



# K3 Business Technology Group plc

**Interims Results**

**For the six months to 31 May 2023**

30 August 2023



# Presentation Team



## Tom Crawford, Chairman

- Appointed 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
- Former CEO of Aptitude Software Group Plc, global financial management software company



## Marco Vergani, CEO

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



## Eric Dodd, CFO

- Appointed as CFO in April 2023
- Significant experience of the technology sector. Formerly CFO of ATTRAQT Group Plc, specialist in omnichannel, merchandising and personalised product discovery technology for online retailers and brand
- Previously, CFO of Iptor Supply Chain Systems UK Limited, PE-backed software & services business, and CFO of KBC Advanced Technology plc, software and consultancy provider

## Business critical software solutions and services

Focus is on transitioning to higher-quality recurring revenue and earnings

### K3 Products

**High growth opportunity**  
**Gross margin 77% (H1 23)**

- Class-leading solutions for fashion and apparel industry
  - improve business processes covering design, inventory, supply chain management, manufacturing and end-customer experience
- Flagship product, K3 Fashion, endorsed by Microsoft
  - sales via network of business partners
- SaaS-based revenue
- Legacy products in managed run-off

### Third-party Solutions

**Strong cash flows**  
**Gross margin 53% (H1 23)**

- NexSys is a leading UK added-value reseller of SYSPRO ERP for UK manufacturers and distributors. Solution is enriched with exclusive K3 add-ons and backed by market-leading support
  - large customer base generates strong cash flows from annual software licence and support and maintenance contract renewals
- Global Accounts provides specialist services to support IKEA platform and overseas IKEA franchisees

# H1 Overview – driving cash and fashion products



**Overall performance ahead of management expectations**

## Adj. net cash generation

- £2.9m (2022: £1.4m)
- Greater cost discipline

## K3 Products Division

- 20% H1 growth in annualised recurring revenue - fashion and products
- legacy product revenue reduced in line with budget

## Third-party Solutions

- increased profitability
- NexSys strong wins
- Global Accounts lower level of activity

## Cost initiatives

- certain central costs to be allocated to Divisions for tighter cost discipline

## Good progress expected

- earnings & cash H2-weighted
- fashion products; targeting c.30% p.a. growth in recurring revenue in FY23 and beyond

# Financial Key Points

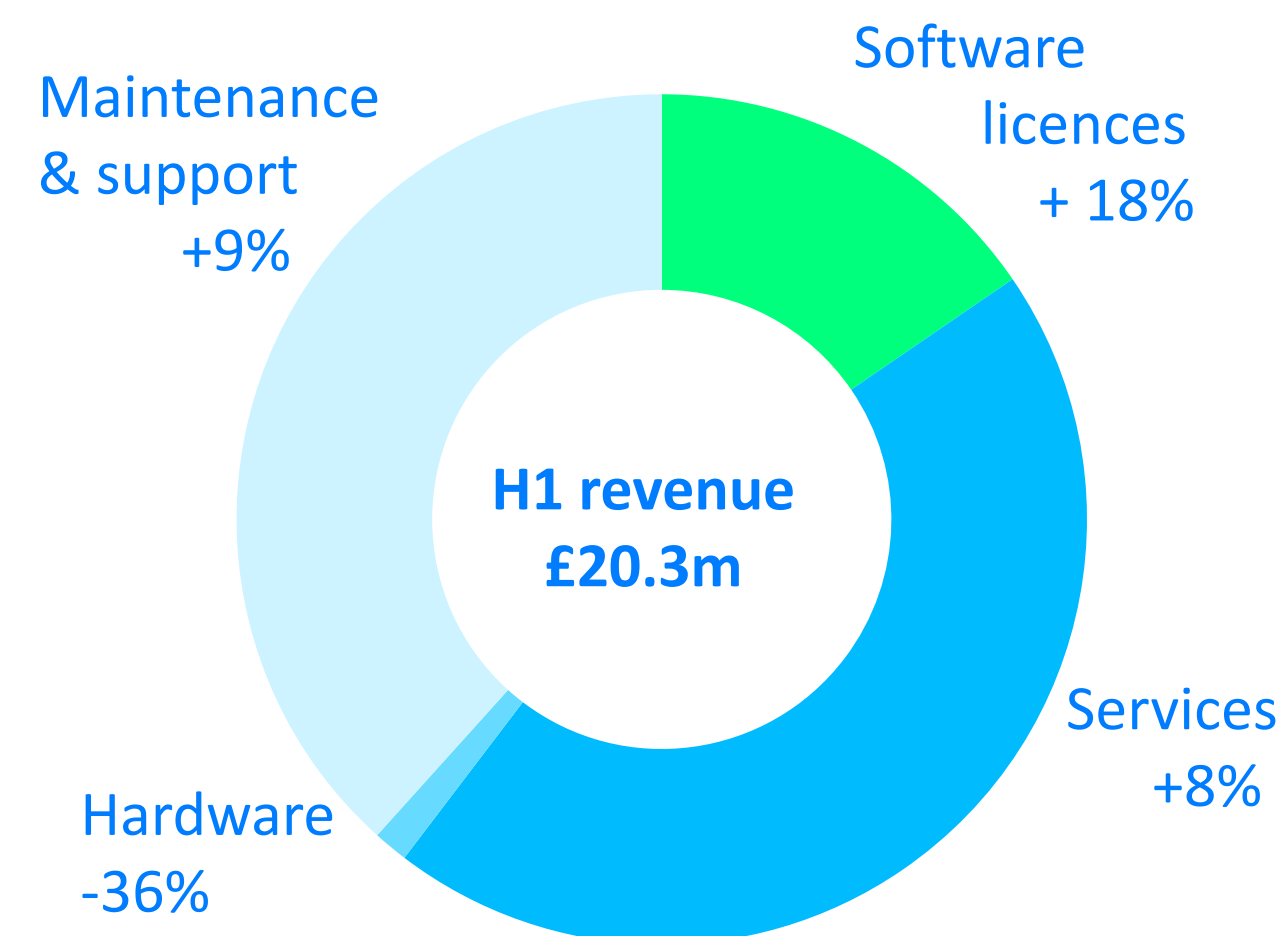
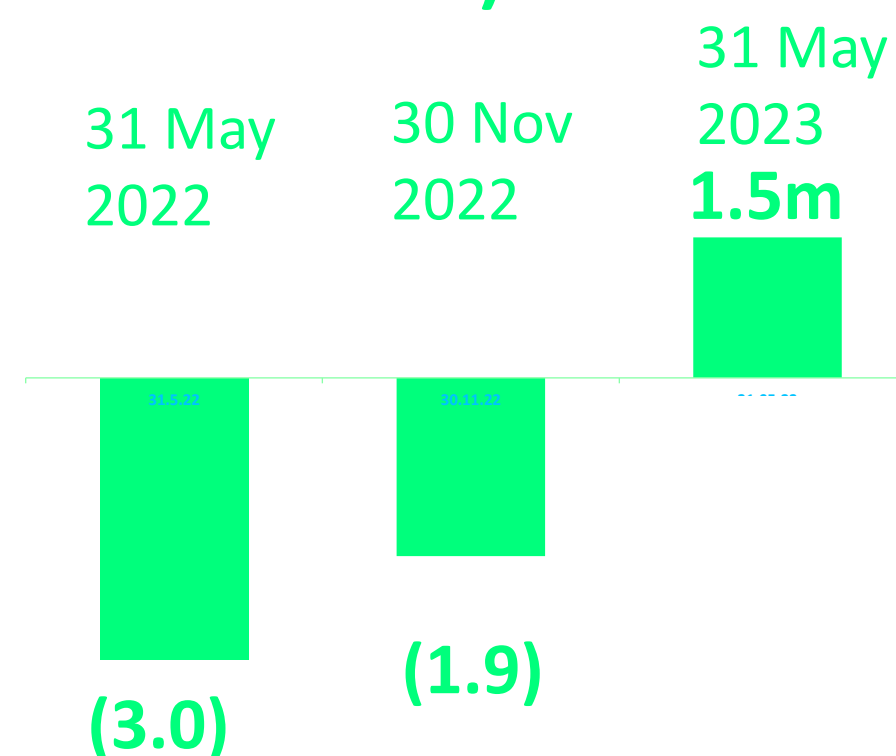


Six months to 31 May 2023 (£'m)	H1 23	H1 22	Change
Revenue	20.3	19.9	+2%
Gross profit	12.4	11.9	+4%
Gross margin	61%	60%	+1 pp
Adjusted operating loss	(0.8)	(1.0)	+20%
Free cash flow	(4.4)	(7.6)	+42%
Adjusted net cash	2.9	1.4	+100%

- **Revenue increased despite c. £1.1m of income not recognised** due to adoption of modern revenue recognition policy
  - income from new strategic fashion and apparel contracts is now recognised over the term of the contract, instead of upfront. This provides better visibility of revenues and aligns with payment inflows
- **Adjusted operating profit/loss** replaced adjusted EBITA as a key KPI – focus on cash
- **Underlying performance improved**
  - adj. operating loss 20% better
  - legacy products revenue attrition but in line
- **Free cash flow improved** – better collections
- **Net cash generation and healthy net cash**
  - adj. net cash at £2.9m (31 May 2022: £1.4m)
  - net cash expected to increase in H2

## Transition to cash generation

(£m annualised)



# Fashion Products – Significant Growth Opportunity



## Fundamental Market Shift

- Brands are moving their models to combine B2B and B2C (vertical integration)
  - this requires sales channels to be integrated and inventory control to be unified
- Generic Enterprise Resource Planning (“ERP”) solutions struggle to address key needs

## K3 strategic products (Fashion/Pebblestone/ViJi) are a compelling solution

- K3 Fashion is winning against SAP, Infor, Oracle - thanks to its bespoke features
  - K3’s Sustainability capabilities further strengthens its market proposition
    - ViJi offers automated certification at order level, which is unrivalled in the market
    - market take-up will be driven by new regulations (in Europe and USA)
    - K3 Fashion CSR capabilities combined with ViJi provide a unique, fully integrated modern solution to address supply chain/sustainability challenges



- Concept
- Design
- Development
- Sampling
- Presales
- Retail planning
- Goods receipt
- Distribution
- Replenishment
- Markdowns
- Outlet

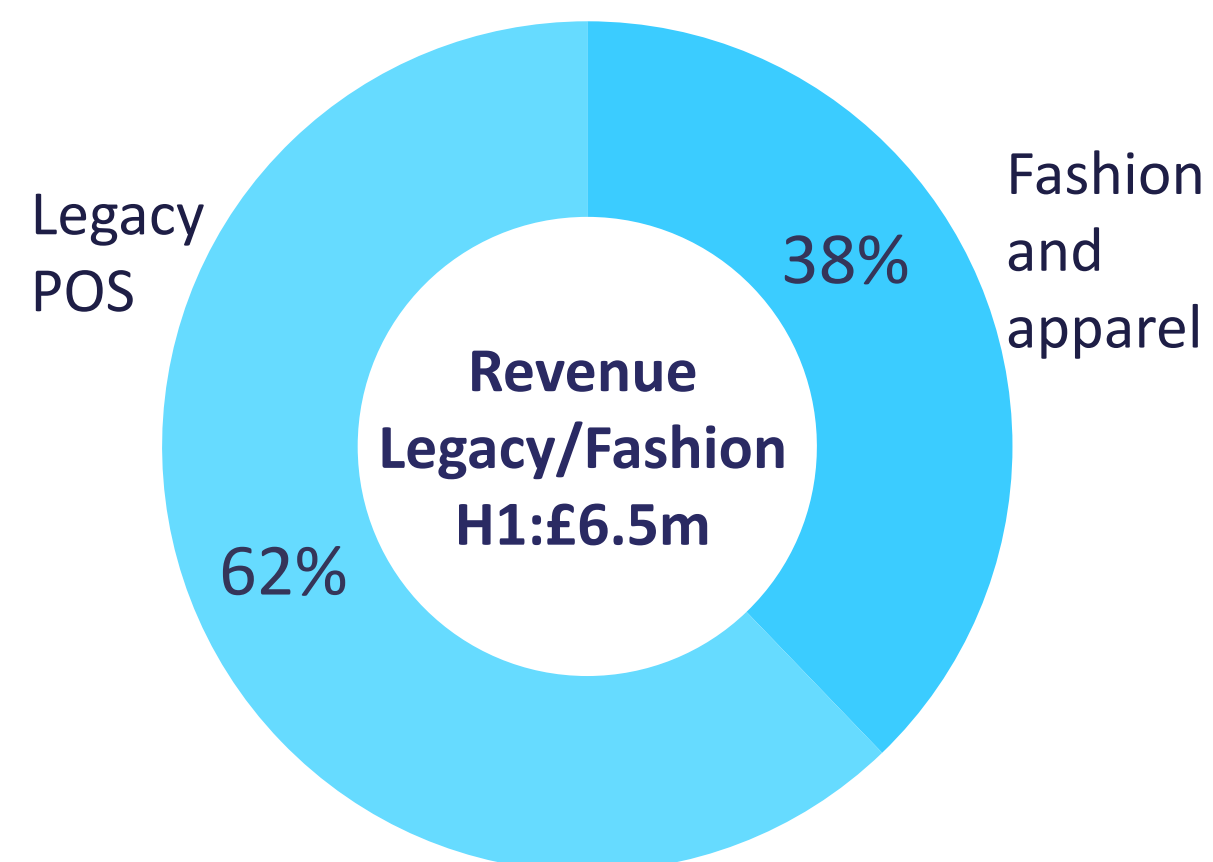
# K3 Products – software licence income growing fast



Six months to 31 May (£m)	H1 23	H1 22
Revenue	6.5*	6.5
Annualised recurring revenue from fashion and apparel products	5.4	-
Net customer retention rate (fashion)	110%	-
Gross profit	5.0	5.2
Gross margin %	77%	80%
Adj. operating profit/(loss)	(2.3)	(1.8)

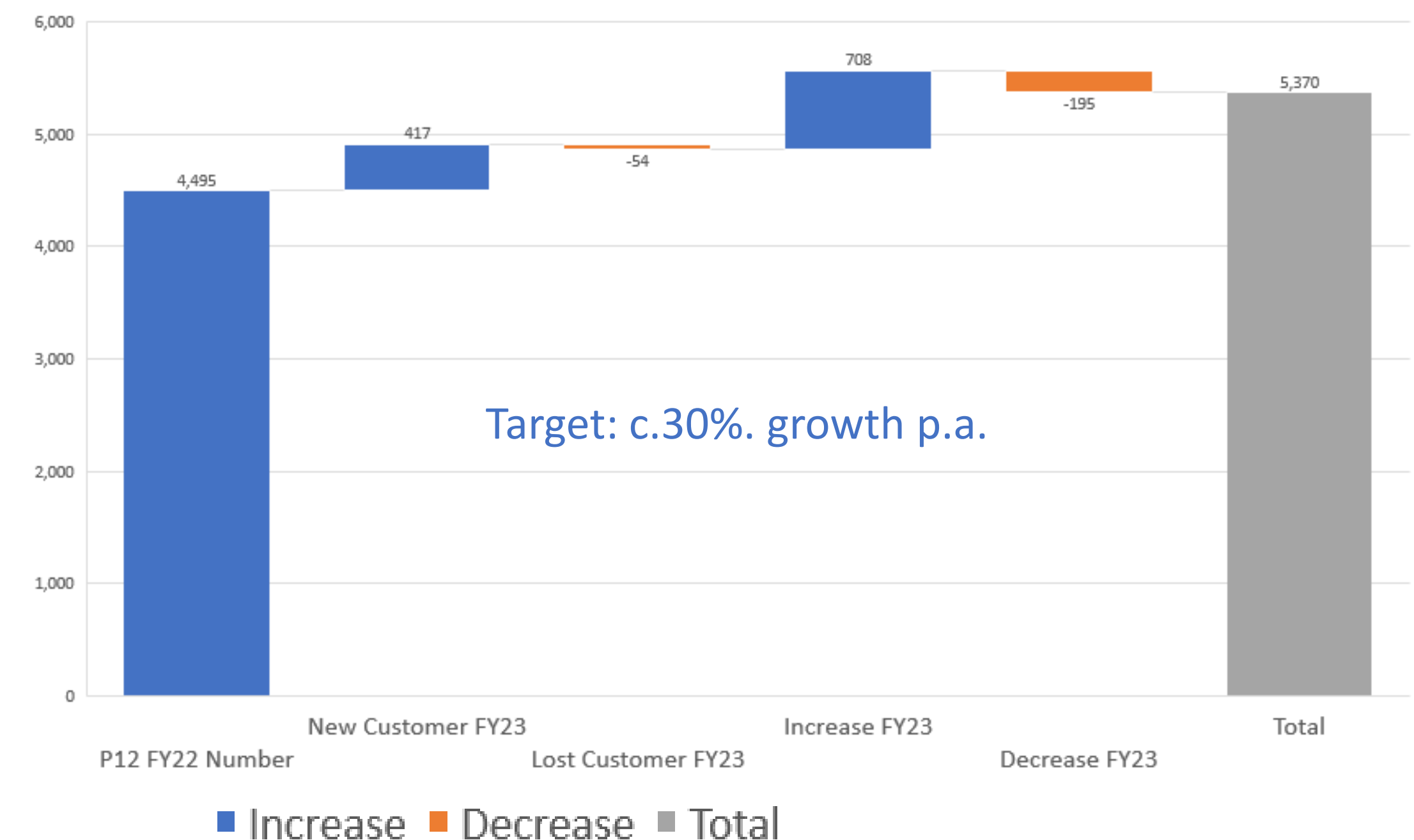
\*c.£1.1m lower revenue in line with new policy

## K3 Products – H1 revenue analysis



- **Fashion and apparel products – 20% growth in annualised recurring revenue in H1**
  - new customer growth 9%; churn c.1%
  - further investment in sustainability functionality
- **Legacy products and K3 Imagine** offset the strong performance from strategic fashion and apparel products
  - K3 Imagine; cash neutral position by year-end

## Fashion and apparel - annualised recurring revenue - £5.4m at 31 May 2023



# Fashion Products – Why We Win



## Completeness of solution

- comprehensive, functionally rich solution, built on Microsoft Dynamics, which is currently leading ERP componentized cloud platform

## An easier upgrade

- integrates with any existing technology, making for easier upgrades and lower total cost of ownership

## Endorsed by Microsoft

- Microsoft endorsement: K3 Fashion is the preferred “add-on” for fashion and apparel globally. K3 was in the Microsoft Cloud for Retail Launch Team

## Domain expertise

- Extensive industry expertise and reference customers

## Software-as- a Service model

- SaaS delivery model/public or private Cloud. Compelling offering also for clients using out-of-support versions of MSFT Dynamics

## Major wins in H1

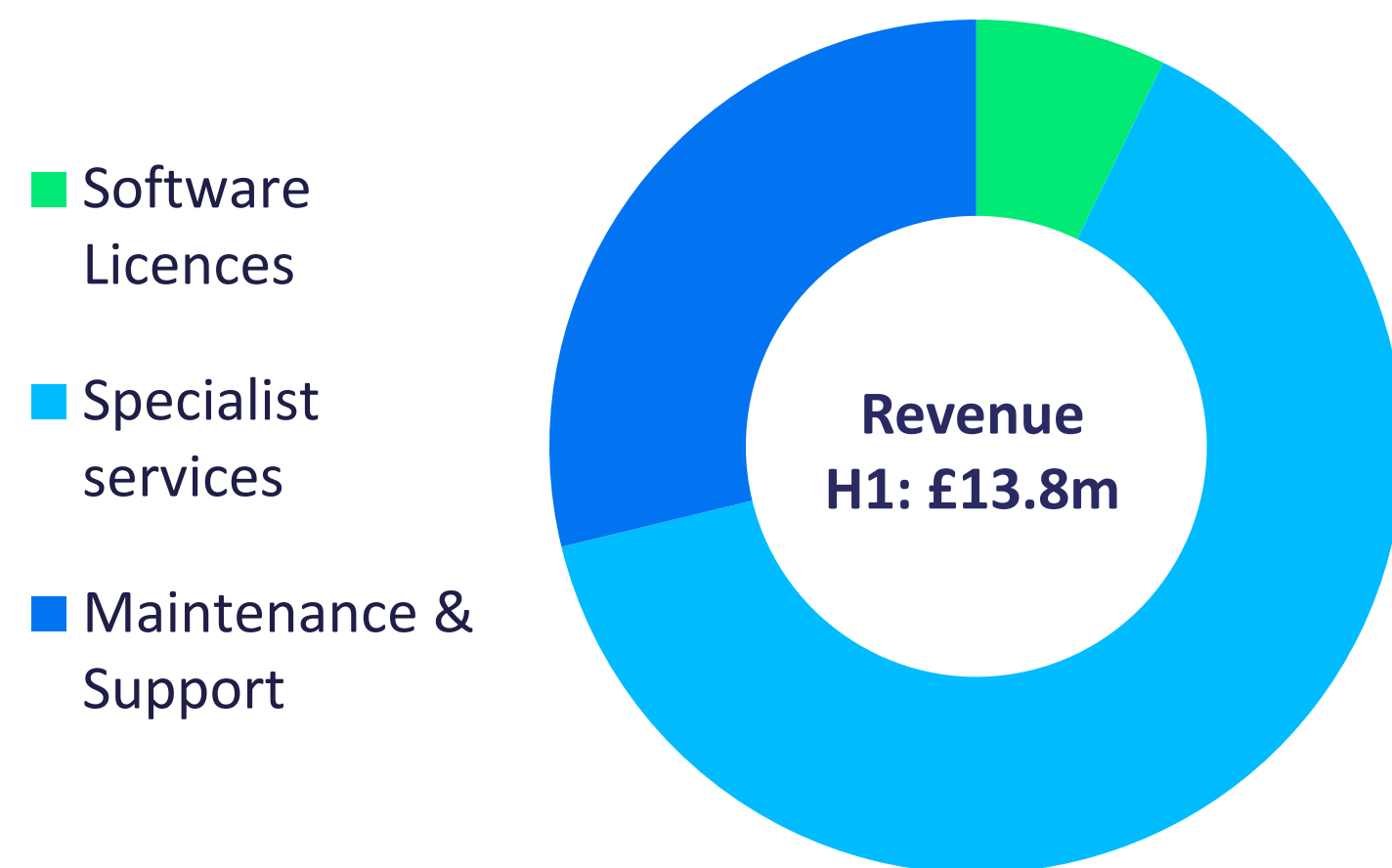
- **Global jewellery/watches retailer – £1.4m contract over three years**
- **Swedish outdoor sports fashion brand - £1.0m contract over three years**
- **Swiss outdoor brand - £0.5m contract over five years**
- **European golf brand - £0.2m contract over five years**



# Third-party Solutions – focusing on operating profit



Six months to 31 May (£m)	H1 23	H1 22	Change
Revenue	13.8	13.4	+3%
Gross profit	7.4	6.7	+10%
Gross margin %	53%	50%	+3pp
Adj. operating profit/(loss)	2.8	2.1	+33%
Adj. operating profit margin (%)	20%	15%	+5 pp



- **Increased profitability**
  - revenue mix; greater proportion of maintenance and support income
  - lower overheads
  - continuing focus on costs
- **Global Accounts – reduced activity** after 2-3 years of significant store expansion by IKEA overseas franchisees
- **NexSys winning larger projects**
  - securing larger contracts including
    - £0.5m contract with manufacturer of automotive plastic components
  - healthy services back-log for H2 and strong new business pipeline
  - annual software licence and support and maintenance contract renewals due in H2. Typical renewal rate c.98%

# 2H Key Areas of Focus and Outlook



Group is better positioned | more aligned to cash | strategic fashion and apparel products are growing fast

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- **K3 Products — exciting growth engine**

- Targeting c.30% p.a. growth from strategic fashion products in FY23 and beyond, leveraging robust opportunities pipeline
- ViJi V2 development and targeting few selected clients to refine value proposition and ability to support forthcoming regulations
- Running Legacy POS software customer base for cash

- **Third-party Solutions — reliable strong cash flows**

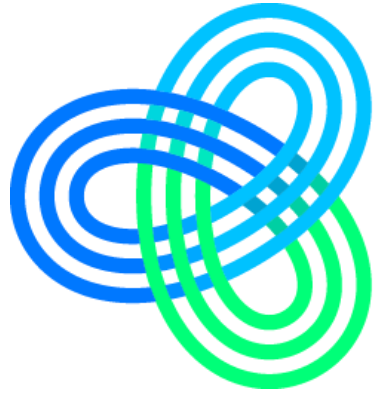
- Earnings and cash flows weighted to H2
  - significant recurring revenue and cash from contract renewals in H2
- Global Accounts - focus is margins and deepening relationships with IKEA franchisees as IKEA roll-out slows
- NexSys – encouraging new business performance and project back-log for H2

- **Other initiatives**

- Restructuring Organization into Business Units to accelerate strategy execution and simplify the business
- Cost reduction initiatives to improve margins, cash generation and mitigate market uncertainties

- **Outlook**

- Attractive deals in new business pipelines – K3 Products and NexSys



# Supplementary Information

- Financial information
- Strategic products



# Financial Position



£'m	H1 23	FY22
<b>ASSETS</b>		
Non-current assets		
goodwill	25.0	25.0
other non-current assets	5.9	6.8
Total non-current assets	30.9	31.8
Current assets		
trade and other receivables	11.1	13.6
stock and other	0.6	0.6
cash	4.7	7.1
Total current assets	16.4	21.3
Total assets	47.3	53.1
<b>LIABILITIES</b>		
Total non-current liabilities	1.1	1.4
Current liabilities		
trade and other payables	12.1	16.9
other current liabilities	1.9	2.1
borrowings	1.8	0.1
Total current liabilities	15.8	19.1
Total liabilities	16.9	20.5
<b>NET ASSETS</b>	<b>30.4</b>	<b>32.6</b>

- Goodwill balances relate mainly to Global Accounts and NexSys. Reduction in Capitalised Development
- Trade and other receivables balance lower due to:
  - good collections in the period.
  - Impact of more prudent revenue recognition (£1.1m)
- Cash at a low point with NexSys renewals being billed and collected in the second half of the year
- Payables seasonally lower, but at a similar level to last year

# H1 23 Cashflow – seasonal outflow



£'m	H1 23	H1 22
Net cash generated from operating activities	(2.8)	(5.2)
Cash used in investing activities	(0.8)	(1.6)
Cash from financing activities (excl. loans)	(0.7)	(0.8)
<b>Free cash flow</b>	<b>(4.3)</b>	<b>(7.6)</b>
Increased borrowings	1.8	1.5
<b>Change in cash and cash equivalents</b>	<b>(2.5)</b>	<b>(6.1)</b>
<b>Opening cash</b>	<b>7.0</b>	<b>9.0</b>
<b>Closing cash</b>	<b>4.5</b>	<b>2.9</b>

- Good collections reduced operating outflow
- More disciplined investment spend
- Cash at cyclical low point – NexSys renewals are billed and collected in H2

# Strategic Products - Compelling Offering for Fashion and Apparel

## K3 Fashion

- Enterprise ERP solution for Fashion & Apparel Brands and Retailers
- Native and embedded within Dynamics 365
- Full Concept-to-Consumer coverage
- Highly configurable
- CSR module

## K3 Pebblestone

- Any size ERP solution for Fashion, Apparel Brands and Retailers
- Easy to deploy and configure
- Native and embedded within Dynamics BC/Nav
- Full Concept-to-Consumer coverage
- On Premise and Cloud versions
- Scalable and easy to integrate  
CSR Module (Agnostic)

## K3 Viji

- Platform to collect, authenticate and certify all CSR data and associated evidence from brands, suppliers and products to ensure that brands have complete visibility over their sustainability credentials.
- Automated collection and renewals of certifications
- Widget and Mobile App to display CSR product info to consumers.
- Stand-alone solution or full integration to other K3 ERP/CSR products