

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.

Interim results for the six months to 31 May 2023

Key Points

Six months to 31 May	2023	2022
Revenue from continuing operations	£20.3m	£19.9m
Gross profit	£12.4m	£11.9m
— gross margin	61%	60%
Adjusted operating loss (see note 10)	(£0.8m)	(£1.0m)
Loss before tax from continuing operations	(£2.9m)	(£2.8m)
Adjusted net cash	£2.9m	£1.4m
Reported loss per share	(6.6p)	(5.6p)
Adjusted loss per share for continuing operations	(3.2p)	(2.6p)

Financial

- Overall performance ahead of management expectations
- K3 strategic fashion and apparel products annualised recurring revenue up 20% to £5.4m
- Revenue ahead. Approx £1.1m of income was not recognised in H1, in line with new policy
 - income from new contracts secured by strategic fashion and apparel products is now recognised over the term of the contract, instead of upfront
- Reflecting focus on adjusted net cash, adjusted operating profit/loss⁽¹⁰⁾ metric has replaced adjusted EBITDA as key performance indicator
 - adjusted operating loss was £0.8m (2022: £1.0m)
- Group generated adjusted net cash in the last 12 months; adjusted net cash at £2.9m at 31 May 2023 (31 May 2022: £1.4m)
- Group earnings and adjusted net cash generation remain strongly weighted to H2, reflecting the significant H2 weighting of annual software licence and maintenance and support contract renewals

Operational

- K3 Products division - continued strong sales growth from fashion and apparel offering (strategic products), although divisional performance still impacted by legacy products in managed run-off
 - Divisional revenue of £6.5m (2022: £6.5m); gross profit of £5.0m (2022: £5.2m)
 - Gross profit margin of 77% (2022: 80%)
 - Strategic fashion products annualised recurring revenue up 20% in H1 to £5.4m at period-end, driven by new customer wins and existing customers increasing software licences
 - Legacy products performed in line with management expectations
 - Further investment in Sustainability offering to align functionality with forthcoming legislation from Europe and USA
- Third-party Solutions division - higher profitability and strongly cash generative
 - Divisional revenue of £13.8m (2022: £13.4m) and gross profit of £7.4m (2022: £6.7m)
 - Gross profit margin of 53% (2022: 50%) - reflected revenue mix and reduced overheads
 - Global Accounts; lower level of store openings following 2-3 years of high activity
 - NexSys (formerly known as SYSPRO); average deal size increased; strong H2 expected with very healthy services back-log and high volume of software licence and maintenance and support contract renewals due; renewals typically c.98%

Prospects

- Current trading and free cash flow; both in line with management expectations. Encouraging new business pipeline for H2

- strategic fashion products - targeting growth of 30% p.a. in recurring revenue in FY23 and beyond
- Board is focused on further simplifying operations, reducing central cost, adjusted net cash generation and continued transition to higher margin growth activities

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

"We made encouraging progress in key strategic areas of the business in the first half. We are especially pleased with the performance of our strategic products for the fashion and apparel market in the K3 Products division. Our flagship K3 Fashion product has the potential to maintain its high growth trajectory and has strong endorsement from Microsoft. Third-party Solutions remains a cash engine for the Group, and the division will generate high cash inflows in the second half of the financial year as software licence and maintenance and support renewals come through."

"Our healthy balance sheet underpins the improvements that we are making to the business. We remain focused on our high-margin growth opportunities, cost discipline and adjusted net cash as we continue to move to higher quality earnings."

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Interim Report

Overview

We have made excellent progress in some key strategic areas, in particular in our fashion and apparel segment in K3 Products, which continues to grow very strongly. Overall, the Group's performance over the first half of the current financial year was ahead management expectations, with the attrition rate of legacy products, which are in managed run-off, in line with budgets.

In the six months ended 31 May 2023, Group revenue from continuing operations was £20.3m (2022: £19.9m), gross profit increased to £12.4m (2022: £11.9m), and gross margin was up to 61% (2022: 60%). Importantly, the Group generated adjusted net cash in the last 12 months, with net cash at £2.9m at the period end (31 May 2022: £1.4m). Group cash generation is typically strongly weighted to the second half of the financial year. This reflects the significant cash inflows from NexSys annual software licence and maintenance and support contract renewals, which fall due in the second half, with renewal rates historically at c.98%.

In line with our focus on cash generation, we are no longer using adjusted earnings before interest, tax, depreciation and amortisation ("EBITDA") as a key performance indicator ("KPI"). We have instead adopted adjusted operating profit/loss, which in the period was a loss of £0.8m (2022: £1.0m). We have also made a second important change, and have updated our revenue recognition policy relating to our strategic fashion and apparel products. Previously, we recognised income from sales of fashion and apparel products upfront, at the start of a contract. We are now recognising income over the term of the contract, which will also align with payment inflows and provide better visibility of revenues as we pursue our ambitious growth target in this segment. The effect of the change is that c. £1.1m of fashion software revenue was not recognised in this period, but will be in future periods.

Our primary focus remains on the development and growth of our strategic products for the fashion and apparel markets, and related large retail brands, where we see a very high growth opportunity. At the same time, we are continuing to realise the growth opportunities in other parts of the Group.

The requirement for digital transformation continues to be a key priority for companies in our target sectors. Retail businesses, especially in fashion, are needing to adapt their models and systems to engage with customers and suppliers in new and more varied and efficient ways. Our expertise in the retail sector, particularly in fashion and apparel, and Microsoft's endorsement of our K3 Fashion product as its preferred solution for this vertical, place us in a strong position to continue to drive the growth of our strategic products. We are targeting growth in annualised recurring revenue of c. 30% per annum from strategic fashion and apparel products this year and beyond.

The Third-party Solutions division generates predictable and strong cash flows from its large customer base, and we are

pleased to see the NexSys unit adding to this base of recurring income, with some excellent wins in the period.

Our major programme to upgrade and unify our IT systems, which started over a year ago, has largely completed. It covered Finance, Sales, Customer Support, and Project Management processes, and has driven insights and efficiencies. We will continue to seek further efficiencies and have identified additional areas for cost saving initiatives in our operations. As part of our approach to greater cost control, we will be allocating certain Central costs to relevant business units.

Financial Results

Results from continuing operations

In the six months ended 31 May 2023, the Group generated total revenue from continuing operations of £20.3m (2022: £19.9m) despite the change in revenue recognition policy, and gross profit increased to £12.4m (2022: £11.9m). Gross margin was higher at approximately 61% (2022: 60%), which mainly reflected improved gross margin in the Third-party Solutions Division.

It is important to note that our decision to change our revenue recognition policy for fashion and apparel software product sales, recognising revenue over the term of the contract rather than at the start of the contract, has shifted approximately £1.1m of fashion software revenue into the future. This change has also impacted reported gross profit in the period.

As previously mentioned, we have also introduced adjusted operating profit/(loss) as a key performance metric for the Group. It now replaces adjusted EBITDA and has resulted in revised administration expenses being shown in the comparatives for H1 2023 and in FY2022 data, including both depreciation and capitalised development costs to provide a better alignment with the actual cash requirements of the business. The adjusted operating loss for the period was £0.8m (2022: £1.0m).

Capitalised development costs are then added back in the income statement in arriving at the reported loss from operations, though we would expect the level of capitalised development costs to reduce in future reflecting a more prudent treatment.

The table below provides the reconciliation between adjusted operating loss in the first half of the financial year under review and adjusted EBITDA in the comparable period last year.

	H1 2023 £'000	H1 2022 £'000	Change %	FY 2022 £'000
Adjusted EBITDA (as previously reported for H1 2022 and FY 2022)	347	994	(65%)	5,064
- depreciation	(784)	(964)	19%	(1,817)
- capitalised development costs	(354)	(1,013)	65%	(1,699)
Adjusted operating profit/(loss)	(791)	(983)	20%	1,748

Reported adjusted administrative expenses increased slightly to £13.1m (2022: £12.9m), which is in-line with revenue growth, and expenses are expected to reduce next year and beyond.

Adjusted operating loss from continuing activities reduced to £0.8m (2022: £1.0m). This encouraging improvement resulted from higher gross margin and revenue growth and, as previously stated, is after the change to our revenue recognition policy for fashion and apparel software sales.

The reported loss before tax from continuing activities was £2.9m (2022: £2.8m). This is stated after depreciation and amortisation of £2.1m (2022: £3.0m), exceptional reorganisation costs of £0.4m (2022: £0.1m), acquisition costs of £nil (2022: £0.1m), share-based charges of £0.5m (2022: £0.3m) and net finance expense of £0.3m (2022: £0.2m).

The adjusted loss per share from continuing operations was 3.2p (2022: 2.6p), and excludes amortisation of development costs, capitalised development costs, exceptional reorganisation costs, acquisition costs and share-based charges, and is net of the related tax charge of £0.1m (2022: £0.1m). The reported loss per share from continuing operations, which includes profit from discontinued activities, increased to 7.2p (2022: 5.9p).

Balance sheet and cash flows

The Group balance sheet remains strong with cash and cash equivalents of £4.7m (2022: £4.3m) and net cash of £2.9m (2022: £1.4m). K3 has a bank facility with Barclays, its long-standing banking relationship, which provides for the draw down

of up to £3.5m to support seasonal cash movements. In February 2023, this facility agreement was extended for a further year until March 2024. At 31 May 2023, £1.8m was drawn down (2022: £1.6m).

As in prior years, Group cash flow remains heavily weighted towards the second half of the financial year. This reflects the significant cash inflows from annual software licence and maintenance and support renewals. The largest element of this is NexSys renewals, where the renewal rate is typically c.98%.

Cash outflow from operations reduced significantly to £2.8m (2022: £5.2m). Net cash used in investing activities amounted to £0.8m (2022: £1.6m). This included spend on property, plant and equipment of £0.4m (2022: £0.4m), less development expenditure capitalised at £0.3m (2022: £1.0m) and ViJi acquisition costs of £nil (2022: £0.2m).

OPERATIONAL REVIEW

The Group's results for the six months ended 31 May 2023, together with comparatives for the same period in 2022, are summarised in the tables below. The segmental analysis provides further information on the key areas of activity, K3 Products (which includes strategic fashion and apparel products) and Third-party Solutions.

H1	Revenue (£m)		Gross profit (£m)		Gross margin	
	2023	2022	2023	2022	2023	2022
K3 Products	6.5	6.5	5.0	5.2	77%	80%
Third-party solutions	13.8	13.4	7.4	6.7	53%	50%
Total	20.3	19.9	12.4	11.9	61%	60%

K3 Products - K3 strategic products	2023	Y/Y Change
Recurring revenue (SaaS, maintenance, annual contracts and support)	£5.4m	+20%

K3 Products

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

- strategic products focused on fashion and apparel markets, principally K3 Fashion and K3 Pebblestone, as well as K3 ViJi and K3 imagine;
- solutions for the visitor attraction market; and other stand-alone point solutions and apps, which are mainly our legacy point-of-sale ("POS") products.

Revenue from strategic products, which are focused on the fashion and apparel markets and include our flagship product, K3 Fashion, continued to increase strongly and the growth opportunity remains very exciting. Overall results from the division however were affected by legacy products, which are in managed run-off, and by traction with K3 Imagine. We are taking action to ensure that K3 Imagine is cash neutral by the end of the financial year.

In total, revenue generated by the division was £6.5m (2022: £6.5m). This figure does not include around £1.1m of revenues from new fashion and apparel software contracts won in the first half. In line with our new revenue recognition policy, this income will be recognised over the term of the contracts, rather than upfront. Gross profit was £5.0m (2022: £5.2m) although, as with revenue, it was reduced by the application of the new revenue recognition policy. Gross margin was 77% (2022: 80%), which reflected the revenue mix.

Our flagship K3 Fashion product performed very strongly. We gained a number of major new customers in the period and continued to expand software licence sales with existing customers. It led the increase in total annualised recurring revenue from strategic fashion and apparel products, which rose to £5.4m by the end of the first half, a 20% uplift in just the first half.

As well as securing a major contract with a Swedish outdoor sports fashion brand, worth c.£1.0m over three years, we secured the largest global deployment of K3 Fashion. This was with a major global jewellery/watches retailer, and is worth c.£1.4m over three years. We also won a large contract with a major Swiss outdoor brand, worth c.£0.5m over five years, and a five-year contract worth £0.2m with a European golf brand. Alongside these new contracts, we added a number of smaller value contracts for K3 Fashion, which we expect to expand over time. These new customers included a German fashion brand, an Italian fabrics and furnishings manufacturer, a UK ski-wear and accessories company and an Italian fashion brand.

K3 Fashion remains Microsoft's recommended 'add-on' solution for the fashion and apparel vertical globally, and our wins continue to come through our business partner network, with K3 providing thought leadership and sales support through its domain expertise. The trend for new customers to buy an initial number of software licences, mainly for centralised functions such as purchasing, and catalogue and pricing management, and then to increase their licence numbers, as they extend

the use of the software across their operations, remains a typical pathway for software adoption. This is the pattern of we expect to see over the next year and beyond with the smaller contracts we have gained in the period.

We achieved a good level of new signings for K3 Pebblestone, our solution based on Microsoft 365 Business Central. We also have a large base of established clients operating with an 'on-premises' suite. This offers us the medium-term potential to migrate customers to a new cloud-based version, sold on a subscription basis. We are adding functionality to the cloud version to enhance the proposition. In the current environment, the pace of conversion is likely to be dictated by customer investment sentiment.

We are seeing an encouraging level of interest in K3 VJi, our sustainability software product, which reflects emerging legislation, targeted at 2025 and beyond, from the European Union and the USA. This new legislation is designed to reduce waste, promote a circular economy, and to preserve biodiversity and natural resources. We are reacting to the still forming legislation and invested further in VJi's solution suite during the period in order to strengthen its regulatory support. We continue to assess market reaction and approaches on how to leverage our corporate social responsibility functionalities in both K3 Fashion and K3 VJi.

Our solutions for the visitor attractions market performed well, helped by our previous investment to update and enhance our offering. Legacy products performed as expected and remain in managed run-off.

Third-party Solutions

Third-party Solutions comprises:

- NexSys, a value-added reseller (with additional own IP and modules) of SYSPRO ERP to the UK manufacturers and distributors; and
- Global Accounts, which provides specialist services, predominantly to the Inter IKEA Concept overseas franchisee network.

The Third-party solutions division generated total revenue of £13.8m, consistent with the same period last year (2022: £13.4m) while gross profit increased to £7.4m (2022: £6.7m). Gross margin increased by around three percentage points to 53% (2022: 50%). This rise reflected the revenue mix, which was made up of a higher proportion of software licence and maintenance and support income, and reduced overheads.

The NexSys business (formerly known as SYSPRO) delivered an encouraging performance and secured a number of new projects, with larger deal sizes. Major new wins were signed with a manufacturer of automotive plastic components, worth c. £0.56m, a bicycle manufacturer, worth c. £0.35m and a manufacturer of products for the farming industry, worth c. £0.31m. These initial order values include the first year's software licence, the first year's support, and initial services.

We believe that this encouraging performance is partly due to pent-up demand, following the suspension of purchasing decisions in 2022 when energy costs soared, but more importantly, reflects the trend to 're-platform' manufacturing ERP, improve operational connectivity and drive data-led efficiencies. NexSys's performance also benefited from the selective investment we made previously in sales, delivery resource and software development to enhance functionality, as well as from disciplined cost control. The business enters the second half with a very healthy services back-log and encouraging new business pipeline.

Global Accounts saw a period of significant store expansion over the last two to three years, by Inter IKEA Concept overseas franchisees, in the Far East, Central America and South America. During the first half, we continued to support franchisees, including with K3 Product roll-out such as 'Mobile Goods Flow'. There were more limited new store openings though, and we are anticipating more subdued expansion activity from IKEA. Our focus continues on supporting our relationships, delivered from an appropriately-sized resource base.

Central Costs

Administration expenses include sales, marketing and central IT, finance, legal, HR, insurance and PLC costs. They amounted to £13.1m in the period (2022: £12.9m). As previously stated, we will now allocate costs previously included in central support to the relevant business units. We believe that this will provide greater accountability, responsibility and cost control.

The Board

In early April 2023, Eric Dodd joined the Company as Chief Financial Officer, with Rob Price stepping down from this role after six years with K3, as previously reported. We take this opportunity to thank Rob for his contribution during his tenure.

Eric has significant experience of the technology sector and was previously Chief Financial Officer of ATTRAQT Group Plc, which specialises in omnichannel search, merchandising and personalised product discovery technology for online retailers and brands, mainly in the fashion sector. Prior to this, he was Chief Financial Officer of Iptor Supply Chain Systems UK Limited, a private equity backed software and services business, and before that, Chief Financial Officer of KBC Advanced Technology plc, the software and consultancy provider to the hydrocarbon industry.

Summary and Outlook

The Group generated adjusted net cash over the last 12 months, and we expect its adjusted net cash position to strengthen in the second half. This mainly reflects the strong weighting of earnings and cash flows to this period, predominantly from NexSys.

Our focus remains on the transition we are making to higher quality recurring earnings while, at the same time, continuing with cost discipline and operational simplification. While challenges remain in the current economic environment, and we anticipate more subdued activity in Global Accounts, we have taken action to reduce costs and are very encouraged with the uptake of our flagship K3 Fashion product, which has a significant global growth opportunity. We are targeting growth in annualised recurring revenue of around 30% per annum in FY23 from our strategic products for the fashion and apparel market, and believe this rate of growth can be maintained in the near term. We have achieved a lot in the year to date and remain confident in the Group's prospects.

Tom Crawford
Chairman

Marco Vergani
Chief Executive Officer

Consolidated Income Statement for the six months ended 31 May 2023

	Unaudited 6 months 31 May 2023 £'000	Restated Unaudited 6 months 31 May 2022 £'000	Restated Audited 12 months 30 November 2022 £'000
Revenue	20,267	19,939	47,532
Cost of sales	(7,917)	(8,047)	(19,382)
Gross profit	12,350	11,892	28,150
Administrative expenses	(13,034)	(12,710)	(26,300)
Impairment losses on financial assets	(107)	(165)	(102)
Adjusted operating profit/(loss)	(791)	(983)	1,748
Amortisation of development cost	(1,331)	(2,060)	(3,766)
Capitalised development costs	354	1,013	1,699
Amortisation of acquired intangibles	-	-	-
Exceptional impairment	-	-	(1,603)
Exceptional reorganisation costs	(374)	(118)	(595)
Acquisition costs	-	(98)	(98)
Share-based payment charge	(532)	(322)	(855)
Loss from operations	(2,674)	(2,568)	(3,470)
Finance expense	(266)	(219)	(338)
Loss before taxation from continuing operations	(2,940)	(2,787)	(3,808)
Tax credit/(expense)	(245)	156	(278)
Loss after taxation from continuing operations	(3,185)	(2,631)	(4,086)
(Loss)/profit after taxation from discontinued operations	317	(130)	108
Loss for the period/year	(2,868)	(2,761)	(3,978)

All the loss for the year is attributable to equity shareholders of the parent.

	Unaudited 6 months 31 May 2023 £'000	Restated Unaudited 6 months 31 May 2022 £'000	Restated Audited 12 months 30 November 2022 £'000
Loss/profit per share			

(Loss)/profit per share

Basic and diluted loss per share	(6.5)p	(5.6)p	(9.0)p
Basic and diluted loss per share from continuing operations	(7.2)p	(5.9)p	(9.3)p
Adjusted earnings/(loss) per share	(3.2)p	(2.6)p	2.1p

Consolidated Statement of Comprehensive Income
for the six months ended 31 May 2023

	Unaudited 6 months 31 May 2023 £'000	Restated Unaudited 6 months 31 May 2022 £'000	Restated Audited 12 months 30 November 2022 £'000
Loss for the period/year	(2,868)	(2,761)	(3,978)
Other comprehensive income			
Exchange differences on translation of foreign operations	212	7	69
Total comprehensive income/(expense) for the period/year	(2,656)	(2,754)	(3,909)

All the total comprehensive income/(expense) is attributable to equity holders of the parent. All the other comprehensive income/(expense) 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.

Consolidated Statement of Financial Position
as at 31 May 2023

	Notes	Unaudited as at 31 May 2023 £'000	Restated Unaudited as at 31 May 2022 £'000	Restated Audited as at 30 November 2022 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		1,866	1,661	1,766
Right-of-use assets		738	1,098	801
Goodwill		25,000	25,475	25,022
Other intangible assets		2,422	5,902	3,394
Deferred tax assets		890	1,010	855
Total non-current assets		30,916	35,146	31,838
Current assets				
Stock		489	448	484
Trade and other receivables		11,136	11,742	13,549
Forward currency contracts		110	-	110
Cash and short-term deposits		4,672	4,322	7,113
Total current assets		16,407	16,512	21,256
Total assets		47,323	51,658	53,094
LIABILITIES				
Non-current liabilities				
Lease liabilities		33	223	79
Provisions		-	783	179
Deferred tax liabilities		1,079	1,288	1,119
Total non-current liabilities		1,112	2,294	1,377
Current liabilities				
Trade and other payables		12,143	10,610	16,882
Current tax liabilities		300	632	372
Lease liabilities		769	951	802
Borrowings		1,768	2,949	50
Provisions		798	854	968
Total current liabilities		15,778	15,996	19,074
Total liabilities		16,890	18,290	20,451
EQUITY				
Share capital		11,183	11,183	11,183
Share premium account		31,451	31,451	31,451
Other reserves		11,151	11,151	11,151
Translation reserve		1,819	1,545	1,607
Accumulated losses		(25,171)	(21,962)	(22,749)
Total equity attributable to equity holders of the parent		30,433	33,368	32,643
Total equity and liabilities		47,323	51,658	53,094

Consolidated Cash Flow Statement
for the six months ended 31 May 2023

	Unaudited 6 months 31 May 2023 £'000	Unaudited 6 months 31 May 2022 £'000	Audited 12 months 30 November 2022 £'000
Notes			
Cash flows from operating activities			
Loss for the period	(2,868)	(2,761)	(3,978)
Adjustments for:			
Finance expense	266	219	336
Tax (income)/expense	245	(156)	90
Depreciation of property, plant and equipment	344	300	636
Depreciation of right-of-use assets	440	678	981
Amortisation of intangible assets and development expenditure	1,331	2,060	3,767
Impairment of intangible assets	-	-	1,603
Loss on sale of property, plant and equipment	-	-	10
Share-based payments charge	446	322	751
Net cash flow from provisions	(359)	(346)	(717)
Net cash flow from trade and other receivables	(1,669)	(1,087)	(3,037)
Net cash flow from trade and other payables	(843)	(4,658)	2,380
Cash generated from operations	(2,667)	(5,429)	2,822
Income taxes paid	(150)	279	(395)
Net cash from operating activities	(2,817)	(5,150)	2,427
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired	-	(180)	(178)
Development expenditure capitalised	(352)	(1,013)	(1,725)
Purchase of property, plant and equipment	(445)	(410)	(845)
Net cash from investing activities	(797)	(1,603)	(2,748)
Cash flows from financing activities			
Proceeds from loans and borrowings	1,783	1,500	-
Issue of shares	-	-	(111)
Repayment of loans and borrowings	-	(83)	-
Repayment of lease liabilities	(541)	(584)	(1,073)
Interest paid on lease liabilities	(84)	(96)	(132)
Finance expense paid	(30)	(26)	(150)
Net cash from financing activities	1,128	711	(1,466)
Net change in cash and cash equivalents	(2,486)	(6,042)	(1,787)
Cash and cash equivalents at start of period/year	7,000	9,033	9,033
Exchange losses on cash and cash equivalents	158	(64)	(133)
Cash and cash equivalents at end of period/year	4,672	2,927	7,113

Consolidated Statement of Changes in Equity
for the period ended 31 May 2023

	Share capital £'000	Share premium £'000	Other reserves £'000	Translation reserve £'000	Accumulated losses £'000	Total equity £'000
At 30 November 2021	11,183	31,451	11,151	1,538	(19,523)	35,800
<i>Changes in equity for six months ended 31 May 2022</i>						
Loss for the period	-	-	-	-	(2,761)	(2,761)
Other comprehensive income for the period	-	-	-	7	-	7
Total comprehensive expense	-	-	-	7	(2,761)	(2,754)
Share based payment	-	-	-	-	322	322
At 31 May 2022	11,183	31,451	11,151	1,545	(21,962)	33,368
<i>Changes in equity for six months ended 30 November 2022</i>						
Loss for the period	-	-	-	-	(1,216)	(1,216)
Other comprehensive income for the period	-	-	-	62	-	62
Total comprehensive expense	-	-	-	62	(1,216)	(1,154)
Share based payment	-	-	-	-	429	429

Share based payment	-	-	-	-	720	720
At 30 November 2022	11,183	31,451	11,151	1,607	(22,749)	32,643
<i>Changes in equity for six months ended 31 May 2023</i>						
Loss for the period	-	-	-	-	(2,868)	(2,868)
Other comprehensive income for the period	-	-	-	212	-	212
Total comprehensive expense	-	-	-	212	(2,723)	(2,511)
Share based payment	-	-	-	-	446	446
At 31 May 2023	11,183	31,451	11,151	1,819	(25,171)	30,433

1 Segment information

For the six months ended 31 May 2023

	K3 Products £'000	Third-party Solutions £'000	Central Costs £'000	Total £'000
Software licence revenue	1,958	1,156	-	3,113
Services revenue	400	8,709	-	9,109
Maintenance & support	3,858	3,917	-	7,775
Hardware and other revenue	254	15	-	269
External revenue	6,470	13,797	-	20,267
Cost of sales	(1,476)	(6,441)	-	(7,917)
Gross profit	4,994	7,356	-	12,350
Gross margin	77.1%	53.3%	0.0%	60.9%
Adjusted administrative expenses	(5,787)	(2,367)	(4,987)	(13,141)
Allocation of Central Costs	(1,512)	(2,225)	3,737	-
Adjusted operating profit/(loss)	(2,305)	2,764	(1,250)	(791)
Amortisation of development cost	-	-	(1,331)	(1,331)
Capitalised development costs	-	-	354	354
Exceptional impairment	-	-	-	-
Exceptional reorganisation costs	-	-	(374)	(374)
Acquisition costs	-	-	-	-
Share-based payment charge	-	-	(532)	(532)
(Loss)/profit from operations	(619)	4,816	(6,870)	(2,674)
Finance expense	-	-	(266)	(266)
(Loss)/profit before tax and discontinued operations	(619)	4,816	(7,136)	(2,940)
Tax expense	-	-	(245)	(245)
Profit from discontinued operations	-	-	317	317
(Loss)/profit for the year	(619)	4,816	(7,064)	(2,868)

For the six months ended 31 May 2022 (restated)

	K3 Products £'000	Third-party solutions £'000	Central Costs £'000	Total £'000
Software licence revenue	836	1,801	-	2,637
Services revenue	415	8,019	-	8,434
Maintenance & support	4,834	3,614	-	8,448
Hardware and other revenue	406	14	-	420
External revenue	6,491	13,448	-	19,939
Cost of sales	(1,287)	(6,760)	-	(8,047)
Gross profit	5,204	6,688	-	11,892
Gross margin	80.2%	49.7%	-	59.6%
Adjusted administrative expenses	(6,326)	(3,658)	(2,891)	(12,875)
Allocation of Central Costs	(680)	(961)	1,641	-
Adjusted operating profit/(loss) from continuing operations	(1,802)	2,069	(1,250)	(983)
Amortisation of development cost	-	-	(2,060)	(2,060)
Capitalised development costs	-	-	1,013	1,013
Exceptional impairment	-	-	-	-
Exceptional reorganisation costs	-	-	(118)	(118)
Acquisition costs	-	-	(98)	(98)
Share-based payment charge	-	-	(322)	(322)

Loss from operations	(1,122)	3,030	(4,476)	(2,568)
Finance expense	-	-	(219)	(219)
Loss before tax and discontinued operations	(1,122)	3,030	(4,695)	(2,787)
Tax credit	-	-	156	156
Loss from discontinued operations	-	-	(130)	(130)
Profit/(loss) for the year	(1,122)	3,030	(4,669)	(2,761)

For the twelve months ended 30 November 2022 (restated)

	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%
Adjusted administrative expenses	(12,127)	(5,099)	(9,176)	(26,402)
Allocation of Central Costs	(1,904)	(4,762)	6,666	-
Adjusted operating profit/(loss)	(3,494)	7,752	(2,510)	1,748
Amortisation of development cost	-	-	(3,766)	(3,766)
Capitalised development costs	-	-	1,699	1,699
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	(1,590)	12,514	(14,394)	(3,470)
Finance expense	-	-	(338)	(338)
(Loss)/profit before tax and discontinued operations	(1,590)	12,514	(14,732)	(3,808)
Tax expense	-	-	(278)	(278)
Profit from discontinued operations	-	-	108	108
(Loss)/profit for the year	(1,590)	12,514	(14,902)	(3,978)

2 General information

K3 Business Technology Group Plc is incorporated in England and Wales under the Companies Act (listed on AIM, a market operated by the London Stock Exchange Plc) with the registered number 2641001. The address of the registered office is Baltimore House, 50 Kansas Avenue, Manchester M50 2GL.

The interim condensed consolidated financial statements comprise the company and its subsidiaries, "the Group".

Basis of preparation and Going Concern

The financial information set out in this Interim Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 30 November 2022, prepared in accordance with the international accounting standards in conformity with the requirements of the Companies Act 2006, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The interim financial information has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards ("IFRS") and on the same basis and using the same accounting policies as used in the financial statements for the year ended 30 November 2022, except for change in revenue policy discussion in the front half.

The financial information has not been prepared (and is not required to be prepared) in accordance with IAS 34. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of this financial information.

The Interim Report has not been audited nor issued in accordance with the International Standard on Review Engagement

The interim Report has not been audited or reviewed in accordance with the International Standard on Review Engagement 2410 issued by the Auditing Practices Board.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing this financial information.

3 Significant events

During H1 2023, Robert Price (Chief Finance Officer) left the business and is replaced by Eric Dodd.

As disclosed in our Annual Report and Accounts for FY2022, on 24 February 2023, the Group agreed an extension to its Current Revolving Credit Facility with Barclays for £3.5m until 31 March 2024.

4 (Loss)/earnings per share

The calculations of (loss)/earnings per share (EPS) are based on the profit/(loss) for the period and the following numbers of shares:

	Unaudited 6 months 31 May 2023 No. of Shares	Unaudited 6 months 31 May 2022 No. of Shares	Audited 12 months 30 November 2022 No. of Shares
<i>Denominator</i>			
Weighted average number of shares used in basic and diluted EPS	44,090,074	44,705,570	44,090,074

Certain employee options and warrants have not been included in the calculation of diluted EPS because their exercise is contingent on the satisfaction of certain criteria that had not been met at the end of the period/year.

	Unaudited 6 months 31 May 2023 £'000	Unaudited 6 months 31 May 2022 £'000	Audited 12 months 30 November 2022 £'000
Loss after tax from continuing operations	(3,185)	(2,631)	(4,086)
Profit after tax from discontinued operations	317	130	108
(Loss)/profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share	(2,868)	(2,501)	(3,978)

4 (Loss)/earnings per share (continued)

The alternative earnings per share calculations have been computed because the directors consider that they are useful to shareholders and investors. These are based on the following profits/(losses) and the above number of shares.

	Unaudited 6 months 31 May 2023 £'000	Restated Unaudited 6 months 31 May 2022 £'000	Restated Audited 12 months 30 November 2022 £'000
Loss after tax from continuing operations	(3,185)	(2,631)	(4,086)
Add back Other Items:			
Amortisation of development cost	1,331	2,060	3,766
Capitalised development costs	(354)	(1,013)	(1,699)
Amortisation of acquired intangibles	-	-	-
Exceptional reorganisation costs	374	118	595
Exceptional impairment costs	-	-	1,603
Acquisition costs	-	98	98
Shared-based payment charge	532	322	855
Tax (credit)/charge related to Other Items	(112)	(102)	(202)
(Loss)/profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share from continuing operations before other items	(1,414)	(1,148)	930

	Unaudited 6 months 31 May 2023 Pence	Restated Unaudited 6 months 31 May 2022 Pence	Restated Audited 12 months 30 November 2022 Pence
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(Loss)/profit per share			
Basic and diluted loss per share	(6.5)	(5.6)	(9.0)
Basic and diluted (loss)/profit per share from continuing operations	(7.2)	(5.9)	(9.3)
Adjusted loss per share			
Basic and diluted loss per share from continuing operations before other items	(3.2)	(2.6)	2.1

5 Loans and borrowings

	Unaudited as at 31 May 2023 £'000	Unaudited as at 31 May 2022 £'000	Audited as at 30 November 2022 £'000
Current			
Bank overdrafts (secured)	-	1,395	-
Bank loans (secured)	1,768	1,555	50
	1,768	2,950	50

6 Net cash

	Unaudited as at 31 May 2023 £'000	Unaudited as at 31 May 2022 £'000	Audited as at 30 November 2022 £'000
Cash	4,672	4,322	7,113
Bank overdrafts (secured)	-	(1,395)	-
Cash and cash equivalents	4,672	2,927	7,113
Loans and borrowings	(1,768)	(1,555)	(50)
Net adjusted cash (before leases)	2,904	1,372	7,063
Non-current leases liabilities	(33)	(223)	(79)
Current lease liabilities	(769)	(951)	(802)
Net Cash	2,102	198	6,182

7 Trade and other payables

	Unaudited as at 31 May 2023 £'000	Unaudited as at 31 May 2022 £'000	Audited as at 30 November 2022 £'000
Trade payables	1,974	2,432	2,823
Other payables	1,128	1,437	2,202
Accruals	2,942	2,539	4,041
Total financial Liabilities, excluding loans and borrowings, classified as financial liabilities measures at amortised cost	6,044	6,408	9,066
Other tax and social security tax	1,311	1,181	2,504
Contract liabilities	4,788	3,021	5,312
	12,143	10,610	16,882

8 Trade and other receivables

	Unaudited as at 31 May 2023 £'000	Unaudited as at 31 May 2022 £'000	Audited as at 30 November 2022 £'000
Trade receivables	6,883	7,797	8,079
Loss allowance	(1,099)	(726)	(784)
Trade receivables - net	5,784	7,071	7,295
Other receivables	341	172	138
Contract assets	4,153	3,423	5,512
Prepayments	858	1,076	604
	11,136	11,742	13,549

9 Tax

	Unaudited 6 months 31 May 2023 £'000	Unaudited 6 months 31 May 2022 £'000	Audited 12 months 30 November 2022 £'000
Current tax (credit)/expense			
Income tax of overseas operations on (losses)/profits for the period	(245)	(156)	222

period/year	(2020)	(2019)	2018
Adjustment in respect of prior periods	-	-	(100)
Total current tax (credit)/expense	(245)	(156)	103
Deferred tax (income)/expense			
Origination and reversal of temporary differences	-	-	19
Adjustment in respect of prior periods	-	-	(32)
Total deferred tax expense	-	-	(13)
Total tax (credit)/expense	(245)	(156)	90
Income tax (credit)/expense attributable to continuing operations	(245)	(156)	278
Income tax credit attributable to discontinued operations	-	-	(188)
	(245)	(156)	90

10 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 administrative expenses and Adjusted operating profit or loss are, as appropriate, stated before: exceptional and other adjusting items including gains or losses on business acquisitions and disposals, amortisation of acquired intangibles, costs relating to share-based payments, exceptional impairment, exceptional re-organisation costs, amortisation of development cost, capitalised development costs and the related tax effect of these exceptional and other adjusting items, as Management do not consider these items when reviewing the underlying performance of the Segment or the Group as a whole.
- 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 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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