Half Year Results

for the six months ended 30 November 2017

16 January 2018

Chairman – Chris Stone
CEO – Adam Palser
CFO – Brian Tenner

Agenda

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Overview

Good progress against all of our Strategic Objectives

Adam Palser appointed as new CEO 1 December 2017

1. Grow revenue at a managed pace

- Medium term goal of above market growth rates while controlling costs
- Year on year organic growth in retained Assurance (14.3%) and Escrow (1.6%)

2. Implement the new Target Operating Model ('TOM')

- TOM designed to deliver sales growth by leveraging technical capabilities
- Medium term goal to drive up GM% and build foundations for sustainable growth
- Year on year, first half GM% grew 2.6% to 39.4%

3. Improve processes and systems to enhance service and reduce G&A costs

- Many improvement projects underway in delivery and back office functions
- Potential for major benefits for customer service, efficiency and working capital
- Expect future G&A increases to be muted to increase operational leverage

Overview *(continued)*

Good progress against all of our Strategic Objectives

4. Lead technical thinking and product development in our market sector

- Launch of CENTA service (Centre for Evolved Next Generation Threat Assurance) - unique high value offering in regulated financial services and governments
- Continued release of leading edge research on cloud and container technologies

5. Develop our people to allow them to reach their full potential

- Strategic Review feedback told us our staff feel valued and enjoy working at NCC
- Values and leadership training being developed
- Staff retention rates at a Group level are unchanged year on year

Creating a firm recovery in performance since H2 PY low point

Interim dividend maintained at the same level as last year

Financial performance

Six months ending 30 November 2017

CFO – Brian Tenner

Highlights H1 - 2018

nccgroup

Assurance Growth	+8.3%
Escrow Growth	+1.6%
Assurance GM%	+2.7%
Escrow GM%	+4.9%
Group EBIT Margin	(2.8%)
Cash Conversion	+13.5%

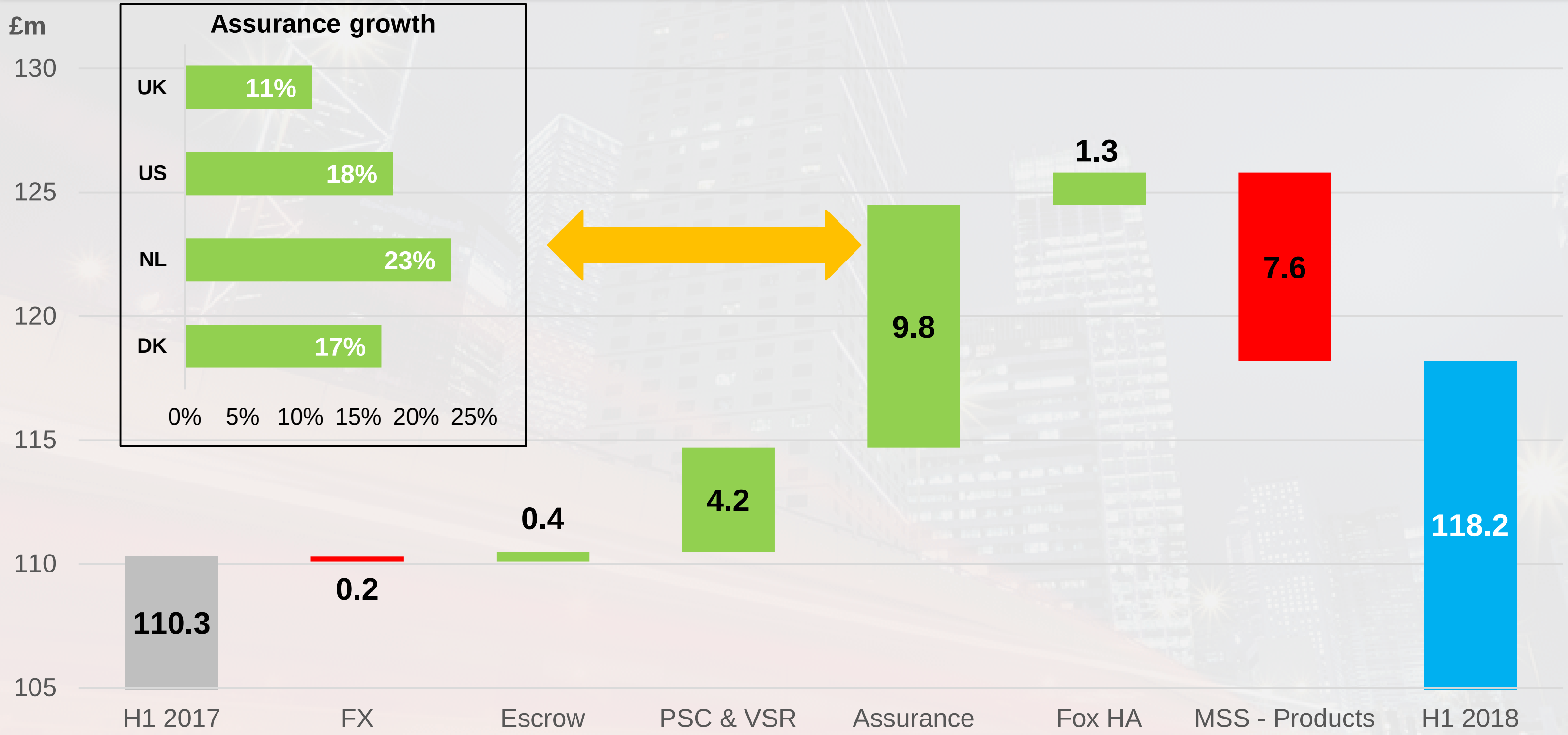
Summary Income Statement

Prior periods re-stated for discontinued operations*	H1 2018 £m	H1 2017 £m	H2 2017 £m
Revenue	118.2	110.3	107.5
Gross profit	46.6	40.6	38.1
Gross Margin %	*39.4%*	*36.8%*	*35.4%*
Overheads (G&A)	(26.6)	(20.8)	(24.7)
D&A	(5.9)	(3.6)	(4.2)
Adjusted EBIT	**14.1**	**16.2**	**9.2**
Adjusted EBIT Margin %	*11.9%*	*14.7%*	*8.6%*
Adjusting items	(7.5)	(8.8)	(63.8)
Reported EBIT	**6.6**	**7.4**	**(54.6)**
Adjusted EPS (p)	**3.5p**	**4.3p**	**2.1p**

*Discontinuing operations set out in the Appendices

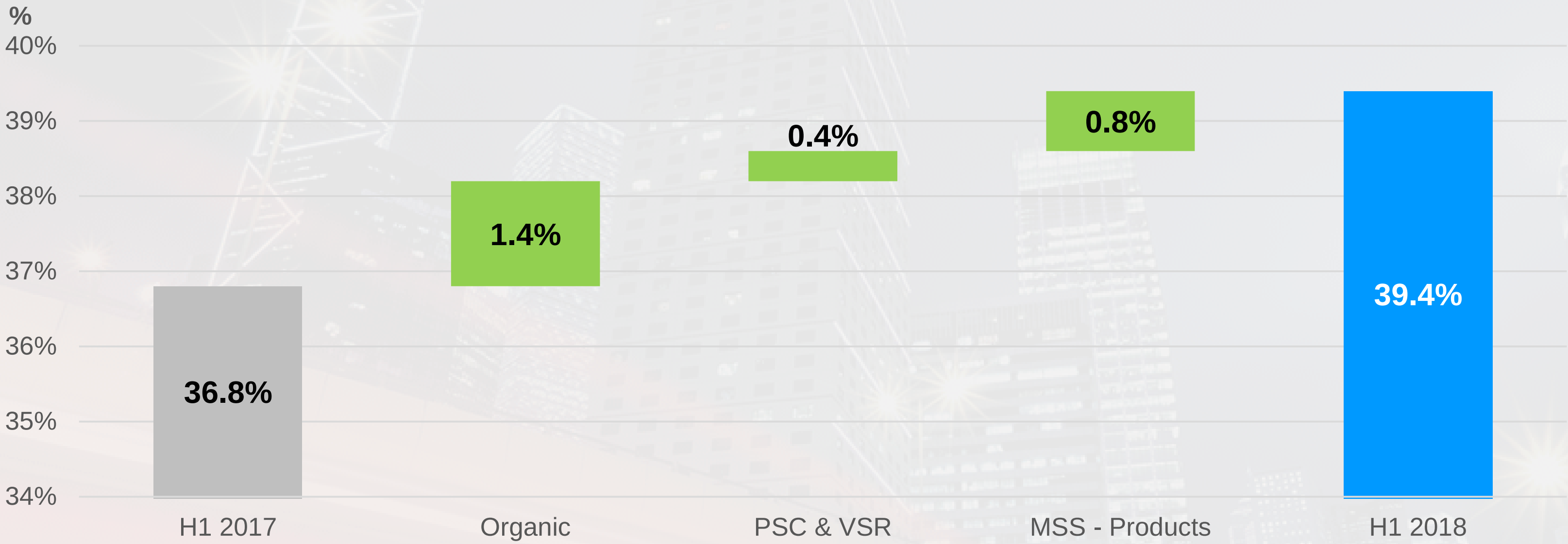
- Firm recovery from low point in H2 PY
- Continuing revenue grew £7.9m (7.2%):
  - Retained organic Assurance grew 14.3%
  - Escrow grew 1.6% (2.1% before FX)
- GM% improved 2.6%:
  - Assurance (2.7%)
  - Escrow (4.9%)
  - Group reflects Assurance growth rate
- G&A increased £5.8m
  - Increases largely committed in PY
  - Grew £3.9m H2 PY, £1.9m H1 CY
  - Stabilising at current run rate in H2
- D&A increases driven by PY property and project spend and more live systems

Revenue bridge



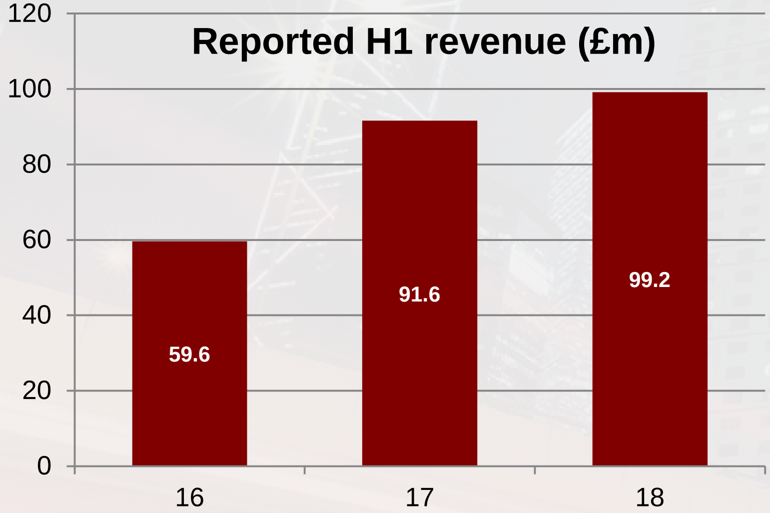
- Escrow growth in UK partly offset by weaker USA
- Fox High Assurance delivered recovery in sales of 30% (from a low base)
- Planned fall in MSS products following strategic decision to reduce re-selling activity

GM% bridge



- GM% growth driven by three different factors:
  - Organic improvements in Escrow (4.9% pts) and Assurance (2.7% pts) – Group GM% growth partially diluted by Assurance growing much faster than Escrow
  - Attractive US acquisitions in PY that enhance the GM% mix
  - Reduction in re-sale of lower margin third party products
- GM% gain +4.0% pts compared to 35.4% in H2 PY

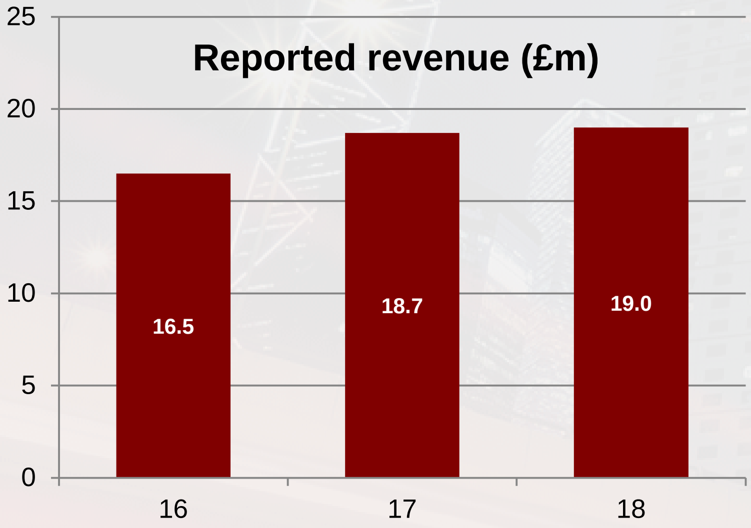
Assurance performance



Assurance *(continuing operations)*	**H1-2018 £m**	**H1-2017 £m**	**H2 - 2017 £m**
Revenue	99.2	91.6	89.0
Gross profit	32.0	27.2	25.0
GM%	***32.3%***	***29.6%***	***28.1%***

- Sales grew £7.6m (8.3%):
  - Retained organic growth £11.1m (14.3%)
  - Acquisitions added a further £4.2m
  - Expansion of higher value added service lines such as Risk Management & Governance
  - Increasing share of revenue being sold and delivered between units
  - MSS 3rd party product sales now at a level where no further material falls expected
- GM% gains reflect:
  - Utilisation recovery commencing March 2017 with close management of delivery resources
  - High activity levels support improving mix
  - Value-added services from deep specialisms such as automotive and hardware (IOT)
  - Reduction in re-sale of MSS third party products

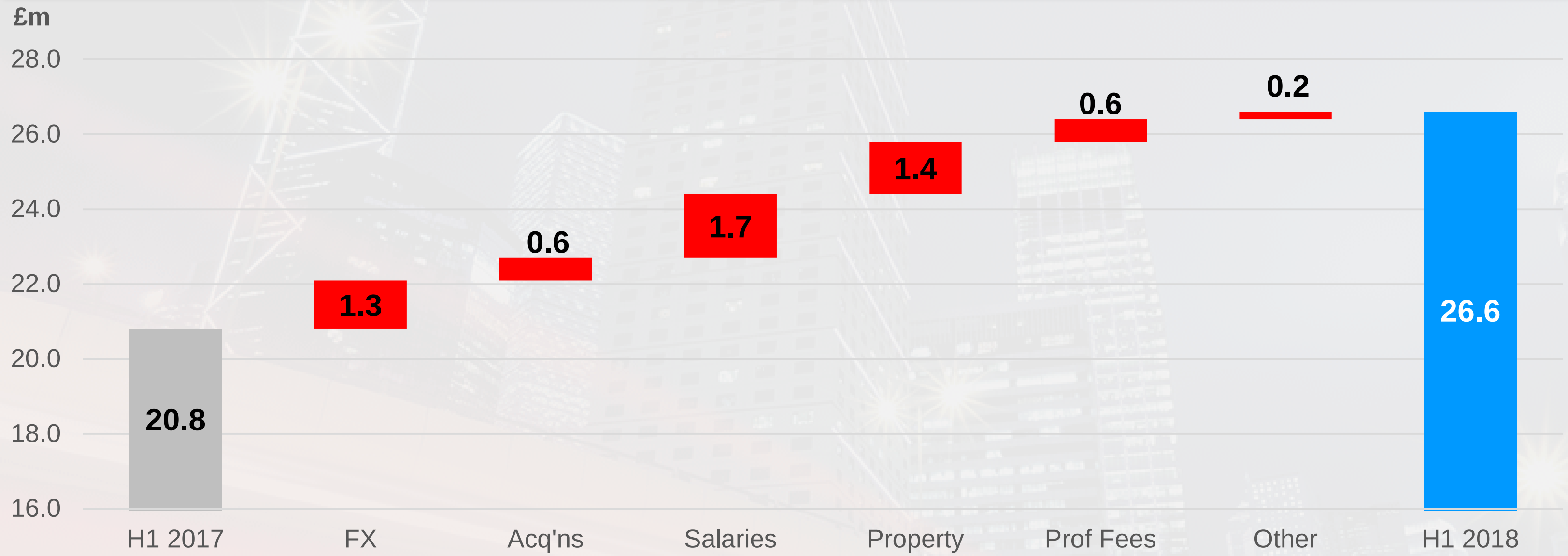
Escrow performance



Escrow	**H1-2018 £m**	**H1-2017 £m**	**H2 - 2017 £m**
Revenue	19.0	18.7	18.5
Gross profit	14.6	13.4	13.3
GM%	***76.7%***	***71.8%***	***72.0%***

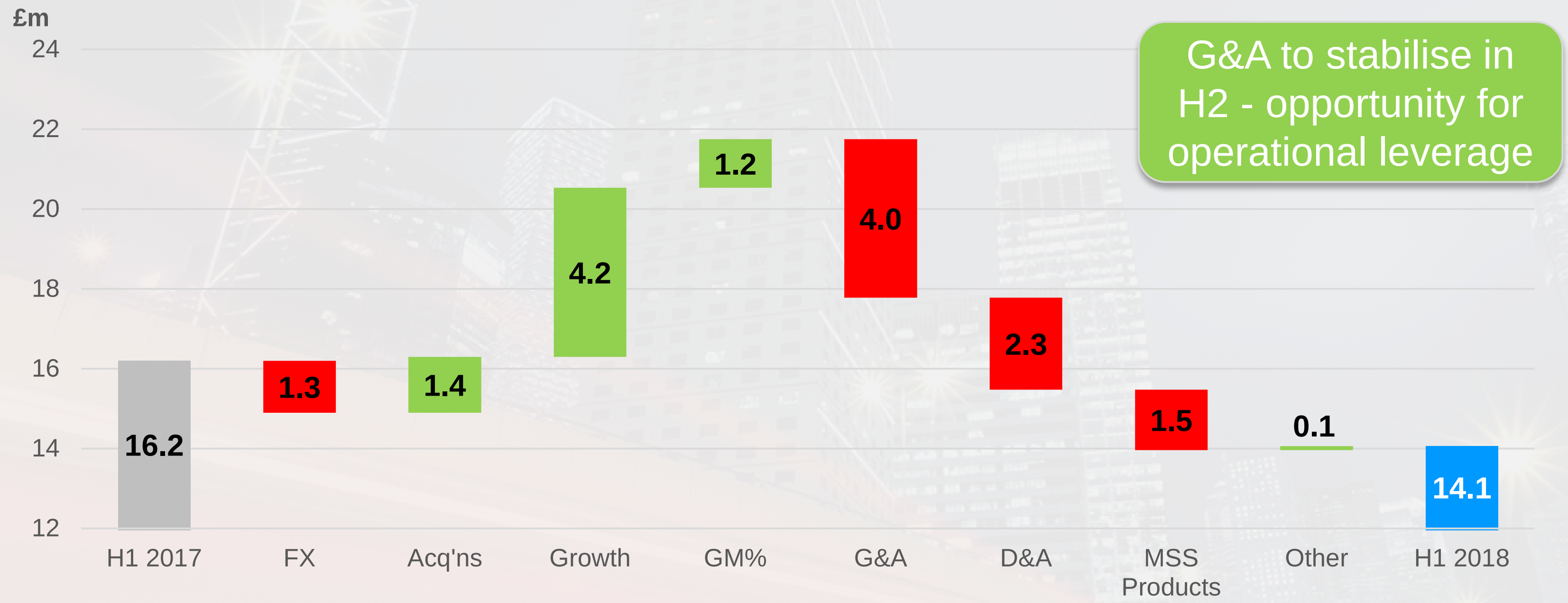
- Growth of £0.3m (1.6%), made up of:
  - o UK growth £0.7m; offset by
  - o US reduction £0.4m (£0.1m FX) – team changes aimed at returning to growth H2
  - o Europe broadly flat
- Renewal rates firm at 89% (2017: 89%) – new customer service team in place
- Improved UK verification delivery process helped reduce backlog
- GM% benefitted from:
  - o H2 PY headcount cut
  - o Operational leverage from higher verification volume on flat delivery resource

General admin cost increases



- Adverse £1.3m transactional FX year-on-year (in G&A)
- Salaries relates to PY headcount growth and additional bonus provisions £0.5m
- Property costs increased due to new and / or expanded office accommodation
- Professional fees incurred to support various improvement initiatives
- Overheads to stabilise in H2 at current run rate (adds £0.6m in H2 for Manchester HQ)

Adjusted EBIT bridge



- Recent acquisitions in US continue to make good contributions to EBIT
- Estimated impact of growth and GM% gains (excludes acquisitions and MSS products)
- D&A reflects more assets in service and also £0.7m written off capitalised projects
- MSS third party product sales had an estimated 20% average net margin

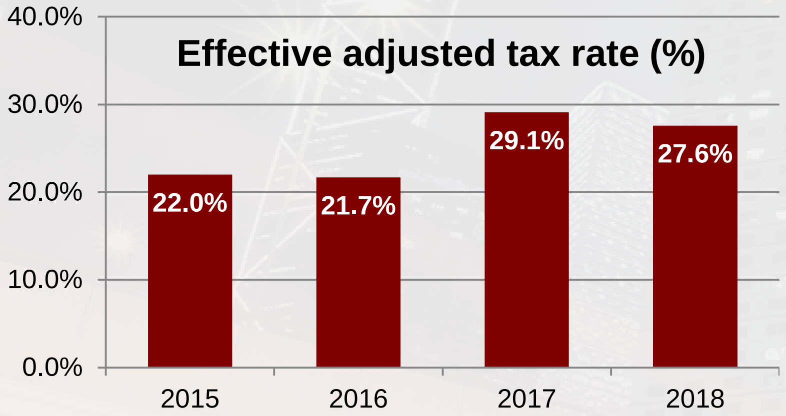
Individually significant items

Charges / (credits)	H1 2018 (£m)	H1 2017 (£m)
Changes in deferred / contingent consideration	(0.6)	(2.6)
Restructuring costs	(1.1)	-
Market related / acquisition costs	(0.2)	(0.6)
Property relocation costs	(0.7)	-
Total	**(2.6)**	**(3.2)**

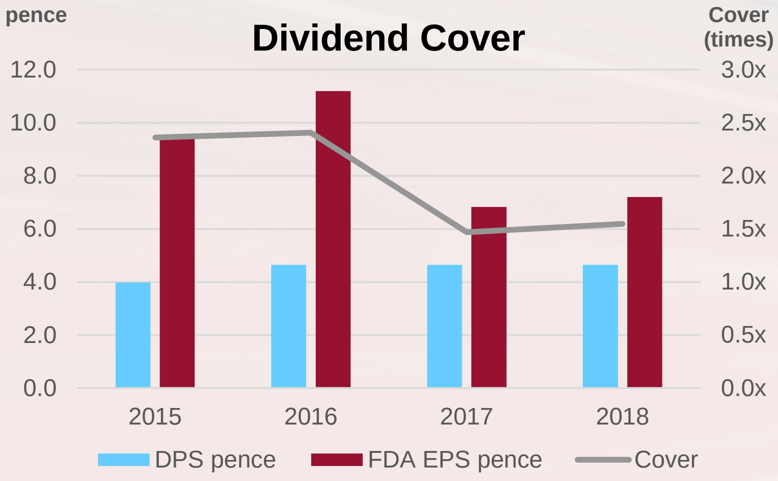
All of the charges above were either cash items in the period or will become so if they have to be paid (deferred consideration)

- Deferred consideration charges (in both years) primarily Fox-IT (FX)
- Expected €12.5m deferred payment for Fox-IT: 90% withheld pending dispute outcome on certain warranty matters, 10% paid in full to employee trust
- Restructuring costs include:
  - Completing Strategic Review and implementing the change programme
  - Management re-organisation costs resulting from the Strategic Review
  - Expect lower costs in H2
- Market related costs cover shareholder circular for invalid dividends
- Property includes pre-occupancy double running Manchester HQ, largely complete

Tax and dividends



- Effective adjusted tax rate 27.6% based on full year forecast (PY's are full years also)
- Reflects blend of UK / US / NL rates
- Reviewing current inefficient structures
- US changes will cut Group ETR by c.3-4%



FDA = Fully Diluted Adjusted

- Interim dividend maintained at same level as prior year at 1.5 pence
- Chart uses consensus Adjusted EPS
- If dividend flat on PY cover rises to just over 1.5x - adequate given Group's liquidity and improving cash flow outlook
- Policy remains under review during recovery phase

Cash flow and net debt

Includes continuing AND discontinued operations	H1 2018 (£m)	H1 2017 (£m)
Adjusted EBITDA	**20.8**	**21.2**
Movement in working capital	(0.7)	(7.1)
Net interest paid	(0.7)	(0.9)
Tax paid	(2.4)	(0.3)
Other operating cash flows	(2.3)	(0.7)
Net cash from operations	**14.7**	**12.2**
Acquisitions / disposals (net)	(1.0)	(28.1)
Tangible capex	(6.0)	(3.6)
Software capex	(1.1)	(2.1)
Capitalised development costs	(1.4)	(2.2)
Dividends	(8.7)	(8.7)
Share issue (SAYE) / sale of shares	1.1	1.0
FX	1.7	(4.6)
Change in net debt	**(0.7)**	**(36.1)**
Closing net debt	**(44.4)**	**(48.8)**

- Positive result from early focus on working capital management
- Other operating cash flows mainly cash exceptional costs in the period
- Expected €12.5m deferred payment for Fox-IT - 90% withheld as noted earlier
- Tangible capex spike reflects non-recurring completion costs of the Manchester HQ (£3.7m)
- Capitalising fewer development costs due to PY impairments (c.£0.5m)
- Improved cash conversion ratio 71.0% (H1 - 17: 57.5%) driven by early working capital gains – more to do
- Marginal £0.7m increase in net debt since May 2017, £4.4m below H1 PY

First impressions and next steps

CEO – Adam Palser

First impressions

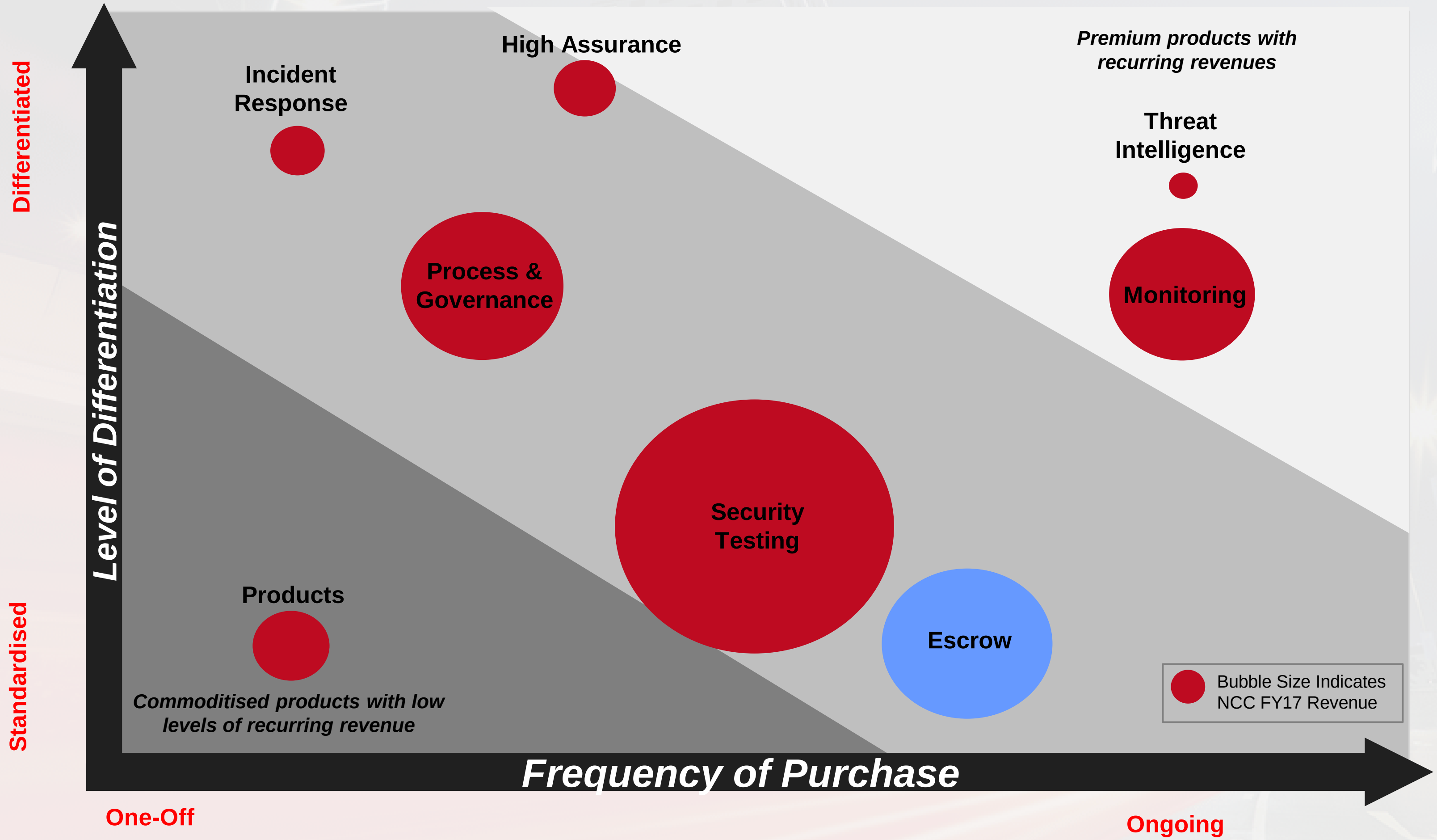
Strengths

- Strong organic Assurance market demand in UK and US businesses
- People: passionate, skilled, interesting
- Stunning clients
- Formidable sales engine - though skewed towards point solutions
- Stable and attractive Escrow cash generation – a strong foundation

Priorities

- Strengthen Assurance:
  - Greater visibility of sales pipeline
  - Less 'day rate' pricing
  - Progress through utilization gains
  - AND...
  - ...higher margin products
- Meeting competitive challenges of an exciting market:
  - Attract and retain the best talent
  - Differentiate where commoditising
  - Continue to invest
- Accelerate progress on some strategic objectives

Portfolio summary



Cyber services vary in attractiveness based on value-add and if revenues recur

Current trading and outlook

- Markets buoyant although month to month volatility in NCC performance remains
- Strong current trading in key Assurance geographies
- Escrow growth in UK as expected, US requires additional focus on large opportunity
- G&A costs targeted to remain flat on an annualised basis - only headwind £0.6m of further impact of the Manchester office move (H1 only saw one quarter occupancy)

Continued organic growth and cost control give added confidence to delivering full year Adjusted EBIT in line with current Board expectations

Thankyou

Q&A

Appendices

Balance sheet

H1 2018 includes Assets Held for Sale, PY not re-stated	H1 2018 (£m)	H1 2017 (£m)
Intangible assets	247.8	334.7
Property, plant and equipment	20.3	14.6
Investments	0.4	0.3
Net assets in businesses for sale	10.6	-
Inventory	0.7	0.5
Trade and other debtors	63.0	77.3
Trade creditors / Deferred income	(57.7)	(66.9)
Net working capital	**6.0**	**10.9**
Tax payable	(3.6)	(1.8)
Provisions	(6.2)	(4.3)
Net deferred tax liabilities	(9.1)	(13.4)
Deferred / contingent consideration	(13.9)	(14.6)
Net debt	**(44.4)**	**(48.8)**
Net assets	**207.9**	**277.6**

- Intangible impairments booked in May 2017 of £59.5m
- PPE grew with property fit out costs and ongoing IT spend
- Working capital reduction reflects improved collections and businesses held for sale
- Provisions mainly Manchester capital and rent contribution from landlord
- Deferred consideration (£9.9m Fox withheld as noted earlier) and contingent (£4.0m PSC / VSR)
- Free cash flow adequate to fully fund one off property capex (£3.7m) and full year dividend (£8.8m)

Non-GAAP reconciliation

Continuing operations only	H1 2018 £m	H1 2017 £m
Adjusted EBITDA	20.0	19.8
Depreciation of tangibles	(3.1)	(2.4)
Amortisation of intangibles	(2.8)	(1.2)
Adjusted EBIT	**14.1**	**16.2**
Share based payments	-	(0.5)
Amortisation acquired intangibles	(4.9)	(5.1)
Individually significant items	(2.6)	(3.2)
Reported EBIT	**6.6**	**7.4**

- Table reconciles GAAP and non-GAAP measures used by management
- Adjusted EBITDA flat on PY – £2.1m fall in EBIT offset by £2.3m rise in D&A
- Depreciation increase:
  - Mainly leasehold improvement costs from various office moves in PY
- Intangible amortisation:
  - More assets in service, hence amortising
  - Some small asset write offs (£0.7m)
- Share based payments fall reflects true up of underwater schemes
- Acquired intangibles reflects FX impact
- Individually significant items - overleaf

Reconciliation: businesses held for sale / exited

	H1 - 2018 £m	H1 - 2017 £m
Revenue including businesses held for sale / exited	130.2	125.8
Revenue from businesses held for sale / exited	(12.0)	(15.5)
Reported revenue	**118.2**	**110.3**
Adjusted EBIT including businesses held for sale / exited	14.5	17.1
Adjusted EBIT from businesses held for sale / exited	(0.4)	(0.9)
Reported adjusted EBIT	**14.1**	**16.2**

- Businesses held for sale announced in July 2017 - Web Performance and Software Testing. Also includes Domain Services which was exited in the prior year (revenue H1 2017: £2.3m)
- The fall in Adjusted EBIT of the businesses held for sale primarily reflects lower capitalisation of costs in Web following some asset impairments in May 2017 (ongoing costs now expensed)

Treatment of businesses sold or held for sale

H1 2018	Group £m	Web & SWT £m	Domain £m	Continuing Operations £m
Revenue	130.2	(12.0)	-	**118.2**
Cost of sales	(81.2)	+9.6	-	**(71.6)**
Gross profit	49.0	(2.4)	-	**46.6**
G&A	(34.4)	+1.8	+0.1	**(32.5)**
Adjusted EBIT	**14.6**	**(0.6)**	**+0.1**	**14.1**
Unwinding discount on provisions	(0.2)	-	-	**0.2**
‘Adjusting items’	(7.4)	(0.1)	-	**(7.5)**
Interest expense	(0.7)	-	-	**(0.7)**
PBT	6.3	(0.7)	+0.1	**5.7**
Tax	(2.5)	+0.1	-	**(2.4)**
Profit from continuing operations	3.8	(0.6)	+0.1	**3.3**
Profit from discontinuing operations	n/a	+0.6	(0.1)	**0.5**
Profit for the period	3.8			**3.8**

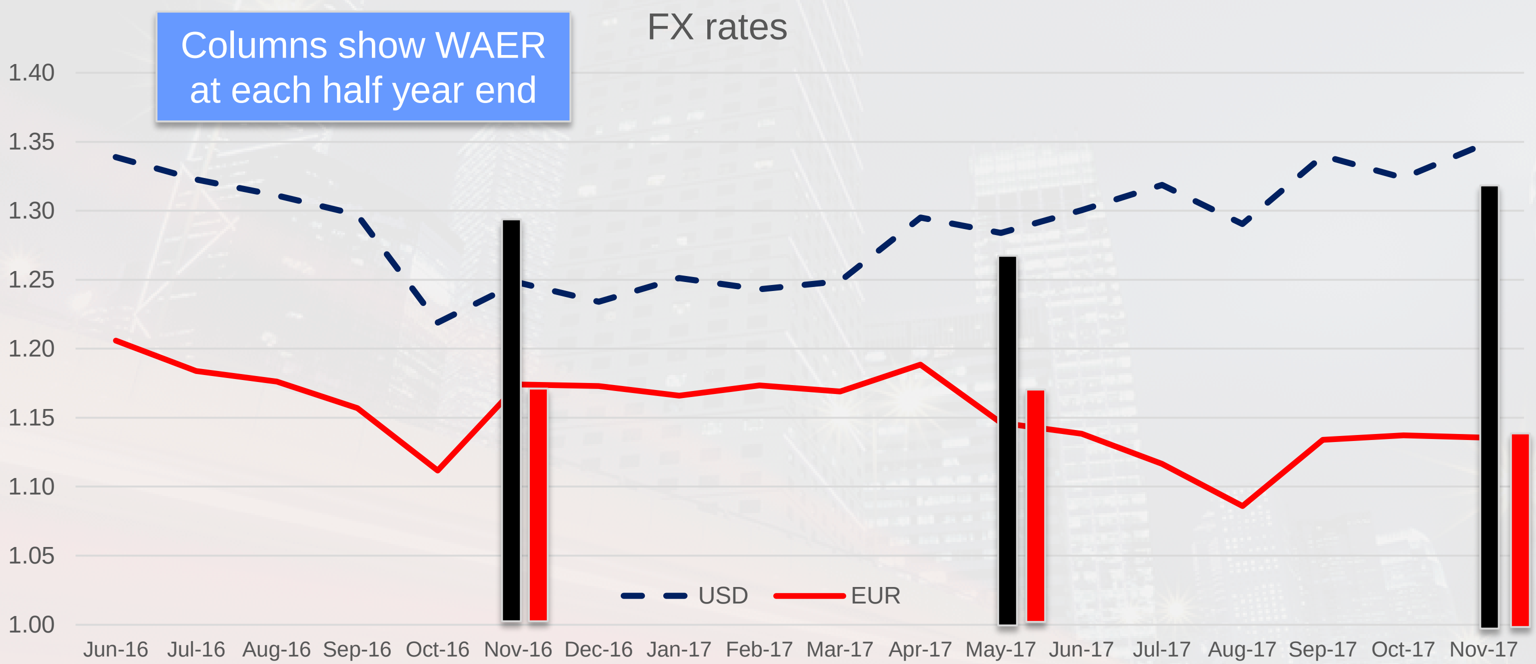
- The table shows the impact of treating Web, SWT and Domain as sold or held for sale businesses.
- Effectively all three are removed form the ‘gross’ P&L lines in each year and reported as a one line item of ‘net result’
- For NCC this year this is a very effective way of showing the ‘continuing business and eases narrative disclosures

Depreciation and amortisation charges

	H1 - 2018 £m	H1 - 2017 £m
Adjusted EBIT	14.1	16.2
Amortization of capitalized development costs	2.8	1.6
Depreciation of PPE	3.1	2.4
Adjusted EBITDA	**20.0**	**19.8**
Amortisation of acquired intangibles	4.9	5.1
Total D&A	**10.8**	**8.7**

- Increases in 2018 in amortisation of capitalised development costs reflects full year charges, new products entering service and the impairment of some smaller assets (£0.7m)
- Higher software amortisation reflects more of the Group's central ERP system in deployment (e.g. in Escrow UK) and the full year impact of capital spend in the prior year
- Depreciation increased as a direct result of a number of office moves (current and prior years)

Foreign exchange rates



- Compared to H1 PY, the six month average FX rate: US$ weakened by 2.4% whereas the €uro appreciated by 3.7%
- The chart shows the month end rates in each case (used to create the weighted average rate used in the accounts)
- As noted earlier, the net translation impact resulting from these moves when overlaid with the Group's mix of trading currencies, was effectively neutral

Free cash flow and cash conversion ratio

	H1 - 2018 £m	H1 - 2017 £m
Net cash from operating activities	14.7	12.2
Net capital expenditure	(6.0)	(3.6)
Capitalised development costs	(2.5)	(4.3)
Free cash flow	**+6.2**	**+4.3**

- NCC systems do not currently capture ‘discretionary’ vs ‘maintenance’ capex
- There will now be a reduction in capex following completion of the Manchester HQ building

	H1 - 2018 £m	H1 - 2017 £m
Net cash from operating activities	14.7	12.2
Adjusted EBITDA	20.7	21.2
Cash conversion ratio	**71.0%**	**57.5%**
Exclude capitalized development costs from EBITDA	23.2	25.5
Alternative cash conversion ratio	**63.4%**	**47.8%**

Working capital

Sales WC assets	H1 - 2018 £m	H1 - 2017 £m
Accrued income	19.2	23.8
Trade debtors	39.1	44.5
‘Sales’ working capital	**58.3**	**68.3**
Annualised* Q2 sales	**270.2**	**260.8**
Sales WC %	**21.6%**	**26.2%**

* Annualised calculated using reported Q2 sales. CY includes Web and Software Testing (held for sale but included in asset values). PY includes Domain as not sold then

- Accrued income fell as a result of improved billing processes and disciplines as well as the impact of sale of Open Registry in H2 PY (£2.8m)
- Trade debtors cut by £5.4m with over dues still high at 42% (cut 10% vs May 17)
- Deferred income fell from £35.1m to £32.2m largely due to selling Open Registry
- Significant value and process improvement opportunities remain across all aspects of working capital management