

## Earnings Release

# solutions by stc reports 28% EBITDA growth to SAR 1,391 million in 9M 2023

9M 23 Revenue	9M 23 EBITDA	9M 23 Net Profit	9M 23 Net Cash
SARmn <b>8,172</b> +28% YoY	SARmn <b>1,391</b> +28% YoY	SARmn <b>1,030</b> +20% YoY	SARmn <b>1,908</b> -32% YoY

### 9M 2023 Highlights:

- +28% YoY revenue growth to SAR 8.17 billion
- +259bps YoY increase in gross profit margin to 26.1%
- Healthy EBITDA margin maintained at 17.0%
- +20% YoY net profit growth to SAR 1.03 billion
- Strong net cash position of SAR 1.91 billion as of 30 September 2023

**Riyadh, 29<sup>th</sup> October 2023** – solutions announces strong financial performance in 9M 2023 that combined acceleration of revenue growth with profitability expansion and solid returns. This confirms the effectiveness of the company's strategy focused on profitable growth and value-accretive acquisitions. As a result, solutions' revenue growth gathered pace to 28% year-on-year to SAR 8.17 billion in 9M 2023. Considerable gross margin improvements offset increased opex pressures, leading to a 28% year-on-year EBITDA growth to SAR 1.39 billion with a consistent 17.0% EBITDA margin. Net profit attributable to shareholders grew 20% year-on-year to SAR 1.03 billion in 9M 2023.

**Omer Abdullah Alnomany, CEO of solutions,** commented: "We are proud of our strong 9M 2023 financial performance as we continue to create value for our shareholders. Capitalizing on our strong market position, efficient business model, and LEAP strategy, we have focused on sustainable and profitable expansion. solutions' organic development, supplemented by recent value-accretive acquisitions, has added further momentum to our revenue growth and profitability gains last quarter. As the market leader in ICT services, we are confident in our ability to embrace growth opportunities that arise from Saudi Arabia's strategic transformation and create value for our shareholders".

In 9M 2023, solutions' top-line growth was driven by IT Managed and Operational Services, showing a 41% year-on-year increase in revenue and accounting for 29% of the consolidated revenue. Core ICT Services grew by 29% year-on-year, contributing 54% to the 9M 2023 total revenue, while Digital Services posted 8% revenue growth, making up 17% of total revenue .

solutions' revenue generation was supported by consolidation of Giza in October 2022 and ccc in April 2023, with growth rates of 19% in 1Q 2023, 30% in 2Q 2023 and 37% in 3Q 2023. Core solutions business generated 82% of the total 9M 2023 revenue, with Giza and ccc contributing 13% and 5%, respectively.

The trend towards diversification of solutions' customer base continued in 9M 2023 with revenue from the private sector surging 87% year-on-year to SAR 1.78 billion, which accounted for 22% of

total revenue in 9M 2023. That said, during the first nine months of 2023, the Government remained the largest revenue contributor, accounting for 45%. Contributions from the parent company, stc, remained mostly stable at 33%.

Gross margin increased by 259 bps year-on-year to 26.1% in 9M 2023. Profitability growth reflected a lower-margin big project implemented in 1Q 2022 as well as significant gross margin gains in 2Q 2023 and 3Q 2023 mainly driven by the improvement in the product mix and cost optimization initiatives. Gross margin improvements helped to counterbalance an increase in selling and distribution expenses, resulting in EBITDA growth of 28% year-on-year and an EBITDA margin of 17.0% in 9M 2023. Net profit grew 20% year-on-year. The net profit margin declined to 12.6%, mainly due to increase in finance cost and a rise in Zakat expense triggered by the consolidation of Giza & ccc.

solutions' operating cash flow decreased 65% year-on-year to SAR 630 million in 9M 2023, reflecting continued investments in working capital mostly due to higher contract assets related to overall business growth as well as the acquisitions of Giza and ccc. Investments in property, equipment and intangible assets, along with acquisition payments, reached SAR 503 million in 9M 2023. This is primarily due to the acquisition of ccc in April 2023, while the investment amount in 3Q 2023 alone was about SAR 41 million. The net cash position saw slight increase to SAR 1.91 billion as of the end of September 2023.

Following the announcement of a binding offer to acquire 40% of Devoteam Middle East, solutions confirmed the signing of the sale and purchase agreement on the 15<sup>th</sup> of October 2023. The full cash consideration for the acquisition will be based on 100% Enterprise Value, amounting to AED 726.3 million. The sale and purchase agreement is subject to a number of pre-closing conditions, including – but not limited to – obtaining the approval of the General Authority for Competition as well as other regulatory and commercial conditions. This acquisition aims to reinforce solutions's leadership in the ICT market, complement its current offerings with digital consulting and business transformation capabilities for its customers in the Kingdom and beyond.

## Financial Review

### Financial Performance Highlights

SAR (million)	3Q 2023	3Q 2022	YoY Δ%	9M 2023	9M 2022	YoY Δ%
<b>Revenue</b>	<b>2,795</b>	<b>2,039</b>	<b>+37%</b>	<b>8,172</b>	<b>6,367</b>	<b>+28%</b>
<b>Gross profit</b>	<b>796</b>	<b>499</b>	<b>+59%</b>	<b>2,134</b>	<b>1,498</b>	<b>+42%</b>
Gross Profit Margin (%)	28.5%	24.5%	+4.0%	26.1%	23.5%	+2.6%
<b>EBITDA</b>	<b>517</b>	<b>368</b>	<b>+40%</b>	<b>1,391</b>	<b>1,086</b>	<b>+28%</b>
EBITDA Margin (%)	18.5%	18.1%	+0.4%	17.0%	17.1%	-0.0%
<b>Net Profit</b>	<b>387</b>	<b>300</b>	<b>+29%</b>	<b>1,030</b>	<b>856</b>	<b>+20%</b>
Net Profit Margin (%)	13.8%	14.7%	-1.0%	12.6%	13.4%	-0.9%
<b>Capex (organic)</b>	<b>(41)</b>	<b>(30)</b>	<b>+37%</b>	<b>(88)</b>	<b>(73)</b>	<b>+21%</b>
<b>Free Cash Flow</b>	<b>189</b>	<b>1,098</b>	<b>-83%</b>	<b>153</b>	<b>1,686</b>	<b>-91%</b>
<b>Net Debt/(Cash)</b>	<b>(1,908)</b>	<b>(2,818)</b>	<b>-32%</b>	<b>(1,908)</b>	<b>(2,818)</b>	<b>-32%</b>

Revenue grew 28% year-on-year to SAR 8.17 billion in 9M 2023. Gross profit increased by 42% year-on-year to SAR 2.13 billion in 9M 2023. In line with revenue growth, EBITDA expanded by 28% year-on-year to SAR 1.39, as improved gross margins offset the elevated costs from selling and distribution. Net profit attributable to shareholders grew 20% year-on-year to SAR 1.03 billion in 9M 2023. solutions' gross debt portfolio (excluding lease liabilities) saw a reduction of 6% quarter-on-quarter, settling at SAR 691 million by 9M 2023. Despite increased working capital investments and M&A expenditures, the company maintained a positive free cash flow. Consequently, at the end of September 2023, solutions' net cash position edged up quarter-on-quarter to SAR 1.91 billion.

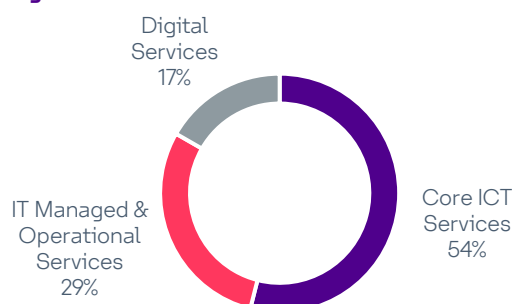
### Revenue Breakdown by Business Segment

SAR (million)	3Q 2023	3Q 2022	YoY Δ%	9M 2023	9M 2022	YoY Δ%
Core ICT Services	1,474	1,014	+45%	4,411	3,406	+29%
IT Managed and Operational Services	897	586	+53%	2,396	1,701	+41%
Digital Services	424	439	-4%	1,365	1,260	+8%
<b>Total revenue</b>	<b>2,795</b>	<b>2,039</b>	<b>+37%</b>	<b>8,172</b>	<b>6,367</b>	<b>+28%</b>

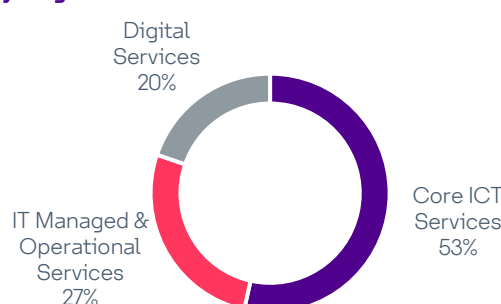
Total revenue increased by 28% year-on-year to SAR 8.17 billion in 9M 2023, principally driven by 41% growth in IT Managed and Operational Services to SAR 2.40 billion and 29% growth in Core ICT Services to SAR 4.41 billion. Digital Services grew 8% to SAR 1.37 billion.

The revenue contribution from Core ICT Services increased year-on-year to 54% of total revenue in 9M 2023 compared with 53% last year, whereas the share of IT Managed and Operational Services climbed to 29% in 9M 2023 versus 27% last year. The share of Digital Services decreased year-on-year to 17% versus 20% a year ago.

**9M 2023 Revenue Composition by Segment**



**9M 2022 Revenue Composition by Segment**

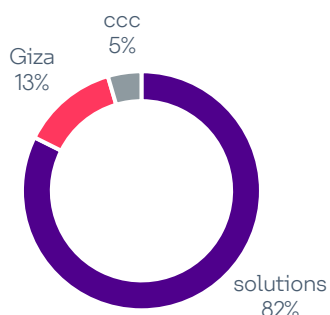


### Revenue Breakdown by Entity<sup>1</sup>

SAR (million)	3Q 2023	3Q 2022	YoY Δ%	9M 2023	9M 2022	YoY Δ%
solutions	2,184	2,039	+7%	6,731	6,367	+6%
Giza	419	0		1,069	0	
ccc	191	0		371	0	
<b>Total revenue</b>	<b>2,795</b>	<b>2,039</b>	<b>+37%</b>	<b>8,172</b>	<b>6,367</b>	<b>+28%</b>

solutions' organic revenue grew 6% year-on-year to SAR 6.73 billion in 9M 2023, accounting for 82% of total revenue. Giza was consolidated in October 2022 and hence fully contributed to 9M 2023 performance with revenue of SAR 1.07 billion, amounting to 13% of total revenue. ccc, consolidated in April 2022, contributed SAR 371 million in revenue during most of 2Q 2023 and fully in 3Q 2023, making up 5% of total revenue in 9M 2023. The consolidation of Giza and ccc was the main driver of revenue growth acceleration to 37% year-on-year in 3Q 2023 from 30% in 2Q 2023 and 19% in 1Q 2023.

### 9M 2023 Revenue Composition by Entity



### Revenue Breakdown by Customer Type

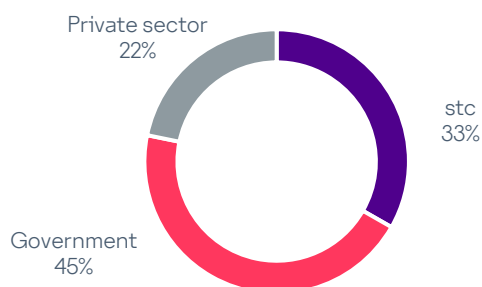
Throughout 9M 2023, solutions continued to diversify its customer portfolio. A significant portion of the company's revenue stream was generated from the government segment amid the ongoing implementation of Vision 2030 initiatives, which resulted in SAR 3.67 billion revenue in 9M 2023 - a 10% increase year-on-year. The government continued to be the major source of revenue, although its share declined to 45% in 9M 2023 versus 52% a year ago, indicating faster growth in other customer segments.

Meanwhile, the share of stc in solutions' revenues remained unchanged, contributing 33% in both 9M 2023 and 9M 2022.

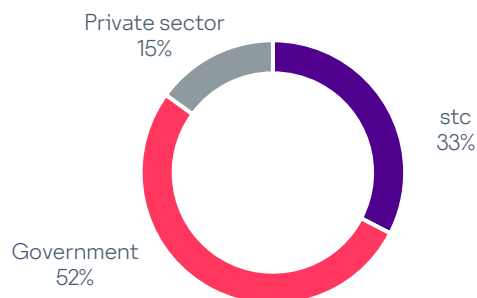
The standout performance was reported in the private sector, having increased by 87% year-on-year to SAR 1.78 billion, while its share of solutions' total revenue grew to 22% in 9M 2023 from 15% in 9M 2022. This uptick underscores the company's strategic emphasis on the small and medium enterprise (SME) segment, recognizing its growing significance and contribution to the national economy.

<sup>1</sup> The numbers for entities are provided before intercompany eliminations

### 9M 23 Revenue Composition by Type



### 9M 22 Revenue Composition by Type



### Revenue Breakdown by Type of Customer

SAR (million)	3Q 2023	3Q 2022	YoY Δ%	9M 2023	9M 2022	YoY Δ%
stc	976	577	+69%	2,718	2,076	+31%
Government	1,263	1,140	+11%	3,673	3,336	+10%
Private sector	555	322	+72%	1,782	955	+87%
<b>Total revenue</b>	<b>2,795</b>	<b>2,039</b>	<b>+37%</b>	<b>8,172</b>	<b>6,367</b>	<b>+28%</b>

### Gross margin improvement offsets increased operating expenses

In 9M 2023, the gross margin expanded by 259 bps year-on-year to 26.1%. This expansion was driven by significant gross margin gains in 2Q 2023 and 3Q 2023 due to the improvement in the sales mix, cost optimization initiatives and margin realized on completion of certain projects that resulted from efficient delivery. Furthermore, the previous year's comparison base in 1Q 2022 was relatively low due to the impact of a substantial project with a lower margin. The gross margin gains provided a buffer to mitigate 150% year-on-year growth in selling and distribution expenses, predominantly due to increased provisions. The general and administrative expenses increased by 29% year-on-year, mirroring the total revenue growth trajectory in 9M 2023.

As a result, the EBITDA margin witnessed a minor contraction, decreasing by 3bps to 17.0% in 9M 2023 compared to the previous year. The net profit margin faced a decline to 12.6% in 9M 2023 from 13.4% a year ago. This was largely due to increase in finance cost and a rise in Zakat expense associated with the consolidation of Giza & ccc.

### The balance sheet remains robust

Despite financing solutions' acquisitions and significant investments in working capital, solutions generated positive free cash flow over 9M 2023. As a result, the company's net cash position slightly increased quarter-on-quarter to SAR 1.91 billion as of end of September 2023. With such a stable financial foundation, solutions maintains sufficient flexibility to pursue its expansion plans and deliver value to its shareholders.

## Analyst Consensus

SAR (million)	3Q 2023 Consensus	3Q 2023 Actual	Δ%	# of Analysts
Revenue	2,734	2,795	+2%	12
Cost of Sales	2,069	1,999	-3%	6
Gross Profit	705	796	+13%	6
EBITDA	460	517	+12%	6
Net Profit (after Zakat)	344	388	+13%	12

## Additional Information

The 9M 2023 financial statements, earnings presentation, investor presentation and financial data supplement will be available at:

[Investor relations – solutions by stc](#)

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