

INTERIM RESULTS

SIX MONTHS ENDED 30 SEPTEMBER 2018

22 November 2018

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HEADLINES

- Revenue down 7.6% but continued focus on cost control with a significant reduction in the operating cost base
- Overall adjusted EBITDA of £8.1m
- Ongoing strong operating cash flow conversion at 114%, resulting in a £5.1m reduction in net debt to £22.6m
- Balance sheet strengthen and dividend reinstated – 0.4p per share interim dividend
- A number of major customer contracts renewed out to 2020 and beyond
- Solid platform from which to grow with particular focus on the private sector

FINANCIAL PERFORMANCE

Peter Brotherton
Chief Financial Officer

HY19 FINANCIAL PERFORMANCE

Revenue £47.5m (-7.6%) Recurring revenue (RMR) of £41.3m (-7%). 87% of total revenue (HY18: 87%)	Gross profit £28.4m (-7.0%) Gross margin of 59.8% (HY18: 59.4%).	Operating costs £20.3m (-5.3%) £1.1m reduction against HY18, primarily driven by staff costs	Adjusted EBITDA £8.1m (-11.0%) Adjusted EBITDA margin of 17.1% (HY18: 17.7%)
Adjusted basic EPS 1.89p (-23.5%) Adjusted earnings of £2.8m (HY18: £3.7m)	Adj. op. cash conversion 113.8% (-11bps) Adjusted operating cash flows of £9.2m (HY18 £11.4m)	Adjusted EBIT £4.1m (-22.6%) Adjusted EBIT margin of 8.6% (HY18: 10.3%)	Net debt £22.6m (-32%) £5.1m of debt repaid since 31 March 2018 reducing net debt from £27.7m

GROUP INCOME STATEMENT

	HY19	HY18	% Change
	('000s)	('000s)	
Revenue	47,452	51,374	(7.6)%
Cost of Sales	(19,084)	(20,867)	(8.5)%
Gross Profit	28,368	30,507	(7.0)%
Operating Costs	(20,253)	(21,389)	(5.3)%
Adjusted EBITDA	8,115	9,118	(11.0)%
<i>EBITDA Margin</i>	<i>17.1%</i>	<i>17.7%</i>	<i>6 bps</i>
Depreciation & Amortisation	(7,182)	(6,951)	3.3%
Non-recurring items	(243)	(1,349)	(82.0)%
Share based payments	(240)	(345)	(30.4)%
Interest	(572)	(501)	14.2%
Loss before taxation	(122)	(28)	780.4%
Taxation	(449)	(36)	(335.7)%
Loss after tax	(571)	(64)	(792.2)%

<u>Earnings per share</u>	HY19	HY18	% Change
Adjusted basic EPS	1.89p	2.47p	(23.5)%
Adjusted diluted EPS	1.88p	2.38p	(21.0)%

Revenue

- Revenue declined year on year by 7.6% to £47.5m. Recurring revenue mix remained flat at 87% of total revenue

Operating Costs

- Reduction in gross profit has been partially mitigated by strong operating cost control, delivering a £1.1m reduction in costs.

Non-recurring

- Decreased from £1.3m to £0.2m.

Interest

- HY18 benefitted from a one off interest receivable balance. Overall interest payable reduced by 23% reflecting lower RCF balance.

REVENUE/GROSS PROFIT

HY19 Revenue

£47,452k

HY18 Revenue

£51,374k

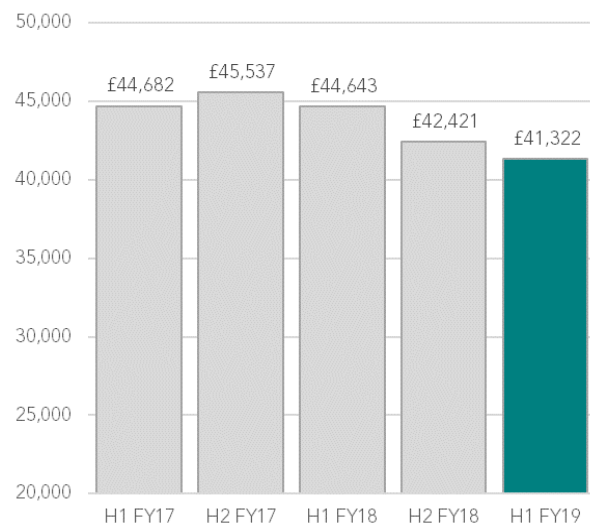
HY19 Gross Profit

£28,368k

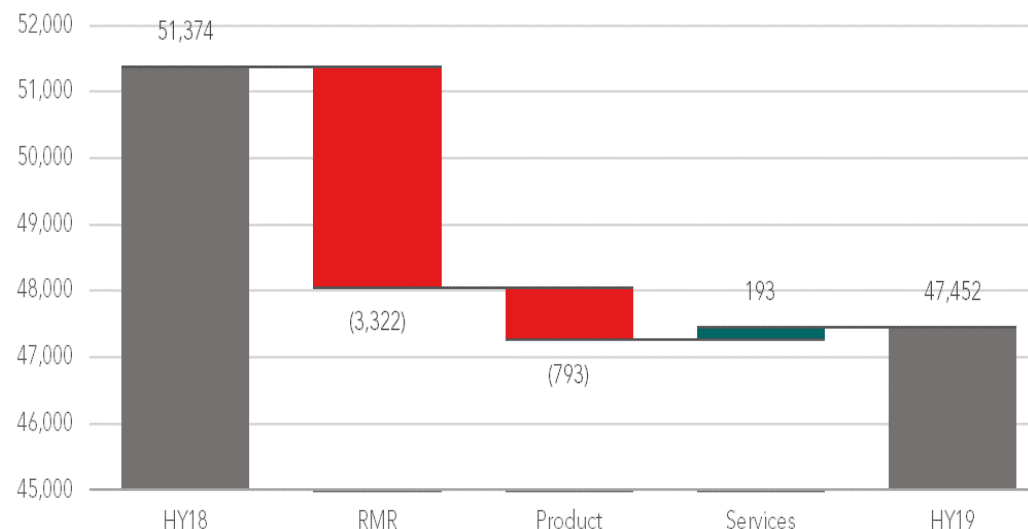
HY18 Gross Profit

£30,507k

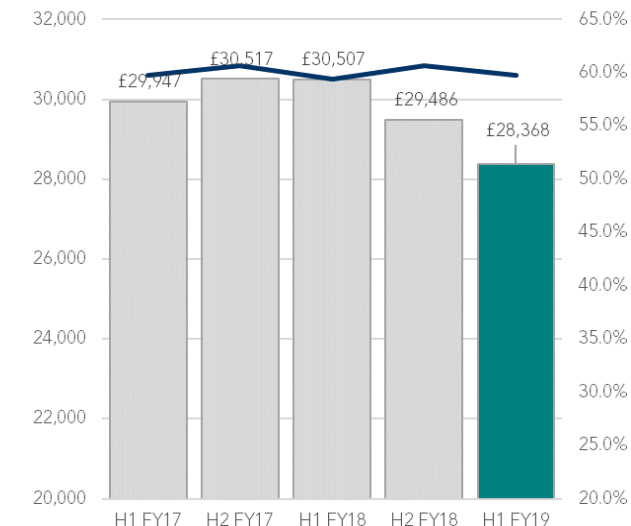
Recurring Revenue



Revenue Bridge - HY 18 to HY 19



Gross Profit



	HY19	HY18
Recurring	41,322	44,644
Product	3,328	4,121
Services	2,802	2,609
Total Revenue	47,452	51,374
Gross profit	28,368	30,507
Gross margin	59.8%	59.4%
% RMR	87%	87%

- Revenues have fallen by £3.9m (7.6%) largely due to the exit of a large Crown hosting contract (£1.0m) and a large customer (c.£1.1m) who undertook a major organisational restructure.
- We have successfully renewed half of our top 10 customers, however new business has been slower than expected.
- Whilst recurring revenue has been maintained at 87% of total revenue, the company has seen an overall decline in the top-line.

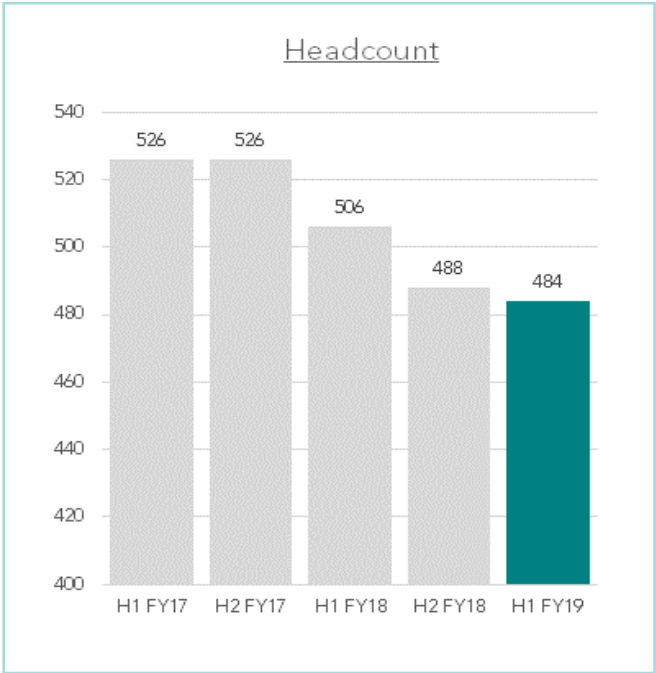
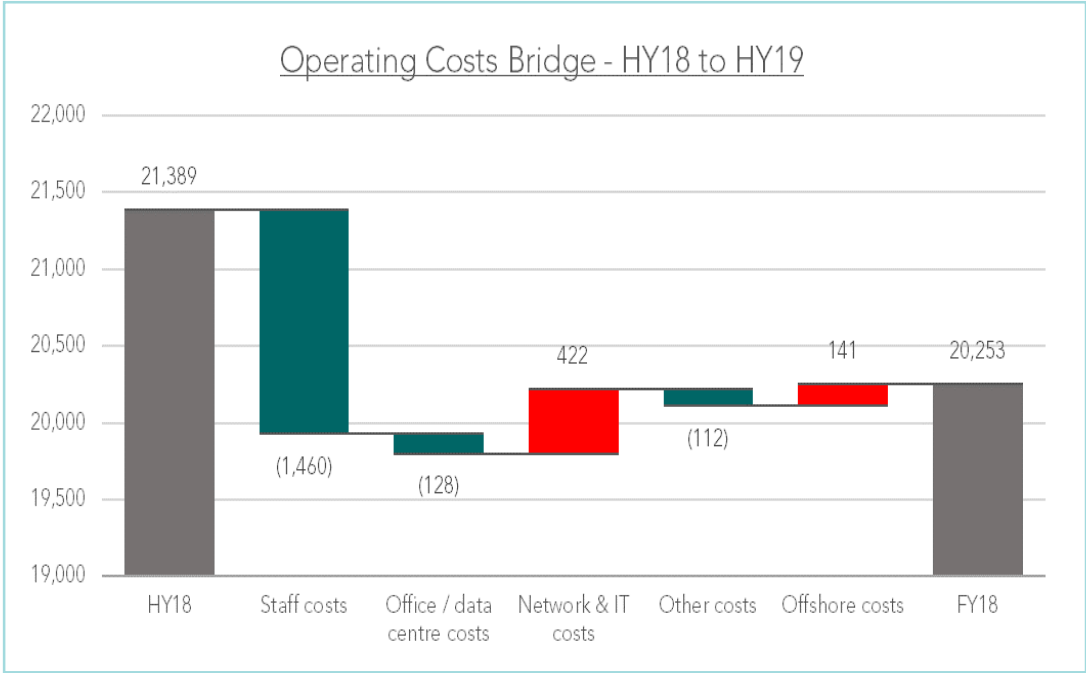
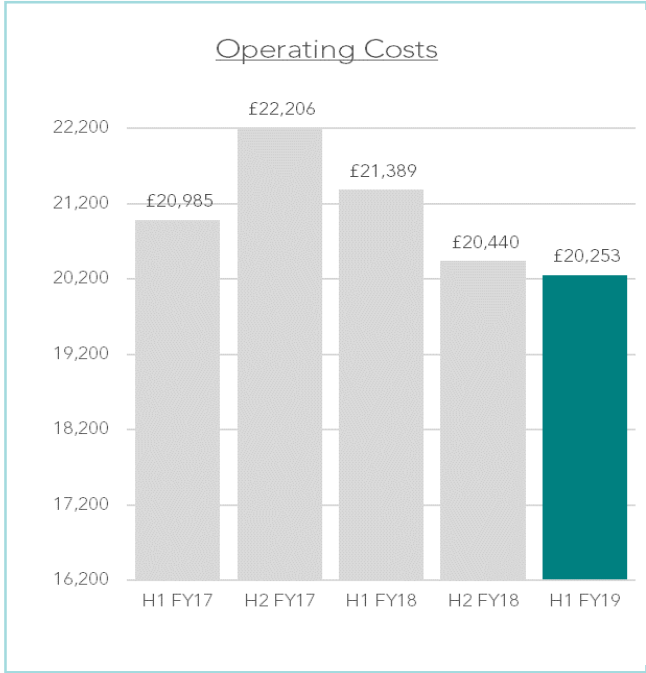
OPERATING COSTS

HY19 Op Costs

£20,253k

HY18 Op Costs

£21,389k



	HY19	HY18
Staff costs	10,480	11,940
Office / data centre costs	3,462	3,589
Network & IT costs	3,709	3,286
Other costs	1,463	1,575
Offshore costs	1,140	999
Operating Costs	20,253	21,389
Headcount UK	332	366
Headcount India	152	140
Total Headcount	484	506

- A combination of a further reduction in headcount and shifting workloads to our Hyderabad operations centre has resulted in a substantial reduction in staff costs.
- Headcount has reduced by 4% from HY18.
- Over the last six months the management team has been proactive at looking at cost saving and procurement opportunities

NET DEBT

HY19 Net Debt

£22,621k

FY18 Net Debt

£27,707k

Net Debt Bridge - Mar 18 to Sep 18

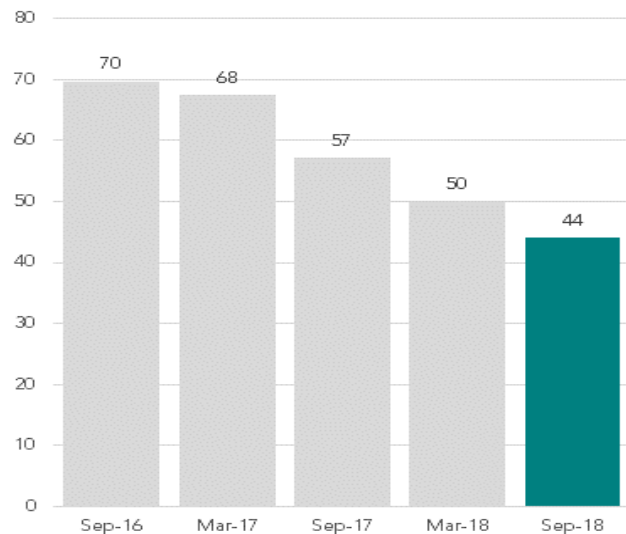


Movement in net debt	HY19	HY18
Adjusted EBITDA	8,115	9,118
Working capital movements	1,120	2,278
Cash generated from operations	9,235	11,396
Purchase of tangible fixed assets		
- Cash	(2,884)	(2,276)
- Finance Leases	(185)	(1,464)
	(3,069)	(3,740)
Corporation tax	(38)	(55)
Interest	(545)	(665)
Non-cash	(34)	(34)
Effect of exchange rates	(31)	(15)
Normalised net debt movement	5,518	6,887
Discretionary/non-recurring items		
- Non-recurring expenses	(432)	(937)
- Proceeds from the issue of share capital	0	257
	(432)	(680)
Net decrease/(increase) in net debt	5,086	6,207

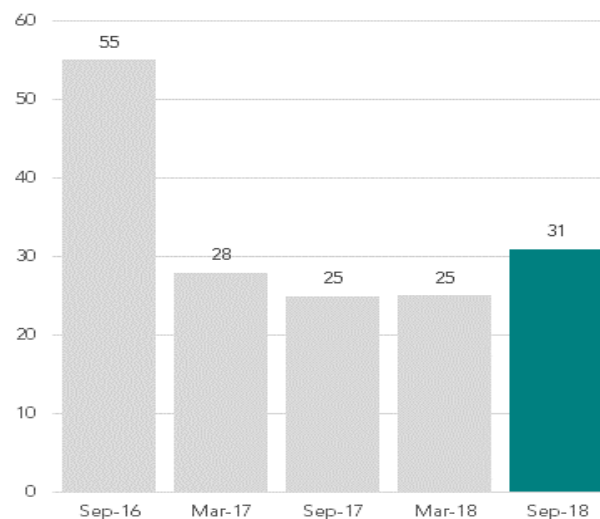
- Operating cash flow conversion of 113.8% (HY18: 125.0%)
- Net debt measure includes finance leases and is net of cash
- Material reduction of net debt by £5.1m in the six months to 30 September 2018
- Trade debtor ageing continues to improve, and DSO now stands at 44, a marked improvement from Sept 2017 (57 days)

WORKING CAPITAL MOVEMENTS

Gross Debtor Days



Creditor Days



	Sep-18	Mar-18	Sep-17
Current	7,946	11,323	10,297
1-30 Days	1,112	1,951	1,957
31- 60 Days	1,150	1,417	1,647
61 - 90 Days	182	550	628
Over 90 Days	852	1,538	3,063
Gross Debtors	11,242	16,779	17,592
Provision	(1,057)	(981)	(1,864)
Net Debtors	10,185	15,798	15,728
Debt over 90 days	8%	9%	17%

- Working capital movements total £1.1m inflow
- Strong cash generation has allowed a material reduction in net debt in the period
- Debt more than 90 days old has reduced to 8% of the outstanding balance (at 30/09/2017: 17%)
- All creditors paid on a timely basis. Trade creditor days of 31 at 31/03/18 (30/09/17: 25)

DIVIDEND REINSTATED

- The business is strongly cash generative and, since its peak of £45.7m in February 2017, net debt has been reduced by £23.1m.
- The strong and predictable cash flows combined with materially reduced net debt now allow for a dividend to be reinstated.
- A progressive dividend policy has been announced today under which we will maintain a dividend cover of 4 times adjusted earnings. The total dividend will be split between an interim and a final, with an approximate` one third / two thirds split.
- An initial interim dividend payment of 0.4p per share will be made in December 2018.

BUSINESS UPDATE

MARKET TRENDS AND RESPONSES

CHALLENGES

- New business at lower margin than historic contracts
- Hypercloud margins lower than traditional private cloud
- Network price trend – more for less
- Public sector procurements very price-sensitive
- Customers expect cloud-speed not telco-speed

REVENUE INITIATIVES

- Refocusing of the sales force on the private sector.
- Reallocation of sales resources on new business.
- Fully exploit cross sale opportunity.
- Take advantage of position within existing frameworks and convert new framework opportunities.

COST INITIATIVES

- Continued migration of roles to Hyderabad
- Further staff efficiencies identified across the business.
- Material savings identified through network optimisation and procurement
- Microsoft Dynamics – CRM live since April, ERP by the end of this FY
- Automation to reduce manual effort and accelerate work

PUBLIC SECTOR NETWORK FRAMEWORKS

YHPSN

- Connecting public sector organisations across the region
- Framework covering up to 68 partners and 3,000 sites
- Potential value and pace of revenue growth lower and slower than anticipated
- Important lessons learnt – reviewed and revitalised sales and pricing processes

OTHER PUBLIC SECTOR FRAMEWORKS

- Good progress in the last two months – review of pricing policy
- Won three framework agreements
- Awarded one five year contract
- A further four opportunities in the immediate pipeline

ACTIONS

- New prioritised engagement plan – actions already underway
- Increase events, marketing and sales resource
- Larger local Government opportunities being developed
- Complement new client wins with cross sell to current clients

PUBLIC SECTOR HOSTING

MARKET FACTORS

- Crown Hosting – very low priced public sector data centre space
- Market-wide trend – shift to hyper cloud

RETAINING BUSINESS

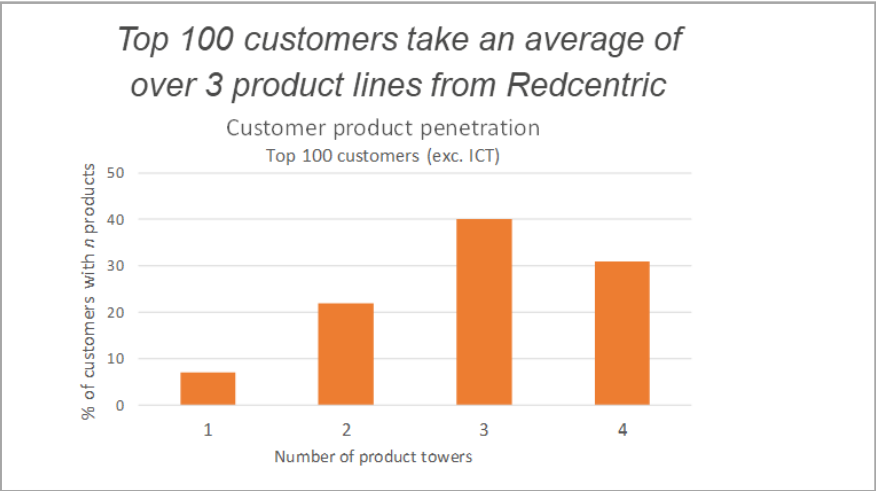
- Lost one sizable contract in FY18
- Another loss H2 FY19 – but with managed services element retained
- Two major public sector customers planning to move to hyper cloud
 - One extended under G-Cloud to September 2019
 - Terms agreed with the other to extend to December 2020
 - Assumed losses will have a margin impact from FY20

STRONG CUSTOMER BASE

- Redcentric continues to successfully renew and expand contracts with its major customers.
- We have a track record in building long-term relationships with our clients focused on our high levels of customer service and reliability.
- Customer churn remains low and is largely driven through factors outside of our control such as M&A activity within our customer base.

All but one of the top ten customers takes at least three product lines

Product penetration	Cloud	Connectivity	Collaboration	Services
Retail / manufacturing	x	x	x	
Construction	x	x	x	x
Central Government	x	x		x
Health - public sector	x	x		x
Charity		x	x	x
Health - private sector	x	x	x	x
Professional services	x	x	x	x
Health - private sector	x	x	x	
Technology		x	x	
Financial services	x	x	x	



Customer segmentation (Top 100)

Sector	RMR contribution
Health (private)	11%
Health (public)	8%
Retail	15%
Professional Services	14%
Technology	12%
Insurance	8%
Construction	7%
Local Government	7%
Charity	6%
Distribution	3%
Other	10%
Private sector	84%
Public sector	16%



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SUMMARY & OUTLOOK

SUMMARY AND OUTLOOK

H1 PERFORMANCE

- Disappointing revenue performance
- Strong management of costs and cash
- Expectations of scale and timing of public sector network business (including YHPSN) re-set

H2 FOCUS

- Drive new business and cross-sales with a particular focus on private sector
- Convert public sector framework wins into revenue
- Realise significant cost of sale and operational cost savings
- Deliver Dynamics ERP and increase use of Hyderabad for cost-effective operations

OUTLOOK

- The Board expects that the rate of revenue decline will slow in H2 19 and return to growth in FY20.
- The Board expects that profits and net debt for FY19 will be in-line with its expectations
- Lower margins expected on new business versus historic higher margin contracts