

Noventiq

Q2 H1 2022 Trading Update

Conference Call Transcript

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Corporate Participants

Sergey Chernovolenko – Chief Executive 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 Q2 H1 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 first half 2022, followed by a business update, and review of our growth strategy. Burak will provide an update on our Q2 and H1 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 H1 trading update.

On our last earnings call in August, I shared our priorities for the second quarter... and we made a number of important commitments. I am very proud that we have achieved our objectives and delivered on those commitments. We delivered tremendous turnover growth of 48% in Q2 which was well above our guidance, and I am particularly pleased with the broad-based strength across all of our regions. Gross profit growth was also incredibly strong, growing at 77%, well ahead of revenue, and significantly above our guidance.

Our strong growth is driven by the disciplined execution of our strategic priorities. We have the right recipe for growth, including in key areas such as Services, where turnover grew 105% in Q2... and which accounts for 63% of our gross profit.

During the same quarter, we successfully completed the demerger and sale of our Russian business, in the context of a very complex market environment.

And we rebranded our business to Noventiq, which encompasses our mindset centred around novelty and innovation, entrepreneurial energy, technology intelligence and transformation. The industry has changed in the last 30 years, customer demands and expectations are different. Our new brand reflects this very well. Our new motto underlines what is important today for our customers and our technology partners – vendors – accumulating global expertise to deliver amazing local outcomes for our customers wherever they are. This balance of global and local is also very important for our existing and prospective employees.

While facing a unique market headwind over the past 9 Months, we have been transforming our business at unprecedented pace and scale... remaining laser focused on our long-term growth strategy.

We have also continued to invest more than ever before:

- In our talented people... where we have increased our headcount by 54% in the past year overall, and importantly... by 76% in Services – one of our key strategic growth areas. We continue to focus on our overall employee value proposition, and I am pleased with the very strong key talent retention in our business.
- Noventiq is one of 10 globally managed Microsoft partners, and we are enhancing our capabilities and partnering to accelerate growth in many more markets around the world.
- We continue to strengthen our position in the market, for example we have been investing in innovation and expanding our relationships with partners such as AWS, Apple, and Google.
- We continue to broaden our diversified geographic footprint, expanding into 4 new countries in Q2 in the Middle East and Asia.
- We have progressed on our M&A strategy which is an important component of our growth strategy, announcing 4 transactions since the beginning of the year, further enhancing our skills, capabilities and geographic expansion.

And we are pleased with the evolution of our business to

- digital transformation
- multi-vendor
- multi-cloud
- Services
- cyber-security
- And global expertise, with local outcomes

I'd like to thank all of our nearly 4,000 talented professionals who have driven these incredible achievements with absolutely no distraction from their focus on delivering for our customers. This represents our first earnings call as Noventiq. We feel that this is an important milestone from which we can move forward and accelerate on driving value for all our stakeholders... our people, our shareholders, our customers, our vendor partners

With Noventiq... we have hit the ground running. Noventiq is a strong independent company which comes from the heritage and experience of more than 25 years of deep technology experience. It has a solid foundation and a well-established track record of growth with a deeply experienced and diverse management team. All of our key leaders are in place, and we also benefit from the depth and breadth of our existing strong international board. We also have the consistency of our strong culture, our base of business, and existing partnerships with our customers, and top vendors.

Based on our growth story with huge ambition - we are already at scale, operating in nearly 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.

We apply a consistent formula – or ground rules to each and every country with a focus on key strategic initiatives, growth, profitability, and a sustainable long-term business model. Our scalable strong

business results are visible proof of the success of our strategy, and this is illustrated by the double-digit growth in all of our geographic regions.

For those that don't know our business so well, Noventiq delivers digital transformation, not just the technology to achieve it. The IT industry is influenced by a number of megatrends and rapidly evolving technologies, and it can be a challenge for non-specialists to keep up. Customers and vendors speak different languages.

Vendors are focused on their products -- on delivering new features and offerings, but they often fail to go the final mile to reach their customers on a global level. Even cloud providers, who initially advocated the ability to buy services directly with a credit card, now realise that, for the vast majority of their customers, this is just not possible.

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

Noventiq bridges this gap by understanding customer requirements and vendor propositions. We draw upon our extensive experience and knowledge to put forward exactly the right horizontal and vertical solutions. We then deploy it 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.

Additionally, we have our own platforms which simplifies complex procurement processes. We can manage software and cloud subscriptions, and look after multi-cloud infrastructure.

Our role in the value chain is indispensable. Without a solutions provider like Noventiq, digital transformation would simply not be possible for customers. We serve as a partner to thousands of technology vendors worldwide and have transacted with 75 thousand customers.

Once again, we are not starting from scratch... we have a long established and successful growth strategy consisting of three dimensions; geographic expansion, portfolio expansion, and sales channel expansion. We are a story of significant growth, bigger, better, faster. With great execution discipline.

I am particularly pleased in the first half with progress in our geographic expansion, as we established a presence in the UAE, Bahrain, Oman, and Singapore. And through acquisitions, we now have a presence in Bosnia Herzegovina, Montenegro and North Macedonia.

With this continued expansion, we have a significant opportunity in these markets to bring the full suite of our products and services to new customers. We are also focused on driving up our share of wallet with our existing customers.

The diversified nature of our business also brings resilience. When you look at the geographic split of turnover, we have a little more than half coming from APAC, which is dominated by our significant presence in India. We also have nearly 20% turnover from our LATAM region, and approximately 15% coming from EMEA, and a similar amount from the rest of Eurasia.

We have continued to see broad based strength, where each of the regions grew strong double digits in Q2. The markets are fragmented, and based on our proven growth strategy, we have a significant opportunity to scale each of these regions.

If we look at India, it has been an incredible growth story for our business, where we have come from a \$2m business in 2014 to more than \$500 million in FY2021 through organic growth, as well as with smart acquisitions. We have delivered \$315M turnover in H1, with growth of 43% in constant currency. We have a large base of employees in the country, and we see massive pipeline of potential talent. Our philosophy is to invest in India for India, and this is a differentiated proposition in our market. We are focused on gaining share in that market, and there is significant potential across the full range of customers, including multinationals operating in India. The market dynamics are favourable. The economy is growing well, there is a huge consumerization of IT, with more than 1.3B people, and 850M smart phone users – there is very significant and growing demand for digital. Gartner believes that India's country IT spending will have the highest CAGR for the period 2021-2026 in the world at approximately 10%. With our customer base, we see continued strong demand around digital transformation, optimizing business models, and cyber security. Fintech is a big area, and obviously multi-cloud, where many customers are operating more than one cloud.

Now let me just go a bit deeper on a key theme we are seeing around Fin Ops. Cloud technologies keep growing in importance as digital transformation and workload migration continues at an accelerated pace. With executive teams focused on modernization to meet new user and customer expectations, it is critical to ensure ITAM and strong financial management is in place.

Cloud costs are growing and users are often unaware of where they are using cloud, equally there is variable understanding of how billing works across both users and IT professionals. This is where FinOps or Cloud financial management is so key to bring together technology, business and finance teams to simplify the financial complexity of cloud economics. This together with automated monthly reporting of cloud spend and usage drives actionable recommendations to help reduce costs and increase the value of cloud strategies and investments.

In short, for companies that rely on the cloud, they need FinOps to manage cloud spend. To adopt it, one of the most critical steps is to develop a culture of cross-team collaboration between IT, finance, engineering, and business stakeholders. This is where Noventiq comes in to provide both the consulting expertise, tooling and automation to assess, monitor, report and forecast the cost of running applications, cloud infrastructure and service platforms.

With the right focus, people, tools and approach, ITAM/ FinOps can deliver these crucial insights. Combining the best ITAM methodology endorsed by Gartner, Noventiq brings together the best ITAM technologies together with our core Cloud management technologies to provide a single window for all cloud resources, user management, billing, budget control, cost recommendations, setting and managing quotas for subscriptions, optimizing notifications and automating new resource approvals.

Let me further illustrate our growth strategy in action, with some recent examples of how we are helping our customers;

In our APAC region

- We are helping a Health Maintenance Organisation in the Philippines with a multi-year Microsoft Azure deal. We are helping the customer to advance further its IT Infrastructure to support its increasing network demands.
- I am also pleased to say that we are an Apple Authorised Reseller in the Philippines, where we deliver a comprehensive approach to solving business cases and providing full-cycle support for the implementation of the Apple ecosystem in enterprise IT infrastructure.
- In Malaysia we are working as a digital transformation partner with a global beverage brand. We are helping with Microsoft solutions in managed services and cyber solutions to support their IT strategy.
- In India we helped Nuclei to implement Microsoft Azure Recovery Services to Increase the protection for their critical business applications, reducing disaster recovery times, and driving significant savings

In our EMEA region with Embee we are helping a financial services company in Bahrain to automate the tracking of companywide KPIs and to generate reports in real-time. The solution is utilizing Microsoft's Analytics stack comprising building of data warehouse and data models on Azure with reports and dashboards developed on Power BI.

In CEE we have completed a series of O365 T2T migrations for a large international fintech company to help the transition of acquired companies in multiple regions. Our team consisted of engineers, architects and project managers from Bulgaria, Romania, Slovenia, Malaysia, Peru and many other countries.

And in our LATAM region, we helped La Pampa Province Government in Argentina with a modern workplace implementation. Our engineers delivered an O365 solution with a hybrid environment with on premise and cloud, including the training of end users in the new work environment.

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.

We have continued to invest at scale this year, with the announcement of a number of important strategic transactions. For example:

- Makronet which is a leading Turkish Microsoft Cloud Solution Provider. This brings important sales channel capabilities with Microsoft... and is a significant addition to our business in Turkey and the MEA region. And Makronet has some very valuable knowhow in the CSP domain that we can apply globally.
- Seven Seas which is a leading system integrator and Information Technology solution provider which helps to strengthen our presence in the Middle East with a presence in the UAE across many industries.
- Value Point Systems which is an Indian digital infrastructure and cybersecurity solutions & services provider. Underpinning our strategy of "Investing in India for India", this will enhance our cybersecurity and IT infrastructure capabilities.
- Finally, we are extending our presence in Central and Eastern Europe with Saga Group, which is a Serbian software and digital solutions leader which transacts with customers in more than 25 countries, will contribute to Noventiq's growth in Central and Eastern Europe. This transaction will also help Noventiq to reinforce its global vendor portfolio. Saga Group has built an impressive

portfolio of proprietary digital products, including its own IP for digital banking, Fintense – created by Saga’s subsidiary NF Innova –, which is an omnichannel digital banking platform.

We have a successful track record of integrating acquisitions. We have developed a strong management process to manage acquisitions. We target strong companies that resonate with our strategic priorities. We look at many different factors including the cultural fit. And we focus on key talent retention, as we ensure the key leaders become involved in our overall strategy.

We also look to ensure we deliver the full value of acquisitions, as they help to fuel our organic growth. We therefore apply our recipe of local management, with global expertise.

And we have a dedicated group in charge of the M&A integration process – led by Roy Harding – a member of the board, and one of our most senior executives – with the objective of delivering disproportionate value from acquisitions.

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 second quarter showed very strong growth with particular strength in our strategic areas of focus. I will now go through the unaudited financials in more detail.

- We delivered turnover of \$320 million dollars, a 35% increase year over year in USD, and 48% in constant currency.
- Turnover was driven by broad based strength, and included strong double-digit growth in each of our four geographic regions.
- Gross profit was \$50M, up 66% year over year, or 77% in constant currency, and a very strong turnover based margin of 15.6%. This was driven by particular strength in Services.
- We delivered adjusted EBITDA of \$4.4M, which reflects the significant investments we are making for future growth, as well as the negative headwinds on currency. 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.

We have faced a unique headwind this year, as Sergey mentioned, but we have had a relentless focus on delivering against our growth objectives – and continuing to invest in the business for the long term.

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

As we look at the first half of FY2022, you can see that 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 25% as we see continued demand for digital transformation.
- We saw very strong growth of 146% Hardware. We do have strong traction in a number of regions from a mix of organic growth as well as from acquisitions, and momentum is building up from key hardware vendors such as Apple.
- Services grew 101%, 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... with 9% 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 30 September 2022 was \$221.6M.

For other metrics, our financial tables can be found in our supporting materials, and we have provided a factsheet of key metrics by quarter, which we think is helpful for investors.

Now turning to our business outlook.

Based on the sale of the Russian business and the visibility we have across the Noventiq regions, we are now able to reinstate our business outlook for the full year 2022.

- We expect to deliver turnover growth of at least 28% in reported currency in FY22. Based on recent FX rates, this would represent growth of at least 39% in constant currency. This outlook reflects the continuation of a solid demand environment; however, we are also conscious of the broader economic and geopolitical uncertainty. We are managing the business responsibly, and based on what we see today, we do see a path to potential upside.
- As it relates to Gross Profit overall for FY22, we expect gross profit margin in the range of 13 to 14%, and based on what we see today, we are targeting the upper end of the range.
- We expect to deliver adjusted EBITDA margin on gross profit of close to double digits in FY22. This includes the impact of the very significant investments we have been making this year. Including the impact of M&A proforma, and additional IPO organic investments, which are starting to fuel the top line, the adjusted EBITDA margin on gross profit is expected in the high-teens.

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 Q3 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. Before we open up for Q&A, let me summarise a few key points.

I am very proud of the significant progress we have made this year, and the incredible achievements and the execution discipline in the context of a complex market.

We have delivered on our commitments.

We have not let anything distract us from our key strategic priorities.

We have delivered incredible growth in our business at nearly 50% in constant currency in Q2, with gross profit growth ahead of turnover growth.

We have been transforming and investing in our business at unprecedented pace and scale for long-term growth.

We have the right recipe for success. Noventiq is a strong well-established independent business with a solid foundation for growth. We have a relentless focus on executing against our growth strategy, and we are better positioned than ever.

Finally, let me thank every one of our people for what they have delivered this year by making our Company even stronger as we look ahead.

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

QUESTION & ANSWER SECTION

Operator:

We will now begin our question and answer session. The first question is: Based on prior evidence from the mergers, companies need time to adopt and there is a period of volatility. You say you have not been distracted, but why do you believe it is sustainable moving forward?

Sergey Chernovolenko:

Thank you very much for the question. I thought a lot about this for last six months because we felt very strong what we have been doing. At the same time, we face unprecedented challenges in the market. And what I can say, the demerger was absolutely necessary because it help us to continue our strategy without being distracted from what's going on outside our control in political economic environment in our countries.

Second, and maybe it's extremely important, we have very strong diverse management team in our headquarters and in our countries. This team stays as it was, very focused, very experienced, delivering the same strategy, what we used to deliver for last four years at least, and this team knows exactly what needs to be done, and I'm very pleased that my management team delivers what needs to be delivered.

Another point, we created very strong base for our overall business. Important part of what we discussed today and delivered today, our current revenue base is now 73%, an increase from 60% a year before.

Also, our services base, which we invested for last three years specifically, started to deliver a good outcome and I shared with you that our services turnover and revenue growing 105% in Q2. At the same time, I see a good pipeline moving forward. And we also increased our strength, foot on the street, diversified product portfolio focused with services. We're improving quality of our revenue with gross margin increase while our share of services, value added services are increasing, and we build momentum with some of our key vendors, including Microsoft.

When I put it all together, I believe we have a very strong base and we have good track record we used to deliver what we said, and I see that very positively. We deliver today our guidance for the full year, which looks good.

Operator:

The next question is: Can you tell me why you think Noventiq is so well positioned? What are the main factors driving the growth?

Sergey Chernovolenko:

First of all, I would like to say that in spite of overall market challenges all of us see today, in the markets where we perform, the IT segment still a growth trend, still customer demand is there. In some countries we see a little slow down. And all our big regions, big markets, IT as I mentioned at growth trend, and we're well positioned there because in some countries have good opportunity to increase our customer market share. Market share in other countries we have a good position, which allow us to capture market opportunities. I'm very pleased to see that we deliver growth in turnover and gross profit in all our regions and it's well above overall market growth trend.

Also, we see there is a great requirement from the customers for cloud, multi-cloud, cybersecurity, software applications, customer outcomes. It's exactly where Noventiq invested for the last years and now we started to see so called, good fruits, coming of all our relentless work and investment.

Operator:

As a reminder, participants can submit written questions using the, ask a question button on the webcast page.

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:

We acknowledge there are some macro challenges. We're not seeing any major change in demand from our customers. We are focused on developing our business for the next three years. We have a sky is the limit potential to capture market share even if macro is slowing.

We have decentralized flexible operating model and unique ability to see things coming. We have very strong leaders as I mentioned today, which is a great foundation as a disciplined execution, because this team are used to delivering at required levels for many years before. The market segments where we operate are great in tech extremely dynamic, cloud, multi-cloud, cyber, especially in emerging markets.

The need from customers, as I mentioned, still is there, and we're also through our M&A bringing more new capabilities on board. And today I shared our new acquisition, what they bring to us. Makronet, fantastic cloud services on the Microsoft Azure platform. We're talking about Saga operating in 25 countries with their own IP, very strong finance industry expertise, and almost 400 professional people on board.

Then Value Point, it's an Indian well-developed system integration services provider with a thousand people on board with good cybersecurity expertise. And when we put all together, it just gives us a good base.

Operator:

Another question just came in. Can you talk about the significant investments you are making; what you are investing in organically and through M&A?

Burak Ozer:

Thank you for the question. It's vital that we invest at scale in our business and our people. This investment includes training, motivation, retention, continued company diversification into services.

As you might recall, we said we grew 54% in headcount year over year and 76% in services alone. So sales coverage, corporate governance, systems on top of that such as CRM and ERP and digital platforms, and new geographies, we have made significant progress with our investments.

Again, to count a couple of those is a significant increase in services workforce. As we bring in acquired companies with capabilities, we invest to expand these capabilities across other geographies. And this will fuel future growth, development of e-commerce, global delivery centers.

We continue to roll out our global delivery strategy with onboarding and integration of Philippines, Cambodia, and Egypt into our regional delivery center in India, and Peru into our Latin American regional delivery center. And also, we are doing investments in our HQ in London.

Operator:

Another question just came in. What were the key drivers of a significant increase in SG&A above revenue?

Burak Ozer:

Again, thank you for the question. And this is the continuation probably of my answer to the first question. And as I said, we did increase our headcount by 54% year over year. And we are very pleased with our ability to attract talent. And this 54% represents 1,400 people in absolute numbers.

We also grew, as I said, headcount by 76% in services, which is another proof point of our ability to attract the top talent from the market. And as we invested heavily in the second half of full-year '21 with the IPO funds coming in the first half of '21, you will see the compares getting less and less in the second half of the year this year.

When you peel back, our organic SG&A increases around low 20s, which means that we have to peel back the IPO investments and also the effect of M&As that has impact on our SG&A on a year-over-year basis.

Operator:

Next question. What are you seeing with pricing, particularly with more inflationary pressure now?

Sergey Chernovolenko:

Thank you for another interesting question. We certainly acknowledge the price and the inflationary pressure now. We're all aware about it, and we put all actions to mitigate and address it.

It is a headwind, and we are managing as well as the pricing increase, depreciation, inflation in all aspects. Pricing we address through our new value to the customers working to translate vendor approach to the market. From inflation, we're working on optimizing our costs where it's necessary. But

by the end of the day, it's not our main goal because we believe that we need to continue investing in order to grab market share.

And again, if I may say, our answer to this challenge, be efficient, be effective. At the same time, try to grow your gross profit; grow it faster than your costs, and then everything will be okay.

Operator:

Next question. What are you seeing on wage inflation?

Sergey Chernovolenko:

There is inflation across the globe, and it does touch every industry. It is an issue in the wider market, including us in many of our countries. And we're facing it as well. It is embedded into numbers we shared today as a guidance for the balance of the year. While we do see inflation, we're disciplined, and our gross profit is growing at a faster rate, as I mentioned earlier before. In our case, we're market-relevant in how we look at the wages. And as part of the wider employee value proposition, our team increased by 54%, which is 1,400 employees. And we also grew headcount by 76% in services, which is another proof point of our ability to attract the top talent from the market and ability to tackle this wage inflation issue.

Operator:

The next question. Is your Microsoft relationship impacted by the demerger?

Sergey Chernovolenko:

Thank you for the question. I just would like to say Microsoft was, is, and I believe will be one of our key vendors in our business. And Microsoft is recognized by many businesses across the globe as a leading vendor who delivers great necessity to support IT infrastructure and deliver great outcomes.

We're pleased with how Microsoft supports us during these challenging times. With the demerger, there was a great understanding. We were in constant collaboration. And by the end of the day, I believe that there is trust between us as a value-added reseller, one of globally 10 partners for Microsoft.

And we also discussed about expansion of our business in several geographies. And our ability to deliver is well-received by Microsoft. And recent acquisitions which made us stronger, from a diversification point of view, it makes us stronger in line with Microsoft's market focus, Microsoft Partner Programs. And I believe our value to Microsoft increased, and Microsoft acknowledged it and shared with us. Recently, we had a high-level meeting with Microsoft leaders responsible for developing partner networking worldwide, and we discussed everything what I shared with you, and it's the outcome of this meeting. I believe we're in a good position.

Operator:

There are no further questions at this moment. That concludes our question and answer 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.

