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Redcentric plc

Preliminary results announcement for the year ended 31 March 2020

Redcentric plc (AIM: RCN) ("Redcentric" or the "Company"), a leading UK IT managed services provider, today announces its full year results for the year ended 31 March 2020.

Financial Measures

	Year ended 31 March 2020 (FY20)[1]	Year ended 31 March 2020 (FY20) pre-IFRS 16[1]	Year ended 31 March 2019 (FY19)	Change[1]
Total revenue	£87.5m	£87.5m	£93.3m	-6%
Recurring monthly revenue (RMR) [2]	£77.6m	£77.6m	£80.5m	-4%
Adjusted EBITDA[2]	£20.6m	£17.6m	£16.7m	+5%
Adjusted operating profit[2]	£10.6m	£9.7m	£8.2m	+18%
Reported operating (loss)	£(8.7)m	£(9.7)m	£(0.3)m	+3,133%
Adjusted cash generated from operations[2]	£19.6m	£16.4m	£21.3m	-23%
Reported cash generated from operations	£18.8m	£15.6m	£19.6m	-20%
Net debt	£(34.5)m	£(13.5)m	£(17.6)m	+23%
Adjusted basic earnings per share[2]	4.76p	4.86p	3.89p	+25%
Reported basic (loss) per share	(7.14)p	(7.01)p	(1.32)p	-431%
Dividend per share	1.83p	1.83p	1.40p	+31%

[1] The results for FY20 are not directly comparable with the prior year due to the adoption of IFRS 16 Leases. Further details are provided in note 5. The % change figures reported above relate to FY20 vs. FY19 pre any IFRS 16 Leases impact.

[2] For an explanation of the alternative performance measures used in this report, please refer to Appendix 1

Financial Highlights

- Revenue of £87.5m was below FY19 by 6% although H2 FY20 was higher than H1 FY20. Recurring revenues of £77.6m represent 89% of total revenue (FY19: £80.5m, 86%).

- Adjusted EBITDA of £20.6m (FY19: £16.7m) reflecting £3.0m benefit from IFRS16 accounting change, with the balance resulting from improved gross margins and reduced operating costs. Adjusted EBITDA margin increased by 5.6% to 23.5% (FY19 17.9%). On a like for like basis (pre IFRS16) adjusted EBITDA margin increased by 2.2% to 20.1%.

- Settlement reached with the FCA including the implementation of a restitution scheme with an estimated exceptional cost of £11.4m.

- Post the year end, £5.8m share placing undertaken to raise funds to settle claims under the restitution scheme. The remaining £5.6m of potential claims will be settled through a combination of cash and share payments.

- Current liabilities include the £11.4m restitution scheme provision and the bank facility of £12.5m, which at 31 March 2020 was due to expire on 30 November 2020. On 8 June 2020, the Company extended its banking facilities to 30 June 2022.

- Adjusted basic EPS of 4.76p (FY19: 3.89p) and statutory EPS of (7.14)p (FY19: (1.32p)).
- Adjusted cash flow from operations of £19.6m (FY19: £21.3m) which represents 95% operating cash flow conversion (FY19: 127%).
- Net debt at 31 March 2020 was £34.5m, including £21.0m of IFRS16 lease liabilities that were previously classified as operating leases under IAS17. On a like for like basis, (pre IFRS16) net debt reduced by £4.1m and reflects capital expenditure of £6.9m, £0.8m on exceptional items and £3.5m in dividends and share buybacks.

Operational Highlights

- Return to recurring revenue growth.
- Network and data centre rationalisation programme largely complete, generating annualised cost savings of £3.5m.
- Networks and platforms upgraded for future growth.
- Settlement agreement reached with the FCA and £11.4m restitution scheme launched.
- High levels of recurring revenues, strong financial position and relevant product portfolio mean that the business is well-placed to react to the many challenges arising from Covid-19.
- Good start to FY21, with all key business metrics showing positive trends.
- Majority of employees working remotely from 17 March 2020 and it has not been necessary to furlough any employees.

Peter Brotherton, CEO, commented:

"*We have had a very productive year with many of the initiatives undertaken giving rise to long term benefits. After three years of decline, recurring revenues are now growing and account for 89% of total revenues. The efficiency and integration initiatives undertaken during the year have resulted in annualised savings of £3.5m, which will boost future profitability. Our network and operational platforms have all been upgraded, resulting in modern, resilient and scalable infrastructure to support future growth. The settlement with the FCA means that the Company's management team is now free to focus solely on the business and able to sell to all markets, including those regulated by the FCA*."

There will be a presentation for analysts held at 09:00hrs on 21 July 2020 by video conference. Please contact investorrelations@redcentricplc.com if you would like to attend.

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Marc Milmo / Simon Hicks / Charlie Beeson (Corporate Finance)

Andrew Burdis / Sunila de Silva (ECM)

Chairman's Statement

I am very pleased to introduce the Annual Report and Accounts for the Redcentric plc ("Redcentric" or "Company") group of companies (the "Group") for the financial year ended 31 March 2020 ("FY20"), my first as Chairman.

OVERVIEW

It has been a very productive year for the Group. Recurring revenues returned to growth in the last quarter of the year and we have extracted significant cost efficiencies by completing the integration of historical acquisitions and implementing process improvements across the organisation.

Following the end of FY20, we reached a settlement with the Financial Conduct Authority ("FCA") in respect of the historical accounting misstatements uncovered by the Company in November 2016. The FCA's investigation into the Company (the "FCA Investigation") lasted over three years and its conclusion is hugely significant for the Group as it removes a significant barrier and uncertainty for all of our stakeholders and will allow the management team to focus solely on running and growing the business.

The COVID-19 pandemic continues to have a significant effect on the UK economy and also on our colleagues, suppliers and customers. We responded swiftly to government guidance and quickly transitioned to remote working to ensure the safety of our employees and their families. Our employees have adapted well through a difficult period and I thank them for their efforts and resilience. The business as a whole has also responded well to the challenges created by the pandemic and our strategic decisions to focus on network integration and the health sector have put us in a strong position to withstand the continuing challenges of the pandemic.

FINANCIAL RESULTS

Revenue for FY20 decreased by 6% to £87.5m (2019: £93.3m). The reported loss before tax of £10.6m in FY20 (2019: loss of £1.4m). includes a one-off provision of £11.4m in respect of the restitution scheme announced on 13 July 2020 as part of the settlement reached with the FCA (the "Restitution Scheme"). Statutory fully diluted earnings per share (EPS) was a loss of 7.14p (2019: loss of 1.32p), the decrease largely reflecting the £11.4m restitution provision.

Adjusted fully diluted earnings per share for the year increased by 21% to 4.68p (2019: 3.86p).

Net debt at 31 March 2020 was £34.5m, including £21.0m of IFRS16 lease liabilities that were previously classified as operating leases under IAS17.

DIVIDEND AND SHARE BUYBACK

During the year, the Company paid the following dividends:

- a final dividend for the year ended 31 March 2019 ("FY19") of 1.00p per share, totalling £1.5m; and
- an interim dividend for FY20 of 0.83p per share, totalling £1.2m.

In light of the Restitution Scheme and the continued uncertainty resulting from the ongoing COVID-19 pandemic, the board of directors of the Company (the "Board") has decided that it is not prudent to recommend the payment of a final dividend to shareholders for FY20. The Board remains committed to a progressive dividend policy and will review the possibility of reinstating the dividend when it releases the Group's half year results.

During the year, the Company implemented a share buyback programme under which 822,427 shares were purchased by the Company at a weighted average price of 88p per share. The Board announced shortly after the end of FY20 that the programme would be temporarily halted until such time as the outlook around COVID-19 becomes more certain.

BOARD AND PEOPLE

During the year there were several changes made to the Board, as follows:

- I joined the Company on 16 October 2019 as Non-Executive Chairman, replacing Chris Cole who stepped down on the same date;
- David Senior joined the Board as Chief Financial Officer on 3 April 2020, replacing Dean Barber who resigned on the same date. David previously held the position of Commercial Finance Director with the Group and has transitioned into the crucial Chief Financial Officer role quickly and effectively; and
- Chris Rigg, Non-Executive Director, resigned on 31 December 2019.

Our thanks and best wishes go to Chris Cole, Chris Rigg and Dean Barber for their service to the Company.

As a Board, we believe it is important to keep our own performance under review and recently undertook an evaluation assessment, the outcomes of which are in the Corporate Governance section of this Annual Report.

The Board views the talent of its employees as a major asset and recognises the high levels of support and commitment the Group has received from its employees through a period of significant change. The Group has invested in improving communication with

employees, creating improved working environments and in listening and responding to employees' views and feedback. I would like to express the Board's sincere thanks for the dedication, hard work and enthusiasm of all employees in FY20.

OUTLOOK

The business is performing well, with revenues growing, profit margins increasing and continued excellent cash flows. Trading in the first quarter of the year ending 31 March 2021 ("FY21") has been strong and slightly ahead of the Board's full year expectations.

The conclusion of the FCA Investigation, along with progress made on growing both revenues and profitability, put the Group in a good position to build on the successes to date and to explore all opportunities open to the Group. I am confident in the Group's abilities and look forward to another successful year ahead for the Group.

Ian Johnson

Non-Executive Chairman

21 July 2020

Chief Executive's Review

Overview

Since the publication of last year's Annual Report and Accounts, the Group has faced considerable challenges in the form of a competitive sector, Brexit, the culmination of the FCA Investigation and the COVID-19 pandemic.

Each challenge has been met head on, the business has progressed well and we are now in a much stronger position than at the close of FY19. Whilst these achievements are partly reflected in the results FY20, most of the benefits will actually be reflected in FY21 and beyond.

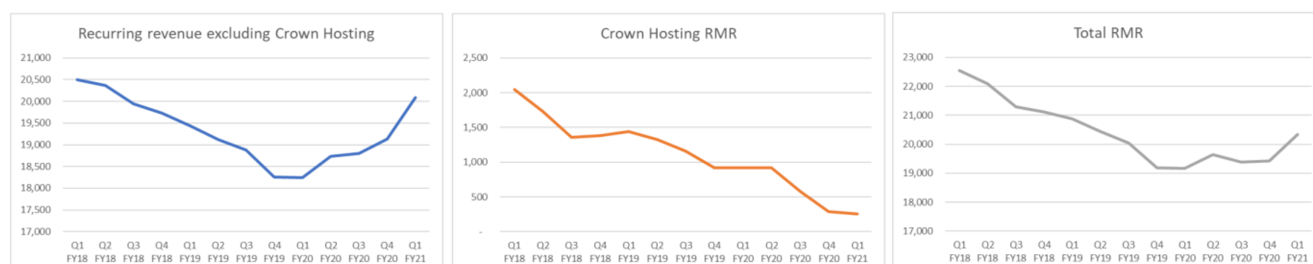
Review of FY20

At the start of the financial year we set ourselves the following challenges:

- to return the business to underlying recurring revenue growth;
- to increase our presence in the public sector, targeting the health sector building on the Health and Social Care Network (HSCN) successes in FY19;
- to increase profit margins by extracting operational efficiencies;
- to complete the upgrade of our network and platforms; and
- to bring the FCA Investigation to a conclusion.

Return to recurring revenue growth

The graphs and figures below show the quarterly revenue trends for the financial year ended 31 March 2018 ("FY18") to Q1 of FY21. Excluding Crown Hosting revenues (see further detail below), the business has seen four consecutive quarters of recurring revenue growth and total recurring revenues have grown for the last two consecutive quarters.



	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Recurring revenue excluding Crown Hosting	20,505	20,364	19,945	19,733	19,432	19,123	18,882	18,263	18,245	18,729	18,804	19,134	20,090
Crown Hosting RMR	2,046	1,729	1,358	1,385	1,444	1,323	1,160	917	915	920	581	289	254
Total RMR	22,551	22,093	21,303	21,118	20,876	20,446	20,042	19,180	19,160	19,649	19,385	19,423	20,344

In previous Annual Report and Accounts we have highlighted the effect that the loss of public sector hosting contracts to Crown Hosting ("Crown Hosting Contracts") has had on the business and this has accounted for most of the recurring revenue decline in FY20. In the accounts for the financial year 31 March 2017, revenue from Crown Hosting Contracts accounted for £8.2m of annualised recurring revenues, dropping to £4.8m in FY19 and £2.7m in FY20. The loss of this revenue has had a significant effect on the business as data centre costs are predominantly fixed and therefore declines in revenue largely result in reduced bottom line profitability.

Following the end of FY20, revenue growth has been very strong, reflecting changes made to the management of the business' delivery team, an accelerated pace in HSCN network roll outs and strong Q4 FY20 and Q1 FY21 sales.

Public sector contracts

In the second half of FY19 we took the strategic decision to focus on our core network capabilities and to increase our presence in the public sector. The first stage of this strategy was to put significant effort and resource in to winning public sector network business, with a particular focus on HSCN. The HSCN procurement process represented a one-off procurement opportunity resulting from the government's decision to close down its fifteen year old legacy N3 network and replace it with a more modern and regional network for health and social care organisations.

In last year's Annual Report and Accounts we detailed the HSCN contract wins and highlighted significant cross-selling opportunities. During FY20 and Q1 of FY21 we achieved significant additional sales in both cross-selling additional products to HSCN customers and in sales to new logo organisations. Our success in the HSCN procurement process and our good performance in rolling out HSCN networks has given us a much higher profile within both the public and private health sectors.

Installation of the HSCN networks is largely complete and revenues from these contracts, along with the additional cross-sell contracts, are the prime driver for the underlying recurring revenue growth experienced in FY20 and anticipated for FY21. We anticipate that approximately 25% of our FY21 revenue will be derived from the combined public and private health sectors.

The table below summarises the original HSCN contract wins, the subsequent cross-sell wins and sales to new logos.

HSCN & YHPSN - Initial wins			
Presented to Board Jun-19			
	No of customers	RMR sold	Annual revenue
YHPSN	13	36,453	437,437
Worcester Health	1	25,271	303,252
Midlands & Lancs	1	22,229	266,748
BLMK	10	84,188	1,010,253
East AP	4	21,260	255,120
BSOL	1	56,517	678,204
Sandwell & West	1	31,227	374,724
STW	2	15,883	190,596
HSCN & YHPSN	33	293,028	3,516,334
Other Public Sector	n/a	-	-
Total Public Sector	33	293,028	3,516,334

Cross sell and growth			
Jun-19 to 30-Jun-20			
	No of customers	RMR sold	Annual revenue
YHPSN	33	181,578	2,178,938
Worcester Health	1	14,838	178,058
Midlands & Lancs	1	121	1,447
BLMK	7	41,208	494,493
East AP	3	35,790	429,483
BSOL	1	17,962	215,548
Sandwell & West	1	4,202	50,420
STW	2	1,857	22,283
HSCN & YHPSN	49	297,556	3,570,670
Other Public Sector	53	105,861	1,270,328
Total Public Sector	102	403,416	4,840,998

Total sold			
Total to 30-Jun-20			
	No of customers	RMR sold	Annual revenue
YHPSN	40	218,031	2,616,375
Worcester Health	1	40,109	481,310
Midlands & Lancs	1	22,350	268,195
BLMK	10	125,396	1,504,746
East AP	4	57,050	684,603
BSOL	1	74,479	893,752
Sandwell & West	1	35,429	425,144
STW	2	17,740	212,879
HSCN & YHPSN	60	590,584	7,087,004
Other Public Sector	53	105,861	1,270,328
Total Public Sector	113	696,444	8,357,331

Note: Other Public Sector customers only reported from Jun-19 onwards and therefore any sales to Other Purblic Sector customers before this period are excluded from the Total Sold figure

Operational efficiencies

Our focus on operational efficiencies continued throughout FY20, with a view to fully integrating all aspects of historical acquisitions in to one unified and efficient business.

During the year, we undertook a detailed review of all areas of the business and a dedicated project group was set up to focus on the following:

- rationalisation and integration of historical physical networks;
- rationalisation of third-party data centres;
- consolidating three historical network platforms into a single network platform;
- restructuring our Development and Delivery teams;
- replacing five legacy systems with a single ERP solution; and
- standardising employment contracts and colleague benefits.

RATIONALISATION AND INTEGRATION OF HISTORICAL PHYSICAL NETWORKS

In the first half of FY20 we completed the integration of our physical network by decommissioning a network ring which was acquired as part of a historical acquisition. Customers were migrated off this ring and onto our main network, yielding annualised savings of £0.5m.

In additional to making our core network more efficient, we undertook a full audit of all our customer tail circuits and cancelled over one thousand surplus circuits, yielding annualised savings of £1.5m.

RATIONALISATION OF PROPERTY PORTFOLIOS AND THIRD-PARTY DATA CENTRES

In the second half of FY20 we commenced the overhaul of our third-party data centre portfolio. This involved moving core network platforms and colocation and managed serviced customers out of three third party London data centres and into our own data centre in London. With the exception of one customer move, this work is now complete, and annualised savings of £1m will be realised as a result.

In the latter part of FY19 we vacated our Theale office and moved staff to the nearby Reading data centre. This lease was settled in FY20 on favourable terms, resulting in an exceptional credit of £141k.

CONSOLIDATION OF NETWORK PLATFORMS

As a result of past acquisitions, the Group has historically operated three separate network platforms. Maintaining three platforms is inefficient and the level of functionality varied considerably across the respective platforms. As part of the data centre moves, we are in the process of consolidating our three platforms into one and moving our core equipment out of three third party London data centres and into our own managed data centre in London.

RESTRUCTURING OF DEVELOPMENT AND DELIVERY TEAMS

During the year we made changes to both the Development and Delivery teams and this yielded immediate results.

Having not released any new products to market in the last two years, we now have an updated product portfolio and a clear product development path. We have restructured the Development team and upgraded the skillsets of team members to meet the requirements of our customers and the market, as well as implementing a formal methodology for the delivery of new products.

This new way of working enabled the Group to respond effectively to the COVID-19 pandemic and produce a number of revenue generating, low cost and high margin solutions within a short timeframe, supporting the FY20 closing position and contributing strongly to FY21 Q1 revenues.

At the end of FY20 we restructured the Delivery team, replacing the entire senior management of the team in the process. A new position of Delivery Director was created to sit on the senior management team of the Group (the "Operating Board") and two new Senior Programme Managers joined the department to manage the private and public sector delivery teams. The results to date, whilst benefiting from a different mix of product sales (see COVID-19 below), have been very impressive. In the five months to 30 June 2020 we installed more monthly recurring revenue than we did in the previous nine months.

Having strengthened the management of the Delivery team, the Delivery Director's focus is now on improving processes and customer communication. In the latter part of June 2020, we commenced the implementation of workflow software to manage the complex implementation of customer network roll outs more effectively. Once this is complete, we will implement workflow software for all other product installations. Whilst this project is in its early stages, we expect that this will result in significant staff efficiencies whilst also significantly improving customer service and communication. It is anticipated that the full effect of these savings will be realised from Q4 of FY21 onwards.

IMPLEMENTATION OF A SINGLE ENTERPRISE RESOURCE PLANNING ("ERP") SYSTEM

The replacement of five legacy operational systems with a single ERP system has been a difficult and long running project for the business but will yield significant benefits once live. During FY20 we went live with the sales module of the ERP system, which has enabled improved forecast accuracy and automated inter-departmental workflow. The launch of the finance and operations modules of the system has been deferred to 1 October 2020 as a result of the COVID-19 pandemic.

During FY20 we introduced a weekly and monthly KPI dashboard covering all significant financial and operational KPIs. In light of COVID-19, the requirement for timely and accurate information has increased significantly and, as a result, we have introduced daily reporting of sales orders, revenue installed and cash collected. Once fully live, the new ERP system will give rise to considerably improved data and will automate reporting, resulting in significantly improved and timely management information.

STANDARDISATION OF EMPLOYMENT CONTRACTS AND STAFF BENEFITS

A feature of our past acquisitions is that we had ten different employment contracts, each with differing terms and conditions and colleague benefits. Post the year end we commenced a project to move all colleagues on to one standardised employment contract and to rationalise any administratively complex colleague benefits.

Upgrade of network and platforms

In FY19 we commenced a major upgrade of our network and product platforms and this was largely completed in FY20.

The upgrade of our core network from a 10Gb capacity to 100Gb capacity was completed during the year and whilst this represented a significant cost (£1.5m), it is anticipated that the increase in bandwidth will support our growth and customers' thirst for extra bandwidth for at least the next five years.

During the year we spent £1.5m on the second and final stage of upgrading our Infrastructure as a Service (IaaS) platform. The new platform has now been fully deployed and we are in the process of migrating customers off our old system and on to our new platform. The new platform offers full hybrid cloud capabilities and replaces a system that was over ten years old.

During the year, and as part of our data centre restructuring project, we commenced a significant upgrade of our London data centre. These works will continue in to FY21 and, when complete, will upgrade the facility from a tier one to a tier three facility, bringing our London data centre up to the standard of our Harrogate and Reading data centres. The work has involved significant electrical works with equipment as old as thirty years being replaced.

FCA INVESTIGATION

On 26 June 2020, the Company reached a settlement with the FCA in respect of certain historical accounting misstatements that were uncovered by the Group in November 2016. As part of this settlement, the Company agreed to implement the Restitution Scheme to compensate net purchasers of ordinary shares in the Company between 9 November 2015 and 7 November 2016.

The FCA Investigation was ongoing for 3 ½ years and was a significant burden on the Group. Whilst the cost of the Restitution Scheme, at £11.4m, is considerable, we are pleased to finally have the matter resolved. The settlement with the FCA means that the Group's management team is now free to focus solely on the business; legal costs will be substantially reduced; and we are now free to sell to all markets including those regulated by the FCA.

Since the discovery of the accounting misstatements, the Group has been transformed, with all members of both the Board and Operating Board being replaced. The finance function has been rebuilt and controls across the business have been materially strengthened.

COVID-19 Pandemic

OVERVIEW

The Group's overriding concern is the health, safety and wellbeing of its colleagues, customers, and business partners. We have complied and continue to comply with all relevant government recommendations both in the UK and India and the majority of colleagues have been working remotely since 17 March 2020. We pride ourselves in delivering excellent customer service and this has not been affected following the changes to working arrangements. This has been made possible by our colleagues' flexible and positive attitude and we thank them for their support during this time.

SALES

During the COVID-19 pandemic, sales have remained strong with new orders received in March 2020, materially ahead of March 2019 and sales orders for Q1 FY21 slightly ahead of Q1 FY20. Over the COVID-19 period we have seen increased demand for our secure remote access product, increased bandwidth and call-based solutions. We have also, however, seen delays in large scale IT and network projects.

DELIVERIES

Deliveries have been particularly strong during the COVID-19 pandemic, reflecting related and non-related factors. During the pandemic, the mix of sales has changed to products that are quicker to install and this has resulted in improved order to revenue timescales. Non COVID-19 related factors include additional resource deployed to roll out the HSCN networks and significantly improved processes and management following the changes made to the Delivery team.

CASH COLLECTION

Cash collection has been strong, with over 95% of the 31 March 2020 year-end balance collected to date, which is ahead of the previous position.

During the pandemic we have not experienced any significant bad debts, but we are supporting approximately 20 customers with payment plans. All these plans are up-to-date, and the amounts outstanding are not significant.

COLLEAGUES

As a business we carry out regular business continuity exercises and as part of these exercises we routinely stress test our operational systems and remote working capabilities. This foresight meant that we were very well prepared for the sudden decision to deploy most of our colleagues out of the office to working from home. Our offices in both the UK and India have been closed for approximately four months. To the credit of our colleagues, we have operated in an efficient manner, without any significant incidents and we have continued to deliver excellent service to our customer base.

Given the good levels of business activity we are pleased that it has not been necessary to furlough any staff.

KEY RISKS

As described throughout this report, the business is in a strong position and is well placed to react to the challenges that the COVID-19 pandemic will no doubt bring in the future. The main risks to the business are things which are outside our control such as the wider economic position and the financial strength of our customer base. We have reviewed our customer base in detail and whilst we have some exposure to the retail and leisure sectors, we believe that our customers are well capitalised to enable survival over the medium term.

Summary and Outlook

SUMMARY

FY20 was a significant year for the business and we ended it in a much stronger position than we started it. After three years of decline, recurring revenues are now growing, with four quarters of underlying recurring revenue growth. 89% of our revenues are recurring and these are underpinned by long term contracts which give good forward visibility. Profit margins are increasing as a result of the efficiency and integration initiatives undertaken and we are currently achieving EBITDA margins in excess of 25%. Excellent cash conversion, which has been a constant feature of the business over the last three years, remains strong and with the network and platform upgrades largely complete, we anticipate lower levels of capital expenditure in the medium term.

The Group's core network, cloud platform, data centres and operational systems have all been upgraded meaning that we now have modern, resilient and scalable networks and platforms to support future growth. The strategic decision to focus on our core strength as a network integrator and to build on the HSCN contract wins has put us in a good position to leverage future opportunities, especially in the current environment where networks and remote working capabilities are essential to most UK organisations.

The settlement reached with the FCA is hugely significant in that it allows the management team to focus solely on the business, reopens FCA regulated markets and removes uncertainty from new logo customers wishing to transfer their mission critical IT infrastructure to Redcentric.

OUTLOOK

We have had a good start to FY21 with all the key business metrics of sales, deliveries and cash flows showing positive trends. The integration and efficiency programmes undertaken in FY20 have materially reduced our cost base and this, taken with recurring revenue growth, will lead to significantly increased profitability and cash flows in FY21 and beyond.

Whilst the COVID-19 pandemic has created significant challenges, it is yet to have an adverse effect on the business' performance. With a customer base secured on long term contracts, recurring revenues accounting for 89% of our total revenues and a product set very much relevant to the current environment, we are cautiously optimistic for the future.

Having completed the integration of historical acquisitions and implemented efficiency initiatives across the business, we are now in a good position to move to the next stage of the Group's development. Our strong financial performance, low levels of debt and the removal of the uncertainty caused by the FCA Investigation all put us in a strong position to explore the many opportunities open to us.

Peter Brotherton
Chief Executive Officer
21 July 2020

Financial Review

Financial performance measures

	Year ended 31 March 2020 (FY20)[1]	Year ended 31 March 2020 (FY20) pre-IFRS 16[1]	Year ended 31 March 2019 (FY19)	Change[1]
Total revenue	£87.5m	£87.5m	£93.3m	-6%
Recurring monthly revenue (RMR) [2]	£77.6m	£77.6m	£80.5m	-4%
Adjusted EBITDA[2]	£20.6m	£17.6m	£16.7m	+5%
Adjusted operating profit[2]	£10.6m	£9.7m	£8.2m	+18%
Reported operating (loss)	£(8.7)m	£(9.7)m	£(0.3)m	+3,133%
Adjusted cash generated from operations[2]	£19.6m	£16.4m	£21.3m	-23%
Reported cash generated from operations	£18.8m	£15.6m	£19.6m	-20%
Net debt	£(34.5)m	£(13.5)m	£(17.6)m	+23%
Adjusted basic earnings per share[2]	4.76p	4.86p	3.89p	+25%
Reported basic (loss) per share	(7.14)p	(7.01)p	(1.32)p	-431%
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[2] For an explanation of the alternative performance measures used in this report, please refer to Appendix 1

Overview

This year's accounts have been dominated by three factors that have a material impact to the financial statements:

1. IFRS16 brings all lease commitments on balance sheet, creating a right of use asset at adoption of £20.8m (FY20: £22.7m), with a corresponding liability at adoption of £23.0m (FY20: £23.5m). Operating lease expenses of £3.0m have been replaced with depreciation and interest charges of £2.1m and £1.1m respectively, thereby increasing adjusted EBITDA by £3.0m.

2. The settlement reached with the FCA resulted in the Restitution Scheme being implemented with an estimated cost of £11.4m which has been provided for in FY20. The resulting impact is that the Group has reported a loss before taxation of £10.6m (FY19: loss of £1.4m) and recorded a provision of £11.4m within current liabilities. Post the year end, 5.3m shares were issued generating £5.8m of cash which will be utilised to settle part of this liability. The remaining £5.6m will be settled by either issuing shares or by payment in cash. Full details are given in note 4.

3. As at 31 March 2020, the bank facility was due to expire on 30 November 2020 and so the year-end balance of £12.5m has been classified within current liabilities. On 9 June 2020, the Group extended its banking facilities to 30 June 2022.

The key financial highlights are as follows:

- Total revenue reduced by 6.2% to £87.5m (FY19: £93.3m). Recurring monthly revenue fell by 3.6% to £77.6m (FY19: £80.5m), representing 89% (FY19: 86%) of the total revenue.

- The Group reported loss before taxation of £10.6m in FY20 (2019: loss of £1.4m). Adjusted EBITDA increased by £3.9m and adjusted operating profit increased by £2.4m. On a pre-IFRS 16 basis, both adjusted EBITDA (up £0.9m to £17.6m) and adjusted operating profit (up £1.5m to £9.7m) were higher than the prior year, reflecting an improvement to gross profit margin and further reductions to the operating cost base in the year.

- Net debt at 31 March 2020 was £34.5m, including £21.0m of IFRS16 lease liabilities that were previously classified as operating leases under IAS17.

Revenue

Revenue for the year ended 31 March 2020 was generated wholly from the UK and is analysed as follows:

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Recurring revenue	**77,617**	80,544
Product revenue	**5,215**	5,810
Services revenue	**4,653**	6,906
Total revenue	**87,485**	93,260

Revenue is analysed into the following categories:

- Recurring monthly revenue, lower at £77.6m (FY19: £80.5m), largely driven by a reduction in public sector hosting revenues (£2.1m), caused by the government's Crown Hosting policy. Recurring revenues excluding Crown Hosting have increased in each of the last three quarters.
- Non-recurring product revenue, which was lower at £5.2m (FY19: £5.8m), was impacted by the industry trend to move away from on-premise to cloud solutions and by customers delaying discretionary spending due to the economic uncertainty.
- Non-recurring services revenue was lower at £4.7m (FY19: £6.9m).

Gross profit

Gross profit decreased by 2.1% (£1.2m) reflecting the Group's lower revenue, with an improvement in gross margin to 63.1% (FY19: 60.4%) driven by the network restructuring programme, specifically cancelling over 1000 third party access circuits. This activity was completed in Q4 FY20 and generated annualised savings of £1.5m. One-off exceptional costs of £0.2m were recognised in relation to the termination of these circuits.

Adjusted operating costs

The Group's adjusted operating costs (operating expenditure excluding depreciation, amortisation, exceptional items and share-based payments) are set out in the table below:

	FY20 £'000	FY19 £'000	Change £'000	Change %
UK staff costs	**19,738**	20,507	(769)	-4%
Office and data centre costs	**4,393**	7,049	(2,656)	-38%
Network and equipment costs	**6,680**	7,311	(631)	-9%
Other sales, general and administration costs	**1,887**	2,693	(806)	-30%
Offshore costs	**1,886**	2,091	(205)	-10%
Total adjusted operating costs	**34,584**	39,651	(5,067)	-13%

Employees

Year-end headcount	**Year ended 31 March 2020**	Year ended 31 March 2019	Variance
UK	**298**	310	(12)
India	**144**	156	(12)
Total headcount	**442**	466	(24)

Average headcount	**Year ended 31 March 2020**	Year ended 31 March 2019	Variance
UK	**311**	329	(18)
India	**151**	150	1
Total headcount	**462**	479	(17)

In the FY20 results, costs recognised under IAS17 (leases) in previous years have been reclassified as leases under IFRS16. Operating lease expenses of £3m have been replaced with depreciation and interest charges of £2.1m and £1.1m respectively.

Total adjusted operating costs for FY20 were 12.8% (£5.1m) lower than prior year, reflecting:

- UK staff costs down £0.8m, driven by lower headcount and operating lease reclassifications of £0.1m;
- office and data centre costs reduced by £2.7m, primarily reflecting operating lease reclassifications of £2.5m;
- network and equipment costs reduced by £0.6m, primarily due to the data centre and network restructuring programme, which is now largely complete and will generate £0.8m of annualised savings. One-off exceptional costs of £1.2m were recognised in relation to the exit from three third party data centres;
- other sales, general and administration costs down £0.8m, with the prior year including £0.5m of HSCN bid (consultancy) costs; and
- offshore costs reduced by £0.2m due to office operating lease reclassifications.

Adjusted EBITDA

Adjusted EBITDA is EBITDA excluding exceptional items (as set out in note 2), share-based payments and associated National Insurance. The same adjustments are also made in determining the adjusted EBITDA margin. Items are only classified as exceptional due to their nature or size, and the Board considers that this metric provides the best measure of assessing underlying trading performance.

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Reported operating (loss)	**(8,737)**	(285)
Amortisation of intangible assets arising on business combinations	**6,252**	6,252
Amortisation of other intangible assets	**1,197**	1,140
Depreciation	**8,814**	7,330
EBITDA	**7,526**	14,437
Exceptional items	**12,516**	1,911
Share-based payments and associated National Insurance	**562**	366
Adjusted EBITDA	**20,604**	16,714

Adjusted EBITDA increased to £20.6m, £3.9m higher than prior year. Of this increase, £3.0m relates to IFRS16 operating lease reclassifications, with the remaining increase reflecting operational efficiencies of £2.1m offset by a reduction in gross profit of £1.2m.

Taxation, interest and dividend

The tax credit for the year was £0.0m (FY19: £0.6m charge), comprising an income tax charge of £0.8m (FY19: £0.8m), a current year deferred tax credit of £0.8m (FY19: £0.8m credit) and a deferred tax credit in respect of prior years of £0.0m (FY19: £0.6m charge).

Net finance costs for the year were £1.9m (FY19: £1.1m), including £1.1m of IFRS 16 finance charges.

During the year, the Company paid the following dividends:

- a final dividend for FY19 of 1p per share, totalling £1.5m; and
- an interim dividend for FY20 of 0.83p per share, totalling £1.2m.

In light of the Restitution Scheme and the continued uncertainty around COVID-19 the Board is not recommending payment of the final dividend to shareholders for FY20. Further, the Board announced on 3 April 2020 that the share buyback programme would be temporarily halted until such time as the outlook becomes more certain.

Net debt

During the year, net debt increased by £16.9m to £34.5m as at 31 March 2020, with the movements shown in the table below:

	As at 31 March 2019 £'000	Net cash flow £'000	Net non-cash flow £'000	**As at 31 March 2020 £'000**
Cash	7,206	(3,496)	-	3,710
RCF	(19,432)	7,000	(51)	(12,483)
Term Loan	(363)	212	-	(151)
Lease Liabilities	(4,976)	6,234	(26,883)	(25,625)
	(17,565)	9,950	(26,934)	(34,549)

Included in lease liabilities at 31 March 2020 are £21.0m of IFRS 16 lease liabilities that were previously classified as operating leases under IAS17. Other movements reflect capital expenditure of £6.9m, £0.8m on exceptional items and £3.5m on dividends and share buybacks.

£7.5m of unutilised bank facility was cancelled during the year, leaving a total facility at 31 March 2020 of £47.5m, comprising a revolving credit facility ("RCF") of £17.5m, an overdraft facility of £5.0m and a £5.0m asset financing facility. In addition, the Group has access to a £20.0m accordion facility. At 31 March 2020 £5.0m of the RCF, £5.0m of the overdraft and £3.9m of the asset financing facility was undrawn.

On 8 June 2020, these facilities were extended to 30 June 2022, with all terms and covenants remaining the same until this time. On 17 July 2020 certain amendments were made to the Facilities Agreement to allow for the impact of the Proposed Restitution Scheme.

Trade Debtors

In the year, focus remained on collecting legacy debt to improve the ageing profile. At the year-end, debt over 90 days old has reduced by 56% year on year, whilst debt greater than 180 days has reduced by 85%.

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Current	**10,993**	9,074
1 to 30 days overdue	**1,656**	2,628
31 to 60 days overdue	**593**	505
61 to 90 days overdue	**220**	99
91 to 180 days overdue	**288**	390
> 180 days overdue	**63**	416
Gross trade debtors	**13,813**	13,112
Provision	**(1,438)**	(1,521)
Net trade debtors	**12,375**	11,591

Trade creditor days were 40 at 31 March 2020 compared to 28 as at 31 March 2019.

Financing

	31 March 2020			31 March 2019		
	Available £'000s	Drawn £'000s	Undrawn £'000s	Available £'000s	Drawn £'000s	Undrawn £'000s
Committed						
- Revolving credit facility	17,500	12,483	5,017	25,000	19,500	5,500
- Term Loans	151	151	-	363	363	-
- Leases	25,625	25,625	-	4,976	4,976	-
	43,276	38,259	5,017	30,339	24,839	5,500
Uncommitted						
- Bank overdraft	5,000	-	5,000	2,000	-	2,000
- Asset financing facility	3,853	-	3,853	4,724	-	4,724
	8,853	-	8,853	6,724	-	6,724
Total borrowing facilities	52,129	38,259	13,870	37,063	24,839	12,224

In addition to the above facilities, the Group has access to a non-committed £20.0m accordion facility. During the year, the Group cancelled £7.5m of unutilised facility reducing the committed level from £25.0m to 17.5m and thereby saving £57k in annualised commitment fees.

David Senior
Chief Financial Officer
21 July 2020

Consolidated statement of comprehensive income for the year ended 31 March 2020

	Note	**Year ended 31 March 2020 £'000**	Year ended 31 March 2019 £'000
Revenue		**87,485**	93,260
Cost of sales		**(32,297)**	(36,895)
Gross Profit		**55,188**	56,365
Operating expenditure		**(63,925)**	(56,650)
Adjusted EBITDA[1]		**20,604**	16,714
Depreciation		**(8,814)**	(7,330)
Amortisation of intangibles		**(7,449)**	(7,392)
Exceptional items	[2]	**(12,516)**	(1,911)
Share-based payments		**(562)**	(366)
Operating loss		**(8,737)**	(285)
Finance income		**5**	13
Finance costs		**(1,881)**	(1,091)
Loss on ordinary activities before taxation		**(10,613)**	(1,363)
Income tax credit / (expense)		**13**	(604)
Loss for the period attributable to owners of the parent		**(10,600)**	(1,967)
Other comprehensive income			
Items that may be classified to profit or loss:			
Currency translation differences		**13**	8
Total comprehensive (loss) for the period		**(10,587)**	(1,959)
Earnings per share			
Basic loss per share		**(7.14)p**	(1.32)p
Diluted loss per share		**(7.14)p**	(1.32)p

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

Consolidated statement of financial position as at 31 March 2020

	Note	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Non-Current Assets			
Intangible assets	[6]	**68,867**	75,802
Tangible assets	[7]	**38,467**	18,133
Deferred tax asset		**1,482**	142
		108,816	94,077
Current Assets			
Inventories		**891**	357
Trade and other receivables		**23,261**	21,907
Corporation tax receivable		**346**	196
Cash and short-term deposits		**3,710**	7,206
		28,208	29,666
Total assets		**137,024**	123,743
Current Liabilities			
Trade and other payables		**(24,311)**	(22,297)
Borrowings		**(16,126)**	(3,056)
Provisions	[3]	**(12,122)**	(149)
		(52,559)	(25,502)
Non-current liabilities			
Borrowings		**(22,133)**	(21,715)
Provisions	[3]	**(2,531)**	(881)
		(24,664)	(22,596)
Total liabilities		**(77,223)**	(48,098)
Net assets		**59,801**	75,645
Equity			
Called up share capital		**149**	149
Share premium account		**65,734**	65,588
Capital redemption reserve		**(9,454)**	(9,454)
Own shares held in treasury		**(724)**	-
Retained earnings		**4,096**	19,362
Total Equity		**59,801**	75,645

The notes on pages 19 to 25 are an integral part of this consolidated financial information.

Consolidated cash flow statement for the year ended 31 March 2020

	Note	**Year ended 31 March 2020 £'000**	Year ended 31 March 2019 £'000
Loss before taxation		**(10,613)**	(1,363)
Net finance costs		**1,876**	1,078
Operating loss		**(8,737)**	(285)
Adjustment for non-cash items			
Depreciation and amortisation		**16,263**	14,722
Exceptional items	[2]	**12,516**	1,911
Share-based payments		**562**	366
Operating cash flow before exceptional items and movements in working capital		**20,604**	16,714
Loss on sale of fixed asset	[7]	**-**	(42)
Cash costs of exceptional items		**(817)**	(1,668)
Operating cash flow before changes in working capital		**19,787**	15,004
Changes in working capital			
(Increase) / Decrease in inventories		**(534)**	309
(Increase)/Decrease in trade and other receivables		**(1,779)**	5,775
Increase/(Decrease) in trade and other payables		**1,343**	(1,467)
Cash generated from operations		**18,817**	19,621
Tax paid		**(660)**	(1,873)
Net cash generated from operating activities		**18,157**	17,748
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**-**	665
Purchase of property, plant and equipment	[7]	**(3,943)**	(4,665)
Purchase of intangible fixed assets	[6]	**(290)**	(564)
Net cash used in investing activities		**(4,233)**	(4,564)
Cash flows from financing activities			
Dividends paid		**(2,731)**	(597)
Share buy-back		**(724)**	-
Interest paid		**(1,825)**	(1,044)
Repayment of leases		**(5,127)**	(1,918)
Repayment of borrowings		**(7,000)**	(8,500)
Net cash used in financing activities		**(17,407)**	(12,059)
Net (decrease)/increase in cash and cash equivalents		**(3,483)**	1,125
Cash and cash equivalents at beginning of period		**7,206**	6,089
Effect of exchange rates		**(13)**	(8)
Cash and cash equivalents at end of the period		**3,710**	7,206

The accompanying notes form an integral part of this consolidated financial information.

Consolidated statement of changes in equity for the year ended 31 March 2020

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Own Shares Held in Treasury £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 April 2018	149	65,588	(9,454)	-	21,565	77,848
Loss for the period	-	-	-	-	(1,967)	(1,967)
Transactions with owners						
Share-based payments	-	-	-	-	353	353
Dividends paid	-	-	-	-	(597)	(597)
Other comprehensive income						
Currency translation differences	-	-	-	-	8	8
At 31 March 2019	149	65,588	(9,454)	-	19,362	75,645
Adjustment on initial application of IFRS 16	-	-	-	-	(2,260)	(2,260)
Adjusted as at 31 March 2019	149	65,588	(9,454)	-	17,102	73,385
Loss for the period	-	-	-	-	(10,600)	(10,600)
Transactions with owners						
Share-based payments	-	-	-	-	484	484
Share buyback				(724)	-	(724)
Issue of new shares	-	146	-	-	(146)	-
Dividends paid	-	-	-	-	(2,731)	(2,731)
Other comprehensive income						
Currency translation differences	-	-	-	-	(13)	(13)
At 31 March 2020	**149**	**65,734**	**(9,454)**	**(724)**	**4,096**	**59,801**

The accompanying notes form an integral part of this consolidated financial information.

David Senior
Chief Financial Officer

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 Group made a statutory loss before tax of £10.6m in the year to 31 March 2020 (2019: loss of £2.0m) and had net current liabilities of £24.4m at 31 March 2020 (2019: net current assets of £4.1m). Whilst the Group made a loss in the current financial year due to an £11.4m provision being recorded in relation to the Restitution Scheme (see note 4). The Group is ordinarily profitable and has continued to be cash generative. Net current liabilities at 31 March 2020 includes £9.7m (2019: £9.1m) of contract liabilities, which does not represent expected cash outflows. Excluding this, the Group has net current liabilities of £14.7m (2019: net current assets of £13.2m). Net current liabilities at 31 March 2020 also includes a provision of £11.4m in respect of the Restitution Scheme. Of the £11.4m provision, £5.8m will be funded by the share placing which took place on 13 July 2020 and it is estimated that a further £1m will be funded by the issuing of shares, rather than cash, to claimants, leaving estimated net cash payments to be made of £4.6m. Furthermore, net current liabilities at 31 March 2020 includes bank loans of £12.5m. Subsequent to the year end the bank facility was extended to 30 June 2022 (see below).

As at 31 March 2020, the Group had committed revolving credit facilities of £17.5m (2019: £25m) and an overdraft facility of £5m (2019: £5m), of which £12.5m (2018: £19.5m) of the revolving credit facility and £nil (2019: £Nil) of the overdraft was drawn. During the year, the continuing strength of operating cash flows enabled the Group to cancel £7.5m of unutilised revolving credit facility. As at 31 March 2020, these facilities were due to expire on 30 November 2020. Subsequent to the year end, on 8 June 2020 these facilities were extended such that any remaining drawn facility becomes repayable on 30 June 2022, with all terms and covenants remaining the same until this time. On 17 July 2020 certain amendments were made to the Facilities Agreement to allow for the impact of the Restitution Scheme.

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.

The Directors have prepared forecasts covering the period to 31 March 2022, built from the detailed Board approved budget for the year ending 31 March 2021. The forecasts include a number of assumptions in relation to order intake, renewal and churn rates and EBITDA margin improvements.

Whilst the Group's trading and cash flow forecasts have been prepared using current trading assumptions, the operating environment presents a number of challenges which could negatively impact the actual performance achieved. These risks include, but are not limited to, achieving forecast levels of order intake, the impact on customer confidence as a result of general economic conditions and Brexit and achieving forecast margin improvements. If future trading performance significantly underperforms the Group's forecasts, this could impact the ability of the Group to comply with its covenant tests over the period of the forecasts.

The uncertainty as to the future impact on the Group of the COVID-19 outbreak has been separately considered as part of the directors' consideration of the going concern basis of preparation. Thus far, the Group has not observed any material impact in trading performance due to COVID-19. However, due to the uncertainty over the duration and extent of the impact of COVID-19, the Directors have modelled a severe but plausible downside scenario when preparing the forecasts, where the impact of COVID-19 is forecast to continue until March 2021, after which point the impact will begin to reduce. Over this period, recurring monthly order intake is forecast to reduce by 85% compared to 2020, product and services revenues reduce by almost 50% compared to 2020 and customer loss through insolvency increases (particularly in the retail, hospitality and leisure sectors). Certain limited mitigating actions are forecast to be implemented to control discretionary cost spend in areas such as travel, entertaining and marketing. It is difficult to predict the overall outcome and impact of COVID-19 and the duration of disruption could be longer than anticipated, but under the downside scenario modelled and in the case that recovery is more gradual than expected, the forecasts demonstrate that Group is expected to maintain sufficient liquidity and remain in compliance with covenants throughout the period under review whilst still maintaining adequate headroom against overall facilities, including full repayment of the rolling credit facility by 30 June 2022. The directors therefore remain confident that the Group has adequate resources to continue to meet its liabilities as and when they fall due within the period of 12 months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

IFRS 16 replaces IAS 17 'Leases' and related interpretations. The standard requires lessees to recognise right-of-use assets and lease liabilities for all leases meeting the lease definition set out by the standard unless certain exemptions are available. Accounting for lessors is largely unchanged. The Group has adopted the modified retrospective approach, electing to apply the practical expedient to use hindsight when determining the lease term. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets, and lease liabilities representing its obligation to make lease payments, for virtually all lease contracts.

The financial information set out in this preliminary announcement does not constitute the company's statutory financial statements for the years ended 31 March 2020 or 2019 but is derived from those financial statements. Statutory financial statements for 2019 have been delivered to the registrar of companies and those for 2020 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.

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 items

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Professional fees associated with the FCA Investigation	**(555)**	554
Staff restructuring	**465**	804
Vacant property lease provisions net of costs	**(141)**	553
Onerous service contracts	**1,155**	-
Circuit termination charges	**163**	-
Restitution provision	**11,429**	-
	12,516	1,911

- During the year, the Group has continued to incur professional advisor costs in relation to the FCA Investigation but has also received £715k from its insurers.

- Staff restructuring costs relate to a rationalisation programme principally impacting the Development, Operations (managed apps), Assurance, and MIS (internal IT) departments. New structures have been put in place in each of these areas and a total of 19 employees have been made redundant.

- The Theale office was closed during in the prior year and a £553k provision created to cover anticipated expenditure up to the end of the contractual term to 29th September 2023. Early surrender of the lease has been negotiated during the current resulting in a £156k provision release offset by £15k of costs

- The onerous service contract cost relates to the costs associated with third party service arrangements no longer utilised (or in the process of being ceased) by the business.

- Circuit termination charges relate to cancellation costs incurred on unused circuits / connections cancelled during the year, as part of the Group's network rationalisation review.

- The Restitution Scheme provision constitutes the amount that has been agreed with the FCA to settle with net purchasers of ordinary shares in the Company between 9 November 2015 and 7 November 2016.

3 Provisions

	Restitution Scheme provision £'000	Dilapidations provision £'000	Onerous service contract provision £'000	Total provision £'000
At 1 April 2018	-	376	-	376
Additional provisions created during the period	-	120	538	658
Utilised during the period	-	-	(4)	(4)
At 31 March 2019	-	496	534	1,030
Additional provisions created during the period	11,429	2,030	833	14,292
Released during the period	-	-	(156)	(156)
Utilised during the period	-	-	(513)	(513)
At 31 March 2020	**11,429**	**2,526**	**698**	**14,653**
Analysed as:				
Current	11,429	-	693	12,122
Non-current	-	2,526	5	2,531
	11,429	**2,526**	**698**	**14,653**

The restitution scheme provision relates to the settlement agreed with the FCA settlement in respect of certain historical accounting misstatements that were uncovered by the Company in November 2016. As part of this settlement, the Company agreed to implement a Restitution Scheme to compensate net purchasers of ordinary shares in the Company between 9 November 2015 and 6 November 2016. The amount represents management's best estimate of the cost to the Group. The uncertainty in the value arises as a result of the fact that claimants have the option to opt for a cash payment, a share payment or a split payment. All outflows associated with the Restitution Scheme are expected to be made by 31 October 2020.

The dilapidations provision represents the estimated costs associated with returning certain leasehold properties to the original condition upon exiting the lease. Given there is judgement in determining the quantum of provisions to be recognised a third-party expert was engaged to determine appropriate estimates.

4 Restitution scheme provision

During the period, the Company recorded a provision of £11.4m in relation to the Restitution Scheme. At 31 March 2020 the value of the provision was calculated using the latest estimates available in relation to potential claims likely to be made under the scheme. The following outlines the key elements of estimation uncertainty within the provision:

Basis for calculation of the provision

The basic entitlement (as set in the Scheme Circular) is:

- 14.3p per share for claims settled in shares (calculated as a fixed 0.13 of a share for every net share purchase at 110p).
- 2.66p per share in cash
- 14.3p + 2.66p = 16.96p per net share purchase x 62,500,000 net share purchases (see below) = £10,625,000, plus costs of £805,000 = £11,430,000

There are four main sources of estimation uncertainty:

a) The number of net share purchases in the relevant period
b) The value attributed to the compensation paid, to the extent settled in shares
c) The split of claims between cash and shares
d) The number of claims received

a) The number of net share purchases in the relevant period:

I. Net share purchases are estimated at 62,500,00, based on share register records and trading throughout the relevant period. Adjustments have been estimated in respect of institutional shareholder entities who had multiple funds which were aggregated in to one line.

b) Value attributed to the compensation paid per eligible net share purchase:

I. Instead of the basic entitlement, a potential claimant may elect to receive one of the following:

   - If a claimant opts to receive compensation entirely in cash, 16.96p is paid for each net share purchase in the relevant period.

- If a claimant opts to receive compensation entirely for shares, 0.154 of an ordinary share per each net share purchase in the relevant period is issued to the claimant (representing 16.96p).
- If a claimant opts to receive compensation 50% in cash and 50% in shares, 8.48p cash is paid and 0.077 of an ordinary share is issued for each net share purchase in the relevant period.

II. The value attributed to the compensation paid to a claimant involves estimation only to the extent that a claimant opts for shares and the fair value of the shares issued differs from 110p

c) The split between cash and shares

I. Estimates have been based on discussions with major shareholders and certain former shareholders likely to be potential claimants. Such discussions indicate that existing shareholders will opt for the payment of compensation in shares and former shareholders are more likely to opt for payment of compensation in cash.

d) The number of claims received

I. The provision has been based on 100% of potential claimants actually submitting a claim. However, it is not clear at this stage whether this will be the case.

5 IFRS 16 Leases

IFRS 16 has introduced a single on-balance sheet accounting model for lessees. The Group has adopted the modified retrospective approach, electing to apply the practical expedient to use hindsight when determining the lease term. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets, and lease liabilities representing its obligation to make lease payments, for virtually all lease contracts. The Group has presented its right-of-use assets and lease liabilities on the face of the balance sheet. The table below summarises the impact on transition, the Group recognising an adjustment of £2.3m to opening retained earnings:

	1 April 2019 £'000
Right-of-use assets	20,771
Deferred tax asset	530
Trade and other receivables (deferred lease incentives derecognised)	(548)
Current lease liabilities	(1,967)
Non-current lease liabilities	(21,046)
Retained earnings	**(2,260)**

In relation to those leases brought on balance sheet under IFRS 16, the Group now recognises depreciation and interest costs, instead of an operating lease expense. During the year ended 31 March 2020, this amounted to £2.1m of depreciation charges and £1.2m of interest costs from these leases. Expenses relating to leases of low-value assets and short-term leases for which no right of use asset or lease liability has been recognised were immaterial.

The impact of IFRS 16 on the consolidated income statement, consolidated statement of financial position, and consolidated cash flow statement for the year ended 31 March 2020 is set out in an appendix to these financial statements.

At transition, the Group elected to apply the practical expedient to grandfather the assessment of which contracts were leases. For leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at an incremental borrowing rate which reflects the characteristics of the underlying lease, at 1 April 2019. The weighted average incremental borrowing rate applied is 5.1%.

Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted by an appropriate rate. The Group has applied this methodology to the majority of its property leases where the required historical information is available; or
- an amount equal to the lease liability, adjusted for prepaid / accrued lease payments. This method has been applied to the small number of non-property leases.

The Group has applied the following practical expedients on transition:

- leases for underlying assets that have a low value (less than £5,000) or where the remaining lease term on transition was less than 12 months have been excluded; and
- a single discount rate applied to its small portfolio of car leases; and
- right of use assets were adjusted by the amount of IAS37 onerous contract provision recorded immediately before the date of initial application as an alternative to an impairment review.

The table below reconciles the Company's operating lease commitment at 31 March 2019, under IAS 17, to the lease liability now being recognised under IFRS 16.

	1 April 2019 £'000
Operating lease commitment at 31 March 2019 as disclosed in the Company's consolidated financial statements	32,665
Discounted using the incremental borrowing rate at 1 April 2019	23,047
Recognition exemption for leases of low value assets	(31)
Recognition exemption for leases with less than twelve months of lease term at transition	(3)
New lease liabilities recognised at 1 April 2019	**23,013**
Existing lease liabilities	4,976
Lease liabilities recognised as at 1 April 2019	**27,989**

6 Intangible Assets

	Goodwill £'000	Customer contracts and related relationships £'000	Trademarks £'000	Software and licences £'000	Total £'000
Cost					
At 1 April 2018	43,269	62,284	275	5,613	111,441
Additions	-	-	-	717	717
Exchange differences	-	-	-	1	1
At 31 March 2019	43,269	62,284	275	6,331	112,159
Additions	-	-	-	578	578
Exchange differences	-	-	-	-	-
At 31 March 2020	**43,269**	**62,284**	**275**	**6,909**	**112,737**
Accumulated amortisation and impairment					
At 1 April 2018	-	25,813	275	2,867	28,955
Charged in year	-	6,252	-	1,141	7,393
Exchange differences	-	-	-	(1)	(1)
Write-off	-	-	-	10	10
At 31 March 2019	**-**	**32,065**	**275**	**4,017**	**36,357**
Charged in year	-	6,252	-	1,197	7,449
Exchange differences	-	-	-	-	-
Write-off	-	-	-	64	64
At 31 March 2020	**-**	**38,317**	**275**	**5,278**	**43,870**
Net book value					
At 31 March 2020	**43,269**	**23,967**	**-**	**1,631**	**68,867**
At 31 March 2019	43,269	30,219	-	2,314	75,802
At 31 March 2018	43,269	36,471	-	2,746	82,486

Included in software and licences are intangibles assets held under leases with a carrying value of £452k at 31 March 2020 (31 March 2019: £773k). Of the £578k intangible assets acquired in the year, £288k were funded using leases (FY19: £484k).

Customer contracts have a weighted average remaining amortisation period of 4 years and 11 months (FY19: 5 years and 11 months).

Impairment tests for goodwill and other intangibles

The Company has assessed that the trading operations of the business constitute only one cash generating unit.

Intangible assets are reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is tested annually for impairment and, to confirm whether an impairment of the goodwill is necessary, management compares the carrying value to the value in use.

The value in use has been calculated using budgeted cash flow projections to the period of 31 March 2022, extrapolated for a further three years by an average annual revenue growth rate of 2.0%. A terminal value based on a perpetuity calculation using a 0.0% real growth rate was then added.

In addition to revenue growth, the key assumptions used in the impairment testing were as follows:

- Gross margin percentage of 60.5%
- Pre-tax discount rate of 9.21% (post tax 8.6%); and
- Terminal growth rate percentage of 0.0%

A reasonably possible adverse movement in any of the above key assumptions made would not give rise to impairment.

7 Property, plant and equipment

	Land and buildings £'000	Leasehold improvements £'000	Office fixtures and fittings £'000	Vehicles & computer equipment £'000	Total £'000
Cost					
At 1 April 2018	-	13,896	1,372	29,837	45,105
Reclassification	-	(274)	-	274	-
Additions	-	112	159	5,723	5,994
Disposals	-	-	(37)	(1,849)	(1,886)
Exchange differences	-	-	-	2	2
At 31 March 2019	-	13,734	1,494	33,987	49,215
Recognition of ROU asset on initial application of IFRS 16	27,858	-	-	736	28,594
Adjusted balance at 1 April 2019	27,858	13,734	1,494	34,723	77,809
Additions	-	134	129	6,081	6,344
Remeasurement	2,030	-	-	-	2,030
Disposals	-	(6,285)	(569)	(6,500)	(13,354)
Exchange differences	-	-	2	(14)	(12)
At 31 March 2020	**29,888**	**7,583**	**1,056**	**34,290**	**72,817**
Accumulated depreciation					
At 1 April 2018	-	9,526	1,002	14,339	24,867
Reclassification	-	(272)	-	272	-
Charged in year	-	869	115	6,346	7,330
On disposals	-	-	(22)	(1,092)	(1,114)
Exchange differences	-	-	-	(1)	(1)
At 31 March 2019	-	10,123	1,095	19,864	31,082
Recognition of ROU asset on initial application of IFRS 16	7,823	-	-	-	7,823
Adjusted balance at 1 April 2019	7,823	10,123	1,095	19,864	38,905
Charged in year	1,898	626	135	6,155	8,814
On disposals	-	(6,285)	(569)	(6,500)	(13,354)
Exchange differences	-	-	-	(15)	(15)
At 31 March 2020	**9,721**	**4,464**	**661**	**19,504**	**34,350**
Net book value					
At 31 March 2020	**20,167**	**3,119**	**395**	**14,786**	**38,467**
At 31 March 2019	-	3,611	399	14,123	18,133
At 31 March 2018	-	4,370	370	15,498	20,238

Included in vehicle and computer equipment and land and buildings are assets held under leases with a carrying value of £25,838k at 31 March 2020 (31 March 2019: £3,979k). Of the £6,344k fixed assets acquired in the year, £2,370k were funded using leases (FY19: £1,325k).

The remeasurement represents the estimated costs associated with returning certain leasehold properties to the original condition upon exiting the lease. All changes in the dilapidations provision other than changes resulting from the unwinding of the discount are added or deducted from the cost of the related asset in the current period.

Appendix 1 - Alternative Performance Measures

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.

This additional information presented is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other companies. These measures are unaudited and should not be viewed in isolation or as an alternative to those measures that are derived in accordance with IFRS.

Recurring monthly revenue

Recurring revenue is the revenue that annually repeats either under contractual arrangement or by predictable customer habit. It highlights how much of the Group's total revenue is secured and anticipated to repeat in future periods, providing a measure of the financial strength of the business. It is a measure that is well understood by the Group's investor and analyst community and is used for internal performance reporting.

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Reported revenue	**87,485**	93,260
Non-recurring revenue	**(9,868)**	(12,716)
Recurring revenue	**77,617**	80,544

Recurring revenue makes up 89% of total revenue in FY20, an increase of 3% from prior year (86%).

Maintenance Capital Expenditure

Maintenance capital expenditure is the capital expenditure that is incurred in support of the Group's underlying infrastructure rather than in support of specific customer contracts.

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Reported capital expenditure	**6,922**	5,889
Customer capital expenditure	**(2,470)**	(3,983)
Maintenance capital expenditure	**4,452**	1,906

There was an acceleration of capital expenditure in the year primarily relating to maintenance capex, with net capital expenditure increasing by £1.0m to £6.9m (FY19: £5.9m). The main areas of investment were all aligned to the future growth and efficiency of the Group and are detailed below:

- IaaS platform upgrade (£1.5m), providing a more durable and scalable platform, together with enriched features for our customers; and
- core network upgrade (£1.0m), increasing bandwidth from 10Gb to 100Gb providing Customers with increased speed and resilience.

Adjusted EBITDA

Adjusted EBITDA is EBITDA excluding exceptional items (as set out in note 2), share-based payments and associated National Insurance. The same adjustments are also made in determining the adjusted EBITDA margin. Items are only classified as exceptional due to their nature or size, and the Board considers that this metric provides the best measure of assessing underlying trading performance.

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Reported operating (loss)	**(8,737)**	(285)
Amortisation of intangible assets arising on business combinations	**6,252**	6,252
Amortisation of other intangible assets	**1,197**	1,140
Depreciation	**8,814**	7,330
EBITDA	**7,526**	14,437
Exceptional items	**12,516**	1,911
Share-based payments and associated National Insurance	**562**	366
Adjusted EBITDA	**20,604**	16,714

Adjusted EBITDA increased to £20.6m, £3.9m higher than prior year. Of this increase, £3.0m relates to IFRS16 operating lease reclassifications, with the remaining increase reflecting operational efficiencies of £2.1m offset by a reduction in gross profit of £1.2m.

Adjusted operating profit

Adjusted operating profit is operating loss excluding amortisation on acquired intangibles, exceptional items and share-based payments. The Board considers this adjusted measure of operating loss to provide the best metric of assessing underlying performance as it excludes exceptional items and the amortisation of acquired intangibles arising from business combinations which varies year on year dependent on the timing and size of any acquisitions.

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Reported operating loss	**(8,737)**	(285)
Amortisation of intangible assets arising on business combinations	**6,252**	6,252
Exceptional items	**12,516**	1,911
Share-based payments	**562**	366
Adjusted operating profit	**10,593**	8,244

Adjusted operating costs

Adjusted operating costs are operating costs less depreciation, amortisation, exceptional items and share-based payments.

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Reported operating expenditure	**63,925**	56,650
Depreciation	**(8,814)**	(7,330)
Amortisation of intangibles arising on business combinations	**(6,252)**	(6,252)
Amortisation of other intangible assets	**(1,197)**	(1,140)
Exceptional items	**(12,516)**	(1,911)
Share-based payments	**(562)**	(366)
Adjusted operating expenditure	**34,584**	39,651