AdEPT Technology Group plc

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

Interim results for the six months ended 30 September 2020

AdEPT (AIM: ADT), one of the UK's leading independent providers of managed services for IT, unified communications, connectivity, voice and cloud services, announces its unaudited results for the six months ended 30 September 2020.

Highlights

Revenue and EBITDA
- Total revenue decreased by 7.6% to £28.5 million (2019: £30.8 million)
- Recurring revenue increased to 78% of total revenue (2019: 75%)
- Managed services revenue 82% of total revenue (2019: 82%)
- Underlying EBITDA* of £5.2 million (2019: £6.1 million)
- Underlying EBITDA* margin 18.4% (2019: 19.8%)

PBT, EPS and Dividends
- Adjusted profit after tax** of £3.1 million (2019: £3.9 million)
- Adjusted fully diluted EPS 11.4p (2019: 15.3p)
- We are not proposing a dividend at this time, given the continued uncertainty posed by the Covid-19 pandemic

Cash Flow and Debt
- Reported EBITDA conversion to pre-tax cash from operating activities 152% (2019: 89%)
- Customer debt collection period improved to 33 days (2019: 45 days)
- Capital expenditure 2% of revenue (2019: 2%)
- Net senior debt at period end reduced by £6.7 million to £24.8 million (2019: £31.5 million)
- £1.8m of funds used to fund Advanced Computer Systems (UK) Limited deferred consideration

Ian Fishwick, Chairman, commented:

"The AdEPT business has proved incredibly resilient in the period despite the headwinds created by the unique challenge of the Covid-19 pandemic. Our revenue balance between private (55% of total revenue) and public sector customers (45% of total revenue), and our continued laser focus on recurring revenue has underpinned the performance of AdEPT throughout the first half of FY21.

In the public sector our education customers faced unprecedented challenges in 2020 resulting from the Covid-19 pandemic. AdEPT supported over 4,000 schools in their transition to home schooling and remote working, and, AdEPT has helped over 300 schools migrate to the cloud - powered by Google G Suite or Microsoft 365. AdEPT is one of only a handful of suppliers that can provide both Google G Suite and Microsoft 365.

AdEPT Education has also had success building and deploying software that facilitates the placement of over 200,000 children annually with their chosen school, a solution called eAdmissions. A real success story that "is one of the best shared service stories in the public sector" to quote John Jackson, CEO of London Grid for Learning, a key partner in this initiative.

Across the NHS AdEPT has helped hundreds of Doctor's surgeries pivot to virtual surgeries, as they are now providing telephone-based triage of patients. Whilst for hospitals AdEPT has accelerated the flow of information across the NHS by providing new network capacity working with various partners such as Virgin, BT and Convergence Group.

Meanwhile, in the private sector our teams transformed businesses across the UK, facilitating remote access for home workers, migrating companies to the cloud and ensuring they have effective communications across diverse and remote locations. Despite the challenging environment AdEPT has also been able to win new logo business with a range of customers across various sectors including digital media, not-for-profit and private health.

The September 2020 interim results have been adversely impacted by some customers downsizing the services they take from AdEPT and the delay of projects as customers pause and evaluate the impact of the pandemic on their businesses.

The inability to conduct a range of project work on site also had an impact on H1 finances as AdEPT technicians were unable to gain access to customer premises during lockdown to conduct work. As a result, AdEPT has made use of the government Coronavirus Job Retention Scheme (furlough) scheme. Of note, as a conscientious employer AdEPT made good all of the salary shortfalls that our staff may have incurred as a result of the furlough scheme. Given that AdEPT utilised the furlough scheme the Executive Team voluntarily elected not to receive a bonus during this period, and AdEPT has elected not to pay a dividend – policies in line with good corporate governance at this unique time.

As we assist clients in their digital ambitions, AdEPT itself continues its own digital transformation on a journey to place the entire business on a common operating platform, a programme referred to as Project Fusion. Project Fusion continues to make excellent progress with over 60% of the workforce now on the platform. As a result, we are making huge strides against our mission to become One AdEPT.

Going forward we will focus on adding further value by: a) helping customers on a digital journey with AdEPT Consulting, b) providing an easy to consume cloud platform for applications and c) strengthening our successful AdEPT Nebula offering.

I'd like to take this opportunity to thank every one of our 300-person team for their great adaptability and commitment. We have proven to be operationally resilient during these times. For example, as lockdown was announced in March, the AdEPT team dealt with a ten-fold increase in service calls by clients. Yet, at the same time, received numerous customer commendations for their performance.

The second Covid-19 lockdown continues to make forecasting a challenge, however the underlying trends remain, and indeed are brought more into focus – with; digital transformation, a reliance on unified communication, the move to the cloud and a greater dependency on connectivity, all providing strong tailwinds for the AdEPT business as we move into 2021. Indeed our own primary research, conducted in association with Dell, supports this assertion. The research found that 53% of respondents felt IT was very important to their organisation, but only 37% felt their comms infrastructure was well prepared for a crisis in the future, with 92% feeling it is important / very important to improve their data network.

We remain reticent to publish guidance for the full year given the ongoing uncertainty. However, we continue to be encouraged by the key indicators of; new order intake, project delivery, cash collection and operational effectiveness which bode well for the remainder of this year."

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

Enquiries:

AdEPT Technology Group Plc	
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	

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

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

CHAIRMANS STATEMENT

BUSINESS REVIEW

In the six-month period ended 30 September 2020, AdEPT proved resilient in very tough trading conditions performing as the '4th utility' providing essential services across the Information Communications and Technology marketplace.

The revenue decline of 7.6% to £28.5 million (2019: £30.8 million) whilst frustrating for a business that has continuously grown year on year for 17 years still marks a creditable performance in the face of the pandemic challenge.

The conservation of cash has been a priority during the pandemic therefore no acquisitions were undertaken during the interim period. However, our recent acquisitions have continued to perform well as they have been fully integrated into AdEPT. The success of the most recent acquisition in April 2019, Advanced Computer Systems UK Limited ("ACS") is evidenced by the payment of the maximum value of the deferred consideration for this transaction (£1.8 million).

This acquired team, coupled with the existing AdEPT Education business, have been instrumental in delivering the Department for Education initiative to 'cloud enable' schools across the UK. AdEPT has helped over 300 schools to migrate to G Suite for Education or Office 365 Education as part of this Covid inspired transformation.

This public sector presence (45% of revenue) has cushioned AdEPT from the downside pressures brought about by the pandemic impacting the private sector. AdEPT has a modest presence in the sectors experiencing the most extreme challenges, namely transport & travel, leisure and high street retail.

During the period since September 2019 AdEPT successfully completed the roll-out of the Kent Health & Social Care Network, connecting speedily and securely over 400 NHS sites of varying shapes and sizes, from hospitals to care homes to doctors' surgeries. The interim period sees the full 6-month contribution of this project in revenue which is being recognised across the lifetime of the contract in line with IFRS 15.

Extending strong partnerships – adding 8x8 to the portfolio

In our last trading statement we were delighted to announce that AdEPT has been promoted by Avaya to the 'elite' Diamond status as a part of the Avaya Edge partner programme in the UK, reflecting our success in deploying Avaya solutions to clients such as the Health Corporation of America (HCA), Islington Borough Council and Redrow Homes. This Diamond status brings reduced costs, greater bid support and accelerated rebates.

In an initiative to broaden our cloud hosted voice portfolio AdEPT recently signed a partnership with 8x8. A Gartner Magic Quadrant leader for Unified Communications as a Service (2019 Gartner Magic Quadrant for UCaaS Report). Soon after agreeing the partnership, demonstrating the relevance of this initiative, AdEPT secured a project for a 200-seat contact centre at Fortius Clinic. A new client win that proved both the demand for the solution and the suitability of our partnership.

Enhancing our Strategic Offerings

AdEPT recognises the need to constantly evolve to support our clients. Three specific areas will receive focus and investment over the coming months. These are:

- AdEPT Consulting – an initiative to help customers move to a secure environment for their workforce across disparate locations, in a cloud enabled landscape. This team is focusing on; security risk assessments, cloud migrations and network resilience.
- Extending cloud services – providing hosted SIMS for education clients and hosted Sage for small to medium enterprises, deployed on the AdEPT Nebula platform.
- Strengthening AdEPT Nebula – Nebula is the AdEPT owned platform that supports over 250 customers who take various services from our portfolio of; Nebula Cloud, Nebula Security, Nebula BC/DR, Nebula Voice, Nebula Apps and Nebula Network.

Our recently published primary research, conducted in association with Dell, provides encouragement for these initiatives. With 80% of respondents stating that increasing their level of IT support is either important or very important to their organisation.

As indicated in the April 2020 trading statement AdEPT has used available Government support schemes including the Coronavirus Job Retention Scheme with grants of £0.3 million received in the interim period. At the peak in April 2020 AdEPT had some 70 employees of furlough, although a return of customer demand resulted in virtually all of these employees returning to work before the end of June 2020. Currently the Company has only 1 employee who remains on furlough. In addition, the Company deferred the Q1 VAT payment, but noting that this amount needs to be caught up by the end of the 2020/21 tax year. This is purely a cash flow timing impact and has moved £1.3 million of cash outflow from the first 6 months to the second half of the year ending March 2021.

Creating One AdEPT – Project Fusion

The AdEPT team has made continued progress on the 'One AdEPT' project, christened 'Project Fusion'. An all-encompassing programme enhancing sales, marketing, financial control and operational systems. This solution set is now powering over 60% of the entire AdEPT workforce, whilst the AdEPT brand is now intrinsic to the entire business with the group-wide AdEPT website (www.adept.co.uk) generating an increasing number of leads for the AdEPT sales force.

REVENUE
Total revenue in the period decreased by 7.6% to £28.5 million (2019: £30.8 million). Revenue was impacted adversely due to the Covid-19 pandemic and related lockdown actions taken by the UK Government. These actions affected; a) the ability of AdEPT technicians to attend site, b) the flow of new business due to reduced tendering for new work across both the public and private sector marketplaces, c) the impact on business confidence and d) the call revenue of business customers during lockdown.

Despite these unique challenges AdEPT recurring revenues increased to 78% of total revenue (2019: 75%) and, whilst some customers ceased to trade and closed down sites, the majority of AdEPT customers are weathering the Covid storm, albeit there was understandable shrinkage across some accounts.

The focus of the Group on Managed Services is reflected in the proportion of revenues from this arena at 82% (2019: 82%) translating to £23.4 million (2019: £25.1 million), demonstrating our capability in the in-demand arenas of; IT, unified communications, data connectivity and cloud services. AdEPT is increasingly a ‘4th utility’ for our customers.

A comparison of September 2020 and the prior period shows a fixed line revenue reduction of 10.9% which is in line with industry trends, as customers transition to communicating via video conferencing and unified communication platforms provided by AdEPT such as; Microsoft (Teams), 8x8 (X Series), or Avaya (Spaces). AdEPT, with its expanded IT and unified communications portfolio, is well positioned to embrace customer migration to next generation products and services. The absolute revenue of calls & lines revenues did experience an exceptional drop during the April and May period due to lockdown, as business traffic dropped by 27% (a reduction of £77,000 per month from March 2020 levels) however this revenue has largely recovered back to expected levels, although the impact of the second UK lockdown has yet to be understood.

A highlight of the first half has been the success of the AdEPT Education cloud migration activities, in support of the Department for Education (DfE) initiative, bringing a substantial professional services uplift of approximately £0.4 million.

GROSS MARGIN
The gross profit margin for the six-month period ended 30 September 2020 was 48.3%, which is a marginal increase from the 48.0% achieved in the comparative period. Gross margins in fixed line and managed services have remained in line with the comparative period.

One-off gross margins have improved to 45.4% (2019:37.0%) with an increase in professional services, offsetting a reduction in recurring margins to 51.9% (2019: 52.9%). The pressure on recurring margin is partly from the Covid reductions in high margin services, such as a) call volumes, b) downsizing and termination of IT support contracts from customers in sectors under pressure from Covid-19. This was combined with an increased blend of lower margin longer-term public sector data connectivity contracts. Additionally, it reflects the impact of our success in reducing the network cost base for one of our large and strategic clients’ as part of a technology transition – a project that in turn saw them commit to a further three years of services but on a lower margin contract.

UNDERLYING EBITDA
Underlying EBITDA of £5.2 million represents a 14.2% reduction from the comparative period (2019: £6.1 million). The £0.9 million reduction reflects the £1.0 million reduction to gross margin with only a small offset from reduced operating costs. The view of the Board is that Covid is a temporary situation and therefore a mass restructuring and realignment of the operating cost base was not warranted unless it became apparent that the pandemic was going to last for a substantially longer period.

Despite the reduction to gross margin from the reduced demand during the Covid lockdown impacting underlying EBITDA, the EBITDA margin achieved was strong at 18.4% (2019: 19.8%) demonstrating the strength of the business model which is underpinned by a high proportion of recurring revenue (78%).

PROFIT BEFORE TAX AND EARNINGS PER SHARE
Reported profit before tax decreased to £0.02 million (2019: £1.1 million). The comparative period includes £0.4 million of gains on revaluation of deferred consideration, which is a non-trading item. The current period includes £0.5 million of restructuring costs in relation to the streamlining of the headcount of the business as a result of operational efficiencies delivered by Project Fusion.

£0.3 million decrease in interest charges as result of using positive trading cash flow to reduce average net borrowings. The interest cost in the statement of comprehensive income of £1.1 million includes several non-cash items, such as discounting of the estimated contingent deferred consideration for acquisitions and the amortisation of bank facility fees. The interest cost of £0.8 million in the cash flow statement is a better measure of the cash costs of financing.

Adjusted profit after tax (before one off acquisition fees, restructuring costs and amortisation) was £2.9 million (2019: £3.6 million) which is a reflection of the £0.9 million EBITDA reduction, less the £0.3 million interest costs reduction arising from the lower average net debt position.

Adjusted diluted earnings per share, taking into account the share options in issue and the potential dilutive effect of the BGF convertible instrument under the treasury stock accounting method, decreased by 25.2% to 11.4p (2019: 15.3p). In February 2020, the Company completed a share placing, issuing 1,328,125 ordinary shares at a price of 320p raising £4.25 million gross funds. Considering the uncertain trading conditions arising from Covid-19 these funds were used to reduce senior debt as the Board prudently decided to place on hold acquisition activity. Therefore, as a result the additional shares have provided dilution to the earnings per share of 5.5% with the balance of the dilution arising from the reduction in adjusted EBITA.

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 152% (2019: 89%). This cash conversion figure is flattered by the Company deferring the Q1 VAT payments through to Q4 of the current financial year in line with the HMRC financial support guidance under Covid-19. The deferral value was £1.3 million, which if adjusted gives underlying operating cash conversion from reported EBITDA of 124% (2019: 89%).

In addition, despite the economic pressures arising from Covid-19, the Group has focused on cash management and is pleased to have delivered a significant reduction in working capital during the 6 months ended 30 September 2020, with a net cash inflow of £2.4 million since March 2020. This has been primarily achieved through a reduction in collection periods from 47 days at March 2020 to 33 days at September 2020, although it should be noted that this partly reflects a reversal of the £1.5 million working capital extension at March 2020 and contributes to the exceptionally high proportion of cash generated from operating activities in the interim period.

In May 2020, the Group paid the deferred consideration of £1.8 million in respect of the Advanced Computer Systems (UK) Limited acquisition, with no further amounts due.

The Group drew down in full the revolving credit facility in March 2020 as a prudent measure considering the potential trading disruption for Covid-19 to ensure sufficient access to cash facilities. As a result of strong customer credit collection and resilient trading in the interim period, the Group repaid this drawn amount and further additional amounts were repaid, with £10 million reduction to the revolving credit facility since March 2020.

Cash interest paid in the interim period reduced by £0.1 million (11%), which is a reflection of a lower level of average net borrowings compared to the prior interim period as a result of lower acquisition and dividend outflows.

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'.

CAPITAL EXPENDITURE
The Group continues to operate an asset-light strategy and has low capital requirements; therefore, expenditure on fixed assets is low at 2% of revenue. The Group used £0.3 million of cash on capital expenditure of tangible fixed assets and includes;

a. the refurbishment of our Tunbridge Wells Head Office
b. the investment in support of Project Fusion; and
c. further investment in the development of the AdEPT Nebula platform – specifically increases in both the data storage and the processor capability

The major item during the period was £0.25m spent on extending the storage capacity of the AdEPT Nebula data centre in Orpington as a result of increasing customer demand. AdEPT Nebula is centered on the core data centre in Orpington which is owned by AdEPT. AdEPT Nebula allows AdEPT to provide its own cloud hosting capability and is the foundation for the following portfolio; Nebula Cloud, Nebula Security, Nebula BC/DR, Nebula Voice, Nebula Apps and Nebula Network.

AdEPT Nebula is delivering benefits to around 250 customers and 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, with the most recent additions being the provision of hosted voice capability in partnership with both Avaya and Pragma (LG Ericsson) and the creation of a hosted SIMS proposition (SIMS is a Management Information System widely used by schools).

A further £0.3 million was spent in the period on intangible assets, which is the continued investment in Project Fusion and includes the cost of third-party consultancy and some capitalisation of the salary costs of the internal development team for time dedicated to delivering the project. The progress on the Group-wide CRM has continued at a pace, and it is now live in 7 of the 8 AdEPT operating sites. In addition, the Group is transitioning to a centralised finance platform which is hosted in the AdEPT Nebula network, with four operating sites already live and two further operating sites expected to go live before the end of the 2020 calendar year.

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 £7.0 million was generated during the 6 months ended 30 September 2020 (2019: £3.5 million). The current period includes £0.5 million of non-recurring costs in relation to restructuring costs.

Senior net debt at 30 September 2020 was £24.8 million which is a reduction of £6.7 million from the comparative period (2019: £31.5 million) and represents a senior leverage ratio of 2.4x adjusted EBITDA (2019: 2.6x).

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 £5 million 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. As a result, the Group has a £40 million revolving credit facility in place until February 2022. In addition, the July 2020 agreement contained an extension to the leverage and interest cover covenants included in the original bank facility to provide additional headroom for the Group 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.

DIVIDENDS

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. 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 and which was due to be paid in April 2020. The Board will continue to monitor the ever-changing economic environment and adopt an appropriate dividend for future periods, but at this time doesn't consider it appropriate to declare an interim dividend and will provide a further update alongside the trading update ahead of the March 2021 full year results.

ACQUISITIONS

The history of AdEPT contains many examples of successful earnings enhancing acquisitions with the most recent, ACS, demonstrating yet again the ability of the Group to identify and integrate a successful business for the benefit of the acquired team and their respective clients.

Despite electing to curtail its acquisition activities during this uncertain period covered by the interim results, AdEPT will remain a consolidator in the marketplace and we continue to evaluate suitable targets and will return to this successful aspect of our business strategy when the time is right.

OUTLOOK

In the face of tremendous challenges since the announcement of lockdown by the Government in March of this year the entire AdEPT team has performed brilliantly. Empowering thousands of customers to work from home, with a ten-fold increase in requests for help, whilst maintaining a high-quality service, working in a constantly changing climate whilst also being part of an internal digital transformation project. This is a huge challenge that the AdEPT team has risen to with exceptional results.

The success of AdEPT is a result of the collective effort of over 300 talented individuals who continue their mission of "uniting technology, inspiring people" and I would like to take the opportunity to thank this team for their tremendous contribution and hard work - they are instrumental to our success. This breadth of expertise provides an excellent platform for our future growth.

AdEPT has a full suite of managed services and is now embracing the continuing convergence between IT and Telecoms, a solution set that has proved invaluable to many businesses throughout this pandemic. Coupled with a consulting team that can help customers achieve their ambitions, AdEPT Nebula to integrate services in a cost-effective way, and powerful partnerships that allow AdEPT to deliver sophisticated solutions for clients. These attributes make AdEPT well placed to succeed over future years.

The Board is very pleased with the progress being made by the Group in incredibly difficult trading conditions. We continue to be highly cash generative with a fully supportive investor base and funding partners, which we hope – when the time is right – will enable the Board to yet again act on earnings-enhancing acquisitions whilst returning to a progressive dividend policy. Given the ongoing uncertainty regarding the duration of the Covid-19 outbreak as we are in the second UK lockdown period, the Board is unable to provide guidance for the year ending 31 March 2021 at this time.

Ian Fishwick
Chairman

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Six months ended 30 September 2020 £'000**	Six months ended 30 September 2019 £'000
REVENUE		**28,488**	30,818
Cost of sales		**(14,721)**	(16,021)
GROSS PROFIT		**13,767**	14,797
Administrative expenses		**(12,689)**	(12,363)
OPERATING PROFIT		**1,078**	2,434
Total operating profit – analysed:			
Operating profit before acquisition fees, share-based payments, depreciation and amortisation		**5,238**	6,106
Share-based payments		**(33)**	(40)
Acquisition fees		**-**	(239)
Restructuring costs		**(480)**	(236)
Revaluation of deferred consideration		**-**	385
Depreciation of tangible fixed assets		**(741)**	(681)
Amortisation of intangible fixed assets		**(2,906)**	(2,861)
Total operating profit		**1,078**	2,434
Finance costs		**(1,060)**	(1,289)
Finance income		**-**	-
PROFIT BEFORE INCOME TAX		**18**	1,145
Income tax expense		**(319)**	(279)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(301)**	866
Attributable to:			
Equity holders		**(301)**	866
Earnings per share			
Basic earnings per share (pence)	3	**(1.2)p**	3.7p
Diluted earnings per share (pence)	3	**(1.2)p**	3.6p
Adjusted earnings per share, after adding back acquisition fees, amortisation and non-recurring costs			
Basic earnings per share (pence)	3	**11.4p**	15.4p
Diluted earnings per share (pence)	3	**11.4p**	15.3p

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2020 £'000	Restated 30 September 2019 £'000	*Audited 31 March 2020 £'000*
ASSETS			
Non-current assets			
Goodwill	**17,408**	17,182	*17,408*
Intangible assets	**39,354**	44,520	*41,952*
Property, plant and equipment	**2,707**	2,740	*2,700*
Deferred tax asset	-	43	-
	59,469	64,485	*62,060*
Current assets			
Inventories	**900**	696	*612*
Contract assets	**1,144**	1,562	*1,379*
Trade and other receivables	**12,250**	13,787	*14,965*
Cash and cash equivalents	**5,065**	4,575	*11,849*
	19,360	20,620	*28,535*
Total assets	**78,829**	85,105	*90,595*
LIABILITIES			
Current liabilities			
Trade and other payables	**13,429**	17,585	*14,979*
Contract liabilities	**2,194**	2,222	*2,502*
Income tax	**574**	406	*156*
Short term borrowings	**82**	29	*54*
	16,280	20,242	*17,691*
Non-current liabilities			
Deferred income tax	**7,473**	7,152	*7,738*
Convertible loan instrument	**6,429**	6,255	*6,340*
Long term borrowings	**29,864**	36,044	*40,444*
Total liabilities	**60,744**	69,693	*72,213*
Net assets	**18,115**	15,412	*18,382*
SHAREHOLDERS' EQUITY			
Share capital	**2,503**	2,370	*2,503*
Share premium	**4,378**	479	*4,378*
Share capital to be issued	**1,141**	1,119	*1,108*
Capital redemption reserve	**18**	18	*18*
Retained earnings	**10,076**	11,426	*10,375*
Total equity	**18,115**	15,412	*18,382*

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of parent					
	Share capital £'000	**Share premium £'000**	**Share capital to be issued £'000**	**Capital redemption reserve £'000**	**Retained earnings £'000**	**Total equity £'000**
Equity at 1 April 2019	**2,370**	**479**	**1,079**	**18**	**11,789**	**15,735**
Change of accounting policy (Note 2)	-	-	-	-	(36)	(36)
Adjusted equity at 1 April 2019	**2,370**	**479**	**1,079**	**18**	**11,753**	**15,698**
Profit for 6 months ended 30 September 2019	-	-	-	-	866	866
Dividend	-	-	40	-	-	40
Share based payments	-	-	-	-	(1,195)	(1,195)
Equity at 30 September 2019	**2,370**	**479**	**1,119**	**18**	**11,426**	**15,412**
Profit for 6 months ended 31 March 2020	-	-	-	-	120	120
Dividend	-	-	-	-	(1,129)	(1,129)
Deferred tax asset adjustment	-	-	-	-	(41)	(41)
Issue of new equity	133	3,899	-	-	-	4,032
Share based payments	-	-	(11)	-	-	(11)
Balance at 31 March 2020	**2,503**	**4,378**	**1,108**	**18**	**10,375**	**18,382**
Profit for 6 months ended 30 September 2020	-	-	-	-	(301)	(301)
Share based payments	-	-	33	-	-	33
Balance at 30 September 2020	**2,503**	**4,378**	**1,141**	**18**	**10,076**	**18,115**

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September 2020 £'000	Six months ended 30 September 2019 £'000	*Audited Year ended 31 March 2020 £'000*
Cash flows from operating activities			
Profit before income tax	**19**	1,146	*1,971*
Depreciation and amortisation	**3,647**	3,542	*7,285*
Adjustment to deferred consideration	**-**	(385)	*(653)*
(Profit)/loss on sales of fixed assets	**(13)**	-	*(17)*
Share based payments	**33**	40	*29*
Net finance costs	**1,060**	1,287	*2,523*
Decrease/(Increase) in inventories	**(287)**	(129)	*(45)*
Decrease/(increase) in trade and other receivables	**2,655**	(3,292)	*(4,072)*
Increase/(decrease) in trade and other payables	**69**	3,133	*2,604*
Cash generated from operations	**7,182**	5,343	*9,625*
Income taxes paid	**(193)**	(1,252)	*(2,018)*
Net cash from operating activities	**6,989**	4,091	*7,607*
Cash flows from investing activities			
Interest paid	**(841)**	(936)	*(1,861)*
Acquisition of subsidiaries net of cash acquired	**(1,798)**	(5,191)	*(6,285)*
Purchase of intangible assets	**(288)**	(125)	*(419)*
Purchase of property, plant and equipment	**(349)**	(415)	*(706)*
Net cash used in investing activities	**(3,276)**	(6,667)	*(9,271)*
Cash flows from financing activities			
Dividends paid	**-**	(1,194)	*(2,323)*
Payments of lease liabilities	**(447)**	(569)	*(837)*
Increase in bank loan	**-**	3,800	*5,000*
Repayment of borrowings	**(10,050)**	(2,535)	*(9)*
Issue of new equity	**-**	-	*4,032*
Net cash (used in)/from financing activities	**(10,497)**	(499)	*5,863*
Net increase/(decrease) in cash and cash equivalents	**(6,784)**	(3,075)	*4,199*
Cash and cash equivalents at beginning of period/year	**11,849**	7,650	*7,650*
Cash and cash equivalents at end of period/year	**5,065**	4,575	*11,849*
Cash at bank and in hand	**5,065**	4,575	*11,849*
Bank overdrafts	**-**	-	*-*
Cash and cash equivalents	**5,065**	4,575	*11,849*

ACCOUNTING POLICIES

1 Basis of preparation

The financial information set out in this interim report, which has not been audited, does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Company's statutory financial statements for the year ended 31 March 2020, prepared under International Financial Reporting Standards, were approved by the board of directors on 7 August 2020 and have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified, did not contain any emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

The interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”, as adopted by the EU. Comparatives for the year ended 31 March 2020 have been extracted directly from the audited statutory accounts and the figures presented in the statement of comprehensive income in this interim report for comparative periods have not been restated to take account of the change in accounting policy in respect of IFRS 16 ‘Leased assets’, details of which are set out in Note 2 below.

2 Accounting policies

The same accounting policies, presentation and methods of computation are followed in this interim report as were applied in the preparation of the Group’s annual financial statements for the year ended 31 March 2020.

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 an 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 right 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. Right 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 asset – 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 £1,717,468 of right-of-use assets and £1,753,484 of lease liabilities, recognising the difference of £36,016 as an opening adjustment to equity at 1 April 2019.

	1 April 2019 £’000
Operating lease commitment at 31 March 2019 as disclosed in the Group’s consolidated financial statements	2,347

Discounted using the weighted average cost of capital at 1 April 2019	(475)
Lease liabilities recognised at 1 April 2019	**1,872**

3 Earnings per share

	6 months ended		
		Restated	*Year ended*
	30 September	30 September	*31 March*
	2020	2019	*2020*
	£'000	£'000	*£'000*
Earnings for the purposes of basic and diluted earnings per share			
Profit for the period attributable to equity holders of the parent	**(301)**	866	*985*
Add: amortisation	**2,906**	2,861	*5,772*
Less: taxation on amortisation of purchased customer contracts	**(59)**	(59)	*(117)*
Less: deferred tax credit on amortisation charges	**(291)**	(380)	*(235)*
Add: share option charges	**33**	40	*29*
Add: acquisition fees and restructuring costs	**480**	475	*555*
Less: revaluation of deferred consideration	**-**	(385)	*(654)*
Add: interest unwind on loan note and deferred consideration	**89**	224	*381*
Adjusted profit attributable to equity holders of the parent, adding back acquisition fees and amortisation	**2,858**	3,642	*6,717*
Number of shares			
Weighted average number of shares used for earnings per share	**25,029,957**	23,701,832	*23,812,509*
Dilutive effect of share plans	**11,437**	162,561	*133,146*
Diluted weighted average number of shares used to calculate fully diluted earnings per share	**25,041,394**	23,864,393	*23,945,655*
Earnings per share			
Basic earnings per share (pence)	**(1.2)p**	3.7p	*4.1p*
Fully diluted earnings per share (pence)	**(1.2)p**	3.6p	*4.1p*
Adjusted earnings per share, after adding back acquisition fees, amortisation and non-recurring costs			
Adjusted basic earnings per share (pence)	**11.4p**	15.4p	*28.2p*
Adjusted fully diluted earnings per share (pence)	**11.4p**	15.3p	*28.1p*

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

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

Fully diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares by existing share options, assuming dilution through conversion of all existing options.

4 Segmental information

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

Unaudited Unaudited

	6 months ended 30 September 2020				6 months ended 30 September 2019			
	Fixed line services	**Managed services**	**Central costs**	**Total**	Fixed line services	Managed services	Central costs	Total
Revenue	**5,082**	**23,406**	**-**	**28,488**	5,706	25,112	-	30,818
Gross profit	**2,040**	**11,727**	**-**	**13,767**	2,253	12,544	-	14,797
Gross margin %	**40.1%**	**50.1%**	**-**	**48.3%**	39.5%	50.0%	-	48.0%
EBITDA	**905**	**4,333**	**-**	**5,238**	1,106	5,000	-	6,106
EBITDA %	**17.8%**	**18.5%**	**-**	**18.4%**	19.4%	19.9%	-	19.8%
Amortisation	**(808)**	**(2,098)**	**-**	**(2,906)**	(787)	(2,074)	-	(2,861)
Depreciation	**-**	**-**	**(741)**	**(741)**	-	-	(681)	(681)
Revaluation on deferred consideration	**-**	**-**	**-**	**-**	-	-	385	385
Acquisition costs	**-**	**-**	**-**	**-**	-	-	(239)	(239)
Restructuring costs	**-**	**-**	**(480)**	**(480)**	-	-	(236)	(236)
Share-based payments	**-**	**-**	**(33)**	**(33)**	-	-	(40)	(40)
Operating profit/(loss)	**97**	**2,235**	**(1,254)**	**1,078**	319	2,926	(811)	2,434
Finance costs	**-**	**-**	**(1,060)**	**(1,060)**	-	-	(1,289)	(1,289)
Income tax	**-**	**-**	**(319)**	**(319)**	-	-	(279)	(279)
Profit after tax	**97**	**2,235**	**(2,633)**	**(301)**	319	2,926	(2,379)	866

	Audited Year ended 31 March 2020			
	Fixed line services	*Managed services*	*Central costs*	*Total*
Revenue	*11,463*	*50,225*	-	*61,688*
Gross profit	*4,541*	*24,850*	-	*29,391*
Gross margin %	*39.6%*	*49.5%*	-	*47.6%*
EBITDA	*2,277*	*9,432*	**-**	*11,709*
EBITDA %	*19.9%*	*18.8%*	**-**	*19.0%*
Amortisation	*(1,573)*	*(4,199)*	-	*(5,772)*
Depreciation	-	-	*(1,513)*	*(1,513)*
Revaluation on deferred consideration	-	-	*654*	*654*
Acquisition costs	-	-	*(267)*	*(267)*
Restructuring costs	-	-	*(288)*	*(288)*
Share-based payments	-	-	*(29)*	*(29)*
Operating profit/(loss)	*704*	*5,233*	*(1,443)*	*4,494*
Finance costs	-	-	*(2,523)*	*(2,523)*
Income tax	-	-	*(986)*	*(986)*
Profit after tax	*704*	*5,233*	*(4,952)*	*985*

The assets and liabilities relating to the above segments have not been disclosed as they are not separately identifiable and are not used by the chief operating decision maker to allocate resources. All segments are in the UK and all revenue relates to the UK. For the six months ended 30 September 2020, transactions with the largest customer of the Group accounted for 7.6% of revenue (2019: 7.4%).

5 Share options

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

	6 months ended 30 September 2020		6 months ended 30 September 2019		*Year ended 31 March 2020*	
	Number	**Weighted**	Number	Weighted	*Number*	*Weighted*

	of shares under option	**average exercise price**	of shares under option	average exercise price	*of shares under option*	*average exercise price*
Outstanding at start of period	**3,162,448**	**361p**	2,925,428	361p	*2,925,428*	*361p*
Granted during the period	**-**	**-**	100,000	355p	*337,018*	*339p*
Forfeited during the period	**(16,180)**	**223p**	(100,000)	353p	*(100,000)*	*353p*
Exercised during the period	**-**		-		*-*	*-*
Outstanding at end of period	**3,146,268**	**361p**	2,925,428	361p	*3,162,448*	*359p*

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

	30 September 2020	30 September 2019	*31 March 2020*
Risk free interest rate	**1.86%**	1.38%	*1.62%*
Expected volatility	**10.0%**	15.0%	*12.5%*
Expected option life (years)	**3.0**	3.0	*3.0*
Expected dividend yield	**2.8%**	2.8%	*2.8%*
Weighted average share price	**330p**	355p	*340p*
Weighted average exercise price	**330p**	355p	*340p*
Weighted average fair value of options granted	**17p**	28p	*20p*

The expected average volatility was determined by reviewing the historical fluctuations in the share price prior to the grant date of each share instrument. An expected take up of 100% has been applied to each share instrument. Expected dividend yield is estimated at 2.8% which is based upon the historical dividend yield. It does not bear any relation to the future dividend policy of AdEPT Technology Group plc.

The mid-market price of the ordinary shares on 30 September 2020 was 235p and the range during the period was 51.5p.

The share option expense recognised during the period in the statement of comprehensive income was £32,807 (September 2019: £39,986).