**AdEPT Technology Group plc**

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

**Interim results for the six months ended 30 September 2019**

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 six months ended 30 September 2019.

## Highlights

**Revenue and EBITDA**

- Total revenue increased by 26% to £30.8 million (2018: £24.4 million)
- Managed services revenue increased by 39% to £25.1 million (2018: £18.0 million)
- Managed services revenue up to 82% of total revenue (2018: 74%)
- EBITDA* increased by 18% to £6.1 million (2018: £5.2 million)
- EBITDA* margin 20% (2018: 21%)

**PBT, EPS and Dividends**

- Adjusted profit after tax** increased by 4% to £3.9 million (2018: £3.7 million)
- Adjusted fully diluted EPS increased by 4% to 15.3p (2018: 14.6p)
- Interim dividend increased by 4% to 5.10p per share (2018: 4.90p)

**Cash Flow and Debt**

- Reported EBITA conversion to pre-tax cash from operating activities 90% (2018: 82%)
- Net senior debt at period end of £31.5 million (2018: £25.1 million)
- £5.2m of funds used to fund Advanced Computer Systems (UK) Limited acquisition in April 2019

**Ian Fishwick, Chairman, commented:**

"The Group has continued with its transformation into a managed service provider for unified communications and IT whilst bringing the Group closer together under the 'One AdEPT' initiative christened 'Project Fusion'. I am delighted to see the organic revenue growth that has been achieved alongside successfully continuing with our acquisitive growth strategy. The results for the period demonstrate the strength of our capex-light highly cash generative business model which is focused on high levels of recurring revenue.

I am pleased to see the positive results of our efforts, as trading continues to be in line with management's expectations. We have a fully supportive investor base and funding partners, and in this converging and fragmented marketplace we will continue to pursue our strategy to identify earnings-enhancing acquisitions whilst retaining the ability to continue with our progressive dividend."

** Earnings before interest, tax, depreciation, amortisation and excluding one off acquisition and restructuring costs and share based payments*
*** Profit after tax adding back one-off acquisition and restructuring costs, amortisation and share based payments, excluding revaluation of deferred consideration*

**Enquiries:**


**AdEPT Technology Group Plc**

| | |
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**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 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**

In the six-month period ended 30 September 2019, AdEPT made considerable progress in its strategy of further expanding its managed service and IT capability, with continuing geographical expansion. This progress has been made through a combination of 2.5% organic revenue growth (driven mainly from IT and managed connectivity services) and the contribution from acquisitions, including that of Advanced Computer Systems UK Limited ("ACS"), an education-focused IT business which completed in April 2019. Providing a full suite of managed services, AdEPT is in an excellent position to take advantage of the continuing convergence between IT and telecoms.

*AdEPT's most recent acquisition – strengthening a territory and a market sector*

The Company's most recent acquisition in the IT space, ACS, was announced in April 2019. ACS is an independent IT service provider, focused on providing IT services and has a strong public sector presence, including managing and supporting the IT function of approximately 200 schools and academy trusts. The highly skilled team, together with the well-matched customer base and product set at ACS complements AdEPT's existing IT managed services for education offering where AdEPT provides services to thousands of schools and academy trusts. ACS provides a geographical extension to the existing education focused centre of excellence of AdEPT based in Orpington and offers an opportunity to cross-sell the software and applications developed by the in-house software team at AdEPT. ACS is our second acquisition in Yorkshire, following the acquisition of ETS Communications Limited ("ETS") in November 2018. The IT skills of ACS are also highly complementary to the unified communications expertise of ETS and they are working closely together, with the ETS team having recently relocated from their Wakefield office to the ACS offices in Doncaster.

The integration of ACS into the AdEPT group has been largely completed, with the finance function being integrated into the Orpington office of AdEPT. As this acquisition was made at the start of the current financial year, it has made a full six-month contribution to the interim financial results.

*A balanced business – delivering in both public and private sectors*

The Group continues to have a significant public sector and healthcare presence, with the proportion of total revenue from public sector and healthcare customers accounting for 44% of total revenue (2018: 34%). This increase is partly derived from the ACS acquisition, which had approximately 70% of revenue being generated from its education customer base, but also from continuing organic contract wins under the public sector frameworks and further penetration of services into the existing public sector and healthcare customer base. Following the award of Health and Social Care Network compliance authorising AdEPT to sell data networks to the NHS, the Company successfully won the contract to design and roll out a super-fast network infrastructure across all departments and sites of Kent NHS. During the last 6 months the service delivery team have been successfully carrying out the roll out of the wide area network, including managed firewalls, in more than 400 sites across Kent, including hospitals, hospices and GP surgeries. The roll out is nearing completion, which has resulted in a significant increase in capacity and connectivity speed for Kent NHS.

*Building on strong partnerships – promotion to Avaya Diamond Partner status*

We recently announced that AdEPT has been promoted by Avaya to the 'elite' Diamond status as a part of the Avaya Edge partner programme in the UK. The AdEPT relationship with Avaya began over 20 years ago and during that time AdEPT have had no hesitation in recommending Avaya voice solutions to customers that demand scalability, reliability and functionality from either a cloud or on-premise solution.

AdEPT has deployed Avaya solutions to clients such as HCA, Somerset House, Beaumont Business Centres and Islington Borough Council. The Avaya solutions have been an important part of the AdEPT portfolio for many years and the promotion to Diamond status strengthens our engagement with Avaya and improves our ability to satisfy the dynamic requirements of our customers.

*Creating One AdEPT – Project Fusion*

Over the last six months the AdEPT team has been working hard on the 'One AdEPT' project, christened 'Project Fusion', including initiatives in relation to sales, marketing, systems and branding. This includes the recent release of the new look group-wide AdEPT website (www.adept.co.uk). The continued progress on the roll out of a group-wide CRM system is expected to go live across several business units during 2020, which is anticipated to enable the Group to leverage greater operating efficiency from its highly skilled team.

On 4 December 2019 we are holding our first AdEPT Group conference and exhibition at The Drum, Wembley. The Group alongside our valued partner network will be showcasing our technology credentials and specialisms in the worlds of telecoms, connectivity, IT services, education, healthcare and the wider public sector. As an innovative ICT solutions provider, we understand the technological challenges our customers are facing, across all market

verticals. We are inviting both existing and potential new customers to join AdEPT and our world class ecosystem of partners, including Avaya, Microsoft, Dell, BT, Pragma, Virtual1 and many more, to find out how we can help them succeed in this increasingly digital world through the use of technology.

**REVENUE**

Total revenue in the period increased by 26% to £30.8 million and includes the six-month revenue contribution from ACS following the acquisition in April 2019; and a full six-month contribution from Shift F7 and ETS following the acquisitions in August 2018 and November 2018 respectively. Total underlying organic revenue growth (excluding the revenue contributions from acquired businesses) was 2.5% over the comparative period.

The continued progress of the Group's transition to a complete managed service provider can be demonstrated by the 39% increase in revenue from managed services, including IT, unified communications, data connectivity and cloud services to £25.1 million. The acquisition of ACS, combined with organic sales, has increased the rate of transition of the Group towards this strategic goal with managed services accounting for 81.5% of total revenue in the six months ended 30 September 2019 (2018: 73.8%). Excluding the impact of acquisitions, the managed services division has seen an 7.9% organic revenue increase over the comparative period, with the majority of the growth being achieved in managed data connectivity, IT software and support services.

Fixed line revenues reduced by 10.7% 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 fixed line 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 75.3% of total revenue for the six-month period ended 30 September 2019 (2018: 78.4%). ACS which was acquired at the start of the interim period has a higher proportion of revenue generated from one-off projects than the Group average. This has contributed to the dilution of the overall recurring revenue percentage. 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.

**GROSS MARGIN**

The gross profit margin for the six-month period ended 30 September 2019 was 48.0%, which is a reduction from the 49.2% achieved in the comparative period. The gross profit margin achieved on recurring services of 53.9% has remained consistent with the prior period (2018: 53.9%), although with recurring services being a lower proportion of total revenue in the interim period. An increase in the proportion of revenue generated from one-off projects and hardware put downward pressure on the gross profit margin, as at 39.5% it generates a lower relative gross profit margin than recurring services. This change arises because a greater proportion of one-off revenues were generated from hardware and software supply than the comparative period which, combined with some price pressure arising partly from the wider- macroeconomic backdrop, drives the reduction to the total average gross profit margin.

**PROFIT BEFORE TAX AND EARNINGS PER SHARE**

Reported profit before tax decreased to £1.1 million (2018: £1.7 million) which takes into account the £0.9 million increase in amortisation and £0.4 million increase in interest charges, arising from a higher average net debt position from the funding of the consideration for the four acquisitions completed in the last 14 months.

The interest cost in the statement of comprehensive income of £1.3 million 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 £0.9 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, restructuring costs and amortisation) increased by 4.0% to £3.9 million (2018: £3.7 million) which is a reflection of the increased EBITA, less the additional interest costs arising from the higher average net debt position which is as a direct result of the acquisition consideration outflows (initial and deferred consideration) in respect of the Atomwide, Shift F7, ETS and ACS acquisitions.

The adjusted operating profit (before one off acquisition fees, restructuring costs, depreciation and amortisation of intangible fixed assets) increased by 18.3% to £6.1 million (2018: £5.2 million). This increase arises from the full period impact of the acquisition of ACS undertaken at the start of the interim period and the full period impact of the

Shift F7 and ETS Communications compared to the comparative period, combined with the reclassification of £0.4 million of costs to depreciation and interest charges under IFRS16 (Lease Accounting) which were previously included within operating costs.

Adjusted basic diluted earnings per share increased by 4.3% to 15.4p for the six-month period ended 30 September 2019 (2018: 14.7p). Taking into account the share options in issue and the potential dilutive effect of the BGF convertible instrument under the treasury stock accounting method, adjusted diluted earnings per share increased by 4.3% to 15.3p (2018: 14.6p). The dilution impact of increased interest charges, arising from the use of the debt facility to fund the four earnings enhancing acquisitions in the last 18 months, results in this increase being lower than the 9.7% uplift in adjusted EBITA.

**FINANCING AND CASH FLOW**

Cash generated from operating activities before tax increased to £4.8 million (2018: £3.8 million), which equates to a 90% conversion of reported EBITA (after including the £0.5 million acquisition and restructuring fees which are cash costs) (2018: 82%). The increase in inventory levels of £0.1 million at 30 September 2019 relates to equipment pre-purchased in preparation of some significant installation projects in the second half of the current financial year. The value of contract assets and liabilities (deferred revenue and costs under IFRS 15 'Revenue recognition') in relation to data circuit installations increased by £1.0 million each respectively, creating no additional working capital impact. The value of trade receivables was increased at 30 September 2019 by £1.4 million following a significant volume of one-off installation projects for the education customers during the school summer holiday period for which the customers have paid the invoiced values after the end of the interim period. A large proportion of this working capital pressure was offset through supplier credit terms, with a £0.9 million increase to trade payables at 30 September 2019.

Dividends paid in the period absorbed £1.2 million of funds (2018: £1.0 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 1.3% of revenue (2018: 1.7%). The capital expenditure in the current interim period includes;

a. the refurbishment of the Our IT Department premises in St Neots, which has been recently completed;
b. the investment in support of Project Fusion; and
c. further investment in the development of AdEPT Nebula - the network connecting three data centres and a number of added value services such as hosted desktop and voice solutions.

AdEPT Nebula is built around the core data centre in Orpington which is owned by AdEPT. AdEPT Nebula allows AdEPT to provide its own cloud hosting capability. AdEPT Nebula is live and already delivering benefits to around 200 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.

£5.2 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 ACS with effect from 1 April 2019.

Total senior debt has increased to £31.5 million at 30 September 2019 (2018: £25.1 million), with the increase arising from the acquisition consideration paid in the period for ETS Communications Limited in November 2018 and ACS in April 2019. The Senior Debt:EBITDA (annualised) ratio has slightly increased as a result of the use of the debt facility to fund the acquisition consideration but remained comfortable at 2.58x at 30 September 2019 (2018: 2.43x).

**DIVIDENDS**

On 7 April 2019 the Company paid dividends of £1,194,165 in relation to the interim dividend declared in September 2018.

On 25 September 2019, the Directors announced their intention to declare an interim dividend in respect of these interim results. An interim dividend of 5.10p per Ordinary Share has been declared in respect of the period ended 30 September 2019, an increase of 4.1% over the interim dividend for the comparative period (2018: 4.90p). This will absorb approximately £1.2 million of shareholders' funds (2018: £1.2 million). It is proposed by the Directors that this dividend will be paid on 6 April 2020 to shareholders who are on the register of members on the record date of 13 March 2020. The ex-dividend date will be 12 March 2020.

Dividend cover for the interim period was 3.0x (2018: 3.0x). 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.

**BOARD CHANGES**

The board of directors recognises the importance of, and is committed to, ensuring that proper standards of effective corporate governance operate throughout the Company. Accordingly, the Group is continuing to strengthen the Board with industry professionals whilst taking into account the provisions of the QCA Corporate Code published by the Quoted Companies Alliance.

As part of an ongoing review of AdEPT board practices the board acknowledges the guidance to retain independent non-executive directors with an appropriate length of service.

In June 2019, Richard Bligh was appointed to the Board. Richard was formerly chief operating officer of Gamma Communications plc and was instrumental in building that company to over £1 billion market capitalisation. Richard's knowledge of the UK technology market, and how to grow businesses, will be a great asset to AdEPT.

In October 2019 the Company announced the appointment of Craig Wilson as a non-executive director. Craig has extensive experience in Business Process Outsourcing (BPO), IT Services and Software, running businesses with up to £3 billion annual revenue and 14,000 staff. Given that AdEPT has over 40% of revenues related to the Public Sector, Craig's expertise in this arena is highly relevant with experience spanning; Department for Work and Pensions, HMRC, Ministry of Defence and Ministry of Justice.

As a further consequence of the review, AdEPT announced on 29 October 2019 the retirement of Dusko Lukic as a non-executive director from the Board. Dusko has been a valued member of the AdEPT Board for 13 years as the senior independent non-executive director. We wish Dusko every success in the future and thank him for his outstanding contribution. He is a big part of our history.

**OUTLOOK**

The continuing transformation to a fully integrated managed service operation has continued at a pace and, on behalf of the Board, I would like to thank all of the AdEPT team for another amazing six months.

The business now has over 300 talented individuals working to the mission "uniting technology, inspiring people" and I would like to take the opportunity to thank this team for their continued engagement with AdEPT and their hard work as they are instrumental to the success of the business. This breadth of expertise provides an excellent platform for our future growth.

The evolution and strengthening of the leadership team has been a continuing theme during this period, with the recruitment of Andrew Lovett as COO to work alongside Phil Race as CEO. A very welcome addition to the business.

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, which enables the Board to continue to identify earnings-enhancing acquisitions whilst retaining scope for a progressive dividend policy.

**Ian Fishwick**
Chairman
12 November 2019

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | **Six months ended 30 September 2019 £'000** | Six months ended 30 September 2018 £'000 |
|---|---|---|---|
| **REVENUE** | | **30,818** | 24,390 |
| Cost of sales | | **(16,021)** | (12,402) |
| **GROSS PROFIT** | | **14,797** | 11,988 |
| Administrative expenses | | **(12,363)** | (9,391) |
| **OPERATING PROFIT** | | **2,434** | 2,597 |
| **Total operating profit – analysed:** | | | |
| **Operating profit before acquisition fees, share-based payments, depreciation and amortisation** | | **6,106** | 5,161 |
| Share-based payments | | **(40)** | (25) |
| Acquisition fees | | **(239)** | (319) |
| Restructuring costs | | **(236)** | - |
| Revaluation of deferred consideration | | **385** | - |
| Depreciation of tangible fixed assets | | **(681)** | (229) |
| Amortisation of intangible fixed assets | | **(2,861)** | (1,991) |
| Total operating profit | | **2,434** | 2,597 |
| Finance costs | | **(1,289)** | (895) |
| Finance income | | **-** | - |
| **PROFIT BEFORE INCOME TAX** | | **1,145** | 1,702 |
| Income tax expense | | **(279)** | (329) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **866** | 1,373 |
| **Attributable to:** | | | |
| Equity holders | | **866** | 1,373 |
| **Earnings per share** | | | |
| Basic earnings per share (pence) | 3 | **3.7p** | 5.8p |
| Diluted earnings per share (pence) | 3 | **3.6p** | 5.8p |
| **Adjusted earnings per share, after adding back acquisition fees, amortisation and non-recurring costs** | | | |
| Basic earnings per share (pence) | 3 | **15.4p** | 14.7p |
| Diluted earnings per share (pence) | 3 | **15.3p** | 14.6p |

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | **30 September 2019 £'000** | Restated 30 September 2018 £'000 | *Audited 31 March 2019 £'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | **17,182** | 17,672 | *16,024* |
| Intangible assets | **44,520** | 37,550 | *39,999* |
| Property, plant and equipment | **2,740** | 1,653 | *1,472* |
| Deferred tax asset | **43** | - | *43* |
| | **64,485** | 56,875 | *57,538* |
| **Current assets** | | | |
| Inventories | **696** | 217 | *543* |
| Contract assets | **1,562** | 391 | *953* |
| Trade and other receivables | **13,787** | 9,295 | *10,349* |
| Cash and cash equivalents | **4,575** | 4,626 | *7,650* |
| | **20,620** | 14,529 | *19,495* |
| **Total assets** | **85,105** | 71,404 | *77,033* |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | **17,515** | 11,889 | *11,065* |
| Contract liabilities | **2,222** | 1,228 | *1,976* |
| Income tax | **406** | 147 | *831* |
| Short term borrowings | **29** | - | *33* |
| | **20,172** | 13,264 | *13,905* |
| **Non-current liabilities** | | | |
| Deferred income tax | **7,152** | 5,960 | *6,405* |
| Convertible loan instrument | **6,255** | 6,092 | *6,174* |
| Long term borrowings | **36,044** | 29,751 | *34,730* |
| **Total liabilities** | **69,623** | 55,067 | *61,214* |
| **Net assets** | **15,482** | 16,337 | *15,819* |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | **2,370** | 2,370 | *2,370* |
| Share premium | **479** | 479 | *479* |
| Share capital to be issued | **1,119** | 1,037 | *1,079* |
| Capital redemption reserve | **18** | 18 | *18* |
| Retained earnings | **11,496** | 12,433 | *11,873* |
| **Total equity** | **15,482** | 16,337 | *15,819* |

## 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** |
| **Equity at 1 April 2018** | **2,370** | **479** | **1,012** | **18** | **12,166** | **16,045** |
| Change in accounting policy (Note 2) | - | - | - | - | (99) | (99) |
| **Adjusted equity at 1 April 2018** | **2,370** | **479** | **1,012** | **18** | **12,067** | **15,946** |
| Profit for 6 months ended 30 September 2018 | - | - | - | - | 1,373 | 1,373 |
| Dividend | - | - | - | - | (1,007) | (1,007) |
| Share based payments | - | - | 25 | - | - | 25 |
| **Equity at 30 September 2018** | **2,370** | **479** | **1,037** | **18** | **12,433** | **16,337** |
| Profit for 6 months ended 31 March 2019 | - | - | - | - | 495 | 495 |
| Dividend | - | - | - | - | (1,066) | (1,066) |
| Deferred tax asset adjustment | - | - | - | - | 11 | 11 |
| Share based payments | - | - | 42 | - | - | 42 |
| **Balance at 31 March 2019** | **2,370** | **479** | **1,079** | **18** | **11,873** | **15,819** |
| Change in accounting policy (Note 2) | - | - | - | - | (48) | (48) |
| **Adjusted equity at 1 April 2019** | **2,370** | **479** | **1,079** | **18** | **11,825** | **15,771** |
| Profit for 6 months ended 30 September 2019 | - | - | - | - | 866 | 866 |
| Share based payments | - | - | 40 | - | - | 40 |
| Dividend | - | - | - | - | (1,195) | (1,195) |
| **Balance at 30 September 2019** | **2,370** | **479** | **1,119** | **18** | **11,496** | **15,482** |

## UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

| | **Six months ended 30 September 2019 £'000** | Six months ended 30 September 2018 £'000 | *Audited Year ended 31 March 2019 £'000* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | **1,146** | 1,702 | *2,438* |
| Depreciation and amortisation | **3,542** | 2,220 | *5,201* |
| Adjustment to deferred consideration | **(385)** | - | *586* |
| Share based payments | **40** | 25 | *68* |
| Net finance costs | **1,287** | 895 | *1,902* |
| Decrease/(Increase) in inventories | **(129)** | 51 | *(171)* |
| Decrease/(increase) in trade and other receivables | **(3,292)** | (3,007) | *(3,609)* |
| Increase/(decrease) in trade and other payables | **2,564** | 1,873 | *1,118* |
| **Cash generated from operations** | **4,773** | 3,759 | *7,533* |
| Income taxes paid | **(1,252)** | (663) | *(809)* |
| **Net cash from operating activities** | **3,521** | 3,096 | *6,724* |
| **Cash flows from investing activities** | | | |
| Interest paid | **(936)** | (701) | *(1,414)* |
| Acquisition of subsidiaries net of cash acquired | **(5,191)** | (8,474) | *(11,034)* |
| Purchase of intangible assets | **(125)** | (9) | *(63)* |
| Purchase of property, plant and equipment | **(415)** | (406) | *(564)* |
| **Net cash used in investing activities** | **(6,667)** | (9,590) | *(13,075)* |
| **Cash flows from financing activities** | | | |
| Dividends paid | **(1,194)** | (1,007) | *(2,074)* |
| Increase in bank loan | **3,800** | 6,000 | *10,000* |
| Repayment of borrowings | **(2,535)** | (1,000) | *(1,052)* |
| **Net cash (used in)/from financing activities** | **71** | 3,993 | *6,874* |
| **Net increase/(decrease) in cash and cash equivalents** | **(3,075)** | (2,501) | *523* |
| Cash and cash equivalents at beginning of period/year | **7,650** | 7,127 | *7,127* |
| **Cash and cash equivalents at end of period/year** | **4,575** | 4,626 | *7,650* |
| Cash at bank and in hand | **4,575** | 4,626 | *7,650* |
| Bank overdrafts | **-** | - | - |
| **Cash and cash equivalents** | **4,575** | 4,626 | *7,650* |

## 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 2019, prepared under International Financial Reporting Standards, were approved by the board of directors on 31 July 2019 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 2019 have been extracted directly from the audited statutory accounts and the figures presented in the statement of comprehensive income in this interim report for comparative periods have not been restated to take account of the change in accounting policies in respect of IFRS 9 ‘Financial Instruments’ and IFRS16 ‘Leased assets’, details of which are set out in Note 2 below.

### 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 2019 with the exception of those noted below.

**IFRS 9 ‘Financial Instruments’**
IFRS 9 replaces the provisions of IFRS 9 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 April 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Group has applied IFRS 9 in accordance with the transitional provisions with an opening adjustment to equity and has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group’s previous accounting policy. The Group has recognised the cumulative effect of initially applying IFRS 9 with an opening adjustment to equity of £99,044 at 1 April 2018. The statement of financial position for the September 2018 comparative has been restated to take account of the opening equity impact of IFRS 9.

*Assets carried at amortised cost*
For loans and receivables, the amount of the loss was measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

*Allowance for impairment of receivables*
Management reviews are performed to estimate the level of provision required for irrecoverable debt. Provisions are made specifically against invoices where recoverability is uncertain.

**IFRS16 ‘Leased assets’**
The Group has applied IFRS 16 with a date of initial application of 1 April 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The cumulative effect of initial application is recognised in retained earnings at 1 April 2019. The details of the change in accounting policy are disclosed below.

Previously, the Group determined at contract inception whether and arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to reassess whether there is a lease for all contracts in place on or after 1 April 2019. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied to contracts in place or entered into

on or after 1 April 2019.

As lessee, the Group previously classified leases as operating or finance leases based on its assessment pf whether the lease transferred significantly all of the risks and remains incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises rights-of-use assets and liabilities for most leases – i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases of equipment and services.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at a cost of capital of 5.0%. Rights-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted at a cost of capital of 5.0%.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified assets – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset;
- The Group has the right to obtain substantially all of the economic benefits from use of the assets throughout the period of use; and
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used, In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if the Group has the right to operate the asset.

On transition to IFRS 16, the Group recognised an additional £1,897,418 of right-of-use assets and £1,945,942 of lease liabilities, recognising the difference of £48,524 as an opening adjustment to equity at 1 April 2019.

| | **1 April 2019 £'000** |
|---|---|
| Operating lease commitment at 31 March 2019 as disclosed in the Group's consolidated financial statements | 2,347 |
| Discounted using the weighted average cost of capital at 1 April 2019 | (401) |
| **Lease liabilities recognised at 1 April 2019** | **1,946** |

Amounts recognised in profit and loss:

| | **6 months ended 30 September 2019 £'000** |
|---|---|
| Interest on lease liabilities | 33 |
| Depreciation of right-to-use assets | 345 |

## 3 Earnings per share

| | **6 months ended** | | |
|---|---|---|---|
| | **30 September 2019 £'000** | Restated 30 September 2018 £'000 | *Year ended 31 March 2019 £'000* |
| **Earnings for the purposes of basic and diluted earnings per share** | | | |
| Profit for the period attributable to equity holders of the parent | **866** | 1,373 | *1,867* |
| Add: amortisation | **2,861** | 1,991 | *4,568* |
| Less: taxation on amortisation of purchased customer contracts | **(59)** | (59) | *(117)* |
| Less: deferred tax credit on amortisation charges | **(380)** | (284) | *(669)* |
| Add: share option charges | **40** | 25 | *68* |
| Add: acquisition fees and restructuring costs | **475** | 319 | *600* |
| Add: revaluation of deferred consideration | **(385)** | - | *586* |
| Add: interest unwind on loan note and deferred consideration | **224** | 127 | *150* |
| Adjusted profit attributable to equity holders of the parent, adding back acquisition fees and amortisation | **3,642** | 3,492 | *7,053* |

| | | | |
|---|---|---|---|
| **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 | **162,561** | 160,337 | *150,578* |
| Diluted weighted average number of shares used to calculate fully diluted earnings per share | **23,864,393** | 23,862,169 | *23,852,410* |
| **Earnings per share** | | | |
| Basic earnings per share (pence) | **3.7p** | 5.8p | *7.9p* |
| Fully diluted earnings per share (pence) | **3.6p** | 5.8p | *7.8p* |
| **Adjusted earnings per share, after adding back acquisition fees, amortisation and non-recurring costs** | | | |
| Adjusted basic earnings per share (pence) | **15.4p** | 14.7p | *29.8p* |
| Adjusted fully diluted earnings per share (pence) | **15.3p** | 14.6p | *29.6p* |

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 2018 comparative has been restated and calculated on the same basis as the March 2019 audited financial statements, which uses the treasury stock method to account for the dilutive impact of share options and the convertible loan instrument to take account only of outstanding share options which are in the money.

## 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** | | | | Unaudited | | | |
|---|---|---|---|---|---|---|---|---|
| | **6 months ended 30 September 2019** | | | | 6 months ended 30 September 2018 | | | |
| | **Fixed line services** | **Managed services** | **Central costs** | **Total** | Fixed line services | Managed services | Central costs | Total |
| Revenue | **5,706** | **25,112** | **-** | **30,818** | 6,390 | 18,000 | - | 24,390 |
| Gross profit | **2,253** | **12,544** | **-** | **14,797** | 2,628 | 9,360 | - | 11,988 |
| Gross margin % | **39.5%** | **50.0%** | **-** | **48.0%** | 41.1% | 52.0% | - | 49.2% |
| **EBITDA** | **1,106** | **5,000** | **-** | **6,106** | 1,185 | 3,976 | - | 5,161 |
| **EBITDA %** | **19.4%** | **19.9%** | **-** | **19.8%** | 18.5% | 22.1% | - | 21.2% |
| Amortisation | **(787)** | **(2,074)** | **-** | **(2,861)** | (889) | (1,102) | - | (1,991) |
| Depreciation | **-** | **-** | **(681)** | **(681)** | - | - | (229) | (229) |
| Revaluation on deferred consideration | **-** | **-** | **385** | **385** | - | - | - | - |
| Acquisition costs | **-** | **-** | **(239)** | **(239)** | - | - | (319) | (319) |
| Restructuring costs | **-** | **-** | **(236)** | **(236)** | - | - | - | - |
| Share-based payments | **-** | **-** | **(40)** | **(40)** | - | - | (25) | (25) |
| **Operating profit/(loss)** | **319** | **2,926** | **(811)** | **2,434** | 296 | 2,874 | (573) | 2,597 |
| Finance costs | **-** | **-** | **(1,289)** | **(1,289)** | - | - | (895) | (895) |
| Income tax | **-** | **-** | **(279)** | **(279)** | - | - | (329) | (329) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Profit after tax** | **319** | **2,926** | **(2,379)** | **866** | 296 | 2,874 | (1,797) | 1,373 |

| | *Audited* | | | |
|---|---|---|---|---|
| | *Year ended 31 March 2019* | | | |
| | *Fixed line services* | *Managed services* | *Central costs* | *Total* |
| Revenue | 12,814 | 38,494 | - | 51,308 |
| Gross profit | 4,904 | 20,438 | - | 25,342 |
| Gross margin % | 38.3% | 53.1% | - | 49.4% |
| **EBITDA** | **2,784** | **8,011** | **-** | **10,795** |
| **EBITDA %** | **21.7%** | **20.8%** | **-** | **21.0%** |
| Amortisation | (1,509) | (3,059) | - | (4,568) |
| Depreciation | - | - | (633) | (633) |
| Revaluation on deferred consideration | - | - | (586) | (586) |
| Acquisition costs | - | - | (495) | (495) |
| Compensation credits | - | - | - | - |
| Restructuring costs | - | - | (105) | (105) |
| Share-based payments | - | - | (68) | (68) |
| **Operating profit/(loss)** | **1,275** | **4,952** | **(1,887)** | **4,340** |
| Finance costs | - | - | (1,902) | (1,902) |
| Income tax | - | - | (571) | (571) |
| **Profit after tax** | **1,275** | **4,952** | **(4,360)** | **1,867** |

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 2019, transactions with the largest customer of the Group accounted for 7.4% of revenue.

## 5 Share options

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

| | **6 months ended 30 September 2019** | | 6 months ended 30 September 2018 | | *Year ended 31 March 2019* | |
|---|---|---|---|---|---|---|
| | **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 | **2,925,428** | **361p** | 2,488,410 | 361p | *2,488,410* | *361p* |
| Granted during the period | **100,000** | **355p** | 200,000 | 353p | *437,018* | *361p* |
| Forfeited during the period | **(100,000)** | **353p** | - | - | - | - |
| Exercised during the period | **-** | | - | - | - | - |
| **Outstanding at end of period** | **2,925,428** | **361p** | 2,688,410 | 361p | *2,925,428* | *361p* |

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

| | **30 September 2019** | 30 September 2018 | *31 March 2019* |
|---|---|---|---|
| Risk free interest rate | **1.38%** | 1.68% | *1.68%* |
| Expected volatility | **15.0%** | 16.0% | *18.0%* |
| Expected option life (years) | **3.0** | 3.0 | *3.0* |
| Expected dividend yield | **2.8%** | 2.7% | *2.6%* |
| Weighted average share price | **355p** | 353p | *365p* |
| Weighted average exercise price | **355p** | 353p | *361p* |

| | | | |
|---|---|---|---|
| Weighted average fair value of options granted | **28p** | 32p | *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 2.8% which is based upon the actual dividend yield for the period ended 30 September 2019. 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 2019 was 351p and the range during the period was 85p.

The share option expense recognised during the period in the statement of comprehensive income was £39,986 (September 2018: £25,224).

## 6 Business combinations

On 26 April 2019 the Company acquired the entire issued share capital of Advanced Computers Systems Group Limited and its trading subsidiary Advanced Computer Systems Limited (ACS), (together referred to as 'ACS Group') a well-established UK-based specialist provider of IT services focused on the education sector.

ACS Group, founded in 1999, is an independent IT service provider based in Doncaster with 20 years' experience. ACS Group is focused on providing IT services and has a strong public sector presence, including managing and supporting the IT function of approximately 200 schools and academy trusts.

Initial consideration of £5.24 million less the net debt of ACS Group at 31 March 2019 was paid in cash. Pursuant to the terms of the share purchase agreement, the effective date of the acquisition is 1 April 2019. Further contingent deferred consideration of up to £2.26 million may be payable in cash dependent upon the trading performance of ACS in the twelve-month period ended 31 March 2020. 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.

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

| | Book cost £'000 | Fair value £'000 |
|---|---|---|
| Intangible assets | 5,155 | 7,256 |
| Property, plant and equipment | - | - |
| Inventories | 24 | 24 |
| Trade and other receivables | 832 | 832 |
| Cash and cash equivalents | 704 | 704 |
| Trade and other payables | (1,377) | (1,377) |
| Income tax | (166) | (166) |
| Deferred tax | - | (1,265) |
| **Net assets** | **5,172** | **6,008** |
| Cash | | 5,190 |
| Contingent cash consideration | | 2,083 |
| Fair value total consideration | | 7,273 |
| **Goodwill** | | **1,265** |

ACS contributed revenue and profit after tax of £3.1 million and £0.6 million respectively for the six month period ended 30 September 2019 and represents a six month contribution. Acquisition related and restructuring costs of £0.4 million have been recognised as an expense in the statement of comprehensive income for the period ended 30 September 2019.