Calligo

Interim Report

January 1 to March 31, 2022

Calligo Interim Report (Unaudited)

CEO Statement

The first quarter of FY22 was a successful start to the year for Calligo as we continue to deliver on our three year strategy. During the quarter we entered the final phase of our client rationalisation process (which will be fully completed by the end of Q2 FY22) following the acquisitions we completed during 2017 to 2020. We offloaded hundreds of small clients across Ireland and Canada, along with around a hundred small UK clients, reducing our client base from circa 1,400 to around 500 worldwide. While this reduced our top line revenue, it is a very conscious decision to improve our gross margins and the quality of our earnings. Furthermore, it allows us to enhance our service quality whilst at the same time improving our operational and financial efficiency. We expect to see the full benefits of our client rationalisation process during the 2nd half of FY22.

We met our key KPIs and targets, both operational and financially, as we completed the final phase of the pivot of the business to focus on delivering Managed Cloud and Data Services (Privacy, Science, Integration and Analytical/Visualisation).

During the period we continued to invest heavily in additional sales and marketing capacity, which is not only showing in the quality of opportunities coming through our pipeline, but also in the quality of the hires we have attracted in what is one of the most competitive labour markets in over a generation. The new focused corporate branding and messaging has already delivered record Q1 bookings with Q2 also tracking to reach a new all-time high. Our sales pipeline has more than tripled in the first five months of FY22 and continues to grow week on week.

We continue to be confident in delivering on our revenue and EBITDA targets for FY22 as new bookings translate into revenues in the coming quarters and the business starts to benefit from the operational efficiencies gained from the client rationalisations as well as our service pivot and focus.

Financial Discussion

FY21 revenues came in slightly behind expectations, mainly as a result of delays in some client projects and, to a lesser extent, an accelerated client rationalisation process. Costs were on plan, resulting in an Adj. EBITDA of £4.3m for the year.

Q1 FY22 revenues decreased by 2% year-on-year driven mainly by our client rationalisation process, especially in Ireland and Canada. Managed client churn is now substantially complete and we expect both markets to return to year-on-year growth later in the year. Revenue excluding Ireland and Canada increased 18% year-on-year. Q1 FY22 costs increased by 13.9% year-on-year reflecting accelerated investments in growth, mainly through additional employee expenses, and sales and marketing spend. Adj. EBITDA in Q1 FY22 was £0.7m at a margin of 10.1%.

Funds from operations was £0.4m. Investment in working capital was £1.4m in the quarter with approximately £1m of this being attributable to non-recurring transaction costs accrued at the end of December 21. Net cash outflows of £0.5m into debtors during the period comprised £0.25m for a variety of prepayments and £0.15m for new clients in the USA. Capex was £0.2m in the quarter, the majority of which related to an office refurbishment in the UK. Exceptional costs include £0.1m in respect of an aborted add-on acquisition transaction during the quarter. Net debt on 31 March 2022 was £29.3m implying a net leverage ratio of 7.5x based on the Adj. EBITDA for the last twelve months of £3.9m. We expect the net leverage ratio to decrease materially towards the end of the year.

Consolidated Statement of Comprehensive Income

£ '000	Notes	*(Unaudited)* 2022 Q1	*(Unaudited)*[1] 2021 Q1	*(Audited)* FY 21
Recurring Revenues		5,710	5,816	24,208
Non-Recurring Revenues		1,400	1,438	5,918
Total Revenue		**7,110**	**7,254**	**30,126**
Cost of Sales[2]		(4,152)	(4,267)	(17,273)
Gross Profit		**2,958**	**2,987**	**12,853**
Employee Expenses		(1,606)	(1,371)	(5,703)
Marketing		(101)	(144)	(603)
IT		(174)	(208)	(868)
Establishment		(353)	(273)	(1,293)
Legal & Professional		(127)	(112)	(586)
Other		(98)	(50)	(324)
Total Expenses		**(2,459)**	**(2,158)**	**(9,377)**
EBITDA		**499**	**829**	**3,476**

Memo: Adj. EBITDA				
EBITDA		499	829	3,476
Management Adjustments	1	218	272	830
Adj. EBITDA		**717**	**1,101**	**4,306**

Depreciation & Amortisation		(2,623)	(1,955)	(8,277)
Operating Income		**(2,124)**	**(1,126)**	**(4,801)**
Interest Expense and Similar Charges		(927)	(529)	(1,185)
Foreign Exchange Gain / (Loss)		355	778	–
Exceptionals	2	(738)	(742)	(4,238)
Loss on Disposal		(1)	(3)	(40)
Tax Charge		(25)	(27)	19
Net Income		**(3,460)**	**(1,649)**	**(10,245)**
Foreign Exchange Differences on Retranslation		(121)	(50)	(21)
Total Comprehensive Income		**(3,581)**	**(1,699)**	**(10,266)**

Recurring Revenues / Total Revenue %	80.3%	80.2%	80.4%
Gross Profit Margin %	41.6%	41.2%	42.7%
Adj. EBITDA Margin %	10.1%	15.2%	14.3%

[1] *Q1 21 is audited as part of the FY 21 audit but not in isolation.*
[2] *FY 21 includes direct labour costs of £7.9m which have been reported within employment costs in the audited financial statements. Gross margin in the audited financial statements for FY 21 is 68.5%.*

Consolidated Statement of Cash Flows

£ ‘000	Notes	*(Unaudited)* 2022 Q1
EBITDA		499
Loss on Disposal		1
Provision for Unrealised Foreign Exchange Movements		120
Exceptionals Paid		(351)
Tax Paid		97
Funds From Operations		**366**
Movements in Debtors		(523)
Movements in Creditors		(916)
Change in Working Capital		**(1,439)**
Cash Flow From Operations		**(1,073)**
Investments		(166)
Cash Flow From Investments		**(166)**
Net Movement in Leases		(274)
Interest Paid		(922)
Cash Flow From Financing		**(1,196)**
Net Change in Cash		**(2,435)**
Opening Cash		15,495
Closing Cash		13,060

Consolidated Statement of Financial Position

£ '000	Notes	*(Unaudited)* 31-Mar-22	*(Audited)* 31-Dec-21
Intangible Fixed Assets		17,003	18,995
Tangible Fixed Assets		3,604	3,700
Fixed Assets		**20,607**	**22,695**
Trade Debtors		4,186	3,865
Other Debtors & Prepayments		821	619
Cash & Cash Equivalents	3	13,060	15,495
Current Assets		**18,067**	**19,979**
Total Assets		**38,674**	**42,674**
Trade Creditors (Less Than One Year)		1,448	2,209
Other Creditors & Accruals		1,882	1,899
Deferred Income (Short-Term)		654	539
Taxation		285	162
Leases (Short-Term)		790	999
Interest		35	29
Current Liabilities		**5,094**	**5,837**
Net Current Assets		**33,580**	**36,837**
Trade Creditors (More Than One Year)		–	–
Deferred Income (Long-Term)		–	–
Leases (Long-Term)		648	714
Senior Debt	3	40,908	40,518
Other Long-Term Liabilities		–	–
Long-Term Liabilities		**41,556**	**41,232**
Total Liabilities		**46,650**	**47,069**
Net Assets		**(7,976)**	**(4,395)**
Share Capital & Premium		24,457	24,457
Retained Earnings		(33,514)	(29,933)
Other Reserves		1,081	1,081
Shareholders' (Deficits) / Funds		**(7,976)**	**(4,395)**

Note 1: Bridge from EBITDA to Adj. EBITDA

£ '000	2022 Q1	2021 Q1	FY 21
EBITDA	**499**	**829**	**3,476**
Various Quality of Earnings Adjustments	-	156	464
Managed Churn of Unprofitable Clients	-	-	250
Full Period Contributions from Acquisitions	-	116	116
Managed Services Cost Reductions	155	-	-
US Sub-Tenant Lease Income	48	-	-
UK DC Savings	15	-	-
Adjustments	**218**	**272**	**830**
Adj. EBITDA	**717**	**1,101**	**4,306**

Adj. EBITDA presents managements view on EBITDA adjusted for distortions on underlying profitability. Various Quality of Earnings Adjustments refers to adjustments identified as part of the senior bond capital raising process and mainly consists out of adjustments for office rents, duplicate customer success functions and certain other cost savings. Managed Churn of Unprofitable Clients refers to management policy to discontinue service to sub-scale customers with a high cost-to-serve. Full Period Contributions from Acquisitions shows the contributions from acquisitions as if they had been part of the group for the full relevant period. Managed Services Cost Reductions are cost savings from ongoing initiatives in the Managed Services divisions. US Sub-Tenant Lease Income relates to the anticipated sub-leasing of unused space in Calligo's US office taken over as part of the acquisition of Decisive Data. UK DC Savings relate to rationalization benefits related to Calligo's UK datacentre expenses.

Note 2: Exceptionals

£ '000	2022 Q1	2021 Q1	FY 21
Restructuring Expenses	254	106	904
Bond Issuance Expenses & Debt Raise Costs	219	455	1,052
Bond Arrangement Fees (Amortised)	122	-	-
M&A Transaction Costs	122	161	1,344
Management Exceptionals	-	4	938
Other	21	16	-
Total	**738**	**742**	**4,238**

Management Exceptionals refers to management's view on non-recurring costs in addition to statutory exceptionals. Management Exceptionals for fiscal year 2021 include certain non-recurring costs (£591 thousand), reversion of non-recurring provisions for bad debt and legal expenses (£321 thousand) and reversal of non-cash share option expenses (£26 thousand).

Note 3: Net Leverage Ratio

£ '000	31-Mar-22
Senior Debt (Net of Unamortised Prepayment Fee)	40,908
Add: Short & Long-Term Leases	1,439
Less: Cash in Escrow	(8,645)
Less: Unrestricted Cash	(4,415)
Net Debt	**29,287**
Last Twelve Months Adj. EBITDA	3,922
Net Leverage Ratio	**7.5x**