JASCO
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SUMMARY OF REVIEWED CONDENSED PROVISIONAL RESULTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

HIGHLIGHTS

- **Operating profit from continuing operations increased by 107%**
- **Earnings per share increased by 106% to a profit of 2.9 cents per share**
- **Headline earnings per share loss improved by 99% to -0.6 cents per share**
- **New, more efficient operating structure implemented**
- **Disposal of Reflex Solutions completed in April 2021**
- **Group leadership and succession plan successfully executed**

INTRODUCTION

Jasco Electronics Holdings Limited published its reviewed condensed year-end results to 30 June 2021.

For the full announcement, refer to the company's website, www.jasco.co.za.

Jasco's 45th year was no less challenging than the preceding year, with the ongoing impact of the COVID-19 restrictions on the group's operations and market. During these volatile times, the board and executive team continued to address a number of pressing issues facing the group. The priority was to continue to restore stability to the organisation and put Jasco back on a path of consistent profitability.

CONTEXT TO THE RESULTS

The disposal transaction of Reflex Solutions (Reflex) was concluded in April 2021. In addition, the Property Technology Management (PTM) business within Intelligent Solutions was disposed of with effect from 1 May 2021. Consequently, the results of Reflex and PTM are separately disclosed as "discontinued operations" for the current and prior reporting periods.

ADDRESSING THE GROUP'S SUSTAINABILITY

Corrective actions taken during the year included:

Further restructuring and aggressive cost reduction

A careful review of the group's strategy was undertaken in light of the changing business environment and dynamic trading conditions in the markets that Jasco serves. The operational businesses were therefore restructured during the first half of the year, with the new structure coming into effect from 1 November 2020.

The progress made so far is pleasing, with R48 million annual costs removed and an operating structure that is closely aligned to the group's target markets and customers.

Disposals and subsequent reduction in debt

The proceeds of R78,6 million from the disposal of Reflex and PTM was used to reduce borrowings and fund working capital demands across the group.

Interest-bearing debt decreased from R200 million to R150 million following a R25 million repayment on the corporate bond and R15 million to the Bank of China with the proceeds from the sale of Reflex, as well as the normal servicing of the instalment sale agreements and lease liabilities.

The extension of the working capital loan and implementation of a capital raise

Jasco is negotiating the restructure of the group's borrowings and an extension of the working capital loan with the Bank of China. The board also approved a capital raise of R55 million, in the form of a rights offer partially underwritten by a key shareholder, which is expected to be concluded before the end of December 2021. This will fund future growth and improve the gearing ratio through further debt reduction.

Addressing the underperformance of businesses

With the exception of Security and Fire Safety, all business units achieved an improvement in profitability. Security and Fire Safety continued to be impacted by delays in the team's project execution due to COVID-19-related restrictions at customer sites. Subsequent to year-end, this has improved following the easing of lockdown conditions.

The team focused on an improved gross margin mix and significant cost cutting to ensure the turnaround from losses last year to a profit in the majority of the businesses this year.

FINANCIAL SUMMARY

Revenue of R658,5 million from continuing operations was 1% lower (2020: R663,1 million), mainly due to the ongoing effect of the COVID-19 related restrictions.

Profit before interest and taxation from continuing operations increased to a profit of R5,5 million (2020: R82,9 million loss). This was due to improved trading margins and significant cost savings across the group. Although the return to profitability is pleasing, the profit remains lower than the interest charge on borrowings, which makes further debt reduction crucial.

The profit from discontinued operations of R32,5 million (2020: R13,5 million) includes equity-accounted income from Reflex (R19,2 million) and the profit on disposal of Reflex (R2,3 million) and PTM (R5,7 million).

Jasco's earnings per share increased from a 49.4 cents per share loss to a profit of 2.9 cents per share. Headline earnings per share (HEPS) improved from a loss of 43.0 cents per share to a loss of 0.6 cents per share. The prior year HEPS of 43.0 cents loss per share has been restated from the previously published 44.5 cents loss per share, to include the adjustment for the impairment of intangible assets that was erroneously excluded from the HEPS calculation in the prior year.

The statement of cash flows reflects cash generated from operations before working capital changes of R46,2 million compared to R29,9 million in June 2020. Working capital changes reflect an outflow of R27,4 million (Jun 2020: R8,0 million inflow).

The net closing cash balance of R20,4 million increased from R17,8 million in June 2020.

SOLVENCY, LIQUIDITY AND GOING CONCERN

As at 30 June 2021, Jasco had accumulated losses of R252,2 million (2020: R257,2 million), with the group making a profit of R6,5 million in 2021 (2020: loss of R110,9 million).

The group breached its debt covenants on the corporate bond and the working capital loan from the Bank of China. This, together with the maturity date at year-end, resulted in the loans being recorded as current liabilities.

With the corporate bond, the group is required to comply with the following financial covenant conditions:

- Interest cover ratio being EBIT divided by net finance charges at a minimum of 2.0 times. (2021: 0.50 (2020: -3.06))
- Debt to EBITDA ratio at a maximum of 3.5 times. (2021: 2.53 (2020: 5.55))
- Debt to equity ratio, being debt divided by equity, at a maximum of 60%. (2021: 315.5% (2020: 307.8%))

With the Bank of China loan, the group is required to comply with the following financial covenants:

- Debt to equity ratio not exceeding 150%. (2021: 319% (2020: 344%))
- Current and quick ratios not below 1.2:1 and 0.80:1 respectively. (2021: 1.6 and 1.0 (2020: 1.3 and 0.9))
- Interest cover at a minimum of 1.5 times. (Profit before interest and tax divided by net finance costs). (2021: 0.9 (2020: -1.7))
- Debtors of nil to 90 days to provide 120% cover on the outstanding Bank of China balance at all times. (2021: 62% (2020: 90%))

Subsequent to the year-end, the corporate bond holder and the Bank of China have condoned the breach of the loan covenants as at 30 June 2021.

The group's current liabilities exceed its current assets by R78,1 million (2020: R145,9 million). The group is currently negotiating the extension of the working capital loan from the Bank of China. Should the negotiation not be successful, these events and conditions would cast significant doubt on Jasco's ability to continue as a going concern and therefore, the group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Based on the forecast cash flows from the operations for the next 12 months to December 2022, combined with the planned R55 million rights offer, and the successful renegotiated extension of the working capital loan from the Bank of China, the board is satisfied that the group and company will continue as a going concern.

DIVIDEND PROPOSAL

A dividend is not proposed due to the accumulated losses reported for the prior financial year and the high level of debt.

GROUP PROSPECTS AND KEY INTERNAL INITIATIVES

The economic outlook for the new financial year remains uncertain, with the South African government grappling with a number of challenges, including the ongoing COVID-19 impact, growing unemployment, with associated social unrest, and the continued Eskom crisis.

The most pressing issue for the group is to reduce its high debt levels. The board remains confident that Jasco's funding initiatives will be successful and that Jasco's stronger cash generation from operations and the systematic debt reduction will ensure Jasco's continuing turnaround.

The leadership team's strategic priorities in the current market conditions are to:

- Restructure and further reduce debt and ensure the group remains sustainable
- Address internal funding requirements to assist with profitable growth and market relevance
- Grow revenue
- Maintain stringent cost control

SUBSEQUENT EVENTS

The group has a revised targeted debt:equity ratio of 1:1 (excluding lease liabilities). The board and executive leadership are implementing the following actions to improve the ratio:

- A rights offer to the value of R55 million, which is approximately 80% underwritten by the majority shareholder, Community Investment Holdings Proprietary Limited ("CIH"), of which R20 million will be used to repay the corporate bond and a maximum of R20 million to reduce the working capital loan from the Bank of China.
- Negotiating an extension of the Bank of China working capital loan to at least the end of December 2022.

Following the rights offer, which is expected to be concluded before the end of December 2021, the debt:equity (excluding lease liabilities) ratio is expected to improve to 97.9%.

There were no other material subsequent events.

REVIEW OPINION

The auditors, Mazars, have reviewed the condensed provisional consolidated annual financial statements for the year ended June 2021 from which this condensed report has been derived and on which an unqualified review opinion was expressed. The review opinion includes the following significant emphasis of matter:

Material Uncertainty Related to Going Concern

Without modifying our conclusion above, we draw attention to the note headed 'Solvency, liquidity, and going concern' of the condensed provisional consolidated annual financial statements, in which it is stated that the ability of the group to continue as a going concern is dependent on the renegotiation of the working capital loan from the Bank of China, the planned rights offer and the forecast cash flows from operations for the next 12 months. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern.

A copy of the review opinion is available for inspection at Jasco's registered office and on our website www.jasco.co.za.

CHANGES TO THE BOARD AND THE COMPANY SECRETARY

On 1 March 2021, Mr Warren Prinsloo was appointed as chief executive officer (CEO) and Miss Liska Prigge as chief financial officer (CFO). Mr Pete da Silva stepped down as interim CEO and returned to his duties as an alternative non-executive director to the deputy chairman.

MCP Managerial Services Proprietary Limited, represented by Mr Joel Naidoo, was appointed as Jasco's company secretary, with effect from 1 March 2021.

DIRECTORS' STATEMENT OF RESPONSIBILITY

This short-form announcement is the responsibility of the directors and is only a summary of the information in the full announcement and does not contain full or complete details and is not in itself reviewed. The full announcement can be found on the company's website at www.jasco.co.za or https://senspdf.jse.co.za/documents/2021/jse/isse/JSC/JSC2021.pdf.

Copies of the full announcement may also be requested at the company's registered office and at the office of the sponsor, at no charge, during office hours. Any investment decision should be based on the full announcement published on the company's website.

For and on behalf of the board

Dr ATM Mokgokong	**WA Prinsloo**	**LA Prigge**
(Non-executive chairman)	*(Chief executive officer)*	*(Chief financial officer)*

29 October 2021

Directors and Secretary: Dr ATM Mokgokong (Chairman), MJ Madungandaba (Deputy Chairman), DH du Plessis*, MSC Bawa*, PF Radebe*, TP Zondi* (Non-Executive) AMF da Silva (Alternate Non-executive), WA Prinsloo (CEO), LA Prigge (CFO) MCP Managerial Services (Pty) Limited (Company secretary) **Independent*

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