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Full Year Results
March 2021

2021

Report & accounts

Contents

Financials | year ended 31 March 2021 (FY-21)

David Senior – Chief Financial Officer

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FY-21 financial performance – revenue and profitability

Total revenue

£91.4m (+4.5%)

Recurring revenue (RMR) of £81.9m (+5.5%): 90% of total revenue (H1-20: 89%)

Operating costs

£33.4m (-3.5%)

Operating costs reduced by £1.2m (FY20: £34.6m) due to annualised impact of efficiency programmes. FY21 includes incremental £0.4m bonus cost.

Adjusted EBITDA*

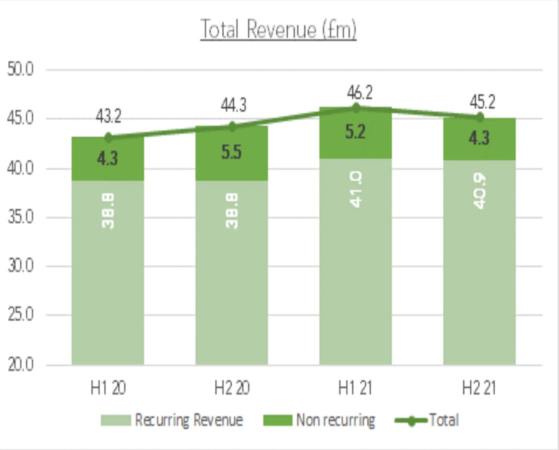
£24.6m (+19%)

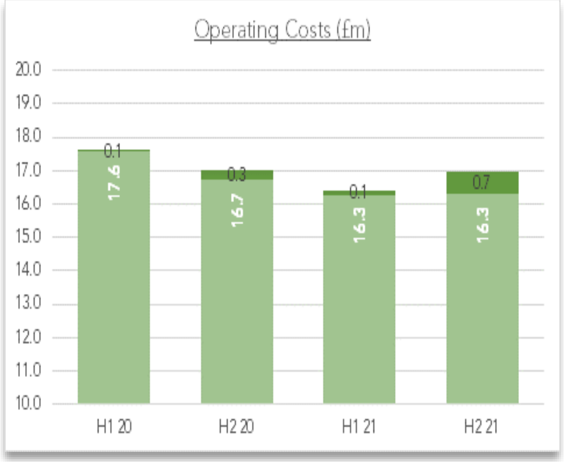
Adjusted EBITDA margins increased to 26.9% (FY20: 23.6%)

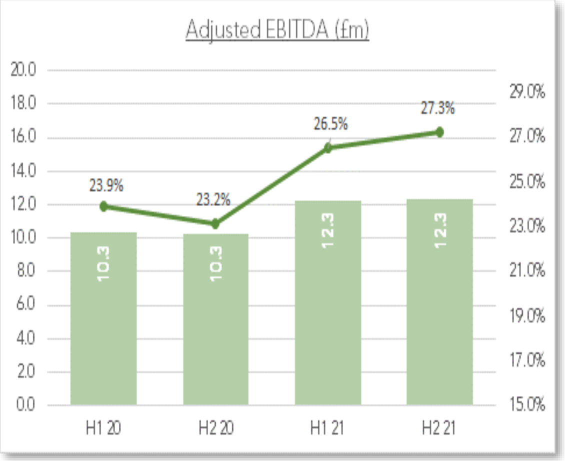
Adjusted EBITDA* less capex

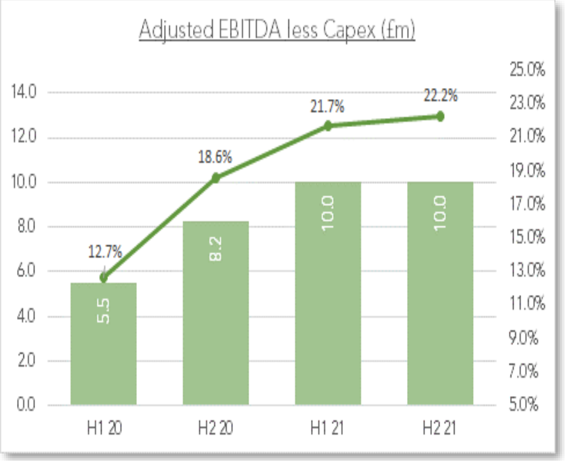
£20.1m (+44%)

Capex reduced to £4.5m (FY20: £6.9m) reflecting significant investment in last two years.









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

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FY-21 financial performance – liquidity & earnings

Normalised net debt reduction

£20.7m (+101%)

£10.3m increase on FY20, reflecting £6.8m improvement in operating cashflows & £2.5m lower Capex.

Net debt

£15.6m (-55%)

Reduction of £19.0m reflecting strong operating cash flows of £26.5m (FY20: £19.6m), IFRS16 lease modification (+£3.8m) and exceptionals (-£3.1m)

Trade debtors

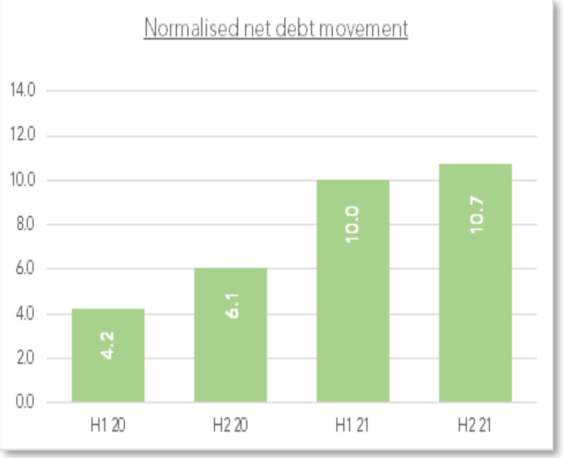
£10.3m (-25%)

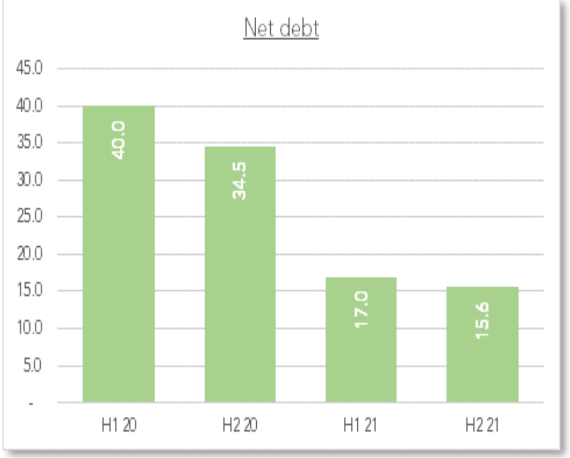
Exemplary trade debt profile with only £22k over three months old (FY20: £351k)

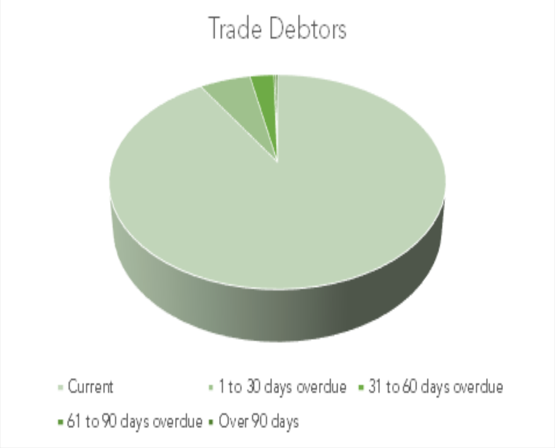
Adjusted earnings per share*

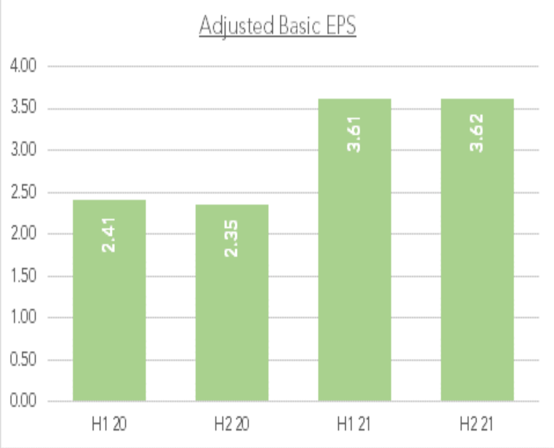
7.23p (+52%)

Increased profit growth drives adjusted EPS increase of 52%









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

Group income statement

	FY21	H2-21	H1-21	FY20	% Change
	('000s)	('000s)	('000s)	('000s)	%
Revenue	91,399	45,158	46,241	87,485	4.5%
Cost of Sales	(33,460)	(15,872)	(17,588)	(32,297)	3.6%
Gross Profit	**57,939**	**29,286**	**28,653**	**55,188**	**5.0%**
Gross Margin	*63.4%*	*64.9%*	*62.0%*	*63.1%*	*0.3%*
Operating Costs	(33,359)	(16,968)	(16,391)	(34,584)	(3.5)%
Adjusted EBITDA	**24,580**	**12,319**	**12,261**	**20,604**	**19.3%**
EBITDA Margin	*26.9%*	*27.3%*	*26.5%*	*23.6%*	*3.3%*
Depreciation & Amortisation	(15,677)	(7,885)	(7,792)	(16,263)	(3.6)%
Exceptional Items	4,782	5,877	(1,095)	(12,516)	(138.2)%
Share based payments	(687)	(393)	(294)	(562)	22.2%
Interest	(1,460)	(632)	(828)	(1,876)	(22.1)%
Loss before taxation	**11,538**	**9,285**	**2,252**	**(10,613)**	**(208.7)%**
Taxation	(2,311)	(2,165)	(146)	13	(17,876.9)%
Loss after tax	**9,227**	**7,120**	**2,106**	**(10,600)**	**(187.0)%**
Adjusted basic EPS	7.23p			4.76p	52.2%
Adjusted diluted EPS	7.12p			4.68p	52.1%

Headline revenue increased by 4.5%, recurring revenue increased by 5.5% and now represents 90% of total revenue (FY20: 89%).

Gross profit has increased by 5%. Overall gross margin improved by 0.3%, a 1.3% improvement due to the network and data centre rationalisation programme has been largely offset by renewal churn and Crown Hosting.

Operating costs have reduced by £1.2m (3.5%) of which £0.6m is due to the data centre and network rationalisation programme.

Adjusted EBITDA increased by 19.3%, and adjusted EBITDA margin increased to 26.9% (FY20: 23.6%), reflecting revenue growth and operational efficiency flowthrough.

Exceptional items largely relate to the profit on disposal of the EDF contract (£4.5m) and a release of provision following the closure of the restitution scheme (£2.2m).

Adjusted net debt

	FY21 ('000s)	H2-21 ('000s)	H1-21 ('000s)	FY20 ('000s)	% Change %
Adjusted EBITDA	24,580	12,319	12,261	20,604	19.3%
Working Capital movements	1,881	1,228	654	(957)	(296.6)%
Cash Generated from operations	26,461	13,546	12,915	19,647	34.7%
Fixed assets - cash purchases	(2,937)	(1,702)	(1,235)	(4,233)	(30.6)%
Fixed assets - finance leases	(2,235)	(1,254)	(981)	(2,402)	(7.0)%
Proceeds from sale and leaseback off assets	1,036	1,036			
Capital Expenditure	(4,136)	(1,920)	(2,216)	(6,635)	(37.7)%
Corporation tax	(149)	(298)	149	(660)	(77.4)%
Interest paid	(1,414)	(519)	(895)	(1,987)	(28.8)%
Non-cash movements	(17)	(58)	41	(51)	(66.7)%
Effect of exchange rates	(27)	(28)	1	(13)	107.7%
Normalised net debt movement	20,717	10,722	9,995	10,301	101.1%
- IFRS16 modifications	3,917	(304)	4,221	(23,013)	(117.0)%
- Non recurring expenses	(3,109)	(6,432)	3,323	(817)	280.5%
- Share buy-back				(724)	(100.0)%
- New supplier loans	(1,207)	(1,207)			
- New share issues	530	530			
- Dividend paid to shareholders	(1,868)	(1,868)		(2,731)	(31.6)%
	(1,737)	(9,281)	7,544	(27,285)	(93.6)%
Net decrease (increase) in net debt	18,980	1,441	17,539	(16,984)	(211.8)%
- Net debt at the beginning of the period	(34,549)	(17,010)	(34,549)	(17,565)	
Net debt at the end of the period	(15,568)	(15,568)	(17,010)	(34,549)	
Cash	5,250	5,250	6,946	3,709	
Revolving credit facility	0		(2,500)	(12,500)	
Finance Leases	(4,270)	(4,270)	(5,304)	(4,580)	
Net bank cash / (debt)	980	980	(858)	(13,371)	
Term loans / Supplier loans	(1,491)	(1,491)	(276)	(132)	
IFRS 16 Lease Liabilities	(15,058)	(15,058)	(15,876)	(21,046)	
Statutory Net Debt	(15,569)	(15,569)	(17,010)	(34,549)	

Net debt reduced by £19.0m primarily reflecting adjusted cash flow from operations of £26.5m, net capex of £4.1m, interest and tax of £1.6m, dividend payments of £1.9m and net restitution payments of £1.6m.

Operating cash conversion of 108% (FY20: - 96%). All customers that were offered COVID-19 support have complied with the terms of their agreement and we have experienced no significant bad debts.

Capital expenditure includes £1.9m of customer related equipment (FY20: £2.5m), net maintenance & growth capex of £2.6m (FY20: £4.4m) and reflects significant investment over the last two years.

Lease modifications on the Shoreditch and Cambridge properties create a reduction in lease liability of £3.9m.

As at 31 March 2021, the revolving credit facility was repaid in full and the Company had a year-end cash balance of £5.3m. An undrawn revolving credit facility of £5m remains in place at the year end.

Dividend policy

	FY21 ('000s)
Profit from operations for the period	**9,227.0**
Amortisation of acquired intangibles	6,252.0
Share based payments	687.0
Non recurring costs	(4,782.0)
Tax charge	2,311.0
Adjusted earnings before tax	**13,695.0**
Notional tax charge at 19%	2,602.1
Adjusted earnings	**11,093.0**
Number of shares in issue	156,144.5
Diluted basic earnings per share	5.93
Adjusted diluted earnings per share	7.12
- Interim DPS	1.20
- Final DPS	2.40
Dividend per Share	**3.60**
Interim dividend (1/3)	1,868.0
Final dividend (2/3)	3,678.5
Total dividend (50% of adjusted earnings)	**5,546.5**
Dividend cover	2.0
Dividend yield (Share prce @ 12 July 2021)	2.6%

- The board is recommending to shareholders a final dividend of 2.4p per share.
- The recommendation is in line with the pre-COVID dividend policy of 50% of adjusted earnings, with 1/3 interim and 2/3 final payable.
- The total cost of the final dividend will be £3.7m
- The following dates are proposed:
  - Ex-dividend date - 5 August 2021
  - Record date - 6 August 2021
  - Last day for DRIP elections - 20 August 2021
  - Payment date - 17 September 2021

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Operational review

Peter Brotherton – Chief Executive Officer

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Operational highlights – growth drivers

- Excellent FY21 organic revenue growth (RMR +5.5%) driven by:
  - Completion of the Health and Social Care Network (“HSCN”) rollouts
  - Strong cross sell of collaboration and security products and services into the HSCN contract base
  - Launch of new products and services:
    - A new secure remote access platform which was rapidly filled by customers requiring secure access to their mission critical systems;
    - A new Call2Teams product enabling our customers’ employees to make calls from Microsoft Teams routed through our BroadSoft IP telephony platform.
  - Demand for additional bandwidth
  - Notwithstanding the above, throughout the COVID-19 pandemic we have experienced customer delays regarding decisions on large-scale IT projects and we expect this to continue until the country returns to a more normalised position.

- Future growth drivers:
  - More new logos were signed up in the last twelve months than in the previous three years. Sales to these customers were low in value but history shows that smaller orders generally develop into significant relationships over the long term.
  - Sales team recently strengthened in anticipation of increased activity in H2 FY22
  - Any capability acquisition adding digital transformation and/or security skills would represent a very significant cross sell opportunity into both our existing and any acquired customer base.

Operational highlights – efficiencies and investments

- Significant cost reductions and operational efficiencies :
  - During the year, the network and data centre rationalisation programme was completed with resulting annualised savings of £4.0m, substantially ahead of the £2.8m expected at the commencement of the programme.

  - In October 2020, the finance and operations module of the Company's new enterprise resource planning ("ERP") system (D365) was launched:
    - The Company has now been operating on a fully integrated ERP system for nine months and the system is delivering clear benefits in terms of improved management information and more accurate and timely billing;
    - The second phase of development is underway with a view to launching a workflow module during H1 FY22.

  - New HR system to be introduced in H1 FY22 replacing five legacy systems.

  - Continued investment for growth with significant upgrades to the Shoreditch and Harrogate data centres:
    - Significant upgrade to the electrical infrastructure of the Shoreditch data centre, bringing the facility up to a tier three standard;
    - Installation of new chiller units into the Harrogate data centre has improved our carbon footprint and reduced electricity consumption in the facility by 6.5%.

  - New position of Head of Corporate Development created and financial advisors appointed to assist in delivering the inorganic growth strategy.

Operational highlights – other

- Sale of non-core business unit:
  - On 31 March 2021 the Company disposed of assets relating to a non-core business unit for £5.8m. During FY21 this business unit contributed £1.0m to revenue and £0.7m to EBITDA and operating cash flow.

- FCA settlement and restitution scheme:
  - In June 2020, a restitution scheme was established following the settlement reached with the Financial Conduct Authority in respect of the historical accounting misstatements which were announced in November 2016.
  - The scheme closed on 31 October 2020 with 82% of eligible claimants receiving compensation.
  - Total restitution payments of £8.4m were made, being satisfied by the issue of 1.3m new shares at a market value of £1.8m and cash payments of £6.6m.
  - To part fund the restitution scheme and the associated £0.8m of advisory fees, £5.8m was raised from shareholders in July 2020 through an issue of 5.3m new ordinary shares.

Inorganic growth strategy

Acquisitions to add capability

- Whilst the Company has good products and solutions, we would benefit from improved skills, expertise and proven experience in hyper-cloud solutions and security services.
- As well as widening our product and solutions base a digital transformation/hyper-cloud and/or security acquisition(s) would give us improved access to rapidly growing areas of the market.
- Given that these are skill acquisitions they tend to be smaller in scale and would typically have revenue of £5-£15m with 30 to 100 employees.
- Capability acquisitions would not necessarily give rise to large synergies and cost savings would normally be restricted to shared functions such as finance, HR & marketing.
- Capability acquisitions give rise to significant cross sell opportunities into both the existing and acquired customer bases.

Acquisitions to add scale

- Acquisitions for scale would typically involve businesses that are similar to Redcentric where we would look to acquire a large customer base and extract significant cost synergies. Dependant on the target, there may also be good cross sell opportunities.
- The high fixed costs associated with running networks and platforms means that significant synergies are available even in relatively small targets.
- Whilst we are not discounting larger acquisitions, it is our intention to focus on businesses that are approximately one third of the size of Redcentric, be it in terms of revenue (£25m-£40m), profitability (£3m-£7m) or valuation (£25m-£75m).
- We envisage that any acquisition completed in FY22 would be paid for with bank debt and cash generated by the business.
- We have a very supportive banking syndicate and given the high profit margins, strong balance sheet and exemplary cash generation, we are confident that we could borrow at least 2x the combined EBITDA of the post acquisition business. As at 30 June 2021, the company had a cash balance of £11.8m.

Summary & Outlook

Peter Brotherton – Chief Executive Officer

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Summary and outlook

Summary

- Sector-leading financial metrics including high recurring revenue (90%), strong EBITDA margins (27%) and excellent cash generation (net debt reduced by £19m).
- Network and data centre rationalisation programme complete, removing £4m from the cost base.
- Implementation of ERP system, providing operational platform to support organic and inorganic growth.
- Sale of non core business unit for £5.8m.
- Settlement reached with the FCA and restitution scheme completed with 82% of eligible claimants receiving compensation.

Outlook

- H1 trading performance expected to be broadly flat, with modest growth in revenues and profits in H2.
- Investment in sales team to yield benefit from H2 FY22 onwards.
- Continued focus on efficiency improvements.
- Emphasis on acquisitions to supplement organic growth strategy.
- Progressive dividend policy.

Company overview

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Company overview

Redcentric is a managed service provider delivering highly available connectivity, cloud and collaboration solutions that help public and private sector organisations succeed.

Formed in 2013 when Redstone reversed into InTechnology PLC. The group comprises of 7 historical acquisitions which are now all fully integrated.

5 locations, with the majority of the 300 UK employees based out of Harrogate and 100 working in our offshore facility in Hyderabad.
Dual 24/7 operation centres.

Growing business with FY21 revenues of £91.4m, adj. EBITDA of £24.6m (27%), adj. FCF of £17.5m and no bank debt.

c.1500 UK customers, with revenue focus in the upper quartile SME and lower quartile enterprise segments.
90% recurring revenues, 80% derived from the private sector and 20% from the public sector.

High level of ISO and Public Sector accreditations with presence on numerous public sector procurement frameworks.

Our Solutions & recurring revenue splits

Network

Connectivity

SD-WAN

Managed WAN

Secure Remote Access

LAN

Managed Wireless Networking

Network Security

54%

Cloud

Infrastructure as a Service

Platform as a Service

Hybrid Cloud

Data Backup

Colocation

Disaster Recovery

Hosted Desktop

Cloud Migration

24%

Communications

IP Telephony

Unified Communications

Collaboration

SIP Trunks

Call Recording & Voice AI

Call Reporting

CallConnect GP

14%

ICT

IT Consultancy

Implementation Services

Maintenance & Support

Supply Chain Management

8%