FULL YEAR RESULTS

YEAR ENDED 31 MARCH 2019

25 June 2019

redcentric
business technology. managed.

DISCLAIMER

IMPORTANT NOTICE

This document contains statements that are, or may be deemed to be, “forward-looking statements” which are prospective in nature. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Forward-looking statements are not based on historical facts, but rather on current predictions, expectations, beliefs, opinions, plans, objectives, goals, intentions and projections about future events, results of operations, prospects, financial condition and discussions of strategy.

By their nature, forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the control of Redcentric plc.

Neither Redcentric plc nor any of its subsidiaries or directors, officers or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. You are cautioned not to place undue reliance on these forward-looking statements which only speak as of the date of this document. Other than in accordance with its legal or regulatory obligations (including under the Market Abuse Regulation, the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), Redcentric plc is not under any obligation and Redcentric plc and its subsidiaries expressly disclaim any intention, obligation or undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. This document shall not, under any circumstances, create any implication that there has been no change in the business or affairs of Redcentric plc since the date of this document or that the information contained herein is correct as at any time subsequent to its date.

No statement in this document is intended as a profit forecast or a profit estimate and no statement in this document should be interpreted to mean that earnings per Redcentric plc share for the current or future financial years would necessarily match or exceed the historical published earnings per Redcentric plc share.

This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for any securities.

This presentation and a press release will be posted on the investor section of the Redcentric website.

CONTENTS

redcentric

HEADLINES

FINANCIAL

- Revenue of £93.3m
- Adjusted EBITDA of £16.7m
- Operating cash flow of £21.3m
- Net debt reduction of £10.1m
- Enhanced dividend policy and share buy back intentions announced

REVIEW OF FY19

- Strong conversion of HSCN and YHPSN opportunities with £16.8m of contract value signed
- Annualised cost savings of £5.0m realised
- Restructured sales and delivery teams providing focus on top line growth for FY20
- Upgrade of core network to a 100gb capacity
- Investment in new IaaS platform

OUTLOOK

- Maximise cross-sell opportunities into the recently won HSCN contracts
- YHPSN conversion
- Acquire further private sector new logos
- Continue to evolve our network product portfolio

redcentric

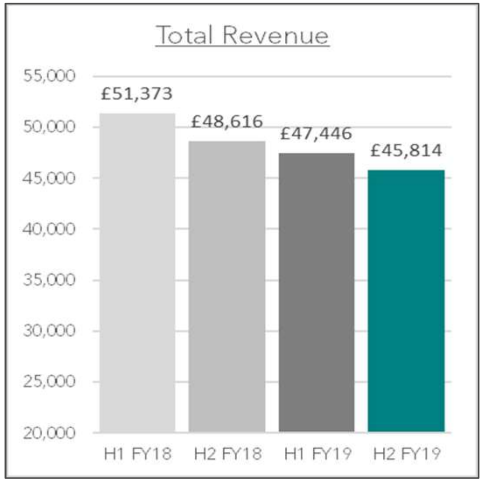
FINANCIALS

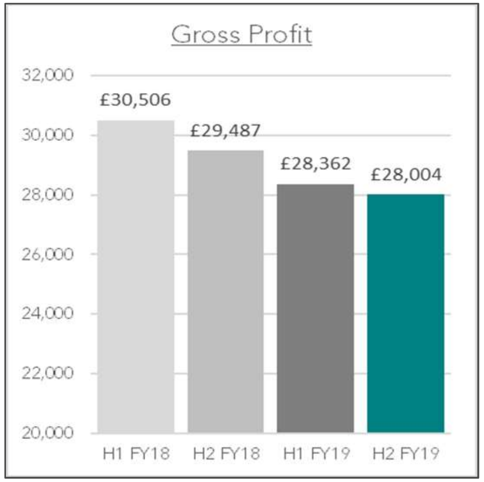
YEAR ENDED 31 MARCH 2019

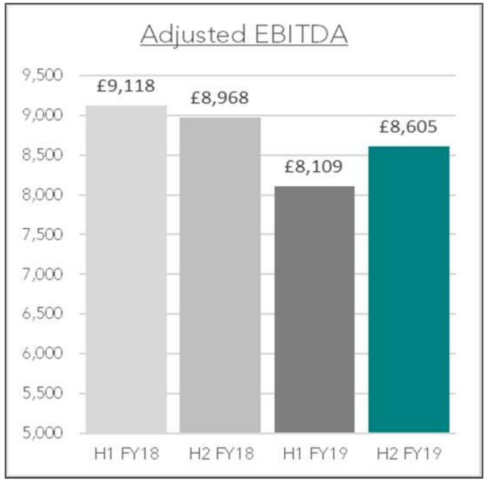
redcentric
business technology. managed.

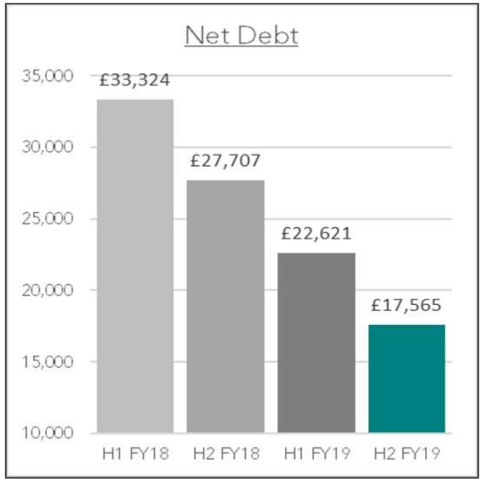
FY19 FINANCIAL PERFORMANCE

REVENUE	GROSS PROFIT	ADJUSTED EBITDA	NET DEBT
£93.3m (-6.7%)	£56.4m (-6.0%)	£16.7m (-7.6%)	£17.6m (-36.6%)
Recurring revenue (RMR) of £80.5m (-8%). 86% of total revenue (FY18: 87%)	Gross margin of 60.4% (FY18: 60.0%)	Adjusted EBITDA margin of 17.9% (FY18: 18.1%)	Reduction of £10.1m since 31 March 2019. Net debt to EBITDA ratio of 1.1x (FY18 2.4x)









redcentric

GROUP INCOME STATEMENT

	FY19	FY18	% Change
	('000s)	('000s)	
Revenue	93,260	99,990	(6.7)%
Cost of Sales	(36,895)	(39,996)	(7.8)%
Gross Profit	56,365	59,994	(6.0)%
Operating Costs	(39,651)	(41,909)	(5.4)%
Adjusted EBITDA	16,714	18,085	(7.6)%
EBITDA Margin	*17.9%*	*18.1%*	*(20) Bps*
Depreciation & Amortisation	(14,723)	(14,905)	(1.2)%
Exceptional items	(1,911)	(1,672)	14.3%
Share based payments	(366)	(568)	(35.6)%
Interest	(1,078)	(1,433)	(24.8)%
Loss before taxation	(1,363)	(493)	(176.5)%
Taxation	(604)	1,004	(160.2)%
Loss after tax	(1,967)	511	(484.9)%

Earnings per share	FY19	FY18	% Change
Adjusted basic EPS	3.89p	4.35p	(10.6)%
Adjusted diluted EPS	3.86p	4.32p	(10.6)%

- Revenue declined year on year by 6.7% to £93.4m. Recurring revenue mix remained flat at 86% of total revenue.
- Gross profit decreased by 6.0%. Overall gross margin increased slightly due to supplier renegotiations of direct costs.
- Operating costs have reduced by 5.4% mainly due to headcount reduction, partly offset by increases to licensing and shared infrastructure costs.
- Reduction in share based payment expense as MXC options fully expensed by end of FY18 (these have now lapsed in FY19).
- Exceptional items have increased by 14.3%, due to onerous lease provision for the Theale office. FCA related costs reduced by £0.1m in FY19.

redcentric

NET DEBT

	FY19	FY18	% Change
	('000s)	('000s)	
Adjusted EBITDA	16,714	18,085	(7.6)%
Working capital movements	4,575	4,559	0.4%
Cash generated from operations	21,289	22,644	(6.0)%
Fixed assets – cash purchases	(5,229)	(3,982)	31.3%
Fixed assets – finance leases	(1,325)	(2,976)	(55.5)%
Sale of fixed asset	665	-	100.0%
Capital expenditure	(5,889)	(6,958)	(15.4)%
Corporation tax	(1,873)	217	(963.1)%
Interest paid	(1,044)	(1,246)	(16.2)%
Non-cash movements	(68)	(68)	(0.0)%
Effect of exchange rates	(8)	44	(118.2)%
Normalised net debt movement	12,407	14,633	(15.2)%
Non-recurring expenses	(1,668)	(3,002)	(44.4)%
New share issues	-	193	(100.0)%
Dividend paid to shareholders	(597)	-	100.0%
	(2,265)	(2,809)	(19.4)%
Net decrease/(increase) in net debt	10,142	11,824	(14.2)%

Material reduction of net debt of £10.1m

Operating cash conversion of 127%

Debtor days have reduced from 48.6 days to 38.8 days

High corporation tax payments in year. £885k related to prior years and £798k were payments on account

Banking facility £19.5m (FY18 £25.0m) with headroom of £5.5m (FY18 £15.0m)

redcentric

DIVIDEND POLICY AND SHARE BUYBACK

Dividend

- At the half year we reinstated a progressive dividend policy based on a pay out of 25% of adjusted earnings.
- An interim dividend of 0.4p per share was paid in December 2018.
- With these results we are announcing an enhancement to the previously announced dividend policy, with future pay-outs now based on 50% of adjusted earnings.
- As a result, the Board has declared a final dividend of 1.0p per share which will be paid in July 2019.

Share buy back

- At the upcoming AGM, the Board will be asking shareholders for authority to acquire up to 5% of the issued share capital of the company.

REVIEW OF FY19

redcentric
business technology. managed.

FY19 REVIEW – MARKET CONTEXT

PUBLIC SECTOR HOSTING BUSINESS

The migration of Public Sector hosting business away from Redcentric and into Crown Hosting data centres has had a material impact on the Company's financial performance over the last three years.

- Due to the fixed cost nature of data centres, the profit effect has been very significant at circa 90% of lost revenues.
- In FY17 public sector hosting revenue was £8.2m
- The FY19 revenue was £4.4m, a decline of £1.7m on FY18.
- FY20 revenues are expected to decline by £2.6m.
- All public sector hosting business is expected to have migrated to Crown Hosting or the Hyper-cloud by the end of FY21.

COMPETITIVE ENVIRONMENT

The majority of customer contracts are now aligned to market rates.

- Most of our customer base has been through at least one renewal cycle in the last 36 months and so the full effect of the competitive environment is fully reflected in the Company's numbers.
- Whilst the competitive pressure still exists, prices appear to be stabilising and our contracts are now aligned to the market.

redcentric

FY19 REVIEW – ORGANISATIONAL AND OPERATIONAL EFFICIENCIES

ORGANISATIONAL DESIGN

Restructured sales and delivery teams to provide focus on top line growth for FY20.

- Dedicated sales and delivery teams across public and private sector
- Investment in project management and engineering teams
- Service Delivery, Product Management and Pre-sales Technical teams within revised Sales function
- Enhanced Commercial Finance function
- Migration of operational headcount to India
- Sales team now incentivised on minimising future margin erosion upon renewal
- CFO recruited and joining 1st September 2019

COST EFFICIENCIES

We have continued to make the business more efficient, realising £5m of annualised savings:

- Streamlined several business functions
- Renegotiation of key supplier contracts
- Closed the Theale office
- Improved decommissioning processes
- Network rationalisation and optimisation

redcentric

FY19 REVIEW – STRONG MOMENTUM IN THE PUBLIC SECTOR

HSCN & YHPSN WINS

HSCN Partner	Term	Contract value £'000	Annualised revenue £'000
Worcester Health	5 years	£1,600	£300
Midlands & Lancashire	3 years	£800	£270
Bedford, Luton & Milton Keynes	5 years	£5,300	£1,000
East AP	3 years	£980	£260
Birmingham & Solihull	3 years	£2,200	£680
Sandwell & West	3 years	£1,300	£375
Telford & Wrekin	3 years	£570	£190
TOTAL		**£12,750**	**£3,075**

YHPSN	Term	Contract value £'000	Annualised revenue £'000
30 partners	5 years	£4,100	£860

PUBLIC SECTOR FOCUS

Much focus devoted to the conversion of opportunities in the public sector

- Revised approach adopted in H2 successfully addressed the HSCN procurement wave opportunities.
- YHPSN now on-boarded with increasing conversion in Q1 FY20.
- Performance in FY20 underpinned by dedicated sales and delivery teams.
- Cross-sell opportunity is material in FY20 for both HSCN and YHPSN. £1.7m IP telephony contract signed with Worcester Health (not included in this table).

redcentric

FY19 REVIEW – NETWORKS AND PLATFORMS

NETWORK UPGRADES AND EFFICIENCIES

We have continued to invest in our network which we see as a key part of our competitive offering.

- The network has been upgraded to allow 10gb connections.
- Work commenced on expanding the network to give a 100gb core.
- SD Wan proposition being developed for launch in FY20.
- Historic ring collapsed in to main network realising annualised savings of £600k.
- New controls and processes put in place to prevent paying for unrequired inventory.

PLATFORM UPGRADES

Investment in platforms

- New internal infrastructure as a service platform being implemented representing a significant upgrade on our current platform.
- Review of data centre strategy underway.

redcentric

SUMMARY & OUTLOOK

redcentric
business technology. managed.

SUMMARY AND OUTLOOK

SUMMARY

- The resolution of some of the historical issues has allowed us to increasingly focus our attention on the future.
- Organisational changes made to best position the business for the future
- Good progress in the public sector building momentum into FY20
- Cost efficiencies realised in year totalling £5m annualised
- Announcement of enhanced dividend and intended share buyback policies

OUTLOOK

- The effect of Crown Hosting will remain a challenge into FY20 with an anticipated further reduction in revenue of £2.6m from the latter
- Maximise cross-sell opportunities into the recently won HSCN contracts
- YHPSN conversion and cross-sell
- Win private sector new logos
- Continue to evolve our network product portfolio
- Our key strategic growth priorities, established in the second half of the year, will continue into FY20

redcentric

APPENDIX

redcentric
business technology. managed.

NEW ACCOUNTING STANDARDS

IFRS 15 Revenue from Contracts with Customers

- There were two main changes to the Company accounts when prepared under IFRS15. The first was in relation to the recognition of revenue for customer premises equipment (CPE) and the second was in relation to commission payments made to members of the sales department. Both are now spread over the life of the contract.
- As a result of the implementation of IFRS15 we have made an opening reserves adjustment of £(0.1)m, with prepayments increasing by £1.6m, accruals increasing by £0.8m and deferred income increasing by £0.9m
- As a result of implementing IFRS15, profits for the year have increased by £0.5m (£0.2m CPE and £0.3m commission).

IFRS 9 Financial Instruments

- Under IFRS9 the Company is required to recognise an allowance for forward looking expected credit loss.
- Historically, the Company has very little bad debt experience and hence the effect of implementing IFRS9 has been immaterial.
- We have, however, applied the same methodology to credit note provisioning which has resulted in a substantial increase in the provision of £0.5m at year end despite gross trade debtors declining.

IFRS 16 Leases

- This standard is only effective for accounting periods beginning on or after 1 January 2019 and so the FY19 numbers are not affected.
- Based on the work done to date in relation to IFRS 16, it is expected that the resulting lease liability and right-of-use asset to be recognised upon transition will be in the region of £25 million to £35 million.
- The financial impact on EBITDA is expected to be between £3 million and £5 million.

redcentric

IMPACT OF IFRS 15 ON FY19

Income Statement

	FY19 IFRS15	FY19 IAS 18	% Change
	('000s)	('000s)	
Revenue	93,260	93,053	(0.2)%
Cost of Sales	(36,895)	(36,895)	(0.0)%
Gross Profit	56,365	56,158	(0.4)%
Operating Costs	(39,651)	(39,989)	(0.9)%
Adjusted EBITDA	16,714	16,169	(3.3)%
EBITDA Margin	*17.9%*	*17.3%*	*(60) Bps*
Depreciation & Amortisation	(14,723)	(14,723)	(0.0)%
Exceptional items	(1,911)	(1,911)	(0.0)%
Share based payments	(366)	(366)	(0.0)%
Interest	(1,078)	(1,078)	(0.0)%
Loss before taxation	(1,363)	(1,906)	(39.6)%

Balance Sheet

	FY19 IFRS 15	FY19 IAS 18	% Change
	('000s)	('000s)	
Non-current assets	94,077	94,077	(0.0)%
Current assets	29,666	27,791	(6.3)%
Total Assets	123,743	121,868	(1.5)%
Current liabilities	25,502	24,095	(5.5)%
Non-current liabilities	22,596	22,596	(0.0)%
Total Liabilities	48,098	46,691	(2.9)%
Net Assets	75,645	75,177	(0.6)%
Share Capital and premium	65,737	65,737	(0.0)%
Other Reserves	(9,454)	(9,454)	(0.0)%
Retained earnings	19,362	18,894	(2.4)%
Total Equity	75,645	75,177	(0.6)%

redcentric

REDCENTRIC AT-A-GLANCE

CLOUD

Data centre space:

Computer processing and storage capacity rented to customers and managed on Redcentric or others' facilities.

CONNECTIVITY

Networks to connect and secure customers' sites to Redcentric and others' data centres, hyper cloud providers and the internet.

COLLABORATION

Person-to-person communication:

- Telephone systems on customers' premises and in Redcentric data centres
- Video-conferencing – mobile, desktop and rooms
- Fixed and mobile telephone calls & lines

INFORMATION & COMMUNICATIONS TECHNOLOGY

Provision, installation and support of hardware on customers' premises to enable service delivery:

- Switches and Wi-Fi for customers' employees, visitors and customers
- Firewalls to keep networks secure
- Break-fix support

redcentric