Strong organic growth driven by robust customer demand

Financial results for the year ended 28 February 2022

Bytes Technology Group plc

Tuesday, 24 May 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

Joined BTG as COO in June 2021 from JSE-listed technology, Altron, BTG's former parent. Extensive financial and operational experience in ICT, having spent more than 27 years at Altron, including as COO.

Overview of Bytes Technology Group

Bytes Technology Group provides world-class IT solutions and services, offering software, hardware and cloud services

Intelligent Cloud

Advanced Cybersecurity

Learning Solutions

BYTES Technology Group

Agile Licensing and SAM

Modern Workplace

Modern Datacentre

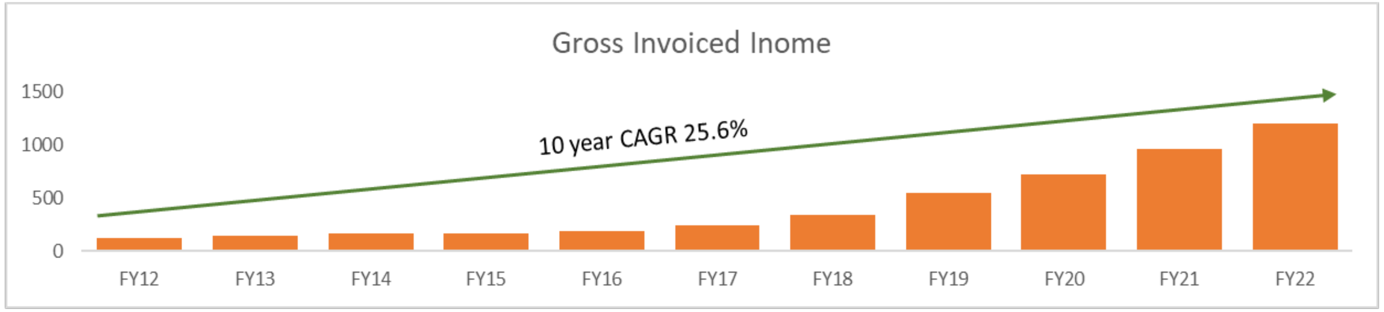
FY22 gross invoiced income £1.2bn	FY22 gross profit £107.4m	FY22 adjusted operating profit £46.3m
FY22 cash at year end £67.1m	FY22 cash conversion 131.9%	FY22 AOP/gross profit 43.2%
Customers served in FY22 5,330	Employees at FY22 year end 773	Vendors partnered with 100+

Delivering on our successful strategy

+26.1%

Gross Invoiced Income (GII)

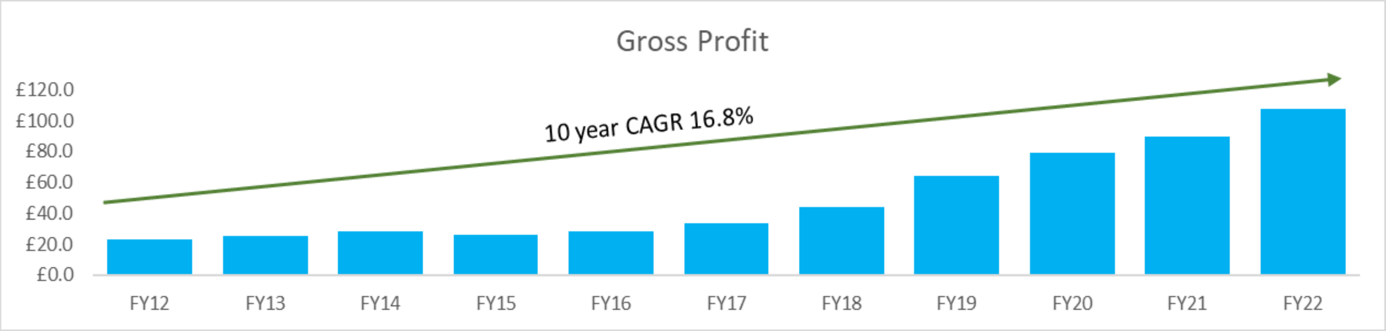
Delivered strong organic growth which is broad-based across all technology sectors



+19.9%

Gross Profit

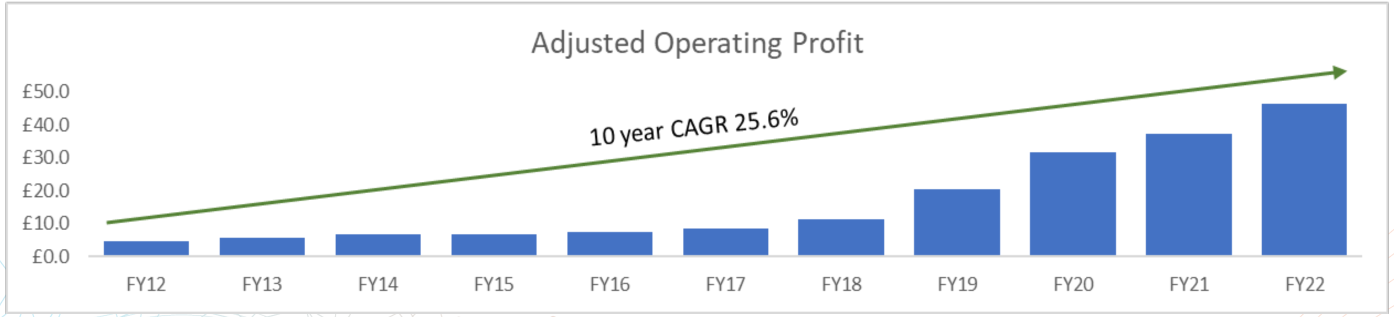
Continued successful sales strategy delivering increased share of the customer wallet by focusing on cloud and cyber security



+23.6%

Adjusted Operating Profit

Realising improved efficiencies with AOP/GP at 43.2%, a trend that continues with further scale



Key data points evidencing our progress

Customers

- Net Promoter Score 64 (FY21: 63)
- We transacted with 5,330 customers in FY22 against 5,147 in the prior year. Although some customers do not transact each year, we still had a net gain of 183
- No single customer makes up more than 1% of Gross Profit

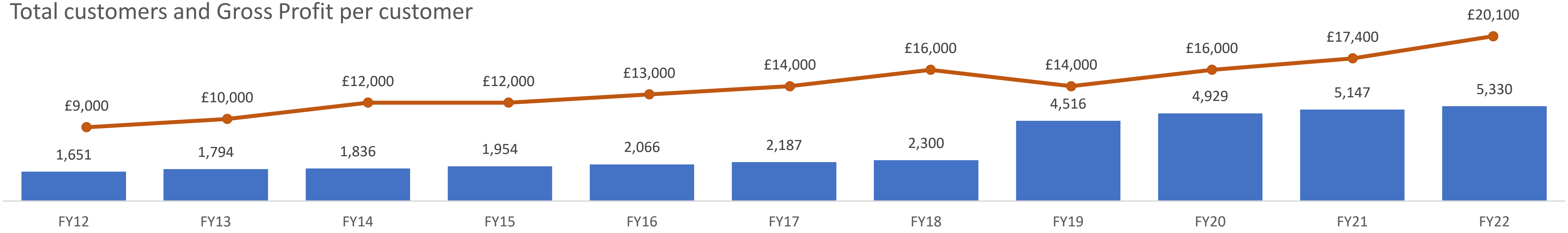
Financial

- Average Gross Profit per customer increased from £17,400 to £20,100 driven by an experienced sales team
- Renewal rate of 111% (Gross Profit from existing customers/Gross Profit in the prior financial year)
- 93% of Gross Profit comes from existing customers

By sector

- Focused on the small to medium enterprise (250 to 10,000 users)
- Public sector
  - 60% of GII up from 56%
  - 35% of GP down from 37%
- Corporate sector
  - 40% of GII down from 44%
  - 65% of GP up from 63%

Total customers and Gross Profit per customer



Our employees

Culture

- Dynamic culture drives sales performance and service
- Highly experienced management team
- Employee Net Promoter Score 69 (FY21: 69)
- Total headcount grew by 88 employees from 685 employees at the beginning of the year to 773 employees at the year end
- Employee attrition remained acceptable for the year at 14% (FY21 12%)
- Rolled out Company Share Option Plan and Sharesave Plan

Investment for the future

- Net new employees
  - Technical skills up by 32 employees
  - Administration up by 20 employees
  - Sales and support up by 36
- Investment in skills development and training up significantly year-on-year
- Investment in own intellectual property
  - License Dashboard
  - Quantum

Sales driven organisation

- Of our employees, 53% of roles are sales, pre-sales, bids or otherwise customer-facing
- Extensive customer relationships built over time
- We continue to hire new sales talent throughout the year, including a focus on our graduate programmes
- We have a high performance and high reward sales culture
- Ongoing career development in our sales environment delivers customer and staff continuity and strong results
- A welcome return of highly motivational sales incentive trips

Financial review

Andrew Holden

CFO

Income Statement

Gross Invoiced Income up by £250m

26.1%

Gross Invoiced Income (GII) up 26.1% and, for the first time in the our history, exceeding £1bn at £1.2bn

Revenue up by £54m

13.8%

Revenue is stated after an adjustment to reflect the element of our gross billings that we recognise net, as agent. This element mainly relates to our sales of cloud-based licenses and critical security software

Gross Profit up by £17.8m

19.9%

The growth in Gross Profit lags that of GII due to mix of customers and the product mix. Gross Profit earned from the public sector increased by 12%, and corporate sector by 24%

Gross Margin improved by 1.2%

24.0%

While Gross Profit/Revenue (Gross Margin) increased by 1.2%, the metric which we focus on is Gross Profit/GII, which contracted 0.4% to 8.9%

Adjusted Operating Profit up by £8.8m

23.6%

Adjusted Operating Profit grew by 23.6% somewhat ahead of the growth in Gross Profit. The ratio of AOP/GP also increased from 41.8% in the previous year to 43.2% in this reporting period

	FY22 £'m	FY21 £'m	% Change
Gross invoiced income (GII)	**1208.1**	**958.1**	**26.1%**
GII split by product			
Software	1136.0	899.2	26.3%
Hardware	28.8	24.1	19.7%
Services	43.3	34.8	24.3%
Netting adjustment	(760.2)	(564.5)	34.7%
Revenue	**447.9**	**393.6**	**13.8%**
Gross profit	**107.4**	**89.6**	**19.9%**
Gross profit / GII	**8.9%**	**9.4%**	
Gross profit / Revenue (Gross margin)	**24.0%**	**22.8%**	
Administrative expenses	**65.2**	**62.7**	**3.9%**
Operating profit	**42.2**	**26.8**	**57.0%**
Add back			
Share based payments	2.5	1.0	150.0%
Intangible amortisation	1.6	1.6	0.0%
Exceptional costs (acquisitions and IPO)	0.0	8.1	(100.0%)
Adjusted operating profit (AOP)	**46.3**	**37.5**	**23.6%**
Adjusted operating profit / Gross profit	**43.2%**	**41.8%**	
Finance costs	(0.60)	(0.20)	225.4%
Profit before taxation	**41.6**	**26.6**	**55.9%**
Income tax expense	(8.7)	(6.7)	29.5%
Effective tax rate	**21.0%**	**25.2%**	
Profit after tax	**32.9**	**19.9**	**64.8%**

Balance Sheet

Capital light

- The group owns the Leatherhead and York offices, the rest 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 £106.7m to £157.6m due to increased trading
- Debtor days of 34
- Minimal risk in the debtors book (debt written off in the reporting period amounted to £123k)

Trade and other payables

- Payables increased year-on-year from £157.1m to £219.6m also from increased trading
- Creditor days of 45
- All payables within contract terms

Cash and cash equivalents

- Cash increased from £20.7m to £67.1m
- Cash conversion is 131.9%
- Debt free at year end

	28-Feb-22 £'m	28-Feb-21 £'m
Assets		
Property, plant and equipment	8.0	8.3
Intangible assets	42.8	44.4
Other non-current assets	1.1	1.7
Total non-current assets	**51.9**	**54.4**
Trade and other receivables	157.6	106.7
Cash and cash equivalents	67.1	20.7
Other current assets	6.9	7.8
Total current assets	**231.6**	**135.2**
Total assets	**283.5**	**189.2**
Liabilities		
Lease liabilities	1.0	1.2
Other current liabilities	2.7	4.1
Total non-current liabilities	**3.7**	**5.3**
Trade and other payables	217.6	157.1
Lease liabilities	0.2	0.2
Other current liabilities	14.5	10.2
Total current liabilities	**232.3**	**167.6**
Total liabilities	**236.0**	**172.5**
Net assets	**47.5**	**16.7**
Equity		
Share capital	2.4	2.4
Share premium	633.6	633.6
Other reserves	3.1	0.3
Merger reserve	(644.4)	(644.4)
Retained earnings	52.8	24.8
Total equity	**47.5**	**16.7**

Cash Flow

Cash from operating activities

- Cash from operations increased year-on-year by £12.1m to £61.7m
- Prior year impacted by £8.1m IPO cost
- Cash conversion of 131.9% – Cash conversion rate is defined as cash generated from operations (excluding IPO costs) less capital expenditure, divided by Adjusted Operating Profit

Cash from investing activities

- Capital light business with minimal capex
- Prior year included the one off impact of the demerger and IPO transactions

Cash from financing activities

- Interim dividend of £4.8m paid during FY22
- Prior year included the one off impact of the demerger and IPO transactions

	FY22 £'m	FY21 £'m
Cash generated from operations	61.7	49.6
Payments for fixed assets	(0.6)	(0.6)
Operating cash flow after capex	**61.1**	**49.0**
Net interest received / (paid)	(0.5)	(0.1)
Taxes paid	(9.1)	(10.2)
IPO costs	0.0	(8.1)
Proceeds from issue of shares	0.0	8.3
Deferred consideration payments	0.0	(16.7)
Lease payments	(0.3)	(0.3)
Dividends	(4.8)	(48.6)
Net increase / (decrease) in cash	**46.4**	**(26.7)**
Cash at the beginning of the year	20.7	47.4
Cash at the end of the year	**67.1**	**20.7**
Cash conversion	**131.9%**	**130.7%**

Final and special dividends

Dividend policy

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

Full year dividend: 6.2p

The Board is pleased to propose a final dividend of 4.2 pence per share, with 2 pence per share paid as an interim dividend in December 2021

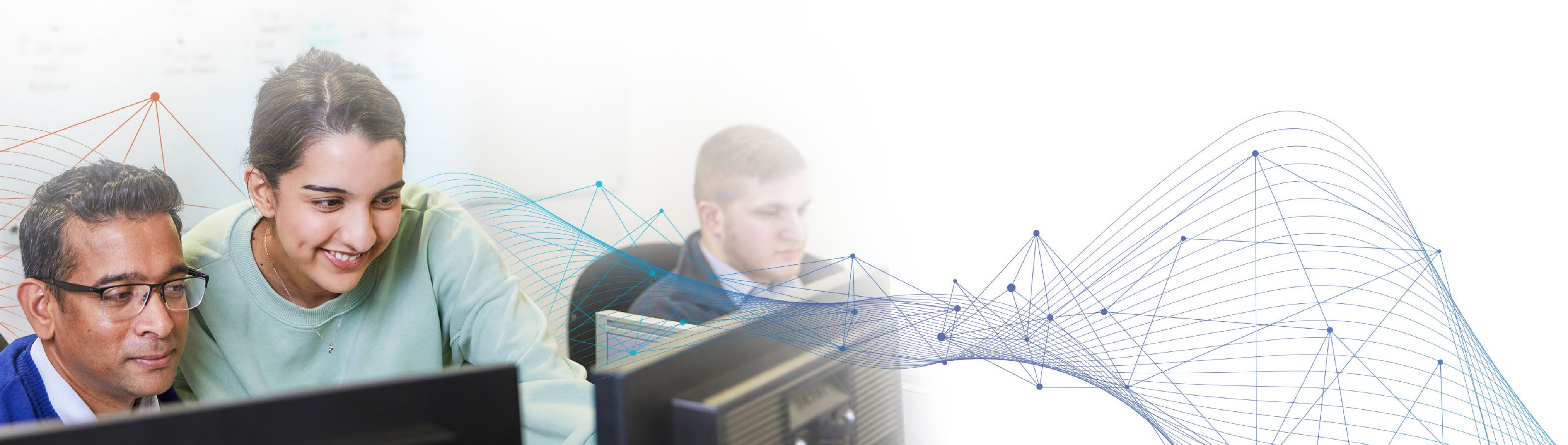
Capital allocation

The Group's capital allocation policy

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

Proposed special dividend: 6.2p

In light of our continued strong performance, excellent cash generation and no imminent acquisitions, the Board also considers it appropriate to propose a cash return to ordinary shareholders with a special dividend of 6.2 pence per share



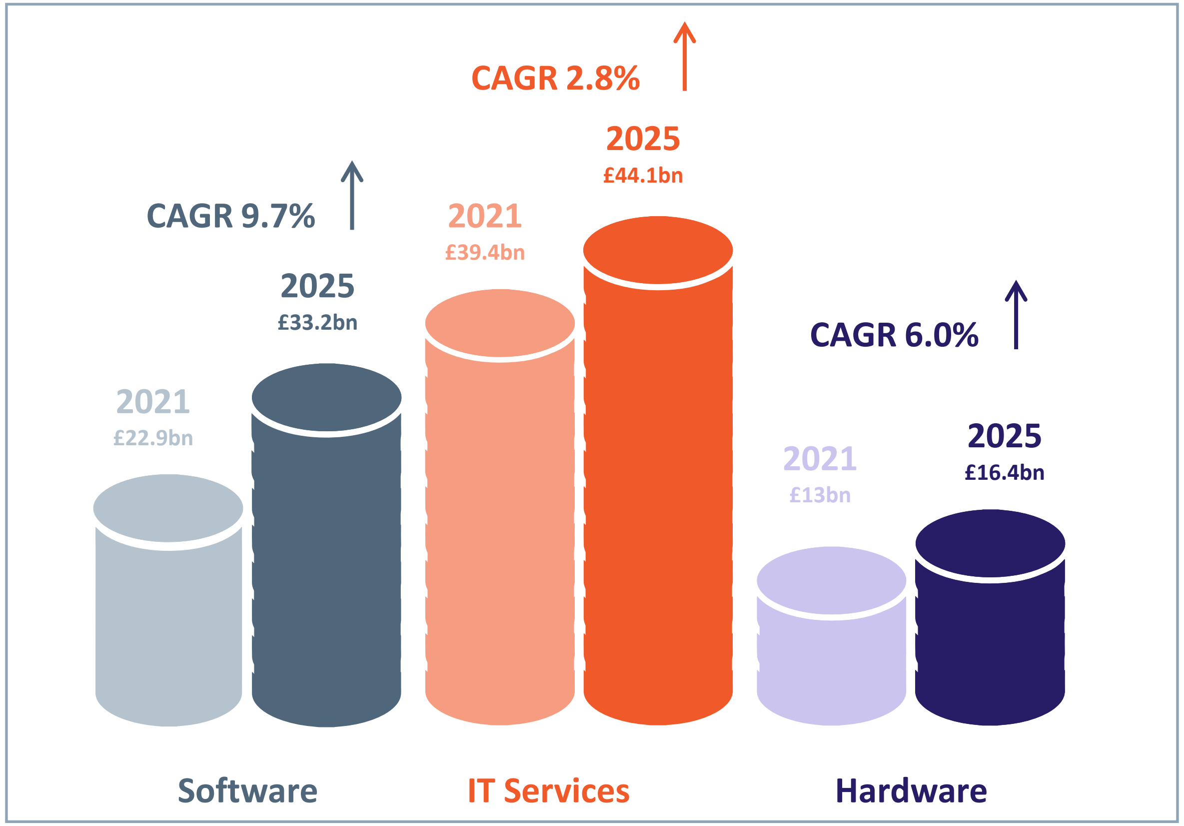
Summary and outlook

Neil Murphy

CEO

Total Addressable Market

We have significant opportunity for market share gains in our core markets



2021
Total: £75.3bn

2025
Total: £93.7bn

Source IDC (October 2021)

- Our addressable market is UK and Ireland; small/medium/large Enterprise; with a focus on software, hardware and IT services
- Estimated market share in 2021
  - Software 4.95%
  - Hardware 0.25%
  - IT Services 0.11%
- Expansion of services and hardware products will enable us to address the current £53.8bn UK Total Addressable Market for IT services and hardware
- Over 42,000 companies with more than 100 employees (being our threshold target size) alongside approx. 10,000 public sector organisations in the UK

Maintaining strategy for growth

Organic

Expand customer base

- Increase the scale of our sales engine
  - Planning three rounds of graduate intakes for FY23
- Look to regionalise sales capacity
- Target marketing in all segments
- Deeper partnerships with selected vendors

Increase wallet share

- Maintain customer service excellence (NPS)
- Focus on depth and strength of our capabilities
- Optimise software asset management to perpetuate our USP
- Increase our technical abilities

Focus on product mix

- Cloud
- Services
  - Software Asset Management
  - IT services
- Security Operations Centre
- Security software
- Conversion of traditional voice users
- New entries to market

Inorganic

Selective M&A

- 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

Our sustainability

Sustainability remains core to our strategy and is underpinned by our values

Governance

- Strengthened our risk controls and assurance through the appointment of PwC as internal auditors
- We took action to ensure our Audit Committee composition fully complies with UK Corporate Governance Code
- Improved female representation on our Board
- Conducted our first Board effectiveness review as a listed entity

Social

- Created a Group-wide social steering committee, focusing on communities and employees' initiatives
- Investment in community training and development
- Donations, fundraising events and volunteer days
- Launching our 'Women in IT' series
- Supporting employees through mental health and wellbeing initiatives

Carbon Reduction Actions

ESG in action. In FY22, we adopted our Low Carbon Action Plan with our first goal achieved

Goals

Our Low Carbon Action Plan, along with the way we help customers to use IT more sustainably, is helping build a healthier world

Proud to be **carbon neutral**

BYTES | Greener together

Carbon neutral by March 2022

Complete

- Achieved our near-term goal of carbon neutral operational emissions by March 2022, using carbon credit approved offsetting schemes

Reduce Scope 1, 2 and 3 emissions by 50% by FY26

In progress

Actions to date:

- Completing our move to renewable electricity in FY22
- Installing electric car charging points at our main locations and setting up a car-sharing network
- Adopting environmental criteria in major equipment purchases
- Continue supply chain engagement around carbon footprint reduction

Reach net zero emissions by 2040

In progress

- Recently adopted a long-term net zero goal in line with our overall ESG commitments, which remain a key Board focus
- Continue to pursue good practice in achieving our environmental, and wider sustainability goals

Outlook

- We have carried our momentum into the new financial year with a strong start in FY23 Q1 – we continue to target double-digit growth that is markedly above overall market growth
- Strong outlook from our biggest partner – Microsoft continues its ongoing upward trajectory
- Solid sector tailwinds supported by encouraging public and corporate sector pipelines
- Continue to benefit from high level customer satisfaction, effective sales execution, and focus on company culture driving ongoing success
- Remain cognisant of the cost of living pressures on our employees and higher inflation on them as well as on our customers and wider supply chain
- Additional investment into technical skills and sales resources to ensure future growth
- Despite the uncertain economic backdrop, we remain confident in delivering our growth strategy and capitalising on market opportunities

BYTES Technology Group

Thank you

Any questions?

www.bytesplc.com