

# FULL YEAR RESULTS

## 12 MONTHS ENDED 31 MARCH 2018

28 June 2018

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

# AGENDA

- Headlines
- Financial performance
- Trading update 8<sup>th</sup> June
- Market context & Redcentric opportunity
- Summary & outlook

# HEADLINES FY18

## FINANCIAL

- Revenue £100.0m – down 4%
- Adjusted EBITDA up 5% to £18.1m
- Strong operating cash flow conversion – 125%
- Reduction of £11.8m in net debt to £27.7m
- Adjusted basic earnings per share down 2% to 4.35p

## OPERATIONAL

- Key enterprise customers retained
- Notable new business wins
- Strong control over costs
- Senior management team strengthened

# HEADLINES FY19 AND AHEAD

## TRADING UPDATE 8th JUNE

- Landmark contract start-up costs depress FY19 profits
- Migration of public sector customer out of Redcentric data centres
- New business sales light in early months

## WAY FORWARD

- Short term: specific actions in place
- Dynamic and growing markets
- Assets and capabilities to address challenges and opportunities

# FINANCIAL PERFORMANCE

Peter Brotherton  
Chief Financial Officer

# FY18 FINANCIAL HIGHLIGHTS

## Revenue

£100.0m (-4%)

Recurring revenue (RMR) of £87.1m (-3%). Accounts for 87% of total revenue (FY17: 86%)

## Gross profit

£60.0m (-1%)

Gross margin of 60.0% (FY17: 57.8%)

## Operating costs

£41.9m (-3%)

£1.3m reduction against FY17, primarily driven by staff costs

## Adjusted EBITDA

£18.1m (+5%)

Adjusted EBITDA margin of 18.1% (FY17: 16.5%)

## Adjusted basic EPS

4.35p (-2%)

Adjusted earnings of £6.5m (FY17: £6.6m)

## Adj. op. cash flow

£22.6m (+140%)

Positive working capital movements of £4.6m have led to a cash conversion of 125%

## Adjusted EBIT

£9.4m (-1%)

Adjusted EBIT margin of 9.4% (FY17: 9.1%)

## Net debt

£27.7m (-30%)

£11.8m of debt repaid since 31 March 2017 reducing net debt from £39.5m

# GROUP INCOME STATEMENT

	FY18 £'s	FY17 £'s	% Change
<b>Revenue</b>	99,989,835	104,623,119	-4%
<b>Cost of sales</b>	39,996,305	44,158,992	-9%
<b>Gross profit</b>	59,993,531	60,464,127	-1%
<i>Gross margin</i>	60.0%	57.8%	2.2%
<b>Operating costs</b>	41,908,334	43,191,617	-3%
<b>Adjusted EBITDA</b>	18,085,197	17,272,510	5%
<i>EBITDA margin</i>	18.1%	16.5%	1.6%
<b>Depreciation &amp; Amortisation</b>	14,904,606	13,713,473	
<b>Operating profit</b>	3,180,591	3,559,037	-11%
Non recurring Items	1,671,856	5,473,637	
Share based payments	568,610	1,080,180	
Interest	1,432,907	1,252,713	
<b>Profit before taxation</b>	(492,782)	(4,247,494)	88%
Taxation	(1,003,669)	(1,870,421)	
<b>Profit after taxation</b>	510,887	(2,377,072)	121%
Dividends	0	4,406,436	
<b>Retained profit</b>	510,887	(6,783,508)	108%

## Non-recurring items

Trade debtor impairment  
Professional fees re forensic review and FCA investigation  
Integration and restructuring costs  
Vacant property provisions  
Disposal of City Fibre network

### **Total non-recurring items**

	FY18	FY17	% Change
Trade debtor impairment	0	2,933	100%
Professional fees re forensic review and FCA investigation	673	1,291	48%
Integration and restructuring costs	999	658	-52%
Vacant property provisions	0	385	100%
Disposal of City Fibre network	0	207	100%
<b>Total non-recurring items</b>	1,672	5,474	-69%

- Lower share based payment charge in FY18 due to the MXC options being fully expensed
- Interest costs are higher in FY18 despite lower net debt, reflecting the increased margin from refinancing in April 2017



# REVENUE/GROSS PROFIT

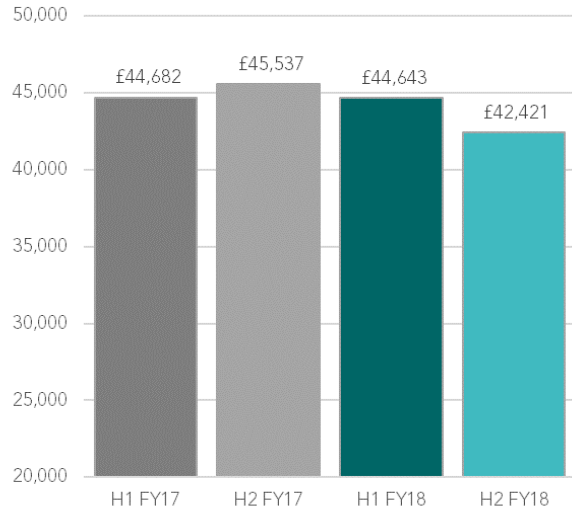
FY18 Revenue £99,990k

FY17 Revenue £104,623k

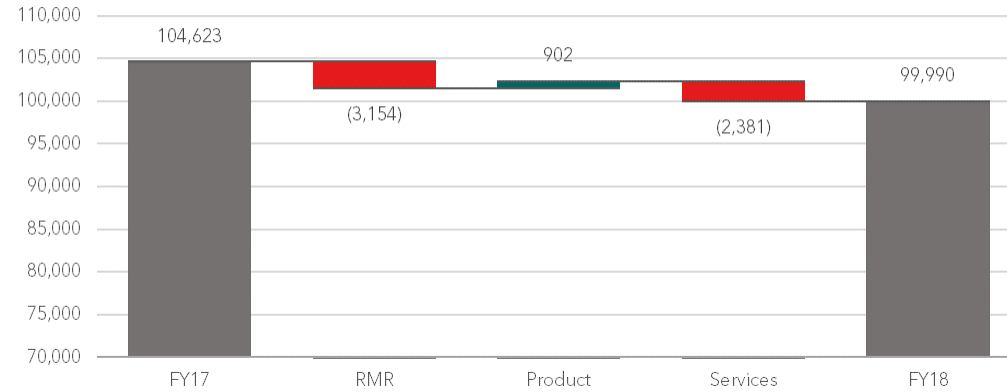
FY18 Gross Profit £59,994k

FY17 Gross Profit £60,464k

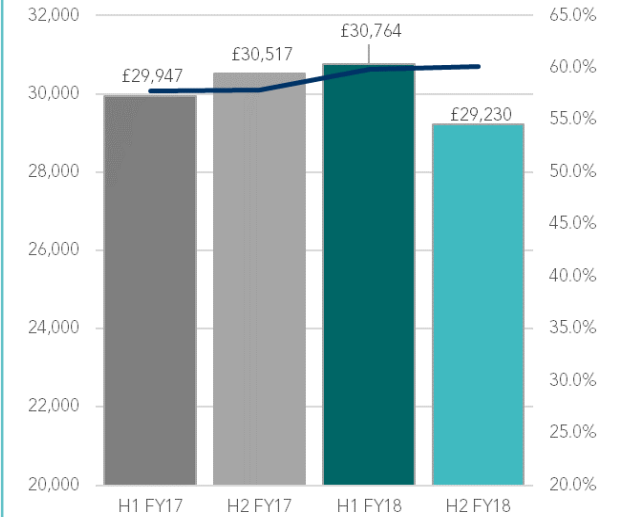
Recurring Revenue



Revenue Bridge - FY17 to FY18



Gross Profit



	FY18	FY17
Recurring	87,065	90,219
Product	7,180	6,278
Services	5,745	8,126
<b>Total Revenue</b>	<b>99,990</b>	<b>104,623</b>
<b>Gross profit</b>	<b>59,994</b>	<b>60,464</b>
<i>Gross margin</i>	<i>60.0%</i>	<i>57.8%</i>
<b>% RMR</b>	<b>87%</b>	<b>86%</b>

- Recurring revenue reflects the loss of a large Government hosting contract at the end of July 17
- Gross Margin has increased year on year largely due to rationalisation of the direct cost base

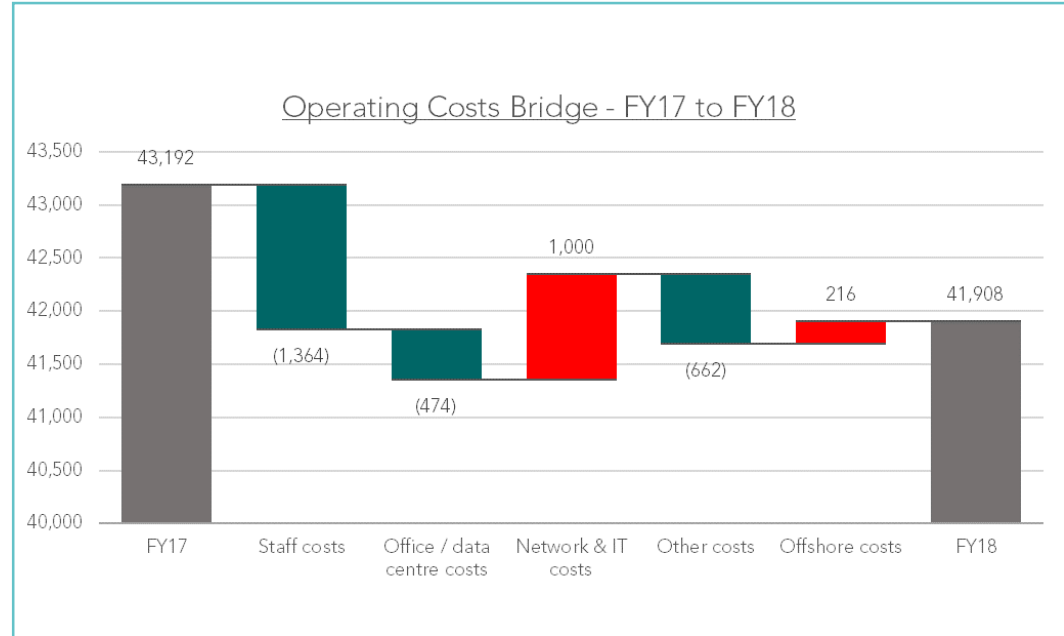
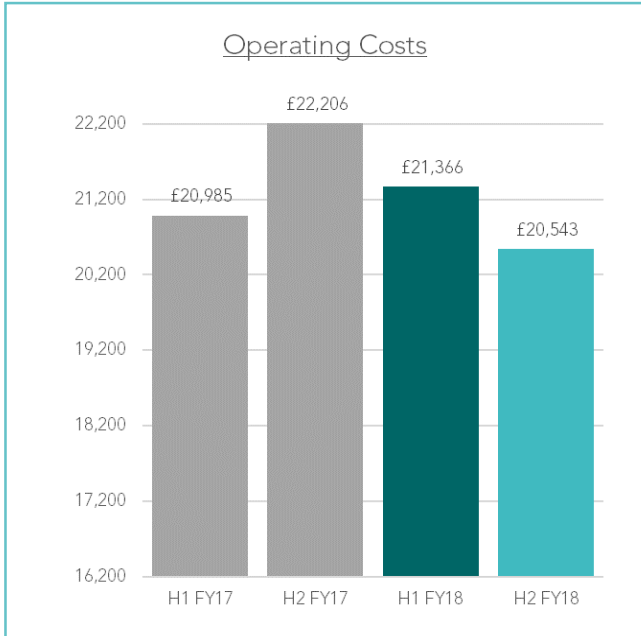
# OPERATING COSTS

FY18 Op Costs

£41,908k

FY17 Op Costs

£43,192k



	FY18	FY17
Staff costs	23,292	24,655
Office / data centre costs	6,960	7,434
Network & IT costs	6,804	5,804
Other costs	2,992	3,654
Offshore costs	1,860	1,644
<b>Operating Costs</b>	<b>41,908</b>	<b>43,192</b>
Headcount UK	347	378
Headcount India	141	144
<b>Total Headcount</b>	<b>488</b>	<b>522</b>

- Staff costs reduced as a result of a restructuring exercise undertaken during the year
- Overall UK headcount reduced by 7% when compared to previous year's closing position
- Office and data centre costs down 6% due to the closure of a London office and third party data centre
- Increase in network and IT costs due to monthly rental of fibre network to City Fibre that was previously owned by the Company and increased licence costs for Dynamics 365

# NET DEBT

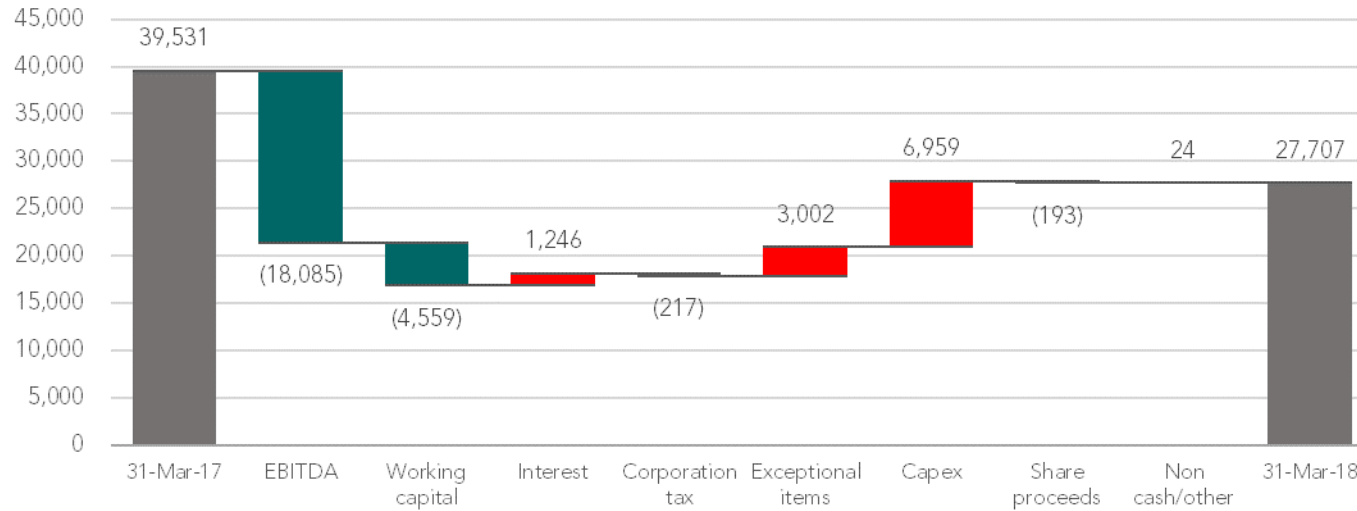
FY18 Net Debt

£27,707k

FY17 Net Debt

£39,531k

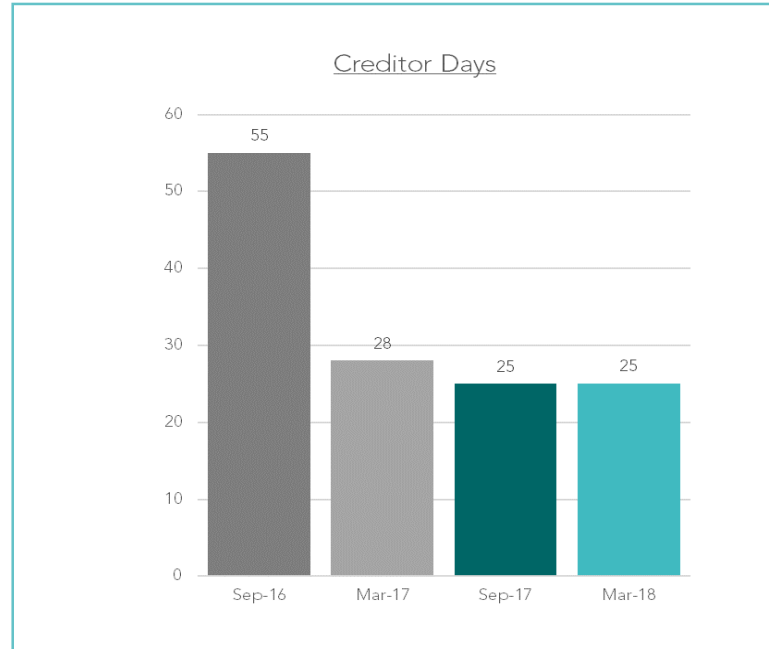
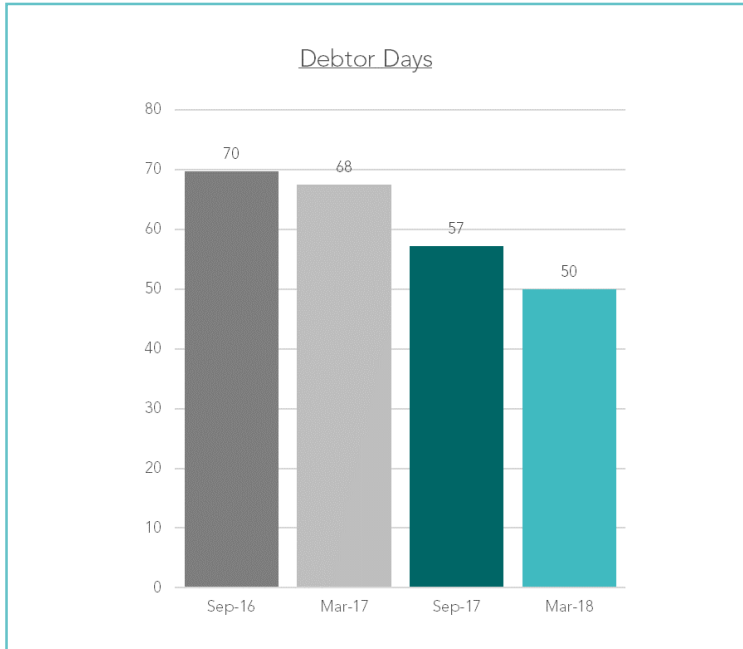
Net Debt Bridge - Mar 17 to Mar 18



Movement in net debt	FY18	FY17
<b>Adjusted EBITDA</b>	<b>18,085</b>	<b>17,273</b>
Working capital movements	4,559	(7,832)
<b>Cash generated from operations</b>	<b>22,644</b>	<b>9,441</b>
Purchase of tangible fixed assets		
- Cash	(3,983)	(6,744)
- Finance Leases	(2,976)	(2,470)
	(6,959)	(9,214)
Corporation tax	217	71
Interest	(1,246)	(1,209)
Non-cash	(68)	(68)
Effect of exchange rates	44	19
<b>Normalised net debt movement</b>	<b>14,632</b>	<b>(960)</b>
Discretionary/non-recurring items		
- Non-recurring expenses	(3,002)	(834)
- Proceeds from the issue of share capital	193	0
	(2,808)	(834)
<b>Net decrease/(increase) in net debt</b>	<b>11,824</b>	<b>(1,794)</b>

- Operating cash flow conversion of 125% (FY17: 55%)
- Net debt measure includes finance leases and is net of cash
- Material reduction of net debt by £11.8m in the year to 31 March 2018
- Significant reduction in net debt achieved despite paying £3.0m on historical lease liabilities and other non-recurring items settled in the year
- Historical issues with billing and collection have been addressed resulting in a large improvement to trade debtor ageing

# WORKING CAPITAL MOVEMENTS



Net Trade Debtors

	Mar-18	Sep-17	Mar-17
Current	11,323	10,298	9,218
1-30 Days	1,951	1,957	2,828
31- 60 Days	1,417	1,647	2,298
61 - 90 Days	550	628	615
Over 90 Days	1,539	3,062	7,868
<b>Gross Debtors</b>	<b>16,780</b>	<b>17,592</b>	<b>22,826</b>
Provision	(980)	(1,864)	(5,576)
<b>Net Debtors</b>	<b>15,800</b>	<b>15,728</b>	<b>17,250</b>

- Working capital movements total £4.6m, of which £5.5m relates to customer working capital movements (trade debtors plus other debtors plus accrued income less deferred income)
- The balancing outflow of £1.2m relates to supplier and VAT working capital movements
- Strong cash generation has allowed a material reduction in net debt in the period
- Debt more than 90 days old has reduced to 8.8% of the outstanding balance (at 31/03/2017: 34.4%)
- All creditors paid on a timely basis. Trade creditor days of 28 at 31/03/18 (31/03/17: 33)

# TRADING UPDATE 8<sup>TH</sup> JUNE

Chris Jagusz  
Chief Executive Officer

# ISSUES & ACTIONS

## LANDMARK FRAMEWORK WIN

- Yorkshire & Humber Public Services Network
- Potential £15m – £20m *pa* revenue in FY21 / £1.5m expected in FY19
- Significant start-up costs depress FY19 profits
- Deliver contract within existing resources
- Attempt to accelerate delivery to bring revenues forward

## PUBLIC SECTOR CUSTOMER MOVES

- Market-wide trend
- Crown Hosting – very low priced public sector data centre space
- Lost one contract FY18, another moving summer FY19
- No further losses expected FY19
- Proposing contract extensions to customers
- Win project revenues from customer migrations
- Focus sales effort to re-fill data centre space

# ISSUES & ACTIONS (2)

## ORDER INTAKE

- New business order intake below expected level
- Insufficient pipeline development in FY18
- Salesforce over-compensated on retention
- Health and Social Care Network procurements delayed in FY19
- New sales leadership in place April 2018
- Compensation plan re-balanced to favour acquisition and cross-sell
- Targeted bidding for Health and Social Care Network pipeline
- Tactical sales campaigns

## COSTS

- Procurement specialist engaged to reduce direct & indirect costs
- UK headcount to be managed down
- Move more operational work to Hyderabad

# MARKET CONTEXT & REDCENTRIC OPPORTUNITY



# HYPERCLOUD

- Dramatic cross-sector growth in hypercloud
- Public sector shift to hypercloud and Crown Hosting
- Change creating project opportunities – customers need help
- Track record: hypercloud production environment and migration to Crown Hosting
- Redcentric data centres become home to customer-specific critical infrastructure
- Redcentric's network quality and flexibility drive growth from hyperscale cloud adoption
- Network business grows further from YHPSN / HSCN contracts

*UK hypercloud market worth £6bn in 2018 <sup>(1)</sup>*

*Hypercloud – 36% growth to \$41bn forecast worldwide in 2018, further 30% in 2019 <sup>(2)</sup>*

*Microsoft Azure revenues grew 89% 3Q17 to 3Q18*

*Crown Hosting revenue increased 4.5x on FY16 to £21m in FY17*

(1) IDC, January 2018

(2) Gartner: April 2018

HSCN – Health and Social Care Network

# COMPLEXITY

- Hybrids of private and hypercloud growing rapidly
- New software-defined networks offer customers flexibility and cost advantages
- Growing complexity of design, delivery and operation
- Mission: transform, operate and evolve customers' IT infrastructure
- Capability: already run multi-service and multi-vendor environments
- Customer relationships give access and insight to turn into sales
- Breadth of offer reduces customers' supply complexity and risk
- Cloud Transformation Practice to lead hybrid business development

*Redcentric cloud survey <sup>(1)</sup>*

- *79% of respondents currently make use of cloud services*
- *53% plan for hybrid cloud*
- *14% plan for public-only*
- *51% favour Microsoft over 34% for Amazon*

*Hybrid cloud revenues forecast to grow 20% compound to \$69bn worldwide by 2021 <sup>(2)</sup>*

*Two-thirds of cloud users expect spend to grow by 20% or more in 2018 <sup>(3)</sup>*

(1) Redcentric survey of 98 customers – October 2017

(2) IDC: November 2017

(3) RightScale *State of the Cloud*, February 2018

# COMPETITIVE PRESSURE

- Hypercloud margins lower than traditional private cloud
  - Network price trend – more for less
  - Customers expect cloud-speed not telco-speed
  - Automate to reduce manual work and dramatically accelerate processes
  - Microsoft Dynamics ERP deployment
  - Hyderabad strategic high skill / low cost facility – already houses 30% of resources and will expand
  - Lower fixed cost base enables sales growth to flow through to earnings
- *Hypercloud server £188pm versus £295pm for traditional equivalent <sup>(1)</sup>*
  - *Bandwidth has fallen from \$700/Gbps to \$200/Gbps over three years <sup>(2)</sup>*
  - *Time to activate an Amazon Web Services server – 60 seconds to 10 minutes*
  - *Time to activate a network change – 1 to 10 days*

- (1) Sample configuration for Azure versus dedicated instance priced over three years  
(2) Price of 100Gbps London to New York 2013 to 2016. Source: Telegeography

# SUMMARY & OUTLOOK

# SUMMARY

FY18

- Profit growth through sustainable management of costs
- Strong cash generation and debt reduction
- Mixed performance: retention vs new business

FY19

- Deliver YHPSN and HSCN projects for momentum into FY20
- Bring costs down through offshoring
- Get the sales machine working and into growth markets

# OUTLOOK

## WAY FORWARD

- Dynamic market presenting opportunities and challenges
- Addressing margin challenge through Hyderabad operation
- Automating to enable work at cloud-speed and at lower cost
- Network wins support investment and transformation
- Cloud Transformation Practice created to respond to customer demand for hybrid cloud
- We have the assets, capabilities and customer insight to succeed

# APPENDIX

# YORKSHIRE AND HUMBER PUBLIC SERVICES NETWORK

## WHAT

- Secure and flexible network to connect public sector organisations
- Enables more efficient and integrated delivery of services
- Linked to new Health and Social Care Network programme

## WHO

- Public sector organisations across Yorkshire and Humber region
- Local authorities, emergency services, transport and health
- 68 partners with up to 3,000 sites

## IMPACT

- A reputation-builder won on flexibility and innovation
- Redcentric's largest ever project
- Sizable and stable cashflow underpins our transitions in Crown Hosting, hypercloud and data centre utilisation
- Upside from cross-sales of unified comms and cloud services



# KEY MARKET SUCCESSES

## NEW BUSINESS

**Addison Lee Group** - the leading provider of premium mobility and transportation services, chose Redcentric to create their hybrid cloud computing solutions. Across these platforms Addison Lee operate their mission critical passenger, driver and fleet services.  
**Birmingham & Solihull CCG** – Redcentric provides telephony, Wi-Fi and network connections to the NHS for hundreds of doctors’ surgeries in seven clinical commissioning groups as part of this contract. We have also provided Sandwell and West Birmingham CCG with patient Wi-Fi for surgeries.

## UPSELL

**Inchcape** – converted customer from traditional telephony to cloud-based unified communications for 4,500 users.  
**Look Ahead Care & Support** – added connectivity to 147 sites, 1,000 unified communications users and data centre services.  
**Virgin Care** – added 1,000 users to Redcentric’s computing and virtual desktop services used by clinicians and hospital staff.

## RETENTION

**Caversham Finance** (Brighthouse Stores) – renewal for connectivity to 300 stores, five offices, data centre services and dedicated connections to Microsoft Azure’s cloud service.  
**Howdens Joinery** – contract extension for connectivity and telephony for 650+ depots and seven offices, along with data centre services.  
**Legal Aid Agency** – renewal of cloud services.  
**Salvation Army** – renewal of contract to provide connectivity and telephone services for 787 sites including churches, community services centres, social services centres and regional offices.  
**Singtel Ltd** – renewal of data centre services for Singapore’s leading mobile network provider.  
**Vp plc** – renewal of services for Vp plc, the equipment rental specialist.