# Full Year Results

Year ended 31 March 2020

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# Contents

# Headlines

## Financial

- Revenue of £87.5m (FY19: £93.3m).
- Adjusted EBITDA of £17.6m (FY19: £16.7m).
- Operating cash flow of £16.7m (FY19: 21.3m).
- Net debt reduced by £4.1m to £13.5m, post dividend and share buybacks of £3.5m.
- Maintenance and growth capex of £4.4m.

## Review of FY20

- Return to recurring revenue growth.
- Significant progress in public sector.
- Networks and data centres rationalised and upgraded.
- Settlement reached with the FCA.
- Minimal impact from COVID-19 pandemic.

## Outlook

- The full effect of the integration and efficiency initiatives along with revenue growth will lead to higher profits in FY21.
- Strong start to the year with all key business metrics showing positive trends.
- Recurring revenues in Q1 FY21 up 5% on Q4 FY20, with post IFRS16 EBITDA margins in excess of 25%.
- FCA settlement enables management to focus solely on the business and tap into previously inaccessible markets.

# **Financials**

# Year Ended 31 March 2020 (FY20)

David Senior – Chief Financial Officer

*Note:*

- *IFRS16 has been adopted in the FY20 statutory accounts, with the prior year comparative numbers remaining on a pre IFRS16 basis.*
- *To enable direct comparison, the numbers in this presentation are all on a like for like pre IFRS16 basis.*
- *A full reconciliation of the numbers in this presentation to the reported FY20 statutory accounts is provided in the appendix.*
- *This presentation should be read in conjunction with the preliminary results announcement released on 21 July 2020.*

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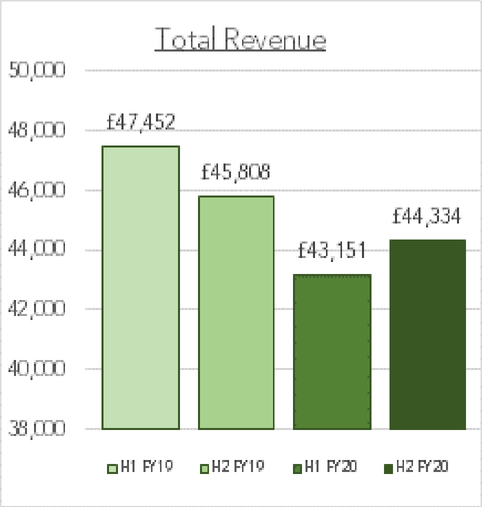
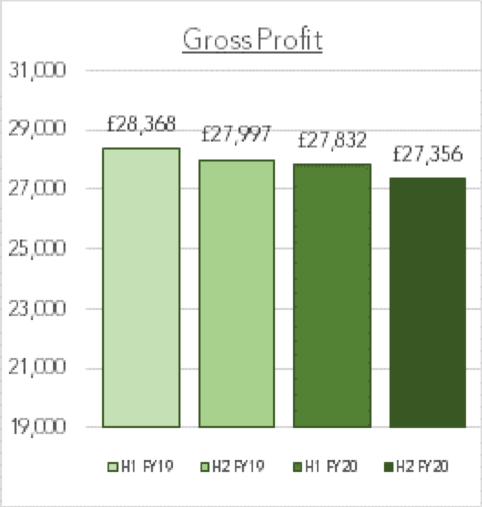
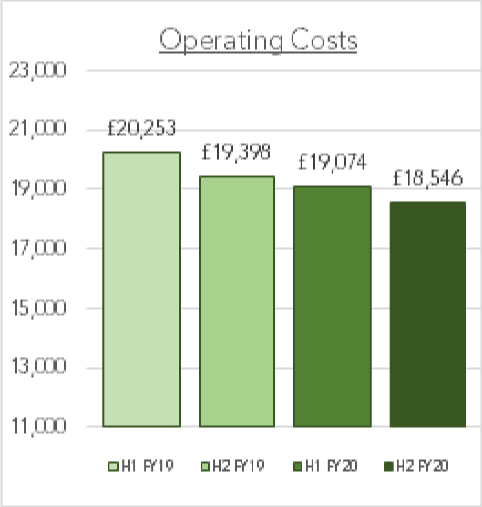
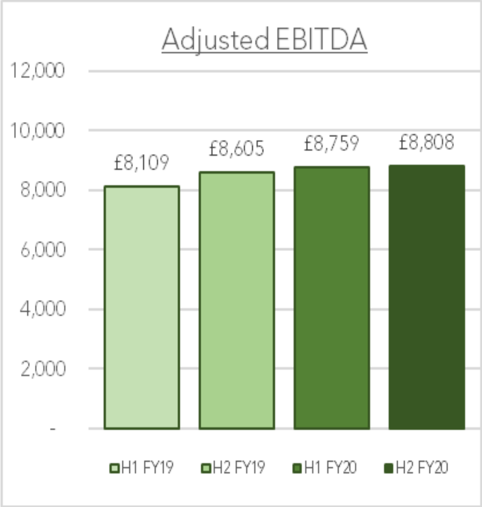
# FY20 financial performance

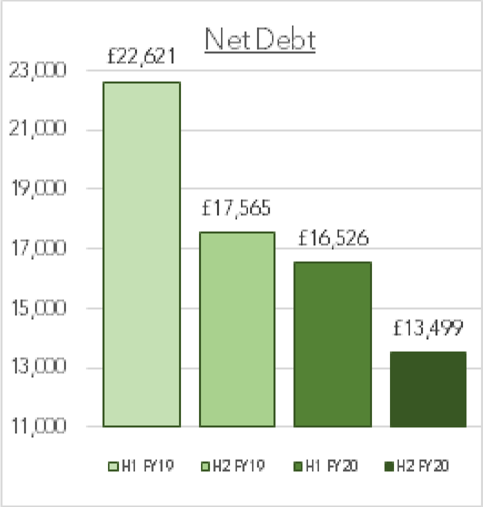
| REVENUE | GROSS PROFIT | OPERATING COSTS | ADJUSTED EBITDA | NET DEBT |
|---|---|---|---|---|
| £87.5m (-6.2%) | £55.2m (-2.1%) | £37.6m (-5.1%) | £17.6m (+5.1%) | £13.5m (-23.0%) |
| Recurring revenue (RMR) of £77.6m (-4%). 89% of total revenue (FY19: 86%) | Gross margin of 63.1% (FY19: 60.4%) | Average number of employees 462 (-3.5%) | Adjusted EBITDA margin of 20.1% (FY19: 17.9%) | Reduction of £4.1m since FY19. Net debt to EBITDA ratio of x 0.8 (FY19 x1.1) |



# Group income statement

| | FY20 ('000s) | FY19 ('000s) | % Change % |
|---|---|---|---|
| Revenue | 87,485 | 93,260 | (6.2)% |
| Cost of Sales | (32,297) | (36,895) | (12.5)% |
| **Gross Profit** | **55,188** | **56,365** | **(2.1)%** |
| *Gross Margin* | *63.1%* | *60.4%* | *2.6%* |
| Operating Costs | (37,621) | (39,651) | (5.1)% |
| **Adjusted EBITDA** | **17,567** | **16,714** | **5.1%** |
| *EBITDA Margin* | *20.1%* | *17.9%* | *2.2%* |
| Depreciation & Amortisation | (14,146) | (14,723) | (3.9)% |
| Exceptional Items | (12,516) | (1,911) | 555.1% |
| Share based payments | (562) | (366) | 53.6% |
| Interest | (769) | (1,078) | (28.7)% |
| **Loss before taxation** | **(10,426)** | **(1,363)** | **(664.9)%** |
| Taxation | 13 | (604) | **102.2%** |
| **Loss after tax** | **(10,413)** | **(1,967)** | **(429.4)%** |

| | FY20 | FY19 | % Change |
|---|---|---|---|
| Adjusted basic EPS | 4.86p | 3.89p | 25.0% |
| Adjusted diluted EPS | 4.79p | 3.86p | 24.1% |

Revenue declined year on year by 6.2% to £87.5m. Recurring revenue mix improved to 89% (FY19: 86%) of total revenue.

Gross profit decreased by 2.1%. Overall gross margin increased by 2.7% due to the higher proportion of recurring revenue and the impact of operational efficiencies.

Operating costs reduced by 5.1% due to the data centre and network rationalisation programme and a small headcount reduction.

Adjusted EBITDA increased by 5.1%, and Adjusted EBITDA margin increased to 20.1% (FY19: 17.9%), reflecting improved gross margins and operational efficiencies.

Exceptional items increased due to the inclusion of an £11.4m provision for the restitution scheme implemented as part of the settlement reached with the FCA.

# Adjusted net debt

| | FY20 ('000s) | FY19 ('000s) | % Change % |
|---|---|---|---|
| **Adjusted EBITDA** | **17,567** | **16,714** | **5.1%** |
| Working Capital movements | (1,115) | 4,575 | (124.4)% |
| **Cash Generated from operations** | **16,452** | **21,289** | **(22.7)%** |
| Fixed assets - cash purchases | (4,233) | (5,229) | (19.0)% |
| Fixed assets - finance leases | (2,402) | (2,506) | (4.2)% |
| Sales of fixed asset | | 1,846 | (100.0)% |
| **Capital Expenditure** | **(6,635)** | **(5,889)** | **12.7%** |
| Corporation tax | (660) | (1,873) | (64.8)% |
| Interest paid | (718) | (1,044) | (31.2)% |
| Non-cash movements | (51) | (68) | (25.0)% |
| Effect of exchange rates | (13) | (8) | 67.5% |
| **Normalised net debt movement** | **8,375** | **12,407** | **(32.5)%** |
| Non recurring expenses | (817) | (1,668) | (51.0)% |
| New share issues | (724) | (597) | 21.2% |
| Dividend paid to shareholders | (2,731) | | 100.0% |
| | (4,271) | (2,265) | 21.3% |
| **Net decrease (increase) in net debt** | **4,104** | **10,142** | **(59.5)%** |
| Net debt at the beginning of the period | (17,565) | (27,707) | |
| Net debt at the end of the period | (13,461) | (17,565) | |

Net debt reduction of £4.1m has been achieved whilst investing £6.9m on capital items, £0.8m on exceptional items and paying £3.5m in dividends and share buybacks.

Operating cash conversion of 95% (FY20:127%). FY19 working capital movements reflected the collection of historical aged trade debtors.

Capital expenditure includes £4.4m of maintenance and growth capex, reflecting an upgrade in the IaaS platform, increased bandwidth on the core network and additional ERP development.

Dividend and share buyback payments were £2.9m higher than FY19 at £3.5m.

Bank facility of £17.5m (FY19 £25.0m), with headroom of £5.0m (FY19 £5.5m).

# Dividend policy & share buyback

## Dividend

### Dividends paid

During the year, the Company paid the following dividends:

- a final dividend for the year ended 31 March 2019 of 1p per share, totalling £1.5m; and
- an interim dividend for FY20 of 0.83p per share, totalling £1.2m.

### Future dividends

- In light of the restitution scheme and the ongoing COVID-19 pandemic, the Board has decided not to recommend a final dividend payment for FY20 to shareholders.
- The Board remains committed to a progressive dividend policy and will review the possibility of reinstating the dividend when it releases the Company's half year results.

## Share buyback

### Share buyback

- As part of the buyback programme, 822,427 shares were purchased at a weighted average price of 88p per share.
- In light of the restitution scheme and the ongoing COVID-19 pandemic, the Board has temporarily halted the buyback programme.
- The Board remains supportive of reinstating the buyback programme and is keeping it under review.

# Operational Review

Peter Brotherton – Chief Executive Officer

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# Revenue growth

## Return to recurring revenue growth

- Excluding contracts lost to Crown Hosting, the business has seen four consecutive quarters of recurring revenue growth, with total recurring revenues growing for the last two consecutive quarters.
- Growth seen in the last two quarters has been driven by increases in public sector revenues and improvements to the delivery function.
- Product portfolio aligned to the current environment, where networks and remote working capabilities are now essential to most UK organisations.

## Increase public sector presence

- Success in the Health and Social Care Network (HSCN) procurement process and good performance in rolling out HSCN networks has given a much higher profile within both the public and private health sectors.
- New sales orders will result in £4.8m of annualised revenues, in addition to the £3.5m of HSCN contracts won in FY19.
- Approximately 25% of FY21 revenue will be derived from the combined public and private health sectors.

# Operational efficiencies & upgrades

## Operational efficiencies

- Rationalisation and integration of historical physical networks.
- Rationalisation of third-party data centres.
- Consolidation of three historical network platforms into a single network platform.
- Restructure of development and delivery teams.
- Replacement of five legacy systems with a single ERP solution and introducing workflow software.
- Standardisation of employment contracts and employee benefits.

## Upgrade our network and platforms

- Core network upgraded from a 10Gb to 100Gb capacity at a cost of £1.5m.
- IaaS platform upgrade completed for £1.2m taking the total upgrade cost to £2.5m.
- £1.5m spent on continuing development of the ERP system, taking the total investment to £4.5m. Sales module launched in FY20, with finance & operations modules to launch in Q3 FY21.
- London data centre upgrade under way, to bring in line with Harrogate and Reading as a tier 3 data centre.

# FCA settlement & restitution scheme

## Bringing the FCA investigation to a conclusion

- As part of the settlement reached with the FCA, a restitution scheme has been implemented in order to compensate net purchasers of ordinary shares in the Company between 9 November 2015 and 6 November 2016.
- Total cost of the scheme is anticipated to be £11.4m, with claimants having the option to receive compensation in the form of all cash, all shares or a combination of both.
- The scheme has been funded as follows:
  - cash of £2.2m from the Company;
  - cash of £5.8m from a share placing at 110p per share; and
  - the remaining £3.4m to be settled in either shares or cash, with £1.1m of share compensation already confirmed.
- No financial penalty imposed by the FCA and all restitution scheme claimants will be required to sign full and final settlements.

# Covid 19

## Covid-19 pandemic

- We responded quickly to the pandemic with the majority of staff working from home from 17 March 2020.
- No incidents so far, with all staff and IT systems working well and excellent customer service maintained.
- All key busines metrics (order intake, deliveries and cash collection) have remained strong throughout the pandemic and we have not experienced any adverse affect on trading to date.
- Activity levels in the business are unchanged and no employees have been furloughed.
- Following the outbreak of the pandemic we have seen increased demand for additional bandwidth, communication packages and secure remote access.
- Future demand is hard to predict but we anticipate a drop off in new business as customers delay implementing new IT projects.
- The wider economic impact on our customer base remains unknown bur clearly represents a risk to customers.
- With a customer base secured on long term contracts, high recurring revenues, strong cash flows, low levels of debt and a product set relevant to the current environment, we feel well placed to react to the challenges that COVID-19 brings.

# Outlook & summary

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# Outlook and Summary

**Summary**

- Return to recurring revenue growth, following three years of decline.
- Profit margins are increasing and we are currently achieving EBITDA margins in excess of 25%.
- Continued excellent cash conversion.
- Investment in network and platform upgrades largely complete .
- Settlement reached with the FCA, reopening markets and removing uncertainty for all stakeholders.

**Outlook**

- Strong start to the year, with both sales orders and deliveries ahead of budget and prior year.
- Integration and efficiency programmes undertaken in FY20 have significantly reduced our cost base, with the full effect to be seen in FY21.
- Integrated, scalable and efficient platforms provide a solid foundation for growth.
- A fully integrated business with low levels of debt and the removal of the FCA barrier enables the Company to explore all strategic opportunities.

# Appendices

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# Impact of IFRS16 on financial statements

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# IFRS 16 impact on financial statements

## Group income statement

| | Pre IFRS16 ('000s) | IFRS16 Transition ('000s) | Post IFRS16 % |
|---|---|---|---|
| Revenue | 87,485 | | 87,485 |
| Cost of Sales | (32,297) | | (32,297) |
| **Gross Profit** | **55,188** | | **55,188** |
| *Gross Margin* | *63.1%* | | |
| Operating Costs | (37,621) | 3,037 | (34,584) |
| **Adjusted EBITDA** | **17,567** | **3,037** | **20,604** |
| *EBITDA Margin* | *20.1%* | | *23.6%* |
| Depreciation & Amortisation | (14,146) | (2,117) | (16,263) |
| Exceptional Items | (12,516) | | (12,516) |
| Share based payments | (562) | | (562) |
| Interest | (769) | (1,107) | (1,876) |
| **Loss before taxation** | **(10,426)** | **(187)** | **(10,613)** |
| Taxation | 13 | | 13 |
| **Loss after tax** | **(10,413)** | **(187)** | **(10,600)** |

| | Pre IFRS16 | IFRS16 Transition | Post IFRS16 |
|---|---|---|---|
| Adjusted basic EPS | 4.86p | | 4.76p |
| Adjusted diluted EPS | 4.79p | | 4.68p |

## Adjusted net debt

| | Pre IFRS16 ('000s) | IFRS16 Transition ('000s) | Post IFRS16 % |
|---|---|---|---|
| **Adjusted EBITDA** | **17,567** | **3,037** | **20,604** |
| Working Capital movements | (1,115) | 158 | (957) |
| **Cash Generated from operations** | **16,452** | **3,195** | **19,647** |
| Fixed assets - cash purchases | (4,233) | | (4,233) |
| Fixed assets - finance leases | (2,402) | | (2,402) |
| Sales of fixed asset | 0 | | 0 |
| **Capital Expenditure** | **(6,635)** | **0** | **(6,635)** |
| Corporation tax | (660) | | (660) |
| Interest paid | (718) | (1,107) | (1,825) |
| Payment of lease liabilities | | (2,117) | (2,117) |
| Non-cash movements | (51) | | (51) |
| Effect of exchange rates | (13) | | (13) |
| **Normalised net debt movement** | **8,375** | **(29)** | **8,346** |
| Lease liabilities adopted under IFRS16 | 0 | (21,058) | (21,058) |
| Non recurring expenses | (817) | | (817) |
| New share issues | (724) | | (724) |
| Dividend paid to shareholders | (2,731) | | (2,731) |
| | (4,271) | (21,058) | (25,329) |
| **Net decrease (increase) in net debt** | **4,104** | **(21,087)** | **(16,984)** |
| Net debt at the beginning of the period | (17,565) | | (17,565) |
| Net debt at the end of the period | (13,461) | | (34,549) |

# IFRS 16 impact on financial statements

Consolidated statement of financial position

| | Pre IFRS16 ('000s) | IFRS16 Transition ('000s) | Post IFRS16 % |
|---|---|---|---|
| Non current assets | 87,602 | 21,214 | 108,816 |
| Current assets | 28,731 | (523) | 28,208 |
| **Total Assets** | **116,333** | **20,691** | **137,024** |
| Current liabilities | (50,601) | (1,957) | (52,558) |
| Non current liabilities | (3,484) | (21,181) | (24,665) |
| **Total Liabilities** | **(54,084)** | **(23,138)** | **(77,223)** |
| Net Assets | 62,249 | (2,447) | 59,801 |
| Share Capital and premium | 65,883 | | 65,883 |
| Other reserves | (10,178) | | (10,178) |
| Retained earnings | 6,544 | (2,447) | 4,097 |
| **Total Equity** | **62,249** | **(2,447)** | **59,801** |

# Redcentric at a glance

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# Our solutions

## Network

**Networks that connect and secure customers' sites to Redcentric and others' data centres, hyper cloud providers and the internet**

- Connectivity
- SD-WAN
- Managed WAN
- Secure Remote Access
- LAN
- Managed Wi-Fi
- Network Security

## Cloud

**Computer processing and storage capacity rented to customers and managed on Redcentric or others' facilities**

- Infrastructure as a service
- Platform as a service
- Hybrid Cloud
- Data Backup
- Colocation
- Disaster Recovery
- Hosted Desktop
- Cloud Migration

## Communications

**Person-to-person communication, telephone systems in a Redcentric data centre and customer premises, collaboration tools and fixed and mobile calls and lines.**

- IP Telephony
- Unified Communications
- Collaboration
- SIP Trunks
- Call Recording

## ICT

**Professional services around provision, installation and supporting of hardware on a customers' premise**

- IT Consultancy
- Implementation Services
- Maintenance & Support
- Supply Chain Management

## Assured Availability

Delivering highly available infrastructure that organisations can rely on to improve productivity and performance

## Organisational Agility

Helping organisations to address operational, financial and regulatory challenges at speed

## Smarter Working

Enabling and empowering organisations to connect, communicate and collaborate