Full Year Results

for the year ended 31 May 2017

18 July 2017

Executive Chairman – Chris Stone
Interim CEO and CFO – Brian Tenner

Agenda

Overview

Very challenging year ……..

- Significant under-performance vs initial expectations, in line with revised expectations
- Major changes to Board and executive team
- Cost base increased out of step with revenue growth due to lack of control
- Gross and Net Margins fell in most business units

……… but with significant opportunities to improve ………

- Strategic Review initiated and reported on today
- New Target Operating Model designed to improve margins and create scalable business processes and structures
- Increasing confidence in our opportunities, so maintaining the dividend

… allowing us to target growth and better margins in short to medium term

Strategic Review – Key Findings

We have excellent market positions and opportunities ………

- Escrow business remains solid
- Cyber markets are positive and continue to grow
  - Our core segments are growing faster than the market
- Customers like us, value our services and would like to buy more from us
- Employees positive about working at NCC
- Portfolio needs some attention but overall balance is good

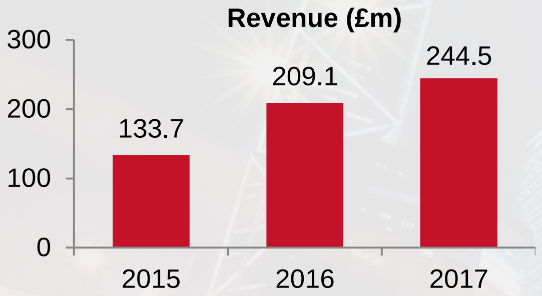
….. but need to improve operational infrastructure to move forward

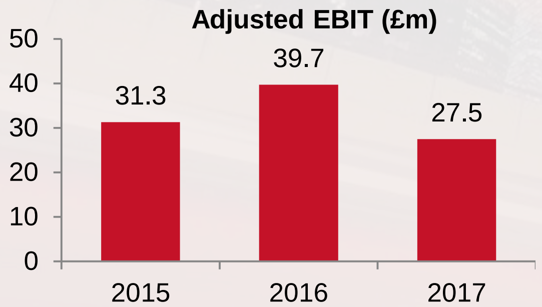
- Assurance Cyber Security businesses need better organisation and management
- Weak integration of acquisitions, Go-To-Market is siloed and transactional
- Outgrown our business processes, systems and reporting
- KPI’s to target right behaviours and outcomes (margins, realisation, cost control)
- Web Performance and Software Testing businesses to be sold

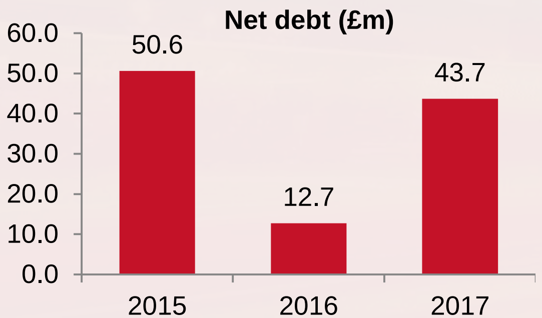
Financial performance

Year ending 31 May 2017

Financial summary







- Core markets remain buoyant
- Growth from many service lines and geographies
- Mix of acquisitions, FX and organic growth

- EBIT suffered from weak control of costs
- Cost increases in GM and G&A
- Costs grew too much earlier than revenue

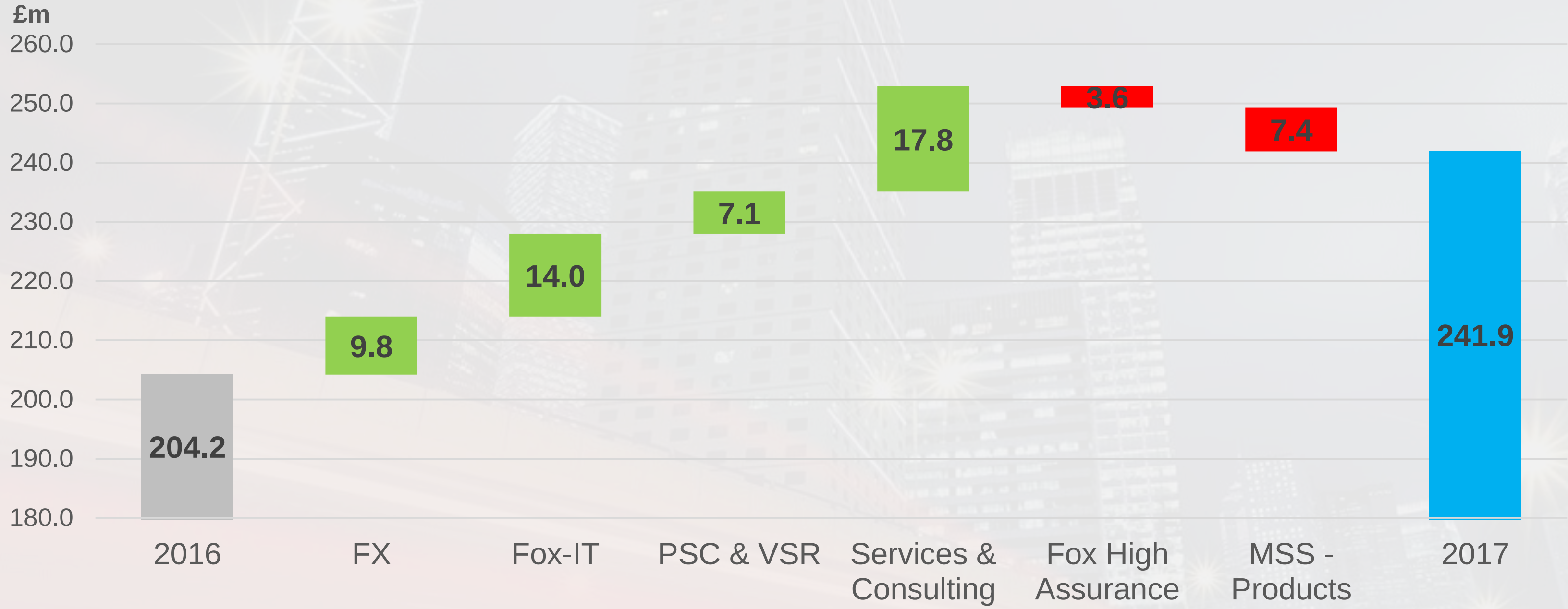
- Net debt better than earlier expectations
- Opportunities to build sustainable gains
- Free cash inflow £13.7m

Income Statement

	2017 (£m)	2016 (£m)
Revenue (inc Domain)	244.5	209.1
Cost of Sales	(160.2)	(129.4)
Gross Margin	84.3	79.7
Gross Margin %	*34.5%*	*38.1%*
G&A	(56.8)	(40.0)
Adjusted EBIT	**27.5**	**39.7**
Adjusted EBIT Margin %	*11.4%*	*19.4%*
Adjusting items	(80.9)	(28.3)
Reported EBIT	**(53.4)**	**11.4**
Financing costs	(1.9)	(2.0)
Taxation	(1.3)	(3.1)
(Loss) / Profit after tax	**(56.6)**	**6.3**
Adjusted EPS (pence)	**6.7p**	**11.8p**

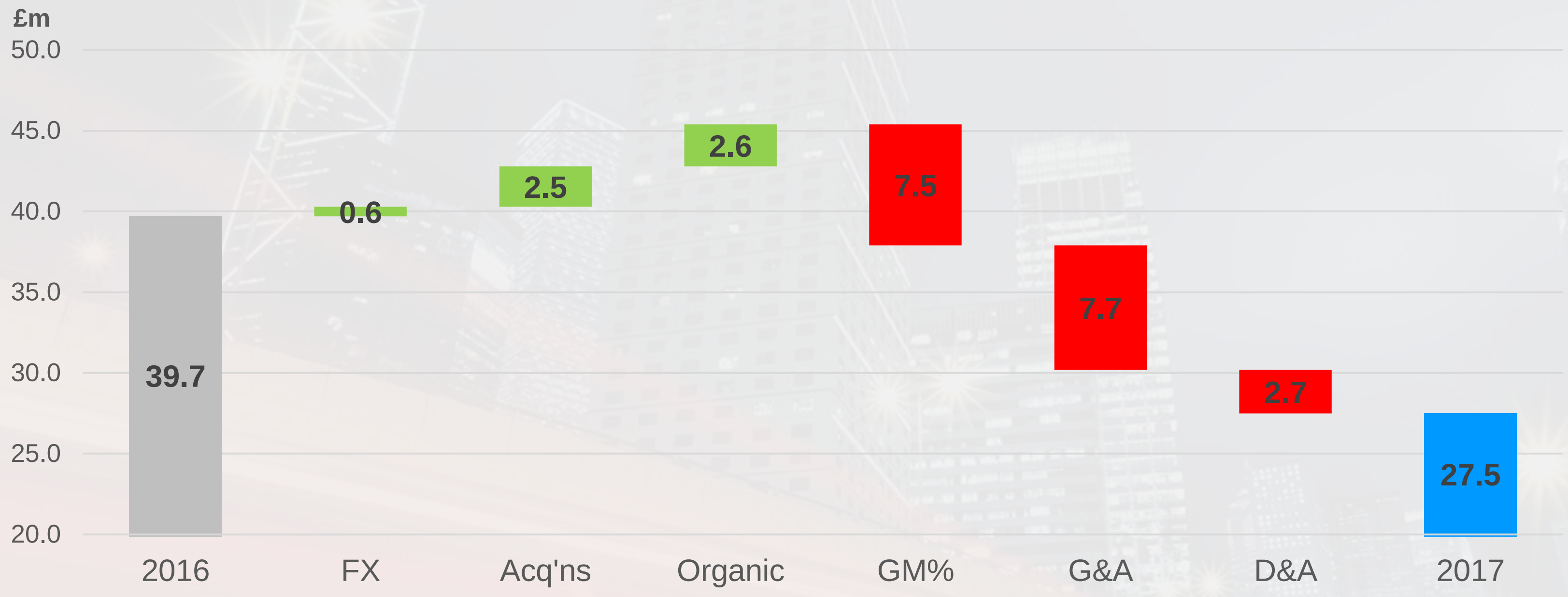
- Revenue growth from acquisitions, FX and organic
- Note: CoS in 2016 reclassification of £21.2m of support salaries and travel into G&A
- GM% fell in all business units – costs grew faster than revenue causing lower utilisation
- Salaries are 70% of cost base - average heads rose 16% PLUS average 7% wage rise vs 13% sales growth (excluding FX)
- Cost increases a timing issue – not wasted
- Impact from major contracts cancelled (before and after starting) or not crystallising
- G&A increases include heads, premises and marketing cost increases

Revenue bridge – excluding Domain



- FX related growth of £9.8m in both Assurance and Escrow ($ and € ~15% stronger)
- Full year ownership of Fox-IT (£14.0m) and part year VSR and PSC (£7.1m)
- Professional services and consulting growth in most business units (£17.8m)
- Fox HA temporary slowing in key customer, MSS much lower product sales
- Escrow £1.0m organic growth fully offset by negative impact of one off correction

Adjusted EBIT bridge – excluding Domain



- Organic EBIT estimate based on growth x PY Gross Margin%
- Group gross margin down 3.6% (includes Escrow Rev Rec impact £0.9m)
- G&A increase in most expense types – premises £1.6m, support staff £1.5m
- D&A increase full year charges on various systems plus new projects in service

Non-GAAP reconciliation

	2017 £m	2016 £m
Adjusted EBITDA	36.2	45.0
Depreciation of tangibles	(5.2)	(3.7)
Amortisation of intangibles	(3.5)	(1.6)
Adjusted EBIT	**27.5**	**39.7**
Closure & sale of Domain	1.0	(1.4)
Share based payments	(0.6)	(1.2)
Amortisation acquired intangibles	(10.3)	(6.8)
Individually significant items	(71.0)	(18.9)
Reported EBIT	**(53.4)**	**11.4**

- Reverting to Adjusted EBIT as primary profit KPI
- Depreciation increase:
  - Fox - £0.6m
  - Office fit out costs - £0.4m
- Intangible amortisation:
  - Fox - £0.3m, Web - £0.4m
  - Corporate systems - £0.8m
- Domain includes Open Registry profit on disposal
- Lower share based payments reflect weaker CY performance and leavers
- Acquired intangibles full year charge Fox and part year PSC and VSR
- Individually significant items - overleaf

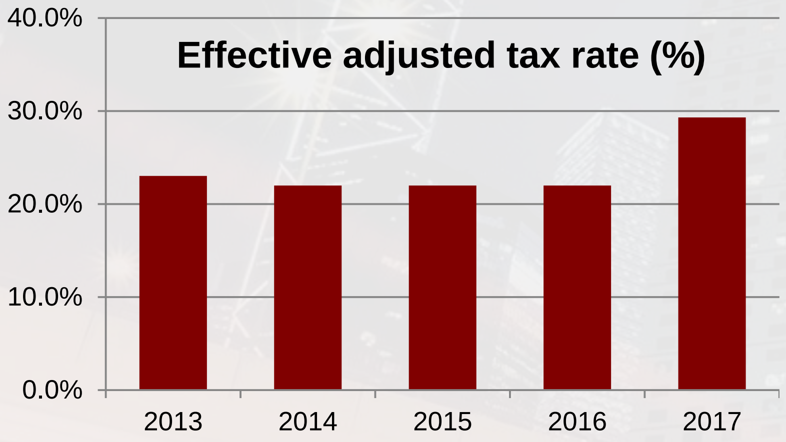
Individually significant items

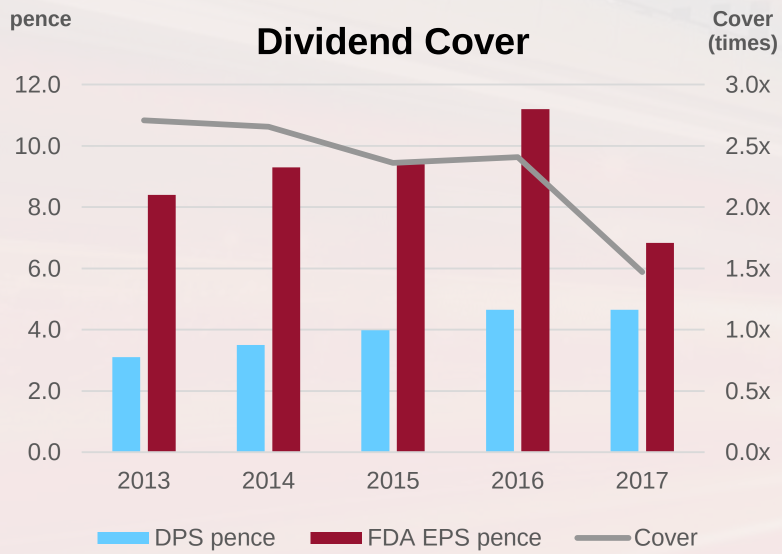
Charges / (credits)	2017 (£m)	2016 (£m)
Accumuli goodwill	24.3	-
Fox-IT goodwill	24.3	-
Web Performance goodwill	5.7	-
Domain Services exit	2.5	11.9
Capitalised development costs	5.2	6.8
Vacation pay catch up provision	1.8	-
Changes in deferred / contingent consideration	2.9	(4.7)
Restructuring costs	1.3	2.6
Acquisition related costs	0.8	2.3
Property relocation costs	2.2	-
Total	**71.0**	**18.9**

Of the charges above, £68.4m are non-cash in the year while £2.9m of this is expected to become cash at a later date

- Accumuli and Fox-IT goodwill:
    - Weaker business performance / integration
    - 'Full' prices paid on acquisition
- Web reflects slower growth than expected
- Domain exited PY. CY charge *.trust TLD*
- Capitalised development costs:
    - Residual Domain software £2.0m
    - Web Performance products £3.2m
- Holiday pay charge opening provision - CY charge in operating costs (£0.5m)
- FX not historically hedged. Loss on outstanding Fox deferred consideration
- Restructuring costs include Strategic Review, TOM and CEO exit payments
- Property costs include double running costs and Manchester exit / PPE write off

Tax and dividends





FDA = Fully Diluted Adjusted

- Effective adjusted tax rate 29.3%
- Below Interims guidance due to lower profits than expected in US
- Prior years all lower due to losses in high tax US based Domain Services

- Cash generative and sound financing
- Confidence in future recovery
- Maintaining total dividend at PY level
    - Final 3.15p giving 4.65p total
- Policy and coverage keep under review
- Historical technical issue for correction at AGM

Cash flow and net debt

	2017 (£m)	2016 (£m)
Adjusted EBITDA	**36.2**	**45.0**
Movement in working capital	(2.1)	(14.2)
Net interest paid	(1.9)	(2.0)
Tax paid	(1.8)	(7.3)
Other operating cash flows	(2.4)	(7.7)
Net cash from operations	**28.0**	**13.8**
Acquisitions / disposals (net)	(26.5)	(76.7)
Tangible capex	(6.9)	(4.6)
Software capex	(3.7)	(6.9)
Capitalised development costs	(3.7)	(1.9)
Dividends	(12.8)	(10.3)
Share issue (SAYE) / Equity raise	0.7	123.7
FX	(6.1)	0.8
Change in net debt	**(31.0)**	**37.9**
Closing net debt	**(43.7)**	**(12.7)**

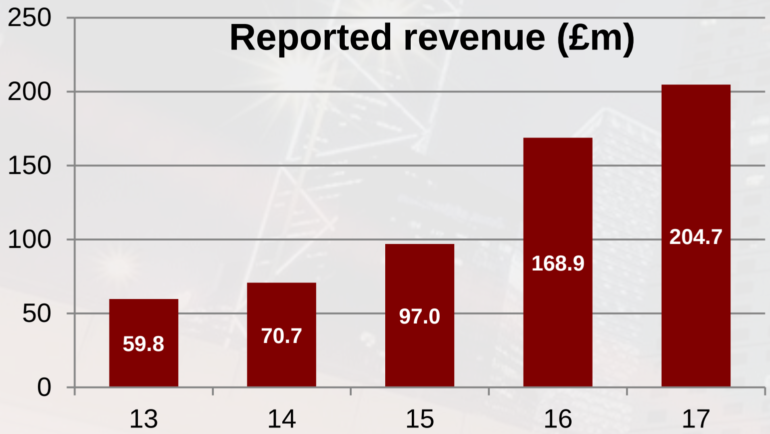
- CY working capital movement excludes acquisitions - paying more creditors on time
- PY were prepaying tax – CY benefit
- CY other operating cash flows include cash exceptional spend £2.4m
- Acquisitions include deferred and contingent payments Fox, PSC, VSR, Fort, Accumuli
- Gross tangible capex £11.0m less Manchester capital contribution £3.7m & disposals £0.4m
- Software capex - licences and implementation costs for own use systems
- Capitalised development costs – internal costs of developing income generating projects
- Total capex expected to be flat in 2018 – costs to complete Manchester less one offs in 2017
- Cash conversion ratio 77% - see Appendix

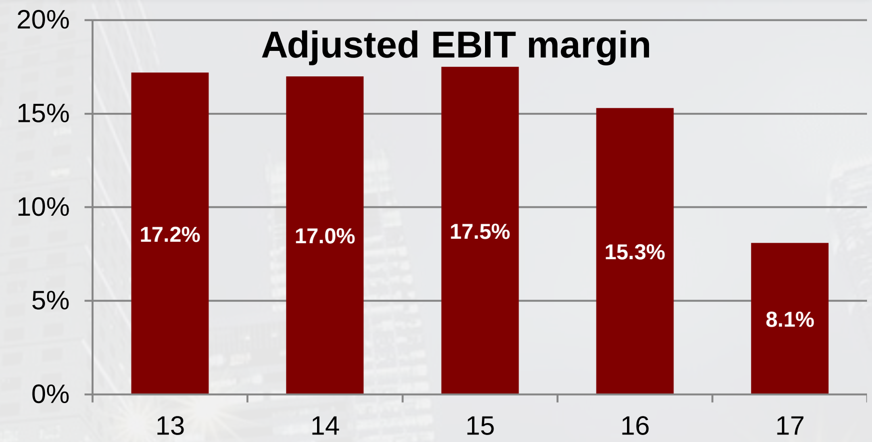
Balance sheet

	2017 (£m)	2016 (£m)
Intangible assets	267.6	297.3
Property, plant and equipment	18.3	12.7
Investments	0.4	0.6
Inventory	1.1	0.3
Trade and other debtors	66.7	66.4
Trade creditors & Deferred income	(65.3)	(67.9)
Net working capital	**2.5**	**(1.5)**
Tax payable	(3.0)	(1.2)
Provisions	(5.0)	(0.4)
Net deferred tax liabilities	(10.0)	(10.2)
Deferred / contingent consideration	(15.0)	(22.0)
Net debt	**(43.7)**	**(12.7)**
Net assets	**212.1**	**262.9**

- Intangibles fall: net impact of FX increases and acquisitions less impairments
- PPE asset increase reflects fit out costs for new offices
- Working capital change drivers £1.9m less aggressive creditor management and disposal of Open Registry
- Provisions include £3.7m capital contribution to capital fit out and £1.3m rent free allowance in Manchester
- Fox, Fort and Accumuli deferred / contingent payments while new contingent consideration for PSC and VSR
- Increase in net debt reflects Acquisitions, Deferred payments and Dividends

Assurance performance



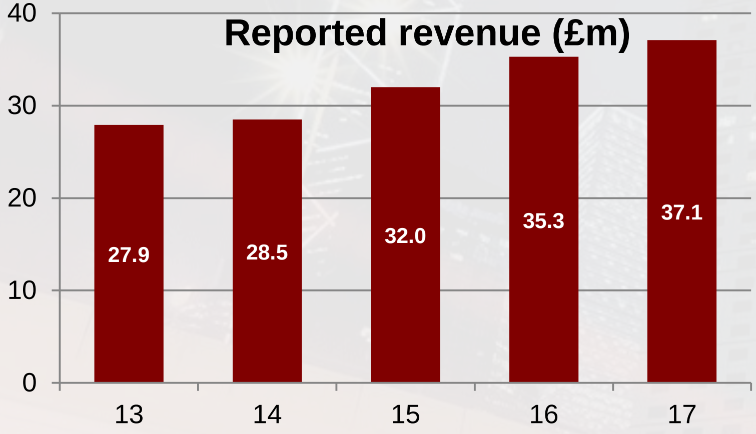


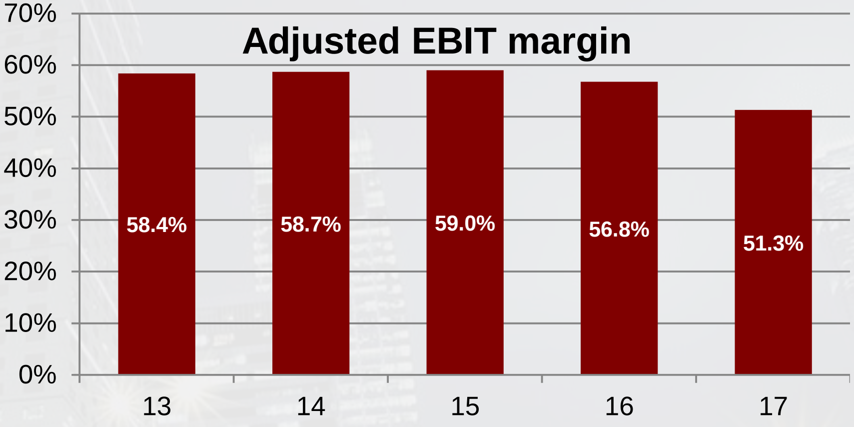
Assurance	2017 (£m)	2016 (£m)
Reported revenue	204.7	168.9
Impact of FX	-	8.1
Underlying revenue	**204.7**	**177.0**
Adjusted EBIT	16.6	25.8
Impact of FX	**-**	**0.2**
Underlying Adjusted EBIT*	**16.6**	**26.0**

Further details in the Appendices

- Sales growth in core cyber security portfolio, particularly UK and US consulting
- Sales shortfalls in Fox HA (delays) and MSS lower product sales with no service add-on
- Salary costs grew 44% vs sales up 23% (both including impact of acquisitions)
- Cost rises from new infrastructure (offices) and growth activities (marketing, training, etc)
- Immediate aim to start re-building margin

Escrow performance





Escrow	2017 (£m)	2016 (£m)
Reported revenue	37.2	35.3
Impact of FX	-	1.7
Underlying revenue	**37.2**	**37.0**
Adjusted EBIT	19.1	20.1
Impact of FX	**-**	**0.4**
Underlying Adjusted EBIT*	**19.1**	**20.5**

Further details in the Appendices

- Good 8% organic growth in US, Europe all FX related, UK flat excluding correction below
- Re-organisation in overseas Escrow sales teams in Q4 to build on in 2018
- Renewal rates 89% (2016: 89%)
- Margin recovery next year following removal of cost spike in 2017 sales teams
- Margin fall largely from one off revenue recognition correction (EBIT impact £0.9m)

Central and corporate costs

US and UK Corporate costs	2017 (£m)	2016 (£m)
Support salaries	8.2	6.8
Travel	1.0	0.7
Rent, rates and office expenses	4.4	2.8
Marketing	0.8	0.5
FX (gain) / loss	(1.0)	(0.1)
Depreciation	2.1	1.3
Amortisation	1.7	0.9
Other	1.3	1.2
Central and corporate costs	**18.5**	**14.1**
Less recharge to Escrow	(3.9)	(3.2)
Less recharge to Assurance	(6.4)	(5.2)
Net overhead costs	**8.2**	**5.7**

- Corporate costs are for Central support costs (shared IT etc) and Head Office costs
- Support salaries driven by increase in headcount and wage rises in line with NCC
- Additional travel as a number of central staff had client facing roles
- Office costs include rent and rates and increase reflects new buildings taken in current and prior years – paid centrally
- Marketing costs traditionally low and we need to increase in this area
- Expect £2.0m rise in premises costs in 2018 (full year impacts plus Manchester office)
- Depreciation increased due to headcount (IT equipment) and building fit outs
- Amortisation rose due to full year impact and full depreciation on finance system and other corporate systems such as CRM

Current trading and outlook

- Early in new financial year, PY exit momentum helped by lower sales pull forward
- Markets continue to grow and some early traction from re-focusing of sales teams
- Escrow to return to low single digit growth rate following one off revenue recognition issue and partial margin recovery, driven by improved cost control
- Disposal of Web and Software Testing will reduce EBIT pro rata when sold (EBIT £2.7m in 2016/17) – assumed completion late in the new financial year
- Remaining assurance businesses expected to deliver growth slightly below the sector due to the need to implement the new Target Operating Model
- Assurance gross margins to improve with improved realisation in delivery teams
- Headwinds of £4.0m in overhead costs due primarily to already previously committed new offices and higher depreciation and amortisation charges
- To deliver Adjusted EBIT in line with the Board's expectations

Strategic Review

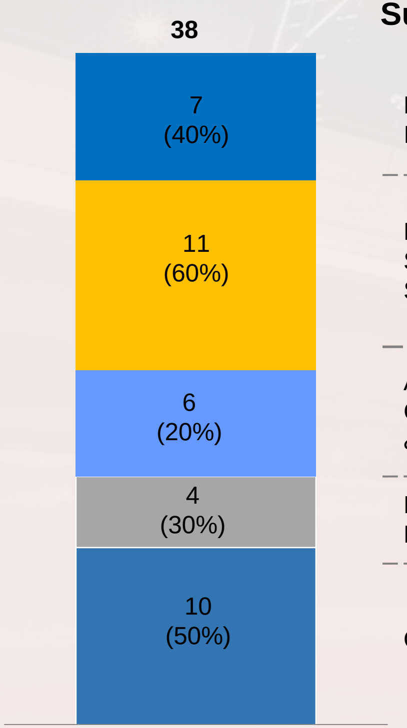
Strategic Review

1. **Market and competitive landscape**
   - Significant and fragmented addressable market ($38 bn)
   - Cyber market growing at low double digit rates
   - NCC service offerings very strong in UK, NL and our US segments
2. **Customers' buying patterns and perceptions**
   - 38 in depth customer interviews and >500 survey returns:
   - NCC score highly on Key Purchasing Criteria ('KPC') – especially technical expertise
   - Net Promoter Score of 28 – very strong, customers are advocates for NCC
   - Customers value local service delivery
   - "There isn't anyone really like [NCC] in terms of capability and scale"
3. **Optimisation of our portfolio of businesses**
   - Limited cross over between Assurance and Escrow
   - Escrow is a good business that we manage well, and stabilises Group performance
   - Web Performance and Software Testing can flourish better under alternative ownership

Cyber Security Markets

The markets we address are large and growing fast

Addressable Market Breakdown, 2016 ($bn,%)



Market Sub-Segment	NCC Offering
Fully Outsourced IT Security	Limited NCC offering
Managed Security Services	Monitoring
Advisory, Governance & Assessment	Process & Governance
Forensic & Legal Response	Incident Response
Operational	Security Testing

Threat Intelligence

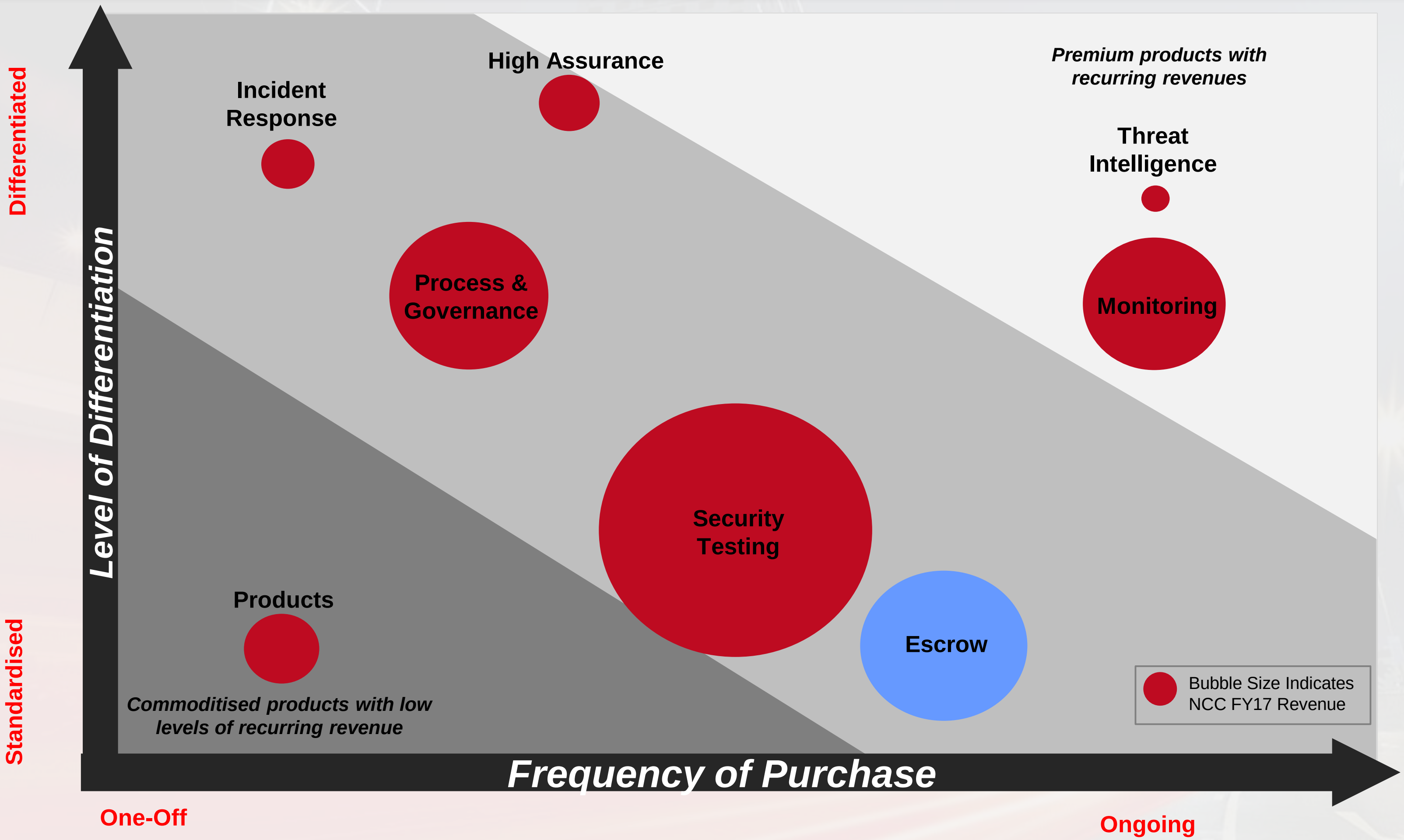
Total Market Growth Rates

CAGR 2016 – 20F

UK	9.5%
US	12.1%
NL	7.4%
RoW	8.5%

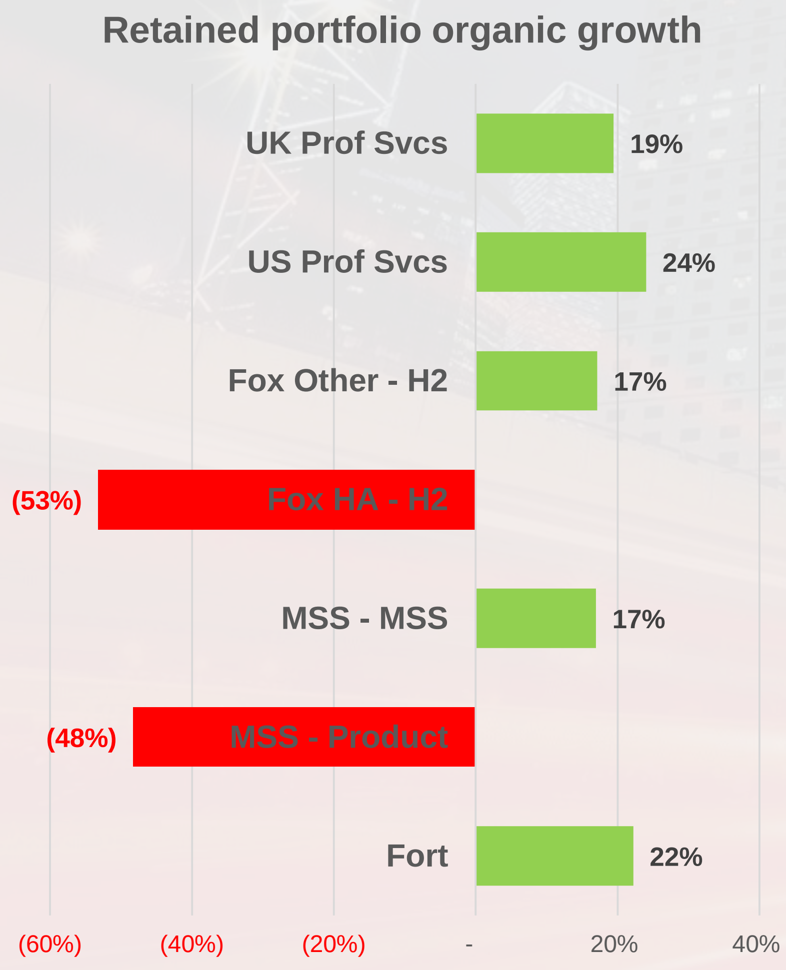
Source: OC&C Estimates and Analysis

Product Offering



Cyber services vary in attractiveness based on value-add and if revenues recur

Cyber security portfolio growth in 2017

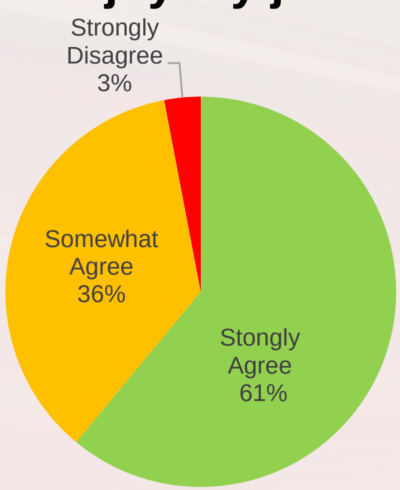


- Retained Assurance division - organic revenue changes at 2017 constant FX
- Listed in business unit size order
- Impact of Fox in H1 ignored as that was ‘acquisition’ related
- Clear strength of cyber professional services and managed offering
- Fox High Assurance experienced a slow down in government work post acquisition – now starting to unlock
- MSS Product was relatively low gross margin sales of third party products – we are re-positioning to target sales of linked services and consulting

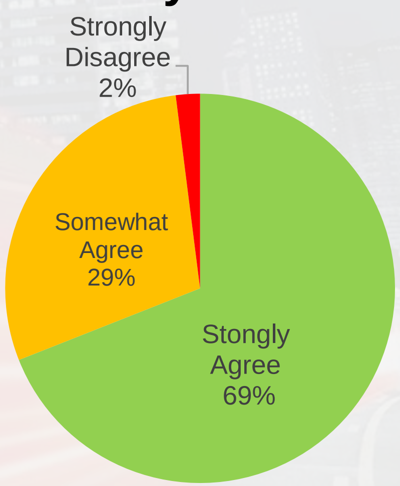
Employee feedback survey

- Staff like working at NCC - 1,173 responses, c64%
- Staff feel that clients value the expertise brought by NCC and them personally
- Excellent customer focused culture and positive sales culture
- But we need to do a better job of training and development

I enjoy my job



Clients value my / NCC expertise



Note: 1. ‘Strongly agree’ corresponds to a score of 8-10, ‘Somewhat agree’ corresponds to a score of 4-7, ‘Strongly disagree’ corresponds to a score of 1-3

Portfolio

- Assurance and Escrow have few linkages and limited cross selling points:
  - But no clearly better owner for Escrow
- Escrow provides a strong stabilising influence on Group performance
- Buying points for Cyber and Web Performance / Software Testing clearly distinct
- Web and Software Testing– different characteristics, flourish better elsewhere
  - Both business will be sold in due course
  - Both businesses saw a healthier end to 2017 with some good new orders

Web Performance and Software Testing	Revenue 2017 (£m)	EBIT* 2017 (£m)
Web Performance	9.3	1.6
Software Testing	17.3	1.1
Total	**26.6**	**2.7**

*Before share of Group charges

Strategic Plan

Strategic objectives

1. **Grow -** at a managed pace and in areas of core strength
2. **Implement -** our new Target Operating Model (see over)
3. **Improve -** business processes and systems
4. **Lead -** technical thinking and product development in a rapidly evolving and dynamic market sector
5. **Develop -** our people to allow them to reach their full potential and contribute fully to NCC

TOM: objectives

Objective 1: Align the business to how our customers want to buy

- Customers want local service delivery and sales channel

Objective 2: Leverage NCC value between business units

- Matrix structure to join up service lines

Objective 3: Deliver an integrated Go-To-Market proposition

- Global leads and Assurance Delivery Director to integrate our proposition

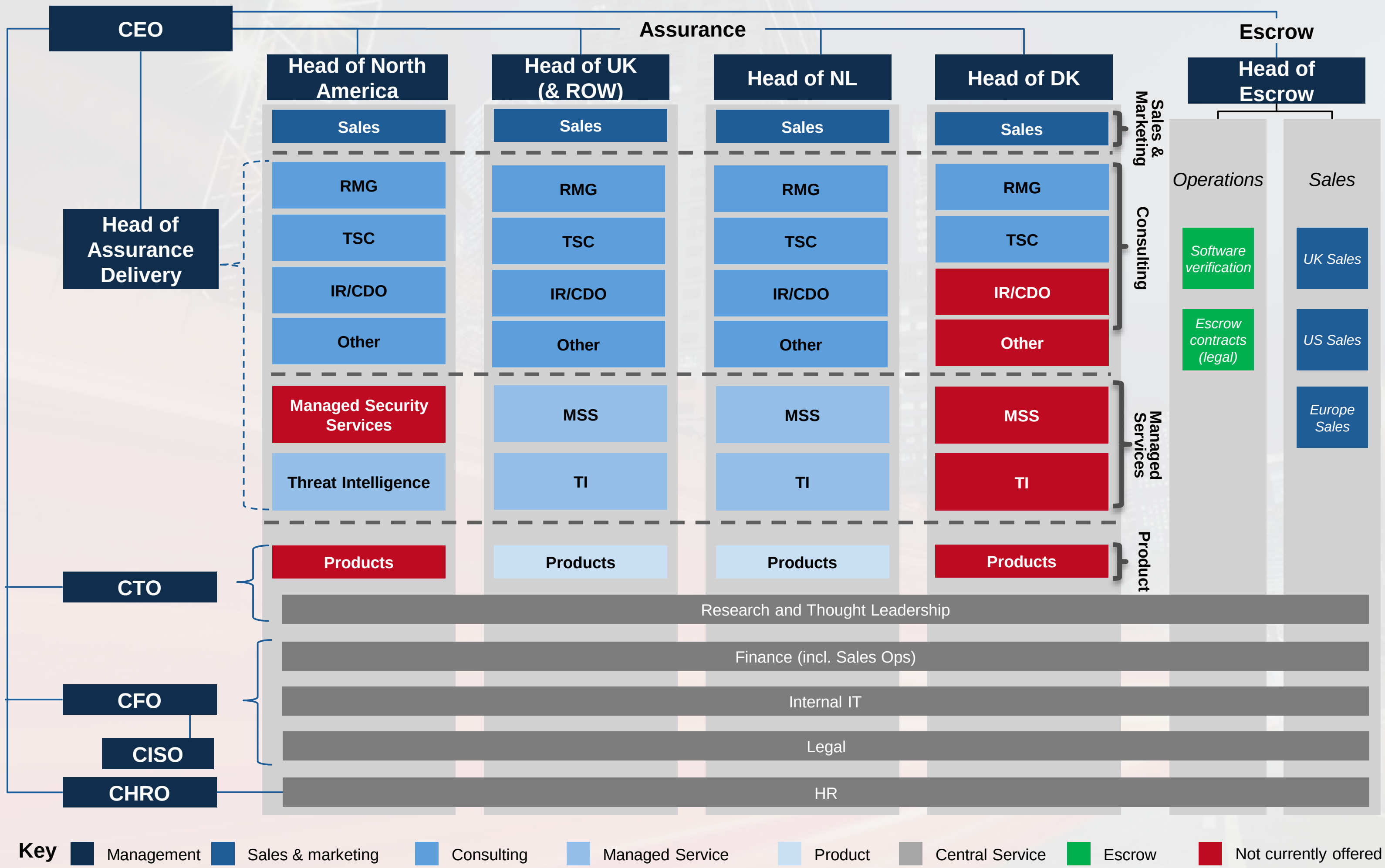
Objective 4: Create scalable structures that facilitate profitable growth

- Platform based sales for operational leverage and better staff realisation

Objective 5: Design and implement effective and efficient business processes that support operating leverage

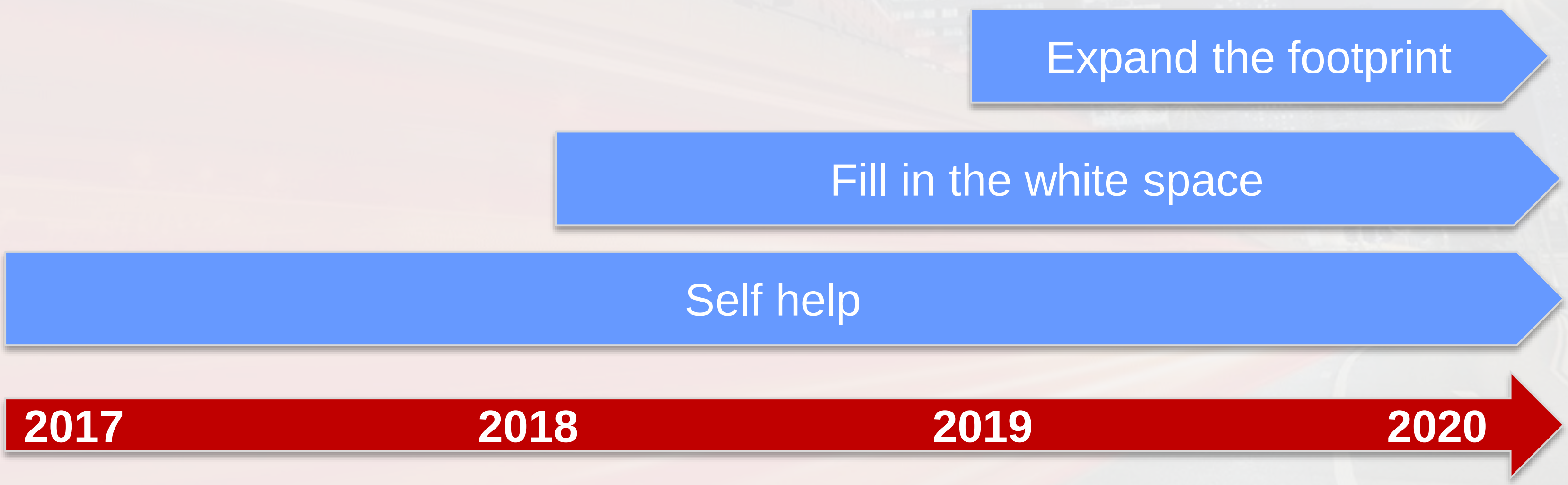
- Standardised replicable and scalable business processes that support organic growth and growth by acquisition

Target Operating Model



Strategy – timeline and targets

- **Self-help**: implement TOM, design and implement new business processes, training and development plans for staff to deliver improvement in margins
- **White space**: expand the service offering in current locations to meet customer demand for local delivery to deliver profitable organic and acquisition based growth
- **Footprint**: expand more fully into new territories (organically and by acquisition)
- Medium term goal to rebuild EBIT margin on organic growth, improved staff realisation, business processes, and improved cost control



Next steps

- Recruit a new CEO – process underway
- Start implementation of the Target Operating Model (TOM)
- Design and implement better business processes and systems focussing on:
    - Utilisation and realisation – main driver of gross margin
    - Order to cash cycle to improve working capital management
    - Cost management
- Implement a segmented Go-To-Market model
    - Greater focus on high value added services
    - Creating opportunities for cross selling
    - Leverage SOC platforms for recurring revenue from MSS and Fox
- Leverage our strong technical reputation

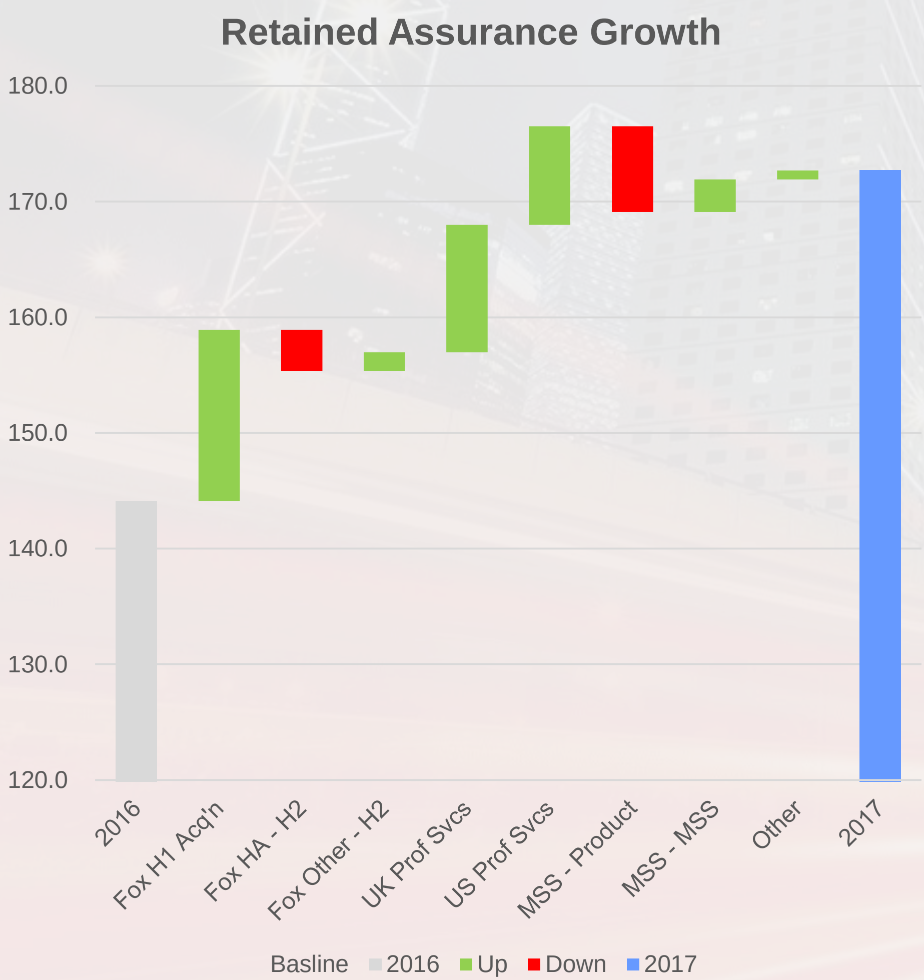
To reverse GM% trend while driving organic growth and controlling costs

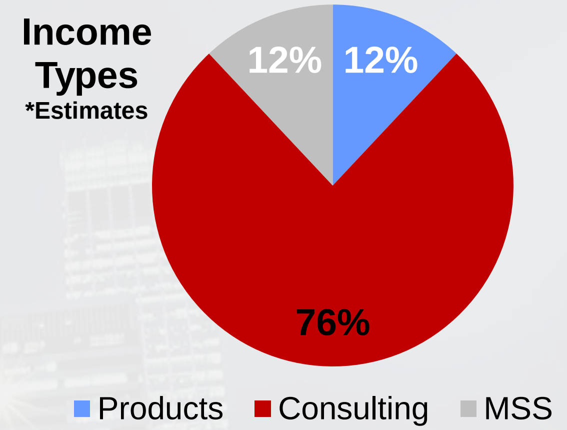
Thankyou

Q&A

Appendices

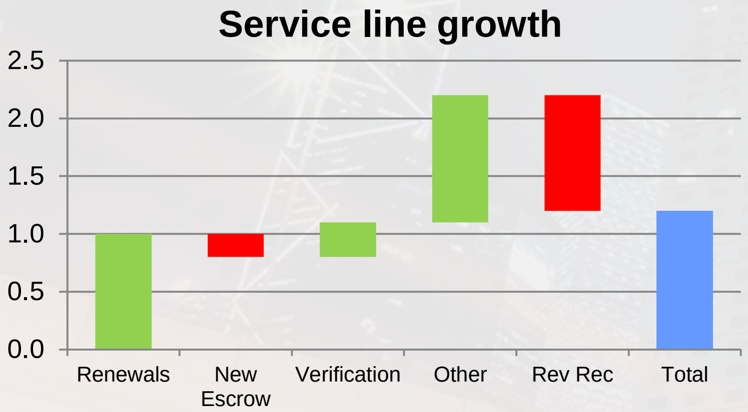
Assurance performance – further analysis

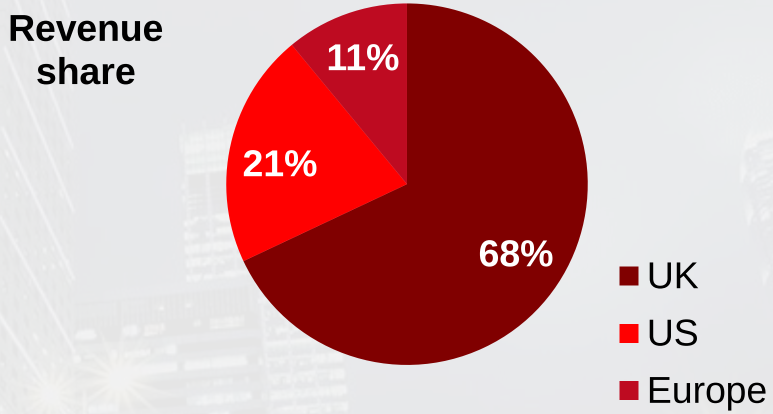


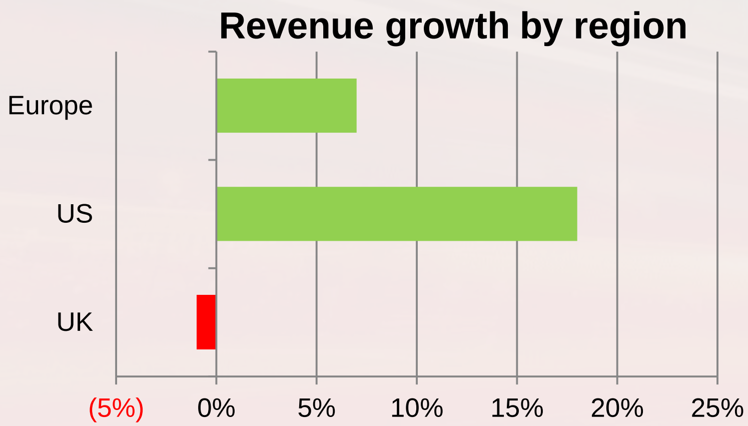


- Revenue growth data at constant FX
- Web performance and Software Testing are excluded
- Fox HA issues are well known and explained and beginning to unlock
- On MSS product re-sell our strategy is to move more to an after sales service and monitoring model

Escrow performance – further analysis







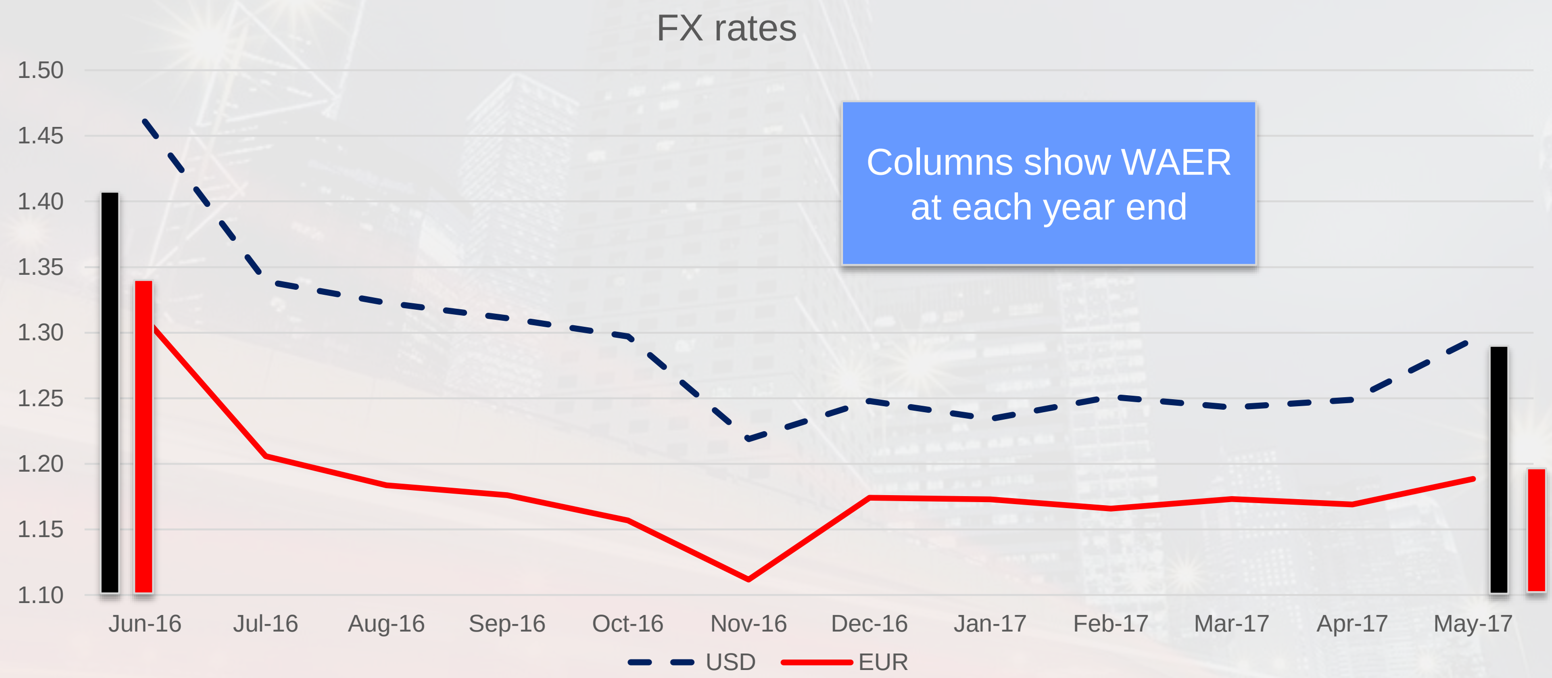
- Data is at constant FX rates
- UK remains the largest contributor to Escrow revenue and profit
- UK, excluding the change in revenue recognition, grew at just under 3.0%
- US second largest region, good growth at 18%
- Europe smaller scale but decent growth at 7.0%
- Other is 80% Virtual Machine, SaaS and ICANN

Depreciation and amortisation charges

	2017 (£m)	2016 (£m)
Adjusted EBIT	27.5	39.7
Amortization of capitalized development costs	1.5	-
Amortisaton of software used in the business	2.0	1.6
Depreciation of PPE	5.2	3.7
Adjusted EBITDA	**36.2**	**45.0**
Amortisation of acquired intangibles	10.3	6.8
Total D&A	**19.0**	**12.1**

- In 2016 the £1.6m of amortisation reported as software included £0.7m software amortisation and £0.9m in respect of capitalised development costs
- Increases in 2017in amortisation of capitalise development costs reflects full year charges and new products entering service
- Higher software amortisation reflects more of the Group’s central ERP system in deployment (e.g. in Escrow UK) and the full year impact of capital spend in the prior year

Foreign exchange rates



- Both US$ and €uro spot rates appreciated by around 15% over the course of the year. WAER had similar year on year changes.
- The chart shows rapid spot falls post Brexit and then was broadly flat (excepting November dip)
- There are therefore no currency headwinds or tailwinds going into the new financial year

Free cash flow and cash conversion ratio

	2017 £m	2016 £m
Net cash from operating activities	28.0	13.8
Net capital expenditure	(10.6)	(11.6)
Capitalised development costs	(3.7)	(1.9)
Free cash flow	**13.7**	**0.3**

- NCC systems do not currently capture 'discretionary' vs 'maintenance' capex
- However, there is scope to reduce capex after the Manchester office move completes in 2018

	2017 £m	2016 £m
Net cash from operating activities	28.0	13.8
Adjusted EBITDA	36.2	45.0
Cash conversion ratio	**77%**	**31%**
Exclude capitalized development costs from EBITDA	3.7	1.9
Alternative cash conversion ratio	**86%**	**32%**

Working capital

Sales WC assets	2017 (£m)	2016 (£m)
Accrued income	17.7	19.8
Trade debtors	40.9	39.4
'Sales' working capital	**58.6**	**59.2**
Annualised* Q4 sales	**247.2**	**249.2**
Sales WC %	**23.7%**	**23.8%**

* Annualised calculated using reported Q4 sales

- Accrued income fell as a result of selling Open Registry (£2.0m) and starting to improve billing processes (£1.0m) partly offset by FX impact £1.6m increase
- Trade debtors underlying fall of £3.0m offset by FX £3.1m and £1.4m acquisitions
- Deferred income reduced from £36.3m to £35.6m despite adverse FX £1.8m
- WC processes need re-build from bottom up – to become more efficient & effective