**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 2021

## Financial Position:

| | Change | 30 June 2021 R'000 | 30 June 2020 R'000 |
|---|---|---|---|
| Total assets | 1.37% | 298 173 | 294 146 |
| Cash and cash equivalents | 28.13% | 109 812 | 85 705 |
| Equity | 3.80% | 243 029 | 234 122 |
| Total liabilities | -8.13% | 55 144 | 60 024 |

## Financial Performance for the period:

| | | 30 June 2021 R'000 | 30 June 2020 R'000 |
|---|---|---|---|
| Revenue | -12.39% | 230 562 | 263 166 |
| Gross profit | -7.15% | 198 679 | 213 981 |
| Profit / (Loss) before tax | 360.23% | 18 957 | (7 285) |

## Net asset value and earnings per share:

| | | | |
|---|---|---|---|
| Net asset value per share | 1.71% | 95.21 cents | 93.61 cents |
| Basic earnings per share | 111.39% | 0.90 cents | (7.90 cents) |
| Headline earnings per share | 30.04% | 3.03 cents | 2.33 cents |

The financial year under review commenced against a backdrop of a strained economy and poor local macro-economic conditions exacerbated by the unprecedented uncertainty and disruption due to the COVID-19 global pandemic.

Whilst COVID-19 impacted on all businesses to a greater or lesser extent, certain sectors which were more severely impacted reacted with a multitude of cost cutting initiatives which had a domino effect on the supply chain of services rendered to these sectors.

South African consumers are currently under more economic pressure than ever before. This invariably results in many brands providing more discounting, thereby placing pressure on their income statement, which results in budget cuts particularly around marketing and promotions in an effort to manage their financial stress.

This has had a knock-on effect to a number of services provided by the Cognition Group subsidiaries.

**FINANCIAL PERFORMANCE**

Group revenue decreased by 12.35% from R263 million to R230.5 million. The decline in revenue is the result of continued poor economic conditions due to the measures implemented as a result of the COVID-19 pandemic, such as the restriction on the sale of alcohol. The Group provided assistance to its customer base during the year in various forms such as COVID-19 pandemic related rebates for industries severely impacted by the strict lockdown restrictions and not implementing cost increases where it was possible.

The Group benefited from cost cutting measures that it implemented in the previous financial year at the start of the pandemic. The Gross Profit margin of the Group increased from 81.3% to 86.5% with the result that the reduction in revenue was mitigated and the decline in Gross Profit was only 7.15%, down from R214 million to R198.6 million.

As per the segmental report in note 9 of the full long form announcement, revenue from Active Data Exchange Services declined by 27.6% from R51.2 million to R37.1 million and Gross Profit declined by 15.6% from R32.3 million to R27.2 million. This segment has significant exposure to the liquor industry which was severely impacted by the COVID-19 lockdown measures.

The Knowledge Creation and Management revenue segment decreased by 8.7% from R211.9 million to R193.4 million with a Gross Profit decline of 5.6% from R181,6 million to R171.4 million.

Earnings Before Interest Depreciation Tax and Amortisation (EBIDTA) and Impairment charges for the Group improved by 21.8% to R33.4 million up from R27.4 million.

The Group’s operating expenses reduced by 6.2% from R79 million to R72.4 million and staff costs reduced from R106.3 million to R92.2 million. Goodwill relating to the Research Assets to the value of R4.3 million was impaired.

The net result of the above is that the Group will report a profit before taxation of R19 million and a comprehensive income of R11.5 million. Of this, income in the amount of R9.4 million relates to non-controlling interests with the resulting profit attributed to the shareholders of the Group being R2.1 million resulting earnings per share (“EPS”) increasing by 111% from a loss of 7.9 cents in the 2020 financial year to a profit of 0.9 cents for the period under review. Headline earnings per share (“HEPS”), which does not account for the impairment of goodwill and investments increased to 3.03 cents per share from 2.33 cents per share.

**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 DATA EXCHANGE SERVICES (“ADES”)

ADES’ target audience, although broad, has a high concentration of brands within the Fast Moving Consumer Goods (“FMCG”) sector, which sector also incorporates the liquor industry and general corporate businesses.

The focus of ADES, via its subsidiary FoneWorx, is to provide our clients with the tools to be able to: conceptualise promotions, consumer engagements and competitions (“services”) by using our suite of communication protocols which include: SMS, IVR, USSD, WhatsApp, Telegram, Facebook Messenger, email and faxing services.

To be able to offer these services, the Group has back-to-back long-established service provider agreements with MTN, Telkom, Vodacom and Cell C.

By offering these services, FoneWorx generates traffic on the various networks and receives an agreed revenue from the respective networks.

Due to the nature of these services being primarily consumer engagement, FoneWorx works closely with digital, above-the-line and below-the-line advertising agencies.

Although this is a competitive market, the advantage that FoneWorx has is its “one-stop-shop” capability driven by its own proprietary technology (software) and hardware.

This advantage enables FoneWorx to:

- be agile with cost and service development; and
- in addition to South Africa, operate in over 75 countries throughout Africa, with agreements with either local mobile networks or similar service providers in each country.

COVID-19, the various lockdowns and the various bans on the sale of alcohol have had a dramatic impact on the majority of businesses with whom the Group’s subsidiaries interact.

The pandemic has resulted in changes to advertising, marketing, promotional and media spends, forcing businesses and brands to re-evaluate their thinking about current and future advertising, promotions and monthly campaigns to maintain a regular stream of income.

New data from Scopen Africa and the Independent Agency, Search and Selection Company, shows that in just the first six months of the lockdown 58% of marketers cut their advertising spend.

Major blue-chip brands have cut back on advertising to re-evaluate the “new normal” and review what spend is effective and what should be reduced or stopped.

A number of FoneWorx’s clients that operate in the liquor industry have reduced promotional spend and/or postponed campaigns. This sector has been subjected to four lockdowns amounting to over 150 trading days lost since March 2020.

Due to the cash preservation strategy adopted by the brands and advertising industry, FoneWorx experienced margin squeeze, delayed promotional campaigns and a reduction in overall activity or projects.

During the period under review, FoneWorx managed 293 campaigns on behalf of clients, which is an increase of 16 percent over the previous reporting period. However, the average value for each campaign reduced by 33 percent due to clients reducing budgets and cutting back on advertising. This was particularly evident in the Alcohol sector because of multiple bans on the sale of alcohol.

To accommodate this new reality, our focus shifted to encouraging clients to build consumer databases to enable them to continue to have personalised conversations with their customers notwithstanding the radical changes brought about by the restrictions imposed during the various stages of the pandemic.

**DATA EXCHANGE SERVICES**

These services include Fax2Email and Email2Fax and are part of ADES. This is a fully automated service allowing clients to on-board via the Web. With the number of fax devices declining in South Africa it is only natural that the revenue continues to decline. The number of active subscribers is now 24,300. Certain sectors in the economy, such as healthcare and pharmaceuticals, still make use of fax which is still regarded as secure.

**miVOUCHER**

This is a platform that enables businesses to access vouchers across a broad range of activities such as: data, airtime, lifestyle, fashion, entertainment and technology.

We have now on-boarded over 450 well-known brands which businesses can access via the platform to provide incentives, gifts and rewards.

miVoucher is an integral part of FoneWorx and whilst it is a “standalone” platform, it supports a number of clients within the FoneWorx portfolio of promotional offerings.

The miVoucher platform is now well integrated into the FoneWorx suite of offerings which enhances the rewards clients can offer their customers.

**PLATFORM TECHNOLOGY AND KNOWLEDGE MANAGEMENT**

Brands need to understand the long-term value (“LTV”) of customers, being the value that the customer provides to the brand for the duration of their entire relationship with the brand.

The pandemic has radically changed consumers’ shopping behaviour and on-line shopping has increased dramatically. Coupled with these changes is the growing “push back” by consumers against unwanted communications and the fact that the Protection of Personal Information Act (“POPIA”) became a reality on 1 July 2021.

Brands and advertising agencies need to react to these changes and build up Consumer Data Platforms (“CDPs”) to obtain a 360° view of each of their customers. In addition, third party Cookies will no longer be supported by 2023.

To meet these challenges and as a natural evolution of the current suite of FoneWorx offerings, we have built our own CDP platform and have, during the course of August 2021, launched this platform under the brand Knocknoc. This will provide consumers with the choice of downloading the Knocknoc App or using a desktop version and providing zero-party or declared data in a fully POPIA-compliant manner, underpinned by our own private blockchain technology. Consumers will then be able to securely share their personal information to brands of their choice in exchange for value.

It is anticipated that the CDP platform will provide our existing clients and agencies with the next generation consumer engagement opportunity and enable brands to better understand their consumers and send them personalised and relevant communications.

## CHANNEL INCENTIVE AND LOYALTY

The Group has its own proprietary platform to host and manage a broad range of incentive programmes on behalf of companies who wish to incentivise or reward their agents or staff on the successful sale of their products or services.

Access to the platform is via a bespoke mobile app or desktop.

Rewards or commissions are paid in an electronic wallet managed by the Group and participants can then transfer the funds earned into their bespoke branded Mastercard.

This division has been impacted by COVID-19 during periods when mobile retail outlets (MTN, Vodacom, Cell C and Telkom) were closed or access was restricted to these outlets.

In addition, two of our clients that sell consumer electronics (mobile devices) in South Africa through existing retail outlets owned and managed by Vodacom were “persuaded” through an intervention by Vodacom to divert their channel incentive programme to an alternative incentive provider of Vodacom’s choice. This has had an impact in reducing this division’s revenue.

Whilst this “intervention” could have been challenged by the Group, it was decided not to pursue such a challenge as it could potentially impact negatively on the Group’s other services provided to Vodacom and place our clients in a difficult position.

We have since been able to sign up a new client in the same industry which will, over time, supplement the lost revenue.

We currently manage 12,715 active members with Mastercards. In the period under review we have processed R133 million in moderated claims.

## RESEARCH ASSETS

**BMi Research Proprietary Limited (“BMiR”)** has been successfully restructured, downsized and refocussed to provide services in two primary focus areas:

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

BMiR has experienced longer sales cycles, reduced client budgets and margin squeeze. Despite the tough trading conditions, the restructuring and downsizing undertaken in the latter part of 2020 is benefitting the company now as operational efficiencies are being realised.

BMiR has also focussed on innovation and the development of new products such as:

**CX Online**, which is a mystery shopping service that enables owners of on-line stores to assess the shopping experience of their customers, which scores shopper interaction with their platform.

**Ad-Apt**, which is an advertising testing tool, using the neuroscience technique of eye tracking to measure advertising in terms of their cut-through ability.

**Likability, branding, key messaging and persuasion**. This product is particularly suitable to digital media channels.

BMiR will continue to innovate, manage and enhance operational efficiencies to take advantage of an improved economy.

**BMi Sport Info Proprietary Limited (“BMiS”)** provides brands with bespoke sport and sponsorship-related services.

The suite of services incorporates: sponsorship consulting, millennial tracking, sport tracking and sporting impact evaluation.

In simple terms, because spectators are not allowed at sport events under current restrictions sponsors derive no benefit from these events. The lack of spectators at sports events deprives sponsors from the ability to launch their marketing, fan engagement and other activities that are usually associated with the sponsorship rights and assets they have acquired.

This was further complicated by the fact that whilst BMiS had existing agreements in place, it couldn’t deliver on these agreements because events have been cancelled.

BMiS has reduced overheads and has been restructured to accommodate the drop in demand for its services and is seeking new ways to provide existing and future clients insights within the sporting fraternity.

**PROPERTY PORTFOLIO**

**Private Property**

Private Property is one of South Africa’s foremost property portals and plays a significant role in the property market for both estate agents and consumers.

Private Property has, since the advent of COVID-19, been able to extract itself from its physical offices located in Umhlanga, Durban and successfully enabled all staff to operate remotely. This has accelerated its digital transformation strategy of enhancing both agents’ and consumers’ experiences at all key touchpoints, being desktop, mobile and digital marketing and events.

Despite the restrictions in place prohibiting physical events, Private Property successfully hosted the Property Show on a virtual basis and received tremendous response from service providers, agents and consumers alike.

The Property Show provides an excellent platform to provide educational, inspirational theatre and practical property advice to consumers, first time home buyers and connects financial service providers, estate agents, developers and conveyancers in an exciting environment.

The new brand positioning and logo is making positive inroads in the property market and has enhanced the visibility of the platform.

Private Property has continued to forge positive relationships with ABSA Bank and together leveraged new and exciting opportunities.

Despite the lockdowns and several restrictions, Private Property has reflected improved platform metrics which include: sessions, unique users, page views, sales and rental leads.

Private Property continues to focus on enhancing its technology platform and touchpoints and to increase the range of services to both estate agents and consumers.

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/2021/jse/isse/cgn/ye21.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 2021 and expressed an unmodified review conclusion thereon.

For and on behalf of the Board

| | | |
|---|---|---|
| Paul Jenkins<br>Chairman | Mark Smith<br>Chief Executive Officer | Pieter Scholtz<br>Financial Director |

Johannesburg
1 September 2021

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: Paul Jenkins#* - Chairman, Ashvin Mancha#* - Deputy Chairman, Mark Smith – Chief Executive Officer, Pieter Scholtz - Financial Director, Gaurang Mooney#* (Botswana), Graham Groenewaldt – Sales Director, Roger Pitt#*, Marc du Plessis#, 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