Redcentric PLC

Preliminary results announcement for the year ended 31 March 2022

21st July 2022

redcentric

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Redcentric plc (AIM: RCN) ("Redcentric" or the "Company"), a leading UK IT managed services provider, today announces its full year results for the year ended 31 March 2022 ("FY22").

Financial performance measures

	Year ended 31 March 2022 ("FY22")	Year ended 31 March 2021 (restated[1]) ("FY21")	Change
Total revenue	**£93.3m**	£91.4m	2.1 %
Recurring revenue [2]	**£83.0m**	£81.9m	1.3 %
Recurring revenue percentage[2]	**88.9%**	89.6%	(0.7%)
Adjusted EBITDA[2]	**£23.7m**	£24.6m	(3.5%)
Adjusted operating profit[2]	**£15.9m**	£15.6m	2.2%
Reported operating profit	**£6.6m**	£12.8m	(48.3%)
Adjusted cash generated from operations[2]	**£19.3m**	£26.5m	(27.2%)
Reported cash generated from operations	**£17.2m**	£16.9m	1.3%
Net debt[2]	**(£16.6m)**	(£15.6m)	(6.9%)
Adjusted net (debt)/cash [2]	**(£1.5m)**	£1.0m	(257.7%)
Adjusted basic earnings per share[2]	**7.68p**	7.45p	3.1%
Reported basic earnings per share	**4.43p**	5.87p	(24.5%)

Percentage change calculated on absolute values

[1] For an explanation and reconciliation in relation to the prior year restatement following the adoption by the Redcentric group of companies (the "Group") of the IFRS Interpretations Committee ("IFRIC") agenda decision on cloud computing implementation, configuration and customisation costs, please refer to note 8.

[2] This announcement contains certain financial 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 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 alternative performance measures used in this announcement and reconciliations to their most directly related GAAP please see Appendix 1.

[3]Excluding EDF contribution following the sale of business and assets associated with the Company's contract with EDF, which completed on 31 March 2021.

Key financial highlights:

- Total revenue growth of 3.2% to £93.3m (FY21: £90.4m excluding EDF contribution[3]);
- Recurring revenue[2] grew by 2.6% to £83.0m, with recurring revenue representing 88.9% of the total revenue (FY21: £80.9m / 89.5% excluding EDF contribution[3]);
- Adjusted EBITDA[2] of £23.7m is marginally behind (0.6%) FY21 (excluding EDF contribution[3]), reflecting the challenges caused by increased electricity prices;
- Adjusted operating profit[2] increased by £0.3m to £15.9m (2.2%);
- Net debt at 31 March 2022 was £16.6m, including £14.1m of IFRS16 lease liabilities that were previously classified as operating leases under IAS17, and £1.0m of supplier loans;
- Reported operating profit reduced by £6.2m to £6.6m, which includes (i) the sale of assets relating to the Company's contract with EDF in FY21, which resulted in a profit on disposal of £4.5m; and (ii) the release of the provision in relation to the Company's restitution scheme agreed with the Financial Conduct Authority ("FCA") in FY21 for £2.2m ("Restitution Scheme").

Operational highlights

- During FY22, Redcentric completed two capability acquisitions, both of which are trading well and have been quickly integrated into the business with higher than anticipated synergy savings already delivered.
- A new divisional operating structure has been introduced subsequent to the balance sheet date, to drive focus and growth across all divisions.
- New sales orders during the second half of the year improved significantly on the first half and the Group is now nearing the levels seen prior to the outbreak of the COVID-19 pandemic, including the resumption of large-scale projects.
- Retention rates have been broadly consistent with prior years.
- Electricity price increases have added £0.5m to costs and equipment supply chain issues have resulted in delays to both recurring and non-recurring revenues.
- The board of directors of the Company (the "Board") is cognisant of the continued volatility in electricity prices and of the sector-wide employment, retention and salary inflation challenges.

Post period end

- Successful completion of Sungard data centre ("Sungard DC") assets and 4D Data Centres Limited ("4D") acquisitions, enhancing scale and capability of the Group.
- The acquisitions provide the Group with an excellent blue chip customer base and significant cross-sell opportunities.

Integration of FY22 acquisitions

Piksel Industry Solutions Limited ("Piksel") is now fully integrated into the Redcentric business. Excellent progress has been made in realising synergies from this acquisition, with c.£1.5m of annualised costs already eliminated, surpassing the £1.1m of synergies identified at the time of the acquisition. A further £0.5m of synergies are anticipated to be realised in FY23.

Good progress has also been made with the acquisition of 7 Elements Limited ("7 Elements"). For operational independence reasons, 7 Elements will be maintained as a standalone business, but most of the back-office functions (e.g. finance and human resources) have already been integrated.

Divisional focus

As highlighted in previous announcements, the preceding three years have been spent focussing primarily on delivering integration, optimisation and efficiency programmes to ensure that there is a solid and scalable foundation for future growth. As the business now switches focus to growth, the organisational structure also needs to adapt to deliver sustainable and profitable growth. To that end, the last six months have been spent designing and, post year end, implementing an organisational structure that can deliver the Company's ambitious growth strategy, by providing the level of focus required across the key revenue streams of Cloud, Networks and Collaboration products.

In addition to the appointments directly relating to the divisions, some central support functions have been augmented to provide support for the increased divisional demand.

This investment is one which sets the Company up for the future. It recognises the need for dedicated product expertise and addresses the broadening of our customer base. With the delivery of this structure, the Company can not only exploit the significant cross-sell opportunities that the new enlarged customer base brings, but also confidently compete and succeed across all areas of the market.

Peter Brotherton CEO commented:

"In the last twelve months we have delivered on the acquisition strategy as outlined in last year's annual report and accounts. During this period, five acquisitions were completed which have transformed the Company. The Piksel, 7 Elements and Sungard consultancy business acquisitions have all added significant capability in the high market growth areas of hyper-cloud and cyber security. The Sungard DC and 4D acquisitions bring considerable additional scale with a clear path to significantly increased scale over the next two years.

Our focus will now switch to fully integrating the recently acquired businesses and exploiting the meaningful cross-sell opportunities and synergies that these acquisitions bring to Redcentric. At the same time, we will continue to monitor potential targets and should a suitable opportunity arise, our solid balance sheet, strong cash generation and access to £66m of undrawn bank facilities will enable us to react swiftly.

We look forward to capitalising on the very significant opportunities that come with the recent acquisitions and to an exciting future"

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Chairman's Statement

Overview and Financial Results

These results demonstrate the robust nature of the business. Despite considerable headwinds associated with the COVID-19 pandemic, materially higher electricity prices, and substantially increased lead times on equipment orders, trading for the year was broadly equivalent with the prior year and remained ahead of the pre COVID-19 period (the financial year ended 31 March 2020 ("FY20")).

With the conclusion of the investigation by the FCA ("FCA Investigation"), historical acquisitions fully integrated and efficiency programmes delivered, the focus of the management team during the year has been on the long-term growth of the business. During FY22, two capability acquisitions were completed and following the year end a further capability acquisition was completed along with two scale acquisitions. The Piksel, 7 Elements and Sungard consultancy business ("Sungard Consulting") capability acquisitions have significantly enhanced our hyper-cloud, security, and consultancy product offerings. The capability acquisitions all operate within the highest growth areas of the market and will be a significant driver of future growth for the Group. The Sungard DCs and 4D scale acquisitions are highly accretive to the Group, reflecting the operational leverage of the business whilst also adding c.520 customers into which we can cross-sell our broad range of products and solutions.

At the start of FY23, a new divisional structure was implemented, significantly strengthening the management team, positioning the Company for growth, and recognising the very significant increase in both scale and capability as a result of the acquisitions undertaken.

Having completed five acquisitions in the last nine months, the near focus of the board is to ensure that the most recent acquisitions are fully integrated, and synergies maximised. At the date of approval, the Company had drawn £35.5m of its £80m committed bank facility, and this, along with the significant cash generation of the business, means the Group has significant firepower for future acquisitions.

Dividend and share buyback

A final dividend of 2.4p per share is recommended by the Board and will result in a total dividend for FY22 of 3.6p per share (financial year ended 31 March 2021 "FY21": 3.6p per share). Subject to approval by shareholders at the Company's annual general meeting ("AGM"), this will be paid on 16 September 2022 to shareholders on the register at the close of business on 29 July 2022 with shares going ex-dividend on 28 July 2022. The last day for Dividend Reinvestment Plan elections is 19 August 2022.

During the year, the FY21 final dividend payment of £3.7m was paid along with the FY22 interim dividend payment of £1.9m. In addition, a further £3.0m was returned to shareholders through share and warrant buybacks. Returns to shareholders during the year therefore totalled £8.6m reflecting continued strong cash generation from the Group.

The Board intends to continue with the same level of dividends and selective share buybacks but will review these policies in light of any large-scale acquisitions.

Board changes and people

On 17 November 2021, I joined the business, replacing Ian Johnson as Independent Non-Executive Chair of the Board, Chair of the Nomination Committee and member of the Remuneration Committee. I am a chartered management accountant and have been both chair and non-executive director for a portfolio of companies across the data, communications, software and financial services sectors and, between 2014 and 2020, sat on the board of directors for Nasstar plc.

On the 7 July 2021, Helena Feltham was appointed as an Independent Non-Executive Director, taking the responsibilities of Chair of the Remuneration Committee and becoming a member of the Audit and Nomination Committees, roles previously held by Stephen Vaughan. With the publication of this Report, Jon Kempster steps down from the Board as Chair of the Audit Committee and Non-Executive Director and the Board is delighted to welcome Alan Aubrey as a new 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 and best wishes go to Jon for his service to the Company.

I would also like to thank the Board for their support in my first seven months, and special thanks to our management and employees for their hard work and dedication to progress the Company's performance. I would like to welcome all our new employees that have joined our Redcentric family through our recent acquisitions.

Outlook

The five acquisitions undertaken in the last nine months add increased capability and an enlarged customer base into the Group. As we fully integrate our acquired operations, I look forward to building strong relationships with all our customers, new and old, and I am confident that we can surpass their expectations through the delivery of our enhanced range of services.

With the considerable progress made in the year the board is optimistic for the future of the business.

Nick Bate
Chairman
21 July 2022

Chief Executive's Review

Overview

PROVIDING FOCUS AND STRUCTURE FOR GROWTH

FY22 has been a very significant and productive year for Redcentric. After many years of positioning the business for growth, we completed two capability acquisitions within FY22, both of which are trading well and have been quickly integrated into the business, delivering higher than anticipated synergy savings. Following the year end, we have completed a further capability acquisition and two scale acquisitions. As a result, we have completed five acquisitions in the last nine months and totally transformed the Company, adding over six hundred customers to our existing base and increasing run rate revenues by approximately 60%.

The acquisitions of Piksel, 7 Elements and Sungard Consulting have significantly increased our capabilities and revenues in hyper-cloud, security and consultancy services, complementing our already significant network revenues, whilst the scale acquisitions of 4D and Sungard DCs provide operational leverage and an enlarged customer base for us to cross-sell our products and services into.

With these acquisitions we believe that we now have the most comprehensive IT and telecommunications product and solutions offering in the market.

To ensure that each product category receives dedicated focus on growth, efficiency, and innovation, we have created a structure that enables us to deploy and manage the tailored technical skills and expertise required to innovate across different technologies. A new divisional structure implemented after the year end has resulted in several new senior appointments within the organisation representing a significant step change in the way the business operates. The dedicated focus that each division receives enables colleagues to gain improved knowledge of the products and services within their area, resulting in better quality customer conversations and improved bid quality.

A new banking facility was agreed on 26 April 2022 which provides us with significant additional firepower at very competitive rates of interest to support and accelerate our acquisition strategy. Under this new four bank syndicate facility, we have £80m of committed funds available, with a further £20m accordion facility accessible if required. This has been well utilised and at 30 June 2022, £34m of the facility has been drawn to fund acquisitions, leaving sufficient capacity for further scale and capability opportunities.

As we move into a phase of delivering growth through M&A, the Board has changed to reflect this, and I am pleased to welcome Nick Bate and Helena Feltham to the Board, both of whom bring a wealth of experience relevant to the Company's growth strategy, including corporate M&A transactions.

BUSINESS PERFORMANCE

Revenues for the year increased by 2.1% on last year with recurring revenues accounting for 88.9% of total revenues marginally down by (0.7) ppts on FY21.

The sale of business and assets relating to the EDF Contract, which was not core to the Redcentric business, on 31 March 2021, for a consideration of £5.75m, had the impact of reducing revenues for FY22 by £1.0m, whereas the acquisition of Piksel on 30 September 2021 and the acquisition of 7 Elements on 14 March 2022 contributed £6.0m to Group revenues.

Underlying organic revenues contracted slightly in FY22 reflecting a market that was still recovering from the COVID-19 pandemic but follows a year of solid growth in FY21. Over the two-year period of the COVID-19 pandemic, the business has grown underlying revenues by 1%, a strong performance given the significant market and economic headwinds, with the additional 5.7% of revenue growth generated by the acquisitions of Piksel and 7 Elements.

As the country started to emerge from the COVID-19 pandemic and the various lockdowns and measures eased, the business experienced a number of market trends and evolving customer behaviours:

- Reengagement on previously deferred large-scale IT projects;
- Digital transformation continuing to be a key focus for customers as they plan for life after COVID-19;
- Cost bases being closely scrutinised resulting in additional cancellations of non-critical services;
- Customers adapting to changes in workforce by appraising office space utilisation; and
- A shortage of electrical components affecting both recurring and non-recurring revenues.

The behaviours described above have led to a subdued market for most of FY22, with new order intake being approximately half the pre-COVID-19 levels for the first three quarters of FY22, and cancellations remaining at pre-COVID-19 levels. The final quarter of FY22 was more positive, with several larger scale projects being signed, resulting in the order intake levels increasing to approximately 80% of pre-COVID-19 volumes.

The well documented shortage of hardware technology has not only meant that we have been unable to satisfy and, in some cases, accept product orders, but it has also delayed larger project rollouts that require end user hardware. Whilst this continues to be a challenge, we are managing this by working closely with our suppliers to avoid delays to customer projects.

The outlook following the COVID-19 pandemic continues to be positive, with an encouraging pipeline including several discussions at an advanced stage. The additional capabilities from Piksel, 7 Elements, Sungard Consulting and Sungard DCs have opened new markets and the recent acquisitions have brought with them skills that improve the way we are able to identify customers' needs and articulate appropriate solutions.

We are pleased to announce that trading for FY22 was in line with the expectations of the Board:

- Revenues of £93.3m (FY21: £91.4m);
- Adjusted EBITDA[2] of £23.7m (FY21 restated[1]: £24.6m);
- Adjusted operating profit[2] of £15.9m (FY21 restated[1]: £15.6m);
- Adjusted net debt of £1.5m (31 March 2021: net cash of £1.0m); and
- Reported operating profit of £6.6m (FY21 restated[1]: £12.8m).

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs please see note 8.

[2] For an explanation of the alternative performance measures used in this announcement please refer to appendix 1.

The net debt position is after dividend payments of £5.6m; the disposal of assets relating to the EDF Contract for £5.8m; share and warrant buybacks of £3.0m; the acquisitions of Piksel and 7 Elements for a combined cash cost of £10.4m (net of cash acquired); and a c. £2m working capital catch up in respect of Piksel to align supplier payment practices.

OPERATIONAL HIGHLIGHTS

- During FY22, Redcentric completed two capability acquisitions, both of which are trading well and have been quickly integrated into the business with higher than anticipated synergy savings already delivered.
- A new divisional operating structure has been introduced subsequent to the balance sheet date, to drive focus and growth across all divisions.
- New sales orders during the second half of the year improved significantly on the first half and we are now nearing the levels seen prior to the outbreak of the COVID-19 pandemic, including the resumption of large-scale projects.
- Retention rates have been broadly consistent with prior years.
- Electricity price increases have added £0.5m to costs and equipment supply chain issues have resulted in delays to both recurring and non-recurring revenues.
- The Board is cognisant of the continued volatility in electricity prices and of the sector-wide employment, retention and salary inflation challenges.

INTEGRATION OF FY22 ACQUISITIONS

Piksel is now fully integrated into the Redcentric business. Excellent progress has been made in realising synergies from this acquisition, with c.£1.5m of annualised costs already eliminated surpassing the £1.1m of synergies identified at the time of the acquisition. A further £0.5m of synergies are anticipated to be realised in FY23.

Good progress has also been made with the 7 Elements acquisition. For operational independence reasons, 7 Elements will be maintained as a standalone business but most of the back-office functions (e.g. finance and human resources) have already been integrated.

DIVSIONAL FOCUS

As highlighted in previous announcements, the preceding three years have been spent focussing primarily on delivering integration, optimisation, and efficiency programmes to ensure that there is a solid and scalable foundation for future growth. As the business now switches focus to growth, the organisational structure also needs to adapt to one that can deliver sustainable and profitable growth. To that end, the last six months have been spent designing and, post year end, implementing an organisational structure that can deliver the Company's ambitious growth strategy, by providing the level of focus required across the key revenue streams of Cloud, Networks and Collaboration products.

In addition to the appointments directly relating to the divisions, some central support functions have been augmented to provide support for the increased divisional demand.

This investment is one which sets the Company up for the future. It recognises the need for dedicated product expertise and addresses the broadening of our customer base. With the delivery of this structure, the Company can not only exploit the significant cross-sell opportunities that the enlarged customer base brings, but it can also confidently compete and succeed across all areas of the market.

Cloud Services

Following the acquisitions of Piksel, Sungard Consulting and 4D, the Company's cloud services offering has further expanded its range of cloud hosting solutions, ranging from colocation through to hybrid and public cloud services. IT modernisation, digital transformation and dev-ops skills have also been added, which complete the business' portfolio of cloud offerings.

The acquisition of Piksel also gave us increased security capability and this was further strengthened by the acquisition of 7 Elements, which adds security and penetration testing to our portfolio of security services.

Network Services

Network integration and data connectivity solutions are another of Redcentric's core strengths, accounting for one-third of our recurring revenues. Most of the Company's customers take some sort of connectivity service, increasing their stickiness and reducing potential churn.

After the pause of several large potential network projects in the pipeline during the COVID-19 pandemic period, the Company is now starting to see a return of such opportunities. In the second half of the year, notable successes were a large network cross-sell into the Piksel customer base and two large public sector network wins.

Collaboration Services

Despite a strong range of collaboration product offerings and the high number of customers already taking connectivity from the Company, collaboration services remain a relatively small proportion of the Group's recurring revenue (c. 8%). Over the last 12 months Redcentric has actively looked to strengthen both the product offering and scale of this area of the business but, to date, no suitable acquisitions have been found. Whilst the search for such acquisitions will continue, we have formed a new Collaboration Services Division to better exploit the opportunities in this area. A new and experienced management team is in the process of being set up with a new managing director and sales director due to join the business at the end of July 2022.

Support Services

New positions of Chief Technical Officer ("CTO") and Customer Services Director have been created to support the Company's growth plans.

The CTO's role will be to drive product innovation and increase the automation and efficiency of operational systems and processes.

The Customer Service Division has been created to bring customers to the forefront of everything Redcentric does. By combining the Service Operations, Service Delivery and Assurance teams from across Redcentric and Piksel into one division that supports the newly formed business units, we are able to ensure our customers remain our focus and that they receive a consistently high level of service across all group services.

OUTLOOK

The five acquisitions that have been completed within the last nine months have totally transformed the business. We have significantly increased our capabilities in the highest growing areas of the market by acquiring Piksel, 7 Elements and Sungard Consulting, whilst increasing our customer base by over six hundred, including through the addition of Sungard DCs and 4D. The additional customer base brings with it a wealth of cross-sell opportunities as the Redcentric product offering is much wider than both Sungard and 4D.

During the next six to nine months our focus will be on fully integrating the acquired businesses and exploiting the meaningful cross-sell opportunities and synergies that these acquisitions bring to Redcentric. The new divisional structure will bring a renewed focus to the organisation and will ensure that each of the service offerings are fully aligned and can capitalise on the undoubted market opportunity.

Whilst our focus will be on the successful integration of the recent acquisitions, we will continue to monitor potential targets and should a suitable opportunity arise, our strong balance sheet and access to £66m of undrawn bank facilities will enable us to react swiftly.

We look forward to capitalising on the very significant opportunities that come with the recent acquisitions and to an exciting future.

Peter Brotherton

Chief Executive Officer

21 July 2022

Financial Review

Financial performance measures

	Year ended 31 March 2022 (FY22)	Year ended 31 March 2021 (FY21) Restated[1]	Change	Year ended 31 March 2021 (FY21) [3]	Change [3]
Total revenue	**£93.3m**	£91.4m	2.1%	£90.4m	3.2%
Recurring revenue (RMR)[2]	**£83.0m**	£81.9m	1.3%	£80.9m	2.6%
Recurring revenue percentage[2]	**88.9%**	89.6%	(0.7%)	89.5%	(0.7%)
Adjusted EBITDA[2]	**£23.7m**	£24.6m	(3.5%)	£23.9m	(0.6%)
Adjusted operating profit[2]	**£15.9m**	£15.6m	2.2%	n/a	n/a
Reported operating profit	**£6.6m**	£12.8m	(48.3%)	n/a	n/a
Adjusted cash generated from operations[2]	**£19.3m**	£26.5m	(27.2%)	n/a	n/a
Reported cash generated from operations	**£17.2m**	£16.9m	1.3%	n/a	n/a
Net debt[2]	**(£16.6m)**	(£15.6m)	(6.9%)	n/a	n/a
Adjusted net cash/(debt) [2]	**(£1.5m)**	£1.0m	(257.7%)	n/a	n/a
Adjusted basic earnings per share[2]	**7.68p**	7.45p	3.1%	n/a	n/a
Reported basic earnings per share	**4.43p**	5.87p	(24.5%)	n/a	n/a

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 8.

[2] For an explanation of the alternative performance measures used in this report, please refer to Appendix 1

[3] Excluding EDF Contribution following the sale of business and assets associated with the EDF contract completed on 31 March 2021.

Overview

The business has delivered another set of strong results, showing resilience against challenging market conditions, with the Group continuing to perform ahead of pre-COVID levels of FY20. The stability in the underlying business has positioned the Group to begin to implement its acquisition strategy as the Company seeks to capitalise on the market consolidation opportunity. This year's accounts include the impact and contributions made by the Piksel and 7 Elements acquisitions completed in the financial year as well as the disposal of the EDF contract completed at the end of the last financial year. Key considerations include:

1. The acquisition of the entire issued share capital of Piksel by the Company's trading subsidiary, Redcentric Solutions Limited ("RSL"), completed on 30 September 2021 for initial cash consideration of US$13.0m (c.£9.5m) of which US$12.0m (c£8.8m) was payable immediately with US$0.75m (c.£0.55m) being held in escrow for a period of 12 months and $0.25m (£0.18m) being deferred to offset future costs as part of a transitional services agreement. This acquisition significantly enhances the Group's cloud services proposition. The business and assets of Piksel were hived up into Redcentric Solutions Limited on 28 February 2022 and the statutory entity itself now ceases to trade.

2. On 15 March 2022, the acquisition of 7 Elements was completed for £2.4m initial consideration, and contingent consideration dependent on business performance over the next 12 months with a maximum value of £0.45m. 7 Elements provides security services across a range of industries and sectors and brings additional capability to the Group. 7 Elements will continue to operate as a standalone business.

3. Subsequent to the year-end, on 26 April 2022, the Group completed a refinance 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 consisting of NatWest, Barclays, Bank of Ireland, and Silicon Valley Bank (the "New Facility"). The New Facility has an initial maturity date of 26 April 2025 with options to extend by a further one or two years. The borrowing cost of the RCF is determined by the level of the Company leverage and has a borrowing cost of 175 basis points over SONIA at the Company's current leverage levels. An arrangement fee of 75 basis points will be payable upfront, in addition to a commitment fee on the undrawn portion of the new RCF, on equivalent terms to the previous facility. The New Facility provides the Group with additional liquidity to be used for working capital purposes and to fund acquisitions, in accordance with the Group's stated strategy.

4. The sale of business and assets relating to the EDF Contract was completed on 31 March 2021 for a fixed consideration of £5.75m, payable in two instalments: £3.5m on 30 April 2021 and £2.25m on 30 September 2021. Under the terms of the EDF Contract, the Company provided maintenance services to four EDF nuclear power stations and in FY21, the EDF Contract contributed £1m to revenue and £0.72m to EBITDA and generated £0.68m of operating cash flow ("EDF Contribution"). FY21 comparatives3 exclude the EDF Contribution to allow for more meaningful comparatives.

5. In April 2021, IFRIC published an agenda decision to clarify the accounting treatment in relation to the implementation, configuration and customisation costs incurred in implementing software-as-a-service ("SaaS") cloud computing arrangements. Due to the nature of the decision and the level of investment made by the Group on its enterprise resource planning system ("Dynamics 365"), the Group's accounting policy in relation to such implementation, customisation and configuration costs has been reviewed and changed to align to the IFRIC guidance issued. The restatement represents a non-cash adjustment. The revision to the accounting policy has been accounted for retrospectively resulting in a prior year restatement and prior-year comparatives have been restated where necessary. See note 8 for further details.

The key financial highlights are as follows:

- Total revenue growth of 3.2% to £93.3m (FY21: £90.4m excluding EDF Contribution[3]);
- Recurring revenue[2] grew by 2.6% to £83.0m, with recurring revenue representing 88.9% of the total revenue (FY21: £80.9m / 89.5% excluding EDF Contribution[3]);
- Adjusted EBITDA[2] of £23.7m is marginally behind (0.6%) FY21 (excluding EDF Contribution[3]) reflecting the challenges caused by increased electricity prices;
- Adjusted operating profit[2] increased by £0.3m to £15.9m (2.2%);
- Net debt at 31 March 2022 was £16.6m, including £14.1m of IFRS16 lease liabilities that were previously classified as operating leases under IAS17 and £1.0m of supplier loans;
- Reported operating profit reduced by £6.2m to £6.6m as a result of the sale of EDF in FY21 which resulted in a profit of £4.5m and the release of the Restitution Scheme provision in FY21 for £2.2m.

Revenue

Revenue for FY22 was generated wholly from the UK and is analysed as follows:

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000	Year ended 31 March 2021[3] £'000	Change[3] £'000	Change[3] %
Recurring revenue[2]	**82,965**	81,897	80,897	2,068	2.6%
Product sales	**6,187**	5,072	5,072	1,115	22.0%
Services revenue	**4,176**	4,430	4,430	(254)	(5.7%)
Total revenue	**93,328**	91,399	90,399	2,929	3.2%

[2]For an explanation of the alternative performance measures used in this report, please refer to Appendix 1

[3] Excluding EDF Contribution, as defined above.

Total revenue increased by £1.9m compared to FY21, impacted by: the loss of c£1.0m contribution from EDF [3] following the disposal of assets relating to the EDF Contract, and incremental revenue in FY22 generated by the acquisitions of Piksel and 7 Elements which added £6.0m to Group revenues. As outlined above, underlying organic revenues contracted slightly in FY22 reflecting a market that was still recovering from the COVID-19 pandemic. However, we are seeing signs of a return to a more normalised environment.

Revenue is analysed into the following categories:

- Recurring revenue has increased 2.6% to £83.0m (FY21: £80.9m excluding EDF contribution[3]).
- Non-recurring product revenue has increased £1.1m to £6.2m (FY21: £5.1m) following a strong FY22 second half ("H2") performance as hardware orders signed up during FY21 and first half ("H1") FY22 which were previously delayed due to the worldwide shortage in microchips have now been delivered. We still have a high level of product revenue in work in progress ("WIP") as we continue to see impacts of the microchip shortage.
- Non-recurring services revenue was lower at £4.2m (FY21: £4.4m), reflecting the continuing lower level of activity on new projects.

Gross profit

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000	Year ended 31 March 2021[3] £'000	Change[3] £'000	Change[3] %
Gross Profit	**59,550**	57,939	56,939	2,611	4.6%
Gross Margin	***63.8%***	*63.4%*	*63.0%*	*n/a*	*0.8%*

[3] Excluding EDF Contribution, as defined above.

Gross profit increased by 4.6% (£2.6m) (excluding EDF contribution[3]) reflecting the Group's increased revenue and an improvement in gross margin to 63.8% (FY21: 63.0% excluding EDF contribution[3]) due to contribution from higher margin Piksel & 7 Elements acquisitions.

Adjusted operating costs[2]

The Group's adjusted operating costs (operating expenditure excluding depreciation, amortisation, exceptional items and share-based payments) are set out in the table below:

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000	Year ended 31 March 2021[3] £'000	Change[3] £'000	Change[3] %
UK employee costs	**21,369**	19,700	19,468	1,901	9.8%
Office and data centre costs	**4,411**	3,789	3,752	659	17.6%
Network and equipment costs	**7,299**	6,941	6,933	366	5.3%
Other sales, general and administration costs	**1,553**	1,428	1,428	125	8.8%
Offshore costs	**1,205**	1,502	1,502	(297)	(19.8%)
Total adjusted operating costs	35,837	33,360	33,083	2,754	8.3%

[3] Excluding EDF Contribution, as defined above.

[2]For an explanation of the alternative performance measures used in this report, please refer to Appendix 1

Total adjusted operating costs for FY22 were 8.3% (£2.8m) higher than prior year (excluding EDF contribution[3]), reflecting:

- employee costs increased £1.9m (9.8%) due to additional employees following the Piksel and 7 Elements acquisitions;
- office and data centre costs increased by £0.7m, primarily due to the impact of increased electricity costs as several electricity supply contracts fell due during the UK energy crisis;
- network and equipment costs increased by £0.4m, of which £0.5m is attributable to Piksel;
- other sales, general and administration costs are up £0.1m, with £0.2m relating to Piksel, offset by reduced legal costs; and offshore costs reduced by £0.3m due to reduction in employee costs with the average number of employees reducing from 126 to 100 following more roles being moved onshore.

Employees

	Year ended 31 March 2022 (Number)	Year ended 31 March 2021 (Number)	Variance (Number)
Year-end headcount			
UK	**376**	295	81
India	**91**	100	(9)
Total employees	**467**	395	72

	Year ended 31 March 2022 (Number)	Year ended 31 March 2021 (Number)	Variance (Number)
Average headcount			
UK	**386**	294	92
India	**100**	126	(26)
Total employees	**486**	420	66

Adjusted EBITDA[2]

Adjusted EBITDA is EBITDA excluding exceptional items (as set out in note 2), share-based payments and associated National Insurance. The same adjustments are also made in determining the adjusted EBITDA margin.

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 (restated)[1] £'000
Reported operating profit	**6,607**	12,782
Amortisation of intangible assets arising on business combinations	**6,498**	6,252
Amortisation of other intangible assets	**475**	670
Depreciation on tangible assets	**2,745**	3,408
Depreciation on ROU assets	**4,578**	4,932
EBITDA	**20,903**	28,044
Exceptional items	**1,629**	(4,152)
Share-based payments and associated National Insurance	**1,181**	687
Adjusted EBITDA[2]	**23,713**	24,579
EDF Contribution[3]	-	(725)
Adjusted EBITDA (excluding EDF contribution)[3]	**23,713**	23,854

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 8.

[2] For an explanation of the alternative performance measures used in this report, please refer to Appendix 1

[3] Excluding EDF Contribution, as defined above

Adjusted EBITDA decreased by 3.5% to £23.7m, £0.9m lower than prior year. Excluding the EDF Contribution[3], adjusted EBITDA for FY22 was marginally lower than the prior year (0.6%). FY22 EBITDA includes six months of contribution from the acquisition of Piksel and one month of contribution from the acquisition of 7 Elements worth £0.8m in total, which has been offset by increased electricity costs.

Taxation, interest and dividend

The tax charge for the year was a credit of £1.4m (FY21: a charge of £2.3m), comprising an income tax charge of £0.4m (FY21: £1.2m) and a deferred tax credit of £1.8m (FY21: a charge of £1.1m).

Net finance costs for the year were £1.1m (FY21: £1.5m), including £1.0 (FY21: £1.2m) of interest payable on leases of which £0.8m (FY21: £1.0m) related to leases previously recognised as operating leases under IAS17.

During the year, the Group paid an interim dividend for FY22 of 1.2p per share, totalling £1.9m.

A final dividend payment of 2.4p per share will be paid on 16 September 2022, subject to approval at the Company's AGM, to shareholders on the register at the close of business on 29 July 2022 with shares going ex-dividend on 28 July 2022. The last day for Dividend Reinvestment Plan elections is 19 August 2022.

Net debt

During the year, net debt increased by £1.1m to £16.6m as at 31 March 2022, with the movements shown in the tables below:

	Year ended 31 March 2022	Year ended 31 March 2021 (restated)[1]
	£'000	£'000
Operating profit	6,607	12,782
Depreciation and amortisation	14,296	15,262
Exceptional items	1,629	(4,152)
Share based payments	1,181	687
Adjusted EBITDA[2]	23,713	24,579
Working capital movements	(4,017)	1,881
Transfer from intangible assets to cost of sales	140	-
Non-cash provision movements	(577)	-
Adjusted cash generated from operations	**19,259**	**26,460**
Cash conversion	*81.2%*	*107.7%*
Capital expenditure - cash purchases	(2,765)	(2,307)
Capital expenditure - finance lease purchases	(438)	(2,235)
Proceeds from sale and lease back of assets	-	1,036
Net capital expenditure	**(3,203)**	**(3,506)**
Corporation tax receipt / (paid)	246	(149)
Interest paid	(51)	(398)
Loan arrangement fees/fee amortisation	-	(17)
Finance lease/term loan interest	(885)	(1,017)
Effect of exchange rates	27	(26)
Other movements in net debt	**(663)**	**(1,607)**
Normalised net debt movement[2]	**15,393**	**21,347**
Cash cost of exceptional items	(2,091)	(9,514)
Share buyback	(2,666)	-

Non-capitalised finance leases purchases	(145)	-
Acquisition of subsidiaries (net of cash acquired)	(10,422)	-
Cash received on disposal of non-core business unit	5,750	-
IFRS 16 lease additions	(2,094)	-
IFRS 16 lease disposals	813	-
Remeasurement relating to lease modification	-	3,917
Supplier loans	-	(1,207)
Dividends	(5,627)	(1,868)
Disposal of treasury shares on exercise of share options	-	494
Cash received on exercise of share options	12	36
Share issues	1	5,775
	(16,469)	**(2,367)**
(Increase)/Decrease in net debt	**(1,076)**	**18,980**
Net debt at the beginning of the period	(15,569)	(34,549)
Net debt at the end of the period	**(16,645)**	**(15,569)**

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 8.

[2] For an explanation of the alternative performance measures used in this report, please refer to Appendix 1

	As at 31 March 2020 £'000	Net cash flow £'000	Net non-cash flow £'000	As at 31 March 2021 £'000	Net cash flow £'000	Net non-cash flow £'000	**As at 31 March 2022 £'000**
Cash	3,710	1,567	(27)	5,250	(3,473)	27	**1,804**
RCF	(12,483)	12,500	(17)	-	-	-	**-**
Term Loan	(151)	212	(1,552)	(1,491)	532	(45)	**(1,004)**
Lease Liabilities	(25,625)	4,527	1,770	(19,328)	3,701	(1,818)	**(17,445)**
	(34,549)	18,806	174	(15,569)	760	(1,836)	**(16,645)**

Included in lease liabilities at 31 March 2022 are £14.1m (FY21: £15.1m) of IFRS 16 lease liabilities that were previously classified as operating leases under IAS17 and £1.0m (FY21: £1.5m) of term loans. Other movements reflect acquisition of subsidiaries of £10.4m, capital expenditure of £3.2m, £5.6m on dividends, and £2.7m on share buybacks. £2.1m outflow from exceptional items includes £0.8m acquisition and integration costs.

Following completion of the Sungard DCs and 4D acquisitions, as at 7 July 2022 net debt was £33.1m excluding IFRS16 lease liabilities and £0.6m of supplier loans.

Trade Debtors

In the year, focus remained on maintaining a strong ageing profile with a low level of aged debt. At the year-end, 97% of debt was current or less than 30 days overdue (FY21: 97%).

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Current	**8,736**	9,343
1 to 30 days overdue	**1,997**	600
31 to 60 days overdue	**452**	282
61 to 90 days overdue	**80**	21
91 to 180 days overdue	**19**	21

> 180 days overdue	**(172)**	1
Gross trade debtors	**11,112**	10,268
Provisions	**(884)**	(1,104)
Net trade debtors	**10,228**	9,164

Trade debtor days were 36 at 31 March 2022 compared to 34 at 31 March 2021. Trade debtor days are calculated as trade debtors divided by revenue (incl. VAT) multiplied by 365.

Trade creditor days were 37 at 31 March 2022 compared to 37 as at 31 March 2021. Trade creditor days are calculated as trade creditors divided by total purchases (cost of sales and operating expenditure) multiplied by 365.

Financing

		31 March 2022			31 March 2021	
	Available £'000s	**Drawn £'000s**	**Undrawn £'000s**	Available £'000s	Drawn £'000s	Undrawn £'000s
Committed						
- Revolving credit facility	**5,000**	**-**	**5,000**	5,000	-	5,000
- Term Loans	**1,004**	**1,004**	**-**	1,491	1,491	-
- Leases	**17,445**	**17,445**	**-**	19,328	19,328	-
	23,449	**18,449**	**5,000**	25,819	20,819	5,000
Uncommitted						
- Bank overdraft	**-**	**-**	**-**	-	-	-
- Accordion facility	**20,000**	**-**	**20,000**	20,000	-	20,000
- Asset financing facility	**7,000**	**1,100**	**5,900**	5,190	-	5,190
	27,000	**1,100**	**25,900**	25,190	-	25,190
Total borrowing facilities	**50,449**	**19,549**	**30,900**	51,009	20,819	30,190

Uncommitted facilities represent facilities available to the Group, but which can be withdrawn by the lender and hence are not within the Group's control. When the asset financing facility is utilised, a lease is created and hence there is no committed asset financing facility.

As at 31 March 2022, the Group was party to £32m of banking facilities, comprising an RCF of £5m (£nil utilised at 31 March 2022) with a £20.0m accordion (£nil utilised at 31 March 2022) and a £7.0m Asset Financing Facility (£1.1m utilised at 31 March 2022). As at 31 March 2022, these facilities were due to expire on 30 June 2022.

Subsequent to the year-end, on 26 April 2022, the Group completed a refinance of its debt facilities that were due to mature on 30 June 2022. The New Facilities consist of an £80m RCF and an uncommitted £20m accordion facility and are provided by a new four bank group consisting of NatWest, Barclays, Bank of Ireland and Silicon Valley Bank. The New Facility has an initial maturity date of 26 April 2025 with options to extend by a further one or two years.

The borrowing cost of the RCF is determined by the Group's leverage and has a borrowing cost of 175 basis points over SONIA at the Group's current leverage levels, which is a significant improvement to the previous facility. An arrangement fee of 75 basis points will be payable upfront, in addition to a commitment fee on the undrawn portion of the new RCF, on equivalent terms to the previous facility. The New Facility provides the Group with additional liquidity to be used for working capital purposes and to fund acquisitions, in accordance with the Group's stated strategy.

At the date of approval, the Group had drawn £35.5m of the RCF to fund acquisitions after the balance sheet date as detailed in the business overview of this review.

David Senior

Chief Financial Officer
21 July 2022

Consolidated statement of comprehensive income for the year ended 31 March 2022

	Note	Year ended 31 March 2022 £'000	Year ended 31 March 2021 (restated[1]) £'000
Revenue		**93,328**	91,399
Cost of sales		**(33,778)**	(33,460)
Gross Profit		**59,550**	57,939
Operating expenditure		**(53,046)**	(49,664)
Other operating income		**103**	4,507
Adjusted EBITDA[2]		**23,713**	24,579
Depreciation of property, plant and equipment	5	**(2,745)**	(3,408)
Amortisation of intangibles	4	**(6,973)**	(6,922)
Depreciation of right of use assets	6	**(4,578)**	(4,932)
Exceptional items	2	**(1,629)**	4,152
Share-based payments		**(1,181)**	(687)
Operating profit		**6,607**	12,782
Finance income		**-**	-
Finance costs		**(1,071)**	(1,460)
Profit before taxation		**5,536**	11,322
Income tax credit/(expense)		**1,404**	(2,311)
Profit for the period attributable to owners of the parent		**6,940**	9,011
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**(26)**	103
Deferred tax movement on share options		**58**	(224)
Total comprehensive profit for the period		**6,972**	8,890
Earnings per share			
Basic earnings per share		**4.43p**	5.87p
Diluted earnings per share		**4.36p**	5.79p

[1] See note 8 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.

[2] For an explanation and reconciliation of the alternative performance measures used in this report, please refer to Appendix 1

Consolidated statement of financial position as at 31 March 2022

	Note	**31 March 2022**	31 March 2021 (restated[1])	31 March 2020 (restated[1])
		£'000	£'000	£'000
Non-Current Assets				
Intangible assets	4	**67,726**	61,280	68,415
Property, plant and equipment	5	**5,372**	5,834	8,475
Right-of-use assets	6	**17,038**	18,787	26,010
Deferred tax asset		**3,999**	1,403	2,324
		94,135	87,304	105,224
Current Assets				
Inventories		**1,393**	1,061	891
Trade and other receivables		**22,123**	25,663	23,261
Corporation tax receivable		**-**	-	346
Cash and cash equivalents		**1,804**	5,250	3,710
		25,320	31,974	28,208
Total assets		**119,455**	119,278	133,432
Current Liabilities				
Trade and other payables		**(24,053)**	(22,459)	(24,311)
Corporation tax payable		**(800)**	(641)	-
Bank and term loans		**(508)**	(487)	(12,598)
Lease liabilities		**(4,086)**	(3,735)	(3,528)
Provisions	3	**-**	(574)	(12,122)
Contingent consideration	7	**(422)**	-	-
		(29,869)	(27,896)	(52,559)
Non-current liabilities				
Deferred tax liability		**-**	-	-
Bank and term loans		**(496)**	(1,004)	(36)
Lease liabilities		**(13,359)**	(15,593)	(22,097)
Provisions	3	**(3,883)**	(2,695)	(2,531)
		(17,738)	(19,292)	(24,664)
Total liabilities		**(47,607)**	(47,188)	(77,223)

Net assets	**71,848**	72,090	56,209
Equity			
Called up share capital	**157**	156	149
Share premium account	**73,267**	73,267	65,734
Common control reserve	**(9,454)**	(9,454)	(9,454)
Own shares held in treasury	**(2,673)**	(32)	(724)
Retained earnings	**10,551**	8,153	504
Total Equity	**71,848**	72,090	56,209

[1] See note 8 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.

The financial statements of Redcentric Plc (Registration Number 08397584) were approved by the Board on 21 July 2022 and are signed on its behalf by:

David Senior
Chief Financial Officer

Consolidated cash flow statement for the year ended 31 March 2022

	Note	**Year ended 31 March 2022 £'000**	Year ended 31 March 2021 (restated[1]) £'000
Profit before taxation		**5,536**	11,322
Finance costs		**1,071**	1,460
Operating profit		**6,607**	12,782
Adjustment for non-cash items			
Depreciation and amortisation	4,5,6	**14,296**	15,262
Exceptional items	2	**1,629**	(4,152)
Share-based payments		**1,181**	687
Operating cash flow before exceptional items and movements in working capital		**23,713**	24,579
Transfer from intangible assets to cost of sales		**140**	-
Non-cash provision movements		**(577)**	-
Cash costs of exceptional items		**(2,091)**	(9,514)
Operating cash flow before changes in working capital		**21,185**	15,065
Changes in working capital			
Increase in inventories		**(185)**	(15)

Decrease in trade and other receivables	**559**	4,433
Decrease in trade and other payables	**(4,391)**	(2,537)
Cash generated from operations	**17,168**	16,946
Tax received/(paid)	**246**	(149)
Net cash generated from operating activities	**17,414**	16,797
Cash flows from investing activities		
Purchase of property, plant and equipment	**(2,264)**	(1,541)
Disposal of non-core contracts	**5,750**	-
Acquisition of subsidiaries (net of cash acquired)	**(10,422)**	-
Purchase of intangible fixed assets	**(501)**	(767)
Net cash used in investing activities	**(7,437)**	(2,308)
Cash flows from financing activities		
Dividends paid	**(5,627)**	(1,868)
Share buyback	**(2,666)**	-
Disposal of treasury shares on exercise of share options	**-**	494
Cash received on exercise of share options	**12**	36
Sale and leaseback	**-**	1,036
Interest paid	**(936)**	(1,415)
Repayment of leases	**(3,745)**	(4,325)
Repayment of term loans	**(487)**	(156)
Drawdown of borrowings	**4,500**	7,000
Repayment of borrowings	**(4,500)**	(19,500)
Issue of shares	**1**	5,775
Net cash used in financing activities	**(13,448)**	(12,923)
Net (decrease)/increase in cash and cash equivalents	**(3,471)**	1,566
Cash and cash equivalents at beginning of period	**5,250**	3,710
Effect of exchange rates	**25**	(26)
Cash and cash equivalents at end of the period	**1,804**	5,250

The accompanying notes form an integral part of the consolidated financial information.

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 8.

Consolidated statement of changes in equity for the year ended 31 March 2022

	Share capital	Share premium	Common control reserve	Own shares held in treasury	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 March 2020 – as previously reported	149	65,734	(9,454)	(724)	4,096	59,801
Prior year restatement[1]	-	-	-	-	(3,592)	(3,592)
1 April 2020 – (restated[1])	149	65,734	(9,454)	(724)	504	56,209
Profit for the period (restated[1])	-	-	-	-	9,011	9,011
Transactions with owners						
Share-based payments	-	-	-	-	582	582
Issue of new shares	7	7,533	-	-	-	7,540
Dividends paid	-	-	-	-	(1,868)	(1,868)
Share option exercises	-	-	-	692	(198)	494
Other comprehensive income						
Deferred tax movement on share options	-	-	-	-	224	224
Currency translation differences	-	-	-	-	(103)	(103)
At 31 March 2021 (restated[1])	156	73,267	(9,454)	(32)	8,153	72,090
At 31 March 2021 – as previously reported	156	73,267	(9,454)	(32)	11,960	75,897
Prior year restatement	-	-	-	-	(3,807)	(3,807)
At 1 April 2021 (restated[1])	156	73,267	(9,454)	(32)	8,153	72,090
Profit for the period	-	-	-	-	6,940	6,940
Transactions with owners						
Share-based payments	-	-	-	-	1,067	1,067
Share buyback	-	-	-	(2,666)	-	(2,666)
Issue of new shares	1	-	-	-	-	1
Dividends paid	-	-	-	-	(5,627)	(5,627)
Share option exercises	-	-	-	25	(14)	11
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**

The accompanying notes form an integral part of the consolidated financial information.

[1] See note 8 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.

1) Summary of significant accounting policies

Redcentric plc is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the Alternative Investment Market ("AIM") division of the London Stock Exchange. Redcentric plc was incorporated on 11 February 2013 and admitted to AIM on 24 April 2013.

The principal accounting policies applied in the preparation of the financial information contained in this document are set out below. These policies have been applied consistently in the current and prior period, within the exception of the changes in accounting policy following the IFRIC agenda decision of April 2021 in relation to costs incurred on cloud computing configuration and implementation costs (see note 8).

The financial information is presented in pounds sterling, being the currency of the primary economic environment in which the Group operates.

The financial information is prepared on the historical cost basis except that contingent consideration is measured at fair value.

Basis of preparation

The financial information set out in this document does not constitute the Group's statutory Financial Statements for the reporting years ended 31 March 2022 or 31 March 2021 but is derived from those Financial Statements. Statutory Financial Statements for the reporting year ended 31 March 2021 have been delivered to the Registrar of Companies. The statutory Financial Statements for the reporting year ended 31 March 2022 were approved by the Board of Directors on 21 July 2022 along with this Financial Report but will be delivered to the Registrar of Companies in due course. The auditor has reported on those statutory Financial Statements; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Group's consolidated financial statements have been prepared and approved by the directors in accordance with applicable law and UK-adopted international accounting standards.

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides on the operations and its financial resources, the Group and the Company will have sufficient funds to meet its liabilities as they fall due for that period, and will comply with its debt covenants over that period.

The Directors' forecasts have been built from the detailed Board approved budget for the year ending 31 March 2023, and draft budget for 31 March 2024. The forecasts include a number of assumptions in relation to order intake, renewal and churn rates, EBITDA margin improvements and the impact of post year end acquisitions.

Whilst the Group's trading and cash flow forecasts have been prepared using current trading assumptions, the operating environment presents a number of challenges which could negatively impact the actual performance achieved. These risks include, but are not limited to, achieving forecast levels of order intake, the impact on customer confidence as a result of general economic conditions, inflationary pressures and the achievability of actions the directors consider they would take should further risks materialise. In making their going concern assessment in light of these risks, the Directors have also modelled a severe but plausible downside scenario when preparing the forecasts.

The downside scenario assumes significant economic downturn over FY23, impacting new order intake alongside cost inflation, supply chain delays and loss of a key customer. In this scenario, recurring monthly order intake is forecast to reduce by 25% compared to base case budget and product and services revenues reduce by 19% compared to base case budget incorporating both potential supply chain issues and reduced investment from our customer base. Under the downside scenario modelled, the forecasts demonstrate that the Group is expected to maintain sufficient liquidity and will continue to comply with the relevant debt covenants after management have taken the mitigating actions which are within the Group's control including delaying any potential FY23 interim dividend and the rephasing of discretionary capital expenditure. The Directors therefore remain 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 this report.

Changes in accounting policy and disclosure

Adopted IFRS not yet applied

There are no new standards, amendments to existing standards or interpretations that are not yet effective that are expected to have a material impact on the Group. Such developments are routinely reviewed by the Group and its financial reporting systems are adapted as appropriate.

Application of IFRIC agenda decision

In April 2021, the IFRIC published an agenda decision clarifying the accounting treatment of costs incurred in relation to the customisation and configuration of implementing Software-as-a-Service (SaaS) cloud computing arrangements:

- Amounts paid to the cloud vendor for configuration and customisation costs incurred that are not distinct from access to the cloud software are expensed over the SaaS contract term;
- In limited circumstances, some configuration and customisation costs incurred in relation to SaaS arrangements may give rise to an identifiable intangible asset, for example where code is created and controlled by the entity;
- In all other instances, customisation and configuration costs will be expensed as the related services are received.

Following this publication, the Group reviewed the accounting treatment applied to applicable arrangements taking into account factors such as the nature and terms of the relevant arrangements, ownership of intellectual property rights, the ability to restrict access of others, the ability to remove software applications from the cloud and run them independently, and the ability to determine when and how frequently updates are applied.

See note 8 for further details.

Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 March 2022.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method of accounting to account for business combinations. The acquisition date is defined as the date on which control is transferred to the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the separable identifiable net assets acquired and liabilities incurred or assumed at the acquisition date is recorded as purchased goodwill. Provision is made for any impairment. Accounting policies previously applied by acquired subsidiaries are changed as necessary to comply with accounting policies adopted by the Group.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated on consolidation.

Business combinations

Business combinations are accounted for by applying the acquisition method at the accounting date, which is the date on which control is transferred to the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Where an acquisition involves a potential payment of contingent consideration the cost is estimated based on its acquisition date fair value and is included as part of the consideration transferred in a business combination. To estimate the fair value an assessment is made as to the amount of additional consideration that is likely to be paid with reference to the associated criteria. Where a change is made to the fair value of contingent consideration within the initial measurement period as a result of new or additional information that existed at the acquisition date the change is accounted for as a retrospective adjustment to goodwill. Any change as a result of events that occurred after the acquisition date then the adjustment is accounted for as a charge or credit to profit or loss. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Costs related to acquisitions, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Critical accounting judgements and key sources of estimation uncertainty

Judgements

Information regarding critical accounting judgements made in applying the accounting policies that have the most significant effects on the values recognised in the Group Financial Statements are as follows:

Intangible assets relating to cloud customisation and configuration costs

Judgement is required in assessing whether the Group has control over the resources defined in the arrangement when costs are incurred in relation to implementation, customisation and configuration costs as part of a cloud based service agreement.

Management has considered the IFRIC agenda decision of April 2021 which clarified the accounting treatment in relation to these costs. As a result of the adoption of this guidance a prior year restatement has been made as detailed in note 8.

Estimates

Information about estimation uncertainties that have the greatest risk of resulting in a material adjustment to the carrying value of assets and liabilities within the next financial year are addressed below:

Valuation of intangible assets and fair value adjustments on acquisition

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 12 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. Details regarding the process applied in establishing the value of intangible assets and fair value adjustments on acquisitions completed in the year are detailed in note 7.

2) Exceptional items

	Year ended 31 March 2022 £'000	Year ended 31 March (restated[1]) 2021 £'000
Included within administrative expenses:		
Employee restructuring	**159**	393
Insurance adviser provision including professional fees	**(483)**	610
Onerous service contracts	**-**	148
Circuit termination charges	**-**	4
Restitution Scheme provision	**-**	(2,172)
Lease modification	**(119)**	649
Business sale process	**70**	93
Profit upon sale of non-core business unit	**-**	(4,507)
Acquisition fees and integration costs	**971**	-
Historic Share warrant exercise	**310**	-
Legal fees related to the defence of an ongoing supplier dispute	**119**	-
Impairment of intangible assets	**205**	-
Cloud configuration and customisation costs	**397**	630
	1,629	(4,152)

[1] See note 8 for an explanation and reconciliation in relation to the prior year restatement following the Groups adoption of the IFRIC agenda decision on cloud computing implementation, configuration and customisation costs.

- Employee restructuring costs relate to a rationalisation programme across various departments during the year as a result of efficiencies delivered through the continued integration of the Group's ERP system launched in FY21 and were cash costs in FY22 and FY21.
- The insurance advisor provision costs in the prior year represent a provision booked for costs repayable on advisor fees in relation to the FCA Investigation which has been

released in FY22 as repayment is not considered probable. Cash costs were £44k (FY21 - £17k).

- The onerous service contract cost in the prior year relate to costs associated with third party service arrangements no longer utilised (or in the process of being ceased) by the business. This was a cash cost in FY22 of £47k (FY21 - £23k).
- Circuit termination charges in the prior year relate to cancellation costs incurred on unused circuits / connections cancelled during the year, as part of the Group's network rationalisation review. This was non-cash in FY21.
- The Restitution Scheme provision in the prior year related to the provision released upon closure of the scheme. The Restitution Scheme originally related to an estimate of the costs to settle with net purchasers of ordinary shares in the Company between 9 November 2015 and 7 November 2016 as agreed with the FCA. The cash cost in FY21 was £7,730k.
- Lease modification costs represent legal and advisor fees incurred in relation to a new leasehold property in York prior to the lease being signed (£30k), residual costs incurred after the business terminated a lease in the prior year (£79k) and a credit relating to the early termination of the office lease in Hyderabad (£228k). This was a cash cost in FY22 of 109k (FY21 - £nil).
- Business sale process costs were incurred as a result of the sales process during FY21. Cash costs were £70k in FY22 (FY21 - £721k).
- Profit upon sale of non-core business unit in the prior year resulted from the sale of assets and knowhow for the provision of maintenance services to EDF nuclear power stations under the EDF Contract. The total consideration was £5,750k and was a received in cash in FY22 (no cash impact in FY21).
- Acquisition and integration costs were incurred in relation to the purchase of Piksel and 7 Elements during the year (note 7) and relate to legal and advisor fees and due diligence costs and other direct costs incurred in integrating the two businesses into the Group. Cash costs were £837k.
- During the year options were exercised by Barclays Bank PLC over warrants with an exercise price of 36p, settled in cash, resulting in an expense of £310,000. The warrants were issued on demerger in April 2013 for warrants previously held in Redstone plc, and could have been converted to shares at any time before the sale of the entire share capital of the company. Redcentric plc was created when Redstone plc demerged its network-based management service business. Cash costs were £310k.
- Legal fees related to the defence of an ongoing supplier dispute were charged by the Group's advisors during the year. Cash costs were £119k.
- Cloud configuration and customisation costs relate to expenditure previously capitalised in relation to the Group's implementation and development of Dynamics 365[1] – this was a cash costs in both years.

3) Provisions

	Restitution Scheme provision £'000	Scheme fees provision £'000	Dilapidations provision £'000	Onerous service contract provision £'000	Total provision £'000
At 1 April 2020	11,429	-	2,526	698	14,653
Additional provisions created during the period	130	553	333	21	1,037
Released during the period	(2,172)	-	(164)	(193)	(2,529)
Utilised during the period	(9,387)	-	-	(505)	(9,892)
At 31 March 2021	-	553	2,695	21	3,269
Additional provisions created during the period	-	-	1,189	-	1,189
Provisions acquired from business combination	-	-	-	577	577
Released during the period	-	(527)	-	-	(527)
Utilised during the period	-	(26)	(1)	(598)	(625)
At 31 March 2022	**-**	**-**	**3,883**	**-**	**3,883**
FY22 Analysed as:					
Current	**-**	**-**	**-**	**-**	**-**
Non-current	**-**	**-**	**3,883**	**-**	**3,883**
	-	**-**	**3,883**	**-**	**3,883**
FY21 Analysed as:					
Current	-	553	-	21	574
Non-current	-	-	2,695	-	2,695
	-	553	2,695	21	3,269

The Restitution Scheme fees provision represents costs which were potentially repayable on adviser fees in relation to the FCA Investigation. This provision was released in FY22 as repayment is no longer considered probable.

The dilapidations provision represents the estimated costs associated with returning certain leasehold properties to the original condition upon exiting the lease. Given there is estimation in determining the quantum of provisions to be recognised a third-party expert was engaged to determine appropriate estimates. After initial measurement, any subsequent adjustments to the dilapidations provision will be recorded against the original amount included in right of use assets with a corresponding adjustment to future depreciation charges. The utilisation of the dilapidations provision will be in line with the end of the leasehold properties lease terms to which the provisions relate.

The onerous service contract provision relates to the costs associated with third party services arrangements no longer utilised by the business and service contracts with customers where the Group estimates the cost to fulfil the contract will exceed the benefit.

4) Intangible Assets

	Goodwill	Customer contracts and related relationships	Trademarks	Software and licences	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2020	43,269	62,284	275	5,669	111,497
Additions (restated[1])	-	-	-	1,047	1,047
Disposals	(1,185)	-	-	(130)	(1,315)
Exchange differences	-	-	-	(1)	(1)
At 31 March 2021 (restated[1])	42,084	62,284	275	6,585	111,228
Additions	-	-	-	502	502
Additions on acquisition (note 7)	10,332	2,746	174	31	13,283
Disposals	-	-	-	(1,548)	(1,548)
Exchange differences	-	-	-	-	-
At 31 March 2022	**52,416**	**65,030**	**449**	**5,570**	**123,465**
Accumulated amortisation and impairment					
At 1 April 2020	**-**	38,317	275	4,490	43,082
Charged in year (restated[1])	-	6,252	-	670	6,922
Disposals	-	-	-	(56)	(56)
At 31 March 2021 (restated[1])	-	44,569	275	5,104	49,948
Charged in year	-	6,324	174	475	6,973
Disposals	-	-	-	(1,182)	(1,182)
At 31 March 2022	**-**	**50,893**	**449**	**4,397**	**55,739**
At 31 March 2022	**52,416**	**14,137**	**-**	**1,173**	**67,726**
At 31 March 2021 (restated)[1]	42,084	17,715	-	1,481	61,280

Customer contracts have a weighted average remaining amortisation period of 4 years and 4 months (FY21: 3 years and 11 months).

Software and licences include £0.1m (FY21 - £0.6m) of additions in relation to customer capital expenditure.

[1]Application of IFRIC agenda decision

During the year and following the release of the IFRIC guidance issued in April 2021 in relation to Saa) cloud computing implementation costs, the Group has reviewed its accounting policy in relation to the customisation and configuration costs previously capitalised. Following this review costs capitalised in the year to 31 March 2020 of £4.4m have now been expensed and amortisation of £0.4m previously charged on these assets in the year has been reversed. In addition, £0.6m of costs previously capitalised in the year ended 31 March 2021 have been expensed and associated amortisation of £0.4m reversed. See note 8 for further details on the prior year restatement.

Goodwill and intangible assets are allocated to cash generating units ("CGUs") in order to be assessed for potential impairment. CGUs are defined by accounting standards as the lowest level of asset groupings that are capable of generating separately identifiable cashflows independently of other CGUs. During the year, and as a result of the acquisitions completed, the Group has considered the following:

- Following the hive out of trade and assets from Piksel into RSL on 28 February 2022, the acquisition does not result in a separate CGU;
- The acquisition of 7 Elements on 14 March 2022 results in a new CGU "Security Services".

The CGUs and allocation of Goodwill to those CGUs is shown below:

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
IT Managed Service	**50,765**	42,084
Security Services	**1,651**	-
	52,416	42,084

Goodwill is tested annually for impairment and, to confirm whether an impairment of the goodwill is necessary, management compares the carrying value to the value in use. Other intangible assets are tested for impairment whenever events or a change in circumstances indicate carrying values may no longer be recoverable.

The value in use has been calculated using budgeted cash flow projections to the period of 31 March 2024, extrapolated for a further three years by an average annual revenue growth rate of 2.0% (FY21: 1.5%). A terminal value based on a perpetuity calculation using a 0.0% real growth rate was then added (FY21: 0.0% growth).

In addition to revenue growth, the key assumptions used in the impairment testing were as follows:

- Gross margin percentage reducing to 63% (FY21: 60.5%);
- Operating costs increasing by 1.5% (FY20: 1.5%);
- Pre-tax discount rate of 11.8% (FY21: 8.3%) (post tax rate of 7.2% (FY21: 7.0%) estimated using weighted average cost of capital, adjusted to reflect current market assessments of the time value of money and the risks specific to the Group; and
- Terminal growth rate percentage consistent with the market the entity operates in.

A reasonably possible adverse movement in any of the above key assumptions made would not give rise to impairment.

5) Property, plant and equipment

	Leasehold improvements £'000	Office fixtures and fittings £'000	Vehicles & computer equipment £'000	Total £'000
Cost				
At 1 April 2020 (restated)[1]	7,528	1,033	21,559	30,120
Additions	404	442	940	1,786
Disposals	(129)	(103)	(816)	(1,048)
Exchange differences	-	(9)	(24)	(33)
At 31 March 2021 (restated)[1]	7,803	1,363	21,659	30,825
Additions	527	107	1,630	2,264
Additions on acquisition (note 7)	11	27	-	38
Disposals	-	(331)	(25)	(356)
Exchange differences	-	16	-	16
At 31 March 2022	**8,341**	**1,182**	**23,264**	**32,787**
Accumulated depreciation				
At 1 April 2020 (restated)[1]	4,458	653	16,534	21,645
Charged in year	458	148	2,802	3,408
On disposals	-	-	(32)	(32)
Exchange differences	-	(8)	(22)	(30)
At 31 March 2021	4,916	793	19,282	24,991
Charged in year	533	141	2,071	2,745
On disposals	-	(316)	(9)	(325)
Exchange differences	-	4	-	4
At 31 March 2022	**5,449**	**622**	**21,344**	**27,415**
Net book value				
At 31 March 2022	**2,892**	**560**	**1,920**	**5,372**
At 31 March 2021	2,887	570	2,377	5,834

Vehicles and computer equipment includes £1.0m (FY21 - £1.3m) relating to customer capital expenditure.

[1] The cost of property, plant and equipment (PPE) at 1 April 2020 has been restated due to a change in accounting policy following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs. In FY21 costs were reclassified from PPE to intangible assets. Following the change in accounting policy and subsequent restatement, these assets have been expensed to the income statement retrospectively resulting in a restatement of the cost and net book value of assets in FY20. For further details please see note 8.

6) Right of use assets

Most of the Group's right-of-use assets are associated with our leased property portfolio.

	Land and buildings £'000	Vehicles & computer equipment £'000	Total £'000
Cost			
At 1 April 2020	29,889	9,615	39,504
Additions	-	2,092	2,092
Remeasurement	(4,383)	-	(4,383)
At 31 March 2021	25,506	11,707	37,213
Additions	2,947	460	3,407
Disposals	(1,479)	(231)	(1,710)
At 31 March 2022	**26,974**	**11,936**	**38,910**
Accumulated depreciation			
At 1 April 2020	9,721	3,773	13,494
Charged in year	2,540	2,392	4,932
At 31 March 2021	12,261	6,165	18,426
Charged in year	2,252	2,326	4,578
Disposals	(893)	(239)	(1,132)
At 31 March 2022	**13,620**	**8,252**	**21,872**
Net book value			
At 31 March 2022	**13,354**	**3,684**	**17,038**
At 31 March 2021	13,245	5,542	18,787

Of the £3,407k right of use assets acquired in the year, £438k was funded using leases that would have previously been classified as finance leases under IAS17 (FY21: £2,092k).

7) Acquisition of subsidiary

Piksel Industry Solutions Limited ("Piksel")

On 30 September 2021, the Group acquired 100% of the issued share capital of Piksel, obtaining control at this date. The acquisition is in line with the Group's strategy to grow its operations, both organically and through acquisitions. Piksel is a provider of IT modernisation and digital transformation services focussing primarily on the public cloud. Taking control of Piksel significantly enhances Redcentric's service offerings in both cloud and security and provides a complementary customer base with excellent cross-sell opportunities. The Group also expects to reduce costs through cost synergies as Piksel is integrated into the Group.

The following table summarises the acquisition date fair value of each major class of consideration transferred:

	£000's
Cash[4]	9,459
Novation of Intercompany loans[5]	3,069
Deferred consideration[6]	183
	12,711

[4] Of the total cash consideration, $750k (£549k) is to be held in escrow for a period of 12 months after which time the balance will be released to the vendor less any claims made by the Group to offset undisclosed liabilities.

[5] An intercompany receivable balance between Piksel and the seller was novated to the acquiring group company, RSL, as part of the acquisition.

[6] Deferred consideration is to offset against future costs incurred as part of the transitional services agreement between Piksel and the seller.

The Group incurred acquisition-related costs of £948,000 on legal fees, due diligence costs and direct integration costs relating to systems migration etc. These costs have been included in exceptional costs (note 2).

The following table summarises the recognised amounts of assets and liabilities assumed as the date of acquisition:

	Note	Book value £000's	Fair value adjustments £000's	Final fair value £000's
Tangible fixed assets	5	38	-	38
Customer relationships	4	-	1,868	1,868
Other intangible assets	4	28	174	202
Trade and other receivables		2,418	-	2,418
Cash and cash equivalents		965	-	965
Intercompany loans		3,069	-	3,069
Corporation tax receivable		557	-	557
Deferred tax		1,403	(467)	936
Trade and other payables		(2,940)	-	(2,940)
Deferred income		(1,817)	-	(1,817)
Payroll and social security creditors		(345)	-	(345)
VAT liability		(344)	-	(344)
Onerous contract provisions		(577)	-	(577)
Total identifiable net assets acquired		**2,455**	**1,575**	**4,030**
Goodwill	4			**8,681**

Total consideration	**12,711**

The goodwill arising on acquisition represents future income from new customers, the potential to cross-sell existing Group products to the established Piksel customer base as well and the assembled workforce which increases the Group's competence in key growth areas of the managed IT services sector allowing the Group to provide additional services to its existing customer base, together with the benefits to the Group in merging the business with its existing infrastructure and the anticipated future operating synergies from the new combination.

The fair value of the acquired customer relationships is £1.9m. 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 fair value of financial assets acquired includes trade receivables with a fair value of £1.1m comprised of the gross amount due under contracts, all of which is expected to be collectable.

On 28 February 2022 the trade, assets and liabilities of Piksel were hived out to the Group's trading subsidiary RSL. For the 5 months ended 28 February 2022, Piksel contributed revenue of £4.9m and profits, before allocation of group overheads, share based payments and tax, of £0.3m to the Group's results.

7 Elements Limited ("7 Elements")

On 14 March 2022 the Group acquired 100% of the issued share capital of 7 Elements obtaining control at this date. 7 Elements is an industry leading provider of security testing, incident response management and bespoke security consultancy services. The acquisition significantly enhances the Group's service portfolio with additional capacity within the increasingly important security market. The acquisition is in line with the Group's strategy to grow its operations, both organically and through acquisitions. The following table summarises the acquisition date fair value of each major class of consideration transferred:

	£000's
Cash[7]	2,409
Contingent consideration[8]	422
	2,831

[7] Of the cash consideration of £2.4m above, £0.13m was paid after the year end

[1]The contingent consideration is payable on the performance of the business over the next thirteen months (to the financial year ended 31 March 2023) "earn out". Payment will be due immediately once performance criteria have been satisfied over this period. The potential undiscounted amounts of the contingent payment are between £nil and £450,000. In considering the fair value, management assessed recent trading performance and expected performance once 7 Elements has been integrated into the Group against the criteria of the earn out.

The Group incurred acquisition-related costs of £23,000 on legal fees and due diligence costs. These costs have been included in exceptional costs (note 2).

The following table summarises the recognised amounts of assets and liabilities assumed as the date of acquisition:

	Note	Book value £000's	Fair value adjustments £000's	Final fair value £000's
Other intangible assets	4	3	-	3
Customer relationships	4	-	878	878
Trade and other receivables		168	-	168
Cash & cash equivalents		465	-	465
Trade and other payables		(11)	-	(11)
Payroll and social security creditors		(1)	-	(1)
Deferred Tax		-	(220)	(220)
VAT liability		(50)	-	(50)
Corporation tax liability		(52)	-	(52)
Total identifiable net assets acquired		**522**	**658**	**1,180**
Goodwill	4			**1,651**
Total consideration				**2,831**

The goodwill arising on acquisition represents future income from new customers, the potential to cross-sell existing Group products to established 7 Elements customer base and the assembled workforce which increases the Group's competence in key growth areas of the managed IT services sector.

The fair value of the acquired customer relationships is £878,000. 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 fair value of financial assets acquired includes trade receivables with a fair value of £159,000 comprised of the gross amount due under contracts, all of which is expected to be collectable.

7 Elements earned revenue of £104,000 and delivered profits, before allocation of group overheads, share-based payments and tax of £54,000 in the period since acquisition.

Unaudited pro-forma full year information

The following unaudited pro-forma summary presents the Group as if the business acquired during FY22 had been part of the Group since 1 April 2021. This includes the results of the acquired business, depreciation of the acquired assets and an amount of £160,000 relating to the amortisation of the acquired intangible assets recognised on acquisition. This information is presented purely for illustrative purposed and does not necessarily reflect the actual underlying results that would have occurred.

	Pro-forma year ended 31 March 2022
	£000's
Revenue	100,169
Profit	6,903

8) Prior year restatement

In April 2021, the IFRIC published an agenda decision to clarify the accounting treatment in relation to the configuration and customisation costs incurred in implementing SaaS cloud computing arrangements, issuing the following conclusions:

- Any amounts for configuration and customisation to the cloud vendor, that are not distinct from access to the cloud software should be expensed over the SaaS contract term;
- Any code that is created and controlled by the entity may give rise to an identifiable intangible asset, however this is expected to be in very limited circumstances;
- In all other instances, cloud configuration and customisation costs should be expensed as the configuration and customisation services are received.

Due to the nature of this decision combined with the level of investment made by the Group on Dynamics 365, the Group's accounting policy in relation to cloud implementation, customisation and configuration costs has been reviewed and amended to align with the issued IFRIC guidance. The revision to the accounting policy has been accounted for retrospectively resulting in a prior year restatement and represents a non-cash adjustment.

The Group identified £4.4m of assets in FY20, £0.6m of additions in FY21 and a further £0.4m of costs incurred in FY22 that relate to configuration and customisation costs which should now be expensed after further consideration of the IFRIC guidance. In FY21 in relation to these assets, £0.4m of amortisation was charged, which is to be reversed.

These costs give rise to a reduction in the tax charge for the year ended 31 March 2020 of £842k and corresponding increase to the deferred tax asset.

The affected financial statement line items are as follows:

	31 March 2021 (previously reported) £000's	Restatement £000's	31 March 2021 (restated) £000's
Income Statement Impact			
Included within admin expenses:			
Amortisation of intangible fixed assets	(7,337)	415	(6,922)
Exceptional items	4,782	(630)	4,152
Operating profit	12,998	(216)	12,782
Profit/(loss) on ordinary activities before taxation	11,538	(216)	11,322
Income tax (expense)/credit	(2,311)	-	(2,311)
Profit/(loss) for the period attributable to owners of the parent	9,227	(216)	9,011
Total Comprehensive income/(loss) for the period	9,106	(216)	8,890
Basic earnings/(loss) per share	6.01	(0.14)	5.87
Diluted earnings/(loss) per share	5.93	(0.14)	5.79

	31 March 2021 (previously reported) £000's	Restatement £000's	31 March 2021 (restated) £000's
Statement of Financial Position			
Intangible assets	65,929	(4,649)	61,280
Deferred Tax Assets	561	842	1,403
Total non-current assets	91,111	(3,807)	87,304
Net assets	75,897	(3,807)	72,090
Retained earnings	11,960	(3,807)	8,153
Total equity	75,897	(3,807)	72,090

	31 March 2021 (previously reported) £000's	Restatement £000's	31 March 2021 (restated) £000's
Statement of Cash Flows Impact			
Operating profit/(loss)	12,998	(216)	12,782
Depreciation and amortisation	15,677	(415)	15,262
Exceptional items	(4,782)	630	(4,152)
Exceptional items (cash)	(8,884)	(630)	(9,514)
Operating cash flow before changes in working capital	15,696	(630)	15,066

Net cash generated from operating activities	17,428	(630)	16,798
Purchase of intangibles	(1,397)	630	(767)
Net cash used in investing activities	(2,938)	630	(2,308)

In accordance with IAS 1, a third balance sheet has been prepared to illustrate the impact to the opening Balance Sheet for the year ended 31 March 2021. Costs that the Group identified that were previously capitalised under cloud computing arrangements in FY20 totalling £4.4m have been expensed and the associated amortisation charge of £0.4m has been reversed.

The opening balance sheet of the prior year has therefore been restated for these adjustments with the affected financial statement line items as follows:

	1 April 2020 (Previously reported) £000's	**Restatement £000's**	**1 April 2020 (restated) £000's**
Statement of financial position impact			
Tangible assets	12,909	(4,434)	8,475
Deferred tax assets	1,482	842	2,324
Total non-current assets	108,816	(3,592)	105,224
Net assets	59,801	(3,592)	56,209
Retained Earnings	4,096	(3,592)	504

9) Earnings per share (EPS)

Earnings	Year ended 31 March 2022 £'000	Year ended 31 March 2021 (restated[1]) £'000
Statutory earnings	**6,940**	9,011
Tax (credit)/charge	**(1,404)**	2,311
Amortisation of acquired intangibles	**6,498**	6,252
Share-based payments	**1,181**	687
Exceptional items	**1,629**	(4,152)
Adjusted earnings before tax	**14,844**	14,109
Notional tax charge	**(2,820)**	(2,681)
Adjusted earnings	**12,024**	11,428

Weighted average number of ordinary shares	Number '000	Number '000
In issue	**156,992**	153,930
Held in treasury	**(420)**	(439)
For basic EPS calculations	**156,572**	153,491
Effect of potentially dilutive share options	**2,803**	2,215
For diluted EPS calculations	**159,375**	155,706

EPS	Pence	Pence
Basic	**4.43p**	5.87p
Adjusted	**7.68p**	7.45p
Basic diluted	**4.36p**	5.79p
Adjusted diluted	**7.54p**	7.34p

The calculation of basic and diluted EPS is based on the above earnings and number of shares. In line with the Group's policy, the notional tax charge above is calculated at a standard rate of 19% (2021 – 19%).

10) Contingent liability

During the FCA investigation, the Group made a claim under its insurance policy in relation to defence costs for which a provision was recognised in the prior year of £0.5m for costs potentially repayable (the "scheme fees provision"). Following professional advice and further developments in the year, the Group no longer consider repayment of these fees to be probable. As a result, the related provision has been released and a contingent liability is disclosed for the £0.5m.

11) Subsequent events

Subsequent to the year-end, on 26 April 2022, the Group completed a refinance of its debt facilities that were due to mature on 30 June 2022. The new debt facilities consist of an £80m Revolving Credit Facility and a £20m accordion facility and are provided by a new four bank group consisting of NatWest, Barclays, Bank of Ireland and Silicon Valley Bank. The New Facility has an initial maturity date of 26 April 2025 with options to extend by a further one or two years. The borrowing cost of the RCF is determined by the level of the Group's leverage and has a borrowing cost of 175 basis points over SONIA at the Group's current leverage levels. An arrangement fee of 75 basis points will be payable upfront, in addition to a commitment fee on the undrawn portion of the new RCF, on equivalent terms to the previous facility. The Group is required to comply with financial covenants for adjusted leverage (net debt[2] to adjusted EBITDA[2]), cashflow cover (adjusted cashflow to debt service, where adjusted cashflow is defined as adjusted EBITDA[2] less tax paid, dividend payments, IFRS16 lease repayments and cash capital expenditure) and provisions relating to guarantor coverage such that guarantors must exceed a prescribed threshold of the Group's gross assets, revenue and Adjusted EBITDA[2]. Covenants are tested quarterly each year. The New Facility provides the Group with additional liquidity to be used for working capital purposes and to fund acquisitions, in accordance with the Group's stated strategy. No security has been provided with regards to the RCF.

On 7 June 2022, RSL acquired the consulting business of Sungard Availability Services (UK) Limited (in administration) for £4.2m consideration 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. Management consider the signing of the agreement for the sale of assets as the change of control and therefore acquisition date for the transaction. No costs in relation to this acquisition have been incurred in the year.

On 27 June 2022, RSL acquired 100% of the issued share capital of 4D for £10.5m consideration paid in cash. 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 this area with significant synergies expected as the acquisition is integrated into the Group. Management consider signing of the share purchase agreement on 27 June 2022 as the change of control and therefore acquisition date for the transaction. No costs in relation to this acquisition have been incurred in the year.

On 6 July 2022, RSL acquired certain business and assets relating to three data centres from Sungard Availability Services (UK) Limited (in administration) for initial consideration of £10.1m with contingent consideration with a maximum potential value of £19m depending on customer retention and certain performance criteria.

The Group is undertaking an exercise to establish the fair value of the net assets acquired in each of these post year end acquisitions. However, due to the timing of the acquisitions this exercise is ongoing and it is not possible to provide further detail at this stage.

On 8 July 2022 the Group settled a supplier dispute resulting in the payment of contract termination fees (£0.4m) and legal fees (£0.1m) which will be accounted for as exceptional items in FY23.

[2] For an explanation of the alternative performance measures used in this report, please refer Appendix 1.

Appendix 1 - Alternative Performance Measures

Alternative Performance Measures

This announcement contains certain financial 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 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.

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Reported revenue	**93,328**	91,399
Non-recurring revenue	**(10,363)**	(9,502)
Recurring revenue	**82,965**	81,897

Recurring revenue percentage is the percentage of recurring revenue as a proportion of total revenue.

Recurring revenue makes up 88.9% of total revenue in FY22, a decrease of 1% from prior year (89%).

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. This metric shows the level of internal investment the Group is making through capital expenditure. As the measure explains and analyses routine capital expenditure, land and buildings (including any associated assets relating to dilapidation provisions) and sale and lease back additions are excluded due to the infrequency that this expenditure occurs. Customer capital expenditure relates to assets utilised by the Group in delivering managed services to our customers.

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 (restated)[1] £'000
- Property plant and equipment additions - excluding additions on acquisition (note 5)	**2,264**	1,786
- Intangible additions - excluding additions on acquisition (note 4)	**502**	1,047
- Right of use asset additions – excluding land and buildings and sale and leaseback transaction (note 6	**460**	1,056
Reported capital expenditure incurred	**3,226**	3,889
Customer capital expenditure incurred	**(1,076)**	(1,927)
Maintenance capital expenditure incurred	**2,150**	1,962

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 8.

Capital expenditure of £3.2m has reduced by £0.7m (FY21: £3.9m) driven by a decrease in customer capital expenditure (down £0.9m to £1.1m) reflecting the delay in large scale IT projects. Maintenance capital expenditure has increased by £0.2m to £2.2m up from £2.0m. We will continue to monitor the Group's capital requirements and invest in the business when appropriate. Of the £3.2m capital expenditure incurred, £2.8m was paid in cash during the year.

EBITDA and Adjusted EBITDA

Adjusted EBITDA is EBITDA excluding exceptional items (as set out in note 2), share-based payments and associated National Insurance. The same adjustments are also made in determining the adjusted EBITDA margin. Items are only classified as exceptional due to their nature or size.

The Board considers that this metric provides a useful measure of assessing trading performance of the Group as it excludes items which impact financial performance such as exceptional costs and the amortisation of acquired intangibles arising from business combinations which varies year on year dependent on the timing and size of any acquisitions.

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 (restated)[1] £'000
Reported operating profit	**6,607**	12,782
Amortisation of intangible assets arising on business combinations	**6,498**	6,252
Amortisation of other intangible assets	**475**	670
Depreciation on tangible assets	**2,745**	3,408
Depreciation on ROU assets	**4,578**	4,932
EBITDA	**20,903**	28,044
Exceptional items	**1,629**	(4,152)
Share-based payments and associated National Insurance	**1,181**	687
Adjusted EBITDA	**23,713**	24,579
EDF Contribution[3]	-	(725)
Adjusted EBITDA (excluding EDF contribution)[3]	**23,713**	**23,854**

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 8.

[3] Excluding EDF Contribution, as above.

Adjusted EBITDA decreased to £23.7m, £0.9m lower than prior year, with adjusted EBITDA margin of 25% (down from 27%). Excluding the EDF Contribution[3], adjusted EBITDA for FY22 was marginally down (0.6%) compared to prior year adjusted EBITDA of £23.9m. EBITDA includes £0.6m delivered from the Piksel acquisition, offset by increased electricity costs in H2.

Adjusted operating profit

Adjusted operating profit is operating profit excluding amortisation on acquired intangibles, exceptional items and share-based payments. The same adjustments are also made in determining the adjusted operating profit margin and in determining adjusted earnings profit per share ("EPS").

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 (restated)[1] £'000
Reported operating profit	**6,607**	12,782
Amortisation of intangible assets arising on business combinations	**6,498**	6,252
Exceptional items	**1,629**	(4,152)
Share-based payments	**1,181**	687
Adjusted operating profit	**15,915**	15,569

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 8.

The EPS calculation further adjusts for the tax impact of the operating profit adjustments. This metric is used within the Group's dividend policy and is therefore relevant for our shareholders.

Adjusted operating costs

Adjusted operating costs are operating costs less depreciation, amortisation, exceptional items, share-based payments and foreign exchange. This metric shows the trading operating expenditure of the Group, excluding 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.

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 (restated)[1] £'000
Reported operating expenditure	**53,046**	49,664
Depreciation ROU assets	**(4,578)**	(4,932)
Depreciation of tangible assets	**(2,745)**	(3,408)
Amortisation of intangibles arising on business combinations	**(6,498)**	(6,252)
Amortisation of other intangible assets	**(475)**	(670)
Exceptional items	**(1,629)**	4,152
Other operating income	**(103)**	(4,507)
Share-based payments	**(1,181)**	(687)
Adjusted operating expenditure	**35,837**	33,360

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 8.

Adjusted cash generated from operations

Adjusted cash generated from operations is reported cash generated from operations plus the cash cost of exceptional items. As the Group has been involved in acquisitions and has had other significant, non-repeatable cash impacting items, this measure allows investors to see the cash generated from operations excluding these items which are one-off by nature and therefore will not repeat in future years.

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 (restated)[1] £'000
Reported cash generated from operations	**17,168**	16,946
Cash costs of exceptional items	**2,091**	9,514
Adjusted cash generated from operations	**19,259**	26,460

[1] For an explanation and reconciliation in relation to the prior year restatement following the Group's adoption of the IFRIC agenda decision on cloud implementation, configuration and customisation costs, please refer to note 8.

Adjusted net (debt)/cash

Adjusted net cash/debt is reported net debt (borrowings net of cash) less supplier loans and less lease liabilities that would have been classified as operating leases under IAS17 and is a measure reviewed by the Group's banking syndicate as part of covenant compliance.

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Reported net debt	**(16,645)**	(15,569)
Supplier loans	**1,004**	1,491
Lease liabilities that would have been classified as operating leases under IAS 17	**14,096**	15,058
Adjusted net (debt)/cash	**(1,545)**	980

Normalised net debt movement

The normalised net debt movement, as summarised in the net debt table details the movement in net debt before one-off (exceptional) amounts and is therefore a useful indicator to the potential movement in net debt in FY23.

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21 July 2022

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