



Technology
Group

Strong performance capitalising on continued demand

Financial results for the half year ended 31 August 2024

Tuesday, 15 October 2024

Agenda

Introduction and overview

Sam Mudd

Financial review

Andrew Holden

Summary and outlook

Sam Mudd

Q&A



Sam Mudd Chief Executive Officer



Andrew Holden Chief Financial Officer

Introduction

Outstanding team delivers best-in-class performance

- Continue to achieve strong results, despite a challenging economic backdrop in the corporate sector
- Our core strength is our dedicated team with deep expertise across our products and vertical markets
- Well placed to drive AI and innovation in an industry undergoing perpetual change
- Focused on culture to help attain our goals
- Constantly developing our service offering to meet our customers' evolving needs



Financial highlights

Gross invoiced income

£1,230.2m

+13.7%

Gross profit

£82.1m

+9.0%

Operating profit

£35.6m

+16.3%

OP/GP

43.4%

H1 FY24 40.6%

Cash

£71.5m

+38.3%

Cash conversion

56.2%

H1 FY24 54.0%

Earnings per share

12.67p

+19.5%

Investing in people and capabilities

We're expanding our teams
to meet our customers' evolving needs

- More sales talent, standing up new teams
- Broadening our technical capabilities through new hires
- New office in Portsmouth to accommodate current and future growth
- New internal systems to future-proof our business
- Expanding our security services
- Innovating with more solutions and services offerings
- Focusing strongly on our culture as we grow, with all initiatives captured in our Culture Blueprint

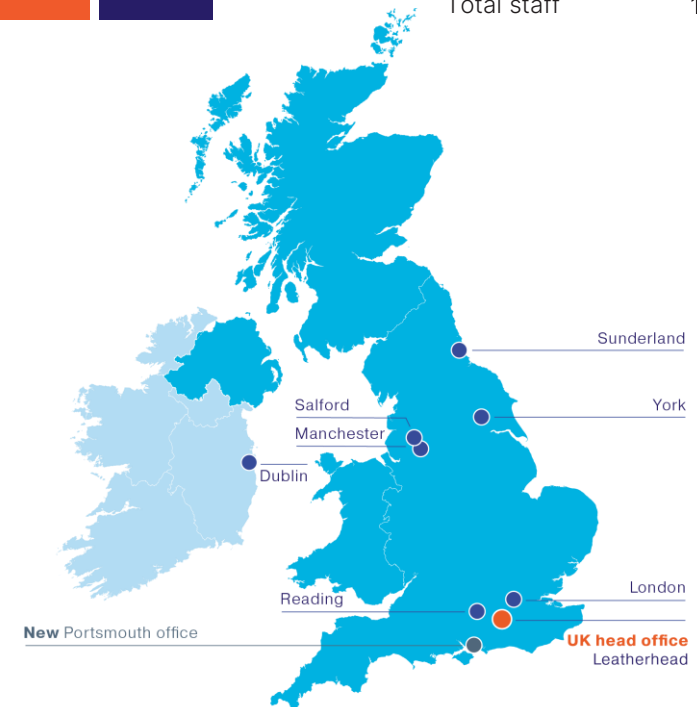


Headcount over the past half year

We continue to invest in our people



Sales staff	376
Sales support staff	240
Technical staff	288
Administration staff	226
Total staff	1,130



Capitalising on cybersecurity growth trends

A trusted adviser, delivering integrated cybersecurity solutions to our clients

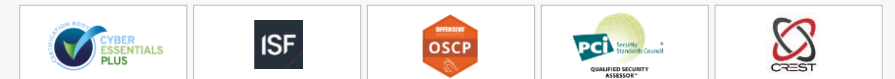
- Security pedigree and DNA in our business
- Offering integrated cyber consultancy, solutions, managed services and insights across our client base
- EMEA security growth of 9.9% through channel in Q2¹
- 81 members in the security team
- We represent 76 security vendors
- Security managed services market set to grow at 16% CAGR from \$36bn in 2024 to \$76bn in 2029²



Some of our security vendors



Accreditations



¹ Source: Canalys

² Source: Mordor Intelligence

25 years of cybersecurity



Selected case studies

Shelter

- Uncompromised approach to security solutions to ensure 24/7 IT infrastructure monitoring and protection
- Real-time threat detection, analysis and triage of potential security threats
- Tailored dashboard and support to facilitate data-driven security decisions
- Compliance and peace of mind in meeting stringent cybersecurity and data protection standards

“

We have built a long-standing partnership with Phoenix based on trust and proven success. Having collaborated with Phoenix for multiple services, including Microsoft-related solutions, for over five years, we felt confident in entrusting our critical security needs to Phoenix.



Howard Kennedy













- Full-service London-based law firm offering services globally
- Cyber security and security of client data being a core area
- Partnered to align security controls to industry-recognised frameworks
- Maximised the use of existing technologies together with complementary security solutions
- Support with security investment decisions based on commercial and technical requirements


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We look for trusted partner relationships, and the team at Bytes has been easy to work with and we've been able to leverage the benefits of their experience to mature our security landscape.





Deepening our partnerships with key vendors


	<ul style="list-style-type: none">• Microsoft Azure Expert MSP• 11 Microsoft Specialisations, including 4 in security• Leading EMEA FastTrack Ready Partner• Global Microsoft Education award finalist		<ul style="list-style-type: none">• Check Point Elite Partner• Certified Collaborative Support and Professional Services Partner• Infinity Partner of the Year 2023 (UK&I) award• Harmony Partner of the Year 2023 (EMEA and UK&I) award
	<ul style="list-style-type: none">• Achieved AWS MSP competency status in April 2024• On track to achieve AWS Premier status in H2• On track with SCA funding		<ul style="list-style-type: none">• MDR Partner of the Year (UK&I)• Education Partner of the Year 2024• Enterprise Partner 2024
	<ul style="list-style-type: none">• Adobe Platinum Partner• Adobe Education Elite Partner• Adobe Best Retention Program 2023 EMEA• Adobe Best Services Program 2024 EMEA		<ul style="list-style-type: none">• HPE Rising Star 2024
	<ul style="list-style-type: none">• VMware by Broadcom Premier Partner• Accredited for VMware Professional Services Delivery• Winner of Industry Specialist Award 2023 for healthcare		<ul style="list-style-type: none">• Nutanix Rising Star 2024
	<ul style="list-style-type: none">• Dell Technologies Titanium Partner• Accredited for Dell Professional Services Delivery• New technology focus partner and Dell Channel advisor		<ul style="list-style-type: none">• Cato Networks Reseller of the Year (EMEA)
			<ul style="list-style-type: none">• Bitdefender Best Strategic Engagement Award
			<ul style="list-style-type: none">• Druva International Partner of the Year 2024


































Financial review

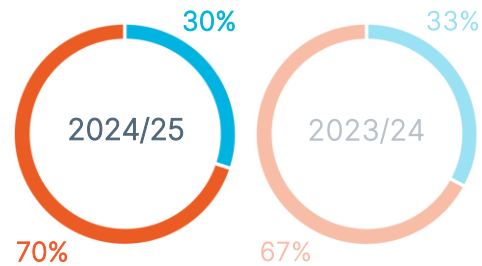
Continued strong performance

Income statement	2024/25 H1 £'m	2023/24 H1 £'m	Change %
Gross invoiced income (GII)	1,230.2	1081.6	13.7
Netting adjustment	(1,124.7)	(972.9)	15.6
Revenue	105.5	108.7	(2.9)
Gross profit (GP)	82.1	75.3	9.0
GP/GII %	6.7%	7.0%	
Gross margin %	77.8%	69.3%	
Administrative expenses	46.5	44.7	4.0
Administrative expenses split:			
Employee costs	(37.2)	(35.7)	4.2
Other administrative expenses	(9.3)	(9.0)	3.3
Operating profit (OP)	35.6	30.6	16.3
OP/GP %	43.4%	40.6%	
Add back:			
Share-based payments	2.5	2.9	(13.8)
Amortisation of acquired intangible assets	0.4	0.4	0.0
Adjusted operating profit (AOP)	38.5	33.9	13.6
AOP/GP%	46.9%	45.0%	
Interest receivable	6.0	2.9	106.9
Finance costs	(0.2)	(0.3)	(33.3)
Share of profit of associate	0.1	0.1	0.0
Profit before tax	41.5	33.3	24.6
Income tax expense	(11.1)	(7.9)	40.5
Effective tax rate	26.7%	23.7%	
Profit after tax	30.4	25.4	19.7

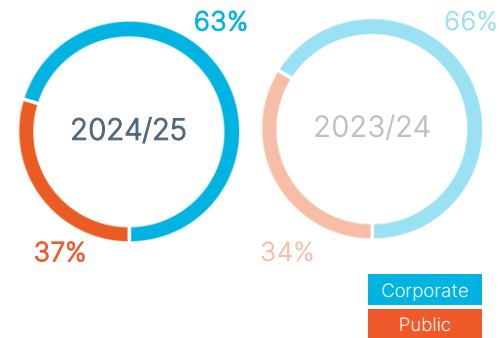
- GII is up 13.7% driven by significant public sector contributions
- Gross profit grew by 9.0%, less than our growth in GII, due to public sector contracts having initially lower margins
- Employee costs up 4.2% against headcount growth of 6.9%
- Capitalised £0.7 million of salaries for employees directly involved in developing our new IT platforms. Counting this back, employee costs would have risen 6.2%
- Operating profit up 16.3% from £30.6m to £35.6m
- £6m of interest earned in H1 FY25, significant increase over the prior period, following the implementation of new treasury arrangements
- The effective tax is 26.7%, higher than the statutory corporate tax rate of 25% due to the changes in the deferred tax asset driven by the lower share price over the period

Income analysis

GII by sector



GP by sector

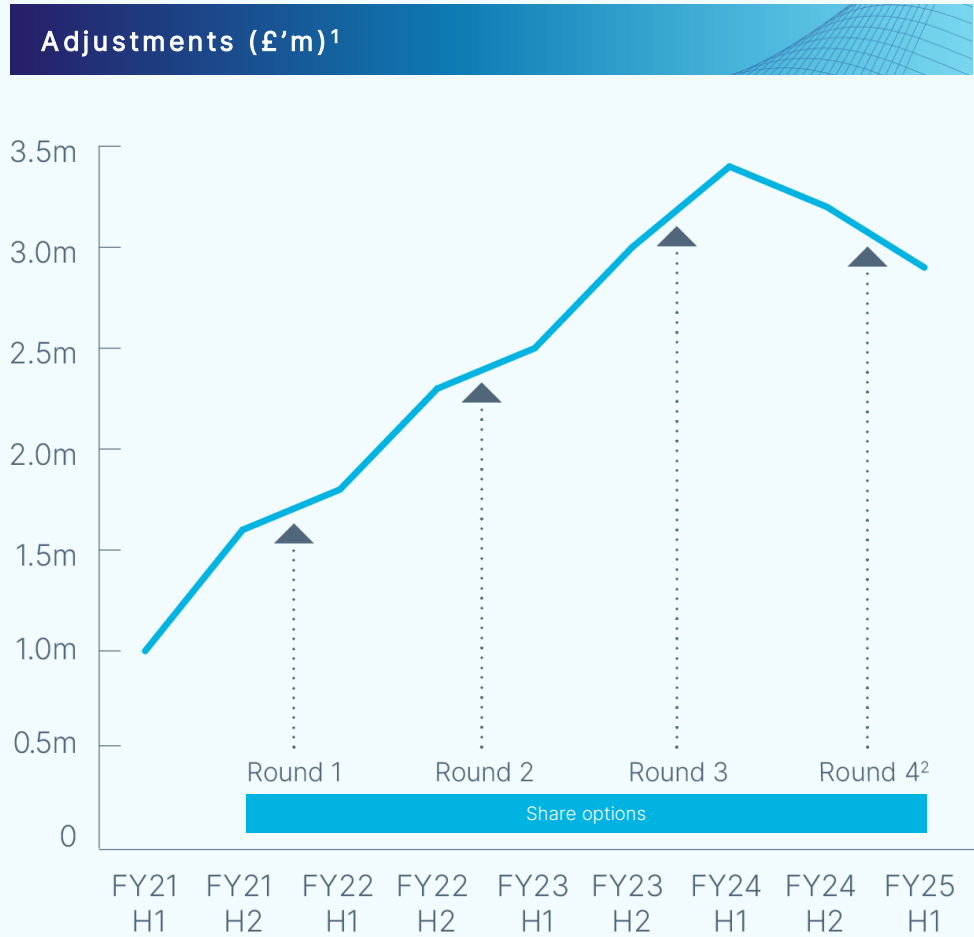


GII and GP by income stream

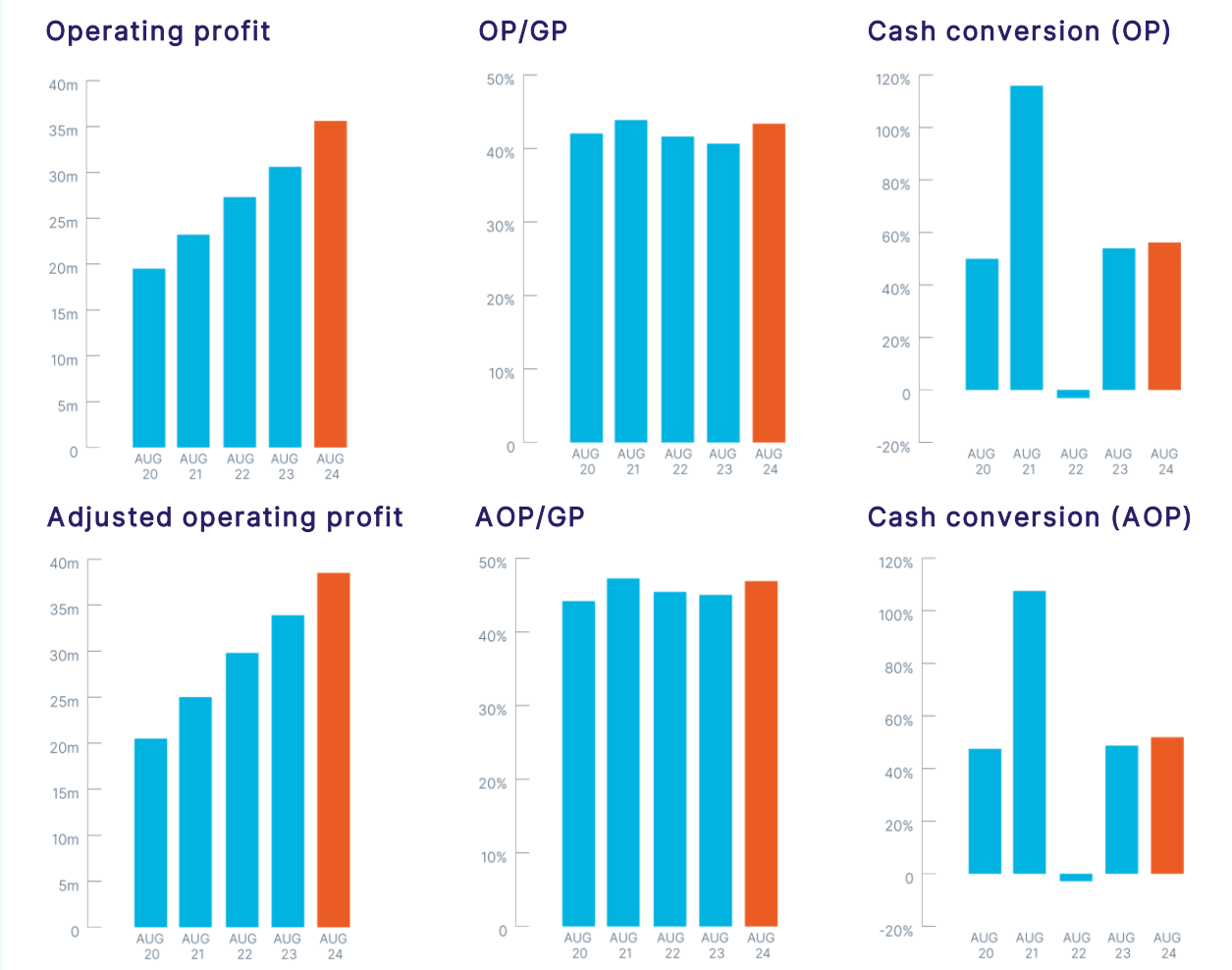
	2024/25 H1 £'m	2023/24 H1 £'m	Change %
Gross invoiced income (GII)			
Software	1,187.2	1,027.3	15.6
Hardware	12.5	24.1	(48.1)
Services internal	16.6	15.5	7.1
Services external	13.9	14.7	(5.4)
Total	1,230.2	1,081.6	13.7
Gross profit (GP)			
Software	74.7	67.1	11.3
Hardware	1.6	3.0	(46.7)
Services internal	4.1	3.2	28.1
Services external	1.7	2.0	(15.0)
Total	82.1	75.3	9.0

- Software sales make up 96.5% of GII and 91% of GP
- Hardware sales have shrunk to now make up 1% of GII and 2% of GP
- Services constitute 2.5% of GII and 7% of GP
- Public sector sales grew faster than corporate sales, and now represent 70.1% of our GII
- Public sector delivers relatively lower GP/GII due to the billing arrangements of enterprise agreements

Focus on operating profit

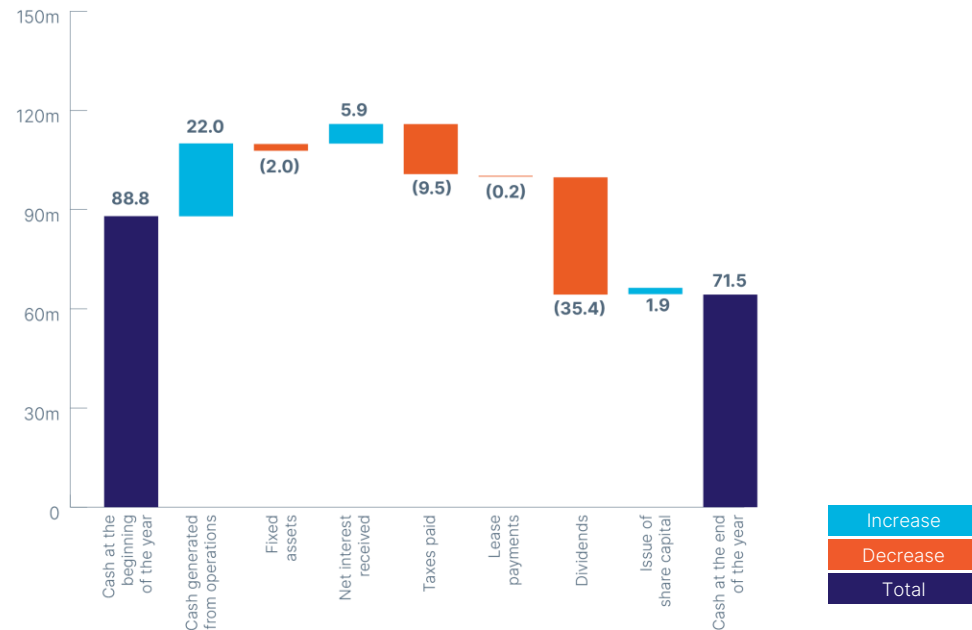


¹ Adjustments include share-based payments and amortisation of intangibles
² Round 1 of options fully expensed

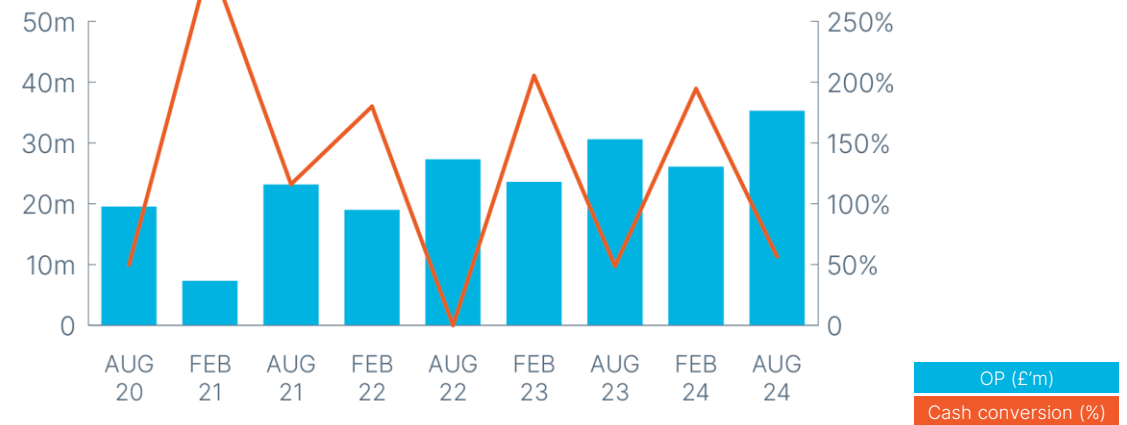


Cash flow

Cash flow (£'m)



Operating profit and cash conversion



- Remain a capital-light business
- Cash balance a healthy £71.5m after dividend payment of £35.4m
- Cash conversion for the the half year of 56.2% shows our seasonality from H1 to H2
- Cash conversion continues to reflect the seasonality evident in historical trends

Capital allocation

Organic growth

- Continue our proven strategy of growing our customer base and wallet share with our clients
- Growing sales capacity (new intakes and regional growth)
- Expand solutions capability (vertical expertise and knowledge)
- Broaden vendor partnerships (developing technical expertise)

Shareholder returns

- Dividend policy is to distribute between 40% and 50% of post-tax pre-exceptional earnings
- Expectation that excess cash following organic investment and any M&A is returned to shareholders via special dividend
- Method of any excess capital return kept under periodic review

Interim dividend

- The Board is pleased to approve an interim dividend of 3.1 pence per share, payable in late November 2024
- 14.8% increase on H1 FY24 interim dividend

M&A

- Actively monitoring acquisition opportunities to accelerate the strategy
- High quality bar with cultural alignment key
- Focus on cross-sell potential, vendor specialism and solutions expertise
- Attractive financial profile

Maintaining a strong balance sheet through the cycle

Sustainability integral to our mission

Environmental

- SBTi validation for our near-term and net zero carbon reduction targets
- Completed our annual CDP submission
- Expanded our electric vehicle scheme across the Group
- Installed solar panels at our York office, with further self-generating energy options being assessed

Social

- Employee wellbeing days to promote a healthier and happier workforce
- Initiative to support our employees through better diversity insights
- Expansion of our apprenticeship scheme into more areas of the business and into degree-level apprenticeship programmes
- Continue to support our communities through donations, fundraising events and volunteer days

Governance

- Board townhall at Bytes Software Services offices in July 2024
- Workforce engagement discussions led by our Designated NED
- Sustainability strategy reviewed by our new ESG Committee





Summary and outlook

A proven strategy for growth

Grow wallet share

- Maintain customer service excellence
- Focus on depth and strength of our capabilities
- Increase our technical capabilities
- Market share still <4% of estimated TAM
- Good market coverage, present in all sectors and regions

Grow customer base

- Growing sales capacity with regular new sales intakes
- Regional sales capacity, new offices opened and more planned for the future
- Target marketing in all segments and various mediums
- Vertical expertise and knowledge
- Industry experts joining our operations to enable deep customer alignment

Expand solutions capabilities

- Cloud migration and associated services
- Endpoint managed and support services
- Security software and managed services
- Storage and back up
- AI solutions – Copilot, Azure (executive users of Copilot)

Broaden vendor partnerships

- Deeper partnerships with top tier and growth vendors
- Highly certified and accredited with leading vendors
- Technical alignment in-house and through partnerships
- Services offerings continually evolved and developed
- Regular review and onboarding of new relevant software publishers and partners

Positioned to benefit from IT industry trends

- Sustained growth supported by Microsoft's expanding market share and our 30-year partnership
- Strong vendor relationships enable us to evolve in line with programmatic changes
- Continuing to transform as the big are getting bigger
- Expanding our customer base through multi-cloud capabilities
- Well positioned around AI and Copilot as adoption trends evolve
- Multiplier effect to achieve higher returns through a combination of software and services portfolios as we leverage:
 - Solutions delivery capability across core cloud, security and managed services offerings
 - The potential of AI to drive broader services to customers and creating further opportunities



Sam Mudd, CEO - Microsoft PAC | October 2024 | Seattle, US

Summary and outlook

Structured and focused strategy to deliver for all our stakeholders



Large addressable market, opportunities supported by growing global IT spend



Strong strategic partnerships with vendors



Our people's expertise positions us well for further expansion



Group benefits from strong balance sheet and no debt



Well positioned to benefit from demand drivers in our markets, including cloud computing, cyber security and AI

Q&A

www.bytesplc.com