
redcentric

AGILE • AVAILABLE • ASSURED

PRELIMINARY RESULTS

2024





Agenda

Introductions

Financial review

Operational review and strategy update

Summary & outlook



Financial review

David Senior – Chief Financial Officer



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Financial performance – revenue and profitability

Revenue

£163.2m (+15%)

Recurring revenue of £149.1m (+16%) equivalent to 91% of total revenue (FY23: 91%)

Adjusted operating costs

£89.7m (+17%)

Operating cost increase largely reflects full year impact of additional costs associated with acquired businesses (including electricity)

Adjusted EBITDA

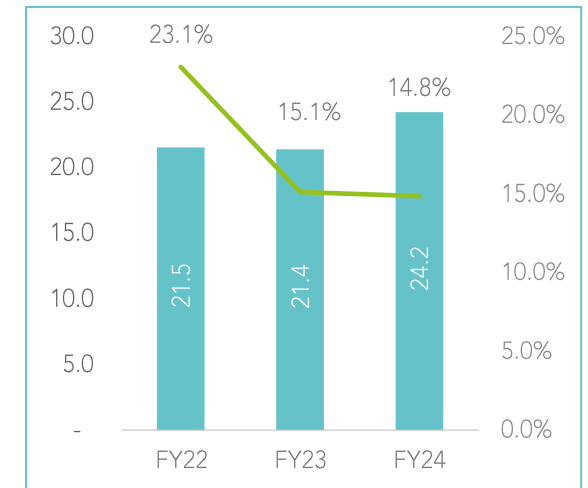
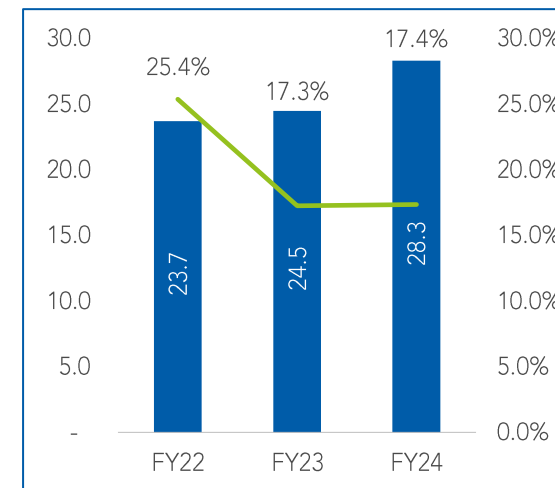
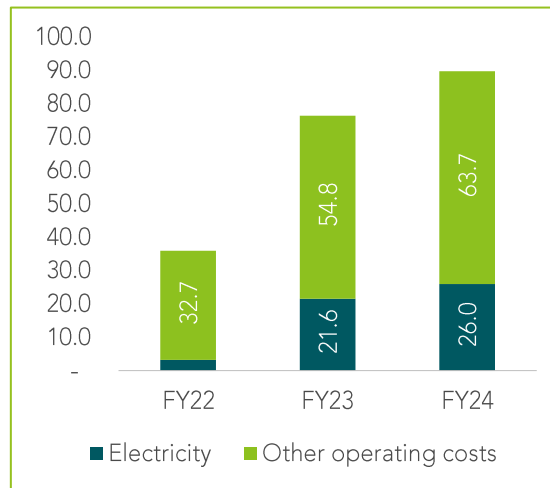
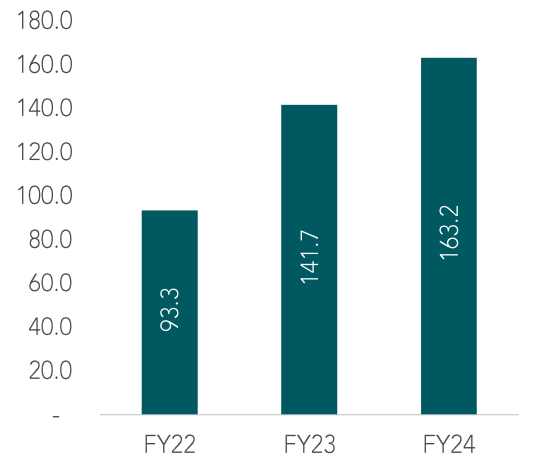
£28.3m (+16%)

Adjusted EBITDA margin of 17% (FY23: 17%)
Consistent year on year EBITDA margin performance in first full year post acquisitions

Adjusted EBITDA less maintenance capex

£24.2m (+13%)

Maintenance Capex increased to £4.1m (FY23: £3.1m) reflecting investment in network infrastructure and improvements to Data centre metering

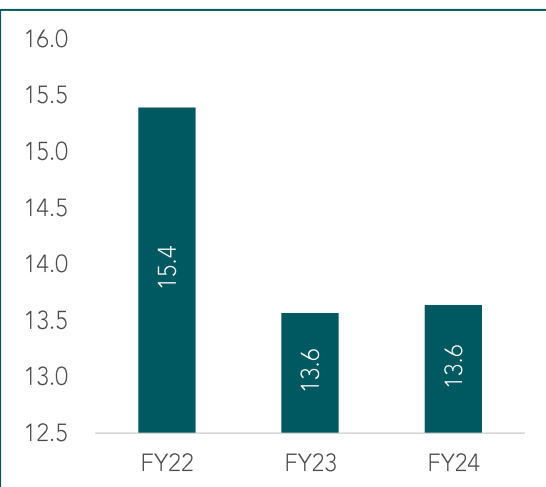


Financial performance – liquidity & earnings

Normalised net cash / (debt) movement

£13.6m (+1%)

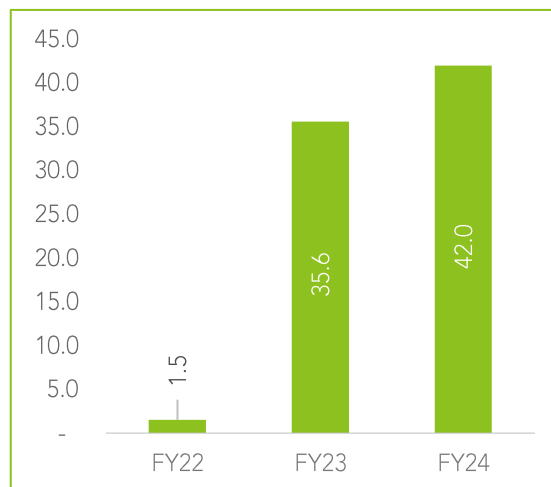
Consistent year on year movement reflects improved cash generated in operations offset by increased capex and interest payments



Net bank debt

£42.0m (+18%)

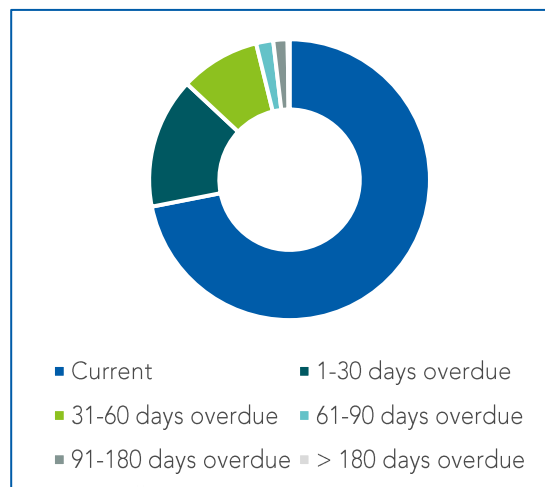
Increase of £6.4m reflecting cash cost of capex and exceptional items associated with data centre rationalisation



Trade debtors

£18.2m (-10%)

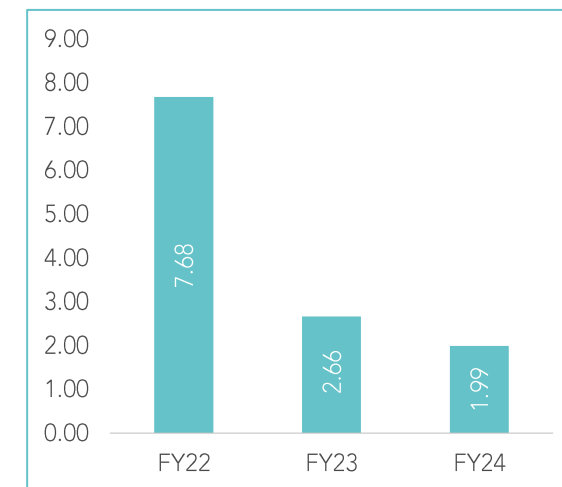
Excellent trade debt profile with 87% aged 30 days or less (FY23: 96%)



Adjusted earnings per share

1.99p (-25%)

Reduction in adjusted EPS reflects the operating profit of £0.9m (FY23: £8.9m loss) offset by reduction in exceptional items £2.5m (FY23: £8.1m)



Group Income Statement

	FY23 £'m	FY24 £'m	Movement %
Revenue	141.7	163.2	15%
Cost of sales	(40.8)	(45.1)	11%
Gross profit	100.9	118.0	17%
<i>Gross margin</i>	<i>71.2%</i>	<i>72.3%</i>	
Electricity costs	(21.6)	(26.0)	20%
Other op costs	(54.8)	(63.7)	16%
Adjusted EBITDA	24.5	28.3	16%
<i>EBITDA Margin</i>	<i>17.3%</i>	<i>17.4%</i>	
Tangible depn	(4.6)	(6.1)	31%
Intangible amort	(8.8)	(6.0)	(31%)
ROU depn	(10.6)	(11.8)	11%
Exceptional costs	(8.1)	(4.6)	(44%)
Exceptional income	-	2.1	
Share based payments	(1.3)	(1.1)	(9%)
Interest	(3.5)	(5.5)	56%
PBT	(12.5)	(4.7)	63%
Taxation	3.2	1.2	62%
PAT	(9.3)	(3.4)	63%

- Total revenue was £163.2m (FY23: £141.7m) with recurring revenue of £149.1m (FY23: £128.5m), the proportion of recurring revenue is ahead of prior period at 91.4% (FY23: 90.7%).
- Gross profit reflects revenue performance with an improvement in margin, now 72.3% (FY23: 71.2%) reflecting contributions from higher margin Cloud business.
- Operating costs were £13.3m higher than the prior period reflecting the full year impact of Sungard and 4D acquisitions and higher electricity volumes. The majority of this year-on-year increase came via electricity costs (£4.4m), staff costs (£4.7m) and network costs (£2.5m).
- Adjusted EBITDA was £28.3m (FY23: £24.5m) with adjusted EBITDA margins slightly increasing to 17.4% (FY23: 17.3%).
- Adjusted EBITDA increased by £3.8m (16%) year-on-year.

Net Debt

	FY23 £'m	FY24 £'m	Movement %
Adjusted EBITDA	24.5	28.3	16%
Working capital	(1.4)	0.1	(108%)
Profit on disposal of FA	-	(0.1)	
Cash movement on provisions	-	(1.0)	
Cash generated from operations	23.1	27.4	19%
Capital expenditure	(5.4)	(8.3)	54%
Corporation tax	(0.7)	(0.2)	(74%)
Interest paid on RCF & term loans	(1.8)	(3.6)	86%
Finance lease interest	(1.2)	(1.3)	28%
Loan arrangement fees/amortisation	(0.3)	(0.2)	(28%)
Exchange rate effect	(0.1)	(0.1)	8%
Other movements in net debt	(4.1)	(5.4)	32%
Normalised net debt movement	13.6	13.6	1%
Cash cost of exceptional items	(8.3)	(4.2)	
Acquisitions (net of cash acquired)	(26.6)	(0.9)	
IFRS 16 modifications	(29.7)	(4.2)	
Utilisation of asset finance facility	-	(2.4)	
Dividends	(5.6)	(1.4)	
Disposal of treasury shares	0.2	0.1	
Net decrease (increase) in net debt	(56.3)	0.6	(101%)
Net debt at the beginning of the period	(16.6)	(73.0)	338%
Net debt at the end of the period	(73.0)	(72.4)	(1%)

During the year, net debt reduced by £0.6m to £72.4m reflecting predominantly:

- Operating cash inflows of £27.4m (97% operating cash conversion);
- Capex of £8.3m is net of £2.4m of proceeds via the financing of PPE through the asset financing facility and £1.0m of assets procured through a finance lease. The gross £11.8m capex spend reflects customer capex of £4.1m, £4.1m of maintenance capex and £3.6m relating to data centre rationalisation and efficiency measures;
- Interest of £4.9m including finance lease interest of £1.3m;
- £4.2m of new IFRS 16 lease obligations;
- Cash cost of exceptional items predominantly relating to data centre rationalisation, of £4.2m; and
- Dividends paid of £1.4m.
- Adjusted net debt increased by £6.4m to £42.0m predominantly reflecting the above capex and exceptional items incurred as a result of the data centre rationalisation.

Balance Sheet

Summary balance sheet

- The net asset position has reduced compared to the prior period, predominantly due to reduction in intangible and ROU assets.

	FY23 £'m	FY24 £'m	Movement %
Intangible assets	83.2	78.9	(5%)
Property, plant and equipment	17.1	21.4	25%
ROU assets	46.3	37.5	(19%)
Other non-current assets	-	3.3	
Current assets	43.0	37.8	(12%)
Deferred income	(8.3)	(10.0)	20%
Other current liabilities	(35.2)	(32.2)	(9%)
Provisions	(16.0)	(12.4)	(23%)
Deferred tax	1.1	2.5	133%
Net debt	(73.0)	(72.4)	(1%)
Net assets	58.2	54.5	(6%)

Net debt analysis

- Adjusted net debt of £42.0m as at 31 March 2024 (FY23: £35.6m).
- Main year on year movements reflect:
 - Finance lease liabilities taken on to finance certain capex projects
 - Cash costs of capex and exceptionals associated with data centre rationalisation
- Senior bank debt at the year-end was £39.9m (including £0.2m amortised loan fee).

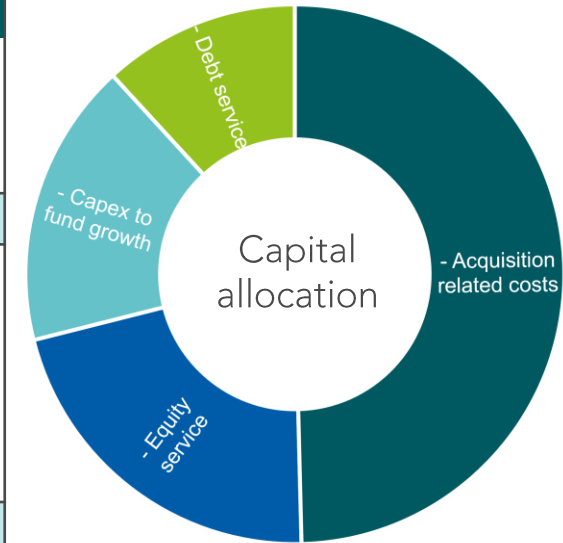
	FY23 £'m	FY24 £'m	Movement %
Cash	1.4	3.1	129%
Revolving credit facility	(33.6)	(39.9)	19%
Lease liabilities that would have been classified as finance leases under IAS 17	(3.4)	(1.6)	124%
Asset financing liability	-	(3.6)	(18%)
Net bank cash / (debt)	(35.6)	(42.0)	18%
Term loans / Supplier loans	(0.5)	(0.0)	(96%)
Lease liabilities that would have been classified as operating leases under IAS 17	(36.9)	(30.4)	(18%)
Statutory Net Debt	(73.0)	(72.4)	(1%)

Bank debt, cash and capital allocation

Cash Flows	FY22 Actual £'000s	FY23 Actual £'000s	FY24 Actual £'000s	FY25 Cavendish £'000s	FY26 Cavendish £'000s	FY27 Cavendish £'000s
Adjusted EBITDA	23,713	24,490	28,315	39,500	42,400	45,500
- IFRS16 lease charge under IAS17	(3,023)	(9,467)	(9,909)	(9,500)	(9,200)	(9,200)
Pre IFRS 16 EBITDA	20,690	15,023	18,407	30,000	33,200	36,300
Operating cash flow movements*	(5,154)	(3,864)	(1,714)	(1,000)	(1,000)	(1,800)
- MSP Maintenance capex	(1,600)	(1,409)	(2,057)	(2,000)	(2,000)	(1,500)
- DC Maintenance capex	(550)	(1,731)	(2,083)	(2,000)	(1,500)	(1,500)
Maintenance capex	(2,150)	(3,140)	(4,140)	(4,000)	(3,500)	(3,000)
Cash flows to service growth, debt & equity	13,386	8,020	12,553	25,000	28,700	32,500
Growth capex	(1,076)	(3,234)	(4,099)	(8,000)	(5,000)	(5,000)
- Acquisition consideration	(10,422)	(26,606)	(890)	-	-	-
- Post acq op ex (treated as consideration)	-	2,218	-	-	-	-
- Sale of contract	5,750	-	-	-	-	-
- Exceptional and integration costs	(971)	(6,769)	(5,218)	(1,000)	-	-
- Acquisition Capex	-	-	(3,591)	-	-	-
Acquisition related costs	(5,643)	(31,247)	(9,699)	(1,000)	-	-
- Bank interest (RCF ,Term Loan)	(936)	(1,816)	(3,604)	-	-	-
- Loan fee amort	25	(392)	(318)	-	-	-
Debt Service	(911)	(2,208)	(3,922)	(4,300)	(4,300)	(4,300)
- Dividends	(5,627)	(5,593)	(1,369)	(5,700)	(5,700)	(5,700)
- Share Buyback	(2,666)	-	-	-	-	-
- Share issues	13	229	116	-	-	-
Equity Service	(8,280)	(5,364)	(1,253)	(5,700)	(5,700)	(5,700)
(Increase/Decrease in net bank debt)	(2,524)	(34,033)	(6,421)	6,000	13,700	16,500

* Includes - Working capital, term loan repayments, operating lease payment timing adj., corporation tax ,non-acquisition exceptional costs

4 Year capital allocation	FY22 – FY25
Cash requirement	
- Cash Flows	58,958
- Increased bank debt	36,978
	95,936
Cash utilisation	
- Capex to fund growth	16,409
- Acquisition related costs	47,589
- Debt service	11,341
- Equity service	20,597
	95,936



Capital expenditure highlights:

- High level of FY25 customer capex reflects strong organic growth and the clearance of customer delayed projects.
- £2.5m funded through asset finance facility (recently increased facility from £7m to £10m) to match cash profile of contracts
- Some maintenance capex will drive operational efficiencies e.g. £0.3m in new power meters has already been repaid through increased customer charges.

Customer capex includes

- £0.6m in respect of a 20 year, £10m revenue colocation deal
- Several SDWAN rollouts including:
 - £1.0m in respect of 800 trading outlets
 - £0.7m in respect of 400 retail stores
 - £0.4m in respect of 21 Hospital
 - £0.3m in respect of 267 Healthcare sites
 - £0.2m in respect of 700 forecourts
- Sovereign cloud investment of £0.5m

Dividend policy and share buyback

- A **final dividend of 2.4p per share** is recommended by the Board, resulting in total dividend for FY24 of 3.6p per share (FY23: 3.6p per share).
- In the medium term the Board intends to maintain a fixed dividend of 3.6p (interim 1.2p/final 2.4p) and continue with selective share buybacks.
- Policies will be reviewed should a large-scale acquisition opportunity arise.

The following dates are proposed:

Ex-dividend date	– 12 December 2024
Record date	– 13 December 2024
Last day for DRIP elections	– 2 January 2025
Payment date	– 24 January 2025



Operational review and strategy update

Peter Brotherton – Chief Executive Officer



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FY24 operational review

Significant progress made in delivering revenue and profitability growth.

Organic growth

- On a like for like basis and excluding structural issues (losses from the closure of Harrogate data centre and the loss of Sungard short-term contracts), post-acquisition recurring revenues have grown by 9%.
- This growth has come across all customer bases and reflects the enlarged customer base and increased product portfolio.
- At the end of the financial year, we were selected as one of seven UK Pinnacle partners of VMware, with 30 new logos already added in the period March to June 2024.

Integration of acquired businesses

- The Harrogate data centre was closed at the end of March 2024 in line with plan, with customers migrated into our recently acquired West Yorkshire facility. Customer cancellations were higher than anticipated and largely negated the reduced lease and operating costs of £1.4m.
- During the year, the supplier base was rationalised, resulting in annualised savings of £1.1m.
- A number of cloud platforms were either consolidated or decommissioned resulting in annualised savings of c.£0.5m.

Electricity conservation measures

- £2.4m investment in new cooling infrastructure resulted in a 40% reduction in cooling power. Similar savings were realised at our third-party Woking data centre.
- The electricity conservation measures are expected to generate year on year volume savings of £2.8m. This, combined with significantly reduced electricity commodity prices from 1 April 2024, is expected to reduce electricity charges by £8.1m and will result in FY25 fully reflecting the benefit of the acquisitions made during FY22 and FY23.

Strategy update

Vision: To become the MSP and crucial infrastructure provider of choice for SMEs and emerging enterprises, whilst delivering sector leading financial performance for shareholders.

Strategy: To generate improved profitability and cash generation by growing both organically and inorganically, whilst continuing to deliver excellent customer service and providing one of the broadest and best product portfolios in the market.

Organic growth

Organic growth through:

- AI high density deployments
- Broadcom Pinnacle Partnership
- Cross sell opportunities
- New logos

Inorganic growth

One acquisition of c.£3m - £5m EBITDA (pre synergies) per annum.

Operational efficiency

Leverage the fixed cost infrastructure and available capacity to deliver EBITDA and cash flow accretion.

Continuous improvement and automation of processes.



Organic revenue growth drivers

Organic revenue growth is being driven by structural market opportunities, the increased product set and the increased scale of the business

AI high density deployments	Broadcom Pinnacle Partnership	Cross sell opportunities	New logos
<p>Develop channel route to market strategy for colocation sales, targeting enterprise clients and leveraging emerging AI demand to maximise data centre capacity.</p> <p>Our London West and West Yorkshire facilities have the required infrastructure, space, and available power to ideally position us to meet this demand.</p>	<p>Following the recent acquisition of VMware by Broadcom, Redcentric was selected as one of seven UK Pinnacle partners.</p> <p>The first three months of this new partnership has been successful, with 30 new logos added to the customer base.</p> <p>These wins along with future gains will be a key a driver of organic revenue growth, both through VMware license sales and conversion of cross sell opportunities.</p>	<p>The new logos including sales from the new Broadcom pinnacle partnership also add cross sell opportunities.</p> <p>The customers added through the acquisitions typically take one product only presenting cross sell opportunities.</p> <p>The enhanced product offerings added as part of the acquisition process has provided a wider range of services to sell into the enlarged customer base.</p>	<p>The increased scale of the business and enhanced product offerings is generating significant interest from new logos.</p> <p>In the last six months new logos have accounted for c.20% of new business and the current sales pipeline remains healthy.</p>

Inorganic growth - the acquisition story so far

Highly accretive acquisitions have added both capability and scale and provided a platform for organic growth.

Significantly enhanced service capability

During FY22, two capability acquisitions (Piksel and 7 Elements) were completed.

A further capability acquisition was completed in Jun-22, with the acquisition of consulting and AWS cloud related services from Sungard UK ("Sungard Consulting").

These capability acquisitions have significantly enhanced our hyper-cloud, security and consultancy product offerings.

Two enterprise grade facilities added as part of the Sungard DCs acquisition, ideally positioning us to benefit from the increased demand for high density AI deployments.

Transformational scale acquisitions

During FY23 two scale acquisitions were completed.

The acquisitions of the business and assets relating to three Sungard UK data centres ("Sungard DCs") and the smaller-scale 4D Data Centres ("4D") are highly accretive to the Group.

Significant synergy opportunities and efficiency measures have been delivered

Enlarged customer base following combined customer acquisition of c.650 blue-chip and mid-market organisations provides substantial cross sell opportunity.



Inorganic growth – strong track record

Our track record in integrating businesses and extracting very significant synergies provides a demonstrable template for future acquisitions.

Average long-term equity / EBITDA valuation	£'m	£'m
<u>Acquired entity</u>		
- Pikel Industry Solutions	8.7	
- 7 Elements	2.4	
- 4D Data Centres	10.1	
- Sungard Consulting	4.2	
- Sungard DCs	10.5	
- Sale of EDF contract	(5.8)	
Total consideration less cash acquired		30.1
Restructuring costs	12.9	
Capital expenditure	3.6	
Restructuring and integration costs		16.5
Total acquisition related costs		46.6
FY20 adjusted EBITDA (pre IFRS 16)	17.6	
FY24 pro-forma adjusted EBITDA (pre IFRS 16)	27.0	
Incremental EBITDA (pre IFRS 16)		9.4
Average long-term equity / EBITDA valuation		4.95x

		FY20A	FY24 Adj	Accretion
Revenue	£'m	87.5	163.2	87%
Adjusted EBITDA (Pre IFRS16)	£'m	17.6	27.0#	53%

FY24 Reported adj. EBITDA £28.3m less leases £9.9m plus £8.6m runrate savings actioned by Y/E

We have demonstrated that we are very good at integrating businesses and extracting significant synergies with c.£22m synergies realised from the SunGard and 4D cost bases.

When we integrate businesses, unlike many other roll up vehicles, we do it properly:

- We have one accounting system, one billing system, one HR system and one customer service system.
- All acquired subsidiaries are merged into the UK trading entity, Redcentric Solutions Limited, and the acquired trading companies dissolved rather than being left dormant.



Acquisition strategy – the current plan

- The current plan is to complete one acquisition per year for the next four years:
 - The typical size would be c.£3m - £5m acquired EBITDA with c.£3m - £5m of synergies to be realised at a cost of £0.75 per £1 saved.
 - Leverage levels not to exceed 2x company pre IFRS16 EBITDA, with possible shareholder assistance required for the first acquisition.
- Our targets will continue to have the following characteristics:
 - A customer base at the lower end of Enterprise, top end of SME or Public Sector.
 - Revenues derived from own managed networks and platforms which will give rise to significant synergies when merged into the largely fixed cost Redcentric platforms and networks.
 - Ideally targets would not have their own data centres but have a significant presence in third party data centres.
 - No recent roll up vehicles. Our experience is that most of these vehicles are not properly integrated and costs have been aggressively cut immediately prior to a sale. These companies typically have multiple finance, administrative and operating systems and a very dissatisfied customer base with high levels of customer churn.

Efficient operating model – leveraging the fixed cost base

Core to our strategy is operating our own networks, data centres and platforms as this enables us to have full control over the customer experience. Our infrastructure is highly available, resilient, assured and is scalable, providing significant synergy opportunities for both organic and inorganic growth.

National network

100Gb core network

Cloud platforms

IaaS (HP Greenlake)
Sovereign Cloud
Private Cloud
BaaS (Veeam/Acronis)

Voice platforms

Broadsoft
HCS

Data centres

8 data centres including 3 Enterprise grade facilities with high level of available power

Operational systems

Microsoft Dynamics
SMAX
Continuous process improvements and automation



Operational review – split out of data centre business

- The Board does not feel that the data centre part of the business is being fully valued by the investment community and is conscious that it is not sufficiently visible to investors.
- Consequently, the board has taken the decision to split the existing business into two distinct elements, a Data Centre business and a Managed Services Provider (“MSP”) business.
 - The Data Centre and MSP businesses are very different in nature, with the former having significant property lease costs and potentially higher levels of maintenance capital expenditure.
 - By splitting the two businesses out into autonomous units, we will be able to give greater transparency to the market on the performance and profile of each.
 - This split is currently underway with a view to introducing segmental reporting in the March 2025 accounts.
 - A new management team has been recruited with a Finance Director, Sales Director and Product Director joining the longstanding Data Centre Operations Director.



Summary & outlook

Peter Brotherton – Chief Executive Officer



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Summary and outlook

Summary

Integration of acquired businesses is largely complete with over £22m of costs removed from the acquired businesses.

.....

Good progress made with energy efficiency measures and this, along with a return to a more normalised energy market, will lead to a predicted c.£8.1m reduction in electricity costs in FY25.

.....

Strong organic growth is being driven by the increased scale of the business, the enlarged customer base and the new products and solutions added.

.....

Current trading & outlook

Q1 trading in line with the board's expectations

.....

Order backlog and order pipeline are both very healthy.

.....

The focus for FY25 will be to drive organic revenue growth by cross selling the broadened product and solution portfolio into the enlarged customer base, whilst also capitalising on the structural opportunities presented by AI related demand and the recently awarded VMware Pinnacle partnership agreement.

.....

EBITDA margin and cash flow improvements will be delivered through reduced electricity costs, operational leverage and continued efficiency improvements.



Investment case

- ✓ **We have a great customer base & one of the broadest and best product offerings in the market**
 - Presents significant cross sell opportunities into newly acquired bases
 - Very high levels of recurring revenue (92%)
 - High ARPU, reflecting top end SME and lower end of enterprise customers
 - The recently acquired data centres position us well to exploit the growth opportunities presented by the emergence of AI
- ✓ **We manage our own networks, platforms and data centres**
 - A key differentiator as this gives us more control over the customer experience
 - Provides significant scale benefits for future organic and inorganic growth
- ✓ **We are very well integrated, and we have made significant long-term investments**
 - Single integrated operating systems (Finance, CRM, Operational and HR)
 - Simple corporate structure with one holding company, one UK trading entity and one offshore facility
 - Significant recent investments in ERP system, data centres, networks and cloud platforms
- ✓ **We have a proven track record of creating significant value accretion through acquisitions**
 - Demonstrable track record in extracting synergies and making efficiency improvements
 - Recent acquisitions completed at a post synergy multiple of just 4.95x EBITDA
 - One acquisition per year to be targeted.
- ✓ **We have strong financials**
 - FY25 will fully reflect the completion of the integration programmes with significantly improved profitability and cash flow generation.
 - Strong organic growth along with operational leverage will lead to improved margins.

Financial guidance and trends

Trading

Organic revenue growth target of 5% pa with operational leverage delivering annualised EBITDA growth of 7.5%.

Continued target for 25% adjusted EBITDA margin.

Capital expenditure

Maintenance capex expected to be c.£4m per annum reflecting continuing investment in networks, data centres and platforms.

Normalised customer capex of c.£6m, with £8m in FY25 reflecting the clearance of the customer delayed projects.

Working capital

Small deficit expected reflecting organic growth.

Dividends

The Board intends to continue with the same level of dividends (subject to large-scale acquisition opportunities)

IFRS 16 leases

Several property leases under review and negotiation, market update to be given once finalised.

Organisation

The data centre business will be split out and reported separately providing greater visibility of the financial performance of both data centres and the MSP business.

Electricity costs

Reduction in annualised costs of c£8.1m expected in FY25 due to energy conservation measures and contracted commodity prices.

Tax rate

The main rate of corporation tax was raised to 25%, from 19%, with effect from the 1 April 2023.

Tax losses of c.£19.5m will be utilised in the most efficient way to reduce cash tax payments.



ESG - our responsibility

We are committed to being a socially, economically, and environmentally responsible business. This is reflected in our actions and our corporate policies.

- Continuously evolving our national corporate social responsibility strategy to support key customers in their local areas.
- Committed to creating a diverse, inclusive and great place to work for our employees.
- Continued investment in our highly successful apprenticeship programme.
- Heavily invested in new end-to-end HR system and online learning management system.
- Employee wellbeing continues to be a key priority.
- Continue to maintain ISO 14001 environmental management certification.
- Continued use of renewable electricity sources across our UK sites.
- Proactive objectives to reduce energy use, company travel and use of paper and consumables.
- Ongoing investment to reduce carbon footprint and power consumption in our data centre facilities.

Environmental, Social and Governance (“ESG”)

- We have engaged a third-party specialist to support us in calculating our Scope 3 emissions, creating a net zero strategy, and we have included within our FY24 report and accounts a full ESG disclosure.

Planning for net zero

- The UK Government has set a target of net zero for the UK by 2050.
- We want to do our part in ensuring this target is met.
- In FY25, we will continue to progress our net zero strategy. Our carbon reduction plan will include both short and long-term carbon reduction targets, and our progress will be reported annually.



Thank you



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