Technology Group

Financial results for the half year ended 31 August 2023

Wednesday, 25 October 2023

Neil Murphy Chief Executive Officer
Andrew Holden Chief Financial Officer

Continued strong momentum

Gross invoiced income
£1,081.6m
+37.6%

Gross profit
£75.3m
+15.0%

Adjusted operating profit
£33.9m
+13.8%

Cash
£51.7m
H1 FY23 £35.8m

Revenue
£108.7m
+16.3%

Earnings per share
10.6p
+17.0%

AOP/Gross profit
45.0%
H1 FY23 45.5%

Cash conversion
48.7%
H1 FY23 (2.8)%

- Gross invoiced income exceeded £1bn in H1 FY24, demonstrating strong growth driven by notable contract wins and continued demand spread across software, hardware and services
- Continued demand from both public sector and corporate customers
- Significant increase in sales of multi-year contracts from major government departments supports our long-term sales strategy and enhances our already strong annuity income

Highlights

People

- Great Place to Work Awards, with 92% of staff recommending Bytes to friends as a place to work
- Low employee churn, overall headcount now exceeding 1,000
- Hired more than 50 additional sales staff, building for the future
- Expanding footprint with opening of new City office

Customers

- No customer concentration, but instead a diversified and very large customer base
- Strong growth in GP per customer (+10%)
- NPS of 77
- 200 new customer wins to date

Strategic relationships

- Deepened and diversified our relationship with Microsoft
- Broad vendor base, growing strongly across AWS, Adobe, VMware, Mimecast, Sophos, Darktrace, Crowdstrike, Checkpoint, Citrix, Zscaler, Veritas, Abnormal Security, Palo Alto, IBM, Cisco, NetApp, HPE and others

Technological tailwinds

- Cybersecurity, SAAS and associated services
- Cloud computing (private and public clouds) or on-premise or hybrid data center
- AI/Copilot changing the way we work for the better

Strength in diversification of client base

Broad vertical market coverage

- Over 200 new clients in H1 FY24
- A renewal rate of 113% supporting cross- and up-sell strategy
- 10% growth in gross profit per customer in H1 FY24
- 67/33 gross invoiced income split in public vs corporate sector sales
- No customer concentration risk, with the biggest client less than 1% of gross profit

Deepening our relationship with Microsoft

Continuing to expand our relationship after 30 years of working together

#1 UK Partner	Full Service Partner	Azure Migration Partner and Expert MSP

- A deep and embedded partnership with Microsoft, one of the world's leading software companies
- Microsoft continues to be at the forefront of software, cloud technology and innovation
- Bytes is well-placed to benefit from new product development, such as the AI-enabled Copilot tool
- Internal trial of Copilot leaves us well-prepared for the wider roll-out to customers later this year

Awards

PHOENIX

2023 Microsoft Global Modern Endpoint Management Partner of the Year

2020 Microsoft UK Partner of the Year

BYTES

2022 Microsoft Global Partner of the Year for Operational Excellence

Financial review

Andrew Holden, Chief Financial Officer

Ongoing strong performance

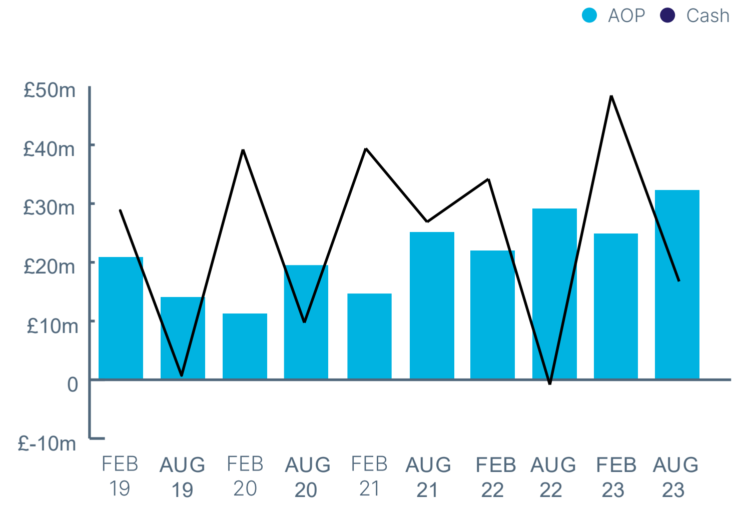
	H1 FY24	H1 FY23	Change
	£'m	£'m	%
Gross invoiced income	**1,081.6**	**786.2**	**37.6%**
Split by product			
Software	1,027.3	738.4	39.1%
Hardware	24.1	20.9	15.3%
Services	30.2	26.9	12.3%
Netting adjustment	**(972.9)**	**(692.7)**	**40.5%**
Revenue	**108.7**	**93.5**	**16.3%**
Gross profit	**75.3**	**65.5**	**15.0%**
Administrative expenses	**(44.7)**	**(38.2)**	**17.0%**
Operating profit	**30.6**	**27.3**	**12.1%**
Add back			
Share-based payments	2.9	1.7	70.6%
Intangible amortisation	0.4	0.8	(50.0)%
Adjusted operating profit	**33.9**	**29.8**	**13.8%**
Net finance income / (costs)	2.6	(0.3)	
Share of profit of associate	0.1	–	
Profit before taxation	**33.3**	**27.0**	**23.3%**
Income tax expense	(7.9)	(5.3)	49.1%
Profit after tax	**25.4**	**21.7**	**17.1%**

- Adjusted operating profit growth of 13.8% reflecting continued investment in headcount to drive growth
- Expenses growing (17%) ahead of GP growth (15%) as a result of investing earlier in the year on headcount
- The third round of long-term incentives was issued in June 2023. The pre-IPO PSPs are due to vest in December this year. The growth in this cost line will begin to normalise
- Net finance income for the first time
- Share of profit in Associates is from the 25.1% investment made into Cloud Bridge earlier this year
- Corporate tax rate increased to 25% as of 1 April this year

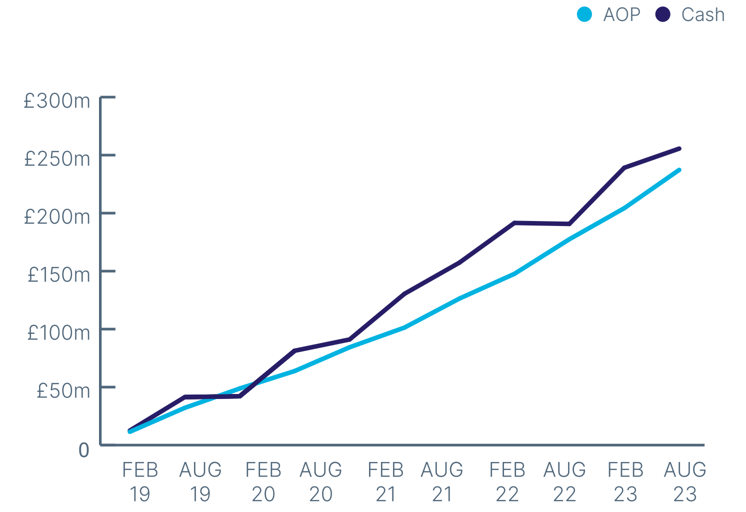
Cash flow

	H1 FY24 £'m	H1 FY23 £'m
Cash flow		
Cash generated from operations	17.4	(0.2)
Payments for fixed assets	(0.9)	(0.6)
Operating Cash Flow after Capex	**16.5**	**(0.8)**
Net interest (paid)/received	2.7	(0.2)
Taxes paid	(7.2)	(5.3)
Lease payments	(0.1)	(0.1)
Investment in associate	(3.0)	–
Dividends	(30.2)	(24.9)
Net (decrease)/increase in cash	**(21.3)**	**(31.3)**
Cash at the beginning of the year	73.0	67.1
Cash at the end of the year	**51.7**	**35.8**
Cash conversion	**48.7%**	**(2.8%)**

Cash conversion by each half



Cumulative cash conversion



- Cash balance a healthy £51.7m after payment of a final and special dividend for FY23 of £30.2m
- Cash conversion in H1 FY24 of 48.7%
- Cash conversion reflects the seasonality evident in historical trends
- Cumulative cash conversion the last four years still above 100%
- Targeting full year cash conversion of >100%

Capital allocation and interim dividend

Capital allocation

The Group's capital allocation policy:

- Future growth
- Capital projects
- Ordinary dividends
- M&A
- Special dividends/share buyback

Interim dividend

The Board is pleased to approve an interim dividend of 2.7 pence per share, payable in early December 2023

12.5% increase on H1 FY23 interim dividend, underlining our growth in operating profits, against the impact of higher tax rates

M&A

In April 2023 we acquired a 25.1% interest in long-term AWS partner, Cloud Bridge Technologies

Enables additional access to technical resources, underpinning our multicloud strategy

Advancing our reputation as a responsible business

Environmental

- Furthering our Scope 3 reporting, collecting data for additional relevant categories
- Committed to submit our carbon reduction targets to SBTi for validation
- Second CDP submission completed, rating due in Q4 FY24
- EV scheme rolled out, to support the transition to sustainable travel

Social

- Supporting our employees
  - Appropriate pay increases and cost of living support
  - Building on health and wellbeing, with a series of awareness sessions on topics such as menopause, Black History Month and Breast Cancer Awareness
- Engaging with our communities
  - Volunteering activities in support of numerous causes, e.g. London Wetland Centre, Wildlife Aid and Rainbow Trust
  - Charity and fund raising events in support of local and national charities, e.g. St Leonards Hospice, Movember and Macmillan Trust

Governance

- Sam Mudd, MD of Phoenix Software, appointed to the Board at our 2023 AGM, and process underway for the appointment of a NED to replace Alison Vincent, who steps down from the Board at the end of October 2023
- Continued strengthening of our governance in line with FRC Review of Corporate Governance guidance
- Ongoing Board engagement with employees across the organisation

CDP DISCLOSURE INSIGHT ACTION · TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES · SUSTAINABLE DEVELOPMENT GOALS · SCIENCE BASED TARGETS · THE WIT NETWORK · FTSE Women Leaders

Summary and outlook

Neil Murphy, Chief Executive Officer

Our proven strategy for organic growth

- Cloud Services
  - Software Asset Management
  - IT services
- AI solutions – Copilot and Azure AI services
- Security software

Focus on solutions mix

- Boosting our sales capacity with regular new sales intakes
- Regionalise sales capacity
- Target marketing in all segments
- Develop deeper partnerships with selected vendors

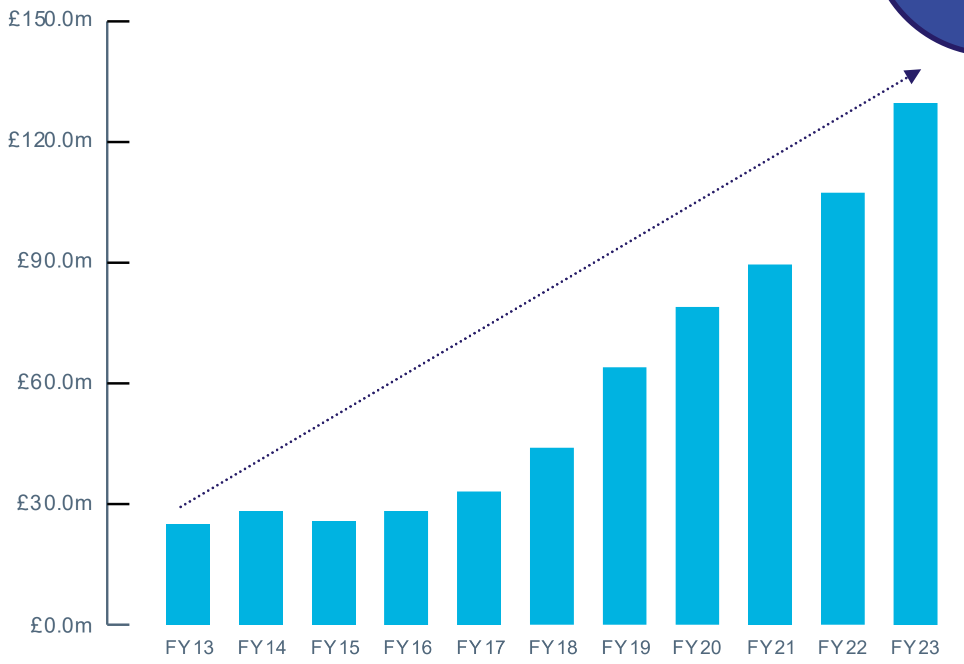
Expand customer mix

- Maintain customer service excellence
- Focus on depth and strength of our capabilities
- Optimise software asset management to sustain USP
- Increase our technical capabilities
- Large growth potential as our market share is still <4% of estimated TAM

Increase wallet share

Consistent delivery of strong double-digit growth

10-year GP CAGR 17.9%



Our strategy in practice

Value enhancing 'land-and-expand' in practice, supporting our longer-term growth ambitions and ability to continue with our proven track record of double-digit growth

NHS

Secured a new five-year agreement with the NHS

- Multi-year access to technical and thought leadership team at the central tenant
- Accelerating the NHS's secure adoption of Microsoft cloud services which provides a platform for future innovation in healthcare
- By adopting a multicloud strategy, all NHS staff will have access to the latest digital tools as part of ongoing efforts to improve efficiency

£4bn
IT budget

'Land-and-expand' in practice

- Collaboration contract to potentially include other vendors
- Current sales value over five years of £860m
- We expect our cross-sell and upsell capabilities to deliver double-digit growth in contract value
- NHS contract win supported H1 FY24 sales growth of 37.6%; excluding the NHS contract Group sales growth was over 19%
- Drag along professional services and vendor incentives optimised from the contracts

£860m
current sales value over five years

Summary and outlook

Well-placed to continue taking market share and set to benefit from new technologies

- Tried and tested business model continues to deliver for all of our stakeholders
- Large addressable market with well-established and persistent tailwinds supported by global IT spend
- We expect to continue delivering double-digit growth across our key financial metrics, as well as increases in market share
- Despite the challenging macroeconomic environment, demand has remained strong across all verticals and business lines
- Group benefits from strong balance sheet and no debt
- Proven strategy ensures we are well placed to continue our progress over the remainder of FY24

Any questions?
www.bytesplc.com