

Noventiq

Q3 FY2022 Trading Update

Conference Call Transcript

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Corporate Participants

Sergey Chernovolenko – Chief Executive Officer

Hervé Tessler – President & Chief Operating Officer

Burak Ozer – Chief Financial Officer

Steve Salter – Global VP Investor Relations

PRESENTATION

Steve Salter:

Thank you, and good morning everyone... We hope you've had an opportunity to review a copy of the press release and supporting materials for our third quarter 2022 trading update... these are all available in the investor relations section of Noventiq.com.

I am joined on the call today by our Chief Executive Officer, Sergey Chernovolenko, and our Chief Financial Officer, Burak Ozer. Sergey will provide an update on the highlights of our third quarter 2022, followed by a business update, and review of our growth strategy. Burak will provide an update on our Q3 financials, as well as our business outlook for the full financial year. We will also have time for Q&A at the end of the presentation.

As a reminder, some of our comments today may contain forward-looking statements that are based on assumptions and therefore subject to risks and uncertainties that could cause the actual results to differ materially from those projected. Our commentary will also include adjusted financial measures, which are non-IFRS measures. These should be considered as a supplement to and not a substitute for IFRS financial measures.

Now let me turn the call over to Sergey.

Sergey Chernovolenko:

Thank you, Steve, and good morning everyone, thank you for joining us today on our Q3 trading update.

I am incredibly pleased with the results we have delivered again this quarter, with outstanding growth and continued momentum across the business. Our growth strategy is resonating, and I am pleased to say that we will be increasing all elements of our business outlook for the full FY2022.

The highlights of the third quarter are consistent with our prior period performance, our priorities, and we have delivered on our commitments.

We delivered very significant constant currency turnover growth of 57% in Q3 which was above our expectation, and I am particularly pleased with the broad-based strength across all of our regions. Our turnover of \$1.1 billion for the three quarters so far this year is close to the total we delivered for the whole of the prior year FY2021.

Gross profit growth in Q3 was also incredibly strong, growing at 82% in constant currency, and was well ahead of revenue, which is one of our on-going objectives

Once again, this growth is driven by the disciplined execution of our strategic priorities. I am particularly pleased with key areas such as Services, where turnover grew nearly 200% in Q3... which now accounts for 54% of gross profit year to date.

In parallel to the strong operational metrics, we have continued to transform our business with discipline at unprecedented pace and scale... investing for future growth. These investments include our people, training, motivation and retention... customer engagement and marketing activities... continued

diversification into Services ... expanding our sales coverage... enhancing corporate governance... investing in systems such as CRM, ERP and digital platforms... and expanding into new geographies. For example:

We have more than doubled our workforce since Q3 last year, and we are investing in our talented people, who represent a strong differentiator in our market. We have increased our headcount by 177% in Services, which includes acquisitions, and this is one of our key strategic growth areas. We have a special focus to support business synergies across growing teams under the ONE NOVENTIQ theme.

We have opened E-Commerce on line stores in Vietnam, Poland, Turkey, and the Czech Republic, which increases our digital activity and expands customer reach

Noventiq is one of just a few globally managed Microsoft partners, and we continue to expand and enhance our capabilities, partnering to accelerate growth in many more markets around the world.

We have been investing in innovation and expanding our relationships with partners such as AWS, Apple, Google, Adobe, and Oracle.

With all of these partners, we are driving forward with digital transformation, multi-vendor, multi-cloud, Services, and cyber-security... bringing our global expertise, with local outcomes

We continue to broaden our diversified geographic footprint, and we have expanded into 8 new countries so far in FY2022. We have continued to roll out our Global delivery strategy with the onboarding & integration of the Philippines, Cambodia & Egypt into our regional delivery centre in India and Peru into our Latin American regional delivery center

Acquisitions are an important component of our growth strategy, and we have announced 7 transactions since the beginning of the year, including 3 in Q3. These further enhance our skills, capabilities and geographic expansion. We are also expanding these capabilities across other geographies – and this will also fuel organic growth. These 7 companies brought strong business diversity to our GP portfolio and thousands of new customers across multiple countries.

An example of this is in India where there is a large total addressable market with 27,000 Independent Software Vendor's. Through our acquisition of G7CR headquartered in Bangalore, and our marketing activity, we are working on a special program where we have a route to increase activity with these Digital native customers, as we expand in India and beyond. We have achieved all of this without any distraction.

Above all, I'd like to thank all of our nearly 5,900 talented professionals who have driven these incredible achievements with a laser focus on driving our business forward and delivering for our customers.

For those that don't know our business so well, Noventiq delivers digital transformation, not just the technology to achieve it.

Vendors are focused on their products -- on delivering new features and offerings, but they need help with the final mile to reach their customers on a global level.

Customers, on the other hand, are mainly concerned with business outcomes. And there's no single product that solves all of their issues. These products need to be properly dimensioned, acquired, deployed and supported. Users need to be trained and educated as well. And customers often struggle with accessing talent and scaling their internal IT function to meet their requirements.

Noventiq bridges this gap. We draw upon our extensive knowledge and experience to deliver the right horizontal and vertical solutions. We deploy in our customer's existing technology environment, and provide support. We also help with the management of change, and we build a commercial construct that connects the two worlds.

We also have our own platforms which simplifies complex procurement processes. We can manage software and cloud subscriptions, and look after multi-cloud infrastructure. We serve as a partner to hundreds of technology vendors worldwide and we partner with our customers to help drive their digital transformation.

We have a strong heritage and experience of more than 25 years of deep technology experience.

We have a strong track record of growth, and FY2022 is no exception, where in the first nine months, we have delivered constant currency growth of 49% in turnover, and 73% Gross Profit.

We have huge ambition - we are already at scale, operating in 60 countries. We have the right recipe for growth, as we continue to leverage global relationships to deliver local outcomes for our customers all around the world.

Our consistent strategy for growth is resonating, and our results are an illustration of its success. Our strategy consists of three dimensions... geographic expansion... portfolio expansion... and sales channel expansion. Our results in Q3 demonstrate strength with our existing geographies, as well as good progress into new markets. I am pleased with the continued expansion of our portfolio, as demonstrated by the particular strength in Services, which now represents 11% of turnover, driving 54% of Gross Profit. And we continue to benefit from our investments in our own platforms and optimizing our sales engine to increase the efficiency of our sales process.

Let me illustrate these strategic dimensions based on what we have been delivering for our customers...

In Vietnam, we are helping one of the largest financial companies, F88, together with AWS and our cloud experts from Umbrella Infocare, to deliver services to help secure the customer systems and optimize costs. Under the long-term contract, we will deliver AWS deployment optimization and management services for all of its customer's users, and our work includes advanced services and security.

We are working with Techcombank, one of the leading banking institutions in Asia. With our Noventiq Education Centre, we helped with a Power BI training roadmap. This has enabled data collection and analysis for improving productivity, and optimizing KPIs, for example improving efficiencies in hiring and employee engagement. This provides Techcombank with improved HR insights for strategic decision making, improving ROI and optimizing productivity.

In Costa Rica – we helped our “Information Technology Support” client on a multi-cloud engagement. Supported by our Innovation Growth division, we helped to increase the differential value in the

management of the rest of the public clouds, generating trust and value. We were selected as the provider of their Multi-Cloud strategy, managing not only their contracts but also the services that these cloud platforms demand.

In Lithuania with Squalio we helped the Ministry of education to connect their user database with Microsoft's central tenant. Now, 500,000 users are connected and updated without a delay. All Lithuanian students and teachers can start using Microsoft products from the first day they appear in the education database.

In the Netherlands we are working with VodafoneZiggo on the outsourcing of tactical and operational Software Asset Management processes. We are helping the customer with cost savings, increased efficiency, improved license compliance, and access to expertise and technology so that the customer can focus on their core business.

In the UK we deployed similar services to public sector organization.

And in India with Umbrella Infocare – a Noventiq Company, in managed services - we worked with SalesPanda, a fast-growing SaaS provider, offering financial services across the globe to improve sales productivity and performance. To meet global standards and meet customer expectations, they had to ensure superior performance, security, scalability, governance and compliance and a resilient cloud infrastructure. Umbrella Infocare helped them rearchitect their environment and optimized Database performance. By setting up continuous monitoring, AWS best practices, Well Architected Review and by providing robust support, we helped them save on costs, go to market faster, and enabled security, scalability, high availability and quick disaster recovery.

M&A remains a key part of our growth strategy at Noventiq. Acquisitions help us to scale faster geographically, to increase our skills, and expand capabilities, and they help to fuel organic growth.

They also help us to stay relevant and be agile to the changing needs of our customers. For example, we are observing a major technological advancement with AI in the shape of ChatGPT which has become a major subject of conversation. Generative AI will have an impact on how we interact at work and how we interact with the machines. We are monitoring closely how our vendor-partners' products are being equipped with Large Language Models like GPT and we will be taking them to our customers globally.

But we think that in the enterprise environment having generic Large Language Modles is not enough. It should be very context aware and be connected to other enterprise systems. And it should go beyond chatting but be assisting.

That is why we made some pre-emptive investments in AI technologies when we announced our acquisition of Saga in Serbia. Saga's daughter company Intellya brought to the market a smart assistant underpinned by Generative AI with Large Language Models similar to the one used in ChatGPT with additional pieces like semantic search, segmentation and enterprise integration to provide proper customer experience in regulated environments like financial organizations. This is applied AI. The same bot can be trained and equipped to operate in other industries, for example, retail and travel.

We also think that examples like ChatGPT will raise general awareness of AI at the board level in organisations and there will be more attention to application of AI beyond text and speech. In this context, we believe that the Data & Analytics APJ partner of the year award that Umbrella Infocare

received from AWS in November is another great demonstration of foundational capabilities that Noventiq has in this domain.

Now let me turn the call over to Burak who will provide an update on the numbers...

Burak Ozer:

Thank you Sergey, and thanks to all of you for joining the call.

Our results in the third quarter showed very significant growth with continued strength in our strategic areas of focus. I will now go through the unaudited financials in more detail.

We delivered turnover of \$398.8 million dollars, a 45% increase year over year in U.S. dollars, and 57% in constant currency.

Turnover was driven by broad based strength, including double-digit growth in each of our four geographic regions.

Gross profit was \$71.4M, up 75% year over year in U.S. dollars, or 82% in constant currency, and a very strong turnover based margin of 17.9%. This was driven by particular strength in Services.

We delivered adjusted EBITDA of \$12.8M, which reflects the significant investments we are making for future growth. These investments include people, motivation and retention... continued company diversification into Services... sales coverage... corporate governance... systems such as CRM, ERP and digital platforms... and new geographies.

Our strong quarter reflects the relentless focus we have on delivering against our growth objectives. At the same time, we continue to invest significantly in the business for the long term.

Overall, we continue to build on our strong foundation for growth.

As we look at the first nine Months of FY2022, we delivered \$1.1B turnover which was close to the level of turnover that we delivered for the whole of the prior year FY2021

Our turnover is well diversified from a geographic perspective. We were pleased with the broad-based turnover growth across all regions which all grew double-digits.

With our global positioning, we have a resilient business model, and we continue to see strong market potential as we focus particularly on expansion in the emerging markets.

Looking at turnover by segment, Software and Cloud grew 24% as we see continued demand for digital transformation.

We saw very significant growth of 231% in Hardware. We do have strong traction in a number of regions from a mix of organic growth as well as from acquisitions, and momentum continues to build from key hardware vendors such as Apple.

Services grew 138%, which includes the impact of acquisitions that have helped us to further strengthen our services portfolio.

Looking at Gross Profit by segment, we are particularly pleased with Services... now with 11% share of turnover and strong growth, it represents a key driver of profitability with 54% share of Gross Profit.

Moving onto some other key metrics. Operational Net debt was negative. The Cash position as of 31 December 2022 was \$191.2 million dollars.

For additional information, we have provided on our website a factsheet of key metrics by quarter, which we think is helpful for investors.

Now turning to our business outlook. We are increasing all key metrics of our business outlook.

We now expect to deliver turnover growth of at least 34% in reported currency in FY2022, or at least 45% in constant currency based on FX rates at the end of Q3. This reflects broad based performance from the regions, and would represent approximately \$400M of new turnover, versus 2021. This outlook reflects the continuation of a solid demand environment; however, the company is also conscious of the broader economic and geopolitical uncertainty.

We now expect gross profit margin above the range of 13 to 14% for FY2022, up from prior guidance of the upper end of the range.

We now expect to deliver adjusted EBITDA margin on gross profit of low double digits in FY22. This includes the impact of the very significant investments the company has been making this year.

We believe this is a significant achievement for our business given the macro environment dynamics related to the geopolitical situation.

We remain focused on delivering on Q4 and driving continued profitable growth for the full financial year 2022, and will continue to manage our business responsibly while closely monitoring the demand environment.

Let me turn the call back to Sergey.

Sergey Chernovolenko:

Thanks Burak. To summarise, I am very proud of the excellent performance we delivered in Q3, and the incredible achievements over the past several quarters, with our continued execution discipline in the context of a complex market.

I want to thank every one of our people for what they have delivered again this year. We remain laser focused on our key strategic priorities, ensuring we invest and transform our business for long-term growth.

Before we open up for Q&A, I want to address the on-going actions that we have been taking to drive value for our stakeholders.

I am proud to have overseen the important corporate actions we have taken since the completion of our strategic review last July. We successfully navigated a complicated process of demerger, safeguarding and strengthening the Noventiq business. We updated our strategy and have confidence that we have a stronger more predictable growth opportunity to drive significant value for shareholders, customers and employees. And we have been delivering very strong business results. We have also continued to evaluate options designed to ensure that the significant fundamental value of Noventiq is properly reflected by the market.

As a result, earlier this month we signed a letter of intent to proceed with a potential business combination with Corner Growth Acquisition Corp. Our recent announcement to re-domicile the company from Cyprus to the Cayman Islands is also designed to ensure that the transaction can be completed in a timely manner and is structured in a manner customary to international investors.

Now that we have set the direction for the next phase of our journey, a U.S. listing will bring new requirements for our business. To that end I believe great experience is needed to achieve the required level of performance and value for all our key stakeholders.

I therefore recommended Hervé Tessler to the Board to continue as my successor as we progress the move to the U.S. market. Hervé will lead the project to complete the business combination with Corner Capital, and will become Chief Executive Officer, and a board member of Noventiq, with immediate effect. Hervé brings decades of international experience in U.S. publicly traded corporations, and I am very confident he will bring the required level of leadership to make the next phase of our journey another success story. Hervé joined the company almost a year ago and has been instrumental in supporting me and contributing to deliver strong performance while transforming the business. He brings great expertise, energy and ambition. And he knows our strategy and our operations well, including our strengths and areas for further development.

I will step down from the role of CEO and will focus on the continuation of our business growth trajectory as President and COO of Noventiq. My ambition was always to create a strong international IT company which brings great value to key stakeholders, and my decision reflects this. I will continue with my role as a member of the board of directors, and I look forward to supporting Hervé in his new role.

We will have a seamless transition which demonstrates the strong succession planning within Noventiq.

With that, I will turn the call over to the operator who will provide instructions for the Q&A.

QUESTION & ANSWER SECTION

Operator:

We have paused for a moment to assemble the queue. And we have a question on the webcast page. The question is, we are seeing more layoffs in the industry and results are mixed across your competitors. What is driving your growth rate in the context of this market?

Sergey Chernovolenko:

Thank you very much for the question and let me start with some most important point of success of any business. When you have clear strategy in place, strong and professional team in all elements and

you operate in the markets or industry which is growing, then you have great opportunity to demonstrate good results. It's about Noventiq. I'm very pleased that we have very strong and professional team who can easily assess market dynamics based on tremendous experience from the past and particular in emerging markets where our majority of business sits and development today.

Yes, we are moving to develop markets where we see more challenging trajectory of the business at the current days, but our market share is there not high and we believe that with our actions we will continue growing there within another years.

Talking about emerging markets where we have, again, majority of our business, we absolutely clear and know what's going on. It's not for the first time the challenges we see, but by the end of the day there are not a lot of layoffs in emerging markets. In contrary, market and IT industry is growing, demand from the customer is growing. Digital transformation is top in agenda of any business institutions. And also, we have absolutely a right strategy because by the end of the day, many of our competitors, they challenge themselves and transform from a legacy perspective. Because markets are now moving to a cloud, multi-cloud services automation, low gross profit margin on a greater scalability. And it does require to change a lot.

And if you have a big legacy business, which is not in line with this trend, you have to do both. Develop for the future and optimize your legacy. In Noventiq we have only the task to develop our future. We have not a big legacy and it give us great opportunity to put all the fuel to our current and the future.

Just to summarize, in emerging markets, we see great demand from the customers, cloud, cybersecurity, great demand in the market, digital transformation is great demand. We have professional team and by the end of the day we have very, very agile strategy which help us to navigate in every country out of 60, where we are today.

Operator:

Thank you. And the next question is, should we expect any changes in strategy going forward with the CEO change you announced?

Sergey Chernovolenko:

Actually, I would like to start with the point that in Noventiq we have very agile management team and we have very strong succession planning. And also, we immediately react on changes in the market or changes in some strategic moves or opportunities in front of us. At this moment as a company, we're very strong, we have sound strategy and I would say we are not planning to change it. However, we announced to the market strategic move for our self, we would like to move to US investment market.

We announced to the market three weeks ago about our intention and we're moving to the full speed there. To be a listing company in US, it will require new knowledge and new expertise and we would like to maximize great potential from all our management team. And saying this, we believe that Hervé Tessler, who is doing an incredible job, develop our performance results in the company while assessing potential of the company, and he was instrumental to make our strategic choices. Now with a great multi-year experience in US market and publicly listed company in US, Hervé is absolutely right person to lead our company to successful landing in where we strategically would like to be, and it's US market.

I just would like to give opportunity to Hervé, he's together with me today just to say whether he sees some changes.

Hervé Tessler:

Thank you, Sergey. Thank you. Good morning everyone. No, I think basically it's going to be about an evolution and an acceleration, no revolution. As you said Sergey I've been working close with you and

the team for now 11 months and I believe we have an extremely, extremely strong strategy, which is also why we're delivering such a performance. On a year to date basis, so it's yeah, evolution and acceleration.

Operator:

Thank you. And the next question is, do you expect EBITDA to rebound in FY23?

Burak Ozer:

Yes, thank you. Actually before 2023, we are very pleased that we increased our guidance for FY2022. Now we expect to deliver adjusted EBITDA margin on gross profit of low double digits in FY2022. And as I stated, this includes the impact of very significant investments we have in making this year, like people, training, motivation and retention, continued company diversification into services, which includes 126% headcount growth year over year and 177% in services, sales coverage, corporate governance and systems such as CRM, ERP and digital platforms.

All these investments were committed after the IPO in terms of what we would like to do in terms of investments. And on top of these, obviously the merger and rebranding has had the impact this year. We believe that there is a transitional period between this year and next year where most of these investments will kind of ramp down and we do expect as a result, a ramp up into our FY23 into EBITDA. This will normalize as we look forward.

Operator:

Thank you. And a question for Hervé with your appointment as CEO. What are your priorities as you look ahead?

Hervé Tessler:

Yeah, thank you for the question. So, I'm going to repeat what I said. We're going to basically work around what I would call an evolution and acceleration of our existing strategy. Basically, my goal is pretty simple, at least to formulate. It's about value creation. So, it's about value creation for all of our stakeholders. And I'm a strong believer that delivering and creating value for employees, customers, vendors, and partners is ultimately delivering value for shareholders.

My number one goal is to get the company successfully moving to the US Exchange while lending at a proper value with a valuation that's going to be reflective of the real value of that business, which is much higher than what it is today. So evolution, acceleration of our current strategy. And I'll give an example of the evolution. We have a strategy that's very well articulated that we call the three-dimensional growth strategy. The three dimensions being geographic expansion, portfolio expansion, cell channel expansion.

I'm going to add, and it's a tuning, the first dimension that I will call Leadership Capabilities Expansion. As we push more into high value type of businesses, more sophisticated businesses, services, multi-cloud, cybersecurity, artificial intelligence. We need to invest more in making our leaders in countries more competent, more ready to execute on that strategy. So that's a quick answer.

Operator:

Thank you. And the next question is, can you talk about the significant investments you are making? What you are investing in organically and through M&A?

Sergey Chernovlenko:

First of all, now, we strongly believe that investments in line with a clear strategy is absolutely a great recipe and ultimate recipe for success. Almost a year ago, we promised to our shareholders that we're going to invest to expand our scale through M&A, with doing it progressively and to develop our business organically. And I'm very pleased today to share that what we've done and what we are still planning to do create a great base for our predictable future growths. And what areas we're investing in, all areas which contribute to business growth and to reflect the previous question, which I addressed, market challenges, we see market challenges and we're still growing.

We're growing because we overcome the challenges or perform the market due to our investment in line with our clear strategy. And we invest in our people, increase scale of our presence, increase scale of touch in any point with our customers in any segment of the market. We develop and invest training programs for our people. We increase and improve motivation, retention of our people. We continue focus to diversify our product portfolio and gross profit portfolio, enhancing more services capabilities, manage services capabilities, different solutions which can drive gross profit margin and increase value for our customers.

And just a couple of examples, we increased our headcount by 126% year over year. Services, we increased headcount by 177%. And this is significant professionals who join us with a great professional knowledge and more importantly, with a rich customer base and knowledge of the market. We're developing our reach to customers, we introduce our e-commerce online stores in four countries. We upgrade in our automated system to manage the company. It's ERP, CRM, and now we started assessment and going to launch our HMS system to manage our talent. And we upgraded our web automated digital platforms to deliver top class multi-cloud services to our customers.

And I can make this list longer, but again, the key point, we have clear strategy in place and all investment are in line with this strategy.

Operator:

Next question is, what were the key drivers of significant increase in SGNA above revenue?

Burak Ozer:

Actually, thank you for this question. And this is very much related to what Sergei just explained a question before. So I'm not going to go over all those investments that are affecting our SGNA that we have made to deliver growth and to deliver our promise after the IPO. And he gave you some numbers about headcount increase, which is basically 3,200 people in absolute numbers. An increase of 3,200 people year over year. And as I said, we did start investing heavily after the IPO. So the second half of full year '21 started some reflection of the investments and now you will see going forward a better compare year over year.

Also, we need to keep in mind that year over year compare is including acquisitions, which are additions to our SG&A base. When you peel it back, our organic SG&A increases in the high teams, and we do look at our organic increase excluding these investments and also the acquisitions. So when we look at it, there's a healthy increase in our SG&A base.

Operator:

Thank you. And the next question is, how should we think about your ability to adapt to a potential downturn? Are you seeing any softness from customers now?

Sergey Chernovolenko:

Maybe I will repeat some points, which I said before. Key element, you have to have clear strategy focusing on not only current and focusing on another three, four years ahead. This is exactly what we

have. Potential in the markets where we operate. As we say, "Sky is a limit potential," and we see this potential in every region, in every country we operate. We have decentralized business model and we have entrepreneurial spirit within organization. Of course, it based on great discipline execution, requirements and approach. All of the decentralized business model, entrepreneurial skills, a great management system, helps us to navigate rightly in different markets, because markets are different. We operate in four continents, different environment. But what is more importantly, we are in one industry called IT and IT has its own language. And if you understand nicely, rightly, this language and you have ability to navigate in every country, like local company, you have reached your success, and it help us.

And moving forward, even when we acquire the company, the key element is to ensure that this company nicely will fit to our culture, culture of growth, culture of agile approach, and culture of entrepreneurial skills. But at the same time, again, great discipline execution, and this is a recipe for our success.

Operator:

Thank you. There are no further questions at this moment. That concludes the Q&A session. I will now hand back to Sergey for closing remarks.

Sergey Chernovolenko:

I'd like to close by thanking our shareholders, customers, and ecosystem partners for their continued trust and support... and all of our people and leaders around the world who are transforming our business while continuing to drive value with our customers every day.