

K3 BUSINESS TECHNOLOGY GROUP

SOFTWARE & COMPUTER SERVICES

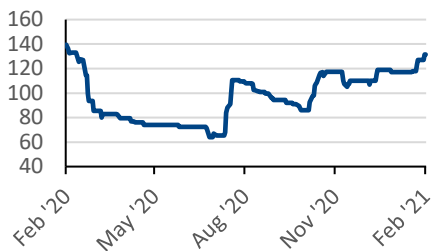
26 February 2021

KBT.L

132p

Market Cap: £56.5m

SHARE PRICE (p)



12m high/low 137p/64p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£(2.3)m (at 30/11/20)
Enterprise value	£58.8m
Index/market	AIM
Next news	Finals, 30 Mar 2021
Shares in Issue (m)	42.9
Chairman	Tom Crawford
Chief Executive	Adalsteinn Valdimarsson
Finance Director	Rob Price

COMPANY DESCRIPTION

K3 is a leading global supplier of integrated business solutions to retailers, manufacturers and distributors.

www.k3btg.com

K3 BUSINESS TECHNOLOGY GROUP IS A RESEARCH CLIENT OF PROGRESSIVE

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Disposal underlines focus on core growth

As K3 continues to hone its focus on higher margin core businesses, it has announced the sale of its managed services unit, Starcom Technologies, to Node4 Ltd for £14.7 million in cash (including £0.5m of cash on the balance sheet). The disposal will give K3 a profit in excess of £10 million in the Group's current financial year (FY 2021E), and further accelerates the strengthening of its balance sheet. We estimate that Group revenues will be more than 70% sourced from outside the UK following this sale of K3's UK managed services business. The disposal will provide management with the opportunity to concentrate its focus on the K3 | imagine platform and Own IP sales together with Global Accounts – both of which proved to be resilient during K3's financial Q2 2020 which was affected by COVID-19.

- K3's managed services business was focused on helping customers to get the most from their IT infrastructure and included application hosting, infrastructure support and remote monitoring and security solutions. Starcom will continue to provide K3 and its customers with managed services for at least three years following the disposal.
- In the unaudited results of the financial year to 30 November 2020, Starcom generated £10.2 million in revenues and pre-tax profits of £1.2 million. Its net assets at that date were £2.5 million. Managed services was the only business segment that saw margins reduce in H1 20 compared to H1 19. K3's £10 million profit will be accounted for as an exceptional item in FY 2021E.
- K3 has previously said that net bank debt was at its annual seasonal high point at the end of September 2020, standing at £6.2 million. As anticipated, cash balances subsequently grew strongly during the October 'renewal' season. This, together with HMRC deferrals of £2.0 million (which will unwind in 2021), saw net debt (including shareholder loans of £3.0 million) at £2.3 million at the end of November 2020. The disposal proceeds significantly strengthen K3's balance sheet further.

K3's management team continues to drive the focus of the Group towards a more own-IP rich business with this disposal following its exit from the UK Dynamics operation last year. We wait to hear more on the evolving strategy and performance of the divisions at the upcoming results announcement.

Note: (I) FY2016 is a June year end; (II) FY2017 is 17 months to November 2017

FYE NOV (£M)	2016(I)	2017 (II)	2018	2019
Revenue	89.2	118.2	83.3	78.4
Adj EBITDA	12.8	2.5	8.1	7.3
Fully adj PBT	8.8	-3.0	4.0	1.0
Fully adj dil EPS (p)	22.9	-7.7	6.8	-6.6
EV/Sales (x)	0.7x	0.5x	0.7x	0.7x
EV/EBITDA (x)	4.6x	23.8x	7.2x	8.1x
PER (x)	5.7x	N/A	19.3x	N/A

Source: Company Information and Progressive Equity Research estimates

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Please refer to important disclosures at the end of the document.

Financial Summary: K3 Business Technology Group

Year end: November (£m unless shown)

	2016(i)	2017 (ii)	2018	2019
PROFIT & LOSS				
Revenue	89.2	118.2	83.3	78.4
Adj EBITDA	12.8	2.5	8.1	7.3
Adj EBITA	9.5	(1.7)	4.6	1.8
Reported PBT	4.5	(16.1)	0.0	(14.5)
Fully adj PBT	8.8	(3.0)	4.0	1.0
NOPAT	7.8	(1.4)	3.9	1.5
Reported EPS (p)	12.3	(35.3)	(1.1)	(36.1)
Fully adj dil EPS (p)	22.9	(7.7)	6.8	(6.6)
Dividend per share (p)	1.8	1.4	1.5	1.7
CASH FLOW & BALANCE SHEET				
Operating cash flow	5.5	5.9	8.2	5.8
Free Cash flow	(2.0)	(3.1)	3.4	(0.5)
FCF per share (p)	(6.0)	(8.2)	7.9	(1.1)
Acquisitions	(7.4)	(1.0)	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Shares issued	13.2	8.4	0.0	0.0
Net cash flow	3.8	4.3	3.4	(0.5)
Overdrafts / borrowings	(11.6)	(6.2)	(10.2)	(10.6)
Cash & equivalents	2.8	1.9	9.6	8.2
Net (Debt)/Cash	(8.9)	(4.3)	(0.6)	(2.4)
NAV AND RETURNS				
Net asset value	73.4	69.7	69.0	49.3
NAV/share	203.9	161.1	160.6	114.7
Net Tangible Asset Value	2.4	2.5	2.3	2.1
NTAV/share	6.6	5.7	5.4	4.9
Average equity	74.4	80.6	78.1	68.0
Post-tax ROE (%)	10.5%	(1.7%)	5.0%	2.2%
METRICS				
Revenue growth	6.9%	32.5%	(29.5%)	(5.9%)
Adj EBITDA growth	17.0%	(80.7%)	228.5%	(10.6%)
Adj EBIT growth	18.0%	(90.7%)	558.5%	(34.7%)
Adj PBT growth	21.8%	(134.3%)	(231.9%)	(75.5%)
Adj EPS growth	19.7%	(133.6%)	(188.6%)	(196.8%)
Dividend growth	16.7%	(20.0%)	10.0%	7.1%
Adj EBIT margins	10.7%	(1.4%)	5.6%	2.3%
VALUATION				
EV/Sales (x)	0.7	0.5	0.7	0.7
EV/EBITDA (x)	4.6	23.8	7.2	8.1
EV/NOPAT (x)	7.5	-42.7	15.1	38.4
PER (x)	5.7	N/A	19.3	N/A
Dividend yield	1.3%	1.1%	1.2%	1.3%
FCF yield	(4.6%)	(6.2%)	6.0%	(0.9%)

Source: Company information and Progressive Equity Research estimates

Note: (i) FY2016 is a June year end; (ii) FY2017 is 17 months to November 2017

Disclaimers and Disclosures

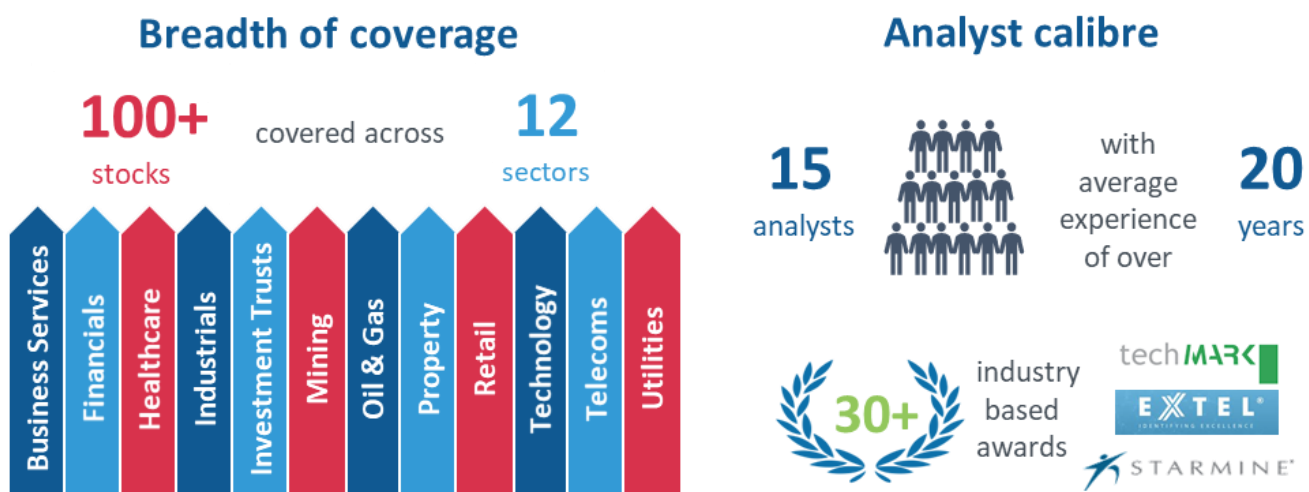
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