COGNITION HOLDINGS LIMITED
Incorporated in the Republic of South Africa
(Registration number: 1997/010640/06)
Share code: CGN   ISIN: ZAE000197042
(“Cognition” or “the Group” or “the Company”)

SHORT FORM – REVIEWED PRELIMINARY CONDENSED CONSOLIDATED RESULTS FOR THE YEAR ENDED 30 JUNE 2020

Financial Position:

		30 June 2020	30 June 2019
			Restated*
	Change	R'000	R'000
Total assets	-18.44%	294 146	360 649
Cash and cash equivalents	-30.57%	85 705	123 440
Equity	-20.97%	234 122	296 239
Total liabilities	-6.81%	60 024	64 410

Financial Performance for the period:

		30 June 2020	30 June 2019
			Restated*
		R'000	R'000
Revenue	22.32%	263 166	215 149
Gross profit	37.76%	213 981	155 325
EBITDA before impairments	-1.12%	27 387	27 698
(Loss)/Profit before tax	-131.05%	(7 285)	23 457

Net asset value and earnings per share:

Net asset value per share	-19.60%	92.74 cents	115.35 cents
Basic earnings per share	-209.57%	(7.90 cents)	7.21 cents
Headline earnings per share	-72.13%	2.33 cents	8.36 cents

(* On 1 February 2019, the Group acquired 50.01% of Private Property South Africa Proprietary Limited (“PPSA” or “Private Property”). The acquisition was provisionally accounted for in terms of the allowance per IFRS 3 Business Combinations. In the business combination of PPSA, an estimated fair value was placed on intangible assets as the purchase price allocation valuation of these assets had not been completed as at 30 June 2019.

The valuation of these assets, namely the Private Property Brand, Customer Relationship and Internally Generated Software, has subsequently been finalised.)

The results for the period under review are a reflection of a poor economy within which the Group had to operate in the first three quarters of the period which was exacerbated by the impact of the COVID-19 lockdown in the last quarter.

Group revenue increased by 22.32% from R215 million to R263 million. This was attributable to the acquisition of Private Property that was finalised in February 2019 and enabled Private Property to be included in the Group results for a full financial year compared to the previous year when Private Property was only included for a period of five months. The inclusion of Private Property offset the decline that was experienced by legacy businesses caused by poor economic conditions and exacerbated by the COVID-19 pandemic and subsequent lockdown. The legacy business is made up of the Group prior to the acquisition of Private Property and comprises FoneWorx and the Research Assets being BMi Research and BMi Sport Group.

The Research Assets were the hardest hit by the tough economic conditions which resulted in a reduction in revenue of 32% for the financial year as compared to the prior corresponding period. The Group implemented severe cost cutting measures and reduced the staff count to counter the decline in revenue. Due to prudent management, the Research Assets have more than adequate financial resources available to them and do not require financial assistance from the Group.

As per the segment report, revenue from Active Data Exchange Services declined by 17.5% from R62.1 million to R51.3 million and Gross Profit declined by 35.2% from R49.8 million to R32.3 million. This segment includes services such as Fax2email services and campaign related services that were severely impacted by the COVID-19 lockdown.

The Knowledge Creation and Management segment increased by 38.5%. Gross Profit increased from R105 million to R181 million which was achieved by the inclusion of Private Property for the full financial period.

Earnings Before Interest Depreciation Tax and Amortisation (EBIDTA) and Impairment charges for the Group remained stable at R27.4 million compared to the EBITDA of the previous year of R27.7 million. The EBITDA margin for the Group is 10.41% down from 13.04% in the previous year. Should the Research Assets be excluded from this calculation the Group will have a margin of 13.95% which is in line with the margin as reported in the previous year of 13.05%.

The Group's operational cost increased significantly to R79.1 million from R50.9 million and staff costs increased by 35.8% from R78.2 million to R106.3 million due to the inclusion of Private Property for the full year. The operating costs in the legacy businesses decreased by 7.5% and staff costs for the legacy businesses decreased by 15.5% for the year due to the implementation of cost cutting measures.

During the year under review, the Group finalised the purchase price allocation of Private Property. Through this process the Group identified R26 million of intangible assets related to the purchase of Private Property. These intangible assets will be amortised over the next three to five years effective from the date of acquisition. The Group therefore applied the measured period adjustment by amortising from 1 February 2019. The Group's depreciation and amortisation for the past year increased to R14.9 million for the year compared to R9.6 million in the previous year.

In addition, the Group impaired Goodwill related to the Research Assets to the value of R22.1 million and a further R1.7 million relating to the investment in its associate.

With the adoption of IFRS 16 – Leases, the long-term rental of office space is reflected as a contract asset and a lease liability in the Statement of Financial Position with the apportionment of amortisation and finance charges in the Statement of Financial Position. With lower prevailing interest rates and a lower average cash balance, the Group's income from investments reduced by 26% from R7.1 million to R5.2 million.

The net result of the above is that the Group is reporting a loss before taxation of R7.2 million and a comprehensive loss of R12.2 million. Further to this, income to the amount of R6 million relates to non-controlling interests with the resulting loss attributed to the shareholders of the Group being R18.3 million.

Based on the weighted average number of shares in issue for the period of 232 501 927 shares (2019: 179 079 268), (loss) / earnings per share ("EPS") declined by 209.57% from 7.21 cents in the 2019 financial year to a loss of 7.9 cents for the period under review. Headline earnings per share ("HEPS"), which does not account for the impairment of goodwill and investments, declined from 8.36 cents per share to 2.33 cents per share.

The Group continues to maintain a prudent approach regarding the use and allocation of its resources and continues to maintain a healthy financial position which, given the current unprecedented and very difficult financial times, has served it well.

The Group's cash resources decreased from R123.4 million in the previous financial year to R85.7 million, a decrease of 30.57%. This reduction is due to the buy-back of shares to the value of R23.5 million and the payment of a dividend of R26.2 million. The Group generated R20.5 million cash from operation in the past year.

Group Profile

The Cognition Group comprises a number of platform businesses which have technical, software and operational intellectual property, which service either business to business ("B2B") or business to consumer ("B2C").

Our strategy is to acquire or conceptualise, build and manage platforms which are two-sided marketplaces that bring customers and providers together to create and exchange value. Once established, our strategy is to scale both sides of the marketplace.

Divisional Performance

Active Date Exchange Services ("ADES")

ADES are all the Group's communication protocols including: SMS, IVR, USSD, WhatsApp, email and faxing services that typically operate over GSM cellular networks or fixed line operators.

The period under review has two distinct and diverse trading profiles. Pre-lockdown (March 2020), the sales activity, whilst still relatively challenging due to the stagnant economy, was consistent and trending upwards. This was particularly evident for our clients in the liquor and FMCG environment.

However, from 27 March 2020, starting with lockdown level five, we experienced a dramatic negative downturn on sales with a number of "non-essential service" clients and the liquor industry being unable to trade at all.

This resulted in the cancellation or postponement of many projects and campaigns.

Under level three there was a short reprieve for the liquor industry. However, this was short-lived and the industry was shut down again during level three.

The nationwide lockdown has had a dramatic impact on the majority of businesses which is well documented.

Most companies immediately adopted a “cash preservation strategy” which meant they extracted themselves from activities such as research, promotions, competitions and, needless to mention, consumer engagement activities which were traditionally face-to-face.

We did manage to design and build a number of on-line or mobile applications for the liquor industry to substitute face-to-face interactions in line with social distancing. However, with the second “hard lockdown” of liquor, these have all been placed on hold.

Notwithstanding the above, prior to the lockdown we developed and hosted 250 campaigns on behalf of 60 clients, collectively covering our 120 consumer brands.

miVoucher

At the commencement of the lockdown we had conceptualised and started the build of a new platform which offers both businesses and consumers access to vouchers across a broad range of activities including: electricity, data, airtime, betting, food, fashion, lifestyle, entertainment and technology. This incorporates vouchers that cover over 400 brands.

The platform enables a brand that wishes to purchase vouchers for staff incentives or for clients or for either promotions or competitions, to access the self-provisioning platform and select from the range of sectors offered. This will establish a new revenue stream for FoneWorx and augurs well for an on-line digital offering particularly during the COVID-19 “new normal”. The platform will launch in September 2020.

Document Exchange Services

These services, which form part of ADES, include our Fax2Email, Email2Fax and SecurDox. We have reported a continuous decline in faxing, yet we still maintain a database of 52,000 subscribers. With the lockdown there has been a further drop in volumes. However, this has picked up during lockdown level three.

With the promulgation of the remaining sections of POPIA, our blockchain secure messaging platform (SecurDox) should become an alternative to faxing.

Channel Incentive and Loyalty

The Group’s Channel Incentive Platform is a proprietary platform which enables companies who sell products or services to incentivise staff or agents on successful sales.

The platform is accessed via a mobile app or website and is supported by a team of moderators and a fully-fledged call centre.

The platform has various modules including: FIA registration, claims, processing, moderation of claims, fraud detection, velocity checks and reporting dashboards.

Funds allocated to participants are paid into an electronic wallet managed by a registered bank and participants are allocated Mastercard debit co-branded cards and transfer funds from their wallet to the Mastercard.

To date we have close to 11,000 active members with cards.

The platform has, since inception in November 2015, processed over R500 million in claims.

During the lockdown levels five and four, all mobile retail outlets (MTN, Vodacom, Cell C and Telkom) selling mobile devices were forced to close down and this had a dramatic impact on our weekly claims. On average the platform processes around 13,000 claims per week. However, during the lockdown this dropped to around 160 claims per week. When the retail channels were allowed to re-open, there were stock shortages which took a few weeks to re-establish. We are pleased to advise that our claims processing has returned to its historical trends pre-COVID.

In the latter half of June 2020, we commenced discussions with a new client for the Channel Incentive Platform. Post the year-end, the client has concluded a contract and we will onboard this client by 1 October 2020.

Platform Technology and Knowledge Management

Businesses need to know their customers to retain them, extract value from them and offer them value.

Data is becoming increasingly important to every business, yet it will become harder to come by for the following reasons:

- Privacy legislation: the Protection of Personal Information Act ("POPIA") has now been promulgated and every business in South Africa must be compliant by July 2021.
- Consumers are "pushing back" against unwanted communications or spam.
- Third party data is under threat and won't be supported by 2022.

Given the acceleration of the above factors, the Group is aggregating its Knowledge Management and Personal Information Management platforms (previously referred to as mibubble) to launch a fully-fledged Consumer Data Platform ("CDP") to enable consumers to self-curate critical personal information, store the data and share the data with brands of their choice in exchange for rewards. The promulgation of the remaining sections of POPIA has now firmly placed the potential of this platform on the map.

Any business that processes personal consumer data will need to be able to manage this data in a POPIA and GDPR compliant manner and concurrently be able to monetise this data with full transparency and consent of the consumer.

Research Assets

BMi Research (Proprietary) Limited ("BMiR")

Pre-COVID-19, the decision was taken to restructure BMiR with a view to placing human and financial resources behind service offerings and products that had greater propensity for growing market share and to either close less performing service offerings or merge them into other divisions.

This process was successfully concluded by the end of June 2020 and has resulted in:

> Focussing the business on two primary drivers:

  - Market performance, consumer behaviour and business insights
  - Pricing intelligence and revenue growth management

> Reducing staff count by nine

> Relocating the business into the offices of Cognition.

The business is re-focussed and re-energised; however, it has faced many challenges since the lockdown on 27 March 2020.

Given the strategy of "cash preservation" adopted by most companies, many research projects have either been cancelled, postponed or reduced in scope and value.

During lockdown level five to level three, BMiR staff who undertake regular in-store pricing surveys were prohibited to enter many stores to carry out research and data gathering projects.

On the positive side, given that the business managed a remarkable re-structure during lockdown level five to lockdown level three, the business is very well poised to leverage its new structure post COVID.

<u>BMi Sport Info (Proprietary) Limited ("BMiS")</u>

Pre-COVID-19 lockdown, BMiS was experiencing challenging conditions due to the poor economic conditions and challenges facing many sporting codes, resulting in many blue-chip brands cutting back on sponsorships and research.

From lockdown level five (27 March 2020) there was a total prohibition on all sporting codes which, needless to say, had a devastating impact on this business. BMiS's primary source of revenue relies on the evaluation and quantification of live sports and events, where data on these events is measured via television, radio and print. Data is collected on each event and insights and reports generated from the raw data. With a prohibition on all sports, this, needless to say, has had a negative impact on the collection and processing of data.

The business was fortunate to have existing long-term contracts which has allowed it to navigate through this very difficult period. Post year-end it has managed to secure some tenders and is seeing some early "green shoots" of a slow recovery. It is uncertain when all sports will resume and when spectators will be able to return to stadiums, so it is anticipated that there will be a slow recovery.

<u>Property Portfolio</u>

<u>Private Property South Africa (Proprietary) Limited ("PPSA")</u>

Private Property achieved a number of exciting milestones during the period under review and prior to the lockdown. These include:

- The Property Show, organised by PPSA, which is the ideal platform for anyone looking to further their property journey whether it's buying, selling, renting or investing.

  These shows bring together the biggest real estate brands, including financial service providers, estate agents, developers and conveyancers. These shows offer educational and inspirational theatres offering practical property advice and knowledge to help educate thousands of visitors.

  Two very successful shows were held in Durban (August 2019) and Johannesburg (October 2019) with the Cape Town show (March 2020) being cancelled due to the national lockdown.

- Realignment of the Property Power book in partnership with Private Property. The book is designed to empower home buyers, home sellers, first-time property investors and owner-builders with knowledge regarding important aspects of property.

- The launch of the new brand positioning and logo. This new brand positioning reflects the new business strategy of expanding beyond digital, towards a multi-channel approach that includes a variety of physical, print and digital touch points to bring the platform closer to consumers.

- A partnership with South Africa's largest retail bank, ABSA, to enhance collaboration.

- Enhanced metrics that reflect the improved performance of the platform incorporating: sessions, unique users, page views, sales leads and rental leads.

The lockdown from 27 March 2020 had a negative impact on the platform throughout levels five and four, where the regulations prevented the face-to-face filming of property listings and similarly show days for potential sales. This had a negative impact on revenues.

Pursuant to the lockdown, management adopted a mitigation plan which included:

> Offering a 25% discount to estate agents for a period of three months

> Postponement of the annual price increase

> Reducing the marketing budget and focussing on digital marketing where the business has gained good traction since the re-brand

DIVIDEND

Due to the National State of Disaster which was declared on 15 March 2020 and the ongoing effects of the country wide lockdown and the uncertainty about the medium-to long-term impact of COVID-19, the Board has resolved not to declare a dividend for the financial year ended 30 June 2020 (2019: 10 cents per share).

The content of this short form announcement is the responsibility of the directors. Shareholders are advised that this short form announcement represents a summary of the information contained in the full long form announcement which is available at https://senspdf.jse.co.za/documents/2020/jse/isse/cgn/ye20.pdf and also published on the Company's website at http://www.cognitionholdings.co.za/pages/display/annual_results. Any investment decisions by investors and/or shareholders should be based on a consideration of the full announcement as a whole and investors and shareholders are encouraged to review the full announcement, which is available as detailed herein.

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

The Group's auditor, BDO South Africa Inc. has reviewed the preliminary condensed consolidated results for the year ended 30 June 2020 and expressed an unmodified review conclusion thereon.

For and on behalf of the Board

Ashvin Mancha Chairman	Mark Smith Chief Executive Officer	Pieter Scholtz Financial Director

Johannesburg
18 September 2020

Business and Registered Office:
Cognition House
Corner of Bram Fischer Drive and Will Scarlet Road
Ferndale, Randburg, 2194
PO Box 3386, Pinegowrie, 2123
Telephone +27-11-293-0000
Fax 086-610-1000

Directors: Ashvin Mancha#* - Chairman, Mark Smith – Chief Executive Officer, Pieter Scholtz - Financial Director, Gaurang Mooney#* (Botswana), Graham Groenewaldt – Sales Director, Paul Jenkins#*, Roger Pitt#*, Marc du Plessis#, Trevor Ahier#*, Dennis Lupambo#*, Amasi Mwela#
Non-executive
* *Independent*

Company Secretary: Stefan Kleynhans, BA BIuris LLB LLM (Banking Law)/(Corporate Law) ACIS

Auditor: BDO South Africa Incorporated

Transfer Secretaries: Computershare Investor Services Proprietary Limited

Sponsor: Merchantec Capital