Blue Label Telecoms Limited
(Incorporated in the Republic of South Africa)
(Registration number 2006/022679/06)
JSE share code: BLU ISIN: ZAE000109088
(Blue Label, BLT, the Company or the Group)

Audited results for the year ended 31 May 2019

- Revenue of R25.9 billion*
- Increase in gross profit margin from 8.54% to 10.23%
- Increase in gross profit of 16% to R2.65 billion
- Headline loss of 312.49 cents per share
- Core headline loss of 304.77 cents per share**

* On inclusion of the gross amount generated on "PINless top-ups", prepaid electricity and ticketing, the effective increase equated to 10% from R52.6 billion to R57.8 billion

** On exclusion of negative contributions of Cell C, Oxigen Services India Group, fair value downward adjustments and impairments, core headline earnings per share from the balance of the entities within the Blue Label Group equated to 98.98 cents per share

OVERVIEW

Core headline earnings for the year ended 31 May 2019 equated to a negative 304.77 cents per share. Although the core businesses of the Blue Label Group continued to generate profit, the predominant negative contributions to Group earnings were attributable to:

- Cell C's trading losses, impairment of its property, plant and equipment, the impact of a derecognition of its deferred tax asset and the impairment of Blue Label's total investment therein;
- fair value downward adjustments of the exposure relating to SPV1 and SPV2 pertaining to the initial recapitalisation of Cell C (the structure of SPV1 and SPV2 as detailed in the trading statement published on SENS on 22 February 2019) and the Glocell loan;
- an impairment of Blue Label's total investment in the Oxigen India group, including 2DFine Holdings Mauritius (collectively, OSI), as well as providing for loan impairments and guarantees payable therein; and
- partial impairments of goodwill and an investment in a joint venture company.

On exclusion of the above negative contributions, core headline earnings amounted to R904 million compared to R716 million in the prior year, equating to a growth of 26%.

After taking into account the increase in the weighted average number of shares in issue, core headline earnings per share from the balance of the entities within the Blue Label Group increased by 18% from 83.65 cents to 98.98 cents for the year ended 31 May 2019, as detailed in the table below.

	Group May 2019 R'000	Cell C May 2019 R'000	Fair value adjustment May 2019 R'000	OSI May 2019 R'000	Impair-ments May 2019 R'000	Remaining entities May 2019 R'000
Revenue	25 869 433	-	-	-	-	25 869 433
Gross profit	2 646 121	-	-	-	-	2 646 121
EBITDA	462 680	-	(873 877)	(193 364)	(124 401)	1 654 322
Impairments on associates and joint venture	(2 669 076)	(2 521 152)	-	(118 412)	(29 512)	-
Share of (losses)/profits from associates and joint ventures	(3 701 410)	(3 609 495)	-	(86 637)	-	(5 278)
- Cell C	(3 609 495)	(3 609 495)	-	-	-	-
- Oxigen Services India	(86 637)	-	-	(86 637)	-	-

- Blue Label Mexico	(24 096)	-	-	-	-	(24 096)
- Other	18 818	-	-	-	-	18 818
Net (loss)/profit	(6 646 383)	(6 130 647)	(837 831)	(398 412)	(146 535)	867 042
Core net (loss)/profit	(6 575 898)	(6 120 271)	(837 831)	(398 412)	(146 535)	927 151
Core headline earnings	(2 783 155)	(2 616 427)	(837 831)	(232 826)	-	903 929
Gross profit margin	10.23%					10.23%
EBITDA margin	1.79%					6.39%
Weighted ave shares ('000)	913 208					913 208
EPS (cents)	(727.81)					94.94
HEPS (cents)	(312.49)					92.40
Core HEPS (cents)	(304.77)					98.98

	Group May 2018 R'000	Cell C May 2018 R'000	Fair value adjustment May 2018 R'000	OSI May 2018 R'000	Remaining entities May 2018 R'000	Growth remaining entities R'000	Growth remaining entities %
Revenue	26 734 249	-	-	-	26 734 249	(864 816)	(3)
Gross profit	2 282 093	-	-	-	2 282 093	364 028	16
EBITDA	1 340 153	-	5 121	-	1 335 032	319 290	24
Impairments on associates and joint venture	-	-	-	-	-	-	
Share of (losses)/profits from associates and joint ventures	520 628	562 568	-	(45 184)	3 244	(8 522)	(263)
- Cell C	562 568	562 568	-	-	-		
- Oxigen Services India	(45 184)	-	-	(45 184)	-		
- Blue Label Mexico	(21 900)	-	-	-	(21 900)	(2 196)	(10)
- Other	25 144	-	-	-	25 144	(6 326)	(25)
Net (loss)/profit	1 122 085	562 567	3 687	(128 480)	684 311	182 731	27
Core net (loss)/profit	1 166 430	571 214	3 687	(128 480)	720 009	207 142	29
Core headline earnings	1 160 477	569 474	3 687	(128 480)	715 796	188 133	26
Gross profit margin	8.54%				8.54%		
EBITDA margin	5.01%				4.99%		
Weighted ave shares ('000)	855 687				855 687		
EPS (cents)	131.13				79.97	14.97	19
HEPS (cents)	130.44				79.48	12.92	16
Core HEPS (cents)	135.62				83.65	15.33	18

It is evident that the investment in Cell C had a significant negative impact on Group earnings. However, the contemplated national roaming agreement will result in substantial cost savings for Cell C by reducing network and capital expenditure. These savings will further be enhanced on completion of an intended extensive capital restructure objective.

Group revenue declined by 3% to R25.9 billion. As only the gross profit earned on "PINless top-ups", prepaid electricity and ticketing are accounted for, on imputing the gross revenue generated thereon, the effective growth in revenue equated to 10% from R52.6 billion to R57.8 billion.

Gross profit increased by 16% from R2.28 billion to R2.65 billion, underpinned by an increase in margins from 8.54% to 10.23%.

The decline in EBITDA was attributable to fair value downward adjustments of R874 million relating to SPV1, SPV2 and Glocell distribution, to a provision in OSI for loan impairments of R161 million offset by sureties receivable of R30 million and to a provision for guarantees payable of R62 million. Additional declines related to partial impairments of goodwill in both Via Media and Blue Label Connect of R74 million and R50 million respectively. On exclusion of these negative contributions, EBITDA generated by the Group increased by 24% from R1.34 billion to R1.65 billion.

This was attributable to continued positive contributions by the remaining entities in the Group, of which the predominant companies include:
- The Prepaid Company, the leading distributor of prepaid airtime and data for all networks in South Africa;
- Blue Label Distribution which provides electronic products and services through its extensive distribution channels that encompass banks, retailers, spaza and informal shops and petroleum forecourts;
- Comm Equipment Company, a financier of the mobile handset element of postpaid contracts;
- 3G Mobile, a distributor of mobile handsets to the retail market;
- Ticketpro which offers customers access to transport services, sporting events and entertainment, all of which generate additional footprint at the vast points of presence within the Group;
- Cigicell which processes prepaid electricity and facilitates collections for multiple municipalities in South Africa;
- Blue Label Connect which distributes hybrid top-up airtime and data contracts on behalf of all the major networks;
- Transaction Junction, a payment service provider servicing major retailers, financial institutions and petroleum companies among others;
- Blue Label Data Solutions, a market leader in consumer data, big data, validation and lead generation; and
- United Call Centre Solutions, an outbound call centre selling products and services directly to consumers.

Earnings per share and headline earnings per share decreased from 131.13 and 130.44 cents per share to negative 727.81 and negative 312.40 cents per share respectively. Net asset value per share decreased from R10.88 to R2.59.

SUBSEQUENT EVENTS AND GOING CONCERN

Disposals

The Blue Label Group has consistently generated positive cash flows from its trading operations since its listing. These funds have been applied to dividend distributions, share buy-backs and investing activities, at all times ensuring sufficient surplus funds to facilitate working capital requirements. Over the past two years significant investments were made, necessitating an increase in interest-bearing debt in order to ensure that working capital requirements remained intact. Accordingly, the Board of Directors have made a decision to deleverage the business in order to ensure a more robust and liquid balance sheet going forward. This deleveraging will be achieved through the disposal of certain assets, as reflected in subsequent events below, the proceeds of which will amount to approximately R1.07 billion. The disposal thereof will not have a negative impact on the extensive distribution network that Blue Label has established and will not inhibit its distribution capabilities nor on its strategic objectives going forward. These funds will be applied to reduce current interest-bearing debt.

Blue Label Mobile restructure and disposal

On 3 June 2019, BLT restructured its holdings in Cellfind Proprietary Limited (Cellfind), Viamedia Proprietary Limited (Viamedia), Airvantage SA Proprietary Limited (Airvantage) and AV Technology Limited (AV Technology). Prior to the restructure, BLT owned 100% of Cellfind, 60% of Airvantage, 60% of AV Technology and 75% of Viamedia. Malik Investments Holdings Proprietary Limited (Malik), a non-Group company, owned 25% of Viamedia. In terms of the restructure, BLT exchanged its shares in Cellfind, Viamedia, Airvantage and AV Technology for 89.51% of the shares in a new entity called Blue Label Mobile Group Proprietary Limited (BLM). Malik thereafter exchanged its 25% shareholding in Via Media for 10.49% in BLM. Following this, Malik subscribed for a further 4.51% in BLM for R34 million, increasing its shareholding in BLM to 15% with BLT owning the remaining 85%. BLT retains all of the existing rights and obligations with respect to the remaining put and/or call options on 40% of the shares in Airvantage and AV Technology.

Subsequent to the restructure, BLT assigned its rights and obligations to acquire 50% of Hyve Mobile Proprietary Limited (Hyve) to BLM. The first tranche of payment due to the shareholders of Hyve was for R80 million, of which R47 million plus interest of R1.3 million has been paid. On payment of the balance of R33 million, BLM's 50% holding in Hyve will become effective. Thereafter, three additional tranches totalling an estimated R90.4 million will be payable over a three-year period based on performance targets. BLM has a call option to acquire a further 25% of Hyve, exercisable up until 30 September 2021, for an estimated purchase consideration of R85.2 million.

Post-year-end, BLT entered into an agreement to dispose of its 85% shareholding in BLM as well as its 51% shareholdings in Simigenix Proprietary Limited (Simigenix) and Panacea Proprietary Limited (Panacea), to DNI 4PL Contracts Proprietary Limited (DNI), for a purchase consideration of R450 million, inclusive of loan claims, plus the amounts which BLM has disbursed towards the acquisition of 50% of Hyve as at the transaction closing date. The purchase price will be as follows:

- R350 million plus the amounts BLT have disbursed for the acquisition of 50% of Hyve as at the transaction closing date; and
- R100 million, bearing interest at prime overdraft rates plus 2% per annum compounded on a monthly basis, deferred until the solvency and liquidity status of Cell C is proven.

The above proceeds received will be applied to reduce interest-bearing debt.

Post-disposal of BLM, BLT will continue to assume the obligation with respect to the put and/or call options on 40% of the shares in Airvantage and AV Technology, until such time as the liquidity and solvency status of Cell C is proven. At that stage the obligation in respect of the put and/or call options will revert back to BLM. The put and/or call options cannot be exercised prior to the finalisation of the 31 May 2020 financial results of both entities.

Should BLT be obligated to meet the commitment relating to the put option, and the liquidity and solvency is never proven thereafter, then the R100 million deferred purchase price and the interest accrued thereon will be forfeited by BLT, but in lieu thereof, BLM will transfer an additional 24% of the issued share capital of Airvantage SA and AV Technologies to BLT, resulting in BLT ownership of these entities amounting to 64%.

Should BLT be obligated to meet the commitment relating to the put option, and the liquidity and solvency of Cell C is proven thereafter, then the R100 million deferred purchase price and the interest accrued thereon will be payable to BLT plus the cost of the 40% put option shares that will be transferred to BLM.

Disposal of 3G Mobile

Post-year-end 3G Mobile Proprietary Limited (3G) will distribute its shares in Comm Equipment Company (CEC) and 3G's loan account claim against CEC to its shareholder, TPC. The latter will thereafter dispose of 100% of the shares in 3G to DNI for a purchase consideration of R544 million. The above proceeds received will be applied to reduce interest-bearing debt.

Cell C R1.4 billion financial guarantee

On 2 August 2018, Cell C procured R1.4 billion of funding from a consortium of financial institutions for a tenure of 12 months, secured by airtime to the value of R1.75 billion. In the event of default, TPC is required to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been agreed upon. These purchases would be made in lieu of purchases that would have been made from Cell C within that period.

As at 31 May 2019, the above funding declined from R1.4 billion to R1.25 billion as a result of BLT purchasing from the security airtime. At this stage, the financial institutions have agreed to extend the repayment date to 30 November 2019. If Cell C is unable to meet this commitment by that date, and no further extension is granted, BLT will be required to purchase R100 million of security airtime in November 2019 and R300 million per month in December 2019, January 2020 and February 2020.

It is the intention of TPC to accelerate payments to the banking consortium in order to distribute the vault stock in full by January 2020. If there is risk/indication that Cell C will not be able to meet its obligations to the banking consortium by 30 November 2019. The fair value of the financial guarantee issued in respect of Cell C's facility was valued to be insignificant, taking into account the inventory held as collateral.

Banking facility
In August 2019, The Prepaid Company concluded an addendum to its facilities agreement with Investec Bank Limited in terms of which the facility was increased by R150 million.

Going concern
The Board of Directors have evaluated the going concern assumption as at 31 May 2019 and considered it to be appropriate in the preparation of these financial statements.

The Prepaid Company's Investec banking facilities, which would have expired on 30 September 2019, have been extended to 29 November 2019 and discussions are in progress for a further extension beyond that date.

As at the date of these financial statements, the renegotiation of these facilities had not yet been completed, and although the directors are of the opinion that the facilities would be extended beyond November 2019, material uncertainty could exist should these facilities not be extended. In this unlikely event, certain liabilities within the Group would not be settled in the normal course of business.

The directors are confident that the successful completion of the transactions, as detailed in the subsequent events above, will result in a significant reduction in interest-bearing debt and in turn the strengthening of the Group's balance sheet.

Appreciation
The Board of Blue Label would once again like to express its appreciation to its suppliers, customers, business partners and staff for their ongoing support and loyalty.

SHORT-FORM ANNOUNCEMENT
This short-form announcement is the responsibility of the directors of the Company. This short-form announcement is based on an extract of the audited summarised Group annual financial statements released on SENS on 26 September 2019, and does not contain full or complete details.

Any investment decision by investors and/or shareholders should be based on consideration of the full SENS announcement and audited Group annual financial statements. These may be requested by contacting Investor Relations by e-mail at nicolaw@blts.co.za and are available for inspection at the registered offices of the Company during office hours and on the Company's website (www.bluelabeltelecoms.co.za) at no charge.

The JSE link is as follows:
https://senspdf.jse.co.za/documents/2019/JSE/ISSE/BLU/FYresults.pdf.

For and on behalf of the Board

LM Nestadt	BM Levy and MS Levy	DA Suntup* CA(SA)
Chairman	Joint Chief Executive Officers	Financial Director

26 September 2019

* Supervised the preparation of the Group's audited year-end results

Directors: LM Nestadt (Chairman)*, BM Levy, MS Levy, K Ellerine**, GD Harlow*, JS Mthimunye*,
DA Suntup, J Vilakazi*
* Independent Non-Executive ** Non-Executive

Company Secretary: J van Eden

Sponsor: Investec Bank Limited

Auditors: PricewaterhouseCoopers Inc.