

AIM: KBT

K3 BUSINESS TECHNOLOGY GROUP PLC

("K3" or "the Group" or "the Company")

Provider of business-critical software solutions focused on fashion and apparel brands.

Final results for the 12 months to 30 November 2022

Key Points

	12 months to 30 Nov 2022	12 months to 30 Nov 2021	Change
Revenue from continuing operations	£47.5m	£45.3m	+5%
Recurring or predictable revenue ¹	£37.6m	£33.9m	+11%
- as a percentage of total revenue	79%	76%	+300bps
Gross margin	59.2%	59.3%	-0.1%
Adjusted EBITDA ¹	£5.1m	£4.4m	+16%
Loss before tax from continuing operations, including exceptionals ²	£(3.8)m	£(7.8)m	+\$4.0m
Net cash ¹	£7.1m	£9.0m	-\$1.9m
Reported gain / (loss) per share	(9.0)p	8.0p	-17.0p
Adjusted (loss) / earnings per share for continuing operations ¹	(2.6)p	(13.6)p	+11.0p

¹ Refer to note 12 for definitions

² Exceptionals include an impairment charge of £1.6m (2021: £1.4m) and reorganisation costs of £0.70m (2021: £1.5m)

Financial

- Revenue increase driven by strong growth in Third-party Solutions division and higher contribution from strategic products in K3 Products division
- Recurring and predictable income now accounts for 79% of Group revenue (2021: 76%)
 - Group Annualised Recurring Contracts ("ARC") at year-end up 11% to £22.9m (2021: £20.7m)
 - Strategic products ARC at year-end up 32% to £5.7m (2021: £4.3m), with the K3 fashion Enterprise product up 55%
- Adjusted EBITDA from continuing activities up 16% to £5.1m (2021: £4.4m)
- Healthy net cash of £7.1m (2021: £9.0m), and Group is expected to generate net cash in FY 2023

Operational

- K3 Products division - encouraging underlying performance; good progress across our fashion and apparel offering (strategic products) masked by managed run-off of legacy products
 - Divisional revenue decreased by £1.3m to £13.5m (2021: 14.8m); adjusted EBITDA at £0.7m (2021: £1.1m)
 - Gross profit margin up to 78.3% (2021: 75.3%)
 - Managed run-off of legacy products customer base in line with management expectations
 - Strategic products' ARC up 32% to £5.7m, with new customer wins and existing customers increasing contracted software licences
 - Viji acquisition is integrating well and has enhanced sustainability offering
 - Largest software licence contract for flagship strategic product (K3 fashion) signed post period.
- Third-party Solutions division - strong growth and highly cash generative
 - Divisional revenue up 11% to £34.0m (2021: 30.5m) and adjusted EBITDA up 12% to £12.8m (2021: £11.4m)
 - Gross profit margin constant at 51.6%
 - Aggregate ARC growth of 8.4%
 - NexSys software licence and maintenance contract renewals remained high at 98% (2021: 98%)

Prospects

- Encouraging start to trading in FY 2023 with good fashion product ARC growth
- Board expects continued improvement across both divisions

Marco Vergani, Chief Executive Officer of K3 Business Technology Group plc, said:

"K3 has made very encouraging progress in its first full year of executing its new growth plan. Against a challenging trading backdrop, we have delivered good growth in revenue, recurring income and profitability, and cash generation is on an upward trend.

"Our focus on driving the growth of our strategic fashion products is yielding very encouraging results and we have enhanced our sustainability offering. This is an increasingly important area for the fashion and apparel sector, with legislation also driving the adoption of sustainability solutions. Our Third-party Solutions division grew strongly and continues to generate high cash flows.

"The new financial year has started encouragingly, with our largest ever software licence contract for our flagship fashion product. The Board is confident that this progress will continue and expects the Group to become cash generative this year."

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CHAIRMAN'S STATEMENT

Overview

In the previous financial year, the Board reviewed market opportunities for the Group and established a new growth plan for the business. This has sharpened our focus on our products for the fashion and apparel sectors. At the same time, we have identified new growth opportunities for our Third-party Solutions business. We also restructured significantly by selling two businesses, reallocated investment and made organisational changes. We therefore started the financial year under review with a strengthened balance sheet, reduced costs and a better focus on our core strengths.

The trading backdrop continued to be challenging, nonetheless I am pleased to report that the Group has made encouraging progress over the year, strategically, financially, and operationally. Revenue from continuing operations is up by 5% to £47.5m (2021: £45.3m), with recurring and predictable revenue up 9% to £37.6m (2021: £34.5m). Adjusted EBITDA from continuing activities has increased by 16% to £5.1m (2021: £4.3m). The Group's net cash position at the year-end stood at £7.1m (2021: £9.0m), after making strategic investments. Underlying cash generation improved and this trend is expected to continue.

The Third-party Solutions division continues to generate high levels of recurring and predictable revenue, as well as strong levels of cash, from its large customer base. This includes IKEA Concept franchisees globally and UK manufacturers and distributors. Software licence and support and maintenance contract renewals generated by our UK manufacturing customer base, which drive the division's significant cash generation, remained very high at 98% (2021: 98%). The division's gross margin was steady at 51.6% (2021: 51.5%).

The K3 Products division, which includes both our strategic and legacy products, continues to focus on building recurring cash flows. Recurring contracted revenue from our strategic products, which serve the fashion and apparel markets, grew strongly, with the annualised contract value up by 32% to £5.7m year-on-year. This reflected increased uptake of software licences by existing customers and new customer wins. We expect strategic products to continue to grow strongly in the new financial year. At the same time, the division is managing the ongoing decline in the legacy product customer base. This managed run-off mainly accounted for the reduction in the division's revenue, though gross margin increased significantly to 78.5% (2021: 75.3%). The improvement in gross margin reflected increased income from strategic products, price increases and cost reduction. The division's EBITDA continued to improve, moving to £(0.7)m (2021: £(1.7)m) with significantly less cash spend on capitalised development. The acquisition in January 2022 of Viji, a software developer with proven sustainability software solutions for fashion retailers, has added valuable new IP in an important area for us. This new IP now operates alongside our fashion products and will be more deeply integrated in 2023.

Financial Results

Financial Results

Total revenue from continuing operations for the 12 months ended 30 November 2022 increased by 5% to £47.5m (2021: £45.3m). On a constant currency basis, revenue was up by 6%. Recurring and predictable revenue rose by 9% to £37.6m (2021: £34.5m), and accounted for 79% of Group revenue (2021: 76%). Third-party Products continued to generate a significant proportion of recurring and predictable revenue at £28.0m (2021: £25.4m). Recurring and predictable income from strategic products (in the K3 Products division) is growing fast, with annualised recurring contracts ("ARC") up 32% to £5.7m.

The Group generated a gross profit for the financial year of £28.1m (2021: £26.8m), and Group gross margin was constant at 59.2% (2021: 59.3%). This reflected the balance of contributions from lower-margin Third-party Products and higher-margin K3 products.

Support/administrative expenses rose to £23.0m (2021: £22.3m), with a further of £1.7m of capitalised development costs, reduced by £1.1m as a result of streamlining operations. Adjusted EBITDA¹ from continuing activities rose by 16% to £5.1m (2021: £4.3m), with the main driver being Third-party Solutions gross profit. The loss before tax from continuing activities reduced by £4.0m to £3.8m, (2021: loss of £7.8m) and adjusted loss per share from continuing operations reduced by 10.8p per share to 2.6p (2021: loss of 13.6p).

Net cash at 30 November 2022 stood at £7.1m (2021: £9.0m). This is after Viji acquisition costs and software and systems investment. Operating cashflow from continuing operations normalised for Government coronavirus support was £3.0m (2021: £3.2m).

Growth Strategy

Third-party Solutions contributes significantly to the Group's recurring income and cash flows. The division has a well-established track record in SYSPRO ERP solutions for manufacturers and distributors in the UK, and our objective is to secure higher-value projects and to address adjacent verticals. The Global Accounts business remains a critical partner in the support and ongoing international expansion of the Inter IKEA Concept via its franchisees.

The K3 Products division offers significantly higher-margin growth potential. This reflects the fact that its solutions are based on K3 intellectual property ("IP"). We believe that there are substantial growth prospects for the Group's core strategic fashion products, which offer a powerful set of solutions for fashion and apparel brands. We have further enhanced these products with the introduction of Viji IP for supply chain traceability, which supports customers' sustainability objectives. Sustainability and environmental considerations have become greater priorities for customers, and EU and national legislation is also driving this trend. However, the area remains underserved, and we believe there is a significant opportunity for us to assist brands in addressing their sustainability issues.

Legacy solutions, which are also part of the K3 Products division, are mostly point-of-sale ("POS") products. Our focus is on providing key accounts with a migration pathway to other K3 products, while managing the ongoing decrease in revenue from these POS solutions.

People

Jonathan Manley, Non-Executive Director, retired from the Group at the AGM in May 2022, and we take this opportunity to thank him again for his contribution to K3 during his six years on the Board. In July 2022, we were delighted to appoint Pernille Fabricius, ACA, as Jonathan's successor. She also now heads the Company's Audit Committee. Pernille has extensive board and senior-level financial and commercial experience across a number of sectors, including IT services. She is currently Chief Financial Officer and Executive Vice President of NNIT A/S, one of Denmark's leading IT and consulting services providers, and Non-executive director of Gabriel Holding A/S, the fabrics manufacturer, and of Brødrene Hartmann A/S, the packaging manufacturer.

Summary and Outlook

We have made encouraging progress under the new growth plan. Contracted revenue from strategic fashion products is growing strongly and contributing to the overall increase in recurring or predictable income. The new financial year has started well with strategic fashion products significantly expanding software licence income, which further increases ARC growth. Third-party Solutions has a solid order book from existing clients and is focused on margin improvement for new projects and upgrades.

The Group had net cash balances of £7.1m at the financial year-end and the first quarter of the new financial year shows a further material improvement in cash generation. We expect the business to generate net cash in the current financial year.

The Board remains confident that the Group will make further progress over the current financial year and beyond.

T Crawford

Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

Last year's review of Group strategy and addressable markets identified growth opportunities across all core activities. Our Third-party Solutions division is an important engine of recurring income and generates high levels of cash, and we are now focusing on enhancing margins. However, there is even greater scope to drive the quality of the

Group's income by leveraging the growth of K3 Products. The opportunities for K3's high-margin products in fashion and apparel brands are extremely attractive, and their growth will drive recurring revenues, profitability and cash flows.

We have made very encouraging progress with our strategy and growth plans although the financial benefits are not yet fully apparent in these results. At the same time, over the course of the financial year, we continued to streamline operations and to invest in our central systems and software products.

Strategic Direction

K3 Products - Focus on Fashion & Apparel

K3 has a well-established track record in the delivery of Enterprise Resource Planning ("ERP") and Point of Sales ("POS") solutions for retail businesses. Our expertise extends across all the core "concept-to-consumer" processes. This includes product design, product manufacturing, and product supply and returns. We also understand the challenges that our customers are contending with, including new regulations, changing consumer behaviour and technological innovation. The adoption of digital technology is driving the need for solutions that support strong supply chain collaboration and smarter, more integrated sales engagement with customers. New products are data-led and cloud-based Software-as-a-Service ("SaaS") solutions.

Our focus is now on capitalising on our existing position and reputation in the fashion and apparel and related large retail markets, which includes brands that are developing their direct-to-consumer routes to market.

'Transforming retail for good' summarises the direction we are taking; that is to provide solutions that support innovation and transformation of core business processes, including in relation to environmental and ethical priorities. The growth areas we are focusing on are:

- Sustainability - in particular supply chain traceability, which is now subject to new legislation;
- Omni-channel and 'unified commerce' - which encompasses managing effectively both B2B and B2C channels, supporting a unified view of inventory across all channels, as well as creating a seamless shopping experience for consumers as they engage digitally and physically with brands, from the discovery stage to checkout and returns; and
- Business Insight - enabling brands to gather actionable intelligence from data collected via our products to optimise inventory, maximise profitability, reduce wastage and inefficiencies, and engage with consumers in a more personalised way.

The addition of Viji, the sustainability-focused software developer, has extended our existing sustainability offering with products that address supply chain transparency. This is a growth area, which is now subject to increasing regulation and consumer awareness.

Third-party Solutions

NexSys (previously called SYSPRO)

Customers in manufacturing and distribution are embracing digital transformation, smart manufacturing and direct machine integration, and moving away from first-generation, monolithic ERPs or legacy applications, which are often not integrated. This shift provides us with significant growth opportunities, and we are targeting larger-scale projects for customers in growth sectors.

We continue to invest in our relationship with SYSPRO as well as in software development to enrich the SYSPRO offering with our own modules, capabilities and add-ons. We are also strongly focused on customer support and our end-to-end support service remains unrivalled in the marketplace. In the period, we rebranded this operation in order to position our capabilities more effectively.

Global Accounts

The Global Accounts unit includes our relationship with Inter IKEA Systems B.V. (the owner and franchisor of the IKEA concept) and the Inter IKEA Concept franchisees. The backbone of our activity is the development, enhancement and maintenance of the core IKEA solution for franchisees as well as integrations, software customisation and support. This support encompasses the core infrastructure behind IKEA franchisee stores and back-office solutions. We also develop and implement complementary new solutions such as our 'Mobile Goods Flow' and 'Self-ordering Kiosk' applications, to extend the core IKEA solution.

The IKEA Concept and IKEA stores continued to expand rapidly in 2022, with new store openings in Chile, Indonesia, Taiwan and other locations. We maintain a solid backlog of enhancement projects although fewer new IKEA stores are planned in 2023 than in 2022.

Organisational and operational changes

We continued to streamline the Group and to strengthen our sales approach. In allocating investment, we have prioritised our strategic partnerships. These include Microsoft and channel partners responsible for reselling our fashion offerings. Our relationship with Microsoft remains close, and K3's inclusion as part of Microsoft Retail Cloud is testimony to the strength of our products in the fashion and apparel sector. Our K3 fashion product remains Microsoft's recommended 'add-on' solution for the fashion and apparel sector globally.

During the financial year, we invested in enhancing channel partner sales support, and in delivery and customer support as well as in knowledge management practices. We have also developed the new sales team in North America, which is an important region for us, working in conjunction with Microsoft.

Review of Performance

K3 Products

K3 Products provides software products and solutions that are powered by our own IP. They comprise:

- strategic products focused on the fashion and apparel markets, including K3 fashion and K3 pebblestone, K3 Viji and K3 Imagine;
- solutions for the visitor attraction market; and
- stand-alone point solutions, which are mainly our legacy point-of-sale ("POS") products.

£m	2022	2021*
Revenue	13.5	14.8
Gross profit	10.5	11.1
Gross margin (%)	78.3%	75.3%
Adjusted EBITDA	0.7	(1.7)

*FY2021 restated to reflect latest segment reporting, in which Revenue and Gross profit from "mobile goods flow" and "make tax digital" are reclassified from K3 Products to Third-party Solutions.

Divisional revenue decreased by £1.3m to £13.5m (2021: £14.8m). Approximately £1.1m of this reduction reflected continued managed run-off of from legacy products, which was in line with management expectations. However, it masks the very good progress made with strategic fashion products, especially K3 fashion. By the financial year end, the annualised value of recurring revenue (or Annualised Recurring Contracts ("ARC")) from strategic product software licences had increased significantly, driven both by new customer additions and increased software licence sales to existing customers.

ARC is a key measure of our strategic products (including K3 fashion and K3 pebblestone, which are focused on the fashion and apparel brands). This metric does not use IFRS15's 'point-in-time' revenue recognition approach to term contracts, but instead recognises revenue over the term of the contract. ARC from our strategic products increased by 32% to £5.7m, with 25% of this driven by existing customers taking up further software licences. Importantly, ARC from our flagship product, K3 fashion, increased by 55%.

Legacy product managed run-off impacted the division's overall gross profit, which was down by £0.6m to £10.5m. However, gross margin improved significantly to 78.3%, from 75.3% in the prior year. This reflected the change in revenue mix, increased pricing, as well as cost reductions.

A total of £2.1m of major new contracts were secured for K3 fashion and K3 pebblestone, with a strong close at the end of the financial year (2021: £3.1m, which included a number of multi-year contracts). The £2.1m of new contracts signed in 2022 were mostly one-year contracts, which typically roll-on and expand significantly, driving growth in ARC. As an illustration, a major new customer signed in 2020 implemented c. £0.02m of software in its first year. Since then, its software contract value has grown more than ten-fold to c. £0.25m per annum. New contracts included eight major new customer wins as well as increased software licence sales to existing customers. The major new customers included a premium outdoor-clothing company, a luxury Swiss watch brand, a leading French youth-fashion brand, a Spanish fashion brand, a large UK clothing & footwear brand and a major Nordics fashion and apparel brand.

We were pleased with the expansion in revenues from existing clients, which demonstrates the continuing success of our 'land and expand' strategy. Typically customers use our fashion products for their centralised functions (including purchasing, catalogue management, and pricing) and then adopt it across the rest of their operations (particularly with increasing use of hand-held devices in distribution centres and stores).

We initiated the migration of our K3 pebblestone clients from an existing 'on-premises' solution to a new cloud-based version, which is sold on a subscription basis. This migration is underpinned by Microsoft's push to move Dynamics Business Central clients to its cloud versions, and we expect the migration to accelerate in 2023 and beyond.

The principal route to market for K3 fashion and K3 pebblestone remains via selected Microsoft business partners. Microsoft's global endorsement of K3 fashion as its recommended 'add-on' solution for the fashion and apparel vertical continues to underline the quality of our solution. Our channel partner management team is working well with our business partners and will continue to support channel sales, including opportunities for our fashion products in the USA. Given the demand for our fashion solutions, we have further expanded the number of our business partners and created a team of experts to support them in initial engagements and showcase our thought leadership and best practices.

Our solutions for visitor attractions delivered an improved performance. This was driven by a combination of recovery in the UK visitor attractions segment after the coronavirus pandemic, but also the improvements we made to our offering over the last financial year. These included an enhanced reservation engine, improved online ticketing capability, and an upgraded user interface, all of which supported price increases to customers.

In January 2022, we made a strategic purchase of intellectual property, acquiring Viji, an innovative French software developer. Viji is wholly focused on enabling fashion retailers trace and authenticate more easily the environmental and social credentials of their supply chains. It has been developed as a fully-scalable software solution, covering the collection, verification and renewal of supplier certifications. It also includes a consumer-facing component, which enables fashion retailers to provide consumers with ethical and environmental information on their products.

Viji's exciting new products complement our existing offering and have accelerated the development of our sustainability offering, in particular for supply chain transparency. We are in the process of integrating the IP with our fashion products to create a market-exclusive and highly valuable, end-to-end sustainability solution, which covers supply chain transparency, the production of automated ESG reports, compliance documentation and authenticated information on customers' products. We successfully deployed K3 Viji into a select number of customers and are taking advantage of their input to prioritise new development. In parallel, we have created a substantial pipeline of opportunities, which reflects the increasing prioritisation of sustainability issues by customers, accelerated by a number of fast-approaching legislative deadlines and targets in Europe and the USA.

Third-party Solutions

Third-party Solutions comprises NexSys (previously called SYSPRO) and Global Accounts, which both resell Third-party Solutions. These are typically 'on-premise', and revenues are generated from implementation, software licence renewals, and ongoing maintenance and support contracts.

£m	2022	2021*
Revenue	34.0	30.5
Gross profit	17.6	15.7
Gross margin %	51.6%	51.5%
Adjusted EBITDA	12.8	11.4

**FY2021 restated to reflect latest segment reporting, in which Revenue and Gross profit from "mobile goods flow" and "make tax digital" are reclassified from K3 Products to Third-party Solutions.*

The division performed well, with total revenue increasing by 11% to £34.0m (2021: £30.5m) and adjusted EBITDA 11% higher at £12.8m (2021: £11.4m). Gross margin remained constant at 51.6% (2021: 51.5%)

Building on last year's progress, NexSys, the new name for our SYSPRO operations, which is focused on business-critical ERP for the UK manufacturing and distribution markets, delivered a good performance, implementing new software installations for new customers and servicing the order book from existing customers. Although a number of prospects delayed their purchasing decisions, against the background of rising energy costs, we won several important new customers. These included a distributor of diagnostics tools, a well-known brand of home furniture, a

leading European manufacturer of axles and suspensions, and the Physics Department of a leading UK university. We therefore entered the new financial year with a good pipeline of projects. We have increased resource to support new business wins and to take advantage of the opportunities ahead.

The NexSys customer base generates strong cash flows from software licence and maintenance and support contract renewals. The majority of renewals takes place in the final quarter of the financial year and remained very high at c.98% (2021: 98%).

Global Accounts, which predominantly provides specialist software services to the Inter IKEA Concept franchisee network, also performed well. Our specialist services teams continued to support the roll-out of IKEA franchisee stores in the Far East and in Central and South America. We added delivery resource during the year, although the shortage of available skilled resource resulted in some cost inflation. We also continued to deliver K3 Product applications into IKEA franchisees, including 'Mobile Goods Flow'. We are focused on gross margin improvement over 2023, which will be helped by an easing of resource pressures and the good backlog of projects with franchisees. Revenue from framework contracts closed the year strongly, up 18% on an annualised basis.

Central costs

Central Support costs include our central IT, finance, legal, HR, insurance, marketing and PLC costs, which are not allocated to revenue generation. There was a £0.4m increase in Central costs to £8.5m (2021: £8.1m), which reflected our investments in upgrading our internal IT application landscape by adopting and deploying new financial, CRM and customer support systems.

Summary

Over the financial year, we made very encouraging progress in line with our new growth strategy. Our focus on and investment in our strategically important business areas have improved our market position, reinforced our thought leadership in key sectors, and enhanced our ability to drive strategic product growth. Our products are mission-critical and help customers unlock digital innovation thereby improving their ability to compete in the markets they serve. We expect to deliver further growth in the new financial year while also improving Group cash generation.

Marco Vergani
Chief Executive Officer

FINANCIAL REVIEW

Overview

It should be noted that the comparatives for the prior financial year consolidated income statement have been restated. This followed the classification of the certain Group-owned products that are sold exclusively into the Third-party Solutions customer bases being reclassified into the Third-party Solutions segment.

The Group's reported segments are 'K3 Products' and 'Third-party Solutions', with central support costs reported separately, as previously. This aligns segmental reporting with the Group's growth strategy.

The Directors consider the key performance indicators by which they measure the performance of the Group by division to be:

- revenue;
- recurring or predictable revenue^{*2};
- Group ARC³;
- strategic products ARC³;
- gross profit;
- gross margin; and
- adjusted EBITDA.

The Group's results for the year end to 30 November 2022, together with comparatives for the same period in 2021, are summarised in the tables below.

Continuing activities	Revenue	
	2022	2021*
£m		

Revenue	47.5	45.3
- recurring or predictable revenue ²	22.8	20.3
ARC - Group	22.9	20.7
ARC - Strategic products	5.7	4.3
Gross profit	28.1	26.8
Gross margin percentage	59.2%	59.3%
Underlying support / admin costs	(24.7)	(25.2)
Capitalised development costs	1.7	2.8
Adjusted EBITDA	5.1	4.4

Overall Group revenue was up 5% to £47.5m (2021: £45.3m) being driven by Third-party solutions. On a constant currency basis, underlying growth was £2.5m higher year-on-year. Third-party Solutions revenue increased by 11% to £34.0m (2021: £30.5m). K3 Products revenue was £13.5m (2021: £14.8m), down 9% or £1.3m. This reflected legacy decline of £1.4m, which was in line with expectations. Revenue from K3 Products' strategic products increased by £0.1m to £4.7m, with total deal closure in line with the prior year.

Gross profit mirrored revenue growth and increased by 4.7% to £28.1m (2021: £26.8m). Overall gross margin percentage was unchanged at 59.2% (2021: 59.3%) with K3 Products gross margin percentage increasing to 78.3% (2021: 75.3%). This was driven by an improving mix of higher-margin fashion products, more operational leverage in K3 imagine and price increases. Third-party Solutions margins remained constant at 51.6% (2021: 51.5%).

Group annualised recurring contracts ("ARC") grew by 11% to £22.9m from £20.6m, driven by strategic products growth of 32% to £5.7m (2021: £4.3m). Within strategic products, ARC for the enterprise product, K3 fashion, increased by 55%, driven by both new customers and existing customer expansion.

The key metric of adjusted earnings before interest, tax, depreciation, amortisation and exceptional items ("EBITDA") increased by 16% to £5.1m (2021: £4.1m), with lower capitalised development costs of £1.7m (2021: £2.8m) meaning that underlying operating margins are expanding.

Administrative expenses

£m	2022	2021*
Support/ administration costs net of capitalised development costs	23.0	22.3
Depreciation & amortization	5.4	6.8
Amortization of acquired intangibles	0.0	0.5
Exceptional costs impairment & reorganisation	2.2	3.1
Share based payments	0.9	0.4
Total	31.5	33.1

Support/administration costs net of capitalised development costs ^{*7} increased by £0.8m to £23.1m (2020: £22.3m), which reflected the investment in additional customer-facing staff.

Depreciation and amortization costs decreased in line with the reduced level of capitalised development in recent years. Exceptional costs in the year related to the impairment of some Retail POS amounting to £1.6m, acquisitions costs and restructuring costs of £0.6m. Exceptional costs in 2021 related to redundancy costs and onerous contracts following the Starcom disposal.

Earnings per share

The Group's adjusted loss per share from Continuing operations ^{*6} reduced by 10.8p per share to 2.6p (2021: adjusted loss per share ^{*6} of 13.6p). Reported loss per share was 9.0p (2021: earnings of 8.0p, which included profit from disposals).

Dividends

No dividend will be declared for the year ended 30 November 2022 (2021: nil).

Taxation

The corporation tax charge for the financial year was £0.1m (2021: £0.8m charge). This comprised a charge for current taxation of £0.1m (2021: £0.6m) relating to the non-UK businesses and a charge for deferred taxation of £nil (2021: £0.2m).

Balance sheet

Overall the Group balance sheet remains robust with net cash balances of £7.1m (2021: £9.1m). The Group has a bank facility with Barclays, its long-standing bankers, which provides for the draw down of up to £3.5m to support seasonal cash movements. At the year-end, £nil was drawn down (2021: £nil). After the financial year end, the Group's facility agreement was extended for a further year, until March 2024.

Goodwill increased to £25.0m (2021: £24.8m) as a result of acquisitions and FX charges. Development costs reduced to £3.0m (2021: £6.6m), reflecting the reduction in capitalised development costs and the impairment of £1.6m. The development cost balance of £3.0m is now heavily weighted, 80% to the strategic vertical of fashion & apparel. Property, plant and equipment decreased to £2.5m (2021: £3.3m) with depreciation exceeding additions.

Current assets increased in Contract Assets driven by multi-year longer term deals and in Trade Debtors with increased Third-party Solution revenues. Trade & Other Payables increased to £17.7m (2021: £14.5m), which reflected deferred income and contingent acquisition consideration and higher year-end commissions. Current leases obligations reduced to £0.8m (2021: £1.6m) following the reduction of the office footprint and car fleet.

Cash flow

Net cash balances at the year-end stood at £7.1m (2021: £9.0m). The underlying trend of cash generation is improving with an annualised £3.0m cash outflow¹ as at 31 May 2022, reducing to £1.9m as at 30 November 2022 and with further material reduction in Q1 2023 on K3's path to cash generation. Cash outflow¹ in the financial year amounted to £1.9m, including £0.3m of costs relating to the acquisition of Viji and £1.0m of investment in upgrading internal systems.

The comparison of cashflow in 2022 and 2021 is distorted by the disposals of the Sage and Starcom business units. The table below normalises the impact of the disposals and also the 2021 Government coronavirus support unwind on cash generated from operations.

£m	2022	2021
Net cash from operating activities	2.4	(0.5)
Total		
- Add back Sage outflows	-	0.2
- Add back Starcom inflows	-	(1.1)
- Add back Dynamics (inflow)/ outflow	(0.4)	1.6
Development expenditure capitalized	(1.7)	(3.0)
Purchase of property, plant and equipment	(0.8)	(0.6)
Government coronavirus tax support paid/ (deferred)	-	2.7
Operating cash flow from Continuing Activities normalised for Government coronavirus support and capital expenditures	2.6	(0.3)

Investing Activities included £0.3m for the consideration of the Viji acquisition in addition to associated deal costs. 2021 Investing Activities included the disposal proceeds of the Starcom and Sage businesses of £13.3m and £1.5m respectively.

Development expenditure capitalised for products was £1.7m (2021: £2.3m) with a further £1.0m invested in internal systems upgrade classified across capitalised development and purchase of property, plant and equipment. Development expenditure capitalised on product for external commercialisation was spread evenly across the core strategic products of K3 fashion, K3 pebblestone and K3 Viji.

Within 2021 Financing Activities, following the high level of Starcom and Sage disposal proceeds, these funds were used to pay down the bank facilities of £6.8m. In addition, 2021 indebtedness was further reduced by the non-cash debt-to-equity conversion of the £3m shareholder loan.

Finance expenses were higher in 2021 due to the charge for the conversion of shareholder loan notes into equity. Repayments of lease liabilities continued to decrease following the reduction of the office footprint and size of the car fleet.

Robert Price
Chief Financial Officer

K3 Business Technology Group plc
Consolidated income statement
for the year ended 30 November 2022

	Notes	Year ended 30 November 2022 £'000	Year ended 30 November 2021 £'000
Revenue	3	47,532	45,267
Cost of sales		(19,382)	(18,432)
Gross profit		28,150	26,835
Administrative expenses		(31,518)	(33,106)
Impairment losses on financial assets	3	(102)	(118)
Adjusted EBITDA	12	5,064	4,357
Depreciation and amortisation		(5,383)	(6,797)
Amortisation of acquired intangibles		-	(518)
Exceptional impairment		(1,603)	(1,421)
Exceptional reorganisation costs	3	(693)	(1,570)
Share-based payment charge		(855)	(440)
Loss from operations	3	(3,470)	(6,389)
Finance expense		(338)	(1,433)
Loss before taxation from continuing operations		(3,808)	(7,822)
Tax expense	4	(278)	(939)
Loss after taxation from continuing operations		(4,086)	(8,761)
Profit after taxation from discontinued operations	6	108	12,292
(Loss)/profit for the year		(3,978)	3,531

All the (loss)/profit for the year is attributable to equity shareholders of the parent.

Gain / (loss) per share

	Year ended 30 November 2022	Year ended 30 November 2021
Basic and diluted	(9.0)p	8.0p
Basic and undiluted from Continuing operations	(9.3)p	(19.9)p

	Year ended 30 November 2022 £'000	Year ended 30 November 2021 £'000
(Loss)/profit for the year	(3,978)	3,531
Other comprehensive income/(expense)		
Exchange differences on translation of foreign operations	69	(1,085)
Other comprehensive income/(loss)	69	(1,085)
Total comprehensive (expense) /income for the year	(3,909)	2,446

Total comprehensive (expense)/income is attributable to equity holders of the parent.

All the other comprehensive income will be reclassified subsequently to profit or loss when specific conditions are met. None of the items within other comprehensive income/(expense) had a tax impact.

K3 Business Technology Group plc
Consolidated statement of financial position
as at 30 November 2022

	Notes	2022 £'000	2021 £'000
ASSETS			
Non-current assets			
Property, plant, and equipment		1,766	1,551
Right-of-use assets		801	1,709
Goodwill	7	25,022	24,772
Other intangible assets		3,394	6,648
Deferred tax assets		855	1,010
Total non-current assets		31,838	35,690
Current assets			
Stock		484	467
Trade and other receivables		13,549	10,605
Forward currency contracts		110	-
Cash and short-term deposits		7,113	9,146
Total current assets		21,256	20,218
Total assets		53,094	55,908
LIABILITIES			
Non-current liabilities			
Lease liabilities		79	135
Provisions		179	1,129
Deferred tax liabilities		1,119	1,288
Total non-current liabilities		1,377	2,552
Current liabilities			
Trade and other payables		16,882	14,456
Current tax liabilities		372	509
Lease liabilities		802	1,623
Borrowings		50	113
Provisions		968	854
Total current liabilities		19,074	17,555
Total liabilities		20,451	20,107
EQUITY			
Share capital		11,183	11,183
Share premium account		31,451	31,451
Other reserves		11,151	11,151
Translation reserve		1,607	1,538
Retained earnings		(22,749)	(19,522)
Total equity attributable to equity holders of the parent		32,643	35,801
Total equity and liabilities		53,094	55,908

K3 Business Technology Group plc
Consolidated Cash Flow Statement
for the year ended 30 November 2022

	Notes	Year ended 30-Nov 2022 £'000	Year ended 30-Nov 2021 £'000
Cash flows from operating activities			
Profit/ (loss) for the period		(3,978)	3,531
Adjustments for:			
Finance expense		336	1,448
Tax expense	4	90	829
Depreciation of property, plant, and equipment		636	591
Depreciation of right-of-use assets		981	963
Amortisation of intangible assets and development expenditure		3,767	5,639
Impairment of intangible assets		1,603	1,421
Loss on sale of property, plant, and equipment		10	466
Share-based payments charge		751	440
(Profit) on disposal of discontinued operations		-	(11,893)
Net cash flow from provisions		(717)	1,558
Net cash flow from trade and other receivables		(3,037)	(242)
Net cash flow from trade and other payables		2,380	(4,863)
Cash generated from operations		2,822	(112)
Income taxes paid		(395)	(395)

Income statement		2021	2020
Net cash from operating activities		2,427	(507)
Cash flows from investing activities			
Development expenditure capitalised		(1,725)	(3,024)
Acquisition of a subsidiary, net of cash acquired	5	(178)	-
Proceeds from disposal of operations net of cash balances in disposal unit		-	14,763
Purchase of property, plant, and equipment		(845)	(623)
Net cash from investing activities		(2,748)	11,116
Cash flows from financing activities			
Proceeds from loans and borrowings		-	4,800
Repayment of loans and borrowings		(111)	(11,571)
Repayment of lease liabilities		(1,073)	(1,187)
Interest paid on lease liabilities		(132)	(202)
Finance expense paid		(150)	(673)
Net cash from financing activities		(1,466)	(8,833)
Net change in cash and cash equivalents		(1,787)	1,776
Cash and cash equivalents at start of year		8	9,033
Exchange losses on cash and cash equivalents		(133)	(309)
Cash and cash equivalents at end of year		8	9,033

K3 Business Technology Group plc
Consolidated statement of Changes in Equity

for the year ended 30 November
2022

Note	Share capital £'000	Share premium £'000	Other reserves £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 30 November 2020	10,737	28,897	11,151	2,623	(23,493)	29,915
Changes in equity for year ended 30 November 2021						
Profit for the year	-	-	-	-	3,531	3,531
Other comprehensive loss for the year	-	-	-	(1,085)	-	(1,085)
Total comprehensive income/(expense)	-	-	-	(1,085)	3,531	2,446
Share-based payment	-	-	-	-	440	440
Issue of shares	446	2,554	-	-	-	3,000
At 30 November 2021	11,183	31,451	11,151	1,538	(19,522)	35,801
Changes in equity for year ended 30 November 2022						
Loss for the year	-	-	-	-	(3,978)	(3,978)
Other comprehensive income for the year	-	-	-	69	-	69
Total comprehensive income/(expense)	-	-	-	69	(3,978)	(3,909)
Share-based payment	-	-	-	-	751	751
At 30 November 2022	11,183	31,451	11,151	1,607	(22,749)	32,643

NOTES

1 Basis of preparation

Statement of compliance

The Group financial statements from which this statement of Final Results is extracted have been prepared in accordance with UK endorsed IFRS in conformity with the requirements of the Companies Act 2006 ("IFRS"). The company financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework ("FRS101").

The financial information has been prepared under the historical cost convention except for derivative financial

The financial information has been prepared under the historical cost convention except for derivative financial instruments which are stated at their fair value.

Whilst the financial information included in this statement of Final Results has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

The Group's statutory financial statements for the year ended 30 November 2022, from which the financial information presented in this announcement has been extracted, were prepared using the accounting policies disclosed in the principal accounting policies set out in the Group's Annual Report. These policies have been consistently applied to all years presented.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

This statement of Final Results does not constitute the Company's statutory accounts for the years ended 30 November 2022 and 30 November 2021 within the meaning of Section 435 of the Companies Act 2006 but is derived from those statutory accounts.

The Group's statutory accounts for the year ended 30 November 2021 have been filed with the Registrar of Companies, and those for 2022 will be delivered following the Company's Annual General Meeting. The Auditor has reported on the statutory accounts for 2022 and 2021. Their report for 2022 was (i) unqualified, (ii) did not contain any material uncertainties and (iii) did not contain statements under Sections 498 (2) or 498 (3) of the Companies Act 2006 in relation to the financial statements.

Going Concern

The Group closely reviews its funding position throughout the year, including monitoring compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations. The Group has extended its current Banking Facilities arrangements with its long-term Bank, Barclays, for a further year to 31 March 2024.

The capital structure of the Group has materially changed in the last two years with the disposal of the Starcom and Sage businesses for a combined £16.2m and the conversion of a £3.0m shareholder loans to equity. The Group therefore ended the year ended 30 November 2022 with a Net Cash position of £7.1m.

The Group has prepared cashflow forecast for a period of at least 12 months from the date of approval of the financial statements which show that the Group will have reasonably significant headroom and be in compliance with covenants. The forecast has undergone sensitivity analysis and stress testing and the Directors have concluded that there is no reasonable worst-case scenario that is likely which would mean the group would run out of cash or breach covenants.

The Directors therefore have a reasonable expectation that there are no material uncertainties that cast significant doubt about the Group's ability to continue in operation and meet its liabilities as they fall due for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements. For these reasons the financial statements have been prepared on a going concern basis.

2 Key Accounting policies for the Group financial statements

Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For impairment testing, goodwill is allocated to each of the Group's subsidiaries or cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the

unit pro-rata based on the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or cash-generating unit, the attributable net book value of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

The Group contracts for products and services in a variety of contractual forms and deployment methods which impact IFRS 15 revenue recognition. These include:

- Reselling of 3rd party products for which following contracting the Group has no continuing performance obligations for software and the customer controls the software. These are usually perpetual licenses with customer on premise installations. Since the Group is reselling these all already functional products, services are unbundled. Customers can also choose to take maintenance and support for these products or indeed obtain services, support, and maintenance from different suppliers.
- K3 bolt on own software IP (Intellectual Property) that adds incremental vertical functionality and bolts onto Microsoft Dynamics products and that is either sold directly to customer or via a channel partner. K3 does not control the software after the contract and issue of access code, which is contemporaneous. There is an ongoing performance obligation to maintain the product to ensure the functionality continues to bolt onto Microsoft Dynamics products.
- K3 own products for which K3 controls and has ongoing performance obligations. These products are typically SaaS (Software as a Service) based subscription products which include a right to access as the customer continuously consumes functionality. The product offer is a typical bundle of software access, maintenance, and support. The contracts typically have a low level of services.

Software license revenue:

Software licenses for 3rd party products are recognised at a point in time, on contract and issue of the initial license key which is contemporaneous.

K3 bolt on own software IP is recognised at a point in time, on contract and issue of the license key which is contemporaneous.

K3 own products which is SaaS based is recognised over time and not in software but rather in maintenance and support for the purposes of revenue disaggregation disclosures. Revenue is recognised over time as K3 controls the product, the license is not distinct, and the customer continually receives benefits.

Services revenues

Services are linked to implementation and set up of K3 own and 3rd party products, rather than product functionality build. Services are contracted for on a time and materials basis, the customer takes ownership of the work delivered and revenue is recognised as it is performed.

Hardware:

Hardware is peripheral to a number of contract implementations; the revenue is recognised when the customer takes control of the asset on delivery.

Maintenance and Support:

Maintenance refers to the maintenance of the products and ensuring a right to upgrade whilst Support refers to ongoing customer support including for example help desk access.

3rd party products maintenance is provided by the product's author K3 has no performance obligation and this is sold through K3 for a margin. Revenue is recognised for the term of the contract at a point in time when the contract is signed. Support of 3rd party products is provided by K3 over time over the term of the contract.

K3 bolt on own software IP is typically re-sold via channel partners who provide support. K3 has an ongoing performance obligation for the maintenance of the product and recognises a portion of revenue associated with that over time.

K3 own SaaS / subscription products and usually hosted by K3 and typically a bundled offer of maintenance and support is provided to customers which are both performance obligations for K3 and revenue is recognised over time.

Allocation of transaction price:

Transaction price is measured based on the consideration specified in a contract with a customer and, where applicable, the best estimate of any consideration related to modifications to the contract which has yet to be agreed. Any amounts expected to be paid to the customer, such as penalties for late delivery, are deducted from the consideration. Where a transaction price must be allocated between multiple performance obligations, this is generally achieved through allocating a proportion of total price against each using either standard list sales prices

or an estimated cost methodology.

Critical accounting estimates and judgements

In applying the Group's accounting policies above the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors are of the opinion that there are no significant judgements to be disclosed except those over going concern which are disclosed in detail in the basis of preparation accounting policy in note 1. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

Impairment of goodwill and other intangibles

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash generating unit. It also requires judgement as to a suitable discount rate in order to calculate present value, i.e., the directors' current best estimate of the weighted average cost of capital ("WACC"). Other intangibles are assessed annually for impairment as well as when triggers of impairment arise. An impairment review has been performed at the reporting date.

Capitalised development expenditure and subsequent amortisation

Where such expenditure meets the relevant criteria, the Group is required to capitalise development expenditure. In order to assess whether the criteria are met the Board is required to make estimates in relation to likely income generation and financial and technical viability of the relevant development projects and the period over which the Group is likely to benefit from such expenditure. Development projects are subject to an investment appraisal process with the product managers to assess the status of the development and the expected commercial opportunities. Development costs are assessed for impairment which requires an estimation of the future expected revenues to be generated from each product. This methodology, which is similar to that used to assess any impairment of goodwill. Expenditure is only capitalised when the investment appraisal process has assessed that the product is likely to benefit the Group in the future.

Calculation of loss allowance

When measuring expected credit losses, the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring Expected Credit Losses (ECL). Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

If the rates on trade receivables more than 90 days past due had been 50 per cent higher as of November 2022, the loss allowance on trade receivables would have been £9k (2021: £16k) higher.

If the ECL rates on trade receivables between 61 and 90 days past due had been 50 per cent higher as of November 2022, the loss allowance on trade receivables would have been £7k (2021: £4k) higher.

Calculation of incremental borrowing rate and lease term in respect of IFRS 16

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. The Group's incremental borrowing rate is calculated by reference to borrowing rates applicable to the Group's other borrowings/financial liabilities and then adjusted for the specifics of the lease and asset. For every 0.5% increase in the incremental borrowing rate the right of use asset and lease liability recognised would increase by approximately £4k, conversely an equivalent reduction in the incremental borrowing rate would decrease the right of use asset and liability by approximately £4k.

Lease term is ordinarily calculated by reference to the contractual terms of the Group's leases. Management may change their estimates in respect of the term of any lease if the probability of an extension or termination option, within the lease contract, being exercised changes. As a result of any change in estimate of the lease term the Group adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

3 Segment information

The Group operates a streamlined organisation with management resource and central services focused on working across the Group in a more unified manner to increase the strategic focus on the level of our own product sales. Reporting is based on product split between K3 own products ('K3 Products') and Third-party reseller activities ('Third-party Solutions') across revenue and gross margin. Global Accounts and Third-party Products continue to be merged into Third-party Solutions. Overheads and administrative expenses are included as a central cost given resource works across these three segments. The activities and products and services of the operating segments are detailed in the Strategic Report.

Transactions between operating segments are on an arms-length basis. The CODM (Chief Operating Decision Maker, the Board) primarily assesses the performance of the operating segments based on product revenue, gross margin and Group adjusted EBITDA. The segment results for the year ended 30 November 2022 and for the year ended 30 November 2021, reconciled to loss for the year.

Year ended 30 November 2022

	K3 Products £'000	Third-party Solutions £'000	Central Costs £'000	Total £'000
Software licence revenue	2,174	3,468	-	5,642
Services revenue	738	17,377	-	18,115
Maintenance & support	9,620	13,196	-	22,816
Hardware and other revenue	925	34	-	959
External revenue	13,457	34,075	-	47,532
Cost of sales	(2,920)	(16,462)	-	(19,382)
Gross profit	10,537	17,613	-	28,150
Gross margin	78.3%	51.7%	-	59.2%
Underlying administrative expenses ^{*7}	(11,243)	(4,820)	(8,722)	(24,785)
EBITDA before Capitalised Development costs	(706)	12,793	(8,722)	3,365
Capitalised Development costs	1,420	47	232	1,699
Adjusted EBITDA^{*1} from continuing operations	714	12,840	(8,490)	5,064
Depreciation and amortisation	-	-	(5,383)	(5,383)
Amortisation of acquired intangibles	-	-	-	-
Exceptional impairment	-	-	(1,603)	(1,603)
Exceptional reorganisation costs	-	-	(595)	(595)
Acquisition costs	-	-	(98)	(98)
Share-based payment charge	-	-	(855)	(855)
(Loss)/profit from operations	714	12,840	(17,024)	(3,470)
Finance expense	-	-	(338)	(338)
(Loss)/profit before tax and discontinued	714	12,840	(17,362)	(3,808)

operations					
Tax expense		-	-	(278)	(278)
Profit from discontinued operations		6	-	108	108
(Loss)/profit for the year		714	12,840	(17,532)	(3,978)

Year ended 30 November 2021 (restated*)

	K3 Products £'000	Third-party Solutions £'000	Central Costs £'000	Total £'000
Software licence revenue	3,309	2,898	-	6,207
Services revenue	1,048	16,283	-	17,331
Maintenance & support	9,091	11,204	-	20,295
Hardware and other revenue	1,331	103	-	1,434
External revenue	14,779	30,488	-	45,267
Cost of sales	(3,660)	(14,772)	-	(18,432)
Gross profit	11,119	15,716	-	26,835
Gross margin	75.2%	51.5%	-	59.3%
Underlying administrative expenses*7	(12,807)	(4,344)	(8,166)	(25,317)
EBITDA before Capitalised Development costs	(1,688)	11,372	(8,166)	1,518
Capitalised Development costs	2,747	45	47	2,839
Adjusted EBITDA from continuing operations	1,059	11,417	(8,119)	4,357
Depreciation and amortisation	-	-	(6,797)	(6,797)
Amortisation of acquired intangibles	-	-	(518)	(518)
Exceptional impairment	-	-	(1,421)	(1,421)
Exceptional reorganisation costs	-	-	(1,605)	(1,605)
Acquisition gain	-	-	35	35
Share based payment charge / (credit)	-	-	(440)	(440)
Profit / (Loss) from operations	1,059	11,417	(18,865)	(6,389)
Finance expense	-	-	(1,433)	(1,433)
Profit/(loss) before tax and discontinued operations	1,059	11,417	(20,298)	(7,822)
Tax expense	-	-	(939)	(939)
Profit from discontinued operations	-	-	12,292	12,292
Profit/(loss) for the year	1,059	11,417	(8,945)	3,531

*FY2021 restated to reflect latest segment reporting, in which Revenue and Gross profit from "mobile goods flow" and "make tax digital" are reclassified from K3 Products to Third-party Solutions.

Segment assets and segment liabilities are reviewed by the CODM in a consolidated statement of financial position. Accordingly, this information is replicated in the Group consolidated statement of financial position included within this announcement. As no measure of assets or liabilities for individual segments is reviewed regularly by the CODM, no disclosure of total assets or liabilities has been made, in accordance with the amendment to paragraph 23 of IFRS 8.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between segments are accounted for at cost.

The Group has one customer relationship which accounts for 46% (2021: 43%) of external Group revenue.

Analysis of the Group's external revenues (by customer geography) and non-current assets by geographical location are detailed below:

External revenue by end-customer geography

	External revenue		Non-current assets	
	Year ended 30 November 2022 £000	Year ended 30 November 2021 £000	2022 £000	2021 £000
United Kingdom	16,323	15,648	21,932	30,606
Netherlands	6,434	7,978	5,749	180
Ireland	624	1,157	1,150	5,044

Ireland	631	1,157	1,630	3,941
Rest of Europe	7,166	7,575	2,323	(1,570)
Middle East	1,807	1,887	-	-
Asia	8,882	7,494	181	304
USA	820	506	3	19
Rest of World	5,469	3,022	-	-
	47,532	45,267	31,838	35,480
% of non-UK revenue	66%	65%		

External revenue by market

2022	UK	Non-UK	Total
	£'000	£'000	£'000
Software Licence Revenue	1,236	4,438	5,674
Services Revenue	2,679	15,429	18,108
Maintenance & Support	11,929	10,862	22,791
Hardware and other Revenue	467	492	959
Total	16,311	31,221	47,532

External revenue by business unit geography

2022	Software Licencing £'000	Services Revenue £'000	Maintenance & support Revenue £'000	Hardware & Other Revenue £'000	Total £'000
United Kingdom	1,082	2,983	12,364	454	16,883
Netherlands	4,574	14,984	7,853	124	27,535
Ireland	(153)	26	430	13	316
Rest of Europe	171	88	2,144	367	2,770
Rest of World	-	27	-	1	28
Total	5,674	18,108	22,791	959	47,532

External revenue by revenue recognition category

2022	Software Licencing £'000	Services Revenue £'000	Maintenance & support Revenue £'000	Hardware & Other Revenue £'000	Total £'000
Goods Transferred at a point in time	4,390	10	95	923	5,418
Services transferred at a point in time	988	17,606	6,130	-	24,724
Services transferred over time	296	492	16,566	36	17,390
Total	5,674	18,108	22,791	959	47,532

Revenue to be recognised in the future, related to agreed performance obligations that are unsatisfied or partially satisfied as at 30 November 2022, was as follows:

	2023 £'000	2024 £'000	Later £'000	Total £'000
Software Licence Revenue	-	38	-	38
Services Revenue	15	40	-	55
Maintenance & Support	3,159	2,981	1,978	8,118
Hardware and other Revenue	18	220	-	238
Total	3,192	3,279	1,978	8,449

External revenue by market

2021	UK	Non-UK	Total
	£'000	£'000	£'000
Software Licence Revenue	1,734	4,908	6,642
Services Revenue	2,648	14,676	17,324
Maintenance & Support Revenue	10,664	9,203	19,867
Hardware and other Revenue	628	806	1,434
Total	15,674	29,593	45,267

External revenue by business unit geography

2021	Software Licencing £'000	Services Revenue £'000	Maintenance & support Revenue £'000	Hardware & Other Revenue £'000	Total £'000
United Kingdom	1,596	2,783	10,623	627	15,629
Netherlands	4,389	14,149	6,069	57	24,664
Ireland	107	176	569	50	902
Rest of Europe	550	216	2,606	700	4,072

Rest of Europe	3,000	2,100	2,000	1,000	7,012
Total	6,642	17,324	19,867	1,434	45,267

External revenue by revenue recognition category

	Software Licencing £'000	Services Revenue £'000	Maintenance & support Revenue £'000	Hardware & Other Revenue £'000	Total £'000
Goods Transferred at a point in time	6,642	-	-	1,432	8,074
Services transferred at a point in time	-	17,324	9,880	2	27,206
Services transferred over time	-	-	9,987	-	9,987
Total	6,642	17,324	19,867	1,433	45,267

Revenue to be recognised in the future, related to agreed performance obligations that are unsatisfied or partially satisfied as at 30 November 2021, was as follows:

	2022 £'000	2023 £'000	Later £'000	Total £'000
Software Licence Revenue	328	-	-	328
Services Revenue	93	-	-	93
Maintenance & Support	4,073	-	-	4,073
Hardware and other Revenue	5	-	-	5
Total	4,499	-	-	4,499

Revenue recognised and included within contract assets can be reconciled as follows:

	2022 £'000
At 1 December 2021	3,077
Transfers in the period from contract assets to trade receivables	(3,077)
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	5,512
At 30 November 2022	5,512

Revenue recognised and included within contract liabilities can be reconciled as follows:

	2022 £'000
At 1 December 2021	3,364
Amounts included in contract liabilities that was recognised as revenue during the period	(3,364)
Cash received in advance of performance and not recognised as revenue during the period	5,312
At 30 November 2022	5,312

4 Tax expense / (charge)

	2022 £'000	2021 £'000
<i>Current tax expense/(credit)</i>		
Income tax of overseas operations on profits/(losses) for the period	203	676
Adjustment in respect of prior periods	(100)	(80)
Total current tax expense	103	596
<i>Deferred tax (credit)/expense</i>		
Origination and reversal of temporary differences	9	233
Effect of changes in tax rate	10	-
Adjustments in respect of prior periods	(32)	-
Total deferred tax expense/(credit)	(13)	233
Total tax expense in the current year	90	829
Income tax expense attributable to continuing operations	278	939
Income tax (credit) attributable to discontinued operations	(188)	(110)
	90	829

The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023 and this rate was enacted on 10 June 2021. Deferred tax balances as at 30 November 2022 have been measured at 25%.

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the UK applied to profits/(losses) for the year are as follows:

	2022 £'000	%	2021 £'000	%
Loss before taxation from continuing operations	(3,807)		(7,822)	
(Loss)/profit before taxation from discontinued operations (note 6)	(80)		12,182	
(Loss)/profit before tax	(3,887)		4,360	
Expected tax charge/(credit) based on the standard rate of corporation tax	(739)	19.0	828	19.0

Effects of:				
Items not deductible for tax purposes	439		504	
Non-taxable gain on disposal of shares	-		(2,274)	
Income not taxable	(496)		-	
Adjustment to tax charge in respect of prior periods	(132)		(180)	
Movements in deferred tax not recognised	1,149		-	
Differences between overseas tax rates	(136)		571	
Group relief not paid for	-		154	
Super-deduction	-		(11)	
Movements in temporary differences not recognised	-		1,184	
Effect of deferred tax rate difference	5		53	
Total tax expense / (credit) in current period	90	2.3	829	39.4

Deferred tax recognised directly in equity for FY2022 was £nil (2021: £nil). Current tax recognised in equity for FY2022 was £nil (2021: £nil). None of the items within other comprehensive income in the Consolidated Statement of Comprehensive Income have resulted in a tax expense or tax income.

5 Acquisition of a subsidiary - Viji

On 27 January 2022, the Group acquired 100 per cent of the voting shares of Viji, an innovative software developer with an exciting suite of products focused on sustainability, for an initial consideration of €0.25 million and agreed to an undiscounted deferred consideration of €0.1 million, due to be paid a year after date of acquisition. There is also contingent consideration of €0.7 million, dependent upon the achievement of agreed performance criteria over the next two years from the date of acquisition. The acquisition-related costs amounted to £0.1 million and are included in the Consolidated Income Statement.

The acquisition has been accounted for using the purchase method of accounting.

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

	Provisional fair value to the Group £'000
Other intangible assets	376
Property, plant and equipment	2
Borrowings	(136)
Trade and other receivables	35
Cash and cash equivalents	30
Trade and other payables	(34)
Net assets acquired	273
Goodwill arising on acquisition	102
	375
Discharged by:	
Cash paid on acquisition	208
Deferred consideration	75
Contingent consideration	92
	375
Cash outflow on acquisition:	
Cash paid on acquisition	208
Cash and cash equivalents acquired	30
	178

The initial accounting for the acquisition of Viji has only been provisionally determined at the date of finalisation of these Consolidated Financial Statements based on Management's best estimates.

From the date of acquisition to 30 November 2022, Viji contributed £19 thousands to the Group's revenue and a profit of £0.1 million to the Group's loss after tax.

If the acquisition of Viji were completed on 1 December 2021, the Group's revenue for the year would have been £47,506k and the Group's loss after tax would have been £5,078k.

6 Discontinued operations

On 26 February 2021 the Group announced that a sale of the Starcom business for consideration of £14.7m had been approved and completed. Starcom had already been classified as a discontinued operation in the prior year as it represented a major line of business for the Group.

The post tax gain on disposal of the Starcom business was determined as follows:

	2022 £'000	2021 £'000
Cash consideration received	-	14,474
Total consideration received	-	14,747
Cash disposed of	-	(1,375)
Net cash inflow on disposal of discontinued operations	-	13,372
Net assets disposed (other than cash)		
Property, plant and equipment	-	(199)
Intangibles	-	(3,015)
Right of use asset	-	(454)
Trade and other receivables	-	(2,404)
Trade and other payables	-	1,958
	-	(4,114)
Pre-tax gain on disposal of discontinued operations	-	9,258
Gain on disposal of discontinued operations	-	9,258

Trade and other payables includes an onerous contract provision of £1,125k relating to higher than market pricing on the 3 year post completion service agreement with the buyer.

The results of the Starcom business for the year are presented below:

	2022 £'000	2021 £'000
Total Revenue	-	2,309
Less inter-segment revenue	-	-
External revenue	-	2,309
Cost of sales	-	(845)
Gross profit	-	1,464
Administrative expenses	-	(1,011)
Impairment losses on financial assets	-	-
Amortisation of acquired intangibles	-	(107)
Profit from operations		346
Profit on disposal	-	9,258
Finance credit/(expense)	-	9
Profit before taxation from discontinued operations	-	9,613
Tax credit including on gain on asset held for sale	-	110
Profit for the year from discontinued operations	-	9,723

	2022 Nil	2021 22.0
Basic and diluted profit per share from discontinued operations		

The major classes of assets and liabilities of the Starcom business classified as held for sale as at 30 November 2022 are as follows:

	2022 £'000	2021 £'000
Property, plant, and equipment	-	237
Right-of-use assets	-	332
Goodwill	-	2,373
Other intangible assets	-	690
Deferred tax assets	-	136
Trade and other receivables	-	1,871
Cash and cash equivalents	-	1,260
Assets classified as held for sale	-	6,899
Trade and other payables	-	(3,196)
Provisions	-	(60)
Lease liabilities	-	(316)
Liabilities directly associated with assets classified as held for sale	-	(3,572)
Net Assets directly associated with disposal group	-	3,327

The net cashflows incurred by Starcom are as follows:

	2022 £'000	2021 £'000
Operating	-	628
Investing	-	(129)
Financing	-	(157)
Net cash inflow	-	342

On the 20 September 2021, the Group disposed of the customers and employees of its Sage business to Pinnacle Computing (Support) Ltd for £1.68m.

Formal completion occurred in early October 2021, following a TUPE consultation process in respect of the transfer to Pinnacle of the employees, and the disposal consideration was subject to a downward adjustment of £0.2m in respect of restructuring costs that Pinnacle undertook immediately following completion. The Group maintained ownership of the sales ledger at Completion which was £0.1m at the 30 November 2021.

The post tax gain on disposal of the Sage business was determined as follows:

	2022 £'000	2021 £'000
Cash consideration received	-	1,475
Total consideration received	-	1,475
Cash disposed of	-	-
Net cash inflow on disposal of discontinued operations	-	1,475
Net assets disposed (other than cash)		
Trade and other receivables	-	682
Trade and other payables	-	478
	-	1,160
Pre-tax gain on disposal of discontinued operations	-	2,635
Gain on disposal of discontinued operations	-	2,635

Trade and other payables includes the release of working capital accruals no longer payable following the disposal of the business.

The results of the Sage business for the year are presented below:

	2022 £'000	2021 £'000
External revenue	(50)	4,011
Cost of sales	(1)	(2,437)
Gross profit	(51)	1,574
Administrative expenses	(31)	(1,641)
Impairment losses on financial assets	-	31
Profit from operations	(82)	(36)
Profit on disposal	-	2,629
Finance (expense)/credit	2	(24)
Profit before taxation from discontinued operations	(80)	2,569
Tax credit/(charge)	(188)	-
(Loss)/profit for the year from discontinued operations	(108)	2,569

	2022	2021
Basic and diluted profit per share from discontinued operations	0.2	5.8

The amounts included in the consolidated cashflows related to the Sage business are as follows:

	2022 £'000	2021 £'000
Operating	(67)	(230)
Investing	-	1,475
Financing	2	(24)
Net cash inflow/(outflow)	(65)	1,221

7 Goodwill and impairment

Goodwill acquired in business combinations is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from that business combination.

The carrying value of goodwill in respect of all CGUs is set out below. These are fully supported by either value in use calculations in the year or the fair value less cost to sell for CGUs held for sale.

Goodwill carrying amount

	2022 £'000	2021 £'000
Syspro	13,677	13,677
Global Accounts	9,374	9,227

Global Accounts	3,311	3,221
Walton & Integrated Business Solutions (IBS)	1,868	1,868
Viji	106	-
	25,022	24,772

The Group tests goodwill and the associated intangible assets and property, plant, and equipment of CGUs annually for impairment, or more frequently if there are indications that an impairment may be required.

The recoverable amounts of the remaining CGUs are determined from value in use calculations. The key assumptions for these calculations are discount rates, sales growth, gross margin, and admin expense growth rates. The assumptions for these calculations reflect the current economic environment. The discount rate represents the current market assessment of the risks specific to the Group, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from the weighted average cost of capital (WACC). Other assumptions used are based on external data and management's best estimates.

For all the CGUs where the recoverable amount is determined from value in use, the Group performs impairment reviews by forecasting cash flows based upon the Board 3-year plan starting in the 2023, which anticipates sales, gross margin and admin cost growth based on management's best estimates. A projection of sales and cash flows based upon a blended inflation rate (2.1%) is then made for a further two years.

The pre-tax cash flow forecasts used the following key assumptions:

- Syspro - growth rates of 23.7% to 5.5% over the next three years;
- Global Accounts - revenue growing by 26.2% over the 5-year forecast period with gross margin maintained at current performance;
- IBS and Walton - these CGUs relate to older products and the forecasts. A decision was made last year to cease investing in these products with a plan to transitioning customers, wherever possible, to Viji's platform. From FY27 we are assuming no revenue from these legacy products; and
- Viji - FY2023 will be second full year since acquisition. Growth rates of 30% from FY2024 over the next three years.

The rate used to discount the forecast pre-tax cash flows is 17.4% (2021: 13.4%) and represents the Directors' current best estimates of the weighted average cost of capital ("WACC"). The Directors consider that there are no material differences in the WACC for different CGUs.

8 Notes to the cash flow statement

Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash and bank balances available on demand	7,113	9,146
Bank overdrafts	-	(113)
	7,113	9,033

Cash and cash equivalents comprise cash and bank balances available on demand. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated reporting position as shown above.

Non-cash transactions

Additions to buildings, motor vehicles and equipment during the year amounting to £233k (2021: £319k) were financed by new leases. During FY2022, £nil (2021: £3 million) shareholders loan converted to equity.

9 Provision

	Dilapidations	Onerous contracts	Deferred consideration	Total
	£'000	£'000	£'000	£'000
At 30 November 2021	370	769	844	1,983
Additions	-	-	-	-
Paid in the year	-	(342)	(375)	(717)
Interest	26	-	-	26
Disposed	(145)	-	-	(145)
At 30 November 2022	251	427	469	1,147

Split as:				
Current	251	342	375	968
Non-Current	-	85	94	179
At 30 November 2022	251	427	469	1,147

The Onerous contract provision relates to commitments undertaken for the post completion services agreement with the Buyer of Starcom for activity no longer in the Group. The deferred consideration provision relates to above market pricing included in the post completion services agreement with the Buyer of Starcom. The non-current element of these provisions will be utilised evenly until the end of February 2024.

10 Deferred tax

The net deferred tax asset/liability at the end of the year is analysed as follows:

	2022	2021
	£000	£000
Deferred tax assets		
Continuing operations	855	1,010
Deferred tax liabilities		
Continuing operations	(1,119)	(1,288)
	(264)	(278)

Recognised deferred tax assets and liabilities and attributable to the following:

£000's	Assets		Liabilities		Net	
	2022	2021	2022	2021	2022	2021
Plant & Equipment	111	148	(1)	(3)	110	145
Other temporary differences	663	806	(1,118)	(1,285)	(455)	(479)
Losses	23	-	-	-	23	-
Business combinations	58	56	-	-	58	56
Deferred tax assets / (liabilities)	855	1,010	(1,119)	(1,288)	(264)	(278)

Movement in deferred tax during the year

	1 December	Recognised in		30 November
	2021	income	Disposal	2022
Plant & Equipment	145	(35)	-	110
Other temporary differences	(478)	23	-	(455)
Losses	-	23	-	23
Business combinations	56	2	-	58
Deferred tax assets / (liabilities)	(277)	13	-	(264)

The Group have not recognised a deferred tax asset on £1.8m (2021: £2.8m) of tax losses and intangible fixed asset timing differences carried forward due to uncertainties over recovery.

No deferred tax liability is recognised on temporary differences of £20k (2021: £23k) relating to the unremitted earnings of overseas subsidiaries as the Group can control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

11 Events after the reporting date

On the 24 February 2023 the Group agreed an extension to its Current Revolving Credit Facility with Barclays for £3.5m until 31 March 2024.

12 Non-statutory information

The Group uses a variety of alternative performance measures, which are non-IFRS, to assess the performance of its operations. The Group considers these performance measures to provide useful historical financial information to help investors evaluate the underlying performance of the business.

These measures, as described below, are used to improve the comparability of information between reporting periods and geographical units, to adjust for exceptional items or to adjust for businesses identified as discontinued to provide information on the ongoing activities of the Group. This also reflects how the business is managed and measured on a day-to-day basis.

- *1 Adjusted EBITDA - is the loss from continuing activities adjusted to exclude depreciation and amortisation of development costs), amortisation of acquired intangibles exceptional impairment costs exceptional reorganisation costs exceptional customer settlement provisions and share-based charges.

- *2 Recurring or predictable revenue - contracted support, maintenance and services revenues with a frame agreement of 2 years or more, as % of total revenue.
- *3 K3 Product revenue as a percentage of total Group revenue.
- *4 K3 products gross profit as a percentage of total gross profit.
- *5 Net debt comprises Bank Loans, Shareholder Loans and Overdrafts less Cash and cash equivalents, including Cash and cash equivalents held for sale. It excludes any liabilities associated with Right of Use Assets under IFRS16.
- *6 Adjusted loss/earnings per share - basic loss per share from continuing operations adjusted to exclude amortisation of acquired intangibles, exceptional impairment costs, exceptional reorganisation costs, and share-based charges net of the related tax charge.
- *7 Underlying support/admin costs - administrative expenses adjusted to exclude depreciation and amortisation of development costs, amortisation of acquired intangibles, exceptional impairment costs exceptional reorganisation costs and share-based charges.
- *8 ARC (Annualised Recurring Contracts) - the annual contracted income from support, maintenance, SaaS and term contract software spread over the term of the contract.
- *9 Cash outflow - speed at which business spends the money that is available to it. Calculated as delta between cash and cash equivalents balances between two periods.

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