HALF YEAR RESULTS

Half year results - 30 September 2020

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This presentation and a press release will be posted on the investor section of the Redcentric website.

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HEADLINES

FINANCIAL

- Revenue up 7% to £46.2m (H1-20: £43.2m).
- Adjusted EBITDA up 19% to £12.3m (H1-20: £10.3m).
- Operating cash flow increased by 26% to £12.9m (H1-20: £10.3m).
- Capex reduced by 53% to £2.2m (H1-20: £4.8m).
- Net bank debt reduced by £12.4m to £1.1m.
- Interim dividend to be paid and share buyback reinstated.

OPERATIONAL

- Health and Social Care Network ("HSCN") rollout complete.
- Significant cross-sell into the public sector.
- Networks and data centres rationalisation programme completed with c.£4.0m of annualised savings.
- Dynamics 365 finance & operations module launched, enabling many future business improvements.
- Agreement reached with FCA and £11.4m restitution scheme launched.

OUTLOOK

- H2 trading performance expected to be broadly in line with H1.
- Restitution claims fully settled with anticipated cash payments of £5.7m in H2.
- End of formal sale process and closure of FCA restitution scheme will enable full focus on the business.
- Investment in private sector sales team to yield benefit from FY22 onwards.
- Continued focus on efficiency improvements.
- Consideration of acquisitions to supplement organic growth strategy.

FINANCIALS
HALF YEAR ENDED 30TH SEPTEMBER 2020 (HY-21)

David Senior – Chief Financial Officer

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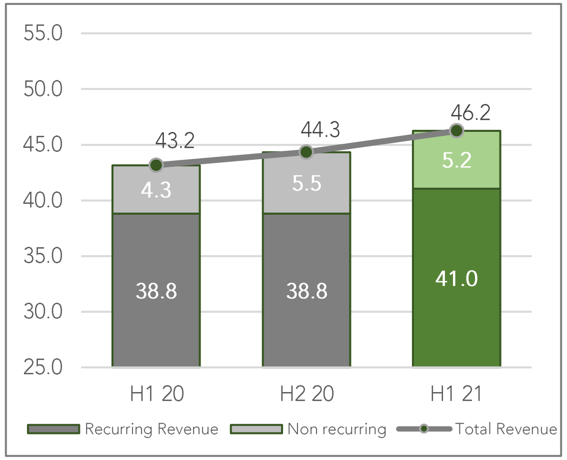
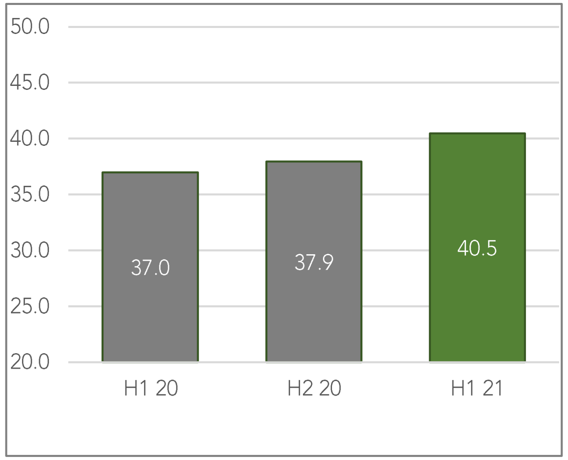
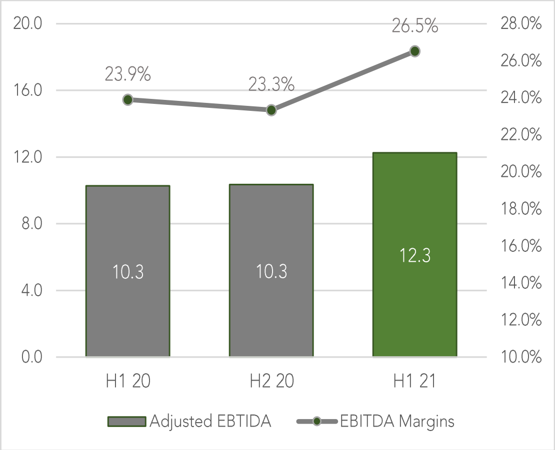
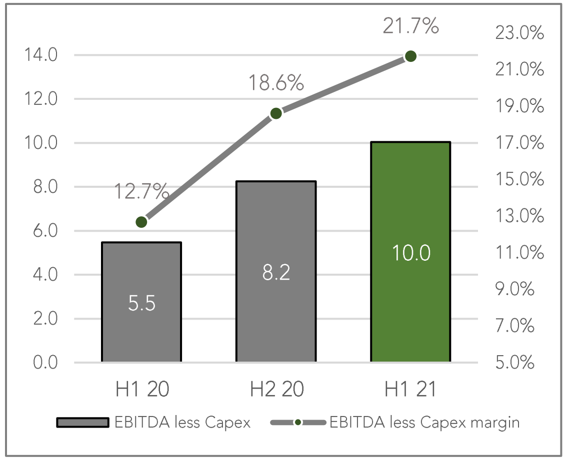
HY-21 FINANCIAL PERFORMANCE – REVENUE AND PROFITABILITY

TOTAL REVENUE	RECURRING REVENUE (EXCL CROWN HOSTING)	ADJUSTED EBITDA*	ADJUSTED EBITDA* LESS CAPEX
£46.2m (+7.2%)	£40.5m (+9.4%)	£12.3m (+19%)	£10.0m (+79%)
Recurring revenue (RMR) of £41.0m (+5.7%). 89% of total revenue (H1-20: 90%).	Five consecutive quarters of growth.	Adjusted EBITDA margins increased to 26.5% (H1-20: 23.9%).	Capex reduced to £2.2m (H1-20: £4.8m) reflecting significant investment in last two years.









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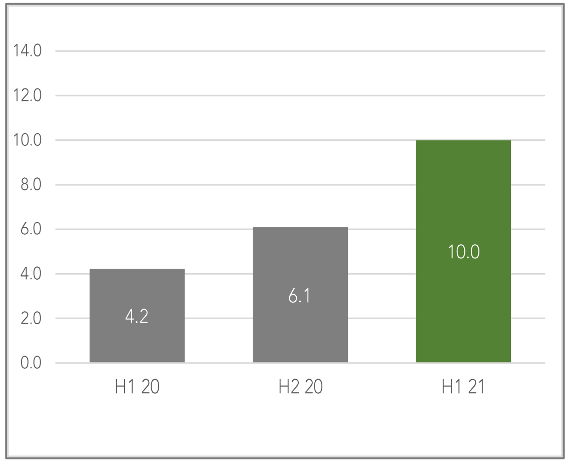
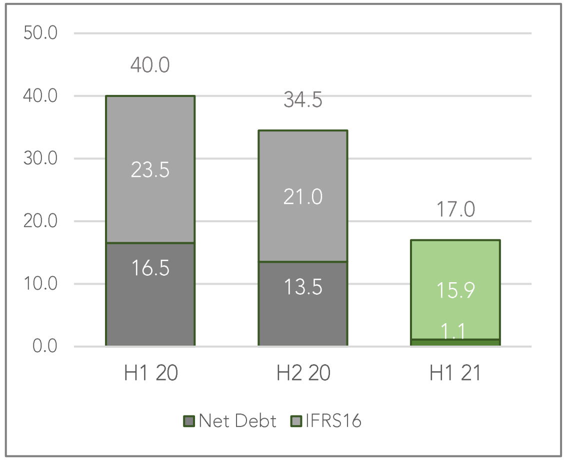
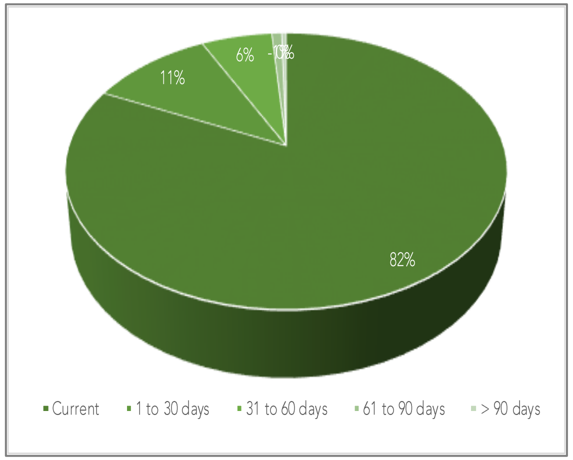
* Adjusted EBITDA excludes exceptional items and share-based payments.

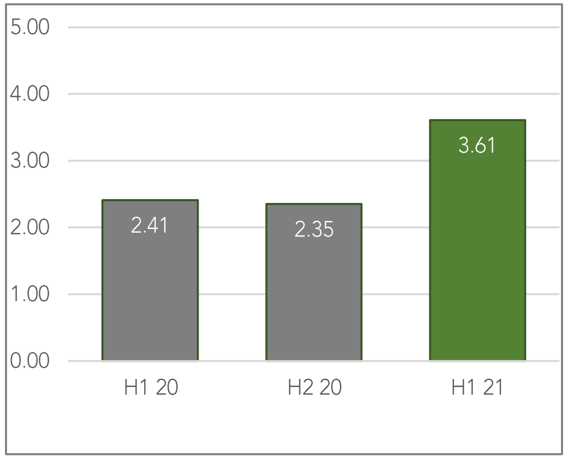
HY-21 FINANCIAL PERFORMANCE – LIQUIDUITY & EARNINGS

NORMALISED NET DEBT REDUCTION	NET DEBT	TRADE DEBTORS	ADJUSTED EARNINGS PER SHARE*
£10m (+136%)	£17.0m (-51%)	£7.3m (-19%)	£3.61P (+50%)
£5.8m increase on H1-20, reflecting £2.6m improvement in Op. Cashflows & £2.5m lower Capex.	Reduction of £17.5m reflecting, net benefit from restitution scheme (+£4.2m) and IFRS16 lease modification (+£4.2m) and exceptionals (-£0.9m)	Trade debt ageing continues to improve with only £34k over three months old	Profit growth drives adjusted EPS increase of 50%









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

GROUP INCOME STATEMENT

	H1-20 (£m)	H2-20 (£m)	H1-21 (£m)	H1-21 vs H1-20 %
Revenue	43,152	44,333	46,241	7.2%
Cost of Sales	(15,319)	(16,978)	(17,588)	14.8%
Gross Profit	**27,833**	**27,355**	**28,653**	**2.9%**
Gross Margin	*64.5%*	*61.7%*	*62.0%*	*-2.5%*
Operating Costs	(17,503)	(17,081)	(16,392)	(6.3)%
Adjusted EBITDA	**10,330**	**10,274**	**12,261**	**18.7%**
EBITDA Margin	*23.9%*	*23.2%*	*26.5%*	*2.6%*
Depreciation & Amortisation	(8,004)	(8,259)	(7,792)	(2.6)%
Exceptional Items	(169)	(12,347)	(1,095)	547.9%
Share based payments	(253)	(309)	(294)	16.2%
Interest	(1,017)	(864)	(828)	(18.6)%
Loss before taxation	**887**	**(11,505)**	**2,252**	**(153.9)%**
Taxation	(381)	400	(146)	**61.7%**
Loss after tax	**506**	**(11,105)**	**2,106**	**(316.2)%**

	H1-20	H2-20	H1-21	H1-21 vs H1-20
Adjusted basic EPS	2.41p	2.35p	3.61p	49.8%
Adjusted diluted EPS	2.38p	2.30p	3.54p	48.7%

Revenue increased by 7.2% and 4.3% on H1 and H2 of FY20 respectively. Recurring revenue mix improved to 89% (H2-20: 88%) of total revenue.

Gross profit increased by 2.9%. Overall gross margin decreased by 2.5% due to product mix and Crown Hosting.

Operating costs have reduced by 6.3% due to the data centre and network rationalisation programme.

Adjusted EBITDA increased by 18.7%, and Adjusted EBITDA margin increased to 26.5% (H1:20- 23.9%), reflecting revenue growth and operational efficiency flowthrough.

Exceptional items largely relate to a loss on lease modification.

ADJUSTED NET DEBT

	H1-20 (£m)	H2-20 (£m)	H1-21 (£m)
Adjusted EBITDA	10,330	10,274	12,261
Working Capital movements	(43)	(914)	654
Cash Generated from operations	10,287	9,360	12,915
Fixed assets - cash purchases	(2,267)	(1,966)	(1,235)
Fixed assets - finance leases	(2,484)	82	(981)
Capital Expenditure	(4,751)	(1,884)	(2,216)
Corporation tax	(248)	(412)	149
Interest paid *	(1,037)	(950)	(895)
Non-cash movements	(4)	(47)	41
Effect of exchange rates	(21)	8	1
Normalised net debt movement	4,226	6,075	9,995
Lease liabilities adopted under IFRS16 *	(24,479)	1,466	4,221
Non recurring expenses	(444)	(373)	(2,452)
Share issues			5,775
Share buy-back	(278)	(446)	
Dividend paid to shareholders	(1,491)	(1,240)	
Non recurring items	(26,692)	(593)	7,544
Net decrease (increase) in net debt	(22,466)	5,482	17,539
Net debt at the end of the period	(40,031)	(34,549)	(17,010)

	H1-20 (£m)	H2-20 (£m)	H1-21 (£m)
Cash	2,183	3,709	6,946
RCF	(12,500)	(12,500)	(2,500)
Term loans / fees	(193)	(132)	(276)
Finance Leases	(6,016)	(4,580)	(5,304)
Net Debt (pre IFRS 16)	(16,526)	(13,503)	(1,110)
IFRS 16 lease liabilities	(23,505)	(21,046)	(15,900)
Net Debt	(40,031)	(34,549)	(17,010)

Post FY20 the treatment of IFRS16 lease payments has been amended, this note reflects those changes

Net debt pre IFRS16 reduction of £12.4m reflecting excellent cash collection, lower capex and a net benefit from the restitution scheme.

Operating cash conversion of 105% (H1:20 -100%). Trade debt ageing is exceptional with only £34k of debt over three months old.

Capital expenditure includes £1.6m of customer related equipment and maintenance capex reflects significant investment over the last two years.

Modification on Shoreditch lease creates reduction in lease liability of £4.2m. Share placing to part fund restitution scheme generated £5.8m in the period.

Bank facility of £17.5m (FY20 £17.5m) with headroom of £15.0m (FY20 £5.0m).

OPERATIONAL REVIEW

Peter Brotherton – Chief Executive Officer

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OPERATIONAL HIGHLIGHTS

Revenue

- Revenues for the first half of the year are up 7% on last year, recurring revenues account for 89% of total revenues and increased by 6% on H1-20.
- The increase in recurring revenues has largely been driven by growth in the public sector.
- All of the HSCN contract wins are now fully deployed and generating revenue, significantly increasing our profile within both the public and private health sectors.
- Significant number of public sector new logo contract wins as well as cross-selling additional products into the HSCN contract base.
- Revenues derived from public and private health sector clients were 34% in H1.

Efficiencies

- The network and data centre efficiency programme was completed, with annualised costs savings of c.£4.0m, significantly ahead of initial expectations of £2.8m when the programme was launched:
  - three third party data centres in London have been vacated.
  - three network platforms have been merged in to one.
  - tail circuit estate has been fully validated.
- Dynamic 365 Finance and Operations module launched which completes the ERP solution and provides a number of business benefits and further efficiencies.
- Following significant investment programmes over the last two years, minimal levels of maintenance capex have been required (£0.6m H1-21 vs. £3.5m H1-20).

OPERATIONAL HIGHLIGHTS

Resolution of FCA investigation and launch of Restitution Scheme

- On 13 June 2020, following a three year investigation into historical accounting misstatements, the company reached a full and final settlement with the Financial Conduct Authority ("FCA").
- As part of the FCA settlement, the Company launched a restitution scheme to compensate any net purchasers of shares between 9 November 2015 (when the September 2015 interim results were released) to 6 November 2016 (when the discovery of the accounting misstatements was announced to the market).
- The total cost of the restitution scheme was estimated at £11.4m with compensation payments being satisfied by cash, shares or a combination of cash and shares.
- To part fund the scheme, 5,250,000 new shares were issued in July 2020 through an equity placing at £1.10 per share raising £5.8m.
- The scheme closed on 31 October and we are currently processing claims. It is anticipated that c.80% of potential claims will be settled, with an additional £5.7m to be paid in H2.
- The closure of the FCA investigation represents a pivotal event for the Company and, once the remaining claims are processed, it will mean that management's attention will be solely devoted to running the business. It will also reopen FCA regulated sectors into which the business' products can now be sold.

DIVIDEND POLICY & SHARE BUYBACK

Dividend

- The Board has decided to reinstate dividend payments and announces an interim dividend of 1.2p per share which will be paid on 31 December 2020 to shareholders on the register at the close of business on 20 November 2020.
- As part of its review of strategy going forward, the Board will consider its final dividend policy and will make its recommendation at the time of release of the Company's preliminary results for FY21.

Share buyback

- In addition to restoring dividend payments, the Board will also reinstate the share buyback programme, with a view to selectively purchasing shares on market when it believes the shares are trading at a discount to the Company's fair valuation.

GROWTH STRATEGY, SUMMARY & OUTLOOK

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GROWTH STRATEGY

Organic – build on public sector success and attract private sector new logos

- Build on recent success in the public sector by cross-selling additional products into our existing customer base and attracting new logos by exploiting our framework agreements and increasing prominence in the public sector.

- With the FCA investigation now concluded, a significant barrier to attracting new private sector logos has been removed and reopened FCA regulated markets. In H2 we will selectively deploy additional sales resource to attract new private sector logo business.

- The product portfolio will continue to be expanded and enhanced.

Inorganic – consideration of acquisitions for both scale and capability

- Over the last two years the management team has successfully integrated historical acquisitions and extracted significant savings through efficiency programmes. This provides an excellent template for realising very significant synergies in any future scale acquisitions. Relevant experiences include:

  - Collapse of two physical networks into one.
  - Merging three network platforms into one unified platform.
  - Migration of customers from three third party data centres into our own facilities.
  - Migration of customers onto a new cloud platform.
  - Implementation of integrated ERP system replacing five legacy systems.

- In addition to acquisitions for scale, smaller acquisitions will also be considered to add capability to broaden and strengthen the product portfolio.

- Unless there are opportunities to make acquisitions at attractive rates, the Company will seek to return its free cash flow annually to shareholders via dividends and / or share buybacks.

SUMMARY AND OUTLOOK

SUMMARY

- During the year the business has delivered on all key aspects of its strategy:
  - Strong revenue and adjusted EBITDA growth reflecting success in public sector and completion of the network and data centre efficiency programme.
  - Sector leading adjusted EBITDA less capex margins with excellent cash conversion leading to substantial reductions in net debt.
- Implementation of ERP system, providing operational platform to support growth.
- Settlement reached with the FCA, reopening markets and removing uncertainty for all stakeholders.

OUTLOOK

- H2 trading performance expected to be broadly in line with H1.
- Restitution claims fully settled with anticipated cash payments of £5.7m in H2.
- End of formal sales process and closure of FCA restitution scheme will enable full focus on the business.
- Investment in private sector sales team to yield benefit from FY22 onwards.
- Continued focus on efficiency improvements.
- Consideration of acquisitions to supplement organic growth strategy.