

Softline announces strong gross profit growth of 25% in Q1, with constant currency turnover growth of 44% in its international business

16 August 2022, London, UK - Softline Holding PLC [SFTL, **US83407L2079**] (Softline, Softline Group, the Group, or the Company), the Cyprus registered Global IT and digital transformation solutions and services provider headquartered in London and operating in almost 60 countries, announces unaudited key operating highlights for the first quarter of financial year ending 31 March 2023.

Q1 BUSINESS HIGHLIGHTS

- Gross Profit increased by 25.5% in constant currency to \$78.2m. Gross profit margin improved to 14.3%.
- Group turnover increased by 8.3% year-over-year to \$545m in reported currency, and 10% in constant currency.
- The International business, which is now more than 50% of Softline overall, delivered very strong constant currency turnover growth of 44% year-over-year. This was driven by double-digit turnover growth in all international geographic segments.
- IT Services turnover grew 81% year-over-year to \$47.7m in reported currency, with gross profit growth of 137% year-over-year.
- Recurring turnover increased to more than 70% of overall turnover, from 60% on average in FY 2021.
- Headcount increased 44% year-over-year to 8,358 employees on 30 June 2022. Softline more than doubled its Services capacity to 4,031 employees over the past 12 Months.
- Strong execution of M&A with one more deal announced in June 2022, Seven Seas Technology in UAE, in line with its three-dimensional growth strategy.
- External recognition with Softline noted as a 'Visionary' in the 2022 Gartner Magic Quadrant for SAM Managed Services, and Partner of the Year with Microsoft in a number of international geographies.
- On 19th of July 2022 Softline announced its intention to proceed with a demerger of its Russian and non-Russian operations, subject to all necessary approvals, including shareholder approval.

Sergey Chernovolenko, Global CEO at Softline, said:

"I am very proud of how our team is navigating the current market environment, and I am thankful to our 8,400 Softliners around the world for their great focus and effort to deliver for our customers. We are investing heavily in the business, and our growth strategy is resonating. I am particularly pleased with the very strong performance in our Services business, and also in our International business. I am confident that our depth of experience and our ability to navigate changes in our rapidly evolving market will continue bringing us success in all markets where we operate. I am also very proud of the continued external recognition we have received from Microsoft by our teams in Vietnam, Cambodia and India. These markets are incredibly important for us, and strong growth within the APAC region is key to the global strategy of the wider business. Technology creates opportunities, and Softline is well positioned to help our customers in accelerating and increasing revenues, boosting profits, and operating efficiently and securely in the digital economy."

Jacques Guers, Chairman of the Board of Directors at Softline Group, noted:

"We are driving the business with discipline based on market dynamics that differ significantly in Russia and elsewhere. Based on the diverging nature of operations, priorities, and go-to-market strategies in both markets, we are now well underway with executing on our plan we recently announced to demerge our Russian and International businesses. Our intent is to create two leading independent companies in their respective markets, resulting in optimised growth strategies, operations and shareholder value for both new companies. We are committed to

protecting the interests of all of our stakeholders and I see a bright future for both companies where they can lead in digital transformation solutions, platforms, and services in each and every market of our presence."

Key Figures

	1Q 2022*	1Q 2021	%
Turnover (\$ '000)	544,843	503,169	8%
Recurring turnover %	70%	60%	
Turnover by business line (\$ '000)			
Software & Cloud	448,993	442,836	1%
IT Services	47,711	26,355	81%
Hardware	48,139	33,977	42%

	1Q 2022*	1Q 2021	%
Turnover by region (\$ '000)**			
APAC	209,940	162,347	29%
EMEA	52,138	20,929	149%
Russia	180,836	233,547	-23%
RoE	35,246	29,337	20%
LATAM	69,166	60,609	14%

Reported growth

*Year ended 31 March 2023

**Regional numbers include intercompany sales

BUSINESS REVIEW

Services – Services remains a segment with a highest growth rate. Q1'22 turnover grew 81.0% to \$47.7m. Services continues as the most profitable segment with gross profit margin of 80%. Services represents 9% of Group turnover, and contributes 49% of total Gross Profit. Services growth reflects the impact of acquisitions, as well as strong organic growth.

Software & Cloud – Turnover from Software & Cloud increased by 1.4% in Q1'22. Growth was impacted by weakness in the Russian market. Software & Cloud increased 31% year-over-year in the international business.

Hardware - Hardware grew 41.7% year-over-year in Q1'22. We see significant acceleration of growth in the last two reported quarters due to delayed demand from the first nine months of FY 2021, as well as increased demand from customers in selected regions ahead of expected supply limitations.

Geographic Turnover – 67% of the Q1'22 turnover was generated outside of Russia, reflecting very strong growth rates in our international business, where turnover grew 44% year-over-year in constant currency. Growth was particularly strong in EMEA, and APAC, both organically and due to recent acquisitions. Our business in Russia declined, due to the pace of vendor migration and key international vendors ramping down faster than expected.

Profitability

Gross Profit in Q1'22 was \$78.2M, up 25.5% year over year, compared to \$62.3M for the last year. Growth was particularly strong in the Services business with 136.9% year-over-year. Gross profit in hardware segment more than doubled thanks to the turnover growth and visible margin improvement. Gross Profit margin, turnover based, was 14.3% compared to 12.4% for Q1 last year, partly driven by the contribution of the Services business.

For Q1'22, adjusted EBITDA was \$3.0M. Adjusted EBITDA margin, Gross Profit based, was 3.8%. Adj. EBITDA reflects the significant investments we are making for future growth. These investments include people, motivation and retention, continued company diversification into Services, corporate governance, systems such as CRM, ERP and digital platforms.

Balance sheet and liquidity

As of the reporting date operational Net debt/adj. EBITDA was 1.34x. This excludes IPO proceeds. The Cash position as of 30 June 2022 was \$369m.

M&A

Softline's M&A strategy underpins the three-dimensional growth strategy, and the company has been active over the past few years with a specific focus on key strategic objectives - to scale faster geographically, to increase skills, and expand capabilities that Softline can bring to customers. In Q1 Softline strategically expanded its presence in the Middle East and Africa through the acquisition of UAE based Seven Seas Technology.

Seven Seas Technology is a leading system integrator and Information and Communications Technology (ICT) solution provider in the UAE. In partnership with major technology vendors such as Microsoft, the company provides medium and large enterprises with collaborative, multi-cloud strategies. SST has 15 Gold competencies with Microsoft as well as several advanced specialisations, Platinum Cloud Solutions Provider status with HPE, Cisco Gold Integrator and others. This combination of partnerships together with an extensive services portfolio sets SST apart in the regional market. SST's 300+ ICT trained and certified professionals serve large and medium businesses across a number of sectors including civil aviation, government, oil & gas, banking & finance, hospitality, healthcare, education and retail.

Through Softline's acquisition, organisations in the region can now access an expanded portfolio of solutions and services, as well as Softline's global talent base. This includes global relationships that Softline holds with multiple cloud providers, including Microsoft. Customers in the region can now rely on Softline's managed services supported by its Global Delivery organisation and advanced MSP statuses from Microsoft and AWS, and on its advanced cybersecurity capabilities. Customers can also access the company's software development and application modernization & engineering capability.

Softline's management team is pleased with the M&A opportunities in the market, and the strength of the pipeline of deals currently in progress.

Awards

Softline was recognised as a 'Visionary' in the 2022 Gartner Magic Quadrant for SAM Managed Services.

Softline continues to benefit from very strong vendor relationships, and this quarter, Microsoft recognised Softline Vietnam and Softline Cambodia with the Partner of the Year Award, for excellence in innovation and implementation of Microsoft's solutions.

Embee, a company acquired by Softline in January 2020, was also recognised with the Microsoft India Area Award 2022 – MWP Partner of the Year. This acknowledgement emphasised Softline's

leading position in the market, and comes after Softline India was recognised by Microsoft as the leading Cloud Solution Provider (CSP) in India early this year.

Business Outlook

As previously announced, in the near term, Softline plans to provide guidance for the next quarter only. The company will continue to review the situation, and will provide longer term guidance at the appropriate time

For Q2 FY2022, Softline expects year-over-year turnover growth of at least 15%. To provide some context:

- In its global business outside Russia, the company expects year-over-year growth of at least 30%, and while this includes the impact of some continued uncertainty in its Rest of Eurasia (RoE) region, this represents a very strong level of growth.
- In Russia, the company expects reported growth to be flattish year-over-year based on the continued uncertainty in the market. This includes a positive impact from FX of about 7%. This should be viewed in the context of the transformation of the Russian IT market where IDC estimates that there will be at least a 25% decline in Information Communication Tech Spending in 2022/2021, and a 36% decline in Information Technology.

As it relates to Gross Profit overall for Q2, Softline expects year-over-year growth of at least 20%.

Softline expects to deliver positive adjusted EBITDA for the group in Q2, including in the Russia operation.

Other selected events

On 19th of July 2022 Softline announced its intention to proceed with a demerger of its Russian and non-Russian operations, subject to all necessary approvals, including shareholder approval. The announcement follows a review initiated in May 2022 to adjust the group's assets and ownership structure in order to optimise value for all of its stakeholders.

<https://softline.com/news/update-on-business-and-operations-19-july-2022>

Softline recently published its FY 2021 annual report, which is available on the Investor Relations section of Softline.com: [Softline Annual Report FY2021](#)

Additional Information

Softline's related supporting materials can be accessed in the Investor Relations section of Softline.com

Results conference call

An investor, analyst and media webcast will be held on 16th August 2022 at 8:00am UK time. Softline will announce key operating highlights for the first quarter of financial year ending 31 March 2023.

A livestream of the investor call will be available and can be accessed here:
[Softline Holding plc - Q1 FY2022 Trading Update](#)

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About Softline

Softline is a leading global solutions and services provider in digital transformation and cybersecurity, with its headquarters in London. The company enables, facilitates and accelerates the digital transformation of its customers' businesses, connecting over 150,000 organizations from all industries with over 6,000 best-in-class IT vendors, and delivering its own services and solutions. Foundation of Softline's growth is so-called three-dimensional strategy, which includes geographic, portfolio and sales channel expansion. This strategy is supported by energetic M&A activity, so Softline is benefiting from the on-going consolidation of the industry.

Thanks to this strategy, Softline is currently one of the fastest growing companies in the sector. Softline achieved a turnover of US\$ 2.2 billion in fiscal year of 2021. In October 2021, the company conducted a primary listing on the London stock exchange.

Softline's 8,400 employees work in almost 60 countries throughout Asia, Latin America, Eastern Europe and Africa – markets with significant growth potential.

Important Notices

The financial results set out in this release are sourced from the Group's management accounts for 2021, 2020, Q4 2021 and Q4 2020 and are unaudited. The "constant currency" metric excludes the effect of foreign currency exchange rate fluctuations by translating the current period revenues into U.S. dollars at the weighted average exchange rates of the prior period of comparison.

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