AdEPT Technology Group plc

("AdEPT" or the "Company", together with its subsidiaries the "Group")

Interim results for the 6 months ended 30 September 2018

AdEPT (AIM: ADT), one of the UK's leading independent providers of managed services for IT, unified communications, connectivity, voice and cloud services, announces its unaudited results for the 6 months ended 30 September 2018.

Highlights

Revenue and EBITDA

- Total revenue increased by 9.5% to £24.4 million (2017: £22.3 million)
- Managed services revenue increased by 19.2% to £18.0 million (2017: £15.1 million)
- Managed services revenue up to 74% of total revenue (2017: 67%)
- EBITDA* increased by 10.7% to £5.2 million (2017: £4.7 million)
- EBITDA* margin 21.2% (2017: 20.9%)

PBT, EPS and Dividends

- Adjusted profit after tax** increased by 13.4% to £3.7 million (2017: £3.2 million)
- Adjusted EPS increased by 11.7% to 14.5p (2017: 13.0p)
- Interim dividend increased by 15.3% to 4.9p per share (2017: 4.25p)

Cash Flow and Debt

- Reported EBITA conversion to pre-tax cash from operating activities 81.9% (2017: 90.7%)
- Net senior debt at period end of £25.1 million (2017: £20.8 million)
- £8.5m of funds used to fund Shift F7 Group Limited acquisition and Our IT earnout

Roger Wilson, Chairman, commented:

"I am delighted by the continued progress being made by the Group in its transformation into a managed service provider for unified communications and IT. The results for the period demonstrate the strength of our capex light model and our organic and acquisitive growth strategy.

Trading continues to be in line with management's expectations, we continue to be highly cash generative and with a fully supportive investor base and funding partners we remain confident in our strategy to identify earnings-enhancing acquisitions whilst retaining scope for a progressive dividend policy."

**Earnings before interest, tax, depreciation, amortisation and excluding one off acquisition costs and share based payments*
*** Adjusted profit after tax represents profit after tax adding back one off acquisition costs and amortisation*

Enquiries:

AdEPT Technology Group Plc

Roger Wilson, Chairman	07786 111 535
Ian Fishwick, Chief Executive	01892 550 225
John Swaite, Finance Director	01892 550 243

Cantor Fitzgerald Europe

Nominated Adviser & Broker	020 7894 7000
Marc Milmo/Catherine Leftley	

About AdEPT Technology Group plc:

AdEPT Technology Group plc is one of the UK's leading independent providers of managed services for IT, unified communications, connectivity and voice solutions. AdEPT's tailored services are used by thousands of customers across the UK and are brought together through the strategic relationships with tier-1 suppliers such as BT Openreach, Vodafone, Virgin Media, Avaya, Microsoft, Dell and Apple.

AdEPT is listed on the London Stock Exchange (Ticker: ADT). For further information please visit: www.adept.co.uk

BUSINESS REVIEW

I am pleased to report that in the 6 months to 30 September 2018 the Group has made considerable progress on its journey to transform AdEPT building upon our original telecom's heritage into a managed service provider for unified communications and IT, reflecting the trend of convergence within the marketplace. As a Group we have remained focused on the UK and have continued to make headway in the Public Sector reflecting the Government's commitment to expand the role of SME's in the Public arena.

In March 2016, the Government set a target that 33% of public sector spend would be with SME's by 2022. 34% of total Group revenue at September 2018 is now from public sector and healthcare customers (September 2017: 33%). The total revenue generated from public sector and healthcare customers has increased, however the proportion of total revenue has not changed significantly as the customer base of Shift F7 is commercially focused IT and does not currently provide services into the public sector. We now have over 100 Councils, more than 20 NHS Trusts, over 30 private hospitals, 15 universities, in excess of 3,000 schools as customers – we are also providing services into a number of central government departments.

As part of this commitment to the Public Sector, AdEPT has secured approved supplier status on 9 central and local government frameworks designed to make it easier for public sector customers to buy our products and services.

Largest NHS contract award to date

In early 2018 AdEPT Tunbridge Wells was awarded HSCN (Health and Social Care Network) Compliance and is now authorised to sell data networks to the NHS. There have been a number of successful tenders awarded to AdEPT under the HSCN framework, including our largest NHS contract to date with Kent. We have been contracted to build the data network which connects 140 hospitals and around 300 GP surgeries across Kent.

ACQUISITION UPDATE

OurIT Department, Chingford, St Neots and London

In February 2017, we acquired OurIT Department; our first IT business. OurIT brings AdEPT a wide range of IT products and services focused on London and South East customers. The earn out period ended on 31 January 2018 and in accordance with the terms of the share purchase agreement deferred consideration of £3.7m was paid in April 2018 in cash. There are no further amounts due in respect of this acquisition.

Atomwide, Orpington

In August 2017 we acquired Atomwide, based at Orpington. Atomwide is the UK's leading specialist in IT for Education with more than 3,000 schools and over 2 million users. We now have over 1 million Office 365 users; this is one of the largest single Office 365 deployments in the world. Included with the acquisition was a data centre at Orpington and a specialist app development team. The earn out period ended on 31 July 2018 and in accordance with the terms of the share purchase agreement deferred consideration of £1.5m was paid after the end of the interim period, in October 2018, in cash. There are no further amounts due in respect of this acquisition.

Shift F7, Dorking

On 1 August 2018 we acquired Shift F7 Group Limited ('Shift F7'). Shift F7 is a highly accredited IT services provider with over 20 years' experience, offering highly specialised IT support services and technology solutions to more than 200 commercial mid-market customers. Initial consideration of £5.0 million in cash less net debt and tax liabilities at completion (approximately £0.5m) has been paid. Further contingent deferred consideration of between £nil and £2.9 million may be payable, also in cash, dependent upon the performance of Shift F7 in the 12 month period to July 2019.

REVENUE

Total revenue in the period increased by 9.5% to £24.4 million and includes the 2-month revenue contribution from Shift F7 following the acquisition in August 2018; and a full 6 month contribution from Atomwide following the acquisition in August 2017.

The continued progress of the Group's transition to a complete managed service provider for IT, unified communications, connectivity and voice solutions provider can be demonstrated with the 19.2% increase in revenue from managed services, including IT, unified communications, data connectivity and cloud services to £18.0 million, accounting for 74% of total revenue for the six months ended 30 September 2018 (2017: 67%).

Fixed line revenues reduced by 11.5% from the comparative period, which is a reflection of the organic sales focus of the Group on managed services and IT combined with the substitution impact of existing customers transitioning to new technologies. AdEPT, with its expanded IT and unified communications portfolio, is well positioned to embrace customer migration to next generation products and services.

One of the strengths of the AdEPT business model is having good revenue visibility. The proportion of revenue being generated from recurring products and services (being all revenue excluding one-off projects, hardware and software procurement) remains high at 79.3% of total revenue for the 6 month period ended 30 September 2018. The managed service and IT product sets include software, hardware procurement and professional services for configuration and installation, which by their nature are project based and not a recurring revenue stream, however a high proportion of the one-off revenues are further products and services being supplied to the existing customer base.

PROFIT BEFORE TAX AND EARNINGS PER SHARE

Reported profit before tax decreased to £1.7 million (2017: £2.0 million) which takes into account the £0.4 million increase in amortisation and £0.2 million increase in interest charges, arising from a higher average net debt position from the funding of the acquisition consideration in the last 18 months. The interest cost in the statement of comprehensive income of £0.9m includes several non-cash items, such as discounting of the estimated contingent deferred consideration for acquisitions and the amortisation of bank facility fees, the interest cost of £0.7 million in the cash flow statement is a better measure of the cash costs of financing.

Adjusted profit after tax (before one off acquisition fees and amortisation) increased by 13.4% to £3.7 million (2017: £3.2 million) which is a reflection of the increased EBITDA, less the additional interest costs arising from the higher average net debt position which is largely a result of the acquisition consideration outflows.

The adjusted operating profit (before one off acquisition fees, depreciation and amortisation of intangible fixed assets) increased by 10.7% to £5.2 million (2017: £4.7 million). This increase arises from the full period impact of the acquisition of Atomwide undertaken in the comparative period combined with the Shift F7 contribution in the current interim period and is slightly ahead of the revenue increase, reflecting economies of scale.

Adjusted (basic) earnings per share increased by 11.7% to 14.5p for the six months ended 30 September 2018 (2017: 13.0p). Taking into account the share options in issue and the potential dilutive effect of the BGF convertible instrument, adjusted diluted earnings per share increased by 11.5% to 14.4p (2017: 12.9p).

FINANCING AND CASH FLOW

Cash generated from operating activities before tax remained consistent at £3.8 million (2017: £3.9 million), which equates to an 81.9% conversion of reported EBITA (after £0.3 million acquisition fees) (2017: 90.7%).

Dividends paid in the period absorbed £1.0 million of funds (2017: £0.9 million), this increase reflects the progressive dividend policy of the Board.

The Company operates a capex-light model with capital expenditure on tangible fixed assets of 1.7% of revenue (2017: 0.3%). The increase in proportion of capital expenditure over the comparative period arises partly from the refurbishment of the Our IT Department premises in Chingford completed in April 2018 but mainly from AdEPT investing a relatively small amount of capital in the development of a network connecting three data centres (which, combined with other capabilities and services is known as “AdEPT Nebula”). AdEPT Nebula is built around the core data centre in Orpington which is owned by AdEPT. The network allows AdEPT to provide its own cloud hosting capability.

AdEPT Nebula is now live and already delivering benefits to customers by providing Avaya IP cloud telephony services, hosted IT services and a range of data connectivity services. The network underpinning AdEPT Nebula has been developed using the in-house skills and capabilities of the AdEPT technical team. The Company will continue to review development opportunities for the addition of new products and services to AdEPT Nebula as customer demand dictates.

£4.8 million of available funds (net of cash acquired) was used to fund the initial cash consideration for the acquisition of the entire share capital of Shift F7 on 1 August 2018. Deferred consideration of £3.7 million in respect of the Our IT acquisition (undertaken in February 2017) was paid in April 2018.

Total senior debt has increased to £25.1 million at 30 September 2018 (2017: £20.8 million), with the increase arising from the acquisition consideration paid in the period for Shift F7 Group Limited. The Senior Debt:EBITDA (annualised) ratio remained comfortable at 2.4x at 30 September 2018 (2017: 2.2x), although it should be noted that the reported leverage multiple includes all of the debt in relation to the funding of the acquisition of Shift F7 Group Limited, undertaken in August 2018, but only 2 months post-acquisition profitability. Post period end, the Company paid the deferred consideration of £1.5 million due in respect of the Atomwide acquisition and also concluded the acquisition of ETS Communications Limited for an initial consideration of £2.5 million (less the net debt within ETS as at 31 October 2018) in cash.

DIVIDENDS

As announced on 27 September 2018, the Directors have declared an interim dividend of 4.90p per Ordinary Share in respect of the period ended 30 September 2018, an increase of 15.3% over the interim dividend for the comparative period (2017: 4.25p). This will absorb approximately £1.2 million of shareholders' funds (2017: £1.0 million). It is proposed by the Directors that this dividend will be paid on 8 April 2019 to shareholders who are on the register of members on the record date of 15 March 2019.

Dividend cover for the interim period was 3.0x (2017: 3.1x). Strong free cash flow generation has continued since the end of the period, and there continues to be scope for the Board to continue its progressive dividend policy.

SUBSEQUENT EVENTS

Bank facility extension

On 7 November 2018 the Company signed a £5 million extension to its existing £30 million 5-year revolving credit facility agreement, enlarging the total debt facility to £35 million. The enlarged facility is provided by Barclays Bank Plc and The Royal Bank of Scotland Plc on an equal basis. The facility will be used by AdEPT to fund acquisition of businesses that extend the AdEPT product set and by being part of the AdEPT group, will benefit from economies of scale. The terms of the enlarged facility remain the same as the existing facility.

Acquisition of ETS Communications

On 8 November 2018 the Company acquired the entire issued share capital of ETS Communications Holdings Limited ("ETS Holdings") and its trading subsidiary ETS Communications Limited ("ETS Comms"), (together referred to as "ETS") both well-established UK based specialist providers of unified communications services. ETS, founded in 1981, is an independent unified communications services provider based in Wakefield with nearly 40 years' experience. ETS is focused on providing unified communications and connectivity to business customers and has a strong public sector presence, including managing and supporting cloud-based telephony solutions to more than 200 GP surgeries. With AdEPT having an existing specialist Avaya IP Office operation in Northampton, the acquisition of ETS builds on this capability and extends the geographical reach to Yorkshire and Lincolnshire. ETS has a well-developed customer base with long term relationships, which builds upon AdEPT's existing public sector healthcare presence.

Initial consideration of £2.5 million less the net debt of ETS at 31 October 2018 ("Net Debt") was paid in cash. Pursuant to the terms of the share purchase agreement, the effective date of the acquisition is 1 November 2018. Further contingent deferred consideration of up to £1.75 million may be payable in cash dependent upon the trading performance of ETS in the 12-month period ended 31 October 2019. Further details are included in Note 8 of this interim statement.

OUTLOOK

Results such as these can only be achieved with the commitment of an outstanding team at all levels of the business. The transformation to a fully integrated managed service operation has continued at a pace and, on behalf of the Board, I would like to thank the entire team for another amazing 6 months.

We are now more than 200 staff with several thousand years of industry experience delivering benefits to clients across an increasingly wide range of technologies and skill sets. This breadth of expertise provides an excellent platform for our future growth. AdEPT has a full suite of managed services and is now embracing the continuing convergence between IT and Telecoms. The investment in AdEPT Nebula, our own network and IT services infrastructure, is already providing benefits across the Group – an initiative that has capitalised on the capability and expertise acquired with Atomwide in 2017.

The Board is delighted with the continued progress being made by the Group and trading continues to be in line with management's expectations. We continue to be highly cash generative with a fully supportive investor base and funding partners to enable the Board to continue to identify earnings-enhancing acquisitions whilst retaining scope for a progressive dividend policy.

Roger Wilson
Chairman
13 November 2018

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 September 2018 £'000	Restated 30 September 2017 £'000
REVENUE		**24,390**	22,280
Cost of sales		**(12,042)**	(11,892)
GROSS PROFIT		**12,348**	10,388
Administrative expenses		**(9,751)**	(7,708)
OPERATING PROFIT		**2,597**	2,680
Total operating profit – analysed:			
Operating profit before acquisition fees, share-based payments, depreciation and amortisation		**5,161**	4,662
Share-based payments		**(25)**	(20)
Acquisition fees		**(319)**	(217)
Depreciation of tangible fixed assets		**(229)**	(195)
Amortisation of intangible fixed assets		**(1,991)**	(1,550)
Total operating profit		**2,597**	2,680
Finance costs		**(895)**	(660)
Finance income		**-**	1
PROFIT BEFORE INCOME TAX		**1,702**	2,021
Income tax expense		**(329)**	(541)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,373**	1,480
Attributable to:			
Equity holders		**1,373**	1,480
Earnings per share			
Basic earnings per share (pence)	3	**5.8p**	6.2p
Diluted earnings per share (pence)	3	**5.8p**	6.2p
Adjusted earnings per share, after adding back acquisition fees, amortisation and non-recurring costs			
Basic earnings per share (pence)	3	**14.5p**	13.0p
Diluted earnings per share (pence)	3	**14.4p**	12.9p

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2018 £'000	Restated 30 September 2017 £'000	*31 March 2018 £'000*
ASSETS			
Non-current assets			
Goodwill	**17,672**	12,493	*14,531*
Intangible assets	**37,550**	39,404	*35,666*
Property, plant and equipment	**1,653**	1,169	*1,114*
	56,875	53,066	*51,311*
Current assets			
Inventories	**217**	240	*266*
Contract assets	**391**	585	*423*
Trade and other receivables	**9,394**	6,970	*5,867*
Cash and cash equivalents	**4,626**	3,184	*7,127*
	14,628	10,979	*13,683*
Total assets	**71,503**	64,045	*64,994*
LIABILITIES			
Current liabilities			
Trade and other payables	**11,889**	13,117	*11,832*
Contract liabilities	**1,228**	836	*568*
Income tax	**147**	282	*199*
Short term borrowings	**-**	-	*-*
	13,264	14,235	*12,599*
Non-current liabilities			
Deferred income tax	**5,960**	5,159	*5,590*
Convertible loan instrument	**6,092**	6,152	*6,011*
Long term borrowings	**29,751**	24,000	*24,749*
Total liabilities	**55,067**	49,546	*48,949*
Net assets	**16,436**	14,499	*16,045*
SHAREHOLDERS' EQUITY			
Share capital	**2,370**	2,370	*2,370*
Share premium	**479**	479	*479*
Share capital to be issued	**1,037**	992	*1,012*
Capital redemption reserve	**18**	18	*18*
Retained earnings	**12,532**	10,640	*12,166*
Total equity	**16,436**	14,499	*16,045*

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of parent					
	Share capital £'000	**Share premium £'000**	**Share capital to be issued £'000**	**Capital redemption reserve £'000**	**Retained earnings £'000**	**Total equity £'000**
Balance at 1 April 2017	**2,370**	**479**	**34**	**18**	**10,222**	**13,123**
Impact of change in accounting policy	-	-	-	-	(174)	(174)
Balance at 1 April 2017 (restated)	**2,370**	**479**	**34**	**18**	**10,048**	**12,949**
Profit for 6 months ended 30 September 2017	-	-	-	-	1,480	1,480
Dividend	-	-	-	-	(888)	(888)
Share based payments	-	-	20	-	-	20
Equity element of convertible instrument issued	-	-	938	-	-	938
Balance at 30 September 2017 (restated)	**2,370**	**479**	**992**	**18**	**10,640**	**14,499**
Profit for 6 months ended 31 March 2018	-	-	-	-	2,456	2,456
Dividend	-	-	-	-	(949)	(949)
Deferred tax asset adjustment	-	-	-	-	19	19
Share based payments	-	-	20	-	-	20
Balance at 31 March 2018	**2,370**	**479**	**1,012**	**18**	**12,166**	**16,045**
Profit for 6 months ended 30 September 2018	-	-	-	-	1,373	1,373
Share based payments	-	-	25	-	-	25
Dividend	-	-	-	-	(1,007)	(1,007)
Balance at 30 September 2018	**2,370**	**479**	**1,037**	**18**	**12,532**	**16,436**

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended		
		Restated	*Year ended*
	30 September	30 September	*31 March*
	2018	2017	*2018*
	£'000	£'000	*£'000*
Cash flows from operating activities			
Profit before income tax	**1,702**	2,021	*4,520*
Depreciation and amortisation	**2,220**	1,745	*4,148*
Share based payments	**25**	20	*40*
Net finance costs	**895**	660	*1,561*
Decrease/(Increase) in inventories	**51**	(14)	*(39)*
Decrease/(increase) in trade and other receivables	**(3,007)**	(481)	*479*
Increase/(decrease) in trade and other payables	**1,873**	(127)	*(972)*
Cash generated from operations	**3,759**	3,824	*9,737*
Income taxes paid	**(663)**	(649)	*(1,501)*
Net cash from operating activities	**3,096**	3,175	*8,236*
Cash flows from investing activities			
Interest paid	**(701)**	(317)	*(906)*
Acquisition of trade and assets	**(8,474)**	(14,324)	*(14,523)*
Purchase of intangible assets	**(9)**	(36)	*(54)*
Purchase of property, plant and equipment	**(406)**	(57)	*(364)*
Net cash used in investing activities	**(9,590)**	(14,734)	*(15,847)*
Cash flows from financing activities			
Dividends paid	**(1,007)**	(888)	*(1,837)*
Repayment of borrowings	**(1,000)**	-	*(2,750)*
Convertible loan instrument	**-**	7,293	*7,293*
Increase in bank loan	**6,000**	7,806	*11,500*
Net cash (used in)/from financing activities	**3,993**	14,211	*14,206*
Net increase/(decrease) in cash and cash equivalents	**(2,501)**	2,652	*6,595*
Cash and cash equivalents at beginning of period/year	**7,127**	532	*532*
Cash and cash equivalents at end of period/year	**4,626**	3,184	*7,127*
Cash at bank and in hand	**4,626**	3,184	*7,127*
Bank overdrafts	**-**	-	*-*
Cash and cash equivalents	**4,626**	3,184	*7,127*

ACCOUNTING POLICIES

1 Basis of preparation

The financial information set out in this interim report, which has not been audited, does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Company's statutory financial statements for the year ended 31 March 2018, prepared under International Financial Reporting Standards, were approved by the board of directors on 13 July 2018 and have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified, did not contain any emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

The interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”, as adopted by the EU. Comparatives for the year ended 31 March 2018 have been extracted from the audited statutory accounts.

2 Accounting policies

The same accounting policies, presentation and methods of computation are followed in this interim report as were applied in the preparation of the Group’s annual financial statements for the year ended 31 March 2018.

As detailed in the financial statements for the year ended 31 March 2018, the Group early adopted IFRS 15 “Revenue from contracts with customers” with a date of initial application of 1 April 2017, which has been applied in the interim results for the 6 months ended 30 September 2018 in respect of data circuit installation and rental. The Group has recognised the cumulative effect of initially applying IFRS 15 with an opening adjustment to equity of £173,904 at 1 April 2017. The September 2017 comparative information has been restated to be on the same accounting basis as the audited financial statement for the year ended 31 March 2018 and the current interim period. The impact of the application of IFRS 15 on the results for the comparative period are reduction to revenue of £286,825, reduction to gross profit and profit before tax of £77,490 and reduction to profit after tax of £62,767. The closing net assets shown by the statement of financial position for the comparative period have been reduced by £62,767 which is included in the statement of changes in equity. There is no impact on the cash generated from operating activities reported in the statement of cash flows for the comparative period as this is purely an accounting adjustment.

In August 2017 the Group raised £7.29m in the form of a convertible loan instrument from BGF to part fund the acquisition of Atomwide. The September 2017 comparative information in the statement of financial position and statement of changes in equity have been restated to be consistent with the principles of IAS 32 and IAS 39 for the recognition and measurement of the convertible loan in the March 2018 audited financial statements. This is purely an accounting adjustment which affects the balance sheet allocation between debt and equity and there is no impact on the statement of comprehensive income or statement of cash flows as a result of this restatement. The net present value of the loan of £7.09m has been split between the debt and equity components and an amount of £0.94m has been recorded in equity, with £6.15m being included within long-term debt. The transaction cost of £0.20m is being recognised in the interest charge in the income statement across the term of the convertible instrument.

3 Earnings per share

	Six months ended		
		Restated	*Year ended*
	30 September	30 September	*31 March*
	2018	2017	*2018*
	£’000	£’000	*£’000*
Earnings for the purposes of basic and diluted earnings per share			
Profit for the period attributable to equity holders of the parent	**1,373**	1,480	*3,936*
Add: amortisation	**1,991**	1,550	*3,730*
Less: taxation on amortisation of purchased customer contracts	**(59)**	(59)	*(121)*
Less: deferred tax credit on amortisation charges	**(284)**	(195)	*(506)*
Add: share option charges	**25**	20	*40*
Add: acquisition fees	**319**	217	*230*
Add: revaluation of deferred consideration	**-**	-	*28*
Less: compensation credits	**-**	-	*(755)*
Add: interest unwind on loan note	**77**	70	*79*

Adjusted profit attributable to equity holders of the parent, adding back acquisition fees and amortisation	**3,442**	3,083	*6,661*
Number of shares			
Weighted average number of shares used for earnings per share	**23,701,832**	23,701,832	*23,701,832*
Dilutive effect of share plans	**160,337**	113,651	*350,628*
Diluted weighted average number of shares used to calculate fully diluted earnings per share	**23,862,169**	23,815,483	*24,052,460*
Earnings per share			
Basic earnings per share (pence)	**5.8p**	6.2p	*16.6p*
Fully diluted earnings per share (pence)	**5.8p**	6.2p	*16.4p*
Adjusted earnings per share, after adding back acquisition fees, amortisation and non-recurring costs			
Adjusted basic earnings per share (pence)	**14.5p**	13.0p	*28.1p*
Adjusted fully diluted earnings per share (pence)	**14.4p**	12.9p	*27.7p*

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue.

Adjusted earnings per share is calculated by dividing the profit attributable to equity holders of the Company (after adding back amortisation, the taxation deduction on purchased customer contracts, the deferred tax credit on amortisation charges, share option charges and acquisition costs, as all of these are purely non-cash accounting adjustments) by the weighted average number of ordinary shares in issue.

Fully diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares by existing share options, assuming dilution through conversion of all existing options. The September 2017 comparative has been restated and calculated on the same basis as the March 2018 audited financial statements, which uses the treasury stock method to account for the dilutive impact of share options and the convertible loan instrument.

4 Segmental information

The chief operating decision maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The operating segments are fixed line services and managed services, which incorporates IT services, data connectivity, mobile, hardware and VoIP services. These are reported in a manner consistent with the internal reporting to the Board. The Board assesses the performance of the operating segments based on revenue, gross profit and EBITDA.

	Unaudited 6 months ended 30 September 2018				Unaudited (restated) 6 months ended 30 September 2017			
	Fixed line services	**Managed services**	**Central costs**	**Total**	Fixed line services	Managed services	Central costs	Total
Revenue	**6,390**	**18,000**	**-**	**24,390**	7,224	15,056	-	22,280
Gross profit	**2,628**	**9,720**	**-**	**12,348**	2,800	7,588	-	10,388
Gross margin %	**41.1%**	**54.0%**	**-**	**50.6%**	38.8%	50.4%	-	46.6%
EBITDA	**1,185**	**3,976**	**-**	**5,161**	1,472	3,190	-	4,662
EBITDA %	**18.5%**	**22.1%**	**-**	**21.2%**	20.4%	21.2%	-	20.9%
Amortisation	**(889)**	**(1,102)**	**-**	**(1,991)**	(1,005)	(545)	-	(1,550)
Depreciation	**-**	**-**	**(229)**	**(229)**	-	-	(195)	(195)
One-off costs	**-**	**-**	**(319)**	**(319)**	-	-	(217)	(217)
Share-based payments	**-**	**-**	**(25)**	**(25)**	-	-	(20)	(20)
Operating profit/(loss)	**296**	**2,874**	**(573)**	**2,597**	467	2,645	(432)	2,680
Finance costs	**-**	**-**	**(895)**	**(895)**	-	-	(659)	(659)
Income tax	**-**	**-**	**(329)**	**(329)**	-	-	(541)	(541)

Profit after tax	**296**	**2,874**	**(1,797)**	**1,373**	467	2,645	(1,632)	1,480

	Audited			
	Year ended 31 March 2018			
	Fixed line services	*Managed services*	*Central costs*	*Total*
Revenue	*14,001*	*32,433*	*-*	*46,434*
Gross profit	*5,439*	*17,480*	*-*	*22,919*
Gross margin %	*38.8%*	*53.9%*	*-*	*49.4%*
EBITDA	*2,877*	*6,894*	*-*	*9,771*
EBITDA %	*20.5%*	*21.3%*	*-*	*21.0%*
Amortisation	*(2,071)*	*(1,659)*	*-*	*(3,730)*
Depreciation	*-*	*-*	*(418)*	*(418)*
Revaluation on deferred consideration	*-*	*-*	*(28)*	*(28)*
Acquisition costs	*-*	*-*	*(229)*	*(229)*
Compensation credits	*-*	*-*	*755*	*755*
Share-based payments	*-*	*-*	*(40)*	*(40)*
Operating profit/(loss)	*806*	*5,235*	*40*	*6,081*
Finance costs	*-*	*-*	*(1,561)*	*(1,561)*
Income tax	*-*	*-*	*(584)*	*(584)*
Profit after tax	*806*	*5,235*	*(2,105)*	*3,936*

The assets and liabilities relating to the above segments have not been disclosed as they are not separately identifiable and are not used by the chief operating decision maker to allocate resources. All segments are in the UK and all revenue relates to the UK. For the six months ended 30 September 2018, transactions with the largest customer of the Group accounted for 7.9% of revenue.

5 Share options

Details of the share options outstanding during the period are as follows:

	6 months ended 30 September 2018		6 months ended 30 September 2017		*Year ended 31 March 2018*	
	Number of shares under option	**Weighted average exercise price**	Number of shares under option	Weighted average exercise price	*Number of shares under option*	*Weighted average exercise price*
Outstanding at start of period	**2,488,410**	**361p**	392,500	228p	*392,500*	*228p*
Granted during the period	**200,000**	**353p**	2,095,910	386p	*2,095,910*	*386p*
Exercised during the period	**-**	**-**	-	-	*-*	*-*
Outstanding at end of period	**2,688,410**	**361p**	2,488,410	361p	*2,488,410*	*361p*

The weighted average fair values have been determined using the Black-Scholes-Merton Pricing Model with the following assumptions and inputs:

	30 September 2018	30 September 2017	*31 March 2018*
Risk free interest rate	**1.68%**	0.50%	*1.68%*
Expected volatility	**16.0%**	19.0%	*17.0%*
Expected option life (years)	**3.0**	3.0	*3.0*
Expected dividend yield	**2.7%**	2.5%	*2.7%*
Weighted average share price	**353p**	269p	*335p*
Weighted average exercise price	**353p**	269p	*335p*

Weighted average fair value of options granted	**32p**	33p	*32p*

The expected average volatility was determined by reviewing the historical fluctuations in the share price prior to the grant date of each share instrument. An expected take up of 100% has been applied to each share instrument. Expected dividend yield is estimated at 2.7% which is based upon the actual dividend yield for the period ended 30 September 2018. It does not bear any relation to the future dividend policy of AdEPT Technology Group plc.

The mid-market price of the ordinary shares on 30 September 2018 was 410p and the range during the period was 110p.

The share option expense recognised during the period in the statement of comprehensive income was £20,342 (September 2017: £12,110).

6 Business combinations

On 1 August 2018 the Company acquired the entire issued share capital of Shift F7 Limited ('Shift F7') for an initial consideration of £5.0 million in cash less net debt and tax liabilities at completion (approximately £0.5m). Further contingent deferred consideration of between £nil and £2.9 Million may be payable, also in cash, dependent upon the performance of Shift F7 post-acquisition.

The contingent deferred consideration will be determined by reference to the gross margin of the acquired business and applying the contingent deferred consideration calculation as specified in the share purchase agreement. The fair value of contingent deferred consideration has been determined by reference to the expected growth rate for the gross margin of the acquired business and applying the contingent deferred consideration calculation as specified in the share purchase agreement. The contingent consideration liability of £1.83 million has been discounted at the Group's weighted average cost of capital with the value of the discount of £0.14 million being included within finance costs over the deferred consideration period as an interest charge. Total consideration is anticipated to be £6.6 million (including acquired debts and tax liabilities).

Shift F7, founded in 1995, is a highly accredited IT services provider with over 20 years' experience, offering highly specialised IT support services and technology solutions to more than 200 commercial mid-market customers.

Shift F7 has security accredited dedicated hosted platform environments in London Docklands and Heathrow. Key suppliers include Citrix, Microsoft, HP, Cisco, Ericsson LG and VMWare.

All services provided by Shift F7 are supported by a highly experienced team of IT professionals based at Shift F7's premises in Dorking, Surrey, which have been retained post-acquisition. The senior management team responsible for the strategic direction, technical development and the day-to-day operations of Shift F7 have been retained within the business post-acquisition.

Details of the fair value of the assets acquired at completion and the consideration payable:

	Book cost £'000	Fair value £'000
Intangible assets	2,036	3,864
Property, plant and equipment	355	355
Inventories	2	2
Trade and other receivables	549	549
Cash and cash equivalents	247	247
Trade and other payables	(1,426)	(893)
Income tax	3	3
Deferred tax	-	(657)
Net assets	**1,766**	**3,470**
Cash		(4,914)
Contingent cash consideration		(1,696)
Fair value total consideration		(6,610)
Goodwill		3,140

Shift F7 contributed revenue and profit after tax of £0.68 million and £0.10 million respectively for the two month period ended 30 September 2018 and represents a two month contribution. Acquisition related costs of £0.32m have been recognised as an expense in the statement of comprehensive income for the period ended 30

September 2018.

7 Change of name

Subsequent to the passing of the special resolution at the AGM on 27 September 2018, the company changed its name to AdEPT Technology Group plc.

8 Subsequent events

Bank facility extension

On 7 November 2018 the Company signed a £5 million extension to its existing £30 million 5-year revolving credit facility agreement, enlarging the total debt facility to £35 million. The enlarged facility is provided by Barclays Bank Plc (“Barclays”) and The Royal Bank of Scotland Plc (“RBS) on an equal basis. The facility will be used by AdEPT to fund acquisition of businesses that extend the AdEPT product set and by being part of the AdEPT group, will benefit from economies of scale. The terms of the enlarged facility remain the same as the existing facility, the details of which are included in Notes 21 and 29 to the statutory financial statements of the Company for the year ended 31 March 2018.

Acquisition of ETS Communications

On 8 November 2018 the Company acquired the entire issued share capital of ETS Communications Holdings Limited (“ETS Holdings”) and its trading subsidiary ETS Communications Limited (“ETS Comms”), (together referred to as “ETS”) both well-established UK based specialist providers of unified communications services.

ETS, founded in 1981, is an independent unified communications services provider based in Wakefield with nearly 40 years’ experience. ETS is focused on providing unified communications and connectivity to business customers and has a strong public sector presence, including managing and supporting cloud-based telephony solutions to more than 200 GP surgeries.

Initial consideration of £2.5 million less the net debt of ETS at 31 October 2018 (“Net Debt”) was paid in cash. Pursuant to the terms of the share purchase agreement, the effective date of the acquisition is 1 November 2018. Further contingent deferred consideration of up to £1.75 million may be payable in cash dependent upon the trading performance of ETS in the 12 month period ended 31 October 2019. The contingent deferred consideration will be determined by reference to the gross margin of the acquired business and applying the contingent deferred consideration calculation as specified in the share purchase agreement. The fair value of the assets and the contingent consideration liability have not yet been identified at the date of these interim results as the completion balance sheet was not available and there have been no post-acquisition period financial results.

The last filed statutory accounts of ETS for the year ended 31 March 2018 reported turnover, operating profit and profit before tax of £3.16 million, £0.32 million and £0.31m respectively. Capital expenditure in the year ended 31 March 2018 was insignificant. Net and gross assets (pro-forma consolidated basis) at that date were £0.10 million and £0.53 million respectively. Acquisition related costs will be recognised as an expense in the statement of comprehensive income for the year ending 31 March 2019.