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15 November 2022

AdEPT Technology Group plc

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

Interim results for the six months ended 30 September 2022

AdEPT (AIM: ADT), one of the UK's leading independent providers of managed services for IT, unified communications, connectivity, voice and cloud services, is pleased to announce its unaudited results for the six months ended 30 September 2022 ("H1 FY23" or the "Period").

The H1 FY23 results demonstrate the Group's resilience, with organic growth in Managed Services continuing to replace Traditional Telephony, strong cash generation enabling net debt and earnout liability reduction of 16% in the last 12 months, and a return of the interim dividend, alongside 115 new contract wins.

Financial highlights:

Revenue and EBITDA

- Group revenue of £34.2 million (H1 FY22: £34.3 million), impacted by global supply chain issues
- Organic growth of 3% in Cloud Centric Strategic Services with revenue increasing by £0.5 million to £15.1 million
- Managed Services revenue grew organically by 3% increasing to 89% of Group revenue (H1 FY22: 87%), offsetting the structural decline in revenue from legacy Traditional Telephony, from which the Group continues to move away
- Underlying EBITDA¹ of £5.4 million (H1 FY22: £5.7 million)
- Underlying EBITDA¹ margin of 15.9% (H1 FY22: 16.7%)

Adjusted PAT and EPS

- Adjusted profit after tax² of £3.0 million (H1 FY22: £3.1 million)
- Adjusted fully diluted EPS of 12.1p (H1 FY22: 12.5p)

Cash flow and debt

- Deferred consideration for Datrrix of £4.3 million paid in July 2022, with no further amounts due
- Strong cashflows with strategy to reduce gearing progressing to plan: net senior debt, post H1 FY23 £4.3 million earnout payment, of £30.7 million at 30 September 2022 (H1 FY22: £31.2 million)
- Decrease to senior debt and acquisition liabilities of £5.9 million (16%) in the last 12 months
- Reported EBITDA conversion to post-tax cash from operating activities at 91% (H1 FY22: 82%)
- Low capital expenditure maintained at 1.6% of revenue (H1 FY22: 1.6%)

Dividend

- Interim dividend of 2.5p (H1 FY22: Nil) - up 150% on final dividend of 1.0p in FY22

- Dividend cover of 4.8x

¹ Earnings before interest, tax, depreciation, amortisation and excluding one off furlough grants, acquisition and restructuring costs and share based payments

² Profit after tax adding back one-off acquisition and restructuring costs, amortisation and share based payments, excluding revaluation of deferred consideration

Operational highlights:

- Strategy in action: winner of ‘Managed Service Provider of the Year’ for the second year running at the Comms Business Awards 2022
- Success of Project Fusion, which integrates all the Group’s businesses on the One AdEPT platform, recognised at The Billing People Awards - AdEPT won “Billing Return on Investment Award”
- Focus on Cloud market gaining momentum:
 - i. A 9% organic increase in Voice over IP (“VoIP”) revenues to £2.1 million (H1 FY22: £1.9 million), demonstrating the success of the Group’s ability to help customers transition from Traditional Telephony, which now comprises only 11% of total revenue; and
 - ii. A 17% increase in AdEPT Cloud Services (Nebula) consumed by customers: up from 654 to 764
- Revenue generated from public sector and healthcare customers in H1 FY23 increased to 50% (H1 FY22: 48%)

Outlook

- Secured project revenue backlog of £1.1m, resulting from global equipment supply shortages which began to ease in Q2, deferred to H2 FY23 and FY24
- Future growth prospects of the business remain strong, supported by:
 - i. New strategic alliance with Canon (UK) Ltd launched in October 2022: dedicated sales team at Canon selling AdEPT IT Services;
 - ii. The ability to capture a greater wallet-share with AdEPT now accredited as a Sage Intacct Partner, joining only a handful of companies in the UK delivering Sage’s latest and most intuitive cloud-based accounting software solution; and
 - iii. Success utilising the Department for Education (DfE) £150 million fund, as the first of many potential projects have been secured by AdEPT under the Connect the Classroom initiative
 - iv. Strong pipeline of opportunities, driven by macro technology market trends
- Short-term outlook remains challenging but the Board considers the long-term prospects of the Group to be as strong as ever

Commenting on the results and outlook for the Group, Chairman, Ian Fishwick, said:

“With many of the challenges affecting the Group being outside of our control, we have focused on the areas which we are able to influence, making good progress on our three strategic pillars:

Organic Growth

The Group’s strategic focus on growth in Cloud Centric Services is progressing. Having achieved 3% organic growth in the Period, these services now represent 44% of Group revenue (H1 FY22: 42%). Managed Services (recurring revenue) grew organically by 3% in the Period, with total Managed Services revenue now representing 89% of Group revenue, up from 87% in H1 FY22. Traditional Telephony continued to decline as anticipated, and this segment of the business has reduced to 11% of Group revenue (H1 FY22: 13%).

Reduce Gearing

In July 2022, the Group's strong operating cash flows were used to fund the final deferred consideration payment for the acquisition of Datrix Limited, amounting to £4.3 million, with no further amounts outstanding. Senior net debt (excluding IFRS 16 liabilities) at 30 September 2022 was £30.7 million, compared to £29.4 million at 31 March 2022. The Group continues to operate well within its Bank Covenants and whilst there have been significant increases to interest rates in the period the £0.1 million increase in interest charges this is offset by a reduction in the absolute value of borrowings.

The Board regularly monitors expected future interest rate predictions and the potential impact on the interest charges for the Group. The Group's £7.3 million convertible loan note is at a fixed interest and senior net debt is anticipated to reduce significantly over the coming 12 months. Based on the current base rate forecast (source: ICAEW.com) through to December 2024 of an increase to 4.5%, the interest cost variance against previous management expectation is £0.2 million, which is less than two-weeks operating cash flow.

There has been £0.1 million increase in interest charges in the income statement to £1.5 million (£1.1 million cash interest), with the significant increases to the base rate over the last six months being offset by a reduction in the absolute value of borrowings.

Structure for Success

One AdEPT, which lies at the heart of the Group's growth strategy, providing high levels of operational visibility and a scalable platform for cross-selling, is now used by 100% of our staff members, with its tooling enabling the Group to balance work force skills, share knowledge and distribute tasks across unified teams.

Outlook

Whilst headwinds remain, constraining organic growth, the Group has made good strategic progress and there remains a strong pipeline of opportunities across the public and private sectors, driven by macro technology market trends, and helped by specific government initiatives relating to education. The long-term prospects for AdEPT remain as strong as ever."

Enquiries

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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, 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

CEO STATEMENT

Overview

I am pleased to report on the Group's progress, in what has been a challenging six months.

Flat growth in Group revenue in the Period belies the continued growth achieved in Managed Services, which increased by £0.8 million in H1 FY23 with a further £1.1 million of secured project revenue deferred into H2 FY23 and FY24 purely as a result of global supply chain delays. This growth offset the continued and anticipated decline in Traditional Telephony of £0.8 million.

Underpinning this growth in Managed Services were strong contract wins and renewals, the success of Cloud Centric Services and AdEPT Nebula, the broadening of AdEPT's portfolio of experience, and the continued strengthening of the Group's public sector presence.

Sales progress

A Key Performance Indicator (KPI) for the business is the number of new customers secured by the sales team, defined as new ongoing customer relationships. In the Period, the team secured 115 new recurring revenue customers, an excellent performance of which they should be proud. New customers and significant renewals in the Period included Birmingham City Council; the Atomic Weapons Establishment (AWE); the Home Office; Newsquest; Herbert Smith Freehills; CPH2; Arts University of Bournemouth; and Construction Testing Solutions. The solutions deployed by AdEPT for these organisations encompass networking, IT Managed Services, cloud services, and communication. We also increased the number of AdEPT Cloud (Nebula) Services consumed by customers by 17% to 764 from 654.

These wins and renewals reflect AdEPT's broad portfolio of expertise, the strengthening brand profile AdEPT is building in its marketplace, the Group's focus on customer engagement, and its recognised ability to deliver effectively the technologies required to fulfill the demand for digitisation and cloud centric services in the UK.

AdEPT continues to empower its customers to be secure, resilient, agile, and unified, whilst providing employees with a flexible workplace.

New Initiatives

There are four specific initiatives that will help drive short term revenue growth:

1. A strategic alliance with Canon (UK) Ltd with AdEPT's IT Services being promoted alongside Canon's capabilities into their UK accounts, an initiative launched in October 2022. This will be taken to market as 'Canon IT Services, powered by AdEPT' and we anticipate that it will open up significant new opportunities for our business over the coming months;
2. The announcement in March 2022 by the then Education Secretary Nadhim Zahawi of a 'Connect the Classroom' initiative, supported by a £150 million fund to facilitate the introduction of faster and more reliable connectivity for schools. This presents an additional opportunity for AdEPT to help schools, a sector in which it has a particularly strong market presence, with c.4,500 schools as customers. The first projects for the Group, underpinned by this funding, have been secured and are in the process of being delivered;
3. An initiative to expand the services AdEPT delivers to customers, to encompass financial management systems. I am pleased to report that having undertaken months of rigorous evaluation and assessment AdEPT has become one of only a handful of companies in the UK to have been awarded the prestigious Sage Intacct Partner status. Sage Intacct is Sage's latest and most intuitive cloud-based accounting software solution that provides a flexible and configurable financial management platform, allowing customers to manage all their accounts and finances within one single, cloud native, solution; and
4. An initiative called the GP Transformational Support Fund. A fund of some £78 million for 2022/23 to

help digitally enable GPs including, specifically, “the roll out of cloud-based telephony systems in general practice with associated pathway redesign and using data to understand and improve access further”. AdEPT has already been successful in this arena with a solution called Surgery Connect. We anticipate that this additional funding will help accelerate our activity in this market.

People

The completion of Project Fusion and the full take-up of One AdEPT enabled the operational restructure of the Group from four to two divisions and resulted in the reduction of some senior management roles that were largely duplicated. This has enabled AdEPT to recruit more apprentices and junior members of staff to work alongside skilled individuals in larger teams aided by effective systems and tools.

As well as rewarding staff with pay increases, we are also focused on being an excellent employer, with enhanced terms and improved access to training. In addition, we are helping our staff with the cost-of-living increases through the introduction of a flexible benefits platform, which provides access to discount schemes and other cost-effective benefits.

Headcount at the Period end was 333 (H1 FY22: 331).

Environmental, Social and Governance (“ESG”)

AdEPT has a social conscience, and the Board is keen to ensure that the Group plays its part in making the world a better place both for current generations and those of the future.

Sustainability is of interest across the full spectrum of AdEPT stakeholders: customers, employees, suppliers, shareholders, and communities. As a result, we have set out our initiatives for engaging with this subject as a company. The three pillars for clarity are:

- Environmental Responsibility - energy use, waste management, and climate change;
- Social Responsibility - labour relations, human rights, diversity and inclusion, and product liability; and
- Governance - compliance, business ethics, controls, and procedures.

During the Period, AdEPT undertook a rigorous Carbon audit, measuring our impact on the planet from energy consumption, staff commuting, parcel movements and our own vehicle fleet. This audit underpinned a Carbon Reduction Plan submitted for approval to the Cabinet Office. Pleasingly, there was an 18% reduction in our carbon footprint against the 2021 baseline, largely due to flexible working and changing our energy providers to those with zero carbon offerings.

We will continue to adopt ways to reduce our carbon footprint as a company and have placed our carbon reduction report and plan on our web site.

FINANCIAL RESULTS

Revenue

Total revenue of £34.2 million was consistent with the comparative period (H1 FY221: £34.3 million). The Group delivered £0.8 million or 3% organic growth in total Managed Services revenue, which offset the continued structural decline in Traditional Telephony, which reduced by £0.8 million or 18%. The Group continues with its strategy to move away from Traditional Telephony.

Recurring revenues versus one-off revenues

The proportion of AdEPT's revenue generated from recurring products and services (being all revenue excluding one-off projects, hardware and software) remains high at 73% of total revenue (H1 FY22: 74%), with 3% organic growth in recurring managed service revenues in the Period.

Managed Services (89% of Group revenue)

Cloud Centric Strategic Services - Our strategy is to focus on Cloud Centric Strategic Services (including the AdEPT Nebula proposition, hosting services, hybrid and public cloud, Voice over IP, and Professional Services). This clear focus is delivering rewards, as Cloud Centric Strategic Services revenue increased organically by 3% to £15.1 million (H1 FY22: £14.7 million).

This growth has been achieved through organic revenue increases in software, VoIP and professional services. VoIP revenue increased organically by 9% year on year to £2.1 million (H1 FY22: £1.9 million), which is partly a result of our success in migrating customers from Traditional Telephony products to new IP based solutions combined with new customer acquisition.

The sales team's focus on the more complex project delivery requirements of enterprise and mid-market customers has resulted in a 17% increase in professional service and consultancy revenues to £2.8 million (H1 FY22: £2.4 million).

Support Services - Support Services revenues increased organically by 3% to £8.9 million (H1 FY22: £8.6 million). The Group has been successful in retaining managed IT support contracts, with a high level of customer satisfaction from the Net Promoter Score, alongside winning new managed support contracts, several of which will go live in H2 FY23. Network support and maintenance contract revenues increased organically by 4% to £8.0 million (H1 FY22: £7.6 million), driven by contract wins with Nottinghamshire County Council and IT support contracts for a number of large multi-academy trusts.

The global supply chain delays, affecting the delivery of more complex solutions, have a knock-on effect on to the recurring revenues for support services attached to those projects. These supply chain issues, which affected the Group significantly in Q1, began to ease in Q2. As the backlog of projects begin to be delivered during H2 FY23 and FY24 the recurring revenues attached to these contracts will start to be recognised.

Technology Products – The demand for capital projects continued with hardware and software revenues of £6.5 million (H1 FY22: £6.5 million), although there was a volume increase in hardware and software-only procurement of lower margin products, such as audio visual, iPads and laptops. The well-documented supply chain issues for equipment caused by the continued global chip shortage pushed out revenue recognition for a number of projects beyond normal lead times, amounting to £1.1 million revenue of secured orders moving into H2 FY23 and into the next financial year. These supply chain delays tend to impact the hardware required for more complex projects, resulting in wider delays. Some supply chain partners are still advising of lead times between 9-12 months for certain equipment. We continue to work closely with our partners to mitigate supply chain delays where possible or to transition customers to alternative technology solutions.

Traditional Telephony (11% Of Revenues)

The structural decline in legacy Traditional Telephony continued at the same level as the comparative period, with a 17% reduction to £3.7 million (H1 FY22: £4.4 million). This decline, as Openreach continues to switch off the copper wire telephone network for traditional fixed line and calls services and forcing the shift to messaging and VoIP based services, is in line with our expectations and our strategy to diversify revenues away from fixed line. In the last two years, this decline has accelerated due to the substantial reductions in desk-based telephone call revenue caused by multiple Covid lockdowns and the transition of most businesses to hybrid working patterns, resulting in a 35% reduction in call revenue from the comparative period. Traditional Telephony now represents just 11% of Group revenue (H1 FY22: 13%).

Gross margin

The total gross profit margin for H1 FY23 was 47%, which is a decrease from the 49% achieved in H1 FY22. This resulted largely from the volume increase in lower margin one-off hardware and software-only procurement, mentioned above.

£0.4 million of gross margin has been deferred into future periods, due to the order backlog resulting from the global supply chain issues outlined above.

Managed Services gross profit margins were 47% (H1 FY22: 50%), impacted by the increased volume of lower margin equipment only procurement. Within Managed Services, Cloud Centric Strategic Services gross profit margin was flat at 44% (H1 FY22: 44%) with organic growth in lower margin software being offset by organic growth in higher margin professional services. Support Services gross profit margin was largely consistent at 75% (H1 FY22: 76%) with a similar blend of inhouse and third party contracts as the comparative period. Gross profit margins in Traditional Telephony experienced a reduction in H1 FY23, due to a lower proportion of higher margin call usage (which reduced by 35% from the comparative period). This segment now has a proportionately higher volume of lower margin line rental services.

The value of revenue from professional services and consultancy was higher in the Period. However, the proportion of third party supported professional services increased, due to exceptionally high seasonal demand during the summer/school holiday period in the Group's Education customer base. This, combined with a higher blend of lower relative margin hardware and equipment, resulted in one-off gross profit margins reducing to 38% (H1 FY22: 41%).

Underlying EBITDA

Operating costs were reduced to £10.5 million (H1 FY22: £11.0 million), despite inflationary increases to certain overhead costs such as energy, the increase in costs from the incremental 1.25% NHS NIC levy and the performance driven increase in salary costs for staff. The operating structure of the Group was reduced during the Period from four functional reporting divisions at March 2022 to a simplified two divisional structure during H1 FY23. This internal restructure reduced the number of senior management roles and resulted in settlement and redundancy costs of £0.5 million in the Period. The restructure was achievable due to our new One AdEPT platform, which enables the Group to run effectively of a reduced operating cost base.

Underlying EBITDA in the Period was £5.4 million (H1 FY22: £5.7 million), impacted by the supply chain disrupted projects, amounting to £1.1 million revenue and equating to £0.4 million of margin deferral.

The underlying EBITDA margin achieved was 15.7% (H1 FY22: 16.7%), with the marginal reduction due to the gross margin pressure being partially offset by the operating cost efficiency.

Interest costs

There has been £0.1 million increase in interest charges in the income statement to £1.5 million, with the significant increases to the base rate over the last six months being offset by a reduction in the absolute value of borrowings. The Board regularly monitors expected future interest rate predictions and the potential impact

on the interest charges for the Group. The convertible loan note is at a fixed interest and our senior debt is anticipated to reduce significantly over the coming 12 months. Based on the current base rate forecast (source: ICAEW.com) through to December 2024 of an increase to 4.5%, the interest cost variance against management expectation is £0.2 million, which is less than two weeks operating cash flow.

It should be noted that the interest cost in the statement of comprehensive income of £1.5 million includes several non-cash items, such as the amortisation of bank facility fees, which have been previously paid in cash. The interest cost of £1.1 million in the cash flow statement is considered a better measure of the cash costs of financing, which is in line with the comparative period.

Profit/loss before and after tax and EPS

Reported operating profit increased by £0.5 million to £1.0 million (H1 FY22: £0.5 million), which is a reflection of no acquisition related transaction costs and a reduction to amortisation charges due to improved expected economic lives of the intangible assets.

Reported loss before tax was £0.5 million (H1 FY22: £0.9 million). This improvement of £0.4 million in the Period is after including one-off costs of £0.5 million of restructuring costs in relation to the streamlining and restructuring the headcount to two reporting divisions during the Period.

Adjusted profit after tax before one off restructuring costs and non-cash amortisation was £3.0 million (H1 FY22: £3.1 million). 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 was 12.1p (H1 FY22: 12.5p). The movement in adjusted earnings per share reflects the £0.1 million movement in adjusted profit after tax with a virtually flat weighted average number of shares.

Dividend

The focus on securing recurring customer contracts continues, with these currently representing 73% of total revenue (H1 FY22: 74%) and a further significant percentage being generated from re-occurring one-off revenues from existing customers. The strong underlying recurring revenue and margin stream, combined with continued operational efficiency, generated strong organic cash flow in the Period.

As a result, the Board is pleased to announce a return to interim dividend payments, with an interim dividend of 2.50p per Ordinary Share in respect of the six months ended 30 September 2022. This represents an increase of 150% over the final dividend of 1.0p paid for the year ended 31 March 2022 and dividend cover of 4.8x. The interim dividend will absorb approximately £0.6 million of shareholders' funds (H1 FY22: £Nil). It is proposed that the dividend will be paid on 7 April 2023 to shareholders who are on the register of members on the record date of 10 March 2023.

Pre-pandemic, our dividend policy was to return 30% of our Adjusted Earnings Per Share to shareholders in dividends and while the macro-economic landscape remains uncertain, we are on a journey back to 'normality'. Our reinstatement of interim dividends reflects this change in circumstance and remains conservative.

As announced in the AGM trading statement in September 2022, we anticipate returning approximately 20% of our Earnings Per Share in financial year ending 31 March 2023, compared to the pre-pandemic percentage of 30%. This leaves scope for the Board to execute on its progressive dividend policy over the coming years.

Considering this dividend policy and our assumptions on forecast rises in interest rates, we anticipate the Group's EBITDA: Senior net debt ratio to be less than 2x within 12 months and is, therefore, in line with our declared strategy to reduce leverage.

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 after income tax was 91% (H1 FY22: 82%).

H1 FY23 working capital was impacted by £0.4 million, of which £0.2 million relates to inventories for the advance purchase of equipment for October 2022 half-term customer projects in the Education division. The Group had an extension of customer credit during the Period of £0.8 million, driven by public sector and healthcare customers who paid overdue balances very shortly after the end of the Period, which resulted in an extension of customer credit collection periods to 43 days (H1 FY22: 39 days). This was partially offset by extended supply chain credit terms.

In July 2022, the Group paid the performance-based element of the deferred consideration of £4.3 million, which was due in respect of the trading results of the Datrix customer base for FY22. There are no further amounts outstanding in respect of the Datrix or any other acquisitions.

Cash interest paid in the Period was in line with the comparative period at £1.1 million, which reflects an 8% reduction to average net borrowings in H1 FY23, but at an increased cost of capital due to the increase in the base rate.

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 12 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 less than 2% of revenue.

The Group used £0.3 million of cash on capital expenditure of tangible fixed assets - £0.2 million was used for investment in the maintenance and expansion of the AdEPT Nebula platform, to increase the data storage capacity driven by increasing customer demand, and £0.1 million for a refurbishment of the Orpington office and installation of energy efficient LED lighting as part of the Group's ESG plan.

A further £0.3 million was spent in the Period on intangible assets. This included £0.1 million in relation to investment in Project, which includes the cost of third-party consultancy time dedicated to delivering the final stages of the project. The Group-wide CRM and other platforms are now live in all of the AdEPT operating sites. Shortly after the end of the Period, the Group launched its flexible benefits platform, which will enable all employees of the Group to choose how they wish to receive and use their remuneration, including taking advantage of salary sacrifice and competitive benefits costs from scale purchasing. £0.2 million was spent on the Webscreen X and Nimbus Sync software developments, both of which are expected to deliver ongoing benefits to the Education customer base and the Group.

Net Debt and Bank Facilities

A key strength of AdEPT is its consistent, proven ability to generate strong free cash flow and support its net borrowings. As a result of its focus on underlying profitability and cash conversion, the Group generated net operating cash flow after taxes but before bank interest paid of £4.4 million (H1 FY22: £3.6 million). The £0.8 million improvement in operating cash flow generation arose from a £0.5 million reduction to working capital and £0.3 million reduction to cash paid income taxes.

Senior net debt at 30 September 2022 was £30.7 million, which is after payment £4.3 million deferred consideration liabilities for Datrrix during H1 FY23 with no further amounts outstanding in respect of any acquisitions. The comparative net debt, including deferred consideration liabilities, was £36.6 million at 30 September 2021, which is an effective decrease of senior debt and acquisition liabilities of £5.9 million (16%) in the last 12 months.

Trading update and outlook

Revenue generation improved by 15% in Q2 FY23, compared to Q1, as supply chain issues began to ease and the Group benefitted from seasonal demand in the Education sector. Technology Products' revenue rose by £1.8 million in Q2 FY23, having been more heavily impacted by supply chain challenges in Q1 which resulted in a £1.2 million drop in revenue compared to Q4 FY22.

Organic growth in Cloud Centric Strategic and Support Services revenue in Q2 FY23 was 6% above Q1, achieved through growth in software licensing, professional services, maintenance and support contract wins coming on stream.

The growth in recurring Managed Services revenue is expected to continue to offset the structural decline in Traditional Telephony, which reduced by 5% between Q1 and Q2 FY23.

Inflationary pressures are expected to increase product and operational costs, predominantly wage inflation, recruitment and energy costs in FY23. The Group is working closely with its partners to mitigate the supply chain delays and to pass on cost increases, where possible, in particular those linked to connectivity and telephony charges. This cushions the business to some extent from the inflationary pressures within its supplier base.

AdEPT's focus will remain firmly on what is within its influence and further progressing on its three strategic pillars: to deliver organic growth through the Group's expanded portfolio of capabilities; repay of borrowings and reduce gearing through strong cash flow; and structure for success through the efficiencies driven by the new One AdEPT platform.

Over the longer term, the Board remains confident that the underlying demand for digitisation and cloud-based services, as both businesses and government continue to seek efficiency benefits, places AdEPT in a strong position when the macro conditions improve. We expect growth to return to previously anticipated levels once the supply chain challenges ease and the economy returns to more normal trading conditions.

Phil Race

Chief Executive Officer

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September 2022 £'000	Six months ended 30 September 2021 £'000
	Note		
REVENUE		34,228	34,275
Cost of sales		(18,313)	(17,594)
GROSS PROFIT		15,915	16,681
Administrative expenses		(14,908)	(16,177)
OPERATING PROFIT		1,007	504
Total operating profit – analysed:			
Operating profit before acquisition fees, share-based payments, depreciation and amortisation		5,447	5,719
Share-based payments		(12)	(31)
Acquisition fees		-	(569)
Restructuring costs		(494)	(322)
Depreciation of tangible fixed assets		(660)	(714)
Amortisation of intangible fixed assets		(3,274)	(3,579)
Total operating profit		1,007	504
Finance costs		(1,468)	(1,373)
Finance income		-	-
PROFIT/(LOSS) BEFORE INCOME TAX		(461)	(869)
Income tax expense		213	(339)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(248)	(1,208)
Attributable to:			
Equity holders		(248)	(1,208)
Earnings per share			
Basic earnings per share (pence)	3	(1.0)p	(4.8)p
Diluted earnings per share (pence)	3	N/a	N/a
Adjusted earnings per share, after adding back acquisition fees, amortisation and non-recurring costs			
Basic earnings per share (pence)	3	12.1p	12.5p
Diluted earnings per share (pence)	3	12.1p	12.5p

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2022 £'000	30 September 2021 £'000	Audited 31 March 2022 £'000
ASSETS			
Non-current assets			
Goodwill	19,908	17,408	19,908
Intangible assets	40,613	47,004	43,619
Property, plant and equipment	1,945	2,155	1,802
Deferred tax asset	-	-	-
	62,466	66,567	65,329
Current assets			
Inventories	932	780	843
Contract assets	233	643	422
Trade and other receivables	17,324	17,536	21,109
Income tax	-	-	243
Cash and cash equivalents	3,663	3,614	3,714
	22,152	22,573	26,331
Total assets	84,618	89,140	91,660
LIABILITIES			
Current liabilities			
Trade and other payables	17,986	21,314	25,535
Contract liabilities	2,163	2,470	2,657
Income tax	216	301	-
Short term borrowings	41	85	59
	20,406	24,170	28,251
Non-current liabilities			
Deferred income tax	10,085	6,275	10,810
Convertible loan instrument	6,838	6,623	6,728
Lease asset liabilities	630	414	243
Long term borrowings	34,334	34,703	33,067
	72,293	72,185	79,099
Total liabilities	72,293	72,185	79,099
Net assets	12,325	16,954	12,561
SHAREHOLDERS' EQUITY			
Share capital	2,503	2,503	2,503
Share premium	4,378	4,378	4,378
Share capital to be issued	1,249	1,206	1,237
Capital redemption reserve	18	18	18
Retained earnings	4,177	8,849	4,425
Total equity	12,325	16,954	12,561

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of parent					
	Share capital	Share premium	Share capital to be issued	Capital redemption reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Equity at 1 April 2021	2,503	4,378	1,175	18	9,656	17,731
Prior year adjustment (note 2)	-	-	-	-	232	232
Equity at 1 April 2021 (restated)	2,503	4,378	1,175	18	9,889	17,963
Profit for 6 months ended 30 September 2020	-	-	-	-	(1,037)	(1,037)
IFRS16 leased assets transfer	-	-	-	-	(2)	(2)
Share based payments	-	-	31	-	-	31
Balance at 30 September 2021 (restated)	2,503	4,378	1,206	18	8,849	16,954
Profit for 6 months ended 31 March 2022	-	-	-	-	(4,424)	(4,424)
Share based payments	-	-	31	-	-	31
Balance at 31 March 2022	2,503	4,378	1,237	18	4,425	12,561
Profit for 6 months ended 30 September 2022	-	-	-	-	(248)	(248)
Share based payments	-	-	12	-	-	12
Balance at 30 September 2022	2,503	4,378	1,249	18	4,177	12,325

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September 2022 £'000	Six months ended 30 September 2021 £'000	Audited Year ended 31 March 2022 £'000
Cash flows from operating activities			
Profit/(loss) before income tax	(461)	(869)	(3,028)
Depreciation and amortisation	3,934	4,292	8,680
Adjustment to deferred consideration	-	-	33
Share based payments	12	31	62
Net finance costs	1,468	1,373	2,752
Decrease/(Increase) in inventories	(90)	(210)	(272)
Decrease/(increase) in trade and other receivables	3,728	1,107	(2,856)
Increase/(decrease) in trade and other payables	(4,083)	(1,787)	3,737
Cash generated from operations	4,508	3,937	9,108
Income taxes paid	(80)	(343)	(1,024)
Net cash from operating activities	4,428	3,594	8,084
Cash flows from investing activities			
Interest paid	(1,074)	(1,111)	(1,897)
Acquisition of subsidiaries net of cash acquired	(4,244)	(7,054)	(8,206)
Purchase of intangible assets	(268)	(433)	(863)
Sale of property, plant and equipment	-	-	-
Purchase of property, plant and equipment	(292)	(111)	(386)
Net cash used in investing activities	(5,878)	(8,709)	(11,352)
Cash flows from financing activities			
Payments of lease liabilities	(346)	(440)	(684)
(Drawdown/(repayment) of borrowings	1,745	(3,997)	(5,500)
Net cash (used in)/from financing activities	1,399	(4,437)	(6,184)
Net increase/(decrease) in cash and cash equivalents	(51)	(9,552)	(9,452)
Cash and cash equivalents at beginning of period/year	3,714	13,166	13,166
Cash and cash equivalents at end of period/year	3,663	3,614	3,714
Cash at bank and in hand	3,663	3,614	3,714
Bank overdrafts	-	-	-
Cash and cash equivalents	3,663	3,614	3,714

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 2022, prepared under International Financial Reporting Standards, were approved by the board of directors on 4 August 2022 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 2022 have been extracted directly from the audited statutory accounts.

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 2022.

Prior period adjustment

At the time of preparation of the interim statement for the 6 months ended 30 September 2021 the statutory audit of Datrix Limited for the year ended 31 March 2021 (which was acquired in April 2021) had not been completed. The acquisition balance sheet for Datrix Limited did not include the full recognition of the deferred tax assets in respect of the trading losses. Therefore, the income tax charge for the prior year results have been restated to include the deferred tax assets and the associated deferred tax release for the profits from the Datrix profit stream generated during the 6 months ended 30 September 2021. As a result, the net assets at 30 September 2021 increased by £232,483 and the income tax charge increased by £170,517 in the comparative period.

3 Earnings per share

	6 months ended 30 September 2020 £'000	6 months ended 30 September 2019 £'000	Year ended 31 March 2021 £'000
Earnings for the purposes of basic and diluted earnings per share			
Profit for the period attributable to equity holders of the parent	(248)	(1,208)	(5,232)
Add: amortisation	3,274	3,579	7,248
Less: taxation on amortisation of purchased customer contracts	(59)	(59)	(117)
Less: deferred tax credit on amortisation charges	(552)	(197)	1,298
Add: share option charges	12	31	62
Add: acquisition fees and restructuring costs	494	892	3,394
Add: adjustment to deferred consideration	-	-	33
Add: interest unwind on loan note and deferred consideration	109	99	204
Adjusted profit attributable to equity holders of the parent, adding back acquisition fees and amortisation	3,030	3,136	6,888
Number of shares			
Weighted average number of shares used for earnings per share	25,029,957	25,029,957	25,029,957
Dilutive effect of share plans	-	100,320	54,335
Diluted weighted average number of shares used to calculate fully diluted earnings per share	25,029,957	25,130,277	25,084,292
Earnings per share			
Basic earnings per share (pence)	(1.0p)	(4.1p)	(20.9p)
Fully diluted earnings per share (pence)	N/a	N/a	N/a
Adjusted earnings per share, after adding back acquisition fees, amortisation and non-recurring costs			
Adjusted basic earnings per share (pence)	12.1p	12.5p	27.5p
Adjusted fully diluted earnings per share (pence)	12.1p	12.5p	27.5p

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 2022				6 months ended 30 September 2021			
	Fixed line services	Managed services	Central costs	Total	Fixed line services	Managed services	Central costs	Total
Revenue	3,672	30,556	-	34,228	4,478	29,797	-	34,275
Gross profit	1,296	14,619	-	15,915	1,730	14,951	-	16,681
Gross margin %	35%	48%	-	47%	39%	50%	-	49%
EBITDA	527	4,920	-	5,447	709	5,010	-	5,719
EBITDA %	14%	16%	-	16%	16%	17%	-	17%
Amortisation	(424)	(2,850)	-	(3,274)	(794)	(2,785)	-	(3,579)
Depreciation	-	-	(660)	(660)	-	-	(714)	(714)
Acquisition costs	-	-	-	-	-	-	(569)	(569)
Restructuring costs	-	-	(494)	(494)	-	-	(322)	(322)
Share-based payments	-	-	(12)	(12)	-	-	(31)	(31)
Operating profit/(loss)	103	2,070	(1,166)	1,007	(85)	2,225	(1,636)	504
Finance costs	-	-	(1,468)	(1,468)	-	-	(1,373)	(1,373)
Income tax	-	-	213	213	-	-	(339)	(339)
Profit after tax	103	2,070	(2,421)	(248)	(85)	2,225	(3,348)	(1,208)

	Audited			
	Year ended 31 March 2022			
	Fixed line services	Managed services	Central costs	Total
Revenue	8,582	59,500	-	68,082
Gross profit	3,200	29,232	-	32,432
Gross margin %	37%	49%	-	48%
EBITDA	1,515	10,377	-	11,892
EBITDA %	18%	17%	-	18%
Amortisation	(1,588)	(5,658)	-	(7,248)
Depreciation	-	-	(1,433)	(1,433)
Adjustment to deferred consideration	-	-	(33)	(33)
Acquisition costs	-	-	(1,471)	(1,471)
Restructuring costs	-	-	(2,023)	(2,023)
Share-based payments	-	-	(62)	(62)
Operating profit/(loss)	(73)	4,719	(4,922)	(276)
Finance costs	-	-	(2,752)	(2,752)
Income tax	-	-	(2,204)	(2,204)
Profit after tax	(73)	4,719	(9,878)	(5,232)

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 2022, transactions with the largest customer of the Group accounted for 3.6% of revenue (2021: 4.7%).

5 Share options

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

	6 months ended 30 September 2022		6 months ended 30 September 2021		<i>Year ended 31 March 2022</i>	
	Number	Weighted	Number	Weighted	<i>Number</i>	<i>Weighted</i>
	of shares	average	of shares	average	<i>of shares</i>	<i>average</i>
	under	exercise	under	exercise	<i>under</i>	<i>exercise</i>
	option	price	option	price	<i>option</i>	<i>price</i>
Outstanding at start of period	3,244,064	355p	3,244,064	355p	<i>3,244,064</i>	<i>355p</i>
Granted during the period	-	-	-	-	-	-
Forfeited during the period	-	-	-	-	-	-
Exercised during the period	-	-	-	-	-	-
Outstanding at end of period	3,244,064	355p	3,244,064	355p	<i>3,244,064</i>	<i>355p</i>

The mid-market price of the ordinary shares on 30 September 2022 was 110p and the range during the period was 82.5p. The share option expense recognised during the period in the statement of comprehensive income was £12,072 (September 2021: £30,841).