

Earnings Release

solutions by stc reports 22% EBITDA growth to SAR 874 million in 1H 2023

1H 23 Revenue	1H 23 EBITDA	1H 23 Net Profit	1H 23 Net Cash
SARmn 5,378 +24% YoY	SARmn 874 +22% YoY	SARmn 643 +16% YoY	SARmn 1,898 +10% YoY

1H 2023 Highlights:

- +24% YoY revenue growth to SAR 5.38 billion
- +181bps YoY increase in gross profit margin to 24.9%
- Healthy EBITDA margin of 16.3%
- +16% YoY net profit growth to SAR 643 million
- Strong net cash position of SAR 1.90 billion as of 30 June 2023

Riyadh, 30th July 2023 – solutions recorded another successful quarter, which underpinned strong 1H 2023 financial results and confirmed the viability of the company's strategy focused on growth and profitability. As a result, solutions' revenue growth accelerated to 24% year-on-year to SAR 5.38 billion in 1H 2023. Significant gross margin gains helped mitigate opex growth, which resulted in a 22% year-on-year EBITDA expansion to SAR 874 million with 16.3% EBITDA margin. Net profit attributable to shareholders grew 16% year-on-year to SAR 643 million in 1H 2023.

Omer Abdullah Alnomany, CEO of solutions, commented: "We are happy to present strong financial results of 1H 2023 as we continue to leverage our efficient business model and execute LEAP strategy focused on stable and profitable growth. The resilient organic performance of our business together with recent value-accretive acquisitions fueled strong double-digit revenue growth with high profitability in the first half of the year. As the market leader in ICT services, we are upbeat about our ability to capture exciting growth opportunities arising from Saudi Arabia's long-term transformation endeavors and create value for our shareholders".

The company's top-line growth in 1H 2023 was driven by IT Managed and Operational Services that generated 34% year-on-year higher revenue and accounted for 28% of the consolidated revenue. Core ICT Services grew 23% year-on-year and contributed 55% of 1H 2023 total revenue. Digital Services showed 15% revenue growth year-on-year and earned 18% of the total revenue over the same period.

solutions' revenue generation was supported by consolidation of ccc in April 2023, which saw growth gathering pace from 19% in 1Q 2023 to 30% in 2Q 2023. Core solutions business generated 85% of the total 1H 2023 revenue, while Giza and ccc contributed 12% and 3%, respectively.

The company continued its efforts to diversify its customer base, which led to 94% year-on-year revenue growth from the private sector that accounted for a 23% share of total revenue in 1H 2023. solutions continued to generate the biggest share of revenue from Government that made up 45% in 1H 2023 amid ongoing implementation of digitization initiatives. The contribution from the parent company, stc remained stable and amounted to 32% of total revenue in 1H 2023.

Gross margin increased by 181bps 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 profitability. Gross margin gains helped to absorb an increase in selling and distribution expenses, which resulted in EBITDA growth of 22% year-on-year and EBITDA margin of 16.3% in 1H 2023. Net profit grew 16% year-on-year. The net profit margin declined to 12.0%, mainly due to FX translation losses due to Egyptian Pound depreciation and increased Zakat expense.

solutions' operating cash flow decreased 32% year-on-year to SAR 435 million in 1H 2023, which reflected increased investments in working capital mostly due to higher contract assets related to overall business growth as well as acquisition of Giza and ccc. Investments in property, equipment and intangible assets along with acquisition payments grew to SAR 462 million, which mostly reflected the acquisition of ccc in April 2023. This resulted in a decrease in net cash position to SAR 1.90 billion as of end of June 2023

On the 18th of June 2023, solutions announced that it signed a binding offer with Devoteam SAS (France) and ORTILL Investment Limited to acquire 40% of Devoteam Middle East, a leader in the digital consulting business in the region. The deal's consideration will be based on the enterprise value of AED 726.3 million (or approximately SAR 741.7 million). The deal is subject to obtaining all regulatory approvals from the relevant authorities in Saudi Arabia. The investment will help solutions strengthen its leadership in the ICT market and complement its current offerings with digital consulting and business transformation capabilities to enable its customers across the Kingdom and beyond.

Financial Review

Financial Performance Highlights

SAR (million)	2Q 2023	2Q 2022	YoY Δ%	1H 2023	1H 2022	YoY Δ%
Revenue	2,701	2,085	+30%	5,378	4,328	+24%
Gross profit	732	505	+45%	1,338	999	+34%
Gross Profit Margin (%)	27.1%	24.2%	+2.9%	24.9%	23.1%	+1.8%
EBITDA	456	350	+30%	874	718	+22%
EBITDA Margin (%)	16.9%	16.8%	+0.1%	16.3%	16.6%	-0.3%
Net Profit	340	273	+24%	643	556	+16%
Net Profit Margin (%)	12.6%	13.1%	-0.5%	12.0%	12.8%	-0.8%
Capex	(21)	(25)	-15%	(47)	(43)	+10%
Free Cash Flow	(355)	392	NM	(36)	588	NM
Net Debt/(Cash)	(1,898)	(1,721)	+10%	(1,898)	(1,721)	+10%

Revenue grew 24% year-on-year to SAR 5.38 billion in 1H 2023. Gross profit increased by 34% year-on-year to SAR 1.34 billion in 1H 2023. EBITDA expanded by 22% year-on-year to SAR 874 million as gross margin gains mostly offset increased pressure from selling and distribution expenses. Net profit attributable to shareholders grew 16% year-on-year to SAR 643 million in 1H 2023. solutions'

gross debt portfolio (excluding lease liabilities) decreased 1% quarter-on-quarter to SAR 737 million as of 1H 2023. Increased working capital investments and capital expenditures resulted in a negative free cash flow in 1H 2023, which was covered by the release of Murabaha deposits. As a result, solutions' net cash position decreased from the end of 2022 level but remained at healthy SAR 1.90 billion as of end 1H 2023.

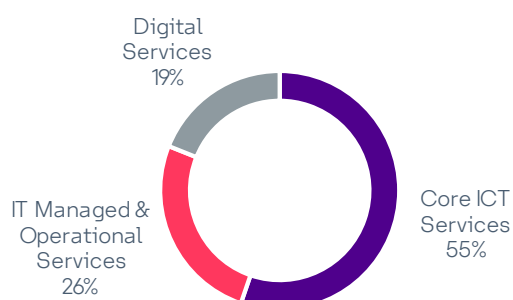
Revenue Breakdown by Business Segment

SAR (million)	2Q 2023	2Q 2022	YoY Δ%	1H 2023	1H 2022	YoY Δ%
Core ICT Services	1,377	1,068	+29%	2,936	2,392	+23%
IT Managed and Operational Services	825	586	+41%	1,500	1,115	+34%
Digital Services	499	431	+16%	942	820	+15%
Total revenue	2,701	2,085	+30%	5,378	4,328	+24%

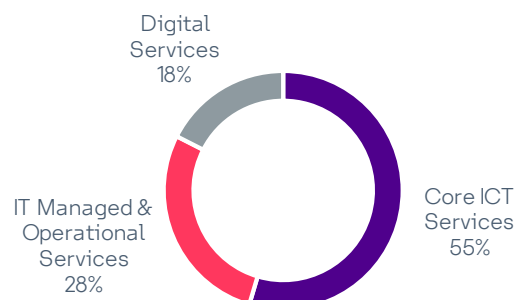
Total revenue increased by 24% year-on-year to SAR 5.38 billion in 1H 2023 driven by 34% growth in IT Managed and Operational Services to SAR 1.50 billion and 23% growth in Core ICT Services to SAR 2.94 billion. Digital Services grew 15% to SAR 942 million.

The revenue contribution from Core ICT Services remained flat year-on-year at 55% of total revenue in 1H 2023, whereas the share of IT Managed and Operational Services increased to 28% in 1H 2023 versus 26% last year. The share of Digital Services slightly decreased year-on-year to 18% versus 19% last year.

1H 2022 Revenue Composition by Segment



1H 2023 Revenue Composition by Segment

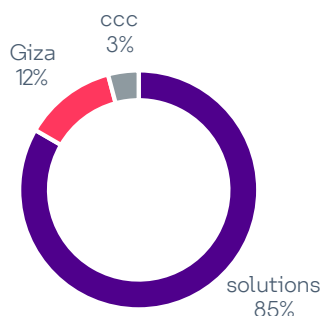


Revenue Breakdown by Entity¹

SAR (million)	2Q 2023	2Q 2022	YoY Δ%	1H 2023	1H 2022	YoY Δ%
solutions	2,161	2,085	+4%	4,548	4,328	+5%
Giza	383	0		683	0	
ccc	226	3	>100%	226	6	>100%
Elimination	(69)	(3)	>100%	(79)	(6)	>100%
Total revenue	2,701	2,085	+30%	5,378	4,328	+24%

solutions' organic revenue grew 5% year-on-year to SAR 4.55 billion in 1H 2023, which accounted for 85% of total revenue after elimination. Giza was consolidated in October 2022 and hence fully contributed to 1H 2023 performance with revenue of SAR 683 million, which amounted to 12% of total revenue after elimination. ccc was consolidated in April 2022 and contributed to overall results during the most of 2Q 2023 with revenue of SAR 226 million, which accounted for 3% of total revenue after elimination in 1H 2023 and 7% in 2Q 2023. The consolidation of ccc resulted in a considerable acceleration of revenue growth to 30% year-on-year in 2Q 2023 after 19% in 1Q 2023.

1H 2023 Revenue Composition by Entity



Revenue Breakdown by Customer Type

solutions continued to diversify its customer base in 1H 2023. Continued implementation of the Vision 2030 state program helps solutions maintain strong revenue stream from the government segment that amounted to SAR 2.41 billion revenue in 1H 2023, up 10% year-on-year. The segment continued to be the major source of revenue, although its share declined to 45% in 1H 2023 versus 51% a year ago amid stronger growth from other customer types.

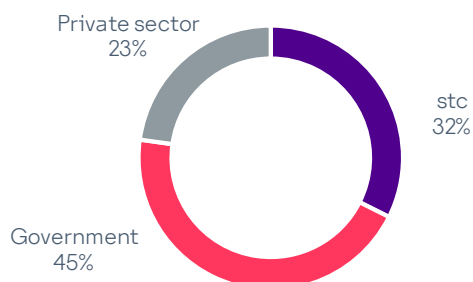
The share of stc in solutions' revenues declined to 32% compared to 35% in 1H 2022. This reflects a decline in 1Q 2023 due to a high comparison base in 1Q 2022 when significant data center project elevated the share of stc to 40% of total revenue, while in 2Q 2023 the share of stc increased to 33% compared with 29% a year ago.

Revenues from the private sector jumped 94% year-on-year to SAR 1.23 billion and its share of solutions' total revenue grew to 23% in 1H 2023 from 15% in 1H 2022. This is in line with the

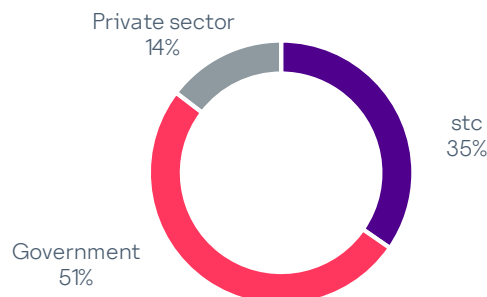
¹The numbers for entities are provided before intercompany eliminations

company's strategic focus on the small and medium enterprise (SME) segment due to its growing importance and contribution to the national economy.

1H 23 Revenue Composition by Type



1H 22 Revenue Composition by Type



Revenue Breakdown by Type of Customer

SAR (million)	2Q 2023	2Q 2022	YoY Δ%	1H 2023	1H 2022	YoY Δ%
stc	894	606	+47%	1,742	1,499	+16%
Government	1,205	1,144	+5%	2,410	2,196	+10%
Private sector	602	335	+80%	1,226	633	+94%
Total revenue	2,701	2,085	+30%	5,378	4,328	+24%

Gross margin recovery offsets increased operating expenses

Gross margin expanded by 181bps year-on-year to 24.9% in 1H 2023 as profitability normalized from a low comparison base of 1Q 2022 that was affected by a sizeable lower-margin project. Gross margin gains helped to counterbalance increased pressure from selling and distribution expenses that grew 104% year-on-year due to increased provision for bad debt. General and administrative expenses increased by 26% year-on-year, broadly in line with the total revenue growth in 1H 2023.

As a result, the EBITDA margin insignificantly declined to 16.3% in 1H 2023 compared with 16.6% a year ago. The net profit margin slid to 12.0% in 1H 2023 from 12.8% a year ago, mainly due to FX translation losses due to Egyptian Pound depreciation and higher Zakat related to the ccc acquisition this year.

Robust balance sheet offers flexibility

solutions used operating cash flow and internal funds to finance the SAR 450 million acquisition of ccc. As a result, the company's net cash position decreased but remained healthy at SAR 1.90 billion as of end June 2023. As such, solutions retains sufficient flexibility to pursue its expansion plans and deliver value for shareholders.

Analyst Consensus

SAR (million)	2Q 2023 Consensus	2Q 2023 Actual	Δ%	# of Analysts
Revenue	2,788	2,701	-3%	12
Cost of Sales	2,144	1,970	-8%	6
Gross Profit	620	732	+18%	6
EBITDA	419	456	+9%	7
Net Profit (after Zakat)	321	342	+6%	12

Additional Information

The 1H 2023 financial statements, earnings presentation, investor presentation and financial data supplement will be available at:

[Investor relations – solutions by stc](#)

For more information, please contact solutions:

solutions by stc
Post Code 11372, PO BOX 50
Riyadh, Kingdom of Saudi Arabia

Investor contact

solutions Investor Relations

Abdullah Aldayel | Head of Investor Relations

aaldavel@solutions.com.sa

Faisal Altmyyat | Manager, Investor Relations

faltmyyat@solutions.com.sa



Download our IR App

