

# Alfa<sup>^</sup>

## 2019 Annual Results Presentation

23 April 2020

# Disclaimer

The following presentation is being made only to, and is only directed at, persons to whom such presentation may lawfully be communicated (“relevant persons”). Any person who is not a relevant person should not act or rely on this presentation or any of its contents. Information in the following presentation relating to the price at which relevant investments have been bought or sold in the past or the yield on such investments cannot be relied upon as a guide to the future performance of such investments.

This presentation does not constitute an offering of securities or otherwise constitute an invitation or inducement to any person to underwrite, subscribe for or otherwise acquire securities in Alfa Financial Software Holdings PLC (the “Company”) or any company which is a subsidiary of the Company.

The release, publication, or distribution of this presentation in certain jurisdictions may be restricted by law, and therefore persons in such jurisdictions into which this presentation is released, published or distributed should inform themselves about, and observe, such restrictions.

Certain statements contained in this presentation constitute forward-looking statements. All statements other than statements of historical facts included in this presentation, including, without limitation, those regarding the Company’s financial condition, business strategy, plans and objectives, are forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will”, or “should” or, in each case, their negative or other variations or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future. In particular, the forward-looking financial information provided by the Company in this presentation represents the Company’s estimates as of 31 December 2019. It is anticipated that subsequent events and developments may cause the Company’s estimates to change.

These forward-looking statements speak only as at the date of this presentation. While the Company may elect to update this forward-looking information at some point in the future, except as required by the Financial Conduct Authority, or by law, the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events, or otherwise.

## Measures not specifically defined by IFRS

Readers are cautioned that the supplemental financial information, which is not specifically defined by IFRS, presented in this presentation is subject to inherent limitations. It is not based on any comprehensive set of accounting rules or principles and should not be considered as a substitute for IFRS measurements. Also, the Company’s supplemental non-IFRS financial information may not be comparable to similarly titled non-IFRS measures used by other companies.

In the tables accompanying this presentation the Company sets forth its supplemental non-IFRS figures for revenue at constant currency, Adjusted EBIT, Adjusted EBIT at constant currency, Operating profit and Adjusted EBIT margins. Adjusted EBIT is defined as profit from continuing operations before interest and income taxes, adjusted for capitalised cost relating to internally generated assets and the relevant amortisation costs on associated internally generated assets. The tables also set forth the most comparable IFRS financial measure and reconciliations of this information with non-IFRS information.

See the “Definitions” slide at the back of this presentation for further information.



# Agenda

---

**Introduction and key highlights**

Andrew Denton, CEO

---

**Financial review**

John Miller, Interim CFO

---

**Business and sales update**

Andrew Denton, CEO

---

**Summary**

Andrew Denton, CEO

---

**Q&A**

---

**Definitions**

---



Alfa<sup>^</sup>

# Introduction and Key Highlights

Andrew Denton, CEO

# Overview

---

## **FY 2019 outturn**

- Revenue in line with guidance, H2 boosted by contractual non-recurring revenue
- Y-o-y revenue decline, due to delays in implementation projects and reduced discretionary spend by customers
- Strong implementation delivery across seven customer implementations
- Robust balance sheet with £58.8m cash (2018: £44.9m) and no debt (2018: £nil)
- Refreshed sales and business development approach delivering conversion of late-stage pipeline opportunities
- Sustained investment in Alfa Systems' functionality and expansion of partner ecosystem
- Cost pressures will continue, in competitive market for high-skilled delivery teams, reducing margins in 2020
- Despite an encouraging start to the year and continued demand for products and services, Covid-19 dictates a conservative outlook for 2020

## **Post year-end highlights**

- Go-live of major US auto finance customer
- First Alfa Start go-live for Hampshire Trust Bank
- Global partnership with Accenture
- Two new US auto contract wins
- Implementation and hosting agreement with major South African bank

## **Covid-19**

- Supporting stakeholders to minimise personal and business disruption
- Cancellation of one of the new US auto contracts, which was lower tier in terms of value
- Requests from some other customers to reschedule work
- At this stage we expect to be able to redeploy most of our people
- Continuing careful resource monitoring and allocation
- Early stage pipeline affected by uncertainty but continued engagement from later stage opportunities
- Plans for 2020 remain substantially unchanged

# FY 2019 – at a glance

## Financial and operational highlights

---

£64.5m

### Revenue

---

2018: £71.0m

£12.7m

### Adjusted EBIT<sup>(1)</sup>

---

2018: £22.0m

£58.8m

### Cash

---

2018: £44.9m

142 %

### Operating free cash flow conversion<sup>(1)</sup>

---

2018: 87%

7

### Implementation projects<sup>(3)</sup>

---

2018: 4 ongoing implementations

13

### ODS customers<sup>(2)</sup>

---

2018: 16

316

### Headcount at year end

---

31 December 2018: 312

83%

### Staff retention rate

---

2018: 88%

(1) Constant currency, adjusted EBIT, adjusted EBIT margin and operating free cash flow conversion are not measures specifically defined by IFRS. See “Definitions” for further information

(2) ODS customers contributing >£200,000 in revenue in the year

(3) Includes 6 ongoing implementation projects and 1 completed implementation project in late 2019



Alfa<sup>^</sup>

# Financial Review

John Miller, Interim CFO

# 2019 Income Statement analysis

## An overview of key metrics

Key Financial Metrics	FY 2018 £m	FY 2019 £m	Change	% Change
Revenue	71.0	64.5	(6.5)	(9%)
Revenue – constant currency	72.5	64.5	(8.0)	(11%)
Operating profit	22.4	13.7	(8.7)	(39%)
Operating profit margin	32%	21%	n/a	n/a
Adjusted EBIT	22.0	12.7	(9.3)	(42%)
Adjusted EBIT margin	31%	20%	n/a	n/a
Adjusted EBIT – constant currency	22.8	12.7	(10.1)	(44%)
Profit for the period	18.2	10.2	(8.0)	(44%)

### Overview

- 2019 revenue primarily impacted by:
  - Three new implementation customers in 2019
  - New customer in pre-contract implementation services (included within ODS)
  - Contractual non-recurring revenue items:
    - £1.6 million - customer exceeded licence limits
    - £3.9 million – ex-customer additional settlement
  - Delays in implementation of certain projects
  - Broader macro-economic uncertainties
- Operating profit margin reflects decreased revenue and increasing cost pressure
- Adjusted EBIT adds back capitalised development costs
- TCV of £80.5 million (31 Dec 2018: £79.0 million):
  - £27.4 million software implementation
  - £8.0 million ODS
  - £45.1 million maintenance

# 2019 Income Statement analysis

## Software implementation revenues

£m	2018	2019	Change
New	-	8.8	8.8
Continuing	26.0	16.3	(9.7)
Completed	3.3	1.2	(2.1)
Paused	1.1	(0.2)	(1.3)
<b>Total software implementation revenues</b>	<b>30.4</b>	<b>26.1</b>	<b>(4.3)</b>

### Software implementation revenues

- Seven implementation projects in 2019 (2018: five, including one paused)
- One go-live late 2019
- Three new implementation customers in 2019:
  - Largest German automotive finance provider
  - One of the largest banks in South Africa
  - Hampshire Trust Bank
- Project length of some implementations increased leading to write-backs of licence revenue
- 61% of software implementation revenues denominated in US dollars (2018: 88%).

# 2019 Income Statement analysis

## ODS revenues

£m	2018	2019	Change
New	-	2.3	2.3
Pre-implementation	1.0	2.5	1.5
Continuing	19.9	13.1	(6.8)
Completed or non-recurring	3.0	5.6	2.6
<b>Total ODS revenues</b>	<b>23.9</b>	<b>23.5</b>	<b>(0.4)</b>

### ODS revenues

- £2.3 million from two implementation customers
- £2.5 million from two pre-implementation projects
  - Both now in implementation
- Contractual non-recurring revenue items:
  - £1.6 million - customer exceeded licence limits
  - £3.9 million – ex-customer additional settlement
- Customer numbers – 13 (2018: 16):
  - completed projects
  - fewer customers transitioning from implementation

# 2019 Income Statement analysis

## Maintenance revenues

£m	2018	2019	Change
New	-	0.3	0.3
Continuing	13.3	13.8	0.5
Hosting	0.3	0.6	0.3
Lost	2.7	0.2	(2.5)
Paused	0.5	-	(0.5)
<b>Total maintenance revenues</b>	<b>16.8</b>	<b>14.9</b>	<b>(1.9)</b>

### Maintenance revenues

- Continuing maintenance increased 4% y-o-y:
  - Underlying annual increases; and
  - Increased portfolio sizes.
- New maintenance relates to implementation customer
- Three new implementation customers taking hosting service
- Y-o-y decline reflects impact of H2 2018 terminations
  - Customers 25 (2018: 28)
- No non-recurring items in 2019

# 2019 Income Statement analysis

## Expense analysis

£m	2018	2019
Personnel related expenses	37.9	36.8
Advertising, sponsorship and marketing costs	0.8	0.6
Depreciation and amortisation	0.9	2.8
Property costs	2.7	1.4
Travel costs	2.3	2.1
IT costs	1.5	1.6
Insurance and professional fees	2.1	3.8
Foreign currency differences	(0.5)	0.3
Share based compensation	0.3	0.6
Other	0.7	1.3
<b>Total operating expenses</b>	<b>48.7</b>	<b>51.3</b>

### Expenses

- Personnel expenses account for 72% of operating expenses (2018: 78%)
- Higher cost base in FY20
  - Full year effect of Nov 2019 salary increases (c. £2 million)
  - Variable cost components
    - Hosting
    - Partner costs
  - Incremental legal fees
- Expenses other than personnel costs include:
  - Insurance and professional fees - additional legal and professional fees
  - Property costs - reduced due to the adoption of IFRS 16
  - Depreciation and amortisation - increased re adoption of IFRS 16 , new HR and finance system and computer hardware
  - Share-based compensation –full-year impact of May 2018 company LTIPs
  - Other office costs - increases in office space and inflationary cost pressures
- There were no exceptional items in the year

# 2019 Cash flow statement

£m	2018	2019
<b>Operating profit</b>	<b>22.4</b>	<b>13.7</b>
Depreciation and amortisation	0.9	2.8
Share based payments	0.3	0.7
Unrealised loss on derivative financial instruments	0.1	-
Movements in trade and other receivables	(1.2)	2.5
Movements in trade and other payables and provisions	(0.1)	(0.3)
Movement in deferred license and maintenance	(1.5)	3.1
<b>Cash generated from operations</b>	<b>20.9</b>	<b>22.5</b>
Total lease payments in respect of IFRS 16	-	(2.4)
Capital expenditure	(1.6)	(2.1)
Settlement of derivative instruments	(0.1)	-
<b>Operating free cash flow generated</b>	<b>19.2</b>	<b>18.0</b>
Tax paid	(5.7)	(4.0)
Interest received	-	0.1
Foreign exchange	0.2	(0.2)
Cash inflow/(outflow) in period	13.7	13.9
<b>Cash and cash equivalents at end of period</b>	<b>44.9</b>	<b>58.8</b>

## Cash and cash equivalents

- Cash increase of £13.9 million
- 2019 Free cash flow conversion 142% (2018: 87% in 2018):
  - Receipt of £3.2 million of non-recurring contractual for which the revenue was recognised in prior years
  - Increased focus on cash management
  - Adoption of IFRS 16 operating lease payments reclassified from Operating Profit as below:
    - No impact on overall cash flows.
    - Principal element of £1.6 million of the lease payments shown as a financing cash flow in 2019
  - Year end cash balance of £58.8 million
  - Sufficient funds for foreseeable future
  - Viability statement and negative stress testing demonstrate no reasonable downside where Group runs out of funds

# 2019 Balance Sheet

## Assets

£m	Dec 2018	Dec 2019
<b>Total non-current assets</b>	<b>27.4</b>	<b>45.2</b>
Current assets		
Trade receivables and accrued income	13.8	11.3
Prepayments and other receivables	2.4	2.6
Cash and cash equivalents	44.9	58.8
<b>Total current assets</b>	<b>61.1</b>	<b>72.7</b>
<b>Total assets</b>	<b>88.5</b>	<b>117.9</b>
Current liabilities		
Trade and other payables	7.6	5.9
Contract liabilities – software	1.7	4.6
Contract liabilities - maintenance	3.8	4.0
Current portion of lease liabilities	-	1.7
Corporation tax	2.4	1.4
<b>Total current liabilities</b>	<b>15.5</b>	<b>17.6</b>
<b>Total non-current liabilities</b>	<b>0.1</b>	<b>18.0</b>
<b>Total liabilities</b>	<b>15.6</b>	<b>35.6</b>
<b>Equity attributable to parent</b>	<b>72.9</b>	<b>82.3</b>
<b>Total liabilities and equity</b>	<b>88.5</b>	<b>117.9</b>

### Balance sheet

- IFRS 16 adoption:
  - Non-current assets increased by £18.0 million
  - Current liabilities increased by £1.5 million and non-current liabilities increased by £19.0 million
- Non-current assets also reflect increased investment in new HR and finance system
- Trade receivables and accrued income decreased primarily through receipt of prior year revenue items
- Cash increased by £13.9 million to £58.8 million
- Capitalised £1.1m of internal investment in respect of:
  - Continued investment in digital capabilities;
  - Upgrades / improvements to usability and functionality of UI;
  - Investment in the functionality of the cloud-hosting platform;
  - Adaption of Alfa Start to the UK equipment finance market; and
  - Specific functionality requested by existing clients leading to developing of new modules and capabilities.

# 2019 Balance Sheet

## Liabilities

£m	Dec 2018	Dec 2019
<b>Total non-current assets</b>	<b>27.4</b>	<b>45.2</b>
Current assets		
Trade receivables and accrued income	13.8	11.3
Prepayments and other receivables	2.4	2.6
Cash and cash equivalents	44.9	58.8
<b>Total current assets</b>	<b>61.1</b>	<b>72.7</b>
<b>Total assets</b>	<b>88.5</b>	<b>117.9</b>
Current liabilities		
Trade and other payables	7.6	5.9
Contract liabilities – software	1.7	4.6
Contract liabilities - maintenance	3.8	4.0
Current portion of lease liabilities	-	1.7
Corporation tax	2.4	1.4
<b>Total current liabilities</b>	<b>15.5</b>	<b>17.6</b>
<b>Total non-current liabilities</b>	<b>0.1</b>	<b>18.0</b>
<b>Total liabilities</b>	<b>15.6</b>	<b>35.6</b>
<b>Equity attributable to parent</b>	<b>72.9</b>	<b>82.3</b>
<b>Total liabilities and equity</b>	<b>88.5</b>	<b>117.9</b>

### Balance sheet (continued)

- Trade and other payables decreased due to bonus payment in April 2019
- Deferred software revenue increased due to:
  - Deferrals of go-live dates for certain projects
  - Write-back of software licence revenue over the year



Alfa<sup>^</sup>

# Business and Sales Update

Andrew Denton, CEO

# Business and sales update - Agenda

---

## **Organisational changes**

Focused business development and enhanced leadership

---

## **Implementation update**

4 go-lives, 5 agreements, 1 cancellation signed since H1 results

---

## **Late stage pipeline**

Less dependence on key customers

---

## **Product development and innovation**

Extending Alfa Systems' competitive advantage

---

## **Partnership**

Operational gearing

---

## **Outlook**

Managing through Covid and long-term value drivers

---

# Organisational changes

---

## **Refreshed business development function**

- Chief Revenue Officer oversees commercial, sales and marketing
- Tighter coupling of sales, commercial and finance functions
- Business development directors for Americas, EMEA and Australasia

## **Improved organisational structures and strategic processes**

- New leadership team blends Alfa and external experience
- Clear accountability for delivery, people and engineering through COO
- New Roles: Director of Strategy and Investment, Head of Product Strategy
- Product Engineering group created under CTO
- Global delivery through Client Account Directors reporting to Chief Delivery Officer
- Chief International Officer responsible for non-EMEA operation
- Chief People Officer recruited

## **Board appointments:**

- NEDs: Chris Sullivan (SID), Steve Breach; COO: Matthew White
- New appointments: NEDs: Adrian Chamberlain, Charlotte de Metz; CFO: Duncan Magrath

## **Right mix of skills and experience to take Alfa forward**

# Implementation update

## Four go-lives, five new agreements, one cancellation

Client descriptor	Status	Location
OEM A	Front end went live in Spain, Germany and UK. Implementation phase complete. Now an ODS customer.	Europe
Auto Finance A	Successful and high-profile go-live for high-volume portfolio in H1 2020. Run rate continues on second phase.	US
OEM B	Live in Netherlands in H2 19; subsequent phases for multiple countries in progress.	Europe
Hampshire Trust Bank (Retail Bank D)	Live Q1 2020, following a 19 week implementation, proving the Alfa Start model.	UK
Auto Finance C	Software licence and maintenance contracts signed. Development complete. Testing expected to continue through 2020.	Europe
Auto OEM B	Fast-growing US-based automotive manufacturer – hosted Alfa Start contract win Q1 2020, covering UK, Europe, US and Canada.. Project cancelled by customer.	UK, Europe & North America
Retail Bank C	Large South African bank. Software licence, maintenance and hosting contracts signed Q1 2020. Initial pilot (MVP) live. Development and testing for future phases will continue through 2020.	South Africa
Auto OEM C	Top 10 US auto manufacturer (pre-existing customer). Maintenance and hosting contract signed Q1 2020. Implementation started.	US
Auto Finance B	Testing will continue through 2020.	US

# H1 2019 late stage pipeline update

Two won, two in design, one lost

Potential client descriptor	Size	Partnership	Location	Status
Auto OEM B	Alfa Start	N	UK, Europe & North America	Won, but subsequently cancelled
Retail Bank D	Alfa Start	N	UK	Won
Auto Finance D	Large	Y	US	Pipeline. Design work being carried out under LoE
Retail Bank B	Large	Y	Europe	Pipeline. Design work being carried out under LoE
Wholesale Finance A	Medium	N	US	Pipeline.
OEM C	Medium	N	LATAM	Not pursued
Auto OEM A	Large	Y	UK	Lost

# Late stage pipeline – additions since H1 2019

Five new opportunities, one converted in Q1 2020

---

Potential client descriptor	Size	Partnership	Territory	Status
Auto OEM C	Medium	N	US	Won Q1 2020
Retail Bank E	Medium	N	US	Pipeline. Initial work being carried out under SOW
Auto Finance E	Alfa Start	N	Europe	Pipeline
Equipment Finance A	Medium	N	UK	Pipeline
Auto Finance F	Medium	N	UK	Pipeline

# Product development and innovation

## Enhancing Alfa Systems' competitive advantage

---

Ongoing investment in R&D remains key to maintaining leadership of Alfa Systems



Alfa Start (“Business in a Box”) development started, July 2019, with product launch, March 2020 following successful go-live with Hampshire Trust Bank.

### Digital investment continues:

- Digitalisation continues to be a dominant theme in purchasing decisions
- First POSkit implementations now live

### Cloud first strategy:

- Enhanced capacity for hosting through investment in tooling
- PostgreSQL support added
- Most recent contract wins have included hosting



### Other 2019 highlights included:

- Step change in performance
- Measurable UI/UX improvements
- Development of Cash Accounts functionality and usage-based billing
- AI thought leadership campaign in H2

### Plans for 2020 investment include:

- SONIA support
- Ongoing UI/UX leadership
- SDLC enhancements to improve developer efficiency
- Increased investment in modularisation to ease maintenance and support growth opportunities



# Partnerships

## Operational gearing

---



### **Additional element to Alfa's growth strategy**

#### **Two types of implementation partners:**

- Staff augmentation partners
- System integrators



### **Delivered product and implementation induction training to over 30 staff augmentation partner team members in 2019**

- As at 31 December 2019, six resource augmentation partner staff working on three discrete projects
- Late stage pipeline contains two co-bids with implementation partners

### **Total partner ecosystem includes agreements with five implementation partners**

- Global partnership agreement with Accenture signed, February 2020



### **In discussions with further potential implementation partners**



Alfa<sup>^</sup>

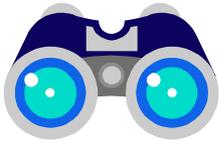
# Summary

Andrew Denton, CEO

# Summary

## 2019 performance and 2020 outlook

---

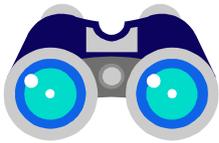


- Current trading in line with expectations
  - Revenues in line with Trading Update
  - Contractual non-recurring revenues boosted profitability
  - FY19 - three new implementation customers - Europe, South Africa, and UK
  - FY20 - announced contract wins in US Auto confirm attractiveness of Alfa Start
- Covid-19 dictates a conservative outlook for 2020
  - Some projects rescheduled – expect to redeploy most staff
  - Working with stakeholders to minimise business and personal disruption
  - Macro uncertainties affect buying behaviour
- Robust balance sheet
  - £59m cash and no debt
  - Increased focus on cash management
  - Reverse stress testing and viability statement give comfort over sufficiency of funds for foreseeable future

# Summary

## Long-term value creation

---



- Market fundamentals for Alfa Systems compelling in medium to long term
  - Customer decisions prompted by
    - Digital Darwinism
    - Auto
      - demand for electric and autonomous vehicles
      - adoption of e-commerce business platforms
    - Equipment will vary by sector
      - mining and materials handling strong
      - agriculture weak
- Strategic priorities
  - Grow market share
  - Partner model – operational gearing
  - Extend digital agenda
  - Establish Alfa Start – go to choice for volume market
  - High performance organisation – continuous improvement culture
  - Promote shareholder value
- Encouraging late-stage pipeline

# Alfa<sup>Δ</sup>

Q&A

# Definitions

## Measures not specifically defined by IFRS

### Adjusted margin

Adjusted EBIT in 2019 is defined as profit from continuing operations before interest and income taxes, adjusted for capitalised cost relating to internally generated assets and the relevant amortisation costs on associated internally generated assets, with the Adjusted EBIT margin as a proportion of revenue.

£'000	2019	2018
Profit for the period	10,182	18,150
Adjusted for:		
Taxation	2,818	4,306
Finance income	(143)	(74)
Finance expense	852	
Capitalised development costs	(1,135)	(407)
Amortisation of capitalised development costs	153	-
Adjusted EBIT	12,727	21,975

### Constant Currency

- When Management believes it would be helpful for understanding trends in its business, Management provides percentage increases or decreases in its revenue or Operating Profit to eliminate the effect of changes in currency values.
- When trend information is expressed herein "in constant currencies", the comparative results are derived by re-calculating non GBP denominated revenue and/or expenses using the average exchange rates of the comparable period in the current year, excluding gains or losses on derivative financial instruments. The material applicable rates are as follows:

Average	2018	2019
USD	1.3355	1.2771
EUR	1.1303	1.1407

### Operating free cash flow conversion

- Operating Free Cash Flow is calculated as cash from operations, less gains and losses on settlement of derivative instruments and margin calls, less capital expenditures, less total lease payments in respect of IFRS 16 (which was applied for the first time in the year ended 31 December 2019) of lease payments and adding back IPO-related expenses. Operating Free Cash Flow Conversion represents Operating Free Cash Flow generated as a proportion of Adjusted EBIT.

£'000s	2018	2019
Cash generated from operations	20,954	22,548
Settlement of derivative financial instruments and margin calls	(108)	-
Principle element of lease payments	-	(2,462)
Capital expenditure	(1,638)	(2,076)
Operating Free Cash Flow generated	<b>19,208</b>	<b>18,010</b>
Operating Free Cash Flow Conversion	87%	142%

### Total contracted value

- TCV is calculated by analysing future contracted revenue based on the following components:
  - an assumption of three years of current maintenance payments (actual maintenance contracted length varies by customer);
  - the estimated remaining time to complete any software implementations and recognise deferred and material right to use licence amounts; and
  - ODS work which is contracted under a statement of work.