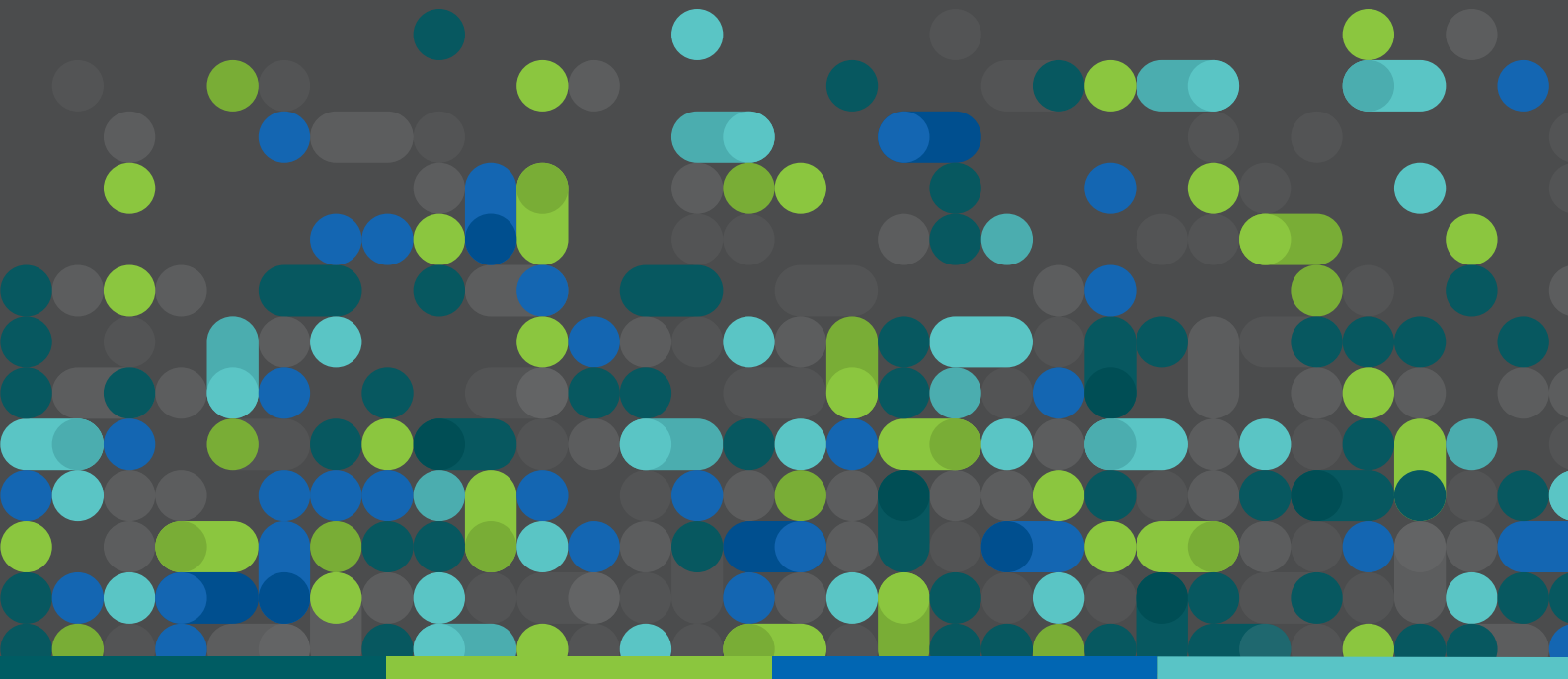

redcentric

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PRELIMINARY RESULTS
ANNOUNCEMENT

2024

Year ended 31 March 2024 | Redcentric plc
Company Number 08397584



Preliminary results announcement for the year ended 31 March 2024

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 2024 ("FY24").

Financial performance measures

	Year ended 31 March 2024 ("FY24")	Year ended 31 March 2023 ("FY23")	Change
Total revenue	£163.2m	£141.7m	15.2%
Recurring revenue ¹	£149.1m	£128.5m	16.1%
Recurring revenue percentage ¹	91.4%	90.7%	0.7%
Adjusted EBITDA ¹	£28.3m	£24.5m	15.6%
Adjusted operating profit ¹	£9.7m	£8.6m	11.8%
Reported operating profit/(loss)	£0.9m	(£8.9m)	109.5%
Reported loss before tax	(£4.7m)	(£12.5m)	62.7%
Adjusted cash generated from operations ¹	£27.4m	£23.1m	18.7%
Reported cash generated from operations	£23.2m	£14.8m	56.2%
Net debt ¹	(£72.4m)	(£73.0m)	0.9%
Adjusted net debt ¹	(£42.0m)	(£35.6m)	(18.0%)
Adjusted basic earnings per share ¹	1.99p	2.66p	(25.1%)
Reported basic loss per share	(2.20p)	(5.94p)	63.1%

Percentage changes calculated on absolute values.

¹This announcement contains certain financial measures that are not defined or recognised under IFRS but are presented to provide readers with additional financial information that is evaluated by management and investors in assessing the performance of the Group.

This additional information presented is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures from other companies. These measures are unaudited and should not be viewed in isolation or as an alternative to those measures that are derived in accordance with IFRS.

For an explanation of the alternative performance measures used in this announcement and reconciliations to their most directly related GAAP measure, please refer to Appendix 1.

Key operational highlights:

- Acquisition integration programmes materially completed, with the Harrogate data centre exit completed in line with plan.
- The business is generating strong organic growth driven by structural events and effective cross selling.
- Q1 trading is in line with the board's expectations.
- With these results Peter Brotherton has announced that he will retire and step down from his position as CEO as soon as a suitable successor is appointed.

Key financial highlights:

- Total revenue growth of 15.2% to £163.2m (FY23: £141.7m).
- Recurring revenue grew by 16.1% to £149.1m, with recurring revenue representing 91.4% of the total revenue (FY23: £128.5m/90.7%).
- Gross profit has increased by 17.0% to £118.0m.
- Adjusted EBITDA of £28.3m is 15.6% ahead of FY23.
- Adjusted operating profit increased by £1.1m to £9.7m (11.8% increase).
- Adjusted net debt as at 31 March 2024 was £42.0m, excluding £30.3m of IFRS16 lease liabilities that were previously classified as operating leases under IAS17.
- Reported operating profit increased by £9.8m to £0.9m.
- Reported loss before tax has reduced by £7.8m to £4.7m (FY23: £12.5m).

Peter Brotherton CEO commented:

"FY24 was a very productive year with all the original integration programmes completed, generating cost savings either in line or slightly ahead of our expectations.

The electricity conservation measures are now yielding very significant volume savings, which combined with secured over electricity prices from 1 April 2024, are expected to reduce electricity costs by £8.1m in FY25.

The focus for FY25 will be to drive organic revenue, profit and cash flow growth by cross selling the broadened product and solution portfolio into the enlarged customer base, whilst also capitalising on the structural opportunities presented by AI related demand and the recently awarded VMware Pinnacle partnership agreement.

The business is now in a very different place to when I joined in November 2016. All of the historical issues have been overcome and the acquisitions undertaken in FY22 and FY23 have significantly increased the scale and capability of the business. Revenues and profits for FY25 are on course to be double what they were pre the acquisitions and solid foundations are now in place for sustainable and profitable growth. I would like to thank my colleagues on the Operating Board and all Redcentric's employees for their dedication, help and support during my tenure."

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Peter Brotherton, Chief Executive Officer

David Senior, Chief Financial Officer

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Marc Milmo (Corporate Finance)

Andrew Burdis / Sunila de Silva (ECM)

Chairman's Statement

Overview and financial results

With all the original integration programmes materially completed in FY24, the business has a solid foundation on which to flourish. Following the acquisitions made in FY22 and FY23 we are now seeing strong organic growth across all our core service towers of Cloud, Connectivity and Communication.

The agile culture within the business has enabled us to move swiftly and take advantage of the Broadcom acquisition of VMware, gaining several new customers along with considerable market share gains. It is also pleasing to note that several cross-sell opportunities are already being discussed providing further penetration into our broad range of products and services.

I am delighted to see that the data centre assets acquired with Sungard are starting to be recognised by a new larger customer base as a secure home for their mission critical infrastructure. Our West Yorkshire facility (previously referred to as Elland) and London West facility (previously referred to as London Technology Centre) offer the space, power and security that is in short supply, particularly in London. We are very optimistic about the future of these data centres particularly given demand is being driven by Artificial Intelligence ("AI") processing needs that require high-density, power-hungry equipment, both of which our primary data centres can cater for.

Electricity costs have featured regularly in the company updates since the acquisitions completed in FY23. The management team have worked tirelessly to implement efficiency measures that help to reduce our electricity consumption, with the dual purpose of reducing cost and carbon emissions. These measures have delivered impressive volume savings of c.40% in the London West and Woking data centres. This combined with reduced electricity prices locked in from 1 April 2024 means that electricity costs are expected to reduce by c.£8m in FY25.

The focus for FY25 will be to continue to drive organic growth whilst leveraging the fixed cost base, driving further productivity and efficiency gains. Whilst organic growth is the priority, the company continually assesses M&A opportunities in the market, and with £40m of its £80m committed bank facility drawn at the date of this announcement the company has significant firepower should an exceptional opportunity present itself.

Final dividend

During the year, the board of Directors of the Company (the "Board") declared an interim dividend of 1.2 pence per share (FY23: 1.2 pence per share), with £1.9m paid on 18 April 2024 (FY23: £1.9m).

A final dividend of 2.4p per share is recommended by the Board and will result in a total dividend for FY24 of 3.6p per share (financial year ended 31 March 2023 "FY23": 3.6p per share). Subject to approval by shareholders at the Company's annual general meeting ("AGM"), this is expected to be paid on 24 January 2025 to shareholders on the register at the close of business on 13 December 2024 with shares going ex-dividend on 12 December 2024. The last day for Dividend Reinvestment Plan elections is 2 January 2025.

Board changes and people

On 24 July 2023, Helena Feltham, Non-Executive Director, stepped down from the Board. 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.

On 1 December 2023, Oliver Scott was appointed as a Non-Executive Director (non-independent). Oliver is a partner of Kestrel Partners LLP ("Kestrel"), the independent investment manager, which Oliver co-founded in 2009. Kestrel is Redcentric's largest shareholder. Oliver brings with him considerable market knowledge alongside a breadth and depth of skills and experience.

On 13 February 2024, Michelle Senecal De Fonseca was appointed as a Non-Executive Director and Chair of the Remuneration Committee. Michelle is an experienced executive and Non-Executive Director in the technology industry.

On 15 August 2024, Peter Brotherton, Chief Executive Officer, notified the Board of his intention to retire and step down from the Board. Peter will remain in post until a suitable replacement is recruited. Peter joined the group in November 2016 as Chief Financial Officer before taking on the role of Chief Executive Officer in November 2018. Peter initially navigated the business through a challenging period and more latterly has played a key part in Redcentric's growth strategy. On behalf of the Board and all at Redcentric I would like to thank Peter for his very significant contribution over the last eight years and wish him all the very best in his retirement.

Chairman's Statement (continued)

Outlook

The business has entered FY25 with a significantly enhanced scale, strong organic revenue growth, significantly reduced electricity costs and some very exciting sales prospects. Management are now focussed on delivering profitable growth to drive improved margins and cash generation, whilst ensuring service levels are maintained to limit customer cancellation and price erosion risks.

The factors above all lead to the Board remaining optimistic for the future of the business.

Nick Bate

Chairman
15 August 2024

Chief Executive's Review

Strategic execution

FY24 has been marked by significant progress and growth as we continued to focus on the three operational themes outlined in the interim results: organic revenue growth, integration of the acquired businesses and electricity conservation measures.

The financial results reflect the benefits of the first full year of trading contribution from the 4D Data Centres and two Sungard trade and asset acquisitions made in FY23. They also reflect the slightly delayed implementation of the new cooling infrastructure at the London West data centre and the closure costs of the Harrogate data centre.

Organic Growth

The sales team continue to exploit the opportunities arising from the acquisitions made over the previous two financial years, with the enlarged customer base presenting new cross-sell opportunities and the new product offerings providing a wider range of services to the existing customer base.

On a consistent basis recurring revenues, excluding revenue from Sungard short term contract cancellations and Harrogate customer cancellations, which we deem unrelated to normal trading and are discussed further below, grew by 9.0% over the prior ten-month period (Aug-22 to May-23 vs Jun-23 to Mar-24 with Aug-22 being the first comparable month following the acquisitions) with net new business gains seen across all service towers.

Revenues from cancelled Sungard short term contracts amounted to £1.0m in the 12 months ended 31 March 2024 (12 months to 31 March 2023: £6.2m). Whilst it is disappointing that we did not retain these customers following our acquisition, cancelled short term customer contracts were excluded from the calculation of the final consideration payable, and any remaining Sungard short term contracts have now been converted into longer term contracts.

The closure and decommissioning of the Harrogate data centre was completed at the end of March 2024 in line with our project plan and expectations. Whilst most of the customers were successfully migrated to our West Yorkshire data centre, four of the larger customers unexpectedly decided to cancel their contracts. The annualised revenue and EBITDA from these customers totalled £2.6m and £1.3m respectively. Final annual savings from the closure of the Harrogate data centre were £1.4m, in line with previous expectations and comprise lease cash cost savings of £1.0m and operating costs savings of £0.4m, with these savings

effective from FY25. Although most of the cost savings have been offset by cancelled customer contracts, the closure of the data centre will reduce future maintenance capital expenditure and technical debt.

VMware / Market trends

As the marketplace continually evolves Redcentric is eager to be at the forefront of any significant changes. The recent acquisition of VMware by Broadcom continues to present a substantial opportunity. Redcentric was selected as one of seven UK Pinnacle partners of VMware, following which we actively mobilised to acquire a wide base of new end user clients and historical VM partners. These activities have proven very successful with a gain of 30 new customers (of which 29 are service providers) from Q1 FY25. This represents a material market share gain and importantly represents significant future cross-sell opportunities.

The successful onboarding of the service providers has provided a well-formed new route to market for our wide-ranging portfolio. Proactive engagement with these new partners is in its initial stages but is already showing positive outcomes with an initial 10 active opportunities under discussion across our portfolio including MS licencing, Storage as a Service, Infrastructure as a Service (IaaS), Co-Location and Contact Centre solutions.

The continued emergence of AI is generating considerable demand for high density data centre space and available electricity. Our London West and West Yorkshire facilities have the required infrastructure, space, and available electricity to make us ideally positioned to meet these requirements.

Our London West data centre is an Enterprise grade facility that is built to a capacity of 18MW and has 14MW reserved on the national grid. Given the scarcity of available power in London in "Tier 3" equivalent data centres, London West has become an attractive alternative to the larger scale data centre providers, and we have recently seen a significant increase in interest from Enterprise customers requiring high density infrastructure.

Our West Yorkshire data centre is situated between Leeds and Manchester and is ideally placed to serve the "Northern Powerhouse", with 11MW of power available. There is ample power capacity and physical space to provide high density infrastructure.

Chief Executive's Review (continued)

Our organic growth strategy can be summarised into five key focus areas:

1. Cross-sell multiple products into the recently acquired customer bases:
 - The majority of the recently acquired customers take one product only.
2. Cross-sell of new products into the historic Redcentric customer base:
 - Hyper-cloud, cyber security and business recovery products have all been added by the recent acquisitions.
3. Cross-sell into the new VMware customer wins:
 - A significant cross-sell opportunity has been created by the new customer wins.
4. Attracting new logos:
 - Maximise the exposure opportunities generated by the new VMware strategic partnership; and
 - Leverage the increased scale and improved perception to attract new customers.
5. Leveraging the newly acquired Sungard DCs to attract largescale AI and Enterprise customer deployments:
 - Our London West and West Yorkshire facilities are ideally placed to meet demand for AI.

Integration of the acquired businesses

The integration work undertaken in FY24 has concentrated on three main areas: closure of the Harrogate data centre, supplier rationalisation and consolidation of cloud platforms.

Closure of the Harrogate data centre

The closure of the Harrogate data centre was completed at the end of March 2024, with the fully decommissioned building being handed back to the landlord on the lease end date of 24 March 2024.

Supplier rationalisation

During the year, the supplier base was rationalised with two large Managed Services contracts insourced and more favourable terms on a third contract achieved by moving supplier. This has resulted in combined net annual savings of £1.1m, being supplier savings of £1.7m offset by additional staff costs of £0.6m.

Consolidation of cloud platforms

As a result of the acquisitions, we have acquired numerous cloud and backup platforms which replicate existing Redcentric platforms. During the year a number of these platforms were either consolidated or decommissioned resulting in annualised savings of c.£0.5m. Now that resource has been freed up from the Harrogate relocation project, which has seen significant resource and cost drain in FY24, we expect to launch further and more extensive consolidation programmes which will result in further annualised savings of at least £0.6m.

As mentioned above, the acquisition of VMware by Broadcom has created significant sales opportunities, however, a material increase in the cost of licenses has also presented a short-term cost challenge to the business.

The increase in the VMware cost base came at a time for Redcentric when a programme of platform rationalisation was in full swing. With this programme progressing well our VMware license requirements have been dramatically reduced. This, combined with a large portion of the increased costs being passed on to customers, has positioned Redcentric well to effectively manage the impact of Broadcom licensing changes.

Electricity sourcing & consumption

London West data centre

An investment of £2.2m has been made for new cooling infrastructure, significantly upgrading the plant at the recently acquired site.

Whilst all the planned electricity conservation measures were completed by the year end, the installation of the cooling infrastructure at the London West site was delayed by four-and-a-half-months due to the requirement of the cooling system water to be decontaminated prior to the installation of the new plant. The plant was eventually installed in November 2023 and was fully commissioned by the end of January 2024.

The new system is performing well with non-productive power savings of c.40% to date, slightly higher than our original expectations.

Chief Executive's Review (continued)

Based on the current volume savings and the forward electricity prices secured, we expect to achieve annualised volume savings of c.£1.5m, resulting in an impressive payback of eighteen months and considerable savings over the course of the assets expected fifteen-year life.

Woking data centre

This is a third-party data centre where we rent a large data hall rather than actively managing the site ourselves. Our partners at this site have also recently completed a major chiller replacement programme with their new plant being live from 1 September 2023.

This is currently yielding non-productive power savings of c.40%, in line with our expectations. Based on the current savings being realised and the anticipated electricity prices, we expect to achieve annualised savings of c.£1.1m from this site.

The electricity conservation measures are expected to generate year on year volume savings of £2.8m. This, combined with significantly reduced electricity commodity prices from 1 April 2024, is expected to reduce electricity charges by £8.1m and will result in FY25 fully reflecting the benefit of the acquisitions made during FY22 and FY23.

Our electricity contracts have recently been renegotiated which now expire at the end of September 2028. This enables us to forward buy power to September 2028 reducing our exposure to commodity price volatility and providing our customers with a more certain cost base.

Financial results

We are pleased to announce the following results for FY24:

- Revenues of £163.2m (FY23: £141.7m);
- Adjusted EBITDA* of £28.3m (FY23: £24.5m);
- Adjusted operating profit^ of £9.7m (FY23: £8.6m);
- Reported operating profit of £0.9m (FY23: loss of £8.9m);
- Reported loss before tax of £4.7m (FY23: £12.5m);
- Net debt as at 31 March 2024 of £72.4m (31 March 2023: net debt of £73.0m); and
- Adjusted net debt as at 31 March 2024 of £42.0m (31 March 2023: adjusted net debt of £35.6m);

*Adjusted EBITDA is EBITDA excluding exceptional items, share-based payments and associated National Insurance. Exceptional items are outlined in Note 2.

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

The net debt position is after dividend payments of £1.4m, the payments of contingent consideration of £0.9m for the acquisitions of Sungard DC's (£0.4m) and 7 Elements (£0.5m), exceptional items largely relating to integration and restructuring costs of £4.0m, working capital inflow of £0.1m and capital expenditure of £10.7m.

Outlook

FY24 was a very productive year with all the original integration programmes materially completed, generating cost savings either in line or slightly ahead of our expectations, albeit with the energy conservation measures implemented later than anticipated. The business is seeing strong organic revenue growth and is seizing the potential opportunities provided by both the Broadcom acquisition of VMware and the emergence of high-density AI demand.

The Enterprise grade data centre facilities that were part of the Sungard DC acquisition are proving to be a key differentiator and are attracting significant interest from Enterprise clients.

The electricity conservation measures, combined with a significant proportion of secured lower electricity prices from 1 April 2024, means that electricity costs (elevated over the past two financial years as a result of geopolitical events) are expected to reduce by £8.1m in FY25.

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

The focus for FY25 will be to continue driving organic recurring revenue and EBITDA growth of at least 5% and 7.5% respectively, whilst leveraging operational gearing to deliver improved margins and cashflow performance.

Peter Brotherton

Chief Executive Officer
15 August 2024

Financial Review

	Year ended 31 March 2024 ("FY24")	Year ended 31 March 2023 ("FY23")	Change
Total revenue	£163.2m	£141.7m	15.2%
Recurring revenue ¹	£149.1m	£128.5m	16.1%
Recurring revenue percentage ¹	91.4%	90.7%	0.7%
Adjusted EBITDA ¹	£28.3m	£24.5m	15.6%
Adjusted operating profit ¹	£9.7m	£8.6m	11.8%
Reported operating profit/(loss)	£0.9m	(£8.9m)	109.5%
Reported loss before tax	(£4.7m)	(£12.5m)	62.7%
Adjusted cash generated from operations ¹	£27.4m	£23.1m	18.7%
Reported cash generated from operations	£23.2m	£14.8m	56.2%
Net debt ¹	(£72.4m)	(£73.0m)	0.9%
Adjusted net debt ¹	(£42.0m)	(£35.6m)	(18.0%)
Adjusted basic earnings per share ¹	1.99p	2.66p	(25.1%)
Reported basic loss per share	(2.20p)	(5.94p)	63.1%

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 FY24 represent the first full year of trading of the 4D Data Centres and the two Sungard acquisitions, with FY23 containing approximately 9 months trading from both acquisitions. The impact of this, coupled with organic growth, resulted in improvements in total revenue, recurring revenue, adjusted EBITDA and adjusted operating profit. Reported operating profit has been significantly impacted by the costs of exiting the Harrogate data centre and migrating customers to other sites, primarily our West Yorkshire data centre. Despite this, reported operating profit has improved by £10.0m reflecting significant exceptional costs in the prior year related to the acquisition and integration activity, coupled with the release of £2.1m of contingent consideration in FY24 in relation to the Sungard acquisition following final settlement with the administrators.

Whilst still recording a reported loss after tax for the year of £3.5m in FY24, this has significantly reduced on FY23 by £5.8m representing the improved trading performance of the Group at adjusted EBITDA coupled with the materially reduced exceptional costs following the increased acquisition-related spending in FY23. Net debt has remained broadly stable at £72.4m (FY23: £73.0m), with adjusted net debt at £42.0m (FY23: £35.6m), reflecting the capex investment in FY24 to deliver future energy efficiency gains, coupled with the exceptional costs associated with exiting the Harrogate data centre.

Key considerations in the Financial information, but relating principally to the prior year, 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 had 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. 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

Financial Review (continued)

working capital purposes and to fund acquisitions.

On 26 March 2024 these debt facilities were extended at the Group's request, with a new maturity date of 26 April 2026. As part of this extension of the RCF and Asset Financing Facility term, there were no material changes to the financial debt covenants or to other terms and conditions of the agreements.

- 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.
- 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 into Redcentric Solutions Limited.
- The acquisition on 6 July 2022 by Redcentric Solutions Limited of 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. During FY24 the contingent consideration was finalised and £0.4m was paid.

The key financial highlights are as follows:

- Total revenue growth of 15.2% to £163.2m (FY23: £141.7m).
- Recurring revenue grew by 16.1% to £149.1m, with recurring revenue representing 91.4% of the total revenue (FY23: £128.5m/90.7%).
- Gross profit has increased by 17.0% to £118.0m.
- Adjusted EBITDA of £28.3m is 15.6% ahead of FY23.
- Adjusted operating profit increased by £1.1m to £9.7m (11.8% increase).
- Adjusted net debt as at 31 March 2024 was £42.0m, excluding £30.3m of IFRS16 lease liabilities that were previously classified as operating leases under IAS17.
- Reported operating profit increased by £9.8m to £0.9m.
- Reported loss before tax has reduced by £7.8m to £4.7m (FY23: £12.5m).

Financial Review (continued)

Revenue

Revenue for the year ended 31 March 2024 was generated wholly from the UK and is analysed as follows:

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000	Change £000	Change %
Recurring revenue	149,091	128,461	20,630	16.1
Product revenue	5,507	7,144	(1,637)	(22.9)
Services revenue	8,552	6,069	2,483	40.9
Total revenue	163,150	141,674	21,476	15.2

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

Total revenue increased by £21.5m compared to FY23, impacted by the first full year of revenue generated from FY23 acquisitions of 4D Data Centres and Sungard (FY23 had approximately 9 months of trading of both acquisitions).

Revenue is analysed into the following categories:

- Recurring revenue has increased 16.1% to £149.1m (FY23: £128.5m) reflecting a full year of revenue generated from FY23 acquisitions of Sungard and 4D Data Centres (FY23 had approximately 9 months of trading of both acquisitions), coupled with organic revenue growth.
- Non-recurring product revenue has decreased £1.6m to £5.5m (FY23: £7.1m), with sales activity focused on higher margin services revenue (see below).
- Non-recurring services revenue increased to £8.6m (FY23: £6.1m), reflecting a shift in focus from lower margin product revenue.

Gross profit

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000	Change £000	Change %
Gross Profit	118,035	100,911	17,124	17.0
Gross Margin	72.3%	71.2%	N/A	N/A

Gross profit increased by 17.0% (£17.1m) reflecting the Group's increased revenue and contribution from the full year of trading from 4D Data Centres and Sungard Consulting acquisitions. Gross Margin % has increased partly due to higher gross margin recurring revenue from colocation contracts within the 4D Data Centres and Sungard acquisitions, coupled with the impact of a shift in non-recurring revenues away from product sales to higher margin services revenue.

Financial Review (continued)

Adjusted operating costs¹

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 2024 £000	Year ended 31 March 2023 £000	Change £000	Change %
UK employee costs	39,202	34,482	4,720	13.7
Office and data centre costs	30,702	25,335	5,367	21.2
Network and equipment costs	14,319	11,824	2,495	21.1
Other sales, general and administration costs	4,273	3,364	909	27.0
Offshore costs	1,223	1,414	(191)	(13.5)
Total adjusted operating costs	89,719	76,419	13,300	17.4

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

Total adjusted operating costs for FY24 were 17.4% (£13.3m) higher than prior year, reflecting:

- Employee costs increased £4.7m (13.7%) primarily due to a first full year of headcount acquired through the 4D Data Centres and Sungard acquisitions;
- Office and data centre costs increased by £5.4m (21.2%), 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 the 4D Data Centres and Sungard acquisitions; and
- Network and equipment costs increased by £2.5m (21.1%), and other sales, general and administration costs are up £0.9m (27.0%), both primarily due to the first full year of trading from the 4D Data Centres and Sungard acquisitions.

Employees

	Year ended 31 March 2024 (Number)	Year ended 31 March 2023 (Number)	Variance (Number)
Year-end headcount			
UK	562	540	22
India	97	98	(1)
Total employees	659	638	21
Average headcount			
UK	561	491	70
India	98	97	1
Total employees	659	588	71

Financial Review (continued)

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

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Reported operating profit/(loss)	852	(8,939)
Amortisation of intangible assets arising on business combinations	5,229	8,183
Amortisation of other intangible assets	781	590
Depreciation of property, plant and equipment	6,089	4,636
Depreciation of right-of-use assets	11,777	10,617
EBITDA	24,728	15,087
Exceptional income	(2,100)	-
Exceptional costs (comprised of):	4,550	8,149
Acquisition fees	350	695
Integration costs	3,467	5,965
Restructuring costs	733	-
Costs relating to the settlement of an historical supplier dispute	-	809
Cloud computing costs	-	680
Share-based payments and associated National Insurance	1,138	1,256
Adjusted EBITDA	28,316	24,492

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

Adjusted EBITDA increased by 15.6% to £28.3m, £3.8m higher than the prior year. FY24 includes a full year of contribution from the Sungard and 4D Data Centres acquisitions (FY23: approximately 9 months of contribution).

Taxation, interest and dividends

The tax charge for the year was a credit of £1.2m (FY23: a credit of £3.2m), comprising an income tax charge of £0.2m (FY23: a charge of £0.1m), and a deferred tax credit of £1.4m (FY23: a credit of £3.3m).

Net finance costs for the year were £5.5m (FY23: £3.5m), including £1.3m (FY23: £1.2m) of interest payable on leases of which £1.3m (FY23: £1.2m) related to leases previously recognised as operating leases under IAS17.

The Group paid a final dividend in respect of the year to 31 March 2023 of 2.4p per ordinary share, with a total payment value of £3.8m. This was made up of £1.4m cash with the remainder in dividend shares.

During the year, the Group paid an interim dividend for FY24 of 1.2p per share, totalling £1.9m (FY23: 1.2p per share).

A final dividend payment of 2.4p per share will be paid on 24 January 2025, subject to approval at the Company's AGM, to shareholders on the register at the close of business on 13 December 2024 with shares going ex-dividend on 12 December 2024. The last day for Dividend Reinvestment Plan elections is 2 January 2025.

Financial Review (continued)

Net debt

During the year, net debt decreased from £73.0m to £72.4m as at 31 March 2024, with the movements shown in the tables below:

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Operating profit/(loss)	852	(8,939)
Depreciation and amortisation	23,876	24,026
Exceptional costs	4,550	8,149
Exceptional income	(2,100)	-
Share based payments	1,138	1,256
Adjusted EBITDA ¹	28,316	24,492
Profit on disposal of fixed assets	(53)	-
Working capital movements	114	(1,410)
Movement on provisions	(978)	-
Adjusted cash generated from operations	27,399	23,082
Cash conversion	96.8%	94.2%
Capital expenditure - cash purchases	(9,259)	(6,374)
Capital expenditure - finance lease purchases	(1,485)	-
Asset financing proceeds	2,419	966
Net capital expenditure	(8,325)	(5,408)
Corporation tax paid	(174)	(670)
Interest paid	(3,615)	(1,795)
Loan arrangement fees/fee amortisation	(209)	(291)
Finance lease interest	(1,328)	(1,248)
Effect of exchange rates	(109)	(101)
Other movements in net debt	(5,435)	(4,105)
Normalised net debt movement¹	13,639	13,569
Cash cost of exceptional items	(4,240)	(8,258)
Acquisition of subsidiaries (net of cash acquired)	(890)	(26,606)
IFRS 16 lease additions	(4,237)	(28,314)
IFRS 16 lease additions on acquisition	-	(1,976)
Drawdown on Asset Financing Facility	(2,419)	-
Remeasurement relating to lease modification	-	629
Dividends paid in cash	(1,369)	(5,593)
Disposal of treasury shares on exercise of share options	116	229
	(13,039)	(69,889)
Decrease/(increase) in net debt	600	(56,320)
Net debt at the beginning of the period	(72,965)	(16,645)
Net debt at the end of the period	(72,365)	(72,965)

¹For an explanation of the alternative performance measures used in this report, please refer to Appendix 1. Exceptional items are outlined in Note 2.

Financial Review (continued)

Net debt (continued)

	As at 31 March 2022 £000	Net cash flow £000	Net non- cash flow £000	As at 31 March 2023 £000	Net cash flow £000	Net non- cash flow £000	As at 31 March 2024 £000
Cash	1,804	(335)	(103)	1,366	1,873	(109)	3,130
RCF	-	(31,537)	(2,094)	(33,631)	(2,712)	(3,542)	(39,885)
Term Loan	(1,004)	533	(24)	(495)	474	-	(21)
Asset Financing Facility	-	-	-	-	(1,517)	(2,092)	(3,609)
Lease Liabilities	(17,445)	(21,543)	(1,217)	(40,205)	7,728	497	(31,980)
	(16,645)	(52,882)	(3,438)	(72,965)	5,846	(5,246)	(72,365)

Included in lease liabilities at 31 March 2024 are £30.3m (FY23: £36.9m) of IFRS 16 lease liabilities that were previously classified as operating leases under IAS17.

Trade receivables and trade payables

In the year, focus remained on maintaining a strong ageing profile with a low level of aged debt. At the year end, 87% of gross trade debt was current or less than 30 days overdue (FY23: 96%).

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Current	14,008	18,450
1 to 30 days overdue	2,928	2,212
31 to 60 days overdue	1,794	557
61 to 90 days overdue	383	283
91 to 180 days overdue	320	194
> 180 days overdue	(43)	(240)
Gross trade debtors	19,390	21,456
Provisions	(1,200)	(1,251)
Net trade debtors	18,190	20,205

Trade debtor days were 36 at 31 March 2024 compared to 46 at 31 March 2023. Trade debtor days are calculated as gross trade debtors divided by revenue (incl. VAT) multiplied by 365.

Trade payable days were 36 at 31 March 2024 compared to 42 as at 31 March 2023. 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

	31 March 2024			31 March 2023		
	Available £000	Drawn £000	Undrawn £000	Available £000	Drawn £000	Undrawn £000
Committed						
- Revolving credit facility	80,000	40,000	40,000	80,000	34,000	46,000
- Term Loans	21	21	-	496	496	-
- Leases	35,588	35,588	-	40,204	40,204	-
- Asset Financing Facility	7,000	3,625	3,375	7,000	2,309	4,691
	122,609	79,234	43,375	127,700	77,009	50,691
Uncommitted						
- Accordion Facility	20,000	-	20,000	20,000	-	20,000
	20,000	-	20,000	20,000	-	20,000
Total borrowing facilities	142,609	79,234	63,375	147,700	77,009	70,691

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 2024, the Group was party to £87.0m of committed banking facilities, comprising a Revolving Credit Facility of £80.0m (net £40.0m utilised at 31 March 2024) and a £7.0m Asset Financing Facility (£3.6m utilised at 31 March 2024).

As at 31 March 2024, these facilities are due to expire on 25 April 2026.

The borrowing cost of the RCF is determined by the Group's leverage and has a borrowing cost of 235 basis points over SONIA at the Group's current leverage levels. A commitment fee is payable on the undrawn portion of the RCF at 94 basis points, being 40% of the borrowing cost.

David Senior

Chief Financial Officer
15 August 2024

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2024

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Revenue	163,150	141,674
Cost of sales	(45,115)	(40,763)
Gross profit	118,035	100,911
Operating costs	(119,283)	(109,938)
Other operating income	-	88
Gain on settlement of contingent consideration	2,100	-
Adjusted EBITDA¹	28,316	24,492
Depreciation of property, plant and equipment	(6,089)	(4,636)
Amortisation of intangibles	(6,010)	(8,773)
Depreciation of right-of-use assets	(11,777)	(10,617)
Exceptional costs	(4,550)	(8,149)
Exceptional income	2,100	-
Share-based payments	(1,138)	(1,256)
Operating profit/(loss)	852	(8,939)
Finance costs	(5,502)	(3,530)
Loss before taxation	(4,650)	(12,469)
Income tax credit	1,209	3,219
Loss for the period attributable to owners of the parent	(3,441)	(9,250)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	(117)	(97)
Deferred tax movement on share options	-	47
Total comprehensive loss for the period	(3,558)	(9,300)
Earnings per share		
Basic loss per share	(2.20p)	(5.94p)
Diluted loss per share	(2.20p)	(5.94p)

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

The accompanying Notes form an integral part of this financial information.

Consolidated Statement of Financial Position

as at 31 March 2024

	31 March 2024 £000	31 March 2023 £000
Non-Current Assets		
Intangible assets	78,883	83,217
Property, plant and equipment	21,422	17,131
Right-of-use assets	37,478	46,282
Trade and other receivables	3,307	-
Deferred tax asset	2,503	1,076
	143,593	147,706
Current Assets		
Inventories	4,187	3,716
Trade and other receivables	33,543	39,254
Corporation tax receivable	53	48
Cash and cash equivalents	3,130	1,366
	40,913	44,384
Total Assets	184,506	192,090
Current Liabilities		
Trade and other payables	42,154	43,578
Bank loans and asset financing	1,149	475
Lease liabilities	8,903	10,804
Provisions	892	1,841
Contingent consideration	-	2,990
	53,098	59,688
Non-Current Liabilities		
Bank loans and asset financing	42,366	33,651
Lease liabilities	23,077	29,400
Provisions	11,482	11,160
	76,925	74,211
Total Liabilities	130,023	133,899
Net Assets	54,483	58,191
Equity		
Called up share capital	159	157
Share premium account	75,649	73,267
Common control reserve	(9,454)	(9,454)
Own shares held in treasury	(779)	(898)
Retained earnings	(11,092)	(4,881)
Total Equity	54,483	58,191

The accompanying Notes form an integral part of this financial information.

Consolidated Cash Flow Statement

for the year ended 31 March 2024

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Loss before taxation	(4,650)	(12,469)
Finance costs	5,502	3,530
Operating profit/(loss)	852	(8,939)
Adjustment for non-cash items		
Depreciation and amortisation	23,876	24,026
Profit on disposal of property, plant and equipment	(53)	-
Exceptional income	(2,100)	-
Exceptional costs	4,550	8,149
Share-based payments	1,138	1,256
Operating cash flow before exceptional items and movements in working capital	28,263	24,492
Cash costs of exceptional items	(4,240)	(8,258)
Cash costs of provisions	(978)	-
Operating cash flow before changes in working capital	23,045	16,234
Changes in working capital		
Increase in inventories	(471)	(2,324)
Decrease/(increase) in trade and other receivables	2,411	(15,463)
(Decrease)/increase in trade and other payables	(1,826)	16,377
Cash generated from operations	23,159	14,824
Tax paid	(174)	(670)
Net cash generated from operating activities	22,985	14,154
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,265)	(5,505)
Acquisition of subsidiaries (net of cash acquired)	(890)	(26,606)
Purchase of intangible assets	(1,479)	(869)
Net cash used in investing activities	(11,634)	(32,980)
Cash flows from financing activities		
Dividends paid	(1,369)	(5,593)
Disposal of treasury shares on exercise of share options	116	229
Financing of property, plant and equipment	2,419	966
Interest paid on bank loans, term loans and asset financing	(3,569)	(1,771)
Interest paid on leases	(1,328)	(1,218)
Repayment of leases	(10,638)	(6,901)
Repayment of asset financing liabilities	(635)	-
Repayment of term loans	(474)	(508)
Drawdown of bank loans	16,500	55,500
Repayment of bank loans	(10,500)	(21,500)
Payment of loan arrangement fees	-	(713)
Net cash used in financing activities	(9,478)	18,491
Net increase/(decrease) in cash and cash equivalents	1,873	(335)
Cash and cash equivalents at beginning of period	1,366	1,804
Effect of exchange rates	(109)	(103)
Cash and cash equivalents at end of the period	3,130	1,366

The accompanying Notes form an integral part of this financial information.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2024

	Share capital £000	Share premium £000	Common control reserve £000	Own shares held in treasury £000	Retained earnings £000	Total equity £000
At 1 April 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
Dividends paid	-	-	-	-	(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
Loss for the period	-	-	-	-	(3,441)	(3,441)
Transactions with owners						
Share-based payments	-	-	-	-	1,053	1,053
Issue of new shares	2	2,382	-	-	-	2,384
Dividends paid	-	-	-	-	(3,752)	(3,752)
Share option exercises	-	-	-	119	(3)	116
Deferred tax movement on share options	-	-	-	-	78	78
Deferred tax relating to prior periods	-	-	-	-	(29)	(29)
Other comprehensive income						
Currency translation differences	-	-	-	-	(117)	(117)
At 31 March 2024	159	75,649	(9,454)	(779)	(11,092)	54,483

The accompanying Notes form an integral part of this financial information.

Notes to the Financial Information

for the year ended 31 March 2024

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 Group Financial Statements have been prepared and approved by the Directors in accordance UK-adopted international accounting standards ("UK-adopted IFRS").

The principal accounting policies applied in the preparation of those Financial Statements are set out below. These policies have been applied consistently in the current and prior period.

This Financial Information is presented in pound sterling, being the currency of the primary economic environment in which the Group operates. All amounts have been rounded to the nearest thousand (£'000), unless otherwise indicated.

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

Basis of preparation

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2024 or 2023 but is derived from those accounts. Statutory accounts for 2023 have been delivered to the registrar of companies, and those for 2024 will be delivered 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 and Company meets their day to day working capital requirements from the Group's operational cash flows, a Revolving Credit Facility, Asset Financing Facility

and leasing arrangements. The Revolving Credit Facility is an £80.0m facility (net £40.0m utilised at 31 March 2024), while the Asset Financing Facility is a £7.0m facility (increased to £10.0m in August 2024). £3.6m of the Asset Financing Facility was utilised at 31 March 2024. In March 2024 the Revolving Credit Facility and Asset Financing Facility were extended at the Group's request, with a new maturity date of 26 April 2026.

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.

During FY24 the Group has continued to invest heavily in integration and efficiency programmes which are expected to deliver significant benefits to the business from FY25 onward. In addition, a significant proportion of the Group's focus has been on the Harrogate data centre relocation in favour of delivering other projects including the further consolidation of cloud platforms. In anticipation of the effect of these factors on continued covenant compliance, particularly as the covenant tests are on a rolling 12-month basis, in June 2024 the Directors reached agreement with the banking syndicate to apply less stringent debt covenant requirements for the quarters ended June and September 2024, despite not anticipating a breach at these quarters. The purpose of this amendment was to provide additional headroom on covenants in the event of a severe but plausible downside scenario, and to provide additional flexibility around the timing and financing of capital expenditure for new customer projects. There were no other material changes to the terms and conditions of the borrowings because of this amendment. All requirements within the borrowings facility agreement and subsequent amendments have been adhered to in the respective

Notes to the Financial Information

for the year ended 31 March 2024 (continued)

Basis of preparation (continued)

quarters, with the banking syndicate further agreeing not to apply a clause relating to the retrospective inclusion of the January 2024 dividend into the December 2023 covenant calculation. This clause is no longer applicable from April 2024 onwards.

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 2025, and a forecast for the year ending 31 March 2026, and the going concern assessment takes account of the debt covenant requirements.

The forecasts include several assumptions in relation to order intake, renewal and churn rates, EBITDA margin improvements, the full year impact of energy efficiency investment and improved electricity pricing (a significant proportion of which is locked in through FY25 at forward rates favourable to those achieved in FY24). Revenue assumptions reflect levels achieved in FY24 plus organic growth and have been adjusted for the enlarged customer base and additional products following the acquisitions made in FY23.

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 new order intake, the impact on customer confidence as a result of general economic conditions, inflationary cost pressures including unexpected one-off cost impacts, and the efficacy of energy efficiency measures under a prolonged period of hot weather. In making their going concern assessment in light of these risks, the Directors have also modelled a combined severe but plausible downside scenario when preparing the forecasts.

The downside scenario assumes significant economic downturn over FY25 and into FY26, primarily impacting recurring new order intake and non-recurring product and services revenues as the Directors note the uncertainties surrounding the timing and extent of non-recurring revenue from quarter to quarter. In this scenario, recurring monthly order intake is forecast to reduce by 30% compared to base case budget and product and services non-recurring revenues reduce by 20% compared to base case budget incorporating potential supply chain issues, reduced investment from our existing customer base and failure to expand market share as planned. In addition, the downside scenario also assumes the new business obtained does not

achieve the gross margin planned, with a 10% reduction to the planned gross margin achievement across all new recurring revenue modelled.

An additional factor that can impact the revenue and gross margin assumptions in the going concern assessment period is the level of customer cancellations (of an individual service or product). Whilst known, near-term customer cancellations have been modelled, coupled with an underlying level of customer cancellations based on historic trends, there remains a risk that unexpected, medium to large customer cancellations could occur in the near-term. The Group is protected contractually largely with notice periods and cancellation clauses, however a residual risk remains. An additional level of customer cancellations has therefore been modelled each quarter in the downside scenario to reflect this risk.

Following the energy efficiency measures delivered in FY24, electricity volumes are significantly more predictable than they have been historically. In addition, power prices are 90% fixed (at current volumes) through to September 2025. However, there remains a risk that periods of sustained higher summer temperatures, considering the impacts of wider climate-related factors, could increase energy usage at sites where new efficiency measures have been introduced, but not tested, at these prolonged higher temperatures. A 5% increase in forecasted usage has been modelled across a period of three months over the summer to reflect this risk.

With respect to the remaining operating cost base, whilst the Board approved forecast contains detailed, itemised cost forecasts (including inflation), there remains a risk inherent within the industry related to the complex cost base and significant volumes of services procured that unexpected costs and/or unexpected cost increases can at times occur. In the severe but plausible downside scenario, an additional quarterly cost shock has been modelled to reflect this risk. In preparing the cash flow forecasts and analysis relating to debt covenant compliance through the going concern assessment period, the Directors have considered the nature of exceptional items and are satisfied that such items meet the Group's accounting policy and borrowings facility agreement definition of exceptional items.

Given external market analysis indicates an expectation that interest rates have stabilised, no sensitivity on interest rates has been included in the plausible downside scenario. Both the base case and severe but plausible downside forecast scenarios continue to model the payment of dividends, including a final FY24 dividend payment in January 2025.

Notes to the Financial Information

for the year ended 31 March 2024 (continued)

Basis of preparation (continued)

The Directors will continue to monitor the impact and timing of dividend payments in the normal course of their quarterly liquidity and debt covenant compliance monitoring.

In addition to the base case and severe but plausible downside forecasts, the Directors have modelled an overlay scenario in anticipation of an EBITDA enhancing, significant new customer contract. This contract would necessitate certain upfront capital expenditure, with revenues following later in the forecast period when services commence. As a result, in August 2024 agreement was reached with the Group's lenders to increase the Asset Financing Facility limit to £10.0m. The overlay scenario models the impacts of this potential new contract into the base case and severe but plausible downside forecasts, including the timing and financing of related capital expenditure, and the resulting impacts on debt covenant compliance.

Under the downside scenario modelled, and including the new customer contract overlay, the forecasts demonstrate that the Group is expected to maintain sufficient liquidity and will continue to comply with the relevant debt covenants without management taking mitigating actions. While not modelled, mitigating actions which are within the Group's control would also be available in the event of a severe downside. Such actions include, but are not limited to, the rephasing of discretionary capital expenditure, and further management of discretionary cost areas such as marketing, training and travel.

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

Changes in accounting policy and disclosure

The amendment to IAS 12 Income Taxes for assets and liabilities arising from a single transaction has been recognised in the current year with the prior year comparative restated. There is no requirement for a full retrospective application.

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 2024.

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.

Critical accounting judgements, key sources of estimation uncertainty and other areas of estimation

In the application of the Group's accounting policies, which are described in Note 1, 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 and are consistent with the Group's risk management and climate-related commitments where appropriate. 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 has identified the following items as a critical accounting judgement which would have a significant impact to the amounts recognised in the Financial Statements for the year ended 31 March 2024.

Exceptional items

The Group presents separately, on the face of the Consolidated Statement of Comprehensive Income, material items of income and expenses, which, because of their nature and expected infrequency of events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of the Company's underlying financial performance. An element of management judgment is required in identifying these exceptional items. Additional information is included in Note 2.

Going concern

Management have prepared reports and financial models on the going concern assumptions when considering the

Notes to the Financial Information

for the year ended 31 March 2024 (continued)

Critical accounting judgements, key sources of estimation uncertainty and other areas of estimation (continued)

FY24 results and the Group's financial performance and compliance with banking covenants for a period of at least 12 months from the date of approval of the Financial Statements. In addition, internal financial projections including stress testing have been prepared, with management applying severe but plausible downside scenarios. An element of judgement is involved in determining that there is no material uncertainty over the Group continuing as a going concern. Additional information is included in the basis of preparation section.

Estimates

There are no major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2 Exceptional items

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Included within operating costs:		
Acquisition related professional and legal fees	350	695
Integration costs	3,467	5,965
Restructuring costs	733	-
Costs relating to the settlement of a historical supplier dispute	-	809
Cloud computing costs	-	680
Total exceptional costs	4,550	8,149
Presented separately in the Consolidated Statement of Comprehensive Income:		
Gain on settlement of contingent consideration	(2,100)	-
Total exceptional income	(2,100)	-

Current year

Exceptional costs

Acquisition related professional and legal fees of £0.4m (FY23: £0.7m) are for professional services linked to the significant acquisitions 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 previous year. These costs, though incurred in FY24, relate to the acquisition projects and include valuation services in respect of establishing the fair value of acquired assets and other associated professional fees. Cash costs were £0.4m (FY23: £0.7m)

Integration costs of £3.5m (FY23: £6.0m) principally relate to the exit of the Harrogate data centre and relocation of both customer and internal platforms to our West Yorkshire data centre in Elland, which accounted for £2.6m of the integration costs. This activity was intrinsically linked to the integration of the Sungard and 4D Data Centre acquisitions, which left the Group with significant data centre capacity that required consolidation. Following a period of assessment of which data centres would best serve the Group going forward, it was determined the Harrogate data centre and adjoining office space would be exited at the end of the current lease on the 24 March 2024.

The relocation of the Harrogate data centre was a significant undertaking for the Group, involving dedicated resource for up to 12 months, including staff that were seconded to the project, and diverted away from other value-adding activities, for most or all of their time before returning to their existing roles following the project's completion. It is expected that £0.7m of cost allocated to integration costs in FY24 in respect of this move relates to staff costs which would have been

Notes to the Financial Information

for the year ended 31 March 2024 (continued)

Current year (continued)

included within adjusted operating profit in the prior year. In total, £1.4m of third-party expenditure across contract resource and other directly associated spend and £1.2m of staff salaries, bonuses and associated taxes were spent on the move to migrate activities to the West Yorkshire data centre. In addition, £1.0m of cost was incurred to restore the Harrogate site to its original condition following the customer migration. These costs, where they relate to restoration and dilapidations activity, are shown as a utilisation of the existing dilapidations provision for this site (Note 3).

The remaining £0.9m of integration costs presented within exceptional costs include £0.7m incurred to decommission presences in two third-party data centres inherited from acquisitions as part of the ongoing strategy to consolidate the estate and £0.2m related to staff costs performing other integration work to migrate legacy platforms.

Cash costs relating to exceptional integration costs in the year were £3.1m (FY23: £6.0m).

Restructuring costs include £0.5m of staff costs associated with a management restructure for staff who have subsequently left the business, and £0.2m of related legal fees. Cash costs were also £0.7m.

Exceptional income

During FY24, the consideration for the Sungard acquisition was finalised. £2.5m of contingent consideration was recognised as a liability in the prior year based on the expectations at prior year balance sheet date. The final position has now been crystallised on the anniversary of date of the acquisition, in line with the purchase agreement. During FY24, the final settlement totalled £0.4m, and therefore an exceptional £2.1m credit has been recognised as a gain on settlement of contingent consideration in line with the prior year subsequent events disclosure. This is presented separately on the face of the Consolidated Statement of Comprehensive Income.

Prior year

Exceptional costs

Acquisition related professional and legal fees of £0.7m in FY23 were for professional services linked to the three acquisitions in the prior year, as explained above. Cash costs were £0.7m.

The integration costs in FY23 relate to costs incurred in integrating the three businesses (Sungard data centres, Sungard Consulting and 4D Data Centres) into the Group during FY23 and include costs relating to the TSA (Transition Service Agreement) (£1.4m), migrating customers (£1.2m) and employee restructuring relating to employees who had subsequently left the business (£3.3m). There was also £0.1m of professional fees directly relating to the incremental financial statement audit procedures completed on the acquisition accounting.

In the prior year, costs relating to the settlement of a historical supplier dispute totalled £0.6m for the crystallisation of the settlement and £0.2m charged by the Group's legal advisors in respect of this matter. Cash costs were £0.8m.

Cloud computing costs of £0.7m in the prior year related 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 and system deficiencies that required correcting post initial implementation. Cash costs were £0.7m.

Notes to the Financial Information

for the year ended 31 March 2024 (continued)

3 Provisions

	Dilapidations provision £000
At 1 April 2022	3,883
Additional provisions created during the period	8,426
Provisions acquired from business combination	692
At 31 March 2023	13,001
Additional provisions created during the period	351
Utilised during the period	(978)
At 31 March 2024	12,374
FY24 Analysed as:	
Current	892
Non-current	11,482
	12,374
FY23 Analysed as:	
Current	1,841
Non-current	11,160
	13,001

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.

Dilapidation provisions have maturity dates from 2024 to 2040 and are therefore discounted to present value using a risk-free interest rate (UK Government Bond rates) at the year end, depending on the length of the related lease. The discount rates used to calculate the initial provision ranges from 1.85% to 2.63%. 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 £0.4m through additional provisions created has resulted from the net financing movement in the year.

Notes to the Financial Information

for the year ended 31 March 2024 (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 2022	52,416	65,030	449	5,570	123,465
Additions	-	-	-	869	869
Additions on acquisition	8,224	15,100	200	-	23,524
Disposals	-	-	-	(135)	(135)
Exchange differences	-	-	-	(1)	(1)
At 31 March 2023	60,640	80,130	649	6,303	147,722
Additions	-	-	-	1,479	1,479
Disposals	-	-	-	(393)	(393)
Transfers from property, plant and equipment	-	-	-	261	261
At 31 March 2024	60,640	80,130	649	7,650	149,069
Accumulated amortisation and impairment					
At 1 April 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
Charged in year	-	5,229	-	781	6,010
Disposals	-	-	-	(393)	(393)
Transfers from property, plant and equipment	-	-	-	64	64
At 31 March 2024	-	64,105	649	5,432	70,186
At 31 March 2024	60,640	16,025	-	2,218	78,883
At 31 March 2023	60,640	21,254	-	1,323	83,217

Amortisation of customer contracts has decreased by £2.8m to £5.2m in FY24. This is because one large customer contract was fully amortised at the end of FY23, while a second was fully amortised during FY24.

Customer contracts have a weighted average remaining amortisation period of 8 years and 9 months (FY23: 8 years and 6 months). There are no indicators of impairment at 31 March 2024.

Software and licences include £1.3m (FY23: £0.6m) of additions in relation to customer capital expenditure.

Included within software and licences is £0.5m (FY23: £nil) of assets financed under the Group's Asset Financing Facility. The Directors have exercised judgement in determining that there has been no sale of these assets under IFRS15 and therefore the assets are financed rather than representing a sale and leaseback arrangement.

Notes to the Financial Information

for the year ended 31 March 2024 (continued)

Goodwill has been allocated to one cash-generating unit (CGU) at 31 March 2024 whereas in the prior year goodwill was allocated to two CGUs being IT Managed Services and Security Services. During FY24 the Security Services business, being the 7 Elements acquisition, was further integrated into Redcentric infrastructure and operations. At the year-end management no longer believe it capable of generating independent cash flows from the Group.

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 a Board approved five-year forecast cash flow projections to the period of 31 March 2029 comprising the detailed Group budget for FY25 and latest detailed forecast for FY26, with higher level assumptions applied for the outer years. A terminal value based on a perpetuity calculation using a 2.0% real growth rate was then added (FY23: 2.0% growth).

The key assumptions used in the impairment testing were as follows:

- New order intake consistent with that achieved in H2-FY24;
- Price increases in line with CPI;
- Overall gross margin percentage of c. 70% in line with historic trends;
- Electricity costs driven by near-term contracted prices and medium-term 3rd party price forecasts for energy;
- Operating costs (depending on nature) to increase in line with either revenue growth or CPI, factoring in any near-term licence inflation;

- Pre-tax discount rate of 10.87% (FY23: 11.2%) (post tax rate of 10.51% (FY23: 10.84%)) 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.

The Group has also considered that any cost implications of achieving net zero would not have a material impact on the assessment period.

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

Notes to the Financial Information

for the year ended 31 March 2024 (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 2022	8,341	1,182	23,264	-	32,787
Additions	700	1,787	2,838	180	5,505
Additions on acquisition	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
Additions	4,952	95	4,271	-	9,318
Disposals	(1,201)	(447)	(8,367)	-	(10,015)
Transfer to intangible assets	-	(261)	-	-	(261)
Transfer from right-of-use assets	-	-	1,618	-	1,618
Reclassification	180	-	-	(180)	-
Exchange differences	(8)	-	-	-	(8)
At 31 March 2024	16,294	9,085	24,384	-	49,763
Accumulated depreciation					
At 1 April 2022	5,449	622	21,344	-	27,415
Charged in year	1,107	1,450	2,079	-	4,636
On disposals	-	-	(71)	-	(71)
At 31 March 2023	6,556	2,072	23,352	-	31,980
Charged in year	1,715	2,051	2,323	-	6,089
On disposals	(1,201)	(447)	(8,365)	-	(10,013)
Transfer to intangible assets	-	(64)	-	-	(64)
Transfer from right-of-use assets	-	-	351	-	351
Exchange differences	-	(2)	-	-	(2)
At 31 March 2024	7,070	3,610	17,661	-	28,341
Net book value					
At 31 March 2024	9,224	5,475	6,723	-	21,422
At 31 March 2023	5,815	7,626	3,510	180	17,131

Vehicles and computer equipment includes additions of £2.8m (FY23: £2.6m) relating to customer capital expenditure.

Included within property, plant and equipment additions is £3.1m (FY23: £nil) of assets financed under the Group's Asset Financing Facility. The Directors have exercised judgement in determining that there has been no sale of these assets under IFRS15 and therefore the assets are financed rather than representing a sale and leaseback arrangement.

Similar arrangements previously accounted for as a sale and leaseback arrangement in the prior periods have been adjusted accordingly in the current year. Included within vehicles and computer equipment is a reclassification of £1.6m relating to financed assets that were incorrectly included in Note 6 as a right-of-use asset on the prior period Statement of Financial Position.

Notes to the Financial Information

for the year ended 31 March 2024 (continued)

A corresponding asset financing liability has also been recognised following a reclassification from a lease liability in the current period. As the Directors do not consider the effect on the prior period Financial information to be material, this has been corrected in the current period.

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 2022	26,974	11,936	38,910
Additions	36,189	391	36,580
Additions on acquisition	3,911	-	3,911
Disposals	(629)	-	(629)
Exchange differences	(1)	-	(1)
At 31 March 2023	66,444	12,327	78,771
Additions	699	3,541	4,240
Transfer to property, plant and equipment	-	(1,618)	(1,618)
At 31 March 2024	67,143	14,250	81,393
Accumulated depreciation			
At 1 April 2022	13,620	8,252	21,872
Charged in year	8,676	1,941	10,617
At 31 March 2023	22,296	10,193	32,489
Charged in year	10,231	1,546	11,777
Transfer to property, plant and equipment	-	(351)	(351)
At 31 March 2024	32,527	11,388	43,915
Net book value			
At 31 March 2024	34,616	2,862	37,478
At 31 March 2023	44,148	2,134	46,282

7 Business combinations in prior period

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 was to scale the Group's existing revenues in this area with significant synergies expected as the acquisition was integrated into the Group. Management considered signing of the share purchase agreement (SPA) on the 27 June 2022 as the change of control and therefore, acquisition date for the transaction.

Notes to the Financial Information

for the year ended 31 March 2024 (continued)

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 was a delayed R&D claim refund due from HMRC which was to be paid to the Shareholders on receipt.

² The true up payment was 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 in FY23. These costs have been included in exceptional items within the prior year column in Note 2.

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

	Fair value £000s
Property, plant and equipment	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

The goodwill arising on acquisition represented 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 was expected to increase the Group's competence in key growth areas of the Security Services sector.

The fair value of the acquired customer relationships was £6.3m. To estimate the fair value of the customer relationships intangible asset, a multi-period excess earnings "MEEM" approach was adopted. This approach considered 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 into 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 in FY23.

Notes to the Financial Information

for the year ended 31 March 2024 (continued)

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 considered 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.

The DCs and Consulting acquisitions were treated as a single transaction. The resulting change due to this treatment as a single transaction was that the goodwill from the acquisitions was 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 was 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 was 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 in FY23. These costs have been included in exceptional items within the prior year column in Note 2.

During FY24, the contingent consideration was finalised, and the final settlement totalling £0.4m was paid. Consequently, a £2.1m credit has been recognised as a fair value adjustment to contingent consideration in exceptional items (Note 2).

Notes to the Financial Information

for the year ended 31 March 2024 (continued)

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

	Fair value £000s
Property, plant and equipment	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 represented the future income from new customers and the potential to cross-sell existing Group products to the existing Sungard customer base, which was expected to increase the Group's competence in key growth areas of the Security Services sector.

The fair value of the acquired customer relationships was £8.8m. To estimate fair value of the customer relationships intangible asset, a multi-period excess earnings "MEEM" approach was adopted, and this approach considered 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 in FY23.

The 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 in FY23.

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: Pikel deferred consideration	(153)
	26,606

Notes to the Financial Information

for the year ended 31 March 2024 (continued)

8 Earnings per share

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Earnings		
Statutory loss	(3,441)	(9,250)
Tax credit	(1,209)	(3,219)
Amortisation of acquired intangibles	5,229	8,183
Share-based payments	1,138	1,256
Exceptional costs	4,550	8,149
Exceptional income	(2,100)	-
Adjusted earnings before tax	4,167	5,119
Notional tax charge	(1,042)	(973)
Adjusted earnings	3,125	4,146
	Number	Number
	'000	'000
Weighted average number of ordinary shares		
In issue	157,371	156,992
Held in treasury	(693)	(1,391)
For basic EPS calculations	156,678	155,601
Effect of potentially dilutive share options	5,129	3,678
For diluted EPS calculations	161,807	159,279
	Pence	Pence
EPS		
Basic	(2.20p)	(5.94p)
Adjusted	1.99p	2.66p
Basic diluted	(2.20p)	(5.94p)
Adjusted diluted	1.93p	2.60p

In line with the Group's policy, the notional tax charge above is calculated at a standard rate of 25% (FY23: 19%).

9 Subsequent events

On the 14 August 2024 a modification to the bank facilities was agreed to increase the Asset Financing Facility to £10.0m to ensure adequate credit availability for future investment relating to new customer contracts. All other elements of the facility remained the same.

Appendix 1 – Alternative Performance Measures

This announcement contains certain financial measures that are not defined or recognised under IFRS but are presented to provide readers with additional financial information that is evaluated by management and investors in assessing the performance of the Group.

This additional information presented is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other companies. These measures are unaudited and should not be viewed in isolation or as an alternative to those measures that are derived in accordance with IFRS.

Recurring revenue

Recurring revenue is the revenue that annually repeats either under contractual arrangement or by predictable customer habit. It highlights how much of the Group's total revenue is secured and anticipated to repeat in future periods, providing a measure of the financial strength of the business. It is a measure that is well understood by the Group's investor and analyst community and is used for internal performance reporting.

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Reported revenue	161,150	141,674
Non-recurring revenue	(14,059)	(13,213)
Recurring revenue	149,091	128,461

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

Recurring revenue makes up 91.4% of total revenue in FY24, an increase of 0.7ppts from prior year (FY23: 90.7%).

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 asset financing 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 2024 £000	Year ended 31 March 2023 £000
Property plant and equipment additions – excluding additions on acquisition (note 16)	9,318	5,505
Intangible additions – excluding additions on acquisition (note 15)	1,479	869
Right of use asset additions – lease liabilities that would have been classified as finance leases under IAS 17, excluding asset financing	1,033	391
Reported capital expenditure incurred	11,830	6,765
Customer capital expenditure incurred (notes 15 & 16)	(4,099)	(3,234)
Maintenance capital expenditure incurred	7,731	3,531

Appendix 1 – Alternative Performance Measures (continued)

Maintenance capital expenditure of £7.7m has increased by £4.2m (FY23: £3.5m) driven by additions to PPE for efficiency measures in the data centres, primarily at London West. Customer capital expenditure has increased to £4.1m (FY23: £3.2m) 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 (as set out in Note 2), share-based payments and associated National Insurance. The same adjustments are also made in determining the adjusted EBITDA margin. Items are only classified as exceptional due to their nature or size.

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

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Reported operating profit/(loss)	852	(8,939)
Amortisation of intangible assets arising on business combinations	5,229	8,183
Amortisation of other intangible assets	781	590
Depreciation of property, plant and equipment	6,089	4,636
Depreciation of right-of-use assets	11,777	10,617
EBITDA	24,728	15,087
Exceptional income	(2,100)	-
Exceptional costs (comprised of):	4,550	8,149
Acquisition fees	350	695
Integration costs	3,467	5,965
Restructuring costs	733	-
Costs relating to the settlement of an historical supplier dispute	-	809
Cloud computing costs	-	680
Share-based payments and associated National Insurance	1,138	1,256
Adjusted EBITDA¹	28,316	24,492

Adjusted EBITDA increased to £28.3m, £3.8m higher than prior year, with adjusted EBITDA margin of 17.4% (up from 17.3%).

Appendix 1 – Alternative Performance Measures (continued)

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 2024 £000	Year ended 31 March 2023 £000
Reported operating profit/(loss)	852	(8,939)
Amortisation of intangible assets arising on business combinations	5,229	8,183
Exceptional costs	4,550	8,149
Exceptional income	(2,100)	-
Share-based payments and associated National Insurance	1,138	1,256
Adjusted operating profit	9,669	8,649

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.

Adjusted operating costs

Adjusted operating costs are operating costs less depreciation, amortisation, exceptional items, share-based payments and foreign exchange. This metric shows the day-to-day trading operating expenditure of the Group, excluding non-trading and non-recurring items (items of a nature that the Group does not expect to incur every financial year) 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 2024 £000	Year ended 31 March 2023 £000
Reported operating expenditure	119,283	109,938
Depreciation of right-of-use assets	(11,777)	(10,617)
Depreciation of property, plant and equipment	(6,089)	(4,636)
Amortisation of intangibles arising on business combinations	(5,229)	(8,183)
Amortisation of other intangible assets	(781)	(590)
Exceptional costs	(4,550)	(8,149)
Other operating income	-	(88)
Share-based payments and associated national insurance	(1,138)	(1,256)
Adjusted operating expenditure	89,719	76,419

Appendix 1 – Alternative Performance Measures (continued)

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 2024 £000	Year ended 31 March 2023 £000
Reported cash generated from operations	23,159	14,824
Cash costs of exceptional items	4,240	8,258
Adjusted cash generated from operations	27,399	23,082

Adjusted net debt

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.

	Year ended 31 March 2024 £000	Year ended 31 March 2023 £000
Reported net debt	(72,365)	(72,965)
Term loans	21	495
Lease liabilities that would have been classified as operating leases under IAS 17	30,346	36,891
Adjusted net debt	(41,998)	(35,579)

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 FY25.

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