Shareholder Letter

September 2019

2018 Update

Introduction

IAN FISHWICK

Chairman

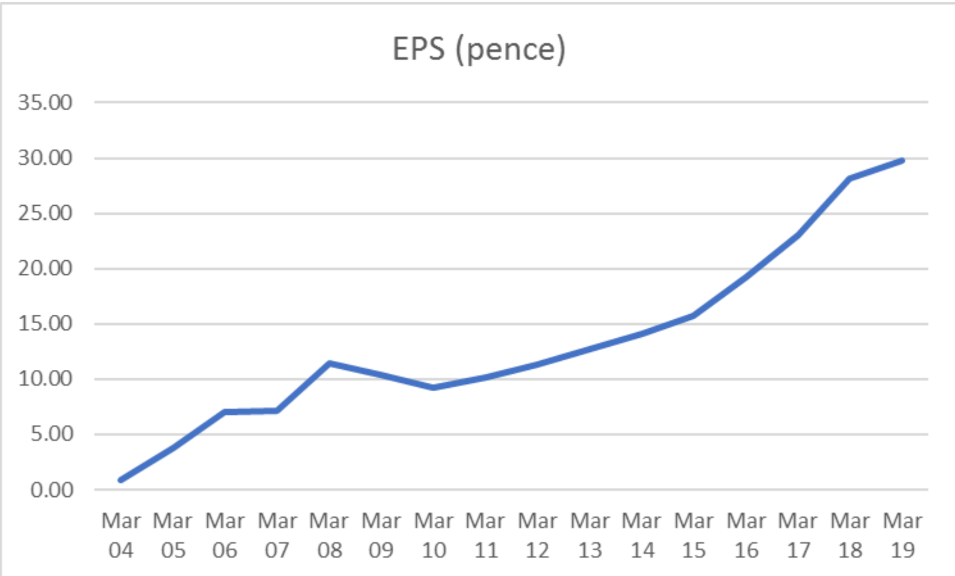
This is our first Shareholder Letter so we would welcome your feedback. I have attempted to give you a potted history of the company, how we have changed over time, and the rationale as to why.

We are now a managed services company

Over the last 4 years we have completely transformed the Group. Our original 'calls and lines' products are now our heritage. Our managed services offerings now comprise more than 75% of our revenue. We offer connectivity, unified communications and IT managed services from the desktop to the cloud, managed remotely or on-site. We have both public sector (42% sales) and commercial (58% sales) customers.

10 Consecutive Years of Earnings Per Share Growth

An analysis of AIM (using Factset) shows that of the 948 companies on AIM only 3 have grown Adjusted Basic Earnings Per Share for 10 consecutive years: AdEPT, iomart and Churchill China. This graph shows Adjusted Basic Earnings Per Share (EPS):



Integrating our companies into 'One AdEPT Group'

In the last year we have commenced the 2nd stage of integrating the companies we have acquired.

The first stage, which is completed soon after the acquisition, involves integrating their finance systems into our standardised reporting format and moving them to Group supplier contracts.

We have made significant progress on Stage 2 and much more will start to be visible mid-late 2019.

Stage 2 integration involves:-

- All Group companies moving to a single AdEPT brand
- All physical infrastructure supporting products moving to our own 'Nebula' data centres and MPLS network
- All CRM systems moving to Autotask

Strengthening the Team

At the end of 2018, after 16 years as CEO, I moved to become 2 day a week executive Chairman concentrating on overall strategy, managing the Board and future acquisitions.

After a successful hand-over period in late 2018, Phil Race was promoted from Group Managing Director to Group CEO. Phil is now focused on organically growing the business and integrating the acquisitions.

In April 2019 we strengthened the executive team further with the appointment of Andy Lovett as Managing Director of AdEPT IT Services and Group COO. Andy has worked previously with Phil Race.

In July 2019 we strengthened the PLC Board with the appointment of Richard Bligh as an independent Non-Executive Director. Richard was previously COO at Gamma. Over a 13-year period he worked with Bob Falconer, CEO, to turn Gamma from a small business into one of the UK's greatest success stories with a market capitalisation of over £1 billion.

Exciting times ahead

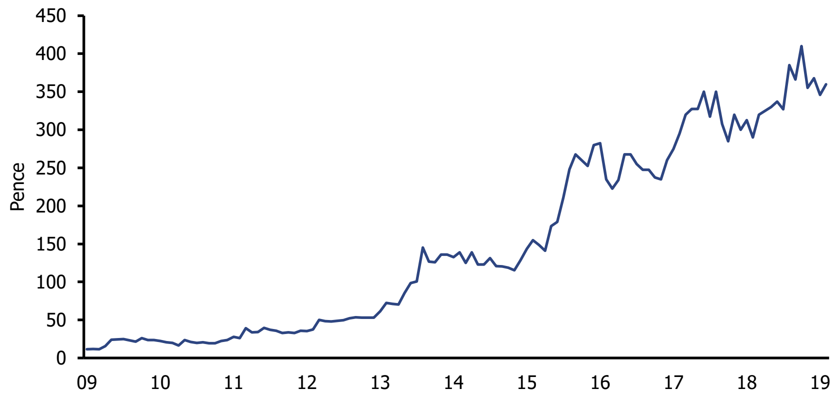
The Group is now stronger than ever both financially and from the calibre of the people we employ. Our product range is our widest ever and aimed at the growth in cloud and outsourcing of complex IT managed services.

We have made great progress in the public sector with an impressive rage of customers: Houses of Parliament, Cabinet Office, other central government agencies, over 100 councils, over 30 NHS Trusts, over 100 universities and colleges and over 3,000 schools. We are the largest supplier of unified communications to private hospitals in London with about 70% market share.

Our commercial customers include some well-known national brand names and thousands of small businesses. We are proud to include, as customers, such well known names as Coca Cola, Citrix, ASOS, Carluccios, Halfords, TalkSPORT, Sabre Insurance and many, many more.

Background

Share Price Since the Global Financial Crisis

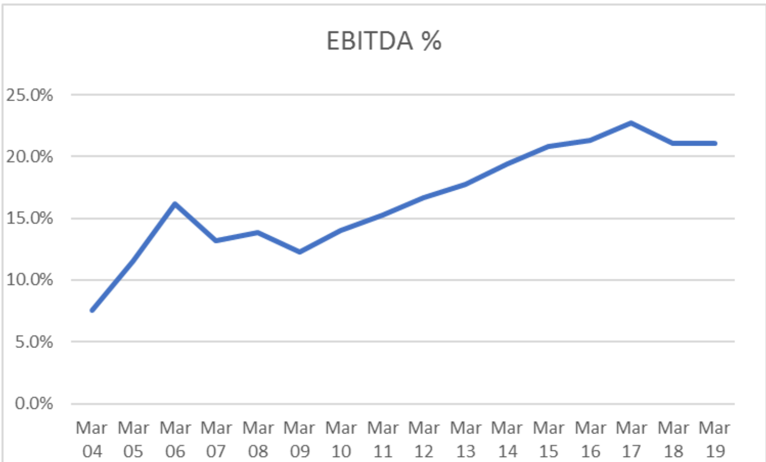


June 2003 – Feb 2006 – Private Company

In 2003 we raised £3.25m from family and friends and started AdEPT by acquiring Eurobell from Telewest. Eurobell was a residential focused Telecoms company. We didn't want to target residential customer's; but it was available quite cheaply and it allowed us to set up the systems we would need to support small business customers: our preferred target market at that time. We have never sold to residential customers; instead we used the strong cashflows to help us buy business customer bases.

The business Telecom market in the UK is extremely fragmented with around 1,000 suppliers. We foresaw the opportunity to create highly-automated back-office systems and economies of scale by buying customer bases with c£1m sales turnover. We typically paid 2-3 x post-synergy EBITDA for these types of business. In each acquisition we declined to take any people, buildings or staff; we simply wanted the customer base to load onto and bulk up our automated systems.

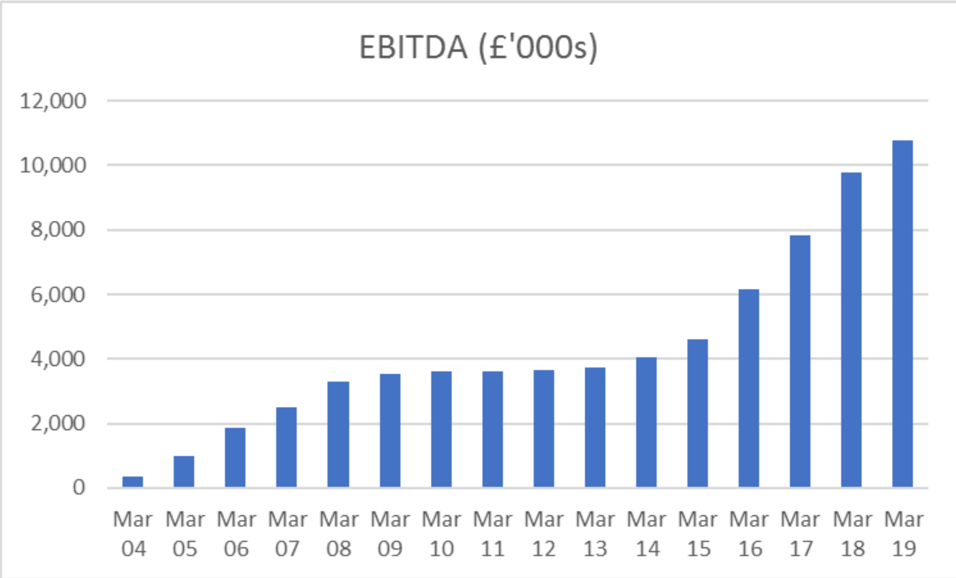
It is always easier to start a business with automated systems rather than to try to merge or improve existing systems. By the time we floated in Feb 2006 we had acquired and integrated 11 businesses and hit 16% EBITDA margin on sales.



March 2017 EBITDA % was abnormally high and we expect the medium-term range to be around 20%.

Feb 2006 – Dec 2007

In this period; we completed 5 more acquisitions. Our EBITDA continued to rise but our EBITDA margins fell for the next 2-3 years as we took on the extra costs of being a public company.Our EBITDA has grown every year for 16 consecutive years.



December 2007 – Feb 2012

In the 2000's, BT started to roll-out their new 21st Century Network at a cost of around £10 billion. It became clear that much faster connectivity (10mb – 1000mb [or 1 Gb]) would be available across the UK. Our small business customers would be unlikely to be the main buyers of connectivity this fast, so, we decided to focus on winning business with larger customers. To gain credibility in the medium-sized business customer market we bought Telecom Direct in December 2007. Our EBITDA:Net Debt ratio therefore peaked in mid-2008, about 8 weeks before Lehman Brothers went down and the global financial crisis started.

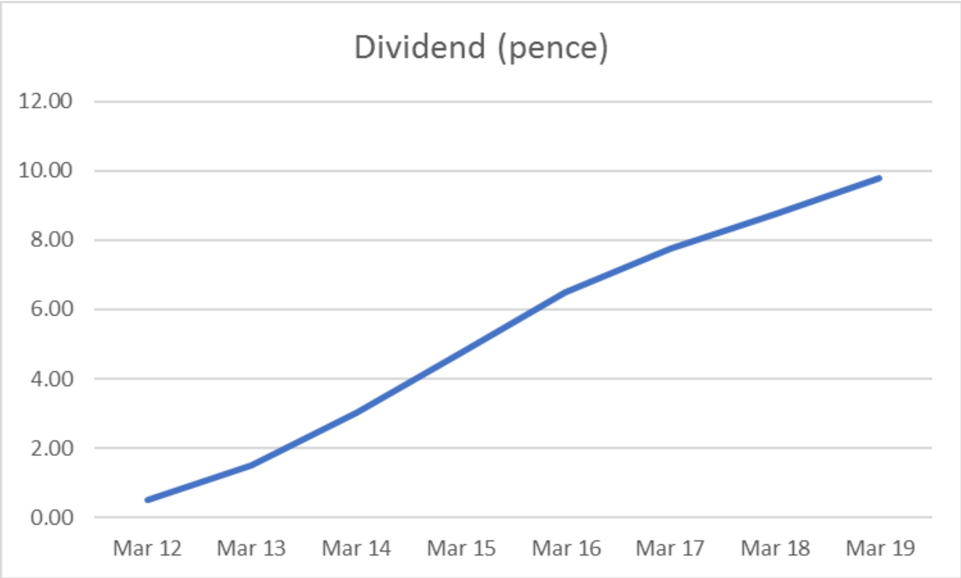
At the risk of over-simplification, the City was not clear which businesses would survive the global financial crisis. In general, they believed that larger companies would be more secure than smaller ones, and smaller companies with debt were most vulnerable to fail. Our share price fell sharply as did much of the London Stock Exchange Alternative Investment Market (AIM).

Our financial model was very robust as we had high recurring revenues and minimal capital expenditure (under 1% of sales). In summary; we were a cash generating machine.

We decided not to take the company private even though it was by then extremely cheap. We knew that by doing so we would crystallise the losses of many who had backed us thus far. Instead, we paused buying companies for over 4 years and concentrated on reducing the debt as quickly as possible.

March 2012 – April 2015

In March 2012 we declared our first dividend as a signal to the market that we were profitable, and debt was not a problem. We had huge dividend cover, but, rather than issue a large dividend we instead decided to go on a long period of dividend growth that continues to this day. We have announced 8 consecutive years of double-digit % dividend growth. We want our dividend to be sustainable, so our target is for dividend cover to be over 2.



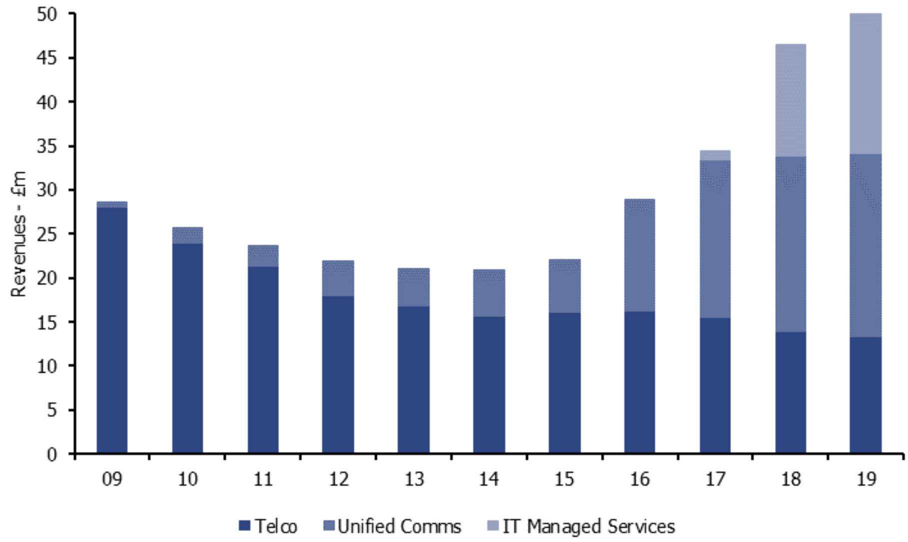
In July 2013 and April 2014, we resumed making acquisitions, as our EBITDA:Net Debt ratio was under 1.

The dividend pay-out is around 30% of Adjusted EPS. EPS has been growing at over 20% for 4 of the last 6 years.

	2014	2015	2016	2017	2018	**2019**
Adj.EPS	14.13	15.76	19.19	23.09	28.10	29.76
Adj. EPS Growth	26%	12%	21%	21%	22%	6%
Dividend	3.0p	4.75p	6.5p	7.8p	8.8p	9.80p
Pay-out	26%	30%	34%	34%	31%	33%

May 2015 – Present

The Transformation from a Telecoms Company to a Managed Services Company



Stage 1 – Unified Communications

In late 2014 we were a company that provided businesses with whatever type of connectivity they needed to the outside world. We rarely went inside their building and then only to connect something to a router in a Comms Room.

We realised that whilst we could still save businesses huge amounts of money on connectivity it was no longer a compelling story. To get through a customer's door we needed to be talking about unified communications (linking all your devices together) and WiFi.

AdEPT was already doing increasingly well in the Public Sector with about 40 Local Councils and 25 Universities as customers at this point. Our next public sector target was the National Health Service (NHS), but we had a chicken and egg problem: how do you sell to NHS hospitals when you have never sold to a hospital before? Answer: buy the largest supplier to private healthcare hospitals.

After looking at a wide range of acquisition opportunities for about a year, we bought Centrix (now AdEPT Fleet) in May 2015. This was the start of our transformation into a managed services company. As well as bringing us a much wider product set focused on Avaya's Aura product range, it gave us two strong vertical sectors: -

- c70% of the Private Hospitals in London, and
- c200 Business Centres

The sales team in Fleet were focused on larger opportunities (100-7,500 users) and we needed a company to focus on the sub-100 user opportunities we were finding.

In May 2016 we bought Comms Group in Northampton. Comms Group has an online shop that they use as a lead generator: if a customer buys something small from the shop, a sales person will ring them several days later, to explain the full range of services we have available.

In November 2016 we acquired CAT Communications, another Avaya Aura business. We successfully merged CAT into AdEPT Fleet. Prior to this; every integration we had done was into our original Tunbridge Wells site. This demonstrated that our integration strategy worked on any site. The acquisition of CAT gave us 3 famous customers: Coca Cola Europe, ASOS and Citrix.

Stage 2 – IT Outsourcing & Cloud-Services – Business customers

Now that we were well and truly ensconced in a customer's premises it seemed logical to also offer to support their IT systems.

On average we buy 1 out of 15 companies we look at, so, over the last decade we have looked at over 300 technology companies that were up for sale. We spent almost two years looking for an IT company focused on customers in London and the South East. The acquisition of OurIT Department in Feb 2017 gave us IT outsourcing support from desktop to cloud. OurIT has 2 sites: Chingford and St Neots, with different systems at each location. The only thing it did not give us was any Public Sector IT customers.

Stage 3 – IT Outsourcing & Cloud-Services – Public Sector customers

Six months later, August 2017, we entered the Public Sector market for IT services with the acquisition of Atomwide: an education-focused business with 3,000 schools as customers (70% primary schools, 30% secondary schools). As well as a new vertical sector: education, Atomwide also gave us for the first time our own data centre and a software development team. This was to prove pivotal in our future development – but more of that later.

Atomwide also brought us

- The largest single deployment of Office 365 in Europe with over 1.1 million users
- One of the largest Microsoft Exchange Clusters in Europe
- Over 3,000 Cisco firewalls
- A web-filtering service that filters over 1 billion images a day

Our credibility as an IT company had moved to another level.

Stage 4 – 'Bulking up' for economies of scale

In August 2018 we acquired Shift F7, a specialist in back-up and disaster recovery for servers. They back-up over 1,200 servers every night for customers such as legal firms. The London IT outsourcing market is extremely fragmented with few companies with more than £5 million sales per annum. Shift F7 and OurIT Department together take our London-based IT turnover to over £11 million. This already makes us one of the largest IT Outsourcing suppliers in the capital.

In November 2018 we acquired ETS Communications in Wakefield. ETS has been merged with our Comms Group business in Northampton as it has similar products and services. ETS also brought us hosted telephony in around 200 GP surgeries. Our health sector presence is growing. We started with the London Private Hospitals. We have then organically won c30 NHS Trusts, including the contract to build the new Health and Social Care Network in Kent connecting 400 NHS hospitals, GP surgeries and hospices.

In April 2019 we acquired ACS in Doncaster. ACS is an IT managed services company specialising in education; with over 200 schools. Post-acquisition ACS has been merged with Atomwide to create our AdEPT Education division.

IN CONCLUSION

As I hope is evident from this summary, the Company has been transformed in the past few years, and now finds itself in a position to grasp opportunities we couldn't have contemplated five years ago. The work Phil Race and his team are doing to build a unified brand and to strengthen our organic sales machine, combined with our continued focus on incremental acquisitions, provides us with a sound platform for future growth and solid returns. Thank you for your continued support for the company.