

26 March 2024
AIM: KBT



This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the company's obligations under Article 17 of MAR

K3 BUSINESS TECHNOLOGY GROUP PLC
(“K3” or “the Group” or “the Company”)

Provider of business-critical software solutions focused on fashion and apparel brands.

Final results for the year to 30 November 2023

Key Points

		Restated
	FY 2023	FY 2022
Revenue from continuing operations	£43.8m	£47.2m
Gross profit	£27.1m	£27.9m
— <i>gross margin</i>	62%	59%
Adjusted operating profit/(loss) ¹	£1.3m	(£0.6m)
Loss before tax from continuing operations	(£1.8m)	(£4.1m)
Net cash ¹	£8.3m	£7.1m
Reported loss per share	(5.4p)	(9.5p)
Adjusted gain/(loss) per share for continuing operations	1.0p	(4.6p)

¹refer to note 10

Financial

- Stronger financial position, with improved cash generation and tighter cost discipline supporting increased net cash at financial year end of £8.3m (30 November 2022: £7.1m).
- Total revenue decreased by 8% to £43.8m (2022: £47.2m) mainly reflecting lower revenue from Global Accounts. Approx £0.4m (2022: £0.3m) of income was not recognised as a result of the new revenue recognition policy for K3 fashion and apparel products (income from contracts is now recognised over the term of the contract, instead of upfront).
- Total annual recurring revenue (“ARR”) increased to £24.7m (2022: £22.4m), including double-digit ARR growth from K3 fashion and apparel products and from the NexSys business unit.
- Encouraging return to profitability with adjusted operating profit of £1.3m (2022: loss of £0.6m)
 - adjusted operating profit/loss metric has replaced adjusted EBITDA as a key performance indicator, being a better proxy for cash generation.
- Benefits of further cost reduction measures implemented in the second half will be felt in FY 2024 and beyond.

Operational

- Move to new business unit structure at financial year end establishes a better platform for the Group as the Board focuses on driving cash and value.
- K3 Products division – continued strong sales growth from fashion and apparel offering (“Fashion portfolio”).
 - Revenue of £13.1m (2022: £12.6m); gross profit of £10.4m (2022: £9.8m), which is after £0.4m of Fashion portfolio revenue not booked (2022: £0.3m), in line with new revenue recognition policy.
 - Gross profit margin of 79% (2022: 78%).
 - Fashion portfolio increased ARR by 28% to £5.8m at period-end, driven by both new customer wins and existing customers expanding their software licences.
 - New dedicated management team at Retail Solutions has delivered benefits.
 - Strategic decision to integrate K3 ViJi capabilities within Fashion portfolio’s existing corporate social responsibility functionalities rather than maintain it as stand-alone product.

- Third-party Solutions division – results impacted by downturn in activity at Global Accounts, which offset strong growth in the NexSys business unit.
 - Revenue of £30.7m (2022: £34.7m) and gross profit of £16.7m (2022: £18.1m).
 - Gross profit margin of 55% (2022: 52%) – reflected revenue mix and reduced overheads.
 - NexSys (formerly known as SYSPRO); performed strongly with average deal size increased and a number of large new contracts secured.
 - Global Accounts; significant slowdown in second half; remedial action taken to reduce cost base.

Current Trading and Prospects

- The Board remains focused on the transition to higher quality recurring earnings, as well as cash generation, cost discipline and additional operational simplification, which will help to drive further shareholder value.
- Group trading in the first quarter of the new financial year is in line with budget, and K3 has a stronger balance sheet than in FY22, which should continue to strengthen. While the markets that K3 serves remain challenging, the Board believes that both divisions have good growth opportunities.
- Overall, the Board expects cash generation to continue to improve in FY24 and the Group to deliver a higher adjusted operating profit result.

Tom Crawford, Executive Chairman of K3 Business Technology Group plc, said:

“We made good progress in a number of important areas and achieved some significant financial and strategic milestones against a challenging trading environment. In particular, the Group’s balance sheet has strengthened. Our Fashion portfolio performed well and has attractive growth opportunities. Third-party Solutions contended with a slowdown at Global Accounts, however the NexSys operations grew strongly and continues to generate dependable and significant cash flows from software licence and maintenance and support renewals from its large user base.”

“The transition to a unit structure will support our drive to generate value for shareholders and we remain disciplined in our focus on cash generation, costs and the shift to higher quality earnings. As we move through the new financial year, we expect K3 to generate increased cash and deliver a further improvement in adjusted operating profit.”

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EXECUTIVE CHAIRMAN'S STATEMENT

Overview

We made good progress over the year in a number of important areas and, against a challenging trading backdrop, K3 has achieved some significant financial and strategic milestones.

The Group has continued to strengthen its financial position, with improved cash generation raising net cash at the financial year-end to £8.3m from £7.1m. This was helped by tightening cost discipline across the Group, as well as further actions to address overheads.

Operationally, we are seeing encouraging progress with our strategic products for the fashion and apparel market ("Fashion portfolio") in the K3 Products division. The Fashion portfolio delivered 28% growth in annualised recurring revenue ("ARR") to £5.8m from £4.5m in the prior year. K3 Fashion, our flagship product, which is globally endorsed by Microsoft, performed particularly strongly and its growth potential remains exciting. In addition a new dedicated management team at the Retail Solutions unit has driven meaningful performance improvements, including higher margins and customer retention.

Within the Third-party Solutions division, the NexSys operation, which makes up 68% of the division's revenues and drives the division's significant cash generation, grew strongly. The unit increased its extensive installed customer base with new larger customer wins, in line with strategy. Importantly, software licence and support and maintenance contract renewals at NexSys remained very high at 98% (2022: 98%) and its net revenue retention was 109%. Against this, Global Accounts, also part of the division, contended with a slowdown in activity. The slowdown, which was apparent in the first half, was sharper in the second half, and we responded with steps to address the resource base.

While overall Group revenue decreased by 8% to £43.8m, the Group significantly improved other key performance measures year-on-year. Total annual recurring revenue increased to £24.7m from £22.4m last year, with the Fashion portfolio and NexSys both generating double-digit ARR growth. Adjusted operating profit¹ moved from a loss of £0.6m in the prior financial year to a profit of £1.3m. Gross profit margin increased significantly to 62% from 59% in the prior year, and gross margin at both K3 Products and Third-party Solutions divisions was higher year-on-year, at 79% and 55% respectively (2022: 78% and 52%). Free cash flow¹ is a key performance measure for the Board, and this improved from an outflow of £1.8m in 2022 to an inflow of £1.1m in 2023, which is a £2.9m turnaround.

Looking ahead, we expect further progress in the new financial year as software revenues grow and we maintain a disciplined approach to development allocation and cost base control. Our strategic decision to incorporate the nascent K3 ViJi product capability into our Fashion portfolio products, rather than maintain it as a standalone offering, will help here.

At the K3 Products division, the Fashion portfolio, which is sold via our business partner network, has good growth prospects. The new team at Retail Solutions is confident of lifting net revenue retention, which is now at 103%, and has refined the account management and sales strategy.

At the Third-party Solutions division, we have ambitious targets for NexSys, supported by a good new business pipeline. The slowdown in customer activity at Global Accounts is expected to continue in the short to medium term, but the resource base is now more appropriately sized.

Financial Results

Total revenue for the year ended 30 November 2023 decreased by 8% to £43.8m (2022: £47.2m). On a constant currency basis, total revenue was 7% lower year-on-year. The reduction mainly reflected lower revenue from Global Accounts, whose customers pulled back on expansion and project spend from the levels seen prior to summer 2023. As reported with interim results, the Group's revenue recognition policy for the Fashion portfolio was changed in this financial year. Revenue from fashion product contracts is now recognised over the term of the contract rather than proportionally upfront after the completion of software installation, and matches revenue to cash collection. The change in policy has reduced revenue by £0.4m (2022: £0.3m).

Gross profit was £27.1m (2022: £27.9m), reflecting lower revenue and deferred gross profit of £0.4m from the Fashion portfolio following the implementation of the new revenue recognition policy. Nonetheless, gross margin was higher at 62% (2022: 59%), with both Divisions actively working to improve gross margins.

A key performance measure for the Group previously was adjusted EBITDA. As reported with interim results, we have now replaced this measure with adjusted operating profit/(loss)¹, since the Board believes it is a better proxy for understanding underlying profitability and cash requirements. This has resulted in revised administration expenses, which now include depreciation and amortisation being shown in the comparative 2022 data.

We are pleased to report that the Group has delivered an adjusted operating profit of £1.3m for the financial year compared to a loss in the prior year (2022: loss of £0.6m measured on the same basis). This £1.9m turnaround in performance was supported by higher gross margins and lower costs. It is also after the change in our revenue recognition policy for fashion and apparel software sales.

The table below provides the reconciliation between adjusted operating profit in the financial year and adjusted EBITDA in the prior year.

	Restated		
	FY 2023 £'000	FY 2022 £'000	Change %
Adjusted EBITDA (as previously reported for FY 2022)	3,497	5,064	-31%
- depreciation and amortisation	(2,234)	(5,383)	-58%
- Impact of change in revenue recognition on FY22	NA	(280)	NA
Adjusted operating profit/(loss)	1,263	(599)	+311%

Amortisation decreased year-on-year due to lower capitalisation of development costs in FY23 and the impact of impairments in FY22.

The reported loss from operations reduced to £1.4m (2022: loss of £3.8m), an improvement of £2.4m. The major factor driving this improvement was a significant reduction in overheads, with £2.7m taken out of the Group's cost base. The reported loss from operations is stated after £4.2m of impairment and reorganisation costs, and historical acquisition credit of £0.3m resulting from reversal of contingent consideration, partly offset by a credit resulting from a £1.1m reversal of share-based payment charges (2022: £2.3m of impairment, reorganisation and acquisition costs, and share-based payment charges of £0.9m).

Reported adjusted administrative expenses decreased by 10% to £25.9m (2022: £28.4m), helped by our tighter focus on costs in the second half, a discipline that continues to yield savings.

The reported loss before tax decreased to £1.8m (2022: loss of £4.1m), a £2.3m advancement. This mainly reflects our actions over the cost base, as stated above. Net finance expenses were £0.4m (2022: £0.3m).

Adjusted earnings per share shows a significant improvement at 1.0p from the prior year (2022: loss of 4.9p). Adjusted gain/(loss) per share excludes exceptional reorganisation costs, exceptional impairment costs, acquisition costs/credit and share-based charges/credit and is net of the related tax credit of £0.2m (2022: charge £1.0m). The reported loss per share, which includes profit from discontinued activities, also improved at 5.4p (2022: 9.5p).

Balance sheet and cash flows

The Group balance sheet remains strong, with cash and cash equivalents of £8.3m (2022: £7.1m) and net cash of £8.3m (2022: £7.1m). K3 has banking facilities with Barclays, which provides for the drawdown of up to £3.0m to support seasonal cash movements. This facility agreement was extended in March 2024 on standard terms for a further two years until March 2026, with optional future renewals. The extension was based on a facility maximum of £2.8m. At 30 November 2023, £nil was drawn down (2022: £nil).

Group cash flow is weighted towards the second half of the financial year. This reflects the significant cash inflows that fall due in this period from annual software licence and maintenance and support contract renewals. A large proportion of these renewals are for NexSys software, where renewals remained very high at 98%, which was in line with prior years, as expected.

Cash inflow from operations increased to £3.5m (2022: £2.4m). Net cash used in investing activities decreased significantly at £1.4m (2022: £2.7m). This resulted from our more disciplined approach to development expenditure as well as actions to simplify the business. The £1.4m included spend on property, plant and equipment of £0.6m (2022: £0.8m), lower development expenditure capitalised at £0.7m (2022: £1.7m) and ViJi acquisition-related outflow of £0.1m (2022: £0.2m).

Growth Strategy

The Board's focus is on driving cash generation and shareholder value. In practise, this means that we are concentrating on the growth of those software products and solutions that are differentiated in their market verticals and provide demonstratable benefits to customers.

The K3 Products division continues to offer the opportunity of significantly higher-margin growth. This reflects the fact that its solutions are based on K3 intellectual property ("IP"). A key focus is the development and growth of our core strategic fashion and apparel products and, in particular, the K3 Fashion product. Microsoft has endorsed K3 Fashion as its 'go to' embedded solution for the fashion and apparel sector. We believe that its growth opportunity is significant and our route-to-market remains our network of business partners. We are now further enhancing our Fashion portfolio with additional sustainability functionality from our ViJi product and are working with Microsoft and our business partners to move fashion brands to our specialist offering in the cloud.

NexSys (formerly K3 SYSPRO), which delivers and supports ERP solutions for manufacturers and distributors in the UK, generates significant recurring revenue and strong predictable cash flows. Our focus with NexSys is to target larger, higher-value projects, as well as moving into attractive adjacent verticals. The Global Accounts business, which also makes up the Third-party Solutions division, is a long-established partner to the overseas franchisees of the Inter IKEA Concept. While the expansion of IKEA stores by franchisees has slowed, leading to a significantly weaker performance, Global Accounts, nonetheless, remains a key support and services partner to this network.

OPERATIONAL REVIEW

The Group's segmental results for the financial year ended 30 November 2023 and comparatives for 2022 are summarised in the tables below. Reporting is divided between the K3 Products division and the Third-party Solutions division. K3 Products encompasses K3's own products and includes strategic fashion and apparel products, for which the revenue recognition change had a one-off impact in this year's results, and Retail Solutions. The Third-party Solutions division consists of NexSys and Global Accounts, and revenues comprise a mix of recurring revenue (from software licence renewals, and support and maintenance contracts), and revenues from systems integration and professional services, as well as one-off software licences.

Year ended 30 November	Revenue (£m)		Gross profit (£m)		Gross margin	
	2023	2022 restated	2023	2022 restated	2023	2022 restated
K3 Products	13.1	12.6	10.4	9.8	79%	78%
Third-party Solutions	30.7	34.7	16.7	18.1	55%	52%
Total	43.8	47.2	27.1	27.9	62%	59%

K3 Products – K3 Fashion portfolio	2023	Year-on-year change
Annualised Recurring Revenue (ARR)	£5.8m	+28%

K3 Products

The division provides software products and solutions that are powered by our own IP. They comprise:

- strategic products focused on fashion and apparel markets (the Fashion portfolio);
- solutions for the visitor attraction market; and other stand-alone point-of-sale retail solutions and apps ("Retail Solutions").

£m	2023	2022 restated
Revenue	13.1	12.6
Gross profit	10.4	9.8
Gross margin (%)	79%	78%
Adjusted operating loss	(4.8)	(6.9)

Our Fashion portfolio, which includes our Microsoft-endorsed flagship product, K3 Fashion, continued to grow strongly, and its annualised recurring revenue increased by 28% over the year to £5.8m. Total divisional revenue increased by 4% to £13.1m (2022: £12.6m). The implementation of the new revenue recognition policy for fashion products meant that £0.4m of revenue was not recognised in the financial year under review, but will be recognised in future years. Similarly, the revenue figure for the 2022 financial year has been restated to take account of the new policy. This resulted in £0.3m of revenue being deferred into future years. The Division's overall performance was also impacted by high development expenditure on K3 ViJi and K3 Imagine. We reviewed the commercial opportunity for both these two products, and have addressed cost base accordingly. Further commentary is below.

Gross profit for the year increased to £10.4m (2022: £9.8m). This figure and the last year's comparative are both stated after the effect of the new revenue recognition policy. Gross margin improved to 79% (2022: 78%). The rise reflected the higher margin revenue mix, together with pricing and actions at Retail Solutions, where the new dedicated management team addressed the cost base and implemented other initiatives.

Sales of our K3 Fashion flagship product were extremely encouraging and mainly drove the 28% rise in total annualised recurring revenue in the Fashion portfolio, with a contribution of £1.2m to incremental ARR in the financial year. A total of five significant new customers were added, and existing customers continued to expand their software licence estate with us. As we previously announced, in the first half of the financial year, the business partner network secured the largest global deployment of K3 Fashion to date, with a major global jewellery/watches retailer. This contract is worth c. £1.4m over three years. Other significant signings included: a c. £1.0m, three-year contract with a Swedish outdoor sports fashion brand; a c. £0.5m five-year contract with a major Swiss outdoor brand; and a five-year contract with a European golf brand. Existing customers took up further software licences for K3 Fashion, with these including a music mail-order and merchandising retailer and a major wedding apparel designer. Each added an additional c. £0.2m of annual recurring revenue to the Fashion portfolio.

As these incremental software licence orders demonstrate, new customer wins have the potential to grow over time. The typical pathway is for new customers to buy software licences for centralised functions, including purchasing, catalogue management and pricing management, and then to take up additional software licences as they progressively roll-out our software across their operations in distribution centres and stores.

K3 Fashion continues to be globally endorsed by Microsoft as its recommended embedded solution for the fashion and apparel vertical, and our business partner network remains the main route-to-market for the Fashion portfolio. We continued to invest in supporting our business partner network through our channel partner and centre of excellence team.

The new dedicated management team at Retail Solutions is driving improvements in adjusted operating profit, net revenue retention and customer satisfaction. Net revenue retention is now above 100% and the new business unit leader has refocused account management and sales activities.

We came to a difficult judgement at the end of the financial year, which was to withdraw further investment in our standalone sustainability product for fashion retailers, K3 ViJi, acquired in January 2022. The decision was taken after a strategic and commercial assessment. While the market for sustainability solutions is emerging and evolving legislative drivers will promote greater focus in this area by fashion retailers, we concluded that, in the current, challenging retail environment, the required return on investment within our desired timeframe for a standalone product, was not likely to be met. We are therefore concentrating on integrating K3 ViJi's capabilities within K3 Fashion's existing corporate social responsibility functionalities, and will promote our sustainability offering as features within our existing Fashion portfolio.

Third-party Solutions

Third-party Solutions comprises two units:

- NexSys, which is a high-margin, value-added reseller and systems integrator of SYSPRO ERP enriched with K3 IP and partner modules. Its solutions address the needs of manufacturers and distributors, and are typically 'on-premise'. Revenues are generated from implementations, software licence sales (including renewals), and maintenance and support contracts. With over 40 years' experience in providing innovative ERP solutions for its chosen markets, NexSys has a large installed base of UK customers.
- Global Accounts, which provides specialist services and support, predominantly to the Inter IKEA Concept overseas franchisee network.

£m	2023	2022 restated
Revenue	30.7	34.7
Gross profit	16.7	18.1
Gross margin %	55%	52%
Adjusted operating profit	8.3	8.1

The Division's revenue and profit performance was significantly affected by the downturn in activity at Global Accounts, which mainly provides its specialist services to the overseas franchisees of the Inter IKEA Concept. This offset the strong growth at NexSys, which performed very well.

Total revenue was down by 11.5% to £30.7m year-on-year (2022: £34.7m) and gross profit decreased by 8% to £16.7m (2022: £18.1m). However, gross margin increased to 55% (2022: 52%). This improvement reflected the revenue mix, and specifically the higher proportion of software licence and maintenance and support income, as well as the actions taken to adjust the Global Accounts resource base.

The beginnings of a slowdown in activity that we reported in the first half at Global Accounts materialised strongly in the second half of financial year. As highlighted with interim results, we have taken remedial action to adjust the contractor resource base in light of more subdued activity, with limited new IKEA store openings. We continue to assist franchisees with our specialist services, focusing on support and developing new ways of working in response to franchisee needs. However, we expect a lower-level of activity in the short to medium term.

The NexSys business (the new name for our K3 SYSPRO operations), which provides business-critical ERP solutions for the UK manufacturing and distribution markets, continued to perform very well. Against the difficult backdrop of higher energy costs for the sector, which prompted some prospects to defer decisions, NexSys secured six major new wins over the financial year, including larger contracts, in line with strategy. New contracts included a c. £0.6m deal with a manufacturer of automotive plastic components, a c. £0.4m win with a bicycle manufacturer, a c. £0.4m order with a leading metal fabricator of trailers and towing parts, and a c.£0.3m agreement with a manufacturer of products for the farming industry. These order values are made up of the first year's software licence, the first year's support, and initial services. The services back-log remains healthy, and we are pleased with the new business pipeline.

Central Costs

During the year, we took the decision to devolve greater responsibility and accountability over resource allocation to our Business Unit heads. This related in particular to HR, IT and finance functions. The result has been a significant reduction in overall costs, with the Business Units prioritising sales and profitability. The full benefits of this will be more apparent in the new financial year and beyond.

The unallocated Central Support costs that were not matched to revenue generation, which include our PLC costs, were £2.2m (2022: £1.8m).

The Board and Staff

On behalf of the Board, I would like to thank all our staff for their hard work and efforts over the year. It has been a challenging year in many respects and our people have responded with great commitment and energy.

The Board's strategy to further simplify operations, more effectively address the opportunities within market sectors, and to drive cash generation and shareholder value has led to some significant organisational changes during the year. We are very grateful for everyone's contribution to this as we continue to make progress towards achieving our strategic goals.

On 3 April 2023, Eric Dodd joined the Board as Chief Financial Officer, taking over from Rob Price, the previous Chief Financial Officer. Since joining, Eric has focused rigorously on cash, costs, and further operational simplification. He has also implemented the new revenue recognition policy at the Fashion portfolio.

On 30 October 2023, Marco Vergani stepped down as Chief Executive Officer of the Company, in line with the decentralisation strategy. Accordingly, the Group's business unit heads now report directly to the Board, with each head taking greater responsibility and accountability for their respective operations. We wish Marco well in his future endeavours.

Summary and Outlook

The new business unit structure has established a better platform for the Group, as the Board focuses on driving value for shareholders. It provides clear focus, greater accountability, and further opportunity to reduce historical overhead.

The two divisions, K3 Products and K3 Third-party Solutions, both have growth opportunities while also managing challenges. The growth opportunity with the Fashion portfolio remains clear and will drive high-margin, recurring income, while we expect NexSys to continue to generate significant high-quality cash flows with leading margins. We have responded to the sharp slowdown in activity at Global Accounts, and although we expect trading at the unit to remain subdued, we continue to engage closely with IKEA and its overseas franchisees.

K3 has started the new financial year with a stronger balance sheet than at the same point last year. It will also benefit from the cost reduction measures taken in the latter part of 2023 coming through more fully over the course of the current financial year and next year. The Board is pleased to report that Group trading in the first quarter is in line with budget and it remains confident that K3 will continue to improve cash generation and deliver higher adjusted operating profit.

Tom Crawford
Executive Chairman

Financial Review

Overview

The Group's reported segments are 'K3 Products' and 'Third-party Solutions', with Central Support costs stated separately, as previously. This aligns segmental reporting with the Group's growth strategy.

Focus on value creation for shareholders

The Board's main focus is on value creation for shareholders. Driving cash generation and growing annual recurring revenues ("ARR") is central to this.

We completed some important steps during the financial year in line with these goals. Late in the second half of the year, we moved in full to a Business Unit structure. Decentralising the business has established a better platform from which to realise value creation for shareholders. It has increased accountability while also driving significant reductions in IT, HR and finance expenditure.

We further tightened our approach to expenditure on new product development activities, which has helped to support a meaningful improvement in cash generation. Specifically, we have allocated expenditure according to where market, pipelines and margins indicated the highest probability of cash returns over the medium term, withdrawing or reducing expenditure elsewhere. We also identified unnecessary cost burdens, such as certain structures and financing arrangements that did not offer tangible benefit to the Company. We are continuing to exit these arrangements and to work on further simplifying the business in order to establish the most appropriate cost base.

Since we believe that the closest metric to understanding cash generation is adjusted operating profit/(loss), we have adopted it as the key measure of the Company's performance. It replaces earnings before interest, tax, depreciation and amortisation ("EBITDA"), which was used previously.

The Group's products for the fashion and apparel market offer the highest-margin, highest growth opportunity, and ARR in the fashion portfolio grew by over 28% in 2023.

Key performance indicators

The Directors consider the key performance indicators by which they measure the performance of the Group by division to be:

- revenue;
- gross profit;
- gross profit margin;
- adjusted operating profit/(loss);
- free cashflow; and
- annual recurring revenue.

The Group's results for the year end to 30 November 2023, together with comparatives for the same period in 2022, are summarised in the tables below.

Continuing Activities	Revenue	
	2023 £m	2022 £m
Revenue	43.8	47.2
Gross profit	27.1	27.9
Gross profit margin	62%	59%
Adjusted operating profit/(loss)	1.3	(0.6)
Free cashflow	1.1	(1.8)
Annual recurring revenue - Fashion	5.8	4.5

**restated*

Overall Group revenue decreased by 8% or £3.5m to £43.8m (2022: £47.2m). This was mainly due to a reduction in revenue at the Third-party Solutions division of £3.4m.

We updated the Group's revenue recognition policy for K3 Fashion and K3 Pebblestone contracts in the year under review and now recognise the revenue of a K3 Fashion and K3 Pebblestone contract evenly over its lifetime. This approach makes it easier to manage the business and use benchmarks for activities, including sales & marketing expenditure, customer acquisition costs and customer churn. This will improve business understanding and further support capital allocation and other decision-making processes. The change has also simplified the balance sheet by lowering accrued income and matching revenue recognition more closely to cash collection. For the year under review, the shift to this new revenue recognition policy has reduced revenue and operating profit by £0.4m respectively (FY2022: £0.3m).

ARR from the combination of K3 Fashion and K3 Pebblestone increased by 28% to £5.8m (2022: £4.5m), driven by both new customers and existing customer expansion.

Gross profit decreased by £0.8m or 4% to £27.1m (2022: £27.9m). However, gross profit margin increased by three percentage points to 62%, reflecting the change in sales mix.

Encouragingly, the Group moved to an adjusted operating profit of £1.3m in 2023 from a loss in 2022 (2022: loss of £0.6m). This was driven by lower amortisation and more disciplined overhead expenditure.

Following the Company's transition to a Business Unit structure, impairments of £2.1m (2022: £1.6m) relating to goodwill and capitalised Group-wide IT projects were identified as no longer justifiable. A total of £2.1m in reorganisation costs were incurred (2022: £0.6m) and related primarily to the cost of people leaving the business. There is a credit resulting from historical acquisitions of £0.4m due to reversal contingent consideration obligation. The departure of several senior staff members led to lapses of outstanding share options, which led to a credit of £1.1m (2022: £0.9m debit).

Earnings Per Share

The Group generated adjusted earnings per share of 1.0p from Continuing operations (2022: loss of 4.9p). Reported loss per share, which includes profit from discontinued activities, was 5.4p (2022: loss of 9.5p).

Dividends

No dividend will be declared for the year ended 30 November 2023 (2022: nil).

Taxation

The corporation tax charge for the financial year was £0.5 million (2022: nil charge). This comprised a credit for current taxation of £0.1 million (2022: charge of £0.1m), which related to the non-UK businesses, and a charge for deferred taxation of £0.4 million (2022: credit of £0.1 million).

Balance Sheet

Non-current assets reduced by £3.5m to £28.9m, which reflected a more disciplined approach to the capitalisation of development expenditure and also the impact of impairment of intangible and tangible assets of circa £2.1m.

Current assets decreased by £2.3m to £16.1m (2022: £18.5m). Receivables reduced by £1.9m to £5.4m (2022: £7.3m) due to improved collection procedures and the receivables ageing is excellent, with little unprovided exposure over 60 days. The change in the revenue recognition policy has led to a reduction in 'Contract Assets' and this should remain low in the future. Trade & other payables reduced to £15.9m (2022: £16.9m). We expect this balance to rise as we increase sales of fashion and apparel products, especially K3 Fashion, and we invoice annually and quarterly in advance.

At the financial year end, cash balances stood at £8.3m (30 November 2022: £7.2m). The Group has a bank facility with Barclays, its long-standing bankers, which provides for the draw down of up to £2.8m to support seasonal cash movements. At the year-end, £nil was drawn down (2022: £nil). After the financial year end, the facility agreement was extended for further two years, until March 2026.

Cash Flow

The Group's cash performance continued its improving trend. There were a number of large movements in working capital, the two most significant being the £3.5m reduction in receivables (including stock) and the £1.1m reduction in payables. Net cash inflow from operating activities increased by £1.1m to £3.5m (2022: £2.4m).

The more disciplined capital allocation and the ongoing corporate simplification process have begun to deliver tangible benefits. Both investing expenditure and financing cost have almost halved to £1.4 million and £1.0 million respectively (2022: investing expenditure of £2.7 million and financing cost of £1.4 million). A specific illustration is the 30% reduction in lease liability payments, which mainly related to properties and vehicles, to £0.7 million.

The £1.1 million improvement in operating cashflow together with the £1.3 million reduction in development expenditure and £0.7 million reduction in financing costs combined to deliver a £2.8 million improvement in free cashflow. As a result, the cash outflow in 2022 of £1.7m was converted to a cash inflow of £1.1m in 2023. The Group's closing cash balance at 30 November 2023 was £8.3m (2022: £7.1m).

Eric Dodd
Chief Financial Officer
25 March 2024

K3 Business Technology Group plc

Consolidated Income Statement for the year ended 30 November 2023

	Year ended 30 November 2023 £'000	Restated Year ended 30 November 2022 £'000
Revenue	43,779	47,252
Cost of sales	(16,639)	(19,382)
Gross profit	27,140	27,870
Adjusted administrative expenses	(25,523)	(28,367)
Impairment losses on financial assets	(354)	(102)
Adjusted operating profit/(loss)	1,263	(599)
Exceptional impairment	(2,070)	(1,603)
Exceptional reorganisation and acquisition costs	(2,129)	(595)
Exceptional acquisition/disposal related credit/(costs)	406	(98)
Share-based payment credit/(charge)	1,126	(855)
Loss from operations	(1,404)	(3,750)
Finance expense	(417)	(338)
Loss before taxation from continuing operations	(1,821)	(4,088)
Tax expense	(564)	(208)
Loss after taxation from continuing operations	(2,385)	(4,296)
Profit after taxation from discontinued operations	—	108
Loss for the year	(2,385)	(4,188)

All the (loss)/profit for the year is attributable to equity shareholders of the parent.

Loss per share

	Year ended 30 November 2023 £'000	Restated Year ended 30 November 2022 £'000
Basic and diluted	(5.4)p	(9.5)p
Basic and undiluted from Continuing operations	(5.4)p	(9.8)p

**Consolidated Statement of
Comprehensive Income
for the year ended 30 November 2023**

	Year ended 30 November 2023 £'000	Restated Year ended 30 November 2022 £'000
Loss for the year	(2,385)	(4,188)
Other comprehensive income		
Exchange differences on translation of foreign operations	76	69
Other comprehensive income	76	69
Total comprehensive expense for the year	(2,309)	(4,119)

Total comprehensive expense is attributable to equity holders of the parent.

All the other comprehensive income will be reclassified subsequently to profit or loss when specific conditions are met. None of the items within other comprehensive income/(expense) had a tax impact.

**Consolidated Statement of Financial Position
as at 30 November 2023**

	2023 £'000	Restated 2022 £'000	Restated 2021 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	1,323	1,766	1,551
Right-of-use assets	1,025	801	1,709
Goodwill	24,911	25,022	24,772
Other intangible assets	1,533	3,394	6,648
Deferred tax assets	77	1,551	1,636
Total non-current assets	28,869	32,534	36,316
Current assets			
Stock	276	484	467
Trade and other receivables	7,555	10,764	8,100
Forward currency contracts	–	110	–
Cash and short-term deposits	8,304	7,113	9,146
Total current assets	16,135	18,471	17,713
Total assets	45,004	51,005	54,029
LIABILITIES			
Non-current liabilities			
Lease liabilities	37	79	135
Provisions	105	179	1,129
Deferred tax liabilities	91	1,119	1,288
Total non-current liabilities	233	1,377	2,552
Current liabilities			
Trade and other payables	15,946	16,882	14,456
Current tax liabilities	285	372	509
Lease liabilities	947	802	1,623
Borrowings	12	50	113
Provisions	305	968	854
Total current liabilities	17,495	19,074	17,555
Total liabilities	17,728	20,451	20,107
EQUITY			
Share capital	11,183	11,183	11,183
Share premium account	31,451	31,451	31,451
Other reserves	11,151	11,151	11,151
Translation reserve	1,683	1,607	1,538
Accumulated losses	(28,192)	(24,838)	(21,401)
Total equity attributable to equity holders of the parent	27,276	30,554	33,922
Total equity and liabilities	45,004	51,005	54,029

**Consolidated Statement of Cash Flows
for the year ended 30 November 2023**

	Year ended 30 November 2023 £'000	Restated Year ended 30 November 2022 £'000
Cash flows from operating activities		
Loss for the period	(2,385)	(4,188)
Adjustments for:		
Finance expense	417	336
Tax expense	564	20
Depreciation of property, plant and equipment	552	636
Impairment of property, plant and equipment	464	–
Depreciation of right-of-use assets	591	981
Amortisation of intangible assets and development expenditure	1,091	3,767
Impairment of intangible assets (including goodwill)	1,606	1,603
(Gain)/loss on sale of property, plant and equipment	11	10
Share-based payments (credit)/charge	(969)	751
Net cash flow from provisions	(740)	(717)
Net cash flow from stock	208	17
Net cash flow from trade and other receivables	3,319	(2,774)
Net cash flow from trade and other payables	(1,104)	2,380
Cash generated from operations	3,625	2,822
Income taxes paid	(82)	(395)
Net cash from operating activities	3,543	2,427
Cash flows from investing activities		
Development expenditure capitalised	(734)	(1,725)
Acquisition of a subsidiary, net of cash acquired	(86)	(178)
Purchase of property, plant and equipment	(588)	(845)
Net cash from investing activities	(1,408)	(2,748)
Cash flows from financing activities		
Proceeds from loans and borrowings	3,500	3,000
Repayment of loans and borrowings	(3,536)	(3,111)
Repayment of lease liabilities	(708)	(1,073)
Interest paid on lease liabilities	(126)	(132)
Finance expense paid	(163)	(150)
Net cash from financing activities	(1,033)	(1,466)
Net change in cash and cash equivalents	1,102	(1,787)
Cash and cash equivalents at start of year	7,113	9,033
Exchange gain/(losses) on cash and cash equivalents	89	(133)
Cash and cash equivalents at end of year	8,304	7,113

Consolidated Statement of Changes in Equity
for the year ended 30 November 2023

	Share capital £'000	Share premium £'000	Other reserves £'000	Translation reserve £'000	Restated Accumulated losses £'000	Restated Total equity £'000
At 30 November 2021	11,183	31,451	11,151	1,538	(19,522)	35,801
Prior period restatement	–	–	–	–	(1,879)	(1,879)
At 30 November 2021 – Restated	11,183	31,451	11,151	1,538	(21,401)	33,922
Changes in equity for year ended 30 November 2022						
Loss for the year	–	–	–	–	(4,188)	(4,188)
Other comprehensive income for the year	–	–	–	69	–	69
Total comprehensive income/(expense)	–	–	–	69	(4,188)	(4,119)
Share-based payment	–	–	–	–	751	751
At 30 November 2022 – Restated	11,183	31,451	11,151	1,607	(24,838)	30,554
Changes in equity for year ended 30 November 2023						
Loss for the year	–	–	–	–	(2,385)	(2,385)
Other comprehensive income for the year	–	–	–	76	–	76
Total comprehensive income/(expense)	–	–	–	76	(2,385)	(2,309)
Share-based payment	–	–	–	–	(969)	(969)
At 30 November 2023	11,183	31,451	11,151	1,683	(28,192)	27,276

Within the Share Capital reserve there are own shares held by a wholly owned subsidiary, K3 Business Technology Group Trustees Company Limited, as trustee of the group's employee share ownership plan. Own shares represent 26,809 (2022: 26,809) shares held under an employee share ownership plan which will be issued to the employees when they choose to withdraw them. The market value of these shares as at 30 November 2023 was £30,294 (2022: £34,181).

NOTES

1 Basis of preparation

Statement of compliance

These group financial statements have been prepared in accordance with UK endorsed IFRS in conformity with the requirements of the Companies Act 2006 ("IFRS") ("UK Adopted internal accounting standards"). The company financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework ("FRS101").

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Whilst the financial information included in this statement of Final Results has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

The Group's statutory financial statements for the year ended 30 November 2023, from which the financial information presented in this announcement has been extracted, were prepared using the accounting policies disclosed in the principal accounting policies set out in the Group's Annual Report. These policies have been consistently applied to all years presented.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

This statement of Final Results does not constitute the Company's statutory accounts for the years ended 30 November 2023 and 30 November 2022 within the meaning of Section 435 of the Companies Act 2006 but is derived from those statutory accounts.

The Group's statutory accounts for the year ended 30 November 2022 have been filed with the Registrar of Companies, and those for 2023 will be delivered following the Company's Annual General Meeting. The Auditor has reported on the statutory accounts for 2023 and 2022. Their report for 2023 was (i) unqualified, (ii) did not contain any material uncertainties and (iii) did not contain statements under Sections 498 (2) or 498 (3) of the Companies Act 2006 in relation to the financial statements.

Going concern

The Group closely reviews its funding position throughout the year, including monitoring compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations. The Group has extended its current Banking Facilities arrangements with its long-term Bank, Barclays, for a further two years to 31 March 2026, on a simplified standard bank terms basis with facility level consistent with 2023.

The capital structure of the Group has materially changed in the last three years with the disposal of the Starcom and Sage businesses for a combined £16.2m and the conversion of £3.0m shareholder loans to equity. The Group therefore ended the year ended 30 November 2023 with a Net Cash position of £8.3m (2022: £7.1m).

The Group has prepared cashflow forecast for a period of at least 12 months from the date of approval of the financial statements which show that the Group will have reasonably significant headroom and be in compliance with covenants. The forecast has undergone sensitivity analysis and stress testing and the Directors have concluded that there is no worst-case scenario that is likely which would mean the group would run out of cash or breach covenants.

The Directors therefore have a reasonable expectation that there are no material uncertainties that cast significant doubt about the Group's ability to continue in operation and meet its liabilities as they fall due for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements. For these reasons the financial statements have been prepared on a going concern basis

2 Key Accounting policies for the Group financial statements

Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For impairment testing, goodwill is allocated to each of the Group's subsidiaries or cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or cash-generating unit, the attributable net book value of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

The Group contracts for products and services in a variety of contractual forms and deployment methods which impact IFRS 15 revenue recognition. These include:

- Reselling of 3rd party products for which following contracting the Group has no continuing performance obligations for software and the customer controls the software. These are usually perpetual licences with customer on premise installations. Since the Group is reselling these all already functional products, services are unbundled. Customers can also choose to take maintenance and support for these products or indeed obtain services, support, and maintenance from different suppliers.
- K3 bolt on own software IP (Intellectual Property) that adds incremental vertical functionality and bolts onto Microsoft Dynamics products and that is either sold directly to customer or via a channel partner. There is an ongoing performance obligation to maintain the product to ensure the functionality continues to bolt onto Microsoft Dynamics products.
- K3 own products for which K3 controls and has ongoing performance obligations. These products are typically SaaS (Software as a Service) based subscription products which include a right to access as the customer continuously consumes functionality. The product offer is a typical bundle of software access, maintenance, and support. The contracts typically have a low level of services.

Software licence revenue:

Software licences for 3rd party products are recognised at a point in time, on contract and issue of the initial licence key which is contemporaneous.

K3 bolt on own software IP is recognised over time. See note 11 for more details.

K3 own products which is SaaS based is recognised over time and not in software but rather in maintenance and support for the purposes of revenue disaggregation disclosures. Revenue is recognised over time as K3 controls the product, the licence is not distinct, and the customer continually receives benefits.

Services revenues:

Services are linked to implementation and set up of K3 own and 3rd party products, rather than product functionality build. Services are contracted for on a time and materials basis, the customer takes ownership of the work delivered and revenue is recognized as it is performed.

Hardware:

Hardware is peripheral to a number of contract implementations; the revenue is recognized when the customer takes control of the asset on delivery.

Maintenance and Support:

Maintenance refers to the maintenance of the products and ensuring a right to upgrade whilst Support refers to ongoing customer support including for example help desk access.

3rd party products maintenance is provided by the product's author K3 has no performance obligation and this is sold through K3 for a margin. Revenue is recognised for the term of the contract at a point in time when the contract is signed. Support of 3rd party products is provided by K3 over time over the term of the contract.

K3 bolt on own software IP is typically re-sold via channel partners who provide support. K3 has an ongoing performance obligation for the maintenance of the product and recognises a portion of revenue associated with that over time.

K3 own SaaS/subscription products and usually hosted by K3 and typically a bundled offer of maintenance and support is provided to customers which are both performance obligations for K3 and revenue is recognised over time.

Allocation of transaction price:

Transaction price is measured based on the consideration specified in a contract with a customer and, where applicable, the best estimate of any consideration related to modifications to the contract which has yet to be agreed. Any amounts expected to be paid to the customer, such as penalties for late delivery, are deducted from the consideration. Where a transaction price must be allocated between multiple performance obligations, this is generally achieved through allocating a proportion of total price against each using either standard list sales prices or an estimated cost methodology.

Critical accounting estimates and judgements

In applying the Group's accounting policies above the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors are of the opinion that there are no significant judgements to be disclosed. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

Impairment of goodwill and other intangibles

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash generating unit. It also requires judgement as to a suitable discount rate in order to calculate present value, i.e., the directors' current best estimate of the weighted average cost of capital ("WACC"). Other intangibles are assessed annually for impairment as well as when triggers of impairment arise. An impairment review has been performed at the reporting date. More details including carrying values are included in note 6.

Capitalised development expenditure and subsequent amortization

Where such expenditure meets the relevant criteria, the group is required to capitalise development expenditure. In order to assess whether the criteria are met the Board is required to make estimates in relation to likely income generation and financial and technical viability of the relevant development projects and the period over which the group is likely to benefit from such expenditure. Development projects are subject to an investment appraisal process with the product managers to assess the status of the development and the expected commercial opportunities. Development costs are assessed for impairment which requires an estimation of the future expected revenues to be generated from each product. This methodology, which is similar to that used to assess any impairment of goodwill, is discussed further in note 6. Expenditure is only capitalised when the investment appraisal process has assessed that the product is likely to benefit the Group in the future. More details including carrying values are included in note 6.

3 Segment information

The group operates a streamlined organisation with management resource and central services focused on working across the group in a more unified manner to increase the strategic focus on the level of our own product sales.

Reporting is based on product split between K3 own products ('K3 Products') and Third-party reseller activities ('Third-party Solutions') across revenue and gross margin. Global Accounts and Third Party Products continue to be merged into Third-party Solutions. Overheads and administrative expenses are included as a central cost given resource works across these three segments. The activities and products and services of the operating segments are detailed in the Strategic Report on pages 10 to 14.

Transactions between operating segments are on an arms-length basis. The CODM (Chief Operating Decision Maker, the Board) primarily assesses the performance of the operating segments based on product revenue, gross margin and group adjusted operating profit/(loss). The segment results for the year ended 30 November 2023 and for the year ended 30 November 2022, reconciled to loss for the year.

Year ended 30 November 2023

	K3 Products	Third- party Solutions	Central Costs	Total
	£'000	£'000	£'000	£'000
External revenue	13,085	30,694	—	43,779
Cost of sales	(2,728)	(13,911)	—	(16,639)
Gross profit	10,357	16,783	—	27,140
Gross margin	79.15%	54.68%	—	61.99%
Adjusted administrative expenses	(15,187)	(8,475)	(2,215)	(25,877)
Adjusted operating profit/(loss)	(4,830)	8,308	(2,215)	1,263
Exceptional impairment	—	—	(2,070)	(2,070)
Exceptional reorganisation costs	—	—	(2,129)	(2,129)
Acquisition/disposal credit/(costs)	—	—	406	406
Share-based payment credit/(charge)	—	—	1,126	1,126
(Loss)/profit from operations	(4,830)	8,308	(4,882)	(1,404)
Finance expense	—	—	(417)	(417)
(Loss)/profit before tax and discontinued operations	(4,830)	8,308	(5,299)	(1,821)
Tax expense	—	—	(564)	(564)
Profit/(loss) from discontinued operations	—	—	—	—
(Loss)/profit for the year	(4,830)	8,308	(5,863)	(2,385)

Year ended 30 November 2022 (restated)

	K3 Products	Third- party Solutions	Central Costs	Total
	£'000	£'000	£'000	£'000
External revenue	12,588	34,664	–	47,252
Cost of sales	(2,792)	(16,590)	–	(19,382)
Gross profit	9,796	18,074	–	27,870
Gross margin	77.81%	52.14%	–	58.98%
Adjusted administrative expenses	(16,705)	(10,004)	(1,760)	(28,469)
Adjusted operating profit/(loss)	(6,909)	8,070	(1,760)	(599)
Exceptional impairment	–	–	(1,603)	(1,603)
Exceptional reorganisation costs	–	–	(595)	(595)
Acquisition/disposal credit/(costs)	–	–	(98)	(98)
Share-based payment credit/(charge)	–	–	(855)	(855)
(Loss)/profit from operations	(6,909)	8,070	(4,911)	(3,750)
Finance expense	–	–	(338)	(338)
(Loss)/profit before tax and discontinued operations	(6,909)	8,070	(5,249)	(4,088)
Tax expense	–	–	(208)	(208)
Profit/(loss) from discontinued operations	–	–	108	108
(Loss)/profit for the year	(6,909)	8,070	(5,349)	(4,188)

*FY2022 restated.

Segment assets and segment liabilities are reviewed by the CODM in a consolidated statement of financial position. Accordingly, this information is replicated in the Group consolidated statement of financial position on page 51. As no measure of assets or liabilities for individual segments is reviewed regularly by the CODM, no disclosure of total assets or liabilities has been made, in accordance with the amendment to paragraph 23 of IFRS 8.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between segments are accounted for at cost.

The Group has one customer relationship which accounts for 42% (2022: 46%) of external Group revenue.

Analysis of the group's external revenues (by customer geography) and non-current assets by geographical location are detailed below:

External revenue by end customer geography

	External revenue		Non-current assets	
	Restated			
	Year ended	Year ended		
	30 November	30 November	2023	2022
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
United Kingdom	16,279	16,323	21,911	22,461
Netherlands	5,762	6,203	5,913	5,749
Ireland	110	631	—	1,650
Rest of Europe	8,223	7,166	974	2,323
Middle East	2,142	1,807	—	—
Asia	6,200	8,882	68	181
USA	221	820	3	3
Rest of World	4,842	5,420	—	—
	43,779	47,252	28,869	32,367
% of non-UK revenue	63%	65%		

External revenue by business unit geography

	External revenue Restated	
	Year ended 30 November 2023 £'000	Year ended 30 November 2022 £'000
United Kingdom	16,820	16,883
Netherlands	23,657	27,255
Ireland	727	316
Rest of Europe	2,575	2,770
Rest of World	-	28
	43,779	47,252
% of non-UK revenue	62%	65%

Revenue recognised and included within contract assets can be reconciled as follows:

	2023 £'000
At 1 December 2022 – as previously stated	5,512
Amount restated due to change in accounting policy	(2,785)
At 1 December 2022 – restated	2,727
Transfers in the period from contract assets to trade receivables	(2,727)
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	1,286
At 30 November 2023	1,286

Revenue recognised and included within contract liabilities can be reconciled as follows:

	2023 £'000
At 1 December 2022	5,312
Amounts included in contract liabilities that was recognised as revenue during the period	(5,312)
Cash received in advance of performance and not recognised as revenue during the period	7,454
At 30 November 2023	7,454

4 Tax expense/(charge)

	2023	Restated 2022
	£'000	£'000
Current tax expense/(credit)		
Income tax of overseas operations on profits/(losses) for the period	597	203
Adjustment in respect of prior periods	(479)	(100)
Total current tax expense	118	103
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	180	(61)
Effect of changes in tax rate	–	10
Adjustments in respect of prior periods	266	(32)
Total deferred tax expense/(credit)	446	(83)
Total tax expense in the current year	564	20
Income tax expense attributable to continuing operations	564	208
Income tax (credit) attributable to discontinued operations	–	(188)
	564	20

Deferred tax balances as at 30 November 2023 have been measured at 25% (FY2022: 25%).

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the UK applied to profits/(losses) for the year are as follows:

	2023		2022	
	£'000	%	£'000	%
Loss before taxation from continuing operations	(1,821)		(4,088)	
Loss before taxation from discontinued operations	–		(80)	
Loss before tax	(1,821)		(4,168)	
Expected tax charge/(credit) based on the standard rate of corporation tax	(419)	23.0	(792)	19.0
Effects of:				
Items not deductible for tax purposes	(64)		439	
Income not taxable	(369)		(496)	
Adjustment to tax charge in respect of prior periods	647		(132)	
Movements in deferred tax not recognised	531		1,149	
Differences between overseas tax rates	125		(136)	
Effect of deferred tax rate difference	83		(12)	
Total tax expense in current period	564	34.6	20	48.7

Deferred tax recognised directly in equity for FY2023 was £nil (2022: £nil). Current tax recognised in equity for FY2023 was £nil (2022: £nil). None of the items within other comprehensive income in the Consolidated Statement of Comprehensive Income have resulted in a tax expense or tax income.

5 (Loss)/earnings per share

The calculations of (loss)/earnings per share are based on the profit/(loss) for the year and the following numbers of shares:

	2023	2022
	Number of shares	Number of shares
Denominator		
Weighted average number of shares used in basic and diluted EPS	44,090,074	44,090,074

Certain employee options and warrants have not been included in the calculation of diluted EPS because their exercise is contingent on the satisfaction of certain criteria that had not been met at the end of the year.

	Basic and diluted	
	2023	2022
	£'000	£'000
Loss after tax from continuing operations	(2,385)	(4,296)
Profit after taxation from discontinued operations	—	108
(Loss)/profit attributable to ordinary equity holders of the parent for basic and diluted earnings per share	(2,385)	(4,188)

The alternative earnings per share calculations have been computed because the directors consider that they are useful to shareholders and investors. These are based on the following profits/(losses) and the above number of shares.

	Basic and diluted before other items	
	2023	2022
	£'000	£'000
Loss after tax from continuing operations	(2,385)	(4,296)
Add back other items:		
Exceptional reorganisation costs	2,129	595
Exceptional impairment costs	2,070	1,603
Share-based payment (credit)/charge	(1,126)	855
Acquisition/disposal related (credit)/costs	(406)	98
Tax credit/ (charge) related to other items	175	(1,015)
Profit/(loss) attributable to ordinary equity holders of the parent for basic and diluted earnings from continuing operations before other items	457	(2,177)
	2023	2022
	Pence	Pence
Profit/(loss) per share		
Basic and diluted earnings/(loss) per share	(5.4)	(9.5)
Basic and diluted earnings/(loss) per share from continuing operations	(5.4)	(9.8)
Basic and diluted earnings/(loss) per share from discontinued operations	—	(0.2)
Adjusted earnings per share		
Basic and diluted earnings/(loss) per share from continuing operations before other items	1.0	(4.9)

6 Goodwill and impairment

Goodwill acquired in business combinations is allocated at acquisition to the cash generating units (“CGUs”) that are expected to benefit from that business combination.

During the year, IBS CGU was merged with that of NexSys CGU as IBS entity merged with NexSys entity to drive operational efficiency.

The carrying value of goodwill in respect of all CGUs is set out below. These are fully supported by either value in use calculations in the year or the fair value less cost to sell for CGUs held for sale.

	Goodwill carrying amount
	2023
	£'000
NexSys and Integrated Business Solutions (IBS)	14,448
Global Accounts	9,366
Walton	1,097
ViJi	–
	24,911
	Goodwill carrying amount
	2022
	£'000
NexSys (previously “Syspro”)	13,677
Global Accounts	9,371
Walton & IBS	1,868
ViJi	106
	25,022

The Group tests goodwill and the associated intangible assets and property, plant, and equipment of CGUs annually for impairment, or more frequently if there are indications that an impairment may be required.

The recoverable amounts of the remaining CGUs are determined from value in use calculations. The key assumptions for these calculations are discount rates, sales growth, gross margin, and admin expense growth rates. The assumptions for these calculations reflect the current economic environment. The discount rate represents the current market assessment of the risks specific to the Group, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from the weighted average cost of capital (WACC). Other assumptions used are based on external data and management’s best estimates.

For all the CGUs where the recoverable amount is determined from value in use, the Group performs impairment reviews by forecasting cash flows based upon the Annual Budget starting in the 2024, which anticipates sales, gross margin and admin cost growth based on management’s best estimates. A projection of sales and cash flows based upon a blended inflation rate (2.1%) is then made for a further four years.

The rate used to discount the forecast pre-tax cash flows is 14.0% (2022: 17.4%) and represents the Directors’ current best estimates of the weighted average cost of capital (“WACC”). The Directors consider that there are no material differences in the WACC for different CGUs.

7 Deferred tax

The net deferred tax asset/liability at the end of the year is analysed as follows:

	2023 £'000	Restated 2022 £'000
Deferred tax assets		
Continuing operations	77	1,551
Deferred tax liabilities		
Continuing operations	(91)	(1,119)
	(14)	432

Recognised deferred tax assets and liabilities and attributable to the following:

			Net		Restated
	2023	2023	2022	2023	2022
	£'000	£'000	£'000	£'000	£'000
Plant and equipment	–	–	(1)	–	110
Other temporary differences	–	(91)	(1,118)	(91)	241
Losses	77	–	–	77	23
Business combinations	–	–	–	–	58
Deferred tax assets/(liabilities)	77	(91)	(1,119)	(14)	432
		Restated			
		1 December	Recognised in	Disposal	30 November
		2022	income	£'000	2023
		£'000	£'000		£'000
Plant and equipment		110	(110)	–	–
Other temporary differences		241	(332)	–	(91)
Losses		23	54	–	77
Business combinations		58	(58)	–	–
Deferred tax assets/(liabilities)		432	(446)	–	(14)

The Group have not recognised a deferred tax asset on £3.6m (2022: £1.8m) of tax losses and intangible fixed asset timing differences carried forward due to uncertainties over recovery.

No deferred tax liability is recognised on temporary differences of £31k (2022: £23k) relating to the unremitted earnings of overseas subsidiaries as the Group can control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

8 Notes to the cash flow statement

Cash and cash equivalents

	2023	2022
	£'000	£'000
Cash and bank balances available on demand	8,304	7,113
Bank overdrafts	–	–
	8,304	7,113

Cash and cash equivalents comprise cash and bank balances available on demand. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated reporting position as shown above.

Non-cash transactions

Additions to buildings, motor vehicles and equipment during the year amounting to £610k (2022: £233k) were financed by new leases.

9 Share capital

	Issued and fully paid			
	2023		2022	
	Number	£'000	Number	£'000
Ordinary shares of 25p each				
At beginning and end of the year	44,732,379	11,183	44,732,379	11,183

All shares have equal voting rights and there are no restrictions on the distribution of dividends or repayment of capital.

No shares were allocated under the employee share option schemes during the year.

	2023	2022
	Number	Number
Own shares held	26,809	26,809

Own shares are held by a wholly owned subsidiary, K3 Business Technology Group Trustees Company Limited, as trustee of the group's employee share ownership plan.

1,200,000 warrants for ordinary shares of 25p were issued on 31 March 2020 following the receipt by the Group of £3,000,000 in shareholders loans. The warrants are split as follows:

- CA Fastigheter AB	300,000
- Johannes Plan Fastigheter AB	300,000
- Kestrel Partners LLP discretionary clients	600,000

The warrants are over ordinary shares of 25p, are transferrable with a strike price of 25p and expire on 31 March 2030. At 30 November 2023 none of these warrants had been exercised. On 7 April 2021 the £3,000,000 Shareholder Loan was converted to equity with the issue of 1,785,714 nominal shares.

At 30 November 2023 (and 30 November 2022) all SAYE options have lapsed.

LTIP

K3 Business Technology Group plc operates an equity-settled share-based remuneration scheme for employees: the K3 Long Term Incentive Plan (“LTIP”) for certain senior management including executive directors.

As at 30 November 2023, an aggregate of 437,500 (2022: 1,675,000) LTIP options over ordinary shares in the Company remained in issue.

10 Notes to the strategic report

*1 Adjusted operating profit/(loss) – is the profit/(loss) from continuing activities adjusted to exclude exceptional impairment costs, exceptional re-organisation cost and exceptional acquisition costs/(income) and share-based payment charges/(credit).

*2 Recurring revenue – contracted support, maintenance and annual licence, as % of total revenue.

*3 K3 Products revenue as a percentage of total Group revenue.

*4 K3 Products gross profit as a percentage of total gross profit.

*5 Net debt comprises Bank Loans, Shareholder Loans and Overdrafts less Cash and cash equivalents, including Cash and cash equivalents held for sale. It excludes lease liabilities associated with Right-of-use assets under IFRS16.

*6 Adjusted loss/earnings per share – basic profit/(loss) per share from continuing operations adjusted to exclude exceptional impairment costs, exceptional re-organisation cost and exceptional acquisition costs/(income) and share-based payment charges/ (credit), net of the related tax charge.

*7 Adjusted administrative expense – administrative expenses adjusted to exclude exceptional impairment costs, exceptional re-organisation cost and exceptional acquisition costs/(income) and share-based payment charges/(credit).

*8 Free cash flow – Calculated as delta between cash and cash equivalents balances between two periods, excluding exchange gain/(loss) on cash and cash equivalents.

*9 Net cash – Calculated as cash and cash equivalents balances less bank borrowings.

11 Prior period adjustment

During the year the Company’s Directors reviewed the application of IFRS 15 in respect of the Company’s Fashion and Pebblestone revenue contracts. As a result of this review the Directors determined that IFRS 15 had been incorrectly applied when accounting for the Company’s contracts with customers. The historical application had determined that there were multiple performance obligations within the contracts and revenue were recognised at specified milestones.

However, upon reassessment, it was determined that the contracts should not be segmented and represents single performance obligation. The Directors determined that licences provided under these contracts are dependent on updates for ongoing functionality, therefore determined to recognise revenue based on time elapsed and thus rateably over the term of the contract.

The misapplication of IFRS 15 in prior periods led to early revenue and cost recognition. The correction of this error affects the financial statements for the years 2020 through 2022. The impact of these

adjustments for these periods are detailed below.

The Group has corrected this error from 1 December 2020 which has resulted in adjustments to the amounts recognised in the Consolidated Financial Statements. In accordance with IAS 8, the Group has restated FY2022. The overall net impact of adjustments was a debit to retained earnings of £1.9 million as at 1 November 2022.

For comparability purposes, the following table gives the impact of the revised accounting policy on the Consolidated Balance Sheet and Consolidated Income Statement for the year ended 30 November 2022 by showing what the results would have been had they been prepared under the previous accounting policies.

11 Prior period adjustment (continued)

Consolidated Income Statement

	As reported Year ended 30 November 2022 £'000	Adjust- ment £'000	Restated Year ended 30 November 2022 £'000
Revenue	47,532	(280)	47,252
Cost of sales	(19,382)	–	(19,382)
Gross profit	28,150	(280)	27,870
Administrative expenses	(28,367)	–	(28,367)
Impairment losses on financial assets	(102)	–	(102)
Adjusted operating profit/(loss)	(319)	(280)	(599)
Exceptional impairment	(1,603)	–	(1,603)
Exceptional reorganisation and acquisition costs	(693)	–	(693)
Share-based payment charge	(855)	–	(855)
Loss from operations	(3,470)	(280)	(3,750)
Finance expense	(338)	–	(338)
Loss before taxation from continuing operations	(3,808)	(280)	(4,088)
Tax expense	(278)	70	(208)
Loss after taxation from continuing operations	(4,086)	(210)	(4,296)
Profit after taxation from discontinued operations	108	–	108
Loss for the year	(3,978)	(210)	(4,188)

The adjustment of £0.3 million to revenue is due to change in revenue recognition in FY2023 (see note 11). FY2022 revenue would have been £0.3m lower if the change in accounting policy was applied in FY2022. The tax impact of this adjustment is £0.1 million.

11 Prior period adjustment (continued)

Consolidated Financial Position

	As reported 2022 £'000	Adjustment 2022 £'000	Restated 2022 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	1,766	–	1,766
Right-of-use assets	801	–	801
Goodwill	25,022	–	25,022
Other intangible assets	3,394	–	3,394
Deferred tax assets	855	696	1,551
Total non-current assets	31,838	696	32,534
Current assets			
Stock	484	–	484
Trade and other receivables	13,549	(2,785)	10,764
Forward currency contracts	110	–	110
Cash and short-term deposits	7,113	–	7,113
Total current assets	21,256	(2,785)	18,471
Total assets	53,094	(2,089)	51,005
LIABILITIES			
Non-current liabilities			
Lease liabilities	79	–	79
Provisions	179	–	179
Deferred tax liabilities	1,119	–	1,119
Total non-current liabilities	1,377	–	1,377
Current liabilities			
Trade and other payables	16,882	–	16,882
Current tax liabilities	372	–	372
Lease liabilities	802	–	802
Borrowings	50	–	50
Provisions	968	–	968
Total current liabilities	19,074	–	19,074
Total liabilities	20,451	–	20,451
EQUITY			
Share capital	11,183	–	11,183
Share premium account	31,451	–	31,451
Other reserves	11,151	–	11,151
Translation reserve	1,607	–	1,607
Accumulated losses	(22,749)	(2,089)	(24,838)
Total equity attributable to equity holders of the parent	32,643	(2,089)	30,554
Total equity and liabilities	53,094	(2,089)	51,005

11 Prior period adjustment (continued)

Consolidated Financial Position

	As reported 2021 £'000	Adjustment 2021 £'000	Restated 2021 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	1,551	–	1,551
Right-of-use assets	1,709	–	1,709
Goodwill	24,772	–	24,772
Other intangible assets	6,648	–	6,648
Deferred tax assets	1,010	626	1,636
Total non-current assets	35,690	626	36,316
Current assets			
Stock	467	–	467
Trade and other receivables	10,605	(2,505)	8,100
Forward currency contracts	–	–	–
Cash and short-term deposits	9,146	–	9,146
Total current assets	20,218	(2,505)	17,713
Total assets	55,908	(1,879)	54,029
LIABILITIES			
Non-current liabilities			
Lease liabilities	135	–	135
Provisions	1,129	–	1,129
Deferred tax liabilities	1,288	–	1,288
Total non-current liabilities	2,552	–	2,552
Current liabilities			
Trade and other payables	14,456	–	14,456
Current tax liabilities	509	–	509
Lease liabilities	1,623	–	1,623
Borrowings	113	–	113
Provisions	854	–	854
Total current liabilities	17,555	–	17,555
Total liabilities	20,107	–	20,107
EQUITY			
Share capital	11,183	–	11,183
Share premium account	31,451	–	31,451
Other reserves	11,151	–	11,151
Translation reserve	1,538	–	1,538
Accumulated losses	(19,522)	(1,879)	(21,401)
Total equity attributable to equity holders of the parent	35,801	(1,879)	33,922
Total equity and liabilities	55,908	(1,879)	54,029