

spyrosoft

Spyrosoft Group

Financial results for 1–3Q 2023

29 November 2023

Spyrosoft Group

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Agenda

- 1 **Summary of key events**
- 2 **Financial results for 1–3Q 2023**
- 3 **Prospects**

1. Summary of key events

Financial results for 1–3Q 2023



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Key facts 1–3Q 2023

Revenue achieved above strategy targets (+34.3% y/y).

The strategy calls for average annual growth of 33%, in a range of 25% to 35% per year.

Diversified revenue:

The UK and DACH remain the leading markets, followed by Poland, the US and Scandinavia.

The revenue share of sectors remains steady.

87% of our revenue derived from contracts with foreign clients.

In 3Q 2023 we gained 28 new clients, across all of the companies in the group.

In total, as of the end of September 2023 the group was working for **152 clients**.

At the end of 3Q 2023 there were **1,520 people working on our team**.

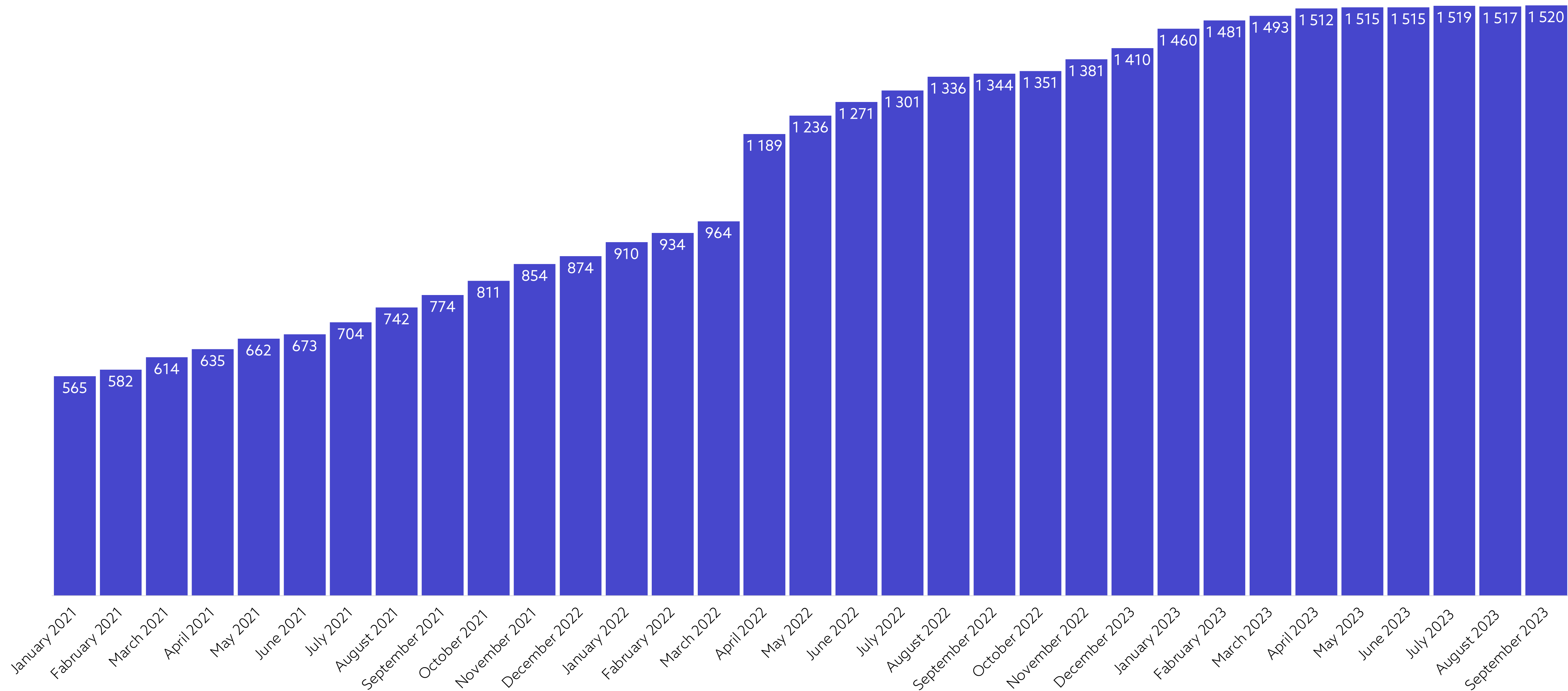
Employment in 3Q 2023 remained at about the same level (5 more than in 2Q 2023).

EBITDA for 1–3Q 2023: PLN 31.9m (–16.1% y/y; decline in margin from 17.3% to 10.7% y/y).

The margin remained at a level similar to 1H 2023, but lower than the strategy target (range of 11–14%).

The negative impact on the margin was primarily due to exchange rate differences and costs of maintaining the “bench.”

Employment at a stable level



Our offices

Argentina

- Buenos Aires

Croatia

- Zagreb
- Osijek

Germany

- Stuttgart
- Braunschweig

India

- Chennai

Norway

- Bergen

Poland

- Wrocław
- Kraków
- Warsaw
- Białystok
- Szczecin
- Łódź

Romania

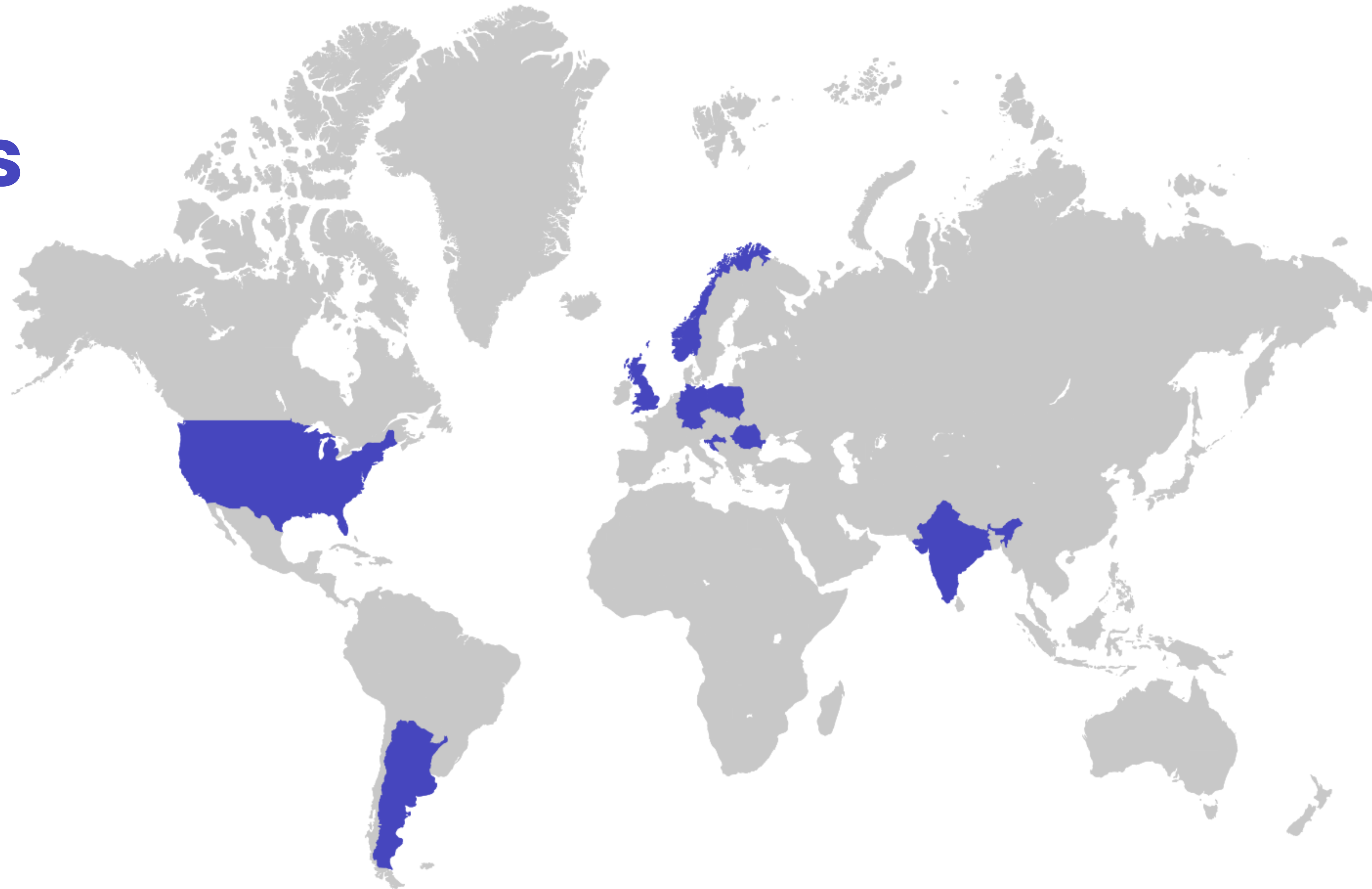
- Timișoara

UK

- Edinburgh
- Bournemouth

USA

- Ann Arbor
- Pittsburgh



Business sectors



Automotive



Employee Experience & Education



Financial Services



Geospatial Services



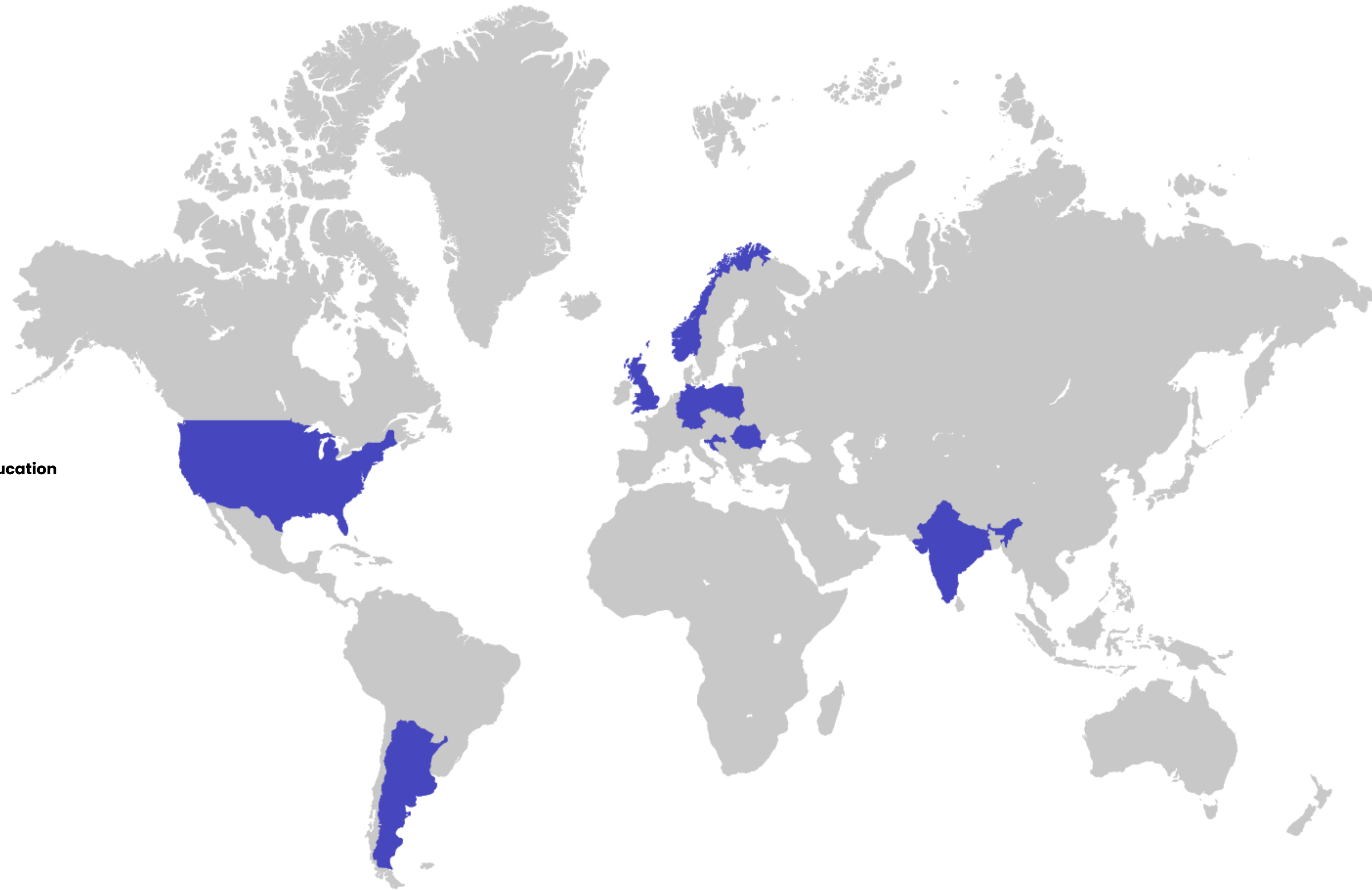
Healthcare & Life Sciences



Industry 4.0



Robotics



Peer group comparison

	3Q 2023 RESULTS				4Q 2023 FORECASTS		FY 2023 FORECASTS		
(%)	EMPLOYMENT GROWTH Q/Q	REVENUE GROWTH Y/Y	OPERATING PROFIT GROWTH Y/Y	EPS GROWTH Y/Y	REVENUE GROWTH Y/Y	EPS GROWTH Y/Y	REVENUE GROWTH Y/Y	OPERATING PROFIT GROWTH Y/Y	EPS GROWTH Y/Y
EPAM Systems	-2	-6	-16	-12	-8	-14	-3	-12	-5,0
Globant	+1	+19	+13	+17	+18	+14	+18	+12	+13
Endava	-3	-4	-41	-28	-10	-50	0	-28	-29
Grid Dynamics	-1	-5	-37	-47	-5	-39	-3	-24	N/A
Average	-1	+1	-20	-17	-1	-22	+3	-13	-7

- The market environment remained demanding for the custom software development sector in 3Q 2023. **Delays in taking decisions by clients are a big challenge.** EPAM Systems announced the introduction of a cost savings program worth USD 100m, i.e. 2.5–3.0% of operating expenses.
- **Some companies anticipate improvement in revenue dynamics from the 1st half of 2024.** Companies with generative AI solutions see somewhat better prospects than the industry as a whole.
- Public companies from the peer group reported an average increase in revenue of 1% in 3Q 2023, compared to 7% in 2Q 2023. The companies' management **predict a slowdown in revenue growth to an average of 3% for FY 2023**, as compared to the 5% forecast with the 2Q 2023 results.
- **Employment fell by 1% Q/Q at the end of 3Q 2023—the second decline in a row of employment in the sector.**

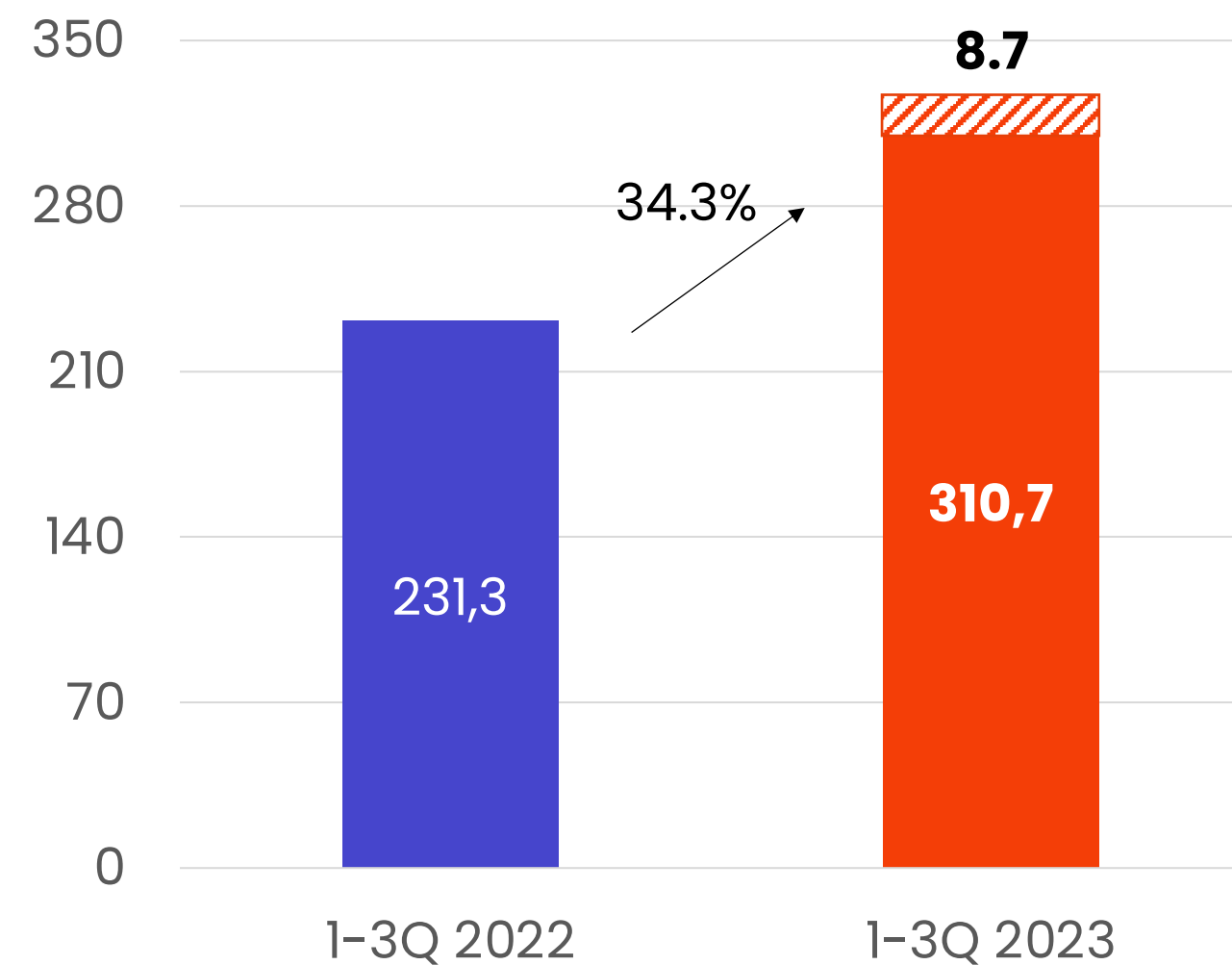
2. Financial results for 1–3Q 2023



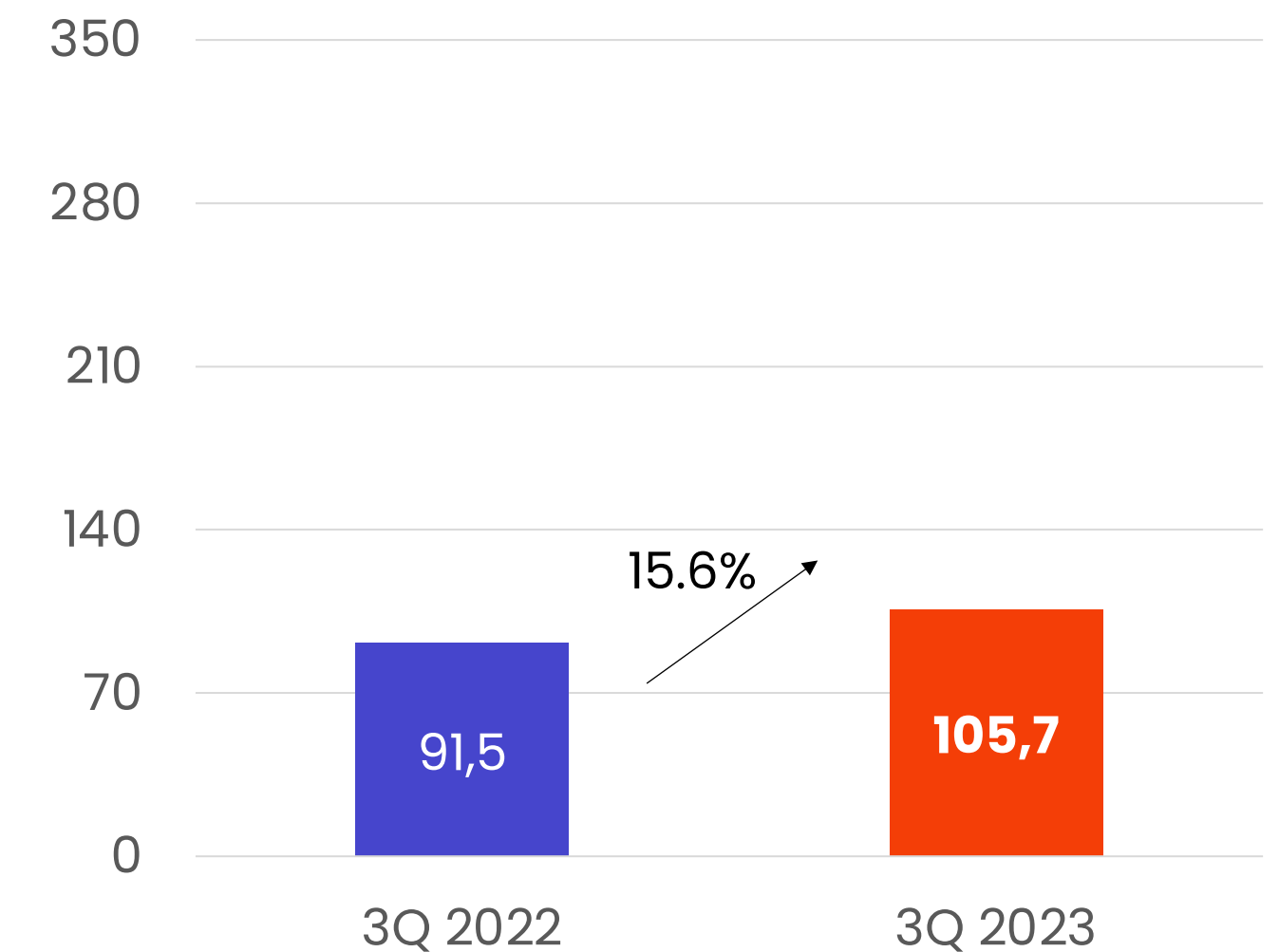
Revenue 1–3Q 2023 (PLNm)

- Spyrosoft Group generated consolidated revenue in 1–3Q 2023 of PLN 310.7m (+34.3% y/y).
- Further growth in the scale of operations is a priority for the company (even though the pace of this process is slower, and the situation on the foreign currency market is less advantageous for exporters).
- Despite the economic slowdown, the group's revenue in 1–3Q 2023 was above the target in the "Strategy for 2022–2026," which projects average annual growth of 33% (in a range of 25% to 35% per year).

**Revenue
1–3Q 2022 vs. 1–3Q 2023**



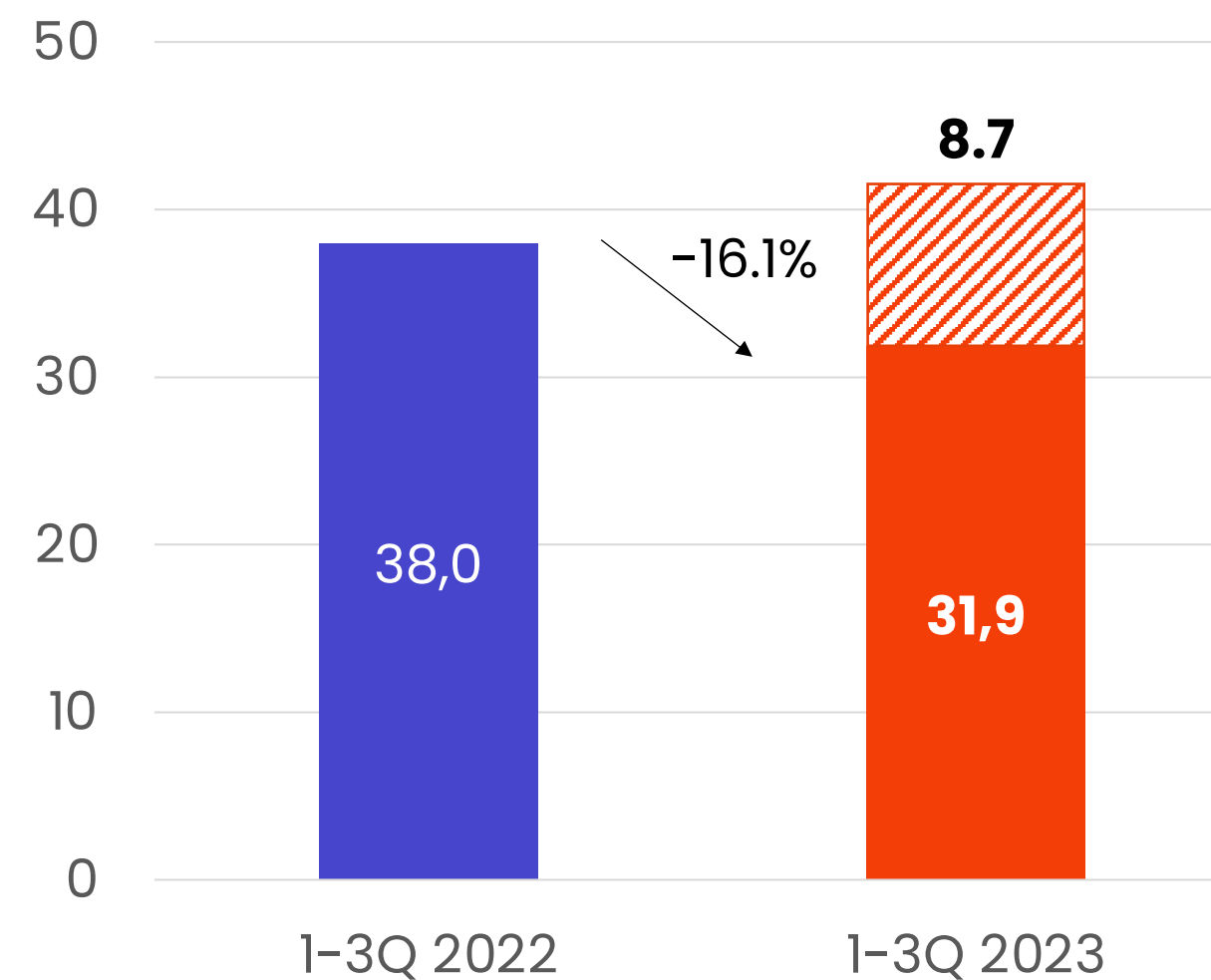
**Revenue
3Q 2022 vs. 3Q 2023**



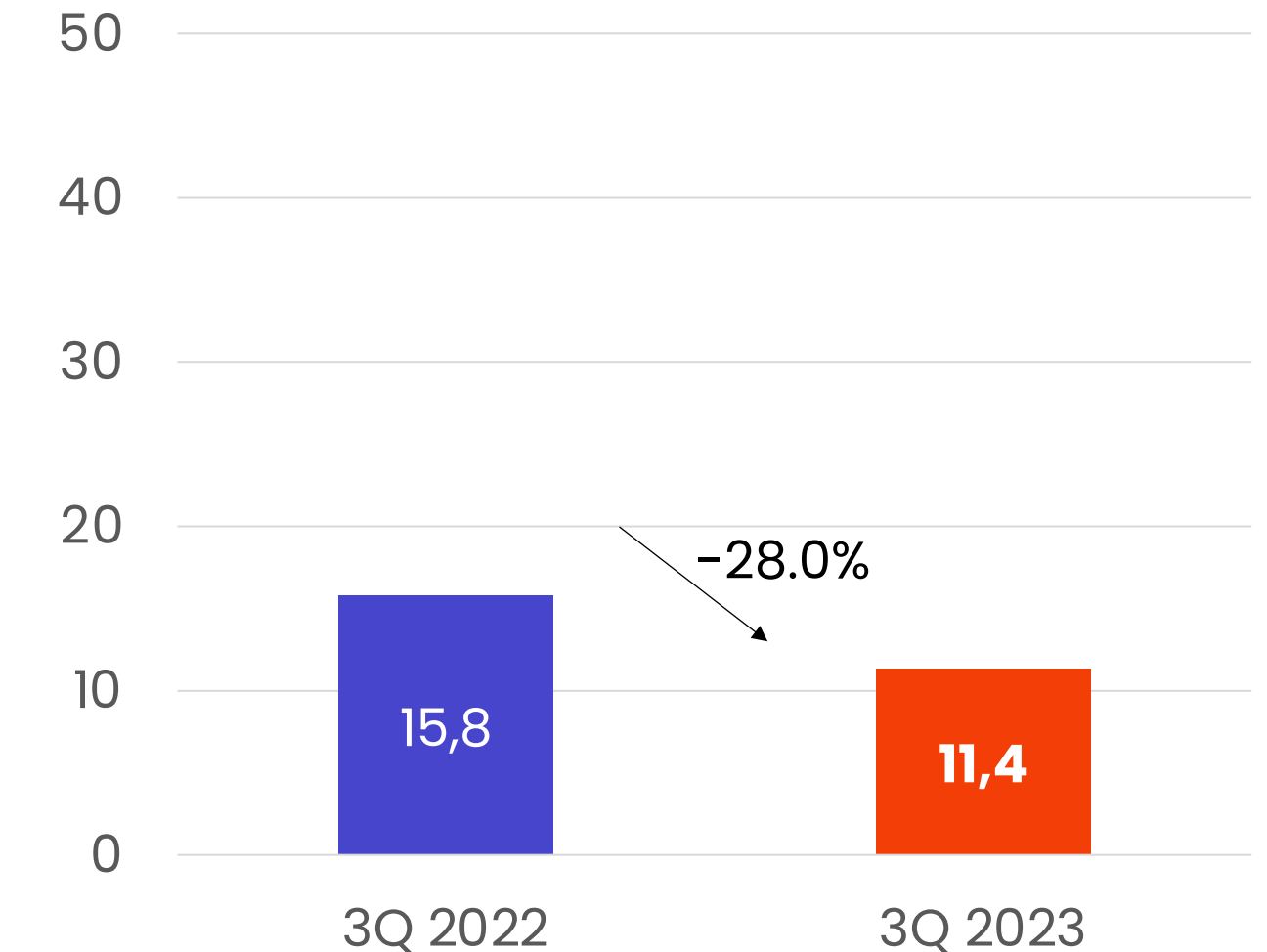
EBITDA 1-3Q 2023 (PLNm)

- The EBITDA result for 1-3Q 2023 was PLN 31.9m, a decline of 16.1% y/y. The EBITDA margin was 10.7%, as compared to 17.3% in 1-3Q 2022, but remained close to the figure for 1H 2023 (10.0%).
- The group strategy for 2022-2026 calls for an EBITDA margin of 11-14%.
- The EBITDA margin for 1-3Q 2023 was impacted by the following factors:
 - An increase in the number of employees temporarily unassigned to a project (the so-called "bench"). The growing number of employees not involved in projects reduced the margin by about 2 pp.
 - Weakening of the PLN exchange rate against EUR, GBP and USD during the period (about 87% of the group's revenue comes from abroad). Negative effects of exchange rate differences accounted for a loss of over 1.4 pp in the margin.
 - A slight decline in sales rates, which is not fully offset by the slowdown in salary increases.

**EBITDA
1-3Q 2022 vs. 1-3Q 2023**

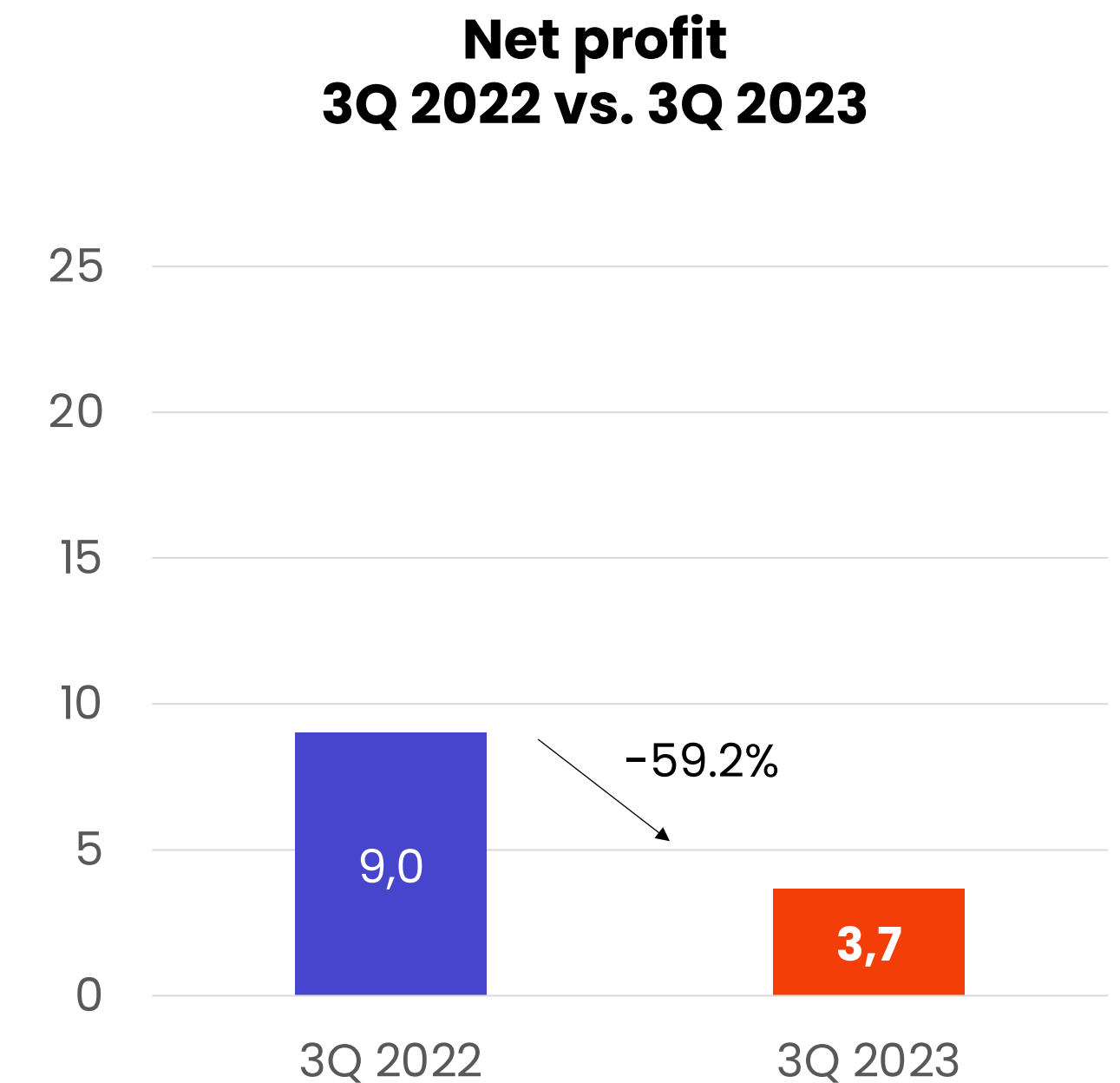
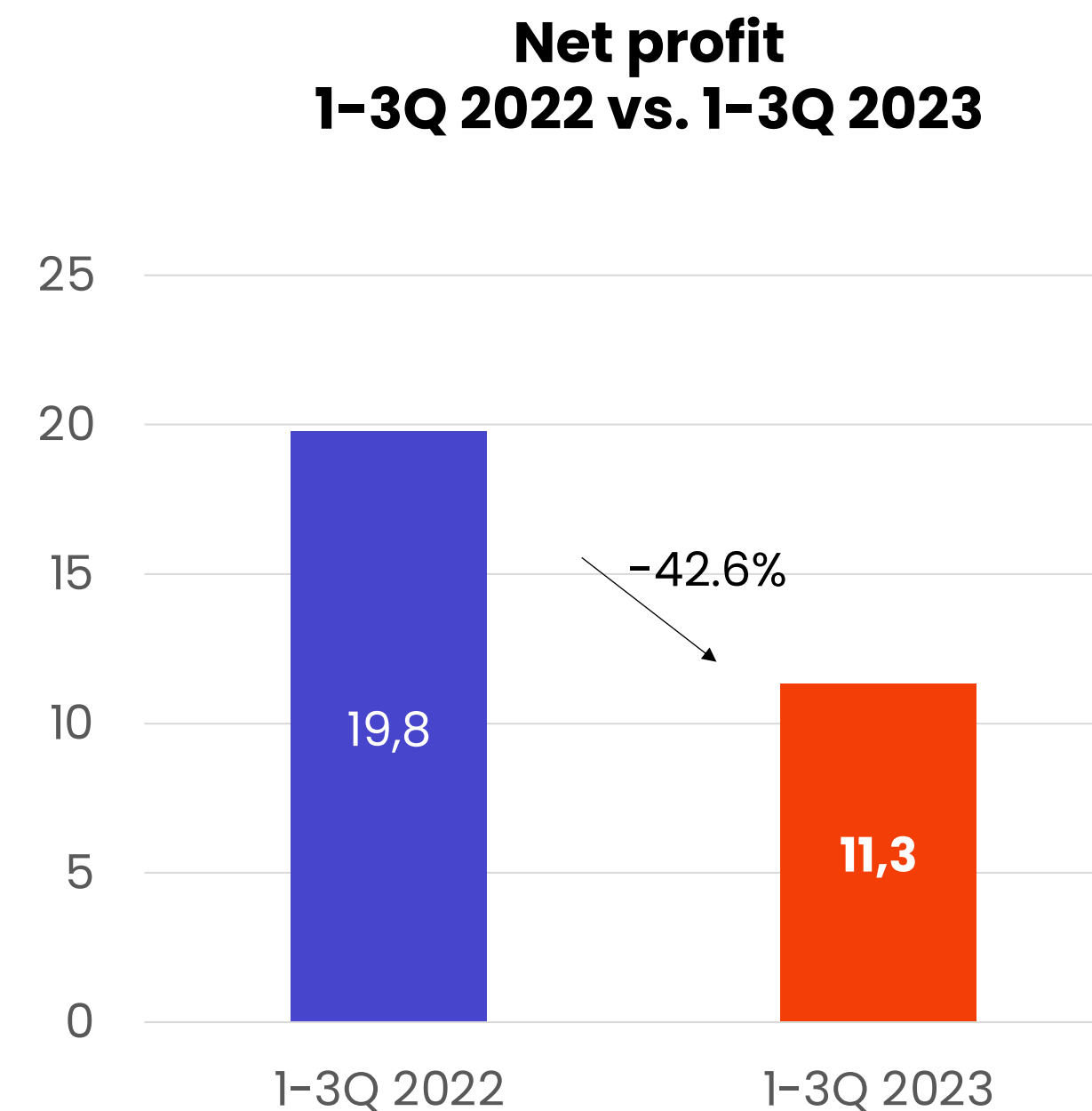


**EBITDA
3Q 2022 vs. 3Q 2023**



Net profit 1–3Q 2023 (PLNm)

- The group earned a net profit in 1–3Q 2023 of PLN 11.3m—42.6% lower than in the same period of 2022.
- The net profit was mainly impacted unfavourably by negative exchange rate differences, connected with a decline in the exchange rates of foreign currencies, in the amount of PLN 2.9m.

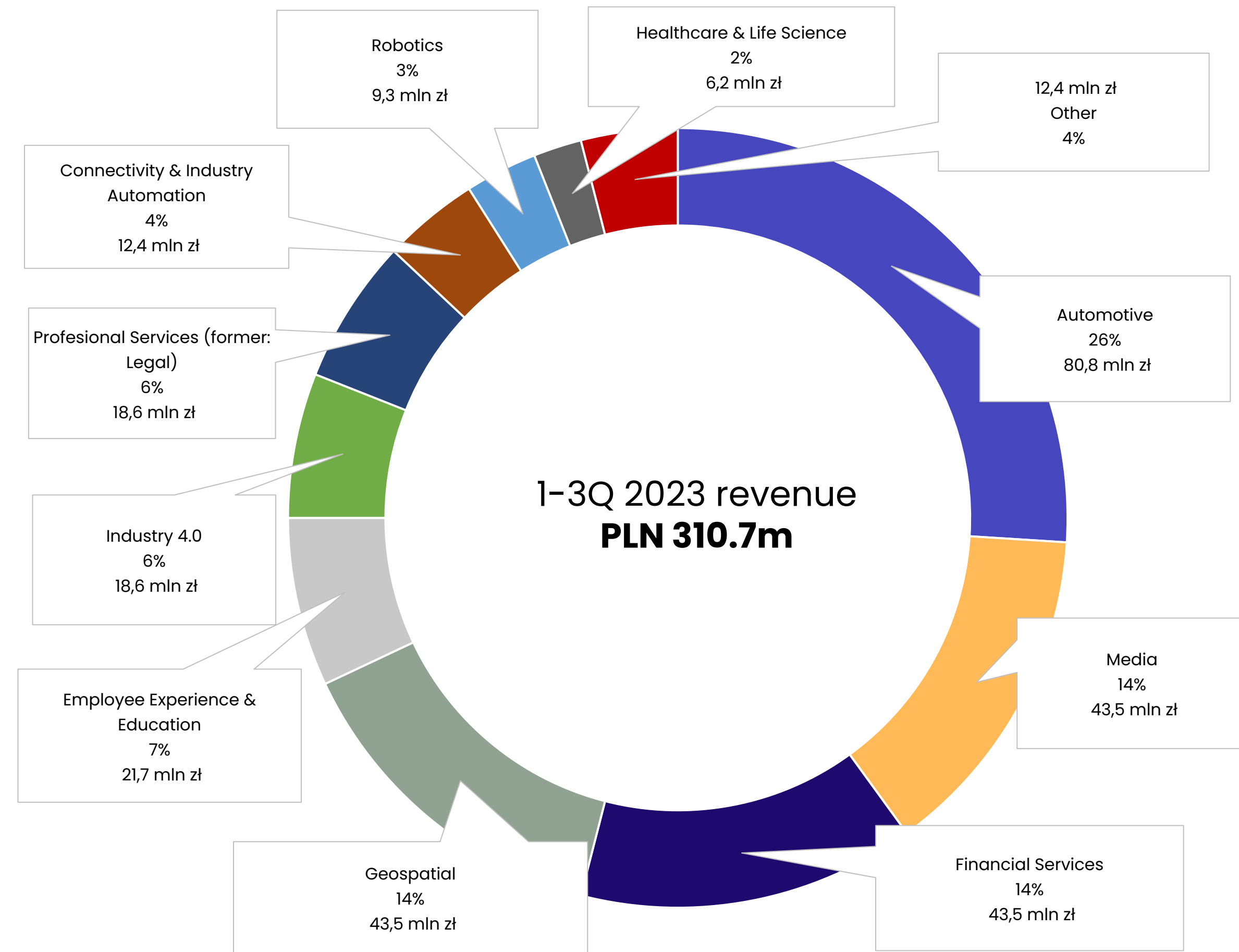
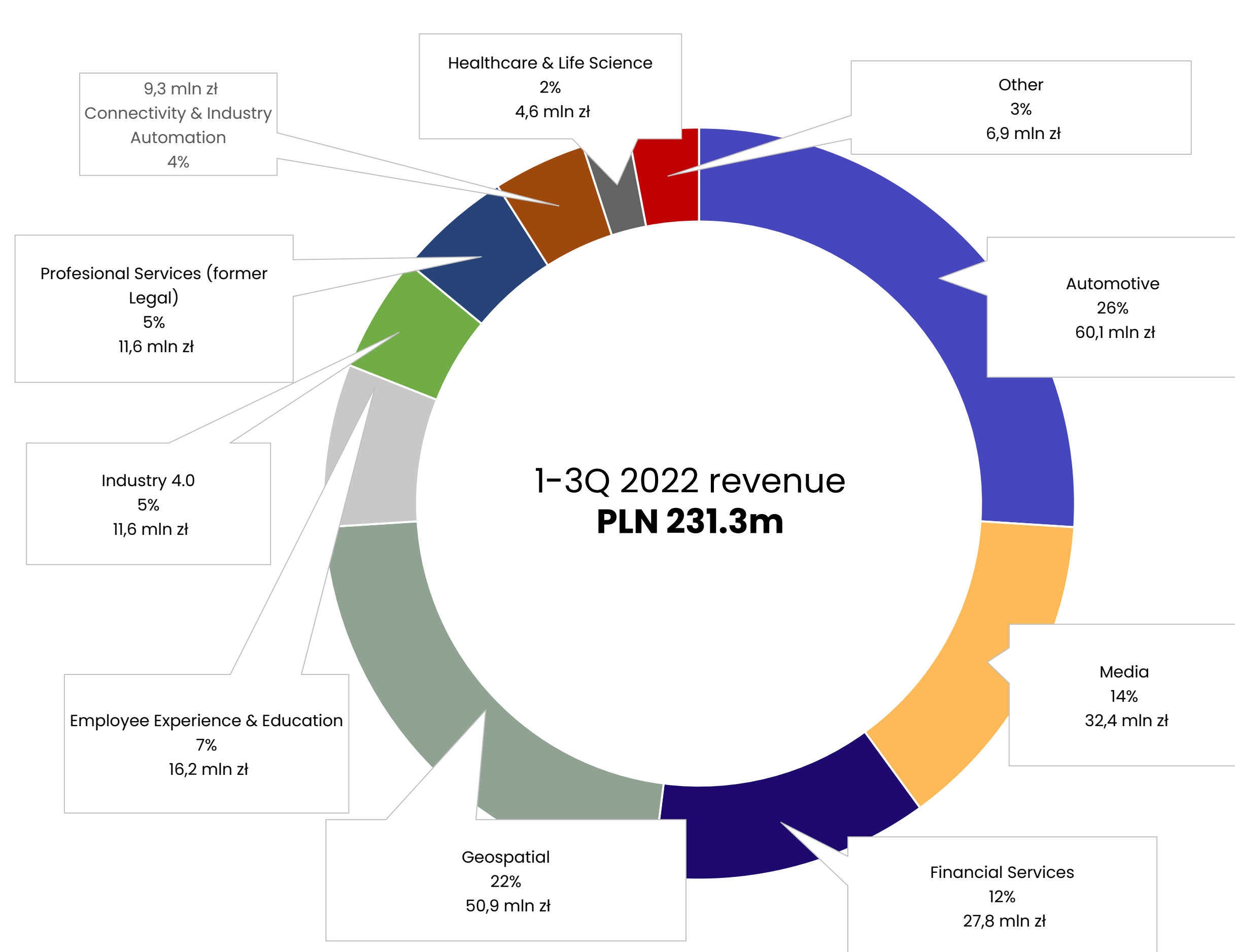


Statement of results

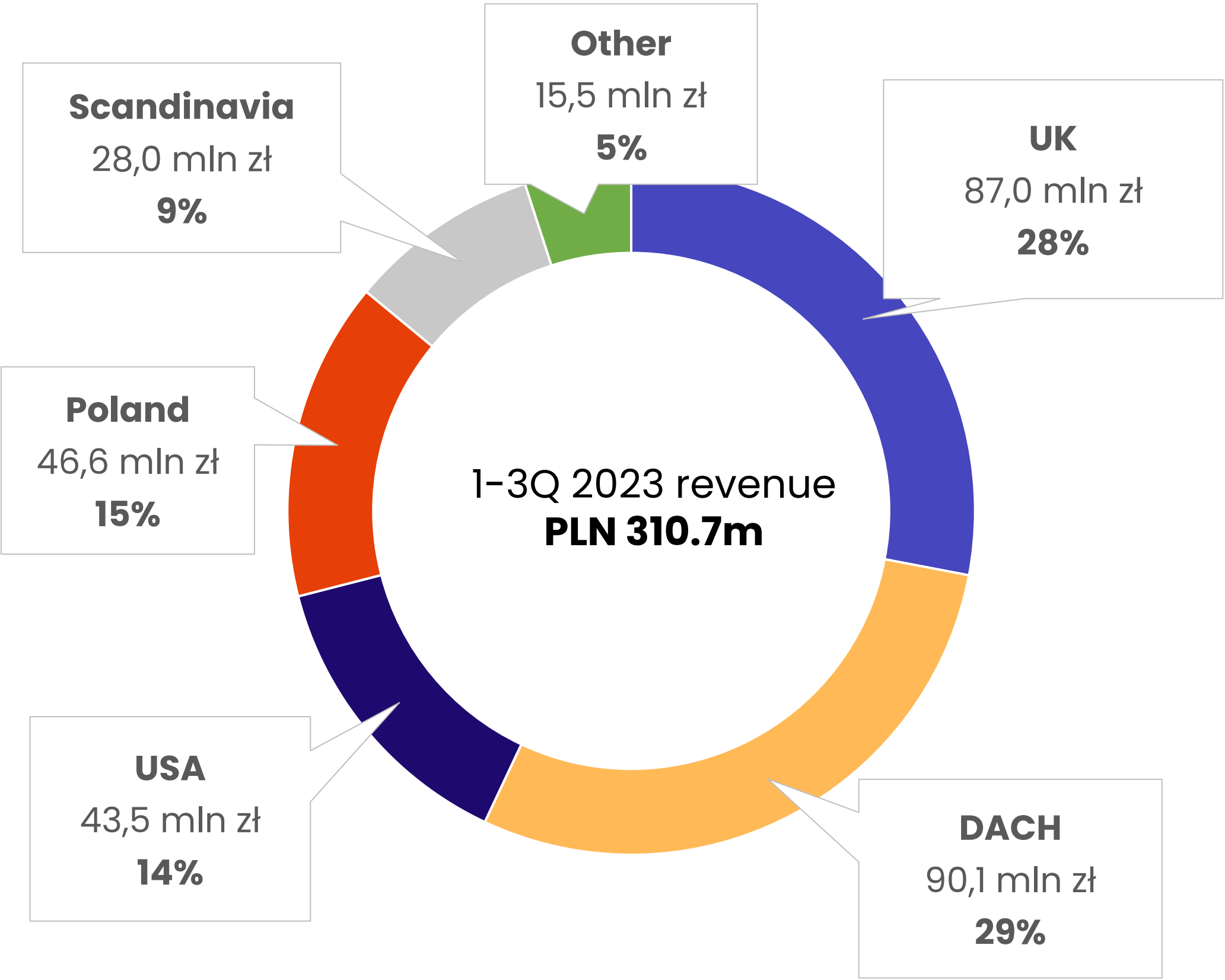
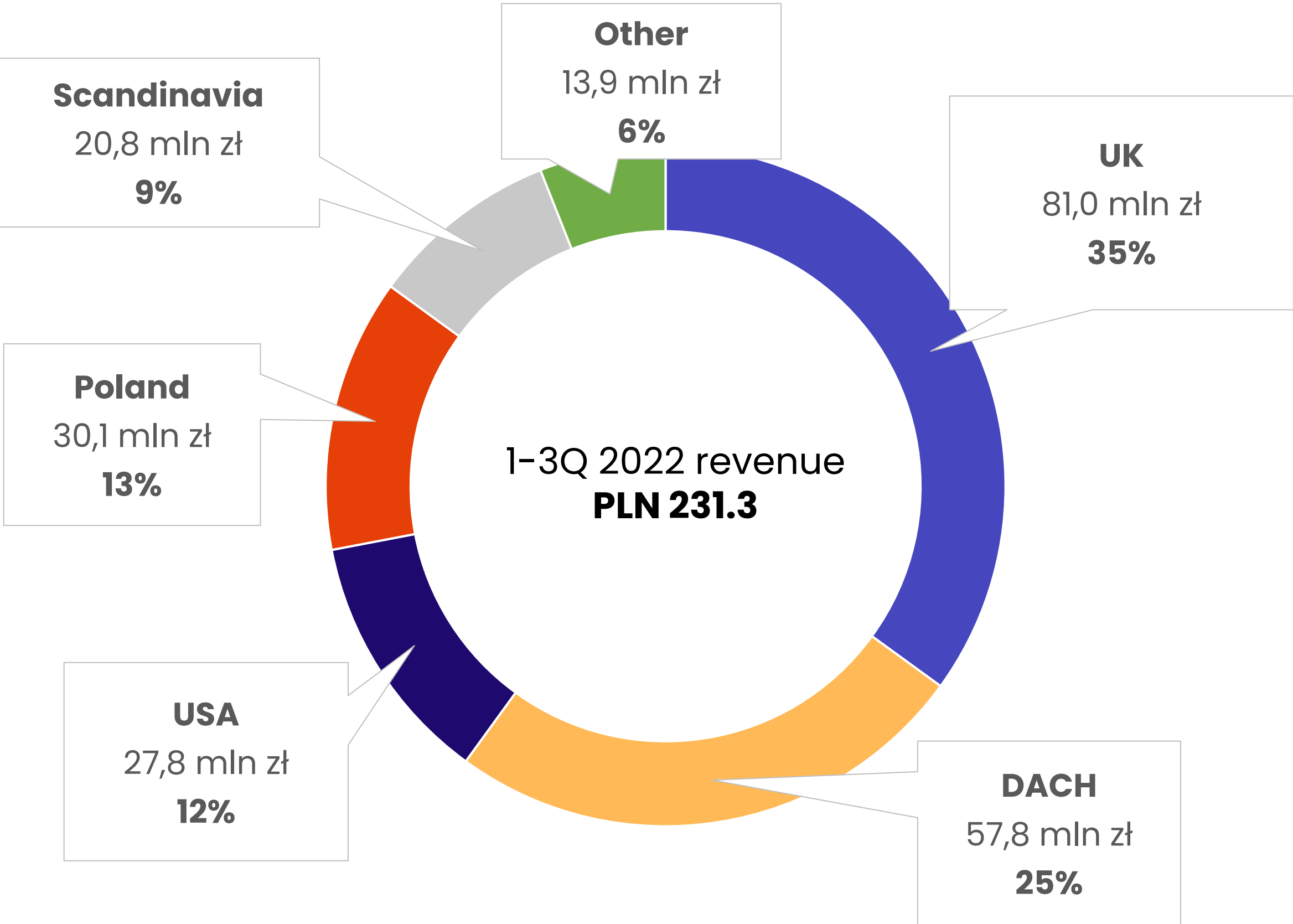
Statement of results (PLNm)	1-3Q 2022	1-3Q 2023	Change % y/y	3Q 2022	3Q 2023	Change % y/y
Net revenue from sales of products and services	231.34	310.71	+34.3%	91.46	105.71	+15.6%
Costs of sold products, services, goods and materials	149.90	213.97	+42.7%	58.64	73.94	+26.1%
Gross profit on sales	81.44	96.74	+18.8%	32.83	31.76	-3.2%
Costs of general management and sales	49.29	73.00	+48.1%	19.05	23.52	+23.4%
EBITDA	37.97	31.85	-16.1%	15.79	11.36	-28.0%
Profit from operating activity (EBIT)	31.86	23.60	-25.9%	13.81	8.33	-39.7%
Financial revenues	1.38	0.07	-94.7%	0.91	0.04	-95.5%
Financial costs	1.61	4.96	+209.1%	0.54	2.13	+292.6%
Gross profit	32.40	19.58	-39.6%	14.45	6.54	-54.7%
Income tax	5.42	3.09	-43.0%	2.09	1.14	-45.6%
Net profit attributable to minority shareholders	7.22	5.15	-28.6%	3.34	1.73	-48.3%
Net profit	19.76	11.34	-42.6%	9.02	3.68	-59.2%

- Higher costs—primarily due to the bench (historically this share in value has been 2%, but currently, due to reduced demand for IT services, it has grown to 6%).
- The pace of growth in costs of general management and sales (y/y) slowed significantly, compared to previous quarters (+23.4% in 3Q 2023 vs. +43.0% in 2Q 2023 and +88.7% in 1Q 2023).
- Net profit was negatively impacted primarily by exchange rate differences and costs of servicing debt.

Revenue structure: sectors



Revenue structure: geography



3. Prospects

Financial results for 1–3Q 2023



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Prospects for the upcoming quarters

- The global economic slowdown has a dampening effect on the rate of digitalization of enterprises and thus on the rate of increase in demand for IT services.
- Nonetheless, **Spyrosoft's prospects** for business growth on the principal markets served by the group **remain stable**.
- We assess the prospects on a sectoral basis similarly—**we do not observe any material threats in any of the sectors we serve**.
- Clients' interest in **AI-based services** is growing, e.g. in the automotive and financial sectors.
- **In response to the changing market, we also expanding tech consulting** (among other items), as an added value to our services.
- **Salaries**—we observe a slowdown in pay increases, which is a product of the trend visible across the whole IT sector.
- **We are optimizing administrative operating costs**—among other things by reducing office space (e.g. moving to a smaller office in Kraków).
- Looking at the prospects for the rest of 2023 and 2024, **we do not anticipate significant changes from the current business situation** and expect improvement to occur no sooner than several quarters ahead.

Thank you for your attention

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