



K3 Business Technology Group plc

Preliminary Results for the 12 months to 31 November 2020

30 March 2021

Presentation Team



Tom Crawford, Chairman

- Appointed Chairman end October 2020, interim CEO March 2020
- 20 years of main market listed small cap software business experience
- Experience of growing international product-based software businesses
- Former CEO of Aptitude Software Group Plc



Marco Vergani, CEO

- Appointed 30 March 2021
- Over 30 years in technology, principally senior commercial sales in Europe, Far East and USA
- Extensive retail, consumer and e-commerce experience (recently AI driven personalisation)
- IBM VP Business Process Outsourcing EMEA, then Digital River SVP Global Sales & Account Mgt



Rob Price, CFO

- Appointed CFO in October 2016
- 20 years' experience in senior financial roles, primarily in retail, manufacturing and distribution
- Significant experience in driving business development
- Qualified as a Chartered Accountant with Ernst & Young

Business Overview

- Well-established provider of mission-critical business software and cloud solutions to the supply chain sector
 - installs, supports and maintains own products and third-party products (enriched with K3-Intellectual Property “IP”)
 - multiple deployment options, including on-premises and SaaS
- c.76% of annual revenue is recurring / predictable
- Large, global customer base – c.61% of revenue is non-UK
- Focus is on growing own-IP product sales to drive recurring revenue, margins and cash generation

2020 REVENUE *

£48.8m

(2019 (restated): £50.1m)

2020 ADJ. EBITDA *

£4.0m

(2019 (restated)*: £7.1m)

C 2,400 customers

c. 470 staff

**Continuing Activities*

Overview

Resilient results in
challenging period
+
Important strategic
decisions taken
+
Clear commercial focus

Simplified the Group:
- successful sale of
managed services
unit Feb 2021
- exited UK Dynamics
practice April 2020

Group now comprises
3 profitable segments*
(* roughly equal size)
+
High levels of
geo-diverse &
predictable revenue

Group now on firmer
financial footing
- re-financed and
Balance Sheet
strengthened

Global Accounts
growth
+
K3 | fashion expansion
+
K3 | imagine market
led development

New CEO appointed
(strong in sector &
commercial growth)
- will re-evaluate
market strategy for
K3 | imagine

Resilient in face of Coronavirus



- Smooth transition of operations to home-working across all geographies
- All customer support operations were fully maintained as normal
- Recurring / predictable revenue was resilient at £37.2m, representing 76% of total revenue (2019: £36.7m; 73%)
- Benefited from both mission-critical products and portfolio effect of customer base
 - although new business in the UK and Europe was impacted by lockdown restrictions
- Cost savings and government assistance schemes put in place

Financial Key Points

(£m)	FY 2020	FY 2019
Revenue from continuing operations	48.8	50.1
- <i>Recurring & predictable revenues¹</i>	37.1	36.7
Gross profit	28.7	28.8
- <i>Gross profit margin</i>	58.8%	57.4%
Adj. EBITDA ² (£'m)	4.0	7.1
Loss before tax ("LBT") from continuing operations (£'m)	(20.9)	(0.7)
Discontinued activities profit/(loss) after tax (£'m)	(0.2)	(14.3)
Net cash generated from Continuing operating activities (£'m)	8.7	5.5
Adj. EPS from continuing operations (p)	(4.8)	2.6
Net debt ³ (£'m)	(1.9)	(2.4)

- Discontinued activities related to the administration of UK Dynamics subsidiary and the sale of Starcom post year-end

2019 restated for the administration of Dynamics and sales of Starcom (Managed Services) which are presented as discontinued operations.

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 Position

ASSETS	£'000	£'000
<i>Non-current assets</i>	30 Nov 2020	30 Nov 2019
Property, plant and equipment	1,866	2,107
Right of Use Assets	2,719	4,058
Goodwill	26,132	40,467
Other intangible assets	10,271	14,422
Deferred tax assets	935	825
Total non-current assets	41,923	61,879
<i>Current assets</i>		
Trade and other receivables	12,195	20,746
Cash and cash equivalents	9,306	8,226
Assets classified for sale	6,899	-
Total current assets	28,400	28,972
Total assets	70,323	90,851
LIABILITIES		
<i>Non-current liabilities</i>		
Lease liabilities	1,735	2,507
Borrowings	-	6,262
Provisions	416	294
Deferred tax liabilities	889	1,115
Total non-current liabilities	3,040	10,178
<i>Current liabilities</i>		
Trade and other payables	19,145	25,008
Current tax liabilities	1,274	493
Lease liabilities	925	1,410
Short-term borrowings	12,443	4,385
Current provisions	9	120
Liabilities – assets for sale	3,572	-
Total current liabilities	37,368	31,416
Total liabilities	40,048	41,594
Net assets	29,915	49,257

- Impairment of Sage, legacy POS in year
- More prudent view of deferred tax assets
- Available for sale assets and liabilities related to Starcom Technologies disposed on in February 2021

	£'000	£'000
	30 Nov 2020	30 Nov 2019
Cash (incl. in Starcom)	10.5	8.2
Overdrafts and revolving credit facility	(9.7)	(10.6)
Shareholder loan	(3.0)	0.0
Warrants on shareholder loan	0.3	0.0
Total	(1.9)	(2.4)

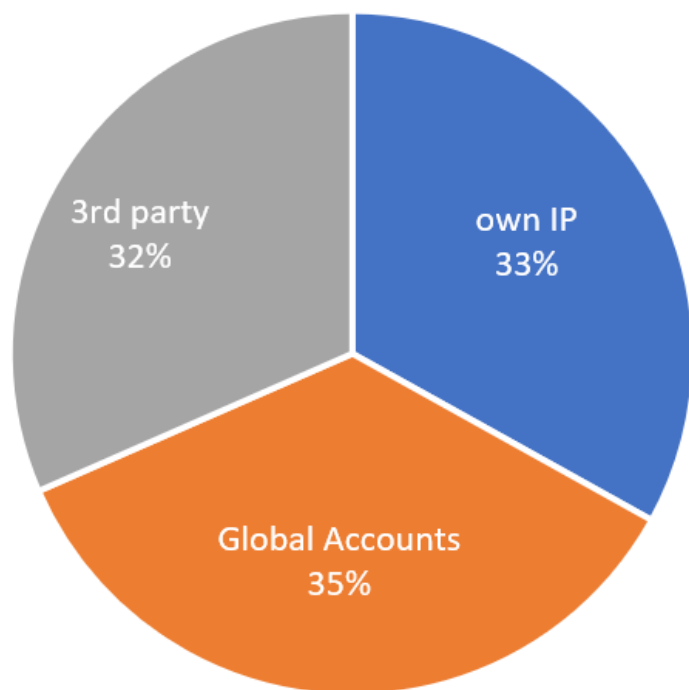
Operational Cash Generation

Reconciliation of net debt (£m)	2020	2019
Net debt at start of period	(2.4)	(0.6)
Adjusted profit for period	2.7	4.0
PPP and ROU asset depreciation	2.5	2.6
Working capital movements	4.1	(0.3)
Interest paid	(0.6)	(0.4)
Tax paid	(0.4)	(0.2)
Development costs	(4.5)	(4.1)
PPE additions	(0.7)	(0.7)
Repayment of lease liabilities and interest	(2.1)	(1.9)
Dividend	-	(0.7)
Cashflow from continuing operations	1.0	(1.7)
Cashflow from discontinued operations	(0.5)	(0.1)
Net debt at end of period	(1.9)	(2.4)

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

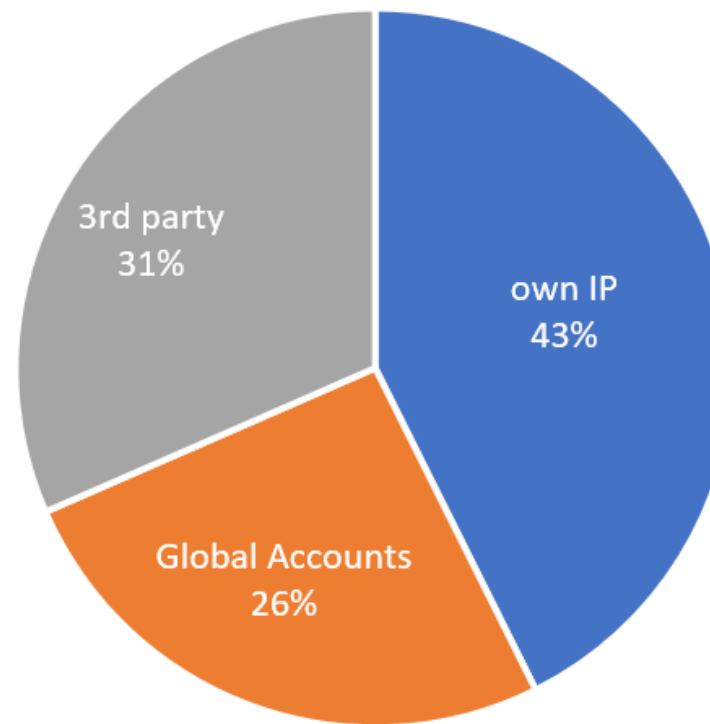
Segmental Analysis – Continuing Activities

Revenue



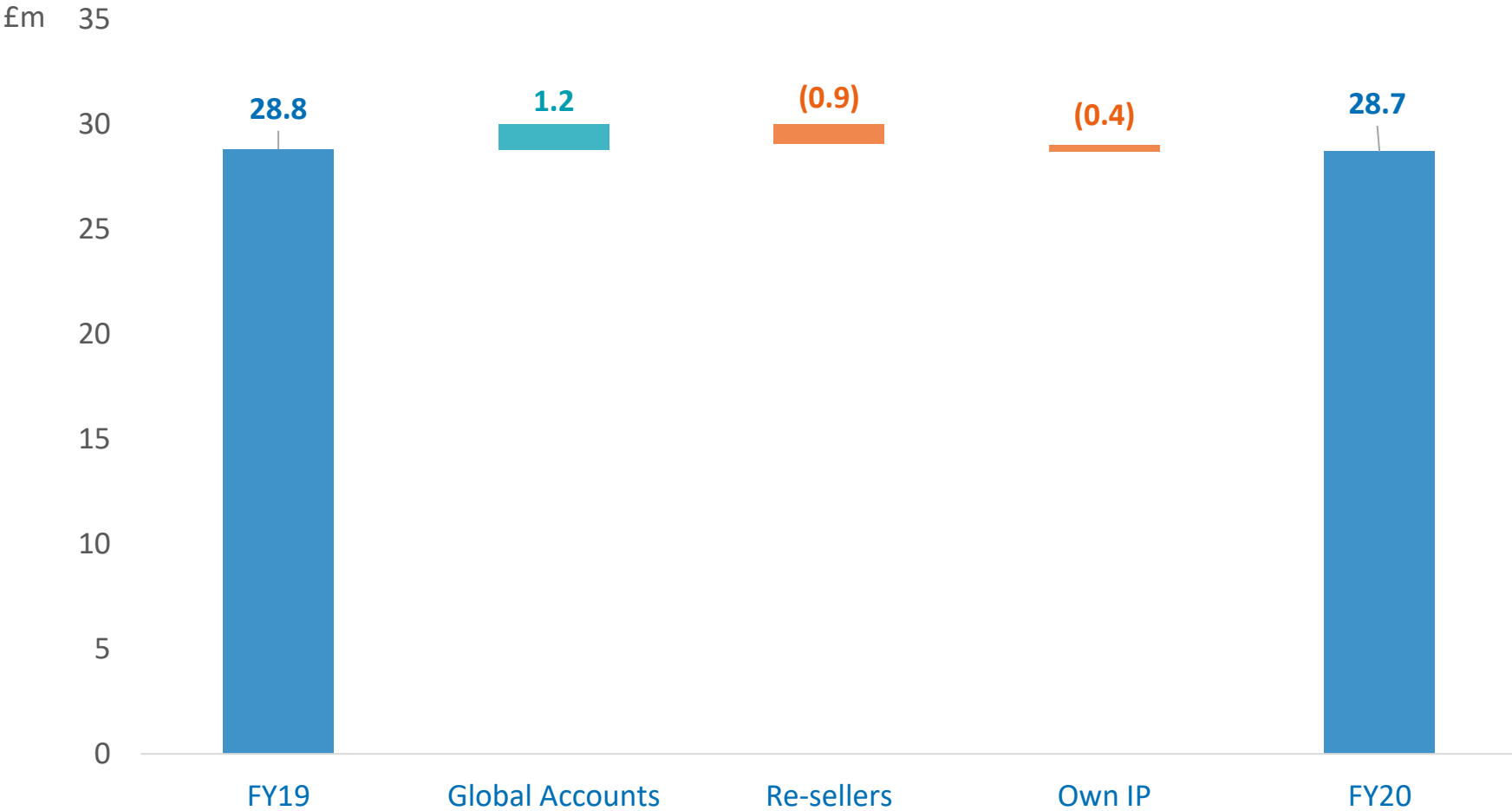
FY 2020
£48.8m

Gross Profit



FY 2020
£28.7m

Gross Profit Bridge



Segmental Performance in FY 2020

Own IP

Revenue: £16.1m -9.7%
Gross profit: £12.2m -3.2%
Gross margin: 75.8%

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

- Retail POS customers in Nordics and Europe suffered as outlets were closed by lockdown legislation
- Visitor attractions customers in UK closed by lockdown legislation

Global Accounts*

Revenue: £17.3m +9.7%
Gross profit: £7.4 +20.5%
Gross margin: 43.0%

- International franchisees of IKEA Concept

- Franchisor classified K3 as a critical supplier
- Far East far less 'locked down' than Europe/UK
- Expansion into new geographies
- Increased chargeability

* Customer specific solution, exclusive customer base

FY20 Performance

Third-party products

Revenue: £15.4m -6.5%
Gross profit: £9.1m -9.0%
Gross margin: 58.8%

- SYSPRO
- Sage

- Sage sales suffered from soft UK retail and distribution markets. Low order intake
- SYSPRO far more stable due to high recurring revenues and manufacturers less impacted by coronavirus and biased towards H2

Discontinued Activities were not own IP centric

- UK Dynamics was placed in administration in March 2020
 - loss-making
 - retail-focused with exposure to UK High Street
- Post-year end in February 2021 Starcom (Managed Services unit) was sold to Node4 for £14.7m
 - not a strategic sector for K3
 - achieved a good valuation

UK Dynamics	£'000 30 Nov 2020	3'000 30 Nov 2019
Revenue	3.8	19.0
Loss from operations	(1.1)	(2.6)
Cash flow from operations	(1.6)	0.4
Starcom	£'000 30 Nov 2020	£'000 30 Nov 2019
Revenue	10.2	10.0
Profit from operations*	0.9	1.0
Cash flow from operations	1.1	(0.1)

Summary and Outlook



- Group now comprises three profitable segments of roughly equal size
- High level of geo-diverse recurring/predictable revenue, driving resilience
- Q1 trading in line with same period last year
- New CEO with strong sector experience and commercial growth focus
 - Drive commercialisation of existing products
 - Will be market driven with stronger product management
- Global Accounts is expected to grow further; representing excellent reference for enterprise sales
- Third-party products generate stable, recurring cash flows in H2
- K3|imagine has exciting potential as an enterprise-class platform
 - Re-evaluating market strategy for K3|imagine



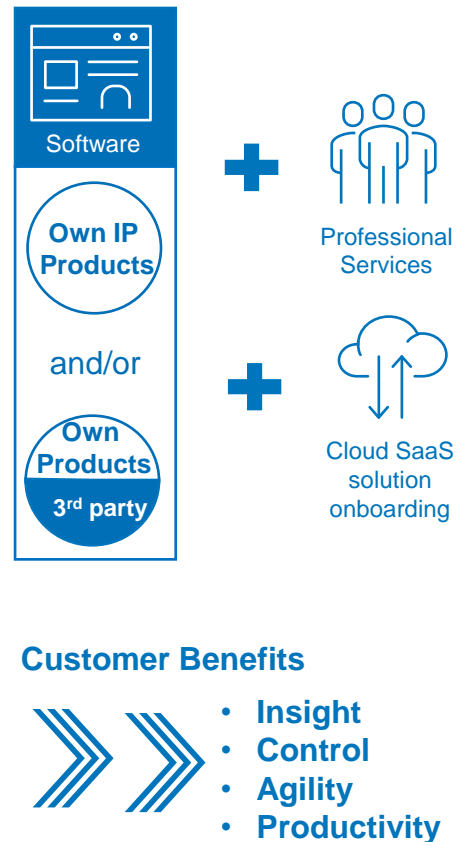
Supplementary Information

K3's Model

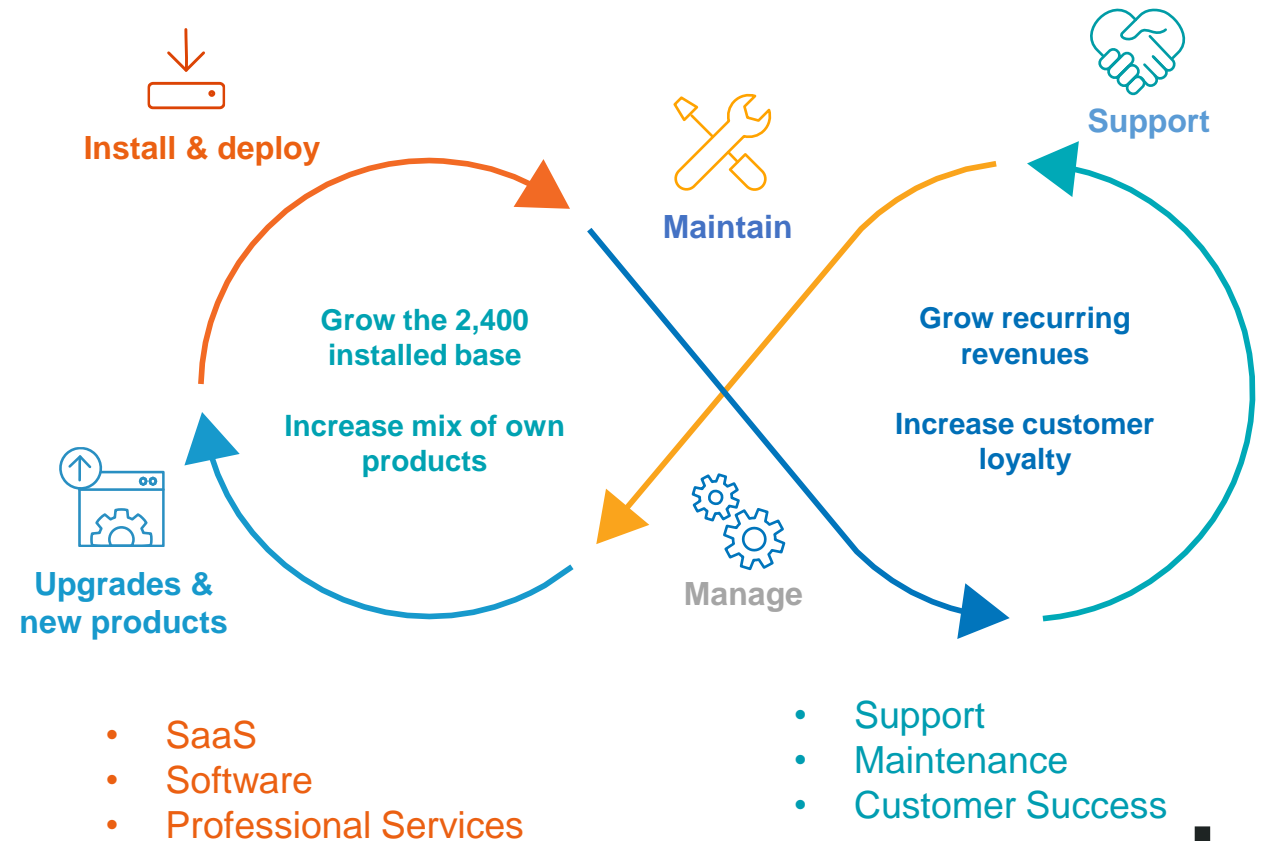
Our Customers



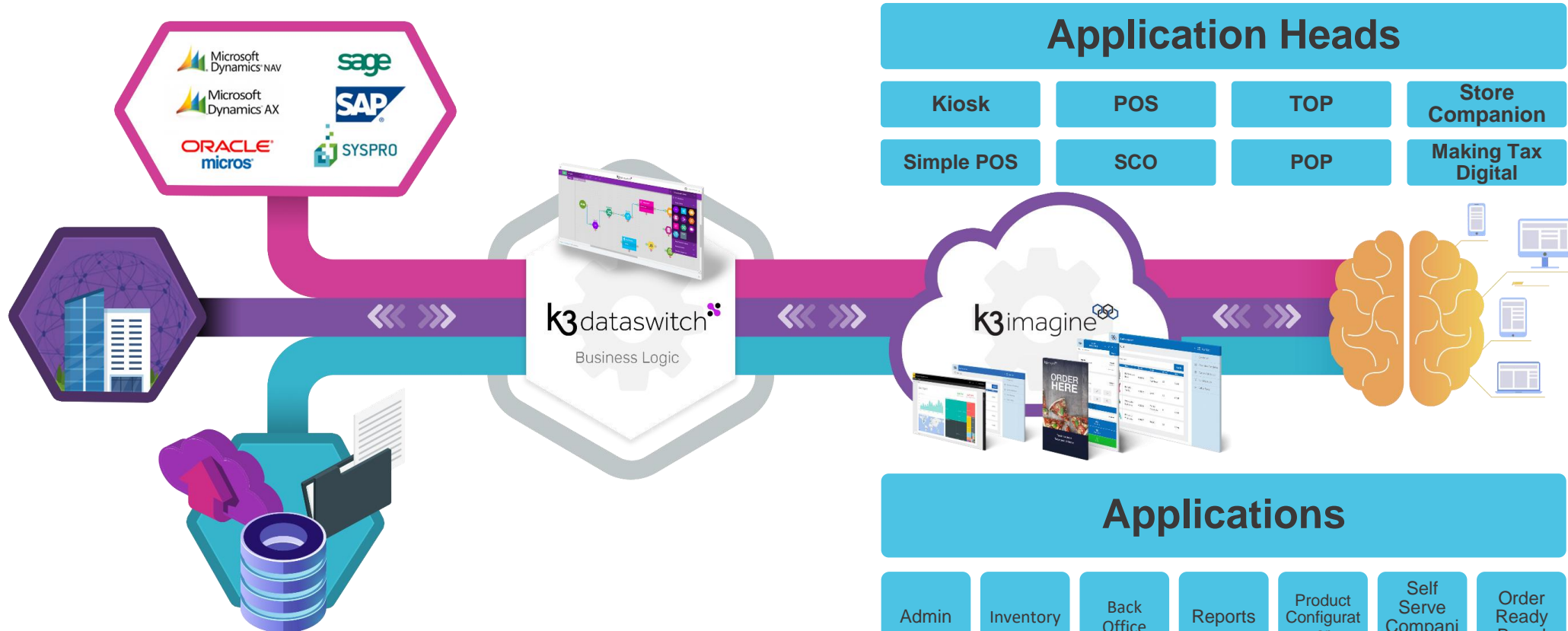
Our Solutions



Our Revenue Streams



K3 Imagine is a complete suite of applications built upon a modern cloud-based, microservices architecture



Core benefits

Speed - rapid to deploy

Future ready - always on the latest version

Agnostic - works with any operating system

Agile - add or remove applications as needed

Scalable – from SMB to Enterprise

Commerce Platform

k3

Major Shareholders at 28 Feb 2021

Shareholder	Holding
Kestrel Partners	24.3%
PJ Claesson	22.9%
Canaccord Genuity	14.2%
Liontrust	11.0%
Richard Griffiths	11.4%

- 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

ESG Scorecard

FY20	K3	Finncap Median for Tech
Environmental		
Energy consumption (MWh/£m)	27	25
CO2 production (Tonnes CO2 per £m turnover)	17	45
Water consumption	Low & not reported	0
Waste production	Low & not reported	0
Environmental policy	Yes	60%
Social		
Employee turnover rate*	17%	13%
% tax paid (CT paid of Continuing PBT)	4%	9%
Has discrimination policy	Yes	68%
Has community outreach policy	No	38%
Has ethics policy	Yes	62%
Governance		
% women on Board	0%	11%
% independent non-executive directors on Board	50%	40%
CEO pay as multiple of UK median	10.5	13
Is CEO/Chairman role split?	Yes	100%
Adheres to QCA code	Yes	95%

Product Development and Industry Thought leadership

Webinar: New Business Models for Sustainability and Circularity in the Fashion Industry

k3 business technologies

CBS COPENHAGEN BUSINESS SCHOOL
HANDELSHØJSKOLEN

