

Redcentric plc

Half year results for the six months ended 30 September 2019 (unaudited)

Redcentric plc (“Redcentric”, “the Company”, or “the Group”) (AIM: RCN), a leading UK IT managed services provider, today announces its unaudited results for the six months to 30 September 2019.

Financial measures

	Six months to 30 Sept 2019 (H1-20) ¹	Six months to 30 Sept 2019 (H1-20) pre- IFRS 16 ¹	Six months to 30 Sept 2018 (H1-19)	Change ¹
Total revenue	£43.2m	£43.2m	£47.5m	-9%
Recurring monthly revenue (RMR) ²	£38.8m	£38.8m	£41.3m	-6%
Adjusted EBITDA ²	£10.3m	£8.8m	£8.1m	+8%
Adjusted operating profit ²	£5.5m	£5.0m	£4.1m	+23%
Reported operating profit	£1.9m	£1.4m	£0.5m	+219%
Adjusted cash generated from operations ²	£10.2m	£8.7m	£9.2m	-6%
Reported cash generated from operations	£9.8m	£8.2m	£8.8m	-6%
Net debt	£(40.0)m	£(16.5)m	£(22.6)m	-27%
Adjusted basic earnings per share ²	2.41p	2.48p	1.89p	+31%
Reported basic earnings per share	0.34p	0.41p	(0.38)p	+208%
Interim dividend per share	0.83p	0.83p	0.4p	+108%

¹ The results for H1-20 are not directly comparable with the prior year due to the adoption of IFRS 16 Leases. Further details are provided in note 3 to the financial statements, and Appendix 1, which sets out the impact of IFRS 16 Leases on the primary statements. The % change figures reported above relate to H1-20 vs. H1-19 pre any IFRS 16 Leases impact.

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

Financial Highlights

- Total revenue down by 9% to £43.2m, but good future visibility with £38.8m recurring revenue representing 90% of total revenue (H1-19: 87%).
- Gross margins improved to 64.5% from 59.8%.
- Adjusted (pre-IFRS 16) EBITDA up 8% to £8.8m (H1-19 £8.1m), with margin improving to 20.3% (H1-19 17.1%).
- Adjusted (pre-IFRS 16) operating profit up 23% to £5.0m (H1-19 £4.1m), with margin improving to 11.6% (H1-19 8.6%).
- Continued strong cash flows with £8.7m of adjusted pre-IFRS 16 operating cash flow in the period (99% cash conversion).
- Net debt, excluding the impact of IFRS 16, reduced by £1.1m in the period to £16.5m, with £4.8m capital expenditure and £1.5m of dividends paid in the period.
- Interim dividend increased to 0.83p per share (H1-19 0.4p), to be paid in January.

Operational Highlights

- Q1-20 recurring revenues were flat on Q4-19 and Q2-20 recurring revenues were up on Q1-20, driven by both new logo wins and effective cross-selling.
- Operating margins continued to improve due the cost measures undertaken in the second half of the last financial year.
- £1.1m invested in our national network and a further £1.5m invested in our infrastructure as a service (IaaS) platform. We now have modern, resilient and scalable platforms and networks from which we can service our current and future customer base.
- Product management and Development teams reorganised, with managed firewall and SD WAN launched in Q3-20 and further enhancement to our Collaboration and Security portfolios to be launched in Q4-20.
- Strategic review of our data centre and network portfolios underway, with the expectation that this will result in annual savings of at least £2.8m in FY21 onwards.

Ian Johnson, Non-Executive Chairman, commented:

“Visibility of future revenues remains strong with recurring revenues reaching 90%. New customers were added in the period which, together with effective cross selling, led to quarter on quarter revenue growth. This revenue growth has been achieved despite the ongoing FCA investigation, which continues to impact the pace at which we win new business.

Management continues to improve the operational efficiency of the business. The strategic data centre and network portfolios review now underway is expected to lead to the realisation of annual savings of at least £2.8m and further improvements in operating margins.

Cash flow remains strong allowing significant investment into our network and a further reduction to net debt in the period. The Board is confident that the business will continue to generate strong cash flows enabling it to return cash to shareholders by way of dividend and further share purchases via the share buy-back programme.”

There will be a presentation for analysts held at 09:30hrs on 28 November 2019 at the offices of Tulchan Communications, 85 Fleet Street, EC4 1AE. Please contact redcentric@tulchanCompany.com if you would like to attend.

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Chief Executive Officer's review

Overview

We have had another productive six months, with progress made across all areas of the business. As well as continuing to extract cost efficiencies, it is particularly pleasing to note that we have stemmed the decline in recurring revenues. Whilst the half year comparatives show a decrease in recurring revenue of 6%, this reflects the opening run rate position. Indeed, our Q1 recurring revenues were flat on Q4 and Q2 recurring revenues were up on Q1. Encouragingly, this was driven by both new logo wins and effective cross-selling.

Non-recurring revenues are less predictable by nature and have been impacted in the period by the industry trend to move away from on-premise to cloud solutions. Additionally, customers have delayed their discretionary spending due to the economic uncertainty surrounding the ongoing Brexit negotiations. This is reflected in the half year numbers with non-recurring revenues down by £1.8m (-29%) on the equivalent period last year.

Profitability and operating margins continue to improve as a result of the cost reduction measures undertaken in the second half of the last financial year. In addition to these measures, we have recently commenced a strategic review of our network and data centre portfolios, vacating third party data centres and rationalising our legacy network connectivity contracts. This will align our infrastructure better with our future strategy and customer requirements. It will also yield significant savings, outlined in more detail below, expected to be at least £2.8m in FY21 onwards. The review will be complete by the time we announce our full year results and full details will be provided at that point.

The cash flows for the 6 months ended 30 September 2019 include an acceleration of capital expenditure with £1.1m invested in our national network which will shortly have a core capacity of 100Gb. A further £1.5m has been invested in our infrastructure as a service (IaaS) platform and £0.9m in our new internal ERP system. With these investments, we now have modern, resilient and scalable platforms and networks from which we can service our current and future customer base. Going forward, we anticipate lower levels of capital expenditure which will further enhance cash flow performance.

Improved profitability and cash generation have enabled us to declare an interim dividend of 0.83p per share (H1-19: 0.4p). In addition to this, we have commenced a share buyback programme with purchases of £0.3m made as at 30 September 2019.

Private sector

The private sector accounts for 85% of our recurring revenues. Our focus on customer service has led to high levels of retention during the period and we continue to receive additional orders from existing customers. As highlighted in last year's Annual Report, we believe that our margins are now reflective of the market and this is evidenced by significantly lower levels of price erosion on contracts renewed during the first half of the year.

Public Sector markets

Overview

Whilst the public sector accounted for just 15% of total recurring revenues, we continue to see significant opportunity for growth and anticipate that these revenues will represent an increasing percentage of future total revenues.

Health and Social Care Networks (HSCN)

In the FY19 Annual Report we listed 7 HSCN contract wins with annualised revenues of £3.1m. Contract variations and additions in H1-20 have increased this figure to £3.4m.

The HSCN programme has added 66 new public sector logos to our customer base and represent a significant opportunity for us to cross sell additional products. In addition to the HSCN revenues, a further £0.3m of annualised revenue from other products has been added to date.

Whilst these wins have been significant, the progress in implementing the contracts has been slower than expected, primarily due to customer resource constraints, resulting in only £178k of revenue being recognised in the first half of the year. As at 30 September 2019, the run rate of installed HSCN contracts amounted to £648k per annum. We are working closely with both our customers and NHS Digital to expedite these network rollouts. Whilst the roll-out of the remaining revenue will continue in to FY21, we expect that the bulk of these contracts will be live by the end of this financial year.

Yorkshire and Humber Public Sector Networks (YHPSN)

YHPSN is the largest of the Public Sector framework contracts won by Redcentric in the past 18 months. After a difficult start to this framework award, we are starting to make some good progress. 70 organisations are part of the YHPSN framework and of these, 44 have placed orders with us.

To date the total value of orders received is £8.0m, which equates to an annualised revenue of £1.6m.

As with the other HSCN orders, progress in installing new circuits has been slower than anticipated but we are confident that the bulk of the current order book will be installed by the end of this financial year.

Our initial sales focus has been on selling HSCN circuits due to the need for health organisations to move off the N3 network which is scheduled to close in August 2020. Going forward we will progress non-health opportunities and look to cross-sell additional products into this new customer base.

Public sector hosting

In last year's Annual Report, we highlighted the significant impact that the loss of public sector hosting contracts has had and will continue to have on the business. In the six months to 30 September 2019, public sector hosting revenues amounted to £1.7m, £0.9m down on the equivalent period last year.

As previously notified, we expect the whole of this revenue to have migrated away from us by the end of the next financial year.

Products, platforms and networks

National network upgrade and efficiencies

Our core network has been upgraded to enable 10Gb connections to terminate on our network and we are in the process of expanding the network to give a 100Gb core.

During the period we completed the decommissioning of a network ring which originated from the historical inTechnology acquisition. The closure of this ring has realised £0.5m annualised savings effective 1 July 2019.

Infrastructure as a Service (IaaS) platform

We have commenced phase II of our IaaS platform upgrade which, once fully implemented, will bring our cloud product offering fully up to date. We expect that this will be live by the end of the financial year.

New product launches

During the period we restructured the product management and development teams yielding immediate results, with new managed firewall and SD WAN products launched in Q3-20, and further enhancement to our Collaboration and Security portfolios to be launched in Q4-20

Data centre and network strategy review

We are now part-way through a strategic review of our network and data centre portfolios. Our aim is to vacate third party data centres and concentrate on our own managed facilities. This will allow us to rationalise legacy network connectivity contracts. The decisions taken to date will result in a £1.8m reduction to the annual cost base in FY21, with £0.4m benefit from this in H2-20. The review is ongoing and is expected to realise further savings of at least £1.0m in FY21, in addition to the £1.8m already being actioned. We expect to incur exceptional contract termination and exit costs of approximately £1.8m in H2-20.

These efficiency measures will not impact the required capacity to support future growth. By the end of the financial year the business will have an upgraded single UK wide network, with all of our customers located in Redcentric managed data centres and third-party facilities only utilised for interconnectivity purposes. No customer losses are expected as a result of this rationalisation programme.

People

PLC Board

On 16 October 2019 Ian Johnson joined the Board as Non-Executive Chairman replacing Chris Cole who resigned from the Board on the same day. Ian Johnson is an experienced PLC chairman and we welcome him to the Company. We thank Chris Cole for his considerable contribution to the Company over a five-year period and wish him well for the future.

Also, on 16 October 2019, Chris Rigg (Non-Executive Director) announced his intention to step down from the Board with effect from 31 December 2019 following his appointment as Chief Executive Officer of Mandata Limited. Chris goes with our thanks and best wishes for the future.

Dean Barber joined the business on 2 September 2019 as Chief Financial Officer. Dean is a chartered accountant and joins us from EMIS Group plc where he was Group Financial Controller.

Operating Board

We have continued to invest in our staff and to strengthen the management teams in both the UK and India. Several key appointments have been made in the first half of the financial year with the Operating Board strengthened as a result. In addition, a new HR Director will be joining the senior management team in December.

The business currently has 465 employees all of whom are key to the success of the business. The Board thanks them for their hard work and loyalty.

FCA

The FCA investigation is still ongoing and continues to deflect management's attention and to restrict the markets into which the Company can sell. The FCA has not communicated how it intends to proceed and what, if any, action it might bring against the Company. The Company continues to cooperate fully with the FCA and would like to bring the matter to a close as soon as possible.

Outlook and key areas of focus

We are cautiously optimistic for the future. The changes we have made over recent periods are beginning to yield results in both the private and public sector.

Whilst we are operating in very competitive markets, we expect modest revenue growth in the second half and beyond.

We have invested significantly in our networks and platforms over the last two years to position the business for the future. Given this level of upfront investment we expect lower levels of capital expenditure over the medium term. This, combined with the cost efficiencies identified through the ongoing review of our data centre and network portfolio, should lead to further strong cash generation.

Our focus in the second half of the financial year will be fivefold:

- To continue to grow revenue both by new customer acquisition and through cross selling of products to existing customers.
- To expedite the delivery of public sector network wins.
- To conclude the data centre and network strategy review
- To enhance our product portfolio with new product launches and further product enhancements.
- To continue to deliver strong cash flows which will be utilised to fund further share buy backs, pay dividends and reduce debt.

We anticipate that our FY20 results will be in line with the Board's expectations.

Financial Review

Overview

Total revenue in the period reduced by 9% to £43.2m (H1-19: £47.5m). Recurring monthly revenue fell by 6% to £38.8m (H1-19: £41.3m), representing 90% (H1-19: 87%) of the total revenue.

On a pre-IFRS 16 basis, both adjusted EBITDA (up £0.7m to £8.8m) and adjusted operating profit (up £0.9m to £5.0m) were higher than prior year, with an improvement to gross profit margin and further reductions to the operating cost base in the period.

On a post-IFRS 16 basis, adjusted EBITDA increased by £2.2m and adjusted operating profit increased by £1.4m. The Company recognised £1.1m of depreciation charges and £0.6m of interest costs in respect of finance leases that would have previously been recognised as a £1.6m operating lease expense. On transition to IFRS 16 the Company recognised a right of use asset of £22.2m and lease liabilities of £24.5m. Further disclosure is presented in note 3 to the financial statements.

Revenue

Revenue is analysed into the following categories:

- Recurring monthly revenue, lower at £38.8m (H1-19: £41.3m), reflecting the closing Q4-19 run-rate position. In the period, Q1-20 revenues were flat on Q4-19 with Q2-20 revenues up on Q1-20.
- Non-recurring product revenue, which was lower at £2.1m (H1-19: £3.3m), impacted by the industry trend to move away from on-premise to cloud solutions and by customers delaying discretionary spending due to the economic uncertainty surrounding the ongoing Brexit negotiations.
- Non-recurring services revenue, which was slightly lower at £2.3m (H1-19: £2.8m).

Gross profit

Gross profit decreased by 2% (£0.5m) reflecting the Company's lower revenue, with an improvement in gross margin to 64.5% (H1-19: 59.8%) driven by continued management of third-party operating costs and the reduction in lower margin product revenues.

Operating costs

The Company's pre-IFRS 16 adjusted operating costs (operating expenditure excluding depreciation, amortisation, exceptional items and share-based payments) are set out in the table below:

	H1-20 £'000	H1-19 £'000	Change £'000	Change %
UK staff costs	9,661	10,480	(819)	-8%
Office and data centre costs	3,704	3,462	242	+7%
Network and equipment costs	3,603	3,708	(105)	-3%
Other sales, general and administration costs	983	1,463	(480)	-33%
Offshore costs	1,123	1,140	(17)	-1%
Total adjusted operating costs, pre-IFRS 16	19,074	20,253	(1,179)	-6%

Adoption of IFRS 16 reduces operating costs by £1,571k to £17,503k. A right of use asset of £21,079k is recognised at 30 September in relation to leases that were previously classified as operating leases, with operating lease expenditure reduced by £1,571k in the period but depreciation and interest expense higher by £1,103k and £597k respectively.

Total adjusted operating costs for H1-20 were 6% (£1.2m) lower than prior year, primarily driven by:

- UK staff costs down £0.8m, driven by lower headcount. The Company employed 318 UK staff at 30 September 2019 with an average headcount over the period of 314 (H1-19: 337).
- Other sales, general and administration costs down £0.5m, with prior year including £0.5m of HSCN bid (consultancy) costs.

Offshore costs were in line with prior year with the Company employing 147 staff in India at 30 September 2019. Average Indian headcount over the period was 150 (H1-19: 146).

Profitability and dividend

Excluding the impact of IFRS 16 adoption, adjusted EBITDA (£8.8m) and adjusted operating profit (£5.0m) were up 8% and 23% respectively, with an EBITDA margin of 20.3% (H1-19: 17.1%) and adjusted operating profit margin of 11.5% (H1-19: 8.6%).

After accounting for exceptional items of £0.2m (H1-19: £0.2m) and share-based payment costs of £0.3m (H1-19: £0.2m), reported operating profit was higher at £1.4m (H1-19: £0.5m). On a post-IFRS 16 basis reported operating profit was £1.9m.

Net finance costs for the period were £1.1m (H1-19: £0.6m), including £0.6m of IFRS 16 finance charges.

The tax charge for the period was £0.4m (H1-19: £0.5m), comprising an income tax charge of £0.5m (H1-19: £nil), a current year deferred tax credit of £0.3m (H1-19: £0.2m), and a deferred tax charge in respect of prior years of £0.2m (H1-19: £0.7m).

Adjusted basic and diluted earnings per share (EPS) increased by 28% and 27% to 2.41p and 2.38p respectively (H1-19: 1.89p and 1.88p respectively). The reported basic and diluted EPS were also higher at 0.34p (H1-19: (0.38)p loss per share).

In accordance with the dividend policy previously announced, an interim dividend of 0.83p per share will be paid on 10 January 2020 to shareholders on the register at the close of business on 6 December 2019.

Cash flow and net debt

The principal movements in pre-IFRS 16 net debt are set out in the table below.

	H1-20, pre-IFRS 16 £'000	H1-19 £'000	FY 2019 £'000
Adjusted EBITDA, pre-IFRS 16	8,759	8,115	16,714
Working capital movements	(82)	1,120	4,575
Adjusted cash generated from operations, pre IFRS 16	8,677	9,235	21,289
<i>Cash conversion</i>	<i>99%</i>	<i>114%</i>	<i>127%</i>
Capital expenditure - cash purchases	(2,267)	(2,884)	(5,229)
Capital expenditure - finance lease purchases	(2,484)	(185)	(2,506)
Proceeds from sale and lease back of assets	-	-	1,181
Proceeds from sale of fixed assets	-	-	665
Net capital expenditure	(4,751)	(3,069)	(5,889)
Corporation tax	(248)	(38)	(1,873)
Interest paid	(440)	(545)	(1,044)
Loan arrangement fees / fee amortisation	(4)	(34)	(68)
Effect of exchange rates	18	(32)	(8)
Other movements in net debt	(674)	(649)	(2,993)
Normalised net debt movement	3,252	5,517	12,407
Cash cost of exceptional items	(444)	(431)	(1,668)
Share buy-back	(278)	-	-
Dividends	(1,491)	-	(597)
	(2,213)	(431)	(2,265)
Decrease in net debt	1,039	5,086	10,142
Net debt at the beginning of the period, pre-IFRS 16	(17,565)	(27,707)	(27,707)
Net debt at the end of the period, pre-IFRS 16	(16,526)	(22,621)	(17,565)

Net debt (pre-IFRS 16) of £16.5m at the end of the period consists of total borrowings of £12.7m plus finance leases of £6.0m, less cash balances of £2.2m. Pre-IFRS 16 adjusted cash generated from operations was £8.7m (H1-19: £9.2m), with the reduction driven by timing differences in working capital against a strong comparative period. Operating cash conversion was again high at 99% (H1-19: 113.8%).

There was an acceleration of capital expenditure in the period, with net capital expenditure of £4.8m (H1-19: £3.1m), principally relating to investment in our national network and our IaaS platform. £0.3m was spent on the share buy-back programme and £1.5m on dividends. After finance costs, tax, and the cash cost of exceptional items the Company ended the period with net debt, excluding IFRS 16 lease liabilities, of £16.5m (30 September 2018: £22.6m; 31 March 2019: £17.6m). Including IFRS 16 lease liabilities of £26.9m the Company's net debt at 30 September 2019 was £40.0m.

A further £7.5m of unutilised bank facility was cancelled during the period, leaving a total facility at 30 September 2019 of £25.5m, comprising a revolving credit facility (RCF) of £17.5m, an overdraft facility of £2.0m and a £6m asset financing facility. In addition, the Company has access to a £20m accordion facility. At 30 September 2019 £5.0m of the RCF and £2.0m of the overdraft was undrawn.

The current facilities expire on 30 November 2020. Dialogue is underway with lenders to determine the appropriate quantum and facility required beyond this date.

Consolidated statement of comprehensive income for the six months ended 30 September 2019

	Note	Six months ended 30 September 2019 Unaudited £'000	Six months ended 30 September 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Revenue	8	43,152	47,452	93,260
Cost of sales		(15,319)	(19,084)	(36,895)
Gross Profit		27,833	28,368	56,365
Operating expenditure		(25,929)	(27,918)	(56,650)
Adjusted EBITDA		10,330	8,115	16,714
Depreciation		(4,274)	(3,493)	(7,330)
Amortisation of intangibles		(3,730)	(3,689)	(7,392)
Exceptional items	9	(169)	(243)	(1,911)
Share-based payments		(253)	(240)	(366)
Operating profit / (loss)		1,904	450	(285)
Finance income	10	-	12	13
Finance costs	10	(1,017)	(584)	(1,091)
Profit / (loss) on ordinary activities before taxation		887	(122)	(1,363)
Income tax expense	11	(381)	(449)	(604)
Profit / (loss) for the period attributable to owners of the parent		506	(571)	(1,967)
Other comprehensive income				
Items that may be classified to profit or loss:				
Currency translation differences		39	(28)	8
Total comprehensive income / (loss) for the period		545	(599)	(1,959)
Earnings per share				
Basic earnings/(loss) per share	12	0.34p	(0.38)p	(1.32)p
Diluted earnings/(loss) per share	12	0.34p	(0.38)p	(1.32)p

Consolidated statement of financial position as at 30 September 2019

	Note	30 Sept 2019 Unaudited £'000	30 Sept 2018 Unaudited £'000	31 March 2019 Audited £'000
Non-Current Assets				
Intangible assets		72,354	79,436	75,802
Property, plant and equipment		19,438	19,173	18,133
Right-of-use assets	14	21,079	-	-
Deferred tax asset		307	-	142
		113,178	98,609	94,077
Current Assets				
Inventories		302	443	357
Trade and other receivables	15	19,521	22,510	22,103
Cash and short-term deposits		2,183	6,282	7,206
		22,006	29,235	29,666
Total assets		135,184	127,844	123,743
Current Liabilities				
Trade and other payables	16	(19,622)	(19,617)	(22,297)
Corporation tax payable		(104)	(836)	-
Lease liabilities		(4,512)	-	-
Borrowings	17	(127)	(3,091)	(3,056)
Provisions	18	(150)	-	(149)
		(24,515)	(23,544)	(25,502)
Non-current liabilities				
Deferred tax liability		-	(506)	-
Lease liabilities		(25,009)	-	-
Borrowings	17	(12,565)	(25,812)	(21,715)
Provisions	18	(893)	(530)	(881)
		(38,467)	(26,848)	(22,596)
Total liabilities		(62,982)	(50,392)	(48,098)
Net assets		72,202	77,452	75,645
Equity				
Called up share capital	19	149	149	149
Share premium account	19	65,736	65,588	65,588
Capital redemption reserve		(9,454)	(9,454)	(9,454)
Own shares held in treasury	19	(278)	-	-
Retained earnings		16,049	21,169	19,362
Total Equity		72,202	77,452	76,645

Consolidated cash flow statement for the six months ended 30 September 2019

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Operating profit	1,904	450	(285)
Adjustment for non-cash items			
Depreciation and amortisation	8,004	7,182	14,722
Exceptional items	169	243	1,911
Share-based payments	253	240	366
Operating cash flow before exceptional items and movements in working capital	10,330	8,115	16,714
Loss on sale of fixed asset	-	-	(42)
Exceptional items and NI on share-based payments	(444)	(431)	(1,668)
Operating cash flow before changes in working capital	9,886	7,684	15,004
Changes in working capital			
Decrease in inventories	55	223	309
Decrease in trade and other receivables	2,254	1,364	5,775
Decrease in trade and other payables	(2,391)	(466)	(1,467)
Cash generated from operations	9,804	8,805	19,621
Adjusted cash generated from operations¹	10,248	9,236	21,289
Cash costs of exceptional items	(444)	(431)	(1,668)
Cash generated from operations	9,804	8,805	19,621
Tax paid	(248)	(38)	(1,873)
Net cash generated from operating activities	9,556	8,767	17,748
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	-	-	665
Purchase of property, plant and equipment	(2,081)	(2,884)	(4,665)
Purchase of intangible fixed assets	(186)	-	(564)
Net cash used in investing activities	(2,267)	(2,884)	(4,564)
Cash flows from financing activities			
Dividends paid	(1,491)	-	(597)
Share buy-back	(278)	-	-
Interest paid	(440)	(545)	(1,044)
Repayment of borrowings / finance leases	(1,550)	(1,613)	(1,918)
Payment of IFRS 16 lease liabilities	(1,571)	-	-
Repayment of revolving credit facility	(7,000)	(3,500)	(8,500)
Net cash used in financing activities	(12,330)	(5,658)	(12,059)
Net increase in cash and cash equivalents	(5,041)	225	1,125
Cash and cash equivalents at beginning of period	7,206	6,089	6,089
Effect of exchange rates	18	(32)	(8)
Cash and cash equivalents at end of the period	2,183	6,282	7,206

Consolidated statement of changes in equity

	Share Capital	Share Premium	Capital Redemption Reserve	Own Shares Held in Treasury	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2018	149	65,588	(9,454)	-	21,565	77,848
Loss for the period	-	-	-	-	(571)	(571)
Transactions with owners						
Share-based payments	-	-	-	-	204	204
Other comprehensive income						
Currency translation differences	-	-	-	-	(28)	(28)
At 30 September 2018	149	65,588	(9,454)	-	21,170	77,453
Loss for the period	-	-	-	-	(1,396)	(1,396)
Transactions with owners						
Share-based payments	-	-	-	-	149	149
Dividends paid	-	-	-	-	(597)	(597)
Other comprehensive income						
Currency translation differences	-	-	-	-	36	36
At 31 March 2019	149	65,588	(9,454)	-	19,362	75,645
Adjustment on initial application of IFRS 16	-	-	-	-	(2,429)	(2,429)
Profit for the period	-	-	-	-	506	506
Transactions with owners						
Share-based payments	-	-	-	-	62	62
Share buyback	-	-	-	(278)	-	(278)
Issue of new shares	-	148	-	-	-	148
Dividends paid	-	-	-	-	(1,491)	(1,491)
Other comprehensive income						
Currency translation differences	-	-	-	-	39	39
At 30 September 2019	149	65,736	(9,454)	(278)	16,049	72,202

Notes to the half year financial statements

1. General information

The financial statements for the six months ended 30 September 2019 and the six months ended 30 September 2018 do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2019 were approved by the Board of Directors on 25 June 2019 and delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

These condensed half year financial statements were approved for issue by the Board of Directors on 27 November 2019.

Redcentric plc ('the Company') is a company domiciled in England and Wales. These condensed half year financial statements comprise the Company and its subsidiaries (together referred to as 'the Company' or 'the Group'). The principal activity of the Company is the supply of IT managed services.

2. Basis of preparation

These condensed half year financial statements for the half year ended 30 September 2019 have been prepared in accordance with the AIM Rules for Companies, comply with IAS 34 Interim Financial Reporting as adopted by the European Union and should be read in conjunction with the annual financial statements for the year ended 31 March 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The directors have reviewed a detailed trading and cash flow forecast for a period which covers at least 12 months after the date of approval of these condensed half year financial statements. There is a high and continuing level of recurring revenue and high cash conversion is anticipated for the foreseeable future.

As at 30 September 2019 the Company had committed a revolving credit facility (RCF) of £17.5m, an overdraft facility of £2.0m and a £6m asset financing facility. In addition, the Company has access to a £20m accordion facility. At 30 September 2019 £5.0m of the RCF and £2.0m of the overdraft was undrawn. During the period, the continuing strength of operating cash flows enabled the Company to cancel £7.5m of unused RCF facility. These current facilities expire on 30 November 2020, with dialogue underway with the lenders to determine the appropriate quantum and facility required beyond this date. The Directors are not aware of any facts or circumstances that would prevent this refinancing process from being successful.

After careful enquiry and review of available financial information, the directors have formed the conclusion that the Company has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of these half year financial statements.

The financial information is presented in sterling, which is the functional currency of the Company. All financial information presented has been rounded to the nearest thousand.

3. Accounting policies

Except for the adoption of IFRS 16 Leases, detailed below, the accounting policies applied in these interim financial statements are the same as those applied in the Company's annual report and accounts for the year ended 31 March 2019. Following the adoption of IFRS 16, non-current assets now include the category of right-of-use assets, with depreciation provided on these on a straight-line basis over the shorter of the lease term and its useful life. For property, plant and equipment funded through finance leases, where there is reasonable certainty that the Company obtains ownership by the end of the lease term, depreciation is provided on a straight line basis over the useful life, otherwise it's provided over the shorter of the useful life and the lease term.

IFRS 16 Leases

The Company has adopted IFRS 16 Leases from 1 April 2019, replacing IAS 17, using the modified retrospective approach. The cumulative effect of initial application is recognised in retained earnings at 1 April 2019 and accordingly comparative information presented has not been restated.

IFRS 16 has introduced a single on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets, and lease liabilities representing its obligation to make lease payments. The Company has presented its right-of-use assets and lease liabilities on the face of the balance sheet. The table below summarises the impact on transition, the Company recognising an adjustment of £2,429,000 to opening retained earnings.

1 April 2019
£'000

Right-of-use assets	22,182
Trade and other receivables (deferred lease incentives derecognised)	(132)
Current lease liabilities	(1,989)
Non-current lease liabilities	(22,490)
Retained earnings	(2,429)

In relation to those leases under IFRS 16, the Company now recognises depreciation and interest costs, instead of an operating lease expense. During the six months ended 30 September 2019, this amounted to £1.1m of depreciation charges and £0.6m of interest costs from these leases.

The impact of IFRS 16 on the consolidated income statement, consolidated statement of financial position, and consolidated cash flow statement for the six months ended 30 September 2019 is set out in Appendix 1.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at an incremental borrowing rate which reflects the characteristics of the underlying lease, at 1 April 2019. The weighted average incremental borrowing rate applied is 5.1%.

Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted by the Company's incremental borrowing rate as at 1 April 2019. The Company has applied this methodology to the majority of its property leases where the required historical information is available; or
- an amount equal to the lease liability, adjusted for prepaid / accrued lease payments. This method has been applied to the small number of non-property leases.

The Company has applied the following practical expedients on transition:

- leases for underlying assets that have a low value (less than £5,000) or where the remaining lease term on transition was less than 12 months have been excluded;
- a single discount rate applied to its small portfolio of car leases; and
- reliance on previous assessments on whether leases are onerous instead of performing impairment reviews under IAS 36

The table below reconciles the Company's operating lease commitment at 31 March 2019, under IAS 17, to the lease liability now being recognised under IFRS 16.

	1 April 2019 £'000
Operating lease commitment at 31 March 2019 as disclosed in the Company's consolidated financial statements	32,665
Discounted using the incremental borrowing rate at 1 April 2019	24,513
Recognition exemption for leases of low value assets	(31)
Recognition exemption for leases with less than twelve months of lease term at transition	(3)
Lease liabilities recognised as at 1 April 2019	24,479

4. Critical accounting judgements and key sources of estimation uncertainty

The key source of estimation uncertainty that carries a significant risk of material change to the carrying value of assets liabilities within the next year is with regard to credit note provisioning, where provision is made for the value of credit notes that the Company expects to subsequently issue to correct for estimated inaccurate invoices issued to date. The basis for this estimation is unchanged from the 2019 annual report and accounts.

The Company has adopted IFRS 16 for the first time in these financial statements, with £23.5m of IFRS 16 lease liabilities, principally property leases, recognised at 30 September 2019. Judgement has been applied in determining whether a contract contains a lease and the anticipated tenure length on these leases (whether or not break clauses will be exercised has been determined based on our historical experience and expectations for future trading and capacity requirements). Estimations have been made with regard to discount rates applied.

The FCA investigation is still ongoing and has not yet reached its conclusion. Until such stage as the FCA's intention becomes clearer, the Directors are not able to judge whether a fine will be likely, and accordingly, consistent with the treatment in the 2019 annual report and accounts, no provision has been made.

5. Principal risks and uncertainties

The 2019 annual report and accounts describes the principal risks and uncertainties that could impact the Group's performance. These relate to reliance on key personnel and management, market and economic conditions, technology advancement and security, infrastructure failure, and the ongoing FCA investigation. These remain unchanged since the annual report was published and are not expected to change for the remaining six months of the financial year. Identifying, evaluating and managing the principal risks and uncertainties facing the Group is an integral part of the way Redcentric operates.

It is not anticipated that Brexit will have a material direct effect on the Group as it is not a significant exporter or importer of goods or services. There are potential indirect effects, including exchange rate volatility affecting the value of sterling, and delays in customers discretionary spending, which could have a negative impact on the Group's prospects, but the scale and timing of these is far from certain. The Group will continue to monitor the progress of the negotiations of the terms under which the UK will leave the EU.

6. Forward-looking statements

Certain statements in this half year report are forward-looking. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

7. Segmental reporting

IFRS 8 requires operating segments to be identified based on internal financial information reported to the chief operating decision-maker for decision-making purposes. The Group considers that this role is performed by the main Board. The Board believes that the Group continues to comprise a single reporting segment, being the provision of managed services to customers.

8. Revenue analysis

Revenue is analysed as follows:

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Recurring revenue	38,810	41,322	80,544
Product revenue	2,079	3,328	5,810
Services revenue	2,263	2,802	6,906
Total revenue	43,152	47,452	93,260

9. Exceptional items

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Professional fees associated with Financial Conduct Authority investigation	67	243	554
Staff restructuring	102	-	804
Vacant property provisions	-	-	553
	169	243	1,911

10. Finance income and costs

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Finance income			
Other interest receivable	-	12	13
	-	12	13
Finance costs			
Interest payable on bank loans and overdrafts	(308)	(509)	(947)
Interest payable on finance leases	(666)	(41)	(93)
Amortisation of loan arrangement fees	(43)	(34)	(51)
	(1,017)	(584)	(1,091)

For the six months to 30 September 2019 interest payable on finance leases includes £597,000 of IFRS 16 interest expense.

11. Income tax expense

The tax expense recognised reflects management estimates of the tax charge for the period and has been calculated using the estimated average tax rate of UK corporation tax for the financial year of 19.0% (H1-19: 19.0%)

12. Earnings per share (EPS)

The calculation of basic and diluted EPS is based on the following earnings and number of shares.

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Earnings			
Statutory earnings	506	(571)	(1,967)
Tax charge	381	449	604
Amortisation of acquired intangibles	3,126	3,126	6,252
Share-based payments	253	240	366
Exceptional items	169	243	1,911
Adjusted earnings before tax	4,435	3,487	7,166
Notional tax charge at standard rate	(843)	(662)	(1,362)
Adjusted earnings	3,592	2,825	5,804
Weighted average number of ordinary shares	Number '000	Number '000	Number '000
Total shares in issue	149,311	149,135	149,135
Shares held in treasury	(327)	-	-
For basic EPS calculations	148,984	149,135	149,135
Effect of potentially dilutive share options	1,915	1,455	1,141
For diluted EPS calculations	150,899	150,590	150,276
EPS	Pence	Pence	Pence
Basic	0.34p	(0.38)p	(1.32)p
Adjusted	2.41p	1.89p	3.89p
Basic diluted	0.34p	(0.38)p	(1.32)p
Adjusted diluted	2.38p	1.88p	3.86p

13. Dividends

In relation to the 2019 financial year an interim dividend of 0.4p was paid on 21 December 2018 amounting to £597,000 followed by a final dividend of 1p on 6 September 2019 amounting to £1,491,000. For the 2020 financial year, the Directors have approved an interim dividend of 0.83p, which will be payable on 10 January 2020, to shareholders on the register at the close of business on 6 December 2019. This interim dividend, which will amount to approximately £1,237,000, has not been recognised as a liability in these financial statements.

14. Right-of-use assets

	Leasehold property £000	Vehicles & computer equipment £000	Total £000
Cost			
At 1 April 2018, 30 September 2018 and 31 March 2019	-	-	-
Effect of initial application of IFRS 16	29,423	657	30,080
At 30 September 2019	29,423	657	30,080
Accumulated depreciation			
At 1 April 2018, 30 September 2018 and 31 March 2019	-	-	-
Effect of initial application of IFRS 16	7,898	-	7,898
Charged in period	1,005	98	1,103
At 30 September 2019	8,903	98	9,001
Net book value			
At 30 September 2019	20,520	559	21,079
At 1 April 2018, 30 September 2018 and 31 March 2019	-	-	-

15. Trade and other receivables

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Trade Receivables	10,345	11,242	13,112
Less: credit note provision	(1,356)	(1,057)	(1,521)
Trade receivables – net	8,989	10,185	11,591
Other receivables	233	270	194
Prepayments	5,814	8,170	6,133
Commission contract asset	2,438	-	2,040
Accrued income	2,047	3,885	1,949
Corporation tax	-	-	196
Total	19,521	22,510	22,103

Trade debtor days were 40 at 30 September 2019 (30 September 2018: 44). The ageing of trade receivables is shown below:

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Current	7,484	7,946	9,074
1 to 30 days overdue	1,777	1,112	2,628
31 to 60 days overdue	586	1,150	505
61 to 90 days overdue	217	182	99
91 to 180 days overdue	138	470	390
> 180 days overdue	143	382	416
Gross trade debtors	10,345	11,242	13,112
Credit note provision	(1,356)	(1,057)	(1,521)
Net trade debtors	8,989	10,185	11,591

16. Trade and other payables

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Trade Payables	5,989	6,524	6,603
Other Payables	391	233	275
Taxation and Social Security	2,281	2,142	3,249
Accruals	2,849	2,959	3,028
Deferred Income	8,112	7,759	9,142
Total	19,622	19,617	22,297

Trade creditor days were 44 at 30 September 2019 (30 September 2018: 31).

17. Borrowings

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Current			
Finance Leases	-	3,091	2,762
Term Loans	187	-	294
Unamortised loan arrangement fees	(60)	-	-
Total	127	3,091	3,056
Non-current			
Bank Loan	12,500	24,500	19,500
Finance leases	-	1,414	2,214
Term loans	69	-	69
Unamortised loan arrangement fees	(4)	(102)	(68)
Total	12,565	25,812	21,715

Following the adoption of IFRS 16, for the six months to 30 September 2019 current finance lease liabilities of £2,554,000, and non-current finance lease liabilities of £3,462,000, have been presented as lease liabilities on the face of the consolidated statement of financial position.

18. Provisions

	Dilapidations provision £'000	Vacant property provision £'000	Total provision £'000
At 1 April 2018	376	-	376
Additional provisions created during the period	154	-	154
At 30 September 2018	530	-	530
Additional provisions created during the period	(34)	538	504
Utilised during the period	-	(4)	(4)
At 31 March 2019	496	534	1,030
Additional provisions created during the period	60	-	60
Utilised during the period	-	(47)	(47)
At 30 September 2019	556	487	1,043
Analysed as:			
Current	-	150	150
Non-current	556	337	893
	556	487	1,043

19. Share capital and share premium

	Ordinary shares of 0.1p each		Share premium
	Number	£'000	£'000
At 1 April 2018, 30 September 2018 and 31 March 2019	149,135,316	149	65,588
New shares issued	175,397	-	148
At 30 September 2019	149,310,713	149	65,736

During the period the Company purchased, and held in treasury, 326,905 of its ordinary share capital for total proceeds of £278,000. The total shares held in treasury at 30 September 2019 was 326,905 (30 September 2018: Nil; 31 March 2019: Nil)

Appendix 1: Impact of IFRS 16

Consolidated statement of comprehensive income

	Six months to 30 Sept 2019 pre IFRS 16 £'000	Impact of IFRS 16 £'000	Six months to 30 Sept 2019 as reported £'000	Six months to 30 Sept 2018 £'000
Revenue	43,152	-	43,152	47,452
Cost of sales	(15,319)	-	(15,319)	(19,084)
Gross Profit	27,833	-	27,833	28,368
Operating expenditure	(26,397)	468	(25,929)	(27,918)
Adjusted EBITDA	8,759	1,571	10,330	8,115
Depreciation	(3,171)	(1,103)	(4,274)	(3,493)
Amortisation of intangibles	(3,730)	-	(3,730)	(3,689)
Exceptional items	(169)	-	(169)	(243)
Share-based payments	(253)	-	(253)	(240)
Operating profit / (loss)	1,436	468	1,904	450
Finance income	-	-	-	12
Finance costs	(420)	(597)	(1,017)	(584)
Profit / (loss) on ordinary activities before taxation	1,016	(129)	887	(122)
Income tax expense	(406)	25	(381)	(449)
Profit / (loss) for the period attributable to owners of the parent	610	(104)	506	(571)
Other comprehensive income				
Items that may be classified to profit or loss:				
Currency translation differences	39	-	39	(28)
Total comprehensive income / (loss) for the period	649	(104)	545	(599)
Earnings per share				
Basic earnings/(loss) per share	0.41p	(0.07)p	0.34p	(0.38)p
Diluted earnings/(loss) per share	0.40p	(0.06)p	0.34p	(0.38)p

Consolidated statement of financial position

	30 Sept 2019 pre IFRS 16 £'000	Impact of IFRS 16 £'000	30 Sept 2019 as reported	30 September 2018 £'000
Non-Current Assets				
Intangible assets	72,354	-	72,354	79,436
Property, plant and equipment	19,438	-	19,438	19,173
Right-of-use assets	-	21,079	21,079	-
Deferred tax asset	307	-	307	-
	92,099	21,079	113,178	98,609
Current Assets				
Inventories	302	-	302	443
Trade and other receivables	19,653	(132)	19,521	22,510
Cash and short-term deposits	2,183	-	2,183	6,282
	22,138	(132)	22,006	29,235
Total assets	114,237	20,947	135,184	127,844
Current Liabilities				
Trade and other payables	(19,622)	-	(19,622)	(19,617)
Corporation tax payable	(129)	25	(104)	(836)
Lease liabilities	-	(4,512)	(4,512)	-
Borrowings	(2,681)	2,554	(127)	(3,091)
Provisions	(150)	-	(150)	-
	(22,582)	(1,933)	(24,515)	(23,544)
Non-current liabilities				
Deferred tax liability	-	-	-	(506)
Lease liabilities	-	(25,009)	(25,009)	-
Borrowings	(16,027)	3,462	(12,565)	(25,812)
Provisions	(893)	-	(893)	(530)
	(16,920)	(21,547)	(38,467)	(26,848)
Total liabilities	(39,502)	(23,481)	(62,982)	(50,392)
Net assets	74,735	(2,533)	72,202	77,452
Equity				
Called up share capital	149	-	149	149
Share premium account	65,736	-	65,736	65,588
Capital redemption reserve	(9,454)	-	(9,454)	(9,454)
Own shares held in treasury	(278)	-	(278)	-
Retained earnings	18,582	(2,533)	16,049	21,169
Total Equity	74,735	(2,533)	72,202	77,452

The impact of IFRS 16 on current lease liabilities of £4,512,000 comprises £1,958,000 of lease liabilities arising from the adoption of IFRS 16 and £2,554,000 of existing IAS 17 finance leases re-presented from current borrowings.

The impact of IFRS 16 on non-current lease liabilities of £25,009,000 comprises £21,547,000 of lease liabilities arising from the adoption of IFRS 16 and £3,462,000 of existing IAS 17 finance leases re-presented from non-current borrowings.

Consolidated cash flow statement

	Six months to 30 Sept 2019		Six months to 30 Sept 2019 as reported	Six months to 30 Sept 2018
	pre IFRS 16 £'000	Impact of IFRS 16 £'000		£'000
Operating profit	1,436	468	1,904	450
Adjustment for non-cash items				
Depreciation and amortisation	6,901	1,103	8,004	7,182
Exceptional items	169	-	169	243
Share-based payments	253	-	253	240
Operating cash flow before exceptional items and movements in working capital	8,759	1,571	10,330	8,115
Loss on sale of fixed asset	-	-	-	-
Exceptional items and NI on share-based payments	(444)	-	(444)	(431)
Operating cash flow before changes in working capital	8,315	1,571	9,886	7,684
Changes in working capital				
Decrease in inventories	55	-	55	223
Decrease in trade and other receivables	2,254	-	2,254	1,364
Decrease in trade and other payables	(2,391)	-	(2,391)	(466)
Cash generated from operations	8,233	1,571	9,804	8,805
Adjusted cash generated from operations	8,677	1,571	10,248	9,236
Cash costs of exceptional items	(444)	-	(444)	(431)
Cash generated from operations	8,233	1,571	9,804	8,805
Tax paid	(248)	-	(248)	(38)
Net cash generated from operating activities	7,985	1,571	9,556	8,767
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	-	-	-	-
Purchase of property, plant and equipment	(2,081)	-	(2,081)	(2,884)
Purchase of intangible fixed assets	(186)	-	(186)	-
Net cash used in investing activities	(2,267)	-	(2,267)	(2,884)
Cash flows from financing activities				
Dividends paid	(1,491)	-	(1,491)	-
Share buy-back	(278)	-	(278)	-
Interest paid	(440)	-	(440)	(545)
Repayment of borrowings / finance leases	(1,550)	-	(1,550)	(1,613)
Payment of IFRS 16 lease liabilities	-	(1,571)	(1,571)	-
Repayment of revolving credit facility	(7,000)	-	(7,000)	(3,500)
Net cash used in financing activities	(10,759)	(1,571)	(12,330)	(5,658)
Net increase in cash and cash equivalents	(5,041)	-	(5,041)	225
Cash and cash equivalents at beginning of period	7,206	-	7,206	6,089
Effect of exchange rates	18	-	18	(32)
Cash and cash equivalents at end of the period	2,183	-	2,183	6,282

Appendix 2: Alternative performance measures (APMs)

This report contains certain financial measures (APMs) 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 monthly 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.

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Reported revenue	43,152	47,452	93,260
Non-recurring revenue	(4,342)	(6,130)	(12,716)
Recurring revenue	38,810	41,322	80,544

Adjusted EBITDA and adjusted EBITDA margin

Adjusted EBITDA is EBITDA excluding exceptional items (as set out in note 9) and share-based payments. The same adjustments are also made in determining the adjusted EBITDA margin. Items are only classified as exceptional due to their nature or size, and the Board considers that this metric provides the best measure of assessing underlying trading performance.

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Reported operating profit	1,904	450	(285)
Amortisation of intangible assets arising on business combinations	3,126	3,126	6,252
Amortisation of other intangible assets	604	563	1,140
Depreciation	4,274	3,493	7,330
EBITDA	9,908	7,632	14,437
Exceptional items	169	243	1,911
Share-based payments	253	240	366
Adjusted EBITDA	10,330	8,115	16,714

Adjusted operating profit, adjusted operating profit margin and adjusted earnings per share

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). The Board considers this adjusted measure of operating profit to provide the best metric of assessing underlying performance as it excludes exceptional items and the amortisation of acquired intangibles arising from business combinations which varies year on year dependent on the timing and size of any acquisitions.

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Reported operating profit	1,904	450	(285)
Amortisation of intangible assets arising on business combinations	3,126	3,126	6,252
Exceptional items	169	243	1,911
Share-based payments	253	240	366
Adjusted operating profit	5,452	4,059	8,244

The EPS calculation further adjusts for the tax impact of the operating profit adjustments, presented in note 12.

Adjusted operating costs

Adjusted operating costs are operating costs less depreciation, amortisation, exceptional items and share-based payments.

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Reported operating expenditure	25,929	27,918	56,650
Depreciation	(4,274)	(3,493)	(7,330)
Amortisation of intangibles	(3,730)	(3,689)	(7,392)
Exceptional items	(169)	(243)	(1,911)
Share-based payments	(253)	(240)	(366)
Adjusted operating expenditure	17,503	20,253	39,651

Adjusted cash generated from operations and adjusted operating cash conversion

Adjusted cash generated from operations adjusts for the cash costs of exceptional items, consistent with the adjusted EBITDA and operating profit measures. The same adjustments are also made in determining the adjusted cash conversion percentage.

	Six months to 30 Sept 2019 Unaudited £'000	Six months to 30 Sept 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Reported cash generated from operations	9,794	8,805	19,621
Share-based payments	444	431	1,668
Adjusted cash generated from operations	10,238	9,236	21,289