01 Our Huge story continued

Chairman's letter

In a challenging year, Huge has sought to balance its growth aspirations with cash generation, positioning itself for longer term growth, while also delivering earnings growth. This has enabled Huge to declare a dividend of 12.5 cents per share.

DUARTE DA SILVA *Chairman*

In the three years since moving its listing onto the Main Board of the JSE, Huge has delivered 450% growth in profit after tax. It has also expanded its offering to include numerous products and services. It has increased its market capitalisation substantially and it has created a head office structure which will enable future expansion.

What we said in 2018

Sustainable earnings growth momentum, leveraged off a tangible customer real estate asset, is expected to underpin the embedded value of Huge for its stakeholders

In the post-2019 election climate, the President of South Africa has received a clear mandate from the voting public. The market-friendly persona of Cyril Ramaphosa bodes well for foreign investment and a potential economic upswing. Sadly, this is offset by the harsh realities of high unemployment, the threat of a further ratings downgrade and negative economic growth. Accordingly, this creates challenges for strengthening consumer confidence and introduces the possibility of prescribed assets in the investment space. For investors, shares which deliver a yield have become more attractive. From an economic perspective, companies which can support the sustainability and growth of SMEs become more relevant in a national context.

Huge Group has, like many South African companies, been impacted by the prevailing negative economic environment, particularly with regard to the impact on SMEs. The Group has also faced challenges in respect of personnel changes, stock market volatility and a demanding M&A environment.

Notwithstanding these challenges, the Group has produced pleasing growth in earnings in the year under review. Following engagement with its shareholders, Huge has shifted its emphasis to cash generation. In doing so, the Board has sought to balance the Group's growth aspirations with its cash flow requirements. Achieving this has resulted in the Group being structurally positioned for longer term growth, while improving its cash generation and delivering consistent earnings growth. The Board is therefore delighted to have declared a gross cash dividend of 12.50 cents per share.

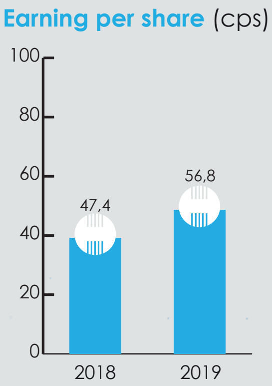
This shift in emphasis toward cash generation had several consequences for the Group, including the appointment of suitably aligned personnel and a change in the contractual commitments with service providers.

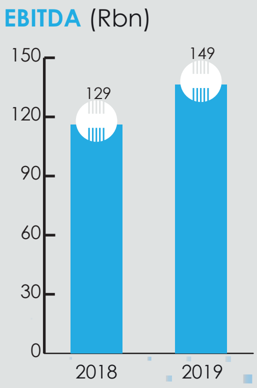
20%

increase in EPS from 47.40 to 56.84 cents per share

16%

increase in EBITDA from R129 million to R149 million





Acquisitive activity

What we said in 2018

Acquisitive activity is essential to the Growing Huge Strategy. Each investment made by Huge will be intentionally designed to increase the cumulative size of its customer real estate. Specific focus will be given to opportunities that complement and strengthen existing service and product offerings, including bolt-on acquisitions

Huge has proven that it not only has the ability to identify, consummate and integrate substantial businesses, but that it also has the ability to create shareholder value from these acquisitions.

During the period under review, the Board considered numerous potential targets. We ultimately decided to focus on two significant opportunities, which aligned with the Growing Huge Strategy.

The first potential target possessed an attractive and substantial SME customer base. However, the due diligence revealed that the target had no contractual or direct billing relationship with its end customer. This fundamentally implied that Huge could not integrate and broaden its customer real estate – which is a primary criterion of Huge's investment strategy. In addition, a significant concentration risk to one customer was identified. The Investment Committee elected to withdraw from the sale process as a result of these factors.

The second potential target would have enabled Huge to enter the payment service provider space and by implication become a Fintech participant. Unfortunately, minority shareholders exercised pre-emptive rights, blocking Huge's ability to invest.

We are disappointed by our failure to conclude a sizeable transaction in this financial period despite incurring substantial costs in attempting to do so. Fortunately, the Group was successful in concluding two strategic bolt-on acquisitions in line with the Growing Huge Strategy.

The Board continues to search for acquisitions which will deliver Huge's strategic imperatives of broadening its customer real estate and transitioning into Fintech. Ultimately, Huge aspires to become a Top 100 listed company on the JSE, with a market capitalisation in excess of R11.5 billion.

Chairman's letter (continued)

What we said in 2018

The acquisition of Huge Connect would inevitably lead Huge into services related to payment connectivity and ultimately Fintech, where we anticipated delivering disruptive and innovative solutions to our customers in partnership with financial institutions

Fintech remains a priority and the data mining of our customer real estate continues. Huge has also been developing a number of Fintech products, in conjunction with partners, and we expect that these should be introduced to the customer real estate in the near future. Huge Connect continues to provide Huge with a gateway into Fintech where Huge can create, in partnership with financial institutions, disruptive and innovative solutions for its customer real estate.

What we said in 2018

Between 2014 and 2018, the Huge share price increased from R0.85 to R8.70. Liquidity is an essential requirement for most shareholders, and hence a tradability improvement of the Huge share is a key focus for the Board.

Notwithstanding Huge's focus on delivering earnings, it appears that the market is disappointed with Huge for not having delivered a significant acquisition during FY2019. Over the last three financial years, Huge has unwound the price/earnings multiple from above the market average to one which is now below the average. Despite this recalibration in the price/earnings multiple, the share price is still strong relative to the small cap sector of companies.

In order to improve the liquidity of the share, a focused strategy to *inter alia* diversify the current shareholding is required. This will be facilitated and augmented when acquisitions are completed by issuing shares as part of the purchase consideration. The focus will continue to be the acquisition of target companies with strong cash generation.

Huge's investment strategy:

In order for Huge to pursue an acquisition, the target must:

- have a large customer real estate
- operate in the SME space
- have a direct contractual relationship with its customers
- have the ability to bill its customers directly
- have scale
- generate annuity revenues

Strategic delivery

What we said in 2018

On 1 March 2018, the Board approved a comprehensive strategy, the Growing Huge Strategy. The Growing Huge Strategy seeks to ensure that Huge continues to grow, both organically and by way of acquisition, in the short, medium and long-term

The Growing Huge Strategy was implemented on 1 March 2018 with a three-year implementation period. The Board is very pleased that the implementation of the Growing Huge Strategy is showing meaningful progress across each of its operating companies, with most strategic objectives having already exceeded the 50% threshold.

Cell C / FST

What we said in 2018

We negotiated sizeable decreases in our variable cost base and migrated customers onto a new network, while also pioneering and commercialising the Full Suit Telephony (FST) offering and revising our internal operating model. This will result in the gross profit for the Telecom Grouping increasing as it fully exploits the cost of sales reduction benefits available as a result of these initiatives.

In February 2017, Huge Cellular concluded an Enterprise Supply Agreement (**ESA**) with Cell C Service Provider Company (**Cell C**) which contemplated the development of the FST service and which would allow the Group, though Huge Telecom, to sell customers FST as a substitute for last mile copper telephone cable connections. FST is a wireless GSM-based telephone connection and its introduction as a substitute for copper telephone cable connections is a world first. FST was expected to deliver substantial increases in unit sales of telephone lines and substantial increases in revenues. The development of FST was expected to take nine months to complete and the launch of FST was expected to take place in November 2017. It was therefore contemplated that FST would have only a small effect on FY2018 but a much more material effect on FY2019.

In anticipation of the launch and success of FST, Huge Cellular paid significant amounts to Cell C for access to the Cell C network. From March 2017 until the launch of FST in November 2017, Huge Cellular paid Cell C R56 million for future access to the Cell C network. When FST was launched in November 2017 the initial unit sales were phenomenal (in excess of eight times monthly sales in the previous six months), suggesting that Huge Telecom could grow its monthly sales of telephone lines by at least eight times. However, when the FST service was launched it encountered technology challenges and had to be partially withdrawn from the market. It took the better part of FY2019 to resolve these challenges which had the effect of curtailing Huge Telecom's growth expectations. Meanwhile, Huge Cellular continued to pay Cell C for future access to the Cell C network and from December 2017 to August 2018 Huge Cellular paid Cell C a further R74 million, bringing its total payments to Cell C for future access to the Cell C network to R130 million. However, with the challenges relating to FST, Huge Cellular was only able to deplete R50 million of the R130 million it had paid to Cell C and by the end of August 2018, the balance of future services owed by Cell C to Huge Cellular was R80 million.

In terms of the ESA, Huge Cellular had the right but not the obligation to extend the term of the ESA for a further period of three years commencing on 1 March 2019 and terminating on 28 February 2022. Huge Cellular elected to not renew the ESA. This decision was made in light of the fact that the balance of future services owed by Cell C to Huge Cellular was estimated at c. R50 million by 28 February 2019. In addition, by renewing the ESA, Huge Cellular would be agreeing to pay Cell C a further R255.4 million for the renewal period. Attempts were made to extend the ESA on different commercial terms but ultimately the negotiations failed and the ESA came to an end on 28 February 2019.

Notwithstanding the challenges relating to FST, it has been proven to be a viable substitute for copper last mile connectivity and as a result, other mobile telephone network operators in South Africa are eager to partner with Huge Cellular in taking FST to the market. With the necessary reparative activity underway, the Board looks forward to reporting higher growth in Huge Telecom in the near future.

Management changes

What we said in 2018

In prior years, the Board sought to strengthen its management team. During 2016 and 2017, the Board appointed Duarte da Silva as Chairman and Zunaid Bulbulia as a non-executive director and subsequently as Chief Financial Officer.

In securing the sustainability of the Group as a whole, the Board seeks to build a management team which will develop and support sustainable structures where the Group is not wholly dependent on key individuals.

Chairman's letter (continued)

The appointment of a Chief Operating Officer has bolstered the management team significantly. Andy Openshaw joined Huge on 1 March 2019 and we expect that he will provide valuable input to the Growing Huge Strategy, that he will assist the Group in implementing this strategy and will also assist Huge in fulfilling its organic growth aspirations; we also expect that he will help identify acquisitive opportunities for the Group as a whole.

Mr Bulbulia, in his position as Chief Financial Officer, was instrumental in negotiating key components of the ESA with Cell C. His extensive industry experience was also invaluable in the formation and implementation of the Growing Huge Strategy. Unfortunately, Mr Bulbulia's external interests meant that he did not have the capacity demanded by a growing company such as Huge.

Following her appointment as Chief Financial Officer on 25 March 2019, Mrs Sequeira will focus on the continued enhancement of Huge's financial reporting capabilities and on strengthening Huge's internal financial control mechanisms.

Rob Burger took over from Gunter Engling as the Managing Director of Huge Telecom, with a mandate to shift the emphasis to sustainable growth coupled with positive cash flow.

Strengthened balance sheet

What we said in 2018

The larger size, earnings diversification and improved cash flows of Huge have provided it with improved access to debt and equity capital markets. The Group ended the financial year with total debt position of R104 million and a debt to equity ratio of 14%. The Board intends to maintain an optimal capital structure in terms of its Capital Structure Policy, which provides for a debt to equity ratio ceiling of 25% as a guiding parameter

During FY2019, the Group concluded a R200 Million Term Facility Agreement with Futuregrowth Asset Management Proprietary Limited (the Facility). The Facility replaced the R90 Million Term Facility Agreement concluded as part of the acquisition of Huge Connect and Huge Networks and provides the Group with access to capital at improved interest rates. The Group generated EBITDA for FY2019 of R149 million, with a debt to EBITDA ratio of 0.70.

Group B-BBEE

What we said in 2018

Huge aims to be a proactive contributor to good corporate citizenship and compliance with the ICT Sector Charter is a key strategic objective of the Growing Huge Strategy. In so doing, it has developed the B-BBEE Compliance Plan and the Investment Committee had been tasked by the Board to identify B-BBEE partners with whom a suitable ownership model could be explored.

Improvement in the B-BBEE status of Huge remains a key strategic objective of the Growing Huge Strategy as it continues to implement the processes identified under the BBBEE Compliance Plan.

The Group concluded ownership transactions with a B-BBEE partner in respect of both Huge Cellular and Huge Soho. This B-BBEE partner is 60% black women owned and has a long-standing relationship with Huge. It is anticipated that these entities will be able to deliver significant empowerment through various supply contracts that Huge anticipates will be concluded in the financial year ended 2020. The Group looks forward to reporting on growth in the next reporting period.

Subsidiary companies undergo the annual verification process following the approval of the annual financial statements. Huge Connect is expected to achieve compliance with the ICT Sector Charter. Huge Telecom is expected to have shown improvement in achieving a compliant status but is not expected to meet the minimum requirements during the next verification.

Future prospects

In fortifying the sustainability of the Group, the Board has sought to build a management team which can support the Growing Huge Strategy, which includes growing by acquisition. The Board is of the view that the changes which have taken place recently will augment this strategy.

The Board continues to believe that Huge Telecom's FST is a game changer. FST has been proven and accepted by the market and its application will become more pervasive, as is being evidenced by the appetite of a wider audience of mobile telephone network operators and customers. The Board views Huge Telecom as an important growth engine for the Group. The bolt-on acquisitions have positioned the Telecom Grouping well to grow organically at rates of growth higher than those it has previously enjoyed.

The Board continues to explore initiatives to participate in the digital world with particular reference to payments by leveraging Huge Connect's real estate of circa 32 000 customers and circa 180 000 connected devices. Huge Connect provides Huge with a platform to pursue high growth opportunities and a gateway into Fintech.

The Board has engaged with various shareholders during the year under review and based on these engagements has decided to balance the growth objectives of the Growing Huge Strategy with income objectives of its shareholders, which has enabled the Board to propose the declaration of a dividend to shareholders. Further, the Board believes that Huge is optimally positioned to deliver value to its SME customer real estate, who comprise a critical component of the country's economic recovery, by assisting them in remaining sustainable and growth positive.

Note of thanks

I would like to thank my fellow directors for their oversight and guidance to Huge during the year. I would also like to recognise all members of the Huge staff, led by James Herbst, for the significant contribution they have made to delivering Huge achievements.