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Half Year Results
30 September 2021

2022

Report & accounts

Agenda

Introductions

Operational review

Financial review

Summary & outlook

Operational review
Six months ended 30 September 2021

Peter Brotherton – Chief Executive Officer

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Introduction, trading context and underlying performance

	Pre Covid		During Covid		
	H1 FY20	H2 FY20	H1 FY21	H2 FY21	H1 FY22
Revenue					
- Recurring	38.3	38.3	40.5	40.4	39.6
- Non-recurring	4.4	5.5	5.2	4.3	4.7
	42.7	**43.8**	**45.7**	**44.7**	**44.3**
Recurring Revenue%	*89.8%*	*87.4%*	*88.6%*	*90.4%*	*89.4%*
Adjusted EBITDA	**9.9**	**10.0**	**11.9**	**12.0**	**11.9**
Adjusted EBITDA margin%	*23.1%*	*22.9%*	*26.1%*	*26.8%*	*26.8%*
Capex	4.8	1.9	2.2	1.9	2.1
Adjusted EBITDA less Capex	5.1	8.1	9.7	10.1	9.8
Adjusted EBITDA less Capex margin%	*12.0%*	*18.6%*	*21.2%*	*22.5%*	*22.0%*
Adjusted earnings	3.3	3.2	5.2	5.3	5.5

Note: On 31 March 2021, the assets relating to the EDF contract were disposed of for £5.8m. The EDF contract contributed revenue of £0.5m and EBITDA of £0.35m in each six-month period up to and including H2 FY21. To provide a better understanding of the results for the six months ended 30 September 2021, the revenue and EBITDA from the EDF contract has been excluded from the prior periods in the table shown above.

The Covid-19 pandemic and the resulting impact on the economy has had a material influence over the trading environment in which we have operated over the last 18 months, with the following trends observed:

- Surge in demand at the outbreak of the pandemic immediately post the initial lockdown (March 2020)
- Scarcity of large-scale IT projects since the outbreak of the pandemic.
- A shortage of microchips significantly increasing supply lead times leading to delays in projects that generate both recurring and non-recurring revenues
- Recent encouraging signs of increased customer interaction

Given the headwinds detailed above the performance of the business over the Covid period has been excellent. When compared to the equivalent period pre Covid-19 (H1 FY20):

- Revenue is up 3.9%
- Adjusted EBITDA is up 20.2%
- Adjusted earnings are up 67.6%

Accounting for Piksel trading for August and September 2021 revised and hence inconsistency with the trading update given on 27 October 2021.

Acquisition of Piksel Industry Solutions

Enhancing cloud capability

Extensive public cloud experience across AWS and Microsoft Azure

Transformed cloud offering with complete end-to-end digital transformation capability enabling a customer's journey from colocation to hyperscale cloud

High growth market dynamics

Piksel IS core business is assisting customers with digital transformation programs, primarily transitioning from on-premise to public cloud

Additional capability provides access to the fastest growing segments of the IT managed services market

Immediately earnings enhancing

Annualised revenues and EBITDA of £10.0m and £0.4m respectively

High recurring revenues at 71% of total revenue

Complementary customer base

Circa 100 customers across a range of industry verticals

Focus on large SME and enterprise customers

Limited customer overlap presenting significant cross-sell opportunities

Highly skilled people

Circa 90 employees based out of York and London

Highly skilled and technically accredited employee base

Substantial synergy opportunity

Significant annualised synergy of at least £1.1m anticipated

£0.7m of synergies already realised

Piksel IS has significant data centre presence which is in the process of being consolidated into Redcentric's own data centres

Digital transformation and service provider evolution

Colocation	Managed Hosting	Private Cloud	Hyperscale
Analytics & AI	Analytics & AI	Analytics & AI	Analytics & AI
Applications	Applications	Applications	Applications
Web Platform	Web Platform	Web Platform	Web Platform
Databases	Databases	Databases	Databases
Operating Sys	Operating Sys	Operating Sys	Operating Sys
Virtualisation	Virtualisation	Virtualisation	Virtualisation
Storage	Storage	Storage	Storage
Servers	Servers	Servers	Servers
Networking	Networking	Networking	Networking
Data Centre	Data Centre	Data Centre	Data Centre

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Customer journey

Piksel Industry Solutions - Integration progress

Integration ahead of plan with £0.7m of savings already actioned and on target to achieve at least £1.1m of total savings

Organisational

- Planning for a new cloud services division is complete with management positions currently being filled.
- Preparation for employee TUPE discussions complete and process to commence in December 2021.
- New fully integrated cloud services division to be in place by December 2021.

Networks and platforms

- Piksel network now fully integrated in to the Redcentric national network with surplus network circuits cancelled.
- New cloud platform currently being built in our Shoreditch data centre and migration of Piksel customers to commence shortly. Notice given to cancel racks in third party data centres.

Operational systems

- The integration of the finance systems is nearing completion and we expect the Piksel accounts to be fully integrated by the end of the calendar year. The transitional finance service costs and costs transitional accounting system costs will cease as soon as the integration is complete.
- The customer prospect database has been migrated onto D365 and the contract for the legacy customer relationship management system cancelled
- All Piksel suppliers have been contacted with the view to either cancelling contracts or renegotiating better rates. Any new purchase orders are being placed through Redcentric Solutions Ltd and plans are in place to migrate suppliers across to Redcentric Solutions Ltd by the end of the financial year
- Discussions with customers have commenced with a view to transferring all contracts to Redcentric Solutions Ltd by the end of the financial year.

Operational highlights – efficiencies and investments

Continued improvement in systems and platforms to facilitate future growth, improve customer service and enable efficient integration of acquisitions

- The first stage of the new HR system is now live and when fully implemented will replace five legacy systems. The new system provides significantly enhanced information to both management and employees and prevents duplicate data entry.
- The first stage of the delivery workflow software is currently in user acceptance testing with a view to being fully released in December 2021. This will result in significant efficiencies in the delivery team, an improvement to customer service and enhanced customer and management reporting.
- The Company's principal customer service management software is in the process of being upgraded and once complete will provide a better and more consistent customer experience. Pro-active support using AI and machine learning, automated processes and workflow tasks will also significantly improve efficiency.
- A new cloud backup platform has been launched replacing our previously outdated proposition. The new platform delivers significantly enhanced functionality and brings our solution fully up to date.
- Substantial investment has been made in replacing cooling equipment in our Harrogate data centre which has led to a circa 7% reduction of electricity consumption at this site.

Growth Strategy

Organic

- The acquisition of Piksel significantly enhances our Cloud services practice:
  - One of the highest growth areas of the IT services market is now fully open for us to exploit.
  - We now have a complete range of cloud service offerings, from pure Colocation through to Hyperscale cloud solutions.
  - Additional capability enables us to drive Digital transformation across customers' entire IT estates, including application development and DevOps.
- The Piksel acquisition gives us the opportunity to cross sell respective solutions into the enlarged customer base.
- Continue to enhance product portfolio and improve customer experience to retain existing customers and attract new logos.

Inorganic

- Acquisitions for both capability and scale.
- Capability acquisitions to broaden product offerings, in particular to strengthen our Security and Collaboration solutions.
- Scale acquisitions to widen customer base, extract synergies and leverage the fixed cost nature of the business.
  - Significant savings are available from merging networks, platforms, data centres, operational systems and back office functions.

Financials | half year ended 30 September 2021 (HY-22)

David Senior – Chief Financial Officer

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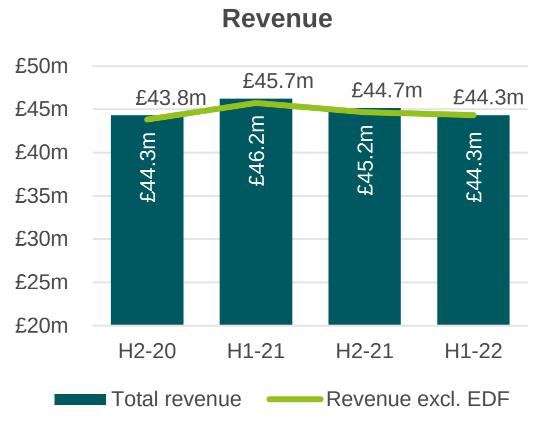
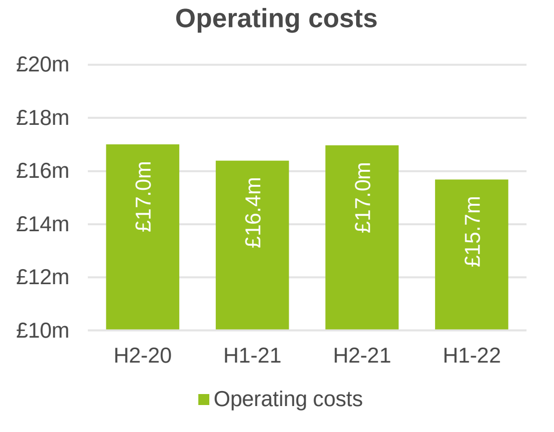
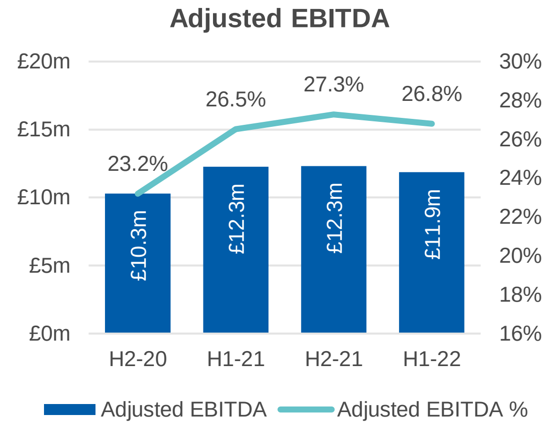
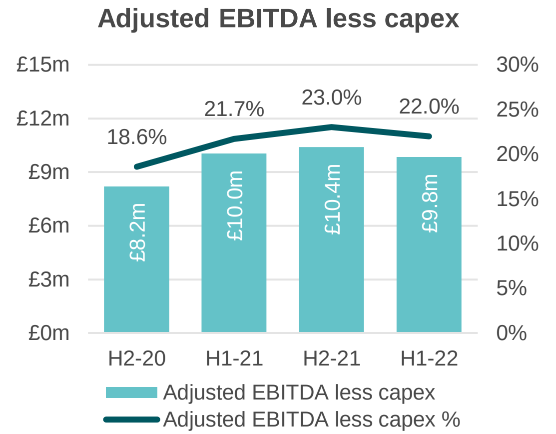
HY-22 financial performance – revenue and profitability

Revenue	Operating costs	Adjusted EBITDA*	Adjusted EBITDA* less capex
£44.3m (-4%)	£15.7m (-4%)	£11.9m (-3%)	£9.8m (-2%)
Recurring revenue (RMR) of £39.6m (-3.4%): 89.3% of total revenue (H1-21: 88.8%).	Operating costs reduced by £0.6m (H1-21: £16.4m) and reflect the last remaining benefits of data centre and network rationalisation programme.	Adjusted EBITDA margin of 26.8% in line with H1-21 (H1-21: 26.5%).	Capex reduced marginally to £2.1m (H1-21: £2.2m).









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* Adjusted EBITDA excludes exceptional items and share-based payments. EBITDA in prior periods includes £0.35m for the trading impact of the EDF contract.

HY-22 financial performance – liquidity & earnings

Normalised net debt movement

£7.1m (-34%)

£3.7m reduction on H2-21 largely reflects a reversal of FY21 positive working capital movements.

Net debt

£15.4m (-1%)

Reduction of £0.2m reflecting strong operating cash flows and proceeds from the EDF contract sale, offset by the dividend payment and Piksel acquisition.

Trade debtors

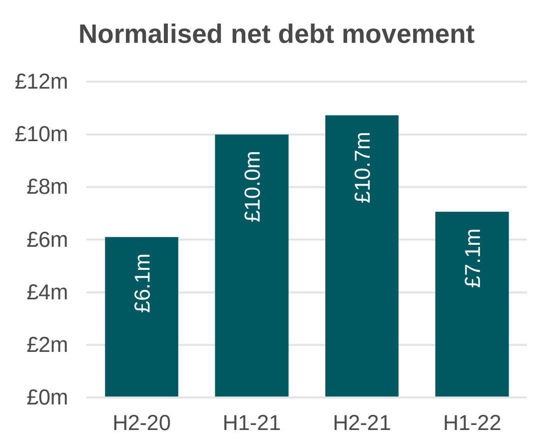
£9.0m (+7%)

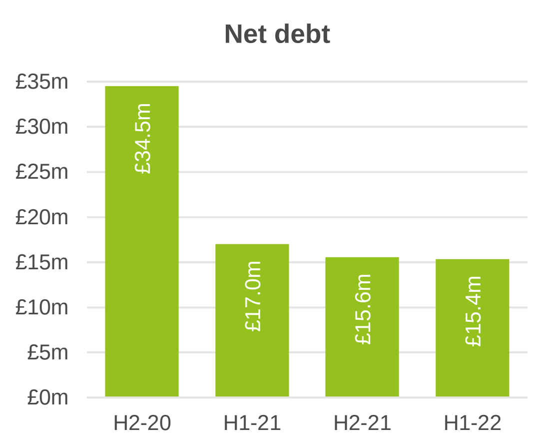
Exemplary trade debt profile with only £25k over three months old (H1-21: £34k).

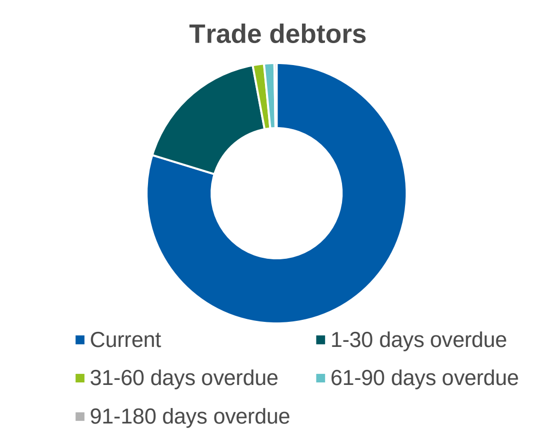
Adjusted earnings per share*

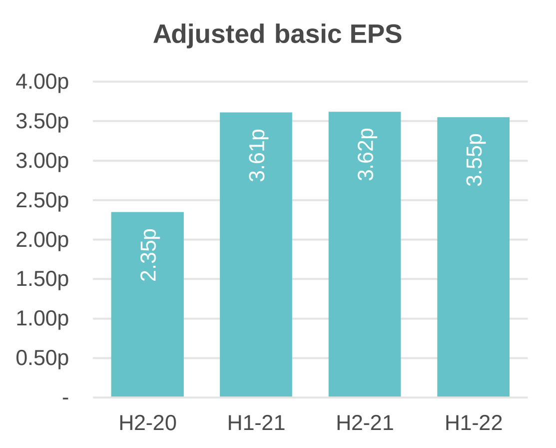
3.55p (-2%)

Slight decrease in EPS reflects gross profit performance (H1-21: 3.61p).









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*Adjusted EPS excludes amortisation on acquired intangibles, exceptional items and share-based payments.

Group income statement

	H1-22 £'m	H2-21 £'m	H1-21 £'m	H1-22 vs H1-21 %
Revenue	44.3	45.2	46.2	-4%
Cost of sales	(16.7)	(15.9)	(17.6)	-5%
Gross Profit	**27.6**	**29.3**	**28.7**	**-4%**
Gross Margin	*62.4%*	*64.9%*	*62.0%*	
Operating Costs	(15.7)	(17.0)	(16.4)	-4%
Adjusted EBITDA	**11.9**	**12.3**	**12.3**	**-3%**
EBITDA Margin	*26.8%*	*27.3%*	*26.5%*	
Depreciation of property, plant and equipment	(2.6)	(0.7)	(2.8)	-5%
Amortisation of intangibles	(3.5)	(3.7)	(3.7)	-4%
Depreciation of ROU assets	(1.5)	(3.6)	(1.4)	6%
Exceptional items	(0.7)	5.9	(1.1)	-39%
Share based payments	(0.3)	(0.4)	(0.3)	-3%
Interest	(0.5)	(0.6)	(0.8)	-34%
Profit before taxation	**2.8**	**9.3**	**2.3**	**23%**
Taxation credit / (expense)	(0.1)	(2.2)	(0.1)	-34%
Profit after tax	**2.7**	**7.1**	**2.1**	**27%**
Earnings per share				
Adjusted basic EPS	3.55p	3.62p	3.61p	-2%
Adjusted diluted EPS	3.47p	3.58p	3.54p	-2%

- Total revenue was £44.3m (H1-21: £46.2m) with recurring revenue of £39.6m (H1-21: £41.0m), the proportion of recurring revenue increased slightly to 89.4% of total revenue (H1-21: 88.7%).
- Adjusting for the sale for the EDF contract, total revenue declined by 3% and recurring revenue declined by 2%.
- Gross profit reflects revenue performance with a slight improvement in margin at 62.4% (H1-21: 62.0%).
- Adjusted operating costs reduced by £0.6m (4%) reflecting a continued focus on the cost base in addition to the annualised impact of cost benefits realised through the operational efficiencies delivered in H2-20.
- Adjusted EBITDA was £11.9m (H1-21: £12.3m) with adjusted EBITDA margins increased marginally to 26.8% (H1-21: 26.5%).
- Adjusting for the EDF contract, adjusted EBITDA for H1-22 was in line the prior year at £11.9m.
- After accounting for exceptional items of £0.7m (H1-21: £1.1m) and share-based payment costs of £0.3m (H1-21: £0.3m), reported operating profit was 8% higher at £3.3m (H1-21: £3.1m).

Adjusted net debt

	H1-22 £'m	H2-21 £'m	H1-21 £'m
Adjusted EBITDA	11.9	12.3	12.3
Working Capital movements	(1.9)	1.2	0.7
Cash Generated from operations	**10.0**	**13.5**	**12.9**
Capital expenditure – cash purchases	(2.1)	(1.7)	(1.2)
Capital expenditure – finance lease purchases	-	(1.3)	(1.0)
Proceeds from sale and leaseback off assets	-	1.0	-
Capital Expenditure	**(2.1)**	**(1.9)**	**(2.2)**
Corporation tax	(0.0)	(0.3)	0.1
Interest paid	(0.3)	(0.1)	(0.3)
Loan arrangement fees/fee amortisation	-	(0.1)	0.0
Finance lease/term loan interest	(0.5)	(0.4)	(0.6)
Effect of exchange rates	-	(0.0)	0.0
Other movements in net debt	**(0.8)**	**(0.9)**	**(0.7)**
Normalised net debt movement	**7.1**	**10.7**	**10.0**
Cash cost of acquisition net of cash acquired	(8.4)	-	-
Cash cost of exceptional items	5.3	(6.4)	(2.5)
IFRS16 modifications	-	(0.3)	4.2
Supplier loans	-	(1.2)	-
Share issues	-	-	5.8
Sale of treasury shares	0.0	0.5	-
Cash received on exercise of share options	-	0.0	-
Dividend paid to shareholders	(3.7)	(1.9)	-
Net decrease (increase) in net debt	**0.2**	**1.4**	**17.5**
Net debt at the beginning of the period	(15.6)	(17.0)	(34.5)
Net debt at the end of the period	**(15.4)**	**(15.6)**	**(17.0)**

- Net debt reduced by £0.2m since 31 March 2021 to £15.4m reflecting:
  - Operating cash flows of £10.0m (84% operating cash conversion);
  - The net cash impact of the acquisition of Piksel in the period of £8.4m; and
  - The receipt of £5.8m proceeds resulting from the sale of the EDF contract on 31 March 2021.

Balance sheet

Strong balance sheet maintained

	H1-22 £'m	H2-21 £'m	H1-21 £'m
Intangible assets	73.1	65.9	65.7
Property, plant and equipment	5.1	5.8	15.8
ROU assets	17.5	18.8	15.7
Current assets	20.7	26.7	18.0
Deferred income	(8.4)	(7.5)	(7.3)
Other current liabilities	(16.3)	(15.6)	(11.8)
Provisions	(3.3)	(3.3)	(11.4)
Deferred tax	2.1	0.6	2.1
Net debt	(15.4)	(15.6)	(17.0)
Net assets	75.1	75.9	69.8

- The net asset position at H1-22 has fallen by £0.8m to £75.1m since 31 March 2021.
- The increase in intangible assets of £7.2m to £73.1m largely reflects the acquired intangible assets and goodwill on the acquisition of Piksel.

Net debt analysis

	H1-22 £'m	H2-21 £'m	H1-21 £'m
Cash	3.6	5.3	6.9
Revolving credit facility	-	-	(2.5)
Finance leases	(3.9)	(4.3)	(5.3)
Net bank cash / (debt)	**(0.4)**	**1.0**	**(0.9)**
Term loans / supplier loans	(1.0)	(1.5)	(0.3)
IFRS 16 lease liabilities	(13.9)	(15.1)	(15.9)
Statutory net debt	**(15.4)**	**(15.6)**	**(17.0)**

- Excluding leases previously classified as operating leases under IAS17 net debt was £0.4m (31 March 2021: £1.0m Cash).
- Senior bank debt at H1-22 is nil.

Dividend policy

- The Board has reviewed the financial performance of the business and has decided to maintain an interim dividend payment of 1.2p per share.
- The continuation of dividend payments whilst pursuing an acquisition strategy demonstrates the Board's confidence in the Company and the strong cash generative nature of the business.

The following dates are proposed:

Ex-dividend date	- 25 November 2021
Record date	- 26 November 2021
Last day for DRIP elections	- 10 December 2021
Payment date	- 06 January 2022

Summary & outlook

Peter Brotherton – Chief Executive Officer

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Summary and outlook

Summary

The business continues to perform well and is trading significantly ahead of the pre-covid period.

The strategically important acquisition of Piksel completes our cloud services offering and gives full access to the highest growing areas of the market.

The integration of Piksel is ahead of plan with £0.7m of synergies already realised with further substantial savings anticipated.

Continued investment in systems and platforms to enhance the customer experience, drive efficiency and provide a better platform for the integration of future acquisitions.

Outlook

Increasing number of customer interactions is encouraging with early signs that trading is returning to normalised levels.

The Company will continue to pursue acquisition opportunities for both scale and capability.

The Board expects the full year results to be in line with the Board's expectations.