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AIM: KBT

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

K3 BUSINESS TECHNOLOGY GROUP PLC

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

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

Proposed disposal of NexSys Solutions Limited for £36.0m

Summary

- The Board of K3 is pleased to announce that it has reached agreement with SYSPRO, a global ERP software provider controlled by funds managed and/or advised by Advent, over the sale of the Group's wholly owned subsidiary, NexSys, which is a leading SYSPRO elite partner in the UK and has over 40 years' experience of providing and supporting specialised business software solutions to manufacturers and distributors.
- Under the terms of the agreement, the total consideration for NexSys is £36.0 million to be paid in cash on Completion ("Consideration").
- For the year ended 30 November 2023, NexSys generated, on a proforma basis, revenue of £12.1m (2022: £12.5m), adjusted EBITDA of £3.8m (2022: £3.5m) and an adjusted operating profit of £3.6m (2022: £3.4m). As at 31 May 2024 NexSys had a total asset value of £2.57 million and a net asset value of £(0.15) million.
- The Consideration represents an attractive valuation for NexSys and is at
 - a premium of 28.8% to the Market Capitalisation of K3, which stood at approximately £28.0 million as at 29 November 2024 (being the Latest Practicable Date prior to the publication of this document) and
 - a 30.5% and 15.6% premium to K3's average Market Capitalisation over the past one and three months, respectively.
 - After normalised working capital adjustments and intercompany flows, and after deducting associated transaction costs, the Company expects to receive net proceeds from the proposed Disposal of approximately £34.4 million upon Completion.
- The sale of NexSys, which is part of the Third-party Solutions Division, is conditional on Shareholder approval at a General Meeting on 19 December 2024.
- Following completion of the Disposal, the Board expects the Remaining Group to become month on month cash break even, after full allocation of central overhead, during the first quarter of 2025.
- It is anticipated that a substantial proportion of the net proceeds will be returned to Shareholders during the first half of 2025, following the Board's due consideration of the most effective and practicable way of distributing net proceeds. The remainder of the proceeds will be retained within the Group for working capital and restructure funding purposes.

Background to, and reasons for, the Disposal

- Since the management changes that took place in late 2023, the Board has been highly focused on driving shareholder value and has pursued a strategy to simplify the Group's operations, focus on cash generation and reduce costs.
- The Board has decentralised the Group to create separate business units, which address different market sectors. Greater responsibility has been devolved to the leadership teams of each business unit, with each unit focused on its value drivers, the growth opportunities available, profitability and cash generation. Alongside this, the Group's central costs have been reduced. The Proposed Disposal is a clear outcome from this process.
- In August 2024, Advent announced that it had reached agreement (through newly incorporated companies controlled by funds managed and/or advised by Advent) to acquire a majority ownership stake in the group of companies that operates the business known as "SYSPRO", a leading global ERP software provider for the manufacturing and distribution industries of which NexSys is the UK and Ireland's leading reseller. This opened up a valuable opportunity to explore ways of realising the strategic value within NexSys to the benefit of both parties and to the Group's stakeholders.
- The Directors believe that NexSys is an excellent strategic fit with SYSPRO and that the business, customers, operations and staff of NexSys will be well served under Advent's ownership and as part of its wider SYSPRO offering, and as a larger global business. Advent has the resources and market experience to more fully capitalise on NexSys's strategic value.
- The Directors believe that the Market Capitalisation of K3 has suffered from the variance between the financial characteristics of the constituent parts of the Group and the heavy burden of the Group's complexity and associated central costs. The opportunity to realise more than K3's current Market Capitalisation from the Disposal therefore represents an attractive opportunity to deliver shareholder value.

Recommendation, irrevocable undertakings and letters of intent

- In view of the size of the Disposal relative to the Company, the Disposal will result in a fundamental change of business of the Company for the purposes of Rule 15 of the AIM Rules and is therefore conditional upon the approval of Shareholders.

- The Directors consider that the Disposal is in the best interests of the Company and its Shareholders as a whole and recommend that Shareholders vote in favour of the Resolution to be proposed at the General Meeting.
- Directors and certain Shareholders holding a total of 41,427,138 Ordinary Shares, and representing, in aggregate, approximately 92.6% of the Company's issued share capital have provided irrevocable undertakings and letters of intent to vote in favour of the Resolution.

Information on Safari UK Bidco Limited² and Advent International

- Safari UK Bidco Limited is a company controlled by funds managed and/or advised by Advent, which indirectly own certain of the companies that operate the business known as SYSPRO.
- Advent is an experienced software investor with investments in ERP, financial and manufacturing software. It has a 34-year track record in technology investing, including in the manufacturing and industrial space, having invested 21bn within the sector globally in the last 33 years.

Information on NexSys

- NexSys is currently a substantial element within the Group's Third-party Solutions Division. NexSys provides, integrates, implements and supports business software solutions for manufacturers and distributors. It is a SYSPRO elite partner in the UK and has over 40 years' experience of delivering specialised ERP solutions. It is headquartered in Manchester and currently employs approximately 80 people.
- NexSys also accounts in large part for the Group's current second-half bias in terms of earnings and cash inflows, with annual software licence fee and maintenance and support contract renewals occurring in the Group's fourth quarter.

Use of Funds and Return of Capital

- Upon Completion, on or around 8 January 2025, the Company expects to receive a total consideration of £36.0 million in cash (£34.4 million after adjustments and transaction costs).
- It is anticipated that a substantial proportion of the proceeds from the Disposal will be returned to Shareholders in the first half of 2025 once the Board has considered the most effective and practicable way of achieving this. The remainder of the proceeds will be kept within the Group for working capital purposes and to ensure that the remaining parts of the Group are appropriately funded. The Company will make an announcement in due course setting out the terms and timetable of the capital return.

Expected Timetable

Publication of circular	3 December 2024
General Meeting	10.00 a.m. on 19 December 2024
Anticipated Completion of Disposal	8 January 2025

Eric Dodd, Chief Executive Officer of K3 Business Technology Group plc, said:

"As the UK and Ireland's largest reseller of SYSPRO software, our NexSys business is a superb fit for Advent, and we are delighted to have reached this agreement. Advent is a leading technology investor and its purchase of NexSys is a natural next step following its recent acquisition of a majority holding in SYPRO. Advent has the resources and market experience to more fully capitalise on NexSys's strategic value."

"We view the proposed sale as an excellent outcome for K3 shareholders, NexSys, and Advent and recommend that shareholders vote in favour the proposed sale at the Company's General Meeting in December."

Jaco Maritz, Chief Executive Officer of SYSPRO, said:

"SYSPRO, an Advent and Safari company, believes that NexSys is a compelling strategic fit given the company's position as a trusted provider of digital solutions to manufacturing and distribution companies across the UK and Europe."

"The carve-out acquisition is a key milestone in Safari's SYSPRO strategy to expand its global footprint, strengthening its presence in the UK and extending its reach across Europe. The acquisition will also enable SYSPRO to expand its highly regarded digital manufacturing suite with new products and capabilities."

"Safari believes there are further initiatives that would help accelerate its existing strategy and which it intends to confirm after a detailed review of the business and operations following Completion. Safari and SYSPRO attaches great importance and value to the skills, experience and commitment of the existing management and employees of NexSys."

Enquiries:

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Proposed Disposal of NexSys Solutions Limited

1. INTRODUCTION

The Board is pleased to announce that it has conditionally agreed to sell NexSys to the Purchaser for total cash consideration of £36.0 million.

The Board believes the Consideration for the Disposal represents an attractive valuation for NexSys and is at a premium of 28.8% to the Market Capitalisation of K3 of approximately £28.0 million as at 29 November 2024 (being the Latest Practicable Date) and a 30.5% and 15.6% premium to K3's average Market Capitalisation over the past one and three months, respectively¹. After adjustments and associated transaction costs the Company expects to receive net proceeds from the Disposal of approximately £34.4 million upon Completion. It is anticipated that a substantial proportion of the net proceeds will be returned to Shareholders during the first half of 2025 once the Board has had a chance to consider the optimal way of achieving this from a technical, legal and tax perspective, with the remainder of the proceeds kept within the Group for working capital and restructure funding purposes.

In view of the size of the Disposal relative to the Company, the Disposal will result in a fundamental change of business of the Company for the purposes of Rule 15 of the AIM Rules and is therefore conditional upon the approval of Shareholders. That approval will be sought at a General Meeting of the Company to be held at 10.00 a.m. on 19 December 2024 at the offices of Cavendish Financial Plc, One Bartholomew Close, London, EC1A 7BL.

The Purchaser has received irrevocable undertakings or letters of intent from the Directors and certain Shareholders to vote in favour of the Disposal in respect of a total of 41,427,138 Ordinary Shares, representing, in aggregate, approximately 92.6% of the Company's issued share capital.

¹ Based on the volume weighted average price over the relevant period.

2. BACKGROUND TO, AND REASONS FOR, THE DISPOSAL

Since management changes in late 2023 the Board has been highly focused on creating separate business units, with their own focus on cash generation and value drivers, while reducing central group costs and devolving greater responsibility to the business unit leadership teams which now separately manage and respectively address different market sectors. This reflects the Board's strategy to simplify the Group's operations, more effectively address the opportunities within their respective market sectors, to reduce central costs and to drive shareholder value, whilst also having regard to the interests of other key stakeholders. The proposed Disposal is a clear outcome from this process.

During the course of 2024, the Board has had a number of conversations with parties expressing interest in parts of Group with a view to ascertaining whether or not the Director's strategic ends might be best met through selling individual parts of the Group. The announcement therefore in August 2024 of Advent's agreement (through newly incorporated companies controlled by funds managed and/or advised by Advent) to acquire a majority ownership stake in the group of companies that operates the business known as "SYSPRO", a leading global ERP software provider for the manufacturing and distribution industries of which NexSys is the UK and Ireland leading reseller, provided a valuable catalyst to leverage the strategic value within NexSys. The Directors believe that under Advent's ownership and as part of its wider SYSPRO offering, the business, customers, operations and staff of NexSys will be well served, as part of a larger global business under the stewardship of owners with the resources and market experience to fully capitalise on its strategic value. Advent is an experienced software investor with investments in ERP, financial and manufacturing software. In addition to a 34 year track record in technology investing, Advent brings a depth of experience in the manufacturing and industrial space, having invested 21bn within the sector globally in the last 33 years.

The Directors believe that the Market Capitalisation of K3 has suffered from the variance between the financial characteristics of the constituent parts of the Group and the heavy burden of the Group's complexity and associated central costs, so the opportunity to realise more than the current K3 Market Capitalisation from the Disposal represents an attractive opportunity to deliver shareholder value:

- The Consideration represents a 28.8% premium to K3's Market Capitalisation (as at the Latest Practicable Date) and a 30.5% and 15.6% premium to K3's average Market Capitalisation over the past one month and three months, respectively¹.
- The Disposal should enable K3 to undertake a significant return of cash to Shareholders during the first half of 2025 (assuming the Resolution is approved).

Following the Disposal, Shareholders will retain their interest in K3 which will include the Group's K3 Products Division and the remaining parts of the Third-party Solutions Division (excluding NexSys), being principally the Global Accounts business (together "**the Remaining Group**"), further details of which are set out below.

¹ Based on the volume weighted average price over the relevant period.

NexSys overview

NexSys is currently a substantial element within the Group's Third Party Solutions Division. NexSys provides, integrates, implements and supports business software solutions for manufacturers and distributors. It is a SYSPRO elite partner in the UK and has over 40 years' experience of delivering specialised ERP solutions. NexSys enables its customers to manage, monetise and control business-critical processes, inventory and production, and take decisions made on accurate and reliable real-time insights. This helps NexSys customers to maximise their opportunities by optimising their financial returns, innovating more easily, improving operational efficiencies, and improving their competitive edge. NexSys is headquartered in Manchester and currently employs approximately 80 people.

NexSys also accounts in large part for the Group's current second-half bias in terms of earnings and cash inflows, with annual software licence fee and maintenance and support contract renewals occurring in the Group's fourth quarter.

Including the small Integrated Business Solutions ("IBS") business unit merged with NexSys during 2023 and excluding allocations of Group central overheads, the trading performance of NexSys for the 2 years to 30 November 2023 was, on a proforma basis, as follows:

£ million	Year to 30	Year to 30
	November 2023	November 2022
Revenue	12.1	12.5
Adjusted EBITDA	3.8	3.5
Adjusted Operating Profit	3.6	3.4

3. SUMMARY TERMS OF THE DISPOSAL

Pursuant to the Share Purchase Agreement entered into between the Company and the Purchaser on 29 November 2024, the Purchaser has conditionally agreed to acquire NexSys for total cash consideration of £36.0 million on a debt-free, cash-free basis, and with a normalised level of working capital. The net cash proceeds arising from the Disposal (after adjustments and anticipated transaction costs on behalf of K3) are expected to be approximately £34.4 million.

The proposed Disposal is conditional upon approval of the Resolution. The General Meeting for approval of the Resolution is on 19 December 2024 and Completion is expected on or around 8 January 2025. The Consideration is determined by using a locked box mechanism based on a 30 September 2024 accounts date and is subject to customary adjustments for any leakage (excluding permitted leakage). The Share Purchase Agreement includes customary warranties and covenants and a customary tax indemnity.

On completion of the Disposal, K3 will provide transitional services to NexSys as agreed in the Transitional Services Agreement. This agreement covers items around payroll, HR, office space and IT.

4. USE OF FUNDS AND RETURN OF CAPITAL

It is expected that upon Completion, expected to be on or around 8 January 2025, the Company will receive total cash consideration of £36.0 million (£34.4 million after deducting transaction costs).

It is anticipated that a substantial proportion of the proceeds from the Disposal will be returned to Shareholders in the first half of 2025 once the Board has had a chance to consider the optimal way of achieving this from a technical, legal and tax perspective. The remainder of the proceeds will be kept within the Group for working capital purposes and to ensure the remaining parts of the Group are appropriately funded going forward. The Company will make an announcement in due course setting out the terms and timetable of the capital return.

5. K3 POST DISPOSAL

Post Completion, the Company will continue to be a public company quoted on AIM with the principal operating divisions comprising:

- **K3 Products Division:** This division provides software products and solutions that are powered by the Group's own software intellectual property. They comprise strategic products focused on the fashion and apparel market, specialist solutions for the visitor attractions market and other stand-alone point-of-sale and ERP solutions, which are mainly legacy products; and
- **Third Party Solutions Division:** This division, in which NexSys currently sits, will comprise principally the Group's Global Accounts business unit which includes the Group's relationship with Inter IKEA Systems B.V. (the owner and franchisor of the Inter IKEA concept) and certain Inter IKEA concept overseas franchisees. As well as supporting IKEA franchisee customers with their IKEA solution, K3 also provides and supports those overseas IKEA franchisees with integrations, additional solutions, localisations, development, consultancy and system enhancements, which is key to the smooth functioning of such franchisees's IKEA stores and back-office solutions.

(Together, the "Remaining Group").

In the year to 30 November 2023 the Remaining Group generated revenue of £31.7 million and an adjusted operating loss of £2.3 million. The Board has subsequently developed the Remaining Group and expects it to become month on month cash break even, after full allocation of central overhead, during the first quarter of FY2025. The Remaining Group will retain a small proportion of the net cash proceeds, which the Directors will determine in due course, in order to leave the Remaining Group with sufficient working capital and restructuring funding to operate debt free.

A small proportion of central overhead costs will be shared between NexSys and the Remaining Group pursuant to the Transitional Services Agreement.

6. FINANCIAL IMPACT OF THE DISPOSAL ON NEXSYS

The Disposal will involve K3 selling NexSys, which for FY23 generated £12.1 million of revenue and £3.6 million of adjusted operating profit (before central cost allocation), representing 28% and 286% of Group revenue and Group adjusted operating profit respectively. As at 31 May 2024 NexSys had a total asset value of £2.57 million and a net asset value of £(0.15) million, representing 18.6% and (0.6)% of Group total asset value and net asset value respectively. As a result of the Disposal, ongoing revenue and profitability for the Group will be reduced and there is expected to be a large one-off profit on disposal which will be recognised in the Group's accounts for the year ending 30 November 2025.

K3 expects to publish its results for the year ended 30 November 2024 in March 2025. Under IFRS the accounts will be presented on a continuing and discontinued basis.

7. IRREVOCABLE UNDERTAKINGS AND LETTERS OF INTENT

Excluding Oliver Scott, whose beneficial holding is presented via Kestrel Partners LLP, the other Directors who hold Ordinary Shares in the Company, being Tom Crawford, Lavinia Alderson and Gabriel Hase have irrevocably undertaken to vote in favour of the Resolution at the General Meeting in respect of their own beneficial holdings of, in aggregate, 64,201 Ordinary Shares, representing approximately 0.14% of the Company's issued share capital.

Board irrevocable undertakings	Number of Ordinary Shares	% Holding
Tom Crawford	61,445	0.14
Gabrielle Hase	2,500	0.01
Lavinia Alderson	256	0.00
Total	64,201	0.14%

In addition, the following Shareholders have provided irrevocable undertakings to vote in favour of the Resolution, representing, in aggregate, 77.1% of the Company's issued share capital.

Irrevocable undertakings	Number of Ordinary Shares	% Holding
Kestrel Partners LLP (Note 1)	12,990,869	29.04%
PJ Claesson	10,721,780	23.97%
Richard Griffiths	4,943,750	11.05%
Lombard Odier Investment Managers	5,821,528	13.04%

Total

34,487,937

77.10%

(1) Oliver Scott is a partner of and holds a beneficial interest in Kestrel Partners LLP ("Kestrel") and in Kestrel Opportunities, a fund managed by Kestrel. He is therefore deemed to have a beneficial interest in Kestrel Opportunities' entire legal holding in the Company, amounting to 8,631,682 of the above disclosed holding of Kestrel Partners LLP.

In addition, Canaccord Genuity Wealth Management has provided a non-binding letter of intent to vote in favour of the Resolution, in respect of 6,875,000 Ordinary Shares representing 15.4% of the Company's issued share capital.

The Purchaser has therefore received irrevocable undertakings and letters of intent in respect of a total of 41,427,138 Ordinary Shares, representing, in aggregate, approximately 92.6% of the Company's issued share capital.

8. CURRENT TRADING AND PROSPECTS

The Board confirms that the Group's results for the year to 30 November 2024 are in line with the Board's expectations with Group adjusted operating profit of no less than £1.9 million (before exceptional items and charges for share based payments), up approximately 50% on the prior period. The Group's net cash position (pre-IFRS 16) as at 30 November 2024 is expected to exceed £8.3 million (30 November 2023: £8.3 million) and the Remaining Group is expected to reach month on month operating profitability during the first quarter of FY2025.

All above references to figures for the financial year ended 30 November 2024 are approximate and subject to final close and audit.

9. GENERAL MEETING

The Disposal is deemed a fundamental change for the purposes of Rule 15 of the AIM Rules and consequently completion of the Disposal is dependent upon approval of the Resolution by Shareholders. For the avoidance of doubt, K3 will, on Completion, continue to be classified as an operating company and not as an AIM cash shell pursuant to AIM Rule 15. A General Meeting is being convened at 10.00 a.m. on 19 December 2024 at Cavendish Financial Plc, One Bartholomew Close, London, EC1A 7BL, at which an ordinary resolution will be proposed to approve the Disposal.

A circular to Shareholders is expected to be despatched tomorrow in connection with the Disposal and will be available from then on the Company's website www.k3btg.com/investor-centre for the purposes of AIM Rule 26.

10. BOARD RECOMMENDATION

The Directors consider that the Disposal is in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors are unanimously recommending that Shareholders vote in favour of the Resolution to be proposed at the General Meeting.

The Directors have irrevocably committed to vote in favour of the Resolution in respect of their aggregate beneficial shareholdings of 8,695,883 Ordinary Shares representing approximately 19.4% of the Ordinary Shares in issue.

DEFINITIONS

The following definitions apply throughout this announcement unless the context otherwise requires:

"Act"	Companies Act 2006
"AIM"	AIM, a market operated by the London Stock Exchange
"AIM Rules"	the AIM Rules for Companies published by the London Stock Exchange (as amended from time to time)
"Board" or "Directors"	the directors of the Company or any duly appointed committee thereof
"Company" or "K3"	K3 Business Technology Group plc, a public limited company incorporated in England and Wales with registered number 02641001
"Completion"	completion of the Disposal under the terms of the Share Purchase Agreement
"Consideration"	the cash consideration to be paid by the Purchaser to K3 on Completion
"Disposal"	the proposed sale of NexSys to the Purchaser in accordance with the Share Purchase Agreement
"General Meeting"	the general meeting of the Company to be held in connection with the Disposal on 19 December 2024
"Group"	the Company and its subsidiaries and subsidiary undertakings (in each case as defined in the Act)
"Latest Practicable Date"	29 November 2024 being the latest practicable date prior to the publication of this announcement
"London Stock Exchange"	London Stock Exchange plc
"Market Capitalisation"	calculated as the total number of Ordinary Shares in issue multiplied by the price per Ordinary Share
"N e x S y s "	the Company's subsidiary, NexSys Solutions Limited, a private limited company incorporated in England and Wales with registered number 01748035
"O f f e r "	the offer for NexSys by the Purchaser for total cash consideration of £36.0 million
"Ordinary Shares"	ordinary shares of £0.25 each in the capital of the Company
"Purchaser"	Safari UK Bidco Limited, a company controlled by funds managed and/or advised by Advent International, LP ("Advent"), which wholly-owns (directly and indirectly) certain of the companies that operate the business known as "SYSPRO"
"Resolution"	the resolution to be proposed at the General Meeting
"Shareholders"	holders of Ordinary Shares
"Share Purchase Agreement"	the conditional share purchase agreement dated 29 November 2024, entered into between the Purchaser and the Company in respect of the Disposal

	between the Purchaser and the Company in respect of the disposal
"Transitional Services Agreement"	the transitional services agreement between the Company and NexSys
"UK"	the United Kingdom of Great Britain and Northern Ireland

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