METROFILE HOLDINGS LIMITED

AUDITED PRELIMINARY SUMMARISED GROUP RESULTS

FOR THE YEAR ENDED 30 JUNE 2020

SALIENT FEATURES

REVENUE
R903M
▼ 1%

OPERATING PROFIT
R217M
▼ 3%

NET DEBT
IMPROVED TO
R524M
▼ 11%

FINANCE COSTS
R59M
▼ 18%

EPS
(3.4C)
▼ >100%

HEPS
24.8C
▲ 21%

NHEPS
26.8C
▼ 2%

DPS
13C
▲ 30%

SUMMARISED CONSOLIDATED INCOME STATEMENT

R'000	Note	Audited 12 months ended 30 June 2020	Audited 12 months ended 30 June 2019
Continuing operations			
Revenue		**903 272**	913 415
Earnings before interest, taxation, depreciation and amortisation (EBITDA)		**301 696**	271 173
Depreciation on property, plant and equipment		(35 913)	(40 242)
Depreciation on right-of-use asset		(38 381)	–
Amortisation		(10 128)	(7 197)
Operating profit		**217 274**	223 734
Loss on sale of business	8	(4 199)	–
Loss on sale of subsidiary	8	(222)	–
Restructuring and retrenchment costs		(11 788)	(17 480)
Impairment of goodwill	11.3	(118 404)	(18 332)
Impairment of investment in associate		–	(8 362)
Impairment of plant and equipment		–	(29 099)
Profit before finance costs		**82 661**	150 460
Net finance costs		**(65 313)**	(69 375)
Finance income		2 004	1 798
Finance costs		(58 572)	(71 173)
Finance costs on lease liabilities		(8 745)	–
Profit before taxation		**17 348**	81 085
Taxation		(33 743)	(55 342)
(Loss)/profit for the year from continuing operations		**(16 395)**	25 743
Discontinued operations:			
Loss for the year from discontinued operations		–	(30 301)
Loss for the year		**(16 395)**	(4 558)
Attributable to:			
Owners of the parent		(14 825)	7 559
– Continuing operations		(14 825)	37 860
– Discontinued operations		–	(30 301)
Non-controlling interest		(1 570)	(12 117)
Loss for the year		**(16 395)**	(4 558)
Profit attributable to owners of the parent			
Basic (loss)/earnings per share (cents)		**(3.4)**	1.8
Diluted (loss)/earnings per share (cents)		**(3.4)**	1.8

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	Note	Audited 12 months ended 30 June 2020	Audited 12 months ended 30 June 2019
Loss for the year		**(16 395)**	(4 558)
Other comprehensive income/(loss) for the year			
Currency movement on translation of foreign subsidiaries		2 475	(3 370)
Total comprehensive loss for the year		**(13 920)**	(7 928)
Attributable to:			
Owners of the parent		(12 350)	3 171
Non-controlling interest		(1 570)	(11 099)

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	Note	Audited 12 months ended 30 June 2020	Audited 12 months ended 30 June 2019
ASSETS			
Non-current assets		**1 103 683**	1 085 923
Property, plant and equipment		598 162	581 113
Goodwill		316 661	438 702
Intangible assets		50 498	57 480
Right-of-use asset		126 185	–
Long-term vendor consideration		–	3 500
Deferred taxation asset		12 177	5 128
Current assets		**274 554**	289 595
Inventories		16 507	17 494
Trade receivables		185 414	191 257
Vendor consideration		3 500	10 532
Other receivables		31 946	35 329
Cash and cash equivalents		37 187	34 983
Total assets		**1 378 237**	1 375 518
EQUITY AND LIABILITIES			
Equity		**507 882**	561 830
Equity attributable to owners of the parent		499 085	564 987
Non-controlling interest		8 797	(3 157)
Non-current liabilities		**667 530**	603 898
Interest-bearing liabilities		520 110	560 053
Lease liabilities		103 543	–
Deferred taxation liabilities		43 877	43 845
Current liabilities		**202 825**	209 790
Trade and other payables		100 078	109 750
Provisions		13 297	9 233
Deferred revenue		12 277	11 103
Taxation		3 323	2 606
Bank overdraft		4 988	36 717
Interest-bearing liabilities		39 195	40 381
Lease liabilities		29 667	–
Total equity and liabilities		**1 378 237**	1 375 518

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Share premium	Accumulated profit (loss)	Other reserves	Attributable to owners of the parent	Non-controlling interest	Total equity
Balance at 30 June 2018	**542 549**	**50 184**	**15 950**	**608 684**	**13 170**	**621 854**
IFRS 2 equity reserve relating to share schemes	–	–	(8 784)	(8 784)	–	(8 784)
Disposal of subsidiary	–	5 976	–	5 976	(5 228)	748
Dividends declared	–	(44 059)	–	(44 059)	–	(44 059)
Scrip dividends declared	12 510	(12 510)	–	–	–	–
Total comprehensive income for the year ended 30 June 2019	–	7 559	(4 388)	3 171	(11 099)	(7 928)
Balance at 30 June 2019	**555 059**	**7 150**	**2 778**	**564 987**	**(3 157)**	**561 830**
IFRS 2 expense	–	–	(236)	(236)	–	(236)
Transactions with NCI	–	(22 738)	–	(22 738)	14 480	(8 258)
Disposal of subsidiary	–	–	–	–	(956)	(956)
Dividends declared	–	(30 578)	–	(30 578)	–	(30 578)
Scrip dividend declared	18 774	(18 774)	–	–	–	–
Total comprehensive income for the year ended 30 June 2020	–	(14 825)	2 475	(12 350)	(1 570)	(13 920)
Balance at 30 June 2020	**573 833**	**(79 765)**	**5 017**	**499 085**	**8 797**	**507 882**

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	Note	Audited 12 months ended 30 June 2020	Audited 12 months ended 30 June 2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash generated from operations before net working capital changes		281 724	250 614
(Increase)/decrease in net working capital		2 541	2 910
Cash generated by operations		284 265	253 524
Net finance costs		(65 784)	(65 428)
Taxation paid		(39 400)	(57 332)
Net cash inflow from operating activities		**179 081**	130 764
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure: expansion		(41 227)	(49 540)
Capital expenditure: replacement		(14 946)	(21 825)
Proceeds from disposal of property, plant and equipment		5 909	–
Vendor loan received		10 532	–
Proceeds on disposal of subsidiary		5 543	–
Acquisition of subsidiaries		–	(5 115)
Net cash outflow from investing activities		**(34 189)**	(76 480)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(40 649)	(63 322)
Dividends paid		(30 208)	(43 769)
Acquisition of non-controlling interests		(8 258)	–
Payment of lease liabilities		(34 034)	–
Net cash outflow from financing activities		**(113 149)**	(107 091)
Net increase/(decrease) in cash and cash equivalents		31 742	(52 807)
Overdraft)/cash and cash equivalents at the beginning of the year		(1 734)	49 043
Effects of exchange rate movement on cash balances		2 191	2 030
Cash and cash equivalents/(net overdraft) at the end of the year		**32 199**	(1 734)
Represented by			
Cash and cash equivalents		37 187	34 983
Bank overdraft		(4 988)	(36 717)

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The directors take full responsibility for the preparation of these audited preliminary summarised Group results. The Group results and the full set of consolidated financial statements have been prepared under the supervision of Mr S Mansingh, CA(SA), MBA. The summarised financial information has been prepared in accordance with the framework concepts, measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, as a minimum contain the information as required by IAS 34: Interim Financial Reporting, the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The accounting policies and basis of preparation for the financial statements are in all material respects consistent with those applied in the 2019 annual financial statements, apart from the adoption of IFRS 16 Leases that became effective for reporting periods beginning on or after 1 January 2019. The adoption of this standard and the amended accounting policies are disclosed in note 3.

To provide a more meaningful assessment of the Group's performance for the year, pro forma information and non-IFRS measures have been included under section 11.1 2HFY20 trading performance of these preliminary summarised audited results for the year ended 30 June 2020.

The directors of Metrofile Holdings Limited are responsible for compiling the pro forma financial information on the basis applicable in the criteria as detailed in paragraphs 8.15 to 8.34 of the JSE Listings Requirements and the SAICA Guide on Pro Forma Financial Information, revised and issued in September 2014 (applicable criteria). The pro forma information does not constitute financial statements fairly presented in accordance with IFRS. The pro forma information has been prepared for illustrative purposes only and because of its nature may not fairly present the Group's financial position, results of operations, changes in equity and cash flows. The Group's external auditor, Deloitte & Touche, has issued an ISAE 3420 Unmodified Reporting Accountants' report on the pro forma information on 14 September 2020. A copy of this report is available on request.

2. AUDIT OPINION

The independent auditor, Deloitte & Touche, has issued its unmodified audit opinion, on the consolidated financial statements for the year ended 30 June 2020, in accordance with International Standards on Auditing. These summarised consolidated financial statements have been derived from the consolidated financial statements and are consistent in all material respects, with the consolidated financial statements. The unmodified audit report thereon is available on the Company's website: https://www.metrofilegroup.com/investor-relations/

The auditor's report does not necessarily report on all the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a full copy of the auditor's report, together with the accompanying consolidated financial information, from the issuer's registered office. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Company's auditor.

3. ADOPTION OF IFRS 16

IFRS 16 Leases introduces a single, on-balance sheet lease accounting model for lessees. A lessee is required to recognise right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to former practice; i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 introduces additional disclosures for both lessees and lessors. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new accounting policy was applied from 1 July 2019 and is disclosed below in note 3 a). Note 3 b) explains the impact of the adoption of IFRS 16 Leases on the audited group year end results.

3. a) Change in significant accounting policy

The Group leases various properties. Rental contracts are typically entered into for fixed periods. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. Although the lease agreements do not impose any covenants, leased assets may not be used as security for borrowing purposes.

Up to and including the 2019 financial year, leases for property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, the Group recognises a right-of-use asset and a corresponding lease liability at the lease commencement date, being the date at which the leased asset is available for use by the Group. The right-of-use asset is measured initially at cost and subsequently at cost less any accumulated amortisation and impairment losses and adjusted for certain remeasurements in the lease liability.

Depreciation is recognised in profit and loss and is calculated on a straight line basis over the remaining lease term.

The lease liability is measured initially at the present value of the lease payments that are not paid at commencement date, discounted using the implicit rate in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, the Group uses the lessee's incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by interest costs and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Under IFRS 16, right-of-use assets are tested for impairments in accordance with IAS 36.

Payments associated with short-term leases and leases of low value assets of less than R100 000 are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group has elected to apply the practical expedient in IFRS 16 and accounts for lease and non-lease components as a single lease.

3. b) Adjustments recognised on adoption of IFRS 16

The Group adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated.

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard in the application of the initial accounting:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments in determining whether leases are onerous;
- leases that, at 1 July 2019, had a remaining lease term of 12 months or less continue to be accounted for on a straight-line basis over the remaining lease term;
- leases for which the underlying asset is of low value continue to be accounted for on a straight-line basis over the lease term;
- initial direct costs were excluded from the measurement of the right-of-use asset at 1 July 2019; and
- where contracts contain options to extend or terminate the lease, the benefit of hindsight was used to determine the lease term.

The Group has also elected not to reassess whether a contract is, or contains, a lease as at 1 July 2019. Instead, for contracts entered into before the transition date the Group relied on assessments made through the application of IAS 17 and IFRIC 4.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessees' incremental borrowing rates as at 1 July 2019.

R'000	1 July 2019
Operating lease commitments disclosed as at 30 June 2019	98 113
Discounted using the lessees' incremental borrowing rates at the date of initial application	89 081
Less: short-term leases recognised on a straight-line basis as an expense	(4 839)
Lease liabilities recognised as at 1 July 2019	84 242

The Group did not have any low value leases of less than R100 000 and therefore no further adjustments were required to the lease liabilities.

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets as at 1 July 2019.

The recognised right-of-use assets relate to property, plant and equipment.

The change in accounting policy affected the following items in the statement of financial position:

R'000	1 July 2019
	Increase/(decrease)
ASSETS	
Right-of-use asset	80 371
Property	84 242
Operating lease smoothing liability	(3 871)
EQUITY AND LIABILITIES	
Lease liabilities	84 242
Retained earnings	–

3. c) Impact on segmental disclosures, statement of comprehensive income and earnings per share

Adjusted profit before tax decreased, whilst segment tangible assets as at 30 June 2020 increased, as a result of the change in accounting policy. The following segments were affected by the change:

NOTES TO THE FINANCIAL STATEMENTS (continued)

R'000	EBITDA Increase	Operating profit (EBIT) Increase	Tangible assets Increase
MRM South Africa	20 590	3 106	37 605
MRM Rest of Africa	13 287	332	71 109
Products and Services South Africa	7 992	877	12 407
Central and Eliminations	910	81	5 064
	42 779	4 396	126 185

The following line items were affected by the change

R'000	12 months ended 30 June 2020
Increase in EBIT*	4 396
Increase in EBITDA**	42 779
Increase in finance costs	(8 745)
Decrease in profit after tax	(3 131)

Earnings per share decreased by 0.7c per share for the year ended 30 June 2020 as a result of the adoption of IFRS 16.

* *Increase in EBIT was due to the net effect of a decrease in operating lease expenses and an increase in depreciation of right-of-use assets.*

** *Increase in EBITDA was due to a decrease in operating lease expenses.*

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARISED SEGMENTAL INFORMATION

Segmental disclosure consists of Metrofile Records Management ("MRM") South Africa, MRM Rest of Africa, MRM Middle East, Products and Services and Central and Eliminations. Comparative information has been restated. The segmental information is based on information provided to the chief operation decision makers and operating profit is the key measure of segmental performance.

R'000	Revenue		EBITDA	
	Audited 12 months ended 30 June 2020	Audited 12 months ended 30 June 2019	Audited 12 months ended 30 June 2020	Audited 12 months ended 30 June 2019
MRM South Africa	543 027	555 885	254 151	233 652
MRM Rest of Africa	106 030	104 612	48 160	39 249
MRM Middle East	54 666	41 869	4 692	(5 602)
Products and Services South Africa	199 549	211 049	25 115	29 707
Central and Eliminations	–	–	(30 422)	(25 833)
Total	**903 272**	913 415	**301 696**	271 173
South African operations	742 576	766 934	248 844	237 526
Non-South African operations	160 696	146 481	52 852	33 647

R'000	Operating profit		Tangible assets	
	Audited 12 months ended 30 June 2020	Audited 12 months ended 30 June 2019	Audited 12 months ended 30 June 2020	Audited 12 months ended 30 June 2019
MRM South Africa	207 280	204 165	708 403	669 190
MRM Rest of Africa	30 345	34 539	149 293	81 136
MRM Middle East	1 997	(8 286)	59 537	37 290
Products and Services South Africa	7 726	19 338	98 837	87 532
Central and Eliminations	(30 074)	(26 022)	(17 168)	(941)
Total	**217 274**	223 734	**998 902**	874 207
South African operations	184 932	197 481	790 072	755 781
Non-South African operations	32 342	26 253	208 830	118 426

R'000	Revenue streams	
	Audited 12 months ended 30 June 2020	Audited 12 months ended 30 June 2019
Secure storage	588 160	566 684
Digital services	124 708	135 351
Products and solutions	133 404	157 527
Business support services	57 001	53 853
Total	**903 272**	913 415

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. RECONCILIATION OF HEADLINE EARNINGS

R'000	Audited 12 months ended 30 June 2020	Audited 12 months ended 30 June 2019
RECONCILIATION OF HEADLINE EARNINGS		
(Loss)/profit attributable to owners of the parent	(14 825)	7 559
Profit on disposal of property, plant and equipment	(217)	–
Loss on disposal of business	4 199	
Loss on disposal of subsidiary	222	3 210
Disposal of goodwill relating to the disposal of subsidiary	–	30 076
Impairment of goodwill	118 404	18 332
Impairment of investment in joint venture and associate	–	8 362
Impairment of plant and equipment	–	29 099
Non-controlling interest effect on the above items	(840)	(5 881)
Tax effect of above items	–	(5 213)
Headline earnings	**106 943**	85 544
– Continued operations	106 943	82 560
– Discontinued operations	–	2 985
Headline earning per ordinary share (cents)	**24.8**	20,5
– Continued operations	24.8	19.8
– Discontinued operations	–	0.7
RECONCILIATION OF NORMALISED HEADLINE EARNINGS		
Headline earnings	106 943	85 544
Restructuring and retrenchment costs	11 788	17 480
Debt restructuring costs	–	3 460
Tax effect on the above items	(3 301)	(2 721)
Tax effect on non-deductible interest expense	–	14 001
Non-controlling interest effect on the above items	–	(4 264)
Normalised headline earnings	**115 430**	113 500
– Continued operations	115 430	110 515
– Discontinued operations	–	2 985
Weighted average number of shares in issue ('000)	431 170	417 764
Diluted weighted average number of shares in issue ('000)	436 912	424 087
Attributable earnings/(losses) per share: (cents)		
Aggregate		
– Basic	(3.4)	1.8
– Diluted	(3.4)	1.8
Continuing operations		
– Basic	(3.4)	9.1
– Diluted	(3.4)	8.9
Discontinued operations		
– Basic	–	(7.3)
– Diluted	–	(7.1)

NOTES TO THE FINANCIAL STATEMENTS (continued)

R'000	Audited 12 months ended 30 June 2020	Audited 12 months ended 30 June 2019
Headline earnings per share (cents)		
Aggregate		
– Basic	24.8	20.5
– Diluted	24.5	20.2
Continuing operations		
– Basic	24.8	19.8
– Diluted	24.5	19.5
Discontinued operations		
– Basic	–	0.7
– Diluted	–	0.7
Normalised headline earnings per share (cents)		
Aggregate		
– Basic	26.8	27.2
– Diluted	26.4	26.8
Continuing operations		
– Basic	26.8	26.5
– Diluted	26.4	26.1
Discontinued operations		
– Basic	–	0.7
– Diluted	–	0.7
Dividend per share (cents)	13.0	10.0
– Interim dividend per share paid (cents)	6.0	5.0
– Final dividend per share proposed/paid (cents)	7.0	5.0

6. NORMALISED HEADLINE EARNINGS

The measure of normalised headline earnings is specific to Metrofile Holdings Limited and is not required in terms of International Financial Reporting Standards or the JSE Listings Requirements. Normalised headline earnings represent earnings from the recurring activities of the Group. This is determined by adjusting the headline earnings attributable to the owners of Metrofile Limited for non-recurring expense or income items incurred during the year. The items adjusted are not comparable to other entities.

7. COMMITMENTS

Metrofile owns and leases premises based on the prevailing economic realities in each country in which we operate. Capital investment plans for the next 12 months are expected to be R67 million.

8. TRANSACTIONS WITH NCI AND LOSS ON DISPOSAL OF BUSINESSES

During the period the Group acquired an additional 20% in E-file Masters (UAE) and the remaining 38% of Metrofile Nigeria for R8 million. The acquisition of the remaining 38% of Nigeria was part of the closure process whereby Metrofile has now ceased operations in this territory. Following the acquisition of the additional 20% of E-file Masters (UAE), E-file Masters (UAE) has returned to profitability.

During the period the Group disposed of its loss-making Egypt business as well as Metrofile Zambia. A loss of R4.4 million was realised on the sale of these businesses.

9. FAIR VALUE ESTIMATES

The carrying value of financial instruments approximate their fair value.

10. SUBSEQUENT EVENTS

No material events occurred between the year end and the date of this report.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. IMPACT OF LOCKDOWN MEASURES

During the second half of the 2020 financial year, governments across the Group's various territories instituted varying degrees of country wide lockdown measures in response to the COVID-19 pandemic, which resulted in a negative impact on trading. The table below in 11.1 consists of the Group's trading performance in the second half of the 2020 financial year in relation to the corresponding period of the previous financial year. An assessment of the statement of financial position was performed and details on the impact on the expected credit loss model and goodwill are included below.

11.1 2HFY20 trading performance

Revenue from continuing operations decreased 10% to R431 million for 2HFY20. Due to the annuity-based income of secure storage, this revenue stream was marginally up 2% as growth in box volumes was partially offset by a reduction in box related services, such as handling fees and transport of boxes. Business support services was also marginally up by 3%; however the lockdown measures had a significant impact in digital services and products and solutions as these decreased by 22% and 39% respectively. Digital services were largely impacted due to the reduction in activity in scanning during the lockdown as well as reprioritisation of resources by some customers. Products and solutions were largely impacted by the mandatory temporary closure of the manufacturing facility during the April 2020 level 5 lockdown, which subsequently reopened in May 2020 under level 4 lockdown restrictions and has seen a gradual ramp-up to June 2020.

Pro forma 2HFY20 results comparison to prior year

R'000	FY20	FY19	1HFY20	1HFY19	2HFY20*	2HFY19*	2H Variance	2H Variance %
Continuing operations								
Revenue	903 272	913 415	472 772	437 680	**430 500**	**475 735**	**(45 235)**	(10%)
– Secure storage	588 160	566 684	301 267	284 993	**286 893**	**281 691**	**5 202**	2%
– Digital services	124 708	135 351	62 494	55 588	**62 214**	**79 763**	**(17 549)**	(22%)
– Products and solutions	133 404	157 527	79 987	70 463	**53 417**	**87 064**	**(33 647)**	(39%)
– Business support services	57 001	53 853	29 024	26 636	**27 977**	**27 217**	**760**	3%
Operating profit	217 274	223 734	107 942	96 564	**109 332**	**127 170**	**(17 838)**	(14%)

** 2H numbers are unaudited and derived from deducting the 1H results from the full year published results of 30 June 2020.*

In order to mitigate the impact of the reduced revenue performance during the lockdown period, various cost reduction initiatives were undertaken, and this resulted in a decrease in operating profit by 14% for 2HFY20 to R109 million (2HFY19: R127 million). The impact of this reduction in operating profit resulted in a year-on-year decrease in earnings per share of 3c.

Further to this and following the reduced levels of activity, the Group's staff count is expected to reduce by approximately 160 employees and, as a result, retrenchment costs of R12 million have been recognised in FY20.

11.2 Expected credit loss

Despite the flat trade receivables balance year-on-year, the provision for doubtful debt was reviewed and the anticipated macroeconomic impact of the lockdown measures have now been included in the approach adopted for the expected credit loss model. This more conservative approach in relation to the current environment has resulted in an increase in the provision for doubtful debt by an additional R9 million to R14 million for FY20 (FY19: R5 million).

11.3 Goodwill

In line with the annual requirement to assess goodwill for impairment, the various groups of cash-generating units were assessed using the discounted cashflow method to determine the value in use; and the recently subdued economic impact of the lockdown measures across the various territories were also considered. The MRM Rest of Africa group of CGUs consists of MRM Kenya, MRM Mozambique and MRM Botswana, and the Products and Services CGU consists of Tidy Files. Goodwill attributable to these groups of CGUs were assessed for impairment and the following key assumptions were applied:

- Revenue growth rates of between 0% and 8% (2019: 3% - 5%)
- Cost growth rates of between 3% and 5.5% (2019: 3% - 5%)
- Discount rates (pre-tax WACC) of between 12% and 24% (2019: 12% - 17%)

The reduction in growth rates and increase in discount rates are a result of the current economic climate and the resulting impact of the various lockdowns that resulted from the COVID-19 pandemic. As a result of this assessment, the value in use of these CGUs was deemed to be lower than the carrying amount and a total impairment of goodwill of R118 million was required.

Net carrying value of goodwill attributable to the following groups of cash generating units:

	CONSOLIDATED	
	2020	**2019**
MRM South Africa	**132 323**	132 323
MRM Rest of Africa	**129 077**	229 837
Products and services	**55 261**	76 541
	316 661	438 702
Opening balance	**438 702**	484 437
Foreign translation difference on goodwill in the reporting period	**2 671**	3 673
Goodwill impaired	**(118 404)**	(18 332)
Goodwill relating to disposal of subsidiary	**(6 308)**	(31 076)
Closing balance	**316 661**	438 702

Goodwill impairment testing

Goodwill is allocated to the appropriate CGUs according to the type of business and where it operates. The CGUs represent the identifiable assets for which an active market exists and which generate independent cash flows.

The carrying amount of goodwill is subject to an impairment test. The impairment tests are carried out on all goodwill and indeterminate life intangible assets within each CGU. As a result of the COVID-19 pandemic the Group has reassessed goodwill for impairment at 30 June 2020 by considering information available at 30 June 2020 and after the reporting period. Where necessary the key assumptions were amended to take into account information available at 30 June 2020.

Impairment of goodwill arises when the recoverable amount of the CGU is less than the carrying value including goodwill. For the purpose of the goodwill impairment tests the carrying value of goodwill is grossed-up to include the non-controlling interest. The recoverable amount is determined as the greater of the fair value less costs to sell or the value in use. In most instances it is inappropriate to use the fair value less costs to sell as no reliable estimate is easily obtainable in determining the recoverable amount. Therefore the value in use method is used to assess the goodwill for impairment.

Key assumptions used in value in use calculations

Cash flow projections in functional currency

The value in use is calculated using the forecasted cash inflows and outflows which are expected to be derived from continuing use of the CGU and its ultimate disposal. Cash flow projections for financial forecasts are based on past experience, expected revenue, operating margins, working capital requirements and capital expenditure, based on approved budgeted financial information as well as available external market data.

The expected revenues are based on market assumptions, volume growth and price increases. No significant change in market share was assumed during the forecasted period of five years and is based on the average market share in the period immediately before the forecast period. Volume growth was based on average growth experienced in recent years but adjusted for the expected impact of COVID-19 during the forecasted period. The exchange rates used in the cash flow projections were consistent with external sources of information.

Operating margins reflect past experience but are adjusted for any expected changes for the individual CGU.

Cash flow projections cover a five-year forecast period, which are then extrapolated into perpetuity using applicable terminal growth rates.

The key assumptions used in arriving at projected cash flows were as follows

Market share assumptions and operating margins were used in the cash flow projections of the CGUs.

Growth rates

Growth rates applied are determined based on future trends within the industry, geographic location and past experience within the operating divisions. Growth rates can fluctuate from year to year based on the assumptions used to determine these rates.

The Group used steady growth rates to extrapolate revenues beyond the forecasted period, which were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the respective CGUs operates. These long-term forecasted growth rates have been affected by macro-economic factors, which has resulted in the rates reducing compared to the prior year.

Discount rates applied

A key assumption in the impairment assessment is the discount rate. The discount rates were determined by management and present the current market assessment of the risks for each CGU. The rates take into consideration the time value of money and the individual risks of the underlying assets that have not been taken into account in the cash flow projections. The discount rate calculations are derived from the CGU's weighted average cost of capital being the cost of debt and the cost of equity. The increased uncertainties arising from the pandemic led to a decision to use most recent market data, including country risk premiums. Additional specific risk premiums attributable to the COVID-19 pandemic were not added to the cost of capital; instead the impact of pandemic was considered in the cash flow projections.

The cost of equity was arrived at by using the capital asset pricing model (CAPM) which, where necessary, takes into account an equity risk premium, country risk premiums and a small stock premium. The CAPM uses market betas of comparable entities in arriving at the cost of equity. In some markets, equity risk premiums have increased slightly primarily due to higher country risk premiums. The cost of debt is based on the cost of interest-bearing borrowings and lease obligations the CGU has to service.

The debt-to-equity ratio applied at arriving at the weighted average cost of capital was determined by applying market value weights based on theoretical target gearing levels, giving consideration to industry averages and using data of comparable entities. The inclusion of leases' obligations into cost of debt has increased the weighting debt in the cost of capital. Despite an increase in the cost of equity, the lower cost of debt and the increased weight of debt resulted in a small reduction in discount rates applied.

Given the volatility within financial markets, there is a risk that a prolonged pandemic could lead to increased discount rates. However after witnessing an improvement in trading conditions after the reporting period the Group believes that the key assumptions used in the goodwill impairment test, as disclosed above, remain appropriate.

Impairment of goodwill

The impairment charge is included in the consolidated income statement.
The significant goodwill impairments by group of CGUs were as follows:

		DISCOUNT RATES		GROWTH RATES	
CGU	**R'000**	**2020**	**2019**	**2020**	**2019**
MRM Rest of Africa	97 530	12% - 24%	12% - 17%	3% - 5.5 %	3% - 5%
Products and Services	20 874	13% - 24%	13% -17%	0% - 5%	3% - 5%
Total	118 404				

12. GOING CONCERN

The Company's annual financial statements are prepared on the going concern basis. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for the foreseeable future.

Performance

As reflected in these results, some of our businesses have seen impacts on volumes due to lockdown restrictions. April was the worst affected month with South Africa trading under level 5 lockdown restrictions. South Africa and other African markets continue to be impacted by various stages of lockdown restrictions, however we are observing a ramp-up in our operations and thus expect the impact of the COVID-19 pandemic not to significantly affect our operations and performance in the short-term.

Trading cash flows remain positive and are closely monitored whilst the Group cash reserves amount to R32 million.

For the 2021 financial year, subject to stable currencies, a steady recovery in revenue on the back of easing COVID-19 restrictions and a recovery in economies in which we operate, we expect our operations to deliver operating profit growth compared to the prior year and improved free cash flow generation.

Solvency and liquidity

As at 30 June 2020, the consolidated statement of financial position reflects total equity of R508 million. The total borrowing facilities established at the reporting date amount to R680 million of which the unutilised capacity was R116 million.

The Group has externally imposed capital requirements in terms of debt covenants. The covenants, which are calculated on a basis pre IFRS 16 Leases, requires the Group to maintain a net debt to EBITDA of 2.75 times and an EBITDA to net interest expense ratio of no less than 3.5 times.

At 30 June 2020, the Group's covenant requirements were met and are expected to continue to be met in the foreseeable future.

Capital expenditure for the 2021 financial year will be limited to essential and committed expenditure. The focus for the immediate future will be operating cash flows aided by strict working capital management. These measures, all within management control and not impeding the ability to meet client demands, will provide greater liquidity and financial flexibility.

Structural changes

Other than the reduction in workforce in South Africa, no significant structural changes to the business, due to the COVID-19 pandemic, were required.

Conclusion

On the basis outlined above the directors consider it appropriate for the going concern basis to be adopted in preparing the annual financial statements.

COMMENTARY ON THE RESULTS

THE GROUP IN CONTEXT

Metrofile Group is a leading global records and information management specialist, providing clients with end-to-end solutions for the complete data management lifecycle, while ensuring they extract maximum value from their information assets. The business was formed in 1983 and 37 years later, the operations service clients of all sizes and sectors across South Africa, Kenya, Botswana, Mozambique and the Middle East. Group companies operate from 63 facilities, at 35 locations, covering 113 400 square metres of warehousing space.

Metrofile's storage, digital services and products enable businesses to manage their greatest risk, the security of information. It has an acclaimed track record in organising, backing up, managing and protecting large volumes of active and inactive documents, images and data, in physical or electronic format. The Group offers the infrastructure, technology and services to securely manage each phase of the document's lifecycle until its ultimate destruction and recycling.

While the physical management of records and information remains core and continues to grow in volume and revenue, the provision of digital services is expanding and is integral to the strategy. Our solutions based end-to-end service offering covers both aspects as we work with clients on the digital transformation of records across the full paper-to-digitalisation spectrum.

Empowerment partner and strategic shareholder, Mineworkers Investment Company, owns 36.56% of Metrofile's equity.

RESULTS OVERVIEW

Results overview for the financial year:

- Revenue from continuing operations decreased by 1% to R903 million following the impact of the lockdown measures that significantly impacted the digital services and products and solutions revenue streams.
- Operating profit from continuing operations decreased 3% to R217 million following the reduced trading performance in 2HFY20.
- Net debt (excluding lease liabilities) improved by 11% to R524 million following the improved focus on cash generation.
- Finance costs (excluding interest on leases) improved by 18% to R59 million as a result of lower debt, following improved working capital management and focus on capital allocation.
- EPS decreased by more than 100% to (3.4c) mainly as a result of the R118 million impairment of goodwill relating to the MRM Rest of Africa CGU and Tidy Files.
- HEPS increased 21% to 24.8c mainly as a result of improved finance costs, which were partially offset by lower trading due to the lockdown measures.
- NHEPS decreased by 2% to 26.8c mainly as a result of the increase in the number of shares in issue as well as the adoption of IFRS 16 Leases.
- DPS increased by 30% to 13c and includes a final cash dividend of 7 cents per share.

FINANCIAL REVIEW

Revenue

Revenue from continuing operations decreased by 1% to R903 million (FY2019: R913 million) due to the impact of the lockdown measures on the digital services and products and solutions revenue streams.

Secure storage contributed 65% to Group revenue and was up 4% year-on-year mainly as a result of increased box volumes. This was partially offset by a reduction in box related services, such as handling fees and transport of boxes. Closing box volumes for the Group at 30 June 2020 were 11.1 million (30 June 2019: 11.1 million) as net box volume growth of 2%, from existing operations offset by exiting Zambia and Nigeria, was achieved for the year. New box volume intake for the year increased 7% from new and existing customers and was partially offset by destructions and withdrawals. Geographical performance in terms of box volume growth resulted in net box volume growth in South Africa of 1%, Middle East of 3% and Rest of Africa of 9% (offset by 14% due to exiting Zambia and Nigeria).

Digital services contributed 14% to Group revenue and was down 8% year-on-year, along with products and solutions which contributed 15% to Group revenue and was down 15% year-on-year. Digital services was largely impacted due to the reduction in activity in scanning in 2HFY20 due to the impact of the lockdown measures. Products and solutions was largely impacted by the mandatory temporary closure of the manufacturing facility during the April 2020 level 5 lockdown, which subsequently reopened in May 2020 under level 4 lockdown restrictions, and has seen a gradual ramp-up to June 2020. Business support services contributed 6% to Group revenue and was up 6% year-on-year as a result of improved trading in the first half of the financial year.

Operating profit and EBITDA

Operating profit from continuing operations decreased by 3% to R217 million (FY2019: R224 million) mainly as a result of the decrease in revenue and was offset by a reduction in costs. EBITDA from continuing operations increased by 11% to R302 million (FY2019: R271 million) as a result of the adoption of IFRS 16 Leases.

Cash and debt

Net finance costs were 6% lower following the adoption of IFRS 16 Leases, however excluding the impact of the new accounting standard, finance costs improved by 18% as a result of lower debt levels. Net debt reduced by 11% to R524 million following improved cash generation, working capital management and focus on capital allocation.

COMMENTARY ON THE RESULTS (continued)

REVIEW OF OPERATIONS

MRM South Africa

Revenue from MRM South Africa decreased by 2% to R543 million (FY2019: R556 million) following the reduction in digital services, specifically image processing, as a result of the lockdown. This was offset by a 1% improvement in net box volume growth. Operating profit increased by 1% to R207 million (FY2019: R204 million) following the reduction in costs. New box volume intake is expected to continue to increase, however the continued reduction in box related services is expected to persist in the short term. The continued operationalisation of the digital services pipeline will be a key focus for the 2021 financial year.

MRM Rest of Africa

MRM Rest of Africa consisted of operations in Kenya, Botswana and Mozambique. Revenue was stable with a marginal increase of 1% to R106 million (FY2019: R105 million) as a result of an improvement in net box volume growth of 9%, offset by 14% due to exiting Zambia and Nigeria.Service-related revenue was impacted by the lockdown measures. Operating profit decreased by 12% to R30 million (FY2019: R35 million) mainly as a result of the increased IFRS 9 ECL assumptions in relation to the provisions for doubtful debt. Net box volume growth is expected to continue going forward, particularly in the greater East African region.

MRM Middle East

MRM Middle East consists of operations in the United Arab Emirates and Oman. Egypt, which was partially included for the first half of the financial year before the Group's exit from this operation, contributed negatively to the operating profit for the year. Following a significantly improved project pipeline, revenue increased by 31% to R55 million (FY2019: R42 million) and operating profit improved from a loss of R8 million in FY19 to a profit of R2 million, which included the partial loss for the year from the Egyptian operation.

Products and Services

Products and Services consists of Tidy Files, Cleardata and Global Continuity. This segment has been the most significantly impacted due to the lockdown measures as revenue decreased by 5% to R200 million (FY2020: R211 million). Operating profit decreased by 60% to R7.7 million (FY2019: R19 million) as a result of the impact in 2HFY20. Through the existing pipeline, performance is expected to improve in the 2021 financial year.

FINAL DIVIDEND

The Board has resolved to declare a final cash dividend of 7 cents per share.

Notice is hereby given that a final gross cash dividend of 7 cents per share in respect of the year ended 30 June 2020 has been declared payable from income reserves, to the holders of ordinary shares recorded in the books of the Company on Friday, 2 October 2020. The last day to trade cum-dividend will therefore be Tuesday, 29 September 2020 and Metrofile shares will trade ex-dividend from Wednesday, 30 September 2020. Payment of the dividend will be on Monday, 5 October 2020. Share certificates may not be dematerialised or rematerialised from Wednesday, 30 September 2020 (which is ex-date) to Friday, 2 October 2020, both days inclusive. Withholding tax on dividends will be deducted for all shareholders who are not exempt in terms of the legislation at a rate of 20%, which will result in a final net cash dividend of 5.60000 cents per share. The Company's issued share capital at the period end is 452 649 116 shares and the Company's tax number is 9375/066/71/0.

CHANGES TO THE BOARD OF DIRECTORS

There were no changes to the Board for the year ended 30 June 2020 or up to the date of this report.

UPDATE RELATING TO THE PROPOSED TRANSACTION

Metrofile shareholders are referred to the cautionary announcement dated 3 September 2020 relating to the ongoing discussions between the Company and the Housatonic Consortium regarding the potential acquisition of the entire share capital of Metrofile.

The Housatonic Consortium has indicated that its executives will travel to South Africa to refresh and complete their due diligence with a view to further engaging the Metrofile Board on the proposed transaction, but cannot do so until international travel restrictions to South Africa have been lifted.

Shareholders are advised to continue exercising caution in trading in Metrofile shares.

OUTLOOK

The 2020 financial year has been a year of strong progress in addressing key operational areas that will enable us to witness predictable growth across our lines of business in the future, irrespective of the current impact of COVID-19. We witnessed strong results in the first nine months of trading and were destined for an even stronger full year were it not for the sudden impact we experienced due to lockdown. In particular our annuity/subscription based business proved resilient and helped us to effectively weather challenges in the last three months. We, however, experienced visible challenges in the non-subscription part of our business, namely Tidy Files and all projects-based assignments, such as image processing, that required the physical participation of our workforce.

As we look to the 2021 financial year, the pace of change, and the accompanying challenges, look set to increase even further. Our business model to date has proved resilient and this will be further strengthened by our recent acceleration of our digital offerings that will also be based on a subscription model. Furthermore, the extensive cost reduction exercise we have concluded will ensure that profitability is protected despite the expected economic challenges.

COMMENTARY ON THE RESULTS (continued)

Trust from our stakeholders remains paramount to our success and we will achieve that by always delivering on our existing commitments and by evolving our offer to lead the industry through the changes and challenges ahead.

We have considered, and will continue to monitor closely, the potential impact of the pandemic on our business and the macro-economic outlook. We believe that the sensitivity analysis conducted to support our expectation of the impact of risks, and assessment of viability, to be sufficiently robust given what we know today. We have had a good start to the new financial year following the cost reduction measures, and despite the current economic challenges, we expect 1QFY21 to return to historical levels of profitability.

FORWARD-LOOKING STATEMENT

Statements on future financial performance have not been reviewed or audited by the Group's external auditors. The Group cannot guarantee that any forward-looking statement will materialise and, accordingly, readers are cautioned not to place undue reliance on these. The Group disclaims any intention and assumes no obligation to update or revise any forward-looking statement even if new information becomes available as a result of future events or for any other reason, other than as stipulated by the JSE Listings Requirements.

Christopher Seabrooke
Chairman of the Board

Pfungwa Serima
Group Chief Executive Officer

Illovo
14 September 2020

CORPORATE INFORMATION

DIRECTORS

CS Seabrooke (Chairman)^*, MS Bomela (Deputy Chairman)*, PG Serima (CEO), S Mansingh (CFO), MZ Abdulla*, P Langeni†*, LE Mthimunye^*, GD Wackrill*, SV Zilwa ^*, L Rood (Alternate)^*

*^Independent   *Non-executive   †Lead independent*

COMPANY SECRETARY

P Atkins

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The Standard Bank of South Africa Limited

TRANSFER SECRETARIES

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INVESTOR RELATIONS

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Share code: MFL   ISIN: ZAE000061727
("Metrofile" or "the Company" or "the Group")