

H1 2024 results

Six months to 30 November 2023

25 January 2024

nccgroup[®]





Overview

Mike Maddison
CEO



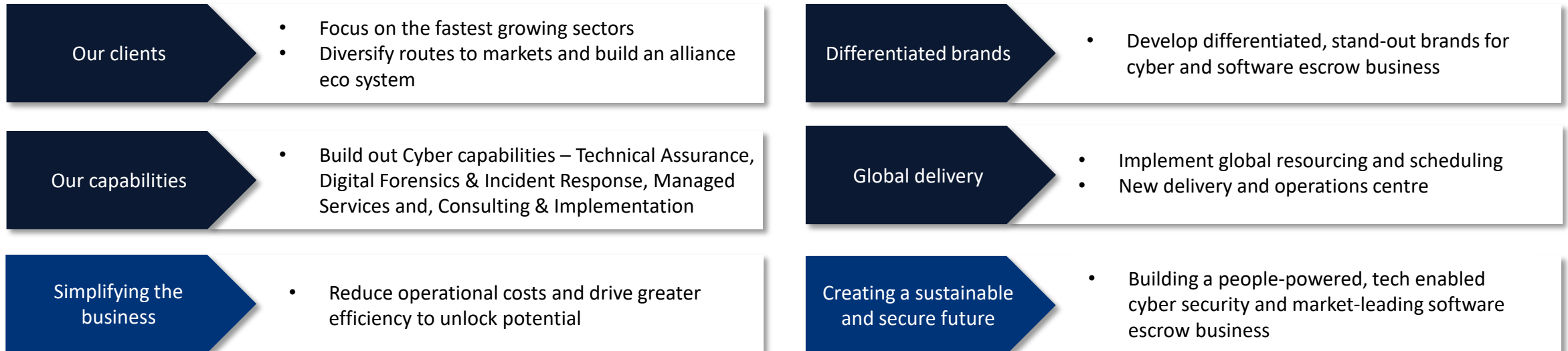
Agenda for today

- Transformation journey
- Executive highlights
- Financial review
- Strategy update
- Summary and outlook
- Your questions answered

Where we started



Where we are going



Revenue

£159.2m

£176.6m
H1 2023 – (6.7%) at constant currency

Gross margin

37.9%

40.5%
H1 2023 – (2.6% pts)

Adjusted EBIT

£4.8m

£12.9m
H1 2023 restated – (62.8%)

Cash conversion

89.1%

100.4%
H1 2023 restated – (11.3% pts)

First half numbers in line with expectations and strategy is transforming the business at pace

- Overall performance in line
- Cyber Security stabilised, Managed Services continued growth and gross margin trajectory
- Eencode revenue and profit continuing to grow
- Strategic progress and cost efficiencies realised
- Confident outlook and current trading remains in line with expectations
 - TAS Q2 2024 revenue exit rate gives us confidence in H2 2024 supported by continued MS revenue growth
 - Low single digit revenue growth in Eencode within H2 2024 expected
 - The cost base efficiencies we've taken mean we are well placed to deliver on our full year expectations
 - Group remains confident on medium-term financial goals



Financial review

Guy Ellis
CFO

**Sustainable
revenue growth**

**Improved
gross margin**

Efficient cost base

**Balance sheet
resilience**

Revenue

£159.2m

H1 2023: £176.6m – (6.7% CC)

Gross Margin %

37.9%

H1 2023: 40.5% - (2.6% pts)

Overheads (exc. SBP, D&A and ISIs)

£44.0m

H1 2023: £44.8m - (1.8%)

Adjusted EBITDA ¹

£15.6m

H1 2023: £24.2m – (35.5%)

Cash Conversion Ratio ¹

89.1%

H1 2023: 100.4% - (11.3% pts)

Net Debt (exc. Leases)

£48.3m

H1 2023: £54.8m – (11.9%)

1: Now includes previously adjusted item of Share based payments (SBP) of £0.8m (H1 2023: £2.5m) to align to FRC best practice guidance.

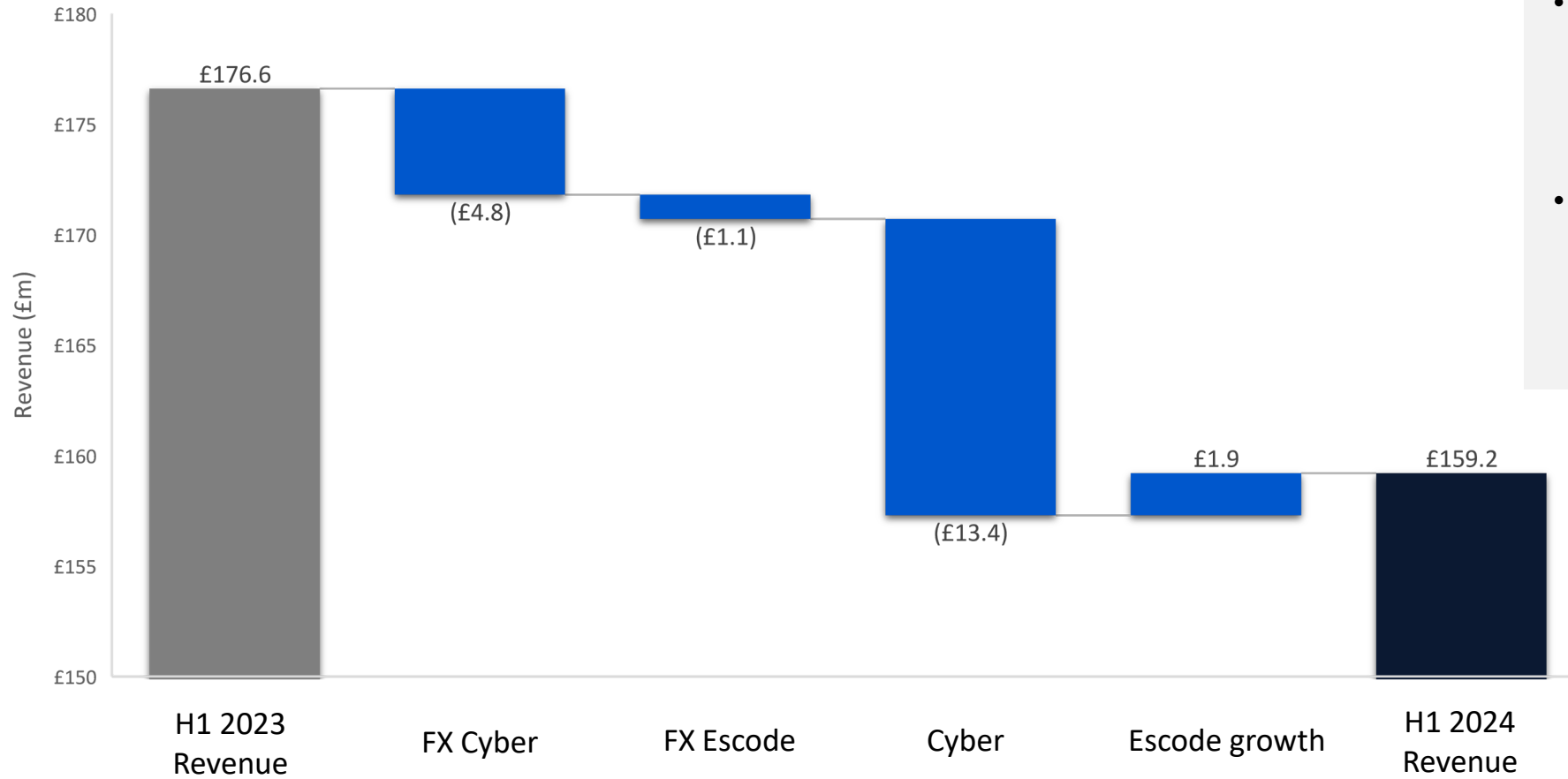
	H1 2023 £m	H1 2024 £m	% change
Revenue	176.6	159.2	(9.9%)
Gross profit	71.5	60.4	(15.5%)
Gross margin %	40.5%	37.9%	(2.6% pts)
Overheads	(44.8)	(44.0)	(1.8%)
Share based payments	(2.5)	(0.8)	(68.0%)
Adjusted EBITDA	24.2	15.6	(35.5%)
Adjusted EBITDA margin %	13.7%	9.8%	(3.9% pts)
Depreciation and amortisation	(11.3)	(10.8)	(4.4%)
Adjusted EBIT	12.9	4.8	(62.8%)
Adjusted EBIT margin %	7.3%	3.0%	(4.3% pts)
Finance costs (including leases)	(2.6)	(3.0)	15.4%
Adjusted PBT	10.3	1.8	(82.5%)
Adjusted tax	(2.7)	(0.4)	(85.2%)
Adjusted tax %	26.2%	22.2%	(4.0% pts)
Adjusted PAT	7.6	1.4	(81.6%)
Adjusted basic EPS	2.5p	0.5p	(2.0p)

- First half as expected
- Cost of sales efficiencies and overhead decrease as planned
- ISI's of £4.2m include reorganisation costs (£3.8m), as well as disposal costs incurred on the non-core disposal of DetACT (£0.2m)
- Adjusted measure disclosures changed to reflect FRC best practice guidance

Disclosure changes – summary reconciliation ¹:

	H1 2023 £m	H1 2024 £m	Change £m
Adjusted EBITDA - previously	26.7	16.4	(10.3)
Share based payments	(2.5)	(0.8)	1.7
Adjusted EBITDA - revised	24.2	15.6	(8.6)
Adjusted EBIT - previously	20.5	10.2	(10.3)
Share based payments	(2.5)	(0.8)	1.7
Amortisation of acquired intangibles	(5.1)	(4.6)	0.5
Adjusted EBIT - revised	12.9	4.8	(8.1)

1: See Appendix for full reconciliation of all adjusted measures.



- Expected Cyber Security constant currency decline of 9.6% in H1, driven by North America
- Escope delivered again positive revenue growth in constant currency of 6.2%, aided by Q1 2023 comparator

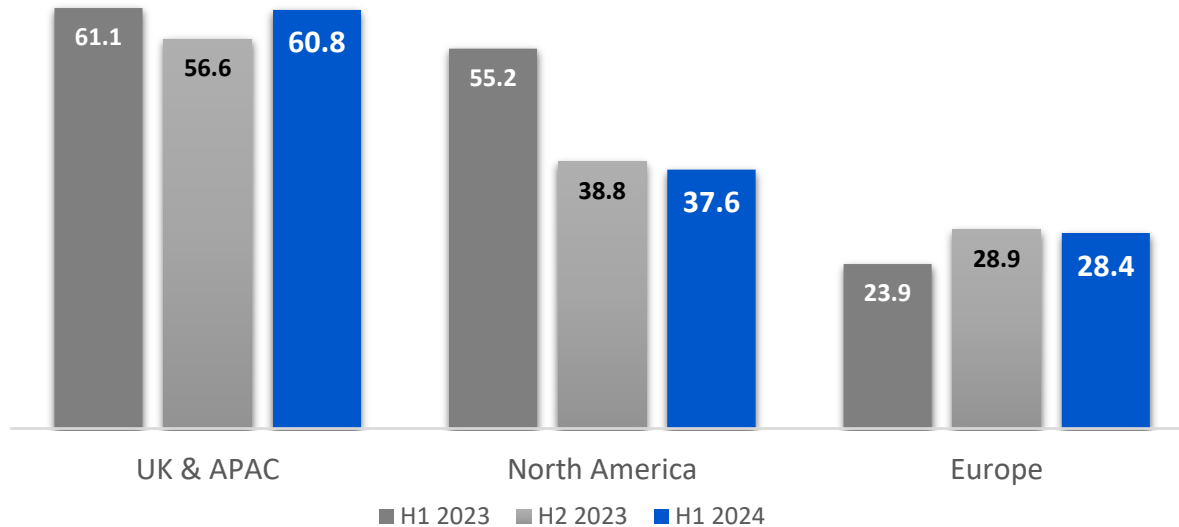
Revenue by region

Constant Currency

H1 FY24 regional YoY growth:

- UK & APAC: (0.5%)
- North America: (31.9%)
- Europe: +18.8%

Overall: (9.6%)



Trajectory:

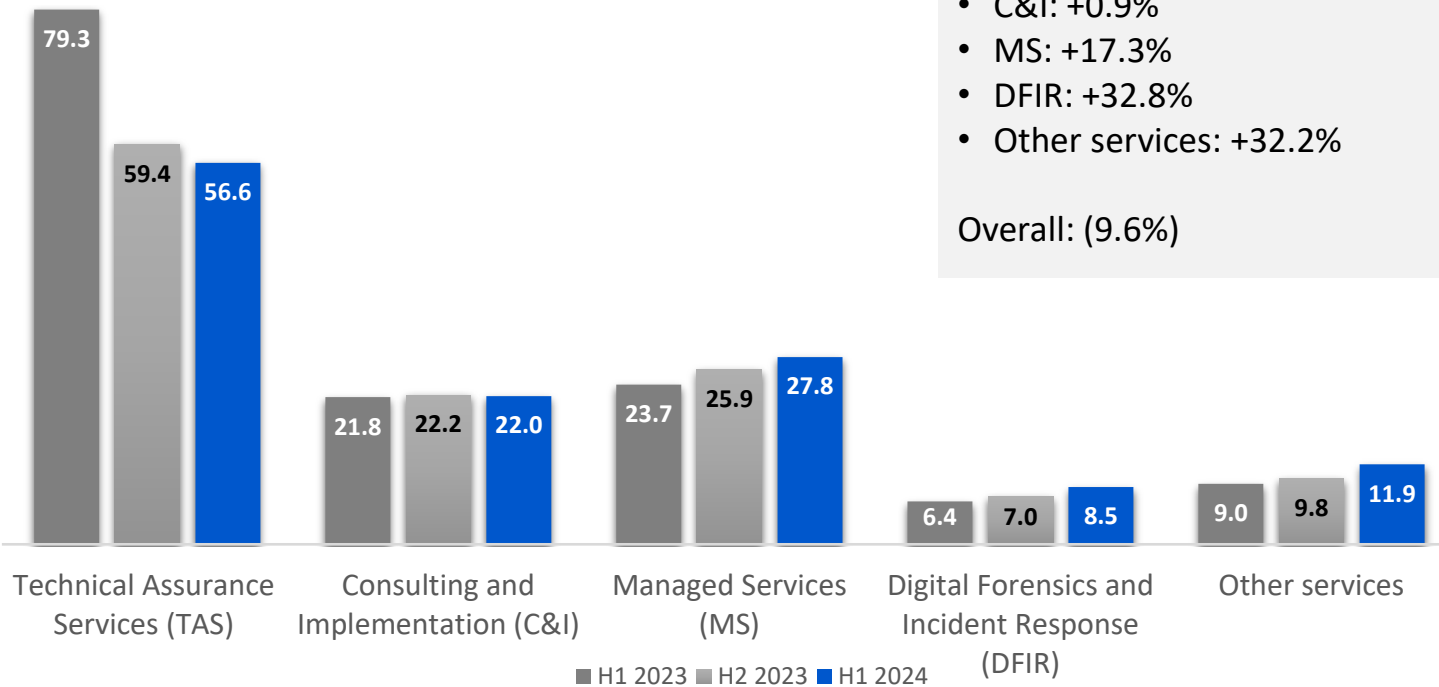
- North America revenue declined at constant currency by -3.1% compared H2 2023 revenue
- H1 2024 revenue ahead of H2 2023 at constant currency by 2.1%
- TAS overall utilisation has improved in Q2 2024 to c.76% as compared to c.60% Q1 FY24 and Q4 FY23, contributing to an improvement in H1 2024 gross margin percentage of +0.7% pts as compared to H2 2023
- H1 2024 - 213 clients with sales orders > £250k, of which 76% take multiple capabilities (H1 2023 – 205)
- Number of recurring clients over £250k is 133 (H1 2023 -139)

Actual rates Continuing and discontinued activities	H1 2023 £m	H1 2024 £m	% change
Revenue	145.0	126.8	(12.6%)
Gross profit	49.2	38.0	(22.8%)
Gross margin %	33.9%	30.0%	(3.9% pts)
Overheads	(36.2)	(34.1)	(5.8%)
Adjusted EBITDA ¹	13.0	3.9	(70.0%)
Adjusted EBITDA margin %	9.0%	3.1%	(5.9% pts)

1: Now includes previously adjusted item of Share based payments (SBP) of £0.1m (H1 2023: £1.2m) to align to FRC best practice guidance.

Revenue by capability

Constant Currency



H1 FY24 capability YoY growth:

- TAS: (28.6%)
- C&I: +0.9%
- MS: +17.3%
- DFIR: +32.8%
- Other services: +32.2%

Overall: (9.6%)

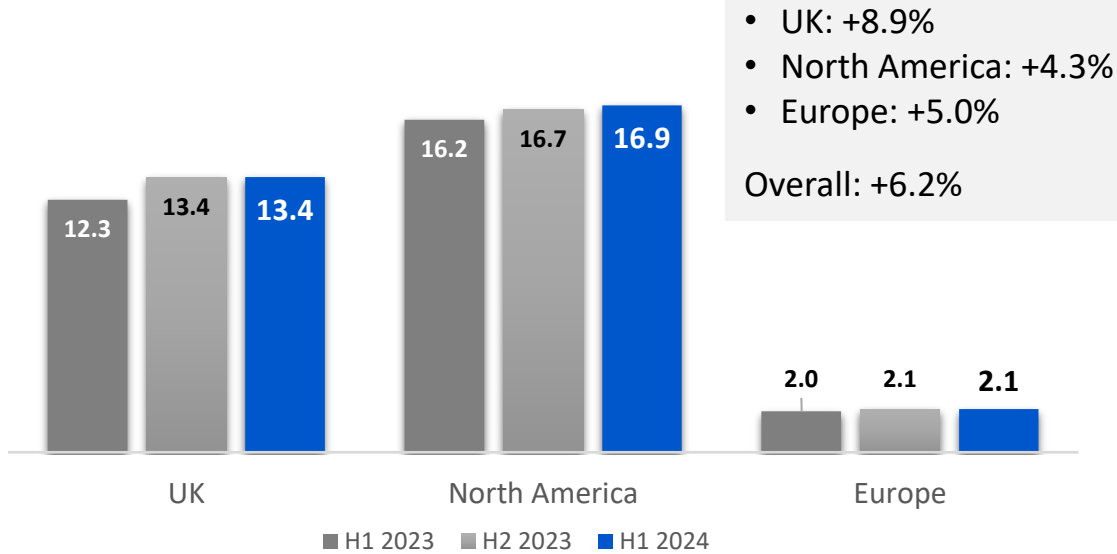
- TAS declined by -28.6% (-31.7% at actual rates) due to impact of challenges we experienced in Q3 FY23, albeit now stabilising as demonstrated by H1 2024 revenue only declining by -4.7% as compared to the revenue generated in H2 2023 (-5.7% at actual rates)
- C&I slightly increased by +0.9% (-1.8% at actual rates) with an experienced leader now recruited for this capability
- As expected, MS increased by +17.3% (+15.4% at actual rates) with sales orders for the forthcoming years increased 91% from £32.3m to £61.8m
- DFIR increased by +32.8% reflecting the number of incident responses of Ransomware

Capabilities:

- *Technical Assurance Services (TAS): all types of penetration testing*
- *Consulting and Implementation (C&I): consultancy services across all industrial verticals*
- *Managed Services (MS): includes XDR*
- *Digital Forensics and Incident Response (DFIR): includes incident responses to Ransomware*
- *Other services: include our Fox-IT Crypto business, DetACT and Global Cyber Security Research*

Revenue by region

Constant currency



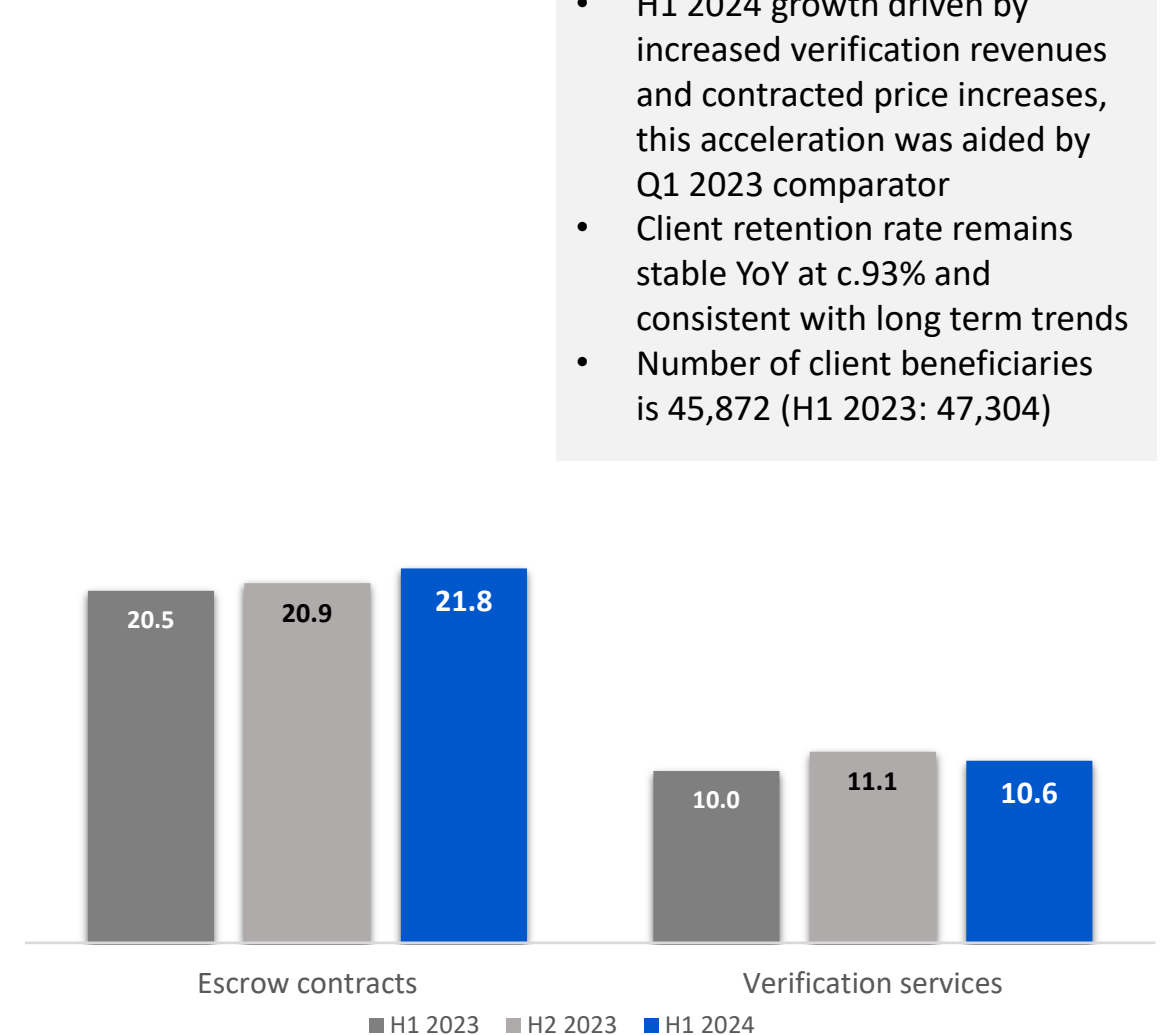
H1 2024 regional YoY growth:

- UK: +8.9%
 - North America: +4.3%
 - Europe: +5.0%
- Overall: +6.2%

Actual rates	H1 2023 £m	H1 2024 £m	% change
Revenue	31.6	32.4	2.5%
Gross profit	22.3	22.4	0.4%
Gross margin %	70.6%	69.1%	(1.5% pts)
Overheads	(8.1)	(7.7)	(4.9%)
Adjusted EBITDA	14.2	14.7	3.5%
Adjusted EBITDA margin %	44.9%	45.4%	0.5% pts

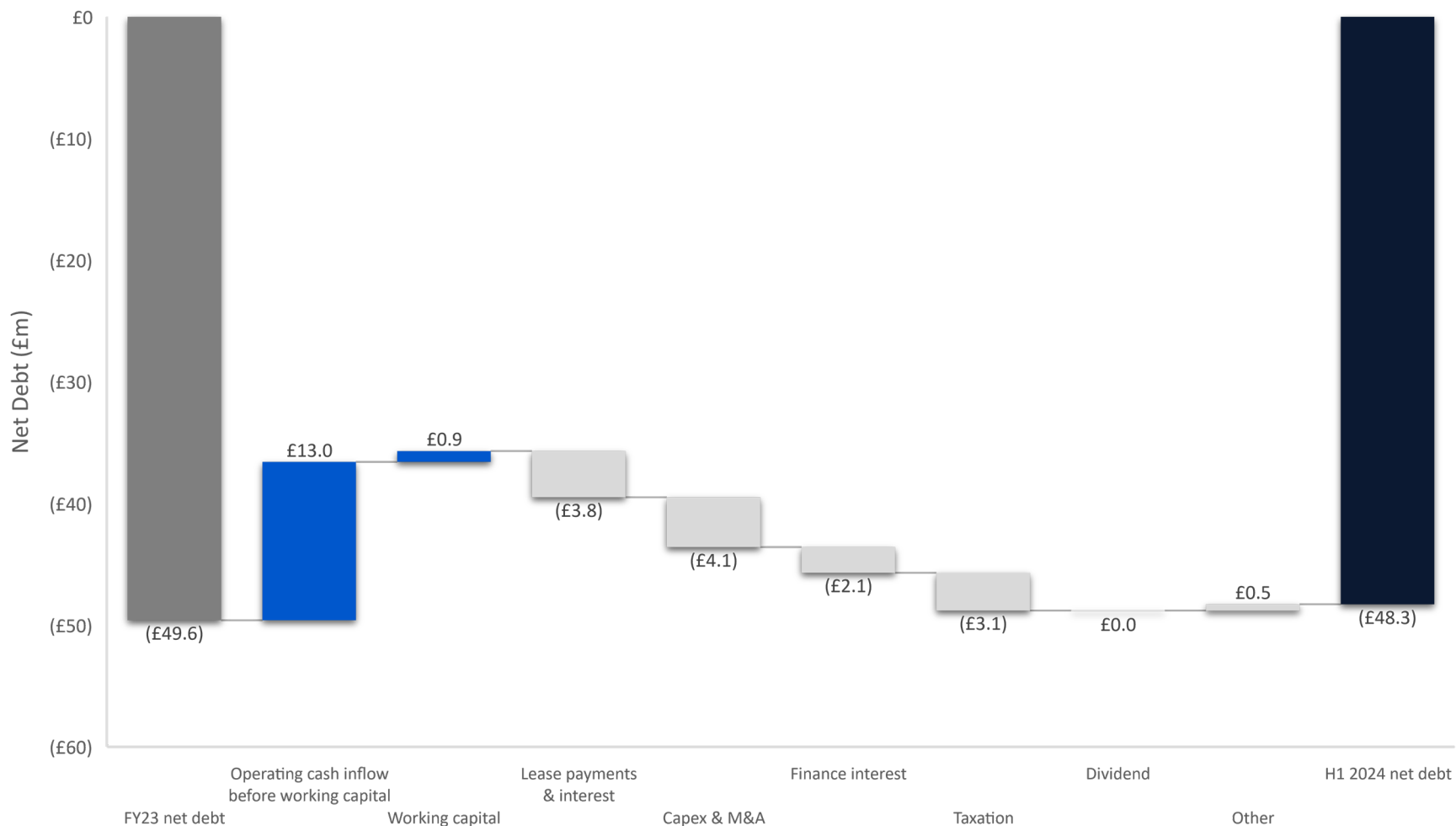
Revenue by service line

Constant currency



- Sustaining growth through last five quarters
- H1 2024 growth driven by increased verification revenues and contracted price increases, this acceleration was aided by Q1 2023 comparator
- Client retention rate remains stable YoY at c.93% and consistent with long term trends
- Number of client beneficiaries is 45,872 (H1 2023: 47,304)

Net debt (exc. Leases) reduced by £1.3m



- Cash conversion remains strong
- Balance sheet strength with four-year enlarged multi-currency RCF of £162.5m with additional £75m uncommitted accordion option to enable new strategy
- FY23 final dividend of £9.8m paid in December 2023 due to timing of AGM and shareholder approval of dividend being on 30 November 2023
- H2 2024 will see proceeds from DetACT disposal – expected February 2024

Sustainable revenue growth

Returning Cyber Security to growth in H2

Accelerating growth in our recurring Managed Services

Maintaining momentum of quarterly growth in Escode

Improved gross margin

Improved utilisation %

Globalised technical resource footprint

Efficient cost base

Delivering c.£5m efficiencies in Cyber Security in FY24 (annualised c. £10m from FY25)

Annualising Escode efficiencies delivered in FY23

Balance sheet resilience

Strong cash conversion

Reducing debt

Maintaining dividend



Strategy update

Mike Maddison
CEO

Our businesses



Cyber Security

Protecting companies and governments against an evolving spectrum of cyber threats



Ecode

A global market leader, protecting and verifying the code of leading private and public sector entities around the world

Our strategy

Our clients

Deeper client engagement on the most pressing cyber security needs

Our capabilities

Broader service portfolio addressing the full cyber security lifecycle



Global delivery

Transitioning from an international to a fully global business

Brands

Distinct and relevant brands for Cyber Security and software escrow business



Our ambition

Medium term:

Cyber Security

- Mid-teens revenue growth
- Mid-teens Adjusted EBITDA margin % ¹
- Low-teens Adjusted EBIT margin % ²

Ecode

- Consistent low single-digit revenue growth
- Maintain global market leadership in software escrow

1: Now includes previously adjusted item of Share based payments (SBP) of £0.8m (H1 2023: £2.5m) to align to FRC best practice guidance.

2: Now includes previously adjusted items of Share based payments (SBP) of £0.8m (H1 2023: £2.5m) and Amortisation of acquired Intangibles £4.6m (H1 2023: £5.1m) to align to FRC best practice guidance.

Delivering on strategy and operational targets



NCC Group Cyber Security Assessment and Discovery Services now available powered by Tanium

What we said we would do

Our clients

- Focus on the fastest growing sectors
- Diversify routes to markets and build an alliance eco system

Our capabilities

- Build out Cyber capabilities – Technical Assurance, Digital Forensics and Incident Response, Managed Services and Consulting and Implementation

Global delivery

- Implement global resourcing and scheduling
- New delivery and operations centre

Differentiated brands

- Develop differentiated, stand-out brands for cyber and software escrow business

What we've done

- Vertical structure in North America to enable sharper focus on key sectors
- Announced strategic partnerships with TransUnion and Tanium

- Broadened scope of IR to incorporate Digital Forensics reflecting increase in Ransomware incidents
- Driven significant growth in Managed Services

- Rolled out Kantata scheduling system to the US and Manila
- Manila continues to scale with 60 colleagues now in place

- New distinct brand for software escrow business rolls out this quarter



Pictured: Saira Acuna, NCC Group Country Director speaks at the Manila Office Inauguration ceremony

Delivering on strategy and operational targets



Pictured above: Colleagues in Manila celebrating the inauguration of the office

What we said we would do

Simplifying the business

- Reduce operational costs and drive greater efficiency to unlock potential

Creating a sustainable and secure future

- Building a people-powered, tech enabled cyber security and market-leading software escrow business

What we've done

- Sold non-core asset DetACT
- In Escode enacted price increases and systems consolidation
- Single tech stack in Managed Services

- Completed double-materiality assessment and launched new Sustainability strategy to underpin the Group's *Next Chapter* strategy



Summary and outlook

Mike Maddison
CEO



We will continue to deliver our *Next Chapter* strategy

- Strategy is transforming the business at pace
- Confident outlook and current trading:
 - Technical Assurance Services Q2 2024 revenue exit rate gives us confidence in H2 2024 supported by continued Managed Services revenue growth
 - Low single digit revenue growth in Escode within H2 2024 expected
 - The cost base efficiencies we've taken and the performance in H1 2024 mean we are well placed to deliver on our full year expectations
 - The Group remains confident on medium-term financial goals

Questions



Appendix – Reconciliation of adjusted measures

Adjusted measure	H1 2024	H1 2023 (restated) ²	Change
Adjusted EBITDA – previously (£m)	16.4	26.7	(10.3)
Share based payments (£m)	(0.8)	(2.5)	1.7
Adjusted EBITDA – revised (£m)	15.6	24.2	(8.6)
Adjusted Operating profit – previously (£m)	10.2	20.5	(10.3)
Share based payments (£m)	(0.8)	(2.5)	1.7
Amortisation of acquired intangibles (£m)	(4.6)	(5.1)	0.5
Adjusted Operating profit – revised (£m)	4.8	12.9	(8.1)
Adjusted earnings – previously (£m)	5.4	13.3	(7.9)
Share based payments (£m)	(0.8)	(2.5)	1.7
Amortisation of acquired intangibles (£m)	(4.6)	(5.1)	0.5
Tax effect of above items (£m)	1.4	1.9	(0.5)
Adjusted earnings – revised (£m)	1.4	7.6	(6.2)
Basic adjusted EPS - previously (pence)	1.7	4.3	(2.6)
Effect of share-based payments (pence)	(1.5)	(1.6)	0.1
Effect amortisation of acquired intangibles (pence)	(0.2)	(0.8)	0.6
Tax effect of above items (pence)	0.5	0.6	(0.1)
Basic adjusted EPS – revised (pence)	0.5	2.5	(2.0)
Cash conversion – previously (%)	84.8	91.0	(6.2)
Effect of share-based payments (%)	4.7	9.4	(4.7)
Cash conversion – revised (%)	89.1	100.4	(11.3)

Cyber Security	H1 2023	H1 2024
Delivery headcount	1,402	1,113
Number of clients >£0.25m	205	213
Number of long-term (>3 years) clients over £250k	139	133
% of £250k clients using multiple capabilities	76%	76%
Utilisation	65%	68%
Escode		
Headcount	227	269
Client retention rate	93%	93%
Number of clients (beneficiaries)	47,304	45,872

Total orders > £250k in prior 12 months

Minimum one order per year in prior three years, plus £250k net spend in prior 12 months

Orders for more than one capability in prior 12 months, and £250k+ spend in prior 12 months

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