



# Capital Markets Event

INTRODUCING NCC GROUP'S ESCODE BUSINESS

25 APRIL 2024



# More global, agile and customer-focused

## Our businesses



### Cyber Security

Protecting companies and governments against an evolving spectrum of cyber threats



### Escode

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

## Our strategy

### Our clients

Deeper client engagement on the most pressing cyber security needs

### Our capabilities

Broader service portfolio addressing the full cyber security lifecycle

### Global delivery

Transitioning from an international to a fully global business

### Brands

Distinct and relevant brands for Cyber Security and software escrow business

## Our ambition

### Medium term:

### Cyber Security

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

### Escode

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

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

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

# Escode investment case

- 1 Leading global player in software escrow with opportunity to grow
- 2 Resilient financial profile with a diverse revenue mix, high margins and strong cash flow conversion
- 3 Highly sticky revenue model with long customer tenures
- 4 Diverse base of blue-chip customers with minimal concentration, inelastic demand and high net renewal rates
- 5 Attractive market dynamics with IT risk management increasingly seen as business critical
- 6 Clear core organic growth strategy within plan





# Introducing Escode

ANDREW LEMONOFIDES, GLOBAL MANAGING DIRECTOR





# Speaking today



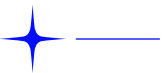
**Andrew  
Lemonofides**  
*Global Managing Director*



**Adrian  
Ah-Chin-Kow**  
*Global Commercial Director*



**Jayesh  
Patel**  
*CFO*





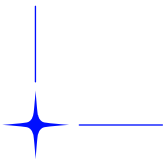
# Escrow

## DEFINITION

“

Escrow is an agreement between two people or organisations in which money or property is kept by a third person or organisation until a particular condition is met

”



# Software Escrow

## DEFINITION

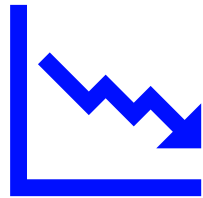
“ Software Escrow is a tri-party legal agreement between a software vendor and their customer, for an independent, **trusted third-party escrow agent**, to hold source code and other critical materials to be released to the software user party in the event the release criteria is met ”



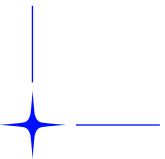
# What drives a customer to Software Escrow?

INCREASED DEPENDENCY ON TECH TO DRIVE BUSINESS

Risk of  
supplier failure



Increased  
regulation





# The need for Software Escrow

## KEY MARKET TRENDS

### Increasing Awareness

Companies need operational resilience to avoid risk of disruption caused by a supplier failure



### Regulatory Compliance

Increasingly stringent regulatory environment ensures more firms put business continuity plans in place

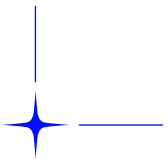
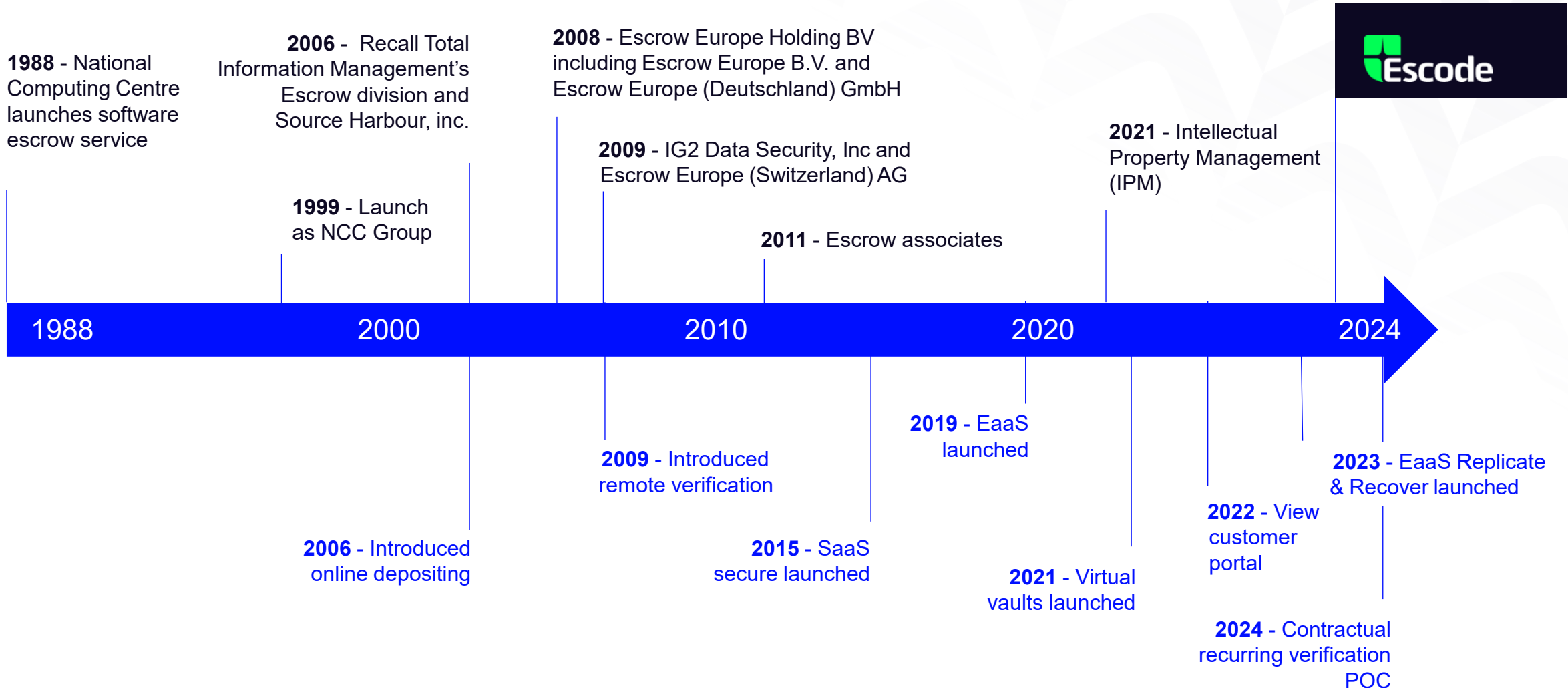


### Market Development

Growing population of independent software vendors (ISV) with a focus on specialisation into niche verticals



# Pioneers of Software Escrow



# In summary...

## Key investment attributes

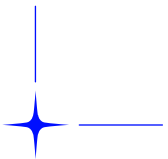
- Recurring revenue base
- Consistently high renewal rates
- Upside organic potential
- Strong EBIT margin profile and cash conversion
- c. £64m net revenue in FY23
- c. £31m EBIT in FY23

## Global scale

- 14,000 customers in 135 countries
- Physical and virtual vaults
- Strong presence in North America following IPM acquisition

## On-premise and cloud service offerings

- Software Escrow contracts
- Escrow verifications





# Software Escrow, Solution Delivery

ADRIAN AH-CHIN-KOW, GLOBAL COMMERCIAL DIRECTOR



# Service offering

## Software Escrow

### Establish legal right

Agree a contract to allow:

- Access
- Maintain
- Modify
- Deploy and use



## Verification Services

### Knowledge transfer

Application build recipe:

- Observe and document application compilation
- Understand the required third-party tooling to manage
- Understand the design of the production environment



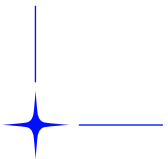
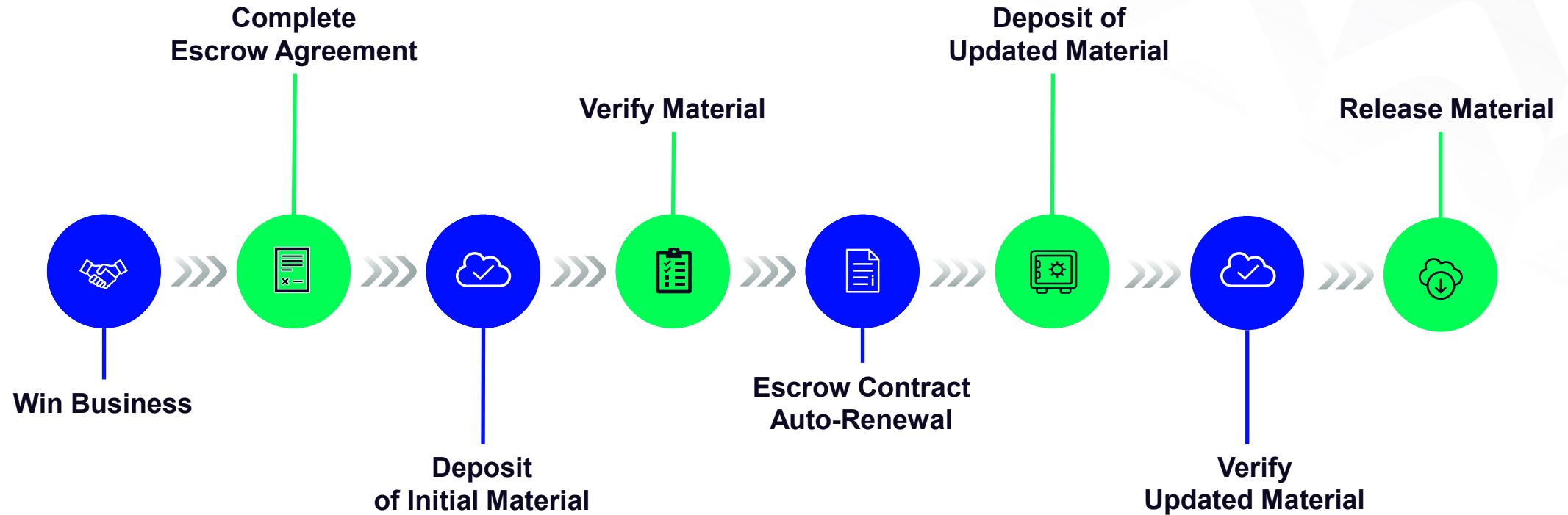
### Build and deploy

Meeting a range of scenarios:

- Rebuild the application from source code
- Recreate the production environment
- Deploy application to replica production environment
- Test and maintain access to multi-tenanted cloud environment



# The customer journey

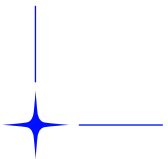
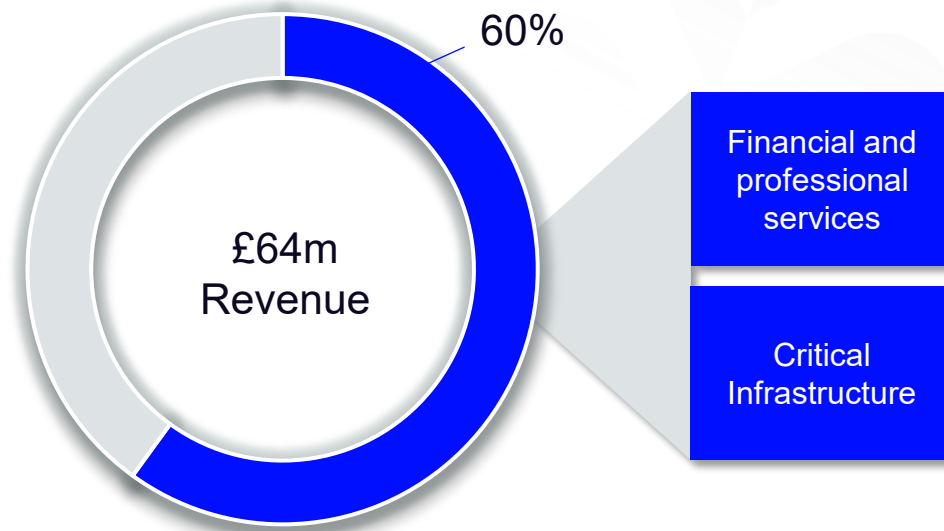


# Market Position, Customer



# Two key growth verticals

| Financial and Professional services | Critical Infrastructure |
|-------------------------------------|-------------------------|
| Technology and Communications       | Retail                  |
| Public Sector                       | Other                   |

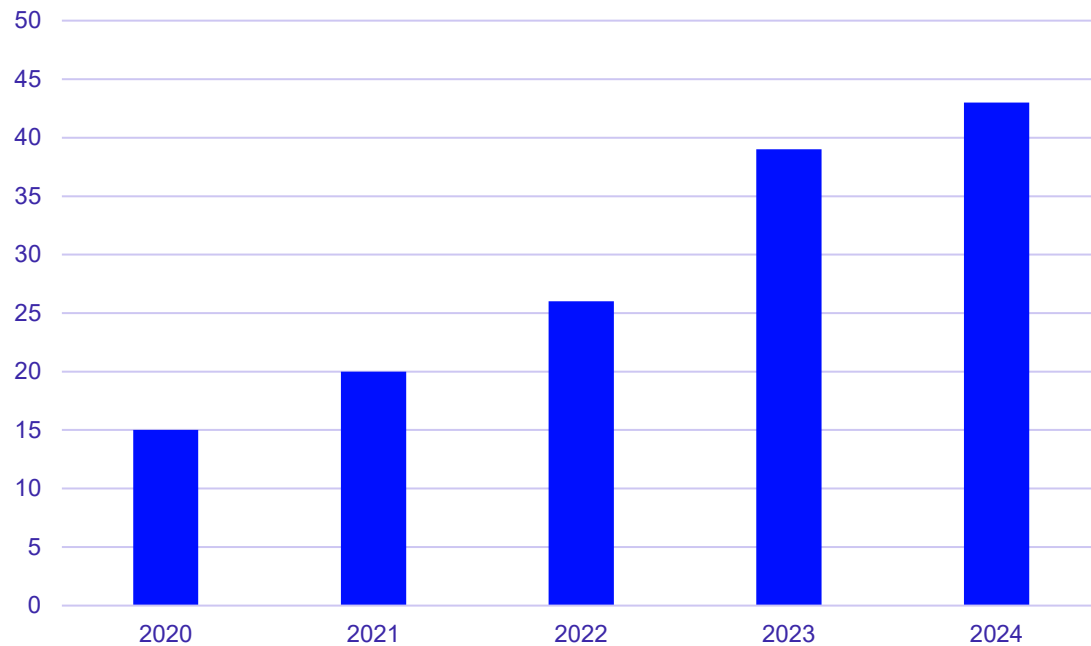




# Regulatory compliance is growing

Global regulation for **third-party risk management** and **operational resilience** is on the rise

Regulation where Software Escrow meets the requirement or is named



Future global regulation announcements for 2024 include:

- **UK** - Critical Third-Party regulations
- **EU** - DORA Critical Third-Party Providers confirmation
- **US** - Commodities Futures & Trading Commission
- **Saudi Arabia** - CST Legislation/Regulation
- **UK** - Rail Safety and Standards Board escrow guidance
- **Australia** - APRA CPS 230: Guidance

**Encode's Regulatory Compliance team, routinely inputs into consultations, emphasising where Software Escrow provides a fit**

# Examples of live regulations



## Federal Reserve Interagency

Guidance on 3rd Party Relationships:

**Section 3.G** - .....it is important to consider a provision to **establish escrow agreements** to provide for the banking organization's access to source code and programs under certain conditions.

~1,100 regulated entities



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY

## Supervisory Statement | SS2/21

Outsourcing and Third Party Risk Management:

**Section 10.16** - ..... the ongoing provision of important business services following a disruption and/or a stressed exit,....., (e.g. contractual or **escrow arrangements**).....

~500 regulated entities



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA

## Master Direction on Information Technology Governance, Practices: Risk, Controls and Assurance

**Section 12.F** – Regulated entities shall **put in place a source code escrow arrangement** or other arrangements to adequately mitigate the risk of default by the vendor.

~300 regulated entities



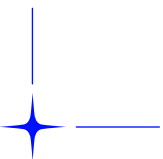
EBA | EUROPEAN  
BANKING  
AUTHORITY



## ICT risk management tools, methods, processes and policies:

**Article 25, section 2.b** - .....In testing the business continuity plans....., financial entities shall duly **consider scenarios linked to insolvency or failures of the ICT-third party**

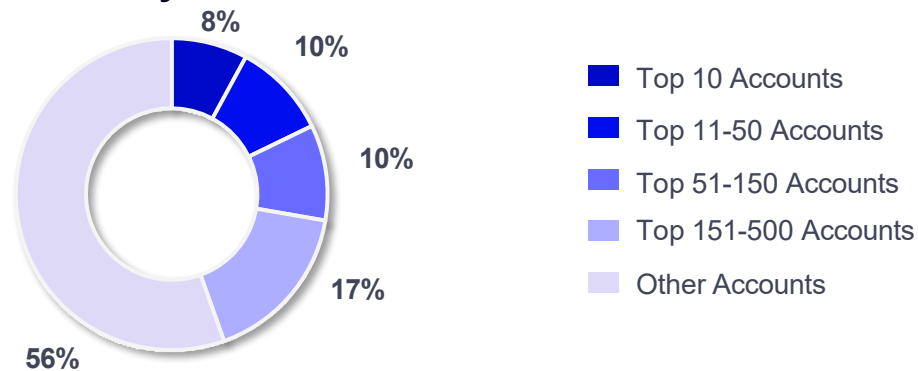
~15,000 regulated entities



# Loyal base of enterprise customers

## Customer revenue distribution

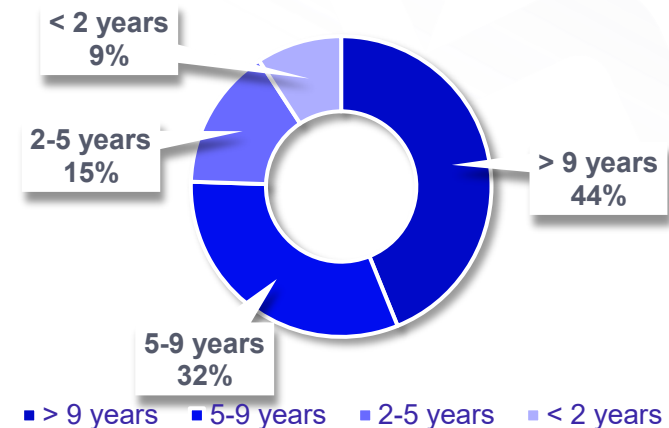
### Revenue by Customer



- Balanced customer distribution, with high-margin long-tail
- A **true global enterprise grade** customer base:
  - 57% of Fortune-500-Global
  - 40% of Forbes-2000
- **>14,000 Customers** and software vendors
- Providing services in **135 Countries**
- Contracting in **17 different country laws**

## Customer base characterised by long tenure & low attrition

### Customer Tenure



- **75%** of customers have **5+ years** tenure
- Tenure of **top 30** customers ranging from **15 to 30 years**
- Strong customer **retention** with consistent historic **renewal** rates of **+90%**

# Market position & value proposition

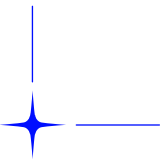
## Market position

- Largest, most financially strong provider, with the longest heritage in the market
- The broadest suite of solutions, across on-premise and cloud software
- Resourced to deliver complex programmes at global scale



## Value proposition

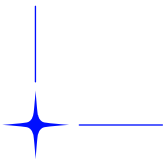
- **Credibility & reputation**  
*Large enterprises engage us for our experience & track record*
- **Technical capabilities**  
*Providing solutions to broadest range of software escrow opportunities*
- **Scale & sophistication**  
*Demonstrates a portfolio of global complex, high-scale project deliveries*





# Doha Metro

- Providing software escrow services to fortify the digital infrastructure underpinning **Qatar Rail's \$36bn Doha Metro system**, one of the world's most sophisticated rail transit system
- Working with partners to Qatar Rail, including **Thales, Mitsubishi Heavy Industries, Hitachi, and Kinki Sharyo Co**
- A **15-year contract**, supporting **multi-party relationships** providing critical systems to an interconnected ecosystem of more than **30 applications, across 16 software vendors**, including:
  - Signalling and control systems / train braking / door access / fire protection systems / public address systems
- Requiring full project management to coordinate our Legal, Solution Architecture and Service Delivery experts, with stakeholders across all partners, and software vendors



# Bringing our proposition to life



# Fireside Chat: NatWest Group & Escode



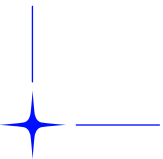
**Neil Bellamy**  
*Head of Technology, Media & Telecoms (TMT) and Services*  
**NatWest Group**



**Damindu Jayaweera**  
*Head of Technology Research*  
**Peel Hunt**



**Alex McCulloch**  
*Global Account Director*  
**Escode**





# Financial Position

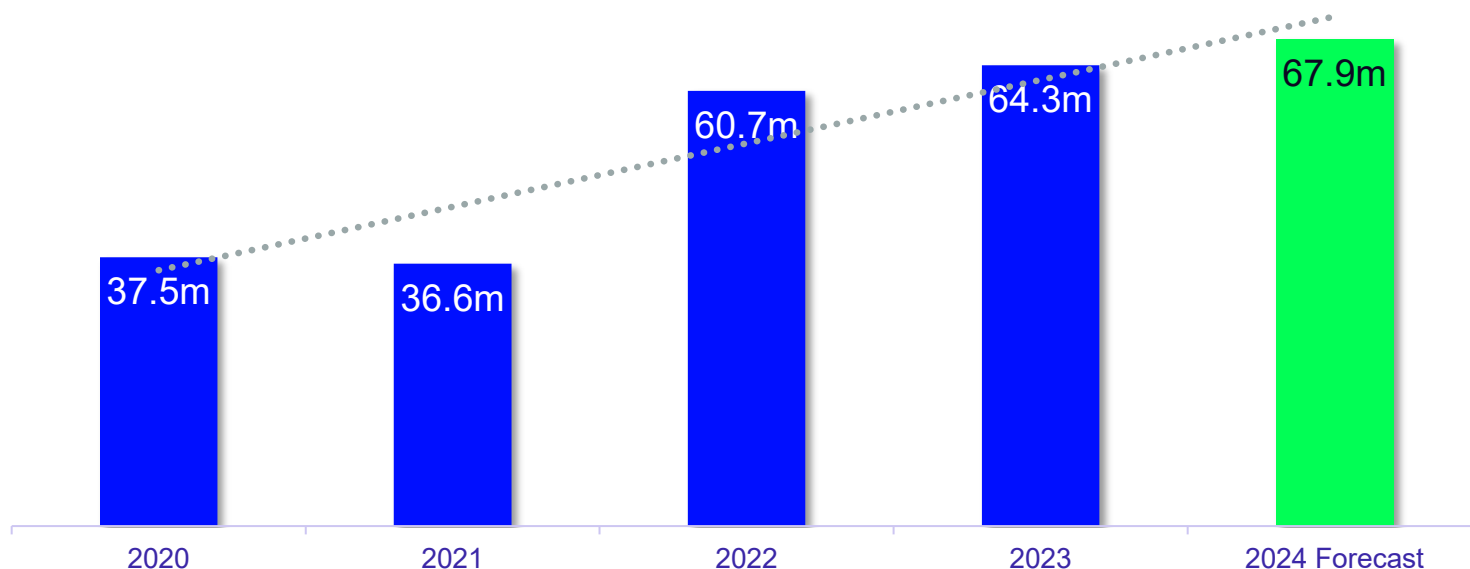
JAYESH PATEL, CHIEF FINANCIAL OFFICER





# Revenue growth

## Revenue Performance Growth

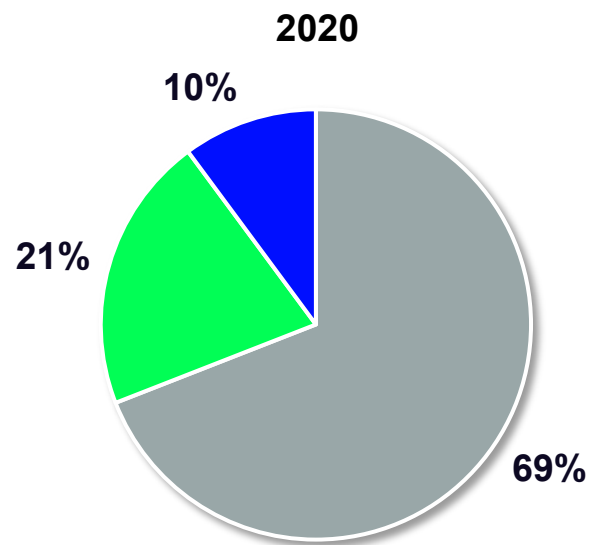


## Overview

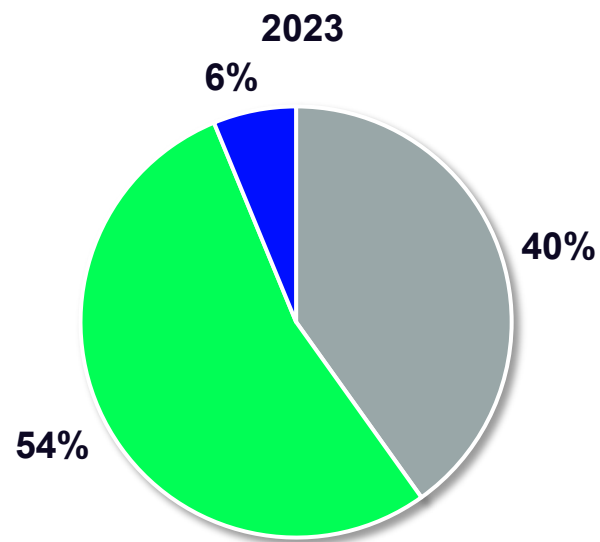
- Solid revenue growth now for the past 6 quarters
- IPM acquisition in FY22 added £24m
- FY23 – 5.9% growth
- On-track for 6% growth in FY24 in line with previous guidance

*\*FY22 shown on a proforma basis (adjusted for IPM fair value adjustment £4.4m)*

# Revenue by territory



■ UK ■ US ■ EU & ROW



■ UK ■ US ■ EU & ROW

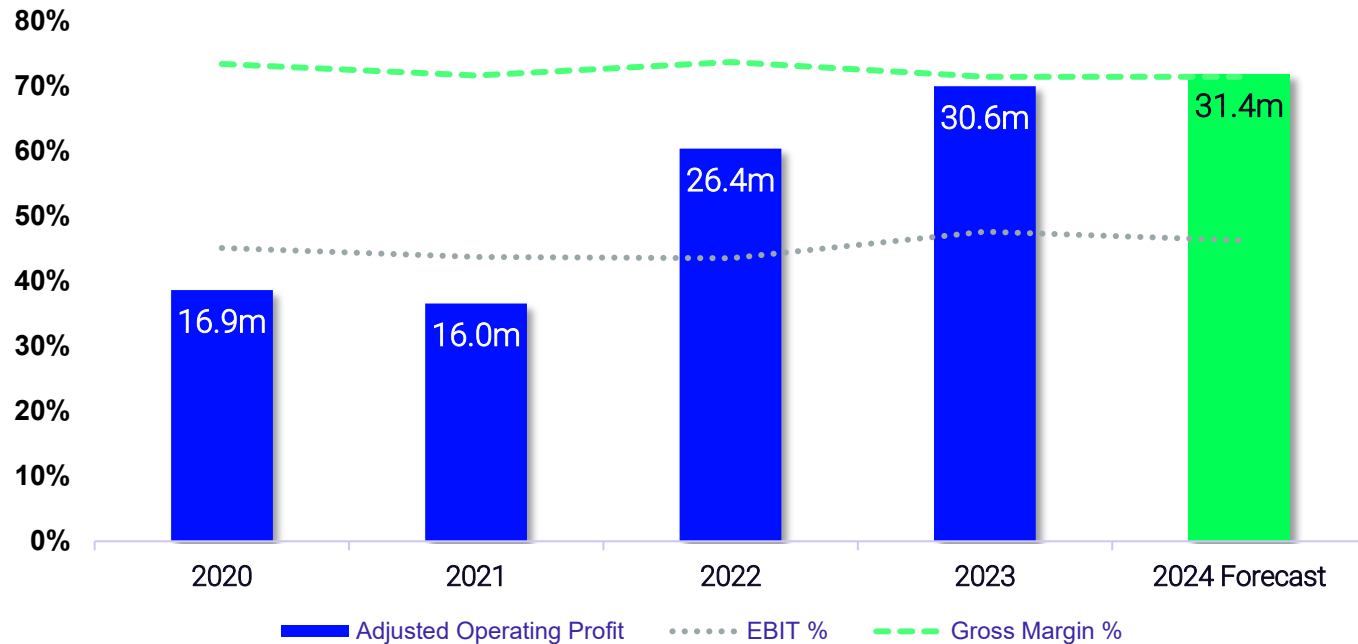
## Overview

- Pre IPM 69 % revenue concentrated in UK
- Post IPM concentration is more even across territories
- Provides strong penetration and opportunity to further grow in US

*\*FY22 shown on a proforma basis (adjusted for IPM fair value adjustment £4.4m)*

# Adjusted EBIT

## Financial Performance

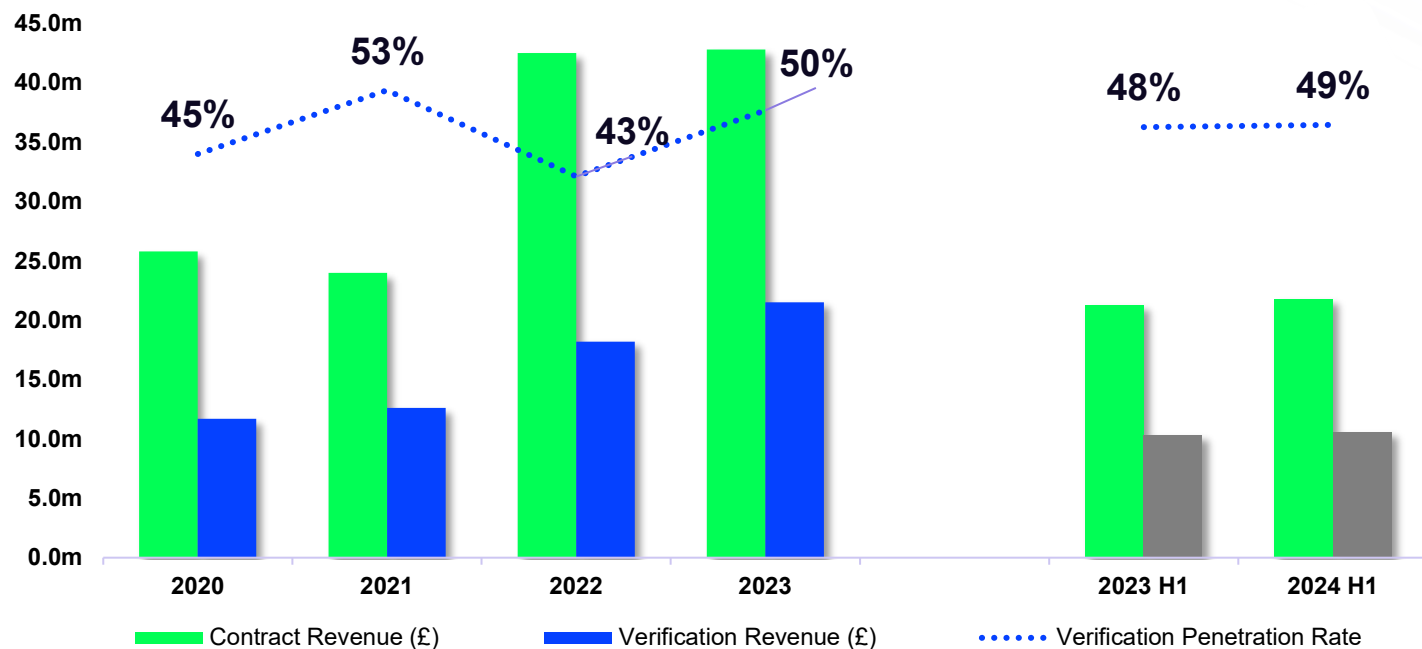


## Overview

- EBIT performance improving YoY since change in leadership in Escode in 2022
- Gross margin reflects investments in sales and delivery team in line with plans
- EBIT % improvements through cost rationalisation and integration synergies
- Continuing strong cash generation

\*FY22 shown on a proforma basis (adjusted for IPM fair value adjustment £4.4m)

# Verifications performance



## Overview

- Verification penetration rate is improving and enhancing the quality of re-occurring revenue
- Good progress in upselling verifications to IPM customer base
- 65% of verifications re-occur the next year

| Verification Penetration Rate | 2020  | 2021  | 2022  | 2023  | 2023 H1 | 2024 H1 |
|-------------------------------|-------|-------|-------|-------|---------|---------|
| Contract Revenue (£)          | 25.8m | 24.0m | 42.5m | 42.8m | 21.3m   | 21.8m   |
| Verification Revenue (£)      | 11.7m | 12.6m | 18.2m | 21.5m | 10.3m   | 10.6m   |
| Verification Penetration Rate | 45%   | 53%   | 43%   | 50%   | 48%     | 49%     |

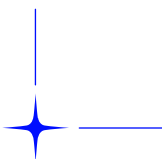
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# Contracts performance

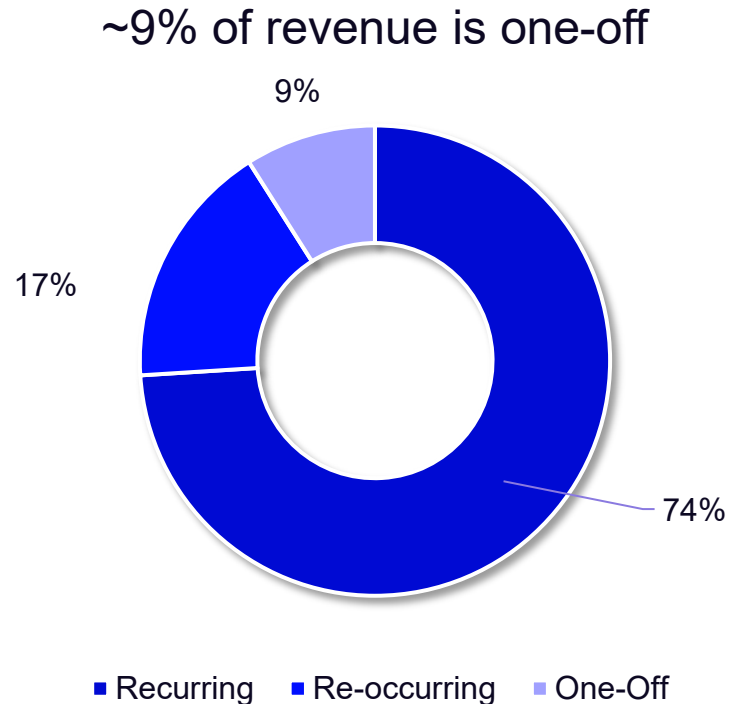
## Overview

- Overall fewer beneficiaries but of a higher value
- Resulting in average revenue per beneficiary increasing by 5.7%
- Verification revenue per beneficiary increasing due to the improvements in penetration rate
- Demonstrates the shift in mix towards strategic relationships

|                                      | 2023 H1 | 2024 H1 | Var %  |
|--------------------------------------|---------|---------|--------|
| <b>Net Revenue</b>                   | £31.6m  | £32.4m  | 2.5%   |
| <b>Number of beneficiaries</b>       | 47,304  | 45,872  | (3.0%) |
| Net revenue per beneficiary          | £668    | £706    | 5.7%   |
| Contract revenue per beneficiary     | £450    | £475    | 5.5%   |
| Verification revenue per beneficiary | £218    | £231    | 6.1%   |

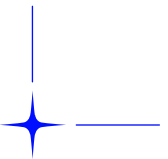


# 91% of revenue recurring or re-occurring



## Overview

- Software Escrow Agreements and adjacent services recurring revenue
- Escrow Verifications 65% re-occurring and 35% is a new verification to a new or existing client
- Provides a high degree of forward visibility





# Next steps & future growth

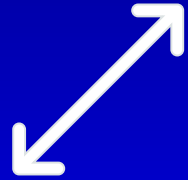
ANDREW LEMONOFIDES, GLOBAL MANAGING DIRECTOR



# Growth levers



**Valuing our  
customer  
proposition**



**Expansion  
into further  
verticals and  
geographies**



**Increasing  
awareness &  
education**



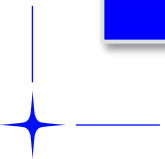
**Working with  
regulators to  
influence  
regulation  
globally**



**Continuing to  
build out our  
product  
offering**



**Delivering on  
core platform  
changes**





# Escode investment case

- 1 Leading global player in software escrow with opportunity to grow
- 2 Resilient financial profile with a diverse revenue mix, high margins and strong cash flow conversion
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# For further information

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