# INTERIM RESULTS

## SIX MONTHS ENDED 30 SEPTEMBER 2017

29 November 2017



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# HIGHLIGHTS

## SOLID FIRST HALF WITH STRONG OPERATING CASH FLOWS AND A REDUCTION IN NET DEBT

- First half results are in line with expectations
- Operating cash conversion of 125%
- Material reduction in net debt of £6.2m
- Operating cost base has been trimmed, with full effects to be realised in H2
- A strong finance team is now in place and the remedial plan is largely complete
- Chris Jagusz appointed as CEO
- Focus moving forward is on delivering a growing, increasingly profitable and cash generative business

# FINANCIAL PERFORMANCE

Peter Brotherton
Chief Financial Officer



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# H1 FY18 FINANCIAL HIGHLIGHTS

## BUSINESS RETURNS TO NORMAL FINANCIAL FOOTING

### Revenue

£51.4m (-1%)

Recurring revenue (RMR) of £44.6m (-0%). Accounts for 87% of total revenue (H1 FY17: 86%)

### Gross profit

£30.5m (+2%)

Gross margin of 59.4% (H1 FY17: 57.8%). Increase due to tighter cost control

### Operating costs

£21.4m (+2%)

£0.4m increase. Cost reduction exercise implemented in H1 with the effects to be realised in H2

### Adjusted EBITDA

£9.1m (+1%)

Adj. EBITDA margin of 17.7% (H1 FY17: 17.3%)

### Adjusted diluted EPS

2.4p (+0%)

Adjusted earnings of £4.5m (H1 FY17: £4.6m)

### Adjusted operating cash flow

£11.4m (+66%)

Positive working capital movements of £2.3m has led to a cash conversion of 125%

### Capital expenditure

£3.7m (-3%)

£2.3m paid in cash and £1.5m through finance leases

### Net debt

£33.3m (-16%)

£6.2m of debt repaid since 31 March 2017 reducing net debt from £39.5m



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# CONSOLIDATED INCOME STATEMENT

| | H1 FY18 | H2 FY17 | H1 FY17 |
|---|---|---|---|
| **Revenue** | **51,374** | **52,774** | **51,849** |
| Cost of sales | (20,867) | (22,257) | (21,902) |
| Gross profit | 30,507 | 30,517 | 29,947 |
| Adjusted operating expenditure | (21,389) | (22,206) | (20,985) |
| **Adjusted EBITDA** | **9,118** | **8,311** | **8,962** |
| Depreciation | (3,679) | (3,901) | (3,606) |
| Amortisation of intangibles | (3,272) | (2,946) | (3,261) |
| Non-recurring costs | (1,349) | (1,786) | (3,688) |
| Share based payments | (345) | (732) | (348) |
| **Operating profit / (loss)** | **473** | **(1,055)** | **(1,941)** |
| Finance costs | (501) | (656) | (597) |
| **Profit / (Loss) on ordinary activities before taxation** | **(28)** | **(1,711)** | **(2,537)** |
| Tax (charge) / credit on ordinary activities | (36) | 1,039 | 831 |
| **Profit / (Loss) for the year** | **(64)** | **672** | **(1,707)** |

| Earnings per share | H1 FY18 | H2 FY17 | H1 FY17 |
|---|---|---|---|
| Adjusted basic | 2.47p | 2.50p | 2.53p |
| Adjusted diluted | 2.38p | 2.40p | 2.41p |



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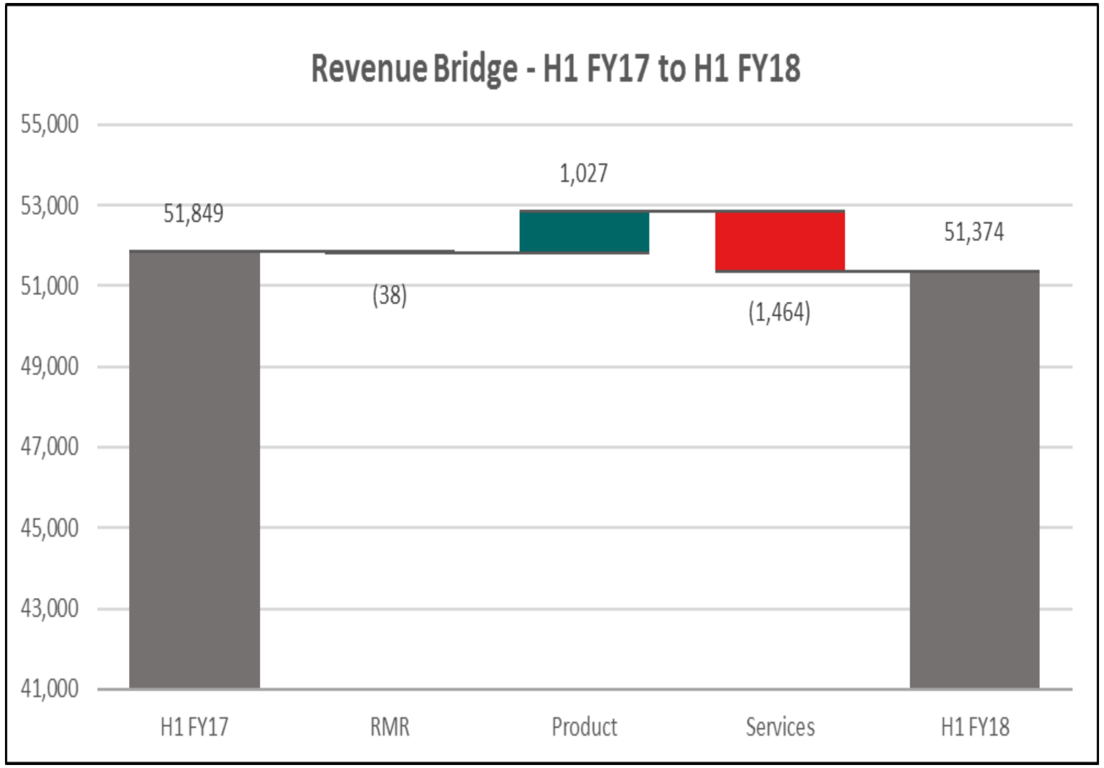
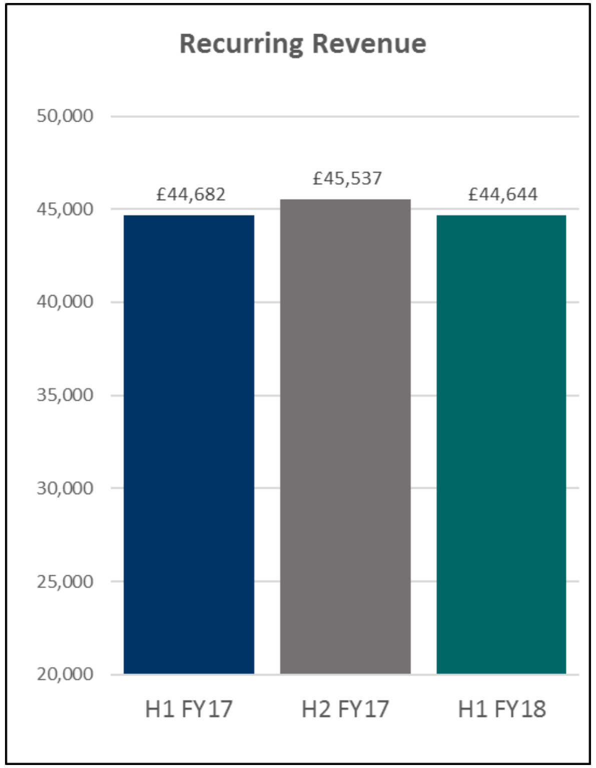
# REVENUE / GROSS PROFIT

| | H1 FY18 | H2 FY17 | H1 FY17 |
|---|---|---|---|
| RMR | **44,644** | 45,537 | 44,682 |
| Product | **4,121** | 3,184 | 3,094 |
| Services | **2,609** | 4,053 | 4,073 |
| | **51,374** | 52,774 | 51,849 |
| Gross profit | **30,507** | 30,517 | 29,947 |
| *Gross margin* | ***59.4%*** | *57.8%* | *57.8%* |
| % RMR | **87%** | 86% | 86% |




- Recurring monthly revenue (RMR) broadly flat over the last three reporting periods
- H1 FY18 recurring revenue accounts for 87% of total revenue
- Services and Product are more “one-off” in nature to support the periodic requirements of the RMR client base
- Gross margin improvements in H1 FY18 due to tighter control of costs and product mix



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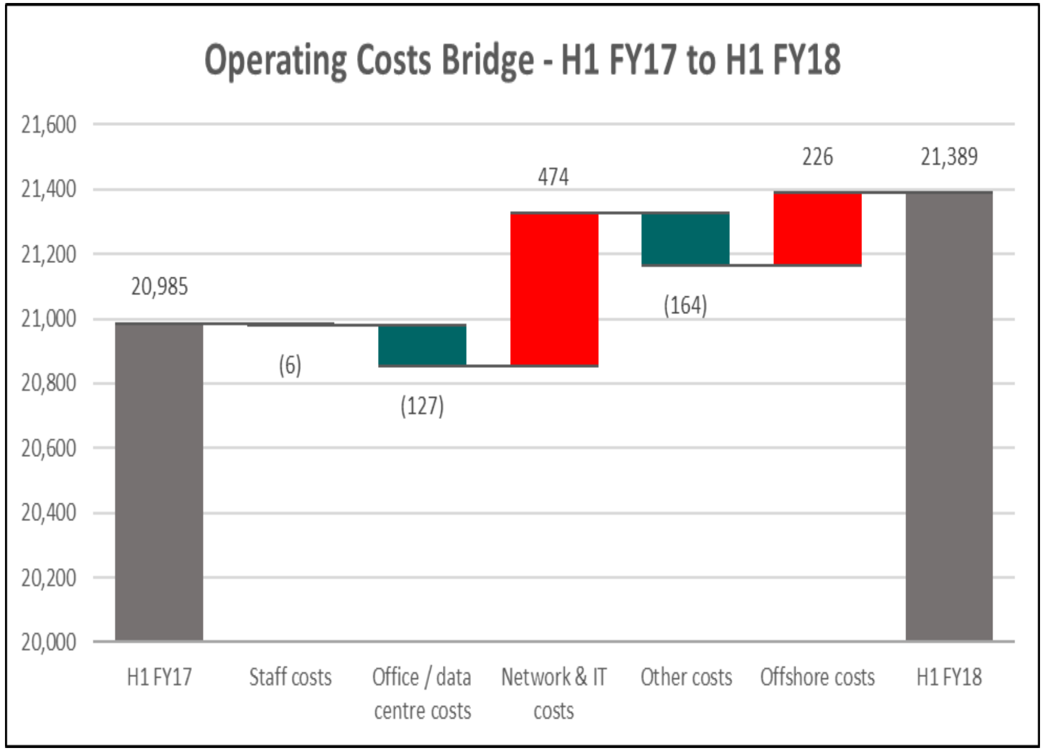
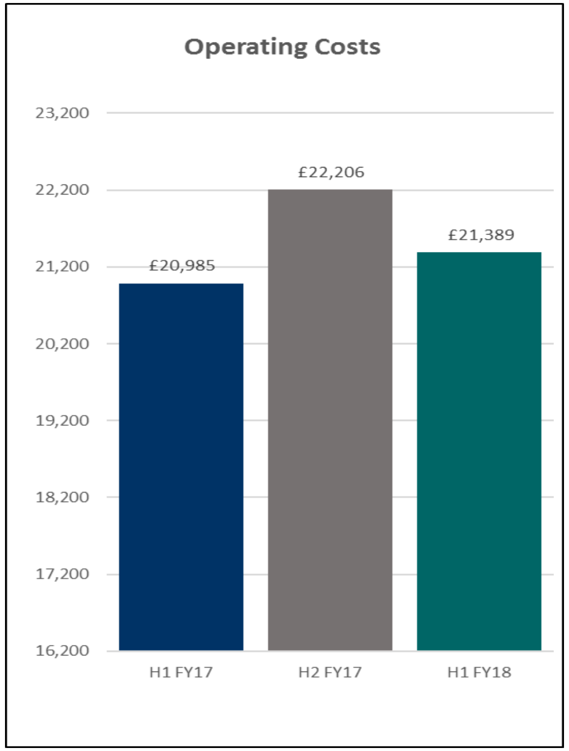
# OPERATING COSTS

| £'000 | H1 FY18 | H2 FY17 | H1 FY17 |
|---|---|---|---|
| Staff costs | **11,940** | 12,709 | 11,946 |
| Office & DC costs | **3,589** | 3,718 | 3,716 |
| Network & IT costs | **3,286** | 2,992 | 2,812 |
| Other costs | **1,575** | 1,915 | 1,738 |
| Offshore costs | **999** | 872 | 773 |
| | **21,389** | 22,206 | 20,985 |
| UK staff numbers | **366** | 378 | 387 |
| India staff numbers | **140** | 144 | 139 |
| Total staff numbers | **506** | 522 | 526 |




- Management have taken significant actions to right-size the cost base of the business with the full effect of the savings to be realised in the second half of the financial year



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# OPERATING COSTS – H1 FY18 VS H2 FY17

### Staff Costs

£11.9m (-6%)

Staff costs reduced through headcount reduction. Full effect to be realised in H2

### Office and DC Costs

£3.6m (-3%)

Closure of 4 premises has led to reduction in costs (London, Birmingham, Didsbury, 3rd party DC)

### Network and IT Costs

£3.3m (+10%)

Increased licence and maintenance costs to support our shared platforms

### Other Costs

£1.6m (-18%)

Reduced spend on Other Costs due to lower marketing, consultancy and legal fees

### Offshore Costs

£1.0m (+15%)

Increased costs due to a new office in Hyderabad, enabling scope for operational expansion

### Closing headcount

366 UK heads (-3%)

Headcount reduction of 12 from H2 FY17



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# OTHER CONSOLIDATED INCOME ITEMS

| | H1 FY18 | H2 FY17 | H1 FY17 |
|---|---|---|---|
| EBITDA | **9,118** | 8,311 | 8,962 |
| Depreciation | **(3,679)** | (3,901) | (3,606) |
| Amortisation | **(3,272)** | (2,947) | (3,261) |
| Non-recurring costs | **(1,349)** | (1,786) | (3,688) |
| Share based payments | **(345)** | (732) | (348) |
| Operating profit / (loss) | **473** | (1,055) | (1,941) |
| Finance income | **257** | 151 | - |
| Finance costs | **(758)** | (808) | (597) |
| Taxation | **(36)** | 1,039 | 831 |
| | **(64)** | (673) | (1,707) |

| Non recurring items | H1 FY18 | H2 FY17 | H1 FY17 |
|---|---|---|---|
| Trade debtor impairment | **-** | - | (2,933) |
| Professional fees re forensic review and FCA investigation | **(509)** | (1,291) | - |
| Integration and restructuring costs | **(840)** | (376) | (282) |
| Vacant property provisions | **-** | (119) | (266) |
| Sale of metro ring to City Fibre | **-** | - | (207) |
| | **(1,349)** | (1,786) | (3,688) |
| Interest received | **257** | **-** | **-** |

## Non-recurring items

Integration and restructuring have been completed

## Share based payments

Lower charge in HY18 reflects the lapsing of the options in respect of leavers including the former CEO

## Finance costs

Higher interest charges reflect reduced net debt offset by increased margin upon refinancing in FY17

## Taxation

The company has tax losses brought forward and so the tax charge relates to deferred tax only



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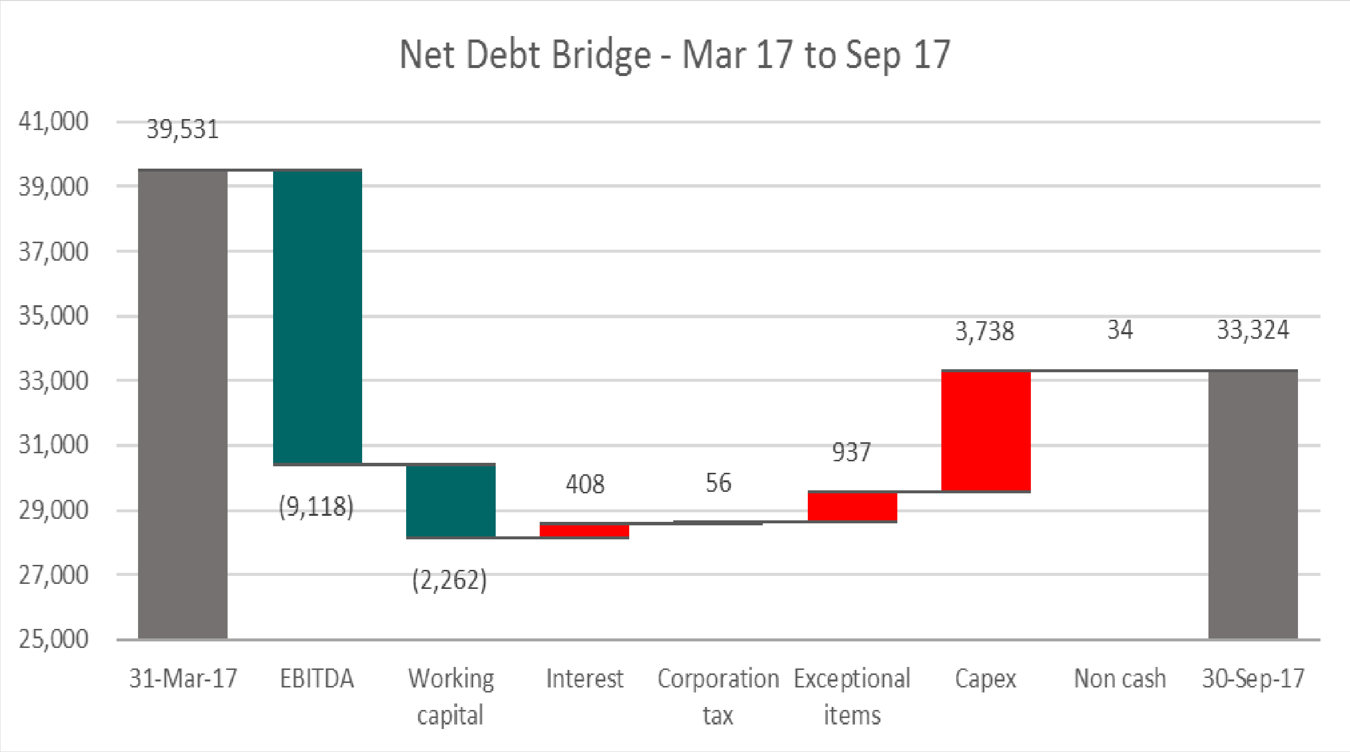
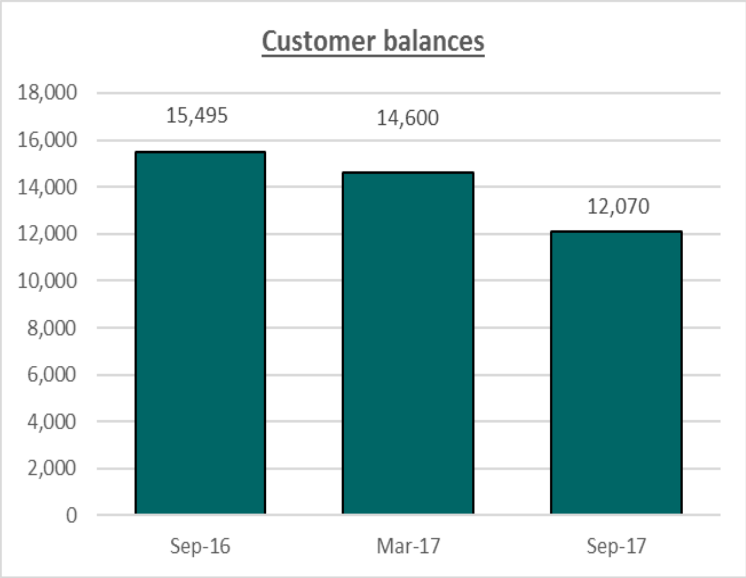
# NET DEBT

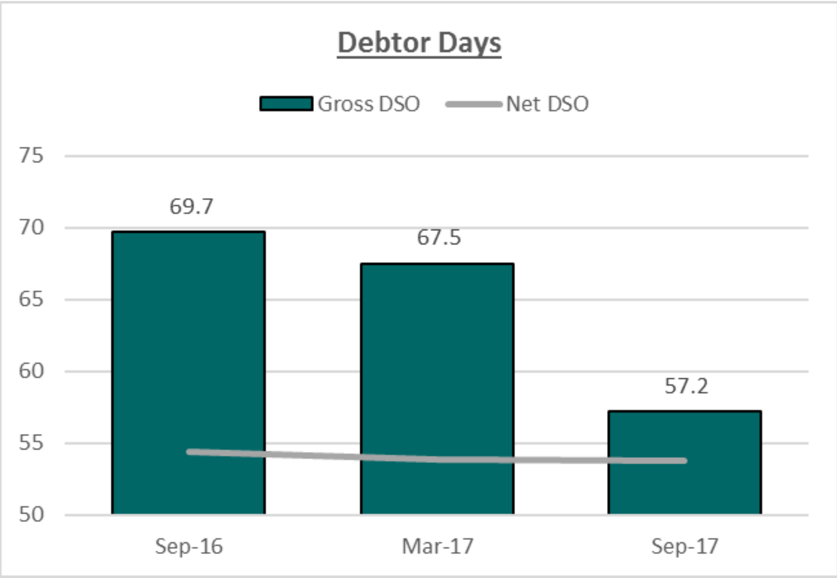


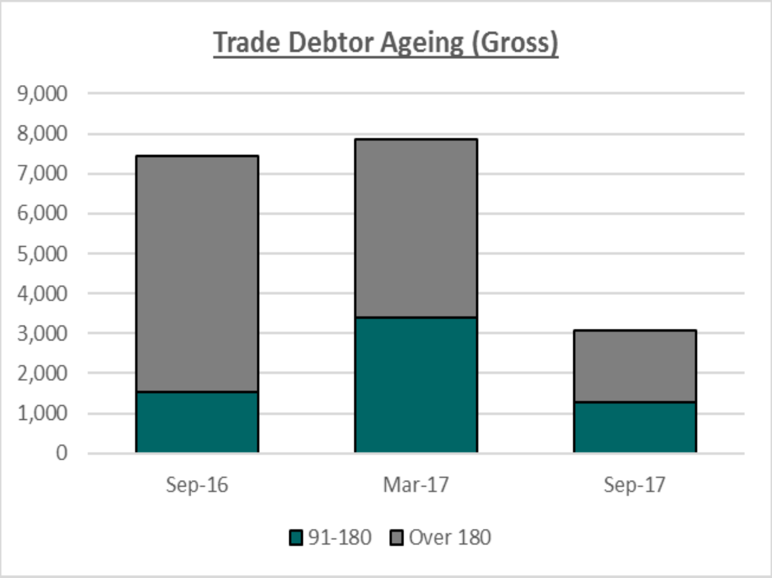

| Movement in net debt | H1 FY18 | H2 FY17 | H1 FY17 |
|---|---|---|---|
| **Adjusted EBITDA** | **9,118** | **8,311** | **8,962** |
| Working capital movements | 2,278 | (5,723) | (2,109) |
| **Cash generated from operations** | **11,396** | **2,588** | **6,853** |
| Purchase of tangible fixed assets | | | |
| - Cash | (2,276) | (3,940) | (2,804) |
| - Finance Leases | (1,464) | (1,414) | (1,056) |
| | (3,740) | (5,354) | (3,860) |
| Corporation tax | (55) | 21 | 50 |
| Interest | (665) | (697) | (512) |
| Non-cash | (34) | (34) | (34) |
| Effect of exchange rates | (15) | 19 | - |
| **Normalised net debt movement** | **6,887** | **(3,457)** | **2,497** |
| Discretionary/non-recurring items | | | |
| - Non-recurring expenses | (937) | (2,405) | (754) |
| - Non-recurring interest receipts | 257 | - | - |
| - City Fibre disposal | - | - | 5,000 |
| - Share issues | - | 542 | 1,189 |
| - Dividends | - | - | (4,406) |
| | (680) | (1,863) | 1,029 |
| **Net decrease/(increase) in net debt** | **6,207** | **(5,320)** | **3,526** |

- Operating cash flow conversion of 125% (H1 FY17: 77%)
- Net debt measure includes finance leases and is net of cash
- Material reduction of net debt by £6.2m in the half year to 30 September 2017
- Improved control of billing and collections has resulted in the positive working capital movement

# WORKING CAPITAL MOVEMENTS




- Working capital movements total £2.3m, of which £2.5m relates to customer working capital movements (trade debtors plus other debtors plus accrued income less deferred income)
- The balancing outflow of £0.2m relates to supplier and VAT working capital movements
- New appointments together with the merging of the billing and credit control teams has had a positive effect on cash collections and debtor ageing
- All creditors paid on a timely basis. Trade creditor days of 25 at 30/09/17 (31/03/17: 28; 30/09/16: 55)
- Strong cash generation has allowed a material reduction in net debt in the period



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# BUSINESS UPDATE

Chris Jagusz
Chief Executive Officer

# BUSINESS UPDATE

## FIRST IMPRESSIONS

- Joined 16th October 2017
- Fundamentally sound business
- Robust operator of mid-market & public sector customers' mission-critical infrastructure
- Highly accredited in public & private sector
- Broad vertical market reach (multi-site "retail") - particular strength in health sector
- Track record in product markets characterised by technological transitions creates platform for growth
  - Colocation → dedicated hosting → shared hosting → cloud → hyperscale
  - Connectivity → trusted networks
  - Telephony → collaboration



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# BUSINESS UPDATE

## FOCUS AREAS

- Build on our strengths: assets, know-how, people, customer relationships, reputation
- Retain today's customers by providing trusted cloud, connectivity & collaboration services which support their mission
- Grow the business through:
    - Focus on UK-centred mid-market and selected public sector verticals
    - Reputation for outstanding leadership of customers' IT infrastructure transitions
    - Developing our capabilities and complementing our market access with strategic partners' hyper-scale assets
- Operational excellence: agility, velocity, efficiency



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# SALES – CASE STUDY VIRGIN CARE (VCL)

## GROWING WITH CUSTOMERS' INFRASTRUCTURE TRANSITIONS

- Virgin Care are a private healthcare provider who aim to improve the lives of patients through improved workforce management, streamlined appointment scheduling and faster diagnosis

- Grown their business with Redcentric from a single network connection to hosting, cloud, Virtual Desktop Infrastructure (VDI), Cloud Telephony and beyond resulting in a 25-fold increase in monthly revenue

2011 2012 2013 2014 2015 2016 2017 2018

NHS network connection – business basic requirement

Shared Infrastructure platform – enables rapid expansion

Move to private cloud justified by growing scale

VDI – rapid mobilisation (2,000 users)

VDI 2 (1,000 users)

Cloud telephony (250 users)

Business continuity trial

# OUTLOOK AND SUMMARY



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# SUMMARY AND OUTLOOK

- Good progress made during H1 FY18 in improving operating cash flows and reducing the cost base
- Business is now a stable platform
- H2 outlook – continuation of H1 trend
- Restoring top line growth is our priority
    - Familiar markets
    - Opportunity in customers' technology transitions
    - Alignment of product, proposition, marketing and sales focus on high growth markets
- The Board is confident in the outlook for the business and will review and give guidance on dividend policy when the results are announced in June 2018



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# APPENDICES



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# REDCENTRIC AT A GLANCE

- AIM listed (RCN)
- Leading UK IT Managed Services provider
- Market capitalisation c. £130m, 149m shares in issue
- c.£100m revenue, 87% recurring
- Over 500 staff across 6 locations in UK and India.
- Over 1,500 UK customers

## PRINCIPAL SECTORS

Healthcare
Construction
Retail
Financial Services
Not-for-profit

## SIGNIFICANT CLIENTS

NHS
HSCIC
Berkeley Homes
Morgan Sindall
Howdens
Inchcape
Bluefin
Salvation Army
Marie Curie

## TOP 10 SHAREHOLDERS

Coltrane Asset Management
Kestrel Partners LLP
ND Capital
Mr Richard Griffiths
Schroder Investment Management
Slater Investments
Eugenia II Investment Holdings
Stephens Group Inc
Hargreaves Lansdown
Western Standard



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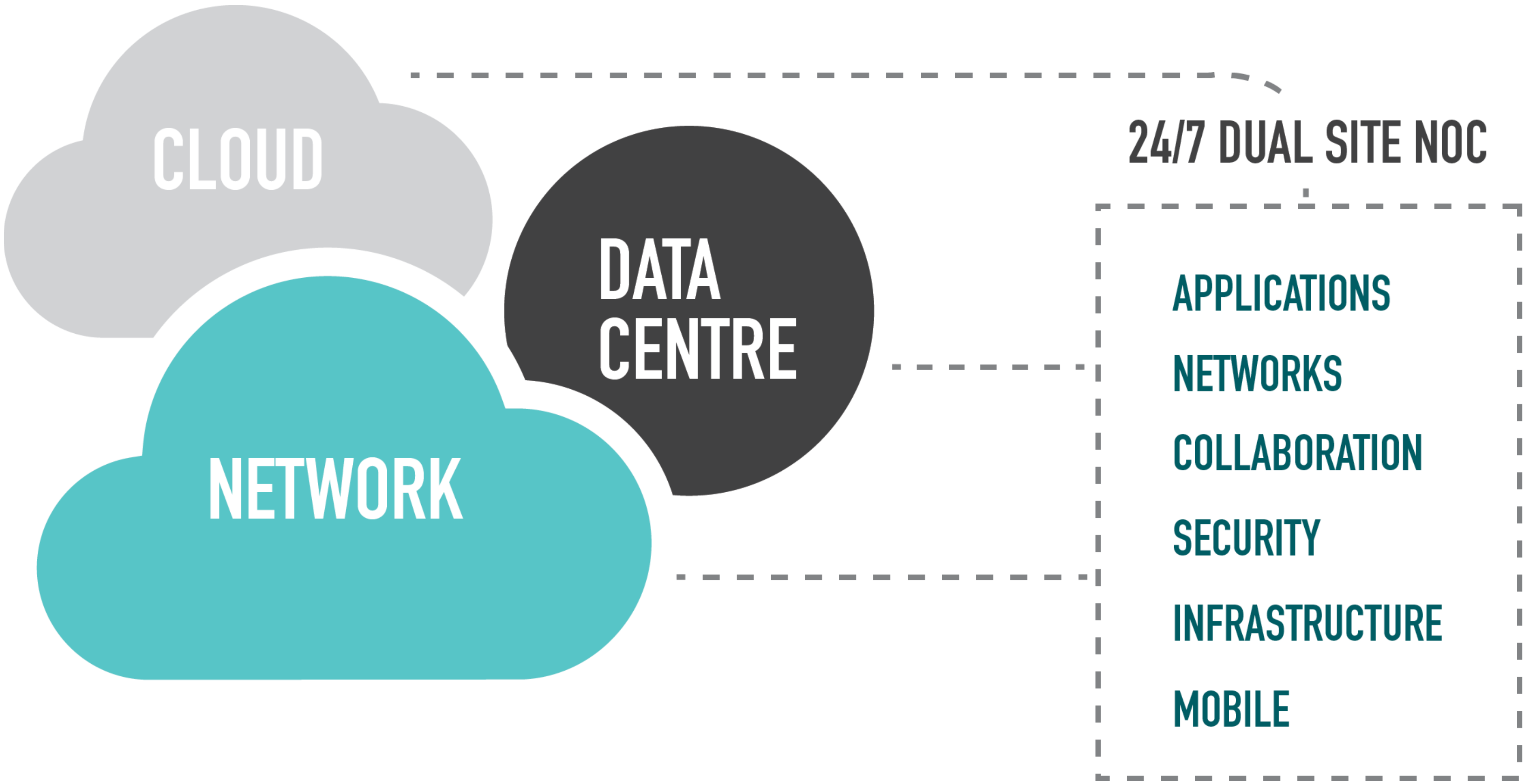
# THE HEART OF REDCENTRIC'S SERVICE



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# REDCENTRIC'S DATA CENTRE & NETWORK INVESTMENT

**Data Centre**

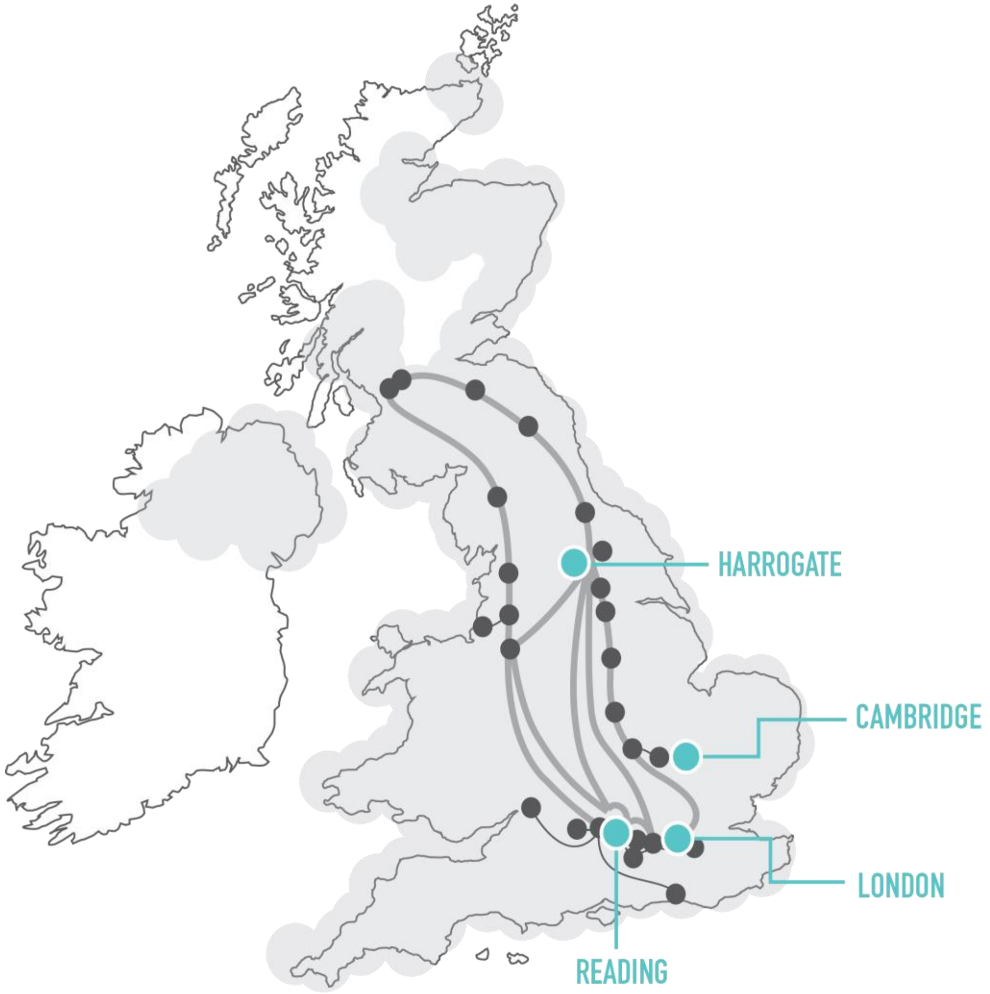
- Harrogate – DC, NOC & Head Office
- Reading – DC and Support
- London & Cambridge – DC and Support
- Theale – application centre

**Network**

- 10 Gb MPLS Backbone Network with 2.4 Gb National Fibre Ring
- Leased fibre in London

**Critical accreditations**

- A very high level of technical, operational and procurement framework accreditations serves as an effective competitive differentiator



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# REDCENTRIC'S HYDERABAD OFFICE

- **Key differentiator**
- **Wholly owned subsidiary delivering highly skilled technical services**
- **Single team structure between UK & India**
  - Huge skilled resource pool (9m)
  - 2nd and 3rd line technical resource
- **Development opportunity**
  - Back office functions – finance, HR, sales support
  - Natural attrition migration from UK to India
  - Flexible capacity for growth and acquisition
  - All managed services can be supported from India
  - Opportunity to grow ring fenced client teams
- **c£1m per annum cost for c140 staff**




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# REDCENTRIC'S ACCREDITATIONS AND CERTIFICATIONS

- ISO27001 Information Security Management Certified (British Standards Institution)
- ISO9001 Quality Management Certified (British Standards Institution)
- ISO22301 Business Continuity Management Certified (British Standards Institution)
- ISO20000 IT Service Management System Certified (British Standards Institution)
- PCI Compliant for hosting services at our Harrogate and Reading Data Centres
- Authorised to process HM Government data protectively marked 'Official-Sensitive'
- CAS – Telecommunications certified (66849713TEL)
- Cyber Essentials Certified
- HSCN CN-SP certified
- PSN Gateway Service Access
- PSN Network Accredited
- PSN accredited for the provision of Infrastructure as a Service
- Accredited to connect to and supply services over Janet into all connected institutions and organisations
- Accredited to store patient data for and behalf of the NHS
- Independent aggregator of IGSoC Version 14 with a score of 100%
- Code of Connection approved (3rd party N3 hosting provider onto the N3 network by HSCIC)
- Compliant Commercial Third Party (NACS Code YGMAP)
- NHS Health (and Health & Social Care Information Social Care Centre)- accredited N3 ISP
- Information Governance Statement of Compliance (IGSoC)
- GCloud approved supplier
- Janet Telephony framework (JTPS) approved supplier



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