

K3 Business Technology Group plc

**Interims
for the six months to 31 May 2022**

24 August 2022



Presentation Team



Marco Vergani, CEO

- Appointed 30 March 2021
- Over 30 years 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 Mgt



Rob Price, CFO

- Appointed CFO in October 2016
- 20 years' experience in senior financial roles, primarily in technology, retail, manufacturing and distribution
- Significant experience in driving business development

“Transform retail for good”

Software solutions for designer, fashion and apparel retailers and brands, which drive intelligent, agile and sustainable business processes

Third-party Solutions Accelerate growth

- Support global expansion of overseas IKEA franchisees and increase penetration of K3 Products
- Grow SYSPRO business leveraging higher-value projects in selected verticals e.g. aviation and increase sales of K3 Products

K3 Products Transformative products for the Fashion and Apparel Industry

- Solutions that improve the customer experience, enhance margins and improve efficiencies
 - Omnichannel capabilities
 - Sustainability and Traceability
 - Business Insights
- Leverage Microsoft relationship to expand and address larger midsize/enterprise brands

Accelerate shift to SaaS-based revenues

- Highly recognizable brand within Fashion and Apparel Industry
- Class-leading commercial and customer success functions
- Strong network of active business partners and technology partners
- Owning own destiny with K3 core products

H1 Performance Summary



Implementing the New Strategic Growth Plan

- Operational change and innovation:
 - Account Management - new team, new tools, and greater sales focus
 - Rebranding and refreshed marketing
 - IT and systems revamp commenced
- Software development:
 - Enhanced Product offering: ViJi acquisition, next gen Pebblestone version new Imagine features to drive migrations and new sales
- Sales:
 - New business pipeline reinvigorated, US team established, greater partner focus

Financial Progress

- Revenue from continuing operations of £19.9m (2021: £20.9m) | adj. EBITDA up 13% to £1.0m (2021: £0.9m)
- Gross margin increased to 59.6% (2021: 58.1%)
- Net cash of £1.4m (2021: £4.4m) – H2 position expected to close significantly higher, reflecting seasonal H2 cash weighting

Outlook

- Encouraging trading in June and July - ahead of 2021. Attractive deals in the pipeline,
- Traditional H2 weighting expected to be replicated in FY 2022

Third-party Solutions – Growth Strategy



Exploit growth opportunity in UK manufacturing

- Focus on larger transformational projects in key verticals of aerospace, electronics, machinery, plastics and medical devices
- Target market: top 25% of SYSPRO 3,000 addressable UK manufacturers with >£10m rev
- Upsell K3 Product modules and add-ons to embed deeper

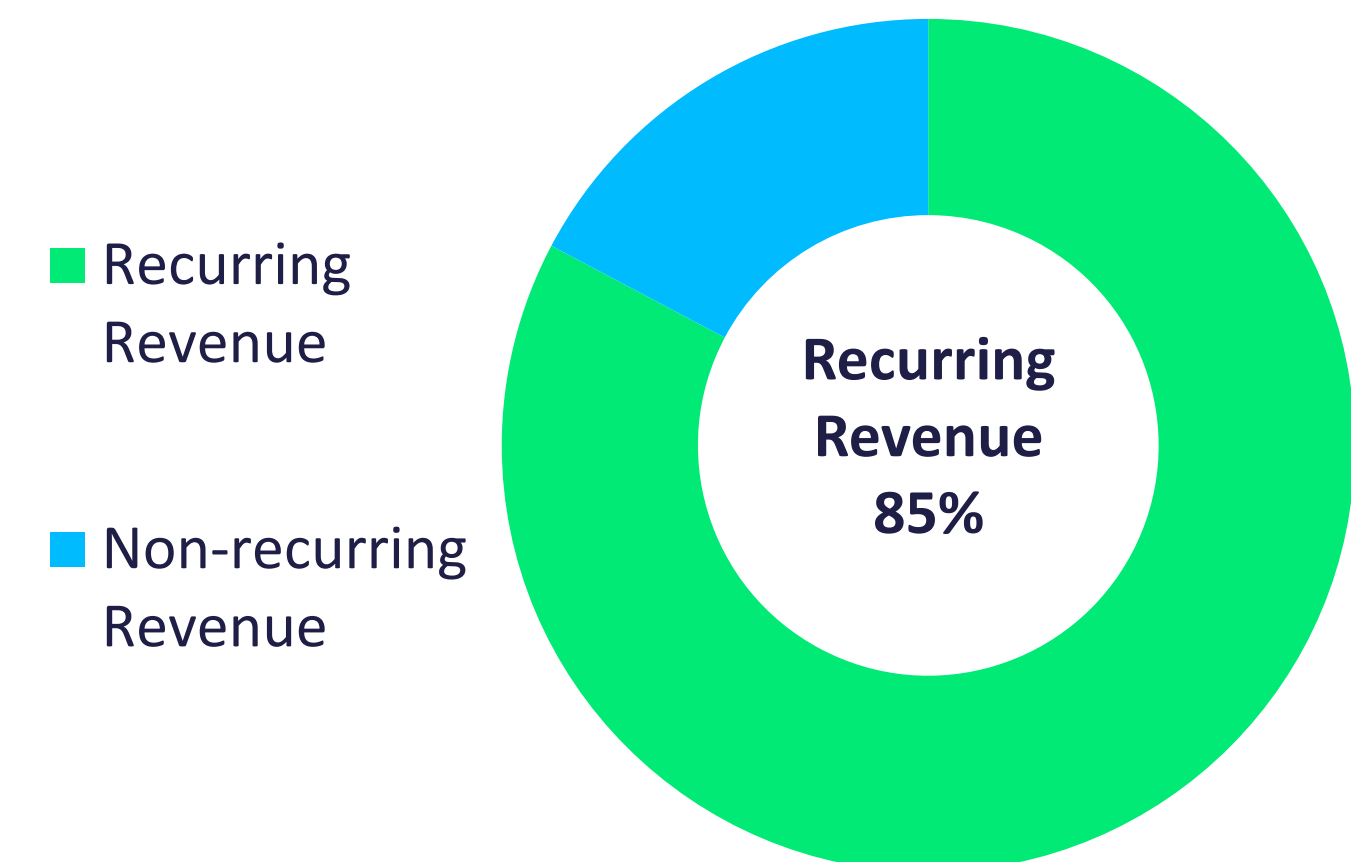
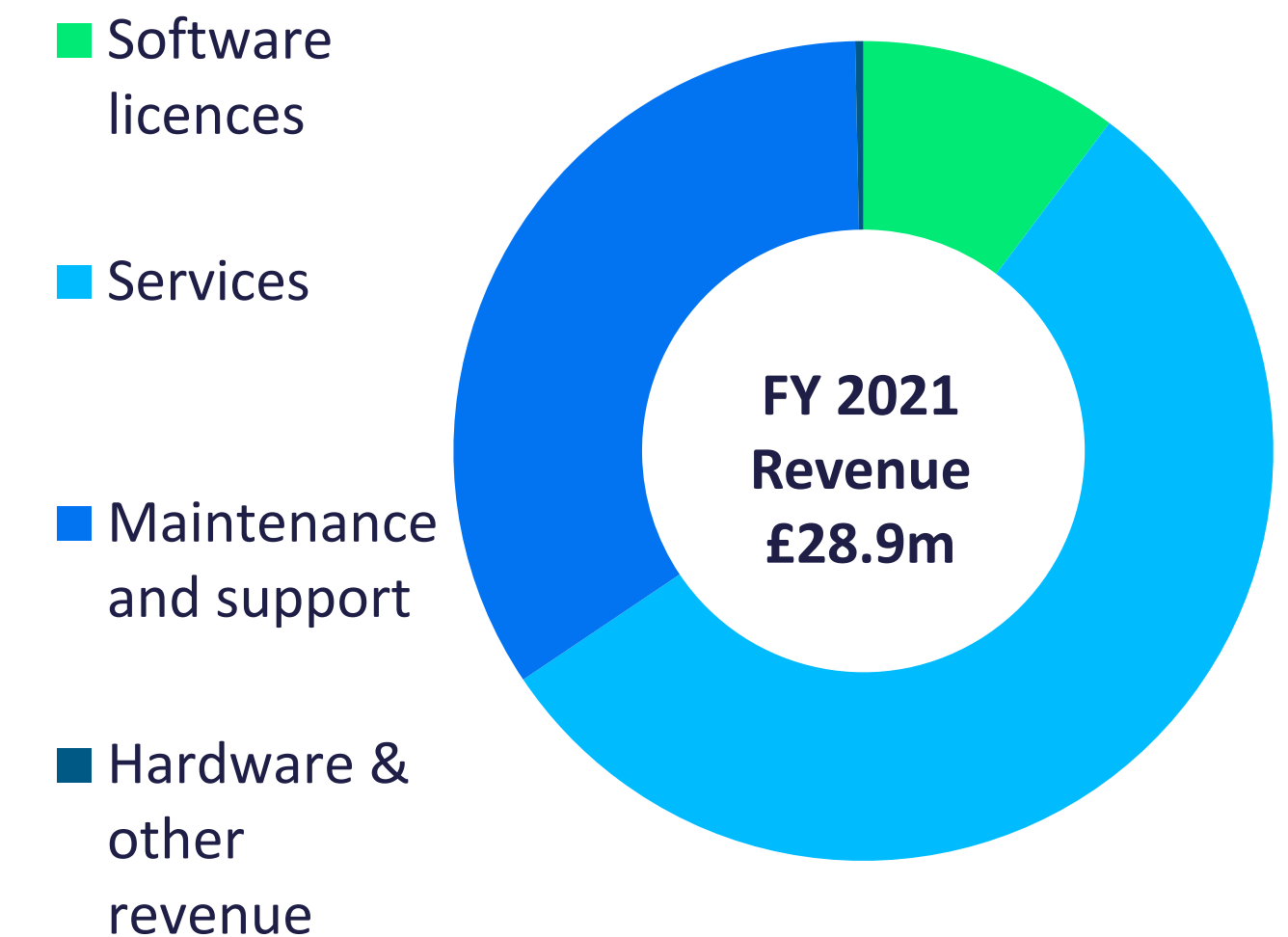
Predictable growth via IKEA and franchisee relationships

- IKEA sales of €40bn+. 12 large IKEA franchisees (with other major brands in each)
- Supporting the expansion roll-out of IKEA franchisee stores into new geographies
 - approx. 20 new franchisee stores per annum
- Highly specialist services, strategic development of core Master System, additional software development, integration and enhancements (K3 Product opportunity)

Growth Opportunity – 50% revenue growth in next 4-5 years

- Increased recurring revenue
- Increased cash contribution (already high)
- Medium term margin improvement
- Cross-sell K3 Product software to embed further

FY 2021 Revenue Analysis



Third-party Solutions



Third-party Solutions

| (£m) | H1 2022 | H1 2021 |
|------------------------|--------------|---------|
| Revenue | 13.4 | 13.0 |
| Gross profit | 6.7 | 6.1 |
| Gross margin % | 49.7% | 46.9% |
| Adj. EBITDA | 3.2 | 2.7 |
| CapDev | - | - |
| Adj EBITDA less CapDev | 3.2 | 2.7 |

H1 2022 Performance

- Third-party Solutions performed well with adjusted EBITDA up by 19% to £3.2m (2021: £2.7m)
- Gross margin percentage increased to 49.7% from 46.9%, reflecting improved services chargeability, off-shoring and increased licence and maintenance income
- Recurring revenue continues to build up 11%
- Services revenue at current capacity levels and recruiting to digest large service backlog, Current focus on better chargeability
- SYSPRO has developed a strong order book and pipeline, which is expected to benefit H2 and beyond
- Global Accounts - steady expansion; IKEA franchisees store roll-outs in Far East and Central and South Americas continue

K3 Products – Growth Strategy



Focus on Strategic Products and fashion/apparel

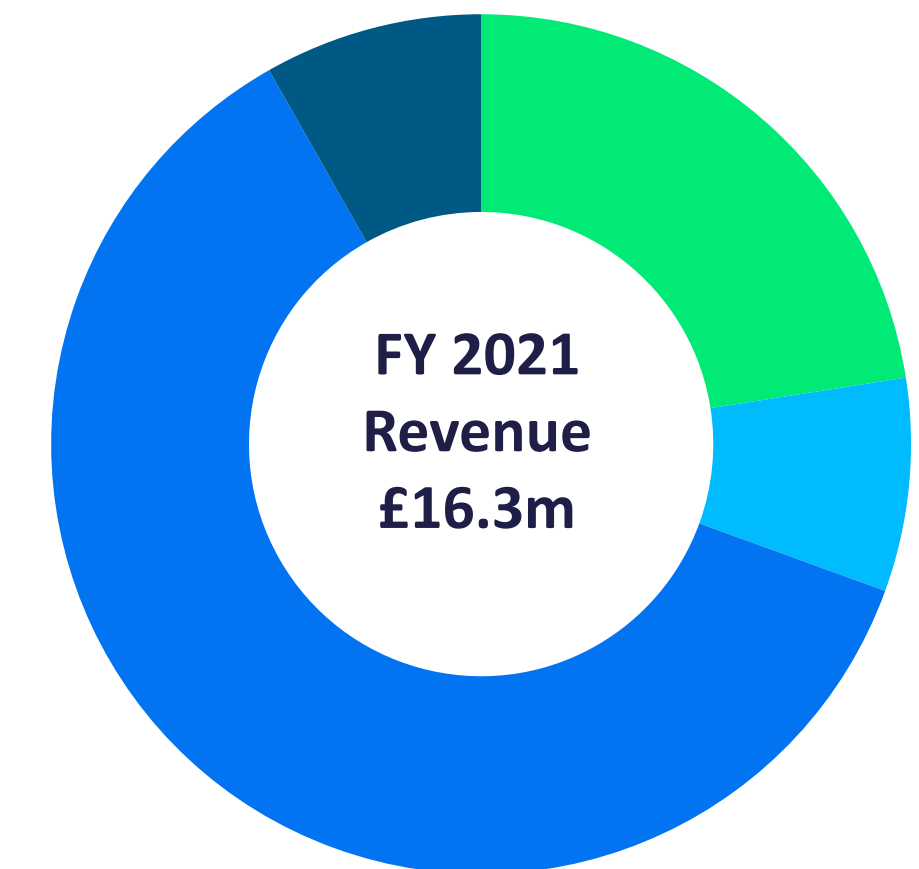
- Focus on Sustainability (legislative drivers), Omni-channel (unified commerce) and Business Insights
 - build-out supply chain traceability offering, incorporating Viji IP, to serve new regulations
 - repackage existing Omni-channel solution (improves the consumer experience and customers' operational efficiencies with unified commerce)
- Drive high-margin channel partner sales and build strong direct sales force
- Leverage Microsoft partnership and privileged position in Retail Cloud
- Greater focus on USA
- Manage legacy product decline; selective pipeline for upselling strategic products
 - 1x legacy value being replaced with 3x Strategic Products value – channel and direct driven

Growth Opportunity – increase on the 16% revenue growth in 2021

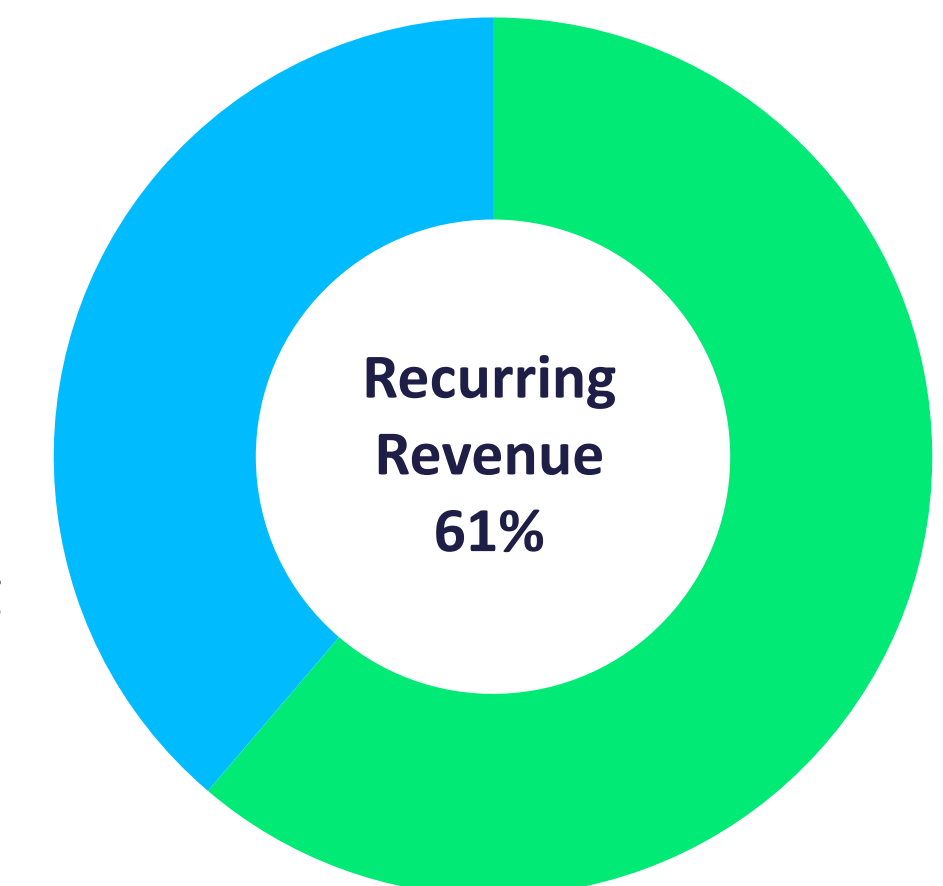
- Build SaaS-based income: transition from up-front to recurring software as cash allows
- Monetize and extend the Sustainability Offer
- Clear roadmap for new product offerings

FY 2021 Revenue Analysis

- Software licences
- Services
- Maintenance and support
- Hardware & other revenue



- Recurring Revenue
- Non-recurring Revenue



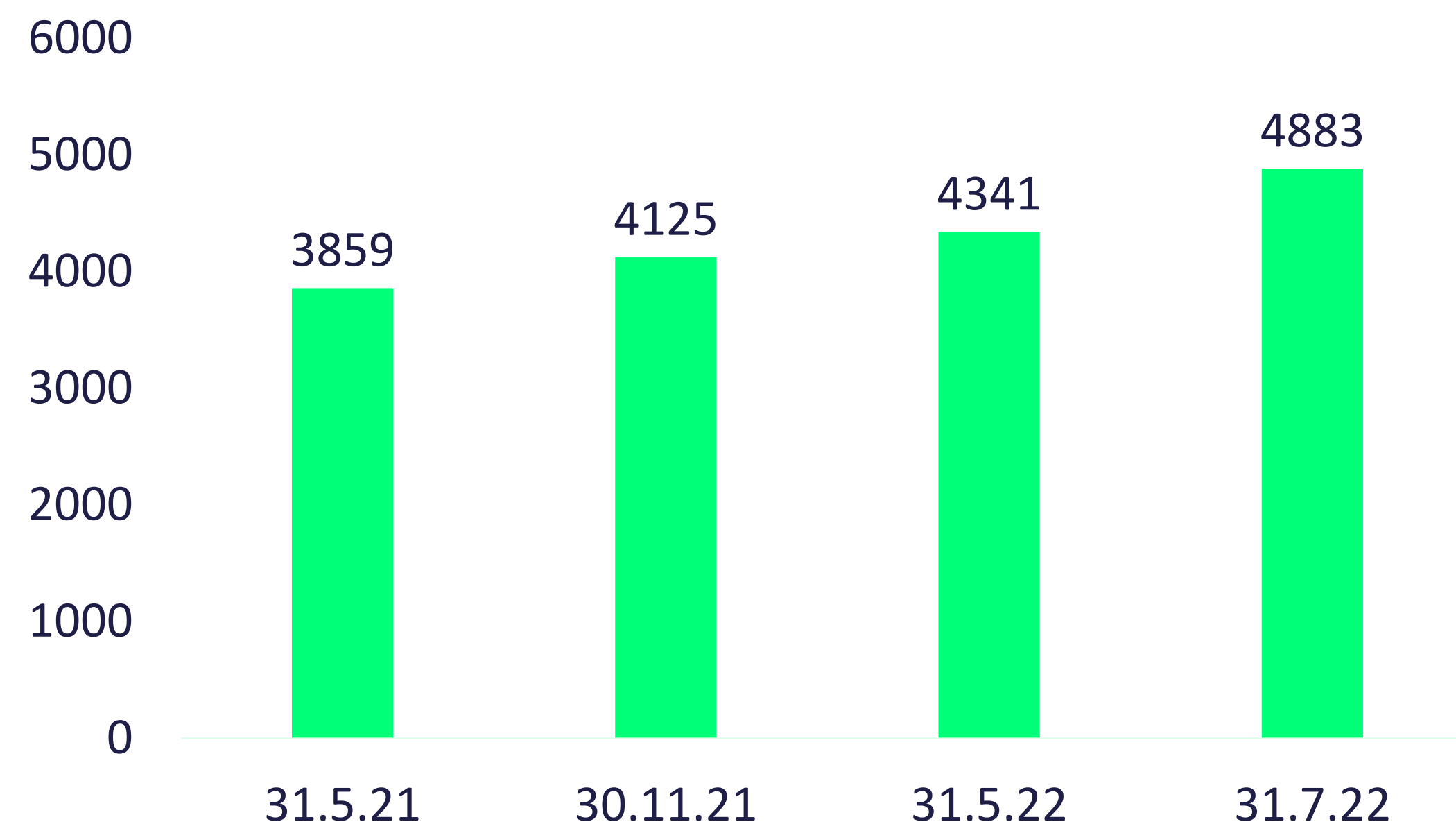
K3 Products



K3 Products

| (£m) | H1 2022 | H1 2021 |
|------------------------|---------|---------|
| Revenue | 6.5 | 7.9 |
| Gross profit | 5.2 | 6.0 |
| Gross margin % | 80.2% | 76.4% |
| Adj. EBITDA | 0.6 | 1.2 |
| CapDev | 0.8 | 1.4 |
| Adj EBITDA less CapDev | (0.2) | (0.2) |

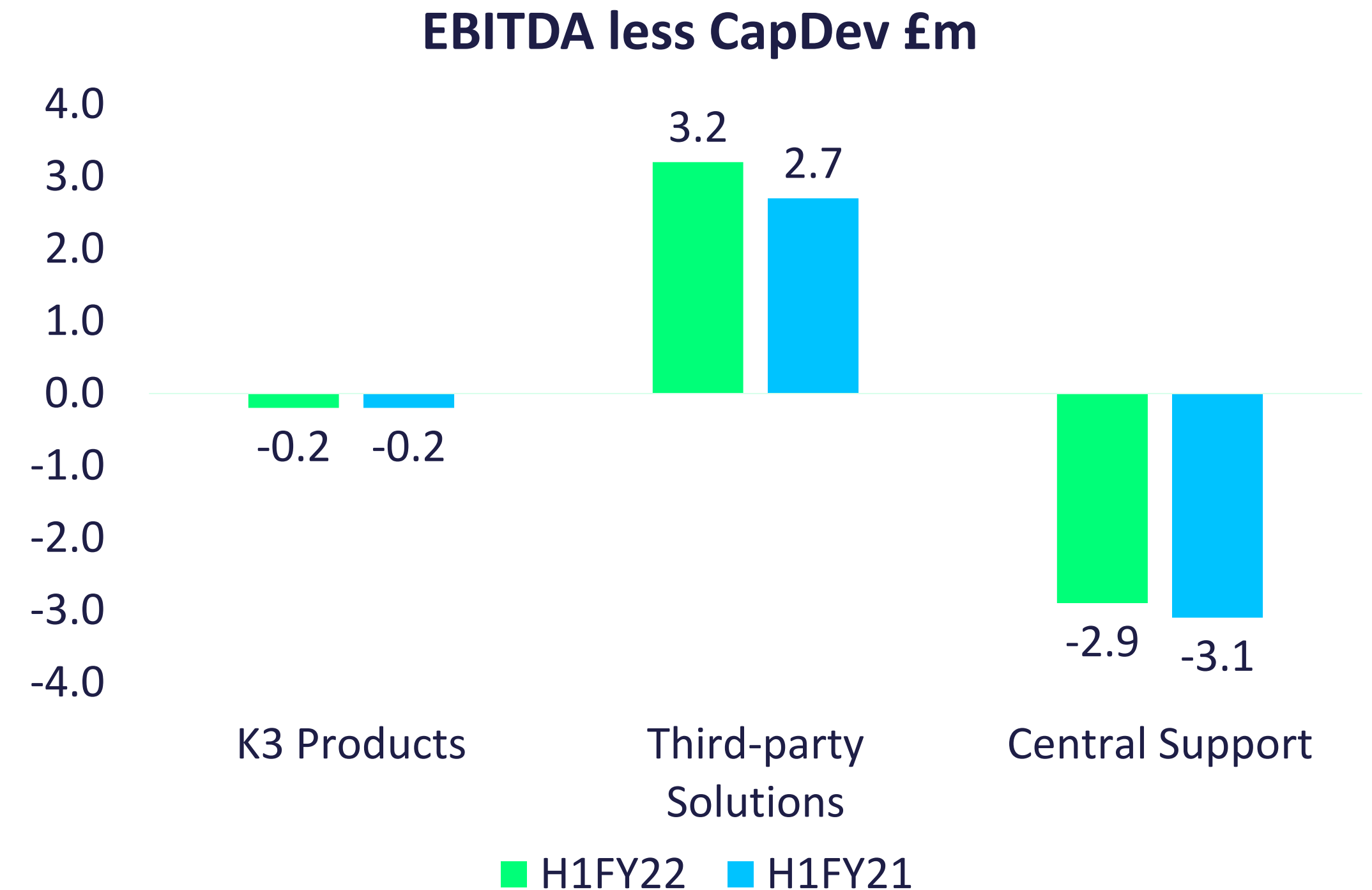
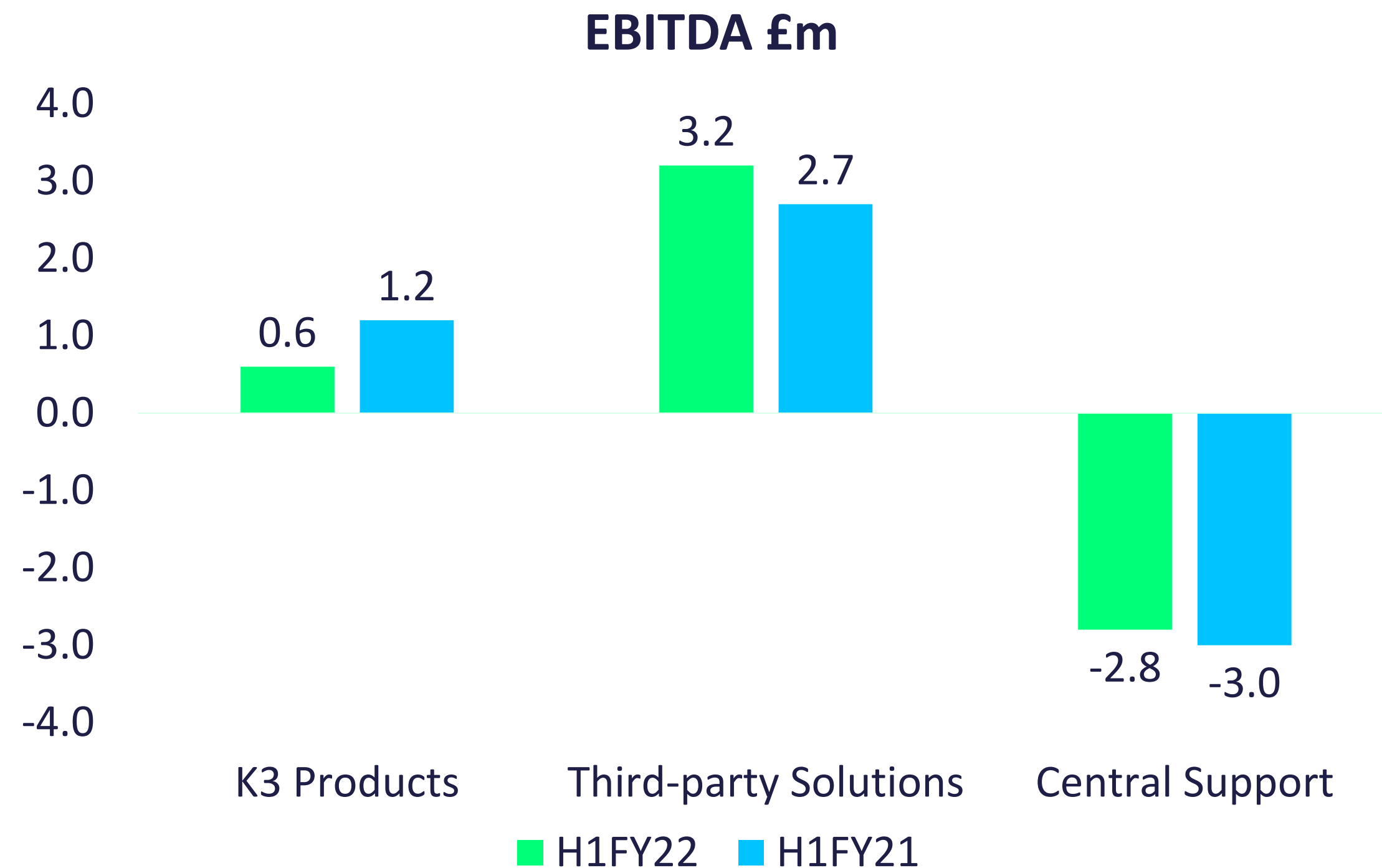
Growing annualised value of strategic product licenses £k



H1 2021 Performance

- Revenue decreased due to revenue recognition of larger multi-year deals in the last financial year and deal 'lumpiness'
- Significant increase in gross margin percentage reflected cost base reductions
- Legacy point-of-sale products customer base continued to decline as expected. Focus is providing key accounts with a migration pathway to K3 strategic products
- Total annualised revenue value of software licences from strategic products is growing – up 12% to £4.3m. At 31 July up to £4.9m.
- Successful acquisition of ViJi - significantly enhances Sustainability offering. ViJi capabilities being integrated within other strategic products
- Strong Microsoft relationship and focusing on deepening channel partner relationships especially in the USA

Cash Generative EBITDA



- Cash flows from Third-party Solutions has supported investment in K3 Products development
- Central support costs reduced (as well as capitalised development)
- K3 Products managed to marginally less than neutral on cash generation

Financial Key Points



| (£m) | H1 2022 | H1 2021 |
|--|---------------|---------|
| Revenue from continuing operations | 19.9 | 20.9 |
| - recurring & predictable revenues ¹ | 76% | 73% |
| Gross profit | 11.9 | 12.1 |
| - gross profit margin | 59.6% | 58.1% |
| Adj. EBITDA ² | 1.0 | 0.9 |
| Loss before tax from Continuing operations | (2.6) | (4.7) |
| Discontinued activities profit/(loss) after tax including gain on disposal | (0.1) | 9.7 |
| Adj. EPS loss from continuing operations (p) | (4.9)p | (11.3) |
| Net cash / (debt) ³ | 1.4 | 4.4 |

- Recurring and predictable revenues at c.75%
- Continuing activities adjusted EBITDA up 13% to £1.0m (2021: £0.9m)
- Improved gross profit margin
- Net cash of £1.4m (2021: £4.4m) – cash generation significantly biased to Q4, reflecting licence and maintenance and support contract renewals
- Disposal of non-core Sage and Starcom businesses (respectively in Feb and Sept 2021) included in discontinued activities

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, cash and shareholder loan

Conclusions



- The Group is better positioned, with a clear growth strategy in place
- Further operational improvements planned in 2022
 - streamlining systems
 - greater focus on demand generation and sales
 - implementation of customer success function
- Third-party Solutions
 - generates high levels of recurring revenue and cash
 - now with more ambitious growth targets and an encouraging pipeline
- K3 Products
 - strategic products capable of delivering 16%+ y/y growth
 - answering key needs of a wider Targeted Addressable Market
 - differentiation – can take a thought leadership role in Sustainability
 - average software deal size is increasing
- Cash balances expected to grow significantly in H2
- Current trading
 - attractive potential deals in pipeline at both K3 Products and Third-party Solutions
 - deal closures in June and July were ahead of same period last year
 - Board is encouraged although it also recognises the uncertainties ahead



Supplementary Information



H1 2022 Financial Position



| ASSETS | £'000 | £'000 | £'000 |
|--------------------------------------|---------------|---------------|---------------|
| <i>Non-current assets</i> | 31 May 2022 | 31 May 2021 | 30 Nov 2021 |
| Property, plant and equipment | 1,661 | 1,629 | 1,551 |
| Right of Use Assets | 1,098 | 1,851 | 1,709 |
| Goodwill | 25,475 | 25,733 | 24,772 |
| Other intangible assets | 5,902 | 8,408 | 6,648 |
| Deferred tax assets | 1,010 | 681 | 1,010 |
| Total non-current assets | 35,146 | 38,302 | 35,690 |
| <i>Current assets</i> | | | |
| Stock | 448 | 497 | 466 |
| Trade and other receivables | 11,742 | 10,387 | 10,605 |
| Cash and cash equivalents | 4,322 | 6,295 | 9,146 |
| Total current assets | 16,512 | 17,179 | 20,218 |
| Total assets | 51,658 | 55,481 | 55,908 |
| LIABILITIES | | | |
| <i>Non-current liabilities</i> | | | |
| Lease liabilities | 223 | 926 | 135 |
| Provisions | 783 | 472 | 1,229 |
| Deferred tax liabilities | 1,224 | 925 | 1,228 |
| Total non-current liabilities | | | 2,552 |
| <i>Current liabilities</i> | | | |
| Trade and other payables | 10,610 | 11,318 | 14,456 |
| Current tax liabilities | 632 | 1,577 | 509 |
| Lease liabilities | 951 | 943 | 1,623 |
| Short-term borrowings | 2,949 | 1,901 | 113 |
| Current provisions | 854 | 122 | 854 |
| Total current liabilities | 15,996 | 15,861 | 17,555 |
| Total liabilities | 18,290 | 18,184 | 20,107 |
| Net assets | 33,368 | 37,297 | 35,801 |

- Net cash of £1.4m (2021: net cash of £4.4m)
 - net cash spread across cash and cash equivalents and borrowings
- Goodwill balances relate mainly to Global Accounts and SYSPRO

H1 Cash Flow – seasonal outflow



| (£m) | H1 2022 | H1 2021 |
|--|--------------|--------------|
| Cash generated from operations | (5.4) | (7.4) |
| Income tax credit / (paid) | 0.3 | (0.0) |
| Net cash used in investing activities | (1.6) | 12.5 |
| Net cash used in financing activities | 0.7 | (8.2) |
| Net change in cash and cash equivalents | (6.0) | (3.2) |

- H2 typically generates strong and reliable inflows
- H1 FY 2021 included £1.3m of governmental coronavirus-related tax deferral schemes originally due in FY 2020.
- Investing activities
 - H1 FY2021 included the Starcom disposal proceeds of £13.8m
 - H1 FY 2022 included £0.4m of internal systems work
- Financing activities
 - H1 FY2021 included the reduction of borrowing following the Starcom disposal proceeds and the conversion of £3m shareholder loan to equity

Business Overview



Third-party Solutions



Solutions for manufacturing and retail

- A leading ERP solution (SYSPRO) for UK manufacturers
 - Large user base of c. 400 customers
 - Deep domain expertise
 - Stable, predictable cash flows (software licence, support and maintenance contract renewals)
 - Typically 'on-premise' with upfront software licence sales
- Highly specialist services, mainly for IKEA franchisees (Global Accounts)
 - K3 embedded in IKEA (Master Version keyholder)
 - Software development, global implementation, bolt-on K3 modules, integration, strategic support
 - Highly predictable revenues

K3 Products



Core products focused on fashion & apparel sector

- Close global relationship with Microsoft, preferred 'add-on' solution for fashion & apparel sector.
- Customers include significant brands. Also significant presence in visitor attraction market
- Sales via channel partner network – enterprise and mid market
- Upfront software licence sales but moving to SaaS
- Non-core products in managed decline (older, niche point-of-sale solutions c.£4.5m recurring revenue)

**FY 2021
Revenue
£45.3m**

**FY 2021: £28.9m revenue | £8.0m adj. EBITDA
50.4% gross margin**

**FY 2021: £16.3m revenue | £2.3m adj. EBITDA
74.9% gross margin**

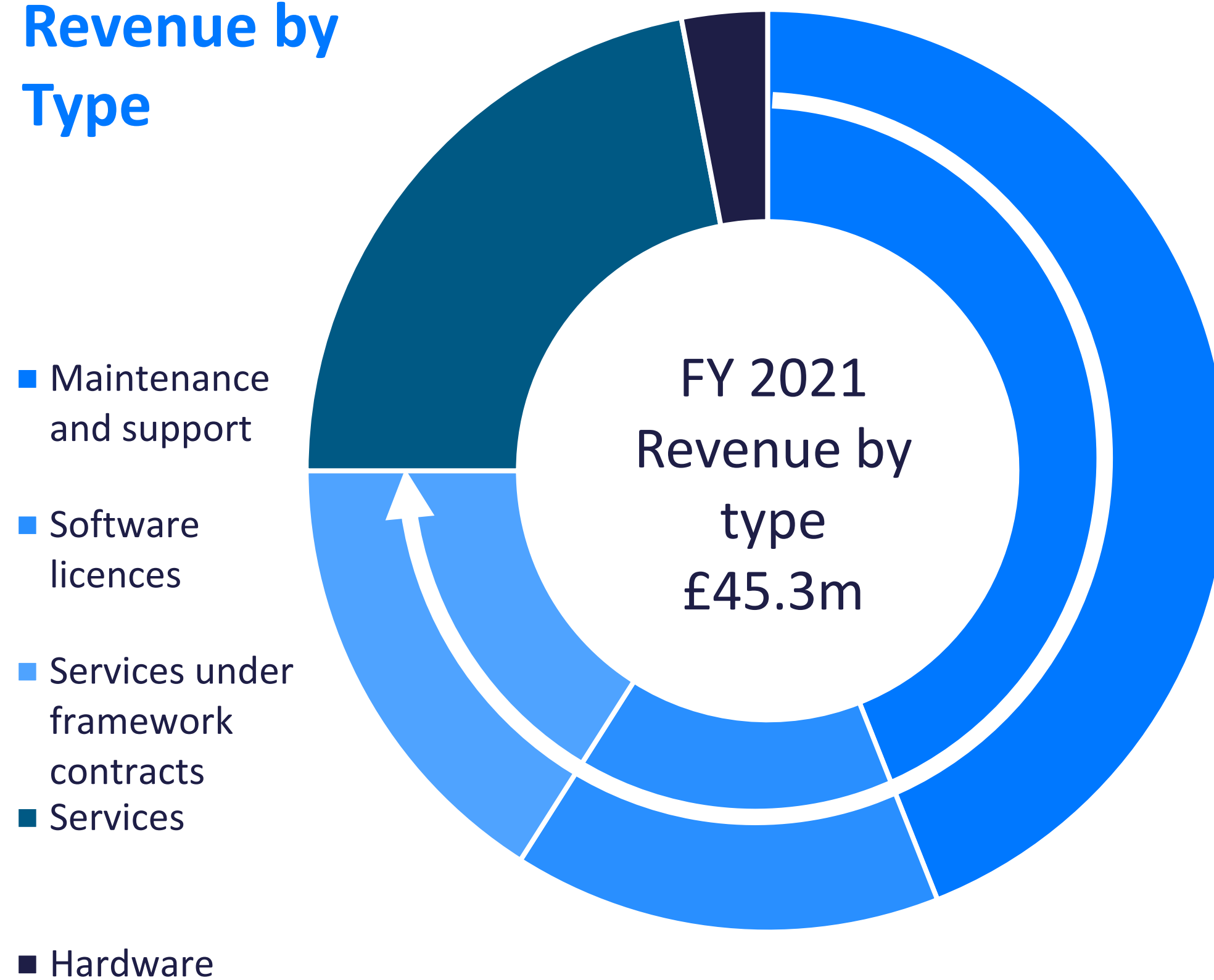
**ERP is Enterprise Resource Planning*

FY 2021 Group Revenue Analysis

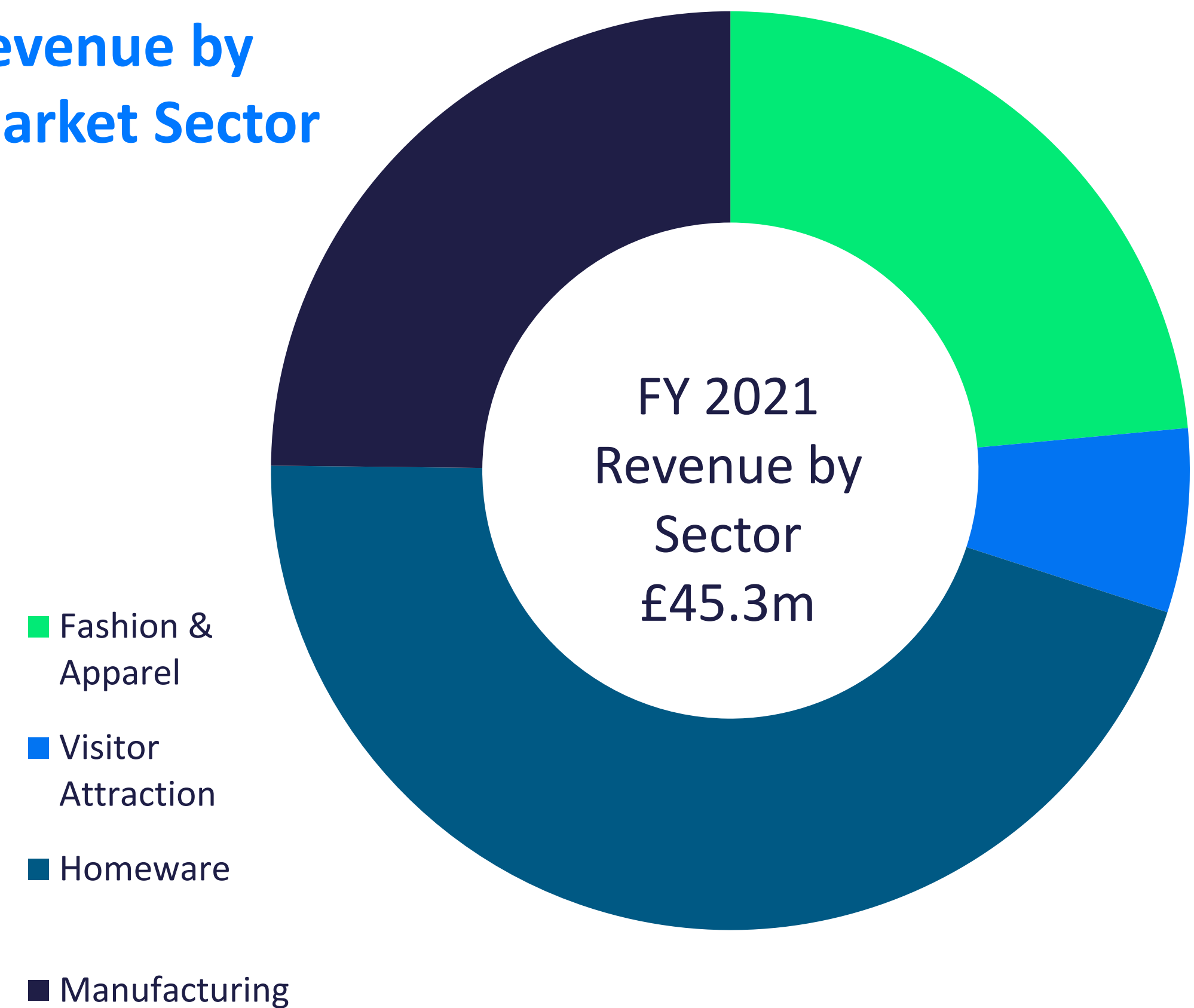


c. 75% of revenue is recurring or predictable

Revenue by Type



Revenue by Market Sector



A complete suite of ERP, Unified Commerce and Sustainability solutions for the Fashion and Apparel industry



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 Imagine

Any Client who needs a robust Unified Commerce/Retail solution to unlock Omnichannel Retail, which can be integrated with any legacy system

- Provides Unified Inventory and Customer Experience
- Front End (POS, Checkout, Kiosks, Mobile) and BackOffice
- Fully Omnichannel
- Realtime Orchestration and synchronization of Data across multiple legacy platforms. Process/Rule designer tool allows integration without writing any code

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

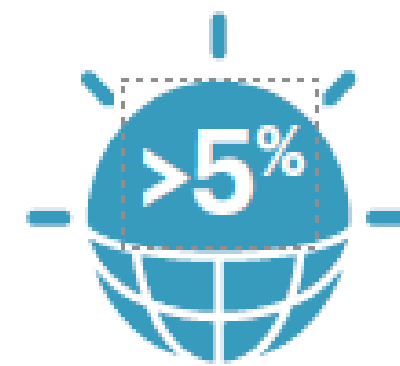
McKinsey's Technology Megatrends for Fashion and Apparel (May 2022)



THEME 01

Metaverse Reality Check

The marketing value of digital fashion and NFTs may now be clear, but fashion brands will need to separate hype from the concrete opportunities to generate sustainable revenue streams presented by growing consumer engagement with the metaverse.



Fashion companies focused on metaverse innovation and commercialisation could generate more than 5 percent of revenues from virtual activities over the next two to five years.

THEME 02

Hyper Personalisation

Brands have access to a growing arsenal of personalisation tools and technologies to upgrade how they customise and personalise their customer relationships. The opportunity for executives now is to harness Big Data and AI to provide one-to-one experiences that build long-term loyalty.



71 percent of global consumers want companies to deliver personalised communications and products, and 76 percent are unhappy when this is not offered.

THEME 03

Connected Stores

The inexorable rise of e-commerce has forced fashion players to rethink the role of physical stores. Fashion executives can address consumer pain points by using in-store mobile apps to enhance the experience and micro-fulfilment technologies to leverage their physical retail networks for the quick-commerce era.

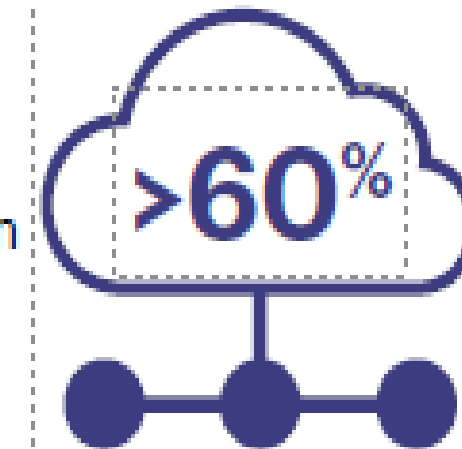


Customers who engage with in-store technology spend up to four times longer shopping than those who do not.

THEME 04

End-to-End Upgrade

Digital tools and analytics have transformed key parts of the fashion value chain, but these optimisations are often siloed within organisations, limiting the potential for cross-functional improvements. Brands should embark on end-to-end value chain integration to create more efficient and more profitable ways of operating.

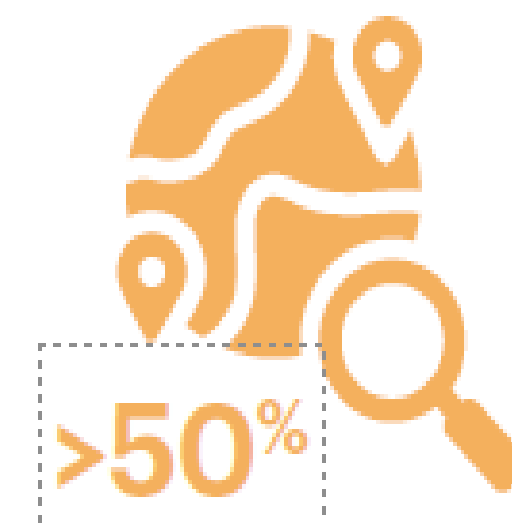


More than 60 percent of fashion executives believe creating integrated digital processes throughout their organisations will be among their top-five areas for digitisation as they look ahead to 2025.

THEME 05

Traceability First

Traceability systems powered by tracking software and Big Data will help fashion brands focusing on sustainability to reach far into their supply chains to understand the entire lifecycle of their products.



More than 50 percent of fashion decision makers say traceability will be a top-five enabler to reduce emissions in their supply chains.