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K3 BUSINESS TECHNOLOGY GROUP PLC
("K3" or "the Group" or "the Company")

Provider of mission-critical software (owned and third-party) and cloud solutions

Half year results for the six months ended 31 May 2021

Highlights

Financial

- First half results from continuing operations in line with management expectations
- Revenue steady at £23.2m (2020: £23.1m)
 - recurring or predictable income² accounted for 68.7% of total revenue (2020: 73.4%)
 - own-IP revenue made up £8.4m (36%) of total revenue (2020: £8.5m (37%))
- Gross margin reduced to 56.2% (2020: 60.4%), mainly reflecting the effect of the coronavirus crisis on third-party products' customer base, which includes smaller retailers and distributors
- Adjusted EBITDA¹ of £0.9m (2020: £1.7m)
- Loss before tax from continuing operations of £4.3m (2020: loss of £1.4m)
- Adjusted loss per share of 11.9p (2020: loss of 3.5p). Reported earnings per share of 11.6p (2020: loss of 12.2p) includes profit from discontinued activities
- Sale of non-core unit, Starcom Technologies, in February for £14.7m
 - generated net cash flow of £13.8m and a profit after tax of £10.8m
- Significantly strengthened balance sheet with net cash⁵ of £4.4m (2020: net debt of £7.4m)

**2020 results have been restated following the classification of Starcom Technologies Limited and UK Dynamics as discontinued activities*

Operational

- Appointment of Marco Vergani as CEO on 30 March 2021
 - evaluation of operations and market strategy commenced - will underpin future strategy and allocation of resources. Expected to be substantially completed over the coming months
 - management changes made, including appointment of Chief Commercial & Strategy Officer and Customer Success Officer in May and July 2021 respectively
- Own-IP generated £8.4m of revenue (2020: £8.5m) and gross profit of £6.2m (2020: £6.3m).
 - Key strategic product, K3|fashion, secured four new customer contracts worth a total of £1.7m (2020: £1.0m)
 - K3|imagine technology is market-leading and continues to offer exciting promise
- Global Accounts generated £9.2m of revenue (2020: £8.7m) and gross profit of £3.7m (2020: £3.8m), reflecting investment in service capability to support growth
- Third-party products generated £5.6m of revenue (2020: £5.9m) and gross profit of £3.2m (2020: £3.8m). The retail and distribution customer base was most disrupted by the coronavirus pandemic.
 - SYSPRO customer base performed well with average deal size increasing
 - H2 will benefit from strong cash inflow from SYSPRO software licence and support and maintenance contract renewals, typically at c.98%

Marco Vergani, CEO of K3 Business Technology Group plc, said:

"Half year results are in line with management expectations. The Group delivered a resilient performance despite certain parts of the customer base being significantly disrupted by the pandemic."

“Since joining K3 in late March, my priority has been a thorough evaluation of the Group’s operations and market strategy. This process is expected to be substantially completed over the coming months. It will help to set a clear strategic course.

“K3 has an exciting product offering and talented teams. This gives us a firm basis from which to move forward as we continue to build own-IP sales, which will generate long-term, high-margin recurring income. We remain very confident that there is a significant market opportunity for the Group, particularly in the fashion, apparel & design market. We expect to make good strategic progress in the second half.”

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CHIEF EXECUTIVE OFFICER’S STATEMENT

Introduction

I am pleased to present the Group’s interim results report, my first since having been appointed as Chief Executive Officer on 30 March 2021.

As detailed in the Group’s Annual Report for the financial year ended 30 November 2020, K3 made a number of important strategic decisions last year and has established a firm foundation from which to move forward. In particular, the recent sale in February 2021 of the non-core managed services unit, Starcom Technologies Limited (“Starcom”), has tightened our focus on core activities and significantly strengthened the Group’s balance sheet.

Among my first actions since joining the Group has been starting a thorough evaluation of operations and K3’s market strategy. This process is still ongoing and is expected to be substantially completed over the coming months. It will help to set a clear strategic course, crystallise the allocation of resources, and confirm our commitment to those market segments that we believe offer attractive, long-term growth opportunities, in tune with our products, skill sets and domain strengths.

We have also recently made strategic management changes. These have included the appointment of a Chief Commercial & Strategy Officer in May, and a Customer Success Officer in July. Both these roles are new and both individuals bring significant experience and successful track records of achievement in retail software sales, SaaS, and customer engagement. We intend to supplement the existing strong team at K3 with further selective hires.

K3’s focus on building own-IP sales will deliver high-quality, long-term recurring revenue streams and we remain confident about the opportunities ahead. Our products offer exciting growth potential, and our expertise in the Retail sector, particularly in fashion, apparel & design, online, and direct-to-consumer brands, is a significant strength. We believe that there is a substantial opportunity to leverage our knowledge and experience to assist retailers as they seek new technology solutions that will enable them to manage more effectively the fundamental changes in consumer purchasing behaviour and priorities.

The Group’s performance over the first half was in line with management expectations. Revenue from continuing operations was steady at £23.2m (2020: £23.1m). Group gross margin decreased, largely as a result of the weaker contribution from third-party products. This segment saw greatest market softness in the face of the coronavirus. K3|fashion performed well with four contract wins with new customers, worth a total of £1.7m, which compares with £1.0m in the same period last year. Global Accounts continues to grow although its gross profit contribution was lower reflecting investment in increased resource in the period to support growth.

Financial Results

Results from continuing operations

Revenue from continuing operations in the six months ended 31 May 2021 was constant at £23.2m (2020: £23.1m) with recurring or predictable revenue² accounting for 69% of the total (2020: 73%). The decrease in recurring revenue between the two periods mainly reflected pandemic pressures on certain customer segments, including visitor attraction and smaller retailers and distributors. Own IP products generated £8.4m of revenue (2020: £8.5m) accounting for 36% of total revenue (2020: 37%). Global Accounts (which supports Inter IKEA Systems B.V., the owner and franchisor of the IKEA concept, and the Inter IKEA Concept franchisees) generated £9.2m of revenue

(2020: £8.7m), and accounted for 40% of total revenue (2020: 38%). Third-party products contributed £5.6m of revenue, which accounted for 24% of total revenue.

Gross profit for the period was £13.1m (2020: £13.9m), with 47% or £6.2m (2020: 45% or £6.3m) derived from own-IP products. Gross margin decreased to 56% (2020: 60%), which mainly reflected the weaker performance of third-party products, but also lower margin from Global Accounts during a period of investment in services resource.

Underlying support/administrative expenses⁷ remained in line with the same period last year, at £12.2m (2020: £12.2m). Reported administrative expenses increased to £16.7m (2020: £15.4m), mainly as a result of a £1.5m additional amortisation charge due to a change in accounting estimate in the own-IP segment. (See note 4 below). Adjusted EBITDA¹ from continuing activities decreased to £0.9m (2020: £1.7m). This was largely driven by lower margin from third-party products.

Following depreciation, amortisation, reorganisation and other exceptional costs amounting to £4.5m, the loss before tax from continuing activities was £4.8m (2020: £1.4m).

The adjusted loss per share⁶ was 11.9p (2020: loss of 3.5p). This figure excludes amortisation of acquired intangibles of £0.3m (2020: £0.7m), exceptional reorganisation costs of £0.2m (2020: £0.2m), and share-based charges of £0.2m (2020: £nil), and is net of the related tax charge of £0.1m (2020: £0.1m). Reported earnings per share was 11.6p (2020: loss per share of 12.2p), which includes profit from discontinued activities, specifically from Starcom.

Discontinued activities

Discontinued activities relate to Starcom Technologies Limited (“Starcom”), which was sold on 26 February 2021 for £14.7m, and the UK Dynamics subsidiary, which was put into administration on 21 April 2020.

Starcom results for the six months to 31 May 2020 have been restated to present Starcom as a discontinued operation. The unit generated net cash flow of £13.8m and a profit after tax of £10.8m (2020: £0.5m) which includes a profit on disposal of £10.3m. UK Dynamics generated loss after tax of £nil (2020: £3.4m).

Balance sheet and cash flows

The Group balance sheet has been strengthened. Net cash⁵ at 31 May 2021 stood at £4.4m (31 May 2020: net debt of £7.4m and 30 November 2020: net debt of £1.9m) with the net proceeds from the sale of Starcom and the loan note conversion in March helping to underpin this result. The Group’s cash flow over the financial year is seasonally weighted towards the second half, which benefits from a significant cash inflow from annual software licence and maintenance and support renewals. A large element of this is SYSPRO renewals, which typically have a renewal rate of c.98%.

Net cash used in operating activities was a £7.4m outflow (2020: £1.1m outflow), reflecting a £1.2m inflow from trading (2020: £1.1m outflow), offset by a £8.6m outflow in working capital (2020: £nil). The year-on-year change in working capital outflow is the result of a working capital adjustment of £5.1m for discontinued activities, and £3.5m repayment of tax deferrals in the UK and Netherlands.

Finance costs increased due to the interest paid on the shareholder loan raised in March 2020 and converted to equity in March 2021 and the additional lender re-finance fees. Amortisation increased to £3.2m (2020: £2.0m) following the shortening of the amortization policy of internal capitalised development to three years from five to seven years previously. (See note 4).

Development expenditure capitalised has been reduced to £1.3m (2020: £2.3m).

OPERATIONAL REVIEW

The Group’s results for the six months ended 31 May 2021, together with comparatives for the same period in 2020, are summarised in the tables below. The segmental analysis provides further information on the key areas of activity; Own-IP, Global Accounts and Third-party products (including SYSPRO and Sage).

2020 comparatives have been restated following the classification of Starcom and UK Dynamics as discontinued activities.

(£m)	Revenue		Gross profit		Gross margin	
	2021	2020 (restated)	2021	2020 (restated)	2021	2020 (restated)
Own-IP	8.4	8.5	6.2	6.3	74.0%	74.4%

Global Accounts	9.2	8.7	3.7	3.8	40.1%	43.9%
Third-party products	5.6	5.9	3.2	3.8	56.3%	64.6%
Total	23.2	23.1	13.1	13.9	56.2%	60.4%

	2021	2020
Recurring or predictable revenue ²	68.7%	73.4%
Own-IP gross profit as a percentage of total gross profit ⁴	47.4%	45.1%

Own-IP

K3's own-IP includes;

- IP embedded within third-party solutions to add extra functionality and produce a richer overall solution for K3's target markets. These solutions include K3|fashion and K3|pebblestone;
- K3|imagine, our cloud-native platform, which include a set of front end solutions, which can be seamlessly integrated in any technology environment through K3|Dataswitch, our real-time orchestration engine, and Application Programming Interfaces ("APIs"); and
- other stand-alone point solutions and apps including our legacy point-of-sale ("POS") products.

Revenue generated by own-IP was constant at £8.4m (2020: £8.5m), with gross profit similarly steady at £6.2m (2020: £6.3m). The mix of revenue included a greater contribution from two core strategic products, K3|fashion and K3|Pebblestone, and a lower contribution from POS products and hardware sales. Some market sectors for own-IP product, including visitor attractions, continued to be impacted by coronavirus restrictions and underperformed. Gross profit decreased by 2% to £6.2m (2020: £6.3m), and gross margin remained largely unchanged at 74.0% (2020: 74.4%).

The fashion, apparel & design sector is a key area of investment and growth for us. The structural shifts in the marketplace and changes in consumer buying behaviour underline the need for solutions that correctly address the new commercial challenges. We believe that we are well-placed to capture this growing demand. The focus of our work is on expanding more broadly our existing differentiating features to address the emerging needs and evolving our go-to-market strategy and sales infrastructure to become the recognised provider of choice for this sector.

K3|fashion performed well with four large deals signed with new customers via channel partners, worth a total of £1.7m (2020: £1.0m). These were with a major children's fashion brand, a global outdoor-wear brand, a major European fashion retailer and a global outdoor sports clothing & equipment brand. Microsoft's endorsement of K3|fashion as its recommended 'add-on' solution for the fashion and apparel sector globally underlines the strong credentials of this product.

We also remain very excited about the potential of the K3|imagine platform and its applications. These include self-serve, point-of-sale, and companion apps, and are predominantly provided on a Software-as-a-Service ("SaaS") basis. While sales currently remain modest, customers bought from across the suite of applications. We will be refocusing our sales resource in line with our new plans over the coming months.

Global Accounts

Revenue from Global Accounts continued to grow, increasing by 6% to £9.2m (2020: £8.7m) however, gross profit decrease by 3% to £3.7m (2020: £3.8m) and gross margin reduced by 3.8 percentage points to 40.1% (2020: 43.9%) as the Group invested in new competencies and resources to expand services capability.

The investment will support the ongoing expansion of the IKEA franchisee network into new geographies, including new store openings in South and Central America, and will also support further project work in the Consumer Experience area. This should also directly benefit software licence sales as well as services income. We anticipate further growth opportunities in Global Accounts and intend to strengthen our off-shoring capability to support this growth.

Third-party products

Third-party products include our SYSPRO and Sage products, which we resell in the UK. This area of activity was the most badly affected by the coronavirus crisis, with customers in distribution and retail sectors holding back from supply chain investment and services projects and some retrenching in response to the pandemic.

Revenue decreased by 4.7% to £5.6m (2020: £5.9m) and gross profit reduced by 17.0% to £3.2m (2020: £3.8m), with gross margin contracting by 8.3 percentage points to 56.3% (2020: 64.6%). The gross margin decline was driven in particular by our retail and distribution customer base, which was more disrupted by coronavirus-related restrictions. Some existing customers chose not to renew maintenance and support contracts and new business in this area remained soft.

By contrast our manufacturing customer base, which largely comprises SYSPRO customers, was more resilient. We closed an encouraging level of new SYSPRO business and average deal size increased, benefitting software licence, maintenance and support and services income streams.

A high level of software licence and maintenance and support contract renewals from the SYSPRO customer base take place in the second half of the financial year. We expect renewals to continue to be high, in the region of historic levels at around 98%.

Administrative expenses

Underlying support/administrative costs⁷ were in line with the same period last year at £12.2m (2020: £12.2m). Reported administrative expenses increased to £16.7m (2020: £15.4m) as a result of the £1.5m additional depreciation charge due to a change in accounting estimate in our own-IP segment (see note 4 below) offset by a lower amortisation charge as the intangible assets come to the end of their useful life.

Outlook

K3 has an exciting product offering, and we are very confident that there is a significant market opportunity to drive our existing strategy of building own-IP sales, which are higher margin and generate long-term recurring income streams. The fundamental shift that is under way in the retail sector, with customers changing the way that they shop, engage with brands, and judge brand values, is driving a requirement for new solutions, including in AI. K3 provides a channel to readily-adoptable, leading-edge solutions to these commercial issues, and is therefore well-positioned.

We are currently in the process of resetting our growth strategies for key strategic products and will be adding selectively to our existing strong teams to ensure that we have the appropriate blend of talents to support our growth plans.

We will also consider initiatives to improve cash conversion, enhance productivity and simplify the Group. We view prospects for K3 positively and look forward to providing a further update in due course.

Marco Vergani
Chief Executive Officer

**Consolidated income statement
for the six months ended 31 May 2021**

	Notes	Unaudited 6 months to 31 May 2021 £'000	Restated [^] Unaudited 6 months to 31 May 2020 £'000	Audited 12 months to 30 November 2020 £'000
Revenue		23,246	23,080	48,819
Cost of sales		(10,172)	(9,142)	(20,110)
Gross profit		13,074	13,938	28,709
Administrative expenses		(16,571)	(15,473)	(48,402)
Impairment (losses)/gains on financial assets		(131)	111	(122)
Adjusted EBITDA		864	1,734	3,965
Depreciation and amortisation	4	(3,841)	(2,265)	(4,500)
Amortisation of acquired intangibles		(284)	(678)	(1,471)
Exceptional Impairment		-	-	(16,855)
Exceptional reorganisation costs		(182)	(215)	(934)
Share-based payment charge		(185)	-	(20)
Loss from operations		(3,628)	(1,424)	(19,815)
Finance expense		(1,169)	(10)	(1,124)
Loss before taxation from continuing operations		(4,797)	(1,434)	(20,939)
Tax expense	124	(951)	(807)	(7)
Loss after taxation from continuing operations		(5,748)	(2,241)	(20,946)
Profit/(loss) after taxation from discontinued operations	6	10,787	(2,980)	(184)
Profit/(loss) for the period/year		5,039	(5,221)	(21,130)

[^] The results for the 6 month period ended 31 May 2020 have been restated to present UK Dynamics and Starcom Technologies Limited as discontinued operations.

All the loss for the year is attributable to equity shareholders of the parent.

	Note	Unaudited 6 months to 31 May 2021	Restated [^] Unaudited 6 months to 31 May 2020	Audited 12 months to 30 November 2020
Profit/(loss) per share				
Basic and diluted earnings/(loss) per share	7	11.6p	(12.2)p	(49.3)p
Basic and diluted loss per share from continuing operations	7	(13.2)p	(5.2)p	(48.8)p

**Consolidated statement of comprehensive income
for the six months ended 31 May 2021**

Notes	Unaudited 6 months to 31 May 2021 £'000	Restated^ Unaudited 6 months to 31 May 2020 £'000	Audited 12 months to 30 November 2020 £'000
Profit/(loss) for the period/year	5,039	(5,221)	(21,130)
Other comprehensive income			
Exchange differences on translation of foreign operations	(842)	1,127	1,065
Total comprehensive income/(expense) for the period/year	4,197	(4,094)	(20,065)

All the total comprehensive income/(expense) is attributable to equity holders of the parent. All the other comprehensive income will be reclassified subsequently to profit or loss when specific conditions are met. None of the items within other comprehensive income/(expense) had a tax impact.

**Consolidated statement of financial position
as at 31 May 2021**

	Notes	Unaudited as at 31 May 2021 £'000	Unaudited as at 31 May 2020 £'000	Audited as at 30 November 2020 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		1,629	2,067	1,866
Right-of-use assets		1,851	3,136	2,719
Goodwill		25,733	41,429	26,132
Other intangible assets		8,408	15,190	10,271
Deferred tax assets		680	618	935
Total non-current assets		38,301	62,440	41,923
Current assets				
Trade and other receivables	11	12,045	16,908	12,195
Cash and cash equivalents		6,295	12,403	9,306
Assets classified as held for sale		-	-	6,899
Total current assets		18,340	29,311	28,400
Total assets		56,641	91,751	70,323
LIABILITIES				
Non-current liabilities				
Lease liabilities		926	1,959	1,735
Borrowings		-	3,000	-
Provisions		472	303	416
Deferred tax liabilities		925	1,312	889
Total non-current liabilities		2,323	6,574	3,040
Current liabilities				
Trade and other payables	10	12,478	20,437	19,145
Current tax liabilities		1,577	1,514	1,274
Lease liabilities		943	1,125	925
Borrowings	8	1,901	16,788	12,443
Provisions		122	150	9
Liabilities directly associated with assets classified as held for sale		-	-	3,572
Total current liabilities		17,021	40,014	37,368
Total liabilities		19,344	46,588	40,408
EQUITY				
Share capital		11,183	10,737	10,737
Share premium account		31,451	28,897	28,897
Other reserves		11,151	10,448	11,151
Translation reserve		1,781	2,685	2,623
Retained earnings		(18,269)	(7,604)	(23,493)
Total equity attributable to equity holders of the parent		37,297	45,163	29,915
Total equity and liabilities		56,641	91,751	70,323

**Consolidated Cash Flow Statement
for the six months ended 31 May 2021**

	Notes	Unaudited 6 months to 31 May 2021 £'000	Restated^ Unaudited 6 months to 31 May 2020 £'000	Audited 12 months to 30 November 2020 £'000
Cash flows from operating activities				
Profit/(loss) for the period		5,039	(5,221)	(21,130)
Adjustments for:				
Finance expense		1,160	467	1,137
Tax expense		841	526	(284)
Depreciation of property, plant and equipment		268	359	730
Impairment loss on property, plant and equipment		-	6	-
Depreciation of right-of-use assets		869	864	1,727
Amortisation of intangible assets and development expenditure		3,219	2,000	4,247
Gain on sale of subsidiary		(10,314)	-	-
Impairment of intangible assets		-	16	16,855
Loss on sale of property, plant and equipment		-	-	254
Share-based payments charge		185	-	20
Loss on disposal of discontinued operations, net of tax		-	-	957
Increase in provisions		169	39	71
Decrease in trade and other receivables		1,062	5,172	6,680
Decrease in trade and other payables		(9,863)	(5,243)	(2,688)
Cash (used in)/generated from operations		(7,365)	(1,015)	8,596
Income taxes		(38)	(94)	(364)
Net cash (used in)/generated from operating activities		(7,403)	(1,109)	8,232
Cash flows from investing activities				
Net cash flow arising on the sale of businesses		13,795	-	-
Development expenditure capitalised		(1,330)	(2,290)	(4,516)
Purchase of property, plant and equipment		-	(255)	(713)
Net cash from/(used in) investing activities		12,465	(2,545)	(5,229)
Cash flows from financing activities				
Proceeds from loans and borrowings		-	9,482	9,950
Issue of shares		3,000	-	-
Repayment of loans and borrowings		(9,254)	-	(6,468)
Repayment of lease liabilities		(791)	(802)	(1,841)
Interest paid on lease liabilities		(131)	(168)	(308)
Finance expense paid		(1,050)	(444)	(590)
Dividends paid		-	-	-
Net cash (used in)/from financing activities		(8,226)	8,068	743
Net change in cash and cash equivalents		(3,164)	4,414	3,746
Cash and cash equivalents at start of period/year		7,566	3,841	3,841
Exchange gains /(losses) on cash and cash equivalents		(8)	36	(21)
Cash and cash equivalents at end of period/year		4,394	8,291	7,566

**Consolidated statement of Changes in Equity
for the period ended 31 May 2021**

	Share capital	Share premium	Other reserves	Translation reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 December 2019	10,737	28,897	10,448	1,558	(2,383)	49,257
Changes in equity for the six months ended 31 May 2020						
Loss for the period	-	-	-	-	(5,221)	(5,221)
Other comprehensive income for the period	-	-	-	1,127	-	1,127
Total comprehensive income/(expense)	-	-	-	1,127	(5,221)	(4,094)
At 31 May 2020	10,737	28,897	10,448	2,685	(7,604)	45,163
Changes in equity for period ended 30 November 2020						
Loss for the period	-	-	-	-	(15,909)	(15,909)
Other comprehensive income for the period	-	-	-	(62)	-	(62)
Total comprehensive income/(expense)	-	-	-	(62)	(15,909)	(15,971)
Share-based payment expense	-	-	-	-	20	20
Issue of warrants	-	-	703	-	-	703
At 30 November 2020	10,737	28,897	11,151	2,623	(23,493)	29,915
Changes in equity for period ended 31 May 2021						
Gain for the year	-	-	-	-	5,039	5,039
Other comprehensive income for the period	-	-	-	(842)	-	(842)
Total comprehensive income/(expense)	-	-	-	(842)	5,039	4,197
Share issue	446	2,554	-	-	-	3,000
Share-based payment expense	-	-	-	-	185	185
At 31 May 2021	11,183	31,451	11,151	1,781	(18,269)	37,297

1 Segment information

For the six months ended 31 May 2021

	K3 Own IP £'000	Global Account s £'000	3 rd party products £'000	Central Costs £'000	Total £'000
Total segment revenue	10,800	10,361	5,753	-	26,914
Less Inter-segment revenue	(2,423)	(1,134)	(111)	-	(3,668)
Software licence revenue	2,148	1,013	994	-	4,155
Services revenue	701	6,738	1,785	-	9,224
Maintenance & support	4,951	1,476	2,804	-	9,231
Hardware and other revenue	577	-	59	-	636
External revenue	8,377	9,227	5,642	-	23,246
Cost of sales	(2,179)	(5,526)	(2,467)	-	(10,172)
Gross profit	6,198	3,701	3,175	-	13,074
Gross margin	74.0%	40.1%	56.3%		56.2%
Administrative expenses ⁷	-	-	-	(12,210)	(12,210)
Adjusted EBITDA¹ from continuing operations	6,198	3,701	3,175	(12,210)	864
Depreciation and amortisation	-	-	-	(3,841)	(3,841)
Amortisation of acquired intangibles	-	-	-	(284)	(284)
Exceptional reorganisation costs	-	-	-	(182)	(182)
Share-based payment (charge)/credit	-	-	-	(185)	(185)
Loss from operations	6,198	3,701	3,175	(16,702)	(3,628)
Finance expense	-	-	-	(1,169)	(1,169)
Loss before tax and discontinued operations	6,198	3,701	3,175	(17,871)	(4,797)
Tax expense	-	-	-	(951)	(951)
Profit from discontinued operations	-	-	-	10,787	10,787
Profit for the year	6,198	3,701	3,175	(8,035)	5,039

For the six months ended 31 May 2020

	K3 Own IP	Global Accounts	3 rd party products	Central Costs	Total
	£'000	£'000	£'000	£'000	£'000
Total segment revenue	12,406	10,922	6,658	458	30,444
Less Inter-segment revenue	(3,951)	(2,220)	(735)	(458)	(7,364)
Software licence revenue	1,988	319	656	-	2,963
Services revenue	551	6,947	1,788	-	9,286
Maintenance & support	5,088	1,436	3,473	-	9,997
Hardware and other revenue	828	-	6	-	834
External revenue	8,455	8,702	5,923	-	23,080
Cost of sales	(2,163)	(4,884)	(2,095)	-	(9,142)
Gross profit	6,292	3,818	3,828	-	13,937
Gross margin	74.4%	43.9%	64.6%		60.4%
Administrative expenses ⁷	-	-	-	(12,204)	(12,204)
Adjusted EBITDA¹ from continuing operations	6,292	3,818	3,828	(12,204)	1,734
Depreciation and amortisation	-	-	-	(2,265)	(2,265)
Amortisation of acquired intangibles	-	-	-	(678)	(678)
Exceptional reorganisation costs	-	-	-	(215)	(215)
Loss from operations	6,292	3,818	3,828	(15,362)	(1,424)
Finance expense	-	-	-	(10)	(10)
Loss before tax and discontinued operations	6,292	3,818	3,828	(15,372)	(1,434)
Tax expense	-	-	-	(807)	(807)
Loss from discontinued operations	-	-	-	(2,980)	(2,980)
Loss for the year	6,292	3,818	3,828	(19,159)	(5,221)

For the twelve months ended 30 November 2020

	K3 Own IP £'000	Global Accounts £'000	3 rd party products £'000	Central Costs £'000	Total £'000
Total segment revenue	20,100	19,479	16,146	458	56,183
Less Inter-segment revenue	(3,951)	(2,220)	(735)	(458)	(7,364)
Software licence revenue	3,248	718	1,798	-	5,764
Services revenue	1,169	13,472	3,180	-	17,821
Maintenance & support	10,308	3,045	10,362	-	23,715
Hardware and other revenue	1,424	24	71	-	1,519
External revenue	16,149	17,259	15,411	-	48,819
Cost of sales	(3,909)	(9,845)	(6,356)	-	(20,110)
Gross profit	12,240	7,414	9,055	-	28,709
Gross margin	75.8%	43.0%	58.8%	-	58.8%
Administrative expenses ⁷	-	-	-	(24,744)	(24,744)
Adjusted EBITDA¹ from continuing operations	12,240	7,414	9,055	(24,744)	3,965
Depreciation and amortisation	-	-	-	(4,500)	(4,500)
Amortisation of acquired intangibles	-	-	-	(1,471)	(1,471)
Exceptional impairment	-	-	-	(16,855)	(16,855)
Exceptional reorganisation costs	-	-	-	(934)	(934)
Exceptional customer settlement provision	-	-	-	-	-
Share-based payment (charge)/credit	-	-	-	(20)	(20)
Loss from operations	12,240	7,414	9,055	(48,524)	(19,815)
Finance expense	-	-	-	(1,124)	(1,124)
Loss before tax and discontinued operations	12,240	7,414	9,055	(49,648)	(20,939)
Tax expense	-	-	-	(7)	(7)
Loss from discontinued operations	-	-	-	(184)	(184)
Loss for the year	12,240	7,414	9,055	(49,839)	(21,130)

2 General information

K3 Business Technology Group Plc is incorporated in England and Wales under the Companies Act (listed on AIM, a market operated by the London Stock Exchange Plc) with the registered number 2641001. The address of the registered office is Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.

The interim condensed consolidated financial statements comprise the company and its subsidiaries, "the Group".

3 Basis of preparation and Going Concern

The financial information set out in this Interim Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 30 November 2020, prepared in accordance with the international accounting standards in conformity with the requirements of the Companies Act 2006, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The interim financial information has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards ("IFRS") and on the same basis and using the same accounting policies as used in the financial statements for the year ended 30 November 2020, subject to the introduction of any new accounting standards applicable in the period and with the exception of the change in accounting estimate as detailed in Note 4 below.

The financial information has not been prepared (and is not required to be prepared) in accordance with IAS 34. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of this financial information.

The Interim Report has not been audited or reviewed in accordance with the International Standard on Review Engagement 2410 issued by the Auditing Practices Board.

Although there still exists some uncertainty due to the ongoing disruption arising from COVID-19 the Directors have concluded this is not material. Following the sale of the Starcom subsidiary on 26 February 2021, for net proceeds of £13.8m, the Group also successfully agreed an extension to its Revolving Credit Facility with Barclays with a facility of £3.5m to March 2022 with a further option to extend to March 2023. As a result of these actions, at 31 May 2021 the Group had net cash of £4.4m compared to net debt of £1.9m at 30 November 2020 and net debt of £7.4m at 31 May 2020.

The Directors therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing this financial information.

4 Critical accounting estimates, judgements and sources of estimation uncertainty

For the accounting period beginning 1 December 2020 the Group has reviewed the depreciation method of assets in line with the requirements of IAS 38 Intangible Assets. The Group has identified that the pattern of consumption of benefits relating to the capitalised development costs for our own IP assets in our Irish subsidiary had changed. As a result the depreciation method has been changed from straight line 5-7 years to straight line 3 years.

This change has been applied prospectively from 1 December 2020 as it constitutes a change in estimate under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. This change in accounting policy has resulted in the following adjustment to the depreciation charge:

	Unaudited 6 months to 31 May 2021 £'000	Unaudited 6 months to 31 May 2020 £'000	Audited 12 months to 30 November 2020 £'000
Depreciation and amortisation – previous accounting policy	2,315	2,265	4,500
Adjustment	1,526	-	-
Depreciation and amortisation – new accounting policy	3,841	2,265	4,500

With the exception of the above there have been no further material revisions to the nature and amount of changes in estimates of amounts reported in the financial statements for the year ended 30 November 2020.

5 Significant events

On 30 March 2021 the Group reached agreement with two of its major shareholders, Kestrel Partners LLP (represented by Non-executive Director Oliver Scott) and Johan Claesson (also Non-executive Director) via his associated company, CA Fastigheter AB to convert the full principal amount of the £3.0m shareholder loans into ordinary shares of 25p each in the Company at a conversion price of £1.68 per Ordinary Share (being the prevailing bid-price on 26 March 2021).

On 26 February 2021 the Group announced the sale of the Starcom business (see note 6).

The Group successfully agreed an extension to its Revolving Credit Facility with Barclays with a facility of £3.5m to March 2022 with a further option to extend to March 2023.

6 Discontinued operations

On 26 February 2021 the Group announced the sale of the Starcom business for consideration of £14.7m. As a major line of business the results of Starcom for the 6 months to 31 May 2021 have been presented as discontinued operations. The results for the six months ended 31 May 2020 have been restated to present Starcom as discontinued operations. At 30 November 2020 Starcom was classified as a disposal group held for sale as the discontinued operation represented a major line of business of the Group.

The results of the Starcom business for the periods presented were:

	Unaudited 6 months to 31 May 2021 £'000	Restated[^] Unaudited 6 months to 31 May 2020	Audited 12 months to 30 November 2020 £'000
External revenue	2,309	4,470	9,519
Cost of sales	(845)	(1,639)	(3,966)
Gross profit	1,464	2,831	5,553
Administrative expenses	(1,011)	(2,126)	(4,320)
Impairment losses on financial assets	-	(73)	(25)
Amortisation of acquired intangibles	(99)	(161)	(322)
Profit from operations	354	471	886
Finance income/(expense)	9	(26)	(73)
Profit after taxation from discontinued operations	363	445	813
Tax credit/(expense)	110	11	22
Profit for the year from discontinued operations after tax	473	456	835
Gain on sale of subsidiary after income tax (see below)	10,314	-	-
Profit for the year from discontinued operations	10,787	456	835

	Unaudited 6 months to 31 May 2021 £'000	Unaudited 6 months to 31 May 2020	Audited 12 months to 30 November 2020 £'000
Basic and diluted profit per share from discontinued operations	24.8	1.1	1.9

The major classes of assets and liabilities of the Starcom business classified as held for sale as at 30 November 2020 are as follows:

	2020
	£'000
Property, plant, and equipment	237
Right-of-use assets	332
Goodwill	2,373
Other intangible assets	690
Deferred tax assets	136
Trade and other receivables	1,871
Cash and cash equivalents	1,260
Assets classified as held for sale	6,899
Trade and other payables	(3,196)
Provisions	(60)
Lease liabilities	(316)
Liabilities directly associated with assets classified as held for sale	(3,572)
Net Assets directly associated with disposal group	3,327

The net cashflows incurred by Starcom are as follows:

	Unaudited 6 months to 31 May 2021 £'000	Unaudited 6 months to 31 May 2020 £'000	Audited 12 months to 30 November 2020 £'000
Operating	379	(232)	1,096
Investing	-	(121)	(155)
Financing	12,835	(27)	(133)
Net cash inflow/(outflow)	<u>13,214</u>	<u>(380)</u>	<u>808</u>

Gain on sale

	Unaudited 6 months to 31 May 2021 £'000
Consideration received:	
Cash	14,747
Final consideration	14,747
Carrying amount of net assets sold	(3,878)
Gain on sale before costs and income tax	10,869
Costs incurred in connection with the agreed disposal of the Starcom business	(555)
Income tax expense on gain	-
Gain on sale after income tax	<u>10,314</u>

Net cash flow arising on the sale of Starcom

	Unaudited 6 months to 31 May 2021 £'000
Cash consideration	14,747
Cash at date of disposal	(415)
Disposal costs paid	(537)
Net cash inflow	<u>13,795</u>

On 21 April 2020, the UK Dynamics subsidiary was put into administration and has been classified as a discontinued operation as it represented a major line of business for the Group. No assets or liabilities relating to UK Dynamics were held by the Group at 30 November 2020.

The results of the UK Dynamics business for the year up to its administration are presented below.

	Unaudited 6 months to 31 May 2020	Audited 12 months to 30 November 2020
Revenue	3,789	3,789
Cost of sales	(3,533)	(3,533)
Gross profit	256	256
Administrative expenses	(1,375)	(1,375)
Impairment losses on financial assets	-	-
Loss from operations	(1,119)	(1,119)
Finance income/(expense)	60	60
Loss before taxation from discontinued operations before group costs	(1,059)	(1,059)
Impairment of UK Dynamics Goodwill	-	-
Cost incurred with the disposal of UK Dynamics	(2,645)	(229)
Loss before taxation from discontinued operations	(3,703)	(1,288)
Tax credit/(expense)	269	269
Loss for the year from discontinued operations	(3,434)	(1,019)

	Unaudited 6 months to 31 May 2020	Audited 12 months to 30 November 2020 £'000
Basic and diluted loss per share from discontinued operations	(8.0)	(2.4)

The net cashflows incurred by UK Dynamics are as follows:

	Unaudited 6 months to 31 May 2020 £'000	Audited 12 months to 30 November 2020 £'000
Operating	(1,063)	(1,063)
Investing	-	-
Financing	(15)	(15)
Net cash inflow/(outflow)	(1,618)	(1,618)

7 Earnings/(loss) per share

The calculations of (loss)/earnings per share (EPS) are based on the profit/(loss) for the year and the following numbers of shares:

	Unaudited 6 months to 31 May 2021 £'000	Unaudited 6 months to 31 May 2020 £'000	Audited 12 months to 30 November 2020 £'000
<i>Denominator</i>			
Weighted average number of shares used in basic and diluted EPS	43,602,052	42,871,000	42,899,598

Certain employee options and warrants have not been included in the calculation of diluted EPS because their exercise is contingent on the satisfaction of certain criteria that had not been met at the end of the period/year.

	Unaudited 6 months to 31 May 2021 £'000	Restated Unaudited 6 months to 31 May 2020 £'000	Audited 12 months to 30 November 2020 £'000
Loss after tax from continuing operations	(5,748)	(2,241)	(20,946)
Profit/(loss) after tax from discontinued operations	10,787	(2,980)	(184)
Profit/(loss) attributable to ordinary equity holders of the parent for basic and diluted earnings per share	5,039	(5,221)	(21,130)

The alternative earnings per share calculations have been computed because the directors consider that they are useful to shareholders and investors. These are based on the following profits/(losses) and the above number of shares.

	Unaudited 6 months to 31 May 2021 £'000	Unaudited 6 months to 31 May 2020 £'000	Audited 12 months to 30 November 2020 £'000
Loss after tax from continuing operations	(5,748)	(2,241)	(20,946)
Add back Other Items			
Amortisation of acquired intangibles	284	678	1,471
Exceptional reorganisation costs	182	215	934
Exceptional impairment costs	-	-	16,855
Shared-based payment charge	185	-	20
Tax charge related to Other Items	(78)	(146)	(405)
Loss attributable to ordinary equity holders of the parent for basic and diluted earnings per share from continuing operations before other items	(5,175)	(1,495)	(2,071)
	Unaudited 6 months to 31 May 2021 £'000	Unaudited 6 months to 31 May 2020 £'000	Audited 12 months to 30 November 2020 £'000
Profit/(loss) per share			
Basic and diluted earnings/(loss) per share	11.6p	(12.2)p	(49.3)p
Basic and diluted loss per share from continuing operations	(13.2)p	(5.2)p	(48.8)p
Adjusted loss per share			
Basic and diluted loss per share from continuing operations before other items	(11.9)p	(3.5)p	(4.8)p

8 Loans and borrowings

	Unaudited as at 31 May 2021 £'000	Unaudited as at 31 May 2020 £'000	Audited as at 30 November 2020 £'000
Non-current			
Bank loans (secured)	-	-	-
Shareholder loans (unsecured)	-	3,000	-
	-	3,000	-
Current			
Bank overdrafts (secured)	1,901	4,112	3,000
Bank loans (secured)	-	12,676	6,771
Shareholder loans (unsecured)	-	-	2,672
	1,901	16,788	12,443
	1,901	19,788	12,443

9 Net debt

	Unaudited as at 31 May 2021 £'000	Unaudited as at 31 May 2020 £'000	Audited as at 30 November 2020 £'000
Loans and borrowings	(1,901)	(19,788)	(12,443)
Cash	6,295	12,403	9,306
Cash – held for sale	-	-	1,260
Net cash/(debt)	4,394	(7,385)	(1,877)

10 Trade and other payables

	Unaudited as at 31 May 2021 £'000	Unaudited as at 31 May 2020 £'000	Audited as at 30 November 2020 £'000
Trade payables	2,144	2,621	2,376
Other payables	1,100	3,209	1,222
Accruals	2,391	2,726	4,269
Total financial Liabilities, excluding loans and borrowings, classified as financial liabilities measures at amortised cost	5,635	8,556	7,867
Other tax and social security tax	2,163	4,912	4,782
Contract liabilities	4,680	6,969	6,496
	12,478	20,437	19,145

11 Trade and other receivables

	Unaudited as at 31 May 2021 £'000	Unaudited as at 31 May 2020 £'000	Audited as at 30 November 2020 £'000
Trade receivables	8,309	12,104	8,268
Loss allowance	(1,089)	(1,325)	(1,329)
Trade receivables – net	7,220	10,779	6,939
Other receivables	128	507	177
Contract assets	3,009	3,109	3,220
Prepayments and stock	1,688	2,513	1,859
	12,045	16,908	12,195

12 Tax

	Unaudited 6 months to 31 May 2021 £'000	Unaudited 6 months to 31 May 2020 £'000	Audited 12 months to 30 November 2020 £'000
Current tax expense			
Income tax of overseas operations on profits/(losses) for the period/year	662	532	397
Adjustment in respect of prior periods	-	(86)	(59)
Total current tax expense	<u>662</u>	<u>446</u>	<u>338</u>
Deferred tax expense/(income)			
Origination and reversal of temporary differences	(272)	32	(622)
Adjustment in respect of prior periods	451	48	-
Total deferred tax expense/(income)	<u>179</u>	<u>80</u>	<u>(622)</u>
Total tax expense/(credit)	<u>841</u>	<u>526</u>	<u>(284)</u>
Income tax expense attributable to continuing operations	951	806	7
Income tax credit attributable to discontinued operations	(110)	(280)	(291)
	<u>841</u>	<u>526</u>	<u>(284)</u>

13 Non-statutory information

The Group uses a variety of alternative performance measures, which are non-IFRS, to assess the performance of its operations. The Group considers these performance measures to provide useful historical financial information to help investors evaluate the underlying performance of the business.

These measures, as described below, are used to improve the comparability of information between reporting periods and geographical units, to adjust for exceptional items or to adjust for businesses identified as discontinued to provide information on the ongoing activities of the Group. This also reflects how the business is managed and measured on a day-to-day basis.

1 Adjusted EBITDA – is the loss from continuing activities adjusted to exclude depreciation and amortisation of development costs £3.8m (May 2020: £2.3m, Nov 2020 £4.5m), amortisation of acquired intangibles £0.3m (May 2020: £0.7m, Nov 2020 £1.5m), exceptional impairment costs £nil (May 2020 £nil, Nov 2020 £16.9m) exceptional reorganisation costs £0.2m (May 2020: £0.2m, Nov 2020 £0.9m), and share-based charges £0.2m (May 2020: £nil, Nov 2020 £0.1m).

2 Recurring or predictable revenue – Contracted support, maintenance and services revenues with a framework agreement of 2 years or more, as a percentage of total revenue

3 Own IP revenue as a percentage of total revenue – Own IP revenue (which includes initial and annual software licences), £8.4m (May 2020 £8.5m Nov 2020 £16.1m), as a percentage of total Group revenue, £23.2m (May 2020 £23.1m, Nov 2020 £48.8m).

4 Own IP gross profit as a percentage of total gross profit - Own IP gross profit, £6.2m (May 2020 £6.3m Nov 2020 £12.2m), as a percentage of total Group gross profit, £13.1m (May 2020 £13.9m, Nov 2020 £28.7m).

5 Net cash/debt comprises Bank Loans, Shareholder Loans and Overdrafts less Cash and cash equivalents, including Cash and cash equivalents held for sale.

6 Adjusted loss/earnings per share – basic loss per share from continuing operations adjusted to exclude amortisation of acquired intangibles £0.3m (May 2020: £0.7m, Nov 2020 £1.5m), exceptional impairment costs £nil (May 2020 £nil, Nov 2020 £16.9m) exceptional reorganisation costs £0.2m (May 2020: £0.2m, Nov 2020 £0.9m), and share-based charges £0.2m (May 2020: £nil, Nov 2020 £0.1m).net of the related tax charge £0.1m (May 2020 £0.1m, Nov 2020 £0.4m).

7 Underlying support/admin costs – administrative expenses adjusted to exclude depreciation and amortisation of development costs £3.8m (May 2020 £2.3m Nov 2020 £4.5m), amortisation of acquired intangibles £0.3m (May 2020 £0.7m, Nov 2020 £1.5m), exceptional impairment costs £nil (May 2020 £nil, Nov 2020 £16.9m), exceptional reorganisation costs £0.2m (May 2020 £0.2m, No 2020 £0.9m) and share-based charges £0.2m (May 2020 £nil, Nov 2020 £0.1m).