

Interim Results

for the six months ended 30 June 2016

ADvTECH Limited ("ADvTECH" or "the group")
(Incorporated in the Republic of South Africa)
Registration number: 1990/001119/06
JSE code: ADH ISIN number: ZAE 0000 31035
Income taxation number: 9550/190/71/5

www.advtech.co.za



Revenue ↑28%	Accelerated growth ACADEMIC EXCELLENCE	
Trading operating profit ↑33%	Normalised earnings per share ↑24%	Interim dividend per share 13.5 cents

Condensed consolidated statement of profit or loss

for the six months ended 30 June 2016

R'm	Percentage increase/Notes	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015	Audited 12 months to 31 December 2015
Revenue	28%	1 637.8	1 277.7	2 707.7
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)	40%	357.0	254.4	557.9
Operating profit before interest	44%	293.2	203.0	448.3
Net finance costs paid		(31.5)	(50.6)	(119.7)
Interest received		4.2	5.3	7.1
Finance costs		(35.7)	(55.9)	(126.8)
Profit before taxation	72%	261.7	152.4	328.6
Taxation		(73.0)	(47.8)	(102.5)
Profit for the period	80%	188.7	104.6	226.1
Profit for the period attributable to:				
Owners of the parent		188.5	104.6	224.9
Non-controlling interest		0.2	-	1.2
		188.7	104.6	226.1
Earnings per share (cents)				
Basic*	48%	36.3	24.6	50.2
Diluted	47%	36.2	24.6	50.2
Headline earnings	2	189.6	104.4	228.4
Headline earnings per share (cents)				
Basic*	48%	36.5	24.6	51.0
Diluted	49%	36.4	24.5	51.0
Normalised earnings	3	165.4	109.2	241.5
Normalised earnings per share (cents)				
Basic*	24%	31.9	25.7	53.9
Diluted	24%	31.8	25.7	53.9
Number of shares in issue (million)		530.8	455.0	530.8
Number of shares in issue net of treasury shares (million)		519.4	442.2	519.2
Weighted average number of shares for purposes of basic earnings per share (million)*		519.3	424.4	447.8
Weighted average number of shares for purposes of diluted earnings per share (million)*		520.9	425.7	447.8
Net asset value per share including treasury shares (cents)	53%	443.7	289.8	424.7
Net asset value per share net of treasury shares (cents)	52%	453.4	298.2	434.2
Free operating cash flow before capex per share (cents)	14%	97.2	85.6	75.5
Gross dividends per share (cents)	8%	13.5	12.5	29.5

Condensed consolidated statement of other comprehensive income

for the six months ended 30 June 2016

R'm	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015	Audited 12 months to 31 December 2015
Profit for the period	188.7	104.6	226.1
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	(1.7)	-	11.9
Total comprehensive income for the period	187.0	104.6	238.0
Total comprehensive income for the period attributable to:			
Owners of the parent	186.9	104.6	237.1
Non-controlling interest	0.1	-	0.9
	187.0	104.6	238.0

* Earnings per share, headline earnings per share and normalised earnings per share for the period ended 30 June 2015 have been adjusted downwards by 0.7 cents. This is due to the retrospective adjustment of the 2015 rights offer undertaken. The adjustment to the basic and diluted weighted average number of shares in issue for the period ended 30 June 2015 is an increase of 11.3 million and 11.4 million shares respectively due to the bonus element contained within the rights offer.

Condensed consolidated statement of changes in equity

for the six months ended 30 June 2016

R'm	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015	Audited 12 months to 31 December 2015
Balance at beginning of the period	2 254.5	928.8	928.8
Total comprehensive income for the period	187.0	104.6	238.0
Dividends declared to shareholders	(90.3)	(61.6)	(117.1)
Share-based payment expense	2.8	1.7	3.8
Shares issued	-	333.4	336.4
Rights issue	-	-	850.0
Share issue costs	-	-	(15.2)
Share options exercised	1.0	11.9	19.5
Non-controlling interest arising on acquisition	-	-	10.3
Balance at end of the period	2 355.0	1 318.8	2 254.5

Condensed consolidated segmental report

for the six months ended 30 June 2016

R'm	Percentage increase/(decrease)	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015	Audited 12 months to 31 December 2015
Revenue	28%	1 637.8	1 277.7	2 707.7
Schools	20%	822.3	682.9	1 432.0
Tertiary	20%	592.7	492.4	981.5
Resourcing	116%	224.1	103.9	296.9
Intra group revenue		(1.3)	(1.5)	(2.7)
Operating profit before interest	44%	293.2	203.0	448.3
Schools	25%	164.4	131.8	298.8
Tertiary	57%	100.3	63.8	134.0
Resourcing	(30%)	8.5	12.2	29.1
Litigation settlement		23.5	-	-
Corporate action costs		(0.8)	(4.5)	(12.2)
Litigation		(2.7)	(0.3)	(1.4)
Property, plant and equipment and proprietary technology systems	10%	2 686.7	2 438.4	2 593.4
Schools	8%	2 089.4	1 939.2	2 032.8
Tertiary	19%	589.9	494.4	552.7
Resourcing	54%	7.4	4.8	7.9

Condensed consolidated statement of financial position

as at 30 June 2016

R'm	Unaudited 30 June 2016	Unaudited 30 June 2015	Audited 31 December 2015
Assets			
Non-current assets	3 981.0	3 727.2	3 894.2
Property, plant and equipment	2 637.0	2 386.0	2 538.6
Proprietary technology systems	49.7	52.4	54.8
Goodwill	1 085.3	1 084.5	1 085.3
Intangible assets	197.0	192.3	203.5
Investment	12.0	12.0	12.0
Current assets	533.8	354.2	408.5
Trade and other receivables	285.2	233.6	193.0
Other current assets	54.5	60.0	39.3
Bank balances and cash	194.1	60.6	176.2
Total assets	4 514.8	4 081.4	4 302.7
Equity and liabilities			
Equity	2 355.0	1 318.8	2 254.5
Non-current liabilities	813.2	118.3	899.1
Long-term bank loans	774.8	64.6	801.1
Deferred taxation liability	38.4	53.7	98.0
Current liabilities	1 346.6	2 644.3	1 149.1
Current portion of long-term bank loans	11.7	10.2	16.8
Short-term bank loans	315.0	1 670.0	515.2
Trade and other payables	345.8	328.9	329.1
Taxation	69.2	56.4	11.7
Fees received in advance and deposits	604.9	578.8	276.3
Total liabilities	2 159.8	2 762.6	2 048.2
Total equity and liabilities	4 514.8	4 081.4	4 302.7

Condensed consolidated statement of cash flows

for the six months ended 30 June 2016

R'm	Note	Percentage increase	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015	Audited 12 months to 31 December 2015
Cash generated from operations	4	42%	361.8	255.2	555.8
Movement in working capital			247.8	205.6	1.7
Cash generated by operating activities		32%	609.6	460.8	557.5
Net finance costs paid			(31.5)	(50.6)	(119.7)
Taxation paid			(74.9)	(47.3)	(98.3)
Dividends paid			(90.2)	(61.5)	(116.9)
Net cash inflow from operating activities			413.0	301.4	222.6
Net cash outflow from investing activities			(153.2)	(1 526.6)	(1 340.4)
Net cash (outflow)/inflow from financing activities			(241.7)	1 172.0	1 180.2
Net increase/(decrease) in cash and cash equivalents			18.1	(53.2)	62.4
Cash and cash equivalents at beginning of the period			176.2	113.8	113.8
Net foreign exchange differences on cash and cash equivalents			(0.2)	-	-
Cash and cash equivalents at end of the period			194.1	60.6	176.2

Free operating cash flow before capex per share

for the six months ended 30 June 2016

R'm	Percentage increase	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015	Audited 12 months to 31 December 2015
Profit for the period		188.7	104.6	226.1
Adjusted for non-cash IFRS and lease adjustments (after taxation)		3.6	2.0	(2.8)
Net operating profit after taxation – adjusted for non-cash IFRS and lease adjustments		192.3	106.6	223.3
Depreciation and amortisation		63.8	51.4	109.6
Other non-cash flow items (after taxation)		1.1	(0.2)	3.5
Operating cash flow after taxation	63%	257.2	157.8	336.4
Movement in working capital		247.8	205.6	1.7
Free operating cash flow before capex	39%	505.0	363.4	338.1
Weighted average number of shares for purposes of basic earnings per share (million)*		519.3	424.4	447.8
Free operating cash flow before capex per share (cents)	14%	97.2	85.6	75.5

Supplementary information

for the six months ended 30 June 2016

R'm	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015	Audited 12 months to 31 December 2015
Capital expenditure – current period	153.6	202.7	406.1
Capital commitments	1 219.0	1 329.9	1 566.7
Authorised by directors and contracted for	236.8	227.2	256.4
Authorised by directors and not yet contracted for	982.2	1 102.7	1 310.3
Anticipated timing of spend	1 219.0	1 329.9	1 566.7
0 – 2 years	392.8	635.6	598.9
3 – 5 years	315.7	218.6	419.2
more than 5 years	510.5	475.7	548.6
Operating lease commitments in cash – future years	338.6	354.8	383.9

Notes to the condensed consolidated financial statements

for the six months ended 30 June 2016

1. Statement of compliance

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements.

The preparation of the condensed consolidated interim financial results for the six months ended 30 June 2016 was supervised by Didier Oesch CA(SA), the group's financial director.

These interim results have not been audited or reviewed.

No financial instruments were required to be restated to fair value.

R'm	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015	Audited 12 months to 31 December 2015
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2. Determination of headline earnings

Profit for the period attributable to owners of the parent	188.5	104.6	224.9
Items excluded from headline earnings per share	1.1	(0.2)	3.5
Loss/(profit) on sale of property, plant and equipment	1.5	(0.3)	4.9
Taxation effects of adjustments	(0.4)	0.1	(1.4)

Headline earnings	189.6	104.4	228.4
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3. Determination of normalised earnings

Headline earnings	189.6	104.4	228.4
Items excluded from normalised earnings per share	(24.2)	4.8	13.1
Litigation costs	2.7	0.3	1.4
Corporate action costs	0.8	4.5	12.2
Litigation settlement			
– Settlement received	(18.0)	–	–
– Reversal of provision for counterclaim	(5.5)	–	–
– Reversal of interest on provision for counterclaim	(5.5)	–	–
Taxation effects of adjustments	1.3	–	(0.5)

Normalised earnings	165.4	109.2	241.5
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4. Note to the condensed statement of cash flows

Reconciliation of profit before taxation to cash generated from operations			
Profit before taxation	261.7	152.4	328.6
Adjust for non-cash IFRS and other adjustments (before taxation)	3.3	1.1	(7.0)
	265.0	153.5	321.6
Adjust:	96.8	101.7	234.2
Depreciation and amortisation	63.8	51.4	109.6
Net finance costs paid	31.5	50.6	119.7
Other non-cash flow items	1.5	(0.3)	4.9
Cash generated from operations	361.8	255.2	555.8

5. Events after reporting period

Effective 1 July 2016 ADvTECH acquired 100% of Capsicum Culinary Studio (Pty) Ltd and 51% of Oxbridge Academy (Pty) Ltd.

On 20 July 2016 ADvTECH issued 13.6 million shares at 14.01 per share amounting to R190 million to the International Finance Corporation (IFC), a member of the World Bank Group.

Commentary

Overview

The directors are pleased to announce excellent results, continuing the trend of strong performance from the business as it pursues its growth strategy. Both the schools and tertiary divisions performed well with revenue growth and operating profit up, respectively. The resourcing division profits declined due to the uncertain economy, though revenue increased as a result of the recent acquisitions.

The condensed consolidated statement of profit or loss excluding the benefit of the settlement of the long standing litigation matter with the Welihocky's presented below reflects the excellent trading results.

R'm	Percentage increase	Unaudited 6 months to 30 June 2016	Unaudited 6 months to 30 June 2015	Audited 12 months to 31 December 2015
Revenue	28%	1 637.8	1 277.7	2 707.7
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)	31%	333.5	254.4	557.9
Operating profit before interest	33%	269.7	203.0	448.3
Net finance costs paid		(37.0)	(50.6)	(119.7)
Interest received		4.2	5.3	7.1
Finance costs		(41.2)	(55.9)	(126.8)
Profit before taxation	53%	232.7	152.4	328.6
Taxation		(71.5)	(47.8)	(102.5)
Profit for the period	54%	161.2	104.6	226.1

Group revenue increased by 28% while trading operating profit grew by 33% indicating continued operating margin improvement.

Strong enrolment growth highlighted in the table below translated into revenue increases of 20% in both the schools and tertiary divisions. The bulk of enrolment growth in the previous year was driven by planned and organic expansion.

ADvTECH enrolment growth as at end February

	2014	2015	% increase	2016	% increase
Schools total enrolments	13 541	23 721	75%	25 062	6%
Tertiary full qualification enrolments	20 113	24 332	21%	29 138	20%
Group total	33 654	48 053	43%	54 200	13%

A decrease in financing costs following the rights issue in 2015 and a steady effective taxation rate increased trading profit after taxation by 54% to R161 million. Due to the increased number of shares in issue, the normalised earnings per share increased by 24% to 31.9 cents (2015: 25.7 cents).

Cash generated by operating activities, including the benefit of the litigation settlement, amounting to R610 million enabled the payment of capex of R154 million, finance costs of R32 million, taxation of R75 million and dividends of R90 million, while free operating cash flow grew by 39% to R505 million. The debtors' book has been well managed and we continue to place a strong emphasis on collections while being mindful and understanding of the consumer in this challenging economic climate. Following the rights issue late in 2015, net borrowings has reduced to R907 million whilst the net asset value increased to 453.4 cents (2015: 298.2 cents) per share.

Continual upward growth trajectory for schools division

Contributing 50% of group revenue the schools division increased revenue by 20% to R822 million. Operating profit grew by 25% to R164 million with the operating margin increasing from 19% to 20%. The division continues to reap the benefits of recent acquisitions with the Maravest contributions being included for the first half of the year compared to being reflected for only two months in the corresponding period last year.

Being a leader in the premium independent schools sector, the schools division has also had success in the expansion into the mid-fee segments. The division now consists of 81 (2015: 76) schools across 43 campuses under the brands: Abbots College, ADvTECH Academies, Centurus Colleges, CrawfordSchools™, Junior Colleges, Maravest Group and Trinityhouse.

Following on from the acquisition of Summit College, which is yet to be consolidated in the group's results, and the opening of Founders Hill College in January 2016, as well as Copperleaf College which will open under the ADvTECH Academies umbrella in January 2017, the overall growth for the division including the new schools and acquisitions is expected to continue at a steady pace in line with our growth strategy.

Schools capacity as at the end of February

	2014	2015	2016
Students enrolled ('000)	13.5	23.7	25.1
Existing building capacity ('000)	16.0	28.2	29.9
% Existing building capacity utilised	84%	84%	84%
Ultimate potential site capacity ('000)	20.5	35.4	38.0
% Ultimate potential site capacity utilised	66%	67%	66%

The table above demonstrates the sustained increase in capacity being created in order to cater for continued demand for places in our schools. This also illustrates the extent of capacity that is to be added to existing sites to reach their ultimate capacity.

Tertiary division reaps benefits and continues to grow

The tertiary division contributed 36% of group revenue growing by 20% to R593 million through organic student growth. Operating profit grew 57% to R100 million with operating margin increasing from 13% to 17%, continuing its significant improvement.

The tertiary division includes the Independent Institute of Education (IIE) which operates Rosebank College, Vega, The Design School Southern Africa, Varsity College (including The Business School at Varsity College) and Forbes Lever Baker (FLB). The division has a national urban footprint of 20 DHET registered campuses with an institutional structure that ensures academic leadership and governance.

The successful launch of the digitally enabled Rosebank College Campus in Polokwane presented an exciting new format of blended learning making quality qualifications accessible to more students. This platform is scalable and introduces opportunities for distance learning into new markets.

With this strong performance, the tertiary division is now well placed to enable the second phase of its growth strategy which is to introduce new niche qualifications that provide career opportunities and growth into the distance education sector.

Resourcing division maintains market share in a static economy

The resourcing division contributed 14% to group revenue and grew by 116% to R224 million as a result of acquisitions. Due to the tough trading environment operating profit declined by 30% to R9 million with operating margins down from 12% to 4%, mainly due to the inclusion of the acquisitions which is a lower margin business model. However, the division continued to hold its own, retaining its market share in existing brands despite the stagnant economy and the growing unemployment rate in South Africa, while increasing its presence through the acquisitions.

Comprising permanent and temporary staffing solutions as well as recruitment advertising, e-Recruitment, payroll solutions and advertising response handling the resourcing division's portfolio of brands include: Brent Personnel, Cassel & Company, CA Global, Africa HR Solutions Ltd, Contract Accountants, Communicate Personnel, Inkokheli HR Appointments, Insource.ICT, IT Edge, Network Recruitment, Tech-Pro Personnel and The Working Earth.

Corporate events after the reporting period

The International Finance Corporation's (IFC) R320 million investment in ADvTECH demonstrates support for the group's expansion in Sub-Saharan Africa to increase its schools and tertiary education programs. The IFC acquired a 2.5% equity stake in ADvTECH through the issue of shares for R190 million and a further 1.6% of ADvTECH's shares in the market bringing its combined holdings to around 4% of the group. This investment is part of a partnership aimed at supporting ADvTECH's existing plans for considered expansion into new African markets.

The tertiary division acquired Capsicum Culinary School and a stake in Oxbridge Academy with effect from 1 July 2016, strengthening our position in the tertiary sector.

Capsicum Culinary Studio is the largest culinary school of its kind in South Africa offering local and international accredited programmes and endorsed by the highly acclaimed City & Guilds and World Association of Chefs Societies, with approximately 600 full-time students across six campuses nationally. Through this acquisition ADvTECH can now provide further career development opportunities and much needed skills to the South African market.

ADvTECH has acquired a 51% stake in Oxbridge Academy which is positioned in the rapidly growing distance learning sector, in which 40% of tertiary students are engaged. This partnership introduces a wide variety of qualifications and 20 000 distance education students to the group and provides a platform on which to expand our distance education offering.

Declaration of interim dividend no 14

The group's expansion plans that will continue to roll out over the next few years require significant funding. With this in mind, the board believe it to be prudent to increase the dividend cover as previously signalled and has therefore decided to announce the declaration of an interim gross dividend of 13.5 cents (2015: 12.5 cents) per ordinary share in respect of the half year ended to 30 June 2016.

This is a dividend as defined in the Income Tax Act, 1962, and is payable from income reserves. The South African Dividend Taxation (DT) rate is 15%. The net amount per share payable to shareholders who are not exempt from DT is 11.475 cents per share, while it is 13.5 cents per share to those shareholders who are exempt from DT.

There are 544 386 530 ordinary shares in issue. The total dividend amount payable is R73 million.

The salient dates and times applicable to the dividend referred to above are as follows:

	2016
Publication of declaration and finalisation information	Monday, 22 August
Last day to trade in order to participate in the dividend	Tuesday, 6 September
Trading commences ex-dividend	Wednesday, 7 September
Record date	Friday, 9 September
Payment date	Monday, 12 September

Share certificates may not be dematerialised between Wednesday, 7 September 2016 and Friday, 9 September 2016, both days inclusive.

Directorate

There have been no changes to the directorate for the six months ended 30 June 2016.

CC Koopman was appointed as company secretary with effect from 1 August 2016.

Prospects

As mentioned at year-end, the board and management have agreed a stretch target of 100 cents normalised earnings per share by 2018. Given approved investment and the new opportunities identified, the board believes this is achievable provided there is no further deterioration in the operating climate.

These results are in line with the achievement of this stretch target. The group continues to make good progress in growing its leading market position, increasing its presence in mid-fee schools, identifying acquisition and partnership opportunities in both South Africa and the rest of the continent, and expansion of our delivery model through technology-enabled education including blended and distance learning.

On behalf of the board

Chris Boule
Chairman

Roy Douglas
Chief executive officer

Didier Oesch
Group financial director

22 August 2016

Directors: CH Boule* (Chairman), RJ Douglas (CEO), JDR Oesch (Financial), BM Gourley*, JD Jansen*, SC Masie*, KDM Warburton*, SA Zinn*

*Non-executive

Group company secretary: CC Koopman

Registered office: ADvTECH House, Inanda Greens, 54 Wierda Road West, Wierda Valley, Sandton 2196.

Transfer secretaries: Link Market Services South Africa (Pty) Ltd, Rennie House, 19 Ameshoff Street, Braamfontein 2017.

Sponsor and corporate advisors: Bridge Capital Advisors (Pty) Ltd, 27 Fricker Road, Illovo 2196.

