NS Trading Statement

PRE-CLOSE STATEMENT AND TRADING UPDATE

SOFTWARE CIRCLE PLC

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Software Circle PLC
30 April 2024

Prior to publication, the information contained within this announcement was deemed by the Company to constitute inside information as stipulated under the UK Market Abuse Regulation. With the publication of this announcement, this information is now considered to be in the public domain.

30 April 2024

Software Circle plc
("Software Circle" or "the Company" or the "Group")

Pre-close statement and Trading Update

Software Circle plc (AIM: SFT) announces the following pre-close statement and trading update for the year ended 31 March 2024 ("FY24").

Financial highlights

	Unaudited FY 2024	FY 2023
Continuing operations		
Operating Units	**6**	5
Revenue	**£16.1m**	£11.7m
Operating EBITDA[1]	**£2.8m**	£1.3m
Central Costs[2]	**£(1.1)m**	£(0.9)m
Adj EBITDA[3]	**£1.7m**	£0.4m
Exceptional Items	**£(2.4)m**	£(0.8)m
Cash and Cash Equivalents	**£15.8m**	£2.0m
Net Cash / (Debt)	**£7.2m**	£(16.7)m

1. EBITDA of operating units before central costs, exceptional items, excluding impact of R&D capitalisation.
2. Central costs include our Executive and Non-Executive teams, other central salaries, audit fees, other advisor fees, bond fees, AGM costs, excludes non-recurring transaction costs and one-off bonuses related to M&A.
3. Operating EBITDA less Central Costs.

It has been another year of progress and growth despite some unpleasant headwinds from our discontinued operations that are now firmly in our rear-view mirror.

This has not shifted our focus away from driving forward with the strategy to become a serial acquirer of vertical market software businesses. Neither should it mask the underlying strength and improvements in our continuing operations.

Since releasing our half year results on 27 November 2023, we have continued to develop the culture and framework that allows our business units to grow their earning power, providing support and adding value where needed, whilst maintaining their inherent entrepreneurial spirit.

Having added ARC Technology ("ARC"), our most recent acquisition and the first within our Ed Tech segment, Software Circle is now home to a stable of six software business units. Four of those businesses were acquired during the latter stages of the Financial Year ended 31 March 2023 and have contributed fully to FY24. The impact of acquiring ARC will be minimal in FY24 having only been concluded during February 2024.

Our Current Portfolio:

Business Unit	Segment	Date Acquired	Unaudited Group Sales FY 2024	Group Sales FY 2023
Nettl Systems	Graphics & Ecommerce	n/a	£8.3m	£9.5m
Vertical Plus	Graphics & Ecommerce	01/10/22	£2.1m	£1.0m
Watermark	Professional Services	07/12/22	£1.4m	£0.4m
CareDocs	Healthcare	18/01/23	£2.6m	£0.6m
TopFloor	Property	17/02/23	£1.6m	£0.2m
ARC Technology	Education	21/02/24	£0.1m	n/a
		Total	**£16.1m**	**£11.7m**

Focussing on our operating units, we've grown again versus the previous year. We expect to end the full year with sales in excess of **£16.1m** *(2023: £11.7m)*. An increase of 38%.

Approximately **£7.8m** *(2023: £2.2m)* of total sales were generated by the five acquired businesses as detailed in the above table. Whilst we use several metrics to help improve and measure success within our portfolio, our Quality Ratio, calculated as year-on-year Revenue Growth % + EBITDA %, is a useful barometer. By that measure, we expect our portfolio of acquired business units which have contributed for a full year to collectively be at 40%.

In the year ended 31 March 2024, we expect the aggregate topline growth across the four acquired business units (excluding ARC) to have been seven per cent. Together with improved earning power, we expect these businesses to have delivered an aggregate 17% improvement on EBITDA compared with that which drove our valuation expectations at the time of acquisition.

Approximately **£8.3m** *(2023: £9.5m)* of total sales came from our Nettl Systems business within our Graphics & Ecommerce segment. This decrease of **£1.2m** in revenue has dented our topline run rate expectation. The downturn was driven by the impact of Works Manchester Limited's ("WML") administration during the year, along with the wider macro-economic environment remaining uncertain throughout. Some bad debt provisions accumulated from previous years further impacted Nettl's profitability for the financial year.

Overall, we expect our operating businesses collectively to generate a positive operating EBITDA of **£2.8m** *(2023: £1.3m)* before the effect of R&D capitalisation. This represents a 17% EBITDA margin at the operating level.

We expect the Group's central costs to be **£1.1m** *(2023: £0.9m)*, excluding the associated non-recurring deal costs and one-off bonuses involved in the acquisitions to date of **£0.3m** *(2023: 0.4m)*.

Therefore, we expect to deliver adjusted EBITDA of £1.7m and an adjusted EBITDA margin after central costs of 11% before exceptional items and the effect of R&D capitalisation. This is within the range of our 'phase 1' stated EBITDA goal.

Exceptional items

We reported in the Company's interim results on 27 November 2023 that, due to our reduced confidence of receiving payment of any deferred consideration from Rymack Sign Solutions Limited ("Rymack") in relation to the sale of WML, the carrying value of the total receivable of £2.8m due under the sale and purchase agreement had been reduced by a further £1.4m to £0.4m.

As announced in our update on 2 April 2024, the remaining deferred consideration was written down which, together with outstanding charges due from WML, and net of trading balances due to Rymack's group that the Company has set off, resulted in a further charge of £0.2m.

In addition to this, as a consequence of WML's administrator vacating the hub in Trafford Park, the Company, as a guarantor of the lease, became liable for unpaid rent arrears, ongoing rent for the remainder of the lease term and dilapidations. The Company agreed a full and final settlement of this liability with the landlord for £0.6m. This was paid during April 2024 and is included as a liability in the FY24.

The above, combined with some additional costs on liquidating our operating entity in France, means we expect exceptional items for FY24 to total **£2.4m**.

The sale of the printing.com domain for £1.8m, also announced on 2 April 2024, will be recognised in the upcoming financial year ending 31 March 2025 and therefore is not included in the £15.8m of Cash and Cash Equivalents listed in the financial highlights.

Outlook

We're cautiously optimistic about the upcoming financial year. With the acquisition of ARC and the organic growth we've driven, we expect annualised sales from our current operating units to be approximately **£17m** excluding any deals currently in the latter stages of due diligence. With an improved EBITDA run rate goal of 12-15% of sales, after central costs.

We continue the search for businesses that meet our criteria. Were we to deploy the remaining capital from our latest fundraise, which is our aim, assuming a similar profile of businesses coming into the Group, we'd expect annualised sales to reach approximately **£25m** with an EBITDA run rate goal of 15-20% of sales, after central costs.

Our current deal flow remains healthy. We will update the market with more detailed progress when releasing our final results for the last financial year. The Company intends to announce its full year results for the year ended 31 March 2024 in July 2024.

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Notes to editors:
Software Circle plc is a UK based acquirer of vertical market software businesses. Our aim is to help founders find the right exit strategy,

without fuss or drama. Continuing operations in an independent, decentralised way. Keeping the entrepreneurial spirit and culture that exists in the businesses we acquire. Providing a permanent home for their teams, management talent and culture.

For further information, please visit www.softwarecircle.com

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