

UNAUDITED INTERIM RESULTS

for the six months ended 31 December 2016

PINNACLE
H O L D I N G S

Technology Delivered™

The variation of the consumer market

At a glance

REVENUE **UP 47%**

OPERATING PROFIT **UP 60%**

CORE EPS **UP 17%**

CASH GENERATED **R592 million**

Registration number 1986/000334/06 | Share code: PNC | ISIN: ZAE000184149

("Pinnacle" or "the Group" or "the Company")

www.pinnacleholdings.co.za

Condensed Consolidated STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Half year 31 Dec 2016 Unaudited R'000	Half year 31 Dec 2015 Unaudited R'000	Full year 30 Jun 2016 Audited R'000
Revenue	6 345 738	4 330 869	10 969 132
Cost of sales	(5 219 096)	(3 773 894)	(9 305 726)
Gross profit	1 126 642	556 975	1 663 406
Operating expenses	(717 065)	(313 849)	(984 244)
Selling expenses	(35 546)	(30 383)	(69 450)
Employee expenses	(577 513)	(238 244)	(806 789)
Administration expenses	(99 764)	(50 607)	(141 322)
Gain on discounting of finance lease agreements	2 248	692	1 619
Profit on foreign exchange	(6 490)	4 693	6 384
Fair value adjustment on acquisition of former associate	-	-	(17 654)
Profit on disposal of former subsidiary	-	-	42 968
EBITDA *	409 577	243 126	679 162
Depreciation and amortisation	(44 996)	(15 319)	(63 284)
Operating profit before interest and taxation	364 581	227 807	615 878
Net finance costs	(54 205)	(48 187)	(108 694)
Investment income	14 718	6 147	17 617
Interest paid	(68 923)	(54 334)	(126 311)
Share of equity accounted associate income	-	22 039	22 702
Profit before taxation	310 376	201 659	529 886
Taxation	(96 031)	(51 155)	(148 283)
Net profit for the period	214 345	150 504	381 603
Owners of the Company	178 746	150 383	341 652
Non-controlling interests	35 599	121	39 951
Other comprehensive income:			
Items that will not be reclassified into profit or loss	-	-	(23 825)
Realisation of non-distributable reserve on disposal of properties	-	-	(23 825)
Items that can be reclassified into profit or loss	3 353	4 826	7 811
Exchange differences from translating foreign operations	1 031	248	2 126
Cash flow hedge	2 322	4 578	5 685
Total comprehensive income for the period	217 698	155 330	365 589
<i>Attributable to:</i>			
Owners of the Company	182 099	155 209	325 638
Non-controlling interests	35 599	121	39 951

* Earnings before interest, taxation, depreciation and amortisation.

Reconciliation of HEADLINE EARNINGS AND CORE EARNINGS

	Half year 31 Dec 2016 Unaudited R'000	Half year 31 Dec 2015 Unaudited R'000	Full year 30 Jun 2016 Audited R'000
Net profit for the period attributable to ordinary shareholders	178 746	150 383	341 652
Fair value adjustment on acquisition of former associate net of taxation	-	-	13 700
Fair value adjustment on acquisition of former associate	-	-	17 654
Less: Taxation thereon	-	-	(3 954)
Profit on sale of property, plant and equipment net of taxation	(688)	(579)	(1 492)
Profit on sale of property, plant and equipment	(955)	(804)	(2 072)
Less: Taxation thereon	267	225	580
Profit on sale of former subsidiary net of taxation	-	-	(27 565)
Profit on sale of former subsidiary	-	-	(42 968)
Less: Taxation thereon	-	-	15 403
Headline earnings	178 058	149 804	326 295
Amortisation of intangibles net of taxation	6 998	-	12 052
Amortisation of intangibles	9 720	-	16 739
Less: Taxation thereon	(2 722)	-	(4 687)
Core earnings	185 056	149 804	338 347
Total number of shares in issue ('000)			
- Total issued less treasury shares	166 733	164 240	171 226
- Weighted average	167 858	159 244	164 992

FINANCIAL REVIEW

	Half year 31 Dec 2016 Unaudited	Half year 31 Dec 2015 Unaudited	Full year 30 Jun 2016 Audited
Performance per share (cents)			
Basic and diluted earnings per share	106.5	94.4	207.1
Headline and diluted headline earnings per share *	106.1	94.1	197.8
Core and diluted core earnings per share *	110.2	94.1	205.1
Dividend cover	5.4	-	-
Returns (%)			
Gross profit	17.8	12.9	15.2
Operating expenses	(11.3)	(7.2)	(9.0)
EBITDA **	6.5	5.6	6.2
Operating profit before interest and taxation	5.7	5.3	5.6
Effective tax rate ***	30.9	28.5	29.2
Net profit	3.4	3.5	3.5
Return on equity	16.9	17.8	18.8

* The Company has no dilutionary instruments in issue.

** Earnings before interest, taxation, depreciation and amortisation.

*** Based on profit before tax excluding share of equity accounted associate income.

Condensed SEGMENTAL ANALYSIS

	Half year 31 Dec 2016 Unaudited R'000	Half year 31 Dec 2015 Unaudited R'000	Full year 30 Jun 2016 Audited R'000
Revenue			
ICT Distribution	4 751 162	4 262 307	9 408 761
Services and Solutions	1 772 964	–	1 608 180
Financial Services	85 887	71 378	148 840
Group Central Services	–	–	–
Less: Intra-segmental revenue	(264 275)	(2 816)	(196 649)
	6 345 738	4 330 869	10 969 132
EBITDA **			
ICT Distribution	210 631	186 430	384 652
Services and Solutions	134 745	–	152 710
Financial Services	62 394	49 239	100 664
Group Central Services	1 807	7 457	41 137
	409 577	243 126	679 162
Reconciliation of profit			
Segment EBITDA	409 577	243 126	679 162
Depreciation and amortisation	(44 996)	(15 319)	(63 284)
Net finance costs	(54 205)	(48 187)	(108 694)
Share of equity accounted associate income	–	22 039	22 702
	310 376	201 659	529 886
Net operating assets			
ICT Distribution	1 114 464	1 005 570	1 100 741
Services and Solutions	801 167	–	746 497
Financial Services	176 304	131 812	151 203
Group Central Services	392 881	701 482	411 076
	2 484 816	1 838 864	2 409 517

** Earnings before interest, taxation, depreciation and amortisation.

Condensed Consolidated STATEMENT OF CHANGES IN EQUITY

	Half year 31 Dec 2016 Unaudited R'000	Half year 31 Dec 2015 Unaudited R'000	Full year 30 Jun 2016 Audited R'000
Opening balance	2 409 517	1 545 121	1 545 121
Shares (repurchased)/issued	(70 602)	110 848	191 966
Treasury shares purchased	(3 756)	–	–
Profit for the period	214 345	150 504	381 603
Other comprehensive income	1 031	248	2 126
Cash flow hedge reserve	2 322	4 578	5 685
Transactions with investees/non-controlling interests	(34 694)	27 565	283 016
Dividend paid	(33 347)	–	–
Closing balance	2 484 816	1 838 864	2 409 517
<i>Attributable to:</i>			
Owners of the Company	2 154 740	1 838 368	2 086 175
Non-controlling interests	330 076	496	323 342

Condensed Consolidated STATEMENT OF FINANCIAL POSITION

	Half year 31 Dec 2016 Unaudited R'000	Half year 31 Dec 2015 Unaudited R'000	Full year 30 Jun 2016 Audited R'000
ASSETS			
Non-current assets	1 121 779	1 033 319	1 100 391
Property, plant and equipment	118 203	62 840	120 011
Intangible assets and goodwill	486 447	126 056	506 663
Investment in associate	–	442 569	–
Finance lease receivables	429 206	369 373	408 020
Deferred taxation	87 923	32 481	65 697
Current assets	3 808 788	2 680 863	3 912 260
Inventories on hand	777 741	942 679	832 538
Inventories in transit	70 206	65 495	125 187
Short-term loans	–	2 429	–
Derivative financial asset	1 800	–	–
Trade and other receivables	2 247 448	1 469 469	2 524 373
Finance lease receivables	222 640	169 132	178 663
Taxation receivable	6 430	43	10 006
Cash and cash equivalents	482 523	31 616	241 493
Total assets	4 930 567	3 714 182	5 012 651
EQUITY AND LIABILITIES			
Capital and reserves	2 484 816	1 838 864	2 409 517
Share capital and premium	122 988	112 528	193 646
Treasury shares	(43 047)	(72 856)	(72 856)
Non-distributable reserves	37 139	61 794	36 107
Cash flow hedge reserve	600	(2 829)	(1 722)
Accumulated profits	2 037 060	1 739 731	1 931 000
Non-controlling interests	330 076	496	323 342
Non-current liabilities	479 928	35 806	432 612
Interest-bearing liabilities	403 077	374	353 416
Derivative financial liability	–	–	3 444
Deferred revenue	14 144	437	29 213
Deferred taxation	62 707	34 995	46 539
Current liabilities	1 965 823	1 839 512	2 170 522
Trade and other payables	1 730 206	1 302 719	2 026 899
Interest-bearing liabilities	141	315 177	154
Derivative financial liability	–	19 914	16 154
Short-term loans	–	28 501	–
Deferred revenue	205 802	12 662	96 111
Taxation payable	29 674	13 436	12 619
Bank overdrafts	–	147 103	18 585
Total equity and liabilities	4 930 567	3 714 182	5 012 651
Capital management			
Net asset value per share (cents)	1 292.3	1 119.3	1 218.4
Net tangible asset value per share (cents)	1 000.6	1 042.6	922.5
Working capital management			
Investment in working capital (R'000)	1 159 387	1 162 262	1 359 088
Liquidity and solvency			
Debt to equity (%)	18.7	26.7	18.8
Current ratio (excluding stock in transit)	2.0	1.5	1.9
Acid test (excluding stock in transit)	1.6	0.9	1.4

Condensed Consolidated STATEMENT OF CASH FLOWS

	Half year 31 Dec 2016 Unaudited R'000	Half year 31 Dec 2015 Unaudited R'000	Full year 30 Jun 2016 Audited R'000
Profit before taxation	310 376	201 659	529 886
<i>Adjusted for:</i>			
Finance income received	(14 718)	(6 147)	(17 617)
Finance expenses paid	68 923	54 334	126 311
Non-cash flow items	43 106	(7 801)	19 137
Changes in working capital	184 632	(58 905)	90 178
Cash generated by operating activities	592 319	183 140	747 895
Net finance costs	(54 205)	(48 187)	(108 694)
Finance income received	14 718	6 147	17 617
Finance expenses paid	(68 923)	(54 334)	(126 311)
Taxation paid	(81 458)	(49 744)	(180 411)
Dividends received from equity accounted investment	–	8 170	8 170
	456 656	93 379	466 960
Cash flows from investing activities			
Property, plant and equipment acquired	(18 597)	(7 334)	(18 222)
Proceeds on disposals of property, plant and equipment	2 400	1 921	1 306
Proceeds on disposals of assets classified as held-for-sale	–	226 115	226 116
Assets classified as held-for-sale acquired	–	(617)	(617)
Acquisition of intangible assets	(3 275)	–	(9 870)
Acquisition of non-controlling interest	(34 694)	–	–
Purchase consideration paid on business combinations	(3 500)	–	(56 521)
Net investment in finance leases receivable	(65 163)	(80 945)	(118 973)
Additional costs incurred on equity accounted investment	–	(115)	(3 678)
	(122 829)	139 025	19 541
Cash flows from financing activities			
Interest-bearing liabilities raised	50 000	437	350 050
Interest-bearing liabilities repaid	(353)	(171 274)	(655 439)
Derivative financial liability paid	(16 154)	–	–
Shares repurchased	(70 602)	–	–
Treasury shares purchased	(3 756)	–	–
Decrease in short-term loans	–	(103 789)	25 292
Dividends paid	(33 347)	–	–
	(74 212)	(274 626)	(280 097)
Increase in net cash, cash equivalents and overdrafts	259 615	(42 222)	206 404
Net cash acquired from business combinations–	–	89 769	
Net cash, cash equivalents and overdraft at beginning of period	222 908	(73 265)	(73 265)
Net cash, cash equivalents and overdraft at end of period	482 523	(115 487)	222 908

Condensed ANALYSIS OF GOODWILL

	Half year 31 Dec 2016 Unaudited R'000	Half year 31 Dec 2015 Unaudited R'000	Full year 30 Jun 2016 Audited R'000
Opening balance	347 846	108 166	108 166
Business combination acquisitions	–	–	239 680
Closing balance	347 846	108 166	347 846
Business combination acquisitions			
Datacentrix	–	–	190 465
Solareff	–	–	45 222
Intdev	–	–	3 993
	–	–	239 680

BUSINESS COMBINATIONS

1) E-Business Infrastructure Solutions (Pty) Ltd ("EBIS")

On 27 October 2016, the Company acquired, through its subsidiary, Axiz (Pty) Ltd, the distribution business of EBIS in the countries comprising the continent of Africa but excluding the Republic of South Africa, of the sale and maintenance of IBM branded computer software and matters incidental thereto as a going concern for a purchase consideration of R3.5 million.

The transaction was accounted for in terms of IFRS 3 Business Combinations.

The IBM Software Distribution Agreement and Customer List were classified as intangible assets at the acquisition date and were valued at R3.5 million. Accordingly, goodwill on acquisition was calculated as zero.

BUSINESS COMBINATIONS CONCLUDED IN THE PREVIOUS PERIOD

2) Datacentrix Holdings Ltd

The Company increased its shareholding in Datacentrix Holdings Ltd to 55.2% in the previous financial year. This percentage was further increased to 57.2% in July 2016 due to a share repurchase by Datacentrix.

Datacentrix is a complete ICT systems integrator that provides solutions and services across the full information value chain to its customers and has been listed on the main board of the JSE since 1998.

3) Solareff (Pty) Ltd

On 1 February 2016, Pinnacle acquired 51% of the total voting shares in issue of Solareff (Pty) Ltd ("Solareff").

Solareff is a fast growing solar photovoltaic specialist with more than a decade's experience in renewable energy projects. As one of the top three solar photovoltaic specialist companies in Southern Africa, it is recognised as a market leader in its field.

4) Intdev Internet Technologies (Pty) Ltd

Pinnacle acquired 60% of the total voting shares in issue of Intdev Internet Technologies (Pty) Ltd ("Intdev"), effective on 1 March 2016. The transaction was entered into to further increase the Group's Services and Solutions division.

Intdev Internet Technologies is an award-winning South African IT company with a countrywide presence that has been offering complete and customised IT and Internet Solutions since 2003.

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value measurements of financial assets and liabilities are analysed as follows:

Level 1 – fair value is determined from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value is determined through the use of valuation techniques based on observable inputs, either directly or indirectly.

Level 3 – fair value is determined through the unobservable inputs for the asset or liability.

		Half year 31 Dec 2016 Unaudited R'000	Half year 31 Dec 2015 Unaudited R'000	Full year 30 Jun 2016 Audited R'000
	Level			
Financial assets				
Trade and other receivables	2	2 246 056	1 457 596	2 491 487
Share purchase scheme loans	2	–	2 429	–
Derivative financial asset	2	1 800	–	–
Finance lease receivables	2	651 846	538 505	586 683
Cash and cash equivalents	1	482 523	31 616	241 493
Financial liabilities				
Interest-bearing liabilities	2	403 218	315 551	353 570
Derivative financial liability	2	–	19 914	19 598
Trade and other payables	2	1 700 918	1 281 187	1 817 480

INTRODUCTION

The Group presents its condensed consolidated unaudited interim financial results for the six months ended 31 December 2016.

OVERVIEW

Pinnacle has delivered satisfactory results with all of its operating divisions growing despite the difficult market conditions.

The acquisition of Datacentrix Holdings Limited ("Datacentrix"), and to a lesser extent of Solareff Proprietary Limited ("Solareff"), in the second half of the last financial year, has contributed positively to the Group in the six months ended 31 December 2016. The strategy to diversify the Group's business from that of predominantly distribution is bearing fruit with the contribution from the Services and Solutions cluster becoming more significant. In addition, the focus on delivering profits into cash has transformed the gearing of the group which has allowed us to recommence our acquisition strategy.

A significant milestone in that strategy was the announcement on SENS on 30 January 2017 that Pinnacle had fulfilled all of the conditions precedent to acquire the balance of the ordinary share capital of Datacentrix. Datacentrix will be accounted for as a 100% owned subsidiary with effect February 2017.

Pinnacle will continue to look at further acquisitions, both local and international, to bolster its offerings in each of its clusters as these opportunities present themselves with the focus on expanding our Services and Solutions cluster.

FINANCIAL RESULTS

The Group had a strong first half with revenue growing 47% to R6.3 billion with pleasing growth emanating from all operations, particularly in our Services and Solutions cluster.

Operating profit margins improved to 5.7%, from 5.3% previously. Small losses on foreign exchange were experienced due to the volatility of the rand during the period and due to certain foreign currency exposures that exist in African countries. In addition, amortisation charges in the six months to December 2016 include amounts processed on intangibles recognised on business combinations that were insignificant in the comparable period.

Taxation was impacted by security transfer tax paid on the restructure of one of the subsidiaries in the group amounting to R2.9 million, non-resident shareholders tax of R1.5 million paid on a dividend received from a foreign subsidiary, and R3.8 million in an under provision of income tax in one of the subsidiaries.

Headline earnings improved by 19% to R178 million and Core earnings per share were up 17.2% to 110.2 cents per share ("cps") (H1 2016: 94.1 cps).

The Group continued with its strategy of cash generation and working capital reduced by a further R200 million from the position at the end of June 2016. Cash flow from operations increased to R592 million (H1 2016: R183 million), and this resulted in the Group having no short-term debt as at the end of December 2016.

DIVISIONAL PERFORMANCE

The **Distribution division** increased revenue by 11% and EBITDA* by 13%.

- The division has traded well in a difficult market. The strategy, implemented in prior periods, to offer more enterprise and infrastructural products to our customers has served the division well.
- Continued emphasis was placed on working capital management and logistic efficiency in order to yield acceptable returns and the division has responded magnificently to achieve a further reduction in its working capital utilisation.

The **Services and Solutions division**, incorporating Datacentrix and Solareff, has had a pleasing six months with revenue of R1.8 billion. New contracts have been secured in a highly competitive environment that place the division well for growth in the ensuing periods. The investment in working capital has been reduced but the focus remains to reduce this further.

Centrafin has had a satisfactory six months. Revenue increased by 20% and the division continued to contribute positively to the growth of the Group. The book continues to grow and is now at R660 million from R564 million a year ago. The margins have been maintained and customer defaults continue to be well managed.

*Earnings before interest, taxation, depreciation and amortisation.

INVESTMENT ACTIVITIES AND FINANCIAL POSITION

Cash generated by operating activities in the six months to December 2016 came in at a healthy R592 million.

The only other inflow of funds of significance was the increase in the securitisation funding in Centrafin of R50 million.

The main cash outflows for the six months comprised:

- Net interest paid of R54 million;
- Taxation paid of R81 million;
- Net fixed assets acquired of R16 million;
- Further investment of R65 million into the Finance receivable book;
- The repurchase of shares in Datacentrix by Datacentrix of R35 million;
- The repurchase of shares of R71 million; and
- Dividends paid of R33 million.

RELATED PARTY TRANSACTIONS

There have not been any reportable related party transactions in the period except for those that are mentioned elsewhere in this report.

SUBSEQUENT EVENTS

Further acquisition of Datacentrix

On 30 January 2017, the Company and Datacentrix announced on SENS that all of the conditions precedent for the acquisition of 100% of the balance of the issued share capital of Datacentrix not already owned by Pinnacle had been fulfilled.

Change of name

As communicated and subsequently approved by the Shareholders at the Annual General Meeting, the name of Pinnacle Holdings Limited will change to Alviva Holdings Limited.

The proposed new name has been approved by the Companies and Intellectual Property Commission ("CIPC"). The abbreviated name of the Company for the purposes of the JSE trading system will be "Alviva"; the JSE alpha code will be "AVV" and the new ISIN will be ZAE000227484. Listing of and trading in new shares on the JSE under the new JSE code and ISIN will be from commencement of business on 8 March 2017. For a period of not less than one year, the Company will reflect the former name "Pinnacle Holdings Limited" in brackets beneath the new name of "Alviva Holdings Limited" on all documents of title.

No other events material to the understanding of the report occurred in the period between the period-end date and the publication date of this report.

DIVIDENDS

In line with previous years, no interim dividend is proposed for the period under review.

PROSPECTS AND STRATEGIC INITIATIVES

The outlook for the year to 30 June 2017 is positive with earnings expected to be above those of June 2016 due to on-going improvements in all business segments.

- The Distribution division is well managed and well positioned to take advantage of the opportunities in both the local market and those beyond our borders.
- Centrafin will continue to maintain a steady growth with the backing of its securitisation structure and funding.
- The Services and Solutions segment should continue their growth trajectory and we are excited about their prospects.

The ongoing actions and strategy are to continue with further improvements in working capital, to grow organically, to diversify the overall business, and to invest into new technologies. The Services and Solutions businesses will be targeted for growth, both organically and by way of strategic acquisitions.

STATEMENT OF COMPLIANCE, BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated unaudited interim financial results for the six months ended 31 December 2016 have been prepared in accordance with the Group's accounting policies under the supervision of the Chief Financial Officer, RD Lyon CA, and complies with IAS 34: Interim Financial Reporting, the framework concepts, and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listings Requirements of the JSE Limited and the requirements of the Companies Act of South Africa (Act 71 of 2008), as amended.

The condensed consolidated unaudited interim financial results of the Group are prepared on a historical basis except for certain financial instruments, which are stated at fair value as applicable.

The condensed consolidated unaudited interim financial results have been prepared using accounting policies that comply with IFRS and includes reasonable judgements and assessments. These accounting policies are consistent with those applied in respect of the audited consolidated annual financial statements for the year ended 30 June 2016. All new interpretations and standards, which became effective during the 6-month period under review, have been assessed and adopted with no material impact.

Neither the condensed consolidated unaudited interim financial results for the six months ended 31 December 2016, nor this set of summarised financial information and disclosure, have been reviewed or audited by the Group's auditors, Sizwe Ntsaluba Gobodo Inc. The directors take full responsibility for the preparation of this summarised report. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Group's auditors.

Core earnings per share is a non-IFRS measure and is based on headline earnings per share ("HEPS") adjusted to exclude amortisation charges of intangibles recognised on business combinations and one-off expenses related to acquisitions.

For and on behalf of the Board

AJ Fourie
Chairman

P Spies
Chief Executive Officer

Midrand
2 March 2017

PINNACLE HOLDINGS LIMITED

Directors:

AJ Fourie * (Chairman), A Tugendhaft * (Deputy Chairman), P Spies (Chief Executive Officer), RD Lyon (Chief Financial Officer),
SH Chaba*^, N Medupe **, B Sibiya #

** Non-executive ^ Independent non-executive # Lead independent*

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Preparer of results: RD Lyon CA

Company Secretary: SL Grobler CA (SA)

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Auditors:

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