Redcentric plc

("Redcentric" or the "Company")

Preliminary results announcement for the year ended 31 March 2019

Redcentric plc (AIM: RCN), a leading UK IT managed services provider, today announces its full year results for the year ended 31 March 2019.

Financial Highlights

- Revenue of £93.3m (FY18: £100.0m), including £81.0m (86%) of recurring revenue (FY18: £87.1m, 87%)
- Adjusted EBITDA of £16.7m (FY18: £18.1m) and adjusted EBITDA margin of 17.9% (FY18 18.1%)
- Adjusted basic EPS of 3.89p (FY18: 4.35p). Statutory EPS of (1.32)p (FY18: 0.34p)
- Adjusted cash flow from operations of £21.3m (FY18: £22.6m)
- Net debt reduction of £10.1m to £17.6m (FY18: £27.7m)
- Enhanced dividend policy announced with a cover of 2x adjusted earnings, doubling the pay-out ratio announced at the half year
- Final dividend of 1.0p per share resulting in a total dividend for the year of 1.4p
- The Board to request authority for a share buyback programme of up to 5% of the issued share capital at the upcoming AGM

Operational Highlights

- Strong conversion of HSCN opportunities in FY19 with £12.8m of contract value signed
- Annualised cost savings of £5m realised in the second half of the year
- Restructured Sales team providing focus to top line growth for FY20
- Investment in dedicated Delivery teams
- Peter Brotherton appointed as permanent CEO
- New CFO appointed to join the business in September 2019

There will be a presentation for analysts held at 09:30hrs on 25 June 2019 at the offices of Tulchan Communications, 85 Fleet Street, EC4 1AE. Please contact redcentric@tulchangroup.com if you would like to attend.

Peter Brotherton, CEO, commented:

"We have made organisational and structural changes to best position the business for the future whilst at the same time progressing through historical issues that the business has faced. The second half of the year has seen success in the public sector with total contracts signed to date of £17m. Additionally we have realised annualised cost savings of £5m. Our cash performance continues to be excellent and this, combined with our overall confidence in the future of the Group, has allowed us to announce an improved dividend policy and seek authority to commence a share buyback programme."

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Chairman's statement

Overview

I am pleased to present Redcentric's results for the year ended 31 March 2019.

The Chief Executive's review highlights the progress made in addressing the significant challenges that the business has faced over the last three financial years and the positive steps taken this year to position the company for the future. The cost base has received considerable attention, ensuring that we have mitigated some customer losses. In the second half of the year, the business had particular success in the public sector by winning a number of the Health and Social Care Network (HSCN) tenders. The balance sheet is strong with exemplary cash flows for the year resulting in a net debt reduction of £10.1m. Our restructuring and attention to sales growth is our business imperative.

Financial results

Revenue declined by 6.7% to £93.3m, and adjusted EBITDA decreased from £18.1m to £16.7m. Statutory operating profit decreased from £0.9m to an operating loss of £0.3m.

Net debt fell from £27.7m to £17.6m, a decrease of £10.1m in the year.

Operating cash flows were particularly strong with a cash conversion of 127% reflecting a significant reduction in debtor days to 38.8 days at 31 March 2019 (48.6 days: 31 March 2018).

Dividend

At the half year we announced the reinstatement of a progressive dividend policy. An interim dividend of 0.4p was paid in December 2018, reflecting a dividend cover of 4 times adjusted earnings. In light of the continued excellent cash performance, the Board has re-evaluated this policy in the second half of the year and decided to increase the dividend to reflect a cover of 2 times adjusted earnings. This will result in a final dividend of 1.0p per share.

In addition to this enhanced dividend policy, the Board will also be seeking approval at the upcoming AGM to buy back up to 5% of the issued share capital of the Company.

Board Changes and people

In November 2018, Redcentric announced the resignation of Chris Jagusz from his directorship and position as Chief Executive Officer. Peter Brotherton, Chief Financial Officer, assumed an interim position as Chief Executive and we are pleased to report that he has now accepted the Board's invitation to become the permanent Chief Executive.

In February 2019, Stephen Puckett resigned from the Board as a Non-Executive Director and Chair of the Audit Committee, and Chris Rigg joined the Board as a Non-Executive Director. Jon Kempster has taken over Stephen's responsibility as Chair of the Audit Committee.

Finally, we are also pleased to announce that Dean Barber will be joining the Board as Chief Financial Officer and Executive Director on 1 September 2019.

My thanks to the Board for their support, and special thanks to our management and employees for their hard work and dedication to progress the Company's performance.

Outlook

The recent Board and management changes, operational improvements and financial stability of the Company, all demonstrate that we are well positioned for the future and a return to organic revenue growth.

Chris Cole

Non-Executive Chairman

Chief Executive's review

Overview

Over the last 12 months we have made significant progress in addressing historical issues and focussing on creating a platform for sustainable growth.

During the last three financial years the business has operated in a very competitive market, we have been materially affected by Crown Hosting and the FCA investigation has been ongoing.

Whilst the impact this year of these historical issues has been significant, both in terms of management attention and financial consequence, it is pleasing to report that they have largely worked their way through the business. In parallel, the positive steps that have been taken to address the structure and capability of the sales and delivery functions, coupled with significant cost efficiencies and improvements to our network and platforms, gives us confidence for FY20 and beyond.

FY19 focus and achievements

SALES FUNCTION

Significant progress has been made in the restructuring of the Sales function, with the objective of improving our capabilities and enabling our teams to adopt a consultative sales methodology.

We have created dedicated field and desk-based sales teams across both the public and private sectors, focusing on continuing to develop our relationships with our existing customers and new customer acquisition. These teams are supported by our Marketing, Service Delivery, Pre-sales technical and Product Management teams that are part of our revised Sales function.

We have made progress in the year to clearly identify our target markets and create propositions that deliver the requisite business outcomes for our customers. Our key growth priorities, established in the second half of the year, will continue into FY20 as we focus on: further developing our relationships with our customers in the public and private sector, maximising the potential of our public sector wins and acquiring new name business in the private sector.

To deliver against these priorities we have developed, over the course of the second half of the year, a marketing plan and go to market proposition underpinned by strategic vendors that leverages our provenance in both the public and private sector.

These changes have resulted in an enabled, proactive, motivated and capable team that has a clear set of strategic priorities and engagement across the public and private sectors.

DELIVERY FUNCTION

During the second half of the year we made a significant investment in our delivery function with dedicated project management and engineering teams created to support both the public and private sectors. This investment has increased the headcount in our delivery team by 20% and will initially focus on facilitating and expediting the delivery of the orders secured against the HSCN procurement waves and YHPSN framework in the last six months.

COST EFFICIENCIES

In the second half of the year annualised savings of £5m were realised.

We have rationalised and re-engineered our core network which has yielded annualised savings of £1.4m. A further £2m of annualised savings have been realised through renegotiation of supplier contracts in relation to direct costs.

Additionally, we reorganised and streamlined several business functions resulting in a headcount reduction of 20 and annualised savings of £1.5m. We also closed our Theale office and transferred the staff to our Reading data centre and office. This has yielded annualised savings of £130k and as there are 3 years remaining on the lease, an onerous lease exceptional charge of £553k has been made in the FY19 accounts.

PUBLIC SECTOR

Health and Social Care Network (HSCN)

During the year, much focus was devoted to the conversion of opportunities in the public sector and in particular those associated with HSCN. HSCN is replacing the legacy N3 network and provides the underlying network arrangements to help integrate and transform health and social care. Over the course of this year, suppliers tendered for, and were appointed to, frameworks across the country and this one-off process is now largely concluded.

In the initial stages, our approach to HSCN tendering was poor and this resulted in a very low conversion rate. We learned important lessons from this, and the Company took decisive steps to ensure that the pricing was appropriate to the project, the product list was aligned to customer demand and the overall sales process was substantially improved.

This action led to a strong performance in the public sector in the second half of the year with high levels of conversion and a more successful end to the tender process. As at the end of June 2019, we have secured contracts with 7 HSCN partners totalling £13m as follows:

Customer	***Average Contract Length***	***Total Contract Value***	***Total Annualised Revenue***
Worcester Health	5 years	£1,600k	£300k
Midlands & Lancashire	3 years	£800k	£270k
Bedford, Luton & Milton Keynes	5 years	£5,300k	£1,000k
East Aggregate Procurement	3 years	£980k	£260k
Birmingham & Solihull	3 years	£2,200k	£680k
Sandwell & West	3 years	£1,300k	£375k
Telford & Wrekin	3 years	£570k	£190k
TOTAL		**£12,750k**	**£3,075k**

In addition to revenues derived from connectivity services, there exists significant opportunity for cross-selling additional products. We have already been awarded a £1.7m contract for supplying IP telephony services to more than 6,000 users by Worcester Health. When fully rolled out this will equate to £300k additional annualised sales (N.B. these additional figures are not included in the above table).

Yorkshire and Humber Public Sector Network (YHPSN) Framework

During the second half of the year we put a number of actions in place to enable us to maximise the opportunity afforded by the YHPSN framework. We have made good progress across the framework and after our initial focus on health partners, we have now broadened our approach to include education and local government. This positive momentum has delivered a total contract value of £4.1m across more than 30 partners in the first quarter.

The Public Sector sales team will continue to focus on successful account management and sales and cross-selling opportunities. Their progress this year, in the second half particularly, demonstrates the momentum in this side of our business and we expect to see further progress in FY20. Looking forward, we now have the processes and structures in place to tender for contracts with confidence.

Crown Hosting

Due to our past success in public sector hosting we have been more exposed to the financial impact of the establishment of Crown Hosting than most of our competitors. In FY17 public sector hosting revenue amounted to £8.2m. This year's results reflect like for like revenue of £4.4m and we anticipate that by the end of FY21 all such business will have been migrated away from Redcentric.

PRODUCTS, NETWORKS AND PLATFORMS

The Company has continued to invest in its core network and operational platforms, which will underpin some key developments in FY20. These investments reinforce our view that it is our network infrastructure and capabilities that form our most important competitive advantage.

The connectivity portfolio is being upgraded to allow 10gb connections to terminate into the network, and we are also working on the overall expansion of the network to give a 100gb core. The need for this is driven by increased usage and demand from customers who require 10gb circuits from day one. Additionally, this will help future-proof the network as customer requirements change.

In parallel we are developing a robust software-defined wide area network offering for launch in FY20 which is intended to complement our core network technologies. This will afford our customers more flexibility and control whilst maintaining the high level of service that they have come to expect.

Whilst the trend towards the hyper-cloud continues, there is still customer demand for private shared cloud. To support this and to ensure the Company can offer the best service to its customers, we are upgrading its internal Infrastructure as a Service platform. This will increase the efficiency and stability of the service offered to customers and will also modernise the user experience. We have also developed and launched a range of transition and management services which will help our customers migrate their workloads to both Microsoft Azure and our own platforms.

External Updates

BREXIT

Whilst there is ongoing political and economic uncertainty as to the outcome of Brexit, we do not foresee any material impact on the Company as a result. The vast majority of our revenue is generated in the UK from UK based customers and all of our suppliers are UK based also. Any revenue from outside of the UK is immaterial.

FINANCIAL CONDUCT AUTHORITY

Unfortunately, the business continues to experience the effect of the FCA investigation. As well as diverting management time, significant costs are still being incurred (£0.6m in FY19 and £2.5m since November 2016), we are constrained in the markets into which we can sell, and strategic options are limited.

The FCA investigation is still ongoing and has not yet reached its conclusion. At this time, the FCA has not communicated how it intends to proceed and what, if any, action it might bring against the Company. Until such stage as the FCA's intention becomes clear, the Directors are not able to judge whether a fine will be likely and therefore whether we would need to make a relevant provision in the accounts. We continue to cooperate as fully as we can with the investigation and whilst the overall timing is out of our control, we are seeking to expedite it as soon as practicably possible.

Summary and outlook

We have had a productive year. The resolution of some of the historical issues has allowed us to increasingly focus our attention on the future. The ongoing investigation by the FCA and the effect of Crown Hosting will remain a challenge into FY20 with an anticipated further reduction in revenue of £2.6m from the latter.

We have taken positive steps to address the structure and capability of the sales and delivery functions, coupled with significant cost efficiencies and improvements to our network and platforms. Our key strategic growth priorities, established in the second half of the year, will continue into FY20 as we focus on: further developing the relationships with our customers in the public and private sector, maximising the potential of the YHPSN and other public sector frameworks and acquiring new business in the private sector.

Strong cash flows have been a consistent feature of the business and this, taken with the positive steps achieved throughout the year and the low levels of net debt, gives the Board confidence in the outlook for Redcentric. It also enables us to announce a revised and more substantial dividend policy with future dividends based on a pay-out of 50% of adjusted earnings. In addition, we will seek shareholder approval at the upcoming AGM for the authority to buy back up to 5% of the issued share capital of the Company.

Peter Brotherton
Chief Executive Officer
25 June 2019

Financial review

Financial highlights and overview

Statutory financial reporting measures	**Year ended**	Year ended	Variance	
Revenue	£93.3m	£100.0m	£(6.7)m	(6.7)%
Operating profit / (loss)	£(0.3)m	£0.9m	£(1.2)m	(133.3)%
Basic earnings per share	(1.32)p	0.34p	(1.66)p	(484.5)%
Net debt	£17.6m	£27.7m	£10.1m	(36.5)%
Adjusted performance measures (APMs)				
Adjusted EBITDA	£16.7m	£18.1m	£(1.4)m	(7.6)%
Adjusted EBITDA margin	17.9%	18.1%	(20)bps	
Adjusted cash generated from operations	£21.3m	£22.6m	£(1.3)m	(5.7)%
Adjusted operating cash conversion	127.3%	125.2%	201bps	
Adjusted operating profit	£8.2m	£9.4m	£(1.2)m	(12.6)%
Adjusted basic earnings per share	3.89p	4.35p	(0.46)p	(10.6)%

The Directors use the APMs listed above as they are critical to understanding the financial performance of the Group. Most of the Adjusted measures remove the impact of depreciation, amortisation, share based payments and exceptional costs as these are deemed to not be indicative of the underlying operational performance of the business.

As the APMs are not defined by IFRS, they may not be directly comparable with other companies who use similar measures.

APM	Definition	Reconciliation to equivalent IFRS measure of performance
Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation, exceptional costs and share-based payments	A reconciliation of this measure is provided in the consolidated income statement
Adjusted EBITDA margin	Adjusted EBITDA to revenue	Adjusted EBITDA less exceptional costs less share-based payments, all as a percentage of revenue
Adjusted cash generated from operations	Cash generated from operations add exceptional costs	Cash generated from operations less exceptional costs
Adjusted operating cash conversion	Adjusted cash generated from operations to adjusted EBITDA	Cash generated from operations less exceptional costs, divided by EBITDA
Adjusted operating profit	Operating profit add amortisation on acquired intangibles, exceptional costs and share based payments	Operating profit as disclosed on the consolidated income statement
Adjusted basic earnings per share	Adjusted earnings – profit/loss add amortisation (acquired intangibles), share based payments, exceptional costs, tax charge/credit	A reconciliation of this measure is provided in Note 9
Adjusted operating costs	Operating costs less depreciation, amortisation and share based payments and exceptional costs	Operating expenditure as outlined in the consolidated income statement

Revenue

Revenue for the year ended 31 March 2019 was £93.4m, a decrease of £6.7m on the previous financial year.

	Year ended 31 March 2019	Year ended 31 March 2018	Variance	
	£'000	£'000	£'000	%
Recurring revenue	**80,544**	87,065	(6,521)	(7.5)%
Product revenue	**5,810**	7,180	(1,369)	(19.1)%
Services revenue	**6,906**	5,745	1,161	20.2%
Total revenue	**93,260**	99,990	(6,730)	(6.7)%

The key revenue metric of RMR (recurring monthly revenue) was down 7.5% compared to last year and accounted for 86% of total revenue in-line with 2018 at 87%.

Gross profit

	Year ended 31 March 2019	Year ended 31 March 2018	Variance	
	£'000	£'000	£'000	%
Gross profit	**56,365**	59,994	(3,629)	(6.0)%
Gross margin	**60.4%**	60.0%		

Gross profit has decreased year on year due to a reduction in revenue. The overall gross margin has increased slightly due to a significant reduction in direct costs through supplier renegotiations and better management of all third-party costs.

Adjusted operating costs

	Year ended 31 March 2019	Year ended 31 March 2018	Variance	
	£'000	£'000	£'000	%
Staff costs (excluding share-based compensation)	**20,507**	23,292	(2,785)	(12.0)%
Office and data centre costs	**7,049**	6,942	107	1.5%
Network and equipment costs	**7,311**	6,805	506	7.4%
Other sales, general and administration costs	**2,693**	3,010	(317)	(10.5)%
Offshore costs	**2,091**	1,860	231	12.4%
Total adjusted operating costs	**39,651**	41,909	(2,258)	(5.4)%

Adjusted operating costs excludes depreciation, amortisation and share based payments.

Employees

Year-end headcount	**31 March**	31 March	Variance
UK	**310**	347	(37)
India	**156**	141	15
Total	**466**	488	(22)

Average headcount	**31 March**	31 March	Variance
UK	**329**	362	(33)
India	**150**	139	11

Total	**479**	501	(22)

Overall, adjusted operating costs for FY19 were £2.3m (5.4%) lower than FY18 as a result of the following:

- Headcount has reduced by 37 heads in the UK driving a favourable variance year on year of £2.8m. These reductions have not had an impact on the operational running of the business. One-off exceptional costs of these reductions totalled £0.8m.
- Office and data centre costs have increased slightly by 1.5% in the year. Large electricity increases in FY19 have been offset by the annualised impact of the closures made in FY18. Additionally, the Company has combined its office in Theale with the data centre in Reading and has therefore allocated the costs of the Theale office to a vacant property provision (January 19 onwards).
- Network and equipment costs have increased due to reclassification of items from cost of sales to operating costs as well as additional licensing costs for internal platforms.
- Savings have also been made in other sales, general and administration costs, achieved by reducing the number of third-party consultants in the business and a tighter control of marketing and corporate costs.
- Offshore costs have increased due to movement of roles from the UK to India. This is reflected in the headcount numbers above.

Adjusted EBITDA (and Adjusted Operating Profit)

	Year ended 31 March 2019	Year ended 31 March 2018	Variance	
	£'000	£'000	£'000	%
Adjusted EBITDA	**16,714**	18,085	(1,371)	(7.6)%
Adjusted EBITDA margin	**17.9%**	18.1%		
Adjusted operating profit	**8,243**	9,432	(1,189)	(12.6)%
Adjusted operating profit margin	**8.8%**	9.4%		

Adjusted EBITDA is the key measure that the Group uses to assess the underlying profitability of the business. Adjusted EBITDA excludes exceptional costs and share based payments.

Adjusted EBITDA decreased by £1.4m or 7.6% to £16.7m reflecting the decrease in gross profit of £3.6m offset by the decrease in operating costs of £2.3m. Adjusted EBITDA margin decreased slightly from 18.1% to 17.9%.

With the implementation of IFRS16 for FY20, adjusted operating profit has been included here as a point of reference. The impact of this standard is expected to make a material impact to EBITDA, so the Company is considering moving to operating profit to assess the underlying performance of the business.

Exceptional costs

	Year ended 31 March 2019	Year ended 31 March 2018	Variance	
	£'000	£'000	£'000	%
Professional fees associated with the forensic review and	**554**	672	(118)	(17.6)%
Staff restructuring	**804**	868	(64)	(7.4)%
Integration costs	**-**	132	(132)	(100.0)%
Vacant property provisions	**553**	-	553	100.0%
	1,911	1,672	239	14.3%

Overall, the level of exceptional items has increased from £1.7m to £1.9m. The key movements are as follows:

- Professional fees associated with the forensic review and FCA investigation - these costs relate to legal advice received in respect of the ongoing FCA investigation. Whilst the Company is still incurring these costs, they are steadily reducing.
- Staff restructuring costs – as part of the overall cost base review and movement of UK roles to India. This restructuring resulted in 20 redundancies.
- Post the integration of City Lifeline, there have been no further costs of this nature. All the group companies are now fully integrated.
- Vacant property provision relates to closure of the Theale office. All staff have been transferred to the Data Centre in Reading.

Net financing costs

	Year ended 31 March 2019	Year ended 31 March 2018	Variance	
	£'000	£'000	£'000	%
Interest receivable				
Other interest receivable	**(13)**	(19)	6	(31.6)%
Interest payable				
Interest payable on bank loans and overdrafts	**947**	1,241	(294)	(23.7)%
Interest payable on finance leases	**93**	143	(50)	(35.0)%
Amortisation of loan arrangement fees	**51**	68	(17)	(25.0)%
	1,091	1,452	(361)	(24.9)%
Net financing costs	**1,078**	1,433	(355)	(24.8)%

The reduction in net financing costs in FY19 is primarily due to the reduced balance on the revolving credit facility.

Share-based payments

	Year ended 31 March 2019	Year ended 31 March 2018	Variance	
	£'000	£'000	£'000	%
SAYE schemes	**134**	224	(90)	(40.2)%
Director and senior manager schemes	**220**	162	58	35.8%
MXC options	**-**	148	(148)	(100.0)%
Employers NI	**12**	34	(22)	(64.7)%
	366	568	(202)	(35.6)%

NI is being accrued, where applicable, at a rate of 13.8% on the potential employee gain on share-based incentives granted.

Taxation

The tax charge for the year was £0.6m (FY18: credit of £1.0m) which was made up of a corporation tax charge of £0.8m (FY18: charge of £1.1m) and a deferred tax credit of £0.2m (FY18: credit of £2.1m).

The corporation tax charge comprises a current year corporation tax charge of £0.6m, a prior year corporation tax charge of £0.1m and an overseas tax charge of £0.1m.

As at 31 March 2019, the Group had £16.4m of tax losses carried forward comprising:

	% of profits	**Losses available**
No tax losses carried forward	70.66%	-
Losses carried forward:		
- Stream 1	19.64%	8,813,109
- Stream 2	9.70%	7,535,445
	100.00%	**16,348,554**

The Group is made up several historic acquisitions, some of which had tax losses brought forward. The Group's taxable profits are streamed in proportion to the relative size of the original acquired company as a percentage of Redcentric as a whole. At 31 March 2019 £16m of tax losses were still available to be utilised against 29.34% of future profits.

Earnings per share and Dividends

Basic loss per share for FY19 was (1.32)p (FY18: basic earnings per share of 0.34p).

Basic adjusted earnings per share for FY19 was 3.9p, compared to 4.3p in FY18. Diluted adjusted earnings per share for FY19 was 3.8p compared to 4.3p in FY18.

Dividends

A progressive dividend policy was announced at the interim accounts with a 0.4p per share dividend paid out in December 2019. This equated to a total payment of £597k. A final dividend payment of 1.0p per share will be paid on 26 July 2019. The shares will have an ex-dividend date of 4 July 2019 and a record date of 5 July 2019. No dividends were paid during FY18.

Financial position

The summary financial position of the Group is set out below:

	Year ended 31 March 2019	Year ended 31 March 2018
	£'000	£'000
Non-current assets	**94,077**	102,724
Net current assets (excl. net debt)	**14**	3,326
Non-current liabilities (excl. net debt)	**(881)**	(421)
Net debt	**(17,565)**	(27,707)
Net assets	**75,645**	77,922

Net current assets have declined by £3.3m as a result of better working capital management and better conversion of debtors into cash. This, along with normalised funds generated from operations, accounts for the material decrease in net debt.

Net debt and cash flows

	Year ended 31 March 2019	Year ended 31 March 2018
	£'000	£'000
Revolving credit facility	**19,500**	28,000
Term loans	**363**	-
Cash	**(7,206)**	(6,089)
Finance leases	**4,976**	5,932
Unamortised loan arrangement fees	**(68)**	(136)
Net Debt	**17,565**	27,707

During FY19, net debt fell from £27.7m at 31 March 2018 to £17.6m as at 31 March 2019. The movements in net debt are analysed below. For the second consecutive year the company has achieved an operating cash conversion greater than 100%.

	Year ended 31 March 2019
	£'000
Adjusted EBITDA	**16,714**
Working capital movements	**4,575**
Adjusted cash generated from operations	**21,289**
Cash conversion	127%
Capital expenditure	
- Cash purchases	**(5,229)**
- Finance lease purchases	**(2,506)**
- Proceeds from sale and lease back of assets	**1,181**
- Proceeds from sale of fixed asset	**665**
	(5,889)
Corporation tax	**(1,873)**
Interest paid	**(1,044)**
Other movements in net debt	
Amortisation of loan arrangement fees	**(68)**
Effect of exchange rates	**(8)**
	(76)
Decrease in net debt pre-exceptional costs	**12,407**
Exceptional costs	
- Exceptional costs	**(1,668)**
- Dividend paid to shareholders	**(597)**
	(2,265)
Net decrease / (increase) in net debt	**10,142**
Net debt at the beginning of the period	**(27,707)**
Net debt at the end of the period	**(17,565)**

Working capital movements

There has been a large focus in FY19 on, not only clearing down legacy debt, but improving processes to ensure a consistently low level of debt over 90 days old. Debt greater than 90 days has reduced by 48% year on year, whilst debt greater than 180 days has reduced by 30%. Trade debtor days have also reduced to 38.8 days (2018: 48.6 days)

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Current	**9,074**	11,323
1 to 30 days overdue	**2,628**	1,951
31 to 60 days overdue	**505**	1,417
61 to 90 days overdue	**99**	550
91 to 180 days overdue	**390**	945
> 180 days overdue	**416**	593
Gross trade debtors	**13,112**	16,779
Credit note provision	**(1,521)**	(981)
Net trade debtors	**11,591**	15,798

Trade creditor days were 28 at 31 March 2019 compared to 28 as at 31 March 2018.

Financing

	31 March 2019			31 March 2018		
	Available £'000	**Drawn £'000**	**Undrawn £'000**	Available £'000	Drawn £'000	Undrawn £'000
Committed						
- Revolving credit facility	**25,000**	**19,500**	**5,500**	40,000	28,000	12,000
- Term loans	**363**	**363**	**-**	-	-	-
- Finance leases	**4,976**	**4,976**	**-**	5,932	5,932	-
	30,339	**24,839**	**5,500**	45,932	33,932	12,000
Uncommitted						
- Bank overdraft	**2,000**	**-**	**2,000**	2,000	-	2,000
- Finance leases	**4,724**	**-**	**4,724**	4,603	-	4,603
	6,724	**-**	**6,724**	6,603	-	6,603
Total borrowing facilities	**37,063**	**24,839**	**12,224**	52,535	33,932	18,063

In addition to the above facilities, the Company has access to a non-committed £20m accordion facility.

During the year the company cancelled £15m of unutilised facility, reducing the committed level down from £40m to £25m and thereby saving £186k in annualised commitment fees.

Post the year end a further £2.5m was cancelled from the facility leaving a committed revolving credit facility of £22.5m.

Peter Brotherton
Chief Executive Officer
25 June 2019

Consolidated Income Statement

For the year ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue		**93,260**	99,990
Cost of sales		**(36,895)**	(39,996)
Gross profit		**56,365**	59,994
Operating expenditure		**(56,650)**	(59,054)
Operating (Loss) / Profit		**(285)**	940
Analysed as:			
Adjusted EBITDA**		**16,714**	18,085
Depreciation		**(7,330)**	(7,769)
Amortisation of intangibles		**(7,392)**	(7,136)
Exceptional costs	2	**(1,911)**	(1,672)
Share-based payments		**(366)**	(568)
		(285)	940
Interest payable		**(1,091)**	(1,452)
Interest receivable		**13**	19
Loss on ordinary activities before taxation		**(1,363)**	(493)
Tax credit/(charge) on profit on ordinary activities		**(604)**	1,004
Profit/(Loss) for the year (attributable to owners of the parent)		**(1,967)**	511
Earnings per share			
Basic earnings per share	3	**(1.32)p**	0.34p
Diluted basic earnings per share	3	**(1.32)p**	0.34p

**Earnings before interest, tax, depreciation, amortisation, exceptional costs and share-based payments.

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

	2018	2018
	£000	£000
Profit/(Loss) for the year	**(1,967)**	511
Exchange differences arising on translation of foreign subsidiary	**8**	(45)
Total comprehensive income	**(1,959)**	466

Consolidated Statement of Changes in Equity

	Called up share capital	Share premium	Capital redemption reserve	Retained earnings	**Total equity**
	£000	£000	£000	£000	**£000**
At 31 March 2017	149	65,395	(9,454)	20,639	76,729
Profit for the year	-	-	-	511	511
Other comprehensive loss – before tax	-	-	-	(45)	(45)
Total comprehensive income	-	-	-	466	466
Transactions with owners:					
Issue of new shares	-	193	-	-	193
Dividends paid to shareholders	-	-	-	-	-
IFRS2 Charge	-	-	-	534	534
Deferred tax on SBP	-	-	-	-	-
At 31 March 2018	149	65,588	(9,454)	21,639	77,922
At 1 April 2018 (reported)	**149**	**65,588**	**(9,454)**	**21,639**	**77,922**
Adjustment on initial application of IFRS15	**-**	**-**	**-**	**(74)**	**(74)**
At 1 April 2018 (after IFRS adoption)	149	65,588	(9,454)	21,565	77,848
Profit for the year	**-**	**-**	**-**	**(1,967)**	**(1,967)**
Other comprehensive loss – before tax	**-**	**-**	**-**	**8**	**8**
Total comprehensive income	**-**	**-**	**-**	**(1,959)**	**(1,959)**
Transactions with owners:					
Dividends paid to shareholders	**-**	**-**	**-**	**(597)**	**(597)**
IFRS2 Charge	**-**	**-**	**-**	**353**	**353**
At 31 March 2019	**149**	**65,588**	**(9,454)**	**19,362**	**75,645**

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of financial position

As at 31 March 2019

	Note	2019 £000	2018 £000
Assets			
Non-current assets			
Property plant and equipment		**18,133**	20, 238
Intangible assets		**75,802**	82,486
Deferred tax asset		**142**	-
		94,077	102,724
Current assets			
Inventories		**357**	666
Trade and other receivables		**22,103**	26,120
Cash and short-term deposits		**7,206**	6,089
		29,666	32,875
Total assets		**123,743**	135,599
Current liabilities			
Trade creditors and other payables		**22,297**	23,460
Borrowings	**4**	**3,056**	3,125
Provisions		**149**	-
Non-Current liabilities			
Borrowings	**4**	**21,715**	30,671
Provisions		**881**	376
Deferred tax liability		**-**	45
Total Liabilities		**48,098**	57,677
Net assets		**75,645**	77,922
Equity and liabilities			
Equity			
Called up share capital	**5**	**149**	149
Share premium account		**65,588**	65,588
Capital redemption reserve		**(9,454)**	(9,454)
Retained earnings		**19,362**	21,639
Total equity		**75,645**	77,922

The notes on pages 19 to 25 are an integral part of these financial statements.

Peter Brotherton, Director

Consolidated Cash Flow Statement
For the year ended 31 March 2019

	2019	2018
	£000	£000
Cash flows from operating activities		
Loss before taxation	(1,363)	(493)
Net finance expense	1,078	1,433
Operating profit	(285)	940
Depreciation and amortisation	14,722	14,905
Exceptional costs	1,911	1,672
Share based payments	366	568
Operating cash flow before exceptional costs and movements in working capital	**16,714**	18,085
Loss on sale of fixed asset	(42)	-
Exceptional costs and NI on share-based payments	(1,668)	(3,002)
Operating cash flow before movements in working capital	**15,004**	15,083
Decrease (increase) in inventories	309	(432)
Decrease (increase) in trade and other receivables	5,775	1,079
(Decrease) increase in trade and other payables	(1,467)	3,912
Cash generated from operations	**19,621**	19,642
Corporation tax (paid)/received	(1,873)	217
Net cash inflow from operating activities	**17,748**	19,859
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	665	-
Purchase of tangible fixed assets	(4.665)	(6,778)
Purchase of intangible fixed assets	(564)	
Net cash outflow from investing activities	**(4,564)**	(6,778)
Cash flows from financing activities		
Dividends paid to shareholders	(597)	-
Interest paid	(1,044)	(1,196)
Bank fees	-	(50)
Repayment of borrowings/finance leases	(1,918)	(323)
(Repayment) of revolving credit facility	(8,500)	(10,000)
Proceeds of issue of shares less costs of issue	-	193
Net cash (outflow) / inflow from financing activities	**(12,059)**	(11,376)
Net increase in cash and cash equivalents	**1,125**	1,705
Opening cash and cash equivalents	6,089	4,340
Net increase (decrease) in cash and cash equivalents	1,125	1,705
Effect of exchange rates	(8)	44
Cash and cash equivalents	**7,206**	6,089

In addition to cash purchases, an additional £1.3m of capital expenditure was funded via finance leases creating a non-cash movement. Total gross capital expenditure in year was £6.0m, and total net capex was £5.4m after disposals.

The accompanying notes form an integral part of the financial statements.

1 General information and basis of preparation

The consolidated financial statements of Redcentric plc have been prepared on the going concern basis and in accordance with EU adopted International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

As at 31 March 2019, the Group had committed revolving credit facilities of £25m (2018: £40m) and an overdraft facility of £2m (2018: £2m), of which £19.5m (2018: £28m) of the revolving credit facility and £nil (2018: £Nil) of the overdraft was drawn . During the year, the continuing strength of operating cash flows enabled the Group to cancel £15m of unutilised facility. As at 31 March 2019, these facilities were due to expire on 2 April 2020. Subsequent to the year end the Group cancelled a further £2.5m of unutilised facility, leaving the committed revolving facility of £22.5m. On 14 June 2019 these facilities were extended to 30 November 2020, with all terms and covenants remaining the same until this time.

The Directors have taken note of the guidance issued by the Financial Reporting Council on the Going Concern Basis of Accounting in determining that this is the appropriate basis of preparation of the financial statements and have considered a number of factors.

The Group's business activities and markets in which it operates are set out in the Strategic Report. The sectors in which the Group is particularly well represented are diverse and a high proportion of the Group's revenue is recurring in nature, which provides good visibility and resilience of future revenue and cash-flows.

Taking into account all available information about the future for a period of at least, but not limited to, twelve months from the date of approval of the financial statements, the Directors have reviewed cash forecasts as well as performing reasonable downside sensitivity analysis (which demonstrate that overall facility headroom and covenant headroom both remain strong. The Group will continue to cancel unutilised tranches of the bank facility underpinned by the continuing strength of forecast cash generation and the Group will undergo a full refinancing process well in advance of the expiration of the current bank facilities in November 2020. The Directors are not aware of any facts or circumstances that would prevent this refinancing process from being successful.

Having undertaken this assessment, the directors consider it appropriate to adopt the going concern basis of accounting when preparing the financial statements

The financial information set out in this preliminary announcement does not constitute the company's statutory financial statements for the years ended 31 March 2019 or 2018 but is derived from those financial statements. Statutory financial statements for 2018 have been delivered to the registrar of companies and those for 2019 will be delivered in due course. The auditors have reported on those financial statements; 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.

IFRS 15 'Revenue from contracts with customers' is effective for periods beginning on or after 1st January 2018. The Company has adopted IFRS 15, 'Revenue from Contracts with Customers', for the year ending 31 March 2019. This establishes a comprehensive framework for determining whether, how much and when revenue is recognised. As permitted by the standard, the Company has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18. The overall impact on reserves as at the transition date is not significant. Further details relating to IFRS 15 are disclosed in note 7.

IFRS 9 Financial Instruments was issued by the IASB in July 2014 and is effective for the Company for the year ended 31 March 2019. Applying IFRS 9 has resulted in changes to the measurement and disclosure of financial instruments and introduced a new expected loss impairment model. Regarding impairment, the Company has applied the IFRS 9 approach to measuring expected credit losses which uses a lifetime expected loss allowance for all assets held at amortised cost. We have revised the methodologies we use to impair financial assets to reflect the forward-looking 'expected credit loss' model introduced by IFRS 9, in contrast to the backward-looking 'incurred credit loss' model used under IAS 39. In order to assess the impact of IFRS 9 the Company reviewed the last 12 months of actual debtor impairment when calculating the impact of the expected credit loss. The Company now recognises a loss allowance for all expected credit losses on initial recognition of trade receivables. Providing for loss allowances on our existing financial assets has not had a material impact on the financial statements.

The preliminary announcement will be published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

2 Exceptional costs

In accordance with the Group's policy of separately identifying exceptional costs, the following charges were recognised in the year:

	Year ended 31 March 2019	Year ended 31 March 2018
	£'000	£'000
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	**554**	672
Staff restructuring	**804**	868
Integration costs	**-**	132
Vacant property provisions	**553**	-
	1,911	1,672

Overall, the level of exceptional items has increased from £1.7m to £1.9m. The key movements are as follows:

- Professional fees associated with the forensic review and FCA investigation - these costs relate to legal advice received in respect of the ongoing FCA investigation. Whilst the Company is still incurring these costs, they are steadily reducing
- Staff restructuring costs – as part of the overall cost base review and movement of UK roles to India. This restructuring resulted in 20 redundancies.
- Post the integration of City Lifeline, there have been no further costs of this nature. All the group companies are now fully integrated.
- Vacant property provision relates to closure of the Theale office. All staff have been transferred to the Data Centre in Reading.

3 Earnings per share

Basic earnings per share has been calculated using loss after tax for the year of £2.0m (2018: profit after tax £0.5m) and a weighted average number of shares of 149,135,316 (2018: 148,890,948). The dilutive effect of share options at 31 March 2019 increased the weighted average number of shares to 151,410,501 (2018: 149,871,477).

In addition, the Board uses adjusted earnings per share figure, which has been calculated to reflect the underlying performance of the business. This measure is derived as follows:

	2019 **£000**	2018 £000
Statutory earnings	**(1,967)**	511
Tax charge / (credit)	**604**	(1,004)
Amortisation of acquired intangibles*	**6,252**	6,252
Share based payments	**366**	568
Exceptional costs	**1,911**	1,672
Adjusted earnings before tax	**7,166**	7,999
Notional tax charge at standard rate of 19%	**(1,362)**	(1,520)
Adjusted earnings	**5,804**	6,479
Weighted average number of shares in issue	**149,135,316**	148,890,948
Weighted dilutive effect of options and warrants in issue	**1,140,709**	980,529
Diluted weighted average number of shares in issue	**150,276,025**	149,871,477
Statutory basic earnings per shares	**(1.32)p**	0.34p
Statutory diluted earnings per shares	**(1.32)p**	0.34p
Adjusted basic earnings per share	**3.89p**	4.35p
Adjusted diluted earnings per share	**3.86p**	4.32p

The Board feels that the adjusted EBITDA and adjusted EPS measures give a better view of the ongoing performance of the business as these measures exclude exceptional costs.

4 Borrowings

	2019	2018
	£000	£000
Non-current		
Bank loan	**19,500**	28,000
Finance leases	**2,214**	2,807
Term loans	**69**	-
Unamortised loan arrangement fee	**(68)**	(136)
Total non-current	**21,715**	30,671
Current		
Finance leases	**2,762**	3,125
Term Loans	**294**	-
Total current	**3,056**	3,125

At 31 March 2019, the Group was party to £53.0m of bank facilities with a termination date of 1 April 2020. The facilities comprise a Revolving Credit Facility ("RCF") of £25.0m (£19.5m utilised at 31 March 2019) with a £20.0m accordion (£nil utilised at 31 March 2019), a £2.0m Overdraft Facility (£nil utilised at 31 March 2019) and a £6.0m Asset Financing Facility.

The RCF has been provided jointly by Barclays Bank PLC and The Royal Bank of Scotland PLC, with Lombard Technology Services Ltd providing the Asset Financing Facility and Barclays Bank PLC the Overdraft Facility.

Post the year-end the Banks have agreed to extend the current facilities by 8 months to 30 November 2020, with all terms and covenants remaining the same until this time. The Company will undergo a full refinancing process at the start of FY21.

Reconciliation of adjusted net debt:

Instrument	**As at 31 March 2018**	**Net cash flow**	**Net non-cash flow**	**As at 31 March 2019**
Cash	6,089	1,125	(8)	7,206
RCF	(27,864)	8,500	(68)	(19,432)
Term Loan	-	(66)	(297)	(363)
Finance Lease	(5,932)	(885)	(2,291)	(4,976)
Total	(27,707)	8,674	(2,664)	(17,565)

Fair value of non-current borrowings

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying value	**Fair value**	Carrying value	Fair value
Non-current	**2019**	**2019**	2018	2018
	£000	**£000**	£000	£000
Bank loan	**19,432**	**18,793**	27,864	26,001

Fair values are based on discounted cash flows, using an effective interest rate based on the borrowing rates at 31 March 2019 of 3.4% (2018: 3.4%).

Finance leases

	Present value 2019 £000	**Finance charges 2019 £000**	**Future lease payments 2019 £000**	Present value 2018 £000	Finance charges 2018 £000	Future lease payments 2018 £000
Not later than 1 year	**2,762**	**61**	**2,823**	3,125	68	3,193
After 1 year but not more than 5 years	**2,214**	**77**	**2,291**	2,807	21	2,828
	4,976	**138**	**5,114**	5,932	89	6,021

5 Called up share capital

	Allotted and fully paid	
	Number	£'000
At 31 March 2017	148,859,173	149
New shares issued	276,143	-
At 31 March 2018	149,135,316	149
New shares issued	-	-
At 31 March 2019	**149,135,316**	149

The number of share authorised is the same as the number of shares issued. Ordinary shareholders have the right to attend, vote and speak at meetings, receive dividends, and receive a return on assets in the case of a winding up.

Share issues

During the year the following shares were issued:

	2019 Number	2018 Number
Issued on the exercise of share options	**-**	276,143
	-	276,143

6 Dividends

	2019 £000	2018 £000
Amounts recognised as distributions to Shareholders in year:		
Interim dividend for year ended 31 March 2019 of 0.4p (2018: nil) per share	**597**	Nil
	597	Nil

The Company paid an interim dividend in respect of the year to 31 March 2019 of 0.4p per ordinary share, with a total payment value of £0.6m.

7 IFRS15 (Revenue from contracts with customers) restatement

There were two main changes to the Company accounts when prepared under IFRS15. The first was in relation to recognition of revenue for Customer Premises Equipment (i.e routers) and the second was in relation to commission payments made to members of the Sales department. The Company has chosen to adopt the modified retrospective method of transition which allows for the recognition of the cumulative effect of applying the standard through opening retained earnings.

Customer Premises Equipment (CPE)

Prior to IFRS 15 adoption, CPE set up and activation revenue was recognised up front upon installation. Under IFRS 15 this has now been amended so that all revenue received in relation to CPE set up and activation is now recognised over the life of the relevant customer contract. The impact of this has been a reduction in reported revenue and an equivalent increase in deferred income

Sales Commission Payments

Prior to IFRS15 adoption, the policy was to recognise the commission expense in the income statement in the period in which it was paid via payroll. Under IFRS15 sales commission costs are now recognised across the life of the contract to which the commission relates. This restatement has had a positive earnings impact alongside an impact on the statement of financial position to reflect a contract asset for commission costs to be recognised over the term of the contract. The Company is also now recognising the liability for future commission payments due as a result of commission already earned (for example through multi-year payments)

The following tables show, for the year ended 31 March 2019, the impact on the financial statements had IFRS15 not been adopted. There was no net impact on the key cash flow headings i.e net cash flow from operating activities, investing activities or financing activities.

Income statement for the year ended 31 March 2019 prepared under IFRS 15 and IAS 18

	2019 (reported)	Adjustments under IFRS15	2019 (under IAS18)
	£000		£000
Revenue	**93,260**	(207)	93,053
Cost of sales	**(36,895)**	-	(36,895)
Gross profit	**56,365**	(207)	56,158
Operating expenditure	**(56,650)**	(336)	(56,986)
Operating Loss	**(285)**	(543)	(828)
Analysed as:			
Adjusted EBITDA	**16,714**	(543)	16,169
Depreciation	**(7,330)**		(7,330)
Amortisation of intangibles	**(7,392)**		(7,392)
Exceptional costs	**(1,911)**		(1,911)
Share-based payments	**(366)**		(366)
	(285)	(543)	(828)
Interest payable	**(1,091)**	-	(1,091)
Interest receivable	**13**	-	13
Loss on ordinary activities before taxation	**(1,363)**	(543)	(1,906)

Statement of financial position at 31 March 2019 prepared under IFRS 15 and IAS 18

	As at 31 March 2019 (reported) £000	Adjustments under IFRS15 £000	**As at 31 March 2019 (under IAS18) £000**
Assets			
Non-current assets			
Property plant and equipment	**18,133**	-	18,133
Intangible assets	**75,802**	-	75,802
Deferred tax asset	**142**	-	142
	94,077	-	94,077
Current assets			
Inventories	**357**	-	357
Trade and other receivables	**22,103**	(1,875)	20,228
Cash and short-term deposits	**7,206**	-	7,206
	29,666	(1,875)	27,791
Total assets	**123,743**	(1,875)	121,868
Current liabilities			
Trade creditors and other payables	**22,297**	(1,407)	20,889
Borrowings	**3,056**	-	3,057
Provisions	**149**	-	149
Non-Current liabilities			
Borrowings	**21,715**	-	21,715
Provisions	**881**	-	881
Deferred tax liability	**-**	-	-
Total Liabilities	**48,098**	(1,407)	46,691
Net assets	**75,645**	(468)	75,177
Equity and liabilities			
Equity			
Called up share capital	**149**	-	149
Share premium account	**65,588**	-	65,588
Capital redemption reserve	**(9,454)**	-	(9,454)
Adjustment on initial application of IFRS 15	**(75)**	75	-
Retained earnings	**19,437**	(543)	18,894
Total equity	**75,645**	(468)	75,177