

# Chief Executive Officer's Report



Sbu Shabalala  
Chief Executive Officer

## Introduction

Adapt IT delivered a sound financial performance and significant sustainability advancements during the 16-month reporting period in spite of tough market conditions. The Group's solid performance was further marked by strong improvements in revenues, good cash flow and a healthy balance sheet, positioning it well going forward.

Strategic achievements in the review period included:

- Strong organic growth in the main operations, complemented by the successful introduction of new service offerings, such as enterprise infrastructure solutions;
- Improved service levels in core operations;
- Acquisition of 51% of ITS Holdings on 1 July 2009, resulting in material growth and diversification of Group revenues and profit, significant additional exposure to the Public Sector, a regional presence in Gauteng and internationally and the ability to add strategic value to an acquiree through our B-BBEE credentials;
- Significantly enhanced operational efficiency through the relocation of our core KwaZulu-Natal operations to a new 'green' office, with state-of-the-art, energy-efficient IT infrastructure,

facilitating productivity improvements and effective brand positioning, while also allowing for future expansion capacity;

- A comprehensive governance review and restructure, resulting in the separation of holdings and main subsidiary company Boards and improved governance mechanisms across the Group; and
- The achievement of a level-3 B-BBEE rating.

## Change of Financial Year-end

The ITS acquisition precipitated a decision to change Adapt IT's financial year-end from 28 February to 30 June, to align the reporting periods to a June year-end, being the more efficient annual reporting calendar.

Accordingly, the results reflected in our June 2010 Annual Report are in respect of a 16-month period.

## Financial Performance

I am pleased to report that revenue increased by 169% to R208,5 million for the 16 months ended 30 June 2010, against R77,5 million in the year to February 2009. This represents a 59% organic growth (or 44% on an annualised basis) and R85 million additional revenue for 12 months as a result of the acquisition of ITS Holdings. Net profit attributable to ordinary

**LEVEL-3** BROAD-BASED BLACK ECONOMIC EMPOWERMENT RATING

shareholders increased by 44% to R13,1 million, compared against R9,1 million for the previous year. The annuity revenue is a healthy 45% of total revenues.

The Group continued to invest in building capacity throughout the organisation during the period. We incurred non-recurring transaction costs, relating to the acquisition, which were fully expensed in the period. Cost management was a key focus, particularly in units which were hardest hit by the recession.

Earnings per share ("EPS") increased by 45% to 13,64 cents, from 9,44 cents the previous year. The headline earnings per share increased by 29% to 12,15 cents, and is below EPS, primarily due to the adjustment for the non-recurring discount received on the acquisition of ITS.

The Group borrowed a total of R17 million in order to finance working capital following the ITS Holdings acquisition and new IT infrastructure at our new building. A significant proportion of these borrowings had been repaid by year end. At 30 June 2010, interest-bearing borrowings totalled R4,2 million.

Cash and working capital management were key focus areas during the reporting period and I am pleased to report that our cash generated from

operations increased to R22,0 million.

#### **Review of Operations**

The Group conducts its business through three subsidiaries, which provide a variety of specialised IT solutions and services across a range of business environments, explained in more detail in the Group profile.

#### **Adapt IT Solutions**

Adapt IT Solutions outperformed expectations, mainly through an increased focus on accelerated service delivery to existing clients and strong cost control. In difficult market conditions, the subsidiary business grew by 71% for the review period, to R107 million. Profit before tax grew from R8 million to R12 million (for the 16 months). Adapt IT Solutions consolidated all business previously Infowave, Adapt-IT, Isizinda and other de-registered units.

#### **ITS**

ITS performed in line with expectations, delivering a profit before tax of R10,3 million for the 12 months it has been consolidated. ITS has successfully aligned with the Group, both strategically and from a governance perspective. A preliminary BEE rating, based on its prior financial year, has been undertaken to establish its contributor status. It will be re-rated in September 2010 as part of the Adapt IT Group rating process. We anticipate a substantial improvement in its B-BBEE contributor status.

# Chief Executive Officer's Report (continued)

## ApplyIT

ApplyIT operates predominantly within the manufacturing and mining sectors, which were hard-hit by the recent world-wide economic turmoil and recessions. Results for the period were well below expectations, a profit of R0,1 million being recorded. Executives have taken concrete steps towards securing additional business from other markets, as well reducing operating costs in order that the business may rapidly return to expected profitability.

The Group will continue to generate cash, prudently manage its balance sheet, and continuously act to reduce costs, improve operating efficiencies and streamline processes going forward.

## Positioned for Success

Adapt IT enjoys a leading position within the markets in which it operates and customers see the value of our broader portfolio of products and services. We have a sustainable business model and the ability to

create robust solutions tailored to our customers' environment. Gaining market-share is important and our aim is to attract greater interest from other industries and institutions. In particular, we are focused on the ICT industry's high growth sectors, such as the Public and Financial Services sectors. We will pursue organic growth through operational excellence, customer intimacy and advancements on the technological frontier.

We have a clear strategy and a sound management team capable of continuing with the delivery of sustainable organic growth.

Acquisitions will continue to be an important component of our growth strategy to complement organic growth. With ITS successfully incorporated into the Group, we are actively seeking further acquisitive opportunities. Importantly, we enjoy the benefits of a strong balance sheet, a recurring

revenue model and low capital expenditure requirements, which position our company for long-term success. We constantly strive to build a culture of accountability and execution, and continue to look to strengthening our brand in the market and to increasing our loyal customer base; customers who, themselves, want to see Adapt IT succeed. We make every effort to actively live our commitment to our valued customers, shareholders, partners, employees and stakeholders.

Our long-term objective for our investors is clear: we aim to enhance shareholder value through growing profit sustainably.

## Future Prospects

The ICT industry has, like many others, suffered as a result of the recent economic turmoil. However, market indicators and sentiment are beginning to show signs of improvement. Although IT spend has continued to lag behind the general

ADDITIONAL REVENUE  
R85 MILLION

industry, it too, is improving. Our Group has made significant progress in line with its strategy and improved its service offering in readiness to take advantage of the expected economic recovery.

We believe that the Group is well placed to deliver yet another relatively resilient performance. We will continue expanding into new IT growth markets where we believe we have a competitive advantage and the requisite competence to succeed.

#### **Sustainability**

Adapt IT has a track-record of contributing to and encouraging employee participation in social and environmental projects geared to assisting the communities within which we operate. As an employer, we strive to be fair and encourage employee wellness. We have always been committed to meaningful transformation. We promote open, transparent and constructive engagement with all our stakeholders. These initiatives reflect our genuine commitment as a good corporate citizen and are elaborated on in more detail in the Sustainability Report.

#### **Appreciation**

In October 2009, the Board was pleased to appoint Dr Bernard Ravnö as the

new Chairman of Adapt IT. He was appointed a Non-Executive Director in May 2003 and his tremendous experience and insights have long stood the company in good stead. We look forward now to the further positive impact that his guidance, advice and counsel will have on the company's future growth and prosperity.

On behalf of the Group, I take this opportunity to thank members of the Board of Directors for their leadership and those of the Groups' subsidiaries for their dedication. In addition, it would be remiss of me not to thank most sincerely all our customers, suppliers, service providers and partners for their continued support of our business.

Last, but not least, I extend my most grateful thanks to Adapt IT's staff without whose dedication, hard work, enthusiasm, team spirit and skills, as well as the appetite for growth and change, our company would not be the industry leader it is. My sincere thanks go to each and every one of you and to your families for their support of your efforts.



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**Chief Executive Officer**