impairment of goodwill

	Unaudited 6 months to Aug 20	Unaudited 6 months to Aug 19	
	R'000	**R'000**	**% Change**
Revenue	**6,110,733**	6,898,657	(11.4)
Cost of sales	**(5,549,124)**	(6,110,748)	(9.2)
Gross profit	**561,609**	787,909	(28.7)
Other income	**56,663**	12,527	352.3
Operating expenses	**(483,363)**	(681,856)	(29.1)
EBITDA	**134,909**	118,580	13.8
EBITDA %	**2.2%**	1.7%	
Depreciation and amortisation	**(64,294)**	(64,096)	0.3
Depreciation of PPE and amortisation	**(28,789)**	(37,912)	(24.1)
Depreciation of right of use assets (IFRS 16)	**(35,505)**	(26,184)	35.6
Net cost of funding	**(49,530)**	(47,234)	4.9
Net cost of loan funding	**(25,781)**	(40,702)	(36.7)
Lease liability interest (IFRS 16)	**(23,749)**	(6,532)	263.6
Impairment of intangible assets and goodwill	**-**	(452,160)	
Profit/(loss) before taxation	**21,085**	(444,910)	104.7
Taxation expense	**(3,753)**	(25,328)	(85.2)
Profit/(loss) for the period	**17,332**	(470,238)	
Continuing operations	**17,332**	(470,238)	103.7
Discontinued operations	**26,608**	23,619	12.7
	43,940	(446,619)	109.8

**Restated to classify Dare Holdings Proprietary Limited – Australia and Adcorp Support Services Proprietary Limited (Adcorp Financial Services segment) as assets held for sale.*

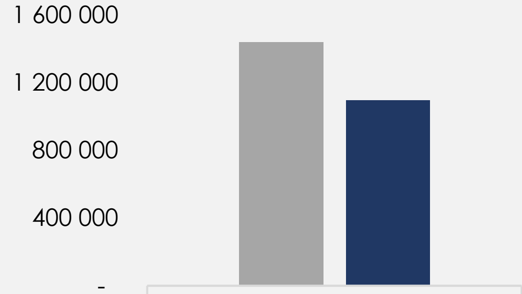
Segmental performance: Revenue

Industrial Services (SA)



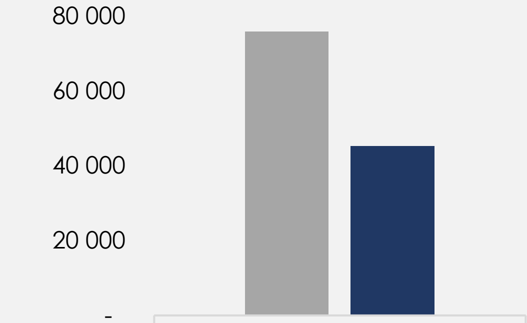
	Industrial Services SA
2019 R'000	2 907 221
2020 R'000	2 235 946
% Change	(23.1)

Professional Services (SA)



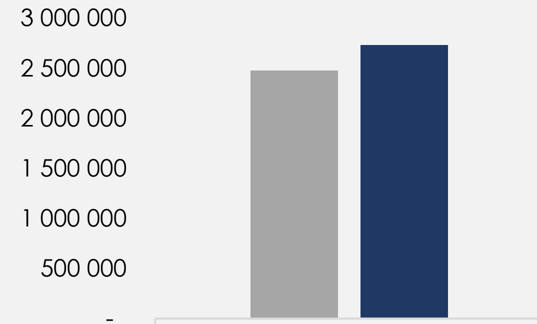
	Professional Services SA
2019 R'000	1 439 681
2020 R'000	1 097 329
% Change	(23.8)

Training Services (SA)



	Training SA
2019 R'000	75 738
2020 R'000	45 161
% Change	(40.4)

Australia



	Australia
2019 R'000	2 476 017
2020 R'000	2 732 297
% Change	10.4

Group revenue decrease of 11.4% from continuing operations

South Africa

- All segments negatively impacted by COVID-19

Australia

- Decline of 8.8% in AUD
- Currency uplift of 12.4%

	Continuing operations	Discontinued operations	Total revenue
2019 R'000	6 898 657	289 594	7 188 251
2020 R'000	6 110 733	324 907	6 435 640
% Change	(11.4)	12.2	(10.5)

Segmental performance: EBITDA

EBITDA uplift of 13.8%

South Africa

Uplift of 8.6% through cost containment

Non-recurring costs of R66 million

Australia

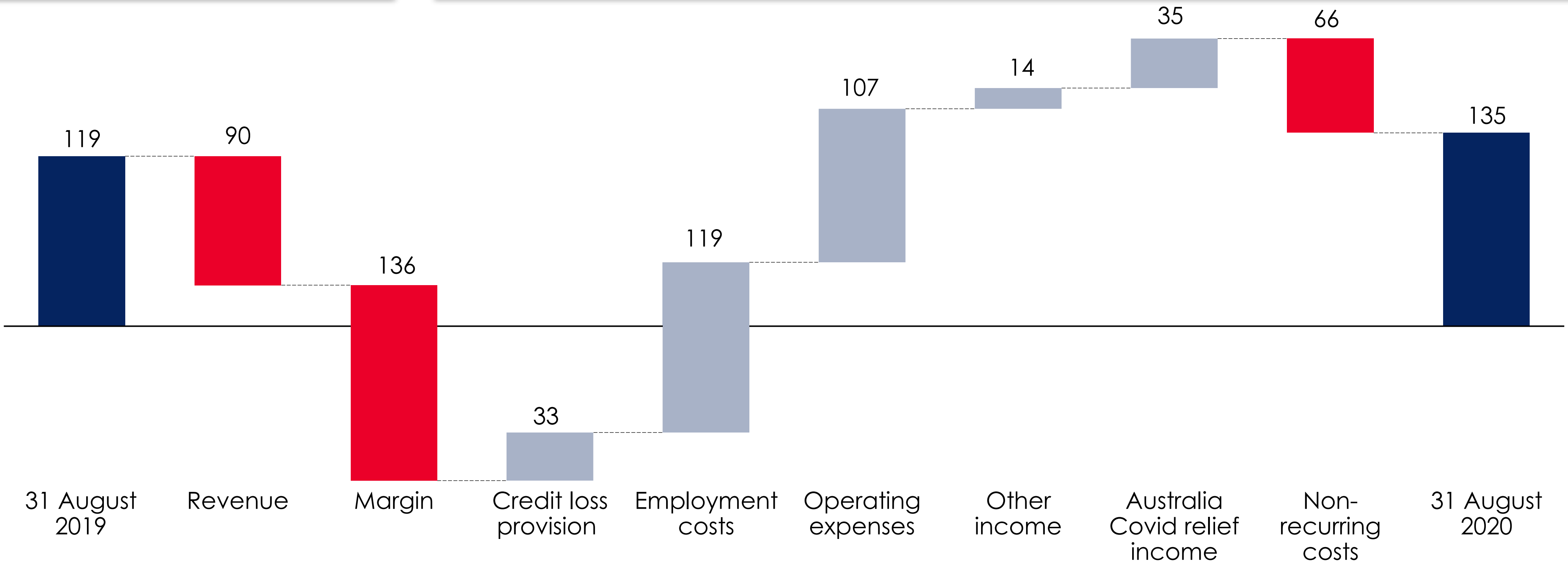
22.3% uplift driven by focused reduction in operating costs

Benefit of government relief income

	Unaudited 6 months to Aug 20	Unaudited 6 months to Aug 19	
	R'000	R'000	% Change
South Africa - continuing operations	**79,822**	73,520	8.6
Industrial Services	**127,167**	134,050	(5.1)
Professional Services	**88,610**	85,705	3.4
Training	**4,073**	13,550	(69.9)
Financial Services		913	(100.0)
Central costs	**(140,028)**	(160,698)	(12.9)
South Africa - discontinued operations	**29,826**	31,929	(6.6)
Financial Services	**29,826**	31,929	(6.6)
Total South Africa	**109,647**	105,449	4.0
Australia - continuing operations	**55,087**	45,060	22.3
Industrial Services	**15,422**	6,419	140.3
Professional Services	**57,740**	49,740	16.1
Central costs	**(18,075)**	(11,099)	62.9
Australia - discontinued operations	**11,066**	549	1 915.7
Industrial Services	**11,066**	549	1 915.7
Total Australia	**66,153**	45,609	45.0
Total Group	**175,801**	151,058	16.4
Continuing operations	**134,909**	118,580	13.8
Discontinued operations	**40,892**	32,478	25.9
Total Group	**175,801**	151,058	16.4

**Restated to classify Dare Holdings Proprietary Limited – Australia and Adcorp Support Services Proprietary Limited (Adcorp Financial Services segment) as assets held for sale.*

EBITDA Rm:
Continuing operations



- Collections reversed estimated credit loss from previous year
- Employment cost benefits include salary restructuring and a resized workforce
- The operating expense based has been reset and further refined
- Non-recurring costs include amongst others, severance costs, technology refresh

Summarised consolidated statement of financial position

- Trade receivables decreased by 19.6% from February 2020
- No impairments for goodwill
- Increase in intangible assets as a result of capitalisation of technology refresh project implementation costs
- Cash and cash equivalents have improved by R362m and interest-bearing borrowings have reduced by R372m
- Trade and other payables, including provisions increased by 23.1%
    - Inclusive of SARS deferrals
    - Provisions increase of 18.1% primarily related to leave pay provisions

	Unaudited 6 months to Aug 20	Unaudited 6 months to Aug 19	Audited Year end Feb 20
	R'000	R'000	R'000
Assets			
Property and equipment	**67,796**	88,808	72,212
Right-of-use lease assets	**385,020**	451,484	414,917
Intangible assets and Goodwill	**861,071**	962,513	846,577
Investment and other financial assets	**23,592**	20,004	22,051
Tax and deferred tax asset	**224,179**	251,570	199,656
Trade and other receivables	**1,687,591**	2,213,223	2,016,700
Cash and cash equivalents	**681,405**	402,310	319,154
	3,930,654	4,389,912	3,891,267
Non-current assets held for sale	**103,631**	-	116,039
Total assets	**4,034,285**	4,389,912	4,007,306
Equity and liabilities			
Capital and reserves	**1,308,151**	1,350,749	1,175,747
Interest-bearing borrowings	**629,431**	1,070,908	1,001,866
Right-of-use lease liabilities	**447,808**	469,281	497,478
Tax and deferred tax liability	**158,638**	125,823	120,281
Provisions, trade and other payables	**1,444,505**	1,373,151	1,173,075
	3,988,533	4,389,912	3,968,447
Held for sale liabilities	**45,752**	-	38,859
Total equity and liabilities	**4,034,285**	4,389,912	4,007,306

**Restated to classify Dare Holdings Proprietary Limited – Australia and Adcorp Support Services Proprietary Limited (Adcorp Financial Services segment) as assets held for sale.*

Cashflow: Rm

- Vast improvement in collections – 90 days + has reduced by 50% since February 2020
- Effective management of payables - deferred payables to be settled in 2nd half
- Facility usage reduced by R414m

Net debt

- South African facilities renegotiated to May 2022
- Australian facility extended to April 2021 with an option to extend the term

	Unaudited 6 months to Aug 20	Unaudited 6 months to Aug 19	Audited Year end Feb 20
	R'000	R'000	R'000
ZAR Amortising term loan	**133 333**	200 000	200 000
ZAR Amortising revolving credit facility	**353 334**	827 611	570 000
AUD Borrowing base facility	**142 571**	41 840	231 684
Bank overdraft	**193**	1 457	182
Total institutional debt	**629 431**	1 070 908	1 001 866
Cash and cash equivalents	**681 405**	402 310	319 154
Cash and cash equivalents (assets held for sale)	**19 454**	0	3 921
Net institutional debt	**(71 428)**	668 598	682 712
Payables deferred due to COVID-19	**437 072**	0	0
Pro-forma net debt	**365 644**	668 598	682 712

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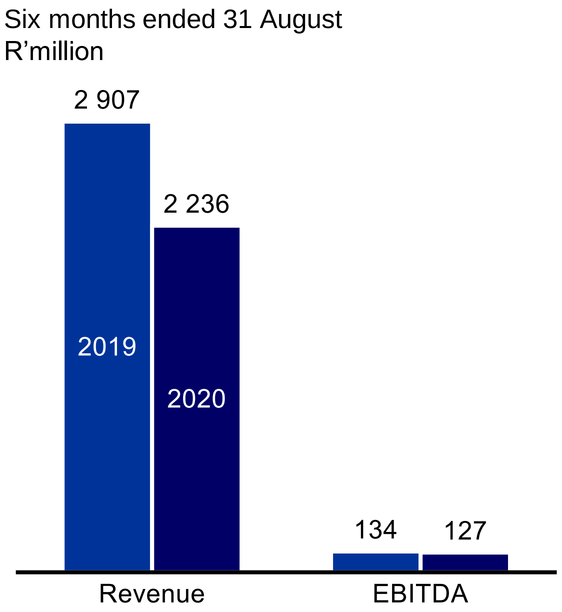
Operational Review

Bruce Toerien
Group Executive: Commercial

Industrial Services



Operational review

- TES* revenue declined 28% driven by hospitality, automotive and industrial sectors
- Functional Outsourcing increased revenue 11% as benefitting from essential services sectors
- EBITDA largely preserved

Outlook

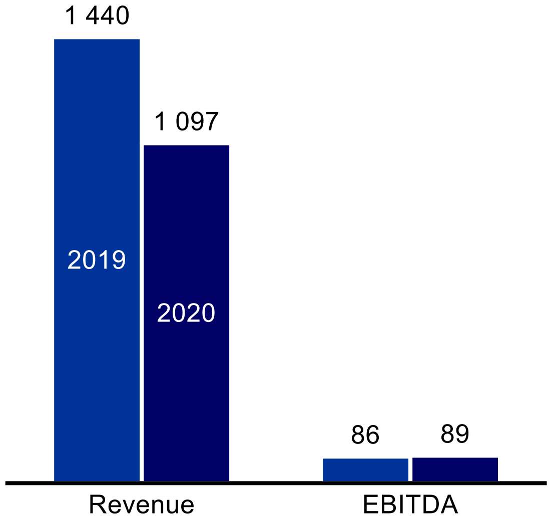
- TES showing signs of increase in hours worked and headcount
- Increased revenue to be offset by termination of marginal contracts
- Cost management to continue
- Focus on client growth in targeted sectors:
- Heightened focus on margin management

ADfusion BLU. BLU.CYNERGY CAPability funxion zest HOSPITALITY

*Temporary Employment Services - TES

Professional Services

Six months ended 31 August
R'million



Operational review

- Support Services and Professional Services merged
- ITRS revenue down 10,7%
  - Budgetary constraints at major clients
  - Reduced hours & change in contractor sourcing strategy
- Permanent recruitment
  - Permanent recruitment freeze during lockdown
  - Rightsizing of business
- Charisma revenue impacted by reduced elective procedures

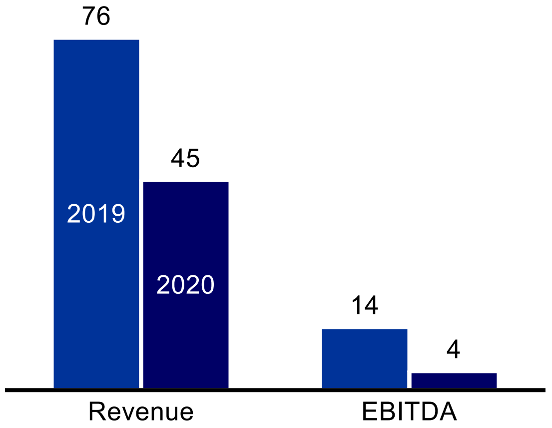
Outlook

- Contingent headcounts are increasing
- Permanent placement demand remains under pressure
- Increased business development opportunities for RPO and MSP

allaboutXpert CHARISMA! care2share KELLY PARACON talentCRU

Training

Six months ended 31 August
R'million



Operational review

- Training revenue down 45%
  - COVID-19 impact on instructor led training model
  - Severely impacted by COVID-19 reduced L&D spend
  - Artisan development market disrupted
- Launched blended model including Virtual Instructor Led Training (VILT)

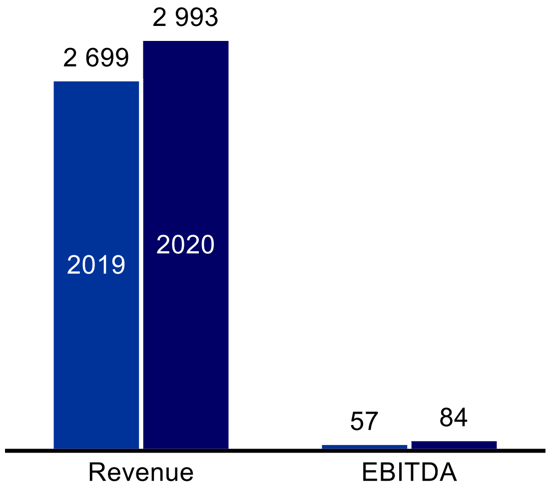
Outlook

- IT investment will accelerate adoption of online learning
- Digital conversion of content in progress
- Targeted growth sectors identified will unlock growth
- Currently delivering 73% of our IT training virtually

I Can! PMI TORQUE IT

Australia

Six months ended 31 August
R'million



Operational review

- Australia dollar revenue contraction offset by Rand devaluation
- Paxus has proven to be fairly resilient
- LSA turns the corner
- Government relief augments profitability

Outlook

- Permanent placements remain under pressure
- Contingent headcount is increasing
- Merger benefits of Paxus and LSA management structure
- Strong AllAboutXpert pipeline
- LSA sector diversification gains momentum

allaboutXpert | Labour Solutions Australia | paxus Technology + Digital Talent

Business outlook

Phil Roux
Chief Executive Officer

Outlook: Promising outlook notwithstanding challenging environment

Operating environment

- Negative market sentiment
- Intense competition
- Increased client demands
- Market volatility
- Skills shortage
- Flexible labour bodes well

Second half outlook – COVID -19 uncertainty

- Critical focus on top line growth
- Margin scrutiny
- Focus on remaining lean and agile
- Leverage parenting advantage

Strategy: Create the Future 2025

Building a sustainable investment case

- Clearly articulated corporate strategy
- Sustainable low cost base
- Strong technology enablement
- Competitive BEE credentials
- Stronger balance sheet and liquidity
- Embedded disciplined and performance culture

Thank You

Company Secretary
Lisa Laporte
Tel: +27 (0) 10 800 0786
Email: lisa.laporte@adcorpgroup.com

Investor Relations
Nomonde Xulu
Tel: +27 (0) 10 800 0209
Email: nomonde.xulu@adcorpgroup.com

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