

# H1 2024 results

Six months to 30 November 2023

25 January 2024

nccgroup<sup>®</sup>





# Overview

Mike Maddison  
CEO



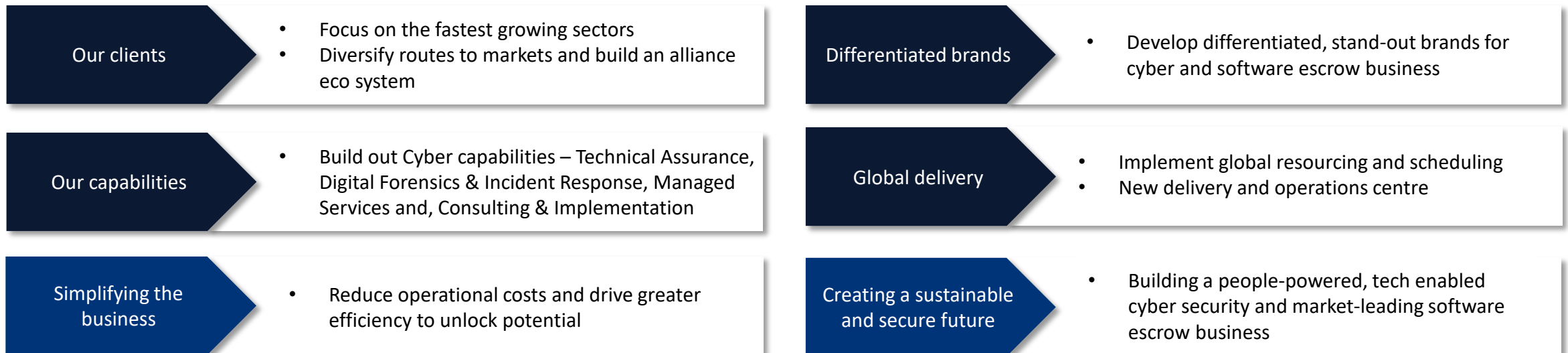
# Agenda for today

- Transformation journey
- Executive highlights
- Financial review
- Strategy update
- Summary and outlook
- Your questions answered

## Where we started



## Where we are going



Revenue

£159.2m

£176.6m  
H1 2023 – (6.7%) at constant currency

Gross margin

37.9%

40.5%  
H1 2023 – (2.6% pts)

Adjusted EBIT

£4.8m

£12.9m  
H1 2023 restated – (62.8%)

Cash conversion

89.1%

100.4%  
H1 2023 restated – (11.3% pts)

## First half numbers in line with expectations and strategy is transforming the business at pace

- Overall performance in line
- Cyber Security stabilised, Managed Services continued growth and gross margin trajectory
- Ecode revenue and profit continuing to grow
- Strategic progress and cost efficiencies realised
- Confident outlook and current trading remains in line with expectations
  - TAS Q2 2024 revenue exit rate gives us confidence in H2 2024 supported by continued MS revenue growth
  - Low single digit revenue growth in Ecode within H2 2024 expected
  - The cost base efficiencies we've taken mean we are well placed to deliver on our full year expectations
  - Group remains confident on medium-term financial goals



# Financial review

Guy Ellis  
CFO

**Sustainable  
revenue growth**

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**Improved  
gross margin**

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**Efficient cost base**

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**Balance sheet  
resilience**

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## Revenue

**£159.2m**

H1 2023: £176.6m – (6.7% CC)

## Gross Margin %

**37.9%**

H1 2023: 40.5% - (2.6% pts)

## Overheads (exc. SBP, D&A and ISIs)

**£44.0m**

H1 2023: £44.8m - (1.8%)

## Adjusted EBITDA <sup>1</sup>

**£15.6m**

H1 2023: £24.2m – (35.5%)

## Cash Conversion Ratio <sup>1</sup>

**89.1%**

H1 2023: 100.4% - (11.3% pts)

## Net Debt (exc. Leases)

**£48.3m**

H1 2023: £54.8m – (11.9%)

1: Now includes previously adjusted item of Share based payments (SBP) of £0.8m (H1 2023: £2.5m) to align to FRC best practice guidance.



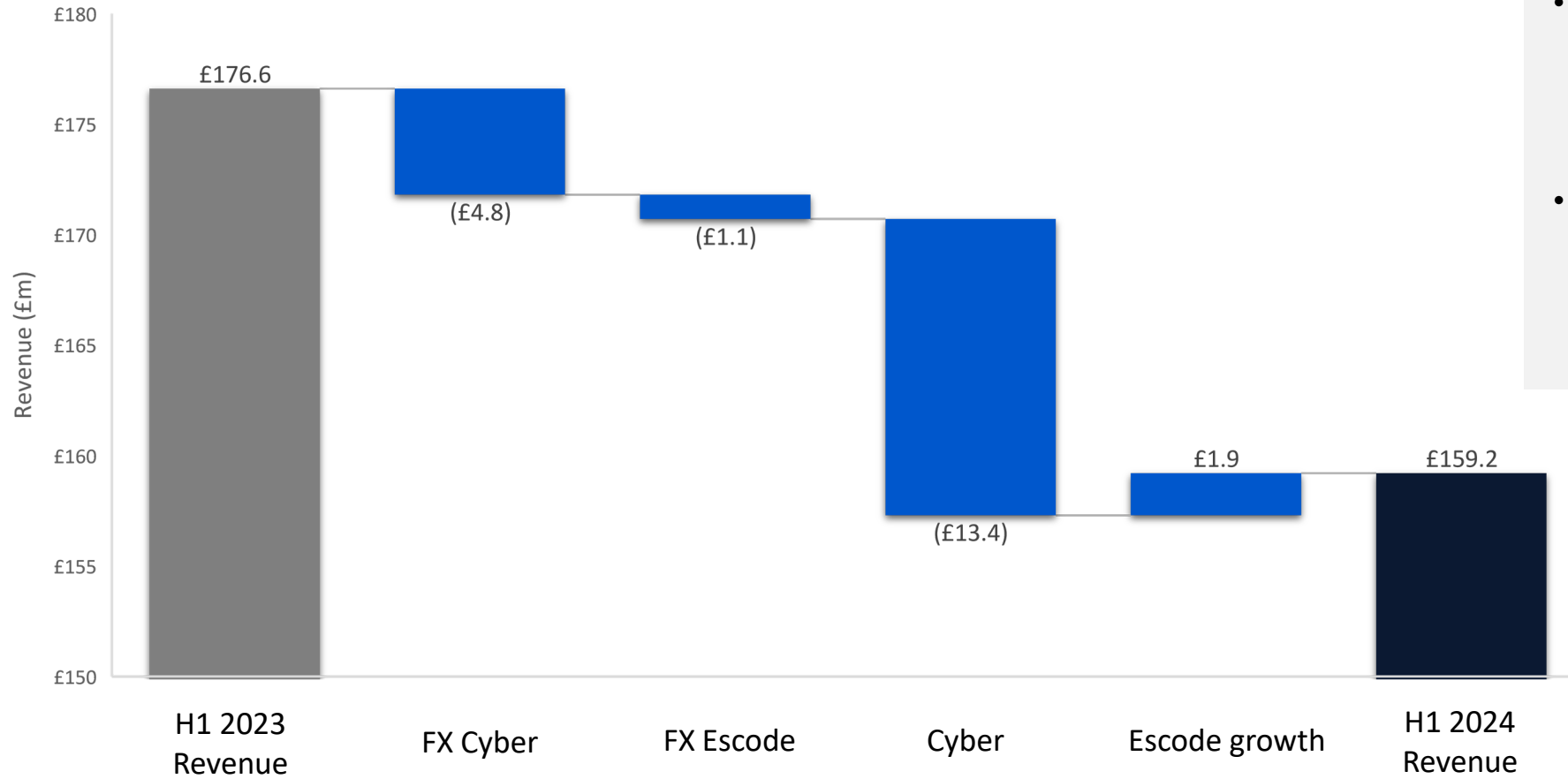
	H1 2023 £m	H1 2024 £m	% change
<b>Revenue</b>	176.6	<b>159.2</b>	(9.9%)
Gross profit	71.5	<b>60.4</b>	(15.5%)
Gross margin %	40.5%	<b>37.9%</b>	(2.6% pts)
Overheads	(44.8)	<b>(44.0)</b>	(1.8%)
Share based payments	(2.5)	<b>(0.8)</b>	(68.0%)
<b>Adjusted EBITDA</b>	24.2	<b>15.6</b>	(35.5%)
Adjusted EBITDA margin %	13.7%	<b>9.8%</b>	(3.9% pts)
Depreciation and amortisation	(11.3)	<b>(10.8)</b>	(4.4%)
<b>Adjusted EBIT</b>	12.9	<b>4.8</b>	(62.8%)
Adjusted EBIT margin %	7.3%	<b>3.0%</b>	(4.3% pts)
Finance costs (including leases)	(2.6)	<b>(3.0)</b>	15.4%
<b>Adjusted PBT</b>	10.3	<b>1.8</b>	(82.5%)
Adjusted tax	(2.7)	<b>(0.4)</b>	(85.2%)
Adjusted tax %	26.2%	<b>22.2%</b>	(4.0% pts)
<b>Adjusted PAT</b>	7.6	<b>1.4</b>	(81.6%)
Adjusted basic EPS	2.5p	<b>0.5p</b>	(2.0p)

- First half as expected
- Cost of sales efficiencies and overhead decrease as planned
- ISI's of £4.2m include reorganisation costs (£3.8m), as well as disposal costs incurred on the non-core disposal of DetACT (£0.2m)
- Adjusted measure disclosures changed to reflect FRC best practice guidance

#### Disclosure changes – summary reconciliation <sup>1</sup>:

	H1 2023 £m	H1 2024 £m	Change £m
<b>Adjusted EBITDA - previously</b>	26.7	<b>16.4</b>	(10.3)
Share based payments	(2.5)	<b>(0.8)</b>	1.7
<b>Adjusted EBITDA - revised</b>	24.2	<b>15.6</b>	(8.6)
<b>Adjusted EBIT - previously</b>	20.5	<b>10.2</b>	(10.3)
Share based payments	(2.5)	<b>(0.8)</b>	1.7
Amortisation of acquired intangibles	(5.1)	<b>(4.6)</b>	0.5
<b>Adjusted EBIT - revised</b>	12.9	<b>4.8</b>	(8.1)

1: See Appendix for full reconciliation of all adjusted measures.



- Expected Cyber Security constant currency decline of 9.6% in H1, driven by North America
- Escope delivered again positive revenue growth in constant currency of 6.2%, aided by Q1 2023 comparator

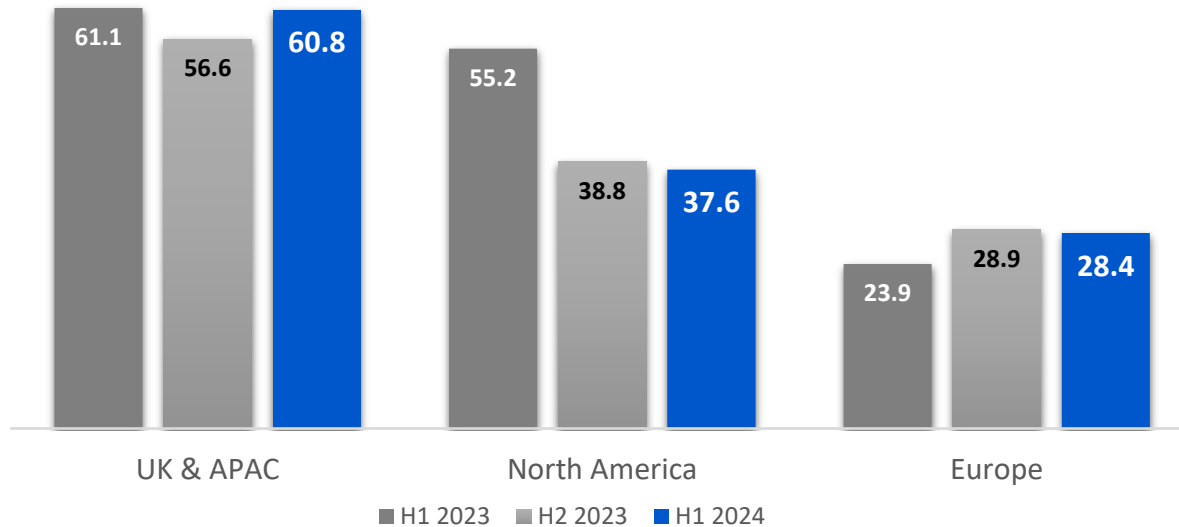
## Revenue by region

Constant Currency

### H1 FY24 regional YoY growth:

- UK & APAC: (0.5%)
- North America: (31.9%)
- Europe: +18.8%

Overall: (9.6%)



### Trajectory:

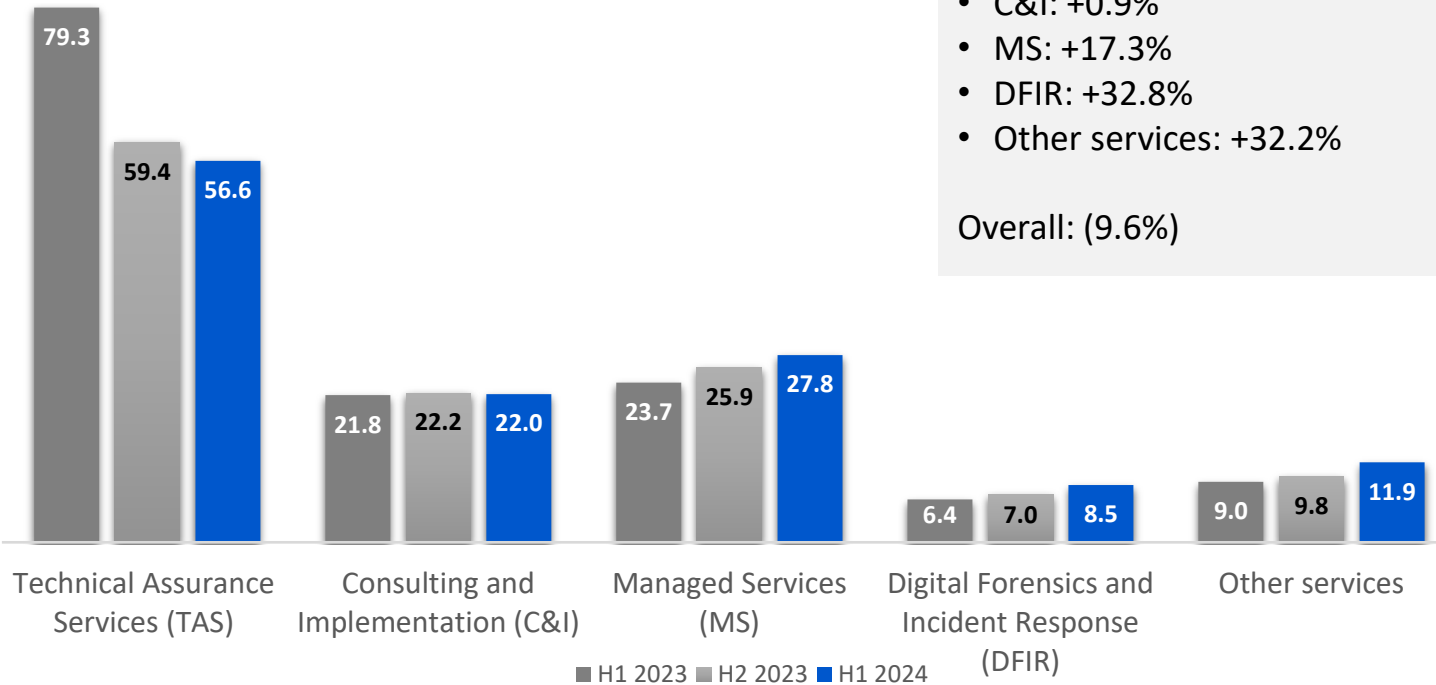
- North America revenue declined at constant currency by -3.1% compared H2 2023 revenue
- H1 2024 revenue ahead of H2 2023 at constant currency by 2.1%
- TAS overall utilisation has improved in Q2 2024 to c.76% as compared to c.60% Q1 FY24 and Q4 FY23, contributing to an improvement in H1 2024 gross margin percentage of +0.7% pts as compared to H2 2023
- H1 2024 - 213 clients with sales orders > £250k, of which 76% take multiple capabilities (H1 2023 – 205)
- Number of recurring clients over £250k is 133 (H1 2023 -139)

Actual rates Continuing and discontinued activities	H1 2023 £m	H1 2024 £m	% change
Revenue	145.0	126.8	(12.6%)
Gross profit	49.2	38.0	(22.8%)
Gross margin %	33.9%	30.0%	(3.9% pts)
Overheads	(36.2)	(34.1)	(5.8%)
<b>Adjusted EBITDA <sup>1</sup></b>	<b>13.0</b>	<b>3.9</b>	(70.0%)
Adjusted EBITDA margin %	<b>9.0%</b>	<b>3.1%</b>	(5.9% pts)

1: Now includes previously adjusted item of Share based payments (SBP) of £0.1m (H1 2023: £1.2m) to align to FRC best practice guidance.

## Revenue by capability

Constant Currency



### H1 FY24 capability YoY growth:

- TAS: (28.6%)
- C&I: +0.9%
- MS: +17.3%
- DFIR: +32.8%
- Other services: +32.2%

Overall: (9.6%)

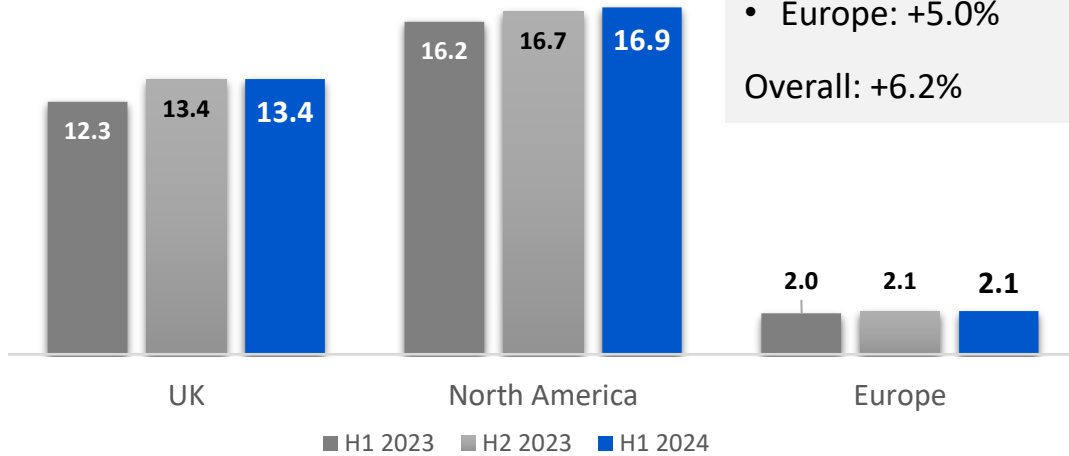
- TAS declined by -28.6% (-31.7% at actual rates) due to impact of challenges we experienced in Q3 FY23, albeit now stabilising as demonstrated by H1 2024 revenue only declining by -4.7% as compared to the revenue generated in H2 2023 (-5.7% at actual rates)
- C&I slightly increased by +0.9% (-1.8% at actual rates) with an experienced leader now recruited for this capability
- As expected, MS increased by +17.3% (+15.4% at actual rates) with sales orders for the forthcoming years increased 91% from £32.3m to £61.8m
- DFIR increased by +32.8% reflecting the number of incident responses of Ransomware

### Capabilities:

- *Technical Assurance Services (TAS): all types of penetration testing*
- *Consulting and Implementation (C&I): consultancy services across all industrial verticals*
- *Managed Services (MS): includes XDR*
- *Digital Forensics and Incident Response (DFIR): includes incident responses to Ransomware*
- *Other services: include our Fox-IT Crypto business, DetACT and Global Cyber Security Research*

## Revenue by region

Constant currency



### H1 2024 regional YoY growth:

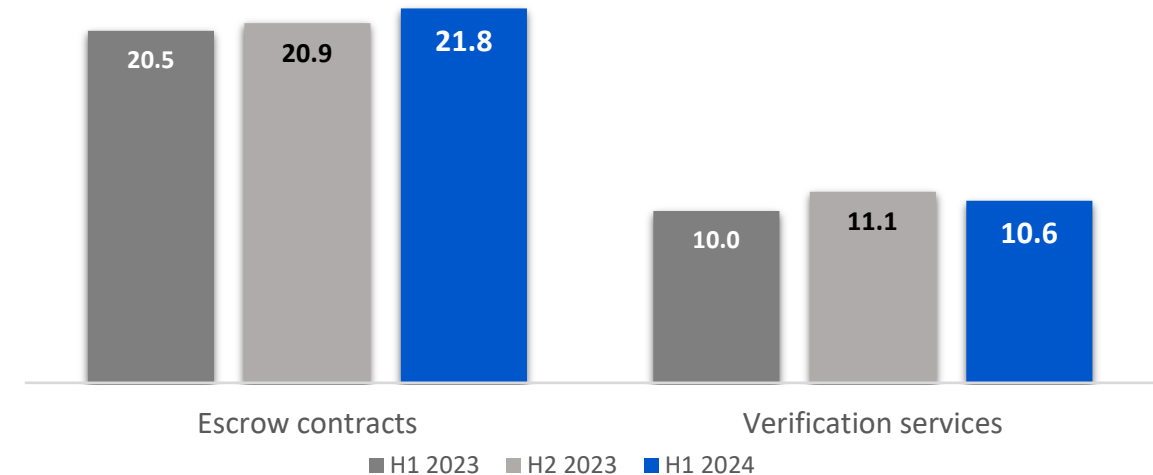
- UK: +8.9%
- North America: +4.3%
- Europe: +5.0%

Overall: +6.2%

Actual rates	H1 2023 £m	H1 2024 £m	% change
Revenue	31.6	32.4	2.5%
Gross profit	22.3	22.4	0.4%
Gross margin %	70.6%	69.1%	(1.5% pts)
Overheads	(8.1)	(7.7)	(4.9%)
<b>Adjusted EBITDA</b>	<b>14.2</b>	<b>14.7</b>	3.5%
Adjusted EBITDA margin %	<b>44.9%</b>	<b>45.4%</b>	0.5% pts

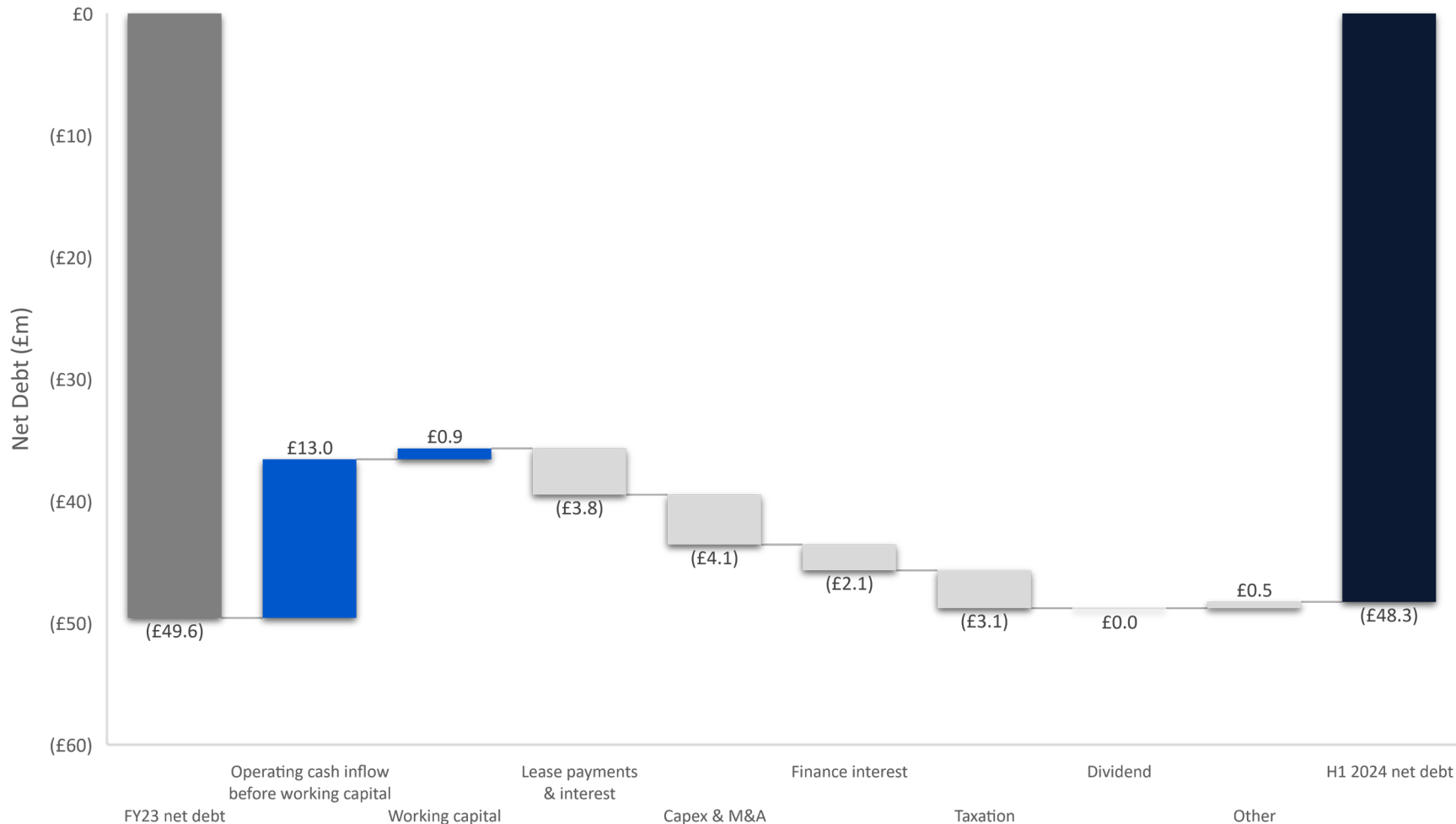
## Revenue by service line

Constant currency



- Sustaining growth through last five quarters
- H1 2024 growth driven by increased verification revenues and contracted price increases, this acceleration was aided by Q1 2023 comparator
- Client retention rate remains stable YoY at c.93% and consistent with long term trends
- Number of client beneficiaries is 45,872 (H1 2023: 47,304)

# Net debt (exc. Leases) reduced by £1.3m



- Cash conversion remains strong
- Balance sheet strength with four-year enlarged multi-currency RCF of £162.5m with additional £75m uncommitted accordion option to enable new strategy
- FY23 final dividend of £9.8m paid in December 2023 due to timing of AGM and shareholder approval of dividend being on 30 November 2023
- H2 2024 will see proceeds from DetACT disposal – expected February 2024

## Sustainable revenue growth

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Returning Cyber Security to growth in H2

Accelerating growth in our recurring Managed Services

Maintaining momentum of quarterly growth in Escode

## Improved gross margin

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Improved utilisation %

Globalised technical resource footprint

## Efficient cost base

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Delivering c.£5m efficiencies in Cyber Security in FY24 (annualised c. £10m from FY25)

Annualising Escode efficiencies delivered in FY23

## Balance sheet resilience

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Strong cash conversion

Reducing debt

Maintaining dividend



# Strategy update

Mike Maddison  
CEO



## Our businesses



### Cyber Security

Protecting companies and governments against an evolving spectrum of cyber threats



### Escanoe

A global market leader, protecting and verifying the code of leading private and public sector entities around the world

## Our strategy

### Our clients

Deeper client engagement on the most pressing cyber security needs

### Our capabilities

Broader service portfolio addressing the full cyber security lifecycle



### Global delivery

Transitioning from an international to a fully global business

### Brands

Distinct and relevant brands for Cyber Security and software escrow business



## Our ambition

### Medium term:

#### Cyber Security

- Mid-teens revenue growth
- Mid-teens Adjusted EBITDA margin % <sup>1</sup>
- Low-teens Adjusted EBIT margin % <sup>2</sup>

#### Escanoe

- Consistent low single-digit revenue growth
- Maintain global market leadership in software escrow

1: Now includes previously adjusted item of Share based payments (SBP) of £0.8m (H1 2023: £2.5m) to align to FRC best practice guidance.

2: Now includes previously adjusted items of Share based payments (SBP) of £0.8m (H1 2023: £2.5m) and Amortisation of acquired Intangibles £4.6m (H1 2023: £5.1m) to align to FRC best practice guidance.

# Delivering on strategy and operational targets



NCC Group Cyber Security Assessment and Discovery Services now available powered by Tanium

## What we said we would do

### Our clients

- Focus on the fastest growing sectors
- Diversify routes to markets and build an alliance eco system

### Our capabilities

- Build out Cyber capabilities – Technical Assurance, Digital Forensics and Incident Response, Managed Services and Consulting and Implementation

### Global delivery

- Implement global resourcing and scheduling
- New delivery and operations centre

### Differentiated brands

- Develop differentiated, stand-out brands for cyber and software escrow business

## What we've done

- Vertical structure in North America to enable sharper focus on key sectors
- Announced strategic partnerships with TransUnion and Tanium

- Broadened scope of IR to incorporate Digital Forensics reflecting increase in Ransomware incidents
- Driven significant growth in Managed Services

- Rolled out Kantata scheduling system to the US and Manila
- Manila continues to scale with 60 colleagues now in place

- New distinct brand for software escrow business rolls out this quarter



*Pictured: Saira Acuna, NCC Group Country Director speaks at the Manila Office Inauguration ceremony*

# Delivering on strategy and operational targets



*Pictured above: Colleagues in Manila celebrating the inauguration of the office*

## What we said we would do

### Simplifying the business

- Reduce operational costs and drive greater efficiency to unlock potential

### Creating a sustainable and secure future

- Building a people-powered, tech enabled cyber security and market-leading software escrow business

## What we've done

- Sold non-core asset DetACT
- In Escope enacted price increases and systems consolidation
- Single tech stack in Managed Services

- Completed double-materiality assessment and launched new Sustainability strategy to underpin the Group's *Next Chapter* strategy



# Summary and outlook

Mike Maddison  
CEO



## We will continue to deliver our *Next Chapter* strategy

- Strategy is transforming the business at pace
- Confident outlook and current trading:
  - Technical Assurance Services Q2 2024 revenue exit rate gives us confidence in H2 2024 supported by continued Managed Services revenue growth
  - Low single digit revenue growth in Escode within H2 2024 expected
  - The cost base efficiencies we've taken and the performance in H1 2024 mean we are well placed to deliver on our full year expectations
  - The Group remains confident on medium-term financial goals

Questions



# Appendix – Reconciliation of adjusted measures

Adjusted measure	H1 2024	H1 2023 (restated) <sup>2</sup>	Change
Adjusted EBITDA – previously (£m)	16.4	26.7	(10.3)
Share based payments (£m)	(0.8)	(2.5)	1.7
<b>Adjusted EBITDA – revised (£m)</b>	<b>15.6</b>	<b>24.2</b>	<b>(8.6)</b>
Adjusted Operating profit – previously (£m)	10.2	20.5	(10.3)
Share based payments (£m)	(0.8)	(2.5)	1.7
Amortisation of acquired intangibles (£m)	(4.6)	(5.1)	0.5
<b>Adjusted Operating profit – revised (£m)</b>	<b>4.8</b>	<b>12.9</b>	<b>(8.1)</b>
Adjusted earnings – previously (£m)	5.4	13.3	(7.9)
Share based payments (£m)	(0.8)	(2.5)	1.7
Amortisation of acquired intangibles (£m)	(4.6)	(5.1)	0.5
Tax effect of above items (£m)	1.4	1.9	(0.5)
<b>Adjusted earnings – revised (£m)</b>	<b>1.4</b>	<b>7.6</b>	<b>(6.2)</b>
<b>Basic adjusted EPS - previously (pence)</b>	<b>1.7</b>	<b>4.3</b>	<b>(2.6)</b>
Effect of share-based payments (pence)	(1.5)	(1.6)	0.1
Effect amortisation of acquired intangibles (pence)	(0.2)	(0.8)	0.6
Tax effect of above items (pence)	0.5	0.6	(0.1)
<b>Basic adjusted EPS – revised (pence)</b>	<b>0.5</b>	<b>2.5</b>	<b>(2.0)</b>
<b>Cash conversion – previously (%)</b>	<b>84.8</b>	<b>91.0</b>	<b>(6.2)</b>
Effect of share-based payments (%)	4.7	9.4	(4.7)
<b>Cash conversion – revised (%)</b>	<b>89.1</b>	<b>100.4</b>	<b>(11.3)</b>

Cyber Security	H1 2023	H1 2024
Delivery headcount	1,402	1,113
Number of clients >£0.25m	205	213
Number of long-term (>3 years) clients over £250k	139	133
% of £250k clients using multiple capabilities	76%	76%
Utilisation	65%	68%
Escode		
Headcount	227	269
Client retention rate	93%	93%
Number of clients (beneficiaries)	47,304	45,872

*Total orders > £250k in prior 12 months*

*Minimum one order per year in prior three years, plus £250k net spend in prior 12 months*

*Orders for more than one capability in prior 12 months, and £250k+ spend in prior 12 months*



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