

Earnings Release

solutions by stc reports 27% net profit growth to SAR 1.05 billion in 2022

FY 22 Revenue	FY 22 EBITDA	FY 22 Net Profit	FY 22 Net Cash
SARmn 8,805 +22% YoY	SARmn 1,392 +26% YoY	SARmn 1,054 +27% YoY	SARmn 2,548 +59% YoY

2022 Highlights:

- +22% YoY revenue growth to SAR 8.81 billion
- -85bps YoY decrease in gross profit margin to 22.8%
- 45bps YoY improvement in EBITDA margin to 15.8%
- +27% YoY growth in net profit to SAR 1,054 million
- Solid free cash flow generation of SAR 1.95 billion
- Comfortable net cash position of SAR 2.55 billion as of 31 December 2022
- DPS of SAR 5.0 in 2022 up from SAR 4.0 in 2021 implying a 57% payout ratio

Riyadh, 27 February 2023 - In line with its LEAP strategy, which focuses on growth and efficiency, solutions delivered a healthy performance in 2022. Double-digit revenue growth to SAR 8.81 billion combined with a strong operating performance resulted in 27% year-on-year net profit growth to SAR 1,054 million. solutions' Core ICT Services was the primary growth driver in 2022, with revenue growth of 30% for the segment.

Omer Abdullah Alnomany, CEO of solutions, commented: "We are very pleased with the strong financial performance in 2022. This reflects the favorable macro-economic backdrop and growing ICT sector activity in Saudi Arabia. It is further driven by the strong operational and strategic progress we have made during the year, as a result of which we have continued to meet our key objectives of double-digit revenue growth, high profitability, robust cash flow generation, and improving return metrics." He added: "As Saudi Arabia's economic growth continues into 2023 and the country's digital aspirations as outlined by Vision 2030 materialize, solutions is well-positioned to benefit as the market leader in ICT services."

On the 3rd of October 2022, solutions closed its first M&A transaction to acquire 88.1% of Giza Systems Company in addition to the 34% of Giza Arabia not owned by Giza Systems for a total Enterprise Value (EV) of USD 158 million. The purchase consideration totaled SAR 466 million of which SAR 160 million were identified as intangible assets and SAR 193 million was recognized as goodwill. The transaction is the first part of an M&A strategy set to be an important growth driver for the company going forward. The acquisition of Giza Systems Company will enable solutions to diversify geographically by entering the large and promising Egyptian IT market and service-wise by expanding its portfolio with application integration, development, and management services.

Thereafter, on the 10th of November 2022, solutions announced its second M&A transaction with the signing of a binding offer to acquire 100% of ccc by stc, from stc Group which represents a 49% stake, and ESM Holdings LLC, representing 51%. This acquisition is expected to close in the 2nd quarter of 2023 and will be based on 100% Enterprise Value amounting to SAR 450 million.

solutions Intends to fund the acquisition from its own resources. ccc Will serve solutions' Business Process Outsourcing (BPO) aspirations by expanding its portfolio in scope and scale, while completing solutions' coverage of ICT customer journeys by enabling end-to-end offerings from design to operations.

Post-pandemic growth, the stronger-than-anticipated expansion of the non-oil economy, and the robust increase in oil prices contributed to an improving macro-economic environment in Saudi Arabia during 2022. GDP growth is expected to have expanded at 8.7% in 2022, according to the IMF's latest forecast from January 2023, accelerating further from the 3.2% growth in 2021. As a result, government, semi-government entities, and private sector companies further increased IT expenditures during the year, thereby contributing to solutions' strong financial performance.

Financial Review

Financial Performance Highlights

SAR (million)	4Q 2022	4Q 2021	Δ%	FY 2022	FY 2021	Δ%
Revenue	2,438	1,900	+28%	8,805	7,208	+22%
Gross profit	514	424	+21%	2,011	1,708	+18%
Gross Profit Margin (%)	21.1%	22.3%	-1.2%	22.8%	23.7%	-0.9%
EBITDA	306	184	+66%	1,392	1,107	+26%
EBITDA Margin (%)	12.6%	9.7%	+2.9%	15.8%	15.4%	+0.5%
Net Profit	198	114	+73%	1,054	833	+27%
Net Profit Margin (%)	8.1%	6.0%	+2.1%	12.0%	11.6%	+0.4%
Capex	(61)	(40)	+53%	(134)	(155)	-14%
Free Cash Flow	(107)	698	-115%	1,579	1,014	+56%
Net Debt/(Cash)	(2,548)	(1,608)	+59%	(2,548)	(1,608)	+59%

Revenue increased by 22% to SAR 8.81 billion in 2022, leading to a 26% improvement in EBITDA to SAR 1,392 million. As a result, net profit grew 27% to SAR 1,054 million in 2022. On the balance sheet, solutions raised debt of SAR 499 million in 3Q 2022 to support its growth ambitions and optimize its capital structure. Free cash flow generation remained strong at SAR 1,951 million during the year, resulting in a comfortable net cash position of SAR 2.55 billion. Although working capital requirements increased in 2022, free cash flow generation was boosted by higher cash generated from operations, partly offset by the payment for the Giza acquisition.

For 2022 solutions proposed a dividend of SAR 595 million or SAR 5.0 per share, up from SAR 4.0 per share in 2021 and implying a 57% payout ratio.

Reclassifications in 2022

Based on the Company's continuous efforts to adopt the best practices and professional standards related to the preparation of financial statements, As well as other standards and publications adopted by the Saudi Authority of Auditors and Accountants, and the guidelines published by the IFRS Interpretations Committee (IFRIC) And following to these guidelines issued during 2022, the Committee has issued clarification and explanation with regards to the adoption of the International Financial Reporting Standard (IFRS.15) for those contracts to whether the reseller for software licenses vendors shall act as a principal or an agent. This is according to what drew its attention from an inquiry submitted regarding the subject.

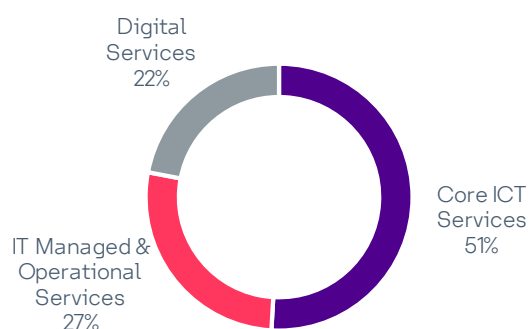
Accordingly, the management has immediately studied those contracts related to software licenses in accordance with the accounting clarification, which led to reclassify the relevant contracts as mentioned in the issued financial statements ending in 31st of December 2022 without any impact on the net profit for the current and last year.

Revenue Breakdown by Business Segment

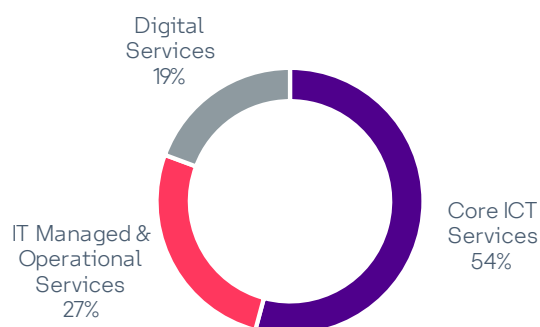
SAR (million)	FY 2022	FY 2021	Δ%
Core ICT Services	4,772	3,670	+30%
IT Managed and Operational Services	2,330	1,952	+19%
Digital Services	1,704	1,586	+7%
Total revenue	8,805	7,208	+22%

Total revenue increased by 22% to SAR 8.81 billion on the back of strong 30% growth in Core ICT Services to SAR 4.77 billion and 19% growth in IT Managed and Operational Services to SAR 2.33 billion. Digital Services grew by a more modest 7% to SAR 1.70 billion, principally due to the carve-out of cybersecurity services during 2021.

FY 21 Revenue Composition by Segment



FY 22 Revenue Composition by Segment

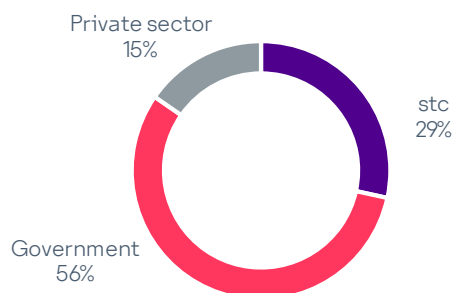


The faster growth in Core ICT Services resulted in a higher revenue contribution coming from this business segment, which accounted for 54% of revenue in 2022.

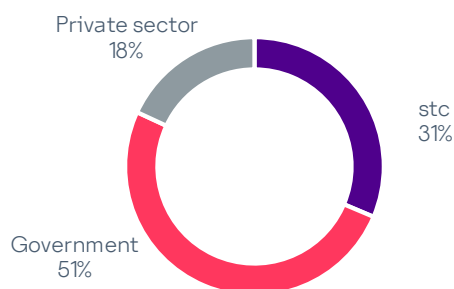
Leveraging solutions’ privileged relationship with stc

Parent company stc has continued to be an anchor customer for solutions in 2022, with 31% of revenues generated from this channel compared with 29% in 2021. The majority of this revenue generated from stc was related to a large data center project booked in 1Q 2022.

FY 21 Revenue Composition by Type



FY 22 Revenue Composition by Type



Moreover, stc has been a valuable partner to solutions in helping diversify its customer base by introducing Government and Private Sector business.

As part of Vision 2030, the Saudi government has implemented several digitization initiatives, which translated into opportunities for solutions. The government and semi-government segment contributed SAR 4.45 billion to revenue in 2022, growing 10% year-on-year.

Revenue Breakdown by Type of Customer

SAR (million)	FY 2022	FY 2021	Δ%
stc	2,762	2,048	+35%
Government	4,449	4,054	+10%
Private sector	1,594	1,107	+44%
Total revenue	8,805	7,208	+22%

Private sector sales experienced the second strongest segmental growth in 2022, increasing 44% year-on-year to SAR 1.59 billion, reflecting solutions’ increased focus on this segment, particularly within the SME category. The private sector SME segment is not only underserved, it also constitutes a significant portion of the economy, accounting for around 30% of the country’s GDP. The government aims to raise this contribution further to 35% by 2030.

Marginal decline in operating profitability as a result of the project-based nature of the business.

In 2022, solutions gross profit margin declined to 22.8% from 23.7% in 2021 due to the inherent seasonality of its project-based business. Despite this, the EBIDTA margin improved to 15.8% in 2022 from 15.4% last year.

Overall operating expenses increased +5% year-on-year on the back of Giza acquisition-related expenses partially offset by lower sales and distribution expenses.

solutions' balance sheet offers flexibility

As of the end of December 2022, solutions' balance sheet position remains strong. With low capital requirements due to its asset-light business model and a strong net cash position of SAR 2.55 billion. In addition to the newly raised debt to support its growth ambitions and optimize its capital structure, solutions' balance sheet provides the company with ample flexibility to increase shareholder value.

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Additional Information

The 2022 financial statements, earnings presentation, and financial data supplement are available at:

[Investor relations – solutions by stc](#)

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