

# A strong half year performance delivering on our strategy

Financial results for the six months ended 31 August 2021

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Thursday, 28 October 2021

# Agenda

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- Neil Murphy – Overview
- Andrew Holden – Financial Review
- Neil Murphy – Strategy, Summary and Outlook



**Neil Murphy**  
Chief Executive Officer



**Andrew Holden**  
Chief Financial Officer

# Introduction to Bytes

- A leading software, security, and cloud services specialist supplying IT to customers in the UK and Ireland
- We have a long track record of delivering the latest cost-efficient technology to a diverse, loyal and growing customer base. Growth over the past 4 years is entirely organic

Motivated and growing team of employees who are Performance Driven, but Customer Focused

Over 5,500 customers across corporate and public sectors, no customer concentration

Customers remain at the core of our business with an NPS of 63

A record of consistent double digit gross profit growth over the past 15 years

Trusted partner to over 100 world-class vendors, acting as trusted advisor to clients

Digital transformation, cloud, mobile, security, AI and IoT providing ongoing tailwinds

## Private



## Public



## Software Vendors

### Software publishers and services



# Positive half year performance

Performance ahead of expectations, driven by increased gross invoiced income and gross profit, and slower growth in costs despite big increase due to ongoing Plc costs

**+22%**

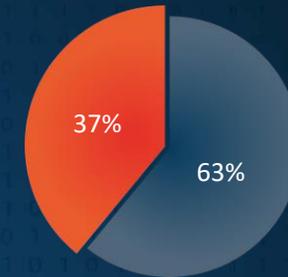
Adjusted operating profit increased to £25m

Growth driven by expanded mandates with existing customers and new contract wins

**+448**

Net new customers in H1 increased by 9%

Well-balanced performance with strong contributions from corporate and public sectors



H1 FY22 gross profit split

Public Sector

Corporate



Microsoft Partner of the Year 2021 + Darktrace Partner of the Year 2021



# Continued progress against strategy

The Group benefits from a **well-balanced customer base** spanning both corporate and public sectors

**+26%**

Top line sales revenue growth (GII) to £638m

Continued investment in **skills and headcount** maintained through the year

**+12%**

Planned increase in heads FY21/22 (H1 increased 5%)

**High levels of service and strong vendor relationships** enable Bytes to deliver for customers switching to new ways of working

**63**

Our NPS (October 2020: 61)

Further **growth opportunities** presented by **remote working**, shifts to cloud and security and IT refresh programmes

**+8%**

Increase in worldwide IT spend in 2021 (Gartner)



# Financial Review

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Andrew Holden

Chief Financial Officer

# Positive half year performance

**26%**  
GII up by £133m

Public sector GII growth £100m (32%)  
Corporate sector GII growth £33m (17%)

Netting adjustment up 36% . This element mainly relates to our sales of cloud-based licensing and critical security software which are growing strongly.

**14%**  
GP up by £6.5m

Gross profit (GP) growth of 14% - comprises software 86%, services 10% & hardware 4%

GP / GII % slightly reduced - strong public sector performance. Lower margin but also lower risk

**22%**  
AOP up by  
£4.5m

Administrative expenses grew 10% - H1 FY22 includes head office costs as a result of being listed.

AOP % of GP 47% - improvement as a result of scale, high level of operational effectiveness, and some lag on filling vacancies

|   | H1 FY22        | H1 FY21        | Change        |
|---|----------------|----------------|---------------|
|   | £'m            | £'m            | %             |
| <b>Income Statement</b>                         |                |                |               |
| <b>Gross Invoiced Income (GII)</b>              | <b>638.2</b>   | <b>505.4</b>   | <b>26.3%</b>  |
| GII split by product:                           |                |                |               |
| Software  | 602.9          | 474.7          | 27.0%         |
| Hardware  | 15.6           | 15.2           | 2.6%          |
| Services  | 19.7           | 15.5           | 27.1%         |
| <b>Netting adjustment</b>                       | <b>(386.8)</b> | <b>(284.2)</b> | <b>36.1%</b>  |
| <b>Revenue</b>                                  | <b>251.4</b>   | <b>221.2</b>   | <b>13.7%</b>  |
| Revenue split by product:                       |                |                |               |
| Software  | 224.0          | 197.1          | 13.6%         |
| Hardware  | 15.6           | 15.3           | 2.0%          |
| Services  | 11.8           | 8.8            | 34.1%         |
| <b>Gross Profit (GP)</b>                        | <b>52.9</b>    | <b>46.4</b>    | <b>14.0%</b>  |
| <b>Gross Profit / GII %</b>                     | <b>8.3%</b>    | <b>9.2%</b>    | <b>(0.9%)</b> |
| <b>Administrative expenses</b>                  | <b>(29.7)</b>  | <b>(26.9)</b>  | <b>10.4%</b>  |
| <b>Adjusted Operating Profit (AOP)</b>          | <b>25.0</b>    | <b>20.5</b>    | <b>22.0%</b>  |
| <b>Adjusted Operating Profit / Gross Profit</b> | <b>47.3%</b>   | <b>44.2%</b>   | <b>3.1%</b>   |
| Adjusting items:                                |                |                |               |
| less share-based payments                       | (1.0)          | (0.2)          |               |
| less intangible amortisation                    | (0.8)          | (0.8)          |               |
| <b>Operating Profit</b>                         | <b>23.2</b>    | <b>19.5</b>    | <b>19.0%</b>  |
| <b>Tax</b>                                      | <b>(4.6)</b>   | <b>(3.8)</b>   | <b>21.1%</b>  |
| <b>Effective tax rate</b>                       | <b>19.9%</b>   | <b>19.3%</b>   |               |
| <b>Profit after Tax</b>                         | <b>18.3</b>    | <b>15.8</b>    | <b>15.8%</b>  |

# Cash conversion remained strong

The Group finished the half year with £42.9m of cash and with no debt and excellent cash conversion of 108%. \*

Asset light business with minimal capex and stock requirements

Cash conversion rate of 108% on the back of effective working capital management.

Cash conversion rate is defined as cash generated from operations excluding IPO costs and less capital expenditure divided by adjusted operating profit.

The Group have declared an interim dividend of 2.0 pence per ordinary share.

|  | Period ended<br>31 Aug 2021<br>Unaudited<br>£'000 | Period ended<br>31 Aug 2020<br>Unaudited<br>£'000 | Year ended<br>28 Feb 2021<br>Audited<br>£'000 |
|--|---|---|---|
| <b>Cash flows from operating activities</b>                      |   |   |   |
| Cash generated from operations                                   | 26,975  | 10,047  | 41,546  |
| Interest received  | 6   | 24  | 12  |
| Interest paid  | (273)   | (2)   | (122)   |
| Income taxes paid  | (4,338)   | (6,444)   | (10,213)                                      |
| <b>Net cash inflow from operating activities</b>                 | <b>22,370</b>                                     | <b>3,625</b>                                      | <b>31,223</b>                                 |
| <b>Cash flows from investing activities</b>                      |   |   |   |
| Payments for property, plant and equipment                       | (111)   | (322)   | (607)   |
| Deferred consideration payments                                  | -   | -   | (16,677)                                      |
| <b>Net cash outflow from investing activities</b>                | <b>(111)</b>                                      | <b>(322)</b>                                      | <b>(17,284)</b>                               |
| <b>Cash flows from financing activities</b>                      |   |   |   |
| Proceeds from issues of shares                                   | -   | -   | 8,333   |
| Principal elements of lease payments                             | (139)   | (132)   | (295)   |
| Dividends paid to shareholders                                   | -   | (18,600)  | (48,600)                                      |
| <b>Net cash outflow from financing activities</b>                | <b>(139)</b>                                      | <b>(18,732)</b>                                   | <b>(40,562)</b>                               |
| <b>Net increase/(decrease) in cash and cash equivalents</b>      | <b>22,120</b>                                     | <b>(15,429)</b>                                   | <b>(26,623)</b>                               |
| Cash and cash equivalents at the beginning of the financial year | 20,734  | 47,357  | 47,357  |
| <b>Cash and cash equivalents at end of year</b>                  | <b>42,854</b>                                     | <b>31,928</b>                                     | <b>20,734</b>                                 |

# Summary

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## Sustainable Earnings

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Biggest customer < 2% of total GP

Public/Corporate split

IT services and security growth

Low central costs

- Governance, guidance and consolidation
- Drive innovation and growth in the underlying operations



## Current opportunities

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Share of customer wallet

- White space analysis
- Mix of software/hardware/services

Align to our Vendors

Internal efficiencies

- Look to use our data better
- Bots
- RPA's



## Capital allocation

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Organic Growth

- Continue to invest in our people by
  - Ensuring capacity for the future
  - Building capabilities for now
  - Great place to work

Returns to shareholders

Space for acquisition



# Delivering Our Strategy

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Neil Murphy

Chief Executive Officer

# A clear strategy for growth

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## Organic

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EXPAND CUSTOMER  
BASE (up 448 H1)

INCREASE  
SHARE OF WALLET (up 6%)

- Increase scale and productivity of sales engine
- Focus on strength and depth in end markets
- Targeted marketing in all segments
- Deliver repeatable cloud solutions
- Diversify product offering
- Optimise software asset management capabilities to perpetuate USP's
- Maintain customer service excellence and continue to develop technical expertise

## Inorganic

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SELECTIVE  
M&A

- Track record of successful bolt-on acquisitions
- Scope for highly selective and accretive M&A that will complement existing offering

# Expand customer base

Bytes has significant opportunity for market share gains in its core markets

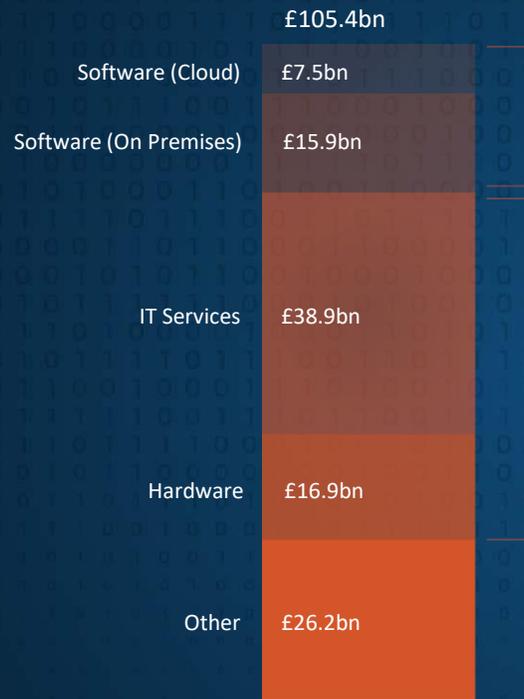
UK non-consumer IT market valued at £105.4bn in 2019

Bytes currently has less than 3% market share

Expansion of services and hardware products will enable Bytes to address the £55.8bn UK TAM for IT services and hardware

Over 42,000 companies with more than 100 employees (being the threshold target size for Bytes) alongside approx. 10,000 public sector organisations in the UK

UK IT Market Spend 2019



Core Software TAM  
£23.4bn

+

IT Services &  
Hardware TAM  
£55.8bn

=

Total TAM  
£79.2bn

Core UK Software TAM



UK IT Services & Hardware TAM



# Increase share of wallet

Gross profit growth is underpinned by existing customers' renewal rate, with an increasing proportion derived from licenses which are annually or periodically renewable. Estimated average "share of wallet" *circa* 10% with up to ~60% in top customers

Total customer numbers and total gross profit per customer



# A business built on sustainable ESG foundations



## 1% Net profit contribution towards charitable causes

We commit to making a difference through corporate giving and our key initiatives.

Sponsorship of Kew Gardens and various projects, including staff volunteer days.

Donation of laptops and desktops to schools in a number of African countries, as well as locally during Covid-19.

Senior Leadership Team attending beach cleaning days.



## Moving to Net Zero by 2022

We will be offsetting our operational emissions to Net Zero in 2022 through carbon credit-approved schemes.

Our key focus remains on reducing our Scope 1, 2 and 3 emissions by 50% by 2025/26 from our 2020/21 baseline. Initiatives are being implemented per our Low Carbon Action Plan.

Continual phased improvements thereafter, through emissions scope expansion and supply chain engagement.



## Governance and People

We continue building a resilient and ethical business that promotes equality and prosperity for all. Gender diversity at 55:45 (M:F).

EY confirmed as external auditors and recently appointed PwC to focus on internal audit as part of our journey to ensure robust and compliant systems and processes, as well as risk management across the Group.

Audit Committee aligned with the Code: Mike Phillips (Chair), Dr Alison Vincent and Dr Erika Schraner.

Big thank you and gratitude to ex-CFO Keith Richardson and pleased to have Andrew Holden on board as CFO.

# Summary and Outlook

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Neil Murphy

Chief Executive Officer

# H1 Positive performance: Continued strategic progress

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22% increase in adjusted operating profit to a record £25m

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GP growth of 14% with 95% of GP generated from existing customers. A 6% increase in average GP per customer

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Implemented return to work formula that staff appear comfortable with, not overly prescriptive and still largely evolving

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Expanded customer base with notable new mandates from corporate and public sectors

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Significant opportunity for Bytes to make market share gains in its core markets; underlying IT market trends, including increased demand for cloud and security products, play to our strengths

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Continued investment in our staff to take advantage of organic growth opportunities

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# Outlook

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On the back of an excellent H1, the Group has continued momentum into H2

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Strong outlook from our biggest partner - Microsoft

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Solid sector tailwinds supported by encouraging public and corporate sector pipelines

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Continue to benefit from high level customer satisfaction, effective sales execution as IT spending remains robust

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Some increase in overheads expected in relation to recruitment and increased in-person interaction

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Despite the uncertain economic backdrop, we remain confident in delivering our growth strategy and capitalising on market opportunities

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# Thank You

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Any questions?

# Disclaimer

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## Information regarding forward-looking statements

This Presentation includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Group's control and all of which are based on the Group's current beliefs and expectations about future events.

Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned", "anticipates" or "targets" or the negative thereof, other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Presentation and include statements regarding the intentions, beliefs or current expectations of the Group concerning, among other things, the future results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Group and the industry in which it operates.

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