BYTES Technology Group

Strong first half extending our track record of consistent double-digit growth

Financial results for the half year ended 31 August 2022

Bytes Technology Group plc

Wednesday, 26 October 2022

Agenda

Introduction and overview

Neil Murphy

Financial review

Andrew Holden

Summary and outlook

Neil Murphy

Neil Murphy
Chief Executive Officer

Became CEO of BTG in 2020, having been MD of the Group since 2000. More than 30 years experience in the IT sector. Before his appointment as Bytes MD, Neil was company sales director for three years.

Andrew Holden
Chief Financial Officer

CFO since October 2021, having joined the Group as COO in June 2021 from JSE-listed technology company, Altron, BTG's former parent. Extensive financial and operational experience in ICT, spending more than 27 years at Altron.

Bytes Technology Group Plc
Incorporated in England and Wales
Registered number: 12935776
"BTG", or "the Group"

Positive start to the year with strong momentum going into the second half

H1 FY23 gross invoiced income	H1 FY23 gross profit	H1 FY23 adjusted operating profit
£786.2m (+23.2%)	£65.5m (+23.8%)	£29.8m (+19.2%)
H1 FY23 revenue	**H1 FY23 AOP/gross profit**	**H1 FY23 earnings per share**
£93.5m (+27.9%)	45.5% (H1 FY22: 47.3%)	9.06p (+17.4%)

We have made a really positive start to the year. This performance reflects robust demand from both corporate and public sectors, with our customers showing a continued appetite to invest in their IT requirements despite the macroeconomic environment.

Business benefitting from strong foundations

BTG provides world-class IT solutions and services, offering software, hardware and cloud services

Employees

- Growth in net number of employees of +13% to 871
- Expanding accreditations per customer and vendor requirements
- Acceptable attrition in line with prior year

Customers

- Continuing our successful strategy of acquiring new customers and growing share of wallet
- Added 300 new customers
- Renewal rate of 120%
- Number of customers at 5,000+

Vendors and partners

Adobe, Microsoft, paloalto, veeam, cisco, citrix, CrowdStrike, aws, Darktrace, Dell, Forcepoint, Barracuda, f5, Check Point, rubrik, RingCentral, hp, McAfee, IBM, mimecast, proofpoint, Veritas, Red Hat, Varonis, ivanti, tenable, snow, vmware, Sophos, zscaler, okta

Awards

Our partnerships with diverse vendors go from strength to strength

Microsoft – **Partner of the Year: Operational Excellence** *Selected from over 3,900 partners globally*

mimecast – **Enterprise Growth Partner of the Year**

Dell Technologies – **Public Sector Partner of the Year**

Barracuda – **Data Protection Partner of the Year**

High quality customer service at the centre of our business

Culture

- Collaborative, team-based culture drives sales performance and service
- Development of an highly experienced management team
- Participation and recognition through second year roll-out of Sharesave Plan and Company Share Option Plan
- Encouraging employee feedback through openness and transparency
- Supporting physical and mental wellbeing, in and out of work
- Bytes and Phoenix both 'Great Place to Work Certified 2022'

Investment for the future

- Net new employees
  - Technical skills up by 40 employees
  - Administration up by 18 employees
  - Sales and support up by 35 employees
- Investment in skills development and training up significantly year-on-year
- Ongoing investment in career development delivers customer and staff continuity

Sales driven organisation

- 53% of roles are sales, pre-sales, bids or otherwise customer-facing
- Extensive customer relationships built over time
- Continuing to hire new sales talent throughout the year; a focus on our graduate programmes
- High performance and high reward sales culture

Financial review

Andrew Holden

CFO

Income statement

Gross invoiced income up by £148m to £786.2m

+23.2%

GII up 23.2% and, with growth spread across all areas of the business; software, services and hardware. Software remains the core focus, at 94% of total GII

Revenue up by £20.4m to £93.5m

+27.9%

Revenue is stated after an adjustment to reflect the element of gross billings recognised net, as agent. Marginally higher revenue growth against GII reflects the change in mix between software, hardware and services

Gross profit up by £12.6m to £65.5m

+23.8%

Growth in GP is slightly ahead of growth in GII due to mix of sector and product. GP earned from the public sector increased by 28% and corporate sector by 22%

Adjusted operating profit up by £4.8m to £29.8m

+19.2%

AOP grew by 19.2%, somewhat below the growth in GP, mostly due to higher remuneration costs. Therefore, the ratio of AOP/GP decreased from 47.3% in the previous year to 45.5% in this reporting period

	H1 FY23 £'m	H1 FY22 £'m	% Change
Gross invoiced income (GII)	786.2	638.2	23.2%
GII split by product			
Software	738.4	602.9	22.5%
Hardware	20.9	15.6	34.0%
Services Internal	13.4	10.1	32.7%
Services External	13.5	9.6	40.6%
Netting adjustment	(692.7)	(565.1)	22.6%
Revenue	93.5	73.1	27.9%
Gross profit	65.5	52.9	23.8%
Gross profit / GII	8.3%	8.3%	
Gross profit / Revenue (Gross margin)	70.1%	72.4%	
Administrative expenses	38.2	29.7	28.6%
Operating profit	27.3	23.2	17.7%
Add back			
Share based payments	1.7	1.0	70.0%
Intangible amortisation	0.8	0.8	0.0%
Adjusted operating profit (AOP)	29.8	25.0	19.2%
Adjusted operating profit / Gross profit	45.5%	47.3%	
Finance costs	(0.3)	(0.3)	0.0%
Profit before taxation	27.0	22.9	17.9%
Income tax expense	(5.3)	(4.6)	15.2%
Effective tax rate	19.7%	19.9%	
Profit after tax	21.7	18.3	18.6%

Gross invoiced income (“GII”), Gross profit (“GP”), Adjusted operating profit (“AOP”)

Balance sheet

Capital light

- The Group owns the Leatherhead and York offices, our smaller offices in Reading and Manchester are leased
- Intangible assets related to the acquisition of Security Partnerships (2011) and Phoenix Software (2017)
- We hold little or no inventory

Trade and other receivables

- Receivables increased year-on-year from £102m to £176.7m
  - Increased trading, with GII up 23.2%
  - Average debtor days at 38 (H1 FY22 at 32 days)
- Minimal risk in the debtors book (no debt written off in the reporting period)
- Proportionately bigger cloud and CSP billing

Trade and other payables

- Payables increased year-on-year from £150.8m to £199.6m, also from increased trading
- Average creditor days consistent with prior year at 47 days
- All payables are within contract terms

Cash and cash equivalents

- Cash decreased from £67.1m at year end to £35.8m after
  - Payment of full year and special dividends of £24.9m
  - Absorption into working capital (receivables at £13m and payables at £18m)
- Cash conversion rate of -2.8%

	H1 FY23 £'m	H1 FY22 £'m
ASSETS		
Property, plant and equipment	8.1	8.0
Intangible assets	42.0	43.6
Other non-current assets	1.0	1.3
Total non-current assets	51.1	52.9
Trade and other receivables	176.7	102.0
Contract assets	4.2	4.9
Cash and cash equivalents	35.8	42.9
Other current assets	0.0	0.3
Total current assets	216.7	149.9
Total assets	267.8	202.8
LIABILITIES		
Lease liabilities	0.9	1.1
Deferred tax liabilities	0.8	1.1
Contract liabilities	1.8	2.4
Total non-current liabilities	3.5	4.6
Trade and other payables	199.6	150.8
Contract liabilities	18.3	10.5
Lease liabilities	0.2	0.2
Current tax liabilities	0.2	0.5
Total current liabilities	218.3	162.0
Total liabilities	221.7	166.6
Net assets	46.1	36.2
EQUITY		
Share capital	2.4	2.4
Share premium	633.6	633.6
Other reserves	4.8	1.5
Merger reserve	(644.4)	(644.4)
Retained earnings	49.6	43.1
Total equity	46.1	36.2

Cash flow

Cash generated from operations

- Profits before adjustments of £27.3m
- Adjusted for depreciation, amortisation and share based payments totalling £3.1m
- Cash from operations of £30.4m before movement in working capital

Movement in working capital

- £13m absorbed into trade receivables
- £18m absorbed into trade and other payables, including
  - Statutory (payroll, VAT etc.) of £5.9m
  - Trade payables of £8m
  - Receipts in advance of £3m

Cash from investing activities

- Capital light business
- £0.6m invested in property, plant and equipment

Cash from financing activities

- Final and special dividends relating to FY22
- £24.9m paid in July 2022

	H1 FY23 £'m	H1 FY22 £'m
Cash generated from operations	(0.2)	27.0
Payments for fixed assets	(0.6)	(0.1)
Operating cash flow after capex	**(0.8)**	**26.9**
Net interest received / (paid)	(0.2)	(0.3)
Taxes paid	(5.3)	(4.3)
Lease payments	(0.1)	(0.1)
Dividends	(24.9)	0.0
Net increase / (decrease) in cash	**(31.4)**	**22.1**
Cash at the beginning of the year	67.1	20.7
Cash at the end of the year	**35.8**	**42.9**
Change in working capital	**(30.6)**	**1.5**
Cash Conversion	**(2.8%)**	**107.5%**

Interim dividend +20% to 2.4p per share

Dividend policy

Our dividend policy is to distribute 40% of post-tax pre-exceptional earnings to shareholders

Interim dividend

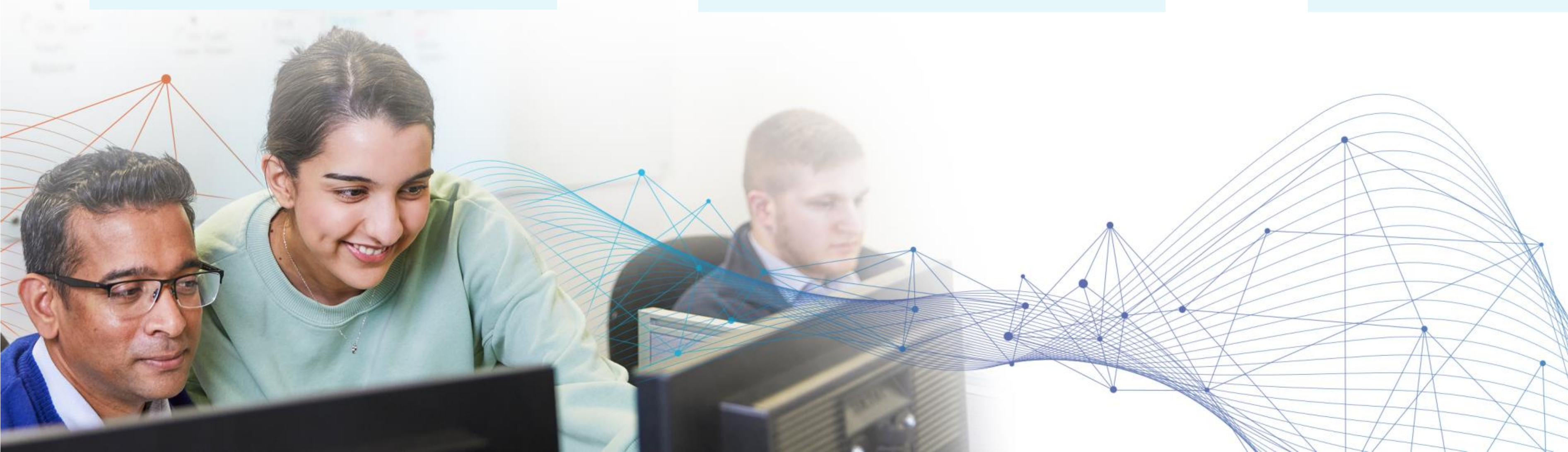
The Board is pleased to approve an interim dividend of 2.4 pence per share, payable in early December 2022

(H1 FY22: 2.0 pence per share)

Capital allocation

The Group's capital allocation policy

- Future growth
- Capital projects
- Ordinary dividends
- Mergers and acquisitions
- Special dividends/share buy back



Summary and outlook

Neil Murphy

CEO

Proven strategy for growth

Organic			Inorganic
Expand customer base	**Increase wallet share**	**Focus on product mix**	**Selective M&A**
• Increase the scale of our sales engine – Three rounds of graduate intakes for FY23 • Regionalise sales capacity • Target marketing in all segments • Developing deeper partnerships with selected vendors	• Maintain customer service excellence • Focus on depth and strength of our capabilities • Optimise software asset management to perpetuate our USP • Increase our technical abilities	• Cloud • Services – Software Asset Management – IT services • Security Operations Centre • Security software • Conversion of traditional voice users • New entries to market	• Track record of successful bolt-on acquisitions – Security Partnerships in 2011 – Phoenix Software in 2017 • Scope for highly selective and accretive M&A that will complement our existing offerings

Sustainability at the core of our strategy

Environmental	Social	Governance

• Progressing environmental targets under our Low Carbon Action Plan
  • Ongoing implementation of Scope 1 and 2 reductions, and Scope 3 supply chain engagements
  • Partnering with environmental specialists to further our carbon reduction plans and SBTi alignment
	• Investment in community training and support
	  • Volunteer days in support of beach cleaning and the St Catherine's Hospice
	  • Donations and fundraising events such as our Charity Matched Funding project
		• Strengthening our governance in line with FRC Review of Corporate Governance guidance

• CDP submission completed, and will expand going forward	• Ongoing support for our 'Women in IT'	• Further improving our internal controls following internal audit engagement

• TCFD focus areas
  • Climate related risks and opportunities
  • Climate scenario modelling
	• Supporting employees through mental health and wellbeing initiatives	• Improving Board diversity remains a key priority

Summary

- Positive start to the year, delivering double-digit growth ahead of the wider market
- Benefitting from strong sector tailwinds as corporate and public sector customers continue to invest in technology
- Good momentum in the adoption of cloud services and other subscription-based products, including cybersecurity
- Focus on company culture driving high customer satisfaction

Outlook

- Continued momentum going into the second half of the year
- New ways of working have become entrenched and we believe the conditions we are operating in represent the new normal
- Well-placed to capitalise on this opportunity thanks to our partnerships with the world's leading vendors
- Despite the uncertain economic backdrop, we remain well-positioned to deliver our growth strategy to the benefit of all stakeholders

BYTES Technology Group

Thank you

Any questions?

www.bytesplc.com