

# 1H 2023

## Results Presentation

Riyadh, 9 August 2023

# Agenda

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1 Investment Thesis Update

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2 Strategy Update

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3 M&A Strategy Update

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4 Financial Performance

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5 Appendix

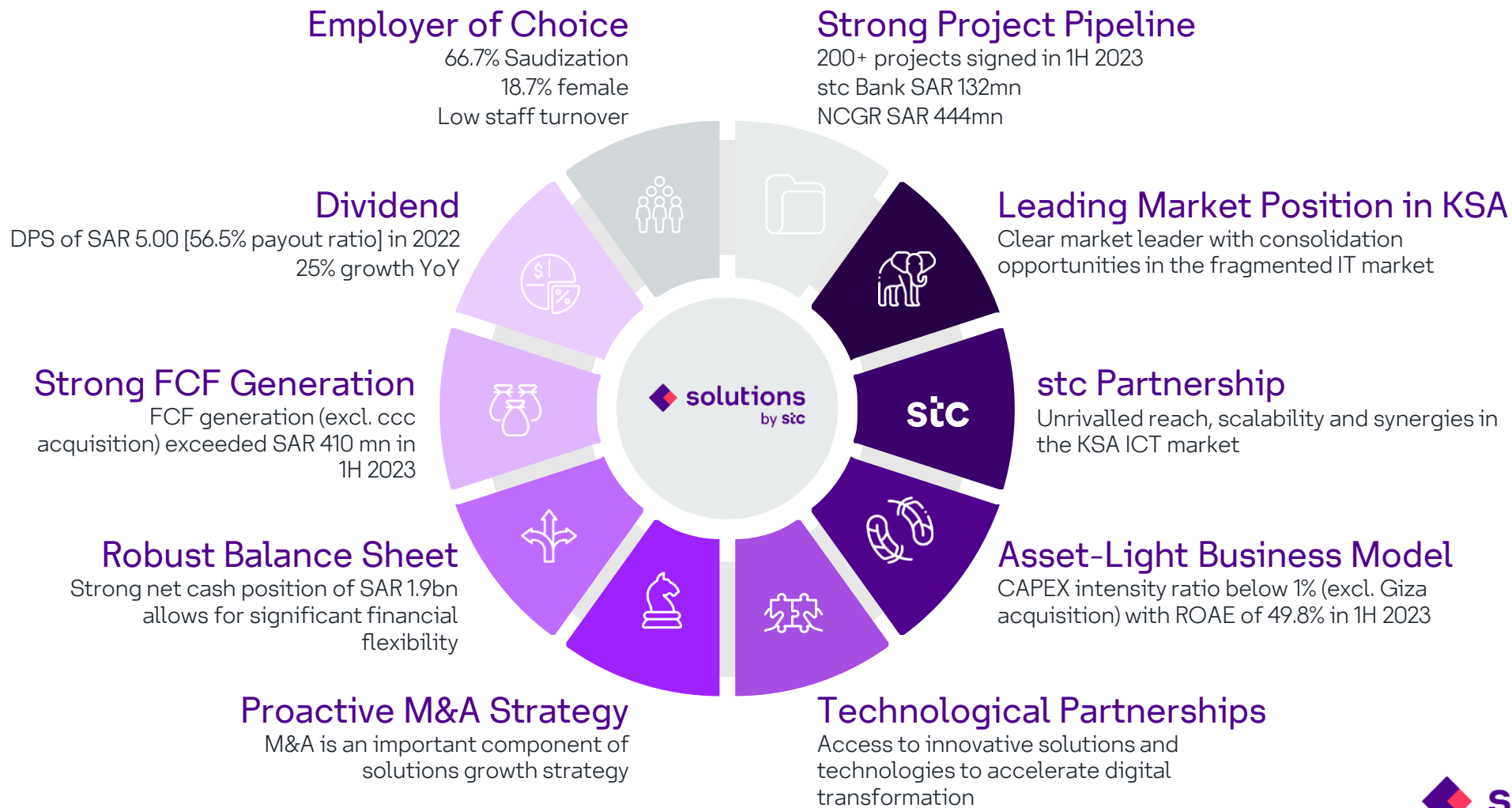
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# 1 Investment Thesis Update

A person wearing large headphones is shown in profile, looking at a smartphone held in their hands. The scene is dimly lit with a blue and purple color palette, suggesting a focus on technology and digital investment.

# Investment Thesis Update

solutions is the **right stock** in the **right market** at the **right time**



# 2 Strategy Update



# Strategic Objectives

solutions provides innovative technology solutions that enable our customers to succeed in evolving market needs



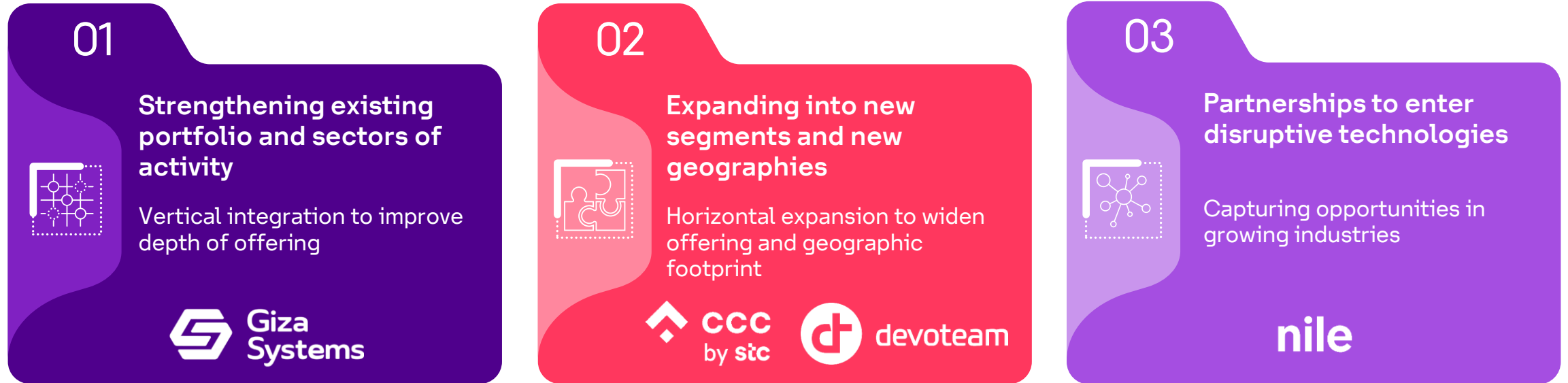
<p><b>L</b></p> <p><b>Lead in managed &amp; professional services</b> through continuous capabilities enhancements across:</p> <ul style="list-style-type: none"><li>• IT Professional services</li><li>• Multi-Cloud Services</li><li>• IT Managed Services</li><li>• Business Process Outsourcing</li></ul> <hr/> <p>Strengthening solutions market leadership</p>	<p><b>E</b></p> <p><b>Expand Offerings Portfolio and Market Reach</b> through:</p> <ul style="list-style-type: none"><li>• Expanding offering into digital consulting and emerging tech</li><li>• Enhancing our market reach by focusing on new sectors and segments</li><li>• Protecting the core business by enhancing the offering through specific use cases</li></ul> <hr/> <p>Becoming one-stop-shop IT services provider</p>	<p><b>A</b></p> <p><b>Achieve Excellence in Total Experience</b> by:</p> <ul style="list-style-type: none"><li>• Continuously improving our 360 CX framework</li><li>• Expanding our partners ecosystem across technologies and ICT value chain</li><li>• Exploring innovative ideas and business models</li></ul> <hr/> <p>Building a strong effective ecosystem</p>	<p><b>P</b></p> <p><b>Promote Internal Efficiencies &amp; Collaboration</b> by:</p> <ul style="list-style-type: none"><li>• Digitization &amp; automation of processes</li><li>• Optimizing resources management and creating synergies</li><li>• Adopting best sustainability practices</li></ul> <hr/> <p>Best workplace for the best people in business</p>
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A man and a woman are looking at a screen. The man is pointing at the screen. The background is dark with red and blue lighting. A large red number 3 is on the left side of the slide.

# 3 M&A Strategy Update

# In the MENA region, the market for IT services is ripe for consolidation

MENA's IT market is dynamic and fragmented - perfect ingredients for strong M&A activity going forward



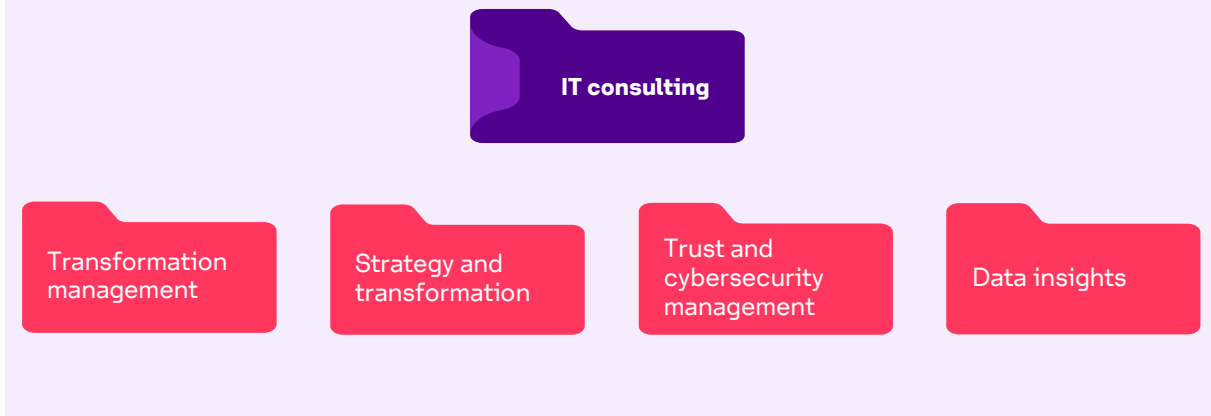
**MENA is following in the footsteps of mid-market ICT M&A activity globally**  
solutions' M&A strategy is built on three pillars with the aim to scale, widen the offering, and remain the industry leader



# Devoteam Overview

Binding offer for 40% of Devoteam announced on the 18<sup>th</sup> of June 2023

## Services Portfolio



## Presence & reach

620 FTEs

7 business partners



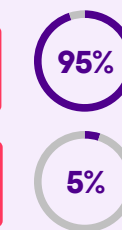
## Offices

KSA

UAE

Jordan

## Revenue



## Transaction Details and Strategic Rationale

### Transaction details:

- The binding offer to acquire 40% in Devoteam Middle East was announced on 18 June 2023.
- The acquisition price is to be based on the Enterprise Value of SAR 741.7 million.
- The deal is subject to obtaining all regulatory approvals from the relevant authorities in KSA.

### Good strategic fit for solutions:

1. Devoteam will bring synergies with solutions' core business (systems integration) and strengthen its leadership in the ICT market...
2. ...while complementing solutions' offering with digital consulting and business transformation capabilities and reinforcing its one-stop-shop value proposition for clients in the KSA IT services market.

## Sectors and Partners

Key sectors

Government

Financial Services

Telco

Key business partners



# 4 Financial Performance



# solutions 1H 2023 Financial Dashboard

solutions delivered a strong performance in 1H 2023

1H 23 Revenue

SARmn **5,378** ▲  
+24% YoY

1H 23 GP Margin

**24.9%** ▲  
+181bps YoY

1H 23 Capex

SARmn **47** ▲  
+10% YoY

1H 23 Capex / Revenue

**0.88%** ▼  
-12bps YoY

1H 23 EBITDA

SARmn **874** ▲  
+22% YoY

1H 23 EBITDA Margin

**16.3%** ▼  
-32bps YoY

1H 23 Net Cash From Operating Activities

SARmn **443** ▼  
-31% YoY

1H 23 ROIC

**81.6%** ▼  
-50.98ppts YoY

1H 23 Net Profit

SARmn **643** ▲  
+16% YoY

1H 23 NP Margin

**12.0%** ▼  
-88bps YoY

1H 23 Net Cash

SARmn **1,898** ▲  
+10% YoY

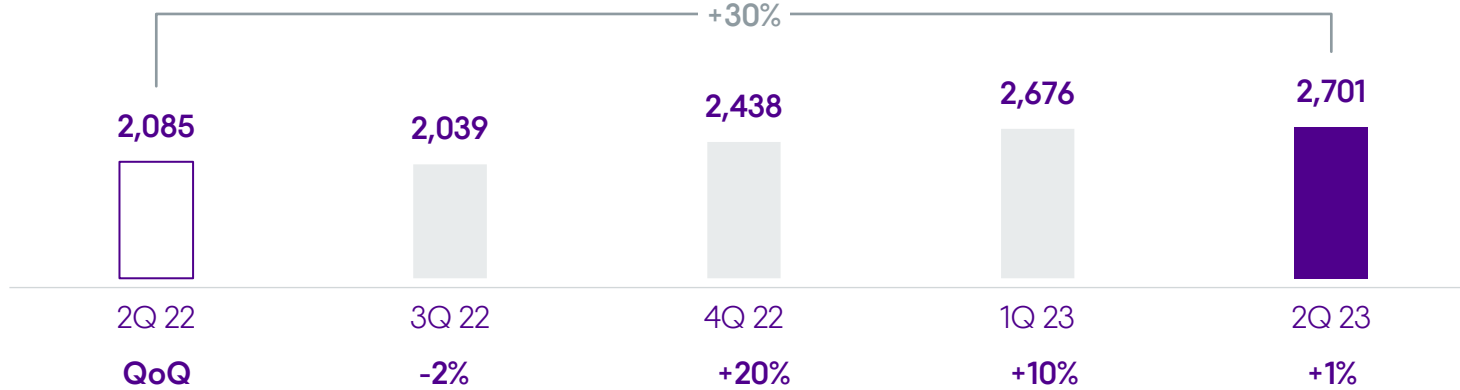
1H 23 ROAE

**49.8%** ▼  
-0.42ppts YoY

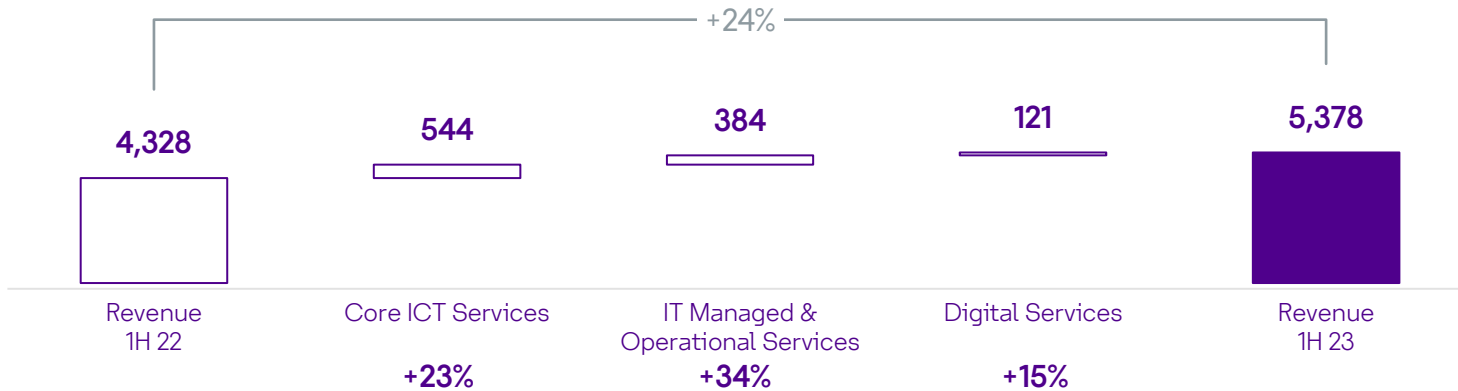
# Revenue Trend and Breakdown by Business Segment

Group revenue growth of +24% YoY in 1H 2023, driven by Core ICT and IT Managed and Operational Services

## Revenue Trend (SARmn)



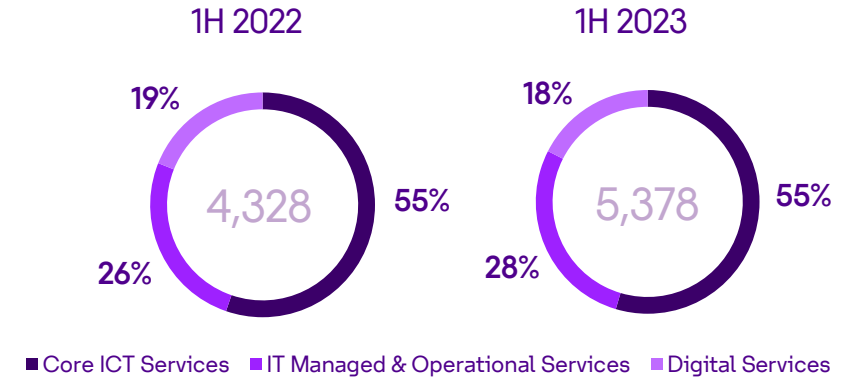
## Revenue Movement YoY (SARmn)



## Management Commentary

- Strong 1H 2023 performance in IT Managed & Operational Services (+34% YoY) and Core ICT Services (+23% YoY).
- Revenue growth was supported by a contribution from Giza and ccc.

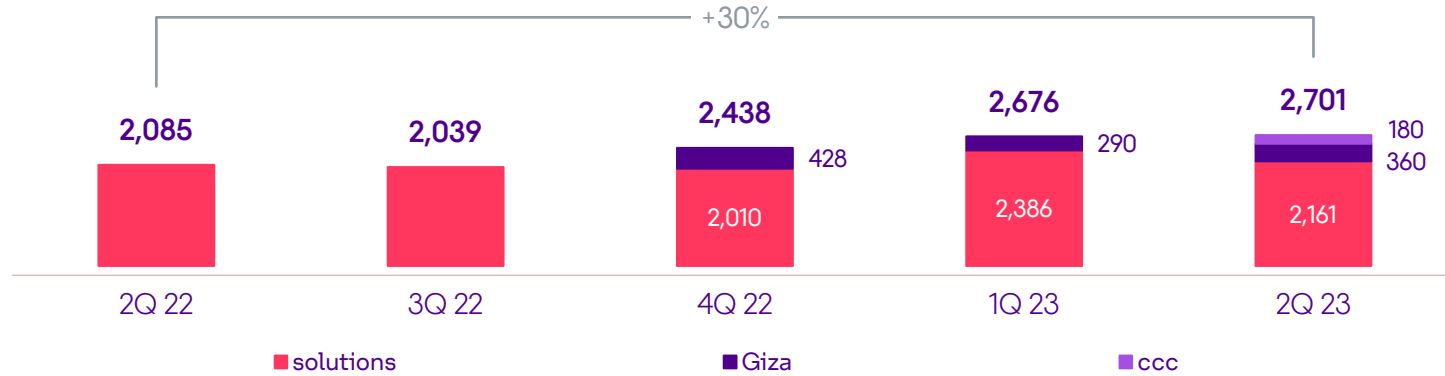
## 1H 2023 Revenue Composition (by Business Segment)



# Revenue Breakdown by Entity

Giza and ccc accounted for 15% of 1H 2023 revenue<sup>1</sup>

## Revenue Breakdown by Entity (SARmn)



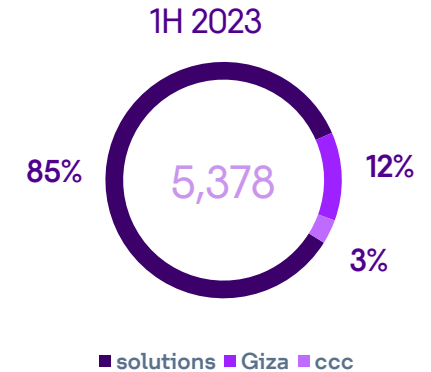
## Revenue Movement YoY (SARmn)



## Management Commentary

- Consolidation of Giza in October 2022 and ccc in April 2023 gave a significant boost to solutions top-line generation in 1H 2023.
- Giza and ccc contributed c. 12% and 3% to consolidated 1H 2023 revenue, respectively.

## Revenue Composition (by Entity)

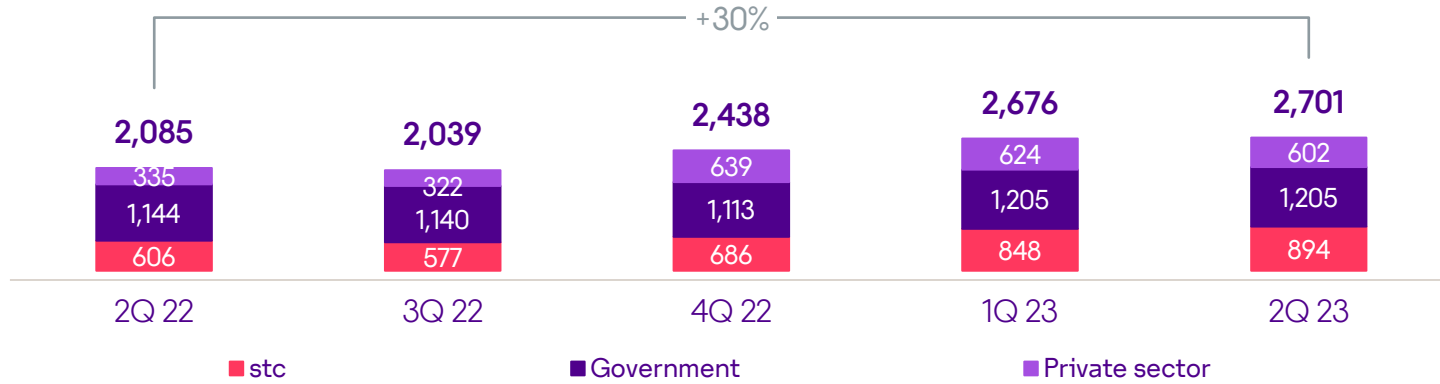


<sup>1</sup> - all numbers are presented after intercompany eliminations

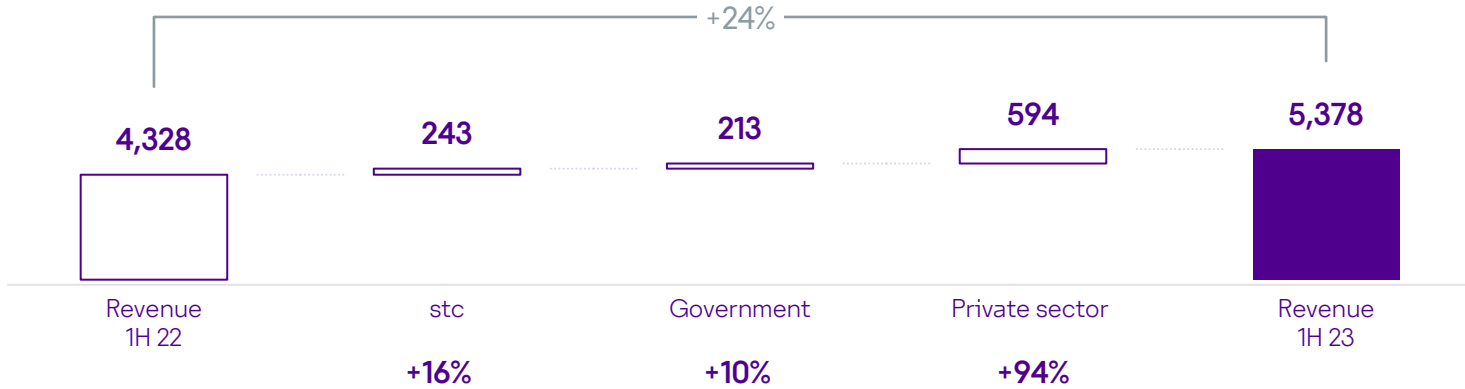
# Revenue Breakdown by Customer Type

stc and Governments accounted for 77% of revenue in 1H 2023

Revenue Breakdown by Customer Type (SARmn)



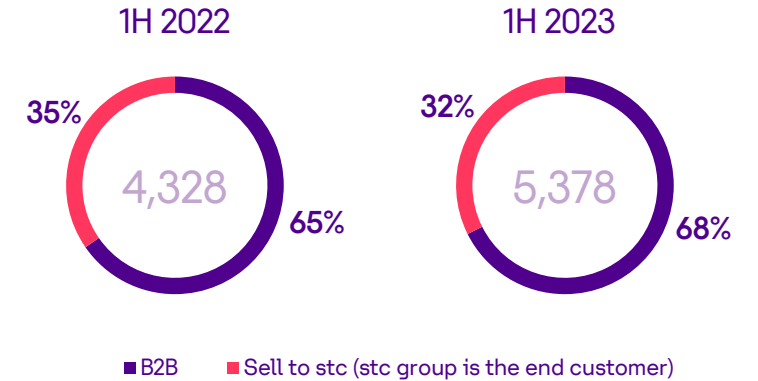
Revenue Movement YoY (SARmn)



## Management Commentary

- Revenue growth was driven by +94% YoY growth in private sector revenues in 1H 2023.
- Revenue from stc grew 16% YoY and revenue from the Government increased 10% YoY.

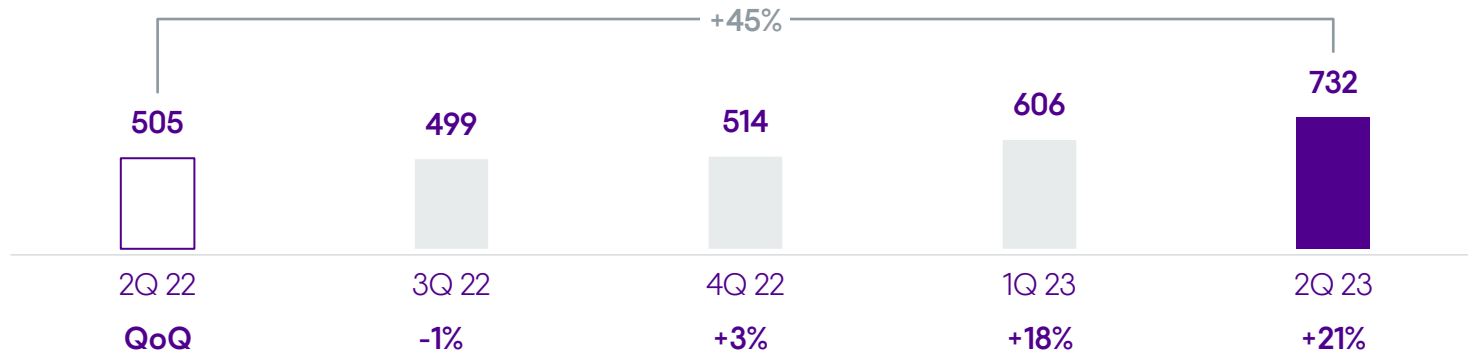
Revenue Composition (by Channel)



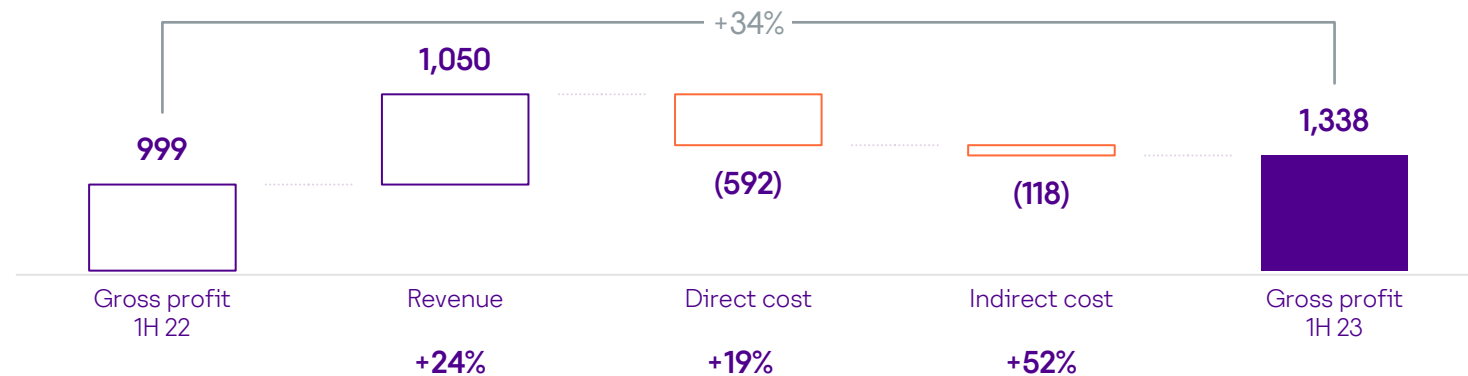
# Profitability - Gross Profit Performance

Gross profit margin in 1H 2023 increased by 181 bps YoY to 24.9%

## Gross Profit Trend (SARmn)



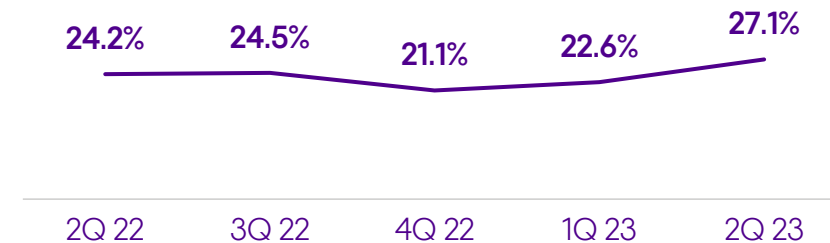
## Gross Profit Movement (SARmn)



## Management Commentary

- Gross margin increased by 181 bps year-on-year to 24.9% in 1H 2023 as profitability recovered from the year-ago period, when a lower-margin big project diluted consolidated margin.
- Gross margin in 2Q 2023 reached 27.1% marking the highest quarterly level since 2021.

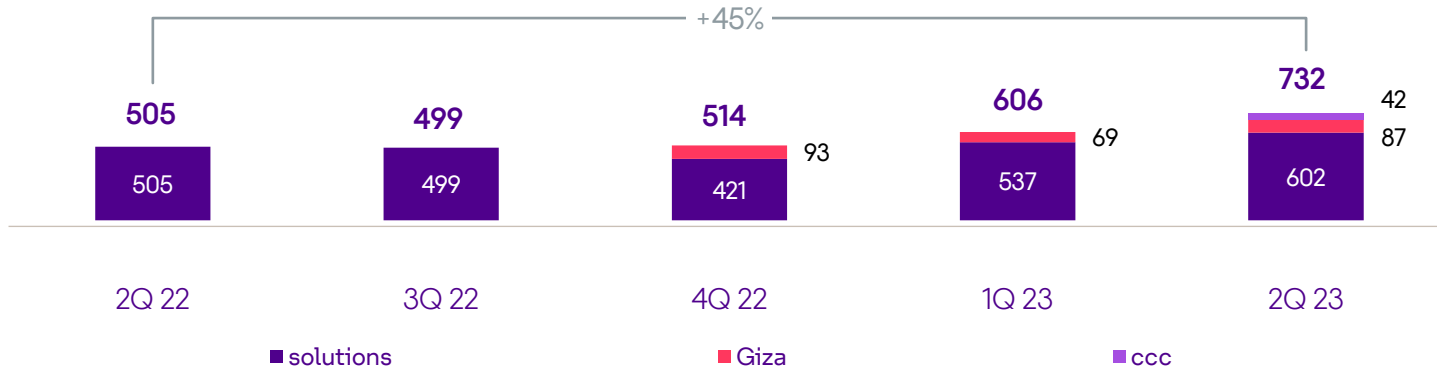
## Gross Profit Margin (%)



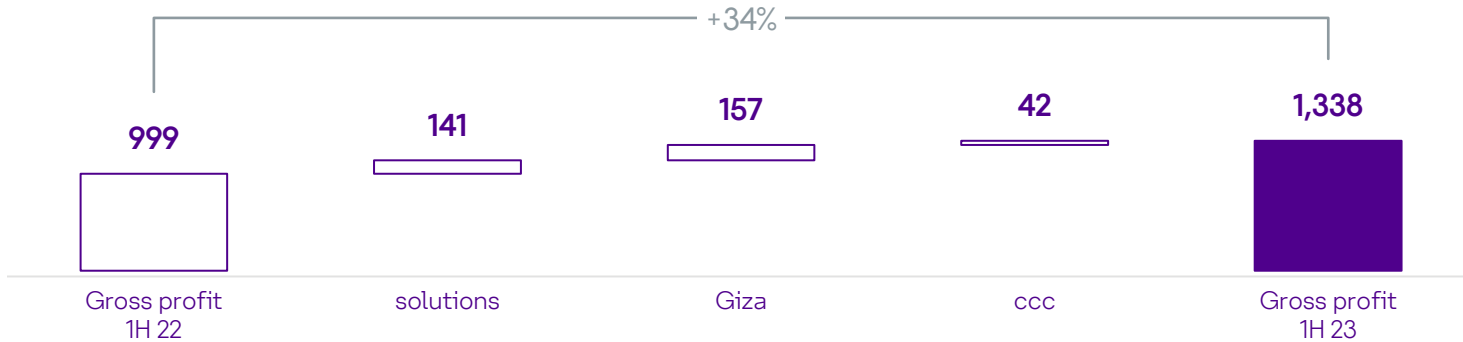
# Profitability - Gross Profit Drivers

Giza and the core solutions business were the key Gross Profit drivers<sup>1</sup>

Gross Profit Breakdown by Entity (SARmn)\*



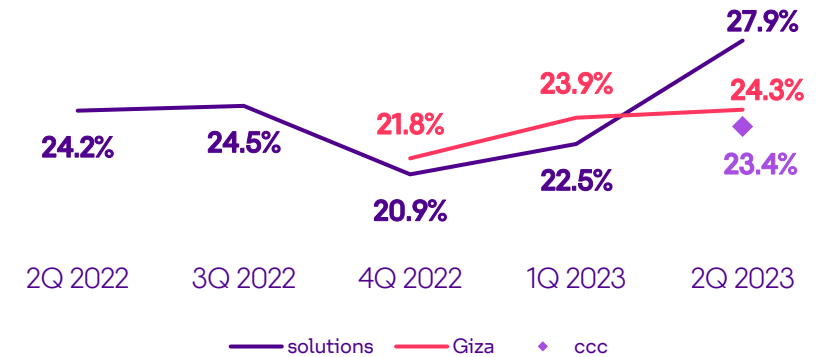
Gross Profit Movement YoY (SARmn)



## Management Commentary

- Core solutions business generated SAR 1.14bn gross profit in 1H 2023, up +14% YoY, and accounted for 85% of the total gross profit.
- Giza and ccc added SAR 199mn gross profit, which accounted for 15% of the total gross profit.

Gross profit margin by Business Line



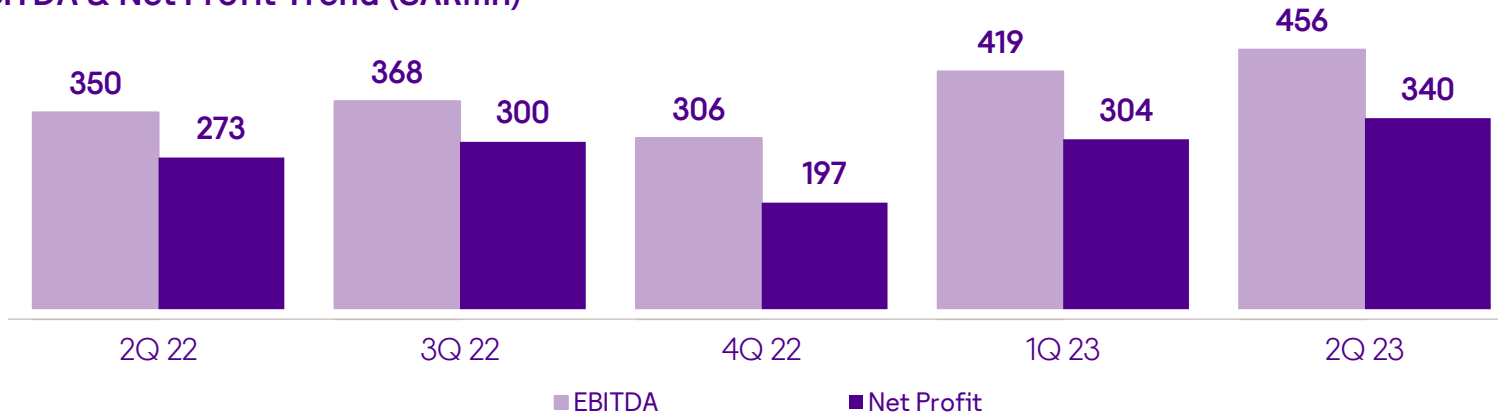
<sup>1</sup> - all numbers are presented after intercompany eliminations



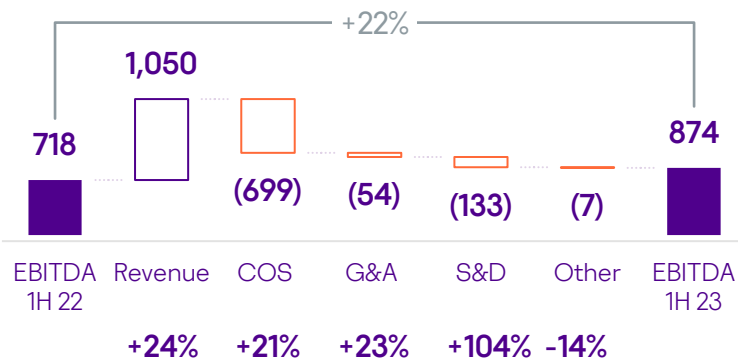
# Profitability - EBITDA and Net Profit

Strong EBITDA performance driven by revenue growth and gross margin gains

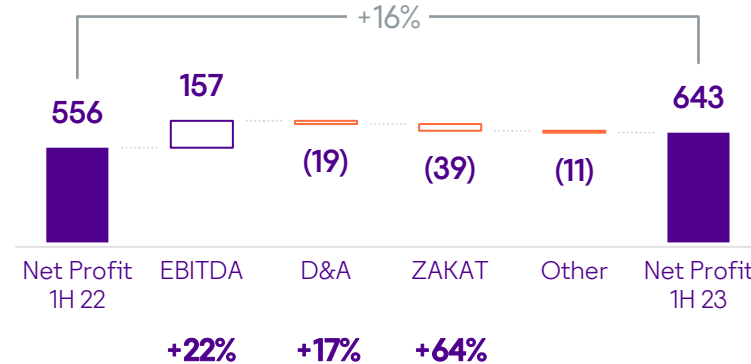
EBITDA & Net Profit Trend (SARmn)



EBITDA Movement YoY (SARmn)



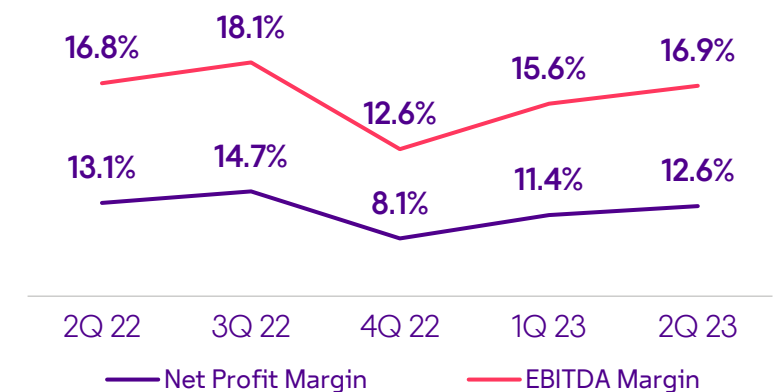
Net Profit Movement YoY (SARmn)



## Management Commentary

- EBITDA grew 22% YoY in 1H 2023 as revenue growth and gross margin gains helped to mitigate a 51% growth in operating expenses.
- Net profit increased by 16% YoY in 1H 2023 affected by FX losses and higher Zakat related to Giza and ccc acquisitions.

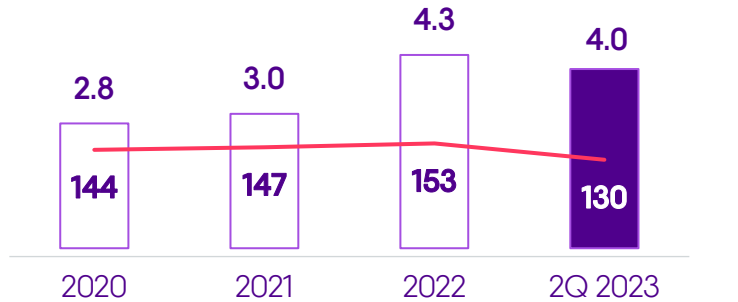
EBITDA & Net Profit Margins (%)



# Balance Sheet - Working Capital

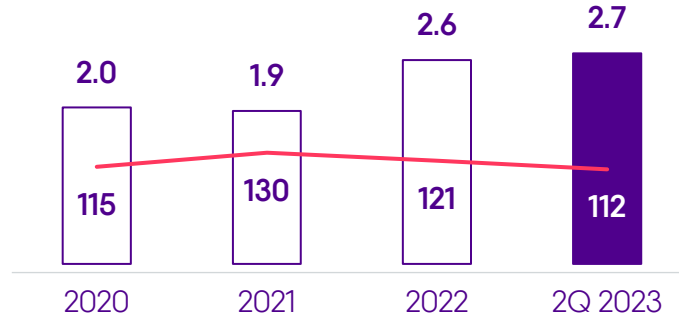
Working capital changes reflect efficient financial management amid strong revenue growth

## Accounts Receivable (SARbn)



Accounts receivable Days Receivables Outstanding

## Accounts Payable (SARbn)

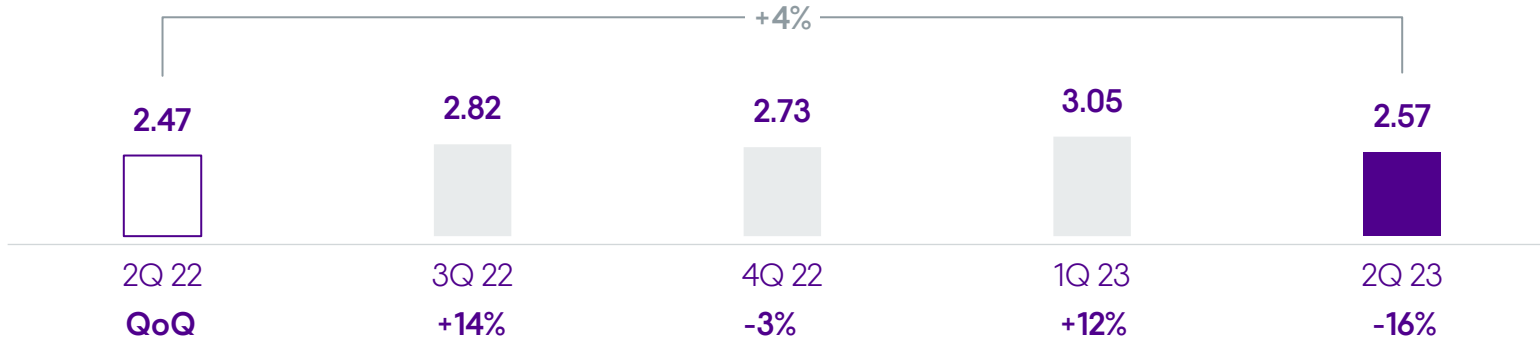


Accounts payable and accruals DPO

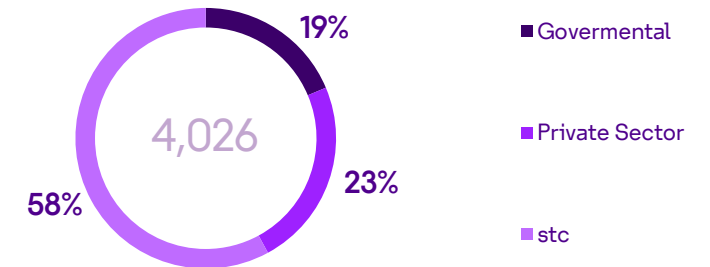
## Management Commentary

- As of the end of 1H 2023, solutions reduced its working capital by 16% YoY to SAR 2.57bn mostly due to increased payables and deferred revenue.

## Working Capital Performance (SARbn)



## Accounts Receivable Composition (%)

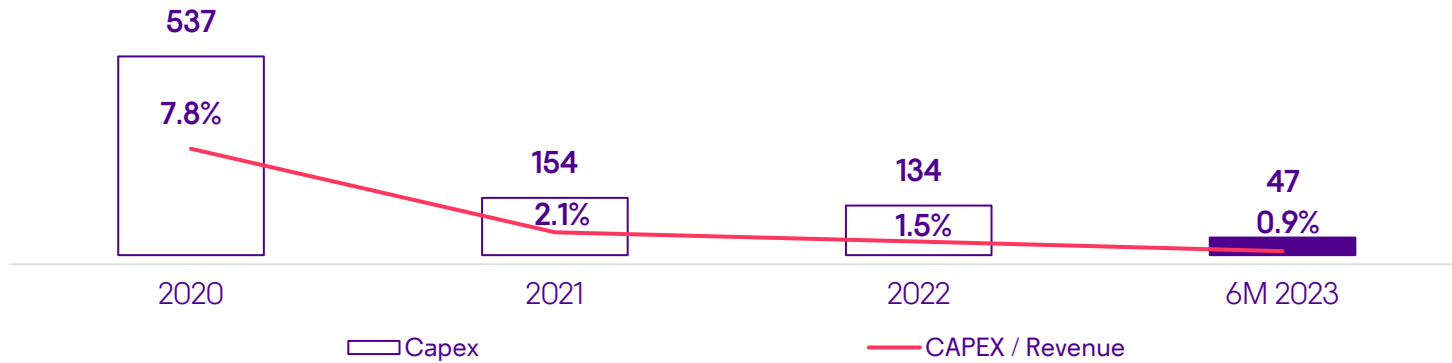


Working Capital = Current Assets - Current Liabilities

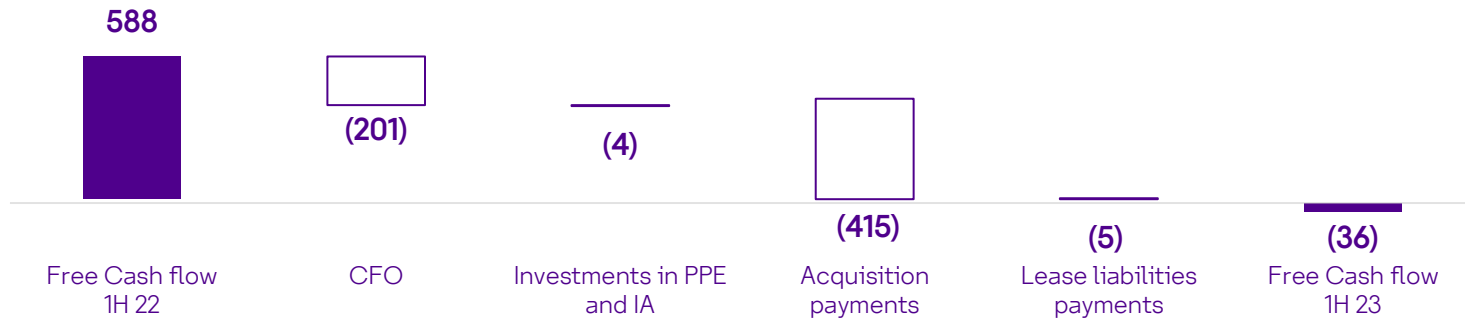
# Cash Flow Generation

solutions maintains a strong cash position despite SAR 450mn ccc acquisition

## Capital Expenditures (SARmn)



## Free Cash Flow Movement (SARmn)

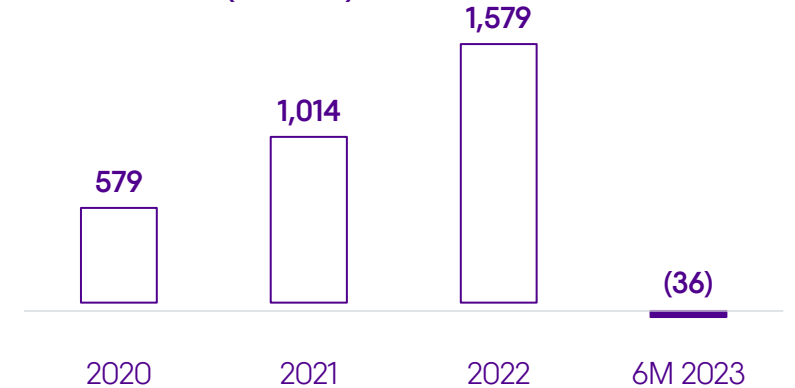


Free Cash Flow = CFO - CAPEX - Lease liabilities payments - Purchase of treasury shares - Payment for acquisition of subsidiary

## Management Commentary

- FCF turned negative in 1H 2023 due to ccc acquisition. Adjusted for the SAR 450 mn ccc deal, it would be over SAR 410mn in 1H 2023.
- Net cash position of SAR 1.90 bn at 1H 2023.

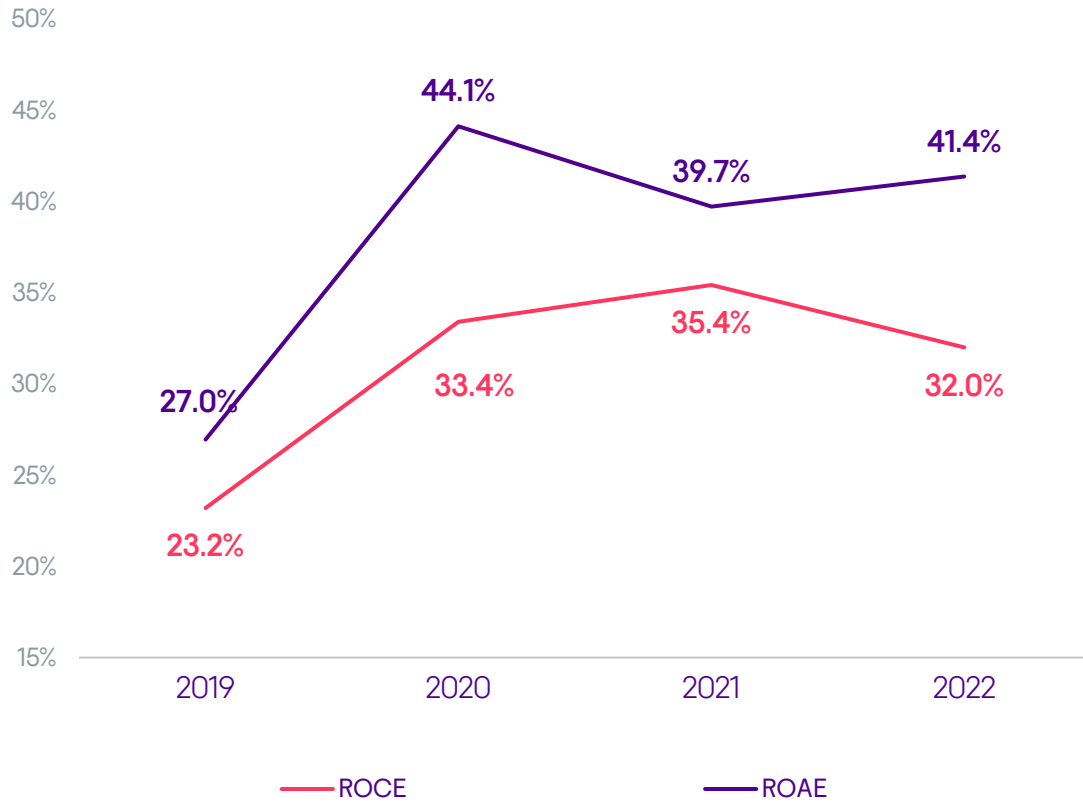
## Free Cash Flow (SARmn)



# Returns and Dividends

High returns and a dividend per share of SAR 5.0 in 2022

## Return Ratios (%)

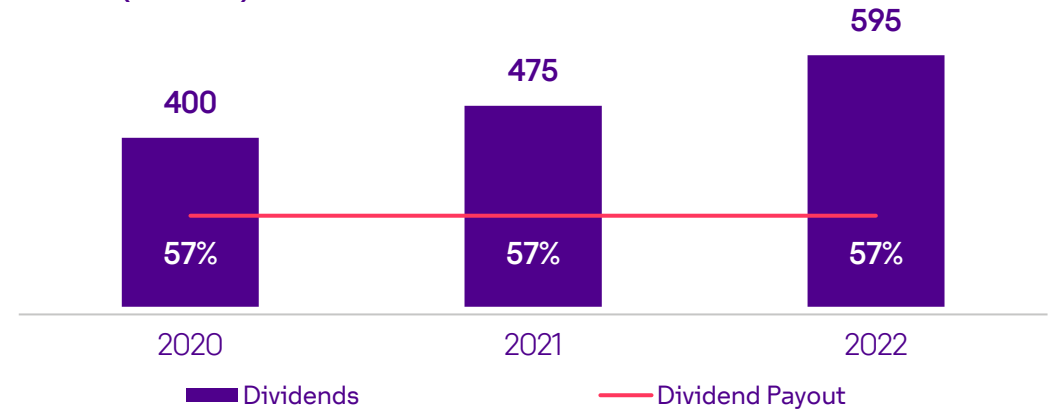


ROCE = EBIT / Capital employed (Total Assets - Current liabilities)  
ROAE = Net income / Average Total Equity

## Management Commentary

- Capex-light business model generates high returns.
- DPS of SAR 5.0 in 2022 up from SAR 4.0 in 2021 implying a 57% payout ratio.

## Dividends (SARmn)



# Outlook, Guidance and Targets

solutions upgrades 2023 revenue growth guidance to 19%-22% from 16%-19% previously

	2023 Outlook
<b>Oil Price</b>	\$75 / bbl
<b>KSA GDP Growth</b>	1.9%
<b>KSA Fiscal Budget</b>	SAR 16 bn surplus
<b>KSA IT Growth</b>	2023: +12% 2022-2026 CAGR: 12.7%
<b>KSA IT Spending % of GDP</b>	1.2%

	1H 2023 results	FY 2023 Guidance
<b>Revenue Growth</b>	24%	19% to 22%
<b>EBITDA Margin</b>	16.3%	13% to 15%
<b>Capex Intensity</b>	0.9%	1.5% to 2%

# 5 Appendix



# *b* Contact Details

# IR Contact Details

Contact solutions by stc investor relations team

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