

Datatec

Westcon refinancing funds return to shareholders

Datatec has entered into binding agreements with funds managed by General Atlantic for the refinancing of and a minor equity investment in the Westcon business. This establishes a standalone capital structure for Westcon with Datatec retaining control of the business. The Datatec board expects to return the \$434m net proceeds of the transaction to shareholders in the form of a special dividend, which at the current share price, equates to a yield of 31%. This marks further progress with the board's strategy to reduce the gap between the value of the underlying businesses and the group valuation.

Year end	Revenue (\$m)	PBT (\$m)	EPS (¢)	DPS (¢)	P/E (x)	Yield (%)
2/25	3,551.9	136.6	34.07	15.45	17.2	2.6
2/26	3,670.0	189.8	45.93	23.78	12.7	4.1
2/27e	3,834.8	203.2	46.67	206.03	12.5	35.2
2/28e	3,998.9	214.5	47.73	24.58	12.2	4.2

Note: PBT and diluted EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Introducing third-party financing to Westcon

General Atlantic will provide a \$375m six-year loan to Westcon International Group Holdings Limited (WIGHL) and pay \$25m for a 5% equity stake in WIGHL. WIGHL will also issue warrant shares to General Atlantic. WIGHL will use the proceeds from the loan and an additional \$75m from existing facilities to repay the \$450m shareholder loan previously advanced to WIGHL. On closure of the deal, through the equity investment and warrant shares, General Atlantic will own 8.7% of WIGHL and will be entitled to benefit from 8% of any WIGHL equity upside above \$540m.

Cash proceeds to fund special dividend

Datatec intends to return its share of proceeds to shareholders in the form of a special dividend. Paying out the full amount of \$434m would equate to a dividend of \$1.82/ZAR30.08 per share. We have revised our forecasts to reflect the new corporate structure, with higher interest payments on the external debt as well as a higher minority interest deduction for Westcon. Our underlying EPS forecasts reduce by 16.7% in FY27, 23.8% in FY28 and 21.8% in FY29. We estimate that group net debt/EBITDA will increase to 1.3x at the end of FY27, falling to 0.7x by the end of FY29.

Valuation: Positive reaction to the Westcon deal

The share price is up 22% since we last published and 13% since the transaction was announced; Datatec currently trades on EV/adjusted EBITDA multiples of 4.8x in FY27 and 4.5x in FY28, well below its peer group (average of 8.1x across both years). On a conservative sum-of-the-parts valuation using peer group averages, we estimate that Datatec could be worth ZAR104.43, 9% more than the current share price; post the special dividend this would reduce to ZAR74.35. Sustained recovery in trading in Logicalis Latam, gross profit growth and improving the conversion of gross profit to EBITDA across the group will be key to further reducing the discount to peers.

Corporate transaction

Software and comp services

30 June 2026

Price **ZAR95.98**
Market cap **ZAR22,906m**

	ZAR16.46:\$1
Net cash/(debt) at end FY26	\$(46.7)m
Shares in issue	238.7m
Free float	60.7%
Code	DTCJ
Primary exchange	JSE
Secondary exchange	OTCQX

Share price performance



%	1m	3m	12m
Abs	21.5	37.7	57.9
52-week high/low	ZAR96.4	ZAR51.9	

Business description

Datatec is a South African-listed multinational ICT business, serving clients globally, predominantly in the networking and telecoms sectors. The group operates through three main divisions: Westcon International (distribution); Logicalis International (IT services); and Logicalis Latam (IT services in Latin America).

Next events

AGM	23 July
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 Limited**

Westcon refinancing

On 19 June, Datatec announced that it had agreed the refinancing of its Westcon division, which includes a small equity investment by General Atlantic (through two subsidiaries: Atlantic Park Strategic Capital II Designated Activity Company and Atlantic Park Strategic Master Fund III, LP). The transaction is expected to complete on 14 July.

Background to the deal

The Westcon International division, trading as Westcon-Comstar, is a global distributor and provider of communications, networking, cybersecurity and cloud infrastructure with a 40-year history. It operates in 50 countries across Europe, Asia-Pacific, the Middle East and Africa. Datatec has owned the business since 1997. Datatec sold the US operations of Westcon to TD Synnex in 2017; as part of this transaction, TD Synnex retains a 7.9% stake in Westcon. In FY26, Westcon generated profit after tax of \$66.8m and had net assets of \$127.7m at the end of the year.

The table below shows the financial performance of Westcon over the last eight years. The company has only reported gross invoiced income as far back as FY24 as this was when it changed how it reported revenue to take account of products sold on an agency basis. Management stated that gross invoiced income has grown every year of the last seven years. The accounting change also explains why revenue drops from FY24. We view gross profit as a better measure of performance as this strips out the effect of principal/agency accounting. Adjusted EBITDA excludes one-off items and share-based payments. Gross profit has grown at a CAGR of 9.7% over the last seven years, EBITDA at 62.0% and adjusted EBITDA by 32.5%. The conversion of gross profit to adjusted EBITDA has increased from 9.2% to 34.5% over the same period.

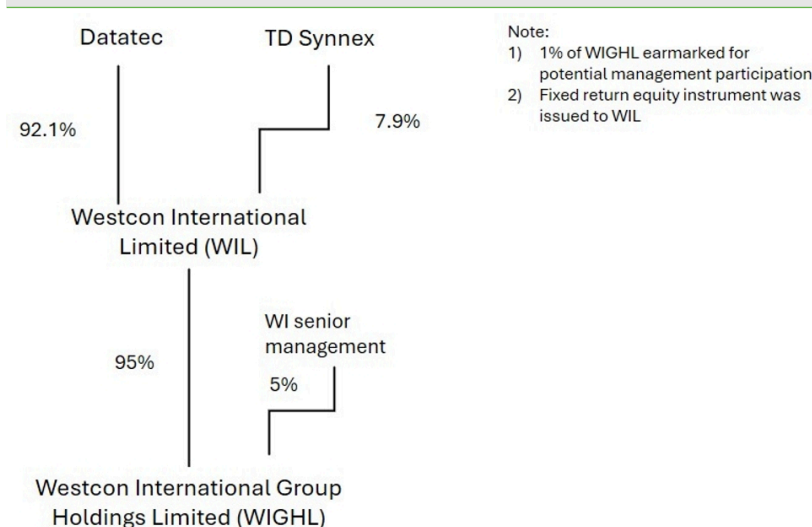
Exhibit 1: Westcon financial performance FY19–26

\$m	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	CAGR
Gross invoiced income (GII)						5,076	5,242	5,744	
Revenue	2,545	2,473	2,586	2,890	3,421	2,220	1,881	1,935	
Gross profit	260	276	291	319	329	403	441	499	9.7%
EBITDA	6	40	45	68	48	121	136	163	62.0%
Adjusted EBITDA	24	40	55	79	95	120	150	172	32.5%
Operating profit	(4)	19	22	44	22	96	110	136	
Adjusted EBITDA/gross profit	9.2%	14.5%	18.9%	24.6%	28.9%	29.8%	34.0%	34.5%	

Source: Datatec Note: revenue from FY24 includes software reported on a net basis.

In the chart below we show the current ownership structure of the Westcon division. Westcon International Limited (WIL) advanced a \$450m shareholder loan/fixed return instrument to WIGHL in 2023. This would have been adjusted out on consolidation for Datatec group accounts.

Exhibit 2: Current Westcon ownership structure



Source: Datatec

Transaction details

The transaction is made up as follows:

- Refinancing of the shareholder loan to WIGHL;
- Cash equity investment in WIGHL by General Atlantic;
- Issue of warrants in WIGHL to General Atlantic; and
- Restructure of the WIGHL management incentive plan.

Refinancing of shareholder loan

General Atlantic will provide a \$375m senior secured loan to WIGHL. This will incur interest at 9% per year and has a six-year term. The \$450m shareholder loan plus any accrued interest will be repaid to WIL using the proceeds of the new loan as well as \$75m from WIGHL's existing financing facilities. We understand that the loan will be second-lien debt and does not have recourse to Westcon's working capital or the wider Datatec group.

Based on the net debt position of Westcon at the end of FY26, we estimate that the transaction will increase the level of gearing (net debt/adjusted EBITDA) for Westcon to c 3.0x by the end of FY27.

Equity investment in WIGHL

General Atlantic will acquire a 5% stake in WIGHL from existing shareholders for a cash price of \$25m. Based on the proposed shareholdings post the transaction, we estimate that WIL is selling 2.2% of its 95% stake and management is selling 2.8% of its 5.0% stake.

Issue of warrants

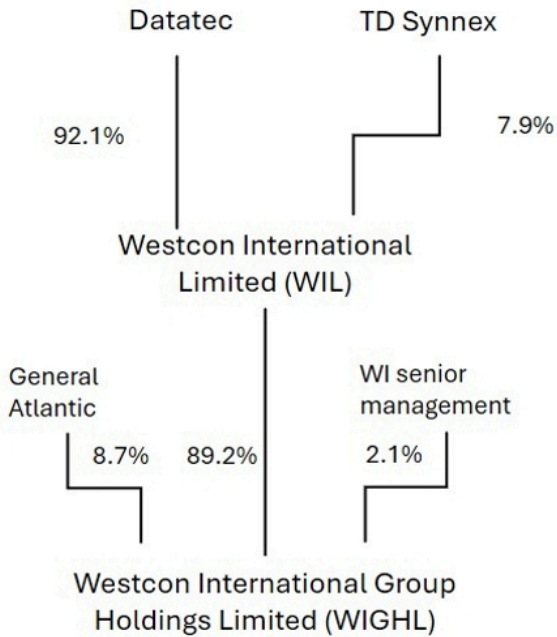
General Atlantic will be issued warrant shares for nominal consideration. The warrant shares have been structured to replicate the economic effect of 4% penny warrants and 8% at-the-money warrants (at the current valuation) whereby General Atlantic will share in Westcon's equity value accretion above \$540m (the current equity value of \$500m plus the \$40m price payable for the at-the-money warrants). A 4% penny warrant gives the holder the right to buy 4% of the shares of WIGHL at a price of \$0.01 per share. The 8% at-the-money warrant gives the holder the right to buy 8% of the shares of WIGHL at a total cost of \$40m. The 4% penny warrants are immediately effective.

Restructure of management incentive plan

While specific details have not been provided, the reset management incentive plan aligns management incentives with the post-recapitalisation capital structure and the long-term interests of all shareholders.

The combined effect of the 5% equity investment and the warrants can be seen in Exhibit 3. General Atlantic will have an effective 8.7% stake in WIGHL (this includes the penny warrants but not the at-the-money warrants). WIL's stake will reduce from 95% to 89.2% and senior management from 5.0% to 2.1%.

Exhibit 3: Proposed Westcon ownership structure



Source: Datatec

Transaction rationale

The board sees four main benefits from the transaction:

- **Strategic partnership with General Atlantic:** the equity investment and the warrant shares issued to General Atlantic align its interests with those of Datatec and Westcon management. The partnership also provides the Westcon business with access to General Atlantic's global network and sector expertise to support its growth strategy. After several years of transforming the business, it is now at the point where further scale could produce an acceleration in performance improvement while appealing to additional technology suppliers and customers.
- **Return of capital:** management expects to pay out the net cash proceeds of \$434m in the form of a special dividend. We estimate that this is calculated as 92.1% of the total of the repayment of the shareholder loan of \$450m, accrued interest of \$10m and WIL's share of the proceeds of the equity investment. Paying out the full amount would equate to a dividend per share of \$1.82/ZAR30.08.
- **Capital structure:** this provides independent third-party financing for Westcon, creating a standalone capital structure for the business. This should make it easier to separate Westcon from the rest of the Datatec group in the event of an IPO or sale.
- **Westcon management alignment:** the reset of the incentive scheme should align Westcon management with the new corporate structure and the long-term interests of Datatec shareholders.

Unlocking shareholder value

Datatec initiated a strategic review in 2021, creating an ongoing programme to close the gap between the market valuation of the group and the intrinsic value of the underlying businesses. Measures management has taken since then include:

- Improving the operational and financial performance of each business;
- Increasing the dividend payout ratio from 33% to 50%;
- Incentivising divisional management by allowing them to invest in their respective businesses; and

- Selling Analysys Mason and returning the proceeds to shareholders as a special dividend.

This transaction allows Datatec to return a meaningful amount to shareholders while structuring Westcon in a way that provides options for its future, whether that be accelerating organic growth or ultimately selling or spinning off the business.

Changes to estimates

We have factored in the higher level of third-party debt, which will accrue annual interest of \$33.75m, and have also factored in additional interest on the \$75m usage of the working capital facility. We assume proceeds of \$11m from WIL's sale of shares to General Atlantic. We have assumed maximum payout of the \$434m net proceeds in the form of a special dividend in FY27. The percentage we use for the Westcon minority interest assumes equity accretion to the peer group average valuation.

Exhibit 4: Changes to forecasts

\$m	FY27e				FY28e				FY29e			
	Old	New	y-o-y	Change	Old	New	y-o-y	Change	Old	New	y-o-y	Change
Revenue	3,835	3,835	4.5%	0.0%	3,999	3,999	4.3%	0.0%	4,163	4,163	4.1%	0.0%
Gross Profit	1,056	1,056	5.8%	0.0%	1,101	1,101	4.3%	0.0%	1,146	1,146	4.1%	0.0%
Adjusted EBITDA	330	330	13.8%	0.0%	357	357	8.1%	0.0%	383	383	7.3%	0.0%
EBITDA	312	312	15.8%	0.0%	338	338	8.6%	0.0%	364	364	7.7%	0.0%
Normalised operating profit	271	271	16.5%	0.0%	296	296	9.2%	0.0%	321	321	8.2%	0.0%
Profit before tax (normalised)	228	203	7.1%	-10.7%	253	214	5.5%	-15.1%	277	239	11.3%	-13.8%
Net income (normalised)	136	113	2.9%	-16.7%	152	116	2.3%	-23.8%	167	131	13.1%	-21.8%
EPS – basic reported (c)	51.3	41.6	5.3%	-18.8%	58.1	42.7	2.6%	-26.4%	64.7	49.2	15.0%	-24.0%
Headline EPS – basic continuing (c)	51.3	41.6	4.4%	-18.8%	58.1	42.7	2.6%	-26.4%	64.7	49.2	15.0%	-24.0%
Company basic uEPS (c)	57.7	48.1	-0.3%	-16.7%	64.5	49.2	2.3%	-23.8%	71.1	55.6	13.1%	-21.8%
Company diluted uEPS (c)	56.0	46.6	-0.2%	-16.7%	62.6	47.7	2.3%	-23.8%	69.0	53.9	13.1%	-21.8%
EPS – diluted normalised (c)	56.0	46.7	1.6%	-16.7%	62.6	47.7	2.3%	-23.8%	69.0	54.0	13.1%	-21.8%
Dividend (c)	28.8	206.0	766.5%	614.3%	32.3	24.6	-88.1%	-23.8%	35.6	27.8	13.1%	-21.8%
Revenue growth (%)	4.5	4.5		0.0pp	4.3	4.3	-0.2pp	0.0pp	4.1	4.1	-0.2pp	0.0%
Gross Margin (%)	27.5	27.5	0.3pp	0.0pp	27.5	27.5	0.0pp	0.0pp	27.5	27.5	0.0pp	0.0%
Adjusted EBITDA Margin (%)	8.6	8.6	0.7pp	0.0pp	8.9	8.9	0.3pp	0.0pp	9.2	9.2	0.3pp	0.0%
Normalised Operating Margin (%)	7.1	7.1	0.7pp	0.0pp	7.4	7.4	0.3pp	0.0pp	7.7	7.7	0.3pp	0.0%
Adjusted EBITDA/gross profit (%)	31.3	31.3	2.2pp	0.0pp	32.4	32.4	1.1pp	0.0pp	33.4	33.4	1.0pp	
Operating cash flow	236	243	50%	3%	256	269	10%	4.8%	272	284	6%	4.6%
Net debt/(cash)	(29)	411	780%	-1526%	(116)	338	N/A	(391)%	(209)	252	N/A	(221)%

Source: Edison Investment Research. Note: uEPS, underlying EPS.

Valuation

The transaction values WIGHL at an equity value of \$950m before repayment of the shareholder equity loan and, post the repayment of the shareholder equity loan, an equity value of \$500m. Assuming net debt of \$300m (the average net debt through the year), this values WIGHL at an enterprise value of c \$1,250m.

On our adjusted EBITDA forecasts, this values the business on an EV/EBITDA of 6.5x for FY27e and 6.0x for FY28e. We note that this is at a discount to the average of its peer group (8.9x and 8.0x respectively). We expect that the discount reflects the minority nature of the stake as well as the lack of marketability compared to listed peers, and we note that the equity investment was part of a financing package that also included the debt and the warrants. We would expect a change of control transaction to attract a multiple much closer to the peer group average, with both Westcon and General Atlantic incentivised to achieve a higher valuation.

Exhibit 5 shows a sum-of-the-parts valuation on the new basis, with a higher minority interest deduction for Westcon. We use the end of FY26 net debt position increased by \$150m to reflect higher average usage of debt facilities during the year. The ex-dividend valuation, assuming the full net proceeds of \$434m are paid out, is ZAR74.35 per share.

Exhibit 5: Sum-of-parts valuation

Implied EV based on						
Enterprise value (US\$m)	Revenues		EBITDA		Economic interest	Mean EV
	FY27e	FY28e	FY27e	FY28e		
Logicalis International	1,231	1,217	1,151	1,164	91%	1,052
Logicalis Latin America	377	374	200	206	68%	139
Westcon	713	698	1,714	1,662	79%	1,331
Central costs			(173)	(177)	100%	(173)
					Sum of the parts (EV)	<u>2,349</u>
					FY26 net debt	(197)
					SOTP – Equity value	<u>2,153</u>
					Discount for: RSA sovereign risk, holding company risk	30%
					Adjusted equity value	<u>1,507</u>
					Shares in issue (m)	238.7
					SOTP value per share (US\$)	6.31
					SOTP value per share (ZAR)	104.43
					Latest share price (ZAR)	95.98
					Upside from latest share price	9%

Source: Edison Investment Research, LSEG Data & Analytics (as at 29 June)

Exhibit 6: Financial summary

Year end 28 February	\$'k	2022	2023	2024	2025	2026	2027e	2028e	2029e
INCOME STATEMENT									
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
Revenue		4,546,398	5,143,125	3,992,400	3,551,940	3,670,046	3,834,832	3,998,942	4,163,207
Cost of Sales		(3,816,630)	(4,398,618)	(3,130,164)	(2,641,621)	(2,672,242)	(2,778,908)	(2,897,708)	(3,016,887)
Gross Profit		729,768	744,507	862,236	910,319	997,804	1,055,924	1,101,233	1,146,320
Adjusted EBITDA		158,922	180,182	192,085	246,229	290,084	330,113	356,816	382,812
EBITDA		143,457	98,246	177,589	221,309	269,089	311,588	338,291	364,287
Normalised operating profit		100,540	123,677	131,186	193,556	232,837	271,357	296,424	320,730
Amortisation of acquired intangibles		(10,100)	(11,629)	(3,599)	(7,064)	(5,618)	(4,000)	(4,000)	(4,000)
Exceptionals		0	(40,915)	(2,950)	(11,497)	(2,550)	0	0	0
Share-based payments		(15,465)	(52,641)	(8,277)	(15,765)	(18,525)	(18,525)	(18,525)	(18,525)
Reported operating profit		74,975	18,492	116,360	159,230	206,144	248,832	273,899	298,205
Net Interest		(31,051)	(38,090)	(54,966)	(56,932)	(43,060)	(68,113)	(81,946)	(81,946)
Joint ventures & associates (post tax)		(427)	882	251	0	0	0	0	0
Exceptionals		540	(1,333)	14,820	1,704	(392)	0	0	0
Profit Before Tax (norm)		69,062	86,469	76,471	136,624	189,777	203,244	214,477	238,784
Profit Before Tax (reported)		44,037	(20,049)	76,465	104,002	162,692	180,719	191,952	216,259
Reported tax		(9,470)	(13,375)	(25,527)	(34,720)	(53,964)	(58,734)	(62,384)	(70,284)
Profit After Tax (norm)		36,179	56,205	50,942	91,013	126,829	137,189	144,772	161,179
Profit After Tax (reported)		34,567	(33,424)	50,938	69,282	108,728	121,985	129,568	145,975
Minority interests		(6,431)	(3,209)	(5,137)	(10,103)	(16,955)	(24,095)	(29,109)	(30,406)
Discontinued operations		5,766	116,967	0	0	0	0	0	0
Net income (normalised)		29,748	52,996	45,805	80,910	109,874	113,094	115,663	130,773
Net income (reported)		33,902	80,334	45,801	59,179	91,773	97,890	100,459	115,569
Average number of shares outstanding (m)		203.2	218.0	224.8	229.9	231.9	235.0	235.0	235.0
EPS - diluted normalised (c)		14.2	24.1	19.7	34.1	45.9	46.7	47.7	54.0
EPS - basic reported (c)		16.7	36.9	20.4	25.7	39.6	41.6	42.7	49.2
EPS - Company underlying uEPS (c)		16.0	6.1	17.1	35.7	48.2	48.1	49.2	55.6
Dividend (c)		39.3	77.7	7.1	15.5	23.8	206.0	24.6	27.8
Revenue growth (%)		10.6	13.1	(22.4)	(11.0)	3.3	4.5	4.3	4.1
Gross margin (%)		16.1	14.5	21.6	25.6	27.2	27.5	27.5	27.5
Adjusted EBITDA margin (%)		3.5	3.5	4.8	6.9	7.9	8.6	8.9	9.2
Normalised operating margin (%)		2.2	2.4	3.3	5.4	6.3	7.1	7.4	7.7
BALANCE SHEET									
Non-Current Assets		613,155	621,117	748,153	926,418	1,080,142	1,077,781	1,070,633	1,063,492
Intangible Assets		320,089	293,184	335,621	334,188	350,523	350,776	346,349	342,007
Tangible Assets		32,517	33,054	35,823	31,587	31,187	28,574	25,852	23,053
Right-of-use assets		80,639	56,248	55,991	70,711	63,940	63,940	63,940	63,940
Investments & other		179,910	238,631	320,718	489,932	634,492	634,492	634,492	634,492
Current Assets		2,399,078	3,005,148	2,885,183	3,046,870	3,564,876	3,768,543	3,961,542	4,168,790
Stocks		309,227	411,059	324,868	269,788	273,355	291,880	312,297	333,407
Debtors		1,223,824	1,508,470	1,488,867	1,632,973	1,955,775	2,054,096	2,152,956	2,252,799
Cash & cash equivalents		453,926	584,683	569,035	584,113	704,114	790,173	863,058	948,432
Other		412,101	500,936	502,413	559,996	631,632	632,393	633,231	634,152
Current Liabilities		(2,152,175)	(2,838,892)	(2,795,606)	(2,940,545)	(3,455,779)	(3,617,644)	(3,709,086)	(3,799,659)
Creditors		(1,544,198)	(2,058,150)	(2,014,909)	(2,222,026)	(2,550,563)	(2,627,729)	(2,709,511)	(2,790,416)
Short term borrowings		(433,176)	(577,224)	(581,233)	(501,381)	(597,909)	(672,909)	(672,909)	(672,909)
Lease liabilities		(32,870)	(27,005)	(26,243)	(29,255)	(27,169)	(27,169)	(27,169)	(27,169)
Other		(141,931)	(176,513)	(173,221)	(187,883)	(280,138)	(289,837)	(299,497)	(309,166)
Long-Term Liabilities		(229,112)	(255,033)	(268,586)	(438,136)	(570,759)	(948,577)	(951,384)	(954,194)
Long-term borrowings		(56,440)	(41,624)	(39,138)	(36,369)	(28,057)	(403,057)	(403,057)	(403,057)
Lease liabilities		(61,523)	(45,412)	(45,548)	(53,363)	(49,501)	(49,501)	(49,501)	(49,501)
Other long-term liabilities		(111,149)	(167,997)	(183,900)	(348,404)	(493,201)	(496,019)	(498,826)	(501,636)
Net Assets		630,946	532,340	569,144	594,607	618,480	280,102	371,704	478,429
Minority interests		(67,516)	(60,331)	(67,911)	(73,669)	(78,186)	(113,281)	(142,390)	(172,796)
Shareholders' equity		563,430	472,009	501,233	520,938	540,294	166,821	229,314	305,633
CASH FLOW									
Op Cash Flow before WC and tax		162,842	191,840	188,816	248,571	290,164	330,113	356,816	382,812
Working capital		(76,807)	(18,203)	29,583	81,612	2,460	(27,162)	(25,029)	(27,570)
Exceptional & other		10,677	(231)	(42,829)	(43,370)	(73,724)	(761)	(837)	(921)
Tax		(26,282)	(24,182)	(27,108)	(40,338)	(56,054)	(58,734)	(62,384)	(70,284)
Operating cash flow		70,430	149,224	148,462	246,475	162,846	243,456	268,566	284,037
Capex		(24,841)	(36,669)	(39,511)	(26,371)	(26,855)	(27,955)	(29,103)	(30,300)
Acquisitions/disposals		(16,424)	114,821	(15,645)	690	(5,976)	6,200	0	0
Net interest		(31,265)	(38,596)	(55,465)	(56,770)	(46,349)	(68,113)	(81,946)	(81,946)
Equity financing		(6,150)	(7,725)	6,633	(12,657)	(19,470)	0	0	0
Dividends		(43,136)	(154,399)	(13,925)	(12,421)	(20,700)	(489,888)	(56,491)	(57,775)
Other		(2,034)	(2,914)	(13,161)	(3,767)	(428)	(27,641)	(28,141)	(28,641)
Net Cash Flow		(53,420)	23,742	17,388	135,179	43,068	(363,941)	72,885	85,374
Opening net debt/(cash)		60,861	130,083	106,582	123,127	52,118	46,666	410,607	337,722
FX and non-cash movements		(15,802)	(241)	(33,933)	(64,170)	(37,616)	0	0	0
Closing net debt/(cash)		130,083	106,582	123,127	52,118	46,666	410,607	337,722	252,348

Source: Datatec, Edison Investment Research

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