



Q4 FY2022 Trading Update

Conference Call Transcript

31st May 2023 / 8:00 a.m. GMT

Corporate Participants

Hervé Tessler – Chief Executive Officer

Burak Ozer – Chief Financial Officer

Steve Salter – Global VP Investor Relations

PRESENTATION

Operator:

Good day, ladies and gentlemen, and welcome to Noventiq Q4 FY '22 Trading Update. (Operator Instructions) I would like to remind everyone that this call is being recorded.

I will now hand over to Steve Salter, Global VP, Investor Relations. Please go ahead.

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 fourth 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, Hervé Tessler, and our Chief Financial Officer, Burak Ozer. Hervé will provide an update on the highlights of our fourth quarter 2022, followed by a business update, and review of our growth strategy. Burak will provide an update on our Q4 and full year financial results. 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 Hervé.

Hervé Tessler:

Thank you, Steve, and thank you everyone for joining us today.

I want to start by saying thank you to our 6,400 talented people around the world for your agility, and tremendous commitment to delivering for our customers... making us the partner of choice for digital transformation in the high growth markets where we operate. Our exceptional performance this year is a testament to the relevance of our strategy, and the strength of our team.

We have incredible momentum in our business, and I am proud that we have delivered above the business outlook for the year that we outlined on our last call.

Let me share a few highlights of this extraordinary year for our business.

We delivered record turnover of \$1.6 billion for the year with growth of 52% in constant currency. This represents approximately \$500 million incremental turnover over the prior year, and also includes a record fourth quarter to close out the year, with turnover of \$480 million growing 59% in constant currency.

Our top line performance was driven by broad based strength across all geographic regions, and is also in line with our strategic priorities. For example, our Services business grew 104% this year, and our recurring turnover is now 69%, with growth this year of 41% in USD.

We delivered Gross profit of \$176 million in FY22. Gross profit growth was also very strong at 51%, and was well ahead of revenue, which is one of our on-going objectives. Adjusted EBITDA margin based on gross profit was 18% for the year, and 22% in the fourth quarter.

In parallel with these strong operational metrics, we are investing for future growth. We have continued to invest and transform our business with discipline at unprecedented pace and scale as we expanded our competitive reach and capabilities into thriving new markets.

These investments include our people, training, motivation and retention... our talented people represent a strong differentiator in our market, and we have increased our headcount by 70% this year, including 81% in Services.

Our investments also include 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 enhanced by AI capabilities – this should consistently improve efficiency and velocity of our actions as well as take our customer interactions to the next level, and expanding into new geographies.

We have also continued to focus on creating value for our shareholders by taking bold strategic actions designed to ensure that the true fundamental value of our company is recognised by the market. This includes our recent announcement with our planned move to list in the U.S. through a business combination with Corner Growth Acquisition Corp.

As we look ahead, I am very excited by the opportunities for our business.

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

The company has a rich history spanning nearly 30 years and a portfolio covering the most important segments of information technology.

Sales and Services are in our DNA, with around 85% of our people in daily contact with our customers.

We have the highest status partnerships with top vendors and an excellent track record of organic and inorganic growth, and this past year is no exception as we grew 52% in constant currency.

We operate at scale in almost 60 countries globally, conducting business with more than 80,000 organizations of all types through direct engagements, electronic platforms and indirect channels – and we deliver superior local outcomes wherever we engage.

We have the right recipe for growth as we win in the market.

We have a consistent strategy for growth, and our exceptional results are an illustration that it is resonating in the market. Our strategy consists of three dimensions... market expansion... portfolio expansion... and sales channel expansion. Over the past year, we have made significant progress across all three areas...

I am particularly pleased with some of the innovation across our business, for example, as it relates to AI:

We believe that large language models and generative AI overall will further fuel the need to digital transformation across all industries – this is exactly our core business. We are thrilled about what our partners Microsoft with Copilot, Google with Bard and others are bringing to the party.

We had anticipated this and proactively invested in AI IP with our last year's acquisition of Saga and its subsidiary Intellya. Intellya's smart assistant goes further than just standard LLM. It includes all necessary components to make it enterprise class and operate in regulated industries. And we see the need for this extended functionality in our existing projects.

In one such example, a central European bank, Raiffeisen, was looking to improve its customer experience using modern digital technologies. Our Intellya Weaver AI solution not only brought in the eloquence of modern Large Language Models for better customer interactions but also enterprise class compliance and

banking-grade precision in every transaction. Weaver AI integrates with existing core systems and enterprises' information repositories and systems and can be easily deployed in other industries and use cases.

We are working to extend this IP and complement it with necessary deployment services utilizing also our existing award-winning Data & Analytics capabilities.

We have expanded our smart advisory solutions to provide tailored, industry and application specific trained personal AI solutions and assistants based on advanced AI and Machine Learning modules. This integrates a combination of industry and application specific content trained AI core solutions from Noventiq together with integration with solutions like ChatGPT.

The applications are multilingual, and with multilingual virtual assistants, Weaver is able to understand and process nearly all world languages. Built on industry-leading Conversational AI technology and Noventiq's powerful and unique bot engine, Weaver can lead natural Conversations with Voice or Text and provide human-level engagement and support. It provides the same conversational experience across all communication channels, as well as cross-channel continuity allowing end-users to initiate a conversation on one channel and seamlessly continue the interaction on another.

The AI core framework has more than 50 Machine Learning models, enabling a personalized advisory level of conversation. Using large languages models, the approach is trained with huge volumes of unstructured text. The powerful dialog management engine, enables the smooth flow of the conversation, combining the AI module, context switching, filling, and sharing, end-users are able to converse with companies just like they would with any other person.

Let me also illustrate the value we are delivering, based on what we have been doing recently with our customers...

In India we are working with BrainSightAI, a company at the forefront of developing innovative new methods for gaining a better knowledge of the human brain. They are doing this by assisting patients in speeding up the road to recovery and improved health. Noventiq has been helping with BrainSightAI's digital transformation and cloud journey. This includes hosting applications on cloud-native platforms and helping with their Apps and Data modernization.

With Value Point Systems, a Noventiq company, we are working in cyber security with an Indian government owned telecommunications organisation. The goal was to set up a high performance & low-latency big-data platform to analyse telecom data, and the solution is helping to monitor the data from the Telecom Security Operation Centre to tackle cyber security issues.

Moving to Malaysia, where Noventiq has helped the multinational Music Tribe to boost its overall productivity, and to build a unified IT solution with workloads to build scalable infrastructure and a streaming platform. We also helped them to customise and deploy Azure Sentinel, giving them easy and secure access to key data. All of the customer's files are now accurate, organised and stored on Microsoft 365 SharePoint. Overall productivity in the organisation has increased by 300 percent.

In Vietnam, we are helping one of the country's leading banks, VIB. Using Microsoft products, we have helped the bank to migrate to a multi-cloud ecosystem. The new solution is agile, scalable, and offers cost optimization. Also, in Vietnam, we have collaborated with one of the biggest telecoms companies in the country. With the scale of enterprise with more than 30,000 employees, the customer is leveraging Microsoft solutions to create modern workplace and digital transformation.

In Uruguay, we are collaborating with a construction and engineering global solutions provider. The customer has more than 80 years of experience in the industry. The solution that we are bringing allows them to manage their projects and as well as the migration of email accounts since the customer was looking to streamline the email administration, optimize their resources and training, reduce costs, and reinforce the platform's security.

In the UK, we have deployed a project for Thames Water through our subsidiary Softline AG, which is part of the Noventiq group. We have implemented a Software Asset Management tooling to help Thames Water to manage their software assets to identify cost savings, increase efficiency, and improve compliance. Also, through Softline AG, we have worked with the Employee Insurance Agency, UWV, to support them in outsourcing of tactical and operation Software Asset Management processes for a period of 6 years.

In Turkey, our team from Makronet, a Noventiq company, are working with Papara Elektronik Para A.Ş. This is a very competitive and innovative financial technology company having 500 employees and 15 million customers which has chosen Noventiq to help them digitalize their workplace using Microsoft 365 and Microsoft Azure.

I am also pleased with additional value we can bring, for example:

Our unified communication "Total Voice" solution continued to be rolled out Globally after success in Latin America where we secured the Unified communications as a service New Product Innovation Award by Frost and Sullivan together with LATAM Microsoft Partner of the Year in TEAMS Calling and Meetings this last year.

Total View, another Noventiq IP Solution, launched in March of this year providing organizations more visibility and insights into the adoption and productivity trends of their users.

Both solutions are helping our organization to consistently increase efficiency of the workplace environments.

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.

Let me highlight just a few of these capabilities – for example:

With Value Point Systems – bringing digital infrastructure and cybersecurity solutions & services.

With Saga – bringing proprietary digital products, including IP for digital banking, Fintense...and Weaver, a sophisticated AI smart assistant; and Selecta, a next generation AI-powered CRM platform – these two platforms are created and owned by Intellya, another of Saga Group's subsidiaries.

With G7 CR Technologies – bringing Managed Services for Azure-based cloud solutions, and a vibrant customer base of start-ups.

With Makronet - strengthening sales channel capabilities with Makronet's own unique platform MyAdmin, which is globally awarded by Microsoft. This solution, which simplifies and optimises customers' management and operations of CSP assets, complements Noventiq's own ActivePlatform to further digitally transform customers' ecosystems.

With Seven Seas Technology – bringing collaborative, multi-cloud strategies to medium and large enterprises.

These capabilities help to make us even more relevant to our customers as we help drive digital transformation and digital operations.

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

Burak Ozer:

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

Our results in the fourth quarter showed continued momentum, with exceptional growth, particularly in our strategic areas of focus. I will now go through the unaudited financials in more detail.

We delivered record turnover of \$480.7 million dollars for the fourth quarter, an increase of 46% in USD, and 59% in constant currency. This was driven by very strong double-digit growth in our Software & Cloud business, as well as our Services business... and we continued to deliver triple-digit growth in Hardware.

Gross profit in the fourth quarter was \$52.6 million dollars, an increase of 61.1% in USD, with growth well ahead of turnover. This includes the impact of IAS 8 which I will talk more about shortly. Gross profit strength was primarily driven by the impact of our Services business.

We delivered adjusted EBITDA of \$11.6 million dollars, which results in a margin on gross profit of 22.1% in the quarter. This continues to reflect the very significant investments we are making for future growth.

Based on the growing significance of our Services business which now represents 11% of turnover for the 12 months to 31 March 2023, we have reviewed the presentation of financial reporting for comprehensibility and transparency on an ongoing basis. In the fourth quarter, we applied a change in accounting policy under IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors" to reclassify Services related direct costs into cost of sales. We consider that the change leads to a more accurate presentation of the performance of the Group. This change impacted Gross Profit by \$15.2 million dollars in Q4, and \$58.7 million dollars for the 12 Months to 31 March 2023.

Overall, we are pleased with our performance in the quarter, and the relentless focus we have on delivering against our growth objectives, while at the same time, continuing to invest significantly in the business for the long term.

Looking at the full fiscal year to 31st March 2023.

We delivered record turnover of \$1.6 billion dollars, an increase of 52% in constant currency, and well above the prior business outlook of "at least 45%" growth.

Our turnover is well diversified from a geographic perspective. We were pleased with the broad-based turnover growth across all four regions which all grew double-digits. APAC was particularly strong with 40% growth in U.S. dollars, predominantly driven by our business in India, which now accounts for approximately \$700 million in turnover.

Looking at turnover by segment.

Software and Cloud grew 29% as we see continued demand for digital transformation.

Services grew 109%, which includes the impact of acquisitions that have helped us to further strengthen our services portfolio.

And we had very significant growth of 185% in Hardware.

We delivered Gross profit of \$176.3M, up 50.7% year over year, and with growth ahead of turnover. Gross margin came in above the range of our business outlook adjusting for IAS 8. A key contributor to the growth was the strength of the Services business, now with 11% share of turnover, representing 41% share of Gross Profit.

Adjusted EBITDA was \$32.5M. Adjusted EBITDA margin based on gross profit, was 18.4% for the year. This reflects the significant investments the company is 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 entry into new geographies.

Moving onto some other key metrics.

Operational Net debt was negative.

And the Cash position as at 31 March 2023 was \$135 million dollars.

I would like to highlight some important changes to the way we will report. Starting from Q1, for the three Months to 30 June 2023:

We will refer to the current year, for the 12 Months to 31 March 2024 as FY24. This aligns to normal market practice in the U.S.

We will now report the non-IFRS metric "Gross revenue" which is defined as gross amounts billed to customers on all product categories during the reporting period, regardless of role in the delivery process – as principal or as agent. This will replace the previously disclosed metric of "Turnover".

We have also provided a factsheet of key metrics by quarter, which we think is helpful for investors, and this can be found on the Investor Relations section of our website.

For any further questions, please contact Steve, who will be happy to help.

We remain focused on delivering on Q1 and driving continued profitable growth for the full fiscal 2024, and will continue to manage our business responsibly while closely monitoring the demand environment.

Let me turn the call back to Hervé.

Hervé Tessler:

Thanks Burak. To summarise, I am very proud of the exceptional results we have delivered, and with our continued execution discipline in the context of a very dynamic market.

It has been a truly extraordinary year for our business and we have made significant progress against our long-term strategic objectives. We have the right recipe for success, and we are extremely well positioned to continue delivering ahead of the market.

We remain laser focused on creating value for all of our stakeholders... including our customers, our people, our shareholders, our partners, and the communities we operate within. Once again, I want to thank our 6,400 incredibly talented people, whose dedication to our customers and creative work with our technology partners ensures that we are the partner of choice in driving digital transformation in the fast-growing emerging markets.

Finally, I would like to invite you to join us for a conference call webcast that we will be hosting in the coming days with more details on Noventiq's business momentum and our recent BCA signing with Corner Growth. Stay tuned for details.

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

QUESTION & ANSWER SECTION

Operator:

(Operator Instructions) We have received a written question from the online platform.

And the question is: You are exiting Q4 with growth above 50%. That is very strong growth indeed. How should we think about growth in the new fiscal year?

Hervé Tessler

Thank you. I mean, we feel really very well positioned. We delivered an incredibly strong growth in Q4, with a constant currency growth in turnover of 59%, a record turnover for the full year of \$1.6 billion, which, again, is an incremental \$500 million turnover over the prior year. I am very pleased with the broad-based strength across the geos. Each and every single geo and region is growing double-digit. And I'm excited by the conversation we're having with our customers. So we see a real acceleration in all matters around digital transformation on all market segments. It's not just large enterprise, its large enterprise, small and medium businesses, they're all really focused on digital transformation, cyber security and AI, which is our core business. As it relates to the full year '24 business outlook, we will provide this on our upcoming webcast with Corner Growth, where we will go into more details on our business and our forward view of what's going to -- what we're going to deliver next year.

Operator

The second written question received is: We have seen some other companies cutting their workforce, are you expecting to do the same?

Hervé Tessler

We are not, and we are taking opportunities to invest and hire for the very high demand we are experiencing in our high-growth emerging markets. I am a strong believer that when you have bumps on the road and sometimes the market is a bit unstable, bumpy, it can be also a good time to invest to double down. And one area where we're definitely doubling down is hiring and bringing talents onboard.

Again, we increased our headcount by 70% in the past year and importantly by 81% in Services, which is one of our key, core strategic pillar. We continue to focus on our overall employee value proposition, and I'm really very pleased with the very strong key talent retention we're experiencing across the board, across the geographies, across the different businesses where we operate.

Operator

The third question received goes as follows: Herve, now that you have been in the CEO role, what are your priorities? Should we expect any changes to the strategy?

Hervé Tessler

So, the simple answer is, its evolution, no revolution. And you might know that for now a few years, we have what we call a 3-dimensional growth strategy based on 3 pillars. One is market expansion, the other one is portfolio expansion, and the third one is sales channel expansion. I think these 3 top priorities, growth engines are self-explanatory. What I'm doing is adding a fourth dimension that I would call leadership and talent expansion. I'm a strong believer of that our people are the ultimate differentiator in our markets, especially when it's about gaining local relevance in very diverse countries, geos where everything is different -- culture, business environment, economic environment, geopolitical environment, so we need to keep doing that. And I'm taking that as the fourth leg of our growth strategy. So leadership and talent expansion. So it's an evolution, not a revolution. And then last but not least, I mean, I'm working with the senior management team on what I would call execution, amplification, acceleration. We've got the right strategy. We've got a good recipe for success. Now it's a matter of amplification and acceleration of our execution, and we're doing that. And then obviously, as you know, we have that intention to get to NASDAQ, which is another key priority for me and for the leadership team this year. Maybe just to close, we are working at working our talk both to deliver the short-term performance and the longer-term value for all stakeholders.

Operator

The next question goes as follows: Can you tell me more on what you are doing in the AI space?

Hervé Tessler

Yes, sure. I mean we are doing a lot in AI. We are doing a lot on multiple fronts. One front is we have that exceptional partnership with most of the major tech players that are influencing, that are accelerating the artificial intelligence impact across the world. We are leveraging that to obviously develop with the solutions for our customers. And again, for customers of all size in several different industries.

In addition to that, we are also building our own IP. And take an example, we acquired a company last year, Saga, and Saga is bringing proprietary digital products, including IP for digital banking Fintense, and a very unique solution Weaver, which is a sophisticated AI smart assistant and Selecta a next-generation AI powered CRM platform. These 2 platforms are created and owned by Intellya, which is a subsidiary of the Saga Group, and we are leveraging that IP to expand it globally.

Operator

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

Hervé N. Tessler *Noventiq Holdings plc - CEO & Director*

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

Operator

Ladies and gentlemen, that concludes this conference. Thank you for joining us. You may now disconnect your lines.