k3 group

Interim Results

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K3 Business Technology Group PLC
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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),
cloud solutions and managed services to the supply chain sector

Interim Results
for the six months to 31 May 2020

KEY POINTS

Summary

- Resilient performance in the face of challenges created by the coronavirus pandemic
  - results are supported by high level of recurring income and diversified customer base
- Group is now wholly focused on profitable operations following decision in April to place loss-making UK Dynamics subsidiary into administration
- Encouraging uptake of K3|imagine, now in second year of sales since launch

Financial

- Revenue from continuing activities showed a slight decline at £27.2m (2019: £27.9m)
  - recurring revenue[7] comprised 75.8% (2019: 72.9%) of revenue at £20.6m (2019: £20.3m)
- Gross profit from continuing activities increased by 5% to £16.6m (2019: £15.9m)
- Adjusted EBITDA[1] from continuing activities decreased to £2.6m (2019: £3.6m)
- Basic loss per share was 12.2p (2019: loss of 3.5p)
- £6.0m of additional funding was raised in April 2020
- Loss from discontinued activities of £3.7m (2019: loss £0.4m)
- Government assistance schemes were utilised and cost reductions measures implemented in response to coronavirus crisis
- Net debt[9] at 31 May 2020 was £4.4m (2019: £5.7m) plus £3.0m shareholder loan (2019: £nil)
- Board is confident of obtaining adequate banking facilities once current banking facilities expire on 31 March 2021

Operational

- Smooth transfer to remote-working across all operations
- Major focus remains on increasing sales of K3 Intellectual Property ("IP"), especially new K3|imagine solution
  - K3|imagine secured £0.8m of deals, compared to £0.6m in the whole of FY 2019
  - K3|fashion secured £1.0m of deals (2019: £0.2m)
- Sales of third-party products, including Sage and SYSPRO, in the UK showed coronavirus softness although H2 is expected to be strong with annual licence and maintenance contract renewals
- Global Accounts delivered a strong performance, and was least impacted by coronavirus

Adalsteinn Valdimarsson, Chief Executive Officer of K3, commented:

"K3 has performed resiliently in the face of the challenges created by the coronavirus pandemic and national government lockdowns. The Group's large and diverse customer base has helped to support this performance, and results are also underpinned by a significant level of recurring income.

"Our staff's response to the coronavirus disruption has been tremendous, and while sales were affected, we are pleased with the continuing uptake of K3|imagine, now in its second year of sales. This product offers customers across the supply chain sector the ability to upgrade and adopt new technology easily and cost-effectively. We believe it addresses a significant market opportunity.

"With the easing of lockdown restrictions, we expect to see an improvement in sales activity. Earnings and cash generation are typically weighted to the second half of the financial year, reflecting the high proportion of software licence and support contracts renewals that fall in the period. The outturn for the second half is therefore expected to show an improvement on the first half."

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JOINT REPORT OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Introduction

The Group has performed resiliently in the face of the challenges created by the coronavirus pandemic and national government lockdowns. Financial results for the first half of the financial year were supported by a high level of recurring income, continued momentum in sales of our own IP, particularly K3|imagine and K3|fashion, and a strong performance from Global Accounts. The Group's large and diversified customer base also supported the resilient performance.

Our overriding concern throughout the pandemic has been the welfare of our staff, customers and suppliers. Our staff responded to the challenges we have faced very positively, and we are very grateful for their hard work and loyalty to the Group. We made a smooth transition to remote-working across our geographies and took swift action to conserve cash and reduce cost. This included utilising government support schemes, such as furlough, as well as implementing cost savings. As previously reported, in April 2020, we also raised £6.0m in new funding, increasing our banking facilities by £3.0m and issuing a shareholder loan of £3.0m.

In April 2020, having explored different options, the difficult decision was taken to place our loss-making UK Dynamics subsidiary into administration. As a result, the Group is now entirely focused on its core profitable business units, and it should also be noted that there is no adverse effect on the Group's Microsoft Dynamics practices outside the UK. In the UK, the main sales route for our K3|fashion and K3|pebblestone products, which are Microsoft Dynamics 'add-ons' for the fashion and apparel sectors, is now indirect, via channel partners. This replicates how we sell these products in Europe and other markets.

Our relationship with Microsoft continues to be very strong, with K3|fashion endorsed by Microsoft as its globally preferred 'add-on' for the fashion and apparel industry. In July 2020, K3 was awarded Inner Circle status. Our close engagement with Microsoft also helps sales through our channel partners.

The opportunity to drive own IP sales remains significant, and K3|imagine, its platform and suite of applications form the cornerstone of our growth plans. While the coronavirus crisis has slowed pipeline build and deal closure generally, we believe it has also accelerated the need to adopt new digital solutions that provide commercial advantage. K3|imagine provides this upgrade path in a cost effective and minimally disruptive way. Now in its second year since launch, the product has great potential both for K3's existing customer base and new customers, and we are very encouraged by the £0.8m of deal values closed in the first half of the financial year. This compares with £0.6m worth of deals signed in the last financial year as a whole. K3|imagine's pipeline of potential new business now stands at £4.0m for FY2020 and £10.0m for FY2021.

Financial Results

Following the adoption of IFRS Standards 9, 15 and 16, figures for the comparative period in 2019 have been restated.

Results from continuing activities

In the first six months ended 31 May 2020, continuing activities generated revenue of £27.2m (2019: £27.9m), with recurring income comprising 75.8% (2019: 72.9%) of revenue at £20.6m (2019: £20.3m). Revenue from own IP accounted for 35.8% (2019: 34.7%) of revenue from continuing activities.

Gross profit increased to £16.6m (2019: £16.0m) and the gross margin percentage improved to 61.0% (2019: 56.9%), reflecting better product mix and high chargeability rates on Services. Approximately 48% of gross profit was generated from own IP (2019: 45%).

Support costs increased to £14.0m (2019: £12.2m) as a result of investment in commercial resource.

Adjusted EBITDA from continuing activities decreased to £2.6m (2019: £3.7m), with the investment in increased commercial resource negated by the adverse effects of the coronavirus outbreak. Loss before tax from continuing activities was £0.8m (2019: £0.5m).

Reported results including discontinued activities

Discontinued activities relate to the UK Dynamics subsidiary, which was put into administration on 21 April 2020. Loss from discontinued activities was £(3.7)m (2019: £(0.4)m), and adjusted EBITDA loss from discontinued activities was £(0.8)m (2019: £nil).

Balance sheet and cash flows

Net debt including shareholder loan at 31 May 2020 stood at £7.4m (31 May 2019: £5.8m). Gross cash balances comprised cash of £12.4m (2019: £8.9m) and cross-guaranteed bank overdraft of £(4.1)m (2019: £(3.8m), which equated to a net cash position of £8.3m (2019: £5.1m) at the end of the half year. Borrowings comprised lender drawdown of £12.7m (2019: £10.8m) and a shareholder loan of £3.0m (2019: nil). The Group's current banking facilities are due for renewal in March 2021 and the Board is confident that adequate facilities can be negotiated to meet the working capital needs of the Group.

K3's cash flow is typically strongly weighted towards the second half of the financial year, which benefits from a significant inflow of cash 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 from operating activities was an outflow of £(1.6)m (2019: £(2.1)m) driven by an increased loss in the period caused by the discontinued activities exit. Trade and other receivables was an inflow of £5.2m (2019: £(0.5)m outflow) due to the removal of the discontinued activities balance sheet from 21 April 2020. Trade payables was also impacted by the removal of the discontinued activities balances offset by government deferral schemes.

Capitalised software development expenditure for the six months totalled £2.3m (2019: £1.7m), in line with the Group's refocused IP development roadmap, and 65% of this expenditure was on the K3|imagine product.

Depreciation amounted to £1.2m (2019: £1.3m) and amortisation to £2.0m (2019: £2.6m). Comparatives have been restated for IFRS16 adoption for depreciation and the reduction in amortisation was due to the write-off of development assets in the UK Dynamics subsidiary at 30 November 2019.

The Group did not raise any new financing through government assistance schemes relating to the coronavirus crisis, but has utilised government provisions for tax deferral and furlough across different jurisdictions.

Dividend and EPS

The Group does not pay an interim dividend and this remains the case in the current financial year. The potential payment of a final dividend will be reviewed at the time of the publication of full year results, and will be dependent on the Board's assessment of the Company's performance, re-balance of the equity reserves and the wider economic situation.

Adjusted loss per share[*2] was 9.9p (2019: adjusted earnings per share[*2] of 0.1p). Basic loss per share was 12.2p (2019: basic earnings per share of 0.1p).

Overview of Performance

The last 10 weeks or so of the period under review were affected by national lockdowns across the UK and Europe. In the main, larger IT projects continued while smaller ERP deals and services were impacted as service delivery consultants could not go on site and smaller businesses were closed. Our roll-out of K3|imagine into a new strategic customer in the travel sector also slowed. Our Global Accounts business was least affected and grew strongly, expanding its work with existing customers. We continued to invest further resource in this area of the Group.

Now in its second year of sales since its formal launch, K3|imagine, our class-leading platform and solution sets, continued to show encouraging sales momentum and its pipeline has continued to grow. We have now developed solutions for multiple business processes, including inventory management, Point of Sale ("POS"), pricing & promotion and a range of self-service applications. The innovation our platform and solutions provide and the ease with which our technology can be integrated makes our offering an attractive option for businesses across the supply chain sector.

Details on the performance of our more established products, K3|fashion and K3|pebblestone, which are Microsoft Dynamics 'add-on' solutions, and our integration platform, K3|dataswitch, is provided in the Operational Review.

With the UK Dynamics practice no longer part of the Group, we have been able to partner with UK resellers that were previously competitors. These new relationships should expand the opportunity for K3|fashion and K3|pebblestone.

Our customer base is resilient, and the Group's revenues are geographically diverse. Revenue from continuing activities last year was 38% UK, 46% EU, 12% MEA, and 4% Rest of World. Our customer base is large at 3,400 customers and across different verticals in the supply chain. Our largest customers are IKEA franchisees, which we consider to be financially resilient.

Outlook

The actions we have taken in the period leave the Group better positioned to navigate through the immediate challenges created by the coronavirus pandemic, and these first half results show K3's resilience. The Directors have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group's current syndicated facility agreement expires March 2021 and the current coronavirus disruption continues to impact on global operations and markets.

Earnings and cash generation are typically stronger in the second half of the financial year than the first half, and we expect this to remain unchanged this year. This reflects the large proportion of software licence and support and maintenance contract renewals that fall in the period, with renewal rates normally at 98%.

Long term prospects for growing own IP sales remain very encouraging and the opportunity for K3|imagine is significant, both for sales into the Group's large customer base and to new customers. The product provides commercial benefits cost-effectively and is easily integrated, and we continue to develop further applications for our platform. Our channel partner sales network remains an effective way of selling our products and K3|fashion should continue to benefit from Microsoft's powerful endorsement.

The trend towards 'consumption-based' contracts continues. This gives us increased revenue visibility as revenues are spread over time and typically promotes longer customer relationships, although by contrast with the traditional model, where revenues are paid upfront, it has a flattening effect on the growth profile.

With the easing of lockdown restrictions, we expect to see an improvement in sales activity. This together with the historically high level of software licence and support contracts renewals in the fourth quarter should support an improved performance in the second half of the financial year.

Jonathan Manley
Chairman
4 August 2020

Adalsteinn Valdimarsson
Chief Executive Officer

OPERATIONAL REVIEW

Overview

The Group's results for the six months to 31 May 2020, together with comparatives for the same period in 2019, are summarised in the tables below. 2019 comparatives have been restated following the adoption of IFRS Standards 9, 15 and 16.

Our segmental analysis provides further information on the Group's performance across key areas of activity; own IP, Global Accounts, third-party products (including SYSPRO and Sage), and our on-premise Managed Services business.

Gross Profit Analysis - Continuing Activities

Six months to 31 May (£m)	**Revenue**		**Gross profit**		**Gross margin**	
	2020	**2019 restated**	**2020**	**2019 restated**	**2020**	**2019 restated**
Own IP[3]	**9.7**	9.7	**8.0**	7.1	**82.5%**	72.9%
Global Accounts[4]	**8.7**	7.5	**4.6**	3.9	**52.8%**	51.9%
Third-party products[5]	**5.5**	7.3	**2.5**	3.2	**44.7%**	43.6%
Managed services[6]	**3.3**	3.4	**1.5**	1.8	**46.6%**	51.1%
Total	**27.2**	27.9	**16.6**	16.0	**61.0%**	56.9%

Continuing Activities

	2020	2019
Recurring revenue	**75.8%**	72.9%
Recurring revenue as a percentage of total revenue	**35.8%**	34.7%
Own IP gross profit as a percentage of total gross profit	**48.4%**	44.6%

Own IP

K3's own IP includes;

- IP embedded into 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 and apps, with our integration engine, K3|dataswitch; and
- other stand-alone point solutions and apps

Revenue was flat at £9.7m (2019: £9.7m), however gross profit increased by 13% to £8.0m (2019: £7.1m). This was due to the product mix, which included a greater contribution from K3|fashion sales and lower contribution from POS products, resulting in an increase in gross margin to 82.5% (2019: 72.9%).

Despite the more challenging trading conditions as a result of the coronavirus crisis, four K3|fashion deals with a total contract value of £1.0m closed in the first half of the financial year (2019: four deals worth £0.2m). These deals were secured through channel partners, in line with our sales strategy for this product, and were signed with both European and US retailers. They are all term contracts, with the number of software licences expected to increase over time. We remain confident about prospects for K3|fashion and its endorsement by Microsoft as its recommended 'add-on' solution for the fashion and apparel sector globally has given our product additional profile in the market. After the period end, a further two deals have been signed together with a 'proof of concept' trial.

Our K3|imagine platform and its applications are provided on a Platform-as-a-Service ("PaaS") and Software-as-a-Solution ("SaaS") basis. The technology can be deployed via the cloud or through our K3|Cloud Infrastructure-as-a-Service ("IaaS"). The solution made good progress in the period and we closed £0.8m of deals (12 months to 30 November 2019: £0.6m). Customers bought from across the suite of applications, including self-serve kiosks, POS, companion apps, and Make Tax Digital. They also bought access to the imagine platform and warehousing and stock management solutions. We now have customers live over 18 countries. The new business pipeline has increased to £4.0m for the current financial year, rising to £10.0m for next year. This is very encouraging and includes both existing and new customers.

Global Accounts

Revenue from Global Accounts, which includes our relationship with Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept) and the Inter IKEA Concept franchisees, continued to grow, increasing by 18% to £8.7m (2019: £7.5m). Gross profit increased by 18% to £4.6m (2019: £3.9m) and gross margin rose to 52.8% (2019: 51.9%), with a higher focus on chargeability.

This very strong performance reflected the ongoing expansion of the IKEA franchisee network into new geographies in South and Central America, and the increased activity mainly contributed to services income. The Far East has generally proven to be more resilient to the impact of coronavirus than the West, with Far Eastern customers being impacted for less time. We anticipate continued growth in Global Accounts and have expanded our resource at our Kuala Lumpur office.

Third-party products

Third-party products include our Sage and SYSPRO products, which we resell in the UK. This area of activity was more adversely affected by the coronavirus crisis and we implemented mitigating actions, including furlough, to reduce the impact. Revenue decreased by 25% to £5.5m (2019: £7.3m) and gross profit reduced by 20% to £2.5m (2019: £3.1m). Gross margin increased to 44.7% (2019: 43.6%), due to better chargeability.

Our manufacturing customer base, which largely comprises SYSPRO customers, was more resilient to coronavirus although SYSPRO services income was impacted by customer sites being closed. Encouragingly SYSPRO new business discussions continued throughout the period.

Our retail and distribution customer base, which is more biased to Sage, was more disrupted by coronavirus-related restrictions, and new business discussions were soft.

The second half of the financial year will benefit from the high level of software licence and maintenance and support contract renewals from the SYSPRO customer base in this period. This is reflected in the typically strong weighting in earnings and cash generation in the fourth quarter.

Managed services

Revenue from Managed services decreased by 4% to £3.3m (2019: £3.4m) and gross profit reduced by 12% to £1.5m (2019: £1.8m), with gross margins lower at 46.6%% (2019: 51.1%). The coronavirus pandemic had an initially positive impact as customers upgraded their remote working environments however as lockdown continued our on-site work slowed.

Support Costs

Support costs[*6] include overheads of sales, marketing, support, IT, legal and human resource functions, as well as Board and PLC costs. The overhead costs have increased to £14.0m (2019: £12.2m) driven by investment in commercial teams.

Discontinued Activities - UK Dynamics

On 21 April 2020, the UK Dynamics subsidiary was put into administration. The reported results have been shown as loss before tax from discontinued activities of £3.9m (2019: £(0.9)m)

*1 Group adjusted EBITDA is calculated before amortisation of acquired intangibles, exceptional reorganisation costs and impairments, depreciation and amortization of development costs and share-based payment charge.

*2 Group adjusted earnings/(loss) per share is calculated before amortisation of acquired intangibles (net of tax) , exceptional reorganisation costs (net of tax) and share-based payment charge (net of tax)

*3 Own IP is product and services for which K3 is the owner, including private cloud hosting

*4 Global Accounts is third-party product and services sold through the IKEA ecosystem

*5 Third-party products are the products and services that K3 resells except those in Global Accounts and Managed services

*6 Managed services, the break fix and on-premise managed service business

*7 Recurring revenue includes contracted support and maintenance, including hosting and long term services revenues with a frame agreement greater than two years

*8 Annual contracted value includes recurring revenue and software term agreements

*9 Net debt comprised bank loans and overdrafts less cash and cash equivalents. It excludes IFRS 16 lease liabilities.

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED INCOME STATEMENT
For the six months ended 31 May 2020

	Notes	**Unaudited Six months to 31 May 2020 £'000**	Restated Unaudited Six months to 31 May 2019 £'000	Restated Audited 12 months to 30 November 2019 £'000
Continuing activities				
Revenue		**27,238**	27,869	59,445
Cost of sales		**(10,616)**	(11,970)	(24,973)
Gross profit		**16,622**	15,899	34,472
Administrative expenses		**(17,612)**	(16,297)	(33,067)
Adjusted EBITDA[1]		**2,639**	3,719	9,186
Depreciation and amortisation of development costs		**(2,464)**	(2,297)	(4,712)
Amortisation of acquired intangibles		**(811)**	(1,195)	(2,398)
Exceptional customer settlement provision		**-**	-	(400)
Exceptional reorganisation costs		**(354)**	(287)	(374)
Share-based payment charge		**-**	(338)	103
(Loss)/profit from operations		**(990)**	(398)	1,405
Finance expense		**24**	(573)	(854)
(Loss)/profit before taxation		**(966)**	(971)	551
Tax expense	6	**(526)**	(118)	(932)
(Loss)/profit from continuing activities		**(1,492)**	(1,089)	(381)
Loss from discontinuing activities	5	**(3,729)**	(424)	(15,066)
Loss for the period		**(5,221)**	(1,513)	(15,447)
Earnings per share	7			
Basic earnings (loss) per share				
• From continuing operations		**(3.5)p**	(2.5)p	(0.9)p
• From discontinued operations		**(8.7)p**	(1.0)p	(35.1)p
Total		**(12.2)p**	(3.5)p	(36.0)p
Diluted earnings (loss) per share				
• From continuing operations		**(3.5)p**	(2.5)p	(0.9)p
• From discontinued operations		**(8.7)p**	(1.0)p	(35.1)p
Total		**(12.2)p**	(3.5)p	(36.0)p

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 May 2020

	Unaudited Six months to 31 May 2020 £'000	Unaudited Six months to 31 May 2019 £'000	Audited 12 months to 30 November 2019 £'000
Loss for the period	**(5,221)**	(1,513)	(15,447)
Other comprehensive income			
Exchange differences on translation of foreign operations	1,127	(121)	(928)
Other comprehensive income, net of tax	1,127	(121)	(928)
Total comprehensive expense for the period	**(4,094)**	**(1,392)**	**(16,375)**

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

Following input from the users of these financial statements, the Board has moved the performance KPI of Adjusted operating profit to Adjusted EBIDTA[1] .

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 May 2020

	Notes	**Unaudited As at 31 May 2020 £'000**	Unaudited As at 31 May 2019 £'000	Audited As at 30 November 2019 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		**2,067**	2,237	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		**618**	1,830	825
Available-for-sale investments		**-**	98	-
Total non-current assets		**62,440**	77,042	61,879
Current assets				
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				
Non-current liabilities				
Lease liabilities		**1,959**	2,439	2,507
Borrowings	8	**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
Current liabilities				
Trade and other payables	9	**20,437**	25,048	25,008
Current tax liabilities		**1,514**	61	493
Lease liabilities		**1,125**	1,889	1,410
Borrowings	8	**16,788**	14,594	4,385
Provisions		**150**	-	120
Total current liabilities		**40,014**	41,592	31,416

Total liabilities		**46,588**	46,050	41,594

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 May 2020

	Notes	**Unaudited As at 31 May 2020 £'000**	Unaudited As at 31 May 2019 £'000	Audited As at 30 November 2019 £'000
EQUITY				
Share capital		**10,737**	10,737	10,737
Share premium account		**28,897**	28,897	28,897
Other reserves		**10,448**	10,448	10,448
Translation reserve		**2,685**	2,365	1,558
Retained earnings		**(7,604)**	12,652	(2,383)
Total equity attributable to equity holders of the parent		**45,163**	65,099	49,257
Total equity and liabilities		**91,751**	111,149	90,851

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 31 May 2020

	Notes	**Unaudited 6 months to 31 May 2020 £'000**	Unaudited 6 months to 31 May 2019 £'000	Audited year ended 30-Nov 2019 £'000
Cash flows from operating activities				
Loss for the period		**(5,221)**	(1,513)	(15,447)
Adjustments for:				
Finance expense		**467**	603	856
Tax expense		**526**	(146)	931
Depreciation of property, plant and equipment and right-of-use assets		**1,223**	1,263	2,531
Impairment loss on property, plant and equipment		**6**	-	73
Amortisation of intangible assets and development expenditure		**2,000**	2,631	5,377
Impairment of intangible assets		**16**	-	12,062
Impairment of investments		**-**	-	98
Share-based payments credit/charge		**-**	338	(103)
Increase in provisions		**39**	427	414
(Increase)/decrease in trade and other receivables		**5,172**	(474)	3,629
Decrease in trade and other payables		**(5,243)**	(5,092)	(4,348)
Cash (used in)/generated from operations		**(1,015)**	(1,963)	6,073
Finance expense paid		**(444)**	(182)	(385)
Income taxes		**(94)**	-	(191)
Net cash (used in)/generated from operating activities		**(1,553)**	(2,145)	5,497
Cash flows from investing activities				
Development expenditure capitalised		**(2,290)**	(1,688)	(4,080)
Purchase of property, plant and equipment		**(261)**	(313)	(666)
Proceeds from sale of property, plant and equipment		**6**	-	-
Net cash used in investing activities		**(2,545)**	(2,001)	(4,746)

Cash flows from financing activities			
Proceeds from loans and borrowings	**9,482**	3,250	4,500
Repayment of loans and borrowings	**-**	-	(5,750)
Repayment of lease liabilities	**(802)**	(755)	(1,505)
Interest paid	**(168)**	(162)	(347)
Dividends paid	**-**	-	(661)
Net cash from/(used in) financing activities	**8,512**	2,333	(3,763)

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 31 May 2020

	Notes	**Unaudited 6 months to 31 May 2020 £'000**	Unaudited 6 months to 31 May 2019 £'000	Audited Year ended 30-Nov 2019 £'000
Net change in cash and cash equivalents*		**4,414**	(1,813)	(3,012)
Cash and cash equivalents at start of year*		**3,841**	6,914	6,914
Exchange gains/(losses) on cash and cash equivalents		**36**	(36)	(61)
Cash and cash equivalents at end of period*		**8,291**	5,065	3,841

* Cash and cash equivalents are net of bank overdrafts (£4,112,000 at 31 May 2020, £3,814,000 at 31 May 2019 and £4,385,000 at 30 November 2019).

K3 BUSINESS TECHNOLOGY GROUP PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 May 2020

	Share capital £'000	**Share premium £'000**	**Other reserve £'000**	**Translation reserve £'000**	**Retained earnings £'000**	**Total equity £'000**
At 1 December 2018	10,737	28,897	10,448	2,486	16,401	68,969
Adjustment from adoption of IFRS 9 and IFRS 15	-	-	-	-	(2,573)	(2,573)
Adjusted balance at 1 December 2018	10,737	28,897	10,448	2,486	13,828	66,396
Changes in equity for six months ended 31 May 2019						
Loss for the period	-	-	-	-	(1,514)	(1,514)
Other comprehensive expense for the period	-	-	-	(121)	-	(121)
Total comprehensive expense	-	-	-	(121)	(1,514)	(1,635)
Share-based payment credit	-	-	-	-	338	338
Dividends to equity holders	-	-	-	-	-	-
At 31 May 2019	10,737	28,897	10,448	2,365	12,652	65,099
Changes in equity for six months ended 30 November 2019						
Loss for the period	-	-	-	-	(13,933)	(13,933)
Other comprehensive expense for the period	-	-	-	(807)	-	(807)
Total comprehensive income	-	-	-	(807)	(13,933)	(14,740)
Share-based payment credit	-	-	-	-	(441)	(441)
Dividends to equity holders	-	-	-	-	(661)	(661)
At 30 November 2019	10,737	28,897	10,448	1,558	(2,383)	49,257
Changes in equity for 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		-	-	1,127	(5,221)	(4,094)
At 31 May 2020	10,737	28,897	10,448	2,685	(7,604)	45,163

K3 BUSINESS TECHNOLOGY GROUP PLC
NOTES TO THE UNAUDITED INTERIM STATEMENT

1. 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". This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

2. Basis of preparation

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 2019, prepared under IFRS, 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 audit report did contain an emphasis of matter with regard to material uncertainty of the Directors consideration of going concern, in particular the potential impact of the coronavirus pandemic on the ability to obtain new bank facilities when the current facilities expire in March 2021. 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 2019, subject to the introduction of any new accounting standards applicable in the period.

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.

During the half year, the disruption arising from COVID-19 has introduced additional uncertainty in respect of making predictions for future trading and operations. The Group has modelled a variety of coronavirus scenarios in order to assess their potential financial impact over the coming months. The Directors have modelled scenarios that crossover different geographic territories and our revenue streams and implemented actions that mitigate our short term cost and cash outflows, including furlough and tax deferrals schemes, whilst ensuring we have a long term sustainable business.

While the Directors have concluded that these circumstances represent a material uncertainty, additional loan funding has been secured since the year end to ease immediate operating cash flow pressures. These facilities are due for renewal in March 2021 and the Group does not currently have the funds to repay these. Additional funding or asset disposals could be initiated as required and the Directors believe that appropriate refinancing of the existing debt is possible when the renewal date falls due. Therefore, after making enquiries and considering the uncertainties as described above, the Directors 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 basis of accounting in preparing this financial information.

3. Critical accounting estimates, judgements and sources of estimation uncertainty

There have been no material revisions to the nature and amount of changes in estimates of amounts reported in the financial statements for the year ended 30 November 2019.

IFRS15, 9 and 16 which were adopted towards the end of FY2019 and estimates have been made for the allocation of the full year adjustments into the restated results of the 6 month period to 31 May 2019.

K3 Business Technologies Ltd, the UK Dynamics delivery entity that went into administration, comprises the discontinued activities. The assets including staff and liabilities as recorded in the accounting records of that legal entity and that were passed to the administration form, the basis of the discontinued activities. The reporting of continuing and discontinued activities and the material amount of intra-group trading has required that inter-company eliminations have been eliminated either in the continuing activities or discontinued activities. The Group believes that some trading that between the continuing activities and discontinued activities will continue and this has been eliminated in discontinued activities whereas trading that is judged less certain or not contracted has been eliminated against continuing activities.

4. Going concern and significant events

On 21 April 2020, K3 Business Technologies Ltd, the UK based subsidiary of the K3 Group, was placed into administration. For the year end 30 November 2019 this subsidiary generated revenue of £21.0m and an adjusted operating loss in excess of £3.0m.

During April 2020 the Group secured £6.0m of loans from Barclays and its two major shareholders, Kestrel Partners LLP ("Kestrel") and Johan Claesson, also a Non-executive director. The cash funding has strengthened the Group's liquidity position during this period of unprecedented disruption caused by the coronavirus pandemic.

Barclays has extended its existing loan facilities to K3 by £3.0m to a maximum of £13.0m in total. The terms of the loan facilities, including their duration, are similar to the existing facilities, which expire on 31 March 2021.

Kestrel (which has appointed Oliver Scott to the Board as its non-executive director representative) and Johan Claesson (together "the Lenders") are providing an unsecured term loan of £3.0m until 30 June 2021 ("Shareholder Loan"). The Shareholder Loan is split equally between the two Lenders. Mr Claesson will provide his part of the loan via his associated company, CA Fastigheter AB, and Kestrel's loan is provided via its discretionary clients.

The main terms of the Shareholder Loan are as follows:

- unsecured and subordinated to all indebtedness with Barclays;
- 8.0% annual coupon, with interest rolling up on a quarterly basis; and
- 1 warrant issued for every £2.50 of Shareholder Loan. Warrants are over ordinary shares of 25p each are transferrable, have a 10 year duration and a strike price of 25p.

At 31 May 2020, the Group incurred a loss of £5.2m, resulting in negative retained earnings of £7.6m, and suffered a cash outflow of £2.5m. Much of the trading loss has arisen due to one-off charges to profit and loss as the Directors continue to focus the business on profit-making operations and the cash outflow reflects the normal seasonality of the cash cycle of the Group adjusted for coronavirus mitigating actions.

The disruption arising from coronavirus has introduced additional uncertainty in respect of making predictions for future trading and operations. The Group has modelled a variety of coronavirus scenarios in order to assess their potential financial impact over the coming months. The Directors have modelled scenarios that crossover different geographic territories and our revenue streams, and implemented actions that mitigate our short term cost and cash outflows, including furlough and tax deferrals schemes, whilst ensuring we have a long term sustainable business.

While the Directors have concluded that these circumstances represent a material uncertainty, additional loan funding has been secured since the year end to ease immediate operating cash flow pressures. These facilities are due for renewal in March 2021 and the Group does not currently have the funds to repay these. Additional funding or asset disposals could be initiated as required and the Directors believe that appropriate refinancing of the existing debt is possible when the renewal date falls due. Therefore, after making enquiries and considering the uncertainties as described above, the Directors 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 basis of accounting in preparing this financial information.

5. Discontinued activities

Discontinuing activities relate to the UK Dynamics business which was put into administration on 21 April 2020. During the year to 30 November 2019, the legal entity of UK Dynamics generated total revenue of £21.3m and an adjusted EBITDA loss of £2.2m. The UK Dynamics entity had a material amount of intra- group trading passing through from external and internal suppliers to external and internal customers. Parts of this trading has been retained by the K3 Group and has been eliminated from the consolidation in the discontinued activities together with some allocated Group adjustments. As a result adjusted EBITDA loss of discontinued activity for the year end 30 November 2019 was £(1.9)m.

£m	**Unaudited Six months to 31 May 2020**	Restated unaudited Six months to 31 May 2019	Restated unaudited 12 months to 30 November 2019
Revenue	4.7	10.4	19.0
Gross profit	1.2	3.7	5.6
Adjusted EBITDA	(0.8)	(0.0)	(1.9)
Profit / (Loss)	(3.7)	(0.4)	(15.0)
Net cash from/(used in) discontinued operations	0.4	0.4	(4.2)

6. Tax expense

	Unaudited Six months to 31 May 2020 £'000	Unaudited Six months to 31 May 2019 £'000	Audited 12 months to 30 November 2019 £'000
Current tax expense/(credit)			

UK corporation tax and income tax of overseas operations on profits/(losses) for the period	**532**	336	532
Adjustment in respect of prior periods	**(86)**	-	92
Total current tax expense/(credit)	**446**	336	624
Deferred tax income			
Origination and reversal of temporary differences	**32**	(218)	307
Effect of change in rate of deferred tax	**48**	-	-
Total deferred tax income	**80**	(218)	307
Total tax expense/(credit)	**526**	118	931

7. Earnings per share

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

	Unaudited Six months to 31 May 2020 Number of Shares	Unaudited Six months to 31 May 2019 Number of Shares	Audited 12 months to 30 November 2019 Number of Shares
Weighted average number of shares:			
For basic earnings per share	**42,871,000**	42,871,302	42,871,000
Effects of employee share options and warrants	**-**	-	-
For diluted earnings per share	**42,871,302**	42,871,302	42,871,000

Adjusted 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 and the above number of shares:

	Unaudited six months to 31 May 2020			Unaudited six months to 31 May 2019		
	Earnings £'000	**Per share amount Basic p**	**Per share amount Diluted P**	Earnings £'000	Per share amount Basic p	Per share amount Diluted P
(Loss)/earnings per share (eps)	**(5,221)**	**(12.2)**	**(12.2)**	(1,513)	(3.5)	(3.5)
Amortisation of intangibles (net of tax)	**680**	**1.6**	**1.6**	1,003	2.3	2.3
Exceptional reorganisation costs (net of tax)	**287**	**0.7**	**0.7**	232	0.5	0.5
Share-based payment charge (net of tax)	**-**	**-**	**-**	338	0.8	0.8
Adjusted EPS	**(4,255)**	**(9.9)**	**(9.9)**	60	0.1	0.1

	Audited 12 months to 30 November 2019		
	Earnings £'000	Per share amount Basic p	Per share amount Diluted P
(Loss)/earnings per shares (EPS)	(15,447)	(36.0)	(36.0)
Amortisation of intangibles (net of tax)	2,061	4.8	4.8
Exceptional reorganisation costs (net of tax)	424	1.0	1.0
Exceptional impairment charge (net of tax)	9,872	23.0	23.0
Exceptional settlement provision (net of tax)	324	0.8	0.8
Share-based payment charge (net of tax)	(103)	(0.2)	(0.2)
Adjusted (L)/EPS	(2,869)	(6.6)	(6.6)

8. Loans and borrowings

	Unaudited As at 31 May 2019 £'000	Unaudited As at 31 May 2019 £'000	Audited As at 30 November 2019 £'000
Non-current			

Bank loans (secured)	**-**	-	6,262
Related party loan	**3,000**	-	-
	3,000	-	6,262

Current			
Bank overdrafts (secured)	**4,112**	3,818	4,385
Bank loans (secured)	**12,676**	10,776	-
	16,788	14,594	4,385
Total borrowings	**19,788**	14,594	10,647

9. Trade and other payables

	Unaudited As at 31 May 2020 £'000	Unaudited As at 31 May 2019 £'000	Audited As at 30 November 2019 £'000
Trade payables	**2,621**	4,579	4,645
Other payables	**3,209**	1,031	1,630
Accruals	**2,726**	5,280	5,016
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	**8,556**	10,890	11,291
Other tax and social security taxes	**4,912**	2,739	4,040
Contract liabilities	**6,969**	11,419	9,677
	20,437	25,048	25,008

Cautionary statement

This interim report has been prepared solely to provide information to shareholders. The interim report should not be relied upon by any party or for any other purpose.