INTERIM RESULTS

K3 Business Technology Group plc

Interim Results

For the six months to 31 May 2024

17 July 2024

PRESENTATION TEAM

Eric Dodd, CEO

Appointed as CEO in July 2024, having joined as CFO in April 2023

Formerly CFO of ATTRAQT Group Plc and of KBC Advanced Technology plc

Significant experience within the technology sector

Lavinia Alderson, CFO

Appointed as CFO in July 2024

Joined K3 in 2020 as Group Corporate Finance Director

Previously Finance Director of Concept Life Sciences

Before that Head of Finance UK Support & Governance at Cape plc

Tom Crawford, Non-executive Director

Moved to NED role in July 2024, having been Executive Chairman; joined as Chairman in October 2020

Over 20 years' experience in the software industry in the UK, Europe and North America

Successful track record of growing international product-based software businesses

H1 2024 OVERVIEW

- **Overall results in line with expectations**
- **Group revenue was impacted by the expected reduction in activity at Global Accounts**
  - remedial actions taken were effective
- **Annual recurring revenue (“ARR”) ahead at £24.9m from £24.7m**
- **Gross profit margin increased to 64% from 61%**
- **Strong financial discipline maintained**
  - admin expenses for H1 were £3m lower than in H1 2023
- **Adj. operating loss down £0.6m to £1.2m (H1 2023: loss of £1.8m)**
  - profit is typically weighted to H2
- **Net cash at 31 May 2024 of £2.0m (H1 2023: £2.9m)**
  - after reorganisation costs of £1.2m (H1 2023: £0.4m)
- **Board’s focus is on cash generation and shareholder value**

K3

Successful focus on cost base, gross margins, and cash generation

Six months ended 31 May Continuing operations	2024	2023	Change
Revenue	**£15.5m**	£20.3m	**- 24%**
Gross profit	**£9.9m**	£12.4m	**- 20%**
Gross margin	**64%**	61%	**+ 3%**
Adj. operating loss	**(£1.2m)**	(£1.8m)	**+ £0.6m**
Loss before tax	**(£2.7m)**	(£2.9m)	**+ £0.2m**
Net cash	**£2.0m**	£2.9m	**- £0.9m**
Reported loss per share	**(6.6p)**	(6.5p)	**- 0.1p**
Adj. loss per share from continuing operations	**(4.3p)**	(5.4p)	**+ 1.1p**

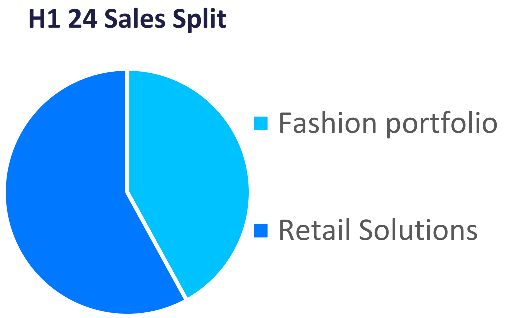
- Revenue decrease principally reflecting:
  - anticipated sharply lower revenue at Global Accounts
  - continued managed decline at Retail Solutions
- Mitigating actions were effective at reducing costs
- Overheads reduced by £3.0m (£4.0m+ annualised)
- Adjusted operating loss improved by £0.6m, supported by:
  - higher/maintained gross margin at the two divisions
  - lower cost base from push for simplification
  - focus at the Business Unit level
- Net cash down due to exceptional reorganisation costs of £1.2m (H1 2023: £0.4m)

K3 PRODUCTS – Fashion portfolio and Retail Solutions

Gross margin higher

Six months ended 31 May (£m)	H1 24	H1 23
Revenue	**6.4**	6.4
Recurring revenue **+23%**	**5.8**	4.7
Recurring revenue (“ARR”) from fashion and apparel products	**5.9**	5.8
Net revenue retention rate (fashion)	**101%**	116%
Net revenue retention rate (retail solutions)	**105%**	103%
Gross profit	**5.1**	5.0
Gross margin %	**80%**	78%
Adjusted operating loss	**(1.3)**	(3.5)

- **Fashion portfolio (sold via business partners) – significant licence expansion with an existing strategic customer. Customer buying pattern changing; phasing of projects, with departmental solutions implemented at a later stage**
- **Retail Solutions: expected revenue decline, but NRR performed and gross margin at 76%**
- **Meaningful savings from decision to integrate K3 ViJi within K3 Fashion’s existing CSR and the reduction of development overhead in Retail Solutions**



Performance affected by Global Accounts

Six months ended 31 May (£m)	H1 24	H1 23
Revenue	**9.1**	13.9
NexSys net revenue retention (before price increase at renewal)	**101%**	109%
Gross profit	**4.8**	7.4
Gross margin	**52%**	53%
Adjusted operating profit	**1.0**	3.0

- **Revenue and profit down as a result of significantly lower activity at Global Accounts as expected (specialist services to IKEA overseas franchisees and platform)**
  - gross margin was broadly maintained in this difficult period
- **Global Accounts consulting and development resource now more appropriately sized**
- **NexSys signed four new logo wins and trialled an annual licence fee model**
  - healthy sales pipeline

- **UK's longest established SYSPRO expert**
- **Over 400 customers**
- **IoT and machine connected**

Focus is on cash and shareholder value

K3 Products

- High margin, recurring income
- Growth opportunity with Fashion portfolio

Third-party Solutions

- Generates significant recurring cash flows from large installed customer base at NexSys

- **Cost base has been reduced, especially at Global Accounts, where activity is expected to remain subdued**
- **Significant earnings and cash flows to come in H2**
  - software licence and maintenance and software contract renewals fall due in Q4 – historically c.98% renewal rate
- **Balance sheet is robust**
  - net cash of £2m, which is expected to increase
- **Group remains on track to generate an improved adjusted operating profit and to perform in line with the Board's expectations for FY24**

SUPPLEMENTARY INFORMATION

- Group Overview
- Financial Position
- Cash Flow





- BUSINESS CRTICAL SOFTWARE SOLUTIONS AND SERVICES
  - **Focus is on transitioning to higher-quality recurring revenue and cashflow**

K3 Products

- High growth opportunity in Fashion and apparel sector
- Gross margin 80% (FY23 78%)
- Annual recurring revenue

- Class-leading solutions for fashion and apparel industry (the "Fashion portfolio")
- Flagship product, K3 Fashion, endorsed by Microsoft
- Other products: stand-alone point-of-sale retail solutions ("Retail Solutions") and solutions for the visitor attraction market

- NexSys is a leading UK added-value reseller and SI (System Integrator) of SYSPRO ERP for UK manufacturers and distributors. Its solutions are enriched with K3 modules and integration tooling
  - large UK customer base: strong cash flows
- Global Accounts provides specialist services to support the IKEA overseas franchisees and platform

Third-party Solutions

- Strong cash flows
- Gross margin 52% (FY23 53%)

FINANCIAL POSITION

K3

Assets	£'m	H1 24	H1 23
Non-current assets			
Property, plant and equipment		1.1	1.9
Right-of-use assets		0.8	0.7
Goodwill		24.8	25.0
Other intangible assets		1.5	2.4
Deferred tax assets		0.2	0.9
Total non-current assets		28.4	30.9
Current assets			
Stock		0.3	0.5
Trade and other receivables		6.8	11.1
Forward currency contracts		-	0.1
Cash and short-term deposits		3.2	4.7
Total current assets		10.3	16.4
Total assets		38.7	47.3

Liabilities	£'m	H1 24	H1 23
Non-current liabilities			
Lease liabilities		0.1	0.0
Provisions		0.2	-
Deferred tax liabilities		0.2	1.1
Total non-current liabilities		0.4	1.1
Current liabilities			
Trade and other payables		11.5	12.1
Current tax liabilities		0.4	0.3
Lease liabilities		0.8	0.8
Borrowings		1.3	1.8
Provisions		-	0.8
Total current liabilities		**14.0**	**15.8**
Total liabilities		**14.4**	**16.9**

- **Net cash of £2.0m (H1 2023: £2.9m)**
  - **Bank facility: up to £3.0m, incl. overdraft facility**

- **Trade and other receivables balance lower due to improved collections and more prudent revenue recognition**

CASH FLOW – WEIGHTED TO H2

£'m	H1 24	H1 23
Net cash generated from operating activities	(5.8)	(2.8)
Cash used in investing activities	(0.4)	(0.8)
Cash from financing activities (excl. loans)	(0.2)	(0.7)
Free cash flow	(6.4)	(4.3)
Change in cash and cash equivalents	(5.1)	(2.5)
Opening net cash	8.3	7.0
Closing net cash	**2.0**	**2.9**

- **After exceptional reorganisation costs of £1.2m (£0.4m), £0.7m Fashion unwind and £1.3m lower depreciation, amortisation and other costs.**
- **More disciplined investment spend**
- **Continued reduction in lease costs**
- **Group cash flow is weighted to H2**