04 Annual Financial Statements continued

Chief Financial Officer's Report

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SAMANTHA SEQUEIRA *Chief Financial Officer*

Introduction:

Huge Group delivered a solid financial performance off the back of a challenging year for all South African companies.

Despite the prevailing negative local economic environment, personnel changes and a demanding M&A environment, the Group produced satisfying revenue growth, maintained healthy gross profit margins, increased cash flows and enhanced returns to shareholders by way of a dividend declaration post financial year-end.

Overview of performance:

Group revenue increased by 8%, taking into account a full year's contribution from Huge Connect, Huge Networks and Huge Software. Group gross profit margins, noting the inclusion of depreciation in cost of sales, remained healthy at 55%.

Group EBITDA showed an increase of 16% from R129 million to R149 million, after adding back depreciation in cost of sales and depreciation in selling and administration expenses. The termination of the ESA with Cell C has improved the Group's conversion of EBITDA into free cash, which is expected to improve while Huge Cellular depletes the amounts owing by Cell C to Huge Cellular in terms of the ESA. No further cash outflows relating to GSM transmission costs are expected for the 2020 financial year.

Group operating expenses, excluding depreciation, increased by 15% largely as a result of the inclusion of Huge Connect, Huge Networks and Huge Software for a full 12 months and the inclusion of IFRS 2 share-based payments attributable to the Fintech Grouping and Telecom Grouping. On a like-for-like basis, Group operating expenses decreased by 3%.

Net profit after tax increased by 17% as a result of tax efficiencies within the Group. The efficiencies have resulted in an effective tax rate of 19%, which the Group will continue to enjoy for the medium-term.

Basic earnings per share increased by 20% and headline earnings per share increased by 14%.

Fintech Grouping

The Fintech Grouping comprises of Huge Connect, which is a large cash-generating unit of the Group. Huge Connect produced solid revenue gains of 17% and a gross profit increase of 4%. The gross profit margin remained strong at 63%, which is evidence of the performance potential of the Fintech Grouping.

Huge Connect increased the number of card machines connected by 60% and grew its customer base by 12%, supporting the organic growth objectives of the Growing Huge Strategy.

Telecom Grouping

The Telecom Grouping comprises of Huge Telecom, Huge Networks, Huge Cellular, Huge Media, Huge Messaging, Huge Mobile, Huge Soho and Huge Technologies.

The Telecom Grouping increased its annual fixed annuity income by 25%. Notwithstanding challenges experienced with FST and tough trading conditions, the Telecom Grouping enjoyed an operating profit increase of 12% and maintained a healthy operating profit margin of 26%.

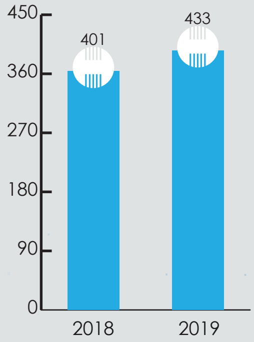
8%

increase in revenue from R401 million to R433 million

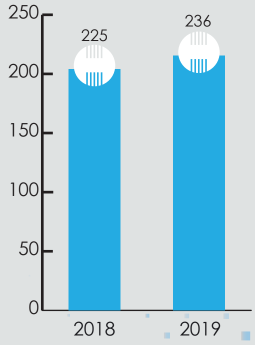
55%

gross profit margin maintained

Revenue (Rm)



Gross Profit (Rm)



Huge Networks concluded agreements with Otel Communications and Otel Business, which contemplated the acquisition by Huge Networks of the business of Otel. The agreements became unconditional on 27 February 2019. The purchase consideration for the businesses of Otel was settled in Huge Networks ordinary shares, such that, after the issue of shares, Huge Telecom's shareholding in Huge Networks decreased from 100% to 50.3%.

The Otel business acquisition is an important bolt-on acquisition allows for network synergies and efficiencies, access to new customer segments and the potential to scale Huge Group's operations, grow its customer real estate and expand its national footprint.

Corporate Office Grouping

The Corporate Office Grouping comprises Huge Group itself, Huge Software as well as The ConnectNet Incentive Trust.

The creation of the Corporate Office Grouping is a recent development, having only taken place in the 2018 financial year. Previously, costs related to Huge Group were absorbed at subsidiary company level. Given the need to support the implementation of the Growing Huge Strategy, the formation of suitably resourced head office structure has been essential. The Corporate Office Grouping includes consulting and professional fees, all insurance costs, statutory and listing costs, audit and legal fees for the Group. The head office also funds all corporate action events. Ultimately, the intention is that the head office costs included in the Corporate Office Grouping will be funded from the returns generated by future acquisitions. During the 2019 financial year, the operating costs relating to the Corporate Office Grouping increased by 40%.

Capital structure and finance costs

During the period under review, the Group concluded a R200 Million Term Facility Agreement with Futuregrowth Asset Management (the **Facility**). The Facility replaced the R90 Million Term Facility Agreement concluded as part of the acquisition of Huge Connect and Huge Networks. As at financial year-end, Huge Group had drawn down R55 million of the Facility, the bulk of which has been invested in a high interest-bearing endowment. The principal amounts outstanding are payable in quarterly tranches of R10 million, with the final quarterly tranche due for payment in December 2023. Interest on the Facility is payable on a quarterly basis. The Group's gross debt position has moved from R104 million to R171 million, while it still has access to R50.5 million in terms of the Facility.

The Facility provides the Group with access to cash resources at improved interest rates. The lower cash requirements in Huge Telecom, in addition to the Facility, have placed Huge Group in a favourable position for fueling sustainable growth. This will also enable expansion into new services and product offerings.

The combination of the stronger balance sheet, the termination of onerous contractual commitments and the improved financing support, has enhanced the Group's cash flow position.

Cash flow/cash generation

Huge Group generated R74 million in cash flows from operating activities, utilised R133 million in investing activities and generated R52 million from financing activities. Along with the additional capital raised through the Facility, the Group's liquidity position remains strong with R51 million unutilised borrowings and R45 million available in endowments.

Chief Financial Officer's Report (continued)

Significant accounting policies

During the period under review, the Group adopted IFRS 15 Revenue from Contracts with Customers.

The nature and changes in the annual financial statements relating to the adoption of this standard resulted in the recognition of a contract asset, amounting to R15 million, in respect of Renewal Dealer Incentive Bonuses (**Renewal DIB's**) paid to Business Partners. The average customer contract period is 27 months, and this is the period over which the contract asset is amortised. An assessment was performed for the 2018 financial period and no prior period adjustments were required due to the immaterial nature of the contract assets, on both a quantitative and a qualitative basis. The contract asset is recognised as an asset as it represents the incremental costs of maintaining contracts with customers.

The ConnectNet Incentive Trust

The ConnectNet Incentive Trust prepared financial statements for the first time and for the 23-month period ended 28 February 2019. Huge Group consolidated The ConnectNet Incentive Trust during the 2019 financial year, resulting in the recognition of donation income of R14 million. A separate share-based payment expense of R 7 million (calculated in accordance with IFRS 2) has been recognised in the Statement of Profit or Loss and Other Comprehensive Income for the year under review. In each of the 2020 and 2021 financial years, an additional R3.5 million in share-based payment expenses will be recognised, which will offset the R14 million in donation income, resulting in no impact on Huge's equity.

Management's view relating to the above matter has been included in the Director's Report (paragraph 20 Basis for consolidation of The ConnectNet Incentive Trust).