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

COVID-19 update and final results for the year ended 31 March 2020

AdEPT (AIM: ADT), a leading UK independent provider of award-winning managed services for IT, unified communications, connectivity and voice solutions, announces a COVID-19 update alongside its results for the year ended 31 March 2020.

COVID-19 update

Today we are pleased to announce our full year results to 31 March 2020. However, before we go into this detail, we thought it would be helpful to give you an update on what has been happening over the first quarter (April-June), a period entirely in lockdown.

In order to protect the health and safety of its team, clients and the communities it operates in, the entire AdEPT team transitioned to remote working immediately following the lockdown announcement. Business continuity has been unaffected with the Group continuing to provide a full service to clients. Over recent weeks the team have been gradually returning to the office however our policy is one of 'flexible working' and we plan to continue this adapted working practice for the foreseeable future.

Commenting upon the COVID-19 situation, Chairman Ian Fishwick said: "In our trading update on 2 April 2020 I explained that we had been conducting financial stress tests and that we had identified key factors that may influence our results. I will give you an update on each.

SALES ORDER INTAKE

In the trading statement we modelled new order volumes falling to c.25 per cent. of the norm for a Q1 period (April to June). This was based on the assumption that the sales team could no longer meet clients face-to-face and that buyer appetite would be curtailed. We are pleased to report that new order volumes have proven to be significantly more resilient than we had initially modelled in respect of both recurring services and one-off projects, which is an encouraging start to the year given the COVID-19 challenges. This performance reflects well on the public / private split of the AdEPT business and our role in the market. This achievement is underpinned by some notable wins including an Avaya Contact Centre contract for the Royal Borough of Greenwich and a wide-area-network for Worcestershire NHS.

INSTALLATION DELAYS

We predicted a drop in project revenues given our inability to visit many customer sites for project related work. Indeed, it has been difficult to turn new orders into revenue in the first quarter, a situation compounded by the fact that Openreach ceased installing any circuits except those for critical infrastructure. This backlog of work in progress is temporary and will unwind as lockdown eases, although it will inevitably have a short-term impact.

However, this shortfall in on-site project work has been counterbalanced, in part, by the AdEPT success with cloud migrations in Education. During lockdown the Department for Education announced additional funding to assist schools in moving to the cloud in support of remote working.

AdEPT is playing a major role in this initiative – and to date is helping over 250 schools with cloud migrations to either Google G-Suite or Microsoft 365. We anticipate further success over the coming months as AdEPT is one of only five approved companies who can migrate schools to both Google and Microsoft cloud platforms.

DEBTORS

We anticipated pressure on credit at the commencement of lockdown and sensibly drew down our revolving credit facility by an additional £7.2m. We are pleased to report that we have been successful in collecting debt with debtor days at the end of Quarter 1 standing at 42 days; compared to 48 days at 31 March 2020.

As a result, we have repaid £8m of the revolving credit facility, whilst also paying the full value of the ACS earn out (a successful acquisition) – a cash outflow of £1.8m, whilst still leaving AdEPT with a healthy cash position. The cash generative business model of the Group has continued throughout the lockdown period.

Whilst our expectation of customers delaying payments has largely remained unsubstantiated so far, we must recognise that there remains a hidden potential risk at the point the Government ceases furlough payments and rents and VAT payments recommence. We therefore continue to monitor cash collection very closely.

CHURN
In the first quarter we have not seen any material change to normal customer churn levels. As noted above, the next six months is still difficult to predict.

GOVERNMENT SCHEMES
AdEPT has been utilising the Government Job Retention Scheme ("furlough") to optimise the business during this pandemic. We elected to top up salaries for all of those on furlough to 100 per cent. of their base salary as we felt employees should not be penalised through the onset of COVID-19. This has been well received by staff and has made the furloughing process a simple one. The proportion of our staff placed on furlough has reduced from 20 per cent. of our workforce to 5 per cent. of the workforce, a clear sign of things returning to some form of normality.

BANKING AGREEMENTS
Finally, in terms of banking covenants, we indicated that we would be prudent and adjust our banking covenants to reflect our worst-case scenarios. We are pleased to report that our banking partners, Barclays Bank plc and Royal Bank of Scotland plc, have supported the adjustment of covenants at no cost. This adjustment now gives us more than 20% headroom against the covenant profile.

OUTLOOK
In conclusion, the Board believes that COVID-19 will have a modest impact on the business in the medium to long term due to the fundamental need for its customers to communicate and use ICT for operating their businesses. AdEPT's client base is well diversified across both public and private sectors and the long-term consequences may in fact expand the demand for its services if, subsequently, there is an acceleration in digital transformation initiatives.

Whilst it is still too early to provide guidance for the year considering the constantly changing landscape of the pandemic we are heartened by the excellent performance of the AdEPT team, as reflected in these key indicators, during these challenging times."

Final results for the year ended 31 March 2020

Financial highlights

- Revenue increased by 20% to £61.7m (2019: £51.3m)
- Underlying EBITDA increased by 9% to £11.7m (2019: £10.8m)[1]
- Underlying EBITDA margin % of 19% (2019: 21%)
- Adjusted fully diluted earnings per share of 28.1p (2019: 29.5p)
- Cash generation from operating activities before tax £9.6m (2019: £7.5m)
- Conversion of reported EBITDA to operating cash flow before tax of 82% (2019: 70%)
- Cash at year end £11.85m (2019: £7.65m)
- Year-end net senior debt of £27.9m (2019: £27.1m)[2]
- Capital expenditure 2% of revenue (2019: 1%)

Operational highlights

- Managed services revenue increased 30% year on year
- Managed services accounted for 81% of total revenue and EBITDA (2019: 75%)
- Acquisition of entire issued share capital of Advanced Computer Systems UK Limited in April 2019

1 Defined as operating profit after adding back depreciation, amortisation, acquisition fees, restructuring costs, adjustment to deferred consideration and share-based payment charges
2 Net senior debt is defined as cash and cash equivalents less short-term and long-term senior bank borrowings and prepaid bank fees

For further information on AdEPT please visit www.adept.co.uk or contact:

AdEPT Technology Group plc

Ian Fishwick, Chairman	07720 555 050
Phil Race, Chief Executive	07798 575 338
John Swaite, Finance Director	01892 550 243

N+1 Singer
Nominated Adviser & Broker 020 7496 3000
Shaun Dobson/Iqra Amin

This announcement has been released by John Swaite, Finance Director, on behalf of the Company.

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, BT Wholesale, Virgin Media, Avaya, Microsoft, Dell and Apple.

AdEPT is quoted on AIM, operated by the London Stock Exchange (Ticker: ADT). For further information please visit: www.adept.co.uk

Chairman's statement
AdEPT continues to make considerable progress in its strategy of expanding its managed service and IT capability, continuing geographical expansion and unifying the Company around a mission of 'unifying technology, inspiring people'.

There are two distinct aspects to the AdEPT business, one relates to the provision of call minutes and telephone lines ('calls & lines'), the focus of the business during the early years of AdEPT's life. The other relates to the provision of Managed Services and IT expertise. All combining to deliver a unifying Information Communications and Technology platform for customers across both public and private sectors.

As individuals find alternative ways to communicate via web chat and texting, the calls & lines revenues are declining in line with the industry at large, to mitigate this headwind AdEPT is focusing on migrating these customers to alternative solutions. However, this declining part of the AdEPT business is reducing in significance and counterbalanced by the clear strategy to build Managed Services and IT expertise to deliver a truly unified platform for customers. A strategy that has accelerated over recent years by multiple acquisitions in this space.

The organic decline in calls & lines was 13% per annum whilst the organic growth in Managed Service and IT has been 7% per annum demonstrating continued progress against our strategy. As managed services represent 81% of our total revenue (note: this figure includes acquisitions), overall organic growth was a net 2%.

ACS acquisition – strengthening a territory and a market sector
A key strategy of AdEPT is to consolidate the market to build scale and capability. The most recent acquisition in the Managed Service and IT space was ACS, announced in April 2019. ACS is an independent IT service provider, with 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 and education offering where AdEPT provides services to thousands of schools and academy trusts.

ACS also provides a geographical extension to the existing education centre of excellence of AdEPT based in Orpington and offers an opportunity to cross-sell the AdEPT Education suite of software applications developed by the in-house software team at AdEPT together with the capabilities of AdEPT Nebula.

ACS is our second acquisition in Yorkshire, following the acquisition of ETS Communications Limited (ETS) in November 2018. The IT skills of ACS are highly complementary to the unified communications expertise of ETS and they are now working closely together and operating out of the same offices in Doncaster as an AdEPT 'northern hub'.

The integration of ACS into the AdEPT group has been 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 twelve month contribution to the financial results.

Public sector and healthcare
We have continued to have success in the Public Sector. In March 2020 45% of total Group revenue was generated from public sector and healthcare customers (2019: 42%). AdEPT now has as customers over 100 councils, more than 30 NHS Trusts, more than 30 private hospitals, over 500 GP surgeries and clinical commissioning groups, over

20 universities, hundreds of colleges and over 4,000 schools. AdEPT also provides critical services to a number of central government departments.

Following the successful award of Health and Social Care Network (HSCN) Compliance to AdEPT Tunbridge Wells the Group is authorised to sell data networks to the NHS. During the year ended 31 March 2019 the Group successfully won the contract to design and implement a super-fast network infrastructure across all departments of Kent NHS, impacting more than 400 sites across Kent including hospitals, hospices and GP surgeries. This highly complex project encompassed a variety of services as part of a wide area network solution, including managed firewalls, to provide a fully secure and resilient solution for Kent NHS. It was successfully rolled out for Kent NHS during the year ended 31 March 2020, improving the speed of the network whilst at the same time achieving a more economic price point at a critical time for the NHS during the COVID-19 crisis.

Dividends
Based on dividends paid in the year ended 31 March 2020, being 9.8p, dividend cover was 2.87x. In early April 2020, considering the potential COVID-19 disruption, the Board took the decision to cancel the interim dividend that had been declared with the September 2019 interim results. The Board will continue to monitor the changing economic environment and adopt an appropriate dividend policy for future periods, with a further update alongside the September 2020 interim results.

Employees
As a result of the acquisition completed in the year ended 31 March 2020, the Group now has more than 300 full-time employees. The progress of the Group this year was made possible by the continued hard work and focus of all employees at AdEPT. As a Group we are immensely proud of the track record we have created over the last 16 years and, on behalf of the Board, I would like to take this opportunity to thank all our employees for their continued hard work.

Director 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 acknowledging the provisions of the QCA Corporate Code published by the Quoted Companies Alliance.

In June 2019, Richard Bligh was appointed to the Board as a non-executive director. 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 an invaluable 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 45% 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.

In April 2020, the Company announced the appointment of Andy Lovett (Chief Operating Officer) to the Board. Andy has significant experience in running the operational side of businesses spanning; software development, IT out-source, and mission critical client projects. Andy has a wealth of highly relevant skills having previously worked in senior roles for banking software company DPR Group and global outsourcer Xchanging plc.

COVID-19
The COVID-19 situation has created a significant uncertainty for all businesses. We did experience some marginal benefit in late March 2020 assisting customers with the move to remote working and critical projects to enable our key NHS and private healthcare customer base to maintain their services. However, since this initial burst of activity, we have seen a large number of customers placing major projects on hold mainly due to lack of site-access. A small number of customers have requested temporary financial support as customers themselves try to manage the economic uncertainty within their businesses. At the year-end we increased our bad debt provision accordingly.

AdEPT has the diversity and core strength to weather the COVID challenge with a strong core of revenue from recurring products and services (at 75% of revenue) providing revenue visibility and a balance of public and private sector customers (with 45% public sector and healthcare revenues). Whilst we are facing unprecedented times the Board is confident the Company is well prepared for the challenges ahead.

From mid-March 2020 we put in place measures to protect our staff (designated 'key workers' by the Government) and ensure the continuity of service for all our valued customers. AdEPT was able to seamlessly transition to remote working, with virtually all staff working from home from late March 2020. This ability to pivot the business was achievable in large part due to the completed rollout of the Group-wide telephony, Microsoft 365 and email system as part of Project Fusion

We have also taken advantage of the available Government schemes, such as the Coronavirus Job Retention Scheme (Furlough), for cost-mitigation during the disruption and we instigated cash preservation measures including the cancellation of the interim dividend.

Due to COVID-19 related uncertainty, the financial results guidance from the analysts for the year ending March 2021 is suspended.

Outlook
Despite this uncertainty, the Board remains confident that the continued strong cash conversion of operating profit will support the Company through the COVID-19 disruption and will leave the Company well positioned to take advantage of future opportunities for growth.

The focus for the coming year remains on:

- developing organic sales by taking our entire portfolio to our customers to address their ICT needs;
- delivering an excellent service utilising our unified service platform;
- deepening our relationships with partners to ensure their innovation reaches our customers; and
- capitalising on our public sector expertise by leveraging AdEPT's approved supplier status on the various public sector frameworks

This focus will ensure we maintain profitability and cash flow conversion, which will be used to either reduce net borrowings, return value to shareholders through dividends and/or fund suitable earnings-enhancing acquisitions.

At this stage, we are unable to confirm the process for the 2020 AGM. We very much hope to hold this meeting in person, should the lockdown restriction easing allow us to be confident that it is safe to do so, but if not, then the meeting will be held in a virtual environment.

Ian Fishwick
Chairman

CEO's statement
Reporting on my first full year as CEO I am pleased to report that AdEPT has made considerable progress against our strategic ambitions.

The business is now unified behind one brand – AdEPT Technology – a vision brought to life in December 2019 when we held our first Group conference and exhibition titled 'Tech United' at The Drum, Wembley. This event showcased our capability in the telecoms, connectivity and IT services arenas with case studies across the education, healthcare and the wider public sector markets. This was only possible with the help of our strategic partners such as Avaya, Gamma, Microsoft, Dell, BT, Virtual 1 and Pragma, amongst others. As part of this brand unification we released a new look Group-wide AdEPT website (www.adept.co.uk) which is live and already generating opportunities.

We have made substantial progress in creating a unified operating platform - an initiative titled Project Fusion. Over the past twelve months we have been deploying across AdEPT a platform impacting sales, marketing, the services team and business operations, with five of the eight AdEPT locations now live on the platform with the balance targeted for live running during the remainder of 2020. As a result, Project Fusion is already improving customer service and operational effectiveness. Project Fusion encompassed the implementation of Microsoft 365, Microsoft Teams and the Avaya IX telephony solution. This Group-wide infrastructure enabled AdEPT to pivot to home-working seamlessly when the COVID-19 lockdown commenced.

We have continued to have success with our strategic platform – AdEPT Nebula – which now underpins over 240

customer projects. At its core, AdEPT Nebula is a highly resilient MPLS network (Nebula Network) and hosting capability centred on the Group's owned data centre in Orpington. AdEPT Nebula empowers the Group to provide clients with a seamless cloud hosting capability (Nebula Cloud), hybrid cloud platforms (Nebula Apps), unified communications (Nebula Voice) and secure managed services (Nebula Back Up and Nebula Security).

Furthermore, our focus on key strategic partnerships is bearing fruit with AdEPT now a Diamond Partner of Avaya, a Platinum Partner of Gamma and an award-winning partner of Virtual 1 and Pragma.

It is vital that AdEPT delivers on its promises, so I am particularly pleased to report that we have delivered on our commitments to the health service with significant project success across the Kent NHS and for Doctor's surgeries across the UK. The AdEPT Education vertical goes from strength to strength, with over 4,000 schools now supported by AdEPT, whilst in the commercial sector, AdEPT has maintained a continuous flow of new customer wins.

This success is only possible with a great team that now numbers over 300 talented individuals across the UK following the successful acquisition and integration of ACS into AdEPT. I was also pleased to welcome Andy Lovett to the team, joining as Chief Operating Officer and subsequently appointed to the full Board in 2020. I would like to take this opportunity to thank the entire AdEPT team who have stepped up to the plate during challenging times. We have received numerous commendations for the team over recent weeks which is a testament to their commitment and professionalism.

This was all in a year where we experienced economic and political uncertainty caused by Brexit coupled with the arrival of COVID-19 to UK shores in March 2020, a true 'Black Swan' event for the entire economy. Throughout these significant challenges AdEPT has proven to be a resilient business able to adapt rapidly to the changing landscape. Evidenced by our rapid ability to transition to 'working from home' whilst at the same time empowering thousands of schools, Doctor's surgeries and hundreds of commercial businesses to do the same.

Whilst the General Election brought some closure to the Brexit uncertainty, the COVID-19 situation has prevented the anticipated flow of new opportunities from public sector frameworks whilst also introducing uncertainty into the coming year. As a result we have had to withdraw our guidance and the cancellation of the interim dividend previously announced.

However, we remain confident that the long-term future will be bright for AdEPT. The lockdown experienced by the UK has only served to highlight the importance of technology to businesses. It brings to the forefront the critical need for resilient networks, readily accessible information systems, unified collaboration and communication solutions and experienced teams in consulting and support. As a leading provider of advice and solutions in the unified technology and communications arena AdEPT will remain focused on bringing the best solutions from great partners to our customers in a cost effective and pragmatic manner.

Our mission remains 'uniting technology, inspiring people' and we look forward to delivering against this mission in the coming year.

Phil Race
Chief Executive Officer

Strategic report
Principal activities and review of business
The principal activity of the Group is the provision of unified communication and IT services to both domestic and business customers. A review of the business is contained in the Chairman's and CEO's statements and the highlights are summarised in this strategic report.

Summary of three year financial performance

	Year ended March				
	2020		**2019**		**2018**
	£'000	**Year on year %**	**£'000**	**Year on year %**	**£'000**
Revenue	61,688	20.3%	51,294	10.5%	46,434
Gross profit	29,391	16.0%	25,328	10.5%	22,919
Underlying EBITDA	11,709	8.6%	10,781	10.3%	9,771
Net senior debt	27,938		27,113		17,622

Revenue
The revenue breakdown is viewed through three lenses; managed services versus fixed line revenues, recurring revenue versus one-off revenues and organic versus inorganic revenues.

Managed services versus fixed line revenues
In respect of managed services versus fixed line revenues, during the year AdEPT has continued to grow its managed services business through a combination of organic contract wins and company acquisition. Total revenue increased by 20.3% to £61.7m (2019: £51.3m):

- Managed services product revenues increased more than 30% year on year, increasing by £11.7m to £50.2m (2019: £38.5m). This reflects the impact of the twelve month contribution from the acquisition of ACS, combined with an increased level of organic contract wins and a lower relative churn rate within the managed service customer base. The Kent NHS contract commenced billing at the end of the prior year and therefore the 2020 results incorporate a full year's revenue. Total revenue generated from managed services represented 81.4% of total revenue in the year ended 31 March 2020 (2019: 75.0%). Excluding the impact of acquisitions, total managed services revenue (recurring and one-off) showed 7.2% organic growth in the year.

- Traditional fixed line revenues were reduced to £11.5m (2019: £12.8m). The 10.2% (net) reduction in the fixed line revenues reflects the organic sales focus of the Group on managed services and IT combined with the substitution impact of existing customers transitioning to new technologies, such as SIP and hosted services. Excluding the impact of acquisitions, fixed line revenues showed organic decline of 13.3%. The Group's reliance on fluctuating call revenues continues to reduce, with call revenue providing only 5.4% of total revenue in the year ended 31 March 2020 (2019: 7.8%).

Recurring revenues versus one off revenues
In respect of recurring revenues versus one off revenues, the proportion of AdEPT revenue being generated from recurring products and services (being all revenue excluding one-off projects, hardware and software) remains high at 75.0% of total revenue (2019: 78.6%). All of the managed service product sets include an element of hardware supply and installation services, which, by their nature, are project based and not fixed recurring revenue streams; however, a high proportion of hardware supply and installations are further products and services being supplied to the existing customer base.

- Excluding the revenue from acquisitions, total recurring revenue showed organic growth of 2.7% in the year ended 31 March 2020, this was achieved through 10.4% growth in managed service recurring revenue more than offsetting the 13.3% reduction in fixed line recurring revenue in absolute terms.

- One-off revenues (from hardware, software and professional services), excluding the impact of acquisitions, were virtually flat with only a marginal reduction of 0.6% year on year.

Market sector analysis
AdEPT continued to be successful in gaining further traction in the public sector space during the last year through leveraging its approved status on various frameworks. AdEPT is an approved supplier to the Crown Commercial Service under the following frameworks RM3808 Network Services, RM3825 HSCN Access Services, RM1557 G-Cloud, RM6103 Education Technology and RM3804 Technology Services 2. The Group has been successful in winning further new business through a number of these frameworks.

The proportion of total revenue generated from public sector and healthcare customers has increased to 44.7% at March 2020 (2019: 41.5%) which partly arises due to the contribution from the ACS acquisition as some of the acquired revenue stream is generated from its education sector customer base but mainly from the organic customer contract awards particularly under the various frameworks on which AdEPT is accredited.

The Group is continuing to focus its organic sales efforts on selling a wider portfolio to existing customers, adding and retaining larger customers whilst complementing this with an acquisitive strategy. AdEPT is managing the customer risk with a wide spread of business sectors and low customer concentration, with the top ten customers accounting for 17.1% of total revenue (2019: 24.6%) and no customer accounting for more than 10% of the total.

Gross margin
Gross margin percentage was 47.6% during the year (2019: 49.4%). The decrease over the prior year largely arises due to a greater proportion of revenue from relative lower margin one-off supply of hardware and software.

Recurring gross margin improved to 54.1% (2019: 53.8%) which reflects the increased proportion of managed support services. Gross margins for managed services and IT, such as installations, support and maintenance, are higher than fixed line as the headcount costs of supporting the project installations, helpdesk support and maintenance services are being included within operating expenditure. The full year revenue impact of some significant public sector tender contract wins, such as Kent NHS, which are at a lower average gross margin has diluted the blended recurring gross margin percentage.

Revenues from one-off products and services increased by 39.7% above the prior year, however a large proportion of the growth was in lower margin audio visual and other hardware and software supply, particularly to the education sector, resulting in lower growth of 14.6% gross profit from one-off products and services. As a result, gross margin percentage from one-off products and services was 38.1% (2019: 46.5%).

Underlying EBITDA

Underlying EBITDA is defined as operating profit after adding back depreciation, amortisation, acquisition fees, restructuring costs, adjustment to deferred consideration and share-based payment charges. The Group uses underlying EBITDA as a measure of performance in line with the telecommunications sector's general approach to relative performance measurement. As the Group operates a capex-light model, the Board considers that a good indication of the underlying cash generation of the business for comparison against operating cash flow before tax is underlying EBITDA. Below is a reconciliation of underlying EBITDA to the reported profit before tax:

	2020 £'000	**2019 £'000**
Underlying EBITDA	**11,709**	**10,781**
Acquisition fees	(267)	(495)
Restructuring costs	(288)	(105)
Share option charges	(29)	(68)
Adjustment to deferred consideration	654	(586)
Depreciation	(1,513)	(632)
Amortisation	(5,772)	(4,568)
Interest	(2,523)	(1,902)
Profit before tax	**1,971**	**2,425**

In accordance with the requirements of IFRS 3 the adjustment to deferred consideration payable in respect of acquisitions has been recognised in the statement of comprehensive income. In the year ended 31 March 2020 the value of deferred consideration paid was lower than the estimated value at acquisition, resulting in a credit to the income statement. This value does not form part of the trading results of the Group and has therefore been added back for the purpose of demonstrating the underlying trading profitability of the Group.

At the year end the Group increased the provision for uncollectable debts under IFRS 9 by £0.15m. This prudent decision was made after careful consideration of the potential impact of financial distress from COVID-19 on the underlying customer base. The Board considered that there was an increased likelihood of business failures as a result of the disruption to the economic environment from the COVID-19 lockdown, although at this stage it is too early to determine the actual level of impact.

Depreciation

From 1 April 2019 the Group has applied the requirements of IFRS 16 Leased Assets, which results in the costs in relation to operating leases being reclassified. The Group has chosen to apply the cumulative effect method with an opening adjustment to equity. The net present value of the future cash flows as set out in the operating leases are capitalised and included within fixed asset under the heading 'Leased Assets' with a corresponding liability included within creditors for the future operating lease payments which are due. The cost of the operating lease in respect of these assets is released through the depreciation charge and the net present value discount is charged to interest payable. This is an accounting adjustment which is reclassifying £0.83m of costs which were previously included in operating expenses and has therefore resulted in an increase to underlying EBITDA. The cash cost in respect of the operating leases has not changed, which is included within the cash flow statement under the heading 'Payment of lease liabilities'.

Finance costs

Total interest costs have increased to £2.52m (2019: £1.90m). Cash interest increased by £0.45m to £1.87m largely from the increase in the average level of net borrowings, which was used to fund the acquisition consideration for

ACS, combined with the deferred consideration payable in respect of the ETS acquisition. Treasury management of surplus cash balances to minimise the amount of drawn funds has been used during the year to minimise interest costs.

Included within interest costs in the income statement is a £0.21m charge, which is non-cash, in relation to the discounted cash flow impact of the contingent deferred consideration payable in relation to the Shift F7, ETS and ACS acquisitions. A further £0.19m of non-cash interest from the application of IAS 32 and IFRS 9 has been recognised in interest costs in relation to the discounting of the convertible loan liability. The impact of the first-time adoption of IFRS 16 has increased interest charges by £0.08m.

Profit before tax
This year reported profit before tax reduced by £0.46m to £1.97m (2019: £2.43m). Operating profit increased to £4.49m (2019: £4.33m), however this increase was absorbed by non-cash items including; £1.20m increase in amortisation arising from the full year impact of acquisitions undertaken during the current and prior years, the adjustment to deferred consideration under IFRS 3 of £0.65m (profit) and £0.10m increase in notional interest charge for discounting of deferred consideration. Profit before tax is for the year is also impacted by the following cash items; £0.45m increase in cash finance costs, the acquisition and restructuring costs of £0.56m and £0.88m depreciation increase, which is largely driven by the application of IFRS 16.

Profit after tax and earnings per share
On a like-for-like basis profit after tax reduced from £1.85m to £1.58m during the year ended 31 March 2020. However, a change in Government policy with regard to future corporation tax rates gave rise to a one-off increase to the deferred tax liability of £0.76m, which is a non-cash item. The impact of this reduced reported profit after tax for the year to £0.99m (2019: £1.85m).

The Company issued 1.33m shares in a placing at the end of February 2020. Due to the proximity of the placing to year end, there is only a one month dilution impact from the share placing as the number of shares in issue is calculated on a weighted average basis across the twelve month period.

Basic earnings per share was 4.14p (2019: 7.82p). Adjusted fully diluted earnings per share, based on the profit for the year attributable to equity holders adding back amortisation, share option charges, adjustment to deferred consideration, restructuring and acquisition costs, was 28.05p per share (2019: 29.51p).

Dividends
Based on dividend paid in the year ended 31 March 2020, being 9.8p, dividend cover was 2.87x.

Our historical policy has been to distribute roughly one-third of free cash flow as dividends and to reinvest the remaining two-thirds in the business. On 25 September 2019, the directors announced their intention to declare an interim dividend of 5.10p per ordinary share in respect of the September 2019 interim results, an increase of 4.1% over the interim dividend for the comparative period (September 2018: 4.90p). This interim dividend was due to be paid in April 2020 and would have absorbed approximately £1.28m of cash and shareholders' funds. However, in early April 2020, considering the potential COVID-19 disruption, the Board resolved to cancel the interim dividend that had been declared with the September 2019 interim results.

The Board will continue to monitor the changing economic environment and adopt an appropriate dividend for future periods, with a further update alongside the September 2020 interim results.

Cash flow
The Group benefits from an excellent cash-generating operating model. Low capital expenditure results in a high proportion of underlying EBITDA turning into cash. The proportion of reported EBITDA which turned into net cash from operating activities before income tax was 81.7% (2019: 70.5%).

Working capital was extended at year end with a £1.47m net cash outflow impact in payables and receivables. Part of the working capital absorption was anticipated with the continued transition of the Group towards a growing proportion of data connectivity services increasing the level of working capital, with a further £0.21m absorbed by the advanced charging structure of wholesale data connectivity rentals, which are typically quarterly in advance compared to monthly in advance for the end customer. As in prior periods, this is an ongoing increase to the working capital requirement of the Group.

Reported year end trade receivables were 47 days at year end (2019: 42 days). The increase is partly a reflection of increased annual services billing in advance for the education sector customer base. However, the Group also had a

reduction in year-end direct debit receipts and extended collection timescales following the decision by many businesses to retain control of their cash outflows during the early period of COVID-19. In addition, despite the governments specific instruction to public sector customers at the outset of COVID-19 to continue to pay suppliers on time for services at year end there was £0.56m of valid invoices that were beyond contracted payment terms with public sector customers. It is evident that the purchase ledger function of public sector organisations results in a general increase in working capital absorption from the increased processing time of customer payments when compared to commercial customers.

The March 2020 inventory value was increased by £0.05m due to advance purchasing of equipment required for successful contract wins and Avaya handsets for post-year-end projects.

Income taxes paid in cash during the year have increased to £2.02m (2019: £0.81m). The 2019 comparative period included the receipt of £0.51m of cash in respect of research and development tax claims for the software and app development work and the capital and operational costs for the development of AdEPT Nebula plus with a tax refund in respect of the tax deduction for share options exercised in Atomwide on acquisition. At year end HMRC still had not processed the cash refund to the Company of £0.11m in respect of corporation tax overpaid in the year ended 31 March 2019. In addition, Centrix Limited transitioned to 'very large' status for corporation tax which accelerated £0.15m of cash payment to HMRC.

Cash interest paid has increased during the year to £1.87m (2019: £1.41m), which arises from the increase in average net borrowings against the prior year to fund the acquisition of ACS and the deferred consideration paid in respect of the ETS acquisition.

Cash outflows in the year ended 31 March 2020 in relation to acquisitions amounted to £6.29m (net of cash acquired). The contingent consideration in respect of the acquisition of ETS of £0.64m was paid in two instalments with the synergy payment paid in May 2019 and the earnout paid in December 2019 with no further amounts due in relation to this acquisition. The initial cash consideration for the acquisition of ACS of £5.19m was paid in April 2019 and £0.45m for the ACS synergy payment paid in January 2020. At the year end the deferred consideration of £1.80m in respect of ACS remained outstanding, which was paid in May 2020 with no further amounts due.

In February 2020 the Company completed a share placing, issuing 1,328,125 ordinary shares of 10p each at a price of 320p raising £4.25m gross funds. Fundraising costs of £0.22m in respect of the share placing were incurred, giving net proceeds of £4.03m. It was the Boards intention to use these funds to reduce senior debt, provide acquisition funding and acceleration of the 'One AdEPT' Project Fusion initiative. In light of the uncertain trading conditions arising from COVID-19, the Board has prudently decided to place on hold acquisition activity and so the fundraising proceeds have been used to provide a small amount of investment (circa £0.2m) to accelerate Project Fusion with the majority of funds reducing the senior debt.

Dividends paid during the year ended 31 March 2020 absorbed £2.32m of cash (2019: £2.07m). This increase over the prior period arises from the application of the progressive dividend policy.

There was an increase to cash and cash equivalents during the year of £4.20m to year-end cash of £11.85m. This arises from a net increase in the drawn element of the revolving credit facility at March 2020 which was a prudent measure taken during the early period of disruption from COVID-19 to ensure sufficient access to cash facilities.

Capital expenditure

The Group continues to operate an asset-light strategy and has low capital requirements; therefore, expenditure on fixed assets is low at 1.8% of revenue (2019: 1.1%). The capital expenditure in the current year arises partly from £0.07m for the refurbishment of the premises in St Neots but also from AdEPT investing a further £0.33m 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 live and already delivering benefits to more than 250 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.

Over the last twelve months the AdEPT team has been working hard on the 'One AdEPT' project, christened 'Project Fusion', including initiatives in relation to sales, marketing, systems, finance and branding. Total investment of £0.34m has been made over the last twelve months, which includes the cost of third-party consultancy and some

capitalisation of the internal development teams time spent dedicated to the project. This project includes the release of the new look Group-wide AdEPT website (www.adept.co.uk) which is live and already generating opportunities. The progress on the roll out of a Group-wide CRM system is underway with the system live in five of the eight Group operating sites, with the remaining sites expected to go live before the end of the 2020 calendar year, which is anticipated to enable the Group to leverage greater operating efficiency from its highly skilled team. In addition, the Group is transitioning to a centralised finance platform which is hosted in the AdEPT Nebula network, with three business units already live and the remaining business units expected to transition before the end of 2020.

Payments of lease liabilities

As required under IFRS 16, the balance sheet value of tangible fixed assets includes the discounted value of the remaining operating lease rentals for any material agreements which have a lease term greater than twelve months. The net present value of any new operating leases is included in tangible fixed assets. These are not upfront cash purchases as the rentals are paid on a monthly or quarterly basis and therefore the cost is not included within capital expenditure, instead the cash outflows from the operating lease agreements are included in the cash flow statement under the heading 'Payments of lease liabilities'.

Business combinations

On 26 April 2019 the Company acquired the entire issued share capital of ACS. ACS, founded in 1999, is a well-established UK-based specialist provider of IT services focused on the education sector 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. All services provided by ACS Group are supported by a highly experienced team of IT professionals based at ACS Group's premises in Doncaster, which have been retained post-acquisition. The vendors and the senior management team responsible for the strategic direction, technical development and the day-to-day operations of ACS Group have been retained within the business post-acquisition. Initial consideration of £5.19m was paid in cash at completion. Further contingent deferred consideration of between £Nil and £2.26m is payable, also in cash, dependent upon the performance of ACS Group post-acquisition. The earnout period for ACS ended on 31 March 2020 and the deferred consideration was paid in May 2020 with no further amounts due. Total consideration is £7.50m (including acquired debts and tax liabilities).

A fair value of £7.27m in relation to the customer contracts for the acquired business has been recognised as intangible asset additions in the year ended 31 March 2020.

Further details on the acquisition during the year are described in Note 21.

Net debt and bank facilities

A key strength of AdEPT is its consistent, proven ability to generate strong free cash flow and therefore support net borrowings. As a result of the Group's focus on underlying profitability and cash conversion, net operating cash flow after taxes but before bank interest paid of £7.63m was generated during the year ended 31 March 2020 (2019: £6.72m). The current period includes £0.56m of costs in relation to acquisition fees and restructuring costs.

in April 2019, the Company signed a further extension of its existing bank facility to £40m. The enlarged facility is provided by Barclays Bank plc and The Royal Bank of Scotland plc on an equal basis. The facility has been provided to 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. This facility extension was used to fund the acquisition of ACS in April 2019. The commercial terms of the enlarged facility are the same as the previous existing facility.

Opening cash plus the free cash flow generated in the year and borrowing drawdowns from the senior debt facility have been used to fund £6.29m acquisition consideration, £2.33m dividends paid and £1.12m of capital expenditure on tangible and intangible assets. Net senior debt, which comprises cash balances and senior bank borrowings (excluding IFRS 16 liabilities), has increased to £27.94m at the year-end (2019: £27.11m) as a result of the acquisition consideration outflows.

Segmental key performance indicators (KPIs)

The segmental KPIs outlined below are intended to provide useful information when interpreting the accounts. 81% of revenue and EBITDA is generated from Managed Services (2019: 75% revenue and 74% EBITDA).

	Fixed line services	Managed services	Total

	£'000	£'000	£'000
Year ended 31 March 2020			
Revenue	**11,463**	**50,225**	**61,688**
Gross profit	**4,541**	**24,850**	**29,391**
Gross margin %	**39.6%**	**49.5%**	**47.6%**
Underlying EBITDA	**2,277**	**9,432**	**11,709**
Underlying EBITDA%	**19.9%**	**18.8%**	**19.0%**
Year ended 31 March 2019			
Revenue	*12,814*	*38,480*	*51,294*
Gross profit	*5,279*	*20,049*	*25,329*
Gross margin %	*41.2%*	*52.1%*	*49.4%*
Underlying EBITDA	*2,784*	*7,997*	*10,781*
Underlying EBITDA%	*21.7%*	*20.8%*	*21.0%*

There are no non-financial KPIs which are reviewed regularly by the senior management team.

Section 172 requirements of the Companies Act
The section 172 requirements of the Companies Act in respect of the directors' duty to promote the success of the Company is covered in the Corporate Governance Statement included in these accounts.

Principal risks and uncertainties
There are a number of potential risks and uncertainties which could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected results.

Customer loss risk
The impact of this is partially mitigated with no customer accounting for more than 10% of the Group revenue. The top ten customers account for approximately 24.6% of revenues. The customer base of the Company is also spread across a wide geographical area and across a wide range of business sectors. We continue to monitor customer churn, develop our customer offering and service delivery. We acknowledge that some of our customers may come under increased financial pressure as a result of COVID-19 disruption. To manage this risk, we maintain regular contact with our customers to identify and respond to any risks as early as possible.

Catastrophic event risk
All employees are able to work remotely, and the Group's operational and administrative servers are located and managed such that damage from an outage is minimised. A business continuity plan is in place which is reviewed regularly and enhanced from the results of testing. The Group is increasingly moving to cloud based systems, which are more readily available for a timely response to a catastrophic event. A testimony of the Group's ability to deal with a catastrophic event is the response to the COVID-19 pandemic which saw virtually all of the Group's workforce transition to remote working in the space of a couple of days.

Credit risk
The Group extends credit of various durations to customers depending on customer credit worthiness and industry custom and practice for the product or service. In the event that a customer proves unable to meet payments when they fall due, the Group will suffer adverse consequences. To manage this, the Group continually monitors credit terms to ensure that no single customer is granted credit inappropriate to its credit risk. Additionally, a large proportion of our customer receipts are collected by monthly direct debit. The risk is further reduced by the customer base being spread across a wide variety of industry and service sectors.

Liquidity risk
The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. External funding facilities are managed to ensure that both short-term and longer-term funding is available to provide short-term flexibility whilst providing sufficient funding to the Group's forecast working capital requirements.

Competitor risk
The Group operates in a highly competitive market with rapidly changing product and pricing innovations. We are subject to the threat of our competitors launching new products in our markets (including updating product lines) before we make corresponding updates and developments to our own product range. This could render our products and services out of

date and could result in loss of market share. To reduce this risk, we undertake new product development and maintain strong supplier relationships to ensure that we have products at various stages of the life cycle.

Competitor risk also manifests itself in price pressures which are usually experienced in more mature markets. This results not only in downward pressure on our gross margins but also in the risk that our products are not considered to represent value for money. The Group therefore monitors market prices on an ongoing basis.

Cyber-attack on Company, customer or supplier systems
The Group has extensive experience in cyber security and continues to invest of training, systems and tools to protect the Company and its customers. Customer networks are securely segregated from those of the Company and systems are replicated/backed up in more than one location. AdEPT holds several security accreditations including ISO27001, Cyber Essentials and PCI DSS. The Company's security systems and processes are subject to extensive third-party external auditing. In addition, the Company has in place a cyber insurance protection.

Acquisition integration execution
The Group has set out that its strategy includes the acquisition of businesses where they are earnings enhancing. The Board acknowledges that there is a risk of operational disturbance in the course of integrating the acquired businesses with existing operations. The Group mitigates this risk by careful planning and rigorous due diligence.

John Swaite
Finance director

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

	Note	**2020 £'000**	Restated 2019 £'000
Revenue	4	**61,688**	51,294
Cost of sales		**(32,297)**	(25,966)
Gross profit		**29,391**	25,328
Administrative expenses		**(24,897)**	(21,002)
Operating profit		**4,494**	4,326
Total operating profit – analysed:			
Underlying EBITDA		**11,709**	10,781
Share-based payments		**(29)**	(68)
Depreciation of tangible fixed assets		**(1,513)**	(633)
Amortisation of intangible fixed assets		**(5,772)**	(4,568)
Adjustment to deferred consideration		**654**	(586)
Acquisition fees		**(267)**	(495)
Restructuring costs		**(288)**	(105)
Total operating profit		**4,494**	4,326
Finance costs	6	**(2,523)**	(1,901)
Profit before income tax		**1,971**	2,425
Income tax expense	7	**(986)**	(571)
Profit for the year		**985**	1,854
Other comprehensive income		**-**	-
Total comprehensive income		**985**	1,854

	Note	**2020**	Restated 2019
Earnings per share			
Basic earnings	19	**4.14p**	7.82p
Diluted earnings	19	**4.12p**	7.77p

All amounts relate to continuing operations.

Consolidated statement of financial position
As at 31 March 2020

	Note	**31 March 2020 £'000**	Restated 31 March 2019 £'000
Assets			
Non-current assets			
Goodwill	9	**17,408**	16,024
Intangible assets	10	**41,952**	39,999
Property, plant and equipment	11	**2,700**	1,472
Deferred tax asset	12	**-**	43
		62,060	57,538
Current assets			
Inventories	13	**612**	543
Contract assets	4	**1,379**	953
Trade and other receivables	14	**14,695**	10,349
Cash and cash equivalents		**11,849**	7,650
		28,535	19,495
Total assets		**90,595**	77,033
Current liabilities			
Trade and other payables	15	**14,979**	11,149
Contract liabilities	4	**2,502**	1,976
Income tax		**156**	831
Short-term borrowings		**54**	33
		17,691	13,989
Non-current liabilities			
Deferred tax	12	**7,738**	6,405
Convertible loan instrument	16	**6,340**	6,174
Long-term borrowings	16	**40,444**	34,730
Total liabilities		**72,213**	61,298
Net assets		**18,382**	15,735
Equity attributable to equity holders			
Share capital	18	**2,503**	2,370
Share premium		**4,378**	479
Share option reserve		**1,108**	1,079
Capital redemption reserve		**18**	18
Retained earnings		**10,375**	11,789
Total equity		**18,382**	15,735

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

	Attributable to equity holders					
	Share capital £'000	Share premium £'000	Share option reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Equity at 1 April 2018	2,370	479	1,012	18	12,067	15,946

Prior year adjustment (Note 1)	-	-	-	-	(70)	(70)
Adjusted equity at 1 April 2018	2,370	479	1,012	18	11,997	15,876
Profit for the year	-	-	-	-	1,853	1,853
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	1,853	1,853
Deferred tax asset adjustment	-	-	-	-	12	12
Dividends	-	-	-	-	(2,073)	(2,073)
Share-based payments	-	-	67	-	-	67
Equity at 1 April 2019	2,370	479	1,079	18	11,789	15,735
Impact of change in accounting policy (Note 2)	-	-	-	-	(36)	(36)
Adjusted equity at 1 April 2019	2,370	479	1,079	18	11,753	15,699
Profit for the year	-	-	-	-	986	986
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	986	986
Deferred tax on share options	-	-	-	-	(41)	(41)
Dividends	-	-	-	-	(2,323)	(2,323)
Share-based payments	-	-	29	-	-	29
Issue of new equity	133	3,899	-	-	-	4,032
Equity at 31 March 2020	**2,503**	**4,378**	**1,108**	**18**	**10,375**	**18,382**

The Group adopted IFRS 16 in the year ended 31 March 2020 and chose to apply the cumulative effect method with an opening adjustment to equity

Consolidated statement of cash flows
For the year ended 31 March 2020

	2020 £'000	2019 £'000
Cash flows from operating activities		
Profit before income tax	**1,971**	2,438
Depreciation and amortisation	**7,285**	5,201
Adjustment to deferred consideration	**(653)**	586
Profit on sale of fixed assets	**(17)**	-
Share-based payments	**29**	68
Net finance costs	**2,523**	1,902
Operating cash flows before movements in working capital	**11,138**	10,195
Decrease/(increase) in inventories	**(45)**	(171)
Decrease/(increase) in trade and other receivables	**(4,072)**	(3,609)
(Decrease)/increase in trade and other payables	**2,604**	1,118
Cash generated from operations	**9,625**	7,533
Income taxes paid	**(2,018)**	(809)
Net cash from operating activities	**7,607**	6,724
Cash flows from investing activities		
Interest paid	**(1,861)**	(1,414)
Acquisition of subsidiaries net of cash acquired	**(6,285)**	(11,034)
Purchase of intangible assets	**(419)**	(63)
Purchase of property, plant and equipment	**(706)**	(564)
Net cash used in investing activities	**(9,271)**	(13,075)
Cash flows from financing activities		

Dividends paid	**(2,323)**	(2,074)
Increase in bank loan	**5,000**	10,000
Repayment of borrowings	**(9)**	(1,052)
Payments of lease liabilities	**(837)**	-
Issue of new equity	**4,032**	-
Net cash from financing activities	**5,863**	6,874
Net (decrease)/increase in cash and cash equivalents	**4,199**	523
Cash and cash equivalents at beginning of year	**7,650**	7,127
Cash and cash equivalents at end of year	**11,849**	7,650
Cash and cash equivalents		
Cash at bank and in hand	**11,849**	7,650
Cash and cash equivalents	**11,849**	7,650

Note to the Preliminary Results announcement of Adept Technology Group Plc for the year ended 31 March 2020

The financial information set out below does not constitute the Group's financial statements for the years ended 31 March 2020 or 2019, but is derived from those financial statements. Statutory financial statements for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Group's annual general meeting. The auditors have reported on the 2019 financial statements which carried an unqualified audit report, did not include a reference to any matters to which the auditor drew attention by way of emphasis and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006. The audit report on the 2020 financial statements is not yet signed, however an unqualified opinion is expected.

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not in itself contain sufficient information to comply with IFRS. The accounting policies used in preparation of this preliminary announcement are consistent with those in the full financial statements that have yet to be published.

Availability of Financial Statements

The annual report containing the full financial statements for the year to 31 March 2019 is expected to be posted to shareholders in August 2020, a soft copy of which will be available to download from the Company's website www.adept.co.uk.

1. Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable IFRSs as adopted by the EU.

Accounting standards require the directors to consider the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate. The Group's available banking facilities are described in Note 20. The Group has adequate financing arrangements which can be utilised by the Group as required. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

At the date of authorisation of these financial statements, the directors have considered the standards and interpretations which have not been applied in these financial statements that were in issue but not yet effective (and in some cases had not yet been adopted by the EU) and none were considered to be materially relevant.

Adoption of the other standards and interpretations is not expected to have a material impact on the results of the Group. Application of these standards may result in some changes in the presentation of information within the Group's financial statements.

The financial statements are presented in sterling, which is the Group's functional and presentation currency. The figures shown in the financial statements are rounded to the nearest thousand pounds.

Prior year adjustment

The Group's policy in respect of revenue recognition requires that revenue is only recognised when the obligations associated with the revenue have been completed, therefore invoiced amounts in respect of charges in advance are recognised in the deferred revenue liability in the balance sheet. A prior year adjustment has been recognised in respect of deferred income which was incorrectly reported at the March 2018 and 2019 year ends. In accordance with IAS 8 the opening balance sheet position at 1 April 2018 has been restated to account correctly for the deferred income balance at that date resulting in the recognition of an additional liability of £70,172 at 1 April 2018. The movement on the deferred income liability has been adjusted for the year ended 31 March 2019 resulting in a decrease to revenue of £13,974.

2. Changes in accounting policy

Except for the changes below, the Group has consistently applied the accounting policies in these consolidated financial statements.

The details and quantitative impact of the changes in accounting policies are disclosed below:

IFRS 16 '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 of 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 included on the balance sheet.

The policy applies to leased properties, motor vehicles and certain data connectivity agreements where the underlying services are being used by the Group. 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%, being an approximation of the Group's finance rate on finance leases prior to the application of IFRS 16. 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 the cumulative effect of initially applying IFRS 16 with an additional £1,824,820 of right-of-use assets and £1,872,092 of lease liabilities, recognising the difference of £47,272 as an opening adjustment to equity at 1 April 2019.

The following table summarises the impact of adopting IFRS 16 on the Group's financial statements for the year ended 31 March 2020:

£'000	**As reported**	Adjustments	Balances without adoption of IFRS 16
Non-current assets			
Goodwill	**17,408**		17,408
Intangibles	**41,952**	-	41,952
Property, plant and equipment	**2,700**	1,263	1,437
Total non-current assets	**62,060**	1,263	60,797
Current assets	**28,535**	-	28,535
Total assets	**90,595**	1,263	89,332
Current liabilities			
Trade and other payables	**17,481**	1,315	16,166
Income tax	**156**	-	156
Short term borrowings	**54**	-	54
	17,691	1,315	16,376
Long term liabilities	**54,522**	-	54,522
Total liabilities	**72,213**	1,315	70,898
Net assets	**18,382**	(52)	18,434
Equity attributable to equity holders			
Share capital	**2,503**	-	2,503
Share premium	**4,378**	-	4,378
Capital redemption reserve	**18**	-	18
Share capital to be issued	**1,108**	-	1,108
Retained earnings	**10,375**	(52)	10,427
Total equity	**18,382**	(52)	18,434

The net impact on profit before tax of applying IFRS 16 in the year ended 31 March 2020 was (£5,130), resulting in a net adjustment to retained earnings at 31 March 2020 of (£52,402). The impact of the adoption of IFRS 16 on basic and adjusted earnings per share is not material.

3. Segmental information

IFRS 8 'Operating Segments' requires identification on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

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 (being calls and line rental services) and managed services (which are data connectivity, hardware, IP telephony, support and maintenance services), which 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 underlying EBITDA.

	Year ended 31 March 2020				Year ended 31 March 2019			
£'000	**Fixed line services**	**Managed services**	**Central costs**	**Total**	Fixed line services	Managed services	Central costs	Total
Revenue	**11,463**	**50,225**	**-**	**61,688**	12,814	38,480	—	51,294
Gross profit	**4,541**	**24,850**	**-**	**29,391**	5,279	20,049	—	25,328
Gross margin %	**39.6%**	**49.5%**	**-**	**47.6%**	41.2%	52.1%	—	49.4%
Administrative expenses	**(2,264)**	**(15,418)**	**-**	**(17,682)**	(2,495)	(12,052)	—	(14,547)
Underlying EBITDA	**2,277**	**9,432**	**-**	**11,709**	2,784	7,997	—	10,781

Underlying EBITDA %	**19.9%**	**18.8%**	**-**	**19.0%**	21.7%	20.8%	—	21.0%
Amortisation	**(1,573)**	**(4,199)**	**-**	**(5,772)**	(1,509)	(3,059)	—	(4,568)
Depreciation	**-**	**-**	**(1,513)**	**(1,513)**	—	—	(633)	(633)
Adjustment to deferred consideration	**-**	**-**	**654**	**654**	—	—	(586)	(586)
Acquisition costs	**-**	**-**	**(267)**	**(267)**	—	—	(495)	(495)
Restructuring costs	**-**	**-**	**(288)**	**(288)**	—	—	(105)	(105)
Share-based payments	**-**	**-**	**(29)**	**(29)**	—	—	(68)	(68)
Operating profit/(loss)	**704**	**5,233**	**(1,443)**	**4,494**	1,275	4,938	(1,887)	4,326
Finance costs	**-**	**-**	**(2,523)**	**(2,523)**	—	—	(1,902)	(1,902)
Income tax	**-**	**-**	**(986)**	**(986)**	—	—	(571)	(571)
Profit/(loss) after tax	**704**	**5,233**	**(4,952)**	**985**	1,275	4,938	(4,360)	1,853

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.

Transactions with the largest customer of the Group are less than 10% of total turnover and do not require disclosure for either 2019 or 2020.

4. Revenue

In the following table, revenue is disaggregated by major product/service lines and timing of revenue recognition. All revenue is derived from the UK.

	2020 £'000	2019 £'000
Sale of goods	**15,555**	10,969
Provision of services:		
– calls and line rental	**11,876**	12,814
– data networks	**13,976**	11,901
– support services	**16,293**	11,967
– other services	**3,988**	3,643
	61,688	51,294
Timing of revenue recognition		
Products transferred at a point in time	**15,555**	10,969
Products and services transferred over time	**46,133**	40,325
	61,688	51,294

The following table provides information about receivables, contract assets and contract liabilities with customers:

	2020 £'000	2019 £'000
Receivables, which are included in 'Trade and other receivables'	**9,984**	7,018
Contract assets	**1,379**	953
Contract liabilities	**(2,502)**	(1,976)

Contract assets relate to the deferred direct costs in respect of data circuit installations which have been completed and are being recognised across the customer's contractual term to which the installation relates. The contract liabilities relate to the deferred revenue in respect of data installations which have been completed and the revenue is being recognised across the term of the customer contract.

Significant changes in the contract assets and contract liabilities balances during the period are as follows:

	2020 £'000	2019 £'000
Revenue deferred into future periods	**(2,502)**	(1,976)
Deferred revenue recognised in the period	**2,201**	1,582
Direct costs deferred into future periods	**1,379**	953
Deferred direct costs recognised in the period	**724**	921

The performance obligations of the underlying contracts to which the contract assets relate are expected to be met over periods of up to five years. However, the performance obligations for all revenues and costs that have been deferred into future periods have been satisfied at the year end, as these relate to the installation and equipment of data networks which have been completed and the service is being used by the customer.

There are no impairment losses in relation to the contract assets recognised under IFRS 15.

5. Operating profit

The operating profit is stated after charging/(crediting):

	2020 £'000	2019 £'000
Amortisation of customer base, billing system and licence	**5,772**	4,568
Depreciation of tangible fixed assets:		
– owned by the Group	**711**	633
– right to use assets	**801**	-
Share option expense/(credit)	**29**	68
Minimum operating lease payments:		
– land and buildings	**-**	556
– motor vehicles and other equipment	**-**	70
Acquisition costs	**267**	495
Restructuring costs	**289**	105

Acquisition costs relate to the legal and professional fees incurred as a direct result of acquisitions completed during the year. Restructuring costs relate to the acquisition operating costs (from the date of acquisition) which have been either terminated or notice to terminate has been served and therefore these items will not form part of the future operating costs of the Group.

6. Finance costs

	2020 £'000	2019 £'000
On bank loans and overdrafts	**1,870**	1,514
Bank fees	**357**	306
IFRS 16 lease liability interest	**81**	-
Finance cost on contingent consideration	**215**	82
	2,523	1,902

The finance costs on contingent consideration arise from the release of the discounted contingent consideration liability evenly across the term of the deferred consideration period in relation to each acquisition. This is a non-cash item.

7. Income tax expense

	2020 £'000	2019 £'000
Current tax		
UK corporation tax on profit for the year	**1,129**	1,372
Adjustments in respect of prior periods	**(91)**	(60)
Total current tax	**1,038**	1,312

Deferred tax		
Origination and reversal of temporary differences:		
– fixed assets and short-term temporary differences	**67**	(53)
– share options	**14**	(4)
– intangibles on business combinations	**(968)**	(668)
Effect of tax rate change on opening balance	**763**	(28)
Adjustments in respect of prior periods	**72**	12
Total deferred tax (see Note 12)	**(52)**	(741)
Total income tax expense	**986**	571

Factors affecting tax charge for the year

The relationship between expected tax expense based on the effective tax rate of AdEPT at 19% (2019: 19%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2020 £'000	2019 £'000
Profit before income tax	**1,971**	2,438
Tax rate	**19%**	19%
Expected tax charge	**374**	463
Expenses not deductible for tax purposes	**(40)**	241
Adjustments to tax charge in respect of prior periods	**(19)**	(48)
Depreciation/amortisation on non-qualifying assets	**12**	8
Difference due to deferred tax rate being lower than the standard tax rate	**-**	58
Movement on share option deferred tax assets taken to equity	**20**	—
R&D enhanced tax deduction	**(45)**	(137)
RDEC credit taxed	**(30)**	(16)
Effect of tax rate change on deferred tax opening balance	**763**	—
Other	**(49)**	2
Actual tax expense net	**986**	571

8. Dividends

On 8 April 2019 the Company paid dividends of £1,161,390 in relation to the interim dividend declared in September 2018. On 10 October 2019 the Company paid dividends of £1,161,390 in relation to the final dividend declared in March 2019. Total dividends paid in the year ended 31 March 2020 absorbed £2,322,780 of cash (2019: £2,073,910).

9. Goodwill

	Total £'000
Cost	
At 1 April 2018	**16,614**
Additions	**1,494**
At 1 April 2019	**18,108**
Additions	**1,384**
At 31 March 2020	**19,492**
Impairment	
At 1 April 2018	**2,084**
Impairment charge	**-**
At 1 April 2019	**2,084**
Impairment charge	**-**
At 31 March 2020	**2,084**
Net book value	
At 31 March 2020	**17,408**
At 31 March 2019	**16,024**

We perform an annual goodwill impairment review and we tested our goodwill for impairment as at 31 March 2020.

Goodwill is recognised when a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash-generating unit (CGU) level. These CGUs represent the smallest identifiable group of assets that generate cash flows. Our CGUs are deemed to be the assets within the operating units. Each CGU to which goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The total intangible value in use for each CGU, incorporating goodwill and the intangible asset value, is determined using discounted cash flow projections derived from the total historical revenue profile of each identifiable CGU. The assumptions which are applied to each CGU in respect of churn rate, discount rate, margin and useful economic life are set out in Note 10.

The goodwill is split by CGU as follows:

	March 2020 £'000	March 2019 £'000
Centrix Limited	**3,614**	3,614
Comms Group UK Limited	**2,672**	2,672
CAT Communications Limited	**248**	248
Our IT Department Limited	**4,683**	4,683
Atomwide Limited	**3,313**	3,313
Shift F7 Limited	**879**	879
ETS Communications Limited	**615**	615
Advanced Computer Systems UK Limited	**1,384**	-

The net present value of the future cash flows for the CGUs is sensitive to the weighted average cost of capital. The rate used to discount the future cash flows is the Group's pre-tax weighted average cost of capital of 8.50%. An increase in the Group's weighted average cost of capital to above 11.3% would materially impair the carrying value of the Group's goodwill by more than £400,000. Further details of the sensitivity of the variables used in the impairment testing are included in Note 10.

10. Intangible fixed assets

	Licence £'000	Computer software £'000	Customer base £'000	Software apps £'000	Website £'000	Total £'000
Cost						
At 1 April 2018	41	1,339	55,562	3,535	1,744	62,221
Additions	56	6	5,873	—	1	5,936
Acquired with subsidiary	57	—	2,908	—	—	2,965
At 1 April 2019	154	1,345	64,3443	3,535	1,745	71,122
Additions	108	343	7,292	-	-	7,743
At 31 March 2020	**262**	**1,688**	**71,616**	**3,535**	**1,745**	**78,846**
Amortisation						
At 1 April 2018	28	1,283	24,759	236	249	26,555
Charge for the year	29	37	3,778	350	374	4,568
At 1 April 2019	57	1,320	28,537	586	623	31,123
Charge for the year	63	22	4,961	350	375	5,771
At 31 March 2020	**120**	**1,342**	**33,498**	**936**	**998**	**36,894**
Net book value						
At 31 March 2020	**142**	**346**	**38,118**	**2,599**	**747**	**41,952**
At 31 March 2019	97	25	35,806	2,949	1,122	39,999

Included within the Group's intangible assets is:

	Useful life	**March 2020 £'000**	March 2019 £'000
Centrix Limited	17 years	**6,575**	7,119
Comms Group UK Limited	17 years	**3,544**	3,952
Our IT Department Limited	17 years	**2,232**	2,610
CAT Communications Limited	10 years	**845**	1,008
Atomwide Limited – customer base	16 years	**5,308**	6,024
Atomwide Limited – software/apps	5 years	**2,599**	2,949
Shift F7 Limited	10 years	**4,304**	4,813
ETS Communications Limited	10 years	**3,110**	3,472
Advanced Computer Systems UK Limited	10 years	**6,563**	-
Other customer bases – AdEPT Technology Group plc trading business	10–16 years	**6,356**	7,930

Critical accounting estimates and key judgements made in reviewing intangible assets and goodwill for impairment

The key assumptions concerning the future and other key sources of estimation and uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of intangible assets and goodwill, are discussed below.

Measuring the fair value of intangible assets on acquisition

The main estimates used to measure the fair value of the intangible assets on acquisition are:

- churn rate;
- discount rate; and
- gross margins.

Intangible assets are reviewed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The net present value of cash flows for each cash-generating unit is reviewed against the carrying value at the balance sheet date. At the final reporting date of 31 March 2020 the net present value of future cash flows of certain cash-generating units was above the carrying value and an impairment charge of £Nil (2019: £Nil) has been recorded.

We tested our intangible assets and goodwill for impairment as at 31 March 2020. The carrying value of the intangible assets and the key assumptions used in performing the annual impairment assessment and sensitives are disclosed below:

	Book value of cash-generating unit £'000	Estimated value in use £'000
Centrix Limited	6,575	19,879
Comms Group UK Limited	3,575	6,882
Our IT Department Limited	2,232	5,447
CAT Communications Limited	861	3,382
Atomwide Limited	7,907	18,693
Shift F7 Limited	4,304	4,517
ETS Communications Limited	2,362	3,775
Advanced Computer Systems UK Limited	6,668	13,044

What discount rate have we used?
The rate used to discount the future cash flows is the Group's pre-tax weighted average cost of capital (WACC) of 8.50% (2019: 7.8%). The directors have chosen to use WACC as it is a calculated figure using actual input variables where available and applying estimates for those which are not, such as the equity market premium. An increase in the Group's weighted average cost of capital to above 11.3% would materially impair the carrying value of the Group's intangible assets by more than £400,000.

What churn rate have we used?
For the customer bases which have been fully integrated into the AdEPT Technology Group plc trading business in Tunbridge Wells, the churn rate of 5.9% per annum is based upon the actual historical churn rate of the revenue stream from the customer bases.

For Centrix, Comms Group, Our IT Department, CAT Communications, Atomwide, Shift F7, ETS Communications and ACS the net present value of the discounted future cash flows is based on the actual revenues of the acquired customer bases. The actual historical churn rates for the acquired customer bases vary between nil and 11.5% per annum. Where an acquired customer base has shown growth, a default churn assumption of 3% per annum has been applied.

For the software and apps which have been developed by Atomwide the net present value of the discounted future cash flows is based on the actual revenues being derived from the customer base to which the software licences and charges relate. The actual historical churn rates for the software and app revenue stream is nil% per annum, but a default churn rate of 3% per annum has been applied for the purpose of impairment testing.

What margin have we used?
Gross margins applied are based upon actual margins achieved by the customer bases in the current and previous years. A proportion of overheads are applied to the gross margin to represent the actual operating cost required to support the acquired customer revenue stream, resulting in a net margin which is used for the discounted net present valuation.

What is the estimated useful life of customer bases?
The method used to estimate the useful life of each customer base to conduct the impairment review is the revenue churn rate. The average useful economic life of all the customer bases has been estimated at 14 years (2019: 15 years) with a range of 10 to 17 years.

What sensitivities have we applied?
The calculations are sensitive to movements in the discount rate, margin or churn rate and may therefore result in an impairment charge to the income statement. A 1% change to the discount rate and, gross margin would result in no additional impairment charges. A 1% increase to the churn rate would result in an additional impairment of £0.02m.

11. Property, plant and equipment

	Motor vehicles £'000	Right of use Assets £'000	Short-term leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost						
At 1 April 2018	148	-	263	447	1,242	2,100
Acquired with subsidiary	93	-	—	103	252	448
Additions	—	-	31	21	512	564
Disposals	(132)	-	—	(2)	(65)	(199)
At 1 April 2019	109	-	294	569	1,941	2,913
Adjustment from adoption of IFRS 16	-	1,848	-	-	-	1,848
Additions	87	324	1	48	570	1,030
Disposals	(50)	(183)	-	(14)	(625)	(872)
At 31 March 2020	**146**	**1,989**	**295**	**603**	**1,886**	**4,919**
Depreciation						
At 1 April 2018	68	-	21	278	619	986
Charge for the year	72	-	23	94	444	633
Disposals	(113)	-	—	(1)	(64)	(178)
At 1 April 2019	27	-	44	371	999	1,441
Charge for the year	66	825	19	88	530	1,528
Disposals	(38)	(100)	-	(7)	(605)	(750)
At 31 March 2020	**55**	**725**	**63**	**452**	**924**	**2,219**
Net book value						
At 31 March 2020	**91**	**1,264**	**232**	**151**	**962**	**2,700**
At 31 March 2019	82	-	250	198	942	1,472

The right of use asset is made up as follows:

	2020 £'000	2019 £'000
Property	**924**	-
Motor vehicles	**183**	-
Other	**157**	-
	1,264	-

The depreciation charge for right of use assets is as follows:

	2020 £'000	2019 £'000
Property	**506**	-
Motor vehicles	**72**	-
Other	**247**	-
	825	-

12. Deferred taxation

	2020 £'000	2019 £'000
At 1 April 2019	**(6,362)**	(5,590)
Income statement credit/(charge)	**52**	741
Movement in deferred tax on share options taken to equity	**(43)**	11
Deferred tax provision on convertible loan note taken to equity	**-**	—
Deferred tax acquired	**-**	(32)
Deferred tax on business combination	**(1,385)**	(1,492)
At 31 March 2020	**(7,738)**	(6,362)

The deferred tax (liability)/asset is made up as follows:

	2020 £'000	2019 £'000
Accelerated capital allowances	**(213)**	(73)
Short-term temporary differences	**18**	49
Convertible loan note equity element	**(158)**	(164)
Deferred tax on business combinations	**(7,385)**	(6,232)
Share options	**-**	58
	(7,738)	(6,362)

13. Inventories

	2020 £'000	2019 £'000
Consumables	**612**	543

As at 31 March 2020, inventories of £60,407 (2019: £157,468) were fully provided for. During the year £3,891,041 has been recognised as an expense in the statement of comprehensive income.

There is no material difference between the replacement cost of inventories and the amount stated above.

14. Trade and other receivables

We initially recognise trade and other receivables at fair value, which is usually the original invoiced amount. They are subsequently carried at amortised cost using the effective interest method. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

We provide services to consumer and business customers, mainly on credit terms. We know that certain debts due to us will not be paid through the default of a small number of our customers. Because of this, we recognise an allowance for doubtful debts on initial recognition of receivables, which is deducted from the gross carrying amount of the receivable. The allowance is calculated by reference to credit losses expected to be incurred over the lifetime of the receivable. In estimating a loss allowance we consider historical experience and informed credit assessment alongside other factors such as the current state of the economy and particular industry issues. We consider reasonable and supportable information that is relevant and available without undue cost or effort.

Once recognised, trade receivables are continuously monitored and updated. Allowances are based on our historical loss experiences for the relevant aged category as well as forward-looking information and general economic conditions. Allowances are calculated by individual customer-facing units in order to reflect the specific nature of the customers relevant to that customer-generating unit.

	2020 £'000	2019 £'000
Trade receivables	**9,842**	6,949
Other receivables	**119**	70
Amounts owed by Group undertakings	**-**	-
Income tax	**-**	—
Prepayments	**3,917**	2,844

Accrued income	**817**	486
	14,695	10,349

The Group has one type of financial assets that are subject to IFRS 9's expected credit loss model:

- trade receivables for sales of inventory and from the provisions of consulting services.

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. As at 31 March 2020, trade receivables of £492,577 (2019: £391,255) were fully provided for.

All debts which are older than 90 days relate to interim amounts in respect of large customer projects which have not yet fully completed and are considered to be fully recoverable on completion. The movement of the provision for impairment of trade receivables is as follows:

	£'000
At 1 April 2018	240
Receivables provided for during the year as uncollectable	86
Receivables collected during the year which were previously provided	—
At 1 April 2019	326
Receivables provided for during the year as uncollectable	231
Receivables collected during the year which were previously provided	(15)
Receivables written off in the year which were previously provided for	(64)
Acquired through acquisition	15
At 31 March 2020	**493**

The creation and release of a provision for impaired receivables have been included in administration expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering cash. Management regularly reviews the outstanding receivables and does not consider that any further impairment is required. The other asset classes within trade and other receivables do not contain impaired assets.

15. Trade and other payables

	2020 £'000	2019 £'000
Trade payables	**4,494**	3,632
Other taxes and social security costs	**1,982**	1,593
Other payables	**829**	148
Amounts owed to Group undertakings	**-**	—
Accruals and deferred income	**5,876**	4,527
Contingent consideration	**1,798**	1,249
	14,979	11,149

The contingent consideration liability of £1,797,738 (2019: £1,249,205) represents the year-end fair value of the contingent consideration liabilities arising on the acquisitions made during the year. The fair value of the contingent consideration liability was initially determined by reference to the forecast growth rate for the customer base and applying the contingent consideration matrix as specified in the share purchase agreement.

16. Long-term borrowings

	2020 £'000	2019 £'000
Between one and two years	**-**	—
Between two and five years	**40,444**	34,730
More than five years	**6,340**	6,174
	46,784	40,904

The bank loan of £39,788,072 is secured by a debenture incorporating a fixed and floating charge over the undertaking and all property and assets present and future, including goodwill, book debts, uncalled capital, buildings, fixtures and fixed plant and machinery.

Included in long-term borrowings is an amount of £6,340,326 which is the debt component of the convertible loan instrument from BGF. This loan instrument is subordinated and ranks behind the bank loan.

Details of the interest rates applicable to the borrowings are included in Note 20.

Included within bank loans are arrangement fees amounting to £211,928 (2019: £272,203) which are being released over the term of the loan in accordance with IFRS 9.

17. Lease liability

Included within long-term borrowings (Note 16 between two and five years is an amount of £655,001 which relates to IFRS 16 lease liability.

	2020 £'000	2019 £'000
Between one and two years	**674**	-
Between two and five years	**655**	-
More than five years	**-**	-
	1,329	-

Total cash payments in respect of IFRS 16 lease agreements during the year was £836,580.

18. Share capital

	2020 £'000	2019 £'000
Authorised		
65,000,000 ordinary shares of 10p each	**6,500**	6,500
Allotted, called up and fully paid		
25,029,957 (2019: 23,701,832) ordinary shares of 10p each	**2,503**	2,370

Share issues

In February 2020 the Company completed a share placing, issuing 1,328,125 ordinary shares of 10p each at a price of 320p raising £4.25m. Costs of £217,880 in respect of the share placing have been charged to the share premium account in the year ended 31 March 2020.

19. Earnings per share

Earnings per share is calculated on the basis of a profit of £985,637 (2019: £1,853,958) divided by the weighted average number of shares in issue for the year of 23,812,509 (2019: 23,701,832). The diluted earnings per share is calculated on the treasury stock method and the assumption that the weighted average unapproved and EMI share options outstanding during the period are exercised. This would give rise to a total weighted average number of ordinary shares in issue for the period of 23,945,655 (2019: 23,852,410).

Adjusted earnings per share is used to reflect the non-cash nature of certain items which are charged to the income statement and the non-trading items, such as acquisition costs, to give a better indicator of the underlying cash generation of the Group. Adjusted earnings per share is calculated by adding back amortisation of intangible assets, impairment of goodwill, the taxation deduction on purchased customer contracts, deferred tax credits on amortisation charges, share option charges, adjustment to deferred consideration and acquisition costs and excluding compensation credits from retained earnings, giving £6,716,948 (2019: £7,038,838). This is divided by the same weighted average number of shares as above.

	2020 £'000	2019 £'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to equity holders	**985**	1,854

Add: amortisation	**5,772**	4,568
Less: taxation on amortisation of purchased customer contracts	**(117)**	(117)
Less: deferred tax credit on amortisation charges	**(235)**	(669)
Add: share option charges	**29**	68
Add/(less): adjustment to deferred consideration	**(654)**	586
Add: acquisition fees and restructuring costs	**555**	600
Add: interest unwind on loan note	**381**	149
Adjusted profit attributable to equity holders	**6,717**	7,039
Number of shares		
Weighted average number of shares used for earnings per share	**23,812,509**	23,701,832
Weighted average dilutive effect of share plans	**133,146**	150,578
Diluted weighted average number of shares	**23,945,655**	23,852,410
Earnings per share		
Basic earnings per share	**4.14p**	7.82p
Diluted earnings per share	**4.12p**	7.77p
Adjusted earnings per share		
Adjusted basic earnings per share	**28.21p**	29.70p
Adjusted diluted earnings per share	**28.05p**	29.51p

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

Adjusted earnings per share is calculated by dividing the retained earnings attributable to the equity holders (after adding back amortisation, the taxation deduction on purchased customer contracts, deferred tax credits on amortisation charges, share option charges, adjustment to deferred consideration and acquisition costs and excluding compensation credits) by the weighted average number of ordinary shares in issue.

20. Financial instruments

Set out below are the Group's financial instruments. The directors consider there to be no difference between the carrying value and fair value of the Group's financial instruments.

	2020 £'000	2019 £'000
Loans and receivables at amortised cost		
Cash and cash equivalents	**11,849**	7,650
Loans and receivables	**9,961**	9,718
	21,810	17,368
Financial liabilities at amortised cost		
Liabilities at amortised cost	**53,083**	51,863
Financial liabilities at fair value		
Contingent consideration	**1,798**	1,249
	54,881	53,112
Amounts due for settlement		
Within twelve months	**6,965**	4,882
After twelve months	**47,916**	48,230
	54,881	53,112

The Company has a five year £40m revolving credit facility agreement with Barclays Bank plc and Royal Bank of Scotland plc. The revolving credit facility bears interest at 1.85–3.25% over LIBOR on drawn funds, dependent upon the net debt to EBITDA ratchet. The facility is repayable in full on the final repayment date in February 2022.

The financial assets of the Group are cash and cash equivalents and trade and other receivables, which are offset against borrowings under the facility, and there is no separate interest rate exposure.

Barclays Bank plc and Royal Bank of Scotland plc have a cross guarantee and debenture incorporating a fixed and floating charge over the undertaking and all property and assets present and future, including goodwill, book debts, uncalled capital, buildings, fixtures and fixed plant and machinery.

The banks also hold a charge over the life assurance policy of Ian Fishwick, director of the Company, for £1,500,000.

In August 2017 the Group raised £7,293,726 in the form of a convertible loan instrument from BGF to part fund the acquisition of Atomwide. The convertible loan instrument is excluded from the leverage calculations by the senior debt partners, Barclays and RBS. The Group has applied the principles of IAS 32 and IFRS 9 in the recognition and measurement of the convertible loan. The net present value of the loan of £7,090,201 has been split between the debt and equity components and an amount of £1,158,317 has been recorded in equity, with £5,931,884 being included within long-term debt at the initial date of recognition.

BGF has the right to convert the loan to 1,855,910 ordinary shares at a share price of £3.93 per share at any time. The loan instrument can be redeemed by the Company from the third anniversary. The convertible loan instrument bears an interest rate of 7%. In addition, the transaction costs with a net present value of £203,525 are being recognised in the interest charge in the income statement across the term of the convertible instrument. The equity component of the convertible loan is included in the share option reserve in the statement of changes in equity and statement of financial position.

21. 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') for an initial consideration of £5.24m in cash less net debt and tax liabilities at completion. Further contingent deferred consideration of between £Nil and £2.26m was payable, also in cash, dependent upon the performance of ACS Group 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 £1.80m has been discounted at the Group's weighted average cost of capital with the value of the discount of £0.17m being included within finance costs over the deferred consideration period as an interest charge. At 31 March 2020 the estimated deferred consideration was £1.80m. The earnout period for ACS ended on 31 March 2020 and the deferred consideration was paid in May 2020 with no further amounts due. Total consideration is £7.50m (including acquired debts and tax liabilities).

ACS Group, founded in 1999, is a well-established UK-based specialist provider of IT services focused on the education sector 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.

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

ACS Group contributed revenue and profit after tax of £6.16m and £1.61m respectively for the year ended 31 March 2020 and represents a twelve month contribution. Acquisition related costs of £0.26m have been recognised as an expense in the statement of comprehensive income for the year ended 31 March 2020.

22. Subsequent events

In May 2020 the earnout payment in respect of the acquisition of ACS Group of £1.80m was settled in full, with no further amounts due.

In July 2020, in light of the potential impact of COVID-19, the Company signed an agreement with Barclays Bank plc and Royal Bank of Scotland plc for the deferral of the £5m reduction to the RCF facility, which was originally due in

July 2020, until the facility end date of February 2022 to provide additional cash headroom. In addition, the agreement contains an extension to the leverage and interest cover covenants included in the original bank facility to provide additional headroom through to the facility end date of February 2022. No fees were payable to Barclays Bank plc or Royal Bank of Scotland plc in respect of this agreement.