



Ahmed Mahomed, CEO

Operational Review

Datacentrix is a leading South African company that operates within the Information and Communication Technology (ICT) sector. The group has three operating divisions, namely Infrastructure, Managed Services and Business Solutions, providing an end-to-end IT solutions offering, that is generic in nature and hence well suited to all sectors within the local market.

The group is pleased with the performance of its divisions with the exception of a component of Infrastructure. The group's historical principal revenue earner, the Infrastructure division, contributed 56% to group profit before taxation.

The Managed Services and Business Solutions divisions reflected healthy year-on-year profit before taxation (PBT) growth of 19% and 13% respectively. The Managed Services offering, and the success achieved in this division, has improved annuity revenue, decreasing the group's reliance on transactional business. The effect of growing annuity revenue will stand the group in good stead in the future.

The commercial sector reflected strong growth, however the results in the public sector were less than expected. A number of tenders submitted have not been awarded, due to a change in public sector priorities. Given the historic high contribution of this segment to group revenues, it has had a significant impact on group results, dampening the good performance of the rest of the Infrastructure business.

Datacentrix announces its annual financial results for the year ended 28 February 2010.

The group continues to maintain solid disciplines across the business, which is visible in the strong operating cash flows of R153.3 million generated, resulting in cash of R284.4 million on hand with no interest-bearing debt. Tangible net asset value improved by 7% to 187 cents.

Gross revenue contracted to R1.3 billion from R1.5 billion, because of poor results in parts of the Infrastructure division, while EBITDA dropped from R165.5 million to R126.6 million. Group interest earned declined by R8 million, due to lower interest rates over the past year impacting on both headline earnings per share and basic earnings per share from 61.5 cents to 41 cents.

Datacentrix' investment in a variety of value based offerings ranges from selective outsourcing, Managed Print Services (MPS), data centre solutions, Enterprise Content Management (ECM), IBM and Microsoft technical and management capabilities. The group also expanded its geographical footprint to the Eastern Cape with the official opening of an office in Port Elizabeth, and an office in East London, which opened on 1 April 2010.

A number of these targeted growth areas have performed well, showing significant new client wins. Datacentrix also renewed expiring selective outsourcing contracts in the last financial year, testimony to the organisation's ability to execute and deliver on client expectations.

The company maintained its deliberate strategy to invest in both technical and management capacity taking advantage of a volatile market. The group still boasts healthy operating margins viewed within the context of the market despite lower revenue streams from government and continued investment in resources.

Infrastructure

The Infrastructure division remains a foremost provider for the supply of products, deployments, maintenance and support of integrated IT infrastructure in the country, as well as being the largest and most broadly certified HP integrator in the local marketplace. Although the year has been challenging for this division, the commercial sector business achieved double digit growth as a result of new client wins in all regions.

The division successfully deployed end-to-end data centre solutions utilising some of the newest technologies in the market. In doing so, it leveraged its entire portfolio of services, from end user computing to business critical hardware and software technologies and expertise.

The division has also performed well in the specialist technology areas. It has made significant progress in strengthening its IBM capabilities, securing the services of pre-eminent management and technical resources in this space.

The Security business unit has successfully deployed an upgraded biometrics security solution. Furthermore, the company is encouraged by the developments in the focused Networking business unit addressing two main areas, bandwidth optimisation, which deals with solutions designed to improve bandwidth utilisation; and the provisioning of network infrastructure, which focuses on new network technologies.

Managed Services

Strong performances were delivered within the Managed Services division, with Managed Print Services (MPS), outsourcing and resourcing reflecting healthy double digit growth. The Outsourcing business unit in particular closed three deals in the latter part of 2009. The MPS unit is recognised in the information technology market as a leader in its field.

In support of these businesses, Datacentrix continues to invest in improved operational capacity, strengthening both the MPS and outsourcing execution engines and continuing in its single minded approach to provide uncompromising service delivery to which its clients have become accustomed.

Business Solutions

This division has also shown healthy growth. The Enterprise Content Management (ECM) business in particular showed remarkable growth, resulting in a solid performance from the Business Solutions division.

The ECM and Business Process Management (BPM) business units won local and international accolades for the solutions deployed. The business unit has one of the largest services capabilities in the market and is focused primarily on the ECM, BPM and Information Lifecycle Management (ILM) spaces. The Enterprise Resource Planning (ERP) business offering, whilst profitable, remains under pressure.

Investment in People

Datacentrix' investment in technical, sales and managerial resources remains a key feature of its organic growth strategy. The company continues to guardedly invest in targeted growth areas as identified resources become available. Staff complement has grown to 876 permanent

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employees and 181 contractors bringing the total complement to 1,057. This expansion was driven primarily by requirements in the Managed Services and Business Solutions businesses and the need for key technical skills in the Technology Solutions units.

Vendors

The commitment to technical excellence and driving value for both its clients and vendors has contributed to the Infrastructure division earning a number of accolades from its vendors, including being named as HP's partner with the Highest Overall HP Revenue 2009, scooping the Highest Growth in HP Revenue ProCurve Networking 2009. The company was also announced as the IBM Systems and Technology Group Top Win-back Solution Provider for the year and top IBM Business Partner for WebSphere in general business.

2009 saw two Datacentrix clients in the Business Solutions division receive BPM Excellence awards at ITWeb's inaugural BPM Excellence awards ceremony.

Loyal existing client base and strong value proposition

Proven execution capability, expertise and ability to integrate offerings



Clients

The company's pre-sales, consulting and post-sales capabilities focus on assisting clients at every stage of the solutions lifecycle - ranging from needs determination, product evaluation, configuration, installation and support. This is in line with the group objective of continuous service improvement, in order to meet and exceed client requirements and expectations, adding strategic business value to our clients. The group's long-term partnership philosophy has found favour and it is validated by the long standing relationships we have with our clients.

Industry Review

In the previous calendar year the South African IT industry, according to International Data Corporation (IDC) contracted by 8%. Reflective of the economic issues that plagued 2009, which have shown no respite in 2010, the industry is continuously evolving.

Local businesses continue to look for cost saving solutions, which enable them to run more efficiently and productively. The primary objective is always to support strategic business objectives, providing competitive advantages and adding tangible value to clients.

Prospects

The current climate will continue to fuel consolidation in the market, offering opportunities to access new clients and resources. The strategy to grow the total solutions portfolio will continue, specifically with regard to the biometrics and access management's security offering, data centre solutions, enterprise content management, managed print services and outsourcing.

Management has been driving a strategy to position Datacentrix to operate higher up the value chain. This has borne fruit so far and indications are that it will set Datacentrix up for its next growth phase. While our optimism this year in government related business did not materialise, a significant portion of the business that Datacentrix was in line for is yet to be awarded and we continue to have confidence in our tender submissions.

Recent wins in the outsourcing business have augmented the base for annuity income going forward. While Datacentrix has a bias towards organic growth, management and the board are actively considering bolt-on acquisitions to strengthen the Business Solutions division.

Ahmed Mahomed
Chief Executive Officer