Redcentric plc

Half year results for the six months ended 30 September 2022 (unaudited)

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Redcentric plc
Responsibility statement

We confirm that to the best of our knowledge the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting'.

By order of the board of directors (the "Board") of Redcentric plc ("Redcentric" or "Company"),

Chief Executive Officer	Chief Financial Officer
Peter Brotherton	**David Senior**
7 December 2022	7 December 2022

Redcentric plc

Interim management report

To the members of the Redcentric plc group of companies (the "Group")

This interim management report ("IMR") has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR contains certain forward-looking statements. These statements are made by the directors of the Company in good faith based on the information available to them up to the time of their approval of this IMR, but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking information.

This IMR has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant.

<u>Chief Executive Officer's review</u>

Overview of the six months ended 30 September 2022

The results for the first six months of the financial year ended 31 March 2023 ("FY23") are dominated by the three acquisitions made in the period. Revenues have grown by 39% on the first half of the financial year ended 31 March 2022 ("FY22") and are currently at an annualised run rate of c£150m (a 60% increase in the annualised run rate at this time in FY22). Adjusted EBITDA for the six months ended 30 September 2022 was broadly flat on the equivalent period last year and reflects the initial loss-making position of one of the acquisitions and the additional costs associated with a new divisional structure which was implemented to support the significant growth of the business.

Over the first six months of the financial year, adjusted net debt increased by £37.8m to £39.3m (31 March 2022: £1.5m), primarily reflecting the costs associated with the acquisitions made in the period. The total initial consideration payable for acquisitions (net of cash acquired) was £23.2m and was funded out of the £100m banking facility signed on 27 April 2022.

Execution of acquisition strategy

<u>Overview</u>

During the first six months of FY23 we successfully executed the acquisition strategy that was outlined in the FY22 annual report and accounts, with three acquisitions completed.

The acquisition of the consulting, risk, and resilience business of Sungard Availability Services (UK) Limited (in administration) ("Sungard Consulting") added significant capability to our security division, complementing the previously acquired capabilities from the Piksel Industry Solutions Limited and 7 Elements Limited acquisitions, which were completed in the previous financial year.

The acquisition of the business and assets relating to three UK Data Centres from Sungard Availability Services (UK) Limited (in administration) ("Sungard DCs") along with the acquisition of 4D Data Centres Limited ("4D") added significant scale to the Group. The Sungard DCs acquisition has also enhanced our data backup and business recovery product offerings.

We have now completed five acquisitions over a ten-month period which have significantly enhanced our product and solutions capability and we feel that we now have one of the broadest product offerings in the market.

In addition to improved capability, we have also added considerable scale, increasing the annualised revenue base from c.£90m to c.£150m. The five acquisitions have added c.650 customers to the Group's existing base, and the majority of the acquired customers to date primarily take one service only. This represents a significant opportunity to further grow revenues by cross selling Redcentric's broad range of services and products across our enlarged customer base.

Integration initiatives

The Sungard Consulting acquisition has been fully integrated into the Redcentric Cyber Security division. Given that this was a capability acquisition, synergy cost savings have been limited. The 4D acquisition has largely been left as a standalone operation whilst we focused our efforts on the larger and lossmaking Sungard DCs business. The 4D business will be fully integrated by the end of FY23.

During the first five months of ownership, we have made considerable progress integrating the Sungard DCs acquisition. Following a three-month transitionary period, all the acquired Sungard customers have been fully onboarded onto Redcentric's operational platforms. The remaining integration activities for the Sungard DCs acquisition are on track to be completed by the end of this financial year.

One of our key strengths is our ability to extract synergies from our acquisitions as demonstrated by the following annualised synergies which have been realised in the period:

- Employee headcount reductions generating savings of £3.2m;
- Property lease negotiations have yielded year one savings of £4.5m;
- The removal of non-required costs, renegotiation, and alignment to Redcentric terms and in-sourcing of certain functions have yielded combined savings of £2.3m.

Further initiatives are underway to remove an additional £7m of annualised costs from the Sungard DCs and 4D acquisitions, including significant energy conservation measures (c.£3m) and the sale or closure of the Elland data centre facility which was acquired as part of the Sungard DCs acquisition.

Energy conservation measures

The inherited Sungard DCs estate was extremely inefficient in energy terms and whilst bringing these facilities up to Redcentric's standard would always have been a priority, the sharp increase in the price and volatility of electricity provided extra incentive. During the second half of this financial year, we will be making very significant investments in energy conservation measures, and we anticipate related capital expenditure of c.£3.0m in H2-FY23 with a further £1m in H1-FY24. Based on the current government price guarantee of 21.1 p/kWh, we would expect a payback of approximately one year and a material reduction in our carbon emissions.

Forecast additional consideration

As part of the Sungard DCs acquisition, 162 customers were acquired on long term contracts averaging 29 months and a further 57 customers were signed on rolling short term contracts averaging 3 months. The initial consideration was £10.1m with further consideration payable contingent on the value of the short-term contacts converting to long term contracts. Work continues to convert as many of these short-term contracts as possible, and we currently anticipate that c.£6m of annualised revenues should convert from short term contracts into long term contracts as was expected at the time that the acquisition was completed. Should these short-term contracts convert as anticipated additional consideration payments of £5.0m would become payable.

Divisional performance

As announced at the time of the full year results, the Group has put in place a divisional structure to allow the Group to deliver against its ambitious growth strategy. The divisions are focused on the Group's core strengths of Cloud Services, Network Services, Communication Services and Cyber Security, Consultancy and our Support Services function providing support for the increased divisional demand.

With our enlarged customer base bringing with it greater cross-selling opportunities and requiring more dedicated product expertise, our divisional structure will enable us to compete and succeed across all areas of the market.

Cloud Services

The Group's Cloud Services division provides a range of cloud hosting solutions, from colocation through to hybrid and public cloud services. The three acquisitions made in the period have substantially increased the customer base and have enhanced our data backup and business recovery product offerings.

Following the acquisitions Cloud Services is now the Group's largest division representing approximately 55% of the Group's annualised recurring revenue.

Network Services

Network integration and data connectivity solutions has also been one of our core strengths. Most of the Company's customers take some sort of connectivity service, increasing their stickiness and reducing potential churn. This division is currently the second largest supplier of HSCN connectivity in the UK.

As indicated at the time of the full year results, we were starting to see a return of large network projects and in the period notable successes included several sizable SD-Wan rollouts. Equipment shortages continue to hamper both project rollout timescales and delivery of one-off product sales.

Network Services represents approximately 35% of the Group's annualised recurring revenue.

Communication Services

This division remains a smaller part of the Group representing approximately 7% of the Group's annualised recurring revenue. It includes a wide product portfolio ranging from IP telephony to UCaaS with a mobile product due to be launched in the second half of the current financial year.

The period has seen continued recruitment into this division and whilst it remains an underdeveloped revenue opportunity for the Group, the Board remains confident that the new appointment of UCaaS specialists and the launch of the new mobile product will help drive growth.

Cyber Security, Consultancy/Support Services

Representing approximately 4% of the Group's annualised recurring revenue, this division includes the Group's cyber security offering that provides wrap around security services, including penetration testing and managed vulnerability scanning. With increased cyber security risk becoming a core focus for all businesses, especially given the much-publicised ransomware attacks suffered by several large organisations, we see this division as a key driver of growth for the Group. In addition, through our standalone consultancy/support services team, we are able to ensure our customers remain our focus and that they receive a consistently high level of service across all group divisions.

Sales performance

After an extremely challenging two-year period which was dominated by the COVID-19 pandemic, businesses are now re-engaging and revisiting previously postponed largescale IT projects. Post the COVID-19 pandemic and as a result of the acquisitions we have significantly increased the size and capability of our sales function. A new sales director has been appointed and quota bearing heads have increased from 25 as of 31 March 2021 to 43 as of 30 September 2022.

New sales volumes for the last six months are significantly ahead of the pre COVID-19 pandemic levels, with the organic customer base increasing for each of the last six months as a result of new sales orders being in excess of cancellations and renewal churn. We believe that this reflects our enlarged customer base, the broadening of the product offering and the enhanced sales team. Particularly pleasing is the number of new logo customers, early cross selling success into the newly acquired customer bases and the wider range of products being sold.

Dividend

The Board has reviewed the financial performance of the business and has decided to maintain an interim dividend payment of 1.2p per share, which will be paid on 27 January 2023 to shareholders on the register at the close of business on 16 December 2022, with the shares going ex-dividend on 15 December 2022. The last date for dividend reinvestment plan (DRIP) elections is 6 January 2023.

As noted previously, the Board will continue to review its policies in relation to dividends and share buybacks having regard to the Company's debt position and additional acquisition opportunities to continue the Group's M&A strategy.

Board changes

On 21 July 2022, Jon Kempster stood down from the Board as Chair of the Audit Committee and Non-Executive Director and the Board was delighted to welcome Alan Aubrey onto the Board as a Non-Executive Director and Chair of the Audit Committee. Alan brings with him considerable market knowledge and breadth and depth of skills and experience.

Our thanks go to Jon for his service to the Group, together with our best wishes for the future.

Summary and outlook

The first six months of FY23 have built on the progress made in the financial year ending 31 March 2022 and have been transformational for Redcentric. As a result of the five acquisitions completed between September 2021 and July 2022, the Group has significantly strengthened its cyber security, hyper-cloud, and consulting capabilities, and materially increased the annualised revenue base by c.70%. With these acquisitions, we feel that we now have one of the broadest product offerings in the market.

Having made excellent progress in the first six months of the financial year, during the second half of the year we will focus on completing the integration of the acquisitions, extracting further cost synergies, and implementing the energy efficiency measures across the Sungard DCs estate.

With the recently enhanced sales team, the increased breadth of products and the enlarged customer base we are confident that organic growth will be generated in addition to the inorganic growth already demonstrated.

Taking into consideration the above, the Board is very confident that the Group will continue to build on the progress made over the last eighteen months, delivering enhanced growth for the Group.

Chief Financial Officer's Review

	Six months to 30 Sept 2022 (H1-23)	Six months to 30 Sept 2021 (H1-22) (Restated)[2]	Change
Total revenue	**£61.5m**	£44.3m	38.8%
Recurring monthly revenue (RMR) [1]	**£56.4m**	£39.6m	42.6%
Recurring monthly revenue percentage	**91.7%**	89.6%	2.1%
Adjusted EBITDA[1]	**£11.7m**	£11.9m	(1.3%)
Adjusted operating profit[1]	**£4.7m**	£7.8m	(40.5%)
Reported operating profit	**£5.2m**	£3.5m	48.1%
Adjusted cash generated from operations[1]	**£2.2m**	£10.0m	(78.4%)
Reported cash generated from operations	**(£2.6m)**	£9.3m	(128.3%)
Adjusted net debt[1]	**(£39.3m)**	(£0.4m)	(10,673.9%)
Reported net debt	**(£65.8m)**	(£15.4m)	(328.5%)
Adjusted basic earnings per share[1]	**1.83p**	3.77p	(51.5%)
Reported basic earnings per share	**2.27p**	1.85p	22.7%

[1] This report contains certain financial alternative performance measures ("APMs") that are not defined or recognised under International Financial Reporting Standards ("IFRS") but are presented to provide readers with additional financial information that is evaluated by management and investors in assessing the performance of the Group.

[2] See note 18 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the International Financial Reporting Interpretations Committee ("IFRIC") agenda decision on cloud implementation, configuration, and customisation costs.

This additional information presented is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures from other companies. These measures are unaudited and should not be viewed in isolation or as an alternative to those measures that are derived in accordance with IFRS.

For an explanation of the APMs used in these results and reconciliations to their most directly related Generally Accepted Accounting Principles ("GAAP") measure, please refer to page 6.

Financial Highlights

- Total revenue grew by 38.8% to £61.5m (H1-22: £44.3m) with recurring revenue of £56.4m (H1-22: £39.6m), reflecting the impact of the three acquisitions made in the six months to 30 September 2022.
- The proportion of recurring revenue increased by 2.1% to 91.7% (H1-22: 89.6%) reflecting the relative higher levels of recurring revenue derived from the services provided by both 4D and Sungard DCs
- Adjusted operating expenditure increased by £16.0m (101%) to £31.8m (H1-22: £15.8m) reflecting the impact of the three acquisitions made in the six months to 30 September 2022. Group headcount has increased by 135 since 31 March 2022 to 602 (FY-22: 467)
- Adjusted EBITDA was £11.7m (H1-22: £11.9m) and adjusted EBITDA margins decreased by 7.8% to 19.0% (H1-22: 26.8%) which reflects:
    - The acquisitions of 100% of the issued share capital of 4D, and the trade and assets of Sungard Consulting and Sungard DCs, the latter of which was significantly loss making prior to acquisition;
    - Investment in the organisational senior management structure to support the continued growth of the business
- Reported operating profit increased by 48.1% to £5.2m (H1-22: £3.5m) reflecting total exceptional items of -£5.0m (H1-22: £0.9m). Exceptional items largely consist of acquisition and integration costs of £3.5m and negative goodwill of £9.7m arising on the acquisition of Sungard DCs
- Net debt has increased by £49.1m since 31 March 2022 to £65.8m, reflecting:
    - Consideration net of cash acquired for 4D, Sungard DCs and the consulting and risk and resilience business from Sungard Availability Services (UK) Limited (in administration) of £23.2m;
    - Additional IFRS lease liabilities of £16.8m in relation to certain data centre properties acquired with 4D and Sungard DCs acquisitions;

  - An investment of £3.2m, reflecting stock forward bought to avoid significant price increases, protecting profitability, and to ensure that supply chain issues do not delay network rollout projects. It is anticipated that approximately half of this working capital investment will reverse by the end of the financial year;
  - An additional working capital requirement of £6.3m as the Group worked to onboard the customers acquired as part of the Sungard DCs acquisition. The invoicing relating to this onboarding has now been brought up to date and hence this adverse working capital impact is expected to reverse in H2 of this financial year ("FY23");
  - The cash cost of exceptional items of £4.8m were incurred in the period, £2.5m higher than anticipated due to additional integration and restructuring costs in relation to the 4D and Sungard acquisitions. Approximately half of these additional costs will result in like for like additional annual savings in the financial year ending 31 March 2024
- Excluding leases previously classified as operating leases under IAS17 net debt was £39.3m (31 March 2022: £1.5m)
- The interim dividend will be maintained at 1.2p per share.

Alternative performance measures

This interim report contains certain alternative performance measures that are not defined or recognised under IFRS but are presented to provide readers with additional financial information that is evaluated by management and investors in assessing the performance of the Group.

This additional information presented is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other companies. These measures are unaudited and should not be viewed in isolation or as an alternative to those measures that are derived in accordance with IFRS.

Recurring monthly revenue
Recurring revenue is the revenue that annually repeats either under contractual arrangement or by predictable customer habit. It highlights how much of the Group's total revenue is secured and anticipated to repeat in future periods, providing a measure of the financial strength of the business. It is a measure that is well understood by the Group's investor and analyst community and is used for internal performance reporting.

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 Unaudited £'000	Year ended 31 March 2022 Audited £'000
Reported revenue	**61,531**	44,322	93,328
Non-recurring revenue	**(5,095)**	(4,752)	(10,363)
Recurring revenue	**56,436**	39,570	82,965

Adjusted EBITDA

Adjusted EBITDA is earnings before interest, tax, depreciation, and amortisation and excluding exceptional items (as set out in note 5), share-based payments and associated national insurance. Items are only classified as exceptional due to their nature or size, and the Board considers that this metric provides the best measure of assessing trading performance as it excludes items that impact financial performance such as amortisation of acquired intangibles arising from business combinations which vary year on year depending on the timing and size of any acquisitions.

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 (Restated)[2] Unaudited £'000	Year ended 31 March 2022 Audited £'000
Reported operating profit	**5,233**	3,533	6,607
Amortisation of intangible assets arising on business combinations	**3,913**	3,126	6,498
Amortisation of other intangible assets	**262**	407	475
Depreciation of tangible assets	**1,441**	2,186	2,745
Depreciation of ROU assets	**5,346**	1,451	4,578
EBITDA	**16,195**	10,703	20,903
Exceptional items	**(5,030)**	873	1,629
Share-based payments	**536**	284	1,181
Adjusted EBITDA	**11,701**	11,860	23,713

Adjusted cash from operations

Adjusted cash from operations is cash from operations excluding the cash cost of exceptional items

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 (Restated)[2] Unaudited £'000	Year ended 31 March 2022 Audited £'000
Reported cash from operations	**(2,632)**	9,292	17,168
Cash costs of exceptional items	**4,790**	688	2,091
Adjusted cash from operations	**2,158**	9,980	19,259

Cash from operations has reduced as a result of the short-term working capital investment made following the Sungard DCs acquisition (as detailed in note 17).

Maintenance capital expenditure

Maintenance capital expenditure is the capital expenditure that is incurred in support of the Group's underlying infrastructure rather than in support of specific customer contracts.

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 (Restated)[2] Unaudited £'000	Year ended 31 March 2022 Audited £'000
Reported capital expenditure	**1,542**	1,910	3,226
Customer capital expenditure	**(595)**	(665)	(1,076)
Maintenance capital expenditure	**947**	1,245	2,150

The reduction in customer capital expenditure is as a result of the continued delays in large scale IT projects, however the Group has significantly invested in inventories to deliver several significant projects that have been signed with rollouts continuing in H2.

Adjusted operating profit and adjusted earnings per share

Adjusted operating profit is operating profit excluding amortisation on acquired intangibles, exceptional items, and share-based payment charges. The same adjustments are also made in determining the adjusted operating profit margin and in determining adjusted earnings per share ("EPS"). The Board considers this adjusted measure of operating profit to provide the best metric of assessing underlying performance as it excludes exceptional items and the amortisation of acquired intangibles arising from business combinations which varies year on year dependent on the timing and size of any acquisitions.

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 (Restated)[2] Unaudited £'000	Year ended 31 March 2022 Audited £'000
Reported operating profit	**5,233**	3,533	6,607
Amortisation of intangible assets arising on business combinations	**3,913**	3,126	6,498
Exceptional items	**(5,030)**	873	1,629
Share-based payments	**536**	284	1,181
Adjusted operating profit	**4,652**	7,816	15,915

The EPS calculation further adjusts for the tax impact of the operating profit adjustments, as presented in note 8.

Adjusted operating costs

Adjusted operating costs are operating costs less depreciation, amortisation, exceptional items, and share-based payments. This metric shows the trading operating expenditure of the Group, excluding any non-trading and non-recurring items which impact financial performance. These are controllable operating costs which provide investors with useful information about how the Group is managing its expenditure.

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 (Restated)[2] Unaudited £'000	Year ended 31 March 2022 Audited £'000
Reported operating expenditure	**38,307**	24,105	53,046
Depreciation of ROU assets	**(5,346)**	(1,451)	(4,578)
Depreciation of tangible assets	**(1,440)**	(2,186)	(2,745)
Amortisation of intangibles arising on business combinations	**(3,913)**	(3,126)	(6,498)
Amortisation of other intangible assets	**(262)**	(407)	(475)
Exceptional items	**5,030**	(873)	(1,629)
Other operating income	**(70)**	-	(103)
Share-based payments	**(536)**	(284)	(1,181)
Adjusted operating expenditure	**31,770**	15,778	35,837

Adjusted operating expenditure has increased by 101% to £31.8m (H1-FY22: £15.8m) as a result of acquisitions completed to date, specifically:

- Employee costs have increased by 71.6% due to the increased headcount within the Group;
- Network and equipment costs have increased by 61.4%; and
- Data centre costs have increased by 357% due to both increased electricity unit costs and underlying operating costs relating to the five additional data centres added to the Group's portfolio.

Adjusted net debt

Adjusted net debt is net debt excluding leases that would have been classified as operating leases under IAS 17 and supplier loans.

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 Unaudited £'000	Year ended 31 March 2022 Audited £'000
Reported net debt	**(65,775)**	(15,351)	(16,645)
Supplier loans	**540**	1,038	1,004
Lease liabilities that would have been classified as operating leases under IAS 17	**25,909**	13,948	14,096
Adjusted net debt	**(39,326)**	(365)	(1,545)

The increase in adjusted net debt is due to the £40m drawdown on the revolving credit facility (£40m undrawn) which has been used to fund the acquisitions completed in the period as well as the associated short-term working capital investment. At the date of approval of these results, £36.5m of the RCF remains undrawn.

Profitability and dividend policy

Adjusted EBITDA (£11.7m) and adjusted operating profit (£4.7m) were down 1.3% and 40.5% respectively, with an adjusted EBITDA margin of 19.0% (H1-22: 26.8%) and adjusted operating margin of 7.6% (H1-22: 17.6%).

After accounting for exceptional items of -£5.0m (H1-22 Restated: £0.9m) and share-based payment costs of £0.5m (H1-22: £0.3m), the reported operating profit was £5.2m (H1-22 Restated: profit of £3.5m).

Net finance costs for the period were £1.1m (H1:22: £0.5m) including £0.4m (H1-22: £0.4m) of IFRS 16 finance charges.

The reported basic and diluted EPS both increased 23% and 24% to 2.27p and 2.24p respectively (H1-22: 1.85p and 1.81p respectively). Adjusted basic and diluted EPS both decreased 51% to 1.83p and 1.81p respectively (H1-22: 3.77p and 3.69p respectively).

The Board has reviewed the financial performance of the business and has decided to maintain an interim dividend payment of 1.2p per share, which will be paid on 27 January 2023 to shareholders on the register at the close of business on 16 December 2022, with the shares going ex-dividend on 15 December 2022. The last date for dividend reinvestment plan (DRIP) elections is 6 January 2023.

Cash flow and net debt

The principal movements in net debt are set out in the table below.

	Six months to 30 September 2022 Unaudited	Six months to 30 September 2021 (Restated)[2] Unaudited	Year ended 31 March 2022 Audited
	£'000	£'000	£'000
Operating profit	**5,233**	3,533	6,607
Depreciation and amortisation	**10,962**	7,170	14,296
Exceptional items	**(5,030)**	873	1,629
Share based payments	**536**	284	1,181
Adjusted EBITDA	**11,701**	11,860	23,713
Working capital movements	**(9,543)**	(1,880)	(4,017)
Transfer from intangible assets to cost of sales	**-**	-	140
Non-cash provision movements	**-**	-	(577)
Adjusted cash generated from operations	**2,158**	9,980	19,259
Cash conversion	*18%*	*84%*	*81%*
Capital expenditure – cash purchases	**(1,542)**	(1,910)	(2,765)
Capital expenditure – finance lease purchases	**-**	-	(438)
Net capital expenditure	**(1,542)**	(1,910)	(3,203)
Corporation tax (paid) / received	**(176)**	(5)	246
Interest paid	**(513)**	(292)	(51)
Loan arrangement fee amortisation	**(133)**	-	-
Finance lease / term loan interest	**(424)**	(509)	(885)
Effect of exchange rates	**38**	-	27
Other movements in net debt	**(1,208)**	(806)	(663)
Normalised net debt movement	**(592)**	7,264	15,393
Acquisition of subsidiaries (net of cash acquired)	**(23,229)**	(8,366)	(10,422)
Cash costs of exceptional items	**(4,790)**	(688)	(2,091)
Share buyback	**-**	-	(2,666)
Non-capitalised finance lease purchases	**-**	-	(145)
Cash received on sale of non-core business unit	**-**	5,750	5,750
IFRS16 lease additions	**(16,812)**	-	(2,094)
IFRS16 lease disposals	**-**	-	813
Share issues	**-**	-	1
Cash received on exercise of share options	**12**	7	12
Dividends	**(3,719)**	(3,749)	(5,627)
	(48,538)	(7,046)	(16,469)
(Increase) / decrease in net debt	**(49,130)**	218	(1,076)
Net debt at the beginning of the period	**(16,645)**	(15,569)	(15,569)
Net debt at the end of the period	**(65,775)**	(15,351)	(16,645)

[2] See note 18 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration, and customisation costs.

Net debt increased by £49.1m in the period to £65.8m and consists of total borrowings of £42.5m (FY-22: £3.3m) and leases previously classified as operating leases under IAS17 of £25.9m (FY-22: £14.1m) less cash balances of £2.6m (FY-22: £1.8m).

At 30 September 2022, the Company had committed a revolving credit facility ("RCF") of £80m (£40m utilised at 30 September 2022) and a £7.0m asset financing facility (£0.9m utilised at 30 September 2022). In addition, the Company has access to a £20.0m accordion facility (which remains undrawn).

Related party transactions

There have been no material changes in the related party transactions described in the last annual report and accounts of the Company.

Principal risks and uncertainties

The principal risks and uncertainties, which could have a material impact upon the Group's performance over the remaining six months of the financial year ending 31 March 2023, have not changed from those set out on pages 31 and 32 of the Group's 2022 annual report and accounts, which are available at www.redcentricplc.com. These risks and uncertainties include, but are not limited to, the following:

Market and economic conditions
Technology and cyber-security
Competition and market pressures
Business continuity
Loss of a major contract
Environmental impact

Following the completion of our recent acquisitions and the increased scale of the business, the Group has increased its exposure to any increase in price and volatility of electricity. As noted in the statements above, to mitigate this, we are implementing a series of energy conservation measures which will help to reduce consumption across the Group’s data centre estate. In addition to this the Group intends to replicate its electricity hedging policy across the recently acquired businesses once electricity prices have stabilised.

Going concern

As stated in note 2 to the financial statements, the Board is satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

By order of the Board,

Chief Executive Officer	Chief Financial Officer
Peter Brotherton	**David Senior**
7 December 2022	7 December 2022

Redcentric plc

Condensed consolidated statement of comprehensive income for the six months ended 30 September 2022

	Note	**Six months to 30 September 2022 Unaudited £'000**	Six months to 30 September 2021 (Restated)[2] Unaudited £'000	Year ended 31 March 2022 Audited £'000
Revenue	4	**61,531**	44,322	93,328
Cost of sales		**(18,061)**	(16,684)	(33,778)
Gross Profit		**43,470**	27,638	59,550
Operating expenditure		**(38,307)**	(24,105)	(53,046)
Other operating income		**70**	-	103
Adjusted EBITDA[1]		**11,701**	11,860	23,713
Depreciation of property, plant, and equipment		**(1,441)**	(2,606)	(2,745)
Amortisation of intangibles		**(4,175)**	(3,113)	(6,973)
Depreciation and Amortisation of ROU assets		**(5,346)**	(1,451)	(4,578)
Gain on bargain purchase	5	**9,685**	-	-
Other exceptional items	5	**(4,655)**	(873)	(1,629)
Share-based payments		**(536)**	(284)	(1,181)
Operating profit		**5,233**	3,533	6,607
Finance costs	6	**(1,129)**	(549)	(1,071)
Profit before taxation		**4,104**	2,984	5,536
Income tax (expense)/credit	7	**(567)**	(97)	1,404
Profit for the period attributable to owners of the parent		**3,537**	2,887	6,940
Other comprehensive income				
Items that may be classified to profit or loss:				
Currency translation differences		**(65)**	-	(26)
Deferred tax movement on share options		-	-	58
Total comprehensive income for the period		**3,472**	2,887	6,972
Earnings per share				
Basic earnings per share	8	**2.27p**	1.85p	4.43p
Diluted earnings per share	8	**2.24p**	1.81p	4.36p

[1] For an explanation of the APMs used in this report, please refer to page 6.

[2] See note 18 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration, and customisation costs.

Redcentric plc

Condensed consolidated statement of financial position as at 30 September 2022

	Note	**30 Sept 2022 Unaudited £'000**	30 Sept 2021 (Restated)[2] Unaudited £'000	31 March 2022 Audited £'000
Non-Current Assets				
Intangible assets		**102,344**	68,669	67,726
Property, plant, and equipment		**15,219**	5,133	5,372
Right-of-use assets		**27,982**	17,456	17,038
Deferred tax asset		**-**	2,897	3,999
		145,545	94,155	94,135
Current Assets				
Inventories	9	**4,634**	969	1,393
Trade and other receivables	10	**32,696**	19,774	22,123
Cash and cash equivalents		**2,606**	3,553	1,804
		39,936	24,296	25,320
Total Assets		**185,481**	118,451	119,455
Current Liabilities				
Trade and other payables	12	**(30,062)**	(24,054)	(24,053)
Corporation tax payable		**(1,571)**	(684)	(800)
Loans and borrowings	13	**(40,240)**	(498)	(508)
Leases	13	**(8,066)**	(3,855)	(4,086)
Provisions	14	**(341)**	(548)	-
Contingent consideration	15	**(5,496)**	-	(422)
		(85,776)	(29,639)	(29,869)
Non-Current Liabilities				
Loans and borrowings	13	**280**	(540)	(496)
Leases	13	**(20,355)**	(14,011)	(13,359)
Deferred tax liability		**(2,998)**	-	-
Provisions	14	**(4,440)**	(2,744)	(3,883)
		(27,513)	(17,295)	(17,738)
Total Liabilities		**(113,289)**	(46,934)	(47,607)
Net Assets		**72,192**	71,517	71,848
Equity				
Called up share capital	16	**157**	156	157
Share premium account	16	**73,267**	73,267	73,267
Capital redemption reserve		**(9,454)**	(9,454)	(9,454)
Own shares held in treasury	16	**(1,336)**	(19)	(2,673)
Retained earnings		**9,558**	7,567	10,551
Total Equity		**72,192**	71,517	71,848

[2] See note 18 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration, and customisation costs.

Redcentric plc

Condensed consolidated statement of changes in equity as at 30 September 2022

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Own Shares Held in Treasury £'000	Retained Earnings £'000	Total Equity **£'000**
At 1 April 2021	156	73,267	(9,454)	(32)	8,153	**72,090**
Profit for the period	-	-	-	-	2,887	**2,887**
Transactions with owners						
Share-based payments	-	-	-	-	276	**276**
Dividends paid	-	-	-	-	(3,749)	**(3,749)**
Share options exercised	-	-	-	13	-	**13**
Other comprehensive income						
Currency translation differences	-	-	-	-	-	**-**
At 30 September 2021 unaudited (Restated)[2]	156	73,267	(9,454)	(19)	7,567	**71,517**
Profit for the period	-	-	-	-	4,054	**4,054**
Transactions with owners						
Share-based payments	-	-	-	-	791	**791**
Share buyback	-	-	-	(2,666)	-	**(2,666)**
Issue of new shares	1	-	-	-	-	**1**
Dividends paid	-	-	-	-	(1,878)	**(1,878)**
Share options exercised	-	-	-	12	(14)	**2**
Other comprehensive income						
Deferred tax movement on share options	-	-	-	-	58	**58**
Currency translation differences	-	-	-	-	(26)	**(26)**
At 31 March 2022	157	73,267	(9,454)	(2,673)	10,551	**71,848**
Profit for the period	-	-	-	-	3,537	**3,537**
Transactions with owners						
Share-based payments	-	-	-	-	449	**449**
Dividends paid	-	-	-	-	(3,719)	**(3,719)**
Share options exercised	-	-	-	1,337	(1,325)	**12**
Other comprehensive income						
Currency translation differences	-	-	-	-	65	**65**
At 30 September 2022 unaudited	**157**	**73,267**	**(9,454)**	**(1,336)**	**9,558**	**72,192**

[2] See note 18 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration, and customisation costs.

Redcentric plc

Consolidated cash flow statement for the six months ended 30 September 2022

	Six months to 30 Sept 2022	Six months to 30 Sept 2021 (Restated)[2]	Year ended 31 March 2022
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Profit before tax	**4,104**	2,984	5,536
Finance costs	**1,129**	549	1,071
Operating profit	**5,233**	3,533	6,607
Adjustment for non-cash items			
Depreciation and amortisation	**10,962**	7,170	14,296
Exceptional items	**(5,030)**	873	1,629
Share-based payments	**536**	284	1,181
Operating cash flow before exceptional items and movements in working capital	**11,701**	11,860	23,713
Transfer from intangible assets to cost of sales	**-**	-	140
Non-cash provision movements	**-**	-	(577)
Cash cost of exceptional items	**(4,790)**	(688)	(2,091)
Operating cash flow before changes in working capital	**6,911**	11,172	21,185
Changes in working capital			
Decrease / (increase) in inventories	**(3,241)**	390	(185)
Decrease / (increase) in trade and other receivables	**(9,663)**	1,994	559
Increase / (decrease) in trade and other payables	**3,361**	(4,264)	(4,391)
Cash generated from operations	**(2,632)**	9,292	17,168
Tax (paid) / received	**(176)**	(5)	246
Net cash generated from operating activities	**(2,808)**	9,287	17,414
Cash flows from investing activities			
Acquisition of subsidiaries net of cash acquired	**(23,229)**	(8,366)	(10,422)
Disposal of non-core contacts	**-**	5,750	5,750
Purchase of property, plant, and equipment	**(1,364)**	(1,664)	(2,264)
Purchase of intangible fixed assets	**(178)**	(246)	(501)
Net cash used in investing activities	**(24,771)**	(4,526)	(7,437)
Cash flows from financing activities			
Dividends paid	**(3,719)**	(3,749)	(5,627)
Share buy back	**-**	-	(2,666)
Cash received on exercise of share options	**12**	7	12
Interest paid	**(937)**	(400)	(936)
Repayment of leases	**(5,836)**	(2,316)	(3,745)
Repayment of term loans	**(464)**	-	(487)
Drawdown of borrowings	**45,500**	2,000	4,500
Repayment of borrowings	**(5,500)**	(2,000)	(4,500)
Repayment of loan arrangement fees	**(713)**	-	-
Issue of shares	**-**	-	1
Net cash used in financing activities	**28,343**	(6,458)	(13,448)
Net increase / (decrease) in cash and cash equivalents	**764**	(1,697)	(3,471)
Cash and cash equivalents at beginning of period	**1,804**	5,250	5,250
Effect of exchange rates	**38**	-	25
Cash and cash equivalents at end of the period	**2,606**	3,553	1,804

[2] See note 18 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration, and customisation costs.

Redcentric plc

Notes to the condensed set of financial statements for the six months ended 30 September 2022

1. General information

The financial statements for the six months ended 30 September 2022 and the six months ended 30 September 2021 do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2022 were approved by the Board on 21 July 2022, revised by supplementary note on 5 December 2022, and subsequently delivered to the Registrar of Companies. The auditor's report on the revised accounts was unqualified, did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006 and contained an emphasis of matter paragraph relating to the revision of the Parent Company Balance Sheet and Note 1 of the Parent Company financial statements as the original financial statements omitted the required disclosures under section 408 of the Companies Act 2006.

These condensed half year financial statements were approved for issue by the Board on 7 December 2022.

Redcentric plc is a company domiciled in England and Wales. These condensed half year financial statements comprise the Company and its subsidiaries (together referred to as the "Company" or the "Group"). The principal activity of the Company is the supply of IT managed services.

2. Accounting policies

Basis of preparation

These condensed half year financial statements for the half year ended 30 September 2022 have been prepared in accordance with the AIM Rules for Companies, comply with IAS 34 Interim Financial Reporting as adopted by the UK and should be read in conjunction with the annual financial statements for the year ended 31 March 2022, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK.

The financial information is presented in sterling, which is the functional currency of the Company. All financial information presented has been rounded to the nearest thousand.

Going concern

On 26 April 2022 the Group completed a refinancing of its debt facilities that were due to mature on 30 June 2022. The new debt facilities consist of an £80m revolving credit facility (RCF) and a £20m accordion facility and are provided by a new four bank group comprising NatWest, Barclays, Bank of Ireland, and Silicon Valley Bank. The Group also has a £7.0m asset financing facility provided by Lombard. At the 30 September 2022 the Group had borrowed £40m of the RCF which has been used to fund acquisitions and the associated short-term working capital requirements and had utilised £0.9m of the asset financing facility.

The Board has reviewed a detailed trading and cash flow forecast for a period which covers at least 12 months after the date of approval of these condensed half year financial statements. The Group's trading and cash flow forecasts have been prepared using current trading assumptions, however, the economic environment presents several challenges which could negatively impact the actual performance achieved. These risks include, but are not limited to, achieving forecast levels of order intake and customer confidence to invest in new infrastructure. If future trading performance significantly under-performs the Group's forecasts, this could impact the ability of the Group to comply with its covenant tests over the period of the forecasts, therefore a downside scenario has been prepared.

The downside scenario assumes significant economic downturn over the remainder of FY23 and the first half of FY24 with new order intake reduced by 30% of base case forecast and a 13% reduction in non-recurring revenues. This scenario also models the impact of continued economic and inflationary pressures with interest rates continuing to increase to 5.5% in January 2024 and increases to key cost bases in the Group including salary rates and electricity prices. Under the downside scenario modelled, management would utilise the existing finance facilities but would not need to undertake any mitigating actions. The forecasts demonstrate that the Group is expected to maintain sufficient liquidity and remain in compliance with covenants whilst still maintaining adequate headroom against overall facilities.

The Board therefore remains confident that the Group has adequate resources to continue to meet its liabilities as and when they fall due within the period of at least 12 months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

2. Critical accounting judgements and key sources of estimation uncertainty

Identification of intangible assets and fair value adjustments on acquisition

The allocation of the value of the excess consideration less the net assets acquired are identified as intangible assets arising as part of a business combination. These require judgement in respect of the separately identifiable intangible assets that have been acquired. These judgements are based upon the Board's opinion of the identifiable assets from which economic benefits are derived.

As the Group continues with its acquisition strategy, there is a requirement to fair value the assets and liabilities of any business acquired during the financial year. The measurement period will end when the Group receives the information it was seeking about the facts and circumstances that existed at the date of acquisition or learns that this information is not available. The measurement period cannot be longer than twelve months from the date of acquisition. The Group is required to identify, assess, and value the intangible assets within the acquired business at the time of acquisition. When reviewing the existence of intangible assets consideration is required as to the potential intangible assets arising such as customer relationships.

The estimation of the value of any potential identified intangible assets, such as customer relationships, requires estimates of the expected future cashflows that will be derived from the existing relationships, and the associated useful life, with a suitable discount rate required to calculate the present value. The methods and assumptions included in determining the fair values of acquired intangibles are therefore complex and subject to estimation uncertainty.

Contingent consideration

Judgement is required when considering the level of contingent consideration that will be payable in relation to the Sungard DCs acquisition. Under the terms of the agreement, consideration is payable and calculated with reference to contracted monthly recurring revenue for a period that exceeds 12 months. Where customers have initially contracted for a period of less than 12 months, judgement and estimation is required to assess the likelihood of these contracts being extended to a period that exceeds 12 months largely through discussions with customers. This is therefore subject to estimation uncertainty.

3. Segmental reporting

IFRS 8 requires operating segments to be identified based on internal financial information reported to the chief operating decision-maker for decision-making purposes. The Group considers that this role is performed by the Board. The Board believes that the Group continues to comprise a single reporting segment, being the provision of managed services to customers.

4. Revenue analysis

Revenue for the six months ended 30 September 2022 was generated wholly from the UK and is analysed as follows:

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 Unaudited £'000	Year ended 31 March 2022 Audited £'000
Recurring revenue	**56,436**	39,570	82,965
Product revenue	**2,460**	2,875	6,187
Services revenue	**2,635**	1,877	4,176
Total revenue	**61,531**	44,322	93,328

5. Exceptional items

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 (Restated)[2] Unaudited £'000	Year ended 31 March 2022 Audited £'000
Professional fees associated with Financial Conduct Authority investigation	**-**	8	-
Insurance advisor provision	**-**	-	(483)
Staff restructuring	**-**	128	159
Acquisition and integration costs	**3,539**	494	971
Historic share warrant exercise	**-**	-	310
Costs and settlement relating to a customer dispute	**812**	-	119
Shareholder restitution scheme	**-**	28	-
Impairment of intangible assets	**-**	-	205
Lease modification	**-**	-	(119)
Sale costs	**-**	-	70
Cloud configuration and customisation costs	**304**	208	397
Gain from bargain purchase (note 17)	**(9,685)**	-	-
Costs upon sale of non-core business unit	**-**	7	-
	(5,030)	873	1,629

[2] See note 18 for an explanation and reconciliation in relation to the prior year restatement arising from a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration, and customisation costs.

6. Finance costs

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 Unaudited £'000	Year ended 31 March 2022 Audited £'000
Finance costs			
Interest payable on bank loans and overdrafts	**(511)**	(31)	(81)
Interest payable on leases	**(483)**	(518)	(990)
Amortisation of loan arrangement fees	**(135)**	-	-
	(1,129)	(549)	(1,071)

7. Income tax expense

The tax expense recognised reflects management estimates of the tax charge for the period and has been calculated using the estimated average tax rate of UK corporation tax for the financial year of 19.0% (H1-22: 19.0%).

8. Earnings per share (EPS)

The calculation of basic and diluted EPS is based on the following earnings and number of shares.

Earnings	**Six months to 30 Sept 2022 Unaudited £'000**	Six months to 30 Sept 2021 (Restated)[2] Unaudited £'000	Year ended 31 March 2022 Audited £'000
Statutory earnings	**3,537**	2,887	6,940
Tax charge	**567**	97	(1,404)
Amortisation of acquired intangibles	**3,913**	3,126	6,498
Share-based payments	**536**	284	1,181
Exceptional items	**(5,030)**	873	1,629
Adjusted earnings before tax	**3,523**	7,267	14,844
Notional tax charge at standard rate	**(670)**	(1,381)	(2,820)
Adjusted earnings	**2,853**	5,886	12,024

Weighted average number of ordinary shares	**Number '000**	Number '000	Number '000
Total shares in issue	**156,992**	156,184	156,992
Shares held in treasury	**(1,000)**	(21)	(420)
For basic EPS calculations	**155,992**	156,163	156,572
Effect of potentially dilutive share options	**2,138**	3,441	2,803
For diluted EPS calculations	**158,130**	159,604	159,375

EPS	**Pence**	Pence	Pence
Basic	**2.27p**	1.85p	4.43p
Adjusted	**1.83p**	3.77p	7.68p
Basic diluted	**2.24p**	1.81p	4.36p
Adjusted diluted	**1.81p**	3.69p	7.54p

9. Inventories

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 Unaudited £'000	Year ended 31 March 2022 Audited £'000
Goods for resale	**4,634**	969	1,393

Goods for resale includes components required to deliver managed services to customers.

10. Trade and other receivables

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 Unaudited £'000	Year ended 31 March 2022 Audited £'000
Trade receivables	**17,269**	9,015	11,112
Less: credit note provision	**(669)**	(1,115)	(884)
Trade receivables – net	**16,600**	7,900	10,228
Other receivables	**221**	594	737
Prepayments	**6,194**	6,956	6,434
Commission contract asset	**2,183**	1,877	2,098
Accrued income	**7,498**	2,447	2,626
Total	**32,696**	19,774	22,123

11. Trade and other receivables (continued)

Trade receivable days were 43 at 30 September 2022 (30 September 2021: 31). The ageing of trade receivables is shown below:

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 Unaudited £'000	Year ended 31 March 2022 Audited £'000
Current	**12,303**	7,188	8,736
1 to 30 days overdue	**3,525**	1,561	1,997
31 to 60 days overdue	**1,352**	126	452
61 to 90 days overdue	**42**	115	80
91 to 180 days overdue	**8**	25	19
> 180 days overdue	**39**	-	(172)
Gross trade receivables	**17,269**	9,015	11,112
Credit note provision	**(669)**	(1,115)	(884)
Net trade receivables	**16,600**	7,900	10,228

12. Trade and other payables

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 Unaudited £'000	Year ended 31 March 2022 Audited £'000
Trade Payables	**10,330**	7,245	8,910
Other Payables	**1,209**	982	1,130
Taxation and Social Security	**2,819**	3,128	2,433
Accruals	**7,722**	4,297	4,050
Deferred Income	**7,982**	8,402	7,530
Total	**30,062**	24,054	24,053

Trade creditor days were 33 at 30 September 2022 (30 September 2021: 32).

13. Borrowings

	Six months to 30 Sept 2022 Unaudited £'000	Six months to 30 Sept 2021 Unaudited £'000	Year ended 31 March 2022 Audited £'000
Current			
Lease liabilities	**8,066**	3,855	4,086
Term loans	**506**	498	508
Bank loans	**40,000**	-	-
Unamortised loan arrangement fees	**(266)**	-	-
Total	**48,306**	4,353	4,594
Non-current			
Lease liabilities	**20,355**	14,011	13,359
Term Loans	**35**	540	496
Bank Loans	**-**	-	-
Unamortised loan arrangement fees	**(315)**	-	-
Total	**20,075**	14,551	13,855

14. Provisions

	Scheme fees provision	Dilapidation provision	Onerous contract provision	Total provision
	£'000	£'000	£'000	£'000
At 1 April 2021	553	2,695	21	3,269
Additional provisions in the period	-	49	-	49
Released during the period	-	-	-	-
Utilised during the period	(26)	-	-	(26)
At 30 September 2021 unaudited	527	2,744	21	3,292
Additional provisions in the period	-	1,140	-	1,140
Acquired through business combination	-	-	577	577
Released during the period	(527)	-	-	(527)
Utilised during the period	-	(1)	(598)	(599)
At 31 March 2022	-	3,883	-	3,883
Additional provisions in the period	-	284	-	284
Acquired through business combination	-	614	-	614
Released during the period	-	-	-	-
Utilised during the period	-	-	-	-
At 30 September 2022 unaudited	**-**	**4,781**	**-**	**4,781**
Analysed as:				
Current	-	341	-	341
Non-current	-	4,440	-	4,440
At 30 September 2022 unaudited	**-**	4,781	-	4,781

15. Contingent consideration

	Six months to 30 Sept 2022 Unaudited	Six months to 30 Sept 2021 Unaudited	Year ended 31 March 2022 Audited
	£'000	£'000	£'000
Contingent consideration due on acquisitions within one year:			
7 Elements Limited	**436**	-	422
Sungard DCs (note 17)	**5,060**	-	-
Total	**5,496**	-	422

16. Share capital and share premium

	Ordinary shares of 0.1p each		Share premium
	Number	£'000	£'000
At 1 April 2021	156,165,710	156	73,267
New shares issued	826,272	1	-
At 31 March 2022	156,991,982	157	73,267
New shares issued	-	-	-
At 30 September 2022 unaudited	**156,991,982**	**157**	**73,267**

At the start of the period the Company held in treasury 2,170,203 of its ordinary share capital. During the period, following notices of exercise in relation to employee share options, 1,085,261 shares previously held in treasury were transferred to satisfy the exercises. At 30 September 2022, the Company's issued share capital consisted of 156,991,982 ordinary shares of which 1,084,942 which remain in treasury.

17. Business combinations

4D Data Centres Limited

On 27 June 2022, the Group's trading subsidiary, Redcentric Solutions Limited, acquired 100% of the issued share capital of 4D Data Centres Limited ("4D") for £10.1m consideration. The business provides colocation, cloud, and connectivity services to mid-market customers. The primary purpose of the business combination is to scale the Group's existing revenues in the area with significant synergies expected as the acquisition is integrated into the Group.

The Group incurred acquisition-related costs of £0.2m on acquisition fees and integration costs which are included in exceptional costs (note 5).

The table below summarises the recognised amounts of assets and liabilities assumed as at the date of acquisition of 4D using provisional fair values:

	Provisional fair value of net assets acquired unaudited £'000
Tangible fixed assets	2,447
Customer relationships intangible asset	6,200
ROU Assets	1,286
Trade and other receivables	911
Cash and cash equivalents	1,061
Trade and other payables	(1,646)
Deferred revenue	(764)
Deferred tax	(1,712)
Leases	(1,976)
Provisions	(692)
Corporation tax	187
Total identifiable net assets acquired	**5,302**
Goodwill	**4,821**
Cash	9,842
Deferred consideration	281
Total cash consideration	**10,123**

The goodwill arising on acquisition represents future income from new customers together with the anticipated future operating synergies from the new combination.

The fair value of assets acquired includes trade receivables with a fair value of £0.7m comprised of the gross amounts due under contracts, all of which is expected to be collectable.

The provisional fair value of the acquired customer relationships is £6.2m. To estimate the fair value of the customer relationships intangible asset, a multi-period excess earnings method "MEEM" approach has been adopted, this approach considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

The consulting and risk and resilience business of Sungard Availability Services (UK) Limited (in administration)

On 7 June 2022, the Group's trading subsidiary, Redcentric Solutions Limited, acquired the consulting business of Sungard Availability Services Limited (in administration) for a consideration of £4.2m paid in cash. The business provides services in respect of business continuity, cloud and infrastructure, cyber resilience, disaster recovery and hybrid cloud transformation services alongside the provision and operation of cloud related services. This acquisition adds significant expertise into the Group's risk and resilience and consultancy offering providing the potential to cross sell additional services into the existing customer base. Given the nature of the business, other than the established workforce acquired the provisional fair value of net assets acquired is considered immaterial to the Group, therefore the business combination has resulted in goodwill of £4.2m.

Sungard DCs

On 6 July 2022, the Group's trading subsidiary, Redcentric Solutions Limited, acquired certain assets, including customer contracts, tangible fixed assets and a workforce, relating to three data centres of Sungard Availability Services Limited (in administration), which together carry out colocation and private hosting services which are now being fulfilled by the Group and which represent a business combination in accordance with IFRS 3 'Business Combinations' as it satisfies the substantive process test.

The initial consideration paid was £10.1m, with further contingent consideration of £5.1m dependent on customer retention and certain performance criteria. Payment will be due once certain performance criteria have been satisfied. The potential undiscounted amount of the contingent payment is between £nil and £19m. In considering the fair value, management assessed contractual negotiations and estimated the value of short-term contracts that are expected to convert to longer term (over 12 months).

Given the nature of the acquisition (being the purchase of a business out of administration), work is ongoing to establish the fair value of all associated assets and liabilities, specifically around the valuation of tangible fixed assets. Therefore, the fair values quoted and associated gain on bargain purchase is provisional and may change once this work is completed and fair values are finalised.

The Group incurred acquisition-related costs of £2.7m on acquisition fees and integration costs which are included in exceptional costs (note 5).

The provisional fair value of the acquired customer relationships is £23.4m. To estimate the fair value of the customer relationships intangible asset, a multi-period excess earnings method "MEEM" approach has been adopted, this approach considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

Once provisional fair values have been established, the business combination has resulted in gain on bargain purchase of £9.7m which has been credited to the income statement within exceptional costs (note 5) for the period ended 30 September 2022.

The table below summarises the recognised amounts of assets and liabilities assumed as at the date of acquisition of Sungard DCs using provisional fair values:

	Provisional fair value of net assets acquired unaudited £'000
Tangible fixed assets	7,500
Customer relationships intangible asset	23,400
ROU assets	2,624
Accruals	(185)
Deferred tax	(5,850)
IFRS16 leases	(2,624)
Total identifiable net assets acquired	**24,865**
Provisional gain on bargain purchase (note 5)	**(9,685)**
Cash	10,120
Contingent consideration (note 15)	5,060
Total consideration	**15,180**

18. Prior year restatement

As detailed in the Group's 2022 annual report and accounts, a prior year restatement has been made on adoption of the IFRS Interpretations Committee (IFRIC) agenda decision in relation to the configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) cloud computing arrangements released in April 2021.

Upon adoption of this agenda decision the comparative period ended 30 September 2021 has been restated to write off previously capitalised costs totalling £0.2m which have now been expensed to exceptional costs and amortisation costs of £0.4m previously charged on the intangible asset have been reversed. In line with the Group's 2022 annual report and accounts, amounts previously capitalised prior to 1 April 2022 and any amortisation charged have been corrected in the relevant periods and written off to retained earnings.

A presentational restatement has also been made to align the results for 30 September 2021 with the results for the 31 March 2022 with the proceeds from the disposal of non-core contracts previously disclosed within exceptional items reallocated to cash flows from investing activities. Accordingly, reported cash generated from operations within the cashflow statement has reduced by £5.7m with a corresponding increase in cash flows from investing activities.