NCC Group plc

Full Year Results

for the year ended 31 May 2018

17 July 2018

Agenda

CEO overview	**Adam Palser** **Chief Executive Officer**
Financial performance	**Brian Tenner** Chief Financial Officer
Strategy update	**Adam Palser** Chief Executive Officer
Current trading & outlook	**Adam Palser** Chief Executive Officer
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CEO Overview

Strong Foundations	• Attractive market place, excellent client base • Full range service offering • Highly skilled and dedicated people
Good Progress	• Double digit growth maintained • Reversed GM% compression from prior years • Significant improvement in free cash flow
Legacy Challenges	• Highly transactional business model • Weak internal systems and processes • Further GM% gains rely on process improvements
Securing Growth Together	• Transformation Programme investment launched Q4 2018 • ‘Win Business’ and ‘Deliver Business’ • Enabled by people development and process changes

Financial highlights – continuing operations

Revenue (£m) *(2017: £215.3m)* £233.2m	**Adjusted EBIT (£m)** *(2017: £25.5m)* £31.0m	**Free Cash Flow (£m)** ***(2017: £13.7m)*** £20.4m
Assurance organic growth[*1] *(2017: £167.3m)* +13.8%	**Assurance GM%** *(2017: 28.9%)* +5.3%pts	**Cash conversion ratio (%)** *(2017: 87%)* 90%
Escrow organic growth[*1] ***(2017: £37.8m)*** +2.7%	**Escrow GM%** *(2017: 71.8%)* +4.5%pts	**Net Debt (£m)** *(2017: £43.7m)* £27.8m

Sales momentum maintained, margin declines reversed, cash generation improving

***1 Underlying growth excluding FX, acquisitions, disposals, product exits, and PY revenue correction in Escrow**

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Financial Performance: Income Statement

Continuing operations	**2018 (£m)**	**2017 (£m)**
Revenue	233.2	215.3
Cost of Sales	(137.1)	(137.1)
Gross Margin	96.1	78.2
Gross Margin %	*41.2%*	*36.3%*
G&A	(53.6)	(45.2)
D&A	(11.5)	(7.5)
Adjusted EBIT	**31.0**	**25.5**
Adjusted EBIT Margin %	*13.3%*	*11.8%*
Adjusting items	(17.3)	(68.4)
Reported EBIT	13.7	(42.9)
Financing costs	(1.8)	(1.9)
Taxation	0.5	(1.1)
Loss after tax - discontinued	(5.5)	(10.7)
Profit / (Loss) after tax	**6.9**	**(56.6)**
Adjusted EPS (pence)	**8.3p**	**6.2p**

- Revenue growth mainly organically driven across all Assurance Division geographies
- GM% recovered strongly in all business units – headcount control and utilisation advances
- G&A cost increases largely committed in prior year (people £3.5m and offices £1.8m)
- D&A increases from new offices capex and strategic review of capitalised projects
- Adjusting items detailed overleaf – significantly reduced on prior year
- Tax - benefit from US federal rate cut, Adjusted Effective Tax Rate 22.4%
- Adjusted EPS growth 34% from organic factors plus ETR leverage

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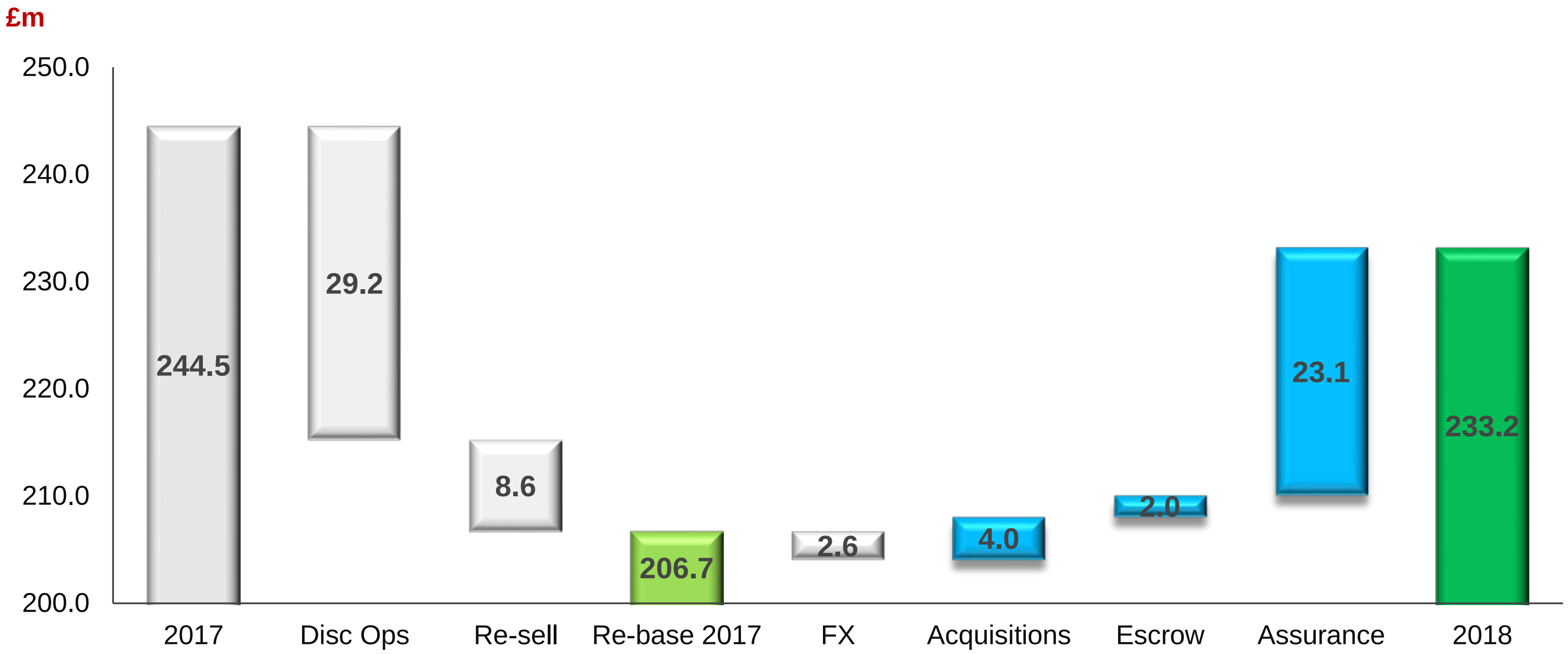
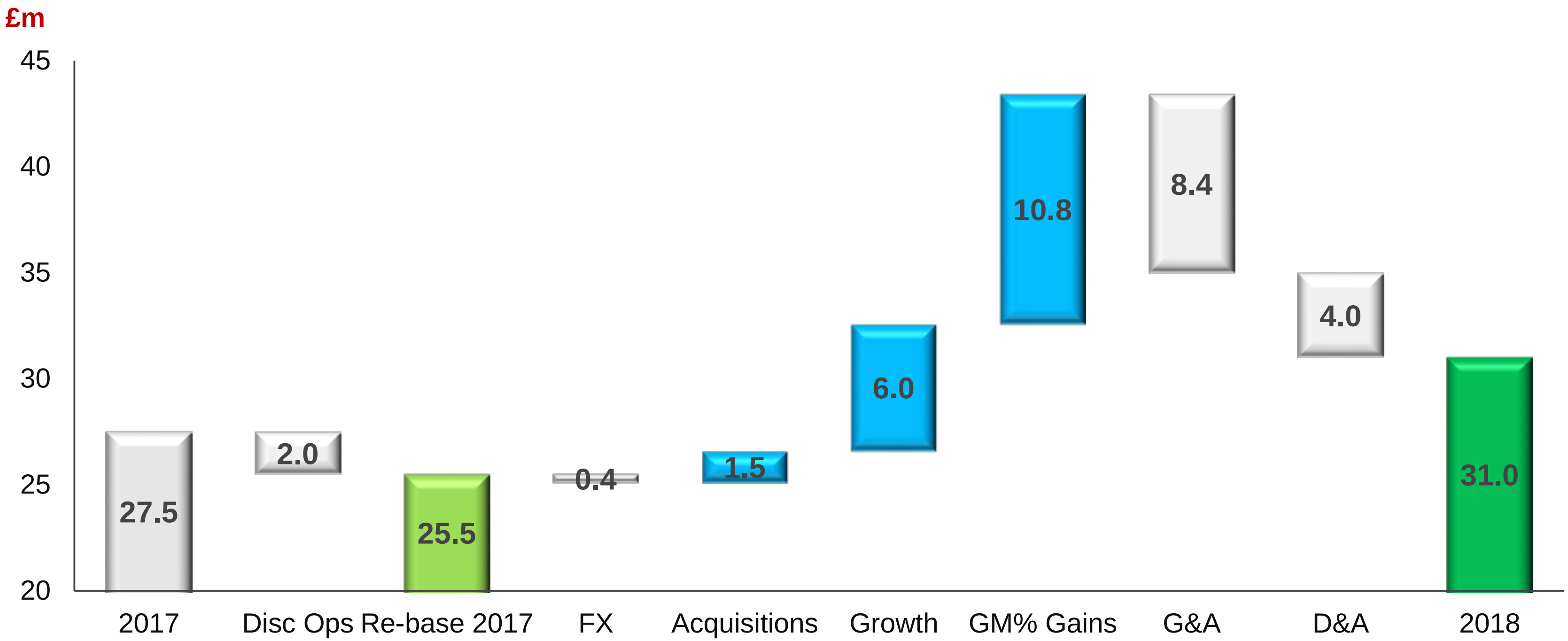
Financial performance: Revenue bridge



- Assurance division delivered strong organic growth across all territories (+13.8%)
- Escrow growth includes prior year correction impact – organic growth £1.0m (+2.7%)
- Discontinued operations: Web Performance, Software Testing and Domain Services
- Fall in 3rd party re-selling represents completion of plan to de-emphasise non-value added sales

Financial performance: Adjusted EBIT bridge



- Impact of Growth on EBIT is based on organic growth x PY Gross Margin%
- GM% up 4.9% points, reversing a trend of several years (prior year alone had a fall of 3.6%)
- G&A increase in most expense types – support staff £3.5m and property costs £1.8m
- D&A increase reflects full year charges on various properties and systems, one-off £1.5m, risk based write down of capitalised products following the strategic review and shorter asset lives £0.4m p.a.

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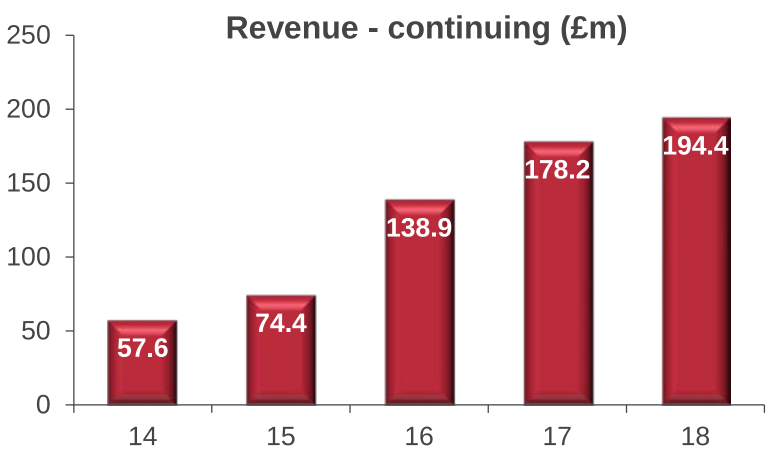
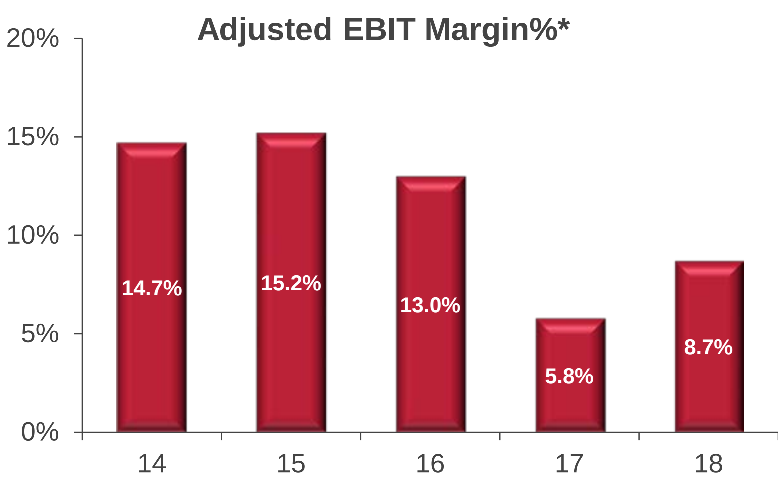
Financial performance: Assurance performance



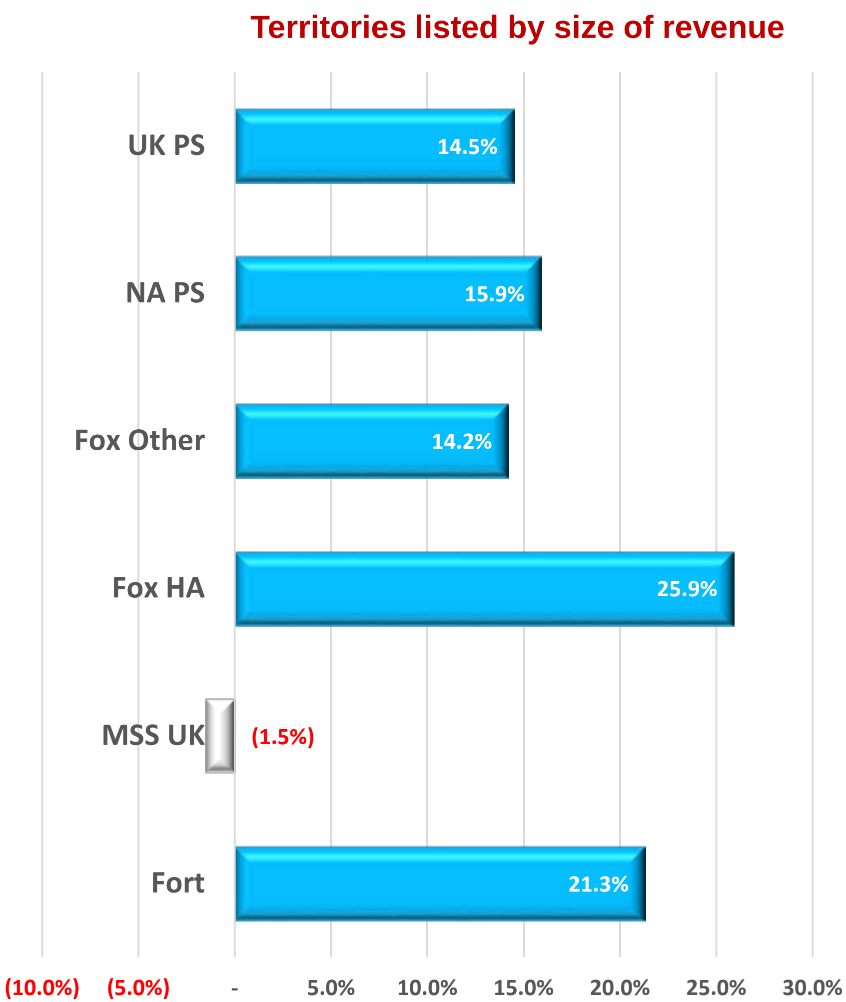


- Sales growth in all territories – 9.2% on a reported basis, 13.8% on an organic basis (see over)
- GM% grew by 5.3% pts – high incremental margin delivered by improved utilisation
- Overhead increases from staff, property and D&A – a mix of legacy and investments
- Loss making contract provision in Fox. Broader efficiency challenges - no profit gain from growth
- Delivered previous short term goal to re-build GM%

Assurance (continuing ops, CY FX)	**2018 (£m)**	**2017 (£m)**
Revenue	194.4	178.2
Gross profit	66.5	51.5
GM%	**34.2%**	**28.9%**
Adjusted EBIT	17.0	10.4
Adjusted EBIT Margin	**8.7%**	**5.8%**

* 2014 – 2016 estimates based on updated central cost allocation to match 2017 & 2018)

Assurance organic revenue growth rates 2018



- Professional Services (PS) businesses growing well in all territories, UK, US, Fox and Fort
- UK benefit from 26.2% growth in higher value added Risk Management & Governance
- Strong customer led demand in US with growing specialisms such as hardware
- Fox other includes MSS, built on CTMp technology, growing at >20% p.a.
- Fox High Assurance welcome recovery with improving prospects from key customers
- MSS UK suffered from major team changes and re-organisation, focus now on return to growth (commercial launch of Fox CTMp technology)
- Fort in Denmark and Nordics successfully leveraging Group delivery capability

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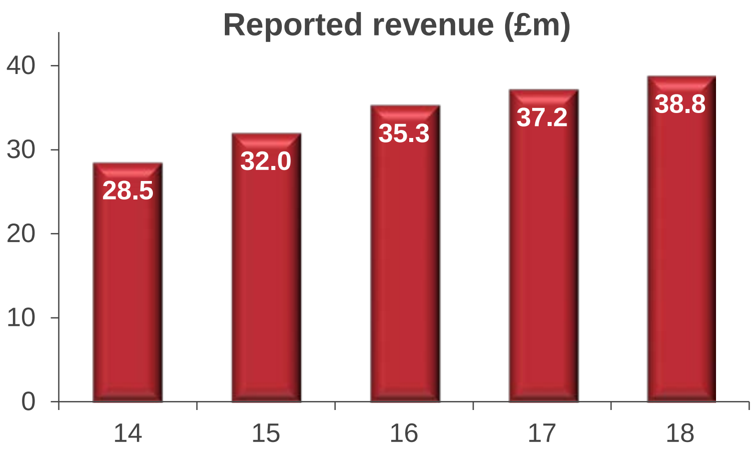
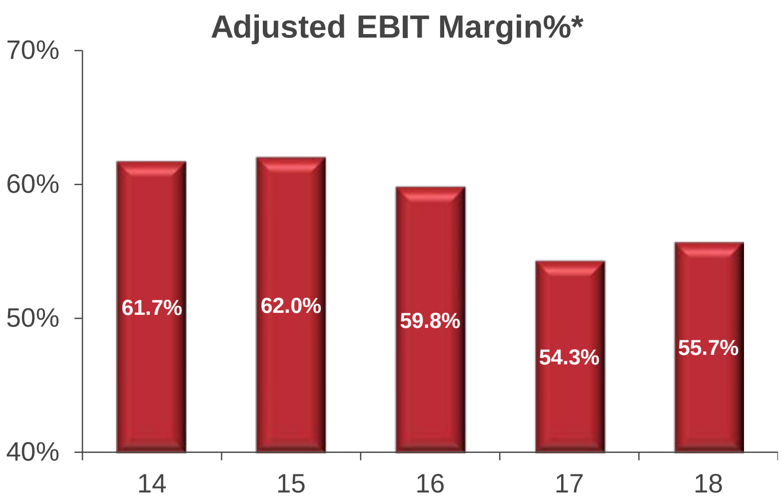
Financial performance: Escrow performance





- Growth flattered by one off reduction in 2017 from revenue recognition correction – now normalised
- Organic growth 2.7% with US flat excluding weaker FX rates (reported revenue down 5.1%)
- Renewal rates remain firm at 89% (2017: 89%)
- GM% gains from control of direct costs and PY revenue correction partly offset by H2 investments
- Expanding capability and capacity in US to restore to growth

Escrow (continuing ops, CY FX)	**2018 (£m)**	**2017 (£m)**
Revenue	38.8	37.2
Gross profit	29.6	26.7
GM%	**76.3%**	**71.8%**
Adjusted EBIT	21.6	20.2
Adjusted EBIT Margin*	**55.7%**	**54.3%**

* 2014 – 2016 estimates based on updated central cost allocation to match 2017 & 2018)

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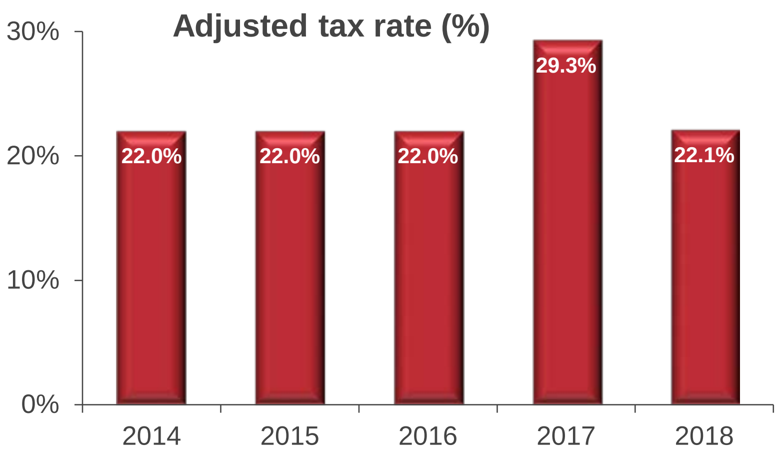
Financial performance: Individually significant items

Charges (continuing operations)	2018 (£m)	2017 (£m)
Loss making contract	2.5	-
Deferred/contingent consideration	0.6	2.9
Restructuring costs	1.6	1.3
Property costs	2.7	2.2
Market related costs	0.2	-
Goodwill impairments	-	48.6
Acquisition related costs	-	0.8
Vacation pay provision	-	1.8
Total	**7.6**	**57.6**

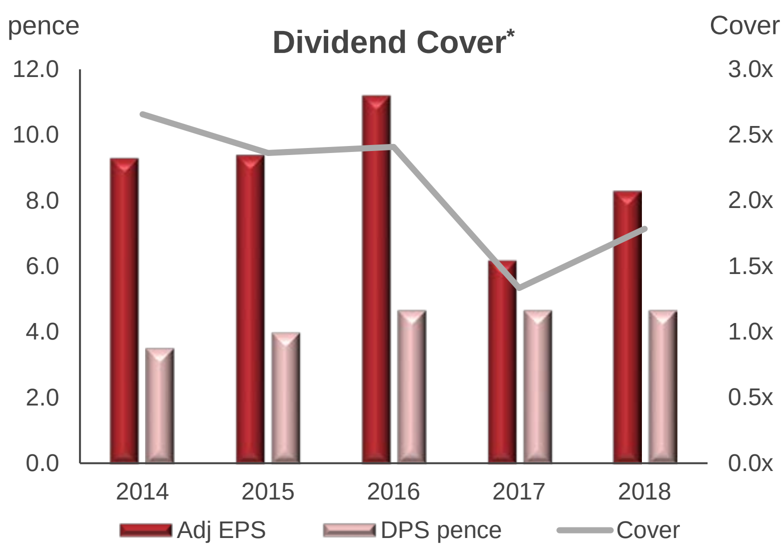
Of the current year charges, £4.1m have already been settled in cash with the balance of £3.5m to be settled in cash over a number of years)

- Much lower charges for Individually Significant Items in the current year
- Provision in Fox for loss making contract - £1.5m utilised this year
- FX changes to deferred and contingent consideration (Fox, PSC & VSR)
- Restructuring costs include consulting fees and charges for structural management changes arising from the Strategic Review
- Property costs include onerous lease provisions on two surplus vacant properties and pre-occupancy costs in Manchester HQ
- Market related costs from Shareholder Circular for historical dividend issue (Sept 17)

Financial performance: Tax and dividends



- Effective adjusted tax rate 22.4%
- Partial benefit from US Federal rate cut from 35% to 21% on 1 January 2018
- US R&D tax credit £2.5m cash benefit in short term – benefit excluded from Adjusted ETR
- Medium term goal to manage Group ETR to c.23%



- Maintaining total dividend at PY level
- Balancing the need to invest with early stages of recovery
- Final 3.15p giving 4.65p total
- Policy and coverage remain under review

* 2017 & 2018 Adjusted EPS and Cover based on continuing operations only

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Financial performance: Cash flow and net debt

Whole Group **(includes discontinued operations)**	**2018 (£m)**	**2017 (£m)**
Cash flow before working capital	**40.0**	**33.8**
Movement in working capital	(0.5)	(2.1)
Operating cash pre interest / tax	**39.5**	**31.7**
Net interest paid	(1.8)	(1.9)
Tax paid	(4.7)	(1.8)
Net cash from operations	**33.0**	**28.0**
Acquisitions/disposals (net)	6.1	(26.5)
Tangible capex (net)	(7.7)	(6.9)
Software capex	(2.5)	(3.7)
Capitalised development costs	(2.5)	(3.7)
Dividends	(12.8)	(12.8)
Share issue (SAYE)/Equity raise	1.5	0.7
FX	0.8	(6.1)
Change in net debt	**+15.9**	**(31.0)**
Closing net debt	**(27.8)**	**(43.7)**

- Gains from improved EBITDA and some early initial gains on working capital
- Working capital:
  - Faster billing of accrued income (aged cut £1.6m)
  - Improved trade debtor aging (current +7%)
  - Disposals adverse impact (NWC (£2.9m) FY 17)
- Tax prepayments fully utilised in PY
- Acquisitions / disposals – sale of Web & SWT, paid for Fox (£1.1m) and PSC / VSR (£2.0m)
- Tangible capex includes final Manchester fit out costs ~£4.0m - will not recur going forward
- Software capex ~50% maintenance (including licences) and ~50% on various projects
- Capitalised development costs – Fox £1.0m on CTMp which underpins NL & UK MSS
- Banking leverage falls two notches
- Fox deferred consideration £9.9m paid post balance sheet – no impact on banking leverage

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Strong foundations

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Offerings

- Escrow
- M&A Cyber DD
- Board coaching
- Risk & compliance
- Cyber resilience
- Software evaluation
- Hardware testing

Clients

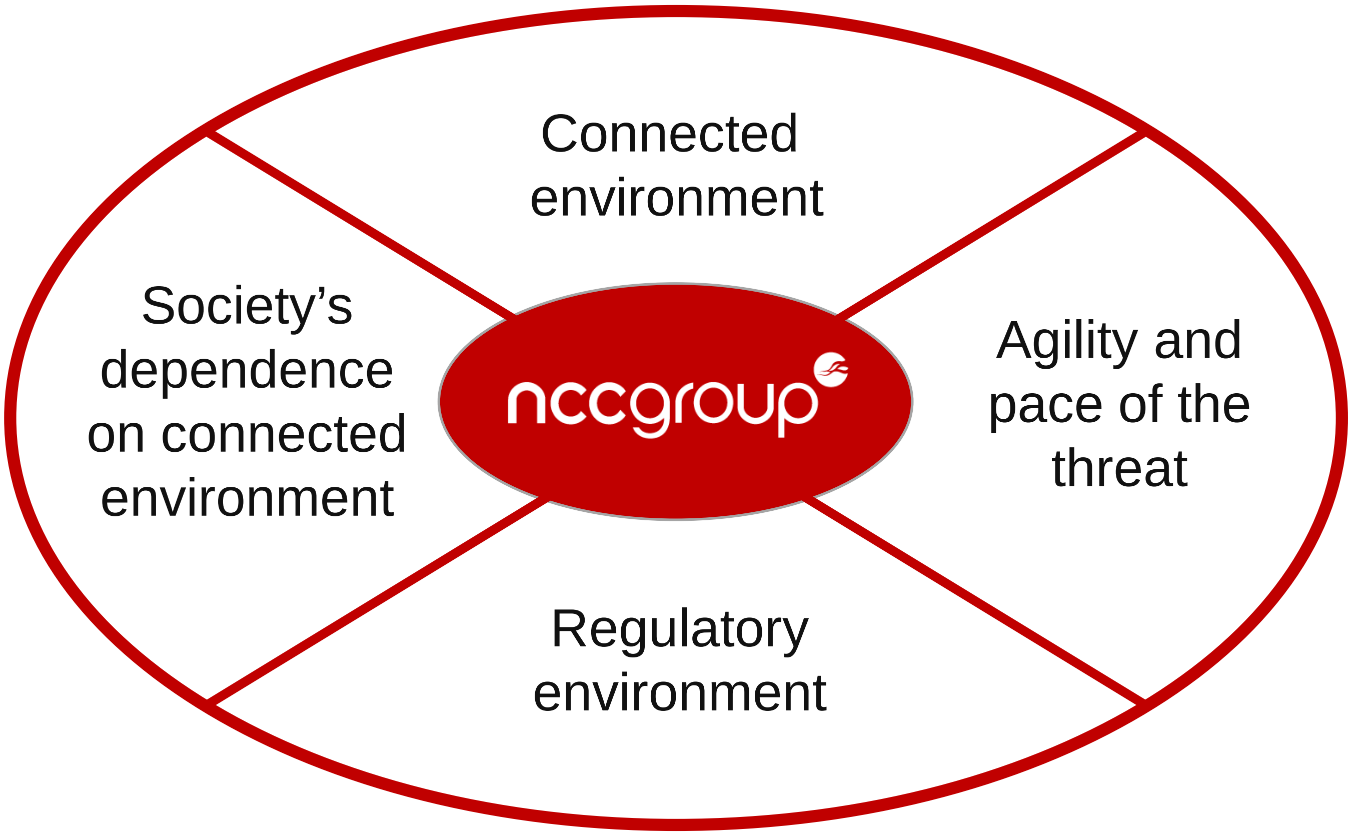
- >50% of FTSE 350
- Tech titans
- Banking giants
- Governments
- SMEs

Talented people

- >1600 people across 34 offices in 13 countries

Multiple sectors, geographies and technologies

Our Markets



Market dynamics continue to benefit NCC

Market and Legacy Challenges

Our markets	**Heavily invested**	**Competition for talent**
Our results	**Revenue v margin**	**Cashflow**
Our processes	**Complex processes**	**Old systems**

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From Today to the Future

May 2018 → May 2021

From: Recent Past	Enablers of Change	To: Future State
Business units working in silos	Transformation, strategy and communications	Shared purpose, clarity of vision and strategy
The best kept secret in Cyber	Client focus; value focus	Sector focused: Expert in our clients' business as well as expert in our own world of cyber security.
Transactional selling, chasing revenue at all costs	Relentless innovation	Margin <u>and</u> revenue growth, deeper client engagements
Sales and delivery disconnected	End-to-end client relationships and offerings	Teams working in collaboration to meet all client needs
Hindered by internal operations, weak systems & processes	Integrated working practices, processes, and systems	Freeing people from non value adding work
Poor and under invested talent development and management	Strategic HR and people development	The most exciting place to work in cyber to learn, innovate and make a difference

Building on strong foundations

The ***leading*** cyber security advisor globally. Trusted to protect our customers' ***critical assets.*** Sought-after for our complete ***people-led, technology enabled*** cyber security solutions that enable individuals, businesses & society to **thrive.** **Our heart is in our space.**

Rewarding careers | Shareholder Value | Client Impact

Win Business | Deliver Business | Support the Business | Develop Our People

Securing Growth Together

Our Markets | Our Clients | Our Offering | Our People

Investment Foundations

Our self-help programme: Securing Growth Together

Win Business	• Designed to increase the quality and quantity of orders • Skills development: Value-selling; sales academy underway • Sector focus: becoming expert in the world of our clients • Investment in research & innovation to lead the market
Deliver Business	• Designed to leverage global delivery capability / capacity • Consistent ways of working: “One firm, one way.” • Single planning and delivery management system • Exploring options for automation
Support the Business	• Designed to support the front-line • Standardised and optimised ways of working • Integrated processes and systems for ‘one touch only’ • Two years to deliver benefits, investment opex (£3.0m – £4.0m p.a.)
Develop Our People	• Designed to attract, nurture & retain talent • Consistent leadership development • Graduate / Apprentice scheme • NCC Academy to promote Technical & Commercial excellence

Strengthening the Leadership

New appointments:

- Tim Kowalski appointed as CFO: starting 23rd July

- Global Operations Director: started 2nd March
- New MD of Fox-IT: appointed 1st June (internal appointment)
- Group Sales & Marketing Director: started 1st July
- North American HR VP: started 16th July

Recruitment in-progress:

- Chief People Officer

Strategy Update: Assurance

"The **leading** cyber security advisor globally. Sought-after for our complete **people-led, technology enabled** cyber security solutions that enable individuals, businesses & society to **thrive."**

Our goal: continued double-digit growth, steady margin improvement, improved cashflow.

Strategic priorities:

- Increase global capacity and reach
  - Attract and retain talented people
- Increase recurring revenues
  - Launch co-ordinated global Managed Detection and Response business
- Increase margin and reduce cost of sale
  - Deepen client relationships through sector focus and upskilling
- Maintain leading technical edge
  - Continue to invest in research and systematically building out capabilities.

Strategy Update: Escrow

"Trusted to protect our customers' ***critical assets."***

Our goal: To return Escrow to confident growth (> GDP growth).

- Closer co-ordination with Assurance to share leads and opportunity
- Significant investments in USA – experienced and capable UK sales and delivery people seeding the local offices
- Re-location of Divisional MD to the US is a signal of our intent
- Strategic priorities
  - ➢ Maintain our market leading position in the UK
  - ➢ To continue to develop evolving solutions for customers in a SaaS & cloud based world
  - ➢ To build on our scalable capability in the US
  - ➢ To explore opportunities for collaboration with the Assurance
  - ➢ To begin to grow our stable European operations

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Strategy summary

- Strategic alignment process building on last year's strategic review
- Shaping the firm to focus on capturing and delivering value for clients
- Closer working between Escrow and Assurance divisions
- Launch of co-ordinated global Managed Detection and Response business
- Securing Growth Together programme launched:
  - Engaging the entire firm in a self-help programme
- Investments of £3-4 million p.a. for the next two years including:
  - Around £1 million in Escrow to support growth
  - Sales transformation
  - Investment in skills
  - Installation of upgraded systems and ways of working

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Summary and outlook

- Markets continue to grow and provide opportunity for continued double digit revenue growth in Assurance
- Intent to grow EBIT% by around 1% pt per year over the next two years
- 2019 & 2020 Opex dilution from investments of £3-4 million required in
  - ‘Securing Growth Together’ transformation programme
  - Investing in overseas sales and delivery capability to return Escrow to confident growth
- Further GM% gains closely linked to transformation programme outcomes over the next two years
- Goal to improve free cash flow to self fund investments and future potential bolt-ons
- To deliver continuing growth in Adjusted EBIT in line with the Board’s current expectations

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Financial Performance: Impact of IFRS 15

Revenue impact

≈ (£0.2m)
(0.09%)

Adjusted EBIT impact

≈ (£0.2m)
(0.6%)

Closing reserves

≈ (£0.2m)
(1.6%)

- Group revenue derives from two principle sources:

1. Professional services (74% 2018 revenue)
   - ✓ Each Statement of Work already treated as a separate performance obligation (no unbundling)
   - ✓ Revenue already recognised on work done basis
   - ✓ T's & C's allow recovery if job cancelled
   - ✓ No material impact from IFRS15
2. Managed / Escrow services (22% 2018 revenue)
   - ✓ Revenue already spread over period of service
   - ✓ T's & C's allow recovery if service halted
   - ✓ No material impact from IFRS 15
3. Set up and initial / up front fees requiring spreading (~4.0% of total revenue from 1 and 2 above)
   - ✓ IFRS15 requires spreading with service
4. Product sales unchanged (4.2% of 2018 revenue)

Financial performance: Non-GAAP Reconciliation

Continuing operations only	2018 (£m)	2017 (£m)
Adjusted EBITDA	42.5	33.0
Depreciation of tangibles	(6.2)	(4.9)
Amortisation of intangibles	(5.3)	(2.6)
Adjusted EBIT	**31.0**	**25.5**
Share based payments	(0.3)	(0.5)
Amortisation acquired intangibles	(9.4)	(10.3)
Individually significant items	(7.6)	(57.6)
Reported EBIT / (LBIT)	**13.7**	**(42.9)**

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Financial performance: Balance sheet

	2018 (£m)	2017 (£m)
Intangible assets	240.0	267.6
PPE	19.4	18.3
Investments	0.4	0.4
Inventory	0.8	1.1
Trade and other debtors	67.5	66.7
Trade creditors and Deferred income	(64.7)	(65.3)
Net working capital	**3.6**	**2.5**
Tax payable	(1.3)	(3.0)
Provisions	(8.9)	(5.0)
Net deferred tax liabilities	(5.3)	(10.0)
Deferred/contingent consideration	(11.9)	(15.0)
Net debt	**(27.8)**	**(43.7)**
Net assets	**208.2**	**212.1**

- Fall in intangibles from disposals (£15.6m) and amortisation charges (£14.9m) offset in part by additions of £5.0m
- Net working capital small increase
  - Underlying revenue growth
  - Disposals had negative working capital FY17 of £2.9m
  - Improved aging of debtors & accrued income
- Provisions increase from onerous leases and loss making contract
- Fox final deferred payment £9.9m paid post year end. Expect to pay final PSC and VSR contingent consideration in full FY 19
- Deferred tax liability fall driven by cut in US Federal tax rate
- Decrease in net debt reflects strengthening free cash flow

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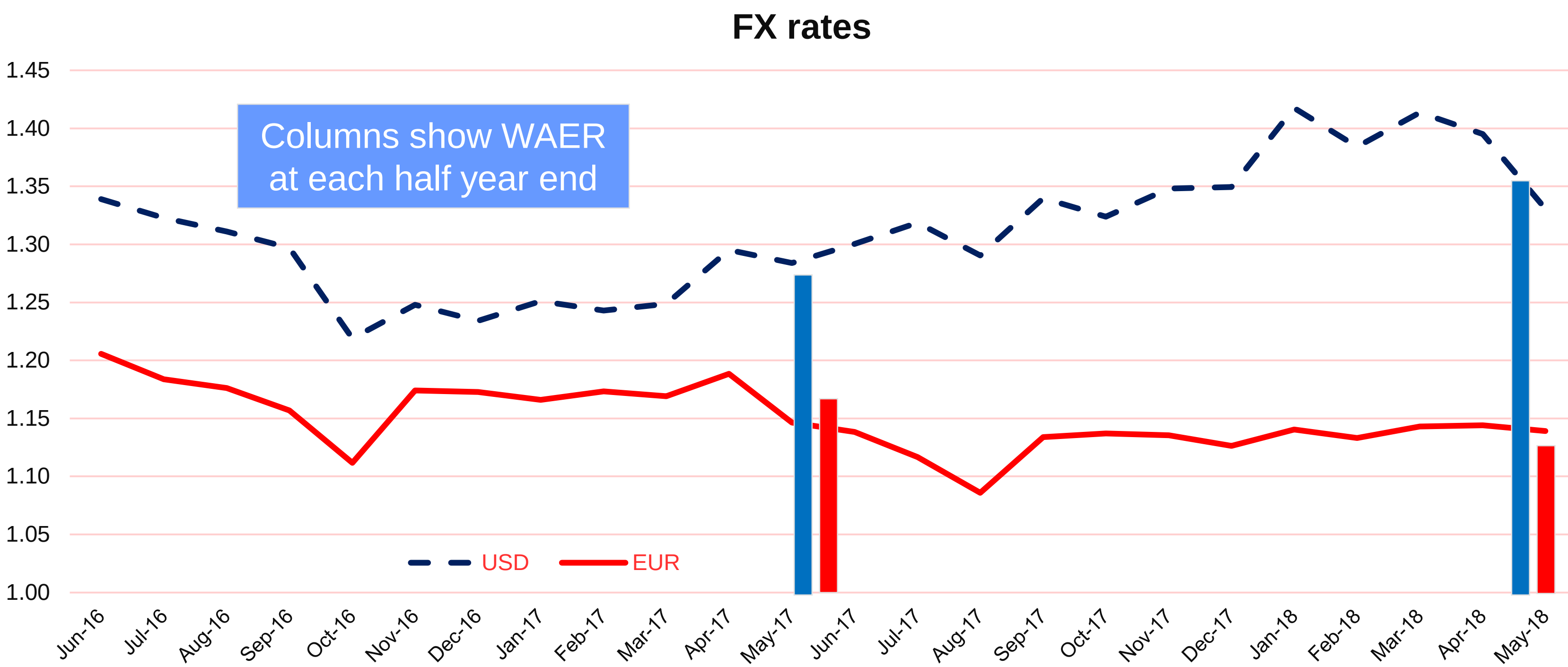
Foreign exchange rates



- Compared to PY, average FX rates: US$ weakened by 6.1% whereas the €uro appreciated by 3.2%
- Chart shows the month end rates in each case (used to create the weighted average rate)
- As noted earlier, the net translation impact resulting from these moves when overlaid with the Group's mix of trading currencies reduced revenue by £2.6m and adjusted operating profit by £0.4m

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