



K3 Business Technology Group plc

Interims Results

for the six months to 31 May 2020

4 August 2020

Business Overview

- **Well-established provider of mission-critical business software to the supply chain sector**
 - own products and reseller of third-party products
 - multiple deployment options; cloud, on-premises, SaaS
- **c.75% of annual revenue is recurring**
- **Large, global customer base – c.63% of revenue is non-UK**
- **Indirect sales network of 50 channel partners**
- **New IP-led strategy to drive recurring revenue, margins and cash generation**

H1 2020 REVENUE *

£27.2m

(2019 (restated): £27.8m)

H1 2020 ADJ. EBITDA *

£2.6m

(2019 (restated)*: £3.7m)

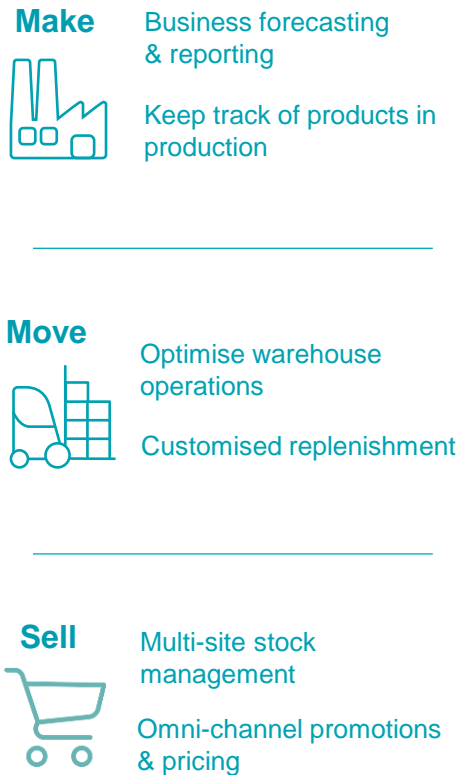
C 3,400 customers

c. 560 staff

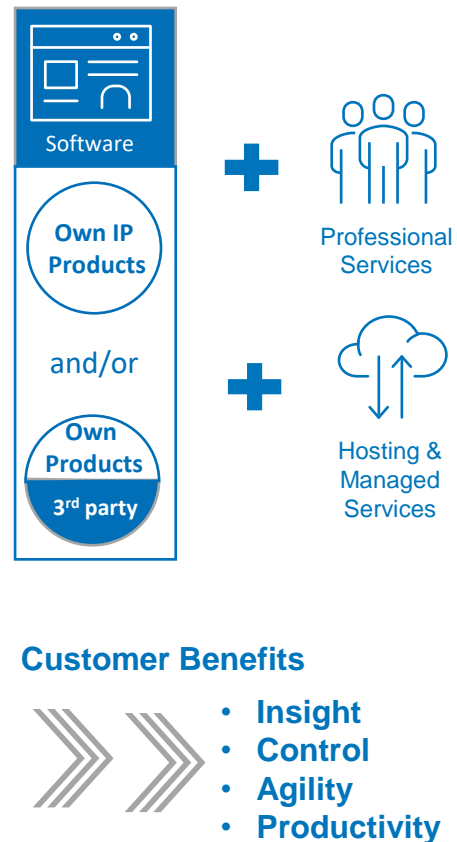
**Continuing Activities*

K3's Model

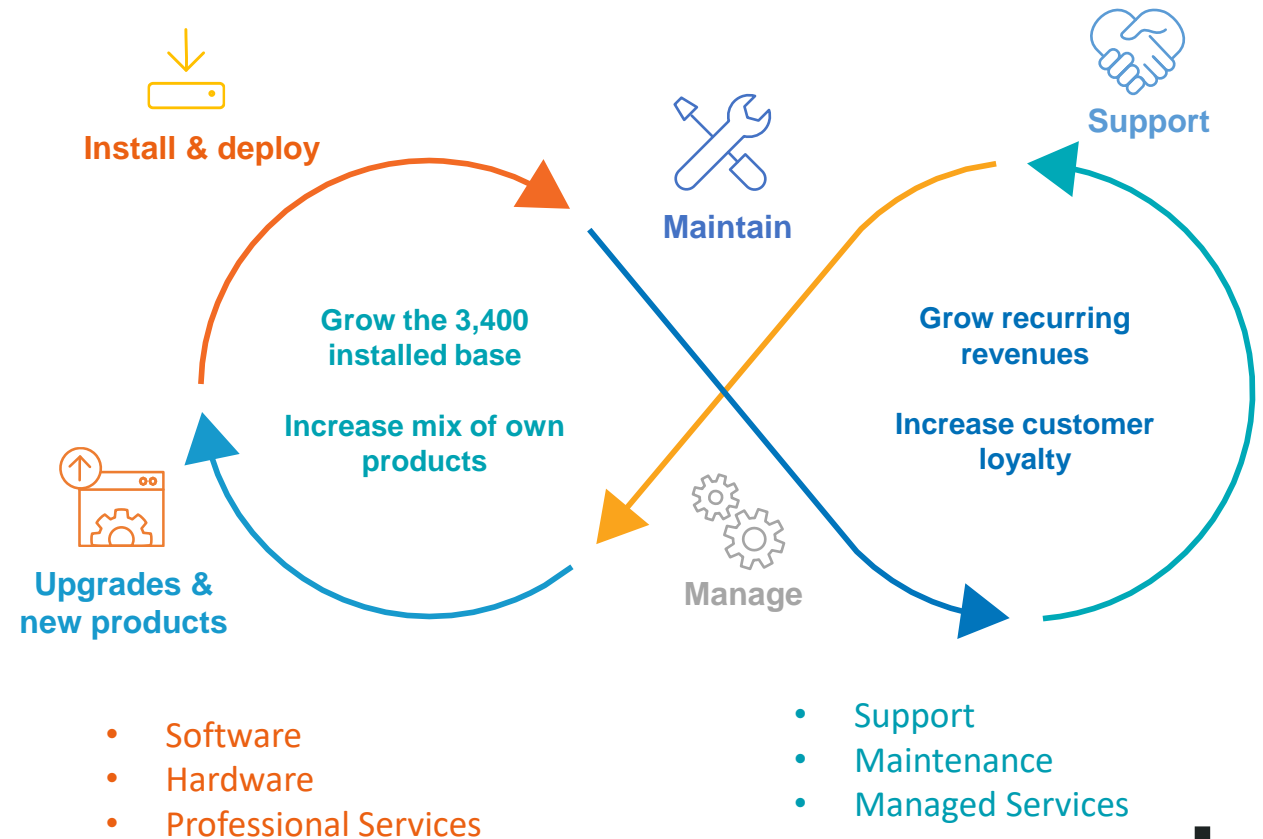
Our Customers



Our Solutions



Our Revenue Streams



Overview



Very challenging period

**Resilient
results**

**Exit of loss-making
UK Dynamics
subsidiary**

**£6m of new funding
secured in April**

**Stronger focus on own
IP sales**

**Earnings and cash
seasonally weighted
to H2**

Coronavirus Impact



- Smooth transition of operations to home-working across all geographies
- All customer support operations were fully maintained as normal
- Swift action to conserve cash and implement cost-savings
 - utilised government support schemes, including furlough, deferred tax
- National government 'lockdowns' across UK and Europe impacted sales processes and access to customer sites:
 - smaller ERP deals and services in particular were affected
 - larger IT projects have typically continued, benefiting K3 | fashion
- Activities in the Far East (Global Accounts) were less affected and have grown
- Beginning to see more deals closing

H1 Financial Key Points

Six months to 31 May (£m)	H1 2020	H1 2019 restated
Revenue from continuing operations	27.2	27.8
- <i>Recurring revenues</i> ¹	20.6	20.3
Gross profit	16.6	16.0
- <i>Gross profit margin</i>	61.0%	56.9%
Adj. EBITDA ²	2.6	3.7
Loss before tax ("LBT")	(0.7)	0.1
Discontinued activities LBT	(3.7)	(0.4)
Net cash generated from continuing operating activities	(1.5)	(2.1)
Adj. EPS pence	(9.9)	0.1
Net debt ³	7.4	5.7

- Discontinued activities related to the administration of UK Dynamics subsidiary
- Investment in commercial overheads

2019 restated for IFRS Standards 9,15 and 16 adoption

¹ Recurring revenues comprises maintenance, support and services revenue under a framework agreement > 2 years

² Adjusted Profit from operations plus Development amortization and depreciation

³ Bank borrowings and shareholder loan

Financial Resilience



- High levels of recurring revenue
 - £20.6m (2019: £20.3m)
 - 75.8% (2019: 72.9%)
- Additional £6m of funding raised in April 2020
 - £3.0m increase in bank facilities (total facilities, £13m)
 - £3.0m shareholder loan (repayable at 30 June 2021)
- Net debt position of £3.9m at 30 June 2020 (2019: £6.9m)
 - £8.9m of cash
 - £12.8m of drawdown
- Business seasonality is cash outflow in H1 and inflow in H2
 - H1 outflow less than normal due HRMC & equivalent deferral schemes
 - H2 expected high level of annual renewals with renewal rates c.98%
- Business has adequate liquidity to pass through seasonal low point

Financial Position

£'000	31 May 2020	31 May 2019	30 Nov 2019
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	2,067	2,327	2,107
Right of Use Assets	3,136	4,616	4,058
Goodwill	41,429	51,086	40,467
Other intangible assets	15,190	17,175	14,422
Deferred tax assets	0	1,830	825
Available-for-sale investments	0	98	0
Total non-current assets	62,440	77,042	61,879
<i>Current assets</i>			
Trade and other receivables	16,908	25,228	20,746
Cash and cash equivalents	12,403	8,879	8,226
Total current assets	29,311	34,107	28,972
Total assets	91,751	111,149	90,851
LIABILITIES			
<i>Non-current liabilities</i>			
Lease liabilities	1,959	2,439	2,507
Borrowings	3,000	-	6,262
Provisions	303	427	294
Deferred tax liabilities	1,312	1,592	1,115
Total non-current liabilities	6,574	4,458	10,178
<i>Current liabilities</i>			
Trade and other payables	20,587	25,048	25,128
Current tax liabilities	1,514	61	493
Lease liabilities	1,125	1,889	1,410
Short-term borrowings	16,788	14,594	4,385
Total current liabilities	40,014	41,592	31,416
Total liabilities	46,588	46,050	41,594
Net assets	45,163	65,099	49,257
Working capital	(3,679)	180	(4,382)

- Right of Use Assets increased by £4.1m NBV due to IFRS16 leases
- Impairment of UK Dynamics reduced goodwill by £10.1m and other Intangible assets by £2.1m
- More prudent view of deferred tax assets
- Shareholder loan £3.0m (2019: nil)

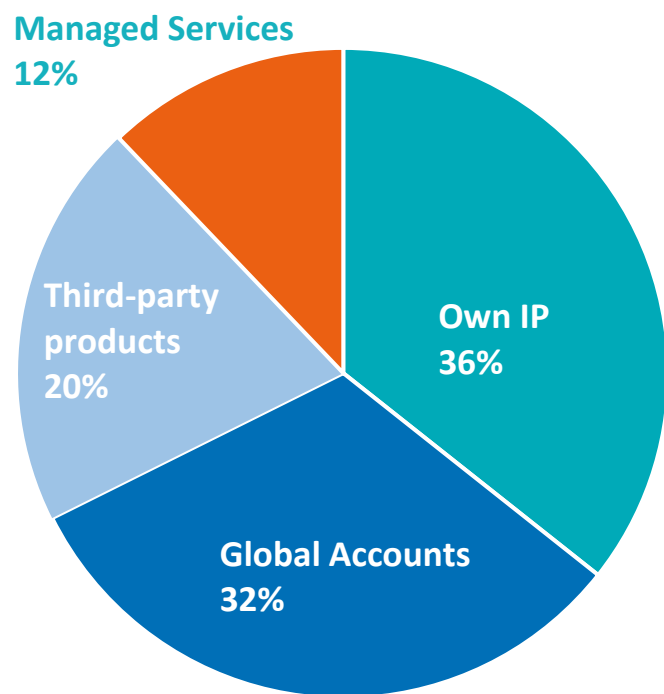
Operational Cash Generation

Reconciliation of net debt (£m)	H1 2020	H1 2019
Net debt at start of period	(2.4)	(0.7)
Loss for period	(5.2)	(1.5)
Working capital movement	0.0	(5.6)
Development costs	(2.3)	(1.7)
Development amortisation	2.0	2.6
Interest paid	(0.4)	(0.2)
PPE additions	(0.3)	(0.3)
Repayment of lease liabilities & interest	(0.8)	(0.8)
PPE & RUA depreciation	1.2	1.3
Other provision / non cash	0.9	1.2
Net debt at end of period	(7.3)	(5.7)

- Working capital impacted by removal of UK Dynamics balances and deferral schemes
- CapDev increased with the investment in K3|imagine platform

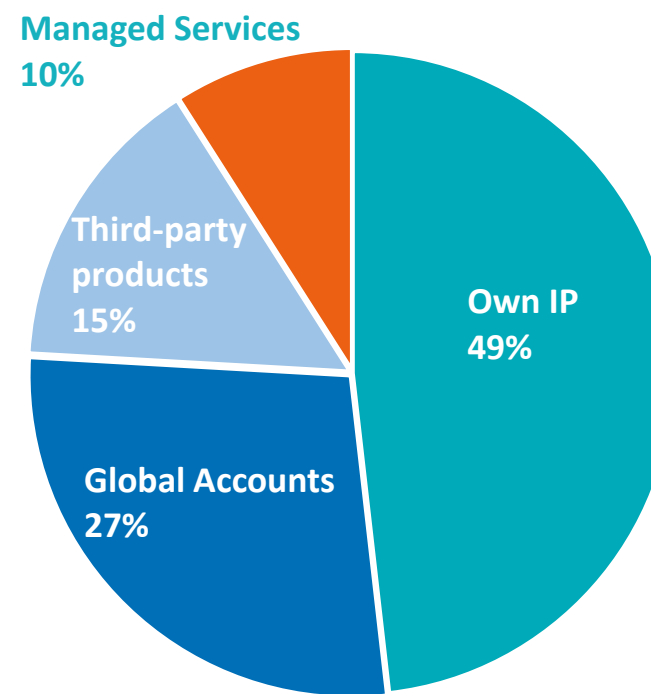
Segmental Analysis – Continuing Activities

Revenue



Total
£27.2m

Gross Profit



Total
£16.6m

Diversified Customer Base

- 3,400 customers
- Top 5 excluding Global Accounts

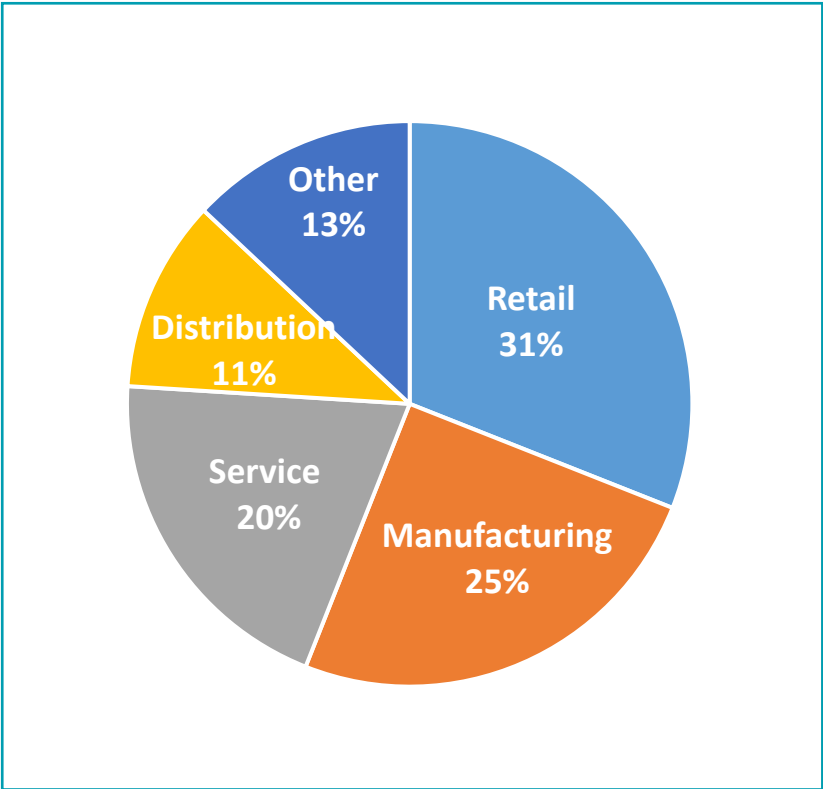
By income



SANMAR



Revenue by category



Revenue by customer location*

UK	37%
Europe	46%
MEA	12%
USA	3%
Rest of World	2%

*Year end 30 November 2019 Continuing Activities

H1 Performance

Own IP

Revenue: £9.7m 0%
Gross profit: £8.0m +13%
Gross margin: 82.5%

- K3 | fashion
- K3 | pebblestone
- Point of Sale (POS)
- Legacy
- K3 | imagine
- K3 | dataswitch
- Private cloud

- K3 | fashion - 4 deals worth combined £1.0m secured via channel partners (H1 2019: 4 deals worth £0.2m)
- K3 | imagine – now in second year of sales since launch closed £0.8m deals (FY2019: £0.6m)
- Customers in UK visitor attraction sector closed sites, and retail POS customer in Nordics and Europe suffered
- Markets beginning to open up with 2 K3 | fashion deals June/July 2020

Global Accounts*

Revenue: £8.7m +18%
Gross profit: £4.0m +28%
Gross margin: 52.8%

- International franchisees of IKEA Concept

- Franchisor classified K3 as a critical supplier
- Far East far less 'locked down' than Europe/UK
- Strong trading performance and further growth expected in H2
- Increased chargeability
- Increased resources to support growth

* Customer specific solution, exclusive customer base

H1 Performance

Third-party products

Revenue: £5.5m -25%
Gross profit: £2.5m -44%
Gross margin: 44.7%

- SYSPRO
- Sage

- UK manufacturers continued to evaluate SYSPRO products but for post 'lockdown'. Services revenue reduced
- Sage sales suffered from soft UK retail and distribution markets. Low order intake

Managed Services

Revenue: £3.3m -4%
Gross profit: £1.5m -12%
Gross margin: 46.6%

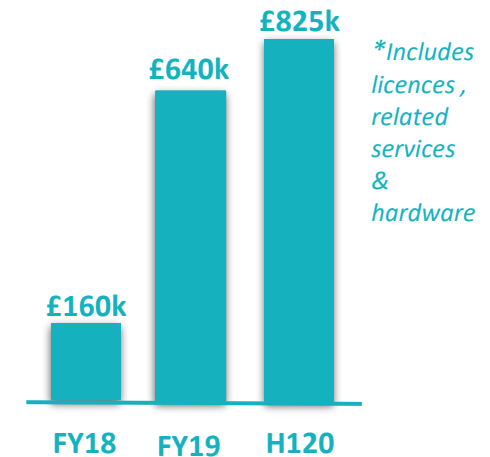
- On-premise managed services
- 3rd party hosting

- Closure of customer offices impacted activity
- Bad debt of £50k – travel business
- New partnerships established
- Indications of post lockdown recovery

Growth Strategy

- Increase recurring revenue and gross margin by increasing sales of own IP
- Leverage channel partner network
 - K3|fashion
- Major opportunity with K3|imagine
 - a market-leading product offering
 - highly relevant to existing customers
 - extend range of apps
 - new customer interest in 'self-service'
- Global Accounts – continued growth
- Disciplined approach to software capitalised development expenditure, c. £4 p.a

K3|imagine – sales*
growth since launch



K3|imagine pipeline



* Unweighted pipeline



Summary and Outlook



- Group generates a high level of recurring revenue, driving resilience
- K3|imagine is showing encouraging sales momentum and has exciting potential
- Third-party products generate stable, recurring cash flows
- Global Accounts is expected to grow
- Earnings and cash flow is expected to be strongly weighted to H2, in line with traditional seasonality
 - mainly reflects SYSPRO licence and support contract renewals
- Confident that adequate new facilities can be negotiated to meet the Group's needs on expiry of current arrangements in March 2021

A close-up photograph of a person's hands holding a silver tablet. The person is wearing a dark, patterned blazer. The background is out of focus, showing what appears to be a modern interior with large windows. The text 'Supplementary Information' is overlaid in a light blue font on the lower left. A decorative graphic consisting of three overlapping wavy lines in light blue, dark blue, and orange is positioned on the right side of the page.

Supplementary Information

Major Shareholders at 31 May 2020

Shareholder	Holding
Kestrel Partners	24.06%
PJ Claesson	22.89%
Canaccord Genuity	13.96%
Liontrust	11.1%
Richard Griffiths	10.55%
Lombard Odier	3.80%

- The number of shares in issue is 42,946,665
- The Company's securities are not traded on any exchange or trading platform other than AIM
- There are no restrictions on the transfer of any of the shares

K3|imagine Self-service



K3|pop

Simple Online Shop

Simple online shopping, including Click & Collect and Delivery, and integrated card payment.

Built in response to Covid-19. It's a simple solution, based on proven K3|imagine technology.

K3|self-order

Safe and secure self-ordering

Browse through a menu, place an order and pay with their own device by simply scanning a QR code or using the device's NFC feature.

No software installation required

K3|kiosk

Easy in-store self service

An easy way to browse items, place an order and make payments via an in-store kiosk.

Kiosks can also be used to advertise, collect data, print receipts, offer discounts and take payments.

K3|self-checkout

Efficient self-checkout

An in-store, rapid self-checkout solution. Customers simply scan their own shopping cart or bag in an instant at the RFID powered checkout.

K3|imagine – our own ‘cloud-native’ platform

Encompasses
the 3 core
models of cloud
computing:



Built on the
same
technologies and
practices
introduced by



K3|imagine – our own ‘cloud-native’ platform

Increased connectivity to employees, customers, suppliers and partners is fueling business growth

