2023

PRELIMINARY RESULTS ANNOUNCEMENT

redcentric

Year ended 31 March 2023 | Redcentric plc
Company Number 08397584

Redcentric plc

Preliminary results announcement for the year ended 31 March 2023.

Redcentric plc (AIM: RCN) ("Redcentric" or the "Company"), a leading UK IT managed services provider, today announces its preliminary full year results for the year ended 31 March 2023 ("FY23").

Financial performance measures

	Year ended 31 March 2023 ("FY23")	Year ended 31 March 2022 ("FY22")	Change
Total revenue	**£141.7m**	£93.3m	51.8%
Recurring revenue[1]	**£128.5m**	£83.0m	54.8%
Recurring revenue percentage[1]	**90.7%**	88.9%	1.8%
Adjusted EBITDA[1]	**£24.5m**	£23.7m	3.3%
Adjusted operating profit[1]	**£8.6m**	£15.9m	(45.6%)
Reported operating (loss)/profit	**(£8.9m)**	£6.6m	(235.3%)
Adjusted cash generated from operations[1]	**£23.1m**	£19.3m	19.6%
Reported cash generated from operations	**£14.8m**	£17.2m	(13.8%)
Net debt[1]	**(£73.0m)**	(£16.6m)	(339.5%)
Adjusted net debt[1]	**(£35.6m)**	(£1.5m)	(2,271.8%)
Adjusted basic earnings per share[1]	**2.66p**	7.68p	(65.3%)
Reported basic (loss)/earnings per share	**(5.94p)**	4.43p	(231.4%)

Percentage change calculated on absolute values

[1] 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 report and reconciliations to their most directly related GAAP measure, please refer to Appendix 1.

Key financial highlights:

- Total revenue growth of 51.8% to £141.7m (FY22: £93.3m).
- Recurring revenue grew by 54.8% to £128.5m, with recurring revenue representing 90.7% of the total revenue (FY22: £83.0m / 88.9%).
- Adjusted EBITDA of £24.5m is 3.3% ahead of FY22.
- Adjusted operating profit decreased by £7.3m to £8.6m (45.6% decrease).
- Adjusted net debt as at 31 March 2023 was £35.6m, excluding £36.9m of IFRS16 lease liabilities that were previously classified as operating leases under IAS17 and £0.5m of supplier loans.
- Reported operating profit reduced by £15.5m to a loss of £8.9m.

Operational highlights

- During FY23 the business completed three acquisitions; 4D Data Centres, Sungard Consultancy and Sungard Data Centres, adding significant scale and additional cyber security capability, complimenting the capability acquisitions of Piksel (Hyper-cloud transformation) and 7 Elements (Cyber Security) made in FY22.
- As a result of the five acquisitions completed over the last two financial years, over six hundred customers have been added to our existing base and we exited FY23 with a revenue run rate of £160m, representing a 75% increase on FY21, the last full year with no impact of acquisitions.
- Our product and solutions offerings have been strengthened in high growth areas and we now have one of the most comprehensive IT and telecommunications offerings in the market.
- During FY23, £16.2m of annualised costs were removed from the acquired businesses with further savings of £5.6m identified, of which £1.3m has already been actioned in FY24. The remaining £4.3m includes energy efficiency savings of £2.7m and £1.4m relating to the closure of the Harrogate data centre.
- Following the acquisitions, electricity costs have become of material importance to the Company's financial performance. Excellent progress has been made in the former Sungard sites with a 16% reduction in electricity volumes already achieved and further large savings anticipated in H2 FY24 post the installation of new cooling infrastructure in two of our data centre facilities.
- FY23 has seen the most volatile electricity pricing for a generation, with commodity prices reaching as high as ten times historical averages. In order to mitigate any future volatility in commodity prices the Company has locked in electricity prices for 100% of the expected FY24 consumption and approximately 65% of the anticipated consumption for FY25, for the sites where electricity procurement is managed by the Company. Further forward positions will be contracted in H2 FY24 once the full effect of the remaining energy efficiency savings is known.
- Based on the anticipated volume savings resulting from the completion of the remaining energy efficiency measures, the locked in electricity commodity prices and the current forward markets, electricity costs are expected to reduce from £25.5m in FY24 to £17.6m in FY25. Approximately £7.0m of this saving will result in increased profitability as the majority of the savings relates to the former Sungard customer base who are largely on fixed price contracts.
- The additional capability and enlarged customer bases resulting from the acquisitions is driving healthy organic growth with positive net new business (new business plus or minus renewal churn less cancellations and excluding inflationary price increases) seen in each of the last four quarters ended 30 June 2023. This represents an organic growth rate of approximately 6%, a level that has not been experienced for several years.
- The sales pipeline is healthy, and we expect the growth rates seen in the last twelve months to continue for at least the remainder of FY24.

Peter Brotherton CEO commented:

"The integration of the five acquisitions undertaken in the last two financial years is now largely complete, with the savings pertaining to the remaining energy conservation measures and closure of the Harrogate data centre to be realised before the end of the current financial year.

"The acquisitions have resulted in a significant increase in revenues and much improved organic growth. Improvements in profitability will follow in FY25, once the synergy and energy efficiency programmes have been completed, and the much reduced electricity commodity prices take effect."

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Chairman's statement

Overview and financial results

These results demonstrate an inflection point for the business, the annualised impact of the FY22 acquisitions together with the Sungard and 4D acquisitions made in FY23 have transformed the business both in terms of capability and scale. Revenues have grown by 52% in the financial year FY23 and on a run rate basis are c.75% higher than the pre-acquisition period of FY21. The acquisitions have enhanced our product offerings with Hyper cloud transformation and Cyber Security professional services being added to our portfolio.

The recent data centre acquisitions mean that electricity costs are key to the financial performance of the business, and we continue to invest in energy efficiency measures to reduce consumption whilst also being very active in the energy market. We have limited any commodity price volatility in FY24 by agreeing own-use commodity contracts to fix prices and we have also taken advantage of the relatively favourable energy market by fixing a significant proportion of our FY25 requirements.

With both the synergy and energy efficiency programmes completing during the course of FY24, FY25 will be the first full year that reflects the full benefit of the acquisitions.

The business has also put a sustained effort into delivering organic growth, with eleven of the last twelve months trading to June 2023 showing positive net new business. It is particularly pleasing to note that this has been delivered through a combination of new customers and delivering against cross selling opportunities as a result of broader product offerings and the enlarged customer base.

The focus for FY24 will be to complete the integration of the recently acquired businesses and to continue to grow the business by capitalising on the excellent opportunities provided by the acquisitions. Whilst further acquisitions are not an immediate priority for the company, with £41.5m of its £80m committed bank facility drawn at the date of these accounts, the company has significant firepower should an exceptional opportunity present itself.

Dividend and share buyback

During the year, the Board declared an interim dividend of 1.2 pence per share (FY22: 1.2 pence per share), with £1.9m paid on 27 January 2023 (FY22: £1.9m).

A final dividend of 2.4p per share is recommended by the board of directors of the Company (the "Board") and will result in a total dividend for FY23 of 3.6p per share (financial year ended 31 March 2022 "FY22": 3.6p per share). Subject to approval by shareholders at the Company's annual general meeting ("AGM"), this is expected to be paid on 19 January 2024 to shareholders on the register at the close of business on 8 December 2023 with shares going ex-dividend on 7 December 2023. The last day for Dividend Reinvestment Plan elections is 27 December 2023.

Board changes and people

On 21 July 2022 Alan Aubrey was appointed as a Non-Executive Director and Chair of the Audit Committee. Alan brings with him considerable market knowledge alongside a breadth and depth of skills and experience.

On 24 July 2023, Helena Feltham, Non-Executive Director, stepped down from the board of directors of the Company (the "Board"). Recruitment for her replacement is underway. On behalf of the Board and all at Redcentric I would like to thank Helena for her significant contribution over the last two years and wish her all the very best for the future.

Outlook

The business is benefiting greatly from the acquisitions of Piksel, 7 Elements, Sungard (Consultancy and Data Centres) and 4D made in the last two financial years with revenues growing at a significant pace. The integration programmes are almost complete and the full effect of these will be seen in FY25, in addition the business has protected itself against any increase in electricity commodity prices in FY24 and has taken actions to benefit from a favourable energy market beyond FY24.

The factors above together with the organic growth momentum seen over the past twelve months, mean that the board remains optimistic for the future of the business.

Nick Bate
Chairman
24 August 2023

Chief Executive's Review

Updates

Strategic execution

FY23 has been a pivotal year for Redcentric, the capability acquisitions of Piksel (Hyper cloud transformation) and 7 Elements (Cyber Security) made in FY22 have been quickly integrated and are providing excellent cross sell opportunities across the enlarged customer base.

To support and accelerate our acquisition strategy further a new banking facility was agreed on 26 April 2022, providing us with significant additional funding at very competitive rates. Under this four bank syndicate £80m of committed funds are available with a further £20m uncommitted accordion facility available if required.

With the funds in place at the start of FY23, the business completed three acquisitions in quick succession, and by July 2023 had secured the Sungard consultancy business offering enhanced cyber security capability, and the 4D and Sungard Data centre businesses providing significant scale and a blue-chip customer base.

At 31 March 2023, £34.0m of the £80.0m committed facility was net drawn to fund acquisitions.

As a result of these five acquisitions, over 600 customers have been added to our existing base and we exit the year with a revenue run rate (being total contracted monthly revenue plus the delivered on-off revenue) of £160m which represents a 75% increase on FY21, the last full year with no impact of acquisitions. Furthermore, our product and solutions offerings have been strengthened in the highest growing areas of the market, giving us one of the most comprehensive IT and telecommunications product and solution offerings in the market.

Notwithstanding the very material and immediate revenue growth, a return to profitability will take longer to materialise. The very significant and complex synergy and energy efficiency programmes, reflected in the consideration paid for the acquisitions, are planned to complete during the course of FY24 meaning that FY25 will be the first full year that reflects the full benefit of the acquisitions.

Organic growth update

We continue to see strong organic growth, with an increase in net new business (new business plus or minus renewal churn less cancellations and excluding inflationary price increases) in nine of the last ten months to the end of March 2023. Net new business when converted into revenue equates to an organic growth rate of approximately 6%, a level that has not been experienced for a number of years and we expect this level of organic growth to continue into FY24.

The improvement in organic growth reflects the increase in new logos and delivering against the cross-selling opportunities to existing customers as a result of the Group's broader product offering and enlarged customer base.

Integration update

The integration programme is progressing well with total synergies of £22.0m now forecast, £5m ahead of the expectations at the time of the H1 FY23 results. £16.2m of the total synergies have already been actioned and reflected in the run rate, with the balance of £5.8m to be actioned throughout the course of FY24 and effective throughout both FY24 and FY25.

The sale of the Elland data centre assets anticipated for December 2022 did not complete due to buyer funding issues and as a result this facility will now be retained and developed as a long-term strategic asset. The Harrogate data centre will now be closed instead with customer and core equipment transferred to Elland by the end of FY24. Annualised savings of circa £1.4m are anticipated versus the £0.6m expected for Elland, but these savings will now materialise in FY25 rather than FY24.

The bulk of the remaining synergy activity relates to energy conservation measures (new chiller units in Heathrow) and the closure of the Harrogate data centre.

Electricity sourcing & consumption

FY23 has seen the most volatile electricity pricing for a generation, with commodity prices reaching as high as ten times historical averages. Whilst the government's energy bill relief scheme, put in place during the year, did help to reduce costs, the scheme did not cover the full electricity consumption and, as a result, FY23 profits were adversely impacted by £1.7m of higher than anticipated electricity costs.

The Group operates out of eight of its own data centres and has a large (including management) presence in a third-party data centre. In seven out of nine of these data centres, the Group is responsible for the sourcing of electricity. The electricity purchasing cost differences between the data centres are detailed below:

- In the seven data centres where procurement is managed by the Group, own-use commodity contracts have been agreed for the whole of FY24 and a large proportion of FY25. The commodity rates achieved are consistent with the Board's expectations and removes the commodity price risk in these data centres until 1 April 2024.

Chief Executive's Review (continued)

- The two data centres where the Group has no control on the procurement of electricity have also locked in forward prices but at rates much higher (c.80%) than those achieved by the Group. Whilst we can pass on price increases to the former Redcentric, Piksel and 4D customer bases, the fixed priced Sungard customer contracts mean that for FY24 there will be £0.9m of increased costs which cannot be passed on to customers. One of these two data centres will be closed by the end of FY24.

Following the year end we have continued to monitor the forward rates for FY25 and beyond and have taken advantage of further reductions in the energy market by agreeing further own-use commodity contracts for a large proportion of our electricity requirements for FY25.

Following the Sungard DC acquisition, electricity costs have become our largest externally sourced cost item, and in addition to monitoring and reducing price risk we have put considerable effort in to reducing electricity consumption, not only to reduce costs but also significantly reducing our carbon footprint and contributing towards our net zero strategy.

The introduction of cold aisle containment together with some basic housekeeping measures has already reduced consumption within the Heathrow and Woking data centres by a very impressive 16%. Whilst this is an excellent start, further measures including the replacement of inefficient water chillers in Heathrow will be progressed in FY24 accelerating the reduction in consumption significantly.

We are pleased to announce the following results for FY23:

- Revenues of £141.7m (FY22: £93.3m);
- Adjusted EBITDA* of £24.5m (FY22: £23.7m);
- Adjusted operating profit^ of £8.6m (FY22: £15.9m);
- Reported operating loss of £8.9m (FY22: profit of £6.6m);
- Net debt as at 31 March 2023 of £73.0m (31 March 2022: net debt of £16.6m); and
- Adjusted net debt~ as at 31 March 2023 of £35.6m (31 March 2022: net debt of £1.5m);

* Adjusted EBITDA is EBITDA excluding exceptional items, share-based payments and associated National Insurance.

^ Adjusted operating profit is reported operating profit excluding amortisation of intangible assets arising on business combinations, exceptional items and share-based payments.

~ Adjusted net 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.

The net debt position is after dividend payments of £5.6m; the acquisitions of Sungard Consulting and DCs, and 4D Data Centres for a combined cash cost of £26.6m (net of cash acquired); exceptional items largely relating to integration and restructuring costs of £8.1m; capital expenditure of £6.8m; and a working capital deficit due to investment in stock of £1.4m.

These results reflect the contribution from the five acquisitions completed over the last two financial years including a full year of trading from Piksel and 7 Elements, and a partial year's contribution from 4D Data Centres and the two Sungard business and asset acquisitions. The results further reflect the following:

- Higher than anticipated electricity costs of £1.7m, reflecting the impact of the Government Energy Bill Relief Scheme not being applied to overall consumption, the significant increase in non-commodity charges and rephasing of energy efficiency savings as a result of supplier equipment delays.
- Higher than expected software license costs of £0.7m (annualised effect of £1.5m) as a result of the acquired Sungard business not recording platform usage accurately and under reporting license consumption prior to the acquisition.

Other updates

Inflation

The business continues to experience widespread inflationary increases across its cost base, primarily wage inflation, electricity costs and software license costs. Furthermore, we have been notified of significant increases in business rates (c.33%) across our data centre portfolio which is anticipated to add c.£0.8m to the FY24 cost base. Although the business can pass on specific increases relating to electricity (with the exception of the Sungard customer base) and license costs periodically, increases relating to general inflation can only be passed on annually.

Contingent consideration

As part of the deal structure for the acquisition of 7 Elements Ltd, contingent consideration of up to £0.45m was included based on the performance of the business in the 13 months to 31 March 2023. As the acquisition has exceeded the targets set, the maximum amount of £0.45m became payable, and was paid on 3 April 2023.

Chief Executive's Review (continued)

The final consideration for the Sungard DCs acquisition is based on the conversion of short-term contracts into contracts with a term of 12 months or more from the date of the acquisition. The fair value at the yearend was £2.75m (undiscounted), based on the expectations at that point. The final position has now been fully crystallised resulting in a payment of £0.4m made in July 2023. The lower payment is as a result of a revised position of customer contracts at the anniversary date.

Outlook

Considering the improved electricity purchasing arrangements, customer and supplier price increases effective from 1 April 2023 and completed cost reductions as a result of the synergy programme, we commence FY24 with annualised revenues and adjusted EBITDA of c.£160.0m and c.£29.0m respectively.

The focus for FY24 will be to complete the integration of the recently acquired businesses and to continue to grow the business by capitalising on the excellent opportunities provided by the broader product offerings and increased customer bases which have resulted from the acquisitions undertaken in FY22 and FY23.

Electricity costs remain key to financial performance and we will continue to make significant investments in FY24 to further reduce electricity consumption. This will be achieved by deploying new cooling infrastructure at our flagship data centre in Heathrow. The Company has locked in electricity prices for the majority of FY24 and a large proportion of FY25, and so will not be materially subject to further commodity price volatility in the following two financial years.

With both the synergy and energy efficiency programmes completing during the course of FY24, FY25 will be the first full year that reflects the full benefit of the acquisitions.

Peter Brotherton
Chief Executive Officer
24 August 2023

Financial Review

Financial performance measures

	Year ended 31 March 2023 (FY23)	Year ended 31 March 2022 (FY22)	Change
Total revenue	**£141.7m**	£93.3m	51.8%
Recurring revenue[1]	**£128.5m**	£83.0m	54.8%
Recurring revenue percentage[1]	**90.7%**	88.9%	1.8%
Adjusted EBITDA[1]	**£24.5m**	£23.7m	3.3%
Adjusted operating profit[1]	**£8.6m**	£15.9m	(45.6%)
Reported operating (loss)/profit	**(£8.9m)**	£6.6m	(235.3%)
Adjusted cash generated from operations[1]	**£23.1m**	£19.3m	19.6%
Reported cash generated from operations	**£14.8m**	£17.2m	(13.8%)
Net debt[1]	**(£73.0m)**	(£16.6m)	(339.5%)
Adjusted net debt[1]	**(£35.6m)**	(£1.5m)	(2,271.8%)
Adjusted basic earnings per share[1]	**2.66p**	7.68p	(65.3%)
Reported basic (loss)/earnings per share	**(5.94p)**	4.43p	(231.4%)

Percentage changes calculated on absolute values.

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

Overview

The results for FY23 have been dominated by the impact of the five acquisitions made since September 2021, and reflect the first full year of conditions from the acquired Piksel and 7 Elements businesses, and a partial year of contributions from the acquired Sungard Consulting, Sungard DC and 4D businesses. The enlarged Group delivered revenue and adjusted EBITDA of £141.7m, and £24.5m respectively, resulting in 51.8% and 3.3% of respective growth. Adjusted net debt has increased to £35.6m reflecting £26.6m of acquisition consideration, in addition to £8.1m of exceptional costs largely relating to the restructuring and integration programmes following the acquisitions. Key considerations in the financial statements include:

1. 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"), £7m asset financing facility and a £20m uncommitted accordion facility and are provided by a new four bank group consisting of NatWest, Barclays, Bank of Ireland, and Silicon Valley Bank (now under the HSBC group) (the "New Facility"), with the asset financing facility provided by Lombard. 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 205 basis points over SONIA at the Company's yearend leverage levels. An arrangement fee of 75 basis points was 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.

2. The acquisition on 7 June 2022 by the Group's trading subsidiary Redcentric Solutions Limited of the consulting business from Sungard Availability Services (UK) Limited (in administration) for £4.2m consideration paid in cash. The business provides services in respect of business continuity, cloud and infrastructure, cyber resilience, disaster recovery and hybrid cloud transformation services alongside the provision and operation of Cloud related services. This acquisition is considered to be a linked transaction with the DC acquisition as mentioned in note 4 below.

Financial Review (continued)

3. The acquisition on 27 June 2022 by Redcentric Solutions Limited for 100% of the share capital of 4D Data Centres Limited ("4D") for £10.1m 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. On 28 February 2023, the trade, assets and liabilities of 4D were hived in to Redcentric Solutions Limited.

4. The acquisition on 6 July 2022 by Redcentric Solutions Limited for certain business and assets relating to three data centres "DCs" from Sungard Availability Services (UK) Limited (in administration) for initial consideration of £10.1m paid in cash and a cash prepayment of £3.4m, with contingent consideration at a maximum potential value of £19.0m depending on customer retention and certain performance criteria in the 12-month period post-acquisition.

The key financial highlights are as follows:

- Total revenue growth of 51.8% to £141.7m (FY22: £93.3m).
- Recurring revenue grew by 54.8% to £128.5m, with recurring revenue representing 90.7% of the total revenue (FY22: £83.0m / 88.9%).
- Gross profit has increased by 69.5% to £100.9m.
- Adjusted EBITDA of £24.5m is 3.3% ahead of FY22.
- Adjusted operating profit decreased by £7.3m to £8.6m (45.6% decrease).
- Adjusted net debt as at 31 March 2023 was £35.6m, including £36.9m of IFRS16 lease liabilities that were previously classified as operating leases under IAS17 and £0.5m of supplier loans.
- Reported operating profit reduced by £15.5m to a loss of £8.9m.

Revenue

Revenue for FY23 was generated wholly from the UK and is analysed as follows:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000	Change £000	Change %
Recurring revenue[1]	**128,461**	82,965	45,496	54.8%
Product revenue	**7,144**	6,187	957	15.5%
Services revenue	**6,069**	4,176	1,893	45.3%
Total revenue	**141,674**	93,328	48,346	51.8%

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

Total revenue increased by £48.3m compared to FY22, impacted by: incremental revenue in FY23 generated by the acquisitions of Sungard DCs, 4D and Sungard consultancy, and the first full year of revenue generated from FY22 acquisitions in Piksel and 7 Elements.

Revenue is analysed into the following categories:

- Recurring revenue has increased 54.8% to £128.5m (FY22: £83.0m) from new contracts with Sungard DCs and 4D.
- Non-recurring product revenue has increased £0.9m to £7.1m (FY22: £6.2m) from sales with customers introduced through the current year acquisitions.
- Non-recurring services revenue increased to £6.1m (FY22: £4.2m), reflecting increased activity on new projects.

Financial Review (continued)

Gross profit

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000	Change £000	Change %
Gross Profit	**100,911**	59,550	41,361	69.5%
Gross Margin	**71.2%**	63.8%	N/A	N/A

Gross profit increased by 69.5% (£41.4m) reflecting the Group's increased revenue and contribution from higher margin 4D and Sungard Consulting acquisitions.

Adjusted operating costs[1]

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

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000	Change £'000	Change %
UK employee costs	**34,482**	21,369	13,113	61.4%
Office and data centre costs	**25,335**	4,411	20,924	474.3%
Network and equipment costs	**11,824**	7,299	4,525	62.0%
Other sales, general and administration costs	**3,364**	1,553	1,811	116.6%
Offshore costs	**1,414**	1,205	209	17.3%
Total adjusted operating costs	**76,419**	35,837	40,582	113.2%

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

Total adjusted operating costs for FY23 were 113.2% (£40.6m) higher than prior year, reflecting:

- employee costs increased £13.1m (61.4%) due to additional employees following the Sungard and 4D acquisitions;
- office and data centre costs increased by £20.9m, primarily due to the impact of increased electricity costs as several electricity supply contract renewals fell due during the UK energy crisis, and the increase in the number of data centres through acquisitions; and
- network and equipment costs increased by £4.5m, and other sales, general and administration costs are up £1.8m, both due to increased requirements from acquisitions.

Employees

	Year ended 31 March 2023 (Number)	Year ended 31 March 2022 (Number)	Variance (Number)
Year-end headcount			
UK	**540**	376	164
India	**98**	91	7
Total employees	**638**	467	171

Financial Review (continued)

	Year ended 31 March 2023 (Number)	Year ended 31 March 2022 (Number)	Variance (Number)
Average headcount			
UK	**491**	386	105
India	**97**	100	(3)
Total employees	**588**	486	102

Adjusted EBITDA[1]

Adjusted EBITDA is EBITDA excluding exceptional items, share-based payments and associated National Insurance. The same adjustments are also made in determining the adjusted EBITDA margin.

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Reported operating (loss)/profit	**(8,939)**	6,607
Amortisation of intangible assets arising on business combinations	**8,183**	6,498
Amortisation of other intangible assets	**590**	475
Depreciation on tangible assets	**4,636**	2,745
Depreciation on ROU assets	**10,617**	4,578
EBITDA	**15,087**	20,903
Exceptional items:	**8,149**	1,629
Acquisition fees	**695**	
Integration costs	**5,965**	
Costs relating to the settlement of an historical supplier dispute	**809**	
Cloud computing costs	**680**	
Share-based payments and associated National Insurance	**1,256**	1,181
Adjusted EBITDA[1]	**24,492**	23,713

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

Adjusted EBITDA increased by 3.3% to £24.5m, £0.8m higher than prior year. FY23 includes 9 months of contributions from the Sungard and 4D acquisitions, as well as the first full year of Piksel and 7 Elements.

Taxation, interest and dividend

The tax charge for the year was a credit of £3.2m (FY22: a credit of £1.4m), comprising an income tax charge of £0.1m (FY22: a charge of £0.4m), and a deferred tax credit of £3.3m (FY22: a credit of £1.8m).

Net finance costs for the year were £3.5m (FY22: £1.1m), including £1.2m (FY22: £1.0m) of interest payable on leases of which £1.2m (FY22: £0.8m) related to leases previously recognised as operating leases under IAS17.

During the year, the Group paid an interim dividend for FY23 of 1.2p per share, totalling £1.9m as detailed in note 14 (FY22: 1.2p per share).

A final dividend payment of 2.4p per share is expected to be paid on 19 January 2024, subject to approval at the Company's AGM, to shareholders on the register at the close of business on 8 December 2023 with shares going ex-dividend on 7 December 2023. The last day for Dividend Reinvestment Plan elections is 27 December 2023.

Financial Review (continued)

Net debt

During the year, net debt increased from £16.6m to £73.0m as at 31 March 2023, with the movements shown in the tables below:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Operating (loss)/profit	**(8,939)**	6,607
Depreciation and amortisation	**24,026**	14,296
Exceptional items	**8,149**	1,629
Share based payments	**1,256**	1,181
Adjusted EBITDA[1]	**24,492**	23,713
Working capital movements	**(1,410)**	(4,017)
Transfer from intangible assets to cost of sales	**-**	140
Non-cash provision movements	**-**	(577)
Adjusted cash generated from operations	**23,082**	19,259
Cash conversion	***94.2%***	*81.2%*
Capital expenditure - cash purchases	**(6,374)**	(2,765)
Capital expenditure - finance lease purchases	**-**	(438)
Proceeds from sale of fixed asset - sale and leaseback	**966**	-
Net capital expenditure	**(5,408)**	(3,203)
Corporation tax (paid) / received	**(670)**	246
Interest paid	**(1,795)**	(51)
Loan arrangement fees / fee amortisation	**(291)**	-
Finance lease / term loan interest	**(1,248)**	(885)
Effect of exchange rates	**(101)**	27
Other movements in net debt	**(4,105)**	(663)
Normalised net debt movement[1]	**13,569**	15,393
Cash cost of exceptional items	**(8,258)**	(2,091)
Share buyback	**-**	(2,666)
Non-capitalised finance leases purchases	**-**	(145)
Acquisition of subsidiaries (net of cash acquired)	**(26,606)**	(10,422)
Cash received on disposal of non-core business unit	**-**	5,750
IFRS 16 lease additions	**(28,314)**	(2,094)
IFRS 16 lease additions on acquisition	**(1,976)**	-
IFRS 16 lease disposals	**-**	813
Remeasurement relating to lease modification	**629**	-
Dividends	**(5,593)**	(5,627)
Disposal of treasury shares on exercise of share options	**229**	-
Cash received on exercise of share options	**-**	12
Share issues	**-**	1
	(69,889)	(16,469)
Increase in net debt	**(56,320)**	(1,076)
Net debt at the beginning of the period	**(16,645)**	(15,569)
Net debt at the end of the period	**(72,965)**	(16,645)

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

Financial Review (continued)

	As at 31 March 2021 £000	Net cash flow £000	Net non-cash flow £000	As at 31 March 2022 £000	**Net cash flow £000**	**Net non-cash flow £000**	**As at 31 March 2023 £000**
Cash	5,250	(3,473)	27	1,804	**(335)**	**(103)**	**1,366**
RCF	-	-	-	-	**(31,537)**	**(2,094)**	**(33,631)**
Term Loan	(1,491)	532	(45)	(1,004)	**532**	**(24)**	**(496)**
Lease Liabilities	(19,328)	3,701	(1,818)	(17,445)	**(21,542)**	**(1,217)**	**(40,204)**
	(15,569)	760	(1,836)	(16,645)	**(52,882)**	**(3,438)**	**(72,965)**

Included in lease liabilities at 31 March 2023 are £36.9m (FY22: £14.1m) of IFRS 16 lease liabilities that were previously classified as operating leases under IAS17 and £0.5m (FY22: £1.0m) of term loans. Other movements reflect acquisition of subsidiaries of £26.6m, capital expenditure of £6.8m and £5.6m on dividends.

Trade Debtors

In the year, focus remained on maintaining a strong ageing profile with a low level of aged debt. At the year-end, 96% of gross trade debt was current or less than 30 days overdue (FY22: 97%).

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Current	**18,450**	8,736
1 to 30 days overdue	**2,212**	1,997
31 to 60 days overdue	**557**	452
61 to 90 days overdue	**283**	80
91 to 180 days overdue	**194**	19
> 180 days overdue	**(240)**	(172)
Gross trade debtors	**21,456**	11,112
Provisions	**(1,251)**	(884)
Net trade debtors	**20,205**	10,228

Trade debtor days were 46 at 31 March 2023 compared to 36 at 31 March 2022. Trade debtor days are calculated as gross trade debtors divided by revenue (incl. VAT) multiplied by 365.

Trade payable days were 42 at 31 March 2023 compared to 37 as at 31 March 2022. Trade payable days are calculated as trade payables divided by total purchases (cost of sales and operating expenditure) multiplied by 365.

Financial Review (continued)

Financing

In the year, focus remained on maintaining a strong ageing profile with a low level of aged debt. At the year-end, 96% of debt was current or less than 30 days overdue (FY22: 97%).

	31 March 2023			31 March 2022		
	Available £000	**Drawn £000**	**Undrawn £000**	Available £000	Drawn £000	Undrawn £000
Committed						
- Revolving credit facility	**80,000**	**34,000**	**46,000**	5,000	-	5,000
- Term Loans	**496**	**496**	**-**	1,004	1,004	-
- Leases	**40,204**	**40,204**	**-**	17,445	17,445	-
- Asset financing facility	**7,000**	**2,309**	**4,691**	7,000	1,100	5,900
	127,700	**77,009**	**50,691**	30,449	19,549	10,900
Uncommitted						
- Bank overdraft	**-**	**-**	**-**	-	-	-
- Accordion facility	**20,000**	**-**	**20,000**	20,000	-	20,000
	20,000	**-**	**20,000**	20,000	-	20,000
Total borrowing facilities	**147,700**	**77,009**	**70,691**	50,449	19,549	30,900

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.

As at 31 March 2023, the Group was party to £87m of banking facilities, comprising a Revolving Credit Facility of £80m (net £34m utilised at 31 March 2023) and a £7.0m Asset Financing Facility (£2.3m utilised at 31 March 2023). As at 31 March 2023, these facilities are due to expire on 25 April 2025.

The borrowing cost of the RCF is determined by the Group's leverage and has a borrowing cost of 205 basis points over SONIA at the Group's current leverage levels. A commitment fee is payable on the undrawn portion of the RCF at 82 basis points, being 40% of the borrowing cost.

David Senior
Chief Financial Officer
24 August 2023

Consolidated statement of comprehensive income

for the year ended 31 March 2023

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Revenue	**141,674**	93,328
Cost of sales	**(40,763)**	(33,778)
Gross Profit	**100,911**	59,550
Operating costs	**(109,938)**	(53,046)
Other operating income	**88**	103
Adjusted EBITDA[1]	**24,492**	23,713
Depreciation of property, plant and equipment	**(4,636)**	(2,745)
Amortisation of intangibles	**(8,773)**	(6,973)
Depreciation of right of use assets	**(10,617)**	(4,578)
Exceptional items	**(8,149)**	(1,629)
Share-based payments	**(1,256)**	(1,181)
Operating (loss)/profit	**(8,939)**	6,607
Finance income	**-**	-
Finance costs	**(3,530)**	(1,071)
(Loss)/profit before taxation	**(12,469)**	5,536
Income tax credit	**3,219**	1,404
(Loss)/profit for the period attributable to owners of the parent	**(9,250)**	6,940
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(97)**	(26)
Deferred tax movement on share options	**47**	58
Total comprehensive (loss)/profit for the period	**(9,300)**	6,972
Earnings per share		
Basic (loss)/earnings per share	**(5.94p)**	4.43p
Diluted (loss)/earnings per share	**(5.94p)**	4.36p

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

Consolidated statement of financial position

as at 31 March 2023

	31 March 2023 £000	31 March 2022 £000
Non-Current Assets		
Intangible assets	**83,217**	67,726
Property, plant and equipment	**17,131**	5,372
Right-of-use assets	**46,282**	17,038
Deferred tax asset	**1,076**	3,999
	147,706	94,135
Current Assets		
Inventories	**3,716**	1,393
Trade and other receivables	**39,254**	22,123
Corporation tax receivable	**48**	-
Cash and cash equivalents	**1,366**	1,804
	44,384	25,320
Total Assets	**192,090**	119,455
Current Liabilities		
Trade and other payables	**(43,578)**	(24,053)
Corporation tax payable	**-**	(800)
Bank and term loans	**(475)**	(508)
Lease liabilities	**(10,804)**	(4,086)
Provisions	**(1,841)**	-
Contingent consideration	**(2,990)**	(422)
	(59,688)	(29,869)
Non-Current Liabilities		
Bank and term loans	**(33,651)**	(496)
Lease liabilities	**(29,400)**	(13,359)
Provisions	**(11,160)**	(3,883)
	(74,211)	(17,738)
Total Liabilities	**(133,899)**	(47,607)
Net Assets	**58,191**	71,848
Equity		
Called up share capital	**157**	157
Share premium account	**73,267**	73,267
Common control reserve	**(9,454)**	(9,454)
Own shares held in treasury	**(898)**	(2,673)
Retained earnings	**(4,881)**	10,551
Total Equity	**58,191**	71,848

The financial statements of Redcentric Plc (Registration Number 08397584) were approved by the Board on 24 August 2023 and are signed on its behalf by:

David Senior
Chief Financial Officer

Consolidated cash flow statement

for the year ended 31 March 2023

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
(Loss)/profit before taxation	**(12,469)**	5,536
Finance costs	**3,530**	1,071
Operating (loss)/profit	**(8,939)**	6,607
Adjustment for non-cash items		
Depreciation and amortisation	**24,026**	14,296
Exceptional items	**8,149**	1,629
Share-based payments	**1,256**	1,181
Operating cash flow before exceptional items and movements in working capital	**24,492**	23,713
Transfer from intangible assets to cost of sales	**-**	140
Non-cash provision movements	**-**	(577)
Cash costs of exceptional items	**(8,258)**	(2,091)
Operating cash flow before changes in working capital	**16,234**	21,185
Changes in working capital		
Increase in inventories	**(2,324)**	(185)
(Increase)/decrease in trade and other receivables	**(15,463)**	559
Increase/(decrease) in trade and other payables	**16,377**	(4,391)
Cash generated from operations	**14,824**	17,168
Tax (paid)/received	**(670)**	246
Net cash generated from operating activities	**14,154**	17,414
Cash flows from investing activities		
Purchase of property, plant and equipment	**(5,505)**	(2,264)
Disposal of non-core contracts	**-**	5,750
Acquisition of subsidiaries (net of cash acquired)	**(26,606)**	(10,422)
Purchase of intangible fixed assets	**(869)**	(501)
Net cash used in investing activities	**(32,980)**	(7,437)
Cash flows from financing activities		
Dividends paid	**(5,593)**	(5,627)
Share buyback	**-**	(2,666)
Disposal of treasury shares on exercise of share options	**229**	-
Cash received on exercise of share options	**-**	12
Sale and leaseback of fixed assets	**966**	-
Interest paid	**(1,771)**	(97)
Interest paid on leases	**(1,218)**	(839)
Repayment of leases	**(6,901)**	(3,745)
Repayment of term loans	**(508)**	(487)
Drawdown of borrowings	**55,500**	4,500
Repayment of borrowings	**(21,500)**	(4,500)
Payment of loan arrangement fees	**(713)**	-
Issue of shares	**-**	1
Net cash used in financing activities	**18,491**	(13,448)
Net decrease in cash and cash equivalents	**(335)**	(3,471)
Cash and cash equivalents at beginning of period	**1,804**	5,250
Effect of exchange rates	**(103)**	25
Cash and cash equivalents at end of the period	**1,366**	1,804

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

Consolidated statement of changes in equity

for the year ended 31 March 2023

	Share capital £000	Share premium £000	Common control reserve £000	Own shares held in treasury £000	Retained earnings £000	**Total equity £000**
1 April 2021	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**
Loss for the period	-	-	-	-	(9,250)	(9,250)
Transactions with owners						
Share-based payments	-	-	-	-	1,044	1,044
Share buyback	-	-	-	-	-	-
Issue of new shares	-	-	-	-	-	-
Dividends paid (note 14)	-	-	-	-	(5,593)	(5,593)
Share option exercises	-	-	-	1,775	(1,546)	229
Deferred tax relating to prior periods	-	-	-	-	(37)	(37)
Other comprehensive income						
Deferred tax movement on share options	-	-	-	-	47	47
Currency translation differences	-	-	-	-	(97)	(97)
At 31 March 2023	**157**	**73,267**	**(9,454)**	**(898)**	**(4,881)**	**58,191**

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

Notes to the consolidated financial statements

for the year ended 31 March 2023

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 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 these consolidated financial statements are set out below. These policies have been applied consistently in the current and prior period.

These financial statements are presented in pound sterling, being the currency of the primary economic environment in which the Group operates.

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

Basis of preparation

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 March 2023 or 2022. The financial information for 2022 is derived from the original Group and revised parent Company financial statements (the "revised financial statements") of Redcentric Plc for the year ended 31 March 2022 which have been delivered to the registrar of companies. The auditor has reported on the 2022 accounts; their report was (i) unqualified, (ii) included reference to a matter to which the auditor drew attention by way of emphasis without qualifying their report in respect of a revision of the Parent Company Balance Sheet and Note 1 of the Parent Company financial statements and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The financial information for 2023 is derived from the company's statutory accounts for the year ended 31 March 2023. The statutory accounts for 2023 will be delivered to the registrar of companies in due course. The auditor has reported on those accounts; 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 financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the following reasons.

The Group meets its day to day working capital requirements from operational cash flows, a revolving credit facility, an asset financing facility and leasing arrangements.

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements (the "going concern assessment period") 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 their liabilities as they fall due for that period, and will comply with debt covenants over that period.

The Group is required to comply with financial debt covenants for adjusted leverage (net debt to adjusted EBITDA), cashflow cover (adjusted cashflow to debt service, where adjusted cashflow is defined as adjusted EBITDA 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. The guarantors are Redcentric plc and Redcentric Solutions Limited. Covenants are tested quarterly each year.

Following the acquisitions made in the year, the Group has invested heavily in integration and efficiency programmes which are expected to deliver significant benefits to the business from FY25 onward. In anticipation of the effect of those investments on continued covenant compliance, in March 2023 the Directors agreed an amendment to the borrowings facility agreement with the banking syndicate to apply less stringent debt covenant requirements for the quarters ended March and June 2023 and quarters ending September and December 2023. There were no other material changes to the terms and conditions of the borrowings because of this amendment.

The Directors' forecasts in respect of the going concern assessment period have been built from the detailed Board approved budget for the year ending 31 March 2024 and forecasts for the year ending 31 March 2025, and the going concern assessment takes account of the updated debt covenant requirements agreed in the amended agreement. The forecasts include a number of assumptions in relation to order intake, renewal and churn rates, EBITDA margin improvements, capital expenditure requirements to service our customers and the full year impact of the further acquisitions made in FY23 and associated synergies and efficiencies. Revenue assumptions reflect pre-covid levels achieved, which have been adjusted for the

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

enlarged customer base and additional products following the acquisitions made in FY23. Both the base case and sensitised forecasts (detailed below) include significant utilisation of the Group's asset financing facility.

Whilst the Group's trading and cash flow forecasts have been prepared using current trading assumptions, the operating environment continues to present several 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 driving continued interest rate increases and the achievability of actions the Directors consider they would take, and which are entirely within their control, should further risks materialise.

Whilst cost inflation is an important consideration for the Group, the Directors have already taken positive action to mitigate this issue in respect of the Group's single largest external cost item, electricity. The Group has entered into contracts with energy brokers and has agreed own-use commodity prices for a significant proportion of its expected FY24 and FY25 electricity volumes, which significantly reduces its exposure to price volatility. The Group can flex contracted volumes to match expected usage volumes giving 30 days' notice.

In making their going concern assessment considering these risks, the Directors have also modelled a severe but plausible downside scenario when preparing the forecasts.

The severe but plausible downside scenario assumes significant economic downturn over FY24 and into FY25, impacting forecast new order intake and customer cancellations for recurring revenue, reduced non-recurring revenue levels, a reduction of synergies compared to forecast levels, and inflationary pressures driving continued interest rate rises. All of these downside scenarios have been combined into the Board's severe but plausible assessment.

Under this severe but plausible downside scenario, recurring monthly new order intake is forecast to reduce by 30% and non-recurring product and services revenues reduce by 20%. These reductions have been modelled against the base case budget and incorporate both potential supply chain issues and customer timing preferences which could impact the phasing of non-recurring revenues, and reduced investment from our customer base more generally. Increased customer cancellation rates on recurring monthly revenues have also been considered in addition to expected benefits from electricity volume efficiencies forecast in the Group's data centres being reduced by 50%. Finally, in considering an increased cost to the Group of its variable rate revolving credit facility debt, UK interest rates are modelled to continue to increase by 0.5% per quarter, to a maximum of 7%.

In isolation, each individual downside factor is plausible, however in order to demonstrate the severity of circumstances that would result in the Group coming close to being unable to comply with debt covenants, the above scenarios have been modelled simultaneously in the severe but plausible downside scenario.

The Directors note the uncertainties surrounding the timing and extent of non-recurring revenues from quarter to quarter, and the timing and extent of capital expenditure, with increased utilisation of the Group's asset financing facility modelled under both the base case budget and the severe but plausible downside scenario. As a result, the Directors continue to closely monitor quarterly liquidity together with debt covenant compliance forecasts. Under the severe but plausible downside scenario outlined above, there is limited covenant headroom available throughout the going concern assessment period. As a result, the Directors expect that the final dividend for FY23, which is to be considered for approval at the AGM on 28 September 2023, will be paid in the final quarter of the financial year FY24. The cashflow forecasts prepared and as described above, include a final FY23 dividend payment in January 2024 and the Directors will continue to monitor quarterly liquidity and debt covenant compliance and the timing of subsequent dividend payments.

While the Directors consider that the downside scenario modelled represents a severe stress, additional mitigating actions remain available that have not been modelled including the rephasing of non-essential capital expenditure, and the rephasing or reduction of certain non-essential costs.

Under the severe but plausible downside scenario modelled, the forecasts demonstrate that the Group is expected to maintain sufficient liquidity and will continue to comply with its debt covenants throughout the going concern assessment period, though covenant headroom is limited throughout and the increased utilisation level of the Group's asset financing facility is required to ensure continued compliance with debt covenants.

The Directors therefore remain confident that the Group and parent Company have adequate resources to continue to meet their liabilities as and when they fall due within a period of at least 12 months from the date of approval of

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

these financial statements, and have therefore prepared the financial statements on a going concern basis.

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.

Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 March 2023.

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.

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.

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.

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, key sources of estimation uncertainty and other areas of estimation

In the application of the Group's accounting policies, the Board are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities, without clear direction from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

The Group have identified the following item as a critical accounting judgement which would have a significant

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

impact to the amounts recognised in the financial statements for the year ended 31 March 2023.

- Accounting for multiple arrangements as a single transaction

During the year, the Group's trading subsidiary Redcentric Solutions Limited acquired the consulting business and certain business and assets relating to three data centres ("DCs") from Sungard Availability Services (UK) Limited (in administration). The acquisition of the consulting business was legally completed on 7 June 2022 and the DCs on 6 July 2022. These are legally separate transactions with their own purchase agreements however, the Group have considered if they form a single transaction to achieve an overall commercial effect.

The transactions happened within a short time frame and were entered into in contemplation of each other. The commercial rationale for the consulting transaction was inherently linked to facilitating the subsequent DCs transaction and the acquisition of the consulting business was not economically justified on its own but is economically justified when considered together with the DCs transaction.

In review of the above, the Group have determined that these two arrangements should be accounted for as a single transaction.

Estimates

- Fair value of consideration transferred, including contingent consideration

The fair value measurement of the consideration transferred for business combinations in the year, which includes elements of contingent consideration, involves estimation uncertainty regarding the amount to be recognised in the financial statements due to the uncertain future events which management are required to assess at the acquisition date and at subsequent reporting dates in order to determine the fair value at those points. In assessing these future events, management consider the probability and likelihood of specific events and results occurring, which impact the fair value of the contingent consideration.

Management have considered the fair value assessment at the acquisition date and at the reporting date. The range of possible outcomes of contingent consideration when the payment crystallises on the 12-month anniversary of the acquisition are between £0.0m and £2.8m as at the yearend.

- Fair values of acquired intangible assets and property, plant and equipment on business combinations

IFRS 3 'Business combinations' requires assets and liabilities acquired from business combinations to be measured initially at fair value and then subsequently revalued to fair value at each period end. In establishing the fair values of assets and liabilities acquired in business combinations, estimation is used in a number of areas. To assist in this work, the Group has engaged external valuation experts to assess the fair value. Management have then reviewed the work and assessed the results in forming their view on the fair value estimation included in the business combinations for the year ended 31 March 2023.

The fair values have been established in accordance with IFRS 13. Establishing the fair values of each asset type has been outlined below:

Customer relationship intangibles

The fair values of the customer relationship intangible involves estimation uncertainty at the acquisition date as they are sensitive to the forecast future cashflows generated from these assets and the discount rate in establishing the present value. The inputs into the forecast also include EBIT margin and customer attrition rates, which affect the future cashflows generated.

Sungard Data Centres:

If short-term customer revenue attrition rates were to increase by 10%, the estimated fair value would decrease by £0.2m.

If the discount rate used in arriving at the estimated fair value of customer relationship intangibles increased by 2%, this would result in a reduction in the acquisition date fair value of these assets of £0.6m.

If the EBIT margin applied to the derive the forecast future cashflows before discounting were to increase by 10%, this would result in an increase to the acquisition date fair value of these assets by £1.3m.

4D Data Centres:

If the customer revenue attrition rates were to increase by 3%, the estimated fair value would decrease by £0.7m.

If the discount rate used in arriving at the estimated fair value of customer relationship intangibles increased by 2%, this would result in a reduction in the acquisition date fair value of these assets of £0.5m.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

If the EBIT margin applied to the derive the forecast future cashflows before discounting were to increase by 10%, this would result in an increase to the acquisition date fair value of these assets by £0.7m.

Property, plant and equipment

The Group engaged an external valuation expert to assess the fair value of certain items of property, plant and equipment acquired through business combinations, relating to the largest data centre of the Sungard transaction.

The fair values of the property, plant and equipment involves estimation uncertainty due to the useful economic life applied to each category of asset. If the useful economic life was increased by one year, the depreciation charge in the current year would decrease by £0.6m. There is also estimation uncertainty related to the replacement cost and utilisation levels of the assets under the depreciated replacement cost method.

The estimate of fair values of the identifiable assets acquired and the liabilities assumed as part of these transactions involved estimation uncertainty in finalising the purchase price allocation. As the amounts have now been finalised, the Directors do not consider this to be a major source of estimation uncertainty at the yearend, as it is not considered there will be a material reversal in future periods.

2 Exceptional items

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Included within operating expenditure:		
Employee restructuring	-	159
Insurance adviser provision including professional fees	-	(483)
Lease modification	-	(119)
Business sale process	-	70
Acquisition related professional and legal fees	**695**	971
Integration costs	**5,965**	-
Historic Share warrant exercise	-	310
Legal fees related to the defence of an ongoing supplier dispute	**809**	119
Impairment of intangible assets	-	205
Cloud configuration and customisation costs	**680**	397
	8,149	1,629

Acquisition and integration costs were incurred in relation to the purchase of certain business and assets relating to three data centres from Sungard Availability Services (UK) Limited ("Sungard)", the consulting business from Sungard and 100% of the issued share capital of 4D Data Centres Limited during the year. The acquisition fees relate to legal and advisor fees and due diligence costs. The integration costs are those incurred in integrating the three businesses into the Group and include costs relating to the TSA (Transition Service Agreement) (£1.4m), migrating customers (£1.2m) and employee restructuring (£3.3m). There was also £0.1m of audit fees relating to the work completed on the acquisitions. Cash costs were £6.7m.

Costs relating to the settlement of an historical supplier dispute were for crystallisation of the settlement amount of £0.6m and amounts charged by the Group's legal advisors in this matter. Cash costs were £0.8m.

Cloud computing costs relate to expenditure to achieve the original implementation scope of the Group's major ERP implementation programme, and the continued remediation of the Group's ERP system (Microsoft Dynamics 365) to resolve a number of implementation related process & system deficiencies that required correcting post initial implementation. FY23 is the final year that these costs will be incurred as exceptional. Future costs associated with the D365 system are developmental and will improve or enhance capability from the original scope of the project now that the original implementation scope has been substantially achieved. This was a cash cost in both years.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

3 Provisions

	Scheme fees provision £000	Dilapidations provision £000	Onerous service contract provision £000	Total provision £000
At 1 April 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
Additional provisions created during the period	**-**	**8,426**	**-**	**8,426**
Provisions acquired from business combination	**-**	**692**	**-**	**692**
Released during the period	**-**	**-**	**-**	**-**
Utilised during the period	**-**	**-**	**-**	**-**
At 31 March 2023	**-**	**13,001**	**-**	**13,001**
FY23 Analysed as:				
Current	**-**	**1,841**	**-**	**1,841**
Non-current	**-**	**11,160**	**-**	**11,160**
	-	**13,001**	**-**	**13,001**
FY22 Analysed as:				
Current	-	-	-	-
Non-current	-	3,883	-	3,883
	-	3,883	-	3,883

The Scheme fees provision represented costs which were potentially repayable on adviser fees in relation to the historical 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. This is not considered to be a critical estimate as it is not expected to be subject to material reversal in future periods given the specialist input used to inform the estimate, and the nature of the estimate. 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 increase of £8.4m through additional provisions created have resulted from new leases being agreed on acquired leasehold properties in the year.

The onerous service contract provision related 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.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

4 Intangible Assets

	Goodwill £000	Customer contracts and related relationships £000	Trademarks and brands £000	Software and licences £000	Total £000
Cost					
At 1 April 2021	42,084	62,284	275	6,585	111,228
Additions	-	-	-	502	502
Additions on acquisition (note 32)	10,332	2,746	174	31	13,283
Disposals	-	-	-	(1,548)	(1,548)
Exchange difference	-	-	-	-	-
At 31 March 2022	52,416	65,030	449	5,570	123,465
Additions	-	-	-	869	869
Additions on acquisition (note 32)	8,224	15,100	200	-	23,524
Disposals	-	-	-	(135)	(135)
Exchange difference	-	-	-	(1)	(1)
At 31 March 2023	**60,640**	**80,130**	**649**	**6,303**	**147,722**
Accumulated amortisation and impairment					
At 1 April 2021	-	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
Charged in year	-	7,983	200	590	8,773
Disposals	-	-	-	(7)	(7)
At 31 March 2023	**-**	**58,876**	**649**	**4,980**	**64,505**
Net book value					
At 31 March 2023	**60,640**	**21,254**	**-**	**1,323**	**83,217**
At 31 March 2022	52,416	14,137	-	1,173	67,726

Customer contracts have a weighted average remaining amortisation period of 6 years and 5 months (FY22: 4 years and 4 months).

Software and licences include £0.6m (FY22 - £0.1m) of additions in relation to customer capital expenditure.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

Goodwill is allocated to the Group's cash-generating units ("CGUs") that are expected to benefit from that combination based on relative carrying values of other acquired intangible assets. The carrying amount of Goodwill is allocated to those CGUs as follows:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
IT Managed Service	**58,801**	50,765
Security Services	**1,839**	1,651
	60,640	52,416

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. Consideration for any impacts of climate related risks to impairment is not deemed to affect the overall conclusions in the medium to long term.

The value in use has been calculated using budgeted cash flow projections to the period of 31 March 2025, extrapolated for a further three years by an average annual revenue growth rate of 3.5% (FY22: 2.0%). A terminal value based on a perpetuity calculation using a 2.0% real growth rate was then added (FY22: 0.0% growth).

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

- Gross margin percentage increasing to 66% (FY22: 63%)
- Operating costs increasing by 3.0% (FY22: 1.5%), which is lower than inflation as some costs have been fixed to FY25
- Pre-tax discount rate of 11.2% (FY22: 11.8%) (post tax rate of 10.84% (FY22: 7.2%)) estimated using a 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 is consistent with the market the entity operates in for real growth.

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

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

5 Property, plant and equipment

	Leasehold improvements £000	Office fixtures and fittings £000	Vehicles and computer equipment £000	Assets under construction £000	Total £000
Cost					
At 1 April 2021	7,803	1,363	21,659	-	30,825
Additions	527	107	1,630	-	2,264
Additions on acquisition (note 32)	11	27	-	-	38
Disposals	-	(331)	(25)	-	(356)
Exchange differences	-	16	-	-	16
At 31 March 2022	8,341	1,182	23,264	-	32,787
Additions	700	1,787	2,838	180	5,505
Additions on acquisition (note 32)	3,330	6,725	1,665	-	11,720
Disposals	-	-	(909)	-	(909)
Exchange differences	-	4	4	-	8
At 31 March 2023	**12,371**	**9,698**	**26,862**	**180**	**49,111**
Accumulated depreciation					
At 1 April 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
Charged in year	1,107	1,450	2,079	-	4,636
On disposals	-	-	(71)	-	(71)
Exchange differences	-	-	-	-	-
At 31 March 2023	**6,556**	**2,072**	**23,352**	**-**	**31,980**
Net book value					
At 31 March 2023	**5,815**	**7,626**	**3,510**	**180**	**17,131**
At 31 March 2022	2,892	560	1,920	-	5,372

Vehicles and computer equipment includes additions of £2.6m (FY22: £1.0m) relating to customer capital expenditure.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

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 2021	25,506	11,707	37,213
Additions	2,947	460	3,407
Remeasurement	(1,479)	(231)	(1,710)
At 31 March 2022	26,974	11,936	38,910
Additions	36,189	391	36,580
Additions on acquisition (note 32)	3,911	-	3,911
Disposals	(629)	-	(629)
Exchange differences	(1)	-	(1)
At 31 March 2023	**66,444**	**12,327**	**78,771**
Accumulated depreciation			
At 1 April 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
Charged in year	8,676	1,941	10,617
Disposals	-	-	-
At 31 March 2023	**22,296**	**10,193**	**32,489**
Net book value			
At 31 March 2023	**44,148**	**2,134**	**46,282**
At 31 March 2022	13,354	3,684	17,038

Of the £40.5m right of use assets acquired in the year, £nil was funded using leases that would have previously been classified as finance leases under IAS17 (FY22: £0.4m).

Included in the net book value of land and buildings at 31 March 2023 is £9.8m right of use assets for dilapidations.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

7 Acquisition of subsidiary

Current year acquisitions

4D Data Centres

On 27 June 2022, the Group's trading subsidiary Redcentric Solutions Limited acquired 100% of the share capital of 4D Data Centres Limited ("4D") for £10.1m 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 (SPA) on the 27 June 2022 as the change of control and therefore, acquisition date for the transaction.

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

	£000s
Cash	9,842
Deferred consideration [1]	162
True up payment (deferred) [2]	119
	10,123

[1] The deferred consideration is a delayed R&D claim refund due from HMRC which is to be paid to the Shareholders on receipt.

[2] The true up payment is the additional amount due following the update to fair values at the time of completion, when the original cash transfer was based on estimates.

The Group incurred acquisition related costs of £0.2m on legal fees, due diligence costs and direct integration costs. These costs have been included in exceptional costs in note 9.

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

	Fair value £000s
Tangible fixed assets	2,089
Customer relationships	6,300
Brand	200
Right of use assets	1,287
Trade and other receivables	920
Cash and cash equivalents	1,053
Deferred tax	(1,787)
Trade and other payables	(1,647)
Deferred income	(764)
IFRS 16 leases	(1,976)
Provisions	(692)
Corporation tax receivable	186
Total identifiable net assets acquired	**5,169**
Goodwill	**4,954**
Total consideration	**10,123**

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

7 Acquisition of subsidiary (continued)

The goodwill arising on acquisition represents the future income from new customers, the potential to cross-sell existing Group products to the existing 4D customer base, as well as the assembled workforce which increases the Group's competence in key growth areas of the Security Services sector.

The fair value of the acquired customer relationships is £6.3m. To estimate fair value of the customer relationships intangible asset, a multi-period excess earnings "MEEM" approach has been adopted, and this approach considers the present value of cash flows expected to be generated by the customer relationships, excluding any cash flows related to contributory assets.

On 28 February 2023, the trade, assets and liabilities of 4D were hived in to the Group's trading subsidiary Redcentric Solutions Limited. For the 8 months ended 28 February 2023, 4D contributed revenue of £5.3m and profits, before allocation of group overheads, share based payments and tax, of £1.1m to the Group's results.

Sungard

Consulting

On 7 June 2022, the Group's trading subsidiary Redcentric Solutions Limited acquired the consulting business from Sungard Availability Services (UK) Limited (in administration) for £4.2m consideration paid in cash. The business provides services in respect of business continuity, cloud and infrastructure, cyber resilience, disaster recovery and hybrid cloud transformation services alongside the provision and operation of Cloud related services. Management consider signing of the Agreement for the sale of assets as the change of control and therefore, acquisition date for the transaction. No assets were acquired or liabilities assumed from the Consulting business transaction.

Data Centres

On 6 July 2022, the Group's trading subsidiary Redcentric Solutions Limited acquired certain business and assets relating to three data centres "DCs" from Sungard Availability Services (UK) Limited (in administration) for initial consideration of £10.1m paid in cash and a cash prepayment of £3.4m for a payment made to the administrators in advance for a license to occupy on the three DCs, and contingent consideration with a maximum potential value of £19.0m depending on customer retention and certain performance criteria.

As outlined in note 2.1, the DCs and Consulting acquisitions have been treated as a single transaction. The resulting change due to this treatment as a single transaction is that the goodwill from the acquisitions is considered in aggregate rather than separately.

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

	£000s
Cash	14,320
Prepayment (paid in cash)	3,369
Contingent consideration[3]	2,540
	20,229

[3] The contingent consideration is an additional amount based on an agreed sliding scale threshold of customers committing to long term contracts with the business post-acquisition, determined by the recurring monthly revenue value by customer and by each of the three data centres. This amount is the Board's best estimate as at the acquisition date of the amount due as contingent consideration, discounted to present value.

The Group incurred acquisition related costs of £0.3m on legal fees, due diligence costs and direct integration costs. These costs have been included in exceptional costs.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

7 Acquisition of subsidiary (continued)

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

	Fair value £000s
Tangible fixed assets	9,630
Customer relationships	8,800
Right of use assets	2,624
Prepayments	745
Deferred tax	(4,362)
Accruals	(185)
Other creditors	(293)
Total identifiable net assets acquired	**16,959**
Goodwill	**3,270**
Total consideration	**20,229**

The goodwill arising on acquisition represents the future income from new customers, the potential to cross-sell existing Group products to the existing Sungard customer base, which increases the Group's competence in key growth areas of the Security Services sector.

The fair value of the acquired customer relationships is £8.8m. To estimate fair value of the customer relationships intangible asset, a multi-period excess earnings "MEEM" approach has been adopted, and this approach considers the present value of cash flows expected to be generated by the customer relationships, excluding any cash flows related to contributory assets.

The DCs earned revenue of £36.3m and profits, before allocation of group overheads, share based payments and tax, of £2.5m in the period since acquisition.

he consulting business earned revenue of £0.6m and profits, before allocation of group overheads, share based payments and tax, of £0.2m in the period since acquisition.

The net cash flow for the acquisitions were as follows:

	£000s
Cash paid for 4D	10,123
Cash paid for Sungard, including prepayment	17,689
Less: cash acquired	(1,053)
Less: Piksel deferred consideration	(153)
	26,606

The Piksel deferred consideration was paid in April 2023 and related to the acquisition in FY22.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

7 Acquisition of subsidiary (continued)

Unaudited pro-forma full year information

The following unaudited pro-forma summary presents the Group as if the business acquired during FY23 had been part of the Group since 1 April 2022. This includes the results of the acquired business, depreciation of the acquired assets and an amount of £8.2m relating to the amortisation of the acquired intangible assets recognised on acquisition. This information is presented purely for illustrative purposes and does not necessarily reflect the actual underlying results that would have occurred.

	Pro-forma year ended 31 March 2023 £000s
Revenue	156,574
Loss before tax	(9,954)

Prior year acquisitions

The following subsidiaries were acquired in the prior period.

Piksel Industry Solutions Limited

On 30 September 2021, the Group acquired 100% of the issued share capital of Piksel Industry Solutions Limited "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 following table summarises the acquisition date fair value of each major class of consideration transferred:

	£000s
Cash[6]	9,459
Novation of Intercompany loans[7]	3,069
Deferred consideration[8]	183
	12,711

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

[7] An intercompany receivable balance between Piksel and the seller was novated to the acquiring group company (Redcentric Solutions Limited) as part of the acquisition.

[8] 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 £0.9m on legal fees, due diligence costs and direct integration costs relating to systems migration etc. These costs were included in exceptional costs in FY22.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

7 Acquisition of subsidiary (continued)

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

	Fair value £000s
Tangible fixed assets	38
Customer relationships	1,868
Other intangible assets	202
Trade and other receivables	2,418
Cash and cash equivalents	965
Intercompany loans	3,069
Corporation tax receivable	557
Deferred tax	936
Trade and other payables	(2,940)
Deferred income	(1,817)
Payroll and social security creditors	(345)
VAT liability	(344)
Onerous contract provisions	(577)
Total identifiable net assets acquired	**4,030**
Goodwill	**8,681**
Total consideration	**12,711**

The goodwill arising on acquisition represented 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 was £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.

On 28 February 2022 the trade, assets and liabilities of Piksel were hived out to the Group's trading subsidiary Redcentric Solutions Limited. 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

On 14 March 2022 the Group acquired 100% of the issued share capital on 7 Elements Limited "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 following table summarises the acquisition date fair value of each major class of consideration transferred:

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

7 Acquisition of subsidiary (continued)

	£000s
Cash[9]	2,409
Contingent consideration[10]	422
	2,831

[9] Of the cash consideration of £2.4m above, £0.13m was paid during FY23.

[10] The final contingent consideration amount was £0.45m paid on 3 April 2023.

The Group incurred acquisition-related costs of £0.1m on legal fees and due diligence costs. These costs were included in exceptional costs in FY22.

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

	Fair value £000s
Other intangible assets	3
Customer relationships	878
Trade and other receivables	168
Cash & cash equivalents	465
Trade and other payables	(11)
Payroll and social security creditors	(1)
Deferred Tax	(220)
VAT liability	(50)
Corporation tax liability	(52)
Deferred income	(1,817)
Payroll and social security creditors	(345)
VAT liability	(344)
Onerous contract provisions	(577)
Total identifiable net assets acquired	**1,180**
Goodwill	**1,651**
Total consideration	**2,831**

The goodwill arising on acquisition represented 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 £0.9m. 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.

7 Elements earned revenue of £0.1m and delivered profits, before allocation of group overheads, share-based payments and tax of £0.1m in the period since acquisition to 31 March 2022.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

8 Earnings per share (EPS)

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Earnings		
Statutory (loss)/earnings	**(9,250)**	6,940
Tax credit	**(3,219)**	(1,404)
Amortisation of acquired intangibles	**8,183**	6,498
Share-based payments	**1,256**	1,181
Exceptional items	**8,149**	1,629
Adjusted earnings before tax	**5,119**	14,844
Notional tax charge	**(973)**	(2,820)
Adjusted earnings	**4,146**	12,024
Weighted average number of ordinary shares	**Number '000**	Number '000
In issue	**156,992**	156,992
Held in treasury	**(1,391)**	(420)
For basic EPS calculations	**155,601**	156,572
Effect of potentially dilutive share options	**3,678**	2,803
For diluted EPS calculations	**159,279**	159,375
EPS	**Pence**	Pence
Basic	**(5.94p)**	4.43p
Adjusted	**2.66p**	7.68p
Basic diluted	**(5.94p)**	4.36p
Adjusted diluted	**2.60p**	7.54p

In line with the Group's policy, the notional tax charge above is calculated at a standard rate of 19% (FY22: 19%).

9 Subsequent events

Subsequent to the year end, the consideration for the Sungard acquisition was finalised. The amount of contingent consideration at the yearend was based on the expectations at the time of the conversion of short-term customer contracts into contracts with a term of 12 months or more from the date of the acquisition, which was determined to be £2.75m (discounted at yearend to £2.54m). The final position has now been crystallised on the anniversary date of the acquisition in line with the purchase agreement, resulting in a payment of £0.4m made in July 2023. As a result, an exceptional credit of £2.14m will be recognised in the statement of comprehensive income in FY24 as a fair value adjustment to contingent consideration.

Appendix 1 – Alternative Performance Measures

Alternative Performance Measures

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.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

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 2023 £000	Year ended 31 March 2022 £000
Reported revenue	**141,674**	93,328
Non-recurring revenue	**(13,213)**	(10,363)
Recurring revenue	**128,461**	82,965

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

Recurring revenue makes up 91% of total revenue in FY23, an increase of 1.8ppts 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 of this expenditure occurring. Customer capital expenditure relates to assets utilised by the Group in delivering managed services to our customers.

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
- Property plant and equipment additions – excluding additions on acquisition	**5,505**	2,264
- Intangible additions – excluding additions on acquisition	**869**	502
- Right of use asset additions–excluding land and buildings and sale and leasebacks	**391**	460
Reported capital expenditure incurred	**6,765**	3,226
Customer capital expenditure incurred	**(3,234)**	(1,076)
Maintenance capital expenditure incurred	**3,531**	2,150

Reported capital expenditure of £6.8m has increased by £3.5m (FY22: £3.2m) driven by additions to PPE for efficiency measures in the data centres. Customer capital expenditure has increased to £3.2m (FY22: £1.1m) to support revenue growth. We will continue to monitor the Group's capital requirements and invest in the business when appropriate.

EBITDA and Adjusted EBITDA

Adjusted EBITDA is EBITDA excluding exceptional items, 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.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

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 2023 £000	Year ended 31 March 2022 £000
Reported operating (loss)/profit	**(8,939)**	6,607
Amortisation of intangible assets arising on business combinations	**8,183**	6,498
Amortisation of other intangible assets	**590**	475
Depreciation on tangible assets	**4,636**	2,745
Depreciation on ROU assets	**10,617**	4,578
EBITDA	**15,087**	20,903
Exceptional items:	**8,149**	1,629
Acquisition fees	**695**	
Integration costs	**5,965**	
Costs relating to the settlement of an historical supplier dispute	**809**	
Cloud computing costs	**680**	
Share-based payments and associated National Insurance	**1,256**	1,181
Adjusted EBITDA	**24,492**	23,713

Adjusted EBITDA increased to £24.5m, £0.8m higher than prior year, with adjusted EBITDA margin of 17.3% (down from 25.4%).

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 per share ("EPS").

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Reported operating (loss)/profit	**(8,939)**	6,607
Amortisation of intangible assets arising on business combinations	**8,183**	6,498
Exceptional items	**8,149**	1,629
Share-based payments	**1,256**	1,181
Adjusted operating profit	**8,649**	15,915

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. Share based payments are removed for adjusted operating profit as they are not reflective of trading.

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

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 2023 £000	Year ended 31 March 2022 £000
Reported operating expenditure	**109,938**	53,046
Depreciation ROU assets	**(10,617)**	(4,578)
Depreciation of tangible assets	**(4,636)**	(2,745)
Amortisation of intangibles arising on business combinations	**(8,183)**	(6,498)
Amortisation of other intangible assets	**(590)**	(475)
Exceptional items	**(8,149)**	(1,629)
Other operating income	**(88)**	(103)
Share-based payments	**(1,256)**	(1,181)
Adjusted operating expenditure	**76,419**	35,837

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 therefore will not repeat in future years.

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Reported cash generated from operations	**14,824**	17,168
Cash costs of exceptional items	**8,258**	2,091
Adjusted cash generated from operations	**23,082**	19,259

Notes to the consolidated financial statements

for the year ended 31 March 2023 (continued)

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 2023 £000	Year ended 31 March 2022 £000
Reported net debt	**(72,965)**	(16,645)
Term loans	**495**	1,004
Lease liabilities that would have been classified as operating leases under IAS 17	**36,891**	14,096

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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