



Ahmed Mahomed
CEO

Chief Executive Officer's Report

Nature of the Business

Datacentrix is a leading South African company operating within the Information and Communication Technology (ICT) sector. The group has three operating divisions, namely Infrastructure, Managed Services and Business Solutions, providing end-to-end technology solutions that drive business value to companies within all sectors of the market.

Commentary

Datacentrix is pleased to announce its annual results for the year ended 28 February 2011 showing solid organic revenue, and a profit profile between the divisions that is shifting in favour of the Managed Services and Business Solutions divisions.

It is clear that the market profile of Datacentrix has migrated from a principally commodity player to a credible total services and solutions provider, as evidenced by a number of invitations to participate in closed outsourcing tenders historically not within grasp of the group. The positioning has also allowed

the company to participate in key strategic opportunities in a heavily contested managed services market.

A marked change in sectorial revenue was noted, with the largest portion of the business this year being generated from the commercial market segment, a sharp contrast to the historical public sector bias.

The group continues to maintain diligent financial and operational discipline across the business, evident in the strong operating cash flow generation of R163 million, resulting in cash on hand of R321 million with no interest-bearing debt. Tangible net asset value improved by 10 percent to 205 cents. Revenue grew organically from R1.3 billion to R1.6 billion, a growth of 22 percent, while EBITDA increased from R127 million to R150 million, a rise of 19 percent. EBITDA margins have held steady at 9.5 percent. Due to lower interest rates, group interest earned declined by R2.1 million. Headline earnings per share and basic earnings per share increased from 41 cents to 46 cents, a growth of 13 percent.

Operational Review

The group is satisfied with the overall performance of its divisions. Its primary contributor, the Infrastructure division contributed 51 percent to group profit before taxation (PBT), while the Managed Services and Business Solutions divisions contributed 25 and 14 percent respectively. The Managed Services and Business Solutions divisions grew divisional PBT by 32 and 64 percent respectively, boosting the combined contribution of these divisions to a healthy 40 percent of group PBT.

Targeted growth areas have performed well, showing significant new client wins. Good performances were noted within both newly established and existing competencies, in particular storage, security, data centres, outsourcing and managed print services (MPS). The company has invested in the basic constructs of a cloud solution and has already started engaging clients.

Infrastructure

The Infrastructure division reflected a marginal PBT (3 percent) increase for the year under review. When contextualised against the backdrop of the

continued subdued public sector expenditure, the performance of the rest of the business was commendable, more than offsetting the poor public sector performance. While public sector tender activity is still robust, the awarding of these tenders remains inhibited.

The Infrastructure division continues to be a leading supplier of total, integrated IT solutions and related services, from design to provisioning and deployment through to maintenance and ongoing support. Although the year was challenging for this division, as mentioned, the commercial sector business outperformed as a result of increasing its share of wallet in existing clients and new project wins. The specialist technology areas within the division also performed well.

The Datacentrix Infrastructure division is the largest and most broadly certified HP integrator in the local market. In addition, the company is now also one of the strongest partners for both IBM and Symantec, after strengthening its capabilities by securing the services of pre-eminent management and technical resources in these spaces. At the same time, the division boasts some of the highest certified technical skills in virtualisation technologies (VMware), a targeted growth area.

Managed Services

A strong performance was delivered by the Managed Services division, increasing divisional PBT by 32 percent. This performance benefited handsomely from a once-off MPS project relating to the 2010 FIFA World Cup South Africa and the recent signing of a three year infrastructure outsourcing term contract with a large mining house. MPS is an area where Datacentrix has gained recognition as a leading contender.

The Managed Services division is committed to delivering solutions that enable its clients to use information technology as a strategic asset in achieving their business objectives, while at the same time, reducing cost and risk. In support of this strategy, Datacentrix will continue to invest in improved operational capacity including people, processes and technology.

Business Solutions

The Business Solutions division has shown excellent

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growth over the year in review, highlighted in particular by the Enterprise Content Management (ECM) business unit, which has one of the largest services capabilities in the market and is focused primarily on the ECM, Business Process Management and Information Lifecycle Management spaces.

The Business Intelligence (BI) business unit has shown a revival after a skills injection, resulting in a positive contribution to the division's overall performance.

With regards to its Enterprise Resource Planning (ERP) offering, the group has decided to invest in Softline's SAGE X3 ERP solution expertise. This will increase Datacentrix' presence in the ERP market and will complement its current Microsoft solution set.

Operating Margins

Despite some pressure during 2010, the group continues to achieve industry leading operating margins of 8 percent. The commodity margins in the Infrastructure business are increasingly under pressure and this is set to continue for the year ahead.

Chief Executive Officer's Report (continued)

Skills Acquisition and Talent Management

Datacentrix' investment in new competencies continues with the skills acquisition and establishment of a storage focused unit. Further investments are expected to be made in the storage, security, outsourcing, MPS, data centre solutions, BI and cloud capabilities.

The retention of key talent and competencies remains one of the biggest challenges. Datacentrix continues to attract and develop the best talent in the industry predominantly technical resources, strengthening its technical skills base, despite the economic downturn.

The board's employment equity is 88 percent with 50 percent of the total board made up of women. The management team and total staff complement employment equity profile is 40 percent and 54 percent respectively.

Relocation of Offices

We are pleased to have finalised the consolidation of our three Gauteng offices, spread between Pretoria, Samrand and Woodmead into a single, centrally situated office in Midrand. The demonstrated benefits of this move have been compelling. Foremost has been the enhanced level of communication and cooperation between various individuals and business units, and enhancement of efficiencies and elimination of duplication. Added benefits include reduced travelling time especially between offices, improved employee morale and pride in the workplace, and improvement in the cultivation of a common corporate culture. The new office has been secured at comparable overall office rental and other operating costs. Datacentrix now also enjoys visibility and brand awareness, with corporate signage fronting the busiest corridor route in Gauteng.

Prospects

The industry is changing constantly - technology advances at an ever increasing rate and the dynamics of today's business call for increased cost efficiency and agility more than ever before. In this highly competitive environment, companies are looking for innovative solutions that will reduce costs, add business value and increase agility.

Key focus areas for Chief Information Officers currently include effective data management, the optimisation of information technology infrastructure, virtualisation (specifically within the data centre space), security, increasing compliance requirements and software, device and asset management.

Industry consolidation is expected to continue. From Datacentrix' perspective, the company's strategy to grow its total solutions portfolio will continue, with specific focus this year turning to further enhancing its security and data centre capabilities, including selected cloud solutions.

Management is committed to its strategy to move the group's operations higher up the value chain. While the company's hopeful expectations this year regarding government related business did not materialise, the company remains focused on this segment in order to benefit optimally from public sector ICT spending as it may arise. Recent wins in the outsourcing business have substantially strengthened the company's market positioning and places it in good stead for future growth. The company intends to continue developing business solutions to deliver tangible business value to its clients.

While Datacentrix has a bias towards organic growth, management is considering appropriate acquisitions.



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