



GRC INTERNATIONAL GROUP PLC

HY 2020 Preliminary Results

14 January 2020



The Board

Presenters



Alan Calder
Founder & CEO



Chris Hartshorne
Finance Director

Other Board members

Andrew Brode
Non-Executive Chairman

Steve Watkins
Executive Director, Training & Consultancy

Neil Acworth
Chief Information Officer

Ric Piper
Independent Non-Executive Director

Agenda

1 Overview and Highlights

2 Financial performance

3 Operational update

4 Strategy and Outlook

5 Questions

Overview and Highlights

Alan Calder

Overview of GRC International Group plc

A leading, global cyber security and privacy services provider delivering great value to clients.

A comprehensive suite of quality services and products

Training

Classroom-based, online and distance learning courses leading to essential professional qualifications in:

- Privacy/data protection
- Cyber security
- ISO 27001 certification
- ...and related topics

E-Learning

Consultancy

To help organisations meet compliance and cyber risk management objectives with appropriate data protection, privacy and cyber security policies & procedures.

Other consultancy services:

- Penetration testing
- PCI DSS compliance
- Cyber Essentials certification
- GRCI Law, GDPR & DPO services

Publishing and Distribution

The Group sells:

- Books
- Documentation templates
- Software for :
 - Risk assessment
 - Data flow mapping
 - DPIAs
 - Data breach reporting
 - Watermarking and seeding

A global, high-growth market

Diversified and international customer base

Physical offices:

UK
Belgium
Netherlands
Ireland
USA

EU website:

11 country websites, with interfaces to all 27 non-UK member states buying from one or another of those websites

New divisional structure from Q2 in FY20



The Telegraph

halfords



next



YOOX
NET-A-PORTER
GROUP



Highlights in H1

A period of turnaround and incremental improvement throughout

	Period to 30 September 2019	Change (YoY)
Revenue	£7.1m	(21)%
Underlying EBITDA	£(1.4)m	22%
Total billings	£7.2m	(19)%
Website visits	1.7m	(48)%
Period end FTE headcount	163	(52)%
Rolling annual billings per FTE	£77.1K	+27%

Significant **growth** in the provision of **cyber security** services while GDPR regulatory action lagged.

Increase in contracted and recurring revenue as a percentage of total billings.

The legal services company, GRCI Law Ltd is trading ahead of expectations

Invested to improve systems and operational infrastructure

Both acquisitions generating positive EBITDA

GRC e-Learning Ltd - a staff awareness training company – established and trading in line with expectations

Highlights

Year-on-year comparison

- Revenue down 20% to £7.1m (H1 2019: (£8.9m) reflecting -53% decline in Privacy (Q1 2018 was the peak of the GDPR demand curve) partially offset by an increase of +21% in Cyber security.
- Gross profit down -22% to £4.0m (H1 2019: £5.1m), with margins broadly stable against the comparative period at 56% (H1 FY19: 57%).

Within year, quarter on quarter comparison

- Revenue in the first half has grown steadily throughout the period, with Q2 revenue up +12% on Q1.
- Steady Improvement in gross margin through the H1 FY20 reporting period from 55.8% in Q1 to 59.4% in Q2.
- Significant Q2 EBITDA improvement, with positive EBITDA in September.
- Continuing overhead reductions feed into further margin and EBITDA improvements.

Financial performance

Chris Hartshorne

Financial performance

Income Statement Highlights

- Revenue: £7.1m - down 20% YoY, up 3% against H2 2019 with Q2 revenue up 12% on Q1.
- Gross profit: £4.0m – down 22% YoY
 - Gross margin broadly stable against comparative period overall but with steady improvement through the period. Gross margin running comfortably above 60% in Q2, and continuing into Q3.
- Administrative expenses: £5.2m – down 25% YoY
 - Continuing reduction in overheads throughout the period. Year end annualised run rate expected to be more than £3.5m lower than full year FY19.
- Underlying EBITDA: £(1.2)m - 37% improvement
 - Reduction in EBITDA loss reflecting the reduction in overhead costs predominantly due to a reduction in headcount and associated headcount related overheads.
 - Significant improvement from Q1 to Q2, with Q1 accounting £1.0m of the total loss for the period.

	HY 2020 £m	HY 2019 £m	FY 2019 £m
Revenue	7.1	8.9	15.8
Cost of Sales	(3.1)	(3.8)	(7.3)
Gross Profit	4.0	5.1	8.5
	56%	57%	54%
Administration Expenses	(5.2)	(7.0)	(12.8)
Underlying EBITDA	(1.2)	(1.9)	(4.3)
Depreciation and amortisation	(0.8)	(0.2)	(0.8)
Share-based payment charge	0.0	0.0	(0.1)
Underlying operating profit	(2.0)	(2.1)	(5.2)
Exceptional charges	(0.1)	(0.1)	(0.2)
Operating profit	(2.1)	(2.2)	(5.4)
Finance Costs (net)	0.0	0.0	0.0
Share of profits of joint ventures	0.0	0.0	0.0
Loss before taxation	(2.1)	(2.2)	(5.4)
Taxation	0.0	0.0	0.0
	1%	0%	(1)%
Loss after taxation	(2.1)	(2.2)	(5.4)
Basic loss per share (pence)	<u>(3.37)</u>	<u>(3.76)</u>	<u>(9.30)</u>
Diluted loss per share (pence)	<u>(3.37)</u>	<u>(3.76)</u>	<u>(9.30)</u>

Financial performance

Revenue Highlights – Segmental reporting

	H1 FY20	H2 FY19	H1 FY19	H1 FY20 to H2 FY19 Change	H1 FY20 to H1 FY19 Change	FY 2019
Billings	£7,163k	£7,019k	£8,814k	+2%	-19%	£15,833k
Revenue	£7,095k	£6,935k	£8,914k	+2%	-20%	£15,849k
Training	£1,701k	£1,752k	£4,019k	-3%	-58%	£5,771k
Consultancy	£4,195k	£3,472k	£3,756k	+21%	+12%	£7,228k
Software and distribution	£1,199k	£1,711k	£1,139k	-30%	+5%	£2,850k
Total	£7,095k	£6,935k	£8,914k	+2%	-20%	£15,849k
Privacy (Including GDPR)	£2,269k	£2,205k	£4,838k	+3%	-53%	£7,043k
Cyber security	£4,450k	£4,283k	£3,669k	+4%	+21%	£7,952k
Other	£376k	£447K	£407k	-16%	-7%	£854k
Total	£7,095k	£6,935k	£8,914k	+2%	-20%	£15,849k

Financial performance

Balance Sheet Highlights

- Intangible assets: £12.4m

(FY 2019: £12.5m)

(HY 2018:£2.6m)

£9.0m of the HY 2020 balance relates to the DQM business acquired in March 2019.

- Deferred income: £1.1m

(FY 2019: £1.0m)

(HY 2019:£1.5m)

- Working capital includes £3.7m deferred consideration in relation to the acquisition of DQM Holdings Ltd

- Net cash: £0.3m

(FY 2019: £0.1m)

(HY 2019:£1.7m)

The Group has overdraft and rolling credit facilities in place to the value of £1.2m plus an invoice discounting facility at DQM providing availability usually in the range of £200k - £400k.

	HY 2020 £m	HY 2019 £m	FY 2019 £m
Intangible assets	12.4	2.6	12.5
Software & Website	2.9	2.1	2.9
Consultancy Products & Courseware	0.4	0.3	0.4
Trademarks	0.5	0.0	0.5
Goodwill	6.7	0.0	6.7
Customer Relationships	1.8	0.0	1.8
Other	0.1	0.2	0.2
Joint Venture	0.0	0.0	0.0
Property, plant and equipment	0.4	0.6	0.5
Right of use assets	0.6	0.0	0.0
Deferred tax	0.1	0.6	0.1
Non-current assets	13.5	3.8	13.1
Working capital	(8.0)	(1.8)	(5.6)
	5.5	2	7.5
Lease obligations	(0.4)	0.0	
Deferred tax	(0.2)	0.0	(0.2)
Non-current liabilities	(0.6)	0.0	(0.2)
Net Cash	0.3	1.7	0.1
Net assets	5.2	3.7	7.4

Financial performance

Cash Flow Highlights

- Reduced capital expenditure as infrastructure and software development projects are successfully delivered:
 - Intangible: £0.6m
 - (FY 2019: £2.3m)
 - (HY 2019: £1.3m)
 - Tangible: £0.0m
 - (FY 2019: £0.2m)
 - (HY 2019: £0.2m)
- Other finance items include the £700k rolling credit facility.
- Net cash: £0.3m (Cash £0.7m, Borrowings £0.4m)
 - (FY 2019: £0.1m (Cash £0.2m, Borrowings £0.1m))
 - (HY 2019: £1.7m (Cash £1.7m, Borrowings £0.1m))

	HY 2020 £m	HY 2019 £m	FY 2019 £m
Underlying operating profit	(2.2)	(2.2)	(5.2)
Exceptional charges	0.1	0.0	(0.2)
Operating profit	(2.1)	(2.2)	(5.4)
Depreciation and amortisation	0.8	0.4	0.8
Share based payment charge	0.0	0.0	0.1
	(1.3)	(1.8)	(4.5)
Changes in working capital	0.9	(0.6)	(0.3)
Cash flow from operations	(0.4)	(2.4)	(4.8)
Capital expenditure	(0.6)	(1.5)	(2.5)
Proceeds (net) from new shares	0.0	0.0	4.8
Payment for acquisition of subsidiary, net of cash acquired	0.0	0.0	(2.5)
Other finance items	1.2	0.0	(0.5)
	0.2	(3.9)	(5.5)
Net cash: Opening	0.1	5.6	5.6
Net cash: Closing	0.3	1.7	0.1

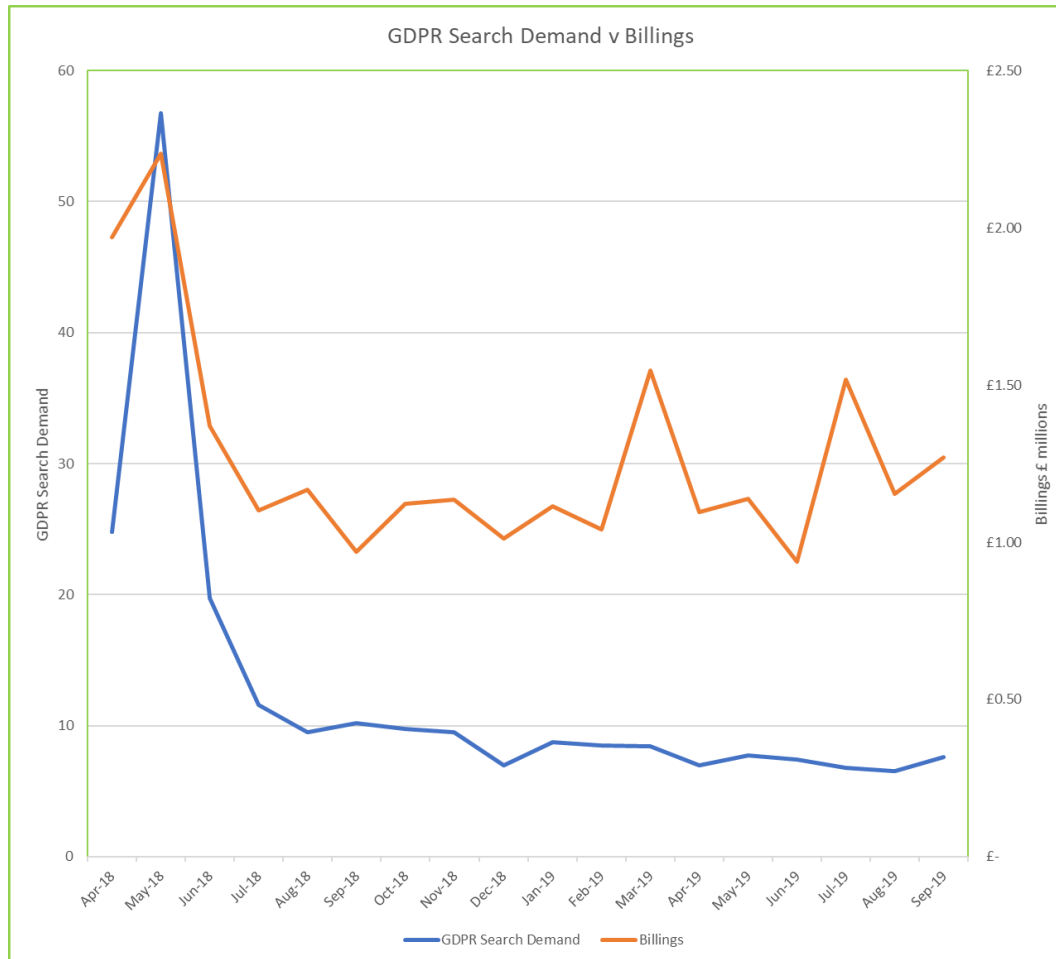
Operational Update

Alan Calder



The year's major trends

Alan Calder



As GDPR demand dropped, Group billings were supported by:

- Underlying cyber security services
- Investment in new businesses
 - GRCI Law
 - GRC e-Learning
 - Vigilant Software
 - Regional businesses

Operational highlights

Overview

NB: H1 2018 saw the peak of GDPR demand, worldwide.

	6 Months to 30 September 2019	6 Months to 30 September 2018	Change (YoY)	Year to 31 March 2019
Web visits	1.674m	3.212m	(48)%	4.901m
Revenue	£7.1m	£8.9m	(20)%	£15.8m
Billings - Total	£7.2m	£8.8m	(18)%	£15.8m
UK	£5.8m	£7.2m	(19)%	£12.9m
EU	£0.7m	£0.8m	(12)%	£1.3m
USA	£0.4m	£0.5m	(20)%	£0.8m
RoW	£0.3m	£0.3m	-	£0.8m
GDPR	£2.3m	£4.5m	(49)%	£7.0m
Cyber security	£4.4m	£3.9m	+13%	£7.9m
Other	£0.5m	£0.5m	-	£0.9m
Employees – FTEs (Excl DQM, at period end)	160	311	(49)%	193

(New) Divisional Performance

e-Commerce Division

- Q2 vs Q1 Website performance: visitor volumes UP by 7%. Web transaction volume UP by 16%. Web revenue UP by 21%.
- Classroom training fill rates UP from 54% in April 2019 to 73% in September 2019.
- Distance learning product sales portfolio UP by 50% since April 2019.
- ITGP revenues UP 17% against H2 FY19, with strong growth in the audio books product group.

SaaS Division

- Cyber Essentials certifications UP 42% on H1 FY19.
- Staff awareness training (e-learning) client profile changing from a high number of small clients to smaller number of larger, more committed organisations and the overall number of users of our Learning Management System (LMS) is UP by 20% in H1 vs H2 FY19.
- Vigilant Software subscription pricing now driving a steady increase in revenue.
- Recurring revenue is a key feature of the SaaS division activity; repeat is now in excess of 10% of total group billings and total billings from all subscription and contractually recurring products and services is now around 30% of total group billings.

Professional Services

- The DQM business, which we acquired in March 2019, and GRCI Law, which we set up last year, have both continued to trade profitably through the period in spite of the background decline in GDPR demand.
- GRCI Law has approximately 80% of its revenues on a contracted, recurring basis providing a range of ongoing GDPR, privacy and DPO-related services to a growing range of medium and large organisations. DQM has 50%+ of its revenue on a contracted basis.
- Cyber security consultancy revenue has approximately doubled as a percentage of total revenue between Q1 last year and Q2 this year. Penetration testing continues to be a fast growth area of the division.
- In spite of the continuing decline in GDPR consultancy demand, our total consultancy contract values are UP by 3% from Q2 last year to Q2 this year.

Regional Businesses

Both regional businesses (EU and US) have strong gross margins and are EBITDA positive.

Consulting

59% of H1 20 Group Revenue – overall Gross Margin of 55%

- Includes GRCI Law and DQM GRC
- Cyber security and privacy - implementation and support

Consulting revenues (UK)

• Overall	H1 19 - £3,756k	H1 20 - £4,195k YoY + 12%
• GDPR	H1 19 - £1,274k	H1 20 - £1,316k YoY + 3%
• Cyber security	H1 19 - £2,482k	H1 20 - £2,804k YoY +13%

GRCI Law

- Established summer 2018
- Not SRA-regulated – (separate PI for the provision of legal advice)
- 10 lawyers
- DPOaaS (including geographic and sector variants) – 50 contracts signed £1 million total contract value
- Contracted recurring revenue – £750k pa
- GDPR-specific legal advice – DSARs, contract and document reviews, etc
- Privacy as a Service a key offering
- Breach response and EU Representative services seeing growth

Key professional services customers



Training

- 24% of H1 20 Group Revenue – overall Gross Margin of 61%
- Revenues H1 19 £3,414k H1 20 £1,810k YoY (47)%
- H1 19 was GDPR peak for classroom training
- In quarter: Q1 20 £862k Q2 20 £948k +10%
- Investment in
 - Portfolio development and quality improvement
 - Training administration automation
 - Course content updates
 - Net promoter score –now scoring 50+ with aspiration to world class (70+)

Training courses

	UK		RoW	
	H1 19	H1 20	H1 19	H1 20
No of GDPR classroom courses	214	60	36	11
No of inhouse courses	130	51	10	2
inhouse delegates	2,190	714	143	15
Average delegates per inhouse course	16.8	14	14.3	7.5
No of Cyber security courses (ISO27001, CISMP, CEH, PCI, CISA, CISM, CISSP)	83	74	21	16
Total public courses	330	177	148	42
Total delegates attending public courses	2,861	1,255	307	102
Average delegates per course	8.7	7.1	2.1	2.4
Total courses	460	228	158	44
Total delegates	5,051	1,969	450	117
Average number of delegates attending all courses in the period	11	8.6	2.8	2.7

Training revenue (UK)

GDPR training revenues	H1 19 - £1,512k	H1 20 - £ 386k	YoY (75)%
Cyber security training	H1 19 - £ 598k	H1 20 - £ 690k	YoY +15%

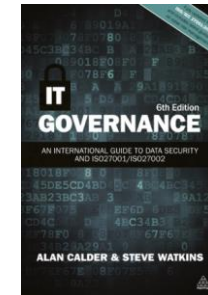
Publishing and Software

17% of H1 20 Group Revenue – overall Gross Margin of 95%

Overall Publishing Division

Revenues H1 19 - £1,139k H1 20 - £1,199k YoY 5%





- H1 19 was GDPR peak for software, toolkit and e-learning sales.
- Q1 FY 20 - £622k Q2 FY 20 – £577k
- GDPR renewals have lagged, but cyber security sales have compensated



The textbook for the Open University's postgraduate information security course

Software (Vigilant Software)

- Revenues Q1 20 - £100k Q2 20 - £140k
- Shifted to monthly recurring revenue option in Q2
- Transaction volume increasing sharply through Q2
- Cyber Comply modules all launched in H2 FY19:
 - Built on 'Cyber Comply' platform
 - DPIA (data protection impact assessment tool)
 - GDPR management tools (DSARs, Supplier Management, Breach Reporting)
 - vsRisk Cloud

 STANDALONE	 MULTI-USER	 COMPLIANCE MANAGER	 DATA FLOW MAPPING TOOL
vsRisk Standalone Price: £1,495.00	vsRisk™ Multi-user Price: £2,995.00	Compliance Manager Price: £900.00	Data Flow Mapping Tool Price: £900.00
MORE INFO	MORE INFO	MORE INFO	MORE INFO

E-Learning Sales

- GRC e-Learning (www.grcelearning.com) established as a separate business from June 2018
- Revenues Q1 20 - £172k Q2 20 - £293k
 - GDPR and SME renewals lagging, but cyber security increasing
 - Customisable staff awareness training -on an annual recurring revenue model

Strategy and Outlook

Alan Calder

Outlook

• GDPR

- Cumulative EU GDPR fines now total €373 million. Across Europe, in GDPR year 1, there were 145,000 data-related complaints and 90,000 data breach notifications.
- Regulatory action in respect of GDPR compliance is becoming more noticeable: British Airways, Dixons Carphone, Doorstep Dispensaree.
- Greater Brexit certainty should positively affect decision-making and compliance spending.

• Cyber security

- Cyber security has always been at the core of our business.
- Cyber risk continues to receive high-level press coverage and is increasingly a core risk-management issue for boards and management teams: AMCA, BA, Travelex.
- Phishing, Ransomware, theft of IP and/or data and the commercial/regulatory impacts of a cyber breach are increasingly concerning our customers.
- Cyber Essentials, penetration testing and ISO/IEC 27001 management systems are all seeing accelerating client demand.
- Key UK sectors (eg FE/HE) are making ISO/IEC 27001 compliance a standard business requirement.

• Globally

- California Consumer Privacy Act 2018 comes into effect across 2020 – for businesses, ‘a similar struggle to GDPR compliance’
- Training, staff awareness, breach response services, DPOaaS/Privacy as a Service and, increasingly, context-specific legal advice will be in demand).
- ISO/IEC 27701 is a new, global standard that links a PIMS (personal information management system) to an ISMS (Information security management system).
- Global delivery capability helps customers operating cross-jurisdiction.

• General

- We expect, with Brexit clarity and the improving macro-economic outlook, to continue building on the positive steps we took in H1.
- Key client wins and continued tight cost control should underpin continued progress in both revenue and EBITDA terms.
- Investments we have made in the previous year in new business areas and geographies, have started to bear fruit. This gives us the momentum to deliver revenue growth and underpin our long-term growth into FY20 and beyond.



Class action lawsuit for vicarious liability to internal breach



500,000 customer records accessed – GDPR £184m fine



£99m GDPR fine for inadequate Due Diligence



Chapter 11 following a 6 month hacker attack



Global outage following ransomware attack



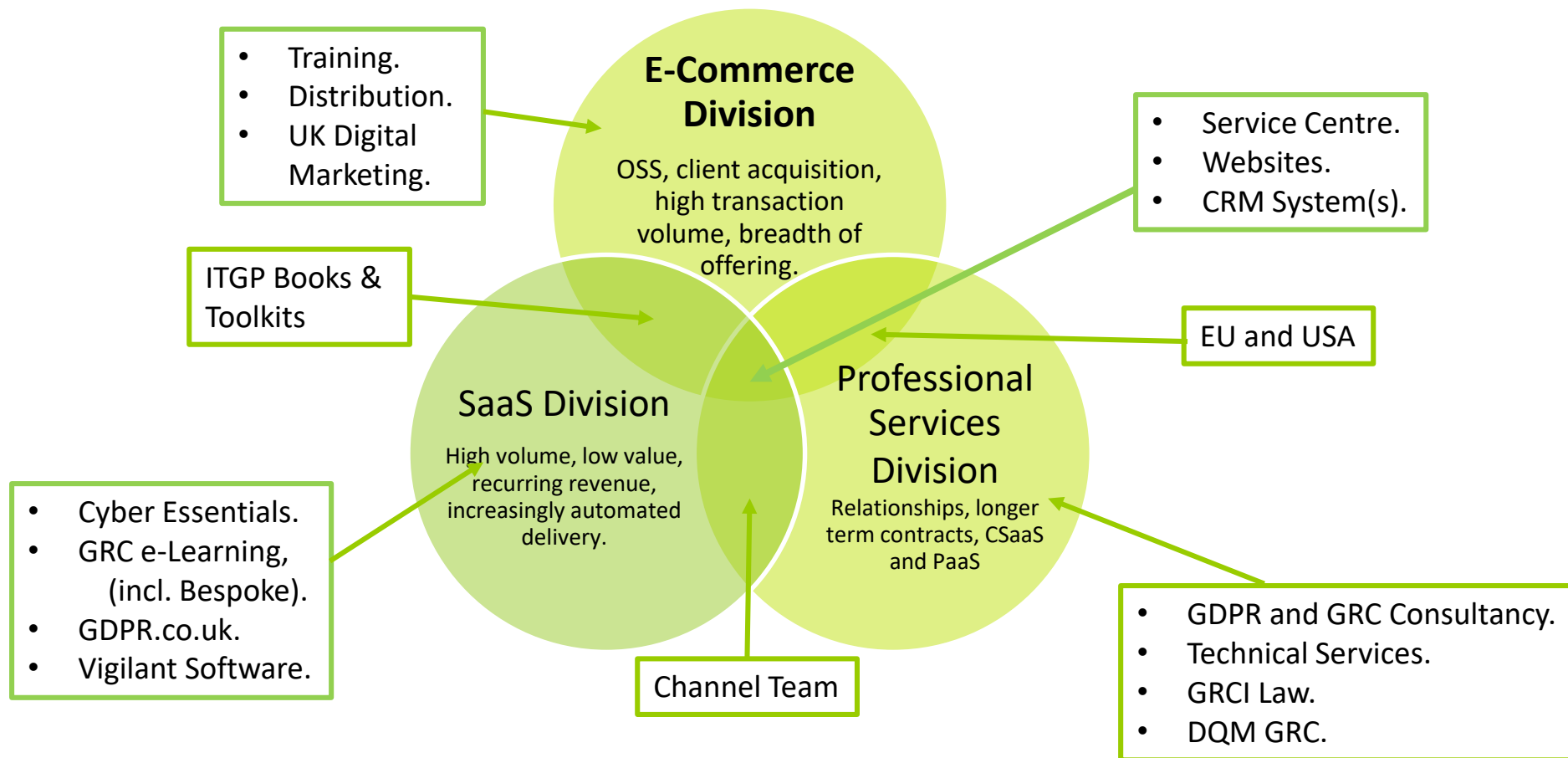
Furore over staff error

Questions

Alan Calder and Chris Hartshorne

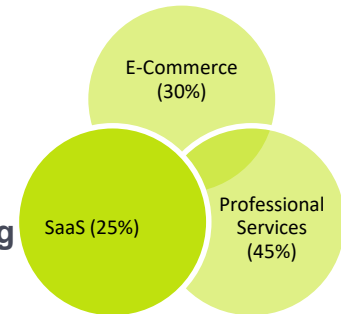
Appendix

New divisional structure



New divisional structure

- **Divisional Structure**
 - Brigades similar activities under common management
 - Improves market focus, as well as cross-sell, up-sell and account retention
 - Reduces overheads
 - Improves overall visibility of business activity
- **E-Commerce Division - OSS, client acquisition, high transaction volume, breadth of offering**
 - Training (classroom, online and distance learning)
 - Distribution (TSO and international standards)
 - ITGP (books and document templates)
 - Primary route to market for our SaaS offerings
- **SaaS Division - High volume, high margin, low value, recurring revenue, increasingly automated delivery**
 - Cyber Essentials (1,411 certifications in FY18, 2,365 in FY19)
 - GRC E-Learning (cyber security staff awareness training now GCHQ/NCSC accredited)
 - Vigilant Software Ltd
 - GDPR.co.uk
 - ITGP's Online Document template offering (Launching Q2 FY20)
- **Professional Services – Low volume, high value, relationship business with increasing contractual recurring revenue**
 - GDPR and ISO Consultancy
 - Cyber Security Consultancy (technical services, penetration testing, SOC 2, PCI DSS)
 - Cyber Incident Response Service
 - GRCI Law Ltd (Privacy as a Service – 80%+ is recurring contracted revenue)
 - DQM GRC Ltd (50%+ is recurring contracted revenue)
- Centralised Service Centre managing global websites, customer response and fulfilment
- EU and USA businesses a combination of e-commerce and Professional Services
- Channel team take SaaS and Professional Services offerings to Managed Service Provider market



Operations – Key brand customers

