

ADAPT IT HOLDINGS LIMITED INVESTOR RELATIONS
FREQUENTLY ASKED QUESTIONS

ISSUED: 18 NOVEMBER 2020



Q1. Can you discuss the company's approach to capital allocation for the next 12 months? What level of net gearing is the company targeting before it would feel comfortable shifting from debt reduction to either growth (acquisitions) or shareholder returns (dividends/share buybacks)?

A1. Focus is on cash conversion and preservation to the end of February 2021 as we consume some cash up until December and then start to receive annual fees in Q1 of calendar year 2021. At that time, we will commit to an increased debt repayment profile. The target is to maintain net gearing below the 50% limit at all times, ideally in the 30%-50% range. This means we can resume some modest acquisitive activity or shareholder returns (dividends and/or repurchases) in H1FY 22, assuming operating results remain fairly consistent.

Q2. Can you remind us how much headway you have on your borrowing covenants?

A2. The bank does not permit us to disclose the covenant measures, however, all were met with sufficient headroom at 30 June 2020 and are expected to be met going forward.

Q3. Working capital reduced in FY20 - can we expect this to reverse once again when activity picks up to the same extent?

A3. The improvement in working capital (collection of receivables) was driven through a very concerted effort to protect the business through the heightened Covid-19 pandemic period. It will reverse to some extent when activity picks up, however the disciplines of tight working capital management will be maintained going forward.

Q4. How did the increase in BEE shareholding occur? - purchase on open market or through treasury shares? How many shares were bought back and how have they been used?

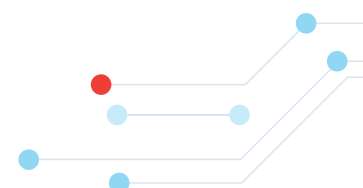
A4. The increase in BEE shareholding occurred through open market purchases, not treasury shares.

During FY19 R96m shares were bought back and no share buy back was undertaken during FY20. At the beginning of FY20, we held 10% of shares in treasury and 5% were cancelled during the financial year. We intend to cancel the rest of the treasury shares in June 2021.

Q5. Can we expect a rights issue going forward?

A5. The business has sufficient cash to meet its operational requirements and service its debt in the ordinary course of business. The intention is to pay down debt and improve shareholder returns for the time being. There is no need nor intention for the time being to have a rights issue.

- Q6. What ebitda metric do you need to hit before you return to M&A?
- A6. If we are to use shares to pay for acquisitions, our Enterprise Value/EBITDA multiple would need to improve to in excess of 5 times.
- Q7. What are the reasons for the large client you lost in Micros? Could we expect more clients to leave if trading conditions remain tough? Does Oracle share in this reduced revenue (by e.g. reducing your license costs)?
- A7. A global franchisor made this decision to standardise on an alternative solution. It does not follow that others will do so. We were able to cancel the back to back maintenance costs with Oracle prospectively.
- We are expecting a permanent reduction in this sector for the foreseeable future and a consequent decline in revenue to Adapt IT, however we believe that this will not be at the expense of margin given the restructuring undertaken. We are seeing some new entrants and existing chains taking up good positions vacated by others. Increased churn will bring us some business.
- Q8. Given the tough trading environment, particularly in the hospitality environment, what sort of margins are you looking to achieve in FY21, taking into account the efficiencies you have looked to extract?
- A8. Where we have rightsized, we are looking to revert towards pre-FY20 margins due to workforce costs reducing to meet revised lower revenue level.
- Q9. Please provide an update on trading conditions through the first four months of 1H21?
- A9. They are similar to the Covid-19 period, however, slowly improving in some areas. Hospitality has improved slightly since the easing of the lockdown restrictions in South Africa as the industry was allowed to reopen, however the outlook is still uncertain, given possible second waves as we are seeing in other geographies.
- Q10. Apart from Covid, what is the single biggest challenge facing the business in the next 3-6 months.
- A10. Bedding down the restructures we have implemented to ensure their effectiveness and driving organic growth when client budgets are constrained.



Q11. Please address the related party transaction with the landlord.

A11. Detailed disclosure of the related party transaction is provided in Note 31 to the 30 June 2019 annual financial statements, with further disclosures in the same note to the 30 June 2020 annual financial statements.

To summarise the circumstances, the property development and lease negotiation was undertaken at arms' length, with expert assistance from independent property experts. These terms were negotiated several years prior to Mr Shabalala purchasing the property from the developer and Mr Shabalala was not party to the lease negotiations.

We consulted the JSE via our Sponsor regarding the change of ownership of the leased premises. The JSE confirmed that the sale of the property was not a related party transaction.

For any changes to the lease, these will be subject to JSE listings requirements for related party transactions.

The external auditors perform "agreed procedures" annually to give the board assurance of full compliance of all payments to the landlord being per the original lease terms.

We have BEE procurement recognition benefits as a result of having a black-empowered landlord.

Q12. Given the reduction in staff in some instances and remote working practices, what are the plans for the campus? What are the implications for the long-term lease in this regard?

A12. We are looking at a hybrid model of office based and remote working. We are looking to sublet some space in the campus.

For further enquiries, please contact our investor relations teams at investors@adaptit.com.

