28 June 2018

Redcentric plc

("Redcentric" or the "Company")

Preliminary results announcement for year ended 31 March 2018

Redcentric plc (AIM: RCN), a leading UK IT managed services provider, today announces its full year results for the year ended 31 March 2018.

SUMMARY

- The Company traded in line with the Board's expectations
- Strong cash performance with 125% cash conversion and a reduction in net debt of £11.8m
- Profit growth through sustainable management of costs

FINANCIAL HIGHLIGHTS

- Revenue of £100.0m, including £87.1m (87.1%) of recurring revenue
- Adjusted EBITDA* of £18.1m (FY17: £17.3m) and adjusted EBITDA margin* of 18.1% (FY17 16.5%)
- Non-recurring charges significantly reduced to £1.7m (FY17 £5.5m)
- Adjusted basic EPS** of 4.35p (FY17: 4.45p). Statutory EPS of 0.34p (FY17: (1.60p))
- Adjusted cash flow from operations of £22.6m (FY17: £9.4m)
- Net debt of £27.7m (FY17: £39.5m)

*Earnings before interest, tax, depreciation, amortisation of acquired intangibles, non-recurring costs and share based payments.

** Adjusted EPS excludes amortisation of acquired intangibles, non-recurring costs and share based payments and a notional tax charge at the full rate of corporation tax.

OPERATIONAL HIGHLIGHTS

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

There will be a presentation for analysts at 09:30hrs on 28 June 2018 at the offices of Numis Securities, 10 Paternoster Square, London, EC4M 7LT. Please contact redcentric@tulchangroup.com if you would like to attend.

Chris Cole, Chairman, commented:

"During the year we have taken decisive action to allow Redcentric to take advantage of the many opportunities presented to it.

It was frustrating to have to deliver the recent trading update, however the work we are doing now positions the Company on the right path for long-term, sustainable growth.

The finance team and infrastructure have been materially strengthened, clearly demonstrated by the significant reduction in net debt, the resolution of billing and collection issues and a strong focus on the cost base.

I am also pleased to report that we have achieved this while retaining and growing our relationships with our customers who continue to see the value of the Company's technical expertise and core assets.

During the year, we also strengthened the Board and the senior management team who have identified and started to implement the initiatives required to build upon a solid base and deliver the next stage of Redcentric's development."

Chris Jagusz, Chief Executive, added:

"I am pleased to have joined Redcentric at this time of change and opportunity. In my first nine months as chief executive, it has become very clear to me that this is a company with industry leading assets, technical skills and personnel.

Whilst our industry continues to evolve rapidly, I believe the actions we are taking, combined with the quality of our assets, customer relationships and expertise, leave us well placed to benefit from these shifts and position us well to continue to be trusted and relied upon to transform, operate and evolve our customers' IT infrastructures.

Being awarded the Yorkshire and Humber Public Sector Network agreement, Redcentric's largest contract to date, serves as testament to the strength of the Company's offering in a core sector."

Redcentric plc	Via Tulchan Communications
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Chairman's statement

I am pleased to present Redcentric's results for the year ended 31 March 2018.

My report last year was dominated by the accounting misstatements that were discovered in November 2016, and at the time I had every confidence that the Group would put this difficult period behind it.

In this year's statement, I am pleased to say that this confidence was not misplaced, and I am happy to present a more positive report along with details of the considerable progress that has been made during the financial year. The business is now in a much stronger position and importantly we have maintained our principal customer base.

Post the accounting misstatements the Board set the Executives four main challenges:

- To rebuild the finance function and transform the financial control environment;
- To address the historical billing and collection issues;
- To reduce the cost base of the Group
- To look after our customers and staff; and
- To grow both revenues and profitability.

The finance function has been restructured and rebuilt over the last year embedding a tightly controlled financial environment. This has had a significant positive impact on the business.

The historical issues with billing and collection have been addressed and this has resulted in a significant improvement in working capital. The effect of this, along with a solid business performance, is that net debt has been reduced by £11.8m. Detailed work has gone into rightsizing the Group's cost base and this is reflected by a reduction in adjusted operating costs. Direct costs have also been tightly controlled and the resulting improved gross margin has helped mitigate the effect of a reduced revenue line.

Whilst profitability has improved, revenue has declined a little, and this remains the biggest challenge for the Group. The management team is focused on growing the business and new appointments at the Operating Board level have been made to strengthen the sales function and drive future growth initiatives.

Post the year end the Group was awarded the Yorkshire and Humber Public Services Network framework contract. This represents the biggest revenue opportunity in the history of Redcentric with revenues reaching a potential £20m per annum once the contract is fully rolled out albeit there are initial mobilisation costs to absorb.

Financial results

Revenue declined by 4.4% to £100.0m and adjusted EBITDA increased from £17.3m to £18.1m. The increase in profitability reflects reduced adjusted operating costs.

Cash flows were very strong, with £22.6m of adjusted operating cash flow, representing 125.5% of adjusted EBITDA. Net debt fell from £39.5m to £27.7m, a decrease of £11.8m in the year. The ageing of overdue trade debtors improved materially, with debt greater than three months overdue falling from £7.9m as at 31 March 2017 to £1.5m as at 31 March 2018.

Dividend

No dividend was paid during the year and the Board has decided not to declare a final dividend in respect of this financial year. The Board will continue to keep its dividend policy under review and will advise further at our interim results.

Board changes

In June 2017, the Group appointed Stephen Vaughan to the Board as Non-Executive Director. Stephen brings a wealth of industry experience to the Board.

In August 2017, Fraser Fisher resigned as Chief Executive Officer and from the Board and was replaced by Chris Jagusz. Chris has over twenty-five years of experience in the telecommunications and managed services industry.

On 31 March 2018, David Payne resigned from the Board. Post David's resignation, Stephen Vaughan has taken over David's positions of Senior Non-Executive and Chair of the Remuneration and Nominations committees.

Outlook

There are a number of structural changes taking place in the industry. As a dynamic organisation Redcentric is adapting to these changes and is positioning itself within the areas of the market that are growing. The actions and investments we have made during the period will support this as can be evidenced by the recently awarded YHPSN contract, which represents a significant milestone for Redcentric and is expected to deliver attractive returns over the medium term. We continue to be alert to the changing landscape of the Industry. Accordingly, the Board is confident of the Group's performance aligning to the recent trading update.

Chris Cole
Non-Executive Chairman
27 June 2018

Business model

Redcentric's customers are typically organisations with hundreds to thousands of connected users who need instant access to business critical information in order to do their jobs. Our services are well suited to organisations which are multi-sited, are information-intensive or require flexibility in the manner and form in which information is generated and consumed. Sectors in which the company is particularly well-represented include retail, health and social care, charities, professional services, legal, and central government departments.

Redcentric's aim is to transform, operate and evolve its customers' information technology infrastructure – their processing, storage, network and applications to align with their business strategies. We do this using a consultative sales approach to understand our customers' challenges and opportunities to create a roadmap for their IT infrastructure. This roadmap is then brought to life through four propositions:

- Cloud – computer processing and storage capacity rented to customers and managed on Redcentric or others' facilities.
- Connectivity – networks to link customers' sites to Redcentric and others' datacentres, hyper cloud providers and the Internet.
- Collaboration – person-to-person communication, by voice, video and email.
- Information & Communications Technology – provision, installation and support of hardware on customers' premises to enable cloud delivery.

Our services are delivered from our own sizeable data centres in Harrogate and Reading over a network managed by Redcentric and monitored by teams working around the clock in Hyderabad and Harrogate. Extensive commercial and public sector accreditations demonstrate that we operate to the highest of externally verified standards.

Chief Executive's review

Overview

Managing our customers' IT infrastructure puts Redcentric at the heart of a dynamic industry full of opportunities, balanced by the challenges that these industry changes create. For the year ended March 2018, these changes were set against a difficult backdrop for the business as a result of the accounting misstatements discovered in November 2016. However, the issues uncovered have all been addressed and the group is now on a much stronger footing.

Several major customers renewed and extended the scope of their contracts, demonstrating confidence in Redcentric's ability and service levels. However, new customer acquisitions and add-on sales to existing customers were below the level required to create top-line growth.

Redcentric's many strengths – flexibility, completeness of proposition and, customer relationships based on trust – are a sound basis on which the business can capitalise on the positive trends in the industry. We will need to develop our business to address declining demand in some markets, and capitalise on the opportunities in others whilst becoming more efficient. We believe we have the platform to achieve this.

Performance

There is much to be proud of in Redcentric's operational performance over the past year. Service levels remained high allowing a high customer retention rate and we continued to attract new customers. All this was achieved during a period of leadership changes in the business and the resolution of historical issues.

We have continued to invest to maintain our leading service offerings and important accreditations. We became the first fully certified provider of Health & Social Care Network (HSCN) delivery for the UK Government with two significant security accreditations. We also upgraded our security standard to Cyber Essentials Plus and gained ISO14001 accreditation for environmental management. All these achievements are a reflection of a dedicated and committed workforce which took on a challenge to deliver outstanding service whilst managing significant change during a period of evolution and strengthening of the company.

Nevertheless, the fact remains that the business did not sell enough in the latter half of the year ended March 2017 and throughout this year to generate net revenue growth. There are other sector-wide headwinds which are beginning to act against some of our service offerings as currently configured. It is a tribute to the resilience of the business that much of the resultant revenue decline was mitigated through a combination of careful management of cost of sales and a drive on efficiency. The net result of all this was revenue of £100.0m (2017: £104.6m) and adjusted EBITDA of £18.1m (2017: £17.3m).

Cost control was a key factor in our financial performance. Targeted recruitment and a limited scale redundancy programme reduced the number of UK employees from 387 in April 2017 to 347 by March 2018. We consolidated two London offices into one and reduced the use of third party data centres in favour of using our own facilities. Cost of sales was managed more effectively with a focus on reducing excess inventory in the network. Our Hyderabad office is a key differentiator for Redcentric, giving us access to a large pool of highly skilled professionals in a low-cost jurisdiction with exceptional infrastructure.

In addition, the Redcentric management team has been considerably strengthened with a number of appointments in the finance function, and a new chief information officer appointed to drive business automation.

Challenges in the future

There are significant changes taking place in the way customers buy the types of service which Redcentric provides. For the company to grow, we must respond to these market changes, evolve our infrastructure and develop new ways to make profits from our customer relationships. This will require change in many areas of the company. We are fortunate that we have the opportunity to make these changes in the context of our successes in retaining and growing major customer relationships, and our recent wins in a major procurement programme in one of our core markets – health and social care.

Our strategy for change starts from areas of the business's strength, where Redcentric has much to build upon. Most important is our reputation for excellent service and the customer trust and loyalty that stems from it. Consequently, we have a strong customer base, with a high degree of repeat business, good product penetration and sector expertise. We have excellent infrastructure for connecting customers, enabling them to collaborate and manage their data processing and storage.

Most prominent of the sector-wide changes is the emergence of hyper cloud providers in our cloud market. Amazon Web Services (AWS) and Microsoft (Azure) offer processing and storage services in a flexible manner with low initial cost of purchase. Separately, much of the public sector is mandated to adopt the Government-sponsored Crown Hosting in preference to commercial data centres like our own. We anticipate that many public-sector entities will transfer some of their requirements to Crown Hosting or hyper cloud providers over time.

Our own data centres will increasingly host the customer-specific elements of customers' hybrid clouds - combining the hyper cloud for less sensitive work with the specialised hosting environments we manage. This trend also places a premium on the breadth and quality of our network.

The increasing complexity of customer infrastructure is another driver of change for our business. Software-as-a-service is becoming more popular among our customers, though many of them expect to retain some of their own proprietary applications for the foreseeable future. These hybrid software-as-a-service / proprietary software and dedicated / hyper cloud environments are significantly more complex to design, operate, keep secure and enhance.

The emergence of software defined networking technology offers customers more flexibility whilst increasing technical complexity. Redcentric must ensure that it is well-equipped to help its customers in this demanding environment, throughout the whole cycle from the design and sales process, to the building of the infrastructure and its subsequent operation.

Finally, customers are expecting higher levels of service including faster response times for implementation and the ability to conduct business online (sometimes in a wholly automated manner) all at increasingly competitive prices which is presenting a challenge for the industry as a whole.

The way forward

We are responding to the opportunities and challenges outlined above with an increased pace of change in the shape of our infrastructure, the mix of our service offerings and the cost efficiency of our operations. Shifts in our physical infrastructure are inevitable given the rise of hyper cloud providers reducing long-term demand for data centres whilst increasing customers' reliance on our networks and ability to manage complex services.

Among our prime near-term opportunities is the Health and Social Care Network (HSCN), of which Redcentric is an accredited provider. HSCN is replacing the aged N3 (the NHS National Network) in a national programme which opens markets previously unavailable to Redcentric and other service providers. As part of this programme, post year-end Redcentric won its largest ever framework agreement, the Yorkshire and Humber Public Services Network, which has the potential to add up to £20m of annual revenue. This is one of many procurements in 2018 in which Redcentric is active and seeing success.

We will use the considerable revenue streams from YHPSN and other similar contracts to invest in network and service operations for a hybrid cloud world.

We are also creating fresh propositions with Redcentric's new Cloud Transformation Practice which designs the complex hybrid environments when customers use a mix of private and clouds alongside traditional computing. This is especially relevant to existing customers because of our insight into their current infrastructure. We already manage cloud production environments which can scale rapidly in response to changing demand and we are working with lead customers on hyper cloud proofs of concept. Our very strong relationship with Microsoft as a leading Azure partner gives us access to market and product insight which we can bring to our customers. Meanwhile, customer interest in software-defined networking will be tested this year with market trials, and we are experiencing customers' increased usage and expectation of our network when they move to the hyper cloud, another source of future growth.

The movement of some public-sector customers into Crown Hosting creates project and service opportunities for Redcentric. Customers need help managing these complex and risky transitions, and Redcentric is already developing its track record in this field. In parallel, a focus on selling data centre space to commercial users will help offset some of the customer losses from moves to Crown Hosting.

Our sales function is being realigned with Redcentric's business priorities. This includes new incentives to balance retention and growth of existing customers with the acquisition of new ones. Whilst it will take some months for the benefits to materialise, we are making these changes now to secure our future success. Post period-end a new sales leader was appointed to implement this strategy.

In parallel with the development of our services, we are making our operations more efficient as a response to pricing pressure. Redcentric has already implemented the first phase of Microsoft Dynamics as an ERP system which will enable us to automate delivery of many back-office services. Further investment will be required to automate customer interactions, improve speed of response and reduce costs. We have the benefit of a well-established low-cost centre in Hyderabad and are moving work there where possible and appropriate. We can do this whilst maintaining direct UK customer contact.

Outlook

The IT infrastructure market is undergoing structural changes. The adoption of the hyper cloud, software-defined networking, the public sector shift to Crown Hosting, pricing pressure, digital customer experience, along with the Health and Social Care Network framework all create opportunities and challenges in varying degrees.

Redcentric's focus is to build on our strengths of customer relationships and service platforms to shift the business to high growth markets, turn the challenge of the hyper cloud into opportunity, and mitigate the impact of some public sector customers moving to Crown Hosting.

We will continue to invest in automation to bring down costs and accelerate the pace of business, whilst expanding our resource in established low cost locations where feasible, and maintaining a UK-based direct customer experience.

We have the benefit of the assets, capabilities and customer insight needed to succeed in a rapidly changing industry – our plan is to make the most of the opportunities this presents us.

Chris Jagusz
Chief Executive Officer
27 June 2018

Chief Financial Officer's review

Financial highlights and overview

	Year ended 31 March 2018	Year ended 31 March 2017	Variance	
Statutory financial reporting measures				
Revenue	**£100.0m**	£104.6m	£(4.6)m	(4.4)%

Operating profit / (loss)	**£0.9m**	£(3.0)m	£3.9m	-
Basic earnings per share	**0.3p**	(1.6)p	1.9p	-

Adjusted performance measures (APMs)

Net debt	**£27.7m**	£39.5m	£(11.8)m	(29.9)%
Adjusted EBITDA	**£18.1m**	£17.3m	£0.8m	4.7%
Adjusted EBITDA margin	**18.1%**	16.5%		1.6%
Adjusted cash generated from operations	**£22.6m**	£9.4m	£13.2m	140.4%
Adjusted cash conversion	**125.5%**	54.3%		(10.9)%
Adjusted operating profit	**£9.4m**	£9.5m	£(0.1)m	(0.7)%
Adjusted basic earnings per share	**4.3p**	4.5p	(0.2)p	(2.2%)

The Directors use the APMs listed above as they are critical to understanding the financial performance of the Group. As they 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**
Net debt	Total bank borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents	Borrowings as outlined in note 4
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 add exceptional costs and share-based payments
Adjusted cash generated from operations	Cash generated from operations add exceptional costs	Adjusted cash generated from operations less exceptional costs
Adjusted cash conversion	Adjusted cash generated from operations to adjusted EBITDA	Cash generated from operations to 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 3

The results for the year reflect three key themes:

- a decline in revenue;
- a significant reduction in both direct and operating costs; and

- a material reduction in adjusted net debt.

Revenue

Revenue for the year ended 31 March 2018 was £100.0m, a decrease of £4.6m on the previous financial year.

	Year ended 31 March 2018	Year ended 31 March 2017	Variance	
	£'000	£'000	£'000	%
Recurring revenue	**87,065**	90,219	(3,154)	(3.5)%
Product sales	**7,180**	6,278	902	14.4%
Services revenue	**5,745**	8,126	(2,381)	(29.3)%
One-off revenue	**12,925**	14,404	(1,479)	(10.3)%
Total revenue	**99,990**	104,623	(4,633)	(4.4)%

The key revenue metric of RMR (recurring monthly revenue) was down 3.5% compared to last year and accounted for 87% of total revenue in-line with 2017 at 86%.

Gross profit

	Year ended 31 March 2018	Year ended 31 March 2017	Variance	
	£'000	£'000	£'000	%
Gross profit	**59,994**	60,464	(470)	(0.8)%
Gross margin	**60.0%**	57.8%		

The lower gross profit of £0.5m reflects the decrease in revenue offset by significant direct cost savings as a result of the improved management of third party costs. This led to an improvement in gross margin to 60.0% (2017: 57.8%).

Adjusted operating costs

	Year ended 31 March 2018	Year ended 31 March 2017	Variance	
	£'000	£'000	£'000	%
Staff costs (excluding share based compensation)	**23,292**	24,655	(1,363)	(5.5)%

Office and data centre costs	**6,942**	7,512	(570)	(7.6)%
Network and equipment costs	**6,804**	5,804	1,000	17.2%
Other sales, general and administration costs	**3,010**	3,576	(566)	(15.8)%
Offshore costs	**1,860**	1,644	216	13.1%
	41,908	43,191	(1,283)	(3.0)%

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

Employees

Year-end headcount	**31 March 2018**	31 March 2017	Variance
UK	**347**	378	(31)
India	**141**	144	(3)
Total	**488**	522	(34)

Average headcount	**31 March 2018**	31 March 2017	Variance
UK	**362**	386	(24)
India	**139**	155	(16)
Total	**501**	541	(40)

Overall, adjusted operating costs for FY18 were £1.3m (3.0%) lower than FY17. The principle variances were as follows:

- Staff costs have reduced as a result of a restructuring exercise undertaken during the year. The restructuring resulted in one-off exceptional costs of £838k and the UK headcount has been reduced by approximately 10% when compared to last year's closing position.
- Office and data centre costs were down by approximately 8% on last year reflecting the closure of the London office and a third-party data centre.
- On 30 September 2016, the Company disposed of its fibre network to City Fibre and since then has paid a monthly rental fee for use of certain parts of the network. This accounts for the increase in network and equipment costs in FY18.
- 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.

Adjusted Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA)

	Year ended 31 March 2018	Year ended 31 March 2017	Variance	
	£'000	£'000	£'000	%
Adjusted EBITDA	**18,085**	17,273	812	4.7%
Adjusted EBITDA margin	**18.1%**	16.5%		

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

Adjusted EBITDA increased by £0.8m or 4.7% to £18.1m reflecting the decrease in gross profit of £0.5m offset by the decrease in operating costs of £1.3m. As a result, Adjusted EBITDA margin improved from 16.5% to 18.1%.

Exceptional costs

	Year ended 31 March 2018	Year ended 31 March 2017	Variance	
	£'000	£'000	£'000	%
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	**672**	1,291	(619)	47.9%
Staff restructuring	**868**	187	681	364.2%
Integration costs	**132**	471	(339)	-
Non-recurring impairment of trade debtor balances	-	2,933	(2,933)	(100.0)%
Sale of metro ring to City Fibre	-	207	(207)	(100.0)%
Vacant property provisions	-	385	(385)	(100.0)%
	1,672	5,474	(3,802)	(69.5%)

Overall, the level of non-recurring items has decreased from £5.5m to £1.7m. The key movements are as follows:

- Exceptional impairment of trade debtor balances;
  - Following the audit of the 31 March 2017 annual results, a debtor impairment charge was taken in FY17.
- Professional fees associated with the forensic review and FCA investigation;
  - These costs relate to legal and forensic advice received in respect of the ongoing FCA investigation.
- Staff restructuring costs
  - During the year a restructuring exercise was undertaken which resulted in 18 redundancies
- Integration costs
  - The integration costs relate to the integration of the City Lifeline acquisition which was undertaken in January 2016. The integration process is complete, and no further costs will be incurred in this regard.
- Disposal of City Fibre network;
  - On 30 September 2016, the Company disposed of its fibre network to City Fibre Limited. This led to an exceptional charge of £0.2m in respect of the loss on disposal and legal fees.
- Vacant property provision;
  - In FY17, the Birmingham and Hoddesdon offices were vacated, leading to a vacant property charge of £0.4m in the year.

Net financing costs

	Year ended 31 March 2018	Year ended 31 March 2017
	£'000	£'000
Interest receivable		
Other interest receivable	**(19)**	(1)

Interest payable		
Interest payable on bank loans and overdrafts	**1,241**	869
Interest payable on finance leases	**143**	317
Amortisation of loan arrangement fees	**68**	68
	1,452	1,254
Net financing costs	**1,433**	1,253

The higher interest payable costs in FY18 reflect the higher margin on the RCF following the restructuring of the Group's senior debt facilities in April 2017.

Share-based payments

	Year ended 31 March 2018	Year ended 31 March 2017	Variance	
	£'000	£'000	£'000	%
SAYE schemes	**224**	188	36	19.1%
Director and senior manager schemes	**162**	156	6	3.8%
MXC options	**148**	631	(483)	(76.5)%
Employers NI	**34**	105	(71)	(67.6)%
	568	1,080	512	47.4%

The MXC shared based expense is in respect of legacy options which by the end of FY18 had been fully expensed.

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

During both FY17 and FY18 there was a high turnover of directors and senior managers and this has reduced the share based charge in both years.

Taxation

The tax credit for the year was £1.0m (FY17: credit of £1.9m) which was made up of a corporation tax charge of £1.1m (FY17: charge of £0.1m) and a deferred tax credit of £2.1m (FY17: credit of £2.0m).

The corporation tax charge comprises a current year corporation tax charge of £0.3m, a prior year corporation tax charge of £0.7m and an overseas tax charge of £0.1m.

The prior year corporation tax charge relates to the resubmission of the FY15 and FY16 tax computations. The group is made up several historical acquisitions some of which have tax losses brought forward. The streaming of these tax losses had been incorrectly applied in the FY15 and FY16 tax computations and hence the reason for the prior year corporation tax adjustment.

As at 31 March 2018, the Group had £18.9m of tax losses carried forward comprising:

	% of profits	**Losses available**

No tax losses carried forward	27.01%	-
Losses carried forward:		
- Stream 1	43.65%	954,091
- Stream 2	19.64%	9,556,568
- Stream 3	9.70%	8,349,967
	100.00%	**18,860,626**

Earnings per share and Dividends

Basic adjusted earnings per share for FY18 was 4.3p, compared to 4.5p in FY17. Diluted adjusted earnings per share for FY18 was 4.3p compared to 4.3p in FY17.

Dividends

No dividends were paid during FY18. In September 2016 a final dividend of £4.4m in respect of the year ended 31 March 2017 was distributed to shareholders.

Financial position

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

	Year ended 31 March 2018	Year ended 31 March 2017
	£'000	£'000
Non-current assets	**102,724**	110,723
Net current assets (excl. adjusted net debt)	**3,327**	8,856
Non-current liabilities (excl. adjusted net debt)	**(421)**	(3,319)
Net debt	**(27,707)**	(39,531)
Net assets	**77,923**	76,729

Net current assets have declined by £5.5m as a result of better working capital management and better conversion of debtors in to 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 2018	Year ended 31 March 2017
	£'000	£'000
Revolving credit facility	**28,000**	38,000
Term loans	**-**	323

Cash	**(6,089)**	(4,340)
Finance leases	**5,932**	5,752
Unamortised loan arrangement fees	**(136)**	(204)
Net Debt	**27,707**	39,531

During FY18, adjusted net debt fell from £39.5m at 31 March 2017 to £27.7m as at 31 March 2018. The movements in net debt are analysed below.

	Year ended 31 March 2018
	£'000
Adjusted EBITDA	**18,085**
Working capital movements	**4,603**
Adjusted cash generated from operations	**22,688**
Cash conversion	125.5%
Capital expenditure	
- Cash purchases	**(3,983)**
- Finance lease purchases	**(2,976)**
	(6,959)
Corporation tax	**217**
Interest paid	**(1,246)**
Non-cash movements in adjusted net debt	
Amortisation of loan arrangement fees	**(68)**
Effect of exchange rates	**(0)**
	(68)
Decrease in net debt pre-exceptional costs	**14,632**
Exceptional costs	
- Exceptional costs	**(3,002)**
- New share issues	**193**
	(2,808)

Net (decrease) / increase in net debt	**11,824**
Net debt at the beginning of the period	**(39,531)**
Net debt at the end of the period	**(27,707)**

Working capital movements

Improved control of billing and collections has resulted in the positive working capital movement in FY18. In FY17 the negative working capital movements were largely due to a £10m catch up in payments to trade creditors (in FY16 trade creditors had been significantly stretched and this practice no longer takes place).

The resolution of legacy debt issues has also led to a significant improvement in the ageing of trade debtors with a significant reduction in debtors aged > 90 days. As at 31 March 2018, there was £1.5m of debt more than 3 months overdue, a £6.3m improvement on the previous year.

	Year ended 31 March 2018	Year ended 31 March 2017
	£'000	£'000
Current	**11,323**	9,095
1 to 30 days overdue	**1,951**	2,950
31 to 60 days overdue	**1,417**	2,220
61 to 90 days overdue	**550**	704
91 to 180 days overdue	**945**	3,277
> 180 days overdue	**593**	4,580
Gross trade debtors	**16,779**	22,826
Trade debtor impairment provision	**(981)**	(5,576)
Net trade debtors	**15,798**	17,250

Trade creditor days were 28 at 31 March 2018 compared to 33 as at 31 March 2017.

Financing and covenants

	31 March 2018			31 March 2017		
	Available	**Drawn**	**Undrawn**	Available	Drawn	Undrawn
	£'000	**£'000**	**£'000**	£'000	£'000	
Committed						
- Revolving credit facility	**40,000**	**28,000**	**12,000**	40,000	38,000	2,000
- Term loans	**-**	**-**	**-**	323	323	-
- Finance leases	**5,932**	**5,932**	**-**	5,752	5,752	-

	45,932	**33,932**	**12,000**	46,075	44,075	2,000
Uncommitted						
- Bank overdraft	**2,000**	**-**	**2,000**	5,000	-	5,000
- Finance leases	**4,603**	**-**	**4,603**	3,098	-	3,098
	6,603	**-**	**6,603**	8,098	-	8,098
Total borrowing facilities	**52,535**	**33,932**	**18,603**	54,173	44,075	10,098

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

The Group's banking facilities were refinanced in April 2017. Whilst the covenant tests remained the same, the margin increased as a result.

Peter Brotherton
Chief Financial Officer
27 June 2018

Consolidated Income Statement

For the year ended 31 March 2018

		2018	2017
	Note	**£000**	£000
Revenue		**99,990**	104,623
Cost of sales*		**(39,996)**	(44,159)
Gross profit		**59,994**	60,464
Operating expenditure*		**(57,382)**	(57,985)
Exceptional costs	**5**	**(1,672)**	(5,474)
Operating Profit/(Loss)		**940**	(2,995)

Analysed as:

Adjusted EBITDA**		**18,085**	17,273
Depreciation	10	**(7,769)**	(7,507)
Amortisation of intangibles	11	**(7,136)**	(6,207)
Exceptional costs	5	**(1,672)**	(5,474)
Share-based payments	22	**(568)**	(1,080)
		940	(2,995)

Interest payable	6	**(1,452)**	(1,254)
Interest receivable	6	**19**	1
Loss on ordinary activities before taxation		**(493)**	(4,248)
Tax credit on profit on ordinary activities	8	**1,004**	1,870
Profit/(Loss) for the year (attributable to owners of the parent)		**511**	(2,378)
Earnings per share			
Basic earnings per share	9	**0.34p**	(1.60)p
Diluted basic earnings per share	9	**0.34p**	(1.60)p

*Certain costs in 2017 have been reclassified between COS and opex

**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 **£000**	2017 £000
Profit/(Loss) for the year	**511**	**(2,378)**
Exchange differences arising on re-translation of foreign subsidiary	**(45)**	**94**
Total comprehensive income	**466**	(2,284)

Consolidated Statement of Changes in Equity

	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	**Total equity** **£000**
At 31 March 2016	**146**	**63,667**	**(9,454)**	**27,328**	**81,687**
Loss for the year	**-**	**-**	**-**	(2,378)	**(2,378)**
Other comprehensive gain – before tax	**-**	**-**	**-**	94	**94**
Total comprehensive income	-	-	-	(2,284)	**(2,284)**

Transactions with owners:					
Issue of new shares	3	1,728	-	-	**1,731**
Dividends to shareholders	-	-	-	(4,406)	**(4,406)**
IFRS2 Charge	-	-	-	975	**975**
Deferred tax on SBP				(974)	**(974)**
At 31 March 2017	**149**	**65,395**	**(9,454)**	**20,639**	**76,729**
At 31 March 2017	**149**	**65,395**	**(9,454)**	**20,639**	**76,729**
Profit for the year	**-**	**-**	**-**	**511**	**511**
Other comprehensive gain – before tax	**-**	**-**	**-**	**(45)**	**(45)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**
Transactions with owners:					
Issue of new shares	**-**	**193**	**-**	**-**	**193**
Dividends to shareholders	**-**	**-**	**-**	**-**	**-**
IFRS2 Charge	**-**	**-**	**-**	**534**	**534**
Deferred tax on SBP	**-**	**-**	**-**	**-**	**-**
At 31 March 2018	**149**	**65,588**	**(9,454)**	**21,639**	**77,922**

Consolidated Statement of financial position

As at 31 March 2018

	Note	**2018 £000**	2017 £000
Assets			
Non-current assets			
Property plant and equipment	**10**	**20, 238**	21,998
Intangible assets	**11**	**82,486**	88,725
		102,724	110,723
Current assets			
Inventories		**666**	234
Trade and other receivables	**12**	**26,120**	26,222
Cash and short-term deposits	**13**	**6,089**	4,340
		32,875	30,796
Total assets		**135,599**	141,519
Current liabilities			
Creditors: amounts falling due within one year	**14**	**26,585**	20,040
Provision: amounts falling due within one year		**-**	339
Non-Current liabilities			
Creditors: amounts falling due after more than one year	**16**	**30,671**	41,092
Provision: amounts falling due after more than one year	**21**	**376**	1,207
Deferred tax liability	**8**	**45**	2,112
Total Liabilities		**57,677**	64,790
Net assets		**77,922**	76,729

Equity and liabilities			
Equity			
Called up share capital	**20**	**149**	149
Share premium account		**65,588**	65,395
Capital redemption reserve		**(9,454)**	(9,454)
Retained earnings		**21,639**	20,639
Total equity		**77,922**	76,729

The notes on pages 41 to 70 are an integral part of these financial statements. The consolidated financial statements of Redcentric Plc (Registration Number 08397584) on pages 37 to 70 were approved by the Board on 27 June 2018 and are signed on its behalf by:

Chris Jagusz, Director
Peter Brotherton, Director

Consolidated Cash Flow Statement
For the year ended 31 March 2018

	2018	2017
	£000	£000
Cash flows from operating activities		
Loss before taxation	(493)	(4,248)
Net finance expense	1,433	1,253
Operating loss	940	(2,995)
Depreciation and amortisation	14,905	13,714
Exceptional costs	1,672	5,474
Share based payments	569	1,080
Operating cash flow before exceptional costs and movements in working capital	**18,085**	**17,273**
Exceptional costs and NI on share based payments	(3,002)	(3,159)
Operating cash flow before movements in working capital	**15,083**	**14,114**
Decrease (increase) in inventories	(432)	196
Decrease (increase) in trade and other receivables	1,079	1,589
(Decrease) increase in trade and other payables	3,956	(9,616)
Cash generated from operations	**19,687**	**6,283**
Corporation tax received	217	71
Net cash inflow from operating activities	**19,904**	**6,354**
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	-	5,000
Purchase of property, plant and equipment	(6,778)	(6,744)
Net cash outflow from investing activities	**(6,778)**	**(1,744)**
Cash flows from financing activities		
Dividends paid to shareholders	-	(4,406)
Interest paid	(1,196)	(1,209)
Bank fees	(50)	-
Repayment of borrowings	(323)	(2,435)
(Repayment)/Drawdown on revolving credit facility	(10,000)	10,000
Proceeds of issue of shares less costs of issue	193	1,731
Net cash (outflow) / inflow from financing activities	**(11,376)**	**3,681**
Net increase in cash and cash equivalents	**1,749**	**8,291**

Opening cash and cash equivalents	4,340	(3,970)
Net increase (decrease) in cash and cash equivalents	1,749	8,291
Effect of exchange rates		19
Cash and cash equivalents	**6,089**	**4,340**

Selected notes to the Consolidated Financial Statements

Year ended 31 March 2018

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.

The Directors are required to be satisfied that the Group has adequate resources to continue in business for the foreseeable future. The validity of this assumption depends on the ability of the Group to meet its cash flow forecasts and the continuing support of its bankers by providing adequate overdraft facilities and of its debtholders and shareholders. On 27 April 2017, the Group signed a revised banking facility agreement which runs until 2 April 2020. A high proportion of the Group's revenue is recurring in nature, which provides good visibility of future cash-flows. However, there can be no absolute certainty that the Group will achieve its cash flow forecasts. The present cash flow forecasts indicate that the Group will be able to operate within its banking facilities for at least 12 months from the date of approval of these financial statements. For these reasons, the Directors believe the going concern basis to be appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.25 in the accounting policies in the full Report and Accounts.

The statutory accounts for the year ended 31 March 2018 will be finalised on the basis of the financial information presented by the Directors in this audited preliminary announcement and will be delivered to the Registrar of Companies following the Annual General Meeting.

The financial information contained within this preliminary announcement was approved by the Board on 27 June 2018 and has been agreed with the Company's auditors for release. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements which is available on the Group's investor website.

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 2018 £'000	Year ended 31 March 2017 £'000
Professional fees associated with the forensic review and Financial Conduct Authority (FCA) investigation	**672**	1,291
Staff restructuring	**868**	187
Integration costs	**132**	471
Non-recurring impairment of trade debtor balances	**-**	2,933

Sale of metro ring to City Fibre	-	207
Vacant property provisions	-	385
	1,672	5,474

- Exceptional impairment of trade debtor balances;
  - Following the audit of the 31 March 2017 annual results, a debtor impairment charge was taken in FY17.
- Professional fees associated with the forensic review and FCA investigation;
  - These costs relate to legal and forensic advice received in respect of the ongoing FCA investigation.
- Staff restructuring costs;
  - During the year a restructuring exercise was undertaken which resulted in 18 redundancies
- Integration costs;
  - The integration costs relate to the integration of the City Lifeline acquisition which was undertaken in January 2016. The integration process is complete, and no further costs will be incurred in this regard.
- Disposal of City Fibre network;
  - On 30 September 2016, the Company disposed of its fibre network to City Fibre Limited. This led to an exceptional charge of £0.2m in respect of the loss on disposal and legal fees.
- Vacant property provision;
  - In FY17, the Birmingham and Hoddesdon offices were vacated, leading to a vacant property charge of £0.4m in the year.

3 Earnings per share

Basic earnings per share has been calculated using profit after tax for the year of 1.2m (2017: loss after tax £2.4m) and a weighted average number of shares of 148,890,948 (2017: 148,448,225). The dilutive effect of share options at 31 March 2018 increased the weighted average number of shares to 149,871,478 (2017: 152,744,106).

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:

	2018 £000	2017 £000
Statutory earnings	**511**	**(2,378)**
Tax charge / (credit)	**(1,004)**	**(1,870)**
Amortisation of acquired intangibles*	**6,252**	**5,944**
Share based payments	**568**	**1,080**
Exceptional costs	**1,672**	**5,474**
Adjusted earnings before tax	**7,999**	**8,250**
Notional tax charge at standard rate of 19%/20%	**(1,520)**	**(1,650)**
Adjusted earnings	**6,479**	**6,600**
Weighted average number of shares in issue	**148,890,948**	**148,448,225**
Weighted dilutive effect of options and warrants in issue	**980,529**	**4,295,881**
Diluted weighted average number of shares in issue	**149,871,477**	**152,744,106**
Statutory basic earnings per shares	**0.34p**	**(1.60)p**
Statutory diluted earnings per shares	**0.34p**	**(1.60)p**
Adjusted basic earnings per share	**4.35p**	**4.45p**
Adjusted diluted earnings per share	**4.32p**	**4.32p**

*Amortisation charge per P&L	**7,136**	**6,207**
Amortisation of software	**(884)**	**(263)**
Customer contracts and related relationships	**6,252**	**5,944**

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

	2018	2017
	£000	£000
Non-current		
Bank loan	**28,000**	38,000
Finance leases	**2,807**	3,296
Unamortised loan arrangement fee	**(136)**	(204)
Total non-current	**30,671**	41,092
Current		
Finance leases	**3,125**	2,456
Term Loans	**-**	323
Total current	**3,125**	2,779

At 31 March 2018, the Group was party to £68.0m of bank facilities with a termination date of 1 April 2020. The facilities comprise a Revolving Credit Facility ("RCF") of £40.0m (£28.0m utilised at 31 March 2018) with a £20.0m accordion (£nil utilised at 31 March 2018), a £2.0m Overdraft Facility (£nil utilised at 31 March 2018) 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.

Reconciliation of adjusted net debt:

Instrument	**As at 31 March 2017**	**Net cash flow**	**Net non-cash flow**	**As at 31 March 2018**
Cash	4,340	1,749	-	6,089
RCF	(37,796)	10,000	(68)	(27,864)
Term Loan	(323)	323	-	-
Finance Lease	(5,752)	(180)	-	(5,932)
Total	(39,531)	11,892	(68)	(27,707)

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	**2018**	**2018**	2017	2017
	£000	**£000**	£000	£000
Bank loan	**27,864**	**26,001**	38,135	34,495

Fair values are based on discounted cash flows, using an effective interest rate based on the borrowing rates at 31 March 2018 of 3.4% (2017: 3.4%).

Finance leases

	Present value 2018 £000	Finance charges 2018 £000	Future lease payments 2018 £000	Present value 2017 £000	Finance charges 2017 £000	Future lease payments 2017 £000
Not later than 1 year	**3,125**	**68**	**3,193**	**2,456**	**132**	**2,588**
After 1 year but not more than 5 years	**2,807**	**21**	**2,828**	**3,296**	**89**	**3,385**
	5,932	**89**	**6,021**	**5,752**	**221**	**5,973**

5 Called up share capital

	Allotted and fully paid Number	£'000
At 31 March 2016	145,881,185	146
New shares issued	2,977,988	3
At 31 March 2017	148,859,173	149
New shares issued	276,143	-
At 31 March 2018	**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:

	2018 Number	2017 Number
Issued on the exercise of share options	**276,143**	**2,977,988**
	276,143	2,977,988

Shares issue relate to the exercise of 276,143 options at an exercise price of 70p (nominal value 0.1p), creating £193,024 of share premium.

6 Dividends

	2018 £000	2017 £000
Amounts recognised as distributions to Shareholders in year:		
Final dividend for year ended 31 March 2017 of nil (2016: 3.0p) per share	**Nil**	4,406
	Nil	4,406

The Company paid a final dividend in respect of the year to 31 March 2016 of 3.0p per ordinary share on 16 September 2016, with a total payment value of £4.4m.